



CIA Economic Report

Fourth 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 Q4 2025 Business Survey took place between January 7 and January 21, and we received entries from 51 chemical companies.

Economic Overview

As we move into early 2026, recent official releases continue to point to a fragile macroeconomic environment. Although the UK economy expanded by 1.3% in 2025, quarterly growth slowed steadily through the year, ending Q4 at just 0.1%. While production rose modestly in the final quarter, services recorded no growth for the first time in two years and construction contracted. Momentum therefore appears weak, with growth remaining close to stagnation.

Within manufacturing, divergence across sectors has widened. The chemical industry remains among the weakest performers, with output contracting sharply in 2025 following only marginal growth in 2024. Production has trended downward throughout the year and remains well below its 2023 baseline. This sustained underperformance reflects a combination of subdued industrial demand, elevated energy costs relative to international competitors, and persistent structural competitiveness pressures.

Inflation eased significantly from its 2023 peak

but remained above target in 2025, averaging 3.4% for the year and standing at 3.0% in January 2026. Services inflation continued to outpace goods inflation, reflecting ongoing domestic cost pressures. The Monetary Policy Committee maintained Bank Rate at 3.75% in February 2026, although inflation is expected to return closer to target during 2026. While disinflation is underway, price pressures remain elevated relative to the pre-crisis norm.

Labour market conditions have softened further. Payrolled employment declined over the year and unemployment rose to 5.2%, its highest level since early 2021. Wage growth has continued to exceed inflation at the aggregate level, sustaining positive real income growth, though the margin has narrowed. In the chemical sector, earnings growth has been more volatile but returned to positive real terms in 2025, suggesting some stabilisation in labour cost dynamics.

The data suggest an economy that remains resilient but subdued. Growth persists and inflation is moderating, yet industrial weakness, softer labour market conditions and structural cost pressures continue to shape a challenging outlook for the UK chemical sector.

Insights from our industry

The Q4 2025 survey suggests that the chemical sector has stabilised following the sharp deterioration recorded in Q3, but conditions remain firmly contractionary. While fewer firms reported declines in sales, new orders and production, most activity indicators remained below the neutral 50 threshold. Demand showed modest improvement, particularly in non-EU export markets, yet activity continues to operate at subdued levels. Production and capacity utilisation stabilised but did not recover, indicating consolidation rather than expansion.

Profitability remains under significant strain. Although raw material and energy cost pressures moderated slightly compared

with earlier quarters, import and export costs continued to rise, and output price increases were insufficient to offset input pressures. As a result, 60% of respondents reported falling margins, reinforcing that cost compression remains a defining feature of the operating environment.

Short-term expectations for Q1 2026 are more positive. Sales, exports and production are projected to return to expansionary territory, suggesting cyclical improvement at the start of the year. However, this anticipated rebound is uneven. Employment intentions remain contractionary, and both business investment and R&D spending remain below neutral. Firms appear prepared to use existing capacity rather than commit to structural expansion, reflecting continued caution over the durability of demand.

The 12-month outlook is moderately stronger, with around half of respondents expecting higher sales, new orders and output. Nevertheless, hiring and capital expenditure plans remain subdued. The recovery is therefore expected to be gradual and demand-led, rather than investment-driven. While activity may stabilise, confidence in sustained expansion remains limited.

Cost pressures continue to dominate business concerns. Energy costs, weakening demand and labour costs remain the top three challenges for the sixth consecutive survey. Notably, labour cost and demand weakness are expected to deteriorate further in the near term, while input price pressures remain elevated. By contrast, shortage-related constraints are easing, signalling a shift away from supply bottlenecks towards margin compression and fragile revenue conditions.

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Economic Update

Slowing momentum and deepening competitiveness pressures in the UK economy

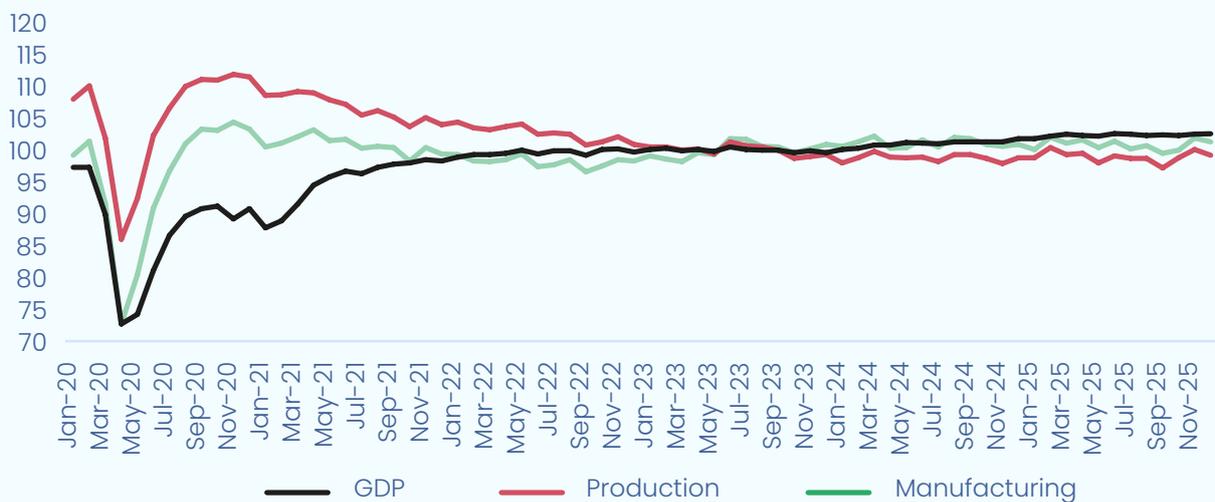
This first part of the economic report focuses on official releases from the Office of National Statistics (ONS), the Bank of England (BoE), and Oxford Economics.

GDP and chemical production

Looking at the 2025 data for real GDP, the year began with relatively strong growth of 0.7%, following a modest increase of 0.1% in Q4 2024. Growth then moderated to 0.3% in Q2 and 0.1% in Q3, before remaining at 0.1% in Q4 2025.

In output terms, growth in the latest quarter was driven by a 1.2% increase in production. By contrast, construction contracted by 2.1%, while the services sector recorded no growth. This marks the first quarter in two years in which services failed to expand.

Graph 1: Index of GDP, Production and Manufacturing output from January 2022 to December 2025 (2023=100)



Source: CIA analysis of ONS data

In 2025, GDP shows to have increased by 1.3% annually, following a growth of 1.1% in 2024. This annual growth is lower than that forecast by the Office for Budget Responsibility in November 2025, which set average real GDP growth for 2025–2029 at 1.5%, lower than their forecast in March 2025 by 0.1%.

Although the end-2025 figure does not provide particularly strong reassurance, with quarterly growth of 0.1% remaining close to stagnation, the UK economy continued to expand, even if only marginally.

Looking at the **above graph**, which presents monthly GDP, production and manufacturing output, it is evident that since the pandemic shock

in 2020, production and manufacturing have not consistently outperformed overall GDP. In index terms, manufacturing has remained slightly below GDP since the second half of 2024, while production has trailed GDP since 2023.

Although production and manufacturing have experienced more pronounced volatility over this period, GDP has followed a comparatively more stable path. This relative stability reflects the dominant weight of the services sector within the UK economy, which can sustain headline growth even when industrial activity remains comparatively subdued.

However, the relative underperformance of production and manufacturing remains economically significant. These sectors contribute directly to gross value added and employment, but they also generate important spillover effects through supply chains, exports and productivity gains. Many service activities – including transport, finance, professional services and wholesale trade – are closely linked to industrial demand. As such, even in a service-dominated economy, sustained weakness in production may weigh on long-term growth potential, competitiveness, productivity and external balance.

