

# Regional Economy Twists and Turns: What's Ahead?

## Texas Economic Outlook

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Federal Reserve  
Bank of Dallas



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

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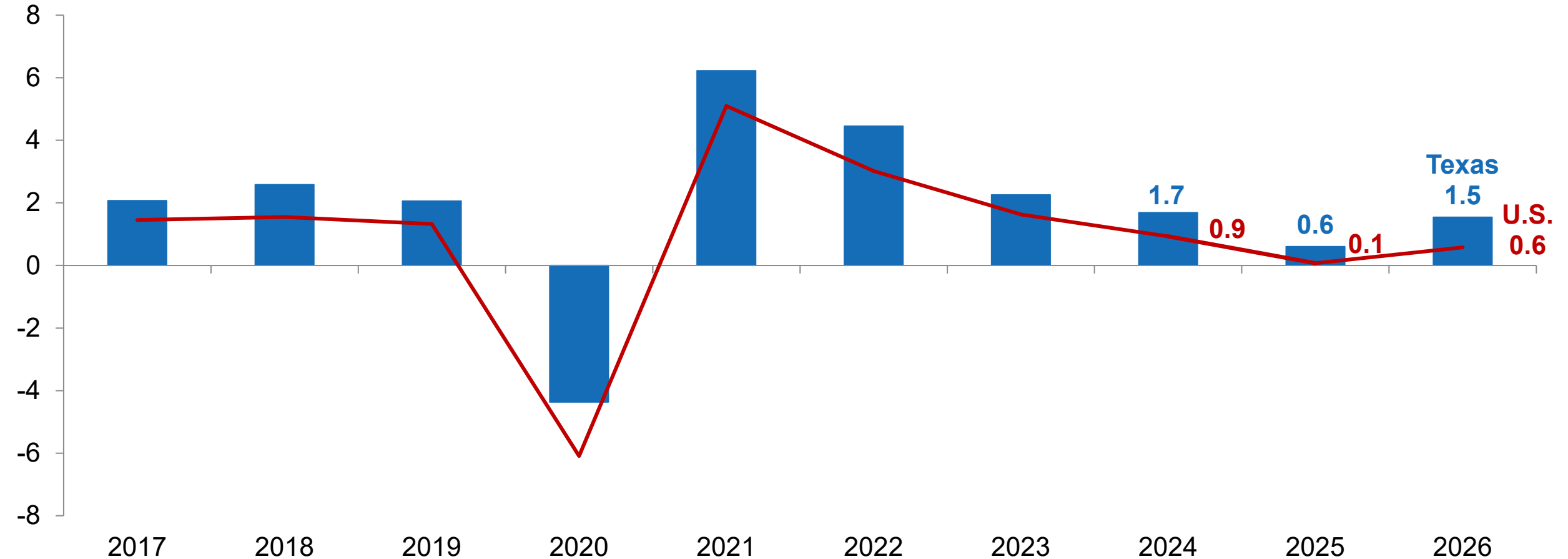
# Twists and Turns Overview

- Texas' economic growth has sped up in 2026
  - Job and output growth have accelerated, consumption appears resilient
    - Data center construction helps offset downturn in residential construction
    - But housing markets are weak, and higher fuel costs reduce spending elsewhere
- Forecast calls for continued growth, but outlook is clouded by Iran War and stalled labor force growth
  - Momentum in AI investment and data center construction ongoing
    - Fiscal policy and higher oil prices adding to growth on net, lower tariffs help
  - Headwinds similar to last year but now include rising inflation
    - Low and falling in-migration; geopolitical uncertainty
    - Federal government cutbacks
    - Higher inflation

# Employment and Economic Activity

# Texas job growth picking up so far in 2026 after weak 2025

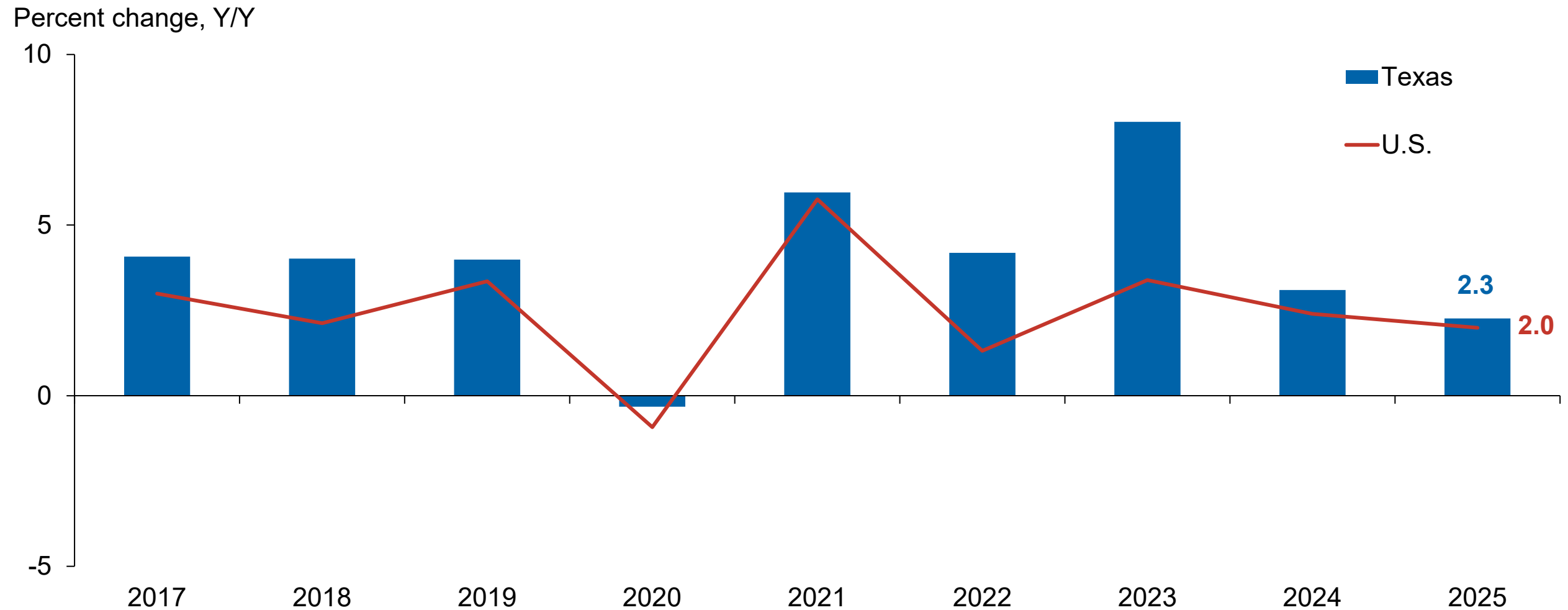
Job growth (percent)



NOTES: Data are Dec./Dec. growth and seasonally adjusted. U.S. data for 2026 are Apr. '26/Dec. '25 annualized growth. Texas data for 2026 are Apr. '26/Dec. '25 annualized growth. Texas data is early benchmarked through 3<sup>rd</sup> quarter 2025. U.S. data is benchmarked through 1<sup>st</sup> quarter 2025.

