

Job Creation Rises While Inflation Worsens, Creating Mixed CRE Outlook

Labor market regains some footing in 2026. Employment trends have shifted positively, signaling a potential turning point after a prolonged slowdown.

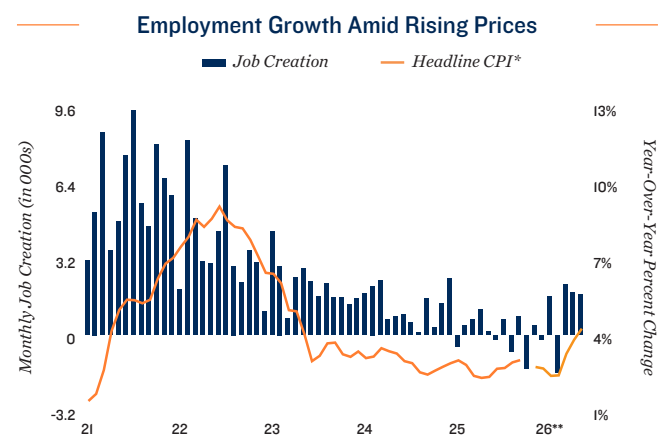
- Lackluster hiring last year was a major headwind to CRE, but labor market conditions are now **showing signs of growth**.
- Between June 2025 and February 2026, the U.S. economy shed roughly **62,000** jobs, reflecting a period of sustained weakness.
- Recent data signals a reversal, with **172,000** positions added in May, and upward revisions to the prior two months, bringing year-to-date 2026 job creation to **569,000**.
- The three-month moving average shows improvement, suggesting **a break from the prior downward trend** in employment.
- Job growth has been concentrated in service sectors — particularly health care — with hiring led by **small** businesses, while **midsized** firms have remained largely stagnant, and **large** companies are beginning to reaccelerate.

Hiring momentum broadens. Firms recalibrating to higher costs and tapping a more experienced labor pool are supporting job creation, reinforcing demand across property types.

- The forces shaping recent job growth appear twofold, beginning with businesses **adapting** to tariff-related cost pressures by adjusting pricing to reflect higher operating structures.
- Hiring has focused on **service-based industries**, which have been less directly impacted by tariffs but are increasingly **passing elevated costs** on to consumers.
- A second driver may be the emergence of a seasoned labor pool, as prior job losses have created a **supply of skilled workers** that businesses, particularly small firms, are now leveraging.
- The recent acceleration in employment represents a meaningful **shift in momentum**, providing a supportive backdrop for broader economic activity.
- Strengthening job creation supports **housing demand, relocation activity, office utilization**, and **consumer spending**, benefiting a range of property types.

Rising inflation remains a headwind. Stronger labor market momentum and faster aggregate price growth are constraining the likelihood of near-term rate cuts.

- Though hiring has picked up, May's inflation reading complicates the outlook, with headline CPI rising to **4.2 percent** year-over-year.
- Energy is among the primary drivers of rising cost pressures, with energy inflation up **23 percent** over the past year.
- Transportation costs are also elevated, rising **8.9 percent** over the past year and increasingly flowing through to consumers.
- Wage growth has eased to **3.4 percent**, below inflation and a potential drag on consumption if real income pressures persist.
- Stronger job growth reduces urgency for the Federal Reserve to cut rates, while elevated inflation limits its ability to ease monetary policy, potentially keeping rates **unchanged** near-term.
- While improving employment is supportive, **inflation and interest rate uncertainty** should keep the 10-year Treasury near **4.5 percent** and may temporarily widen bid-ask spreads before pricing recalibrates.



* October 2025 CPI data not published ** Through May

Sources: Marcus & Millichap Research Services; Automatic Data Processing; Bureau of Labor Statistics; CME Group; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; Radius+; U.S. Census Bureau; Yardi Matrix