

Q2

2026

Ibec Quarterly Economic Outlook

Improving the economic climate

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The first half of 2026 has underlined Ireland's place as a small, open trading economy. Headline growth figures for 2026 will be volatile due primarily to a 'whiplash' effect in export figures driven by the imposition of US tariffs and front loading in response last year. Furthermore, the advent of AI globally is now being seen materially in Irish trade and investment figures, with trade in chips driving both import and export growth, inventories, and private investment. Our heavy reliance on imported energy is a factor in inflation, which we now forecast will average 3.5% for 2026, but is subject to geopolitical events over which Ireland has no control. A continuation or escalation of recent hostilities impacting the Strait of Hormuz will act like a tax on Irish business and households. The story in the domestic economy is more stable. Consumer spending is holding up but inflation will dent its trajectory. The labour market is also showing signs of softening. Investment, on the other hand, remains strong. The continued expansion of public investment will add around 0.5% to the annual growth rate of national income each year until the end of the decade. Ultimately, global volatility is macroeconomic weather, changeable from year to year. However, most of the levers to support a climate of long-term economic development - infrastructure delivery, skills development, regulation, and supporting innovation and digitalisation - remain firmly within our control.

Key indicators

Annual % change	2025	2026	2027
Consumer spending	2.6	2.2	2.4
Domestic investment	11.5	6.8	8.0
Exports	7.5	0.4	4.0
Imports	9.5	2.4	2.0
GDP	8.1	0.9	4.1
Domestic demand	4.8	3.3	3.7
Inflation	2.2	3.5	2.4
Employment	2.2	1.5	1.3

Overview

Economic overview

The Irish economy is experiencing a number of significant and countervailing forces. On one side, the global energy crisis caused by the war in Iran has presented a material risk to both inflation and growth. The collapse of the US-Iran ceasefire less than three weeks after it began being implemented underlines the uncertainty underlying the global economy this year. Reopening the Strait of Hormuz was necessary to avoid the full extent of the global energy price disruption in physical terms translating to pricing in wholesale markets, as stock in transit and reserves ran down. The continued failure to maintain flows of physical product from the Gulf, would materially raise our inflation forecast from 3.5% today, already up from 2.4% at the start of the year. On the other side of the ledger, the Irish economy is coming off several years of significant momentum in terms of expansion. The number of payroll employees in the Irish economy has grown by one-fifth since before Covid, even though there are now signs that expansion is slowing. There are still some significant growth drivers remaining, however. Our estimate is that the continued expansion of capital spending by the State will add around 0.5% to the annual growth rate of national income each year until the end of the decade and account for 20% of the growth of domestic demand. The economy is now moving into a period where State funded investment will increasingly be a material driver of growth.

Trading whiplash

The global trading environment for most of Ireland's major exports has been challenged in the past year by ongoing tariff-related uncertainty, but global growth in trade has continued. The WTO expects that total global goods trade growth will fall to 1.9% in 2026 from 4.6% in 2025. This reversal is driven by frontloading of goods (particularly a small number of pharmaceutical products) pre-tariff in 2025. This 'whiplash' effect can be seen in more extreme terms in Ireland, driven in particular by a small number of very high value pharmaceutical products manufactured here. Total exports from Ireland to the US grew from €22 billion in January to April 2024, to €60 billion in the corresponding period in 2025 and slowed to €17 billion in 2026. Exports to all other countries in the world have remained relatively stable at €51 billion in 2024, €49 billion in 2025, and €51 billion over the same January to April period in 2026. As we have said in previous versions of the Economic Outlook, this volatility means that it will be 2027 and beyond before we can fully understand the impact of tariffs on Ireland's exporting sectors. We expect exports, which grew by 7.5% in 2025, to only rise marginally in 2026 as a consequence of this 'whiplash' effect. This reversal in exports is the main driver of our slower (0.9%) GDP growth forecast for 2026. Despite this effect and the more challenging inflation environment, we expect strong investment and continued consumer growth to support domestic demand growth of 3.3% in 2026, rising to over 3.7% in 2027.

The impact of AI on investment and trade

The other major trend in global trade is the growing importance of AI-enabling goods, such as semiconductors and data processing machines. The World Trade Organisation (WTO) estimates that trade in these products has grown from 12% of global trade in early 2023 to 17% by the end of 2025. Over 40% of the growth in global trade last year was in AI-related products. Using the WTO definition, Ireland is both the 9th largest exporter (€22 billion in 2025) and importer (€24 billion) of AI-enabling products in the EU. Whilst this volume of trade is large relative to the economy itself, this is proportionate to Ireland's role as both a hub for European data storage and the central role Ireland plays in semiconductor manufacturing in the EU. What is more remarkable is the growth of both exports and imports over the past five years. Imports of AI-enabling equipment and materials respectively have risen from €10.7 billion in the 12 months to April 2021 to €29.4 billion in the 12 months to April 2026. Exports have risen concurrently over the same period from €14.3 billion to €26.7 billion. These rising flows of AI-related trade can also be seen in investment figures, with close to €6 billion invested in ICT equipment in the Irish economy in the twelve months to March 2026. It appears most of the products are being imported to Ireland for further onward export to the UK, continental Europe and elsewhere, which can be seen in significant spikes in inventory stocks in Ireland's national accounts.

Figure 1: Modified domestic demand, € million

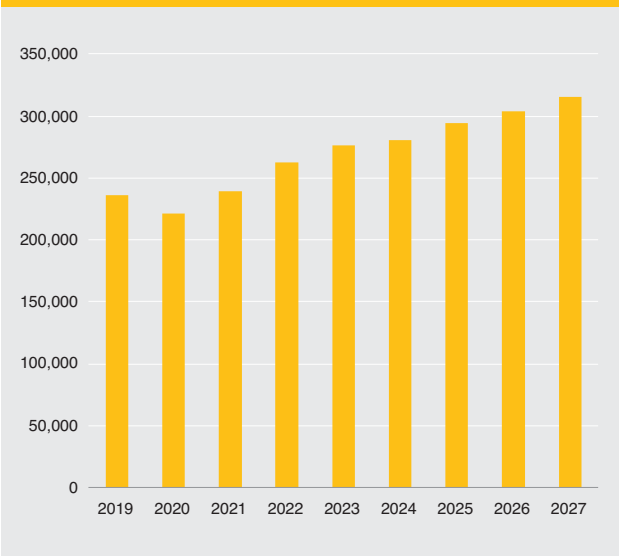


Figure 2: Exports to the US and all other locations

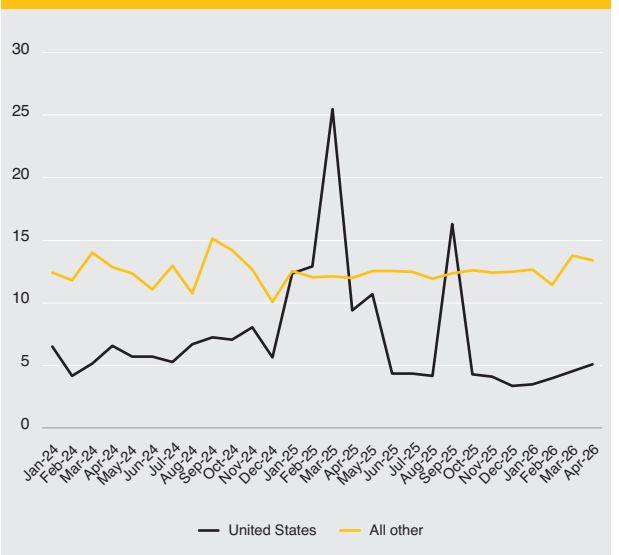
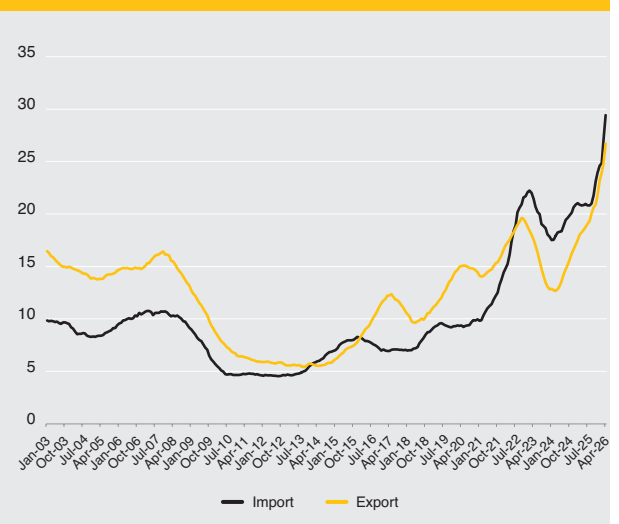