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

# Meanwhile, GDP growth has held up in both Texas, U.S.

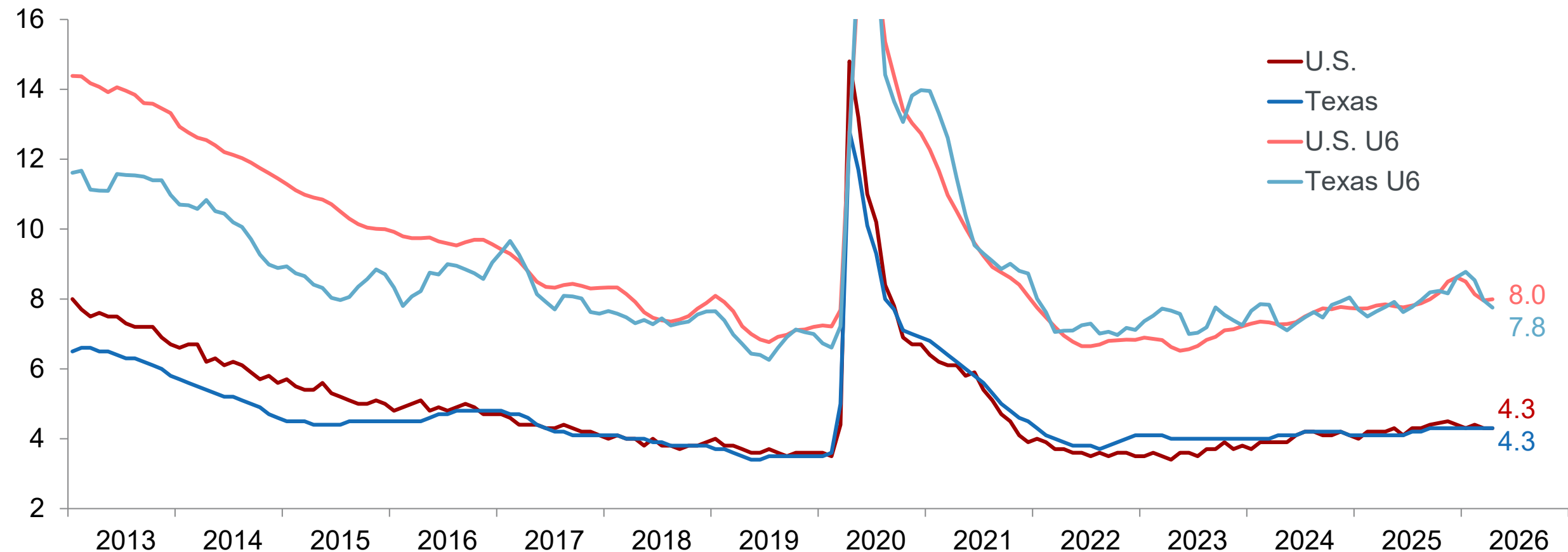


NOTES: Shown is Q4/Q4, real GDP growth. 2025 data is Q4 '25/Q4 '24 for the U.S. and Q4 '25/Q4 '24 for Texas.

SOURCES: Bureau of Economic Analysis.

# Headline unemployment rate remains low, and broader jobless measures have turned down after rising last year

Unemployment rate (percent)

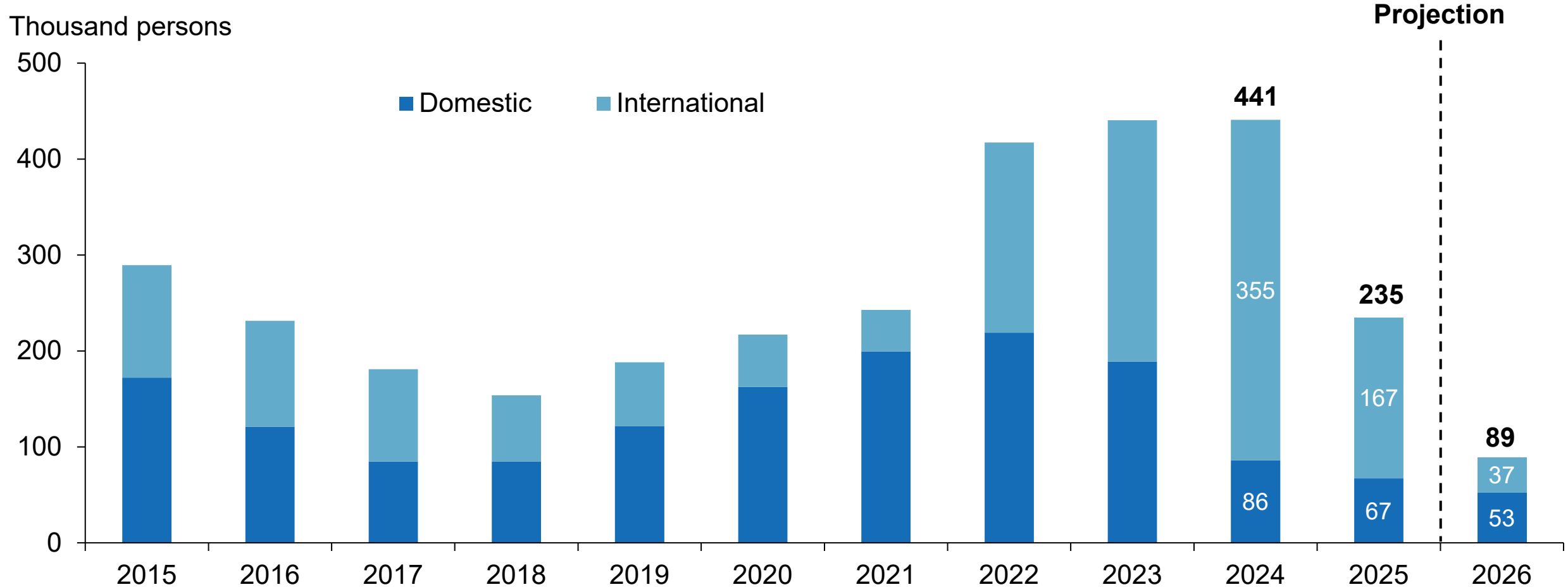


NOTE: Data are seasonally adjusted. U6 data are three-month moving averages. U.S. headline unemployment is monthly through April 2026. Texas headline unemployment is monthly through April 2026. U6 series are through April 2026.

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

# Domestic and International Migration

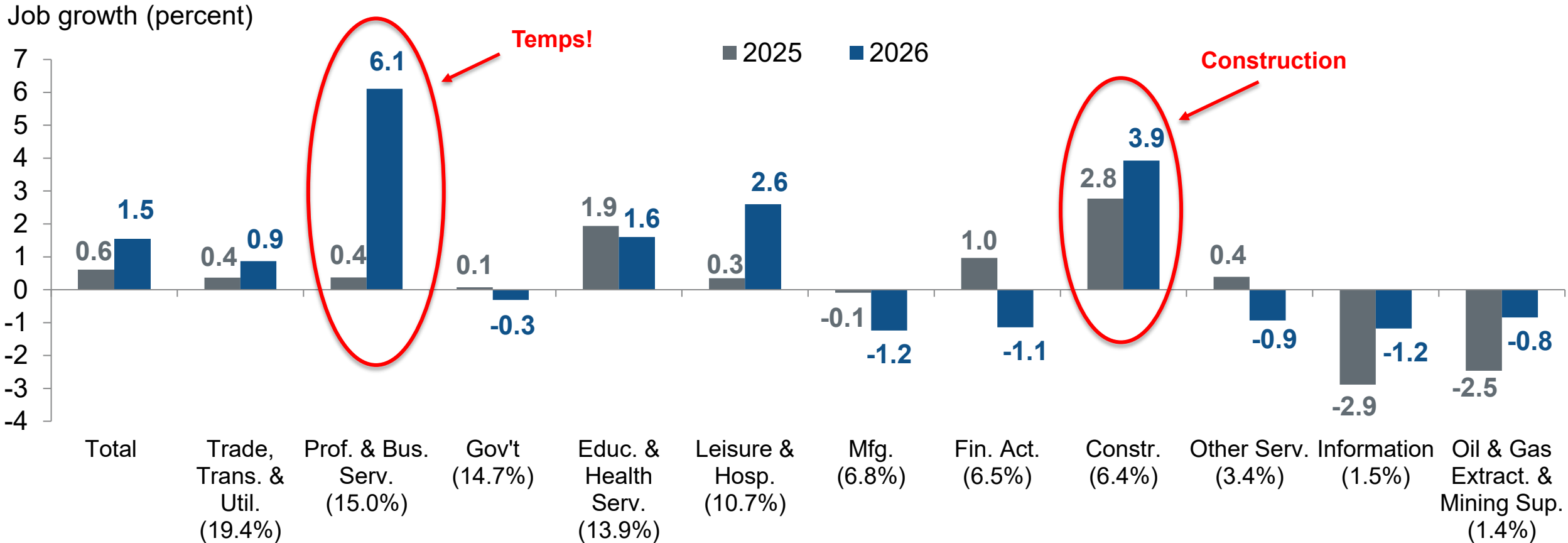
# A big challenge to job growth is low in-migration; it is contributing to a stagnating Texas labor force



NOTES: Shown are annual net domestic and net international migration to Texas. Change is July to July. Estimate for 2026 is authors' projection.

