

Business activity slumps amid energy cost surge

First surveys of purchasing managers since hostilities began suggest that companies across the globe are rattled

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Business activity around the world has slumped as the Iran war and surging energy costs weigh on confidence, early survey data showed yesterday.

The first closely watched surveys of purchasing managers since the outbreak of the war suggest the conflict is rattling companies from Europe to Australia, as Brent crude prices remain above \$100 per barrel and global supplies of liquefied natural gas tighten.

The Iran conflict “is leaving its first traces”, Commerzbank economists said.

In the Eurozone, the private sector flirted with stagnation in March as business sentiment fell to the lowest level in 10 months at 50.5 points on the purchasing managers’ index (PMI), a measure of activity at companies. That was down from 51.9 in February and lower than the reading of 51 expected by economists.

Private sector activity in the currency area is now hovering just above the crucial threshold of 50 that separates growth from contraction.

The Eurozone survey was “ringing stagflation alarm bells” as prices shot up sharply while growth was taking a hit, warned Chris Williamson, an economist at S&P Global Market Intelligence, which is behind the PMIs.

In the US, business sentiment cooled to an 11-month low of 51.4, amid a slowdown in new orders and higher prices, sparked by the Iran war.

Supplier delivery times in manufacturing also lengthened to the greatest extent since October 2022.

The US economy was already displaying signs of weakening before the war, with the labour market shedding jobs after years of strong growth.

In Australia, business activity fell back into contraction territory for the first time in 17 months as high inflation and concerns about the Middle East conflict damped private sector confidence.

The PMI fell to 47 points in March from 52.4 in February.

“These flash data provide the first look into the extent to which war in the Middle East has rippled through the global economy,” said Eleanor Dennison, also an economist at S&P Global Market Intelligence.

Meanwhile, UK manufacturers signalled the steepest rise in input costs in March since October 2022 as the composite PMI fell to a six-month low of 51 from 53.7. In Japan, private sector activity eased to 52.5 on the index from 53.9 the month before, although both manufacturing and services remained in expansionary territory.

The surveys followed warnings by leading central banks last week that the Middle East war would drive up inflation.

The European Central Bank last week slashed its 2026 growth forecast to 0.9 per cent compared with 1.2 per cent in December. Should oil flows through the Strait of Hormuz be disrupted for a protracted period, growth could fall as low as 0.4 per cent, the ECB said.

In any scenario, the immediate impact on inflation would be “material”, ECB president Christine Lagarde warned on Thursday.

Federal Reserve chair Jay Powell said last week that in the near term, “higher energy prices will push up overall inflation” in the US, although he cautioned that it was too soon to know the scope and duration of the potential effects on the economy.

The Bank of England also cautioned that a severe energy shock could feed into wages and prices across the economy, as it opened the door to higher interest rates.

Traders have reversed their bets on the path of interest rates in many leading economies since US and Israeli strikes on Iran began on February 28.