NHPA

MARKET MEASURE 2025

THE INDUSTRY'S ANNUAL REPORT

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As 2023 was winding down, many of us held high hopes that 2024 would mark the year for a return to upward momentum in the industry.

Following the outsized growth the industry experienced during the pandemic and the marked retreat recorded in 2023, most industry watchers were bearish but optimistic about the industry's potential this year.

In fact, the NHPA team was anticipating modest growth for 2024 of 0.9%. It only took the first three months of the year to realize that these hopes for growth likely would not materialize.

Adverse weather during Q1 combined with inflation and persistently high interest rates all proved to be a strong barrier to growth in the early months of 2024. Spring didn't bring much relief as these conditions persisted. By midyear the industry was posting sharply down from expectations, and we were tracking a year-over-year decline of about 4.5%.

Even though the numbers we saw coming in were concerning, like many other analysts, we saw a parting of the clouds on the horizon.

As inflation eased and the Fed began targeting interest rates, we remained confident the direction of the industry would change heading into the second half of the year.

So far, this prediction has been somewhat mixed. The third quarter did show slower declines for the industry, but the interest rate cuts we had anticipated would provide a kickstart for sales failed to make the impact we had hoped.

Also, while politics don't typically impact broader economic swings, this year's highly contentious election cycle may have been enough to keep consumers on the sidelines unsure of what might lie ahead.

Even with these headwinds, many of the industry's largest players were pleasantly surprised by their third quarter 2024 results.

Home Depot and Lowe's both revised their full-year guidance up and Ace Hardware was comping better than expected for the quarter. Both Home Depot and Lowe's cited factors such as an improving economy and increased demand from hurricane repairs as the primary reasons for their enhanced projections.

RESEARCH

Industry Insights

Take a look back at the Market Measure reports from the last decade at **YourNHPA.org/market-measure**.

Now, as the fourth quarter has wrapped up (though we are still awaiting financial reports at the time of this analysis) the outlook for 2024 isn't as bleak as it was six months ago.

As it stands, NHPA is tracking industry sales to be down by about 3.4% versus 2023. Other industry organizations that track this kind of data are even more optimistic with the Home Improvement Research Institute (HIRI) anticipating only a 0.9% sales decline and others like Cleveland Research Company anticipating a decline of about 2.9%.

MOVING FORWARD

With 2024 in the rearview mirror, we are more confident the industry should return to positive growth over the next 12 months.

Some of the factors influencing this prediction include a continually improving economy, further projected interest rate cuts and the fact that many of the pandemic-related product sales are likely reaching the repurchase phase.

Beginning in 2025, we are predicting modest growth for the industry of about 2.1%. The analysts at HIRI are charting a more aggressive growth pattern for the year of 3.9%.

Of course, there are multiple factors that could influence this growth. The first is the continued decline in interest rates and inflation.

These two factors go somewhat hand in hand, so if inflationary pressures creep back in, the Fed will likely be hesitant to trim rates further. Should this happen, we will likely see growth sub 2%.

Another factor closer to retail that will be important to monitor is the trajectory of store traffic, transactions and transaction size.

The industry has seen steady declines in traffic and transaction counts over the past two years. Simply put, fewer shoppers are coming into stores and fewer of these visits are translating to purchases. This trend was seen by both independent retailers and the big boxes.

Despite slower traffic and transactions, home improvement retailers have managed to hang on to transaction size.

It could prove more concerning if we start to see transaction size numbers slipping as we move into next year without offsets from traffic or conversions.

In a longer range outlook, we see the industry returning to a more typical growth pattern of 3-4% growth over the next five years.

Even with this projected return to positive momentum, we are still tracking an accelerating decrease in the number of units serving the industry. As more Baby Boomers retire, consolidation continues and new store openings slow, we believe that unit count in the industry will decline by 5-6% over the next five years.

All in all, it is a relatively encouraging picture for the industry. Even with a downward cycle over the past two years, the industry started this decline from a much higher platform: Sales from 2019-2022 increased by more than 30%.

So despite two years of backward movement, the home improvement industry remains strong. Wall Street and private equity continue to view the industry in a positive light, which could serve as a positive indicator for the three-to-five year horizon for growth in the channel.

CONTENTS

This Market Measure report is compiled by NHPA staff from a variety of sources that are attributed throughout.

2024

Home Improvement Sales by Month

(in billions)

January	$32.8
February	$33.8
March	$38.7
April	$44.9
May	$48.5
June	$43.8
July	$44.1
August	$42.9
September	$40.4
October	$44.9

Sales Growth 2023 vs. 2024

January	-6.9%
February	-0.7%
March	-7.6%
April	3.7%
May	-4.1%
June	-5.5%
July	5.3%
August	-2.3%
September	1.2%
October	7.1%
YTD	-1.0%

2023-2028

Sales by Store Type

(in billions)

2023	Hardware Stores	$68.6
	Home Centers	$338.2
	Lumberyards	$137.8
	TOTAL	**$544.6**
2024	Hardware Stores	$64.8
	Home Centers	$328.1
	Lumberyards	$133.2
	TOTAL	**$526.1**
2025	Hardware Stores	$66.7
	Home Centers	$333.3
	Lumberyards	$137.2
	TOTAL	**$537.2**
2026	Hardware Stores	$68.7
	Home Centers	$343.0
	Lumberyards	$141.1
	TOTAL	**$552.8**
2027	Hardware Stores	$70.8
	Home Centers	$354.2
	Lumberyards	$145.5
	TOTAL	**$570.5**
2028	Hardware Stores	$73.2
	Home Centers	$365.9
	Lumberyards	$150.2
	TOTAL	**$589.3**
Compound Annual Growth Rate 2023-2028	Hardware Stores	1.3%
	Home Centers	1.6%
	Lumberyards	1.7%
	TOTAL	**1.6%**

2023-2028

Outlets

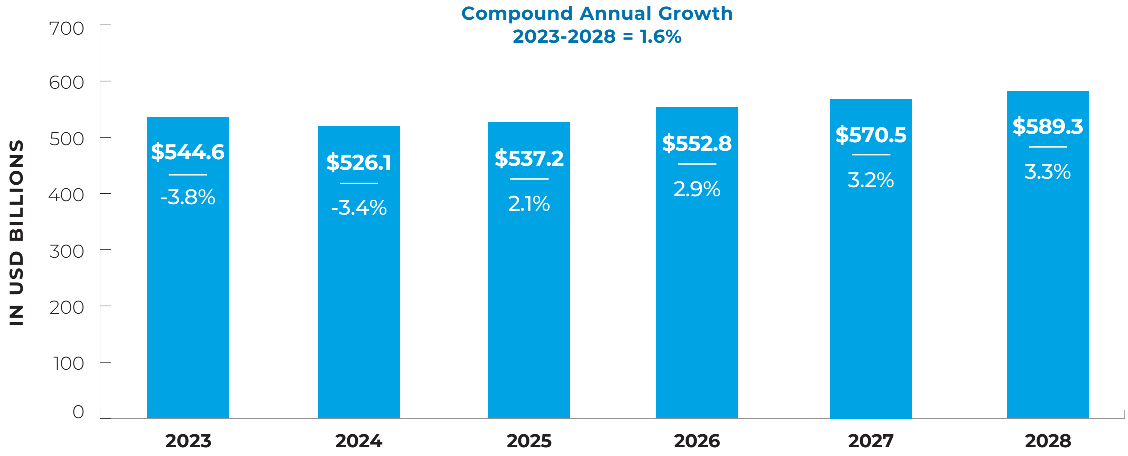
2023	Hardware Stores	17,650
	Home Centers	9,530
	Lumberyards	9,450
	TOTAL	**36,630**
2024	Hardware Stores	17,500
	Home Centers	9,475
	Lumberyards	9,400
	TOTAL	**36,375**
2025	Hardware Stores	17,250
	Home Centers	9,435
	Lumberyards	9,375
	TOTAL	**36,060**
2026	Hardware Stores	17,100
	Home Centers	9,385
	Lumberyards	9,250
	TOTAL	**35,735**
2027	Hardware Stores	16,975
	Home Centers	9,300
	Lumberyards	9,100
	TOTAL	**35,375**
2028	Hardware Stores	16,500
	Home Centers	9,175
	Lumberyards	8,970
	TOTAL	**34,645**
Percent Change 2023-2028	Hardware Stores	-6.5%
	Home Centers	-3.7%
	Lumberyards	-5.1%
	TOTAL	**-5.4%**

Sources: U.S. Department of Census, Monthly Retail Sales Report NAICS 444 and NSA and NHPA calculations

LEGEND
Sales
YOY Growth

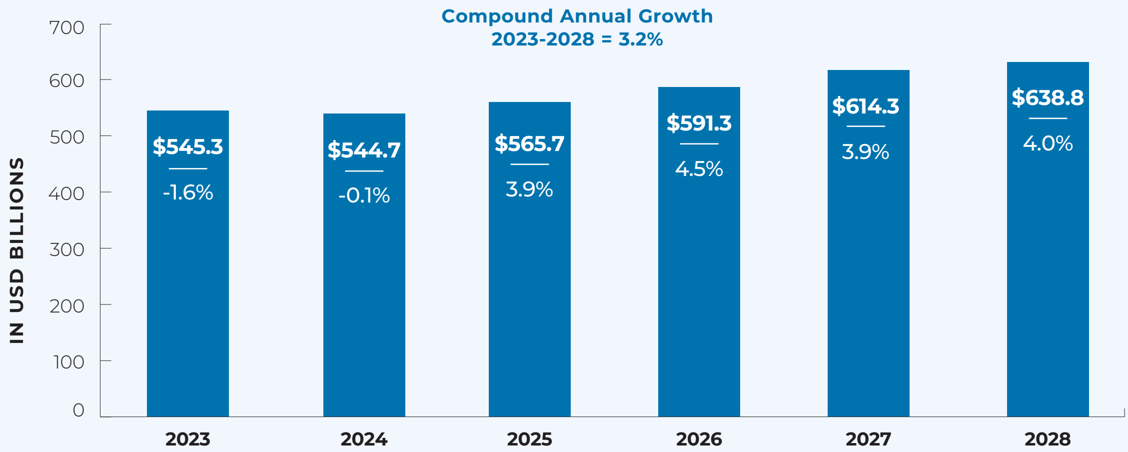
U.S. Home Improvement Industry Sales

North American Hardware and Paint Association Projections



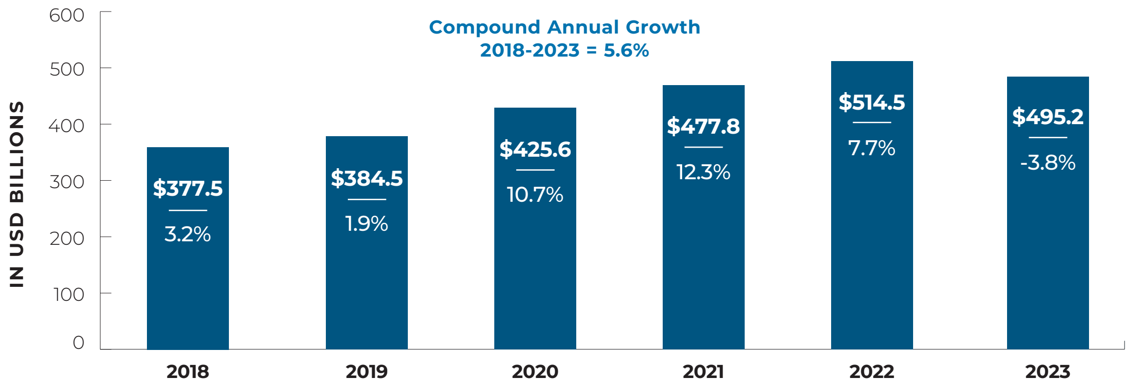
Home Improvement Product Sales Performance

