RESEARCH BRIEF
CANADA RETAIL SALES

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Household Consumption Softens; Commercial Real Estate Remains Well-Positioned

Retail sales tick downward. For the second time in three months, retail sales turned negative on a month-over-month basis, falling 0.5 per cent in September. Total retail sales, nonetheless, were still up 6.9 per cent annually, and 18.4 per cent when compared to pre-pandemic times. This monthly decline, however, likely suggests that rising borrowing costs and heightened economic uncertainties are causing households to tighten their budgets, as total sales volumes have struggled to gain momentum over the previous months. Furthermore, with consumer confidence continuing to trend downward, weakening sales could continue through the holiday season. Economic growth, as a result, may begin to slow in the fourth quarter, as consumption holds the largest share of GDP and tends to be the final metric to fall in times of economic headwinds.

E-commerce sales begin to soften. From January 2020 to January 2021, online sales increased by 120 per cent. At the height, e-commerce related shopping accounted for 11.2 per cent of total retail activity. While these numbers have trended downward since the removal of most pandemic-related restrictions, online sales in September remained 80 per cent above the same period in 2019 and still account for an elevated 6 per cent of total sales. This is likely a result of Canada's healthy labour market, as well as consumer spending habits that have been slow to revert, following a broad transition to online shopping brought on by the global health crisis. Nonetheless, with uncertainty ahead, it is likely that online shopping will continue to soften. Robust growth over the previous two years, however, makes it unlikely that online sales will drop below the 2019 level.

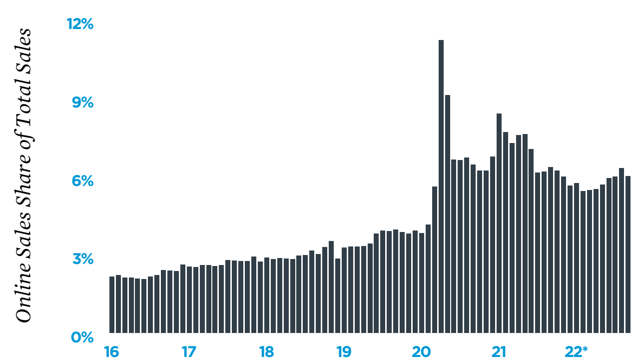
Commercial Real Estate Outlook

Industrial sector to remain healthy. Underlying fundamentals are at historic levels, with national vacancy sitting at 1.1 per cent as of September and the average asking rent growing by nearly 20 per cent year-over-year. While demand may soften as a result of the pullback in e-commerce related activity, as well as companies burning through just-in-case inventories, limited available space and the lack of development land will likely act as a backstop during a slowing economy. Meanwhile, with the expected uptick in onshoring due to supply chain risks, additional demand drivers are anticipated to emerge over the coming years. From an investment standpoint, although rent is elevated compared to historic standards, it remains low compared to other countries. As a result, the industrial sector is experiencing strong foreign investment as these players see strong income growth potential and further tightening in the coming years.

Households continue to eat out. Despite economic headwinds, consumers continued to spend at restaurants and bars. As of August, year-to-date food service sales were up 28.1 per cent, a 10 per cent increase when compared to pre-pandemic times, which is a well-needed boost for a sector that was significantly impacted during the global health crisis. Due to this, retail fundamentals have improved significantly since the lows witnessed in 2021, with vacancy decreasing 50 basis points, and the average rent increasing by 7 per cent. Economic headwinds and the upcoming winter months, however, will likely cause property performance to ease back as leasing activity softens. Nonetheless, in times of market volatility, real estate remains a steady long-term investment option.

Consumption Edges Down Amid Economic Uncertainty

Online Sales Revert to Mean Trend Line



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* Through September
Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada