# Manufacturing Trends & Outlook

## Nationwide | Q3 2026

Our analysis of current economic conditions in the manufacturing sector and the events and key factors that drive current and future trends.

| | Trends | Outlook |
|---|---|---|
| Industry | Manufacturing is expanding solidly in 2026 with new orders fed by strong AI investment and enhanced tax incentives for businesses | Input cost pressures from tariffs and high energy prices should fade later in 2026, setting up continued momentum for the sector in 2027 |
| Labor | Hiring has improved but continues to lag the broader private sector | Increased manufacturing investment could lead to more automation rather than a surge in hiring |
| Input Cost | The Iran conflict has caused a renewed jump in input costs for many manufacturers while tariff uncertainty lingers for many materials | Geopolitical and tariff price impacts should ease heading into 2027 as global supply chains slowly normalize |
| Computer & Electronics | AI buildout is fueling electronics sales and investment while costs for memory chips have surged | Significant AI investment provides a strong tailwind for growth even with trade and input cost concerns for electronics producers |
| Plastics | Production costs have spiked in 2026 with crude oil a key input for most plastic resins and other inputs | Reduced supply chain stress and lower energy prices later in 2026 should ease cost pressures for plastic producers in 2027 |
| Fabricated Metal Products | Steel and aluminum tariffs raised prices, squeezing fabricators' margins, while primary metal orders have spiked due to strong AI investment | Tariff impacts for metals prices should fade going into 2027, easing cost pressures and helping to drive continued demand for fabricated products |
| Machinery | AI-related demand and investment has driven a surge in machinery orders even as elevated metals prices drive up production costs | Significant data center construction in coming years should support orders and revenue for machinery manufacturers |
| Motor Vehicles | While demand for new autos has remained solid, auto production has leveled off as brands focus on inventory management and controlling costs | Continued uncertainty around trade with Canada and Mexico as well as chip shortages could limit growth in auto manufacturing into 2027 |
| Furniture | Furniture orders show little growth amid a soft housing market and constrained investment in new office space | Demand for furniture could be sluggish into 2027 with mortgage rates likely to remain higher while higher input costs pressure margins |

The information in this report is provided by Nationwide Economics and is general in nature and not intended as investment or economic advice, or a recommendation to buy or sell any security or adopt any investment strategy. Additionally, it does not take into account any specific investment objectives, tax and financial condition or particular needs of any specific person.

The economic and market forecasts reflect our opinion as of the date of this report and are subject to change without notice. These forecasts show a broad range of possible outcomes. Because they are subject to high levels of uncertainty, they will not reflect actual performance. We obtained certain information from sources deemed reliable, but we do not guarantee its accuracy, completeness or fairness.

ISM Manufacturing Purchasing Managers Index (PMI): A monthly economic indicator that measures the level of activity in the U.S. manufacturing sector.

Nationwide, the Nationwide N and Eagle and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company. © 2025 Nationwide.

NFM-24954AO

# Industry Trends

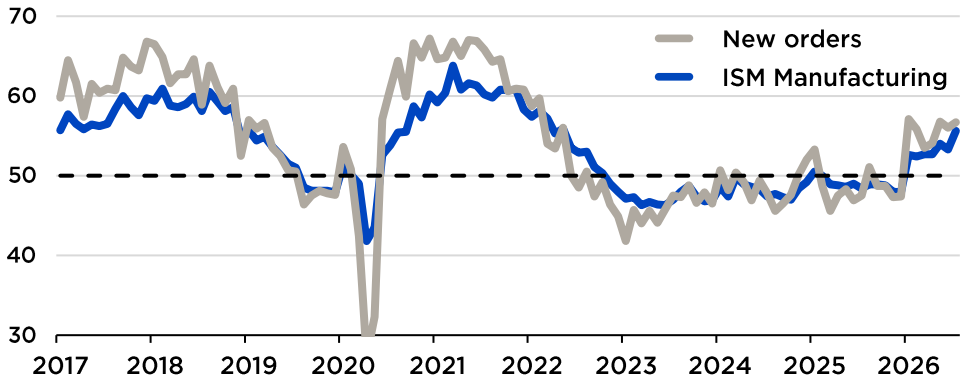
## Growth is improving

### Manufacturing sector gets a boost from AI and tax incentives

2026 has been a turning point for U.S. manufacturing with growth and new orders improving sharply into mid-year. The substantial investment in AI has lifted demand for electronics, computers, power equipment, metals, and chemicals, providing a boost to AI-linked industries. That said, goods demand has broadened to other manufacturing areas including industrial machinery. Input cost pressures remain elevated, with tariffs and the supply chain disruptions from the Iran conflict raising costs for fuel, electricity, metals and other materials. However, the growth outlook for the sector heading into 2027 is brightening as federal tax incentives help to drive increased investment by businesses.

