



# The Beige Book

Summary of Commentary on  
Current Economic Conditions by  
Federal Reserve District

May 2026



FEDERAL RESERVE SYSTEM



# Federal Reserve Bank of Dallas

## Summary of Economic Activity

Economic activity in the Eleventh District rose modestly over the reporting period. Growth resumed in the service sector and picked up pace in manufacturing and banking. Retail sales weakened, and energy activity ticked up. The real estate sector was mixed, with falling home sales but rising commercial activity. Employment was largely flat, and wage growth remained modest. Increased fuel prices spurred price pressures. Outlooks were tepid amid heightened uncertainty stemming from the conflict in the Middle East and sharply higher transportation costs.

## Labor Markets

Employment overall was mostly flat during the reporting period. Increased economic uncertainty resulting from the Middle East conflict prompted some firms to pull back on hiring. A staffing agency noted difficulty finding experienced candidates to meet rising demand for professional services positions, observing that people are reluctant to change jobs in this environment. An engineering firm said 80 percent of their new hires do not have a background in a related industry, a change from five years ago when it was more common than not to find someone from a connected industry. Labor shortages were noted for oilfield technicians. Wage growth remained modest in the service sector but moderate in manufacturing. A services contact noted some relief in terms of pay demands from job candidates. Labor costs for homebuilders remained flat or declined due to reduced work volume in the single-family housing market.

## Prices

Price pressures increased over the reporting period, largely driven by increased fuel and shipping costs. Some manufacturers noted that supply-chain issues related to the closure of the Strait of Hormuz prompted substantial price increases in certain materials, like aluminum. Several companies across an array of industries have raised prices or added fuel surcharges in response to higher costs, while others noted that they plan to do so if higher fuel costs persist.

## Manufacturing

Manufacturing activity picked up pace over the reporting period, surging in April then abating to more moderate growth in May. The recent strength in manufacturing was seen in both durable and nondurable goods, with machinery manufacturing standing out as growth leader. Some factory contacts noted rising demand and building backlogs. A contact in high-tech reported strong semiconductor demand driven by AI infrastructure growth, but more modest technology demand outside of AI-led growth. Petrochemical producers maintained high levels of output to meet strong export demand amid disrupted supply chains due to the Middle East conflict. Manufacturing outlooks stabilized, though the ongoing conflict in the Middle East has created uncertainty.

## Retail Sales

Retail sales weakened over the reporting period. Retailers reported concerns that the Middle East conflict was negatively impacting business activity, as elevated gasoline prices reduced consumers' discretionary spending, particularly for low-income consumers. A grocery chain said reductions in SNAP benefits continued to negatively affect consumer purchases. Auto sales softened further in April and May, with dealerships experiencing a significant slowdown in customer traffic that they partly attributed to high gasoline prices and the resulting pullback in non-essential spending. Uncertainty about the conflict in the Middle East and future business conditions remains a concern.

## Nonfinancial Services

Activity in nonfinancial services picked up in April and May. Growth was led by professional and business services, including accounting and advisory services, where contacts note the complexity of the regulatory and tax environment is driving sustained demand. Contacts in leisure and hospitality report positive momentum in 2026 compared with 2025. Staffing firms noted a pickup in demand, especially in construction, particularly for data centers. Transportation services firms reported increased volumes, though high fuel costs posed a meaningful headwind to the industry. Airlines noted strong demand, with a minor boost from the shutdown of Spirit Airlines. Looking ahead, overall outlooks deteriorated slightly, with the ongoing conflict in the Middle East weighing on sentiment.

## Construction and Real Estate

Home sales fell during the reporting period. Contacts said sales and traffic slowed since April after holding up earlier in the spring. The first-time buyer segment was particularly weak due to affordability constraints, while the move-up segment performed better. Builders faced compressed margins due to high lot prices, and they were offering discounts and rate buydowns to attract buyers.

Outlooks remained cautious as builders navigated sluggish demand, elevated input costs, and weak pricing power.

Commercial real estate activity rose on net. Apartment absorption increased, but rents continued to decline and concessions remained widespread due to elevated supply. A modest recovery is expected in the second half of the year. The office market was stable, with consistent demand. Demand for industrial space remained solid. Office and retail construction was subdued, while data center and industrial construction were robust.

## **Financial Services**

Loan volume and demand growth continued to increase in May. Volume rose across loan types. Credit standards and terms tightened slightly, but loan pricing continued to decline. There was a broad-based deterioration in overall loan performance. Bankers expressed the highest level of concern for consumer and non-depository financial institution loan performance. Contacts expect strong growth in loan demand, but also slightly worsening loan performance. Bankers anticipate moderate growth in business activity over the next six months, while their top outlook concerns include fraud, economic uncertainty, and liquidity.

## **Energy**

Eleventh District drilling and completion activity ticked up slightly over the past six weeks. There continues to be limited appetite to increase activity even amid sharply higher oil prices, as the oil price impact of the Middle East conflict is still viewed as likely to be too short-lived to spur new capital investment. While some firms are accelerating the completion of already drilled or scheduled wells to pull production forward, many contacts note constraints such as the limited availability of drilling rigs, pipeline takeaway capacity for natural gas, and certain oilfield chemicals. These are likely to remain restraining factors to varying degrees well into 2027. Meanwhile, U.S. energy export volume out of the Gulf Coast is hitting record highs with the release of crude oil from the government's Strategic Petroleum Reserve, draws on commercial inventories, and new liquefied natural gas export capacity.

## **Agriculture**

Drought conditions improved notably in much of the District, though they worsened significantly in the Texas Panhandle, which is an important area for livestock and row crops. Input costs are up across the agricultural sector, particularly for fertilizer and fuel. Prices for cotton and grains have risen dramatically over the reporting period, more than compensating for higher input costs, according to contacts. These prices provide strong marketing opportunities for producers, but they are challenged by uncertain production prospects amid drought. Cattle and beef prices remained

high, though not all in the production chain are benefitting. Contacts noted that while ranchers are doing well in this market, there is financial strain among feedlots and meatpackers.

## **Community Perspectives**

Organizations serving lower-income individuals reported persistent high need for assistance. Higher gasoline prices have increased financial strain on low-income households in particular, which is expected to drive further demand for basic-needs assistance, including food. One contact noted that the need for items like diapers was so great that they could no longer fund the program and discontinued it. Community leaders highlighted that immigration enforcement continues to be a concern for the people they serve and has led to some people being afraid of going out in public to seek assistance. Accessing affordable housing also continues to be a critical issue, though some contacts noted affordable housing developments opening or starting to be built, offering hope for future improvement. Higher fuel costs are a key risk among nonprofits, as it increases the cost of delivering assistance and can soften philanthropic giving as donors prioritize meeting needs of their own families in a higher-cost environment.

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



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