Figure 3: Irish trade in AI-enabling products, 12-month moving sum



Inflation

Inflation scenarios

Our inflation forecast at the beginning of 2026 was for inflation to average 2.4% over the full year. This was driven by some core inflationary pressures being offset by the falling impact of global food commodity prices on inflation. Whilst the impact of rising energy costs is very reliant on volatile geopolitical factors, it is important to have some baseline on which to plan for the future.

Whilst the path of energy costs is still uncertain, we have modelled three scenarios based on different paths for oil prices at a global level and their pass-through impact on Irish inflation-both directly and indirectly. In each scenario, we account for price pass-through given tax content, the impact of other energy costs, demand effects and non-linear second-round price pass-through to core inflation.

These scenarios are highly contingent on the duration and intensity of the war, the level of damage to critical infrastructure, physical supply disruption in energy markets and the reaction of broader supply chains. In our central scenarios, the rate of inflation would rise to somewhere between 3.6% and 4.3% in 2026, with the impact on the rate of inflation fading into 2027. The recent collapse of the US-Iran ceasefire underlines the levels of uncertainty underpinning our forecasts. Given the heavy import content of Irish energy products, an inflationary increase of this nature in our preliminary forecasting would act like a tax on the Irish economy.

Table 1: Scenarios for inflation

Scenario	Description	Impact	Forecast
Immediate and sustained end to hostilities	In this scenario, there is an immediate and sustained end to hostilities. Global oil prices fall from an average of \$103/bbl in March back towards \$90/bbl over the Summer and to \$80/bbl as movements from the Gulf begin to normalise. Government supports wind-down in July.	In first order terms, this would add 0.9 percentage points to Irish inflation over the full course of the year from energy prices (including liquid fuels, gas and electricity price changes). Pass through to core prices would be limited as companies would absorb a greater share of costs in their margins with the elasticity of core inflation to energy prices, limited to 0.3 percentage points.	Overall inflation would rise by 1.1 percentage points to 3.5% for the full year .
End to hostilities with sustained constraints on transit and production	In this scenario, there is an end to major hostilities but with material ongoing disruption to trade flows. There remains sustained constraints on transit and production. Global oil prices average \$100/bbl through the rest of 2026. Government supports would continue through to Q4, albeit at a reduced level as the year goes on offsetting most of the direct increase relative to our optimistic scenario.	Direct inflation effects from energy would rise by 1 percentage points. However, pass through to core prices would be more substantial given the implications for global supply chains, direct costs to business and disruption of other energy markets and key materials with the elasticity of core inflation to energy prices, rising to 0.4 percentage points.	Overall inflation would rise by 1.4 percentage points to 3.8% for the full year .
Escalating hostilities	In this scenario, the war continues or re-escalates, on an ongoing basis, markets do not return to normal, there is major disruption to physical global energy supplies of oil, LNG and their derivatives. Global oil prices spike at \$120/bbl in the coming months before moderating toward \$100/bbl by the end of the year. Government supports would continue through to Q4 at a similar or increased basis to now.	Direct inflation effects from energy would rise by 1.2 percentage points. Pass through to core prices would be more substantial given the unprecedented disruption to global supplies of key energy and derivative products, companies would be unable to maintain all of the costs within their margins, and inflation expectations would become unanchored, with the elasticity of core inflation to energy prices, rising to 1 percentage point.	Overall inflation would rise by 2.2 percentage points to 4.6% for the full year .

The Irish consumer

Core inflation

Given the scale of the potential energy disruption emanating from the Strait of Hormuz, there have been many comparisons with the inflationary effect of the energy shock felt in the aftermath of the invasion of Ukraine in early 2022. There are a number of key differences between what we experienced then and what we have experienced so far in 2026. Most importantly, there were already significant inflationary pressures in the economy due to post-Covid reopening seeing demand running high and supply chains unable to respond. Inflation in January 2022, excluding energy, was already over 4% in Ireland. Although wholesale energy prices had been rising since mid-2021, most studies find that the majority of persistent non-energy inflation increases through 2021 to 2023 were the result of these post-Covid global supply chain disruptions. Energy price shocks, on the other hand, tend to be more transitory and state dependent. That is, they impact on core inflation only when energy cost increases are substantial. There is a much more balanced situation today, where inflation excluding energy is running at 2.8% even now in June, interest rates are higher, and the overall driver of domestic price pressures, such as rising employment, is less obvious. For these reasons, a return to some level of normality in the Strait of Hormuz would, in our view, lead to a normalisation of inflation through the latter half of 2026 and into 2027.

Incomes and wealth

Total household disposable income in the Irish economy was 3.8% higher in Q1 2026 than it was 12 months previously. This has been driven by strong income growth. Income tax records from January to June show an increase in income tax paid of 6.7% on 2025. This is mirrored in consumer spending, with VAT receipts up 7.5% annually over the same period. It is likely that with rising energy costs, inflation will eat up most of the real income growth in the economy in 2026. This, however, is subject to decisions on further income supports during the Budget process. From a balance sheet perspective, the total net wealth of Irish households reached €1.4 trillion. This has been driven by strong asset appreciation in housing which has driven around two-thirds of the increase in net wealth amongst Irish households over the past decade. At the same time, however, we have also experienced two decades of remarkable deleveraging. Ireland's debt-to-income ratio is now below the eurozone average for the first time since the advent of the euro. Ireland has reduced its household debt-to-income ratio from almost 235% in 2009 to 82% today. This scale of deleveraging was more than twice that of any eurozone member and, by a distance, the largest of any developed economy in the modern era. As a result Ireland's median household debt service to income ratio is now well below the eurozone average (12.5%) at 10.9%.

Drivers of consumer spending

The drivers of consumer spending have changed materially in Ireland over recent years. Consistently, the growth of the adult population has added around 2 percentage points to the growth rate of consumer spending since 2017. The role of real after-tax incomes, however, has been more variable in recent years, with periods of inflation reducing the impact of strong nominal income growth on top of expanding employment. The period of Covid-era saving and post-Covid return to spending also saw very large and important swings in the share of people's additional income which they were spending. This can be a strong sign of consumer confidence or overexuberance in the Irish economy. It can also have a link to the distribution of income growth, with better off households spending less of their additional income and saving more. Over the past 18 months, we have witnessed a return to real income growth contributing to consumer spending following the inflationary period post the 2022 energy shock. Total real disposable income growth has averaged around 3% annually since 2017, with 2 percentage points of this coming from expansion of the number of adults and 1.6 percentage points coming from growth in real incomes. However, we have also witnessed some signs of confidence slipping away from Irish consumers relative to the fundamentals. Consumers spending less of their income has contributed minus 0.6 percentage points to the rate of consumer spending growth. With real income growth more challenged in 2025, real spending growth will remain underpinned by employment and population growth but at a lower rate than recent years. Confidence of consumers to spend will be a critical variable factor in 2026 and 2027.

