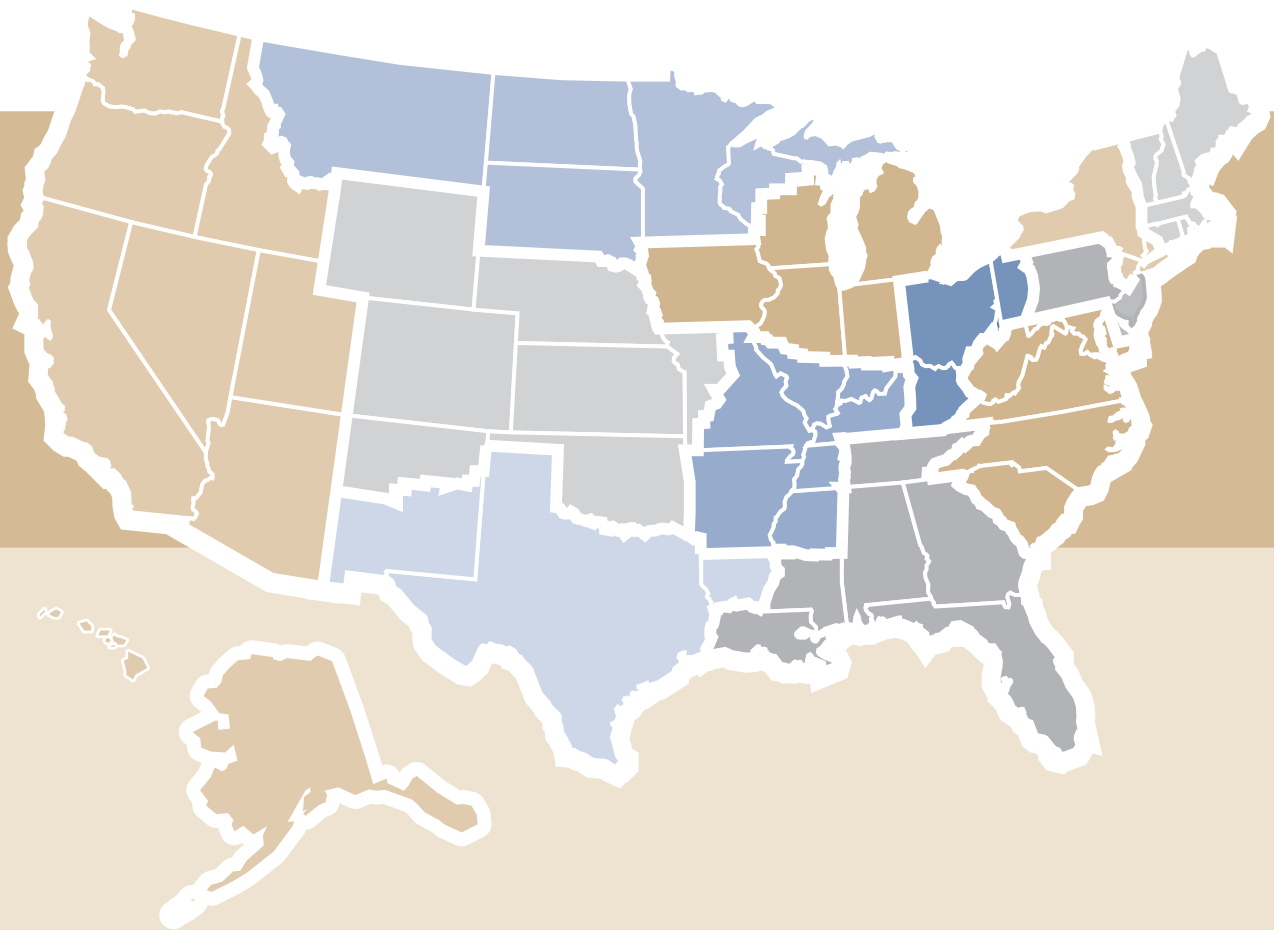




The Beige Book

Summary of Commentary on
Current Economic Conditions by
Federal Reserve District

July 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 nonfinancial services, banking, and energy sectors, but moderated in manufacturing. Retail sales and agricultural conditions improved. The real estate sector was mixed, with sluggish home sales but rising commercial activity. Employment and wage growth strengthened, and price pressures rose. Outlooks were stable to positive, dampened by concern over inflation, the level of demand, and geopolitical and domestic policy uncertainty.

Labor Markets

Employment growth was solid. Staffing firms cited a broad-based increase in demand across sectors and skill levels, with one contact noting that June was their best month since before the pandemic. Finding the right talent remained challenging, partly driven by an aging workforce and reluctance among qualified candidates to switch jobs in an uncertain environment. Oilfield services firms noted increased competition for skilled labor from the power generation and AI industries, and data center developers also said it was challenging to find skilled workers such as electricians and technicians.

Wage growth picked up, particularly in the service sector. A staffing firm making direct hire placements noted raising their fees to the maximum level. There were reports of upward wage pressures stemming from inflation and a shortage of experienced workers. Firms expect wage growth to be 3.5 percent over the next 12 months, up from 3.1 percent in March.

