

# Europe COVID-19 tracker

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Economics - Europe

## Autumn uncertainty

- ◆ The COVID-19 situation is showing signs of improvement in the UK but is now starting to deteriorate across the continent
- ◆ Activity and survey data were a bit of a mixed bag...
- ◆ ...while policy focus shifts from budgets to central banks

COVID-19 infection rates are back on the rise in the continent, particularly in Germany. In France cases have bottomed out, albeit at lower levels, and the government wants to extend the current deadline of 15 November for the 'COVID pass' implementation. Italy is also seeing rising cases, even if to a large extent this seems to reflect more widespread testing due to the 'COVID pass' requirement (Charts 1-11). Elsewhere, Ireland has postponed a planned further lifting of restrictions due on 22 October (mainly related to the 'COVID pass' requirement for certain social activities) and Austria is planning to introduce a curfew for unvaccinated people if the ICU occupancy rate rises above a certain threshold. Otherwise, the UK is seeing a slight decline in the number of cases and an improvement in the pace of booster shots. The government is resisting calls to move to 'Plan B' (with obligatory mask wearing and encouragement to work from home). An encouraging study from the London School of Tropical Medicine claimed the UK is reaching an 'endemic equilibrium' after which "non-pharmaceutical interventions (social distancing and mask wearing) stop having much of an effect" and shows cases falling by December regardless of whether a Plan B is implemented (Sky News, 25 October). Meanwhile, a leaked HMT study cited in the newswires (Politico, 26 October) estimates the cost to the UK economy of working from home up to March 2022 could be GBP11-18bn (over GBP800m/week).

### A mixed bag of activity data and surveys

The eurozone PMIs fell by more than expected in October, driven by services, while in the UK the services print jumped 3.6pts to 58.0. The ifo survey in Germany fell for the fourth consecutive month as expectations deteriorated sharply across all sectors other than construction. But in France the INSEE business confidence was surprisingly upbeat, particularly for the accommodation/restaurant sector, although continuing to signal rising supply and hiring difficulties. The opposite was seen in the consumer sector, with confidence surprisingly rising in Germany but dropping in France, with a sharp drop in future savings capacity and higher inflation expectations, even though unemployment fears continue to decline. Employment surveys overall remain solid (Charts 15-26). The ECB Q3 Bank Lending Survey showed credit conditions staying benign and a modest lift to household and firms loan demand. September data show lending growth to firms improving after the poor August print, but Italy and Spain lagging behind (Charts 27-32).

### Budget discussion to give way to monetary policy

The draft 2022 budget plans show a mild fiscal expansion in the eurozone. The UK Chancellor unveiled next year's budget with limited giveaways but significant tax rises ahead. Difficulties in passing the budget could lead to a possible government fall in Portugal (FT, 26 October). The policy focus now shifts on the ECB and BOE.

*This is a Free-to-View version of a report by the same title published on 27-Oct-21. Please contact your HSBC representative or email [AskResearch@hsbc.com](mailto:AskResearch@hsbc.com) for more information.*

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### Disclosures & Disclaimer

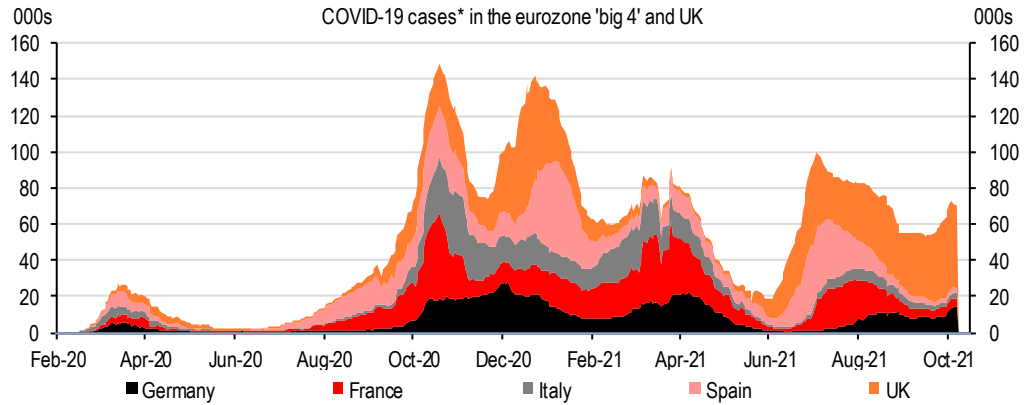
This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

