

# Europe COVID-19 tracker

## Turning points?

- ◆ With COVID-19 remaining under control, the surge in energy prices continues to dominate the headlines...
- ◆ ...with markets now pricing in the first ECB rate rise by 2022
- ◆ Meanwhile, supply constraints are starting to have a bearing on the recovery, and countries are looking at ways to tackle them

### Preparing for the winter

The COVID-19 situation remains under control across the continent, but there are signs of a renewed deterioration in the UK. Countries are focussing on limiting the risks heading into the winter months and reinvigorating the vaccination campaigns which are slowing (charts 1-9). The Italian government confirmed that from 15 October, a COVID-19 'green-passport' will be required for all public and private sector jobs. Per the press, with 2.5m unvaccinated workers, this could pose huge challenges and require up to 15m tests per week (Il Sole 24 Ore, 12 October). In Germany, booster shots of mRNA vaccines have now been officially recommended for all people above the age of 70 and at higher risk.

### Energy concerns continue to dominate

Surging energy prices continue to dominate the headlines across Europe. In an extreme scenario, we estimate this could push inflation towards 5% y-o-y in Q4. The actual peak might be lower, as many countries announced interventions to cap price rises for the consumers. On 13 October, the European Commission (EC) unveiled a 'toolkit' of extra measures which countries can use, ranging from tax cuts, support to hard-hit industries without violating the EU's state aid rules, and diverting revenue from the EU Emission Trading Scheme to help poorer households. Nuclear power is also on the agenda, with French president Emmanuel Macron expected to give the go-ahead for a cluster of nuclear reactors (FT, 12 October) and pushing, alongside the Czech Republic and Finland, for the EC to designate nuclear power as a "green" technology under the upcoming taxonomy.

As inflation rises, markets are also warming up to the idea of a hawkish turn by the ECB (charts 28-33). The first rate hike is now fully priced in by the end of 2022. ECB Chief Economist Philip Lane, though, re-stated that the energy shock should not "have much of footprint on the medium-term inflation outlook" (Reuters, 11 October).

### Supply constraints biting, budget season continues

Supply chain disruptions are holding back the manufacturing sector, with output dropping 1.6% m-o-m in August in the eurozone, led by a huge 17.2% m-o-m fall in car production (charts 16-21). Labour shortages are also becoming more widespread (charts 22-27).

Meanwhile, the 2022 budget announcements continue to trickle in. Spain confirmed the tendency seen in France and Italy, maintaining an expansionary fiscal policy stance. On 12 October, Mr Macron announced a new EUR30bn plan to support high-tech industries and reduce dependence on imports, comprising EUR3-4bn of extra spending already in 2022. Tables 49-54 have been updated to reflect the latest fiscal announcements for 2022.

*This is an abridged version of a report by the same title published on 13-Oct-21. Please contact your HSBC representative or email [AskResearch@hsbc.com](mailto:AskResearch@hsbc.com) for more information.*

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Economics - Europe

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### Disclosures & Disclaimer

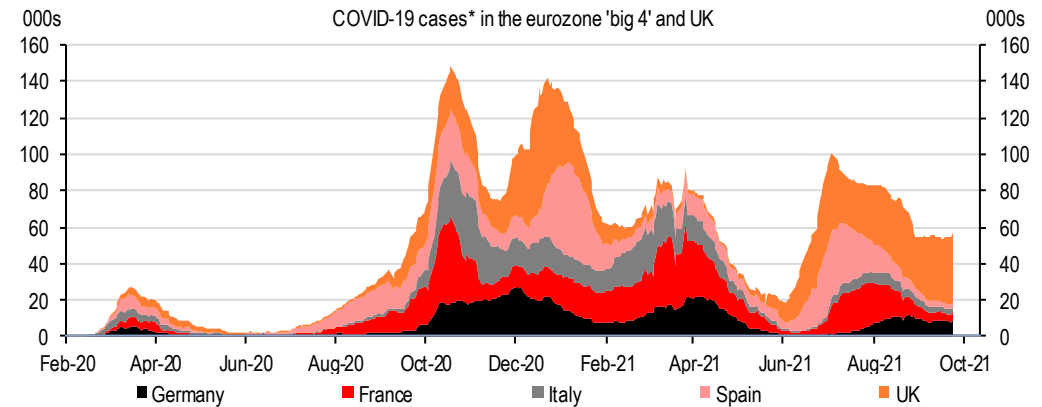
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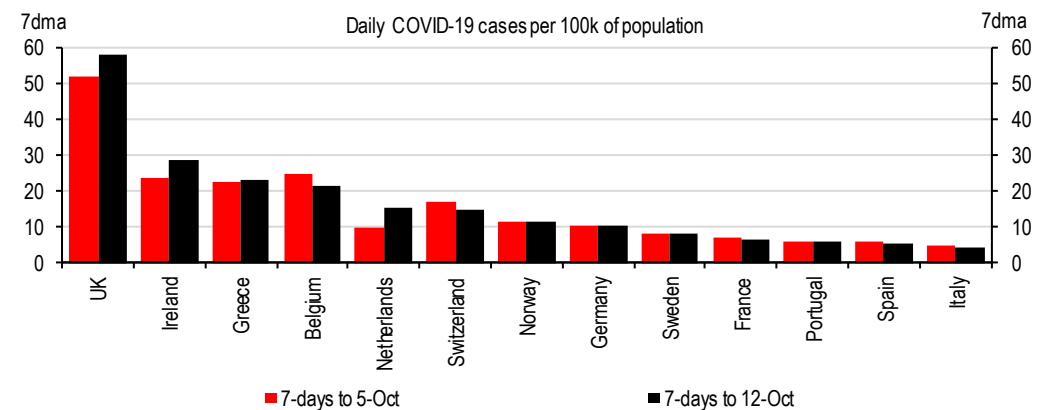
## Signs of deterioration in the UK COVID-19 situation

### 1. New cases in the eurozone Big 4 stay low but they are back on the rise in the UK



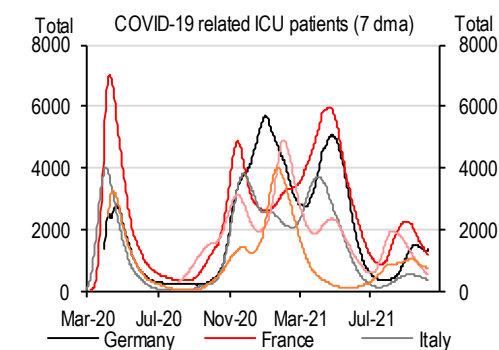
Source: Refinitiv Datastream, HSBC. Note: \*7-day moving average.

