Chemicals

Some improvement, but most markets remain challenged

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This report does not constitute a rating action.

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What's changed?

Petchem outlook remains weaker for longer. A 2025 petchem recovery is unlikely due to additional supply, weak end-market demand, and rising natural gas prices.

Increasing risk of trade disruptions. Geopolitical conflicts, the threat of tariffs, and U.S. port strikes are among factors that could disrupt trade and create supply chain issues.

Destocking has run its course. Customers restocking inventory in 2025 could help bolster demand and supplement growth rates.

What are the key assumptions for 2025?

Affordability spells tough trading conditions for fertilizers. Global demand growth for nutrients may stagnate, but limited capacity additions and reduced Chinese exports support prices.

Global GDP slows to 3%, compared to 3.3% in 2024. This stems from sluggish growth in the U.S. and China.

Demand in certain end markets remains weak. Demand has delinked from GDP growth in some key geographical end markets.

What are the key risks around the baseline?

Trade disruptions. Geopolitical conflicts, trade tensions, tariffs, and the potential for a strike at U.S. ports all raise the risk of supply chain disruptions.

Weakness from certain end markets hinder chemical demand. These end markets include automobiles, housing and construction, electronics, and agriculture.

Our earnings growth expectations might not materialize. Unexpected earnings setbacks could slow down or reverse our base case assumption of earnings improvement.

Ratings Trends: Chemicals

Chart 1

Ratings distribution

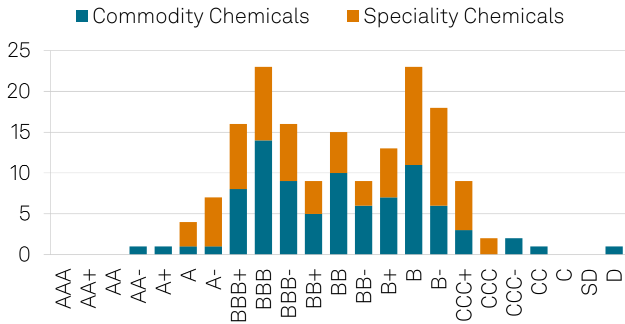


Chart 2

Ratings distribution by region

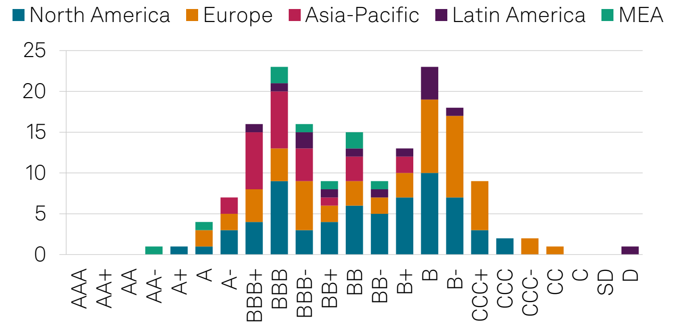


Chart 3

Ratings outlooks

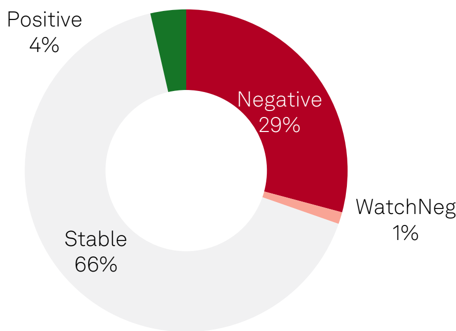


Chart 4

Ratings outlooks by region

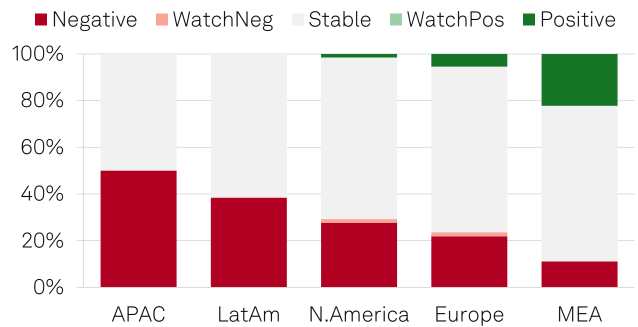


Chart 5

Ratings outlook net bias

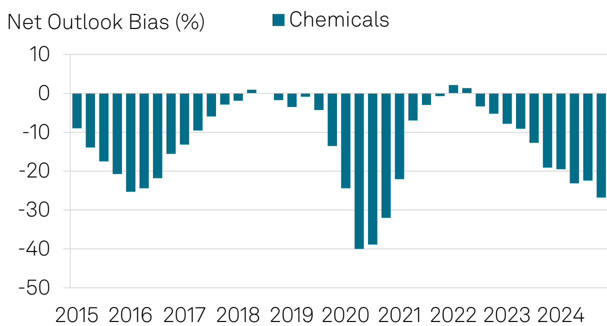
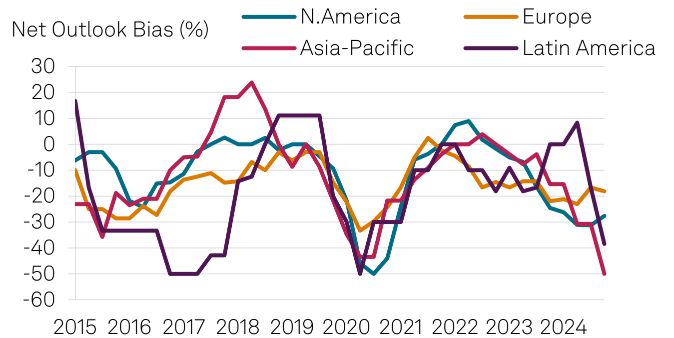


Chart 6

Ratings net outlook bias by region



Source: S&P Global Ratings. Ratings data measured at quarter-end.

Industry Outlook

Ratings trends and outlook

Over a quarter of our ratings outlooks are negative (27%) while only 3% are positive. The net negative outlook bias is the highest it's been since the height of the COVID-19 pandemic. Most of the negative outlooks are concentrated in the speculative-grade space while regional negative outlook distributions are weighted toward Asia and North America.

Asian chemical producers, particularly in the petrochemical (petchem) segment, are losing money regardless of feedstock. Meanwhile, North America reflects the highest concentration of speculative-grade issuers that are experiencing weaker end markets, particularly in the auto and home building segments. While we had anticipated uneven growth across regions and companies as destocking dissipates and petchem recovers slowly, this has largely failed to materialize as China's economy and certain end markets in the U.S. weakened, while energy and feedstock prices remained elevated.

Main assumptions about 2025 and beyond

1. Petchem remains in a prolonged cyclical trough in 2025.

Overcapacity is a persistently depressing operating rates and margins coming into 2025. China remains committed to its self-sufficiency targets, ramping up new capacity in 2025 and beyond. Thus far, announcements of permanent capacity closures have been slower to materialize than expected, although some larger petchem companies have signaled potential strategic reviews of European assets. Large capacity closures in higher cost regions, such as Europe and parts of Asia, are necessary to balance the industry and support a sustained improvement in operating rates and margins. Despite our expectations of trough conditions, we assume a modest improvement in EBITDA, mostly from cost-reduction initiatives with some volume increases.

2. Fertilizers face a somewhat tougher slog.

Following strong demand for fertilizers in 2024, we anticipate tougher trading conditions in 2025, particularly in the first half. This is because challenging farm economics—due to weak crop prices, high agricultural input costs, and a poor harvest in Europe—is suppressing affordability and, therefore, fertilizer offtake. S&P Global Commodity Insights forecasts that this will cause demand growth across all fertilizers to stagnate at about 0.3% in 2025. That said, we assume that prices in 2025 will decline modestly by low- to mid-single-digit percent, depending on nutrient, after 5%-15% declines in 2024 relative to 2023 levels.

3. Global economic growth is set to decline slightly.

In the U.S., we forecast a growth rate of 2% in 2025, with the Eurozone growing slightly at 1.2%. In APAC, 4.2% growth stems from India's healthy GDP and slower but still relatively healthy Chinese GDP. However, our expectations depend on what policies the incoming Trump administration will implement, particularly pertaining to tariffs, trade, and immigration, as well as what they mean for resilient consumer spending. Given the size of the U.S. economy, policy action on any of these fronts could alter our base-case estimates and affect some economies more than others.

