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Economy

Manufacturing: Is it time to come home?

24 June 2025

Key takeaways

- Evidence of a manufacturing slowdown has risen in recent months. In fact, the Institute of Supply Management's Purchasing Managers' Index has entered contractionary territory and Bank of America small business account data suggests deposit volume growth has slowed, though it remains positive at 2.6% year-over-year (YoY) in May.
- Could reshoring revive part of the sector if tariffs make it more cost-effective? Half of respondents to a BofA Global Research proprietary survey expect industrials/manufacturing to record the greatest shift to the US relative to other sectors over the shortest horizon (within a year).
- But many factors could limit this shift. First, tariffs could mean lower margins. Bank of America small business account data shows profitability for small manufacturing firms lags other industries and fell 2.1% YoY in May. Plus, a lack of qualified labor and high labor costs might accelerate automation, improving productivity but not necessarily employment.

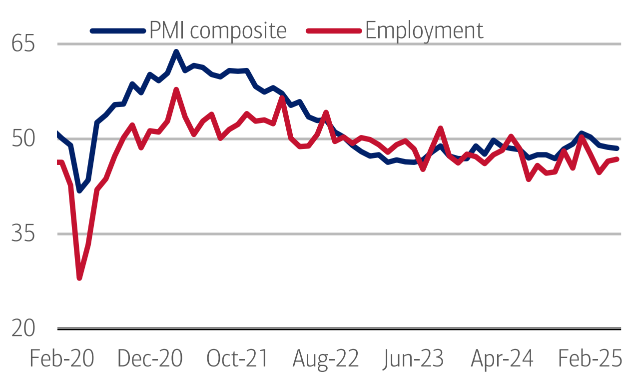
Increasing evidence of a manufacturing slowdown

Evidence of a slowdown in the manufacturing sector is mounting. According to the US Census Bureau, new orders for manufactured durable goods decreased 6.3% in April, following four consecutive monthly increases.

Additionally, the Institute of Supply Management (ISM) Manufacturing Purchasing Managers' Index (PMI) – a leading indicator that can provide insights into future economic conditions – has been below 50 since March, signaling a contraction (Exhibit 1). And according to Bank of America internal data, while deposit volume per small business client remains positive in May at 2.6% growth year-over-year (YoY), but the rate of growth has come down over the past several months (Exhibit 2).

Exhibit 1: PMI entered contractionary territory in March, and has yet to improve

ISM manufacturing: PMI Composite Index (seasonally-adjusted, 50+ = expansion, monthly), and employment index (seasonally-adjusted, 50+ = expansion, monthly)



Source: Haver analytics

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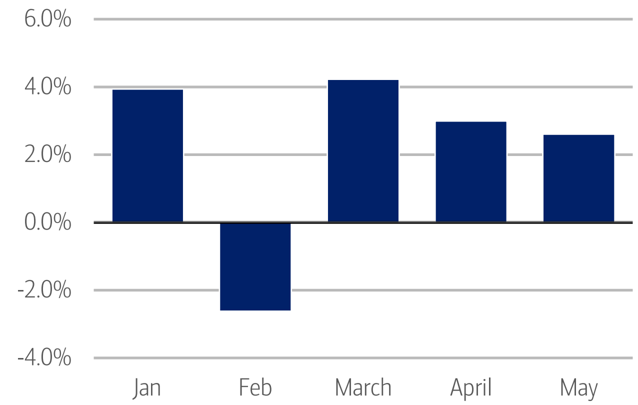
Exhibit 2: Deposit volume growth remains positive, but momentum is slowing for small manufacturers

Deposit volume per manufacturing small business client (YoY%, monthly)



Source: Bank of America internal data

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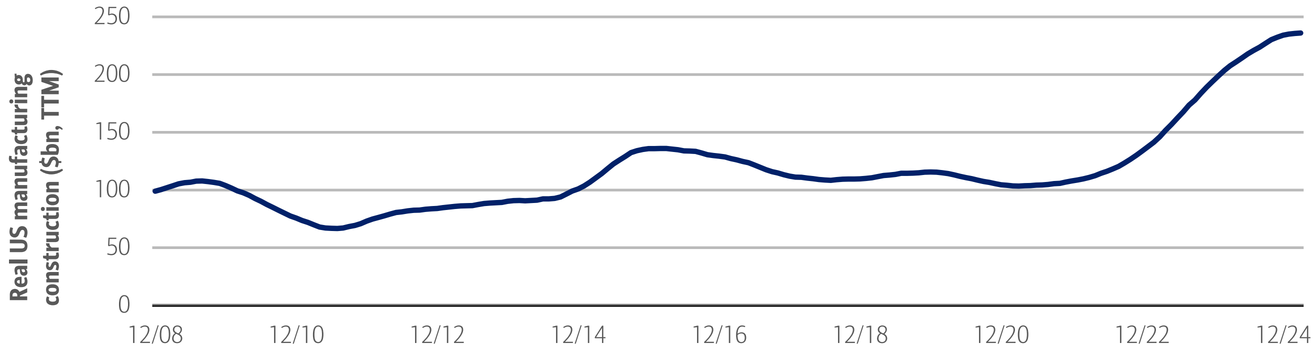
Does a manufacturing renaissance rest on reshoring?