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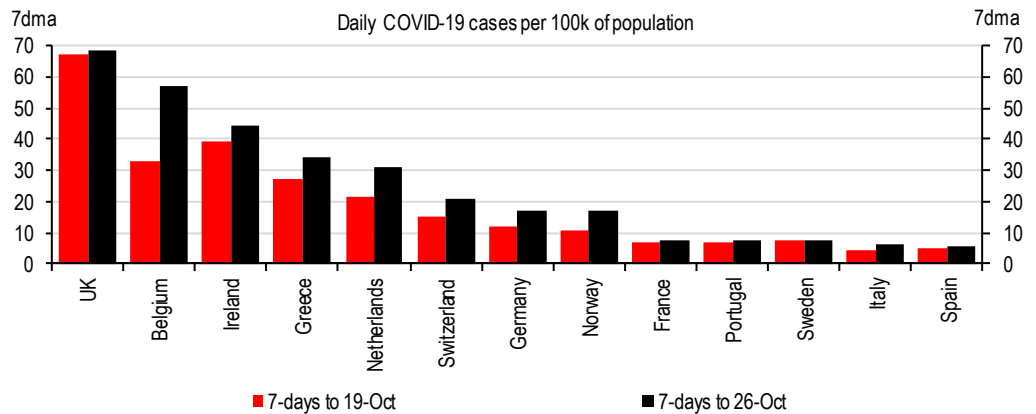
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## Signs of improvements in the UK, slight deterioration in the continent

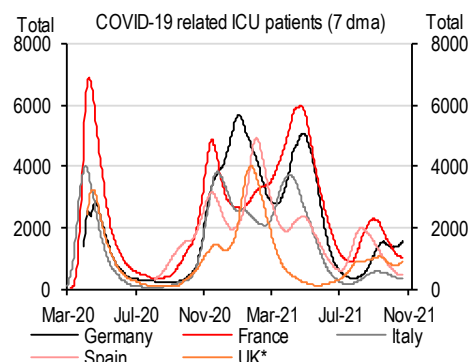
### 1. Cases are declining slightly in the UK but are back on the rise across the continent



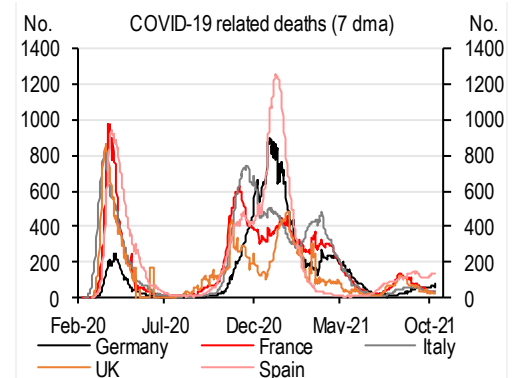
### 2. The UK still tops the table in terms of daily cases, but all countries are seeing increases



### 3. ICU numbers rising in the UK and Germany...



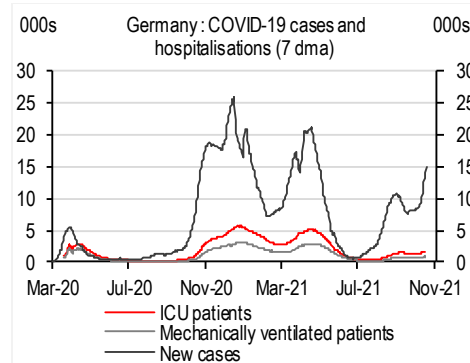
### 4. ...but new deaths remain low compared with previous waves



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

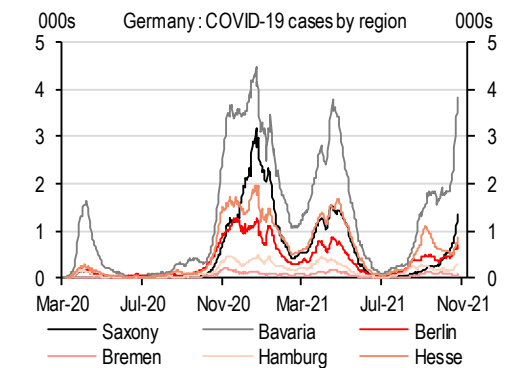
## Increasing vaccine coverage remains the priority

**5. New COVID-19 cases are seeing a meaningful rise in Germany and also ICU are now rising even though remain low**



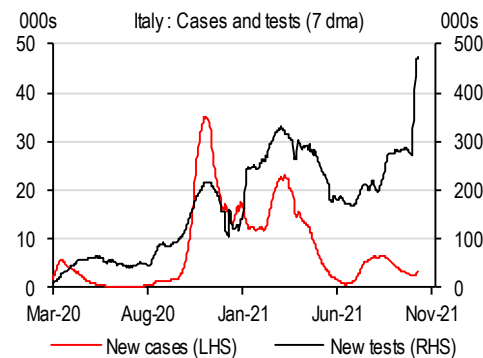
Source: Macrobond, HSBC.