Figure 4: Sources of inflation

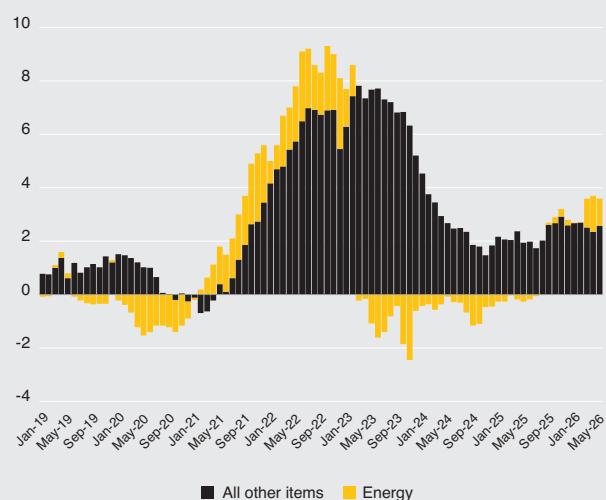


Figure 5: Household debt to income ratio, % of disposable income

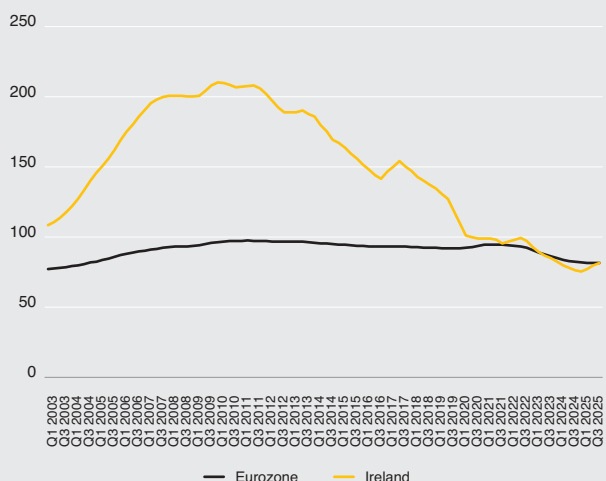
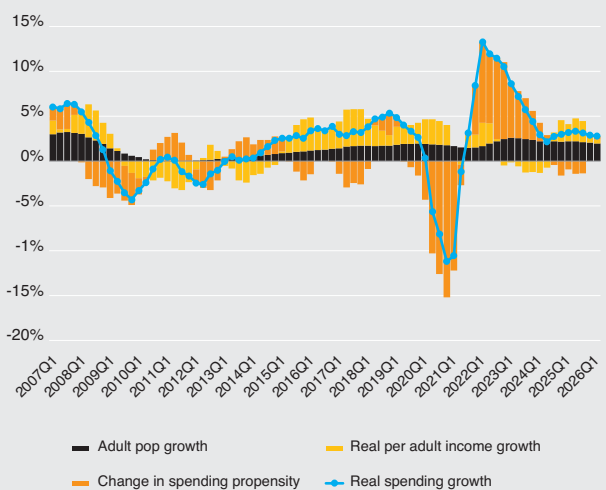


Figure 6: Drivers of total consumer spending



Competitiveness

Competitiveness benchmark

The heat map below provides a set of top-level benchmarks of Ireland's competitiveness against ten peer countries, which we used in our recent Ibec Budget Submission to illustrate both Ireland's economic strengths and areas where we face significant structural challenges.

Market access provided by our position within the EU is a significant reason for our lead in high-tech exports. We also have a strong tax proposition with strong performances on both corporate tax competitiveness and tax support for research and development, which is increasingly important post Pillar 2. When it comes to the level of skills in our labour force, we are high-ranking both in foundational skills (our PISA scores for school age skills in maths, reading, and science are amongst the highest in the world) and in graduate outcomes.

However, it is also clear that we have significant structural challenges. We rank near the bottom of our peer group in basic

infrastructure quality (10th) and quantity (9th). We face high relative costs in some areas, particularly energy, and whilst our corporate tax regime successfully supports mobile capital, our marginal effective income tax rate on average earnings (8th) and taxation of higher earners (6th) show we are not as attractive for highly mobile talent, though payroll taxes on average are low.

Whilst we lead on some outcome indicators in skills, we are not investing sufficiently in the future. Our participation in structured lifelong learning (7th), direct funding for research (10th), and overall AI preparedness (10th) are lagging our peers.

Our economy has marked strengths in attracting capital and in delivering talent, but we are underinvesting in building the resilience in our infrastructure and people needed to meet the challenges of the future, including the coming wave of technological transition.

There is no lack of money, structures, or skills needed to address these problems. Budget 2027 gives us an opportunity to put those to work.

Table 2: Top-level benchmarks of Ireland's competitiveness

Skills	Source	AUT	DNK	FIN	FRA	DE	IRL	NL	SE	UK	US
Government spending on higher ed per student, \$ PPP	OECD						9th				
Average PISA score for science, maths, reading	PISA						1st				
Working age adults with 3rd level education, %	OECD						1st				
Adult participation in formal job related learning, %	OECD						7th				
QS university ranking, top 3	IPO						8th				
Taxation											
Composite Effective Average Corporate Tax Rate, %	OECD						1st				
Tax support for R&D expenditure or income, % GDP/GNI	OECD						1st				
Taxation complexity	TCP						4th				
Taxation of workers at 250% of average wage	OECD						6th				
Employer payroll and social security taxes, % of gross wage	OECD						3rd				
Marginal effective tax rate on average earnings	OECD						8th				
Infrastructure and energy											
OECD better life ranking	OECD						6th				
Public capital stock per capita, \$ PPP	IMF (2019)						9th				
Index of governance of critical infrastructure resilience	OECD						5th				
Industrial electricity costs, cent per kwh	UK DESNZ						9th				
Basic infrastructure quality	IMD						10th				
Productivity and innovation											
GDP/GNI per hour worked	OECD						7th				
Direct state funding of R&D, % GDP/GNI	OECD						10th				
Venture capital (VC) received, deal count/bn PPP\$ GDP	IPO						6th				
High-tech exports, % total trade	OECD						1st				
AI Preparedness Index (AIPI)	IMF						10th				

Labour market

Labour market cooling

In the labour market, there are some early signs of a divergence between the industries making and moving physical goods and industries in the labour intensive consumer facing services sectors. There is also a clear slowdown emerging in the labour market across different indicators of labour demand. However, there is also now significant divergence between different measures of how fast the labour market is slowing. The CSO Labour Force survey for Q1 2026 showed that employment growth remained flat annually. In industries which make and move things like construction, industry and transport employment rose annually by 56,500 in Q1 2026. On the other hand, the high-tech services sectors lost 35,000 roles and the labour intensive consumer facing services sectors shed 36,000 jobs. At the same time, income tax revenue (a mix of wages and employment) has increased by 7.5% annually. It is likely that the underlying data may be subject to some revisions if this divergence continues between administrative and survey-based data. What is clear, however, across measures is that demand in the labour market is weakening. The employment outlook for the coming months is one of continued softening in aggregate, despite strong performances among some sectors.