Prices

Price pressures increased over the reporting period, largely driven by higher fuel and freight costs. Some contacts noted that supply-chain issues related to trade policy and to the Middle East conflict prompted raw material price increases, and a restaurant owner noted higher food costs. Data center developers said skilled labor shortages and supply-chain issues were driving up costs for new projects. Input and selling price expectations among Texas businesses surveyed were flat to slightly down in June compared with March, with input prices expected to increase 3.7 percent and selling prices expected to rise 2.8 percent over the next 12 months. Some firms expected falling

fuel prices to ease cost pressures, while one noted that a few retailers may use tariff refunds to reduce prices.

Manufacturing

Manufacturing activity growth slowed to a modest pace in June. Output held steady for nondurable goods but grew broadly in durables, buoyed by strength in machinery, transportation equipment, and computer manufacturing. Some contacts noted that trade policy was hindering their ability to conduct business with international partners. Petrochemical producers saw output retreat slightly due to lower prices and rising Chinese polymer exports. Gulf Coast refiners maintained high output levels amid disrupted global supply chains. Manufacturing outlooks were stable despite uncertainty stemming from inflation, geopolitical tensions, demand concerns, and supply-chain disruptions.

Retail Sales

Retail sales rose over the reporting period, an improvement contacts attributed to consumer resilience that supported purchases despite elevated gasoline prices. Retailers continued to observe divergence in spending patterns, with lower-income households increasingly prioritizing value in their purchases. Auto sales fell in June, which dealerships ascribed to elevated financing costs, high gasoline prices, and low consumer confidence. Outlooks were positive, buoyed by the agreement to reopen the Strait of Hormuz, which has caused gasoline prices to fall and reduced some of the uncertainty about future business conditions.

Nonfinancial Services

Activity in nonfinancial services accelerated in June. Growth was led by health care, and revenues rose in the information, professional and business services, and transportation and warehousing sectors. Transportation services firms reported increased volumes, and airlines said demand rose broadly, despite fare increases. Staffing firms noted an increase in demand for both temporary and direct hire placements. Outlooks improved although concerns regarding inflation, weak demand, and domestic and geopolitical uncertainty continued to dampen sentiment.

Construction and Real Estate

Activity in the housing market remained subdued, with slow and choppy sales and traffic, particularly in outlying areas and those reliant on recent immigrant buyers. The first-time buyer segment remained soft while the move-up segment performed better. Home prices were stable, but builders continued to offer discounts and rate buydowns to attract buyers amid weak demand. New deals are not moving forward due to high lot prices and weak demand, and there were reports of

builders walking away from transactions, sometimes forfeiting earnest money. Outlooks remained cautious as builders navigated sluggish demand, elevated input costs, and weak pricing power.

Commercial real estate activity rose further. Apartment absorption remained solid though rent concessions were widespread due to elevated supply. The office market was stable, with consistent demand, and the industrial market saw solid activity. Building activity was mixed. Office, apartment, and retail construction remained subdued, while data center and industrial construction were robust. Data center capacity demand has increased, but new projects are being hindered by limited access to energy, supply chain disruptions, and public pushback.

Financial Services

Loan volume and demand grew notably in June. Volume rose across all loan types except for consumer loan volume which was stable. Credit standards and terms tightened, but loan pricing held steady. Overall loan performance remained the same. Bankers reported expanding general business activity and were more 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 drilling activity increased during the reporting period. Contacts noted that producers are reacting to higher expected oil prices and timing increases to deliver higher output starting in the fall, when new pipeline capacity for natural gas comes online and alleviates transportation constraints. Oilfield services firms reported mixed pricing for drilling and fracturing services, reflecting improved demand and the passthrough of higher costs for diesel, labor, and other inputs. While near-term sentiment and expectations were broadly more optimistic, multiple contacts noted mounting challenges beyond the 2026 budget cycle regarding electric power supply and water disposal management.

Agriculture

Widespread rainfall improved soil moisture conditions across much of the District, though some areas of drought remain, particularly in the Texas Panhandle. Crop production prospects generally improved thanks to the rain, though elevated input costs continue to create financial stress for farmers. On the livestock side, the New World screwworm remains a key concern, particularly since the first U.S. case was identified in South Texas in early June. More cases have since been identified in Texas and New Mexico, prompting cattle producers in the region to dedicate resources to inspecting their herds.

Community Perspectives

Nonprofits and organizations serving lower-income individuals reported continued high, broad-based demand for assistance, with a notable pickup in service requests from seniors. Housing affordability was a growing concern in areas experiencing new economic development, including data centers. Contacts attributed the issue partly to an influx of workers, as well as to employers willing to subsidize housing costs for their workforce. Cuts in federal and state assistance programs as well as food and fuel cost inflation have prompted low- and moderate-income families to seek additional help. One nonprofit reported that demand for food assistance has surpassed levels experienced during the financial crisis and the pandemic. Some nonprofits reported struggling to fund services, with rising food and fuel costs posing challenges particularly for organizations engaged in food distribution or delivery services.

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



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