

2026 Industry Outlook: The 5 "Ts" Transforming Manufacturing



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Introduction

There's no doubt 2025 has brought significant challenges like inflation, high interest rates, and increased tariffs. Businesses have tapped into tools to deal with margin compression, including profitability analysis, tariff roadmaps, tax credits, accounting method changes, and much more.

The new tax law not only clears the way for improved economic performance, it expands options for freeing up cash and offers a chance to accelerate value not seen in decades.



INTRODUCTION

As plans come together for 2026, we're reviewing the five "Ts" shaping the manufacturing landscape, and how manufacturers are putting freed-up cash flow to work.



Tax

The new tax law is the opportunity of the decade, freeing up cash in key ways.



Tariffs

Expect volatile rates for the next 18 – 24 months. Work a plan to protect margins.



Tech

Unlock cash in the new tax law to put advanced automation to work. Discover how priorities and ROI are shifting.



Talent

Align with tech strategy, upskill, and recruit upstream in high schools.



Transition

Leave a legacy for generations to come. Work a plan to protect your family, employees, and community.

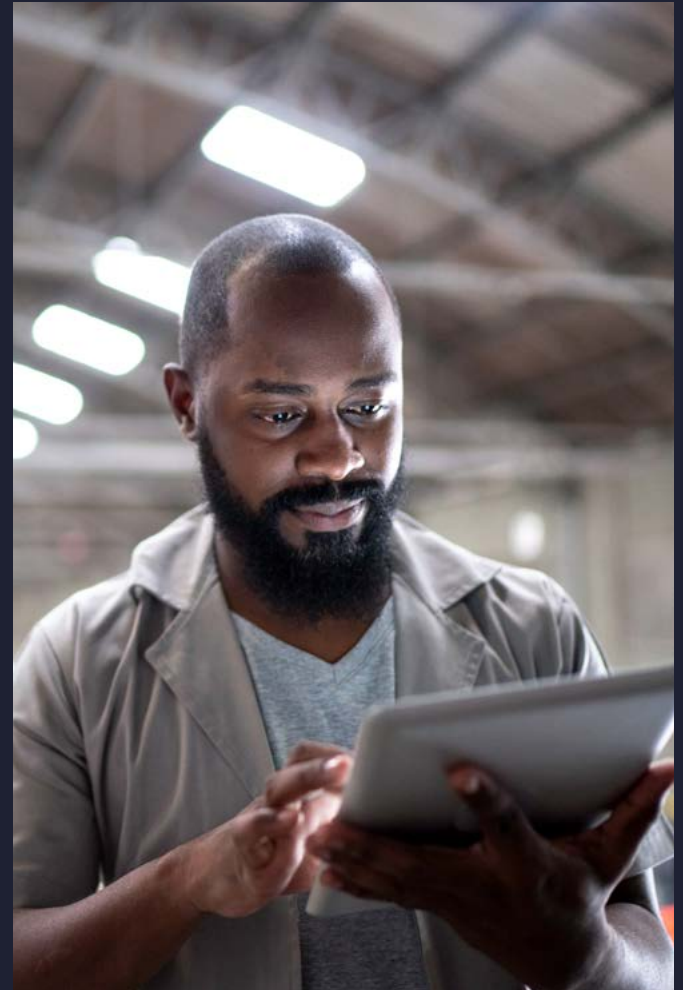


One big beautiful bundle of benefits

Manufacturers have weathered a challenging financial climate in recent years. High interest rates made borrowing more expensive, and limited the ability to deduct interest, fully expense equipment purchases, or immediately deduct R&D costs.

These shifts left many organizations with fewer strategies to reduce taxable income — resulting in higher tax bills and tighter cash flow. Expansions also took a bite out of cash, especially those requiring debt at high interest rates.