Diverging signs of employment

There has been a growing variance since the middle of 2025, accelerating in Q1 2026, in different indicators of labour market strength. Taken together with other measures such as vacancy rates and job postings there is clear evidence of a slowdown in the labour market. The divergence in indicators, however, makes it difficult to fully understand the pace of this slowdown. Taking three different sources of data – the CSO survey of households (the LFS), their survey of employers (the EHECS) and data derived from the Revenue PMod system tells slightly different stories. The household and employer surveys both clearly point to a significant slowdown in employment growth – toward zero in the first half of 2026. This is consistent with a marked slowdown in job advertisements across various indicators. On the other hand, the data based on employments from the Revenue PMod system however, suggests that the number of employments is up by 2.5% annually. These differences appear too large to be explained by differences in coverage alone and either or both series may be subject to revision as the year progresses. Despite the divergence in the data, our view is that strong jobs growth in construction and industry will be weighed down by falling employment in both labour-intensive, low margin services (following several years of compounding policy-driven increases in labour costs) and amongst high value-add services and an ongoing global retrenchment in ICT. We expect overall employment growth of 1.5% in 2026 and a little over 1.3% in 2027.

Hours worked and labour costs

The softening labour market is evident not just in slowing jobs creation, but in a reduction of hours worked among existing employees. The same consumer-facing, labour-intensive sectors which have shown falling or slowing employment have also seen a reduction in working hours among their existing workforce. Over the past year, average weekly work-hours per employee have fallen by 4.2%, 3.3% and 2.7% respectively in the arts and entertainment, administrative and personal services sectors. These are the areas that have seen some of the most substantial declines in jobs over the past year. In retail, where employment growth is flat, average hours have fallen by 1%. The numbers of part-time employees reporting they are not underemployed, effectively working the number of hours they would prefer, has fallen by 34,000 implying that hours are reducing due to softening labour demand rather than a reduction in hours supplied by employees. Tailwinds for household consumption remain strong, with rising wages, strong card-spending figures and large savings buffers all pointing towards sustained demand among consumers. The trend of reducing employment and hours worked in consumer-facing sectors is therefore likely driven by labour cost pressures, with lower margin, labour-intensive sectors tending to be particularly sensitive to labour cost increases. Total hourly labour costs are up 17% on average across all sectors over the past three years. Labour costs in administration, retail, hospitality and entertainment have all increased in the range of 11-25% over the same period.

Figure 7: Annual growth in employment and labour force, %

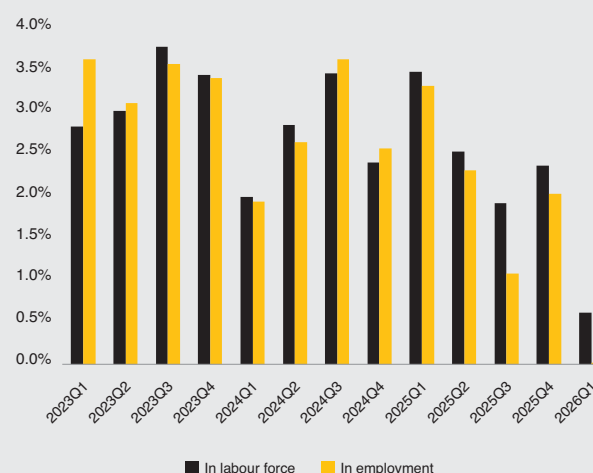


Figure 8: Annual change in employment indicators

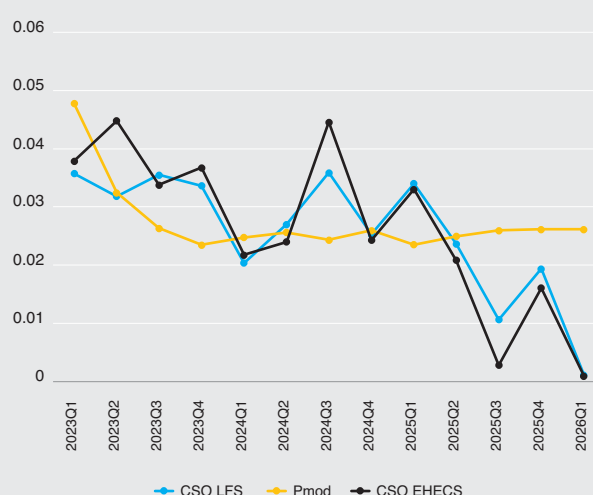
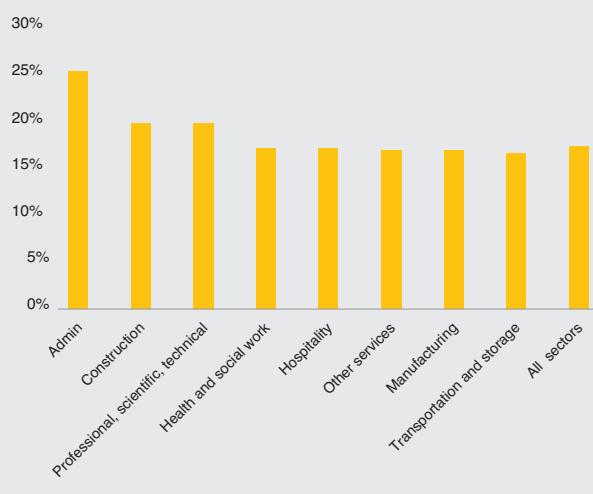


Figure 9: Average total hourly labour costs, 3 year % change



Labour market

AI and the labour market

It is not yet clear where and how AI will deliver the productivity returns needed to justify the incredible levels of investment seen globally. Likewise, as businesses begin to incorporate this new technology, the coming years will show whether AI is a complement for labour, enhancing productivity, or a substitute, displacing employment and impacting job creation. The historical record is clear. The vast majority of evidence shows that, across the whole economy, job displacement by new technology has been more than outmatched by the creation of new roles and types of roles. The economist David Autor, for example, finds that in the US over 85% of all employment growth over the last 80 years can be explained by the technology-driven creation of entirely new positions. The outcome of this technology shock will however be highly variable by sector, role and activity. Early analysis from the Bank of International Settlements in 2026 found that AI adoption among firms in the EU led to capital deepening that increased labour productivity by 4% on average, but did not reduce employment or displace labour. While this review explored the short-term impacts of a technology in its infancy, firms will continue to identify the most productive uses of AI over the coming years, with the potential to significantly reshape demand for labour and specific skills.

In Ireland, the picture of AI adoption is mixed, with 20.2% of Irish firms reporting regular AI usage, similar to the average for the EU as a whole, but well behind the service-oriented and digitalised economies in Scandinavia, which have seen AI usage rates in the range of 35-42%. As expected, AI adoption in Ireland is significantly higher amongst large firms, with usage rates of 58%, falling to just 17.2% for small firms. This leaves large enterprises in Ireland ahead of the curve in Europe, with small and medium Irish firms falling behind their peers. This has the potential to accelerate the already significant productivity gap between large and SME firms in Ireland as AI-driven productivity materialises. Among western economies for which data is available, Ireland is now 2nd only to Canada in terms of jobs listings referencing AI. 14% of indeed.ie job descriptions now mention AI, up from just 4% pre-pandemic and 8.6% a year ago. This is in comparison with 9.2% in the UK, 5.7% in the US and in the range of 4-5% for France, Italy and Germany. Partly, this can be explained by the higher proportion of professional and ICT services in the Irish economy, but the pivot towards AI skills-demand is already evident in the Irish labour-market.

AI usage in Ireland follows the broader EU trend, where the most common use-cases are for text analysis, generating media, and generating written text, activities that would tend to make up a share of tasks for many roles, rather than entirely replacing them. Conversely, use of AI to fully automate processes or assist with decision making is lower overall. AI usage among Irish firms for logistics, production processes and accounting and financial management are comparatively low, in the range of 1.5-4.7%. By contrast, AI is more frequently used for data mining (10.8%) administrative processes (7.8%), and marketing and sales (5.7%) giving an early indication of which role-types may be most exposed to AI.

