



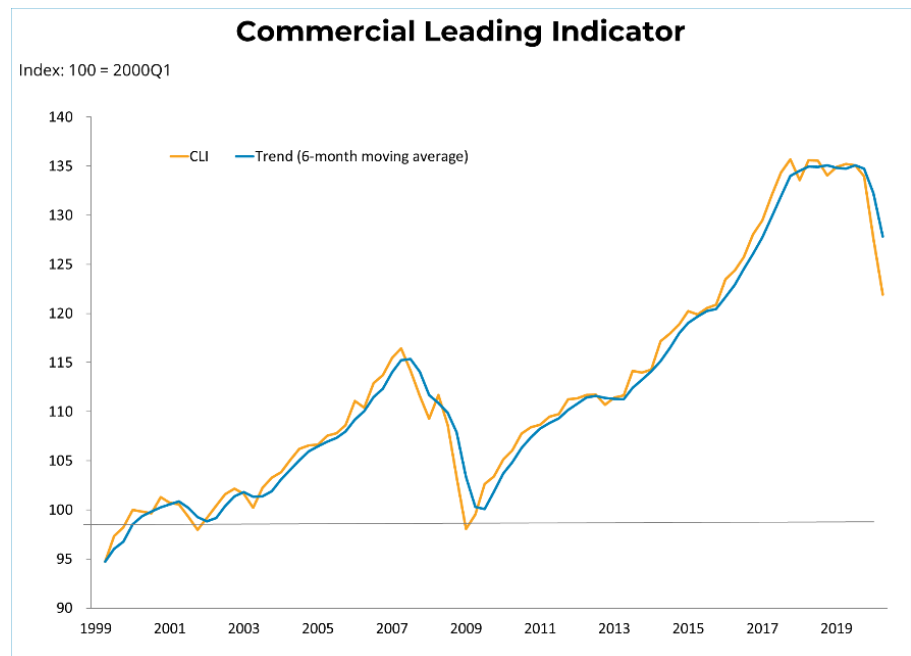
September 2020

## COMMERCIAL ACTIVITY IMPACTED BY PANDEMIC IN 2020 Q2

The BCREA Commercial Leading Indicator (CLI) continued to fall in the second quarter of 2020 from 127.6 to 121.9, representing the fourth consecutive quarterly decline. It was the second largest drop in the indicator in over two decades, reflecting the hardest hit months of the pandemic in April and May. Compared to the same time last year, the index was down by 9.8 per cent.

The second quarter of 2020 saw the complete shutdown of key economic industries in BC, while employment continued to decline in manufacturing and in key real estate sectors. In contrast, the financial component had the largest positive impact on the CLI on record, as REIT prices rose and risk spreads narrowed from the previous quarter. The underlying trend in the CLI continued its downward trend into the second quarter of 2020. This suggests that going forward, the environment for commercial real estate activity in BC will continue to be weak.

BC's economy was slowed by the pandemic in the first quarter of 2020, and by the second quarter came to a halt. Manufacturing sales of both durable and non-durable goods fell by magnitudes not seen since the great financial crisis in 2009. The decline in wholesale trade was driven by lower sales in motor vehicles,



and to a lesser extent by lower sales in personal and household goods such as clothing and footwear. Meanwhile, April saw the largest monthly drop in retail sales on record, as brick-and-mortar stores were shut down for most of the second quarter. Although online sales reached new highs during this period, they were not enough to offset the decline.

Employment growth in key commercial real estate sectors such as finance, insurance, real estate and leasing was negative for the second consecutive quarter, down by about 1,700 jobs, which is notably fewer than the 13,500 jobs lost in the previous quarter. Manufacturing employment fell for the fourth consecutive quarter by about 5,170 jobs, almost three times the number of jobs lost in the previous quarter.

The CLI's financial component was positive in the second quarter of 2020 as the market bounced back from the full meltdown in late February that sent equity markets into free fall and government bond yields plummeting.

### About the CLI

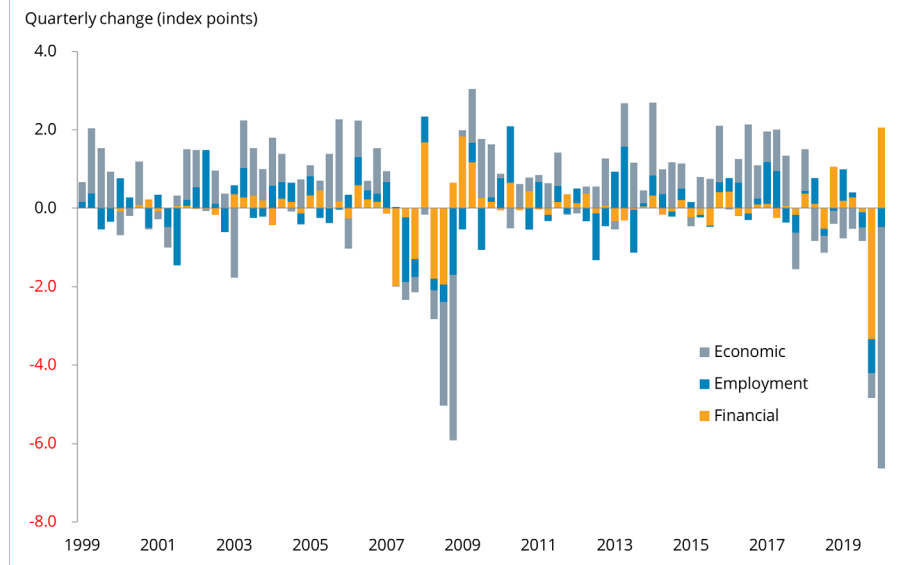
The BCREA Commercial Leading Indicator was designed to forecast changes in broad commercial real estate activity. Our research shows that the variables that compose the CLI reliably forecast BC commercial real estate activity at a lag of two to four quarters. The index is revised each quarter due to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



### Q2 Highlights:

- **Economic** activity felt the full force of the pandemic-induced shutdown of the economy, as significant declines were reported in wholesale trade (-11%), manufacturing sales (-9.6%), and retail sales (-8.9%).
- **Employment** fell by 1,700 jobs in key commercial real estate sectors, but paled when compared to the 13,500 jobs lost in the previous quarter. Meanwhile, manufacturing jobs fell, for the fourth consecutive quarter, by 5,170 jobs.
- **Financial** markets bounced back from the full meltdown in late February that sent equity markets into free fall and government bond yields plummeting.



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