[The new tax law](#) opens up unprecedented cash flow to grow your business, and flexibility on when to take deductions. For those considering an expansion, [newly constructed real property used in manufacturing operations may qualify for immediate expensing.](#)



Consider these opportunities under the new tax law:

Do you have...	Tax savings opportunity	Focus area
R&D?	Expensing (vs. amortizing) is back	174
High interest on debt?	Interest deductions just got larger	163J
New equipment?	Bonus depreciation (immediate expensing) is back	174
Need for additional manufacturing space?	Now available for qualified production property (QPP) (Construction must begin between January 19, 2025 and January 1, 2029, and be placed in service before January 1, 2031)	168n
Qualified business income?	Qualified business income deduction (QBID) is now permanent	199A
Tax liability in 2025 or prior?	Consider purchasing tax credits — for a limited time (e.g., renewable energy tax credits)	RETC, etc.



R&D — Look again

Despite the advantages, many businesses aren't using the R&D tax credit. Leaders are often surprised to learn the wide range of activities that qualify. Beyond product development, work you do to create a process, improve a process, organize quality control, rework a fixture, lay out a new line — may all meet the criteria. This is an opportunity where a little paperwork can pay off nicely. Plus, the new tax law gave us a "coupon-like" option — if you're still amortizing R&D expenses from previous years, you can choose whether to expense them in 2025 or 2026.





How to take advantage of tax strategies

Free up cash

Understand how the new tax law frees up cash to deal with margin compression from uncontrollable external factors like tariffs, as well as fuel new investments in tech, talent, etc.

Time-manage your benefits

Model out the cash flow impact of the new tax law for 2025 and 2026. From a timing perspective, consider when to deploy your tax benefits.

Don't miss no-brainer money savers

Put all tax tools available to your business to work, including some of the most underutilized like [R&D](#), [Workforce Opportunity Tax Credit](#) (WOTC), [state and local incentives](#) aligned with growth plans, and more.



TARIFFS

While some manufacturers celebrate tariffs driving higher domestic growth, most have been dealing with painful margin compression. Compared to the tariffs we experienced in 2018 – 2020, there is less flexibility to negotiate with suppliers, pass along price increases, or simply absorb added costs.

Once tariffs are established, they typically have staying power through transitions of the executive branch. Volatility will likely continue well into 2026, as negotiations with many countries take time.



How supply chains are adapting

Industrial supply chains are evolving as tariffs reshape the commercial landscape. In the past, vertical integration could be achieved on a global scale. This is no longer the case when input costs in a global supply chain involving multiple countries are less predictable.

Goods that once passed into the United States for simple packaging and export are now often bypassing the country to avoid tariffs. For those with more complex requirements, “split shoring” involves putting production closer to where products are sold.

To manage risk, manufacturers can mobilize a tariff “task force” to measure, monitor, and reduce exposure. Trade is a team sport. A typical team includes staff from supply chain, accounting/finance, and engineering. External resources are called in as needed, including legal, customs brokers, freight forwarders, and logistics.



Where are tariffs headed?

In August 2025, [the U.S. government collected around \\$30 billion in tariffs](#), compared to \$3 billion in corporate income taxes.

Tariffs have been purported as a means of reducing the federal spending deficit. Forecasted tariff 2025 income at \$165 billion (even if doubled next year) is still a small portion compared to the nearly \$2 trillion in deficit.



How supply chains are adapting

When building a business case for reshoring, common inputs include tariffs, freight, inventory carrying costs, reducing time to market, and reducing supply chain disruptions (customer service). Manufacturing-related construction that peaked in 2024 appears to be tapering off in 2025.