SOURCE: Census Bureau; authors' calculations.

# Despite that, Texas job growth is spiking in several sectors this year

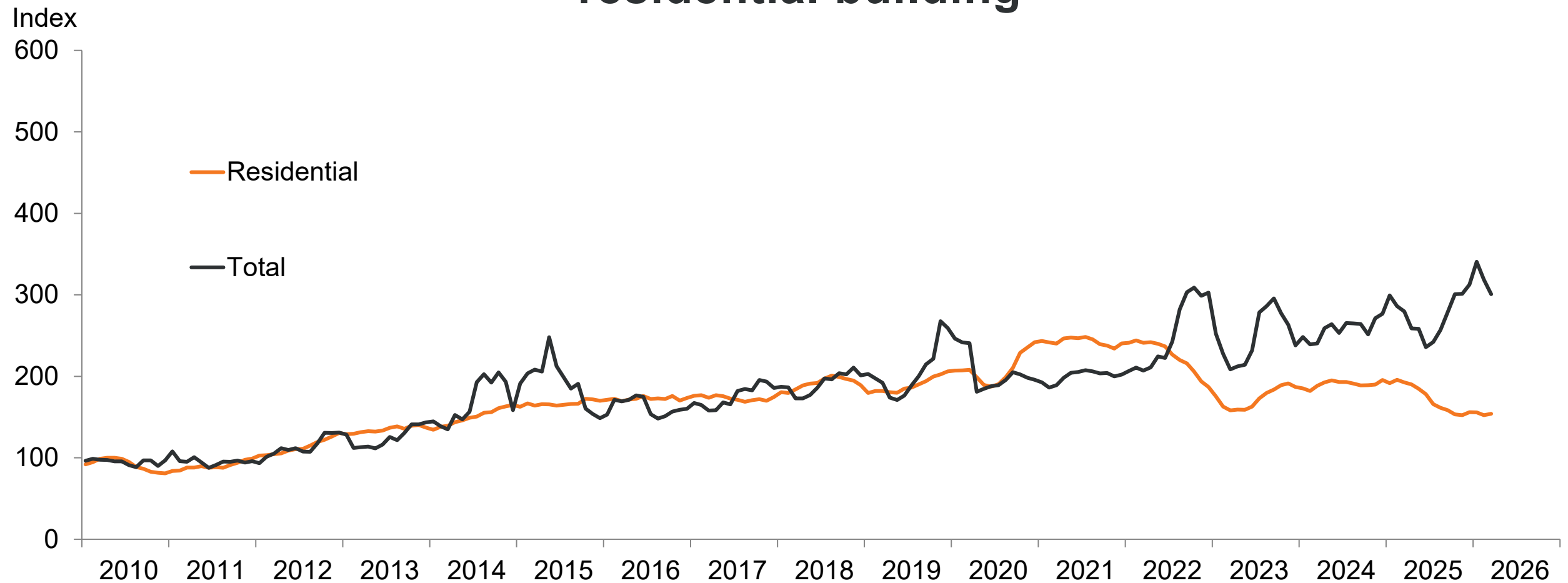


NOTE: Data are seasonally adjusted and Dec/Dec growth. Data for 2026 is Apr. '26/Dec. '25 annualized growth. Numbers in parenthesis indicate share of total state employment for most recent monthly data.

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

# Construction and Real Estate

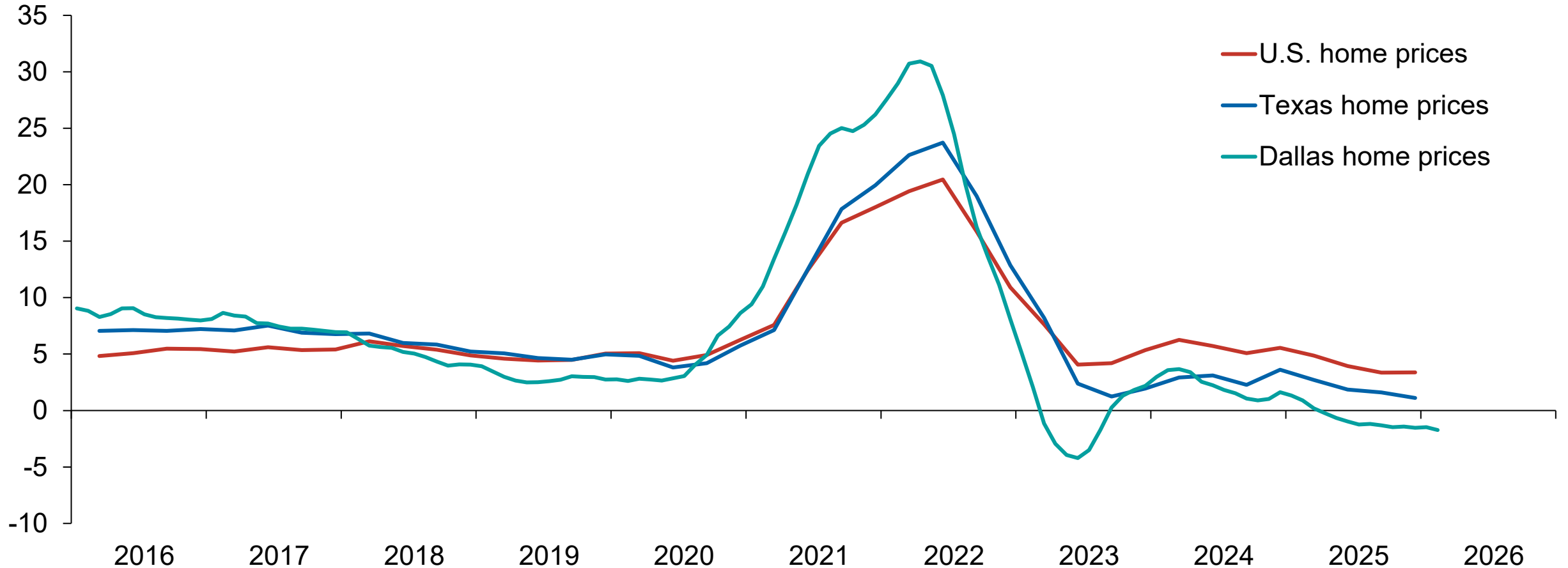
# Construction contract values rise despite declining residential building



NOTES: Data are a 5-month moving average of seasonally adjusted real Texas construction contract values through March 2026. Values are indexed and Jan. 2010 = 100.  
SOURCES: Dodge Construction; Federal Reserve Bank of Dallas.

