

Economic Update

 **SVN** | RESEARCH

JULY 16, 2026

1. CPI INFLATION

- Consumer prices fell 0.4% on a seasonally adjusted basis in June, its largest single-month decline since April 2020, according to the latest CPI release by the Bureau of Labor Statistics. Prices rose 3.5% over the past 12 months.
- A retraction of energy prices drove the decline. The energy index fell 5.7% in June as the mid-June US-Iran ceasefire temporarily reopened the Strait of Hormuz, sending oil prices down roughly 21%. Gasoline was down 9.7%.
- Core CPI was unchanged month-over-month and rose 2.6% year-over-year, down from 2.9% in May, with broad softness across motor vehicle insurance (-2.0%), communication (-1.5%), and apparel (-0.6%). Shelter rose just 0.1% — its smallest monthly gain since January 2021.
- The probability of a 25-basis-point hike at the July 28-29 FOMC meeting fell from roughly 42% to 17% following the CPI release, according to implied probabilities from the Federal Funds futures market.
- However, rate cuts are not back on the table for now. The ceasefire that initially relieved energy inflation pressures has since broken down, with oil prices moving sharply higher in recent days. A July rate-hold remains the likely scenario.

2. JUNE EMPLOYMENT REPORT

- US employers added just 57,000 jobs in June, according to Thursday's data from the Bureau of Labor Statistics (BLS), well below the consensus estimate of roughly 115,000.
- The unemployment rate edged down 10 basis points (bps) to 4.2%. However, this was mostly driven by a contraction in the labor force participation rate—which fell to 61.5%—rather than by an expansion in employment.
- The headline number understates the breadth of the softness. BLS revisions to April and May data cut a combined 74,000 jobs from previous estimates, placing the 12-month average monthly gain at just 36,000 per month.
- Professional and business services added 36,000, social assistance added 25,000, and health care gained 22,000. Leisure and Hospitality shed a seasonally adjusted 61,000 jobs in June, which the BLS attributed



Economic Update



to weaker-than-usual seasonal hiring.

- Average hourly earnings rose 0.3% month-over-month to \$37.64 and are up 3.5% year-over-year. Sustained payroll growth at the current modest pace provides a stable but limited backdrop for expansion-driven CRE leasing demand.

3. CONSTRUCTION SPENDING

- According to the US Census Bureau, total construction spending edged up 0.1% month-over-month in May to a seasonally adjusted annual rate of \$2,210.2 billion.
- Construction spending is down 1.5% year-over-year. Further, through the first five months of 2026, cumulative spending of \$858.4 billion is running 2.7% below the same period in 2025.
- Private nonresidential construction fell 0.3% for the month and 6.6% year-over-year — its eighth consecutive annual decline. Manufacturing construction is down 22.0% year-over-year as CHIPS Act-supported projects wind down. Warehouse construction has fallen for three consecutive months and is down 8.5% year-over-year.
- Data center construction rose 0.6% in May to a new record high, up 23% year-over-year. It is also the only private nonresidential subcategory posting new highs.

4. JULY TRADE POLICY DEADLINES

- In July, two overlapping trade policy deadlines are making news. First, on July 1, the US declined to renew the US-Mexico-Canada Agreement (USMCA) in its current form, triggering an annual review cycle.
- Then, on July 24, the 10% global tariff imposed under Section 122 of the Trade Act of 1974, which had replaced the IEEPA tariffs struck down by the Supreme Court in February, is set to expire.
- The Office of the US Trade Representative (USTR) is finalizing proposed Section 301 tariffs of 10% to 12.5% on approximately 60 countries as the intended replacement for the expiring Section 122 tariff, with public hearings held July 7 through 9.
- Round 3 of USMCA renegotiation talks is scheduled for the week of July 20 in Mexico City, where the US is seeking to raise the regional content requirement for autos from 75% to 82% and add a new 50% US-



Economic Update



specific content threshold. Whether existing USMCA duty exemptions would carry forward under any Section 301 successor remains an open question.

- The Tax Foundation estimates that ending USMCA exemptions entirely would reduce long-run GDP by an additional 0.1% and cost the equivalent of 95,000 full-time jobs, amounting to roughly \$300 per US household in 2027.

5. CREFC BOG SENTIMENT INDEX

- According to the CRE Finance Council (CREFC), its Q2 2026 Board of Governors Sentiment Index steadied near its baseline following Q1's geopolitical shock. However, survey results suggest that sentiment stabilized into caution rather than conviction. The survey was conducted from June 25 through July 6 with a 95% response rate from 38 senior executives across CRE lending, CMBS, private equity, and debt markets.
- Neutral was the most common answer on seven of nine core questions. Interest rates were the most negative reading for a second consecutive quarter, with 53% of respondents expecting elevated rates to weigh on CRE over the next 12 months.
- Demand-side readings remained net positive. 42% of respondents expect stronger investor demand for CRE and Multifamily assets versus 11% expecting less, down from 61% who expected increased demand in Q1. Respondents also noted that borrowers appear to be accepting the current rate environment, with refinancing described as more orderly than earlier in 2026.
- For CRE capital markets, the index points to a market finding its footing rather than one recovering momentum, a distinction that is likely to keep transaction volumes measured heading into the second half of the year.

