# RESEARCH BRIEF

Marcus & Millichap

## RETAIL SALES

JUNE 2023

## Widespread Spending Gains, While Moderate, Highlight Shoppers' Resilience

**Consecutive months of broad growth encouraging.** Households increased their spending across a broad spectrum of stores in May, supporting a 0.4 percent rise in core retail sales. For the second straight month, eight categories registered sales growth, a testament to consumers' spending power. The addition of 339,000 new jobs last month, the most since January, played a role in aiding households' purchasing power. A 4 percent rise in headline CPI inflation, the lowest annual rate of increase in more than two years, is also lifting consumer sentiment. Moving forward, easing inflationary pressures and a still-tight labor market bode well for single- and multi-tenant property performance, driving demand for what is a historically limited volume of available space.

**Health and convenience remain a priority for shoppers.** Amid warmer weather and a slowdown in single-family home sales, more owners upgraded their existing residences last month. This activity supported a 2.2 percent increase in building and gardening materials spending. While this was the largest gain noted across retail categories, several other segments shined. Online sales reached a record mark, with health and personal care-related spending up 7.8 percent year-over-year. The latter is the only segment to notch positive sales momentum in each of the past five months. The performance of the health segment bodes well for drug store fundamentals at a time of low-2 percent vacancy.

**More households plan seasonal trips.** Retailers likely benefited from a rise in Memorial Day travel, with road trips up 6 percent over last year and airline passenger volumes surging past pre-pandemic levels. These tallies suggest a boost in seasonal travel is on the horizon, as an estimated 45 percent of Americans plan to venture out more than they did last summer. With gas prices down from mid-2022, travelers are likely to have more money to spend on necessities and food while on the road. This dynamic represents a boon for convenience stores, drive-thrus, fast casual restaurants and retailers with large stocks of essential goods.

## Fed Policy and Retail Leasing Insights

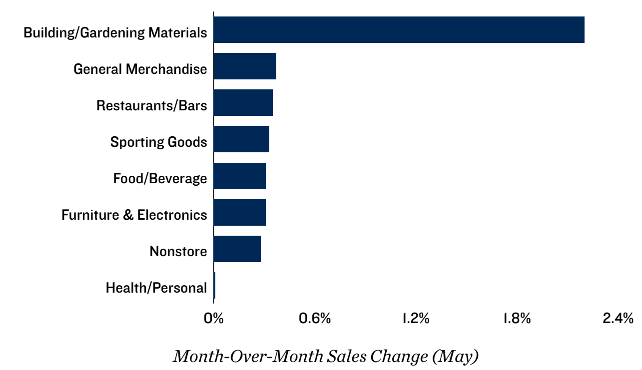
**Fed takes a rate hike hiatus.** The Federal Open Market Committee held their policy rate flat at a lower bound of 5 percent at its June meeting. This marks the first time since before March 2022 that the FOMC has not raised the federal funds rate at a meeting. The pause, however, does not imply an end to the current tightening cycle. Instead, the Fed will take a data-dependent path going forward. A more consistent rate environment will help commercial real estate buyers and sellers better come to agreement on pricing, a particularly important dynamic for the retail sector, which often draws investors via 1031 exchanges.

**Steady tenant demand evident.** Consumption trends are motivating a collection of retailers to broaden their footprints to capture market share. Preliminary data for the first half of 2023 points to this dynamic supporting steady leasing velocity, with the number of retail commitments executed mirroring the prior six-month span. Sublease activity is also up, suggesting upcoming closures could be backfilled over the near term.

**0.4%** *Monthly Rise in Core Retail Sales**

**0.4%** *Increase in Core CPI Month-Over-Month***

### Core Categories Notch Moderate Spending Gains




** Core retail sales exclude auto and gasoline*
*** Core CPI omits food and energy prices*
*Sources: Marcus & Millichap Research Services; U.S. Census Bureau; U.S. Bureau of Labor Statistics; CoStar Group, Inc.; Adobe; Transportation Security Administration; AAA*

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