

Updates on the Texas Economy and Household Conditions

-Income, spending, and the labor market



Federal Reserve
Bank of Dallas

Xiaohan Zhang
Community Engagement and Development
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Introduction



- Xiaohan Zhang (call me Han)
- Senior Research Economist and CED Research Lead
- Based in Dallas
 - ~5 years at the Dallas Fed
- Areas of expertise:
 - Labor Force
 - Household Finance

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

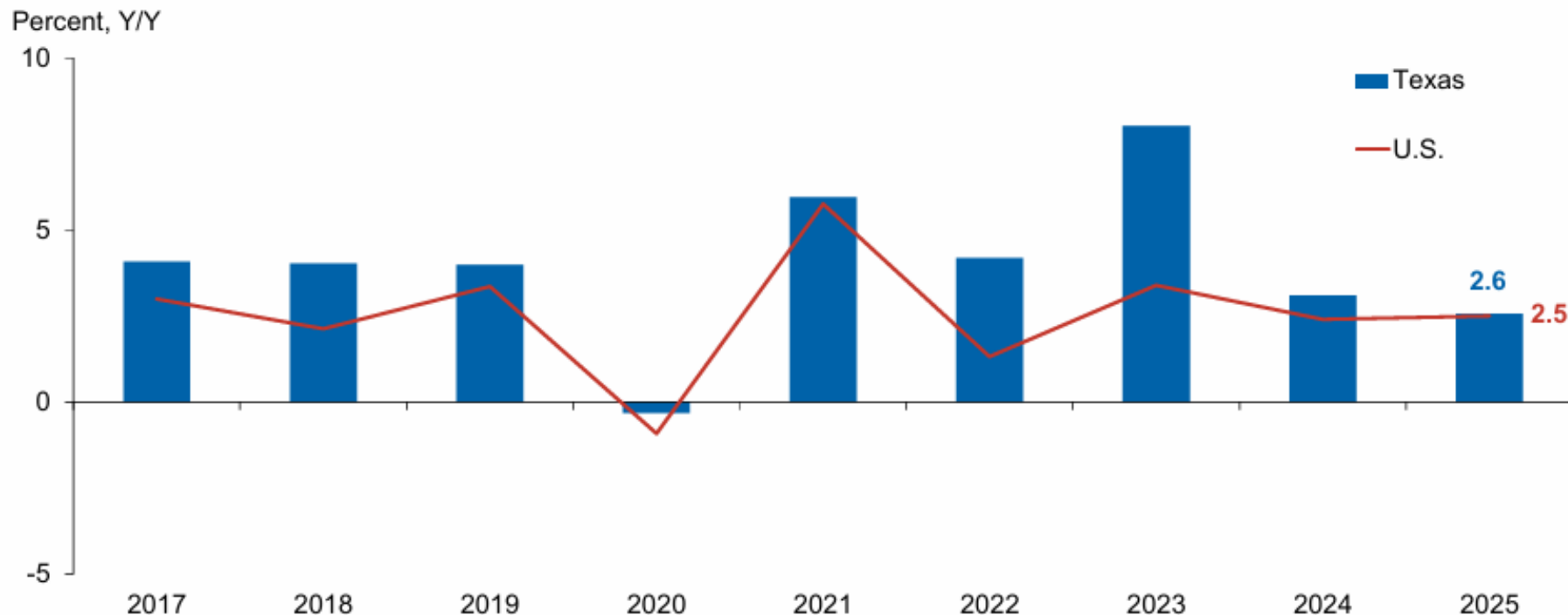
Outline

- **The Texas Economy**
 - Texas no longer outpaces the U.S. in growth and labor market
 - Construction growth driven by non-residential
- **The K-shaped economy**
 - Is there a K-shaped economy? Yes, but not as reported.
 - Long-term issue caused structural changes in consumption
- **Labor Market Opportunities**
 - AI brings challenges AND opportunities
 - Soft skill and upskilling are important in the age of AI

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Moderate GDP Growth in U.S. and Texas

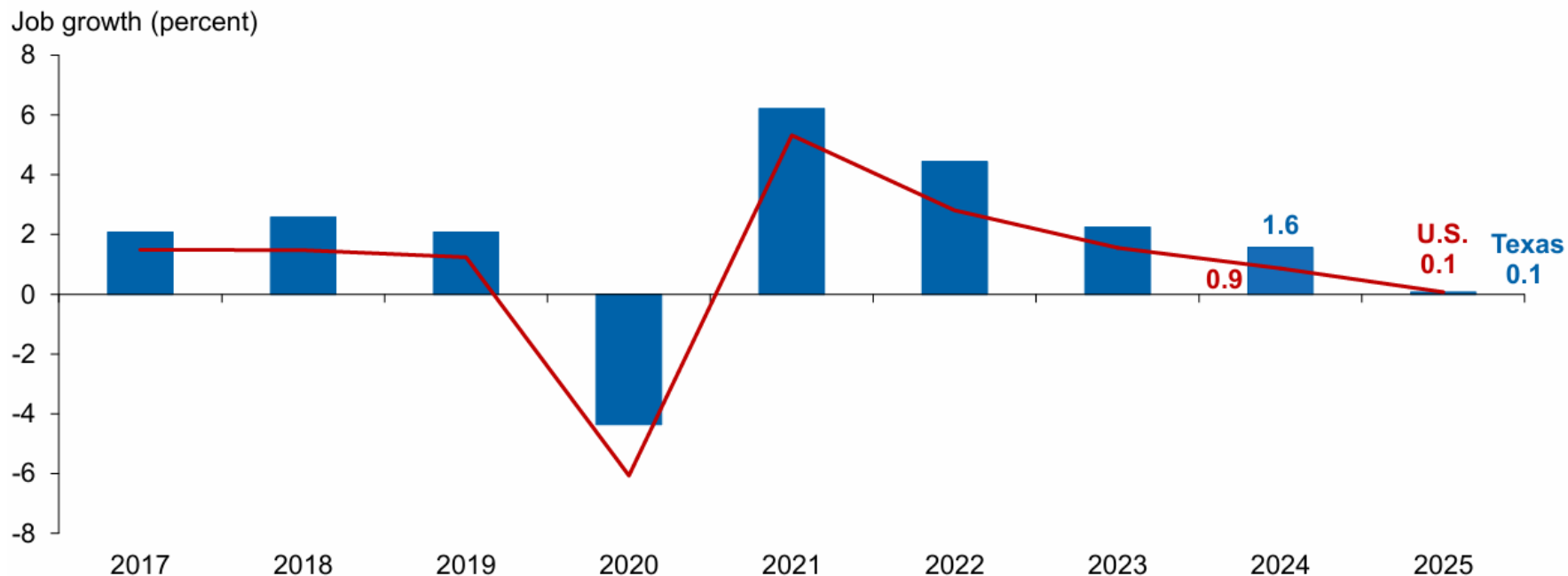


NOTES: Shown is Q4/Q4, real GDP growth. 2025 data is Q3 '25/Q4 '24 annualized for U.S. and Texas.

SOURCES: Bureau of Economic Analysis.

