CHEMICAL INDUSTRIES ASSOCIATION

Business Report – Q2 2026

Executive summary

Steve Elliott, Chief Executive, Chemical Industries Association

I am pleased to present our latest business report written by Léa Charbonnier, Economist at the Chemical Industries Association (CIA). Our Business Report presents the findings of our quarterly industry survey, bringing together the views and experiences of chemical businesses from across the UK. It provides a snapshot of current business conditions, highlights the key challenges and opportunities facing the sector, and identifies the trends shaping production, investment and competitiveness. Our Q2 2026 Business Survey took place between June 22nd and July 7th 2026, and we received entries from 41 chemical companies.

Contents

Survey results

About CIA Q2 2026 Business 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 Q2 2026 Business Survey was conducted between 22 June and 7 July 2026 and received responses from 41 CIA member companies. This edition of the survey was divided into four sections. The first two covered the Association's questions on industry performance and business challenges and opportunities. The third and fourth sections explored competitiveness and investment, and the policy environment.

In the industry performance section, three questions asked respondents whether the 17 variables listed below had increased, decreased, or stayed the same in the second quarter of 2026 compared to the first quarter of 2026 and their expectations for these variables in the third quarter of 2026 and over the year ahead.

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 2026

Table 1 Table 1 displays the diffusion indexes for the 17 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 second quarter; the second column contains the diffusion index for the performance in the first quarter, and the third columns contains the diffusion index for what was expected for the second quarter of 2026 when respondents were asked in the CIA's Q1 2026 Business Survey. The fourth and fifth 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 first quarter of 2026 compared to expectations and the prior quarter. Following the considerable increases observed across several variables in Q1 2026, the sixth column showing the percentage of respondents reporting increases has been retained in Q2 2026 to facilitate comparison.

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

	Q2 Actual	Q1 Actual	Q2 Expected	Percentage that experienced a decrease in Q2 2026	Percentage that experienced a decrease in Q1 2025	Percentage that experienced an increase in Q2 2026
Total sales	59	49	53	33%	33%	46%
Domestic sales	47	49	54	37%	15%	26%
Exports	55	48	54	35%	28%	41%
EU exports	46	51	54	34%	18%	21%
Rest of the world exports	55	45	54	32%	28%	37%
New orders	55	55	57	24%	21%	29%
Production levels	54	46	50	30%	30%	32%
Capacity utilisation	47	45	51	39%	28%	29%
Employee numbers	32	31	34	45%	45%	3%
R&D spend	46	44	46	16%	15%	3%
Business investment	46	45	45	26%	25%	13%
Raw material (input) prices	84	93	88	5%	3%	68%
Cost of importing	84	93	89	0%	0%	62%
Cost of exporting	84	90	88	0%	0%	63%
Your energy costs	83	84	91	0%	0%	61%
Finished goods (output) prices	86	74	80	5%	5%	71%
Your company/site profit margins	53	31	39	29%	48%	29%
Finished goods (output) prices	74	45	45	5%	18%	53%
Your company/site profit margins	31	54	35	48%	60%	10%

Source: CIA Q2 2026 and Q1 2025 Business Survey

Key take away

Q2 was characterised by stronger business activity, with 46% of respondents reporting higher total sales, 41% higher exports and 32% higher production levels, all improving on Q1. Exports to the rest of the world also strengthened (37%), while new orders remained resilient (29%). Although cost pressures eased slightly, around two-thirds of respondents continued to report higher raw material, import, export and energy costs, while 71% experienced higher finished goods prices. Employment remained under pressure, with 45% reporting lower employee numbers, and 29% reported declining profit margins.

Q2 2026 built on the gradual recovery that emerged in Q1, with business activity strengthening across several key indicators. Compared with the previous quarter, a larger share of respondents reported increases in total sales (46% vs 30%), exports (41% vs 23%) and production levels (32% vs 23%), suggesting that the momentum seen at the start of the year continued into Q2. The quarter may also have benefited from a short-term increase in international demand for certain chemical products, reflecting heightened geopolitical tensions in the Middle East. However, it also took place against a backdrop of continued uncertainty in global energy, commodity and freight markets, which maintained pressure on manufacturers' operating costs.

While overall activity strengthened, the recovery remained uneven. Domestic sales weakened, with 37% of respondents reporting a decline compared with 26% reporting an increase, while exports to the European Union also softened, with 34% reporting lower exports against 21% reporting growth. Employment remained under pressure, with 45% of respondents reporting lower staffing levels and only 3% reporting an increase, suggesting that businesses continue to exercise caution despite stronger trading conditions. Profitability, however, recovered compared with Q1, with the profit margins index rising from 31 to 53, although 29% of respondents still reported declining margins.

More importantly, the stronger Q2 performance should not be interpreted as evidence of a sustained recovery. Around two-thirds of respondents continued to report higher raw material (68%), import (62%), export (63%) and energy costs (61%), while 71% reported higher finished goods prices. These findings are consistent with wider concerns around energy costs, weakening demand and investment, suggesting that the improvement in Q2 may prove temporary rather than marking a turning point for the industry.

Magnitude of Change in Q2 2026

Table 2: Magnitude of Change in Key Indicators during Q2 2026

	Total sales	New orders	Production levels	Capacity utilisation	Energy costs	Raw material prices	Profit margins	Business investment
Increased by >10%	13%	8%	8%	5%	24%	32%	13%	5%
Increased by 5-10%	23%	18%	14%	11%	22%	27%	8%	3%
Increased by 1-5%	13%	15%	11%	14%	16%	16%	11%	3%
No meaningful change	20%	31%	35%	35%	38%	22%	32%	68%
Decreased by 1-5%	10%	8%	8%	11%	0%	3%	18%	8%
Decreased by 5-10%	8%	5%	5%	5%	0%	0%	5%	5%
Decreased by >10%	15%	15%	19%	19%	0%	0%	13%	8%

Source: CIA Q2 2026 and Q1 2025 Business Survey

Key take away

The scale of the survey responses indicates that, although demand strengthened during Q2, the recovery remained uneven and continued to be overshadowed by significant cost pressures. Large increases in energy and raw material costs were more widespread than equivalent improvements in business activity, while a sizeable minority of businesses continued to report sharp declines in production and capacity utilisation. Investment remained cautious, with over two-thirds of respondents reporting no meaningful change.

Looking at the table above, it indicates that the improvements recorded during Q2 were generally more moderate than the cost increases faced by businesses. While over one-third of respondents (36%) reported total sales increasing by more than 5%, and around one-quarter (26%) experienced similarly strong growth in new orders, much larger proportions reported substantial increases in input costs. Nearly half of respondents (46%) experienced energy cost increases of more than 5%, while almost three in five (59%) reported raw material price increases exceeding 5%, highlighting that cost pressures continued to outpace improvements in business activity.