**Manufacturing activity**

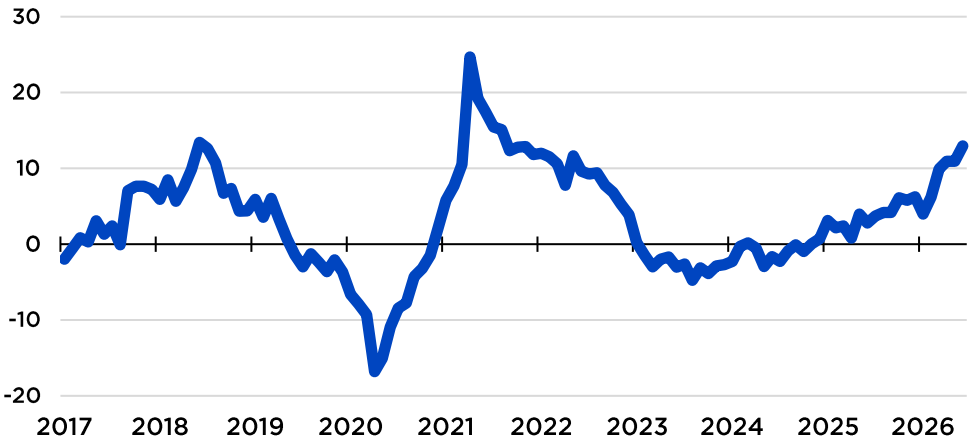
*Index*
*50+ = expansion*




*The ISM manufacturing index has been steadily in expansion over 2026, led by faster new orders*

**Core capital goods orders**

*Year-over-year percent change*




*Growth in non-defense capital orders has accelerated in a sign of improved demand*

## Outlook

### Positive sector momentum is expected to carry into 2027

While growth across sub-industries may show differences, the broader outlook for manufacturing growth should improve over the second half of 2026. Input costs will continue to face pressure from tariffs and supply chain stress, but these impacts are expected to fade going into 2027. Strong AI investment and increased business investment in response to the enhanced tax incentives should further boost demand for manufactured goods — providing a solid source of revenue to offset lingering cost concerns. Manufacturers are likely to boost production and capacity due to the improved market demand, but this may not lift the pace of hiring as firms turn to automation and AI adoption to increase productivity.

*Source: (top chart) Institute for Supply Management (bottom chart) Federal Reserve Board, Bloomberg Intelligence*

# Labor

## Manufacturing Hiring Remains Soft

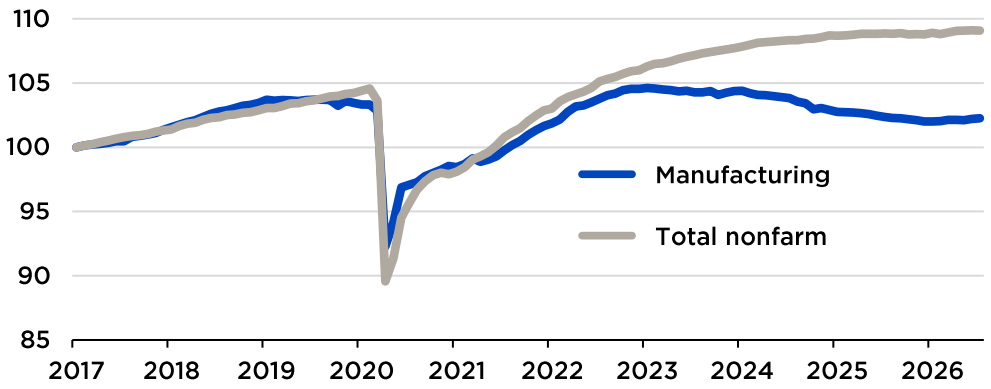
### Tentative hiring trends as firms utilize AI and automation

Despite the improved orders and demand for goods, manufacturing hiring has continued to lag the broader private sector in 2026. Hiring within durable goods industries, up by more than 70,000 workers, has been offset by continued declines within nondurable manufacturing. Sector layoffs remain low, but most firms are relying on automation, productivity gains, and longer operating hours to boost output. AI adoption is gaining momentum across the industry as businesses seek faster production.

Average hourly earnings growth for manufacturing workers has stabilized near 4 percent. Increased job openings are a sign that hiring could improve over the next six months as producers plan for faster production and investment in 2027.

