



Federal Reserve
Bank of Dallas

Texas Economic Update and Outlook

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Federal Reserve Bank of Dallas

10/16/2026

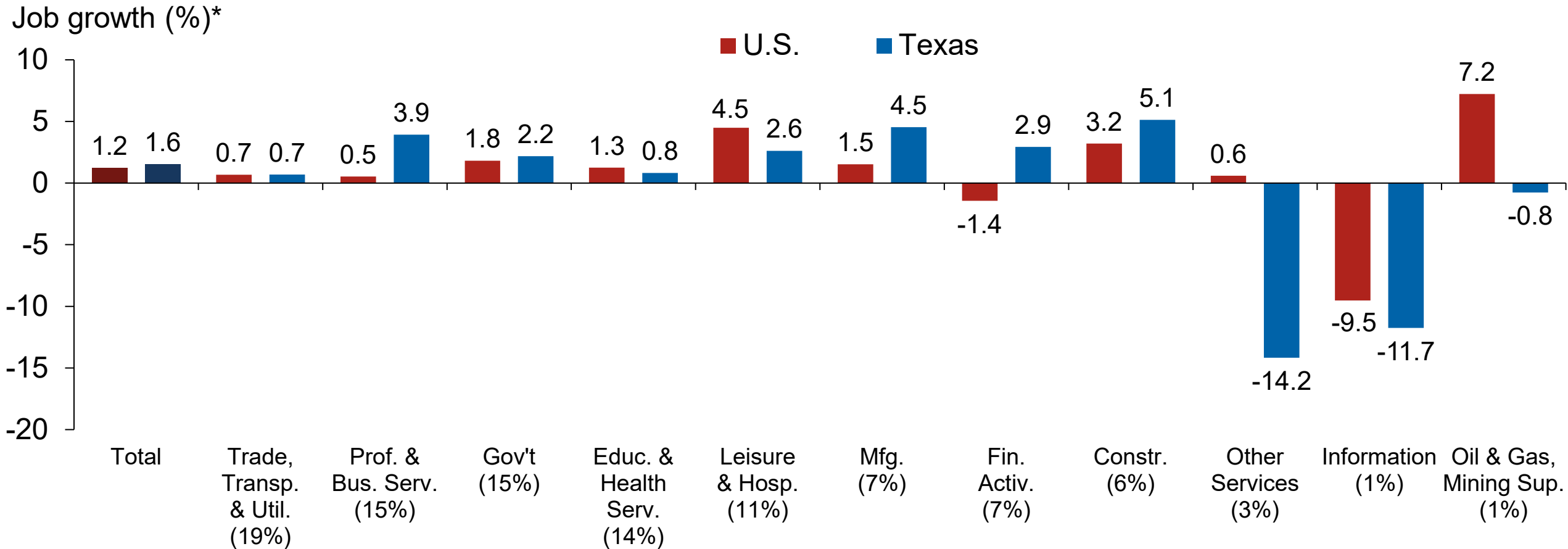
DISCLAIMER: The views expressed are the authors' and do not necessarily reflect the views of the Federal Reserve Bank of Dallas or Federal Reserve System. Data requests can be addressed to Jackie Balanovsky at Jackie.Balanovsky@dal.frb.org.

Overview

- Texas' economy showed a slight acceleration in the middle of 2026
 - Dallas Fed surveys indicate moderate economic growth
 - Job growth picked up significantly in August, after a flat July
 - Weakness remains in residential construction, but commercial construction is strong
- Outlook for 2026 calls for stable but slower than long-run average job growth
 - Momentum in AI investment and data center construction will likely carry forward
 - In addition, the oil and natural gas producers will benefit from higher prices
 - Headwinds include labor supply constraints, persistent above-target inflation/tighter monetary policy, and cuts to safety net programs

Overall Economic Activity

Employment increases for most sectors in August; declines in smaller sectors



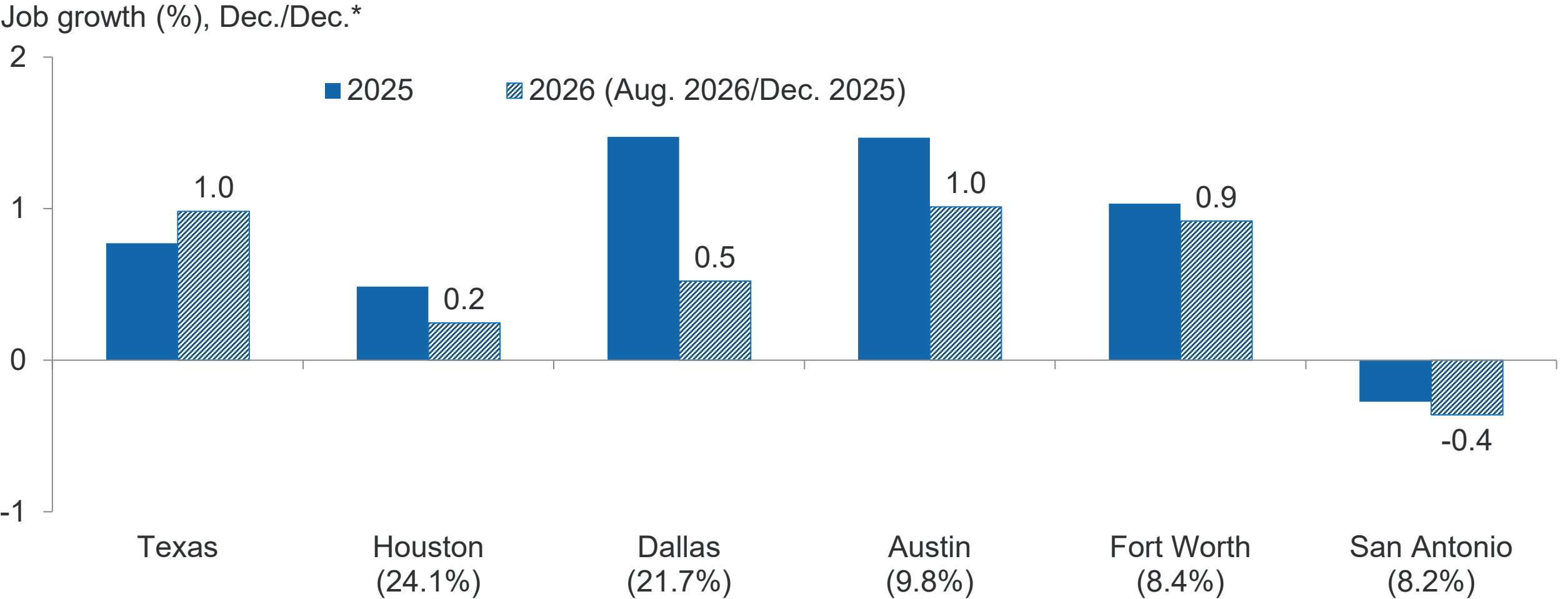
*Seasonally adjusted, annualized rate.

NOTES: Data are August. '26/July. '26 employment growth by sector. Numbers in parenthesis indicate share of total state employment in July 2026.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Dallas.

DATA: [Texas Employment by Industry - Dallasfed.org](https://dallasfed.org/research/texas-employment-by-industry)

In major metros, 2026 job growth lags last year's increase



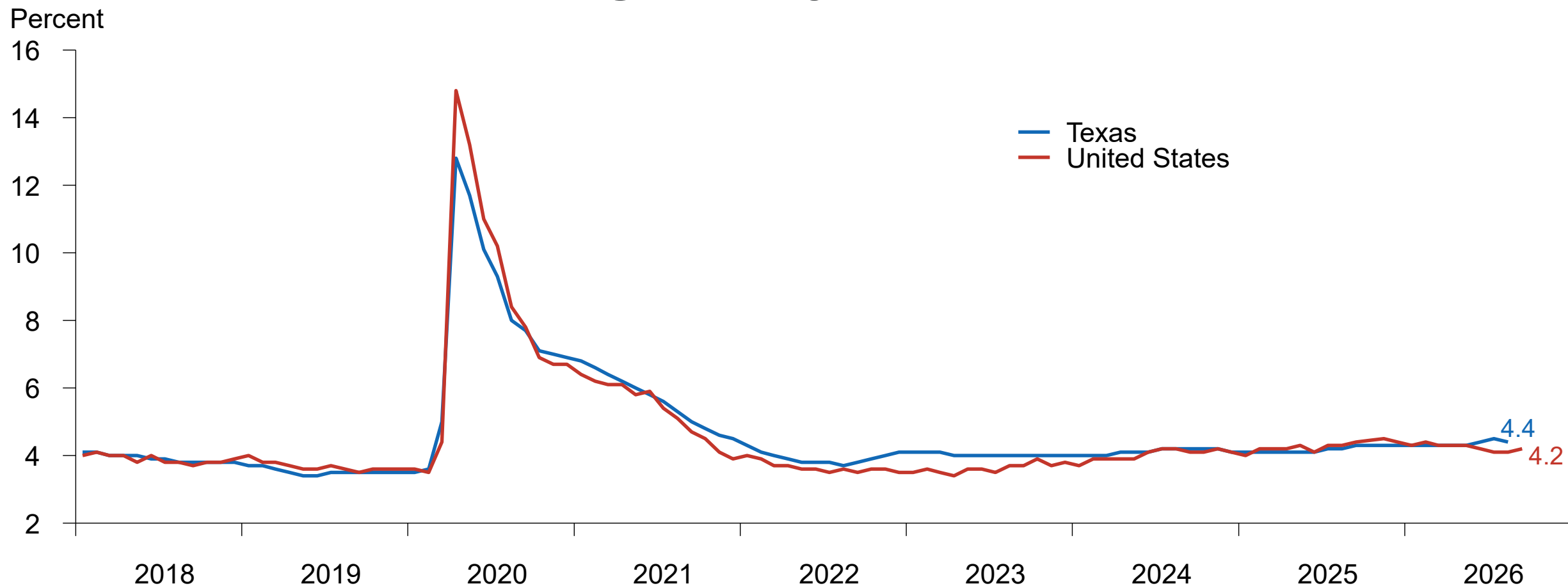
*Seasonally adjusted, annualized rate.

NOTE: Numbers in parenthesis indicate share of state employment for August 2026.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.

DATA: [Texas Employment Data - Dallasfed.org](https://dallasfed.org/economic/texas/employment)

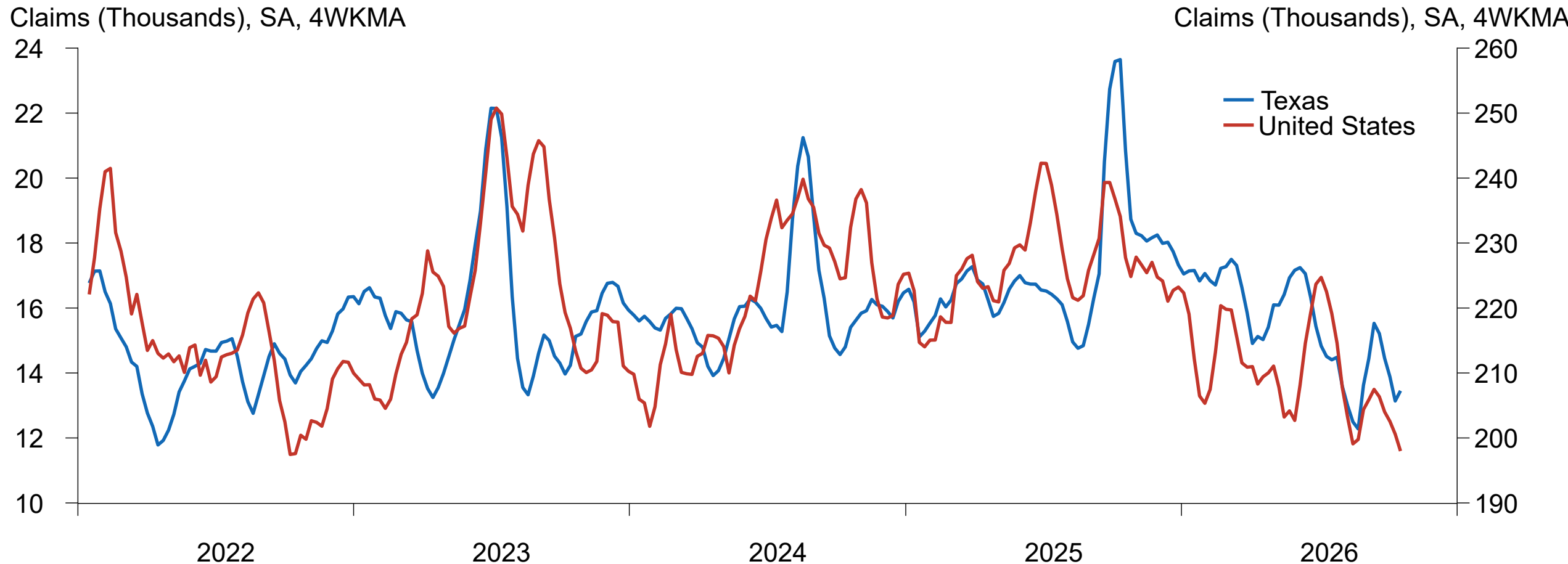
Texas unemployment ticks down in Texas, but generally stable



NOTE: Data are seasonally adjusted and monthly through August 2026 for Texas, September 2026 for the United States.