The survey also suggests that the recovery remained uneven across the sector. Although many businesses reported stronger sales and orders, a significant minority continued to experience sizeable declines, with almost one-quarter reporting production (24%) and capacity utilisation (24%) falling by more than 5%, including 19% experiencing declines exceeding 10%. This suggests that the improvement in activity was not broad-based, with some businesses continuing to operate well below previous levels.

Profit margins also remained under pressure, reflecting the difficulty of fully passing higher input costs on to customers. At the same time, business investment remained largely unchanged, with over two-thirds of respondents (68%) reporting no meaningful change, suggesting that firms continue to adopt a cautious approach despite signs of improving demand.

Expectations for the third quarter of 2026

Table 3 displays the diffusion indexes for what is expected for each of the 17 variables in the first quarter of 2026 and the percentage of respondents who expects to see an increase.

Table 3: Expectations for Q3 2026

	Q3 Expectation	Percentage that expects an increase in Q3 2026
Total sales	48	27%
Domestic sales	47	19%
Exports	51	26%
EU exports	47	18%
Rest of the world exports	49	24%
New orders	57	37%
Production levels	51	29%
Capacity utilisation	53	29%
Employee numbers	46	14%
R&D spend	46	3%
Business investment	47	8%
Your level of business optimism	50	24%
Time to deliver	58	16%
Raw material (input) prices	55	16%
Cost of importing	53	21%
Cost of exporting	49	16%
Your energy costs	39	13%
Finished goods (output) prices	81	70%
Your company/site profit margins	35	13%

Source: CIA Q2 2026 Business Survey

Key take away

Following the stronger-than-expected performance in Q2, businesses expect activity to moderate rather than accelerate in Q3. While over a quarter of respondents still expect increases in total sales (27%), exports (26%) and production (29%), stronger expectations for new orders (37%) provide the main source of optimism. However, continued caution around employment and investment suggests confidence in a sustained recovery remains limited.

The Q1 2026 results suggest that firms expect Expectations for Q3 2026 suggest a more moderate trading environment following the stronger-than-expected performance in Q2. Although a notable share of respondents still expect increases in total sales (27%), exports (26%) and production levels (29%), these figures are lower than those reporting improvements in Q2 (46%, 41% and 32%, respectively), suggesting that businesses expect recent momentum to stabilise rather than accelerate. Capacity utilisation is one of the few indicators expected to improve further, with 29% of respondents anticipating an increase. Overall, the outlook remains cautious, reflecting continued uncertainty over both domestic and international trading conditions.

New orders provide the main source of optimism, with an index of 57 and 37% of respondents expecting an increase during Q3. This suggests that underlying demand remains relatively resilient and could support activity later in the year. However, this optimism has yet to translate into greater confidence around employment or investment. Employee numbers (46), business investment (47) and R&D spending (46) all remain below the neutral threshold, indicating that businesses continue to postpone longer-term commitments despite improved trading conditions.

Respondents also expect cost pressures to ease during Q3, although they are unlikely to disappear altogether. The proportion of businesses expecting increases in raw material prices (24%), energy costs

(21%), import costs (16%) and export costs (16%) is considerably lower than the levels experienced during Q2. While this suggests some improvement in the cost environment, ongoing competitiveness concerns and continued uncertainty mean businesses remain cautious about the sustainability of the recent recovery.

Expectations for over the year ahead

Table 4: Medium-term expectations

	12 months Expectation	Percentage that expects an increase in 12 months time
Total sales	68	51%
Domestic sales	58	35%
Exports	59	38%
EU exports	56	28%
Rest of the world exports	55	33%
New orders	70	53%
Production levels	69	53%
Capacity utilisation	68	50%
Employee numbers	40	13%
R&D spend	41	3%
Business investment	45	10%
Your level of business optimism	51	28%
Time to deliver	59	28%
Raw material (input) prices	60	28%
Cost of importing	55	28%
Cost of exporting	46	23%
Your energy costs	49	21%
Finished goods (output) prices	81	70%
Your company/site profit margins	35	13%

Source: CIA Q2 2026 Business Survey

Key take away

Businesses are considerably more optimistic over the medium term than in the short term, with over half of respondents expecting increases in new orders (53%), production (53%) and total sales (51%) over the next 12 months. However, weak expectations for employment (13%), business investment (10%) and R&D spending (3%) suggest that confidence has yet to translate into plans for significant expansion.

Expectations over the year ahead are considerably more positive than those for Q3, suggesting that businesses expect the recent moderation in activity to be temporary rather than the start of a renewed slowdown. Over half of respondents expect increases in new orders (53%) and production levels (53%), while 51% anticipate higher total sales and 50% expect capacity utilisation to improve. Expectations for exports also remain positive, with 38% of respondents forecasting higher exports over the coming year. Together, these findings suggest that businesses expect demand to strengthen gradually, supporting a broader recovery in activity over the medium term.

The strongest optimism is centred on future demand rather than business expansion. New orders recorded the highest expectations index (70), ahead of production (69), total sales (68) and capacity utilisation (68), indicating that businesses expect market conditions to improve progressively over the coming year. However, this confidence has yet to translate into plans to expand capacity. Expectations for employment (13%), business investment (10%) and R&D spending (3%) remain subdued, suggesting that businesses continue to prioritise resilience and financial discipline over growth. This reflects ongoing uncertainty and the structural competitiveness challenges facing the UK chemical industry.

