CHEMICAL INDUSTRIES ASSOCIATION

CIA Economic Report

Third Quarter 2025

Executive summary

Steve Elliott, Chief Executive, Chemical Industries Association

I am pleased to present our latest economic report, written by Léa Charbonnier, Economist 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 Q3 2025 Business Survey took place between October 9th and October 23rd, and we received entries from around 40 chemical companies.

Economic Overview

As we reach the end of Q3 2025, recent public finance data provide an indication of the UK's overall economic health, and the picture remains challenging.

Public sector borrowing rose to £20.2 billion in September 2025, the highest September figure since 2020 and £1.6 billion more than a year earlier. Borrowing for the financial year to date has reached £99.8 billion, a 13.1% increase on the same period in 2024, while the current budget deficit has widened to £71.8 billion. Public sector net debt now stands at 95.3% of GDP, meaning the UK owes almost as much as it produces in a year, equivalent to roughly 95p of debt for every £1 of national output. Net financial liabilities have also risen to 83.8% of GDP, which reflects the government's wider financial obligations once its financial assets are taken into account. Both indicators are close to historic highs, at levels not seen for around 60 years.

Focusing on chemicals, the volume of output produced by the chemical industry fell by 5.5% in Q3, following a 0.5% decline in Q2. These sharp contractions leave the sector significantly below pre-pandemic levels, with output in Q3 standing 33.3% lower than before the pandemic. This sustained weakness reflects a combination of weakening demand and growing international competitive pressures, as energy intensive.

During Q3, headline inflation remained steady at 3.8%, with the rate unchanged in September 2025. Housing and household services continued to make the largest contribution to the annual CPI inflation rate throughout the quarter. The UK's inflation rate also remained higher than the EU27, which ended Q3 with CPI inflation at 2.6%. The last time UK inflation was lower than the EU average was in December 2024. At its meeting in September, the Monetary Policy Committee voted to maintain the Bank Rate at 4%, reflecting that inflation remains above the Bank of England's 2% target.

Moving to the labour market, the unemployment rate increased in Q3, with 5% and vacancies on the quarter, for the 39th consecutive period. Total pay in the chemical sector increased by 4.8% around 1 percentage point above the 3.8% inflation rate, resulting in real terms pay growth. Regular pay increased by 4.0%, also slightly above inflation, leading to a small real-terms rise.

Insights from our industry

In the third quarter of 2025, the chemical sector experienced a clear deterioration in operating conditions, following a period of relative stability earlier in the year. Total sales weakened noticeably, with 43% of respondents reporting lower sales, and international performance also softened, as 35% recorded declines in EU exports and 32% in exports to the rest of the world. Production levels and capacity utilisation fell further, reflecting weaker demand and reduced workloads, and margins deteriorated sharply, with 54% of respondents reporting declines, the lowest margin index of the year. Employment continued its downward trend for another quarter, driven by restructuring and weaker order books. Input costs remained a significant pressure point, with raw material and energy cost indexes rising again, leaving firms unable to pass increases through as output prices remained flat.

Expectations for Q4 2025 remain subdued. Only a minority of respondents expect sales or production to improve, while most anticipate further declines in new orders, output and capacity utilisation. Concerns over additional cuts to employee numbers persist, and investment intentions remain weak, with firms signalling limited appetite for capital expenditure or R&D growth. Looking ahead to the next 12 months, expectations are more positive but remain below historic norms. Just over half of respondents expect higher sales, yet indicators such as production, orders and capacity utilisation point only to modest improvement. With UK chemical output still significantly below pre-pandemic levels, a meaningful 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. Weakening demand has become the most significant concern for respondents, reflecting the broader deterioration across sales, orders and production observed through Q3. Energy costs continue to weigh on competitiveness, with many firms citing the UK's disadvantage relative to lower-cost regions. Regulatory burdens also remain a major concern, with several businesses reporting that UK sites face heavier compliance requirements than international counterparts, contributing to lost investment opportunities. On the opportunity side, respondents pointed to potential gains from new product development, access to new markets and greater specialisation in high-value segments.

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Economic Update

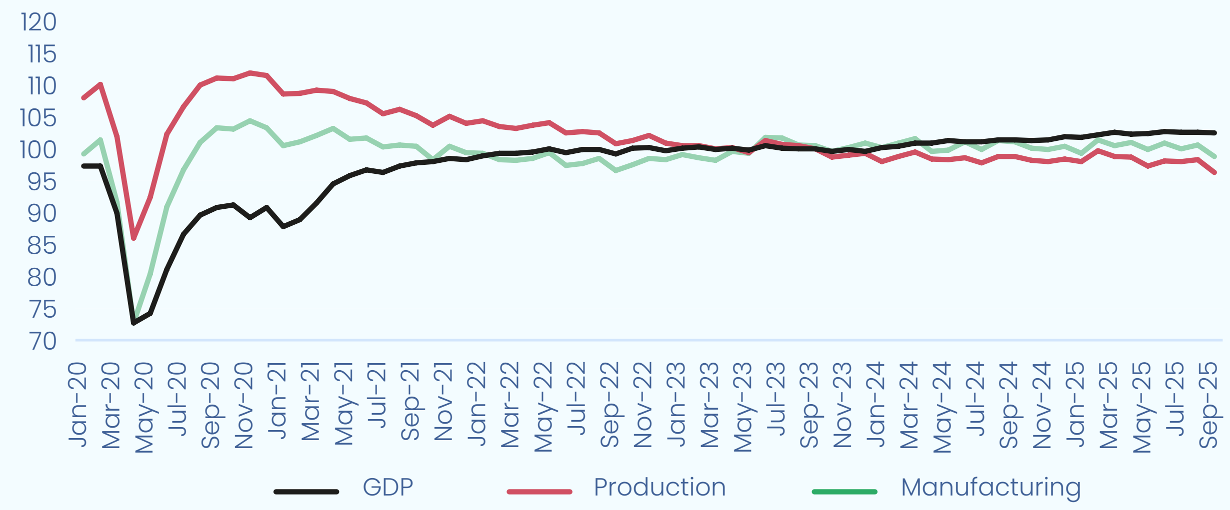
Diverging trends and persistent pressures in the UK economy

This first part of the economic report focuses on official releases from the Office of National Statistics (ONS), the Bank of England (BoE), and Oxford Economics.

GDP and chemical production

Following a modest improvement in economic conditions earlier in 2025, UK activity indicators began to lose momentum as the year progressed. While GDP showed relative resilience through the first half of the year, production and manufacturing indices weakened more visibly. This slowdown became more apparent in the third quarter, where manufacturing activity in particular fell below its earlier-year levels

Graph 1: Index of GDP, Production and Manufacturing output from January 2022 to September 2025 (2023=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.

At the start of 2025, the UK economy showed relative resilience, with GDP (black line) remaining above its 2023 baseline. In contrast, industrial activity was already weaker: total production (red line) had remained below its 2023 level since October 2023, while manufacturing output (green line) was also consistently below GDP. Although production and manufacturing stabilised briefly in early 2025, neither exhibited signs of a sustained recovery.

As the year progressed, this divergence widened. GDP continued to edge upwards, supported largely by non-industrial sectors, while both production and manufacturing trended downwards. By the third quarter of 2025, total production had fallen further below its baseline, with manufacturing output declining steadily and closely mirroring the broader weakness in industrial activity. The persistent gap between the blue line and the orange and green lines highlights the continued underperformance of industry relative to the wider economy.

