Federal Reserve Bank of Dallas

Summary of Economic Activity

Growth in the Eleventh District economy slowed to a slight pace over the reporting period. Nonfinancial services activity was flat, but manufacturing output rose modestly. Retail sales dipped, and loan demand increased slightly. Commercial real estate activity was stable, while housing demand remained tepid. Oilfield activity rose modestly. Employment and wages grew, while input cost pressures accelerated largely due to the expected pass through of higher tariff costs. Outlooks worsened with weakening demand, policy uncertainty, and inflation cited as primary concerns going forward. Numerous contacts voiced concern that heightened uncertainty stemming from on-again, off-again tariffs was making it increasingly challenging to plan. Stricter immigration policy, federal government layoffs, and a cutback in spending were also cited as headwinds for growth.

Labor Markets

Employment rose modestly over the reporting period. Several contacts noted a wait-and-see posture on hiring amid elevated domestic and trade policy uncertainty, while some firms, including airlines, cited layoffs. Energy executives said layoffs are expected this year, and that the pace may increase if oil prices remain close to or fall below $60. Wage pressures were stable during the reporting period. One manufacturer noted cutting wages due to cash flow issues. Firms expect wage growth to slow to 3.4 percent over the next 12 months, down from 3.8 percent over the past 12 months.

Prices

Prices continued to increase at a moderate pace. Firms broadly expressed trepidation about the effect of tariffs on demand and costs, with some contacts indicating they will not be able to pass on the increases to clients. Several manufacturers cited higher raw material prices. The impact of tariffs on steel and machinery prices was a drag on the energy sector, particularly for firms with ongoing construction projects for whom the materials were a sizable share of costs. A few construction and real estate contacts said that tariffs had given their suppliers an excuse to raise prices, and some retailers cited being notified by their vendors of forthcoming tariff surcharges.

Manufacturers and retailers expect selling price increases to accelerate over the next 12 months, while service sector executives expect price growth to remain moderate.

Manufacturing

Manufacturing output rebounded in March after weakening in February. The pickup in production spanned both durable and nondurable goods, with strength seen in transportation equipment, machinery, computer products, and food manufacturing. Utilization rates at Gulf Coast refineries remained at healthy levels despite seasonal softness. While manufacturing activity picked up, outlooks worsened. Manufacturers widely voiced concern that tariffs were becoming an increasing source of uncertainty, dampening demand, pushing up prices, and delaying and complicating business planning.

Retail Sales

Retail sales dipped during the reporting period. Declining growth in sales of nondurable consumer products outweighed growth in durable goods. Among durables, auto vehicle sales strengthened in anticipation of the announced tariffs. Overall retail outlooks weakened, as the potential impact of tariffs on pricing and demand weighed on sentiment.

Nonfinancial Services

Activity in nonfinancial services stalled out following moderate growth in the previous reporting period. Revenue rose in some sectors, however, with increases seen in transportation, health, and professional and business services. Demand for staffing services was flat to slightly up. Airlines noted that passenger demand had softened, with some of the weakness attributable to a marked decline in federal government travel. Port traffic remained strong as companies accelerated their inventory purchases ahead of tariffs. Growth paused in the leisure and hospitality sector, which was attributed to uncertainty causing consumers to be more cautious with their discretionary spending. Outlooks deteriorated overall, with numerous contacts stating that heightened uncertainty surrounding domestic and trade policy was hindering their ability to plan with confidence.

Construction and Real Estate

Housing demand remained tepid. The spring selling season was characterized as modest and choppy, with a slight pickup in sales seen toward the end of the reporting period. Incentives for new homes, including price discounts, remained prevalent. However, there were scattered reports of builders being less aggressive on mortgage rate buy downs due to high costs. Home inventories rose, and prices were flat to down. Outlooks were cautious, weighed down by sluggish demand, high mortgage rates, and concerns regarding the impact of immigration and trade policy on consumer sentiment, labor supply, and construction costs.

Commercial real estate activity was stable during the reporting period. Apartment demand remained solid, though rent growth continued to be lackluster. Office absorption was positive in some major markets, though vacancies remained elevated. Industrial demand stayed positive but there was apprehension about the impact of shifting trade policies on leasing activity and investment sales.

Financial Services

Loan volume and loan demand growth decelerated sharply in March. Credit tightening continued, but loan pricing declined. Loan nonperformance increased. In addition, bankers reported that business activity contracted after expanding over the last three months, and their outlooks retreated to cautiously optimistic. While respondents expect an improvement in loan demand and business activity six months from now, the sentiment is less broad-based, and it is tempered by expectations of a continued increase in loan nonperformance.

Energy

Activity in the oil and gas sector increased modestly over the reporting period. While drilling and completion activity is expected to remain steady over the next few months, contacts were worried that lower oil prices, eroding global growth outlooks, and tariffs would dampen activity later this year and lower spending plans for 2026. Outlooks worsened, and contacts expressed concern that heightened uncertainty surrounding tax, trade, and regulatory policy was making planning difficult and would likely hinder investment decisions.

Agriculture

Drought conditions persisted in parts of the district, though widespread rainfall was received late in the reporting period and provided much-needed moisture. Some extreme weather was seen, from wind and dust storms in the Texas panhandle to flooding along the coast. Grain prices moved down. Cattle and beef prices continued to trend up over most of the reporting period, with beef prices rising to new highs, though cattle prices faltered somewhat in early April. Drought conditions are a hurdle for ranchers looking to expand their herds. Looking ahead, contacts expressed some concern for agricultural exports due to tariff impacts.

Community Perspectives

Demand for social services remained elevated. Contacts said many private companies were under a hiring freeze, and the jobs posted online were not being filled. Nonprofit organizations, particularly those heavily reliant on federal funding, reported trimming budgets, implementing hiring freezes, laying off workers, and downsizing programming. There was a report of a housing services nonprofit possibly shutting down operations in mid-2025 due to funding disruptions. One contact noted that landlords were less willing to rent apartments to tenants reliant on federal funds due to the current policy climate and funding freezes. Some social service organizations said they have observed a slowdown in applications for new benefits and trepidation among clients seeking services in light of recent immigration policies. Research universities were also facing significant uncertainty due to the funding cuts from the National Institute of Health and National Science Foundation.

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