



Industry trends – Chemicals

Chemicals production growth to slow down sharply due to the Gulf war

May 2026



Global overview

The closure of the Strait of Hormuz and high energy prices have a major impact on the chemicals industry

Chemicals is among the industries most severely affected by the Gulf war. Oil and gas are not only an energy source for the sector but also a key feedstock for which limited alternatives exist. The Gulf region supplies about half of global ethylene glycol exports and almost 40% of methanol, both essential for plastics and industrial chemicals. Additionally, because chemicals are an important precursor for a wide range of industrial goods, it is an important transmission channel through which oil and gas prices feed into manufacturing costs, producer prices, and ultimately consumer inflation.

Provided that the war is temporary, and the Strait of Hormuz gradually reopens from May, based on an Oxford Economics assessment we expect global chemicals production to increase by 0.6% in 2026, 1.6 percentage points lower compared with pre war expectations. Among subsectors basic chemicals output is forecast to grow by just 0.3%, paints and coatings by 3.1%, while soaps/detergents and agrochemicals would contract by 0.3% and 2.4% respectively. Chemicals production in the Middle East is forecast to contract by 3.7% this year, while the eurozone will suffer a 2.4% decline.

However, in a downside scenario where we see a prolonged conflict and a closure of the Strait into September, global chemicals production would shrink 1.7%, with the contraction in the eurozone accelerating to 4.3%. As a result of elevated exposure to the Gulf supply shock, Asian chemicals output would contract by 0.6% in 2026.

Tariff woes ongoing

Another issue impacting the global chemicals industry is ongoing trade policy uncertainty. Today, the industry's deep integration into nearly all areas of industrial production means it is vulnerable to the impact of tariffs and any issues arising out of trade policy decisions. The recent US Supreme Court decision to invalidate most tariffs imposed under the International Emergency Economic Powers Act (IEEPA) has ended the period of, admittedly fragile, predictability achieved through agreements and tariff relief negotiated by many markets. Chemicals companies are facing renewed uncertainty surrounding tariff regimes and legal risks. This is also the case for major chemical buyer industries. The automotive sector is a primary target of US tariffs, and the resulting decline in US demand for imported vehicles ripples through the supply chain, ultimately reducing demand for chemical input.

A key concern remains the potential diversion of Chinese goods – originally destined for the US – into other markets, particularly Europe. This shift could lead to an influx of cheaper Chinese products, undercutting demand for domestically manufactured goods and, by extension, the chemicals used in their production.

The chemicals industry is characterised by intense competition and ongoing market consolidation. Larger players often have economies of scale and greater resources to invest in research and development, innovation and marketing. This may cause smaller companies to struggle to remain competitive.

Industry performance forecast

Europe		Asia and Oceania		Americas		
Austria	Netherlands	Australia	Phillipines	Brazil	Excellent The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.	
Belgium	Poland	China	Singapore	Canada		
Czech Republic	Portugal	Hong Kong	South Korea	Mexico		
Denmark	Slovakia	India	Taiwan	USA		
France	Spain	Indonesia	Thailand			
Germany	Sweden	Japan	UAE		Fair The credit risk situation in the sector is average / business performance in the sector is stable.	
Hungary	Switzerland	Malaysia	Vietnam			
Ireland	Turkey	New Zealand				
Italy	UK					
						Poor The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.
					Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.	



Industry trends

Chemicals output

Output per region	2024	2025	2026*	2027*
Global	4.6	3.3	0.6	2.9
North America	4.0	0.9	-0.5	2.6
Asia Pacific	5.8	5.7	2.1	2.7
EU & UK	2.8	-1.3	-2.2	1.3

Year-on-year, % change /*forecast
Source: Oxford Economics

Output per subsector	2024	2025	2026*	2027*
Basic chemicals	3.1	2.1	0.3	3.4
Agrochemicals	17.5	8.2	-2.4	1.6
Paints & coatings	4.7	5.8	3.1	3.3
Soaps & detergents	1.6	-0.7	-0.3	2.3

Year-on-year, % change /*forecast
Source: Oxford Economics

Strengths and growth drivers

Advanced materials. Sectors such as electronics, automotive and aerospace are driving increased demand for high-performance materials. This is creating opportunities for the chemicals industry to develop materials to meet specific needs.

Sustainability. There is a growing demand for sustainable solutions across the industry and this provides companies with the opportunity to gain market share. The surge in EV production increases demand for high-performance plastics and supplies for battery materials.

Rising middle class in emerging markets. Rapid urbanisation and increasing household purchasing power of the middle class in emerging markets should boost demand for soaps and detergents products.

Constraints and downside risks

Energy prices. As an energy-intensive industry, the chemical industry is highly susceptible to oil and gas price volatility.

Transition to sustainability. This will create challenges as well as opportunities for the sector. Companies are facing major investments in decarbonisation and optimising sustainability. Pressure from stakeholders is increasing, and ESG performance is expected to be benchmarked as highly as cost and other productivity metrics.