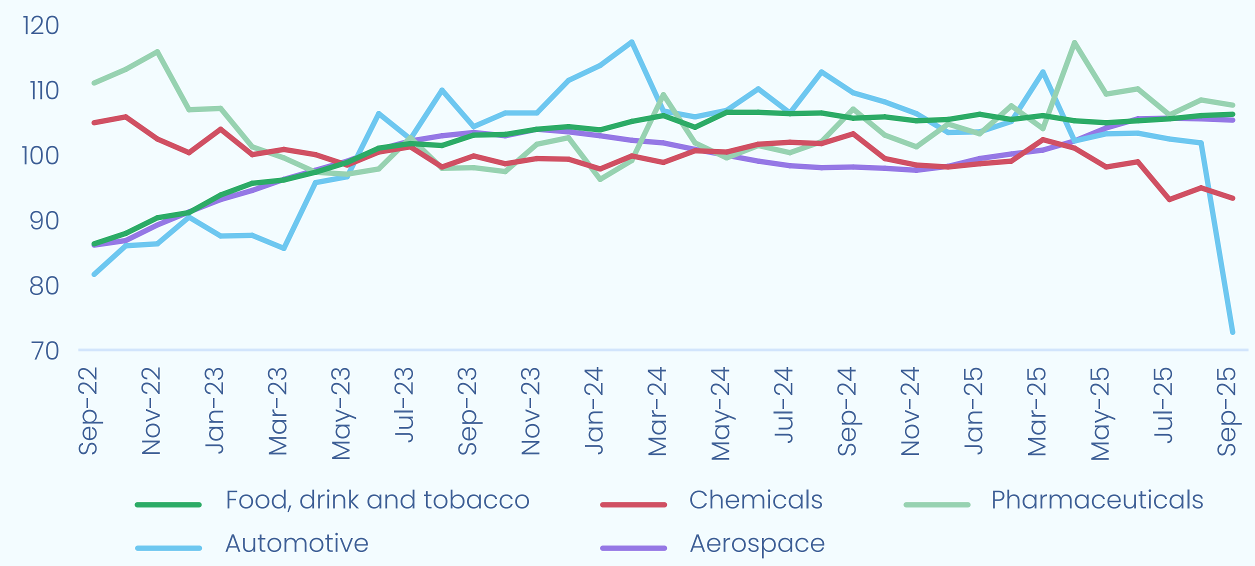
This pattern is consistent with a combination of demand-side and cost-related pressures weighing on production and manufacturing. Domestic demand for manufactured goods has remained subdued, as high inflation in recent years has eroded real household incomes, leading to reduced consumption of manufactured goods, while spending on services has remained comparatively resilient. Business investment has also been constrained by weak growth expectations and elevated uncertainty, limiting incentives to expand output. These demand headwinds have been compounded by structurally higher and more volatile energy and input costs, which continue to disproportionately affect energy-intensive industries such as chemicals and basic manufacturing. Tighter monetary conditions, (as reflected by the Bank of England's maintained Bank Rate of 4%), have kept borrowing costs elevated and weighed on investment, contributing to the sustained weakness of production and manufacturing.

Turning 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 colloquially referred to as the 'Manufacturing 5' or 'M5'.

The green line represents Food, Drink and Tobacco manufacturing output. The sector recorded strong growth of 5.6% in 2024, reflecting resilient domestic demand. The sector has continued to perform relatively well compared with other manufacturing sub-sectors. Throughout 2025, output remains consistently above its 2023 baseline, with only limited month-to-month volatility. The graphic highlights a broadly stable trajectory, indicating that the sector has been largely insulated from the volatility affecting other parts of manufacturing. This resilience is consistent with the essential nature of food and drink consumption and the sector's comparatively lower exposure to cyclical demand and international competition

Chemical output as shown by the red line, remains the weakest-performing sector within the M5 group. In 2024, output grew by just 0.2%, underlining the sector's stagnation following sharp contractions in

Graph 2: Index of monthly output of M5 sectors over the past three years (2023=100)



Source: CIA analysis of ONS data

earlier years. The graphic shows that this weakness has persisted and intensified in 2025, with chemical output remaining below its 2023 baseline since late 2023 and deteriorating further over the course of the year. Rather than stabilising, the sector appears to reach progressively weaker levels, reinforcing the view that chemicals have been the worst-performing manufacturing sub-sector for several years, with conditions as high energy costs, reduced competitiveness, excess global capacity, continue to intensify.

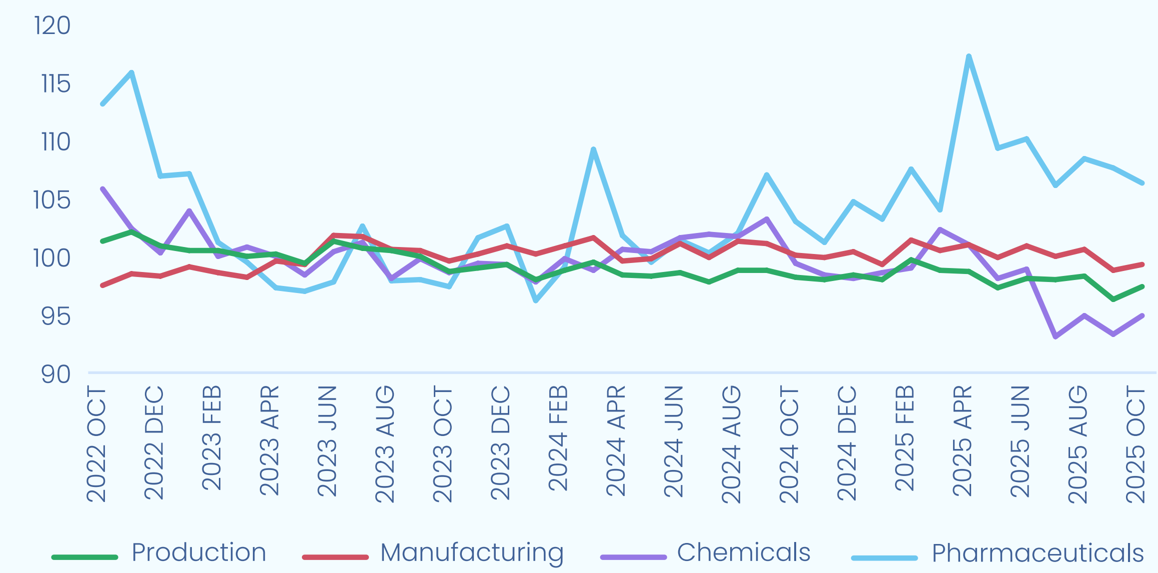
The light green line represents pharmaceutical output. The sector expanded by 2.1% in 2024, continuing to outperform some manufacturing sub-sectors. In 2025, pharmaceutical output remains clearly above its 2023 baseline, confirming its strong underlying position. However, the graphic also highlights relatively high volatility, with noticeable month-to-month fluctuations compared with more stable sectors such as Food and Drink. This suggests that while pharmaceuticals are performing well overall, production levels can vary significantly in the short term.

The light blue line represents automotive output. The sector recorded very strong growth of 8.9% in 2024, supported by investment and policy incentives linked to electric vehicle production, and entered 2025 from a position of strength. However, by September 2025 was marked by a sudden and pronounced contraction, with output falling sharply over a short period. Part of this abrupt deterioration reflects the cyber-attack affecting Jaguar Land Rover, which caused significant operational disruption and temporarily constrained production, highlighting how even strongly performing industries can be exposed to external risks.

The purple line represents aerospace manufacturing output. In contrast to most other sectors, aerospace output contracted by 0.4% in 2024, finishing the year below its 2023 baseline. Despite this weak starting point, the sector has undertaken a steady and incremental recovery throughout 2025. Month after month, output improves with relatively limited volatility, resulting in a stronger and more stable position by Q3 2025. This gradual improvement suggests that aerospace is emerging from a prolonged downturn, supported by longer-term order cycles and increased defence-related spending.

Graph 3 places chemical and pharmaceutical output in the context of overall manufacturing and total production. Over the period, total production and manufacturing follow relatively smooth and closely aligned paths, remaining broadly stable around their 2023 baseline. Against this backdrop, pharmaceuticals stand out as a consistently stronger performer, remaining above both manufacturing and production for much of the period, but with noticeable month-to-month volatility.

Graph 3: Index of monthly output by sector over the past three years (2023=100)



Source: CIA analysis of CEFIC data

By contrast, chemical output persistently underperforms. From 2023 onwards, chemicals remain below manufacturing and total production, with the gap widening further during 2025. While manufacturing and production display relative stability, chemical output weakens markedly, reinforcing the view that the sector's difficulties are structural rather than cyclical. The divergence between chemicals and pharmaceuticals is particularly striking, highlighting how two closely related industries have followed sharply different trajectories despite operating within the same broader industrial environment.

