

# RESEARCH BRIEF

## CANADA RETAIL SALES

OCTOBER 2023

### Consumption Continues to Stagnate, Boosting Likelihood that Interest Rate Hikes are Finished

**Retail sales holding, but signs of easing ahead.** Canada's retail sales were up 1.6 per cent annually in August, as households continued to absorb elevated borrowing costs better than expected. Despite consumers having lower real disposable incomes, Canada's retail property sector continues to show healthy performance. Limited new supply and elevated population growth amid record immigration are acting as a backstop to a slowing economy, and are expected to support retail property fundamentals over the coming year. However, signs of a potential short-term slowdown are beginning to materialize. Retail sales fell 0.1 per cent on a monthly basis, and after accounting for inflation, total sales volumes have declined for four consecutive periods. Additionally, on a per capita basis, annual inflation-adjusted retail sales have trended down for four consecutive quarters. With interest rates expected to remain elevated heading into 2024, further softening may be ahead as more households renew mortgages and have higher debt servicing liabilities.

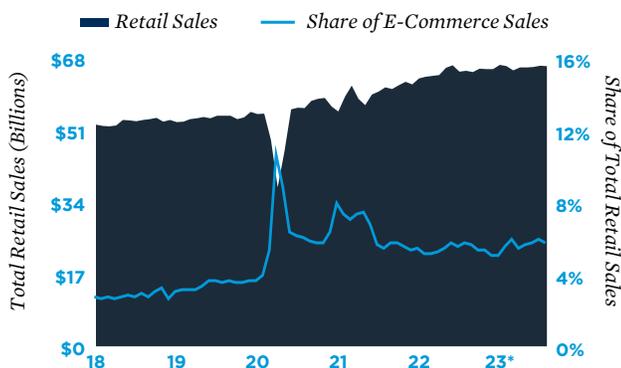
**Easing retail sales support an end to rate hiking cycle.** With retail sales unchanged compared to the beginning of the year, it is hard for the Bank of Canada to justify its view that the economy operates in a position of excess demand. Combined with inflation trending down in September, second quarter GDP contracting, and unemployment inching up in recent months, the Central Bank will likely hold its overnight rate unchanged for the remainder of the year. Furthermore, it is becoming increasingly probable that the BoC's next move will be an interest rate cut as early as the second quarter of 2024, supporting an uptick in commercial real estate transaction activity.

### Commercial Real Estate Outlook

**Industrial demand set to ease, but remain healthy.** E-commerce spending continues to hold as changing consumer preferences brought on by the health crisis persist. Online sales were up 2.3 per cent annually as of August and 92 per cent when compared to the start of 2020. As a share of total retail sales, e-commerce hit 5.8 per cent in August. While this is down from the 2020 high, it is above the pre-pandemic average, supporting ongoing industrial-related space demand. However, elevated borrowing costs are expected to cool consumer spending in the short-term, causing industrial space demand to soften when compared to the historic levels seen in recent years. Combined with rising new supply, the national vacancy rate is set to trend up in 2024 and hover around 3.0 per cent. This will cause annual rent growth to moderate to roughly 5.0 per cent, down from the double-digit growth rates seen over the past three years, but above the sector's long-term average and the rate of inflation.

**Retail space demand remains resilient.** Elevated population growth over the past year amid historic immigration has supported consumer spending and demand for retail space. This especially holds for suburban, essential-based retail. With a large share of newcomers typically residing in the suburbs, combined with hybrid work allowing people to relocate to more affordable regions, suburban, grocery-anchored retail has been a top-performing asset and has generated positive investor sentiment. This is due to the property type housing tenants like supermarkets, banks, pharmacies and doctor's offices, which offer essential products or services that typically generate more stable sales in times of economic headwinds.

### Retail Sales Holding Steady Across Sectors



### Essential Spending Witnesses Strong Gains

