CHEMISTRY INDUSTRY ASSOCIATION OF CANADA

2025 Economic Outlook for Industrial Chemicals and 2024 Year in Review

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2024 YEAR IN REVIEW FOR CANADIAN INDUSTRIAL CHEMICALS

2024 has been a year of tepid growth for Canada's Industrial Chemical sector as economic crosscurrents impacted downstream demand. Overall, we expect to see shipments increase by 1.5 percent above 2023 levels to around $27.9 billion from aggregated monthly figures or $32.4 billion estimated for final 2024 figures. This would be the 2nd or 3rd highest value of shipments after 2021 and 2022. Exports have far outpaced shipment growth this year and are expected to increase by more than 4 percent, ending the year at a record of over $25.5 billion.

For headwinds in 2024 we saw a near cyclical trough in many downstream sectors for chemistry products. Elevated interest rates around the world are restricting credit sensitive sectors in the economy while the property downturn in China continues to hamper the world's second largest economy. Housing construction starts across the world are down significantly from recent peak levels of the last few years and commercial real estate remains in a deep trough following the changes brought about by covid. Real estate construction continues apace on the large backlog of units under construction, especially in Canada. Global automotive sales continue to lag pre-COVID levels and there has been a noticeable deterioration in auto demand in the second half of 2024. Business investment has followed both the credit cycle and a slowdown in physical goods sales after the surges seen during the pandemic and remains soft outside of computer and electrical equipment.

For tailwinds, the Canadian Advantage continues to strengthen for industrial chemistry production. Energy and feedstock costs are structurally lower in Canada compared to many jurisdictions. This is especially true in Western Canada which hosts one of the most competitive cost structures in the world. Our deep integration within the North American economy means we benefit from the economic strength from the U.S. economy. Similarly, Canada's trade relationships with many of the world's economies ensures our goods can access markets around the world. As interest rates continue to fall in 2025 Canadian chemistry products are well positioned to capitalize on demand as it picks up pace.

Capital expenditures for 2024 are expected to increase from 2023 levels as construction has begun on several expansion projects in Alberta and Ontario.

2024 Economic Year in Review Summary

- Shipments of Industrial Chemicals increased by 1.5 percent in 2024 from 2023 levels and end the year at $27.8 billion from aggregated monthly figures or $32.4 billion estimated for final 2024 figures
- Exports are expected to increase by 4% in 2024 on higher volumes and pricing, ending the year at a record of $25.5 billion.
- Canadian Industrial Chemicals have benefited from lower input costs, a weak CAD/USD exchange rate and our integration in the strong U.S. economy.
- Prices for many industrial chemicals and resins rose through the middle of the year but remain near cyclical trough levels on a USD basis.
- Energy and feedstock costs in Canada remain low on a global basis. Natural gas and related NGL prices are near record lows in inflation adjusted terms in Canada.
- The level of capital investment seen in 2024 increased from 2023 as major capital investment projects began construction.
- Total employment is projected to grow by 1% along long-term trends.

2025 OUTLOOK FOR CANADIAN INDUSTRIAL CHEMICALS

- Canada's Industrial Chemical sector is set to see shipment growth of 1-4% in 2025 led by strong operating performance as cost effective feedstocks and a lower exchange rate provide tailwinds for exports.
- Statistics Canada reports 72% of business are optimistic about the next twelve months.[1]
- Exports are expected to increase by 2-4% in 2025.
- Product pricing levels, in USD terms, have been at a cyclical low for much of 2023-2024. Prices could rise in the 2nd half of 2025 as downstream destocking activities end and lower interest rates lead to stronger economic activity.
- Canada should see the volume of Industrial Chemical shipments increase in 2025 as the sector begins a cyclical recovery.
- Canada's Industrial Chemical sector will receive a tailwind from the Canadian Advantage in energy and feedstock pricing. Uncertainty is forming in Quebec around the future of electricity prices.
- 2024 saw a series of labor disruptions at our ports and railways. With many labour contracts concluded or in binding arbitration 2025 could see less labor disruptions overall.
- The level of capital investment is expected to increase as major expansion and emissions reduction projects in Alberta, Ontario and Quebec advance construction.
- Total employment by industry is projected to grow by 1-2% along long-term trends as new investments come online.