Chemical trade

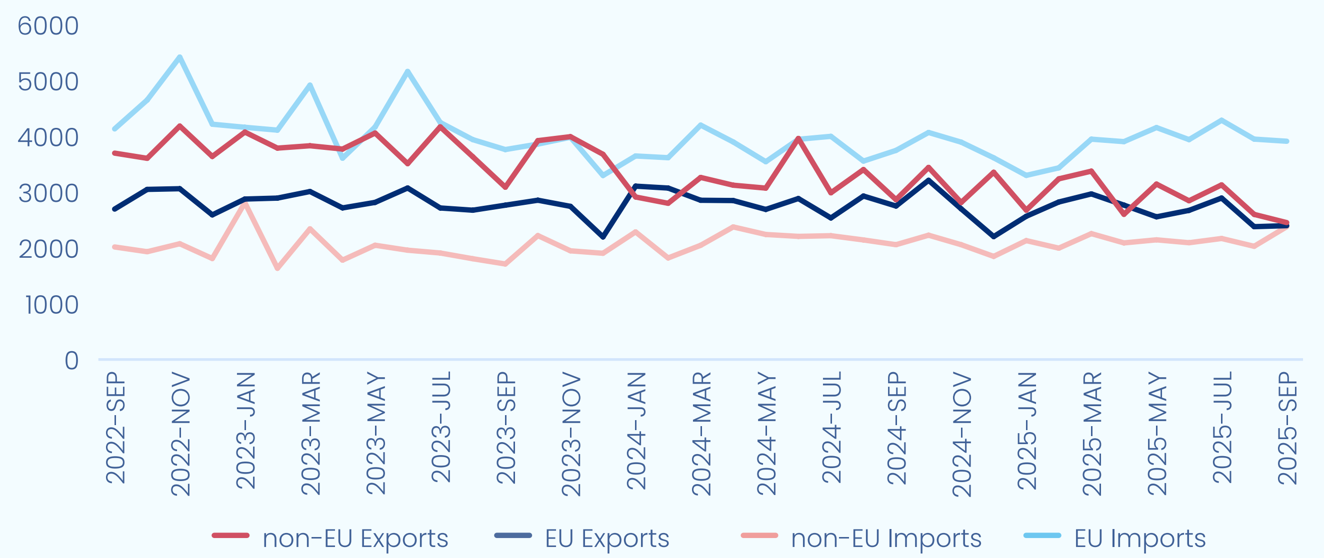
In 2024, the UK exported £71,796 million worth of chemical products, with 47 per cent destined for the European Union and 53 per cent for the rest of the world. Over the same period, chemical imports totaled £71,273 million, of which 64 per cent originated from the European Union and 36 per cent from non-EU markets. This resulted in a modest positive trade balance of £523 million. However, this represents a notable deterioration compared to 2023, when chemical exports amounted to £78,866 million and imports to £73,298 million. The contraction in trade values is not unexpected, as the sector has been experiencing persistently weak demand, which has weighed on both export performance and domestic production.

Graph 4 represents chemical imports and exports towards EU and extra-EU countries. The two blue lines represent trade flows with the EU and the two red lines 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 remains consistently above the light red line, indicating that imports from EU countries continue to exceed imports from extra-EU countries throughout most of the period. This confirms that the EU remains the UK's primary source of chemical imports. While EU imports show some volatility and a general softening through 2024, non-EU imports are broadly stable for much of the year. However, towards the end of Q3 there is a sharp increase in non-EU imports, bringing their value close to that of EU exports. This represents a noticeable change compared with earlier quarters and suggests a potential shift in sourcing patterns.

Moving on to exports, the dark blue and dark red lines remain relatively close and intersect multiple times, indicating that the UK exports similar values of chemicals to EU and extra-EU markets. Over the period, exports trend downwards, with non-EU exports exhibiting greater volatility and a slightly stronger decline. This pattern mirrors

Graph 4: Monthly chemical trade in current prices from September 2022 to September 2025 (£m)



Source: CIA analysis of ONS

the developments observed in Q2 and points to persistently weak external demand rather than a market-specific shock.

Since EU imports (light blue line) remain higher than EU exports (dark blue line), the UK continues to be a net importer of chemicals from the EU, implying a sustained trade deficit with EU partners. In contrast, exports to extra-EU countries generally exceed imports from those markets, meaning that the UK maintains a trade surplus with non-EU countries, although this surplus narrows towards the end of Q3 as non-EU imports rise. Overall, the total value of chemical imports remains higher than exports, confirming that the UK is a net importer of chemicals as a whole. This highlights the sector's continued dependence on foreign suppliers to meet domestic chemical demand.

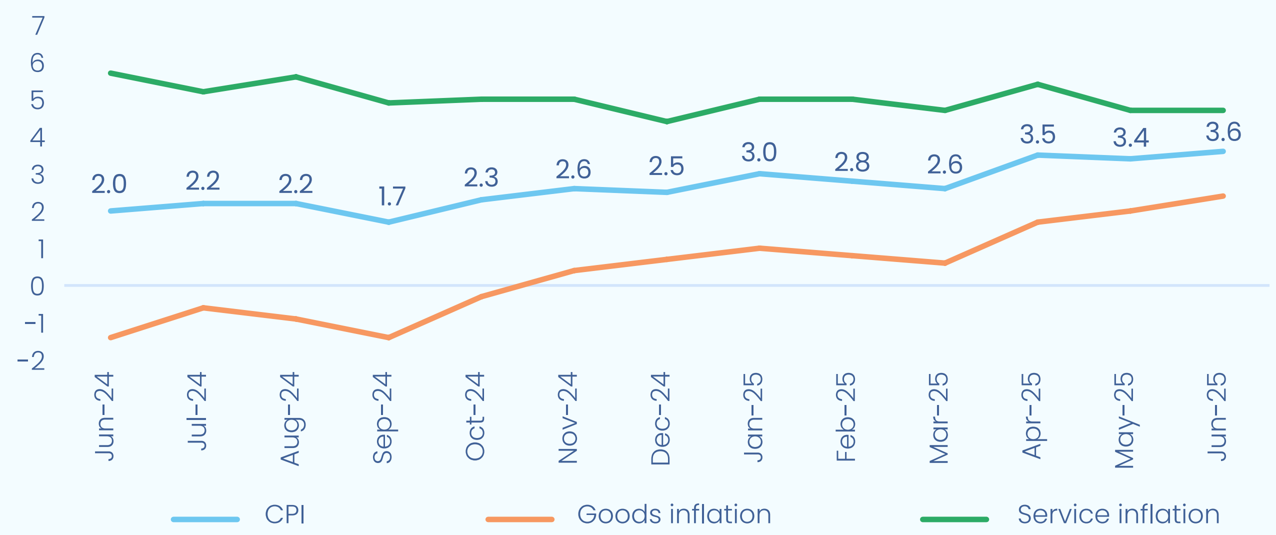
Consumer Side Inflation

According to IMF data, global inflation has continued to ease since 2023, reflecting tighter monetary policy, easing energy prices and improved supply conditions. Inflation in advanced economies has fallen markedly, with the G7 average declining from around 4.7% in 2023 to 2.7% in 2024 and projected to ease further to about 2.5% in 2025. A similar pattern is visible in the European Union, where inflation fell from 6.3% in 2023 to 2.6% in 2024 and is expected to remain close to 2.4% in 2025. In ASEAN economies, inflation has also moderated, declining from 3.5% in 2023 to around 2.0% in 2024 and 1.4% in 2025. Against this global backdrop, UK inflation dropped sharply from 7.3% in 2023 to 2.5% in 2024, with inflation projected to rise slightly to 3.4% in 2025, indicating that domestic price pressures remain more persistent than in several peer economies despite the broader disinflation trend.

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

Starting with services inflation (green line), price pressures remained high but broadly stable throughout Q3 2025. Services inflation stood at around 5.0% in July, before easing slightly to 4.7% in both August and September. This stability reflects the dominance of slow-moving, domestically driven components, particularly housing and household services, which continue to make the largest contribution to services inflation. Persistent pressures from rents, utilities and other housing-related costs, alongside elevated prices in restaurants and hotels, have kept services inflation elevated despite some marginal easing later in the quarter. Although less dominant than housing, recreation and culture is a relatively high-weight CPI component, so persistent price growth in this category amplified underlying inflationary pressure. These components carry relatively large weights in the CPI basket, meaning that even small monthly changes translate into sustained inflationary pressure.

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



Source: CIA analysis of ONS data

Turning to goods inflation (orange line), the picture is markedly different. At the start of the year, goods prices were still easing. However, from March onwards, goods inflation began to rise steadily, moving from 0.6% in March to 2.9% by September. Over the period from September 2024 to September 2025, goods inflation was noticeably more volatile than services inflation. Food and non-alcoholic beverages were among the largest contributors to goods-driven inflation, reflecting both their weight in the CPI basket and sustained price increases. Transport prices, which include both goods (such as fuels) and service elements, also contributed intermittently and added to short-term volatility. Overall, while services inflation remained persistently elevated, fluctuations in goods prices played a growing role in shaping headline CPI through 2025.

