Bank of Ireland Sectors Team Manufacturing H1 2025 Insights / H2 2025 Outlook

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Manufacturing Sector
Conor Magee

conor.magee@boi.com
087 2279830

2025 – H1 Lookback

A recovery from contraction in 2024, global trade uncertainty as US tariffs kicked in, and export frontrunning to beat tariff costs, all dominated the narrative during the first half of 2025.

€74bn/ €67bn
+126% US/+1.4% ROW in exports

A huge Spike +126% in exports to US were driven by stockpiling to get ahead of Tariffs. H1 2025 Exports of Pharma to US are 3 times the level of H1 2024.[1]

+18%/ +3%
GDP and MDD Growth

In part due to Pharma export frontrunning to avoid tariffs, Ireland has contributed almost half of EU's Q1 GDP growth.[2]

53 IE/ 49 EU

Purchasing Managers Index goes from contraction in 2024 to expansion territory, with EU hitting highest score in 3 years.[3]

+27%
Industry Output

Industry Output is YOY +27% split by +32% in Modern Sector and +1% in Traditional Sector.[4]

€14.3bn
PMI

Total corporation tax YTD is up 14.1% year on year with Manufacturing contributing over half.[5]

+1.6%
Inflation

HICP July +1.6%[6] but many input prices – energy, freight continued elevated compared to Dec. 2019.

15%/ 2.7%
Tariffs

With "Exemptions" for Pharma and Semi-Conductors, the headline tariff 15% converts to an effective weighted tariff rate of 2.7% subject to change.

323,000

Employment continues strong with labour shortages in certain skill sets. Tariffs may trigger recruitment slowdowns.

Insights

2025 H1 has delivered a strong performance despite geopolitical headwinds. Irish Manufacturing PMI has been in expansion territory with average score of 52.5, (peaking in June at 53.7), outperforming its EU peers with average score of 48.6 for H1 2025. Both metrics are up on H2, 2024 underlining a modest recovery in EU Manufacturing activity, which had been sluggish in 2024. While growth in new orders is evident in the domestic economy, improvements are also due in part to frontrunning activity or stockpiling in an effort to avoid the impact of US tariffs. (See export data below). Employment remains strong, rising in June. However expect pockets of adjustments in H2 as businesses align to normal or non-tariff related demand.

2025 exports Jan. to Jun. have jumped YOY by a massive +43% overall. This is driven by a +126% increase to the US which in turn is driven by +218% increase in Pharma. During Q1 2025 we exported almost 5 times the value of Pharma at €39BN compared to €8BN in Q1 2024, peaking at €19BN in Mar. 2025.[1]

As a consequence of export turbo boost above, Q1 GDP is +7.4% QOQ and 18.3% YOY. Manufacturing contribution is + 16.5% QOQ and a massive +48.6% YOY. Excluding the MNC impact of stockpiling, Modified Domestic Demand +2% QOQ and +2.9% YOY.

Classification: Green

Key Sector Trends

Renewed Expansion

Irish Manufacturing started 2025 on an asymmetric mix of optimism and caution. Optimism on the back of solid performance in 2024, but caution as the new Trump administration arrived and the threat of tariffs became real. Irish Manufacturing has enjoyed 6 months of expansion while EU Manufacturing has demonstrated recovery momentum, as PMI edges close to the 50 mark.[3]

Lower Inflation

Interest rate hikes have had the desired effect with inflation falling back to 0.5% (HICP) in Nov 2024 but rising to 1.6% in Jul. 2025. The reality is though that many input prices remain elevated. Natural gas is almost three times pre covid levels and container freight is almost 2 times pre Covid levels. Manufacturing must have a laser focus on cost and margin improvement.

Strong Employment

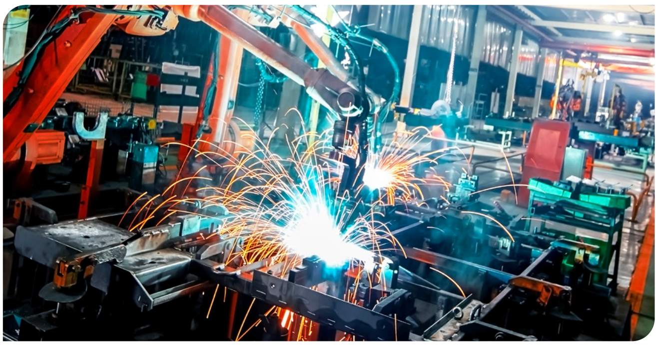
Employment has continued strong in 2025 in Ireland and US but in part due to tariff related inventory building. The continued business uncertainty will dampen recruitment and expect a slowdown in H2 as activity and inventory building moderates back to normal levels. Employment is a lagging indicator, and tariff induced inflation in US, combined with a weaker dollar will dampen demand leading to potential employment adjustments depending on sector and US exposure.

