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# TEXAS *ECONOMIC* OUTLOOK



TEXAS A&M UNIVERSITY  
Texas Real Estate Research Center

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## U.S. ECONOMIC OVERVIEW

U.S. Unemployment Rate

**- 4.3%**

U.S. Average Hourly Wage

**- 3.7%**

U.S. Consumer Price Index

**- 2.4%**

U.S. Total Nonfarm Employment

**+ 130,000 JOBS**

The U.S. economy showed broader signs of strength in January as labor markets rebounded. Strong economic growth in recent quarters, despite weakness in the labor market, had created uncertainty as to how the economy would evolve. Since economic growth and job growth typically grow proportionately, the ideal outcome would be that job growth would recover rather than economic growth declining. The January jobs report gave an early indication that the economy might progress with strong economic and labor market growth.

The U.S. economy added 130,000 jobs, largely exceeding expectations. Job gains in 2025 were revised downward, but the trajectory of job growth indicates labor market recovery. The unemployment rate fell to 4.3 percent, showing two consecutive months of decline since reaching a peak of 4.5 percent in November. Job gains and consumer spending have been largely concentrated in the healthcare sector.

The improvement in job growth follows several months of improvements in business sentiment. Several surveys, including data from the National Federation of Independent Businesses and the Federal Reserve Banks of Atlanta and Dallas had indicated an improvement in planned hiring, which has appeared to begin materializing in the labor markets. The surveys continue to show strength in the hiring outlook.

The Federal Reserve (Fed) met in January and kept its key short-term interest rate fixed between 3.5 and 3.75 percent. Moreover, the Fed continues offloading long-term assets from its balance sheet, likely contributing to heightened long-term interest rates, including mortgage rates. The 10-year Treasury yield increased 8 basis points from 4.18 percent to 4.26 percent in January. It remains a critical benchmark for long-term interest rates, including mortgage rates.

# STORIES WE'RE FOLLOWING

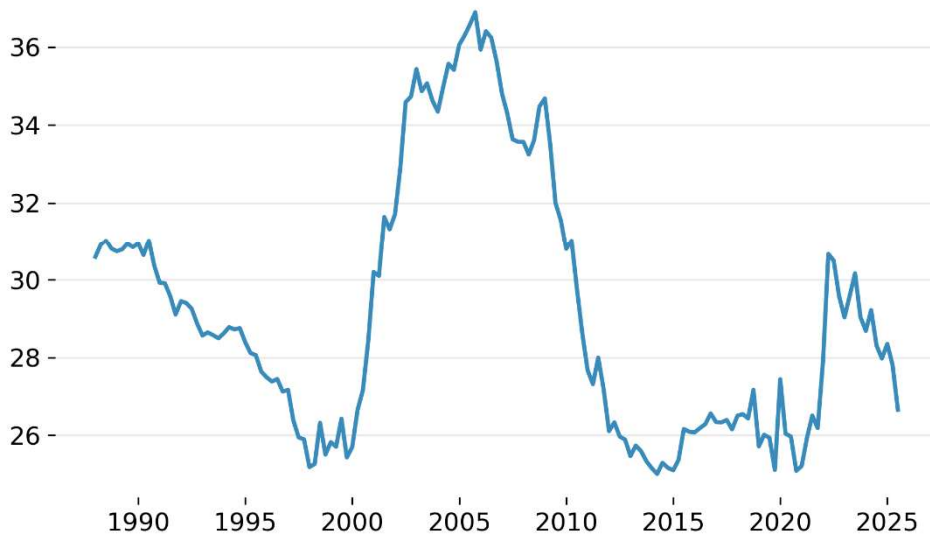
## Residential Real Estate Valuations

- *The issue:* The aggregate share of residential real estate values, relative to total household net worth, grew significantly in the years preceding the Great Financial Crisis (GFC) of 2008-09. It stabilized around 26 percent in the five years leading up to the pandemic. The share had also appeared to stabilize around 26 percent briefly in the late 1990s before the pre-GFC surge in the early 2000s. The gravitation of the U.S. asset market toward this value outside of business cycle fluctuations potentially indicates where the market will settle as the current post-pandemic business cycle expansion matures.
- *Updates:* In the aftermath of the pandemic, significant fiscal and monetary stimulus impacted the real estate market, contributing to a surge in home valuations. Now, six years following the start of the pandemic, heightened interest rates from monetary austerity and a slowing economy have decelerated home price increases, causing the relative valuations to fall back toward the pre-pandemic stable share of 26 percent of aggregate net worth. While there's no assurance that valuations will stabilize at that value, it could indicate a normalization, after which home prices and other asset prices might grow more proportionately.

