Q4 2026

Ibec Quarterly Economic Outlook

Sheltered from the storm?

Ibec For Irish Business

November, 2026

Summary

Ireland's economy continues to grow strongly, supported by resilient consumer spending and investment in infrastructure and AI. Whilst higher borrowing costs, uncertain AI returns and the energy crisis pose global risks, a strong budget surplus, low public debt and healthy household and business finances leave Ireland well placed to weather these shocks.

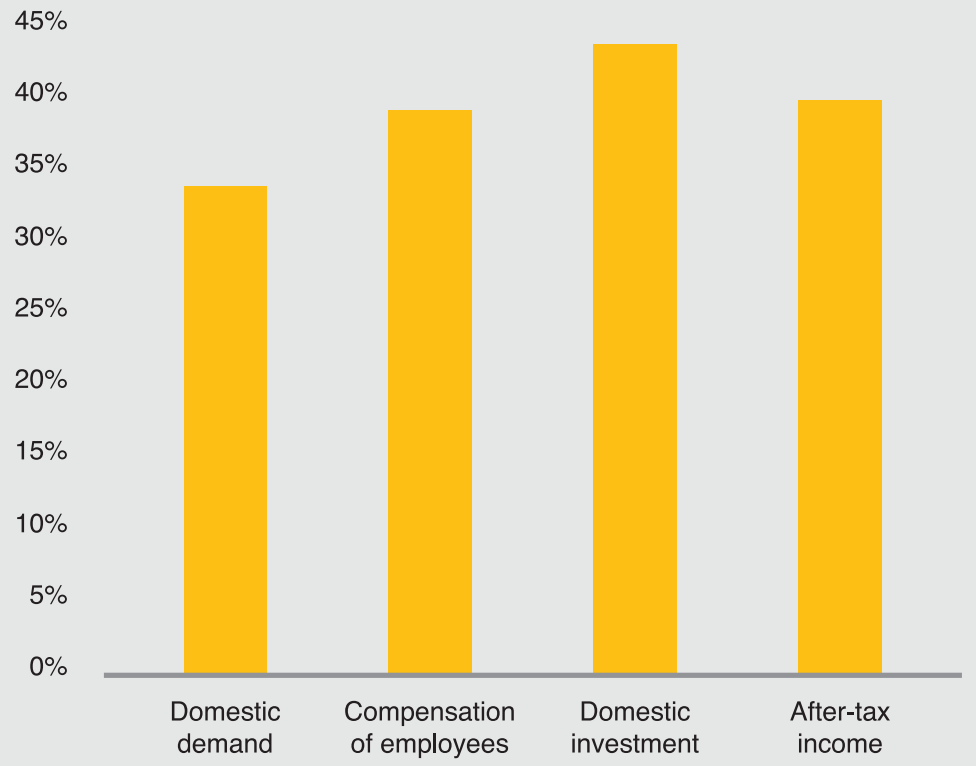
Barring a significant global shock, domestic demand is forecast to grow by 4% in 2027. Over the past decade, the national payroll rose 40%, domestic investment 44%, household after-tax income 50% and domestic demand 35%, all in real terms. Delivering on investments in infrastructure, skills and AI readiness will help sustain growth over the next decade.

Key indicators

Annual % change	2025	2026	2027
Consumer spending	2.6	2.8	2.4
Domestic investment	11.5	7.6	9.0
Exports	7.5	2.7	5.0
Imports	9.5	5.8	5.0
GDP	8.1	-0.8	3.0
Domestic demand	4.8	3.5	4.0
Inflation	2.2	3.6	3.0
Employment	2.5	2.3	1.8

Economic Overview

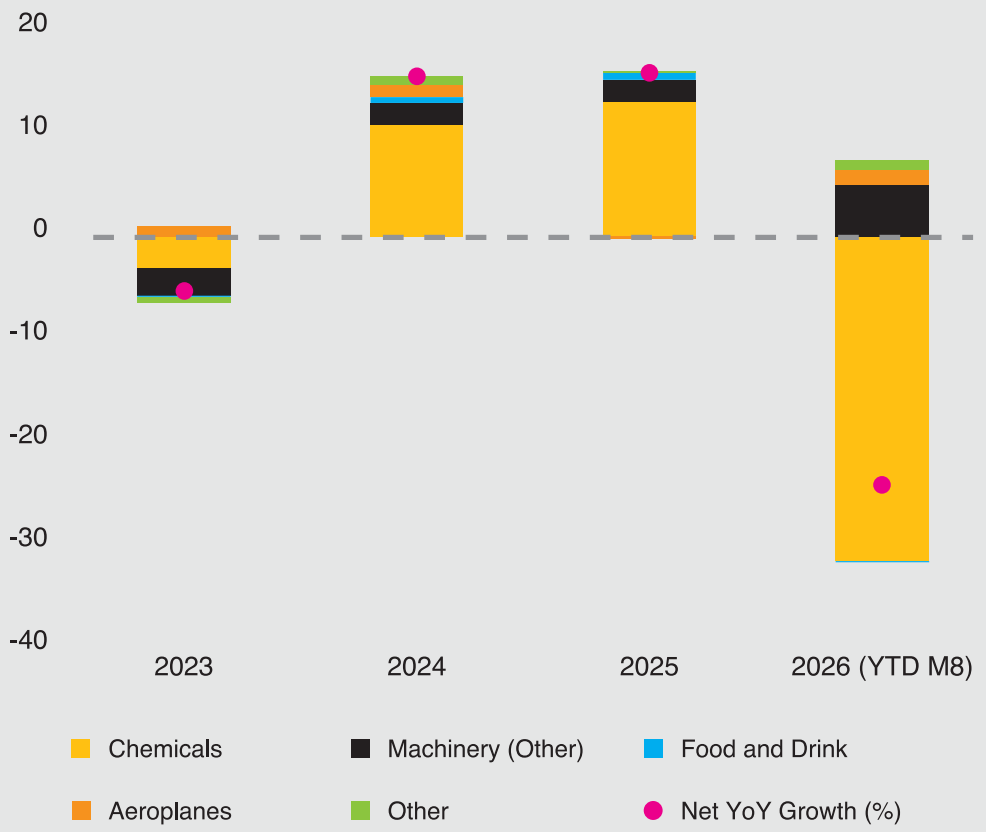
Figure 1: Total economy wide change Q2 2016 to Q2 2026, constant prices



- Domestic demand is forecast to grow by 3.5% in 2026 and 4% in 2027, driven by high public investment and private investment, much of which is AI-driven.
- Government capital spending rose by €2.9 billion in 2026.
- The energy crisis could keep inflation high and slow household income growth in 2027.