☆ Total Construction Spending: Manufacturing in the United States (TLMFGCONS)

Observations ✓

Jul 2025: 223,053

Updated: Sep 2, 2025 9:16 AM CDT

Next Release Date: Nov 3, 2025

Units:

Millions of Dollars,

Seasonally Adjusted Annual Rate

Frequency:

Monthly

1Y

5Y

10Y

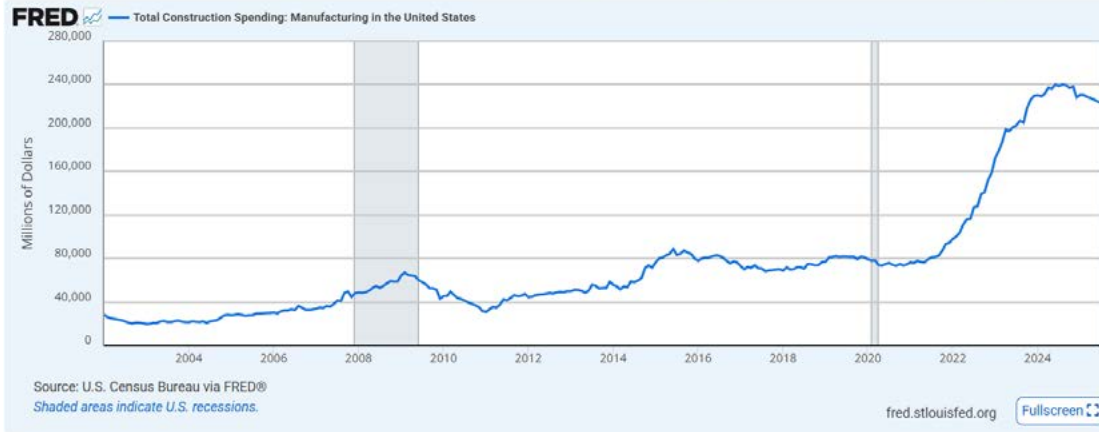
Max

2002-01-01

to 2025-07-01

Edit Graph

Download



Common concerns putting the brakes on manufacturing construction include:

- Policy uncertainty is slowing foreign direct investment in manufacturing
- Access to labor — especially skilled — is scarce
- Persistent inflation has consumers cautious with spending, making forecasting growth more difficult
- Moody's downgrade of U.S. debt last year made funding options more expensive
- Even if manufacturers reshore, high tariffs on any imported components or raw materials will still apply



How to reduce tariff impacts

Work from a tariff roadmap

There are approximately 20 tools in the toolbox for identifying risk and reducing exposure, which can be mixed and matched depending on how your supply chain is organized. A tariff roadmap is critical to proactively manage profitability.

Track your exposure

If tariffs change, are rolled back, or if you are audited — maintaining detailed records of invoices, receipts, clearance documentation, etc., is essential. If tariffs are rolled back, there are strict procedures and timetables for applying for refunds.

Prioritize tools to tackle tariffs

For multinational companies, tool number one is transfer pricing. If you are currently handling transfer pricing in-house, note compliance must be achieved in both countries and rules can vary considerably. Consider from an owner's perspective the corporate tax rates in each country, along with allowable approaches for reducing tax exposure at the enterprise level.

Align with reshoring and market demand

For example, AI data-center builds are creating a flywheel of economic opportunity for the next decade. As a manufacturer, what's your plan to capitalize on that?





An aging workforce and rising labor costs will likely continue to fuel demand to automate every corner of manufacturing operations for the next decade.

Progress has been made automating repetitive tasks with robotics on the shop floor. Common applications include material handling, casting, molding, welding, machining, finishing, packaging, and much more. Notably, ROI continues to be focused on freeing up talent resources. In a tight labor market, labor functions more like a fixed cost, so the goal is upskilling and redeployment vs. letting talent go.

Spend is shifting, however, as manufacturers who have successfully deployed these initial robotics-related projects are now on the hunt for ROI in new areas. For smaller manufacturers, high startup costs continue as a barrier to entry.



TECHNOLOGY

Where is tech spend trending? According to Rockwell Automation's **10th Annual State of Smart Manufacturing Report**, the top three areas for artificial intelligence (AI) and machine learning (ML) spend are shifting to quality control, **cybersecurity**, and process optimization, with robotics falling to fourth place.

