CHEMICAL INDUSTRIES ASSOCIATION

CIA Economic Report

Second Quarter 2025

Executive summary

Steve Elliott, Chief Executive, Chemical Industries Association

I am pleased to present our latest economic report, written by Michela Borra, Head of Economics at the Chemical Industries Association (CIA). Our economic report has two sections. The first part is a CIA analysis of official statistics; this section assesses the UK chemical industry's performance against that of the wider economy. The second section presents the results of our quarterly industry survey. Our Q2 2025 Business Survey took place between June 25th and July 11th, and we received entries from 50 chemical companies.

Economic Overview

The first half of 2025 has been marked by heightened volatility in global markets. While the UK economy showed strong momentum in Q1, the announcement of US tariffs in March created significant disruptions. These measures triggered a sharp slowdown in trade, weakened investor confidence and reversed earlier growth trends, leading to lower economic activity in April and May.

Focusing on chemicals, output contracted by 1.8% in 2024 and is expected to fall by another 1.8% in 2025 amid high energy costs, reduced competitiveness and offshoring. The sector remains under severe pressure with energy-intensive operations losing investment to cheaper regions and international demand weakened by global uncertainty.

Headline inflation rose to 3.6% in June 2025 due to fiscal changes and higher energy prices, with the yearly average expected at 3.2%, above 2024's 2.5%. Services inflation remains persistent at 4.7%. The Monetary Policy Committee cut interest rates to 4.0% from 4.25% in their latest meeting in August due to the impact of weak economic growth and tight fiscal policy on the labour market.

The labour market continues to weaken with unemployment rising to 4.7% in May and vacancies falling for four consecutive months. Average UK pay growth has eased but continues to outpace inflation. Total pay in the chemical sector increased by 3.6% while regular pay increased by 4.3%, resulting in a real-terms pay cut of 0.4% for total pay and 0.3% pay growth for regular pay.

Insights from our industry

In the first quarter of 2025, the chemical sector experienced a slight improvement in demand, with almost 40% of respondents reporting higher sales compared to Q4 2024. However, this uptick wasw short-lived as Q2 saw a reversal, with 33% reporting falling sales. Production levels and capacity utilisation contracted in line with lower domestic and international demand while margins fell for 47% of respondents — the lowest margin index in over a year. Employment continued its downward trend for the sixth consecutive quarter, driven by restructuring and weak demand. Input costs remained a significant pressure point, with 39% reporting higher raw material prices and trading costs rising due to US tariffs and fragmented supply chains.

Optimism for Q3 2025 remains subdued. Less than a quarter of respondents expect sales and production to improve while capacity utilisation is expected to contract marginally. Concerns over further reductions in employee numbers persist, with 22% forecasting additional cuts and 30% anticipating margins will deteriorate further. Looking ahead to the next 12 months, expectations are weaker than usual. Slightly more than half of respondents anticipate higher sales but with UK chemical output still 32% below pre-pandemic levels, recovery to previous standards appears distant.

The top challenges identified remain energy costs, weakening demand and rising labour costs, with raw material prices following closely. US tariffs were widely cited as a key risk both directly through higher trading costs and indirectly through global supply chain disruptions and uncertainty. Regulatory burdens were another major concern, with 34% of firms reporting that UK sites spend more time on compliance than international counterparts, leading to lost investment opportunities for 42% of respondents.

On opportunities, respondents highlighted potential gains from specialisation in high-value chemicals, capacity rationalisation and government support measures. However, 70% reported a slowdown in net zero investments both internally and across supply chains, reflecting difficult operating conditions.

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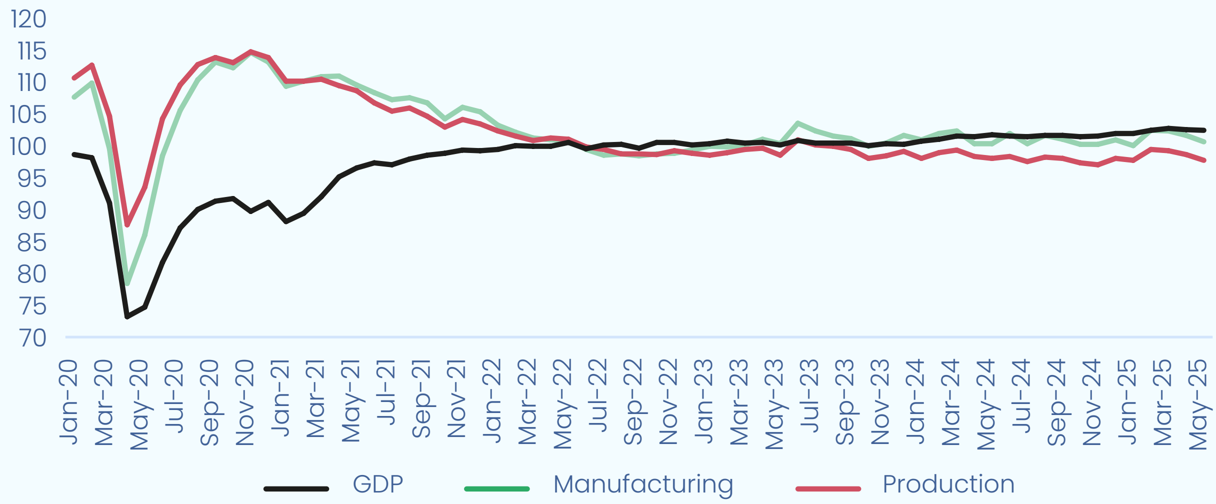
Uncertainty and high costs squeezing margins

After a strong start to 2025 with initial signs of recovery across the world, the introduction of higher tariffs from the US has shaken the global equilibrium and heightened uncertainty. Data for UK GDP clearly shows that economic activity slowed down after March.

GDP and chemical production

Graph 1: Index of GDP, Production and Manufacturing output from January 2022 to May 2025 (2022=100)



Source: CIA analysis of ONS data

The **above graph** reports monthly GDP alongside monthly production and manufacturing output, showing the impact of these sectors on overall economic growth. In the first quarter of 2025, the UK economy had momentum and quarterly GDP grew by 0.7% after Q4 2024's weak growth of 0.1%. The strength recorded in Q1 was the result of strong consumer demand for services and an extremely positive February and March for industrial production. Higher production output in the first quarter was further fuelled by boosts in both European and American industrial sectors.

Despite this initial recovery, the tariff announcements in March shocked demand and disincentivised both domestic and industrial consumption. For this reason, production output strongly contracted in both April and May, leading GDP to fall in the same periods.

The contractions in production output were mainly linked to contractions from the manufacturing sectors, represented by the green line. Manufacturing output is strongly impacted by household consumption and industrial inventories. Lower confidence in short-/medium-term economic growth impacts manufacturing businesses' decisions on the level of investment and stock, thus diminishing demand for intermediate goods and other inputs.

Drilling down to the data to the five biggest manufacturing sub-sectors. **Graph 2** shows monthly output for the Food and Drink, Pharmaceutical, Chemical, Automotive and Aerospace industries, which are colloquially referred to as the 'Manufacturing 5' or 'M5'.

The blue line represents automotive output. The automotive sector has recorded the highest growth amongst manufacturing sub-sectors since the pandemic. Thanks to substantial government support and investment in electric vehicles, automotive output grew by 9.3% in 2024 and it is currently 20.7% higher than pre-pandemic. High input costs, fierce competition from third country markets, strict trade regulation on EV, strict regulation around EV sales coupled with consumer demand shifting away from EV and high tariffs will likely result in a strong contraction for automotive output.

Pharmaceutical output – light green line – expanded by 2.6% in 2024 and, thanks to strong performance in February and April 2025, output levels are currently 50% higher than pre-pandemic. With the UK being a centre of excellence for medical R&D, forecasts are optimistic that 2025 will also be a year of moderate growth for this sector but some concerns remain over Trump's position on pharmaceutical exports into the US.

