

The Twists and Turns of 2025 and a Look Ahead

2026 Texas Economic Outlook

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Federal Reserve
Bank of Dallas



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

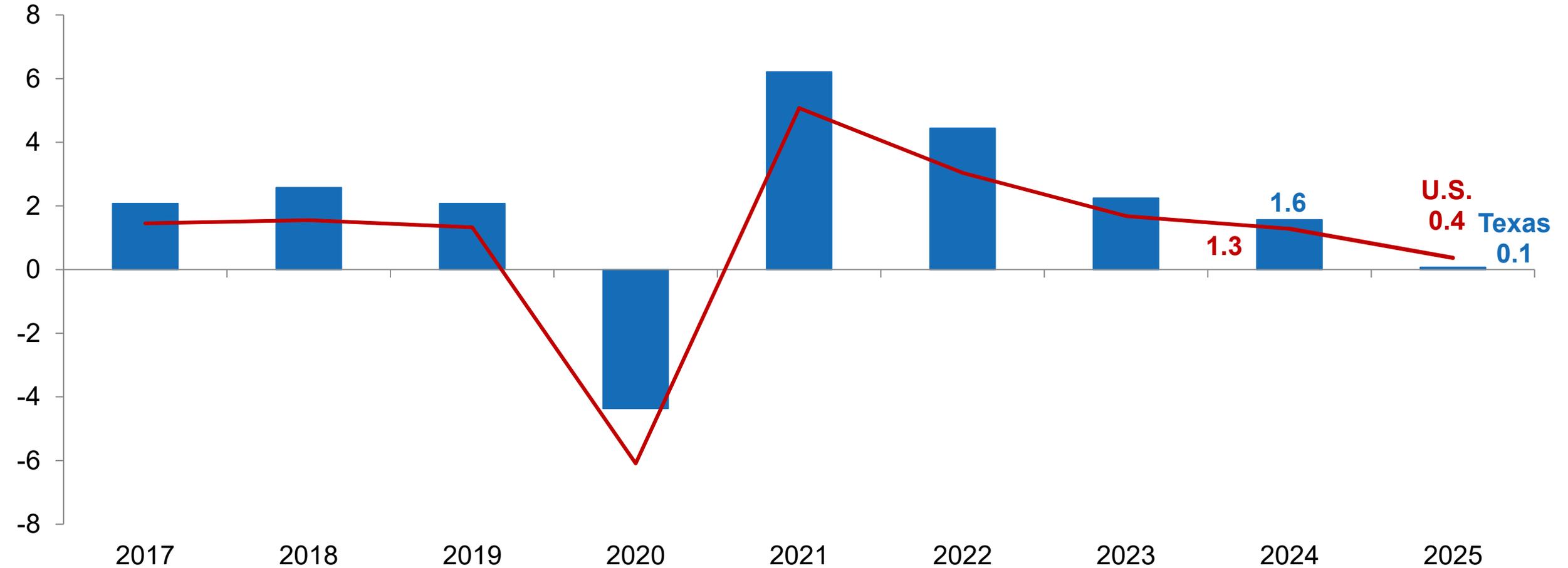
Getting ready to ride: Overview

- Texas' economy slowed in 2025
 - Output growth was below average, and job growth was near zero
 - Higher tariffs, falling immigration, federal government cutbacks & widespread policy uncertainty contributed to lower growth
 - Texas also contended with job losses in energy and high-tech and a downturn in residential construction
- Outlook for 2026 calls for a pickup in growth
 - Momentum in AI investment and data center construction will carry forward
 - Fiscal policy will add to growth, as will easier financial conditions and deregulation
 - FIFA World Cup!
 - Headwinds include labor supply constraints, residential housing markets, low oil prices, and cuts to safety net programs
 - Outcome of USMCA renegotiation also pivotal for Texas

Employment and Economic Activity

Texas job growth fell to near zero in 2025

Job growth (percent)

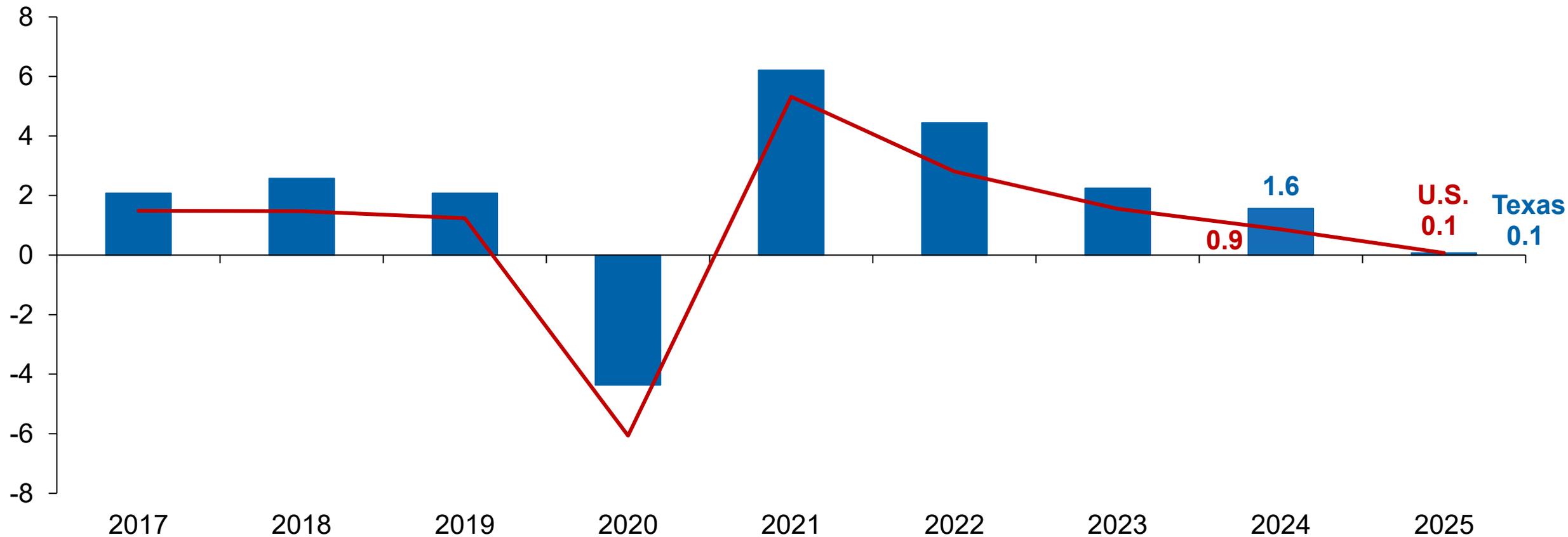


NOTES: Data are Dec./Dec. growth and seasonally adjusted. Texas data is early benchmarked through 2nd quarter 2025.

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

U.S. job growth could also be near zero after benchmark revisions

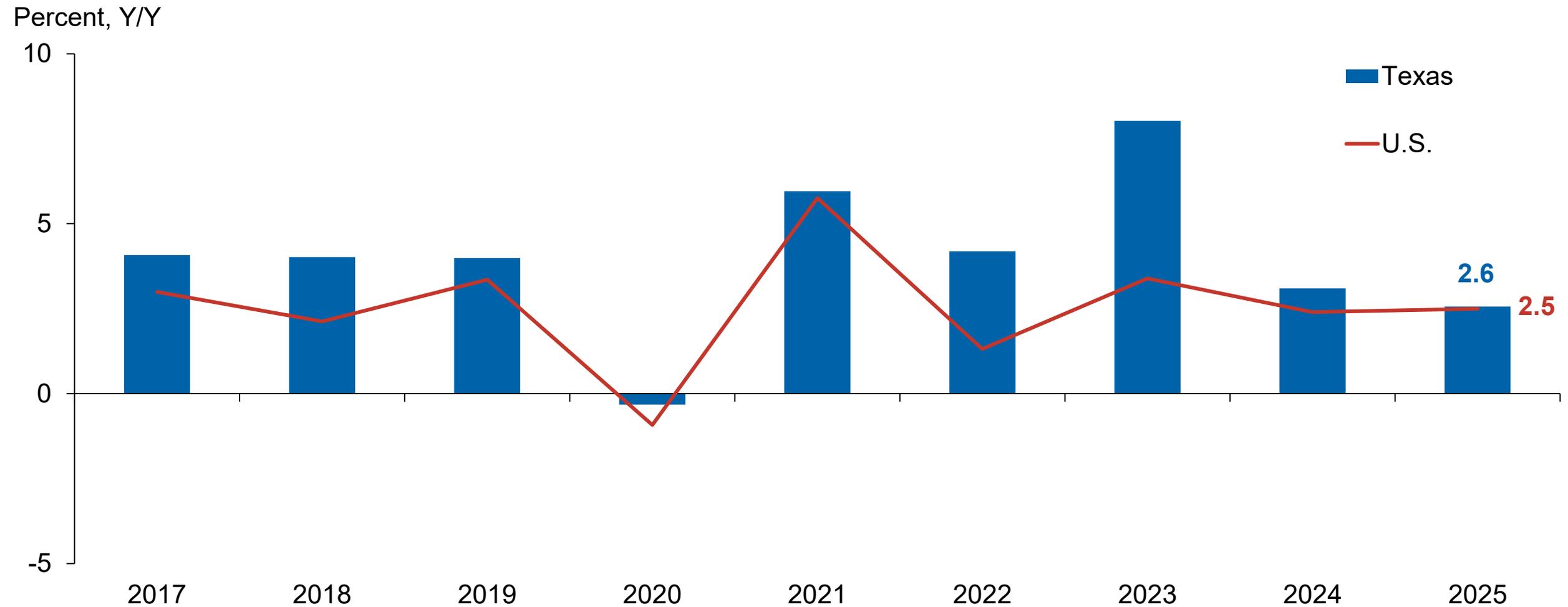
Job growth (percent)



NOTES: Data are seasonally adjusted and Dec./Dec. growth. U.S. data for 2024 and 2025 is sum-of-states data calculated from the Philly Fed's early-benchmarked state employment data.

