

# Home Improvement Spending Remains Tight

*Spring Brings More Shoppers Into Do-It-Yourself Chain Stores but Outlook Is Modest for Big-Ticket Sales*

BY MARY ELLEN LLOYD

It's the equivalent of Christmas for home-improvement retailers as the spring yard and fix-up season kicks into full gear, but shoppers seem to be more focused on stocking-stuffer-like purchases than one-time splurges.

By all accounts, customer traffic at **Home Depot Inc.**, **Lowe's Cos.** and other hardware or lawn and garden retail stores is picking up from the seasonally slow fourth quarter.

And many surveys indicate a high level of interest in home-related projects. Lowe's, for example, recently found eight out of 10 homeowners it surveyed are planning a do-it-yourself lawn or garden project or interior painting over the next 12 months.

ServiceMagic.com, which matches homeowners with home-service contractors, found that while 35% of surveyed homeowners postponed a home-improvement project last year, more than

half of them intend to take on the project this year.

Even so, shoppers so far remain focused primarily on needs, not wants, based on comments by industry analysts, suppliers to Home Depot and Lowe's, and by other players in the space. During the current quarter, that means smaller-ticket items like fertilizer and paint are selling, but sales of bigger-ticket items carrying fatter profit margins, such as riding lawn mowers and kitchen cabinets, remain weak.

Some analysts expect the seasonal bump in sales could be enough for Home Depot and Lowe's to meet Wall Street's first-quarter expectations when they report results later this month. Lowe's reports fiscal first-quarter results May 18, while Home Depot reports on May 19.

FBR Capital analyst Stephen Chick said recently that store visits in the Northeast left him hopeful sales trends at Home Depot and Lowe's would skew to the better end of the companies' plans

and Wall Street's forecasts.

Neither Home Depot nor Lowe's would comment on recent sales trends, citing company policies against updating business trends ahead of earnings.

Others worry the shift in sales mix will have a negative impact on the top and bottom lines for several more quarters and may not ever return to levels seen during the boom years of the U.S. housing bubble.

"There's a mindshift away from tapping the line of credit to put in a new pool and outdoor patio with a gourmet kitchen," said Bryan Eshelman, a managing director in consulting firm Alix Partners' retail practice. "That sort of over-the-top and big-ticket project is going to be a long time coming back, if it ever does."

Harvard University's Leading Indicator of Remodeling Activity points to a 12% decline in homeowner spending on remodeling this year, to \$110.2 billion, following a 9.7% drop in 2008.

"What's holding back the housing market is the same as what's holding back remodeling," said Kermit Baker, a spokesman for the university's Joint Center for Housing Studies. Price declines and credit restrictions aren't incentives for homeowners to take on projects, he said. "I think there are probably even more households undertaking projects, but they're just smaller scale."

Craig Smith, CEO of ServiceMagic.com, said in a recent interview that his company is getting more requests for carpet cleaning services, furniture repairs and preventive maintenance on heating and air conditioning systems. Some of the steepest declines in requests, meanwhile, are for architects, engineers, designers and remodelers. ServiceMagic.com is owned by **IAC/InterActiveCorp.**

"People are more focused on the smaller projects that improve live-in value of their homes," rather than projects to

ready a house for sale, Mr Smith said.

Even in areas of recent sales strength, product-mix trends aren't necessarily optimal for the home-improvement retailers.

**Briggs & Stratton Corp.**, which supplies engines for mowers, tillers and tractors, recently noted consumers are shifting away from riding equipment to lower-horsepower equipment, a trend that holds implications not only for equipment makers but also the retailers, said Raymond James analyst Budd Bugatch. Higher horsepower riding equipment has a higher average selling price and margin "for everyone in the channel," he said.

Indeed, a recent survey by Information Research Inc., or IRI, found 38% of consumers are cutting back on their use of landscaping services, but they're sharing yard equipment as opposed to making big investments in new mowers.

**Tractor Supply Co.**, a farm,

feed and equipment retailer that targets farmers and homeowners in rural surroundings, in April said demand is weak for riding mowers, but sales of replacement and maintenance parts are stronger.

**Whirlpool Corp.**, too, has reported that consumers continue to delay buying even replacement appliances, and some are trading down to lower-priced models when they finally make a purchase.

**Fortune Brands**, which makes MasterBrand and Diamond cabinets and Moen faucets, said it believes the cabinet business is performing worse than the entire repair and remodeling market.

These trends pose longer-term issues for Home Depot and Lowe's, which designed store formats during the housing boom to meet the growing demand for kitchen cabinets and fancy bathroom vanities. Both have substantial floor space devoted to big-ticket projects.