The monthly data therefore suggest a nuanced picture. While services may currently be providing stability to overall GDP, the health of manufacturing

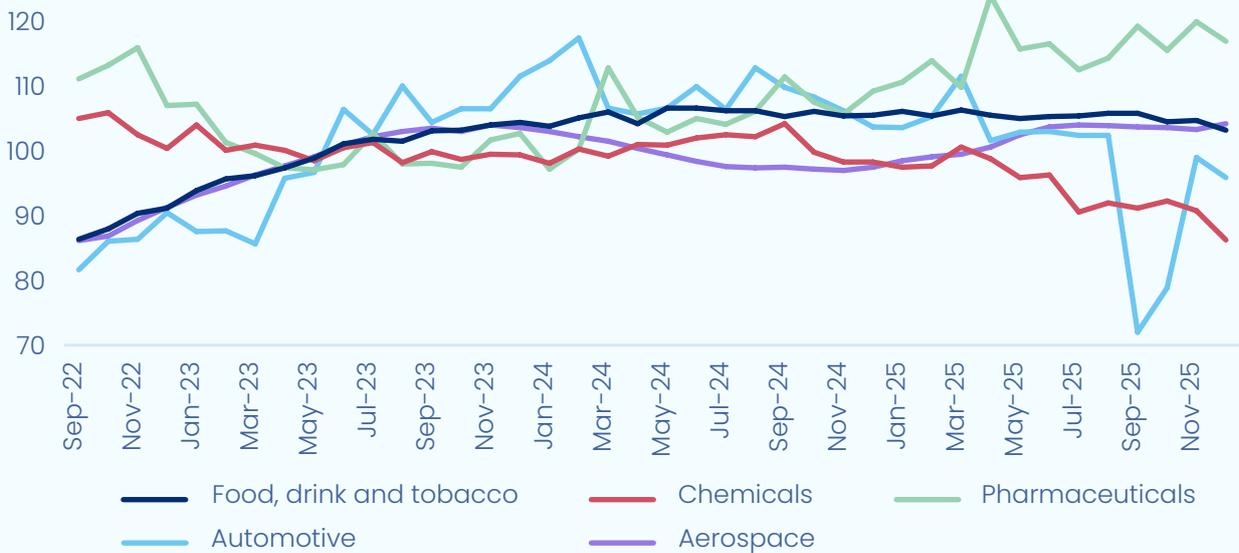
and production remains central to broader economic resilience. A durable and balanced expansion is likely to require strength across both services and industry.

Digging into 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, the ‘Manufacturing 5’ or ‘M5’.

The dark blue line represents Food, Drink and Tobacco manufacturing output. After a period of strong expansion (5.6%), in 2024, the sector’s growth moderates in 2025, with annual output declining marginally by 0.4% compared with the previous year. This slight contraction does not indicate a structural weakening of the sector but rather reflects a normalisation following robust growth in 2024. Importantly, output remains above its 2023 baseline throughout 2025, and month-to-month fluctuations are relatively limited. The sector’s relative stability is consistent with the essential and income-inelastic nature of food and drink consumption, which tends to sustain demand even during broader industrial slowdowns, thanks to the sector’s comparatively lower exposure to cyclical demand shocks.

Chemical output, represented by the red line, remains the weakest-performing sector within the M5 group. After recording marginal growth of

Graph 2: Index of monthly output of M5 sectors over the past 3 years compared to yearly level (2023=100)



Source: CIA analysis of ONS data

0.5% in 2024, the sector contracts sharply in 2025, with annual output declining by 6.4%. The graphic shows a clear and sustained downward trend, with production remaining below its 2023 baseline and deteriorating further as the year progresses. This persistent weakness points to deeper structural challenges. The UK chemicals industry operates within highly integrated global value chains and competes on cost, scale and feedstock access. Compared with producers in the United States, benefiting from relatively cheaper energy inputs, and parts of Asia with large-scale industrial capacity, UK manufacturers face narrowing margins and reduced pricing power. In addition, subdued demand from domestic manufacturing and construction may be compounding these pressures. Rather than reflecting short-term volatility, the 2025 contraction appears indicative of competitiveness constraints that continue to weigh on the sector's medium-term outlook.

The green line represents pharmaceutical output. After expanding by 2.1% in 2024, the sector records a significant acceleration in 2025, with annual growth reaching 9.6%. Output remains comfortably above its 2023 baseline throughout the year and the graphic shows a pronounced upward trajectory, with production levels rising well above the 2023 baseline and reaching the highest values within the M5 group. Although month-to-month fluctuations remain relatively pronounced compared with more stable sectors such as Food and Drink, the broader trajectory is clearly expansionary. The strong annual growth suggests renewed momentum in the sector, potentially reflecting product cycles, export demand, or shifts in global pharmaceutical production. While short-term fluctuations remain characteristic of the industry, the underlying trend in 2025 points to robust expansion rather than temporary strength.

The light blue line represents automotive output. After recording strong growth of 8.8% in 2024, supported by investment and policy incentives linked to electric vehicle production, the sector entered 2025 from a position of relative strength. However, this momentum reversed sharply, with output contracting by 9.8% in 2025. The graphic illustrates a sudden and pronounced decline in late 2025, as production fell steeply over a short period. Part of this contraction reflects the cyber-attack affecting Jaguar Land Rover, which caused significant operational disruption and temporarily

constrained output. However, broader external pressures also appear relevant. The EU, United States and China constitute the three largest export markets for UK automotive manufacturers, leaving the sector highly exposed to global trade conditions. In 2025, sweeping 25% auto import tariffs introduced by the Trump administration increased uncertainty and disrupted transatlantic trade flows. Although a subsequent UK-US trade agreement reduced tariffs on British-manufactured vehicles to 10% under a quota of 100,000 vehicles per year (effectively 12.5% for most British-origin vehicles when including the base tariff), the episode highlights the sector's sensitivity to geopolitical developments and trade policy shifts.

The purple line represents aerospace manufacturing output. In contrast to most other sectors, aerospace contracted by 0.4% in 2024, ending the year slightly below its 2023 baseline. However, 2025 marks a clear turnaround, with annual output increasing by 3.1%. The graphic shows a gradual upward trajectory, with steady month-to-month improvements and relatively limited volatility compared with more cyclical sectors. This recovery appears consistent with the structural characteristics of the aerospace industry, including long production cycles and sizeable order backlogs. In particular, increased defence-related expenditure is likely to be providing underlying support. As a member of NATO, the UK is committed to spending at least 2% of GDP on defence, with expenditure expected to reach around 2.4% of GDP in 2025 and set to rise further in subsequent years. The government has also signalled its intention to strengthen domestic defence manufacturing capacity, including substantial investment in advanced weapons systems, nuclear programmes and autonomous technologies. Such commitments contribute to medium-term demand stability within the aerospace and defence supply chain.

Graph 3: Annual Percentage Change in Chemical Production



Source: CIA analysis of Oxford Economics Data

Graph 3 The international outlook for chemical production highlights a clear divergence between advanced European economies and major Asian producers. In 2025, output contracts sharply in the United Kingdom (-3.0%), France (-2.4%) and Germany (-1.8%), while Italy remains broadly flat. Although a modest recovery is predicted for 2026 and 2027, growth across Europe remains subdued. Structural pressures persist, including elevated energy costs, global overcapacity and tightening regulatory burdens.

European gas prices remain significantly above US levels, eroding competitiveness in an industry where energy functions both as fuel and feedstock. At the same time, continued expansion of Chinese ethylene capacity, with substantial additions planned through 2028, is deepening global oversupply and placing sustained downward pressure on margins. Recent cracker closures across Europe further illustrate ongoing industrial restructuring.

The United Kingdom faces additional headwinds. Beyond high energy prices, producers must absorb the costs associated with re-registering substances under UK REACH, while the gradual withdrawal of free carbon allowances raises compliance expenses. Although direct exposure to US tariffs is limited, given that only a small share of UK chemical exports is destined for the United States indirect effects through global trade reconfiguration may weigh on demand. The 2025

contraction therefore appears consistent with structural adjustment rather than temporary cyclical weakness.

