Atradius
Managing risk, enabling trade

Industry trends – Chemicals

Solid growth rates in 2025 and 2026, but looming trade disputes cast a shadow over the future

February 2025

Global overview

Annual production growth of about 3% expected in 2025 and 2026

The chemical industry was amongst the worst impacted by the energy crisis in 2022 and into 2023, as output is heavily reliant on oil and gas feedstocks and requires energy-intensive manufacturing processes. High inflation and tight monetary policies kept feedstock prices high, while also causing key buyer industries and consumers to cut back on spending. This weakening in demand has meant that many chemical producers have been unable to pass on higher production costs to their customers.

However, in the course of 2024 a rebound in the US and in Western Europe has gained momentum, supported by lower energy prices and recovering demand from key buyer sectors and consumers. We expect chemicals production to increase by about 3% annually in 2025 and 2026.

The potential impact of US tariffs

Global trade performance and developments are very important for the industry as chemical products, particularly upstream basic chemicals, are highly traded goods.

The new US administration initiated tariffs of 25% on imports from Mexico and Canada, but granted both a 30-days reprieve on February 3rd. On China, additional tariffs of 10% have been imposed, and 25% tariffs on all US steel and aluminium imports. Additionally, President Trump has tasked his economic team with devising plans for reciprocal tariffs on every country that taxes US imports.

It is currently difficult to estimate the extent to which additional US tariff decisions will affect the performance of the global chemical industry in 2025 and 2026. Any escalation caused by massive US tariff increases and subsequent retaliatory measures by the countries affected could fragment international chemical markets, reduce efficiency, and disrupt established supply chains. Higher input costs for downstream industries could potentially suppress overall chemical demand.

An uneven long-term outlook

In the coming years Asia Pacific will continue to be the main driver of chemicals growth, followed by the US chemicals sector, which benefits from shale gas supply. Europe chemicals businesses will face competitive disadvantages due to structurally higher energy prices after the expiry of Russian gas deliveries.

The chemicals industry is characterised by intense competition and ongoing market consolidation. Larger players often have economies of scale and greater resources to invest in research and development, innovation and marketing. This may cause smaller companies to struggle to remain competitive.

Industry performance forecast

Europe		Asia and Oceania		Americas
Austria	Netherlands	Australia	Phillippines	Brazil
Belgium	Poland	China	Singapore	Canada
Czech Republic	Portugal	Hong Kong	South Korea	Mexico
Denmark	Slovakia	India	Taiwan	USA
France	Spain	Indonesia	Thailand	
Germany	Sweden	Japan	UAE	
Hungary	Switzerland	Malaysia	Vietnam	
Ireland	Turkey	New Zealand		
Italy	UK			

Excellent The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

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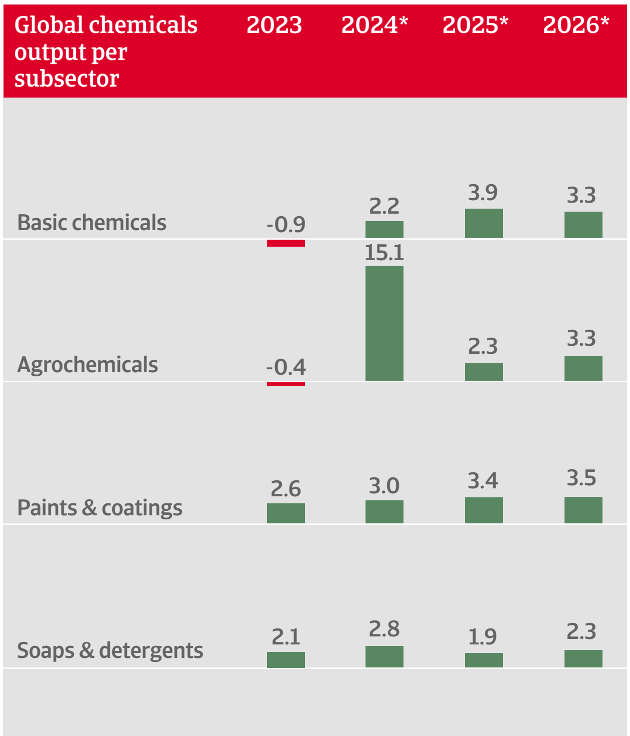
Industry trends

Chemicals

Year-on-year, % change /*forecast
Source: Oxford Economics



Year-on-year, % change /*forecast
Source: Oxford Economics

Strengths and growth drivers

Advanced materials. Sectors such as electronics, automotive and aerospace are driving increased demand for high-performance materials. This is creating opportunities for the chemicals industry to develop materials to meet specific needs.

