Manufacturing Sector H2 2025 Insights and H1 2026 Outlook

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H2 2025 Insights

In summary 2025 H2 delivered a strong performance despite geopolitical and tariff headwinds.

€107Bn/€118Bn
+61%/-4-% YOY in Exports (YTD Nov.)

Total exports +18% YOY with a second pharma spike to US in Sep. to get ahead of tariffs. Exports of pharma to US were 2 times level of 2024 at €80Bn.[1]

52/49
PMI

Purchasing Managers Index (PMI) continued in expansion, avg. 52 territory, with EU hitting 50+ twice in H2 – highest in 3 years.[3]

€33Bn
in Corportation Tax

Total corporation tax 2025 is up 17.2% YOY with manufacturing contributing ca. €12Bn.[5]

15%/3.3%
Tariffs

With "exemptions" for pharma and semi-conductors, the headline tariff 15% converts to an effective weighted tariff rate of 3.3% but subject to change.

+16%/+3%
GDP and MDD Growth

GDP growth YOY Q1 to Q3 is 16% driven by manufacturing contributing +37% due to Pharma export frontrunning.[2] MDD running at +3% for same period.

+9.3%
Industry Output

Industry output is YOY Sep. to Nov. +9% split by +11% in modern sector and +4% in traditional sector.[4]

+2.7%
Inflation

HICP dropped in Dec to +2.7%[6] but many input prices – energy, freight continued elevated compared to Dec. 2019.

323,000
Employees

Employment continues strong with labour shortages in certain skill sets. Rate of growth has slowed, and tariffs may trigger further slowdowns.

Key Trends

- **Renewed Expansion:** Irish Manufacturing has enjoyed 12 months of expansion while EU Manufacturing has demonstrated recovery momentum, as PMI edged over the 50 mark during H2.[3]
- **Lower Inflation:** Irish Inflation (HICP) eased again in December to 2.7% and Euro Inflation eased back to target value of 2%.[7] However many input prices remain elevated.
- **Rising Cost Pressures, Input Inflation and Margin Erosion:** Irish manufacturing costs have risen and continue to do so. Businesses are contending with minimum wage increases, pension and healthcare obligations, along with higher energy costs compared to peer competitors.
- **Strong Employment:** Employment has continued strong in H2 2025 in Ireland, but further growth potential is constrained by US tariff uncertainty, caution around investment activity, and skills shortages.
- **US Tariffs are a reality:** While overall impact is less than expected, exposed companies are negotiating best outcomes for their businesses depending on how strong their product offering is. Typically, a 50:50 share is the case.
- **Complex Geopolitics:** 2026 will continue with the risks and uncertainties for manufacturing associated with geopolitics. Prevailing and heightened uncertainty is the enemy which inhibits new investment, dampens recruitment and triggers downward revisions of earning forecasts.

Classification: Green

Key Trends (Cont.)

- **Strong exports in Pharma turbo charged by stockpiling:** We saw two export spikes in 2025, one in Mar. and one in Sept. as companies tried to get ahead of the cost impact of tariffs.
- **Infrastructure Constraints and Planning delays:** Energy grid, water and housing bottlenecks along with planning delays are all compromising the next wave of growth in Irish manufacturing. Published in 2025, the National Development Plan[8] sets out an investment of €275.4Bn from 2026 to 2035, with an allocation of €102.4Bn up to the end of 2030 to address much needed infrastructure improvements across all sectors.
- **ESG and Green transition:** Manufacturing businesses are embracing green and carbon reduction as a strategic and competitive imperative. While there is good progress in transition to renewable energy, (14.6% of energy needs – highest on record), the pace of reductions is not enough to deliver on our legally binding carbon budgets.[9]
- **Digital and AI adoption:** Investment increasing with AI now a priority for 52% of businesses (IBEC).[10] AI adoption will support productivity and efficiency improvements including automation and certain labour shortages.

