ECONOMIC INSIGHTS
FOR MANUFACTURERS

JULY 2025

TRADE ENVIRONMENT

With the first half of the year now behind us and a potentially high-impact second half ahead, it's a good time to take stock of recent developments and consider what may come next. In our previous edition of Economic Insights for Manufacturers, we predicted that trade policy would have a significant influence on growth expectations. We also noted that the manufacturing sector continued to lag behind other industries in terms of performance.

In the second quarter, these challenges have persisted — and in some cases, intensified. However, we've also begun to see a few encouraging signs. Most notably, trade policies have started to take shape through the formation of preliminary agreements and working frameworks. While these developments remain far from finalized, they are helping bring a bit more clarity to what lies ahead.

Trade negotiations remain ongoing, with each agreement being handled on a case-by-case basis. So far, only preliminary deals have been reached, and efforts to finalize broader frameworks are expected to continue in the months ahead.

Key Partners

- **China:** On June 10, the United States and China reached a preliminary agreement following a 90-day tariff pause. The deal sets U.S. tariffs on Chinese goods at 55%, while China maintains a 10% rate. The deal also includes export controls on rare earths and semiconductors, though final approval and implementation details remain pending,

- **European Union:** European officials have signaled that a 10% reciprocal tariff rate is likely to be the baseline in any future trade agreement with the United States. However, if no deal is reached before the Aug. 1 deadline, tariffs could climb as high as 30%. The current U.S. administration has already imposed a 50% tariff on European steel and aluminum, along with a 25% levy on automobiles.

- **Mexico and Canada:** A baseline 10% tariff rate is expected in any future deal. Steel imports currently face a 50% tariff, while a previously announced 25% levy remains on hold. Both countries are undergoing domestic consultations ahead of the 2026 USMCA review. Trump recently stated Mexico's limited commitment to addressing the fentanyl crisis could serve as a catalyst for imposing 30% tariffs starting Aug. 1.

- **United Kingdom:** At the G7 Summit in mid-June, U.S. President Trump and U.K. Prime Minister Starmer finalized a preliminary trade agreement focused on key sectors. The deal lowers tariffs on U.K. car exports to the U.S. from 27.5% to 10%, with an annual quota of 100,000 vehicles. However, steel and aluminum remain unresolved, with a 25% tariff still in place.

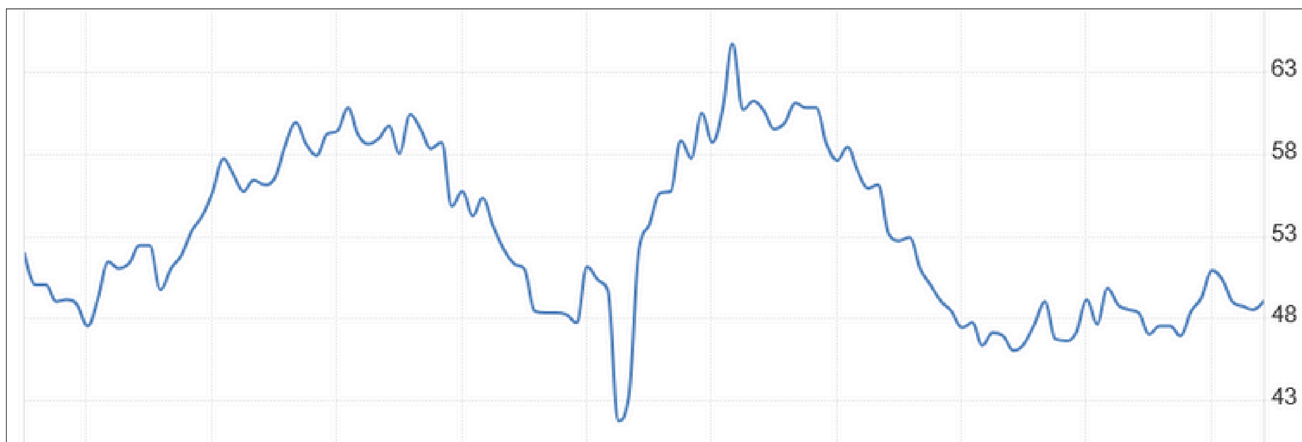
As a result of the numerous trade actions, the average U.S. tariff on all imports from the rest of the world increased from 3% percent to 11.7% percent between Jan. 20 and May 3, 2025.

Manufacturers should anticipate that tariffs could rise again in Q3, especially in cases where negotiations are progressing more slowly. In particular, the Trump administration may leverage the large trade deficit with the EU to justify higher tariffs and push for a resolution from what it views as a position of strength.

MARKET
FORCES

In the first half of 2025, the manufacturing sector continued to lag behind the broader economy, deepening a divergence that has persisted in recent years: an expanding economy contrasted with a shrinking industrial base. According to the Institute for Supply Management (ISM), economic activity in the manufacturing sector contracted in June for the fourth consecutive month, following a brief two-month expansion that was itself preceded by 26 straight months of decline.

Looking at broader industry trends, the ISM Employment Index dropped further into contraction, reflecting that headcount management rather than new hiring remains the norm. Despite some improvement in production, mixed signals in output suggest that companies remain cautious, prioritizing efficiency and cost control over workforce expansion. We share this outlook and continue to recommend automation as a key improvement strategy, particularly in administrative and commercial functions, where efficiency gains can be quickly realized without compromising core operations.



