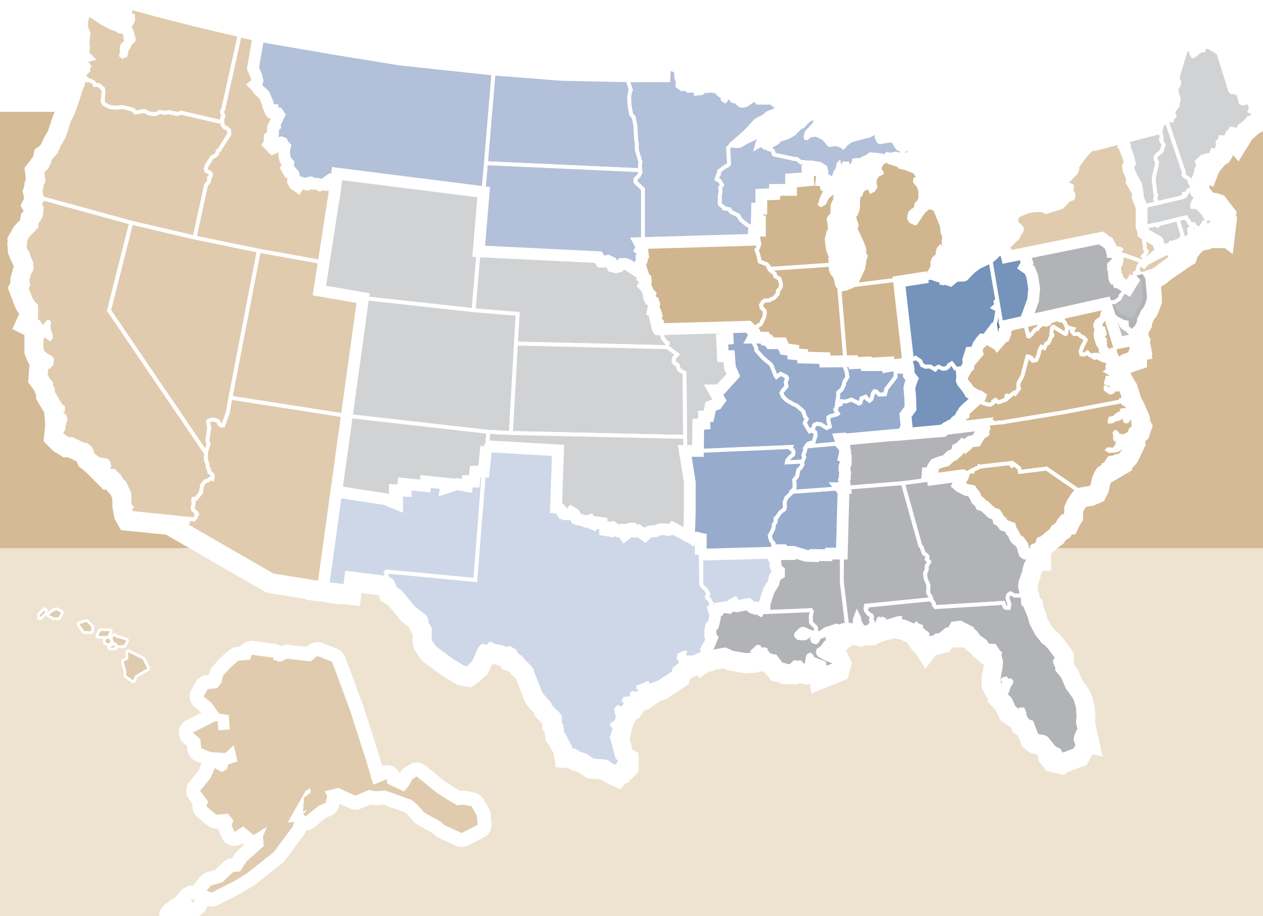
The Beige Book

Summary of Commentary on Current Economic Conditions

January 2026



FEDERAL RESERVE SYSTEM

Federal Reserve Bank of Dallas

Summary of Economic Activity

Economic activity in the Eleventh District held steady over the reporting period. Little change was seen in manufacturing, retail, nonfinancial services, and real estate. The banking sector was a bright spot, with loan volumes increasing over the past six weeks. Activity in the energy sector weakened slightly, hampered by low oil prices. Employment was largely unchanged, and prices increased moderately. Outlooks remained cautious, dampened by concern over the level of demand and the inflationary impact of tariffs.

Labor Markets

Employment held largely steady over the reporting period. Some layoffs continued in the energy sector, particularly among oil and gas support services firms. Few layoffs were noted otherwise, though some contacts reported reduced work hours amid a slowdown in business. A staffing agency said companies are slow to backfill open positions and make hiring decisions in general. Overall, few labor shortages were noted, though there were scattered reports of difficulty filling certain skilled or semi-skilled positions due to a lack of qualified candidates. When asked about the effect of AI on employment, most companies using AI said it hasn't had an impact, though a quarter expect it to decrease their need for workers over the next few years. Wage growth in 2025 among more than 250 surveyed Texas manufacturing and services firms was 3.5 percent, on average, down from 4.3 percent in 2024. Firms expect 3.3 percent wage growth in 2026, on average. Among energy firms, wage growth stagnated.

