

RESEARCH BRIEF

CANADA RETAIL SALES

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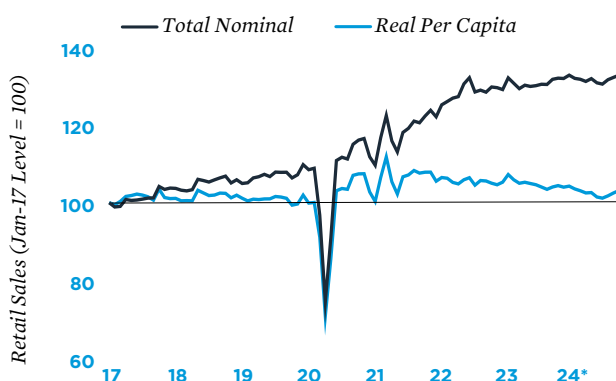
JANUARY 2025

Retail Remains Well Positioned as Consumers Defer Spending in the Wake of GST Tax Holiday

Heading for another strong quarter. While retail sales accelerated and registered a 1.6 per cent year-over-year gain, monthly spending was unchanged in November. After accounting for inflation, sales volumes fell 0.4 per cent. This pullback in spending does not reflect underlying weakness, however. Rather, it shows that consumers are delaying purchases ahead of the GST holiday, which runs from mid-December to mid-February. For example, food and beverage sales – which are included in the tax exemption – led November's weakness, likely reflecting households pushing back Christmas food and drink purchases. November's drop also seems to have more than reversed in December. Preliminary estimates suggest that sales volumes jumped by more than 1.0 per cent, translating into a 5.0 per cent surge for the fourth quarter. While on the surface November's sales figures looked worrying, it appears lower interest rates are beginning to fuel a recovery in household consumption.

Bank of Canada to untangle swath of mixed signals. With preliminary estimates for December a lot more positive, weaker showings in October and November should not signal a worrying downturn in consumption. These softer readings could have been driven by tariff and political uncertainties undermining consumer confidence. On the contrary, Canada's economy could be heating up, supported by improving indicators in the recently released Business Outlook Survey, as well as some underlying inflationary pressures that are starting to grow. Nevertheless, it is still believed the Bank of Canada will cut its policy rate by another 25 basis points at January's meeting amid looming tariffs and their negative impact on economic growth.

Per Capita Spending Could Gain Momentum

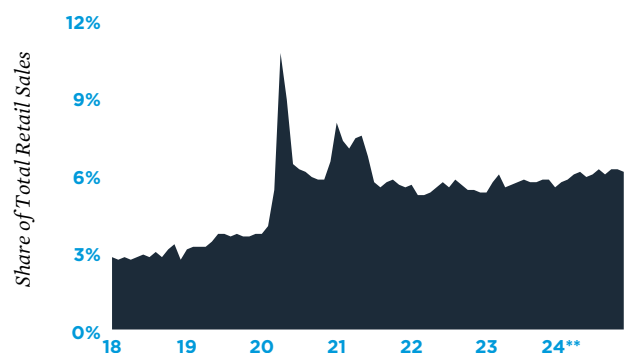


Commercial Real Estate Outlook

Retail property sector a preferred investment option. Preliminary retail sales estimates are consistent with fourth quarter consumption growth remaining solid at around 3.0 per cent and real GDP growth of 2.5 per cent annualized. This strong showing in consumer spending and economic growth has been partially fuelled by record population gains over the past three years, but it also reflects lower interest rates feeding through into consumer confidence and overall spending. Meanwhile, retail construction starts and deliveries have trended down since 2019, influenced by the global health crisis, the perceived risk of e-commerce and elevated building costs. These factors have created a favourable demand and supply dynamic, resulting in Canada's retail property sector becoming a preferred investment option. The sector at large has seen vacancy fall from a recent high of 2.6 per cent in 2020 to an all-time low of 1.5 per cent to end 2024, pushing average asking rents up nearly 20 per cent.

Investors to monitor industrial sector. Compared with the start of 2020, online sales were up 105 per cent as of November. With lower interest rates now feeding through, sales could edge higher and support industrial leasing activity in 2025. Together with a declining under-construction pipeline, sector fundamentals could stabilize by the end of the year. Nevertheless, some risks remain for investors. Similar to total retail sales, e-commerce also showed some weakness in November. Online sales dropped 1.2 per cent monthly and their share of total sales fell 10 basis points to 6.1 per cent. At the same time, Canada's industrial sector is the most exposed to potential tariffs, which could hinder performance if fully implemented.

Online Sales Well Above Pre-Pandemic Level



* Through 3Q; ** Through November

Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada



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