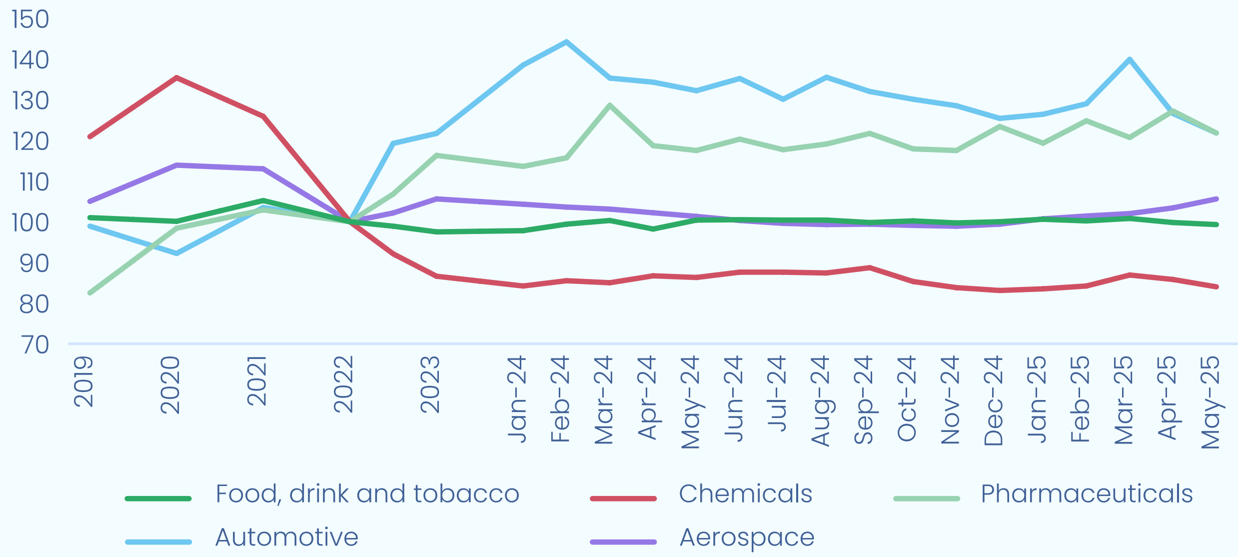
The third best-performing sector is aerospace, represented by the purple line. Despite receiving substantial government support, its output contracted by 4.5% throughout 2024 and it is currently 2.4% lower than pre-pandemic. We are expecting aerospace manufacturing to record strong growth in both 2025 and 2026 as a result of increased spending on defence.

Food, drink and tobacco manufacturing, represented by the dark green line, has been struggling with stagnation for the past couple of years. In 2024, its output expanded by 2.4% but, due to contractions in 2022 and 2023, it remains 2.9% below pre-pandemic levels. While demand for food and drink will remain high, lower trade and price matching will be substantial challenges this year.

Lastly, chemical output is shown by the red line. This sub-sector has been the worst-performing across the M5 for over three years. After strong contractions in 2022 and 2023, 2024 was a mixed year: expansion in the first half of the year was offset by contraction in the second half, resulting in a yearly production fall of 1.8%. Official data shows that since November 2024, chemical output has reached the lowest level in 11 years and is currently 31.9% below pre-pandemic levels.

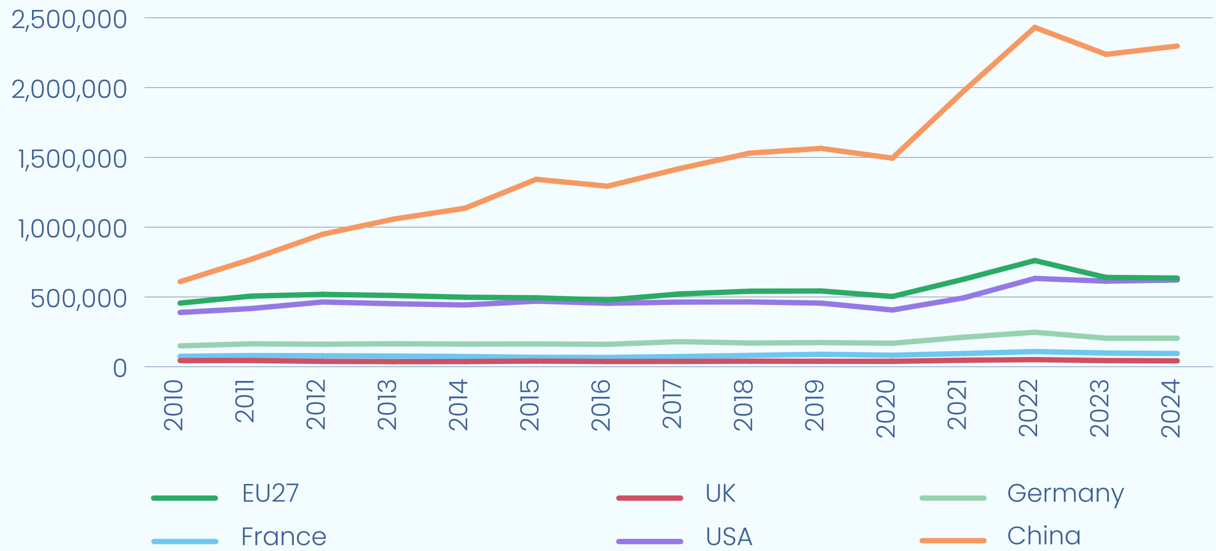
This contraction has been reflected in the news, with several chemical companies in Europe and the UK announcing site closures and restructuring. After the energy cost crisis and the recession in

Graph 2: Index of monthly output of M5 sectors over the past 17 months compared to yearly level (2022=100)



Source: CIA analysis of ONS data

Graph 3: Annual international chemical sales from 2010 to 2024 in EUR (€)



Source: CIA analysis of CEFIC data

the industrial sector, operating energy-intensive chemical plants in the UK (and Europe) has become extremely uncompetitive, especially for companies with foreign headquarters. For this reason, over the past year, numerous UK (and European) chemical sites have lost investment to areas with cheaper operating costs and/or stronger financial aid. This has been particularly evident for the heavy side of the industry, which is more energy intensive.

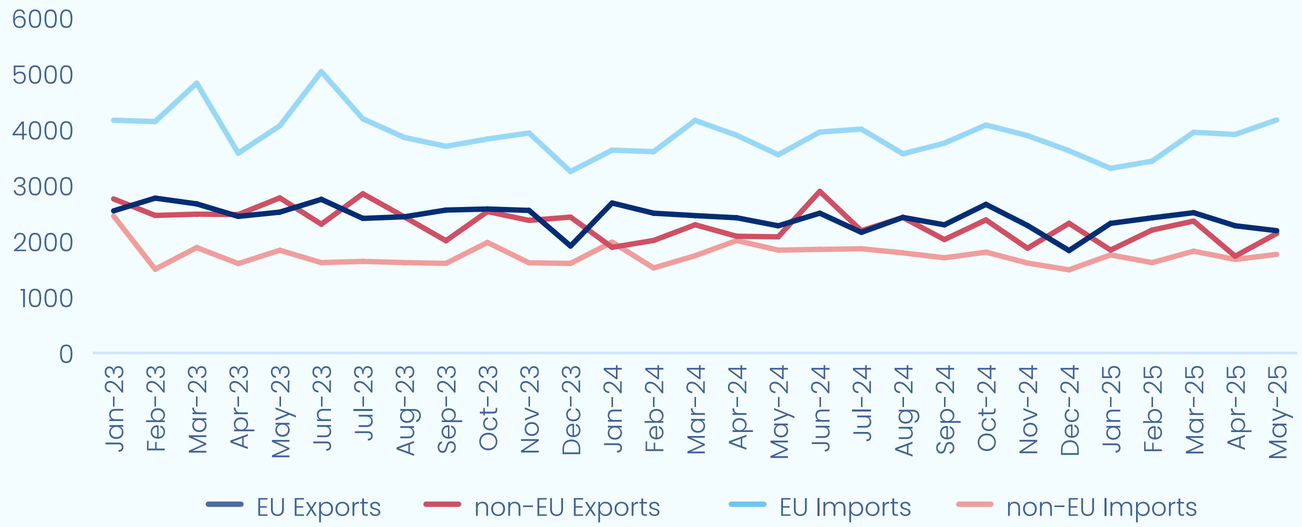
Whilst at the beginning of the year, Oxford Economics was expecting the sector to grow by 1.7% in 2025, the latest geopolitical developments have resulted in a downgrade of predictions to a 1.8% yearly contraction in 2025. Oxford Economics believes that the American protectionist stance will diminish international demand, severely impacting intermediate goods. Additionally, their analysis shows that shale gas projects in the US will further reduce the international competitiveness of UK chemical sites. These trends clearly indicate that UK chemical manufacturers need the government and its Industrial Strategy to provide a clear path for energy security and long-term policies to support investment.

