

# RESEARCH BRIEF

## CANADA RETAIL SALES

FEBRUARY 2024

### Households Continued to Spend Despite Higher Interest Rates Eating Into Purchasing Power

**Retail sales end 2023 on a high note.** Canada retail sales increased 0.9 per cent month over month in December, which was above preliminary estimates. This strong gain means that retail sales volumes rose by close to 5.0 per cent annualized in the final quarter of 2023, which was the strongest performance since the third quarter of 2021. Record population growth and the unseasonably mild weather are two factors that helped prop up household spending despite the still low level of consumer confidence and high interest rates eating into household budgets. This resilience in consumer spending supports the preliminary estimate that GDP growth returned to positive territory in the final quarter of last year, causing Canada to avoid a technical recession. The positive momentum may reverse, however, as elevated borrowing costs continue to feed through the broader economy. Advanced estimates for January suggest total sales fell 0.4 per cent.

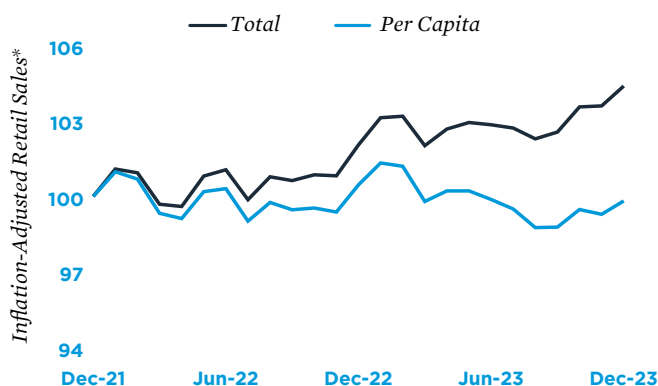
**Historic population growth aiding retail performance.** As inflation and rising interest rates swept through the Canadian economy last year, consumers have tightened their budgets. Inflation-adjusted retail sales per capita have largely been trending down over the past year. However, total retail sales have held up well. In 2023, sales increased 2.2 per cent, which in total volume terms translated to a 2.3 per cent gain. As a result, this resilience in retail spending activity can mainly be attributed to Canada's historic population growth, which grew by 3.2 per cent annually as of the start of the fourth quarter of 2023. This translated into healthy leasing activity and encouraged product diversification within Canada's retail sector.

### Commercial Real Estate Outlook

**Essential spending sees healthy gains.** Core retail sales — which exclude gasoline stations and fuel vendors as well as motor vehicle and parts dealers — rose 2.4 per cent in 2023. This was led by increased sales for essential products as higher interest rates caused many consumers to redirect spending toward necessity-based goods. Grocery store spending was up 5.5 per cent, while health and personal care retailers saw sales increase by 8.6 per cent. Consequently, essential and anchor-based retail located in more suburban regions generated positive investor sentiment as these property types continue to play an important role in servicing communities seeing strong population growth.

**E-commerce spending holding strong.** Despite a modest 3.6 per cent monthly drop in e-commerce sales in December, total online spending rose 12.1 per cent year over year. As a share of total retail sales, e-commerce activity accounted for 5.5 per cent, which is down from the peak reading of roughly 11 per cent back in 2020, but well above the nation's pre-pandemic average of 3.0 per cent. Due to this elevated e-commerce activity over the past three years, industrial has been a preferred investment option. To end 2023, the national vacancy rate sat just above 2.0 per cent, helping annual rent growth remain above long-term standards at roughly 8.0 per cent. While an influx of new supply — along with moderating demand amid high interest rates curbing both business and consumer spending — is forecast to push vacancy up over the coming year, underlying fundamentals are expected to remain healthy. This will likely continue to direct a large share of investment dollars toward industrial assets.

### Population Gains Elevating Retail Sales



### Essential Spending Outperforms

