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A tough housing market spells trouble for home-related retailers

Article

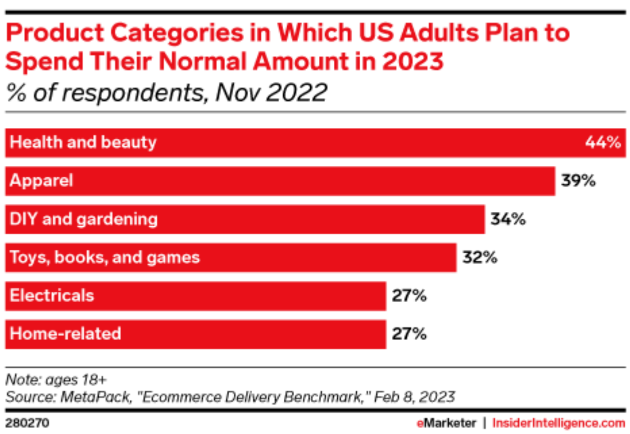
The trend: The US housing market is in a rut due to high interest rates, economic uncertainty, and limited inventory.

- **Borrowing costs are high.** The 30-year fixed rate increased to 6.71% last week, the highest rate since November, per the Mortgage Bankers Association. That's driven demand for mortgages down to its lowest point in 28 years.

- **Home values are down.** The total value of US homes at the end of 2022 was down 4.9% from June, according to Redfin. That's the largest June-to-December plummet by percentage since 2008 and a reason that many homeowners are deciding against putting their houses on the market.
- **Few houses are selling.** Existing home sales fell for the 12th straight month in January, per the National Association of Realtors.

The slow housing market has hurt both home improvement retailers **Lowe's** and **Home Depot**, as well furniture and home goods sellers as there are fewer people buying products such as house paint, appliances, and furniture to fix up their new homes.

- Home-related items are often among the first category consumers cut back on when they reduce discretionary spending.



A tough quarter: Lowe's sales in its fiscal Q4 fell short of Wall Street's expectations as its same-store sales fell 1.5%. While its revenues rose to $22.45 billion from $21.34 billion a year earlier, the company's fiscal Q4 included an extra week. Without that additional period, sales would have declined slightly.

- The retailer has a conservative outlook for this year as it expects comparable sales to be flat to down 2% due to both the broader shift in consumer spending and the industry-specific challenges.

- Those results dovetailed with Home Depot's earnings last week that fell short of expectations. Home Depot expects both sales growth and comparable sales growth to be approximately flat this year.
- The tough housing market is also hurting companies ranging from **Sherwin-Williams** to **Wayfair** to **Whirlpool**.

It isn't just retailers that sell housing-related products that are adopting a cautious outlook. Retailers across a broad array of categories—including **Target**, **Walmart**, **Dollar General**, and **Steve Madden**— all recently offered cautious guidance, underscoring the uphill battle for Lowe's.

The big takeaway: After many stuck-at-home consumers embarked on home improvement projects early in the pandemic, there are fewer prospective consumers in the market for items like appliances and paint—particularly given that fewer people are buying houses.

- On a positive note, Lowe's is building up new revenue streams as it continues to grow its Pro business and move its retail media business in-house.

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