Citizens National Bank

QUARTERLY REPORT

06.30.26

Your Trusted Financial Partner Since 1900

Economy

The Fed – Beige Book – July 15, 2026
Federal Reserve Bank of Dallas

Summary of Economic Activity
Economic activity in the Eleventh District expanded moderately over the reporting period. Growth picked up in the non-financial services, banking, and energy sectors, but moderated in manufacturing. Retail sales and agricultural conditions improved. The real estate sector was mixed, with sluggish home sales but rising commercial activity. Employment and wage growth strengthened, and price pressures rose. Outlooks were stable to positive, dampened by concern over inflation, the level of demand, and geopolitical and domestic policy uncertainty.

Labor Markets
Employment growth was solid. Staffing firms cited a broad-based increase in demand across sectors and skill levels, with one contact noting that June was their best month since before the pandemic. Finding the right talent remained challenging, partly driven by an aging workforce and reluctance among qualified candidates to switch jobs in an uncertain environment. Oilfield services firms noted increased competition for skilled labor from the power generation and AI industries, and data center developers also said it was challenging to find skilled workers such as electricians and technicians.

Wage growth picked up, particularly in the service sector. A staffing firm making direct hire placements noted raising their fees to the maximum level. There were reports of upward wage pressures stemming from inflation and a shortage of experienced workers. Firms expect wage growth to be 3.5 percent over the next 12 months, up from 3.1 percent in March.

Prices
Price pressures increased over the reporting period, largely driven by higher fuel and freight costs. Some contacts noted that supply-chain issues related to trade policy and to the Middle East conflict prompted raw material price increases, and a restaurant owner noted higher food costs. Data center developers said skilled labor shortages and supply-chain issues were driving up costs for new projects. Input and selling price expectations among Texas businesses surveyed were flat to slightly down in June compared with March, with input prices expected to increase 3.7 percent and selling prices expected to rise 2.8 percent over the next 12 months. Some firms expected falling fuel prices to ease cost pressures, while one noted that a few retailers may use tariff refunds to reduce prices.

Manufacturing
Manufacturing activity growth slowed to a modest pace in June. Output held steady for nondurable goods but grew broadly in durables, buoyed by strength in machinery, transportation equipment, and computer manufacturing. Some contacts noted that trade policy was hindering their ability to conduct business with international partners. Petrochemical producers saw output retreat slightly due to

lower prices and rising Chinese polymer exports. Gulf Coast refiners maintained high output levels amid disrupted global supply chains. Manufacturing outlooks were stable despite uncertainty stemming from inflation, geopolitical tensions, demand concerns, and supply-chain disruptions.

Retail Sales

Retail sales rose over the reporting period, an improvement contacts attributed to consumer resilience that supported purchases despite elevated gasoline prices. Retailers continued to observe divergence in spending patterns, with lower-income households increasingly prioritizing value in their purchases. Auto sales fell in June, which dealerships ascribed to elevated financing costs, high gasoline prices, and low consumer confidence. Outlooks were positive, buoyed by the agreement to reopen the Strait of Hormuz, which has caused gasoline prices to fall and reduced some of the uncertainty about future business conditions.

Nonfinancial Services

Activity in nonfinancial services accelerated in June. Growth was led by health care, and revenues rose in the information, professional and business services, and transportation and warehousing sectors. Transportation services firms reported increased volumes, and airlines said demand rose broadly, despite fare increases. Staffing firms noted an increase in demand for both temporary and direct hire placements. Outlooks improved although concerns regarding inflation, weak demand, and domestic and geopolitical uncertainty continued to dampen sentiment.

Construction and Real Estate

Activity in the housing market remained subdued, with slow and choppy sales and traffic, particularly in outlying areas and those reliant on recent immigrant buyers. The first-time buyer segment remained soft while the move-up segment performed better. Home prices were stable, but builders continued to offer discounts and rate buydowns to attract buyers amid weak demand. New deals are not moving forward due to high lot prices and weak demand, and there were reports of builders walking away from transactions, sometimes forfeiting earnest money. Outlooks remained cautious as builders navigated sluggish demand, elevated input costs, and weak pricing power.