Trade

Figure 2: Irish exports to the US by category

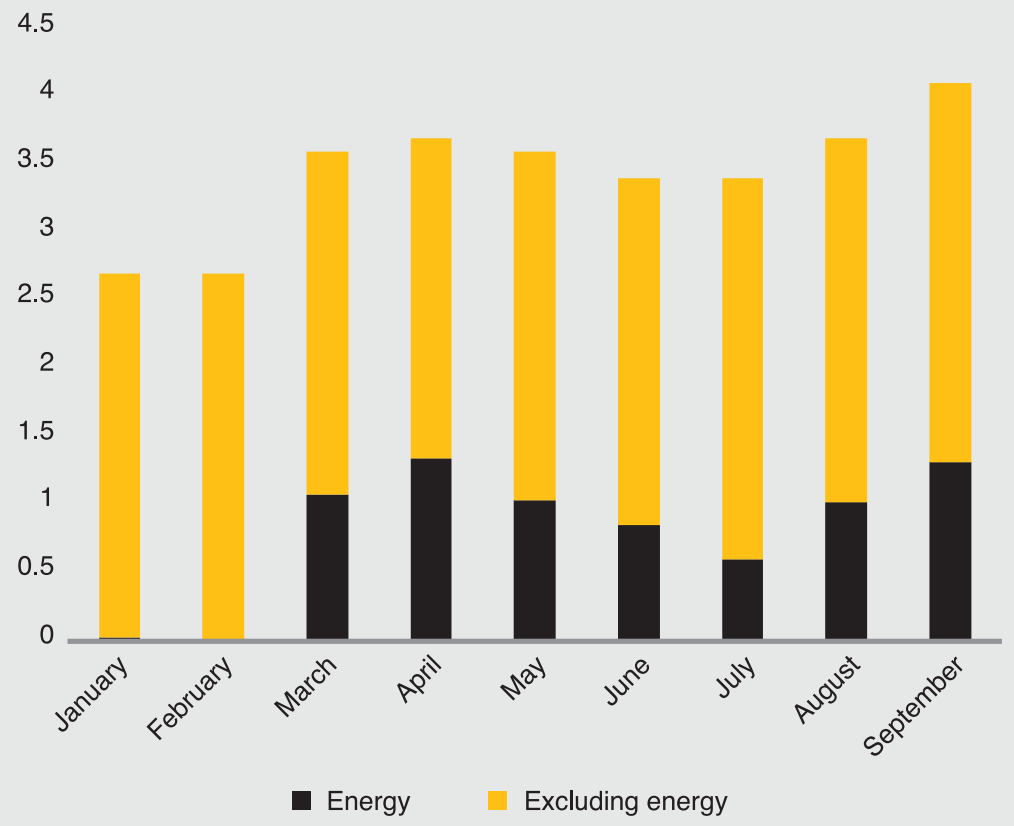


- Irish goods exports fell by 24% in the first eight months of 2026, owing primarily to customs strategies.
- US exports held steady in most other categories.
- AI-related trade helped lift exports to other markets.
- Imports from Taiwan rose by €3.9 billion, driven by AI investment..
- Exports are forecast to grow by around 5% in 2027.

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Inflation

Figure 3: Inflation, annual % change by source

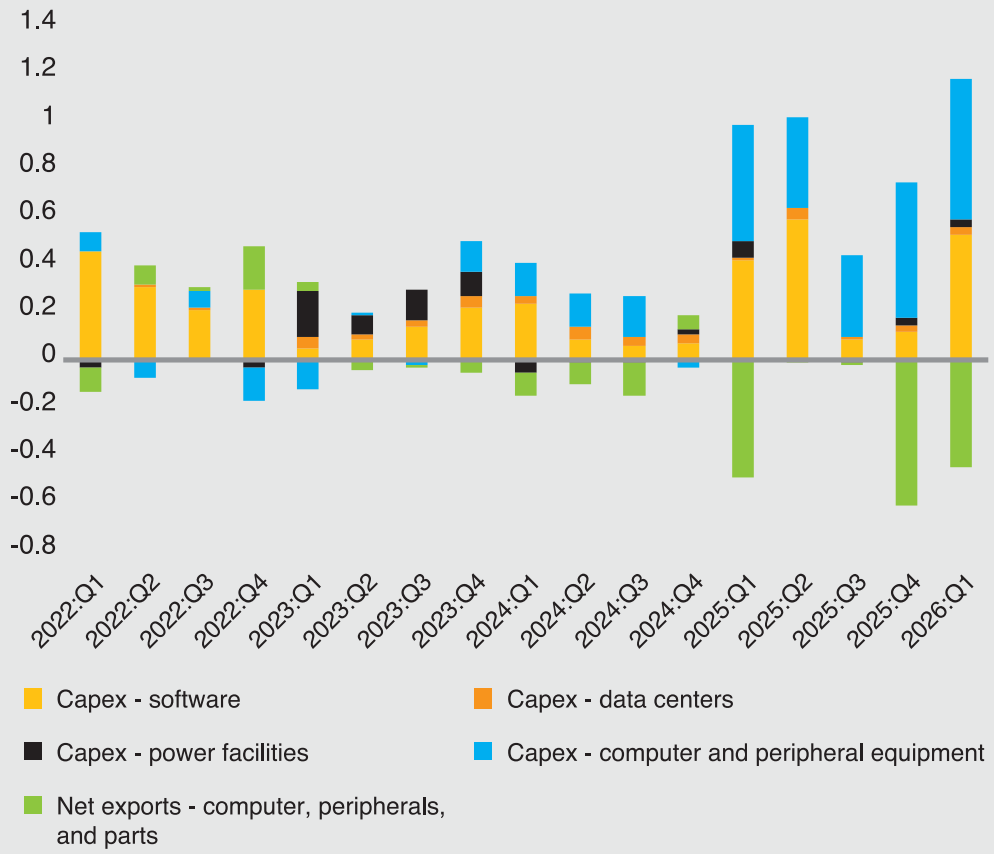


- Inflation, which is currently running at 4.3%, will reach an annual rate of approximately 3.6% for 2026, declining to 3.0% in 2027.
- This has been Primarily energy driven. Core inflation (which excludes energy & unprocessed food) is currently running at 3.1%.
- There is only a marginal variation between the effects of inflation on the highest income households (4.0%) and the lowest (4.1%).

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The global AI boom

Figure 4: AI contributions to US growth, %

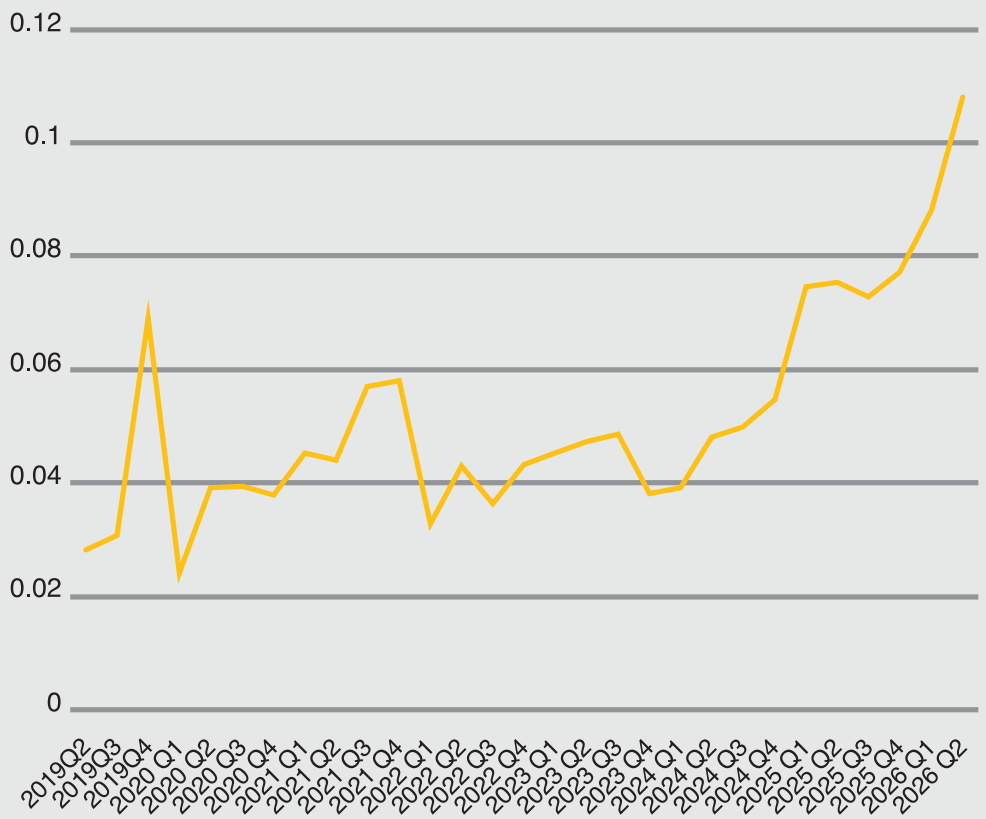


- AI investment is currently accounting for 1/5 of US GDP growth.
- At a planned total investment of 3.6% of GDP between 2026-2030, the AI boom is expected to exceed the peaks of major historical infrastructure investments e.g. canals, railroads, electrification, fibre networks.
- However, it is estimated that in order to generated a 10% unlevered ROI, AI revenues would have to equate to roughly 9% of US GDP by 2032.