These two trends together explain the path of headline CPI inflation (blue line). As goods inflation picked up while services inflation remained persistently high, CPI rose steadily through the middle of 2025, reaching around 3.8% in July, August and September. The continued strength of services prevented a faster disinflation, while the rebound in goods removed a key downward offset present earlier in the year.

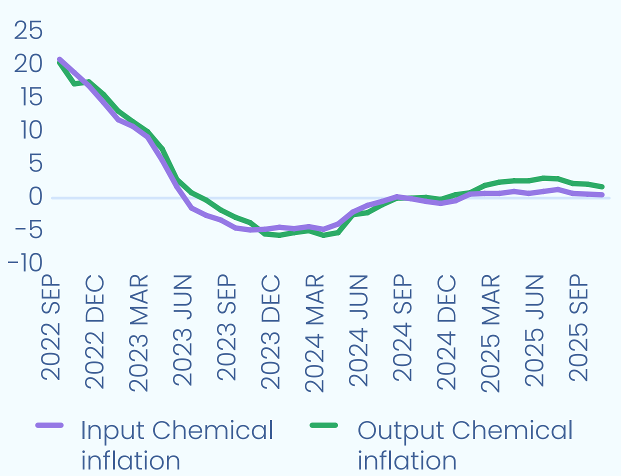
Looking ahead, October marks a turning point, with headline CPI easing to 3.6%, suggesting some early signs of cooling.

Chemical prices

Looking first at **Graph 6.1** and the input chemical inflation (purple line), the year-on-year price pressures eased sharply from the very high levels observed in late 2022, turning negative through much of 2023 and early 2024 as input prices fell compared with the previous year. This period of negative inflation indicates a sustained phase of cost disinflation for chemical producers. From late 2024 onwards, input inflation gradually moved back into positive territory, reaching around 0.5% by October 2025. This suggests that while input costs are no longer falling on a year-on-year basis, the renewed cost pressures remain relatively modest and far below the peaks seen during the energy shock.

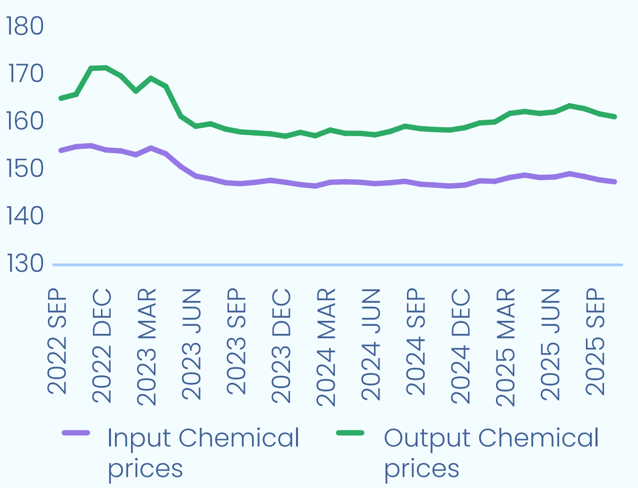
By contrast, output chemical inflation (green line) followed a similar but slightly stronger trajectory. Output prices also shifted from high positive inflation in 2022 into negative territory during 2023 and early 2024, before recovering more decisively in 2025. By October 2025, output inflation stood at around 1.7%, consistently above input inflation. This indicates that chemical producers have been able to raise selling prices modestly relative to a year earlier, at a faster pace than the increase in input costs. Taken together, the divergence between output and input inflation in 2025 points to an improvement in price-cost dynamics, suggesting some scope for margin stabilisation, even though overall price growth remains subdued.

Graph 6.1: Year-on-year inflation in chemical input and output prices (PPI) over the past 3 years



Source: CIA analysis of ONS

Graph 6.2: Price level of chemical output and input over the past 3 years



Source: CIA analysis of ONS

Turning to the **Graph 6.2**, the input chemical prices (purple line), prices rose sharply through late 2022, reaching levels above 155, before declining steadily during 2023. By mid-2023, input prices had fallen back to around 147 and have since remained broadly stable, fluctuating within a relatively narrow range through 2024 and 2025. Although this represents a moderation compared with the 2022 peak, input prices remain around 45-50% higher than their 2015 level, indicating a permanently higher cost base for producers.

In contrast, output chemical prices (green line) peaked at even higher levels in late 2022, reaching above 170. While output prices also declined during 2023, the fall was less pronounced than for inputs. From 2024 onwards, output prices stabilised and then gradually edged upwards again, reaching around 161-163 by mid-2025 before easing slightly in recent months. This means that output prices remain consistently higher than input prices throughout the period and have adjusted downwards more slowly.

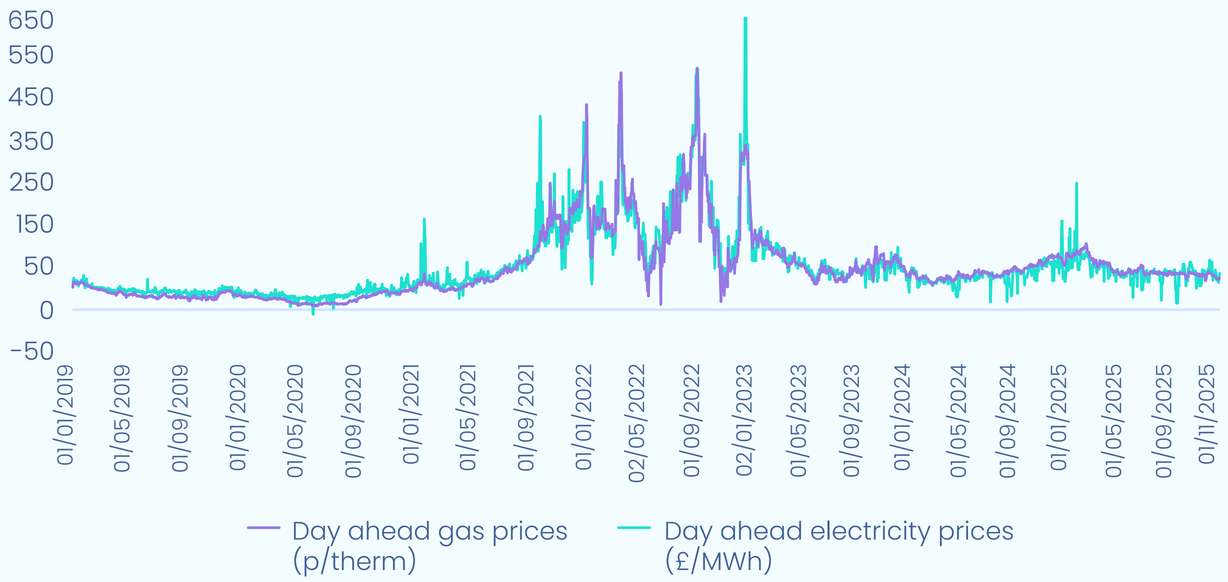
The persistent gap between output and input price levels suggests that producers have been able to maintain higher selling prices relative to input costs compared with the previous years of crisis. However, the overall level of both input and output prices remains elevated.

Graph 7 displays the day-ahead wholesale gas and electricity prices in the UK from January 2019. As we know, the 2022 period was marked not only by high prices but also by extreme volatility, with frequent sharp spikes and rapid corrections in both series. From early 2023 onwards, prices declined significantly and volatility eased. Gas and electricity prices then stabilised at much lower levels than the crisis peak. However, they did not return to pre-2021 norms and instead appear to have settled at a structurally higher level. Intermittent price spikes remain visible, especially in electricity markets. Overall, the chart suggests that while the acute energy crisis has passed, energy prices remain elevated and continue to pose a cost and uncertainty challenge for energy-intensive users.