Home Improvement Research Institute/U.S. Size of Market Report, September 2024



Home Improvement Retail Sales

U.S. Department of Census Monthly Retail Sales Report NAICS 444/NSA



Top Chains: Individual Performance

	2023 Sales (in billions)	Stores at End of FY2023	Stores in 2024 (as of Q3 2024)
Home Depot Atlanta	$152.7	2,335	2,345
Lowe's Mooresville, North Carolina	$86.4	1,746	1,747
Menards Inc. Eau Claire, Wisconsin	$13.4	337*	341
Sherwin-Williams Cleveland, Ohio	$23.1	4,609≠	4,739≠
Tractor Supply Brentwood, Tennessee	$14.6	2,216^	2,270^

≠ Paint Stores Group in U.S. and Canada stores only
**Source: National Retail Federation Top 100 Retailers 2024 List*
^Includes Petsense by Tractor Supply locations
Sources: Company reports and NHPA research

Market Share Profile

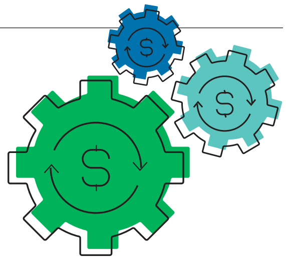
Top Chains: Industry Share			Top Chains: Combined Performance		
	Sales (as % of total industry)	**No. of Stores** (as % of total industry)		**Net Sales** (in billions)	**No. of Stores** (at the end of FY)
2019	51.3%	15.4%	**2019**	$207.3	9,351
2020	50.7%	15.6%	**2020**	$210.2	9,379
2021	51.1%	18.0%	**2021**	$251.9	9,475
2022	53.7%	29.5%	**2022**	$304.2	10,992
2023	53.3%	30.7%	**2023**	$290.2	11,243

Source: NHPA calculations

2024 Financial Profiles of Leading Publicly Held Chains

	Home Depot	Lowe's	Sherwin-Williams
Number of Stores (at end of FY2023)	2,335	1,746	4,609≠
Distribution Centers	500	120*	130 and more
Average Size of Selling Area (sq. ft.)	103,769	112,000	—
Total Sales	$152.7 billion	$86.4 billion	$23.1 billion
Total Asset Investment	$76.5 billion	$41.8 billion	$23 billion
Total Inventory	$20.9 billion	$16.9 billion	$2.3 billion
Sales Per Square Foot	$604	$443	—
Inventory Turnover	4.4x	3.2x	5.0x
Net Sales to Inventory	15x	20.5x	10.8x
Total Sales Per Employee	$382,223	$304,225	$360,156
Average Size of Transaction	$90.1	$103.5	—
Gross Margin Return on Inventory	242.9%	170.7%	434.1%
Income Statement			
Net Sales	100%	100%	100%
Cost of Goods Sold	66.6%	66.6%	53.3%
Gross Margin	33.4%	33.4%	46.7%
Total Operating Expenses	19.2%	20%	30.6%
Net Income (Before Taxes)	14.2%	11.8%	13.5%
Balance Sheet			
Cash	3.6%	3%	1.2%
Receivables	4.3%	1.2%	10.7%
Inventory	32.6%	42.3%	10.1%
Other	2%	2.6%	2.1%
Fixed Assets	57.5%	50.9%	75.9%
Total Assets	100%	100%	100%
Current Liabilities	30.2%	44.6%	28.9%
Long-Term Liabilities	67.7%	88%	54.9%
Shareholder Equity	2.1%	-32.6%	16.2%
Total Liabilities and Equity	100%	100%	100%

Source: Company annual reports
≠ Paint Stores Group in U.S. and Canada stores only
**Includes regional distribution centers (RDCs), flatbed distribution centers (FDCs), import distribution centers (IDCs), bulk distribution centers (BDCs), cross-dock terminals (XDTs) and Fulfillment Centers (FCs)*



STACKING UP AGAINST THE COMPETITION

DIVE INTO THE ANNUAL BENCHMARKING STUDY

The *2024 Cost of Doing Business Study* presents the North American Hardware and Paint Association's (NHPA) annual financial and operational profile of independent hardware stores, home centers, lumber and building materials (LBM) outlets and paint and decorating outlets.

This study assesses the financial performance of home improvement retailers who graciously submitted confidential financial reports for fiscal year 2023 to NHPA. The study presents composite income statements and balance sheets plus averages for key financial performance ratios.

The data is segmented for hardware stores, home centers, LBM outlets and paint and decorating outlets. In each segment, data is presented for the typical store, for high-profit stores, for single-unit and multiple-unit companies and for sales volume categories. In addition, there is a five-year historical trend for typical stores in each segment, including paint.

Retailers can use this data to measure their own performance against industry averages. The data develops benchmarks retailers can use to establish financial plans to improve profitability.

Methodology

The annual *Cost of Doing Business Study* is made possible through the cooperation of hardware store, home center, LBM outlet and paint and decorating outlet owners and managers who provide detailed financial and operational information on their individual companies.

Questionnaires were mailed to a sampling of hardware stores, home centers, LBM outlets and paint and decorating outlets in the U.S. to collect detailed financial and operational information for 2023.

The analysis in this report is the result of extensive review by NHPA. All individual company responses are completely confidential. Most of the figures in this report are medians. The median for a particular calculation is the middle number of all values reported when arranged from lowest to highest.

The median represents the typical company's results and is not influenced by extremely high or low reports. To determine high-profit stores, all participating companies were ranked based on operating profits. The high-profit companies in each segment are those that make up the top 25%. The figures reported for each of the high-profit segments represent the median for that group.

While reviewing the numbers on the following pages, it is extremely important to note that each year, this report contains figures from a different sample group of stores. That means overall figures have the potential to vary widely from year to year based on the respondent group of stores participating each year. We use year-to-year comparisons to illustrate general trends over time, not to draw specific year-over-year conclusions.

In this year's study, 1,096 independent home improvement stores participated, which represents a 2.9% decrease from the prior year, but is the fourth highest since the study began.

Hardware Stores

While all home improvement segments were down in comp sales, the hardware segment fared the best only being down (0.7%). However, sales per store ($3,348,407) and sales per customer ($37) set all-time highs for the study. Customer count was down (0.42%) for the third year in a row, meaning pricing is keeping sales from dropping even further.

Cost of goods sold was up 90 basis points to 60.8%, making this the highest percent since 2018 and driving gross margin (41.1%) to its lowest point since 2020. Payroll as a percentage of sales (20.2%) actually dropped from the previous year even though employee count (16) is its highest level ever. The increase in employees contributed to sales per employee ($209,275) was the lowest since 2020.

While operating profit (5.6%) and profit before taxes (6.9%) were down for the second year in a row, they are still the fourth highest ever. Sales per square foot ($284) was an all-time high, while gross margin ($117) and inventory ($71) per square foot were the second highest in history. Finally, cash on hand (13.8% of assets) remains almost double pre-COVID levels. Even with a softening economy, the hardware segment is still going strong.

Home Centers

As is typical, home centers are most affected by who participates from year to year. Comp sales were down (5.04%) but up roughly this same amount in the prior year. Customer count dropped for the third year in a row, but the more concerning issue is it reached the lowest level since 2016. At the same time, sales per customer reached an all-time high of $81 and high-profit stores were $21 more.

Cost of goods sold (69.4%) is the highest since 2017, while payroll expenses (17.4%) remained flat. Although occupancy costs (3.4%) were down, other operating expenses (8.3%) were the highest since 2019. This made operating profit (3.3%) and profit before taxes (4.3%) the lowest since 2019.

But, this is still the fourth highest profit in the study's history and more than double pre-COVID levels. While that demonstrates a slowdown, further proof of softening are inventory turnover (2.6), sales to inventory (3.9), inventory holding period (139.4 days) and the cash cycle (144.5 days), which all reached their worst levels since 2013.

As for employee productivity, employee count dropped by three, but sales per employee ($350,346) was the second highest ever, so home centers kept payroll expenses in line by reducing staff.

Lumber and Building Material Outlets

No other segment is affected as much by inflation as LBM outlets, and it's reflected in the numbers. Customer count could be exactly the same, but sales could fluctuate widely.

Comp sales were down (9.64%), the most of any segment after being up 9.88% in the prior year. To demonstrate this, sales per store ($9,122,209) was the lowest level since 2019, but annual customer count (46,743) was the highest since 2014. This made sales per customer ($195) down $75 versus the prior year and the lowest level since 2018. One fortunate trend was that the cost of goods sold (71.3%) was at its lowest level since 2011, contributing to a gross margin of 30.4%, which is the highest level since 2011.

Payroll expense (14%), occupancy (2.5%) and other operating expenses (8.8%) were all up for the third year in a row, which contributed to operating profit (5.1%) and profit before taxes (6.3%) being the lowest since 2020. However, like other segments, profits are still the fourth highest in history.

Finally, as it relates to productivity, sales per employee ($506,789) and gross margin per employee ($154,064) were the third highest productivity levels in history, which have all been post-COVID. These metrics are even higher at high-profit stores.

Paint and Decorating Outlets

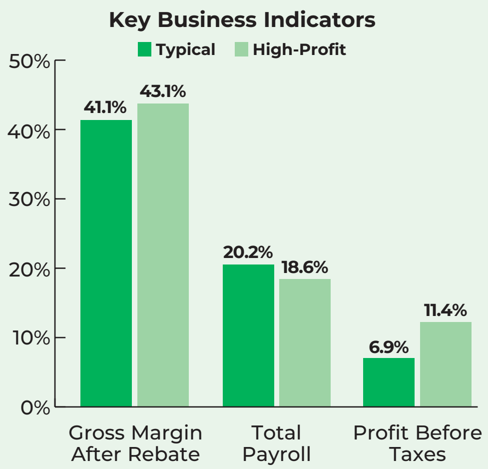
The paint segment once again struggled to get a decent amount of industry representation, although the 82 stores participating this year is the highest on record. This was also the fifth year for the paint segment, so we were able to add historical data on the following pages.

Comp sales were down (5.6%), which is almost identical to what this segment was up in the prior year. Customer count was up 18.2% with sales per customer down ($50) or 21%.

