



Rehmann

ECONOMIC INSIGHTS **FOR MANUFACTURERS**

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TRADE & ENERGY

With one quarter remaining, 2026 has brought major developments in three key areas that have shaped its narrative: changes in United States-Mexico-Canada Agreement trading rules, energy price dynamics, and a significant shift in manufacturing activity.

In our [previous edition](#) of *Economic Insights for Manufacturers*, we highlighted the energy market as the defining theme of 2026. The last quarter underscored that assessment, as trade disruptions linked to the conflict in Iran renewed pressure on energy prices.

Against this backdrop, the national average gasoline price climbed to a peak of \$4.47 per gallon. The increase reflected the combined effects of geopolitical risk, continued disruptions in the Strait of Hormuz, refinery constraints, and robust seasonal demand.



Historical U.S. national average gasoline price. Source: Energy Information Administration.

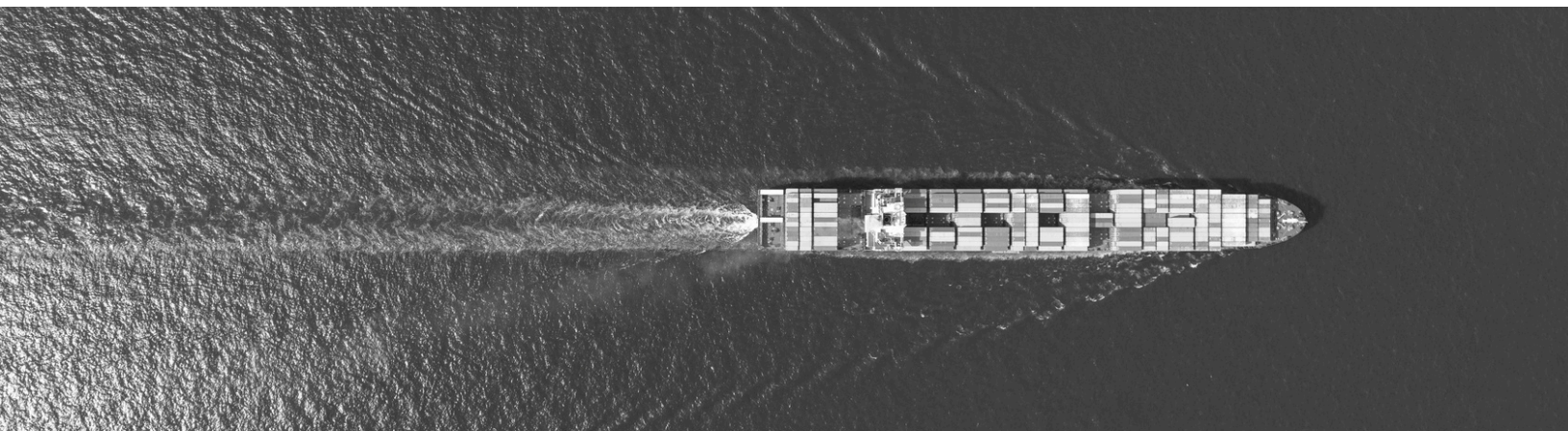
Heading into the final quarter, political and economic incentives point to continued U.S. government efforts to, at a minimum, ease the impact of higher energy prices. One such measure has been the use of the U.S. Strategic Petroleum Reserve, which is now at its lowest level since 1983. At the same time, with the midterm elections approaching, further efforts to secure new trade deals are to be expected.

Foremost among these negotiations remains the United States-Mexico-Canada Agreement (USMCA). At its first mandatory joint review on July 1, the U.S. declined to confirm a 16-year extension, triggering the agreement's annual-review mechanism: The three countries must now review the pact every year.

