

Economic Update

SVN | RESEARCH

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1. CPI INFLATION

- The Consumer Price Index rose 0.4% in October on a seasonally adjusted basis, down from a 0.6% gain in September, according to the Bureau of Labor Statistics report released November 10. The BLS did not publish a year-over-year figure for October because it could not collect data during the October 2025 government shutdown.
- Core CPI, which excludes food and energy, rose 0.3% month over month, above the 0.2% forecast, marking the third consecutive month at that pace.
- Shelter remains the largest single driver of inflation, accounting for more than 30% of the monthly headline increase.
- Food was the non-core standout in the report, rising 0.5%, its largest monthly gain since April. Energy added 0.7%, a sharp deceleration from September's 5.2% gain, with gasoline up 1.0% on a seasonally adjusted basis and natural gas utilities down 0.8%.
- The October CPI print cleared any remaining ambiguity about the December Fed decision. Before the release, futures markets priced in roughly an 84% probability of a 25-basis-point (bp) hike at the December 9th FOMC meeting.
- However, Tuesday's inflation print heightened markets' urgency on rates, with futures markets' implied odds of a 25 bp hike rising slightly to 86.8% while the probability of a 50-basis-point hike rose sharply to 13.2% within 24 hours of the release. The odds of a hold in December have virtually collapsed.

2. OCTOBER JOBS REPORT

- According to the Bureau of Labor Statistics, the US economy added 165,000 payrolls in October, well above September's weak addition of 60,000 jobs and roughly in line with the pace of growth during the first half of the year.
- The unemployment rate ticked down to 4.1% from 4.2% while the labor force participation rate edged up to 61.9%. Combined revisions to August and September added 84,000 jobs to prior estimates, bringing August's tally to 186,000 and September's to 60,000.
- Professional and business services led all sectors, adding 70,000 jobs, followed by healthcare, which

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added 42,000, and Transportation and warehousing, which added 25,000. Leisure and hospitality shed 13,000 jobs, and wholesale trade lost 9,100. Government added a modest 6,000 jobs.

- Average hourly earnings for all private employees rose 0.4% in October to $38.00, up 3.1% over the past 12 months. Earnings for production and nonsupervisory workers also rose 0.4% on the month to $32.75.
- The stronger-than-expected numbers strengthen the case for another rate hike before year's end. The FOMC held rates at its October 28 meeting, but for markets, this month's numbers have reinforced the view that the inflation side of the Fed's mandate remains the more pertinent concern.

3. NFIB SMALL BUSINESS OPTIMISM

- The NFIB Small Business Optimism Index slipped 0.1 points to 97.8 in October, holding below the 53-year average of 98.0, according to the National Federation of Independent Business report released on November 10.
- 36% of owners reported unfilled job openings, the highest share since early 2024. The persistence of unfilled positions at that level reflects a structural supply constraint in small business labor markets rather than a cyclical hiring pause.
- In a separate survey question asking owners their single most important problem, 25% ranked labor quality and availability first, the top concern for the third consecutive month. Inflation ranked second at 20%, followed by taxes at 18%.
- A net 37% of owners are planning to raise selling prices, reflecting ongoing cost pressure on margins from wages, input costs, and insurance.
- Only 8% of owners expect business conditions to improve in the next six months, while 11% say it is a good time to expand. Meanwhile, the Uncertainty Index fell 6 points to 84, the lowest since December 2025, suggesting owners have more clarity even as the economic outlook remains cautious.

4. Q3 FEDERAL RESERVE SENIOR LOAN OFFICER OPINION SURVEY

- Banks tightened lending standards across all three major commercial real estate categories (construction and land development, nonfarm nonresidential, and multifamily), while the net share reporting tighter

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standards was the widest in two years, according to the Federal Reserve's October 2026 Senior Loan Officer Opinion Survey (SLOOS).

- The tightening reverses a loosening trend that emerged during the spring. April's SLOOS showed large US banks easing construction, core commercial, and multifamily terms amid competition from private credit. Yet by Q3, that competition had receded, while credit risk concerns have re-emerged across lender categories.
- Banks have also reported weaker CRE loan demand across all three categories, with foreign lenders being the lone exception, which report stronger net demand.
- For business borrowers broadly, standards held steady for large and midsize firms but tightened for small firms, consistent with the NFIB data showing declining credit availability expectations among small business owners.
- Tighter bank CRE lending standards are a direct cost-of-capital headwind for property owners seeking refinancing or new acquisition financing. As CMBS delinquencies rise and bank terms tighten, alternative capital sources (such as private credit, insurance, and bridge lenders) gain pricing power, raising the effective cost of CRE capital.

5. CMBS DELINQUENCIES

- According to Trepp, the CMBS delinquency rate fell 15 basis points to 7.87% in October, from 8.02% in September. The month-over-month decline primarily reflects payoffs and resolutions outpacing new delinquencies, though the rate remains elevated by historical standards.
- Office delinquencies rose 17 basis points to 12.33%, the highest level during this cycle. The Retail delinquency rate increased 63 basis points to 7.21%, while Multifamily rose 5 basis points to 8.09%. Meanwhile, Industrial and Lodging delinquencies fell 4 basis points to 1.10% and 24 basis points to 5.94%, respectively.
- The divergence across property types continues to widen. Office and Retail sit above 7.0%, while industrial remains near 1.0%, reflecting a structural demand shift that CRE credit is still working through. The October retail jump of 63 basis points is the sharpest monthly move in that sector this year.

