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## TEXAS TRENDS: SALES TAX & ECONOMIC DRIVERS

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## Overview

Texas's economy showed signs of moderation in 4Q2025, with overall growth slowing from the stronger pace seen earlier in the year. According to the Federal Reserve Bank of Dallas, statewide economic activity decelerated toward year-end as employment gains softened and business surveys pointed to more subdued hiring and output growth. While the labor market remained generally stable, job creation slowed notably compared with 3Q2025 and 4Q2024, suggesting employers had become more cautious amid broader economic uncertainty. Even so, Texas continued to benefit from its large and diversified employment base, with labor market conditions remaining comparatively favorable versus many slower-growth states. Housing activity remained subdued while broader construction activity was mixed, as elevated borrowing costs and affordability pressures continued to temper residential demand while development activity remained active in select growth and infrastructure-related segments.

Energy conditions also contributed to a more measured statewide outlook. Although Texas remained a national leader in oil and gas production, the Federal Reserve Bank of Dallas' fourth-quarter energy survey showed activity was largely flat as weaker commodity prices and market uncertainty constrained producers. Capital spending remained restrained, with limited appetite for expansion despite stable demand. Overall, slower employment growth, softer business surveys, weaker housing activity, and a flatter energy environment indicated Texas will enter 2026 with positive but moderating momentum. Statewide conditions in 4Q2025 were best characterized as moderating, with resilient areas offset by softer cyclical and interest-rate-sensitive sectors.

## Statewide Sales Tax Trends

The Texas Comptroller collected \$4.3B in state sales tax revenue in December 2025, marking a 3.2% increase from December 2024. This revenue growth is primarily based on sales made in November and remitted to the agency in December.

Total sales tax revenue for the three months ending in December 2025 was up 5.2% compared with the same period a year ago. Sales tax is the largest source of state funding for the state budget, accounting for 58% of all tax collections. From December 2025 sales tax allocations, approximately \$1.5B was distributed to cities (\$963.4M), transit systems (\$309.4M), counties (\$95.1M), and special-purpose taxing districts (\$156.8M). This represents a 2.5% increase from December 2024 allocations. Motor vehicle sales and rental taxes in Texas generated \$614M in tax revenue in December 2025, up 5% from December 2024. Hotel occupancy taxes generated \$61M in revenue in December 2025, up less than 1% from December 2024. Alcoholic beverage taxes generated \$148M, down 2% from December 2024.

### Energy

Texas energy conditions were mixed in 4Q2025. West Texas Intermediate (WTI) crude oil averaged \$59.64 per barrel, down from \$70.69 a year earlier, while Henry Hub natural gas rose to \$3.75 per MMBtu from \$2.44. Drilling activity remained below prior-year levels, with Baker Hughes reporting 409 U.S. oil rigs in late December 2025 versus 482 a year earlier. Texas production-tax collections reflected softer oil conditions, with oil tax receipts down year over year throughout the quarter, while natural gas tax receipts were mixed. In December 2025, motor fuel tax collections rose 4%, oil production tax receipts fell 9%, and natural gas production tax receipts declined 21% from December 2024. Overall, the sector remained productive but more restrained, with weaker oil market conditions partly offset by stronger natural gas pricing. Table 1 presents tax amounts generated by fuel type.

**Table 1. Taxes Generated by Fuel Type in 4Q2025**

Type	Tax Amount Generated
Motor fuel	\$324M
Oil production	\$394M
Natural gas production	\$169M

Source: Texas Comptroller/U.S. Energy Information Administration

### Service

Texas service sector activity stabilized at year-end 2025 after weakness in prior months, suggesting the sector remained resilient but lacked robust growth momentum. According to the Federal Reserve Bank of Dallas, the Texas Service Sector Outlook Survey revenue index was at 0.0 in December 2025, up from -2.5 in November, indicating service-sector revenues were essentially unchanged from the prior month after two consecutive months of contraction. Employment conditions remained modestly positive, with the employment index holding in expansionary territory, signaling continued hiring activity. Employment conditions remained modestly positive, with the employment index holding in expansionary territory, signaling continued hiring activity, though at a restrained pace consistent with broader moderation in Texas labor market growth. Hours worked and related labor utilization metrics pointed to generally steady staffing demand rather than robust expansion. Overall, the December survey data suggested that Texas's service economy had steadied after softening in parts of the fourth quarter.

Business sentiment remained guarded despite steadier operating conditions. The Dallas Fed reported that outlook and uncertainty measures continued to reflect concern among service-sector firms regarding the broader economic environment, even as forward-looking indicators remained positive.

Firms generally expected activity to improve over the next six months, with the future revenue index remaining strongly expansionary, signaling optimism for continued growth into 2026. Meanwhile, pricing and wage pressures persisted but remained below peak inflationary levels, indicating that businesses were still contending with elevated labor and operating costs even as cost escalation moderated compared with prior years. Taken together, December 2025 survey results suggested the Texas service sector ended 4Q2025 in modest expansion, characterized by flat near-term revenue growth, cautious sentiment, and continued—but measured—forward optimism.

Source: Texas Comptroller and Federal Reserve Bank of Dallas

### Retail Trade

Texas retail trade conditions remained soft at year-end 2025, indicating that consumer-facing businesses continued to operate in a cautious, uneven demand environment. According to the Federal Reserve Bank of Dallas' Texas Retail Outlook Survey, the retail sales index remained negative in December 2025, indicating that more retailers reported declines than increases in sales during the month. While the index improved modestly from weaker readings earlier in the quarter, overall retail activity remained below historical norms and below year-earlier levels.

Retailers kept balanced inventories, with minimal overstock, showing disciplined buying and improved supply chains compared to previous years.

Labor and sentiment indicators pointed to continued caution among retailers. Employment and hours worked measures remained weak to modest, suggesting staffing demand in the sector was largely stable but not expanding materially. At the same time, business outlook and uncertainty indexes indicated retailers remained concerned about the broader economic environment and consumer spending prospects heading into 2026. Pricing and wage pressures persisted but continued to moderate from prior inflationary peaks, easing some margin pressure even as cost concerns remained elevated. Forward-looking expectations remained positive overall, indicating that retailers anticipated a gradual improvement over the next six months despite persistent uncertainty. Taken together, 4Q2025 survey results suggested Texas retail conditions were soft but stabilizing, with cautious business sentiment and restrained consumer demand continuing to shape the sector.

Source: Federal Reserve Bank of Dallas

## National & Statewide Economic Drivers

### U.S. Real Gross Domestic Product (GDP) Growth

Gross domestic product (GDP) is a broad measure of U.S. economic activity representing the value of final goods and services produced in the United States. U.S. real GDP increased at an annualized 0.5% in 4Q2025, according to the U.S. Bureau of Economic Analysis' (BEA) third estimate, down sharply from 4.4% in 3Q2025 and reflecting a clear slowdown in economic momentum. Growth was supported by consumer

spending and investment but partly offset by declines in government spending and exports; weaker investment, particularly private inventory investment, drove the downward revision from the prior estimate. Supplemental measures indicated that private domestic demand remained positive but moderated, with real final sales to private domestic purchasers rising 1.8% and the average of real GDP and real gross domestic income (GDI)—which measures income earned from domestic production—increasing 1.5%.

Overall, 4Q2025 national conditions were best characterized as slowing but not contracting, with softer growth reflecting weaker dynamics in the public sector, trade, and investment.

Source: U.S. Bureau of Economic Analysis

## U.S. Unemployment

The U.S. labor market softened modestly by the end of 4Q2025, but it did not show signs of broad deterioration. A key data caveat is that the U.S. Bureau of Labor Statistics (BLS) did not collect October 2025 household survey data because of the federal government shutdown, so there is no full official quarterly average unemployment rate for 4Q2025. Based on the available official readings, the unemployment rate was 4.5% in November 2025 and 4.4% in December 2025, both above the 4.1% rate in December 2024. Long-term unemployment also worsened over the year: 1.9M people were unemployed for 27 weeks or more in December 2025, up 397,000 from a year earlier, and the long-term unemployed made up 26.0% of all unemployed people, up from 22.4% in December 2024.

Source: U.S. Bureau of Labor Statistics

## Texas Unemployment

Texas's labor market remained comparatively resilient in late 2025, though conditions softened modestly from earlier strength. The Texas unemployment rate was 4.3% in December 2025, up slightly from 4.2% in both November 2025 and December 2024. At the same time, the state's civilian labor force and employment levels reached record highs, indicating that labor-market softening occurred alongside continued workforce expansion rather than broad retrenchment.