By contrast, China and India continue to outperform. China’s robust growth reflects large-scale industrial capacity, state-supported investment and deep integration within global supply chains. While weakness in domestic housing may temper construction demand, China’s embedded role in global manufacturing sustains chemical exports. India is expected to expand its GDP growth by around 7.6% in 2026, supported by rising domestic consumption, demographic expansion and policies aimed at attracting foreign direct investment. Trade tensions between the United States and China may also create opportunities for India to gain market share as supply chains diversify.

The United States presents a more nuanced picture. Despite benefiting from a structural shale gas cost advantage, growth remains modest, suggesting that weaker global industrial demand and inventory adjustments are offsetting the benefits of lower feedstock costs. The US sector appears more resilient than Europe’s but does not match the stronger momentum observed in emerging Asia.

Chemical trade

UK chemical exports accounted for 18% of total UK exports in 2025, with a value of £66,739 million. Of this, 52% was exported to non-EU markets and 48% to the EU.

Globally, the United States remains the UK’s main trading partner for total exports. In chemicals specifically, the US continues in 2025 to be the largest market for medicinal and pharmaceutical products, plastics in non-primary forms, and inorganic chemicals and is still in the top 5 for the remaining chemicals subsectors.

This is particularly significant given the structure of non-EU chemical exports. Medicinal and pharmaceutical products account for 68% of non-EU chemical exports, with the majority sold to the US. Inorganic chemicals represent around 6%, and plastics in non-primary forms around 4%. Taken together, these product groups account for close to 80% of non-EU chemical exports. The United States ranks as the leading destination across these dominant categories, highlighting the strategic importance of the US market.

Overall, the United States represented 21% of total UK chemical exports in 2025, unchanged from 2024. However, export values to the US fell to their lowest level since 2018. Following the introduction of tariffs in April 2025, export performance weakened. Comparing average monthly exports in the 12 months before tariffs (April 2024–March 2025) with

the period after their introduction (April–December 2025), exports declined by approximately 15%.

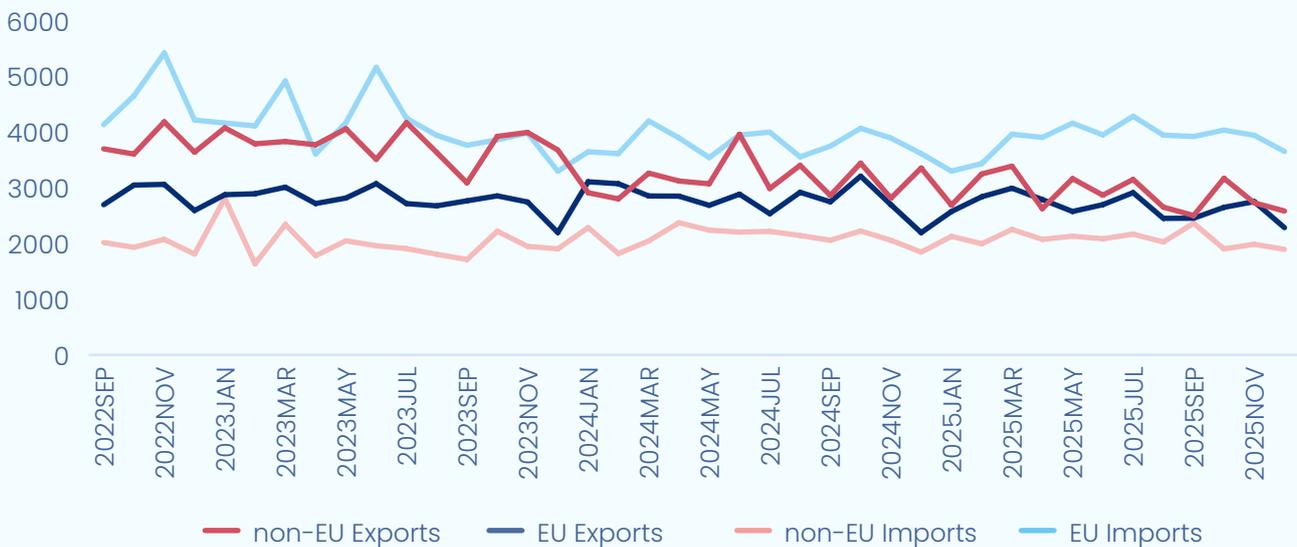
That said, the data do not indicate a sharp collapse. Monthly export values are highly volatile, and no clear structural break is visible. The decline may therefore reflect broader factors – such as softer global demand, inventory adjustments, or cyclical dynamics – rather than tariffs alone.

It is also important to note that the UK is currently the only country to have secured a bilateral arrangement with the US guaranteeing zero tariffs on pharmaceutical exports for at least three years. This positions the UK as a preferential hub for medicinal and pharmaceutical products within the US market.

On the import side, chemicals that were imported represented 71,496 million and chemicals accounted for 11% of total UK imports in 2025. Of these, 65% originated from the EU and 35% from non-EU markets.

Germany is the UK’s main import partner for chemicals, particularly in medicinal and pharmaceutical products, plastics (both primary and non-primary forms), inorganic chemicals, and dyeing, tanning and colouring materials. Within EU imports, medicinal and pharmaceutical products represent 43%, plastics in primary forms 8%, plastics in non-primary forms 6%, inorganic chemicals 5%, and dyeing and colouring materials 3%. Together, these categories account for approximately 65% of EU chemical imports, with Germany consistently

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



Source: CIA analysis of ONS

ranking as the leading supplier across these key segments.

Overall, Germany accounts for 12% of total UK chemical imports, while the United States represents 10%.

Looking at **Graph 4**, imports increased overall between 2024 and 2025, driven primarily by EU imports (light blue line), which show a noticeable upward trend. In contrast, non-EU imports (light red line) remained relatively stable over the same period. On the export side, both non-EU exports (red line) and EU exports (blue line) declined in 2025 compared with 2024. The contraction is visible across both markets, indicating a broad-based weakening in export performance rather than a shift between destinations. As a result, 2025 recorded a negative trade balance in chemicals, with imports exceeding exports by £4,757 million.

Consumer Side Inflation

Inflation has been one of the main challenges to UK economic growth in recent years. Headline inflation (CPI) averaged 7.4% in 2023, before easing significantly to 2.5% in 2024. However, it rose again in 2025, reaching 3.4%. By comparison, average headline CPI in 2025 across the EU27 was 2.5%, with Germany at 2.2% and France at 0.8%.

At its February 2026 meeting, the Monetary Policy Committee voted by a majority of 5-4 to maintain Bank Rate at 3.75%. Although inflation

remains above the 2% target, it is expected to return to around target from April, partly reflecting developments in energy prices following Budget 2025. Risks related to persistent inflation have diminished, while weaker demand and a loosening labour market may exert further downward pressure on prices.

Based on current evidence, Bank Rate is likely to be reduced further. CPI inflation is projected to fall to 2.1% in Q2 2026, representing a 0.7 percentage point larger decline than anticipated in the November MPC Report. The ONS data for January 2026 showed CPI easing to 3.0%, down from 3.4% in December 2025.

The orange line represents goods inflation over the past thirteen months. The year 2025 began with relatively low goods inflation at 1.0%, declining further during the first quarter. However, from April to December, price pressures strengthened, resulting in an average goods inflation rate of approximately 2% in 2025.

This increase was largely driven by specific components. Food and non-alcoholic beverages recorded an average annual inflation rate of 4.2%, with certain items showing particularly sharp rises, for example, beef (18.7%) and chocolate (16.2%). Tobacco inflation reached 7.7%, while water supply saw a notable increase of 21.8% over the year. By contrast, electricity, gas and other fuels experienced more limited price growth, averaging 1.6% in 2025.

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



Source: CIA analysis of ONS data

Turning to services inflation – green line – it averaged 4.8% in 2025, remaining consistently higher than goods inflation. It began the year at 5.0% and gradually eased to 4.5% by year-end. This sustained pressure was driven by housing rents (5.4%), dental services (6.0%), transport services (4.9%), postal services (7.9%), and education (7.5%). Recreational and cultural services also recorded elevated inflation at 4.8%.

