



Economic Report

September 2026



Executive summary

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I am pleased to present our latest quarterly economic report, written by Léa Charbonnier, Economist at the Chemical Industries Association (CIA). The report provides CIA analysis of official statistics, assessing the performance of the UK chemical industry against the wider economy.

Economic Overview

As we approach the end of Q3, the first official data for Q2 have been released, providing an initial estimate of GDP growth. UK GDP is estimated to have grown by 0.4% in Q2, following growth of 0.6% in Q1 and 0.2% in Q4 2025.

Production output stagnated at 0.0% in Q2, after expanding by 0.2% in the previous quarter. Manufacturing performed more strongly, growing by 1.0% in Q2 following growth of 0.7% in Q1. Within manufacturing, the chemical industry recorded marginal growth of 0.3%, while pharmaceutical

output increased more strongly by 4.2%. Sectoral data highlighted an increasingly uneven performance across UK manufacturing industries during the second quarter of 2026. Food, drink and tobacco output increased by 0.8%, while automotive and aerospace output contracted by 0.8% and 0.6%, respectively.

Inflationary pressures eased during the second quarter of 2026, although headline inflation (CPI) remained above the Bank of England's 2% target. After standing at 3.0% at the beginning of the year

and rising to 3.3% at the end of Q1, inflation fell to 2.8% in April and remained unchanged in May, before declining further to 2.6% in June, its lowest rate in 12 months. However, this downward trend reversed in July, with inflation rising to 2.9%, suggesting renewed upward pressure on consumer prices.

Labour market activity remained subdued, with the number of payrolled employees in the UK falling by 0.3% between June 2025 and June 2026. The unemployment rate declined slightly to 4.9% in April to June 2026, representing a decrease of 0.1 percentage points compared with the previous

quarter, but an increase of 0.2 percentage points compared with a year earlier.

Wage growth for the UK average stood at 3.4% in June 2026, remaining above CPIH inflation of 2.8%. Manufacturing wage growth was weaker at 2.8%, while wage growth in the chemical sector remained stronger at 3.6%, also above CPIH inflation. However, the stronger growth recorded in chemicals partly reflects the sector's higher concentration of skilled roles and premium pay arrangements, which can influence official average earnings data.

About CIA Q2 2026 Business Survey

The Q2 2026 survey suggests some improvement in trading conditions compared with Q1, with a greater proportion of businesses reporting increases in total sales, exports and production, alongside improved capacity utilisation. However, the picture remained mixed. Domestic sales and EU exports weakened, employment continued to contract and a significant minority of firms reported declining production, capacity utilisation and profit margins. Overall, the improvement remains fragile and far from broad-based.

Cost pressures also remained significant. Around two-thirds of respondents reported higher raw material, energy, import and export costs, while over 70% experienced higher finished goods prices. Although these pressures were less widespread than in Q1, they continued to weigh on profitability and competitiveness, limiting businesses' appetite for investment and expansion.

Looking ahead to Q3, businesses expect activity to remain broadly stable rather than strengthen significantly. New orders provide some positive signals, but expectations for sales, exports and production remain moderate. Investment, R&D and employment are also expected to remain subdued, reflecting continued uncertainty around demand and international markets.

The 12-month outlook shows greater expectations of improving demand, with around half of respondents anticipating stronger sales, production, capacity utilisation and new orders. However, this has yet to translate into stronger expansion plans. Expectations for employment, investment and R&D remain weak, while operating costs and profit margins continue to be a concern.

More broadly, the survey highlights persistent structural pressures facing the UK chemical industry. Energy costs remain the most significant barrier to expansion, while nearly three-quarters of respondents consider their UK operations less competitive than overseas sites. Many businesses have delayed, reduced or cancelled investment, and over one-third have reduced production or operating activity, including permanent capacity closures. Most respondents reported no noticeable impact from the UK Industrial Strategy, while over four-fifths said that Brexit has not worked for their operations. The results therefore point less to a sustained recovery than to a tentative improvement in trading conditions, against a backdrop of weak investment, competitiveness pressures and continued uncertainty.

