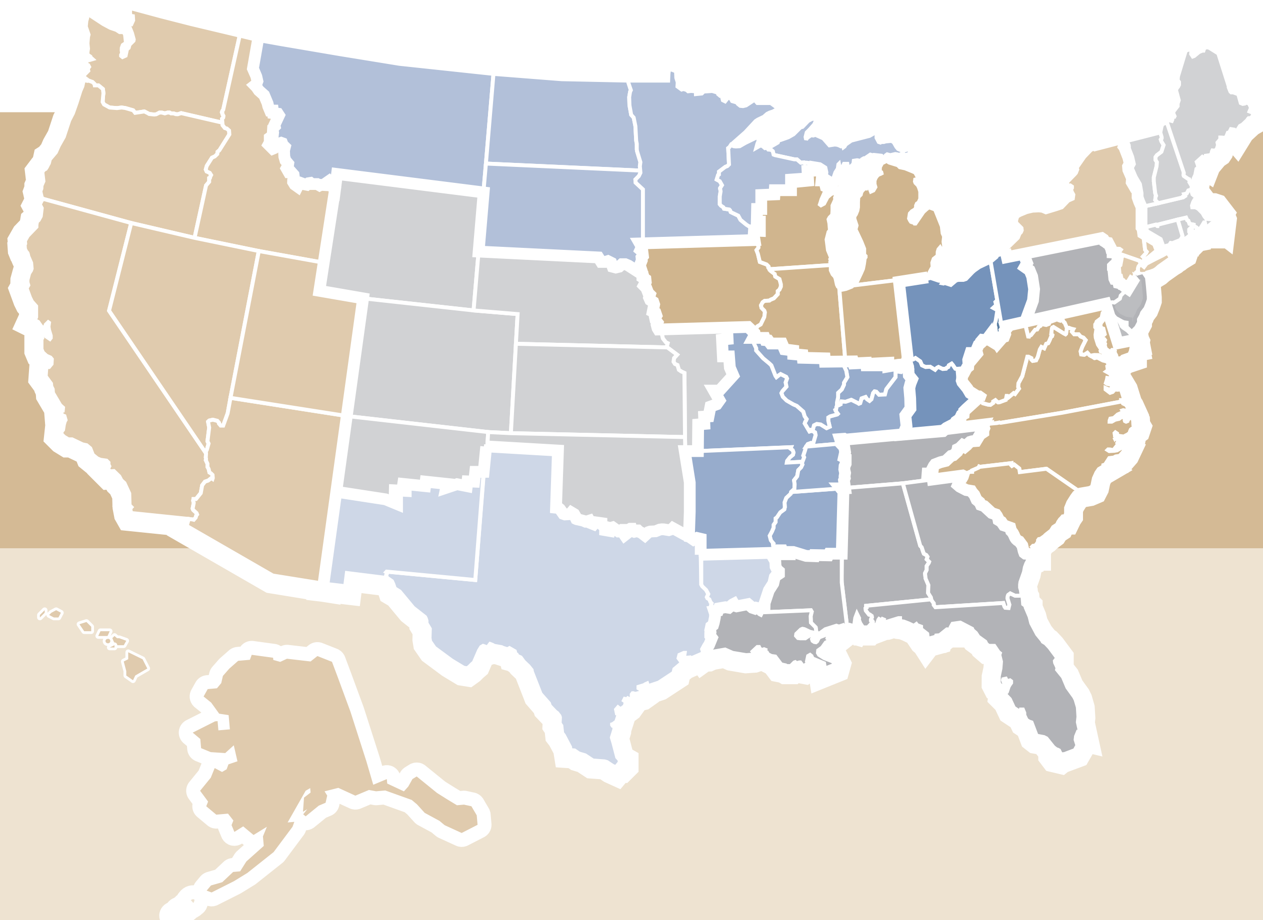
The Beige Book

Summary of Commentary on Current Economic Conditions by Federal Reserve District

August 2026



FEDERAL RESERVE SYSTEM

Federal Reserve Bank of Dallas

Summary of Economic Activity

Economic activity in the Eleventh District expanded moderately over the reporting period. Growth picked up in the manufacturing, banking, and energy sectors, while it slowed in nonfinancial services. Retail sales increased but auto sales remained soft. Agriculture conditions deteriorated due to drought conditions, but wheat and cotton prices improved. Employment grew modestly with moderate wage growth. Prices rose moderately, except in the manufacturing sector which experienced robust price growth. Outlooks were stable to positive.

Labor Markets

Employment grew modestly over the past six weeks; however, staffing firms reported pockets of strength in certain service sectors, such as health care and legal work. Contacts reported numerous instances of labor market mismatch in terms of skills, geography, and expected wages. One contact noted job candidates asking for "San Francisco wages," while another stated migration of skilled manufacturing workers from California helped ease regional labor shortages. When asked about impediments to hiring, a survey of Texas business executives cited a lack of available applicants, applicants looking for more pay than offered, and a lack of technical skills as the top three.

Wage growth was moderate. A staffing firm reported wage expectations increased among workers, but that employers had not adjusted to the reality that low-paying jobs will not attract applicants. Employees with certain skill sets fetch a higher wage premium. Wage pressures were also noted for field technicians for oil and gas equipment.