# Residential construction in Texas suppressed by falling prices, high mortgage rates

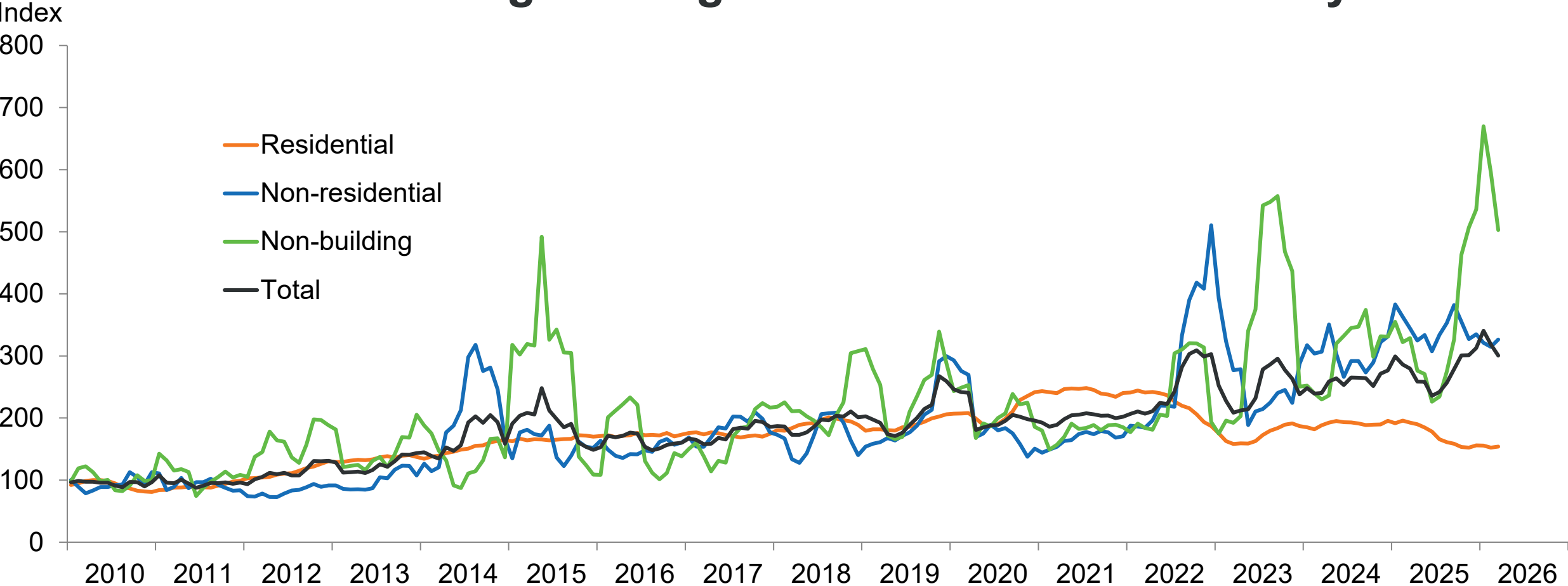
Percent, Y/Y



NOTES: Shown are home price indices. U.S. and Texas home prices are FHFA indices quarterly through Q4 2025. Dallas home prices is a Case-Shiller index monthly through February 2026.

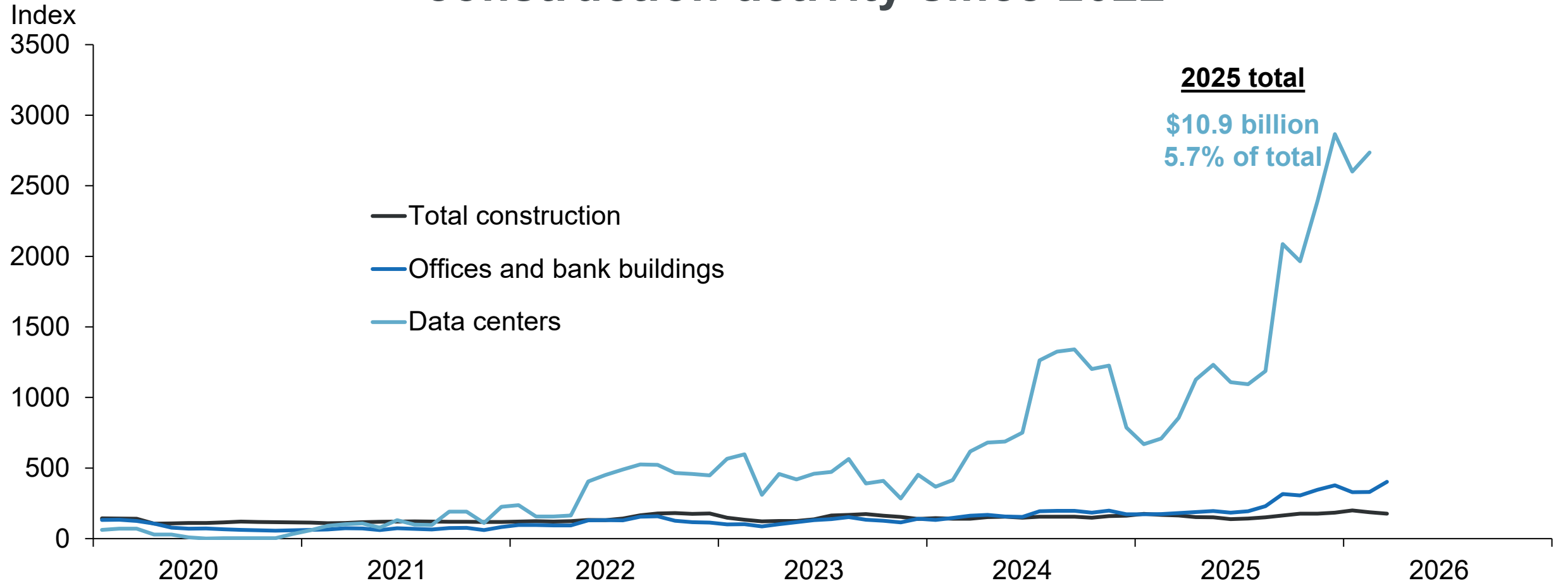
SOURCES: S&P Cotality; Federal Housing Finance Agency.

# Construction contract values rise, driven by soaring non-building and higher non-residential activity



NOTES: Data are a 5-month moving average of seasonally adjusted real Texas construction contract values through March 2026. Values are indexed and Jan. 2010 = 100.  
SOURCES: Dodge Construction; Federal Reserve Bank of Dallas.

