

RESEARCH BRIEF

CANADA RETAIL SALES

DECEMBER 2023

Household Spending Holding Up in the Face of Higher Borrowing Costs

Canadians continue to spend. Retail sales rose 0.7 per cent monthly in October — the largest increase since January. After accounting for inflation, this translated into a 1.4 per cent gain. Sales were up 2.2 per cent on an annual basis as record population growth and a more resilient than expected consumer base aided household spending. The strength in retail sales was broad-based, with sales volumes rising in every category, aside from a 0.1 per cent decline in building material and garden equipment amid a weakening housing market. Preliminary estimates for November suggest that inflation-adjusted sales inched up once again, presenting a possible upside scenario, counter to the general consensus that GDP will edge down in the final quarter of the year. However, with borrowing costs still working their way through the broader economy and the inventories-to-sales ratio elevated, any growth in GDP will likely be weak.

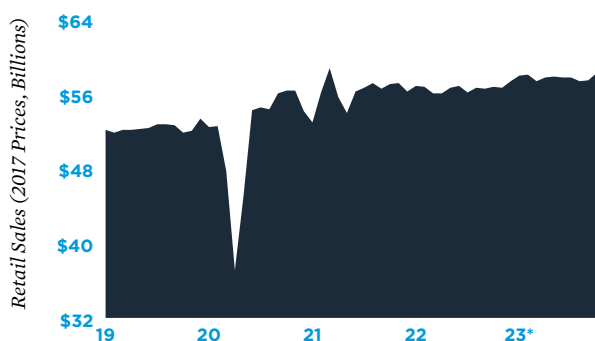
E-commerce shows strength. Changing consumer preferences continued to show in October, as online sales rose 1.8 per cent monthly, which equated to an 11.1 per cent gain on an annual basis. As a share of total retail sales, e-commerce edged up to 5.9 per cent, roughly double the pre-pandemic average. While industrial fundamentals are set to soften, given an influx of new supply and the expectation that leasing demand is set to cool amid rising interest rates and a slowing economy, underlying demand indicators continue to sit well above long-term standards. To end 2024, the nation's industrial vacancy rate is forecast to remain tight at roughly 3.0 per cent, helping annual rent growth outpace inflation. Industrial will remain a preferred investment option as a result.

Commercial Real Estate Outlook

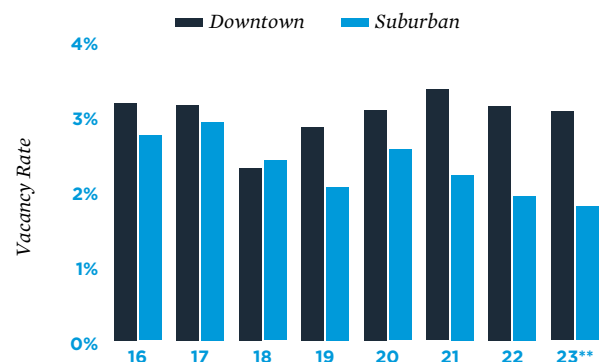
Retail to show healthy performance in 2024. Canada's population has grown at a historic rate, increasing by 3.2 per cent in 2023 amid record immigration. This influx of new residents is the primary reason why retail sales have performed better than expected over the past year. The nation's consumer base has expanded, which has propped up household spending, despite the Bank of Canada increasing its policy rate by 475 basis points over the past two years. Combined with limited supply across the country, retail property performance has remained robust. Population growth is expected to remain elevated over the coming year, whereas new supply is set to decline. The nation's vacancy rate is forecast to hold stable at just under 2.0 per cent, despite short-term headwinds over the first half of next year due to elevated borrowing costs.

Suburban retail capturing larger share of demand. With affordability challenges growing in many of Canada's major urban markets, combined with the evolving trend of hybrid work, more suburban and peripheral metros are capturing a larger share of the nation's historic population growth. As a result, suburban retail has experienced more robust property performance compared to downtown markets. This holds especially true for grocery-anchored, necessity-based retail. These assets play an important role in servicing communities seeing strong population growth and tend to house tenants like supermarkets, banks, pharmacies, pet stores and doctor's offices, which offer essential products or services that typically generate more stable sales in times of economic headwinds. Consequently, positive investor sentiment continues to hold for this property type.

Inflation-Adjusted Sales Approach Peak Level



Suburban Markets Show Tighter Retail Vacancy



* Through October; ** Through 3Q

Sources: IPA Research Services; Altus Data Solutions; Capital Economics; CoStar Group, Inc.; Statistics Canada



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