The **above graph** shows annual international chemical sales for six regions: EU27, United Kingdom, Germany, France, United States and China. The orange line shows the rapid expansion of the Chinese chemical sector, which in 14 years went from representing 25% of the chemical market to 46% in 2024. Thanks to availability of raw materials, internationally competitive energy prices, looser regulation and pro-industry policy, China was able to attract a substantial amount of investment into its chemical sector. Countries like Germany, France and the UK are unable to compete with China on that front and over the same period lost market share. Due to globalisation and ease of trade, we are seeing some strong offshoring trends within manufacturing industries, as businesses are relocating to more competitive areas, resulting in de-industrialisation in Europe.

Chemical trade

Globalisation has blurred geographical boundaries, increasing the incidence of trade on industrial supply chains. Every year, roughly 70% of all chemicals produced in the UK are exported, so international trade and strong trade agreements are essential for our member companies. In 2023, the value of UK chemical imports was £70bn and £62bn for exports. In 2024, the value of UK chemical trade decreased for two reasons: firstly, UK chemical and industrial production has fallen and secondly, export figures do not account for inflation, and in 2023 prices rose quicker than in 2024. The value of UK chemical imports in 2024 was £67bn and £55bn for exports.

Graph 4: Monthly chemical trade in value terms from January 2023 to May 2025 (£mn)



Source: CIA analysis of ONS

Graph 4 represents chemical imports and exports to EU and extra-EU countries. The two blue lines represent trade flows with the EU and the two red lines show trade flows with extra-EU countries. Exports are illustrated by the two darker lines (dark blue and dark red) and imports are the two lighter lines (light blue and light red).

Focusing on imports first, the light blue line is consistently higher than the light red line, indicating that imports from EU countries are higher than imports from extra-EU countries. In 2024, EU imports fell by roughly £3bn, whilst the value of non-EU imports remained largely unchanged.

Moving on to exports, the dark lines are much closer together and they intersect multiple times, indicating that the UK exports similar values of chemicals to EU and extra-EU countries. Throughout 2024, exports fell by £5bn, with the strongest fall recorded for non-EU exports.

Since EU imports – light blue line – are higher than EU exports – dark blue line – the UK is a net importer of chemicals from the EU, meaning that the UK has a trade deficit with the EU as it imports more than it exports. With extra-EU countries, the UK has a trade surplus, as it exports more than it imports. The total amount of chemicals imported each year is higher than the amount exported, so the UK is a net importer of chemicals as a whole. This means that we are highly dependent on other countries to meet domestic demand for chemicals.

Consumer Side Inflation

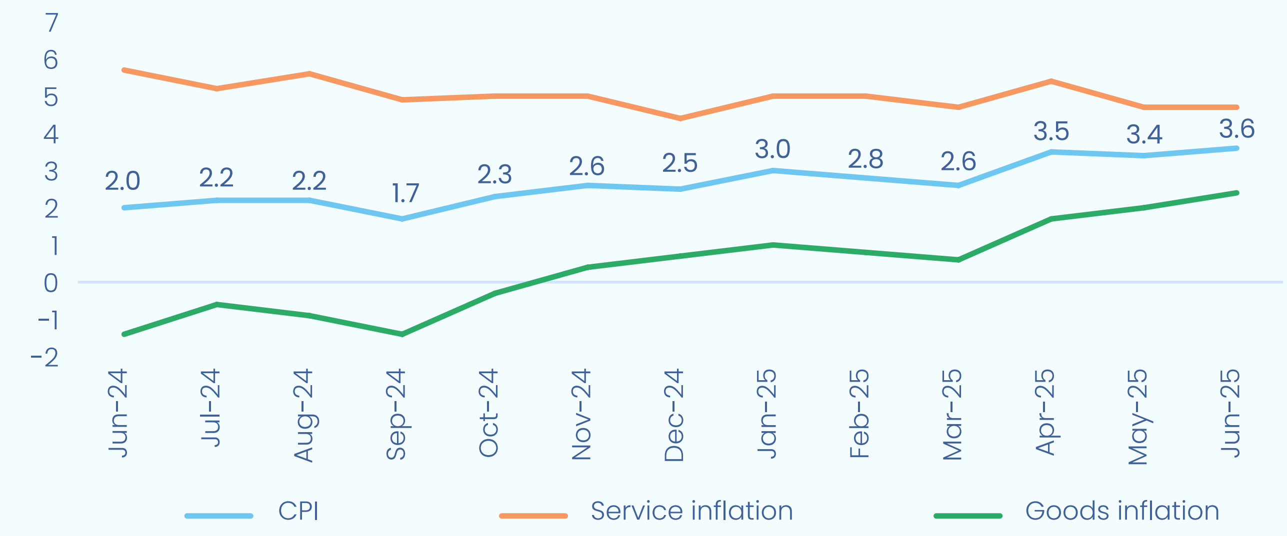
Inflation has been one of the biggest challenges for global economic growth for a few years, and while some countries are still battling higher price hikes, inflation has slowed down in the UK. In 2024, inflation averaged 2.5% thanks to tighter fiscal policy, slow economic growth and contractionary monetary policy. Despite 2024's slowdown, in April, May and June, inflation bounced back to 3.6% due to changes to Employer National Insurance Contributions, higher living wage and higher energy prices for domestic consumers.

Graph 5 shows inflation of goods and services and headline inflation (CPI) from June 2024 to June 2025.

The green line represents the inflation of goods over the past 13 months. The energy price crisis led to goods prices rising sharply in the back end of 2022. With energy prices under control and subdued demand for goods, goods inflation decelerated from 13.3% to 1.9% between January and December 2023. After six months of deflating goods prices, in November 2024, goods prices started growing as a response to a small recovery in demand, which allowed companies to pass on to customers the elevated raw material prices.