SOURCE: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Dallas.

Texas initial unemployment claims trended down in recent weeks

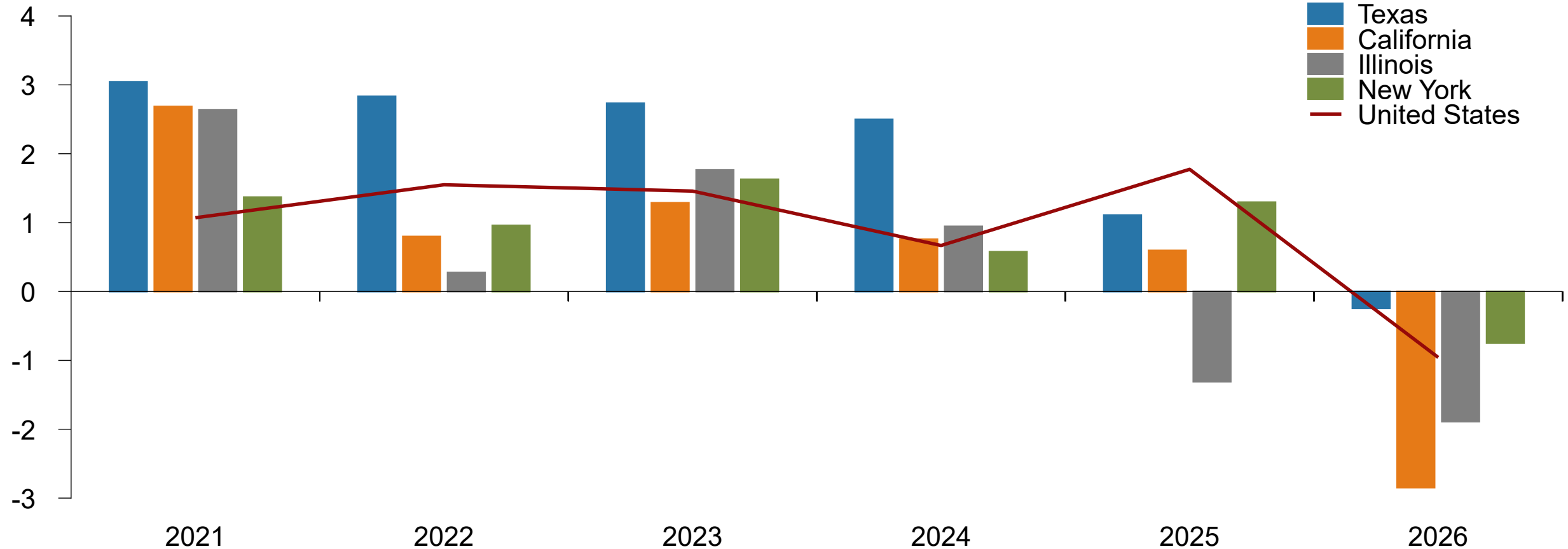


NOTE: Data are through October 2026. The left axis refers to Texas and the right axis refers to the US.

SOURCE: Department of Labor.

Labor force growth negative across the nation, slightly less so in Texas

Labor force growth (percent), SA

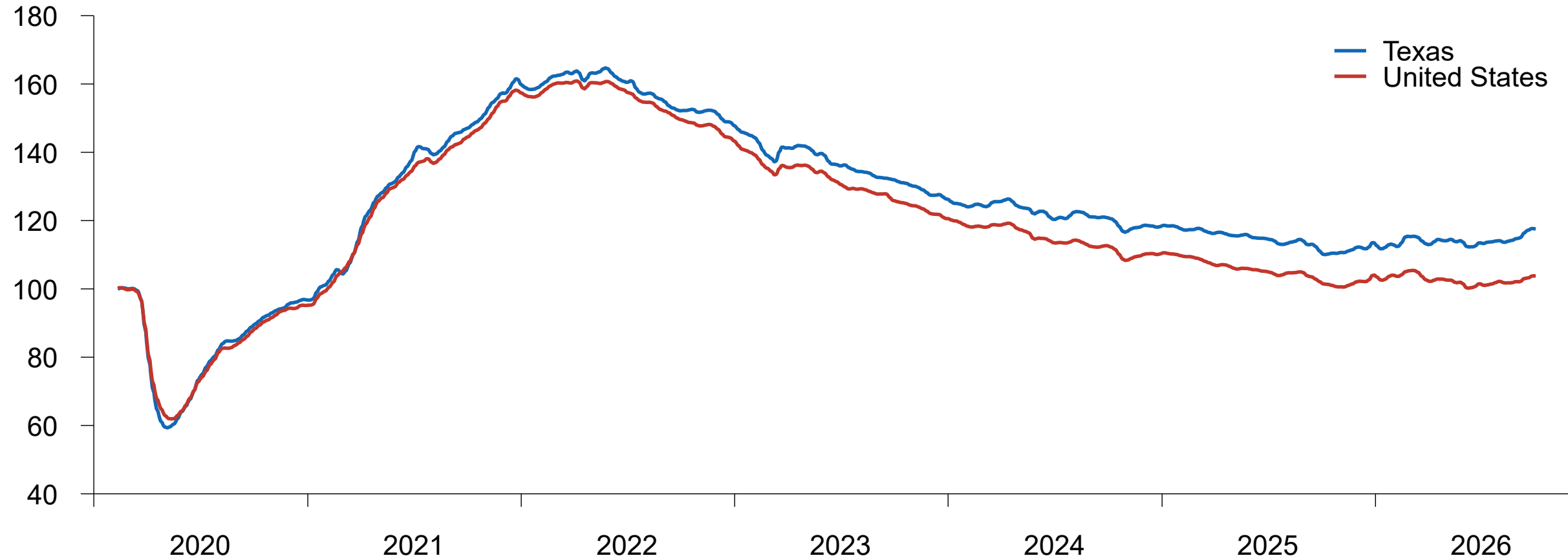


NOTE: Dec./Dec. growth rates, except for 2026 which is September/Dec. for the US, and August/Dec. for the states.

SOURCE: Bureau of Labor Statistics.

Indeed job postings show slight upward momentum in both Texas and the nation

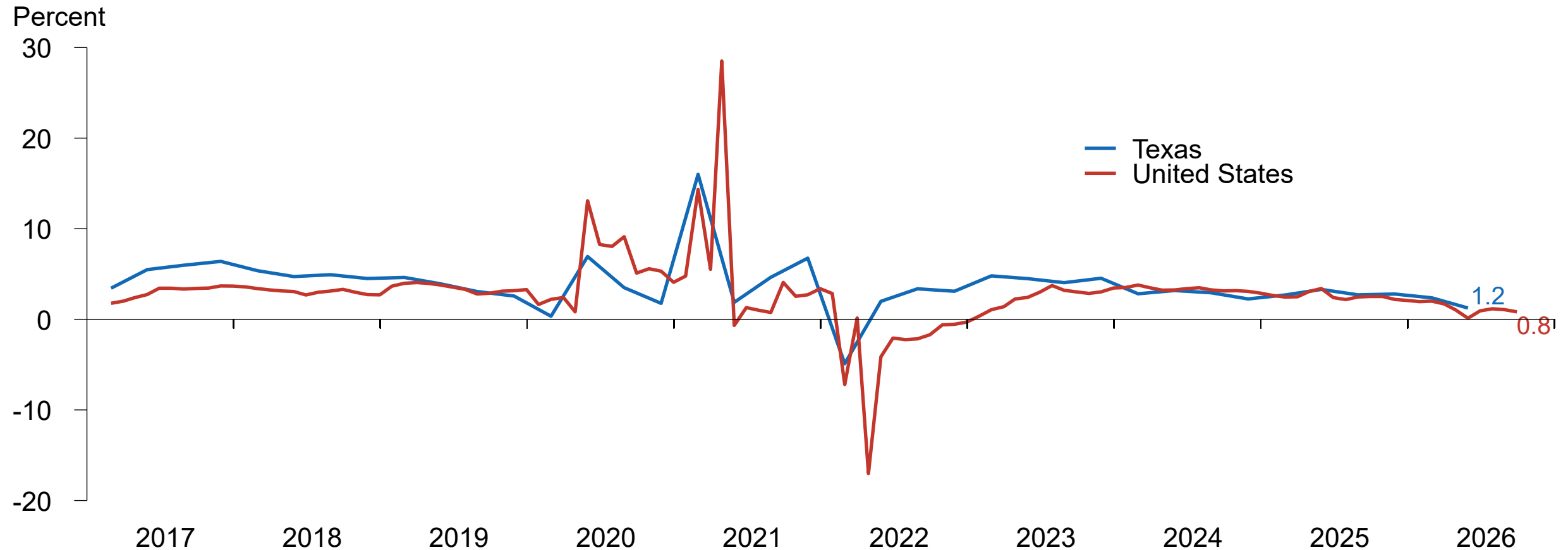
Index, February 1st, 2020 = 100



NOTES: Shown are seasonally adjusted, seven-day moving averages. Data are daily through October 02, 2026.

SOURCE: Indeed.

