

# RESEARCH BRIEF

## CANADA RETAIL SALES

SEPTEMBER 2024

### Third Quarter Consumption Starts Off on Good Footing Amid Strong July Retail Sales

**Household spending surprises to the upside.** Canada retail sales edged up 0.9 per cent monthly in July, which was above the flash estimate of 0.6 per cent and marked the highest gain this year. A 2.2 per cent rise in motor vehicle and parts sales drove this uptick, yet this was to be expected after a cyberattack pushed sales down in June. Nevertheless, the strength in retail sales was broad-based. Core retail sales – which exclude motor vehicle and fuel vendors – also grew by 0.6 per cent, largely due to an uptick in grocery store sales and general merchandise retailers. With a more positive outlook for retail sales beginning to materialize amid falling borrowing costs and elevated population growth, per capita consumption could pick up over the second half of 2024 after experiencing a 2.2 per cent annualized contraction in the second quarter.

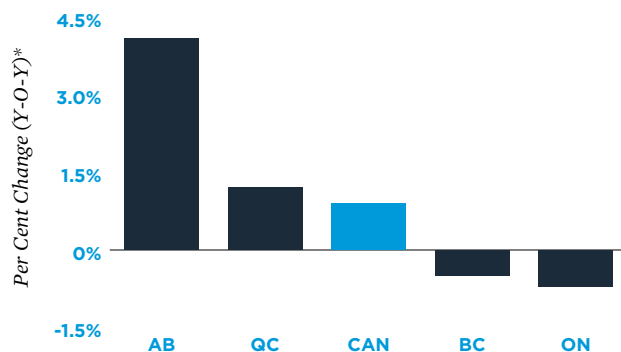
**Lower cost metros outperform.** Retail sales in Canada were up 0.9 per cent yearly in July, though more affordable regions with outsized gains led the nationwide increase. For example, Alberta retail sales jumped 4.1 per cent year over year and were up 1.9 per cent year to date. In contrast, provinces offering a higher cost of living amid elevated housing costs – like Ontario and British Columbia – saw total retail sales drop 0.7 per cent and 0.5 per cent year over year, respectively. Looking ahead, lower cost regions are not only seeing strong sales but also robust population growth. While this is likely to drive retail property performance and investor interest, vacancy rates will stay well-below equilibrium levels for all major metros.

### Commercial Real Estate Outlook

**Long-term industrial outlook remains sound.** Canada's industrial sector added a historic 42 million square feet of industrial supply in 2023, with an additional 35 million expected this year. At the same time, elevated borrowing costs have caused a pullback in both consumer and business spending, causing industrial space demand to normalize. Consequently, the nation's vacancy rate has increased by 200 basis points compared with the pandemic low, reaching 3.0 per cent as of June. With the Bank of Canada beginning its monetary easing cycle and alleviating some pressures on households – coupled with the rapid population growth in recent years – Canada's industrial outlook remains optimistic nonetheless. Canada's e-commerce sales may already signify this turn to some extent, edging up 3.4 per cent monthly and translating into a nearly 6.0 per cent year-over-year gain. As of July, online sales accounted for 6.1 per cent of total retail sales – double the pre-pandemic average of 3.0 per cent.

**Select retail capturing investor attention.** Grocery-anchored neighbourhood centres have become a preferred investment option. This retail format offers a diverse tenant roster and future intensification potential while also becoming increasingly active in suburban communities seeing strong population growth. Moreover, given the essential goods and services tenants in these retail formats tend to offer, the property type captures a larger share of consumer spending in times of economic uncertainty. This trend was reflected in July's retail sales numbers, which saw both grocery as well as health and personal care sales jump by 1.2 per cent monthly.

### Retail Sales Outperform in Lower Cost Regions



### E-Commerce Share Resumes Upward Trend