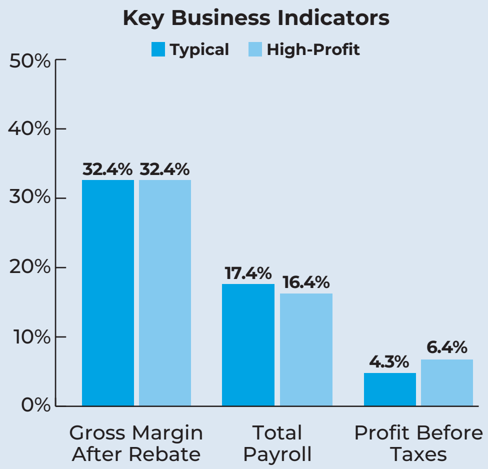
Cost of goods sold (63.1%) is the highest since 2020, which made the gross margin (41%) the lowest since that same year. Payroll expense (24.6%), rent (6%) and occupancy costs (7.1%) were all the second highest on record. All of this contributed to profit before taxes being 0.3% at a typical store and 0.6% at a high-profit store, which were both all-time lows. Strangely, single store-owner profits were the highest ever for the segment at 5.8%.

Inventory (28.7%) as a percent of assets is really low, but is mainly driven by one company. Debt to equity is the highest it's ever been at 5.3, almost more than double the next highest year. While headcount (6) remained the same, sales per employee was down $26,625 but still the second highest on record.

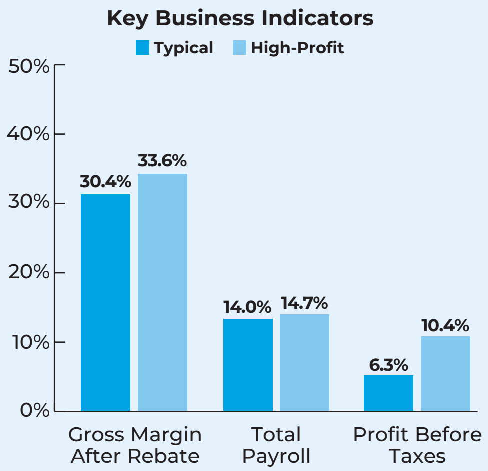
Hardware Stores



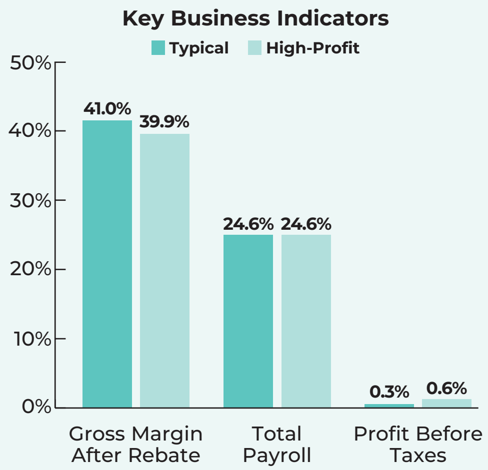
Home Centers



Lumber and Building Material Outlets



Paint and Decorating Outlets



This Year's Hot Topics

Inventory & Loss Prevention

E-Commerce & Curbside Services

Staff & Wages

and MORE!

MARKET 2025 MEASURE

How to Use This Study

To get the most out of the from the *2024 Cost of Doing Business Study*, follow these tips.

- **Compare numbers.** Determine your operating expenses as a percentage of sales and calculate your balance sheet as a percentage of total assets. Compare those numbers to the study results for typical and high-profit stores.
- **Look beyond the percentages.** Compare your real-dollar expenditures as well.
- **Consider the results.** If you find your store's individual data veers sharply from what's contained within the study, explore the cause behind the discrepancy and develop a plan to bring your numbers on par with high-profit stores.
- **Participation counts.** Overall figures can vary from year to year based on the group of participating operations. Year-to-year comparisons are helpful for illustrating general trends over time.

Figures to Know

- Average transaction size is the total sales over a period of time divided by the total number of transactions in that same period.

  Use It: Measure your average transaction size weekly to spot shopping trends and establish a baseline for your business.

- Payroll is the total cost of owner and employee salaries, insurance payments and benefit plans.

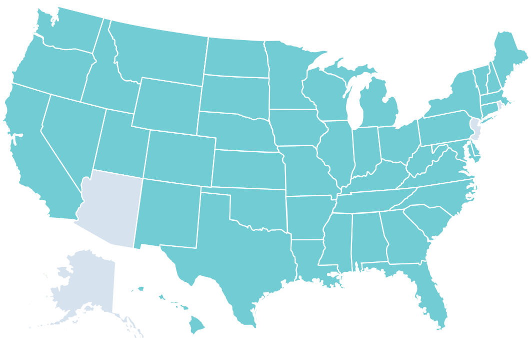
  Use It: Compare your payroll expenses to typical and high-profit operations to find areas you could cut.

1,096

PARTICIPANTS IN THE 2024 STUDY

87

NEW STORES PARTICIPATED



46 out of 50

states participated

Tap Into These Additional Resources

NHPA has created a library of resources to help retailers better understand and use the metrics presented throughout the *Cost of Doing Business Study*. These resources include case studies from other retailers who have improved specific metrics, as well as videos retailers can share with their employees to train them to better understand the financial side of the business. Learn more at **YourNHPA.org/codb**.

THE END OF HISTORIC GAINS

When examining data reported by independent home improvement retailers over the past 18 to 24 months, it's evident that most retailers surveyed are coming down off the historic performance gains experienced during the pandemic. For example, two years ago when asked about year-over-year changes in sales performance for the third quarter of 2022, just 16% reported sales declines, compared to 63% who saw sales increases during that timeframe.

In the third quarter of 2022, three out of four (75%) survey participants reported increases in transaction size, while no one (0%) reported average ticket declines for that period. Fast forward two years to Q3 2024 and the script has been flipped based on the survey responses from independent home improvement retailers.

Change in Total Comp Store Sales for Q3 (YoY)

For top line sale results, 28% of retailers saw year-over-year sales growth in Q3, as opposed to 48% who saw sales declines over the same period. This mirrors 2023's comp sales performance for the quarter. However, this figure was significantly lower than the 63% of independent retailers who experienced growth in Q3 of 2022. On average, total sales decreased by 1.5% year over year for Q3, which was a slight improvement compared to Q3 2023 where 2.7% reported sales declines.

When asked about their thoughts on how Q4 2024 sales would shape up, 41% of survey respondents said sales revenue would be much or somewhat lower on a year over year basis, compared to 18% who said sales would be much or somewhat higher for Q4 2024.

Change in Transaction Count for Q3 (YoY)

More than twice as many retailers reported transaction count declines in the third quarter of 2024, with 51% reporting decreases in year-over-year transaction counts, while 23% reported year-over-year increases for Q3.

On average, retailers experienced a 0.5% decline in year-over-year transaction counts in Q3 2024. While still a decrease, this represents the smallest decline in transactions since Q4 2022, which saw a 0.1% average reduction.

When asked their thoughts on anticipated Q4 transactions counts, it was evenly split, with 26% reporting they would be much or somewhat lower on a year over year basis, compared to 28% who said it would be much or somewhat higher for Q4 2024.

Participate in the Independent Retailer Index

The Independent Retailer Index, a project produced in partnership between the North American Hardware and Paint Association (NHPA) and The Farnsworth Group, serves as a regular measure of the independent channel's performance. The index tracks quarterly changes in various business areas including:

- Total sales
- Transaction count
- Inventory investment
- Cost of goods
- Gross profit margins
- Future expectations
- Investment plans: inventory, staff, property, plant and equipment and technology solutions

Reports are published each quarter and all data is presented in aggregate. Download the reports and learn more on how to participate at **YourNHPA.org/retailer-index**.

Change in Transaction Size/Average Ticket for Q3 (YoY)

The bright spot for independent retailers in Q3 was average ticket growth, where 38% of survey respondents reported year-over-year growth for the quarter versus 24% who reported declines for the same period. This is most likely the result of inflation.

Like transaction counts, when asked their thoughts on anticipated changes in Q4 transactions size, it was evenly split, with 26% reporting they would be much or somewhat lower on a year-over-year basis, compared to 28% who said it would be much or somewhat higher for Q4 2024.

Change in Gross Profit for Q3 (YoY)

For the third quarter of 2024, more retailers reported declines in gross margin for Q3 (33%) than those who reported advances (23%). The average change in profit margin for the quarter was a negative -1.3% on average.

When asked about anticipated Q4 changes in gross margin, almost twice as many survey respondents reported they anticipated much or somewhat lower gross margins (46%) than those who anticipated higher gross margins (25%) for the fourth quarter.

RESEARCH

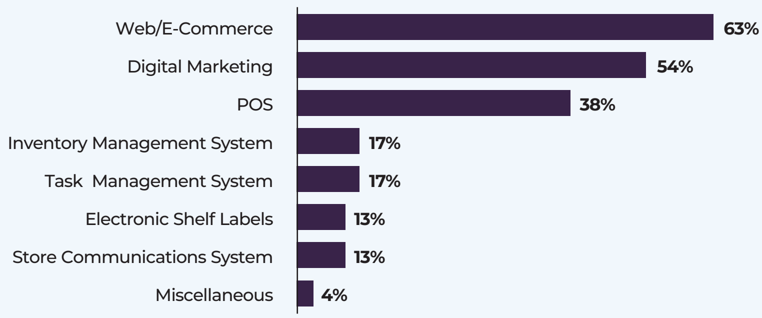
Download the Data

Access the most recent Independent Retailer Index report to compare your operation quarter to quarter at **YourNHPA.org/retailer-index**.

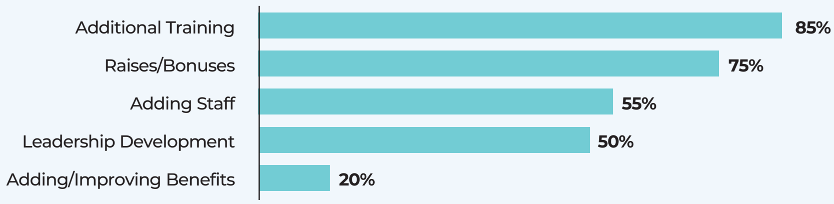
Where Investment Dollars Will Go in 2025

When asked what investments they are likely to make over the next 12 months in the areas of inventory, technology solutions and staff expenditures, independent retailers noted the following areas they wanted to focus on in 2025.

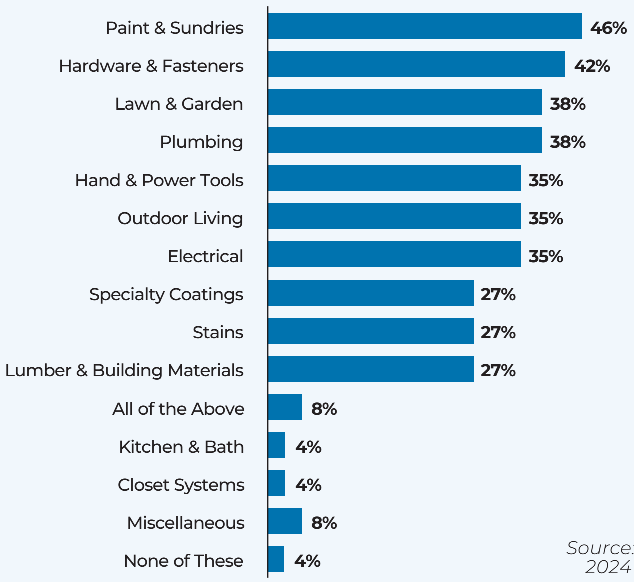
TECHNOLOGY SOLUTIONS



STAFF/EMPLOYEES



INVENTORY



Source: NHPA & The Farnsworth Group Q3 2024 Independent Retailer Index Report

2025 HOME IMPROVEMENT FORECAST: KEY TRENDS

Provided by Dave King, Executive Director, Home Improvement Research Institute

There's good news for retailers of home improvement products. Recent reporting from the Home Improvement Research Institute (HIRI) indicates that investments in home renovations are set to increase in 2025 and beyond.