Labour market

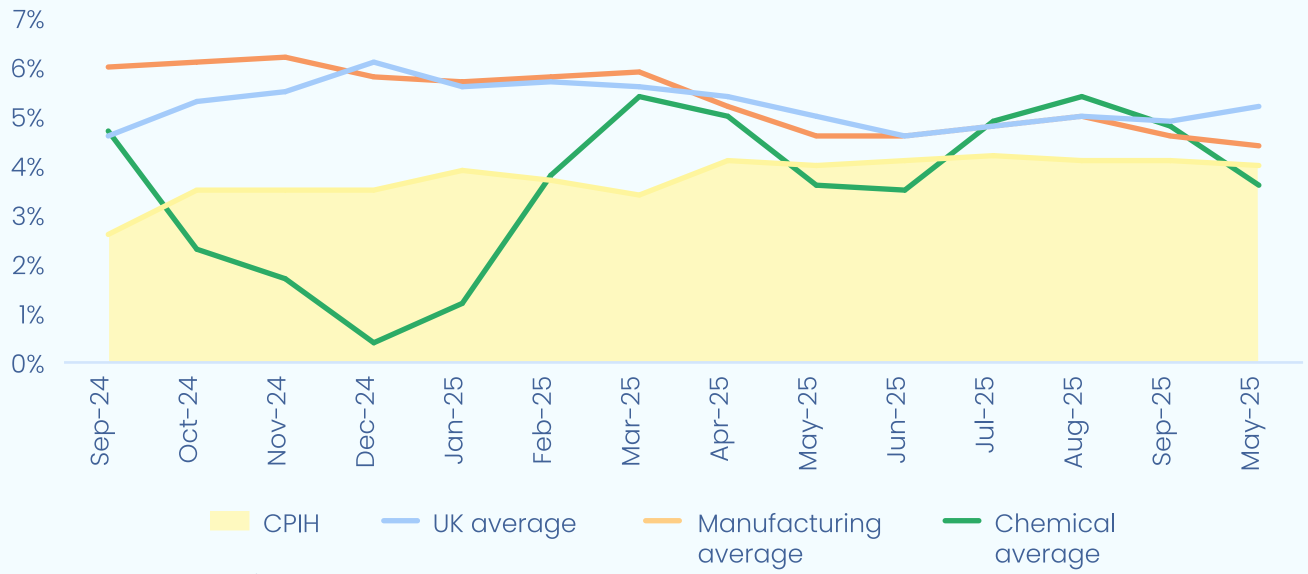
With persistently high inflation and limited productivity growth, the UK appears to be moving into looser labour market conditions. Following the Autumn Budget and the publication of the Office for Budget Responsibility's Economic and Fiscal Outlook, the increase in employer National Insurance contributions, alongside weak business sentiment, looks set to weigh on labour demand. The OBR expects the unemployment rate to remain close to its current level of around 5% over the coming quarters, before gradually declining towards its estimated equilibrium rate of 4.1% from 2027. It also forecasts nominal weekly earnings growth to hold at around 5% in 2025, before easing to around 3.33% in 2026.

Graph 7: Day ahead gas (p/therm) and electricity (£/MWh) prices



Source: CIA analysis of Inspired PLC data

Graph 8: Growth rate of UK average, manufacturing, and chemical pay over the past 13 months compared to CPIH inflation



Source: CIA analysis of ONS

The yellow shaded area indicates the level of CPIH inflation over the period. 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. By contrast, pay growth rates that lie above the shaded area translate into positive real terms pay increases. CPIH inflation rises from 2.6% in September 2024 to 4.2% in July 2025, before easing slightly to 4.1% by September 2025, remaining elevated throughout most of the period.

The UK average pay growth (blue line) remains consistently above CPIH inflation. It peaks at 6.1% in December 2024, before gradually easing to 4.9% by September 2025. While nominal earnings growth slows over time, it continues to exceed inflation in every month shown, indicating sustained positive real wage growth at the aggregate level, although the real-terms uplift narrows as inflation rises and wage growth moderates.

The manufacturing average pay growth (orange line) is slightly stronger than the UK average for much of the period. It reaches 6.2% in November 2024, before easing steadily to 4.6% by September 2025. Manufacturing pay growth remains above CPIH inflation throughout, implying persistent real wage gains, though these gains diminish over time.

In contrast, chemical sector pay growth (green line) displays significant volatility. It declines sharply from 4.7% in September 2024 to 0.4% in December 2024, falling well below CPIH inflation and resulting in substantial real terms pay cut at that point. From early 2025, pay growth recovers, rising to 5.4% in March 2025 and 5.4% again in August 2025 and ending with 4.8% in September 2025, remaining above inflation for most of the remainder of the period and implying a return to positive real wage growth.

Overall, the chart highlights that despite persistently elevated inflation, nominal pay growth continues to exceed CPIH inflation in most sectors, supporting positive real-terms wage growth. However, the narrowing gap between pay growth and inflation, alongside pronounced volatility in the chemical sector, suggests cooling labour market pressures and uneven adjustment across industries.

Rounding up the official data

The UK economy continued to face challenging conditions through Q3 2025. While activity showed some resilience earlier in the year, momentum weakened as the quarter progressed.

Within manufacturing, the chemical sector remains one of the weakest performer. Output fell by 5.5% in Q3, following a 0.5% decline in Q2, leaving production 33.3% below pre-pandemic levels. This sustained weakness reflects a combination of softening domestic and international demand and mounting competitive pressures in energy-intensive production. High energy costs relative to international competitors continue to erode the sector's cost competitiveness, reinforcing structural challenges rather than cyclical volatility.

Inflation remained elevated through Q3. Headline CPI stood at 3.8% throughout the quarter, with housing and household services making the largest contribution. UK inflation continued to exceed the EU27 average of 2.6%, and inflation has not been lower than the EU average since December 2024. In this context, the Monetary Policy Committee voted in September to maintain the Bank Rate at 4%, reflecting the persistence of domestic price pressures and inflation remaining above the 2% target.

Labour market conditions showed further signs of loosening. Unemployment increased to around 5%, while vacancies fell again over the quarter, marking the 39th consecutive period of decline. In the chemical sector, total pay growth reached 4.8% in the three months to September 2025, around one percentage point above inflation, resulting in positive real terms pay growth. Regular pay increased by 4.0%, also slightly above inflation, implying a modest real-terms increase. While wage growth continues to outpace inflation, the margin has narrowed, consistent with easing labour market pressures.

CHEMICAL INDUSTRIES ASSOCIATION

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 Q3 2025 Business Survey was live between October 9th and October 23rd, 2025. The survey received responses from around 35% of total 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: UK Investment, Cybersecurity and Regulatory Bodies.

In the industry performance section, three questions asked respondents whether the 19 variables listed below had increased, decreased, or stayed the same in the third quarter of 2025 compared to the second quarter of 2025 and their expectations for these variables in the fourth 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 the performance in the third quarter; the second column contains the diffusion index for the performance in the second quarter, and the third quarter contains the diffusion index for what was expected for the third quarter of 2025 when respondents were asked in the CIA's Q2 2025 Business Survey. The final two columns contain the percentage of respondents that experienced a decrease of that variable in the current quarter and the previous one. This allows comparisons between the performance in the third quarter of 2025 compared to expectations and the prior quarter.

Table 1: Q3 performance compared to Q2's and expectations made in Q2

	Q3 Actual	Q2 Actual	Q3 Expected	Percentage that experienced a decrease in Q3 2025	Percentage that experienced a decrease in Q2 2025
Total sales	38	43	53	43%	33%
Domestic sales	34	39	46	41%	24%
Exports	42	42	53	30%	27%
EU exports	38	39	48	35%	31%
Rest of the world exports	31	44	46	32%	24%
New orders	31	40	48	46%	35%
Production levels	42	42	52	38%	31%
Capacity utilisation	43	42	47	35%	33%
Employee numbers	34	41	41	41%	33%
R&D spend	41	45	46	19%	16%
Business investment	34	44	46	38%	29%
Your level of business optimism	30	44	45	49%	37%
Time to deliver	39	46	47	24%	12%
Raw material (input) prices	58	57	59	16%	20%
Cost of importing	62	65	59	3%	2%
Cost of exporting	65	69	59	0%	0%
Your energy costs	55	50	57	14%	20%
Finished goods (output) prices	49	51	50	22%	20%
Your company/site profit margins	28	37	42	54%	47%

Source: CIA Q3 and Q2 2025 Business Survey

Key take away

After a modest easing in Q2, conditions deteriorated sharply in Q3. Sales, new orders, production and capacity utilisation fell for a large share of respondents. Employment and investment also declined, while raw material and energy costs rose further. With demand weakening and input costs increasing, profit margins came under significant pressure, falling for 54% of respondents.

