

# Europe COVID-19 tracker

## Winter wave worries

Free to View  
Economics - Europe

- ◆ As UK COVID-19 case numbers continue to decline, the numbers in the Big 4 are up sharply
- ◆ And in some parts of Eastern Europe, death rates are higher than at any time in the pandemic
- ◆ Meanwhile, latest inflation data have done nothing to counter an increasingly hawkish rates market

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### Case numbers down in the UK, up elsewhere

Last week, we pointed to signs of improvement in UK case numbers, offset by increases elsewhere in Europe. That trend has only intensified. While the number of cases in the UK is down 17.3% week on week, it is up by 31% in the Big Four (chart 1 & 2). And even the UK is still feeling the lagged impact of the earlier rise in case numbers with 293 deaths on 2 November – the highest daily number since early March. The good news for the UK is that its overall vaccination rate has picked up (chart 8) and it is leading the way on delivery of booster shots (chart 10).

Elsewhere in Europe, the picture looks worse again. In Germany, case numbers stand at around 20k per day – around 80% of the peak in December 2020, and a rise of 53.5% week on week. Thankfully, the number of deaths is only around a tenth of what it was at the peak. That is not the case for some Eastern European countries, though, where the number of cases and deaths are higher than at any point in the pandemic (charts 3 & 4).

### Inflation does nothing to deter market hawks

Economically, the focus remains squarely on inflation, for which latest data have only fanned the flames of an increasingly hawkish market. The eurozone flash CPI print for October came in at 4.1% y-o-y (chart 16 and 17), surprising consensus to the upside, with the Spanish rate jumping from 4.0% to 5.5%. For ECB Governor Christine Lagarde, who had spent the previous afternoon trying to persuade the market that its expectations for monetary tightening were “unfounded”, this was not particularly helpful.

Indeed, the public may not be totally convinced either with inflation expectations inching up across the region (chart 18). In the UK, inflation expectations for the next 12 months rose to 4.4% y-o-y in October – the highest since 2008 – though the medium- to long-term expectations dropped back a little (from 3.8% in September to 3.7% in October, (chart 21). On the plus side, wholesale energy prices have fallen back a touch in the last week or so (chart 20). But they are still very high by historical standards. In France, the government has today introduced a number of measures to cushion the blow, including subsidies for lower and middle income households. But UK households were not so lucky: there was nothing specific to help with energy bills in Chancellor Rishi Sunak's Budget last week.

*This is a Free-to-View version of a report by the same title published on 03-Nov-21. Please contact your HSBC representative or email [AskResearch@hsbc.com](mailto:AskResearch@hsbc.com) for more information.*

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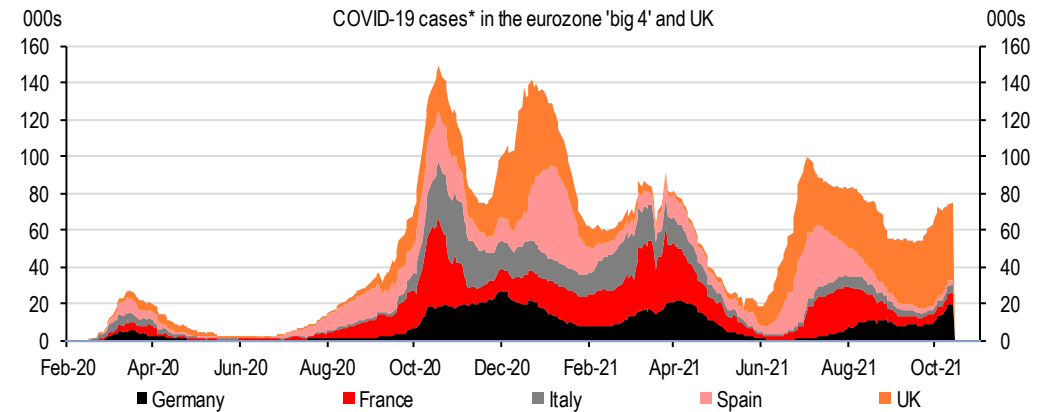
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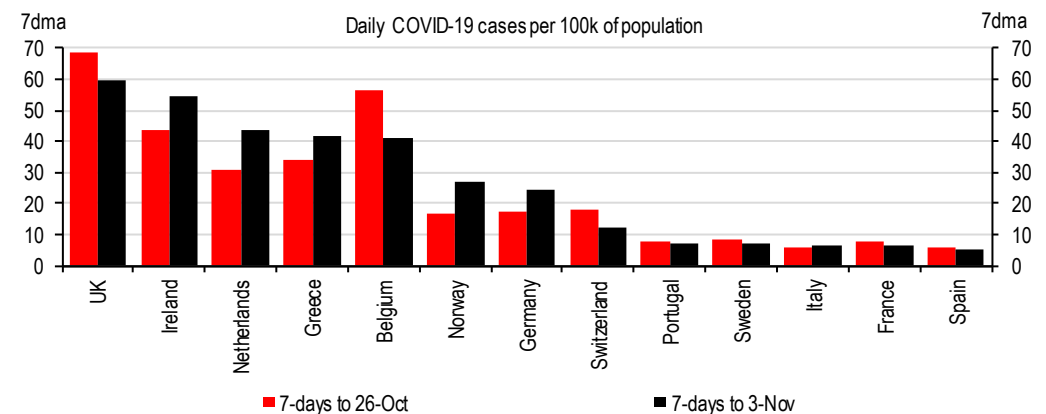
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## Signs of improvements in the UK, slight deterioration on Continent

