

Inflation Stable Ahead of Oil Shock, Complicating Spending and Leasing

Oil spike clouds inflation outlook. February inflation data showed prices stayed contained before the Iran shock, with headline CPI up 0.3 percent month-over-month and 2.4 percent year-over-year, while core CPI rose 0.2 percent and 2.5 percent, respectively. Services inflation remained moderate, and tariff pass-through into goods was limited. Yet the data predates the Iran conflict and Strait of Hormuz closure, which has pushed the national average gas price up nearly 20 percent since Feb. 28 and will likely lift March headline inflation. Higher fuel costs may also raise prices in freight-sensitive categories such as food. For the Federal Reserve, the key question is how much of that shock reaches core inflation, which usually rises less than headline as higher gas and food costs squeeze spending elsewhere.

Higher fuel costs test consumer spending. Gasoline prices respond quickly to oil spikes, though the hit to household budgets will depend in part on the conflict's duration, with some households able to cushion the initial strain through savings. If prices remain elevated, the pressure will likely build most in car-dependent suburban markets, particularly across the South and West. Rising fuel costs could also push up food prices, prompting some middle- and lower-income households to cut back on dining out and shift more spending to groceries. Higher-income consumers should remain better able to absorb the shock, potentially supporting full-service restaurants, which the International Franchise Association expects to outpace quick-service chains in sales growth in 2026 for the first time since the pandemic.

Tariffs persist, but goods inflation stays soft. Although the Supreme Court struck down the IEEPA tariffs, the administration quickly imposed a Section 122 surcharge, keeping trade costs elevated. Even so, core goods inflation remained muted in February, up 0.1 percent month-over-month. Apparel and small appliances showed firmer pass-through, but declines in used vehicles and softer pricing in other discretionary items held down overall goods inflation. Some trade corridors could still benefit from the ruling, as many non-USMCA goods from Canada and Mexico now face a 10 percent surcharge rather than the prior 25 percent IEEPA tariff. That may support industrial demand in inland distribution hubs and border markets such as El Paso, where leasing hit a record 4.7 million square feet in 2025, while record construction in McAllen and Laredo suggests future growth.

Service sectors may remain resilient. The Institute for Supply Management's services PMI rose to 56.1 in February, the highest since August 2022, while the prices-paid index fell to 63.0, the lowest since March 2025, suggesting service-sector expansion remains firm as cost pressures ease. Rising oil prices should affect most service firms less directly, though weaker consumer spending and greater uncertainty could still delay hiring, expansion, and leasing. Nevertheless, the sector may continue to grow despite the conflict, supporting office demand and service-oriented retail categories such as fitness, beauty, pet care, and optical. A faster resolution to the conflict and stabilizing fuel costs would provide additional upside.

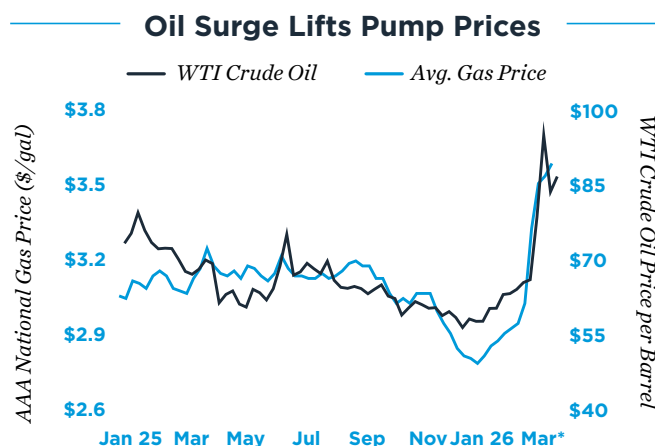
Memory shortages lift electronics cost. Consumer tech could face more pressure after computer software and accessories prices rose 6.5 percent in February. AI-driven memory demand has pushed prices higher, while Micron's exit from its Crucial consumer business signals tighter supply for mainstream devices and a tougher outlook for PC and smartphone shipments. Higher replacement costs may shift some demand toward refurbished devices, trade-ins, and repair services. That could support electronics resale and repair tenants, including PayMore, which plans to open 96 stores in 2026, and Batteries Plus, which opened 63 stores in 2025.

2.4%

Increase in Headline CPI
Year-Over-Year

2.5%

Increase in Core CPI
Year-Over-Year



* Through March 11, 2026

Sources: IPA Research Services; Bureau of Labor Statistics; Federal Reserve; CoStar Group, Inc.; RealPage, Inc.