Figure 10: Share of firms using AI by use-case, %

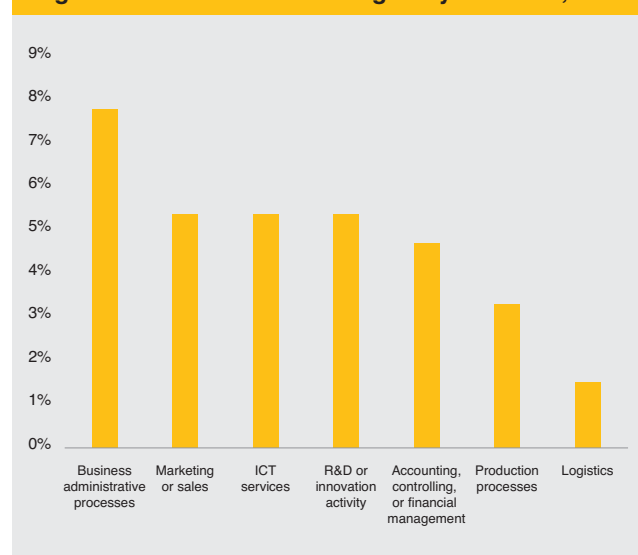


Table 3: Employment, 000s annual average

	2025	2026	2027
Agriculture	109	108	109
Industry and Construction	531	547	562
Services	2,170	2,198	2,220
Total	2,810	2,853	2,891
Employment growth (%)	2.2%	1.5%	1.3%
Unemployment rate (annual average %)	4.9%	5.2%	5.3%

Global economy

Trade

International trade has remained remarkably resilient over the past year, with the WTO estimating that total global trade grew by 4.6% in 2025. This is despite the implementation of tariffs during this period, as well as the broader moves towards the onshoring of supply chains. However, underlying this strong growth are a number of non-linear factors. The first is the front loading of exports to the United States in Q1 of 2025 (up by over a quarter from the previous year) which saw a considerable increase in global exports in pharmaceuticals, inputs along the semiconductor supply chain, and gold. The ensuing correction to this will be reflected in lower imports by the United States in these categories, something that is already showing up in the Irish national accounts. Growth has also been buoyed by the smaller than expected tariff bill from the US. The current effective tariff rate that the US applies to the rest of the world is approximately 7%. Whilst this is an increase on the effective 2% applied rate up until early 2025, it is considerably below the potential 15% effective rate announced by the White House on 'Liberation Day'. This is owing to negotiated bilateral trade agreements, large industry wide exemptions, and the Supreme Court ruling on tariffs imposed under the International Emergency Economic Powers Act (IEEPA). The growth in Chinese export trade of 9.3%, driven by deflationary domestic pressures, further drove trade in 2025, accounting for 30% of the growth in global exports. Finally, the demand for AI inputs has been a significant contributor to the strong trade figures, particularly from the United States, which has seen AI-related goods make up 23% of total imports.

AI and global investment

The story of the recent growth in global investment is one of investment in AI capabilities, somewhat masking the broader trend of slowing investment in the rest of the global economy. The surge in AI amongst developed countries has driven capital investment, particularly in the US, which is on course to see AI capex increase to approximately 2% of GDP this year. Bullish estimates from Goldman Sachs have projected global private investment in AI capex to rise from \$765 billion (nearly 3% of total global capex) to \$1.6 trillion by 2031, with a total investment of \$7.6 trillion over this five-year period. Investment in potential productivity increasing technologies has a clear positive effect on long-run growth. What we are currently seeing, however, is the short-run multiplier effect on the economy. This is mirrored in financial markets, particularly in the US, in which the stock market is being driven increasingly by the swathes of capital being pulled into investment in AI. Whilst economic expansions are almost always driven by a handful of specific sectors, the narrowness of current investment is exceptional. In 2025, the 'Magnificent Seven' companies driving AI saw an annual growth of 23% whilst making up 46% of total S&P 500 returns; the remaining 493 companies saw a growth of 11%. Although the growth in AI promises a positive return whilst simultaneously generating a wealth effect in the rest of the economy, the lack of diversification in global investment growth presents a clear risk should gains from AI be lower than expected or adoption take longer to emerge.

Energy

The conflict in the Middle East has triggered the second major global energy shock of the decade. The effective blockade of 25% of the world's petroleum supply saw an upward surge in energy market prices, with crude oil hitting a peak of \$117 per barrel in April. Whilst we did not see a historical peak of prices in real terms, the current shock has had asymmetric effects. Asia remains vastly more dependent on petroleum from the Gulf owing to both geography and the industrial structure of Asian economies, whilst Europe and North America have been somewhat insulated by a more diverse energy supply. What is critical for the effects of energy on the economy is the duration of structurally higher prices, with a short, sharp inflection potentially being more tolerable than a lower, drawn-out crisis. Increased petroleum output from North America in response to the crisis has taken some of the edge off shortages. Likewise, the decline in demand for oil, particularly in the aviation and petrochemical sectors, has contributed to an easing in price pressures. The International Energy Agency even anticipates a potential glut in supply of petroleum in the event the US and Iran can maintain a durable ceasefire, which remains in question. However, long-term energy concerns from the conflict also remain. The destruction of critical LNG infrastructure in the Gulf (approximately 17% of the world's supply) could have strong knock-on effects in Europe given both the long-term reduction in output and Europe's relatively low levels of domestic reserves. However, global LNG production is expected to bridge this deficit, with considerable additional supply from North America expected to see LNG production increase by 7% year-on-year, its fastest rate since 2019.

Figure 11: Total global trade, value, annual, \$trillion, World Trade Organisation

