Citizens National Bank

Quarterly Report

09.30.25

Economy

The Fed – Beige Book – October 15, 2025
Federal Reserve Bank of Dallas

Summary of Economic Activity
Economic activity in the Eleventh District was little changed over the reporting period. Growth in the manufacturing sector slowed to a modest pace, and activity contracted slightly in nonfinancial services. Retail sales fell. Housing market activity remained weak, and drilling activity and oil production were flat. Loan volume and demand rose modestly. Employment fell, and wage growth was modest. Price pressures were elevated in manufacturing, but subdued in the service sector, where firms expected selling price increases to accelerate over the next 12 months. Outlooks worsened with weakening demand, domestic policy uncertainty, and inflation cited as primary concerns going forward.

Labor Markets
Employment fell over the reporting period. Staffing firms reported slow activity as firms remained cautious with hiring and professionals were reluctant to switch positions. Head counts dipped further in the energy sector as companies continued to find ways to complete more wells in less time and with fewer people. Homebuilders and nonprofits noted trimming head counts. Overall, wage growth was modest. Firms expect wage growth to slow to 3.4 percent over the next 12 months, down from 3.8 percent over the past 12 months.

Prices
Selling prices increased slightly overall, while rising more sharply in the manufacturing sector due to the widespread impact of tariffs. A computer manufacturer reported that U.S. customs was applying steel and aluminum tariffs to products that do not contain these metals and that challenges to these tariffs were taking time to resolve. A professional and business services firm reported that health-care and business insurance premiums were rising faster than revenues. Service firms expect selling price increases to accelerate over the next 12 months, while manufacturing executives expect price growth to remain steady.

Manufacturing
Factory output growth slowed to a modest pace during the reporting period, and new orders dipped. Output growth abated for most durable goods, with machinery and transportation manufacturing being the bright spots. Among nondurables, food manufacturing continued to see strong gains, while chemical production held steady as trade policy and global oversupply put downward pressure on export demand for basic chemicals. Gulf Coast refineries cited a dip in production levels stemming from seasonality and unplanned outages. Contacts noted that steady global demand amid ongoing refinery closures and unplanned outages in Russia and Iran had propped up margins for refined products over the summer, especially for diesel and jet fuel. Perceptions of broader business conditions worsened in manufacturing as slowing demand, inflation, and domestic policy uncertainty continued to weigh on outlooks.

Retail Sales
Retail sales fell during the reporting period. Building material and garden equipment, furniture, and electronic and appliance stores saw lower sales, while health care and food and beverage retailers reported flat to slight increases in activity. Auto dealers reported weak sales and tighter margins due to higher costs. Overall retail inventories remained steady. Outlooks were pessimistic and tariffs appeared to be one of the primary drivers of uncertainty among contacts.

Nonfinancial Services
Activity in nonfinancial services contracted slightly during the reporting period. A pickup was seen in professional and business services and transportation and warehousing, while health care, information, and leisure and hospitality exhibited weakness. Port traffic and small parcel shipments volumes rose, according to contacts. Airlines reported broad-based increases in passenger demand, highlighting domestic travel as a source of strength.

Demand for staffing services was stable, and outlooks were optimistic, attributable to clients having unspent budgets for 2025 as they have been holding off on hiring for longer than usual. Service sector outlooks worsened, and uncertainty remained a headwind.

Construction and Real Estate
Housing market activity remained weak. Foot traffic and sales continued to be choppy and lackluster despite the recent dip in mortgage rates. Home inventories fell slightly during the reporting period but remained elevated. Builders noted ongoing reliance on marketing and incentives, including discounting and mortgage rate buydowns, to close deals. Home starts slowed further, and vacant developed lot supply was rising. Outlooks remained pessimistic amid sluggish demand and elevated economic uncertainty.

Commercial real estate activity improved. Apartment demand was steady, but elevated supply of new units has made leasing competitive and kept rental rates under pressure. Office leasing improved, and contacts said there appeared to be more signs of stability. Industrial and retail activity remained solid. Outlooks remained cautious. Firms were signing short-term leases because of heightened uncertainty, and investment sales activity continued to be limited.