[1] Statistics Canada, "Canadian Survey on Business Conditions, fourth quarter 2024," November 25, 2024.

ECONOMIC FOCUS FOR INDUSTRIAL CHEMICALS IN 2025

DOWNSTREAM DEMAND AND THE IMPACTS OF RESTRICTIVE FINANCIAL CONDITIONS

Canada's Industrial Chemical sector enters 2025 in a relatively good position. Canada's industrial chemical sector benefits from very competitive feedstock and energy prices, deep integration into the high performing U.S. economy and an increasingly global reach for its products. However, the continuation of high interest rates, sluggish economic growth in Europe and China and political uncertainty across trade and investment attraction programs is clouding the year ahead outlook. Due to the use of Industrial Chemicals in physical goods, a delayed recovery in interest rate sensitive sectors like new housing construction, industrial investment, and auto sales combined with a slower pace of activity in natural resource extraction could keep a ceiling on sector growth in 2025. As questions over supply and demand linger public earnings reports from Industrial Chemical companies have recently contextualized the situation noting that downstream manufacturers are very focused on these economic cross-currents and are actively reducing inventory levels into early 2025.[2] Companies expect these destocking trends to ease as we move into the spring and summer 2025, where many economists expect a pickup in economic activity as interest rates decline.[3]

For **2025 CIAC estimates 1-4% growth in Industrial Chemical shipments** with stable to higher output and moderately higher prices. Exports should also see gains closely tracking shipment levels. CIAC also expects an increase in railway throughput in 2023 of around 2-5% as volumes increase.

Investment Tax Credits

In 2021 the federal government announced the development of investment tax credits for Carbon Capture Utilization and storage, clean hydrogen, clean manufacturing and clean electricity production to help lower emissions in Canada's economy. 2024 saw the culmination of three years of consultations as these tax credits became law. Investors took notice and combined with Canada's competitive energy and feedstock resources, our existing chemistry production clusters and access to global markets there has been a significant growth in investment intentions in Canada. Since 2021 CIAC has been tracking twenty-six global scale announcements by chemical companies to invest in Canada. If built these projects will lead to significant emissions intensity performance improvements with a strong role CCUS, clean hydrogen and our low emissions electricity grid. In the last twelve months we have seen positive investment decisions announced by Dow Chemical Canada & Linde, Shell Chemicals Canada, and Jungbunzlauer. These projects are worth tens of billion in investment in Canada's industrial chemistry sector. Companies are also looking at large scale battery storage and renewable energy generation for their electrical needs. Others will put Canada on the global map in battery material production. While it has been an exciting twelve months Canada cannot rest on its laurels, competition for investment is fierce and it is critical that all levels of government work together to secure them.

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[2] Summary of Q3 2024 Earnings Reports from – Huntsman, Eastman, Lyondell-Basel, Dow, Shell, ExxonMobil, Olin Corporation, Chemtrade Income Holdings, Chemours Company, DuPont Demours Inc, PPG, and Sherwin-Williams.
[3] Ibid.

Political Uncertainty

2024 and 2025 are set to be very consequential years in the political sphere in Canada and the United States with far reaching consequences for investment. In late 2024 Donald Trump was elected as the 47th President of the U.S. and the Republican Party won a majority in both Houses of Congress. The 2024 election campaign featured discussions about the future of the Inflation Reduction Act, which contains tax credits for CCUS, Clean Hydrogen, and clean technologies including electric vehicles. In 2025, Canada must host a federal election on or before October 20 and polls are showing that Canada may see its first change in government in nine years. Canada's largest province Ontario may also see a provincial election. Climate change and investment attraction policy such as the future of the newly created ITCs, regulatory programs for emissions reductions and the future of carbon pricing are expected to feature prominently in the federal campaign.

