RESEARCH BRIEF

Marcus & Millichap

RETAIL SALES | **NOVEMBER 2022**

Consumers Exhibit Resilience Prior to Peak Holiday Shopping Season

Hiring allows spending to elevate and broaden. Overall retail sales climbed by triple the pace of CPI inflation last month, up 1.3 percent. This indicates that spending improved in real terms. Expectation-exceeding October job creation that pushed the national headcount to 800,000 positions above the pre-pandemic mark partially offset the impacts of higher prices, steeper borrowing costs and other economic concerns. While consumers continued to place an emphasis on necessary items such as food and gas, more households purchased discretionary home improvement-related items last month, a reflection of the recent single-family housing market slowdown.

Homeowners opt to upgrade existing dwellings. Furniture sales and building and gardening-related purchasing each rose by 1.1 percent in October, with spending in the latter segment reaching a record monthly tally. These gains followed an eight-month stretch of declining U.S. home sales and several months of reduced listings volume, suggesting households are improving their current residence in lieu of purchasing a new home. This trend has the potential to subsist moving forward. The federal funds rate elevated further in early November as the Federal Reserve implemented its fourth consecutive 75-basis-point hike. The Fed is expected to raise the overnight lending rate again in the coming weeks.

Pre-pandemic levels of patronage endure. Individuals and families appear reluctant to curb the frequency in which they dine out and socialize, despite higher prices, which has positive implications for single-tenant demand moving forward. Spending across restaurants and bars rose 1.6 percent in October, the largest monthly gain recorded across core retail segments. While record sales volume across dining establishments was partially driven by a 0.9 percent increase in the food-away-from-home price index, spending in real terms advanced. Looking ahead, restaurants may receive a boost in patronage around Thanksgiving, as the cost to feed 10 people at home is expected to rise 20 percent on an annual basis.

Reliance on Credit and Savings Grows

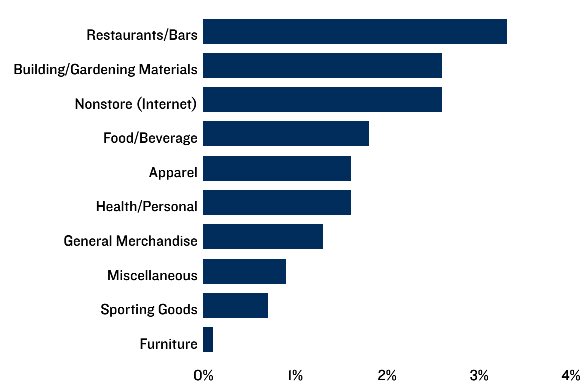
Seasonal shopping has implications beyond 2022. The recent improvement in consumer spending is a welcomed sign for retailers leading into the traditional holiday shopping season. Forecasts call for a 6 percent to 8 percent annual rise in holiday spending during the final two months of this year; however, many households are expected to supplement purchases with savings and credit. Reliance on these sources is likely to reduce the already low U.S. personal savings rate and raise total household debt, increases that may reduce consumers' purchasing power in 2023.

Strong spending translates to tenant demand. Retail property fundamentals entered the holiday season in a position of strength. During the third quarter, tenants absorbed 15 million square feet, lowering vacancy to 4.8 percent, a rate just 10 basis points above the all-time low. Preliminary leasing data for October reflects continued demand, with over 5,400 new leases executed for roughly 17 million square feet. This activity suggests most of the 80 million square feet of retail space underway should be well received.

5.0% *Increase in Store-Based Sales Year-over-Year*

9.2% *Year-over-Year Rise in Building/Gardening Sales*

Seasonal Spending Accelerates



Percent Change: Aug. - Oct. 2022 vs. May - July 2022

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; U.S. Census Bureau; National Retail Federation; Federal Reserve Bank of St. Louis; Federal Reserve Bank of New York, National Association of Realtors