Financial Services
Loan volume and demand increased in September. Credit tightening continued, but loan pricing declined. Credit standards and terms eased slightly for residential real estate loans while tightening continued for the remaining loan types. Over the next three months, bankers expect to tighten credit standards for all loan types except residential real estate, which are expected to be unchanged. Overall loan performance deteriorated slightly; however, loan performance for commercial real estate sharply improved. Bankers reported stable general business activity. Bankers' outlooks are mixed. Survey respondents expect an acceleration in loan demand and increasing business activity six months from now but a moderate deterioration in loan performance.

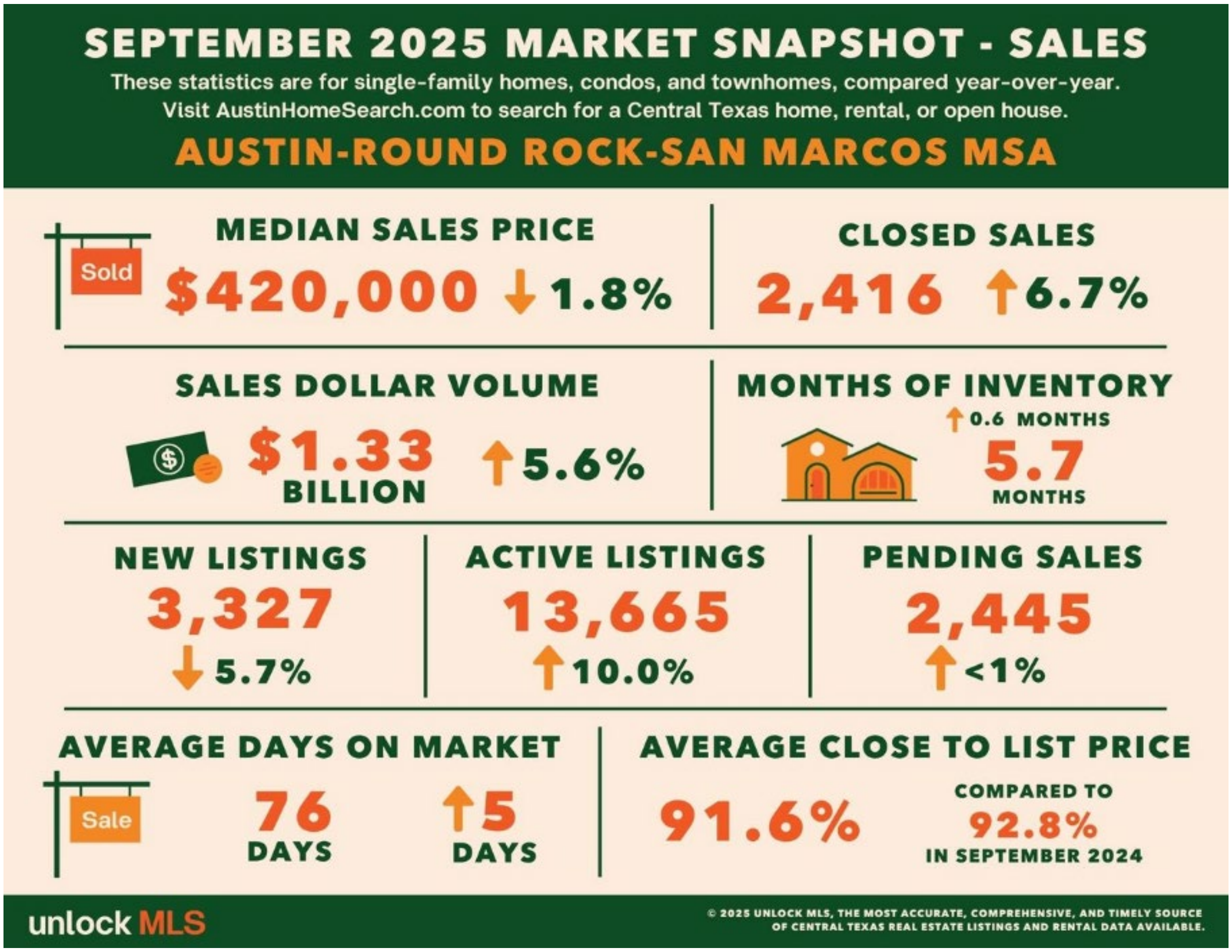
Energy
Drilling and well completion activity was flat over the past six weeks. Producers remained concerned about low oil prices, and reiterated that without a material increase in prices, U.S. crude production would erode in 2026. Breakeven costs for wells were rising due to increases in input costs. An oil field service contact noted there were "a lot of rigs stacked in yards waiting to become spare parts." Several firms noted project delays due to low oil prices and an uncertain policy environment, but pipeline contacts were optimistic about their project pipelines crediting regulatory relief and favorable tax policies.