The petrochemical sector will remain in a prolonged cyclical trough in 2025. A slew of new facilities has ramped up over the past few years, with more coming online the next few years, primarily in China as it strives to hit its self-sufficiency goals. Specifically, S&P Global Commodity Insights cited an estimated 45 million tons of global ethylene capacity has come online over the past five years, with operating rates in 2023-2024 dropping to the lowest rates in several decades. It also cited an additional 30 million tons of new capacity slated to come online by 2028. The length and depth of the current trough will largely stem from how much capacity gets permanently rationalized. To date, announcements of permanent closures have lagged far behind new capacity additions, although in 2024, several of the larger petrochemical companies have announced strategic reviews of asset footprints, primarily in higher-cost Europe.

While destocking largely ran its course in 2024, a general malaise in key end markets, such as housing and automotives, and slower-than-expected growth in key regions like China led to weaker demand and trough-like conditions persisting through 2024. Cost-cutting measures and some volume from potential inventory restocking will likely lead to marginal EBITDA growth. Based on our current price deck, we assume North American producers based in natural-gas will remain toward the lower end of the global cost curve, trailing Middle Eastern producers but still advantaged compared with more naphtha-based petchem companies in Europe and Asia.

We forecast the U.S. economy will expand 2.0% over the next two years. This incorporates a partial implementation of proposed Trump policies following 2.7% GDP growth in 2024. We expect the Federal Reserve to reduce its policy rate more gradually than considered in our September forecast update, reaching an assumed neutral rate of 3.1% by fourth-quarter 2026 as opposed to fourth-quarter 2025 previously.

As we are unsure to what extent President-elect Trump's campaign promises will materialize, this forecast incorporates high uncertainty. Trump's policy proposals, at face value, could cause higher inflation in the near term and lower growth in the medium to long term. The probability of a disruption to the Fed's easing bias over the next two years has risen. We assume that President-elect Trump will use his presidential powers to impose targeted tariffs on China by raising the weighted-average bilateral effective tariff rate on Chinese imports to 25% (from estimated 14% currently). The Chinese authorities likely would reciprocate with equivalent higher trade barriers on U.S. exports to China.

Eurozone growth will pick up only slightly in 2025, as higher real incomes spur consumption and employment remains high. We forecast eurozone GDP growth of 1.2% in 2025 versus 0.8% in 2024, which remains well below other major regions, such as the U.S. and China. Consumer spending and, subsequently, investment will likely drive expansion as real income growth accelerates, consumer perceptions of disinflation improve, and interest rates decline. Inflation will be slightly lower in 2024 because of a more pronounced decline in energy prices from peak levels. Lower interest rates and another increase in households' purchasing power will likely support the eurozone economy over the coming quarters.

However, European producers still face electricity prices two to three times higher than those in the U.S. and four to five times higher natural gas prices, weighing on competitiveness. This, alongside weak demand, keeps capacity utilization of the European chemical industry well below its long-term average. We anticipate the European Central Bank (ECB) will cut rates more quickly than previously expected due to persistently weak confidence and better visibility on the disinflation trajectory.

APAC's overall economic growth rate will slow slightly to a still healthy 4.2% from 4.5%. Lower interest rates and inflation will offset drag on spending power from slower global demand, slower growth from China, and U.S. trade policy.

Emerging market economies such as India, Indonesia, Malaysia, and the Philippines will continue to post the strongest growth. While China's stimulus measures will support growth, potential onerous U.S. trade tariffs could be highly disruptive. Our base case factors in a rise in the U.S. tariff rate on Chinese imports to 25%, as well as retaliation from China in kind. The country's property weakness continues to weigh on the economy, but the industry has slightly improved due to policy support. We predict the country's GDP growth will slow to 4.1% in 2025 from 4.8% in 2024.

Fertilizer prices remain broadly stable. Limited urea capacity additions from 2024 onwards have created a tight market. Ongoing capacity restrictions in China bode well for prices with support from the largely nondiscretionary nature of nitrogen fertilizers and healthy demand in India.

By contrast, potash demand in China remains generally strong and is potentially rebounding in Brazil and India. However, concerns over affordability and supply risk—related to exports from Belarus and Russia—and the eventually phase 1 of BHP's Janssen project in Canada in late 2026 could pressure pricing.

To sustain phosphate prices, higher global production volumes, notably from OCP, Maaden, and EuroChem, and potential modest supply from China will need to stay on even keel with the underlying demand and phosphate's relative-to-other-nutrients value to farmers.

Geopolitical events could also disrupt the balance of prices, particularly if conflict in the Middle East escalates to hinder trade flows in the Gulf of Hormuz, or due to unexpected supply outages, weather events, or changes to trade policies. However, at present, we do not expect the Trump administration to enact general tariffs on fertilizers.

