

Back-to-School Shopping and Summer Travel a Boon for Brick-and-Mortar Retail

Thrifty consumers purchasing school supplies well in advance. Store-based retail sales, which exclude purchases made online and at restaurants and bars, rose 0.6 percent in July — the largest monthly gain since January. An earlier start to the back-to-school shopping season aided retailers last month, with combined spending across the apparel and sporting goods categories setting an all-time high for July. Department store sales also rose 0.9 percent, following declines in four of the past five months. Spending increases across these segments reflect households' attempts to mitigate the impacts of higher-priced school items with promotions and discounts offered by retailers. Back-to-school forecasts indicate this store-based sales momentum may carry over into August, as households are expected to spend a record \$41.5 billion on supplies and clothing this year.

Heightened travel raises demand for convenient dining. A record number of U.S. households traveled 50 or more miles by car during the Fourth of July weekend, trips that helped lift spending at restaurants and bars by 1.4 percent last month. This improvement allowed the segments' monthly sales volume to eclipse the \$90 billion threshold for the first time on record, with spending up an impressive 11.9 percent year-over-year. The standout performance bodes well for restaurant and bar-related space demand at a time when subsector vacancy rests in the high-3 percent range, the lowest rate since late 2018.

Consumers saving big-ticket purchases for online. For a fourth straight month, consumers set a new benchmark for non-store sales volume at \$117 billion in July. This spending propped up total retail sales, which rose 3.2 percent year-over-year last month. Amazon Prime Day is to credit for the recent boost in online sales. During the event, appliances, home goods and electronics were popular categories. Such promotions have proven challenging for stores that sell similar items. Last month, spending across furniture and electronics shops was down 1.6 percent.

Fed Policy and Retail Property Insights

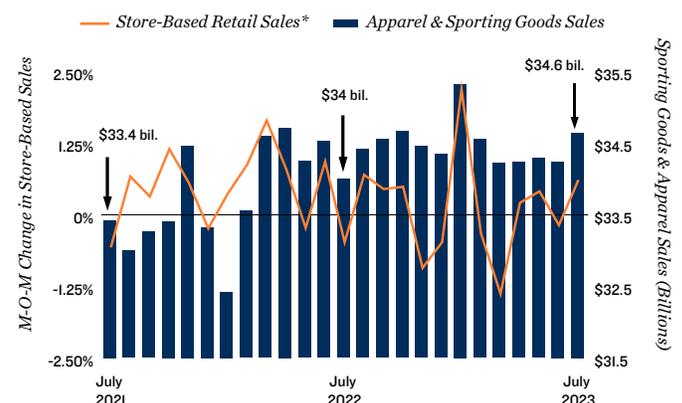
Indicators point to key interest rate stability. Cooler inflation and slower job growth last month have bolstered market expectations that the Fed will hold the overnight lending rate flat at the lower bound of 5.25 percent in September. After 11 rate hikes over a 16-month span, a stretch of stability may allow lenders to temper financing costs for borrowers. Rate consistency, paired with consumers' resiliency, may also represent a tailwind for retail transaction velocity in the second half.

Retail sector well-positioned. A potential pause by the Fed in September is poised to stabilize consumers' borrowing costs during a period of record reliance on credit. This would have positive implications for near-term monthly sales volume and holiday spending, preserving the strong in-place demand for retail space. Entering the second half, U.S. retail vacancy held at a record low of 4.6 percent, following the net absorption of more than 50 million square feet over the prior 12 months. Demand was widespread, as vacancy fell in 34 of 50 major U.S. markets over the recent yearlong span.

0.6% Monthly Rise in Store-Based Retail Sales*

1.2% Monthly Rise in Apparel & Sporting Goods Sales

Early Back-to-School Spending Aids Brick-and-Mortar



* Store-based sales exclude online purchases and spending at restaurants and bars
Sources: Marcus & Millichap Research Services; U.S. Census Bureau; U.S. Bureau of Labor Statistics; Adobe Analytics, National Retail Federation; AAA; CoStar Group, Inc.