Homebuilders and Building Products

When will repair & remodel inflect? We expect reset by end of 2024; growth in '25

Industry Overview

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Equity
United States
Homebuilders and Building Products

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We see risk that R&R spend declines through 2024

We continue to anticipate repair and remodel (R&R) spend will decline low single-digits % in 2024 (2024 outlook: prefer new construction > R&R). Company guidance, consensus estimates and valuations imply a return to growth in 2H24. We expect an improving trend through 2024 against easier comparisons, but see risk that the pace of recovery is slower than consensus estimates: 1) the industry will face headwinds from lapping pull forward of spending through the end 2024 as aggregate building materials spend since 2020 is still tracking ahead of the 2015-2019 run rate, 2) retail sales in discretionary categories remain weak (see BofA on USA), and 3) higher interest rates & weaker existing home sales vs. 2019 could keep R&R spend below its historical run rate.

Aggregate building products spend still normalizing…

The last three years have been exceptionally volatile for R&R building products revenue as the post-COVID spike in demand was followed by supply chain disruptions, price hikes and extended project backlogs. According to US Census Bureau retail sales data, from 2015-2019, retail sales at building materials & supply dealers (seasonally adjusted) accounted for 7.9% of total retail sales (ex. auto). From 2020-2022, building materials were 8.2% of total retail sales after peaking at nearly 9% in 2020. In aggregate the higher spending from 2020-2022 vs. 2015-2019 level equates to roughly $46bn in revenue above the "normal run-rate" or roughly 10% of industry sales that could be considered pull forward into 2020-2022.

… we expect base to reset by end of 2024; growth in 2025

Retail sales at building materials & supply dealers have underperformed overall retail sales ex-autos since 1Q23. In 2023, building materials spending declined -4% YoY, compared to a +2% YoY increase in retail (ex. auto) spending. We estimate building materials underperformance of retail sales equates to $25bn, leaving roughly $20bn of pull forward remaining (or 4-5% of 2023 building material spending). All in, we think the industry could reset by the end of 2024 before returning to growth in 2025.

What could drive an earlier inflection and faster recovery?

Existing home sales (EHS) are tracking near the lowest levels since 1995, which negatively impacts turnover related home improvement (including paint and flooring). Our BofA US Home Sales Indicator suggests existing home sales have troughed (New home recovery poised to continue; Existing homes rebounding from trough) and a drop in mortgage rates followed by higher inventory levels could support a significant (>15%) recovery in housing turnover in 2024. We think EHS would grow in 2024 but stay well below the 5mm+ average from 2015-2019 with existing home inventory at historically low levels and with 79% of current homeowners locked in at <5% mortgage rates.

Near-term trends still look weak

Building materials retail sales declined 8% YoY (seasonally-adjusted) in January (at least partially due to weather). BAC aggregated credit and debit card data spending at home improvement retailers (a proxy for do-it-yourself spending) fell (7.0%) YoY in January (Monthly building products spending snapshot: weather hits DIY in January).

We see risk that R&R sales decline through 2024

We continue to anticipate repair and remodel (R&R) spend will decline low single-digits % in 2024 (2024 outlook: prefer new construction > R&R). Company guidance, consensus estimates and valuations imply a return to growth in 2H24. We expect an improving trend through 2024 against easier comparisons, but see risk that the pace of recovery is slower than consensus estimates: 1) the industry will face headwinds from lapping pull forward of spending through the end 2024 as aggregate building materials spend since 2020 is still tracking ahead of the 2015-2019 run rate, 2) retail sales in discretionary categories remain weak (see BofA on USA), and 3) higher interest rates & weaker existing home sales vs. 2019 could keep R&R spend below its historical run rate.

