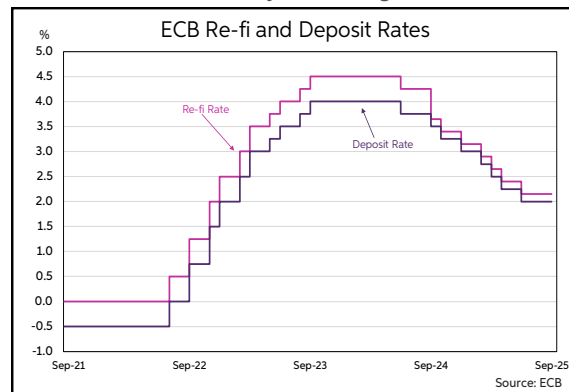


Ireland's weight loss journey

- The latest Irish GDP data provided the first full breakdown of the economy in Q2 2025.** GDP growth remains volatile (+0.2% q/q, +17% y/y), driven by a surge in exports in the first half of the year, up 11% on H1 2024. However, beneath the noisy headline data, domestic indicators point to a moderate growth picture so far in 2025. Modified Domestic Demand (MDD), which strips out some of the volatility of the multinational sectors, rose 0.6% q/q, down from 2.6% q/q in Q1. On an annual basis, MDD is 3.8% higher in H1 2025. Within this, consumer spending was up 1% q/q and 3.2% y/y in Q2, while modified investment fell 2.1% q/q (+7% y/y), reflecting a drop in intangible investment, which offset strong gains in building and construction and machinery and investment. Government spending rose sharply up 2.5% q/q (+5% y/y).
- Other reliable domestic indicators point to continued growth in the Irish economy, including compensation of employees, up 2.2% y/y, in line with employment and wage growth in Q2 2025.** For the remainder of the year, export and GDP numbers are likely to remain erratic due to the impact of the US tariff frontrunning by exporters. This has been particularly prevalent in pharmaceuticals exports, with the added kicker of the emergence of weight-loss drug production. Indeed, a specific hormone derivative product accounted for 56% of all Irish chemical and pharma exports to the US in H1 2025, compared to just 8% in H1 2024, according to US trade data.
- As recently reported by the Wall Street Journal, this is likely originating from a new production line by Eli Lilly in Ireland feeding into its US supply chain for its blockbuster weight loss drug.** The surge in global demand for these drugs could underpin Irish pharmaceuticals exports in the near term, and maybe offset some of the negative effects of US tariffs in other sectors. However, this also highlights the increasing importance of a small number of firms for Irish economic growth, and the increasing reliance of the Exchequer on associated tax receipts, as analysed in our recent [Economic Outlook](#).
- Elsewhere, this week's exchequer returns also signalled ongoing growth in the Irish economy, with domestically driven VAT receipts up 4.8% in the year to end-August, while income taxes were up 4.7% over the same period.** However, forward-looking indicators such as the AIB PMI surveys point to a slightly gloomier outlook within the private sector amid the current uncertainty. The services and manufacturing PMIs both signalled easing activity growth on the month, with firms also slowing the pace of hiring. Overall, the slew of data published this week suggests the domestic Irish economy is moving towards a more moderate growth profile, with risks tilted to the downside.
- Turning to the week ahead, the monetary policy spotlight will be centred on the ECB.** Having cut rates at each of its first four meetings this year and by 200bps in total during the easing cycle, the ECB opted to put rates on hold in July. However, the debate amongst the Governing Council members on Thursday to hold steady or to cut, could be a close call. Those favouring a hold will point out that the EU-US trade framework agreement is not as bad as feared, sentiment indicators are broadly improving, and that headline inflation rose slightly to 2.1% in August. In contrast, the doves will argue that the outlook still remains highly uncertain, and that inflation is now at risk of undershooting the ECB's 2% target. Revised staff projections due for release may support the latter point, given recent developments regarding exchange and interest rates should be disinflationary. **Nevertheless, current futures pricing suggests the market is firmly of the view that the ECB will hold rates steady on Thursday.** The aforementioned updated staff projections and the post-meeting press conference with President Lagarde will warrant very close attention from investors though, given markets are currently attaching around a 60% chance that the ECB cuts rates by 25bps by mid-2026. Before the ECB meeting, the confidence vote in the French Parliament on Monday will be followed very closely.
