

German business morale falls amid war

AFP, Frankfurt

German business morale fell in March as the war in the Middle East puts hopes of a recovery in Europe's struggling top economy "on ice", a key survey showed Wednesday.

The Ifo institute confidence barometer dropped from 88.4 in February to 86.4 in March as the energy price surge triggered by the conflict raises fears of higher inflation.

It was in line with forecasts, and came after the biggest rise in the indicator in almost a year last month — before the outbreak of the war pitting allies the United States and Israel against Iran.

"Sentiment among companies in Germany has dropped by a considerable degree," said Ifo president Clemens Fuest.

"The war in Iran has put any hope of a recovery on ice for the time being."

The news will be a heavy blow to the government of Chancellor Friedrich Merz, which has been seeking to spark a turnaround in the eurozone's industrial powerhouse after a long period of decline.

The drop in the Ifo survey was driven in particular by more pessimistic expectations among the roughly 9,000 companies surveyed.

Morale in the crucial manufacturing sector fell sharply, the survey showed, noting that "energy-intensive industries are most affected".

There were also falls in the service sector, with tourism and logistics firms all far more pessimistic, as well as in trade and construction, it said.

Capital Economics senior Europe economist Franziska Palmas said the survey and other recent indicators suggest "the renewed rise in energy prices could derail the tentative recovery in the German economy seen in recent months".

But she added Germany will likely weather this energy shock better than the one unleashed by Russia's 2022 invasion of Ukraine.

"The rise in energy prices has been much smaller (so far) and... a lot of the least profitable energy-intensive production has already been permanently lost," she added.

In its last official forecast in January, the German government said it expected the economy to expand one percent this year, although economic institutes now expect the figure to come in significantly lower.



Employees for Japanese knife manufacturer Sumikama Cutlery working at their factory in Seki of Gifu prefecture. In Japan, the flash composite PMI combining manufacturing and services activities dropped to 52.5 in March from 53.9 in February, its slowest rise in three months.

PHOTO: AFP/FILE

Iran war starts to hit global economy, surveys show

REUTERS, Frankfurt/Washington

The Iran war is already taking a toll on major economies around the world, according to business surveys on Tuesday which showed how a surge in energy prices and rising uncertainty were dampening activity and pushing inflation expectations higher.

The initial findings of questionnaires sent to purchasing managers at companies in the United States, Europe and Japan are the most comprehensive snapshot yet of the economic impact of the near four-week conflict that has shut off indefinitely a large chunk of the world's energy supplies.

The ensuing leap in the price of oil, gas and other related products is a potential double whammy for economies around the world, feeding through into wider inflation and stunting growth.

Beyond the trouble that spells for leaders of those economies — including US President Donald Trump himself — it has already prompted many of the world's central banks to envisage tighter policy to keep a lid on price pressures.

Among the 21 economies that share the euro currency, private sector growth all but stalled this month as companies signalled an increase in delivery times and expectations of rising costs that they in turn would be trying to pass on.

S&P Global said its flash euro zone composite Purchasing Managers' Index fell to a 10-month low of 50.5 in March, below expectations, from 51.9 in February. A reading above 50 indicates expansion in

the private sector.

Measures for both input and output prices in euro area manufacturing showed much sharper moves. Within the national readouts, business confidence dropped markedly among French firms while German private sector growth slowed to a 3-month low.

Chris Williamson, chief business economist at S&P Global Market Intelligence, said the euro area numbers were "ringing stagflation alarm bells", referring to the risk of a painful combination of stagnation amid rising prices.

S&P Global's US survey painted a similar picture of the world's largest economy, with higher energy prices raising inflation fears amid weaker business sentiment that pointed to weaker private sector employment prospects.

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Its flash US Composite PMI Output Index fell to 51.4 this month. That was the lowest level since last April and followed a 51.9 reading in February and marked two straight monthly falls. The drop this month was in the services sector.

Other Group of Seven (G7) economies fared little better. In Britain, S&P Global's survey showed business activity growing at the slowest pace in six months while

manufacturers' input costs accelerated at the fastest rate since 1992.

In Japan, the flash composite PMI combining manufacturing and services activities dropped to 52.5 in March from 53.9 in February, its slowest rise in three months.

Outside the G7, India — which sources roughly 90 percent of its crude and nearly half its natural gas from abroad — saw its private sector growth hit a three-year low in March with input costs rising at their fastest pace since June 2022, in part passed on by firms who also saw their margins compressed.

So far, few economists are talking about the war plunging the global economy into outright recession, even as the energy shock from the de facto closure of the Strait of Hormuz — through which around a fifth of the world's oil passes — deepens.

