RESEARCH BRIEF
RETAIL SALES

IPA INSTITUTIONAL PROPERTY ADVISORS

MARCH 2022

Easing Health Restrictions Support Retail but Surging Gas Prices a Headwind

Retail sales mixed in February. Consumer spending increased a modest 0.3 percent last month, although much of the gain was driven by climbing fuel prices. Excluding energy costs, core retail sales retreated 0.4 percent in February, as widespread inflation eroded some consumption. Spending was nevertheless 15.8 percent above the same level last year, indicative of an overall more active consumer base. In a potential benefit to physical properties, the largest drag last month came from online sales, which fell 3.7 percent. As the omicron variant dissipated, more Americans were able to shift their behavior and visit tangible retail locations.

Restaurants and bars show renewed performance. After being hamstrung by the winter surge in COVID-19 cases, more patrons returned to eating and drinking places in February, lifting sales 2.5 percent over the month. Year-over-year, foot traffic to dining establishments has climbed 19 percent nationwide, leading to a 33 percent annual growth rate in sales — the second highest jump among the major retail categories. California and New York posted significant gains, expanding 49 percent and 51 percent, respectively. These areas recently lifted restrictions, which improves general comfort and will allow more consumers to visit these establishments. The outlook for bars and restaurants is bright as the weather improves, though inflation and labor costs could become notable headwinds.

Gasoline prices remain wildcard for retail sales. Elevated demand for fuel has outstripped supply, sending energy prices higher over the past year. Since February 2021, sales at gasoline stations have jumped 36.4 percent — the largest rise among all retail categories. Last month alone, spending increased 5.3 percent as gasoline prices rose to an average of $3.61 per gallon. The war in Ukraine has further disrupted the energy market and pushed fuel prices higher in recent weeks. By mid-March, the per-gallon cost had jumped to $4.41, putting further pressure on core retail sales as consumers spend more on fuel. A recent decline in the per-barrel price indicates there is some relief on the horizon.

Tailwinds Persist, Despite Soft February

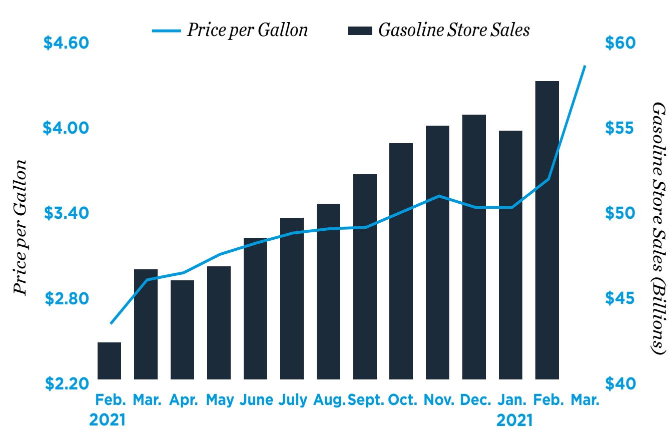
Retail property performance sturdy against headwinds. Notable gains in consumer activity over the past year have benefited retail properties, with national vacancy recovering from the pandemic peak of 5.7 percent. Net absorption has been positive since the third quarter of 2020, as retailers made long-term decisions relatively early in the pandemic. Demand should be sustained in the coming months, tightening the forecast vacancy rate 20 basis points to 5.0 percent this year. While retailers have demonstrated their resilience, multiple interest rate hikes, 40-year high inflation and elevated energy prices raise potential hurdles for this year.

Positive contributions still outweigh uncertainty. Despite new and elevated pressure on consumers, a significant amount of slack exists before headwinds begin to play a larger role in behavior. As of last month, Americans had an extra $5.8 trillion in liquid accounts. Additionally, business applications are at a record high, and the employment market is still in good shape following February's addition of nearly 700,000 jobs.

36.4% *Annual Gain in Retail Sales at Gasoline Stations*

$1.48 *Annual Increase in Price Per Gallon of Gasoline*

Fuel Prices Support Gas Station Sales



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