Sustainability. There is a growing demand for sustainable solutions across the industry and this provides companies with the opportunity to gain market share. The surge in EV production increases demand for high-performance plastics and supplies for battery materials.

Rising middle class in emerging markets. Rapid urbanisation and increasing household purchasing power of the middle class in emerging markets should boost demand for soaps and detergents products.

Constraints and downside risks

Energy prices. As an energy-intensive industry, the chemical industry is highly susceptible to oil and gas price volatility.

Transition to sustainability. This will create challenges as well as opportunities for the sector. Companies are facing major investments in decarbonisation and optimising sustainability. Pressure from stakeholders is increasing, and ESG performance is expected to be benchmarked as highly as cost and other productivity metrics.

Regulatory and compliance pressures. Stricter regulations aimed at reducing environmental impact and improving safety standards may create disruptions for companies in the chemicals industry as they work to adapt while maintaining profitability.

Supply chains. The chemicals industry is highly dependent on raw materials sourced from various regions across the globe. Potential supply chain disruptions, caused by geographical tensions, rising protectionism, natural disasters or logistical issues are downside risks.

Chemicals outlook
Americas

Chemicals output	2023	2024*	2025*	2026*
Brazil	-8.2	2.2	2.2	1.2
Canada	-3.3	1.3	1.2	2.0
Mexico	-6.2	2.8	-0.6	2.0
USA	0.0	2.1	3.8	2.7

Year-on-year, % change /*forecast – Source: Oxford Economics

USA

Good short-term prospects

US chemical production increased 2.1% in 2024, and we expect solid growth rates of 3.8% in 2025 and 2.7% in 2026. Among subsectors, we expect basic chemicals output to increase by 6.4%, paints/varnishes to expand by 4% and soaps/detergents to grow by 7% this year. Monetary easing by the Fed and expansionary fiscal policies by the new administration will drive robust consumer spending and boost demand from key buyer sectors like automotive and construction.

The CHIPS and Science Act and the Inflation Reduction Act support the industry. Domestically produced semiconductors, lithium-ion batteries and solar panels will provide demand for chemicals. We expect most measures from the Inflation Reduction Act to remain in place under the new administration.

Additionally, US natural resources will help to drive US chemicals growth and attract investment due to lower commodity prices. US oil production is currently running close to capacity. Investments in US shale gas-related projects over the past decade have been large, resulting in more stable gas prices, a reliable supply chain and lower cost of producing chemicals such as ethylene. This is helping US chemical producers to enjoy an advantage in cost competitiveness over their European and Asian peers.

Potential impact of import tariffs felt in the mid-term

Currently we still assume that any potential US tariff actions against Europe would be targeted at sectors without clear links to US chemicals (e.g. President Trump's most recent tariff announcements were focused on metals/steel imports). The additional 10% blanket tariffs on imports from China could boost US domestic production of chemicals like polypropylene and ethylene glycol. However, as of 2026 the impact of additional import tariffs could exert downward pressure on US chemicals output. Higher input costs caused by tariffs and increased interest rates put in place to tackle inflation would dampen demand for chemicals from key buyer sectors in US manufacturing.

Industry performance forecast
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Canada
Mexico
USA

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Chemicals outlook
Asia Pacific

Chemicals output	2023	2024*	2025*	2026*
China	10.6	7.4	2.2	3.6
India	4.8	1.5	6.4	10.9
Japan	-7.9	-2.2	1.4	0.5
South Korea	-4.5	1.5	2.6	1.1

Year-on-year, % change /*forecast – Source: Oxford Economics

China

Slowdown of growth amid tariff threats

After strong increases in 2023 and 2024, China´s chemical production growth is expected to slow down to 2.2 in 2025 and 3.6% in 2026. This is due to more sluggish household consumption growth, lower manufacturing activity and a marked slowdown in export growth. However, the chemicals sector is a strategic priority for the Chinese authorities, and we expect ongoing fiscal support to offset any potential trade losses. Fiscal and monetary policy measures to support the property construction sector and the economy will be particularly useful to the paints and varnishes subsector.

In international comparisons Chinese chemical production remains competitively priced, supporting exports. However, oversupply is an issue, impacting margins for many Chinese chemical producers. We assume that the effect of the additional 10% US tariffs on imports from China will have only a modest effect on sector performance. However, any escalation of the trade dispute with high blanket tariffs on all Chinese exports to the US are a downside risk for the industry, as it could lead to a downturn in Chinese industrial activity, hurting chemicals demand from key buyer sectors. This would mainly affect the basic chemicals segment.