Source: Texas Economic Outlook 2026

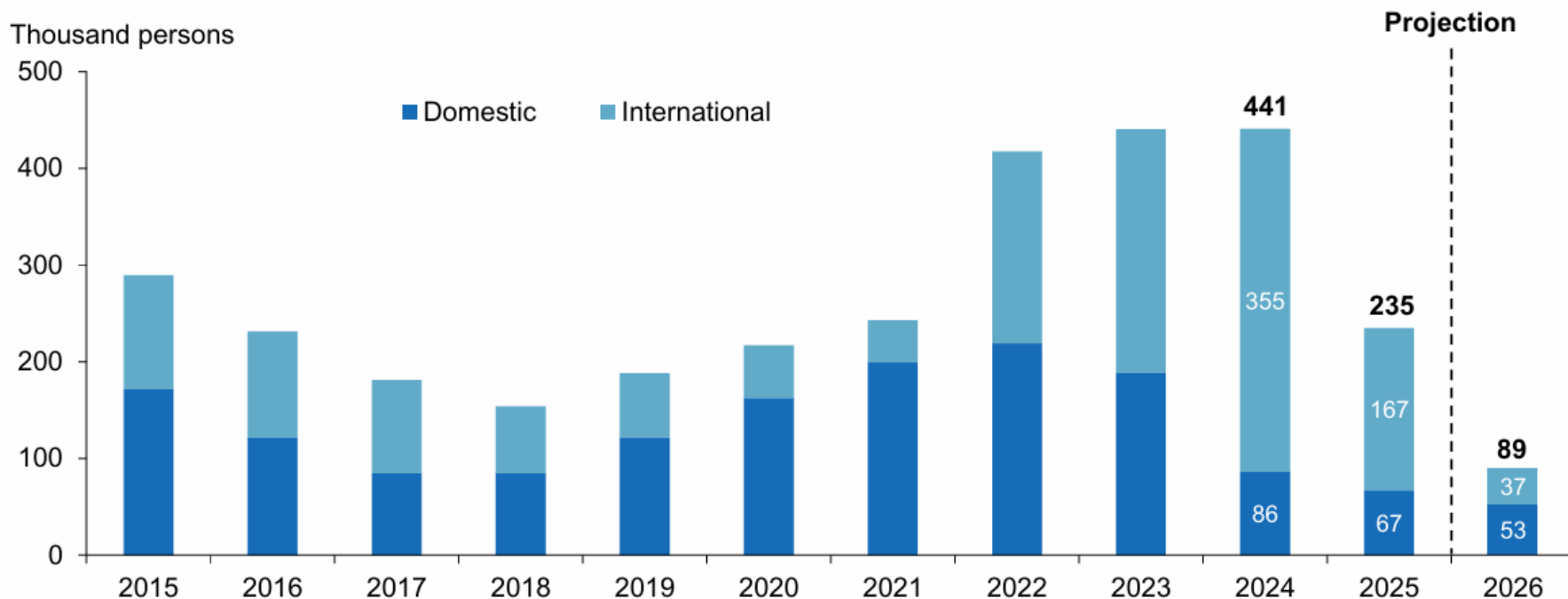
Job Growth Dwindled for U.S. and Texas



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. Source: Texas Economic Outlook 2026

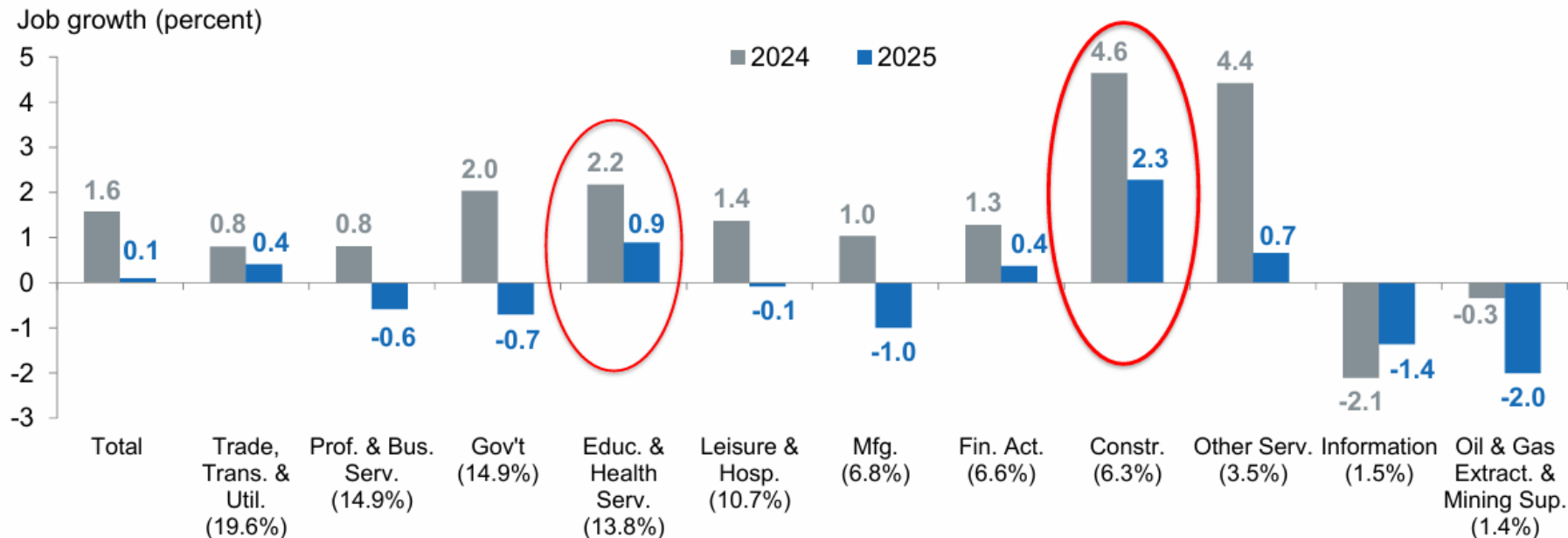
A Big Contributor- International and Domestic Immigration



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.

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

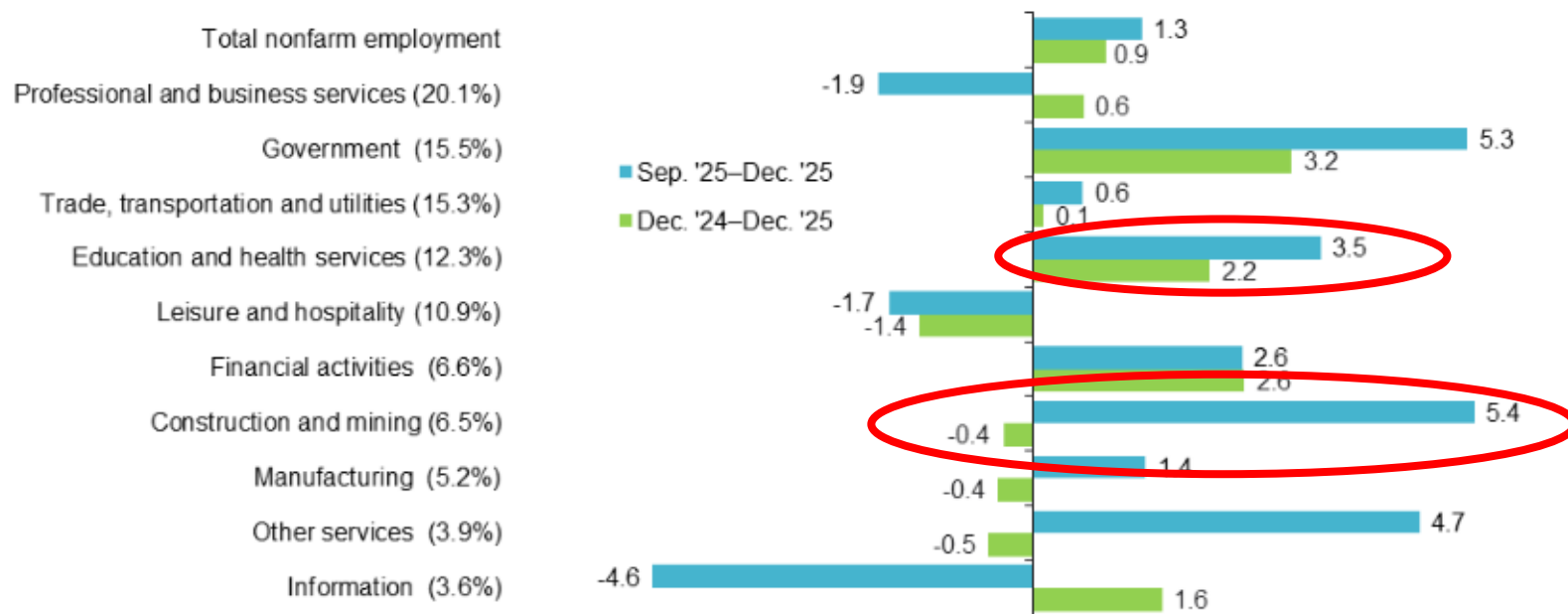


NOTE: Data are seasonally adjusted and Dec/Dec growth. Numbers in parenthesis indicate share of total state employment for most recent monthly data.

