

Retail Sales Flatten as Shoppers Rely Less on Government Stimulus

Consumer spending well ahead of pre-pandemic level. Although core retail sales dipped 0.8 percent from April to May, expenditures are 15.7 percent above the February 2020 level as stimulus funds and amplified unemployment benefits flooded the economy with additional capital. Monthly gains are anticipated to be modest this year as further direct cash payments are unlikely. Only one more bill can be passed through the Senate with the reconciliation process, and resistance to additional large spending legislation is gaining momentum. Rising inflationary concerns are giving some legislators on Capitol Hill pause. Core inflation jumped 3.8 percent last month, the largest gain in more than three decades. The producer price index, meanwhile, soared 6.6 percent on an annual basis. Collectively, the sharp rise in prices will prompt more caution among budget hawks.

Tailwinds for retail real estate gain momentum. As of mid-June, nearly all states have lifted the restrictions that most negatively impact brick-and-mortar retail stores. California and New York, two of the largest states by population, withdrew nearly all restrictions associated with COVID-19 as nationwide case positivity rates fell to the lowest levels since the beginning of the pandemic. Barring the emergence of a variant that skirts existing vaccinations, retailers that have struggled with capacity restrictions should benefit in the coming months. Restaurants, in particular, are already seeing an increase in traffic, posting a 1.6 percent rise in sales last month relative to February of 2020.

Utilization of services cuts into consumer spending. While it may take some time for Americans to get acclimated to normal life following lockdowns that lasted approximately 15 months, retail sales are already beginning to stabilize on a monthly basis. Furthermore, more people are using services, which are not reflected in the Census Bureau's advanced estimate. For example, "A Quiet Place Part II" recently surpassed \$100 million in domestic box office receipts, the first movie to break that threshold since the onset of the health crisis. Visits to gyms, meanwhile, were only 23 percent lower than pre-pandemic levels at the end of May.

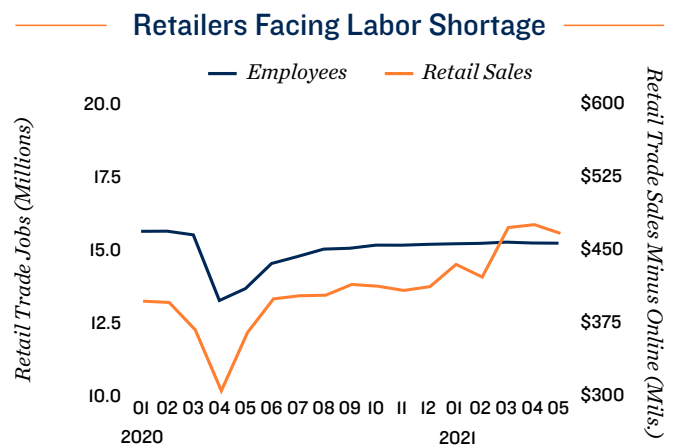
More Predictable Consumption Ahead

Life away from home to trigger spending. Most schools are expected to fully reopen in the fall, which will support traditional back-to-school sales. In addition to attire, school supplies and other goods are likely to record one of the strongest seasons to date. Clothing stores have already recorded an 11.9 percent increase in receipts relative to February 2020, and additional visits are anticipated in the next few months. Gasoline stations will also benefit as adults return to offices. In May, spending at these locations jumped 11.2 percent from the pre-pandemic level.

Crowds returning to restaurants. Although monthly sales only rose 1.8 percent between April and May, a stronger gain is anticipated through the end of the year. Future spending will flow into fewer operating restaurants after some states estimate as many as 33 percent of dining places permanently closed. Vacancy in single-tenant buildings has climbed 70 basis points to 5.3 percent since the end of 2019, though the introduction of new concepts should stem the tide of emptying buildings and support spending.

15.7% Gain in Core Retail Sales since Feb. 2020

0.8% Monthly Decrease in Core Retail Sales in May



Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; Placer.ai; U.S. Census Bureau