Although less volatile, services prices – orange line – are more persistent and serve as a better indicator of domestically generated inflation and long-term price trends. Service prices are less

Graph 5: Headline (CPI), Goods and Services prices inflation over the past 13 months



Source: CIA analysis of ONS data

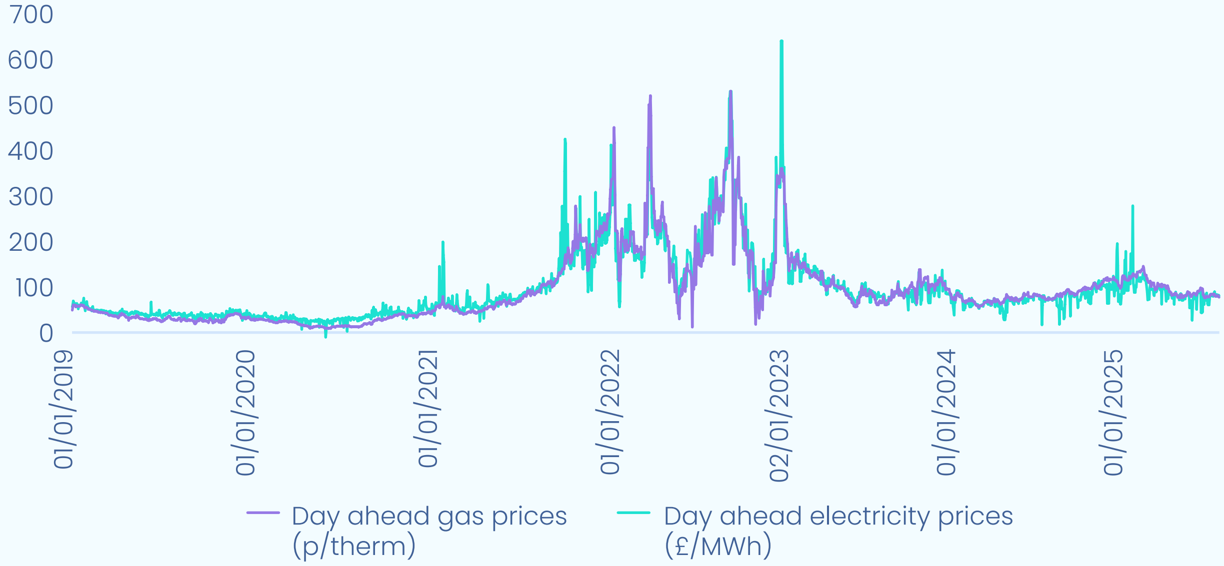
directly impacted by energy prices, so they peaked later than headline inflation and goods prices but are now more persistent due to higher rent and labour costs. The most recent data shows that services inflation was 4.7% in June 2025.

The blue line represents CPI, often referred to as headline inflation, as it is considered to be the most accurate proxy for overall price trends within a country. Throughout 2023, CPI inflation decelerated from 10.1% in January to 4.0% in December, reaching the 2.0% target in March 2024. However, with winter driving up energy prices and the announcements made in the Autumn Budget, CPI rose again to 2.5% in Q4 2024. Changes announced in the Autumn Budget came into effect in April 2025, leading to a spike in inflation to 3.5%. CPI remained high in both May and June, with June's data coming in at 3.6%, and it is expected to remain higher than the 2.0% target for the remainder of the year. Overall inflation for 2025 is expected to average 3.2%, higher than 2024's 2.5% average level.

Even though inflation is now roughly under control, the Monetary Policy Committee (MPC) continues to deliver slow interest rate cuts. IIn their latest meeting on August 7th, the MPC decided to cut interest rates from 4.25% to 4.0%. Among the factors that we have identified as drivers of this additional interest rate cut are: weak economic growth, high unemployment rate, slowing down in wage growth and expected tightening of fiscal policy in the autumn. Some factors that might lead the MPC to maintain interest rates are: geopolitical uncertainty raising international inflation, higher inflation in 2025 than in 2024 and sticky domestically generated inflation.

In June 2025, US inflation was 2.7%, Germany 2.0%, France 0.97% and the Eurozone 2.0%. China continues to struggle with a depressed domestic market, with inflation around 0.1% in June 2025.

Graph 6: Day-ahead gas (p/therm) and electricity (£/MWh) prices



Source: CIA analysis of Inspired PLC data

Chemical prices

Due to inaccuracies in the publication, the Office for National Statistics (ONS) has momentarily paused the publication of Producer Inflation data. You can find a detailed overview of the available data in the Q1 2025 Economic Report. As discussed in the previous report, the latest data from the ONS indicates that chemical input prices have been higher than chemical output prices for over three consecutive years, and that has been putting additional strain on margins. Recent conversations with members highlight that this situation has not changed and that input prices remain higher than output prices, with energy being the biggest cost for member companies.

Graph 6 displays the day-ahead wholesale gas and electricity prices in the UK from January 2019. UK gas and electricity prices have settled at the lowest level since summer 2021 but they remain roughly twice 2019's level and extremely uncompetitive internationally. Data from DESNZ indicates that electricity prices in the UK are almost double the International Energy Agency average and about four times higher than in the US. Industrial gas prices are also about four times higher than in the US, and the new US president's approach to shale gas is likely to increase this gap further, making UK gas users less competitive.

Labour market

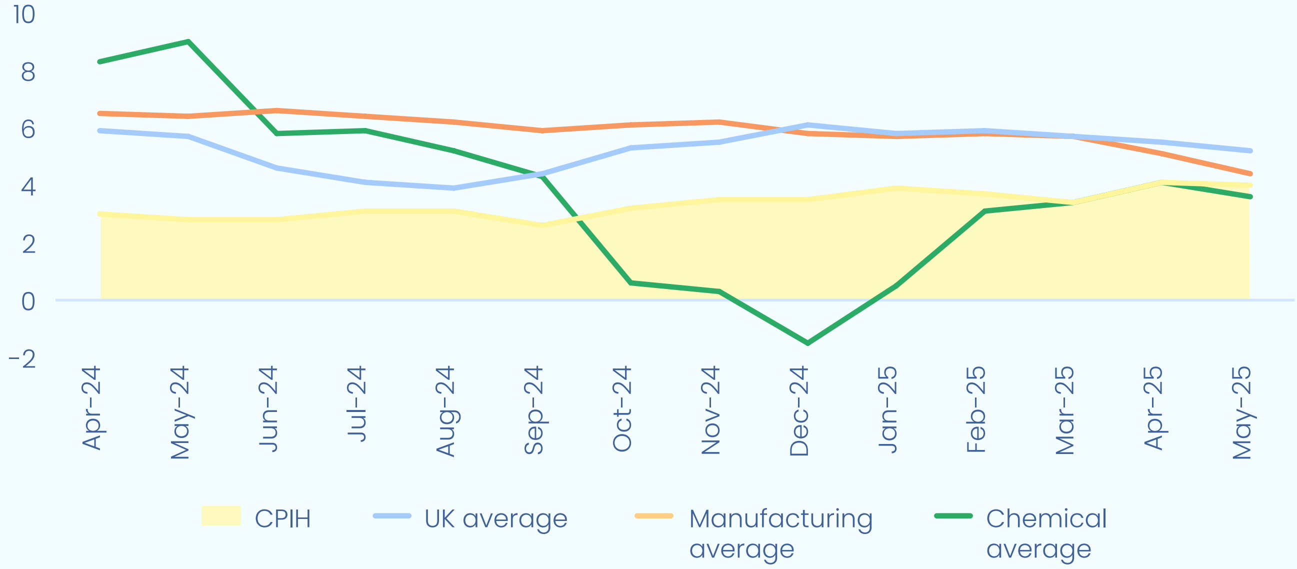
Recent economic and political developments, including tight monetary policy and announcements from the Autumn Budget, have impacted the labour market. Estimated payroll employees decreased by 0.1% between February and March 2025. More importantly, unemployment has increased from 4.5% in March to 4.7% in May, and it is currently 0.7pps higher than pre-pandemic. Vacancies have also fallen in the same period. All these factors indicate a weakening of the labour market, as the Autumn Budget made employees more expensive and weak economic growth disincentivises new hirings.

Graph 7 shows pay growth rates for UK average, manufacturing and chemical employees compared to CPIH inflation. CPIH inflation is considered to be a more accurate measure of the cost of living, as it includes owner occupiers' housing costs.

The yellow area indicates the level of CPIH inflation. Any point within this area is below inflation and results in real-term pay cuts, while points above the area result in effective real-term pay increases.