From the credit perspective, there is not abundant ratings headroom issuers in the fertilizer sector, except for CF Industries and ICL Group. Therefore, balanced financial policies—particularly in relation to capital expenditure and shareholder renumeration—will be key to maintaining ratings.

Credit metrics and financial policy

Generally, we expect muted top-line growth as earnings remain pressured in 2025. However, cost-cutting measures could somewhat bump earnings, as could a limited boost in demand as inventories tighten up.

Although we expect a bear market to persist across the industry for 2025, many companies' balance sheets are in sufficient shape to weather trough industry conditions. Investment-grade companies especially strengthened from robust markets in 2021-2022. Recent negative rating actions arose most in the deep speculative-grade space and in Europe, where high energy costs, destocking, and overall weak economic conditions have led to underperformance and low plant utilization rates for some issuers.

Key risks or opportunities around the baseline

1. A trade war or tariffs could pressure demand.

The risk of a trade war, such as potential U.S. tariffs on China, is rising.

2. Although a tentative deal was struck at the time of this publication, a U.S. port strike could significantly challenge suppliers.

The possibility of a prolonged U.S. port workers' strike at East and Gulf Coast locations, presents a major challenge for chemical suppliers, the economy, and the broader supply chain.

3. North American chemical companies have taken advantage of improving capital market access, although the impact on their cash flows will vary.

Improved capital market access has allowed companies to push out maturities due in 2024-2025. In many cases, the improved debt maturity profile has come at the expense of modestly higher interest costs.

The U.S. economy, while steady for now, could weaken. The new administration looks to energize an economy that is already running at or above potential, raising the specter of higher inflation pressure, higher U.S. rates along the curve, and a stronger dollar. This would tighten U.S. financial conditions and spill onto a swathe of other economies, mainly emerging markets.

More critically, U.S. trade policy could turn much more disruptive if it follows Trump's campaign promises. For example, maximum U.S. tariffs on Chinese imports could damage the economy and cause retaliation from China, like before. We would alter our base-case assumptions if the U.S. imposes a 60% tariff on all imports from China plus new tariffs on other trading partners, cuts personal and corporate taxes, and deports millions of illegal immigrants. If that happens, we anticipate lower U.S. output, higher inflation pressures, and increased volatility and rates along the yield curve. This would, in turn, asymmetrically hinder other economies in terms of activity, trade, and key financial variables.

Tariffs on other trading partners are likely to cause commensurate damage to their economies, with the risk of retaliation, as well. Tariffs will likely destroy growth, lower demand, and further contribute to ongoing economic (and political) fragmentation. Moreover, none of this will help narrow the U.S. trade and current account deficit, which reflects a lack of U.S. savings relative to investment.

Escalating trade tensions could indirectly hurt demand and profitability. The overall impact of tariffs could reduce demand and profitability for China, the world's largest chemicals producer and consumer. The U.S. accounts for 15% of China's total export trading value, and chemicals also have wide end-market applications, including cars, machinery, electronics, and home appliances. Chinese chemicals producers may not be able to fully pass through the tariff costs to customers.

Similar major trade tensions could happen in other regions, with potential retaliations. For example, risks of U.S. trade restrictions are rising for export-centric APAC economies. This complicates and clouds the already challenging chemicals industry outlook.

Potential U.S. tariffs will likely have limited direct impact on most European chemical producers. Many issuers in the sector operate on a global scale and have a well-distributed geographical presence, including production facilities in the U.S., and pursue a local-for-local production strategy. Potential direct exposure is rather likely for downstream specialty chemical producers and their higher value-added products in fields like health care or nutrition.

Nevertheless, escalating trade tensions, barriers, and retaliatory measures could have widespread indirect repercussions. This includes deepening economic uncertainty, impairing key customer industries such as automotive, disrupting complex global supply chains, and increasing competitive pressure as redirected chemical products from China seek new sales markets. Overall, this could hinder economic growth.

A U.S. strike from port workers could hurt supply chains. At the time of this publication the International Longshoremen Association (ILA) had reached a tentative agreement over the use of automation, pending a vote by the union. A prolonged strike could have had massive ramifications not just for the chemical industry but for the economy as well, affecting 36 major ports along the eastern seaboard and the Gulf of Mexico, representing approximately 60% of U.S. shipping traffic and 90% of the waterborne chemical shipments that move in and out of the U.S.

