



Flash Note

Chemicals

Pressure continues in EU27 in 1H2025

12 September 2025

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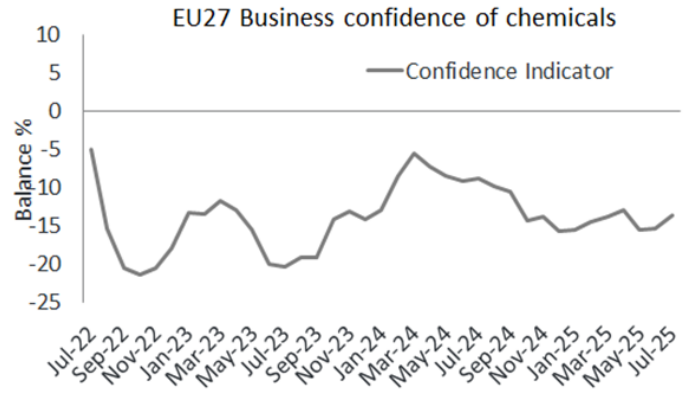
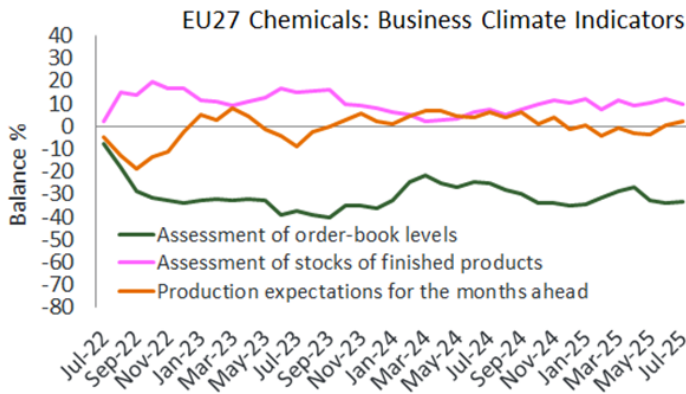
CEFIC's 2Q2025/1H2025 update highlights a challenging business environment for the European chemical sector, casting doubt on the pace of recovery. Weak demand, coupled with elevated energy costs, weighed on chemical production across the EU27 in the first half of 2025. After a sluggish first quarter, the second quarter also showed softness, with competitiveness against the US further eroded by natural gas prices, which remain nearly three times higher in Europe. On the demand side, utilisation levels stood at just 74.6%, well below pre-Covid averages (around 10% lower than the 2014-19 levels). Uncertainty around recovery remains high, as weak global economic conditions continue to suppress demand, while newly imposed US tariffs add another layer of complexity to the outlook. Consequently, after registering 2.4% YoY growth in 2024, EU27 chemical output is now expected to contract in 2025.

For Indian chemical exporters, these developments carry important implications. Europe is a key market, but subdued regional demand, combined with the burden of US tariffs, is likely to weigh on export performance. That said, Indian players with firm medium to long-term supply contracts are relatively insulated and are expected to navigate the current environment better than those dependent on discretionary or spot market sales.

EU27 chemicals business environment – Uptick in July

- ▶ Business confidence in EU27 chemicals improved by 1.7% MoM in July 2025.
- ▶ France (+9.7%) and Belgium (+6.8%) saw strong improvements in sentiment.
- ▶ Italy (-4.8%) and Germany (-1.6%) registered declines in confidence.
- ▶ Order books remained broadly stable during the month.
- ▶ **The EU27 chemicals business environment has been facing a limited demand since March 2022.**

EU27 – Stable order book, limited demand

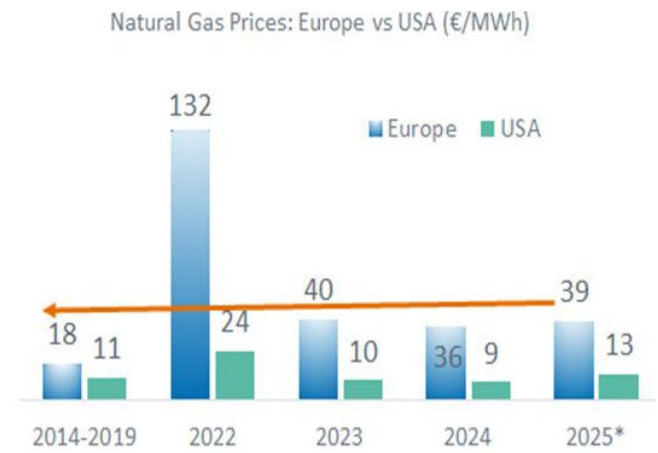
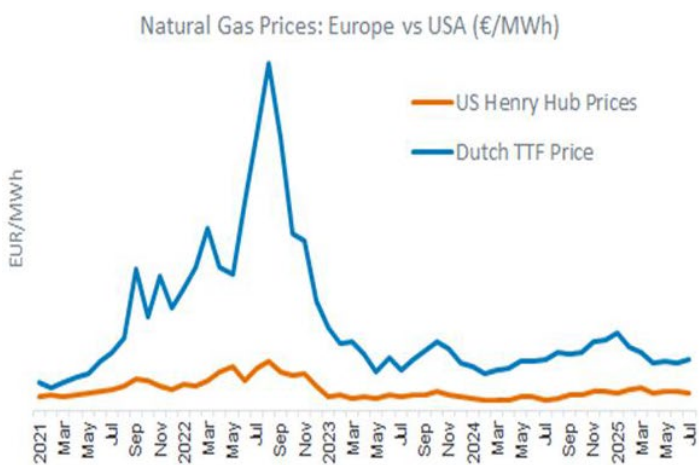