Commercial real estate activity rose further. Apartment absorption remained solid though rent concessions were widespread due to elevated supply. The office market was stable, with consistent demand, and the industrial market saw solid activity. Building activity was mixed. Office, apartment, and retail construction remained subdued, while data center and industrial construction were robust. Data center capacity demand has increased, but new projects are being hindered by limited access to energy, supply chain disruptions, and public pushback.

Financial Services

Loan volume and demand grew notably in June. Volume rose across all loan types except for consumer loan volume which was stable. Credit standards and terms tightened, but loan pricing held steady. Overall loan performance remained the same. Bankers reported expanding general business activity and were more optimistic about the future. Survey respondents expect strong growth in loan demand and business activity with a very slight deterioration in loan performance six months from now.

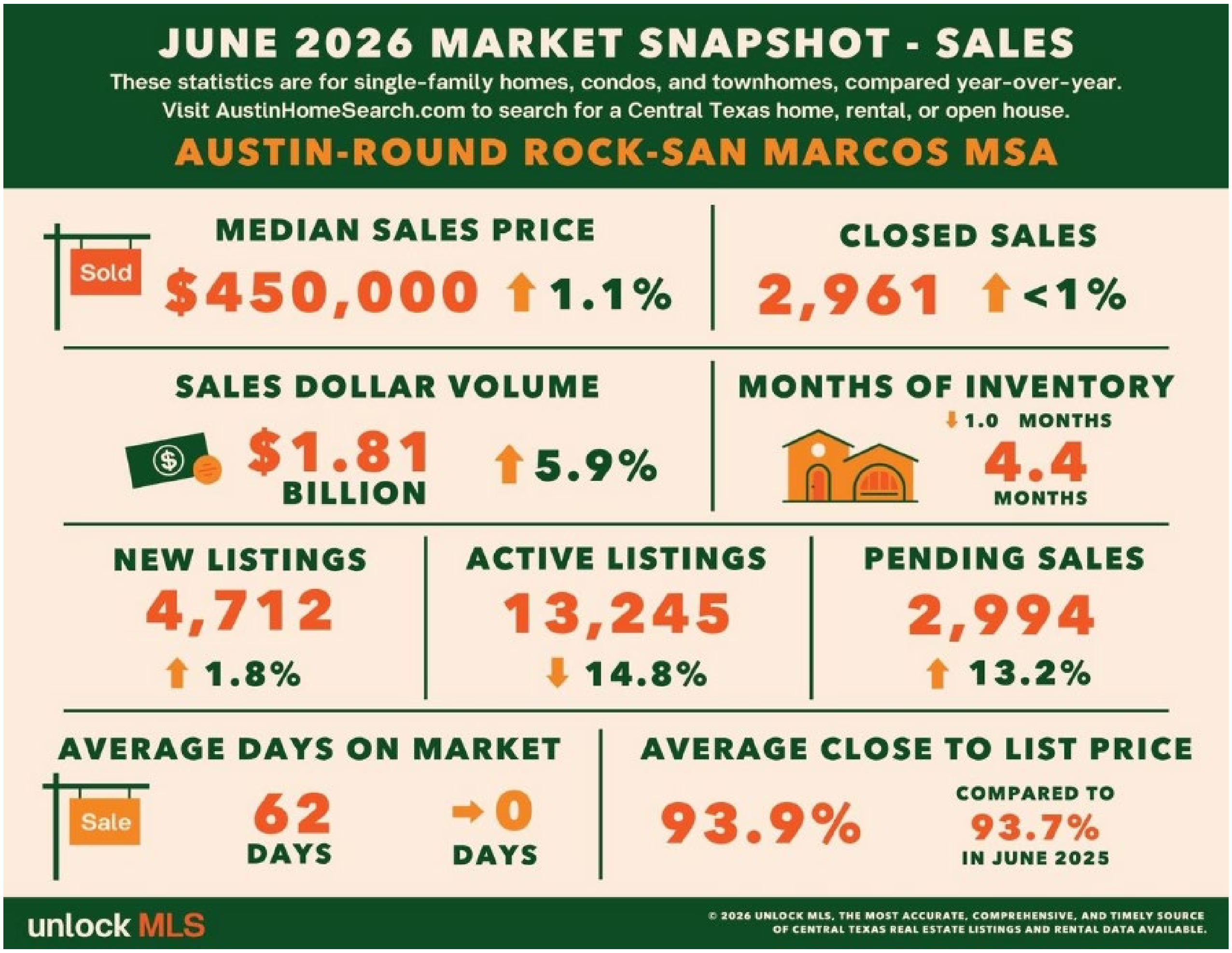
Energy
Eleventh District drilling activity increased during the reporting period. Contacts noted that producers are reacting to higher expected oil prices and timing increases to deliver higher output starting in the fall, when new pipeline capacity for natural gas comes online and alleviates transportation constraints. Oilfield services firms reported mixed pricing for drilling and fracturing services, reflecting improved demand and the passthrough of higher costs for diesel, labor, and other inputs. While near-term sentiment and expectations were broadly more optimistic, multiple contacts noted mounting challenges beyond the 2026 budget cycle regarding electric power supply and water disposal management.

