RESEARCH BRIEF
RETAIL SALES

IPA | INSTITUTIONAL PROPERTY ADVISORS

DECEMBER 2021

Pace of Spending Eases; Retail Real Estate in Good Shape Moving into 2022

Retail sales continue to float well-above pre-pandemic levels. Consumers acted on holiday shopping plans earlier than normal, resulting in a more moderate improvement in retail spending last month than is typical for this time of year. Core retail sales ticked up 0.2 percent in November, driving the year-over-year gain to an impressive 16.5 percent. Gains in core sales were most pronounced at food and beverage stores, sporting goods, building material retailers and restaurants and bars. In further evidence that consumers are getting out and about, spending at gas stations jumped 1.7 percent last month.

Traditional retailers benefit from the return of shoppers. Over the past year, spending at store-based retailers has climbed 13.5 percent as foot traffic climbed across nearly all major sectors. Shopping centers and apparel locations recorded the largest increase in traffic from November of 2020 to last month, rising 36 percent and 30 percent respectively. The increase supported a decline in retail vacancy in the second and third quarters, landing at 5.3 percent in September. Marketed rent has also climbed for four consecutive quarters.

Broader reopening highlighted in annual spending gains. As Americans leave their homes more often, some sectors have strong annual gains. Over the past year, retail sales at gasoline stations soared 52.3 percent, though some relief is materializing as the average price of a gallon of gas slipped by $0.07 to $3.31 from the beginning of November to mid-December. Typically, gas prices decline over the winter months before climbing ahead of the summer tourism season. Clothing store sales are up 34.8 percent as workers return to offices and kids are back in classrooms. Finally, eating and drinking places posted a 37.4 percent advance over the past year as more diners are vaccinated and willing to return to a more normal lifestyle. A recent increase in mandates in some large cities could temper those gains on a regional basis.

Rising Prices Present Challenge

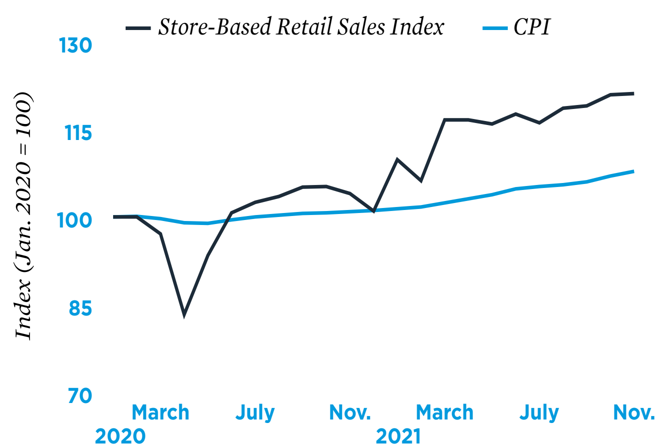
Inflationary pressure creates headwinds. The consumer price index increased 6.9 percent year-over-year in November, the largest change in nearly 40 years, eroding spending power for consumers. Although wage growth has been healthy, coming in at 4.8 percent, average hourly earnings are failing to maintain pace with the cost of finished goods. Furthermore, the producer price index climbed 9.7 percent, the greatest rise in wholesale prices since tracking began in late 2010. Elevated PPI could indicate that inflationary pressure will push into 2022 and is not transitory.

Fed forced to act to contain rising prices. Among the Fed's two mandates, maximum employment and price stability, the pace of inflation is a significant concern. As a result, the central bank will taper asset purchases faster than originally planned and start lifting interest rates. This should ease the pace of rising prices at a time when the employment outlook remains positive. Nearly 11 million jobs are available, well above the number of unemployed Americans seeking them.

16.5% *Gain in Core Retail Sales Since November 2020*

6.9% *Annual Increase in the Consumer Price Index*

Spending at Traditional Retailers Strong



Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Placer.ai; U.S. Census Bureau; U.S. Energy Information Administration