The blue line represents pay growth for the average UK employee. In the three months to May 2025, compared to the same three months in 2024, total pay (including bonuses) and regular pay increased by 5.2%. With CPIH inflation at 4.0%, that resulted in a real pay increase of 1.2%.

Graph 7: Growth rate of UK average, manufacturing, and chemical pay over the past 13 months compared to CPIH inflation



Source: CIA analysis of ONS

The orange line indicates the growth rate of pay for the average manufacturing employee. In the three months to May, total pay grew by 4.4% whilst regular pay grew by 4.7%, resulting in real-terms pay increases of 0.4% and 0.7% respectively.

Focusing on the average chemical salary – which is represented by the green line – after pay grew quicker than inflation from March 2024 to September 2024, it is currently below inflation. In the three months to May 2025, total pay increased by 3.6% whilst regular pay increased by 4.3%. This resulted in a real-terms pay cut of 0.4% for total pay and real-terms pay growth of 0.3% for regular pay. Whilst pay increases in our sector have been lower than for the average manufacturing employee, we continue to pay salaries 20% higher than the manufacturing average and 27% higher than the overall UK average. It is also important to mention that this monthly data is not overly accurate for the chemical sector, as fewer chemical employees report their salaries and pay increases every month.

Rounding up the official data

The UK economy experienced strong growth in Q1 2025 (+0.7%), driven by services and industrial production. However, the introduction of US tariffs in March disrupted demand, leading to contractions in April and May.

Within manufacturing, the chemical sector stands out as the weakest performer. Output is 31.9% below pre-pandemic levels, reflecting site closures, offshoring and restructuring, as companies shift operations to regions with lower energy costs and stronger industrial support. The sector's competitiveness has been eroded by high energy prices, which are far above international averages. Despite earlier expectations of modest growth, forecasts have been downgraded to a 1.8% contraction in 2025. This output fall is heightened by lower investment, reduced international demand and the growing dominance of China's chemical industry.

Inflation remains high, at 3.6% in June, and it is expected to average 3.2% in 2025. Interest rates were cut to 4.0% in August despite geopolitical risks continuing to put pressure on inflation. Energy prices, while lower than 2022 peaks, remain at double 2019 levels, undermining industrial competitiveness.

The labour market is weakening, with unemployment rising to 4.7%, and total pay growth in the chemical sector in the three months to May 2025 was 3.6%, slightly below inflation.

Survey results

About the survey

At the close of each quarter, we survey member companies of the Association to gather data about current operating conditions and views on what lies ahead. The information from this is incredibly useful in our work, and we are grateful to all who responded.

The CIA's Q2 2025 Business Survey was live between June 25th and July 11th, 2025. The survey received responses from around 50% of CIA members. This edition of the survey was split into three sections. The first and second sections contained the standard industry performance and challenges and opportunities questions. In the third section, we asked respondents some questions focusing on: industrial strategy, trends in net zero investment, and the regulatory burden.

In the industry performance section, three questions asked respondents whether the 19 variables listed below had increased, decreased, or stayed the same in the second quarter of 2025 compared to the first quarter of 2025 and their expectations for these variables in the third quarter of 2025 and 12 months' time.

Industry performance variables:

1. Total sales
2. Domestic sales
3. Exports
4. EU exports
5. The rest of the world exports
6. New orders
7. Production levels
8. Capacity utilisation
9. Employee numbers
10. R&D spend
11. Business investment
12. Your level of business optimism
13. Time to deliver
14. Raw material (input) prices
15. Cost of importing
16. Cost of exporting
17. Your energy costs
18. Finished goods (output) prices
19. Your company/site profit margins

When displaying the industry performance data, diffusion indexes are used. These are easy-to-interpret statistical tools that can be read in the same way as S&P Global's Purchasing Managers Indexes (PMIs). Therefore, any figure below 50 indicates a contraction, above 50 an expansion, and 50 means it remained constant. To compute these indexes, we combined the percentage of respondents who reported experiencing an increase with half of those who reported experiencing no change.

Industry performance

Performance in the second quarter of 2025

Table 1 displays the diffusion indexes for the 19 variables mentioned in 'About the Survey' and the percentage of respondents that reported experiencing a decrease in the variables. The first column is the diffusion index for performance in the second quarter. The second column contains the diffusion index for what was expected for the second quarter of 2025, when respondents were asked in the CIA's Q1 2025 Business Survey.

The third column contains the diffusion index for performance in the first quarter of 2025, and the final two columns contain the percentage of respondents that experienced a decrease in that variable in the current quarter and the previous one. This allows comparisons between the performance in the second quarter of 2025, expectations and the prior quarter.

Table 1: Q2 performance compared to Q1's and expectations made in Q1

	Q2 Actual	Q1 Actual	Q2 Expected	Percentage that experienced a decrease in Q2 2025	Percentage that experienced a decrease in Q1 2025
Total sales	43	55	54	33%	24%
Domestic sales	39	49	51	24%	22%
Exports	42	52	52	27%	22%
EU exports	39	51	54	31%	20%
Rest of the world exports	44	50	50	24%	15%
New orders	40	46	56	35%	32%
Production levels	42	49	55	31%	27%
Capacity utilisation	42	52	54	33%	22%
Employee numbers	41	34	39	33%	29%
R&D spend	45	45	45	16%	7%
Business investment	44	51	46	29%	10%
Your level of business optimism	44	37	41	37%	41%
Time to deliver	46	45	45	12%	7%
Raw material (input) prices	57	63	54	20%	7%
Cost of importing	65	62	60	2%	0%
Cost of exporting	69	57	57	0%	2%
Your energy costs	50	57	48	20%	12%
Finished goods (output) prices	51	60	57	20%	10%
Your company/site profit margins	37	50	50	47%	24%

Source: CIA Q2 and Q1 2025 Business Survey

Key take away

Q1's expansion was short-lived as in Q2 33% of respondents reported falling sales, production levels and capacity utilisation. Employee numbers continued to fall for the sixth consecutive quarter and over a fourth of respondents also reported lower investment levels. Higher raw material prices contributed to falling margins for 47% of respondents.

The first quarter of the year tends to be the best for chemical businesses, and this year was no different, as in Q1 we saw a slight improvement in demand. Almost 40% of respondents reported higher total sales in Q1 and the 'Q1 actual' index was 55, which indicates a weak expansion. The marginal improvement in sales was short-lived, as in Q2 only 20% of respondents reported higher sales, while 33% reported falling sales. Lower sales were the result of weakness in the domestic and international market, as domestic sales, EU and non-EU exports all fell. Lower demand led to contracting production levels and capacity utilisation – these two variables in particular reflect news of chemical site restructuring and closures, as industrial manufacturing concentrates in more competitive areas.

Among the slower-moving variables, R&D spending remained at the same level as in Q1, but business investment contracted for almost a third of respondents. CIA believes that this contraction is the result of several quarters of weak operating conditions for industries and is strongly linked with low cash flows. However, the most worrying variable is employee numbers. For six consecutive quarters, CIA member companies have reported falling employee numbers. The contraction in employee numbers is likely driven both by restructuring trends within the sector, the low availability of skilled workers and long-term loss of market share.

Moving on to costs, raw material prices increased for 39% of respondents and the cost of trading has also increased. The price increase is likely linked to US tariffs and companies increasing prices in anticipation of higher raw material prices, as well as fragmentation of supply chains. This pattern shows the knock-on effect of tariffs on global supply chains and global inflation. A quarter of respondents were able to pass on some of these additional costs to consumers, as the finished goods (output) prices index increased to 51, but that is lower than Q1's 60.

While the percentage of chemical companies that had enough demand to raise output prices was significant, this did not have a meaningful impact on margins, which contracted for almost 50% of respondents and in Q2 recorded an index of 37 – the lowest level in over a year. This trend in margins has been further highlighted in profit warnings issued by several listed chemical companies and is further evidence of the prolonged challenges that the industry is facing.