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

Austin Jobs Grew 0.9 Percent YoY, Faster than Texas

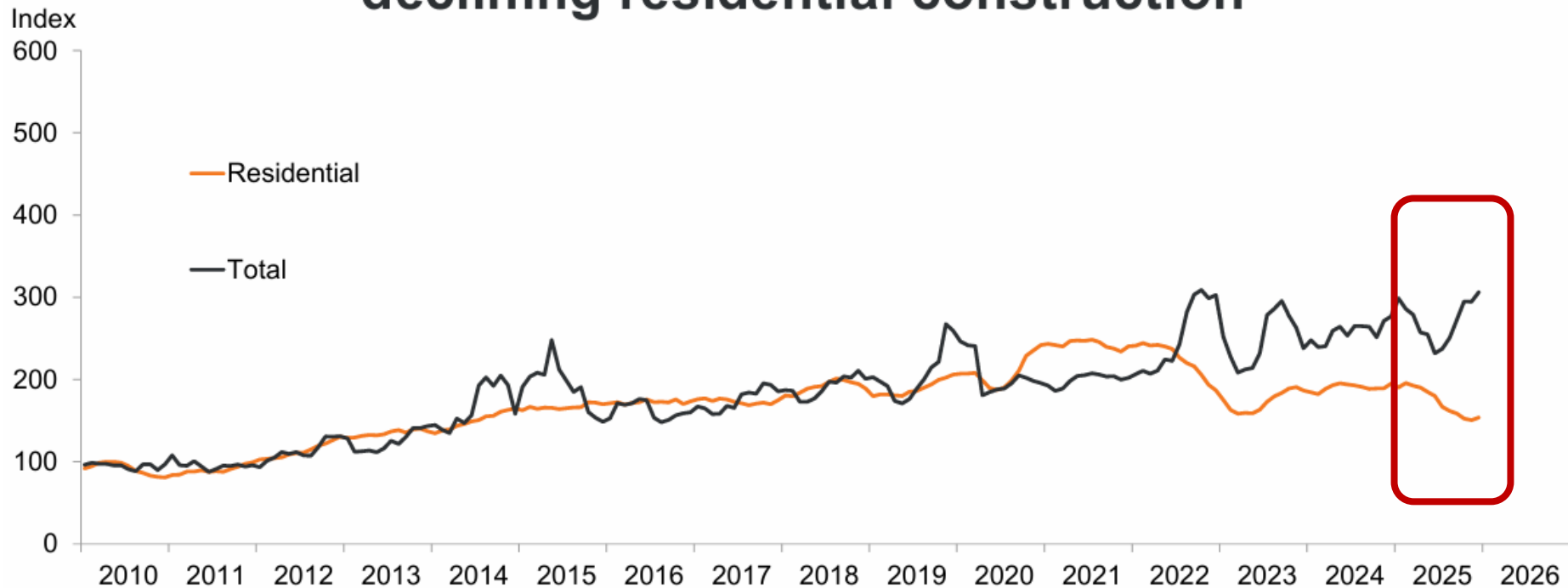
Employment growth by sector



NOTE: Data show seasonally adjusted and annualized percentage employment growth by industry. Numbers in parentheses represent the shares of total employment and may not sum to 100 due to rounding.

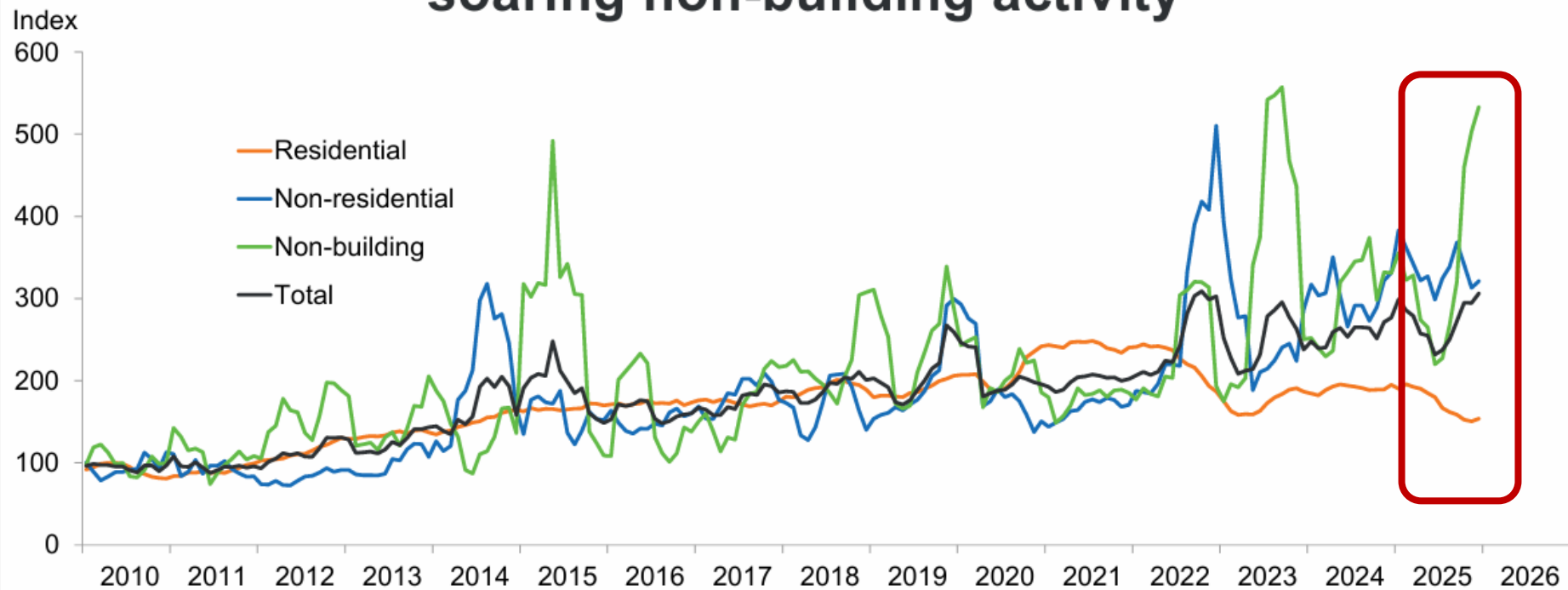
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; adjustments by the Dallas Fed.

Construction contract values recover mid year despite declining residential construction



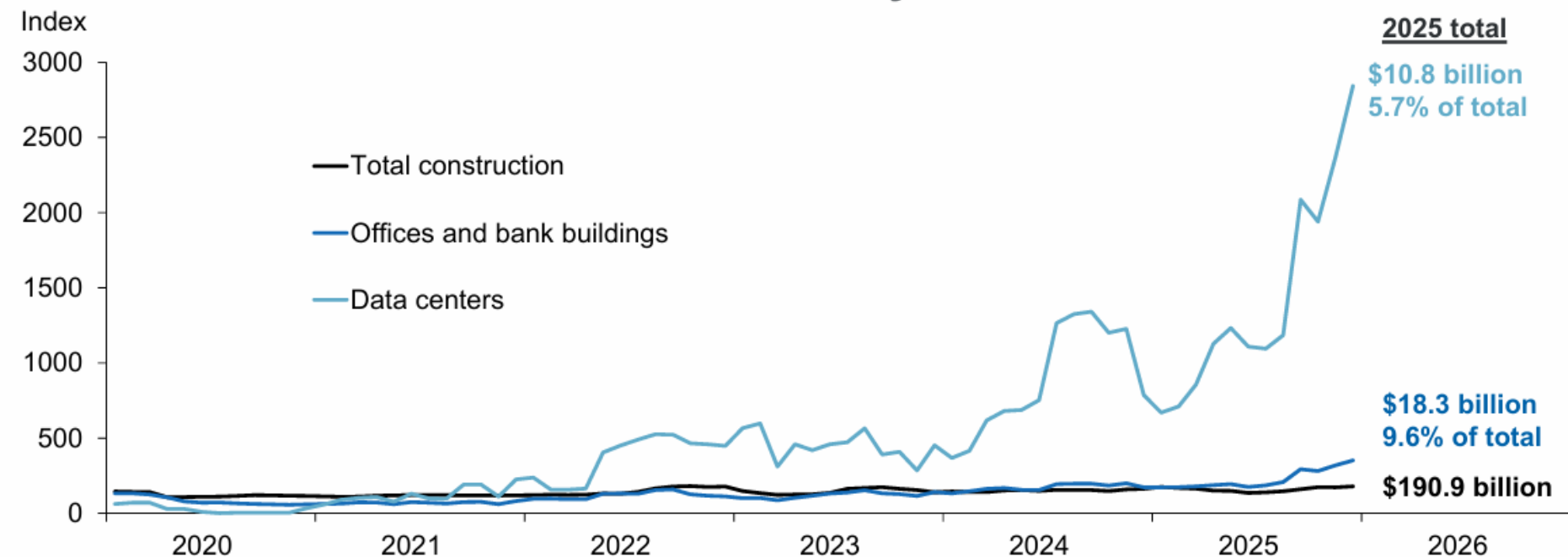
NOTES: Data are a 5-month moving average of seasonally adjusted real Texas construction contract values through December 2025. Values are indexed and Jan. 2010 = 100.
SOURCES: Dodge Construction; Federal Reserve Bank of Dallas.

