

Europe COVID-19 tracker

Vaccine scepticism may hold back the recovery

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Economics - Europe

- ◆ While new COVID-19 infections continue to rise in many countries and remain elevated in the UK and Spain...
- ◆ ...vaccination progress is clearly hitting natural boundaries
- ◆ Meanwhile, economic activity continues to recover but also re-enforces wage and inflation fears across Europe

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Convincing vaccine sceptics is seen as the key to keep the economy open

New infection numbers are rising from comparably low levels in France, Italy and Germany while they are stabilising at elevated levels in Spain and the UK (charts 1, 2). With the Delta variant spreading predominantly among the younger population in contrast to the previous infection waves (charts 3, 4), ICU admissions fortunately remain at comparably low levels but nevertheless show a clear upward trend (chart 5). In this respect, all hopes rest on vaccinations to at least prevent hospitalisations in case of an infection. However, progress on vaccination campaigns is obviously stalling across Europe (charts 6, 7). Data from Germany, which we view as representative for the entire EU, indicated that the gap between vaccine supply and actual shots has reached record highs as more than two-thirds of the declining vaccine administrations are now second shots (charts 8, 9). As a consequence, the share of the total population having received full vaccine protection seems likely to reach a ceiling at roughly 60% as data from the more advanced vaccination campaigns in Israel and the UK suggest (chart 10). Therefore, politicians are eager to incentivise vaccination uptake by extending or even increasing the obligation to provide a negative test result for the unvaccinated for leisure activities, such as in France and most recently in Germany (chart 15). Hence, the level of economic activity is for now set to remain below pre-pandemic levels (charts 11-14).

While trade numbers look promising, much is due to higher price levels

That said, economic data continue to show an ongoing global recovery, reflected by the German trade data from June with German exports exceeding the pre-pandemic level (chart 17). However, on second glance, the export and even more so the import value rebounds are mainly driven by price rather than quantity effects, resulting in a significant deterioration of the German trade surplus (chart 18). On current account terms, this is to some degree compensated for by lower travel account deficits as the tourism sector, e.g. in Spain, remains far below pre-pandemic numbers (charts 19, 20).

Labour market recovery could drive wages and inflation up in Europe as well

Latest ifo estimates on German short time working also confirm an ongoing normalisation process mirroring developments in Spain and France while the strong June uptick in the Italian numbers merely reflected that it was the last month in which all firms could tap the emergency scheme (charts 21, 22). Impacts of a tightening labour market are already visible in the UK where wages seem to have soared lately (charts 23, 24). It remains to be seen though if this translates into consumer price – and particularly service – inflation over the coming months like it apparently is doing in the US (chart 25). At least for the moment, financial markets don't seem too intimidated by inflation fears though as the recent ZEW survey and the current low yield levels implicate while the ECB has slightly curbed its weekly asset purchases over the summer break (charts 26-28).

This is an abridged version of a report of the same title published on 11 August 2021. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

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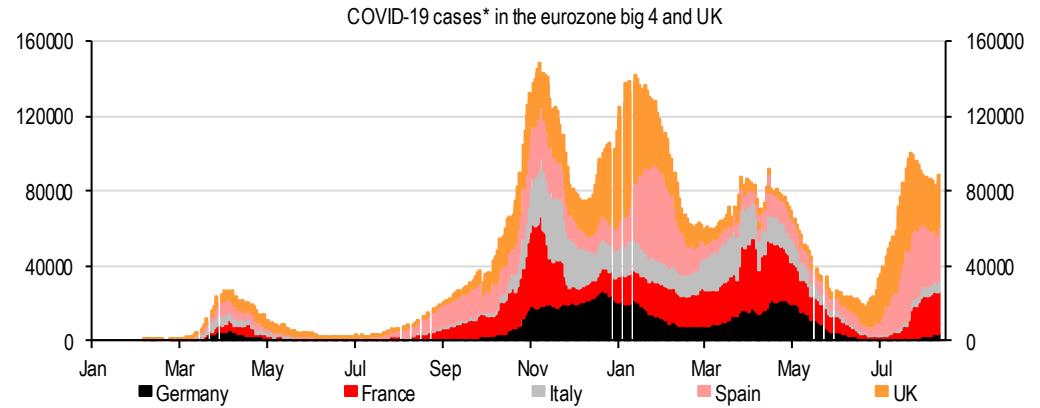
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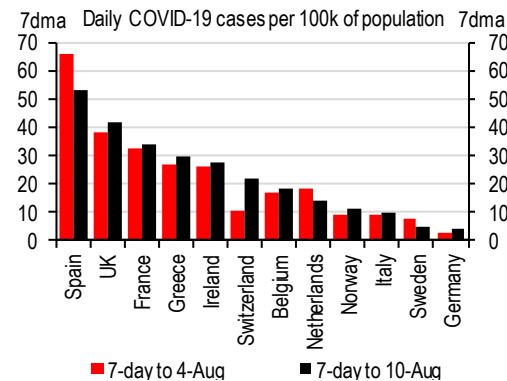
COVID-19 situation has not significantly changed this week

1. European infection numbers have stabilised at elevated levels



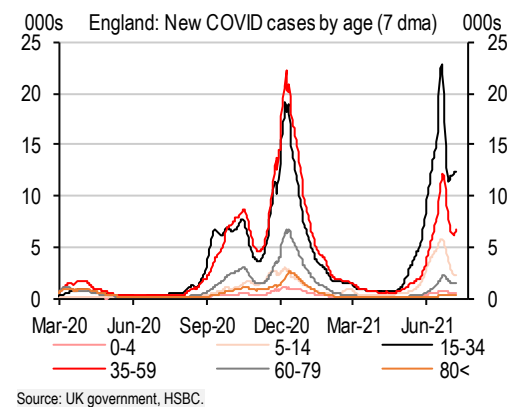
Source: Refinitiv Datastream, HSBC. Note: *7-day moving average.