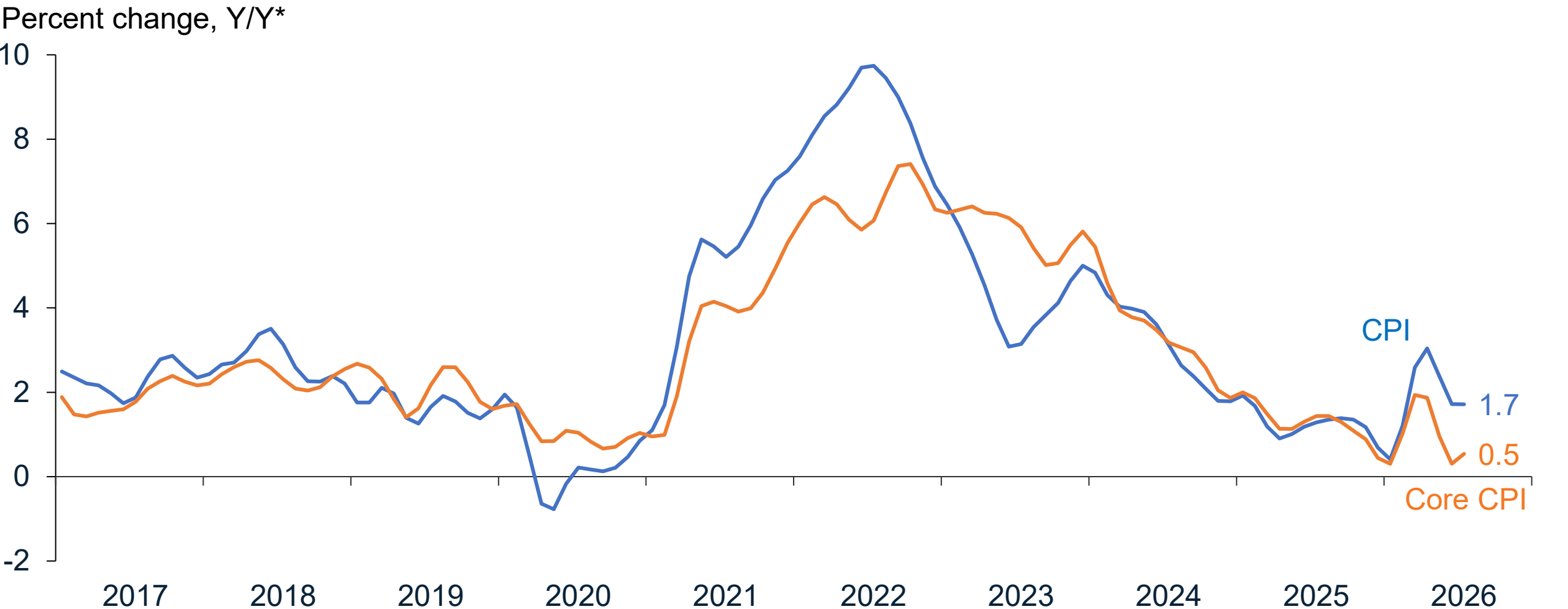
Real personal income growth slowed in 2026 in Texas and the United States



NOTES: Shown is seasonally adjusted, year-over-year real personal income growth. Texas data are quarterly through Q2 2026 and U.S. data are monthly through August 2026.

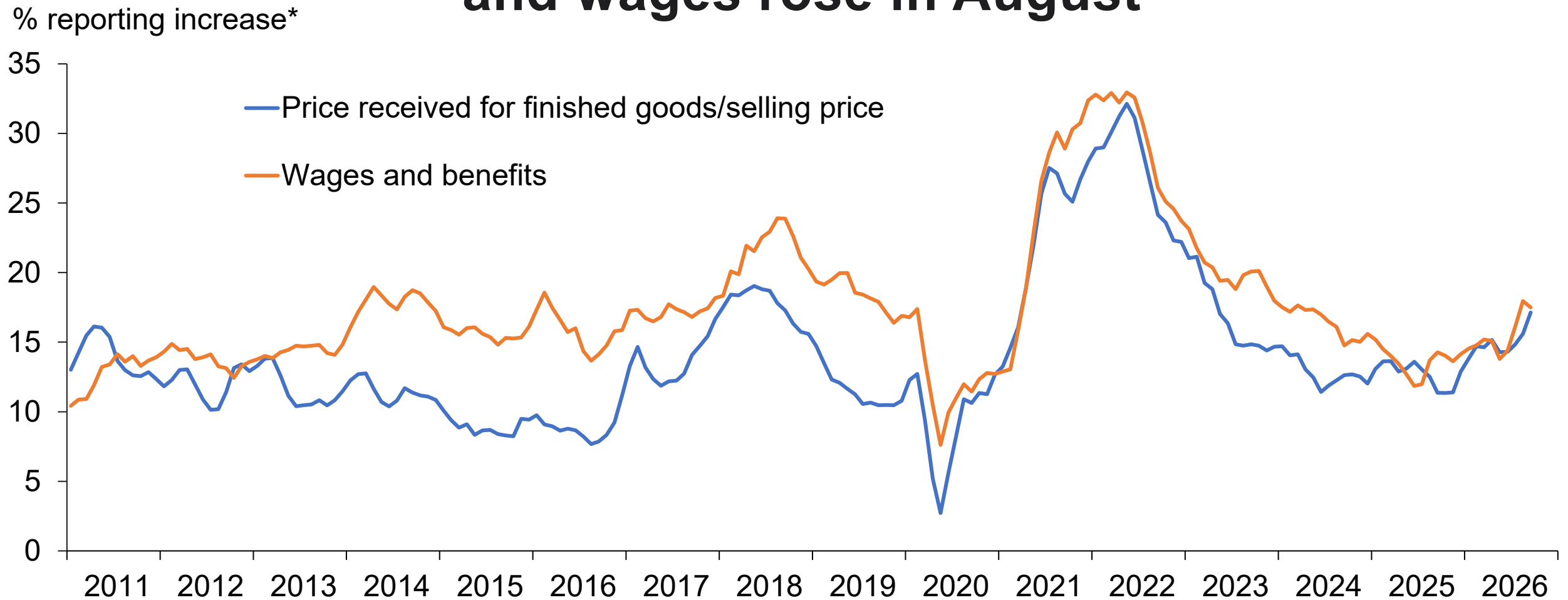
SOURCE: Bureau of Economic Analysis.

Texas core CPI ticks up in July, but still below 2 percent



*Seasonally adjusted.
NOTE: CPI data through June 2026.
SOURCE: Bureau of Labor Statistics.

Share of Texas firms reporting an increase in selling prices and wages rose in August



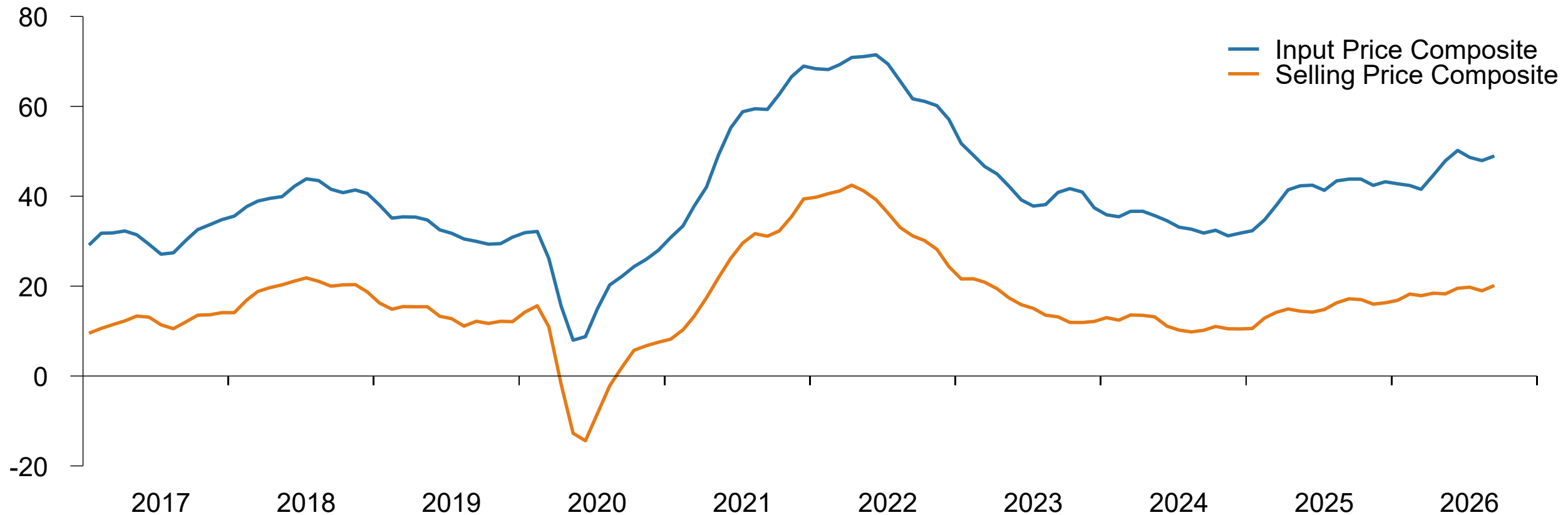
*Seasonally adjusted, three month-moving average.

NOTES: Percent reporting increase was constructed by weighting the respective component of TMOS and TSSOS according to GDP shares. Data through September 2026.

SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

Composite of Fed surveys shows selling price pressures rebuilding as input prices rise

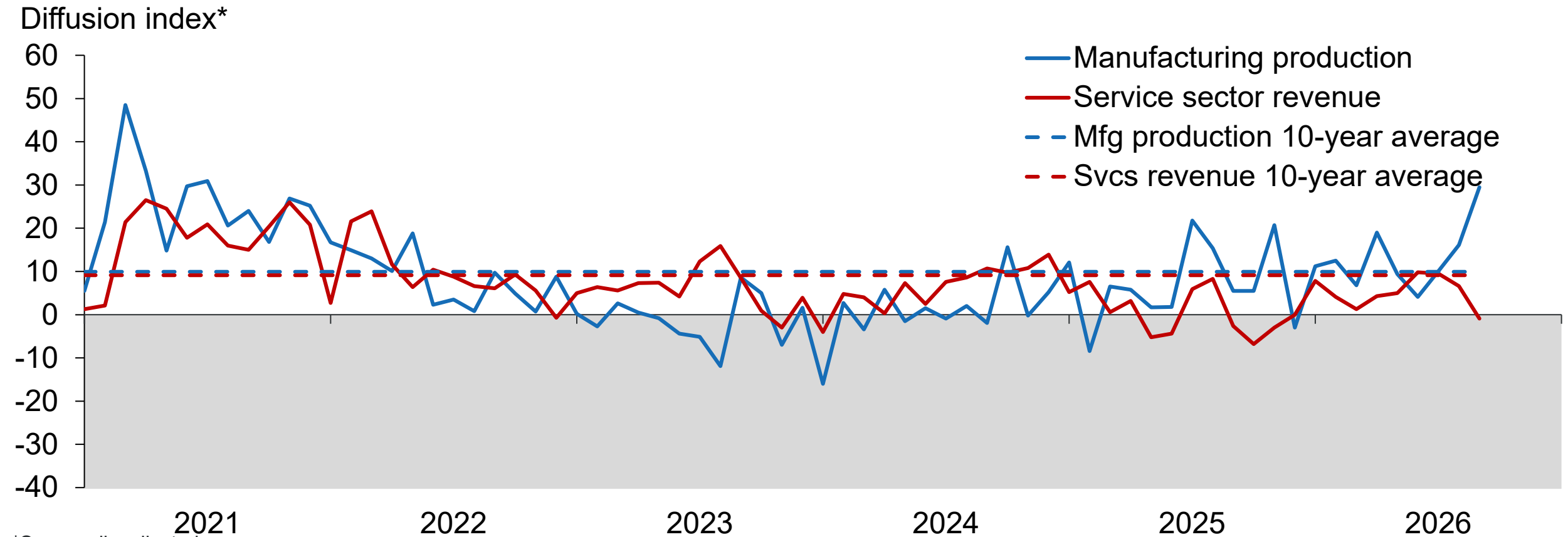
Diffusion Index, SA 3MMA



NOTES: To compute composites, first each District's manufacturing and services indexes were combined using sector GDP weights. Then the indexes were combined across districts using state GDP weights. Data are through September 2026.

SOURCES: Federal Reserve Banks of Dallas, Kansas City, New York, and Philadelphia.