Goods and services each account for roughly half of the CPI basket, with services carrying a slightly larger weight. As a result, developments in both components play a key role in shaping overall inflation. In 2025, the moderation in goods inflation contributed to easing headline CPI.

Chemical prices

Turning to the **Graph 6.1** at the chemical input inflation (blue line), year-on-year price pressures surged sharply during 2022 in the wake of the energy crisis, reaching exceptionally high levels. As market conditions stabilised, inflation eased significantly through 2023, turning negative for much of 2024 as input prices fell relative to the previous year. This period of negative inflation reflects a sustained phase of cost correction for chemical producers following the earlier shock.

From late 2024 onwards, input inflation gradually returned to positive territory and remained above zero throughout 2025. While this indicates that input prices were once again rising on a year-on-year basis, the magnitude of the increase remained

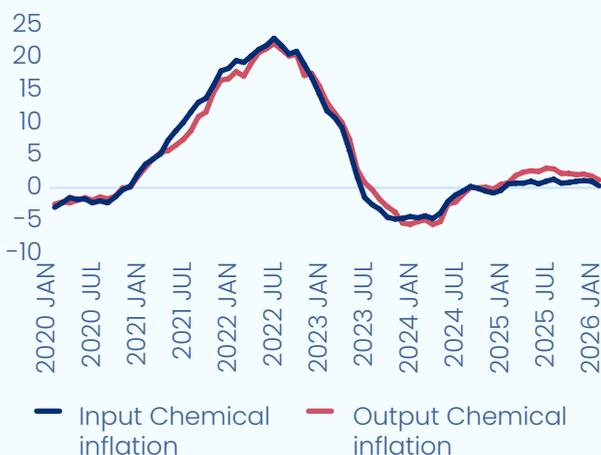
modest compared with the peaks observed in 2022. Entering early 2026, input inflation appears to have softened slightly, suggesting a broadly stable cost environment.

By contrast, output chemical – red line – inflation followed a similar trajectory but recovered somewhat more firmly in 2025. After turning negative during 2023–24, output inflation moved back into positive territory and generally remained above input inflation during 2025, at times by close to one percentage point. This suggests that selling prices increased at a slightly faster pace than input costs. Such a divergence may indicate that chemical producers are beginning to rebuild margins following the severe compression experienced during the energy shock. While the magnitude of price growth remains moderate, the pattern is consistent with a gradual re-establishment of pricing discipline within the sector.

Looking at **Graph 6.2**, both input and output prices remained broadly stable throughout 2020, fluctuating only modestly around their pre-crisis benchmark. From 2021 onwards, prices began to rise steadily, before accelerating sharply in 2022 as the energy crisis triggered a substantial upward shift in production costs and selling prices. Output prices peaked at a higher level than input prices, indicating strong price transmission during the shock.

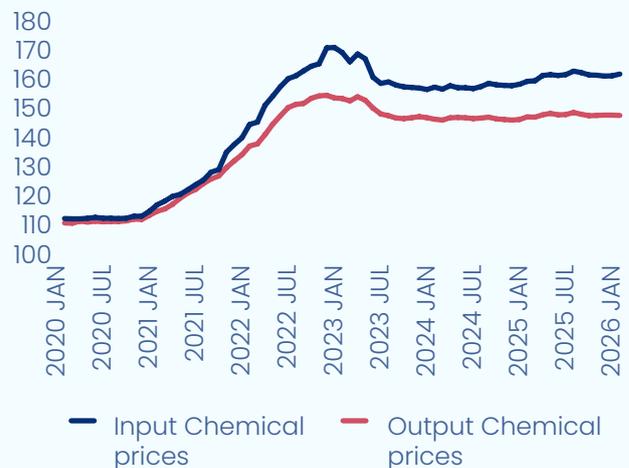
Following the peak in 2022, both series declined through 2023 and into 2024, reflecting a partial correction as energy markets stabilised. However,

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

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



Source: CIA analysis of Inspired PLC data

rather than returning to earlier levels, prices appear to have settled into a new, higher level during 2024–2025. Both input and output prices remain structurally elevated compared with 2020.

A notable feature of the post-crisis period is the more persistent gap between output and input price levels. While some divergence existed before the energy shock, the spread appears more sustained after 2023. As also illustrated in Graph 6.1, this pattern may suggest that chemical producers are maintaining greater pricing discipline, preserving a margin buffer following the volatility of the crisis period. Rather than indicating aggressive price growth, it reflects a more cautious pricing environment in which firms appear to prioritise stability and resilience.

Graph 7 displays the day-ahead wholesale gas and electricity prices in the UK from January 2019. While both markets are typically characterised by a degree of short-term volatility, the period from 2021 to 2023 stands out for its exceptional price instability. Prices rose sharply from mid-2021 and reached extreme levels during 2022, with frequent and pronounced spikes reflecting severe supply constraints and heightened geopolitical uncertainty.

Although prices declined significantly during 2023 as market conditions stabilised, volatility remained elevated compared with the pre-crisis period. A further notable spike occurred towards the end of 2024 and into the winter of 2024–2025, highlighting the continued sensitivity of energy markets to seasonal demand and supply conditions.

More recently, prices appear to have stabilised relative to the peak crisis period. However, they remain structurally higher than the levels observed in 2019–2020, suggesting that wholesale energy markets have settled into a new, higher price regime compared with the pre-crisis baseline.

Labour market

The UK labour market appears to be loosening further, with weaker conditions observed quarter after quarter. Between December 2024 and December 2025, the number of payrolled employees declined by 0.4%, indicating a gradual softening in labour demand. Over the same period, the unemployment rate increased, reaching 5.2% in the latest quarter, its highest level since November-January 2021.

At the same time, the economic inactivity rate for those aged 16 to 64 was estimated at 20.8% in October to December 2025. Although this represents a decline compared with the previous quarter and is below levels recorded a year earlier, inactivity remains elevated by historical standards.

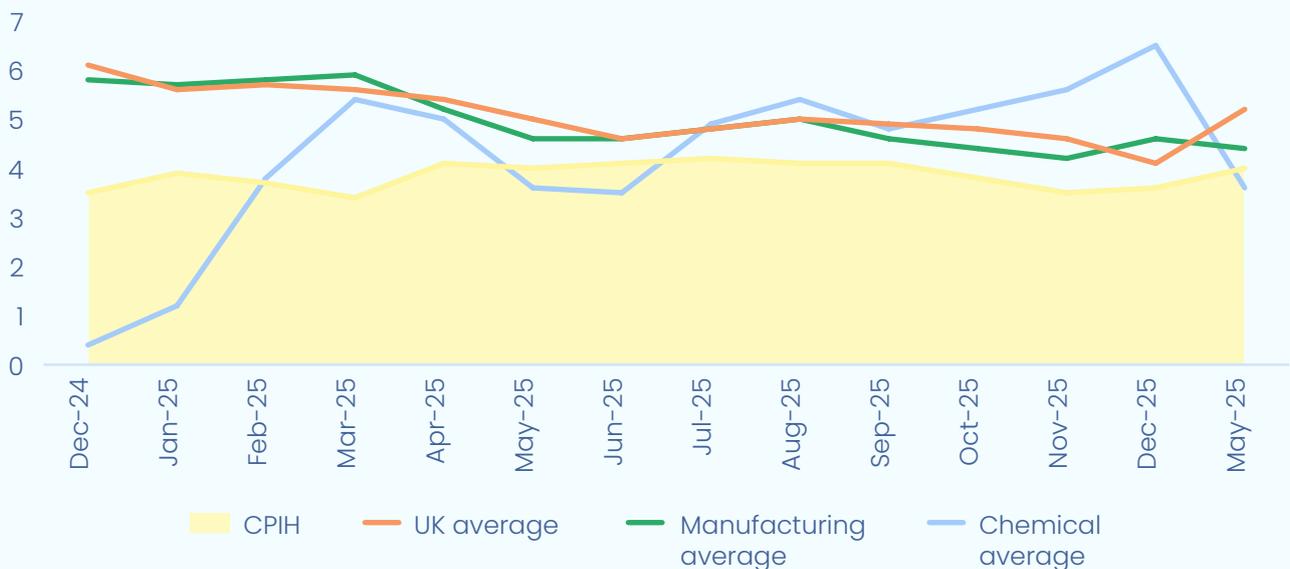
In **graph 8** the yellow shaded area indicates represents the level of CPIH inflation over the period. Pay growth rates that fall within this area are below inflation and therefore imply real term pay reductions. By contrast, pay growth rates that lie above the shaded area exceed inflation and translate into positive real wage growth. CPIH inflation increased from 3.5% in December 2024 to 4.2% in July 2025, before easing to 3.6% in December 2025, remaining elevated throughout the period.