Figure 1

### RESIDENTIAL REAL ESTATE AS SHARE OF NET WORTH NORMALIZES

Percent



**Source:** Federal Reserve Bank of Atlanta, accessed via FRED

## Federal Reserve Policy

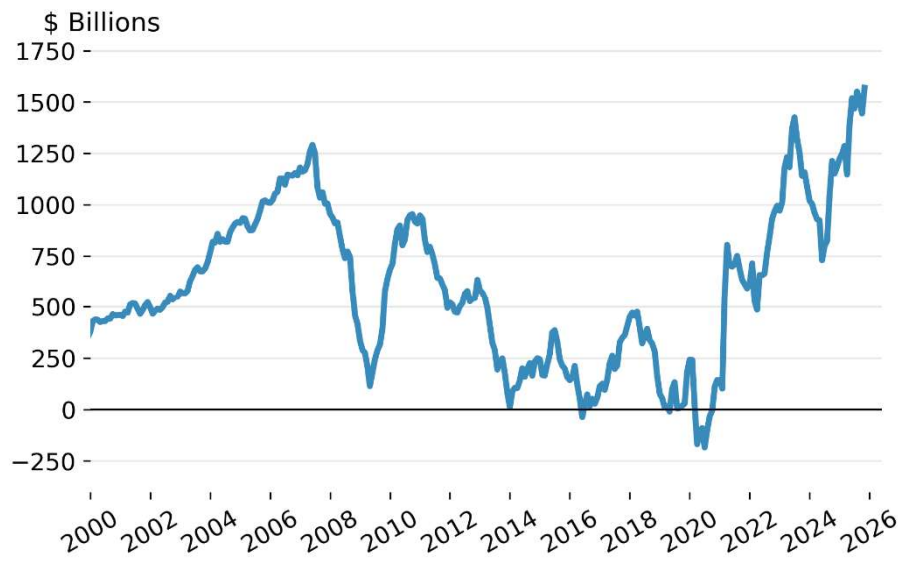
- *The issue:* The Fed is tasked with achieving a dual mandate of price stability and full employment. Persistent inflation and labor market weakness have created tension between the central bank's goals. As part of its broader balance sheet operations, the Fed also buys and sells long-term private and government debt. Its divestment in mortgage-backed securities (MBS) has placed upward pressure on mortgage rates, which could continue for as long as the Fed maintains this policy.
- *Updates:* The Fed's monetary policy committee voted to keep its target short-term interest rate unchanged at 3.5 percent to 3.75 percent during its January meeting. The Fed also made no changes to its balance sheet policy, where it has been slowly shrinking its holdings of MBS and other long-term Treasury securities. As Fed chairman Jerome Powell's term comes to an end, President Trump nominated Kevin Warsh as Powell's replacement. Warsh has expressed a strong interest in reducing the Fed's balance sheet, although it remains unclear whether he might support accelerating the Fed's current rate of balance sheet reduction.

## International Capital Markets

- *The issue:* The U.S. is largely a net recipient of international investment, allowing businesses, homebuyers, governments, and other borrowers access to capital with more favorable interest rates. At the onset of the global trade war in April 2025, the possibility of disruptions in global capital flows, as foreign investors reassessed U.S. investment risk, raised concerns that interest rates might increase. A redirection of foreign capital flows could significantly raise the cost of capital, reducing the value of underlying assets, including businesses and real estate. Early assessments discussed in the September *Texas Economic Outlook* report indicated sustained international investment into long-term U.S. assets.
- *Updates:* Net foreign capital flows into long-term U.S. assets have continued growing since last discussed in September 2025, showing that international investors remain undeterred by the global trade war or other geopolitical events. As we approach the one-year anniversary of the global trade war in April 2026, foreign investment in U.S. assets remains a critical gauge of domestic capital markets, considering potential international reallocation of resources over the past year.