TRANSPORTATION NETWORK FLUIDITY AND ACCESS TO INTERNATIONAL MARKETS

Since the Canadian industrial chemistry industry is highly export-oriented, it is a strong supporter of free trade, particularly with the United States. Trade flows of Industrial Chemicals have exceeded pre-COVID levels on a value basis and are near pre-COVID volumetrically. We expect volumes to grow in 2025 as the global economy expands. The physical market for many chemical products are amply supplied as we exit 2024 but increased trade friction, from labour disruptions and more frequent tariff increases, have begun stretching supply chains once again.

2024 saw repeated major disruptions to Canada's trade and transportation infrastructure. The economy braced itself for the shutdown of both Class 1 railways beginning in May. These tensions came to a head when both railways locked out Teamsters Canada Railway Conference employees on August 24th, bringing rail traffic in Canada to a standstill for 48hrs until Steven MacKinnon, Minister of Labour and Seniors, extended the current labour agreement and ordered the parties into binding arbitration to end the lockouts. Compounding these railway difficulties were the strikes and then lockouts at the Port of Montreal which began in September and culminated in mid-November. Finally, on the west coast dock forepersons at several terminals were locked out for nine days in November disrupting containers, breakbulk and auto shipments across the west coast. As we exit 2024 CIAC is paying close attention to three more labour negotiations between CN and CKPC that could again disrupt railway traffic.

Canada was not the only jurisdiction to see labour impacts interrupt trade and transportation networks. In early October a three-day strike by 45,000 dockworkers at ports on the East and Gulf Coasts of the United States impacted the trade of chemistry and resin products to global markets.[4] These negotiations have yet to be resolved and there is a chance that another labour disruption could hit ports in mid-January 2025.[5]

Trade tensions continue to rise around the world as trade blocs respond to competitive pressures and

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[4] Jack Kaskey, "Dockworkers end US port strike," Argus Media, October 3, 2024.

[5] Lori Ann LaRocco, " A double whammy of tariffs and strikes is coming for U.S. trade and the global supply chain in early 2025," CNBC, November 19, 2024.

undertake deeper emissions reduction strategies. 2024 has seen tariff increases for industrial chemicals issued from major economies like China, India, Brazil and South Korea. The re-election of Donald Trump brings with it fresh threats of widespread tariffs applied to imports into the United States. Recently, President Trump has threatened 25 percent tariffs on all goods imported from Canada and Mexico and an additional 10 percent tariff applied to Chinese imports.[6] Canada, the U.S. and Mexico are set to review the tripartite free trade agreement from 2018, by the end of 2026. In 2026 the EU is set to expand the scope of its Carbon Border Adjustment Mechanism (CBAM) to include a wide array of industrial chemical products.

For More Information:

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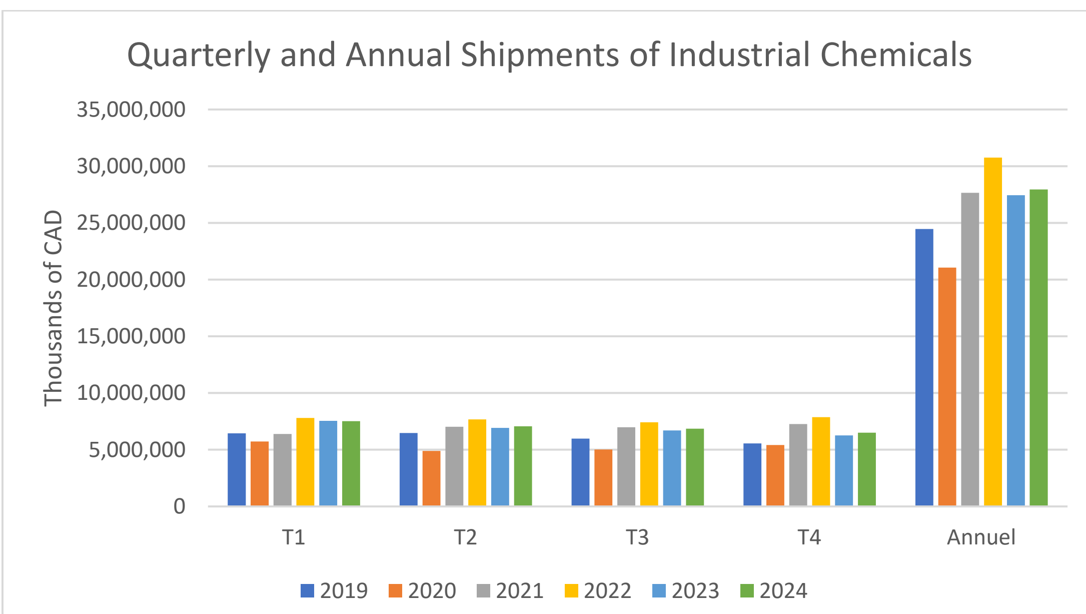
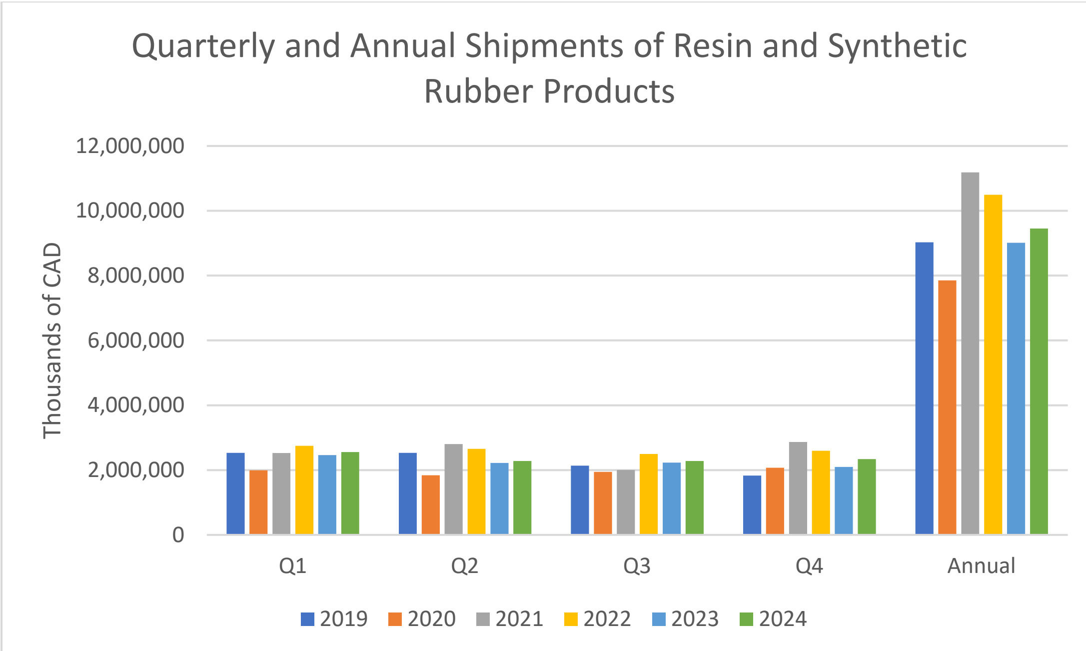
[6] Steven Chase & Adrian Morrow, "Trump vows to impose 25 per-cent tariffs on all products from Canada, Mexico," The Globe and Mail, November 25, 2024.