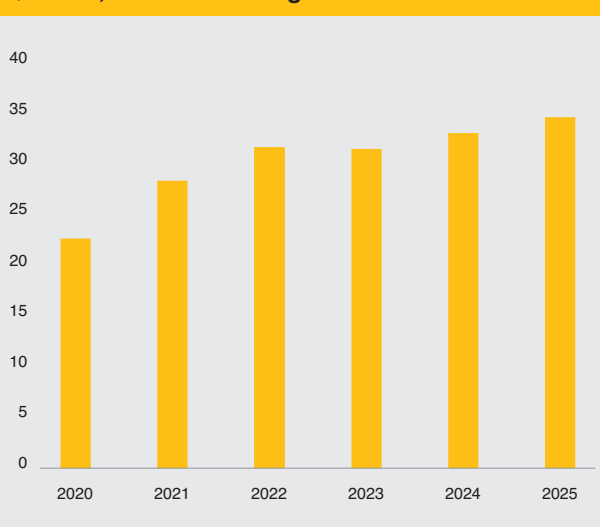


Figure 12: Total Capex, S&P 500 & components, value, \$billion

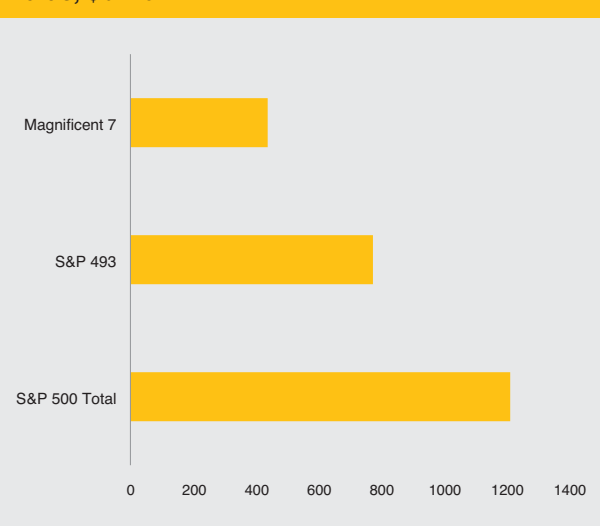
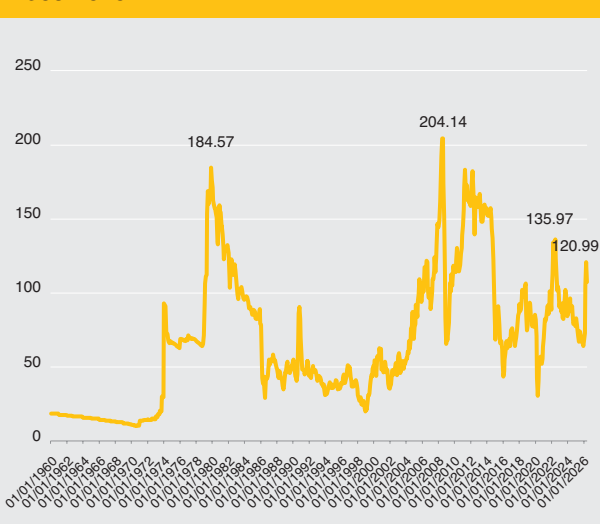


Figure 13: Crude oil price, USD, inflation adjusted, 1963-2026



European industrial policy

European industrial policy

The return of active industrial policy amongst developed countries has brought with it considerations regarding the ability of European companies to compete globally and at scale with their American and Chinese counterparts. EU policy has pivoted towards the scaling up of EU companies, along with a greater level of domestication of production. This could potentially result in the largest shift in European economic policy in decades from a market outcome-based approach to one of greater state direction. Proposed relaxations of state aid rules in strategic sectors threaten to create an uneven playing field for European business by favoring companies from member states with the most fiscal firepower, fundamentally changing market incentives and outcomes. This has the potential of creating a subsidy race amongst member states, whilst undermining efficient output and innovation. Similarly, the proposed relaxation of merger rules could considerably impact competition by allowing greater consolidation. Whilst mergers may yield short-term efficiency gains, there are also longer-term concerns about reduced dynamism and higher consumer costs. Ultimately, the European economy could be charting a course further away from competition within the market in an effort to achieve international scale. This, however, is not the only option for achieving scale. Efforts to unlock underutilised private savings, the removal of internal barriers to trade, and increasing the level of internal demand in the European economy would allow companies to scale far more naturally and in line with market forces.

Industrial Accelerator Act

One of the leading lynchpins of the new European industrial policy is the proposed Industrial Accelerator Act, which is aimed at stimulating domestic European manufacturing in the areas of green technologies, EVs, cement, and steel. The act is aimed at onshoring what are deemed as critical supply chains by tying a 'Made in EU' requirement to public procurement and qualification for state subsidies. It also includes a target for manufacturing to account for 20% of EU GDP by 2035, as well as mandating that any FDI worth over €100 million must enter into a strategic partnership with a European company. This is explicitly aimed at securing European manufacturing on security grounds but would ultimately act as a considerable step towards greater protectionism. The 'Made in EU' requirement will in effect act as direct state support by shielding them against foreign competition, particularly from China, whilst redirecting public funding to the manufacturing industry by the tying of state subsidies to minimum EU production requirements. Purchase requirements of this kind create a fundamental trade-off between supply chain security, variety and costs. By limiting the supply of inputs, the cost for European producers and consumers is likely to rise, at least in the short-term. An increase in the cost of supply in an already structurally higher price environment could perversely put greater strain on domestic production. While the act is targeted, it provides the Commission with the power to expand the product categories in scope.

European industrial policy and the Irish model

Ireland is caught at a key point of tension regarding the direction of European policy. It stands to gain from the completion of the Savings and Investment Union, which would increase the supply of equity capital available to business, something that Ireland has seen an undersupply of relative to similar economies. However, several aspects of Europe's re-orientation towards greater state intervention pose a risk to the Irish model. Ireland does not have the fiscal capacity to keep pace with the larger EU member states in the event of a subsidy race triggered by a relaxation of state aid rules. Given that Ireland's economy is one of the most exposed member states to changes in global supply chains, a change in European policy could have the potential to incur additional administrative costs to business. The proposed limitations on FDI also present a potential risk to the Irish economic model. The 49% cap on foreign ownership of any investments above €100 million could potentially be punitive towards Ireland, which has a considerable reliance on transatlantic FDI. Although the potential effects are still unknown, there is a risk to Ireland's unique position as a base for intellectual property posed by the requirement for IP from foreign companies to be shared with a domestic partner. There is ultimately a risk that further expansion of both the industries in scope and the investment requirements could become a countervailing force to the Irish model's competitiveness.

Figure 14: Allocation of state aid, % of EU total, 2022-2024

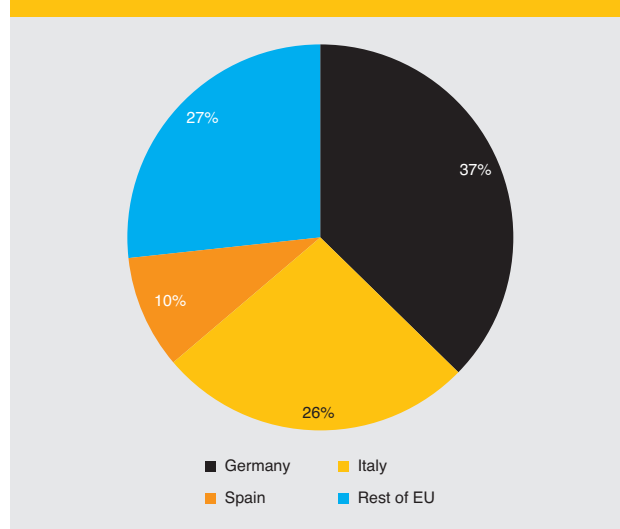


Figure 15: Manufacturing employment % of total employment, 2025

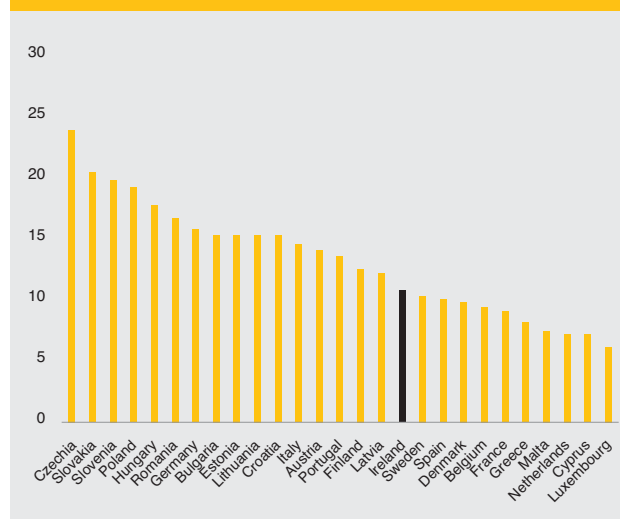
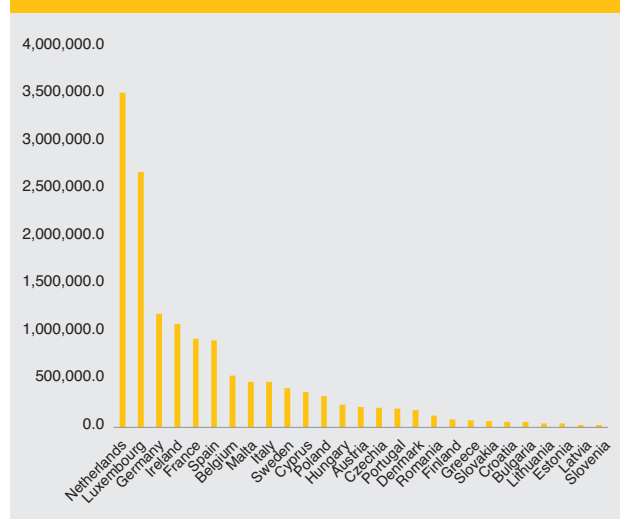