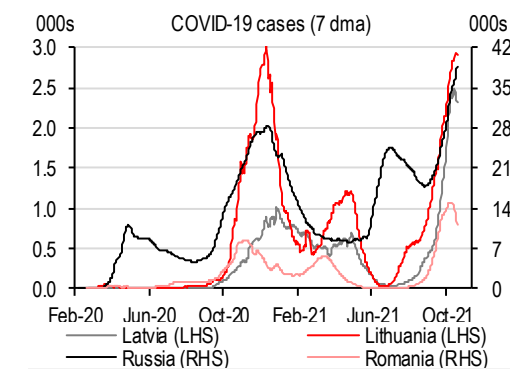
### 1. Case numbers for the Big Four plus UK have risen by 6.8% in the last week ...



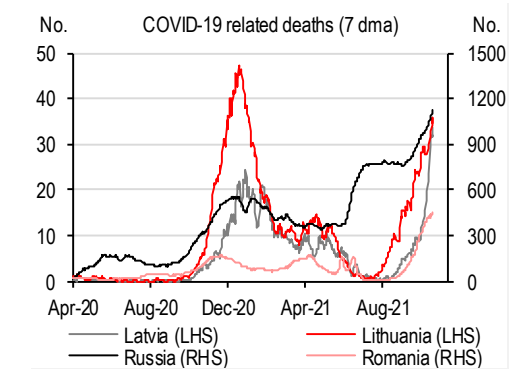
### 2. ... with the fall in the UK offset by rises elsewhere



### 3. In other parts of Europe, the picture looks quite worrying...



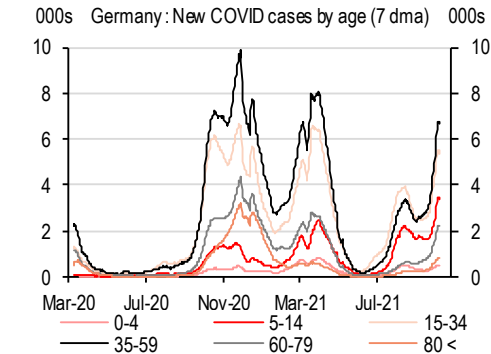
### 4. ...with death rates higher than in previous cycles



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

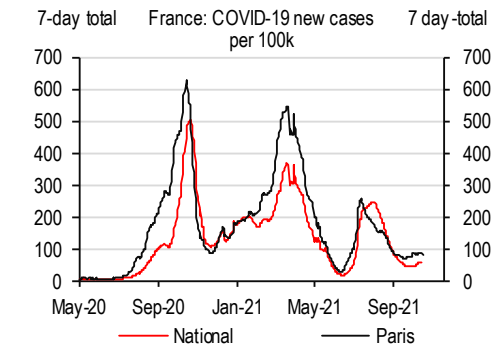
## Increasing vaccine coverage remains the priority

### 5. German incidence numbers have risen markedly ...



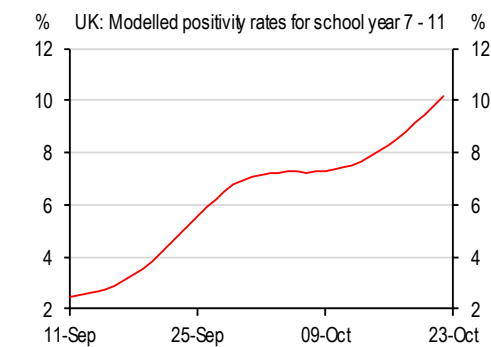
Source: Macrobond, HSBC.

### 6. ... and in France, they are starting to pick back up again



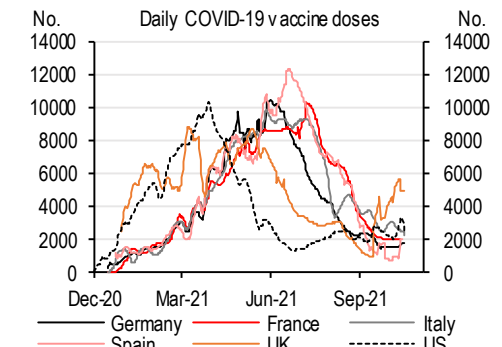
Source: French government, HSBC.