Agriculture
Growing conditions remained favorable overall. Harvest was wrapping up for spring row crops, with production and yields generally coming in strong. Many cotton growers were expecting their best harvest in three to four years, a positive development for them and downstream industries like warehouses, ginning, and transportation. However, cotton and grain prices remain sub-profitable in many cases. A contact said government price support programs and crop insurance were important safety nets in this environment. Cattle prices stayed high, with demand remaining strong and supply continuing to be constrained by the suspension of cattle imports from Mexico in response to the spread of New World screwworm there. Agriculture outlooks are weighed down by the increased likelihood of a La Niña climate pattern this winter, which typically brings warmer, dryer weather.

Community Perspectives
Nonprofits continue to see elevated demand for a broad range of social services. Food and utility assistance remained key needs, while demand for rental and housing assistance increased. One contact noted that evictions were on the rise. Underemployment was an emerging issue. Funding remains a concern for nonprofits, and some are exploring alternate revenue streams. An agriculture nonprofit noted recording live webinars to expand its eLearning offerings and plans to charge a nominal fee for access. Likewise, a large nonprofit organization is selling high-value products on an e-commerce site, allowing it to reach more consumers than their brick-and-mortar stores.

Housing / Construction & Demographics

September 2025 Central Texas Housing Market Report:



AUSTIN, Texas — According to the September Central Texas Housing Report released by Unlock MLS, closed sales rose 6.7% year over year to 2,416 sales in the Austin-Round Rock-San Marcos MSA, ending the third quarter with its strongest sales growth of 2025. Coupled with a 1.8% decrease in the median sales price to $420,000, the data reflects sustained activity through late summer and early fall, pointing to renewed buyer confidence and continued market balance as prices follow typical seasonality.

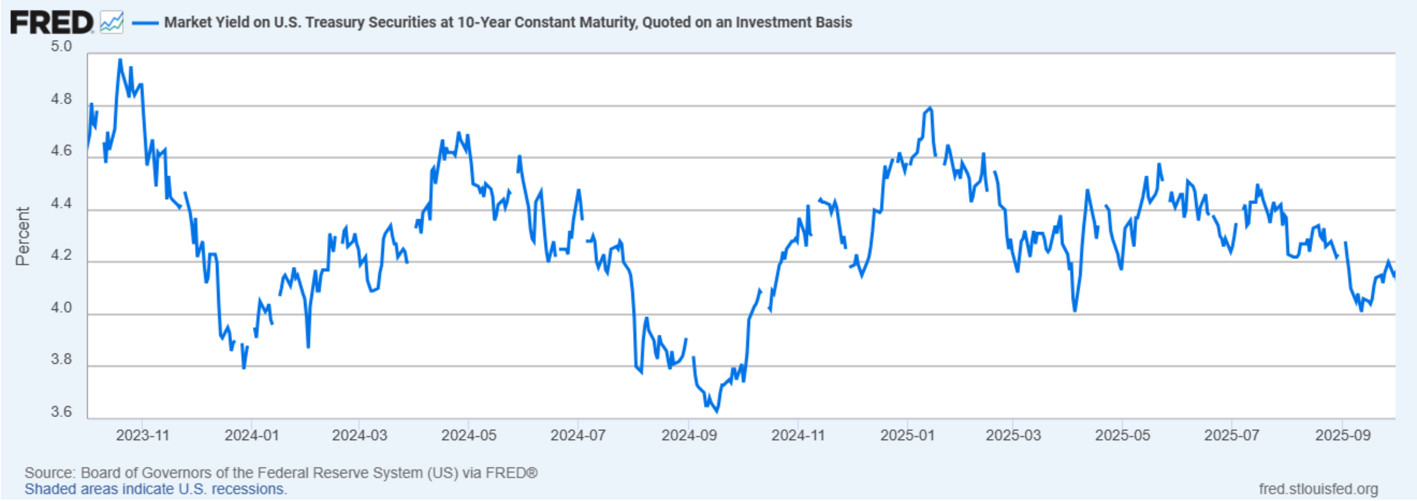
Vaike O'Grady, research advisor at Unlock MLS, mentioned that September's data reflects a stable market that continues to align with expectations.