Agriculture
Widespread rainfall improved soil moisture conditions across much of the District, though some areas of drought remain, particularly in the Texas Panhandle. Crop production prospects generally improved thanks to the rain, though elevated input costs continue to create financial stress for farmers. On the livestock side, the New World screwworm remains a key concern, particularly since the first U.S. case was identified in South Texas in early June. More cases have since been identified in Texas and New Mexico, prompting cattle producers in the region to dedicate resources to inspecting their herds.

Community Perspectives
Nonprofits and organizations serving lower-income individuals reported continued high, broad-based demand for assistance, with a notable pickup in service requests from seniors. Housing affordability was a growing concern in areas experiencing new economic development, including data centers. Contacts attributed the issue partly to an influx of workers, as well as to employers willing to subsidize housing costs for their workforce. Cuts in federal and state assistance programs as well as food and fuel cost inflation have prompted low- and moderate-income families to seek additional help. One nonprofit reported that demand for food assistance has surpassed levels experienced during the financial crisis and the pandemic. Some nonprofits reported struggling to fund services, with rising food and fuel costs posing challenges particularly for organizations engaged in food distribution or delivery services.

Housing / Construction & Demographics

June & Mid-Year 2026 Central Texas Housing Report



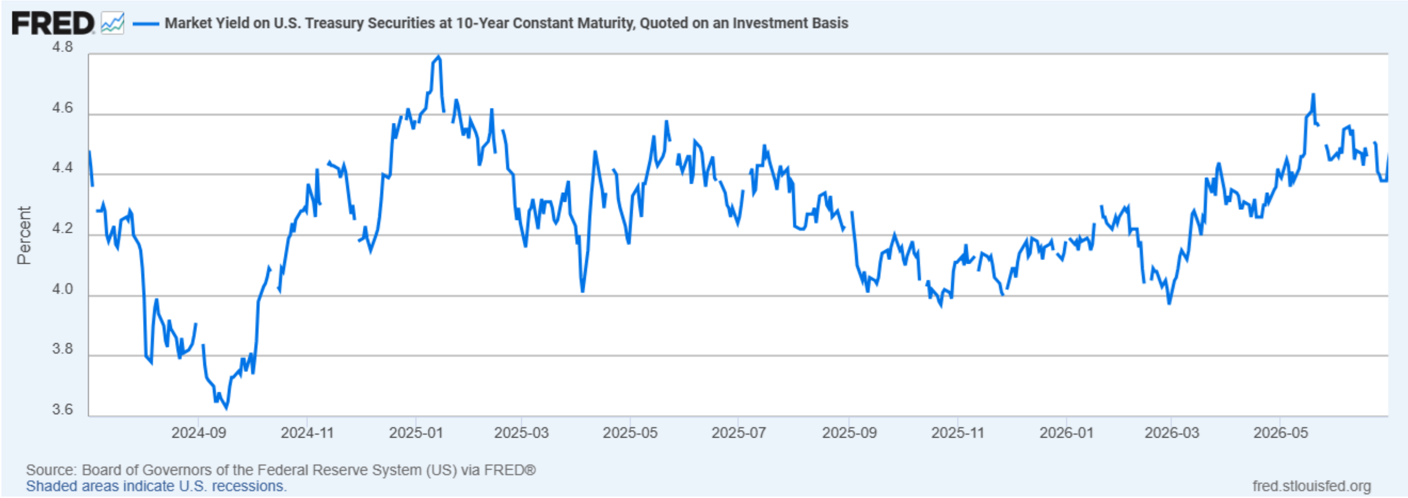
AUSTIN, Texas — According to the June and Mid-Year 2026 Central Texas Housing Report released by Unlock MLS, the Central Texas housing market continued to outperform national trends during the first half of 2026, with year-to-date closed home sales increasing 4.8% to 15,698 sales in the Austin-Round Rock-San Marcos MSA. Central Texas buyer demand continues to strengthen, signaling the region may be on pace for its first year of positive home sales growth in several years.