2. Case numbers are rising across Europe but remain highest in Spain and the UK



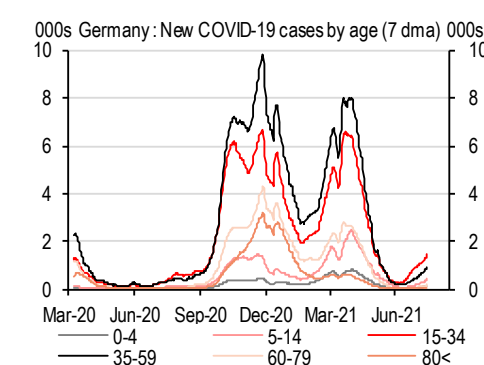
Source: Refinitiv Datastream, HSBC. Note: Weekend numbers are reported as 0 so "7-days to" does not include Saturday and Sunday.

3. COVID-19 patients are on average much younger than in during previous peaks...



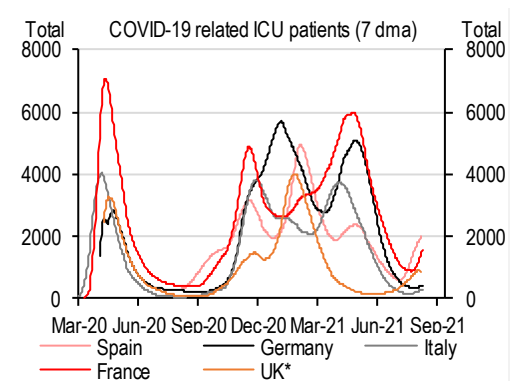
Source: UK government, HSBC.

4. ...which is also true for less affected countries like Germany



Source: Macrobond, HSBC.

5. This might contribute to still comparably low ICU levels despite rising cases

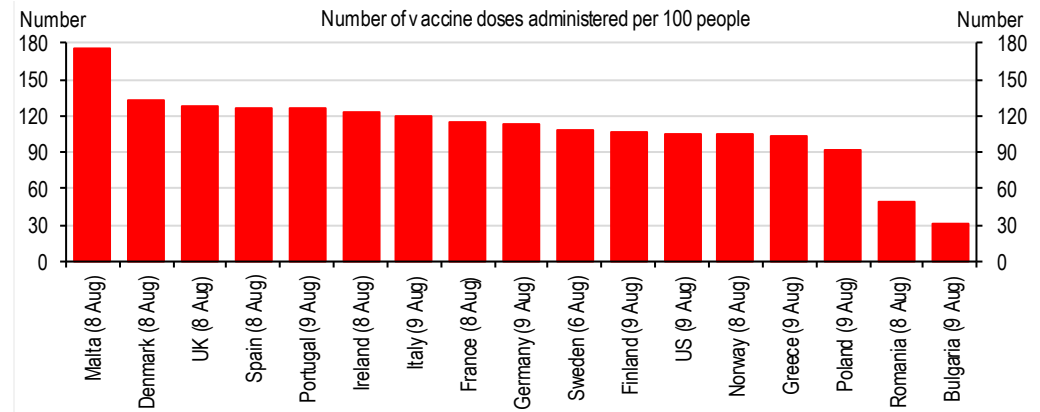


Source: Macrobond, HSBC. Note: *medically ventilated.

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

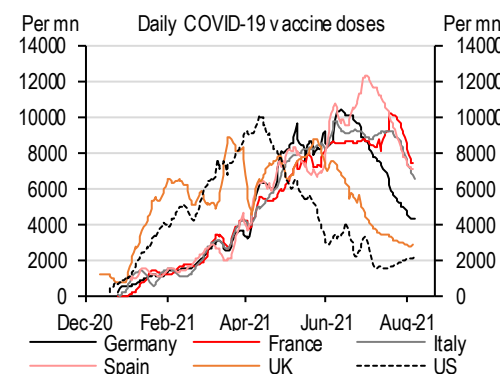
Vaccination campaigns need another push to stop the pandemic

6. Overall European countries show a rather high rate of vaccination...



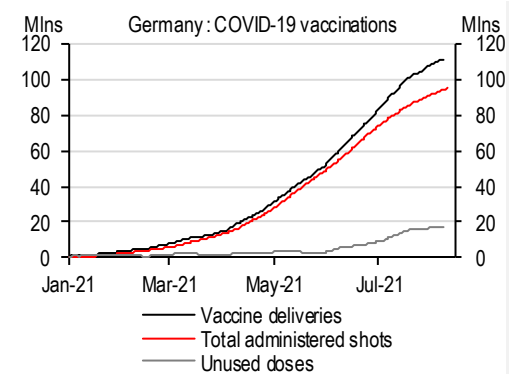
Source: Our World in Data, HSBC.

7. ...but the speed of the vaccination campaigns has severely slowed...



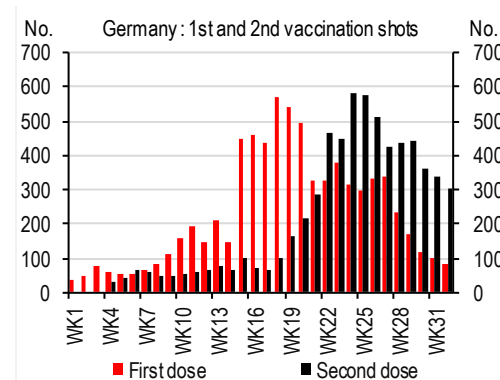
Source: Our World in Data, HSBC.

8. ...which is clearly driven by much lower demand as vaccine supply is now abundant



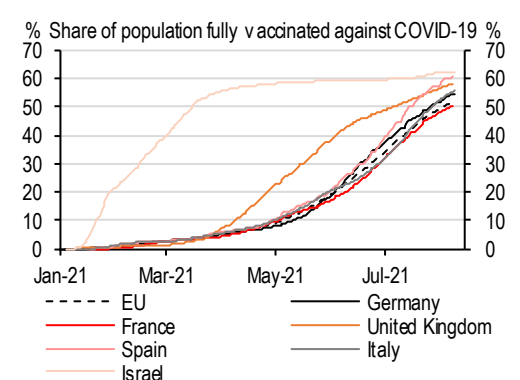
Source: Macrobond, HSBC.

9. In Germany, the number of first dose administrations fell to a six-month low



Source: Macrobond, HSBC.