India

Robust domestic demand and government support

The Indian chemical industry is currently the fifth largest in the world, and is expected to extend its market share, outpacing global chemicals growth. Chemicals production is forecast to increase by 6.4% in 2025 and by 10.9% in 2026. With an expanding economy and increasing population, chemical growth is mainly being driven by domestic demand. Government policies support foreign direct investment and provide petroleum, chemicals and petrochemicals investment regions, which will spur growth over the coming decade.

Japan

A rebound in 2025, but oversupply from China is an issue

We expect Japan´s chemicals output will increase by 1.4% in 2025, after contractions in 2023 and 2024. Japanese automotive production is set to rebound after a major slump due to safety issues in early 2024. This should support overall industrial production and, in turn, prop up the chemicals sector.

Japanese basic chemical producers feel competitive pressure from their cheaper producing Chinese and US peers, in particular in the basic chemicals segment. Significant oversupply from China is leading to losses for many companies, and even the closing of facilities. We expect that in the mid-term and long-term the Japanese chemicals industry will shift away from low-value added chemicals towards less energy intensive, high-quality, premium-priced chemicals. More specialised products for automotive, electronics and life sciences should provide higher margins.

Industry performance forecast
Australia
China
Hong Kong
India
Indonesia
Japan
Malaysia
New Zealand
Phillippines
Singapore
South Korea
Taiwan
Thailand
UAE
Vietnam

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Chemicals outlook
Europe

Chemicals output	2023	2024*	2025*	2026*
France	-1.7	-1.8	0.7	3.2
Germany	-9.2	6.9	1.9	2.4
Italy	-5.3	1.7	0.8	1.6
United Kingdom	-12.9	-0.2	1.7	1.2

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Eurozone and UK

Growth in 2025, but long-term worries remain

We expect chemicals production in the eurozone to grow by 2.1% in 2025 and by 2.6% in 2026, supported by a mild recovery in both private consumption and industrial production. Recent interest rate cuts by the ECB have eased pressure on chemical producers as credit has become cheaper. In the UK, chemicals output growth will be low at 1.7% after contractions in 2022-2024. The economic performance remains lacklustre, and UK firms are cutting their investment plans following the new budget with higher taxes.

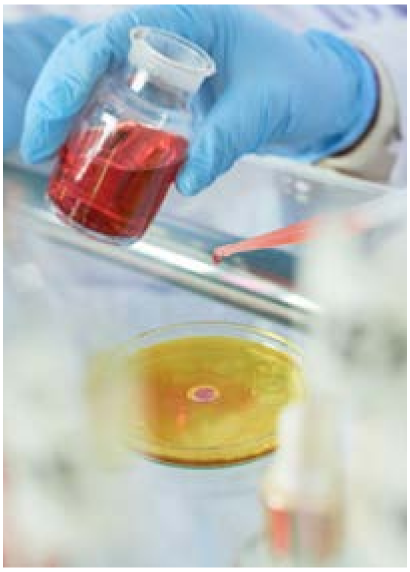
While energy prices have decreased since 2023, longer-term worries for European chemical producers remain. Gas prices are likely to stay above pre-crisis levels indefinitely as Europe replaces Russian gas with global imports of liquified natural gas. Higher gas prices weaken the long-term competitiveness with American and Asian rivals. The current capacity utilisation rate of the chemicals industry in the eurozone is 7.6% below its 2015–2019 average. Lower capacity utilisation leads to higher cost per ton of output, adding to already existing cost pressures generated by gas prices. In addition, stricter environmental regulations mean European chemicals businesses will face increasing regulatory scrutiny. Meeting these requirements while maintaining profitability and innovation could be challenging.

Germany

A rebound is ongoing, but relocation of production is a downside risk

Germany is by far the largest chemicals producer in Europe, accounting for 4% of global chemicals output. After major contractions (-11.8% in 2022 and -9.2% in 2023) production recovered by 6.9% in 2024. However, we expect only a modest 1.9% increase in 2025, as domestic demand remains weak and structurally higher energy prices weigh on exports. The currently struggling German automotive industry is an important buyer sector, and potential US tariffs on German car exports could hurt the paints and varnishes subsector.

Despite the sluggish recovery the industry remains robust, with solid capitalisation, good access to external financing, and a well-balanced debt profile. However, as energy prices are likely to remain above pre-crisis levels, lower international competitiveness is an issue. There is the possibility of German chemicals manufacturers relocating to countries where energy costs are lower.



Industry performance forecast
Austria
Belgium
Czech Republic
Denmark
France
Germany
Hungary
Ireland
Italy
Netherlands
Poland
Portugal
Slovakia
Spain
Sweden
Switzerland
Turkey
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