Indeed, these ports on the East Coast and Gulf Coast handle more than 43% of U.S. imports and about $3.7 billion worth of trade daily. Chemical suppliers would have faced large delays receiving and distributing raw materials and products. U.S. polymer producers may have had to shut down plants as they export 30%-50% of production out of these terminals and use railcars as primary storage for certain polymers. Also, a prolonged strike would have created significant inventory builds in almost all segments of the chemical industry, crushing volumes, pricing, and margins. With the threat of tariffs and a strike looming, inventory imports were being pulled forward and inventory levels were beginning to rise.

Even if this particular strike is averted, it highlights how credit risks from labor have increased in recent years. The resilience of the U.S. economy has brought significant labor cost inflation and shortages, and unions have become more assertive. In the context of the reshoring of supply chains and a more bloc-based global trading environment, labor-related risks are likely to become a more significant credit driver for the foreseeable future.

Although many companies addressed near-term maturities in North America in 2024, refinancing risks in 2025 and 2026 remain. Most speculative-grade issuers that refinanced debt in 2024 faced higher average borrowing costs on their new capital structures, as they refinanced debt previously raised in the historically low-interest rate environment before rate hikes in 2022.

Despite a high level of refinancings in 2024, there are still refinancing risks for debt maturing in 2025-2026, particularly for issuers rated ‘B-’ and below, which hold more than half of the maturities. Several low speculative-grade chemical issuers have substantial debt maturities in 2026—most of which we believe will require refinancing. While issuers would welcome lower interest rates in coming quarters and the pace of interest rate cuts will remain a key area of focus, we believe refinancing transactions by themselves may not have a large impact on borrowing costs and credit metrics (assuming they aren't distressed).

However, companies on the lower end of the rating spectrum that hold most of the debt maturing in 2025 and 2026 have relatively limited cushion in their credit metrics to absorb shocks and sustain our ratings on them. We expect maturity risk—and risk of distressed exchanges or default, particularly for issuers with debt trading at a significant discount—will increase next year for such issuers if operating conditions and cash flow continue to languish and markets turn nonreceptive due to macroeconomic and geopolitical uncertainties.

Related Research

- Credit Conditions Asia-Pacific Q1 2025: Bracing For Volatility, Dec. 12, 2024
- Economic Research: Economic Outlook Asia-Pacific Q1 2025: U.S. Trade Shift Blurs The Horizon, Nov. 24, 2024
- Asia-Pacific Credit Outlook 2025: Cutting Through The Noise, Nov. 13, 2024
- Sustainability Insights: Decarbonizing APAC Chemicals - A Looming Competitive Differentiator, Aug. 26, 2024
- Asia-Pacific Agrochemicals: Green Shoots Signal Gradual Turnaround, Aug. 21, 2024
- China Commodities Watch: Trade Tensions Add To The Pain, June 3, 2024
- Credit FAQ: Why The Recovery May Be Moderate For Asia-Pacific Agrochemicals, March 4, 2024
- China Commodities Watch: Upstream Will Hold Up, Downstream Will Suffer, Jan. 15, 2024

Industry Forecasts: Chemicals

Chart 7

Revenue growth (local currency)

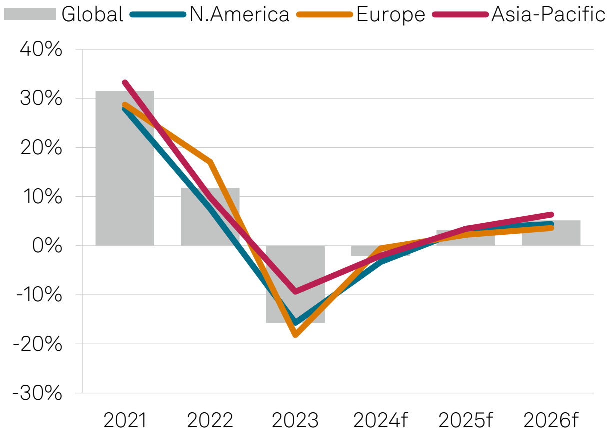


Chart 8

EBITDA margin (adjusted)