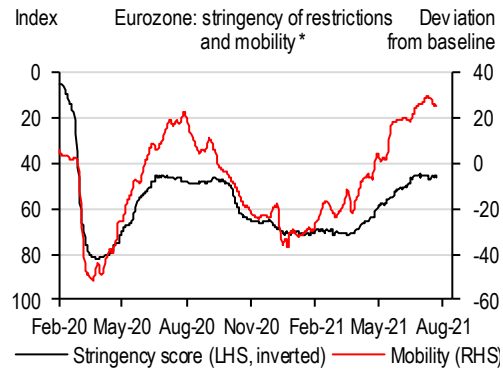
10. It seems that actual vaccination numbers might not reach desired levels



Source: Macrobond, HSBC.

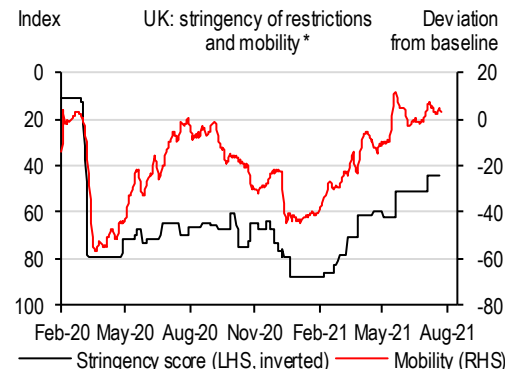
Still a good deal away from pre-pandemic activity levels

11. While no further restrictions in Europe, activity is down slightly



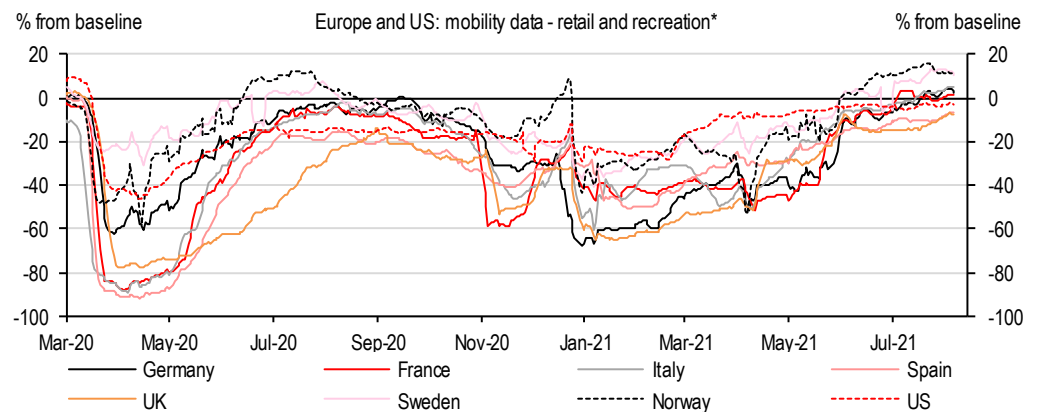
Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC.
 Note: *Mobility data is an average of all the components, excluding residential, 7dma.

12. While in the UK, more easing has not led to a significant uptick in activity



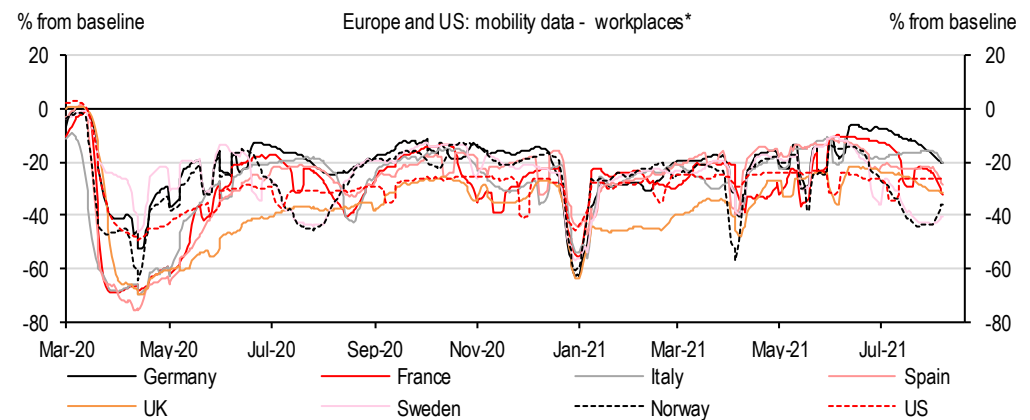
Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC.
 Note: *Mobility data is an average of all the components, excluding residential, 7dma.