The year began strongly, with Q1 showing broad expansion across sales, orders and production. This momentum softened in Q2, as most indicators declined slightly from their earlier highs but remained relatively stable overall. By contrast, Q3 2025 marked a clear deterioration in operating conditions for respondents. Total sales weakened noticeably, with 43% of firms reporting lower sales, compared with 33% in Q2, signalling a broad-based softening in demand. Domestic sales continued to decline, and international performance worsened: 35% of respondents recorded lower EU exports, and 32% reported declines in exports to the rest of the world, suggesting that the slowdown was felt across all major markets.

This weakening in sales fed directly into order books. New orders saw the sharpest deterioration, with 46% of firms reporting a decrease. This widespread fall in new business indicates that demand pressures intensified through the quarter, rather than stabilising.

Lower new orders naturally flowed through to activity. Production levels fell for 38% of respondents, and capacity utilisation weakened further, with 35% reporting a decrease. This points to firms operating increasingly below optimal levels as workloads continued to decline.

Labour market conditions reflected the same downward trajectory. 41% of firms reduced employee numbers, consistent with ongoing pressures on workloads and confidence. This continues a longer trend of employment declines that has persisted since Q3 2023 [1] Business investment also contracted, with 38% of firms cutting capital expenditure, while R&D spend, though comparatively more resilient, still saw 19% reporting reductions.

Meanwhile, cost pressures intensified further in Q3. The raw material (input) prices index increased from up to 58, signalling a stronger rise in input costs, while the energy costs index climbed from 50 to 55, indicating a clear shift back into expansion territory for energy cost growth. In contrast, the finished goods (output) prices index remained below 50 at 49, meaning output prices were broadly unchanged and continued to contract slightly. This imbalance left firms unable to pass cost increases on to customers. As a result, profitability deteriorated sharply: the profit margins index fell from 37 to 28, its lowest level this year, and 54% of respondents reported falling margins, reflecting the most severe squeeze in 2025 so far.

Business optimism fell sharply in response to weaker demand, rising costs and subdued trading conditions. Nearly half of respondents (49%) reported a decline in optimism, signalling increased uncertainty heading into the final quarter of the year.

1 *Based on ONS JOBS03 dataset.*

Expectations for the fourth quarter of 2025

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

Table 2: CIA Q3 2025 Business Survey

	Q4 Expectation	Percentage that expects an increase in Q4 2025
Total sales	49	24%
Domestic sales	45	14%
Exports	45	14%
EU exports	45	14%
Rest of the world exports	46	14%
New orders	39	11%
Production levels	35	8%
Capacity utilisation	36	11%
Employee numbers	30	3%
R&D spend	38	3%
Business investment	30	5%
Your level of business optimism	32	11%
Time to deliver	45	5%
Raw material (input) prices	61	27%
Cost of importing	61	22%
Cost of exporting	65	30%
Your energy costs	61	27%
Finished goods (output) prices	53	24%
Your company/site profit margins	39	16%

Source: Expectations for Q4 2025

Key take away

Short-term optimism has faded, and expectations for Q4 are now the weakest of the year. Businesses anticipate further declines in sales, new orders, production and capacity utilisation, while employment and investment are expected to fall again. At the same time, rising energy and raw material costs are set to intensify pressure on already-tight margins.

Expectations for Q4 point to another difficult quarter, with most diffusion indexes remaining below 50 and signalling continued contraction. Total sales (49) are close to stability, but domestic sales and exports (both 45) indicate a slight decline in demand, consistent with the weakening observed in Q3. Demand-related indicators are much weaker further down the chain: new orders (39), production levels (35) and capacity utilisation (36) fall well below 40, suggesting a strong expected contraction in activity. This pattern reflects a clear sequence, in which subdued demand leads to fewer orders, lower output and reduced use of capacity.

This weakness is also visible in forward-looking indicators. The diffusion indexes for employment (30) and business investment (30) are extremely low, pointing to a strong expected contraction rather than a simple slowdown. Together with a subdued outlook for R&D spending (38), these results suggest that firms are anticipating lower workloads and tightening financial conditions. The pattern is consistent with a broader domino effect: weak demand leads to fewer orders, reduced production and lower capacity utilisation, which in turn prompts firms to scale back hiring and postpone investment.

Cost expectations, however, move in the opposite direction. Raw material prices, energy costs and the cost of importing all register strong diffusion indexes of 61, indicating widespread expectations of further increases. With finished goods prices only slightly expansionary (53), firms appear to have limited scope to pass on rising costs, resulting in persistent pressure on profitability. The profit margins index (39) confirms this, pointing to another quarter of deterioration.

Business optimism remains low (32), suggesting that firms do not expect a near-term improvement in trading conditions.

Taken together, these results indicate that Q4 is likely to be the weakest quarter of the year, with no immediate signs of recovery in confidence or profitability.

Expectations for 12 months ahead

Table 3: Medium-term expectations

	12 months Expectation	Percentage that expects an increase in 12 months time
Total sales	68	54%
Domestic sales	58	35%
Exports	57	41%
EU exports	55	32%
Rest of the world exports	54	32%
New orders	64	51%
Production levels	62	46%
Capacity utilisation	64	51%
Employee numbers	31	11%
R&D spend	41	11%
Business investment	41	19%
Your level of business optimism	47	27%
Time to deliver	49	8%
Raw material (input) prices	73	51%
Cost of importing	65	32%
Cost of exporting	65	30%
Your energy costs	62	32%
Finished goods (output) prices	59	41%
Your company/site profit margins	55	35%

Source: CIA Q3 2025 Business Survey

Key take away

Businesses expect activity to improve over the next 12 months, but the recovery is projected to be moderate and uneven. Demand and output are expected to strengthen gradually, yet limited investment capacity, persistent cost pressures and only modest margin improvements indicate that the sector remains far from a return to strong growth.

Medium-term expectations are more positive than the short-term outlook but remain weaker than in previous surveys. While most diffusion indexes are above 50, indicating anticipated improvements over the next 12 months, the share of respondents expecting these increases is lower than what is typically seen in periods of stronger confidence.

Just over half of respondents expect higher total sales in a year's time (index 68), with domestic sales (58) and exports (57) showing more modest expectations. Although these values point toward gradual improvement, they remain subdued compared with the strong optimism reported last year, reflecting ongoing uncertainty in both domestic and international markets. Expectations for EU and wider export markets (55 and 54) follow the same cautious but positive trend. New orders (64) and production levels (62) are also expected to rise, and nearly half of respondents anticipate improvements in capacity utilisation (index 64), suggesting a slow rebuilding of activity after a challenging first half of 2025.

Slower-moving variables show a more restrained outlook. Employment expectations remain weak (31), with very few businesses planning to increase staffing, consistent with the declines observed across recent surveys. Both R&D spending (41) and business investment (41) remain below 50, indicating that firms are unlikely to increase long-term spending over the next year. Rather than reflecting a lack of willingness, these trends are more likely driven by limited financial headroom,

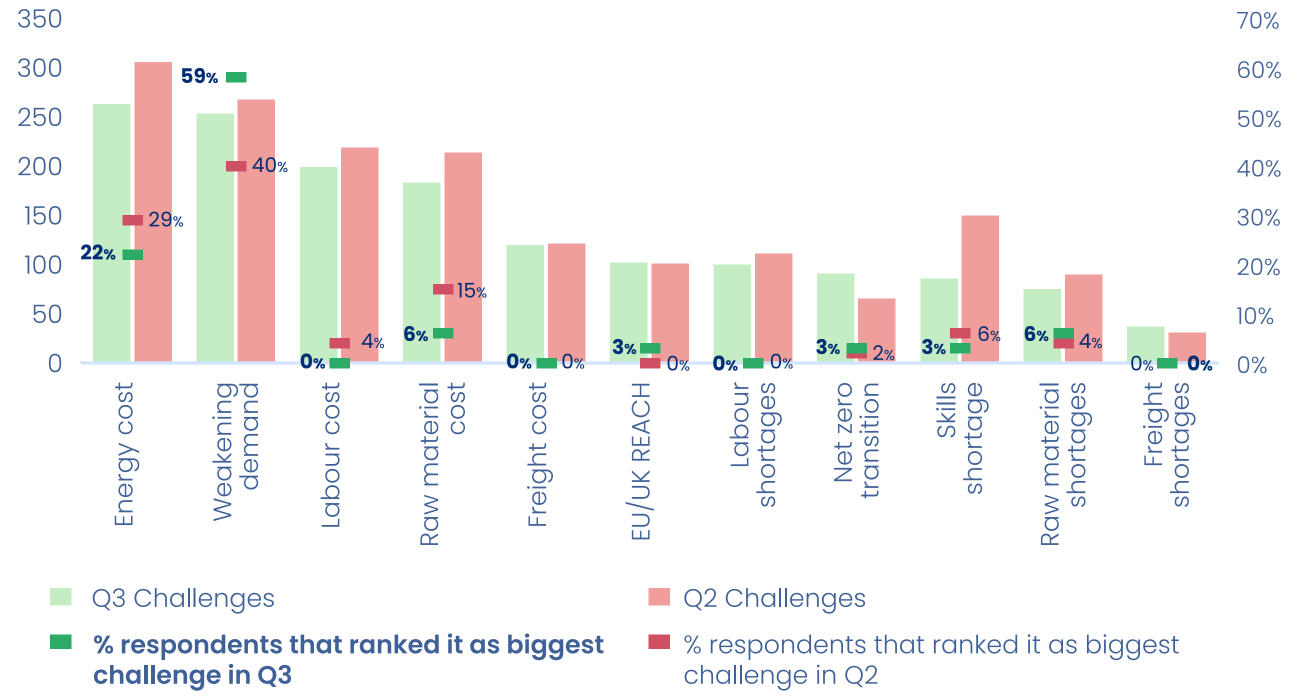
weak profitability and the pressures of rising input costs, which restrict firms' capacity to invest even as activity is expected to improve.