Figure 2

## NET FOREIGN INVESTMENTS CONTINUE CLIMBING



**Notes:** Net foreign investments in long-term U.S. assets. 12-month rolling sum.

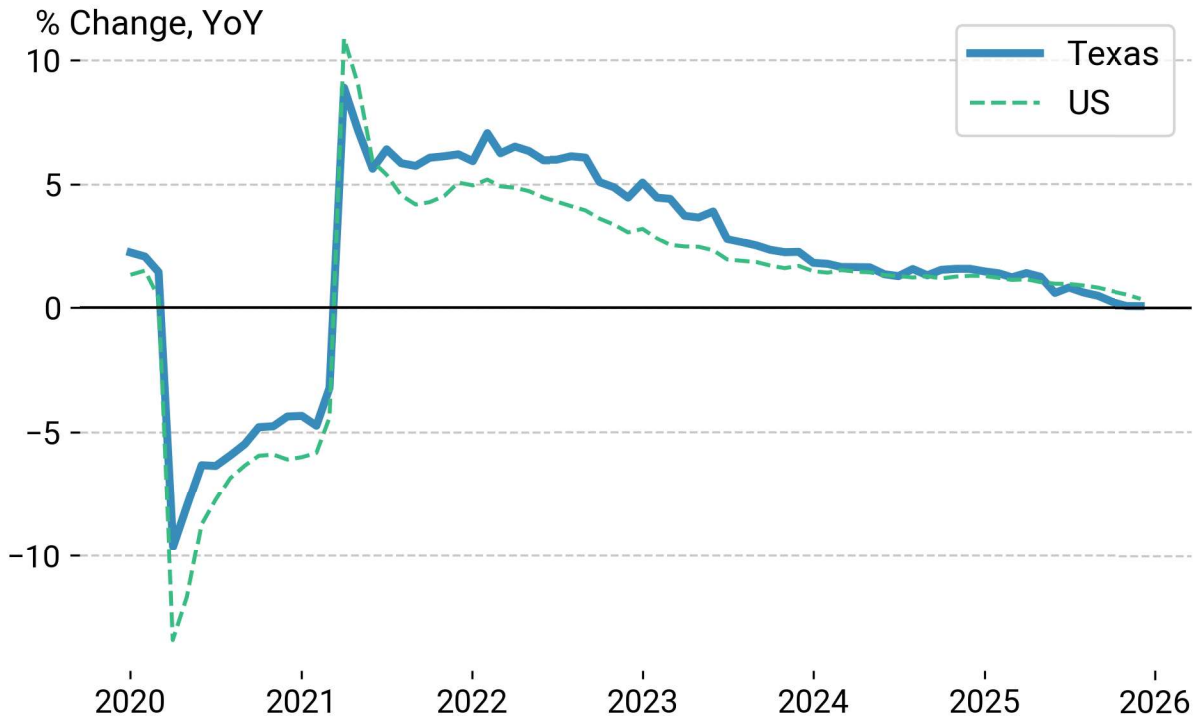
**Source:** U.S. Department of the Treasury, Treasury International Capital

# TEXAS ECONOMIC INDICATORS

The December labor market data showed continued weakness in Texas as year-over-year (YoY) job growth remained below the national average (Figure 3).<sup>1</sup> Month-over-month (MoM) job growth, however, recovered in December, and business sentiment data continues showing signs of optimism.