### 2. The UK, Ireland, the Netherlands and to a lesser extent Greece saw more cases last week



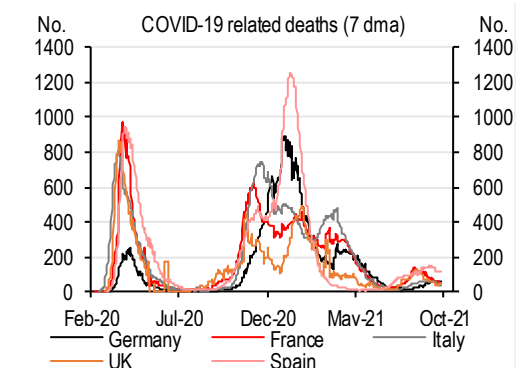
Source: Refinitiv Datastream, HSBC. Note: Weekend numbers are reported as 0 so "7-days to" does not include Saturday and Sunday.

### 3. ICU numbers continue to ease although hospital admissions are rising in the UK...



Source: Macrobond, HSBC. Note: \*medically ventilated.

### 4. ...and new deaths remain low compared with previous waves

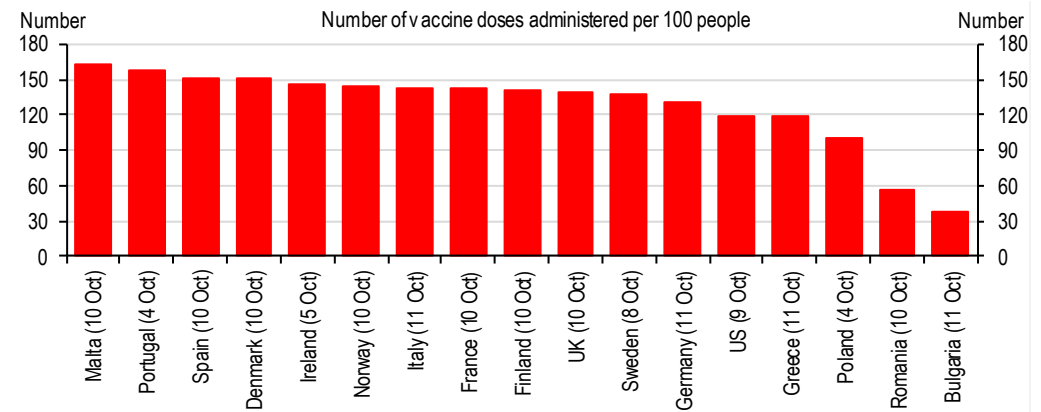


Source: Our World in Data, HSBC.

We acknowledge the assistance of Yash Dewan, HSBC Bank plc, in the preparation of this report.

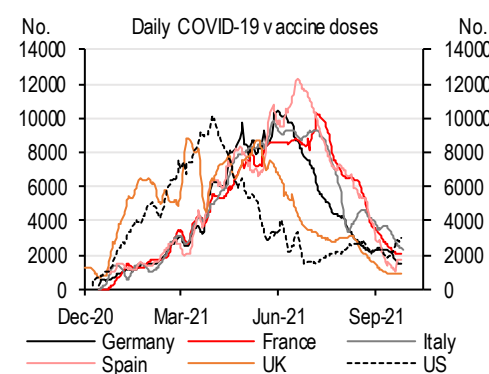
## Increasing vaccine coverage remains the priority

### 5. Vaccine coverage is high in most western European countries...



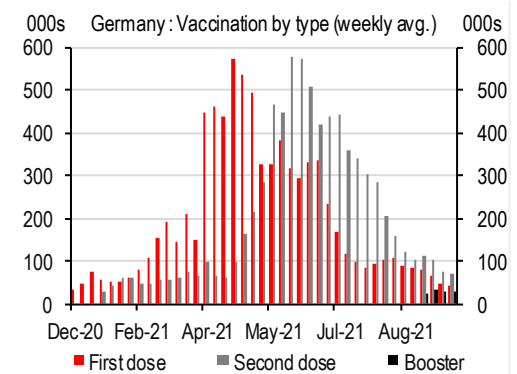
Source: Our World in Data, HSBC.

### 6. ... but countries are struggling to avert the downward trend in vaccination rates



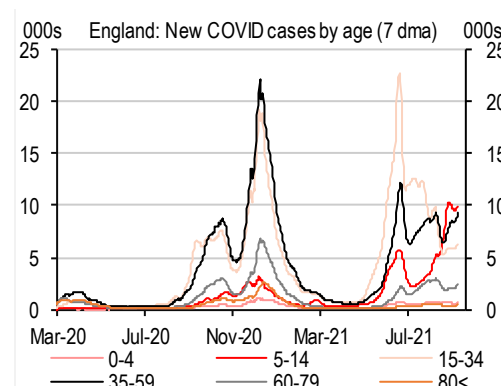
Source: Our World in Data, HSBC.

### 7. Germany has now provided just over a million booster shots



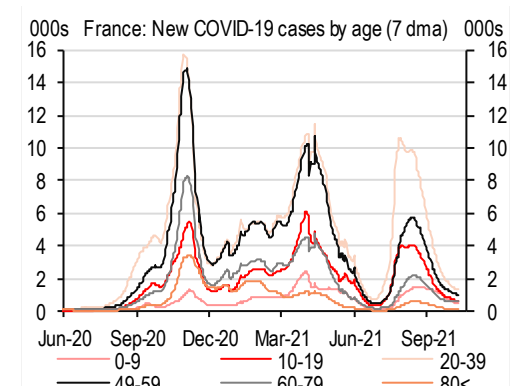
Source: Macrobond, HSBC.