World Conflicts

Ongoing conflicts in Ukraine and The Middle East with no clear pathway to resolution create huge uncertainty and trigger a slowdown in consumption and demand for goods. The Middle East crisis has opened a whole new supply chain uncertainty for manufacturing with container ships rerouting away from the Red Sea adding significant time and cost to manufacturing inputs. Despite intense talks and US involvement enduring ceasefires remain elusive.

Complex Geopolitics

2025 continues to witness an increase in the risks and uncertainties for manufacturing associated with geopolitics. Uncertainty is the enemy which constipates new investment, dampens recruitment and triggers downward revisions of earning forecasts. VUCA - Volatility, Uncertainty, Complexity, Ambiguity, is the new norm.



US Tariffs

2025 has been a rollercoaster of Tariff announcements followed by reversals, with each week bringing a new threat. The latest overall Tariff rate in US as of 7.8.25 stands at **18.6%** up from just **4%** in 2024.[7] By comparison – see table 1- Ireland has so far fared much better to date. With current exemptions for Pharma and Semiconductors, a headline tariff of 15%, our 2024 exports would be impacted to the tune of €2.0Bn yielding an overall effective tariff rate on US exports of **2.7%**.[8] However negotiations are at best delayed, the US is growing impatient and threats of 30% have been put in writing to the EU. If this comes to pass, then EU US trade activity would nosedive if not effectively come to a standstill in many sectors. On the issue of relocation to the US, the ultimate goal of tariffs; our FDI US partners have deep roots here, highly educated and skilled employees, EU markets are on their doorstep and any move would take considerable time and resources. They are also backed by big US institutional investors who hopefully will advocate for the right and fair tariff outcome.

Table 1: The New Tariff Environment

Trade-weighted tariff hikes by country, effective August 7

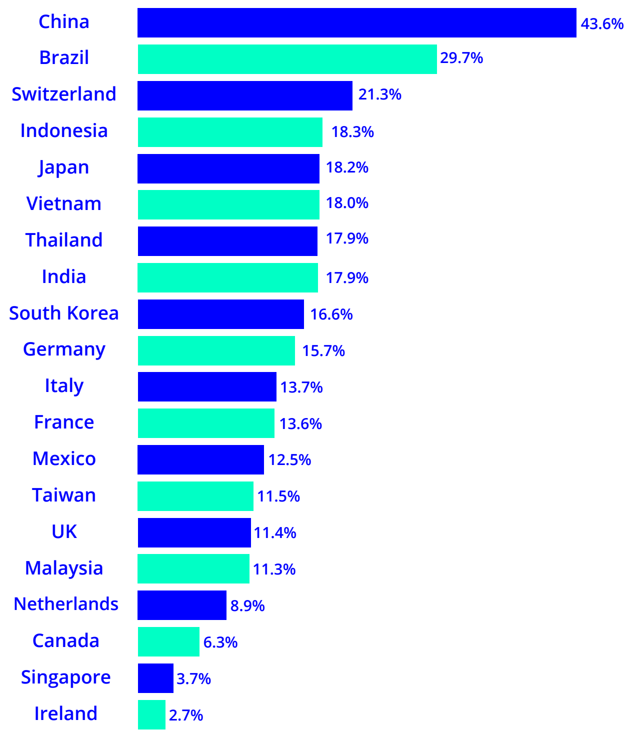


Table 1 Source: [8] Global Trade Alert

Global Growth

Given the volatile trading and tariff backdrop, growth forecasts have been slashed by 70% in many economies with global GDP expected to slow to 2.3% down from 3.3% in 2024 (World Bank 15.6).[9] US has been cut to +1.4% (Deloitte 25.6)[10] and Euro area to +1.1% (Central Bank Ireland 19.6).[11] Given our strong and distorted trading volumes YTD, Ireland GDP 2025 is forecasted at +9.7% and Modified Domestic Demand at +2%.[11] The reality is that all of these forecasts may be revised downwards in H2, if the trading and tariff environment continues to deteriorate.

