RESEARCH BRIEF
CANADA RETAIL SALES

FEBRUARY 2025

Increased Sales Reflect Tax Holiday, While Select Retail Formats Capture Investor Interest

December retail sales surprise to the upside. The 2.5 per cent month-over-month jump in retail sales – which was almost a full percentage point stronger than the flash estimate and followed an unchanged reading in November – was partly due to lower interest rates, as well as consumers delaying purchases amid the start of the GST tax holiday. As a result, food, clothing, toys and books saw some of the largest sales gains. Inflation-adjusted sales also rose 2.5 per cent, as prices were unchanged. This upside surprise to retail sales volumes suggests that GDP rose by 0.3 per cent month over month in December, enough to lift fourth quarter annualized growth to an estimated 1.9 per cent. While lower borrowing costs will act as a tailwind for spending, potentially supporting a further pick up in GDP growth to begin 2025, uncertainties stemming for a looming trade war are starting to shake business and consumer confidence.

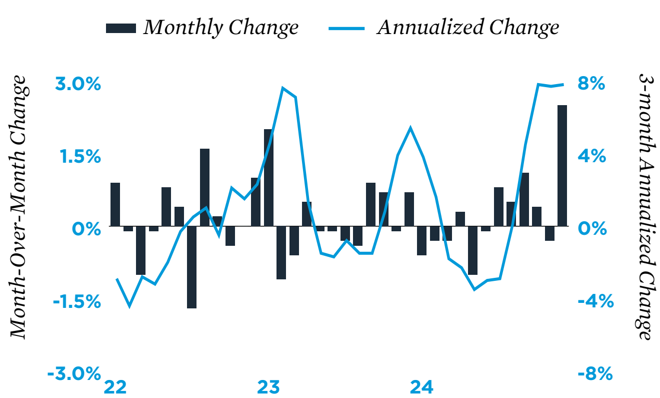
Momentum could be losing steam. As potential U.S. tariffs hang over Canada's economy and threaten labour market conditions, consumer confidence fell heading into 2025. Consequently, momentum in retail sales volumes appears to have peaked in December. The three-month annualized change in inflation-adjusted sales has stabilized around 7.8 per cent, while flash estimates for January suggest a monthly drop in total sales volumes. This softening in consumption activity gives the Bank of Canada room to cut interest rates further despite some underlying inflation pressures beginning to mount. Although these pressure may force the monetary authority to pause in March, it is still widely believed that future rate cuts are likely, with the overnight rate ending 2025 around 2.5 per cent.

Commercial Real Estate Outlook

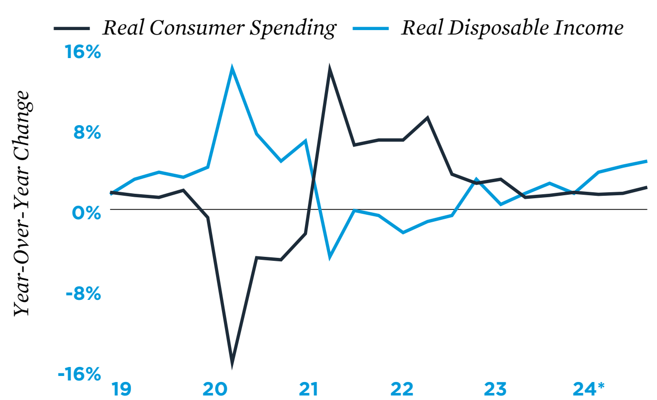
Growing incomes aid outlook. Canada's retail property sector has shown resilience in the face of elevated borrowing costs over the past four years. Not only has limited property supply helped preserve underlying fundamentals, but historic population gains have also propped up overall consumer spending. Additionally, household real disposable income growth returned to positive territory, nearing 5.0 per cent year over year in the third quarter of 2024 amid cooling inflation, lower interest rates and healthy wage gains. These factors combined have led to robust retail leasing. Compared with the pandemic high seen in 2020, as of the end of 2024, the nation's vacancy rate dropped 100 basis points to 1.5 per cent, pushing asking rents up nearly 20 per cent. Yet because consumers have contended with elevated costs in recent years, many have redirected their spending towards non-discretionary products, making essential-based, grocery-anchored retail a preferred investment option.

Select retail formats offer long-term flexibility. Essential-based strip centres, along with some malls, are becoming increasingly attractive. The property type captures a larger share of consumer spending and offers potential upside on rents as well as future redevelopment strategies. Given healthy demand and supply dynamics, buyers currently see attractive cash flows and the possibility to increase rents. Developers also see opportunity down the road for intensification, as these centers are often on larger pieces of land. With widespread housing affordability challenges nationwide and limited retail supply, essential-based strip centres are likely to remain attractive to investors in the years ahead.

Retail Sales Volume Trends



Higher Incomes Aid Consumer Spending



* Through 3Q

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