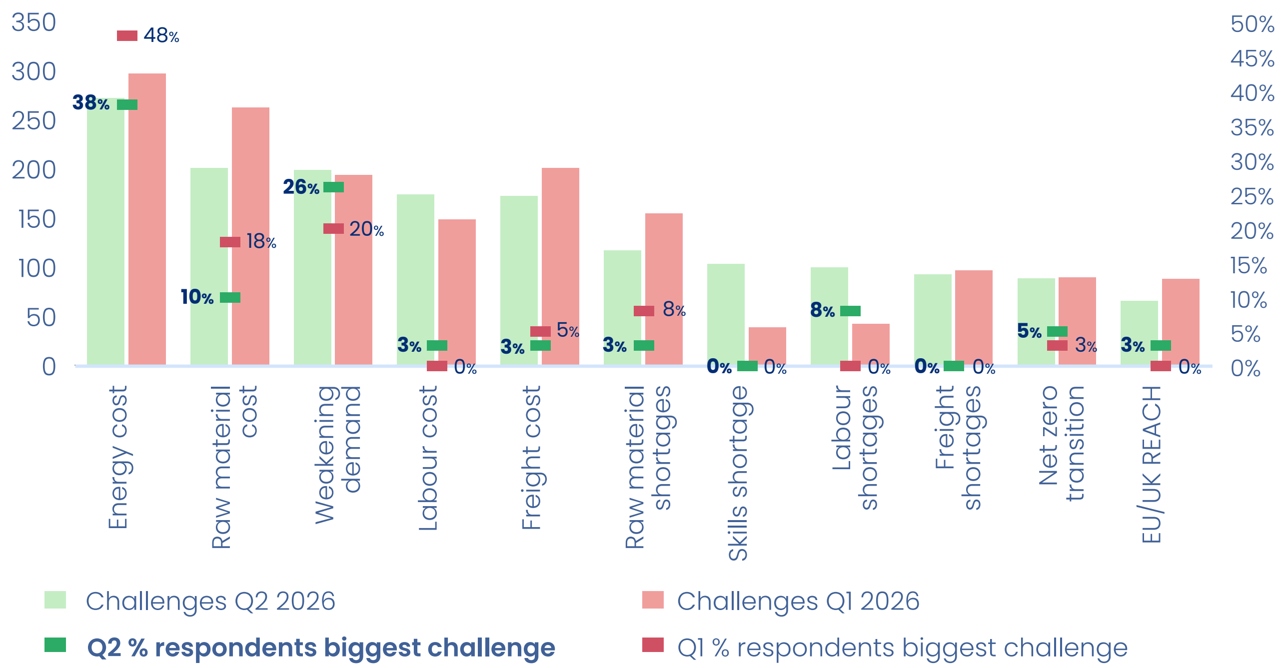
Businesses also expect operating conditions to remain challenging. Around 28% of respondents anticipate further increases in raw material, import, export and energy costs over the next 12 months, while only 21% expect profit margins to improve, leaving the profit margins index just below the neutral threshold (49). This suggests that, although businesses expect demand to recover, many remain unconvinced that stronger sales will translate into significantly improved profitability. Overall, the survey points to cautious optimism over the medium term, with expectations of stronger activity tempered by persistent cost pressures and continued competitiveness concerns.

Challenges and Opportunities

Business Challenges

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

Graph 1: Industry ranking of business challenges in Q2 2026 and Q1 2026



Source: CIA Q2 2026 and Q1 2026 Business Survey

Key take away

1. Energy cost

2. Raw material cost

3. Weakening demand

This quarter's survey identified energy costs, raw material costs and weakening demand as the three main challenges facing businesses. This marks another change in the composition of the top three challenges following Q1 2026, when energy costs, raw material costs and freight costs replaced the long-standing ranking of energy costs, weakening demand and labour costs for the first time in almost two years. The return of weakening demand to the top three suggests that concerns over market conditions have re-emerged alongside persistent cost pressures, while labour-related issues remain less prominent than in previous years.

The green bars on Graph 1 show the ranking of the challenges in this quarter's survey, whilst the red bars show ranking in the previous quarter (Q1 2026). The squares represent the percentage of respondents that ranked each challenge as their number one challenge. The green square is the percentage in Q2 2026 and the red one in Q1 2026.

Energy costs remained the most frequently cited challenge facing manufacturers in Q2 2026, with 38% of respondents identifying them as their single biggest concern, compared with 48% in Q1 2026. Although this represents a modest improvement, energy costs continue to weigh heavily on firms' competitiveness, profitability and operating costs. Raw material costs also became less prominent, falling from 18% to 10% of respondents. By contrast, weakening demand became a more significant concern, rising from 20% in Q1 to 26% in Q2, suggesting that concerns over market conditions have re-emerged despite the stronger business activity recorded during the quarter. Freight costs, which ranked third in Q1, fell sharply in importance and became the fifth most frequently cited challenge, with just 3% of respondents identifying them as their biggest concern. Labour costs remained a relatively minor concern, with 3% of respondents citing them as their principal challenge, placing them fourth in the overall ranking.

Raw material shortages, skills and labour shortages, the net zero transition and UK-EU REACH requirements continued to be recognised as challenges across the sector, although they were cited less frequently than the principal cost and demand-related pressures. Skills and labour shortages were identified as the biggest challenge by 8% of respondents, followed by the net zero transition (5%) and UK-EU REACH requirements (3%). The net zero transition became slightly more prominent than in the previous quarter, suggesting that decarbonisation-related challenges remain on businesses' agendas despite more immediate commercial pressures

Members also highlighted a number of additional challenges affecting their operations. International competitiveness remained a recurring concern, with businesses citing increasing competition from low-cost imports, particularly from China, Vietnam and Turkey, alongside concerns over Chinese overcapacity and the relocation of production overseas. Policy and regulatory issues also featured prominently, including UK ETS costs, increased regulatory requirements and a lack of policy stability. Other concerns included insufficient infrastructure investment, workforce burnout and wider political uncertainty, all of which were seen as weighing on business confidence and competitiveness.

Despite these challenges, respondents identified opportunities linked to the low-carbon transition, including carbon capture, circular products and growing demand from the nuclear sector. Others highlighted export growth beyond the EU, new product development, improved infrastructure investment and lower energy costs as potential drivers of future growth, although a small number of respondents reported seeing few immediate opportunities.

Expectations over challenges

Table 5: Expectations over challenges

	Expectations	Percentage that expects this challenge to worsen
Raw material cost	25	67%
Freight cost	21	64%
Labour cost	29	47%
Weakening demand	34	47%
Energy cost	33	42%
Raw material shortages	39	36%
Freight shortages	43	31%
Net zero transition	39	25%
Labour shortages	45	19%
Skills shortage	47	19%
EU/UK REACH	58	11%