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Contribution of AI to Irish Growth

Figure 5: ICT equipment share of total investment, %

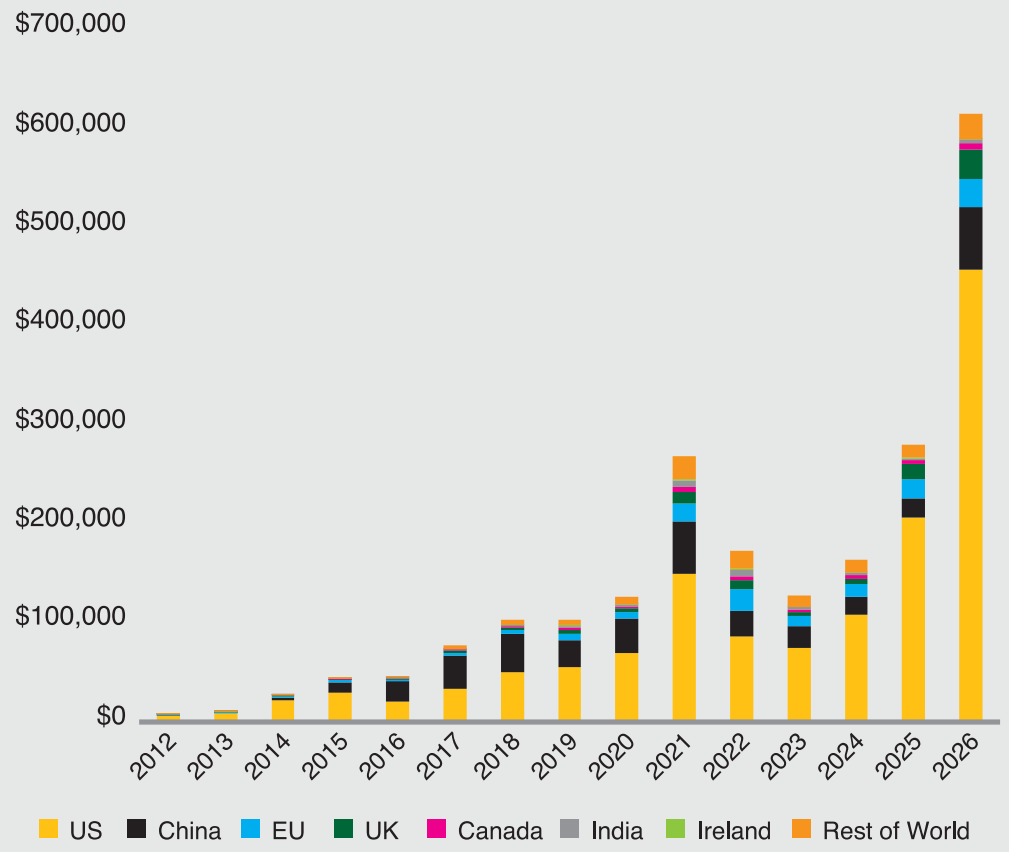


- Annualised ICT capital investment jumped from 1% to nearly 2.5% of national income over two years, now representing one in every ten euro of domestic investment.
- Software investment has doubled its share of national income over the past decade.
- AI-related trade more than doubled by €24 billion between August 2024 and August 2026, adding €1 billion annually to Ireland's goods trade balance.

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Venture Capital Investment in AI

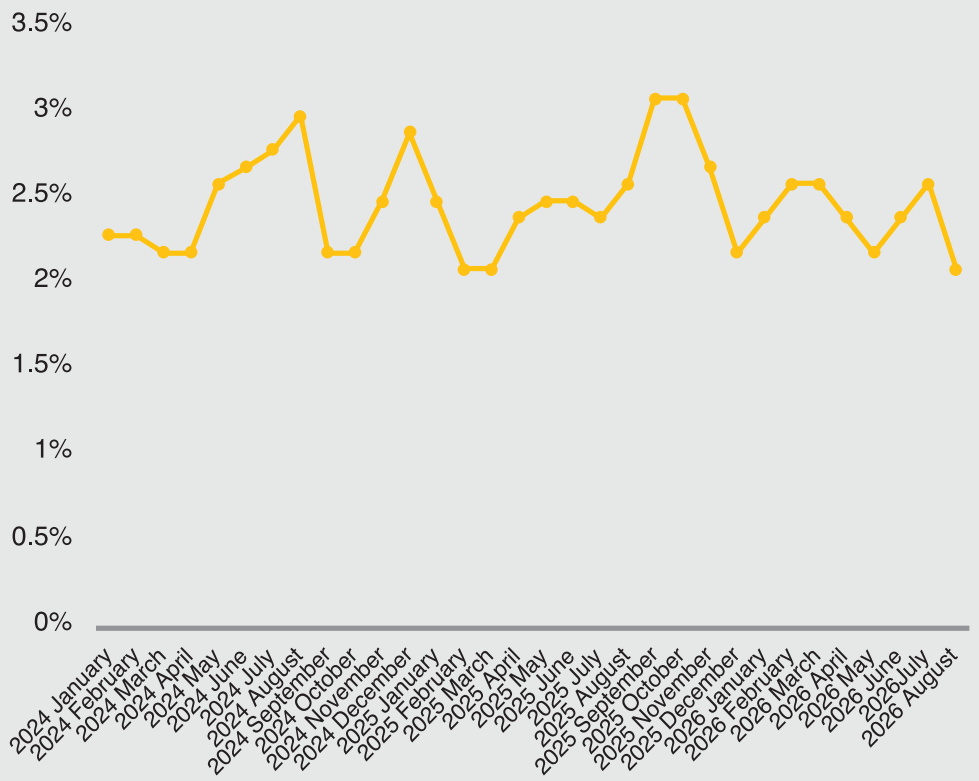
Figure 6: VC investment in AI firms by country, €m



- The US dominates global AI venture capital with 72% of total funding, while China accounts for 10% alongside greater public support and faster IPOs, and the EU captures just 4.8%.
- The UK leads Europe by raising nearly as much as the entire EU ($28.8 billion versus $29.5 billion up to October 2026) and six times more on a three-year per capita basis at $725.
- Ireland's three-year per capita funding of $208 beats the EU average, placing it mid-ranking behind top EU performers Sweden ($623), Finland ($438), the Netherlands ($269), and Estonia ($266).

Labour Market Overview

Figure 7: Seasonally adjusted annual percentage change of the number of employees



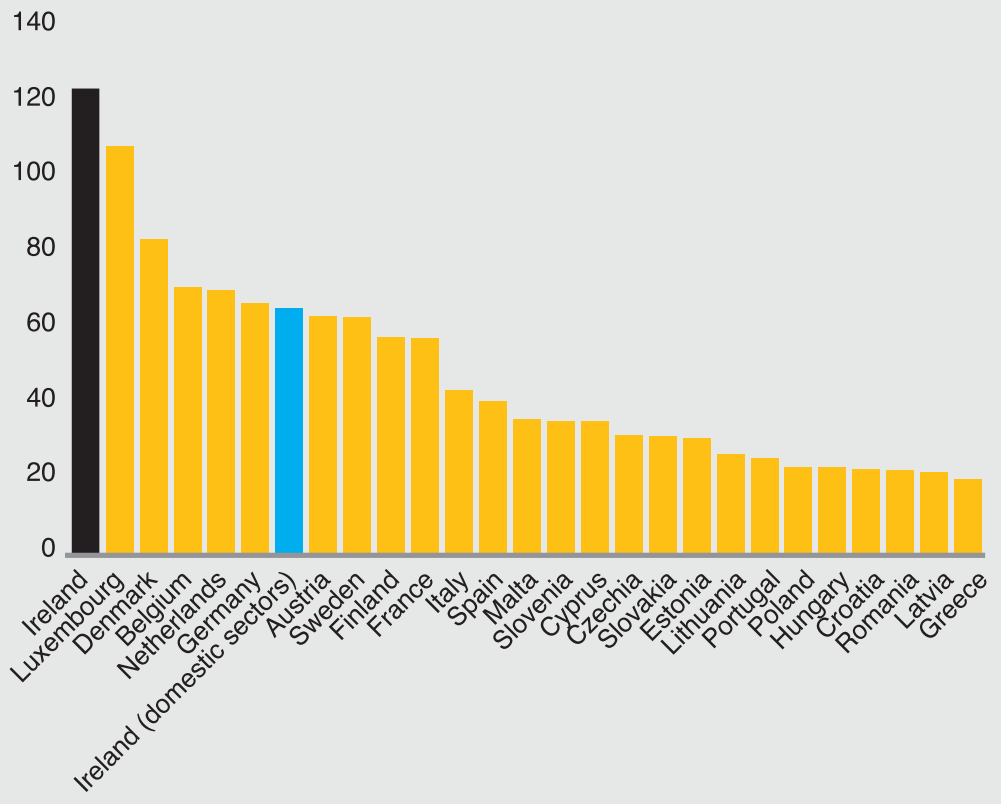
- The Irish labour market remains at full employment and is projected to reach 2.9 million workers in 2027, despite a divergence between sluggish CSO survey growth (0.4% in H1) and stronger Revenue payroll (2.4%) and income tax (8.4%) figures.

- Construction continues to be a consistent bright spot across all datasets, expanding by an annual average of 5.2% in the year to August alongside strong investment and rising housing completions.

- Hiring momentum is softening slightly, with the share of companies planning headcount increases falling from 42% in 2026 to 35% next year and overall employment growth projected to slow from 2.3% to 1.8% in 2027.

Labour Productivity

Figure 8: Labour productivity, € p/h, EU member states, 2024

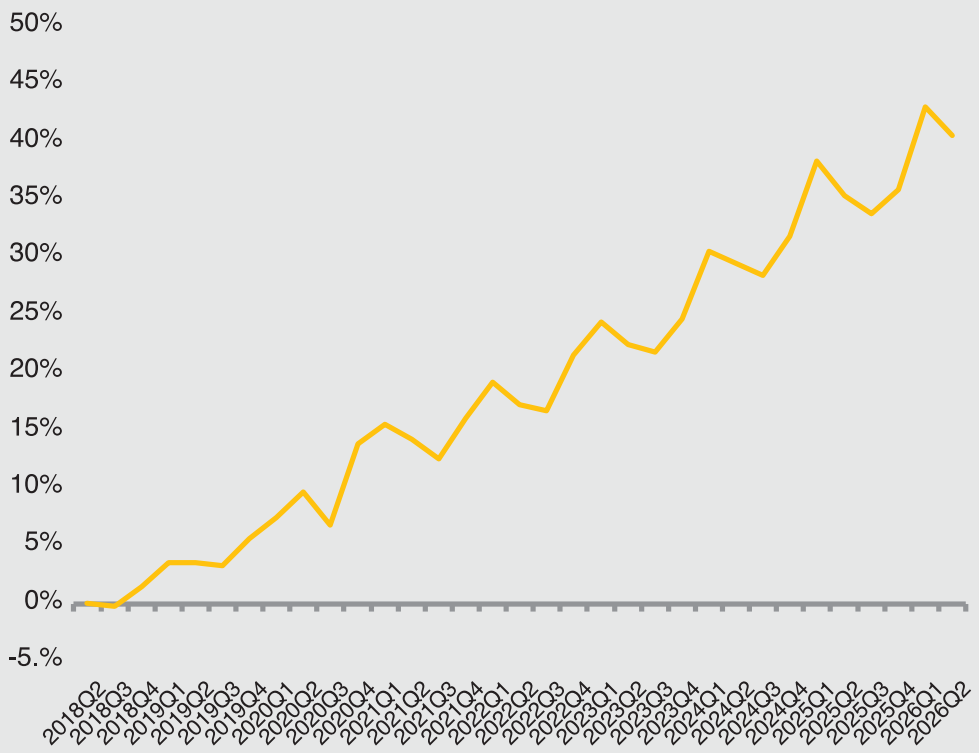


- At €65.8 per hour, Irish domestic labour productivity ranks 5th in the EU and exceeds the €45.9 average, though it still trails the likes of the Netherlands and Denmark.
- Wide gaps persist across domestic industries, with construction, hospitality, education, and health recording lower productivity between €34 and €50 per hour.
- Demographic shifts toward labour-intensive sectors like health and care will pressure the economy as they absorb rising wages without easier tech-driven gains, making productivity-focused policies essential.

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Wages

Figure 9: Average weekly earnings, quarterly % change, Q2 2018 - Q2 2026

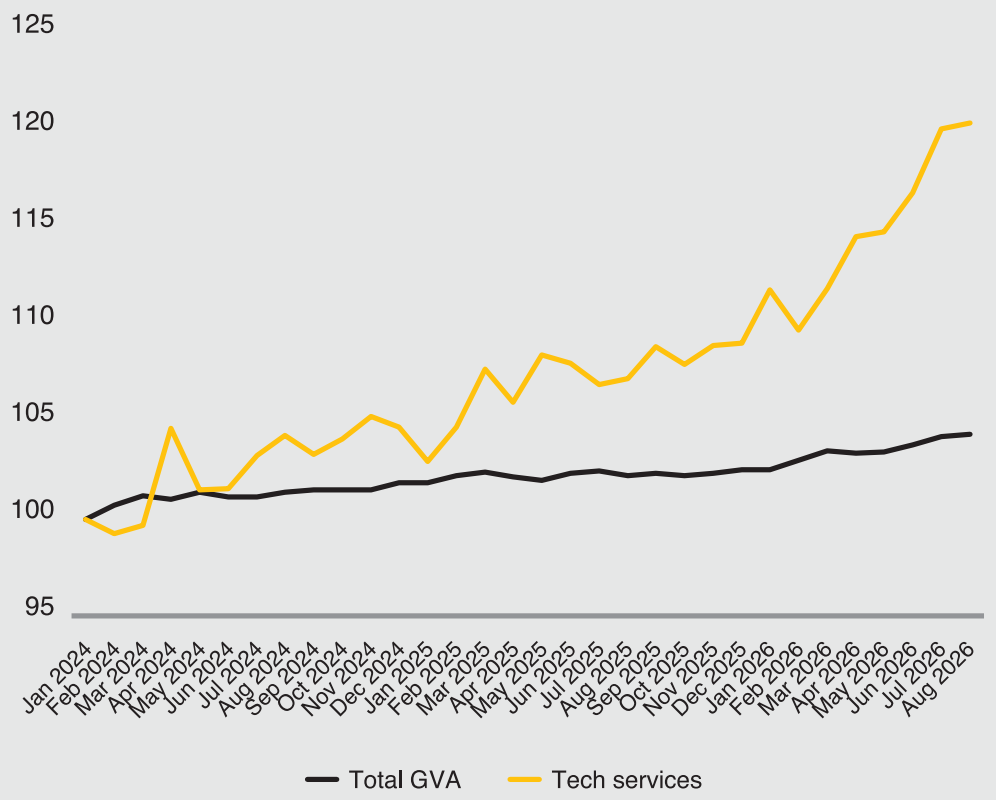


- Wage growth is projected to ease from 3.5% in 2026 to 3.1% in 2027, continuing a gradual slowdown from 4.4% in 2023.
- Over 85% of surveyed firms increased basic pay in the past year, and 83% plan further rises in 2027, mostly between 2% and 3%.
- This moderating growth reflects a strong labour market tempered by lower inflation, compounding non-pay operational costs, and broader economic uncertainty.

