# ECONOMIC INSIGHTS
# FOR MANUFACTURERS

JANUARY 2026



# TRADE **ENVIRONMENT**

With 2025 officially behind us, now is a great time to look back at the key factors that shaped the manufacturing sector last year and explore what opportunities and challenges may lie ahead in 2026. During 2025, the most influential themes for the industry were the shifting trade rules, particularly with China; the sector's continued contraction despite an expanding economy; and the Federal Reserve's interest rate cuts.

This year's central issue was the negotiation of multiple trade agreements with the United States' key partners. In the final quarter, the U.S. and China reached their longest trade truce yet, set to last a full year, which should reduce the prominence of this issue in 2026. Regarding other trade arrangements, Q4 brought modest developments.

- **China:** Following the expiration of the previous trade truce on Nov. 12, a new one-year trade deal was agreed upon, under which the U.S. is applying an additional 10% reciprocal tariff on existing tariff rates for Chinese goods, while China has suspended all retaliatory tariffs announced since March 2025. The deal, which runs through November 2026, temporarily halts further escalation. In Q1 2026, discussions for a possible permanent resolution are anticipated.

- **European Union:** A framework agreement was reached on Aug. 21, 2025, establishing parameters for more balanced trade, with partial implementation beginning on Sept. 1 and a full rollout by November. As part of the deal, the European Union committed to investing $600 billion in the U.S. In return, the U.S. has 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, with recent EU member state approvals in late November paving the way for reduced tariffs — to zero, in most cases — on U.S. industrial exports.

- **Mexico and Canada:** Under the United States-Mexico-Canada Agreement (USMCA), over 85% 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. Canada has enforced counter tariffs on specific U.S. products since Sept. 1, 2025, while Mexico maintains a 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 the 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 U.K. steel and aluminum imports, creating instead a quota, but details are still being discussed. A new pharmaceutical-specific agreement announced in December 2025 exempts U.K.-origin drugs and medical products from tariffs for at least three years.

As 2026 progresses, political and electoral dynamics will likely take center stage, especially with the midterms approaching. The current administration's likely goal is to ensure that the trade war gradually loses prominence going forward.

# MARKET
# FORCES

The final quarter of the year continued to show mixed signals for U.S. manufacturing. In November, the ISM Manufacturing PMI contracted for the ninth consecutive month, despite a relatively favorable backdrop for the broader economy, which — according to the same report — remained in expansion for the 67th month in a row. The sector continues to underperform relative to the overall economy, reinforcing a persistent divergence: steady aggregate growth contrasted with a prolonged contraction of the industrial base.

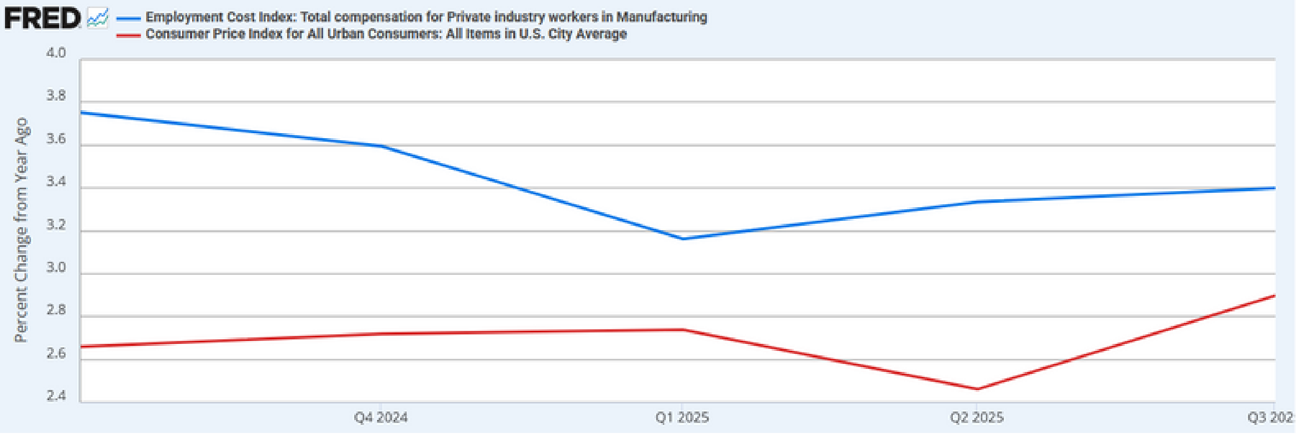
Utilization trends in the sector reflect this reality. According to Federal Reserve data, this index has declined by 3% in recent years and currently stands 2.7 percentage points below its long-run (1972-2024) average. Beyond weak demand, another key factor behind this decline is increased productivity.


*U.S. capacity utilization rate in the last 5 years.*

Looking ahead to 2026, 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 realized quickly without compromising core operations.

Despite the negative data in the manufacturing sector, both the broader economy and overall credit conditions have improved. At its final meeting of the year, the Federal Reserve lowered interest rates to a range of 3.50%-3.75%. According to market expectations, average interest rates are projected to fall even further in 2026, to around 3.25%. This environment should ease debt refinancing pressures and improve financing conditions for investment across the manufacturing sector.

Regarding the sector's main cost components, the dynamic in which wage growth outpaced inflation persisted in the final quarter of the year. Over the past year, wages increased by an average of 3.4% while prices rose by 2.9%. As a result, the real cost burden of labor continued to increase for companies. Looking ahead to 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.*

During the first months of 2026, manufacturing leaders should expect politics to play a more prominent role. This will require close attention to proposed regulatory changes from political actors, as well as active engagement with industry associations, which play a key role in protecting the sector's interests and shaping the regulatory and institutional frameworks that govern the industry.

Following the advances introduced by legislation such as the One Big Beautiful Bill, effective planning and coordination across the sector will be critical. Issues such as tariff policy, environmental regulation, credit conditions, and technological policy are key areas that can support manufacturing stakeholders as they look ahead to 2026.

# DEVELOPMENTS **TO WATCH**

During Q1 of 2026, manufacturing leaders should keep a close eye on several key developments that could influence the sector:

- **Trade Environment:** Manufacturing leaders should remain attentive to finalized trade agreements while also seeking alternative strategies in case of unexpected changes.
- **Manufacturing Sentiment:** Although the sector remains in contraction, the NAM Outlook Survey shows sentiment at around 65% among small and mid-sized manufacturers. Productivity continues to be the key differentiating factor.
- **Regulatory Changes:** The sector should stay alert to regulatory shifts that could introduce unfavorable legislation or add rigidities to a market that requires greater flexibility.
- **Interest Rates**: With rate cuts underway and expectations of further easing, companies facing refinancing needs may find an opportunity to renew or restructure their obligations.

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.