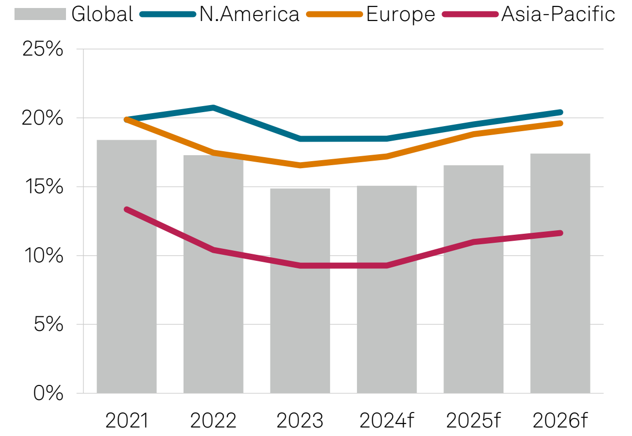


Chart 9

Debt / EBITDA (median, adjusted)

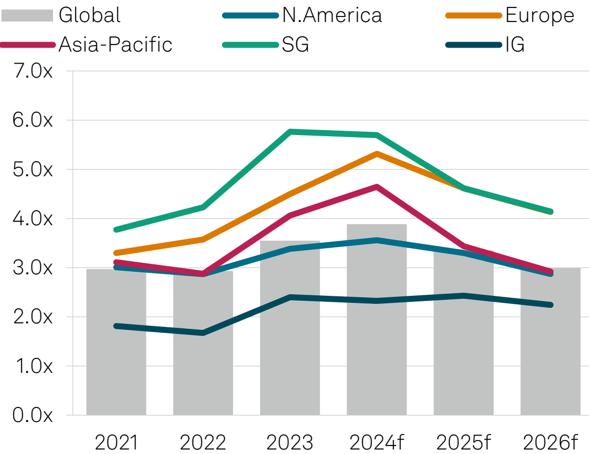
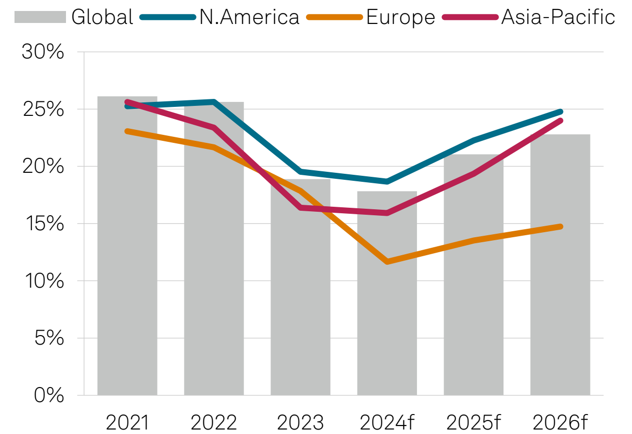


Chart 10

FFO / Debt (median, adjusted)



Source: S&P Global Ratings. f = forecast.
Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Cash, Debt, And Returns: Chemicals