**Total Employment**

*Index, Jan. 2017 = 100*

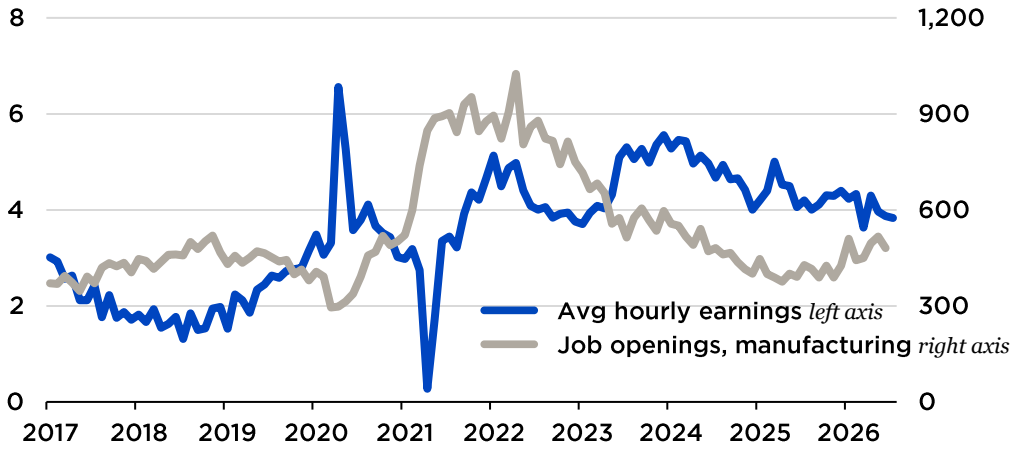



*Manufacturing sector employment has leveled off but still lags*

**Wages and demand for manufacturing workers**

*Left: Year-over-year percent change of manufacturing hourly earnings*

*Right: Thousands of job openings in manufacturing*




*Job openings have increased while wage growth has stabilized*

## Outlook

### Hiring likely to pick up modestly in the year ahead

Reduced cost challenges due to tariffs and the Iranian conflict should ease margin pressure for manufacturers going into 2027, even as elevated interest rates could remain a headwind for further investment. Stronger production needs should provide a boost to hiring, but total employment gains are likely to be more modest. Automation and AI technologies could continue to be preferred over adding to headcount in an effort to control costs and boost worker productivity. Wage gains for manufacturing workers may continue to run faster owing to limited labor supply and increase technical capabilities needed for employees — further incenting automation trends.

*Source: (top and bottom charts) Bureau of Labor Statistics, Haver Analytics, FRED*

# Input costs

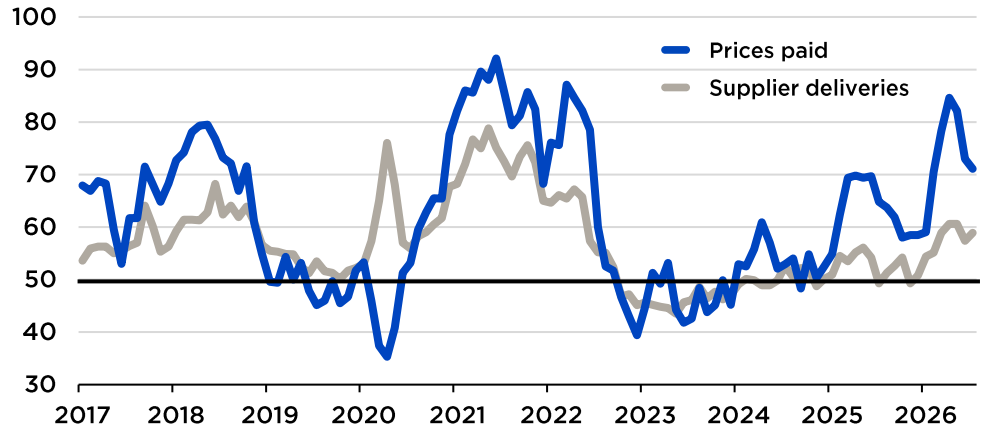
## War Impacts Drive up Costs

### Input costs boosted by Iran war and tariff pressures

Prices for many inputs rose sharply over the first half of 2026 as the closure of the Strait of Hormuz led to shortages of petrochemical materials for manufacturing. This has driven higher production costs for plastics, adhesives, and other petrochemical byproducts. Lingering tariff impacts continue to pressure material costs, led by increases for steel, aluminum, and nonferrous metals. Inflation for durable manufacturing materials has accelerated at the fastest pace, but inputs for nondurable production have also climbed sharply in 2026. Prices paid by manufacturers, although still elevated, have cooled from recent peaks, although slower supplier deliveries indicate that global supply chains remain stressed by geopolitical uncertainty.

**Manufacturing input costs**

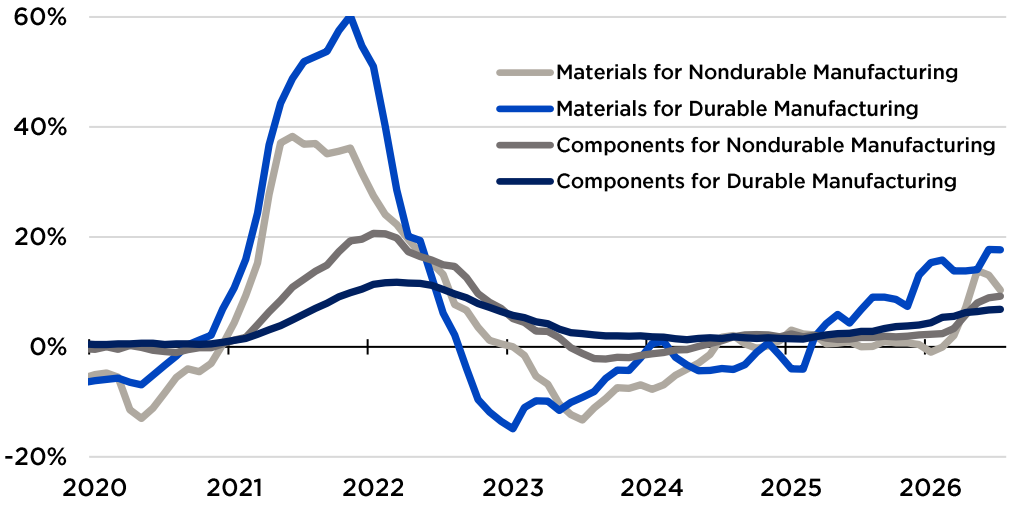
*Index, 50+ = expansion for Prices; Slower for Supplier Deliveries*




