

## Omnichannel and Discount Retail Benefit from Consumers' Quest for Deals

### Consumers resilient, despite household budget headwinds.

Core retail spending, which excludes vehicle and fuel sales, rose in real terms in June, even after factoring in inflation. This monthly increase indicates that above-average wage growth generated from a still-tight labor market is propping up households' budgets during a period of record debt balances and higher interest rates. These latter factors, however, are making consumers more price sensitive. Retail categories that recorded larger monthly sales gains, including furniture and electronics stores, carry products that had declining prices over the past year, suggesting households are seeking out deals. This trend may gain additional steam, with the resumption of federal student loan payments in October negatively impacting the spending power of more than 43 million people. A more price-sensitive consumer represents a potential boon for value stores, discount outlets and wholesalers.

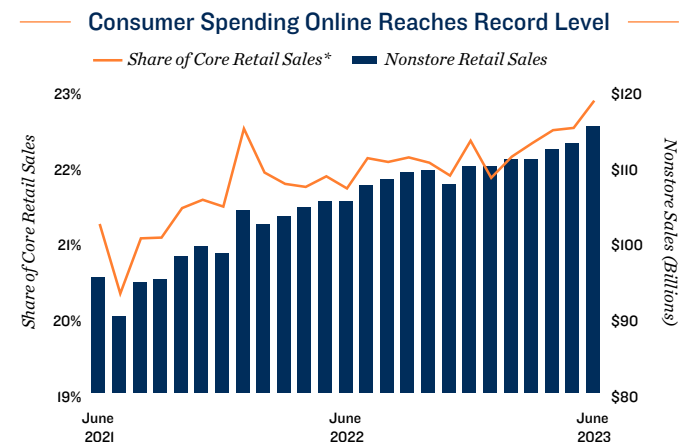
**Online price declines attract shoppers.** Consumers shopped online more last month, with such purchases accounting for nearly 23 percent of core-related sales, the highest share since May 2020. In June, prices for online items fell 2.6 percent on a year-over-year basis, the largest drop in 36 months and a contrast to the 4.8 percent annual rise in core CPI. Amazon Prime Day and other online events held in July suggest nonstore retail spending will continue on this trajectory in next month's report. Record spending online should continue to foster strong demand among omnichannel retailers for warehouse and distribution space.

**Dining segment reacts to consumer sensitivity.** The restaurant and bar sector, a key indicator of households' finances, notched an 8.4 percent annual jump in spending this June, despite a nominal monthly gain. Moving forward, the segment should benefit from an expected rise in the number of Americans traveling this summer. Still, restaurants are likely to rely more on promotions, value menus and loyalty programs to attract customers, so long as the price of food away from home continues to increase.

## Fed Policy and Investment Insights

**Key interest rate reaches 22-year high.** Resilient consumer spending, above-average wage growth and core inflation rising at a 4.8 percent annual pace in June influenced the Federal Open Market Committee to raise the overnight lending rate another 25 basis points at its late July meeting. Intent on returning the annual rate of core PCE inflation to 2 percent, the Fed will take a data dependent approach to further monetary policy decisions. This leaves the door open for a possible similar hike in September.

**Tertiary trading carries the load.** Historically strong net-lease and shopping center fundamentals continue to rank these assets among active buyers' most preferred. Deal flow over the 12 months ending in June reflects this, as among major commercial real estate sectors, the retail marketplace noted the smallest year-over-year fluctuation in sales activity, down 27 percent. Investors appear confident in the performance of tertiary properties, as transactions in these smaller markets accounted for 54 percent of recent sector deal flow, a slight gain in share over the prior yearlong interval.



\* Core retail sales exclude auto and gasoline spending

Sources: Marcus & Millichap Research Services; U.S. Census Bureau; U.S. Bureau of Labor Statistics; Adobe Digital Price Index; Creditintel