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Economic Overview

Continued growth against a challenging economic backdrop

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

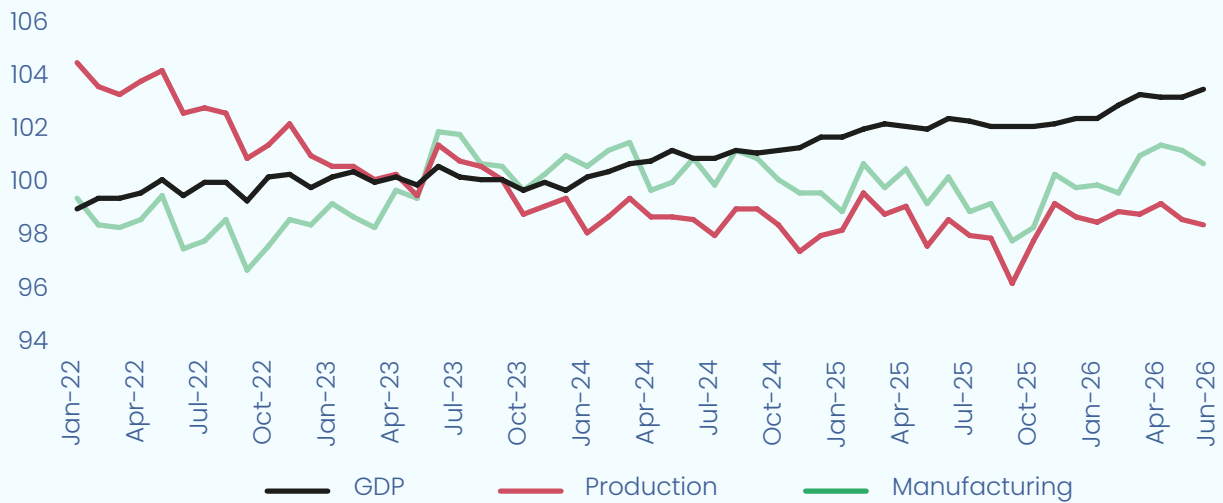
GDP and chemical production

Following annual growth of 0.9% in 2024 and 1.2% in 2025, the UK economy grew by 0.6% in Q1 2026 and by a further 0.4% in Q2. This was slightly stronger than the 0.3% expected by the Monetary Policy Committee (MPC) in its July report, partly because some of the momentum from the strong first quarter carried over into Q2. However, this effect is expected to fade, with the MPC forecasting growth of just 0.1% in Q3.

Although the economy continued to grow, signs of weakness remain. The Bank of England estimates that spare capacity has increased slightly, reflecting subdued demand across the economy. Its Agents have also reported that businesses are operating below capacity, while model-based estimates suggest an output gap of around 1% of potential GDP. This spare capacity should help limit further inflationary pressures by reducing workers' bargaining power and making it more difficult for businesses to raise prices.

Looking ahead, economic growth is expected to remain subdued throughout 2026 and into early 2027. Higher energy costs are likely to weigh on real household incomes and spending, while tight financial conditions and higher market interest rates are expected to constrain activity. Growth is forecast to strengthen from the second half of 2027 as pressure on household incomes eases and consumer spending recovers. This recovery is expected to be supported by a fall in the household saving ratio, from just under 9% to around 7.5% by the end of the forecast period, when four-quarter GDP growth is projected to reach 1.6%.



Graph 1: Index of GDP, Production and Manufacturing output from January 2022 to June 2026 (2023=100)

Source: CIA analysis of ONS data

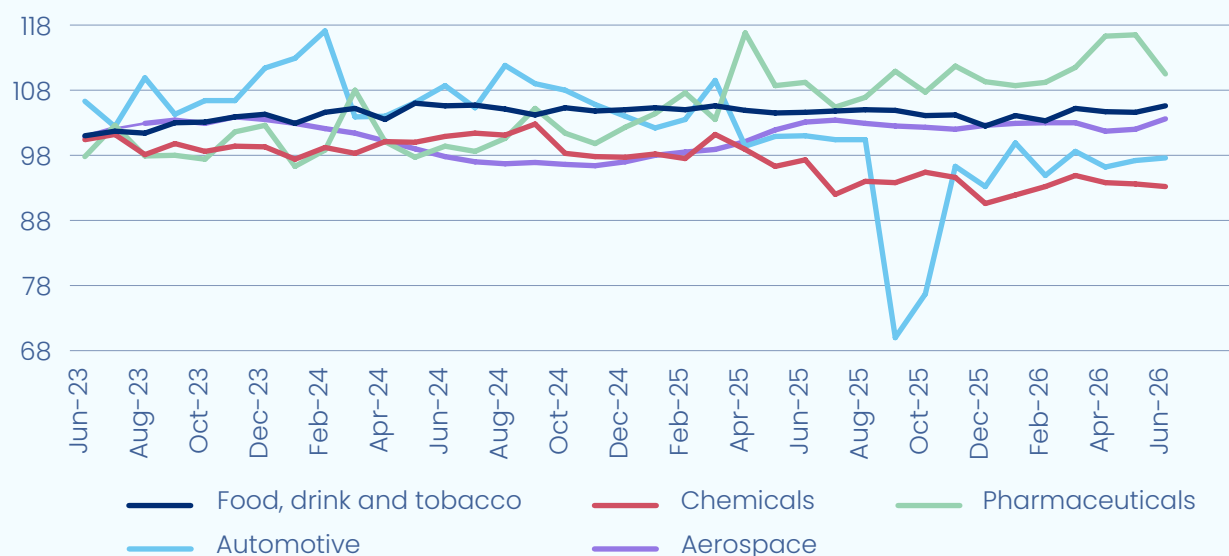
Looking at the **graph above**, GDP and industrial output followed increasingly different paths during the first half of 2026. GDP maintained its upward trend, while manufacturing and production improved earlier in the year before losing momentum towards the end of Q2.

Manufacturing output rose above its 2023 average and reached a recent high in April before declining moderately in May and June. This represents a pullback from a comparatively strong level rather than a return to the pronounced weakness recorded previously, with output remaining above its 2023 average in June.

The S&P Global Manufacturing PMI provides some context for these movements. Stronger domestic and export orders supported manufacturing early in the year, with export demand rising particularly

strongly in February. The conflict in the Middle East then disrupted supply chains, increased input costs and contributed to a temporary fall in survey-reported production in March. Activity rebounded in April and May, supported by stronger orders, backlog clearance and inventory building. Although the PMI eased in June, it remained above 50, indicating slower growth rather than contraction.

The broader production sector remained weaker, recovering in April before declining in May and June and remaining below its 2023 average. Meanwhile, GDP reached a new high in June, supported by the resilience of the UK's service-dominated economy. The latest movements suggest that the factors behind the earlier industrial improvement were beginning to fade, making it difficult to sustain without a broader recovery in underlying demand.