### 7. In the UK, case numbers have come down, but rates are very high among secondary school age children



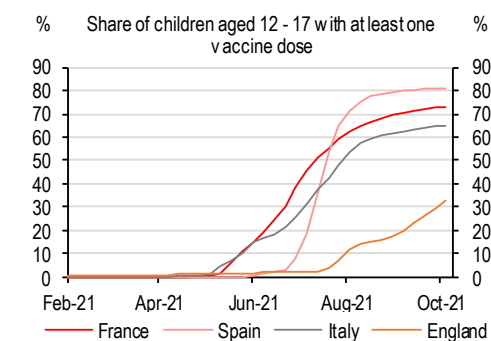
Source: ONS. Note: Year 7-12 = ages approx. 11-17.

### 8. The UK's later drive to vaccinate schoolchildren and provide boosters may account for higher overall rates recently



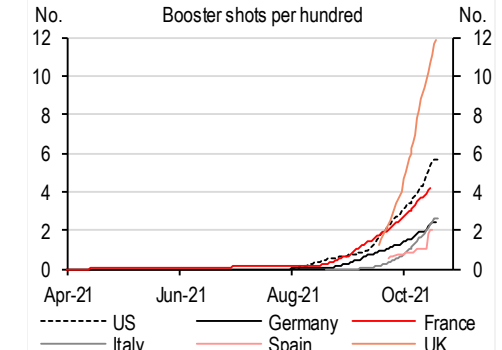
Source: Our World in Data, HSBC.

### 9. Indeed, the UK remains some way behind many of its neighbours in vaccinating children ...



Source: ECDC, UK government, HSBC calculations.

### 10. ... though it is doing considerably better when it comes to booster shots



Source: Our World in Data, UK government, HSBC

## New restrictions centred on the 'COVID pass' implementation

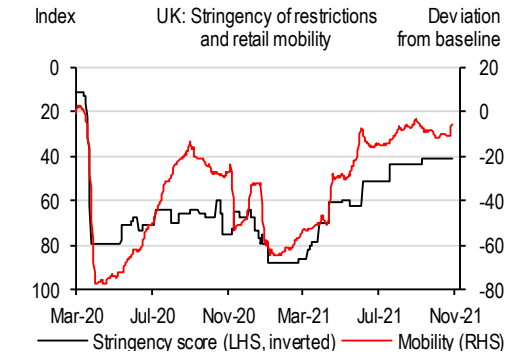
### 11. Latest on the restrictions from the major European countries

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 transport such as airplanes and trains). COVID-19 tests are no longer free of charge for unvaccinated adults since 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 interaction) for the departments where the 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 using distance learning). For secondary and high schools, in the same situation, vaccinated pupils will be authorised to continue to attend lessons physically.</p> <p>The government wants to extend the use of the COVID-19 pass beyond the current 15 November deadline, allowing the government to extend it unilaterally until the end of July 2022, which is facing some opposition within the Senate.</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 also considering this 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).</p> <p>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

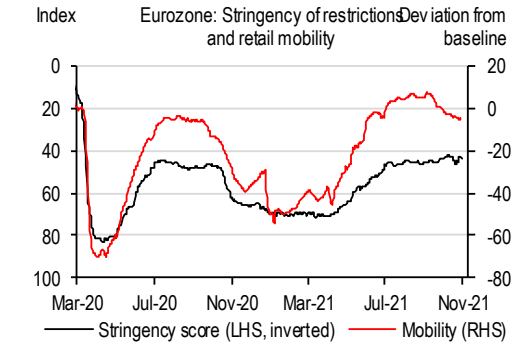
## Mobility remains fairly stable

### 12. Mobility has picked up a little in the UK, but remains below the baseline



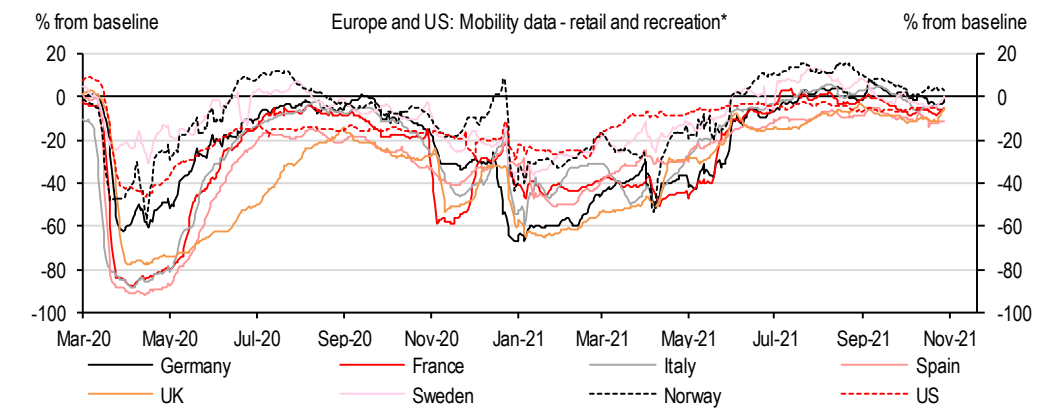
Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC.