Figure 3

## U.S. AND TEXAS EMPLOYMENT GROWTH, DECEMBER 2025



Sources: U.S. Bureau of Labor Statistics and the Federal Reserve Bank of Dallas

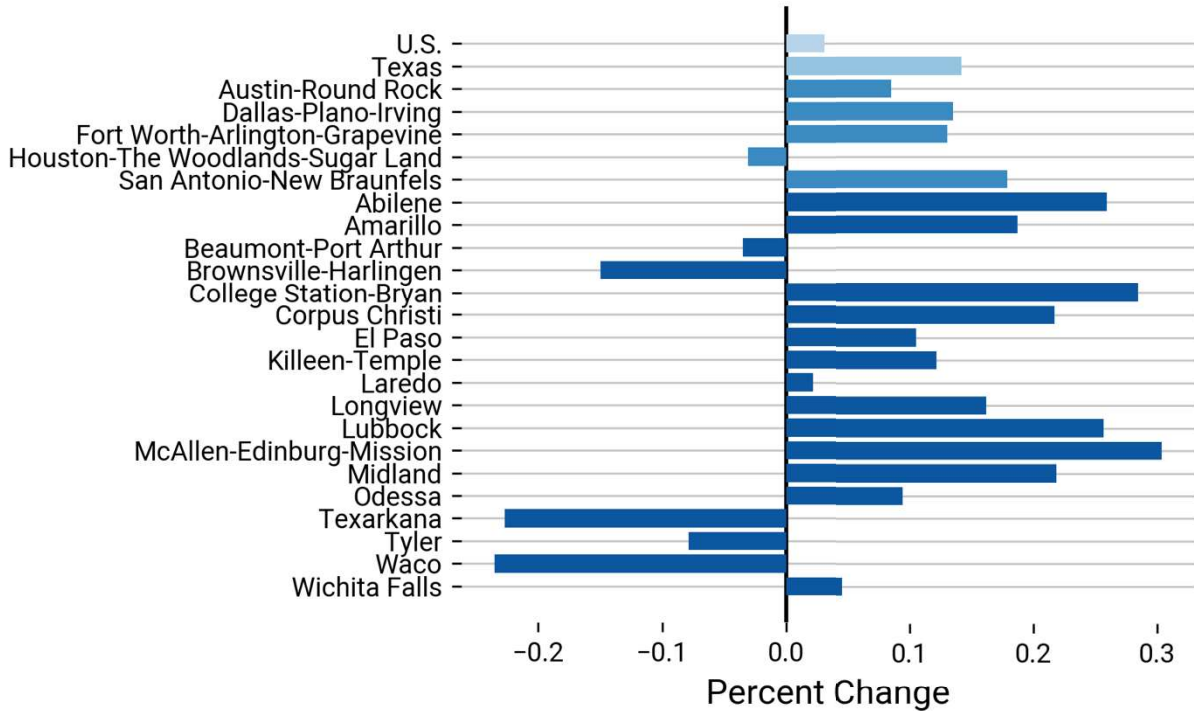
## Employment

The December jobs report showed signs of recovery in Texas, while the broader U.S. grew only slightly (Figure 4). Of the large metropolitan areas, only the Houston area experienced a small loss, while the remaining areas experienced healthy growth. Several other metropolitan areas throughout the states showed signs of recovery, though all labor market changes remained narrow.

<sup>1</sup> State and local labor market data provided in this report lags the national statistics by one month.

Figure 4

## REGIONAL EMPLOYMENT GROWTH, DECEMBER 2025



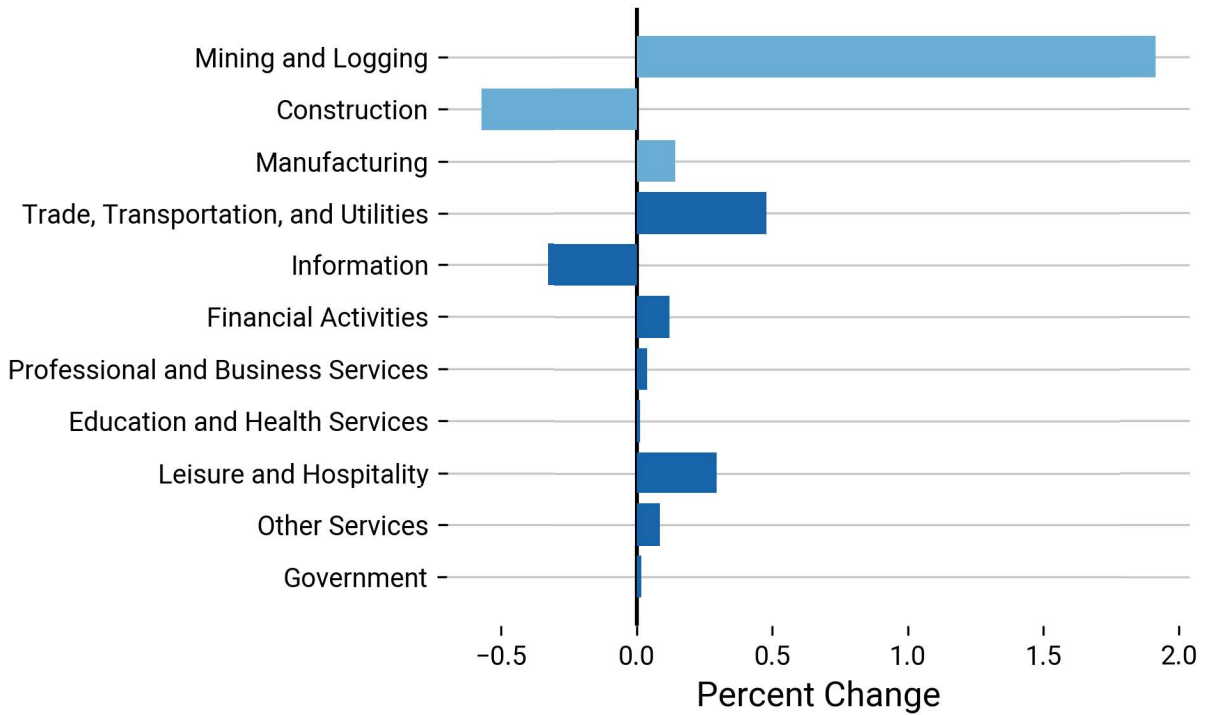
**Notes:** U.S., Texas, major metropolitan areas, and other metropolitan areas are each shown in different shades of blue.

