



SMARTER PERSPECTIVE: CHEMICALS

The U.S. Chemicals Market Enters a Period of Reckoning: Preparing for a Capacity Rationalization Cycle

By Kevin Duffy

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Over the past decade, U.S. chemical producers have enjoyed a unique structural advantage: abundant, low-cost shale feedstocks that fueled extensive investment along the Gulf Coast. Ethylene crackers, polyethylene facilities, and downstream derivatives expanded rapidly, positioning U.S. producers as global leaders in petrochemicals. High margins, strong export markets, and relatively stable domestic demand created a climate that encouraged aggressive expansion and large-scale capital projects. As a result, companies invested billions of dollars in new facilities, confident that domestic and international growth would continue to absorb additional capacity.

Today, that confidence is truly being tested. Slowing demand growth, persistent global overcapacity, and intensifying international competition are compressing margins and challenging the traditional economics of U.S. production. The general consensus among industry analysts is that the sector may likely be entering a capacity rationalization cycle, a phase in which oversupply can force plant closures, asset divestitures, and operational consolidation. While these cycles are not uncommon across capital-intensive industries, the potential magnitude of such adjustment in the U.S. could reshape the operational and financial landscape of petrochemical production for years to come.

Slower Growth, Rising Pressure

Recent data helps to paint a clear picture of a U.S. chemical sector now operating under more constrained conditions. Output growth for 2025 is estimated at 0.7%, with 2026 growth projected at only 0.3 percent, according to the American Chemistry Council. It is important to note here that while overall production is not in decline, the trend is most certainly uneven. Segments tied to construction, automotive, and durable goods – including many commodity chemicals and plastic resins – face the greatest pressure. This further reflects weaker end-market demand and the softening of global exports.

Trade dynamics are adding to the overall complexity as well. The United States remains a major exporter of chemicals, but shipments are increasingly challenged by rising production in Asia and the Middle East, as well as currency fluctuations and evolving trade policies. In this environment, previously robust margins are under notable pressure, and companies are responding with tighter cost controls, operational efficiency measures, and a cautious approach to new capital expenditures.

Employment trends mirror these broader market realities. U.S. chemical sector employment is expected to decline modestly over the next two years, reflecting both automation and strategic workforce reductions. The net effect is an

industry entering a period of measured caution, where growth is constrained, and operational discipline becomes essential.

The Global Overcapacity Challenge

While U.S. producers have benefited from historically low feedstock costs, the global chemical industry is grappling with an oversupply problem. Over the past decade, aggressive capacity additions in Asia and the Middle East – particularly in ethylene, polyethylene, and polypropylene production – have outpaced global demand growth. China's petrochemical expansion alone has increased its share of global capacity significantly, creating headwinds for U.S. exports and compressing margins worldwide.

This imbalance is particularly acute in commodity chemicals. While specialty chemicals and high-value intermediates remain relatively insulated, bulk petrochemicals now face intense price competition, forcing producers to further optimize their operations and reduce excess capacity. In such an environment, industry rationalization is likely to become inevitable.

A capacity rationalization cycle is a period during which oversupply pressures companies to reduce production and reallocate resources efficiently. Historically, these cycles involve plant shutdowns or mothballing, divestitures of non-core assets, and consolidation of overlapping



operations. While difficult in the short term, rationalization is a necessary mechanism to restore supply-demand equilibrium, rebalance pricing, and stabilize margins.

Early Signals in the U.S. Market

Signs of a capacity rationalization cycle in the chemicals industry are already emerging here in the U.S. Several Gulf Coast producers, for example, are evaluating underperforming assets, scaling back capital-intensive projects, and considering divestitures of non-core operations. Additionally, we have seen operating rates at some commodity chemical facilities have begun to decline, highlighting that even U.S. shale economics cannot fully insulate producers from the effects of global oversupply.

Energy price volatility adds another layer of complexity. While natural gas liquids such as ethane remain a competitive advantage for many U.S. plants, swings in energy costs, such as those now resulting from the current conflict in Iran as well as those occurring based on a range of other factors, can rapidly affect production economics. Export markets, too, are unpredictable; weakening demand in key regions such as Europe and Asia reduces the flexibility that U.S. producers have

historically relied on to maintain stable operating margins.