### 13. In the Eurozone, mobility had been above the baseline, but has dropped back



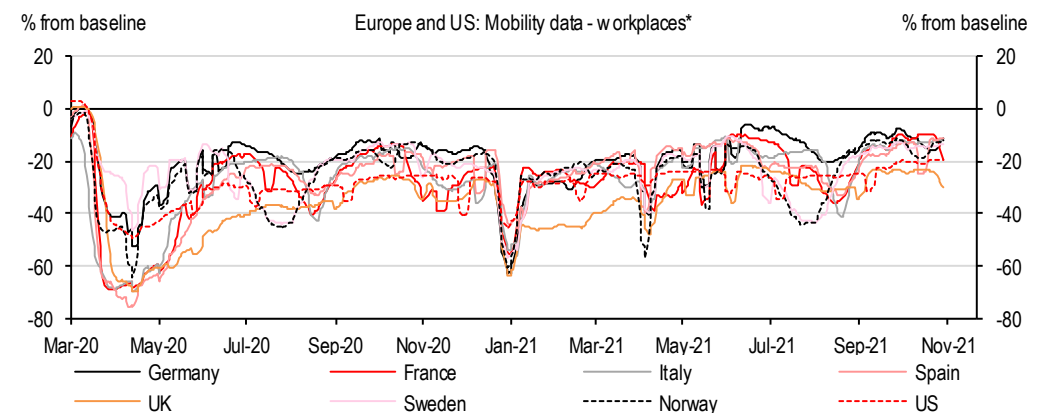
Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC.

### 14. Retail mobility is close to pre-pandemic levels in most European countries although on a slight downward trajectory other than in Norway...



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

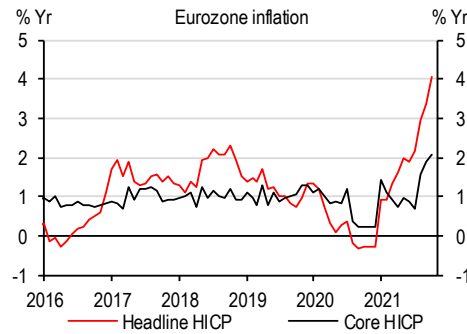
### 15. ...while the novelty of returning to the office appears to have worn off in the UK and France



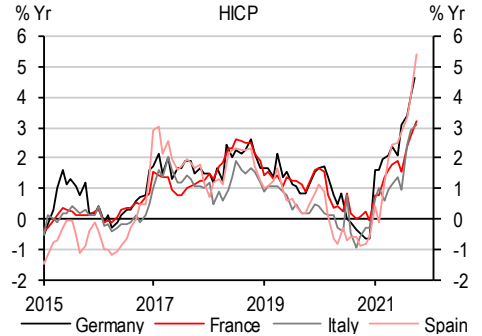
Source: Google, HSBC. Note: \*7-day moving average.

## Inflation still in focus

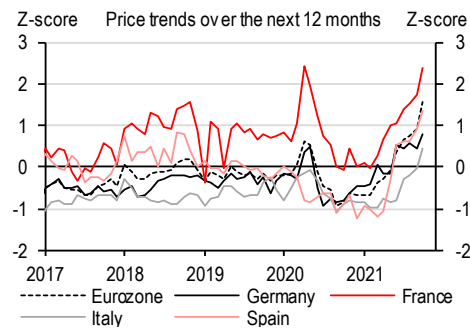
**16. Headline Eurozone inflation rose to 4.1% y-o-y in October**



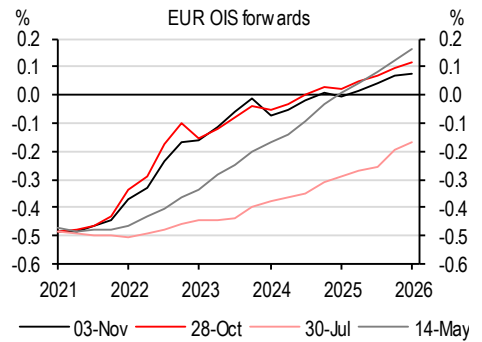
**17. Y-o-y rates were higher across the board, but topped 5% in Spain**