At the same time, the median price year-to-date slightly dipped 2.4% to $425,000 while closed sales rose 0.6% in June to 2,961 sales compared to last year. Pending sales also increased 13.2% to 2,994 sales suggesting the Central Texas housing market has turned a corner following its market correction and is continuing to build momentum despite ongoing national economic uncertainty.

Source: Unlock MLS: [June & Mid-Year 2026 Central Texas Housing Report]

Capital Markets

As of 06/30/26 mortgage interest rate levels for conventional, conforming fixed rate 30-year mortgage loans, was 6.625% according to TIB. The U.S. 10 Year Treasury closed at 4.42%. The S&P 500 closed at 7,499.36.



Projects

GRIMES COUNTY, Texas (*KBTX*) - A rural Brazos Valley county of fewer than 35,000, that's mostly driven through rather than visited, will now be home to one of the most ambitious industrial projects in the nation. On Wednesday, Grimes County commissioners voted 4-1 to approve both a reinvestment zone designation and a 100% tax abatement for SpaceX's proposed Terafab semiconductor chip manufacturing facility. The Elon Musk company estimates a total investment as high as $119 billion, among the highest manufacturing investments in U.S. history. For a county whose entire tax base is currently valued at around $11 billion, the scale of that investment is almost incomprehensible. The proposed chip manufacturing plant, known at SpaceX as the "Terafab" project, would be vertically integrated, handling all stages of manufacturing for new semiconductor chips used in Tesla products and eventually in AI data centers deployed in orbit around the earth. The plant would be a joint venture among SpaceX, Tesla, and Intel. The project's ultimate ambition is to provide a terawatt of AI computing power each year to the technology giants, more than 10 times the current capacity of all AI infrastructure, and allow humanity to become a "galactic civilization" capable of interstellar travel.

AUSTIN (*Connect CRE*) – Sansone Group and Principal Asset Management has broken ground on a 682,000-sf industrial project. The project, which will consist of a single building, comprises phase two of Austin Hills Commerce Center, a 134-acre development. Phase one of Austin Hills Commerce Center consisted of three buildings totaling 538,000 square feet. The development is ultimately planned to feature 1.3 million sf across six buildings.

