



Irish GDP expands by 12% in 2025

The news Irish GDP contracted by 3.8% in Q4 2025, is explained by the surge in exports that occurred in September, around the time President Trump threatened a 100% tariff on pharmaceuticals, unwinding. However, manufacturing output has been more stable - indicating a structural upward shift in the level of GDP associated with new pharmaceutical production facilities and weight-loss drugs. So following yesterday's data we will leave our forecast for 2.8% GDP growth in 2026, following the 12.3% rise in 2025, broadly unchanged.

Stepping back from the volatility created by the multinational sector, Irish modified domestic demand grew by 4.9% in 2025, supported by robust gains in consumer spending (2.9%), government expenditure (4.1%) and investment (11%). Here, a welcome rebound in construction sector output was a key contributor, housing completions and non-residential activity bouncing back as build cost inflation has become less of a headwind. The rebound in construction sector activity in 2025 was far better than the dour picture painted by Ireland's Construction PMI survey which was below the key 50 no-change level in all but two months of last year.

Front-running of US tariffs unwinds in Q4, leading to quarterly decline in Irish GDP: At face value the 3.8% quarter-on-quarter contraction in Irish GDP in Q4 2025 (revised from -0.6% in the preliminary release) might seem concerning. However, the fall was entirely explained by a 3.4% decline in exports and 2.6% contraction in multinational output. At play is the front-running of US tariffs in September, around the time President Trump was threatening a 100% tariff on pharmaceuticals. This led to a fresh 6% surge in goods exports in Q3, before an 11.5% contraction in Q4 2025. Hence, multinational sector output fell by 2.6% in Q4 2025, but indigenous sector output rose by 1.6%.

We will leave our Bank of Ireland forecast for 2.8% GDP growth in 2026 broadly unchanged in light of yesterday's data: Uncertainty on the extent to which front-running of US tariffs, or alternatively new pharmaceutical production facilities producing weight loss drugs, explained the 12% expansion of Irish GDP in 2025 have led to a large range of forecasts for 2026; Central Bank of Ireland (3.2%), ESRI (-5.7%). On balance, we still believe the Q4 GDP out-turn points to positive growth in 2026.

Notably, manufacturing output fell 3.4% in Q4 2025, but was still up 8.3% on the year. Put simply, tariffs appear to have affected the timing of Irish exports, but underlying output has been more stable. Also, demand for and production of weight-loss drugs will surely grow.

Domestic economy saw robust growth in 2025: Yesterday's data show modified domestic demand grew by 4.9% in 2025, supported by robust gains in consumer spending (2.9%), government expenditure (4.1%) and also modified investment (11%). Multinational sector output expanded by 25% in 2025, supported by sharp gains in manufacturing (31%) but also the information and communications technology (ICT) sector (11.5%). The fastest growing of the indigenous sectors was construction (9.7%), with more sedate gains across agriculture (2.4%), distribution, transport, hospitality (2.1%), financial services (3.1%) and real estate activities (4.9%).

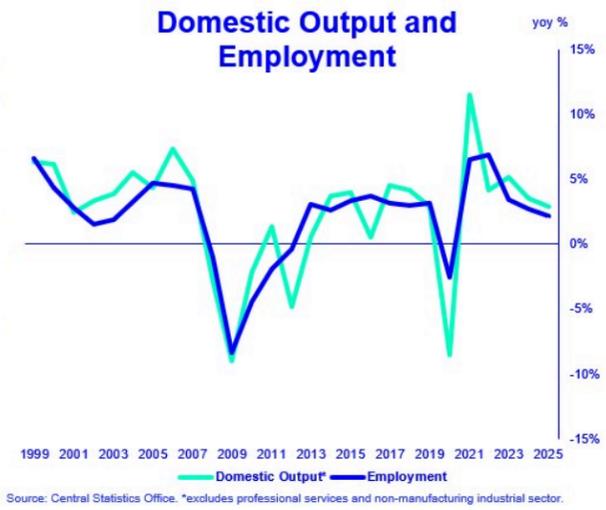
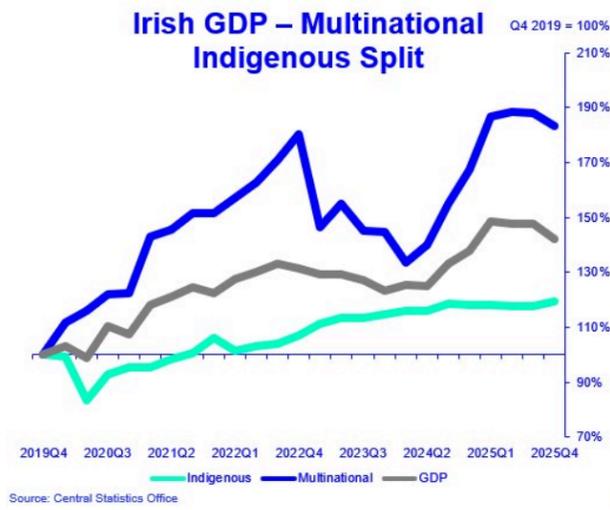
The CSO data indicates that indigenous sector output expanded by just 0.9% in 2025, but was depressed by a 4% contraction in professional services. We have established with the CSO this fall reflected volatile items, related to royalty or license fees. **Our preferred measure of domestic output, which strips out some volatile sectors, expanded by 2.9% in 2025** (see chart below) consistent with the 2.2% rise in employment.

Construction rebound especially welcome: Yesterday's data show dwellings investment (19%) and repair & maintenance (10.4%) saw sharp gains in 2025. Also, non-residential construction expanded by 2.8% in 2025, after five consecutive years of contraction. This isn't surprising. Construction employment rose by 9% through 2025 to a fresh high of 192,000 - clearly pointing to activity picking-up. We also already knew housing completions rose to 36,000 last year, up from 30,000 in 2024.

The out-turn suggests that build cost inflation, which had hurt viability and delayed delivery of many National Development Plan (NDP) projects is now less of a headwind for the construction sector. Homebuilding has beaten our predictions from many commentators that it would be flat in 2025. Ireland's Construction PMI survey has also painted a very misleading picture - below the key 50 no-change level in all but two months of 2025 - and pointing to stagnant or falling activity last year.

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