Tariffs can make it more cost-effective to produce goods in the US relative to other countries. According to BofA Global Research, many US companies have been reshoring since 2019 after the first Trump trade war and the pandemic exposed supply chain issues (read more on this in our recent publication Battle of the Titans: Reshoring vs. friendshoring).

In a recent BofA Global Research survey, most respondents who expected production to shift to the US from elsewhere thought this would happen within the next three years, with the expectation that production would shift out of China over a similar timeframe. Respondents also expected industrials/manufacturing would exhibit the greatest degree of movement toward the US, and over the shortest time horizon.

Aided by reshoring, US industrial firms are building new plants at a rapid pace. On an inflation-adjusted basis, construction on manufacturing plants grew 24% YoY in 2022, 45% YoY in 2023, and 21% YoY in 2024 to $234 billion (Exhibit 3). This construction leads to spending on production machinery as well as hiring and is roughly double average real spending of $117 billion (2016-20), according to the US Census Bureau.

Exhibit 3: Real (inflation-adjusted) spending on US manufacturing plants up 21% YoY in 2024
Spending on US manufacturing facilities ($bn, trailing 12 months)



Source: US Census Bureau; BofA Global Research

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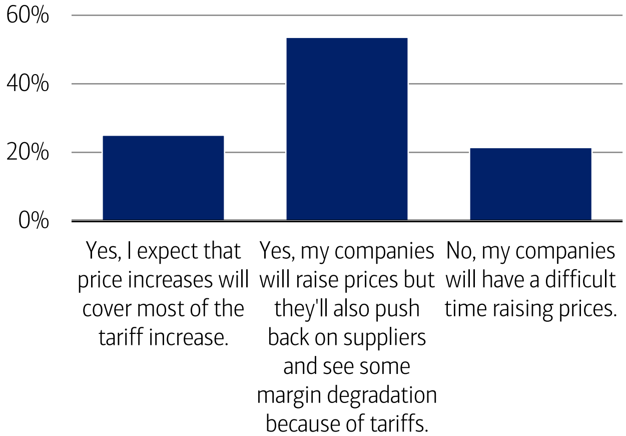
But reshoring is no free lunch, especially for US consumers

While BofA Global Research's survey suggests that tariffs could continue to drive reshoring of production, this is not without costs. Nearly 80% of respondents expect the companies they cover to pass on the cost of higher tariffs to consumers to some degree (Exhibit 4).

Most also expect some of the tariff impact to fall on the producer, putting downward pressure on margins (read more on this in our June Small Business Checkpoint). And Bank of America small business account data shows profitability for small manufacturing firms lags other industries and fell 2.1% YoY in May (Exhibit 5).

Exhibit 4: Most respondents expect companies to pass on the costs of higher tariffs to a degree
Do you expect your companies to raise prices because of tariffs? (% of respondents)



Source: BofA Global Research Note: Responses are expressed as share of respondents. Based on a proprietary survey of 56 analysts, based on 9 countries, covering 1029 companies that represent over US$ 38 trillion of market cap.

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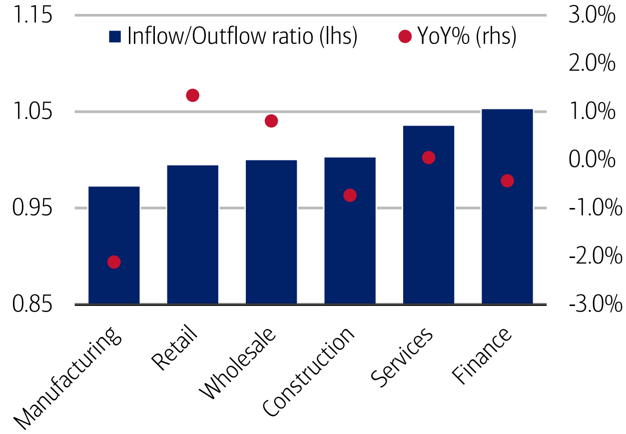
Exhibit 5: Manufacturing had the weakest profitability ratio and profitability growth in May
Monthly small business account inflow-to-outflow ratio (left hand side (lhs)) and YoY profitability growth (right hand side (rhs)) by sector