**Source:** U.S. Bureau of Labor Statistics and the Federal Reserve Bank of Dallas

The December jobs report showed a strong rebound in the Texas Mining and Logging sector, likely reflecting labor market volatility driven by oil prices (Figure 5). Construction and information experienced losses in December, while the remaining sectors experienced gains.

Figure 5

## TEXAS INDUSTRIAL EMPLOYMENT GROWTH, DECEMBER 2025



**Notes:** Goods-producing and service-providing industries are shown in different shades of blue.

**Source:** U.S. Bureau of Labor Statistics and the Federal Reserve Bank of Dallas

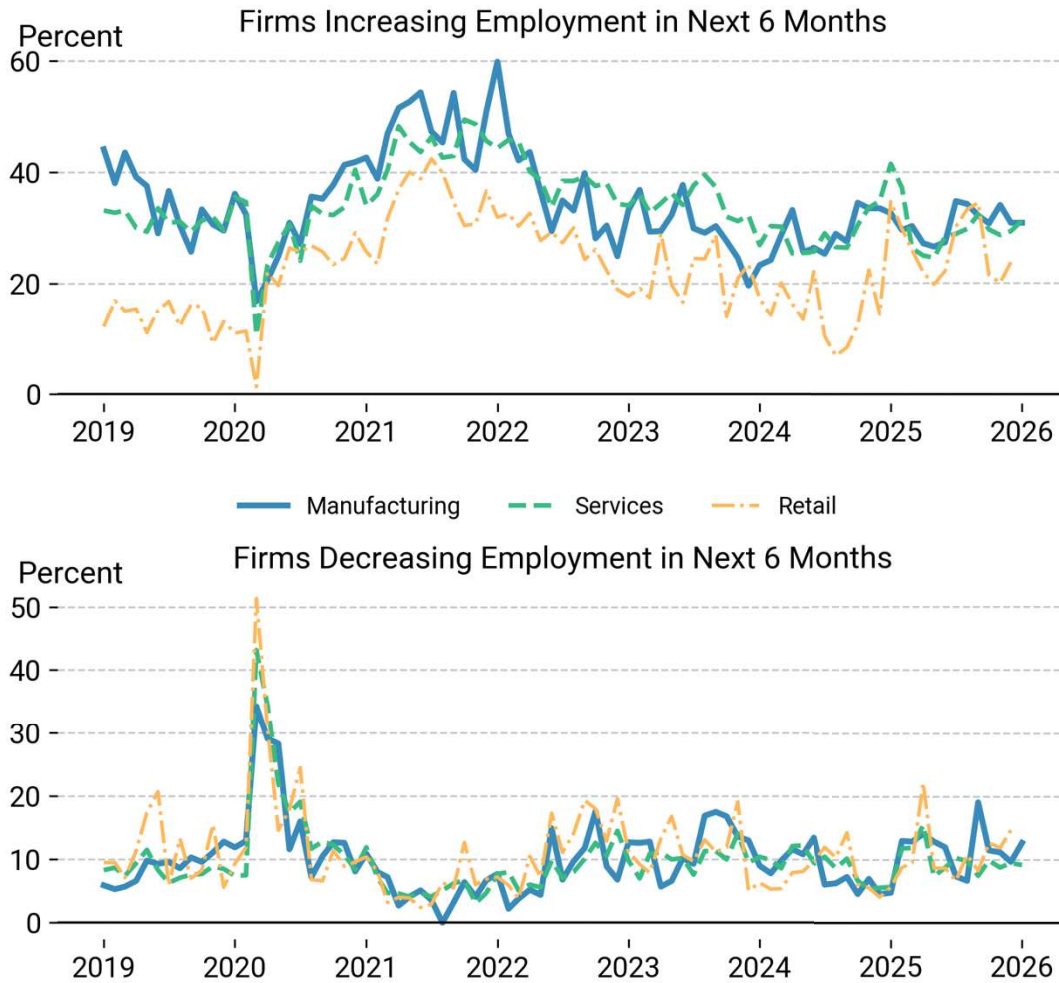
### Employment Outlook

The share of Texas firms planning to hire in the next six months ticked up in services and retail while dipping slightly in the manufacturing sector (Figure 6). Manufacturing and services are still trending upward since the steep decline