Let's explore the key indicators from HIRI's Economic & Industry Update that contribute to the positive forecast.

Economic Indicators

The economic backdrop heading into 2025 includes insights into potential consumer behavior. The Consumer Price Index (CPI), which measures the change in prices paid by consumers for goods and services, increased by 2.5% year-on-year as of August 2024. This moderated inflation hints at an improvement in purchasing power, potentially fostering more favorable spending conditions.

However, consumer sentiment presents a nuanced picture. The University of Michigan's Consumer Sentiment Index climbed by 3.2% in September, suggesting optimism, even as the Conference Board's Consumer Confidence Index dropped by 6.5% in August. This divergence underscores the complexity of consumer perspectives, influenced by both short-term pressures and longer-term optimism.

Impacts of Federal Interest Rate Cuts

In November 2024, the Federal Reserve announced its second interest rate cut of the year, aimed at easing borrowing costs. This reduction will continue influencing consumer spending into 2025, particularly in sectors reliant on financing, such as home improvement.

Lower rates help make home equity loans and refinancing more affordable, encouraging homeowners to invest in upgrades. This may increase demand for big-ticket projects and boost business for retailers. Retailers can capitalize on this by offering in-store financing and/or partnering with financial institutions to make large purchases more accessible.

Drivers of Home Improvement Activity in 2025

In addition to economic indicators, two major factors within the housing market will likely influence the nature of home improvement in the coming year.

1. **Aging Housing Stock:** Homes built decades ago are becoming outdated and require renovations or maintenance, especially to meet safety codes and energy efficiency standards.
2. **Housing Supply Shortage:** Due to limited housing inventory, demand remains high for both new builds and existing homes, pushing home prices up. This results in the locked-in effect, when homeowners choose to invest in renovations to enhance their current homes instead of upgrading houses.

Retailers should consider aligning their marketing messages to resonate with homeowners who are looking to "stay and upgrade," rather than move. This can include promoting products and services that create long-term value, comfort and energy savings.

The Best Is Yet to Come

As homeowners continue to prioritize improving their homes, spending on maintenance and repair is expected to steadily increase in the coming years. HIRI's outlook for 2025 remains cautiously optimistic as economic factors, consumer trends and market drivers continue to shape the home improvement market.

Looking even further into the future, the home improvement market is expected to experience steady growth, averaging around 4% annually and leading to a robust market that's estimated to top $600 billion by 2028 based on HIRI's October 2024 Size of Market Report.

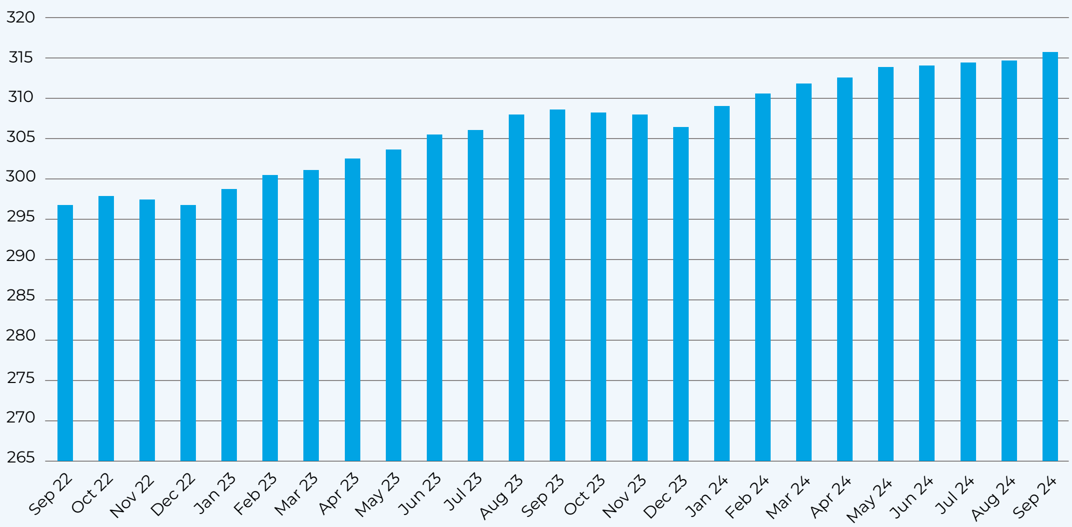
For more effective strategic planning, join HIRI to get access to HIRI's Size of Market report every quarter.

HIRI
HOME IMPROVEMENT RESEARCH INSTITUTE

About HIRI

The Home Improvement Research Institute (HIRI) is the only nonprofit organization dedicated to home improvement research. The organization empowers its members with exclusive, ongoing home improvement data and information for making better business decisions. Members are the home improvement industry's leading manufacturers, retailers and allied organizations. Learn more at **hiri.org**.

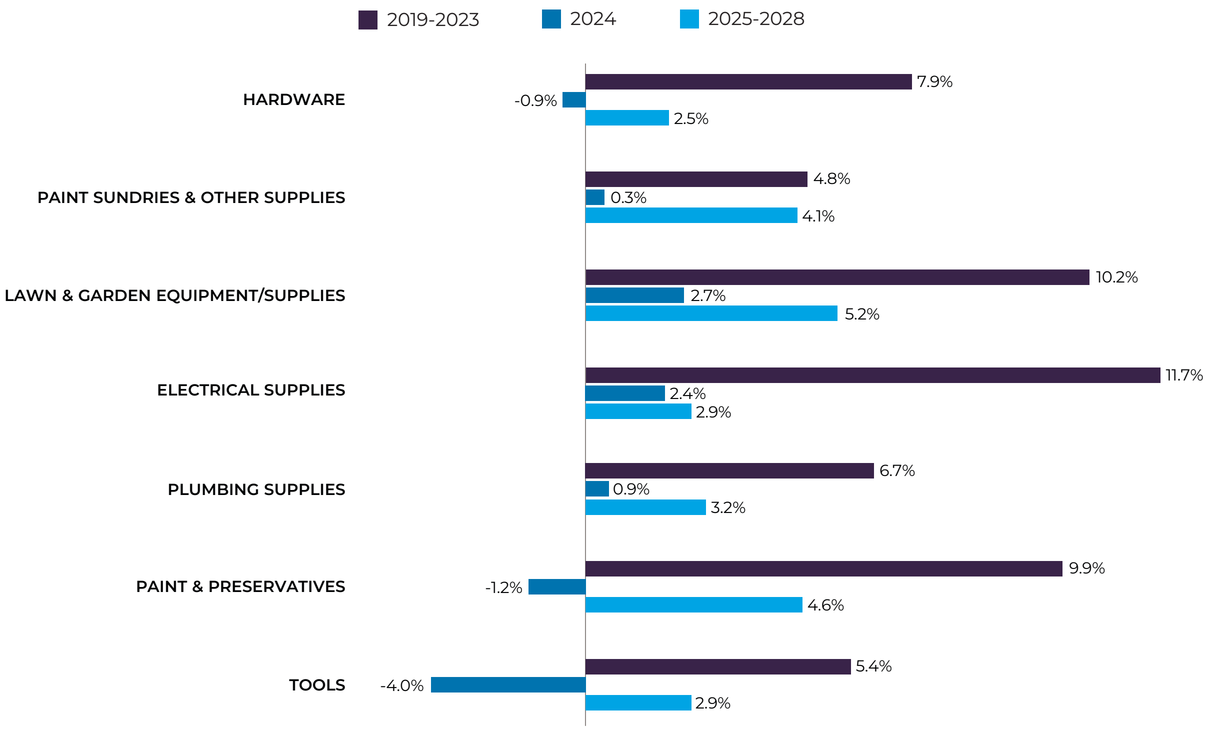
Consumer Price Index (CPI)



The U.S. Bureau of Labor Statistics Consumer Price Index (CPI) increased by **2.5%** year-on-year as of August 2024.

Source: U.S Bureau of Labor Statistics

Consumer Market Growth by Category



Source: S&P Global Market Intelligence

MARKET SLOWS NORTH OF THE BORDER

Provided by Michael McLarney, President, Hardlines Inc.

After a year of correction or "normalizing" for the Canadian industry in 2023, following 34% growth through the COVID-19 years (2020, 2021 and 2022), the continued slowdown north of the border proved frustrating for dealers and vendors alike.

In 2023, *Hardlines* calculated that the Canadian retail home improvement industry was $58.637 billion Canadian dollars—or $44.261 billion U.S. dollars, measured by the June 30, 2023 exchange rate.

After a slow year in 2023—down 3.7% versus the high-water mark of 2022—the performance of the industry continued to stay sluggish throughout 2024.

The publicly-traded majors—The Home Depot and Lowe's in the U.S. and Canadian Tire in Canada—all announced their results throughout the year as being consistently flat or down by as much as 4%.

Those numbers reflected the continued economic downturn as consumers slogged through the post-pandemic malaise of higher interest rates, consequently slowed housing markets and inflation. Those trends persisted through 2024, sharply curtailing consumer spending—all factors that had a direct impact on sales for independents.

Regionally, there are several strong areas of Canada showing growth, including western Canada, especially Alberta, and Atlantic Canada. But Ontario, which contains almost 40% of Canada's GDP, is a major exception to that trend. That province, which accounts for fully one-third of retail home improvement sales in Canada, is slower, and it's suppressing statistical growth for the entire country. Quebec remains soft as well.

As a result, the forecast remains sluggish for the sales performance of the Canadian retail home improvement industry in 2025. There will be a slight increase expected in 2025, as housing starts gradually pick up and interest rates keep dropping, though at a slower rate than previously anticipated.

Examining the industry by store format, building centers are expected to be the strongest format through the rest of 2024, though their growth will be very small at 1.3%.

Traditional hardware stores will also hold their own. This will be due to their convenience factor, as well as their role as a destination for many for the affordable repairs and home improvement projects—such as paint—that are more popular among consumers during inflationary times.

The big-box format is expected to take a hit from cautious consumer spending throughout 2024. Canadian results will be in line with U.S. big-box forecasts of -3% to -4%. Based on its results during the year, and its own forecasts for year end, Canadian Tire is expected to remain flat or experience negative sales.

Home Depot Canada will continue to ride out the soft spending environment. Its efforts to capture more pro sales will fuel its recovery in 2025. Home Hardware, Canada's biggest group of independent dealers, represents both building centers and traditional hardware stores. Its growth will be a stable bellwether of the industry's direction through the rest of 2024 and into the year ahead, but still expected to experience flat or slightly negative growth in 2024.

RONA, with its mix of building centers and big boxes, will feel softness from its large format stores, recently rebranded RONA+, while the smaller corporate stores and the affiliate, or dealer-owned, outlets will manage flat to slightly positive growth.

Trends That Keep Retail Real

The big challenge for the Canadian industry is to recapture consumer dollars needed to support aging housing stock and renovation ambitions. The continued growth of online sales, including more and more home products and building materials that can be sourced online, is a trend the big players have invested heavily in.

