

RESEARCH BRIEF

CANADA RETAIL SALES

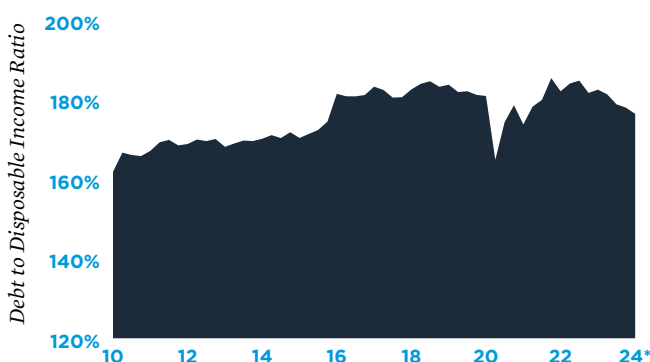
JUNE 2024

Retail Sales Inch Higher amid Strong Population Growth and Rising Household Wealth

Growing interest rate certainty aids spending. Consumer confidence has been rising since the beginning of 2024 due in part to the widespread belief that the central bank would lower its policy rate in the first half of the year. Consequently, retail sales rose 0.7 per cent month over month in April, translating into a 1.8 per cent year-over-year gain. When accounting for inflation, total sales rose 0.5 per cent monthly. However, retail sales varied across the country. In Toronto, for example, sales fell by 2.5 per cent month over month and were down 1.7 per cent year over year. Households within the metro have larger debt liabilities amid elevated housing prices and are more impacted by rising interest rates. In contrast, regions with a lower cost of living and more affordable housing, such as Alberta, saw retail sales jump 3.1 per cent monthly and 3.0 per cent annually.

Some risks could cap consumer spending. Households saw their net worth rise by 3.3 per cent during the first quarter of 2024 amid the recent stock market rally. As consumers contend with higher interest rates, Canadians also reined in their borrowing, with total liabilities growing at a milder pace. The household debt-servicing ratio fell slightly in the first quarter to 14.9 per cent. Combined with growing consumer confidence and near-record-high population growth, retail sales held up in April. Nevertheless, the debt-servicing ratio remained elevated and the debt-to-disposable-income ratio was also high, at 176.4 per cent. With a large portion of homeowners also renewing their mortgages over the next two years and population growth set to slow amid changes to Canada's immigration policies, retail sales growth could be sluggish over the medium term.

Income Gains Pushing Down Debt Liabilities

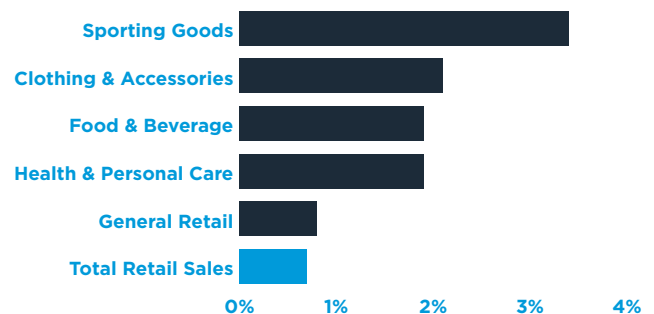


Commercial Real Estate Outlook

Food-related spending supports key retail property segments. Retail sales in April were propped up by a 1.9 per cent monthly rise in food and beverage sales, which equated to a 1.4 per cent year-over-year increase. This uptick in food-related spending lends further support to essential-based, grocery-anchored retail as a preferred investment option. This property type continues to play an important role in servicing Canada's rapidly growing population and tends to capture a larger share of spending in times of economic uncertainty. In April, sales at supermarkets and other grocery retailers increased 1.6 per cent monthly and 2.3 per cent year over year. In addition to essential spending, other food-related categories such as quick service restaurants have performed well in recent years given rapidly rising grocery costs and the ongoing demand for convenience retail. Consequently, these factors combined suggest that food-related retail is likely to hold as a preferred investment option.

Industrial space demand indicators holding at healthy levels. E-commerce sales were up 10 per cent year over year and accounted for 6.0 per cent of total retail trade in April – double the pre-pandemic average – despite seeing a 0.1 per cent monthly drop. Other industrial demand indicators such as wholesale trade and manufacturing sales also saw monthly gains of 2.4 per cent and 1.1 per cent, respectively. While on an annual basis these indicators show a flatter reading, they are both well above 2019 levels. As interest rates ease down to less restrictive levels, the historic amount of industrial supply delivered to market in recent years is likely to be absorbed quickly, maintaining the asset as a preferred investment option.

Essential Spending Outpaces Total Sales



Month-Over-Month Per Cent Change**