Overall, the modest rise in unemployment suggested labor supply was expanding somewhat faster than hiring demand, consistent with a labor market that remained healthy but less tight than in prior periods. Texas also continued to maintain a relatively high labor force participation rate relative to national levels, supporting the view that the state entered

2026 with labor market conditions remaining comparatively favorable despite some easing of market tightness.

Source: U.S. Bureau of Labor Statistics/Texas Workforce Commission

## U.S. Median Home Price

U.S. home prices continued to rise in 4Q2025, though the pace of appreciation remained modest relative to the stronger gains seen in prior years. According to the National Association of REALTORS® (NAR), the national median existing single-family home price reached approximately \$410,100 in 4Q2025, up 4.8% from \$391,700 in 4Q2024. NAR reported that more than 85% of metropolitan statistical areas recorded year-over-year home price increases during the quarter, indicating that price growth remained widespread despite elevated mortgage rates and affordability constraints. The continued rise in prices suggested that housing demand remained sufficiently resilient to support appreciation even in a higher-rate environment, though gains were generally more moderate than during the peak of the post-pandemic housing surge.

Regional trends showed notable variation across the country. The Northeast and Midwest continued to post some of the strongest annual price appreciation, supported by relatively constrained inventory and stable demand, while portions of the South and West experienced flatter pricing and greater affordability-related pressure after stronger run-ups in earlier years. Broader housing market conditions in 4Q2025 were best characterized as stable, with modest improvement, as inventory levels gradually increased but remained below long-term norms in many markets. Elevated mortgage rates continued to limit affordability and suppress transaction volume, but constrained supply and steady household formation helped prevent significant price declines nationally. Overall, the national housing market ended 2025 in a more balanced but still supply-constrained position, with moderate price growth persisting despite softer sales activity.

Source: The National Association of REALTORS®

## Texas Median Home Price

Texas's housing market remained mixed in 4Q2025. Texas REALTORS®' year-in-review data show the statewide median home price for 2025 was \$335,000, down 1.2% from 2024, while the 3Q2025 statewide median was also \$335,000, indicating that prices were essentially flat by late 2025 following earlier softening. Texas Real Estate Research Center's (TRERC) Monthly Housing Insight reports show the statewide median price at \$330,000 in both November and December 2025, compared with \$340,000 in March 2025, reinforcing the view that prices drifted lower over the course of the year. That pattern points to a market that had shifted toward more balanced conditions as higher mortgage rates, affordability constraints, and increased inventory reduced seller pricing power.

Conditions varied significantly across Texas metros. Texas REALTORS® reported that median prices rose in 14 metros, fell in nine, and were unchanged in two during 2025, but the four largest markets all recorded declines, which pulled down the statewide median. Earlier TRERC reporting had already shown some of the sharper weakness concentrated in larger markets such as Austin, Dallas-Plano-Irving, and San Antonio, while other smaller or slower-appreciating markets continued to post gains. This divergence indicates that the statewide decline was driven primarily by corrections in previously high-growth markets rather than broad-based weakness across all regions.

Relative to the national market, Texas home prices remained well below U.S. levels and softened more visibly. Inventory and market-balance indicators also suggest Texas became less seller-driven during 2025. Texas REALTORS® said active listings increased 23.1% statewide in 2025 and months of inventory averaged 4.6 months, up by half a month from 2024. In short, Texas ended 2025 with greater housing supply and increased buyer choice, along with flatter pricing than the nation overall—conditions consistent with a housing market that was cooling but stabilizing rather than sharply weakening.

Source: Texas REALTORS® and Texas Real Estate Research Center

## U.S. Building/Construction

U.S. construction conditions in 4Q2025 were mixed but generally stabilizing, with cost escalation moderating from earlier peaks even as several important pressure points remained in place. Mortenson reported that national nonresidential construction costs rose 1.05% quarter over quarter and 7.35% year over year in 4Q2025, indicating that pricing was still increasing but at a more measured pace than during the industry's most inflationary period. Materials and labor both continued to push costs higher, with materials tracking up 1.9% for the quarter and labor costs up 5.6% year over year. Supply-chain conditions also improved, but not uniformly: transportation costs and many lead times became more manageable, while metals pricing, tariffs, and long-lead electrical and power-distribution equipment continued to affect project budgets and schedules, particularly for data centers and advanced manufacturing facilities.