For buying groups representing independent dealers, the digital sales challenge has been greater. But it's one that all retailers have to master. And for independents, the urgency is especially great. A failure to do so means leaving that online business to the big-box competitors and online specialty sellers.

A *Hardlines* survey of independent home improvement dealers conducted last year concluded that less than 1% of sales in this sector are generated online. For independents, with only a few exceptions, that figure is often zero.

The challenge for every dealer is to maximize the value of the in-store experience. The best way to counter the lure of online sales or the ease of access of big-boxes is to make brick-and-mortar more relevant than ever before. That means offering everything from providing a comfortable and educational retail environment backed by knowledgeable service to unique, private-label products and special services.

Retailers are trying almost everything to attract consumers to their brick-and-mortar stores. One trend is installing stores-within-a-store for greater breadth of product. RONA has recently made a deal with clothing firm Tilley Endurables to offer an exclusive line of workwear in about 100 of its locations. Canadian Tire has partnered with a pet supplies retailer, Peto, to supply a full line of pet accessories and foods. Home Depot Canada has been beefing up its distribution infrastructure to better supply large contractors and builders. Earlier this year it got its first Canadian Flatbed Distribution Centre to ship pros direct near Toronto's airport. Home Hardware has likewise been ramping up its offerings to pros with focused power tool lines and more services.

The farm market continues to stay strong, with companies like Federated Co-operatives investing in its Co-op Home Centres to better cater to contractors. Likewise, Alberta's UFA Farm and Ranch stores have enjoyed ongoing refreshes in recent years that include tweaks to support its pro customers and build out online sales capabilities.

And most retailers see the value in maintaining a loyalty program, one that helps a customer rack up points and keeps them coming back to shop and add more points.

Value to the Community

The value of brick-and-mortar stores as destinations continues to grow. Their importance lies in their ability to bring people out from behind their computers and out of their homes to shop. Most hardware stores and building centers rely on knowledgeable customer service to help customers not only find their products, but assist them with the execution of their projects.

Connection with community is a key to the value dealers can establish for themselves. Both independent and corporately-owned stores have ways to stay connected and give back to their customers and local communities. This engagement with the local communities is a key marker of success among home improvement dealers everywhere.

Top 15 Retailers

	Company	2022 Sales (in billions)	2023 Sales (in billions)
1	The Home Depot Canada	$12,070	$11,565
2	Home Hardware Stores	$9,376	$9,093
3	RONA inc.	$8,857	$8,454
4	Canadian Tire Retail[1]	$8,081	$7,723
5	ILDC	$4,644	$4,442
6	TIMBER MART	$4,362	$4,262
7	Sexton Group	$3,643	$3,188
8	Castle Building Centres	$1,971	$1,963
9	Canac	$1,400	$1,492
10	BMR Group*	$1,574	$1,463
11	Kent Building Materials*	$1,188	$1,159
12	Delroc	$968	$977
13	GMS/WSB Titan	$832	$850
14	AD Canada-Building Supplies	$786	$801
15	Federated Co-operatives*	$560	$512
16	Peavey Industries [2]	$496	$475
17	UFA Ltd.**	$445	$433
18	Patrick Morin*	$415	$408
19	FBM/Winroc	$411	$421
20	Windsor Plywood***	$343	$350

[1] Canadian Tire's related estimated hardware, housewares and building materials sales only

**BMR, Kent and Federated Co-operatives were all part of ILDC, so sales have been backed out of the total to avoid double-counting*

*** UFA is part of Sexton Group, so sales have been backed out of the total to avoid double-counting*

**** Windsor Plywood is part of Delroc, so sales have been backed out of the total to avoid double-counting*

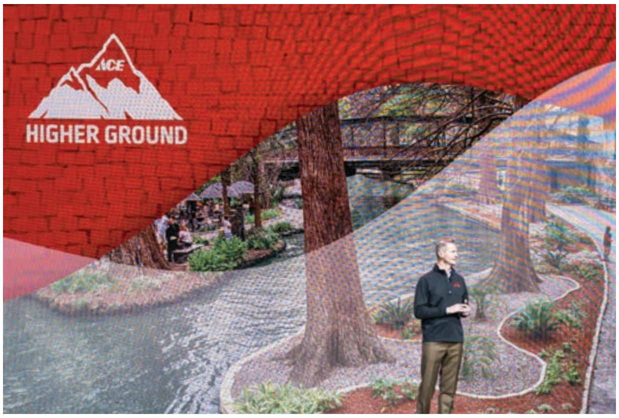
ACE

A banner year for Ace Hardware, 2024 marked 100 years in business for the co-op, which celebrated the milestone anniversary throughout the year. Ace stores around the U.S. hosted anniversary events and Ace Hardware launched Vintage Threads,™ a collection of high-quality shirts and hats that feature historic logos from Ace Hardware's history.

Ace retailers and guests experienced a record-breaking Fall Convention, capped off with a performance by country music superstars, Zac Brown Band. During the Fall Convention, Ace Hardware unveiled ELEVATE3 Ace—a new experiential store concept that will roll out at new and existing stores over the next five years—in a 13,000-square-foot Store on the Floor.

In 2024, Ace Hardware launched Loud Mouth Barbeque, a lineup of barbecue sauces and seasonings aimed at redefining the grilling experience, oversaw the expansion of Ace Hardware Home Services to over 5,000 zip codes with a branch in each of the 48 continental U.S. states and entered into a multiyear agreement with ServiceMaster Brands, a franchise provider of needs-based residential and commercial services in the restoration, cleaning, moving and bioremediation industries.

Ace Hardware's total domestic store count was 5,093 at the end of the third quarter of 2024, which was an increase of 150 stores from the third quarter of 2023. At the beginning of 2024, Ace set a goal of opening 200 new stores and beat that goal with the addition of over 215 stores during the year.




EPICOR
DEMIS
Insul-Armor


weber


EGO
EXCEEDS THE POWER OF GAS
ONE BATTERY
POWERS 80+ TOOLS
1 POWER HEAD

To gear the group for the future, ALLPRO has invested extensive resources to open distribution centers that help all members meet the demands of the changing industry. As suppliers raise minimum orders, the company has the option for the distribution centers to purchase larger orders and make products available to members. This strategy is evident in the caulk and tape categories where there is considerable growth coming from the distribution centers. The ALLPRO distribution model offers all members—from the single store to the largest multistore chain—the same benefits.

ALLPRO allows all members to use their warehouses on a “bill to” basis to make products available to them competitively. In times where sales are growing slower and margins are challenged, members have the option of 60-day terms to help with cash flow. While ALLPRO serves primarily as a direct buying group, the distribution centers offer added convenience to their customers.

Investment and evolution are not just limited to warehouses—ALLPRO’s growth strategy also includes people. The company expanded by adding new people who have been instrumental in upgrading and developing all aspects of company systems to ensure they are secure and robust enough to handle the demands of the future and interface with over 160 suppliers and process close to 1 million invoices per year.

“In 2024, the ALLPRO Group continued to expand and navigate the challenges of an extremely competitive environment,” says executive vice president Michael Beaudoin. “For next year, we are having our fall show in Dublin, Ireland, and bringing a good portion of the paint industry with us. We are expecting more than 800 people to attend, and it will be like no other paint show ever.”

The ALLPRO show in Dublin will feature Irish musician Allie Sherlock performing at the opening reception, planned excursions and other networking opportunities.

Michael Beaudoin
Executive Vice President
ALLPRO

MARKET 2025 MEASURE

Do it Best leaned into its growth strategy in 2024, closing one of the biggest deals in decades with its purchase of True Value in November after True Value filed for Chapter 11 bankruptcy in mid-October.

In May, Do it Best merged with United Hardware, enhancing efficiency, adding buying power and driving store growth for previous United Hardware dealers and Do it Best members alike. The merger expanded membership by over 20% and added a ninth distribution center.

In June, Do it Best announced several critical upgrades to its e-commerce services and in August, the company announced the second-highest member rebate in its history. The enhancements included a free rental equipment module that integrates with stores, making it easier for customers to access rental equipment, opportunities to sell convenience lumber online, marking a groundbreaking opportunity unmatched by other distributors, and personalized instant rebate options that boost customer engagement and tailor the experience based on insightful data.

In a show of solidarity to the independent channel and its retailers, Do it Best sponsored the music and entertainment for The Independents Celebration at the 2024 Independent Home Improvement Conference.

The focus on growth was seen at both markets, especially the Fall Market, which included 120 new vendors, a record over the previous one met at the Spring Market, and 3,000 new items added since the spring.

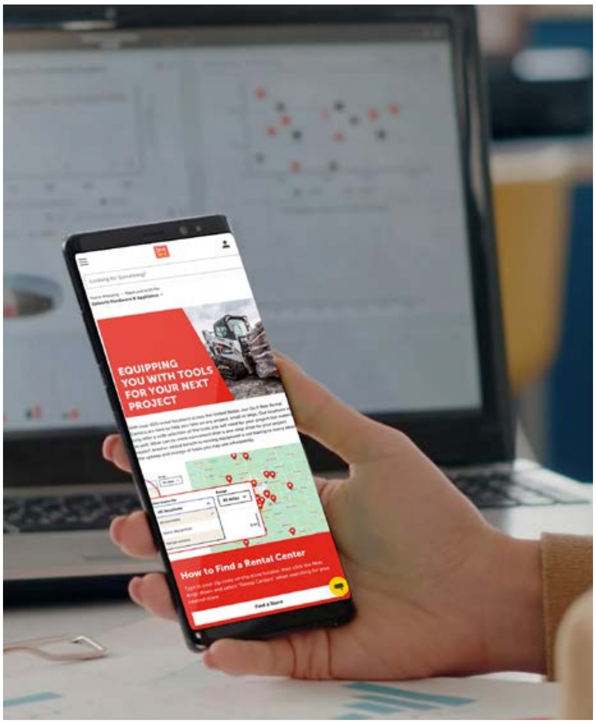
Dan Starr
CEO
DO IT BEST

Prior to the purchase by Do it Best, True Value marked several highlights in 2024, including purchasing its first corporate-owned store in Palatine, Illinois, and receiving the inaugural "ESG and Community Award" for its EasyCare paint line. True Value also launched its "Hardware Hero" campaign that ran in almost all 50 states and connected consumers with hyper-local product and service solutions at their specific community store.

Planning for its largest spring market ever, Do it Best will bring together Do it Best and True Value on March 21-23 in Orlando, Florida, under the theme "Bigger. Stronger. Faster." The event will be the most expansive buying event in company history.

All attendees will be invited to a special evening celebration at Universal Studios, and the Do it Best and True Value Spring Market will also include a special welcome reception for True Value retailers on the evening of March 20, designed to familiarize them with the market experience and provide all the tools they need to maximize their participation.

"We're proud to host this incredible event in a way that celebrates the combined strength of Do it Best and True Value," says CEO Dan Starr. "This market represents everything that makes us bigger, stronger and faster together. I can't wait to welcome our members and retailers to Orlando."



North American Hardware and Paint Association (NHPA): What are some critical areas of focus for Do it Best going into 2025?
Dan Starr (DS): In 2025, our focus is clear: we're driving growth, delivering value and equipping Do it Best members and True Value retailers to win.

