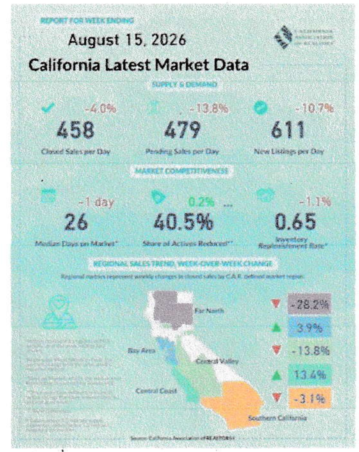
August 17, 2026 - The economy and housing market entered the third quarter on uneven footing, with California home sales softening, consumer spending pulling back, and confidence measures improving but still fragile. Inflation has cooled, offering some relief to households and financial markets, but price growth continues to run ahead of wage gains, keeping pressure on consumers. At the same time, businesses and CEOs remain cautiously optimistic, helped by signs of easing price pressures and steadier hiring plans. Challenges remain, particularly for housing demand and consumer resilience, but the fundamentals could gradually improve in the final quarter if progress in U.S.-Iran peace negotiations helps ease energy-market volatility, reduces inflation risks, and supports a more stable labor-market outlook.



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Weekly MLS Market Data Report

California home sales pull back while price moderates: The housing market in California kicked off the second half of 2026 with a slow start as sales pulled back and home prices moderated, according to the July sales and price report released by the California Association of REALTORS®. Existing single-family home sales last month declined 6.0% from June, reaching the lowest sales level in six months, but edged up 1.1% from their year-ago level. Higher mortgage rates and financial market volatility in the past two months weighed on buyer demand, resulting in soft sales activity in the last few weeks. The statewide median home price declined month-over-month in July, dropping 1.9% from June and fell below the $900k benchmark for the first time in four months. On a year-over-year basis, the median price edged up 0.3%, marking the third consecutive month with an annual increase. Despite the slowdown in sales activity in recent weeks, moderations in rates since early August could help stabilize housing demand, and market conditions could improve in the months ahead if geopolitical tensions ease.

Inflation cools but continues to outpace wage growth: The latest inflation report offered an encouraging sign that upward pressures on overall prices could be easing gradually. Consumer prices rose just 0.1% on a seasonally adjusted basis in July, while the year-over-year inflation rate edged down to 3.4% from 3.5% in June. Core inflation, which excludes food and energy, increased 0.2% during the month and slowed to 2.46% annually, its slowest annual growth rate since March 2021. Falling gas prices and a pullback on the index of used cars/trucks helped offset increases in shelter, medical care, and other service-related costs. Despite the slowdown, consumer price growth continued to outpace wage growth for the fourth consecutive month, which could force many consumers to dial back their spending in coming months. The latest data also provides some breathing room for the central bank and supports expectations that mortgage rates could gradually trend lower over time.

Small business optimism climbs again as uncertainty remains elevated: Businesses remained optimistic about future economic developments last month as inflation began showing some signs of relief, despite growing evidence of a stalemate between the U.S. and Iran in the Strait of Hormuz. The NFIB Small Business Optimism Index rose 2.4 points to 99.8 in July from June, reaching its highest level since August 2025. One major contributing factor to the increase in the optimism index was the rise in hiring plans. The net increase in share of owners who planned to create new jobs over the next three months was up a substantial 9 points from June. Inflation metrics also showed improvement last month, as the net percent of owners raising average selling prices fell 7 points, while the net percent who plan to increase prices in the next three months dipped 4 points from June. Uncertainty, on the other hand, continued to fluctuate with the index rising 2 points after slipping mildly in the prior month. With the U.S.-Iran negotiations appear to have hit a wall, there is growing risk that the current ceasefire framework could unravel. Business optimism could reverse its upward trend if the diplomatic stalemate continues in the coming months.

Retail sales growth turns negative after Prime Days splurge: U.S. retail sales unexpectedly dropped as consumers cut their spending in July after strong gains in May and June, according to the latest report released by the Commerce Department. Sales at retail and food services last month fell 6% from June and registered the biggest monthly decline since May 2025. The monthly dip was due partly to the drop in energy prices that dragged down the overall read, but retail spending was still down 0.6% even with gas station sales excluded. Online sales were down the most last month, with the category dropping 2.2% in July. The pullback was not a complete surprise as Prime Days' deals boosted consumer spending in June. On a year-over-year basis, non-inflation adjusted sales continued to climb by 5% after surging 7.2% and 6.8% in May and June, respectively. While the annual sales gain last month remains solid, the monthly drop in sales following a sluggish July job figures raises concerns about the resiliency of consumers who have powered the economy forward despite soaring gas prices.

CEO confidence improves in Q3 with a partial bounce-back: Corporate leaders' optimism rose in the latest quarterly survey conducted by the Conference Board but remained well below what was observed at the start of 2026. The CEO Confidence Index increased 5 points to 52 in Q326 from 47 in Q226, rebounding from a sharp decline observed in the second quarter when energy prices surged significantly due to the Middle East conflict. Nearly a quarter (23%) of all CEO's said economic conditions were better than six months ago, up from 15% in the last quarter. In the short term, 19% of them expected the economy to get worse, a sizable drop from 40% recorded in Q2. Cyber (63%) and AI/new technology (58%) remained the top industry risks in Q3. Geopolitical was ranked number three on the list , but "only" 53% would consider it a high risk for the industry. Worries about supply chains (35%) and energy supply (25%) both moderated in the latest quarterly read, despite the Middle East conflict remaining unsettled. While big companies continued to stay in "low-hire, low fire" mode, more CEOs were willing to expand their workforces in the recent quarter as the share who expected to hire more people climbed to 34% in Q3 from 28% in Q2.

Note: *This summary report gets updated every Monday by 6:00 pm PST. Feel free to email us at* **research@car.org** *if you have any questions and/or feedback.*