ESG and Climate Change

The urgency of the crisis is not matched by the pace of change. Carbon Targets are not on track and Intent to address is not matched by action. As noted by the UN Emissions Gap report: "No more hot air please - there is a massive gap between rhetoric and reality". Ireland is on course to miss its legally binding climate and energy targets. Emissions reductions are now further off track than 2024 tracking at 23% versus 29% in 2024 and the 2030 51% target.[12] This may trigger penalties of up to €28bn or higher in 2030.[13]

Artificial Intelligence

ChatGPT, Generative AI and Large Language Models continue gather momentum in 2025. AI enabled PC sales forecast to grow by 165% in 2025.[14]

Key Trends and Metrics for Irish Manufacturing Sector

Irish Manufacturing PMI

PMI is a questionnaire sent to 250 manufacturing companies, and a result greater than 50 represents expansion. The last 6 months has seen a return to expansion for Ireland, average score of 52.5 driven by growth in output and new orders. Despite the uncertain Tariffs situation, 35% of respondents are positive about activity levels for 2025, while just 8% expect a decline. The EU has also gained momentum in activity edging close to expansion with an average score of 48.6.[3] The hope is that the fragile "certainty" of the EU-US trade deal will underpin further growth.

Table 2: Manufacturing Activity - 2024/25

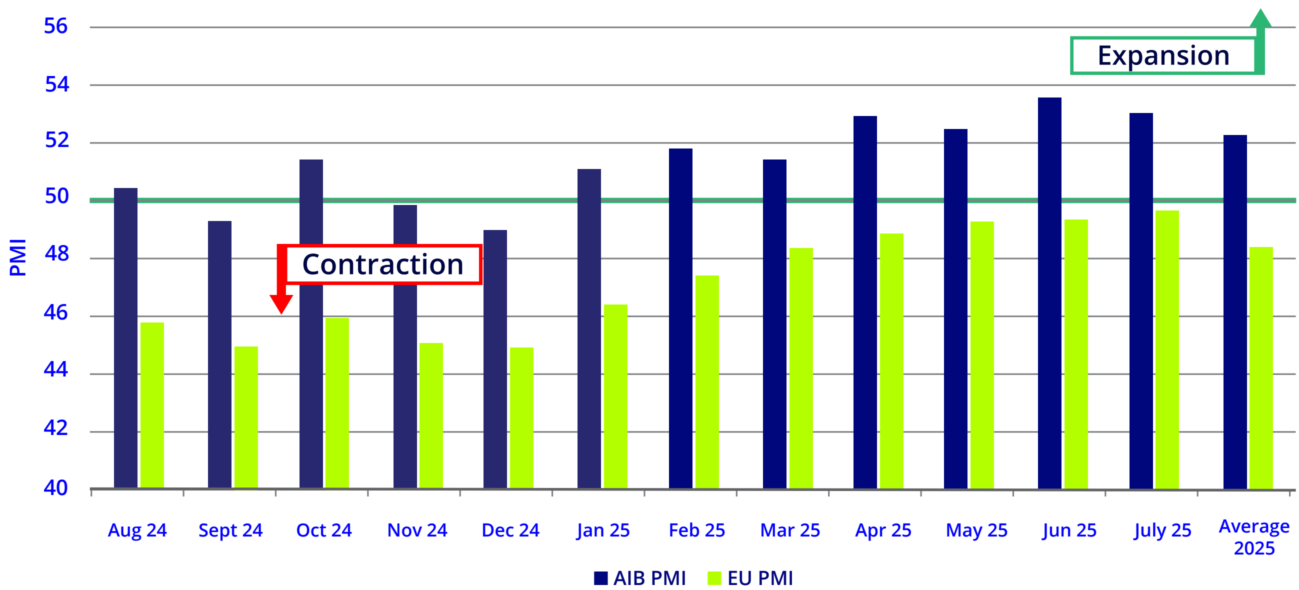


Table 2 Source: [3] PMI S&P Global

Imports, Exports, Industrial Output and Turnover

Imports and exports performance are summarised in table 3 for period H1 2025. In totality, exports were up YOY by +43%, while imports were up by +9%. The large increase in exports is driven by US +126% and the Pharmaceutical sector + 218%, all in the name of avoiding tariffs.[1] This frontrunning activity has eased back in June

For Manufacturing production and turnover summarised in table 4, production output is overall up +27% for H1 2025. This is made up of the modern sector up by 32%, and by contrast the traditional sector which is down by 1%. This strong uptick in activity is again linked to frontrunning of exports.[4]

Table 3: Total Imports and Exports from Jan-June 2025

Table 3 Source: [1] CSO

Table 4: Manufacturing Production and Turnover Annual & 3 Months

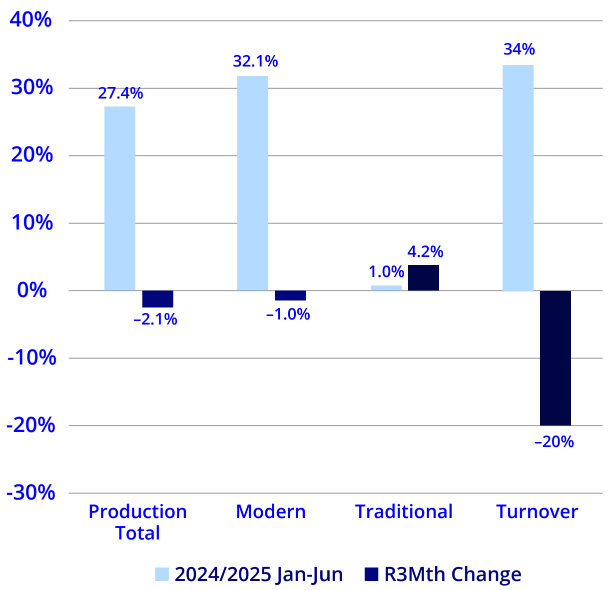


Table 4 Source: [4] CSO

Manufacturing Input Price Inflation

Inflation (HICP) was 1.6% in July for Ireland while the EU figure for July was 2.0%. While this is welcome news, it stems from the fact that the comparison period is now firmly in the elevated prices zone and the reality is that manufacturing input prices continue high when compared to pre Covid-19 levels. See tables 5 and 6 below and overleaf.

