

## Commercial Leading Indicator Signals Modest Growth

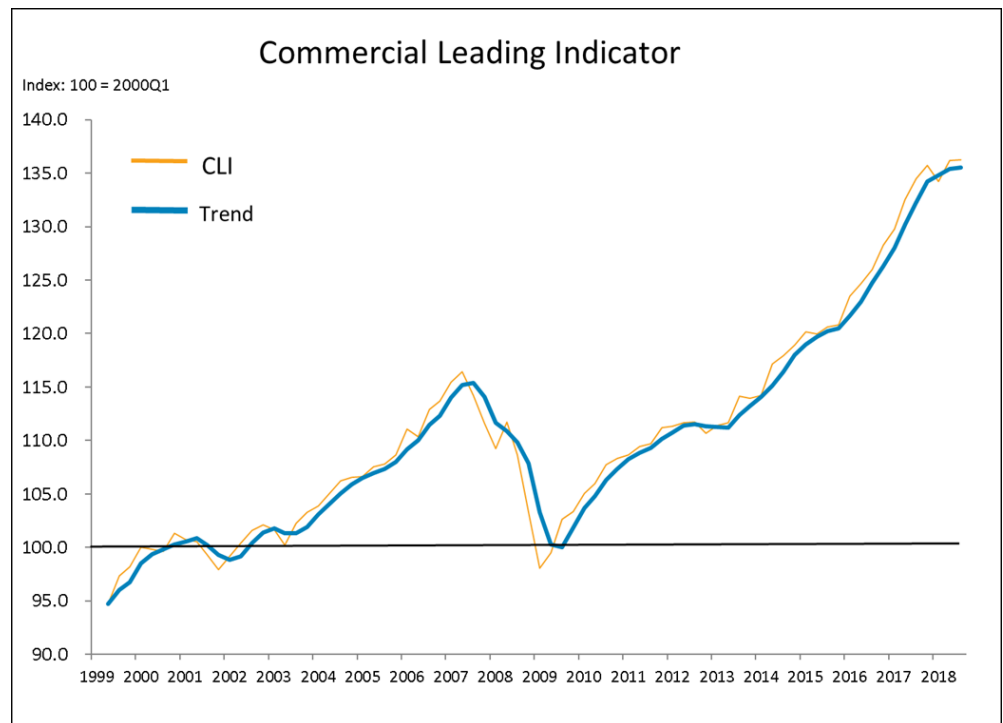
The BCREA Commercial Leading Indicator (CLI) was essentially unchanged from the second to the third quarter of 2018. Compared to this time one year ago, the index is 1.3 per cent higher.

The third quarter saw a dip in economy activity, driven by weak retail sales and a quarterly decline in manufacturing shipments. Those declines were offset by gains in office employment and a slightly more favourable financial environment, to produce an overall flat quarter for the CLI. The underlying trend in the CLI has also flattened out over the past six months, signaling a continued positive, if somewhat slower, growth environment for commercial real estate activity.

The economic activity component of the CLI has declined in two out of three quarters this year, reflecting a BC economy slowing from nearly 4 per cent growth in 2017 to just 3 per cent this year.

### 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.



Much of the decline in economic activity is due to a steep drop off in retail sales growth. Manufacturing sales also faltered in the third quarter after posting steady growth in the previous three months.

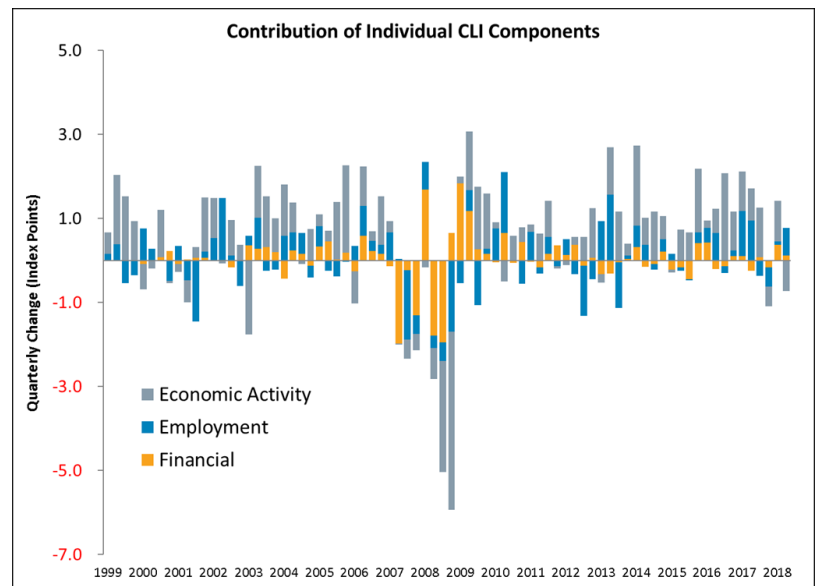
Employment in key commercial real estate sectors was relatively strong in the third quarter. Average employment in the office sector jumped by 14,000 jobs from the second to the third quarter with strong gains across a number of sectors, including finance and professional services. The CLI measure of office employment now sits at an all-time high, which signals strong future demand for office space. Manufacturing employment, however, declined by 2,600 jobs after posting strong growth the previous quarter.

The CLI's financial component made a positive contribution to the overall CLI for a second straight quarter as short-term risk spreads compressed, offsetting a slight decline in REIT prices.

## Quarterly Trends by CLI Components

### Q3 Highlights:

- Economic Activity:** Retail sales declined 2.3 per cent on a quarterly basis, after adjusting for inflation, and were 1.8 per cent lower year-over-year. Retail sales continue to slow sharply from 2017, during which retail sales grew more than 9 per cent. Wholesale trade was also down in the third quarter, falling 0.1 per cent. That was the first quarterly decline in wholesale trade in 5 quarters. Sales in the manufacturing sector were essentially flat in the third quarter, albeit down 0.2 per cent. On a year-over-year basis, manufacturing sales were up 8.6 per cent.
- Employment:** The benchmark index for Canadian REITs declined 1 per cent from the second quarter to the third quarter. Despite a generally higher cost of borrowing, short-term credit spreads narrowed slightly, suggesting a lower risk financial environment.
- Financial:** The CLI employment component increased as office employment jumped by 14,000 jobs. The finance, insurance and real estate sector added an average of 3,700 jobs while the professional, legal and technical services sector added 10,300 jobs in the third quarter. Conversely, manufacturing employment fell by an average of 2,600 jobs in the third quarter.



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.



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

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