*Input prices for manufacturers remain elevated with supplier delivery times still slower*

**Producer Prices: Manufacturing**

*Year-over-year percent change*



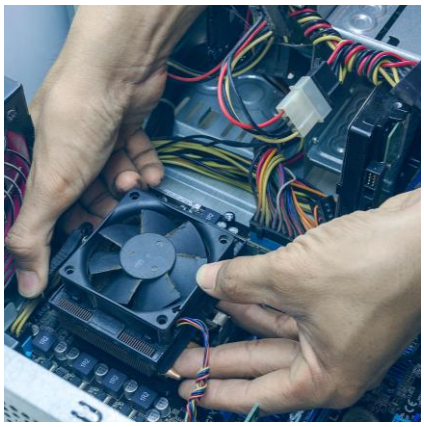

*Tariffs have sharply increased input costs for manufacturing, although much less than during the pandemic*

## Outlook

### Tariff uncertainty and geopolitical impacts should ease in 2027

Uncertainty regarding future input costs remains due to shifting tariff policy and the extended conflict in the Middle East. Supply chain disruptions are placing upward pressure on prices, but these could ease in 2027. Eventually, this should could lead to a cooling in inflation for materials and components, with prices declines likely in some areas as markets normalize. In the meantime, geopolitical tensions could continue to threaten input supply and transportation costs, which could drive more specialized inventory management and input sourcing efforts by producers. Higher costs for inputs may also drive automation efforts across the industry to reduce total costs and to boost efficiency.

*Source: (top chart) Institute for Supply Management (bottom chart) BLS, Haver Analytics*



# Computer & Electronics

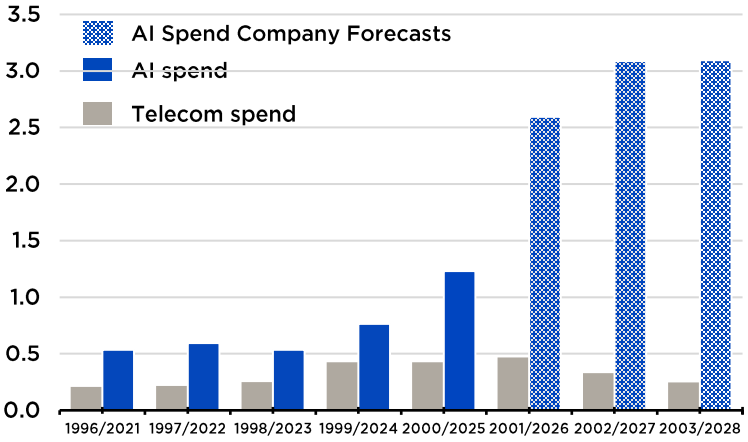
## AI is spurring major investment in electronics manufacturing

## Input costs are spiking amid immense AI demand for chips and parts

Significant private sector capital is being allocated to the computer and electronics industry for new servers to support semiconductors, data centers, and AI infrastructure. This impact is expected to continue over the coming years with substantial investment flows projected through 2028. AI-related spending has also sharply increased prices for memory chips that account for nearly 20 percent of PC production costs. Chipmakers are looking to fill the shortage by building factories to increase U.S. capacity, but new production could take at least 2-3 years to come fully online. In the meantime, electronics producers are raising prices which could soften market demand.