We're focusing on key areas that matter most: improving supply chain efficiency, building even better e-commerce tools and giving retailers the resources they need to lead in their markets. The acquisition of True Value and the merger with United Hardware have already expanded our reach, boosted buying power and nearly doubled the locations we serve.

These upgrades aren't just about staying competitive; they're about giving our members the edge to thrive. Whether it's driving more traffic into stores or offering convenience lumber online, we're pushing boundaries to make Do it Best members the strongest competitors in their markets.

NHPA: What are the biggest challenges for the independent channel in 2025?
DS: The independent channel faces a complex landscape in 2025. We're expecting continued consolidation, fluctuating demand, tariffs and competition from big-box retailers and online platforms. But let me be clear—these are challenges we're built to overcome. The independent channel's resilience and adaptability are unmatched.

At Do it Best, we're tackling these challenges head-on, empowering our members with data-driven merchandising strategies and operational tools, our unmatched store design program, e-commerce platform and digital marketing support that improve margins and efficiency. We're not just helping our members weather these challenges; we're ensuring they come out stronger on the other side.

NHPA: What are the biggest opportunities for the independent channel in 2025?
DS: The opportunity is clear: dominate locally and grow profitability. And Do it Best members and True Value retailers will lead the way. We're primed for growth in 2025.

Consumers continue to value personalized service and the deep community connections that independents uniquely offer.

With the right partner and support, independents can outpace larger competitors by leaning into their strengths—expertise, adaptability and authenticity.

Do it Best is leading the charge in identifying and maximizing these opportunities. By expanding our vendor network, adding innovative product lines and providing the most competitive rebate program in the industry, we're giving our members the tools to attract and retain customers like never before. Our data-driven insights and advanced e-commerce platforms are gamechangers, enabling members to engage their customers in ways big-box stores simply can't replicate.

2025 is a year of momentum and growth for Do it Best. We're not just supporting our independent retailers; we're championing their success and ensuring they continue to lead as the backbone of the home improvement industry.

HDA

HARDLINES DISTRIBUTION ALLIANCE

In April 2022, Distribution America and PRO Group Inc. joined forces to become Hardlines Distribution Alliance (HDA). Since its formation, HDA has harnessed the purchasing power of both groups and has tirelessly worked to streamline merchandising, accounting, marketing and advertising services to offer the most efficient programs to members and partners.

HDA has over 60 distributor members, over 400 vendor partners and thousands of independent retailers in its extensive network. Additionally, HDA boasts over $7 billion in purchasing strength, and distributor members serve all 50 states, Canada, Central America, the Caribbean and Mexico.

In 2024, HDA hosted two conferences, the Group Merchandising Conference (GMC) and the Executive Planning Conference (EPC). The 21st annual GMC took place in Indianapolis for the first time, and attendees of the sold-out event took part in new events—including a new vendor preview with 31 new vendors—and enjoyed over 1,300 pre-scheduled meetings with vendors and exciting networking receptions.

In November, HDA welcomed members to the EPC in Tucson, Arizona, which included a vendor showcase where new vendors highlighted products and their company in addition to scheduled meetings, a golf tournament, receptions and the featured item area.

Throughout the rest of the year, vendor partners work directly with the HDA merchandising team to match them with the right distributor members, building a program that fosters success within the network and helps them utilize advertising and promotional communications to reach multiple audiences.

Steve Synnott
Chief Executive Officer
HARDLINES DISTRIBUTION ALLIANCE

North American Hardware and Paint Association (NHPA): What are some critical areas of focus for HDA going into 2025? What is the anticipated impact or benefit for your customers?

Steve Synnott (SS): One of the overall missions of HDA is to deliver valuable programs for our member distributors. In 2025, HDA would like to focus on programs that have promotional purchasing and selling opportunities across the markets our members serve in the hardware, lawn and garden, paint sundries and farm and ranch categories. These opportunities drive business growth and in turn positively impact our vendor partners and the thousands of retailers in our network.

NHPA: What are the biggest challenges for the independent channel in 2025?

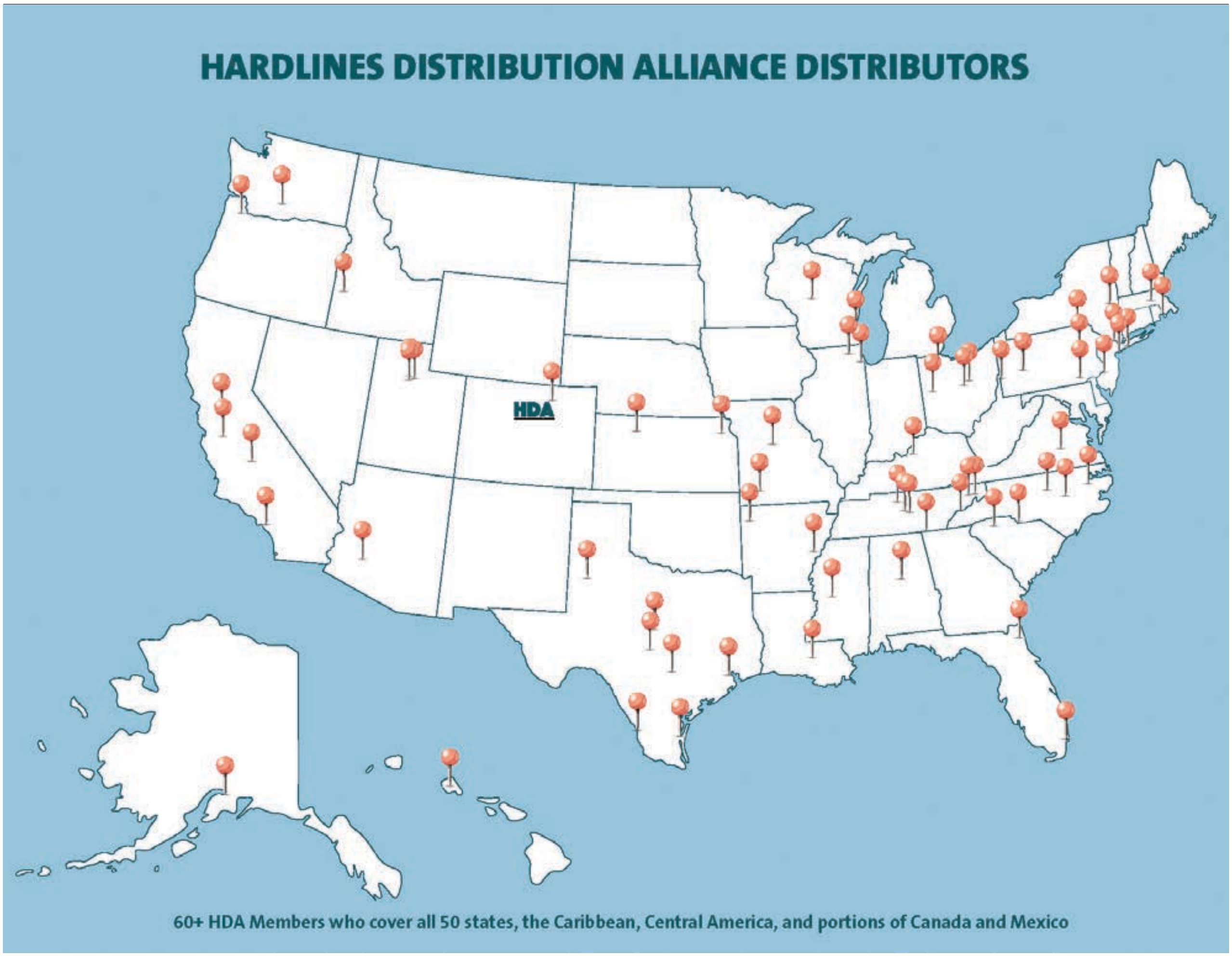
SS: One of the biggest challenges in our channel is ongoing supply chain disruptions and the loss of a giant wholesaler at the end of 2024. In addition, we anticipate changes in access to credit as the economy grows and sees better housing starts.

NHPA: What are the biggest opportunities for the independent channel in 2025?

SS: Independent distributors and retailers are uniquely poised to cater product mixes to meet local demands, regional preferences and react to weather events. That flexibility allows the communities in which the independent channel serves to find the assortments and products that appeal to them while allowing the consumer to support local businesses.

HDA At A Glance

1. 60+ Distributor Members
2. 400+ Vendor Partners
3. Thousands of Independent Retailers
4. $7 Billion in Purchasing Strength
5. Serving All 50 States
6. Two Annual Conferences

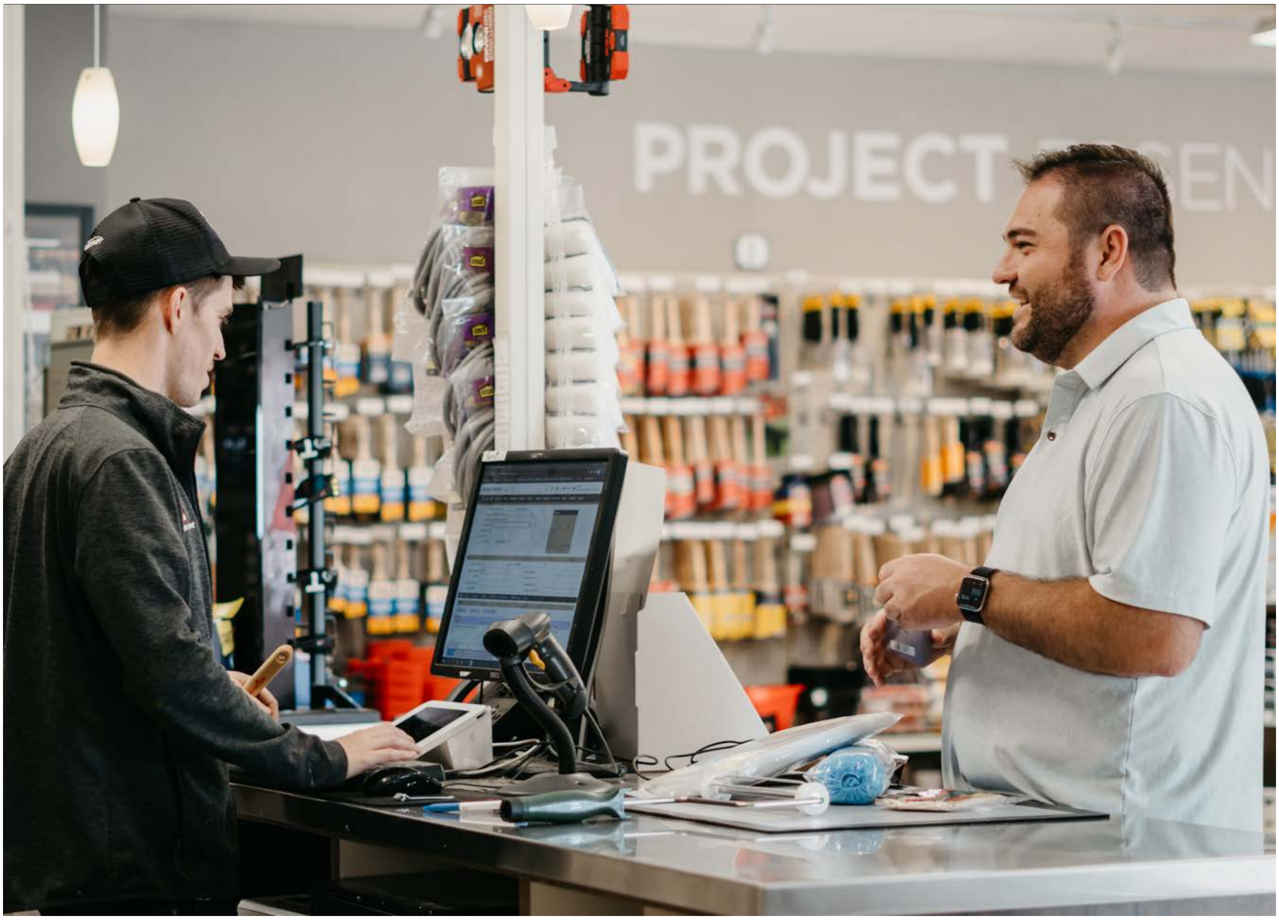

HARDLINES DISTRIBUTION ALLIANCE DISTRIBUTORS
HDA
60+ HDA Members who cover all 50 states, the Caribbean, Central America, and portions of Canada and Mexico

LANCASTER

The first weekend of February brought paint dealers and their families to sunny Orlando, where Lancaster hosted its 2024 Florida Buying Market. The event included educational sessions on merchandising and inventory management best practices, opportunities for product research, giveaways and an exclusive dinner event at SeaWorld for Lancaster attendees.