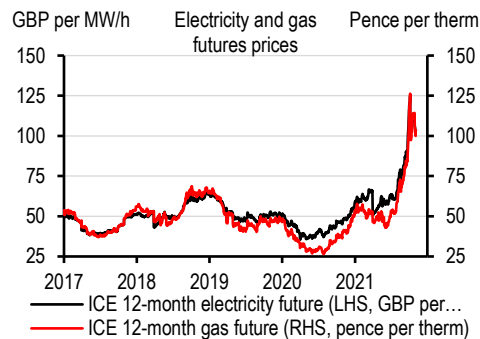
**18. Meanwhile, public inflation expectations are rising ...**



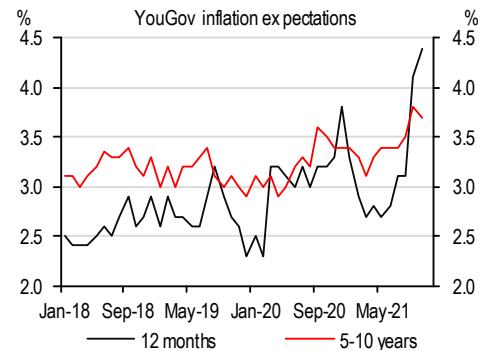
**19. ... and the market reacted to a relatively dovish ECB with scepticism**



**20. At least energy prices have edged down a little in recent days**

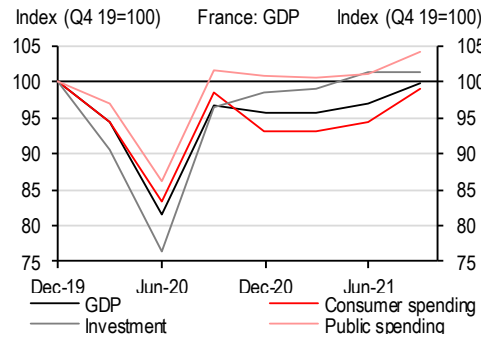


**21. But near-term expectations are still pushing higher in the UK**



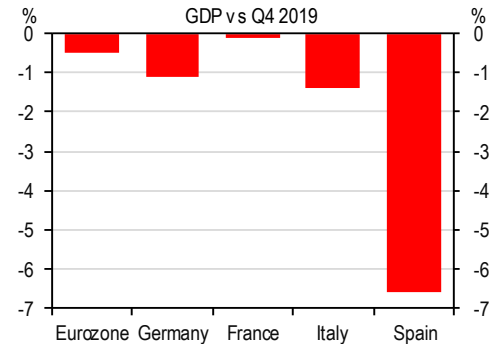
## Solid employment prospects, ongoing supply bottlenecks

**22. French GDP was just shy of its pre-pandemic peak in Q321 albeit driven by government spending ...**



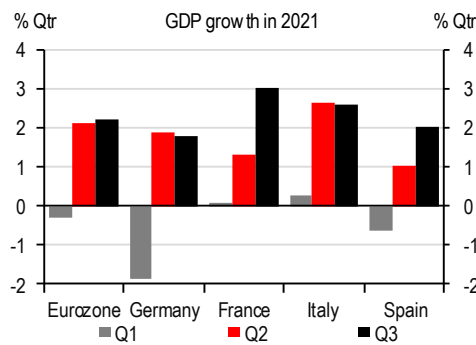
Source: Refinitiv Datastream, HSBC.

**23. ... which is a lot more than can be said of some of its neighbours**



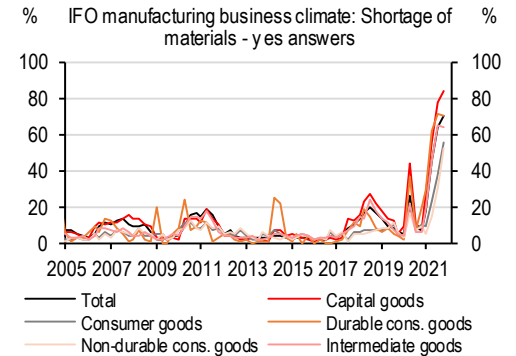
Source: Refinitiv Datastream, HSBC.

**24. The 2.2% q-o-q increase in Q3 GDP for the Eurozone is likely to mark the peak**



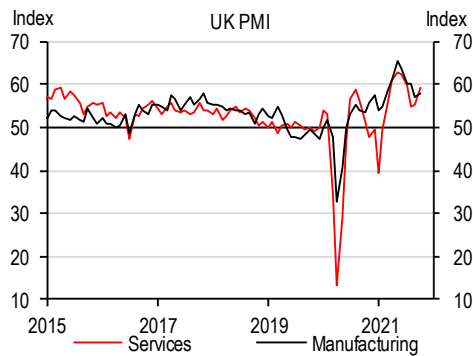
Source: Refinitiv Datastream, HSBC.

