IS THE RETAIL TIDE PAST ITS PEAK IN 2019?

by Scott Grossfeld

Scott's practice focuses on retail development and commercial leasing. He has a comprehensive experience in representing commercial developers in connection with all aspects of shopping center development, including the acquisition and disposition of commercial real estate and the negotiation and drafting of development and management agreements, reciprocal easement agreements, declarations, major tenant leases, listing agreements, and property management agreements.

The retail sector has grown every year since the end of the Great Recession. Some say that retail has even thrived in the last couple of years. Indeed, looking back at the last few years of Cox, Castle & Nicholson's *Retail Forecasts* and the predictions of several noted commentators, we see consistent growth forecasts, albeit tempered by cautious optimism. But why were so many retail professionals and economists reluctant to buy into the retail revival over these past few years and, instead, hedge by remaining so cautious? Perhaps the recession of 2007–2009 had such significant and long-lasting impacts on the retail sector that retail professionals and economists feared that the real cause of it was never corrected.

Just look at last year. Heading into 2018, the Dow Jones Industrial Average was peaking and setting new records. It grew from 20,000 points to around 26,000 points within an approximate one-year period. Unemployment was rapidly declining, wages were increasing, consumer confidence was high, interest rates were low, capital was available, a new Federal Tax package passed in Congress to stimulate the economy, and still most commentators were reluctant to forecast strong retail growth without reservation. As in years past, many commentators predicted modest retail growth and cautioned against excessive positive reliance, fearing that another recession may be around the corner.

Needless to say, 2018 did not see another recession (nor did 2017 or 2016).

Well, this year, many of the same strong fundamentals remain in place to support strength and growth in the retail industry. However, is there too much of a general sense of nervousness and uncertainty to forecast solid retail success, or is modest caution still the safest prediction?

Holiday Sales and Other Indicators of Growth

Over the years, we have argued in our *Forecast* articles that recent performance of the economy and holiday sales performance are often good indicators of upcoming retail industry performance in the ensuing year. Reviewing data on the general U.S. economy coming out of 2018 and the 2018 holiday sales period, 2019 is set up to be a very positive year for retail.

According to a recent *Reuters Business News* article, “November’s increase in core retail sales and upward revisions to October’s data suggested a brisk pace of consumer spending in the fourth quarter. Consumer spending, which accounts for more than two-thirds of the U.S. economy, increased at a 3.6 percent annualized rate in the July-September quarter.” The article goes on to state, “spending is being boosted by a tightening labor market, which is starting to spur faster wage growth, lower taxes and moderate inflation. It remains strong, despite the sharp stock market losses.”

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As for holiday sales, by most accounts 2018 appears to have been one of the best performances for retailers in the past seven to twelve years.

A recent *CNBC* article noted that “Christmas holiday retail sales in the U.S. were expected to climb above the $1 trillion mark for the first time this year 2018... an increase of almost 6 percent from the previous year, marking the ‘strongest growth since 2011,’ data from market research firm eMarketer showed.”

These figures are consistent with what others forecasted and are finding.

A recent *Globestreet* article reported that the National Retail Federation (NRF) found that “retail sales were expected to rise between 4.3% and 4.8% this holiday season. With low unemployment, wage growth, and near record-high sentiment driving positive sales trends, retailers continue to observe more positive earnings and there is a general belief that investments and enhancements in new omni-channel strategies are beginning to payoff.”

In addition, according to *CNBC*, *Mastercard SpendingPulse* found that the holiday sales growth figures for 2018 were 5.1% above the figures for last year. According to the *CNBC* article, “that makes this the best holiday shopping season in six years…and this all comes amid the latest fluctuations in the stock market...”

Furthermore, *Bloomberg* recently reported that “several forecasts for retail sales growth for the holiday period from November to December topped 5 percent. If final tallies match those expectations, it would mark the biggest gain since 2005, when a growing economy and rising home equity fueled spending. It would also easily be the best two-year stretch since that period, after a gain of about 5 percent in last year’s holiday sales.”

Concerns

Despite the positive economic figures, various forces appear to be impacting the retail sector, raising concern, doubt and uncertainty going forward.

Many commentators and sources point to the slowing housing market, volatile stock markets and fears of a trade war with China as factors jeopardizing the delicately balanced economy. Any of these factors individually, and all of these factors combined, could easily push the economy back into recession.

According to a recent *UPI* article, “Americans are also more focused on paying down debt, with 38 percent listing that as a higher priority than buying Christmas or Hanukkah gifts, a survey by Edward Jones found. And consumers are being more careful than in years past, with 42 percent saying external factors, including trade wars and tariffs with China and rising interest rates, play a role in their shopping budget.”

Some of the problems in retail manifested this year in the form of bankruptcies (or threatened bankruptcies) by major retailers. This past year, such major, stalwart retailers as Toys R Us, Sears, Mattress Firm and Lowe’s filed bankruptcy and/or closed large numbers of their stores.

The question is, will the volatile stock markets, increasing interest rates, tariffs and trade wars, government shutdown(s) and apparent turmoil in U.S. politics be enough to cause the U.S. economic recovery and retail resurgence to derail in 2019?

Trends

So far the economy and retail sector have been resilient. Retail has absorbed more than a year of jockeying for global and international trade positions among countries, ultra-partisan politics and stock market fluctuations, and still just registered its best holiday sales period in over a decade.

This occurred in large part because of the strong fundamentals that exist in terms of low unemployment, growing wages, low interest rates, available capital and other strong economic factors. So long as these fundamentals continue to exist, retail should be safe and sound.

In addition, retail continues to evolve and make itself stronger. This is especially the case with those brick-and-mortar retailers that have been able to change with the times and service both physical, on-site shoppers and online shoppers, with omni-channel services.

According to a recent *CoStar* article, “brick-and-mortar retailers that transformed their stores to accommodate online shoppers were the biggest winners this holiday period... Almost two-thirds of the 27 percent of shoppers who bought products online and picked them up at the store in that time purchased something else while they were there, representing a retailing ‘halo effect’....”

According to a recent *Missner Group* article, “many online retailers are moving into brick-and-mortar, which shows how it’s not an either/or decision for many brands; instead, they want both... Amazon’s expansion into traditional storefronts with cutting-edge technology is an example of how the old model is being modified rather than replaced.”

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There are many positive factors indicating continued stability and growth of the retail sector into 2019. In addition, creative forces within the retail sector continue to keep retail relevant and prosperous. However, negative outside forces impacting the economy in general cannot be ignored and may threaten this (and other) sectors of the economy. Since the fundamentals seem rooted enough to sustain these threats, we believe that retail will continue to expand through 2019. However, because of the seriousness of these global threats, we make this prediction once again, with cautious optimism.