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

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

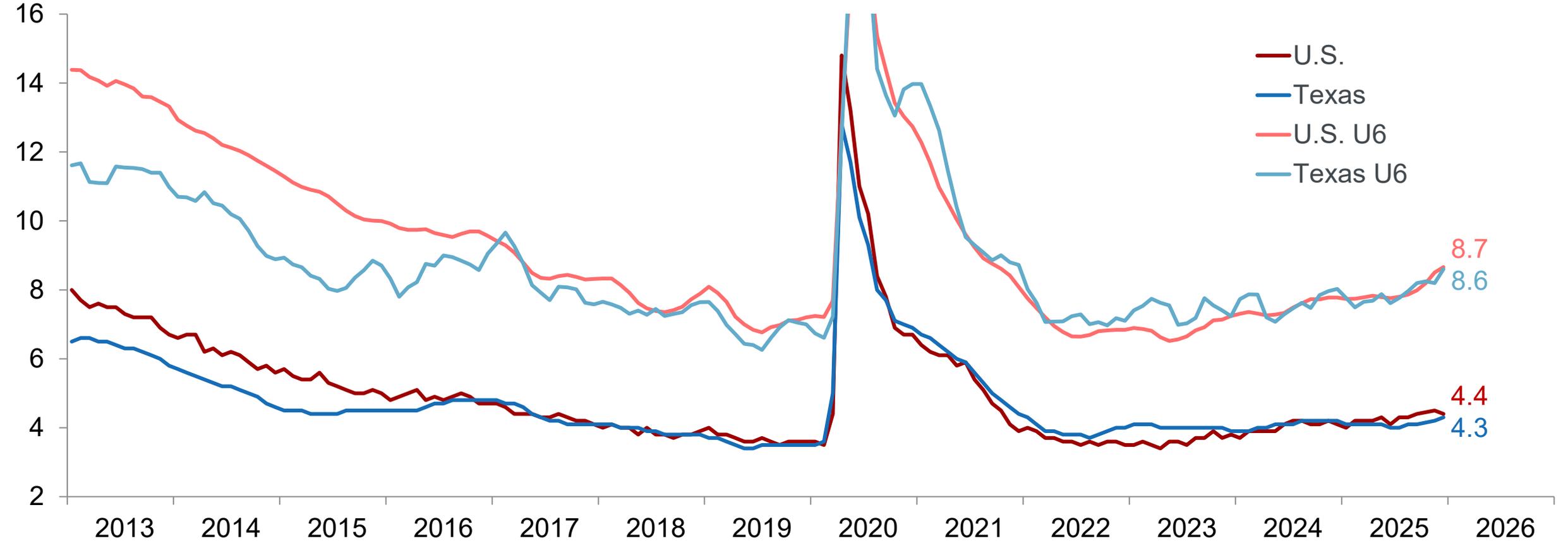


NOTES: Shown is Q4/Q4, real GDP growth. 2025 data is Q3 '25/Q4 '24 annualized for U.S. and Texas.

SOURCES: Bureau of Economic Analysis.

Headline unemployment remains low, but broader jobless measures are rising

Unemployment rate (percent)

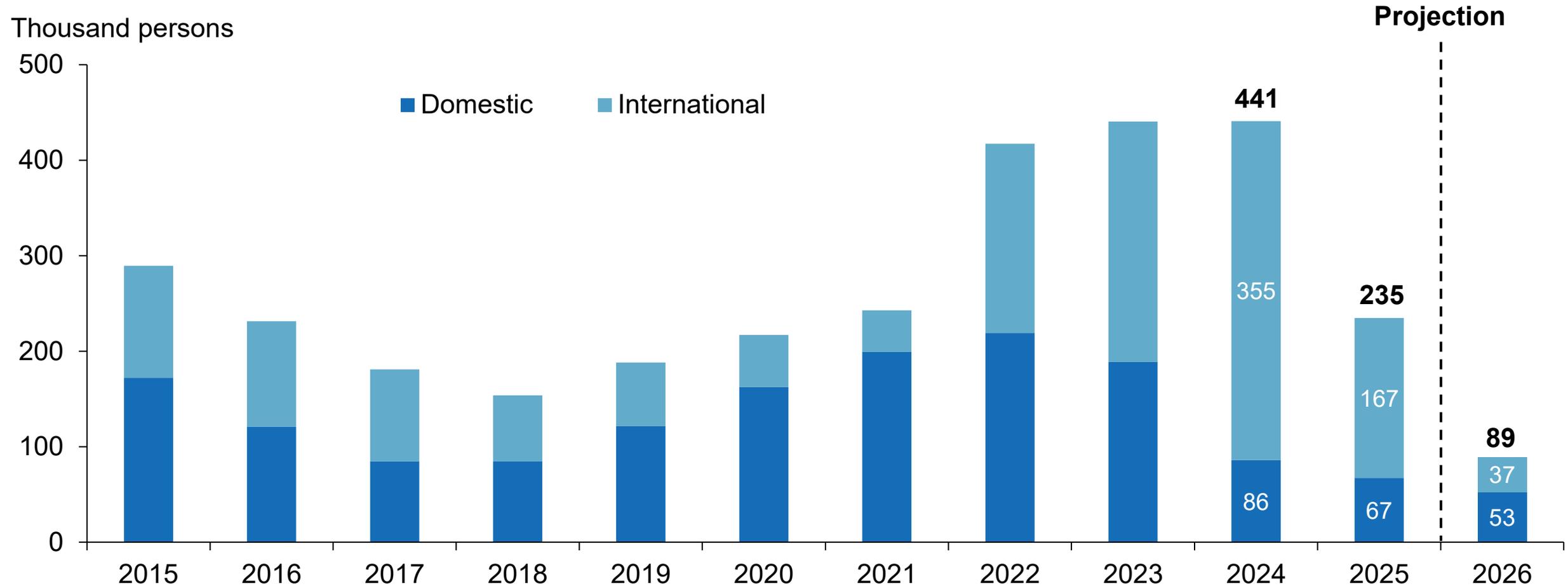


NOTE: Data are seasonally adjusted. Data are monthly through December 2025. U6 data are three-month moving averages.

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

Domestic and International Migration

A big reason for the drop off in job growth is less immigration

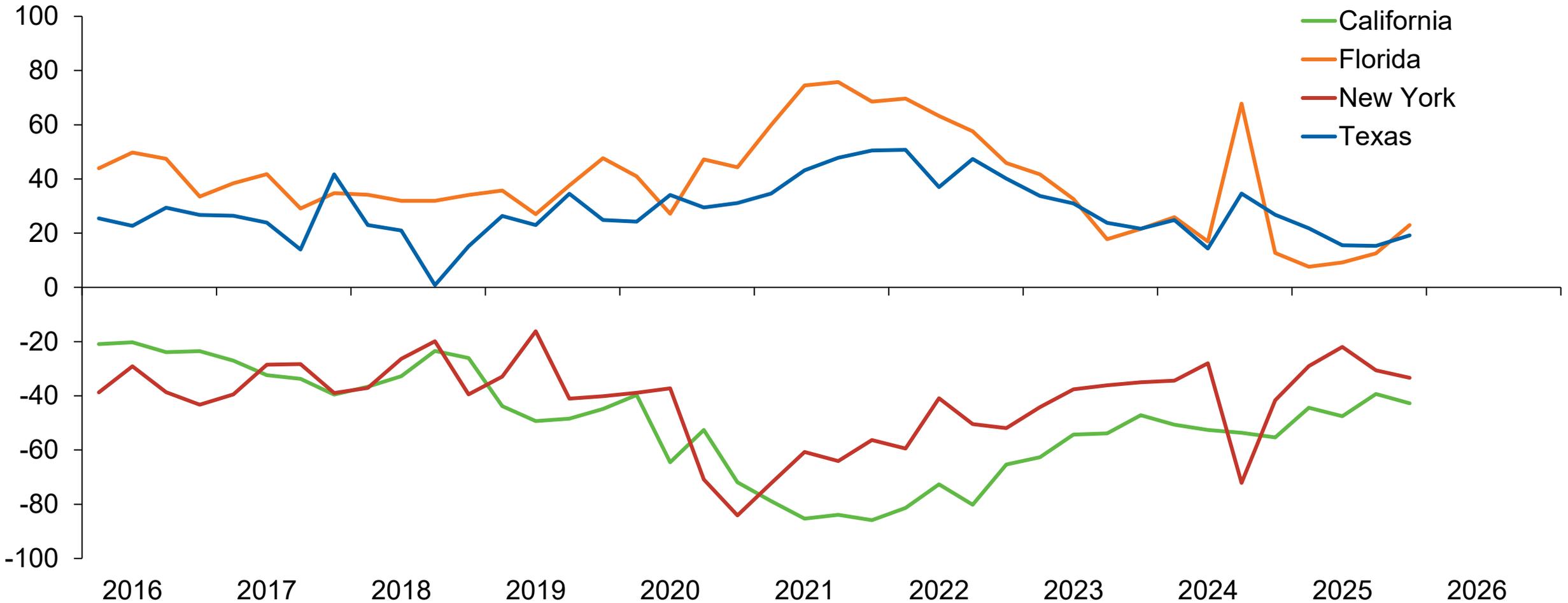


NOTES: Shown are annual net domestic and net international migration to Texas. Change is July to July. Estimate for 2026 is authors' projection.

SOURCE: Census Bureau; authors' calculations.

