July 2024

Industry trends Chemicals

Chemicals sector expertise for global and regional developments and trends: **Olaf Gierlichs-Steffens**, Atradius Senior Underwriter in Cologne, Germany.

Ongoing recovery, with an uneven outlook among regions

Global overview

Rebound in Europe and the US supports higher global growth rates in 2024 and 2025.

The chemical industry was amongst the worst impacted by the energy crisis in 2022 and into 2023, as output is heavily reliant on oil and gas feedstocks and requires energy-intensive manufacturing processes. High inflation and tight monetary policies kept feedstock prices high, while also causing key buyer industries and consumers to cut back on spending. Global chemicals output growth slowed down to 0.7% in 2022 and 1.2% in 2023, only sustained by increases in the Asia Pacific, while the Americas and Europe recorded contractions (see chart below). This weakening in demand has meant that many chemical producers have been unable to pass on higher production costs to their customers.

An uneven long-term outlook

However, in the course of 2024 a rebound in the US and in Western Europe has gained momentum, supported by lower energy prices and recovering demand from key buyer sectors and consumers. Chemicals production is now forecast to increase more than 3% in 2024 and 2025. In the coming years Asia Pacific will continue to be the main driver of chemicals growth, followed by the US chemicals sector, which benefits from shale gas supply. Europe chemicals businesses will face competitive disadvantages due to structurally higher energy prices after the expiry of Russian gas deliveries. 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 (Fair)	Netherlands (Fair)	Australia (Good)	Phillippines (Fair)	Brazil (Fair)
Belgium (Fair)	Poland (Poor)	China (Fair)	Singapore (Good)	Canada (Fair)
Czech Republic (Poor)	Portugal (Fair)	Hong Kong (Good)	South Korea (Good)	Mexico (Fair)
Denmark (Fair)	Slovakia (Poor)	India (Good)	Taiwan (Good)	USA (Fair)
France (Fair)	Spain (Fair)	Indonesia (Good)	Thailand (Good)	
Germany (Fair)	Sweden (Good)	Japan (Good)	UAE (Fair)	
Hungary (Poor)	Switzerland (Fair)	Malaysia (Good)	Vietnam (Good)	
Ireland (Good)	Turkey (Fair)	New Zealand (Good)		
Italy (Fair)	UK (Fair)			

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.

Industry trends
Chemicals

Chemicals output per region	2022	2023	2024*	2025*
Global	0.7	1.2	3.2	3.1
Americas	1.2	-1.7	2.8	2.9
Asia Pacific	1.8	4.9	3.3	3.5
Europe	-4.7	-6.1	3.5	1.5

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

Global chemicals output per subsector	2022	2023	2024*	2025*
Basic chemicals	-1.7	-1.0	2.6	3.7
Agrochemicals	4.0	-0.1	5.6	1.9
Paints & coatings	3.7	3.2	2.7	3.1
Soaps & detergents	1.0	1.9	1.8	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 various regions across the globe. Potential supply chain disruptions, caused by geographical tensions, natural disasters or logistical issues are downside risks.

Chemicals outlook
Americas

Chemicals output	2022	2023	2024*	2025*
Brazil	3.7	-7.8	-0.3	2.6
Canada	-3.1	-2.9	2.4	2.3
Mexico	-1.4	-6.2	2.8	0.8
United States	0.9	-0.6	3.2	3.0

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

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.

USA

Good short-term and mid-term growth prospects

US chemical production contracted by 0.6% last year, as high inflation and tight monetary policies negatively affected demand from construction, durable goods and electronics. However, we expect chemical output to rebound in 2024 and 2025, growing by more than 3% annually.

The US economic outlook for the coming 12 months remains good. Disinflation should allow the Federal Reserve to continue its monetary easing, which would support higher demand from key buyer sectors. Additionally robust household consumption will support demand for chemicals, with basic chemicals output to increase by 4.2% and soaps and detergents to grow by 3.5% this year.

Government policies are supporting growth in the industry. The CHIPS and Science Act and the Inflation Reduction Act will accelerate the development of technology to reduce emissions. This will boost demand for chemicals used to make insulation materials, solar panels and other related products.

US natural resources will also help drive growth and attract investment. Shale gas has led to more stable gas prices and has reduced the cost of producing chemicals such as ethylene. Investments in US shale gas-related projects over the past decade have been large, estimated at USD 208 billion by 2022. This is helping US chemical producers enjoy an advantage in cost competitiveness over their European and Asian peers, especially those that typically use naphtha (a derivative of oil) in order to produce upstream chemicals.