MILAM COUNTY (*Austin Business Journal*) – One of the world's largest companies appears to be working on another gargantuan project slated for Milam County. But what exactly SoftBank Group has planned is not yet known. Entities tied to the Japanese multinational investment conglomerate back in April purchased 4,709 acres in the site known as Sandow Lakes Ranch, according to Milam County property records. That's the sprawling 33,000-acre megasite that formerly housed Alcoa Corp. and is now being redeveloped by Dallas-based Xebec Holdings LLC. No other details about plans for the site were immediately available, although Xebec representatives have been aiming to attract advanced manufacturing to the site starting with a 3,300-acre campus now known as The Switch. That is expected to be ready for occupancy in the third quarter of this year, according to its website.

CALDWELL COUNTY (*Austin Business Journal*) – Edged Energy is planning a two million-sf data center campus on a 320-acre site along SH 142. The $7.3 billion project is planned as two one-million-sf buildings. The campus will include on-site power generation infrastructure and a closed-loop cooling system. Construction must begin by April 15, 2026, and is required to be substantially complete by Aug. 15, 2028, according to a tax abatement agreement.

Office

Transwestern

Austin, Texas

Office Market | Q1 2026

Construction slows amid strong absorption

Market Observations

- The Austin office market recorded positive absorption of 1.2M square feet for the quarter, bringing the trailing 12-month net absorption to 2.5M square feet.
- Direct vacancy stood at 14.4% across all classes, a (0.5%) drop over last quarter and a (0.1%) drop year over year. Total availability, which includes sublease space, was 20.1% for the quarter.
- There was 1.3M square feet under construction as of this quarter. A total of 199K square feet delivered this quarter, bringing the trailing 12-month total to 1.6M square feet delivered in the Austin MSA.
- The net average asking rate totaled $30.67 net per square foot for the Austin MSA, with operating expenses averaging $15.97 psf as of this quarter. Rental rates have increased 0.9% year over year. Class A rents averaged $35.69 net per square foot with $17.66 psf average operating expenses for the quarter.

**The large positive absorption this quarter includes Samsung's 795K sf office building in Taylor (Georgetown Submarket). In accordance with Transwestern's national reporting guidelines, the Austin MSA market numbers include owner-user buildings.*

112.9 MSF
Inventory

1.2M* SF
Net Absorption

14.9%
Direct Vacancy

20.1%
Total Availability

1.3M SF
Under Construction

$30.67 PSF
Net Asking Rent

Industrial

Transwestern

Austin, Texas

Industrial Market | Q1 2026

Positive Net Absorption Offsets Vacancy

Market Observations

- The Austin industrial market recorded positive absorption of 894K square feet for the quarter, bringing the trailing 12-month net absorption to 4.4M square feet.
- Direct vacancy stood at 12.6% across all classes, a 1.1% increase over last quarter and a 2.1 increase year over year. Total availability, which includes sublease space, was 13.7% for the quarter.
- There was 14.6M square feet under construction as of this quarter. A total of 3.0M square feet delivered this quarter, bringing the trailing 12-month total to 8.6M square feet delivered in the Austin MSA.
- The average asking rate totaled $12.84 net per square foot for the Austin MSA. For flex space, the average net rate was $16.62 per square foot for the quarter, and industrial space averaged $12.21 per square foot for the same period.

160.4 MSF
Inventory

894K SF
Net Absorption

12.6%
Direct Vacancy

13.7%
Total Availability

14.6M SF
Under Construction

$12.84 PSF
Net Asking Rent

Multi-Family

Transwestern

Austin, Texas

Multifamily Market | Q1 2026

As asking rent drops, vacancy improves

Market Observations

- The Austin office market recorded positive absorption of 3,547 units bringing the trailing 12-month net absorption to 19,849 units.
- Vacancy stood at 13.5% across all classes, a (0.8%) drop over last quarter and a (1.5%) drop year over year. The submarkets with the highest vacancy included Caldwell County with 27.8% vacancy and Far North Austin with 24.1% vacancy as of this quarter.
- There were 16,914 units under construction as of this quarter. A total of 2,103 units delivered this quarter, bringing the trailing 12-month total to 18,392 units delivered in the Austin MSA.
- The average rental rate per unit totaled $1,527 per month for the Austin MSA, with a square foot average of $1.74 psf as of this quarter. Rental rates have dropped (3.6%) year over year.