The Merit Distribution Group LLC announced the promotion of its current president, Geff Lynch, to CEO in November 2024. Lynch is responsible for all aspects of Lancaster's paint sundry distribution operation and the EJ Welch flooring businesses.

In 2025, Lancaster is looking forward to welcoming members to Orlando for the 2025 Lancaster Buying Show, where they can meet face-to-face with manufacturers to see new and exciting products hitting the market. Attendees will get inspired by discussing ideas and best business practices with other retailers during the seminars, show and events. Lancaster's Buying Show will be offering tremendous deals to give retailers a competitive edge to grow their business in the coming year.


PROJECT


TITAN


PROFESSIONAL STRENGTH PAINT REMOVERS

ORGILL

The year started with a bang with Orgill's 2024 Spring Dealer Market. Along with Market deals and pricing, attendees enjoyed educational sessions, a new Farm and Pet showcase and a chance to walk full-size stores to see how merchandise, assortments, signage and displays come together to create a world-class in-store experience.

During the Spring Dealer Market, Orgill launched Impact eCommerce, a new e-commerce program that addresses the challenge Orgill faces serving dealers of different brands, sizes and markets selling different assortments and running different POS systems.

Orgill opened a state-of-the-art distribution center in Tifton, Georgia, which includes a number of advanced technologies such as robotics and updated systems.

Orgill's finance and HR departments continued driving innovation and operational excellence through strategic investments in technology, infrastructure and data-driven tools, while the sales team stayed committed to understanding the unique needs of independent home improvement retailers, tailoring support to each customer and market.

In 2024, Orgill's subsidiary, Tyndale Advisors, increased its focus on growth for its store signage program to cater to a diverse range of dealers, both large and small, ensuring each store can effectively communicate with its customers through high-quality, customized signage.

Bringing together the independent channel for a night of fun, Orgill hosted The Independents Celebration at the 2024 Independent Home Improvement Conference, and as a wholesale sponsor organized several partner events.

Boyden Moore
President & CEO
ORGILL

North American Hardware and Paint Association (NHPA): What are some critical areas of focus for Orgill going into 2025?

Boyden Moore (BM): Orgill will strive to continue to grow and capture market share, especially supporting former True Value dealers who are in need of a dependable and quality distributor. We want to exceed industry standards for service quality, continue to develop the most efficient distribution center (DC) network in the industry and lead tech advancements in both retail and DC sectors. There will also be a focus on innovation, and we plan to establish a competitive edge through the utilization of innovation initiatives like CNRG as a retail lab and the new Orgill Concept Center.

NHPA: What are the biggest challenges for the independent channel in 2025?

Greg Stine (GS): When you talk about the challenges facing independent retailers in this channel, you really have to start with their ability to maintain the scale necessary to compete with some of the big players in the industry. No single independent operation likely has the resources to match Home Depot, Lowe's, Amazon or Walmart when it comes to things like e-commerce, advertising, market research or technology. So, that's one area where it is so critical that independent retailers find the right industry partners to work with—partners that can help create the scale needed to keep up with all of the changes and advancements taking place in the retail world.

Greg Stine
Executive Vice President of Marketing & Communications
ORGILL

After addressing the issue of creating scale, retailers also are going to continue to be challenged when it comes to earning their share of consumer spending. The pandemic and the years since really brought this challenge into focus. Home improvement retailers aren't just competing against other retailers in the channel to earn consumer spend, they are competing against other activities like traveling, going to restaurants, spending on electronics or other hobbies. So, home improvement retailers have to remain vigilant about giving consumers reasons to come in and make additional investments in building, maintaining and improving their homes. This is where retailers need to focus on things like promotions, new products, finding new niches, local-area marketing and mining their loyalty program data.

NHPA: What are the biggest opportunities for the independent channel in 2025?
BM: When you look at what has happened in the industry over the last five years, there are definitely some great opportunities for independent retailers in this channel. In order to take advantage of those opportunities, however, they have to be willing to accept that the market has changed. Consumers are overwhelmed by choices for just about everything.

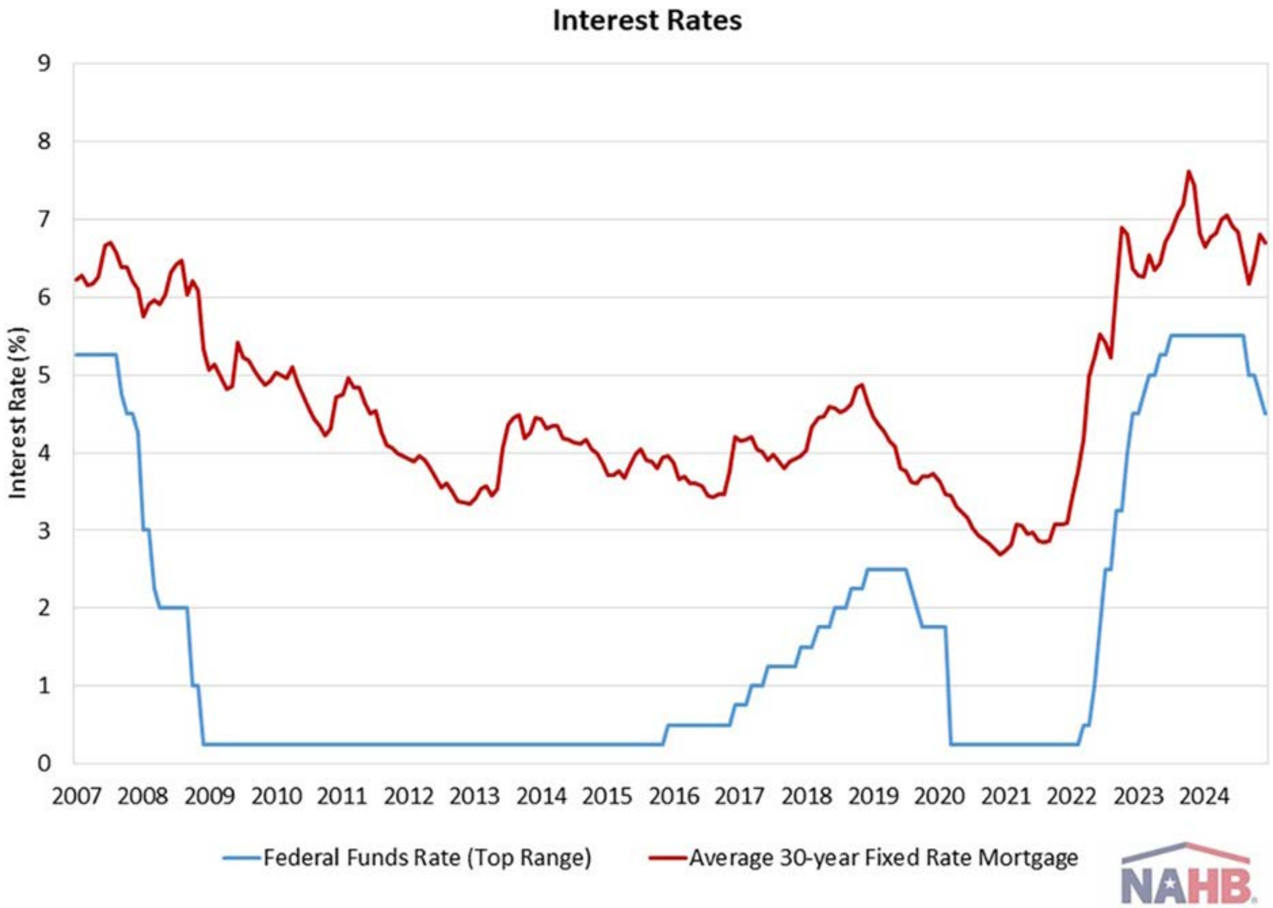
Because of that, they are looking to do business with retailers who truly understand their needs and who make the shopping experience not just easy but also pleasant. This means retailers who are willing to take a close look at the unique needs of the markets they serve, find the gaps in products and service and then address those gaps with their product and service offerings can see a tremendous upside. Some of these things—knowing the hyperlocal market needs—just can't be done by companies like Amazon or Home Depot, and that leaves a big opportunity for locally owned operators.