With the November midterms narrowing the window to show results from the nation's separate talks with Mexico and Canada, pressure on both bilateral tracks built through the quarter, though the U.S. approach to talks with each split sharply. The latest:

- Following July talks between the **U.S. and Mexico**, the list of unresolved issues narrowed from the original 54 to roughly 14, according to Mexican officials. A fourth bilateral round of talks to close the remaining gap was scheduled for late September but was postponed. As of publication, the talks had slipped into October, though no formal date had been announced. One of the biggest sticking points: Washington's proposed 50% U.S.-specific content requirement for autos, which Mexico resists as a precedent that could tighten further in future rounds.
- Talks with **Canada** moved in the opposite direction: On July 20, the U.S. administration invoked Section 338 of the Tariff Act of 1930, an unprecedented move that imposed a 50% tariff on \$20 billion in Canadian goods — including even USMCA-compliant products — amid disputes over alcohol, dairy, and auto exports. The 50% Section 232 duties on steel, aluminum, and copper, and 25% on non-USMCA autos stayed in force across both tracks.
- The last attempt at a deal between **Canada** and the U.S. collapsed on Aug. 21. On Sept. 8, Canada retaliated with tariffs of 15%, 25%, or 50% on a matching value of U.S. goods, each rate set to mirror the U.S. duty on the equivalent Canadian product across steel, dairy, appliances, and hundreds of other categories. Although both sides have signaled openness to future talks, no date has been scheduled and trade tensions have continued to escalate in recent weeks. Manufacturers with cross-border exposure should continue planning around existing tariff and trade restrictions rather than assuming near-term relief.
- **Mexico** has taken care to keep its talks with the U.S. independent of the U.S.-Canada standoff. President Sheinbaum called the U.S.-Canada rupture a "misunderstanding" rather than take any side. The toughest issue for Mexico remains the U.S.-specific content threshold for autos. In exchange, Mexico continues to press for relief from the Section 232 metal tariffs, which it calls unsustainable.

In summary, manufacturing leaders should expect no near-term relief in the tariff stack. Political pressure will build as the November midterms approach, with Mexico currently offering a more active path toward a Q4 announcement while negotiations with Canada remain stalled. Until a signed deal changes the current structure, manufacturers should treat existing tariff rates as the base case for sourcing, pricing, and financing decisions.



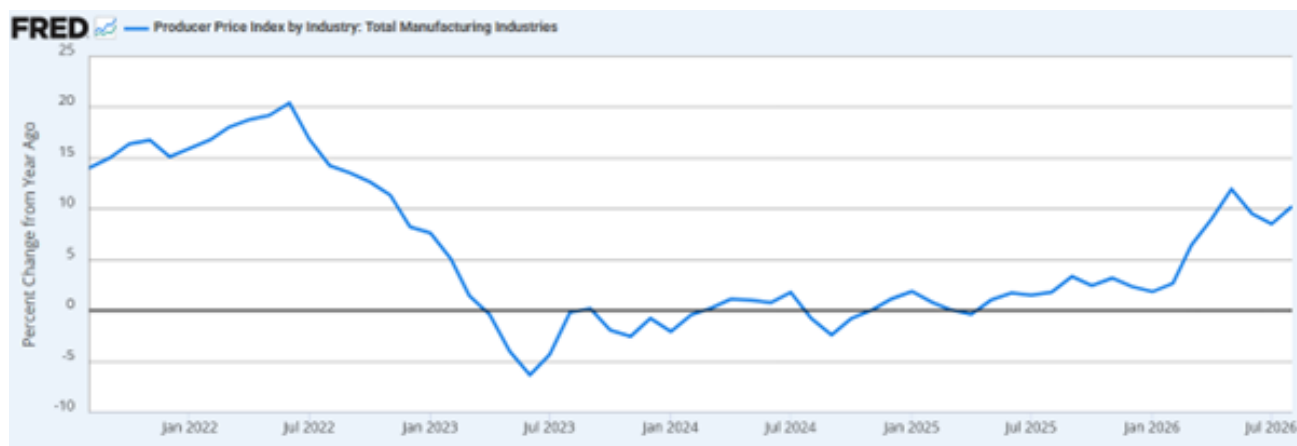
MARKET FORCES

In our latest edition of Economic Insights for Manufacturers, we've tracked the sector's turnaround from nearly three years of contraction to sustained expansion. That trend held through Q3: the [ISM Manufacturing PMI](#) peaked at 55.6 in July, its highest reading since May 2022, before easing to 54.6 in August and 54.5 in September. Even so, the index remained in expansion territory for a ninth consecutive month. The main challenge heading into Q4 remains prices.

