



Federal Reserve
Bank of Dallas

How Resilient is Current Growth?

Texas Economic Update

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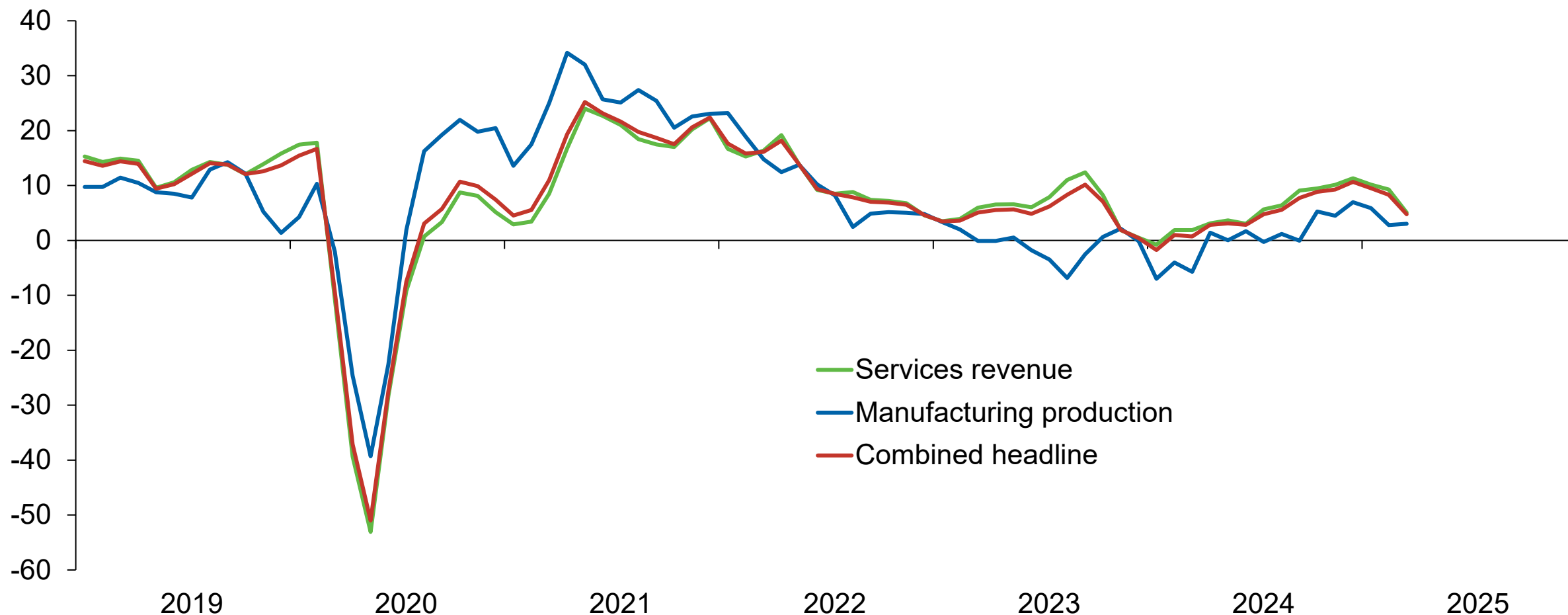
*The views expressed are my own and do not
necessarily reflect official positions
of the Federal Reserve System.*

Overview

- Texas economy is likely slowing; outlooks have turned pessimistic
 - While job growth has been robust so far in 2025, employment data is only through February
 - Real-time surveys of Texas businesses are flashing warning signs, especially in March
- Growth is likely to slow further below trend in 2025
 - Tariffs will lead to higher prices; consumption and investment will slow, possibly decline
 - Additional negative growth effects of lower immigration and government spending cuts
 - But tax cuts may boost the economy in the second half; deregulation could also be a tailwind

Texas business outlook surveys suggest activity is slowing

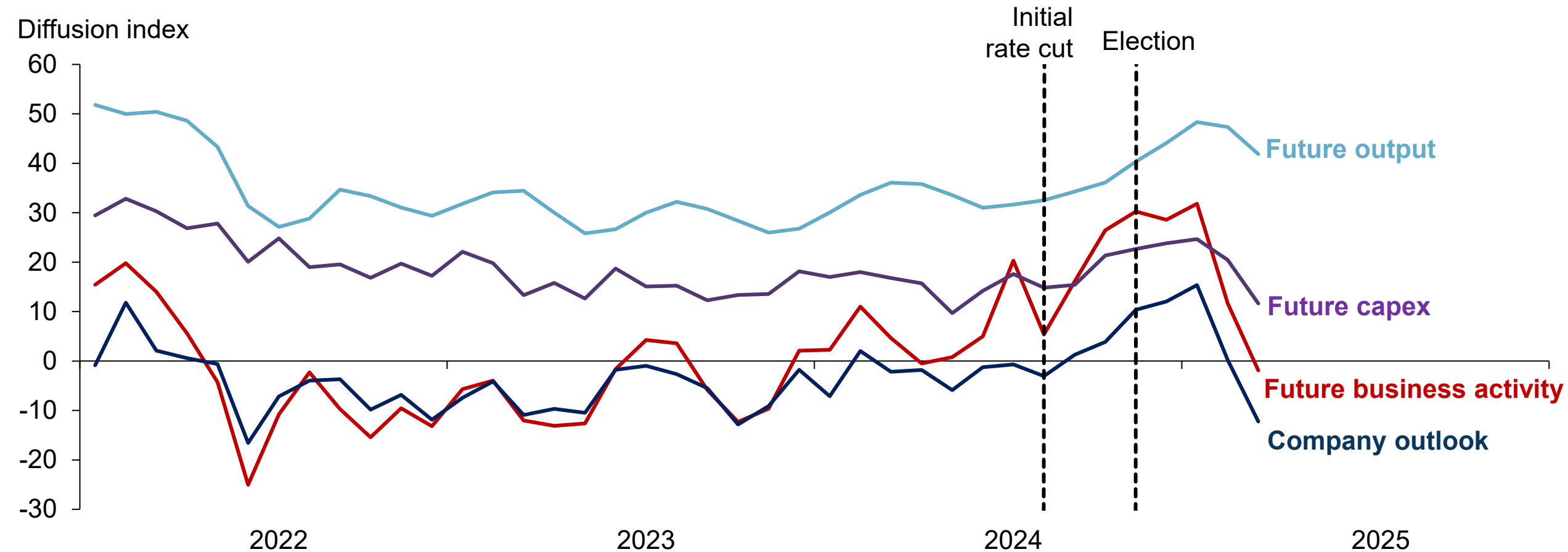
Diffusion index



NOTE: Shown are results from TMOS and TSSOS surveys. Data are seasonally adjusted and three-month moving averages. Data are monthly through March 2025.

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

Texas business outlooks improved post-election, but have since tanked



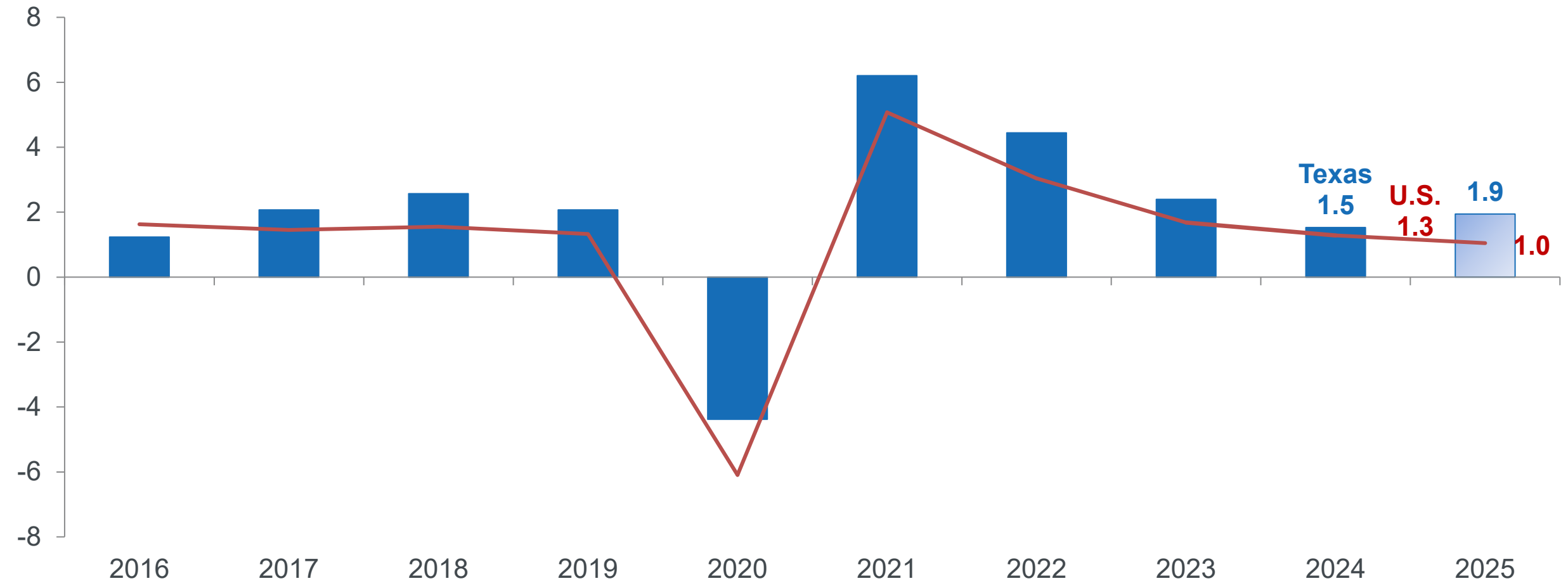
NOTE: TBOS indexes are state GDP-weighted averages of TSSOS and TMOS data. Data are seasonally adjusted, three-month moving average, and monthly through March 2025.