# Growth in data center construction far outpacing overall construction activity since 2022

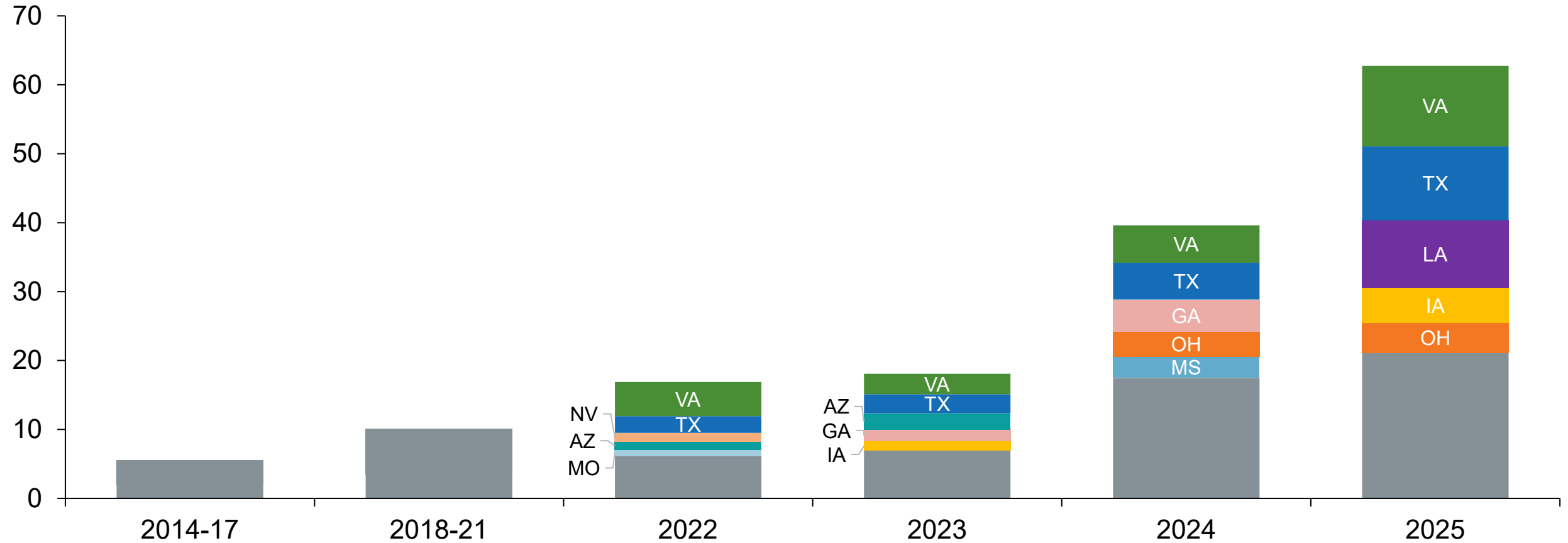


NOTES: Shown are indexed construction contract values for total construction, offices and bank buildings, and data center projects in Texas. Contract values are real. Data are indexed such that January 2020 = 100, seasonally adjusted, and smoothed with a 5-month moving average. Total construction and office contract values are monthly through March 2026. Data center contract values are monthly through February 2026 and not seasonally adjusted.

SOURCE: Dodge Construction; seasonal and other adjustments by Federal Reserve Bank of Dallas.

# Texas second among states for data center construction

Dollars, billion

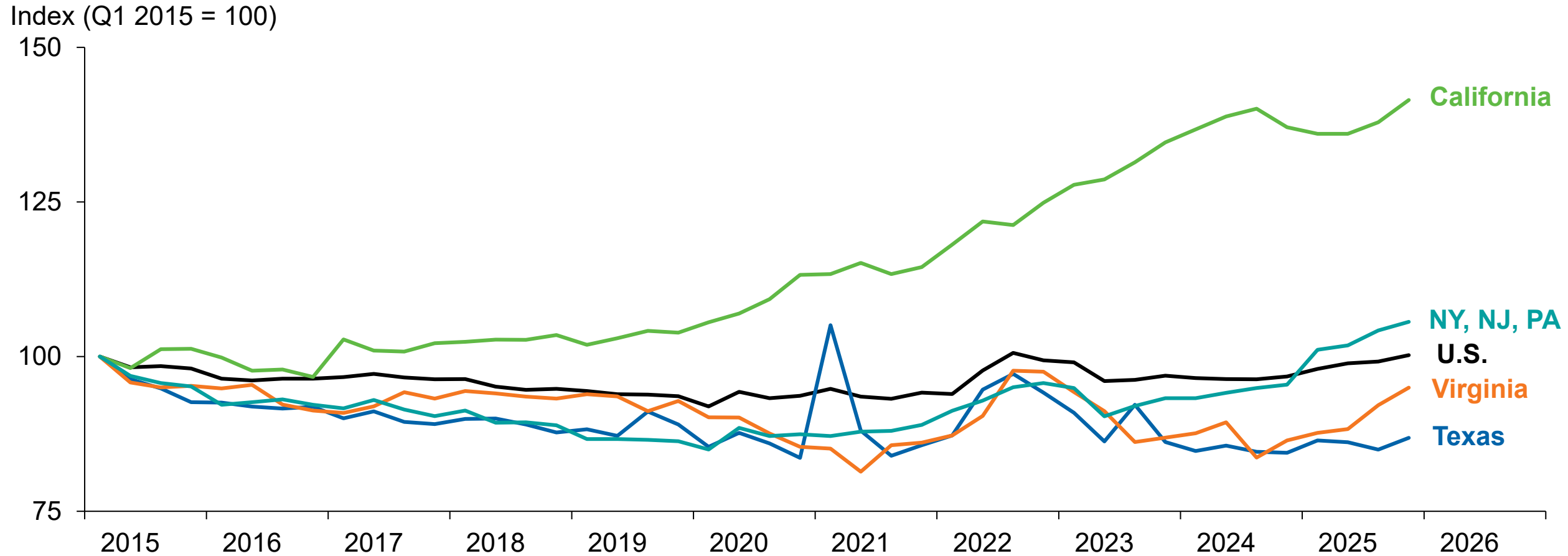


NOTES: Shown are total real annual construction contract values for data centers in the nation in 2025 dollars. Bars from 2022-2025 are broken out by the top 5 states and the rest of the nation. Bars for 2014-2017 and 2018-2021 show average annual contract values.

SOURCE: Dodge Construction.

# Energy (Electricity)

# Electricity prices beginning to rise in top data center markets, less so in Texas



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 Q4 2025.

SOURCE: Energy Information Administration.

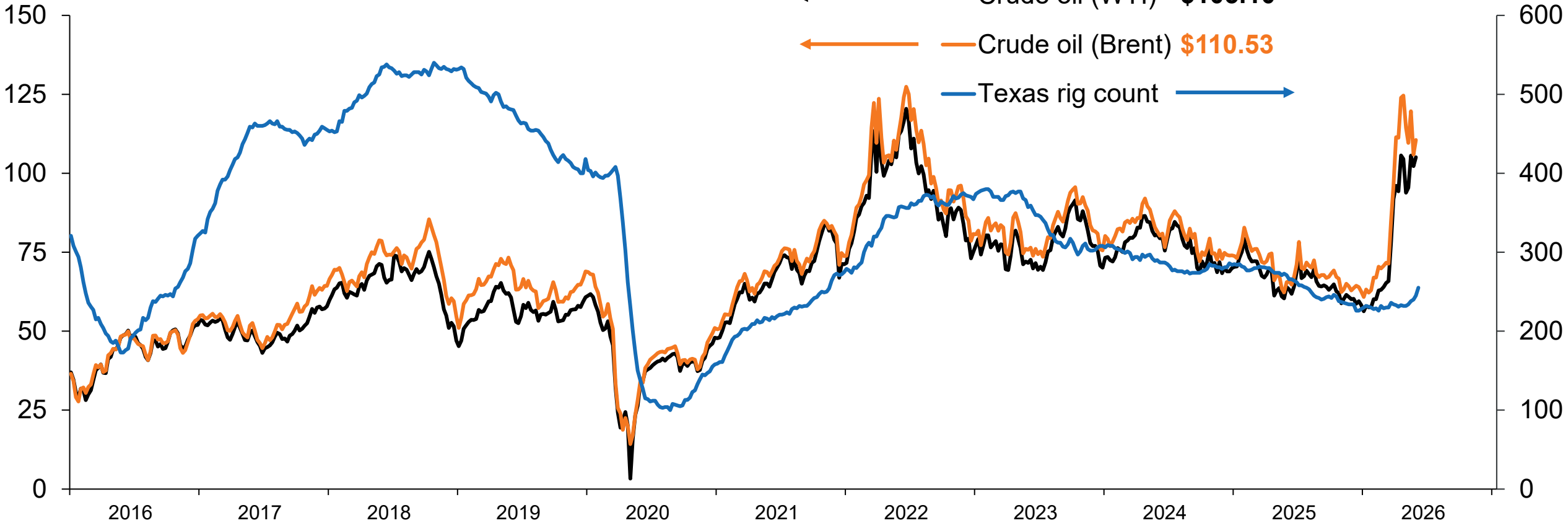
# Recent Dallas Fed research findings on how data centers affect electricity prices

- Effect of data centers on wholesale electricity markets (Kay, Reaser & Taylor, 2026)
  - Backward-looking
    - Data centers added about 3 percent (<\$1.00 per MWh) to wholesale electricity prices in the ERCOT region in the period 2021-2025, which is significantly less than national average.
  - Forward-looking
    - Data centers are expected to add 10 percent to wholesale electricity prices in the ERCOT region in 2026-2028, just below the national average.
  - Good news x 2
    - ERCOT region price increases are lower than national average despite all the data center construction AND we are still projected to have the lowest wholesale prices for electricity in the nation (although not by as much as before).