**6. There are large regional divergences in the incidence of new cases in Germany**



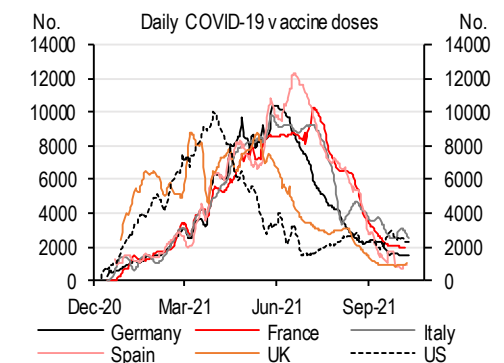
Source: Macrobond, HSBC.

**7. Italy is seeing slightly higher cases but largely due to rising tests due to the widespread 'COVID pass' requirement**



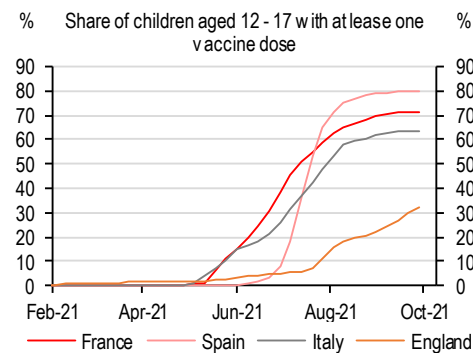
Source: Our World in Data, HSBC.

**8. While vaccination rates slow, booster shots may be starting to reduce growth in new cases among older people**



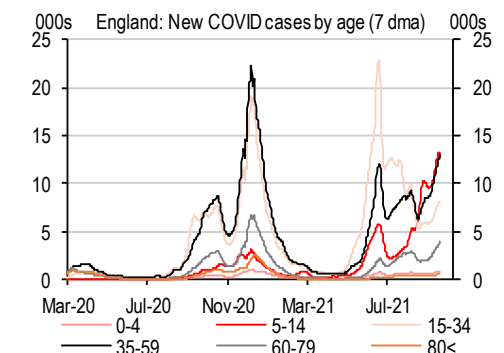
Source: Our World in Data, HSBC.

**9. The UK is lagging behind in terms of vaccination rates for children...**



Source: ECDC, UK government, HSBC calculations.

**10. ...which might help explain fast rising infection rates among the young**



Source: UK government, HSBC

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

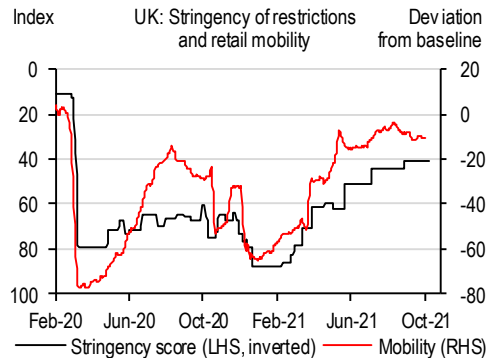
### 11. Latest on the restrictions from the major European countries

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

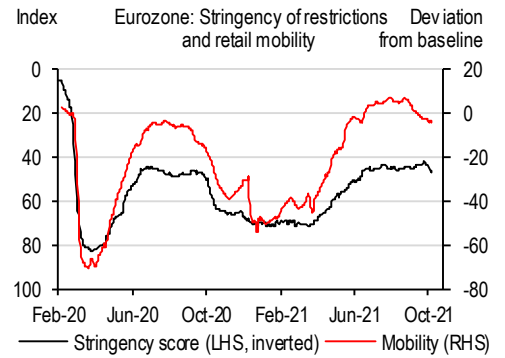
## Mobility remains fairly stable

**12. While restrictions keep easing, mobility is starting to drop a little in the UK, although that might be weather-related**



