



# Economic Update

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JULY 10, 2025

## 1. FACTORY ACTIVITY EXPANSION

- US factory activity experienced its sharpest expansion in over three years during June, according to indicators from S&P Global and the US Census Bureau.
- According to the Census Bureau, new orders for manufactured goods increased by 8.2% in May and have risen in five of the past six months.
- More recently, the S&P Global US Manufacturing PMI indicates a significant expansion in US factory output during June, driven by a combination of increased new orders and a surge in exports.
- The Manufacturing PMI also indicates that higher demand for capacity prompted firms to increase staff the most since September 2022. Meanwhile, input costs accelerated the most on a monthly basis in nearly three years.

## 2. ONE BIG BEAUTIFUL BILL ACT AND CRE

- On July 4th, President Trump signed into law the 'One Big Beautiful Bill Act', a sprawling tax and spending bill with several provisions related to Commercial Real Estate but with complex, not easily defined implications.
- Key among them is the permanent establishment of Opportunity Zones, which will now operate in 10-year cycles with stricter eligibility requirements than previously.
- A return of 100% bonus depreciation has been celebrated by many in the real estate industry, expected to drive significant tax savings by enabling owners to deploy it strategically for certain building purchases and tenant improvements.
- The law also alters the calculation of Adjusted Taxable Income, allowing for the addition back of depreciation, amortization, and depletion, which is expected to increase the basis for deducting interest expenses.
- Others view the law as mostly neutral for Commercial Real Estate, with some increases in SALT deductions potentially becoming a boost to real estate values, while deep spending cuts could partly offset this with weakened demand.



# Economic Update



## 3. GEOPOLITICAL RISKS

- According to BlackRock's tracking of market attention to geopolitical risks, the risk of global trade protectionism remains the issue that drives the most attention from financial markets, out of those tracked. At the same time, concerns around the Middle East have increased in recent months.
- Uncertainty and volatility have dominated the geopolitical landscape in 2025, but have impacted markets to varying extents. Global trade risks remain the scenario most likely to materialize, as despite a pause to several tariffs and ongoing trade negotiations, the market expects effective tariff rates to stay above 2024 baselines.
- The outbreak of war between Israel and Iran in June, which saw direct US involvement, threatens both regional and global energy market stability. While a recent ceasefire has dampened market attention to these developments, BlackRock still views these risks as high, given the uncertainty surrounding damage to Iran's nuclear program and the mutually incompatible red lines between the parties involved.
- The US-China strategic competition risk remains high despite some signs of progress on trade talks between the two nations in June. Both countries continue to take steps toward export controls and decoupling of key technology sectors, while hawkish sentiments in each government raise the chances of military miscalculation.

## 4. LOGISTICS ACTIVITY

- US logistics activity rose only modestly in June but reached its third-highest reading in the past two years, according to the latest reading of the Logistics Managers' Index (LMI).
- Supply chain activity during the first half of 2025 has somewhat defied typical seasonal patterns. The only months when logistics activity expansion has been higher over the past two years were January and February of this year, which resulted from wholesalers rushing in new orders to get ahead of potential tariffs.
- While activity later reverted to its pre-January trend, it continued to expand healthily, growing in each month since March.
- June's increase in the LMI was primarily driven by a sharp rise in inventory levels during the first half of



# Economic Update

SVN | RESEARCH

the month as importers took advantage of a pause in many punitive tariffs.

- Inventory costs rose significantly as a result, reaching their highest level since October 2022, when supply chains were still dealing with COVID-related disruptions.

## 5. MORTGAGE APPLICATIONS RISE

- Mortgage applications soared by 9.4% during the week ending on July 4th, 2025, according to data from the Mortgage Bankers' Association.
- Application volumes have now grown for three consecutive weeks, marking their longest streak of expansion since December 2024, at a time when benchmark mortgage rates were softening.
- Both refinance applications, which tend to be more sensitive to short-term interest rate changes, and purchase applications jumped by 9% during the week.
- Refinance applications are up 56% from the same time last year, while purchase activity is up 25%—a key signal that housing market activity is gradually thawing.