**Capital Expenditures by Tech Buildout Cycles**

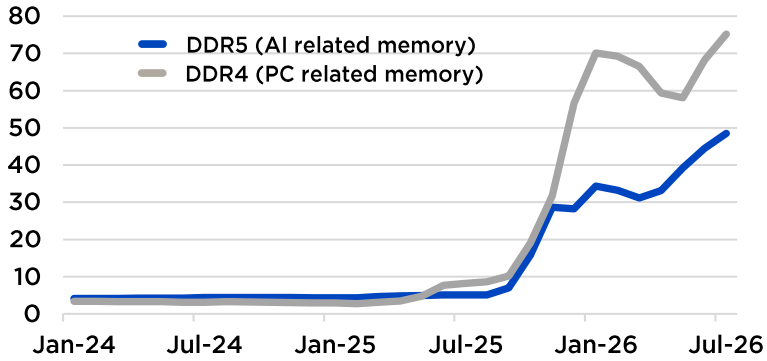
*Percent of Nominal GDP*




*Investment in AI is much larger than the telecom/ internet boom*

**Memory prices, by type**

*In dollars per chip*



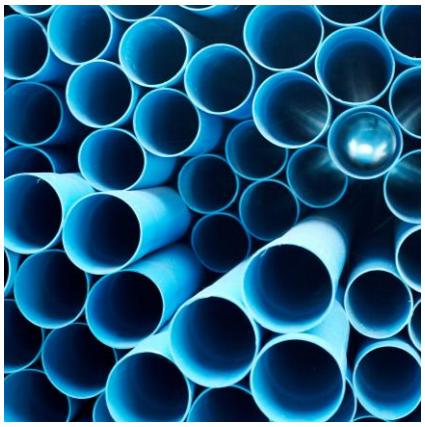

*Memory, a key input for electronics and computers, has spiked in price amid AI investment*

## Outlook

### AI investment should support growth into 2027 and beyond

Most imports of the AI-related items have been exempted from tariffs for now, but volatile trade policy is a risk for sourcing key inputs such as rare earth minerals and GPUs. Widespread demand for AI advanced computing needs should continue to boost orders of technology and equipment by businesses. However, rising prices for memory chips, which account for a significant portion of costs across the sector, will likely pressure producer margins and could increase consumer prices. That said, the massive buildout of AI capabilities across nearly all sectors should be a tailwind for industry growth for the foreseeable future even if AI expenditures top out.

*Source: Source: (top chart) Company filings, Bloomberg, CBO, Nationwide Economics (bottom chart) Inspectrum Tech, Bloomberg, Nationwide Economics*



# Plastics

## Spike in oil prices drives up costs for plastics production

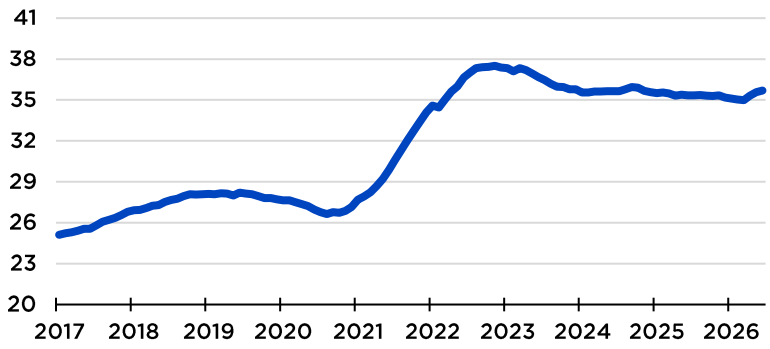
## Trade disruptions are also squeezing plastic producers

Costs for plastics have jumped sharply in 2026 due to the closure of the Strait of Hormuz and much higher global crude oil prices. Derivatives of oil such as MEG and PTA, petrochemical compounds used to make plastics, have seen major price increases — driving a spike in prices for polymer resins widely used as an input for plastic products. Costs could remain elevated for some time given the damage to oil infrastructure in the region.

Tariffs and trade disruptions have allowed China to increase market share in global exports of PVC piping, reducing demand for U.S. products. This has helped to push up inventory levels to place pressure on market pricing.

### Inventories: Plastic and rubber products

*In billions of dollars*

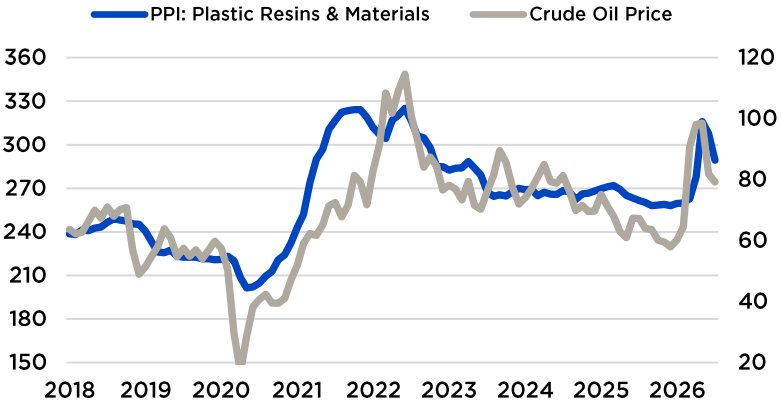



*Inventory levels continue to be elevated*

### Plastic Resins vs. Crude Oil

*Left: Index, 1982 = 100*

*Right: Dollars per barrel*




*Costs for plastics are highly sensitive to shifts in oil prices*

## Outlook

### Cost pressures likely to persist into 2027

High plastic resin prices are expected to linger over the second half of 2026 and into 2027, especially given the extended nature of the Middle East conflict. Reduced supply chain stress later this year should ease cost pressures over 2027, but there remains elevated geopolitical uncertainty. Tariffs could continue to add volatility for plastic producers too, as disruptions to exports may weigh on international demand for U.S. plastic and rubber products. Domestic demand should see a boost from increased business investment and widespread funding for AI-related inputs over the next year, but pricing could remain elevated as producers adjust to higher costs for production.