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

Source: CIA analysis of ONS data

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

The dark blue line represents Food, Drink and Tobacco output. After declining by 0.2% in 2025, output increased by 0.6% in Q1 2026 and by a further 0.8% in Q2. As shown in the graph, the sector experienced relatively limited monthly volatility and remained close to or above its 2023 base level throughout most of the period. Output strengthened towards the end of Q2, finishing the period at one of its highest levels since 2023. This contrasts with the weaker performance of chemicals and the sharper fluctuations recorded in the automotive and pharmaceutical sectors. This relative stability partly reflects the essential and comparatively income-inelastic nature of food and drink consumption, which helps sustain demand during wider economic slowdowns. However, the sector remains exposed to higher energy, transport and logistics costs, as well as geopolitical and global trade uncertainty. Overall, its recent performance points to a comparatively resilient sector that continued to grow despite persistent cost pressures.

Chemical output, represented by the red line, shows the most sustained weakness among the five M5 sectors. Although automotive and aerospace recorded sharper temporary falls, chemical

production followed a more persistent downward path and ended Q2 at the lowest level of the sectors shown. After contracting by 3.8% in 2025, chemical output fell by 0.2% in Q1 2026 before increasing slightly by 0.3% in Q2. Some chemical companies reported receiving additional orders and stronger export demand linked to the conflict in the Middle East, as customers sought to secure supplies against possible disruption. This appears to have provided a temporary boost to activity during the quarter. However, the improvement was limited and uneven. As shown in the graph, output remained well below its 2023 level and began to fall again towards the end of Q2, suggesting that the support from additional orders was already fading. The sector therefore remains under considerable pressure from high energy and raw-material costs, weak domestic demand and strong international competition. The latest data point to a brief improvement within a longer period of decline, rather than the beginning of a sustained recovery. Given the chemical industry's importance to manufacturing supply chains, continued weakness, underinvestment and plant closures could have wider consequences for industrial resilience, supply security and the UK's productive capacity.

The green line represents pharmaceutical output. Following strong annual growth of 7.7% in 2025, the sector expanded by 0.2% in Q1 2026 and accelerated to 3.1% growth in Q2. As shown in the graph, pharmaceutical output experienced considerable

monthly volatility but followed a clear upward trend overall. Output rose sharply during Q2 and reached one of its highest levels over the period before falling back in June. Despite this decline from its recent peak, it ended the quarter well above its 2023 base level and remained the strongest performing of the five M5 sectors. These fluctuations are common in the pharmaceutical industry, where production can be affected by product cycles, global demand, inventory adjustments and regulatory approvals. The outlook has also been supported by the UK-US pharmaceutical partnership, whose full terms were agreed in April 2026. The agreement secures zero tariffs on UK pharmaceutical exports to the United States for at least three years, protecting access to an important export market and seeking to encourage further investment in UK life sciences.

The light blue line represents automotive output. After declining by 11.1% in 2025, the sector rebounded by 10.3% in Q1 2026 before contracting by 0.8% in Q2. As shown in the graph, output fell sharply in September 2025 following the cyberattack on Jaguar Land Rover, which temporarily halted production and disrupted its wider supply chain. The strong Q1 increase therefore largely reflects the gradual restoration of production from an exceptionally low base. Output returned to around its 2023 level by April but fell back in May and June, suggesting that the initial recovery was not sustained. This improvement should be viewed cautiously. SMMT data show that total UK vehicle production in Q1 remained 13% lower than a year earlier, reflecting weak exports, commercial vehicle restructuring, model changeovers and further supply disruption. The rebound was therefore

driven largely by the normalisation of activity after the cyberattack rather than broad-based growth. Trade conditions also remain challenging. Although the UK-US agreement reduced tariffs on qualifying British vehicles from 25% to 10% under a quota, manufacturers remain highly exposed to policy and demand changes in the EU, United States and China. Overall, the Q2 decline suggests that the post-cyberattack recovery was beginning to fade while underlying pressures persisted.

The purple line represents aerospace manufacturing output. Following growth of 2.7% in 2025, the sector expanded by 0.7% in Q1 2026 before contracting slightly by 0.6% in Q2. As shown in the graph, aerospace output moved above its 2023 base level in early 2025 and has since remained comparatively stable. The Q2 decline therefore represents a modest pullback from a relatively elevated level rather than a significant deterioration. Underlying demand remains strong. Global aircraft deliveries reached their highest first-half level since 2018, while orders increased by 15% and the backlog reached a record 16,925 aircraft in June 2026. This provides a substantial pipeline of future work, although supply constraints may limit how quickly orders translate into output. Defence demand should provide further support, including progress on the US B-52 re-engining programme involving Rolls-Royce engines. NATO members' commitment to raise defence and security-related spending to 5% of GDP by 2035 should also strengthen longer-term demand. Overall, the Q2 contraction appears to reflect short-term output pressures rather than a weakening order book.

Graph 3: Annual Percentage Change in Chemical Production

Source: CIA analysis of Oxford Economics Data

Graph 3 The graph highlights the widening gap between chemical production in Europe and Asia. In 2025, output declined across the four European countries shown, including the United Kingdom (-3.8%), France (-3.1%), Germany (-2.8%) and Italy (-1.9%). By contrast, production expanded strongly in China (8.3%) and India (6.2%), while the United States recorded more moderate growth of 1.1%. This divergence is expected to continue in 2026. India is forecast to grow by 6.2% and China by 3.3%, while US output remains broadly unchanged. European production is expected to contract further, particularly in Italy (-5.0%) and the United Kingdom (-2.1%).