**25. In Germany, supply constraints persist in weighing on activity**



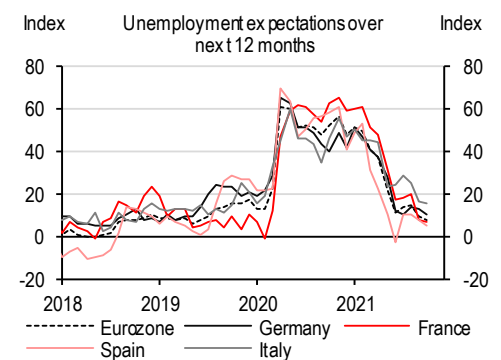
Source: Macrobond, HSBC.

**26. The same is true in the UK, but final PMIs for October still showed a decent rebound**



Source: Refinitiv Datastream, HSBC.

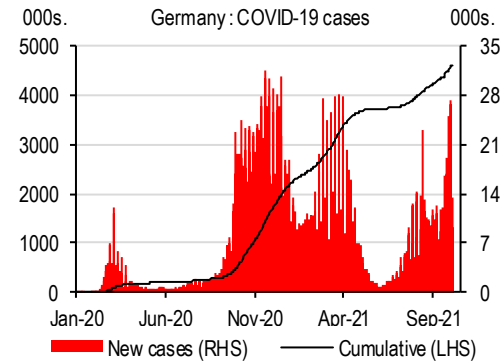
**27. At least households are not too worried about job security**



Source: Refinitiv Datastream, HSBC.

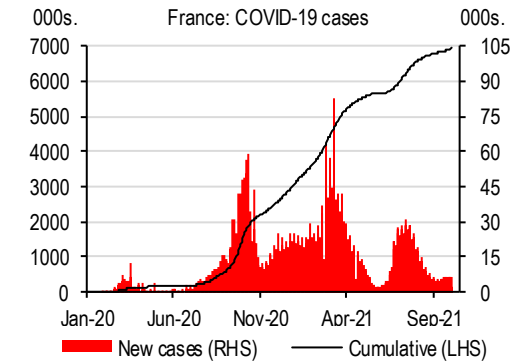
## COVID-19 in Western Europe

### 28. New infection numbers keep rising in Germany ...



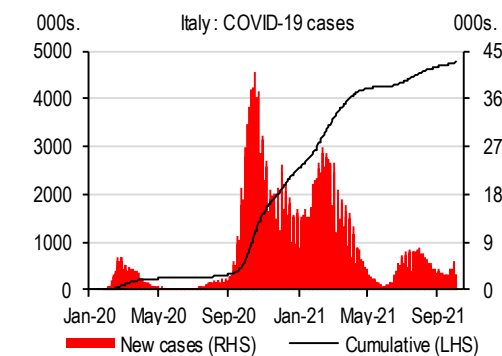
Source: Refinitiv Datastream, HSBC.

### 29. ... but might have bottomed out in France



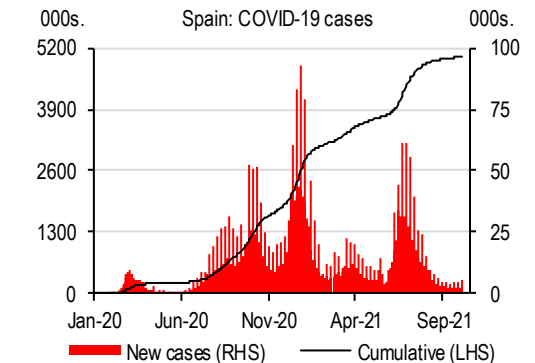
Source: Refinitiv Datastream, HSBC.

### 30. Italian cases are back on the rise although largely due to more testing



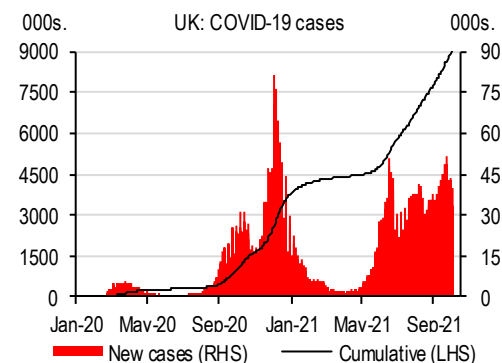
Source: Refinitiv Datastream, HSBC.

