RESEARCH BRIEF

Marcus & Millichap

INFLATION

JULY 2025

Tariff Effects Begin to Emerge, Delaying Fed Action Until Broader Impacts Unfold

Rising CPI reinforces Fed caution. Inflation showed early signs of tariff-related pressure in June, with headline CPI rising to 2.7 percent year over year and core CPI reaching 2.9 percent. The pickup in core goods prices suggests that cost pass-through is beginning to take hold in categories directly exposed to trade measures, such as appliances, consumer electronics, sporting goods and toys. Businesses may continue raising prices in the second half of the year as inventories turn over and higher input costs filter through. This potential for renewed goods inflation comes at a time when services inflation remains elevated. In this environment, the Federal Reserve is likely to delay rate cuts until there is greater clarity on the impact of tariffs on inflation.

Escalating goods prices pressure retailers. Goods inflation climbed across both durable and nondurable categories in June, underscoring broad pricing pressure. High-turnover items such as sporting goods and personal care products rose 1.4 percent and 0.3 percent month over month, respectively. Longer-cycle goods also posted increases — appliances climbed 1.9 percent, audio equipment 2.9 percent and video equipment 4.5 percent — indicating elevated production costs are flowing through to consumers. Meanwhile, vehicle prices declined in June, suggesting that some goods are still working through older inventory despite rising input costs. Amid renewed cost pressures and soft consumer demand, retailers may continue to face strain, as the sector saw negative net absorption in the first half of 2025. Even so, national retail vacancy remains below 5 percent, and leasing activity has held relatively steady, indicating ongoing tenant backfilling.

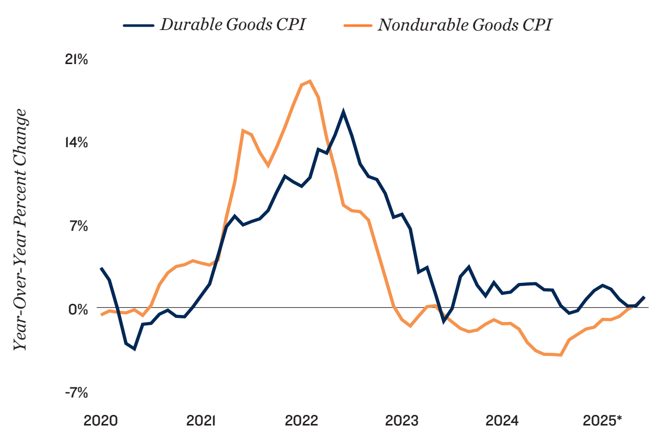
Travel demand shifts amid global uncertainty. Economic and geopolitical risks continue to weigh on leisure travel. In June's inflation report, airline fares fell 3.5 percent year over year, while the hotels and motels category declined 3.7 percent. This coincided with a 3.4 percent year over year drop in international arrivals to the United States during June, signaling heightened caution among global travelers. Hospitality markets that attract a disproportionate share of foreign visitors — such as Miami and New York City — are likely to face the steepest demand declines. In contrast, inland markets less reliant on international tourism may feel less pressure, while properties catering to domestic leisure demand could see modest gains as travelers favor shorter, local getaways.

Steady apartment demand sets stage for renewed rent growth. Multifamily demand remained strong in the second quarter of 2025, with net absorption reaching its highest quarterly level since mid-2024. Nevertheless, shelter costs increased by just 0.2 percent in June, and real-time rent data show only modest gains as Class A and B operators continue to offer concessions to lease up new supply. As those incentives expire, rent growth is expected to accelerate and may gradually appear in official inflation metrics. Demand is likely to remain uneven though, as Class C properties recorded slightly negative net absorption during the first half of 2025, indicating that financial strain continues to weigh on lower-income renters.

Higher wages help buffer elevated inflation. Wages continued to rise in June. Average hourly earnings were up 3.7 percent year over year, outpacing inflation and bolstering household budgets. Retail spending also stayed resilient, climbing 3.3 percent annually in May despite a modest monthly decline. This dynamic has enabled firms to pass along tariff-driven costs without sharply impacting demand. Nevertheless, if labor market conditions weaken, consumers may become more price-sensitive, limiting firms' ability to pass on higher costs.

2.7%	*Increase in Headline CPI Year Over Year*	2.9%	*Increase in Core CPI Year Over Year*

Goods Inflation Beginning to Rise



* Through June

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CME Group; CoStar Group, Inc.; Federal Reserve; National Travel and Tourism Office; RealPage, Inc.

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