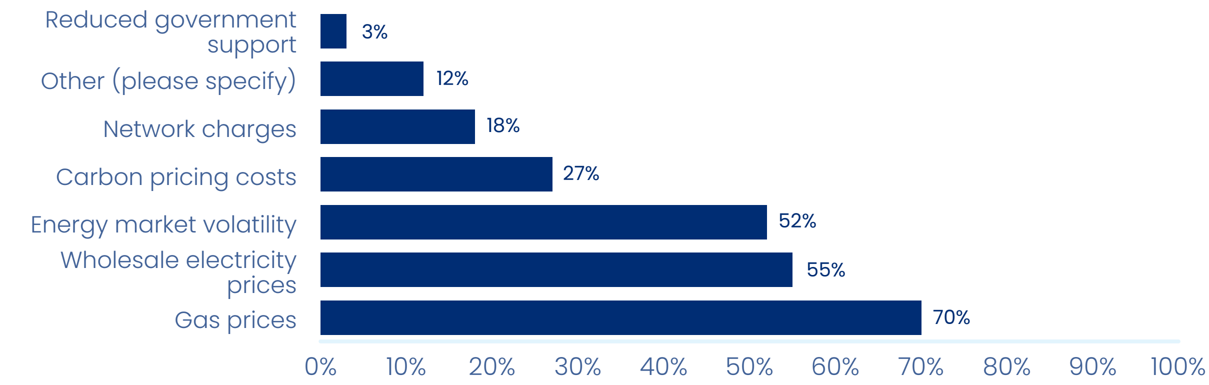
Source: CIA Q1 2026 Business Survey

The most concerning signals in the latest survey relate to cost pressures, which firms expect to worsen further over the coming months. Raw material costs appear to be the most severe challenge overall, with 67% of respondents expecting conditions to worsen further. Freight costs also remain a major concern, with 64% of firms anticipating further deterioration. Labour costs and weakening demand are also expected to worsen, with 47% of respondents expecting each to become more challenging. Although energy costs remain a significant concern, fewer firms (42%) expect them to worsen further, suggesting that businesses anticipate some easing compared with the severe pressures experienced in recent years.

By contrast, shortage-related challenges appear less acute than cost pressures. Raw material shortages (36%) and freight shortages (31%) continue to concern a sizeable share of firms, indicating that supply-side pressures have only partially eased. However, labour shortages (19%), skills shortages (19%) and UK-EU REACH requirements (11%) all recorded expectations below the neutral threshold, suggesting that businesses expect these challenges to remain relatively stable over the coming months. Net zero transition pressures are also expected to remain comparatively limited, with only 25% of respondents anticipating that these challenges will worsen.

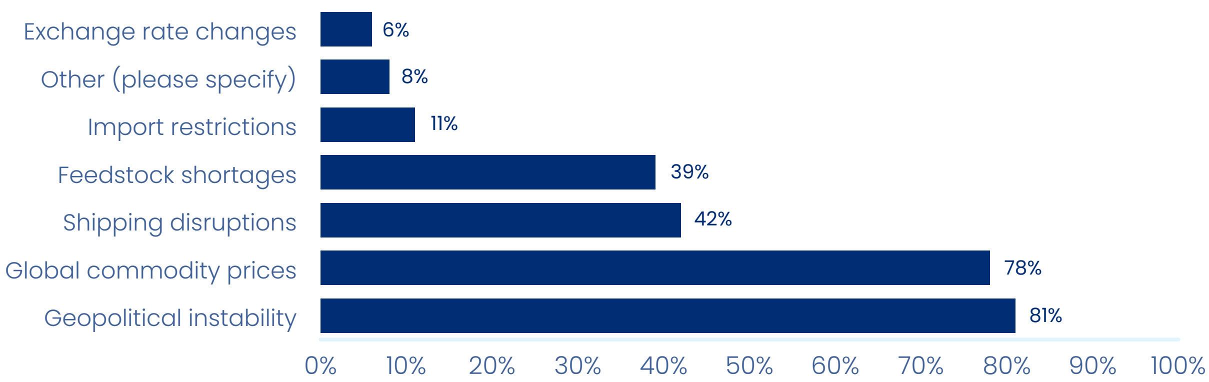
Cost Pressures

Graph 2.1: Energy Costs Drivers



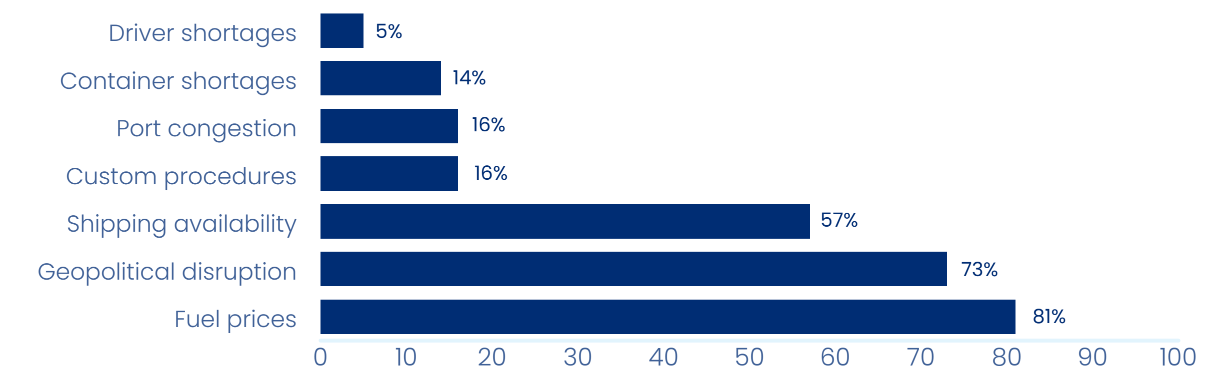
Source: CIA Q2 2026 Business Survey

Graph 2.2: Raw Material Costs Drivers



Source: CIA Q2 2026 Business Survey

Graph 2.3: Freight Costs Drivers



Source: CIA Q2 2026 Business Survey

Examining the drivers behind rising costs provides further insight into the challenges facing the sector. The results suggest that cost pressures remain overwhelmingly driven by external market conditions, with businesses having relatively limited influence over the factors affecting their cost base.

A striking feature of the results is the importance of geopolitical instability across multiple cost categories. It was identified by over four-fifths of respondents (81%) as a key driver of raw material costs and by almost three-quarters (73%) as a major contributor to freight costs. This suggests that international conflicts and trade uncertainty continue to have wide-ranging impacts, affecting both the availability and cost of essential inputs as well as the movement of goods through global supply chains.

The survey also indicates that energy and transport costs remain closely linked to global commodity markets. Gas prices (70%) and wholesale electricity prices (55%) were the principal drivers of energy costs, while fuel prices were identified by more than four-fifths of respondents (81%) as the main factor behind rising freight costs. Together, these findings highlight the industry's continued exposure to fluctuations in international energy markets.

By contrast, more traditional supply chain constraints appear to have become less significant. Container shortages (14%), port congestion (16%) and customs procedures (16%) were cited far less frequently than market-driven factors, suggesting that while logistics networks have largely recovered from the disruptions experienced in recent years, businesses remain vulnerable to persistent global price volatility rather than physical bottlenecks.