The UK average pay growth (orange line) remains consistently above CPIH inflation. It peaks at 6.1% in December 2024, before gradually easing to 4.9% in September 2025 and ending at 4.1% in December 2025. Although nominal earnings growth moderates over time, it continues to exceed inflation in every month shown, indicating sustained positive real wage growth at the aggregate level. However, the real-terms uplift narrows as inflation rises and wage growth softens.

Manufacturing pay growth (green line) broadly tracks the UK average, though with slightly greater fluctuation. It stands at 5.8% in December 2024 and declines to 4.6% in December 2025. Like the national average, manufacturing wages remain above CPIH inflation throughout the period, suggesting continued – but moderating – real wage gains in the sector.

In contrast, chemical sector pay growth (blue line) displays significantly greater volatility. It falls sharply to 0.4% in December 2024, well below CPIH inflation, resulting in substantial real terms pay contraction at that point. From early 2025, pay growth rebounds strongly, reaching 5.4% in March 2025, before easing again to 3.5% in June, and rising to 6.5% in December 2025. For most of 2025, chemical wage growth remains above inflation, implying a return to positive real wage gains after the late-2024 contraction.

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

Rounding up the official data

The UK economy continued to expand through 2025, but momentum weakened as the year progressed. Quarterly GDP growth slowed from 0.7% in Q1 to just 0.1% in both Q3 and Q4, leaving activity close to stagnation by year-end. Although annual growth reached 1.3%, slightly above 2024, the composition of growth remains uneven. Services provided relative stability for much of the period, but recorded no growth in the final quarter, while construction contracted and industrial activity remained subdued.

Within manufacturing, divergence across sectors widened. Pharmaceuticals and aerospace delivered robust expansion, while automotive output contracted sharply amid trade disruptions and operational challenges. The chemical sector remained the weakest performer, with output declining materially over the year. This sustained weakness appears less cyclical and more structural, reflecting elevated energy costs, global overcapacity, competitive pressures and subdued industrial demand.

Externally, chemical trade conditions softened. While the United States remains the UK's largest single chemical export market, export values declined following the introduction of tariffs in April 2025. However, the absence of a sharp structural break suggests broader demand dynamics may be at play. Meanwhile, imports (particularly from the EU) increased, resulting in a widening trade deficit in chemicals.

Inflation eased significantly from its 2023 peak but remained elevated in 2025 at 3.4%, above both the 2% target and the EU average. Goods inflation moderated, but services inflation remained persistently higher, reflecting ongoing domestic cost pressures. The Bank of England maintained Bank Rate at 3.75% in February 2026, signalling caution despite expectations of gradual disinflation in 2026.

Energy markets stabilised relative to the extreme volatility of 2022, though wholesale gas and electricity prices remain structurally higher than pre-crisis levels. For energy-intensive sectors such as chemicals, this continues to weigh on cost competitiveness relative to US and Asian producers.

Labour market conditions showed further signs of loosening, with rising unemployment and declining payroll employment. Wage growth continued to outpace inflation at the aggregate level, sustaining positive real income growth. However, the margin has narrowed, and volatility in chemical sector pay growth reflects more uneven labour dynamics within industry.



Survey results

About the survey

At the end 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 Q4 2025 Business Survey was live between January 7 and January 21, 2026. The survey received responses from almost 50% 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 & EU, Employment and Business Optimism.

In the industry performance section, three questions asked respondents whether the 19 variables listed below had increased, decreased, or stayed the same in the fourth quarter of 2025 compared to the third quarter of 2025 and their expectations for these variables in the first quarter of 2026 and 12 months' time.



Industry performance variables:

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

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 fourth 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 fourth quarter; the second column contains the diffusion index for the performance in the third quarter, and the third column contains the

diffusion index for what was expected for the fourth quarter of 2025 when respondents were asked in the CIA's Q3 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 fourth quarter of 2025 compared to expectations and the prior quarter.

Table 1: Q4 performance compared to Q3's and expectations made in Q3

	Q4 Actual	Q3 Actual	Q4 Expected	Percentage that experienced a decrease in Q4 2025	Percentage that experienced a decrease in Q3 2025
Total sales	40	38	44	37%	43%
Domestic sales	37	34	41	35%	41%
Exports	42	42	40	35%	30%
EU exports	42	38	43	35%	35%
Rest of the world exports	41	31	41	31%	32%
New orders	38	31	36	40%	46%
Production levels	37	42	34	34%	38%
Capacity utilisation	36	43	35	33%	35%
Employee numbers	35	34	29	38%	41%
R&D spend	46	41	35	14%	19%
Business investment	39	34	29	32%	38%
Your level of business optimism	31	30	31	48%	49%
Time to deliver	48	39	40	6%	24%
Raw material (input) prices	54	58	55	16%	16%
Cost of importing	56	62	55	0%	3%
Cost of exporting	59	65	58	0%	0%
Your energy costs	51	55	53	18%	14%
Finished goods (output) prices	51	49	45	18%	22%
Your company/site profit margins	27	28	35	60%	54%

Source: CIA Q4 and Q3 2025 Business Survey

Key take away

After the sharp deterioration in Q3, conditions stabilised slightly in Q4, with fewer respondents reporting declines in sales, new orders, production and capacity utilisation. However, most activity indicators remain below the 50 thresholds, signalling that contraction continues despite some easing in the pace of decline. At the same time, cost pressures persist – particularly for importing and exporting – while profit margins remain under significant strain, falling for 60% of respondents.

After the sharp deterioration seen in Q3, Q4 brought signs of stabilisation, though not yet recovery.

Demand conditions improved modestly across several indicators, with total and domestic sales edging higher and export performance showing a more noticeable rebound, particularly in non-EU markets. However, all key sales measures remained below the neutral 50 threshold, confirming that contraction continued, albeit at a slower pace.

This tentative improvement in demand was not yet sufficient to lift activity meaningfully. While new orders strengthened compared with Q3 (38, up from 31), production and capacity utilisation continued to signal weakness. Although fewer firms reported further declines, a large majority indicated no improvement in conditions (58% and 63% respectively reporting no change). This suggests that activity is stabilising at depressed levels, with firms continuing to adjust output in response to earlier softness in order books.

In effect, Q4 appears to represent a period of consolidation and survival, rather than renewed expansion, with businesses still operating below optimal levels.

The labour market mirrored this cautious environment. Headcount continued to decline, though slightly less sharply than in Q3, while business investment remained subdued. R&D spending was comparatively more resilient, suggesting that firms may be protecting longer-term competitiveness even as near-term conditions remain challenging.

Cost pressures, meanwhile, remained a defining feature of the quarter. Although the pace of increase in raw material and energy costs moderated somewhat, both remained firmly in expansion territory. Importing and exporting costs continued to rise sharply, with no respondents reporting declines. Output prices moved back above 50, but not to a degree sufficient to offset input cost pressures. As a result, profit margins remained under intense strain, with the margins index falling further and 60% of firms reporting deterioration.

