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Irish domestic economy set for continued growth despite inflation weighing on households – AIB Economic Outlook

• Modified domestic demand forecast to grow by 3.8% in 2026 and 3.1% in 2027

• Inflation expected to peak in Q4 2026 before falling steadily

• Housing completions projected to rise to 39,000 units in 2026 and 41,000 in 2027

• Strong public and private balance sheets provide resilience, although risks remain

Ireland's domestic economy is expected to continue growing at a solid pace, although higher inflation is likely to moderate the rate of expansion. That's according to the Autumn 2026 *AIB Economic Outlook Report,* which revises upward its forecast for Modified Domestic Demand growth to 3.8% in 2026 and 3.1% in 2027, following growth of 4.7% in 2025. The outlook is supported by investment, housing and public infrastructure spending, though risks remain tilted to the downside in the current geopolitical and inflationary environment.

Exports, which were boosted in recent years by pharmaceuticals and more recently by semiconductor and IT services activity, are forecast to grow by 2.8% this year, rising to 5.2% in 2027. AI-related exports are now growing quickly off a low base, accounting for nearly 13% of all customs goods exports so far in 2026 compared to just 6% in 2025.

Cost of living

The report forecasts that inflation will rise further, as higher oil and gas prices feed through to consumers. Harmonised Index of Consumer Prices (HICP) inflation is expected to peak in the final quarter of this year before easing steadily, averaging out at 3.5% for 2026 and 3.1% in 2027, before settling back to 2% in 2028, though risks to the forecast remain on the upside.

The labour market remains strong but is showing signs of easing growth. Employment has risen by 20%, or 461,000 people, since the start of the decade to more than 2.8 million. Job gains in the labour market are expected to continue, but the rate of expansion will ease this year compared to 2025. AIB forecasts employment growth of 1.2% in 2026, building again to 2% in both 2027 and 2028. Driven by ongoing strong labour force growth alongside slower jobs growth, the unemployment rate is predicted to rise modestly from 4.6% last year to 5.1% in 2026.

Housing

Housing supply is expected to continue to increase. Completions rose to 36,000 units in 2025 and were 11% higher year on year in the first six months of this year. Indicators of activity offer some encouraging signs for a further uplift in supply, prompting a forecast of 39,000 completions in 2026, rising to 41,000 next year and 45,000 in 2028, underpinned by a sustained uplift in the apartments sector. Delivery of water, sewage and energy infrastructure will, however, be vital to sustaining output above 45,000 units.

Consumer spending is expected to grow at a decent but slower pace, as inflation affects household purchasing power and jobs growth moderates. AIB forecasts consumer spending growth of 2.3% this year and 2.1% in 2027. Households remain cautious and the household savings rate has risen to around 20%, with households saving approximately €1 in every €5 earned in aggregate. This trend is expected to continue, as factors such as global uncertainty and ageing demographics boost savings behaviour.

Public finances

The public finances remain positive but reliant on windfall corporation tax receipts. The Department of Finance projects a budget surplus of €9.5 billion, or 2.5% of Modified Gross National Income (GNI*) in 2027. Excluding windfall corporation tax receipts, however, the report notes that fiscal deficits could rise to €20 billion by the end of the decade according to the Department of Finance. The Government holds over €70 billion in liquid assets in its sovereign wealth funds and other areas, providing an additional buffer alongside relatively healthy household and business balance sheets.

Bond Markets – the Long and Short of It

This report's Theme in Focus, "Bond Markets – the Long and Short of It", examines the sharp rise in government borrowing costs across advanced economies in 2026. It finds that shorter-term yields have been driven by renewed inflation and higher interest-rate expectations, while longer-term yields also reflect high public debt, large fiscal deficits and the shift from central banks to more price-sensitive bond buyers. Ireland remains comparatively well positioned, with the spread between Irish and German 10-year yields narrowing to around 12-13 basis points, but the report cautions that higher yields will still raise refinancing costs over time.

Lead author and AIB Chief Economist, David McNamara, said: "Ireland's domestic economy is expected to continue expanding, supported by investment, housing delivery and public infrastructure. However, the renewed inflation shock will weigh on household incomes and consumer spending, while headline GDP will remain volatile because of multinational activity. Strong public, household and business balance sheets provide important resilience, but geopolitical uncertainty, inflation and higher borrowing costs mean the risks to the outlook remain tilted to the downside."

ENDS

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Irish macroeconomic forecasts

	2025	**2026**	**2027**	**2028**
Consumer Spending	2.6	2.3	2.1	2.5
Government Spending	3.2	4.5	2.7	2.8
Investment	38.4	-10.2	8.0	4.6
Exports	7.5	2.8	5.2	4.7
Imports	9.6	6.6	5.5	5.0
GDP	8.0	-3.6	4.2	3.3
Modified Investment	11.3	6.8	5.6	5.7
Modified Domestic Demand	**4.7**	**3.8**	**3.1**	**3.4**

HICP Inflation	2.1	3.5	3.1	2.0

Irish labour market forecasts

	2025	2026	2027	2028
Unemployment Rate	4.6	5.1	5.3	5.2
Employment Growth	2.2	1.2	2.0	2.0
Employment ('000)	2,818	2,851	2,908	2,967
Earnings Growth	4.4	4.0	4.1	3.7

Source: CSO, AIB Economic Research Unit