### 31. Spain's cases remain at low levels



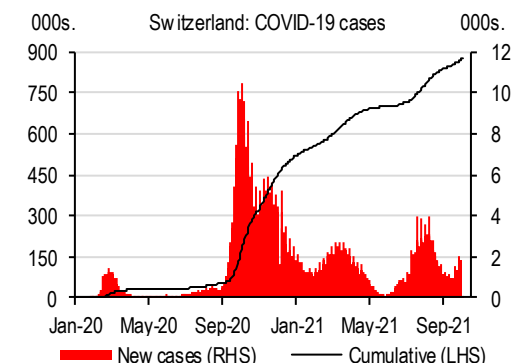
Source: Refinitiv Datastream, HSBC.

### 32. UK cases might have peaked although the remain elevated



Source: Refinitiv Datastream, HSBC.

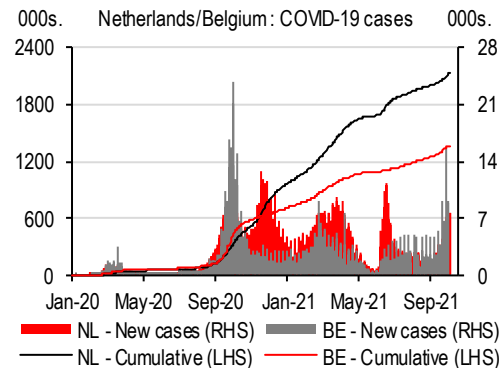
### 33. Cases have also been increasingly slightly in Switzerland



Source: Refinitiv Datastream, HSBC.

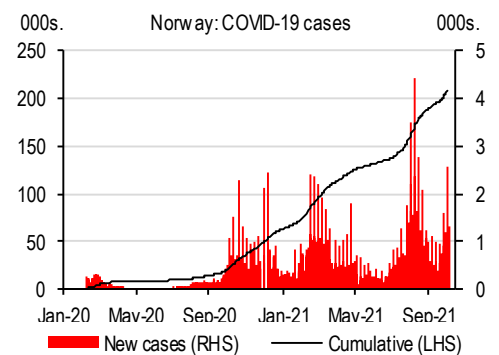


**34. Belgium is now seeing a sharp increase in new cases**



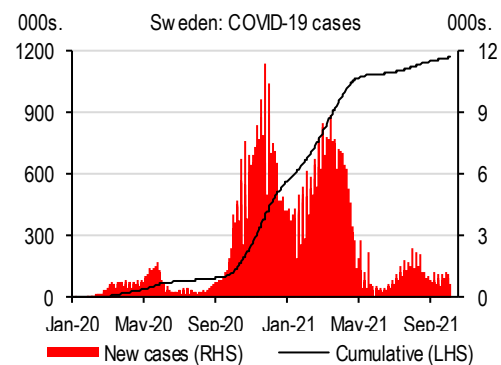
Source: Refinitiv Datastream, HSBC.

**35. Norway has also seen a small increase in cases, albeit from low levels**



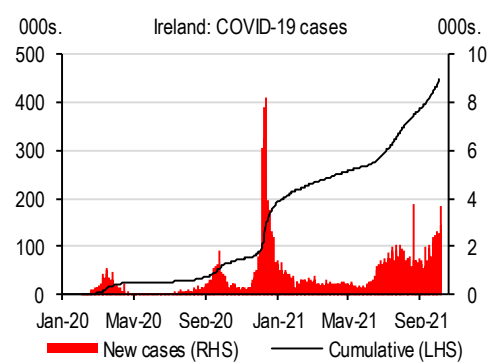
Source: Refinitiv Datastream, HSBC.

**36. Swedish case numbers remain low despite re-openings and the colder weather**



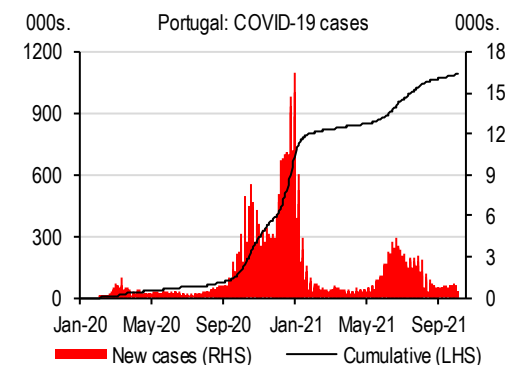
Source: Refinitiv Datastream, HSBC.

**37. In Ireland, cases are now starting to increase more meaningfully**



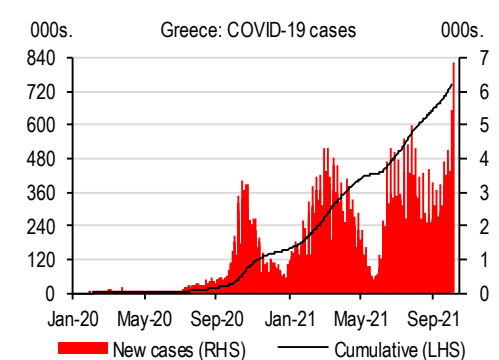
Source: Refinitiv Datastream, HSBC.