Prices

Price growth was moderate to robust over the reporting period. Price pressures remained elevated for manufacturing firms while stable for service sector firms. The ongoing Middle East conflict continues to impact fuel, petrochemical products, fertilizer, and transport prices, all of which are elevated compared to before the crisis. In addition, certain other input and materials prices remain high, such as copper and computer memory related components. Airlines reported maintaining ticket prices because demand is supporting the current higher prices that resulted when the conflict drove up jet fuel prices. Some retail contacts reported holding off on price increases until later in the year or next year.

Manufacturing

Manufacturing activity growth was moderate with a pick up in durables but contraction in non-durables. Durable manufacturing strength has persisted in machinery, transportation equipment, and computer manufacturing and recently also spread to metals. While overall nondurable activity weakened, Gulf Coast refiners increased output and petrochemical production was stable. Despite fuel exports hitting new highs, downstream operators continue to view current profitability as a transitory geopolitical windfall. The manufacturing outlook improved significantly, although many contacts voiced concerns regarding geopolitical instability.

Retail Sales

Retail sales continued to rise modestly. Retailers noted that consumers appeared resilient in the face of higher gasoline prices. Auto sales softened in July due to challenges facing consumers, including elevated financing costs, high gasoline prices, and low consumer confidence. Some retailers mentioned that tariff refunds are occurring and having a meaningful impact by funding selective pricing strategies. Retailers have a positive outlook going forward as the headwinds from high oil prices are weaker than anticipated.

Nonfinancial Services

Revenue in nonfinancial services grew modestly over the past six weeks. Growth was led by the transportation and warehousing sectors and supported by the accommodation and food services and other services sectors. Transportation services firms reported slight declines in small parcel volume but growth in air freight volume due to AI-driven semiconductor demand. Staffing firms reported robust activity with one contact noting that activity in July was about 30 percent higher than last year. Outlooks were stable with continuing concerns regarding inflation, demand, and geopolitical uncertainty.

Construction and Real Estate

Housing market activity remained sluggish, with sales declining seasonally. Builders continued offering significant rate buydowns and discounts to attract buyers amid weak demand, compressing margins to below pre-pandemic levels. Finished lot inventories are still elevated in Dallas–Fort Worth. Builders reported profitability pressures from higher-cost new lots, leading some to accept losses or walk away from deals. Demand from the immigrant buyer segment remained weak, impacting sales in certain markets. Outlooks remained cautious, and meaningful improvement is not expected in the near term.

Commercial real estate activity improved on net. Apartment absorption was solid, though elevated concessions persisted and rents were flat to down across major metros. Industrial activity showed strength with solid leasing and absorption, particularly for larger spaces. Office markets continued recovering with positive absorption and flat to declining vacancy, though older buildings struggled. The retail market remained tight with low vacancy rates and modest new construction.

Financial Services

Loan volume and loan demand expanded further in August. Volume rose across all loan types. Credit standards and terms tightened slightly, but loan pricing declined. Overall loan performance improved for the first time since 2022. Bankers reported expanding general business activity and remain optimistic about the future. Survey respondents expect strong growth in loan demand and business activity with a very slight deterioration in loan performance six months from now.

Energy

Eleventh District oilfield activity picked up over the past six weeks. Some contacts indicated this was primarily a previously planned increase rather than a price-driven pick up, particularly in the Permian. Overall, upstream shale spending remained disciplined. However, oilfield services firms were somewhat optimistic about pricing, which reflected improved demand and passthrough of some recent cost increases. Price pressures were evident in fuel, steel tubing, oilfield chemicals and components for engines and transmissions. While sentiment and expectations for the months ahead were broadly positive, contacts are concerned about low crude oil inventories and lasting impacts from damaged energy infrastructure abroad.

Agriculture

High temperatures and persistent drought in some areas of the District have hampered crop conditions over the past six weeks. Cotton and grain yields are expected to be down this year, with particular weakness in wheat production. Cotton prices remained decent, buoyed by strong global demand, and grain prices rose over the reporting period. Conflict between Russia and Ukraine in the Black Sea has shut down a significant share of grain trade, particularly wheat, pushing up wheat prices markedly. Cattle prices declined but remained high amid tight supply and solid beef demand. The presence of New World screwworm has been well managed and has not meaningfully impacted the broader market for beef production or demand, according to contacts. There was optimism around the outlook for agriculture in 2027 based on the favorable winter forecast for a typically rainy El Niño weather pattern.

Community Perspectives

Nonprofits reported sustained high demand for assistance as households are under mounting financial pressure from the higher cost of essentials, such as food and utilities. Cuts in the Supplemental Nutrition Assistance Plans are expected to push up food insecurity. Organizations anticipate higher demand with no corresponding increase in resources, placing stress on both service providers and the communities they serve. Hospitals are adapting to the end of enhanced premium tax credits for Affordable Care Act insurance plans, which significantly increased monthly payments and deductibles. As a result, there has been a decline in the utilization of elective health-care services and in the ability of patients to pay for emergency room services. Hospitals are responding by slowing hiring and capital investment.

For more information about District economic conditions visit: https://www.dallasfed.org/research/texas.

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