Key take away

External market conditions remained the main drivers of cost pressures. Gas prices (70%) and wholesale electricity prices (55%) continued to drive energy costs, while geopolitical instability was the leading factor behind raw material (81%) and freight costs (73%). Fuel prices also remained the dominant driver of freight costs (81%).

By contrast, shortage-related challenges appear less acute than cost pressures. Raw material shortages (36%) and freight shortages (31%) continue to concern a sizeable share of firms, indicating that supply-side pressures have only partially eased. However, labour shortages (19%), skills shortages (19%) and UK-EU REACH requirements (11%) all recorded expectations below the neutral threshold, suggesting that businesses expect these challenges to remain relatively stable over the coming months. Net zero transition pressures are also expected to remain comparatively limited, with only 25% of respondents anticipating that these challenges will worsen.

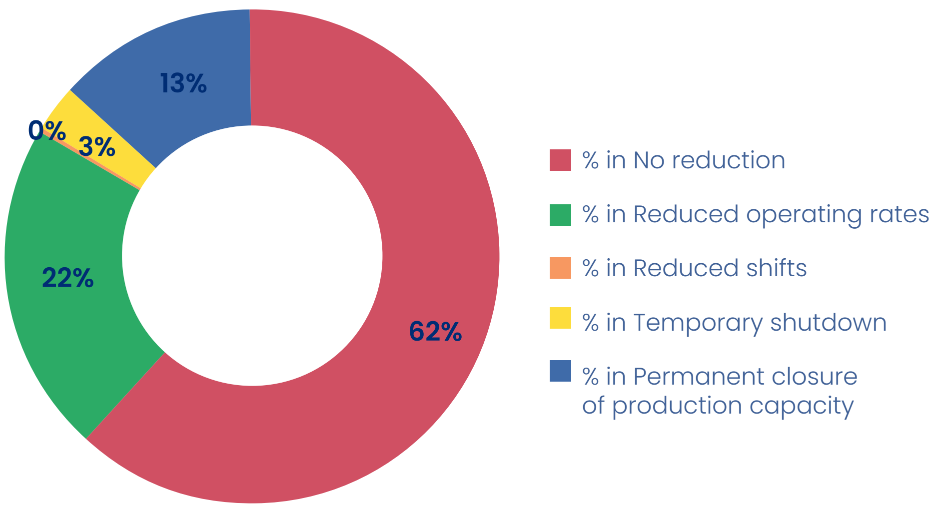
Competitiveness and Investment

This section examines key structural challenges facing the industry, including operating activity, barriers to output growth, business investment, and the international competitiveness of UK chemical businesses.

Operating Activity

Knowing the difficult period the chemical industry has been through and continues to face, we asked our members whether their businesses had reduced production or operating activity.

Graph 3: Has your business reduced production or operating activity?



Source: CIA Q2 2026 Business Survey

Despite the improvement in business activity during Q2 2026, over one-third of respondents (38%) reported reducing production or operating activity, indicating that challenging market conditions continue to affect a significant proportion of the sector. While 62% of businesses maintained normal operating levels, the remaining respondents reported a range of operational adjustments, including reduced operating rates (22%), permanent closures of production capacity (13%) and temporary shutdowns (3%).

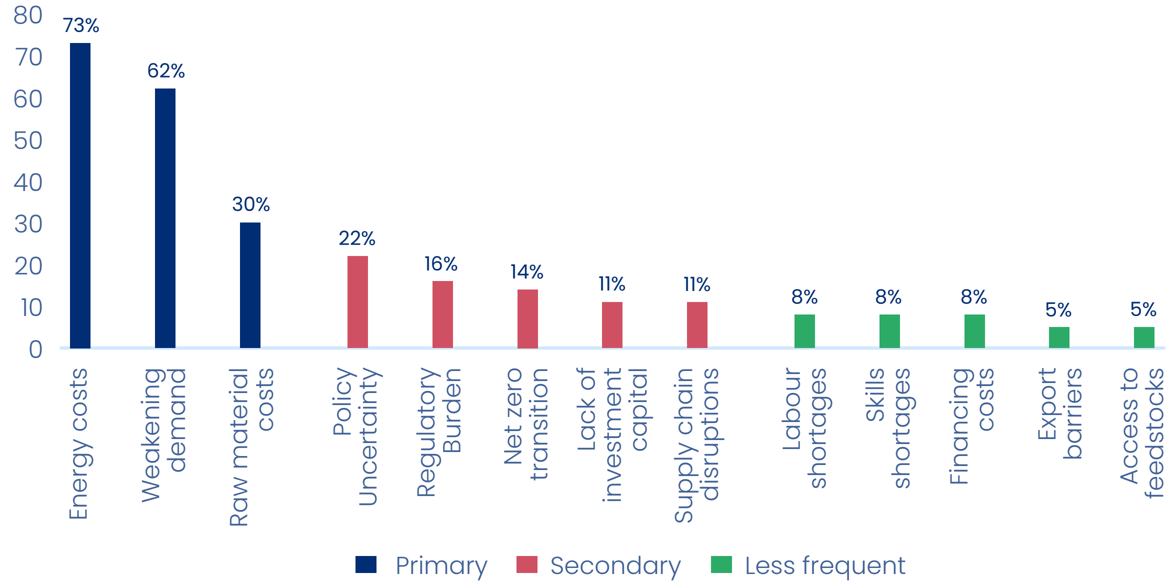
The results suggest that many businesses continue to adjust production in response to weaker demand and ongoing cost pressures, despite the broader improvement in activity indicators recorded during the quarter. Although sales, exports and production strengthened overall, these improvements have not been sufficient to support all businesses equally, reinforcing the uneven nature of the recovery across the industry.

Particularly concerning is the proportion of businesses reporting permanent production capacity closures. Unlike temporary reductions in operating activity, permanent closures represent a structural loss of manufacturing capacity that may be difficult to recover if market conditions improve. This suggests that, for some businesses, current pressures are no longer resulting in short-term operational adjustments but are beginning to influence longer-term strategic decisions.

Barriers to output growth

Although business activity strengthened during Q2 2026, investment, employment and R&D have remained subdued for several quarters, suggesting that businesses continue to face significant barriers to expansion. To better understand these constraints, respondents were asked to identify the main factors preventing them from increasing output.

Graph 3: Main barriers preventing businesses from expanding output



Source: CIA Q2 2026 Business Survey

The results indicate that businesses are primarily constrained by commercial rather than operational factors. Energy costs (73%) and weakening demand (62%) emerged as the dominant barriers to expansion, suggesting that many firms see little commercial justification for increasing production while profit margins remain under pressure and demand remains uncertain. Even where production capacity exists, expanding output is unlikely to be viable if additional production cannot be sold profitably.

