RESEARCH BRIEF
RETAIL SALES

IPA | INSTITUTIONAL PROPERTY ADVISORS

MAY 2025

Fluid Tariff Landscape Impacting Consumers

Stretch of resiliency may be waning. While core retail sales rose 5.4 percent year-over-year in April, spending was unchanged on a monthly basis after adjusting for core CPI inflation — an indication that a pullback in consumer spending is materializing.. Even so, several key retail categories registered encouraging gains during the month, including restaurants and bars. These increases, however, were offset by declines across a trio of discretionary categories: apparel, sporting goods and general merchandise. Retailers in these segments have greater exposure to tariffs. Those already in challenging financial situations may struggle in the near term if they choose to raise prices, drop certain products or source items from different nations. Meanwhile, necessity-based categories are only mildly to modestly exposed to new duties. As a result, some will be able to avoid passing significant cost increases along to consumers during the second half.

Patronage at dining establishments a bright spot. Spending across restaurants and bars rose 1.2 percent in April, marking the largest monthly gain among core retail categories. Consumers continue to prioritize dining out despite persistent inflation surrounding the price of food away from home, which is largely tied to rising wages. Fortunately, most restaurants and fast food chains rely heavily on domestically sourced ingredients, suggesting the sectors should be mildly exposed to tariff pressure. This insulation, tight restaurant and fast food vacancy, and minimal dining-related construction will aid many net-lease property owners.

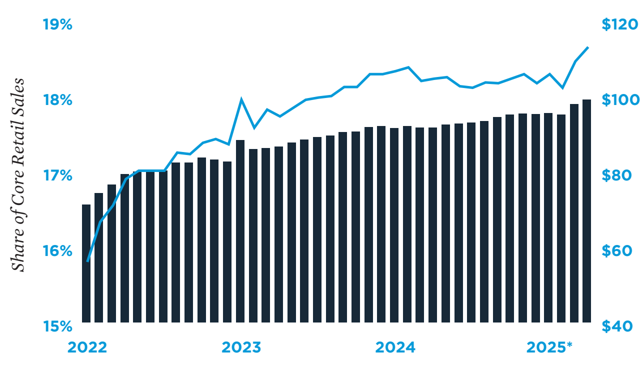
Moving trends affect specific segment. Building and gardening materials spending rose 0.8 percent last month. While partially a function of seasonality, sales in this segment also appear to be supported by more households choosing to upgrade their existing residences in lieu of moving. Pending home sales fell for a fourth straight month in April, while the renewal conversion rate for rentals rose 100 basis points in the first quarter. If these trends hold, home improvement stores such as Tractor Supply Company — which recently acquired 19 Big Lots leases — stand to benefit.

De-minimis closure benefits brick and mortar. Online retail sales grew by just 0.2 percent in April after rising by a mean 0.5 percent over the prior 12 months. The recent pullback in nonstore spending can partially be tied to a decline in orders on e-commerce sites that ship from China. As of May 13, direct-to-consumer shipments valued under $800 were subject to a 30 to 54 percent duty, depending on delivery method. While this range is down from the previously installed 120 percent rate, these in-place duties may aid spending at physical stores if these shops are now a lower-cost alternative.

Rare dynamic emerges. The retail sector saw negative net absorption in the first quarter of this year, growing vacant stock by 11.9 million square feet. Prior to this, negative absorption had only been noted twice in this century: at the onset of the pandemic and at the end of the Global Financial Crisis. That said, the retail sector is on relatively solid footing. Entering April, vacancy sat at 4.5 percent — 110 basis points below the long-term average. Retailers also added 51,800 jobs through the first four months of this year.`

0.2%	1.2%
Monthly Increase in Core Retail Sales	*Rise in Monthly Restaurant & Bar Spending*

Dining Accounts for Record Share of Core Retail Sales



** Through April; Note: Core retail sales exclude auto and gasoline purchases*

Sources: IPA Research Services; Consumer Edge; CoStar Group, Inc.; Federal Reserve Bank of New York; Realtor.com; U.S. Census Bureau

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