### 8. The number of cases among children and young continues to rise in the UK...



Source: UK government, HSBC

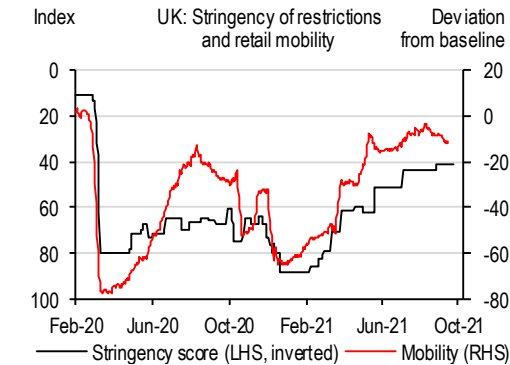
### 9. ...but remains relatively contained in other countries such as France



Source: France government, HSBC

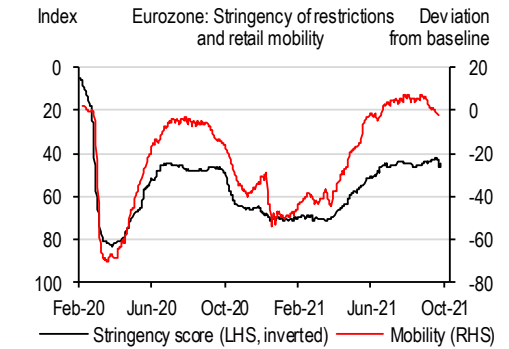
## The peak of the re-opening process is now behind us

### 10. UK retail mobility continues to soften after the end of the summer...



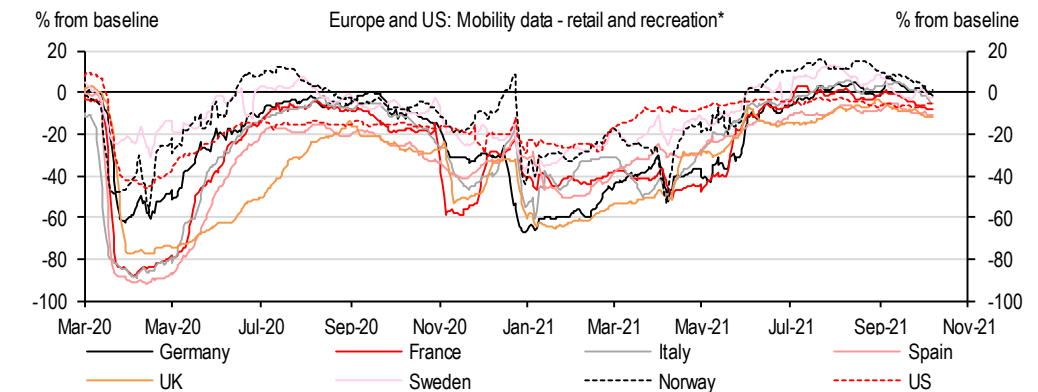
Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC.

### 11. ...and a similar trajectory is seen in the eurozone with limited restrictions back



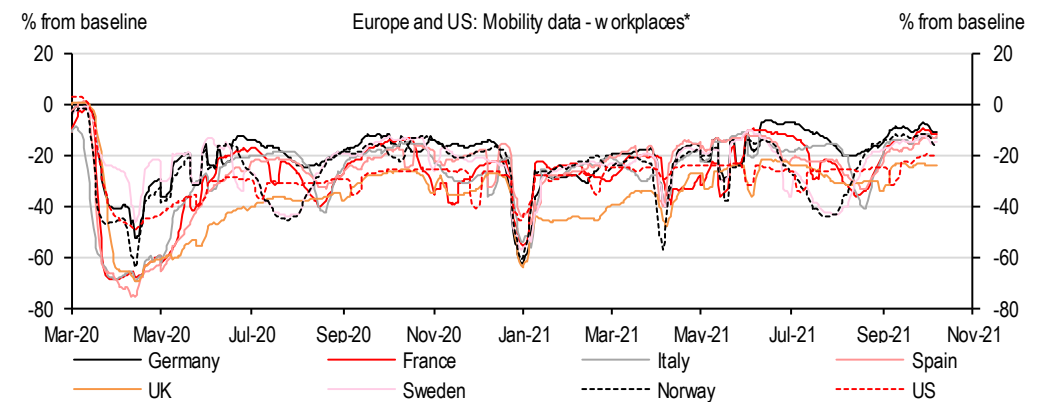
Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC.

### 12. Retail mobility is now close to pre-pandemic levels in most European countries although on a slight downward trajectory...



Source: Google, HSBC. Note: \*7-day moving average.

### 13. ...while workplace mobility is on a slight upward trajectory but remains below pre-crisis levels as more people are choosing to work remotely



Source: Google, HSBC. Note: \*7-day moving average.

## All quiet on the restrictions front

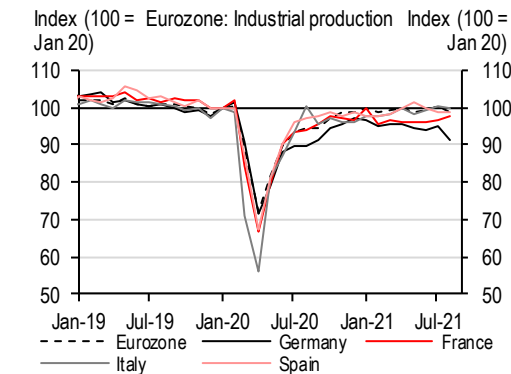
### 14. Latest on the restrictions from the major European countries