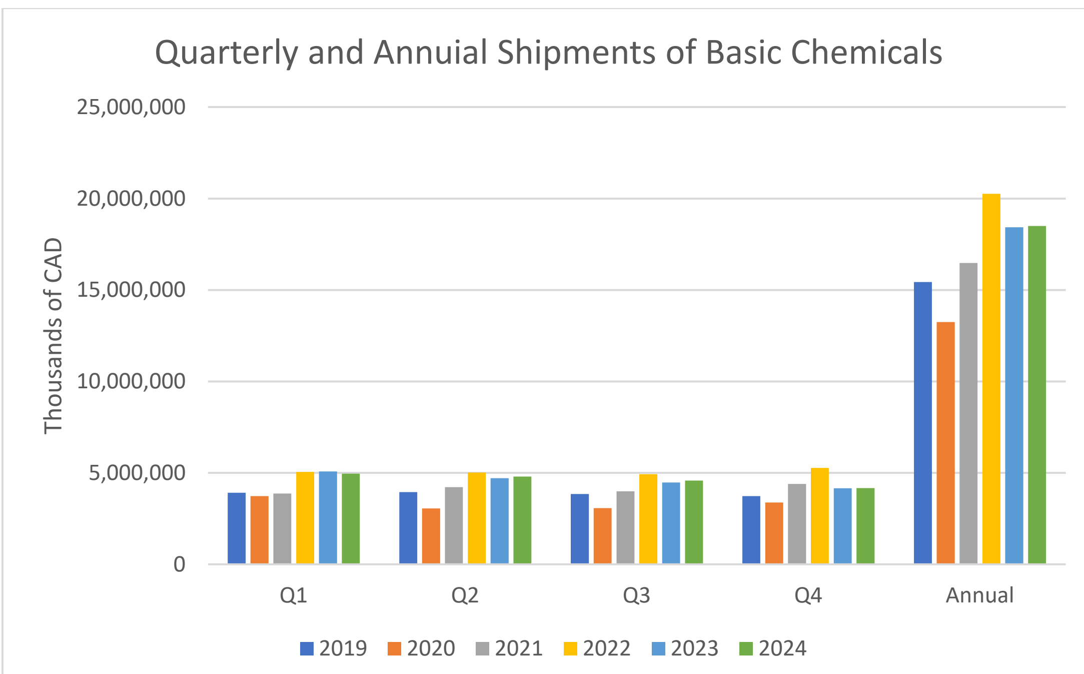
PRELIMINARY YEAR END STATISTICS FOR 2024

Chemical Sector Manufacturing	Year End Monthly Shipments in Billions of CAD	% Change from 2023 to 2024
Industrial Chemicals	$27.9	1.9%
Resin and Synthetic Rubber	$9.45	4.9%
Basic Chemicals	$18.5	Flat
Petrochemicals	$7.1	1.3%
Industrial Gases	$1.2	-7.2%
Inorganic Chemicals	$3.6	3.4%
Organic Chemicals	$6.5	Flat