Source: CEFIC, B&K Research

EU competitiveness – Gas prices remain elevated

- ▶ The EU chemical industry relies on natural gas for 25-50% as feedstock (raw material), with the remainder used to generate steam and power for operations.
- ▶ High gas prices continue to erode European competitiveness, acting as a major deterrent for growth.
- ▶ Prices are expected to remain elevated through 2025-30, further weakening the region’s position in the global chemical market.
- ▶ **Europe remains an important market for India, accounting for around one-third of Indian chemical export revenues and is viewed as a preferred partner for supply chain diversification away from China.**

European natural gas prices 3x the US prices



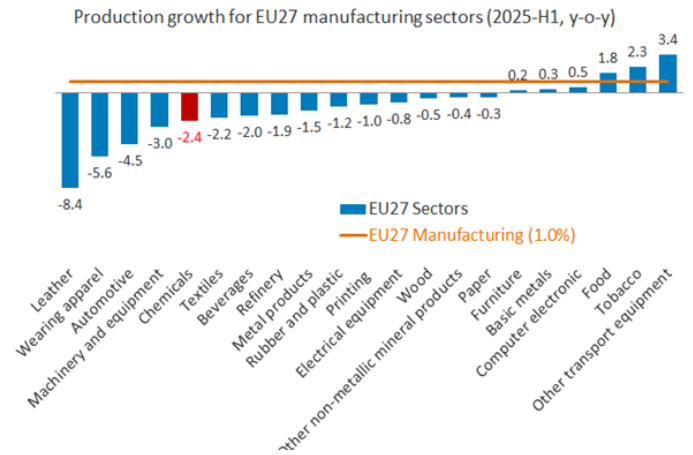
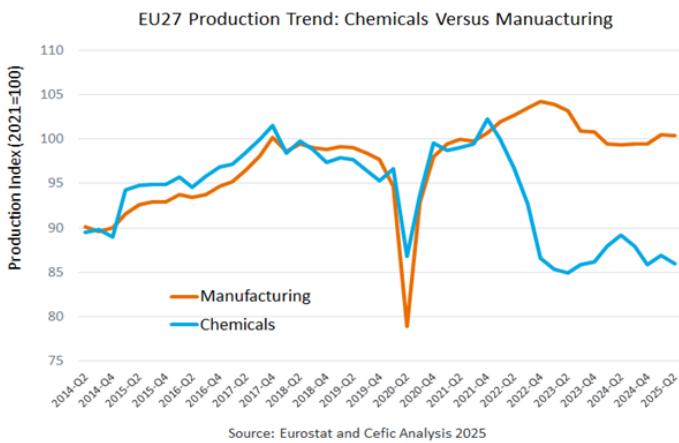
Source: CEFIC, B&K Research

EU27 domestic demand continues to remain weak

- ▶ EU27 overall manufacturing output grew 1.0% YoY during January-June 2025.
- ▶ Most downstream user industries of chemicals reported a decline in output over the same period.

- ▶ The auto sector, a major consumer of chemicals, contracted by over 4% YoY in January-June 2025.
- ▶ As a result, the EU27 chemical industry output fell by 2.4% YoY in January-June 2025.
- ▶ **As per CEFIC, “the European chemical industry needs a strong domestic demand to achieve significant growth. Unfortunately, no strong positive changes have been observed so far and business expectations for most downstream users are still not encouraging”.**
- ▶ **Indian chemical exports to Europe are expected to be adversely impacted due to weak regional demand.**

Weak EU27 demand continues

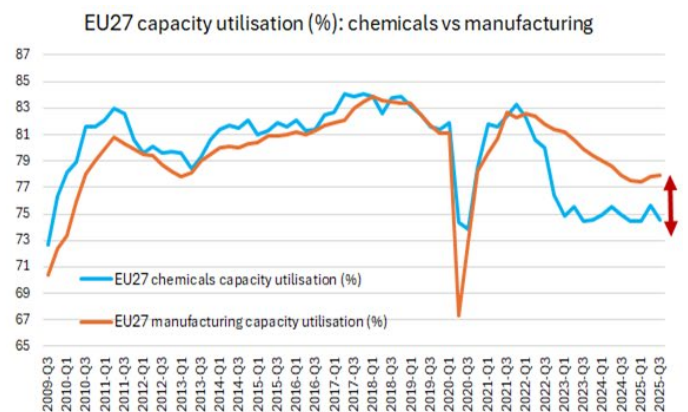
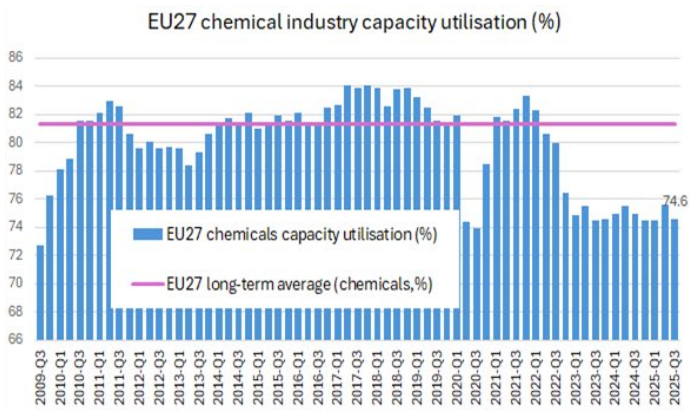