Country	Latest lockdown measures
<b>Germany</b>	<p>German nationwide COVID-19 policies are currently based on the Infection Protection Act amended on 23 August which states that restrictions and regulations are subject to first, the new infection numbers, second, the ICU capacity usage as well as the increase in ICU numbers and third, the vaccination progress.</p> <p>In general, the current regulation still strictly limits the general accesses to public and private indoor events like restaurants, (sporting) events, personal services, general accommodation and visiting public institutions (in particular care homes and hospitals). People are exempt from this restriction as long as they can provide either a negative test result on COVID-19 or are either fully vaccinated or have recovered from COVID-19.</p> <p>However, German federal states can relax this so called 3G-rule so that in practice only very few restrictions remain. These include the general obligation to wear masks indoors as well as e.g. on public transport. Additionally, some federal states have even further relaxed rules for businesses and accommodation services if they limit access to only fully vaccinated and recovered people (2G-rule). In this case they are allowed to lift e.g. the mask wearing obligation or increase the allowed customer capacity.</p>
<b>France</b>	<p>Currently, only some overseas territories are under local lockdowns or curfews. In metropolitan France, current restrictions are focused on unvaccinated people (aged above 12) via the imposition of a COVID-19 health pass (i.e. a proof of vaccination or a negative test) called 'passe sanitaire' to access some activities (museums, cinemas, bars, restaurants, large shopping malls, hospitals and some long-distance transports like airplanes and trains). COVID-19 tests will no longer be free of charge for unvaccinated adults from 15 October. In addition, vaccination is mandatory for some key occupations (healthcare, firemen) and breaches can lead to penalties like suspension without pay.</p> <p>Primary, secondary and high schools re-opened on 2 September with 100% of physical attendance but will maintain strict protocols (frequent testing, mask wearing, limitation of interactions) for the departments where incidence rate is high. In primary schools, the detection of one COVID-19 case in a classroom will lead to its closure for 7 days (with lessons being held on distance). For secondary and high schools, in the same situation, vaccinated pupils will be authorised to continue to attend lessons physically.</p>
<b>Spain</b>	<p>On 9 May, the state of emergency expired and was not extended by the government. With that, the nationwide curfew also came to an end, even though it remains in place in some cities in Andalusia (2-7am), Catalonia, Valencia Community, and Navarra (1-6am) while some regions still impose limited restrictions to nightlife. The freedom to travel across regions has been re-established, with no regions maintaining the external border closure in place.</p> <p>From 6 June, Masks are no longer necessary in outdoor settings where social distancing is observed. Most regions still impose limitations in terms of the maximum number of people allowed for gatherings. Some regions have introduced a 'green pass' requirement for entering cultural and sports events, and some are considering also for restaurants and bars. Spain's external frontier remains open. For entry, a proof of vaccination or a negative COVID-19 test is required.</p>
<b>Italy</b>	<p>Currently, all the Italian territory is in the 'white' category with hardly any restrictions (other than obligatory mask wearing indoors – since 28 June, masks are no longer required outdoors – and some social distancing requirements). The government has introduced a 'green pass' requirement (full vaccination or negative COVID-19 test) to go into restaurants and bars (indoors), theatres, cinemas public transport, as well as some outdoors venues, and attend concerts and sporting events. The government has recently announced that from 15 October until the end of the year the 'green pass' will be required for all public and private sector workers, with high penalties for the non-compliant.</p> <p>As for international travel, people arriving from the EU no longer have to quarantine, but they will be required to show a negative COVID-19 test undertaken within 48 hours before departure (unless fully vaccinated). For the UK, the government introduced a special 5-day quarantine requirement (fully vaccinated people, though, are exempt).</p>
<b>UK</b>	<p>Having been in lockdown through the first quarter of the year, the UK economy has now largely re-opened.</p> <p>In September, the English government said it would not be going ahead with plans for a 'vaccine passport' to enter nightclubs, meaning there are essentially no restrictions on social contact or economic activity, though it warned that it might have to reintroduce mask wearing and the recommendation to work from home, if the COVID-19 situation worsened. For Scotland, Wales and Northern Ireland, mask wearing remains mandatory, and the former two have 'vaccine passport' systems in place for nightclubs and some other venues.</p> <p>New travel rules were announced on 17 September, which divides arrivals into two groups – 'red list' and the rest of the world. Under the new system, entry into the UK from the red list remains banned to non-UK or Irish nationals. As of 15 February, for those who cannot be refused entry from these countries – i.e. returning British or Irish nationals – a mandatory 10-day quarantine in government-approved accommodation applies. But the number of countries on the list was slashed in October, from over 50 to just seven.</p> <p>For those arriving into England and Scotland from the rest of the world, no pre-departure tests are required, and only a lateral flow test, rather than a PCR, will be required, on day 2 after arrival. Wales and Northern Ireland are considering whether to drop the PCR requirement.</p>

Source: Country data, HSBC

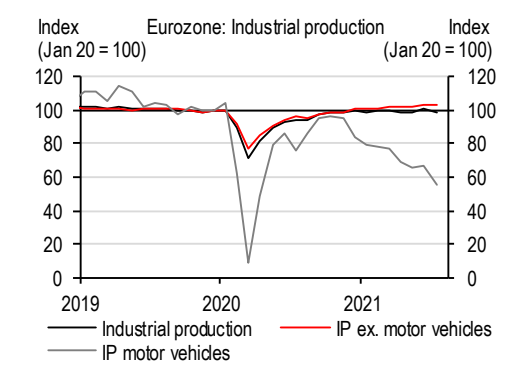
## Rising inflationary pressures due to surging energy prices

### 16. Eurozone industrial production fell sharply in August with Germany faring worst



Source: Refinitiv Datastream, HSBC.

### 17. The main culprit was faltering car production due to supply constraints



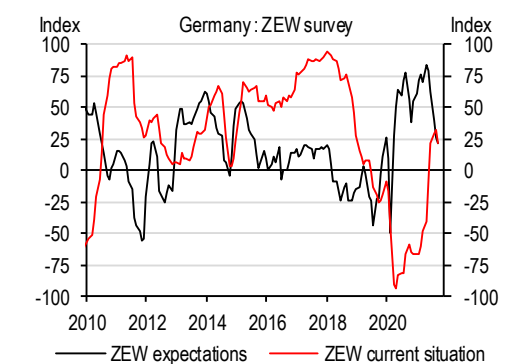
Source: Refinitiv Datastream, HSBC.

### 18. The gap between orders and productions in Germany remains high, even if new orders are now also plunged 7.7% in August



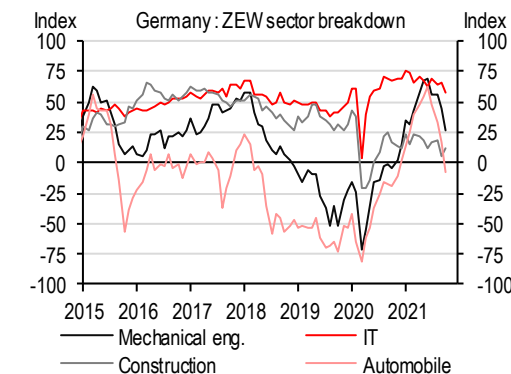
Source: Macrobond, HSBC.