# Energy (Oil & Gas)

# Oil prices move sharply higher with Iran War, above breakeven for new wells, but will high prices last?

Dollars/barrel



NOTES: Shown are weekly average prices for U.S. WTI crude, European Brent Crude and the Texas active rotary rig count. Price data are through the week ending May 15, 2026. The rig count is through the week ending May 22, 2026. The average breakeven price of WTI needed to profitably drill a new well is \$66 per barrel.

SOURCE: EIA; Baker Hughes.

## Strait of Hormuz closure has forced countries in the Persian Gulf to shut-in production

Million barrels per day

Country	Feb Prod	Mar. Prod	Shut-ins
Saudi Arabia	10.4	7.8	2.6
UAE	3.6	2.3	1.3
Iraq	4.4	1.6	2.8
Kuwait	2.6	1.3	1.3
Qatar	1.9	0.6	1.3
Bahrain	0.2	0.1	0.1
<b>Total</b>			<b>9.4 mb/d</b>

April shut-in estimates range from 10-15 mb/d

Note: Values are preliminary estimates.

Source: U.S. Energy Information Administration, Federal Reserve Bank of Dallas.

## Once the strait is re-opened, expectations are for shut-in production to take 3-6 months to mostly return

Source	Percentage of Production Brought Back			
	Month 1	Mon. 2	Mon. 3	Mon. 4-6
Analyst 1	21%	52%	76%	97%
Analyst 2	26%	46%	61%	98%
Analyst 3	50%	75%	88%	100%
Analyst 4	23%	46%	66%	92%
Analyst 5	54%	92%	100%	100%
Analyst 6	28%	69%	83%	90%
Average	33%	63%	79%	96%

“Kuwait would take three to four months to return output to full production levels even if the war were to end today” - Sheikh Nawaf (CEO, KPC)

“We can ramp up in days, and not weeks for sure and, to reach whatever, when we talk about, we have an ample spare capacity as well, and in certain areas, we use restriction on wells rather than shutdowns” – Amir Nasser (CEO, Aramco)

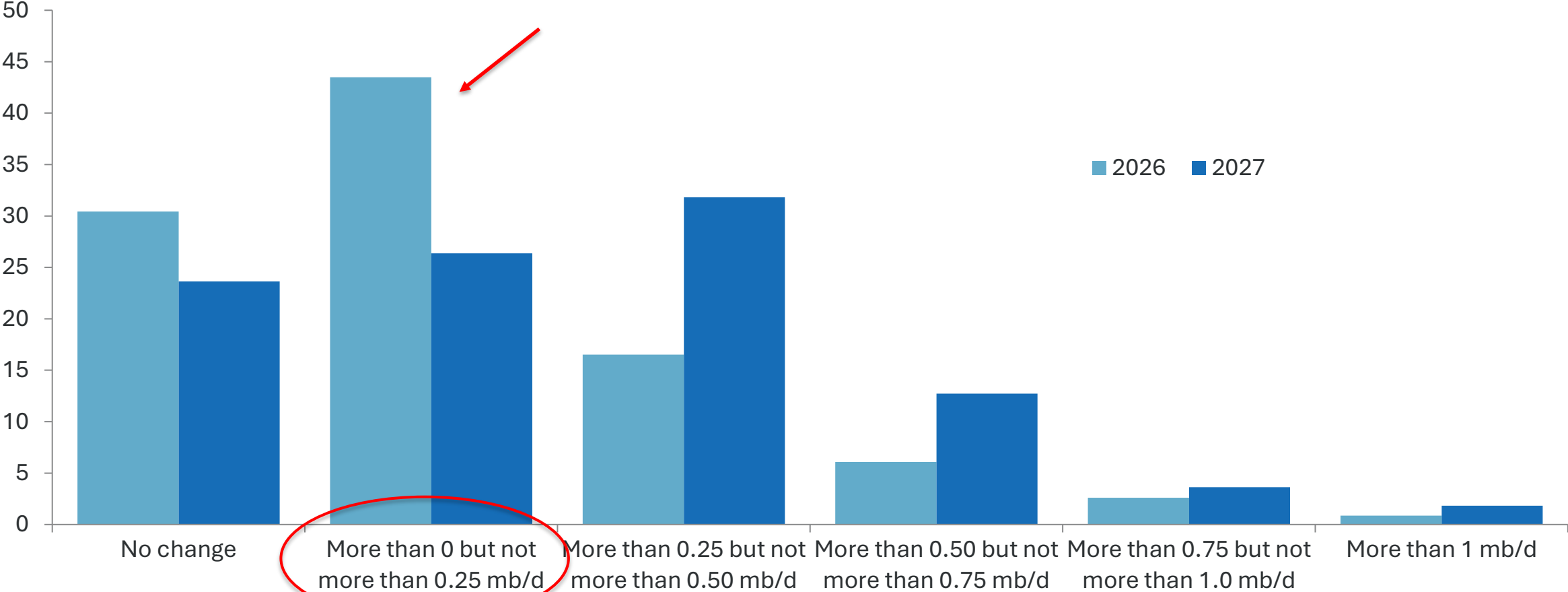
Note: Values are rough estimates and will depend on other assumptions used.

Source: Major energy agencies, industry consultants, financial institutions.

# Energy survey: only a small increase expected in U.S. oil production due to Iran War

Q: By how much do you expect U.S. oil production to increase in response to the Iran war in 2026 and 2027?