Net domestic migration to Texas has also slowed

Net-migration, thousands

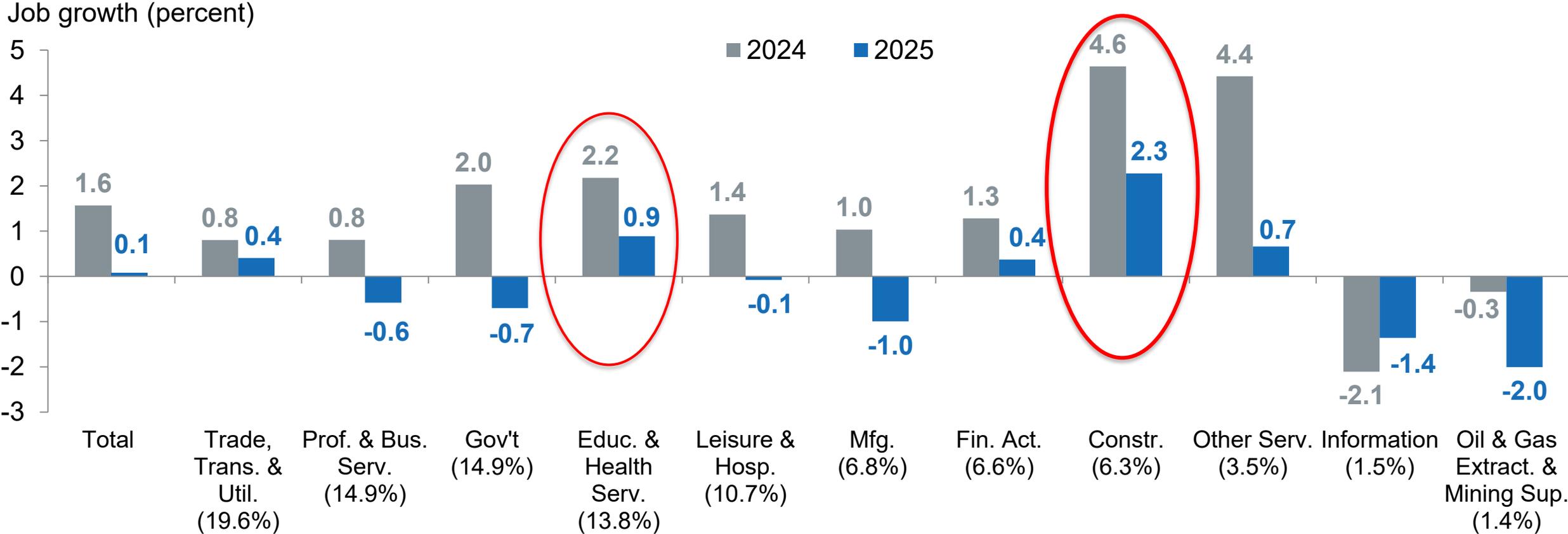


NOTES: Shown are estimated net migration flows. Data are seasonally adjusted and quarterly through Q4 2025.

SOURCE: Equifax Consumer Credit Panel; seasonal and other adjustments by Dallas Fed.

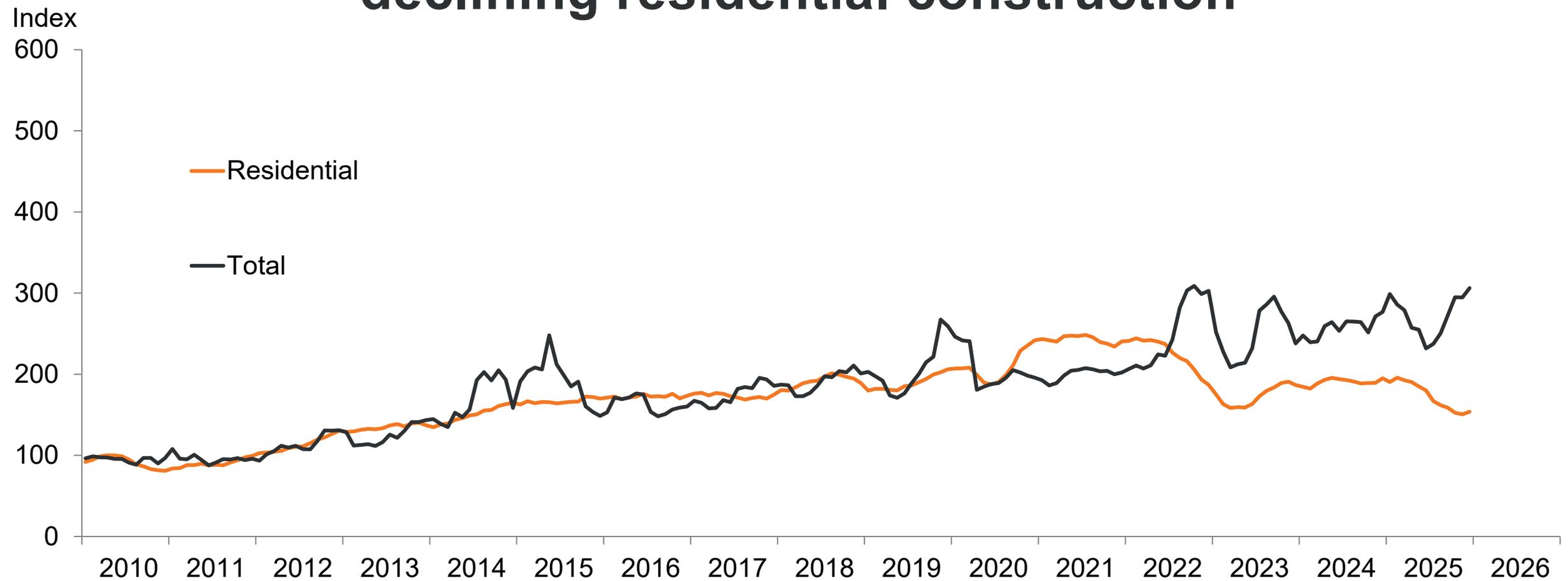
Construction and Real Estate

Construction boom? Texas job growth concentrated in Construction and Health sectors



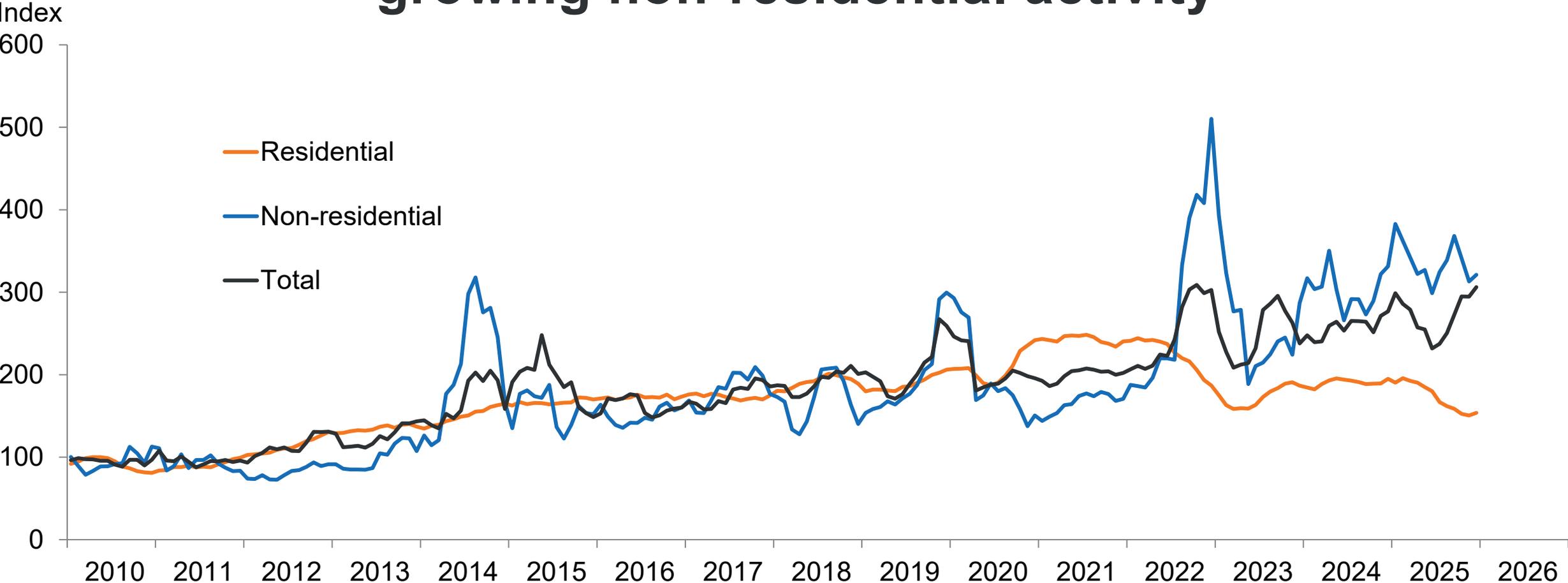
NOTE: Data are seasonally adjusted and Dec/Dec growth. Numbers in parenthesis indicate share of total state employment for most recent monthly data.
 SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas

Construction contract values recover mid year despite declining residential construction



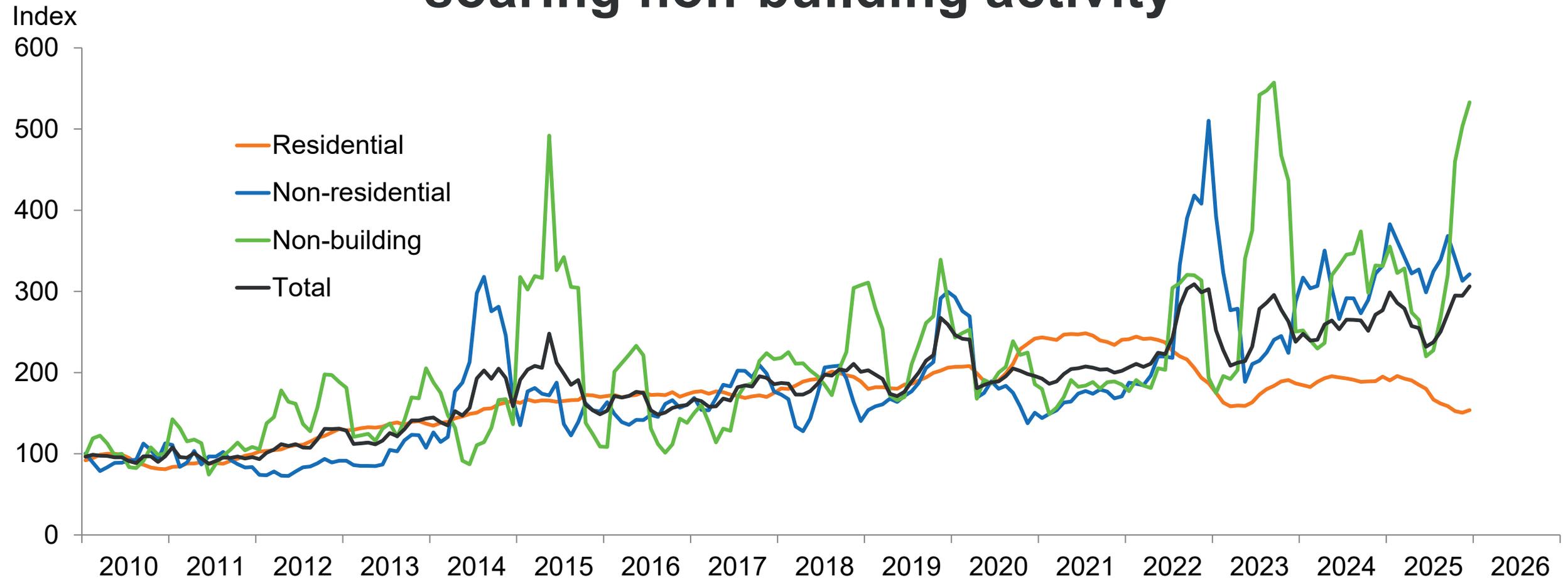
NOTES: Data are a 5-month moving average of seasonally adjusted real Texas construction contract values through December 2025. Values are indexed and Jan. 2010 = 100.
SOURCES: Dodge Construction; Federal Reserve Bank of Dallas.

Construction contract values recover mid year driven by growing non-residential activity



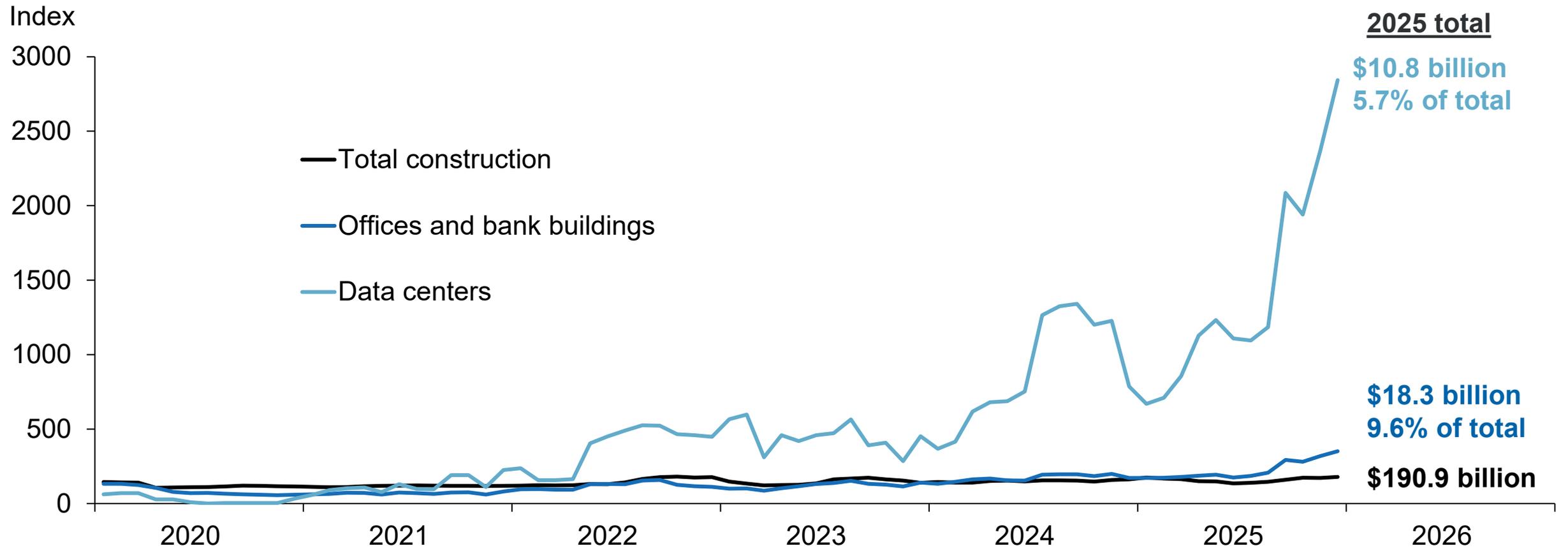
NOTES: Data are a 5-month moving average of seasonally adjusted real Texas construction contract values through December 2025. Values are indexed and Jan. 2010 = 100. SOURCES: Dodge Construction; Federal Reserve Bank of Dallas.

Construction contract values recover mid year driven by soaring non-building activity



NOTES: Data are a 5-month moving average of seasonally adjusted real Texas construction contract values through December 2025. 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

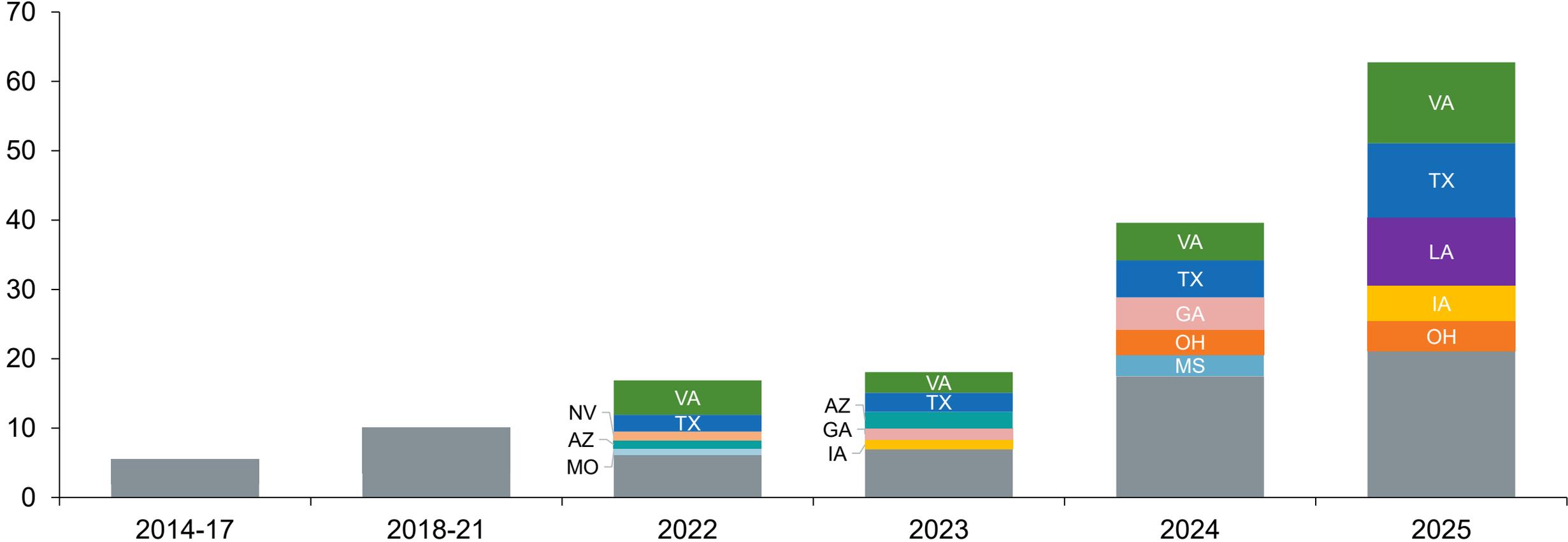


NOTES: Shown are indexed construction contract values for total building, offices and bank buildings, and data center projects in Texas. Contract values are real. Data are indexed such that January 2020 = 100, seasonally adjusted, and smoothed with a 5-month moving average through December 2025.

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

Texas second among states for data center construction

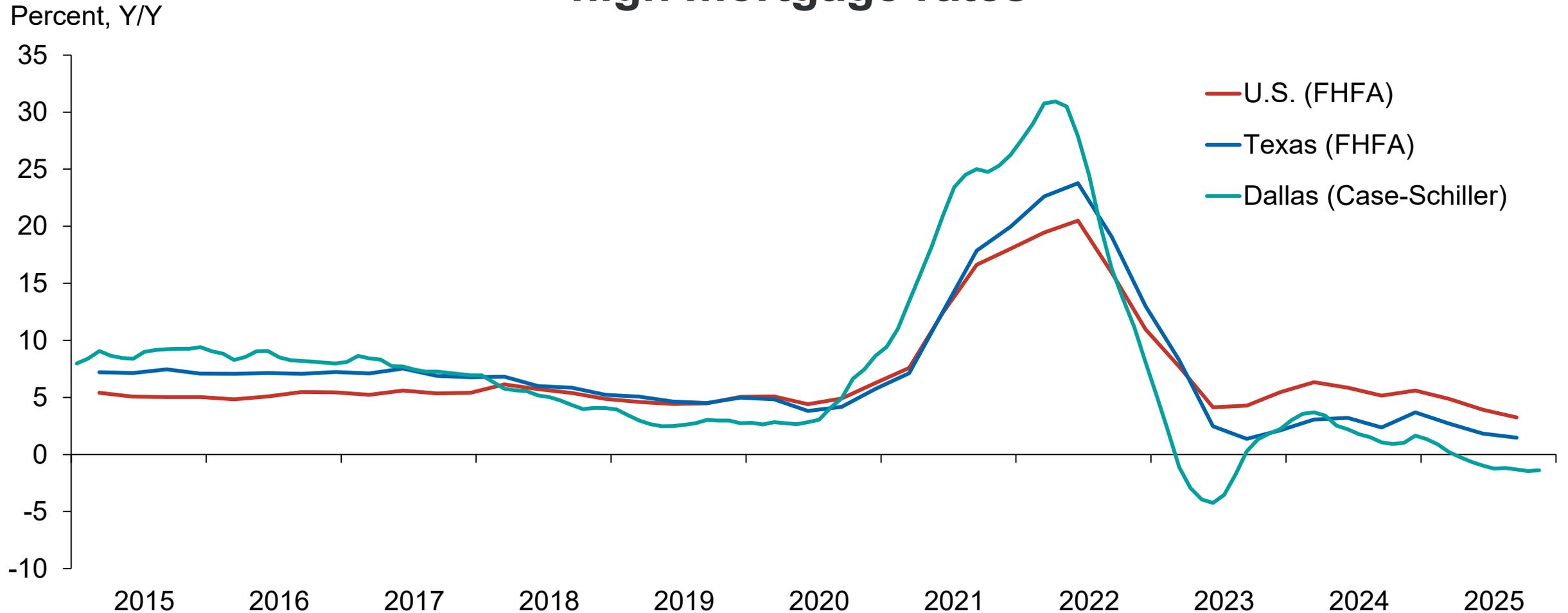
Dollars, billion



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.

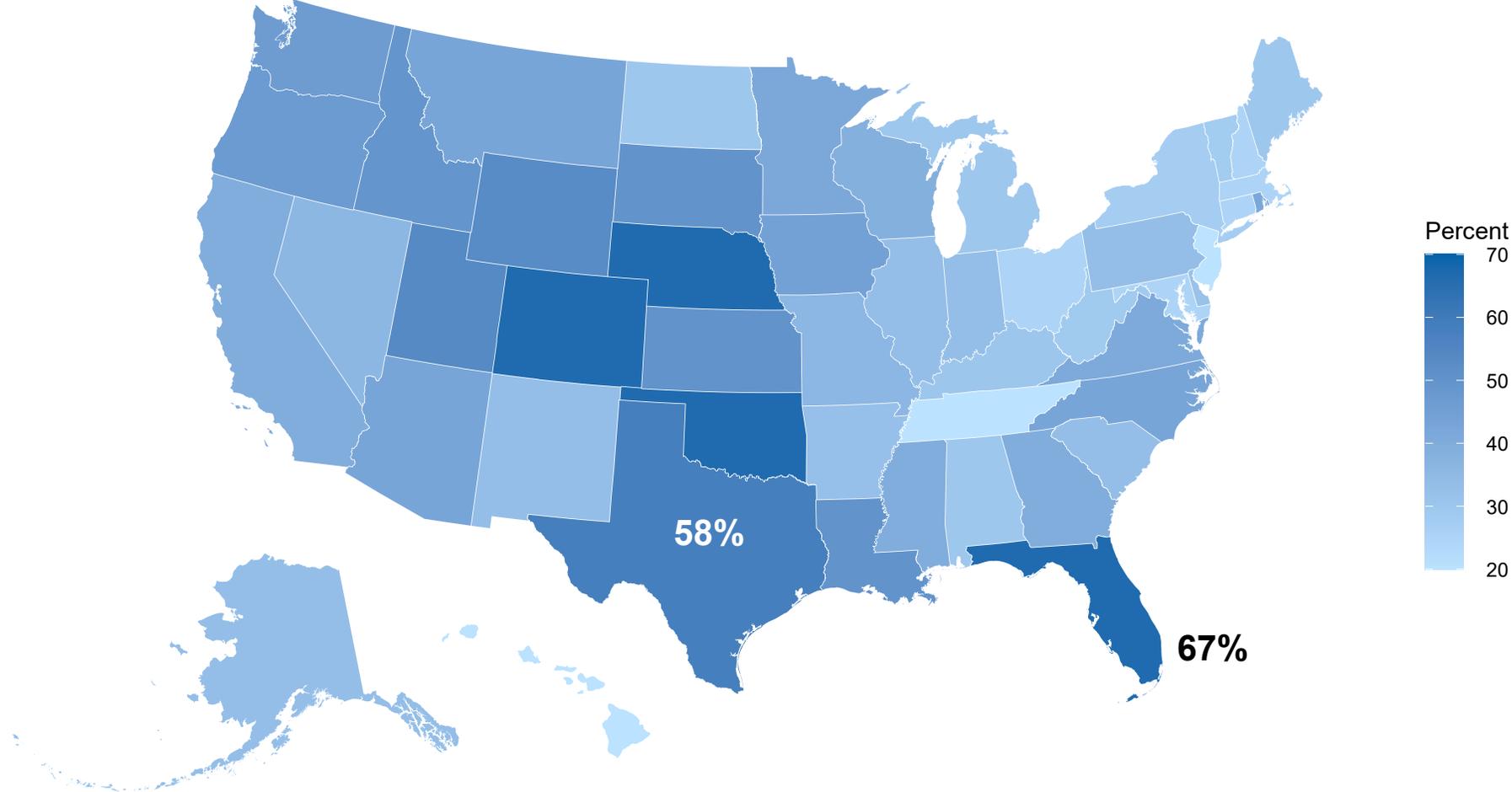
SOURCE: Dodge Construction.

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



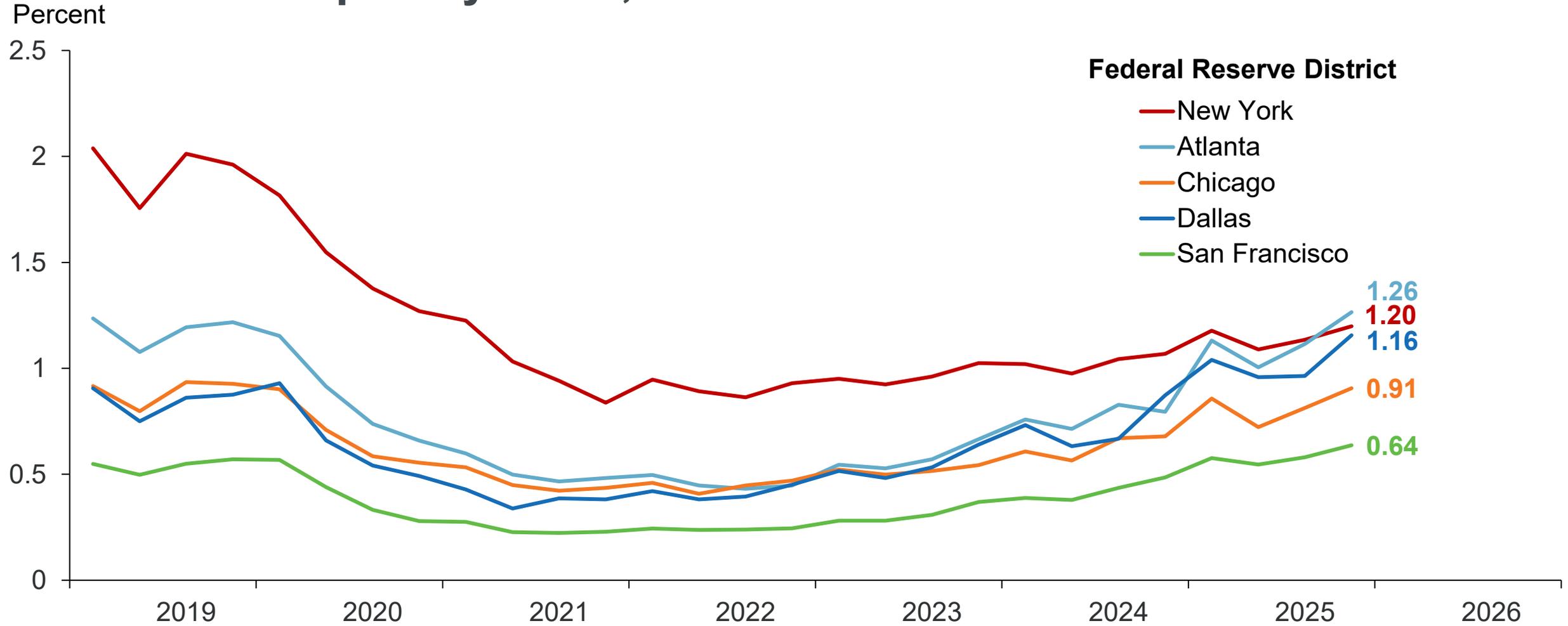
NOTES: Shown are home price indices. FHFA indices are quarterly through Q3 2025. Case-Schiller index is monthly through November 2025.
SOURCES: S&P Core Logic; Federal Housing Finance Agency.

Existing homeowners also struggle increasingly with rising insurance costs



NOTE: Shown are growth rates of homeowners insurance costs from 2019 through 2024.
SOURCE: Census Bureau; American Community Survey one-year estimates; authors' calculations.

High insurance costs, property taxes may be contributing to rising delinquency rates, which are now above 2019 level

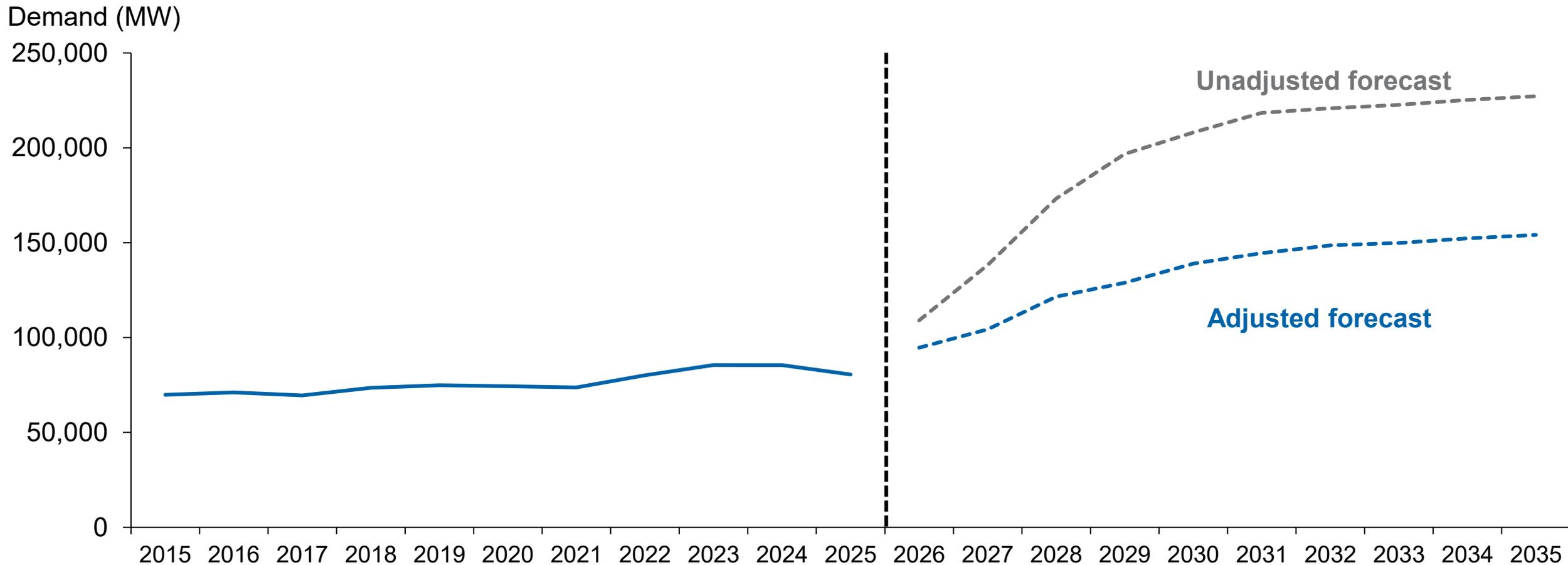


NOTES: Shown are mortgage delinquency rates for severely delinquent loans (90+ days) by Federal Reserve District.

SOURCE: Federal Reserve Bank of New York Consumer Credit Panel.

Energy

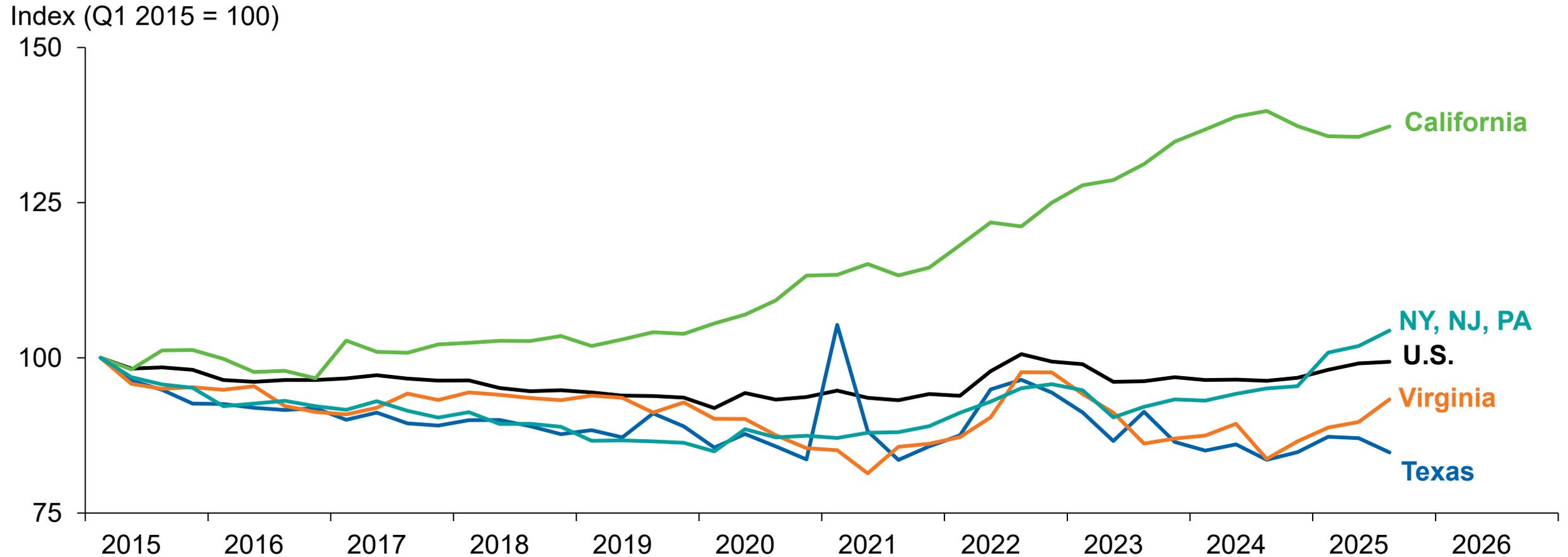
Data centers, other large users driving expected increase in peak grid demand in Texas



NOTES: Shown is annual peak demand for electricity. Dashed lines for 2026-2035 data are from the 2025-vintage ERCOT long-term load forecast. The adjusted forecast makes adjustments to expected load additions from hydrogen plants, data centers, crypto, oil and gas, and industrial users based on past observations.

SOURCE: ERCOT.

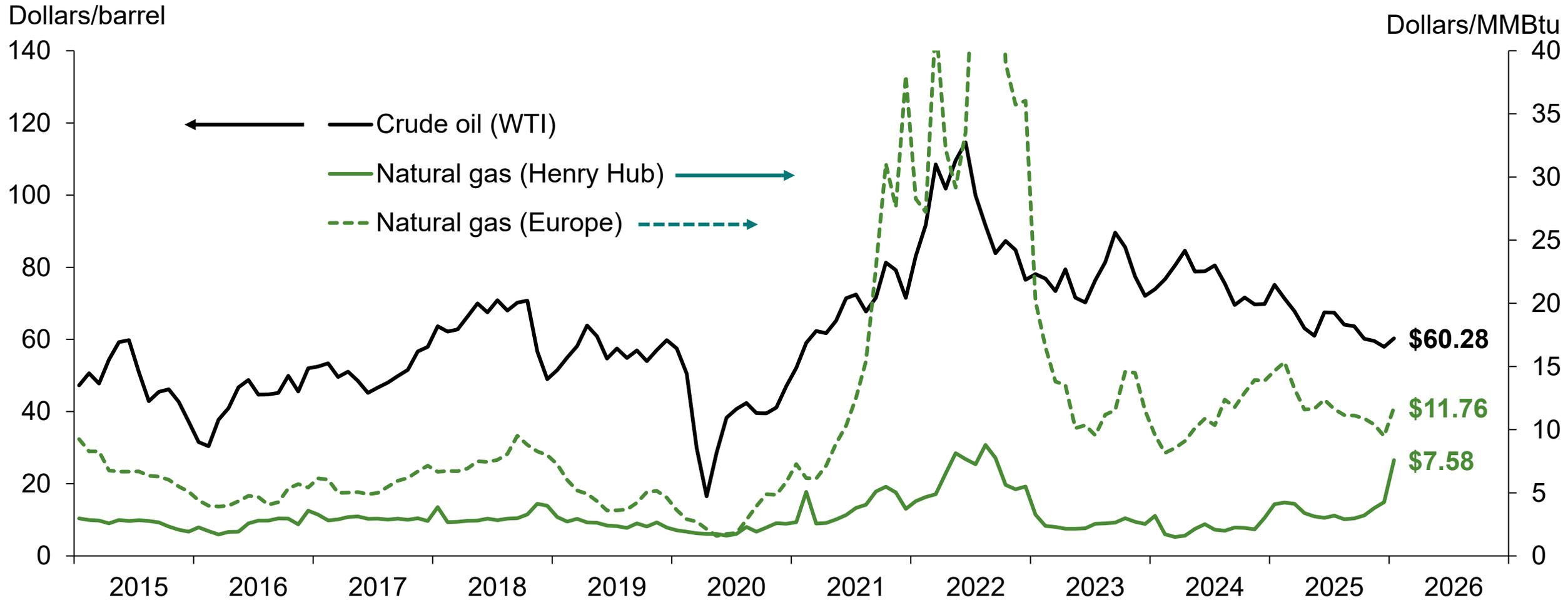
Electricity prices beginning to rise in top data center markets, less so in Texas



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 Q3 2025.

SOURCE: Energy Information Administration.

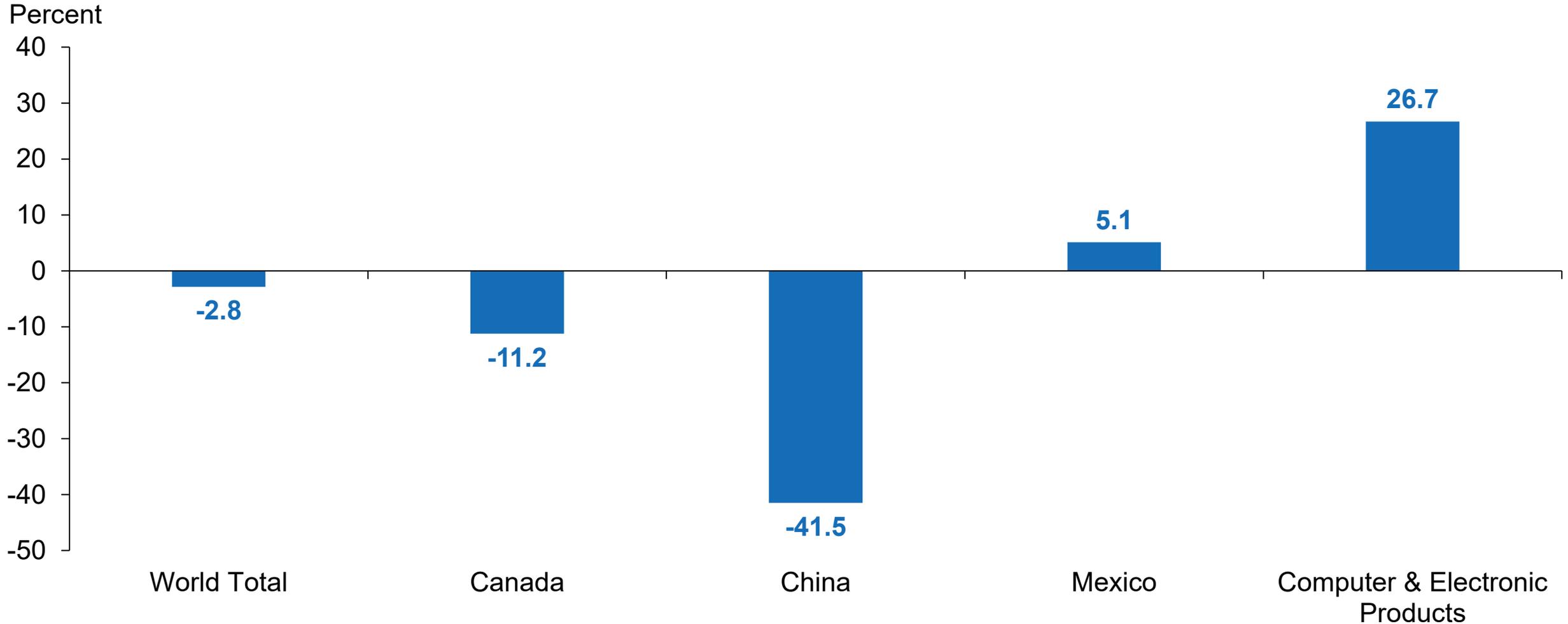
Oil prices are muted and below breakeven for new wells



NOTES: Shown are monthly average prices for U.S. WTI crude and natural gas and European natural gas. Data are monthly through January 2025.
SOURCE: World Bank.

International Trade and Tariffs

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

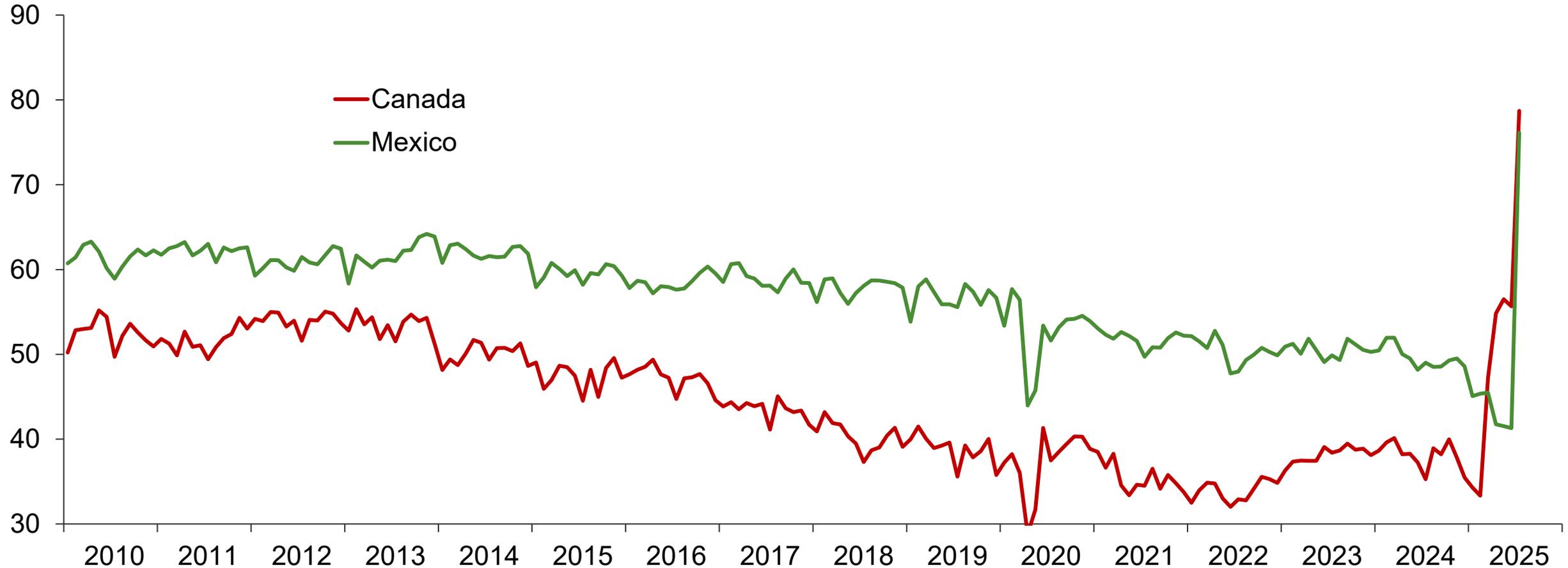


NOTES: Shown is the percent change from 2024 to 2025 in cumulative imports for June through November.

SOURCE: Census Bureau.

USMCA compliance increased sharply to avoid higher tariffs

Share, NAFTA-USMCA duty-free / total

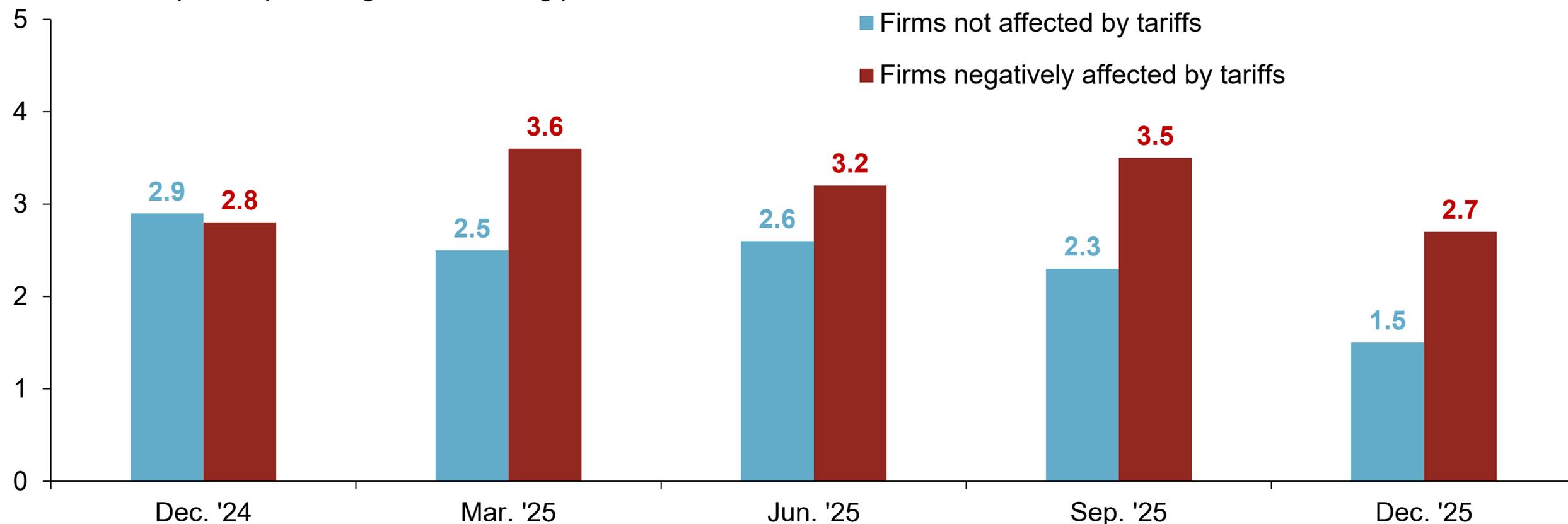


NOTE: Data are USMCA duty-free imports from Canada and Mexico as a share of total, monthly through July 2025.

SOURCE: U.S. International Trade Commission, Department of Commerce.

Despite tariffs, Texas firms see easing in price growth going forward

12m-ahead expected percent growth in selling prices

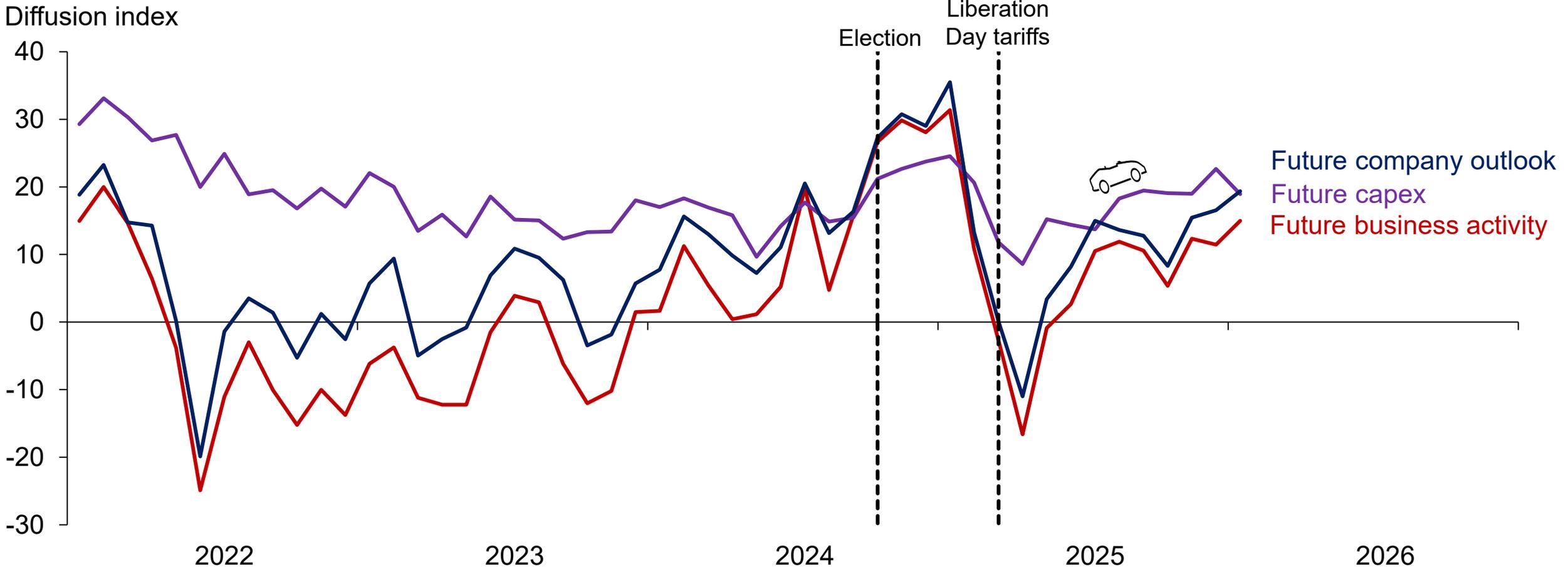


NOTES: Firms were asked “What percent change in selling prices do you expect over the next 12 months?” during the survey collection period Dec. 15-23, 2025, N=266. Firms here are separated into two groups, those negatively affected by tariffs versus not affected (based on firms' answers to a question posed in August 2025). Shown are trimmed means with the lowest and highest 5 percent of responses omitted.

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

Economic Outlook

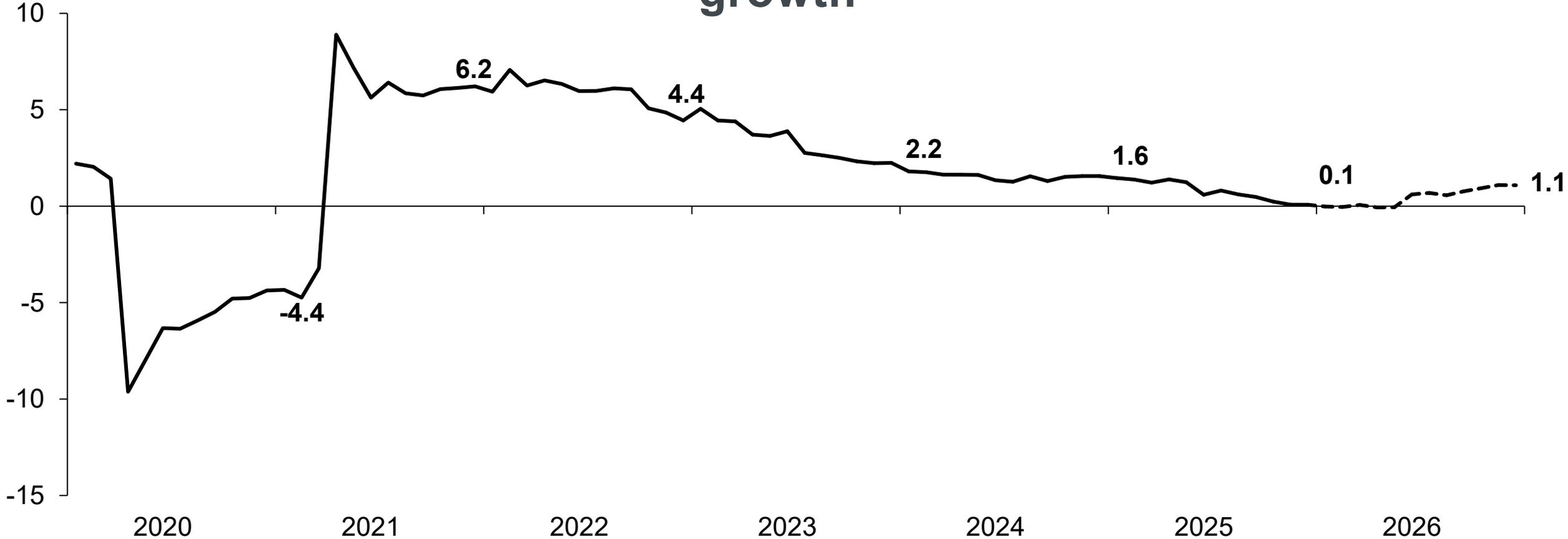
Texas businesses report improving outlooks



NOTE: TBOS indices are state GDP-weighted averages of service sector and manufacturing data. Data are seasonally adjusted and monthly through January 2025.
SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys.

Texas Employment Forecast for 2026 is 1.1 percent growth

Percent, Y/Y

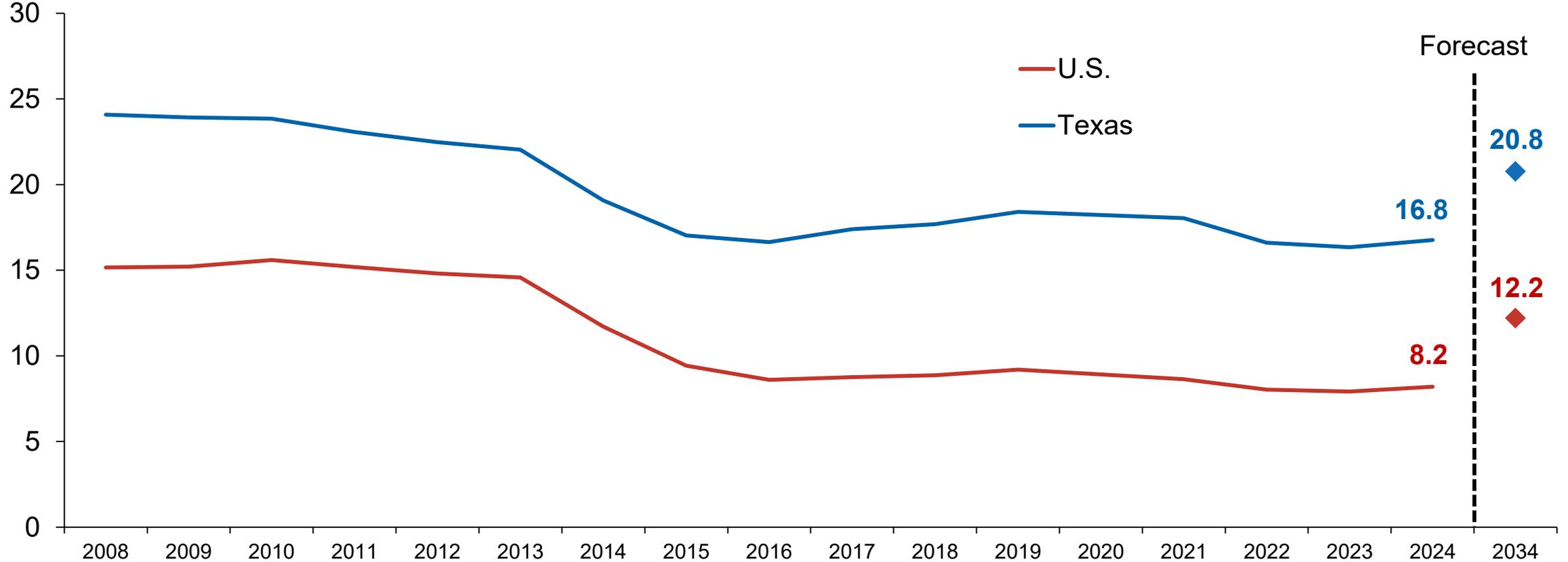


NOTE: Solid line shows actual employment growth through December 2025, and dashed line shows forecasted employment growth through December 2026. The Dallas Fed Texas Employment Forecast is based on the average of four models.

SOURCE: Federal Reserve Bank of Dallas.

There are other worries besides growth; Texans' uninsured rate projected to rise

Percent of population without health insurance



NOTES: Shown are uninsured rates for all ages. Data from 2008 through 2024 are calculated from the American Community Survey 1-year samples. The uninsured rate in 2034 is calculated by adding the estimated increase in the uninsurance rate from 2024-2034 onto the rate in 2024. Data from 2024-2034 are linearly projected.

SOURCE: Kaiser Family Foundation; authors' calculations.

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

- Texas grew in 2025 without adding jobs, this hasn't happened since the jobless recovery of 2002-2003!
 - Despite this, there are few signs of broad-based labor market slack, and the headline unemployment rate is relatively low and stable
- Job growth should pick up in 2026, but it will be mild
 - Productivity gains are suppressing hiring, while the immigration crackdown is limiting labor supply
 - A continuing AI boom and OBBBA tax provisions will likely boost activity, while low oil prices and a residential construction bust are a drag on growth
 - FIFA World Cup will be an additional boost
 - Other concerns that bear watching include safety net cuts and federal funding reductions, especially to health care and education

Thank you!

**Please visit dallasfed.org for more
information**

