

Manufacturing Growth Could Boost Plastics Demand in Second Half of 2026

Economic analysis explores how recent US manufacturing gains could impact plastics demand, highlighting challenges in rebuilding domestic capacity and competitiveness.

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Plastics Industry Association Chief Economist Perc Pineda, PhD, identifies three critical factors shaping outlook: Technology investment, capacity expansion, and maintaining global competitiveness in evolving markets. Getty Images

US manufacturing activity has posted six consecutive months of gains, raising questions about whether the plastics industry can capitalize on sustained growth or faces a more challenging structural transition ahead.

The uptick in manufacturing output comes as policymakers push to revitalize domestic production, but economists warn the path forward may be more complex than simply shifting demand from imports to US-made goods. The transition could reshape plastics demand patterns for years to come.

The Plastics Industry Association (PLASTICS) Chief Economist Perc Pineda, PhD, has released a new economic analysis examining recent gains in US manufacturing activity and what continued growth could mean for plastics demand in the second half of 2026 and beyond. The analysis highlights three factors that will help shape this outlook: investment in new technologies and capital equipment, the pace of domestic capacity expansion, and the ability of US manufacturers to remain competitive in global markets.

"For the plastics industry, continued growth in manufacturing activity would provide an important source of demand, but the path of that growth will matter," Pineda wrote in a blog post. "A sustained expansion in US manufacturing could support plastics demand over the longer term. The second half of 2026 may therefore provide an early indication of whether recent manufacturing gains are the beginning of a broader acceleration — or simply a modest improvement within a more difficult structural transition."

Manufacturing activity shows momentum

Pineda noted that the plastics industry's main customer is the manufacturing sector, making changes in overall manufacturing activity an important indicator for plastics demand. The first half of 2026 closed with US manufacturing activity up 0.3% in June, marking the sixth consecutive monthly increase, based on the Industrial Production Index for manufacturing. From a year earlier, manufacturing was up 1.6% in June. Manufacturing began 2025 unchanged in January and February but maintained year-over-year (YoY) growth through the first half of 2026.

"More recent data show manufacturing increased 0.2% in July, or 1.3% year-over-year," he noted. "The question is whether manufacturing growth will continue and gain momentum in the second half of the year."

According to Andrew Foran, an economist with TD Economics, the manufacturing rebound is real, but it remains narrower and more qualified than headline shipment data suggest.

"After adjusting for price effects, the improvement is concentrated in transportation equipment, defense-related production, and technology supply chains tied to AI infrastructure, rather than a broad-based revival across the sector," he wrote in a post on the company's website. "These catalysts should keep manufacturing activity on a firmer footing over the near term, particularly as existing backlogs are worked down and announced capacity additions gradually come online."

However, Foran noted that elevated energy costs, tariff-related input pressures, and tighter financial conditions are likely to limit the breadth and durability of the expansion. "As a result, manufacturing should remain a modest contributor to growth, but the evidence does not yet point to a self-sustaining or economy-wide industrial resurgence," he said.

The challenge of rebuilding manufacturing capacity

One of the main goals of the shift in US trade and tariff policy under President Trump's second term is to revitalize US manufacturing, support domestic merchandise demand, and strengthen US global manufacturing competitiveness.

"Policies intended to reverse longstanding economic practices — such as US consumers' reliance on imported goods and manufacturers' reliance on imported capital equipment and intermediate inputs — are likely to generate negative effects in the short to medium term before their intended benefits are realized, if at all, over the longer term," Pineda added. "Three factors suggest why this transition is likely to be challenging."

First, the rise in the share of services in the US economy has been accompanied by a decline in manufacturing's share. Pineda noted the Industrial Production Index for manufacturing shows sustained growth from 1972 through June 2008, while manufacturing employment declined over much of the same period. Following the 2008 to 2009 financial crisis, manufacturing activity recovered, but employment improved only modestly before the COVID-19 recession. The subsequent recovery in manufacturing activity was accompanied by a pickup in employment, but the longer-term trend remains clear: US manufacturing has been producing more with a smaller workforce. Automation, capital deepening, and improvements in manufacturing technology have made this possible.

"Expanding US manufacturing capacity will therefore increasingly depend on new technologies and capital equipment, much of which relies on globally sourced components and intermediate inputs," he explained. "Higher tariffs on these inputs could consequently make the transition toward greater domestic production more costly and less smooth."

Second, rebuilding domestic manufacturing capacity is not simply a matter of shifting demand from imports to domestic producers. Pineda said expanding capacity requires investment in factories, machinery, skilled labor, infrastructure, and supplier networks.

"These productive capabilities cannot be created immediately in response to higher tariffs," he said. "In industries where domestic capacity has contracted over decades, establishing competitive alternatives to imported inputs may take years. During this adjustment period,

higher input costs can be passed through to manufacturers and consumers before sufficient domestic capacity emerges to offset those costs."

Global competitiveness remains critical

Third, US manufacturing competitiveness depends not only on domestic production but also on access to global markets and globally integrated supply chains. According to Pineda, many US manufacturers operate within international production networks in which components, materials, machinery, and other inputs cross borders multiple times before a final product reaches the market.

"Restricting imports can therefore raise production costs even for products ultimately manufactured in the United States," he said. "At the same time, US manufacturers facing higher domestic costs may become less competitive in export markets. Policies designed to increase domestic manufacturing may therefore initially create a tension between expanding US production and maintaining the cost competitiveness needed to compete globally."

What this means for manufacturing and plastics

These structural realities suggest that a stronger US manufacturing sector is possible, but the transition is unlikely to be immediate or costless.

"Higher tariffs may encourage domestic investment and eventually expand production capacity, but they can also raise the cost of the machinery, materials, and intermediate goods needed to make that expansion possible," Pineda concluded. "The pace of adjustment will depend on how quickly US producers can build domestic capacity, develop supply networks, adopt new technologies, and maintain competitiveness in global markets."