Construction contract values recover mid year driven by 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.

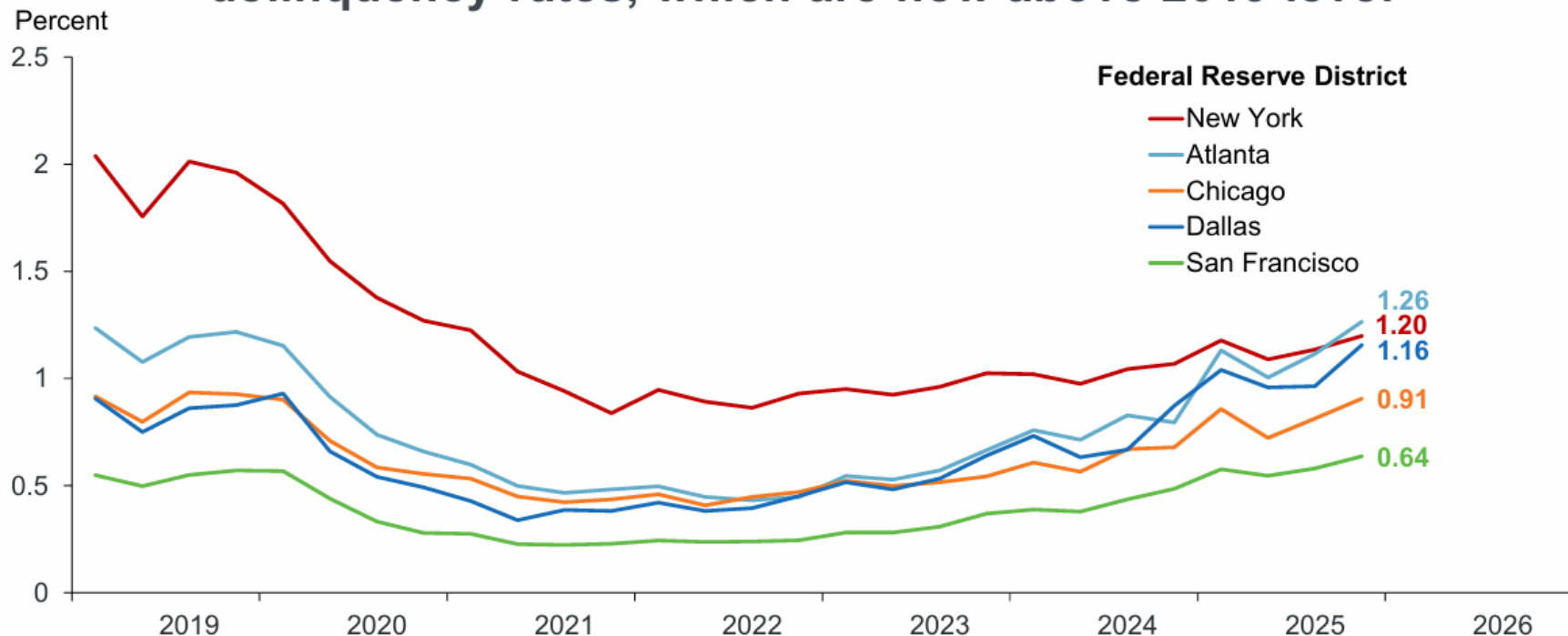
Growth in data center construction far outpacing overall construction activity since 2022



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.

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.

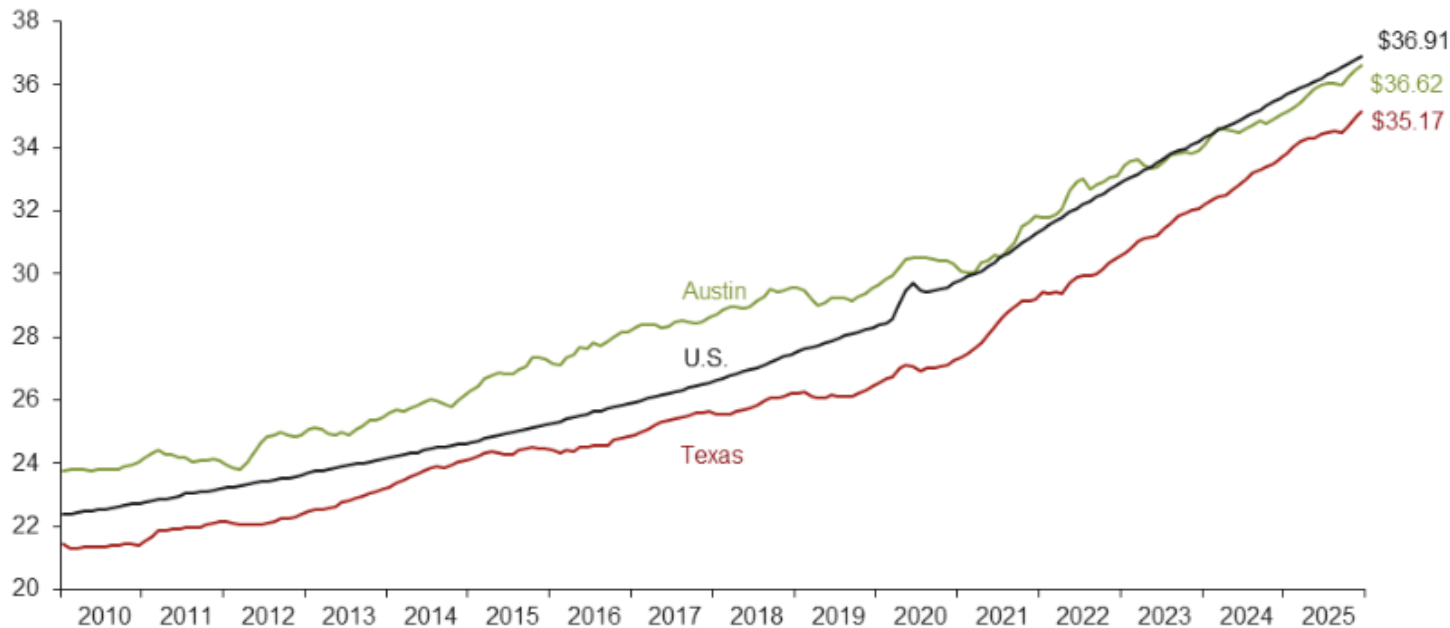
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Austinite Earnings Slowed in Recent Years

Private sector average hourly earnings

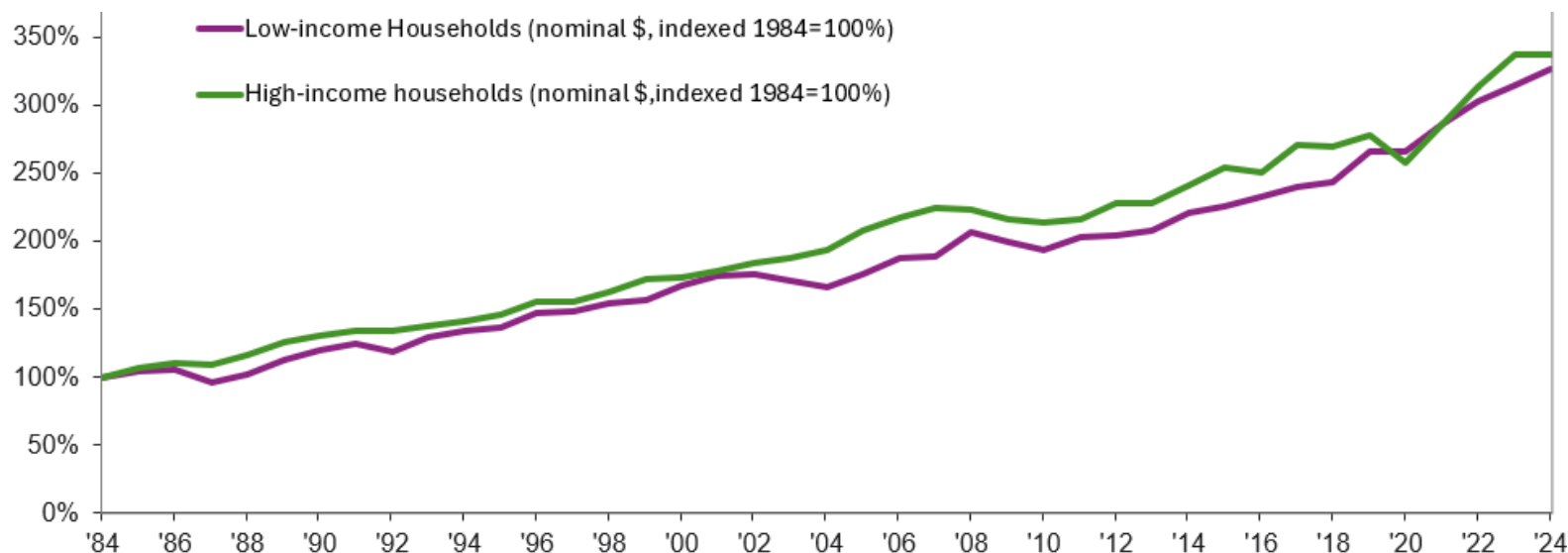
Dollars per hour*



*Seasonally adjusted, three-month moving average.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; adjustments by the Dallas Fed.

