RESEARCH BRIEF

Marcus & Millichap

ECONOMIC OUTLOOK

JULY 2026

Improving Economic Momentum Supports Second-Half ’26 CRE Outlook

Labor market rebound points to optimism. Despite prolonged headwinds, recent job gains highlight the economy’s improving growth trajectory.

- The U.S. economy faced **significant headwinds** over the past 15 months, including tariffs, weak job creation, and geopolitical disruptions, all of which contributed to inflationary pressures.
- Despite this, overall economic performance has remained durable, signaling **underlying resilience** across key sectors.
- From May 2025 through February 2026, labor market conditions weakened, with a cumulative loss of nearly **50,000** jobs and reduced workforce mobility.
- Hiring activity shifted notably beginning in March 2026, with approximately **550,000** jobs added over the last four months, indicating renewed labor market momentum.
- Job growth has been concentrated in major metros — including New York, Dallas, Phoenix, Orlando, Los Angeles, and Houston — reinforcing demand for space across **key CRE markets**.
- If sustained, ongoing hiring and stable unemployment in the **low-4 percent** range would support CRE demand, particularly in apartments and office spaces.

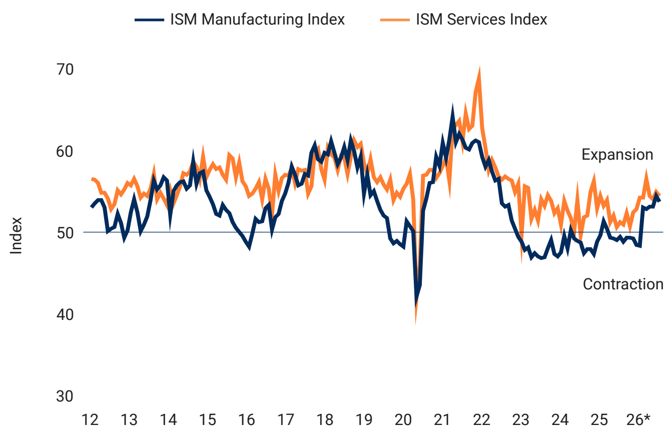
Business activity expands. Strengthening readings for manufacturing and business-services activity support increased demand for industrial and retail commercial real estate.

- Indexes from the Institute for Supply Management (ISM) Manufacturing and Services are signaling **renewed economic expansion** following a period of stagnation.
- The Manufacturing Index, which remained in contraction territory for much of the last year, has moved **above 50** since January, indicating growth is returning.
- The Services Index has also strengthened, rising from near-break-even levels to the **mid-50s**, signaling steady expansion across the 15-plus industries it tracks.
- ISM indicators have historically served as reliable signals of broader economic **cycles**.
- Continued momentum in these indexes supports a **positive outlook** for demand in industrial and retail real estate.

Consumption strength meets economic risks. Consumer resilience is supporting momentum, though risks tied to tariffs, inflation, and interest rates remain.

- Retail sales have emerged as a key pillar of economic resilience, with headline sales rising **6.9 percent** year-over-year in May and core sales up **5.6 percent**.
- On an inflation-adjusted basis, core retail sales increased **2.2 percent**, indicating real growth in consumer spending.
- Despite concerns about elevated consumer debt levels, household debt service remains manageable at **11.2 percent** of disposable income, **60 basis points** below the pre-pandemic average for 2012-2019.
- Continued growth in retail sales supports **sustained demand** for retail and industrial CRE.
- Several risks remain, however, including ongoing **tariff pressures** and uncertainty surrounding the renegotiation of the United States-Mexico-Canada Agreement.
- Geopolitical instability, including a fluid situation in the Middle East, and an uncertain inflation outlook continue to pose potential **challenges** to sustained economic expansion.
- Financial markets are currently anticipating a **25-50 basis point** interest rate increase by year-end, though easing inflation could reduce pressure on the Federal Reserve.
- Even with lingering headwinds, stable or modestly declining interest rates would support a **favorable investment environment** and reinforce improving CRE demand.

BUSINESS ACTIVITY RETURNS TO GROWTH



* Through June | Sources: Marcus & Millichap Research Services; Bureau of Economic Analysis; Bureau of Labor Statistics; CME Group; Federal Reserve; Institute for Supply Management; U.S. Census Bureau; U.S. Energy Information Administration

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