Top uses for AI/ML over next 12 months



TECHNOLOGY

Just a few years ago, 80% of AI applications focused on improving predictive maintenance, suggesting manufacturers are keen to diversify. The report notes 95% either have invested or plan to invest in AI-related technologies over the next five years.

In the middle market, siloed data continues to be a perpetual problem. Manufacturers report less than half (44%) of the data collected is used effectively, implying while the data exists, its full value remains untapped. To access that potential, for example, cost accounting workflows (labor, material, overhead) must be cleaned up to enable critical business essentials like measuring profit by customer. This analysis is also useful for determining where to leverage excess capacity, focus business development, and consider customer deselection.



How to use technology to drive growth

Find the money

The main barriers to automation are access to capital and labor to run it. Unlock cash in the new tax law to accelerate investments and put new technologies to work.

Clarify the problem

Persistent quality issue? Labor intensive process? Too much guesswork when quoting jobs? Too much cash tied up in inventory? Downtime and reactive maintenance? Can't confidently measure profit by customer?

Plan for success

Create a clear roadmap to drive long-term value with the technologies reshaping manufacturing. AI, machine learning, industrial IoT, 3D printing, cloud ERP, and augmented reality are among the top tools manufacturers are deploying.

Explore alternatives

ROI is not about reducing jobs (you can upskill and redeploy). Consider nontraditional ROI, like higher capacity utilization (revenue), reducing inventory holding costs, fewer quality issues, etc.

Make room

Automated work centers take up more room than manual ones. Consider the extra square footage as well as staff to lay out new workflows, flows of materials, and finished goods.

Secure it

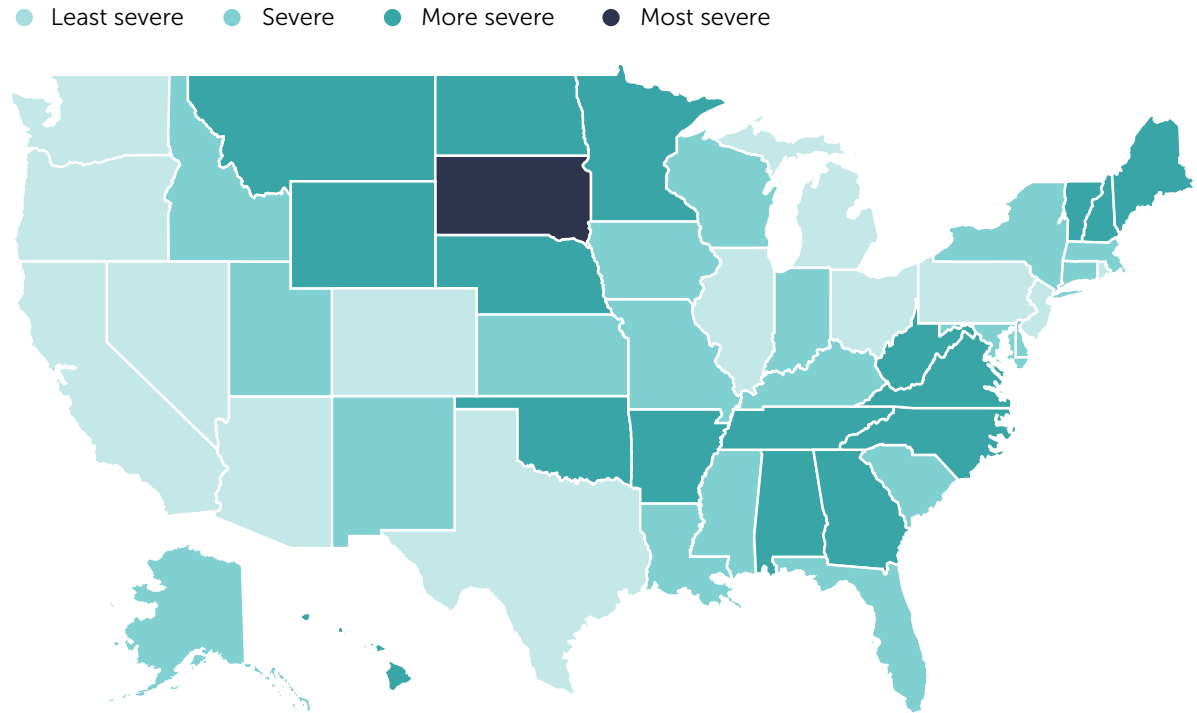
More systems increase potential points for attack. Even the smallest manufacturers need robust protocols for preventing, detecting, and responding to cyberattacks.