Expenditure Growth of High- and Low- Income Households Similar

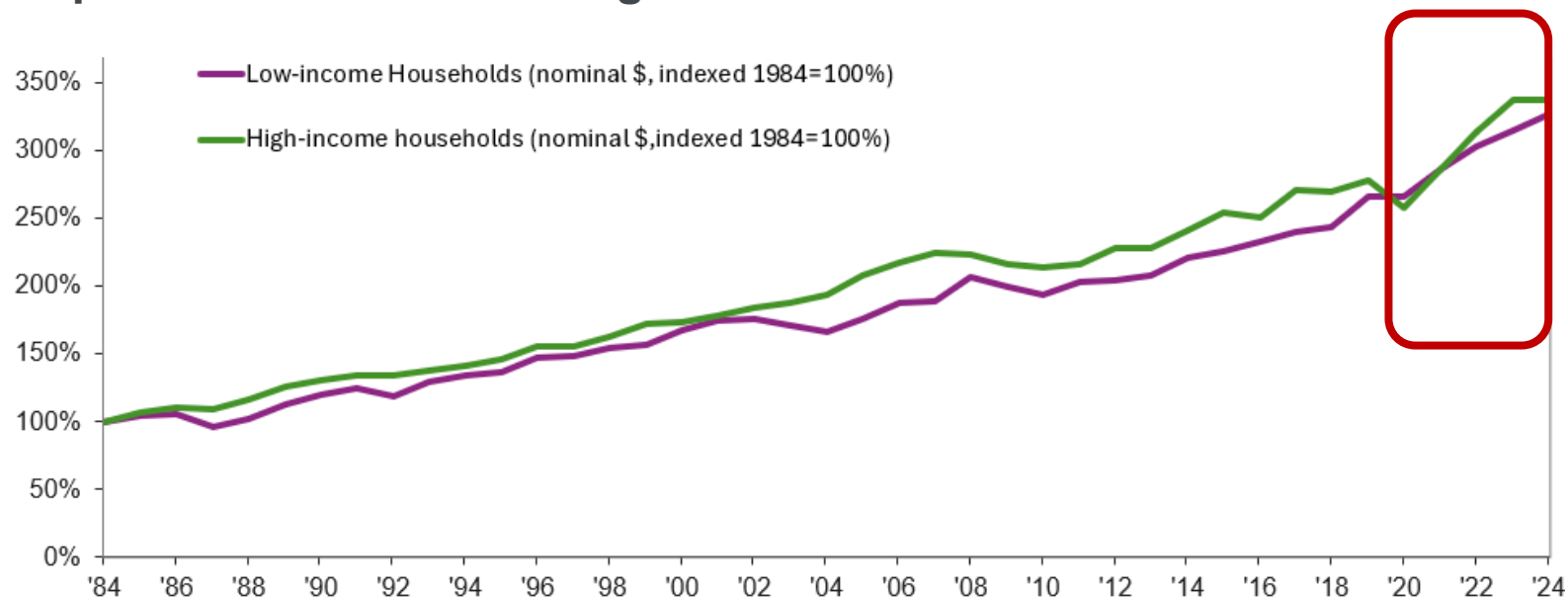


NOTE: Households in the lowest and highest income quintiles are defined as low/high-income. Total spending is calculated by summing the total average amount spent across all eight major categories in the Consumer Price Index for All Urban Consumers (CPI-U). To identify and construct our spending categories, we follow the methodology outlined in Munnell, A. H., & Horvath, D. (2022). How Much Does Inflation Vary by Income? Depends on How it's Measured. Issue in Brief, 22-16.

SOURCE: U.S. Bureau of Labor Statistics (BLS) Consumer Expenditure Surveys LABSTAT Database.

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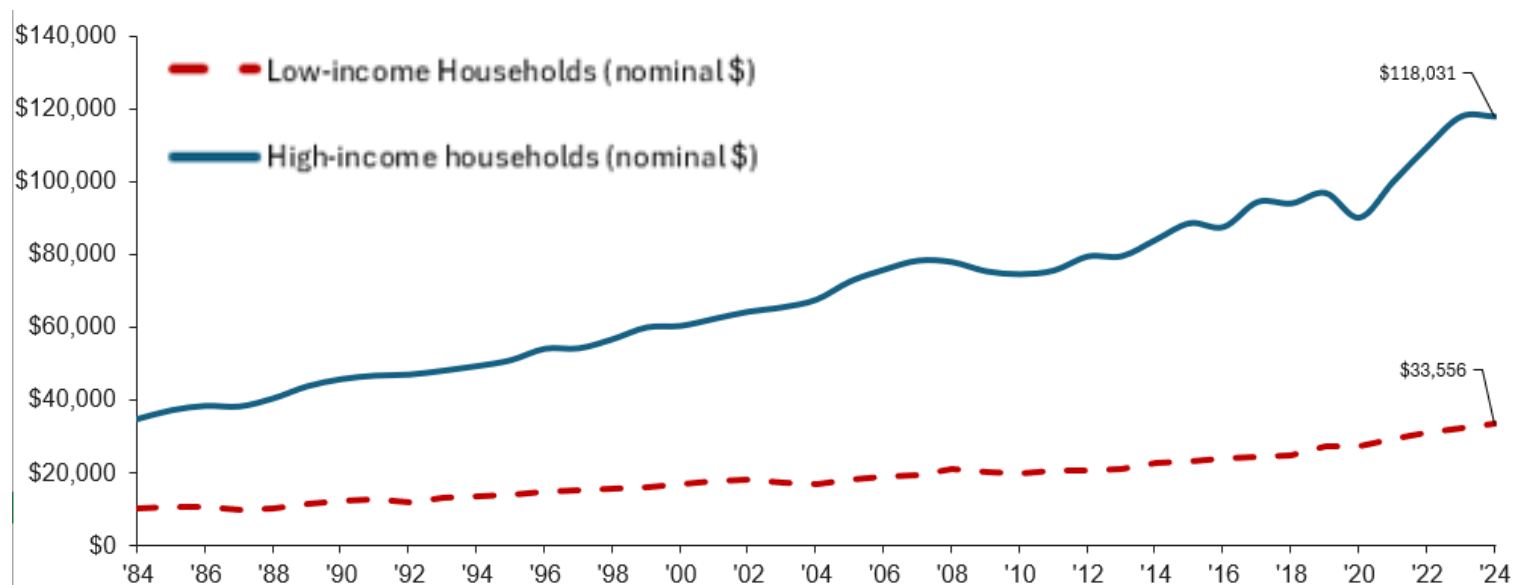


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Nominal Expenditure Shows K-shaped Pattern