Market Dynamics, Conditions & Drivers

Two metrics defined Irish Manufacturing in 2025 – expansion underlined by PMI and bumper exports driven by US tariffs. H2 2025 has seen a continued expansion for Ireland, average score of 52.3 driven by growth in output and new orders. YOY total goods exports are +18%, US exports are +60% and Pharma exports to US are +96%.

Table 1 – PMI in Expansion

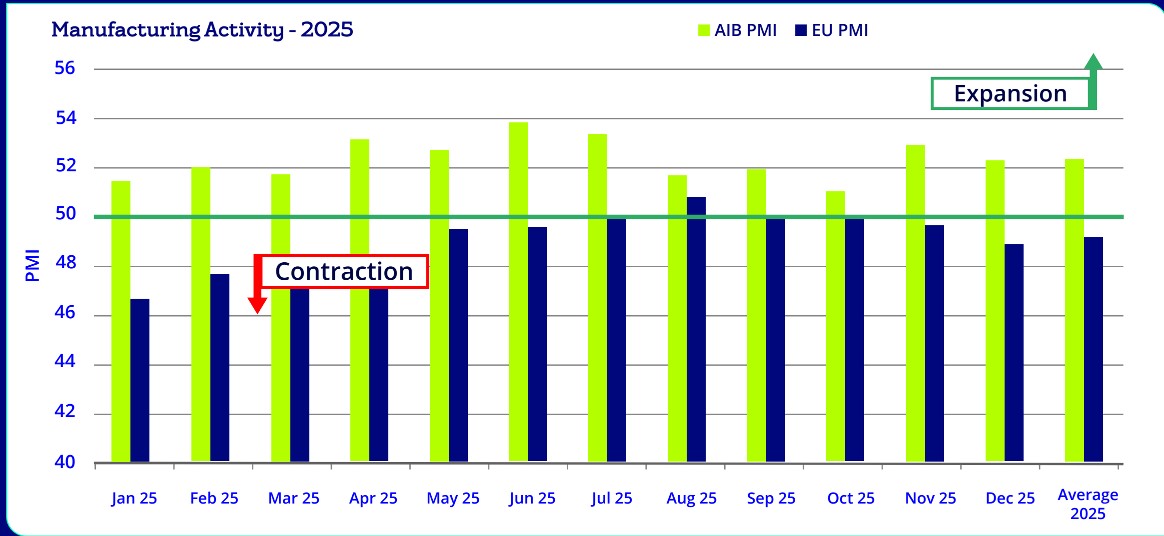

Table 1: Source: PMI by S&P Global Dec 2025

Table 2 – Ireland Goods Exports 2024/2025

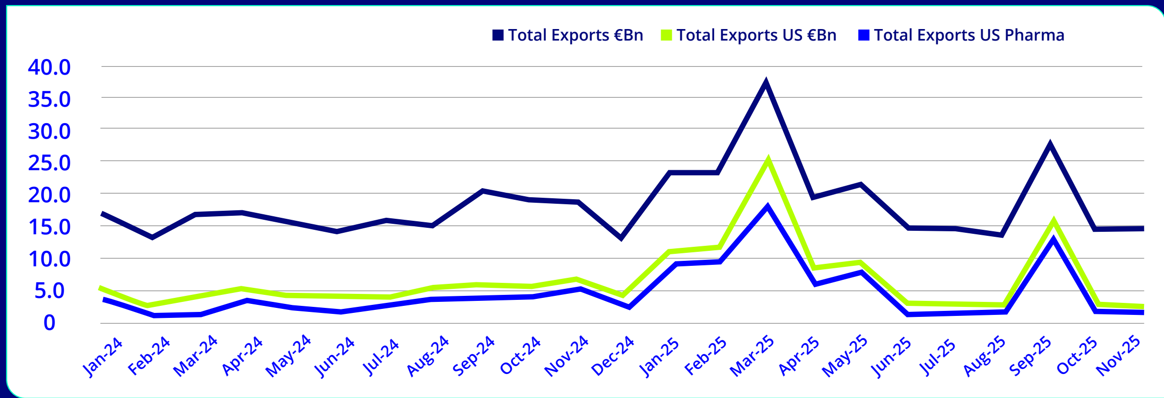

Table 2: Source: CSO Nov 2025

Market Dynamics, Conditions & Drivers (Cont.)