13. Overall mobility remains roughly unchanged to previous weeks across Europe...



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

14. ...but the holiday season means people are away from offices



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

Local restrictions start to be re-imposed in some countries

15. Latest on the restrictions from the major European countries

Country	Latest lockdown measures
Germany	<p>To speed up the stalling vaccination campaign, Chancellor Merkel and the heads of the federal states on 10 August took actions to overhaul the outdated COVID-19 regulations and incentivise the take-up of vaccines. To this end, a so-called 3G-rule (3G: "geimpft, genesen, getestet" – "vaccinated, recovered, tested") was implemented. Starting from 23 August, unvaccinated people (except children) are thus required to present a negative Corona test for indoor activities (e.g. restaurants, services, events, etc.). Moreover, from 11 October, tests will no longer be free of charge except for people who are medically not advised to get a vaccine shot (e.g. children, adolescents, or pregnant women). The 3G-rule will be reviewed every four weeks. But each federal state can decide on its own whether to suspend the 3G-rule in whole or partly as long as the 7-day incidence in a district is below 35 new infections per 100k inhabitants or the indicator system of the Federal state reflects a comparably low incidence and an increase of the number of infections is not to be expected as a consequence of the suspension of the rules. As of 11 August, only 66 districts out of 401 exceed the 35-threshold, but none was above the incidence threshold of 100.</p> <p>The following rules also apply:</p> <ul style="list-style-type: none"> ◆ Contact restrictions and curfews no longer apply to vaccinated and recovered persons (those persons are no longer counted at private gatherings). ◆ Distance and hygiene regulations continue to apply nationwide. This also includes vaccinated or recovered persons. ◆ When using public transport or visiting shops, masks of the "KN95 of FFP" standards must be worn. An even stricter rule applies for employees and visitors of nursing homes, who have to wear FFP-2 masks for at least as long as there is not sufficient protection through vaccination. <p>Restrictions (such as limited number of participants for clubs and parties) are still possible, and hygiene concepts must be presented at sporting events with more than 5,000 spectators. The maximum number of spectators is limited to 25,000. From 1 August 2021, there will be a general obligation to carry a proof of vaccination, recovery or a negative test for COVID-19 when entering Germany (irrespective from where and by which means of transport travellers are entering the country) for persons aged over 12 to avoid quarantine. Vaccinated or recovered persons do not have to be quarantined after returning from a "high-risk area", which is defined as a region with particularly high numbers or where there is "evidence of "dangerous incidence of infection" (e.g. a new virus variant).</p>
France	<p>The government introduced strict additional restrictions at the start of the year, including a stricter curfew and travel restrictions. Full-time lockdowns (including closure of non-essential shops and services and further restrictions on domestic travel) were then put in place in 19 departments on 20 March, then extended to all metropolitan France on 3 April (with schools being closed for between three and four weeks, including the already planned spring holidays). Restrictions have started to be gradually eased since the end of April. Kindergartens and primary schools reopened on 26 April, followed by secondary and high schools on 3 May. All restrictions on domestic travel were also lifted on 3 May. On 19 May, non-essential shops, cultural places (museums, cinemas) and the outdoor part of bars and restaurants partially reopened, but with restrictions on capacity. Moreover, the start of the curfew was set at 9pm instead of 7pm. On 9 June, gyms and the indoor parts of bars and restaurants reopened (at 50% of capacity). The capacity limit for the outdoor part of bars and restaurants was lifted, while the one on cinemas and theatres was raised to 65%. The start of the curfew was delayed to 11pm instead of 9pm. Rules on remote working were eased. Finally, attendance at some events of more than 1000 people (festivals, shows) was authorised with a COVID-19 health pass. Travel rules were also eased on 9 June: all fully vaccinated people from EU and from some other 'green' countries are no longer required to show a negative virus test to enter France, with only a proof of their vaccination status being sufficient.</p> <p>The curfew was completely lifted on 20 June and masks outdoors are no longer mandatory effective 17 June. On 30 June, most existing capacity limits (shops, restaurants, gyms, cultural venues) were lifted. Nightclubs reopened on 9 July, but with strict protocols (capacity limit of 75% indoors and a required COVID-19 health pass).</p> <p>Due to the rapid spread of the Delta variant, President Macron announced on 12 July new measures to boost vaccination numbers, including mandatory vaccination for health care workers (controls will start to be held on 15 September) and the widening of the scope of activities requiring a COVID-19 health pass (i.e. a proof of vaccination or a negative test). From 21 July, health passes were required for all leisure and cultural places (like museums or cinemas) and from early August for bars, restaurants, shopping malls, hospitals and some transports (trains, planes). In addition, PCR tests will no longer be free of charge from this autumn (unless obtained with a medical prescription).</p> <p>Local restrictions (including a renewed curfew) were announced on 12 July for the overseas territories of Martinique and Réunion Island. More recently, several coastal departments (Pyrénées-Orientales, Corsica, Charentes-Maritimes and Gironde) implemented renewed local restriction measures (like mandatory mask wearing outdoors, early closures of bars and restaurants, and restriction on outdoor gatherings) due to a significant rise in infection rates.</p>
Spain	<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. The freedom to travel across regions has been re-established with no regions maintaining the external border closure in place (even though regions are still imposing travel restrictions in and out from specific areas within the regions). On Saturday 26 June, Spain also eased its face mask rules, making masks no longer necessary in outdoor settings where social distancing is observed. Some restrictions, though, remain in place at the regional level, and some were tightened recently with COVID-19 cases now back on the rise. Most regions impose limitations in terms of the maximum number of people allowed for gatherings and restrictions to the opening times for restaurants and bars.</p> <p>For example, Aragón brought forward the closing time of clubs to 12:30am and Navarra to 1am. Recently joining them, Catalonia announced that all non-essential activities, including bars, must close by 12:30am and social gatherings must be capped at 10 people. In addition, a 1-6am curfew has been reintroduced on 17 July in several municipalities, including Barcelona. The Valencia Community, Navarra and Cantabria also recently introduced a 1-6 am curfew. In the Madrid region and Andalusia, restaurants have to close at 1am and bars and clubs can remain open until 2am and 3am, respectively. Spain's external frontier remains open. For entry, a proof of vaccination or a negative COVID-19 test is required. Even then, the UK maintaining Spain in the 'amber' list of countries requiring quarantine upon re-entry could be a setback for the ability of Spain to attract foreign tourists.</p>

Source: Country data, HSBC

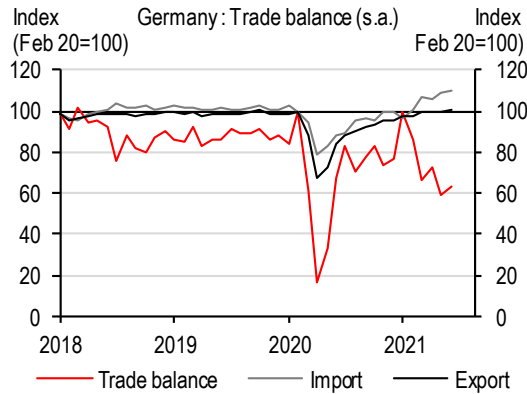
16. Latest on the restrictions from the major European countries (cont'd)

