

US MANUFACTURING HITS ITS STRONGEST PACE IN FOUR YEARS

The latest ISM Manufacturing PMI offers one of the clearest signs yet that the US industrial sector is gaining momentum. The index climbed to 55.6 in July, its highest reading since May 2022, extending the sector's expansion to seven consecutive months. More importantly, growth was supported by improvements in production, new orders, employment, exports and order backlogs rather than by a single indicator.

For manufacturers, suppliers and logistics providers, the report suggests demand is becoming more resilient. At the same time, elevated input costs, longer supplier lead times and ongoing trade uncertainty continue to complicate planning. The latest figures point to an industry entering a stronger growth phase while still managing operational risks that could influence investment decisions during the second half of 2026.

The latest data points to a broader manufacturing recovery

Headline PMI figures attract the most attention, but the July report showed strength across multiple measures of factory activity. Production rose to 58.5 from 52.2, indicating manufacturers are increasing output to meet stronger demand. New orders remained firmly in expansion territory at 56.7, while the backlog of orders increased to 55.0, suggesting factories continue to receive more work than they can immediately complete.

Employment also returned to growth, with the employment index rising to 52.8 after contracting in June. Manufacturers are often cautious about adding workers until they have greater confidence that demand will continue, making this improvement especially notable. Combined with stronger production and order books, the figures indicate businesses are becoming more confident about near-term activity.

International demand also strengthened. New export orders moved back into expansion at 53.0, while imports increased to 55.7 as manufacturers purchased more components and raw materials. Customer inventories remained low at 40.7, a level that has historically supported additional production as businesses replenish stock.

Taken together, these indicators suggest the current expansion extends beyond a short-term increase in output. Manufacturers appear to be responding to sustained customer demand while rebuilding production pipelines that had previously slowed.

Costs and supply chain pressures continue to shape decision making

The report also highlighted several challenges that manufacturers cannot ignore. The prices index eased to 71.1 from 73.0, but it still signals significant inflationary pressure

across many categories of industrial inputs. Raw materials, components and transportation continue to cost more than many businesses would prefer, placing pressure on operating margins.

Supplier deliveries also remained slower, reflecting continued bottlenecks across parts of the supply chain. Longer lead times can encourage manufacturers to increase safety stock, place orders earlier or diversify suppliers to reduce the risk of production interruptions. While these strategies improve resilience, they also increase inventory carrying costs and working capital requirements.

Trade policy adds another layer of uncertainty. Businesses continue to monitor tariff developments and geopolitical conditions when making purchasing decisions. Some manufacturers may accelerate orders to reduce the risk of future disruption, while others may delay investment until policy becomes clearer.

These conditions mean operational discipline remains just as important as revenue growth. Companies that balance inventory effectively, strengthen supplier relationships and improve production planning will be better positioned if market conditions become more volatile.

What manufacturers should watch during the second half of 2026

July's report provides stronger evidence that the manufacturing recovery is becoming more established, but its durability will depend on whether current demand continues beyond inventory replenishment. Executives should monitor whether new orders remain ahead of production, whether employment continues to expand and whether price pressures ease without weakening demand.

Low customer inventories could provide additional support for factory output in the coming months as businesses rebuild stock levels. Continued investment in infrastructure, industrial automation and artificial intelligence may also sustain demand for manufactured products, equipment and components across multiple industries.

The latest PMI provides an encouraging signal for the US manufacturing sector, but it should not be viewed in isolation. Growth is strengthening across several key indicators, yet businesses must continue managing higher costs, supply chain complexity and policy uncertainty. Manufacturers that combine disciplined operations with flexible procurement and investment strategies will be well positioned to benefit from the recovery while remaining prepared for changing market conditions.

Source: Reuters