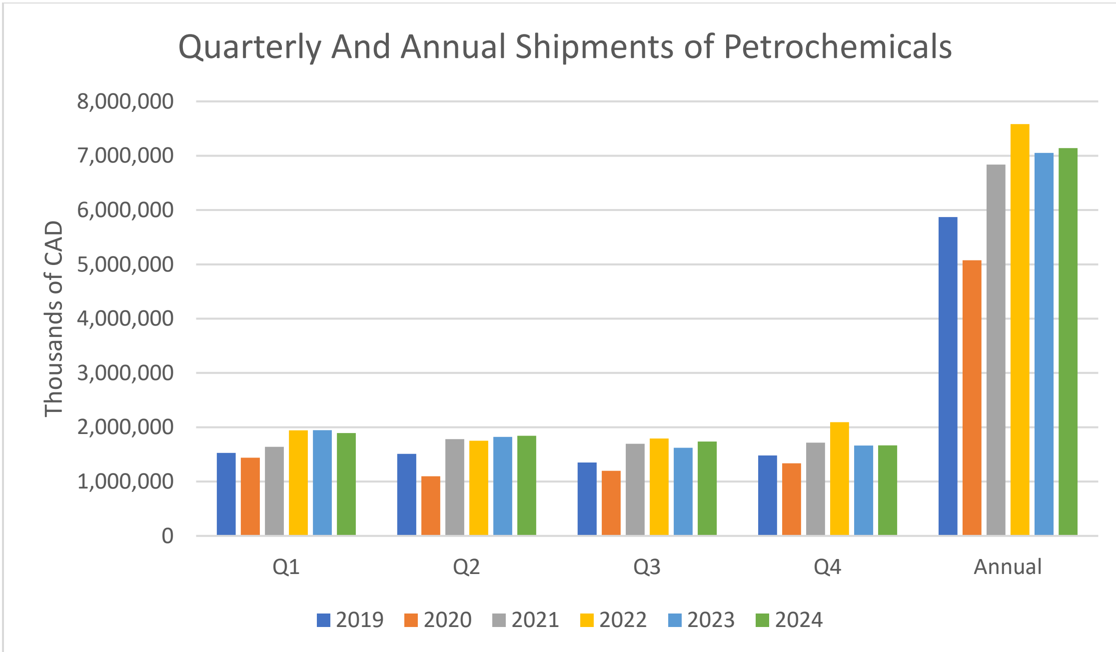


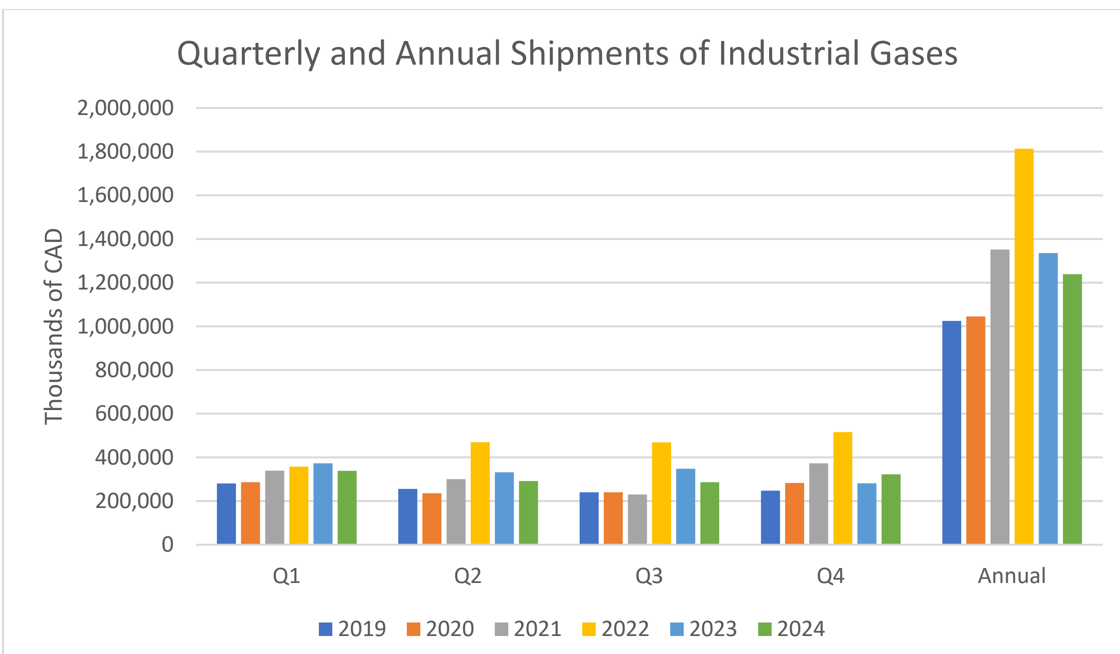


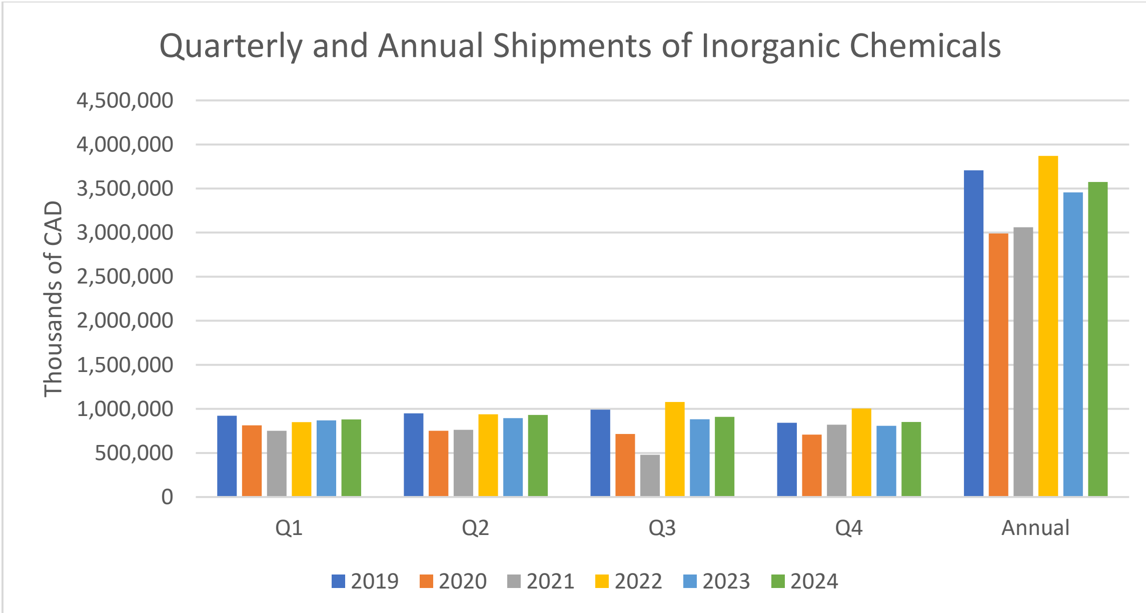
Quarterly and Annual Shipments of Resin and Synthetic Rubber Products
Thousands of CAD
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
