



June 2019

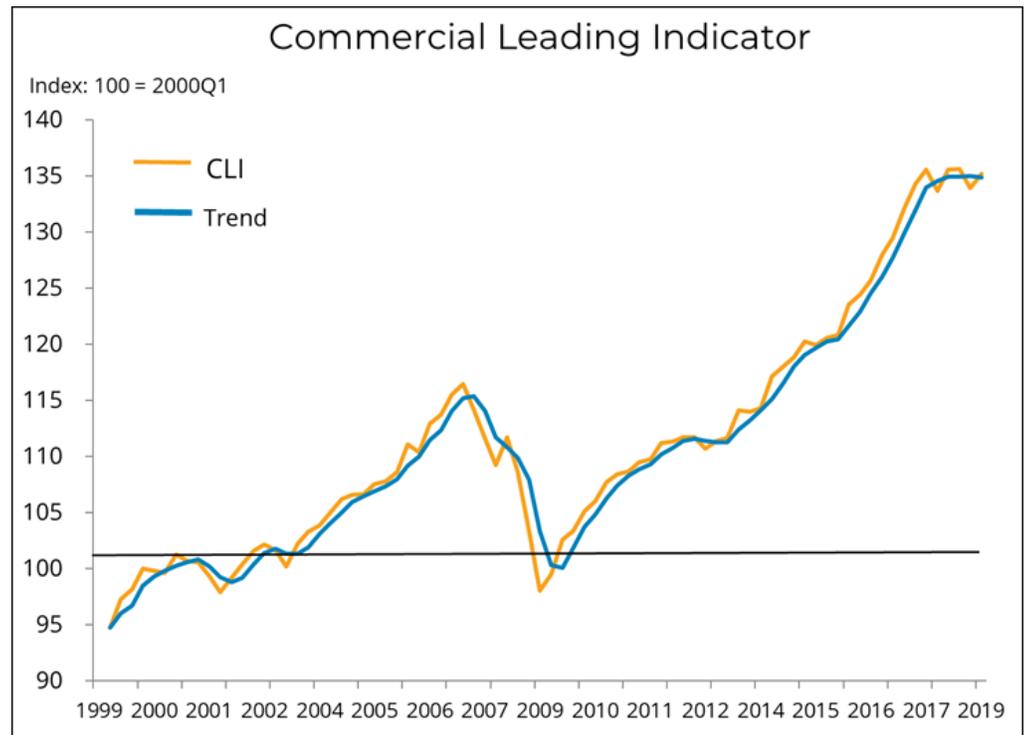
CLI POINTS TO STABILIZING COMMERCIAL ACTIVITY IN 2019 Q1

The BCREA Commercial Leading Indicator (CLI) rose by 1.3 points to 135.2 in the first quarter of 2019. Compared to this time one year ago, the index is 1.1 per cent higher.

Slowing provincial economic activity continued in the first quarter of 2019, with losses in wholesale trade more than offsetting gains in retail trade and manufacturing. Similarly, employment losses in manufacturing outweighed gains in office employment. The financial component of the CLI turned positive in the first quarter of 2019 due to increasing

credit spreads and rising Canadian REIT prices, while the economic activity and employment components of the CLI were negative. The underlying trend in the CLI has been relatively flat over the past three quarters, signalling a stabilizing growth environment for commercial real estate activity.

Following several years of robust growth, the BC economy continues to slow in the early part



of 2019. The economic activity component of the CLI posted a third consecutive quarterly decline, led by the personal and household goods, and building material and supply components of wholesale trade.

Employment in key commercial real estate sectors was mixed. Office employment in finance, insurance, real estate and leasing was up by 5,900 jobs in the first quarter of 2019. This measure of office employment now sits at an all-time high, which signals strong future demand for office space. Manufacturing employment, however, declined by 5,700 jobs and is now at its lowest level since the first quarter of 2017.

The CLI's financial component was higher as short-term risks spreads fell and the benchmark for Canadian REIT prices rose along with the wider equity markets. This likely reflects a recovery from the market sell-off at the end of 2018 and a fall in bond yields making REITs more attractive. Risk spreads appear to be returning to more normal levels.

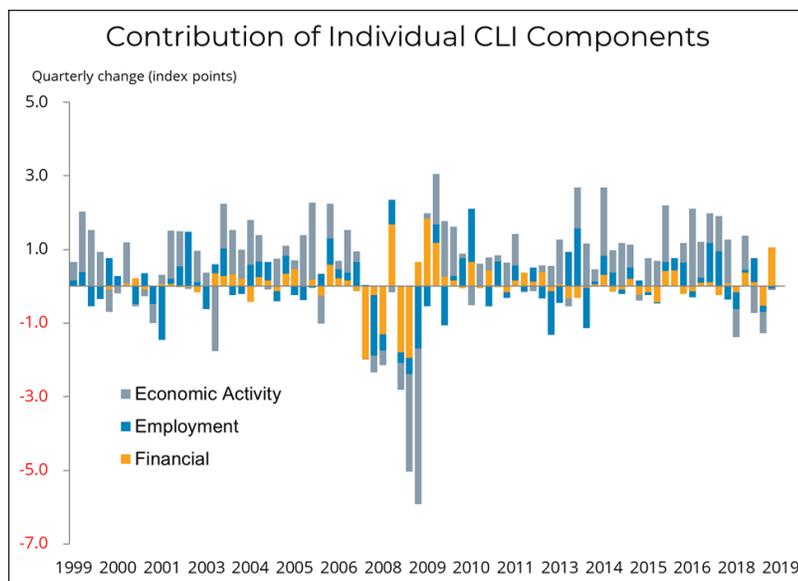
About the CLI

The BCREA Commercial Leading Indicator was designed to forecast 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 to the underlying data.

Quarterly Trends by CLI Components

Q1 Highlights:

- Economic Activity:** Retail sales increased 0.5 per cent after adjusting for inflation in the first quarter. Wholesale trade fell for a third consecutive quarter, declining 1.9 per cent in real terms. Sales in the manufacturing sector rose by 0.9 per cent after two straight quarters of decline.
- Employment:** The CLI employment component was negative for the second consecutive quarter, as continued declines in manufacturing employment outweighed rising job growth in the office sector.
- Financial:** The benchmark index for Canadian REITs increased 14.3 per cent in the first quarter, likely a result of falling bond yields making REITs more attractive. Risk spreads appear to be returning to more normal levels.



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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Send questions and comments about *Commercial Leading Indicator* to:

Cameron Muir, Chief Economist,
cmuir@bcrea.bc.ca; 604.742.2780

Brendon Ogmundson, Deputy Chief Economist,
bogmundson@bcrea.bc.ca; 604.742.2796

Kellie Fong, Economist,
kfong@bcrea.bc.ca; 778.357.0812