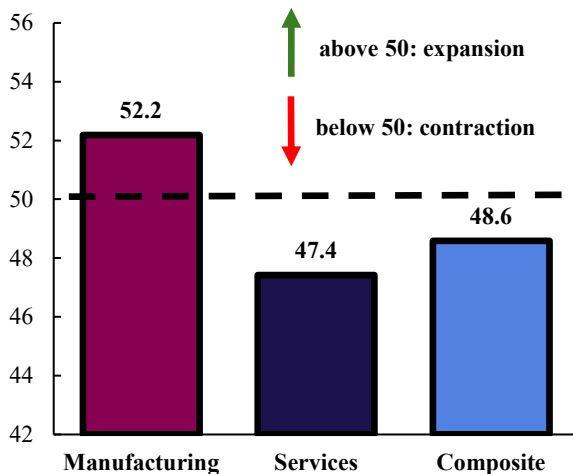


Economic indicators point to a deteriorating growth outlook for Euro Area

At the beginning of the year, key indicators signalled an improvement in economic growth for the Euro Area. This expected trajectory was suddenly disrupted following the US-Israeli military campaign against Iran, launched on February 28th. Tehran retaliated by effectively closing the Strait of Hormuz, the waterway through which approximately 20% of the world’s oil and liquefied natural gas (LNG) normally flows. Brent crude surged by more than 25% in the weeks that followed, reaching above USD 120 per barrel at its peak.

The latest PMI surveys for the Euro Area’s four largest economies – Germany, France, Italy, and Spain – provide useful information on the growth outlook. Headline manufacturing readings appear surprisingly resilient, with the Euro Area manufacturing PMI climbing to 52.2 in April 2026, above the 50-point threshold that marks growth. However, this expansion does not appear to be driven by recovering underlying demand, but by a wave of defensive stockpiling as firms race to secure inputs ahead of anticipated supply shortages.

Euro Area PMI Indicators
 (available as of April 2026)



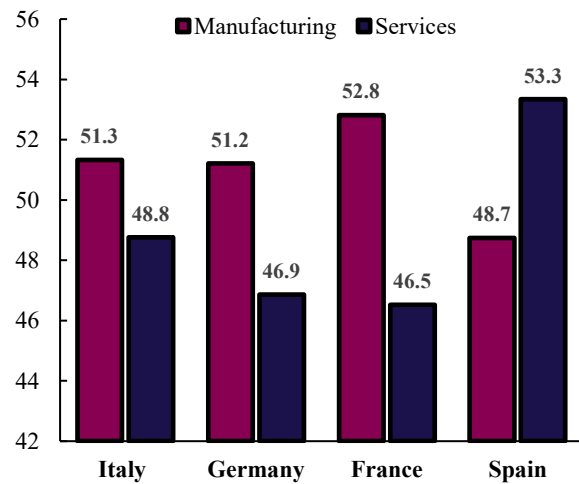
Source: Haver Analytics, QNB Economics

The services sector tells a different story. Accounting for approximately 70% of Euro Area GDP, it has dropped into its deepest contraction since the pandemic, with the April Services-PMI falling to 47.4. As the energy-cost squeeze impacts consumer-facing businesses and households redirect spending toward essentials, the PMIs are leading indicators

that anticipate a deteriorating growth outlook across the bloc’s four largest economies. In this article, we analyse the key PMI indicators for the Euro Area, and the economic growth outlook.

First, at the country level, the manufacturing picture is more nuanced than the headline figures suggest. Germany’s manufacturing PMI slipped to 51.2 in April, as new orders decelerated and customer reluctance grew amid heightened geopolitical uncertainty. France delivered the bloc’s strongest reading at 52.8 in April, driven by defence orders and a recovery in automotive production. Italy held firm at 51.3 in March, sustained largely by precautionary inventory building.

Euro Area Big-Four PMI Indicators
 (available as of April 2026)



Source: Haver Analytics, QNB Economics

Spain, however, stood apart as the only major economy in outright manufacturing contraction, with its PMI falling to 48.7 in March. Unlike Germany and France, Spain has limited exposure to defence-related manufacturing and did not benefit from the same stockpiling impulse that temporarily inflated output elsewhere in the bloc. Across all four economies, employment has weakened and business confidence slumped to its lowest since late 2022.

Second, while manufacturing has held up on the surface, the services sector tells a far more worrying story. Services activity across the Euro Area collapsed in April, with the bloc-wide services PMI falling to 47.4, its weakest reading since the Covid-pandemic, as households redirected spending toward

essentials and consumer-facing businesses endured the energy cost squeeze. The decline was led by the bloc's two largest economies as uncertainty weighed heavily on spending: Germany's services PMI fell to 46.9 in April, its steepest drop since late 2022, and France's deteriorated to 46.5, a 14-month low.

Italy's composite PMI had already entered contraction territory in March at 49.2, reflecting weakening domestic demand even as its manufacturing sector held firm. Spain, despite entering 2026 on a relatively stronger growth footing, saw its services sector come under pressure as tourism-dependent businesses and consumer confidence declined. Across all four economies, the

US-Iran conflict is now eroding the services sector of the Euro Area.

All in all, the combination of a distorted manufacturing sector and a contracting services sector points to a deteriorating growth outlook across the bloc's four largest economies. With the April Composite PMI falling to 48.6, the data are already signalling a modest quarterly GDP contraction. The IMF is projecting real GDP growth of below 1% for Germany, France, and Italy in 2026, while the energy price shock shows little sign of abating as the Strait of Hormuz remains closed.

QNB Economics Team:**[Bernabe Lopez-Martin*](#)**Assistant Vice President - Economics
+974-4453-4643**[Aisha Khalid Al-Thani](#)**Senior Associate - Economics
+974-4453-4647**[Waad Jassim AlKhenji*](#)**Senior Associate – Sustainability and Economics
+974-4453-4632

* Corresponding author

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