



Record Irish GDP contraction masks robust domestic economy

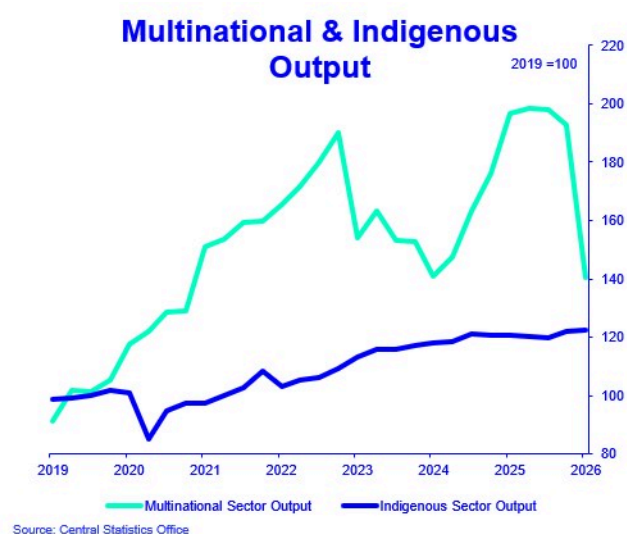
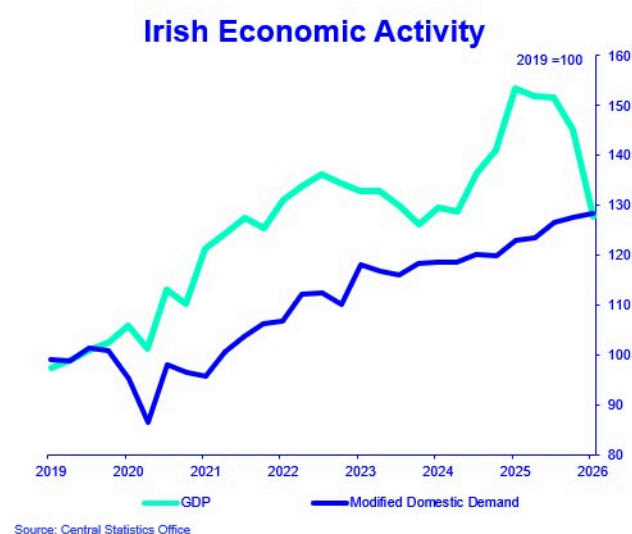
The CSO confirmed today that the record 12% fall in Irish GDP in Q1 2026 reflected just a small number of multinational firms in the pharmaceutical sector. The underlying story is that the surge in exports in 2025, ahead of feared US tariffs, is now unwinding in early 2026. Hence, the Irish GDP growth rate once again does not provide a meaningful guide to how the economy is performing in reality. With new pharmaceutical production facilities coming online and demand for weight-loss drugs only growing, the outlook for the sector is clearly positive. However, headline Irish GDP growth will likely be negative in 2026, albeit after the 12% rise in 2025.

Peering through the statistical fog, the domestic economy continued to perform well early in 2026. Consumer spending saw a healthy 0.6% rise, up 2.6% year-on-year. Public expenditure continued to contribute to demand, up 3.7% year-on-year. Homebuilding and the expansion of the construction sector helped to drive a 9.4% rise in investment. Overall, modified domestic demand saw a robust 0.6% rise in Q1 2026, up 4.3% on the year. This is still a faster pace than the 2.7% growth we had forecast for calendar year 2026. So the underlying message from the GDP data is that the domestic economy had a little more momentum than expected in Q1 2026.

Irish GDP contracts by 12% in Q1 2026: This morning's CSO data show that Irish GDP fell by 12.1% in Q1 2026, quarter-on-quarter, and is also down 17% year-on-year. This is the sharpest quarterly decline in Irish GDP on record. The underlying story here is that the surge in exports of pharmaceuticals that pushed GDP growth up to 12.3% in 2025 is now unwinding in early 2026. Front-running of US tariffs clearly boosted activity last year but is now depressing the figures this year. Hence, manufacturing output fell by 36% in Q1 2026, down 39.5% on the year. The CSO confirms this reflects just a small number of firms (most likely weight-loss drug producers). Most other sectors continued to expand (**see chart below**). So today's release highlights the difficulty of using Irish GDP as a gauge of economic activity.

Modified domestic demand up 4% on the year: Domestic spending and activity continued to grow at a robust pace in early 2026, highlighting the distorted view from the GDP figures. Consumer spending rose by a healthy 0.6% in Q1 2026, up 2.6% year-on-year. Similarly, government spending rose by 0.5% quarter-on-quarter, up 3.7% (in real terms), demonstrating that Budget 2026 plans to raise current expenditure rapidly are contributing to domestic activity. Investment was also up 9.4% on the year, helped by homebuilding (34%), repair & maintenance (4.8%), and machinery & equipment (16%). Overall, modified domestic demand rose by a healthy 0.6% in Q1 2026, quarter-on-quarter, and was up 4.3% year-on-year.

Indigenous sector output up 1.4% in the year to Q1 2026: The sectoral decomposition illustrates that the fall in GDP reflects a small number of pharmaceutical firms. Multinational sector output was down 28.5% year-on-year in Q1 2026 but up 1.4% in indigenous sectors. Here, distribution, transport, hotels and restaurants (+3.3%), financial services (4.2%), and real estate activities (3.7%) all contributed to the expansion of the domestic economy. Notably, output in information and communications technology grew by 3.2% in the year to Q1 2026. Some of the readings look a little odd. For example, both construction (-3.4%) and public administration, education and health (-1.3%) gross value added is down on the year, despite sharp increases in housing completions and public spending. So the 1.4% year-on-year growth in indigenous sector output may be understated.



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