in early 2025, but the retail employment outlook remains low, despite the uptick. The number of firms planning to decrease employment dipped in manufacturing, while increasing in retail and services.

The hiring outlook survey remains a critical early indicator of the Texas labor market outlook.

Figure 6

### TEXAS EMPLOYMENT OUTLOOK, JANUARY 2026



**Notes:** Share of Texas firms planning to increase (top) or decrease (bottom) employment in the next 6 months, by major sector.

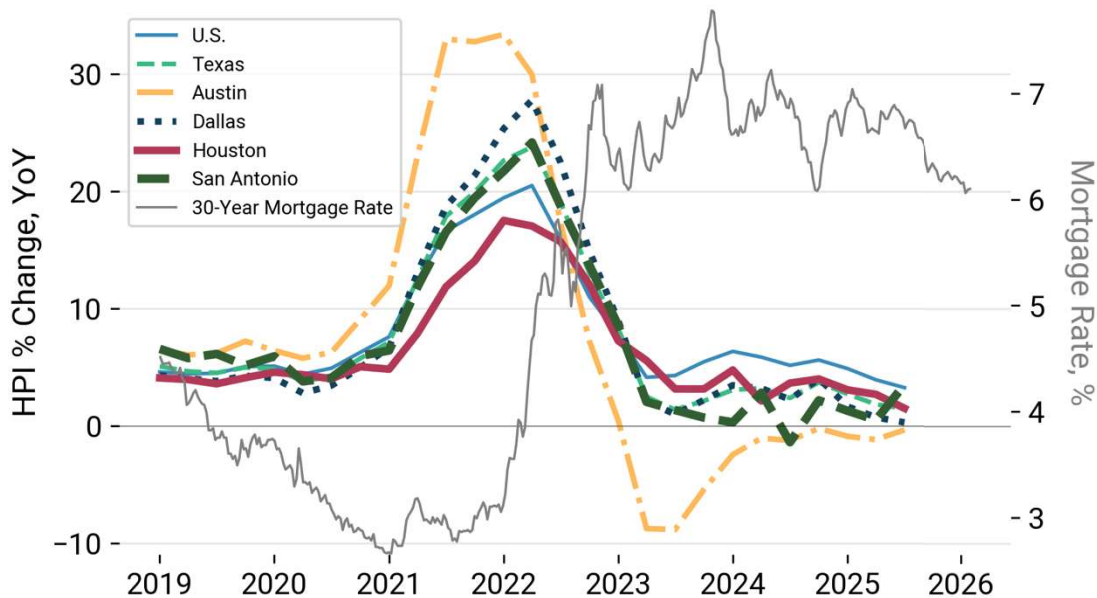
**Source:** Federal Reserve Bank of Dallas

## Housing and Mortgage Rates

Mortgage rates declined in January as rates fell 5 basis points from 6.15 percent to 6.10 percent (Figure 7). Overall, mortgage rates have trended downward in recent months. Still, mortgage rates remain elevated, well above pre-pandemic lows, creating a headwind in the residential real estate market.

