

Record Job Count Backs Retail Sales and Return of Pre-Pandemic Vacancy

Dual factors lift sales. Accelerated hiring and lower prices at the gas pump aided spending in July, with core retail sales now up 29 percent relative to pre-pandemic. The addition of 528,000 positions last month pushed the U.S. employment base beyond the previous February 2020 level, while the Consumer Price Index was unchanged on a month-over-month basis, aided by a 7.7 percent decrease in gas prices. These factors helped offset the impacts of historically low consumer sentiment, and may be contributing to signs of improvement. Preliminary data for August reveals the index bumped up from July, a reading highlighted by improving sentiment among low- and middle-income consumers.

Core spending benefits from restaurant and bar performance. July hiring was highlighted by job creation at food service and drinking places, with 74,100 additional personnel. Most of these positions were at restaurants and bars, an indication that consumers are dining out and socializing more during a period of elevated pricing at grocery stores. Last month, prices for food at home rose 13.1 percent on an annual basis, the largest 12-month increase since 1979, while costs for food away from home grew 7.6 percent. This disparity is allowing dining out to stay a comparative option, reflected in the 11.6 percent year-over-year gain in spending at restaurants and bars in July. This patronage is heightening single-tenant leasing velocity, lowering subsector vacancy to 4.5 percent in June, a rate just 10 basis points above the record low.

E-commerce fuels industrial leasing. Online retail sales rose 2.7 percent in July, with non-store spending accounting for nearly 23 percent of all core spending, the highest share since the initial months of the health crisis. Recent performance was boosted by Amazon Prime Day, with U.S. consumers purchasing an estimated 60,000 items per minute during the event. The higher percentage of overall consumer spending accounted for online is driving demand for industrial space. A near-record 548 million square feet was absorbed over the 12-month period ended in June.

Fundamentals and Sales Improving

Property metrics reflect solid space demand. A record job count and historic core spending are encouraging vendor expansions. During the 12-month interval ended in June, absorption more than tripled supply additions, placing retail vacancy at the year-end 2019 level of 4.9 percent. Entering July, availability was below the nationwide average in 23 major markets, including numerous Florida and other Sun Belt locales. Across these metros, absorption may outpace completions over the near term as continued population growth heightens demand for local retailers.

Sector notches record trading stretch. Recent investment activity suggests investor confidence in future retail performance is widespread. Spanning small to large markets, deal flow rose by at least 40 percent over the yearlong period ended in June, led by sales velocity in secondary metros. Though trading showed signs of moderation in the second quarter, the number of closings was on par with the prior five-year quarterly average, an encouraging sign amid rising interest rates and more stringent underwriting.

9.3% Increase in Core Retail Sales Year-over-Year

4.2% Year-over-Year Employment Growth

Labor Market Strength Supports Record Core Spending

