



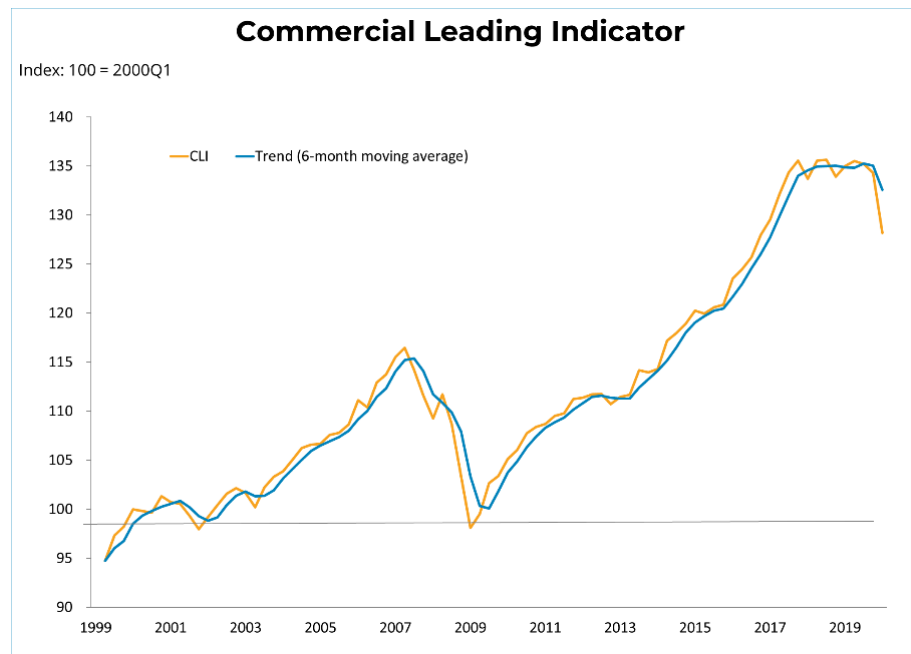
June 2020

## COMMERCIAL ACTIVITY NOSEDIVES IN 2020 Q1

The BCREA Commercial Leading Indicator (CLI) was down sharply in the first quarter of 2020 from 134.2 to 123.2, reflecting the slowdown prompted by the COVID-19 pandemic. Compared to the same time last year, the index was down by 4.8 per cent.

The pandemic-induced shutdown of the economy in the last two weeks of the first quarter of 2020 had a notable impact on the CLI, turning all components negative. On the economic activity component, manufacturing sales led the decline. On the employment component, a fall in key commercial real estate sector jobs was the primary driver. Meanwhile, the financial component had the largest negative impact on the CLI, as REIT prices tumbled and risk spreads widened in March. The underlying trend in the CLI was relatively flat in the previous six quarters, but has taken a sudden downward turn due to the pandemic. This suggests that going forward, the environment for commercial real estate activity in the province will be weak as the economy gradually re-opens, and temporarily unemployed individuals slowly return to work.

BC's economy was beginning to slow in the last quarter of 2019, but the rate of slowing was exacerbated by the pandemic in the first quarter of 2020. A fall in manufacturing sales of both durable and nondurable



goods were the main drag on economic activity. Also contributing to the drag, but to a lesser extent, were lower wholesale trade sales in motor vehicles, and building material and supplies. Meanwhile, although growth in retail sales was positive in the first two months of 2020, it was not enough to offset the 10 per cent monthly decline in March, as retail stores across the province were shut down halfway through the month due to the pandemic.

Employment growth in key commercial real estate sectors such as finance, insurance, real estate and leasing was negative for the first time since the summer of 2018, down by about 13,500 jobs in the first quarter. Additionally, manufacturing employment fell by about 1,830 jobs from the previous quarter.

The CLI's financial component was negative in the first quarter of 2020 as growing fears of the potential impact of the pandemic resulted in a full market meltdown in late February, sending equity markets into free fall and government bond yields plummeting. However, private borrowing costs rose sharply due to elevated risk premiums, causing a tightening of credit conditions.

### About the CLI

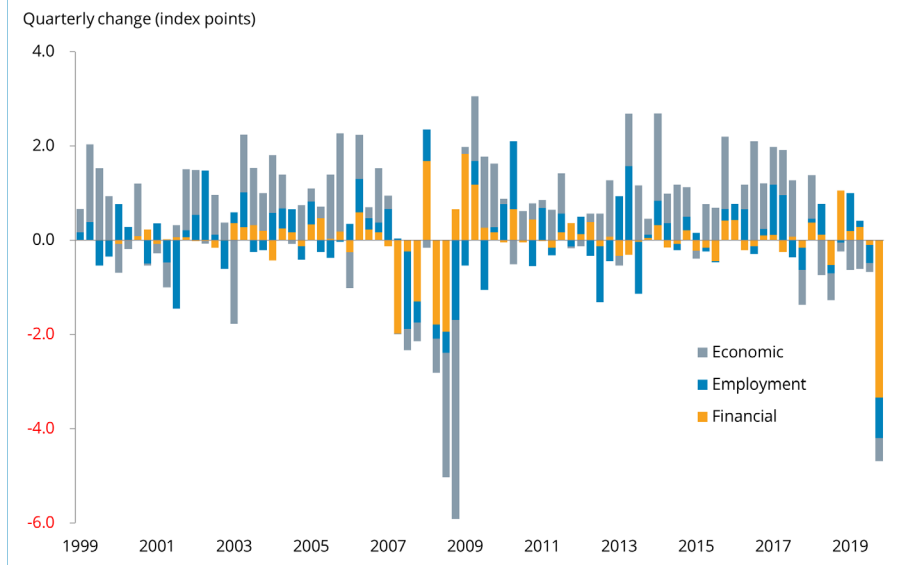
The BCREA Commercial Leading Indicator was designed to forecast changes in broad commercial real estate activity. Our research shows that the variables that compose the CLI reliably forecast BC commercial real estate activity at a lag of two to four quarters. The index is revised each quarter due to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

## Commercial Leading Indicator 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



### Q1 Highlights:

- **Economic activity** started to feel the impact of the pandemic in March, as declines were reported in manufacturing sales (-2.4%), retail sales (-0.5%), and wholesales (-0.1%).
- **Employment fell** by about 13,500 jobs in key commercial real estate sectors for the first time since the summer of 2018 and by about 1,830 jobs in manufacturing.
- **Financial markets** entered a full meltdown in late February amid growing fears of the potential impact of the COVID-19 pandemic. The panic sent Canadian REIT prices lower and led to a spike in risk premiums, causing a tightening of private sector credit conditions.



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

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