

RESEARCH BRIEF

CANADA RETAIL SALES

AUGUST 2025

Select Property Sectors Outperform Amid Ups and Downs in Retail Sales

June sees broad-based increase in consumer spending. After a 1.2 per cent monthly drop in May due to the end of tariff front-loading, retail sales rebounded by 1.5 per cent in June. With prices flat in the month, June's gain was entirely driven by an increase in volumes. Consumer spending was also broad-based. Not only were sales up in all nine retail categories, but core sales – which exclude auto and gasoline – grew by 1.9 per cent. Nevertheless, growth overall this year has slowed, and the outlook is murky. After seeing a 6.0 per cent increase in retail sales over the second half of last year, spending has since slowed to just 1.3 per cent over the first six months of 2025. Preliminary estimates for July also indicate a 0.8 per cent monthly decline. While household consumption has held resilient so far this year, uncertainty due to trade tensions, combined with tighter immigration, appears to be curbing some momentum within the retail sector.

Bank of Canada weighs retail spending. Despite widespread uncertainty causing a sharp fall in consumer confidence, retail sales have stayed resilient. Consumption for the second quarter is forecast to sit around 2.0 per cent annualized, while year-over-year retail sales have inched higher on a three-month moving average basis. That said, trade uncertainties have recently caused Canada's labour market to show signs of softening, and manufacturing activity is still weak. Meanwhile, inflation appears to be well contained, and tariff pressures remain limited. A rate cut in September is therefore possible, but regardless, markets and economists are calling for further cuts. Terminal rates range from 2.25 per cent to 2.50 per cent.

Spending Holds Despite Fall in Confidence

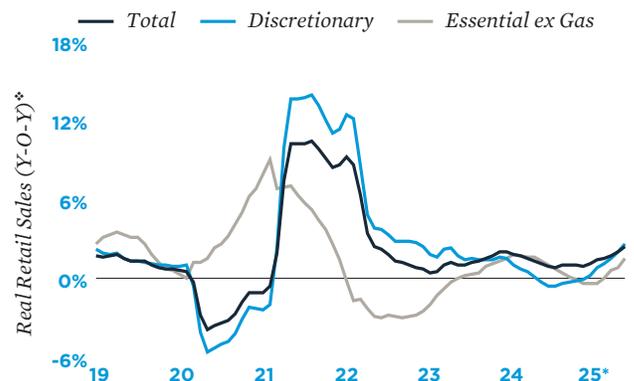


Commercial Real Estate Outlook

Essential-based retail generating positive sentiment. According to recent investment surveys, grocery-anchored, neighbourhood retail is the most sought-after property type. Not only does the asset offer long-term value creation through redevelopment and/or intensification, but current demand dynamics also offer strong in-place income opportunities as well. These properties tend to be in well-located suburban communities, which have recently benefitted from historic population growth. At the same time, while consumption has been gaining momentum across a wide range of retail categories, essential-based spending is well positioned. In recent years, elevated interest rates kept consumers more focused on necessity-based products. Looking ahead, trade uncertainties and the corresponding impacts on labour markets are likely to continue redirecting spending towards this category. This trend was highlighted in June, with grocery purchases seeing a monthly gain of 2.0 per cent.

Urban retail performance could improve. Amid hybrid work arrangements dampening foot traffic in urban cores, along with robust population growth, suburban retail has outperformed. While this lends support to the grocery-anchored narrative, strip centers and quick-service restaurants has also benefitted. Looking ahead, however, improving office markets due to back-to-work mandates is beginning to paint a more optimistic outlook for Canada's urban retail sector. Canada's big four banks, as well as select levels of government, are implementing four to five days back in office starting September. This will increase foot traffic and likely fuel consumer spending.

Essential Spending Gaining Momentum



* Through June; ** Three-month moving average; * Trailing 12-month total
Sources: IPA Research Services; Altus Data Solutions; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada