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UK

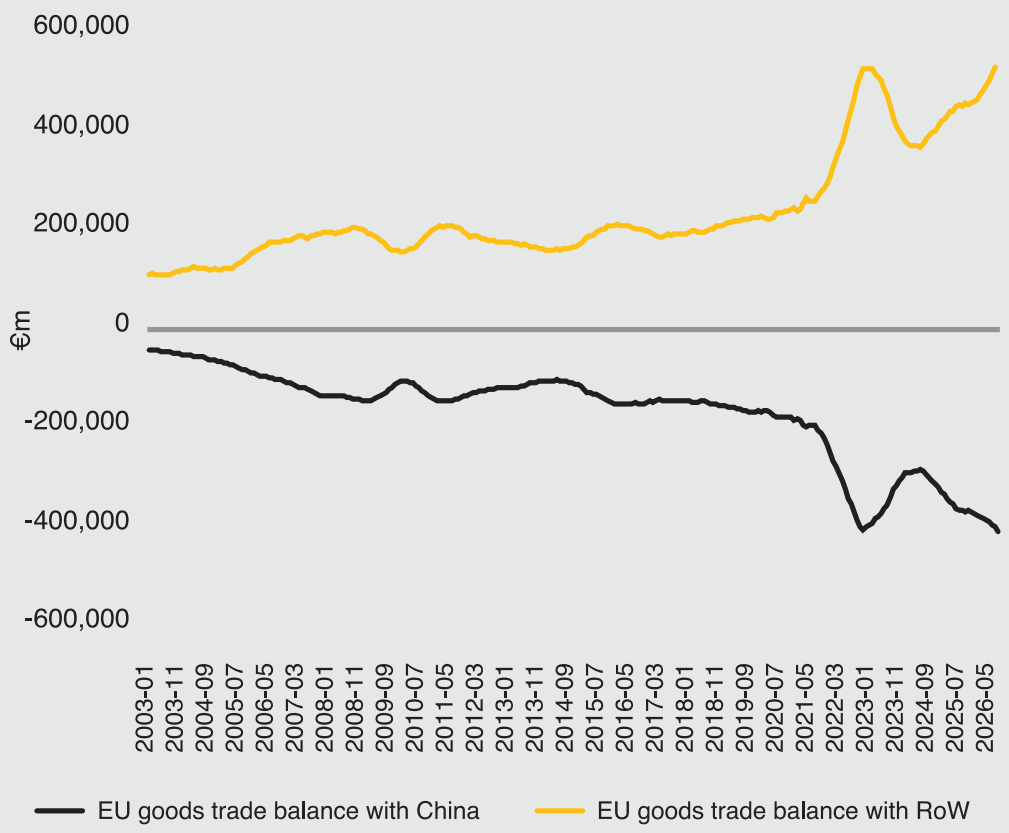
Fig 10: Sources of growth in the UK economy, index, Jan 2024=100



- UK GDP grew 1.1% in the first half of 2026, though household spending remains subdued at 1% due to rising energy prices and 3.5% inflation.
- The tech sector is driving this resilience, with computer programming and consultancy output rising 26% since early 2024 to generate roughly one-fifth of UK growth.
- Strong venture capital inflows and regulatory flexibility outside the EU, positions the UK to capture a disproportionate share of European AI investment.

EU – China Trade

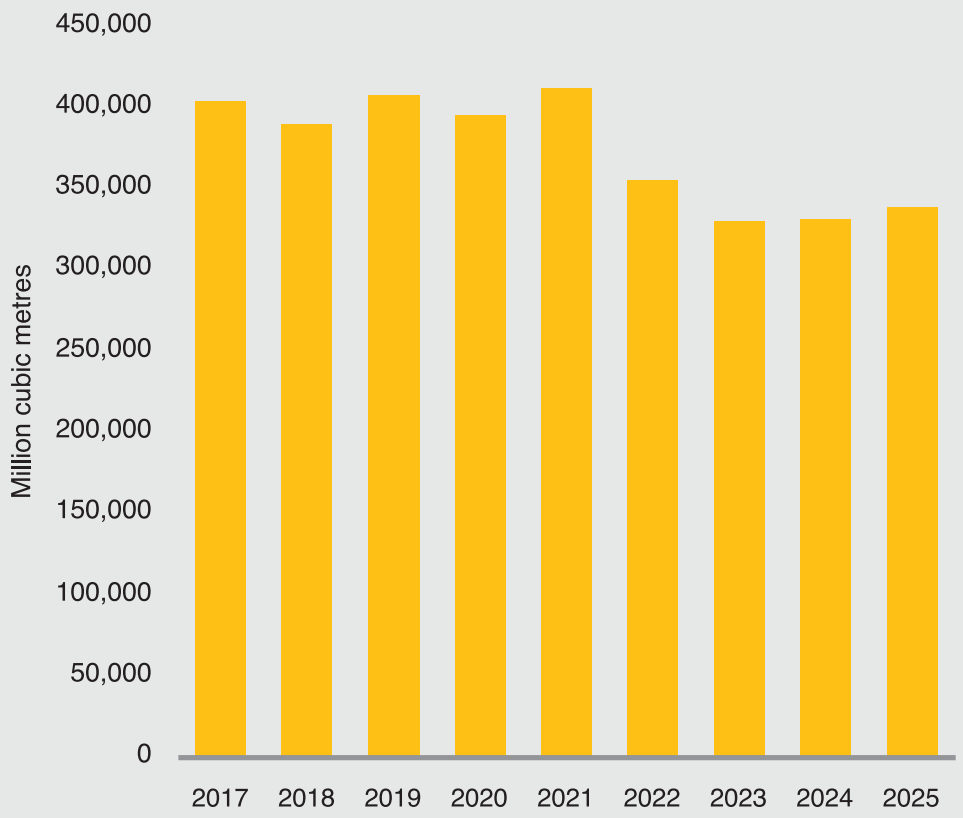
Figure 11: EU goods trade balance with China



- In early October, the EU and China agreed to limit hybrid car imports into Europe, cut tariffs on €225 million of EU products, and facilitate rare earth and magnet imports.
- Driven by machinery and renewable products, the EU's trade deficit with China has widened sharply since 2021, contrasting with its significant trade surplus with the United States.
- Moving forward, Europe must balance critical supply chain cooperation against de-risking strategic dependencies, ensuring a level playing field, and boosting domestic competitiveness.

Energy

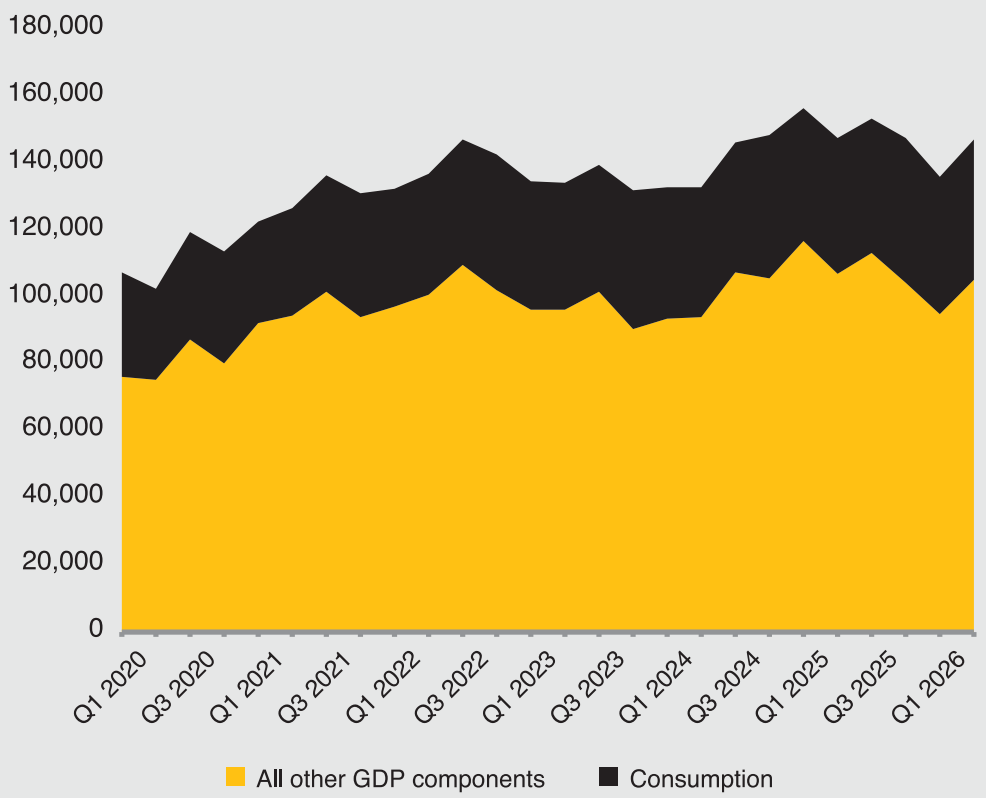
Figure 12: Total gas consumption



- Renewed conflict in the Strait of Hormuz has dented oil production and pushed UK December gas futures back over 210 pence per therm, with volatile prices expected through winter.
- Although European gas demand is 17% lower than in 2019, storage levels remain low and reductions in consumption have stalled with slight increases in 2025 and 2026.
- This tight supply-demand balance and ongoing export reliance leave Europe highly exposed to further geopolitical shifts.

Consumption

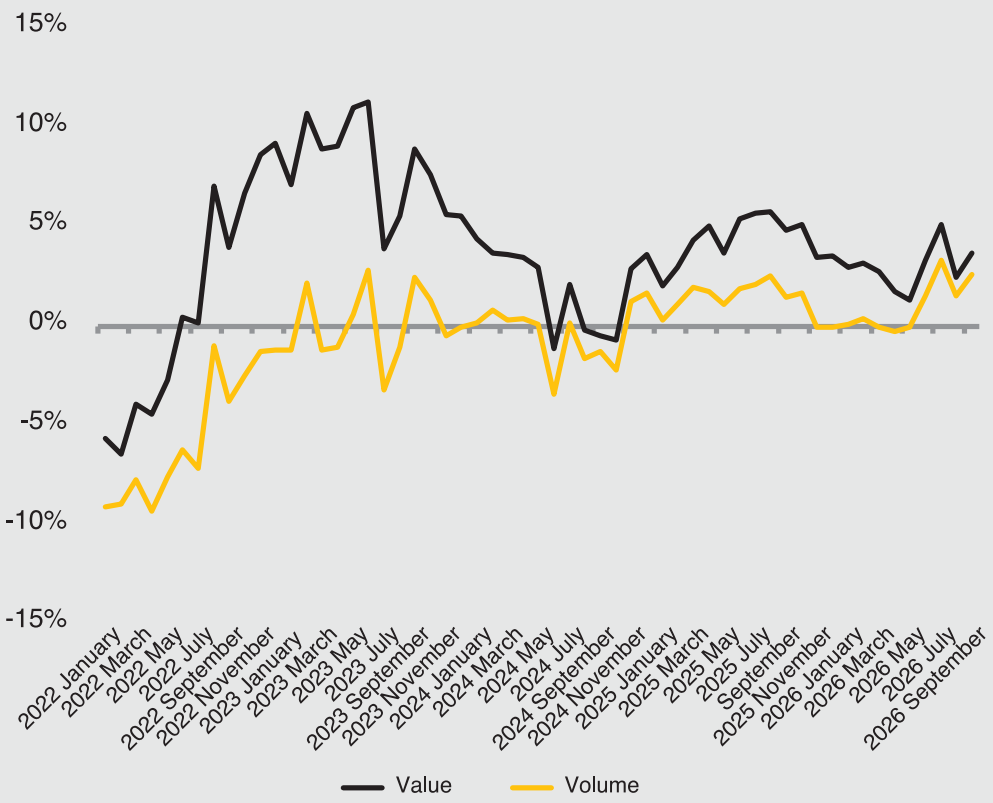
Figure 13: Consumption share of GDP, constant prices, €m



- Supported by high employment, real-wage growth, and savings buffers, real personal consumption is up 2.9% annually alongside strong card spending growth in retail (9.4%) and social venues (12%).
- Past inflationary cycles show that households preserve overall spending levels by adjusting their habits, trading down to discounted or own-brand goods and prioritising essentials over discretionary items.
- Backed by strong economic fundamentals, consumer spending is projected to grow 2.4% in 2027, with persistent inflation likely driving shifts in spending behaviour rather than an overall pullback.

Trade

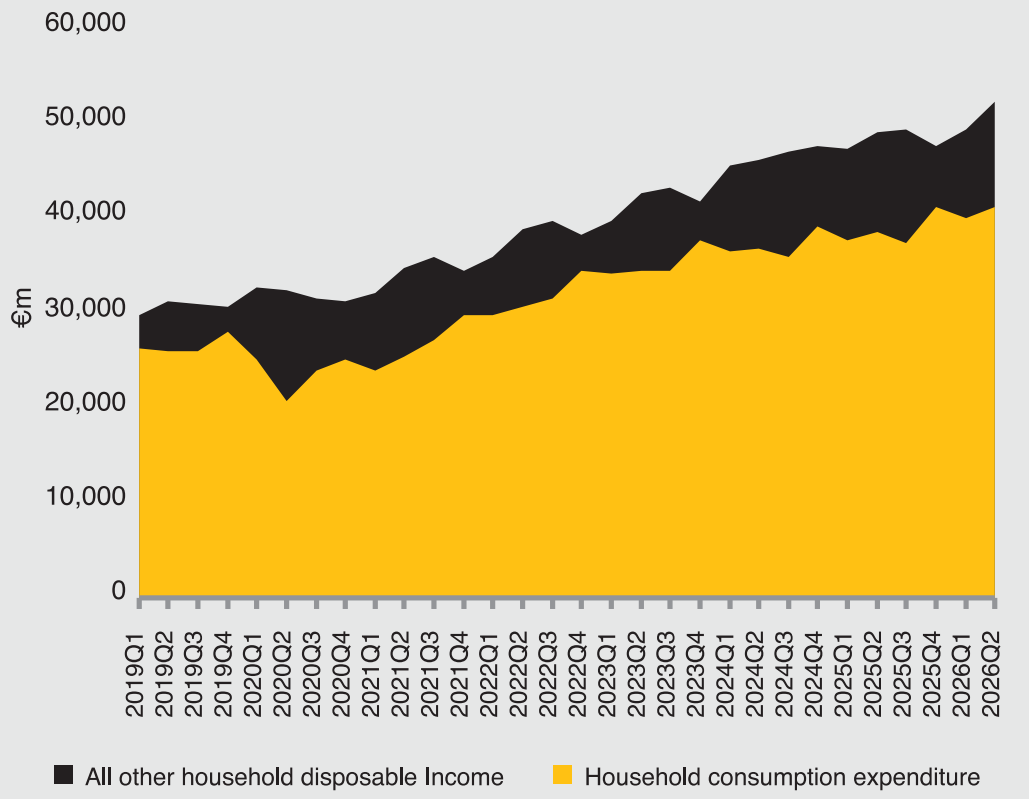
Figure 14: Retail sales excl. cars and bars, annual % change



- Irish retail sales volumes rose 2.9% annually to outperform the 0.8% Eurozone average.
- Core trade excluding motor trades and bars grew 4.4% in value and 2.4% in volume.
- Most retail categories achieved 2% to 4% annual volume growth, though contractions were recorded in hardware (-5.1%), clothing (-4.1%), and books and stationery (-1.5%).

Household Supports

Figure 15: Total household disposable income and consumption expenditure

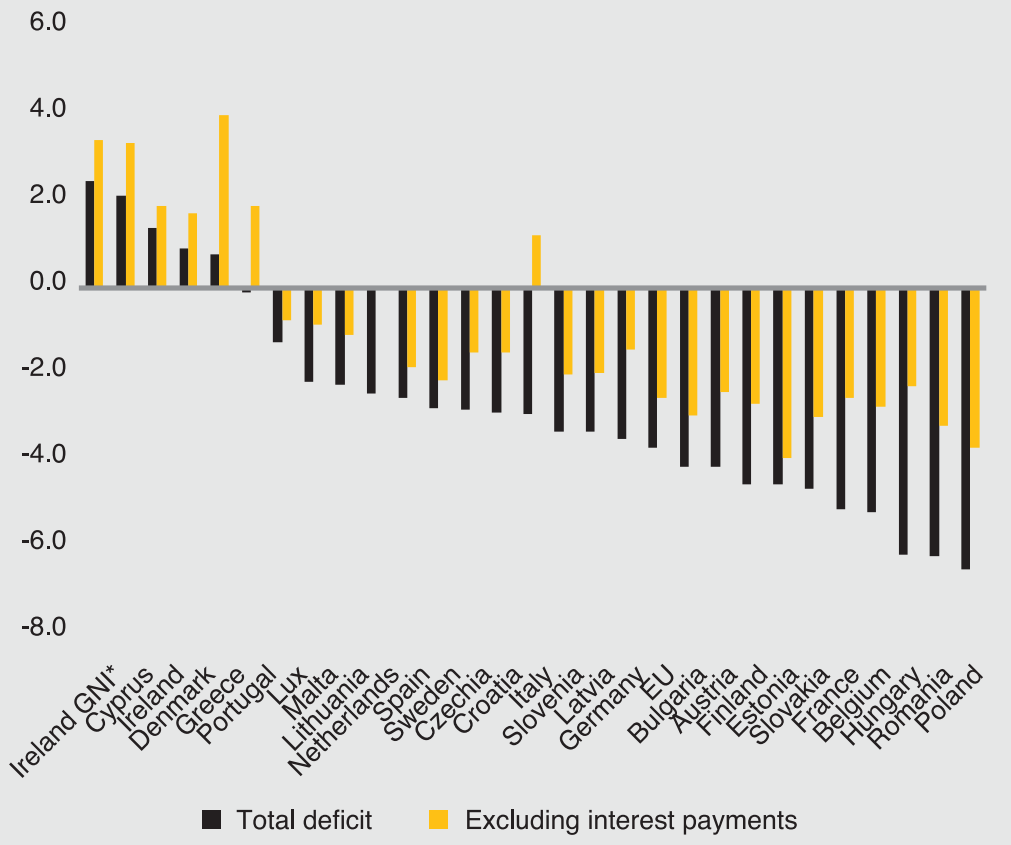


- State energy subsidies and tax cuts lowered headline inflation by 0.6% over the first three quarters.
- Budget 2027 measures, including direct payments and higher tax credits and thresholds, will raise average equivalised disposable household income by 1.7%, or roughly €572 annually.
- Combined with a 19.9% household savings rate and strong labour market fundamentals, these state supports will help bolster consumer spending over the coming year despite ongoing inflation.

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Fiscal Capacity

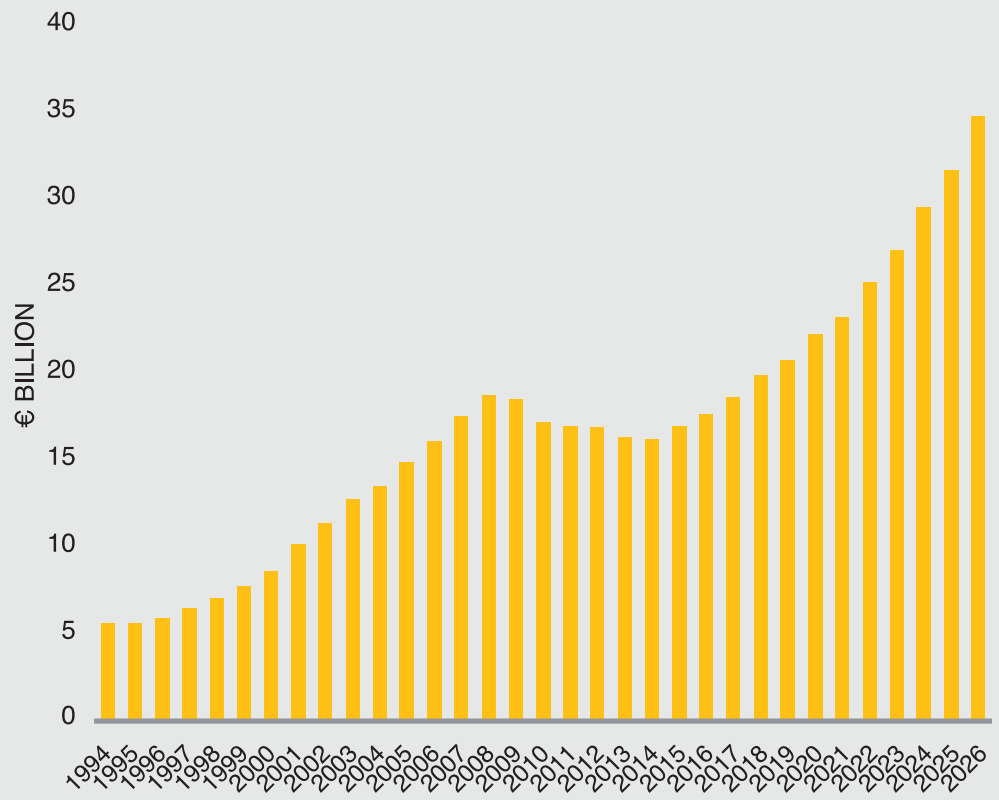
Figure 16: Deficits in the EU, % of GDP



- Amid rising borrowing costs across Europe, Ireland's near €1,600 per person budget expansion stands apart from minimal increases in Finland and the Netherlands (under €100) and spending cuts in France and Austria.
- This approach is backed by a projected €9.5 billion surplus in 2027 and a 2% surplus in 2026, whereas the average EU country plans to run a deficit above 3% of GDP.
- With a 2027 debt-to-GNI ratio of 56.4%, or just under 40% on a net basis, Ireland maintains strong fiscal buffers to withstand global economic shocks.

Public Sector Pay Deal

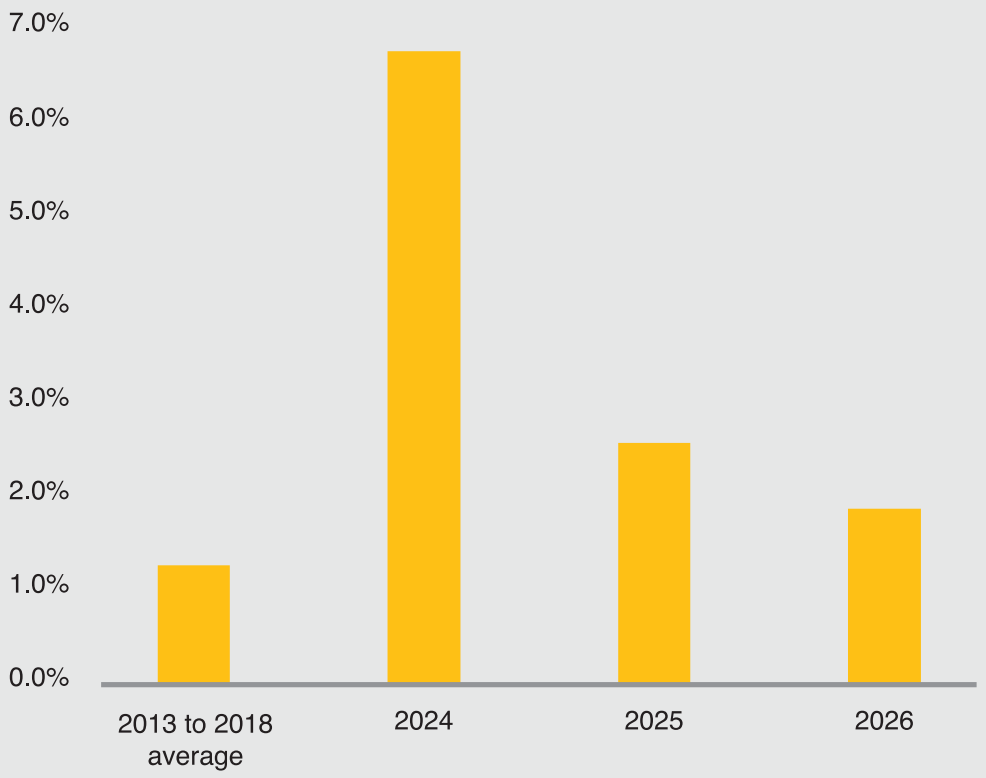
Figure 17: Public sector pay bill



- The 10.75% public pay deal over 33 months favours those on the lower end of the scale, delivering increases of 4.7% in 2027 and 5.3% in 2028 on a €35,000 salary, compared to 3.7% and 4.1% on €50,000 and 3.3% and 3.8% on €70,000.
- Exceeding the previous 30-month agreement by half a percentage point, the deal tracks broadly in line with private sector wages in 2026 and 2027 before moving ahead in 2028.
- While total public pay rose from €25.3 billion to €34.9 billion since 2022, its share of overall public spending grew by just 1.3 percentage points, and second-round inflationary effects are expected to remain modest.