Q1
Q2
Q3
Q4
Annual
2019
2020
2021
2022
2023
2024

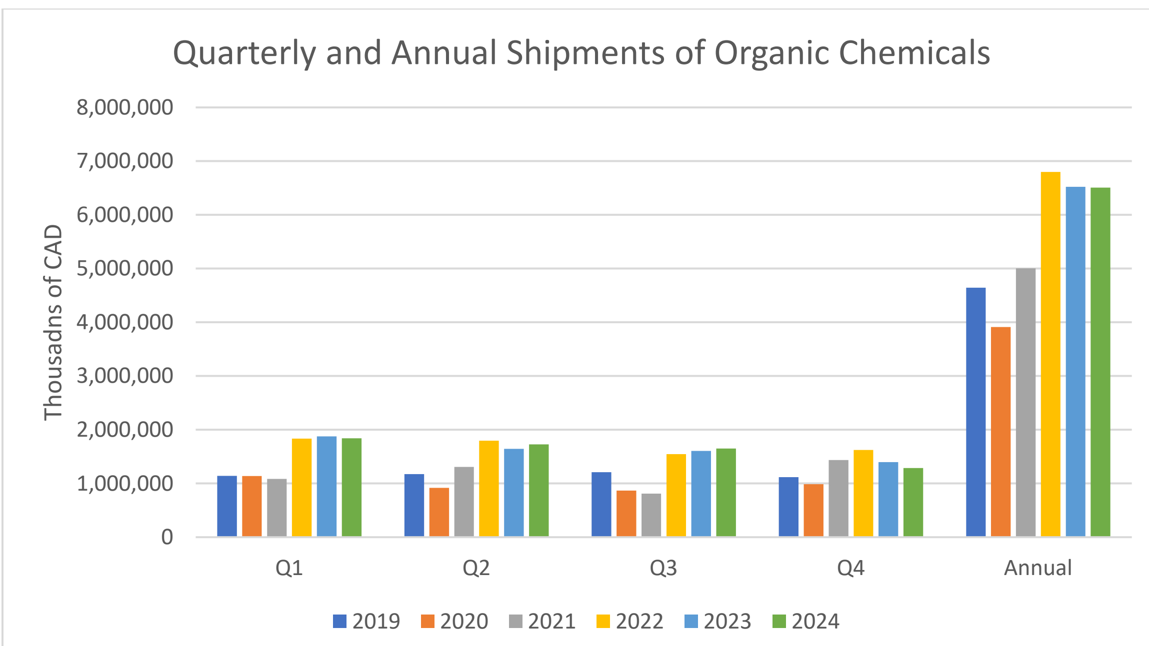


Quarterly and Annuial Shipments of Basic Chemicals
Thousands of CAD
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
Q1
Q2
Q3
Q4
Annual
2019
2020
2021
2022
2023
2024