Raw material costs (30%) reinforce this picture by highlighting the continued squeeze on input costs. Combined with elevated energy prices, these pressures reduce profitability and make it more difficult for businesses to justify new investment or higher production levels. This helps explain why investment intentions have remained weak despite the improvement in business activity during the quarter.

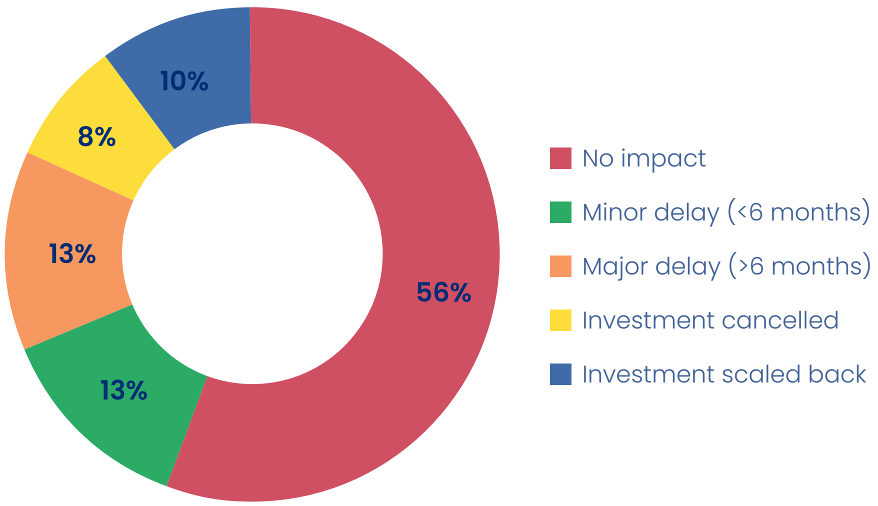
The second tier of barriers, policy uncertainty (22%), regulatory burden (16%) and the net zero transition (14%) appears to affect business confidence rather than day-to-day operations. While these issues were cited less frequently than cost and demand pressures, they may contribute to delaying longer-term investment decisions by increasing uncertainty over future returns and the regulatory environment.

By contrast, labour shortages, skills shortages and access to feedstocks were identified by relatively few respondents. This suggests that businesses are not primarily constrained by their ability to recruit workers or source materials.

Investment

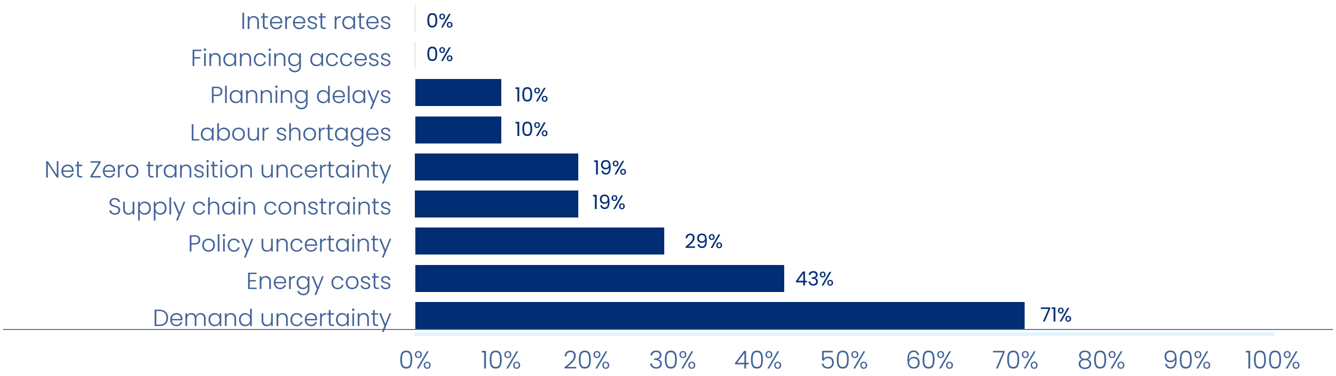
Given the challenging operating environment, we explored the extent to which businesses' investment plans had been affected during the past quarter and identified the key factors behind those decisions.

Graph 5.1: Have planned investments been affected during the past quarter?



Source: CIA Q2 2026 Business Survey

Graph 5.2: Primary reasons for investment delays or cancellations in percentage



Source: CIA Q2 2026 Business Survey

Q2 2026 saw stronger business activity, with improvements in sales, exports and production, but this has yet to translate into a meaningful recovery in business investment. Over half of respondents (56%) reported that their planned investment had not been affected during the quarter. However, this should be viewed in the context of several consecutive quarters of subdued investment activity, suggesting that many businesses continue to adopt a cautious approach rather than accelerating capital expenditure in response to the recent improvement in trading conditions.

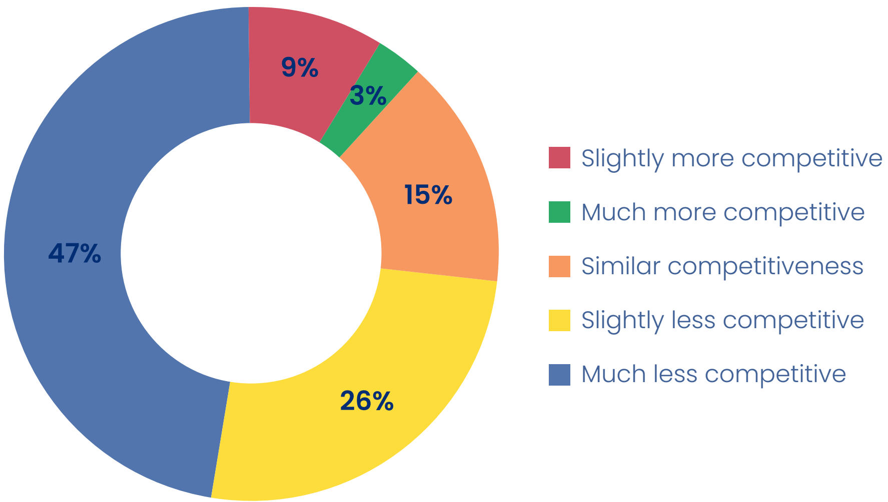
The remaining 44% of respondents reported some form of disruption to their investment plans, including minor delays (13%), major delays (13%), cancelled investments (8%) and projects that were scaled back (10%). This indicates that a significant proportion of businesses continue to postpone or reduce investment despite stronger business activity, reflecting continued uncertainty over the economic outlook.

