July 2020 Retail Sales – Welcome news, but less than it seems

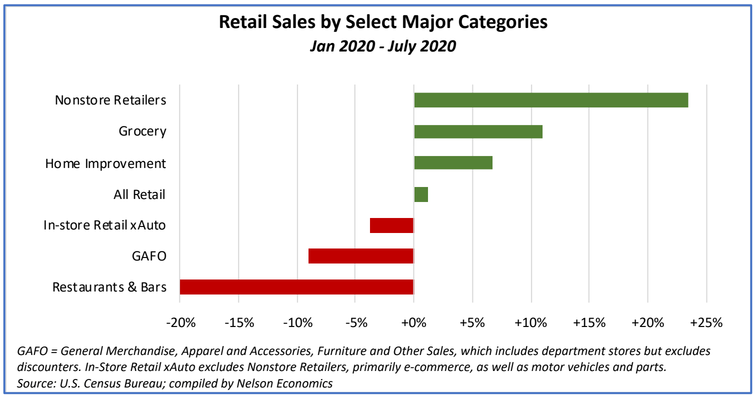
Andrew J. Nelson, CRE

August 16, 2020

The Census Bureau reported almost shocking economic news last week: retail sales now exceed pre-pandemic levels. June sales were revised upward to match sales in January – the last full month before COVID-19 took hold – and then sales continued to climb in July.

Retail sales including restaurants amounted to a record $536 billion on a seasonally-adjusted basis, up 1.2% over January. This volume is a remarkable achievement, especially considering that unemployment still exceeds 10% – down from its pandemic peak, but still above the high-water mark in the Great Financial Crisis (GFC). For comparison, retail sales took 2½ years to return to their pre-recession peak after the GFC, and here we are back at another peak after just six months.

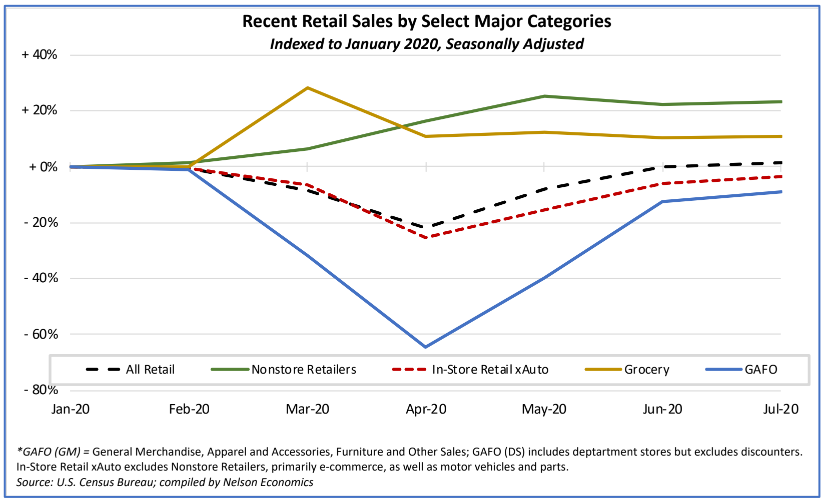
Welcome news for the beleaguered retail sector? Definitely, but not quite as positive as landlords, tenants, and investors would hope. A closer look at the data reveals that bricks and mortar retailers have not yet fully recovered, particularly at the mall. Much of the gains have gone to "nonstore retailers," predominantly e-commerce.* Sales for all nonstore retailers are up more than 23% since January. Among physical retailers, grocery stores are doing well, with sales up 11%. Home improvement stores are also performing well, with sales up almost 7%.



* Separate data for e-commerce is published quarterly, as opposed to the monthly figures for other retailer categories, and figures for the 3rd quarter covering July will not be available for several months.

But sales at shopping centers overall are somewhat weaker. Excluding nonstore retailers as well as auto-related sales (primarily motor vehicles and parts), which typically are not transacted in shopping centers, retail sales were still down 3.7% in July relative to January. And sales at mall-oriented stores are down more. Sales at GAFO† (General Merchandise, Apparel and Accessories, Furniture and Other Sales) retailers are down 9.0%, while restaurants and bars, which comprise a rising share of mall tenants, are down 20%.

To be sure, shopping center and mall sales have been trending up in recent months as more of the economy has reopened. Mall sales, especially, have grown since their trough in April. But overall, in-store retail sales have not kept pace with total retail sales as more shopping has shifted online. And more spending has swung from discretionary items typically found in malls to more essential items sold in grocery stores, pharmacies, and home improvement stores.



But the far bigger challenge for shopping centers and malls is that this level of retail spending is likely not sustainable, propped up by enormous – but temporary -- government income support. In the face of a widening pandemic and massive economic disruptions leading to a deep recession, the federal government stepped in to replace or supplement income on a scale far exceeding that in prior recessions. Many millions of workers lost their jobs when state and local governments imposed lockdowns in March; millions more gig workers lost much of their income.

To keep households and business solvent – and ultimately keep consumers spending – Washington enacted an array of programs under the Coronavirus Aid, Relief, and Economic Security (CARES) Act to put cash directly into consumers' pockets and provide liquidity to small businesses. These included a $1,200 Economic Impact Payment (EIP) per qualified adult and $600 in weekly supplemental unemployment insurance payments through the Federal Pandemic Unemployment Compensation (FPUC) program. Almost as important was a temporary eviction moratorium for millions of qualifying renters; many state and local government provided temporary eviction protections for homeowners are well. Thus, households were to afford at least basic shopping needs.

† GAFO, as defined by the Census Bureau, has long been used as a barometer of mall sales. But the General Merchandise category has changed significantly since the GAFO term came into use. This segment was once dominated by department stores, which are the anchors of most malls, but this segment has been taken over by discounters (warehouse clubs and superstores), which tend to be either free-standing or situated in community centers. Thus, for this analysis I use department stores rather than general merchandise stores as a component in GAFO to gauge mall trends.

However, both the federal eviction protection and the supplemental unemployment benefits expired in late July, and the EIP was a one-time event. Moreover, the Payroll Protection Program (PPP), which kept millions of small businesses afloat, also expired in early August, which is certain to trigger another round of layoffs. Congress has been unable to agree on proposals to extend some or all of these programs, while the Trump Administration issued several executive orders that few analysts believe will provide sufficient support to prevent the economy from backsliding.

Taken together, it seems certain that – absent additional government interventions -- retail sales will fall again in August and remain depressed until the pandemic eases and the economy recovers. A new study by the National Bureau of Economic Research concluded that eliminating the $600 FPUC supplement alone would cause a 44% decline in local spending. Even if the FPUC supplement is reduced by just $200, spending would still fall by 12%. The precise retail sales decline won't be known for some time but is likely to be substantial.

Thus, the recovery in retail sales reported last week is clearly positive news, but retailers and shopping center owners should not be deceived into believing that the crisis has passed. More challenges are sure to emerge in the coming weeks.

Photo by Heidi Fin on Unsplash