Regulatory and compliance pressures. Stricter regulations aimed at reducing environmental impact and improving safety standards may create disruptions for companies in the chemicals industry as they work to adapt while maintaining profitability.

Supply chains. The chemicals industry is highly dependent on raw materials sourced from across the globe. Supply chain disruptions caused by geographical tensions, rising protectionism, natural disasters or logistical issues are downside risks.





Chemicals outlook Americas

Chemicals output	2024	2025	2026*	2027*
Brazil	3.8	3.5	0.0	1.5
Canada	-0.4	-3.4	2.2	3.6
Mexico	13.1	-3.8	-2.2	2.5
USA	3.6	1.5	-0.5	2.5

Year-on-year, % change /*forecast – Source: Oxford Economics

USA

A small output contraction in 2026, but a rebound expected in 2027

We expect US chemicals sector production to mildly decrease by 0.5% in 2026. Headline output is being weighed down by the soaps, polish and detergent subsector, where production is expected to fall by almost 3%. Among other subsectors, we expect basic chemicals output to increase by 0.2%, agrochemicals to contract by 0.7% and paints/varnishes to grow by 3.7%. US industrial production growth of 1.4% should support chemicals demand from manufacturers.

However, there are downside risks: US automotive production as a key downstream sector is expected to contract by 2.5% this year. A near-term pullback in consumer spending, increased uncertainty due to the Gulf war and tariff policy changes could also negatively impact chemicals demand.

On the positive side, the US chemicals sector is somewhat shielded from shocks to global energy prices, due to vast domestic shale gas reserves. Investments in US shale gas-related projects over the past decade have been large, resulting in more stable gas prices, a reliable supply chain and lower cost of producing chemicals such as ethylene. The US is a net energy exporter and not susceptible to the loss of LNG supplies from the Gulf. US LNG exports are capacity-constrained, reducing the risk of sharp rises in domestic natural gas prices. The US oil and gas sector will further ramp up production in response to higher prices triggered by the war in the Gulf. All this is helping US chemicals producers to enjoy an advantage in cost competitiveness over their European and Asian peers. In the long-term US natural resources will help to drive US chemicals growth and attract investment from overseas.

We expect US chemicals production to rebound by 2.5% in 2027, supported by a robust 2.7% economic growth rate.

The US administration’s expansionary fiscal policy lifts household spending and business investment, boosting demand for manufactured and chemical goods.

Energy transition – major questions open

Domestically produced semiconductors, lithium-ion batteries, solar panels, and other clean technologies provide demand for chemicals required in their production. However, Washington has recently pulled back USD 3.7 billion in clean energy awards. This could make it significantly more costly for chemicals producers to reduce emissions, eroding some of the cost advantage they have over European producers. The US Department of Energy also plans to cancel or revise USD 83 billion worth of funding for renewables, emissions reduction, and electric vehicle projects with funding for projects within the chemicals sector also directly cut.



Industry performance forecast

	Brazil
	Canada
	Mexico
	USA

- Excellent**
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.
- Good**
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
- Fair**
The credit risk situation in the sector is average / business performance in the sector is stable.
- Poor**
The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.
- Bleak**
The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.



Chemicals outlook Asia Pacific

Chemicals output	2024	2025	2026*	2027*
China	9.0	8.3	2.7	3.0
India	4.7	10.8	4.7	4.5
Japan	-6.2	-1.0	-4.8	-0.7
South Korea	0.5	-4.5	-0.2	0.9

Year-on-year, % change /*forecast – Source: Oxford Economics

China

Slowdown of production growth underway

After strong increases in 2024 and 2025, China's chemical production growth is expected to slow to 2.7% in 2026 and 3.0% in 2027. The country's economy and industry are relatively resilient to the global energy crunch, as oil imports through the Strait of Hormuz account for only about 5% of energy consumption. However, this resilience does not mean that the economy is immune to softer external demand and tighter global financial conditions. Those will negatively impact demand for Chinese exports, including chemicals. Additionally, US tariffs continue to weigh on exports of both chemicals and goods from key buyer industries. Given the oversupply of housing, construction volumes will remain low, reducing demand for chemical goods from a key downstream sector.

China has a significant overcapacity issue, impacting margins for many Chinese chemicals producers. Around 18.7 million tons of chemical capacity were added in 2024, which will be tackled by the targeted closing of inefficient, older facilities in the coming years. Key segments at risk include basic chemicals like ethylene, polypropylene, ammonia, and methanol. However, the shift to a consumer-led economy and a rising middle class will benefit sectors like soaps and detergents and speciality chemicals.

In international comparisons Chinese chemicals production remains competitively priced, supporting exports. The sector is a strategic priority for the Chinese authorities, and we expect ongoing fiscal support to offset any potential trade losses.