Table 3 – US tariffs become a reality during H2 2025 but impact lower than expected.

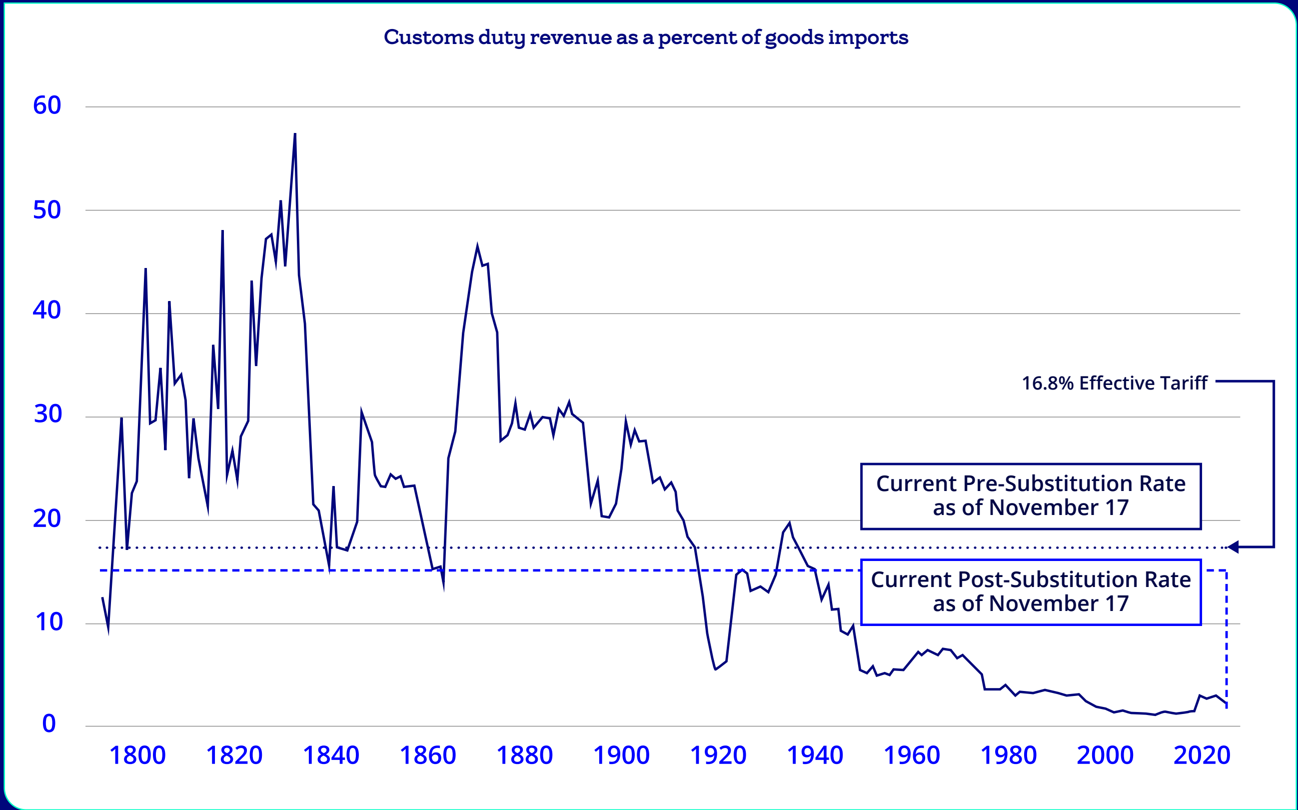

Table 3: Effective US Tariff Rate, Source: State of U.S. Tariffs: November 17, 2025 | The Budget Lab at Yale

