RESEARCH BRIEF

Marcus & Millichap

RETAIL SALES

JULY 2024

Consumer Resiliency Apparent Despite Pullback in Discretionary Spending

Households' priorities reflected in recent gains. For a second straight month, consumers set a new high for core retail sales, with spending up 3.8 percent year over year in June. This improvement closed out a first half that saw core spending rise 3.2 percent when compared to the same period of 2023. During this span, consumers prioritized experiences, discounts and essential items, as reflected in gains recorded across the online, restaurant, grocery, health and personal care categories. Many households, concurrently, scaled back on discretionary purchases, adversely impacting furniture, electronics and appliance retailers. The retail sector, however, is poised to weather this headwind. While consumers shift priorities around, overall annual personal income topped $23.9 trillion in May, the second-highest mark on record, indicating that, in aggregate, households are in relatively strong financial positions. Additionally, widespread demand for space is evident, with a group of retailers carrying out expansion plans.

Consumers dine out consistently. Aided by a rise in summer travel, restaurants and bars enjoyed yet another encouraging month, with sales up 4.4 percent year over year. Spending across the segment has been consistent for some time, as restaurant and bar sales have accounted for 18 percent of core retail sales for 13 straight months — after achieving this share just twice prior. This stability is influencing a group of chains to bolster their store counts — including Jersey Mike's, Chipotle, Raising Cane's, Shake Shack, Texas Roadhouse and Outback Steakhouse.

Thrifty shoppers look beyond brick-and-mortar. Online spending rose 8.9 percent annually in June, with discounted items the driving force behind this gain. Another increase in nonstore sales is anticipated in July, as Amazon holds its Prime Day, an event that is projected to generate $14 billion for online U.S. retailers. Available discounts are expected to range from 9 to 22 percent off listed prices, likely attracting the attention of consumers and underpinning the distribution arm of omnichannel retailers.

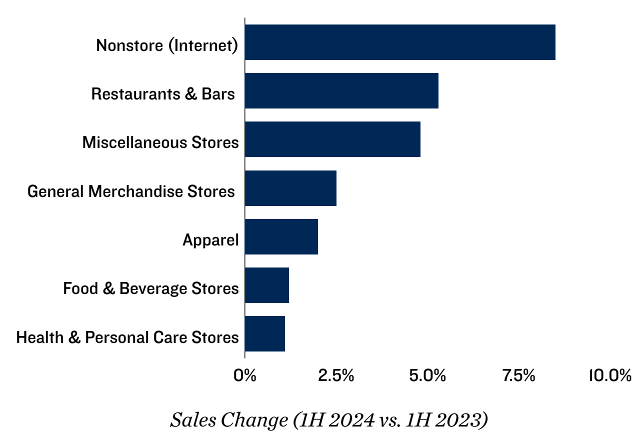
Supermarket spin-off would impact owners across 18 states. Earlier this month, Kroger officially identified the 579 stores it plans to divest to C&S Wholesale Grocers to secure approval for its merger with Albertsons. Among the stores, 249 are located along the West Coast, with an additional 238 spread throughout the Mountain region. By state, Washington and Arizona are slated to record the largest number of divestitures at 124 and 101 stores, respectively. The upcoming federal court hearing is set to begin on Aug. 26.

Capital deployment improves. Tight vacancy and record asking rents are drawing more investors to retail listings. Preliminary data from the March-June period points to a modest rise in quarter-over-quarter deal flow. Among single-tenant properties, restaurants and spaces net-leased to fast-food chains traded most often. Strip and neighborhood centers, meanwhile, accounted for most multi-tenant transactions. Moving forward, a more diverse lending pool and at least one likely rate cut will translate to modestly lower borrowing costs, potentially bringing more buyers off the sidelines.

0.8% *Month-Over-Month Rise in Core Retail Sales**

3.2% *Rise in Core Retail Sales (1H 2024 vs. 1H 2023)*

Dining and Online Spending Lift Core Retail Sales



** Core retail sales exclude auto and gasoline purchases*

Sources: Marcus & Millichap Research Services; Adobe; Bureau of Economic Analysis; CoStar Group, Inc.; Kroger; U.S. Census Bureau

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