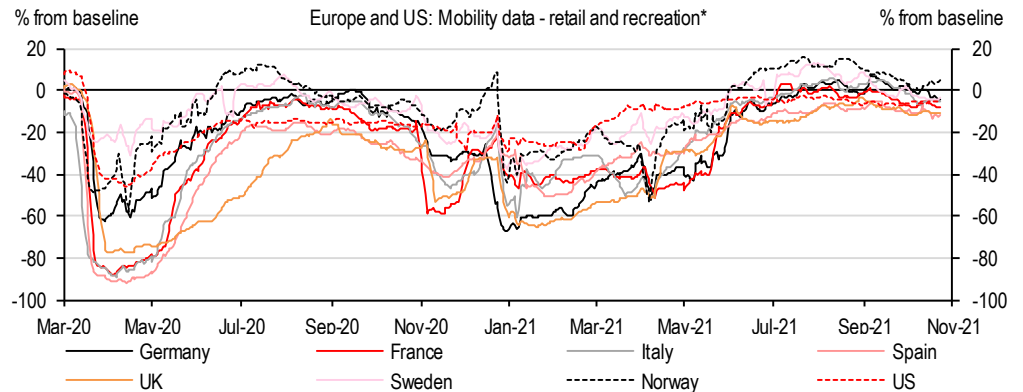
Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC.

**13. Across the eurozone limited restrictions are coming back which might have contributed to falling mobility**



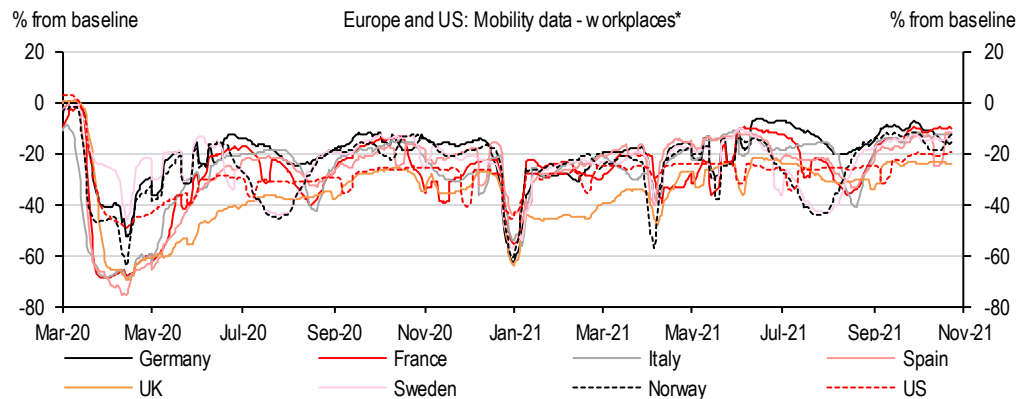
Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC.

**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.

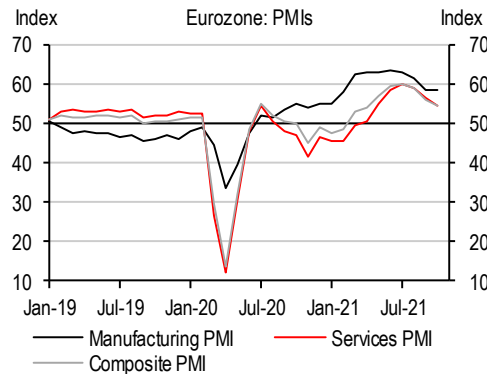
**15. ...while workplace attendance remains below pre-crisis levels as more people are choosing to work remotely**



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

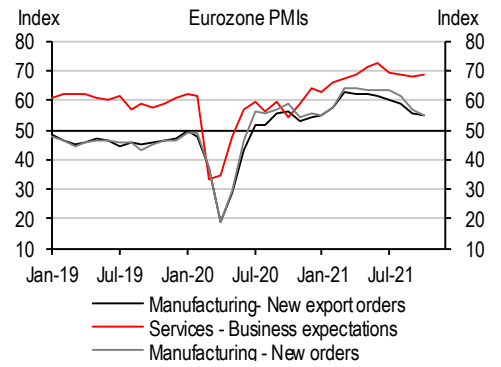
## Mixed signals from the surveys

**16. The eurozone PMIs surprised to the downside in October even though the manufacturing sector showed resilience**



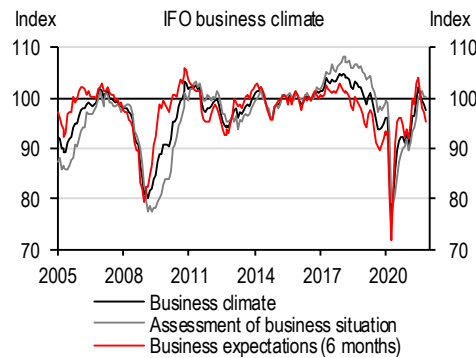
Source: Refinitiv Datastream, HSBC.