Budget Overruns

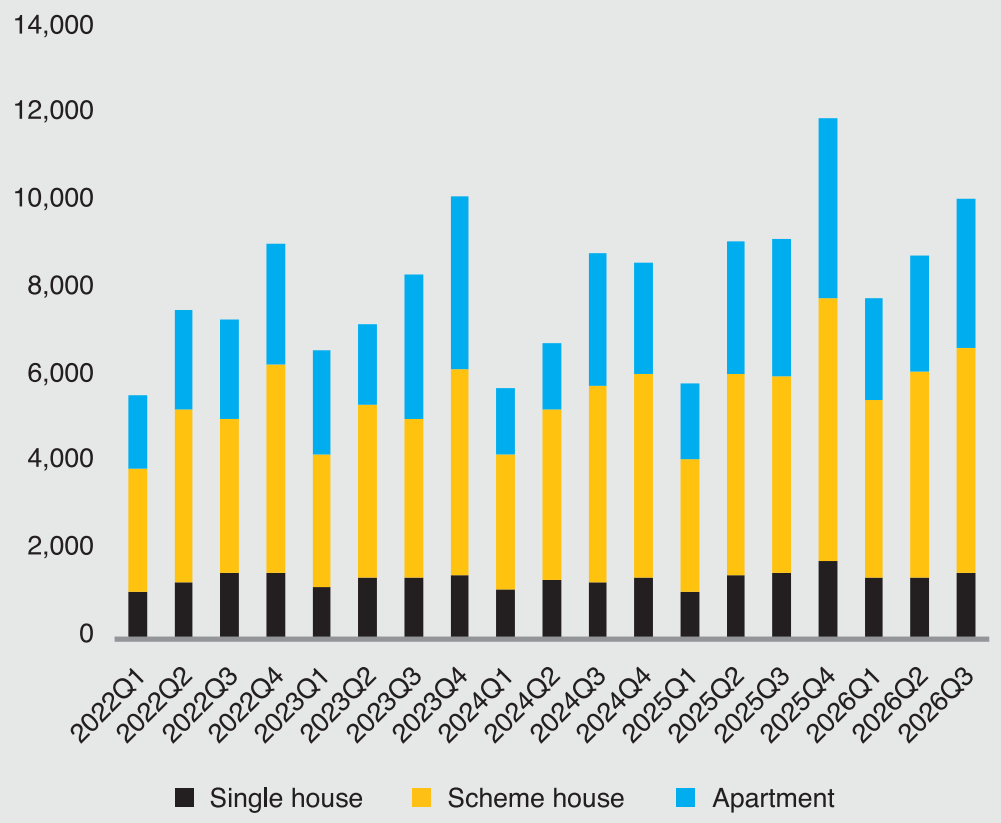
Figure 18: % Overrun above budget on current spending



- Annual expenditure has exceeded Gross Voted Expenditure by 3.7% a year across the past three budgets, with in-year departmental overruns accounting for over half of the 22% current spending growth since 2023.
- Weak expenditure controls during inflationary shocks and faster-than-estimated population growth have repeatedly pushed public service demand and costs above initial targets.
- A lack of multi-year line-item budgeting hampers local agency planning, while the absence of strict departmental sanctions leaves the new cross-departmental spending levy prone to moral hazard.

Housing Rents

Figure 19: New dwelling completions by type

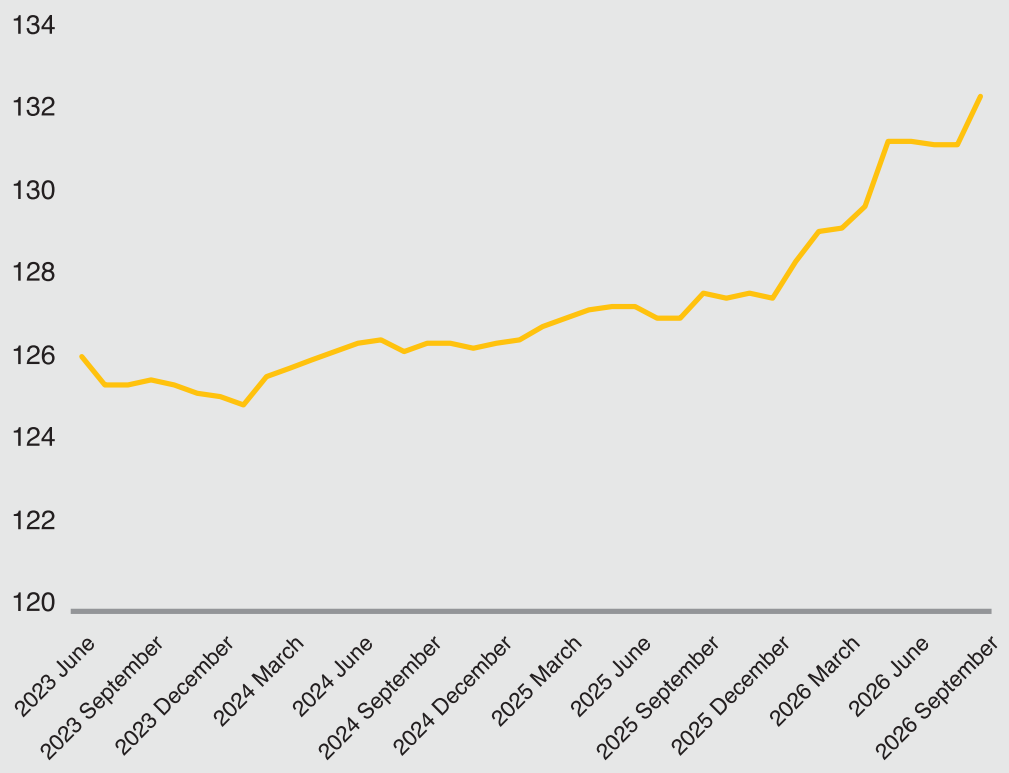


- Driven by persistent undersupply, consumer price index housing costs rose 4.3% in the year to September, led by a 10.8% jump in mortgage interest and a 5.5% increase in private rents.
- Residential Tenancy Board data shows rents for new tenancies grew 9.1% annually in Q1 2026, capturing the initial month following March's rent control legislation changes.
- While Ireland's 5.3% housing cost overburden rate sits below the 7.6% EU average, the figure is flattered by people unable to form new households who remain with family or in high-occupancy house-shares.

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Building Materials

Figure 20: Monthly building materials wholesale price index, 2021=100



- After rising 2.2% in the first five months of the year and briefly stabilising over summer, average Irish building material prices climbed 1% month-on-month in September as global energy volatility returned.
- Global basic commodity prices have increased sharply, with base metals and industrial materials up roughly 23% year-on-year and softwoods rising 6.1%.
- Renewed input cost pressures across European construction, combined with rising bond yields, will continue to challenge the funding viability of housing over the coming year.

Housing Delivery

Figure 21: Mortgage interest and private rents CPI, index Dec 2023=100



- New home completions rose 10.9% in the first three quarters to 26,833 units, with a late Q4 surge expected ahead of the development levy waiver wind-up before a corresponding dip in the first half of 2027.
- Scheme homes, including houses and duplexes in multi-unit developments, account for roughly half of all new units, while apartments make up just under a third.
- Regional delivery jumped year-on-year by around a third in the West and a quarter in the South-East, offsetting declines of 6% to 8% in the Border and Mid-West regions.

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