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

Labor Market

Texas' job growth this year better than 2024 but still below trend

Job growth (percent)

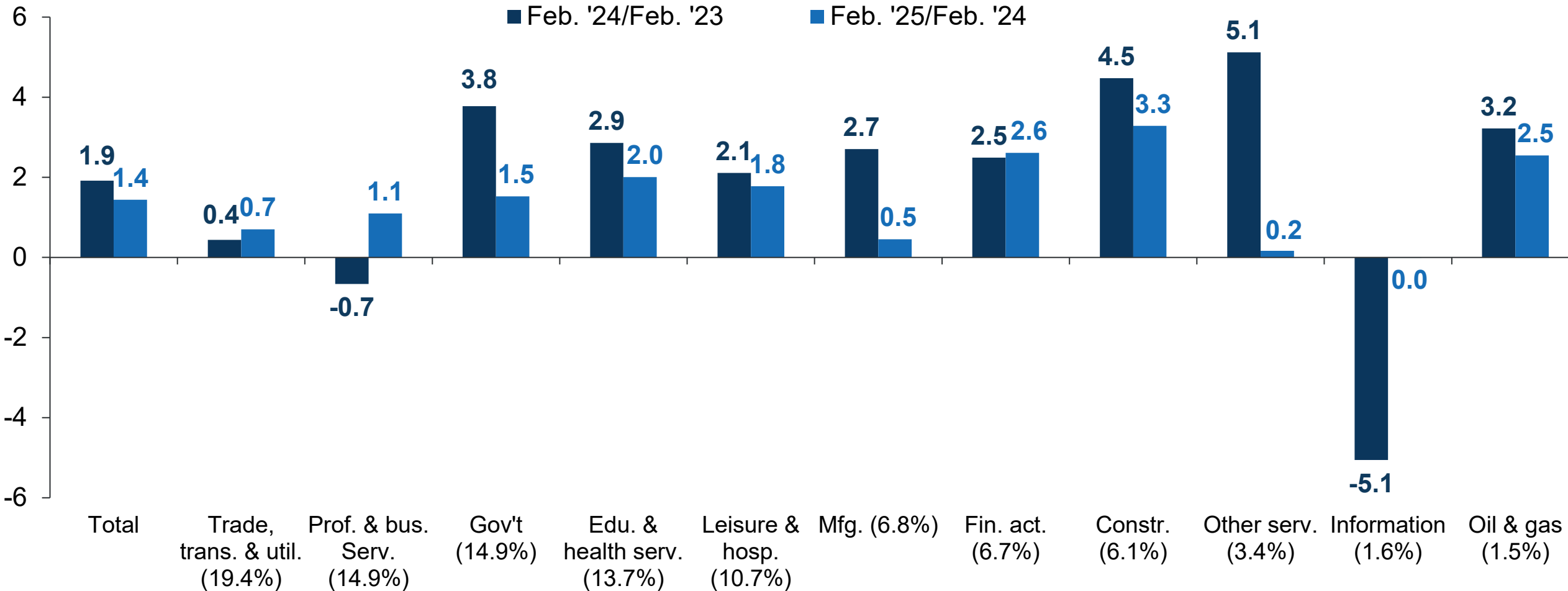


NOTES: Data are Dec./Dec. growth and seasonally adjusted. 2025 data is Feb. '25/Dec. '24 annualized.

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

Job growth fastest in small sectors—finance, construction & energy

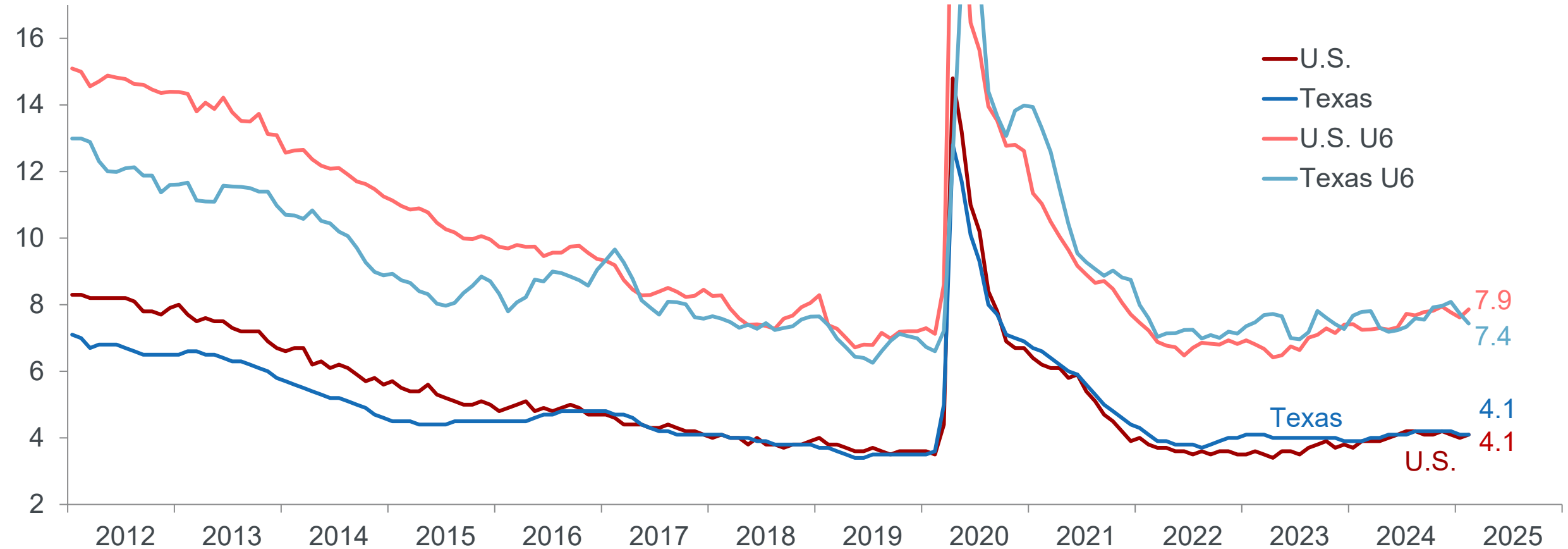
Job growth, percent



NOTE: Numbers in parentheses indicate share of total state employment for February 2025.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Dallas.

Broader measures of the unemployment rate are on the rise

Unemployment rate (percent)

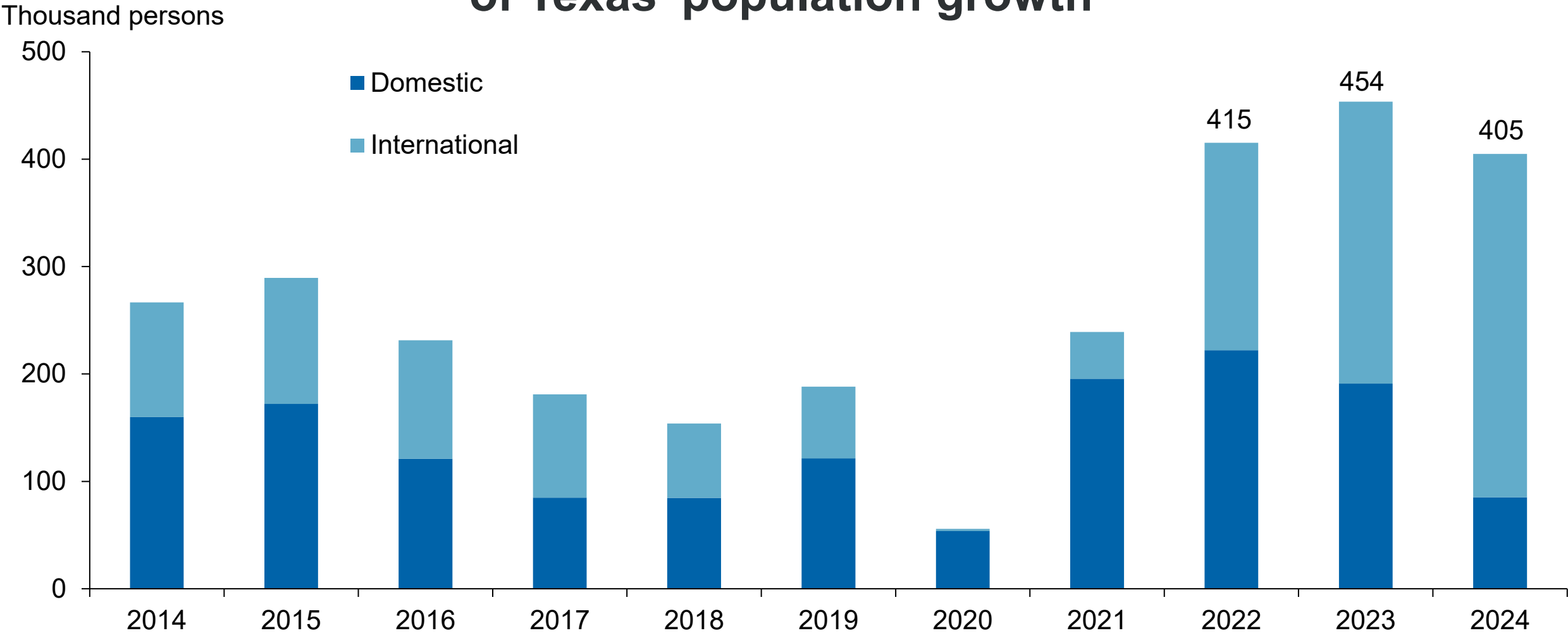


NOTE: Data are seasonally adjusted. Data are monthly through February 2025. Texas U6 is a three-month moving average.