Table 5: MFG. Inputs - % Price Change YOY Aug 25/24

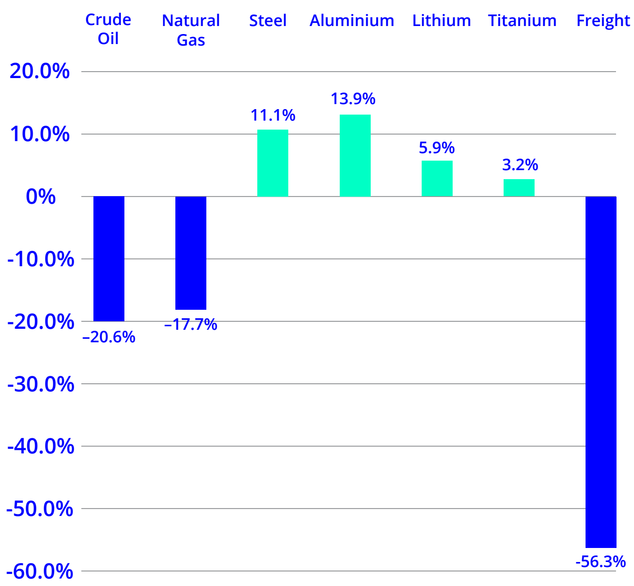


Table 5 Sources: [15] Tradingeconomics, [16] Drewry

Table 6: MFG. Inputs - % Price Change Aug 25/ Dec 19

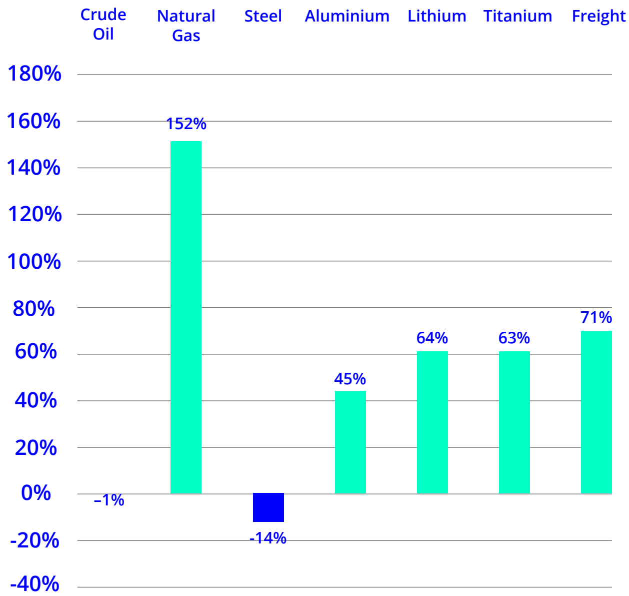


Table 6 Sources: [15] Tradingeconomics, [16] Drewry

Spotlight on US Tariffs

With the latest EU-US Trade announced on 27th July, 15% tariff on almost all goods, the effective US tariff rate now stands at 18.6%. (Table 7). It is now at its highest since 1934, up from just 4% in 2024. In the context of Ireland, the overall Tariff rate was 1.8% in 2024. Now based on current exemptions Pharma, Chips, Aerospace **(all subject to change)**, it will rise to 2.7% from August 7th. With no price increase pass throughs and based on US 2024 exports of $73Bn this will equate to a €2Bn hit to Ireland's export economy.

Table 7: Customs duty revenue as a percent of goods import

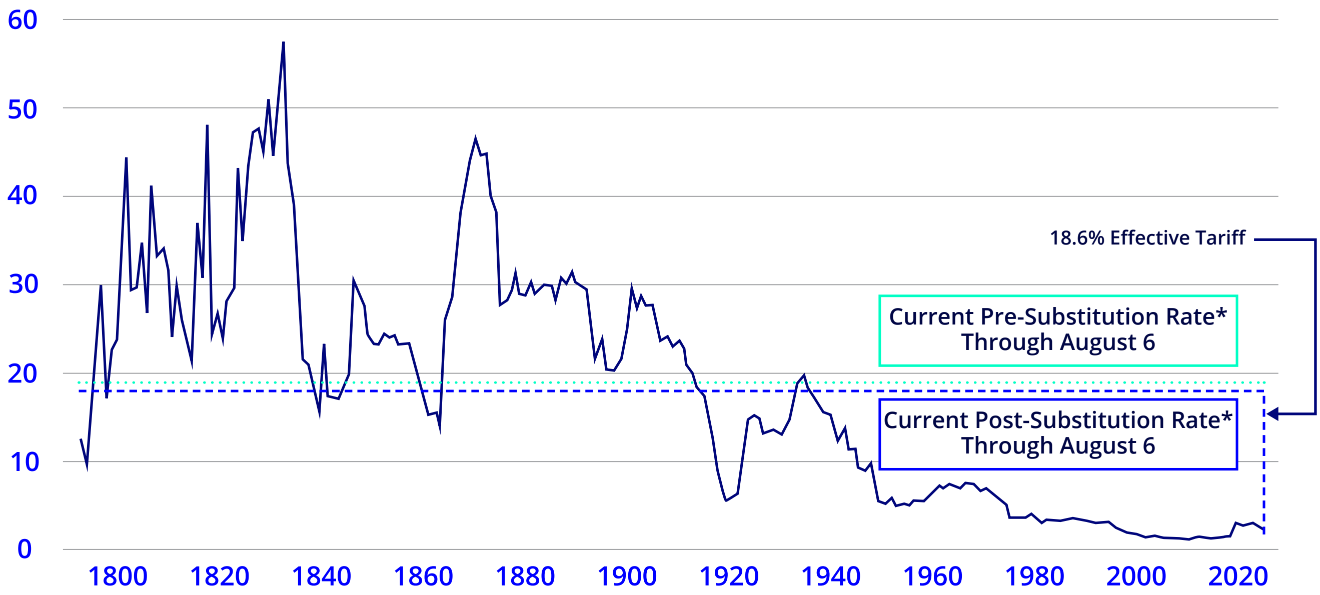


Table 7 Source: Effective US Tariff Rate, State of U.S. Tariffs: August 7, 2025 | The Budget Lab at Yale

Key Takeaways from EU-US trade deal.[17,18]

Notwithstanding some mixed messages and absence of all the details, the EU-US framework deal sets out the following effective from **August 7th, 2025**, following a US Executive order issued on July 31st, 2025.