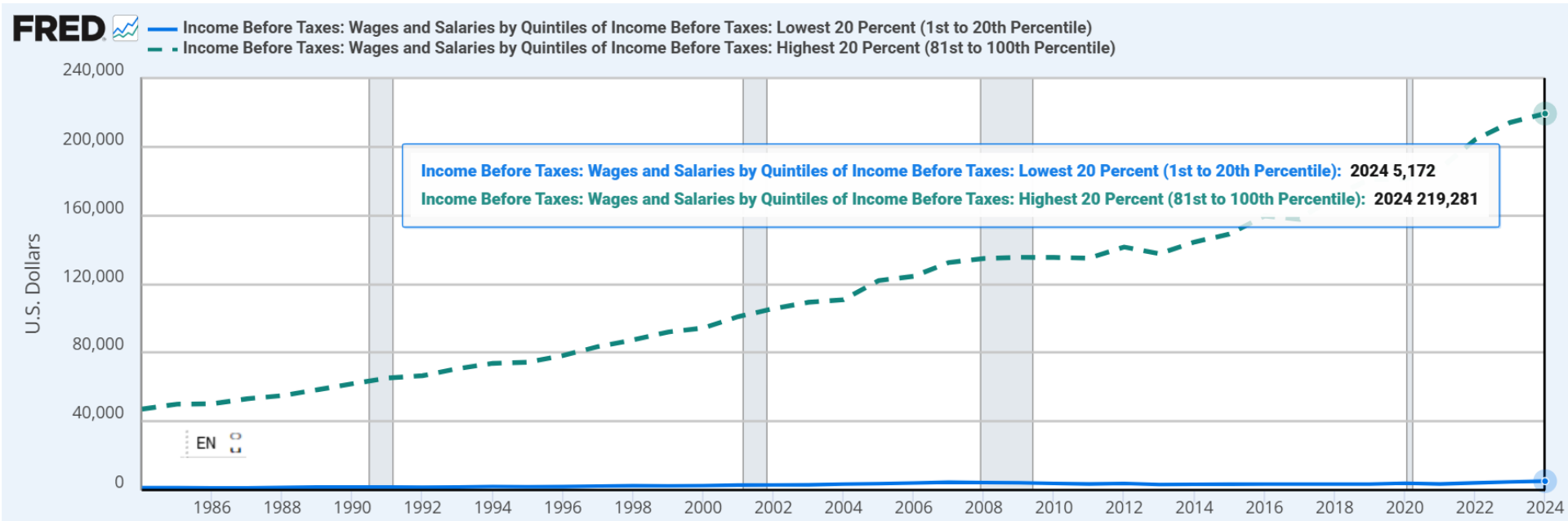


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Alternative Measure: Wage Levels – the K-shaped Pattern

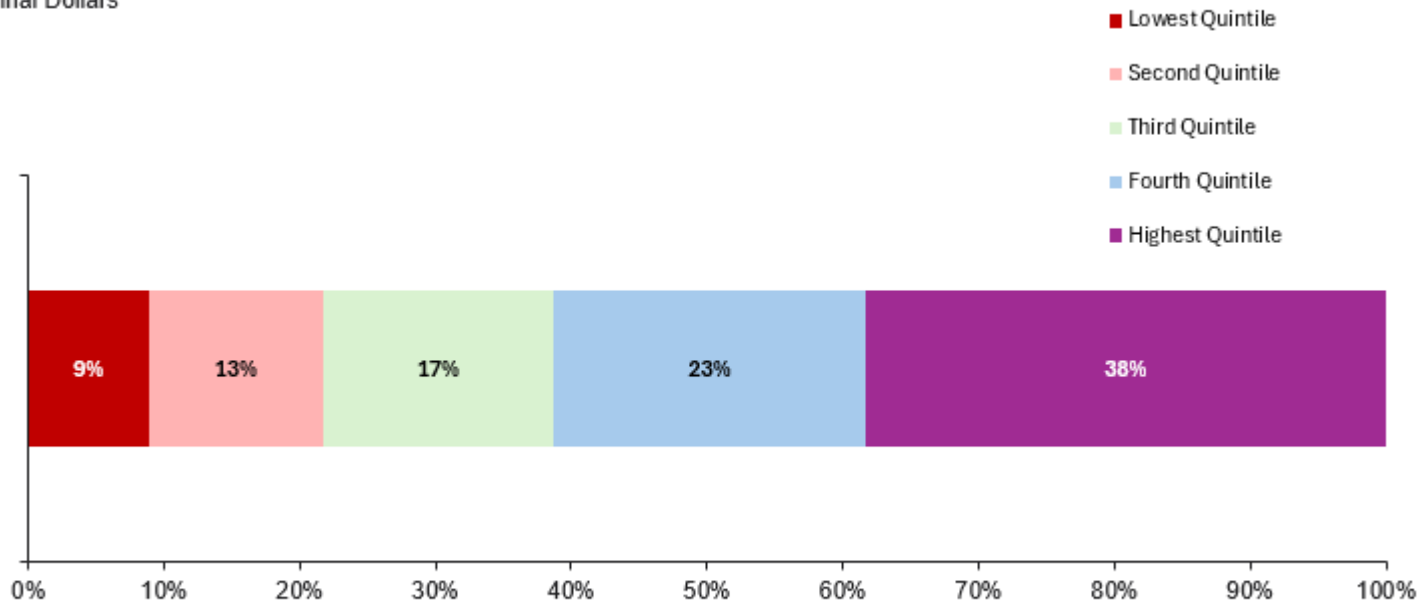


Source: U.S. Bureau of Labor Statistics via FRED®

... and it adds up

Spending Shares by Household Income Quintile

Nominal Dollars

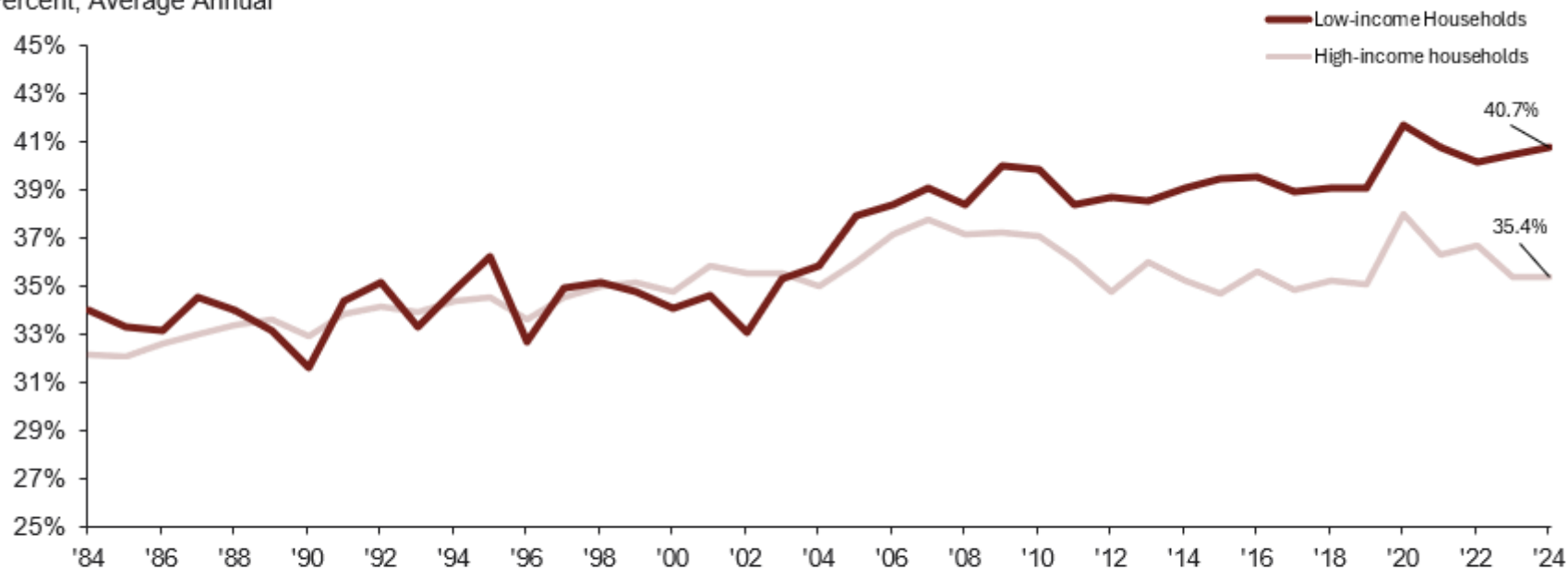


NOTE: Households in the lowest and highest income quintiles are defined as low/high-income

SOURCE: U.S. Bureau of Labor Statistics (BLS) Consumer Expenditure Surveys LABSTAT Database.

