RESEARCH BRIEF
RETAIL SALES

FEBRUARY 2023

Broad-Based Spending Gains Backstop Retail Sector's Favorable Outlook

All brick-and-mortar categories record monthly increases. Store-based retail sales, which exclude spending online and at restaurants and bars, climbed 1.7 percent in January, marking the largest monthly rise in nearly two years. Reversing a recent down trend, gains were widespread across store types, highlighted by notable improvements in furniture, appliance and clothing-related purchasing. This broad-based increase signals that consumers, while pressured by inflation, still have solid cash reserves and borrowing capacity following the holidays, a boon for near-term retail property performance. Further brightening the sector's outlook, Social Security benefits rose by 8.7 percent at the onset of this year, a cost-of-living adjustment that will aid the spending power of approximately 70 million beneficiaries.

Gains also prevalent across dining places. Even while consumers spent more at stores last month, they have also yet to curtail the frequency in which they eat out and socialize, translating to a more than 7 percent elevation in restaurant and bar sales this January. Ranking as the category's largest margin of increase in 22 months, the improvement potentially reflects households' increased reliance on fast-food chains, as the low-cost dining option is appealing amid a climbing price environment. Contrasting this segment, grocery spending shifted nominally. Still, a 25th consecutive month of increase was noted in the category, with February spending likely to be aided by Super Bowl-related purchases.

Tight labor market highlights retail sector's strength. Corresponding with the sizable rise in restaurant and bar spending, a collective 98,600 new positions were added across the segment in January, accounting for 20 percent of total monthly job creation. An additional 30,000 retail-trade-related jobs were added last month, a figure well above the 2022 monthly average of 7,000. Expecting consumer demand for lower-priced goods to rise as discretionary budgets tighten, club warehouses and super centers may execute expansion plans this year and hire additional staff.

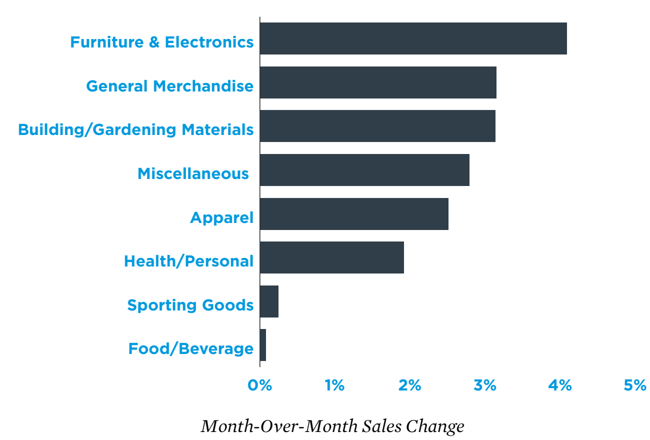
Fed Policy and Retail Expansion Insights

Recent performance triggers additional hikes. The 0.5 percent increase in CPI registered last month — coupled with unexpectedly strong employment growth — will prompt the Federal Reserve to sustain smaller rate hikes for longer, with the consensus being 100 basis points in increases during 2023. The Fed recently raised the overnight lending rate by 25 basis points in early February, with a similar increase expected in March and another possible this May.

Retail vacancy remains historically tight. Retailers appear confident in consumers' resiliency as vendors opened more stores than they closed during 2022, halting a five-year trend. This performance should repeat this year as a collection of discount retailers, supermarkets, club warehouses and convenience stores have plans to grow their regional footprints or enter new markets. With retail construction relatively limited nationally, most companies will achieve expansion by leasing existing properties. This activity will prevent a noteworthy shift in availability from occurring this year, holding vacancy below the long-term average.

1.7%	0.5%
Rise in Store-Based Retail Sales Month-Over-Month	*Increase in Core CPI Month-Over-Month*

January Spending Gains by Store Type



Follow Us on Twitter @IPA_USA

Sources: IPA Research Services; U.S. Census Bureau; U.S. Bureau of Labor Statistics; Coresight Research