"The numbers we're seeing in September match the trends we expected to see this time of year. As we wrap up the third quarter, the market is mirroring typical seasonality trends, pointing to a sign of continued adjustment and balance. Buyer enthusiasm has picked up slightly as we saw the first interest rate cut in nine months, and steady pricing from sellers continues to support that confidence. What we're seeing in the market now is a healthy level of stability. Homes may be taking a bit longer to sell, but they're still selling, and buyers are meeting sellers where they are. This consistency shows that the market is functioning as it should—steady, sustainable and well-positioned heading into the end of the year."

Source: Unlock MLS: Central Texas housing market posts largest gain in closed sales in 2025

Capital Markets

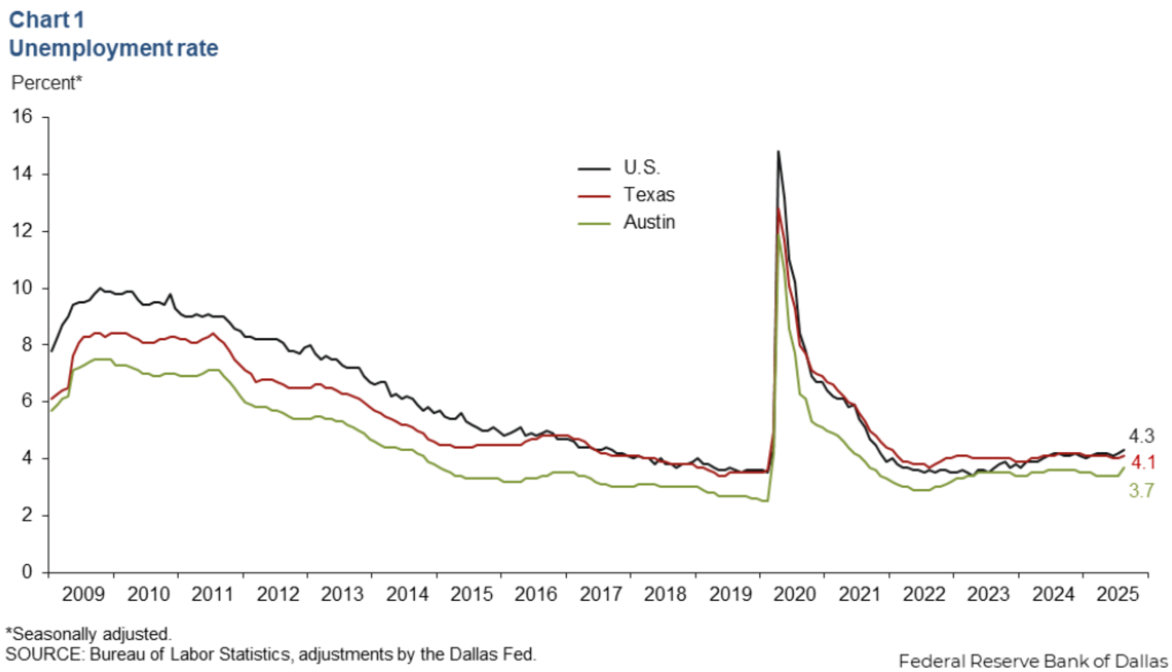
As of 09/30/25 mortgage interest rate levels for conventional, conforming fixed rate 30-year mortgage loans, was 6.375% according to TIB. The U.S. 10 Year Treasury closed at 4.11%. The S&P 500 closed at 6,688.46.



Austin Market

Austin economy dashboard (August 2025)			
Job growth (annualized) May–Aug. '25	Unemployment rate	Avg. hourly earnings	Avg. hourly earnings growth y/y
0.7%	3.7%	$36.41	5.1%

Austin's unemployment rate rose to 3.7 percent in August, below the state rate of 4.1 percent and the national rate of 4.3 percent (Chart 1).