**38. In Portugal, new cases remain low as the government maintains fairly tight restrictions**



Source: Refinitiv Datastream, HSBC.

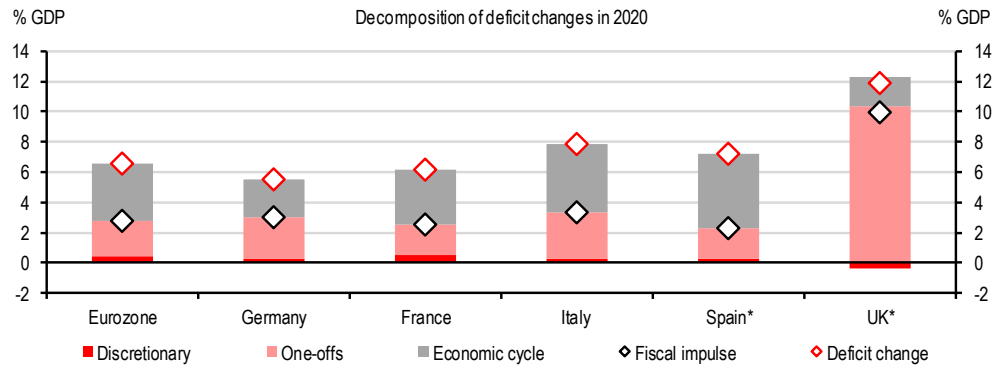
**39. In Greece, cases remain more elevated and are now back on the rise**



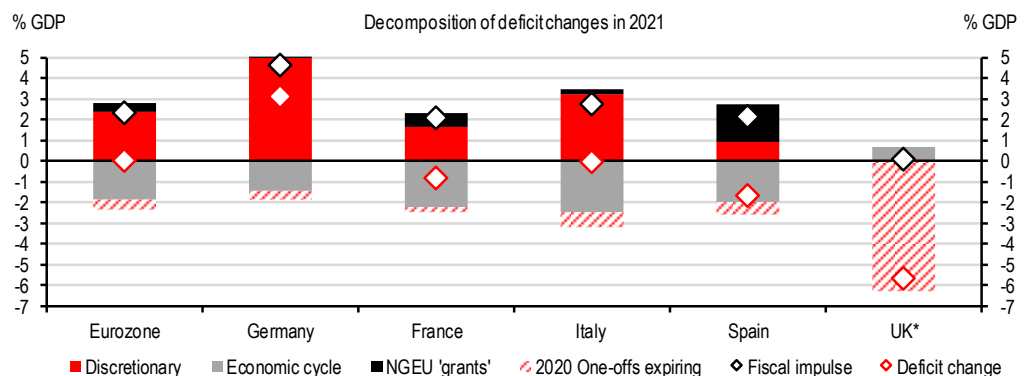
Source: Refinitiv Datastream, HSBC.

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

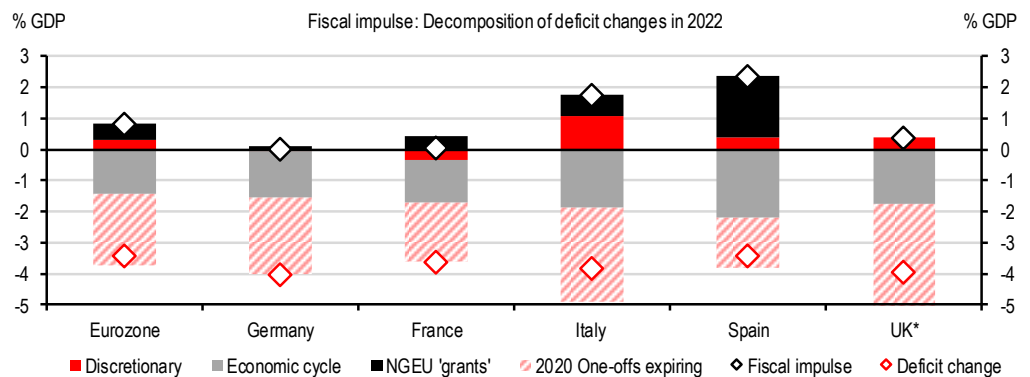
**40. Fiscal policy was highly supportive of growth last year even if a significant chunk of support did not make it into the economy due to restrictions and was actually saved**



**41. Stronger-than-anticipated growth has helped contain the fiscal deficits this year despite a strongly expansionary fiscal policy**



**42. In 2022, the domestic fiscal policy stance should remain mildly expansionary, and even more so included the additional support provided by the Next Generation EU (NGEU) fund**



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