336,012
Inventory (Units)

+ (–)
19,849
T12 Absorption (Units)

13.5%
Vacancy

$1,527
Average Rent Per Unit

16,914 Units
Under Construction

$1.74
Average Rent PSF

Retail

Transwestern

Austin, Texas

Retail Market | Q1 2026

Vacancy Remains Low, Rents Steady

Market Observations

- The Austin retail market recorded positive absorption of 53K square feet for the quarter. This brings the trailing 12 month absorption to 1.16M square feet.
- Direct vacancy stood at 3.3% across all classes, which is unchanged from last quarter and a 0.7% increase year-over-year.
- There was 3.12M square feet under construction as of this quarter. A total of 329K square feet delivered this quarter, bringing the trailing 12 month total to 8.6M square feet delivered in the Austin MSA.
- The average asking rate totaled $27.21 net per square foot for the Austin MSA, which is a 5.7% increase over last quarter and a 7.8% increase year over year.

88.8M SF
Inventory

52K SF
Net Absorption

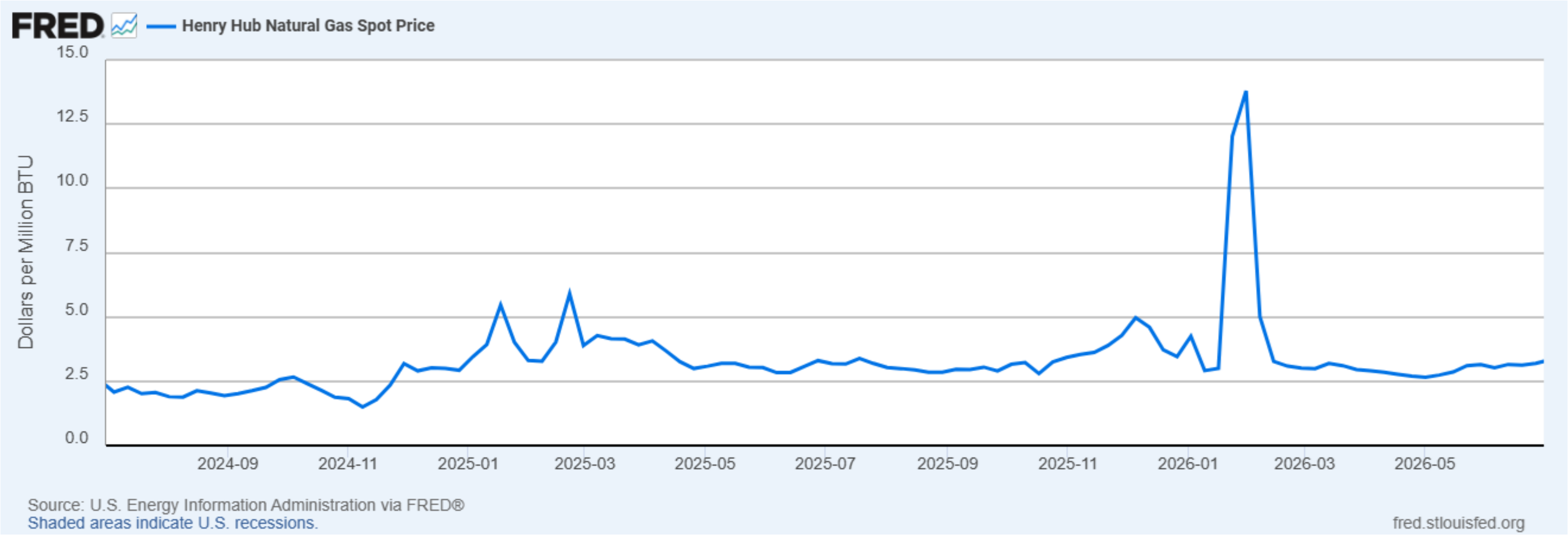
3.3%
Direct Vacancy