European producers remain under pressure from high energy costs, weak industrial demand and global oversupply driven by continued capacity expansion in China. However, disruption in the Strait of Hormuz has provided a temporary boost as some European customers turn to more readily available domestic supplies. This support is unlikely to resolve the sector's structural difficulties, with seven cracker closures announced across Europe over the past 18 months. The European Commission's Action Plan for the Chemical Industry may provide some relief by reducing regulatory burdens and supporting investment and innovation.

The United Kingdom faces particularly difficult conditions. Although overall chemical output rose by nearly 6% between December and March, partly supported by disruption-related demand, basic chemical production fell by almost 8% as higher

energy costs outweighed these benefits. Around 25 chemical sites closed since 2021 over the past five years, while European gas prices remain nearly four times higher than in the United States. Weak demand, declining exports, UK REACH re-registration costs of up to £3 billion and the gradual withdrawal of free carbon allowances are adding further pressure. The forecast therefore points to continued contraction rather than a meaningful recovery.

The United States is better insulated from disruption due to its shale gas reserves and lower energy and feedstock costs. Basic chemical output increased by 4% between December and March, while chemical prices rose by 2% and US gas prices fell by almost 29%, supporting margins. However, the withdrawal of clean-energy funding could raise the cost of industrial decarbonisation and weaken some of this competitive advantage.

China is expected to maintain growth despite disruption and significant overcapacity. Its use of coal-based production and substantial oil reserves provide some protection from Middle Eastern supply pressures, while resilient exports continue to support chemical demand. However, further ethylene capacity additions (7.6 million tonnes in 2026, followed by 4.8 million in 2027 and 3.8 million in 2028) will deepen global oversupply and pressure prices.

India, meanwhile, is expected to remain the fastest-growing producer shown, supported by expanding domestic demand and continued industrial development.

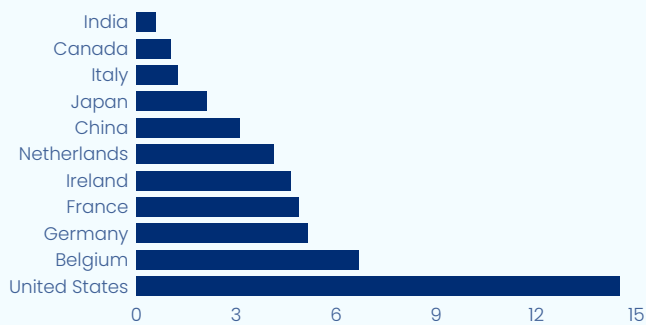
Chemical trade

UK chemical exports accounted for 17% of total UK exports in 2025, with a total value of £66.3 billion. Of this, 52% was exported to non-EU markets and 48% to the EU. The United States was the largest export destination (£13.9 billion), followed by Belgium (£6.4 billion) and Germany (£4.6 billion).

More broadly, the United States remains the UK's largest trading partner for total exports. Within the chemical sector specifically, the US continued in 2025 to be the main export market for medicinal and pharmaceutical products, organic chemicals, and plastics in both primary and non-primary forms, while also remaining among the top five destinations for most other chemical subsectors.

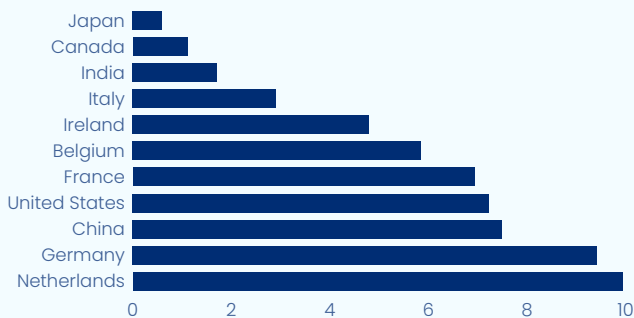
In 2025, the Netherlands was the UK's main import partner and notably for several chemical product categories, including organic chemicals, toilet and cleansing preparations, processed fertilisers, and other chemical products.

Graph 4.1: UK Chemical Exports Sources (Latest 12 months in £bn)



Source: CIA analysis of ONS

Graph 4.2: UK Chemical Imports Sources (Latest 12 months in £bn)



Source: CIA analysis of ONS

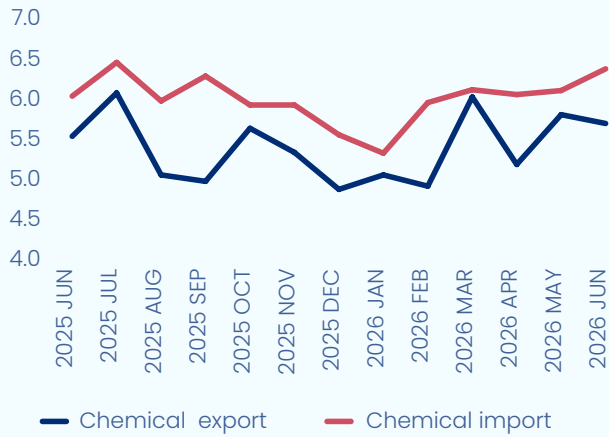
Graphs 4.1 and **4.2** show the UK's principal chemical trading partners during the 12 months to June 2026. Together, they highlight the sector's dependence on two distinct markets: the United States as a major destination for high-value exports and Europe as a closely integrated source of chemical products and intermediate inputs.

