

Inflation Clouds Stellar Sales Total as Consumers Go Shopping

Pair of drivers back positive retail momentum. Store-based retail sales, which exclude automotive and gas purchases, as well as those made online or at bars and restaurants, ascended to a record mark in August. Much of this gain, however, was likely driven by rising prices, as inflation has sustained levels above 7 percent so far this year. Nevertheless, even after adjusting for inflation, core retail sales are up nearly 19 percent from the pre-pandemic tally, aided by a record national job count and easing gas prices, which are freeing up households' wallets for in-store purchasing. An ongoing shift in consumer behavior, one with an emphasis on physical locations, is providing additional support, with foot traffic at most store types near or above 2019 levels. Store-based sales momentum has the potential to remain positive as the holidays approach and consumers seek out deals earlier than in prior years.

Return-to-class a boon for brick and mortar. Apparel, general merchandise and sporting goods retailers all benefited from back-to-school season, with each store-based segment posting record sales volume in August. Estimates placed household spending for the school return at a rough average of \$860 for an elementary or high school student, a 24 percent increase over 2019. Meanwhile, household back-to-college spending was expected to be approximately \$1,200, up 23 percent from 2019. College town retailers that operate within these segments may notch another record sales tally in September, as classes commence at many colleges nationwide during the latter half of the month.

Restaurant patronage a steady share of core sales. Dining establishments and bars are also benefiting from widespread job growth and consumers' desire for social interaction. The segment's share of core retail sales held in the 17 percent range — a pre-pandemic level — for a seventh straight month in August. This consistency indicates individuals and families are dining out and socializing much like before, despite higher prices, behavior that has positive implications for retail demand moving forward.

Retailers Undeterred by Nearing Hurdles

Emerging headwinds to affect consumers' decisions. CPI rose more than expected in August, up 8.3 percent on an annual basis, with inflation outpacing hourly wage growth. Additionally, the U.S. personal savings rate fell to 5.1 percent in June, 360 basis points below the recording at the start of 2022. Concurrently, credit card balances were up 13 percent year-over-year at the end of the second quarter, the largest rise in more than 20 years. Together, these factors will require more households to further scrutinize their spending, which will likely impact a range of retailers.

Growth initiatives reflect confidence. Despite potential headwinds, record store-based spending is fueling retailer growth. The number of store openings more than doubled closures in the first seven months of 2022, led by off-price retail, discount store, home décor and supermarket expansions. The volume of retail space underway as of September, the equivalent of 0.5 percent of existing stock, suggests growing retailers will target existing space moving forward, a bonus for an already tight sector.

5.4% Increase in Store-Based Sales Year-over-Year

60.4% Store-Based Share of Core Retail Sales in August

Store-Based Spending Elevates to Record Mark