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

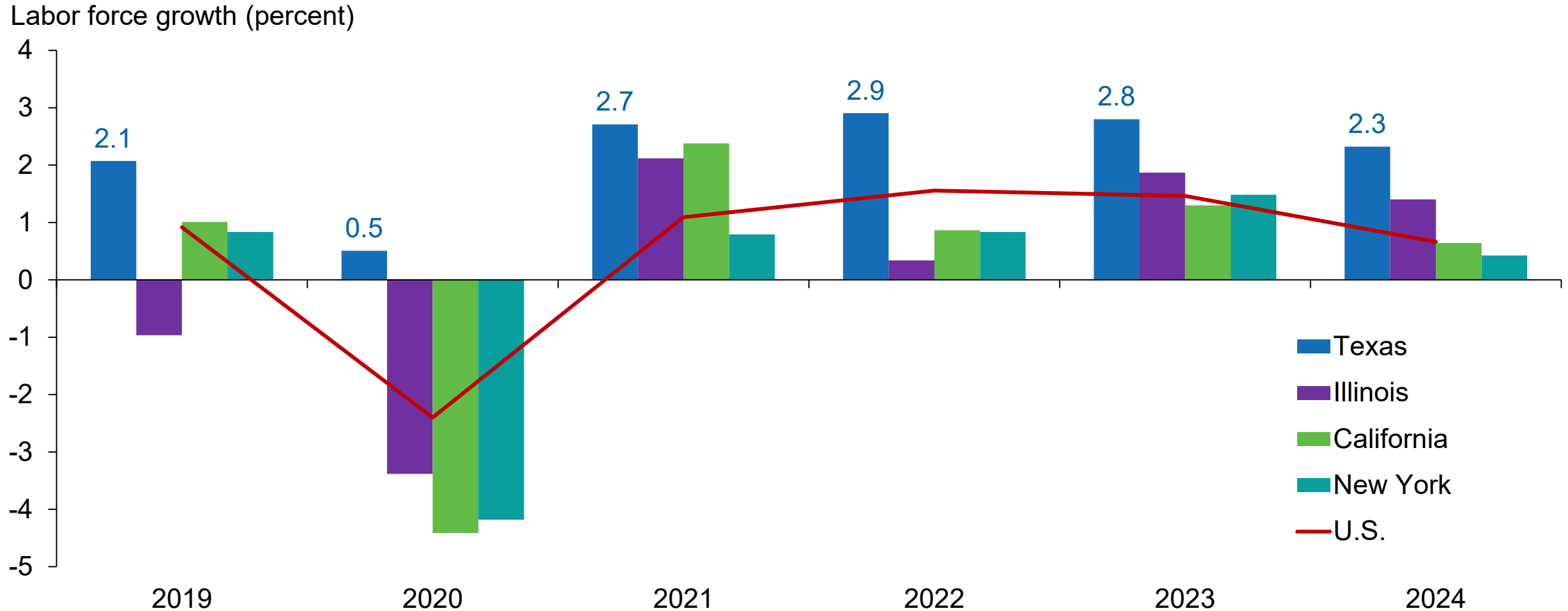
Migration

International migration surged further in 2024, accounting for the bulk of Texas' population growth



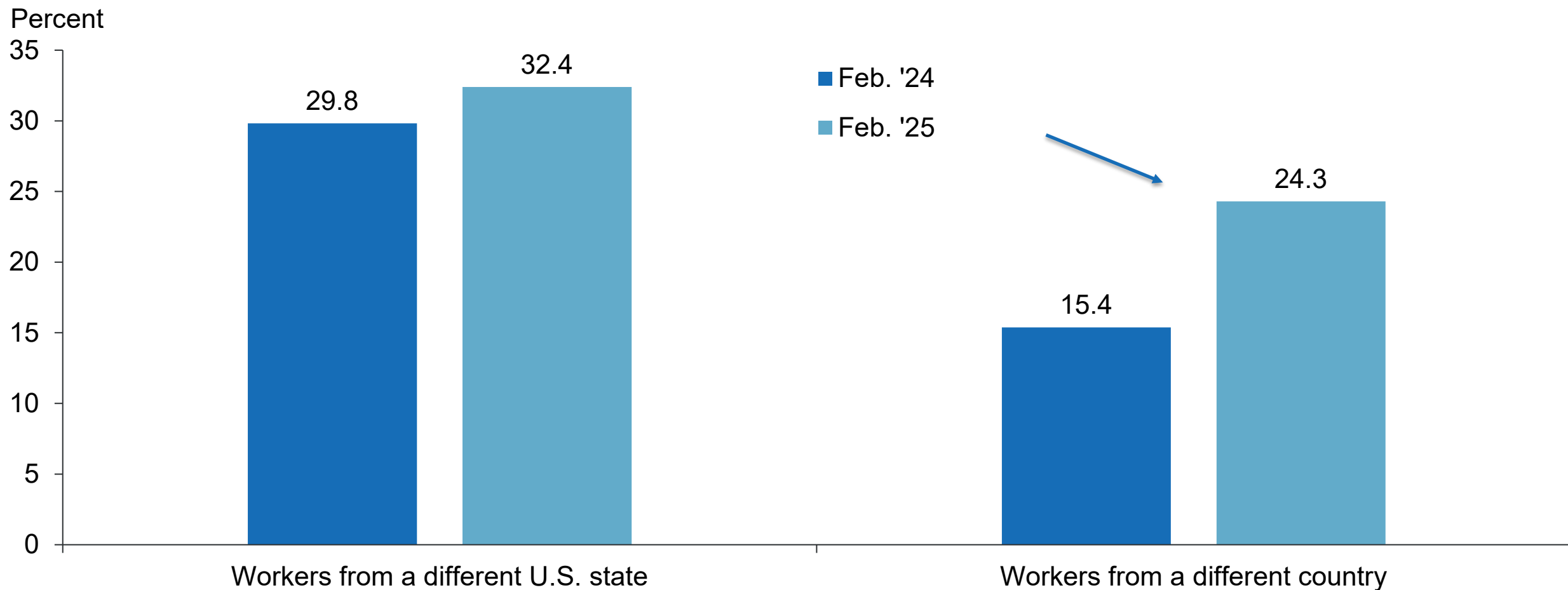
NOTES: Shown are net domestic and net international migration into Texas annually.
SOURCE: Census Bureau.

Texas consistently leads in labor force growth among large states, US



NOTES: Shown are labor force growth rates (Dec./Dec.). Data are seasonally adjusted.
SOURCE: Bureau of Labor Statistics.

Texas firms' increasing reliance on immigrant workers

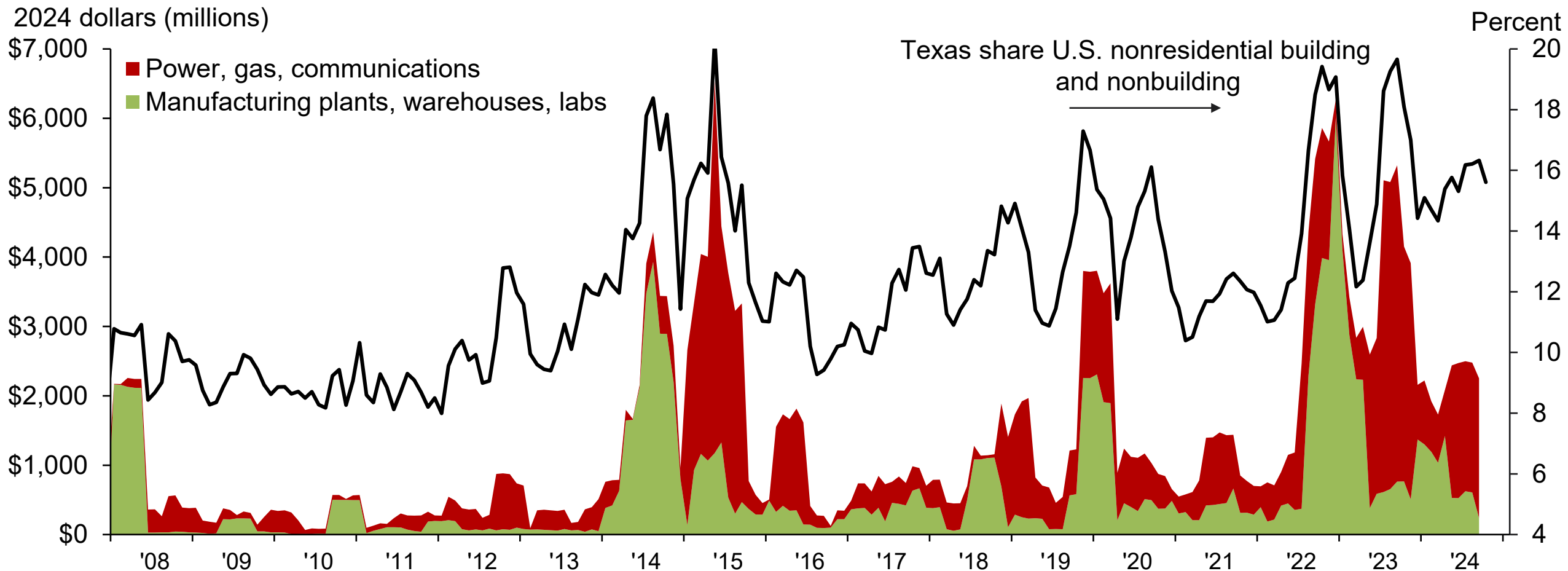


NOTES: Firms were asked, "Over the past year, to what extent has your firm relied on hiring workers who moved to Texas from either a different U.S. state or a different country?" N = 302 responses in February 2025. Shown are the percent who answered "Significant reliance" or "Some reliance."