TALENT

Over the past two decades, the labor force participation rate has steadily declined from around 66% in 2000 to about 62% or 63% since 2021. Although the rate is gradually recovering, it suffered a significant setback during the pandemic due to factors like early retirements, childcare challenges, and reduced immigration — resulting in a substantial shortage of workers.

It's interesting to note in Rockwell Automation's 2024 manufacturing survey, attracting employees with the right skills was the number one internal obstacle. In 2025, attracting employees fell to fifth place. The number one challenge now is deploying and integrating new technology, suggesting manufacturers are feeling more confident they have the right skillsets on the floor.



Source: Understanding America's Labor Shortage: The Most Impacted States | U.S. Chamber of Commerce



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What job roles are growing the fastest?

First, we looked at job functions rising over the next decade, and once again sifted for U.S. Bureau of Labor Statistics data related to manufacturing. Not surprisingly, automation is having a big impact on recruiting. Areas experiencing growth include information systems and maintenance for increasingly sophisticated electro-mechanical systems fueling advanced manufacturing.

Demographic trends and lack of immigration reform may create a highly competitive talent market for the next decades. Employers will require creativity and agility for talent retention and recruiting — with competitive wages and upskilling needed for managing sophisticated machines. For the next decade, digital literacy will be the new manufacturing currency.

Occupations with the most job growth, 2024 and projected 2034

2024 National Employment Matrix Title	Employment change, percent 2024 – 2034	Median annual wage, dollars 2024 ¹
Computer and information research scientists	22.0	136,620
Logisticians	18.5	77,520
Physical therapist assistants	26.0	62,770
Health specialties teachers, postsecondary	17.5	102,440
Operations research analysts	22.2	87,530
Speech-language pathologists	21.7	84,140

[1] Data are from the Occupational Employment and Wage Statistics program, U.S. Bureau of Labor Statistics. Wage data cover non-farm wage and salary workers and do not cover the self-employed, owners and partners in unincorporated firms, or household workers. Source: Employment Projections program, U.S. Bureau of Labor Statistics



TALENT

To understand trends in labor, CLA analyzed declining and rising labor rates related to manufacturing. Next, we looked at areas **declining** over the next decade. A variety of repetitive job functions are being replaced by robotics, noted in bold in the chart below. The manufacturing roles in red are experiencing downward demand due to changing customer preferences.

The unhighlighted lines — job functions related to mold making/tooling — also are declining, despite the fact these roles require a human touch and are less likely to be supplanted by automation. As this segment nears retirement, critical attention should be paid to apprenticeships.

Fastest declining occupations, 2024 and projected 2034 (Employment in thousands)		
2024 National Employment Matrix Title	Employment change, percent 2024 – 2034	Median annual wage, dollars 2024
Foundry mold and coremakers	-25.9	45,700
Patternmakers, metal and plastic	-24.4	54,540
Grinding and polishing workers, hand	-21.2	41,690
Engine and other machine assemblers	-21.1	41,690
Drilling and boring machine tool setters, operators, and tenders, metal and plastic	-19.9	46,630
Forging machine setters, operators, and tenders, metal and plastic	-18.9	49,240
Model makers, metal and plastic	-18.9	54,540
Cutters and trimmers, hand	-18.1	38,800
Timing device assemblers and adjusters	-16.4	39,820
Print binding and finishing workers	-16.1	40,990
Prepress technicians and workers	-14.6	46,310
Milling and planing machine setters, operators, and tenders, metal and plastic	-13.8	48,370
Lathe and turning machine tool setters, operators, and tenders, metal and plastic	-13.6	48,620

