



December 2022

### CLI FALLS IN THIRD QUARTER 2022

The BCREA Commercial Leading Indicator (CLI) fell to 149 from 153 in the third quarter of 2022 while the six-month moving average retreated from a record high. Compared to the same time in 2021, the index was down by 0.8 per cent.

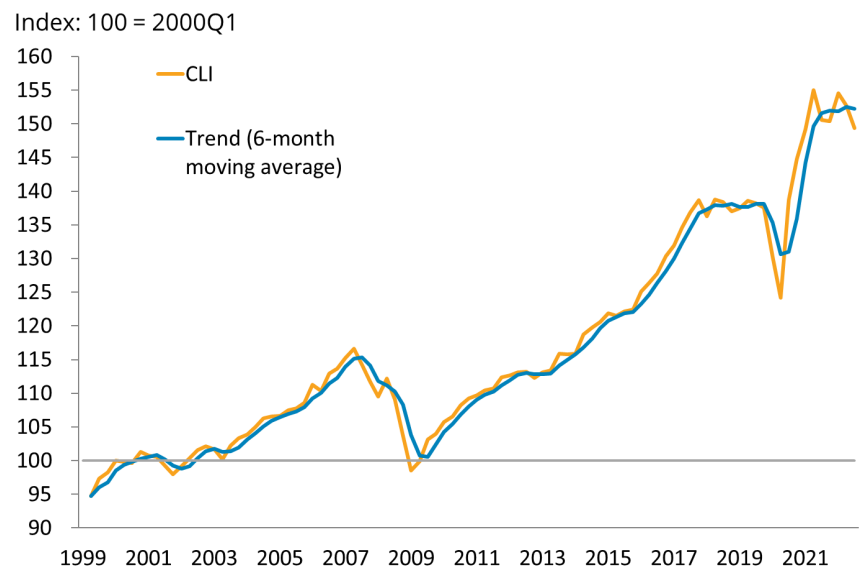
It is important to note that while the Canadian economy has enjoyed a strong recovery, the environment for commercial real estate remains highly abnormal and uncertain. Although the CLI is designed to interpret economic and office employment growth as positive indicators for commercial real estate demand, the recent strong growth of these indicators may not translate as readily into improved conditions in the commercial real estate market relative to the pre-pandemic period.

The CLI fell in the third quarter due to deteriorations in all three subcomponents of the index. The economic activity index was driven downwards by inflation-adjusted declines in wholesale trade, retail and manufacturing sales.

#### 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.

### Commercial Leading Indicator



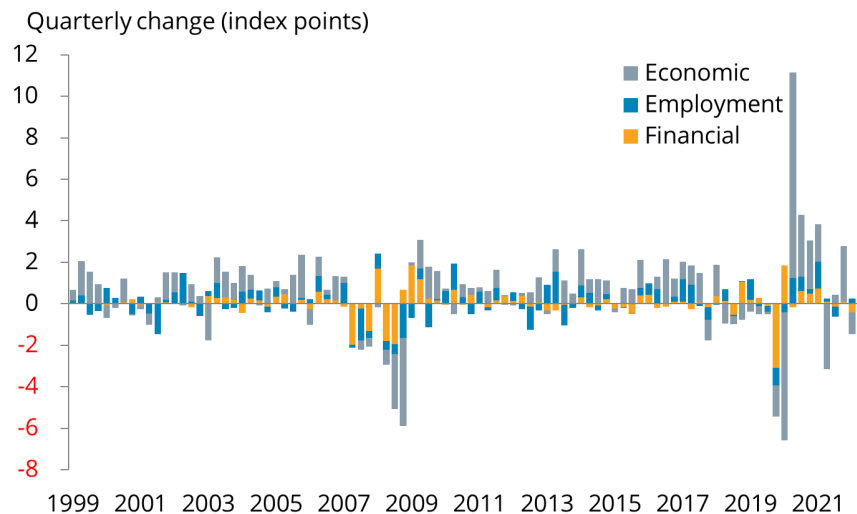
Rapid appreciation in the consumer price index driven by supply chain obstacles and the war in Ukraine meant that rising nominal values in these economic areas were offset after adjusting for general price growth. The financial component of the index was negative as a result of falling REIT prices. Spreads between corporate and government borrowing costs also rose slightly from the prior quarter, contributing negatively to the financial component. The index's employment component was also negative, with a rise in office employment (finance, insurance and real estate) insufficient to offset a larger decline in manufacturing employment.

## Commercial Leading Indicator Components

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

- The economic component of the CLI follows the overall trend in the BC 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.

### Contribution to Change in CLI by Component



### Q3 Highlights:

- The economic activity index fell in the third quarter. Inflation-adjusted manufacturing sales, wholesale trade and retail sales each fell from the first quarter.
- Although office employment (financial, insurance, real estate and professional services) rose in the third quarter, it was more than offset by a decline in manufacturing employment. This resulted in a slightly negative impact from the employment component of the index.
- Weak equity market performance and rising interest rates pushed REIT prices further down in the second quarter, contributing negatively to the index. Interest rate spreads between government and corporate bonds rose slightly, increasing borrowing costs for companies relative to government, and lowering the index. The financial component contributed negatively to the CLI in the third quarter.



Additional economics information is available on BCREA's website at: [bcrea.bc.ca](http://bcrea.bc.ca).

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