Atradius

Chemicals outlook
Asia Pacific

Chemicals output	2022	2023	2024*	2025*
China	7.0	10.6	4.7	3.1
India	-4.0	4.8	4.1	6.5
Japan	-4.2	-7.9	-0.9	1.7
South Korea	-10.6	-5.3	-1.6	3.3

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

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

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.

China

Good growth rates, but overcapacity is an issue

After a whopping 10.6% increase in 2023, China´s chemical production growth is expected to slow down to (still robust) 4.7% in 2024 and 3.1% in 2025. This is in line with lower economic growth prospects for the coming 18 months.

While construction-related chemical businesses have been impacted by the woes in the nation’s property sector, government policy measures designed to promote growth in the manufacturing sector are supporting domestic demand for chemical goods across a spectrum of subsectors. In international comparison Chinese chemical production remains competitively priced, supporting exports.

However, oversupply is an issue, impacting margins for many Chinese chemical producers. Additionally, further increasing trade tensions with the US could become a concern. So far, chemicals multinationals have remained committed to their Chinese production and investment plans.

India

Robust domestic demand and government support

The Indian chemical industry is currently the fifth largest in the world, and is expected to extend its market share, outpacing global chemicals growth. Production is forecast to increase by 4.1% in 2024 and by 6.5% in 2025. With an expanding economy and increasing population, chemical 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 rebound is on the cards for 2025

We expect Japan’s chemicals output is to decrease by 0.9% in 2024, after a 7.9% decline in 2023. In early 2024 the paints and coatings segment suffered from a temporary production stop at Daihatsu Motors. Private consumption and investment are still below their 2019 peaks. However, private consumption should pick up as of H2 of 2024, supporting growth in the soaps and detergents segment (up 2.8% in 2024). In 2025 we expect chemicals production to rebound by 1.7%.

Japanese basic chemical producers feel competitive pressure from their cheaper producing Chinese and US peers. We expect that in the mid-term and long-term the Japanese chemicals industry will focus on more specialised products for automotive, electronics and life sciences, which provide higher margins.

Chemicals outlook
Europe

Chemicals output	2022	2023	2024*	2025*
France	-3.3	1.3	1.0	1.3
Germany	-11.8	-8.9	7.7	0.4
Italy	-0.4	-4.1	2.1	1.9
United Kingdom	-4.5	-10.1	-3.2	0.8

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

Eurozone

A recovery with several troubles ahead

After a 6.4% contraction last year, we expect chemicals production in the Eurozone to grow by 4.1% in 2024. The rebound is driven by lower energy prices, and a modest economic recovery, with rising demand from key buyer industries and higher consumer spending. Further easing of monetary policy should prop up both the chemicals and downstream sectors.

That said, it remains to be seen whether some chemical producers in the Eurozone will be able to survive until the region sees any meaningful recovery. Currently, only a modest 1.5% chemicals production growth is forecast for 2025. Chemical businesses unable to pass on increased production costs to customers could struggle with cash flow, presenting a credit risk to their suppliers.

While energy prices have decreased since 2023, longer-term worries remain. Gas prices are likely to remain above pre-crisis levels indefinitely as Europe replaces Russian gas with global imports of liquified natural gas. Gas prices are forecast to settle at a structurally higher level, weakening long-term competitiveness with American and Asian rivals.

In addition, stricter environmental regulations mean chemicals businesses will face increasing regulatory scrutiny. Meeting these requirements while maintaining profitability and innovation could be challenging.

Germany

A rebound is ongoing, but relocation of production is a downside risk

Germany is by far the largest chemicals producer in Europe, accounting for more than 4% of global chemicals output. Chemicals production contracted by 11.8% in 2022 and 8.9% in 2023. In particular, the basic chemicals and fertilisers segments suffered from massive gas price hikes in 2022.

Despite the whopping decline the industry is still robust, with strong capitalisation, good access to external financing, and a well-balanced debt profile. We expect German chemicals production to rebound by 7.7% in 2024, supported by decreased energy prices and surging demand from key buyer sectors.

However, energy prices are likely to remain above pre-crisis levels, preventing chemicals production from returning to levels seen before 2022. In 2025 only a modest 0.4% output growth is forecast, and the annual growth rate in the 2022-2028 period amounts to just 0.3%.

The biggest risk for the German chemicals production economy is the possibility of manufacturers relocating to countries where energy costs are lower.

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

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.

Atradius

Atradius
David Ricardostraat 1 · 1066 JS Amsterdam
P.O. box 8982 · 1006 JD Amsterdam
The Netherlands
Phone: +31 (0)20 - 553 91 11

info@atradius.com
www.atradius.com

Connect with
Atradius on social media
youtube.com/user/atradiusgroup
linkedin.com/company/atradius