[1] Data are from the Occupational Employment and Wage Statistics program, U.S. Bureau of Labor Statistics. Wage data cover non-farm wage and salary workers and do not cover the self-employed, owners and partners in unincorporated firms, or household workers. Source: Employment Projections program, U.S. Bureau of Labor Statistics



Are wages keeping up in manufacturing?

Over the past five years, automation has decreased the number of workers per establishment. However, competitive wage pressures and a tight labor market have driven compensation higher.

In 2023, the average total compensation for manufacturing workers reached \$102,629. This rise is partly due to the demand for technically skilled employees who can operate advanced automation, robotics, and process optimization systems.



How manufacturers can attract and retain talent



Combine people strategy with technology strategy

Because those attending trade schools often have multiple offers before they graduate, consider working upstream with high schools and work-based learning programs such as the [work-based learning intermediary from GPS Education Partners](#).



Create visual career paths

Show new recruits they can grow inspired careers in advanced manufacturing within your company. Surround staff with learning to boost retention and ROI-driven continuous improvement on the shop floor.



Preparing for owner transition will continue to be top of mind for owners as Baby Boomers consider retirement and how to exit their businesses.

According to CLA's research, around half of manufacturers don't have a succession or owner transition plan, and 60% aren't aware of their options for transition. Meanwhile, around 80% of a typical owner's wealth (and personal identity) is tied up in the business. When we consider 50% of all transitions inevitably occur due to death, divorce, disability, or distress, the weight of these statistics come more clearly into view.



What makes a manufacturing transition unique?

While many businesses struggle with owner dependence, manufacturing transitions are distinctly complex due to owners' technical entrenchment and the businesses' operational specificity.

Unlike service or retail businesses, where leadership can often be replaced with general management skills, manufacturing transitions often require successors with specialized knowledge or the ability to quickly absorb it. Customer relationships may also be more technical in nature — built on trust in the owner's engineering insight or problem-solving ability — rather than purely relational or transactional.

From a valuation standpoint, the more the owner is technically tied to the business and/or customer base, the less valuable the business is on the market. The very asset that made the business successful is seen as a liability because a buyer may lack confidence the business can continue to grow without the owner involved. Furthermore, a private equity buyer may hesitate if they lack a platform with aligned technical knowledge.