Importantly, Q4 performance fell short of expectations recorded earlier in the year. Respondents had anticipated stronger outcomes across most indicators, yet actual results undershot these projections. This gap highlights the fragility of the recovery and suggests that confidence remains tentative as firms look ahead to 2026.

Expectations for the first quarter of 2026

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: Expectations for Q1 2026

	Q1 Expectation	Percentage that expects an increase in Q1 2026
Total sales	64	40%
Domestic sales	57	27%
Exports	61	35%
EU exports	63	35%
Rest of the world exports	56	27%
New orders	59	33%
Production levels	61	36%
Capacity utilisation	60	34%
Employee numbers	37	8%
R&D spend	45	2%
Business investment	45	14%
Your level of business optimism	46	22%
Time to deliver	49	2%
Raw material (input) prices	49	12%
Cost of importing	51	8%
Cost of exporting	52	8%
Your energy costs	55	16%
Finished goods (output) prices	45	8%
Your company/site profit margins	54	28%

Source: CIA Q4 2025 Business Survey

Key take away

Expectations for the first quarter of the year are notably more positive, with around half of our indicators pointing to expansion. Around 40% of respondents expect total sales to increase, while 35% anticipate higher exports. However, although Q1 has historically been the strongest quarter for the sector, current expectations remain below historical levels, reflecting continued caution amid ongoing cost pressures and demand uncertainty.

Expectations for Q1 2026 point to a clear cyclical improvement in activity, marking a notable shift from the contractionary dynamics observed in previous quarters. Total sales (64) and exports (61) are firmly in expansionary territory, with around 40% of respondents expecting higher sales and 35% anticipating stronger export performance. New orders (59) also signal strengthening demand momentum, suggesting that firms expect a more supportive trading environment at the start of the year.

The improvement in demand is reflected further along the production chain. Production levels (61) and capacity utilisation (60) indicate that firms anticipate higher output and greater use of existing capacity, with roughly one-third of respondents expecting further increases. This suggests that the sector is preparing to respond to improved demand conditions, at least in the short term.

However, the recovery remains uneven. Employment remains firmly contractionary at 37, with only 8% of firms expecting to increase headcount. Business investment (45) and R&D spending (45) also remain below the neutral threshold. This divergence between stronger activity indicators and weak labour and capital spending intentions suggests that firms are

cautious about committing to longer-term expansion. Rather than expanding capacity, businesses appear more inclined to use existing resources, reflecting continued uncertainty around the durability of demand.

Cost pressures appear more contained than in recent quarters. Raw material prices and delivery times are close to stability, while import and export costs signal only marginal upward pressure. Energy costs remain expansionary but not at elevated levels. Importantly, profit margins (54), with 28% of firms expecting improvement, suggest a gradual rebalancing between costs and revenues. While pricing power remains limited, the margin outlook indicates that profitability pressures may be easing.



Expectations for 12 months ahead

Table 3: Medium-term expectations

	12 months Expectation	Percentage that expects an increase in 12 months time
Total sales	66	50%
Domestic sales	65	40%
Exports	61	38%
EU exports	63	40%
Rest of the world exports	59	36%
New orders	67	48%
Production levels	61	48%
Capacity utilisation	65	46%
Employee numbers	33	6%
R&D spend	40	4%
Business investment	48	21%
Your level of business optimism	51	25%
Time to deliver	52	4%
Raw material (input) prices	56	17%
Cost of importing	53	11%
Cost of exporting	55	15%
Your energy costs	52	17%
Finished goods (output) prices	50	17%
Your company/site profit margins	55	33%

Source: CIA Q4 2025 Business Survey

The Q4 results suggest that firms expect conditions to improve over the next 12 months, even though the current environment remains challenging. Most forward-looking indicators are above the neutral 50 threshold, signalling that more businesses anticipate improvement than deterioration. When considered alongside the slightly positive short-term outlook for Q1, the 12-month expectations reinforce the view that activity is gradually stabilising. Rather than signalling a renewed decline, the data point towards a positive normalisation in business conditions over time. The expected recovery appears to be primarily

Key take away

The 12-month outlook points to a global expansion in activity, with expectations considerably stronger than in the short term. Half of respondents anticipate higher total sales, while close to half expect increases in new orders (48%), production levels (48%) and capacity utilisation (46%), signalling a broad-based recovery in demand. Export expectations are also positive, with around 40% forecasting growth in both domestic and EU markets. However, uncertainty continues to weigh on the outlook, as hiring intentions remain weak and investment plans remain cautious.

demand-led. Sales, new orders and production are all projected to strengthen, and capacity utilisation is expected to rise, indicating that firms foresee a rebuilding of activity levels. However, the expansion should be interpreted as moderate. Although the diffusion indices signal growth, only around half of respondents anticipate increases in sales, and fewer than half expect gains in exports or output. This suggests that the positive signal is partly driven by a large share of firms expecting conditions to stabilise rather than accelerate.

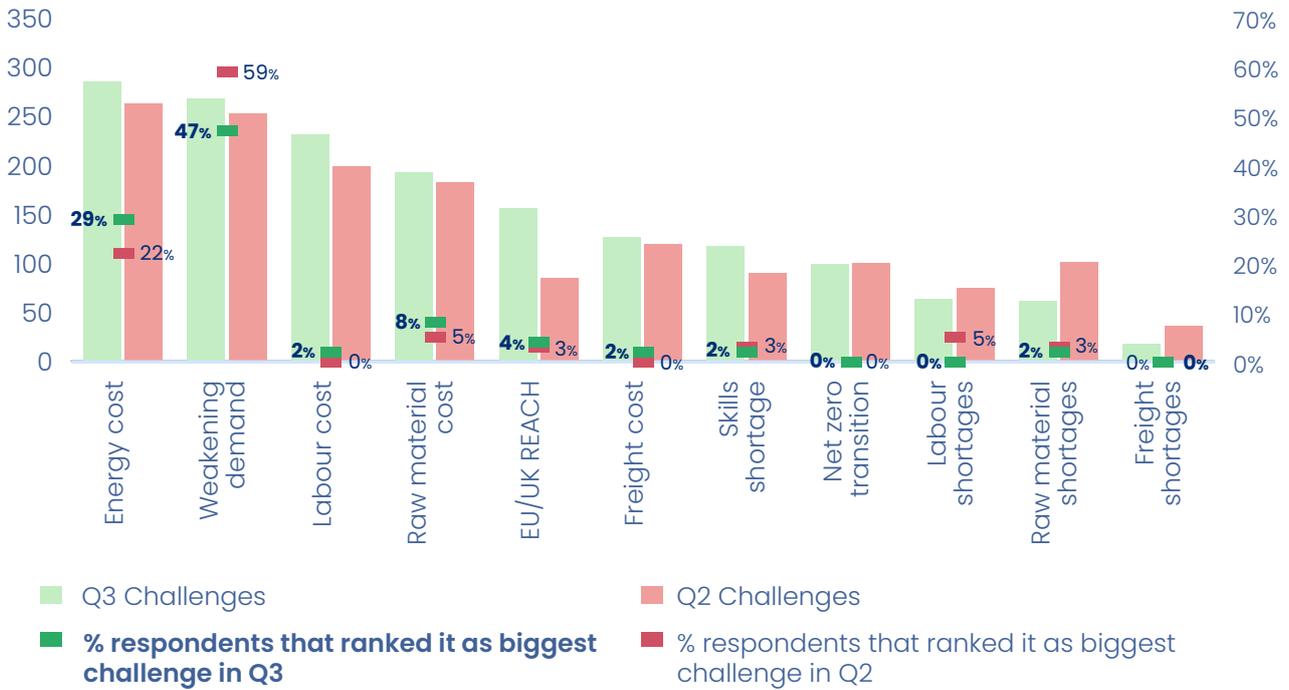
More importantly, the long-term outlook shares a key weakness with the short-term assessment: firms remain reluctant to commit to structural investment. Hiring intentions are extremely limited, and very few businesses plan to increase R&D spending. In other words, while companies believe activity may improve, they are not yet confident enough to expand capacity materially. The recovery is therefore expected to be cautious and measured rather than investment driven.