Among those whose investment plans were affected, demand uncertainty was by far the most significant reason (71%), suggesting that businesses remain unconvinced that the recent improvement in activity will be sustained. Energy costs (43%) were the second most frequently cited factor, reinforcing the continued importance of cost competitiveness, while policy uncertainty (29%) also remained a significant consideration. By contrast, financing access and interest rates were not identified as barriers by any respondents, indicating that investment is currently being constrained less by access to finance than by uncertainty over future demand and expected returns.

International Competitiveness

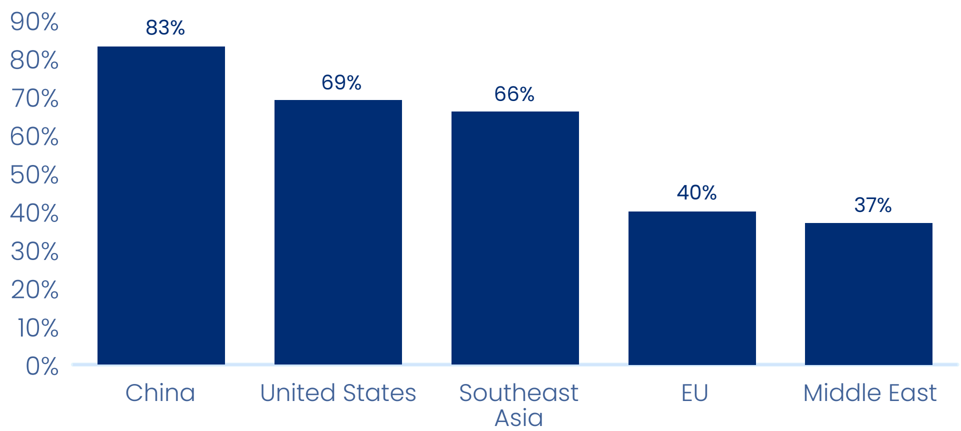
Competitiveness remains a central concern for the UK chemical industry and plays a key role in determining where businesses choose to invest and expand production. To better understand how the UK compares internationally, respondents were asked to assess the competitiveness of their UK operations relative to production sites overseas. For many businesses, these assessments are informed by direct operational experience across multiple manufacturing locations, providing valuable insight into the UK's competitive position.

Graph 6.1: Compared with chemical production sites outside the UK, how competitive is your UK operation currently?



Source: CIA Q2 2026 Business Survey

Graph 2.2: Which regions are currently more competitive than the UK?



Source: CIA Q2 2026 Business Survey

The results present a concerning picture of the UK's competitive position. Nearly three-quarters of respondents (73%) considered their UK operations to be less competitive than production sites overseas, including almost half (47%) who viewed them as much less competitive. By contrast, only 12% believed their UK operations to be more competitive. Given that many respondents operate manufacturing sites across multiple countries, these findings suggest that UK operations are increasingly at a disadvantage when businesses compare where production and future investment can be most effectively located.

This helps explain several of the trends observed elsewhere in the survey. High energy costs, weaker demand and subdued investment are not isolated challenges but are closely linked to the UK's broader competitiveness. Where operating costs are persistently higher and expected returns are lower than elsewhere, businesses have fewer incentives to expand UK production or commit capital to new domestic investment, even when short-term trading conditions improve.

China was identified as the most competitive location (83%), followed by the United States (69%) and Southeast Asia (66%), highlighting the extent to which respondents see global competitors as offering more attractive operating environments. While these regions are often associated with lower production costs or stronger industrial support, the fact that 40% of respondents also considered the European Union to be more competitive suggests that the UK's challenge extends beyond competition from traditionally lower-cost economies. Instead, it points to broader concerns around the overall business environment and the UK's ability to compete for internationally mobile investment.

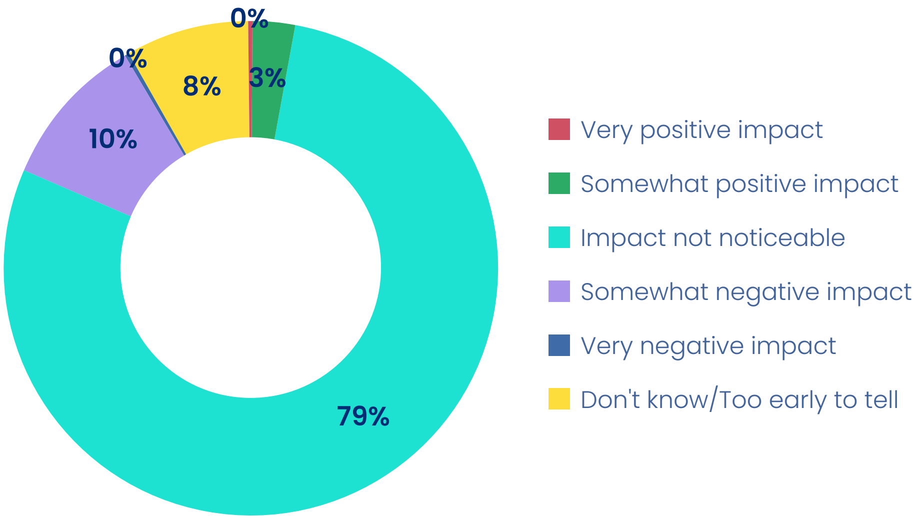
Policy Environment

Finally, we explored how businesses perceive the current policy environment by asking about the impact of the UK Industrial Strategy and whether Brexit has benefited or hindered their operations.

UK Industrial Strategy

To assess the early impact of the Government's Industrial Strategy, launched on 23 June 2025, we asked our members how they would rate its effect on their business to date.

Graph 7: How would you rate the impact of the UK Industrial Strategy on your business since its launch on 23 June 2025?



Source: CIA Q2 2026 Business Survey

Despite the improvement in business activity during Q2 2026, over one-third of respondents (38%) reported reducing production or operating activity, indicating that challenging market conditions continue to affect a significant proportion of the sector. While 62% of businesses maintained normal operating levels, the remaining respondents reported a range of operational adjustments, including reduced operating rates (22%), permanent closures of production capacity (13%) and temporary shutdowns (3%).

