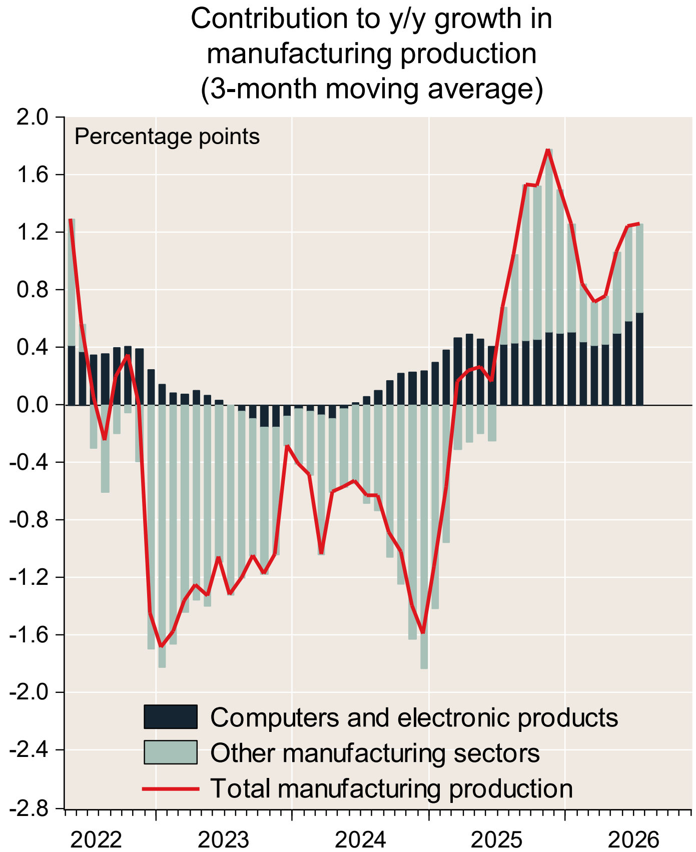
August 20, 2026 (Vol. XXVI, No.35)

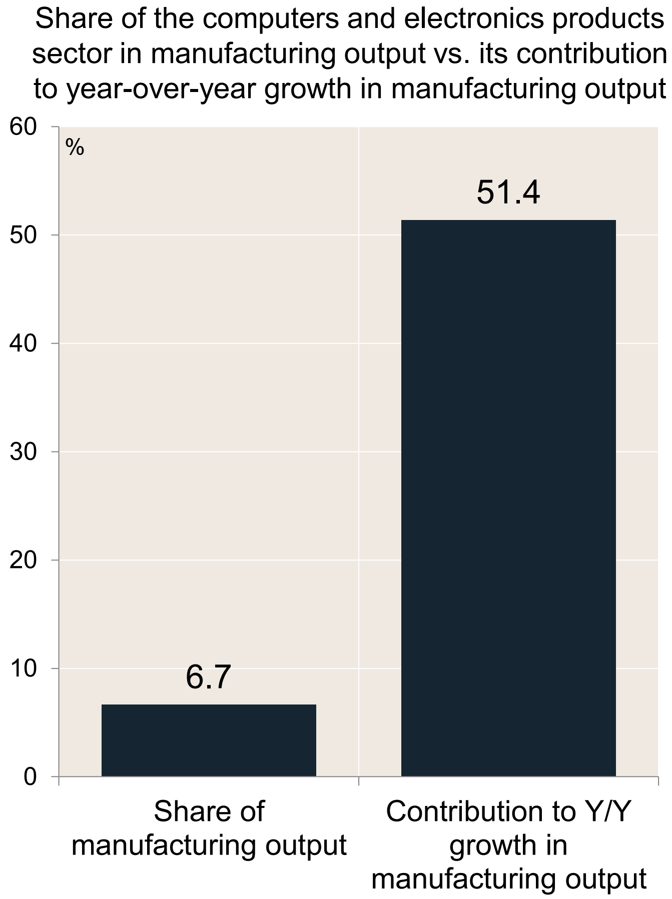
U.S. Watch

By Jocelyn Paquet

Although it accounts for a much smaller share of GDP than the services sector in developed economies, the fact that the manufacturing sector tends to be more cyclical means it deserves the attention of economists striving to identify turning points in the economic cycle. Knowing this, the marked improvement in the outlook for U.S. factories in recent months should be welcomed as a sign that the world's largest economy may be gaining steam. After spending nearly three years below the 50-point threshold that separates expansion from contraction, the ISM Manufacturing PMI finally and sustainably crossed that threshold at the beginning of the year and has continued to climb ever since, reaching its highest level in 50 months in November (55.6). Nor is the ISM the only survey to report such a turnaround; the PMI Manufacturing index published by S&P Global has followed a similar trajectory. And the good news is that the industrial production data released earlier this week corroborates what the polls are saying, namely, that manufacturing output has returned to growth in 2026. Could it be that the U.S. administration's protectionist policies are beginning to pay off in terms of reshoring the manufacturing base? The fact that the manufacturing recovery is a global phenomenon suggests otherwise. Instead of gaining ground *at the expense* of foreign competitors, U.S. manufacturers appear to be benefiting from factors that are improving conditions for factories *everywhere*. Any idea what these factors might be? A closer look at manufacturing production data suggests that, as in many sectors of the economy, the most important factor is increased spending in AI-related sectors. Admittedly, a significant portion of the microprocessors purchased by American hyperscalers must be imported, but that does not mean American factories are not benefiting from the boom. A more in-depth analysis of the data indeed shows an outsized contribution to factory output growth over the past year from the computers and electronics segment, which is closely linked to developments in AI. As today's Hot Chart shows, more than half of the expansion over the past 12 months can be attributed to this sector, whose total output accounts for only 6.7% of the total. Talk about punching above your weight.

U.S.: The manufacturing sector's recovery is being driven by AI





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