Research Brief

CANADA RETAIL SALES

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IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

Signs of Stabilization Emerging Across Consumer Spending and CRE

Households remain cautious. Retail sales increased 0.5 per cent month-over-month, driven largely by a 5.1 per cent gain at gasoline stations and fuel vendors. Higher prices stemming from the conflict in the Middle East were the main driver of the increase in receipts. Sales also rose at motor vehicle dealers, building material and garden equipment stores, and furniture and appliance retailers, with the latter two potentially reflecting improved housing market activity. These gains were partially offset by weaker spending on food and beverages, general merchandise, and sporting goods. After adjusting for inflation, retail sales volumes were unchanged, indicating that underlying consumer demand remained relatively soft despite the headline increase amid lingering uncertainties.

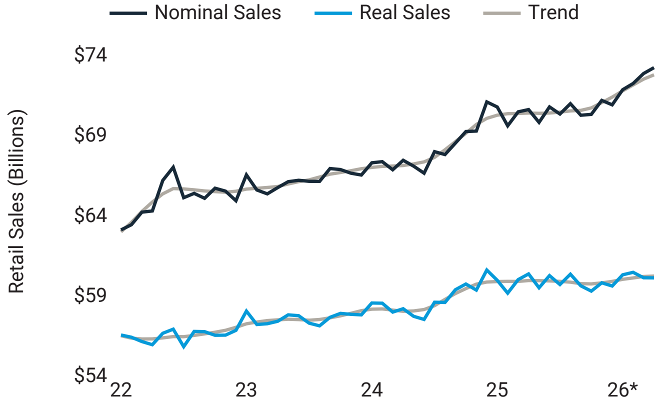
Consumer spending may be stabilizing. Preliminary estimates point to a 1 per cent jump in retail sales in May, suggesting that inflation-adjusted numbers likely rose as well. Gasoline prices retreated, and consumer confidence improved from earlier-year lows as geopolitical and trade tensions eased. While softer household spending growth may cap overall economic gains in the second quarter, improving purchasing power and firmer confidence should support a modest acceleration in consumption during the second half of 2026. For the Bank of Canada, the data reinforce expectations that the overnight rate will remain on hold, as consumer spending appears to be recovering gradually but not at a pace that would materially increase inflationary pressures. Meanwhile, the recent decline in energy prices has also reduced upward pressure on inflation, causing markets to push out the likelihood of a near-term rate hike.

Commercial Real Estate Outlook

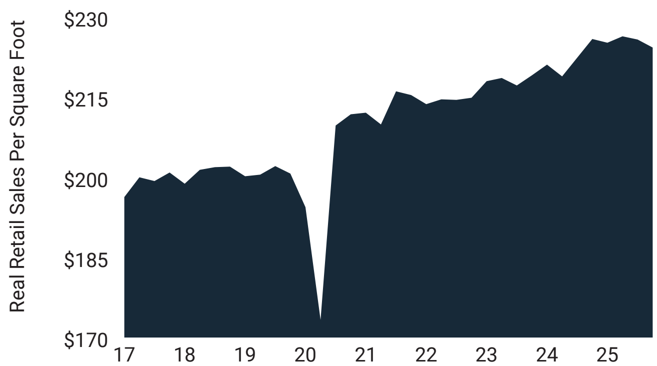
Retail fundamentals remain sound. Many retailers have shifted focus from aggressive expansion toward maximizing sales within existing locations, resulting in higher sales productivity and stronger profitability. Under normal circumstances, this trend could reduce space demand and put upward pressure on vacancy rates. However, a prolonged period of limited retail construction, driven by elevated development and financing costs, has constrained new supply across most major markets. As a result, available space remains scarce, supporting rent growth despite a more moderate pace of improvement in consumer spending and economic activity.

E-commerce a tailwind for industrial real estate. Although online sales fell 1.2 per cent monthly in April, they remained 0.8 per cent higher than a year earlier. E-commerce also represented 7 per cent of total retail sales, well above the pre-pandemic average of 3 per cent, highlighting the structural shift toward online shopping. At the same time, shifting supply chain strategies amid fluid trade dynamics are supporting renewed demand for industrial space. Preliminary second-quarter data indicate net absorption is on track to exceed first-quarter levels, extending a recovery that has been underway since late 2024. Together with moderating supply-side pressures, fundamentals are stabilizing, with Canada's industrial vacancy rate declining to 3.6 per cent in the second quarter, down 10 basis points from its peak at the end of 2025.

HIGHER GAS PRICES PUSH NOMINAL SALES UP



RETAILERS BECOMING MORE PRODUCTIVE



* Through April | Sources: Altus Data Solutions; Capital Economics; CoStar Group, Inc.; Oxford Economics; Statistics Canada