

The dismal housing market weighs on Home Depot's Q1 results

Article

The news: Home Depot's sales have fallen for six straight quarters thanks to elevated interest rates that are making consumers reluctant to buy a house, embark on a pricey renovation, or splurge on big-ticket items like appliances.

The numbers:

- Earnings per share were \$3.63 in FY Q1, down 5.0% year over year (YoY), but ahead of the \$3.60 analysts surveyed by LSEG expected.
- Revenues were \$36.42 billion, down 2.3% YoY and short of the \$36.66 billion analysts expected.
- Comparable sales dropped 2.8% YoY, and fell 3.2% YoY in the US.
- Transactions over \$1,000 fell 6.5% YoY, which the retailer attributed to a pullback in discretionary spending.

The context: Home Depot is a tough category given that few consumers are moving or embarking on remodeling projects; those two circumstances are key drivers of its consumer-facing business.

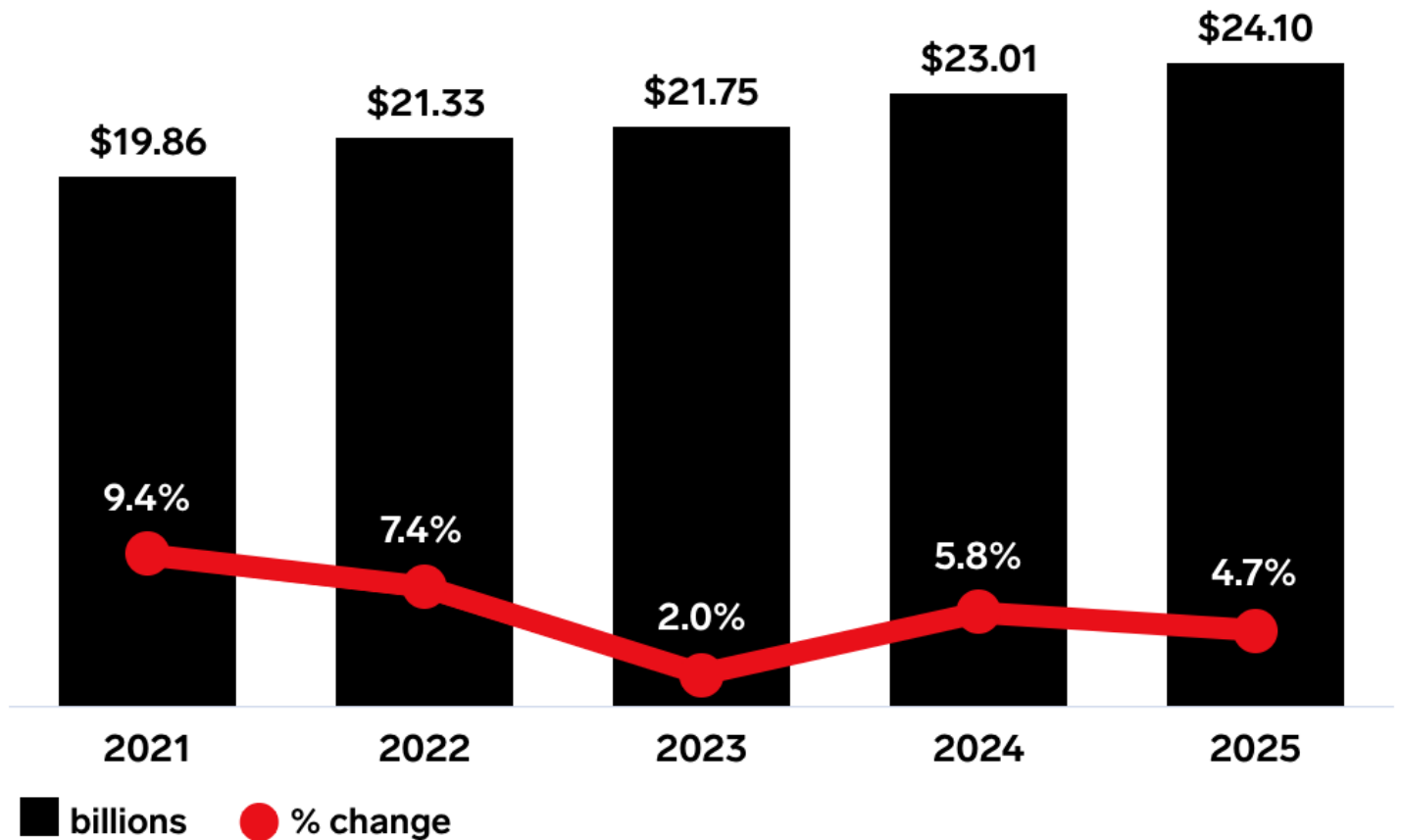
- **The housing market is in a rut.** Only 21% say it's a good time to buy a house, which is tied for the worst reading in history, per a recent Gallup survey reported in CNN. That sentiment stems from a variety of factors including record-high home prices, limited inventory, and elevated mortgage rates.
- **Remodeling spending is trending downward.** Two key metrics, the Leading Indicator of Remodeling Activity—a measure of home improvement and repair spending on owner-occupied homes—and NAHB/Westlake Royal Remodeling Market Index—a measure of remodelers' sentiment about the market—show remodeling project demand weakening, per CNBC.

The strategy: With consumers pulling back, Home Depot aims to drive Pros to boost spending.

- It is expanding its network of distribution centers and announced plans to buy **SRS Distribution**, a distributor of roofing, landscaping, and pool supplies, for \$18.25 billion.
- The strategy could help insulate Home Depot from future consumer-facing disruptions because Pros typically offer a steadier source of sales.

The Home Depot Retail Ecommerce Sales

US, 2021-2025



Note: represents the gross value of products or services sold on homedepot.com (browser or app), regardless of the method of payment or fulfillment; excludes travel and event tickets

Source: EMARKETER Forecast, February 2024