- On the data front, the main focus will be on the release of US CPI inflation for August.** Recently, both the headline and core rates have re-accelerated. Indeed, the headline rate rose to 2.7% in June and July, up from a low of 2.3% in April. Similarly, core-CPI rose to 2.9% in June and to 3.1% in July, up from 2.8% in the three months prior, amid some signs of tariff induced inflationary pressures. The consensus is for the headline rate to increase again to 2.9%, while the core rate is projected to stay at 3.1%. Elsewhere in the US, the Michigan measure of consumer sentiment is forecast to deteriorate to 53.0 in September.
- In the UK, the only release of note will be the monthly reading of GDP for July.** The UK economy gathered some steam at the start of the year, with GDP rising by 0.7% q/q in Q1, but this momentum waned in Q2. Overall, GDP contracted by 0.1% m/m in April and by 0.3% m/m in May, before rebounding by 0.4% m/m in June, resulting in a 0.3% q/q increase overall in Q2. A 0.1% expansion is envisaged at the start of Q3. Meantime, industrial production is expected to flatline in July, following a 0.7% increase in output in June.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2025	2025	2026
Fed Funds	4.375	4.125	3.875	3.625
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	4.00	4.00	3.75	3.50
BoJ OCR	0.50	0.50	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2025	2025	2026
EUR/USD	1.1743	1.18	1.19	1.20
EUR/GBP	0.8669	0.86	0.85	0.84
EUR/JPY	172.76	170	170	168
GBP/USD	1.3542	1.37	1.40	1.43
USD/JPY	147.12	144	143	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:				
	BoE Speakers:		Breeden (Tue)		
	Fed Speakers:				
			French Parliament Confidence Vote (Mon)		
Mon 8th	JPN:	00:50	GDP (Q2: Revised Reading)	+0.3% (+1.0%)	+0.3% (+1.0%)
	GER:	07:00	Industrial Production (July)	-1.9% (-3.5%)	+1.0%
	GER:	07:00	Trade Balance (July)	+€14.9bn	+€15.4bn
			- Exports	(+0.8%)	(+0.2%)
	EU-20:	09:30	Sentix Index (September)	-3.7	-2.8
Tue 9th	IRE:	01:01	AIB Construction PMI (August)	47.1	
	FRA:	07:45	Industrial Output (July)	+3.8%	-1.8%
	US:	11:00	NFIB Small Business optimism (August)	100.3	
Wed 10th	ITA:	09:00	Industrial Output (July)	+0.2% (-0.9%)	-0.1%
	US:	13:30	PPI Final Demand (August)	+0.9% (+3.3%)	+0.3% (+3.3%)
			- Ex-Food & Energy	+0.9% (+2.8%)	+0.3%
Thu 11th	EU-20:	13:15	ECB Monetary Policy Announcement		
			- Depo Rate	2.00%	2.00%
			- Refi Rate	2.15%	2.15%
	US:	13:30	CPI Inflation (August)	+0.2% (+2.7%)	+0.3% (+2.9%)
			- Core CPI Inflation	+0.3% (+3.1%)	+0.3% (+3.1%)
	US:	13:30	Initial Jobless Claims (w/e 1st September)	+237,000	+235,000
Fri 12th	GER:	07:00	Final HICP Inflation (August)	+0.1% (+2.1%)	+0.1% (+2.1%)
	UK:	07:00	GDP (July)	+0.4% (+1.4%)	+0.1%
			- 3 month / 3 month	+0.3%	+0.2%
	UK:	07:00	Industrial Output (July)	+0.7% (+0.2%)	+0.0% (+1.1%)
			-Manufacturing Output (July)	+0.5% (+0.0%)	-0.1% (+1.5%)
	FRA:	07:45	Final HICP Inflation (August)	+0.3% (+0.8%)	+0.5% (+0.8%)
	SPA:	08:00	Final HICP Inflation (August)	+0.0% (+2.7%)	+0.0% (+2.7%)
	US:	15:00	Prelim. Uni. Michigan Sentiment (September)	58.2	58.0

◆ Month-on-month changes (year-on-year shown in brackets)

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