Federal Reserve Bank of Dallas

Summary of Economic Activity

Economic activity in the Eleventh District economy was little changed over the reporting period. Nonfinancial services activity held steady and growth in the manufacturing sector slowed. Retail sales were mixed. Loan volumes grew slightly, energy activity eased, and the housing market remained subdued. Employment was flat and price pressures held steady except for the tariff-related increases seen in the manufacturing sector. Outlooks generally deteriorated, and tariff uncertainty was making it hard for businesses to plan for the future. Several contacts noted an erosion of consumer sentiment amid economic uncertainty.

Labor Markets

Employment was fairly flat over the reporting period. Contacts noted that hiring was at a standstill, with many companies instituting a hiring freeze. A headhunting firm noted that multiple clients recently paused on making offers for senior managerial positions that they had committed to filling. Among energy contacts, headcounts were largely unchanged, but several noted that they were planning to reduce staffing in the months ahead as they rein in spending. Layoffs were noted in the retail sector. A few contacts voiced concern over changes to immigration policy and the impact on the workforce. Recent changes in federal funding have placed a strain on staffing among local nonprofit organizations. Numerous contacts across industries noted that higher tariffs and elevated uncertainty weighed on hiring plans. Wage pressures were largely stable over the past six weeks.

Prices

Prices continued to increase at a moderate pace, though fuel prices declined, and a more marked pickup was seen in the manufacturing sector. Manufacturing raw materials prices jumped up in April and to a lesser extent in May, and companies reported a faster pace of finished goods price increases in response. This is largely driven by tariffs, with the estimated impact centering on a 5 to 10 percent cost increase, according to several contacts. Reports were mixed on the extent to which companies were able to pass along the higher costs to customers, with a minority expecting full pass through. Oilfield services firms noted particular difficulty passing through tariff increases on steel products, machinery components, and equipment. Among firms passing through tariff cost increases to customers, about 60 percent are doing so within a month of the tariff taking effect, and 90 percent are doing so within three months, according to an April Dallas Fed survey of Texas business executives.

Manufacturing

Manufacturing output continued to grow but at a slower pace over the reporting period, and new orders declined. Machinery and nondurable goods manufacturing were bright spots, while growth abated for most durable goods production. Gulf Coast refineries noted healthy capacity utilization rates. Manufacturing outlooks worsened further amid widespread expectations of a negative impact from higher tariffs this year. Half of manufacturers source at least 10 percent of their inputs from outside the U.S., according to an April Dallas Fed survey of 83 Texas factory executives. More than 60 percent expect decreased profit margins this year as a result of higher tariffs, 44 percent expect lower capital spending, and 29 percent expect a drop in production.

Retail Sales

Retail sales rebounded in April but declined notably in May. Auto sales dipped after strengthening in March amid forward buying ahead of tariffs. There were scattered reports of product delays among retailers, sometimes stemming from shipping issues. Retail outlooks worsened notably over the reporting period, and higher tariffs are expected to have an extensive impact, as most Texas retailers source at least 25 percent of their goods from outside the U.S. Retail executives are expecting squeezed profit margins and decreased sales this year due to higher tariffs.

Nonfinancial Services

Activity in nonfinancial services held fairly steady. An uptick was seen in professional and business services, while leisure and hospitality and transportation services exhibited weakness. Airlines noted waning demand for leisure travel, which they attribute to a decline in consumer sentiment. Port contacts noted a distortion in shipping patterns, with carriers front loading cargo amid tariff uncertainty. Staffing services firms spoke of flat demand, mostly below levels seen last year, though a couple noted a pickup toward the end of the reporting period. Tariff concerns were present among nonfinancial services contacts, though not as prevalent as in other sectors. Primarily, high levels of federal government policy uncertainty weighed on company outlooks.

Construction and Real Estate

Housing market activity remained subdued, with both traffic and sales continuing at a slow pace. Affordability challenges persisted, and heightened uncertainty and stock market volatility dampened buyer sentiment. Inventory levels were rising for both new and existing homes, and builders were having to offer more incentives to close deals, placing additional pressure on margins. Builders voiced concern about the impact of tariffs on construction costs, but said the impact has been subdued thus far.

Commercial real estate activity generally remained steady during the reporting period. Apartment leasing was strong, though rent growth continued to be lackluster due to elevated supply. Industrial demand was solid, but there were reports of slowing leasing activity due to tariff uncertainty. Outlooks were cautious, with uncertainty stemming from tariff polices causing developers and investors to take a wait-and-see approach on new deals.

Financial Services

Loan volume grew slightly over the past six weeks, while loan demand was unchanged. Credit tightening continued, but loan pricing declined. Loan nonperformance continued to rise but only slightly, increasing at the slowest pace since the end of 2022. Nevertheless, bankers reported further contraction in general business activity. Bankers cited financial and/or economic uncertainty, cybersecurity, loan demand, and liquidity as their top outlook concerns for the next six months. Concern regarding office and multifamily commercial real estate loan performance remained stable from February and down from the peak in August 2024; however, performance concerns for other commercial real estate loans ticked up. Bankers are less optimistic about the future. On net, they still expect an improvement in loan demand and business activity six months from now, but that sentiment is less broad based, and loan nonperformance is expected to increase.

Energy

Activity in the oil and gas sector eased over the past six weeks. Contacts noted a focus on drilling in the more oil-rich parts of the Texas Permian Basin, as the lower price environment makes other areas less economical. Exploration and production firms expect to cut capital spending in the second half of the year by more than initially planned, as rising overseas production will weigh on oil prices. Altogether, contacts now expect nearly flat production through December, as increased productivity offsets reduced investment in higher-cost wells.

Agriculture

Drought conditions eased in much of the district, though some western areas remained in extreme drought. Ample moisture in crop-growing areas supported favorable planting conditions and led to optimism for production this year, though continued timely rains will be needed. Cotton prices moved up on the news of U.S.-China tariff reductions. Grain prices remained soft, pressured by strong U.S. crop production prospects and trade restrictions. Cattle prices continued to move up to record highs, supported by solid beef demand and a small U.S. cow herd. High calf prices and strong grazing conditions could lead to herd expansion this year. Contacts noted that the recent Emergency Commodity Assistance Program—which issues one-time economic assistance payments based on planting last year—was a notable infusion of cash to farmers and created some financial relief.

Community Perspectives

Demand for social services remained elevated, and several contacts noted an uptick in clients seeking assistance for basic necessities, particularly among low-income workers and immigrant populations. Multiple contacts cited access to public transportation and childcare as significant challenges for workforce participation. A contact in South Texas said many residents are still facing issues from recent flooding, particularly those who did not qualify for federal assistance yet cannot afford to replace ruined cars or fix damage to their homes. New resource constraints, like the pullback in federal funding for food pantries and AmeriCorps, impeded organizations' ability to meet the increased demand they are observing. Refugee and immigration services noted a severe impact from federal funding cuts. Nonprofits shared that funding instability is a key concern for the foreseeable future.

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