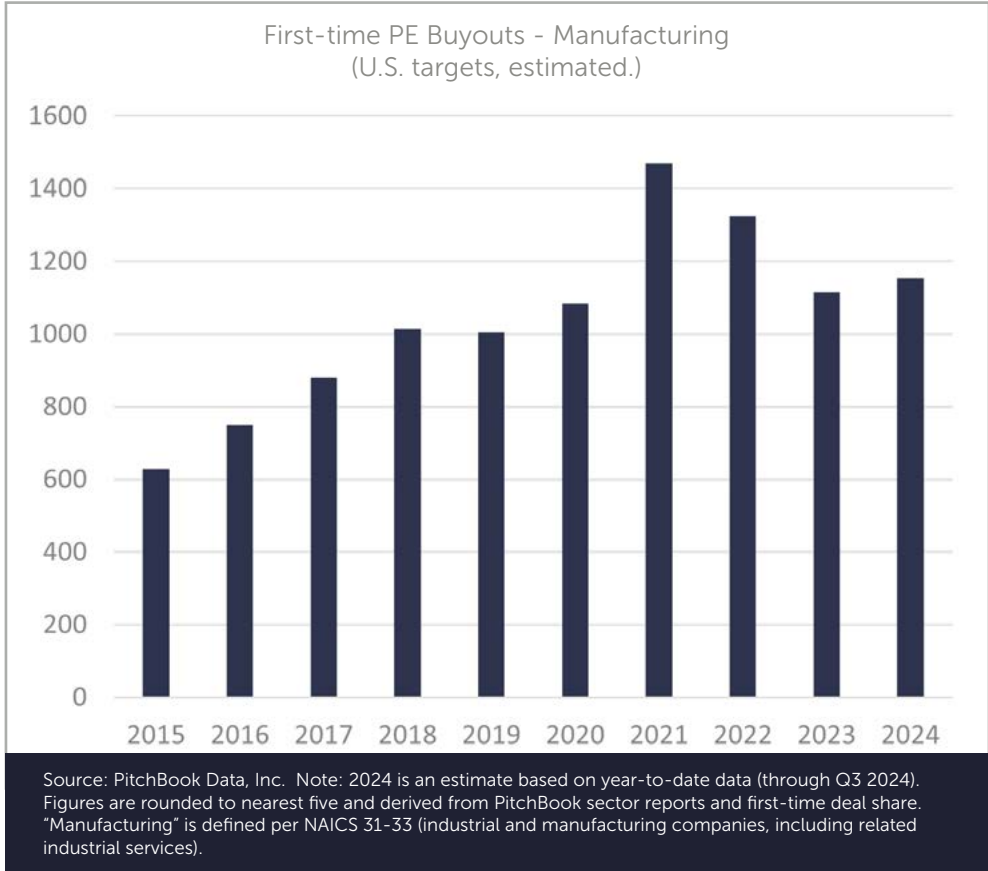
A business is more likely to sell for a premium if owners can separate themselves from the business and prove it's fully self-sufficient on its own with strong leadership.



Aligning personal and professional outcomes

Business transition planning can be complex, but with foresight and flexibility, owners can align personal and company goals to benefit employees and communities. Effective contingency planning helps prevent negative surprises and enhances a business's enterprise value.

Around 15 – 20% of businesses are passed to family members. Most businesses are sold to corporate, family office, private equity buyers, management buyouts, or employee ownership (ESOPs). Private equity buyouts have roughly doubled over the past decade. [Private equity buyers](#) are involved with around half of all buyouts today, and that trend will likely continue in 2026 and beyond.



2025 finish and 2026 outlook

As 2024 ended, dealmaking was just starting to pick up due to more favorable interest rates and reduced inflation. As tariffs began to roll out in 2025, investors' concerns over input costs and softness in demand (related to higher prices) began to grow, slowing down deals in some cases.

Although the full impact of tariffs is not clear, investors seemed to have worked past it as we head into 2026. Deal volumes once again look promising.



How to prepare your business for transition

1

Ready the business; improve valuation

The more self-sufficient the business, the higher the premium from a valuation perspective. [Consider working with a professional](#) to develop a clear and detailed roadmap.

2

Consider your many options

When transitioning a business, think about timing, preparedness, and desired impact on family, employees, and community.

3

Measure the impact of tariffs and other external factors

Analyze effects on [valuation of the business](#) from both a supply side and demand side pricing perspective. Consider scenario modeling as a tool during diligence.



A woman with dark hair in a bun and glasses, wearing a light blue button-down shirt and tan pants, is looking at a tablet. A man with a beard, wearing a dark blue t-shirt, is standing behind her, also looking at the tablet. They are in a warehouse setting with large white boxes and pallets in the background. Another person is visible in the background, working with boxes.

Looking ahead

The five Ts — tax, tariffs, technology, talent, and transition — aren't just forces of change. They're strategic levers for your business. **Manufacturers** who plan boldly, invest wisely, and stay agile may be better positioned to lead through uncertainty and shape what's next.



Jennifer Clement

Strategic Pursuits Leader, Manufacturing
412-979-2696
jennifer.clement@CLAconnect.com

Leslie Boyd

Managing Principal of Industry
317-569-6329
leslie.boyd@CLAconnect.com



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