Prices

Price pressures remained moderate overall, with the exception of manufacturing raw materials prices which remained elevated. In a recent Dallas Fed survey, services companies reported 3.7 percent input price growth in 2025, on average, down slightly from 2024, and they expect input cost growth to moderate further in 2026, to 3.1 percent. Among manufacturers, input cost growth averaged 5.5 percent in 2025, up notably from 3.8 percent in 2024, and is expected to slow notably to 4.1 percent 2026. Selling price growth ticked down to 2.3 percent in 2025 and is expected to be 2.5 percent in 2026, on average across sectors. Contacts continued to note a combination of absorbing tariff costs and passing some on to customers.

Manufacturing

Factory output was flat to down slightly in December after a strong November. Recent weakness was driven primarily by nondurable goods production, including chemicals. Petrochemical production fell, with contacts saying some customers were holding back or canceling orders due to anemic global demand and the high level of uncertainty, particularly regarding trade policy. Machinery and transportation equipment manufacturing were areas of relative strength. Capital spending among manufacturers continued to increase moderately. Manufacturing outlooks were hampered by continued tariff uncertainty, though contacts said lower interest rates could help spur demand.

Retail Sales

Retail sales activity was mixed in December. Retailers noted that customers remained price sensitive, with even marginal price adjustments leading to significant changes in demand. Retailers observed consumer bifurcation, with lower-income households particularly struggling with higher prices. In some Hispanic communities, store traffic dropped due to immigration enforcement concerns. Auto dealers reported weaker sales compared to the previous year, though one noted that luxury brand sales were holding up better. Overall outlooks for the coming year were tepid but positive on net, with many contacts expecting increases in sales.

Nonfinancial Services

Activity in nonfinancial services was largely flat over the reporting period. Some revenue gains were seen among leisure and hospitality firms, as well as in education and health care. Recent weakness was concentrated in professional and business services. A consulting firm said they were seeing a reduction in the number of opportunities for consulting services in the public sector. Activity in transportation services was mixed—softness was reported in cargo volumes, while airlines reported improving demand across the industry. Holiday air travel bookings were strong, and one contact noted that demand for higher-priced international travel has been unexpectedly robust. Staffing contacts said demand held steady. Outlooks were fairly stable overall, with contacts broadly expecting increased activity six months from now. The level of demand remained the top outlook concern, followed closely by domestic policy uncertainty and inflation.

Construction and Real Estate

Conditions in the housing market remained challenging during the reporting period. Existing home sales were fairly steady but weak. On the new home side, demand for entry-level homes was sluggish, while the move-up and luxury markets were somewhat resilient, according to contacts.

Homebuilders reported an elevated level of speculative inventory. There was ongoing downward pressure on home prices and builder margins, and outlooks remained weak.

Commercial real estate activity improved on net. Apartment demand slowed at year end, and rent concessions remained widespread. Office leasing increased overall but was fragmented, with strong net absorption reported for top-tier space, but continued weakness in demand for lower-tier properties. Leasing demand for industrial and retail space was solid.

Financial Services

Loan volume and demand increased in December after decreasing in the previous month. Loan volume was driven up by commercial real estate loans. Credit standards and terms tightened; however, loan pricing continued to decline. Overall loan performance deteriorated at a slower pace than the prior period. Bankers reported increasing general business activity. Their outlooks leaned optimistic. Contacts expect growth in loan demand and business activity six months from now but a slight deterioration in loan performance.

Energy

Activity in the oil and gas sector weakened slightly over the past six weeks. Some activity shifted to more natural-gas-focused regions. Producers broadly expect oil prices to remain in the low $60 per barrel range in 2026. At that price, which is below the average price District oil producers need to profitably drill new wells, contacts expect a slight decline in well completions. However, crude oil production is expected to be fairly flat on net, as companies drill longer horizontal wells and push for other productivity gains. Some contacts, particularly in the oil and gas supply chain, noted delays in investment due to the elevated level of policy uncertainty. Outlooks worsened on net.

Agriculture

Contacts reported fairly stable conditions in the agricultural industry. Soil conditions remained dry across much of the District, and contacts expressed concern over the forecast for the La Niña weather pattern—which typically brings warmer temperatures and lower rainfall—to continue this winter. Winter wheat crop production prospects have been hampered by dry conditions in some areas, and farmers expect a negative impact on cotton and grain crops next year if the dryness persists into the planting season. Crop prices generally trended slightly higher over the reporting period, though they remained sub-profitable for many producers. Cattle prices rebounded, and contacts noted ongoing impacts on feedlots and meat packing plants from the ban on cattle imports from Mexico.

Community Perspectives

Nonprofits continued to report elevated demand for social services, driven by economic pressures and community needs. The heighted demand for food assistance from the disruption of the federal Supplemental Nutrition Assistance Program has largely abated, though demand remains higher than last year. Contacts noted that lower-income families budgeted more tightly during the holiday season to manage limited resources, seeking bargains and cutting back on travel and dining out. A community services nonprofit in Southern New Mexico said some migrant farmworkers have been afraid to show up to work given recent immigration enforcement policies, and that even missing one paycheck is impactful to their households. A workforce development contact noted higher demand for employment services compared with this time last year and said there is increasing interest in workshops on the adoption of AI and other digital tools.

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

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