Chart 11

Cash flow and primary uses

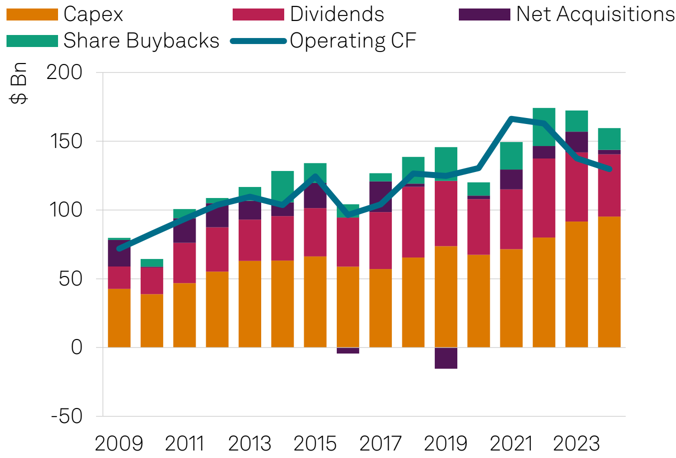


Chart 12

Return on capital employed

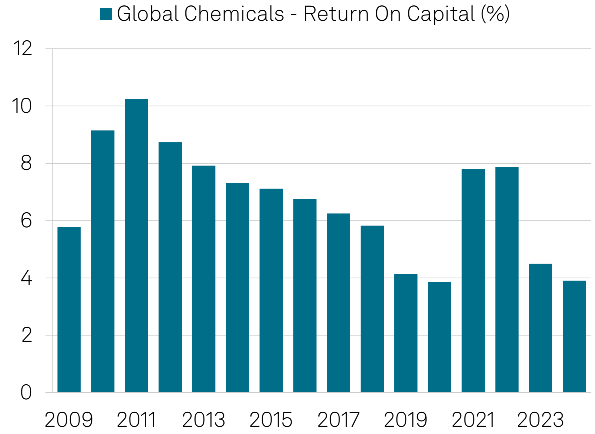


Chart 13

Fixed- versus variable-rate exposure

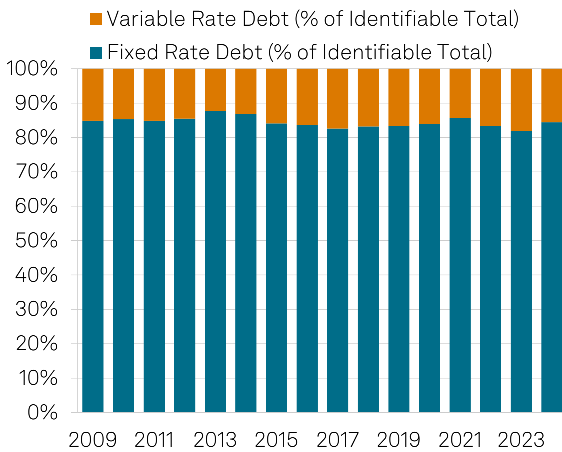


Chart 14

Long-term debt term structure

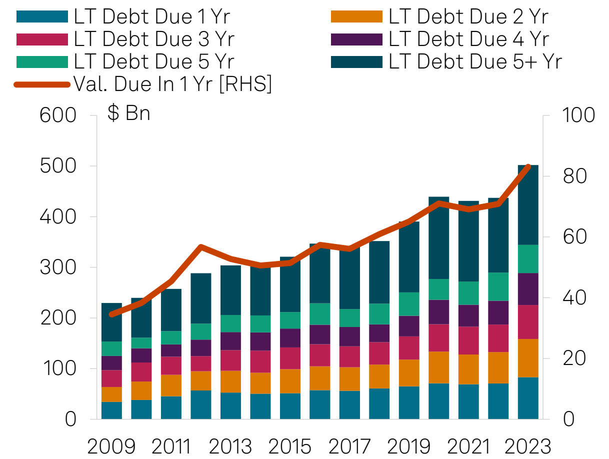


Chart 15

Cash and equivalents / Total assets

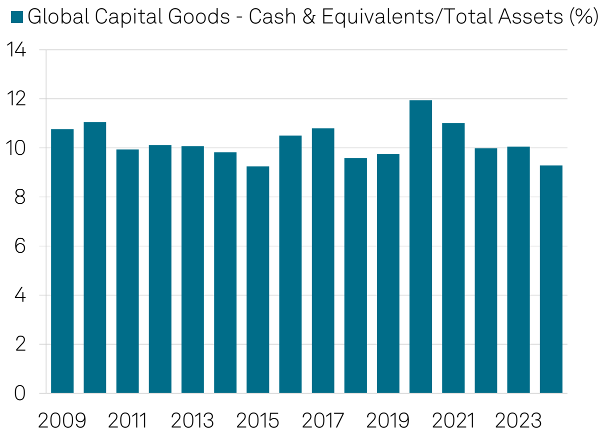
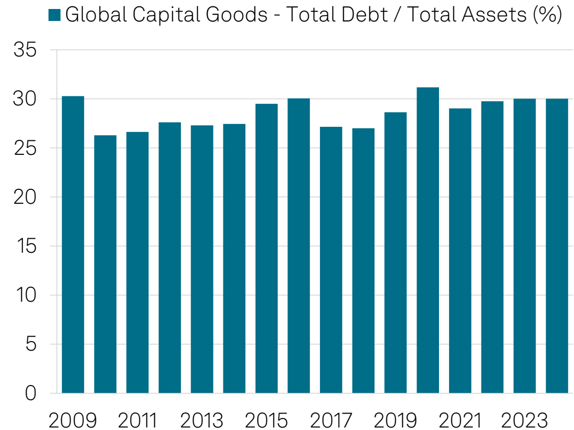


Chart 16

Total debt / Total assets



Source: S&P Capital IQ, S&P Global Ratings calculations. Most recent (2024) figures use the last 12 months' data.

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