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

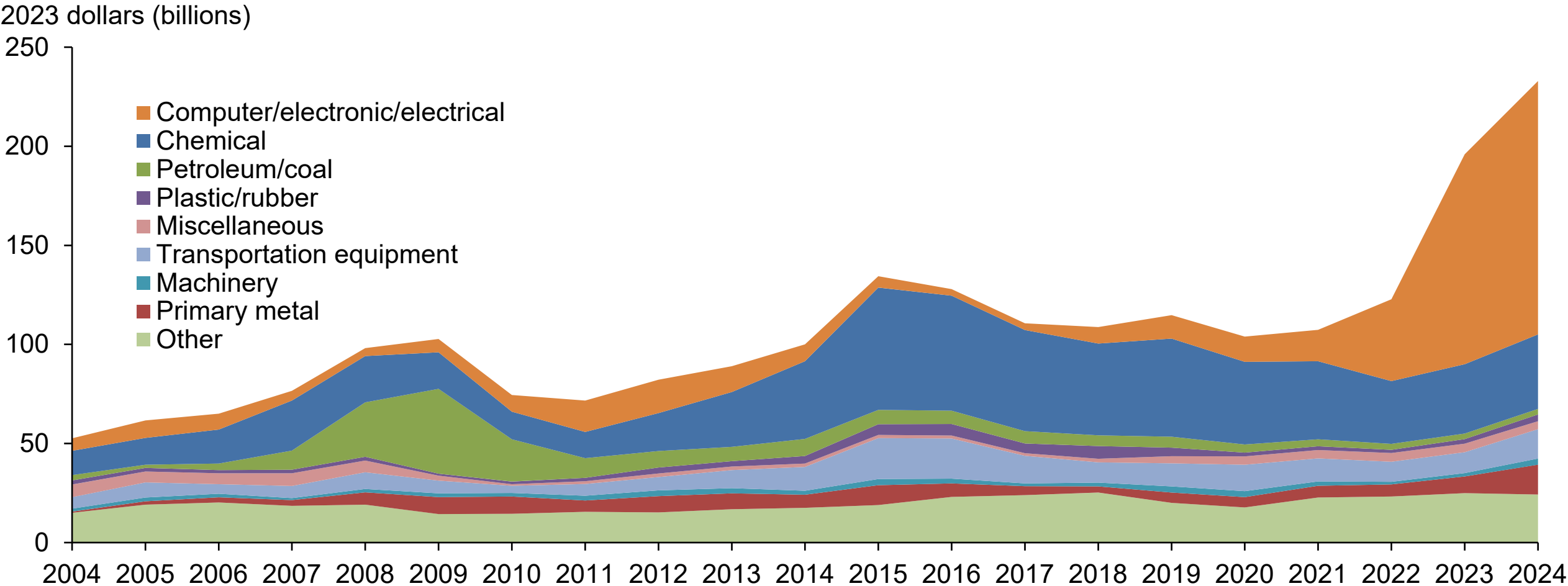
Construction and real estate

Texas' share of construction activity rose post-pandemic amid national construction boom



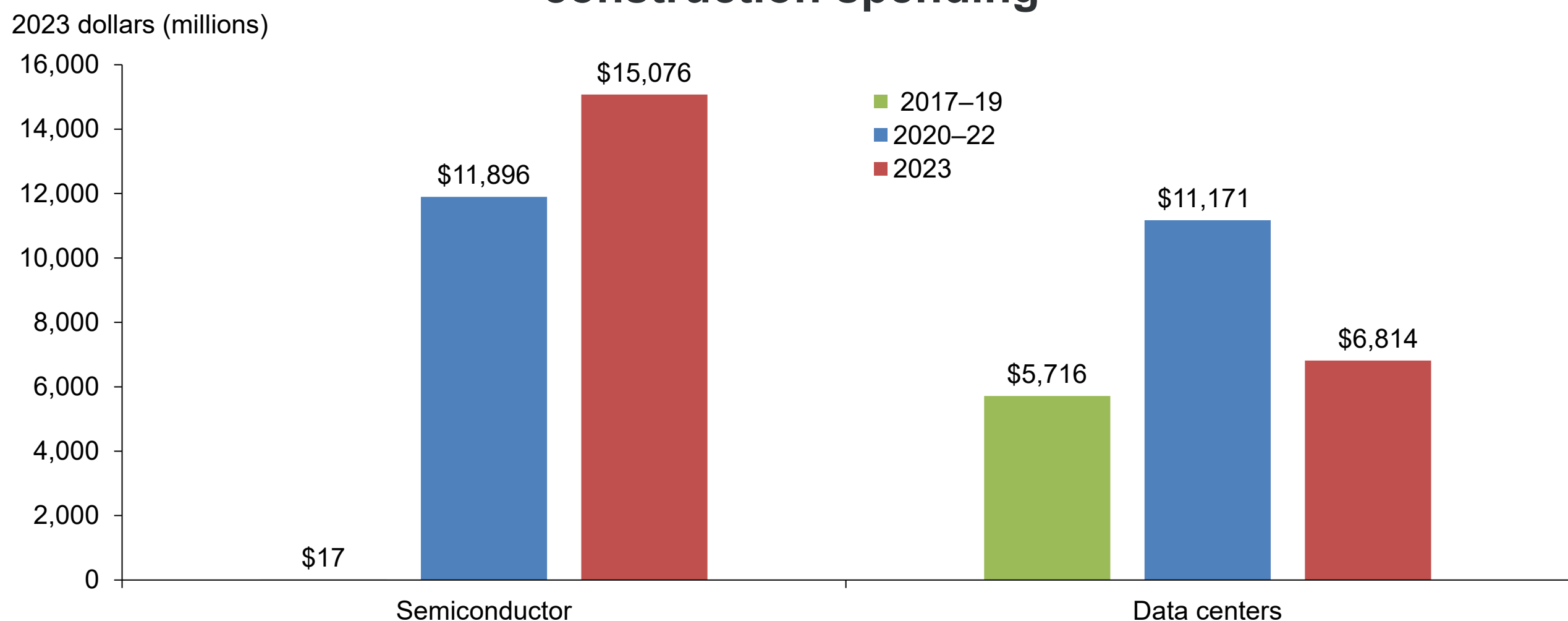
NOTES: Data are five-month trailing averages. Texas construction contract values are adjusted using October 2024 Consumer Price Index data and presented as stacked areas.
SOURCES: Dodge Construction; Census Bureau; Bureau of Labor Statistics.

Semiconductors and batteries drove 2022-24 U.S. construction spending



NOTE: Construction values are deflated using the new industrial construction Producer Price Index (PPI) from 2007 to 2024 and the new warehouse PPI from 2004 to 2006.
SOURCES: Census Bureau; Bureau of Labor Statistics.

Texas becomes a leader in private semiconductor, data center construction spending

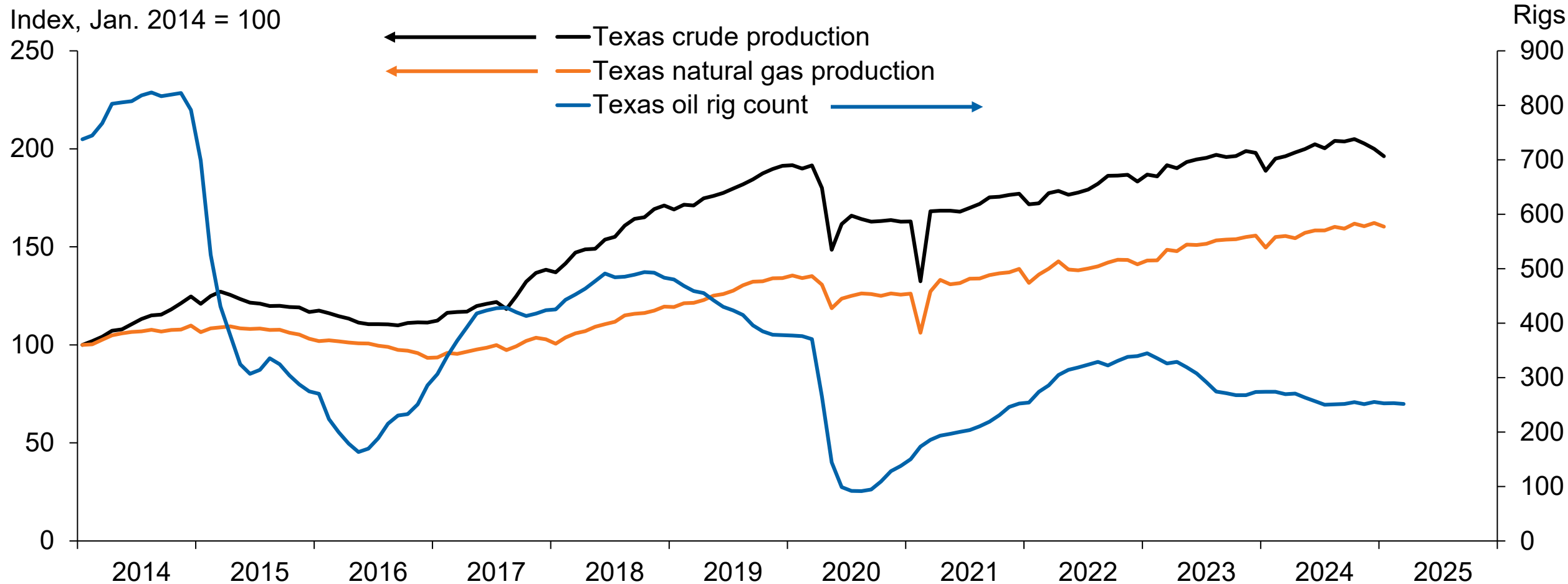


NOTE: Data are the dollar values of private construction contracts in Texas and adjusted for inflation using the industrial construction Producer Price Index.