Dallas Fed survey points to slight economic activity expansion in September driven by manufacturing



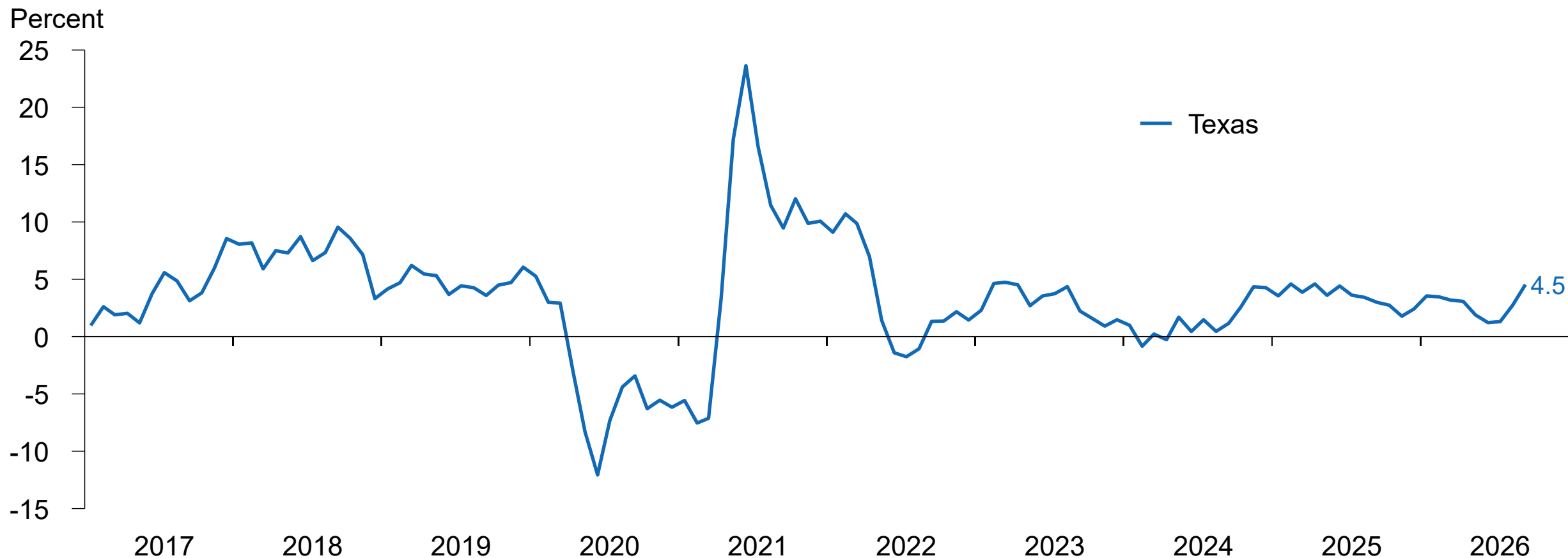
*Seasonally adjusted.

NOTES: Data are through September 2026. Shaded area represents contractionary territory.

SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

DATA: [Surveys - Dallasfed.org](https://surveys.dallasfed.org)

Similarly, retail sales tax data shows a pick-up in spending in Texas

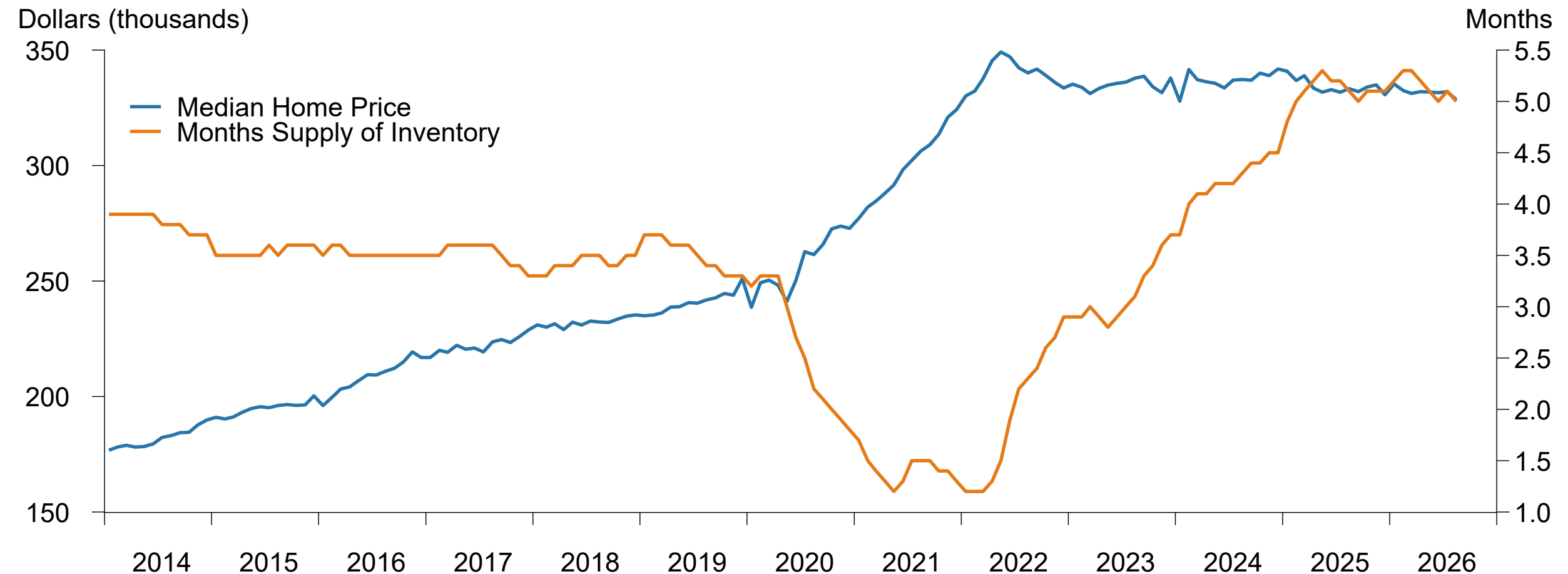


NOTE: Shown is the three-month moving average of the year-over-year percent change in seasonally adjusted retail sales tax revenue. Data are through September 2026.

SOURCE: Texas Comptroller of Public Accounts, adjustments by the Federal Reserve Bank of Dallas.

Real Estate, Energy and Finance

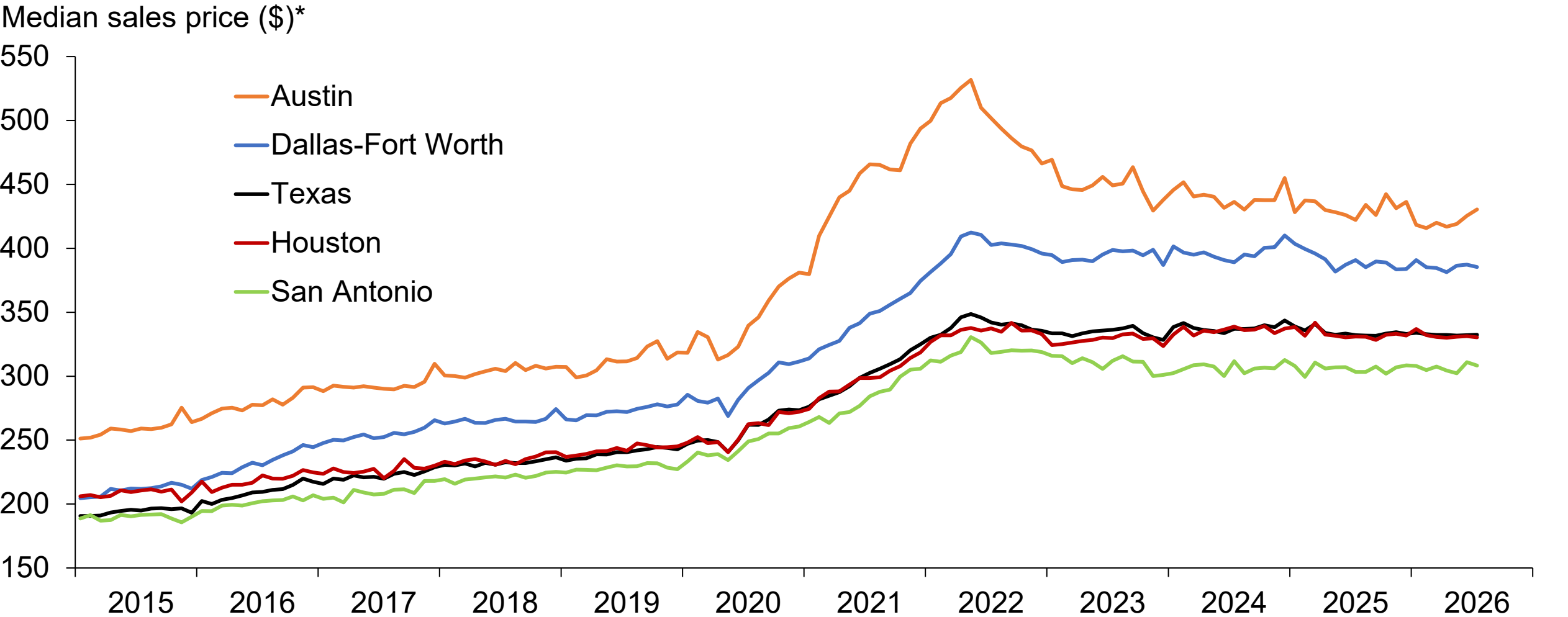
Median home price and months supply of inventory stagnant in Texas



NOTES: Data are seasonally adjusted and monthly through August 2026. Sales are plotted on the left axis, inventory on the right axis.

SOURCE: Multiple Listing Services, adjustments by the Federal Reserve Bank of Dallas.

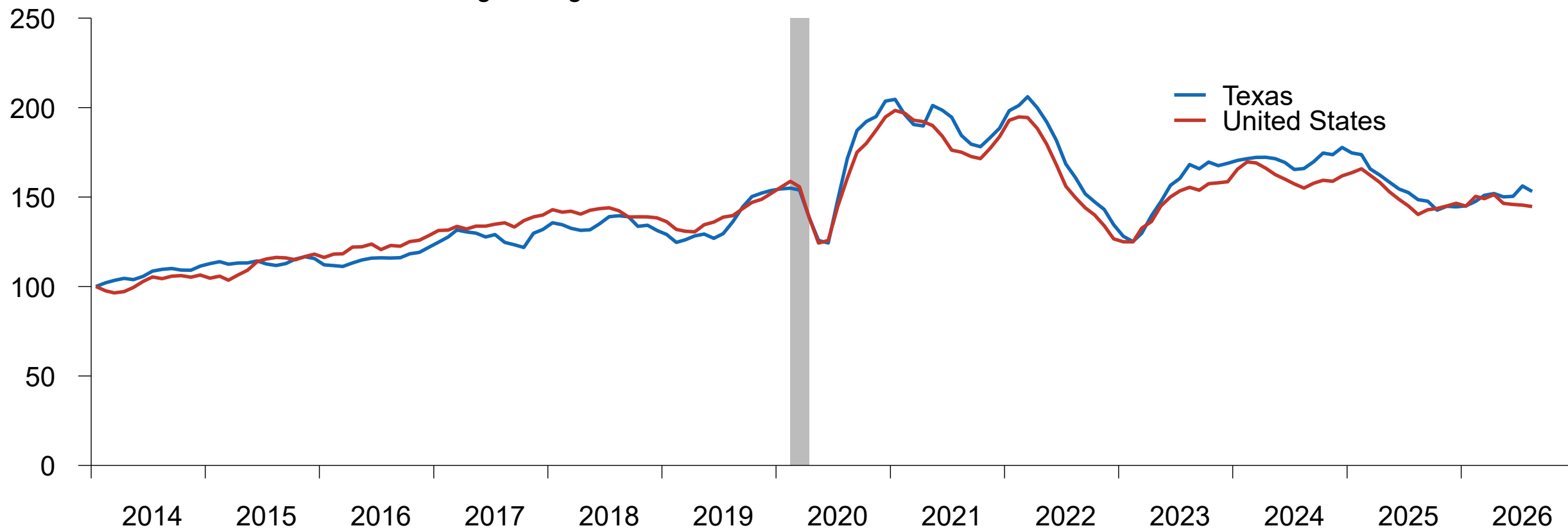
However, Austin home prices steadily rising since May



*Seasonally adjusted.
NOTES: Data are monthly through July 2026.
SOURCES: Multiple Listing Service; seasonal and other adjustments by Federal Reserve Bank of Dallas.

