RESEARCH BRIEF
RETAIL SALES

IPA INSTITUTIONAL PROPERTY ADVISORS

SEPTEMBER 2025

Consumer Spending Continues to Exceed Expectations

Spending still up across most categories. After recent revisions, core retail sales rose 0.4 percent in real terms during both July and August, highlighting U.S. consumers' resilience amid the weakening labor market and tariff-related price pressures. Spending last month was also encouraging on an annual basis, as core retail sales were up 5.4 percent. That said, the full effect of tariffs likely have yet to fully materialize. Many retailers pulled inventories forward in the first quarter, enabling these companies to initially avoid passing costs to consumers. The roughly 30 percent decline in import activity between April and June, however, points to some retailers' pre-tariff inventories beginning to deplete during the second half of the year. That may spur more retailers to pass the cost of import duties through to consumers.

Modest pullback in grocery purchases surfaces. Although expected to only be mildly exposed to tariffs, the food and beverage sector noted a somewhat unanticipated 0.6 percent month-over-month spike in pricing in August. When factoring in this increase, spending across the category declined 0.3 percent in real terms. Still, the outlook for grocers remains positive. Periods of declining consumer sentiment tend to favor necessity-focused retailers. Supermarket property fundamentals are also standout. The sector entered the second half on a 79-quarter streak of positive net absorption, and vacancy stayed limited at 2.3 percent.

E-commerce accounts for record share of sales. Roughly 24 percent of core retail spending took place online in August, with segment spending up 10.1 percent year over year. This indicates consumers are scouring e-commerce platforms for discounts as major retailers including Amazon, Walmart, Target and Best Buy — and niche vendors such as Nordstrom Rack and REI Outlet — launch deal events. Fortunately, spending at physical stores is holding up. In August, store-based sales rose 3.4 percent annually, which has positive implications for brick-and-mortar property performance. Entering July, overall retail vacancy stood at 4.9 percent — a rate 10 basis points above the prior 10-year average.

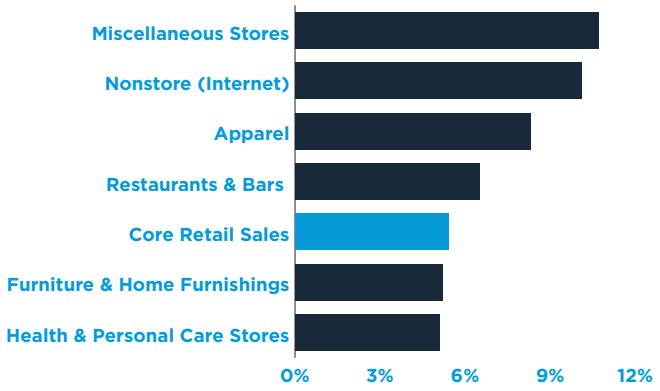
Short- and longer-term rates drop. Softening in the labor market prompted the Federal Reserve to cut the overnight lending rate by 25 basis points at its mid-September meeting, placing the lower bound at 4.0 percent. While this has potential benefits for commercial real estate investors, it is unclear where longer-term rates will go. During the first half of September, the 10-Year Treasury yield fell 30 basis points to 4.0 percent; however, the note does not always follow the trajectory of the overnight rate. On the contrary, the opportunity to capitalize on lower rates may prove to be limited.

Retailers register encouraging job creation. The U.S. economy added 22,000 roles in August, bringing year-to-date hiring to 598,000 — about half the number of positions created over the same span last year. Meanwhile, recent employment growth in the retail sector contrasted this dynamic. The segment added 51,000 roles over the first eight months of 2025 after losing 34,000 jobs during the same period in 2024. Nevertheless, a weaker overall labor market may adversely impact near-term retail spending.

5.4%
Year-Over-Year Increase in Core Retail Sales (August)

0.7%
Monthly Rise in Core Retail Sales (August)

Spending Gains Reflect Consumer Resiliency



Change in Retail Sales (Sept. 2024 vs. Sept. 2025)

Note: Core retail sales exclude auto and gasoline purchases
Sources: IPA Research Services; CoStar Group, Inc.; Federal Reserve Bank of St. Louis; Placer.ai; U.S. Bureau of Labor Statistics; U.S. Census Bureau

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