### 19. The ZEW saw another sharp drop in expectations while also current conditions now appear to be past the peak



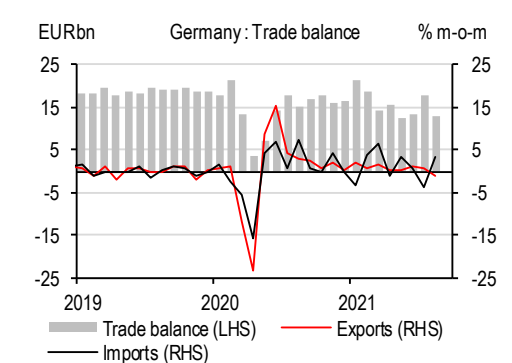
Source: Macrobond, HSBC.

### 20. The ZEW survey saw sentiment falling across all sector, and particularly in mechanical engineering and car production



Source: Macrobond, HSBC

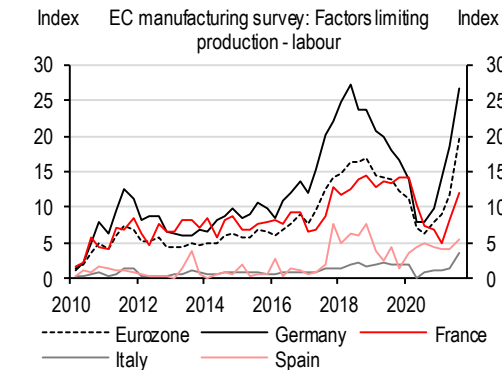
### 21. German trade data also show the export sector has been losing momentum



Source: Refinitiv Datastream, HSBC

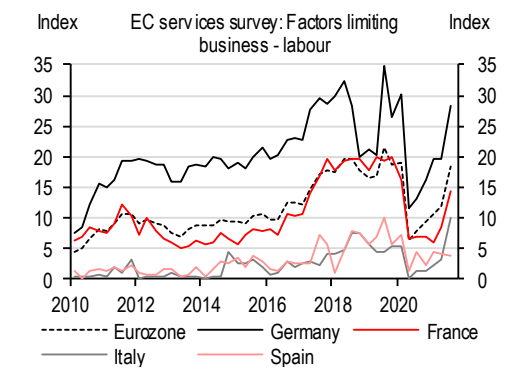
## Labour shortages becoming more and more evident

### 22. Labour shortages are higher than before the crisis in manufacturing in the eurozone



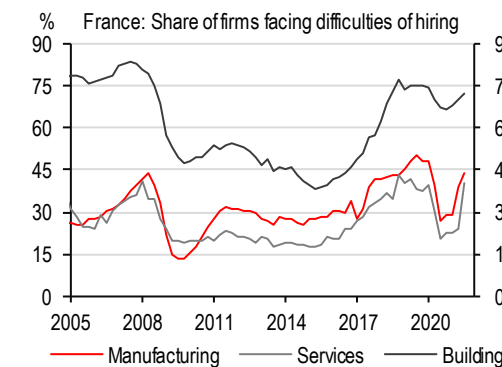
Source: European Commission.

### 23. After the re-opening, also the services sector is starting to see labour shortages



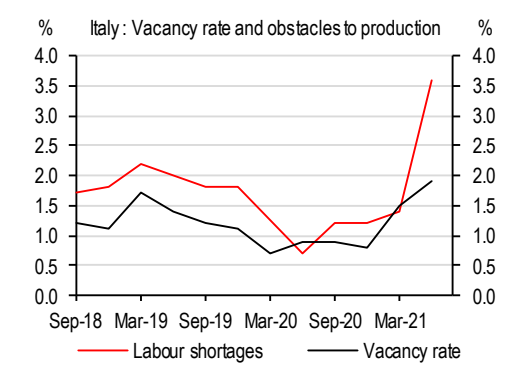
Source: European Commission.

### 24. In France, the share of firms facing hiring difficulties is increasing rapidly...



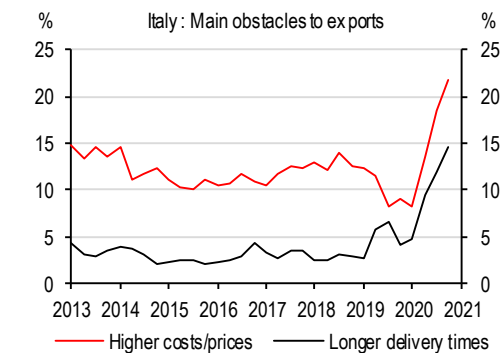
Source: INSEE, HSBC.

### 25. ...and in Italy labour shortages are now more acute than before the crisis



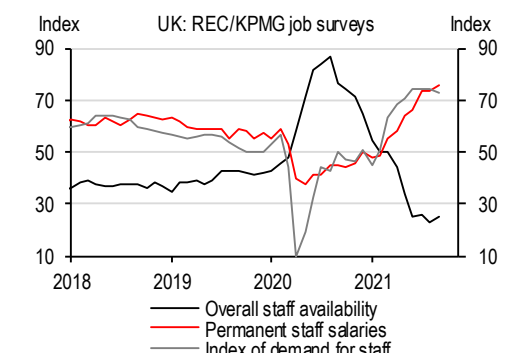
Source: ISTAT, Eurostat.

### 26. Italian firms see higher costs and longer delivery times as major obstacles to their ability to export



Source: ISTAT.

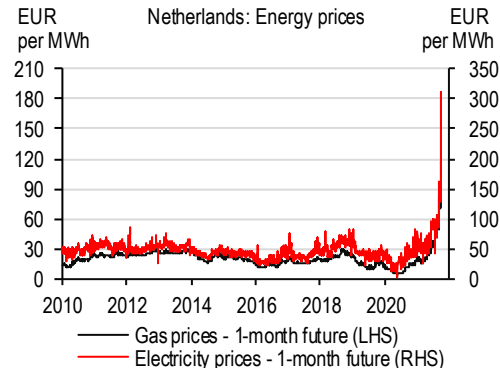
### 27. In the UK, the labour market remains hot with increasing evidence of labour shortages putting pressure on wages



Source: REC, KPMG.

