

RESEARCH BRIEF

CANADA RETAIL SALES

JANUARY 2024

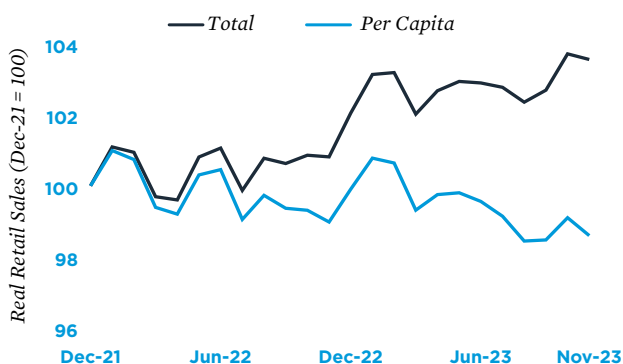
Consumer Spending Ended 2023 Strong, Aiding Demand for Retail and Industrial Space

Holiday spending robust despite soft November sales. Slightly below expectation, retail sales declined by 0.2 per cent month over month in November. Lower sales for food and beverages, as well as general merchandise, drove the decrease, which was partially offset by higher sales at motor vehicle and parts dealers. Overall, shoppers preferred brick-and-mortar stores to online shopping in November, as e-commerce sales fell 1.5 per cent month-over-month. Despite the monthly loss, total sales rose 1.8 per cent year-over-year, signaling stronger momentum compared to the start of the holiday shopping season in 2022. Although retail sales disappointed slightly in November, positive growth recorded in October and a strong advance estimate for December point to solid consumer spending in the final quarter of 2023.

Healthy aggregate spending leaves central bank in a tough spot.

Boosted by a large population increase, total retail sales likely ended 2023 on a high note. This healthy private consumption introduced upside to GDP growth in the final quarter, raising the risk that interest rates will remain higher for longer. However, on a per capita basis, real spending contracted consistently throughout 2023 as consumers felt the pinch of higher borrowing costs. Over the near term, the Bank of Canada will thus have to maintain a balance between preventing an aggregate demand-driven inflation re-acceleration and providing a backstop to deteriorating household consumption for average Canadians. On balance, with weaker economic activity still expected to materialize in the near term, the central bank will likely start delivering rate cuts by mid-2024.

Aggregate Sales Reliant on Population Gain



Commercial Real Estate Outlook

Solidifying consumer base bolsters retail sector's performance.

While consumer spending per capita paints a gloomy picture, Canada's retail sector will benefit from an expanding consumer base in 2024. New foreign workers and international students, the main contributors for Canada's substantial population increase in 2023, are typically net spenders upon arrival in Canada. This will help cushion retail demand as near-term headwinds exert downward pressure on the Canadian economy. Net absorption in the retail sector, as a result, is forecast to remain solid in 2024, helping maintain a tight sub-2-per-cent vacancy rate at the end of the year. The diverse background of the expanding consumer base also supports the ongoing retail product diversification, which is best exemplified by the Well retail podium in Toronto and the Royalmount mega mall slated to open in Montreal later this year.

Online retail supporting industrial demand. While still a small share of overall spending, e-commerce sales regained ground in 2023 as a whole, following a softening seen in late 2022. Online sales grew at an annual rate of 6.8 per cent in the first 11 months of 2023, while total retail sales were up just 2.1 per cent within the same period. In the coming months, an increasing number of consumers are expected to hunt for deals online as elevated borrowing costs eat into their purchasing power. E-commerce operators may see further growth as a result, which will continue to encourage the localization of warehousing and distribution networks. This, together with the ongoing nearshoring of the manufacturing sector in Canada, will aid industrial demand in 2024.

Online Sales Far Outpacing Total Retail Sales

