

MACRO STRATEGY | Economic Monthly

Factory Reset: U.S. Manufacturing Turns Up

April 2026

Key Takeaways

- The ISM Manufacturing Index has expanded for the last three months.
- The Industrial Production Index reached 102.55, a level last seen before the pandemic in September 2019.
- Capital goods spending has improved since the second half of 2025.

The manufacturing industry has been struggling since the pandemic. Various metrics, including industrial production and the ISM Manufacturing index, have been in contraction or decline for years. First, the industry grappled with supply chain disruptions, labor shortages and strong inflation. More recently, it has been dealing with tariffs and geopolitical disruptions. Despite that, it seems that there is now a real acceleration in the manufacturing sector. After years of contraction, the ISM Manufacturing Index reached a level not seen since 2022; industrial production has reached pre-pandemic levels; and firms' investment has been growing rapidly.

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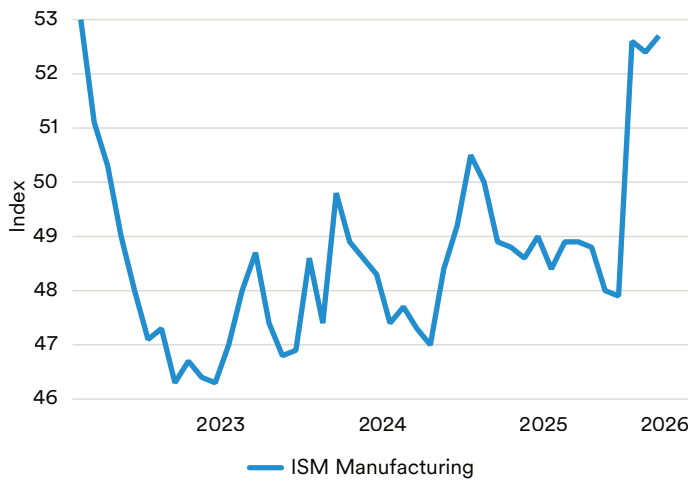
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ISM Manufacturing Is No Longer Contracting

The ISM Manufacturing index reached 52.7 in March, a level not seen since Q3 of 2022.

Since the Supreme Court struck down the IEEPA tariffs, changes in tariff structure are creating some opportunities and creating (at least temporary) relief for importers.

Figure 1 | Manufacturing Grows at the Fastest Pace Since 2022



Source: Institute for Supply Management (ISM), MIM. As of April 6, 2026.

Some businesses have shifted their attention from tariffs to the conflict in the Middle East. Shipping blockages have increased prices for fertilizer and feedstock prices. Shipping complications also increase lead times, make planning difficult, and weigh on sentiment.

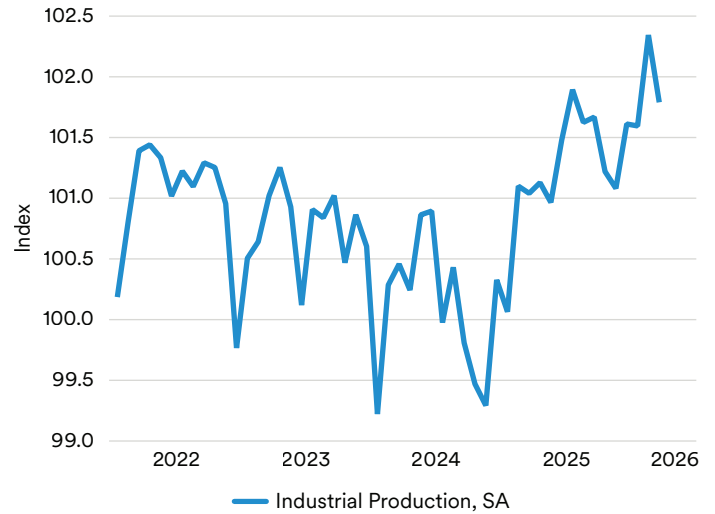
Combined with lingering tariff uncertainty, the environment for the manufacturing sector is still challenging. Despite that, 13 manufacturing industries reported growth in March and, after years of contraction, the index overall has been in expansion territory (above 50) for the last three months.

As the conflict in the Middle East (hopefully) ends in the near future, we can expect further expansion in manufacturing overall.

Industrial Production Index Reaches Pre-Pandemic Levels

Industrial production declined 0.5% in March. In February, though, the volatile index reached a level not seen since September 2019, before the pandemic. The overall trend of the index reversed at the end of 2024 after three years of shaky declines.

