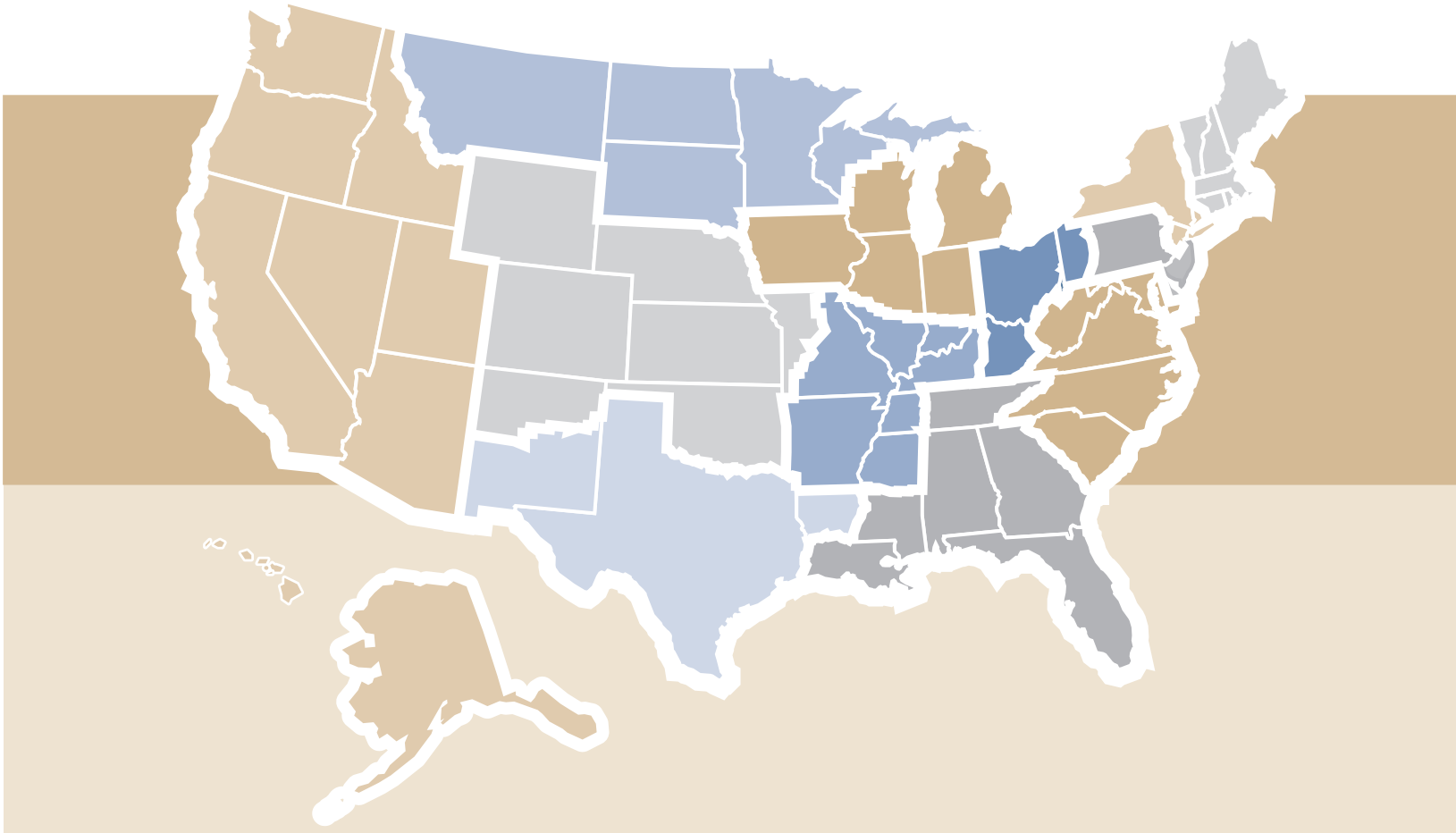
The Beige Book

Summary of Commentary on Current Economic Conditions by Federal Reserve District

October 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 notably in the manufacturing sector but eased in the banking and nonfinancial services sectors. Energy activity and retail sales continued to increase. Employment grew modestly with moderate wage growth. Price growth was strong. Outlooks were mostly positive, though inflation and continued geopolitical and trade policy uncertainty remained headwinds.

Labor Markets

Modest employment growth continued over the past six weeks, though an acceleration was seen in the manufacturing and energy sectors. Some contacts noted that hiring frictions have persisted due to mismatches in what pay and benefits companies offer and what workers want. One staffing firm said they hired new recruiters to help manage their AI expansion process—citing the example of having AI agents conduct more than 180 hours of interviews in a two-day period and needing workers to review and make decisions. One accounting contact noted that some large accounting firms are delaying new employment contracts because they may not need as many entry-level employees as initially anticipated, partly due to efficiency gains from AI. Wage growth remained moderate. There were continued reports of data center construction driving up labor costs and drawing workers away from other industries.

Prices

Price pressures picked up, with strong growth over the reporting period. The higher price for diesel reigned supreme in terms of the most commonly cited factor driving up costs, impacting freight, agriculture, and airline prices as well as causing widespread margin compression across numerous industries. While retailers expressed notable concern regarding higher diesel prices, most noted it has not yet led to hikes in selling prices. Cost pressures remained elevated across the energy sector.