Market activity remained uneven across major construction segments. FMI Corporation's fourth-quarter outlook said total U.S. engineering and construction spending was expected to decline 1% in 2025 after rebounding in 2024, reflecting late-cycle conditions rather than broad-based contraction. Residential construction remained under the most pressure from high borrowing costs and affordability constraints, while consumer-sensitive areas such as retail and lodging were also weaker. By contrast, infrastructure and select institutional categories continued to provide steadier support, and nonresidential demand was increasingly concentrated in specialized project types such as data centers, power-related work, healthcare, water/sewer, and some public-sector categories. Associated Builders and Contractors (ABC) December 2025 backlog data reinforced that split: overall backlog edged up to 8.2 months, but gains were concentrated among larger contractors, while smaller firms saw sharper declines; contractors tied to data center projects carried

substantially higher backlog than firms without that exposure.

Labor availability remained one of the industry's clearest constraints heading into 2026, and it continued to shape contractor sentiment, project delivery, and technology adoption. The Associated General Contractors of America (AGC) reported persistent labor shortages across much of the industry, especially in skilled trades, while DPR Construction likewise described widespread labor shortages, skill gaps, and policy-related workforce concerns. These constraints have accelerated industry adoption of productivity tools, modular methods, prefabrication, and AI-enabled workflows. DPR's 4Q2025 report highlighted faster permitting and policy support for AI-related infrastructure, growing demand tied to data centers, and broader interest in AI for scheduling, safety, design coordination, and workflow improvement. Overall, the 4Q2025 construction outlook was best characterized as stable but constrained: cost pressures were more predictable, supply chains were more resilient, and backlog remained healthy in select niches, but labor shortages, financing pressure, tariff uncertainty, and highly uneven sector demand continued to limit broader momentum.

Source: FMI Corporation/AGC/DPR Construction/ABC

### U.S. Total Nonfarm Employment Growth

U.S. total nonfarm payroll employment increased by 256,000 jobs in December 2025, according to the BLS, while the national unemployment rate edged down to 4.1% from 4.2% in November. December job growth accelerated from the prior month and exceeded the average monthly gain recorded during much of 2025, suggesting labor demand strengthened modestly at year-end despite broader evidence of a cooling labor market. The strongest payroll gains occurred in health care, government, and social assistance, while employment was little changed in most other major industries. No major broad-based sector losses were reported, though several cyclical industries continued

to show limited hiring momentum relative to prior-year trends.

Even with the stronger December payroll reading, broader labor market conditions remained more moderate than a year earlier. Hiring gains were increasingly concentrated in a narrower set of service-oriented sectors, while other industries—including manufacturing and portions of the private goods-producing economy—showed weaker momentum. The unemployment rate's decline alongside stronger payroll growth suggested labor demand remained sufficient to absorb available workers at year-end, though the labor market was clearly less robust than during the rapid expansion period of 2022–2023. Overall, December 2025 employment data indicated a labor market that remained stable but was easing, as strength in select sectors helped offset softer hiring conditions across the broader economy.

Source: U.S. Bureau of Labor Statistics

### Texas Total Nonfarm Employment Growth

During 4Q2025, Texas employers added jobs at a slower but still positive pace, reflecting continued labor market expansion despite broader economic moderation. According to the Texas Workforce Commission (TWC), total nonfarm employment reached 15,028,900 in December 2025, an increase of 132,500 jobs from the prior year, representing 0.9% annual growth. Texas continued to lead the nation in annual job creation by absolute number, though the pace of expansion slowed notably from the stronger growth rates recorded in prior years. On a month-over-month basis, payrolls increased modestly, indicating employers continued to hire even as economic momentum cooled.

Job growth remained positive but was concentrated in select industries rather than broadly distributed across the economy. The largest annual gains occurred in private education and health services, government, and construction, while more cyclical sectors—including parts of manufacturing and

energy-related industries—experienced weaker or relatively flat growth.

Construction remained supported by infrastructure and population-driven development activity, helping offset softness in more interest-rate-sensitive segments of the economy. Energy-sector hiring also appeared restrained, consistent with weaker oil and gas activity reported elsewhere in the quarter.

Taken together, December 2025 employment figures suggested Texas’s labor market was still expanding

but moderating, with job growth increasingly concentrated in service-oriented and public-sector categories rather than broad-based across all industries. While statewide employment continued to reach record levels, the slower pace of annual growth indicated hiring demand had become more measured as employers responded to softer economic conditions and increased uncertainty entering 2026.

Source: Texas Workforce Commission