Cost expectations continue to temper optimism. Input prices are still anticipated to rise, while output price expectations remain more contained, implying ongoing margin pressure. Although profitability is expected to improve slightly, the overall picture remains one of fragile confidence.

Challenges and Opportunities

The second section of the CIA’s Q4 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 Q4 and Q3 2025



Source: CIA Q4 2025 and Q3 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 six business surveys.

The green bars on Graph 9 show the ranking of the challenges in this quarter’s survey, whilst the red bars show ranking in the previous quarter (Q3 2025). The squares represent the percentage of respondents that ranked each challenge as their number one challenge. The green square is the percentage in Q4 2025 and the red one in Q3 2025.

Energy cost not only remains the most frequently cited challenge overall, but the share of respondents ranking it as their primary concern has increased in Q4. This suggests that energy prices are once again becoming more central to firms’ cost pressures, rather than fading into the background. The renewed prominence of energy

Key take away

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

costs may reflect continued volatility or limited relief in wholesale markets, reinforcing concerns about competitiveness and profitability.

By contrast, weakening demand keeps its prominence as the most acute pressure. However, the share of firms ranking it as their primary challenge eased in Q4. This does not necessarily signal a meaningful improvement in demand conditions. Rather, it suggests a relative shift in priorities. In Q3, demand weakness appeared

to dominate firms’ immediate concerns, likely reflecting subdued activity and deteriorating forward indicators. In Q4, while demand remains fragile, other pressures and particularly energy costs appear to have intensified, reducing the relative weight of demand as the single most urgent issue.

Labour cost remains widely acknowledged as a challenge, yet it is still rarely ranked as the most pressing issue. This suggests that although wage pressures form part of the structural cost base, they are not currently the dominant constraint on activity.

An additional notable shift in Q4 is the rise of UK-EU REACH requirements, which moved from sixth to fourth place in the ranking of challenges. Although relatively few respondents identify it as their single biggest concern, its higher overall ranking suggests that regulatory and compliance-related pressures are becoming more prominent in firms’ assessment of the business environment.

Across the remaining categories, most challenges remain peripheral rather than central to firms’ immediate concerns. They form part of the broader operating environment rather than the principal constraint on performance.

Members also highlighted a number of additional challenges affecting their operations. Several respondents pointed to export-related pressures, noting that international competitors are becoming more competitive while UK production costs continue to rise. In particular, some firms stressed that raw material costs are not simply high in absolute terms, but significantly higher in the UK compared with other geographies. It is this cost differential, rather than the level of costs alone, that is eroding competitiveness.

As in the previous quarter, members also referenced the cost and timing of EU-UK regulatory requirements. These were reported to contribute to delays and to reduce the competitiveness of UK-based production.

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 most concerning signals relate to labour costs and weakening demand. Both record exceptionally low diffusion indices, indicating that firms expect conditions to deteriorate further. In particular, labour cost stands out, with the majority of respondents anticipating worsening pressures. Weakening demand follows closely, suggesting that revenue-side conditions are expected to remain fragile in the near term. Raw material costs also remain in negative territory, with a sizeable share of firms expecting a worsening (40%). While slightly less acute than labour costs or demand weakness, input price pressures are clearly not expected to ease materially. Energy costs and regulatory requirements sit closer to neutrality but still remain below the 50 threshold, indicating that businesses anticipate continued pressure rather than meaningful improvement. In contrast to cost and demand pressures, shortage-related challenges are expected to improve. Labour, raw material and freight shortages all sit at or above 50, suggesting that supply constraints are easing and should become less restrictive over the coming months.

Table 4: Expectations over challenges

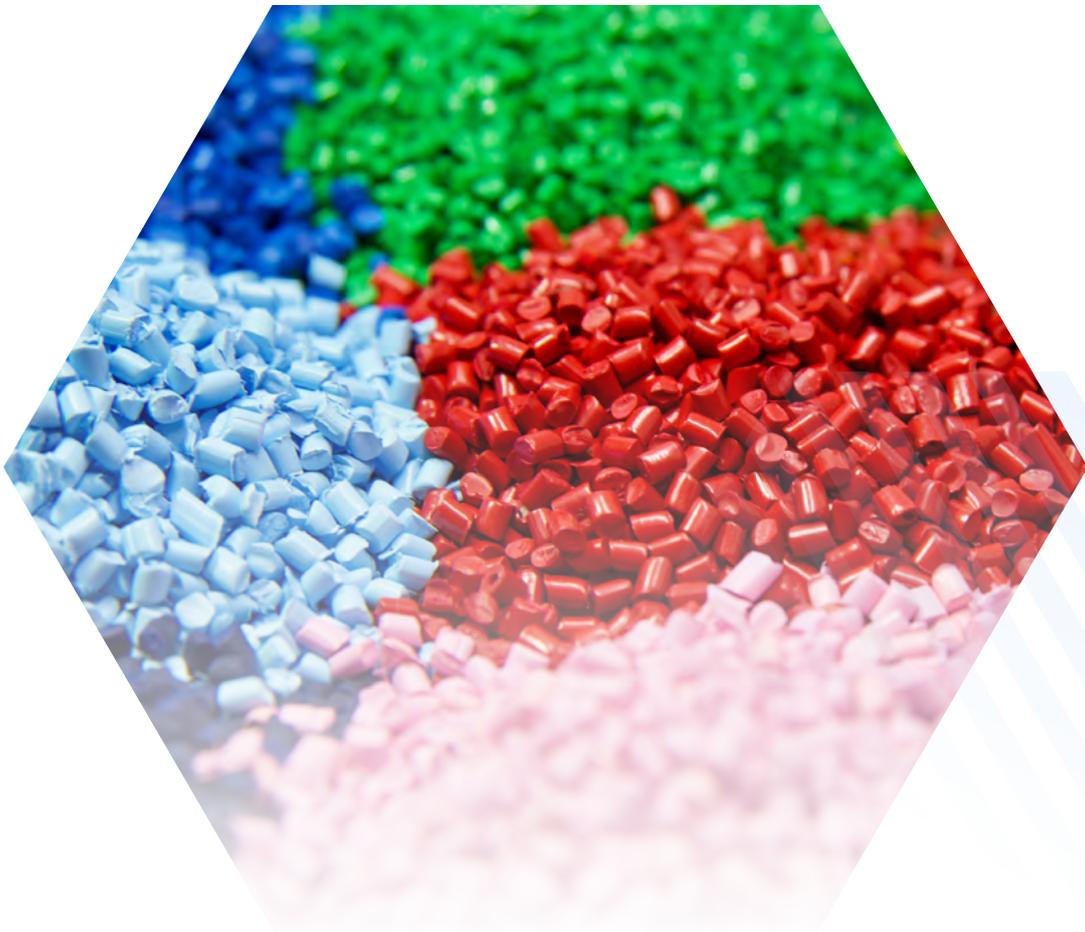
	Expectations	Percentage that expects this challenge to worsen
Energy cost	43	29%
Weakening demand	29	52%
Labour cost	23	58%
Raw material cost	35	40%
Freight cost	42	23%
EU/UK REACH	45	21%
Labour shortages	56	8%
Net zero transition	38	27%
Skills shortage	48	19%
Raw material shortages	50	17%
Freight shortages	56	8%

Source: CIA Q4 2025 Business Survey

Turning to opportunities, members identified several areas that could support improved performance. A number of respondents pointed to growth in non-EU export markets as a potential avenue for expansion, particularly where demand conditions appear more favourable than within the EU.

Energy and environmental cost control was also highlighted as a key opportunity. Firms noted that carbon-related costs and energy premiums in the UK remain significantly higher than in many international markets. As such, any reduction in energy prices or improved access to carbon credits could materially strengthen competitiveness and

margins. More broadly, members suggested that an upturn in the UK economy would provide a cyclical boost to activity. Others identified strategic opportunities in establishing or expanding their position in green and low-carbon products, reflecting the longer-term transition towards more sustainable production and consumption patterns.