6. LOGISTICS MANAGERS INDEX

- The Logistics Managers Index (LMI), a key leading indicator for Industrial Real Estate demand, rose to 71.1 in June, up 1.6 points from May's 69.5 and the first reading above 70.0 since March 2022.
- Researchers characterize June's uptick as a "significant rate of expansion." A reading above 50.0 indicates



Economic Update



expanding logistics activity.

- Inventory levels surged 5.7 points to 60.5, the primary driver of the gain, as retailers built stock ahead of peak season and in anticipation of further tariff disruption.
- Warehousing utilization rose 6.5 points. Transportation prices eased modestly to 92.4, but transportation utilization rose to a near eight-year high of 74.7.
- Aggregate logistics costs registered 242.1, a level that researchers describe as historically inflationary. Ocean shipping companies implemented new surcharges at the start of July, introducing additional cost friction heading into the second half of 2026.
- Expanding logistics activity and rising inventory accumulation are near-term positive signals for Industrial Real Estate demand, though whether the current cycle reflects durable end-demand or precautionary front-loading remains to be seen in absorption data.

7. AI-DRIVEN OFFICE DEMAND

- According to a recent analysis by VTS, national AI office demand rose 85% year-over-year as of July 2026, with demand across the industry's largest AI hubs growing 179%.
- Seattle posted the fastest growth of any market at 390% year-over-year. Other emerging hubs include Northern Virginia, Austin, and Chicago, where AI demand is up 45% year-over-year.
- In Q1 2026, US private investment in AI reached \$206 billion, the largest quarterly total on record.
- San Francisco leads with 81 active AI requirements totaling more than 5 million square feet. Meanwhile, Silicon Valley and New York together account for nearly two-thirds of all active AI square footage tracked nationally.
- VTS noted that AI leasing activity is generating new demand ahead of when it typically appears in traditional vacancy data, with Office market improvement in key tech submarkets likely outpacing what headline statistics currently reflect.

8. APARTMENT CONCESSIONS

- According to RealPage Market Analytics, 16.5% of stabilized US apartment units offered concessions in



Economic Update



- June, up 3.4 percentage points year-over-year and near the highest monthly level since mid-2014.
- The average concession discount in June was 11.1% of annual lease value, the deepest monthly average in more than 25 years.
 - Class C units were the most likely to offer a concession, with 20.7% of stabilized units carrying an incentive. In comparison, Class A properties offered the deepest discounts at an average of 11.4% of annual lease value.
 - Sun Belt markets, including Austin, Denver, and San Antonio, posted the highest concession rates nationally, with average discounts of 14.5% to 15.5%.
 - RealPage attributed the elevated concession environment to ongoing competition from new deliveries in high-supply markets. The current 11.1% average discount is more than double the cycle low of 5.5% recorded in mid-2016.
 - Record concession depth reflects supply-demand imbalance in high-delivery markets. As new Multifamily starts slow, the concession environment is expected to normalize gradually, though the timing will vary considerably by market.

9. NATIONAL FORECLOSURE ACTIVITY

- According to ATTOM's 2026 Midyear US Foreclosure Market Report, 227,548 residential properties had foreclosure filings recorded during the first half of 2026, up 21.3% from the same period in 2025 and 28.2% above the first half of 2024.
- ATTOM CEO Rob Barber notes that the increase reflects a return to historical patterns rather than renewed, heightened risk. Foreclosure timelines have also notably shortened through the first half of the year, and overall activity remains well below pre-pandemic peaks.
- Geographic stress remains uneven. Western and Southeastern states posted the largest year-over-year spikes, led by Idaho (+59%), Colorado (+57%), Georgia (+52%), North Carolina (+47%), and Mississippi (+45%). Florida carried the worst state-level rate at 0.27% of housing units, driven in part by surging insurance costs and HOA fees.



Economic Update



10. RETAIL CRE CREDIT SPREADS

- A recent GlobeSt analysis, citing data from Trepp, details how Retail CRE loan spreads are tightening relative to Industrial loans as balance-sheet lenders demand meaningfully less additional yield for retail risk than they did a year ago.
- According to the analysis, the premium that lenders require for retail loans over Industrial ones has compressed from approximately 2.42% to 1.39% over the past year.
- Meanwhile, the spread premium of Office over Retail has moved in the opposite direction, widening from 3.46% to 4.91%. The widening Office-Retail spread underscores how cautious lenders remain about Office collateral compared with other major property types.
- Multifamily remains the tightest-spread sector. During the week ending June 6, with the 10-year Treasury at 4.55%, balance-sheet lenders quoted 5.93% for stabilized, sub-60% LTV Multifamily loans and 5.97% for comparably leveraged Industrial loans, just 4 basis points apart.
- Trepp cautions that its survey captures quoted spreads, not closed loan pricing or volumes, and that the compression in Retail could reflect improving fundamentals, competitive reallocation of lending capacity, or both. A slowdown in consumer spending or tariff-driven cost pressure could reverse recent tightening.



Economic Update



SUMMARY OF SOURCES

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