RESEARCH BRIEF

Marcus & Millichap

CANADA RETAIL SALES

NOVEMBER 2024

Falling Interest Rates Feeding Through to Healthier Consumer Demand

Consumption outlook beginning to improve. Retail sales in Canada jumped 0.4 per cent monthly in September, which – after accounting for inflation – translated into a 0.8 per cent gain. For the third quarter as a whole, inflation-adjusted sales grew by around 5.0 per cent annualized. September's sales were broad-based, as core retail sales edged up 1.4 per cent, while advanced estimates suggest overall retail spending increased another 0.7 per cent in October. Canadian retail sales have now increased for four consecutive months – the longest growth streak since early 2022 – signaling that past interest rate cuts are starting to boost consumer spending. This comes after restrictive borrowing costs largely curbed consumption over the first half of the year. With interest rates expected to continue trending down over the course of 2025, consumer spending is poised to keep gaining momentum.

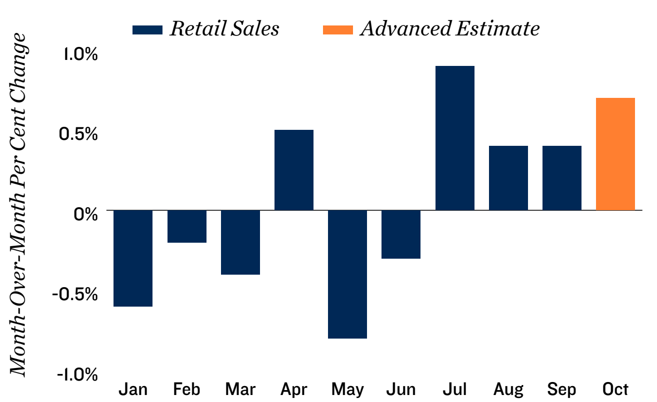
Bank of Canada likely to transition back to smaller rate cuts. After an outsized interest rate reduction of 50 basis points at the central bank's October meeting, chances are the monetary authority will transition back to a smaller 25-basis-point cut in December. Not only did inflation re-accelerate slightly in October, but it appears household consumption is also picking up, which could further fuel price pressures. Additionally, the federal government recently announced a two-month GST/HST sales tax exemption across the country, along with $250 stimulus cheques to a large share of Canadians amid higher costs and ongoing affordability challenges. With this in mind, the Bank of Canada may want to take a more cautious approach going forwards in order to keep inflation at bay.

Commercial Real Estate Outlook

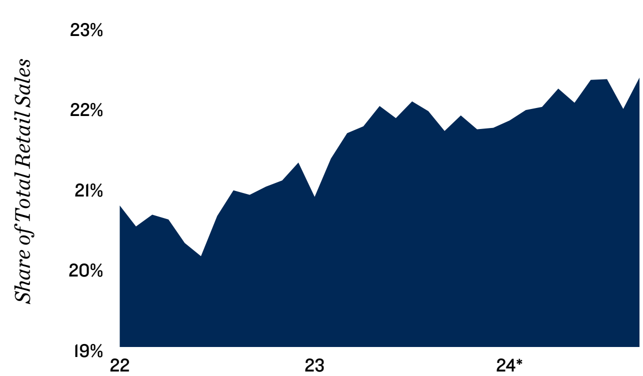
Retail property outlook is favourable. Despite elevated interest rates eating into households' real disposable incomes, Canada's retail property sector has shown strong performance in recent years. Limited property supply growth and historic population gains in 2024 helped push the national retail vacancy rate to an all-time low of 1.5 per cent. Looking ahead, while population growth is set to slow notably amid changes to Canada's immigration policies, past gains are likely to support foot traffic and consumer spending. A disciplined construction pipeline and falling interest rates will also benefit sector fundamentals. Nevertheless, some risks could materialize due to the recent U.S. election. Planned fiscal stimulus from tax cuts and increased government spending, along with potential tariffs, could put upwards pressure on prices in both Canada and the United States. Interest rates could stay elevated over the long term as a result, providing some risk to Canada's consumption outlook.

Essential spending drives sales. The uptick in core retail sales in September was largely driven by a 3.3 per cent gain at grocery retailers. In contrast, more discretionary categories, such as clothing and accessories, fell by 0.8 per cent. This has been an ongoing trend over the past year. With elevated costs causing consumers to redirect spending to more essential items, grocery-anchored, necessity-based retail has gained traction as a preferred investment type. Over the past year ended in September, the total number of retail trades was up 10 per cent, accounting for a 25 per cent share of total sales among major commercial property types.

Retail Sales Gaining Momentum



Essential Spending Grows Amid Higher Costs



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* Through September

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