India

Robust domestic demand and government support

The Indian chemicals industry is currently the fifth largest in the world, and is expected to extend its market share, outpacing global chemicals growth. Chemicals production is forecast to grow by 4.7% in 2026 and by 4.5% in 2027. With an expanding economy and increasing population, chemicals growth is mainly being driven by domestic demand. Government policies support foreign direct investment and provide petroleum, chemicals and petrochemicals investment regions, which will spur growth over the coming decade.

Japan

A major contraction in 2026 and increasing competitive issues

We expect Japan's chemicals output to contract by 4.8% in 2026, followed by a 0.7% decline in 2027. Producers in Japan rely heavily on oil from the Middle East (around 95% of its oil supply coming from the region). Some businesses have already started to cut production because of the dwindling feedstock supply. Demand from key buyer sectors like automotive and construction is subdued. Additionally, US tariffs and overcapacity weigh on growth.

Japanese basic chemicals producers feel competitive pressure from their cheaper producing Chinese and US peers. Growing Chinese oversupply remains a key challenge for the sector and is forcing Japanese producers to rationalise production. We expect a consolidation in the basic chemicals segment, and that Japanese chemicals producers will increasingly shift away from low-value added chemicals towards less energy-intensive, high-quality, premium-priced chemicals. More specialised products for automotive, electronics and life sciences should provide higher margins.

Industry performance forecast	
	Australia
	China
	Hong Kong
	India
	Indonesia
	Japan
	Malaysia
	New Zealand
	Phillippines
	Singapore
	South Korea
	Taiwan
	Thailand
	UAE
	Vietnam
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Chemicals outlook Europe

Chemicals output	2024	2025	2026*	2027*
France	2.1	-3.1	-1.3	0.1
Germany	3.8	-2.8	-4.7	1.8
Italy	3.3	-1.9	-4.6	0.0
United Kingdom	0.5	-6.4	-5.1	0.2

Year-on-year, % change /*forecast – Source: Oxford Economics

European Union and UK

Another output contraction in 2026, and long-term worries remain

The European chemicals industry is heavily affected by the sharp rise of oil and gas prices due to the Gulf war, which makes feedstock and energy used to create chemicals even more expensive. The repeated surge in European gas prices is worsening long standing competitiveness issues, particularly relative to China and the US. While Chinese producers increasingly rely on coal based feedstocks, US Henry Hub gas prices have risen far less, benefitting US competitors. In addition to these energy related challenges, European chemicals firms face growing pressure to invest in automation, transformation and digitalisation.

Consequently, we expect chemicals production in the EU and the UK to decrease by 2.2% in 2026, 1.8 percentage points more than the pre-war forecast in February. Loss of output will be concentrated in the first two quarters of the year. We have recently downgraded our business performance/credit risk outlook for the chemicals industry in Belgium, Italy, the Netherlands and the UK to either “poor” or even “bleak” (see chart to the right).

In order to cut costs and to improve operational efficiency, several facilities have been closed over the past two years in the EU and the UK. The global market share of EU chemicals has decreased from about 20% in 2014 to 14% in 2024. We expect an orderly but significant consolidation process in the coming years, as the European cost base remains structurally too high and China continues to build capacity, putting low-margin suppliers under pressure. SMEs without energy hedging and without the investment power for decarbonisation are particularly at risk, while large, efficient players focusing on speciality chemicals enjoy a competitive advantage.

In July 2025 the EU commission launched a ‘European Chemicals Industry Action

Plan’ in order to support the EU chemicals sector. It addresses urgent challenges such as high energy costs, global competition, regulatory complexity, and environmental sustainability. The plan could ease pressure on the sector by cutting costs on red tape and promoting investment and innovation.

Germany

Highly exposed to energy price volatility

Germany is the largest European chemicals producer and is forecast to suffer a 4.7% output contraction this year. The German chemicals sector, in particular, is facing a combination of high energy prices, weak domestic and European demand, US tariffs and increasing global competition. Several chemicals manufacturers have already relocated to countries where energy costs are lower. High costs, regulatory requirements, and global trade shifts are increasingly influencing investment decisions. If innovation and value creation progressively take place outside Germany, this could weaken the industrial base in the long term.

Increased credit risk and financing issues

Credit risk has increased for basic chemicals SMEs without pricing power, as well as for smaller businesses without energy hedging and lack of funding for investment in decarbonisation. Also vulnerable are companies with high dependency on gas and suppliers affected by tariffs. Banks are now taking a much more critical look at refinancing in the chemicals sector, and financing partners are significantly less involved. Declining order intake is also making it more difficult to finance necessary innovations from internal sources.

That said, performance of speciality chemicals remains more robust, a segment in which German producers have high expertise. Additionally, demand is rising for chemicals in sustainability-focused sectors, including electric vehicles, as well as life sciences.

Industry performance forecast

	Austria
	Belgium
	Czech Republic
	Denmark
	France
	Germany
	Hungary
	Ireland
	Italy
	Netherlands
	Poland
	Portugal
	Slovakia
	Spain
	Sweden
	Switzerland
	Turkey
	UK

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