Cost expectations continue to weigh heavily on sentiment. Raw material prices (73), import costs (65) and energy costs (62) are all expected to rise, with a large share of respondents anticipating further inflationary pressures. Output prices (59) are expected to increase only moderately, limiting firms' ability to absorb higher input costs. As a result, profit margins (55) are expected to improve only gradually, and confidence remains fragile, reflected in a business optimism index of 47.

Challenges and Opportunities

The second section of the CIA's Q3 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 9: Industry ranking of business challenges in Q3 and Q2 2025



Source: CIA Q3 2025 and Q2 2025 Business Survey

This quarter's survey recognised: 'Energy Cost', 'Weakening Demand' and 'Labour Cost' as the three main challenges. These same challenges have remained in the top 3 for now five business surveys. The green bar on **Graph 9** shows the ranking of the challenges in this quarter's survey, whilst the red bar shows the ranking in the previous quarter (Q2 2025). The squares represent the percentage of respondents that ranked each challenge as their number one challenge. The green square is the

Key take away

1. Energy cost
2. Weakening demand
3. Labour cost

percentage in Q3 2025 and the red one in Q2 2025.

Focusing on the top-ranked challenge, '**Energy Cost**', fewer members identified it as their number one concern in Q3 (22%) compared with Q2 (29%), indicating that other pressures are becoming more significant. However, energy cost remains the overall leading challenge, as it continues to be the most frequently selected issue even when not ranked first. Concerns persist about the UK's declining international competitiveness, as high energy prices place UK sites at a disadvantage compared with sites in other regions.

'**Weakening demand**' has overtaken energy cost as the top-ranked challenge in Q3. Although the number of mentions of it as a challenge is broadly comparable across Q2 and Q3, the share of respondents ranking it as their biggest challenge increased sharply from 40% to 58%. This shift reflects the broader deterioration seen in sales, new orders and output indicators, with many firms now viewing demand weakness as the primary factor constraining activity.

The third biggest challenge, '**Labour cost**' continues to be mentioned regularly but is rarely considered the most pressing issue. In Q2, 4% of respondents ranked it as their biggest challenge, while in Q3 this fell to 0%. This suggests labour cost remains an underlying pressure in the cost base, but it is not driving business difficulties in the same way as demand weakness or energy prices.

Raw material cost remains one of the more frequently mentioned challenges, yet fewer firms now consider it their top concern. The share ranking it as their biggest challenge fell from 15% in Q2 to 6% in Q3. This indicates that while input price inflation is still a problem, it has become relatively less urgent compared with the other escalating challenges.

Across the other challenges, most remain secondary concerns rather than dominant pressures. Issues such as freight costs, labour shortages and freight shortages were cited at similar levels in Q2 and Q3, and very few respondents ranked them as their biggest challenge. Raw material shortages, EU/UK REACH requirements and the net zero transition stand out slightly, with small increases in the share of respondents identifying them as their top concern, suggesting emerging pressures.

Table 4: Expectations over challenges

	Expectations	Percentage that expects this challenge to worsen
Energy cost	35	41%
Weakening demand	20	70%
Labour cost	11	78%
Raw material cost	29	44%
Freight cost	33	39%
EU/UK REACH	50	14%
Labour shortages	47	22%
Net zero transition	47	20%
Skills shortage	46	31%
Raw material shortages	57	14%
Freight shortages	60	6%

Source: CIA Q3 2025 Business Survey

Members also mentioned a number of additional challenges affecting their operations. These included the cost and timing of EU/UK regulatory requirements, which many felt were creating delays and reducing the competitiveness of UK production. Some respondents also noted that 'Made in USA' products are increasingly impacting UK production and that cheap imports were also highlighted as a threat to continued UK operations, adding further pressure on domestic producers. Finally, several members pointed to carbon-related costs as another growing concern for their businesses.

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.

The lowest diffusion indexes, paired with the highest shares of respondents anticipating deterioration, show that weakening demand and rising costs remain the most acute pressures facing the sector. Weakening demand (index 20) stands out sharply, with 70% expecting conditions to worsen, signalling that the slowdown observed this year is expected to deepen further. Labour cost pressures are close behind (index 11), with nearly four in five firms (78%) forecasting additional increases, the most widely expected escalation across all challenges.

Other cost-related pressures also feature prominently. Raw material costs (index 29) are expected to worsen for 44% of respondents, while 41% anticipate higher energy costs (index 35), reflecting ongoing inflationary pressures and continued volatility in commodity and energy markets. Freight costs (index 33; 39% expecting worsening) show a similar trajectory, though the expected deterioration is slightly less severe than for core inputs.

By contrast, several structural and regulatory challenges are expected to remain broadly stable. EU/UK REACH requirements (index 50) show only 14% expecting worsening, while labour shortages (47), skills shortages (46) and the net zero transition (47) have moderate diffusion indexes and relatively low levels of anticipated deterioration. This suggests that, although these issues remain relevant, firms do not expect them to intensify significantly in the short term.

The clearest signs of improvement arise in supply-related pressures. Raw material shortages (index 57; only 14% expecting worsening) and freight shortages (index 60; 6% expecting worsening) point to a welcome easing in supply chain conditions, marking a notable shift after several years of disruption.

Moving onto opportunities, members highlighted several recurring themes. Many pointed to the potential for relocating manufacturing to lower-cost regions to address competitiveness pressures, while others saw growth prospects in new products and new markets. Opportunities in green technologies and defence-related products also featured prominently, reflecting areas of rising demand. Firms additionally mentioned portfolio rationalisation as a way to strengthen resilience, as well as the advantage of leveraging international sites, particularly in the US, to support customers more effectively.

Open-ended questions

The final part of the survey asked members some open-ended question on Investment in the UK, Cybersecurity and Regulatory Bodies.

Investment in the UK

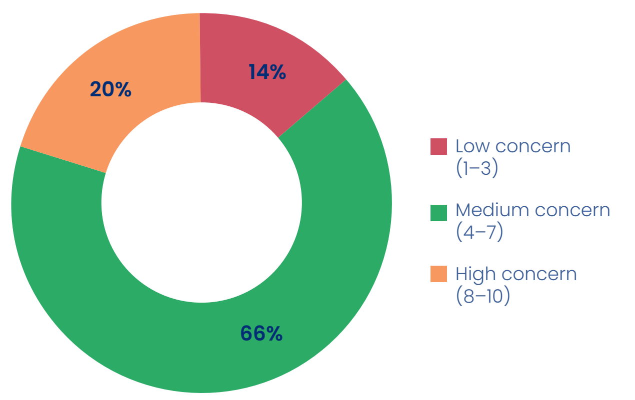
The members were asked, what is the biggest threat(s) to maintaining investment in their business in the UK, with several themes appearing repeatedly across responses.

