



August 2021

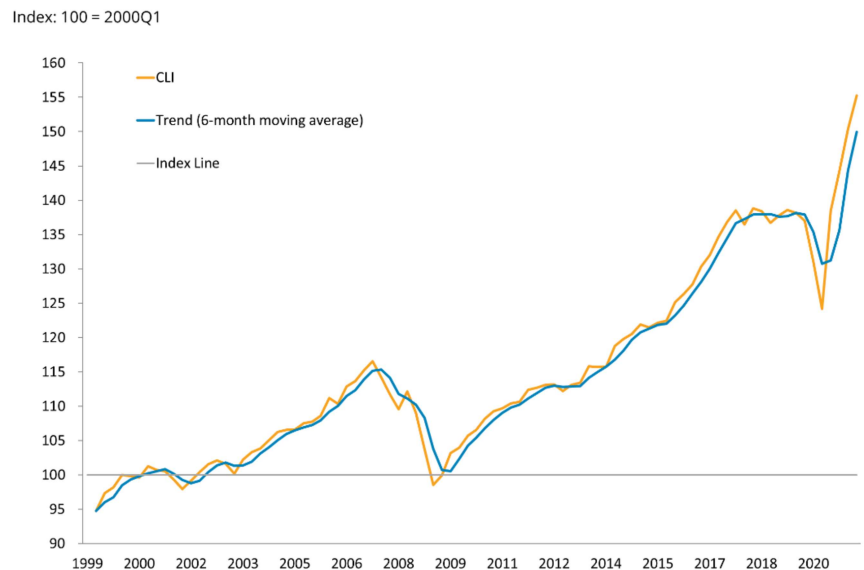
## ONGOING ECONOMIC RECOVERY DRIVES Q2 CLI HIGHER

The BCREA Commercial Leading Indicator (CLI) rose from 150 to 155 in the second quarter of 2021, representing the fourth consecutive increase as the economy recovered from the COVID-19-induced recession. Compared to the same time last year, the index was up by 25 per cent.

It is important to note that while the economy is posting a very strong recovery, we are still in a very abnormal and uncertain environment for commercial real estate. Normally, the type of growth we see reflected in the CLI would imply an improvement in demand for retail and office space. However, the complexities of the COVID-19 pandemic and related public health restrictions are driving a wedge between what we see in the data and what is being experienced on the ground.

Overall manufacturing sales rose 5 per cent in Q2 on higher sales in the wood products, food manufacturing, and chemical products sectors. The economic activity component of the CLI was also positively driven by a 4.8 per cent increase in wholesale trade, while retail sales were flat on continued non-essential retail lockdowns in

### Commercial Leading Indicator



the quarter and considerable quarterly declines in motor vehicle sales due to the ongoing semiconductor chip supply shortage.

Employment in key commercial real estate sectors such as finance, insurance, real estate (FIRE) and leasing increased by about 13,800 jobs in Q2. For a second consecutive month the office employment component of the index has 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 jumped by 9,200 workers as quarterly manufacturing sales figures continued to hit all-time records.

The CLI’s financial component was positive in Q2 of 2021 for the third consecutive month. REIT prices approached all-time records and risk spreads between corporate and government debt continued to narrow.

### About the CLI

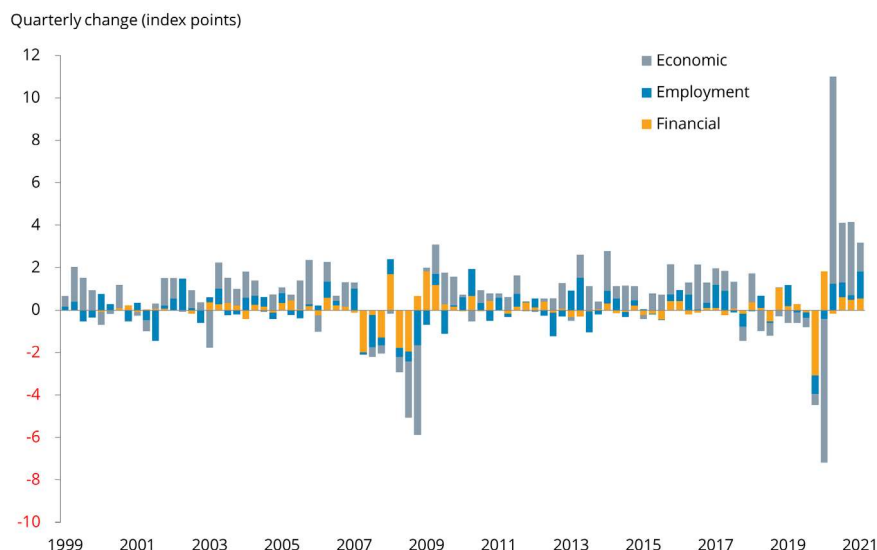
The BCREA Commercial Leading Indicator was designed to forecast changes in broad commercial real estate activity. Our research shows that the variables that compose the CLI reliably forecast BC commercial real estate activity at a lag of two to four quarters. The index is revised each quarter due to 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 continued to improve, driven by key economic sectors important to commercial real estate, including manufacturing sales and wholesale trade, although retail sales were flat.
- **Employment** in commercial real estate sectors rose substantially while manufacturing employment more than fully recovered from declines in Q1.
- **Financial:** Continued strong equity market performance and low interest rates helped drive REIT prices higher in Q2 while strong bond market liquidity continues to narrow 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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