Austin employment increased an annualized 2.2 percent in August, faster than the 1.9 percent increase in July. In the three months ending in August, employment increased an annualized 0.7 percent. The greatest gains were in government (4,400 jobs), education and health services (1,000 jobs), and leisure and hospitality (900 jobs). Sectors that declined include professional and business services (-3,600 jobs) and construction and mining (-800 jobs). Austin's employment grew 1.4 percent from December to August, quicker than Texas, which rose 1.2 percent. National employment rose 0.6 percent.

Sales taxes, the barometer of local economies statewide, are listed below, according to the State Comptroller's Office for the most recent quarter available.

County	Sales Subject to Tax (000's)	% Change from year on year
Bell	1,202,944	1.6%
Williamson	3,444,263	5.7%
Milam	55,014	-6.3%
Lee	66,267	-16.7%
Travis	10,505,135	8.5%

Projects

AUSTIN – Aquila Commercial is developing East Austin Lab, a 1.4-acre mixed-use development at 4927 E Fifth St. The five-story, 180,000-sf development will have lab, office, retail, and restaurant space. It will rise 75 ft and have a three-story parking garage. The ground floor will have lab space, lab loading space and loading zones, three restaurant spaces, a lobby, bike storage, a mailroom and an amenity space.

BASTROP – Zachary Levi is developing Wyldwood Studios, a 75-acre master-planned community centered around film studios. In addition to film studios, the development will have condos, a hotel, restaurants, a health-and-wellness center, and amphitheaters. Phase one will include the construction of 40,000 sf of sound stages, 21,000 sf of creative studios, a 20,000-sf mill, 42 lake-side cabins that will be for sale, a 24-key boutique hotel, a 15,000-sf wellness center with a farm-to-table restaurant, and two hillside amphitheaters on 40 acres. Phase two will focus on the remaining 35 acres, but it is in the design stages. Groundbreaking for the $111 million first phase is expected by the end of the year. The first two sound stages are set to open by August 2027.

TAYLOR – Forterra Developers is planning 100 acres of development adjacent to its Samsung factory project. The development will have 192,000 sf of industrial space and 81,600 sf of flexible office space, a 10,500-sf gas station, 9,000 sf of retail, single-family homes, and a built-to-rent community. The project will be completed by early 2027.

JARRELL – Labatt Food Service LLC is developing a 150,000-sf warehouse and distribution facility. Labatt purchased the 48-acre site along Ronald W. Reagan Blvd. last year. The $42 million project includes building a 16-inch water line and ancillary facilities for landscaping and parking.

HUTTO – Colovore has acquired 30 acres known as the Ironwood Tract at 2351 Innovation Blvd. with plans to develop a data center. The site is part of a 118-acre industrial park being developed by Velocis, Ironwood Realty Partners, and MBK Industrial Properties. Plans for the $500 million project may include a 180,000-sf data center and 13,000 sf of flex office space. The facility will use liquid cooling and closed-loop water systems.

SAN MARCOS – American Ventures LLC is planning a 100-acre mixed-use district at the intersection of East McCarty Ln. and Rattler Rd. The development will have 1,196 multifamily units, 44 townhomes, 84 single-family homes, 120 build-to-rent homes, 16 live-work-play units, a 130-room hotel, and 144,200 sf of office, retail, and grocery space. The $557 million project will be built out in three phases with completion expected by 2031.

GEORGETOWN – Forterra Developers is planning a 722-acre residential development with a hotel and resort. Lakeside Estates will have 1,312 single-family lots with 45-, 50-, 60-, and 70-ft lots, as well as half-acre lots. There will be a 2.7-acre private amenity center for the HOA, as well as 43.4 acres of parkland including trails, parking, sport courts, picnic tables, pavilions, dog parks, and playgrounds. The hotel and resort will sit on 14.6 acres and overlook Lake Georgetown. Construction is expected to start in early 2026.

GEORGETOWN – Columnar Investments is moving forward with Heirloom, a 620-acre community with 3,600 housing units. The $100 million project will have a mix of single-family homes, townhomes and apartments as well as 200,000 sf of commercial space. Construction is expected to begin in 2026, and buildout is estimated to take 10 years.