Since the Great Recession, Housing Budget Allocations for Low-Income Households have Grown

Percent, Average Annual

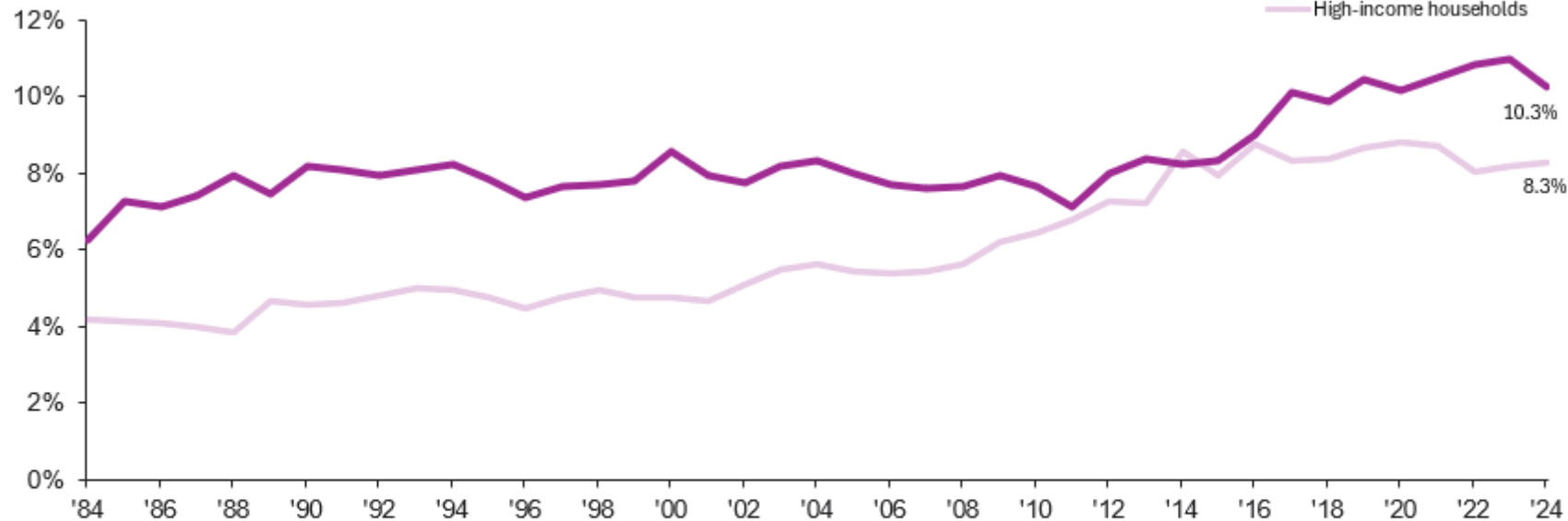


NOTE: Households in the lowest and highest income quintiles are defined as low/high-income. Spending allocation shares for all eight major categories in the Consumer Price Index for All Urban Consumers (CPI-U), are calculated by dividing the total average amount spent in each category by the total average amount spent across all categories. To identify and construct our spending categories, we follow the methodology outlined in Munnell, A. H., & Horvath, D. (2022). How Much Does Inflation Vary by Income? Depends on How it's Measured. Issue in Brief, 22-16.

SOURCE: U.S. Bureau of Labor Statistics (BLS) Consumer Expenditure Surveys LABSTAT Database.

Healthcare Budget Allocations Rising Since 2014 for Low-Income Households

Percent, Average Annual

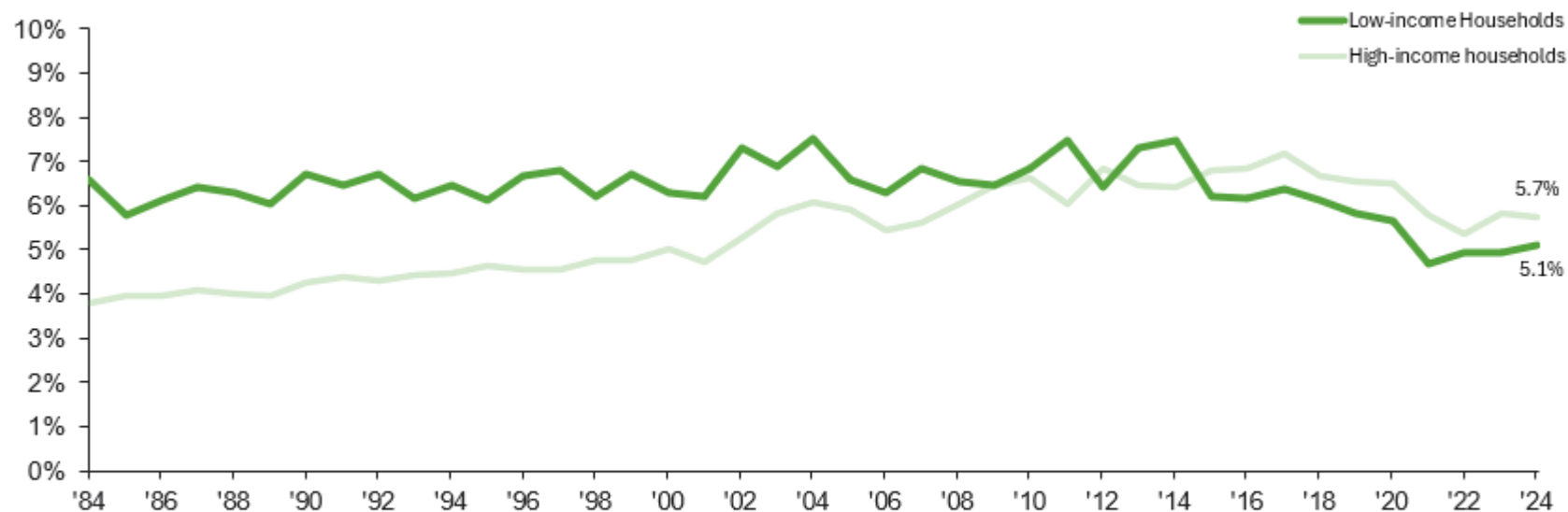


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SOURCE: U.S. Bureau of Labor Statistics (BLS) Consumer Expenditure Surveys LABSTAT Database.

Starting in 2017, Diverging Trends in Education and Communication Budget Allocation Shares for Low and High-Income Households

Percent, Average Annual



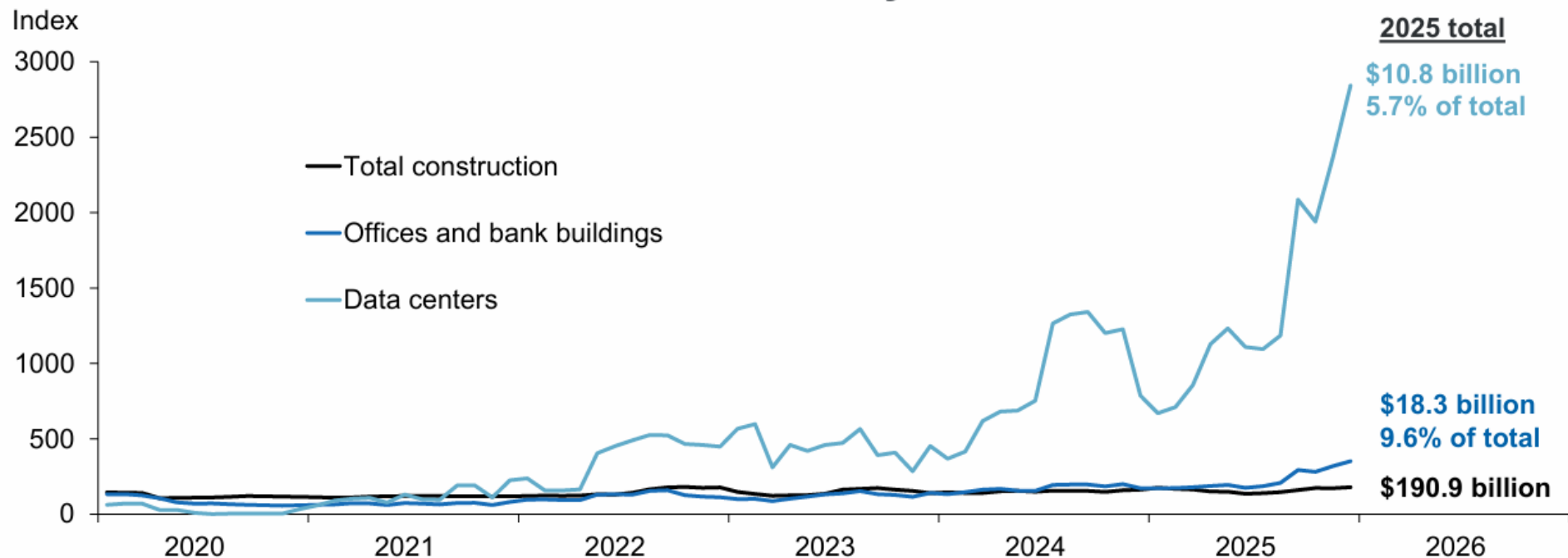
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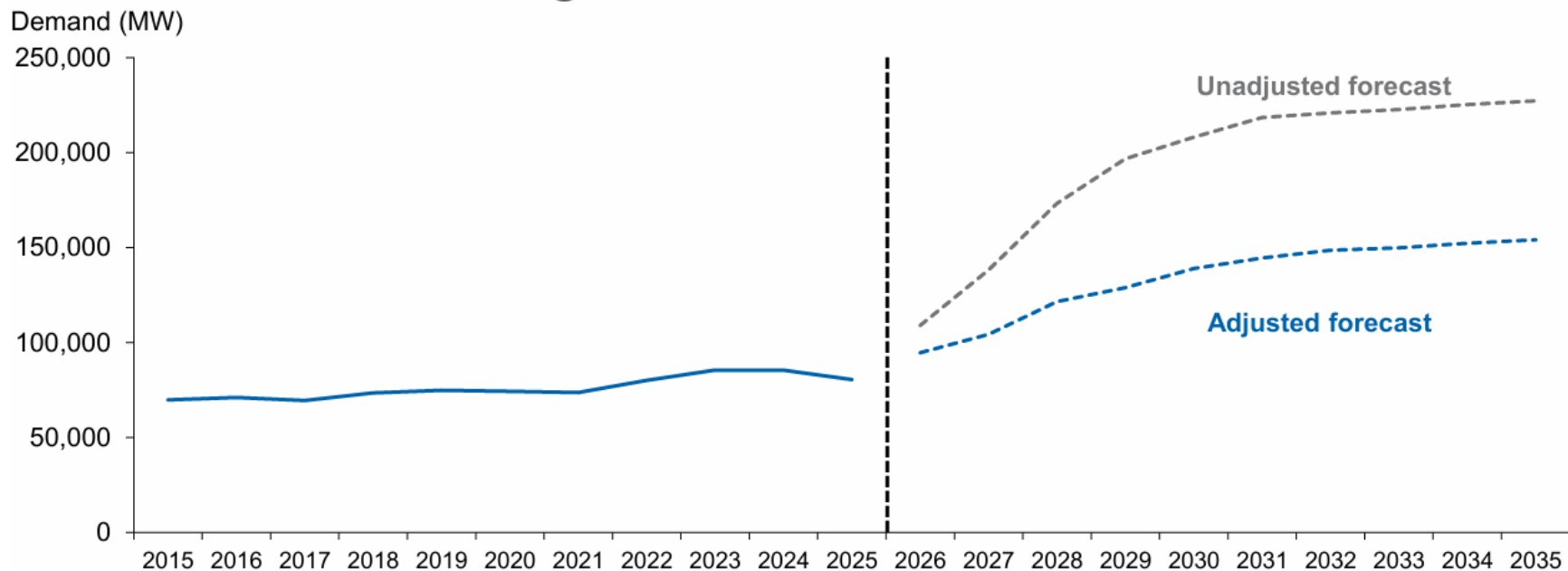
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SOURCE: Dodge Construction; seasonal and other adjustments by Federal Reserve Bank of Dallas.