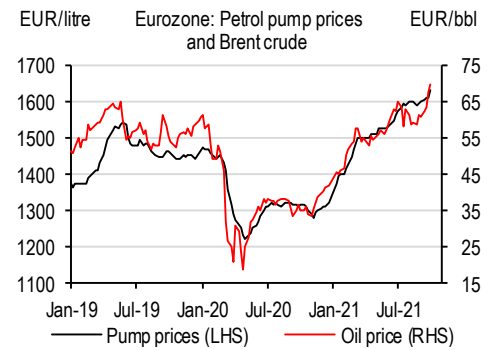
## Inflation concerns building

### 28. Wholesale gas and energy prices continue to soar...



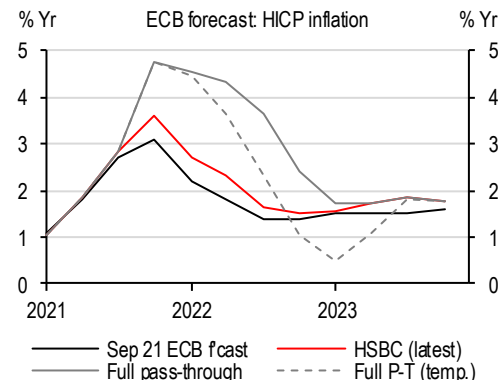
Source: Bloomberg, Refinitiv Datastream, HSBC.

### 29. ...compounded by rising oil prices which is now feeding through pump prices



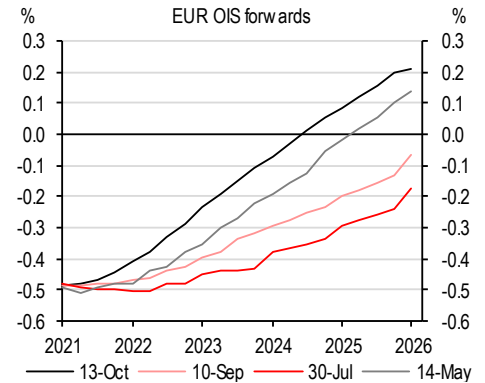
Source: Refinitiv Datastream, European Commission, HSBC.

### 30. We estimate this could push inflation towards 5% y-o-y in an extreme scenario



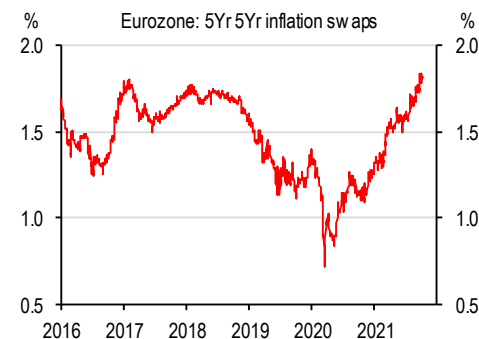
Source: ECB, HSBC

### 31. The market has now fully priced in the first ECB rate increase by the end of 2022



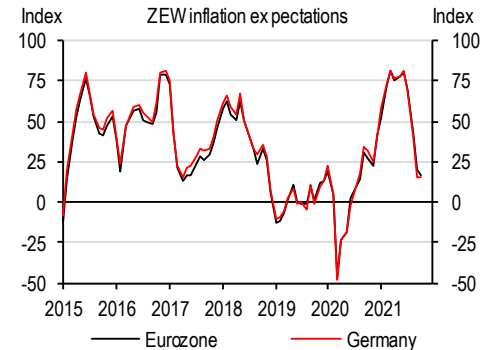
Source: Bloomberg.

### 32. The rise in the 5yr-5yr inflation swaps seems to have stalled though...



Source: Bloomberg.

### 33. ...and medium-term inflation expectations in the ZEW survey continued to decline in October

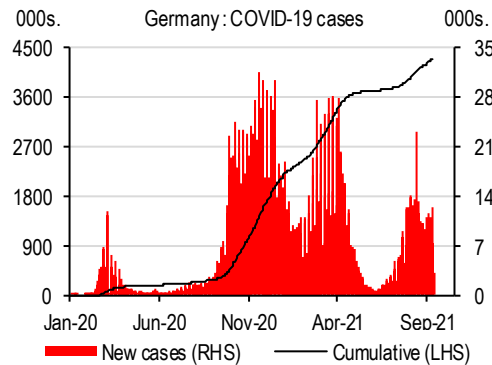


Source: Macrobond, HSBC.



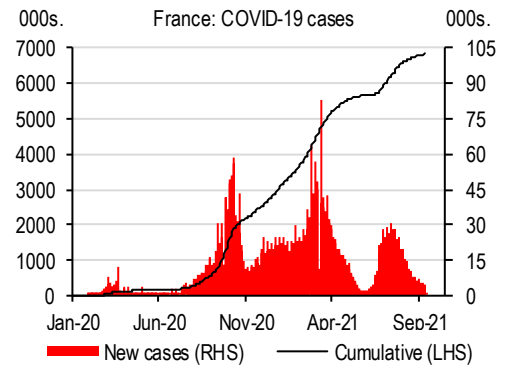
## COVID-19 in Western Europe

**34. New infection numbers have recently been steady in Germany**



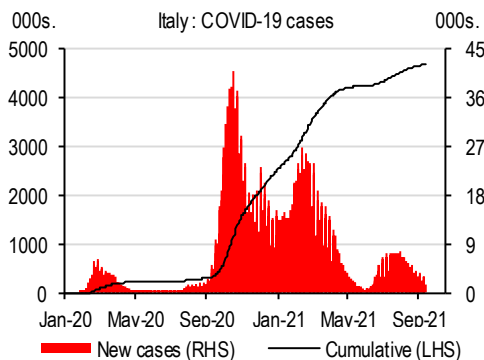
Source: Refinitiv Datastream, HSBC.