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- Retail delinquency rising even as the overall rate dips is a signal worth watching, as aggregate improvement can mask sector-level deterioration. For Retail, tenant defaults can be harder to backfill in a market where national operators are not in net expansion mode.

6. MBA COMMERCIAL MORTGAGE DELINQUENCY

- Commercial mortgage delinquency rates rose across most capital sources in the third quarter, according to the latest Mortgage Bankers Association Commercial/Multifamily Delinquency Report. The CMBS delinquency rate reached 4.97%, up from 4.82% in Q2.
- Life insurance company delinquencies rose to 1.33% from 1.19% in Q2, a sharp quarterly increase for a lender category that typically holds the market's most conservatively underwritten collateral. The combined GSE portfolio rate (Fannie Mae + Freddie Mac) rose from 1.11% in Q2 to 1.16%.
- FHA delinquencies improved, falling to 0.90% from 1.06% in Q2. It was the sole capital source showing clear improvement during Q3.
- Life company deterioration is a notable signal. Historically, when delinquencies rise among insurance lenders, it reflects broad-based income stress at the property level rather than idiosyncratic credit problems. Combined with CMBS worsening and tighter bank lending standards from the Q3 SLOOS, Q3 2026 marks broad deterioration in CRE credit conditions across the capital stack.

7. CONSTRUCTION SPENDING

- Total construction spending fell 1.9% in September, following a revised 2.0% gain in August, according to the latest data from the US Census. Total spending is down 2.7% year over year.
- Private residential construction fell 5.5% month over month, driven almost entirely by a 13% drop in residential improvements and remodeling. Single-family new construction was unchanged month over month, while Multifamily edged up 0.1%.
- Private nonresidential construction rose 1.1%, led by data centers (+8.6% month-over-month, +90% year-over-year) and private electric power (+1.3% month-over-month, +14% year-over-year). All other nonresidential categories fell 7.8% year-over-year. Public construction spending dipped 0.1% month over

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month.

- The residential pullback is the key standout in the latest numbers, with a 13% drop in improvement and remodeling activity reflecting a downside demand-side signal as homeowners pull back on discretionary spending on their homes.
- The Industrial sector could feel the effects downstream. Home improvement and remodeling drive substantial demand for building materials distribution, including lumber, fixtures, and home finishes moved through industrial warehouse and distribution facilities. The recent drop in activity reduces short-term throughput demand for the building supply distributors that occupy a meaningful share of small-bay and mid-box industrial space in suburban markets.

8. JOB OPENINGS AND LABOR TURNOVER

- Job openings totaled 7.5 million on the last business day of September, up from a revised 7.2 million in August, according to the BLS' latest Job Openings and Labor Turnover Survey (JOLTS), released on November 3.
- The hires rate held steady at 3.4% while the separations rate edged down to 3.3% from 3.4% in August. The quits rate rose 10 basis points (bps) to 2.1%, with 3.4 million workers voluntarily leaving their positions, suggesting workers have marginally higher confidence in the labor market despite a cooling hiring pace.
- The quits rate remains below the 2.5–3.0% range that characterized the tight labor market of 2021–2022. The layoffs and discharges rate held at 1.0%, consistent with a labor market where firms are not actively shedding workers, even as hiring cools.
- The combination of rising quits and stable layoffs points to a decelerating, rather than contracting, labor market. For service-intensive CRE occupancies like Retail and hospitality, the key signal is that hiring hasn't accelerated alongside rising job openings, while wage pressure remains moderate.

9. CONSUMER SENTIMENT

- The University of Michigan Consumer Sentiment Index rose to 51.0 in the preliminary

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November reading, up from 48.0 in October and above the 48.0 consensus estimate, according to the November 7th release.

- One-year inflation expectations eased to 4.3% from 4.7% in October, while the five-year measure declined slightly to 3.4% from 3.5%. The improvement in near-term inflation expectations may reflect the October jobs print and a pullback in energy prices from recent highs.
- Consumer sentiment remains in historically soft territory. The October reading of 48.0 was among the weakest readings of the current cycle, while the November bounce reflects a partial recovery rather than a broad shift in household confidence.
- The gap between a rising headline index and still-depressed expectations sub-indexes is the defining tension in the consumer data, with short-term relief not translating into durable optimism about the economic outlook.

10. LOGISTICS MANAGERS' INDEX

- The Logistics Managers' Index rose 0.5 points to 70.7 in October, its eleventh consecutive month above the 50 neutral threshold, according to the latest LMI report. The index tracks inventory levels, warehousing capacity, and transportation conditions, and serves as a key leading indicator for the industrial sector.
- Inventory levels jumped 8 points to 66.9, the sharpest monthly build in over a year, as firms stocked ahead of the holiday peak season. Warehouse capacity contracted for the eleventh straight month but at a slower pace than September, rising slightly to 43.5 from 39.3.
- Transportation capacity remained in contraction at 38.0, though the pace of tightening slowed from September. Transportation prices fell 4.7 points to 88.0, still signaling rapid price expansion, but momentum slowed as capacity conditions stabilized slightly.

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SUMMARY OF SOURCES

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