Source: CEFIC, B&K Research

EU27 chemicals capacity utilisation remains low at 74.6% in 3Q2025

- ▶ Weak domestic demand is driving down EU27 chemical capacity utilisation.
- ▶ Utilisation declined QoQ, falling from 75.6% in 2Q2025 to 74.6% in 3Q2025.

Lower chemical capacity utilisation

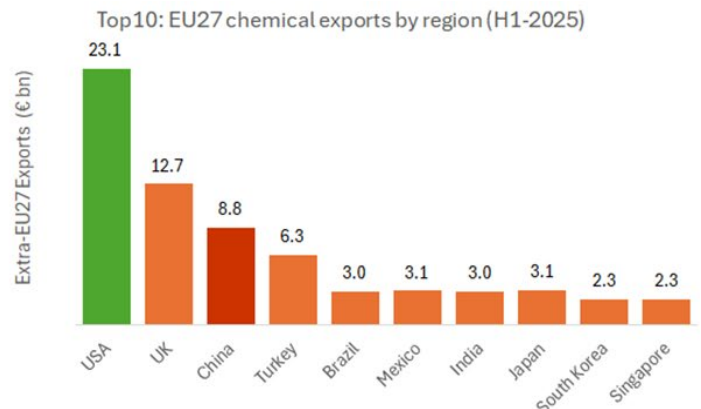
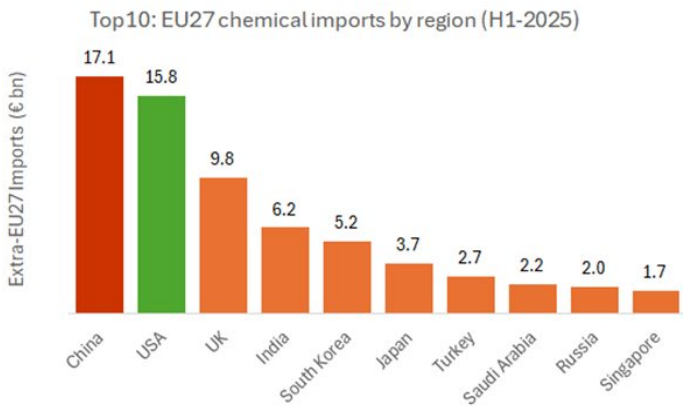


Source: CEFIC, B&K Research

Trade data suggests EU27 rising imports from China, while the US remains the key export destination

- ▶ EU27 chemical exports remain concentrated in the US (Euro 23.1 bn), UK (Euro 12.7 bn) and China (Euro 8.8 bn).
- ▶ The export share to the US has declined from 22% in 2004 to 18% in 2024, reflecting eroding competitiveness.
- ▶ The trade surplus narrowed sharply by 17% YoY to Euro 20.1 bn in 1H2025, as imports grew by 5.4%, while exports rose only 0.5%, highlighting persistent demand weakness.
- ▶ **India’s position in trade flows in 1H2025 – 4th largest exporter to the EU27 and 7th largest import partner for the EU27.**

EU27 chemicals trade flows

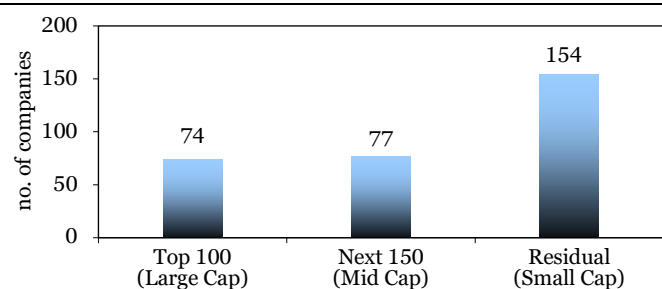


Source: CEFIC, B&K Research

B&K’s view

Persistent weak demand in Europe poses significant challenges for Indian chemical exports to the region. These pressures are further compounded by the ongoing 50% US tariffs on Indian exports, adding another layer of difficulty for Indian players in accessing key markets. With both Europe and the US facing headwinds, the overall export environment remains challenging. In addition, the pricing environment continues to be benign, offering little margin support in the near-term. As a result, Indian chemical companies are expected to face export headwinds in FY26E, with weak European demand likely to be a key drag on growth.

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