- **A 15% all-inclusive US Tariff ceiling** (no stacking with existing Tariffs) for most EU goods
- The 15% ceiling applies to all EU exports currently subject to reciprocal tariffs except in cases where the US MFN tariff exceeds 15%. Here the higher tariff will apply as in the case for **Steel, Aluminium and Copper which will continue at 50%.**
- The 15% Tariff ceiling **"may"** also apply to future Tariffs for **Pharmaceuticals and Semi-Conductors**, subject to the outcome on the ongoing section 232 investigations. Until such time as 232 investigations are complete, the current MFN Tariff rate will continue to apply to these sectors which is essentially **no change or 0%.**
- The 15% ceiling also applies **to automotive and automotive components** in addition to the current MFN level of 2.5%. This represents a reduction from current 25% rate and a win for the EU auto sector.
- Strategic sector products, **aircraft, components, certain chemicals, generic drugs, natural resources** will be **"exempt or with zero- tariff agreement"** and revert to 2024 levels. The EU and US are working to add more products to this carve out.

Impact on Irish Manufacturing and How to Mitigate Financial Cost of Tariffs.

A 15% tariff on the face of it will represent a significant burden for Irish Manufacturing. This additional cost is further amplified by the impact of the weaker dollar falling back from near parity to €1€ = $1.15 reducing their euro revenue from dollar priced sales. However, there is much that can be done to mitigate these incremental costs as follows:

- Engage with US customers and with reference to the Harmonized Tariff Schedule, negotiate and agree the most cost effect tariff mechanism.
- As table 8 shows it may be possible and more advantageous to apply the steel tariff depending on your product category:

	Assembly	Steel
Tariff	15%	50%
Sales Price	$1,000.00	
Steel Content Cost		$150.00
Tariff Cost	$150.00	$75.00
Effective Tariff	**15%**	**8%**

Table 8 Source: Tariff Options subject to HTS guidelines

- Model post Tariff revenue (table 9) and P&L scenarios to determine business impact using 3 variables:
  1. Tariff level – example 15%
  2. Price pass thru depending on uniqueness and demand of product – example 10% = a net Tariff of 5%
  3. Potential future demand changes – example -5%
- Hedge dollar exposure or include an exchange rate clause in commercial contracts.
- Based on above negotiate and agree new pricing with US customers.

Scenarios	
Tariff (+%)	**15%**
Sales Prices Pass Thru Amount (+%)	**10%**
US Sales Reduction Amount (-%)	**-5%**

Table 9 Source: P&L Scenario Planning

Summary and Conclusions for now...

Irish manufacturing fundamentals are very strong and have demonstrated great resilience and success in navigating multiple shocks of Brexit, Covid 19 and Global conflicts. While tariffs are bad for business, the US is now "hooked" on generated revenue, to date in excess of $100BN. We must now reluctantly accept that this is the new norm for the medium term. In preparation for this tariff framework agreement Ireland has front loaded exports (see table 10) to record levels in 2025 driven by pharmaceuticals and peaking in March. Pharma exports in Q1 were €39Bn which were almost 5 times the value of Q1 2024.

Looking forward, and now with more "certainty", Irish Manufacturing will continue to benefit from deep footprints in the Irish economy:

- Manufacturing is long established, capital intensive with highly skilled workforces and serve also EU markets.
- A transfer to the US is cost prohibitive, high risk, involves extensive regulatory approvals and transfer time window of at least 4 years.
- Only English-speaking country in the EU.
- Big US institutional investors who recognise the value of the current business model and their investment here.
- The bulk or our exports in the Pharma, Medtech space which are typically price inelastic and so tariff driven price increases will mostly be passed on.
- Companies will continue to invest but the FDI competitive landscape will become more challenging.