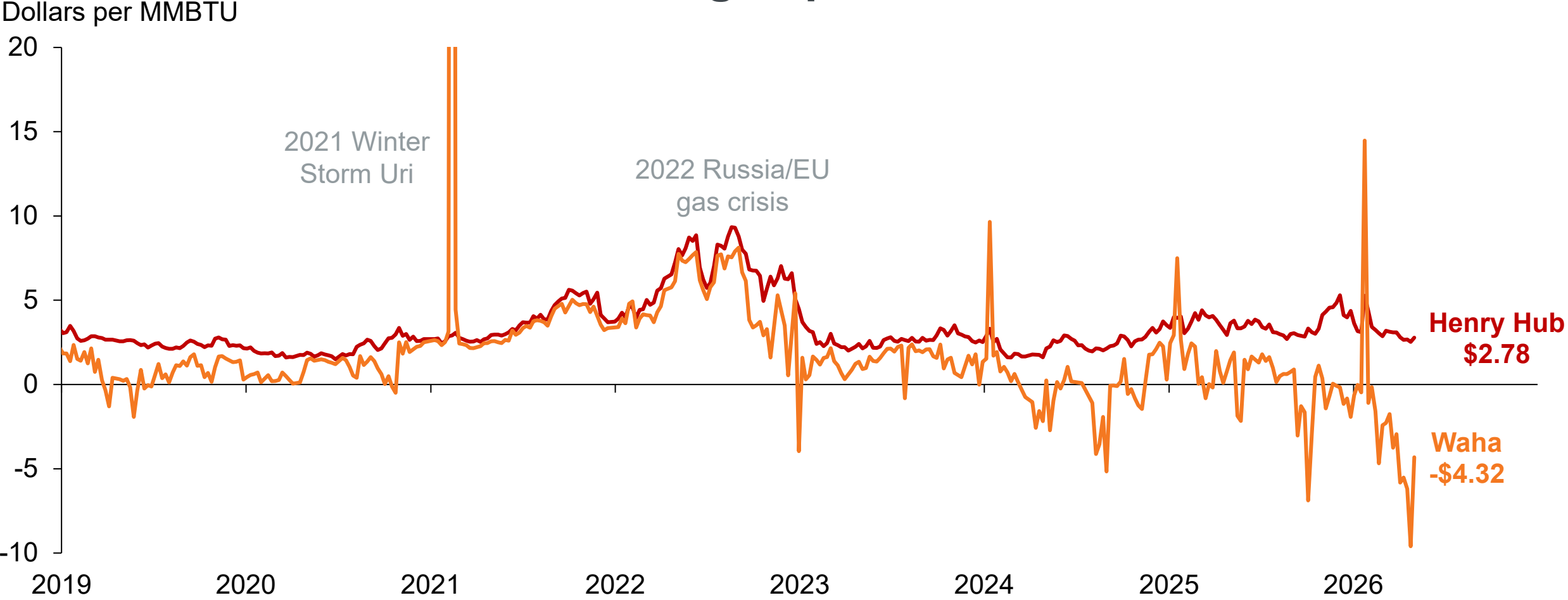
Percent of respondents



NOTE: For 2026, executives from 115 oil and gas firms answered this question during the survey collection period, April 15–20, 2026. For 2027, executives from 110 oil and gas firms answered this question during the survey collection period. Mb/d is million barrels per day.

SOURCE: Federal Reserve Bank of Dallas.

# Meanwhile, pipeline and export constraints keep U.S. natural gas prices low

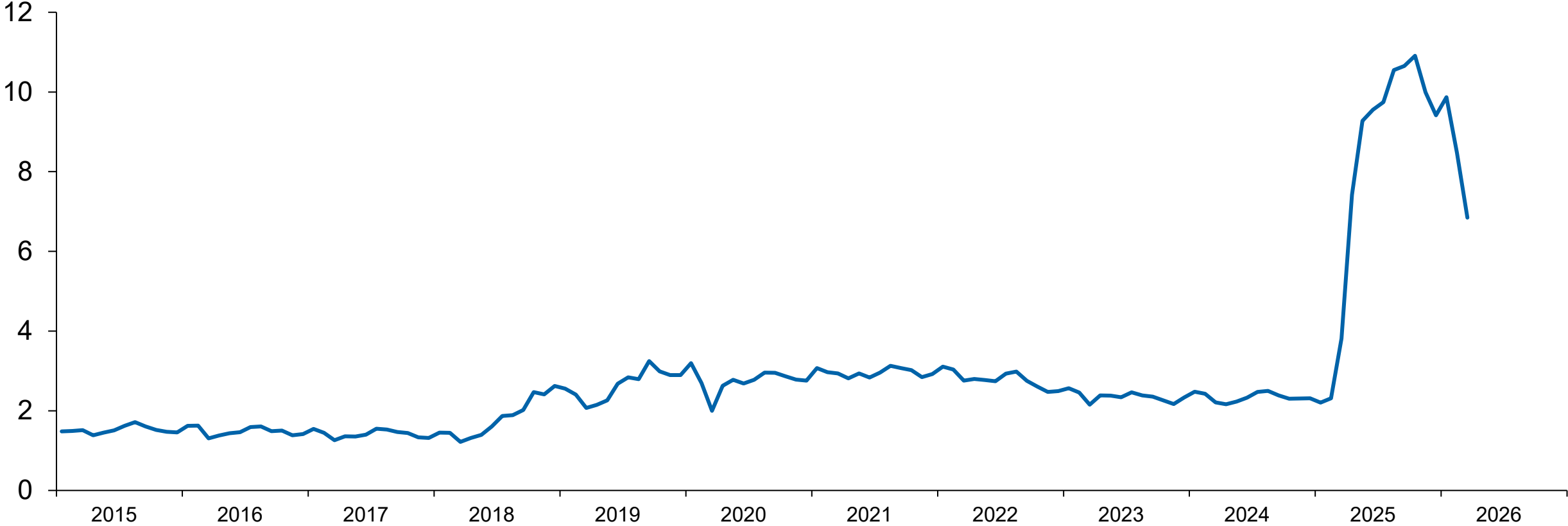


NOTE: Data are weekly through May 1, 2026. MMBTU stands for million British thermal units.  
SOURCE: Bloomberg, S&P Platts, author's calculations.

# International Trade

# Realized tariff rate is high but has declined from peak

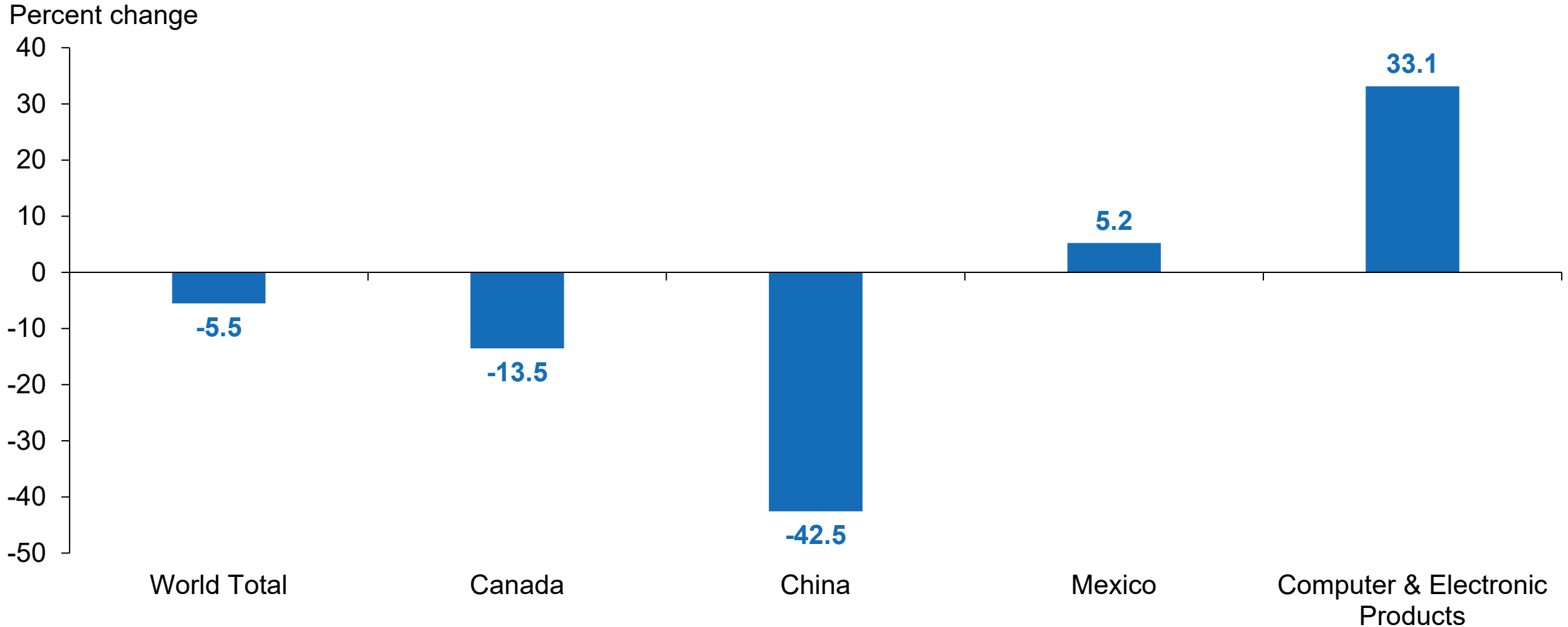
Tariff rate on imports for immediate use, percent



NOTES: Shown is the calculated duties share of import customs value monthly through March 2026.

