

Apparel, consumer electronics eye holiday rebound while home improvement still needs work

Article

Apparel will get a boost from the back-to-school and holiday seasons while consumer electronics is due for a comeback. But home improvement may have a ways to go before the category rebounds.

In a stitch: Apparel brands, particularly mid-tier brands, have struggled throughout the first half of this year, reporting muted or declining sales results.

- Net sales for Gap Inc. in Q1 2023 were down 6% YoY, impacted by weakened consumer demand and a tough economic environment.
- **Nike posted its first profits miss** in three years in June, though sales were up 5% YoY.
- Victoria's Secret's net sales declined 5% YoY in Q1 2023, down partially due to a "volatile macro environment" for its customers and a more promotional atmosphere than the retailer expected.

Looking ahead: We're heading into the back-to-school and holiday seasons, which typically boosts apparel sales. In addition, consumer confidence has hit a two-year high as inflation eases and prices start to come down.

However, student loan payments are resuming this fall and consumers are still being cautious with their discretionary spending.

Our prediction: The second half of the year should be more successful for apparel brands than the beginning, especially for all things pink as "Barbie" movie fans hit the racks, according to our analyst Suzy Davidkhanian. But many consumers have developed a "wait and see" approach to sales, so retailers may have to continue to lean on value going forward, said our analyst Sky Canaves.

Needs a recharge: The pandemic spurred a flurry of electronics purchases as consumers spent more time at home working, learning, and watching. Now that consumers' homes are fully loaded, they aren't making as many electronics purchases.

- Best Buy's comparable sales were down 10.1% YoY in its fiscal Q1 (which ended April 29) as consumers pulled back spending.
- Computer and consumer electronics sales will grow by only 1.1% this year, per our forecast, less than current inflation rates.

Looking ahead: **Back-to-school spending is expected to drive consumer electronics sales**, according to the National Retail Federation. Over two-thirds (69%) of back-to-school shoppers plan to buy electronics or computer-related accessories this year. Total spending on electronics is expected to reach a record \$15.2 billion.

Our prediction: Consumer electronics is due for a comeback ... eventually. There haven't been signs of it yet, but strong back-to-school electronics sales (driven by laptop purchases) and a potential boost in smartphone sales could lift the category, according to our analyst Andrew Lipsman.

Fixer-upper: Many consumers undertook home improvement projects while stuck at home during the pandemic, so few are doing any major updates this year. Plus, high home prices, coupled with high interest rates, have slowed the US housing market.

- **The Home Depot posted its biggest revenue miss in more than two decades** in its fiscal Q1, with sales down 4.2% YoY.
- **Lowe's net sales were also down** in Q1, decreasing 4.3% YoY.

Looking ahead: Some consumers may embark on small renovations, but most are holding tight until a refresh is required. Plus, the housing market has been sluggish, though it may start to pick up a bit in the latter half of the year.

Our prediction: Not much good news here. With no sales events or holidays dedicated to home improvement in the latter half of the year (or, really, ever), we expect this category to remain slow for the time being.

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