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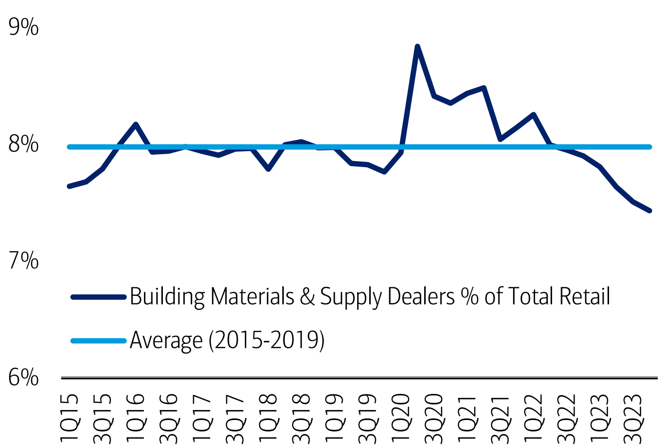
Exhibit 1: Building materials & supply dealers spending as % of total retail (ex. auto) spending

Building materials spending as a % total retail spending is now trending below the historical average after outperforming from 2020-2022



Source: Census Bureau; Note data through 4Q23

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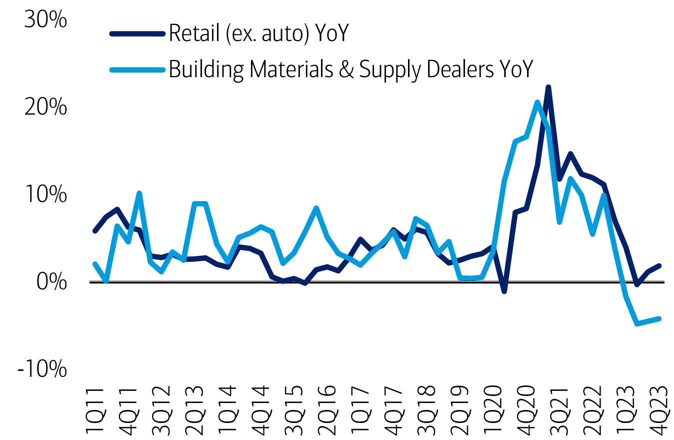
Exhibit 2: YoY growth in retail spending (ex auto) and building materials & supply dealers spending

