



November 2021

### COMMERCIAL LEADING INDICATOR DIPS IN THIRD QUARTER 2021

The BCREA Commercial Leading Indicator (CLI) fell from 155.4 to 150.9 in the third quarter of 2021, representing the first decline since the economy began recovering from the COVID-19-induced recession. Compared to the same time last year, the index was up by 9 per cent.

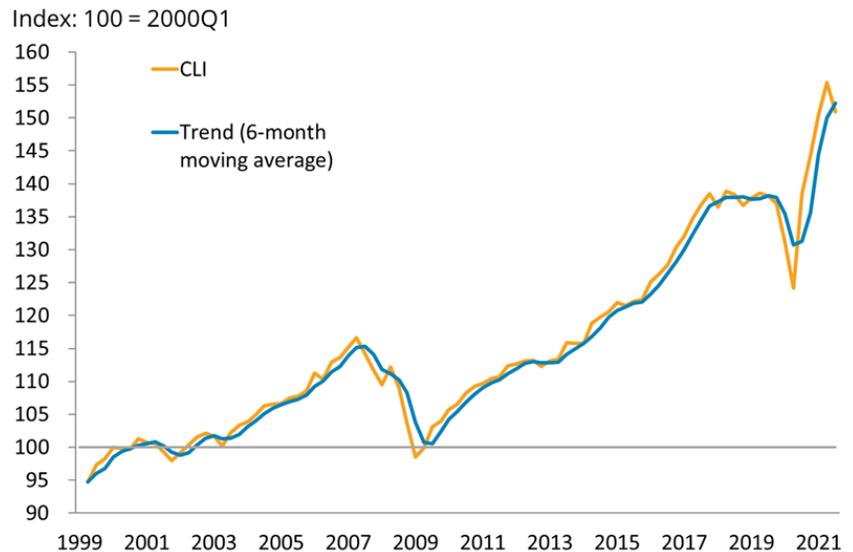
It is important to note that while the economy generally continues recovering strongly, we are still in a very abnormal and uncertain environment for commercial real estate. Therefore, the strong economic and employment growth we have seen in previous quarters may not translate directly to improved conditions in the commercial real estate market.

The CLI declined in the third quarter due to a drop in the economic activity component of the index, which was the result of lower manufacturing sales. That decline in manufacturing was primarily due to a reversal in lumber prices following their historic run-up in the first half of the year. The economic activity component of the CLI was also negatively impacted by an 8.3 per cent decrease in wholesale trade, while retail sales declined 1.5 per cent primarily due to a 5.5 per cent quarterly decline

#### 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



in motor vehicle sales as a result of the ongoing semiconductor chip supply shortage. These negative economic factors combined to drive the quarterly decline in the CLI.

Employment in key commercial real estate sectors such as finance, insurance, and real estate (FIRE) increased in the third quarter, rising by 2,000 across the province to a record high for the sector. As a result, for a fourth consecutive month the office employment component of the index hit an all-time high. However, the effect of this strong employment growth on the demand for office space remains unclear as many nominal "office workers" continue to work remotely. Manufacturing employment also remained essentially flat in the third quarter.

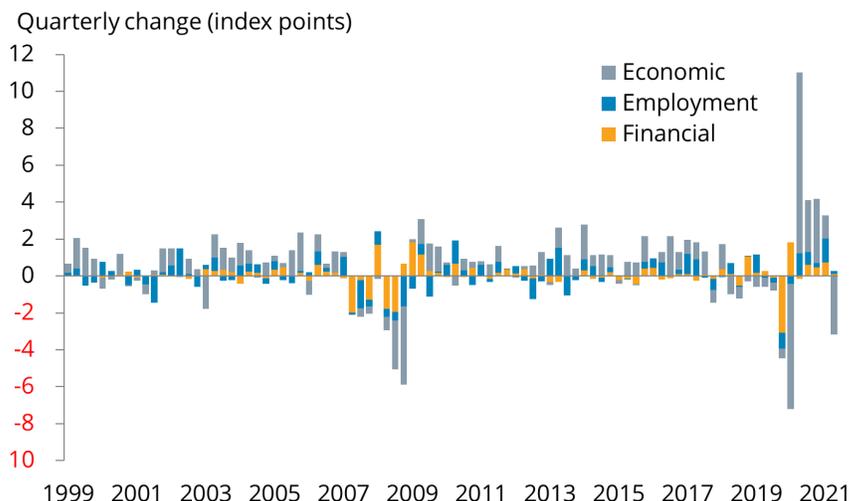
The CLI's financial component made a positive contribution to the index for a fourth consecutive quarter, while REIT prices hit fresh records. Risk spreads between corporate and government debt remained very tight.

## 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 index deteriorated sharply in the third quarter. Indicators with relevance to commercial real estate including manufacturing sales, wholesale trade, and retail sales each declined in the third quarter.
- Office employment and manufacturing employment growth were both near-flat but nominally positive in the third quarter.
- Financial: Continued strong equity market performance and low interest rates helped drive REIT prices higher in the third quarter, while strong bond market liquidity continues to maintain tight short-term risk spreads.



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

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