"The scenario is very dependent on the duration of the conflict and on the outlook for energy prices," said Nicola Nobile of Oxford Economics, commenting on the euro area impact.

That said, there is a growing realisation that the economic consequences will not be short-lived, given the damage to energy infrastructure in the Gulf region inflicted by Iranian strikes in retaliation for US and Israeli missile attacks.

The Organization for Economic Co-operation and Development think tank said last week it was too early to quantify the impact of the conflict on global growth but cited a "significant level of downside risk" for the global economy.

ECB won't be 'paralysed' in face of energy shock: Lagarde

AFP, Frankfurt

The European Central Bank has several options for dealing with the Middle East war energy shock, its chief Christine Lagarde said Wednesday, vowing policymakers would not be "paralysed by hesitation".

The conflict, which began at the end of February with US-Israeli strikes on Iran, has sent oil and gas prices surging due to the near total closure of the Strait of Hormuz and attacks on Gulf energy targets.

Saying the world was facing "profound uncertainty", Lagarde insisted the ECB was well positioned to deal with the turmoil, with inflation currently close to its two-percent target and the eurozone economy on a sound footing.

"We have a graduated set of options for responding," she said in a speech in Frankfurt, where the ECB has its headquarters.

She stressed that policymakers "will not act before we have sufficient information on the size and persistence of the shock."

"But we will not be paralysed by hesitation: our commitment to delivering two percent inflation over the medium term is unconditional."

At its most recent meeting last week, the ECB kept interest rates on hold as expected, while warning of higher inflation and lower growth due to the war.

But analysts have raised their bets on the central bank hiking borrowing costs as soon as next month in a bid to keep the lid on an expected surge in consumer prices.

UK annual inflation steady before oil price surge

AFP, London

Britain's annual inflation rate was unchanged at 3.0 percent in February, official data showed Wednesday ahead of an expected jump as the Middle East war has sent oil prices surging.

At 3.0 percent, unchanged from January, the latest Consumer Prices Index (CPI) reading remains above the Bank of England's two-percent target.

Market expectations are meanwhile for the BoE to raise interest rates this year to combat the predicted jump to inflation as the US-Israel war with Iran hits key oil and gas supplies.

Reacting to February's UK inflation reading, Grant Fitzner, chief economist at the Office for National Statistics, said rising clothes prices last month were "offset by falls in petrol costs, with prices collected before the start of the conflict in the Middle East and subsequent rise in crude oil prices".

Lindsay James, investment strategist at Quilter, called February's CPI print "old news".

"It shows an economy where inflation appeared to be stabilising and was expected to drift towards 2.1 percent in the second quarter."

James added that "February is likely to represent the low point for UK inflation for some time".

Shimanto Bank signs MoU with Astha Life Ins for cardholders' protection

STAR BUSINESS DESK

Shimanto Bank PLC has recently signed a memorandum of understanding (MoU) with Astha Life Insurance Company Ltd.

Md Nurul Azim, managing director and chief executive officer of Shimanto Bank PLC, and Brig Gen (ret'd) Shah Sagirul Islam, chief executive officer of Astha Life Insurance Company Ltd, signed the MoU at the bank's head office in Dhaka, according to a press release.

Under the agreement, the bank's credit cardholders will be covered by the protection benefits of Astha Life Insurance Company Ltd. The Credit Shield Insurance ensures that the financial security of cardholders' families is maintained even in unforeseen circumstances.

Md Sahidul Islam, head of business at the bank; Mohammad Azizul Hoque, head of operations; and Sharif Zahirul Islam, head of cards and alternative delivery channels (ADC), attended the event.

Samira Yunus, additional managing director and divisional head of sales and marketing at the life insurer, and Lt Col (ret'd) Md Khairul Bashar, senior executive vice-president of administration and general services, along with other senior officials from both institutions, were also present at the signing ceremony.



Brig Gen (ret'd) Shah Sagirul Islam, chief executive officer of Astha Life Insurance Company Ltd, and Md Nurul Azim, managing director and chief executive officer of Shimanto Bank PLC, pose for a photograph after signing the memorandum of understanding at the bank's head office in Dhaka recently.

PHOTO: SHIMANTO BANK

Asia looks to Covid-era playbook

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COST-OF-LIVING RELIEF

Some countries have turned to stimulus measures as rising fuel costs bite into household budgets.

The Japanese government said on Tuesday it plans to tap 800 billion yen (\$5 billion) in reserve funds to finance subsidies aimed at keeping gasoline prices at about 170 yen per litre on average. The measure would cost as much as 300 billion yen per month.

New Zealand said on Tuesday that it would

provide temporary financial support of NZ\$50 (\$29.30) every week from April for low-income families.

"We know these families will be hit particularly hard by the global fuel price shock."