Retail spending on building materials declined in 2023



Source: Census Bureau; Note data through 4Q23

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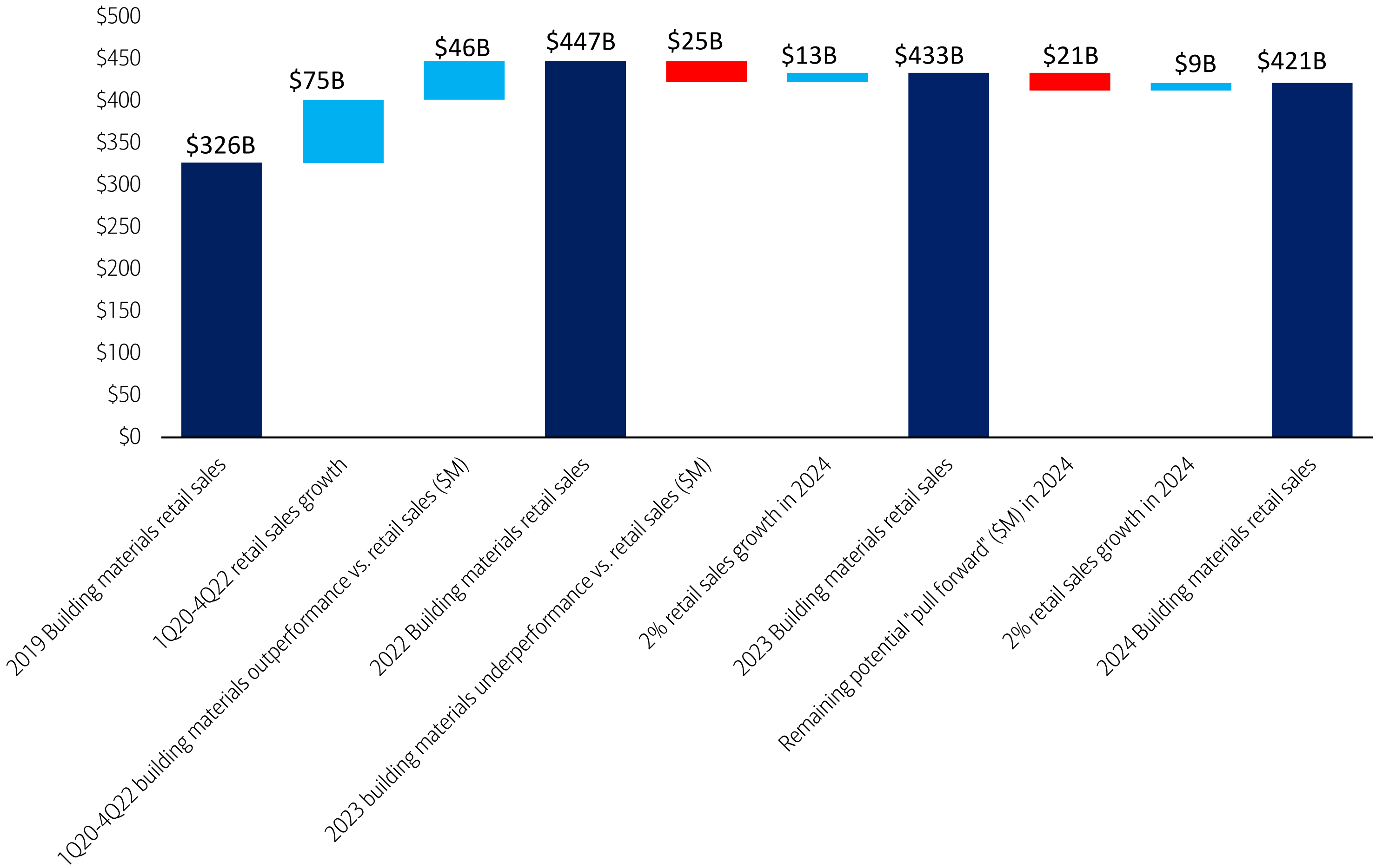
Exhibit 3: Projected 2023 building materials & supply dealers spending based on the historical % of total retail (ex. auto) spending ($M)
We believe spending must underperform total retail spending by another $21B to reach normalized levels



Source: US Census Bureau, BofA Global Research

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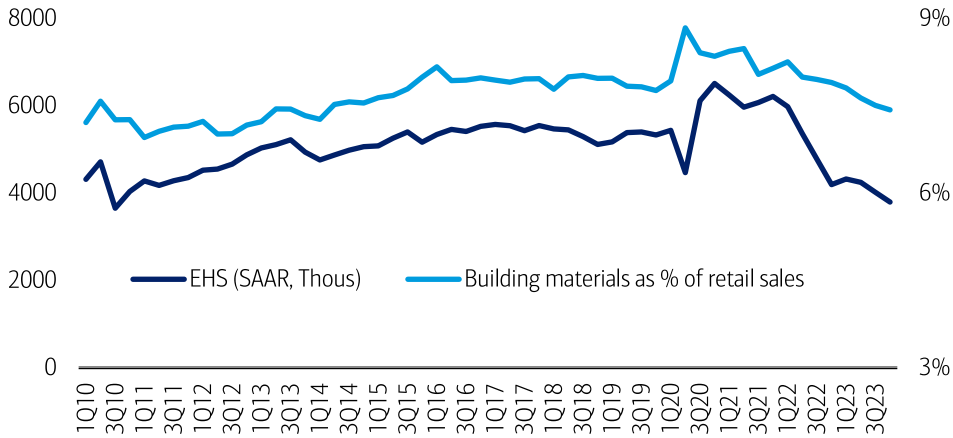
Exhibit 4: Existing home sales vs. building materials & supply dealers spending as % of total retail (ex. auto) spending

