



Federal Reserve Bank of Dallas

Summary of Economic Activity

Economic activity in the Eleventh District expanded modestly. Growth picked up in nonfinancial services and manufacturing. Retail sales increased, and loan volume rose, driven by increases in residential and commercial real estate lending. Agricultural conditions were favorable. Meanwhile, housing market activity remained weak, and drilling activity and oil production were flat. Employment levels were unchanged, and wage growth was moderate. Prices increased modestly apart from the manufacturing sector, where price pressures intensified due to tariffs. Outlooks improved but there was widespread trepidation regarding shifting trade policy, high interest rates, and more restrictive immigration policy. Just over one-fifth of firms said they expect a decline in demand for their goods or services over the next six months.

Labor Markets

Employment was fairly flat over the reporting period. A roughly equal share of service firms reported increasing versus decreasing employment. Staffing firms reported slow hiring activity, with a couple of contacts noting that companies were opting to reallocate workload internally or cutting staff in response to cost pressures from tariffs. A restaurant chain cited plans to automate in some areas to reduce labor costs. Homebuilders, oilfield services firms, and nonprofits noted trimming headcounts. Meanwhile, overall manufacturing employment grew moderately, although some transportation equipment and petrochemical manufacturers reported reducing staff to contain costs. Overall, wage growth was moderate, and firms noted improved availability of applicants.

Prices

Selling prices increased at a modest pace, except for the manufacturing sector where price pressures rose reflecting the widespread impact of tariffs. According to an August Dallas Fed survey, nearly half of firms noted being negatively impacted by tariffs, and all of them noted facing higher input costs as a result. Among those passing through tariff cost increases to customers in the form of higher prices, roughly half noted doing so within a month of the tariff taking effect, and three quarters are doing so within three months. Reports on the extent of pass through were mixed, with only 21 percent noting full pass through thus far. Companies reported mitigating tariff

impacts by building up inventories prior to the tariff, absorbing higher costs, and finding alternative suppliers.

Manufacturing

Activity in the manufacturing sector rebounded, following weakness in the prior reporting period. New orders rose for the first time since January, led by increases in durable goods, namely transportation equipment, machinery, and construction-related products. Output for nondurable goods expanded as well, with strength noted in food and printing-related manufacturing. Gulf Coast refineries cited steady production levels and higher margins for refined products. Perceptions of broader business conditions stabilized, and manufacturing outlooks improved slightly, though there was continued widespread apprehension regarding tariffs, high interest rates, and immigration policy.

Retail Sales

Retail sales rose during the reporting period. Auto sales remained steady, but one auto dealer noted a reduction in demand for repair services. Building material and garden equipment retailers cited lower sales, while health care and food and beverage stores reported increased activity. Overall retail inventories continued to decline, and outlooks stabilized though uncertainty persisted, and various contacts cited concern about the impact of tariffs on prices or demand.

Nonfinancial Services

Activity in nonfinancial services grew modestly during the reporting period. Growth was driven in part by revenue increases in health care and administrative and support services. Staffing firms saw a slight increase in demand for their services, with one contact noting that clients were holding off on hiring due to uncertainty. Meanwhile, transportation and warehousing services activity was flat. Airlines reported a modest pickup in demand in July, though activity remained below last year's levels. Service sector outlooks improved, but uncertainty remained a headwind.

Construction and Real Estate

Housing market activity remained weak. Foot traffic and sales were choppy and lackluster, with one contact characterizing the market as dismal. Existing and new home inventories rose further, and builders were increasingly relying on marketing and incentives, including discounting and mortgage rate buydowns, to close deals. Home starts have slowed, and lot supply is rising. Outlooks were pessimistic amid weak demand and elevated economic uncertainty.

Commercial real estate activity increased slightly during the reporting period. Apartment demand remained solid and occupancy rates edged higher, but the influx of new units kept rents flat to down. Office leasing ticked up, and contacts said there appear to be more signs of stability. Industrial activity was characterized as solid. New commercial construction activity was subdued. Investment sales activity continued to be limited, with scattered reports of distressed property sales. Outlooks remained cautious.

Financial Services

Loan volume and demand rose in August. The increase was driven by a continued rise in commercial real estate loan volumes and a sharp acceleration in residential real estate loans, which had contracted in the prior period. Credit tightening continued, but loan pricing declined, both at a pace slightly faster than in June. Loan performance deteriorated across all loan types. Bankers reported declining general business activity; however, their outlook was mildly optimistic. Respondents expect growth in loan demand and business activity six months from now, with a minor deterioration in loan performance.

Energy

Both drilling and well completion activity was little changed over the past six weeks. Headcounts dipped and oil field service firms reported that significant idle equipment and workforce capacity was keeping margins razor thin. Rising production from OPEC members combined with oil prices hovering near break-even levels has dampened industry outlooks. If the price of West Texas Intermediate crude oil remained in the low 60 dollar range, production was expected to be flat in the remainder of 2025 but likely erode in 2026. One bright spot was the midstream sector, where contacts expect an acceleration in project starts in response to the One Big Beautiful Bill Act and recent regulatory decisions.

Agriculture

Soil conditions were favorable across much of the District, boosting crop production. While yields are expected to be above average, crop prices remained low and sub-profitable for many producers. Safety nets like crop insurance and U.S. farm program payments will likely serve an important role this year. Cattle prices remained historically high amid solid demand and a decline in beef production. One factor limiting production was the suspension of cattle imports from Mexico implemented last fall to protect U.S. livestock from the New World screwworm, a parasitic fly. Lower cattle supply is putting downward pressure on beef production and upward pressure on prices.

Community Perspectives

Nonprofits continue to see elevated demand for a broad range of social services, including food, childcare, housing, transportation, and disaster assistance. Food assistance has emerged as one of the fastest growing needs among clients but rising costs and loss of federal funding are making it harder for nonprofits to meet that need. Subsidized childcare remains a critical barrier to employment for some families, with one organization noting that there are more than 11,000 children on the waitlist for their service area. One contact said that with the cut in FEMA funds they are having a hard time referring individuals to places for weather and disaster-related help. The current environment remains challenging for nonprofits as they contend with the impact of federal spending cuts amid high demand. Hence, even the most agile organizations are facing shifts in strategic priorities and staff reductions.

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