Country	Latest lockdown measures
Italy	<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) although the press has been speculating that some regions might move back in the 'yellow' category with limited restrictions applying in the coming weeks due to the rising number of COVID-19 cases (Sky, 31 July).</p> <p>In the COVID-19 decree approved on 18 May, restrictions were lifted based on the following steps. Primary schools were reopened everywhere (up to 13 years of age) while high school attendance is set at between 50% and 100%. Outdoor restaurants, cinemas and theatres and museums have already been allowed to reopen (for restaurants, both for lunch and dinner). There are no more limits for the number of people in restaurants outdoors. From 22 May, shopping centres were also opened on weekends and ski resorts were allowed to reopen (although the ski season is basically over). From 24 May, gyms were allowed to reopen. and from 1 June, indoor restaurants. From 15 June, theme parks and museums reopened, and from 1 July, indoor swimming pools, sport halls, trade exhibitions and congresses. However, the opening of clubs has been pushed back with no reopening date communicated as of yet.</p> <p>From 19 May, the curfew has been delayed from 10pm to 11pm (still until 5am). It was then delayed further from 12pm from 7 June and abolished altogether on 21 June. From 28 June, wearing masks outdoors is no longer required (it still is for indoor gatherings, though). Home visits to relatives and friends remain permitted once a day, up to a maximum of four people (in addition to the residents). The government also recently introduced a 'green pass' requirement to go into restaurants and bars (indoors), theatres, cinemas public transport and attend concerts and sporting events. 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 and might introduce it for other countries.</p>
UK	<p>Having been in lockdown through the first quarter of the year, the UK economy has now largely reopened. The delayed final step for England, which saw government removing "all legal limits on social contact", including opening nightclubs, removing social distancing requirements for hospitality and ending mandatory mask wearing, was taken on 19 July. The government also plans to lift the requirement to self-isolate after coming into contact with someone who has tested positive from 16 August for those who have received both doses of the vaccine and for most schoolchildren. However, it has also said that entry into nightclubs will require proof of vaccination from September. Meanwhile, Transport for London is maintaining an obligatory mask policy for its services.</p> <p>For the rest of the UK, plans for further lifting of restrictions vary by country. For Scotland, the 'final' easing of restrictions, akin to that already taken in England, took place on 9 August. In Wales, social distancing was lifted on 7 August, but working from home is still recommended and mask wearing is still mandatory. In Northern Ireland, a further stage of reopening was confirmed on 30 July, but limits and mask wearing will remain in place. Another review will take place on 12 August.</p> <p>International leisure travel has been allowed since 17 May with regulations on testing and quarantine requirements guided by a traffic light system with lighter restrictions for amber and green listed countries, depending on their levels of COVID-19 infection rates and variants present (UK government, 12 May 2021). Inbound arrivals will be subject to the same rules. On 28 July, the government announced that doubly vaccinated citizens of the US and the EU could enter the UK without quarantining from 2 August.</p> <p>Entry into the UK from a 'red list' of 60 countries, including South Africa, Brazil and Turkey, 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.</p>

Source: Country data, HSBC

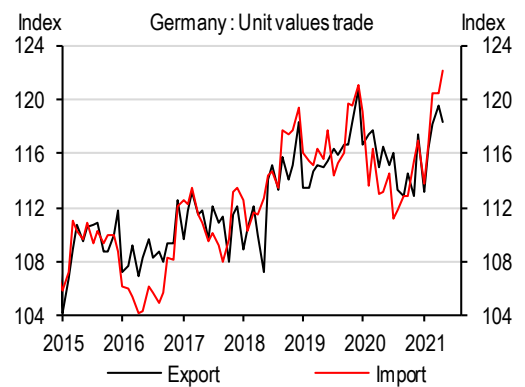
Recovery in trade, tourism and the labour market continues...

17. While German exports bounced since the pandemic started, imports bounced even more



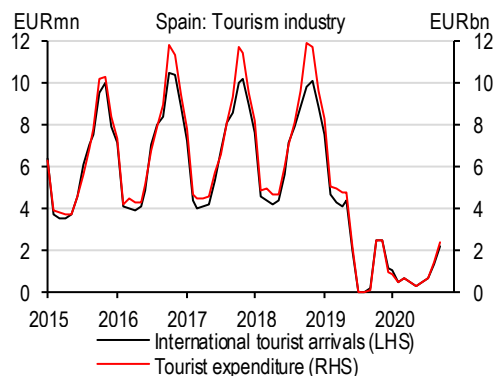
Source: Macrobond, HSBC.

18. Which is apparently driven by a strong increase in import prices



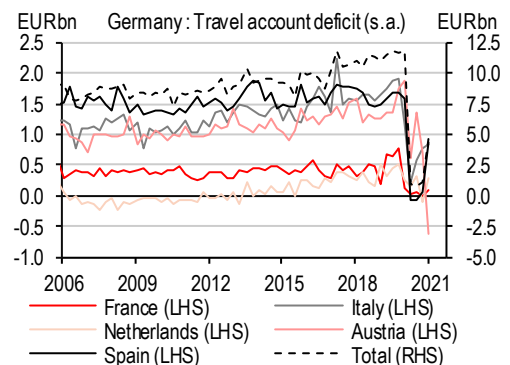
Source: Macrobond, HSBC.

19. The tourism sector is still very weak though, as the data from Spain indicate



Source: Macrobond, HSBC.

20. While this improves German current account numbers it still weighs heavy on tourism dependent countries in Europe



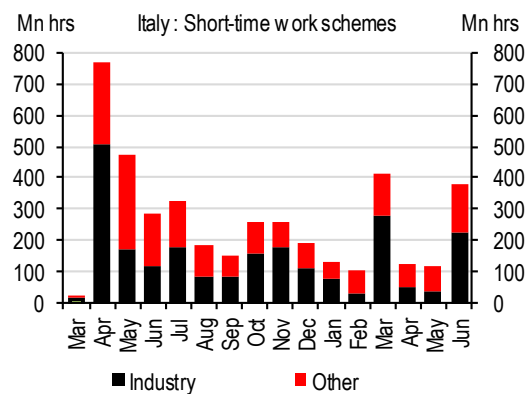
Source: Macrobond, HSBC.

21. In July the number of German short time workers presumably fell below the GFC peak



Source: Bundesagentur für Arbeit, IFO, HSBC. *IFO estimates.