HOMEBUILDING AND REMODELING OUTLOOK

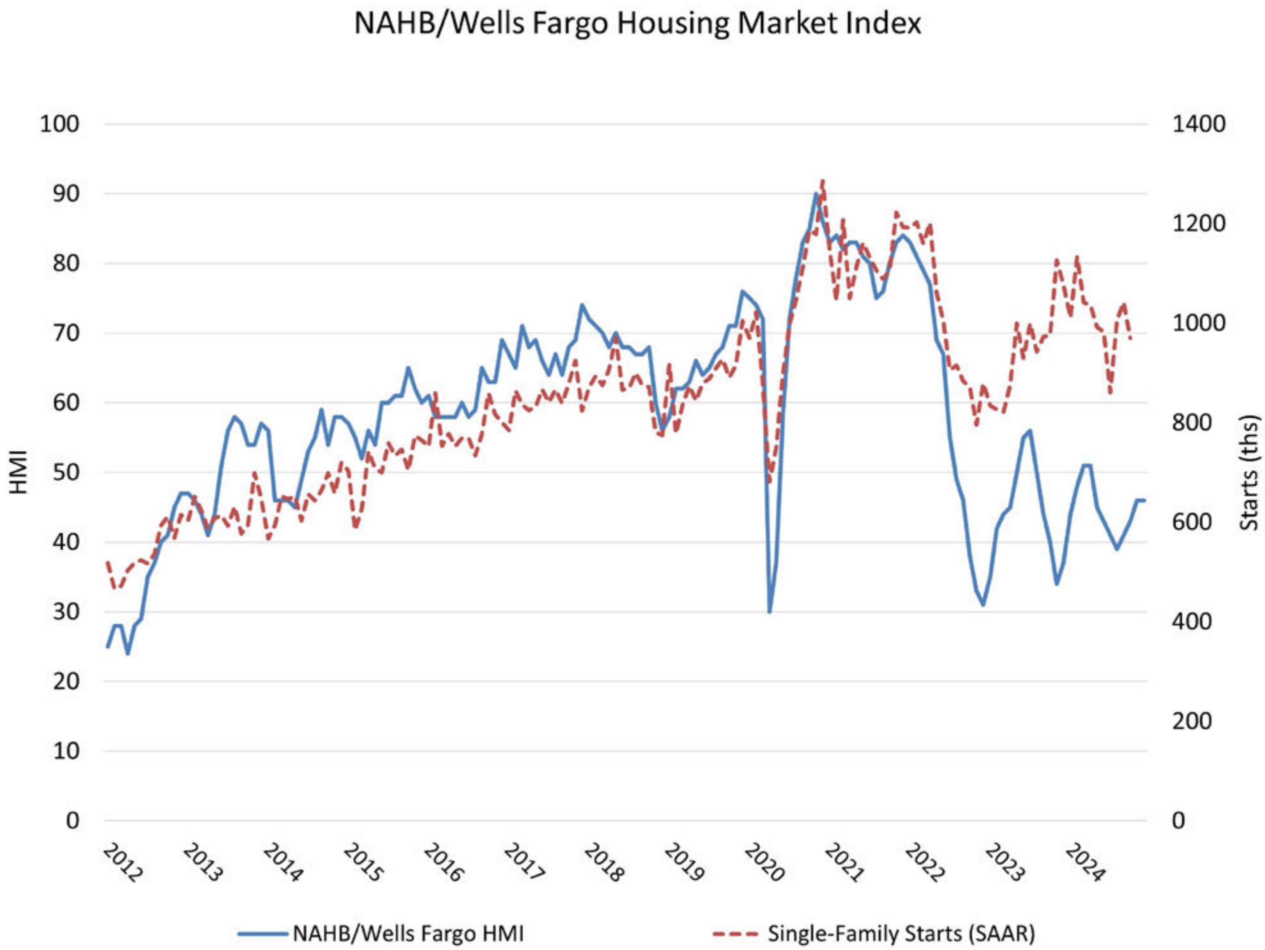
FED CUTS RATES BUT SIGNALS SLOWING PACE OF EASING AHEAD

On Dec. 18, 2024, the Federal Reserve's Federal Open Market Committee (FOMC) reduced the short-term federal funds rate by an additional 25 basis points. While the highly anticipated policy move reduced the top target rate to 4.5%, the Fed's forward looking projections also noted a reduction in the number of federal funds rate cuts expected in 2025, from four in its last projection to just two quarter point rate cuts in the next 12 months.

According to the National Association of Home Builders (NAHB) chief economist Robert Dietz, for homebuilders and other residential construction market stakeholders, the new projections suggest an improved economic growth environment, with a smaller amount of monetary policy easing, leading to higher than previously expected interest rates for acquisition, development and construction (AD&C) loans. This equates to further economic growth, but at higher interest rates.



Source: NAHB analysis of bond market data



NAHB chief economist Robert Dietz says the new projection signals the federal funds top target rate will fall to 4% by the end of 2025, with two more rate cuts in 2026, placing the federal funds top target rate at 3.5% by the end of 2026.

Furthermore, Dietz says the Fed also increased its estimate of the neutral, long-run rate (sometimes referred to as the terminal rate) from 2.9% to 3%, which is reflective of stronger expectations for economic growth and productivity gains.

The following statement from the December Fed meeting summarized current market conditions as:

Recent indicators suggest that economic activity has continued to expand at a solid pace. Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up but remains low. Inflation has made progress toward the Committee's 2 percent objective but remains somewhat elevated.

The Fed's broader economic projections generally experienced positive revisions. The central bank lifted its forecast for GDP growth in 2025 to 2.1% with unemployment dropping from 4.4% to 4.3% by the close of 2025.

At its December meeting, the Fed also increased its inflation expectations from its prior projection of 2.1% at the end of 2025 to 2.5% at the end of the year.

While long-run inflation expectations of the FOMC remained anchored at the 2% target, the increase for the 2025 expectation for inflation is the reason for taking two rate cuts off the table for 2025.

Despite 100 basis points of easing for the short-term federal funds rate since September, long-term interest rates (which are set by markets and investors), including mortgage rates, have increased, reflecting market expectations of firmer inflation and a slower path for monetary policy easing.

Policy concerns over government deficits and perhaps tariffs are also affecting investor outlooks, according to Dietz, who says the size of the government deficit will be key for future inflation and long-term interest rates, particularly given a significant debate on taxes and government spending set for the start of 2025. This slower path of monetary policy easing pushed the 10-year Treasury rate to 4.5%.

Dietz says shelter inflation continues to be a driver of overall inflation, with gains for housing costs responsible for 65% of overall inflation over the last year.

"This kind of inflation can only be tamed in the long-run by increases in housing supply," he says. "Fed Chair Powell has previously noted it will take some time for rent cost growth to slow although it is moving lower. Given recent tight financing conditions, however, the Fed noted that while consumer spending is resilient, '...activity in the housing sector has been weak.'

A slower path of Fed rate cuts for 2025 will keep builder and developer construction loan interest rates higher than previously expected and act as an additional headwind for gains in housing supply."

Builders Optimistic About 2025

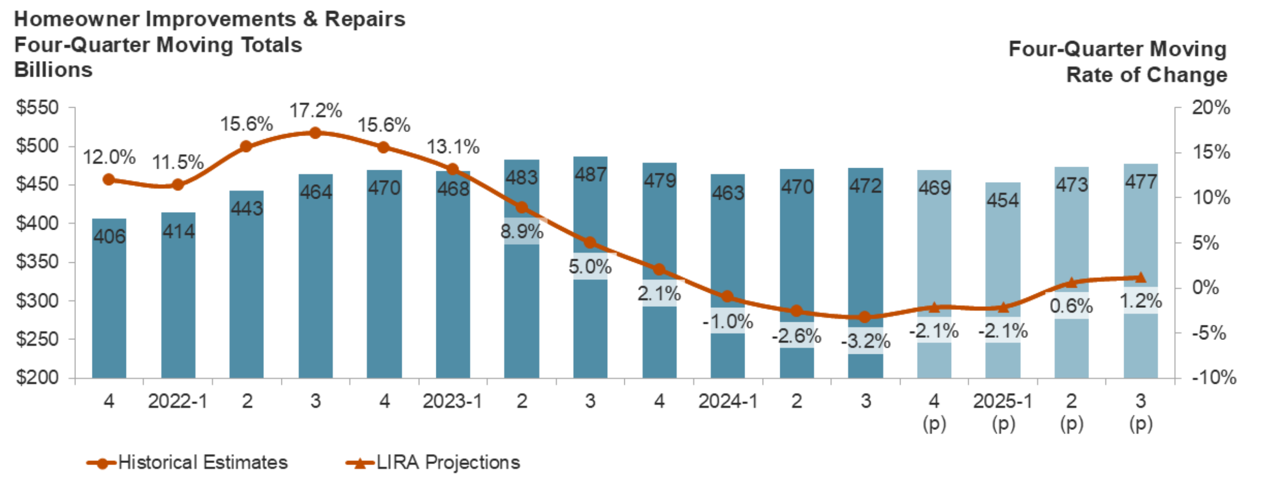
According to NAHB, builder sentiment held steady to end 2024, as high home prices and mortgage rates offset renewed hope about a better regulatory business climate in 2025. Along those lines, builders expressed increased optimism for higher sales expectations in the next months.

Builder confidence in the market for newly built single-family homes was 46 in December, the same reading as November, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI).

While builders are expressing concerns that high interest rates, elevated construction costs and a lack of buildable lots continue to act as headwinds, they are also anticipating future regulatory relief in the aftermath of the election. This is reflected in the fact that future sales expectations have increased to a nearly three-year high.

The NAHB/Wells Fargo HMI gauges builder perceptions of current single-family home sales and sales expectations for the next six months as "good," "fair" or "poor." The survey also asks builders to rate traffic of prospective buyers as "high to very high," "average" or "low to very low." Scores for each component are

Leading Indicator of Remodeling Activity – Third Quarter 2024



Notes: Improvements include remodels, replacements, additions, and structural alterations that increase the value of homes. Routine maintenance and repairs preserve the current quality of homes. Historical estimates since 2021 are produced using the LIRA model until American Housing Survey benchmark data become available.

Joint Center for Housing Studies of Harvard University JCHS then used to calculate a seasonally adjusted index where any number over 50 indicates that more builders view conditions as good than poor.

While December's HMI index held steady at 48, the gauge charting traffic of prospective buyers posted a one-point decline to 31. The component measuring sales expectations in the next six months rose three points to 66, the highest level since April 2022.

Looking at the three-month moving averages for regional HMI scores, the Northeast increased two points to 57, the Midwest moved two points higher to 46, the South posted a two-point gain to 44 and the West fell one point to 40.

A Return to Growth Expected for Residential Remodeling

An October 2024 report of the Leading Indicator of Remodeling Activity (LIRA) published by the Remodeling Futures Program at the Joint Center for Housing Studies of Harvard University, suggested that spending for improvements and repairs on owner-occupied homes is set to expand by the middle of 2025.

"A continued thaw in new home construction and sales of existing homes bodes well for an uptick in residential improvement and repairs next year," says Carlos Martín, director of the Remodeling Futures Program at the Center. "Additionally, stronger gains in home values and thus home equity levels should boost both discretionary and 'need-to-do' replacement projects for owners staying in place."

The LIRA projects that annual expenditures for home renovation and maintenance will grow by 1.2 percent through the third quarter of 2025.

"Annual spending for home improvements and maintenance is projected to grow from $472 billion today to $477 billion through the third quarter of 2025," says Abbe Will, associate director of the Remodeling Futures Program. "A quick return to growth after a fairly modest downturn ultimately means that residential remodeling and repair expenditures are expected to approach past peak levels moving forward."

According to the Q4 2024 Houzz Renovation Barometer, home remodeling and design professionals were also optimistic about 2025, with more firms anticipating an increase in business activity than a decrease in the final quarter of 2024. This follows an overall decline in business activity in the third quarter of the year.

Meanwhile, wait times in the industry are similar to last year's and hovering around historic averages, according to the study, which provides timely insights into the residential renovation industry, including expectations, project backlogs and recent activity among businesses in the construction sector and the architectural and design services sector.

"Business activity slowed in Q3, especially in the construction sector, with fewer project inquiries and commitments compared with Q2," says Houzz staff economist Marine Sargsyan. "However, the outlook for Q4 is more positive, especially among architectural and design firms, driven by anticipated economic growth, declining interest rates and larger project budgets. Those anticipating gains cite these favorable conditions, while others remain cautious due to economic uncertainty, current interest rates and tighter budgets."

In Vogue

10 DESIGN TRENDS SHAPING THE NEW YEAR

As retailers plan product assortments for 2025, these are the Top 10 home design trends Houzz in predicting will be hot in 2025.

1) English-style kitchens

2) Rounded furniture styles

3) Arches

4) Shower rooms

5) Oven range alcoves

6) Woven and mesh cabinet fronts

7) Narrow wet rooms

8) Warm wood accents

9) Layers of color, pattern and texture

10) Multiple outdoor cooking options