



Rehmann

ECONOMIC INSIGHTS
FOR MANUFACTURERS

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TRADE ENVIRONMENT

The year is nearing its end, with only the final quarter ahead. So far, 2025 has brought major developments in the key areas that have shaped its narrative: changes in the trade environment, contractions in manufacturing activity, and the beginning of interest rate cuts after six consecutive meetings of unchanged policy.

As Q3 unfolded, these key aspects maintained their trajectories broadly in line with expectations. In our last edition of *Economic Insights for Manufacturers*, we identified trade policy as the defining theme of the year. During Q3, negotiations with major trading partners continued, delivering notable progress.

Key Partners

- **China:** As part of the trade truce brokered in July, the U.S. is applying a 30% tariff on Chinese goods, while China maintains a 10% tariff on U.S. products. The truce, which runs through Nov. 12, temporarily halts further escalation. Without this order, U.S. tariffs on Chinese imports would have surged to 145%, and China's tariffs on American goods were set to climb as high as 125%. In Q4, a possible extension of the trade truce is expected, which could pave the way for a more permanent agreement.
- **European Union:** A framework agreement was reached to establish parameters for more balanced trade; partial implementation began Sept. 1. As part of the deal, the European Union committed to investing \$600 billion in the United States. In return, the U.S. capped most EU goods at a maximum tariff rate of 15% while maintaining 50% tariffs on steel, aluminum, and copper. However, the agreement also introduces procedures for reciprocal exemptions.

- **Mexico and Canada:** Under the United States-Mexico-Canada Agreement (USMCA), in effect since 2020, more than 84% of trade with Canada and Mexico remains duty-free. The U.S. applies a baseline 25% tariff on imports from both countries, with 50% on steel and aluminum. Select Canadian goods face 35% U.S. tariffs. Meanwhile, Canada is enforcing counter-tariffs on specific U.S. products as of Sept. 1, while Mexico is maintaining a 90-day suspension on its 30% retaliatory tariffs. Domestic consultations are underway for the 2026 USMCA review, with the U.S. leveraging tariffs to press Mexico on the fentanyl crisis.
- **United Kingdom:** Under their Economic Prosperity Deal, implemented in June, the U.S. and the U.K. agreed to remove non-tariff barriers and grant preferential access across several sectors. At present, there are no active trade disputes between the two nations. Most British goods now face a 10% tariff rate. The U.S. will eliminate the 25% tariff on UK steel and aluminum imports, creating instead a quota, but details are still being discussed.
- **India:** Both countries remain engaged in extensive negotiations. President Donald Trump's decision to double tariffs on imports from India, raising them to as high as 50%, took effect on Aug. 27. The decision came in response to India's continued purchases of Russian oil. As a result, India's exports to the U.S. fell to \$6.86 billion in August, down from \$8.01 billion in July. Talks are ongoing, but no short-term resolution appears likely.

For Q4, manufacturing leaders should expect international negotiations to continue, though with diminishing intensity. The relative weight of tariff discussions is likely to decline as the focus shifts toward 2026 and the upcoming mid-term elections. At the same time, companies must prepare for potential new changes in specific sectors tied to core production inputs, such as energy, steel, and aluminum, where tariff policy continues to play a major role.



MARKET FORCES

The third quarter closed with mixed signals for U.S. manufacturing. The [ISM Manufacturing PMI](#) remained below the expansion threshold in August, extending the sector's contractionary trend. Of the past 34 months, 32 have registered declines. The sector continues to underperform relative to the broader economy, reinforcing a persistent divergence: steady overall growth contrasted with a sustained contraction of the industrial base.



ISM Manufacturing PMI - Values above 50 indicate growth.