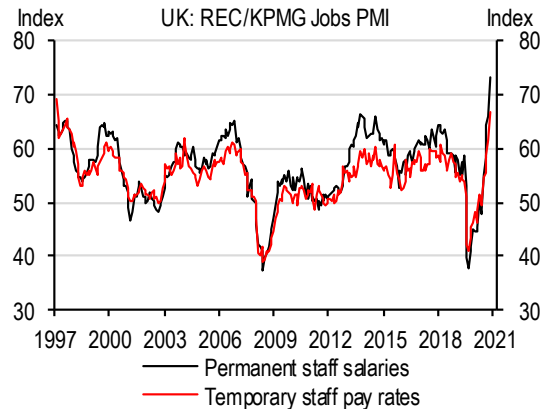
22. Meanwhile in Italy firms used the last opportunity to enter the scheme in June



Source: INSPS, HSBC.

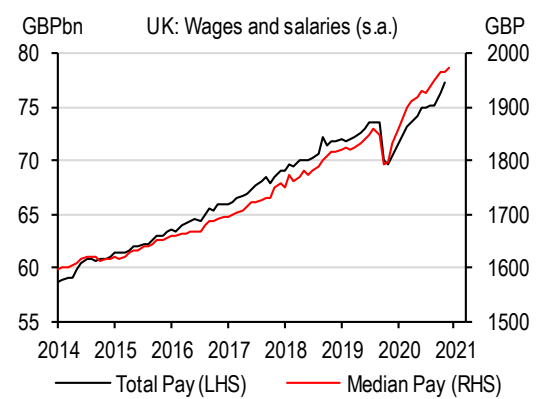
...but might induce increasing wage pressures on inflation

23. Wages seem start to react to tighter labour market conditions in the UK...



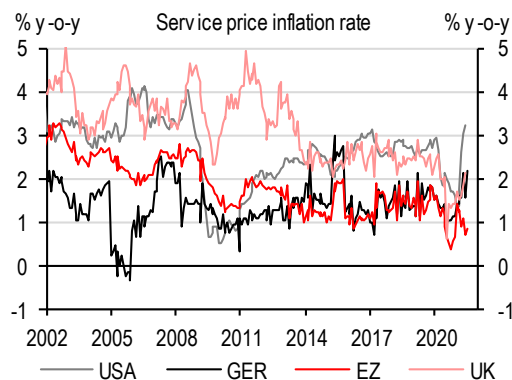
Source: REC/KPMG survey data, HSBC.

24...and low income earners seem to be among the main beneficiaries



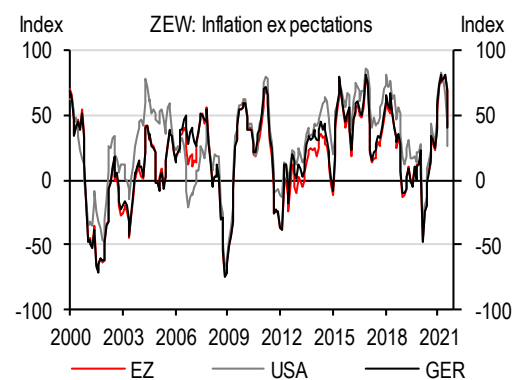
Source: Macrobond, HSBC.

25. Particularly service price inflation in Europe has plenty of room to go up in the coming months



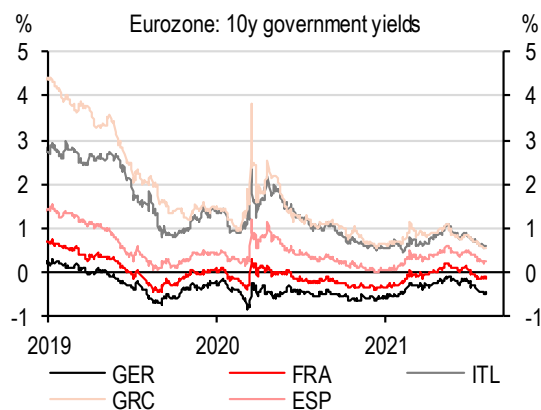
Source: Macrobond, HSBC.

26. The latest ZEW survey implies that financial markets remain unconcerned on inflation...



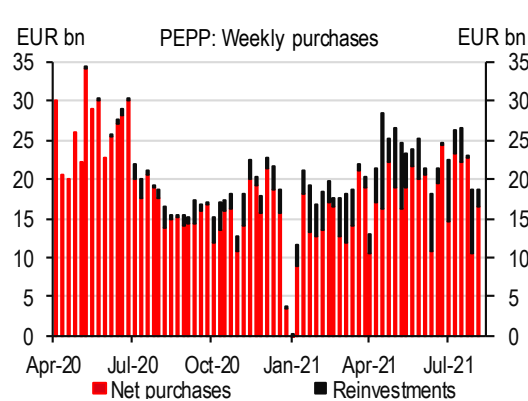
Source: Macrobond, HSBC.

27. ...which is also mirrored in declining government bond yields in recent weeks



Source: Macrobond, HSBC.

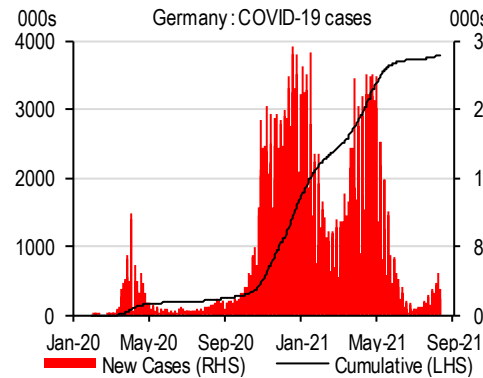
28. The ECB has also stepped down asset purchases though this might be holiday related



Source: ECB, HSBC

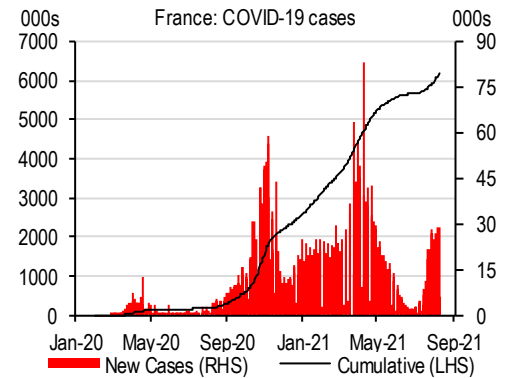
COVID-19 in Western Europe

29. In Germany case numbers continue to rise though from very low levels...



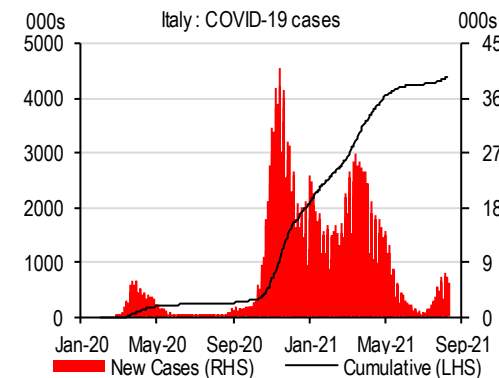
Source: Refinitiv Datastream, HSBC.