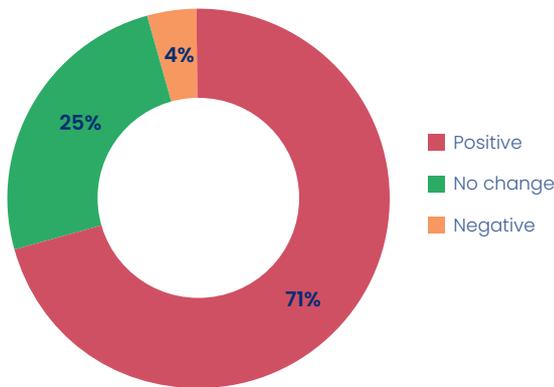
Open-ended questions

The final part of the survey asked members some open-ended question on the UK & EU, Employment and Business Optimism.

The UK & EU

The first topic we explored was the UK–EU relationship and how it may affect members’ growth prospects.

Graph 10: How would a closer relationship with the European Union affect the growth of your business?



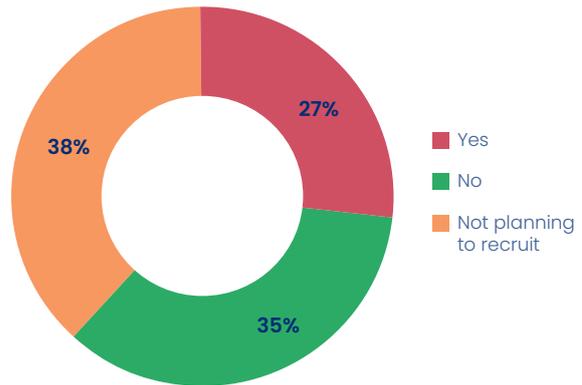
Source: CIA Q4 2025 Business Survey

The above graph shows a strong and unambiguous view among members regarding the potential impact of a closer UK-EU relationship. A clear majority (70%) believe that a close relation with the European Union would have a positive effect on their business growth. A further 25% expect no material change, while only 4% anticipate a negative impact. Therefore, the balance of opinion indicates a very limited perceived down risk.

This finding underscores the continued importance of the European Union as a key trading partner for UK-based firms. Even several years after the UK’s departure from the EU, access to EU markets, regulatory alignment and reduced administrative frictions remain central to growth prospects. The fact that three quarters of respondents either expect a positive impact or no change suggests that closer alignment is widely seen as a potential enabler of expansion rather than a threat to competitiveness. The result also aligns with wider concerns raised in the survey regarding exports, regulatory requirements and cost differentials between the UK and other geographies.

Employment

Graph 11: If you will be recruiting people in the year ahead, do you foresee any problems with recruitment?



Source: CIA Q4 2025 Business Survey

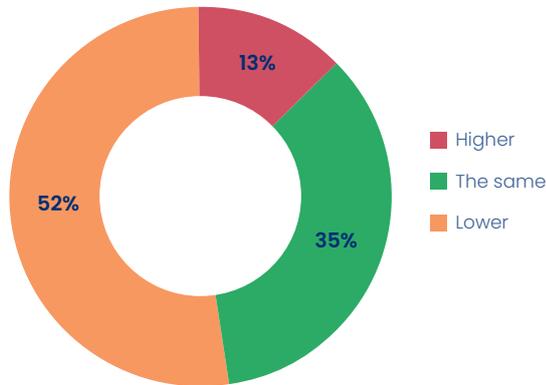
Turning to recruitment expectations, the results suggest that labour market conditions are no longer the primary constraint they once were. While 27% of respondents anticipate difficulties in recruiting over the year ahead, a slightly larger share (35%) does not foresee problems. Among those planning to recruit, expectations are therefore relatively balanced.

However, the more striking finding is that 38% of respondents are not planning to recruit at all. This aligns closely with the subdued employment expectations observed in the short- and long-term outlook, where hiring intentions remained weak. The limited appetite to expand headcount suggests that firms are prioritising cost control and caution amid ongoing demand uncertainty.

This result also fits with the broader shift in pressures identified in the survey. Labour shortages are expected to ease, yet labour costs are anticipated to rise. In other words, recruitment constraints may be softening, but wage pressures remain elevated. Firms therefore appear less constrained by availability of labour and more concerned about the cost of expanding their workforce.

Business Optimism

Graph 12: Compared to a year ago, what is your level of business optimism?



Source: CIA Q4 2025 Business Survey

The distribution is therefore clearly skewed towards deterioration. Given the particularly challenging conditions of the past years, this is perhaps unsurprising. The sector has faced the closure of around 24 UK chemical sites, persistently weak demand, stringent climate policies and sustained high energy prices, all of which have weighed heavily on performance and confidence.

Although certain operational pressures are expected to ease in the near term, this has not yet translated into a broader recovery in sentiment. The relatively small share reporting higher optimism suggests that businesses remain cautious about the overall economic outlook. This result appears to capture the cumulative impact of demand uncertainty, cost pressures and regulatory complexity highlighted elsewhere in the survey.

Compared with a year ago, overall business optimism has weakened significantly. The majority of respondents (52%) report that they feel less optimistic than they did twelve months ago, while 35% say sentiment is unchanged. Only 13% indicate an improvement in optimism.



Key takeaways from the survey

The Q4 survey suggests that the sector has stabilised following the sharp deterioration recorded in Q3, but it has not yet returned to growth. While fewer firms reported declines in sales, new orders and production, most activity indicators remain well below the neutral threshold, confirming that contraction continues. Profitability remains a major concern, with 60% of respondents reporting falling margins in the quarter, underscoring the intensity of cost pressures.

Looking ahead, expectations for Q1 2026 are more positive, with total sales and exports returning to expansionary territory and around 40% of firms expecting higher sales. However, this anticipated improvement must be viewed in context.

Employment remains contractionary, and both business investment and R&D spending remain subdued, indicating that firms remain reluctant to commit to longer-term expansion. The short-term outlook suggests cyclical improvement but not renewed confidence.

The 12-month outlook is similarly cautious. Around half of respondents anticipate stronger sales, and close to half expect increases in production and capacity utilisation. Yet hiring intentions remain extremely weak, and investment plans too. The expected recovery appears demand-led and gradual, rather than broad-based or investment-driven.

Cost pressures continue to define the operating environment. Energy cost, weakening demand and labour cost remain the top three challenges for the sixth consecutive survey. Expectations over challenges show particular concern regarding labour cost and weakening demand, with 58% and 52% of respondents respectively anticipating further deterioration. Raw material costs also remain firmly in negative territory. By contrast, shortage-related challenges are expected to improve. The pressure on businesses has shifted from availability issues towards margin compression and fragile demand.

Recruitment data reinforce this cautious stance. Although only 27% foresee recruitment difficulties, a significant 38% are not planning to recruit at all. Firms appear more constrained by cost and uncertainty than by labour availability.

Business optimism remains subdued. Compared with a year ago, 52% of respondents report lower optimism, and only 13% feel more confident. This reflects a difficult twelve-month period marked by weak demand, high energy prices, regulatory pressures and site closures across the sector. While some operational pressures may ease in the near term, this has not yet translated into a recovery in sentiment.

At the same time, members identify potential opportunities. Growth in non-EU exports, improved energy and environmental cost competitiveness, and strategic positioning in low-carbon products are seen as possible drivers of recovery. Strong support for closer UK-EU alignment (around 70% expect a positive impact on growth) further highlights the importance of trade and regulatory cooperation in shaping future prospects.

Overall, the survey presents a sector that is stabilising but still under strain. Expectations point to gradual improvement, yet confidence remains fragile, margins remain tight, and firms are cautious about expanding capacity. The path ahead is likely to be one of measured normalisation rather than rapid recovery.

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