

RESEARCH BRIEF

Marcus & Millichap

RETAIL SALES

MARCH 2019

Retail Sales Back on Track as Discretionary Spending Remains Strong

Retail sales bounce back after December lull. Following a lackluster end to 2018, core retail sales rebounded in January, climbing 3.7 percent on an annual basis. At the same time, average hourly earnings are rising, posting 3.4 percent yearly growth in February. Increased take-home pay is sustaining optimism in the economy, enabling consumers to make more discretionary purchases.

Retail sector generating notable gains. Retailers continue to benefit from the gradual uptick in wages, producing especially strong results for many vendors selling products that cater to discretionary spending. Clothing retailers sit at the forefront of this movement, attracting consumers with the latest store concepts and fashion trends. Digitally native brands like Bonobos and Indochino are making a strong impression within this segment as they seek to develop an omnichannel platform by adding brick-and-mortar locations. This is creating more demand for retail space, further driving down vacancy. With more refined business models, the retail sector continues to gain stability, boosting investor confidence and pushing deal flow. As a result, transaction volume has increased each of the past six years, signaling the growing strength of the sector.

Elevated consumer confidence prompts heightened consumption. Like clothiers, electronics and appliance retailers are also benefiting from an increase in discretionary purchases. Over the past several months, this category has witnessed sales swell amid historically high levels of consumer confidence. Spending on these items advanced 4.0 percent in January, indicating sustained economic momentum as the increase sits well above long-term averages. These retailers will remain sought-after tenants for investors in the coming months, serving as viable strip center anchors as well as complementary tenants in power centers.

Developing Trends

Earnings stay on upward trajectory. The nation's average hourly earnings ticked up to \$27.66 in February. In the past 12 months, this figure has averaged 3.1 percent growth, following regular mid-2 percent bumps over the previous two years.

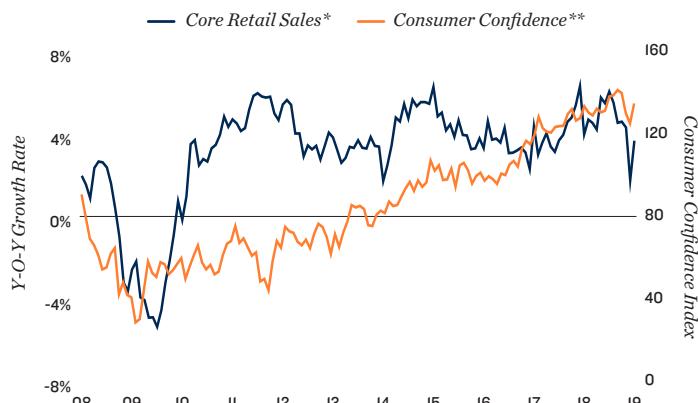
Physical retail a key ingredient to success. The shift among online companies to brick and mortar is an increasingly popular trend. During the next several years, digitally native brands are expected to open hundreds of stores largely due to the impact the move has on sales. Opening a physical store within a market has proved to have a significant effect as that retailer's local web traffic jumps by an average of 37 percent in subsequent months.

Optimism in economy picks back up. Consumer confidence fell slightly to start the year but rebounded in February. The confidence index climbed 8 percent on a monthly basis, reflecting continued optimism in the economy.

3.7% Core Retail Sales Growth Y-O-Y

1.1% Consumer Confidence Index Growth Y-O-Y

Increased Earnings Drive Spending



Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; The Conference Board; ICSC; Moody's Analytics; U.S. Census.

* Through January

** Through February



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