Expectations for the third quarter of 2025

Table 2 displays the diffusion indexes for what is expected for each of the 19 variables in the third quarter of 2025 and the percentage of respondents who expects to see an increase.

Table 2: Expectations for Q3 2025

	Q3 Expectation	Percentage that expects an increase in Q3 2025
Total sales	53	24%
Domestic sales	46	14%
Exports	53	22%
EU exports	48	14%
Rest of the world exports	46	10%
New orders	48	18%
Production levels	52	24%
Capacity utilisation	47	16%
Employee numbers	41	4%
R&D spend	46	2%
Business investment	46	8%
Your level of business optimism	45	10%
Time to deliver	47	4%
Raw material (input) prices	59	24%
Cost of importing	59	20%
Cost of exporting	59	20%
Your energy costs	57	20%
Finished goods (output) prices	50	12%
Your company/site profit margins	42	16%

Source: CIA Q2 2025 Business Surveyy

Key take away

Optimism for Q3 remains subdued as less than a fourth of respondents expects higher sales and production levels. Concerns over declining employee numbers and raising raw material prices continue, with little hope over recovery of margins.

Slightly less than a quarter of respondents are optimistic that they will experience increased demand in Q3, while the majority of respondents do not expect the situation to change. Higher sales are expected to boost production levels for 24% of respondents, but capacity utilisation is believed to marginally contract. The mismatch between expectations over sales and capacity utilisation has likely arisen because respondents do not expect the boost in sales to be significant.

Expectations for slower-moving variables remain relatively unchanged. The indexes of 46 for R&D spending and business investment suggest that investment levels are expected to stay stable for the majority of members, with a few companies anticipating cuts – likely linked to ongoing general uncertainty. A more concerning trend is the expected decline in employee numbers, with 22% forecasting further reductions. After a third of respondents reported falling employee numbers in both Q1 and Q2 2025, the expectation of additional cuts in Q3 2025 is particularly troubling, as it signals deeper restructuring trends within the industry.

According to 20% of respondents, US tariffs are expected to continue to increase trading costs. The worsening of supply chains is anticipated to drive up raw material (input) prices. Finished goods (output) prices are not expected to change, and due to higher costs, 30% of respondents are expecting their margins to deteriorate in Q3.

Expectations for 12 months ahead

Table 3: Medium-term expectations

	12 months Expectation	Percentage that expects an increase in 12 months time
Total sales	67	51%
Domestic sales	56	33%
Exports	60	41%
EU exports	57	35%
Rest of the world exports	52	31%
New orders	61	41%
Production levels	62	45%
Capacity utilisation	61	43%
Employee numbers	44	14%
R&D spend	47	12%
Business investment	57	29%
Your level of business optimism	54	29%
Time to deliver	51	8%
Raw material (input) prices	62	31%
Cost of importing	60	22%
Cost of exporting	61	27%
Your energy costs	60	35%
Finished goods (output) prices	62	35%
Your company/site profit margins	58	31%

Source: CIA Q2 2025 Business Survey

Key take away

Expectations for 12 months' time are lower than usual, with fewer respondents anticipating improvements in operating conditions. While there is some optimism regarding sales, production, and capacity utilisation, these expectations remain subdued given the current low output levels. Employee numbers are expected to continue declining and raw material prices to raise further.

Expectations for 12 months' time are subdued compared to other surveys. Usually, more than 60% of respondents believe that they will experience an improvement of operating conditions in 12 months' time. While this quarter the overall expectations indicate improvements, the percentage of respondents that expect these improvements is lower.

Slightly more than 50% of respondents expect higher sales in 12 months' time, with just 33% expecting higher domestic sales and 41% expecting improvements in export. While these percentages may seem positive, UK chemical output levels are at a 13-year low and we are operating 32% below pre-pandemic levels. 45% of respondents expect improvements in production levels and capacity utilisation. Despite this being the majority, it is still a low percentage considering current output levels. These medium-term expectations clearly show that while there is some optimism for the year ahead, business leaders are conscious that current global trends are fuelling uncertainty, which is not positive for business and does not set the ground for a recovery to pre-pandemic levels.

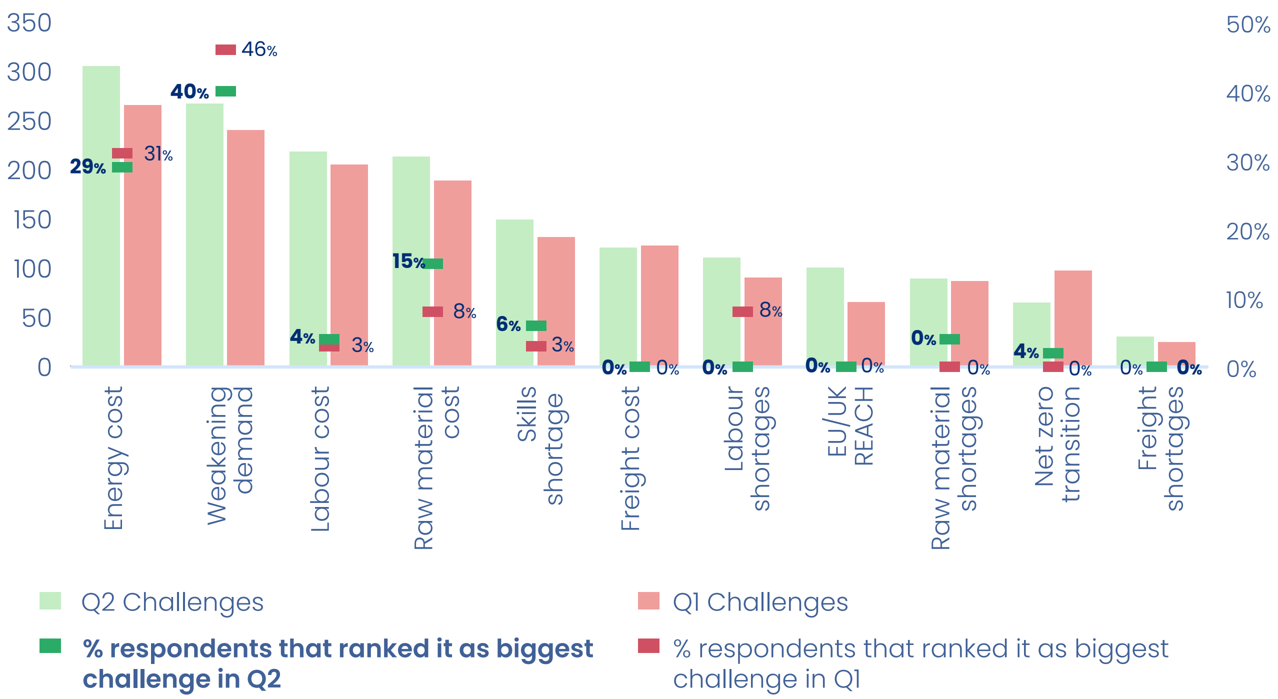
Forecasts for slower-moving variables are in line with the expectations made for Q3. These variables are less volatile than the previously mentioned ones and are influenced by long-term shifts in production levels and productivity. Employee numbers, which have been declining for the past six business surveys, are expected to continue falling throughout 2025, with only 14% of respondents planning to increase employment. As net zero goals and a circular economy gain traction, chemical companies are anticipating increased R&D spending and business investment in the coming year. Business investment, in particular, is expected to rise due to maintenance costs and upgrades to existing equipment.

Raw material (input) prices are expected to rise in the medium term due to inflationary trends stemming from worsening geopolitical relations. The US tariffs will continue to increase the cost of trading. Overall energy costs are expected to rise, as over a third of respondents expect an increase. While the majority of respondents do not expect margins to change in a year's time, 31% of respondents are optimistic that their margins will be in a better place.