We are delivering them timely relief," New Zealand Finance Minister Nicola Willis said.

In neighbouring Australia hundreds of petrol stations are running dry from panic buying and shortages, which are acutely hitting the remote regional areas of the vast

continent. The centre-left government introduced legislation in the parliament to double penalties for fuel price gouging.

Several Asian countries have also released petrol and diesel from domestic reserves and temporarily loosened gasoline and diesel quality standards to increase supply.

POLICY DILEMMA

The glaring contrast with the pandemic, however, is that central banks are not rushing to cut interest rates. In fact,

they are considering hikes. During the pandemic, demand collapsed as many economies were essentially shuttered for health reasons, so policymakers responded with massive stimulus.

Now, the Reserve Bank of Australia has already hiked rates twice this year. It cited energy risks as a material risk to inflation and a reason for raising rates to a 10-month high last week.

Investors expect Japan, Britain and Europe will all raise rates in coming months, and pressure on

Asian economies may be even more acute as their currencies slip against the dollar.

"Central banks face a classic policy dilemma when oil prices surge — inflation rises but growth might weaken," Jennifer McKeown, chief global economist at Capital Economics, said in a note last week.

"The right response depends crucially on why oil prices are rising, how persistent the shock is, and whether inflation expectations are at risk," she added.

Red Sea failure casts

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become more acute, threatening higher costs for energy, food and numerous other products worldwide.

"There is no substitute for the Strait of Hormuz," Kuwait Petroleum CEO Sheikh Nawaf Saud Al-Sabah said in a fiery video call streamed to the CERWeek energy conference in Houston on Tuesday. "It is the world's strait, under international law and practical reality."

UN Security Council members on Tuesday were negotiating resolutions

for protecting the strait, with some nations, such as Bahrain, taking a forceful stance that would authorise the use of "all necessary means" to protect the strait — which could mean the use of force.

Reuters interviewed 19 security and maritime experts who described the myriad challenges facing the US and its allies in protecting the strait. Iran has far more advanced military forces than the Houthis, an arsenal of cheap drones, floating mines, and missiles, and easy access from its steep mountainous coast to the narrow waterway.

"Defending convoy operations in the Strait of Hormuz is significantly more challenging than in the Red Sea," said retired Rear Admiral Mark Montgomery, who in 1988 was involved in US tanker escorts through the Strait of Hormuz during the Iran-Iraq war.

That's a big concern for US President Donald Trump as he seeks to justify the Iran war ahead of the November midterm elections to

inflation-weary American voters now facing gasoline at nearly \$4 a gallon. The spike in energy prices is not expected to fully reverse until the waterway opens, analysts said.

Trump has been noncommittal about US involvement, first saying the US Navy will escort ships when needed, then more recently saying other nations should lead the effort. Iran has blocked most ships from the maritime chokepoint since joint US-Israeli attacks on Iran began February 28.

Iran is considering a proposal to levy fees on vessels that want to use the strait, an Iranian lawmaker told state media last week.

THE HORMUZ QUAGMIRE

The US mission to protect Red Sea shipping from the Houthis launched in December 2023, with European nations joining in with their own operation a few months later. The allies shot down hundreds of drones and missiles, but the Houthis still sank four ships between 2024 and 2025. Shippers now largely avoid the passageway, once home to 12 percent of world trade, opting for a much longer voyage around the Horn of Africa.

"It was a tactical and operational victory and a strategic draw, if not a strategic defeat," said Joshua Tallis, a naval analyst at research firm CNA.

The danger zone around the Strait of Hormuz is up to five times bigger than the Houthis' attack area around the Bab el-Mandeb Strait that flows into the Red Sea. Unlike the Houthis, Iran's Islamic Revolutionary Guard Corps

(IRGC) is a professional military with its own weapons factories and access to funding.

Providing escorts for the strait would require as many as a dozen large warships such as destroyers, backed up by jets, drones and helicopters to account for the limitations created by the lack of space to maneuver, some military experts said. Overhead air cover would be critical to protect against flying drones as well as explosive-laden manned or unmanned vessels that can easily blend into sea traffic.

"A destroyer can intercept missiles but cannot simultaneously sweep mines, counter drone-boat swarms from multiple bearings, and manage GPS disruption," SSSY analysts said.

The chart shows the daily shipping trade volume from the Red Sea chokepoints of the Bab-el-Mandab strait and Suez Canal with daily volume being lower by around 60 percent since November 2023 Houthi attacks.

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Analysts believe Iran's IRGC fighters have missile and drone stockpiles hidden in buildings and caves along the hundreds of miles of steep and mountainous coastline. In some places, the shore comes so close to ships that drones could swarm a vessel in as little as five to 10 minutes, experts said.