



Federal Reserve Bank of Dallas

Summary of Economic Activity

Economic activity in the Eleventh District economy was up slightly over the reporting period. Nonfinancial services activity grew modestly while manufacturing production held steady. Retail sales declined notably. Loan volumes expanded at a moderate pace. Oil well drilling and completions declined, but production remained flat. Housing market activity weakened. Employment levels were unchanged, and prices continued to increase modestly except for tariff-related increases in the manufacturing sector. Outlooks generally remained pessimistic and uncertainty elevated.

Labor Markets

The employment level was unchanged over the reporting period. While overall manufacturing employment grew modestly, some petrochemical manufacturers planned layoffs through the end of the year. In contrast, energy contacts noted reconsidering planned layoffs after the runup in oil prices as it is still difficult to find skilled oilfield workers. Some contacts reported layoffs due to federal government spending cuts, although others cited weak demand. Multiple contacts reported slow to no hiring at nonprofits with some mentions of job cuts. In addition, nonprofits noted their clients are facing increased difficulty finding employment. A few contacts that were still hiring reported that it had become easier to find qualified people. Wage growth was modest over the past six weeks and expectations for the year eased in June compared to three months ago.

Prices

Prices continued to increase at a moderate pace, driven by a notable pickup in the manufacturing sector. Manufacturing raw materials prices and finished goods prices rose further in June after rising following the April tariff announcement. A few energy contacts reported higher input costs because of the steel tariffs. A transportation equipment manufacturer noted that even prices for domestic steel have increased as demand shifted from imported steel to domestically produced steel. Expectations for 12-month price growth eased slightly in June compared to March as reported in a Dallas Fed survey of businesses.

Manufacturing

Manufacturing production was flat in June, and new orders continued to decline; however, capital expenditures grew moderately. There was slight growth in nondurable goods manufacturing excluding petrochemical manufacturing which experienced declines, and robust activity in machinery manufacturing. Some machinery manufacturers reported that they expect demand to increase further. Gulf Coast refineries noted little change in output. Manufacturing outlooks remained weak, and uncertainty increased. According to a Dallas Fed survey, the top outlook concerns for manufacturers are a potential recession, rising input costs, and mounting geopolitical uncertainty.

Retail Sales

Retail sales declined notably again in June. Auto sales also declined after consumers had pulled up their purchases. An auto retailer reported that car manufacturers are decreasing incentives to offset tariffs, further alienating prospective buyers. According to a Dallas Fed Survey, 37 percent of retailers experienced supply-chain disruptions or delays in June, a notable increase from a year ago when 15 percent experienced the same. However, the problem is not as widespread as during the pandemic. Retail outlooks remained negative amidst elevated uncertainty.

Nonfinancial Services

Activity in nonfinancial services grew modestly during the reporting period. Growth was driven by a rebound in the information and other services sectors. Meanwhile, transportation services activity deteriorated further. Airlines reported weak but stable demand for both leisure and business travel attributable to cuts to government spending and consumers taking a wait-and-see approach to booking summer travel. Transportation and warehousing contacts noted an excess in trucking and warehouse capacity due to a pullback in demand. Staffing services firms spoke of a slight increase in demand after it bottomed out in May. In a Dallas Fed survey of business executives, the top three outlook concerns were a potential recession and high geopolitical and domestic policy uncertainty. Outlooks remained pessimistic.

Construction and Real Estate

Housing market activity weakened during the reporting period. Foot traffic and sales continued to fall, and inventories were rising quickly. With softer demand, builders are increasingly relying on marketing and incentives, including discounting, to close deals. Lot supply is rising and starts have slowed. Outlooks were pessimistic amid weak demand and elevated economic uncertainty.

Commercial real estate activity largely remained steady during the reporting period. Apartment leasing was solid, but rent growth continued to be subdued due to the elevated supply of new units. Office leasing picked up modestly, and contacts said there appear to be more signs of stability. Industrial activity softened slightly. New commercial construction activity was subdued, and outlooks remained cautious.

Financial Services

Loan volume and demand accelerated in June after little-to-no-growth in the prior month. Strength was driven by commercial lending, while volumes continued to decline slightly for mortgages and consumer loans. Credit tightening continued, but loan pricing declined. Increases in loan non-performance were markedly more widespread than in the prior period. Bankers reported rising general business activity for the first time in two months, however, their outlooks remain mixed. Survey respondents expect an improvement in loan demand and business activity six months from now, but loan nonperformance is anticipated to increase.

Energy

Activity in the oil and gas sector was slightly down over the past six weeks. Drilling and well completion activity continued on a slow decline, but production held steady. Contacts noted that while the runup in oil prices due to the Mideast war temporarily boosted revenues for some, it did not last long enough to change spending plans for the year. Contacts expect to cut capital spending in the second half of the year by more than initially planned, as oil prices will likely stay low on account of rising overseas production. Energy companies also reported elevated uncertainty. While outlooks for the energy industry are slightly pessimistic, oil production is projected to hold steady.

Agriculture

Drought conditions continued to ease, and timely rainfall boosted crop conditions across the District. Crop production prospects are favorable so far, but prices remain unprofitable for most farmers. Cattle prices continued to set new records. Wholesale beef prices were also in record territory. Contacts attributed the price strength to lower beef production paired with robust consumer demand. Contacts noted concern in the agricultural community over continued tariff and geopolitical uncertainty. A survey of agricultural bankers found that changes and uncertainty in trade policy have led to a decline on net in the rate of loan repayments, loan demand, and net farm income, and they anticipate this downward trend to continue.

Community Perspectives

Demand for social services remained elevated as nonprofits continue to adjust to actual and proposed federal spending cuts. Nonprofits are working on locating new private sources of funding to fill the gap. Some contacts reported that private dollars are also in short supply as competition for donations and economic uncertainty both increased. A Houston-area nonprofit had once expected donations from the oil and gas sector to rise because of changes in federal policy, but donations have decreased as the sector faces domestic and geopolitical uncertainty. A few contacts commented that clients are not seeking services out of fear of Immigration and Customs Enforcement raids. Some organizations noted utilizing artificial intelligence (AI) to improve efficiency and help cut costs. They noted various AI use cases such as performing human resources tasks, conducting research, analyzing data, taking notes, and proofing documents.

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