Table 4 – The New US Tariff Environment

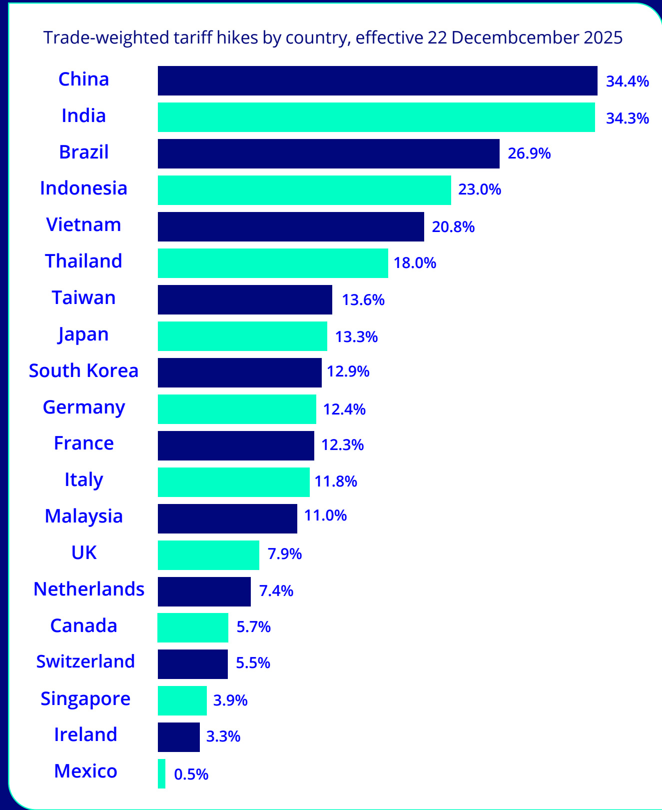

Table 4: Source: Global Trade Alert

With the announcement of the EU-US trade deal on 27th July, effective from 7th August, a "fragile certainty" around trade was agreed.[11]

- The effective US tariff rate now stands at 16.8% at its highest since 1935, table 3, up from just 4% in 2024.[12]
- 15% tariffs apply to all goods with exemptions (under review) for Pharma, Semiconductors and Aerospace.
- 50% on steel and aluminium
- The upshot, table 4, is that for now Ireland has the second lowest trade weighted average tariff of just 3.3% which will notionally cost the economy about €3.0Bn.[13]

However, the tariff landscape remains very uncertain, and the only constant is change.

Market Dynamics, Conditions & Drivers (Cont.)

Lower inflation, Lithium price spikes and many input prices still elevated.