**17. Forward looking indicators dropped further in manufacturing but held up better in the services sector**



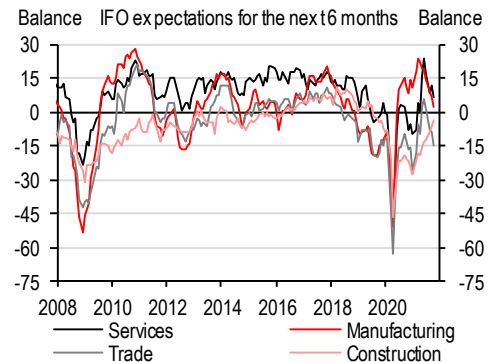
Source: Refinitiv Datastream, HSBC.

**18. The ifo business climate dropped for the fourth consecutive month...**



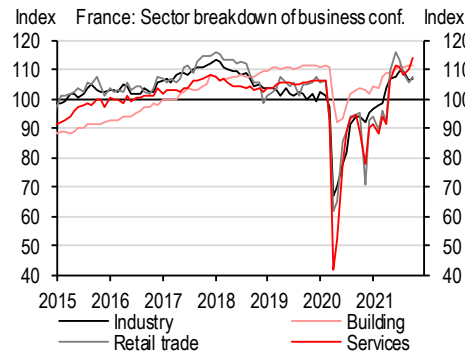
Source: Macrobond, HSBC.

**19. ...and expectations fell sharply across all sectors other than for construction**



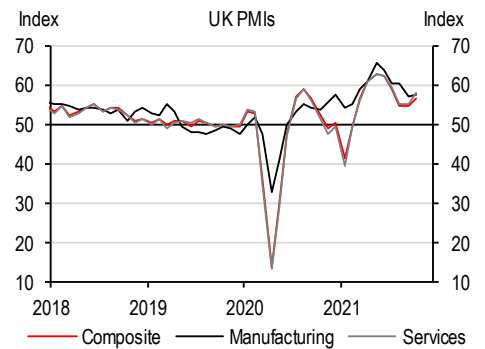
Source: Macrobond, HSBC.

**19. French business confidence though surprisingly rose in October led by services**



Source: INSEE.

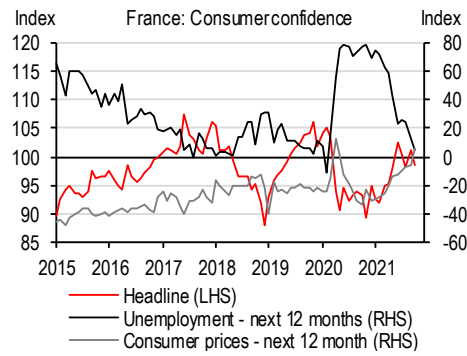
**20. Also the UK PMIs surprisingly increased in October driven by the service sector**



Source: Refinitiv Datastream, HSBC. Note: the composite PMI index is based on the output component rather than the headline, which explains why it is lower than both the manufacturing and services index.

## Solid employment prospects, ongoing supply bottlenecks

**21. French consumer confidence fell in October despite more optimism on the labour market as people fear higher inflation in the future**



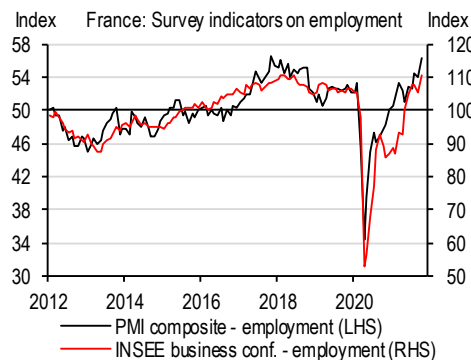
Source: INSEE, HSBC.

