RESEARCH BRIEF

Marcus & Millichap

RETAIL SALES

MARCH 2023

Spending at Stores a Bright Spot Amid Decline in Overall Sales

Consumers place an emphasis on necessities. Total retail sales dropped 0.4 percent in February. However, store-based spending — which excludes purchases made online and at restaurants and bars — reached a record mark. This contrast indicates consumers may be prioritizing the purchase of necessities when visiting brick-and-mortar retailers, a dynamic that has positive implications for property performance moving forward. Last month, sales at health and personal care shops rose 0.9 percent, with grocery store purchasing up by nearly as much. Both segments rose in real terms when factoring in inflation, which is also encouraging. Contrasting this momentum, restaurant and bar sales fell by 2.2 percent last month, the largest decline among retail categories. Nevertheless, spending in this sector was up by more than 15 percent on an annual basis.

Labor market reflects retail sector's strength. Corresponding with record store-based spending, nearly 50,000 retail trade positions were added in February, accounting for 16 percent of total monthly job creation. This figure is significantly above the 2022 monthly average of 7,000 positions, and one that pushed the sector's total job count beyond its pre-pandemic peak. Recent hiring velocity indicates club warehouses, discount stores, super centers and grocers are executing expansion plans and hiring additional staff in anticipation of consumer demand for necessity goods rising. Preliminary data for the first quarter reflects this, with retail leases executed during the three-month window accounting for approximately 42 million square feet of space nationwide.

Online segment notches largest gain among categories. Nonstore retail sales hit a record level in February on the back of a 1.6 percent monthly increase. The segment also accounted for its largest share of core retail sales since August 2022, at more than 22 percent. These trends bode well for warehouse and distribution demand, at a time when a record volume of industrial space is slated for completion.

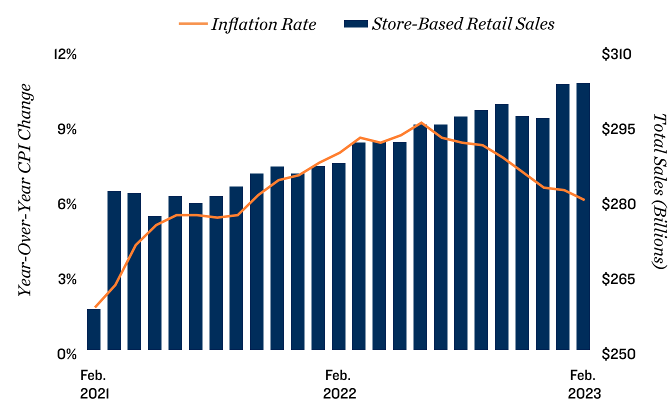
Fed Policy and Retail Investment Insights

Banking collapse alters rate hike strategy. The seizure of Silicon Valley Bank by California state regulators on March 10 could potentially temper the pace of the Fed's monetary policy tightening. Following the strength of February's job growth, the Fed had likely been considering raising the federal funds rate by 50 basis points at its March 22 meeting. Current market consensus no longer considers that an option. Instead, a 25-basis-point hike is possible, with expectations now calling for the central bank to ultimately end rate hikes at a lower terminal level than previously benchmarked.

Retail remains an attractive option. Despite elevated interest rates and a gap between buyer and seller expectations, a recent investment survey indicates 60 percent of investors plan to be active in the first half. Encouraging store-based spending and historically low vacancy should translate to some of these buyers considering retail listings. Those seeking higher yields may target multi-tenant assets, which provided investors with some of the highest yields across the commercial real estate sector last year.

5.6% *Rise in Store-Based Retail Sales Year-Over-Year*	5.5% *Increase in Core CPI Year-Over-Year*

Store-Based Spending Reaches Record Mark*



**Store-based retail sales excludes auto, gasoline, eating and drinking establishments and non-store retail sales*

Sources: Marcus & Millichap Research Services; U.S. Census Bureau; U.S. Bureau of Labor Statistics; CoStar Group, Inc.; Vista Market Intelligence