Table 5: MFG. Inputs - % Price Change YOY Jan 26/25

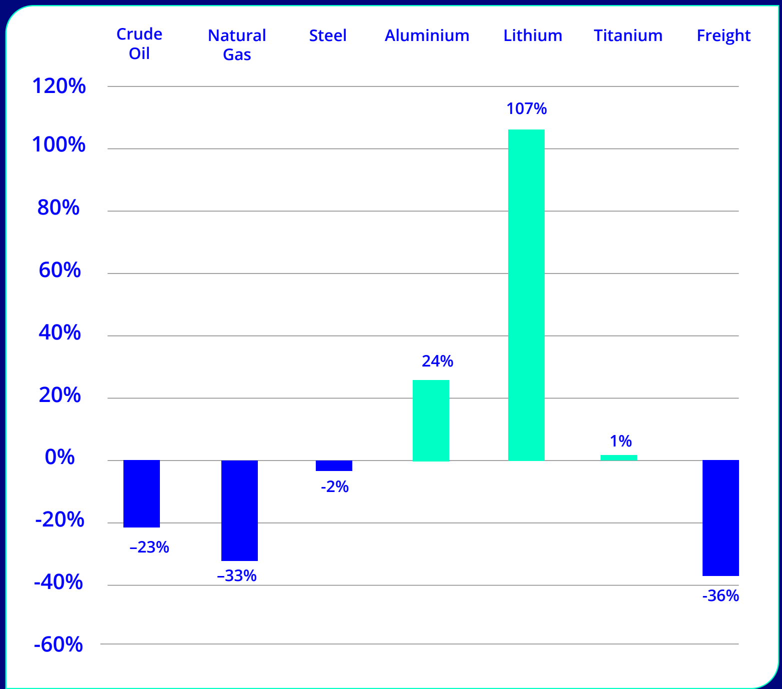

Table 5: Sources: Tradingeconomics,[14] Drewry[15]

Table 6: MFG. Inputs - % Price Change Jan 26/Dec 19

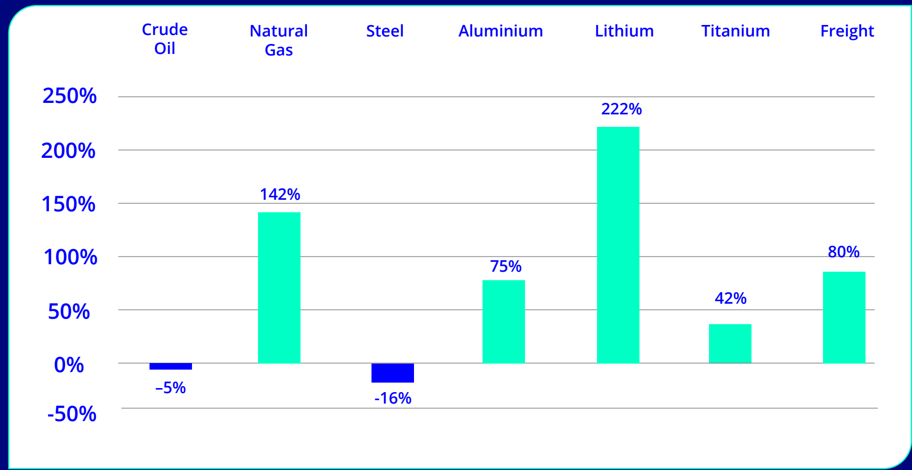

Table 6: Sources: Tradingeconomics,[14] Drewry[15]

Good news is that crude oil, gas, steel and freight are down YOY while lithium and aluminium are significantly up, table 5. Lithium has seen a spike in price due to a surge in demand from battery energy storage systems (BESS), combined with constrained supply driven by mine shutdowns. Demand for lithium is expected to grow over 50% in 2026 with the growth in EVs and AI-driven data centers all contributing to heightened demand.[16] With exception of Oil and Steel all inputs shown are up on pre-Covid levels.

Manufacturing embracing ESG as a strategic imperative but greater momentum needed.

The UN Emissions Gap Report 2025[17] under the sobering title of ***Off target: Continued collective inaction puts global temperature goal at risk,*** delivers the unsurprising messages that global warming projections exceed Paris targets, overshooting 1.50C is inevitable and emission cuts of up to 55% are needed by 2035 to meet goals. In a similar vein for Ireland, while there is steady progress on renewable energy we stand way off target. Against a target of 51% GHG reduction, projections are now to reach 23% GHG reduction down from the previous 29% reported in 2024.[18]

Digital and AI adoption a priority but unintended consequences may constrain progress.

The race to AI has driven up the price of DRAM (Dynamic Random Access Memory) chips by 1360%[19] since April 2025 and is also attributed to spike in Lithium costs. Both will have knock on impacts on consumer electronics pricing, EVs and data centre build costs.

Outlook H1 2026

In summary expect a moderation in growth compared to 2025 as export activity returns to normalised levels. 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 continued momentum in 2026.

Tailwinds 2026

- Irish Manufacturing is hugely resilient with positive learning dividends gained by shocks of Brexit, COVID-19, global conflicts and US tariffs, positioning them well to navigate the uncertainties of 2026.
- 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.
- FDI activity continues to deliver investments particularly in RD&I, talent development and sustainability.[20]
- Manufacturing is embracing ESG, and rate of adoption is increasing as funding grants increase.
- National development Plan (NDC) is a key enabler for growth in Engineering related sectors.

Headwinds 2026

- Tariffs and wider impacts on global trade resulting in investment delays, recruitment slowdown and forecast downgrades.
- Expect 2026 to see a return to more normal demand volumes.
- The risks of geopolitics complexity and uncertainty continue 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 play out.
- Infrastructure of transport, housing, utility grids need to match manufacturing ambitions and not be a barrier to growth.

Strategic Implications and Action points

Manufacturing businesses are “familiar” with permanent volatility. They recognise that major investment decisions are delayed as they take more time to determine best course of action and to deploy capital on what they can control. In 2026 Manufacturing will look to:

- Focus most on the “controllables” with a sharp eye on costs and profit margins.
- Build momentum on green agenda and leverage customer loyalty.
- Use AI and digital to capture automation and efficiency improvements.
- Negotiate best outcome with stakeholders for US tariff exposed businesses
- Diversify geography and product portfolios to offset geopolitical including tariff headwinds.
- Capture opportunities arising from Infrastructure development and the rollout of the National Development Plan funds of €102.4Bn allocated till end of 2030.
- Prepare for the new world trade order which has moved away from “globalisation” and “rules based” system to more protectionism. According to Trade in Transition How to Prepare for a Patchwork World Order released by Boston Consulting Group[21] – 4 Nodes of Global Trade are emerging:
    1. **United States:** Plays by its own rules, with an “America First” policy approach underpinned by tariffs.
    2. **China:** Prioritises strategic autonomy, access to markets to build market share and supplies of critical materials.
    3. **Plurilateralism**: International cooperation across a group of countries, underpinned by rules-based trade via deep free trade agreements and clear standards for market access. EU, UK, Canada, Australia, Japan.
    4. **BRICS + (excluding China):** collaborate with each other on trade, seen as a driver of growth. Ad Hoc deal negotiations which typically prioritize sovereignty and retaining policy flexibility rather than entering deeper integration frameworks. Includes Brazil, Russia, India, UAE.

In summary, Manufacturing sentiment remains positive, with 42% predicting a rise in activity in 2026.[3] However against the relentless geopolitical uncertainty, sentiment has shifted somewhat downwards to a more cautious and pragmatic approach.

Sources

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[2] Domestic Demand Quarterly National Accounts Quarter 3 2025 - Central Statistics Office
[3] PMI Releases December 2025
[4] Industrial Production and Turnover November 2025 - Central Statistics Office
[5] Corporation Tax take rose 17% last year to almost €33bn Jan 2026
[6] Consumer Price Index December 2025 - Central Statistics Office
[7] Euro zone inflation eases to 2% in December
[8] Government publishes updated National Development Plan
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[10] Manufacturing in Ireland - IBEC
[11] EU-US trade deal explained
[12] State of U.S. Tariffs: November 17, 2025 | The Budget Lab at Yale
[13] Relative Trump Tariff Advantage Chart Book - Global Trade Alert
[14] TRADING ECONOMICS | 20 million INDICATORS FROM 196 COUNTRIES
[15] Drewry - Service Expertise - World Container Index - 08 Jan
[16] Three reasons lithium prices are surging and the ASX stocks poised to prosper
[17] Emissions Gap Report 2025 | UNEP - UN Environment Programme
[18] EPA Projections Show Ireland off Track for 2030 Climate Targets | Environmental Protection Agency
[19] The AI frenzy is creating a big problem for consumer electronics
[20] Strength and resilience of FDI propels growth, innovation, and competitiveness | IDA Ireland
[21] https://www.bcg.com/publications/2026/how-prepare-patchwork-world-order?

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