**35. The latest COVID-19 wave seems to have been well contained in France...**



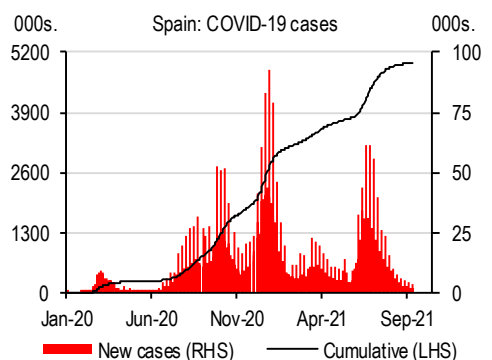
Source: Refinitiv Datastream, HSBC.

**36. ...and in Italy, also thanks to a tough application of the COVID-19 'green-pass'**



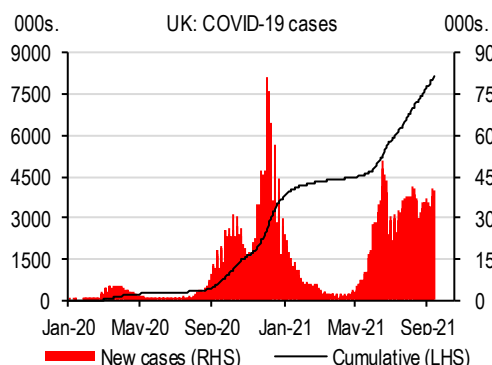
Source: Refinitiv Datastream, HSBC.

**37. Solid progress in Spain's vaccination programme seems to be paying off**



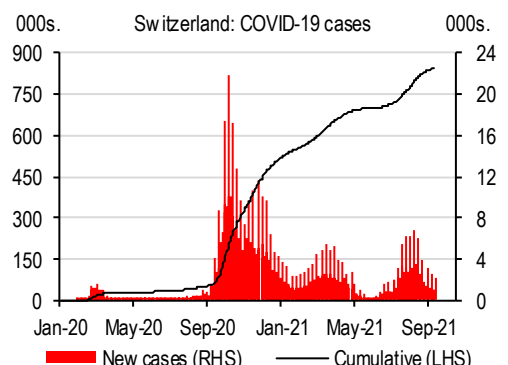
Source: Refinitiv Datastream, HSBC.

**38. UK numbers are still high compared with the rest of Europe and now back on the rise**



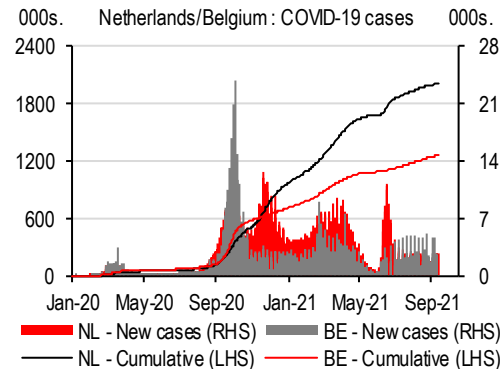
Source: Refinitiv Datastream, HSBC.

**39. The fourth wave of COVID-19 seems to have been contained in Switzerland**



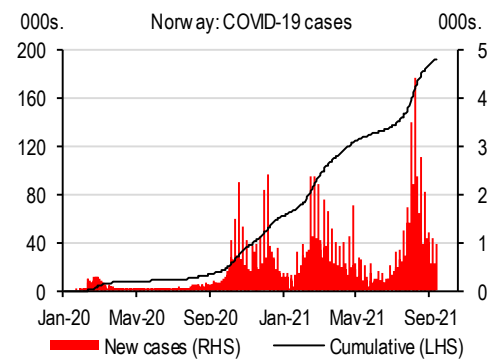
Source: Refinitiv Datastream, HSBC.

#### 40. Case numbers remain fairly elevated in Belgium and are rising in the Netherlands



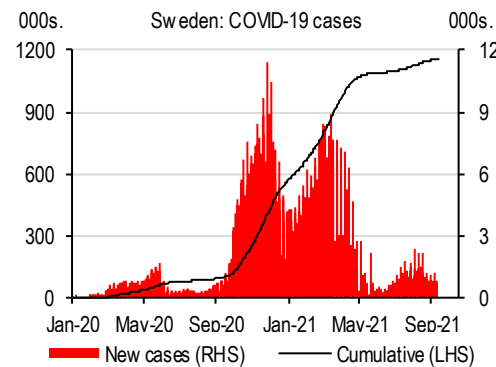
Source: Refinitiv Datastream, HSBC.

#### 41. Norway seems to have brought the latest COVID-19 wave under control



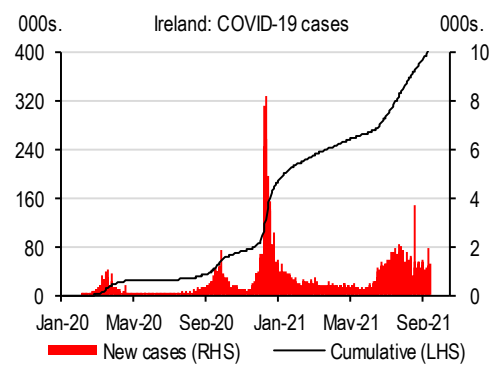
Source: Refinitiv Datastream, HSBC.

#### 42. Swedish case numbers remain low despite re-openings and the colder weather



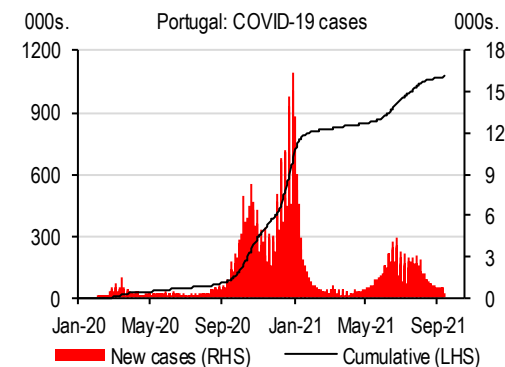
Source: Refinitiv Datastream, HSBC.