Single family building permits slightly up in the summer of 2026

Index, Jan 2014 = 100, 3 month moving average

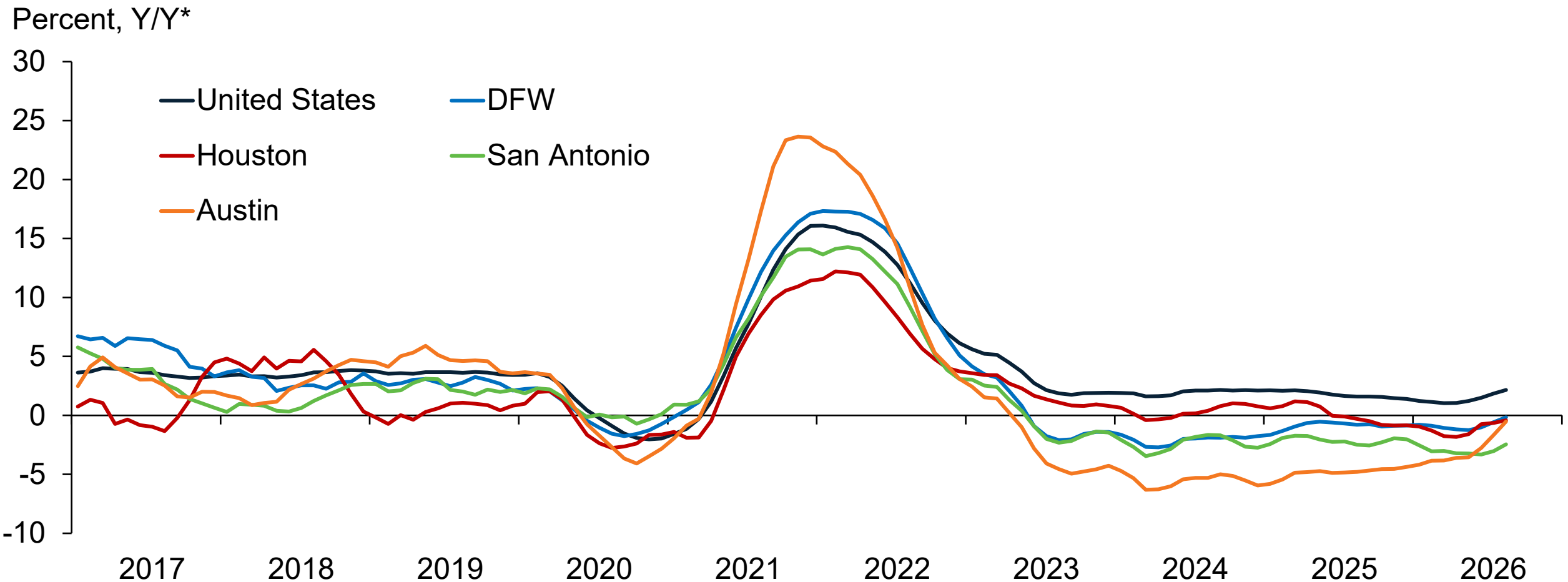


*Seasonally adjusted

NOTE: Data through August 2026.

SOURCE: Multiple Listing Services, Census Bureau

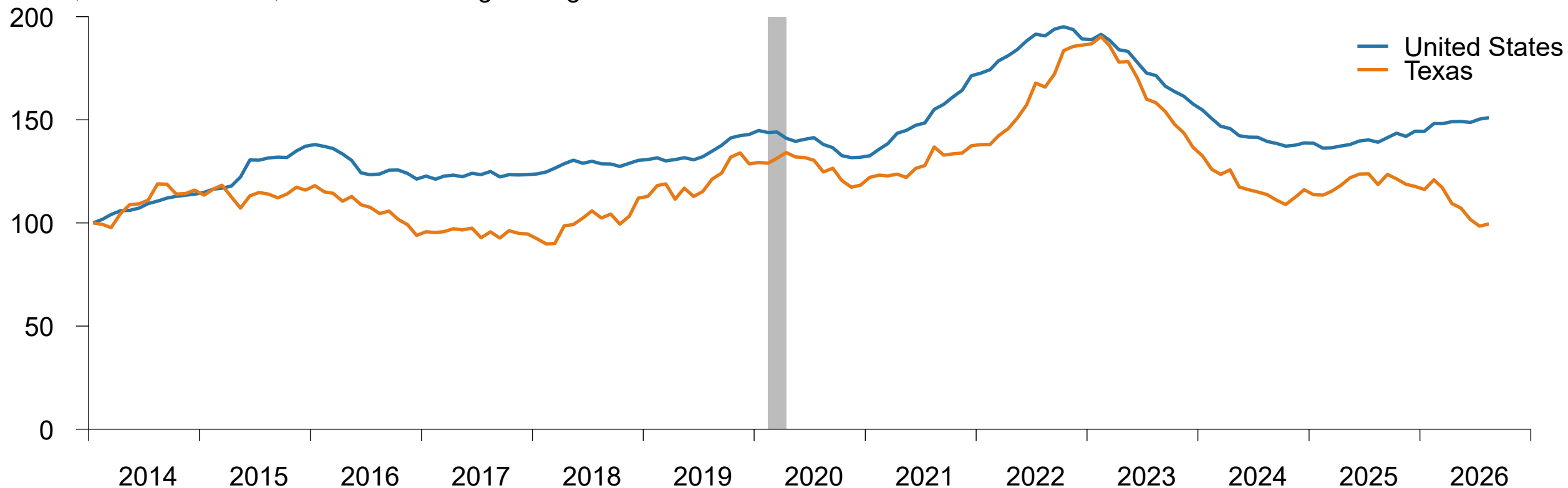
Apartment rents flat to down in most Texas major metros



*Smoothed and seasonally adjusted.
NOTE: Data are monthly through August 2026.
SOURCE: Zillow.

Divergence grows in residential multifamily building permits between Texas and the nation

Index, Jan 2014 = 100, 12 month moving average

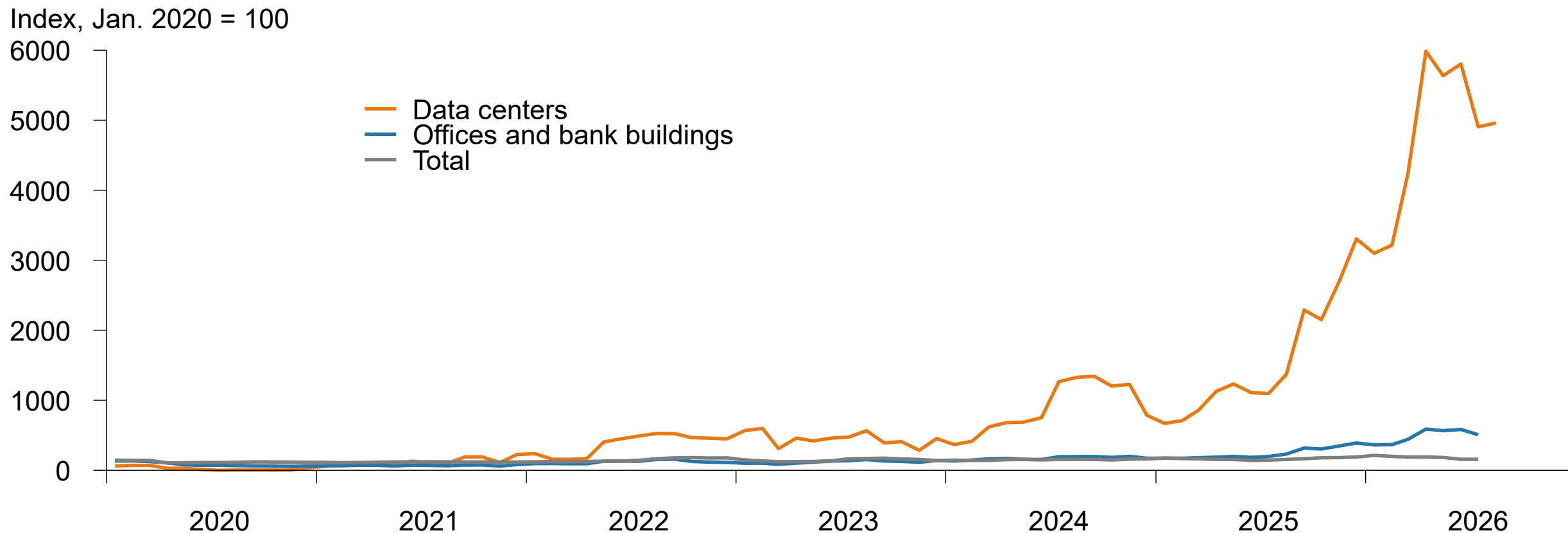


*Seasonally adjusted

NOTE: Data through August 2026.

SOURCE: Multiple Listing Services, Census Bureau

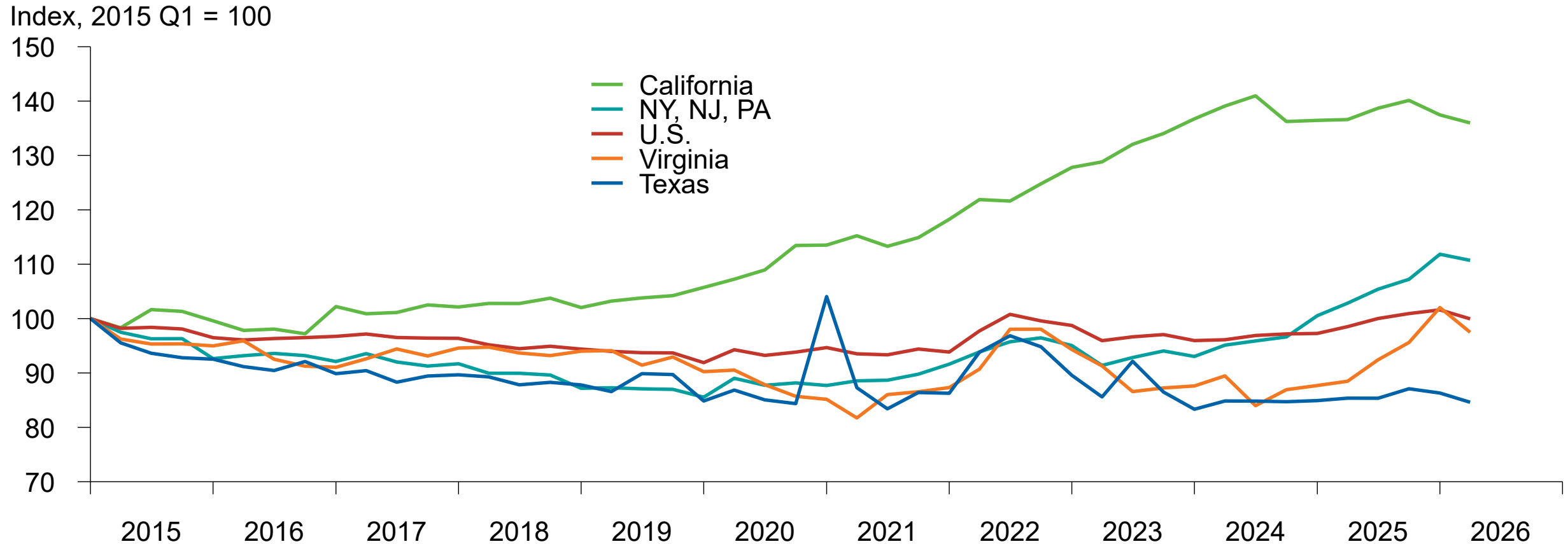
Texas data center construction skyrockets in the second half of 2025 thru 2026



NOTES: Shown are seasonally adjusted, five-month moving averages of contract values in real dollars. Total and offices and bank buildings data are monthly through August 2026. Offices and bank buildings data are monthly through July 2026; Total data are monthly through July 2026.

SOURCES: Dodge Construction; Federal Reserve Bank of Dallas.

