

Retail Sales Return to Pre-Health Crisis Levels; Stimulus in Focus

Consumers unfazed by pandemic. Shoppers drove overall retail sales up 1.2 percent in July to a new record. However, evaporating stimulus could temper or even reverse growth in August. Excluding auto and parts sales, which recorded an unexpected 4.7 percent dip month over month, retail sales advanced 1.9 percent. Despite the rise in sales, retail vacancy ticked up 20 basis points in the second quarter and further erosion is anticipated after thousands of stores announced closures due to the health crisis. Large variations in most retail sales categories have dissipated and future reports will be a more reliable barometer on consumer spending habits and the health of the economy.

Wealth effect and closed sectors supporting retailers. Home prices continued to ascend during the downturn as secure employees searched for larger spaces in suburban areas. Record low interest rates buoyed both purchase and refinancing activity, potentially unlocking equity for consumers to spend on home improvement projects. Sales at building materials stores are up nearly 15 percent year over year despite a small step back in July. Furthermore, income spent on concerts, sporting events and amusement parks are not included in the Census' retail sales bucket. The temporary funneling of spending to open retail establishments may help prevent retail space demand from plunging until the labor market normalizes.

Recouped jobs help offset fall in stimulus spending. There is little doubt that unemployment benefits and a one-time check were a major contributing factor to the rapid recovery of retail sales. However, the impact of reopening is beginning to appear in retail sales. Gasoline stations recorded a 6.2 percent rise last month and clothing stores posted a 5.7 percent advance. Sporting goods and hobby stores, meanwhile, posted a 5.0 percent monthly decline as previously furloughed workers have less time to participate in leisure activities. Eating and drinking establishments posted a 5.0 percent rise in receipts last month as people ventured out in greater numbers and more locations opened.

Retail Sales Outlook

Economy at pivotal stage. By most measures, the stimulus provided by the government and action taken by the Fed appears to have been largely adequate thus far. However, the partial lockdown is anticipated to persist for several more months until a medical solution is widely available. A final round of stimulus will be essential to maintaining retail sales at a level that limits permanent closures. Executive action may act as a lifeline for some Americans, but actual stimulus will need to come from the legislative branch.

Retail sector outlook still murky. Although sales returned to pre-pandemic levels, the factors that contributed to the recovery are fading faster than new, organic growth is returning. Additionally, venues will reopen and all stimulus will evaporate, creating competition for discretionary income. If unemployment comes down quickly enough to offset artificial bolsters, the outlook for retail space brightens significantly.

1.2% Monthly Gain in Retail Sales in June

10.2% July Unemployment Rate



Sources: Marcus & Millichap Research Services, Bureau of Labor Statistics, U.S. Census