

MACRO STRATEGY | Economic Monthly

Troubled Times for U.S. Manufacturers

September 2025

Key Takeaways

- Manufacturing jobs have been in decline for the last four months as firms focus on reducing headcount and are not filling open positions.
- Non-residential construction spending has been falling, with manufacturing-related construction suffering the most.
- Despite ongoing uncertainty and expectations of continued struggles in the manufacturing sector, pockets of growth remain.

Both the current and previous administrations have made efforts to boost U.S. manufacturing through investment, training, and jobs, but there has been little to no net improvement in the aggregate manufacturing sector.

High uncertainty from geopolitics, tariffs, and fiscal policy has caused manufacturing-related construction activity to slide, and many firms are focusing on reducing costs rather than expanding headcount. The sector overall has been in contraction for 32 out of the last 34 months.

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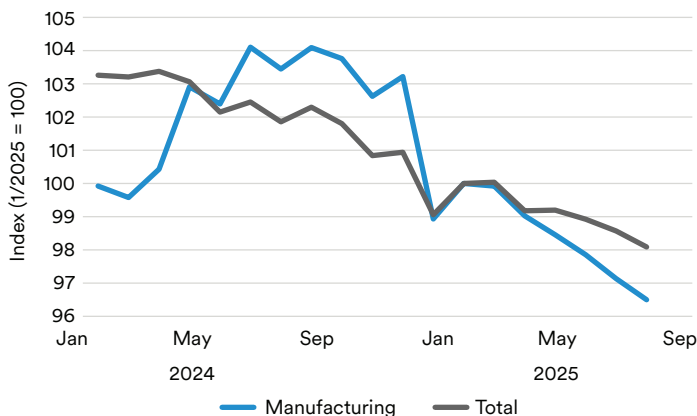
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We believe that the manufacturing sector will not make a turnaround soon, as uncertainty shows no signs of abating and trade deals remain fluid with no hard deadlines being enforced. At the same time, about half the industries tracked in the ISM Manufacturing PMI are showing growth, meaning pockets of positivity still exist.

Figure 1 | Manufacturing Construction Spending Continues to Decline



Source: U.S. Census Bureau, MIM. As of 9/18/2025.

Construction spending in manufacturing has fallen sharply since the start of the year.

Numerous firms and even nations have announced a desire to invest in U.S. manufacturing facilities. The White House notes \$8.7 trillion in investment announcements, of which close to \$5 trillion is in the manufacturing and industry sectors.¹ Despite this, heightened uncertainty means many of these commitments have not actually been realized yet.

The latest data from the U.S. Census Bureau indicates total non-residential construction spending has been declining steadily, but manufacturing construction has suffered the most out of all categories. Qualitative data, such as comments from the August ISM Manufacturing Survey, note that investment and expansions are hampered by uncertainty in economics and cost projections.

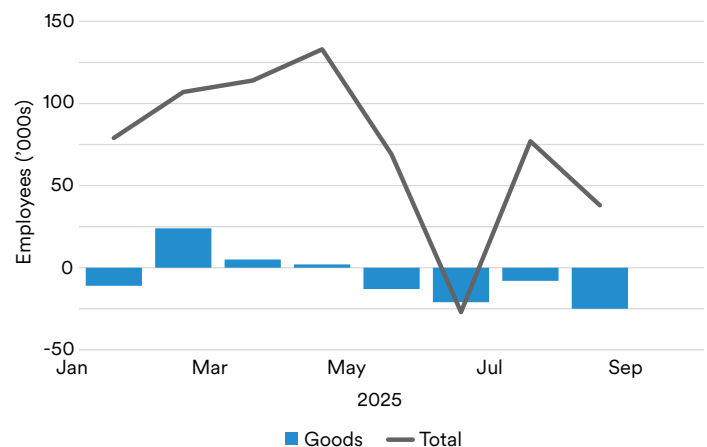
We expect the construction metrics to continue to deteriorate throughout the remainder of the year. Earlier in the year, we expected the administration to focus more on pro-growth policies as trade uncertainty settled- and focus shifted towards the mid-term

elections. Clearly that has not been the case — trade deals remain under discussion with no hard deadlines and uncertainty has not significantly abated.

The first half of the year was a good time to work in manufacturing. Now, not so much.

Goods-producing (manufacturing) employment has been in outright decline for the last four months.