Building materials & supply dealers spending as % of total retail (ex. auto) spending has trended lower with declining existing homes sales



Source: Census Bureau, National Association of Realtors, BofA Global Research; Note data through 4Q23

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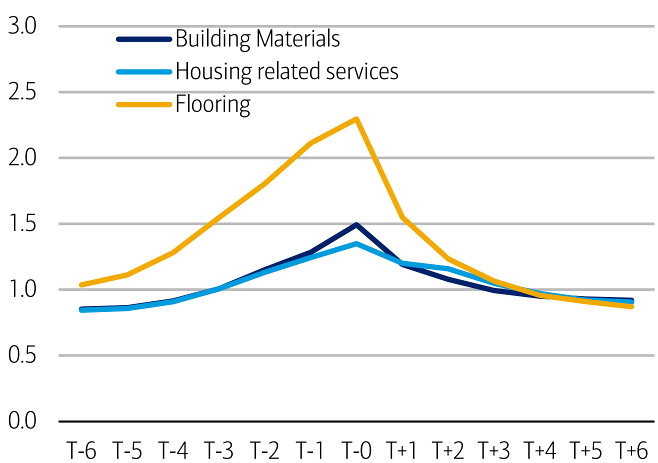
Big-ticket home products are sensitive to turnover

Among housing-related goods and services, we observed the biggest relative delta in spending between movers and non-movers in big-ticket home products, specifically mattresses, furniture, and flooring according to the BAC aggregated card data. Households that had changed zip codes spent almost 6x as much on mattresses as those that did not move in our observation period. Spending on furniture by movers was 3.5x that of non-movers and spending on flooring was about 2.3x that of non-movers This data supports what we suspected about the relative sensitivity of big-ticket home goods to housing turnover vs. the broader home maintenance category. See link to full report: [Move it! Analyzing the impact of housing turnover on consumer spending.]

Exhibit 5: Within home improvement categories, flooring is materially impacted by housing turnover, with movers spending 2.3x as much as non-movers

Home improvement spending comparison by month for households that moved in month T-0 vs. households that did not move



Source: BAC internal data

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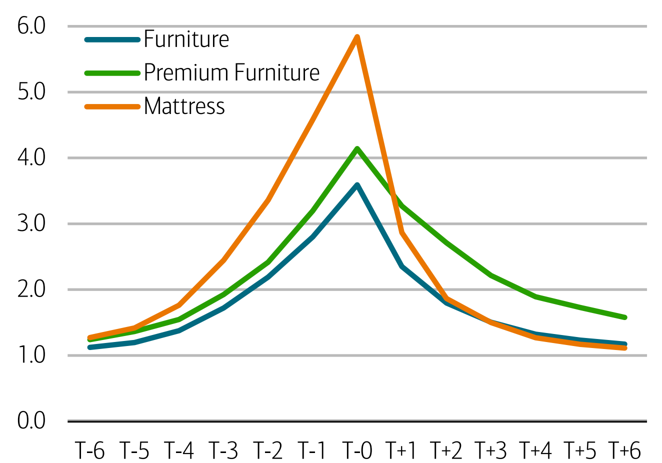
Exhibit 6: Movers spent 3.5x as much on furniture, over 4x as much on premium furniture, and almost 6x as much on mattresses as non-movers

Furniture & mattress spending comparison by month for households that moved in month T-0 vs. households that did not move



Source: BAC internal data

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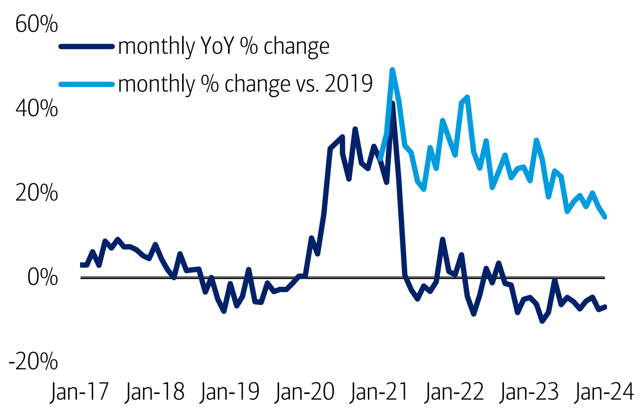
Near-term trends still look weak