The labor market backed up the recovery. Manufacturers added 43,000 jobs over the three months through August, the strongest stretch since 2022. The [ISM employment index](#) confirmed it from the demand side, showing expansion in July, August, and September, extending the sector's strongest hiring trend since 2022. Wages kept pace, too, with production workers earning [\\$30.37 an hour in August](#), up 4.4% over the year.

Headline CPI cooled from May's 4.2% peak to [3.4% by August](#), where it has now held for two straight months, while core inflation eased further to 2.4%, its lowest level since March 2021.

That calm seems unlikely to last: Gasoline kept climbing through September, trading near \$4.47 a gallon by mid-month, an increase that came after — and so, wasn't included in — the August CPI measurement. The [ISM Prices Index](#) reinforced that concern, rising from 71.1 in August to 77.9 in September, reflecting accelerating cost pressures tied to energy markets, tariffs, and higher metals prices.



Producer Price Index, change from a year ago. Source: Federal Reserve Economic Data

Producer prices told the same story. After cooling to 9.7% in July, the Producer Price Index for early-stage inputs rebounded to 11.3% over the year ended in August, pulled up by the same energy pressure showing up at the pump — this time in a 24.1% monthly jump in diesel. Finished-goods prices, meanwhile, rose just 5.4%. That gap, just under six percentage points, is almost exactly where it stood back in May.

As noted in our previous edition, manufacturers can protect themselves against further cost increases by building inventories of the most exposed inputs or locking in supplier financing and fixed-price terms where stockpiling is impractical. Neither approach eliminates the underlying risk, but both can provide some protection while price pressures remain elevated. We expect inflation to flatten out by year-end rather than resume its recent decline.

The Federal Reserve followed through. On Sept. 16, it raised its benchmark rate by a quarter point to 3.75%-4.00%, its first hike since 2023. The move came even as core inflation cooled to its lowest level since March 2021, a sign that the Fed board is weighing the risk of a fresh energy spike more heavily than the progress already made on prices. Its own projections point to another hike before year-end. Manufacturers carrying floating-rate debt or planning capital investment should treat that as the base case.



KEY TAKEAWAYS

In Q4, manufacturing leaders should keep a close eye on several developments that could shape the final stretch of the year.

- **USMCA/Canada:** The agreement is now on annual review through 2036. Talks with Canada collapsed entirely this quarter: The two countries are now in an active tariff exchange, not a negotiation, and Section 338 duties have been stacked on top of Section 232 tariffs with no USMCA exemption. Mexico's own track has narrowed but isn't closed either, with a fourth round still to come before year-end.
 - **Check Exposure Both Ways** – Canada-related exposure runs in two directions: What you import and what you sell there may now sit on the retaliation list. Both warrant a dollar estimate based on the applicable tariff rate and affected trade volume.
- **Inflation:** The calm in headline CPI may not hold. Gasoline prices climbed through September, and the ISM Prices Index surged to 77.9, indicating that cost pressures tied to energy, tariffs, and metals may continue into Q4.
 - **Confirm Before Repricing** – Hold off locking in customer pricing on the assumption that summer's relief continues. The next CPI and PPI prints will show whether it does, and contracts signed on the wrong assumption may need revisiting sooner than expected.
- **Interest Rates:** The Fed raised its benchmark rate on Sept. 16 for the first time since 2023, even as core inflation hit its lowest level since March 2021. Its own projections point to another hike before year-end.
 - **Stress-Test at One More Hike** – Rerun financing plans assuming one more quarter-point increase before year-end; that's now the Fed's own base case.

Finally, the November midterms will add another layer of uncertainty to the tariff outlook. The outcome may change the political pressure surrounding the current federal administration, but it is unlikely to produce an immediate change in the tariff structure itself. Most of the measures affecting manufacturers this quarter rest on executive branch authority rather than new legislation.

For planning purposes, manufacturers should therefore base sourcing, pricing, and investment decisions on tariffs currently in effect rather than assume that the post-election environment will bring relief.

For questions or to continue the conversation, contact your Rehmann advisor, visit rehmann.com, or call 866.799.9580. Our manufacturing specialists are ready to help you navigate change and identify opportunities for long-term success.