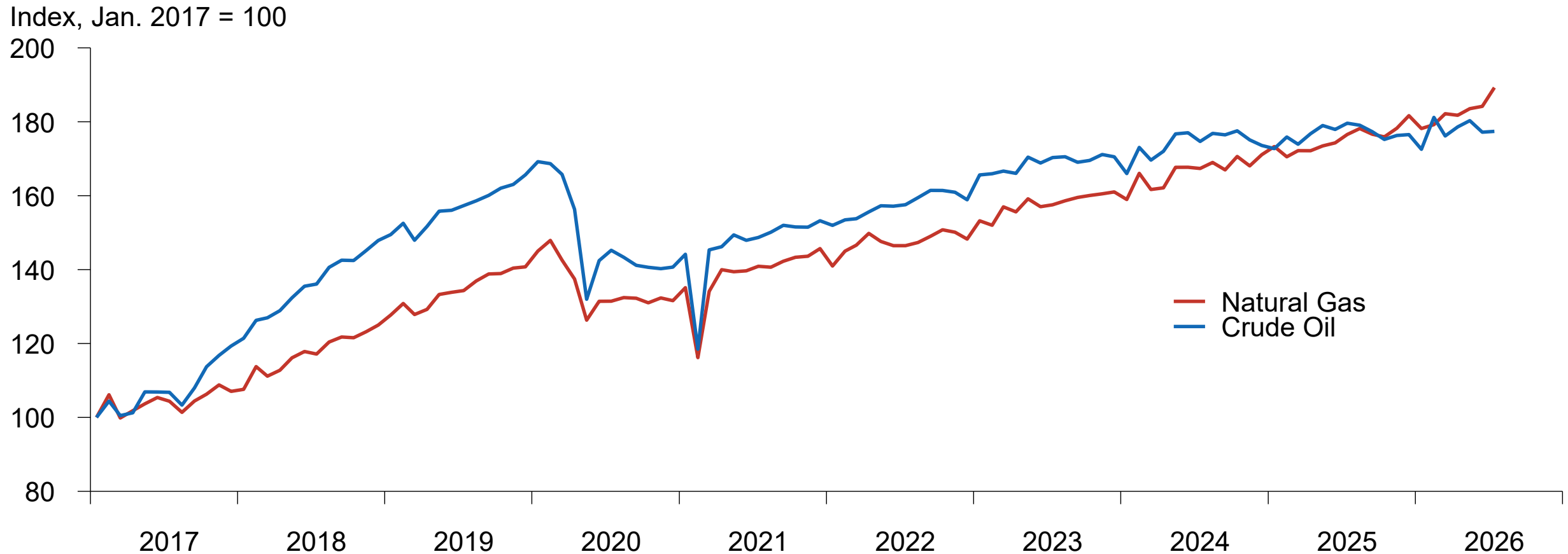
Retail electricity prices decline in 2026 after growth in the previous year



NOTES: Shown are indexed quarterly average retail prices of electricity for all sectors (commercial, industrial, residential, transportation, other) deflated by the PCE index. Data are seasonally adjusted and through Q2 2026.

SOURCES: Energy Information Administration; Bureau of Economic Analysis; seasonal adjustments by the Dallas Fed.

Texas natural gas production increases, oil production flat in July



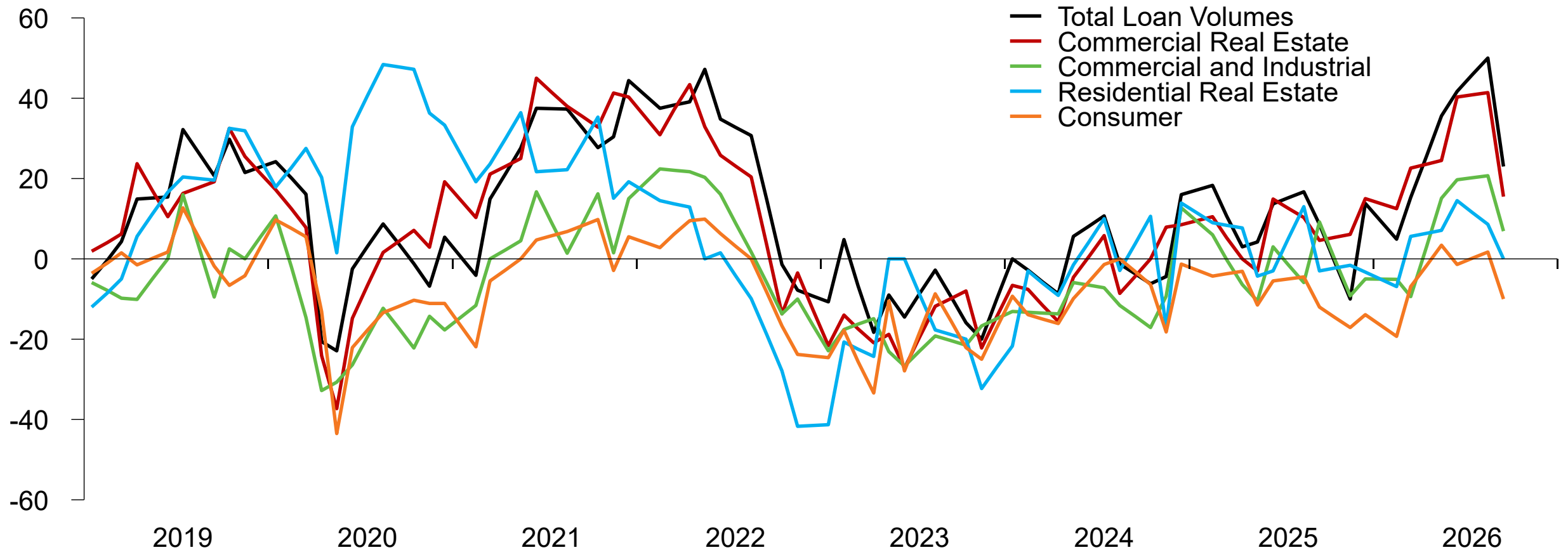
NOTES: Seasonally adjusted, monthly. Shown are crude oil and natural gas marketed production. Production of natural gas are based on billion cubic feet while crude oil is based on million barrels per day. Data through July 2026.

SOURCE: Energy Information Administration; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Total loan volumes expand in September 2026

(11th District banks)

Diffusion Index

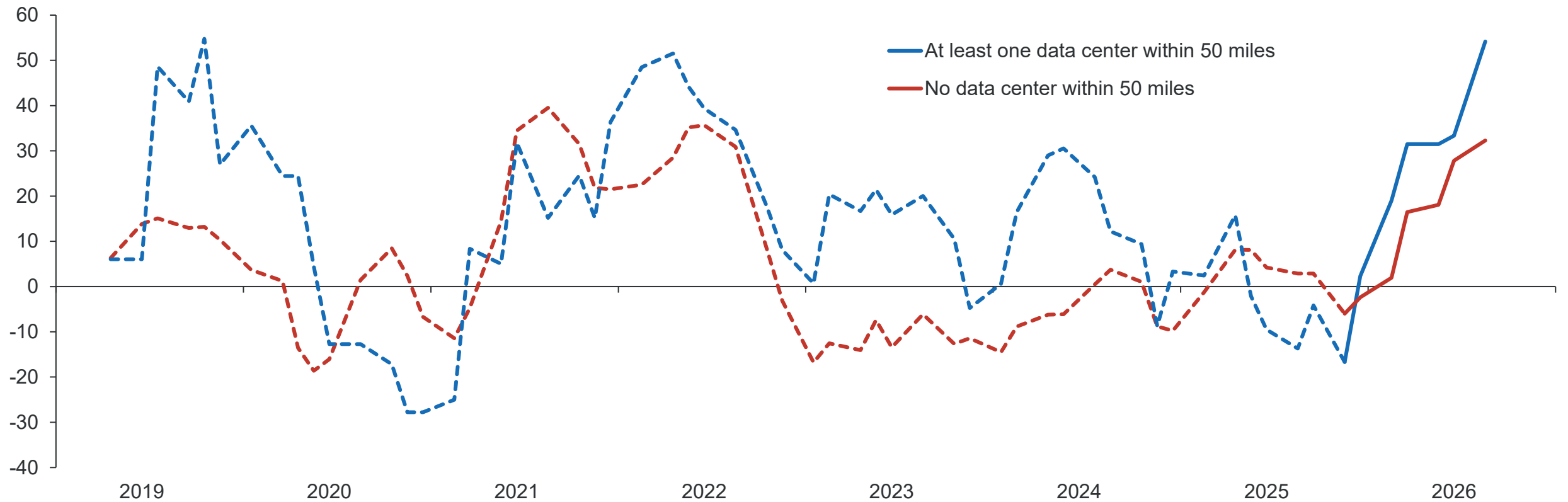


NOTES: Shown are loan volumes by type for 11th District banks. Data are monthly through September 2026.

SOURCE: Federal Reserve Bank of Dallas Banking Conditions Survey.

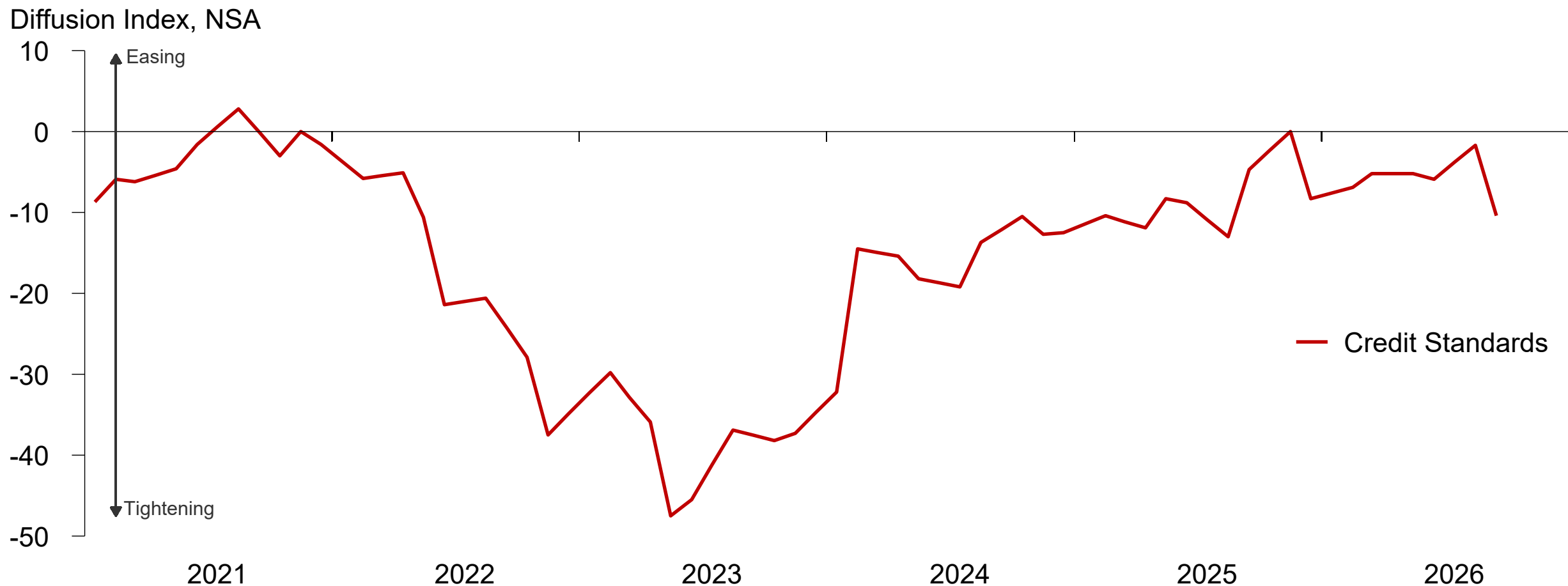
Loan volumes growing in banks in small MSAs and rural areas regardless of if a data center project is nearby

Diffusion Index, 3MMA



NOTES: Data through August 2026. MSAs classified as "small" are all those in the Eleventh Federal Reserve District less the Dallas-Forth Worth-Arlington, Austin-Round Rock, San Antonio-New Braunfels, and Houston-The Woodlands-Sugar Land MSAs. Dashed lines signify before Q4 2025. Total sample size is 76 banks; 19 have at least one data center within 50 miles, while 57 do not. SOURCE: Federal Reserve Bank of Dallas Banking Conditions Survey; S&P Global Datacenter KnowledgeBase.

