

Economic Update

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MARCH 12, 2026

1. CPI INFLATION

- The US Consumer Price Index (CPI) edged higher by 0.3 percentage points in February, compared to 0.2% in January, according to the latest data from the Bureau of Labor Statistics (BLS). Annual inflation held steady at 2.6%, in line with expectations.
- Measuring the annual change in CPI components, energy prices rebounded (+0.5%) after edging down in January (-0.1%). However, last month's price activity does not reflect the effects of the recent US-Israel War with Iran.
- Food prices were steady (+3.1%) on an annual basis but rose 0.4% month-over-month in February, up from 0.2% the previous month.
- Core-CPI inflation rose just 0.2% month over month, down from 0.3% in January, and is up 2.5% year over year. Core figures also matched expectations.

2. OIL SHOCK RISKS

- In recent days, several banks, including Goldman Sachs, J.P. Morgan, ING, and others, have warned that a sustained US operation in the Middle East could push global oil prices above \$100 per barrel.
- The potential risk of an oil shock on the US economy varies. Economists at the Dallas Fed suggest that even a more extreme scenario- such as a temporary closure of the Strait of Hormuz- would only modestly increase domestic US inflation pressures.
- Meanwhile, S&P Global warns that a sustained uptick in energy price inflation would make it difficult for the world's central banks to continue easing monetary policy. As a result, interest rates could remain restrictive even as energy prices limit growth.
- Reports of attacks on commercial ships in the Strait of Hormuz are mounting, while Iranian missiles continue to target oil-rich Gulf countries that underpin US energy supply.
- US equity futures have been volatile during the past week as markets attempt to telegraph the likely duration of the ongoing war. An intensification of attacks early Wednesday, March 11th, extended the decline in equity futures, while the yield on the 10-year US Treasury note rose to its highest level in a month.



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3. FEBRUARY JOBS REPORT

- According to the latest Bureau of Labor Statistics (BLS) employment report, the US shed 92,000 jobs in February, well below economists' expectations of 50,000-59,000 jobs. The unemployment rate rose to 4.4%.
- The December payroll total was revised down by 65,000 jobs, from a gain of 48,000 to a loss of 17,000, while the January gain was revised down by 4,000 to 126,000. In total, this puts the net total gain in US employment over the past quarter at just +17,000 jobs.
- A drop in health care employment, which has been the primary engine of the labor market over the past year, drove the monthly decline in jobs. However, a strike that sidelined roughly 30,000 workers in California and Hawaii was the primary cause of this decline.
- Federal government jobs have continued to shrink, down 330,000 since October 2024. The information sector also lost 11,000 jobs in payroll, while construction shed 11,000 jobs, and transportation and warehousing employment fell by 11,300.
- Wages are up 0.4% from January and 3.8% year-over-year, both rising above forecast. Labor force participation fell to 62%, its lowest since December 2021.

4. FED BEIGE BOOK

- The Federal Reserve's latest Beige Book Summary of Economic Conditions, released on March 4th, pointed to an emerging "bifurcated economy", as a booming industrial sector is increasingly at odds with a deteriorating consumer-facing market.
- The report also describes divergent regional performance: growth was slight to moderate in 7 of 12 Fed districts during the previous six-week period, while the other 5 reported flat or declining economic activity.
- Manufacturers are also increasingly attributing a rise in raw material costs to tariffs, with some reporting that they had split tariff costs with customers last year but planned to pass more of the costs down in 2026.
- Consumer spending came in mixed, with non-auto retail spending rising modestly and notable strength in



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jewelry and apparel sales. However, spending on computers, electronics, furniture, and appliances stalled.

- Survey contacts generally reported stable labor market conditions.

5. SMALL BUSINESS OPTIMISM

- According to the latest data from the National Federation of Independent Business, small business optimism fell 0.5 points from January to 98.8, missing forecasts of 99.8. However, optimism remains above the 52-year historical average.
- The uncertainty sub-index fell 33 points from January to 88 despite the overall dip in optimism.
- Meanwhile, a net 34% of small business owners reported raising compensation, up from 32% in January and the highest level since March 2025.
- Profits rose 7 points but remained at a net negative 14%. Still, it's the best reading for profits since December 2021.
- Sales expectations for the next six months fell, but labor quality concerns eased, with just 15% of owners citing difficulty finding qualified labor, the lowest reading since April 2020.