SOURCES: Dodge Construction Network; authors' calculations.

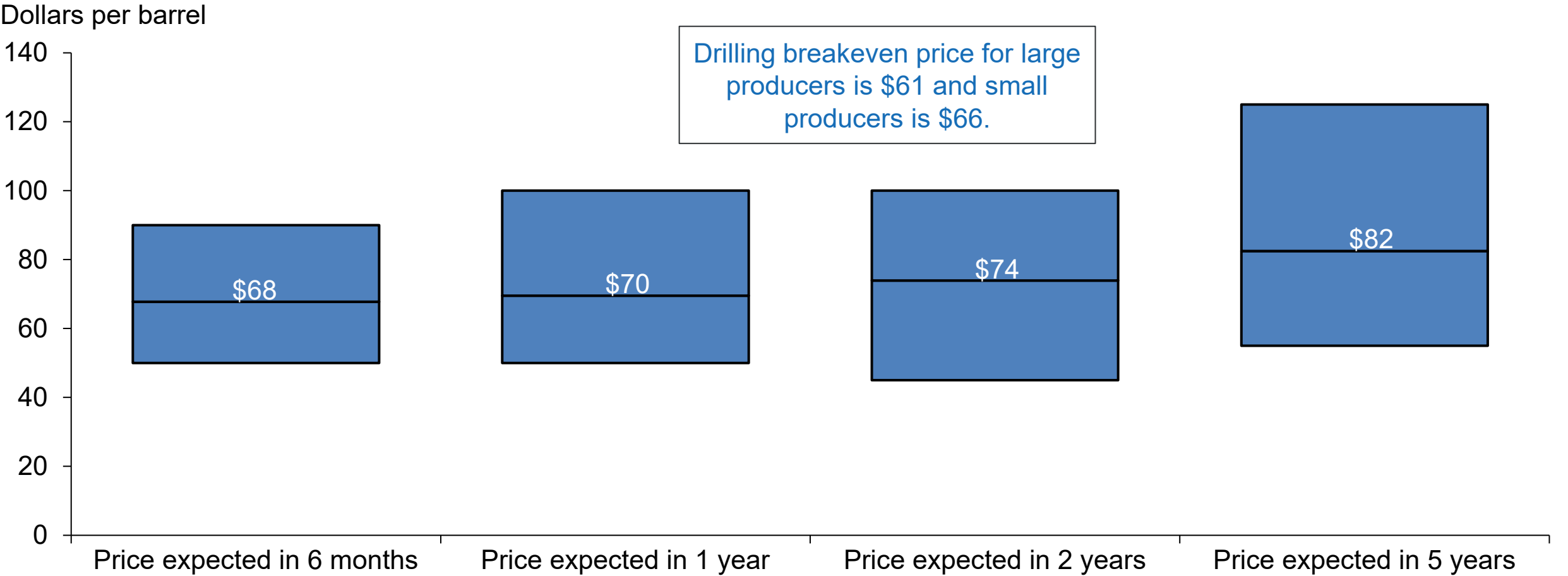
Energy

Oil production rises to record levels as rig count trends down



NOTES: Texas crude oil and natural gas production is monthly through January 2025. Texas rotary oil rig count is averaged from the weekly level through March 2025.
SOURCES: Energy Information Administration; Baker Hughes.

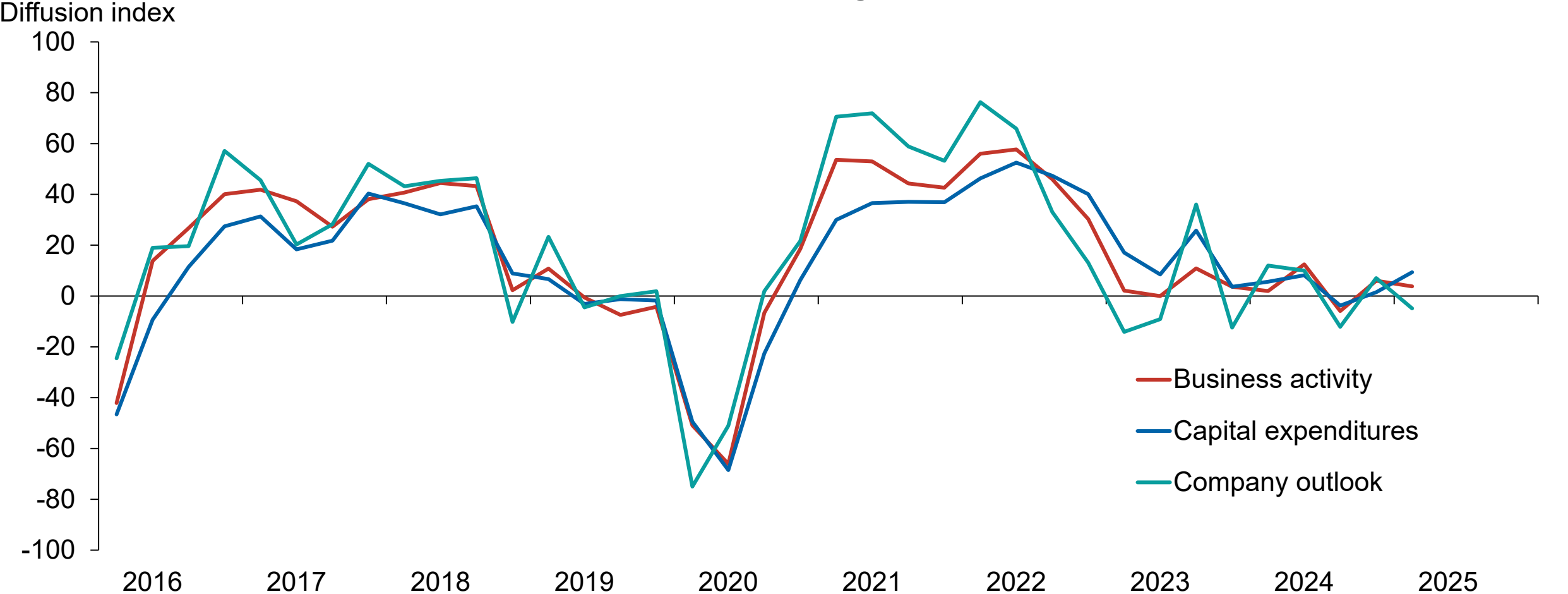
Dallas Fed Energy Survey respondents expect oil prices around \$70, above breakeven



NOTES: Executives from 124 oil and gas firms answered this question during the survey collection period, March 12–20, 2025. For reference, WTI (West Texas Intermediate) spot prices averaged \$67.60 per barrel during the period. The middle line denotes the mean, while the bottom and top of the box denote the minimum and maximum response.

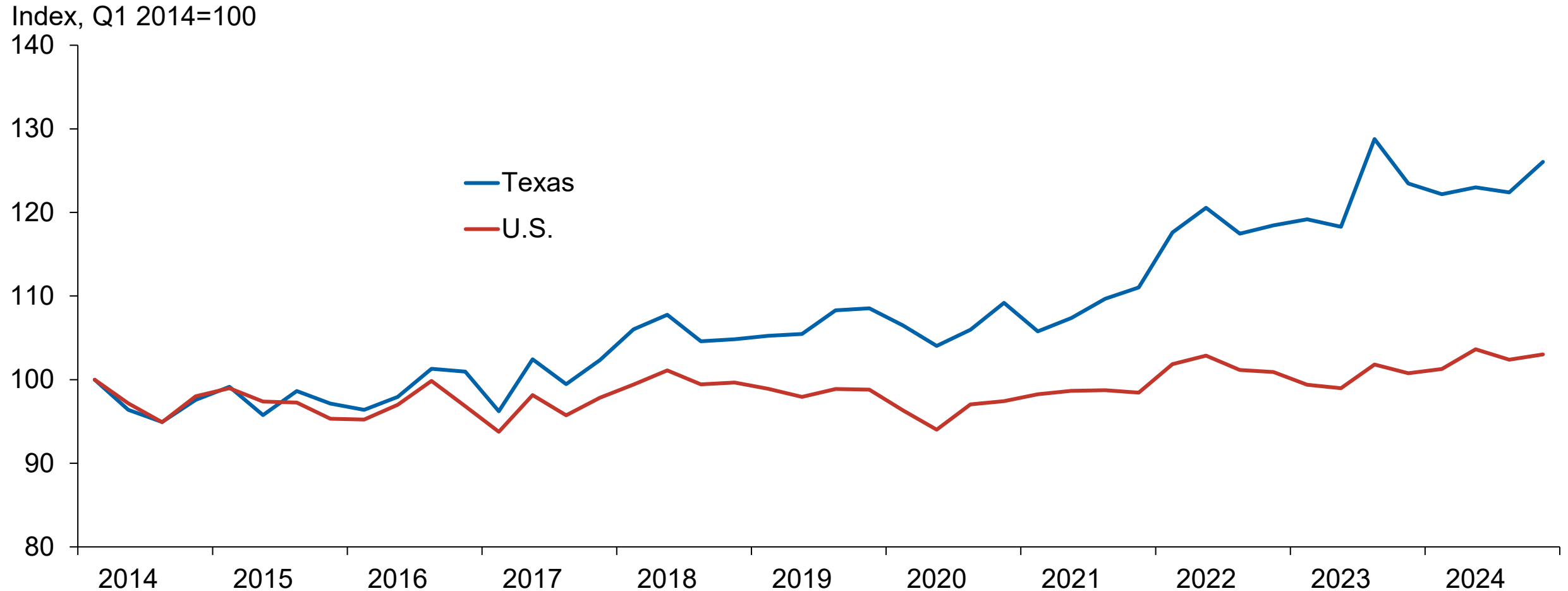
SOURCES: Federal Reserve Bank of Dallas; Chicago Mercantile Exchange (reference price).