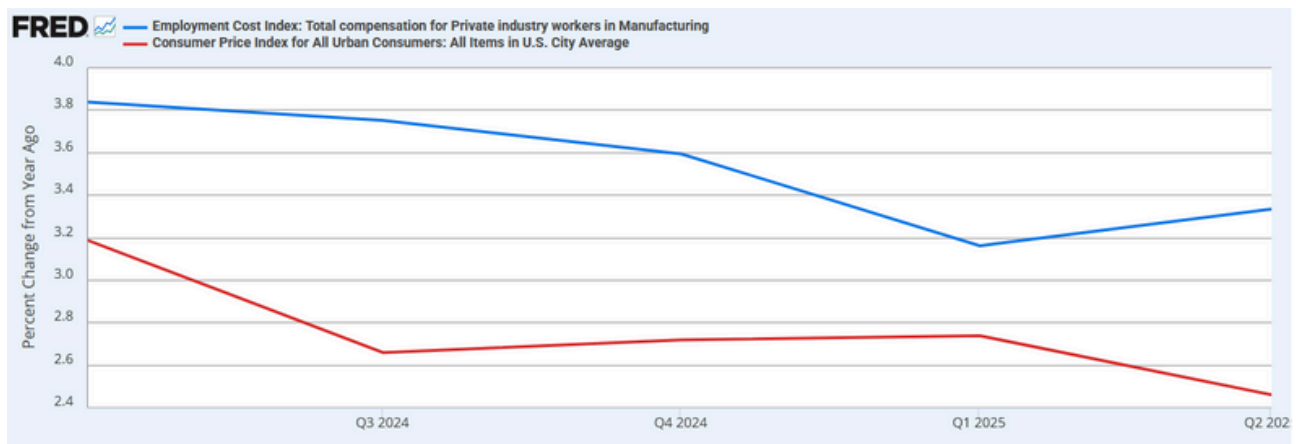
Employment trends in the sector reflect this reality. The Bureau of Labor Statistics reports that [manufacturing payrolls declined](#) by 12,000 in August and are down approximately 78,000 year-over-year, confirming that headcount management remains the primary corporate response to ongoing demand uncertainty.

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.

Looking ahead to the remainder of 2025 and into early 2026, manufacturing leaders should note that the One Big Beautiful Bill (OBBB) includes a new provision that allows 100% bonus depreciation for qualified production property acquired and placed in service. This provision enables manufacturers to immediately deduct the full cost of eligible assets.

Additionally, domestic research and experimental (R&E) expenditures can once again be fully expensed, rather than capitalized and amortized, for tax years beginning after Dec. 31, 2024. This change stands to improve cash flow and provide greater flexibility for manufacturers to invest in automation and innovation.

In Q3, we again observed market dynamics putting pressure on manufacturing sector margins. Over the past two years, worker wages have continued to rise above inflation, with an annualized increase of 3.33% over that period and 2.46% in the past year alone. Looking ahead to Q4 and into 2026, macroeconomic incentives tied to the election cycle suggest that this wage-growth dynamic is likely to continue.



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

Finally, the Federal Reserve's monetary policy remains a critical factor for manufacturers to monitor. The Fed is widely expected to initiate a series of interest rate cuts aimed at supporting the weakening job market. Futures markets currently anticipate three rate reductions in 2025, with further easing in 2026, potentially bringing the target rate down to 3%–3.25% by mid-2026.

For manufacturers, these expected rate cuts, combined with the incentives provided by the OBBB, could lower borrowing costs and make capital investments significantly more attractive.



DEVELOPMENTS TO WATCH

During Q4, manufacturing leaders should keep a close eye on several key developments that could influence the sector, such as evolving trade policies, economic pressures, and legislative incentives. Key trade negotiations continue to influence market dynamics, while tariff policies on critical inputs remain pivotal, and declining employment and cautious corporate strategies prioritize efficiency and automation. However, opportunities arising from legislative changes like the OBBB offer tax benefits and incentives for innovation and capital investment.

With anticipated interest rate cuts and election-driven economic incentives on the horizon, manufacturers must remain agile, leveraging these developments to navigate challenges and seize growth opportunities in 2026 and beyond.

If you have any questions or wish to continue the conversation, please contact your dedicated Rehmann advisor. Visit our website at [rehmann.com](https://www.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.