Figure 2 | Trend Reversal in Industrial Production



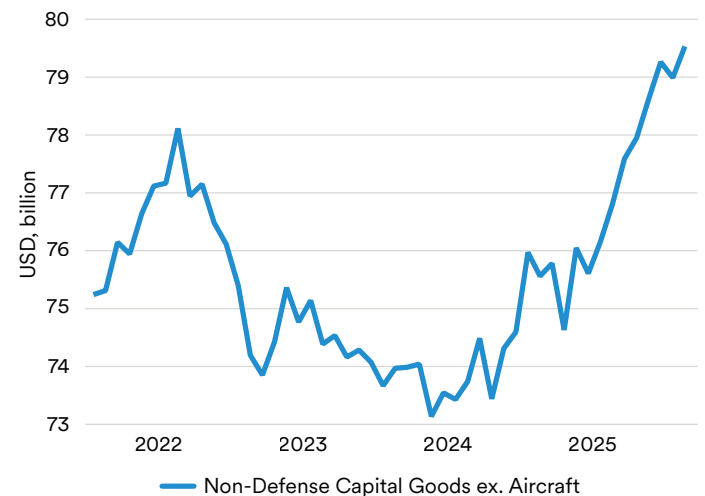
Source: Federal Reserve, MIM. As of April 16, 2026.

The increase in production is not in consumer goods, which have actually declined. Rather, it is in equipment production. Naturally, information processing equipment production has increased, but industrial equipment, vehicle equipment and defense and space equipment production have shown significant gains. Energy production is also up.

Investment Spending Is on the Rise

Since the second half of last year, capital goods orders, a proxy for firms' investment, has skyrocketed. The latest data from the Census Bureau indicated \$79.5 billion of capital goods orders in February.

Figure 3 | Capital Goods Spending is Growing Rapidly



Source: U.S. Census Bureau, MIM. As of April 10, 2026.

While we do worry that non-AI investment is lagging, private fixed investment in some other sectors, including industrial equipment and aircraft, has been growing. AI-adjacent investment, such as electric power structures, has also been growing in the last few quarters.

More investment today should have a positive effect on the manufacturing sector over the rest of 2026.

Outlook

U.S.	2025†	2026	2027
GDP (Avg. Annual % Chg.)	2.1	2.2	2.3
CPI (Dec. Y/Y % Chg.)	2.7	3.0	2.3
10 Year Treasury (EoP %)	4.17	4.25	4.25
Policy rates (upper bound, EoP %)	3.75	3.50	3.25
Unemployment (EoP %)	4.4	4.5	4.6

Source: BEA, BLS, Treasury, Federal Reserve, MIM. As of April 2026.

† Italics denote 2025 actuals.

We expect 2026 GDP growth to be roughly in line with 2025, driven by moderate consumption and solid non-residential investment. We expect net exports to remain strong as U.S. businesses try to shift away from import-driven businesses. The conflict in the Middle East has dominated recent headlines. We believe the oil price shock will drive up inflation only in the short run, so our overall 2026 inflation forecast has been revised upwards to 3.0% from 2.6%. We believe labor demand will remain lackluster in 2026, meaning the labor market, while balanced, is vulnerable to shocks.

Given both sides of the Fed's mandate being under threat and uncertainty greater than it was some months ago, we believe the Fed is only going to cut rates once this year. The timing of additional rate cuts could be pushed back into 2027. We do not believe the current oil price shock warrants a hike, as the shock is temporary and unlikely to affect core inflation in a significant way.

Although they have moved to the backburner, tariffs remain likely to affect activity and inflation as the Trump administration looks to alternative implementations. Firms will probably face some uncertainty as they navigate new tariff regulations.

Risks

The biggest risk to our forecast comes from the conflict with Iran and the continued closure of the Strait of Hormuz. While we have revised our inflation base case up by 40 basis points for the year, the lack of successful negotiations, a U.S. blockade on the Strait and ongoing uncertainty about how the conflict will resolve may keep oil prices higher for longer, which raises the probability of weaker growth.

Secondly, we worry that much of the nonresidential investment is in AI or AI-related sectors. Outside these sectors, investment may be weaker and also more sensitive to shocks.

Finally, we also worry about interaction effects: higher energy prices interacting with higher energy consumption of data centers — and higher gas prices with more stressed consumers.

Positive impulses include continued strength for wealthier consumers, strong AI investment, rising expenditures in the defense sector and windfalls in parts of the oil and gas sector.

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