Dallas Fed energy survey shows little sign of pickup in activity and weaker company outlook



NOTES: Shown are diffusion indices for the current quarter versus the prior quarter. Data is quarterly through first quarter 2025. Firms include E&P and O&G support services.
SOURCE: Federal Reserve Bank of Dallas' Energy Survey.

Economic growth, hot weather and electrification are boosting electricity consumption in Texas more than in US

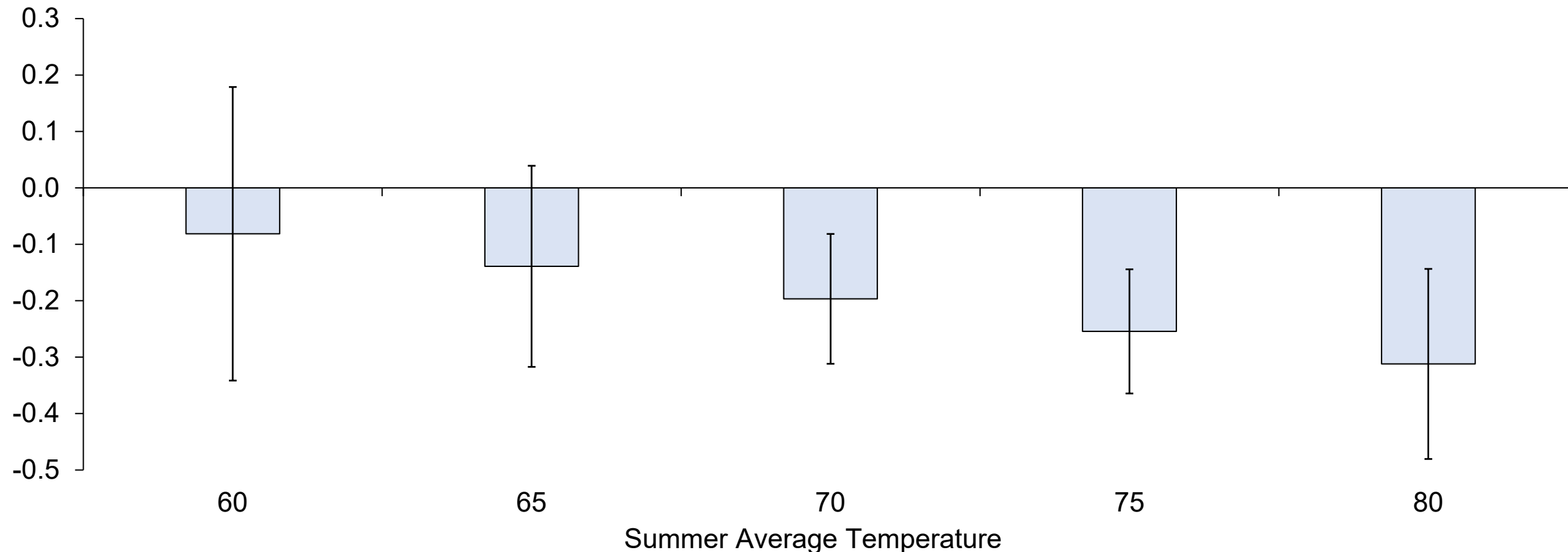


NOTE: Shown are seasonally adjusted retail sales of electricity for all sectors in KWH. Data are quarterly through Q4 2024.

SOURCE: U.S. Energy Information Administration.

Research on GDP effects of rising temperatures show adverse effects larger in hotter states

Effect on GDP growth, percentage points

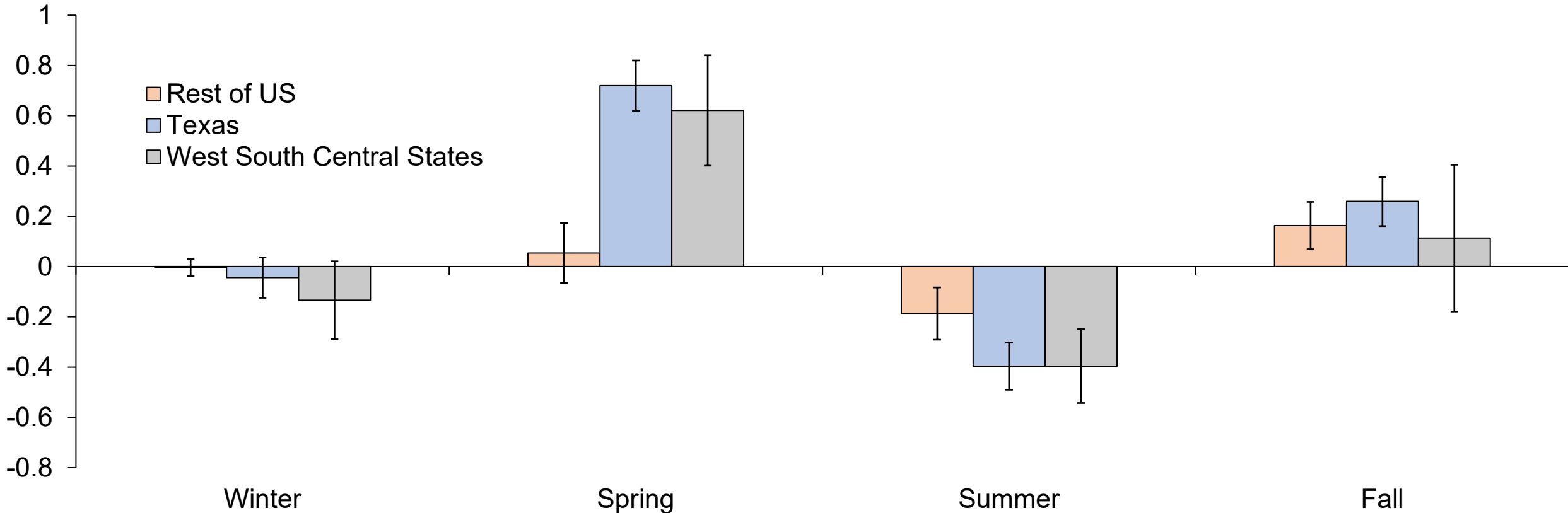


NOTE: Estimates based on quadratic model for 47 states from 1966-2022. Standard errors clustered by state and year. 95 percent confidence intervals are plotted as the error bars.

SOURCE: National Oceanic and Atmospheric Administration, Bureau of Economic Analysis.

But while higher temperatures reduce summer output, they increase output in fall and spring

Effect on GDP growth, percentage points

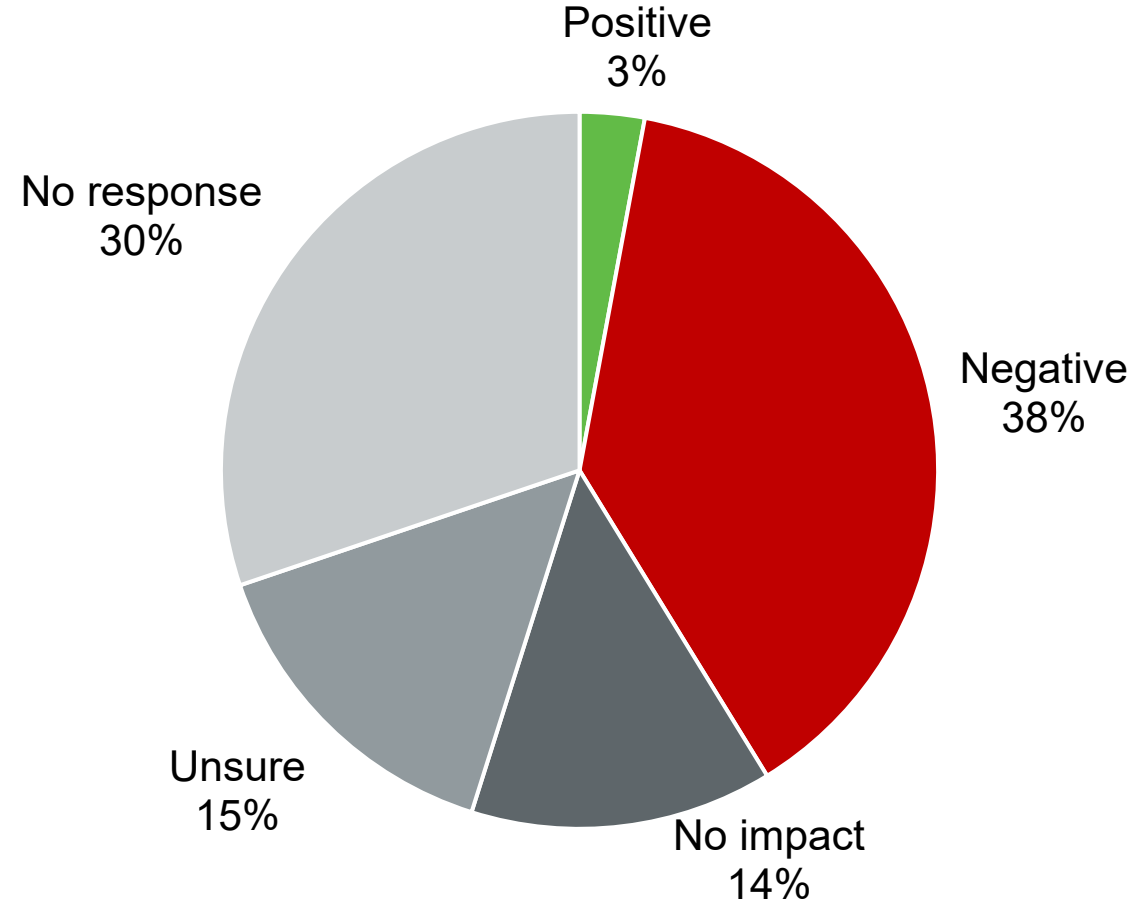


NOTE: Estimates from two-way fixed effects model with state and time fixed effects. All specifications include first lag of the dependent variable. Sample years: 2000-2022. Regressions weighted by states' share of U.S. GDP. 95 percent confidence intervals are plotted as the error bars.