Source: Bank of America internal data

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According to a recent survey from the New York Fed, over half of manufacturers said they raised prices within a month of experiencing tariff-related cost increases—many within a day or week. Another quarter indicated that they had raised prices (or planned to do so) within one to three months of such cost increases, while few were waiting longer than three months[1].

Lack of labor impeding manufacturing

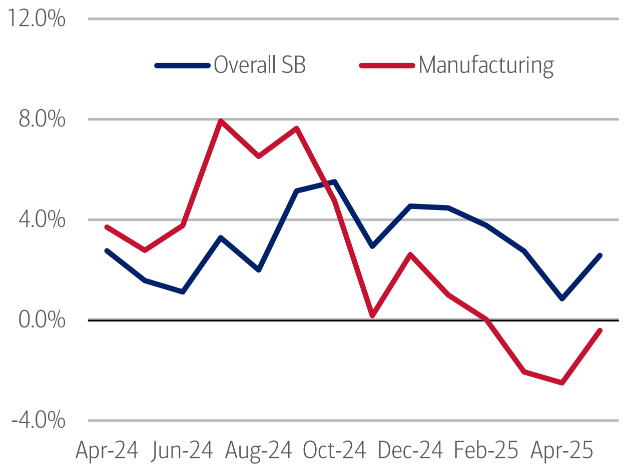
Several factors could limit firms' ability to reshore production to the US, with 54% of respondents from BofA Global Research's survey saying a lack of qualified labor would be a significant impediment.

In May, the National Federation of Independent Business jobs report found that manufacturing was one of the sectors reporting the most job openings, but 48% of respondents reported "few" or "no" qualified workers, up slightly from the prior month. And in Bank of America payrolls per small business client, manufacturing growth was -0.4% YoY in May, significantly weaker than overall growth at 2.6% YoY (Exhibit 6). This weakness has persisted since late 2024 and has been negative since March.

Yet, higher wages are an important factor in quelling manufacturing's labor issues, as they can often be a constraint on hiring. According to the Bureau of Economic Analysis, wages are 18.4% of revenue, and, according to BofA Global Research, a hypothetical 20% higher US wage can be offset by a 3.7% increase in prices. And this ignores the cost savings on lower shipping/transport costs, lower inventory costs, and decreased supplier due diligence costs – all of which could result from reshoring.

Exhibit 6: Throughout the first half of 2024 manufacturing outpaced overall small business payroll growth; manufacturing now lags and was -0.4% YoY in May

Payrolls per small business client by sector (YoY%, 3-month moving average, monthly)



Source: Bank of America internal data

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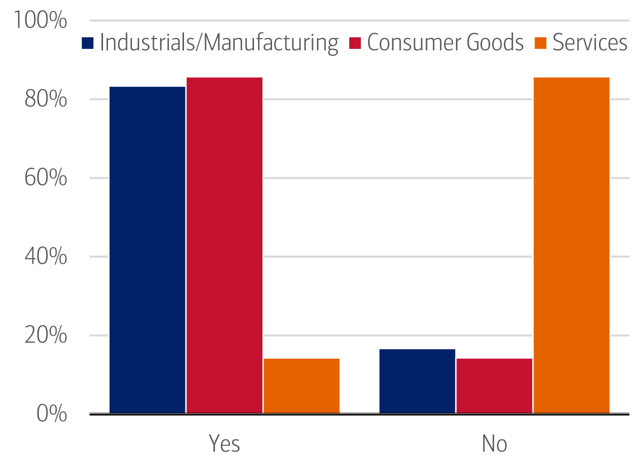
Exhibit 7: Capital-intensive sectors have greater scope for automation

"If production is shifted to the US, would you expect your companies to use significantly more automation equipment than what's used in offshore facilities?" (% of respondents)



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Reshoring could benefit automation more than employment