Figure 16: FDI inflows, EU member states, € million, 2024



International outlook

Interest rates

The June meeting of the ECB's Governing Council saw an increase in interest rates of 0.25%, the first since 2023. The deposit facility, the rate that sets the minimum cost of capital in the financial system, was increased to 2.25%. The expected move makes the ECB the first of the world's major central banks to raise rates this year and comes in response to its own projection of 3% inflation for the Eurozone in 2026. Unlike the response to the post-pandemic supply shocks, this move by the ECB is unlikely to be the beginning of a new hiking cycle. A 0.25% increase is generally considered to be the minimum amount that a central bank could raise rates by. The ECB is likely to increase rates by a further 0.25% in its July meeting. However, 0.50% is expected to be the extent of the rate adjustment, given the ECB's inflation projections of 2.3% in 2027 and 2.0% in 2028. It is likely that the increase was as much a signal to financial markets that interest rates are returning to an upward trajectory, effectively inducing markets to price in higher rates via their own lending, even before any official announcement. Successful monetary policy signalling can allow markets to adjust their rates to an extent that it effectively leaves the ECB with less of a need to adjust rates more aggressively at a future date.

The new commodity boom

The ripple of commodity shocks has been acutely felt throughout the global economy for the majority of this decade. Since 2020 the total world commodity index remains 56% higher. The highest rising indices over the same period have been Precious Metals (93%), Beverages (157%), Fertilisers (86%), Energy (71%) and Metals and Minerals (41.5%). Following the global demand-driven commodity boom of the 2000s, global commodity prices had remained low throughout the 2010s. However, a confluence of technological demand, global supply chain disruptions and geopolitical changes have resulted in a new period of high commodity prices and volatility. Shocks to the semi-conductor supply chain from the pandemic were compounded by the unprecedented demand from the technology sector which resulted in global chip shortages and structurally higher prices in rare earth metals. State intervention from China and the United States to secure this supply chain further exacerbated prices. Disruption to energy supply due to geopolitical instability has seen energy indices repeatedly spike over a four-year period. Food production has become considerably more volatile, with both fertiliser and grain prices almost trebling in the last 10 years. Moves to onshore supply chains have also seen states engage directly in the supply of commodities. China has placed controls on key semi-conductor inputs, Indonesia has effectively nationalised its commodity exports, and the United States has established a strategic commodity stockpile as well pushing for an 'allied only' trading bloc. This new era of resource nationalism will exert upward pressure on commodity prices as states become a significant source of demand.

Major global economies

Global growth is expected to reach 3.1% in 2026 according to the IMF, down from its projection of 3.3% at the start of the year and the 3.2% rate of growth in 2025. The deceleration comes as a result of the disruption to the global energy supply from the conflict in the Middle East. Consistent with these trends, developing economies are expected to be the main drivers of real GDP growth but will also suffer from higher rates of inflation, with East Asia and the Maghreb experiencing a significant annual increase owing to their reliance on petroleum from the Persian Gulf. China has conversely seen a period of deflationary pressures owing to strong domestic competition and weak consumption. However, inflation is expected to rise to 1.2% as a result of reliance on oil imports to meet domestic demand. The United States is expected to show the highest rate of growth (2.3%) of the major economies. This is underpinned by high levels of private investment, strong domestic demand, and continuing strong labour force numbers. The United States has also led the developed world in terms of expansionary fiscal policy since Covid, with the 'One Big Beautiful Bill' expected to reduce tax revenue by \$4.5 trillion over the next ten years. The EU's real GDP growth is expected to decline from 1.6% in 2026 to 1.3%, owing to inflationary pressures from energy costs. However, inflation in the EU is tracking lower compared to the US as a consequence of the cooler domestic economy. Finally, as higher inflation exerts upward pressure on interest rates, small changes in the cost of the larger stock of government debt of the world's major economies has become a greater potential macroeconomic risk.

Figure 17: Major central banks, effective deposit rates, %

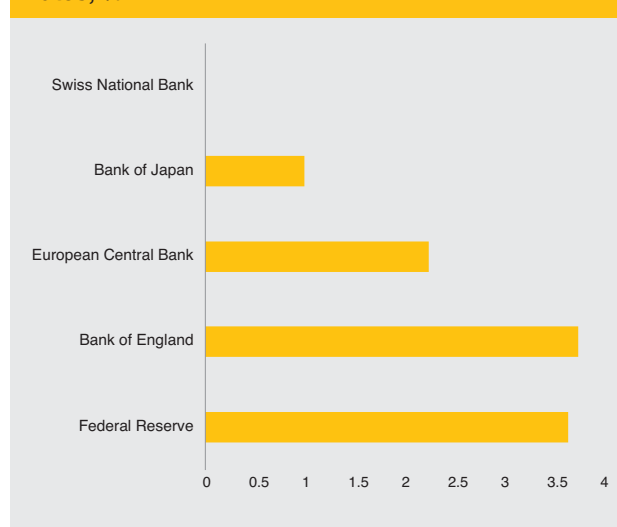


Figure 18: World, commodity indices, World Bank, total index, end of period, USD

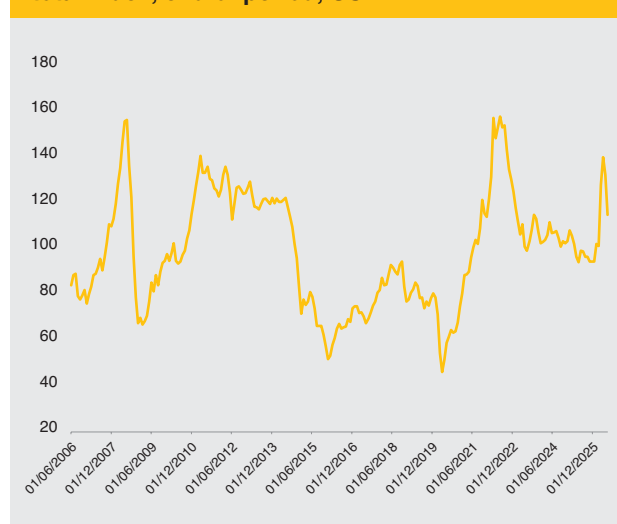


Table 4: Global forecasts

	Real GDP %	Inflation %, average consumer prices	Debt % of GDP
United States	2.3	3.2	120.8
China	4.4	1.2	88.3
United Kingdom	0.8	3.2	101.29
Germany	0.8	2.7	63.9
France	0.9	1.8	113.1
Spain	2.1	3	101.8
Italy	0.5	2.6	135.3
Japan	0.7	2.2	236.6
European Union	1.3	2.6	83.5
Developing Economies	3.9	5.5	77.2

Source: IMF World Economic Outlook (April 2026)

Housing and construction

Housing delivery

The housing delivery outlook remains challenging, with rising home completions early in the year mostly concentrated in apartment completions in the urban centres. While supply has improved and there has been some home-price cooling in the major cities as affordability in some market segments is squeezed, demand continues to outstrip supply. While first-quarter completions rose 33% year-over-year, demand consistently outpaces this improving supply. Though a marked improvement, this volume falls significantly short of the estimated 70,000 units required to stabilise the broader market. Regional and market segment imbalances persist, with 73% of all new housing units in Dublin consisting of apartments, much of which is earmarked for social and affordable housing. New housing supply is predictably concentrated in the urban areas, doing little to address housing, and in particular rental, shortages outside the major cities. The impact of housing shortages extends beyond the current workforce, with ongoing shortages in student accommodation. In the past five years, just over 6,000 student bed-spaces were delivered, roughly half the number created in the preceding five years, highlighting the shortages of housing for all accommodation types and cohort needs. This is in the context of rising homelessness in general and amongst students, with total student numbers increasing year on year.