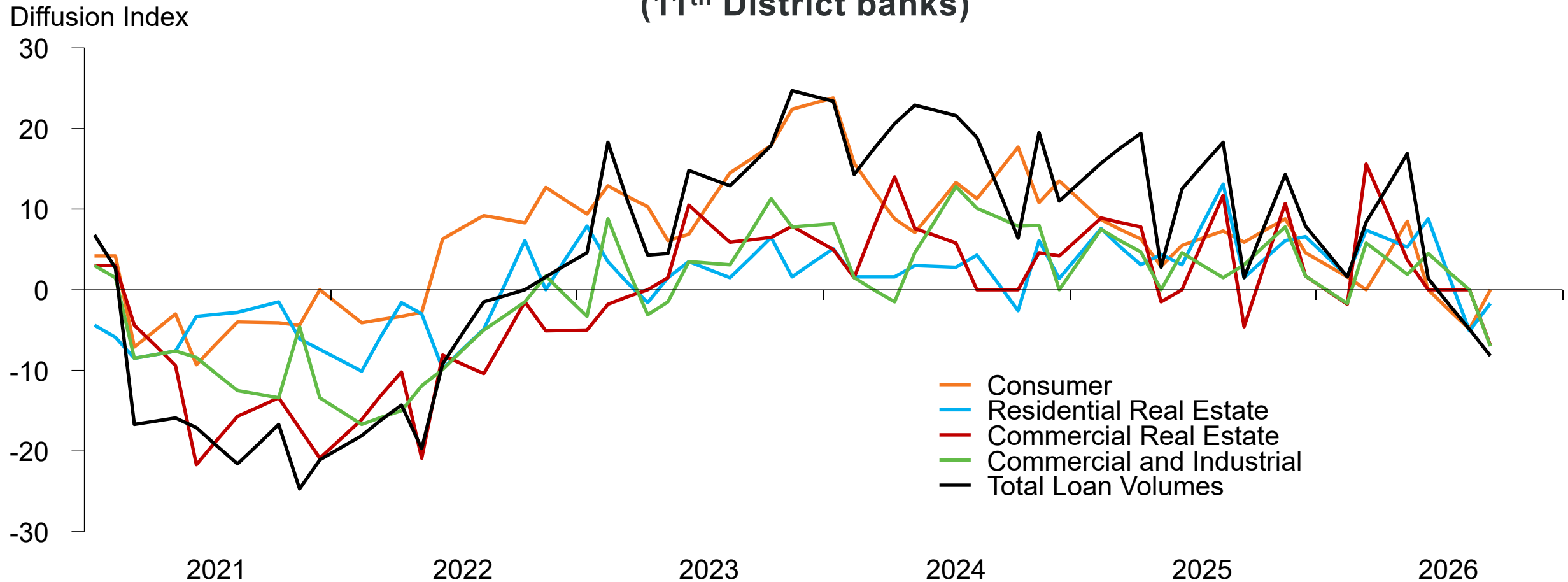
Fed funds rate hike led to tightening of credit standards



NOTE: Data are monthly through September 2026.

SOURCE: Federal Reserve Bank of Dallas Banking Conditions Survey.

Total nonperforming loan volumes decline in September (11th District banks)



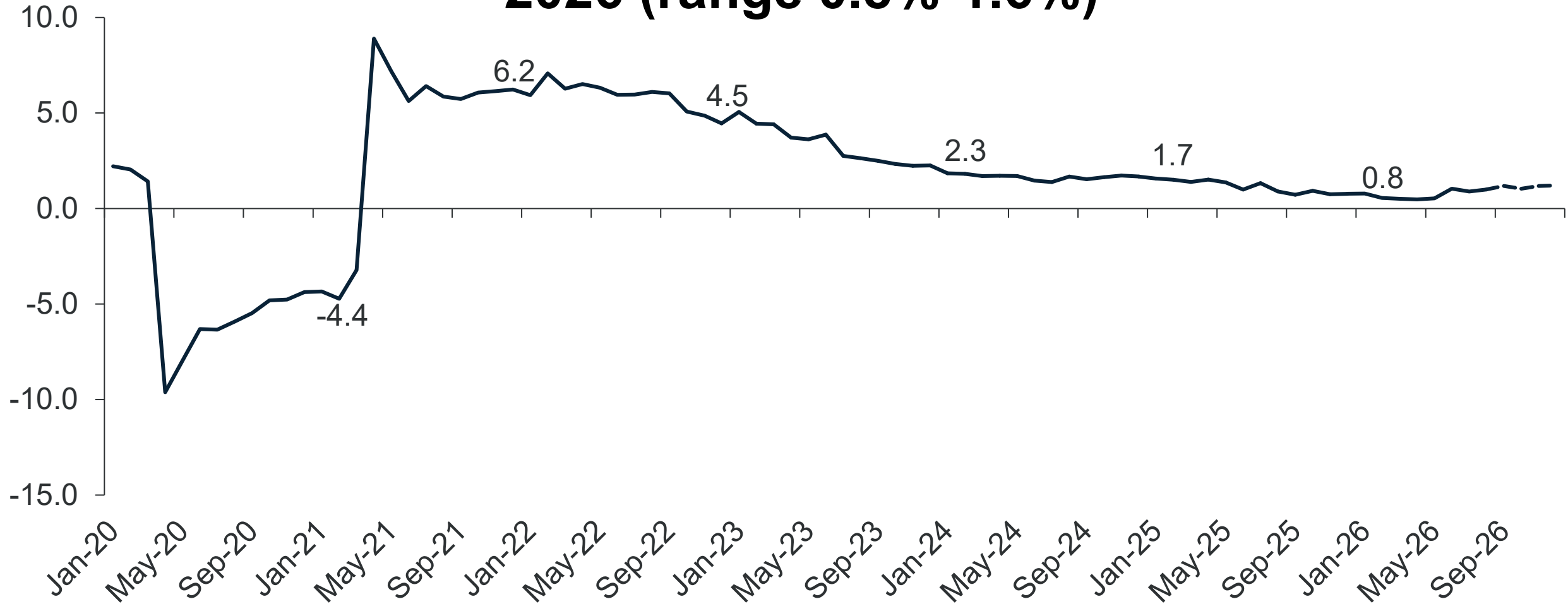
NOTES: Shown are nonperformaing loan volumes by type for 11th District banks. Data are monthly through September 2026.

SOURCE: Federal Reserve Bank of Dallas Banking Conditions Survey.

Outlook

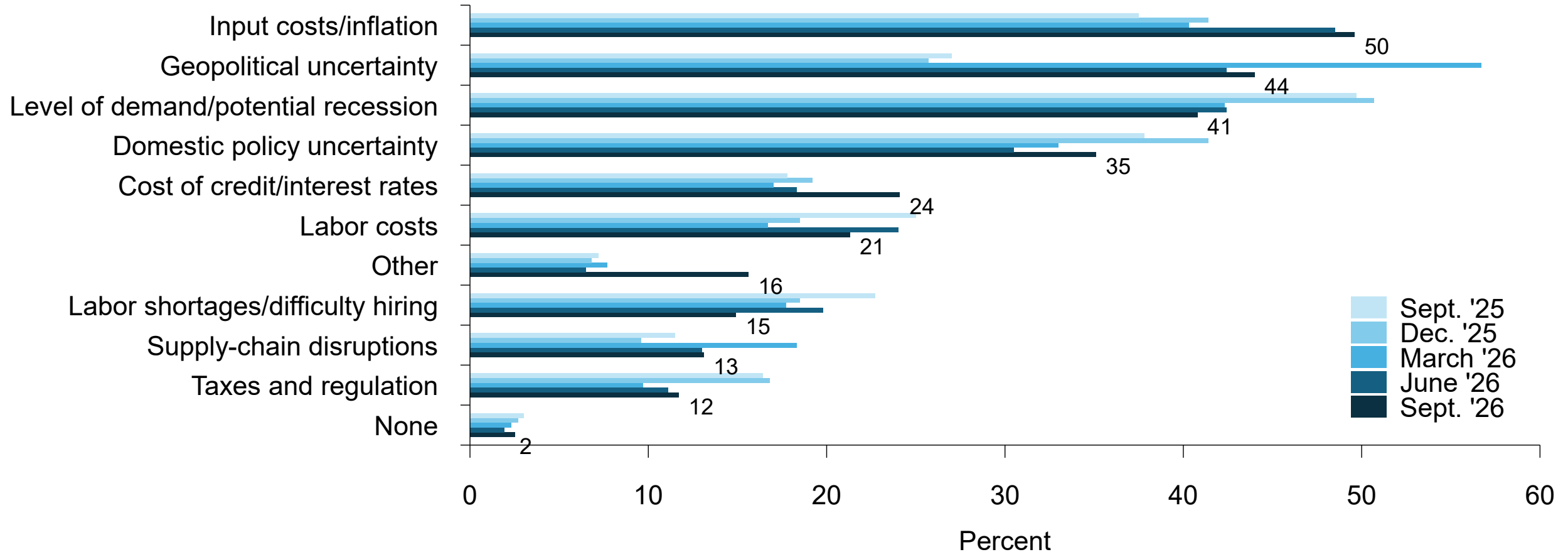
The Texas employment forecast indicates 1.2% growth in 2026 (range 0.8%-1.6%)

Percent, Y/Y



NOTE: The Dallas Fed Texas Employment Forecast is based on the average of four models. Three models are VARs where Texas payroll employment is regressed on WTI oil prices, the US leading index and the Texas leading index, respectively. The fourth model is a regression of payroll employment on lags of payroll employment, expectations for U.S. GDP growth, WTI oil prices, and four COVID-19 dummy variables (March-June 2020).

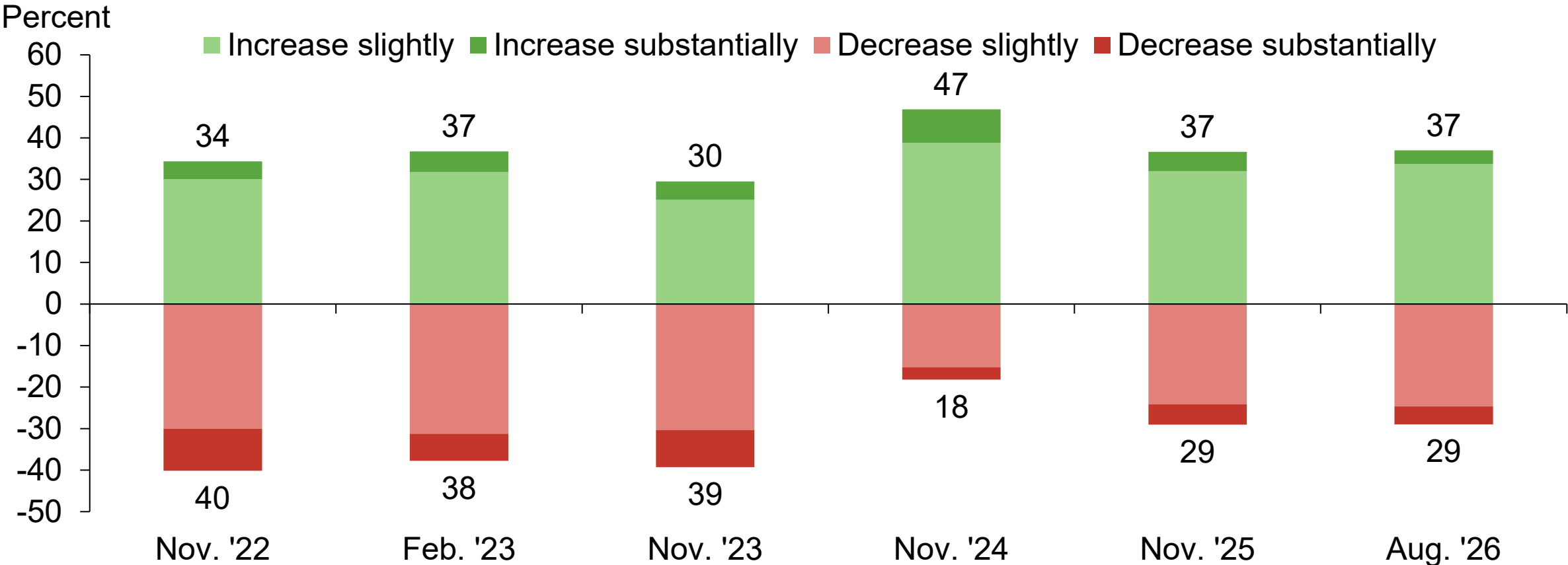
What are the primary concerns around your firm's outlook over the next six months, if any? Please select up to three.