## 6. JUNE JOBS REPORT

- The US economy added 147,000 new jobs in June, narrowly above May's revised total of 144,000 additions, according to the latest data from the Bureau of Labor Statistics (BLS). The unemployment rate ticked down to 4.1%.
- Job growth has been steady during the first half of 2025, proving resilient in the face of rising economic uncertainty over the past several months, including the rise of AI investment and increasing trade and geopolitical tensions.
- Following the release of the June jobs report, the probability of a July rate cut by the Federal Reserve reduced considerably. June's job data appeared to validate policymakers' wait-and-see approach further, causing futures markets to revert toward a projection of fewer and further-out rate cuts.
- However, the June jobs report showed government jobs accounted for a significant share of June's growth, with strong state and local hiring leading to a 73,000 increase in public sector roles.
- The private sector still added 74,000 jobs in June, according to initial estimates. Still, these more subtle



# Economic Update



shifts in the labor market will be key to policymakers' assessment of how rate policy should evolve.

## 7. COMMERCIAL PROPERTY PRICES

- Commercial property prices fell 0.2% month-over-month and 1.0% year-over-year in May, according to the latest Commercial Property Price Index (CPPI) update from MSCI-RCA.
- Nationally, commercial property prices extended a trend of mild annual decreases experienced over the past year, with the index posting its fifth consecutive monthly decline.
- Retail led all property types during May, rising 0.2% from April and 4.0% year-over-year. Retail prices have risen monthly for 12 consecutive months.
- Industrial prices declined by 0.2% and rose just 0.1% year-over-year as the sector's post-pandemic momentum continues to fade. May marked the seventh consecutive monthly decline in industrial prices.
- Apartment prices fell 0.4% from April and experienced a 1.1% drop year-over-year. Declines in Apartment prices have moderated somewhat in the past year and are gradually trending more positively.
- The CBD Office sector continues to be the weakest tracked property sector, but the pace of decline eased in May. CBD office fell 0.4% from April and is down 6.2% year-over-year, a significant improvement over a nearly 30% decline this time last year.
- Suburban Office prices climbed 0.4% month-over-month and are up 1.5% year-over-year.

## 8. BUSINESS OPTIMISM

- Business optimism was mostly unchanged in June from a month prior but fell slightly below forecasts, according to the latest data from the National Association of Independent Business (NFIB)
- There was a substantial increase in respondents reporting excess inventories, which drove a slight decline in the overall index month-over-month. Meanwhile, the net percent of business owners expecting better business conditions also fell, dropping three points to 22%.
- The net percentage of owners expecting higher sales volumes ahead fell three points to 7%, while a net 21% of owners plan capital outlays in the next six months, down one point from May.
- Business uncertainty also declined in June, while the share of small business owners reporting taxes as





# Economic Update

 **SVN** | RESEARCH

their single most important problem rose 19%, its highest since July 2021.

## 9. CMBS DELINQUENCIES RISE

- According to Trepp, the CMBS delinquency rate rose five basis points to 7.13% in June, with four of the five main property types registering increases during the month.
- The highest delinquency rate increase during June was in the Office sector, which climbed 49 basis points to 11.09%, reaching a record high and surpassing previous peaks in July 2012 and December 2024.
- Lodging continued to display volatile delinquency trends, rising 42 basis points to 6.81% after shedding nearly 150 basis points during May, according to the report.
- The delinquency rate for Industrial loans ticked up just three basis points and remains at an industry low of 0.51%. The Retail delinquency rate climbed by five basis points to 6.69%.
- Multifamily loans were the only major property sector to buck the trend, with the delinquency rate falling by 20 basis points from May.

## 10. APARTMENT SUPPLY TRENDS

- A new analysis by RealPage suggests that many large construction markets have reached their peak, but that at least 13 of the nation's 50 largest apartment markets won't reach their highest supply volumes until at least the second half of 2024.
- The report identifies Boston, Detroit, Fort Lauderdale, Kansas City, and Memphis as metros expected to hit their construction peaks during the third quarter of this year. Cleveland, Columbus, and New York are expected to peak during the fourth quarter.
- Looking ahead to 2026, Newark is expected to reach its high during Q1, while Anaheim, Los Angeles, and San Diego are projected to reach their supply peaks in Q2. Finally, Greensboro, NC, is expected to peak during Q3 2026.

# Economic Update



## SUMMARY OF SOURCES

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