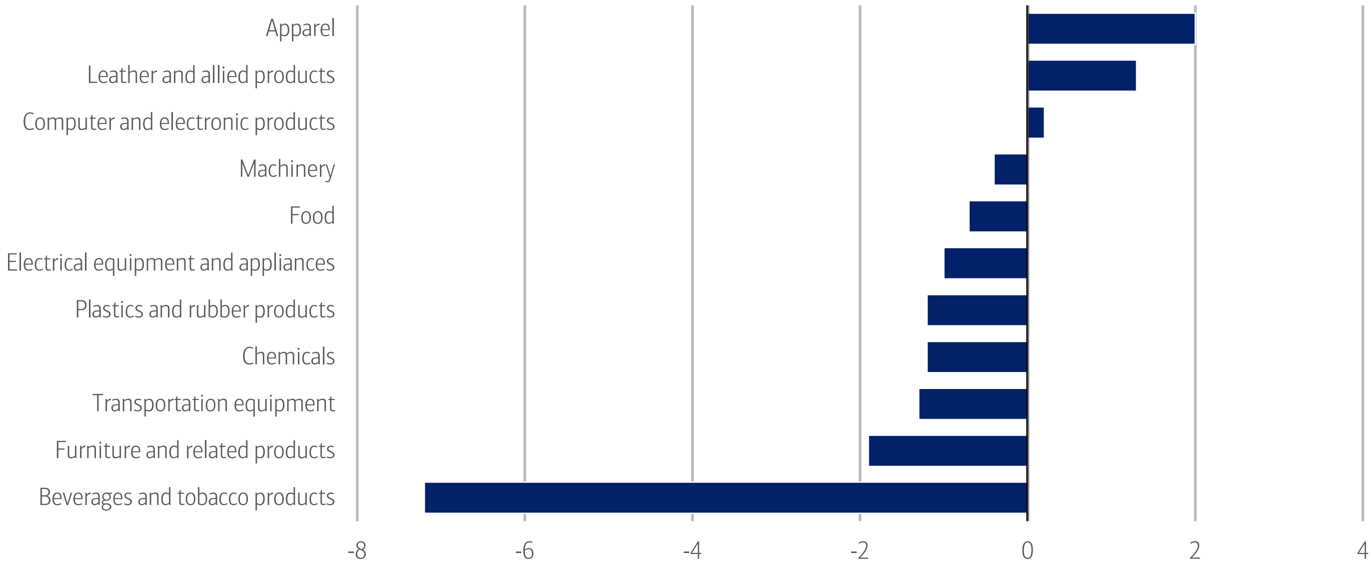
Higher labor costs are one of the primary reasons that manufacturers shifted away from the US initially, and raise concerns of whether manufacturers, particularly labor-intensive ones, can be profitable and competitive, especially since labor productivity has largely declined in many subsectors since 2019 (Exhibit 8).

In part because of these factors, two-thirds of respondents in the BofA Global Research proprietary survey expect that any production shift to the US would require significantly more automation than an offshore factory to achieve the same efficiency (Exhibit 7).

This suggests that tariffs could benefit US manufacturing productivity more than employment (read more on this in our March piece A pulse on productivity). BofA Global Research considers the advanced manufacturing industries the most viable candidates for reshoring and automation, which likely means less new job formation.

[1] Are Businesses Absorbing the Tariffs or Passing Them On to Their Customers? - Liberty Street Economics https://libertystreeteconomics.newyorkfed.org/2025/06/are-businesses-absorbing-the-tariffs-or-passing-them-on-to-their-customers/

Exhibit 8: Apparel, leather, and computer/electronic products were the only subsectors to increase labor productivity from 2019
Annualized average percent change of labor productivity by manufacturing subsector, 2019–2023 (%)



Source: Bureau of Labor Statistics

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Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Any **Small Business** payments data represents aggregate spend from Small Business clients with a deposit account or a Small Business credit card. Payroll payments data include channels such as ACH (automated clearing house), bill pay, checks and wire. Bank of America per Small Business client data represents activity spending from active Small Business clients with a deposit account or a Small Business credit card and at least one transaction in each month. Small businesses in this report include business clients within Bank of America and are generally defined as under $5mm in annual sales revenue.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

Revenue tiers are determined by the combination of following factors: 1) stated revenue on small businesses credit or Paycheck Protection Program applications, 2) actual account inflow into Bank of America Deposit Accounts, and 3) third party revenue estimation.

The alternative hiring indicator consists of payments from Bank of America small business clients to small business-focused hiring firms which include both direct deposits through Automated Clearing House (ACH) and payments via credit and debit cards.

Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

The BofA Global Research survey was based on a proprietary survey of 56 analysts, based on 9 countries, covering 1029 companies that represent over US$ 38 trillion of market cap.

Additional information about the methodology used to aggregate the data is available upon request.

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