The BCREA Commercial Leading Indicator (CLI) fell slightly to 135.3 in the third quarter of 2019. The index remains unchanged compared to the same time last year.

Provincial economic activity continued to slow in the third quarter of 2019, with declines in retail and manufacturing sales more than offsetting a gain in wholesale trade. This left the economic activity component of the CLI negative for the fifth consecutive quarter. Office employment was up for the fifth consecutive quarter, edging out a decline in manufacturing employment, which resulted in a positive change in the employment component of the CLI. The financial component of the CLI was positive in the third quarter due to an increase in benchmark Canadian REIT prices, which more than offset the expansion of short-term credit spreads.

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ECONOMICS

COMMERCIAL ACTIVITY REMAINS STABLE IN 2019 Q3

The BC economy continues to slow in 2019. Weak manufacturing sales in petroleum and coal, and lower retail sales at gasoline stations and auto dealers, put a drag on economic activity in the third quarter. Wholesale trade sales were positive in the third quarter due to a large expansion in machinery and equipment.

Employment growth in key commercial real estate sectors such as finance, insurance, real estate and leasing continues to be strong, up by 7,600 jobs in the third quarter. This measure of office employment now sits at an all-time high, signalling strong future demand for office space. In contrast, manufacturing employment fell by 4,200 jobs from the previous quarter.

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.

Q3 Highlights:

• Economic activity continues to slow in BC, as declines were reported in manufacturing sales (-4.1%) and retail sales (-0.3%), more than offsetting gains in wholesales (0.5%).

• Employment growth in key commercial real estate sectors continues to gain momentum with increases in the office sector (7,600), while manufacturing employment reported a decline of 4,200 jobs.

• Financial markets reported a 6.4% increase in the benchmark index for Canadian REITs, while short-term risk spreads expanded.

Additional economics information is available on BCREA’s website at: bcrea.bc.ca.

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