Challenges and Opportunities

The second section of the CIA's Q2 Business Survey focused more in detail on the challenges members faced and the opportunities they identified. The first question asked respondents to rank 11 challenges faced by the industry from most significant to smallest, with '1' signalling the greatest issue and '11' the smallest.

Graph 8: Industry ranking of business challenges in Q2 and Q1 2025



Source: CIA Q2 2025 and Q1 2025 Business Survey

This quarter's survey recognised: 'Energy Cost', 'Weakening Demand' and 'Labour Cost' as the three main challenges, but the gap between the third and fourth challenge ('Raw Material Cost') was extremely small. These three challenges have been in the top three for the past four business surveys.

The green bar on **Graph 8** shows the ranking of the challenges in this quarter's survey, whilst the red bar shows the ranking in the previous quarter (Q1 2025). The dots represent the percentage of respondents that ranked each challenge as number one. The red dot is the percentage in Q1 2025 and the green one in Q2 2025.

Key take away

1. Energy cost

2. Weakening demand

3. Labour cost

Focusing on 'Energy Cost', more members ranked it as the main challenge in Q1 2025 than in Q2 2025, probably because increases in other challenges were more pressing than energy in this quarter. Looking ahead, members are also concerned about international competitiveness and how high energy prices put UK sites at a disadvantage compared to sister sites in other regions.

The second biggest challenge was 'Weakening Demand'. Despite 40% of respondents marking this challenge as their biggest business concern, weakening demand is not as widespread as energy cost, which is why it ranked second.

The third biggest challenge is related to the cost of labour. The changes to Employer National Insurance Contributions (NICs), coupled with pressures on the wage front, continue to increase the cost of labour for chemical employers. Higher labour costs, coupled with skills and labour shortages, strongly indicate that the industry is facing a tough labour market and creating further uncertainty over long-term labour supply.

'Raw Material Costs' have risen significantly as a challenge in Q2 and were ranked as the main business concern by 15% of respondents. The rising trend in raw material cost is the result of fragmentation of supply chains, US tariffs and the knock-on effect of US tariffs on input prices.

The less pressing challenges still pose a serious threat to the industry in the mid-to-long term. They, however, are not being felt as acutely as low demand, high costs and labour frictions. It is therefore important that these challenges, including 'EU / UK REACH' and the 'Net Zero Transition', not be underestimated.

Members also mentioned other challenges that were not in the survey, such as: US tariffs (both in terms of direct impact on US-UK trade relations and the indirect impact on global economic prospects, potential redirection of trade from China, and a heightened sense of uncertainty), Asian overproduction leading to price erosion in key markets and fierce competition, the continued offshoring of manufacturing to regions with lower costs, relocation of supply chains/consumers to Asia and the US, and low government support for the UK manufacturing sector.

The next question asked respondents if the 11 challenges from the previous question were improving, worsening or remaining unchanged. **Table 4** displays the diffusion indexes of the answers, with figures above 50 indicating an improvement, below 50 a worsening, and 50 indicating no change, along with the percentage of respondents that expect a worsening in the near future.

Table 4: Expectations over challenges

	Expectations	Percentage that expects this challenge to worsen
Energy cost	42	38%
Weakening demand	49	57%
Labour cost	40	70%
Raw material cost	54	40%
Skills shortage	14	36%
Freight cost	42	26%
Labour shortages	47	34%
EU/UK REACH	34	19%
Raw material shortages	53	15%
Net zero transition	35	15%
Freight shortages	27	11%

Source: CIA Q1 2025 Business Survey

Similarly to the previous two surveys, in Q2 2025 we saw negative sentiments across the board.

'Energy Cost' is expected to worsen due to the loss of international competitiveness linked to shale gas projects in the US and the lack of improvements on the domestic policy front. Two years after the energy price crisis, the European and British energy markets continue to struggle with volatility and elevated prices, strongly impacting local industries and harming their ability to secure international investment.

'Weakening Demand', which until Q3 2024 was expected to be transitory, continues to weigh on chemical businesses and is not expected to improve through 2025. We have identified a few underlying reasons behind this trend: (i) US tariffs are likely to diminish international demand, (ii) there is no expectation of recovery in the EU industrial sector and (iii) there is the possibility of an overflooding of cheaper imports into the EU and UK due to US tariffs.

The challenge with the most negative forecast is 'Labour Cost', as 70% of respondents expect it to worsen. A higher price level in the economy requires companies to increase wages, but coupling this with higher Employer NICs and low margins poses a big challenge for chemical businesses going forward. 'Skills Shortages' and 'Labour Shortages' are also expected to worsen, but less strongly than labour costs.

'Raw Material Costs' are expected to worsen by 40%. This percentage is in line with the Q1 2025 Business Survey, and is indicative of the harshening of geopolitical tensions and a rise in uncertainty.

Moving onto opportunities, the most recurrent themes were:

1) Stronger markets in certain regions or for specific production
2) Specialising in speciality chemicals as commodity chemicals are experiencing fiercer competition.
3) Capacity rationalisation and productivity gains
4) Lower imports due to tariffs leading to lower competition
5) Site closures leading to lower competition
6) Government support on energy, public investment in infrastructure and more emphasis on net zero.

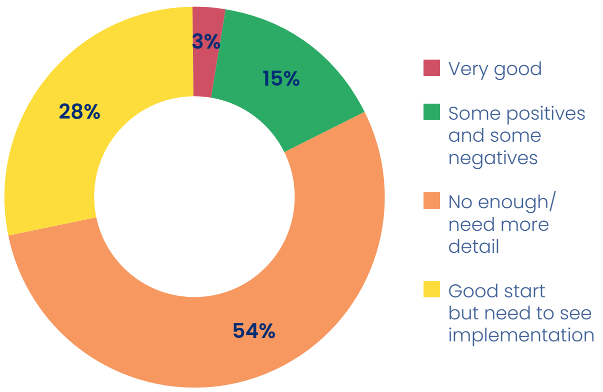
Open-ended questions

The final part of the survey asked members some open-ended question on the industrial strategy, net zero investment, and the regulatory burden.

Industrial Strategy

In this version of the survey, we asked members what their overall view was on the recently published Industrial Strategy.

Graph 9: What was your overall view of the Industrial Strategy?



Source: CIA Q2 2025 Business Survey

Graph 9 shows that 54% of respondents felt that that the Industrial Strategy does not have enough detail or is ambitious enough to increase international investment and support local industries. 28% felt that it was a good start but they are sceptical about how it will be implemented. Some of the areas that other members felt were particularly weak are:

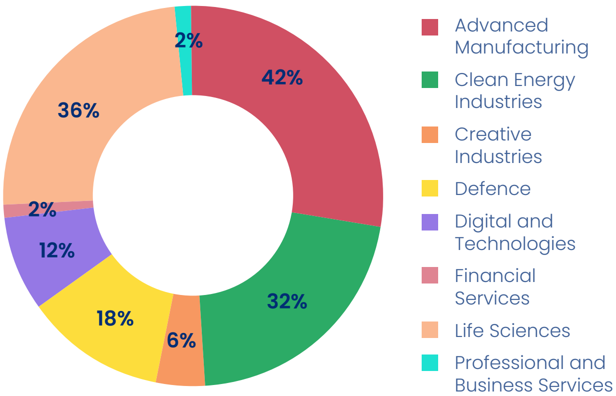
- Support for affordable raw materials, energy and carbon taxes
- Little to no mention of recycling activities, chemical and mechanical
- It shows lack of understanding of supply chains and, in particular, the heavy side of the sector
- The measures introduced are unlikely to incentivise investment and growth to the level promised

On the other hand, the areas that were particularly well received by our members were:

- British Industry Supercharger
- British Industrial Competitiveness Scheme
- Energy Intensive Industries Compensation Scheme

We then asked members which of the eight growth sectors mentioned in the Industrial Strategy are their customers and responses are shown in **Graph 10**.