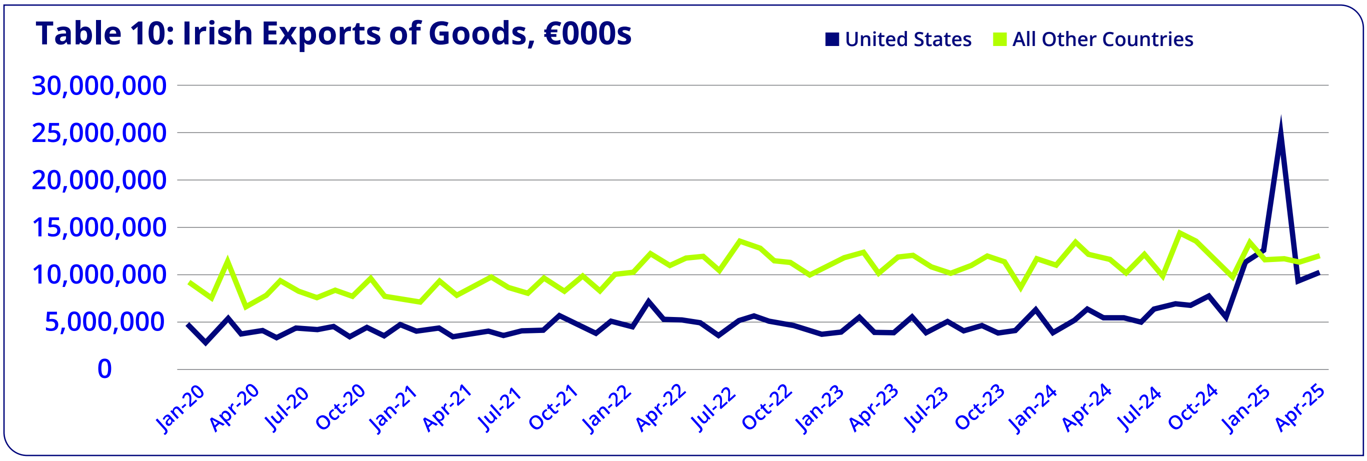


Table 10 Source: Export frontrunning, Source CSO

ESG: The Good – Greenhushing, The Bad – Way off track, The Ugly - Penalties

Greenhushing[19]: You would be forgiven for thinking, that with all the noise around tariffs, that the strategic imperative of ESG has gone off the table. Indeed BP, has sold its American onshore-wind business and banks HSBC and Barclays bank, have left the Net-Zero Banking Alliance. However according PWC's second annual decarbonisation report[20] covering 4000 firms, only 16% have dialled back their goals, 47% stood by them and 37% became more ambitious. In short companies which were accused of "greenwashing" - making deceptive promises, are now "greenhushing" - getting on with the job of decarbonisation behind the scenes, without fuss, because they know it is the right thing to do to create long term value.

Way off Track: According to EPA's Greenhouse Emissions Projections report published in May 2025, we are further off track in 2024 than previously thought. Against a target of 51% GHG reduction, projections are now to reach 23% GHG reduction down from the previous 29% reported in 2024. See table 11 below.

WEM: *With Existing Measures,* refers to measures currently implemented and actions committed by Government.

WAM: *With Additional Measures,* refers to WEM plus additional measures which are under discussion and likely to be implemented by 2030.

Penalties: Depending on our variance to target between now and 2030 we may become liable for penalties up to €23BN. It is much more cost effective to invest now rather than delay, incur penalties, and invest at higher costs later.

Funding Activity in the Sector

- Funding activity levels in the sector reflects a number of trends including:
    - Caution in the sector given the uncertain macro-economic environment and ongoing trade and tariff uncertainty.
    - High and significantly increased YOY deposit balances.
    - Higher than historic interest rate environment prevails.
    - Relief from higher working capital needs given improved supply chain dynamics.
    - Demand for funding slightly up at 20% according to survey of 1,500 SMEs released in May 2025.[21]
    - oM&A deal volumes H1 2025 are up YOY by 18% from 207 to 244.[22]
- Funding was dominated by working capital followed by M&A, MBO transactions and capital expenditure.
- BOI continue to support clients with stocking loans which act as an insurance policy against supply interruptions and inflation.
- There is a wait and see element on capex as the tariff landscape unfolds
- In response, clients are moving from CapEx-heavy investments towards more flexible, OpEx-based models.