FIGURES | AUSTIN OFFICE | Q3 2025

Office development pipeline reaches lowest level in over a decade

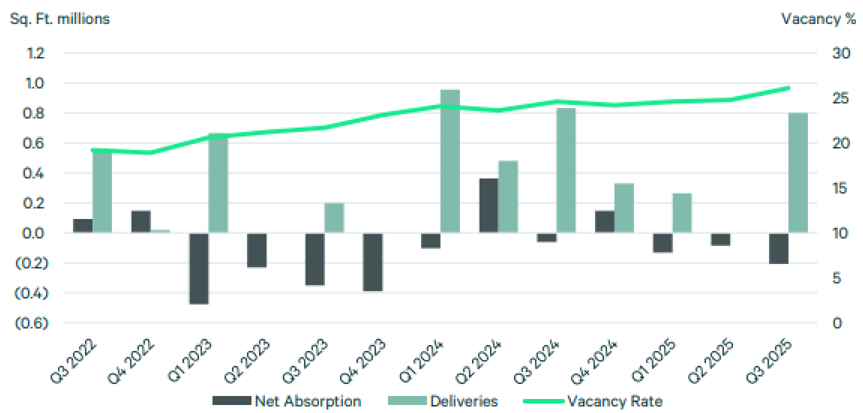
26.1%	(207,559)	800,987	998,438	$48.87
Vacancy Rate	SF Net Absorption	SF Construction Delivered	SF Under Construction	FSG/YR Direct Lease Rate

Note: Arrows indicate change from previous quarter.

Key Takeaways

- The Austin office market faced its third consecutive quarter of negative absorption in Q3 2025, recording 207,559 square feet of negative absorption.
- Average gross asking rents across all class types increased by $0.07 per square foot quarter-over-quarter.
- As of September, more than 108 tenants are actively seeking space totaling over 3.52 million square feet. Driving this demand is the technology sector, which is currently pursuing more than 1.5 million square feet of office space across the Austin market.
- In Q3 2025, The Republic was the only office building that completed construction. Located in the CBD, this premier 800,000 square foot project has secured nearly 400,000 square feet of pre-leasing upon delivery.
- In Q3 2025, 85% of leasing activity was captured in Class A buildings, further highlighting the ongoing flight to experience in the Austin office market.

FIGURE 1: Historical Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q3 2025

Industrial

Decline in Q3 ground breakings alleviates pressure on supply-side fundamentals

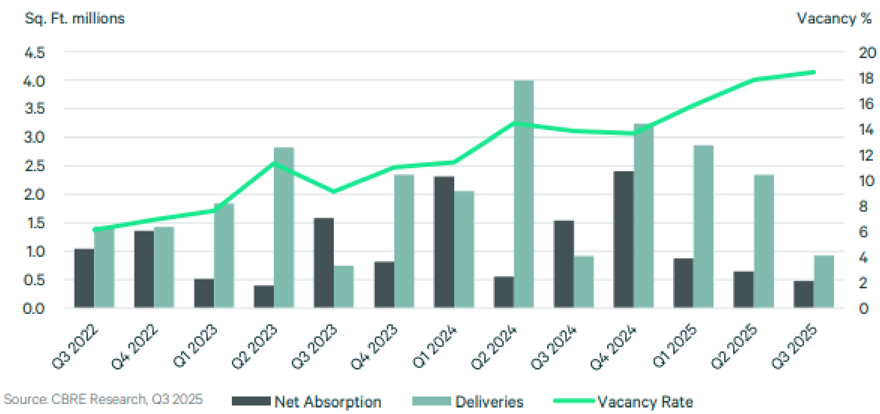
18.4%	475,161	922,082	383,081	7.0M	$14.02
▲ Vacancy Rate	▼ SF Net Absorption	▼ SF Construction Delivered	▼ SF Construction Starts	▼ SF Under Construction	▼ NNN/YR Direct Lease Rate

Note: Arrows indicate change from previous quarter.