*Source: (Top Chart) Census Bureau, Bloomberg, Nationwide Economics (Bottom Chart) Census Bureau, Haver Analytics, Nationwide Economics*



# Fabricated Metal Products

## Steel and aluminum tariffs keep prices elevated

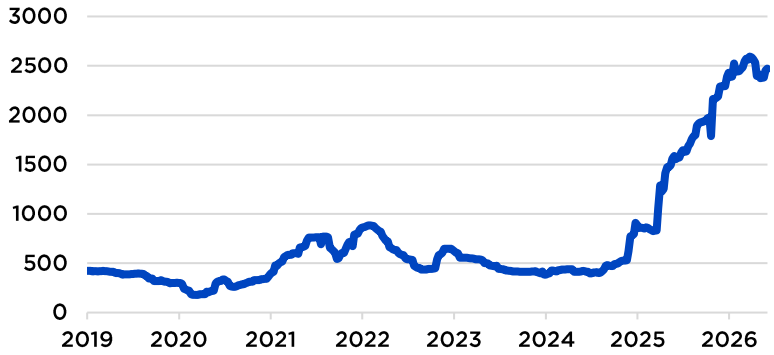
## Primary metal orders see an AI surge in 2026

With about a quarter of U.S. steel and roughly half of U.S. aluminum consumption imported, significant tariffs continue to increase input costs for metal producers. Supply chain stress caused by the Iran conflict has further tightened global supply and has kept metals prices higher even as tariff impacts slowly fade — significantly adding to manufacturing costs.

Despite the higher costs, orders of primary metal products have climbed sharply over the past year due to strong AI investment capital. Fabricated metals are key inputs for data center construction, with the added revenue helping to offset rising production costs for many producers.

**Midwest aluminum premium**

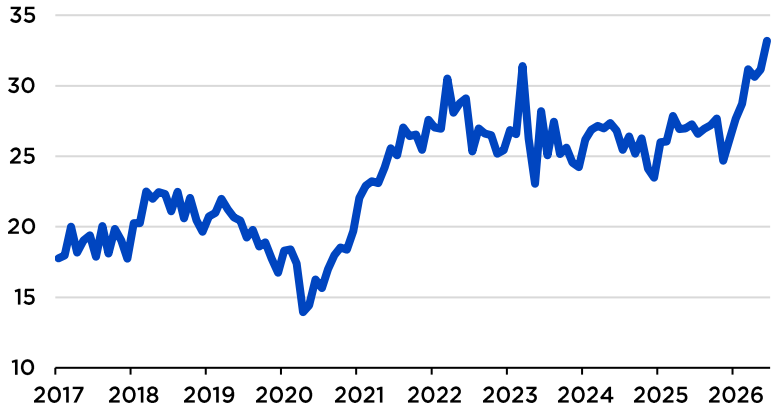
*Dollars per metric ton*




*Aluminum costs for U.S. producers remain highly elevated*

**Manufacturers new orders: Primary metals**

*Dollars, Billions*




*Metals orders have increased sharply over the past year*

## Outlook

### AI investment should remain a tailwind for growth

Healthy backlogs, elevated prices, and increased orders suggest that revenue for metal manufacturers should remain solid over the second half of 2026. Prices for steel, aluminum, and nonferrous metals are likely to remain higher until tensions ease in the Middle East, while uncertainty around tariffs could continue to be a wild card for global markets. U.S. steel and aluminum capacity should increase over the next year to ease domestic prices. But strong demand for fabricated metals for data centers could crowd out other buyers, while international demand could be tempered by normalized trade flows.



*Source: (top chart) LMP-LME Plastics, Bloomberg, Nationwide Economics (bottom chart) Bureau of Labor Statistics, Haver Analytics, Nationwide Economics*



# Machinery

### Machinery orders expanding amid OBBBA and AI boost

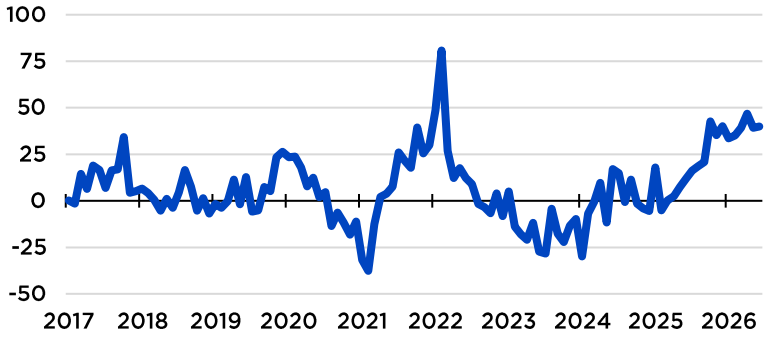
### Input cost pressures remain acute for producers

Machinery orders continue to rise sharply in 2026 as AI-related investment and OBBBA tax provisions increase demand. Key tax provisions including 100 percent first-year bonus depreciation, a higher small-business write-off cap ($2.5M vs. $1.25M), and full immediate deductions for factory upgrades are expected to remain a tailwind for machinery sales into 2027.