The most prominent concerns relate to high operating costs, particularly the cost of energy, labour, carbon credits and employer National Insurance contributions, all of which reduce competitiveness and squeeze margins. Many firms also highlighted weakening demand in the UK and Europe, alongside increasing competition from low-priced imports from China, Asia and the USA, which has pushed margins into negative territory for some businesses and left less cash available for reinvestment. Several respondents noted that they are struggling to compete internationally due to the UK's cost structure, regulatory environment and volatile tax framework, with some even reporting pressure to relocate manufacturing to the EU or the USA, where energy prices are lower and access to markets is more favourable. Additional threats included trade uncertainty, particularly linked to tariff risks, lack of new products, and the market impact of PFAS management and media attention.

Cybersecurity

After the recent events, we asked our members about their concern about potential cyber-attack on their businesses.

Graph 10: To what extent are you concerned about possible cyber-attacks on your business?
1 for no concern up to 10 for very concerned.



Source: CIA Q3 2025 Business Survey

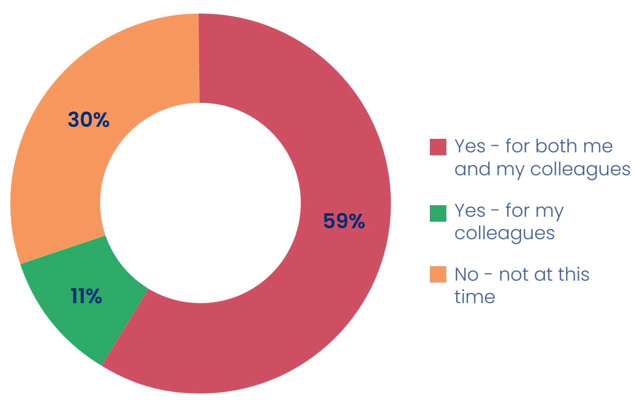
Graph 10 shows that cyber-security is a notable concern for the majority of respondents, although the level of concern varies across firms. Two-thirds of members (66%) reported medium concern (scores 4-7), suggesting that most businesses view cyber-attacks as a credible and ongoing risk that requires attention, even if it is not perceived as an immediate threat. A further 20% expressed high concern (scores 8-10), highlighting that one in five businesses consider cyber-attacks to be a serious threat to their operations, potentially reflecting past incidents, increased exposure, or the sensitivity of the data and systems they manage.

By contrast, only 14% reported low concern (scores 1-3), indicating that very few businesses feel fully insulated from cyber risks. Overall, the distribution suggests a sector that is aware of cyber-security vulnerabilities and broadly anticipates the need for continued monitoring and investment, even if urgency varies between firms.

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: Would a CIA cybersecurity training event be of interest to you, and, or your colleagues?



Source: CIA Q3 2025 Business Survey

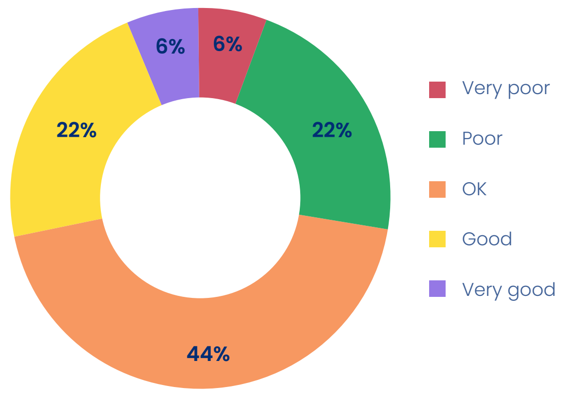
We decided to investigate if our members would be interested in an training event related to their potential concerns and as seen in Graph 11, the results show a strong level of interest in a CIA-organised cybersecurity training event. A majority of respondents (59%) indicated that such an event would be of interest to both themselves and their colleagues, suggesting broad organisational engagement with cybersecurity capacity-building. A further 11% expressed interest specifically for their colleagues, which reinforces that companies see value in upskilling staff even if decision-makers themselves may not require direct participation.

Only 30% reported no interest at this time, indicating that while not universal, demand remains high across the membership. Taken together, these findings imply that cybersecurity training would be well-received by most firms and could help address the growing awareness of cyber-risks highlighted in the previous question.

Regulatory bodies

The third topic we explored with our members related to regulatory bodies and the way in which these bodies interact with them.

Graph 12: How would you rate the performance of regulatory bodies (HSE, EA, SEPA, NRW) in their interactions with your business?



Source: CIA Q3 2025 Business Survey

Graph 12 show that members generally hold a moderately positive view of their interactions with regulatory bodies such as HSE, EA, SEPA and NRW. The largest share of respondents (44%) rated these interactions as 'OK', suggesting that although the regulatory environment is functioning, it is not perceived as particularly efficient or supportive.

A combined 28% of respondents rated performance as 'Good' (22%) or 'Very Good' (6%), indicating that a meaningful proportion of businesses experience constructive and effective engagement with regulators. These responses reflect instances where communication is clear, processes are predictable, and regulatory expectations are understood.

However, the remaining 28% expressed dissatisfaction, with 22% rating interactions as 'Poor' and 6% as 'Very Poor.' This highlights ongoing concerns among a subset of members. Overall, the results suggest that while regulatory interactions are broadly functional, there is considerable room for improvement.

In addition to rating their overall interactions with regulatory bodies, members were asked to provide specific examples of **very good practice** and **very poor practice**. The feedback reflects the mixed picture shown in the rating data, with some businesses experiencing constructive and collaborative engagement, while others reported significant operational challenges linked to slow processes, limited resourcing, or inconsistent approaches.

Positive experiences included:

- HSE regulatory visits described as timely, focused and more proactive than in previous years, with inspectors identifying best practices and working collaboratively with sites to implement improvements.
- A COMAH safety report resubmission in 2025, where the HSE's review process was reported as efficient and supportive.
- Good support and cooperation from the Environment Agency (EA), with some members highlighting a pragmatic and solution-oriented approach.

Negative experiences included:

- Limited site interaction with HSE, with some businesses noting the absence of a clear contact point.
- Reports that both HSE and EA are struggling for resource, affecting the consistency and responsiveness of engagement.
- Concerns about poor standards or limited technical knowledge among certain HSE representatives.
- Very slow response times from regulators, with little prioritisation of urgent matters.
- The EA being described as rigid in permit-surrender processes, contributing to delays and even plant closures, as well as being 'anti-industry' in approach.
- Perceptions that the EA is under-resourced, sometimes relying on Reg. 61 notices instead of its own data, and experiencing disconnects with Natural England.
- A lack of pragmatic inspectors and slow approval processes that hinder investment and create uncertainty for businesses.

Key takeaways from the survey

Operating conditions in the third quarter of 2025 deteriorated sharply after a modest softening in Q2. Demand weakened across all major markets, with significant falls in sales, new orders, production levels and capacity utilisation. International performance also declined, and profit margins came under intense pressure as energy and raw material costs continued to rise while output prices remained broadly flat. Employment fell for the sixth consecutive quarter, and investment activity contracted further, reflecting reduced workloads and weaker confidence.

Short-term expectations for Q4 are the weakest recorded this year. Fewer than one in four respondents anticipate any improvement in sales or production levels, and key forward-looking indicators, new orders, capacity utilisation, employment and business investment are all expected to decline further. Cost pressures are set to intensify, with strong expectations of higher input, import and energy costs, suggesting that margins will remain under strain into the final quarter of the year. Business optimism remains subdued, and firms do not foresee a meaningful near-term recovery.

Looking 12 months ahead, expectations are more positive but still markedly cautious compared with previous surveys. Most diffusion indexes sit above 50, indicating anticipated improvement, yet respondents expect only a gradual and uneven recovery. Demand and output are expected to strengthen, but weak investment capacity, persistent cost inflation and only modest expected gains in margins suggest that the sector remains far from returning to pre-pandemic growth dynamics.

Energy costs, weakening demand and labour costs remain the top challenges for the fifth consecutive survey. Demand concerns have become significantly more prominent, mirroring the deterioration in sales and orders. Members also highlighted additional threats to UK competitiveness, including regulatory complexity, high carbon and labour costs, cheap imports from global competitors and pressure to relocate production.

Across wider strategic issues, members expressed concerns about investment conditions, cybersecurity risks and the performance of regulatory bodies. High operating costs, volatile demand and margin pressures remain key barriers to maintaining investment in the UK. 80% of respondents expressed medium or high concern about cyber-attacks, and most indicated interest in sector-focused cybersecurity training. Feedback on regulators revealed a mixed picture: while some members reported constructive and proactive engagement, others pointed to slow processes, limited resourcing and inconsistent approaches that hinder investment and operational efficiency.

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