NOTE: Executives from 282 Texas businesses answered this question during the survey collection period, September 15-23, 2026.

SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

More Texas businesses expect increases than expect decreases in operating margins over the next six months

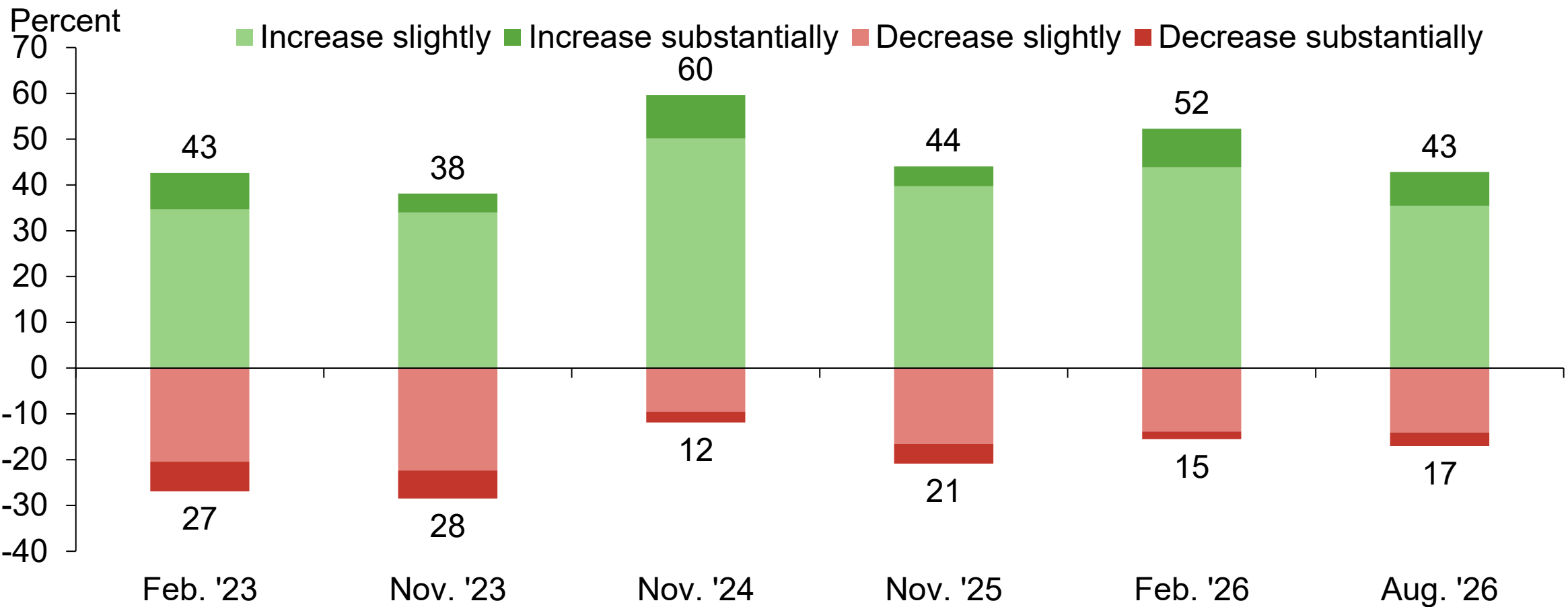


NOTE: Executives from 300 Texas businesses answered this question during the survey collection period, August 18-26, 2026.

SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

How do you expect your firm's operating margin (defined as earnings before interest and taxes, or EBIT, as a share of total revenue) to change over the next six months?

Demand expectations among Texas businesses are slightly less bullish than in February.



NOTE: Executives from 299 Texas businesses answered this question during the survey collection period, August 18-26, 2026.
SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

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How do you expect demand for your firm's goods and/or services over the next six months to compare with the past six months, aside from seasonal variation?

What percent change in wages, input prices and selling prices does your firm expect over the next 12 months?

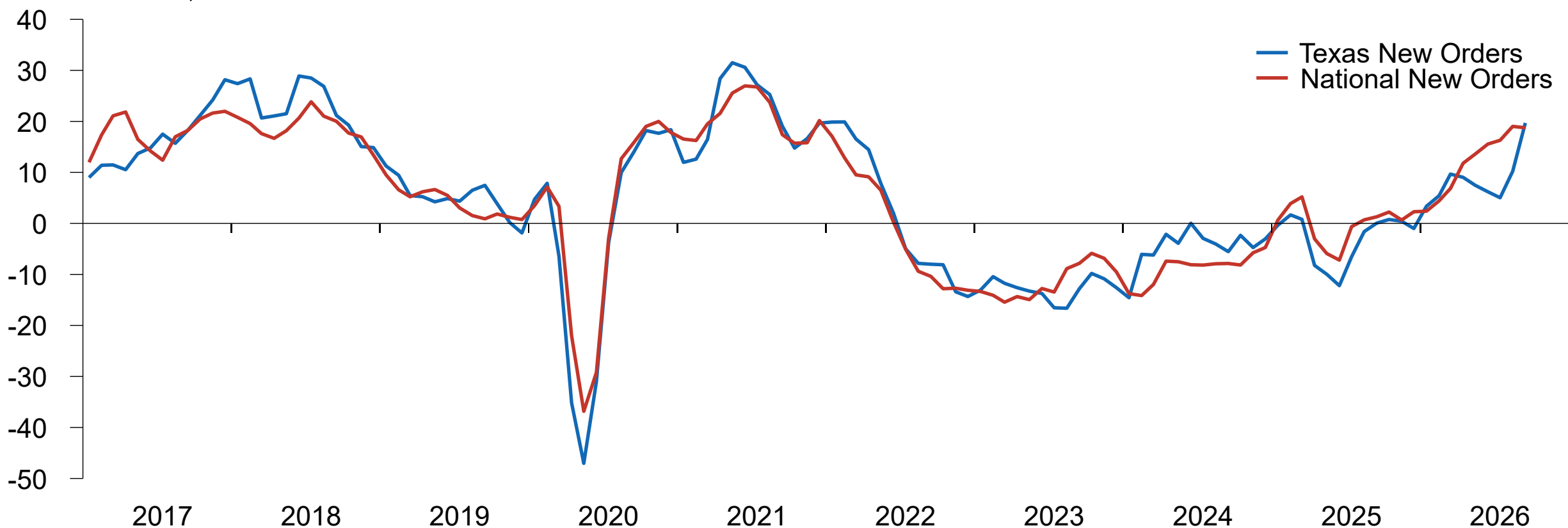


NOTES: Executives from 267 Texas businesses answered this question during the survey collection period, September 15-23, 2026. Shown are averages, calculated as trimmed means with the lowest and highest 5 percent of responses omitted.

SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

Composite of Fed surveys shows robust demand for new orders

Diffusion Index, SA 3MMA

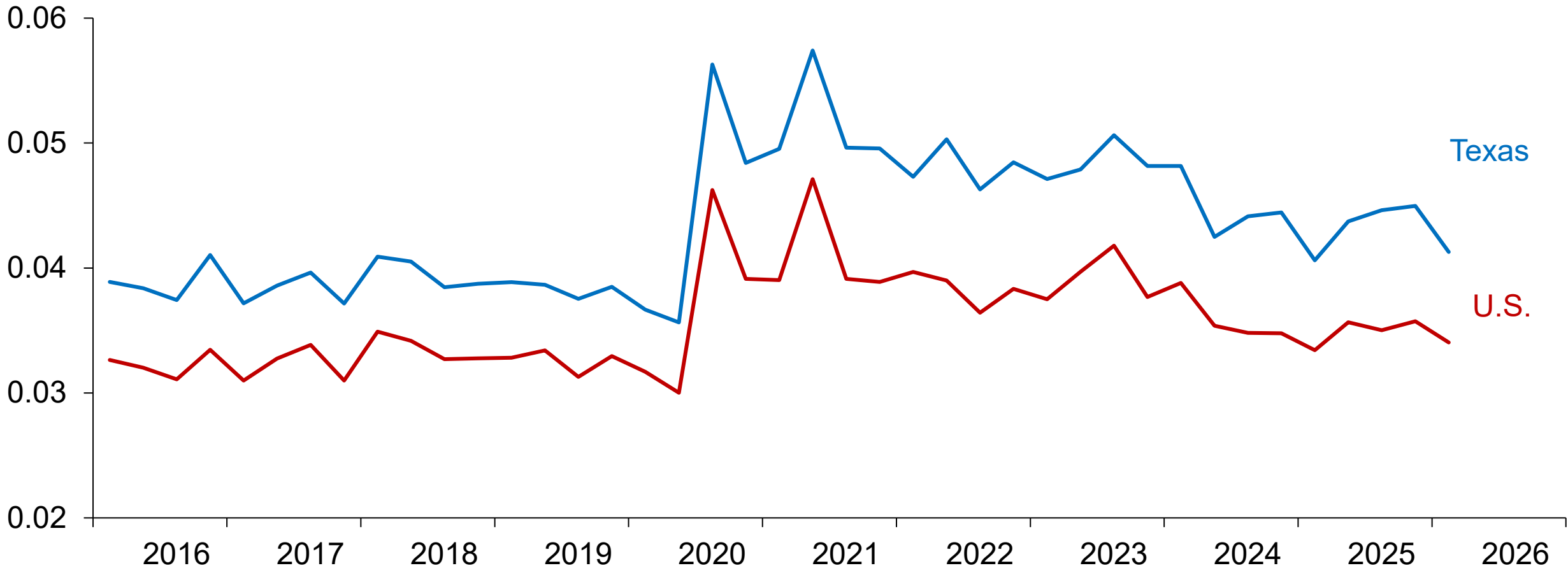


NOTES: Composite new orders is a manufacturing-GSP weighted average of Federal Reserve Bank manufacturing new orders indexes, excluding Dallas. Data are through September 2026.

SOURCES: Federal Reserve Banks of Dallas, Kansas City, New York, Richmond, and Philadelphia.

Rate of business formation declined in Q1 2026, but still above pre-pandemic rates

Business applications per business establishments



NOTES: Data are quarterly through Q1 2026. Business applications data are missing for the first week of January 2021.

SOURCE: U.S. Census Bureau.

Conclusion

- Texas employment growth gained steam in the second half of 2026
 - Dallas Fed surveys and other economic indicators are showing continued economic activity in 2026
 - However, some sectors such as residential real estate have not picked up
- Outlook for 2026 calls for modest growth with significant headwind risks
 - Headwinds include limited labor force expansion, geopolitical uncertainty, and sticky inflation
 - Tailwinds include strong loan demand and growth, expansion in the oil and gas industry, and the AI-buildout boom

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