Even with the optimism from orders, higher production expenses tied to metal tariffs and supply chain disruptions continue to squeeze margins for machinery manufacturers. Labor shortages are also persistent, raising wage costs and furthering pressuring profits.

**New orders: Machinery**

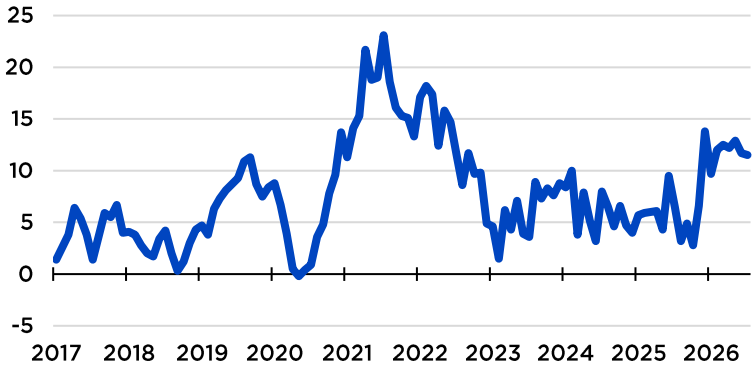
*Year-over-year percent change*




*New orders growth accelerated over 2025 and into 2026*

**Producer prices: Machinery, equipment and supplies merchant wholesalers**

*Year-over-year percent change*




*Cost increases have spiked for machinery due to metals tariffs*

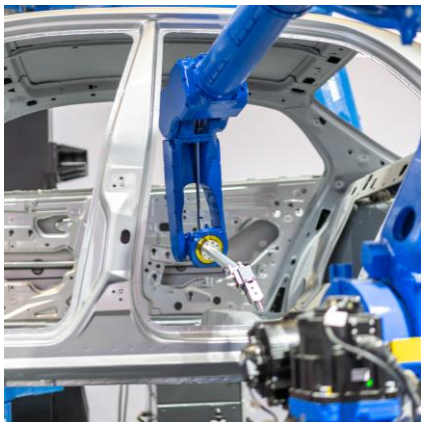
## Outlook

### Tailwinds for machinery demand likely to continue in 2027

Machinery manufacturing should be positioned for further growth heading into 2027. While input costs are expected to remain elevated, tax incentives should accelerate capital spending and broader demand for machinery. AI buildout efforts require significant machinery for large construction projects, and this positive trend is projected to extend for several years in response to exceptionally strong growth in data center locations. Over the longer term, firms at the technological forefront stand to benefit most, as OBBBA incentives such as 100 percent bonus depreciation and expanded write-offs position automated manufacturing for a competitive edge.



*Source: (top chart) (bottom chart) (top and bottom charts) Census Bureau, Haver Analytics; (bottom chart) Bureau of Labor Statistics , Haver Analytics*



# Motor Vehicles

**Auto production remains steady despite elevated input costs**

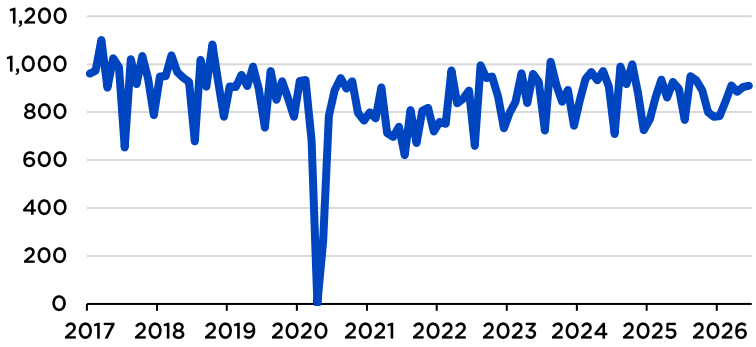
**Tariffs impacts are fading but remain a headwind for automakers**

After dipping early in the year, U.S. auto production has improved despite continued disruptions in supply chains and higher costs. Demand for autos has remained solid, especially among middle to upper-income households. Inventories of new SUVs and light trucks are tight as automakers remain cautious with production to manage rising expenses and tighter margins, with many brands delaying the release of their 2027 models.

Many automakers have reported significant losses tied to tariffs on imported autos and parts. But prices for new cars have been steady as producers have absorbed much of the higher costs — although many brands have pulled back on incentives.