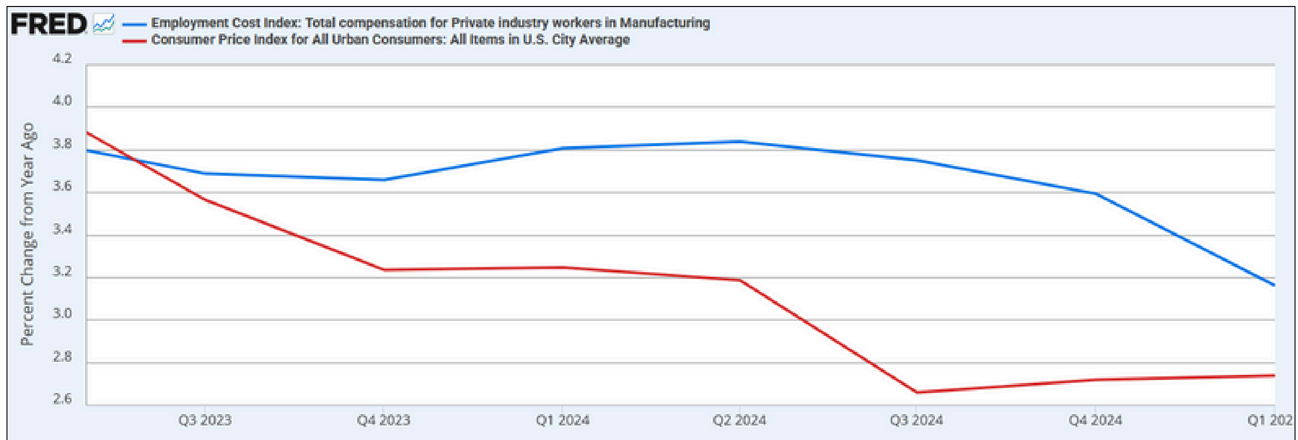
ISM Manufacturing PMI – Values above 50 indicate growth.

The current U.S. administration remains focused on stabilizing the manufacturing sector by making foreign suppliers less competitive and stimulating domestic demand through tax incentives. The recent passage of the One Big Beautiful Bill Act (OBBBA) marks a step in this direction. According to a study by the National Association of Manufacturers (NAM), failing to extend these tax cuts could have cost up to 5.9 million jobs in the coming years.

Looking ahead, key provisions in Sections 70307 and 70302 of the bill include a 100% immediate depreciation allowance for the construction and improvement of manufacturing facilities, as well as renewed deductions for R&D and equipment purchases — measures aimed at boosting domestic investment and long-term competitiveness.

When it comes to labor costs, the trend observed throughout 2023 and 2024 — wages rising faster than inflation — continued into the first half of 2025. According to Bureau of Labor Statistics data released May 1, total compensation for private industry workers in manufacturing grew 3.16% year over year, compared to a general price increase of 2.7%.

However, the gap between wage growth and inflation appears to be narrowing. As a result, manufacturing leaders can expect the impact of wage pressure on margins to ease slightly in the coming months.



Compensation for Private Industry Workers in Manufacturing and CPI YoY change.

DEVELOPMENTS **TO WATCH**

During Q3, manufacturing leaders should keep a close eye on several key developments that could impact the sector.

- **Monitoring Trade Negotiations:** The delay of tariff implementation until Aug. 1, 2025, offers manufacturers a short window to adjust sourcing strategies and pricing models. Announced by President Trump, the new rates — 25% on imports from Japan and Korea, and 55% for Chinese goods — will significantly impact import costs across multiple categories.

- **Government Incentives:** The approval of the OBBBA may carry sector-specific benefits. Manufacturers should stay alert for new state or federal incentives, especially those tied to capital investment and R&D. The current administration has made clear its intent to support domestic industry, and further policy tools may be deployed to reinforce that goal.

- **Cost Management and Pricing:** Manufacturers must plan for higher input costs, whether from elevated tariffs or sustained wage pressures, and should evaluate whether these can be passed through to customers or absorbed through improved operational efficiency. In this context, exploring useful artificial intelligence tools tailored to specific sectors may offer a valuable path forward.

- **Development of Local Alternatives:** As foreign input costs rise due to tariffs and supply chain friction, domestic sourcing is becoming more attractive. Manufacturers should assess opportunities to develop or partner with local suppliers.

Q3 is shaping up to be a pivotal moment for U.S. manufacturing. Final trade negotiations, pending tariff decisions, and the implementation of new fiscal incentives will likely define the operating environment for the rest of the year. While uncertainty remains, there are clear signals that policymakers intend to support industrial growth through tax policy and strategic reshoring efforts. Proactively adjusting to trade shifts, optimizing cost structures, and leveraging new tools like AI or tax credits will be essential strategies in the months ahead.

If you have any questions or wish to continue the conversation, please contact your dedicated Rehmann advisor. Visit our website at rehmann.com for more resources and insights, or call us at 866.799.9580. Our manufacturing specialists are here to support you and navigate these changes together.