30. ...while in France the recent uptick has at least slowed a bit lately



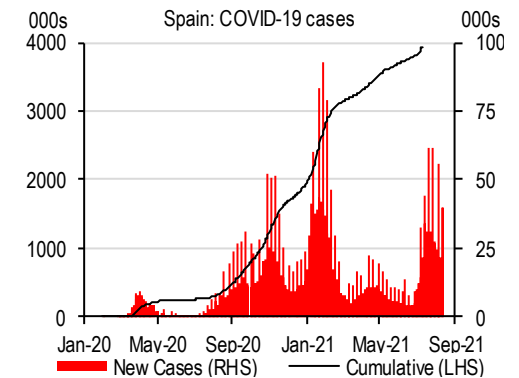
Source: Refinitiv Datastream, HSBC.

31. In Italy infection rates have also not gained further upward momentum



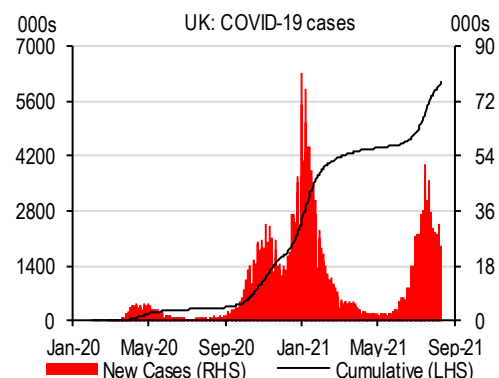
Source: Refinitiv Datastream, HSBC.

32. Spanish numbers remain high but are fortunately coming down a bit last week



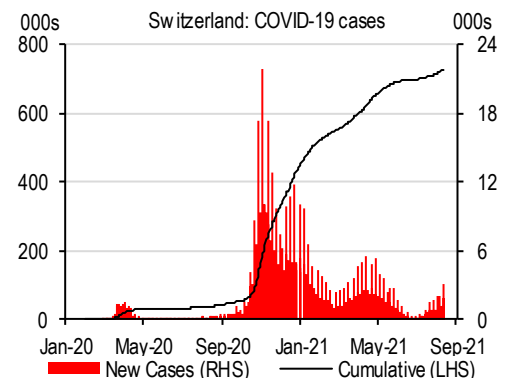
Source: Refinitiv Datastream, HSBC.

33. Whereas in the UK there was again a slight uptick in new infections



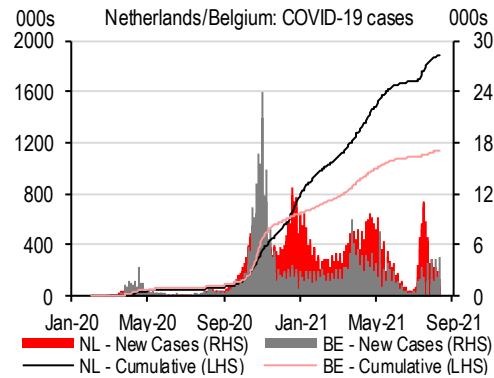
Source: Refinitiv Datastream, HSBC.

34. Switzerland has also seen an increase in infections albeit from much lower levels



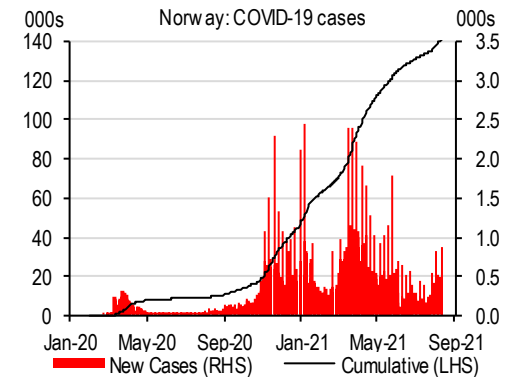
Source: Refinitiv Datastream, HSBC.

35. The huge surge in the Dutch infection numbers has been stopped



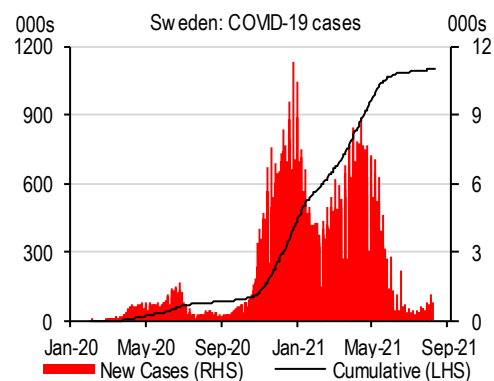
Source: Refinitiv Datastream, HSBC.

36. Although case numbers are going up, there is yet no need to worry in Norway ...



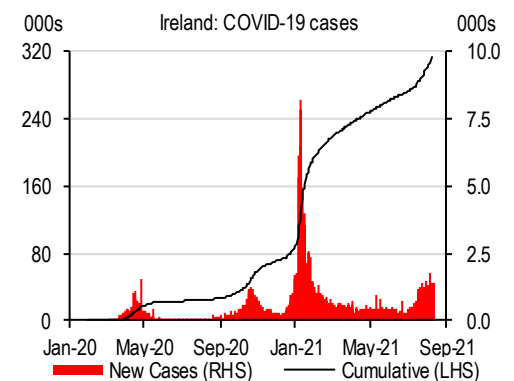
Source: Refinitiv Datastream, HSBC.

