

ECONOMIC RESEARCH – MARCH 2026

INVESTMENT INSIGHT EUROPE



- ✓ **Leading indicators point to stagflation**
- ✓ **Consumer confidence plummets**
- ✓ **Inflation: Return of energy risks in 2026**
- ✓ **New ECB policy: 3 rate hikes in 2026?**

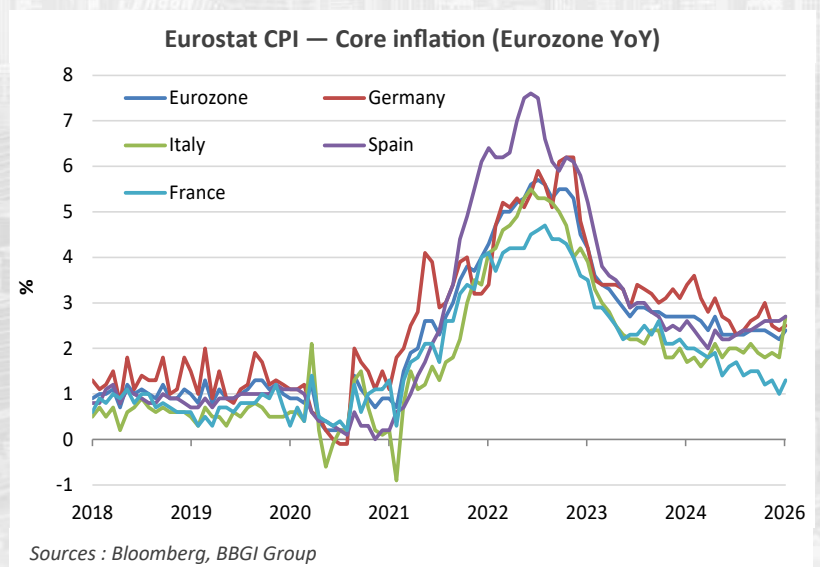
STAGFLATION: A NEW CHALLENGE FOR THE EURO ZONE

Leading indicators signal stalling growth

The Eurozone Composite PMI plummeted to 50.5 in March, signaling that private sector expansion has virtually ground to a halt. While manufacturing reached a deceptive 45-month high due to temporary German acceleration, this momentum is undermined by lengthening delivery times and bottlenecks caused by the Strait of Hormuz disruption. This sudden loss of industrial velocity suggests that the region's brief recovery phase has already peaked.

Consumer confidence plummets to multi-year lows

Household morale has suffered a severe blow, with the European Commission's confidence indicator plunging 4.0 points to -16.3 in March. This collapse is driven by the immediate reality of higher gasoline and heating bills eroding purchasing power that was previously thought to have stabilized. In Germany, the GfK index fell to -24.7 as the household savings rate climbed to a record 18.9 points, reflecting a defensive "wait-and-see" attitude that has effectively frozen major discretionary purchases. This surge in precautionary savings suggests that internal demand will remain suppressed until energy price volatility subsides.



Inflation rebound and the return of energy risks

The hope for a smooth return to price stability has been shattered as headline inflation rebounded sharply to 3% in March, fueled by Brent crude settling firmly above \$100. This "supply shock" is rapidly trickling down to electricity rates and ex-factory prices, threatening to entrench inflation above the 3% mark for the remainder of 2026. The ECB's "last mile" has transformed into a steep climb, pushing any meaningful convergence toward the 2% target back to at least 2027.

ECB policy shift: From normalization to vigilance

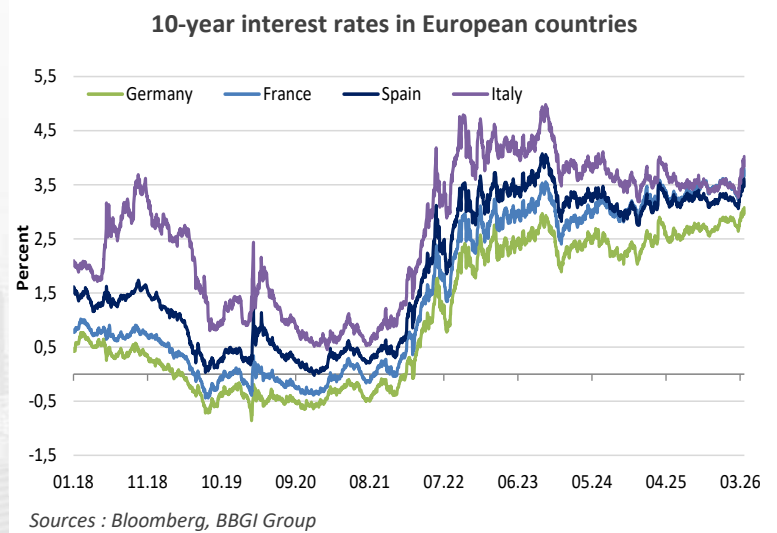
The ECB has undergone a dramatic communication shift, acknowledging that the Middle East crisis constitutes a serious threat to medium-term price stability. Any prospects of rate cuts have been taken off the table; instead, the focus has pivoted to preventing an inflationary spiral where energy costs feed into wage demands. The institution is now signaling a prolonged status quo, with the tone shifting from "rate normalization" to "necessary vigilance" as it navigates this unexpected external crisis.

Market expectations for potential rate hikes

Financial markets have begun pricing in an aggressive policy reversal, with three 0.25% rate hikes now anticipated for 2026 should oil prices exceed \$120 per barrel. Beyond interest rates, the ECB is likely to utilize Quantitative Tightening (QT) to accelerate the reduction of its balance sheet, further tightening financial conditions to combat imported inflation. This hawkish turn reflects a growing consensus that the more pessimistic inflation scenario is materializing, necessitating a return to restrictive measures.

Impact on real estate and fiscal stability

The real estate sector is already feeling the weight of the ECB's forced pause, as rising mortgage rates stall household purchase plans and dampen construction sentiment. Furthermore, the resurgence of inflation and higher borrowing costs are radically complicating the fiscal equations for member states, limiting their ability to provide subsidies or stimulus. This environment leaves the Eurozone in a vulnerable position, where fiscal and monetary policy must both remain tight despite a clear and present danger of economic contraction.



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