Core Insights

- The vacancy rate increased for the third consecutive quarter, perching at 18.4% in Q3 and representing a 1.2% increase quarter-over-quarter.
- Solid positive net absorption of 475,000 sq. ft. marks Q3 2025 as the 45th consecutive quarter for positive net absorption in the Austin industrial market.
- 6.1 million sq. ft. of new construction has delivered year-to-date, with fourteen buildings totaling 922,000 sq. ft. of new inventory added to the market this quarter.
- Q3 2025 construction starts dropped to 385,000 sq. ft., the least ground breakings since Q4 2020. The development pipeline remains robust with 7.0 million sq. ft. under construction.
- NNN/YR asking rents across all class types decreased by $0.07 per sq. ft. quarter-over-quarter.

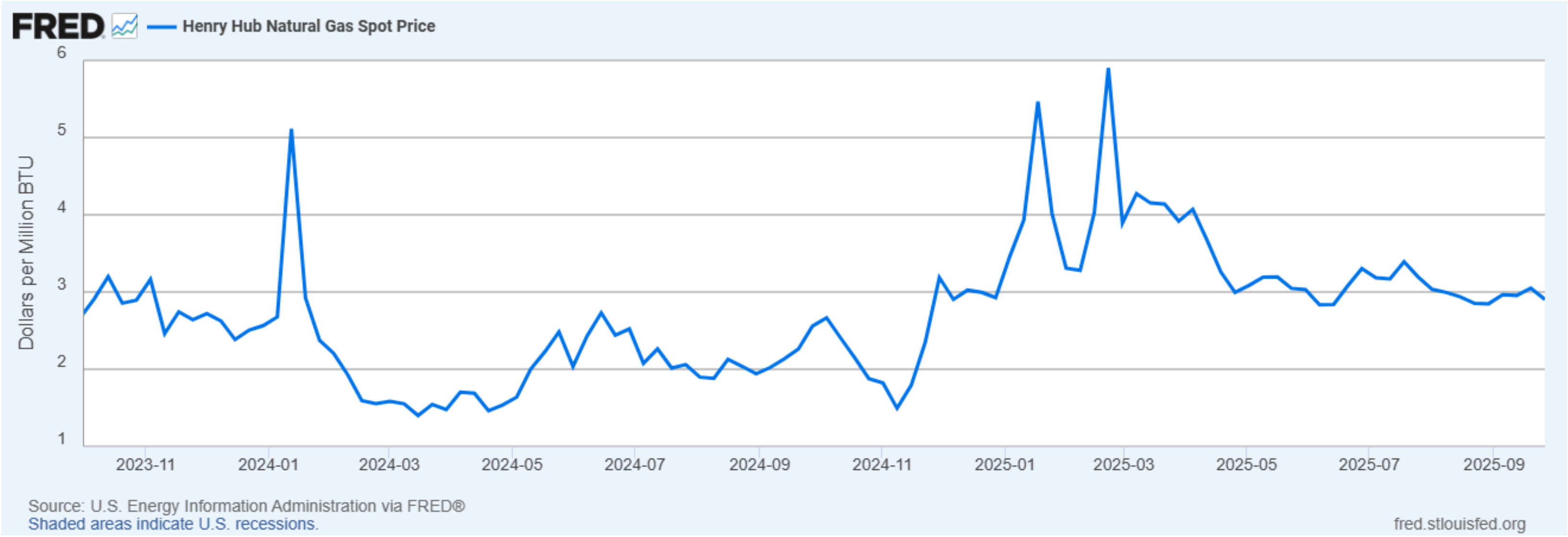
Historical Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q3 2025

*As of Q3 2024, the CBRE Research statistical methodology for Austin has been adjusted to exclude Owner/User industrial properties. As of Q3 2024, the CBRE Research statistical methodology for Austin Industrial has been adjusted to ensure alignment with the market and peer market comparisons. As such, consistent historical/pre-Q3 2024 statistics for new or substantially adjusted submarkets are not available and historical metrics reported for these areas will not sum to historical Austin market totals.