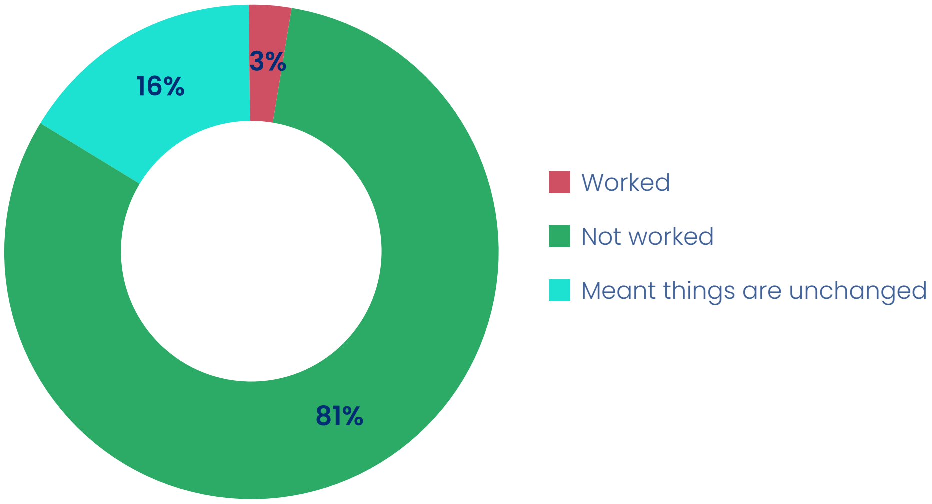
The results suggest that many businesses continue to adjust production in response to weaker demand and ongoing cost pressures, despite the broader improvement in activity indicators recorded during the quarter. Although sales, exports and production strengthened overall, these improvements have not been sufficient to support all businesses equally, reinforcing the uneven nature of the recovery across the industry.

Particularly concerning is the proportion of businesses reporting permanent production capacity closures. Unlike temporary reductions in operating activity, permanent closures represent a structural loss of manufacturing capacity that may be difficult to recover if market conditions improve. This suggests that, for some businesses, current pressures are no longer resulting in short-term operational adjustments but are beginning to influence longer-term strategic decisions.

Brexit

We also asked our members whether Brexit has benefited their business, providing an indication of how companies assess its longer-term impact on the UK chemical industry.

Graph 8: 23 June is also the date on which the UK voted to leave the European Union in 2016. Has the departure?



Source: CIA Q2 2026 Business Survey

Businesses were also asked whether the UK's departure from the European Union had worked for their business. The results provide a clear assessment, with 81% of respondents stating that Brexit has not worked for their business, compared with only 3% who believed that it has. A further 16% reported that it had made no difference.

The findings are consistent with many of the additional costs and administrative burdens that have emerged since Brexit. For the chemical industry, one of the most significant changes has been the introduction of separate UK REACH and EU REACH regulatory regimes. Businesses placing products on both the UK and EU markets must now often comply with two parallel chemicals regulatory systems, requiring duplicate registrations, additional compliance activity and ongoing administrative costs. The loss of access to the European Chemicals Agency (ECHA) database has further increased the complexity and cost of regulatory compliance.

Defra previously estimated that the original UK REACH regime could have imposed around £2 billion of additional costs on industry by 2030 through the duplication of existing EU REACH registrations.

Beyond regulation, Brexit has also increased the complexity of trading with the EU. Although tariffs were largely avoided under the Trade and Cooperation Agreement, exporters must now navigate customs declarations, rules of origin requirements, border formalities and additional documentation. For a sector characterised by highly integrated European supply chains, where products and intermediates frequently cross borders multiple times during production, these additional trade frictions have increased both costs and delivery times. Collectively, these regulatory and trading burdens have reduced the attractiveness of manufacturing in the UK relative to EU production sites, weighing on investment decisions and international competitiveness.

Key takeaways from the survey

The Q2 2026 survey suggests that the chemical industry continued to recover during the quarter, with stronger trading conditions than those recorded in Q1. A greater proportion of businesses reported increases in total sales, exports and production, while capacity utilisation also improved, indicating that the recovery which began earlier in the year continued into Q2. However, the improvement remained uneven across the sector. Domestic sales weakened, EU exports softened and employment continued to contract, while a significant minority of firms still reported declining production, capacity utilisation and profit margins. Although activity strengthened overall, the recovery has yet to become broad-based.

The survey also highlights that rising costs remain the industry's principal challenge. Around two-thirds of respondents continued to report higher raw material, energy, import and export costs during the quarter, while over 70% experienced higher finished goods prices. Although these pressures were less widespread than in Q1, they continue to weigh heavily on profitability and competitiveness. The scale of the responses suggests that improvements in demand remain insufficient to offset the persistent squeeze from input costs, with many firms continuing to adopt a cautious approach towards investment and expansion.

Looking ahead, businesses expect activity to stabilise rather than accelerate during Q3 2026. While new orders remain the brightest area of the short-term outlook, expectations for sales, exports and production are more moderate following the stronger-than-expected performance in Q2. Firms also anticipate some easing in cost pressures over the coming quarter, although uncertainty surrounding demand and international markets continues to limit confidence. Investment, R&D and employment are all expected to remain subdued, suggesting that businesses are waiting for clearer signs of a sustained recovery before committing to longer-term expansion.

The medium-term outlook is more encouraging. Over the year ahead around half of respondents expect stronger sales, production, capacity utilisation and new orders, pointing to confidence that market conditions will gradually improve. However, this optimism has yet to translate into expansion plans. Expectations for employment, business investment and R&D remain weak, while many firms continue to expect operating costs to rise and profit margins to remain under pressure. The survey therefore points to a recovery that is expected to be driven primarily by improving demand rather than new investment or capacity growth.

Beyond the short-term business cycle, the survey highlights deeper structural challenges facing the UK chemical industry. Energy costs remain the most significant barrier to expansion, closely followed by raw material costs and weakening demand. These pressures are reinforced by wider concerns over international competitiveness, with nearly three-quarters of respondents considering their UK operations less competitive than overseas sites. Many businesses also reported delaying, reducing or cancelling investment, primarily because of demand uncertainty and high energy costs, while over one-third have already reduced production or operating activity, including permanent closures of production capacity. More than a year after the launch of the UK Industrial Strategy, most respondents reported no noticeable impact on their business, while over four-fifths said that Brexit has not worked for their operations. Together, these findings suggest that although trading conditions have improved, the sector continues to face significant structural challenges that risk constraining future investment, competitiveness and long-term growth.

Léa Charbonnier
Economist
Chemical Industries Association

Léa Charbonnier
Economist
Chemical Industries Association, UK
Tel. +44(0) 20 7963 6721 Mob. +44 (0)7908 897013
Email: CharbonnierL@cia.org.uk

Simon Marsh
Director of Communications
Chemical Industries Association, UK
Tel. +44 (0) 20 7963 6725 Mob. +44 (0)7951 389197
Email: MarshS@cia.org.uk