The United States remained by far the UK's largest chemical export market, receiving £14.5 billion of goods, more than twice the value exported to Belgium, the second-largest destination. With imports from the US reaching £7.2 billion, the UK recorded a surplus of approximately £7.3 billion in chemical trade with the country among the flows shown. This reflects the importance of high-value medicinal and pharmaceutical exports and reinforces the significance of maintaining tariff-free access to the US market.

Trade with Europe was more import intensive. The Netherlands and Germany supplied a combined £19.4 billion of chemical imports, compared with £9.3 billion of UK exports to these markets. France also supplied considerably more chemicals to the UK than it imported from the UK. This demonstrates the depth of the UK's integration into European chemical supply chains and its reliance on the region for feedstocks, intermediates and finished products. However, the figures for the Netherlands and Belgium should be interpreted cautiously because their major ports and distribution centres make them important transit points for trade with other countries.

A similar imbalance is visible with China: UK chemical imports reached £7.5 billion, compared with exports of £3.1 billion. This reflects the growing role of competitively priced Chinese production in the UK market and highlights the exposure of domestic manufacturers to international competition. Overall, the figures show that the UK remains successful in exporting high-value chemicals to the US but increasingly reliant on European and Asian suppliers across the wider chemical value chain.

Graph 4.3: Trade Balance of Chemicals in £bn



Source: CIA analysis of ONS

The graph shows that the UK imported more chemical products than it exported in every month over the 12 months to June 2026. Although the size of the deficit fluctuated, it persisted throughout the period. The gap narrowed considerably in March as exports rose sharply but reopened in April and remained in place at the end of Q2. In June, imports reached their highest level over the period, while exports declined slightly. This sustained trade deficit demonstrates the UK's reliance on overseas production for chemical feedstocks, intermediate goods and finished products. Alongside declining domestic output, underinvestment and recent plant closures, it also reflects the erosion of the UK chemical industry's productive capacity and international competitiveness. Strengthening domestic production is therefore essential to reduce import dependence, improve supply-chain resilience and support the downstream industries that rely on UK chemical manufacturing.



Consumer Side Inflation

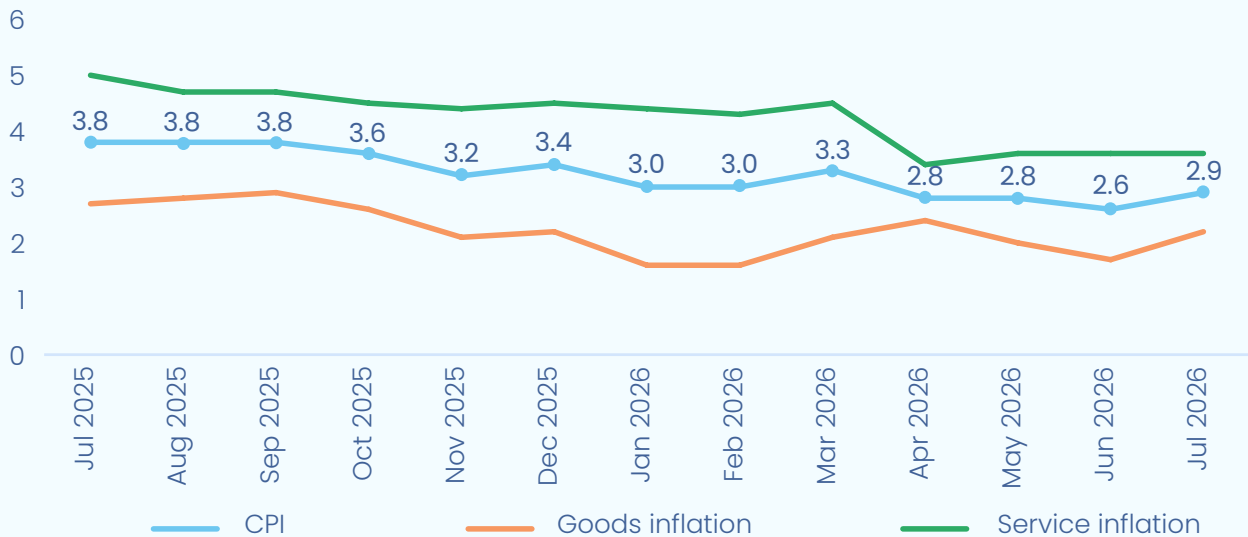
Over the past year, inflationary pressures have generally eased, with CPI falling from 3.8% in July 2025 to 2.9% in July 2026. However, the path towards the Bank of England's 2% target has been uneven, and the July increase from 2.6% shows that inflation remains vulnerable to renewed external pressures.

During the first half of 2026, CPI initially remained at 3.0% before rising to 3.3% in March as the conflict in the Middle East pushed up global energy prices. Inflation subsequently eased throughout Q2, reaching 2.6% in June as food and services inflation moderated. The renewed increase in July was driven primarily by higher gas and electricity

prices. By contrast, core CPI remained unchanged at 2.6% and services inflation continued to ease, indicating that underlying domestic pressures were still moderating.

The MPC expects inflation to rise further during the remainder of 2026 as higher energy costs continue to pass through to households and businesses. While it reported "clear signs of underlying disinflation" and little evidence of significant second-round effects on wages and prices, it judged the risks to the outlook to be tilted to the upside. At its July meeting, the MPC therefore voted by 6-3 to maintain Bank Rate at 3.75%, with three members favouring an increase to 4%.