SOURCE: Census Bureau.

# After frontrunning, U.S. imports fall under pressure of tariffs



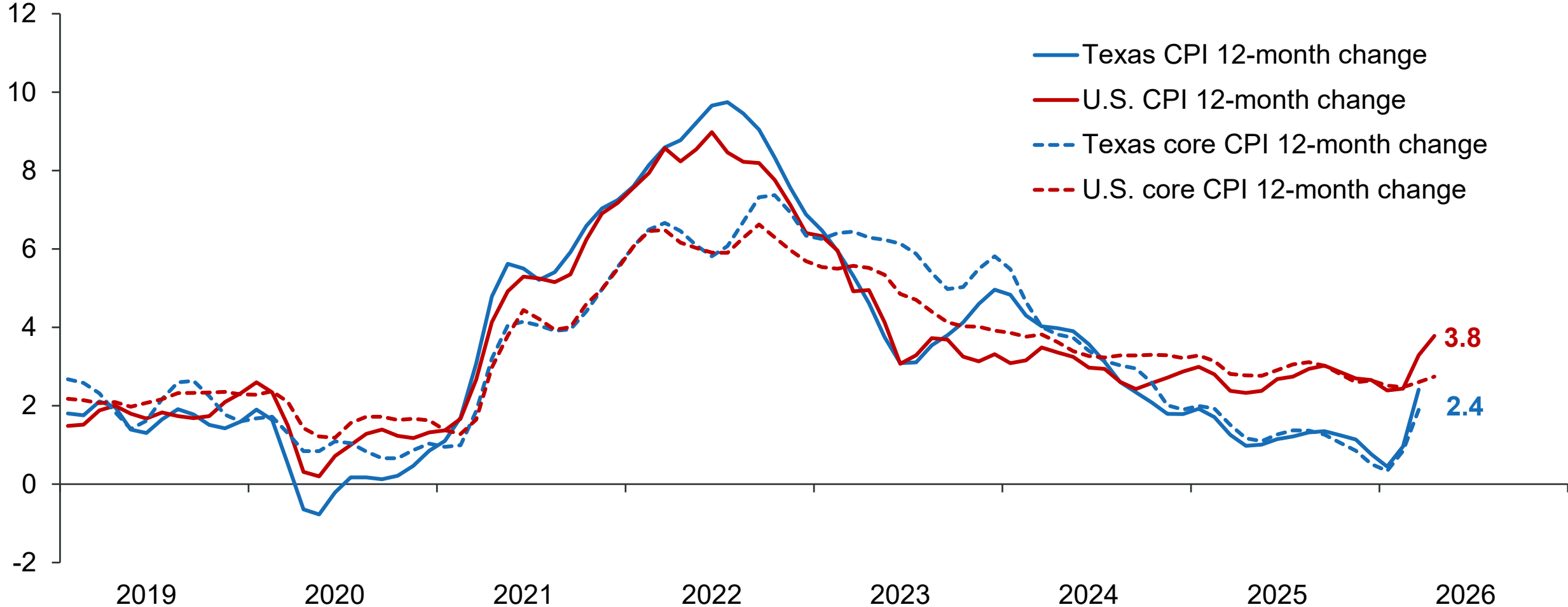
NOTES: Shown is the percent change from 2024 to 2025 in cumulative imports for June of the current year through February of the next year.

SOURCE: Census Bureau.

# Economic Outlook

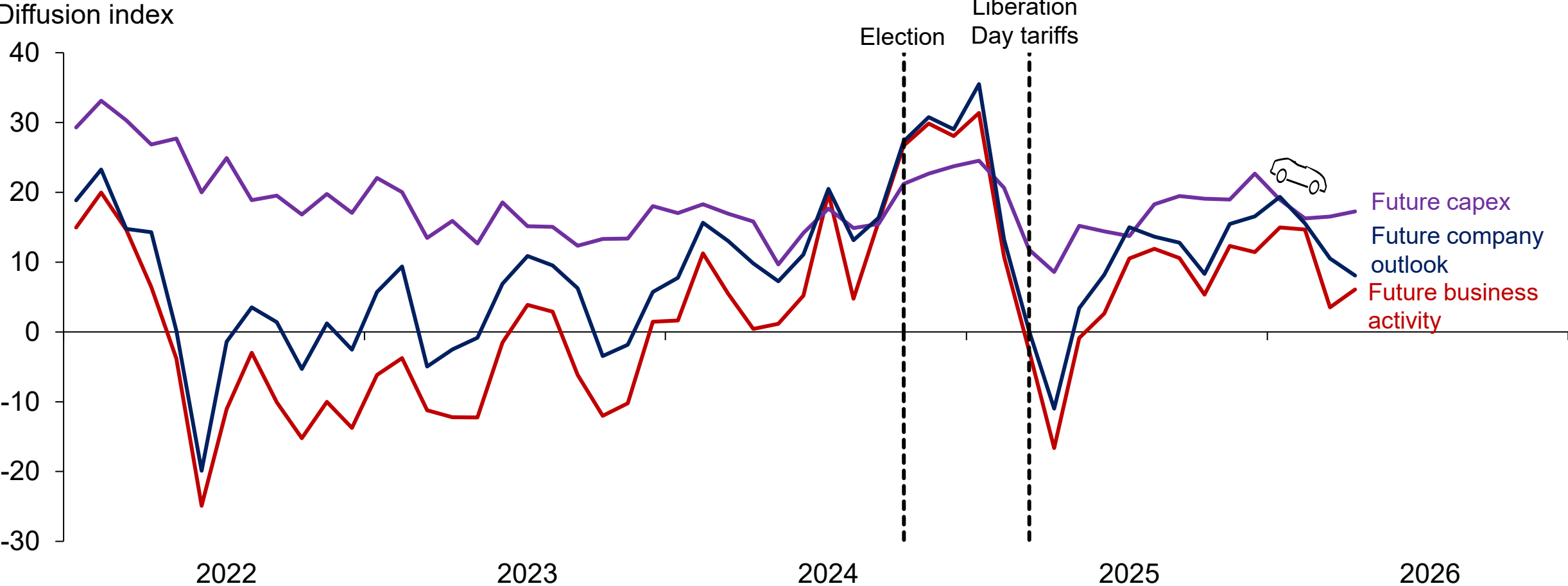
# Inflation rises sharply following war with Iran

Percent change



NOTES: Data are seasonally adjusted and monthly through April 2026 for U.S. and March 2026 for Texas.  
SOURCES: Bureau of Labor Statistics; adjustments by the Federal Reserve Bank of Dallas.

# Texas businesses less optimistic about outlook in most recent survey



NOTE: TBOS indices are state GDP-weighted averages of service sector and manufacturing data. Data are seasonally adjusted and monthly through April 2026.

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

## At the conclusion of the ride, you may lift the safety bar...

- Texas economy is growing faster this year after a weak 2025
  - Labor market is resilient with higher job growth, low unemployment
    - Forecast is for 1.8 percent job growth in 2026 (Dec/Dec), although it may not get there...
  - AI boom is boosting construction, manufacturing
- Outlook for rest of 2026 calls for continued growth, but risks abound
  - Labor force growth constrained by less international and domestic migration
  - Consumers negatively affected by sharply higher inflation
  - Education, health and food security adversely affected by safety net cuts and federal funding reductions
  - Outcome of USMCA review also pivotal for Texas

**Thank you!**

**Please visit [dallasfed.org](https://dallasfed.org) for more  
information**