Figure 7

### HOME PRICE GROWTH AND MORTGAGE RATES THROUGH JANUARY 2026



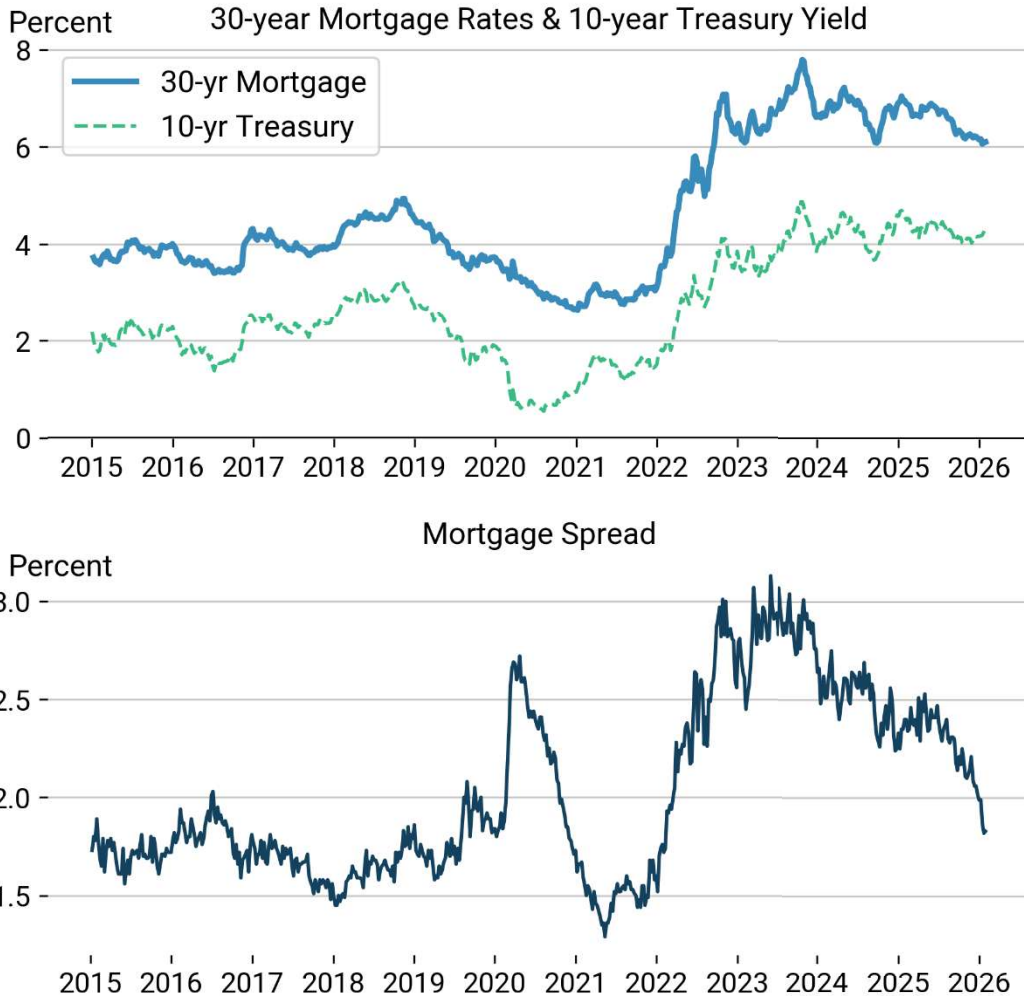
**Notes:** Home price index data is provided through 3Q2025, and mortgage rate data is provided through the end of January.

**Sources:** FHFA and Freddie Mac, accessed via FRED

The mortgage spread (Figure 8), defined as the premium of mortgage rates over the 10-year Treasury yield, continued a steep decline, falling 13 basis points from 199 to 186 (i.e., from 1.99 percentage points to 1.86 percentage points). The mortgage spread, which provides useful context of mortgage rates in broader capital markets, has been steeply falling toward its historical range of 150-175 basis points. This suggests that as capital markets normalize, mortgage rates could be nearing a stable spread over the 10-year Treasury yield.

Figure 8

## INTEREST RATES AND THE MORTGAGE SPREAD, JANUARY UPDATE



**Notes:** The mortgage spread is defined as the 30-year mortgage rate minus 10-year Treasury yield. Its typical range is 1.5 percent to 1.75 percent (150 to 175 basis points).

**Sources:** Freddie Mac, Board of Governors of the Federal Reserve, and author's calculations; data accessed via FRED

For more information on the Texas housing outlook, read TRERC's monthly [Texas Housing Insight](#) report.

