



Industry trends – Chemicals

Chemicals production growth projected to slow in 2025/2026 due to US tariffs

October 2025



Global overview

Lower global trade and trade policy issues additionally exert both direct and indirect pressure on the industry

Following the energy crisis squeeze of 2022 into 2023, the chemicals industry enjoyed rebound growth of 4.7% in 2024. But this uptick has proved to be short-lived. We expect chemicals production growth to slow down to 2.1% in 2025 and to 1.5% in 2026.

The chemical industry is heavily reliant on oil and gas feedstocks and requires energy-intensive manufacturing processes. Inevitably, the energy crisis hit it hard. Although brief, the output growth seen during 2024 was supported by lower energy prices and recovering demand from key buyer sectors and consumers.

Today, the industry's deep integration into nearly all areas of industrial production means it is vulnerable to the impact of tariffs and any issues arising out of trade policy decisions. Global trade growth will decelerate sharply in the coming months as the weight of tariffs comes into effect. This will, in particular, affect upstream basic chemicals as highly traded goods.

The pressures felt by the industry is both direct and indirect. Higher input costs for downstream industries weigh on chemicals demand. The automotive sector is a primary target of US tariffs. This poses a significant challenge for major exporters such as

Germany and Japan, for whom automotive shipments to the US are vital. The resulting decline in US demand for imported vehicles is likely to ripple through the supply chain, ultimately reducing demand for chemical input used in automotive manufacturing.

A key concern remains the potential diversion of Chinese goods - originally destined for the US - into other markets, particularly Europe. This shift could lead to an influx of cheaper Chinese products, undercutting demand for domestically manufactured goods and, by extension, the chemicals used in their production. Any further escalation of the current tariff conflict could fragment international chemical markets, reduce efficiency, and disrupt established supply chains.

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	Phillipines	Brazil	Excellent The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.	
Belgium	Poland	China	Singapore	Canada	Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.	
Czech Republic	Portugal	Hong Kong	South Korea	Mexico	Fair The credit risk situation in the sector is average / business performance in the sector is stable.	
Denmark	Slovakia	India	Taiwan	USA	Poor The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.	
France	Spain	Indonesia	Thailand		Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.	
Germany	Sweden	Japan	UAE			
Hungary	Switzerland	Malaysia	Vietnam			
Ireland	Turkey	New Zealand				
Italy	UK					



Industry trends

Chemicals output

Output per region	2023	2024	2025*	2026*
Global	1.0	4.7	2.1	1.5
Americas	-1.2	2.7	0.4	-0.3
Asia Pacific	5.4	6.0	3.2	2.1
Europe	-8.4	3.7	0.2	0.4

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

Global output per subsector	2023	2024	2025*	2026*
Basic chemicals	-0.9	4.7	2.1	1.5
Agrochemicals	-0.4	16.1	6.6	-2.8
Paints & coatings	2.6	4.2	4.6	1.7
Soaps & detergents	2.1	3.5	-0.7	1.4

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. Companies are facing the cost pressures of 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 disruption as the industry works to adapt while maintaining profitability.

Supply chains. The chemicals industry is highly dependent on raw materials sourced globally. Supply chain disruptions caused by geographical tensions and protectionism (including the US tariffs), natural disasters or logistical issues are downside risks.





Chemicals outlook Americas

Chemicals output	2023	2024	2025*	2026*
Brazil	-8.2	3.7	2.5	-0.6
Canada	-3.5	-3.5	-7.0	-0.5
Mexico	-5.4	3.7	0.1	1.9
USA	0.0	3.3	0.6	-0.8

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

USA

Tariffs affect demand from key buyer industries in the domestic market

US chemical production increased 3.3% in 2024, but we expect growth to slow down to 0.6% this year and a 0.8% contraction in 2026. There is some variation among subsectors. We expect basic chemicals output to contract by 1.5% this year, agrochemicals to expand by 6.4% and soaps/detergents to decrease by 2.2%. Domestic demand from automotive and construction is decreasing, as those key buyer sectors for chemicals feel the impact of higher input costs caused by tariffs and ongoing trade policy uncertainty. Ever-changing tariff levels are prompting US manufacturers to delay projects and withhold investment until they receive further clarity.

Good prospects in the mid- and long-term

In the mid-term the outlook for the US chemicals sector is more positive, underpinned by stronger consumer demand and the benefits of shale gas projects. In the course of 2026, the Trump administration’s expansionary fiscal policy is expected to lift household spending and business investment, boosting demand

for manufactured and chemical goods. In 2027 US chemicals production is forecast to rebound by 4.2%, and growth rates should remain solid above 3% annually in 2028 and 2029.

Domestically produced semiconductors, lithium-ion batteries, solar panels, and other clean technologies are also driving demand for the chemicals required in their production. However, Washington has recently pulled back USD 3.7 billion in clean energy awards, potentially reducing the size of the market for chemicals producers supplying the clean energy sector. In addition, the cut in incentives could make it significantly more costly for chemical producers to reduce emissions.

