ECONOMIC INSIGHTS
FOR MANUFACTURERS

APRIL 2026

TRADE ENVIRONMENT

The first quarter of 2026 brought a number of significant developments for the manufacturing sector. Since January, manufacturers have faced major news related to trade disruptions, shifts in the prices of key inputs, new trade negotiations, and growing expectations surrounding upcoming electoral events.

While general trade agreements were the central issue last year, the most significant development so far in 2026 has been the military conflict in Iran, which is influencing the global pricing environment and international trade in multiple ways — but most significantly in oil and gas flows.

Roughly one-fifth of global oil trade is currently affected due to the near-closure of the Strait of Hormuz, a critical chokepoint for global shipping. This disruption has pushed oil prices to their highest levels in three years and driven up gasoline prices in the United States by about 33% since late February, reaching around $4 per gallon by the end of March, reports Gas Buddy's Fuel Insights.

Further increases in gasoline prices are possible as higher wholesale costs continue to pass through to retail prices. However, another jump of the same magnitude in the coming months appears unlikely. Given the complexity of the situation, readers in the manufacturing sector should not expect a quick resolution to the conflict or a rapid return to lower price levels.

When it comes to the most important trade negotiations of the first quarter, the United States-Mexico-Canada Agreement (USMCA) is approaching its mandatory joint review on July 1, 2026, and bilateral preparations have intensified in recent months. Negotiations began in mid-March, with each country laying out a clear agenda outlining the changes it hopes to see going forward.

- **The U.S.**, led by Trade Representative Jamieson Greer, demands amendments to address Mexico's policies favoring its state-owned energy firms. It also seeks to enforce stricter labor standards and curb overcapacity in steel and autos, ultimately refusing renewal without concessions on trade imbalances, migration, and security. The U.S. is also pressing Canada to resolve long-standing disputes over softwood lumber tariffs, expand dairy market access, eliminate digital services taxes, and adopt tougher rules to limit Chinese inputs in sectors such as autos and steel.
- **Mexico** supports modernizing the agreement rather than renegotiating it. Its priorities include strengthening supply chain resilience and developing critical minerals. The country also favors tighter rules of origin and stronger regional content requirements to reduce reliance on non-North American suppliers, including tariffs of up to 50% on imports from non-FTA partners such as China in sectors like auto parts and Steel. It also seeks coordinated policies to counter dumping and to secure minerals such as lithium and rare earths.
- In February 2026, officials from **Canada** and Mexico met with more than 400 private firms to deepen bilateral economic cooperation in sectors such as energy, infrastructure, and critical minerals. These efforts build on the Canada-Mexico Action Plan 2025-2028, which aims to coordinate priorities ahead of the USMCA review. Nevertheless, officials from the two nations — in a conference following a joint meeting in mid-March — confirmed that preserving the trilateral free trade agreement between their countries and the U.S. remained a priority, reported Reuters.

As 2026 progresses, political and electoral dynamics will likely take center stage, especially with the U.S. midterm elections approaching. The current administration will likely seek to ensure that trade agreements can be presented as evidence of effective governance, alongside visible progress on national security.