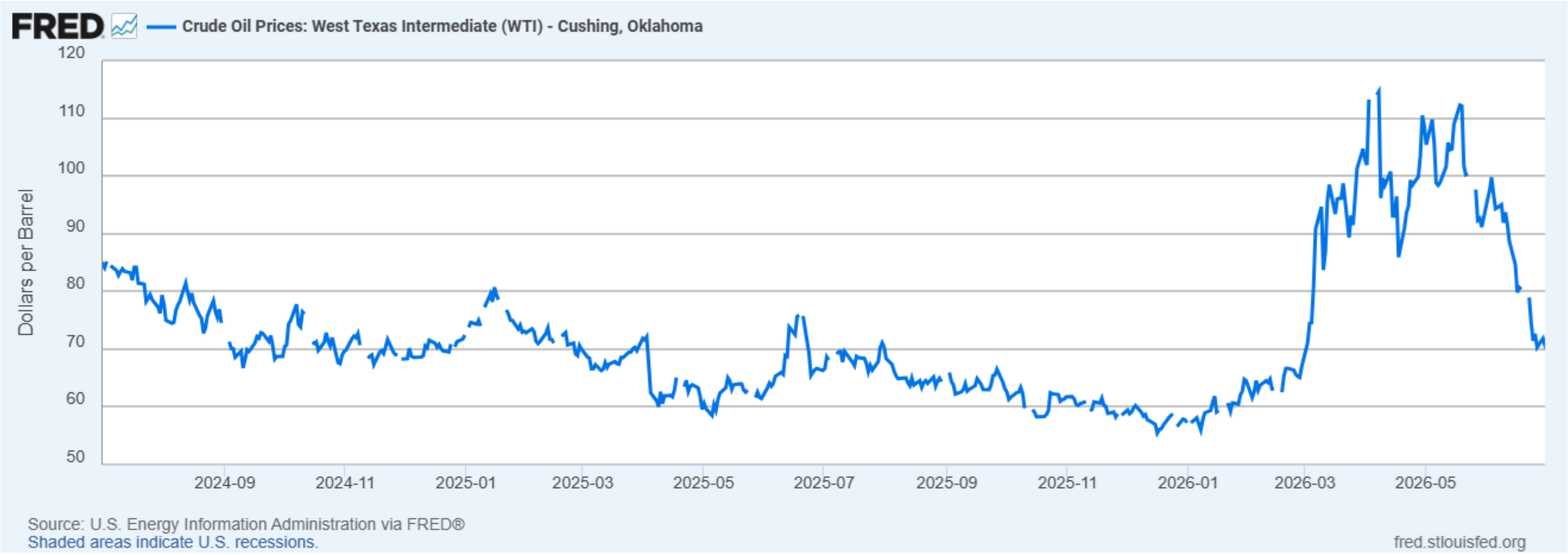
3.3%
Total Availability

3.12M SF
Under Construction

$27.21 PSF
Net Asking Rent

Energy


FRED
Henry Hub Natural Gas Spot Price
15.0
12.5
10.0
7.5
5.0
2.5
0.0
Dollars per Million BTU
2024-09
2024-11
2025-01
2025-03
2025-05
2025-07
2025-09
2025-11
2026-01
2026-03
2026-05
Source: U.S. Energy Information Administration via FRED®
Shaded areas indicate U.S. recessions.
fred.stlouisfed.org


FRED
Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma
120
110
100
90
80
70
60
50
Dollars per Barrel
2024-09
2024-11
2025-01
2025-03
2025-05
2025-07
2025-09
2025-11
2026-01
2026-03
2026-05
Source: U.S. Energy Information Administration via FRED®
Shaded areas indicate U.S. recessions.
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About Citizens National Bank

We are a $700 million asset 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 ten branches across Central Texas including Milam, Lee, Williamson, Travis, Bell, and Washington 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.