**North America car & truck production**

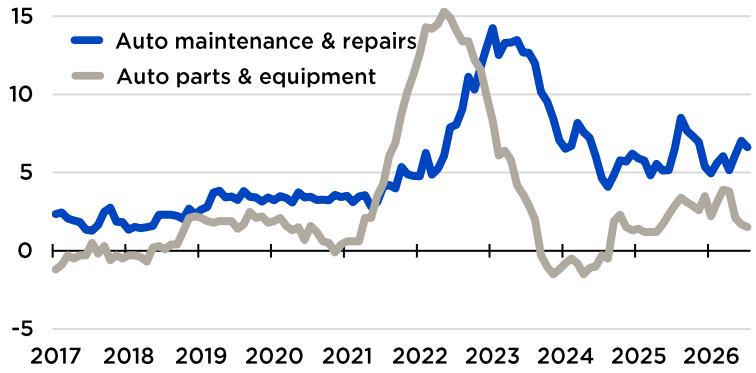
*Thousands*




*Production of cars and trucks has picked up again in 2026*

**Consumer prices: Autos**

*Year-over-year percent change*




*Cost increases for auto repairs has increased and remains elevated*

## Outlook

### Headwinds for production could limit growth

Tariffs on imported vehicles and parts continue to disrupt auto supply chains while ongoing trade negotiations with Canada and Mexico add further uncertainty to the outlook. Semiconductor shortages are also reemerging as AI demand absorbs available supply, adding to production cost concerns. Demand for new cars should remain solid, especially among higher income households, but many consumers are choosing to keep vehicles longer. Over the longer term, foreign automakers are expected to shift more vehicle and parts production to the U.S. to maintain access to the market. This transition will take several years, and future trade policy changes could reduce or remove incentives for onshoring.

*Source: (top chart) Federal Reserve Board, (bottom chart) Bureau of Labor Statistics*



# Furniture

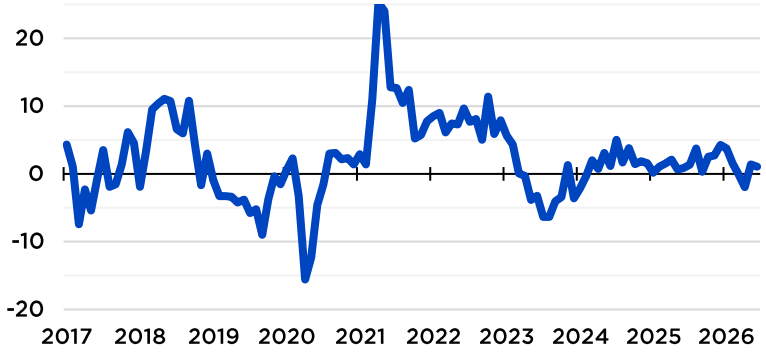
**Furniture orders are flat as housing and office slowdowns curb purchases**

**Supply chain disruptions are increasing costs**

Consumer demand for furniture remains sluggish as subdued home sales and inflationary pressures for households have reduced big-ticket furniture purchases. Steady spending by high-income consumers has been offset by pullbacks in other income groups. Production costs for furniture makers remain pressured by tariffs on key inputs as well as higher transportation costs due to the Iran conflict. Protectionist tariffs on imported furniture and cabinetry have so far pressured producer margins rather than boost domestic demand for furniture. Overall production remain muted as firms assess market conditions and manage costs.

**New Orders: Furniture and related products**

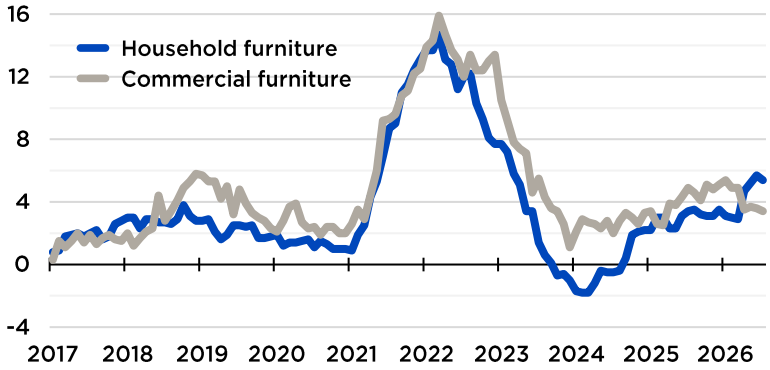
*Year-over-year percent change*




*Orders for furniture show little growth*

**Producer prices for furniture**

*Year-over-year percent change*




*Input cost inflation for furniture producers picked up amid tariffs*

## Outlook

### Demand recovery remains elusive

While domestic furniture makers may benefit in coming years from the higher prices and reduced competition tied to tariffs, the near-term outlook is dominated by pressures on discretionary household expenditures. Housing market activity should remain subdued into 2027 with elevated mortgage rates while many households are delaying big-ticket purchases due to budgetary pressures — resulting in a sluggish forecast for furniture spending in the year ahead. Reduced financial pressures and interest rates later in 2027 could boost demand in the medium-term. Increased return to office trends as well as tax incentives for businesses could also lift office furniture purchases over the next year.

*Source: (top chart) U.S. Census Bureau, (bottom chart) Bureau of Labor Statistics*