Manufacturing

Texas manufacturing activity accelerated further over the past couple of months, with a sharp pickup in production and demand. Recent strength spanned both durables and nondurable goods manufacturing, and it goes beyond AI or semiconductor-related growth. One machinery manufacturer noted that oil companies were spending money at a much higher rate than expected. Gulf Coast refinery and petrochemical activity remained elevated. Outlooks continued to improve, though optimism waned somewhat from mid-year, with contacts citing increasing costs and uncertainty over continuing tariff and trade negotiations and disruptions in the Middle East.

Retail Sales

Retail sales rose over the reporting period, with contacts characterizing sales as solid. However, auto sales softened further in September, as affordability issues and weak consumer sentiment restrained demand. There were some reports of lower-income customers being more cautious with spending. Inventory levels were generally the right size, and most retailers reported normal supply chain operations. Overall, contacts maintained a positive outlook for retail sales for the remainder of the year.

Nonfinancial Services

Growth in nonfinancial services activity abated over the past six weeks. Revenue growth was primarily seen in transportation and administrative services. Airlines reported strong demand despite higher ticket prices, though one contact noted some weakness in demand from the lowest-income strata. Transportation contacts reported lower import volumes for ocean freight but higher export volumes. Air freight demand in North America is high due to semiconductor and AI demand, and volumes for small parcel delivery increased over the reporting period. Activity in leisure and hospitality was fairly flat, and health care and professional and business services activity weakened. Overall outlooks improved, with some contacts expressing sentiment that business and consumers have adjusted to inflation and uncertainty and are ready to move forward.

Construction and Real Estate

Activity in the housing market continued to be weak. Contacts noted that conditions remained challenging, and builders' margins remained under pressure from rising materials and labor costs. There were scattered reports of layoffs, and outlooks remained dim.

Apartment demand remained solid, vacancy rates improved, and year-over-year rent declines have moderated, though concessions remained elevated. Class C properties, however, were facing challenges amid softer demand at the lower end of the market. Office leasing activity remained

moderate and was concentrated in top-tier assets. Industrial demand was characterized as healthy, though year-over-year rent growth was mixed.

New construction activity for data centers has tempered due to a regulatory pause implemented by the state of Texas, which has frozen permits sought by data centers until their impact on electric grid reliability and on the state's water resources is audited. Data center developers are still finding it difficult to locate qualified workers, such as electricians and technicians, and building costs continue to rise for projects already underway. Water usage by AI data centers has become more efficient, as developers increasingly adopt closed-loop systems and liquid plate cooling. Meanwhile, public opposition remains a significant concern, potentially discouraging investment or delaying projects.

Financial Services

Loan volume and demand continued to grow but at a slower pace in September. Loan volume growth was driven by consumer and industrial and commercial real estate loans. Credit standards and terms tightened and loan pricing increased. Overall loan performance improved further. Bankers' outlooks turned pessimistic, with contacts citing the ongoing Mideast conflict, elevated inflation and the increase in the federal funds rate. Contacts overall expect a slight decline in loan demand six months from now, as well as worsening loan performance.

Energy

Growth continued in Eleventh District oil and gas activity over the past six weeks, though increases in the rig count were modest. Respondents to the Dallas Fed Energy Survey reported increases in both oil and natural gas production in the third quarter. Contacts noted sharp cost pressures from wages and benefits, fuel, and materials. Most Dallas Fed Energy Survey respondents anticipate that it will take until the end of the second quarter 2027 or beyond for crude oil exports from the Persian Gulf to return to normal levels. Thus, most contacts expect oil prices over the next year to remain well above the average breakeven price needed to profitably drill new wells, but there is elevated uncertainty regarding their price outlooks. Increased cash flow is largely being directed towards investor returns and capital expenditures. Outlooks improved, with particular optimism among exploration and production firms.

Agriculture

Drought conditions worsened significantly across much of the District in September, though widespread and heavy rainfall in early October helped paint a more favorable production picture going forward, supported by the expectation that an El Niño weather pattern will bring cooler and wetter weather this fall and winter. Contacts expressed optimism for the farm outlook, with strong

production prospects and solid grain prices, though there is concern over high input costs—fertilizer prices are up 10 to 25 percent from a year ago and diesel prices have nearly doubled. Cattle prices remained elevated amid continued tight supplies, but they declined over the reporting period and are lower than a year ago. Imports of Mexican cattle have resumed, after more than a yearlong ban due to New World screwworm concerns, though any impact to beef prices won't likely be seen for several months.

Community Perspectives

Nonprofits reported that cost inflation was squeezing margins and household finances among lower-income consumers. Tightening eligibility rules and stricter oversight in the Supplemental Nutrition Assistance Program (SNAP) are pushing food insecurity higher, and high utility costs from late summer heat was a top stressor on lower-income household budgets. While state childcare subsidies are critical for many lower-income parents, contacts note chronic supply constraints and expect a reduced budget next year. Nonprofits anticipate higher demand for basic needs assistance with no corresponding increase in resources, placing stress on both service providers and the communities they serve. Some contacts were seeing people use credit cards to supplement income, as well as retirees returning to the labor market to drive for rideshare apps to make ends meet.

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



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