Building materials retail sales declined 8% YoY (seasonally-adjusted) in January (at least partially due to weather). BAC aggregated credit and debit card data spending at home improvement retailers (a proxy for do-it-yourself spending) fell (7.0%) YoY in January (Monthly building products spending snapshot: weather hits DIY in January).

Building product spend down YoY for 17 straight months

For the month of January, spending at home improvement retailers (a proxy for do-it-yourself spending) fell (7.0%) YoY (+14% compared to January 2019) vs. a (7.5%) YoY decline in December (and worsened compared to +17% 4-year stack in December). We believe unfavorable weather was a headwind to DIY spending in January. Spending on housing-related services (a proxy for pro contractor spending) rose +1.2% YoY in January (+50.4% compared to January 2019) vs. a (4.1%) YoY decrease in December (an improvement as compared to +41.4% 4-year stack in December). See BofA on USA note for an explanation of methodology, disclaimers and limitations of BAC card data.

Exhibit 7: Monthly BAC aggregated card spending data at home improvement retailers (YoY and change vs 2019)
January 2024 spending fell (7.0%) YoY, but increased 14.4% vs. Jan 2019



Source: BAC internal data
Data through January 2024

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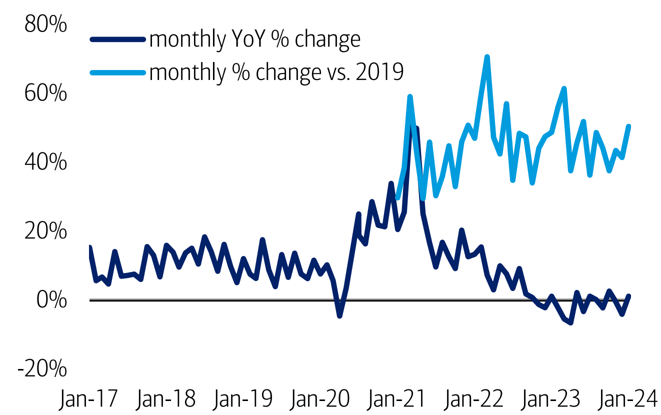
Exhibit 8: Monthly BAC aggregated card spending data for housing-related services (YoY and change vs 2019)
January 2024 spending increased 1.2% YoY and 50.4% vs. Jan 2019



Source: BAC internal data
Data through January 2024

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Exhibit 11: Data category and description
Merchants are categorized based on products/services they provide

Data category	Description
Building materials	Merchants that sell a wide range of home/housing products and supplies
Housing-related services	Merchants/individual professionals that provide plumbing, flooring, painting, carpentry or other home-related services
Flooring	Merchants that sell floor coverings
Furniture	Merchants that sell furnishing items, such as sofas, dressers, tables, chairs
Premium furniture	Merchants that sell high-end furnishing items
Mattress	Merchants that sell bedding and mattresses

Source: BofA Global Research

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Methodology explained

Readers should be aware that although the BAC datasets utilized in our analysis represent a significant number of data points, they nevertheless present a degree of selection bias, including but not limited to income levels and geographies. In addition, the data is limited to debit and credit cards and does not include other payment methods such as cash or checks.

Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

BAC data used in this report include spending from active US households only. Spending from corporate cards are excluded.

Our methodology for calculating the growth rates for daily data: we calculate the %y/y growth rate and the 4-year % change by matching calendar days (Jan 1 2023 is matched to Jan 1 2022, and Jan 1, 2019, respectively). The % change is calculated based on the 7-day moving average of spending levels.

Additional information about the methodology used to aggregate the data is available upon request.

Disclosures

Important Disclosures

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R1]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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