37. Sweden has not really felt much of the Delta variant so far



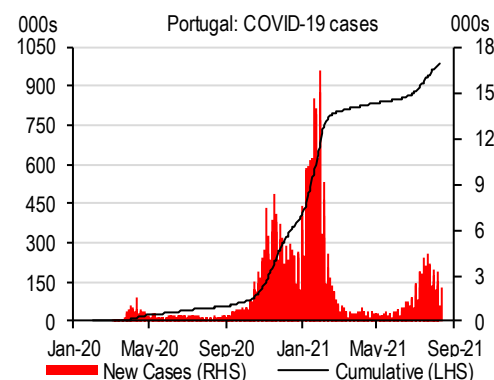
Source: Refinitiv Datastream, HSBC.

38. Ireland could prevent a huge spill-over in cases from the UK so far



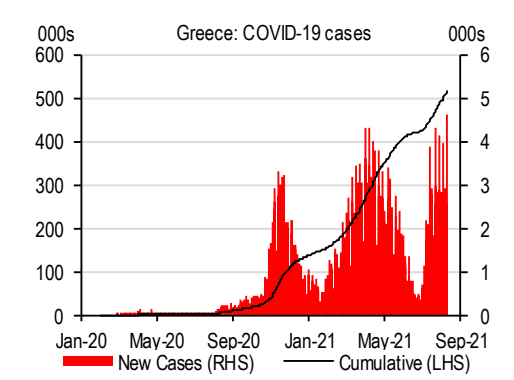
Source: Refinitiv Datastream, HSBC.

39. Portugal fares far better than Spain lately and also has seen a drop in cases



Source: Refinitiv Datastream, HSBC.

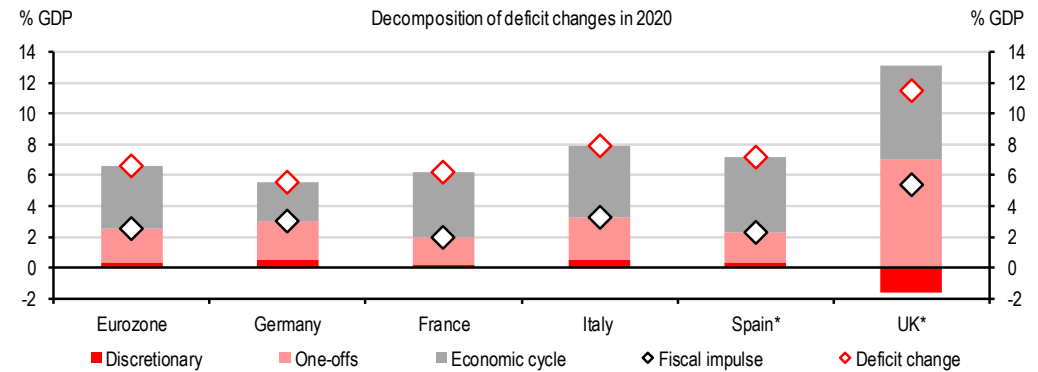
40. In Greece on the other hand the situation looks more concerning



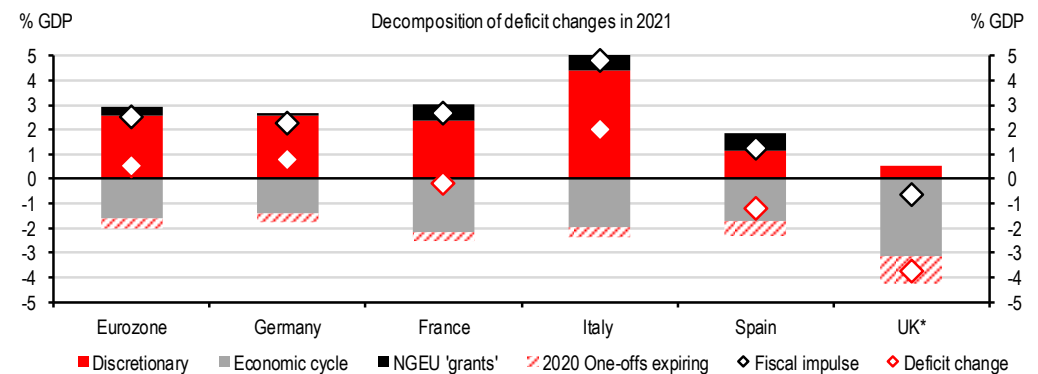
Source: Refinitiv Datastream, HSBC.

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

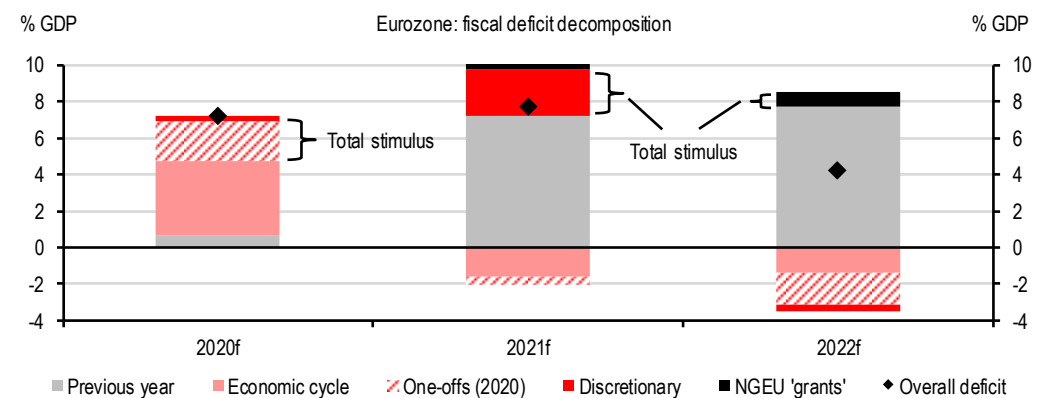
41. Fiscal policy was highly supportive of growth last year even if a significant chunk of support did not make it into the economy due to restrictions and was actually saved



42. After the latest significant upward revisions of this year's deficit targets by most eurozone countries, fiscal policy could be even more supportive of growth this year



43. Fiscal policy should remain expansive in 2022 in the eurozone thanks to the Next Generation EU fund while Brussels has said that EU fiscal rules will remain suspended



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