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



Source: CIA analysis of ONS data

In **graph 5** the orange line represents goods inflation over the past thirteen months. It remained relatively contained over the period and eased notably at the beginning of 2026. It began to rise again in March and April as the conflict in the Middle East placed renewed pressure on energy and supply costs. Although it subsequently fell to 1.7% in June, higher household gas and electricity prices pushed it back up to 2.2% in July.

The rise in goods inflation was mainly driven by energy prices. Annual energy inflation reached 9.8% in July, while electricity, gas and other fuels rose by around 4.0%. Prices for liquid fuels and lubricants were 16.3% higher, continuing the strong increases recorded since April 2026. Some food categories

also remained under pressure, with fish prices rising by 7.0% and fresh or chilled fish by 13.6%.

Turning to services inflation - green line - it reached its highest level at 5.0% in July 2025 before gradually easing during the remainder of the year. Services inflation remained relatively stable throughout Q1 2026, ending the quarter at 4.5%, before falling more noticeably during Q2 and reaching 3.6% in June. It remained unchanged at 3.6% in July, its lowest level over the period.

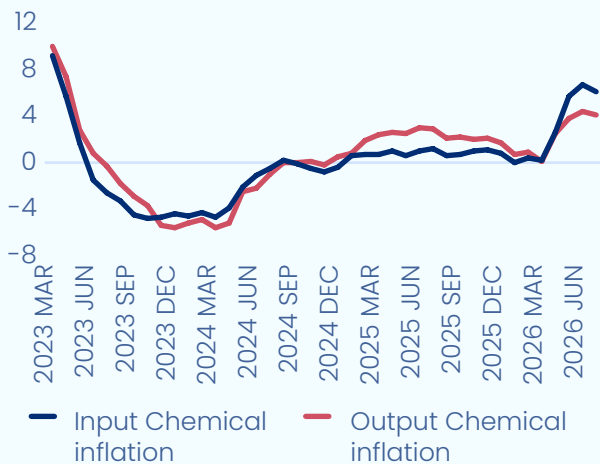
These inflationary pressures were mainly driven by persistent pressures across housing and essential services. Housing-related services rose by 3.9%, including a 4.1% increase in actual rents and a 3.0% rise in primary housing services. Medical services

recorded inflation of 4.5%, while miscellaneous services increased by 2.3%.

Goods and services both have a significant influence on headline inflation, although services carry slightly more weight in the CPI basket. The fall in services inflation helped bring CPI down at the beginning of Q2, while lower goods inflation supported the decline later in the quarter. In July, however, goods inflation rose from 1.7% to 2.2%, contributing to the increase in headline CPI, even as services inflation continued to ease.

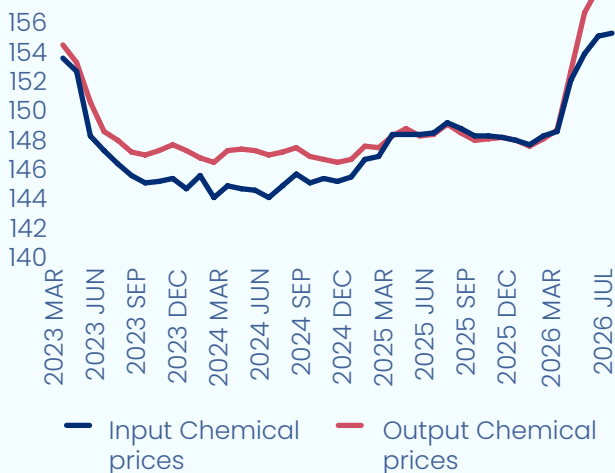
Chemical prices

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



Source: CIA analysis of ONS

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



Source: CIA analysis of ONS

Turning to the **Graph 6.1**, chemical input inflation (blue line), rose sharply during the second quarter of 2026. After standing at approximately 0% in March, year-on-year input price inflation increased to almost 7% in June before easing slightly to around 6% in July. This marked a significant reversal from the relative stability recorded throughout most of 2025 and indicates that cost pressures have returned rapidly to the sector.

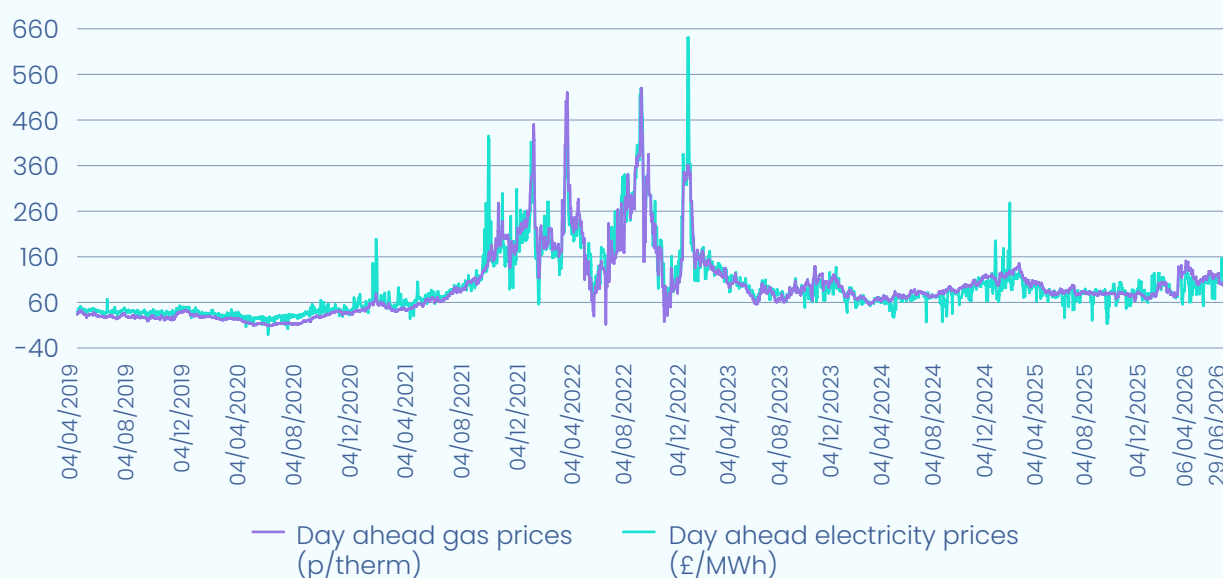
By contrast, output chemical (red line) also increased considerably during the quarter, rising from around 0% in March to just over 4% in June and remaining close to this level in July. However, output inflation remained below input inflation, creating a gap of approximately 2 percentage points by July. This represents a reversal from much of 2025, when output inflation was generally higher than input inflation, and suggests that producers' pricing power has weakened as costs have accelerated.