Graph 10: Which of the eight growth sectors mentioned in the Industrial Strategy are your customers, if any?



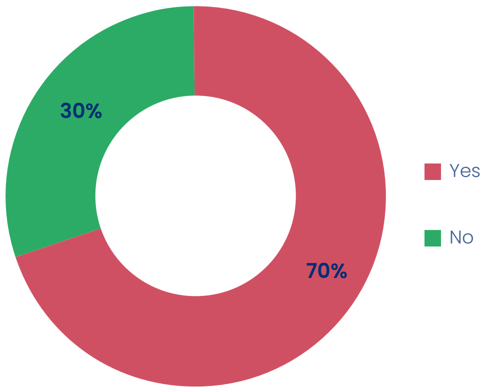
Source: CIA Q2 2025 Business Survey

These answers clearly show why chemical manufacturing was referred to as underpinning British industry. The top three sectors that our members supply chemicals to are: Advanced Manufacturing, Life Sciences and Clean Energy Industries, followed by Defence. Given our role within domestic supply chains, CIA was pleased to see chemicals directly mentioned within the Industrial Strategy and Advanced Manufacturing Plans as one of the core foundational industries.

Net zero investment

After seeing numerous news about slowing net zero investment we decided to investigate whether our member companies were seeing similar trends.

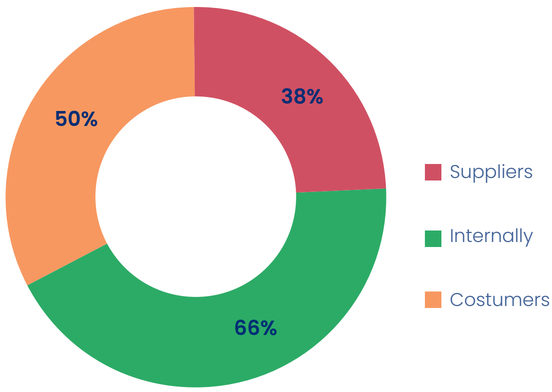
Graph 11: There have been more reports of slowing down of net zero investment, can you see that reflected in your experience?



Source: CIA Q2 2025 Business Survey

70% of respondents noted some slowdown in net zero investment over the past few months, and as shown in **Graph 12**, the slowdowns came from customers, internal operations and suppliers. This further proves that current operating conditions are particularly tough, as both households and businesses are prioritising survival over paying a premium for more sustainable products. The percentages in **Graph 12** do not equate to 100% because some respondents reported slowdowns from more than one source.

Graph 12: If yes, where?

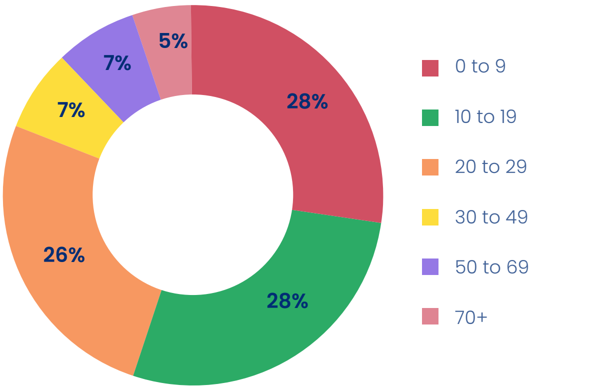


Source: CIA Q2 2025 Business Survey

Regulatory burden

The third topic that we asked our members about in Q2 2025 was around the regulatory burden — how much of their employees' time it takes, how it compares internationally, and whether it has cost them investment.

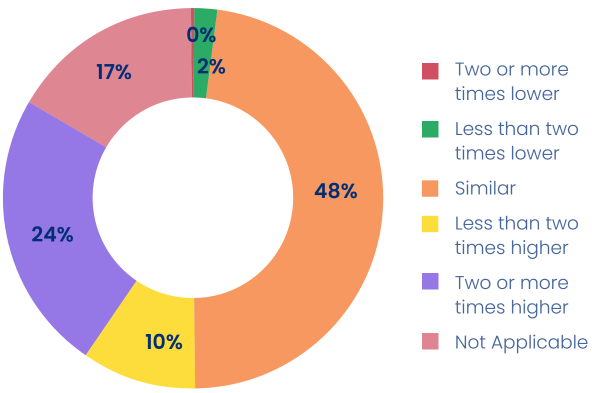
Graph 13: What percentage annually of your UK sites' employees' time is spent working on/looking at regulation



Source: CIA Q2 2025 Business Survey

28% of respondents reported that their UK employees spend between 0 and 9% of their time focusing on regulation, 28% reported between 10% and 19%, and 26% reported between 20% and 29%. These percentages go to show that changes in regulation are extremely detrimental to UK chemical businesses, as they require more resources to be focused on compliance.

Graph 14: How does that compare to any other site your company may have in other countries?

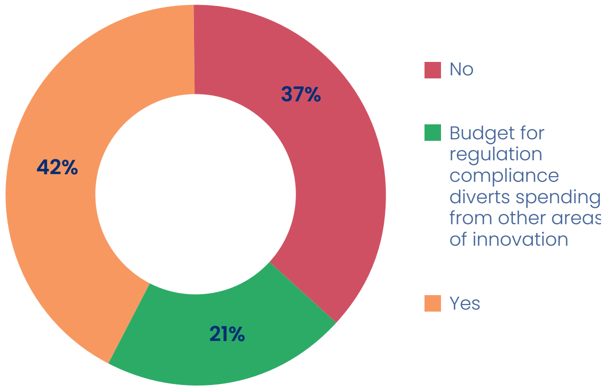


Source: CIA Q2 2025 Business Survey

Graph 14 shows that 48% of companies spend a similar amount of time looking at regulation in UK or international sites. More worryingly, 34% of respondents spend more time than their sister sites looking at regulation. CIA believes that this is the result of Brexit, as the UK had to develop individual regulations and guidelines.

Overly complicated UK regulation has cost international investment for 42% of our respondents, and it has also required 21% of respondents to divert funds from innovation to compliance, as shown in **Graph 15**.

Graph 15: Have UK regulations cost you investment opportunities?



Source: CIA Q2 2025 Business Survey

Key takeaways from the survey

In the first quarter of 2025, the chemical sector experienced a slight improvement in demand. However, this uptick was short-lived, as Q2 saw demand weaken — only 20% of respondents reported higher sales, while 33% reported falling sales. Declines in domestic and export markets led to lower production levels and capacity utilisation. Margins contracted for 47% of respondents due to rising raw material prices, and employment continued its six-quarter decline.

Expectations for Q3 2025 remain subdued, with less than a quarter of respondents anticipating higher sales or production levels. Capacity utilisation is expected to contract slightly, and 22% forecast further reductions in employee numbers. Margins are expected to continue deteriorating. Looking ahead to 12 months, expectations for improvements in sales and production remain muted despite slight optimism — just over 50% expect higher sales, but current output is still 32% below pre-pandemic levels.

The primary challenges identified in Q2 were high energy costs, weakening demand and rising labour costs, with raw material costs also ranking high. Energy costs continue to erode competitiveness, while US tariffs and global overproduction worsen pricing pressures. Members also raised concerns over the regulatory burden, with 34% reporting UK sites spend more time on compliance than international sites, and 42% indicating that regulatory complexity has cost them investment. Moreover, 70% noted a slowdown in net zero investment, reflecting tough operating conditions. Despite some policy measures being welcomed, most respondents criticised the Industrial Strategy as lacking detail and ambition. Overall, the outlook for the UK chemical sector remains challenging, with uncertainty from tariffs, energy volatility and regulatory burdens continuing to weigh on investment and growth prospects.

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