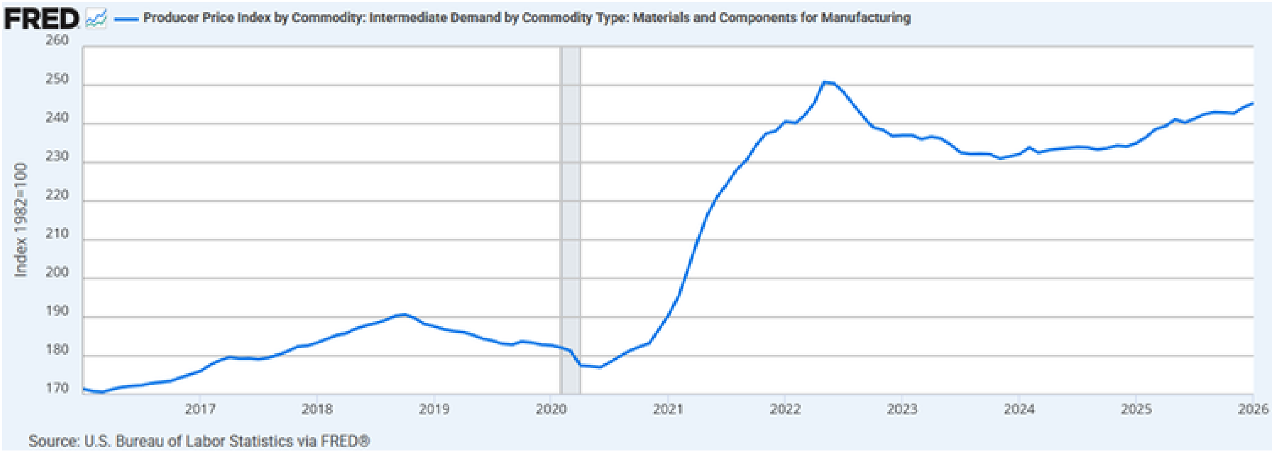
MARKET
FORCES

The first quarter of the year began with some much-needed positive news for manufacturing. According to the Institute for Supply Management's Manufacturing PMI, economic activity in the manufacturing sector expanded in February for the second consecutive month — but only for the third time in the past 40 months.

This occurs in a context in which, over the past several years, a clear divergence has emerged between the broader economy and the manufacturing sector: a persistent pattern of steady aggregate growth alongside a prolonged contraction in the industrial base.

Another longstanding trend is the decline in manufacturing employment as firms seek greater efficiency. According to the same report, the sector has recorded 29 consecutive months of net job losses, while total production has risen over the past four months and inventories have been declining.

If these trends continue, the sector may begin to stabilize after its recent decline. However, the challenge emerging from disruptions in international trade and the implementation of tariffs is closely tied to input costs. In addition to the rise in oil and gas prices, inputs like steel, aluminum, and petrochemical materials are placing pressure on supply chains. Input prices for the manufacturing sector are now at their highest levels since 2022.



Producer Price Index: Materials and Components for Manufacturing, courtesy of the U.S. Bureau of Labor Statistics.

Financial conditions and cost adjustments continue to be relevant forces for the manufacturing sector in 2026. International developments have softened expectations for interest rate cuts, with markets now anticipating base rates to remain around the 3.50%-3.75% range for much of the year.

At the same time, firms across the manufacturing sector continue to reduce their workforce in search of greater efficiency. According to a U.S. Bureau of Labor Statistics report, manufacturing employment fell by 12,000 jobs in February, leaving total sector employment near 12.6 million, with cumulative job losses of roughly 300,000 since 2023.

In this context, the rapid progress of AI is also contributing to changes in the sector’s employment structure, particularly in administrative and support functions. As firms adopt automation tools for routine operational and back-office tasks, employment adjustments are increasingly concentrated in junior and clerical roles rather than on the production floor.

Research from the Federal Reserve Bank of Chicago suggests that AI tends to reduce employment in administrative tasks while complementing, and in some cases even increasing, employment in productive roles.

In the second quarter of 2026, leaders in the manufacturing sector should focus on maintaining competitiveness both in terms of input costs and workforce size, recognizing that AI can be a useful tool to improve operational efficiency, particularly by automating routine administrative and support tasks.

DEVELOPMENTS **TO WATCH**

During Q2 of 2026, manufacturing leaders should keep a close eye on several key developments that could influence the sector:

- **Trade Environment:** With the USMCA joint review set for July 1, leaders should monitor ongoing talks, including U.S. demands for stricter labor standards and rules of origin.
- **Input costs:** Commodity prices are rising at the global level, which could continue pushing costs higher across supply chains. To manage potential price shocks, manufacturing leaders should maintain clear sourcing strategies and alternative suppliers.
- **AI Impact:** The productivity gap between firms that adopt AI and those that do not is likely to continue growing. Leaders should evaluate which areas of their operations are most suitable for AI implementation.
- **Economic Growth:** Overall economic growth will remain a key driver of manufacturing demand in 2026. While the broader economy continues to expand, signs of moderation are emerging. Leaders should closely monitor GDP trends and demand conditions before building inventories at current levels of input costs.

As the year progresses, the intersection of trade policy, supply chain costs, and technological adoption will determine competitive outcomes in the manufacturing sector. Leaders who anticipate changes early will be better positioned to sustain margins and productivity. Finally, leaders should also monitor regulatory changes and policy proposals from local candidates ahead of the 2026 midterm elections.

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.