The widening gap indicates that chemical producers have been unable to pass the full increase in production costs on to customers, placing renewed pressure on profit margins. Together, the data suggest that the recent cost shock is being absorbed increasingly by producers rather than passed through fully to customers.

Looking at **Graph 6.2**, input chemical prices remained above chemical output prices throughout most of 2023 and 2024, reflecting the sustained cost pressure faced by the industry. The gap narrowed during 2025, with the two series moving broadly together between May and August. Output prices even moved slightly above input prices at the beginning of 2026, providing some temporary relief for producers.

However, this improvement was short-lived. Both input and output prices began to rise from January 2026, before accelerating sharply after March as the Gulf conflict drove up energy and feedstock costs. Input prices increased faster than output prices and moved clearly above them from April onwards.

For an energy-intensive industry already facing high production costs and weak demand, this renewed gap is particularly concerning. It shows that producers were absorbing part of the cost increase rather than passing it on fully to customers, adding to the pressure on margins reported by businesses in the Q1 and Q2 CIA Business Surveys.

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

Source: CIA analysis of Inspired PLC data

Graph 7 displays the day-ahead wholesale gas and electricity prices in the UK from January 2019. In 2019 and early 2020, prices remained relatively stable and low, with gas prices generally fluctuating between 30 and 45 p/therm and electricity prices between £40 and £50/MWh. However, the period from 2021 to 2023 was characterised by exceptional volatility and sharp price increases, particularly during the 2022 energy crisis following the Russia-Ukraine conflict and disruptions to European energy supplies.

Prices subsequently fell back from these exceptional peaks, but they did not return to their pre-crisis levels. Instead, both gas and electricity prices settled at a higher and more volatile level throughout 2023 and 2024. This left energy-intensive industries facing a structurally higher cost base, even after the immediate pressures of the energy crisis had eased.

During early 2026, upward pressure re-emerged in both gas and electricity markets as the Gulf conflict disrupted global energy supplies. More recent data suggest that the initial surge has begun to ease, but cost pressures remain substantial. In July, UK output

prices for coke and refined petroleum products were still 30.1% higher than a year earlier, although this was down from 41.3% in June. The impact has also spread further through manufacturing supply chains: prices for other manufactured products rose by 4.6%, with the ONS specifically linking higher plastic-product prices to increases in the cost of PVC and resins caused by the Middle East conflict.

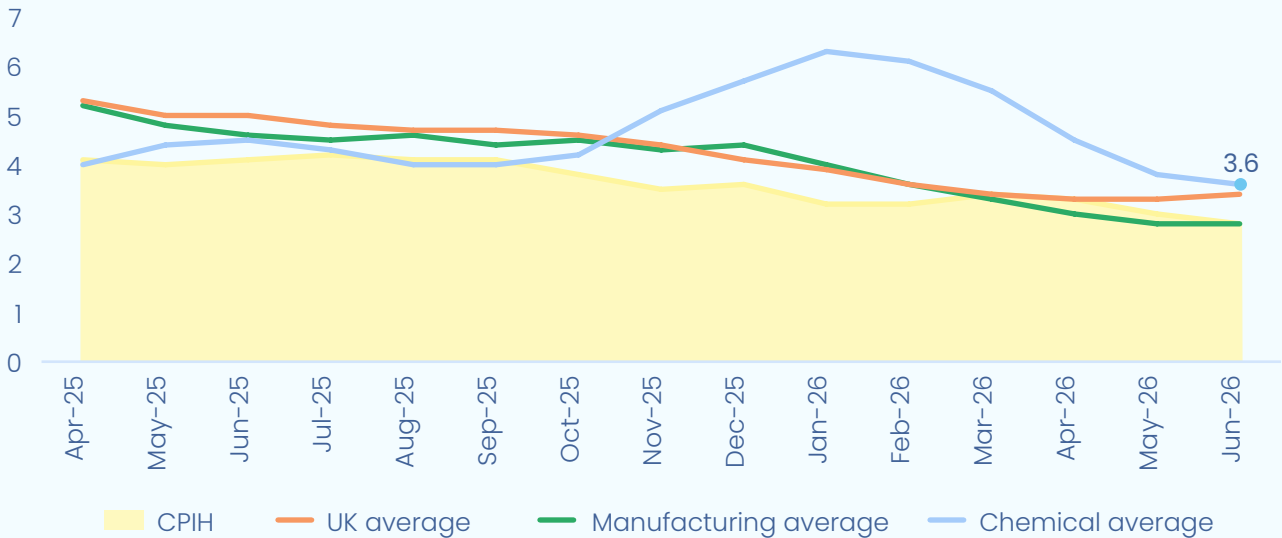
Fertiliser prices also remain considerably above their pre-conflict levels, reflecting the importance of natural gas in nitrogen fertiliser production and the disruption to trade through the Gulf. By mid-August, UK-produced ammonium nitrate was 14% more expensive than in February, while imported ammonium nitrate and liquid urea ammonium nitrate had risen by approximately 15%. These increases show that, even where wholesale energy prices have moved back from their initial peaks, the conflict continues to feed through to the wider economy and increase costs for chemical manufacturers, their customers and other energy-intensive sectors.