SOURCE: National Oceanic and Atmospheric Administration, Bureau of Economic Analysis.

International Trade

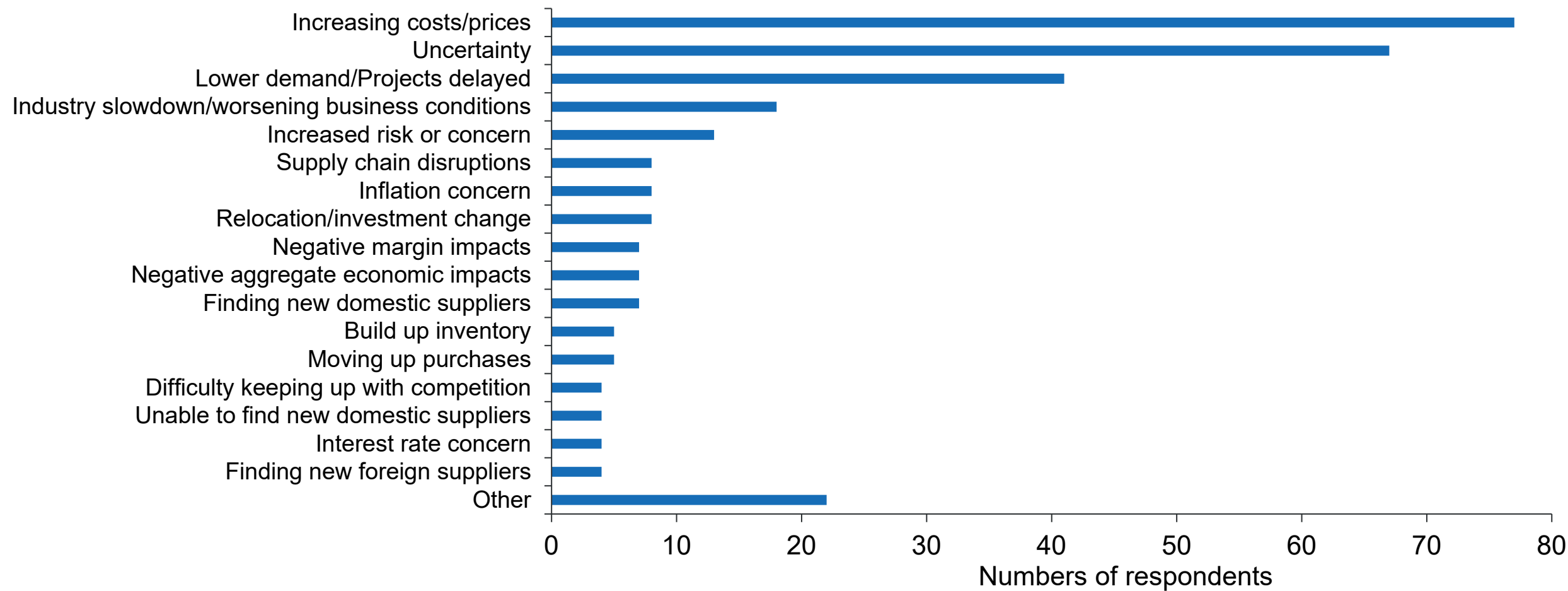
Texas businesses mostly pessimistic about tariffs



NOTES: Participants were asked "Please comment on how U.S. trade policy uncertainty and tariffs are impacting your business, if at all." Responses were sorted manually. 'No response' is the difference between the number of responses from the previous question (321) and the number of responses on this question (227). 12 responses were excluded as irrelevant.

SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys; authors' calculations.

Businesses cite higher prices, greater uncertainty as the primary impacts of higher tariffs



NOTES: Firms were asked, "Please comment on how U.S. trade policy uncertainty and tariffs are impacting your business, if at all.?" Shown are the ones who answered negatively as a share of the total. Responses were sorted manually. N = 299 responses in February 2025
SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys.

Tariffs of 25% on Mexico and Canada could reduce Texas GDP by 1.5 ppt and employment by 100K and raise unemployment by 0.8 ppt

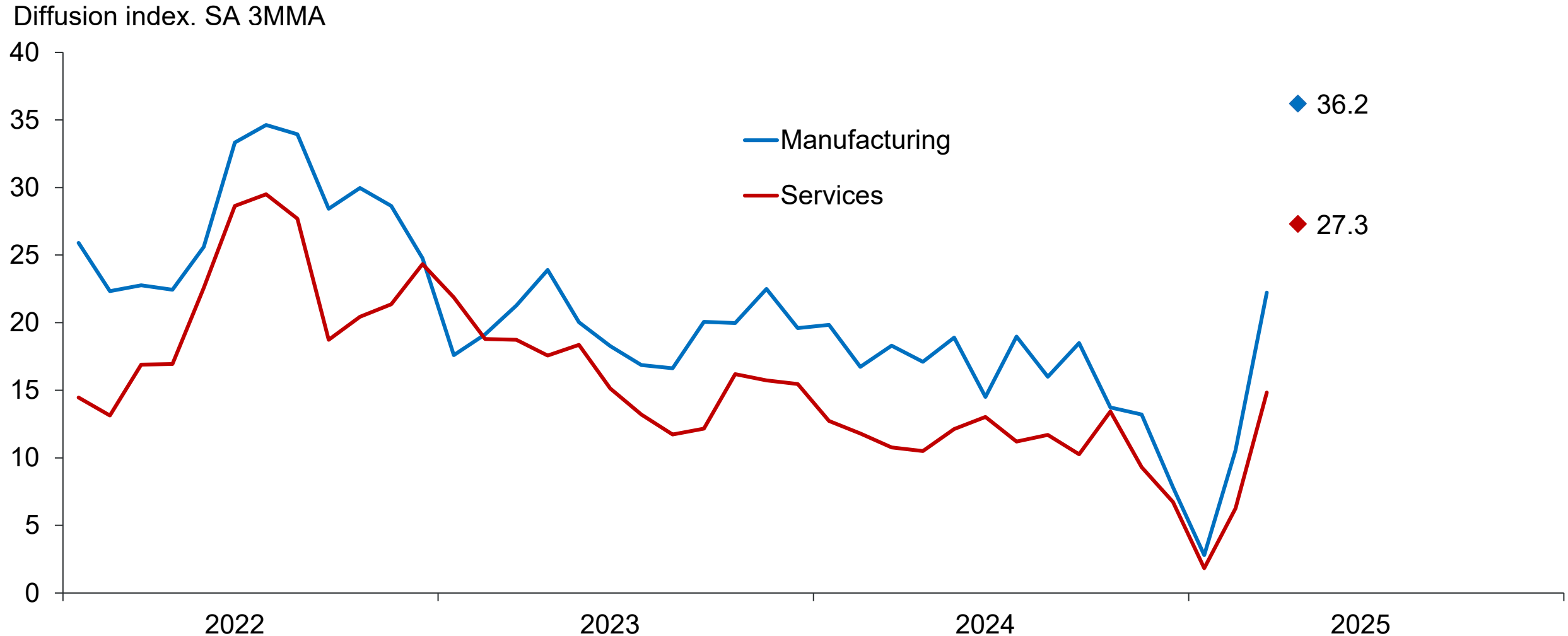
	GDP	Employment	Unemployment
Dallas Fed estimate	-1.5%	-109,041	+0.77 pp
Perryman Group	-1.9%	-360,000	+1.0 pp

NOTE: Dallas Fed calculation assumes a standard trade model looking at Texas as a small open economy that engages in intra-national trade with the other U.S. states and international trade with Mexico, Canada, China and other countries. A key assumption is that the 25 percent tariff has a (short run) elasticity of about 2, so that imports from Mexico, Canada, and China would fall by about 50 percent.

SOURCES: Federal Reserve Bank of Dallas; Perryman Group.

