

'Housing paralysis' is causing demand for home goods to plummet

Article

The situation: We're in a housing recession with sales of previously owned homes falling for a **seventh straight month** in August, according to the National Association of Realtors.

- **Soaring borrowing costs have caused potential home buyers to put their searches on hold.** The average interest rate on a US 30-year mortgage reached 6.29%, its highest level since October 2008, per Freddie Mac.

- **With fewer potential buyers, would-be sellers are holding off listing their homes.** New listings fell roughly 23% in August year-over-year (YoY), according to Zillow.
- **Renters are also opting to stay in place** to avoid soaring rental costs. The national median asking rent rose 11% YoY in August to a record high of \$2,039, [per](#) Redfin.

The challenge: The resulting “housing paralysis” is having a ripple effect on home goods retailers. When people move they typically buy items such as home decor, furniture, and appliances. But with more consumers staying in place, compounded with the lingering impact of inflation, fewer people are buying items for their homes.

- **Inflation is eating into a greater share of middle-income households’ incomes,** [per](#) a Congressional Budget Office report.
- Few people prioritize buying home decor and furniture, which helps explain why **23% of consumers are cutting back on spending on that area,** according to First Insight.
- “It is not surprising that our mass customers are being more deliberate about where their discretionary dollars are going as prices at the gas station and grocery store eat up a greater share of wallet,” said **Wayfair CEO Niraj Shah**, in August. “For the past few months, we have also seen many of those discretionary dollars flow away from goods to services.”

Categories Where US Adults Are Prioritizing Spending vs. Cutting Back due to Inflation, July 2022

% of respondents in each group

| | Spending priority | Cutting back |
|------------------------------------|-------------------|--------------|
| Groceries | 59% | 39% |
| Gas | 44% | 35% |
| Rent/mortgage | 29% | 8% |
| Healthcare | 20% | 13% |
| Household goods | 17% | 29% |
| Education | 14% | 11% |
| Childcare | 12% | 10% |
| Dining out | 11% | 54% |
| Entertainment and recreation | 10% | 36% |
| Apparel, footwear, and accessories | 10% | 35% |
| Vehicles | 10% | 11% |
| Gym memberships | 9% | 17% |
| Travels/hotels/flights/vacations | 8% | 27% |
| Home decor and furniture | 8% | 23% |

Note: ages 18+
Source: First Insight, “The State of Consumer Spending: Inflation Fueling Recession Fears,” Aug 10, 2022

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A reversal in fortune: In the early days of the pandemic, consumers who were stuck at home decided to update their spaces, which helped boost sales at retailers such as Wayfair, Williams-Sonoma, and RH. But with many of those remodeling jobs complete, and fewer consumers embarking on new projects, those merchants are seeing their sales suffer.

- That's evident in the retail spending data. **Sales at home furniture and furnishings stores are up just 1.4% through the first eight months of the year, and electronics and appliance store sales are down 5.0%, per** the US Commerce Department.
- "The housing market is in a recession, and it's just getting started," said RH CEO **Gary Friedman**, during the retailer's earning call earlier this month. "It's probably going to be a difficult 12 to 18 months in our industry."

The big takeaway: The US Federal Reserve has one blunt tool to combat inflation: interest rate hikes. And, after the Fed raised interest rates another three-quarters of a percent last week for the third time in a row, it signaled that it is determined to continue raising rates until inflation breaks.

- That's bad news for the housing market and, in turn, home goods retailers as the current downturn is unlikely to pass anytime soon.

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