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.

AI Exposure and Jobs



Jobs that involve writing, gathering information, and working with computers are **more** exposed to AI change



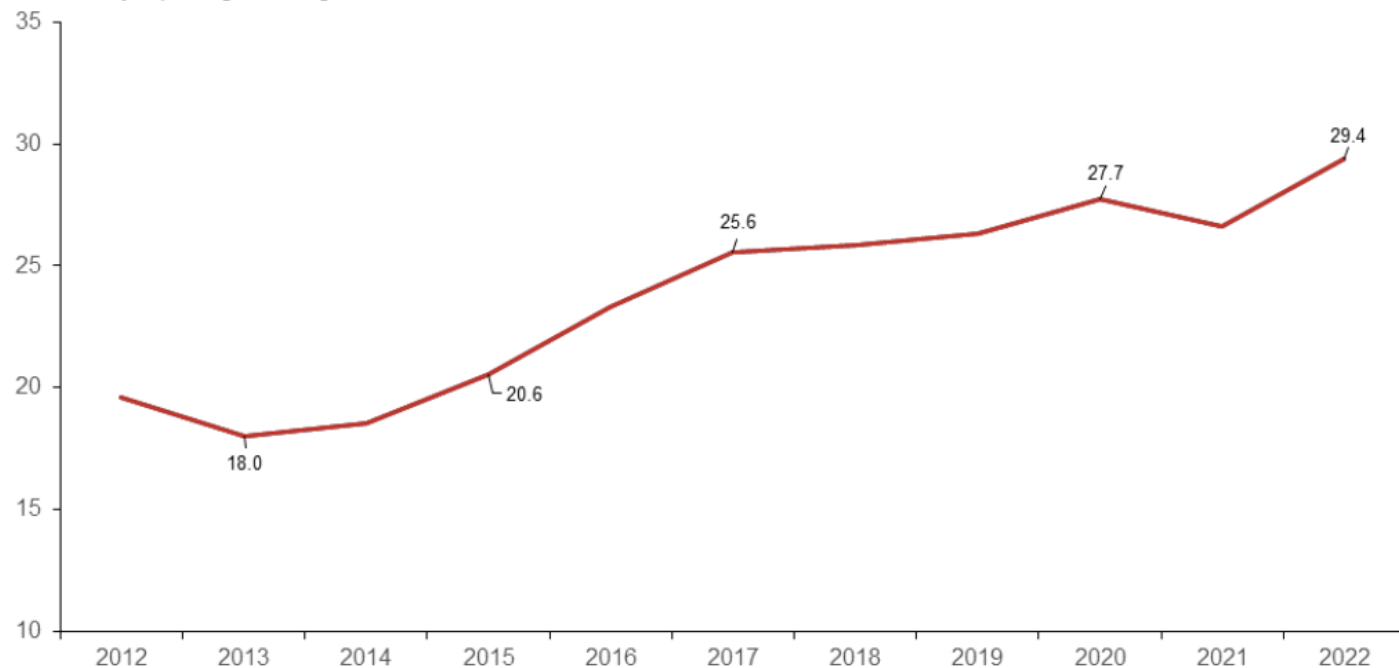
Jobs that involve operating machinery and jobs in the trades tend to be **less** exposed...*for now*



No sign of AI-induced mass layoff. Soft skills and upskilling important in the age of AI.

Upskilling: Higher Share of Job Postings Seek Credentials

Percent of job postings seeking certificates



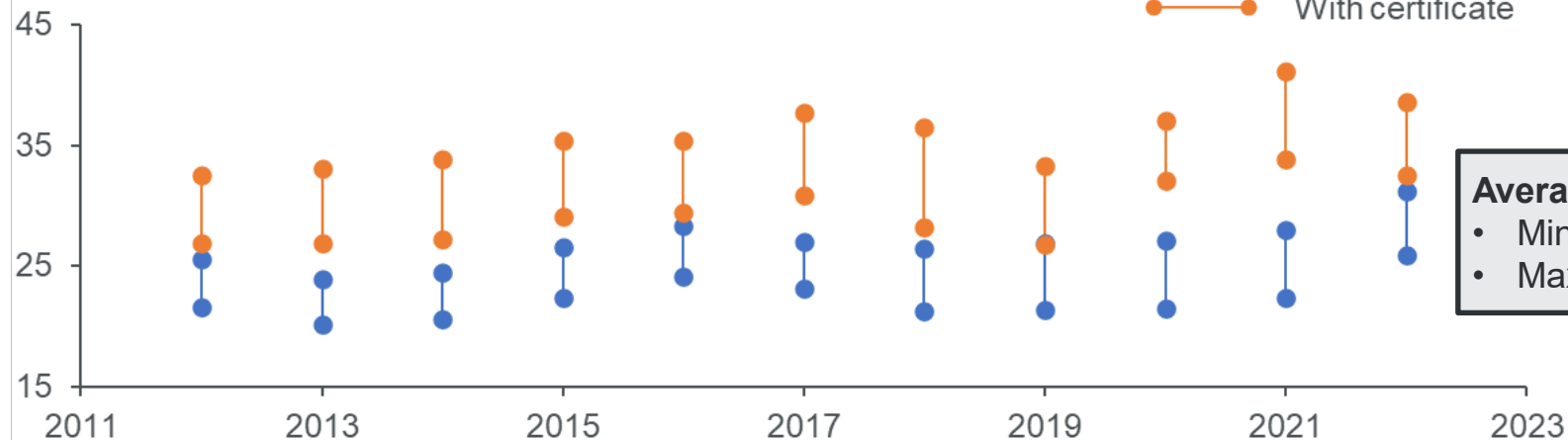
SOURCES: Lightcast; authors' calculations.

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Higher Salary Offered in Ads Seeking Credentials

B. Associate degree

Hourly salary rate



SOURCES: Lightcast; authors' calculations.

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**Building
a strong
economy
together**