Labour market

The UK labour market showed signs of stabilisation during the second quarter of 2026, although demand for workers remained subdued. The unemployment rate edged down by 0.1 percentage points on the quarter to 4.9% between April and

June, but remained 0.2 percentage points higher than a year earlier. Economic inactivity was unchanged at 20.9% on both a quarterly and annual basis. However, vacancies declined by a further 0.8% between May and July, suggesting that employers remained cautious about recruitment despite the slight improvement in unemployment.

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



Source: CIA analysis of ONS

The yellow shaded area indicates 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 eased throughout the second quarter, falling to 3.3% in April, 3.0% in May and 2.8% in June. This gradual decline reduced the rate of pay growth required for workers to experience an increase in real earnings.

The UK average pay growth (orange line) continued to moderate at the beginning of 2026, falling from 3.9% in January to 3.6% in February and 3.4% in March. This downward trend continued into Q2, with pay growth easing to 3.3% in April and May before edging back up to 3.4% in June. Inflation fell more quickly than pay growth during Q2, allowing modest real wage growth to return.

Manufacturing pay growth (green line) slowed more sharply at the beginning of 2026, falling from 4.0% in January to 3.6% in February and 3.3% in March.

This downward trend continued during Q2, with pay growth declining to 3.0% in April and 2.8% in May, before remaining unchanged in June. By June, pay growth and inflation were both 2.8%, bringing the decline in real manufacturing pay to an end but leaving workers with no real-terms wage growth. This contrasts with the UK average, where positive real wage growth returned during Q2.

In contrast, chemical sector pay growth (blue line) remained considerably stronger than the UK and manufacturing averages at the beginning of 2026, although it moderated throughout the first half of the year. The slowdown continued during Q2, with chemical pay growth falling to 4.5% in April, 3.8% in May and 3.6% in June. By June, chemical pay growth exceeded inflation by 0.8 percentage points, compared with no real wage growth across manufacturing as a whole. The chemical industry's higher concentration of skilled roles and premium-pay arrangements may contribute to stronger and more volatile movements in its official average earnings data.

Rounding up the official data

The UK economy continued to grow during the first half of 2026, expanding by 0.4% in Q2. The Q2 result was slightly stronger than the 0.3% expected by the MPC, partly because momentum from the first quarter carried over into the period. However, underlying demand remained subdued, with businesses continuing to operate below capacity and the output gap estimated at around 1% of potential GDP.

Manufacturing performance remained uneven. Food, Drink and Tobacco output increased by 0.8% in Q2, while pharmaceutical production grew strongly by 3.1% and remained the best-performing of the five largest manufacturing sectors. By contrast, automotive output contracted by 0.8% as the recovery from the Jaguar Land Rover cyberattack began to fade, while aerospace output declined by 0.6%, and Chemical output increased by only 0.3% following a 0.2% contraction in Q1.

The international outlook reinforces the scale of the challenge facing European chemical producers. UK chemical output is forecast to contract by a further 2.1% in 2026, while production is also expected to decline in Italy, France and Germany.

Trade data provide further evidence of the erosion of domestic productive capacity. During the 12 months to June 2026, the United States remained the UK's largest chemical export market, receiving £14.5 billion of goods, while the UK recorded a chemical trade surplus of approximately £7.3 billion with the country. However, the UK remained heavily reliant on European and Asian suppliers. Imports from the

Netherlands and Germany reached a combined £19.4 billion, while imports from China were worth £7.5 billion, compared with UK exports to China of £3.1 billion.

Consumer inflation eased during Q2, with CPI falling to 2.6% in June as food and services inflation moderated. However, it rose again to 2.9% in July, largely because of higher household gas and electricity prices. Goods inflation increased from 1.7% in June to 2.2% in July, while services inflation remained at 3.6%

Cost pressures were particularly evident in the chemical industry. Chemical input inflation rose to almost 7% in June before easing slightly in July, while output inflation reached only around 4%. Input prices therefore increased faster than selling prices, reversing the more favourable position recorded during much of 2025. This suggests that producers were unable to pass the full increase in energy and feedstock costs on to customers, placing renewed pressure on margins.

The labour market showed some signs of stabilisation in Q2. Unemployment edged down to 4.9% between April and June while wage growth also continued to moderate. UK average pay growth stood at 3.4% in June, compared with CPIH inflation of 2.8%, allowing modest real wage growth to return. Manufacturing pay growth fell to 2.8%, leaving workers with no real-terms increase. Chemical-sector pay growth remained comparatively stronger at 3.6%, and this partly reflects the sector's higher concentration of skilled roles and premium-pay arrangements.

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