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Retail's Q4 challenges: Discretionary spending pullback, a hurting housing market, and price sensitivity

Article

Despite the word "recession" hanging in the air, US retailers had an okay Q4 in 2022. But some recurring themes persisted: Shoppers pulled back on discretionary spending, opted against home renovations, and generally avoided high prices. Here's a look at how those trends affected earnings.

Shopper discretion advised: Walmart and Target both saw pullback in less need-to-have areas but more spending in categories where they provide shoppers value.

- At Walmart, shoppers focused on groceries and other essentials. Sam's Club same-store sales rose 12.2% from value-seeking consumers. But margins were slim as customers avoided big-ticket purchases.
- Target shoppers focused not just on low prices, but on other perceived store benefits as well. Same-day services like in-store and drive-up pickup increased 4.3% as consumers took advantage of the time-saving offerings.
- However, this year will likely be challenging for low-price grocers. "Walmart, in particular, is looking ahead and seeing the expiration of the expanded SNAP benefits, which expired at the start of March," said Insider Intelligence senior analyst Zak Stambor, speaking on our "Behind the Numbers: Reimagining Retail" podcast. "That could hurt their sales looking ahead."

Housing market of cards: "Nobody's moving because interest rates are so high. Home values are down so nobody's putting their house up for sale, and few houses are selling," said Stambor. The Home Depot, Lowe's, Wayfair, and other retailers have taken a hit.

- The Home Depot missed revenue expectations for the first time since 2019 in Q4 2022, and Lowe's missed revenue expectations as well.
- Consumers invested in home improvement as the pandemic set in, and they spent more time in their homes. As a result of high spending in 2020 and 2021, people aren't buying new furniture now.
- Wages have gone up for many, but home improvement retailers aren't seeing those gains. "There are people who are making more, but their effective earning power isn't necessarily as much," said Jeremy Goldman, senior Briefings director at Insider Intelligence.

Pricey senses are tingling: Middle-tier shoppers have traded down on clothing, and TJX is reaping the rewards.

- “TJX really epitomizes what’s going on,” said Stambor. “The clothing-oriented stores T.J.Maxx and Marshalls did well. Their sales were up 7%, but HomeGoods’ home fashion business saw sales decline 7%.”

Bonus trend? Health and wellness: Dick’s Sporting Goods had a strong Q4—with same-store sales growing 5.3% YoY, according to StreetAccount—even as overall sporting goods sales declined 1.0% last year, per our forecast. The retailer likely benefited from associating itself with wellness, so shoppers viewed products as necessary rather than discretionary.

Listen to the full podcast.

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