#### 43. In Ireland, there are some early signs of a possible new wave of infections



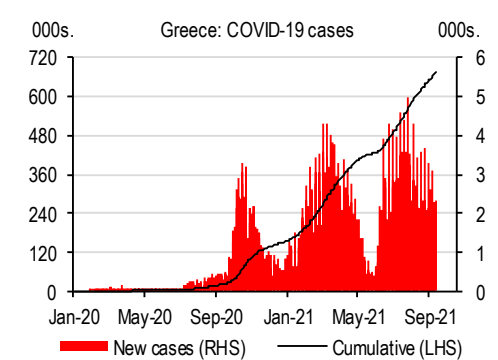
Source: Refinitiv Datastream, HSBC.

#### 44. In Portugal, the Delta wave seems to have been contained...



Source: Refinitiv Datastream, HSBC.

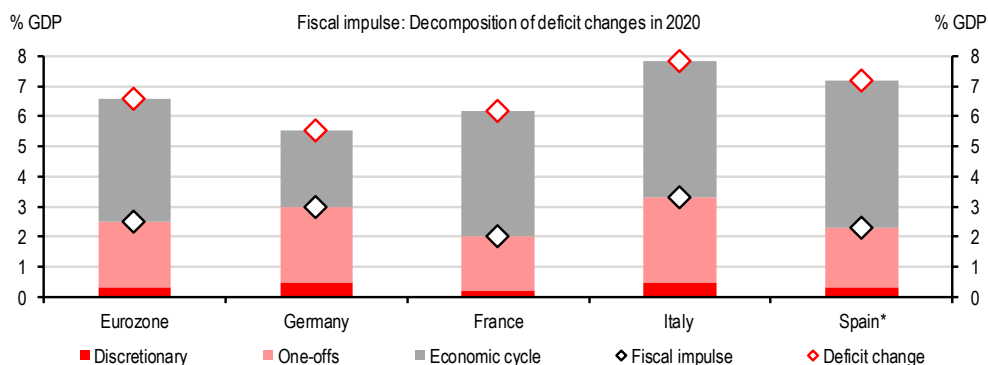
#### 45. ...but less so in Greece, where infections rates remain relatively high



Source: Refinitiv Datastream, HSBC.

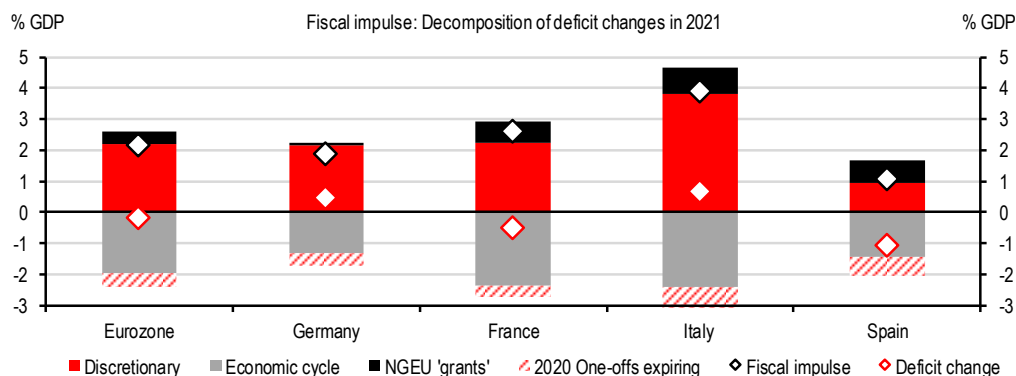
## Fiscal measures (in the Big 4 eurozone countries and the UK)

**46. Fiscal policy was highly supportive of growth last year even if a significant chunk of support did not make it into the economy due to restrictions and was actually saved**



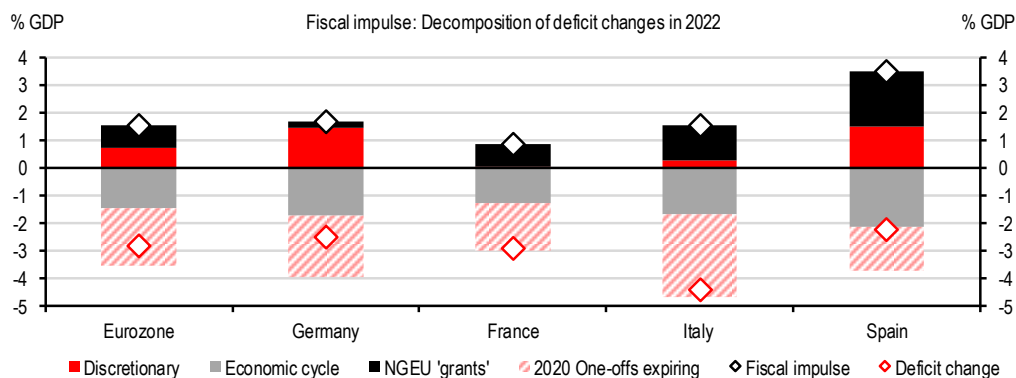
Source: HSBC calculations based on national statistical institutes, Eurostat and European Commission, 2020 budgets and amendments. Notes: \* Discounting the impact (0.9% of GDP) of the incorporation of 'Sareb' under the public sector. The 'Economic Cycle' component for eurozone countries and the Big 4 includes the 'normal' short-time work compensation schemes but not the extensions and more generous terms agreed in response to the COVID-19 crisis.

**47. Stronger-than-anticipated growth has helped contain the fiscal deficits this year despite fiscal policy remaining expansionary**



Source: HSBC calculations based on national statistical institutes, Eurostat and European Commission, 2020 budgets and amendments. Notes: The 'Economic Cycle' component for eurozone countries and the Big 4 includes the 'normal' short-time work compensation schemes but not the extensions and more generous terms agreed in response to the COVID-19 crisis.

**48. In 2022, the domestic fiscal policy stance should turn broadly neutral with the bulk of expansion across the eurozone provided by the Next Generation EU (NGEU) fund**



Source: HSBC calculations based on national statistical institutes, Eurostat and European Commission, 2020 budgets and amendments. Notes: The adjusted series takes into account that due to ongoing restrictions at least part of the stimulus implemented last year and this year did not actually feed through into the economy but will only do so once restrictions are lifted.

# Disclosure appendix

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