Figure 2 | Manufacturing Payrolls are Declining



Source: U.S. Bureau of Labor Statistics (BLS), MIM. As of 9/18/2025.

Earlier in the year, manufacturing optimism and a burst of equipment imports likely helped support manufacturing employment. From Q2 onwards, manufacturing employment growth has been even weaker than the rest of the labor market's job growth.

Both the current and previous administrations have been trying to put policies in place to boost manufacturing, but jobs data have shown little to no response.

We expect manufacturing employment to continue to decline over the next few months, as hiring and investment remain frozen. Survey comments from the Institute for Supply Management indicate many companies are focusing on reducing headcount and not filling open positions due to uncertain near- to mid-term demand.

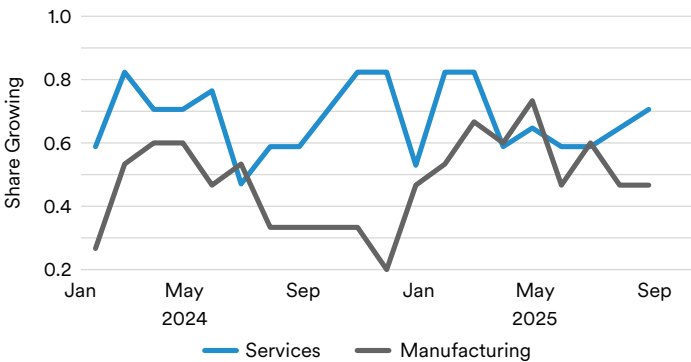
Not Everything Is Negative

Despite the manufacturing sector as a whole struggling by most measures, about half of the manufacturing categories tracked in the ISM Manufacturing PMI are still reporting growth.

Even though the ISM manufacturing PMI has been in contraction territory for 32 out of the last 34 months (every month since November 2022 except January and February of 2025), seven out of the 15 tracked industries reported growing in both July and August.

In Q2, about half of the S&P 500 firms with U.S. manufacturing noted that they expect to expand their manufacturing footprint in the U.S. However, investments are expected to stretch out over the next several years.² Firms in the energy, materials, and industrials sectors are particularly intent on such investments, while firms in consumer discretionary categories were not inclined to near-term investment.

Figure 3 | Some Sectors are Still Reporting Growth



Source: Institute for Supply Management (ISM), MIM. As of 9/18/2025.

U.S. Outlook

We expect economic softness in the U.S. to continue, combined with elevated inflation. Our base case is that the U.S. avoids a recession, however, with a 40% probability of a recession, our conviction remains modest.

Figure 4 | U.S. Forecast

U.S.	2024	2025	2026
Policy Rate	4.25-4.50*	3.75-4.00	2.75-3.00
GDP (Ann. Avg. % Chg.)	2.8*	1.3	1.5
CPI (Dec. Y/Y %)	2.7*	2.8	2.6
10-year Treasury (YE %)	4.57*	4.25	4.25
Unemployment (YE %)	4.1*	4.5	4.2

*Actuals.
Source: BEA, BLS, Treasury, Federal Reserve, MIM.
As of September 2025.

Our core concern remains with businesses. Volatile policies and valuations are prompting some firms to make cautious investment and hiring decisions. This far, companies have protected profit margins by restricting new hires, reducing costs and trying to accelerate AI cost-savings. However, the pressure from higher prices related to tariffs and sharp pushback from consumers against price increases means that companies may need to cut back further — or face margin erosion. Margin pressure is likely to affect smaller businesses in particular, which have less pricing power, lack the deep pockets to accumulate inventory, and have lower diversification against shocks.

The FOMC is likely to cut rates towards the end of this year and into early next year. Despite inflation remaining above its 2% target for close to five years and heading in the wrong direction, there appears to be growing conviction among FOMC members that labor market struggles will require an easier monetary policy.

Risks to The Outlook

Businesses have so far avoided wholesale layoffs while protecting their margins. A key risk is that this balancing act may become unsustainable, forcing businesses to begin larger-scale layoffs. If they choose to permit margin erosion instead of laying off workers, the impact on margins may affect their valuations, and valuations more broadly. The resulting wealth effects would inhibit consumption. In either scenario, additional consumer weakness could emerge, increasing the risk of recession.

¹ Investments – The White House
² Source: Q2 earnings calls, various companies, Hebbia, MIM. Accessed August 20, 2025.

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