6. LOGISTICS MANAGERS INDEX

- The Logistics Managers Index (LMI), a key leading indicator for Industrial Real Estate demand, rose 1.9 points in February, its highest reading and fastest monthly rate of expansion in a year.
- Driving the acceleration in logistics activity is higher transportation utilization. As a result, transportation capacity tightened sharply on par with movements seen during the height of the COVID shipping boom in late 2021.
- Concurrently, transportation prices surged to an index reading of 76.7, its highest level in four years.
- The inventory picture is more mixed. Firms have kept inventory levels relatively lean recently to avoid getting caught holding tariff-affected stock. This is the reverse of the strategy employed by upstream firms one year ago, when companies were stockpiling inventory ahead of tariff deadlines.
- Warehousing activity remains steady. Capacity remained flat in February compared with the previous month, though utilization ticked up. Warehousing prices eased slightly in February, suggesting that this



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part of the market isn't under the same supply pressure as the transportation segment.

- Looking ahead, managers expect transportation prices to climb further, reflecting a belief that the freight market expansion has real staying power.

7. CMBS DELINQUENCY RATE DECLINES

- The CMBS delinquency rate fell 33 points during February to 7.14%, according to the latest data from Trepp.
- The latest reading reverses January's increase, but despite the monthly improvement, the rate remains up 84 basis points year over year.
- The decline was largely driven by modifications and extensions on five major matured office loans and four large mall loans.
- Three of the five major property types improved in February. Office posted the largest drop, falling 114 basis points to 11.20% after hitting an all-time high of 12.34% in January.
- Meanwhile, the Retail delinquency rate declined 74 basis points to 6.30%, its lowest reading since August 2025. The Multifamily delinquency rate also ticked down to 6.85%.
- Lodging and Industrial delinquencies rose, with the former up 38 basis points (bps) to 5.94% and the latter rising modestly to 0.67%.
- The analysis notes that February's improvement should be taken with caution, as the trend was largely driven by one-time loan extensions granted to several large properties rather than a broad-based improvement in borrower health.

8. TROUBLED OFFICE LOANS & THE EXTENSION TREND

- A recent analysis by GlobeSt, using data and analysis from Trepp and Morningstar DBRS, shows that special servicers and lenders are increasingly using multi-year loan extensions to manage distressed office loans rather than pursuing foreclosures or forced sales.
- In particular, three-year extensions are becoming increasingly common. Experts explain the rationale being that lenders are pushing off maturities in hopes that rates would fall and office cash flow would



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rebound.

- Many lenders and borrowers have concluded that extending is preferable to taking back the keys, particularly for large and complex urban assets.
- Recent appraisals show that office values have dropped an average of nearly 56% since issuance, making refinancing at current balances untenable for most borrowers. Extensions effectively buy time for borrowers to stabilize property fundamentals and wait for a more favorable rate environment.
- About half of the \$100 billion in securitized commercial mortgages due in 2026 are unlikely to pay off at maturity, underscoring the importance of extension activity.
- Nonetheless, extensions come with risk. While they have temporarily eased office market distress, they add to future refinancing burdens, creating an “extend and pretend” liability for lenders.

9. SELF-STORAGE DEMAND NORMALIZES

- According to a March 2026 analysis by Inland Real Estate Group (IREG), the self-storage sector has begun to normalize following an outsized pandemic-era boom.
- The IREG described demand, rents, and property values as all retreating from their recent highs toward more typical long-term operating levels.
- The COVID-era surge was largely driven by a coalescing of temporary factors such as increased remote work and elevated housing turnover. These factors consolidated demand that would typically unfold over several years into a more compact timeframe.
- Nonetheless, industry observers see the current trend as more of a reversion to the mean than a period of distress. Moving forward, experts expect demand, occupancy, and rent growth to realign with longer-term historical norms for the sector, which may cause short-term pain but set the sector up for greater stability in the future.

10. RETAIL SALES

- According to the latest Retail Sales report from the US Census Bureau, sales fell 0.2% month over month in January, marking the first decline since October. However, retail sales remain up 3.2% year over year.
- The monthly drop was driven by sharp contractions in sectors with large market footprints, such as motor



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vehicles and parts (-0.9%), gasoline stations (-2.9%), and electronics and appliances stores (-0.6%).

- Furniture sales rose (+0.7%), as did building materials (+0.6%), miscellaneous retailers (+2.0%), and non-store retailers (+1.9%).
- Importantly, the January dip in retail sales was at least partly due to severe winter weather across the Midwest and Northeast. Meanwhile, a data blackout at the end of 2025 due to the recent government shutdown suggests that these data don't paint a full picture of current conditions.

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SUMMARY OF SOURCES

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