Table 11: Total GHG Emissions Scenarios WEM and WAM to 2030

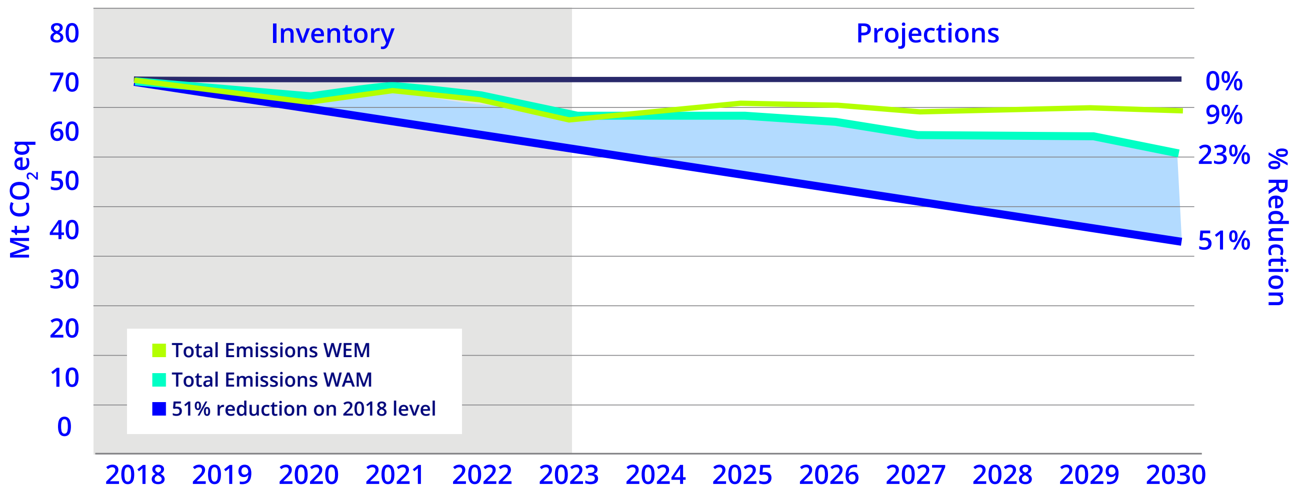


Table 11 Source: EPA, GHG Projections

Manufacturing 2025 Outlook and Beyond – Optimism despite macroeconomic clouds with focus on costs and margins.

Tailwinds 2025

- Irish Manufacturing is hugely resilient with enormous positive dividends gained by shocks of COVID-19, Brexit and Ukraine serving it well to navigate the uncertainties of 2025.
- SMEs continue to benefit from MNCs reconfiguring their supply chains to local and more secure partners
- SMEs have benefited from vertical integration changes in response to supply chain headwinds.
- The shocks of energy inflation and shortages are accelerating conversion to Greener alternatives.
- Inflation impacts are receding, but customers are seeking to reverse increases.
- FDI activity continues to deliver investments particularly in RD&I, talent development and sustainability.
- Manufacturing is embracing ESG, and rate of adoption is increasing as funding grants increase
- PMI, Exports, Industrial output and GDP data all point to moderate growth in 2025

Headwinds 2025

- Risk of tariffs and wider impacts on global trade. Investment delays, forecast downgrades and inventory front-loading.
- 2025 exports are overstated due to stockpiling.
- The risks of geopolitics complexity continues high.
- Elevated input costs, including materials, minimum wage, social costs will weaken competitive profile and must be countered with a laser focus on business costs and margins.
- Labour shortages and competition for certain talent in a tight market continues.
- There may be capacity adjustments in certain sectors depending on how macroeconomics plays out.
- Infrastructure of transport, housing, utility grids need to match Manufacturing ambitions and not be a barrier to growth.

Despite all the "unpredictability", Irish Manufacturing is broadly positive for solid outcome in 2025. Irish Manufacturing is resilient and agile in navigating economic cycles. With a laser focus on costs and margins, combined with an eye for leveraging competitive advantage from green credentials, Irish manufacturing fundamentals are strong and well positioned for solid growth in 2025.

Sources: CSO, Gov.ie, IBEC, Bank of Ireland, CBI, The Economist, S&P Global, Irish Times, Europa.eu, Whitehouse.gov, tradingeconomics, Drewry, PWC, Gartner, Deloitte, the Budget Lab Yale, Global Trade Alert, ECB, EPA, Renatus.

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Conor Magee

conor.magee@boi.com

087 227 9830

Conor joined Bank of Ireland in 2021. He is an accomplished senior executive and brings with him significant business and manufacturing experience gained both In Ireland and internationally. He has a strong track record of business plan delivery, scaling and turnaround and is an expert practitioner in Lean thinking, supply chain best practice and cost management in the Manufacturing sector.

Conor held various senior positions in Cargotec, a global manufacturer of Industrial Equipment for Cargo handling and transport having worked in Ireland, China and Finland.

Prior to Cargotec, Conor worked in the automotive sector with Iralco Automotive and Magna Donnelly in Ireland and Opel AG in Germany. He holds an MBA from Michael Smurfit School of Business, a Mechanical Engineering Degree from UCD, and a Diploma in Business Coaching from Smurfit Executive Development.