RESEARCH BRIEF
CANADA RETAIL SALES

IPA INSTITUTIONAL PROPERTY ADVISORS
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Resilient Consumer Spending Creating Opportunities for Retail Investors

Spending holds amid uncertainties. Retail sales have been resilient, despite lingering trade risks. While down in the first two months of the year amid annexation threats and direct tariff attacks curbing consumer confidence, retail sales edged up 0.3 per cent monthly in April, translating into a 5.0 per cent year-over-year increase. This marked the second consecutive monthly jump in sales, with the measure now up 1.0 per cent year to date. Sales were also broad-based; core receipts – which exclude gasoline and fuel vendors, as well as motor vehicle and parts dealers – saw a 0.1 per cent monthly gain. Meanwhile, spending was up in six of nine sub-sectors. It is important to note, however, that tariff risks are impacting the sector. Roughly 36 per cent of retail businesses reported they were directly impacted by trade tensions, with the most common effects being price increases, a change in product demand and supply chain disruptions.

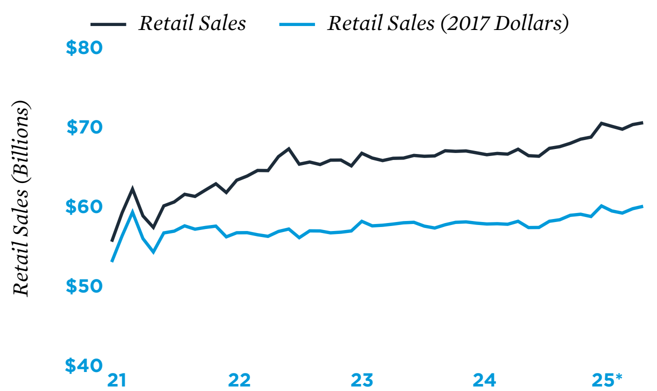
Trade risks to slow economy. Even though retail sales held through April, flash estimates for May suggest a 1.1 per cent monthly fall. Part of this may reflect sales normalizing following the end of tariff front-loading, as consumer confidence has recently rebounded. Still, the estimate supports the view that Canada's economic growth is likely to slow over the remainder of the year. This makes the Bank of Canada's job hard as it balances slower economic growth and businesses reporting higher prices for consumers. Yet with trade tensions easing, it is believed that policymakers will prioritize the downside risks to the economy, leaving the door open for further rate cuts. Terminal rate forecasts now range from 2.0 per cent to 2.5 per cent.

Commercial Real Estate Outlook

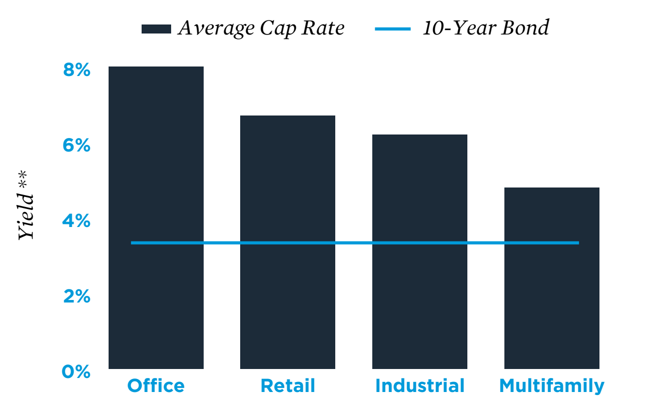
E-commerce shows strong monthly reading. Canada's industrial sector was displaying some momentum coming into 2025. Online sales rose in five of the final six months of 2024, helping net absorption return to positive territory for the first time since late 2023. This also stabilized the nation's vacancy rate at 3.5 per cent after nearly three consecutive years of increase. Due to the sector's exposure to trade, however, tariff uncertainties caused absorption to turn negative in the second quarter, pushing vacancy back up to 3.8 per cent. Nevertheless, Canada came out of April's "Liberation Day" relatively unscathed. Since then, and helped by a growing likelihood that an agreement between Canada and the United States is near, consumer confidence has rebounded slightly. The 3.6 per cent monthly increase in e-commerce sales in April may reflect this, as it is the largest jump in nearly a year. While risks do remain for the sector at large, growing trade clarity could keep vacancy from rising past about 4.0 per cent.

Retail yields attractive in current environment. Canada's population has increased by 11 per cent since the start of 2019, helping to drive a 33 per cent rise in retail sales. This has in turn fuelled retail space demand, as a total of 33.5 million square feet were absorbed on net in that time. Combined with the pandemic and construction feasibility challenges, retail property supply has only increased by 3.0 per cent. As a result, Canada's retail vacancy rate is now at an all-time low of 1.5 per cent. At the same time, the average retail cap rate sits just below 7.0 per cent. Given elevated borrowing costs, the property type is attractive to investors on the hunt for yield.

Retail Spending Holding Strong



Retail Fundamentals Attractive to Investors



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** Through April; ** Cap rates as of 1Q, 10-year bond as of June 20*
Sources: IPA Research Services; Altus Data Solutions; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada