Where Will We Go From Here?

2025 Economic Update

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Texas Finance Commission
Austin, Texas
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Headwinds

- Trade Tensions
- Inflation
- Interest Rates
- Labor Force Growth
- Electricity Prices
- Loan Delinquencies
- AI (employment)
- Federal Debt

Tailwinds

- Trade Agreements
- Economic Resilience
- Regulatory Easing
- Low Unemployment
- Oil Prices
- Promised Investment
- AI (productivity)
- Strong Corp Earnings

Crosswinds

- Trade Outcomes
- Immigration
- Geopolitics
- OBBBA Impacts
- Monetary Policy
- Data Uncertainty
- Housing
- Sentiment Indices

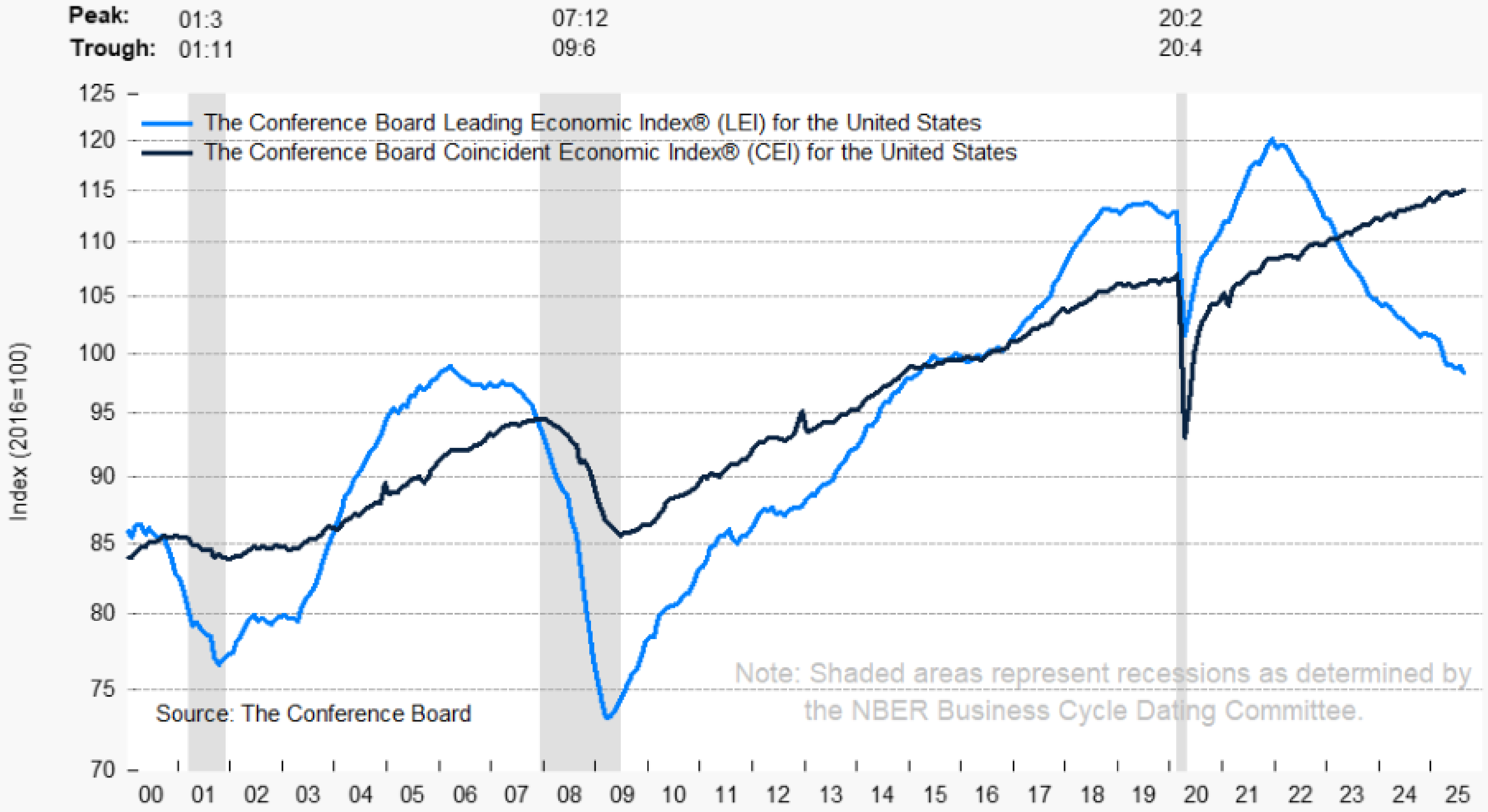
U.S. Economy Health Check

	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25
Monthly GDP, annualized % change	11.0	3.7	-6.5	24.1	-21.6	-16.3	-26.4	ND
Payroll employment, total, change ths	111	102	120	158	19	-13	79	22
Private	79	107	114	133	69	-27	77	38
Unemployment rate, %	4.0	4.1	4.2	4.2	4.2	4.1	4.2	4.3
Initial claims, avg, ths	214	226	223	226	234	241	221	230
Retail sales, % change	-0.9	0.0	1.5	-0.1	-0.8	0.9	0.5	ND
Control retail sales	-0.5	0.8	0.5	-0.2	0.3	0.8	0.5	ND
Orders of nondefense capital goods ex aircraft	1.8	-0.5	0.3	-1.5	1.9	-0.6	1.1	ND
Industrial production	-0.2	1.0	-0.2	0.0	0.1	0.4	-0.1	ND
Manufacturing industrial production	-0.5	1.1	0.6	-0.4	0.2	0.3	0.0	ND
ISM Manufacturing Index	50.9	50.3	49.0	48.7	48.5	49.0	48.0	48.7
ISM Nonmanufacturing Index	52.8	53.5	50.8	51.6	49.9	50.8	50.1	52.0
New-home plus existing-home sales, mil, SAAR	4.8	4.9	4.7	4.7	4.7	4.6	4.7	ND
Housing starts, % change	-10.3	9.7	-9.1	3.2	-8.3	5.9	5.2	ND
Real trade deficit, $ bil	-128.8	-120.3	-136.4	-60.2	-71.1	-59.1	-78.3	ND
Michigan Consumer Sentiment Index	73.2	67.8	57.9	50.8	50.8	60.5	61.8	58.6
PCE deflator, % change yr ago	2.6	2.7	2.3	2.2	2.4	2.6	2.6	ND
Core PCE deflator, % change yr ago	2.7	2.9	2.7	2.6	2.7	2.8	2.9	ND
Composite index of coincident indicators, 2010=100	113.9	114.3	114.8	114.8	114.7	114.7	114.9	ND

Worse than prior 3-mo MA | Better than prior 3-mo MA | No change from prior 3-mo MA

Sources: BLS, Census Bureau, Federal Reserve, NAR, Moody's Analytics

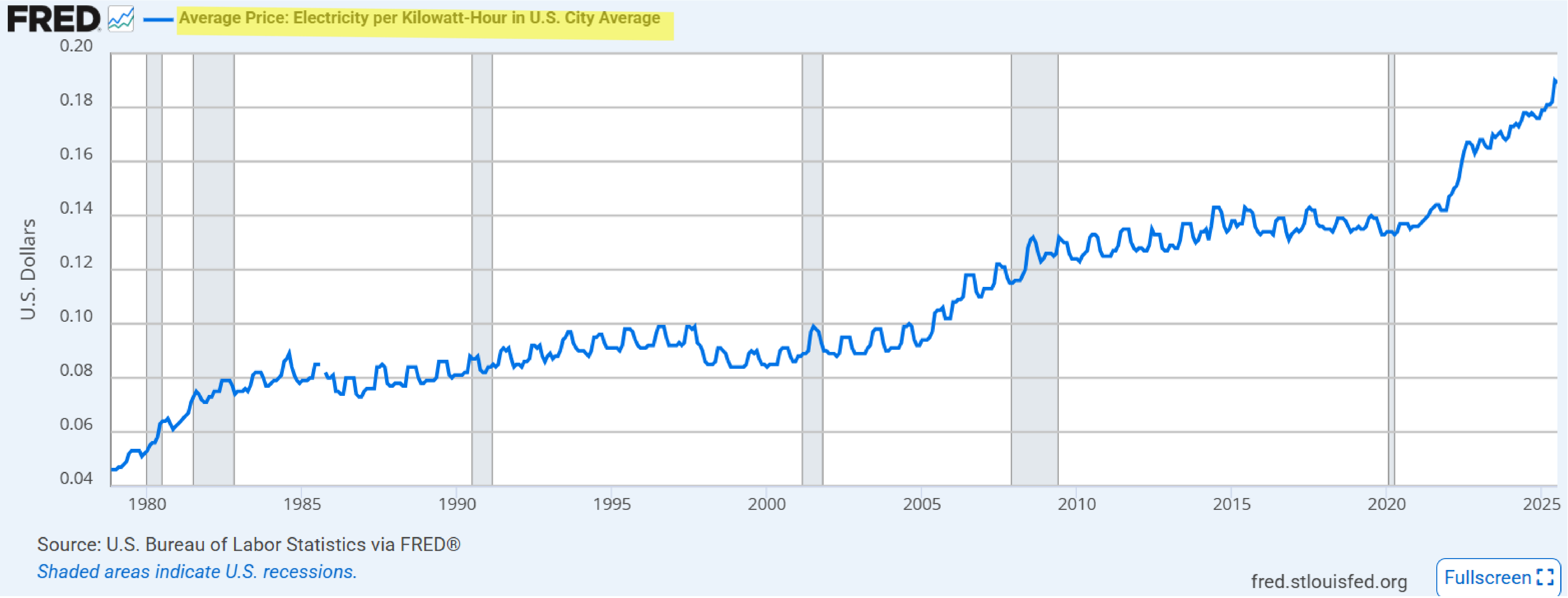
The LEI resumed its decline in August



Most non-financial components and the yield spread drove the LEI's decline in August

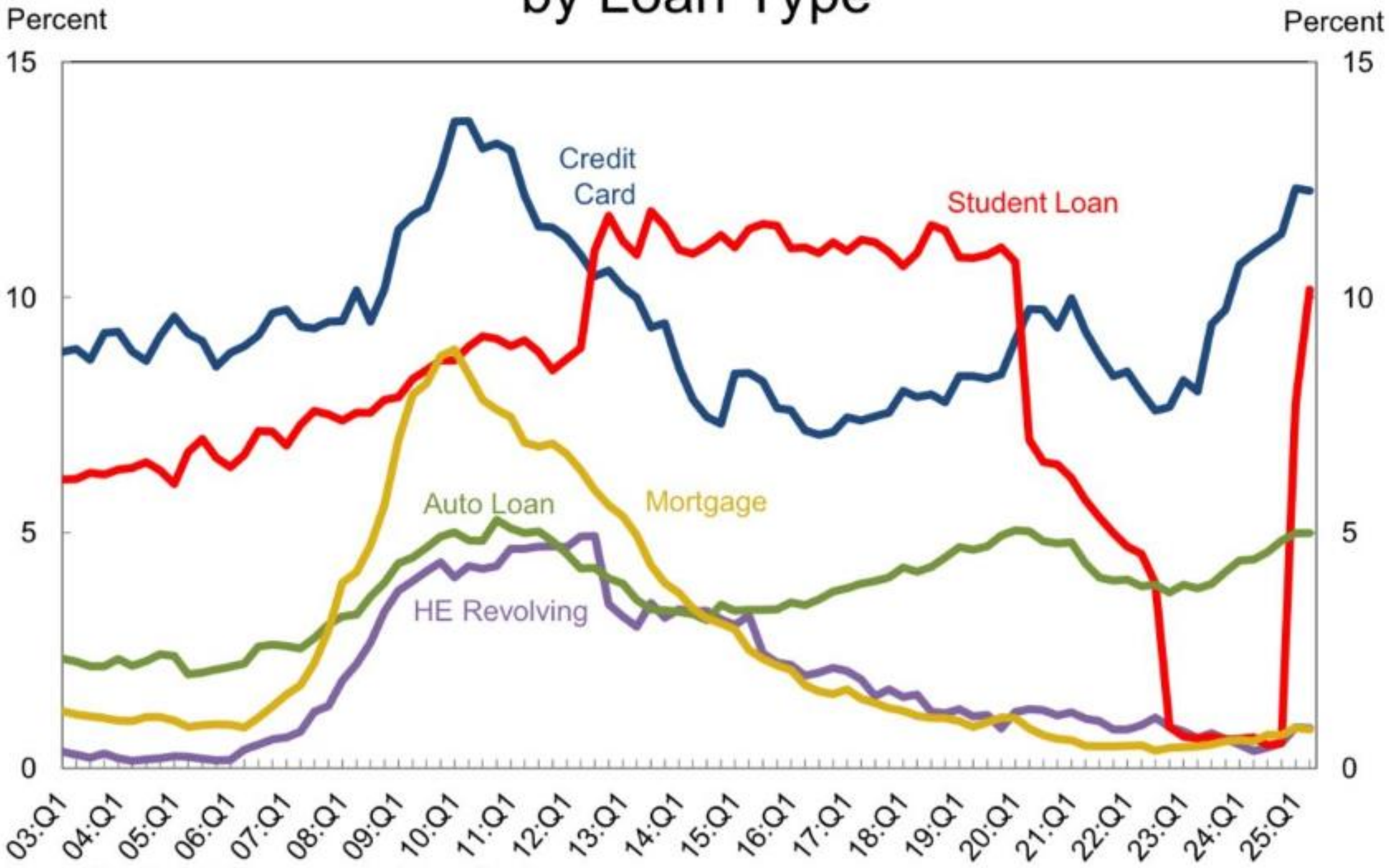
Source: The Conference Board
* Inverted series; a negative change in this component makes a positive contribution.
** Statistical Imputation
LEI change might not equal sum of its contribiutins due to application of trend adjustment factor

Electricity Prices Up 6.2% YOY and 4.8%/Year Over 3 Years



Gasoline Prices Down 7.6% YOY and 7.4%/Year Over 3 Years

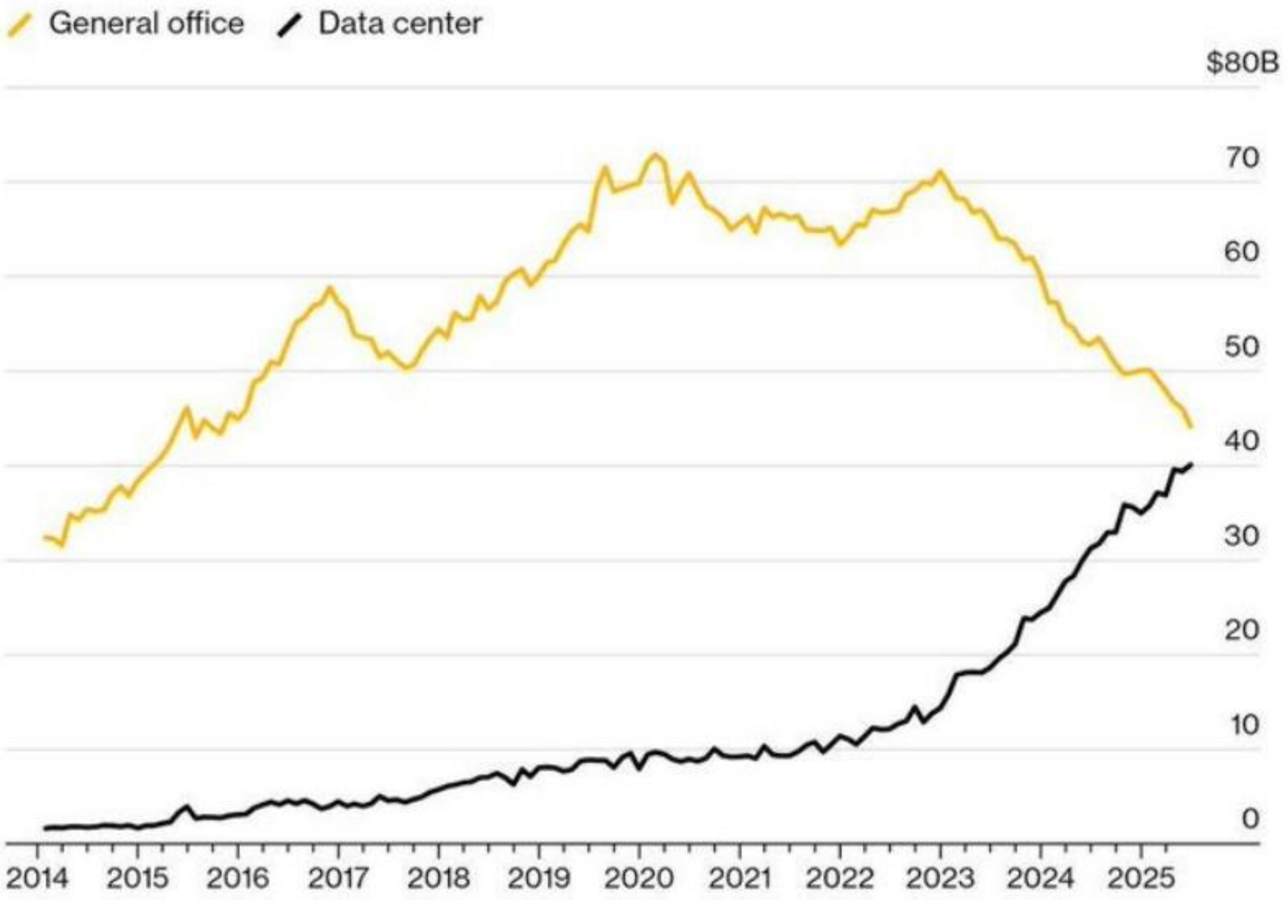
Percent of Balance 90+ Days Delinquent by Loan Type



Source: New York Fed Consumer Credit Panel/Equifax

Data Center vs. Office Construction

US general office construction is on pace to be overtaken by new data centers in the coming months.



Source: Census Bureau

Bloomberg

Is AI harming labor but boosting productivity?

"Multiple other business contacts reported increased use of artificial intelligence (AI), with one contact saying AI replaced some call center employees, and another contact noting how AI led to a reduction in accounting jobs."

"A growing number of employers, across diverse industries, sought to increase labor productivity using AI and other technologies, reducing the need for hiring."

"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."

Source: Federal Reserve Beige Book Report

Commercial Real Estate Borrowing Rate

Source: NAR estimate using residential mortgage rate plus 1% point add on.

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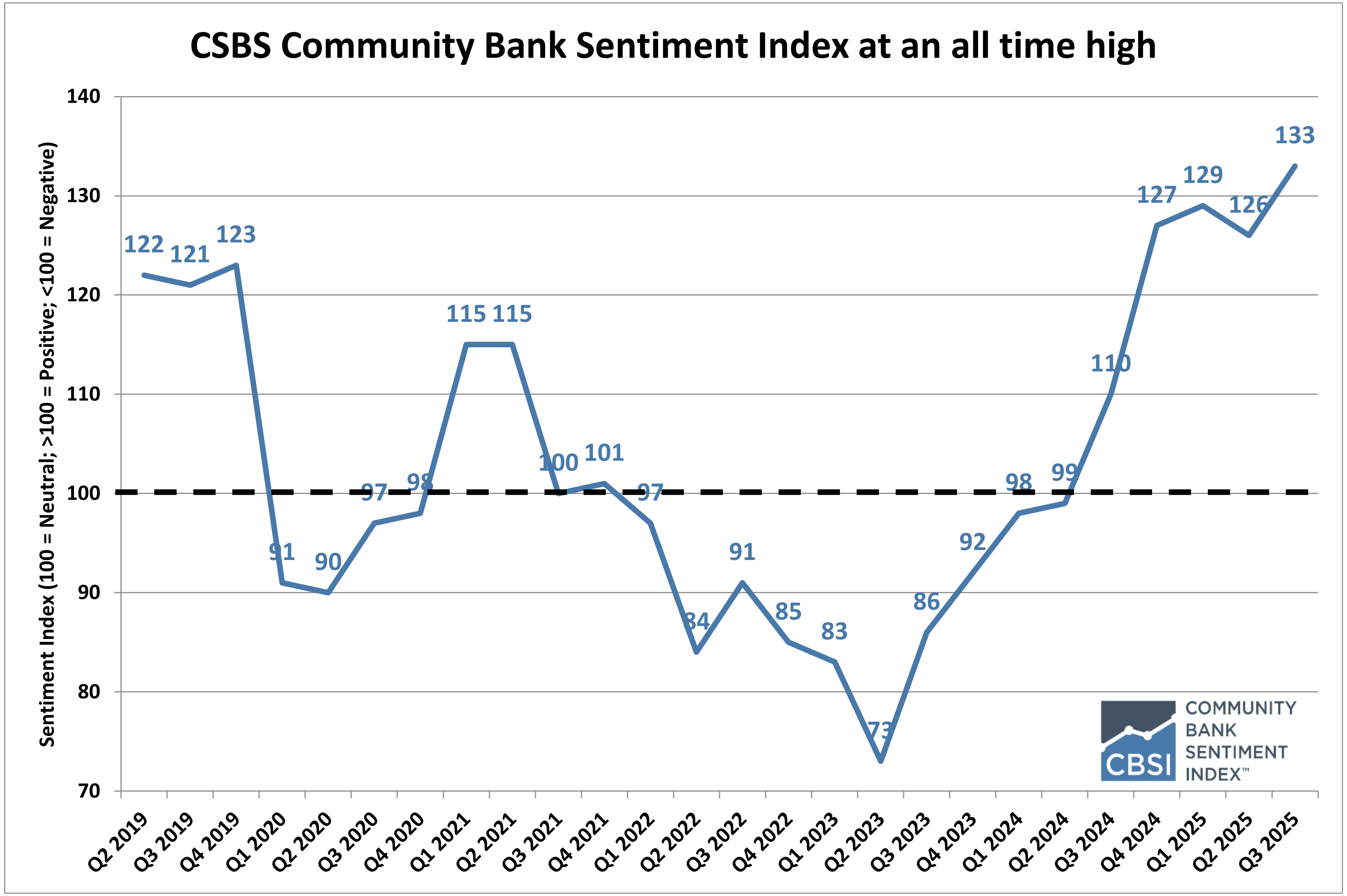
CSBS Community Bank Sentiment Index at an all time high
Sentiment Index (100 = Neutral; >100 = Positive; <100 = Negative)
140
130
120
110
100
90
80
70
122
121
123
91
90
97
98
115
115
100
101
97
84
91
85
83
73
86
92
98
99
110
127
129
126
133
Q2 2019
Q3 2019
Q4 2019
Q1 2020
Q2 2020
Q3 2020
Q4 2020
Q1 2021
Q2 2021
Q3 2021
Q4 2021
Q1 2022
Q2 2022
Q3 2022
Q4 2022
Q1 2023
Q2 2023
Q3 2023
Q4 2023
Q1 2024
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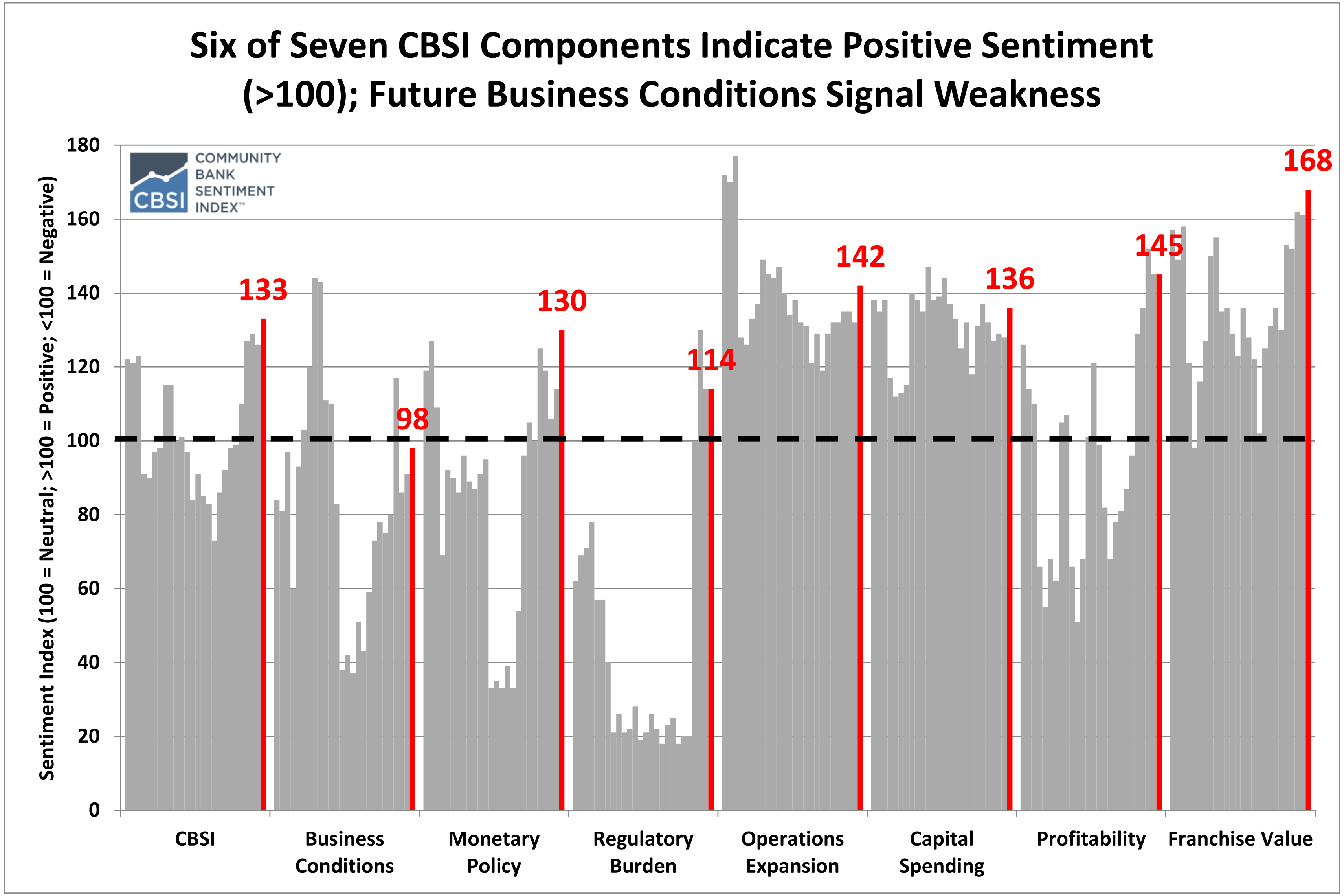
Q4 2024
Q1 2025
Q2 2025
Q3 2025
CBSI
COMMUNITY
BANK
SENTIMENT
INDEX™


Six of Seven CBSI Components Indicate Positive Sentiment (>100); Future Business Conditions Signal Weakness
COMMUNITY BANK SENTIMENT INDEX™
CBSI
Sentiment Index (100 = Neutral; >100 = Positive; <100 = Negative)
180
160
140
120
100
80
60
40
20
0
133
98
130
114
142
136
145
168
CBSI
Business Conditions
Monetary Policy
Regulatory Burden
Operations Expansion
Capital Spending
Profitability
Franchise Value

Economic Activity Close to Neutral

Beige Book Index, 0=neutral

Troubled Tourism

If there was a common thread in last week's Fed Beige Book, a purely anecdotal and quantitative report put out eight times/year, it was the declining fortunes of the formerly hot US travel/leisure/hospitality sector. To wit, the decline in international (read Canadian) tourism was cited on several occasions. Mention was also made of the increasing reluctance to spend on the part of low- and middle-income consumers who are increasingly stretched.

Sources: Federal Reserve, Moody's Analytics

Average Monthly Job Growth Slowed Thru Mid-2024; Averaging 74K/mo in 2025

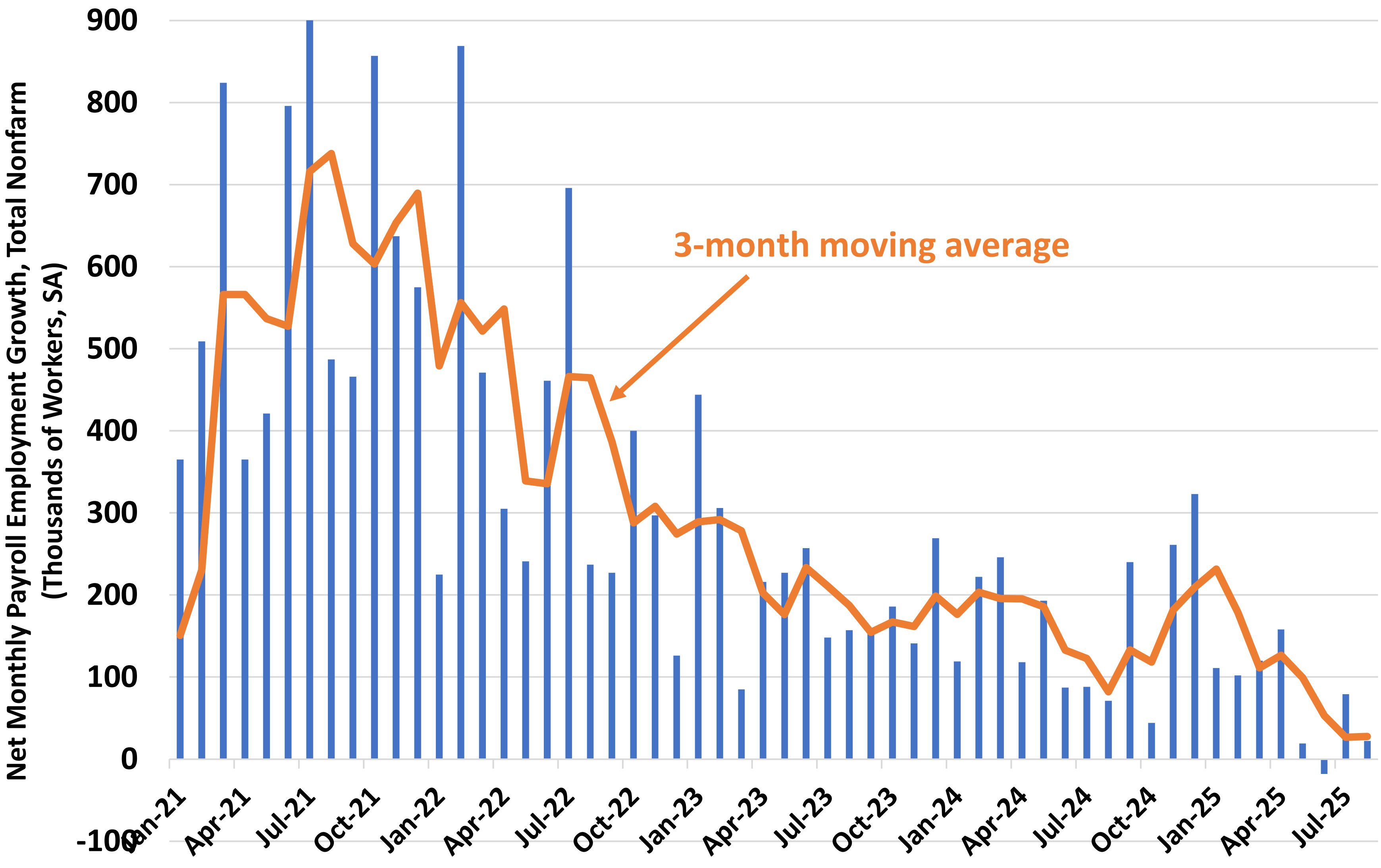


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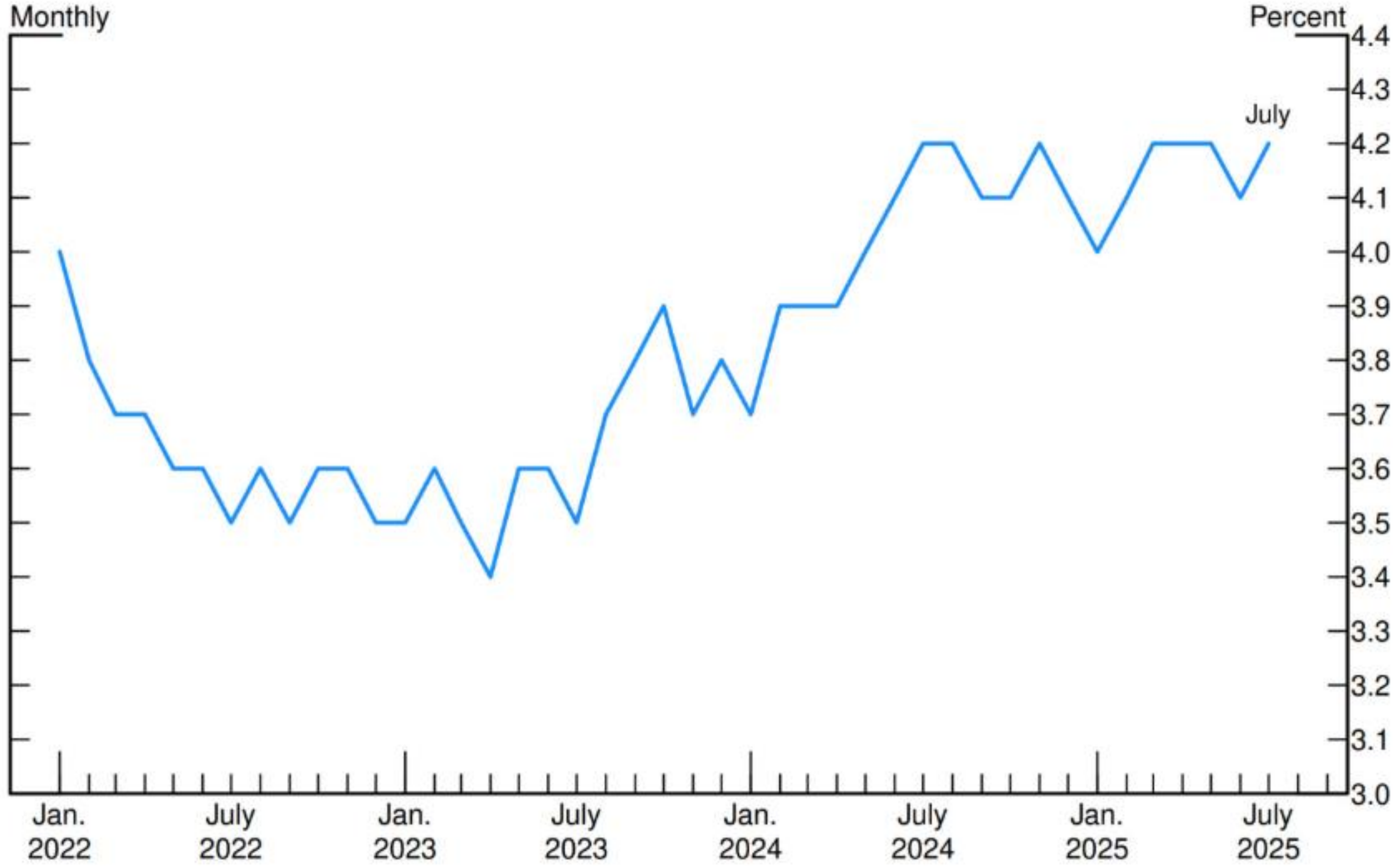
Figure 1: Unemployment Rate



Note: Seasonally adjusted.

Source: Bureau of Labor Statistics, Unemployment Rate, retrieved from FRED, Federal Reserve Bank of St. Louis.

PCE Inflation No Longer Stable at 2%

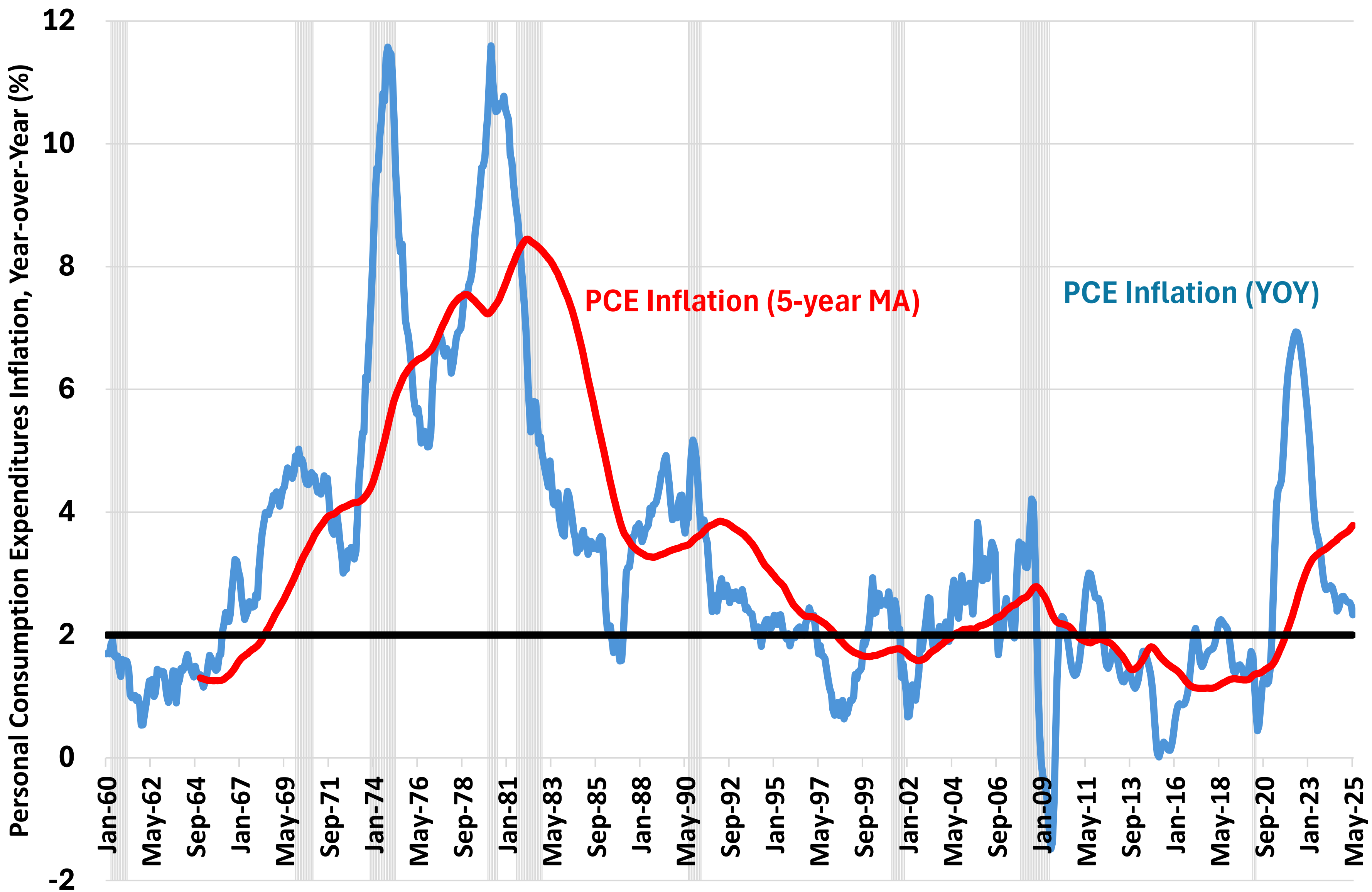


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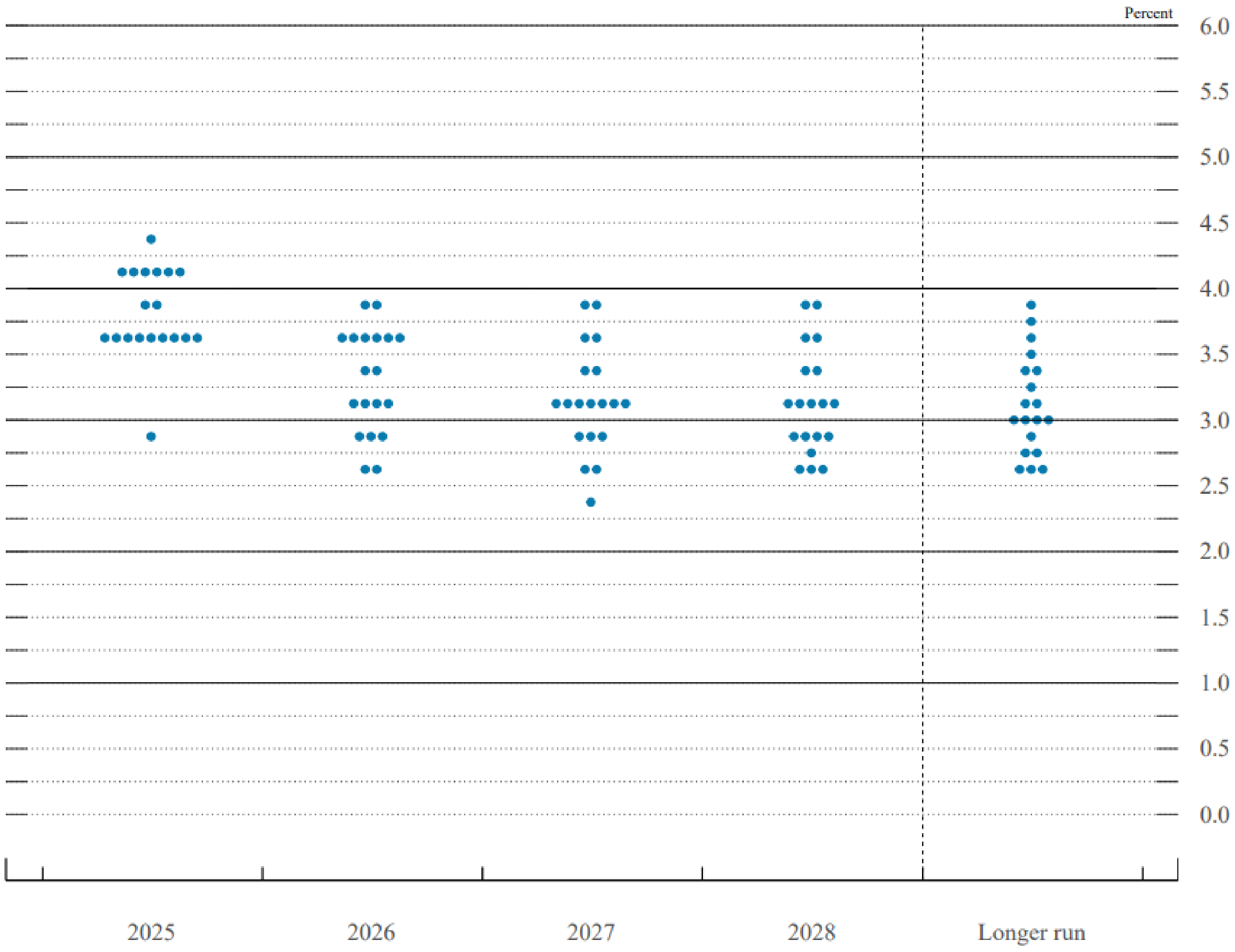
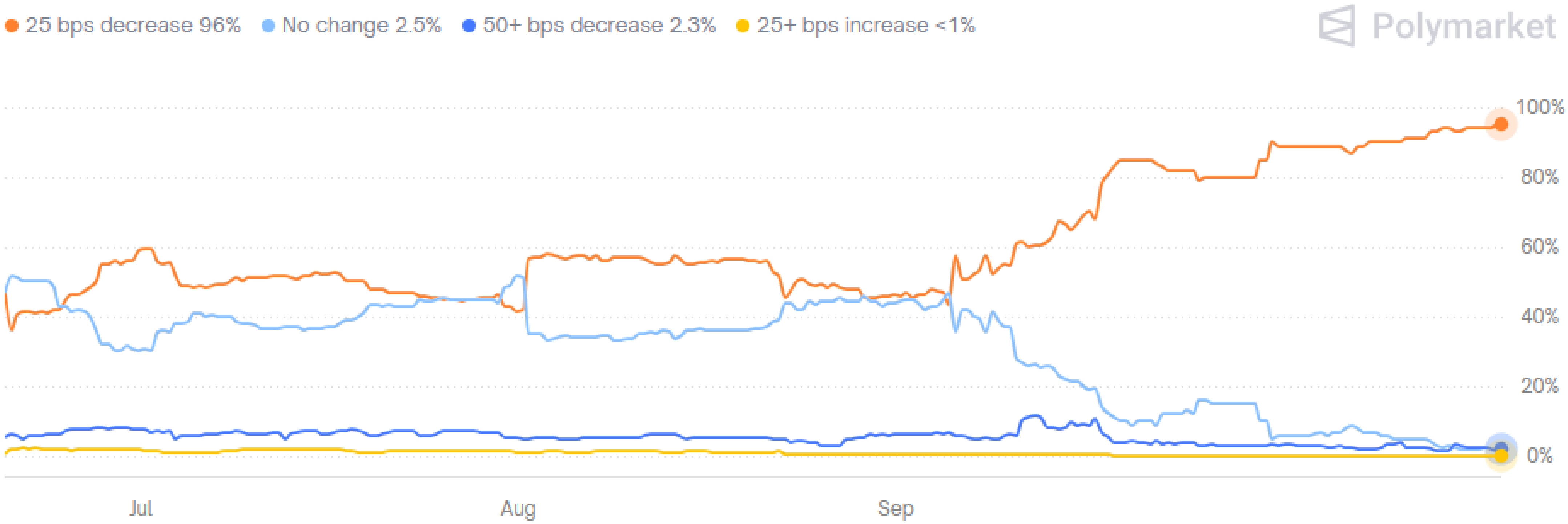
Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



Fed decision in October?

$101,919,508 Vol. Oct 29, 2025

Oct 29 | Dec 10 | Jan 28, 2026



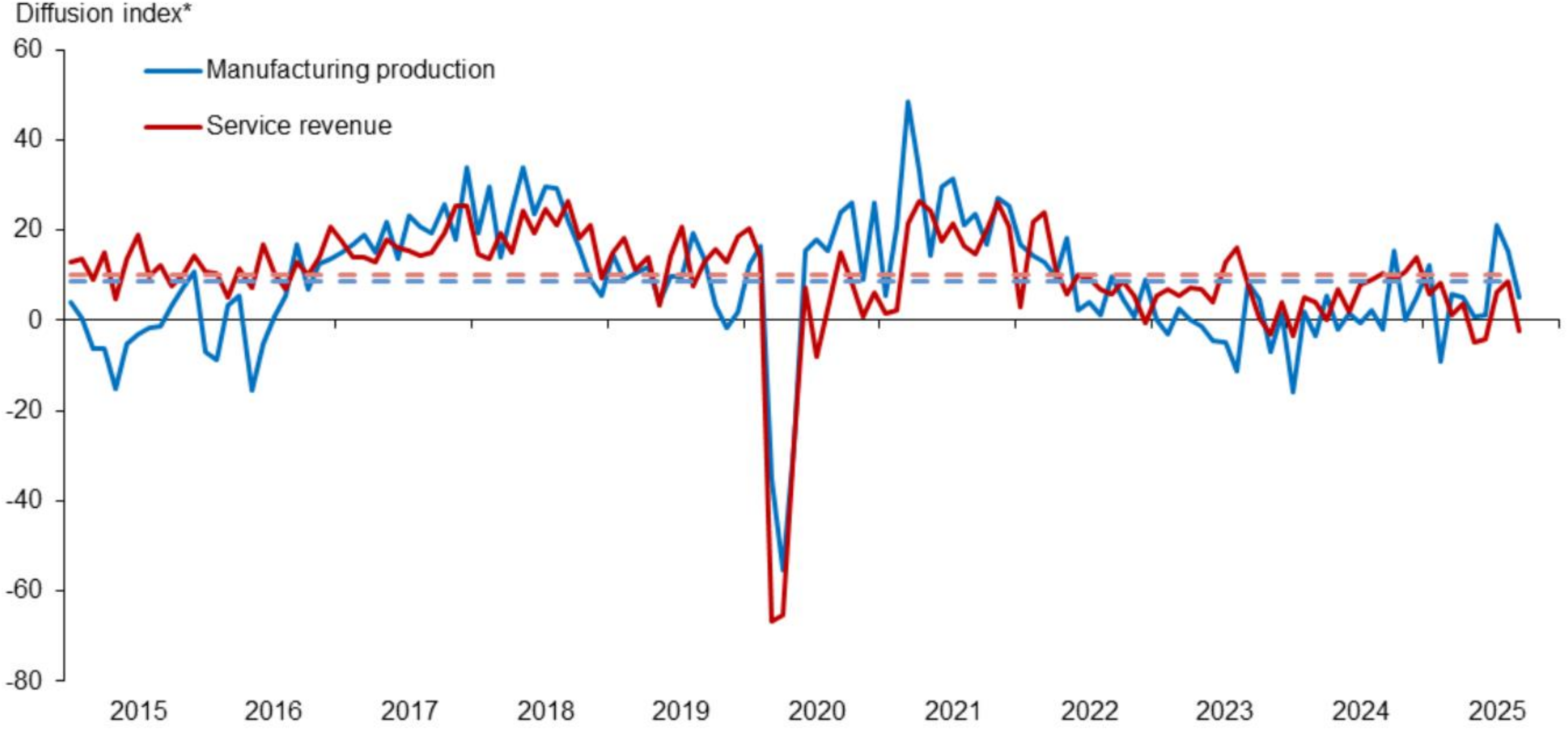
Texas Economic Indicators

October 02, 2025

Texas economy dashboard (August 2025)			
Job growth (annualized) May–Aug. '25	Unemployment rate	Avg. hourly earnings	Avg. hourly earnings growth y/y
0.7%	4.1%	$34.33	3.1%

The Texas economy expanded in August. Employment growth was strong, though the unemployment rate ticked up slightly and initial unemployment insurance claims were elevated in mid-September. The September Texas Business Outlook Surveys showed continued expansion in manufacturing but contraction in the service sector. The July CPI readings marked an additional month of low inflation.

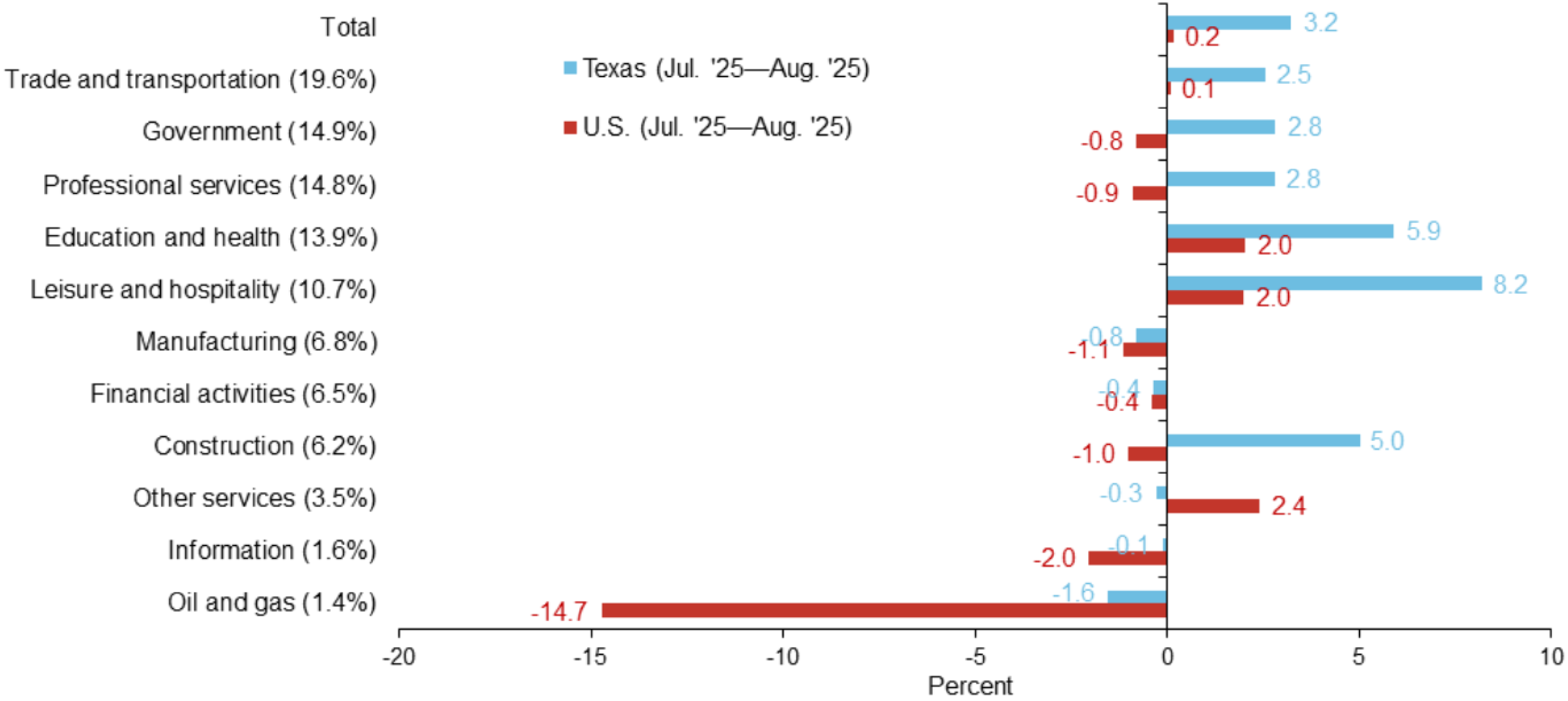
Texas Business Outlook Surveys headline indexes



*Seasonally adjusted.
NOTES: Data are monthly through September 2025. Dashed line are 10-year averages.
SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys.

Federal Reserve Bank of Dallas

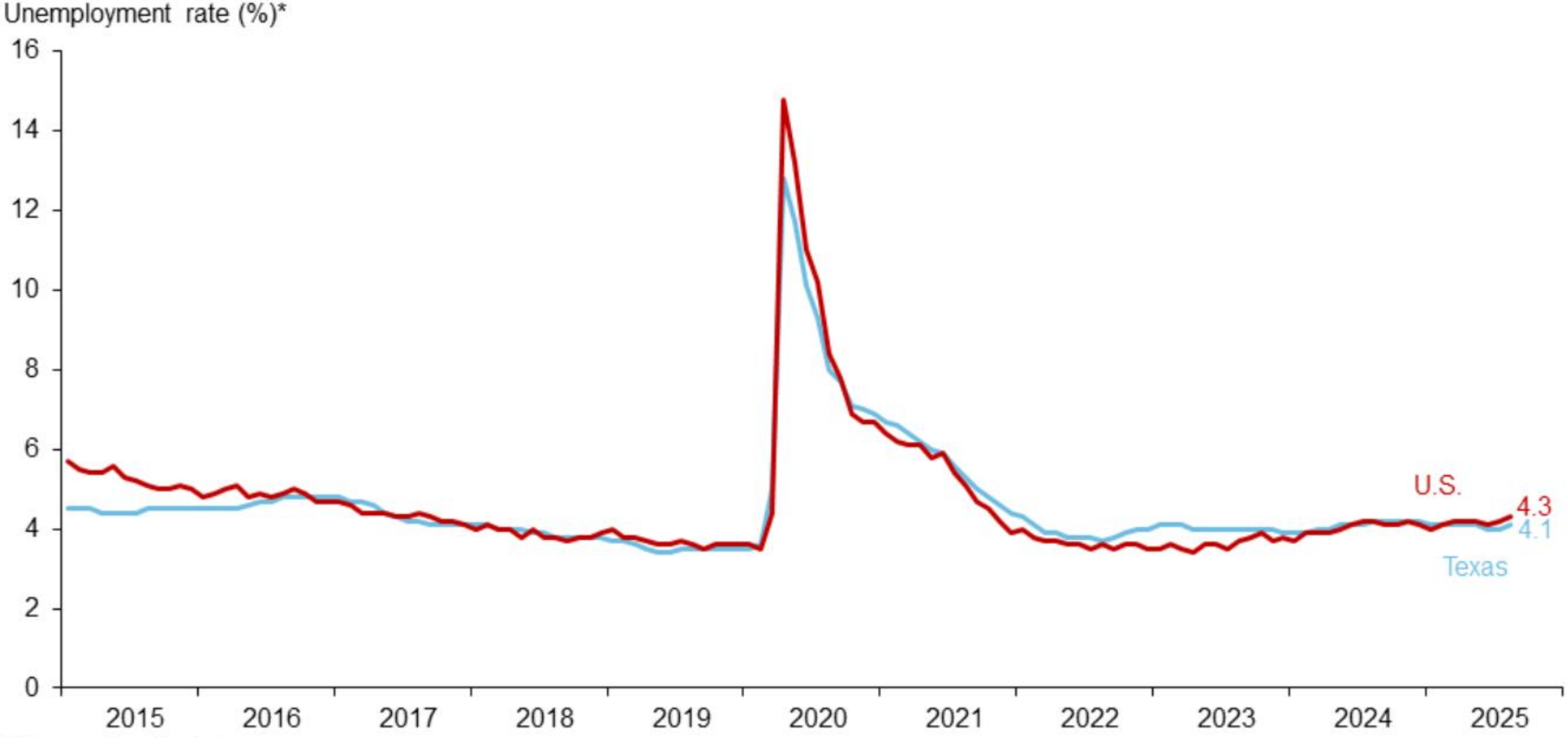
Employment growth by sector



NOTES: Shown are seasonally adjusted, annualized month-over-month employment growth by major sector for August 2025. Numbers in parentheses indicate share of total state employment for August 2025.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Dallas.

Federal Reserve Bank of Dallas

Unemployment rate



*Seasonally adjusted.
NOTES: Data are monthly through August 2025.
SOURCES: Texas Comptroller of Public Accounts; Federal Reserve Bank of Dallas.

Federal Reserve Bank of Dallas