Quarterly And Annual Shipments of Petrochemicals
Thousands of CAD
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
Q1
Q2
Q3
Q4
Annual
2019
2020
2021
2022
2023
2024


Quarterly and Annual Shipments of Industrial Gases
Thousands of CAD
2,000,000
1,800,000
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
Q1
Q2
Q3
Q4
Annual
2019
2020
2021
2022
2023
2024


Quarterly and Annual Shipments of Inorganic Chemicals
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
Thousands of CAD
Q1
Q2
Q3
Q4
Annual
2019 2020 2021 2022 2023 2024


Quarterly and Annual Shipments of Organic Chemicals
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
Thousadns of CAD
Q1
Q2
Q3
Q4
Annual
2019 2020 2021 2022 2023 2024

GLOBAL MACROECONOMIC CONDITIONS INTO 2025

Canada

In its October 2024 Monetary Policy Report, the Bank of Canada projected that full-year GDP growth in Canada will be 2% in 2024. The BoC forecasts the Canadian economy growing by 2.0-2.5% in 2025 and 2026, with activity picking up in the 2nd half of 2025.[7] The Bank also offered a few key messages on the economy as we enter 2025:[8]

- GDP growth will strengthen gradually in 2025 largely due to stronger consumer spending and business investment, which are supported by declines in interest rates. Increased energy exports and robust foreign demand underpin growth in exports.
- Future potential output growth are more uncertain due to the opposing trajectories of slower population growth and an improving underlying economy.
- Business investment is expected to strengthen over the projection, underpinned by lower interest rates and higher demand. In addition, increased pipeline capacity, along with liquified natural gas (LNG) export capacity, will support investment in the energy sector.
- After declining since 2020, the amount of capital per worker is anticipated to pick up as investment strengthens and growth in the labour force eases. This should contribute to an improvement in labour productivity.

The United States

In September 2024 the Federal Reserve Board projected U.S. GDP growth will be 2.0 percent in 2024 and may pickup to 2.3% through 2025 The U.S. economy is dealing with several economic crosscurrents as we move into 2025. High interest rates continue to act as a headwind to certain areas of the economy, new housing construction and existing home sales, auto purchases and business capital investment.[9] But strong consumer balance sheets have provided a cushion for households which have continued to grow their spending.[10] The U.S. remains the best performing advanced economy in the world as we enter 2025 and the slow decrease of interest rates should act as a further growth tailwind in 2025.

Global

The Euro Area is predicted to grow by less than 1% 2024, with future growth projected at a tepid 1.2% in 2025 and 1.6% in 2026.[11] Europe has faced significant energy shocks from the war in Ukraine, while dealing with the impacts of restrictive monetary policy on its domestic economy and has seen global

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[7] Average range of estimates from RBC, TD, BMO 1 and BMO 2 and Scotiabank.

[8] Bank of Canada, "October 2024 Monetary Policy Report," October 23, 2024.

[9] Federal Reserve System, "The Beige Book: Summary of Current Economic Conditions by Federal Reserve District," October 2024.

[10] Ibid.

[11] Ibid.

demand for its manufacturing and processing equipment exports ease since 2022. The Euro area will remain a low growth area for the foreseeable future.

Economic activity in China slowed sharply around the middle of 2024 due to weak domestic demand. This weakness largely reflects the ongoing impacts of the downturn in the property market. Consumer and business confidence have been negatively affected by falling house prices.[12] These developments are having economic impacts that extend beyond China's borders.[13] The weakness in domestic demand has weighed on China's oil consumption and global oil prices. In contrast, rising production capacity and falling prices for China's manufactured goods have supported strong export growth.[14] This export growth is also fueling trade tensions.

The major Canadian banks are forecasting that the Canadian-to-U.S. dollar exchange rate will be in the range of $0.70-0.73 for 2025.[15] Banks are projecting the average price for WTI crude oil will average $70-75 USD/barrel in 2025. Henry Hub natural gas is expected average US $3.10 per million BTU in 2025.

[12] Ibid.
[13] Ibid.
[14] Ibid.
[15] Average range of estimates from RBC, TD, BMO 1 and BMO 2 and Scotiabank.