Building materials costs

Experience from the previous energy shock of 2022 indicates rising global energy prices are rapidly passed through to construction materials in the Irish market due to the impact of rising transport costs on heavy goods, high energy use in the production of steel, glass and cement, and rising costs of petrol for petrochemical goods such as PVC and insulation. While many categories of goods and services have not yet seen the impact of the current energy shock, building material prices in general have increased by 1.7% since February. Impacts of the shock are already seen as expected in bitumen, asphalt, PVC piping, insulation, and ready-mix cement, all up in the range of 4-11% over the same period. The price indices for glass, aggregates and steel have not yet adjusted despite rapid increases in their global prices and future price increase notifications reflected in updated supply-chain agreements within the Irish construction industry. This price response in the main construction goods categories will eventually reflect in an increase in the official price statistics over the coming months, likely in the range of 5-10%, regardless of the short-term path of oil and gas prices. From an Irish perspective, increasing materials costs driven by global disruption in energy markets is both predictable and unavoidable. To sustain public delivery of essential infrastructure, the inevitable cost increases of both planned and commenced projects must be accounted for. Fortunately, the state is in a strong position to allocated excess tax receipts as contingency to meet these predictable cost increases.

Construction activity

The outlook for construction activity is currently divided, with residential and publicly funded projects driving investment in the sector. Adjusted for inflation, investment in dwellings is up by a third year-on-year, continuing the rapid expansion observed throughout 2025. Conversely, production in non-residential construction such as offices and industrial buildings has slowed. Volumes are down 12% annually, following four consecutive quarters of decline. On an annual basis, overall production volume across all building and construction fell by 4.1%. Output in civil engineering, including public infrastructure, has remained volatile due to the timing of specific projects, whereas production volume in residential building recorded an annual increase of 13.6%. Looking ahead, public investment is expected to support non-residential construction into the medium term. This outlook is driven by multi-year public spending plans designed to support an extensive expansion in public infrastructure. The state's policy of ring-fencing windfall taxes in the Infrastructure, Climate and Nature fund will ensure that infrastructure investment is sustained, even in the event of an economic downturn. With €102 billion in funding for public infrastructure committed over the coming five years, these longer-term spending commitments will stabilise demand for non-residential construction.

Figure 19: Q1 new dwelling completions by locality

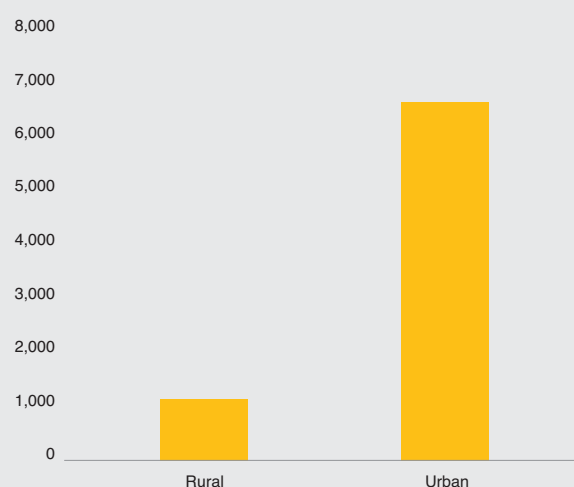


Figure 20: Select building material prices, 3 month % change

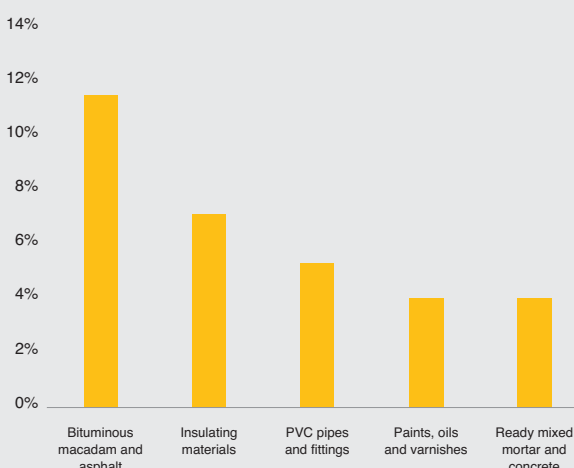
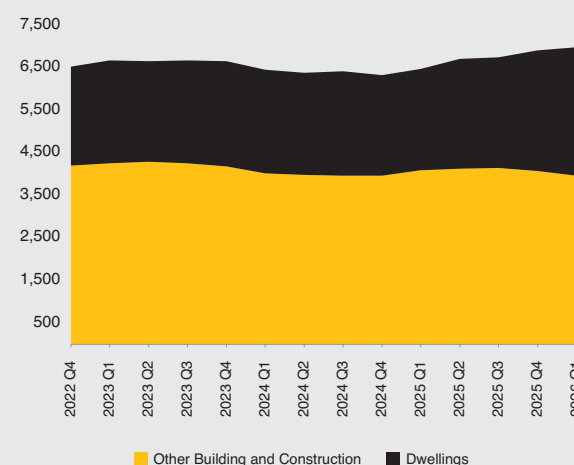


Figure 21: Investment in buildings and construction, €m, 4-quarter rolling average



Further information

Web: www.ibec.ie

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@ibec_irl

Fergal O'Brien

Director of Policy, Lobbying and
Global Affairs
T: 01 605 1544
E: fergal.obrien@ibec.ie

Gerard Brady

Head of National Policy and
Chief Economist
T: 01 605 1515
E: gerard.brady@ibec.ie

Hazel Ahern-Flynn

Senior Economist
T: 01 605 1603
E: hazel.ahern-flynn@ibec.ie

Mourad Mejdí

Economist
T: 01 605 1748
E: mourad.mejdi@ibec.ie

Tiernan O'Brien

Economic Intern

Ibec Head Office

84/86 Lower Baggot Street
Dublin 2
T: + 353 1 605 1500
E: membership@ibec.ie
W: www.ibec.ie/membership

Galway

Hibernian House
45 Eyre Square
Eyre Street, Galway
T: + 353 91 561109
E: galway@ibec.ie
W: www.ibec.ie/west

Cork

2nd Floor, Penrose One
Penrose Dock
Cork
T: + 353 21 4295511
E: cork@ibec.ie
W: www.ibec.ie/cork

Brussels

Avenue de Cortenbergh
100, 1000 Brussels
Belgium
T: + 32 (0)2 740 14 30
E: europe@ibec.ie
W: www.ibec.ie/europe

Limerick

Gardner House, Bank Place
Charlotte Quay, Limerick
T: + 353 61 410411
E: midwest@ibec.ie
W: www.ibec.ie/midwest

Donegal

3rd Floor, Pier One, Quay Street
Donegal Town, Donegal
T: + 353 74 9722474
E: northwest@ibec.ie
W: www.ibec.ie/northwest

Waterford

Unit 1A, First Floor
Cleaboy Business Park
Old Kilmeaden Road, Waterford
T: + 353 51 331260
E: southeast@ibec.ie
W: www.ibec.ie/southeast