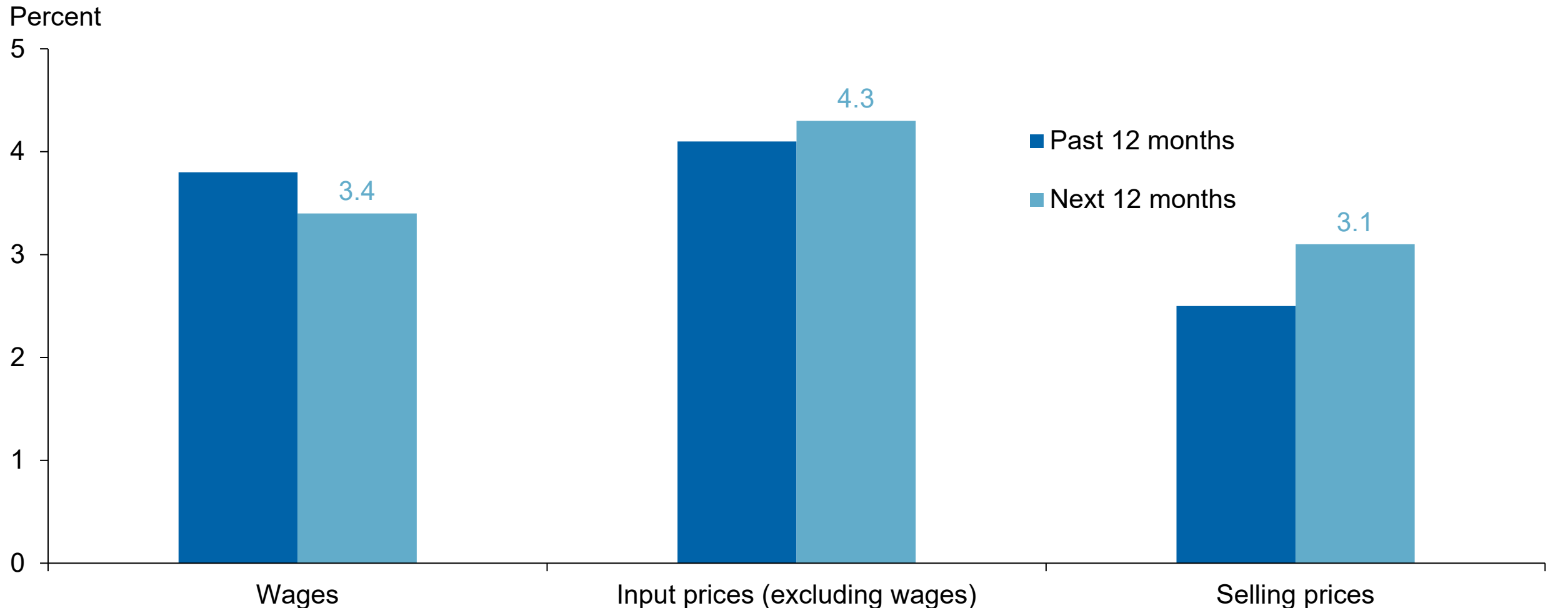
Outlook

Uncertainty spikes in February, March



NOTES: Data are seasonally adjusted, three-month moving averages through March 2025. Diamonds represent March 2025 readings.
SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys.

Texas businesses expect higher input cost and price inflation in 2025

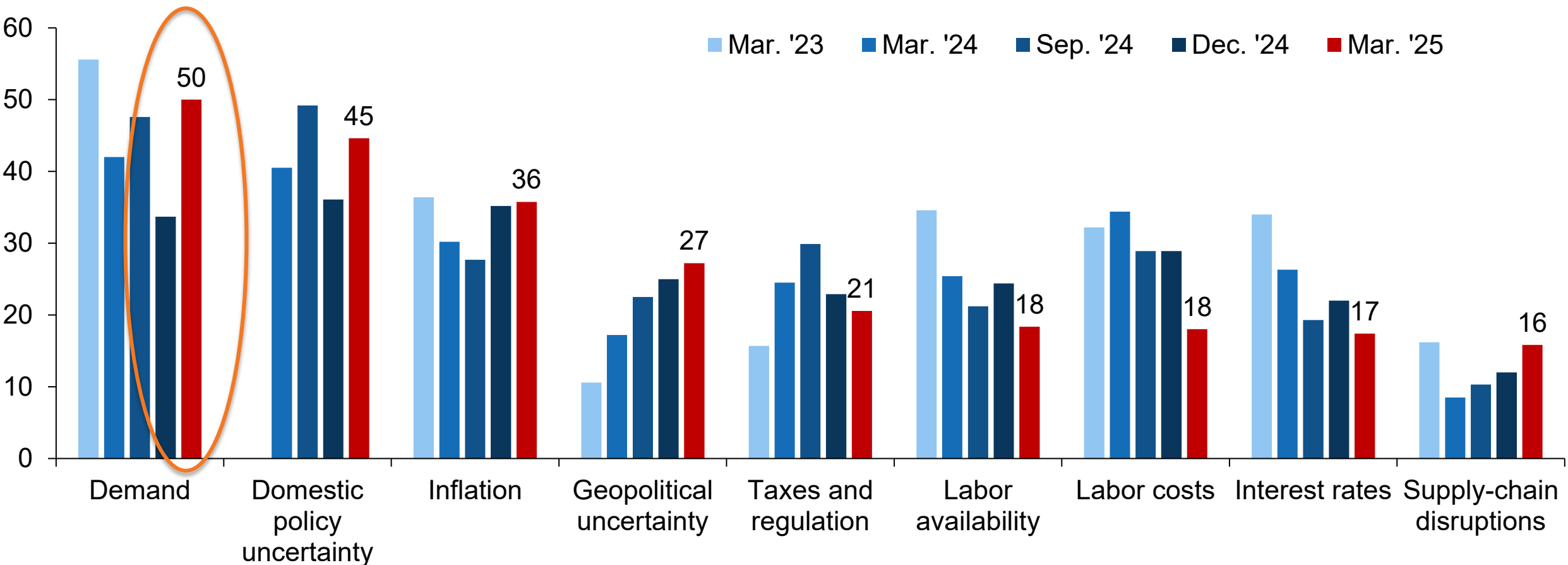


NOTES: Shown are actual and expected 12-month changes in prices and wages. N=283 in March 2025. Shown are averages, calculated as trimmed means with the lowest and highest 5 percent of responses omitted.

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

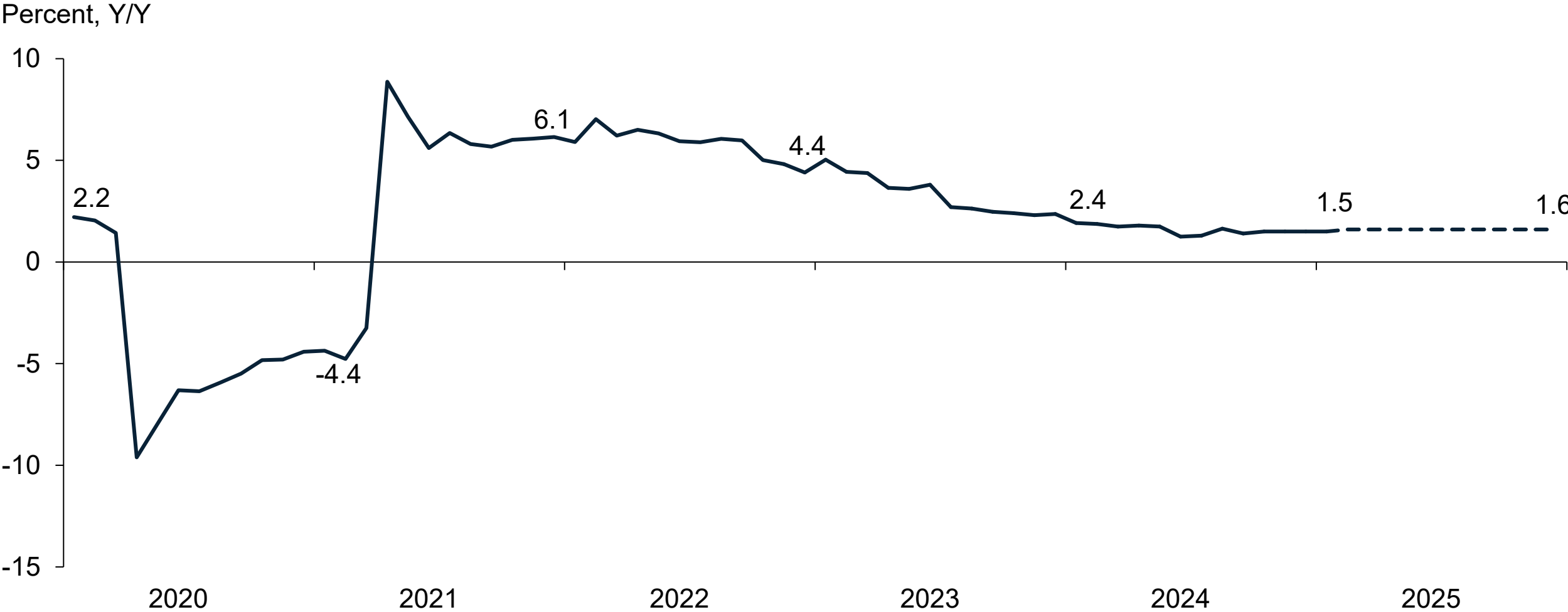
Recession concerns top the list of worries among Texas businesses

Percent of respondents citing as top three outlook concern



NOTES: Firms were asked, "What are the primary concerns around your firm's outlook over the next six months, if any?" and could select up to three concerns. N = 316 in Mar. '25. Domestic policy uncertainty was added as a response choice in Dec. '23.
SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys.

Employment forecast for 2025 is 1.6 percent growth



NOTES: Solid line reflects actual monthly values for Texas employment growth. Dashed line reflects predicted Texas employment growth. Actual data is monthly through December 2024. Predicted data for January 2025 through December 2025.
SOURCE: Federal Reserve Bank of Dallas.

Summary

- Business leader optimism has faded, and economists have revised their forecasts down
 - Tariffs are the main reason
- Progress on inflation has slowed, and recession probability has risen
 - Inflation expectations have risen
 - Consumer confidence has fallen
- In Texas, resilient growth is baseline case with risks tilted to the downside
 - Headwinds include tariffs, sharply lower immigration, rollback of federal government spending
 - Tailwinds are deregulation, tax cuts and—for Texas—the state's robust business climate and budget surplus

Thank you!