The convergence of these factors suggests that those across the U.S. Chemicals industry should be prepared for a rationalization phase sooner rather than later. Accordingly, those companies that fail to act proactively may find themselves operating under tighter margins or holding assets that are difficult to monetize in a down cycle.

Implications for Assets and Operations

If a full rationalization cycle were to occur, it would affect multiple dimensions of the U.S. chemical landscape. When operating rates at commodity chemical plants fall, this reduces profitability because, logically, plants are designed to achieve optimal economics at high utilization levels. Older facilities, particularly those with higher operating costs or less flexible feedstock options, may be idled or permanently closed. This could lead to a wave of asset divestitures, where non-core plants or smaller production lines need to be sold off, often to strategic buyers or private investors.

The potential workforce implications are equally significant. Necessary automation and further process efficiency

improvements are likely to reduce labor requirements, particularly for routine operations. At the same time, companies may redirect human capital toward higher-value areas such as process optimization, compliance, and advanced materials development.

It is also worth noting here that the industry has historically seen mergers and acquisitions rise during periods of margin compression, as companies seek to achieve scale, reduce costs, and rationalize overlapping capacity. In the aftermath, the resulting landscape is often smaller, more efficient, and more geographically concentrated.

Strategic Considerations for Lenders

For asset-based lenders, cycles such as these present both risk and opportunity. Chemical companies frequently rely on ABL structures secured by inventory, receivables, and equipment. When margins compress and operating rates fall, the value of these assets can shift quickly. This underscores the importance of rigorous valuation and monitoring practices.

During periods of rationalization, we advise a schedule of more frequent,

comprehensive asset appraisals. Additionally, appraisals should go beyond standard liquidation values to consider operational context, redeployment potential for specialized equipment, and environmental or logistical considerations that may affect resale or redeployment.

Monitoring inventory is also critical during this time period. Chemical inventories are exposed to commodity price fluctuations, stability limitations, and storage constraints— all of which influence collateral liquidity. Field examinations and independent audits will help ensure that reported values are accurate and that assets remain marketable under changing conditions.

Lenders should also assess borrowers' exposure to feedstock and energy volatility. Shale-based feedstocks remain a competitive advantage, but any shift in natural gas prices, export volumes, or geopolitical circumstances can affect plant-level economics. Understanding these variables, as well as a borrower's hedging strategies and supplier contracts, is essential for evaluating resilience.

Lastly, lenders can add value by encouraging borrowers to conduct their own proactive portfolio reviews, rationalize operations, and invest selectively in higher-margin products. Regular engagement with management teams allows lenders to anticipate emerging risks, respond quickly, and provide tailored guidance during a challenging cycle.

Conclusions

The U.S. chemicals industry is approaching a period of significant adjustment. After years of growth powered by shale feedstocks and strong global demand, producers are increasingly more likely to respond to current slowed growth,



global oversupply and rising competition with plant closures, divestitures, operational consolidation and workforce adjustments. While challenging, this period also offers opportunities for strategic repositioning and portfolio optimization.

For companies, navigating this cycle will require disciplined operational management, proactive strategic planning, and careful attention to market signals. For lenders, a deep understanding of asset values, operational economics, and industry dynamics will be critical to managing risk and supporting borrowers. Those who combine rigorous monitoring with proactive guidance will not only protect downside exposure but can also help their borrowers emerge stronger, more competitive, and better positioned to capture market opportunities when the cycle stabilizes. Our team has performed diligence and valuations on behalf of a number of chemicals business over the past year, providing us with unique and highly up-to-date insights into this complex market. We welcome the opportunity to share our perspective and assist you in leveraging the power of our proprietary industry data to benefit your business or a business in your portfolio. We are here to help.



KEVIN DUFFY
SENIOR DIRECTOR
VALUATION & APPRAISAL
PROFESSIONAL SERVICES

Kevin specializes in the chemicals industries and has valued numerous chemical-related companies in North America that are involved in distributing, compounding, and manufacturing chemicals, resins, films, sheets, and molds. Kevin received his B.A. in finance from Illinois State University and passed the CPA Exam in Illinois. He has diverse business experience in accounting, manufacturing, distribution, and retail. For further information, please contact Kevin at 847.849.2989 or kduffy@hilcoglobal.com