

## Core Retail Sales Set New Benchmark, Led by Spending at Restaurants

**Consumers prioritize necessities as debt builds.** Overall U.S. retail sales rose 2.5 percent year-over-year in August; however, core spending — which excludes gasoline and auto purchases — ascended 3.6 percent during the same interval. Momentum over the past year led to a core sales record in August of nearly \$509 billion. The restaurant and bar, as well as the health and personal care, segments were largely responsible for the pronounced annual gain in core sales, with spending in both segments up more than 7 percent year-over-year. This bodes well for the single-tenant net-leased segment, where vacancy has held at a tight 4.4 percent since 2022, supporting above-average asking rent growth. While record core-based spending in August and recent annual gains are encouraging, headwinds have emerged. During the second quarter, U.S. credit card debt surpassed \$1 trillion for the first time. Rising credit and auto loan balances, along with the resumption of federal student loan payments in October, are poised to adversely impact more consumers' spending power later this year.

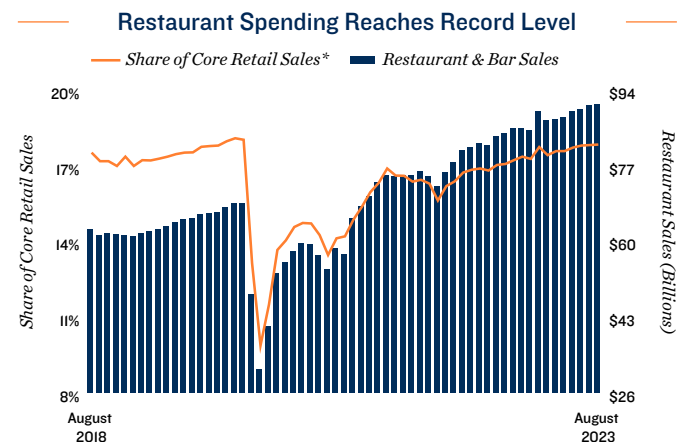
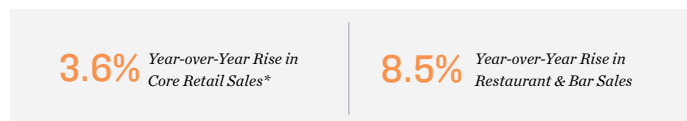
**Restaurant sector stands out among categories.** Spending at restaurants and bars rose 8.5 percent over the past year, the largest gain among retail categories, accounting for nearly 18 percent of all core sales. Sales are climbing ahead of the food-away-from-home inflation index, indicating real gains as fast casual and drive-thru chains are expanding. Mexican food brand Qdoba plans to open 100 stores by the end of 2024, while Del Taco, Jack in the Box and Carl's Jr. have all announced expansion plans in Florida.

**Holidays already on consumers' minds.** Back-to-school shopping drove store-based sales momentum in July that carried over into August. During the most recent month, spending at apparel shops rose 0.9 percent, while purchasing at department stores lifted 0.3 percent. Although a potential pullback in sales could await these categories, retailers may benefit from an earlier holiday shopping season. According to several surveys, one-third to half of all consumers plan to make holiday purchases prior to Halloween.

## Fed Policy and Retail Property Insights

**September hold likely.** While Wall Street expects the Federal Open Market Committee to hold the overnight lending rate at its upcoming meeting, a future rate hike may not be out of the question. A loosening labor market suggests the Fed has more room to maneuver; however, the rise in inflation registered during August could prompt a minor rate increase over the near term. Last month, the consumer price index for all items rose 3.7 percent annually, exceeding July's 3.2 percent increase. Still, if unchanged this month, a plateauing of the interest rate hiking cycle would have positive implications for financial markets and investors.

**Construction pullback evident.** Spanning April through June, developers added 6.4 million square feet to the nation's retail stock, the lowest quarterly total since at least 2000. The trend of historically below-average additions will continue, as roughly 30 million square feet was underway as of September, equating to just 0.3 percent of existing inventory. The lack of supply pressure should benefit property owners at a time when vacancy is at a record low.



\* Core retail sales exclude auto and gasoline spending

Sources: Marcus & Millichap Research Services; U.S. Census Bureau; Federal Reserve Bank of New York; PNC Real Estate; Bankrate; CoStar Group, Inc.