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ECONOMIC RESEARCH – MARCH 2026

INVESTMENT INSIGHT EUROPE

- ✓ Q4 trend strongly called into question in Q1
- ✓ Will the GDP forecast for H1 be revised to zero?

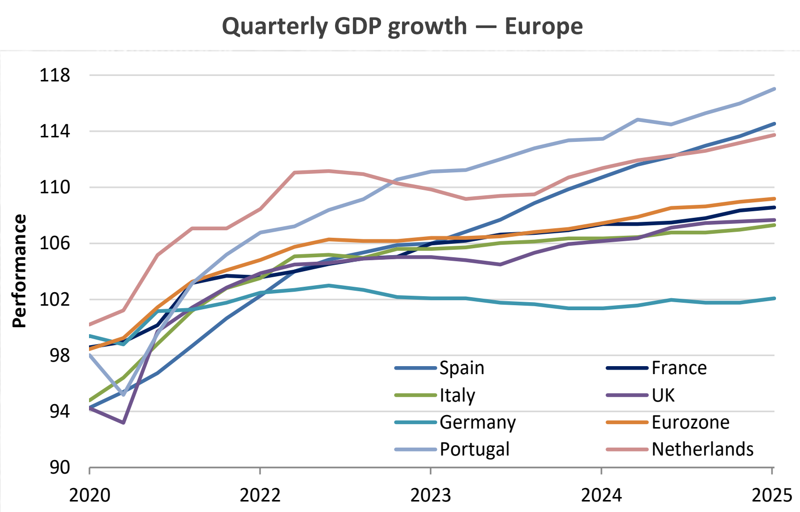
STAGFLATION: A NEW CHALLENGE FOR THE EURO ZONE

Consolidation of growth and domestic resilience

The Eurozone ended 2025 on a modest note, with Q4 GDP at 0.2% supported by steady private and public spending. This resilience was anchored by a robust labor market nearing full employment, which buffered household investment against trade adjustments and provided a stable, albeit low-level, foundation for the broader economy. This stability now appears increasingly precarious as external shocks begin to outweigh internal strengths.

Divergent trajectories: Mediterranean engine vs. German fragility

A clear decoupling has emerged between the bloc's members, with Spain (+0.8%) acting as the primary growth driver through its thriving services sector. In contrast, Germany's +0.3% growth reflects an economy still struggling to emerge from stagnation, hampered by a costly energy transition and weakening industrial competitiveness. This German weakness directly impacts Italy’s manufacturing base, creating a rift where France and Spain hold steady while the traditional industrial core remains highly susceptible to external supply shocks. This widening productivity gap suggests that a "one-size-fits-all" monetary approach may become increasingly difficult to maintain if northern industrial output continues to lag.



Sources : Bloomberg, BBGI Group

The Hormuz blockade and eurozone energy vulnerability

The total closure of the Strait of Hormuz has sent Brent crude above $110, exposing the Eurozone's inherited vulnerability from its shift away from Russian gas. Unlike the UK, the Eurozone lacks significant domestic production, leaving its industry fully exposed to the price spikes of imported LNG and oil transiting the conflict zone. This systemic risk is placing renewed strain on European manufacturing margins, particularly in energy-intensive sectors that had only recently begun to recover from the previous years' price shocks.

Strategic reserve interventions and inflationary pressures

The IEA's historic release of 400 million barrels of strategic reserves has acted as a tactical buffer, preventing immediate physical disruptions but failing to quell the underlying inflationary trend. We anticipate that inflation could surge back toward 3% in Q2 2026, forcing the European Central Bank to reconsider its accommodative stance. While emergency stockpiles provide short-term relief, they do not resolve the fundamental "supply shock" that is currently eroding business confidence and driving up production costs across the continent.

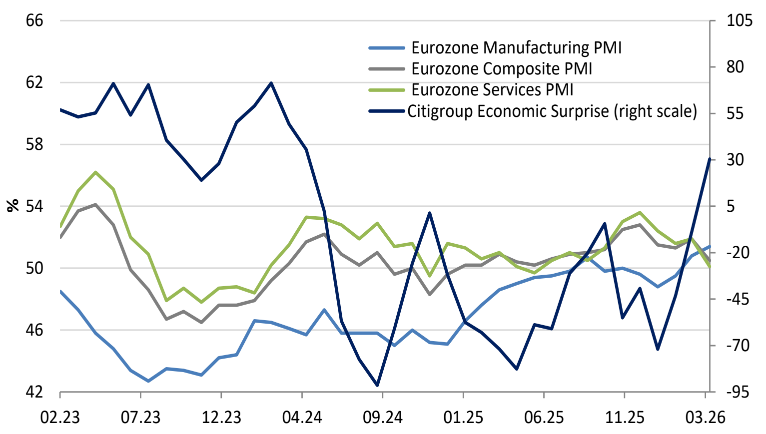
Downward revisions to H1 GDP forecasts

The drastic change in the geopolitical landscape has made the previous forecast of +0.5% growth for the first half of the year appear increasingly unrealistic. As energy inputs fluctuate and industrial orders face new uncertainties, the Eurozone is likely to see its growth trajectory flattened toward 0% for the first half of 2026. This potential stagnation marks a significant setback for the Monetary Union, which had hoped to use 2026 to solidify its post-inflationary recovery.

Path to strategic autonomy

The current crisis serves as a blunt reminder that the Union's economic security is inextricably linked to its energy independence. The Eurozone's ability to maintain long-term growth now hinges on its capacity to accelerate strategic autonomy and diversify energy mixes away from high-risk corridors. Without a rapid transition to secure, local, or more stable global supplies, Europe's manufacturing heartland risks a permanent curtailment of its competitive edge, turning this geopolitical reality into a chronic drag on the region's GDP. This shift is no longer just an environmental goal but a prerequisite for economic survival in an increasingly fragmented global order.

PMI and economic surprise leading indicators



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