US natural resources will help to drive US chemicals growth and attract investment due to lower commodity prices. 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.

Industry performance forecast

- Brazil**
- Canada**
- Mexico**
- USA**

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

Good
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.

Fair
The credit risk situation in the sector is average / business performance in the sector is stable.

Poor
The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.

Bleak
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Chemicals outlook Asia Pacific

Chemicals output	2023	2024	2025*	2026*
China	10.6	9.0	5.5	1.3
India	6.7	2.8	-0.1	9.0
Japan	-5.1	-2.3	-0.9	0.8
South Korea	-4.4	0.5	-4.2	3.5

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

China

Slowdown of growth amid tariffs and lower domestic demand

After strong increases in 2023 and 2024, China's chemical production growth is expected to slow to 5.5% this year, and in 2026 only a 1.3% increase is forecast. Given the oversupply of housing, construction volumes will remain low, reducing demand for chemical goods from a key buyer sector.

The effective US tariff rate on Chinese goods amounts to about 40%, hurting chemicals demand from key buyer sectors that export to the US. However, export losses to the US are being partly compensated by more shipment to the EU, Africa, and Asia, helping to prop up demand for chemicals. In international comparisons Chinese chemical production remains competitively priced, supporting exports. The sector is a strategic priority for the Chinese authorities, and we expect ongoing fiscal support to offset any potential trade losses.

However, China has a significant overcapacity issue, impacting margins for many Chinese chemical producers. Around 18.7 million tons of chemical capacity were added in 2024, which will be tackled by the targeted closing of inefficient, older facilities in the coming years. Key segments at risk include basic chemicals like ethylene, polypropylene, ammonia, and methanol. However, the shift to a consumer-led economy and a rising middle class will benefit sectors like soaps and detergents, and speciality chemicals.



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 level off in 2025, but to grow by 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

Weaker demand from automotive has its impact

We expect Japan's chemicals output to contract by 0.9% in 2025, followed by a 0.8% increase in 2026. While there is steady demand from construction, automotive as another key buyer sector for the chemicals industry that is suffering from US tariffs and elevated global trade uncertainty.

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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	Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.



Chemicals outlook Europe

Chemicals output	2023	2024	2025*	2026*
France	1.1	2.3	-3.3	1.5
Germany	-9.5	5.2	-1.3	-0.6
Italy	-5.5	1.6	1.6	0.6
United Kingdom	-13.4	-0.8	-1.8	0.0

European Union and UK

No growth in 2025 and 2026, and long-term worries remain

We expect chemicals production in the eurozone to level off in 2025 and 2026. Chemicals performance across the region will be supported by demand from the construction, rubber and plastics industries, although a weak automotive sector is acting as a drag on growth. Structurally higher energy costs remain a key challenge for European producers. 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 will weaken long-term competitiveness with American and Asian rivals.

US tariffs could divert more Chinese exports to Europe, reducing demand for European goods made using local chemicals. Moreover, China is projected to expand its chemical output by a compound annual growth rate (CAGR) of 10% CAGR over the next three years, worsening global oversupply of chemicals and likely pushing global chemical prices down further. This would make it even harder for European producers to compete. In order to cut costs and to improve operational efficiency, several facilities have been closed over the past two years in the EU and the UK.

In July 2025 the EU commission launched a European Chemicals Industry Action Plan in order to support the EU chemical sector. It addresses urgent challenges such as high energy costs, global competition, regulatory complexity, and environmental sustainability. The plan could ease pressure on the sector by cutting cost on red tape and promoting investment and innovation.

Germany

Another output contraction is looming

After major contractions (-11.8% in 2022 and -9.5% in 2023) production recovered by 5.2% in 2024. However, we expect contractions of 1.3% in 2025 and 0.6% in 2026, as a subdued German economic performance, the impact of US tariffs and global trade uncertainty hit the industry. Chemicals exports to the US are decreasing, while demand from domestic construction remains weak. The struggling German automotive industry is an important buyer sector, and US tariffs on German car exports are hurting the paints and varnishes subsector. However, we expect chemicals growth rates to recover as of 2027, when a major fiscal package is due to come into effect.

Despite the sluggish performance over the past couple of years the financial situation of the industry is still stable, with solid capitalisation, good access to external financing, and a well-balanced debt profile. German chemicals benefit from integrated plants with a wide range of products and expertise in speciality chemicals. 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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Olaf Gierlichs-Steffens, Atradius Senior Underwriter in Cologne, Germany.
Chemicals sector expertise for global and regional developments and trends.

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Atradius

David Ricardostraat 1
1066 JS Amsterdam
P.O. box 8982
1006 JD Amsterdam
The Netherlands
Phone: +31 (0)20 - 553 91 11

info@atradius.com
www.atradius.com