Energy


FRED
Henry Hub Natural Gas Spot Price
Dollars per Million BTU
6
5
4
3
2
1
2023-11
2024-01
2024-03
2024-05
2024-07
2024-09
2024-11
2025-01
2025-03
2025-05
2025-07
2025-09
Source: U.S. Energy Information Administration via FRED®
Shaded areas indicate U.S. recessions.
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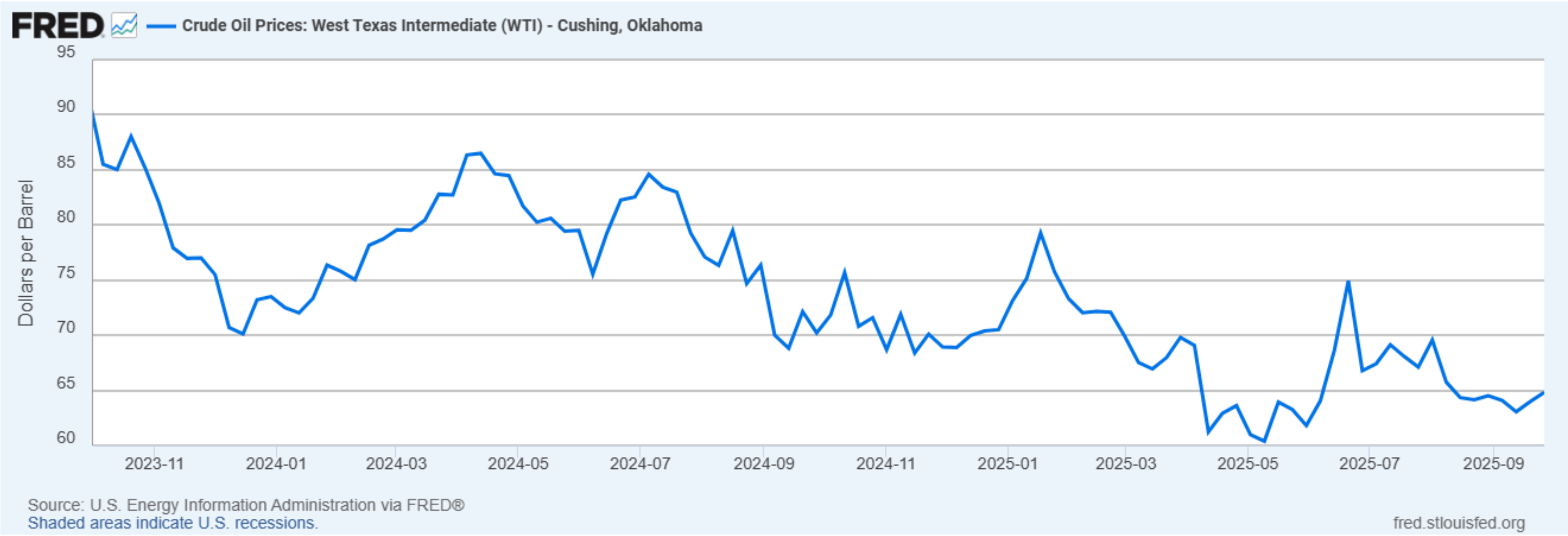
FRED
Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma
Dollars per Barrel
95
90
85
80
75
70
65
60
2023-11
2024-01
2024-03
2024-05
2024-07
2024-09
2024-11
2025-01
2025-03
2025-05
2025-07
2025-09
Source: U.S. Energy Information Administration via FRED®
Shaded areas indicate U.S. recessions.
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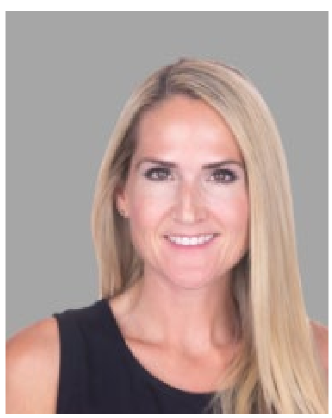

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About Citizens National Bank

We are a $600 million in assets community financial institution and have been proudly serving Central Texas since 1900. That experience is what sets Citizens National Bank apart. A Cameron, TX based financial institution with eight branches across Central Texas including Milam, Lee, Williamson, Travis, and Bell counties. From Cameron to Cedar Park and several towns in between, we know and are active in each of our communities, making us better able to meet the banking needs of the communities we serve. Additional information can be found at cnbanktexas.com.

Contact a lender for a copy of this report.