

Retailers Begin 2022 on a Strong Note as Shoppers Ramp Up Spending

Consumers step forward in January. After an early holiday shopping season led to a quieter than normal December, retail spending bounced back last month. Several sectors recorded strong gains, though online retailers and furniture stores posted the largest month-over-month increases at 7.2 percent and 14.5 percent, respectively. Spending was influenced by the highly contagious omicron variant of COVID-19, with more people staying home. Despite this recent setback, the economy is much more open than it was a year ago. Core retail sales have jumped 11.4 percent since January 2021, as an influx of government stimulus and widespread availability of vaccines encouraged consumers to go out. This is especially true for diners. Over the past 12 months, restaurants and bars saw 27 percent more business.

Retail fundamentals to approach pre-COVID-19 levels this year. By the end of 2022, retail vacancy is anticipated to fall to 5.0 percent, only 10 basis points above the rate at the beginning of the recession. The downturn finally pushed many struggling retailers over the edge, but new businesses are rising in their place. In 2021, a record 5.4 million business applications were filed, up from 4.4 million in 2020, the previous record. Some of these companies will occupy recently vacated retail space. Availability is also being helped by limited new supply. Although completions will reach a three-year high in 2022, millions of dilapidated square feet will be pulled off the market, including several malls.

Tailwinds for some traditional retailers. The rapidly declining case counts are going to encourage more shoppers to visit general brick and mortar locations in the months ahead. This is especially true for eating and drinking places, which recorded a 0.9 percent decrease in sales month-over-month in January. The lifting of restrictions in several of the nation's largest cities should increase access to retailers as well. Warming temperatures will also persuade more people to take advantage of those establishments going forward, as well as sporting goods stores, which recorded a 3.0 percent monthly decline in January.

True Spending Gains are Cloudy

Inflation masks actual increase in sales. The consumer price index jumped 7.5 percent on an annual basis last month, largely overstating the increase in retail sales over the past year. A few components are the primary cause of the rise, including gasoline, autos and groceries. No relief is expected for many of these sectors, and geopolitical risks in Eastern Europe could keep gasoline prices elevated for an extended period of time. Additionally, the decline in COVID-19 cases could increase gasoline demand in the coming months, as the summer travel season approaches.

Broader global reopening could provide lift to spending. Several areas of the world are reducing their restrictions, which should raise sales over the next several months. The decrease in vaccine passports and masks, as well as a rise in domestic and international travel, will provide more shopping options. Several more areas will need to be opened to boost spending, but the abatement of omicron could accelerate a global recovery.

38% Inflation-Adjusted Change in Core Retail Sales since Pandemic Trough

36% Inflation-Adjusted Increase in Internet Sales since Pandemic Began

