



Commercial Leading Indicator

Commercial Leading Indicator Bounces Back in Second Quarter

The BCREA Commercial Leading Indicator (CLI) recovered in the second quarter following a rare first quarter decline. The index rose 1.9 points to an index level of 135.4. That increase represents a 1.4 per cent rise from the first quarter of 2018. The index is 2.7 per cent higher than this time one year ago.

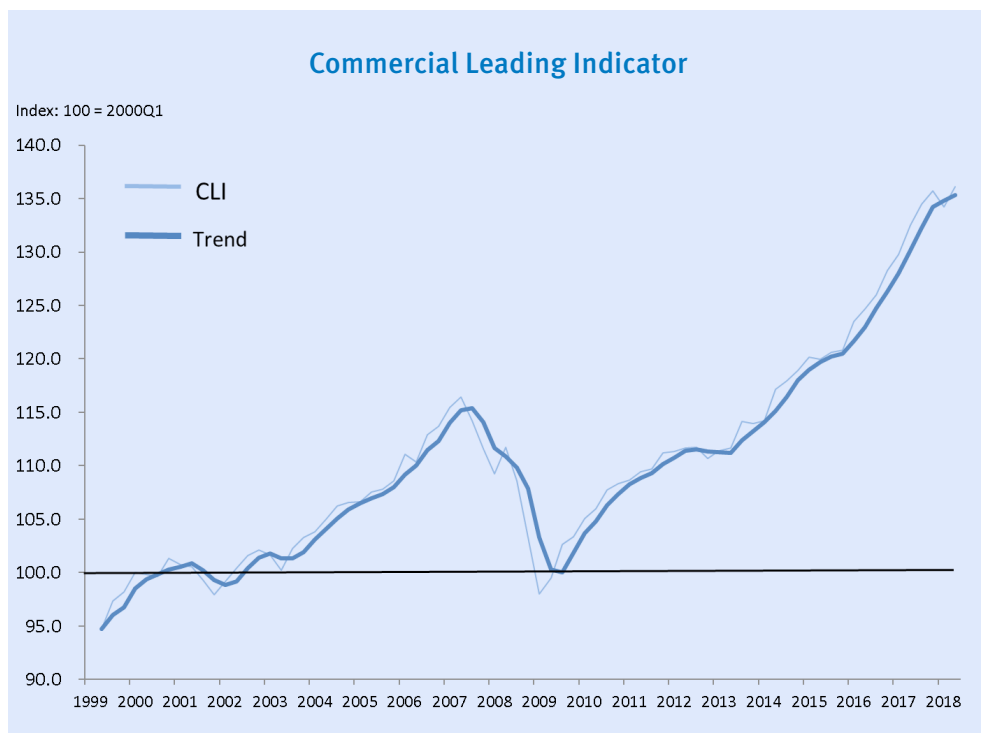
The second quarter saw continued strength in economic activity, particularly in the manufacturing and industrial sector. An increase in manufacturing employment and some easing of the financial environment were also strong contributors to the CLI's overall rise in the second quarter. The trend in the CLI has flattened somewhat over the past six months, which signals continued positive, if somewhat slower, growth in commercial real estate activity.

Each component of the CLI made a positive contribution in the second quarter, a reversal from the first quarter in which each component of the CLI had turned negative. The largest contribution to the

economic activity component came from a nearly 6 per cent quarterly increase in manufacturing sales and a 2 per cent rise in wholesales trade. A nearly 10 per cent rise in those variables on a year-over-year basis is a strong signal of continued demand for industrial space.

Employment in key commercial real estate sectors was mixed in the second quarter. Job growth in the CLI measure of office employment declined for a third consecutive quarter. Average employment in office jobs fell by 1,800 jobs from the first to the second quarter and has now fallen back to levels from one year ago. Manufacturing employment, on the other hand, rose by nearly 3,000 jobs in the second quarter to its highest level since the third quarter of 2017.

The CLI's financial component turned positive due to slightly narrowing credit spreads as well as rising Canadian REIT prices.



About the CLI

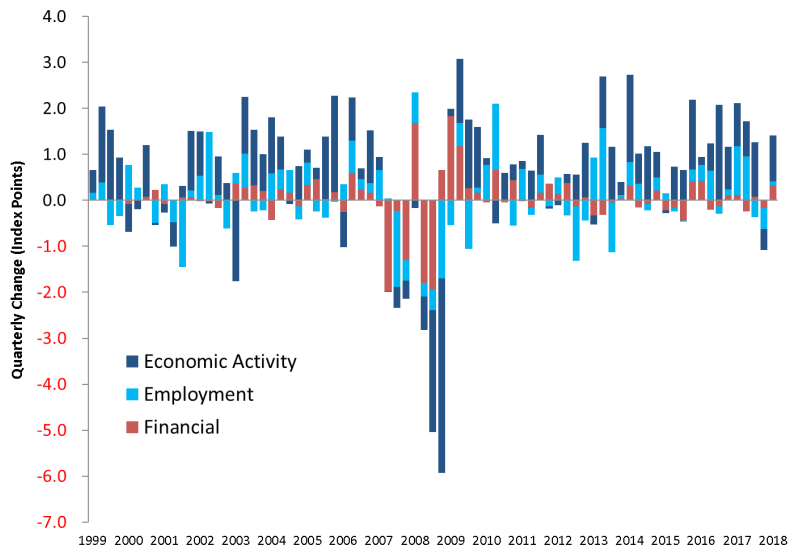
The BCREA Commercial Leading Indicator forecasts changes in broad commercial real estate activity. Our research shows that the variables that compose the CLI reliably forecast BC commercial real estate activity at a lag of two to four quarters. The index is revised each quarter, due to revisions in the underlying data.

Quarterly Trends by CLI Components

Q2 Highlights:

- Economic Activity:** Retail sales increased by 1.2 per cent on a quarterly basis in the second quarter and were 3.8 per cent higher year-over-year. That is a significant deceleration from 2017 in which retail sales rose more than 9 per cent. Wholesale trade grew more than 2 per cent on a quarterly basis and was nearly 8 per cent higher year-over-year. Sales in the manufacturing sector increased nearly 6 per cent on a quarterly basis and were up more than 10 per cent year-over-year.
- Employment:** The benchmark index for Canadian REITs rose 3.3 per cent from the end of the first quarter to the end of the second quarter. Despite a generally higher cost of borrowing, short-term credit spreads narrowed slightly in the second quarter.
- Financial:** The CLI employment component declined as the total number of people employed in the finance, real estate and insurance sector fell for a third consecutive quarter. That decline has largely offset gains in the professional services, legal and other industries to produce a lower level of office employment. Conversely, rising manufacturing sales has been a positive for manufacturing employment, which was up close to 3,000 jobs in the second quarter.

Contribution of Individual CLI Components



Variation in the Commercial Leading Indicator can be broken out into three distinct components:

- » The economic activity component of the CLI follows the overall trend in BC's economy and reflects changes in economic variables shown to lead commercial real estate activity.
- » The employment component reflects changes in the commercial real estate environment, due to changes in the overall business cycle.
- » The financial component acts as an early-warning indicator from financial markets that could signal turning points in the commercial real estate market.



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