**22. Otherwise, Germany consumer confidence surprisingly improved – possibly following the election's outcome**



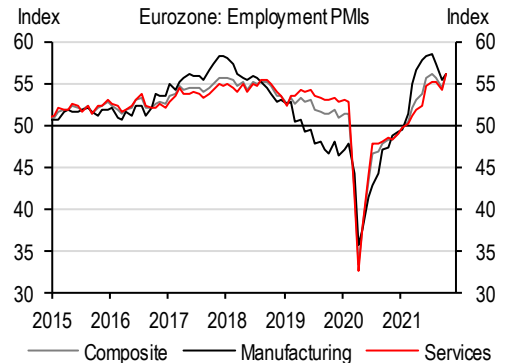
Source: Macrobond, HSBC.

**23. Business surveys in France remain very positive on employment trends...**



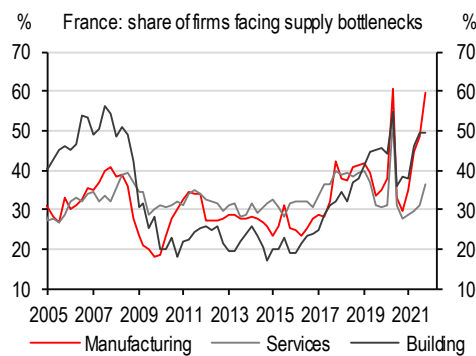
Source: INSEE.

**24. ...and the employment component in the eurozone PMIs also held up well in October**



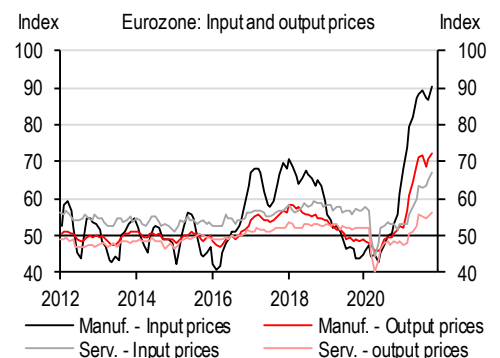
Source: Refinitiv Datastream, HSBC.

**25. French firms are facing increasing supply bottlenecks...**



Source: INSEE.

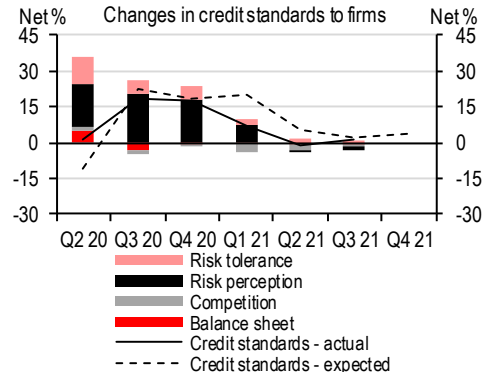
**26. ...and input prices are back on an upward trajectory across the eurozone, putting further pressure on firms' margins**



Source: Refinitiv Datastream, HSBC.

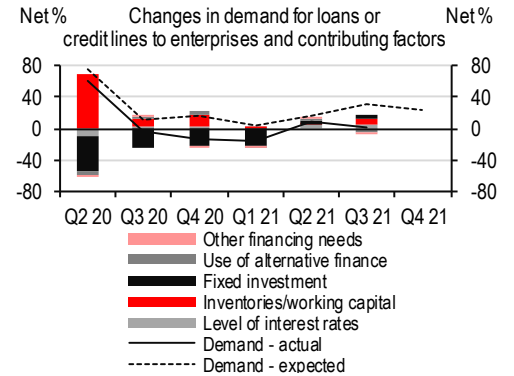
## Credit conditions remaining supportive, loan demand still healthy

**27. The ECB Bank Lending Survey showed broadly unchanged credit standards...**



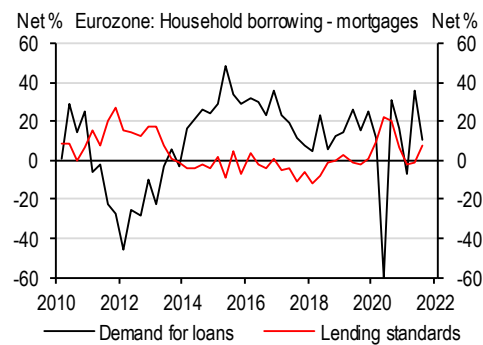
Source: ECB, HSBC.

**28. ...while demand continued to improve modestly including for investment purposes**



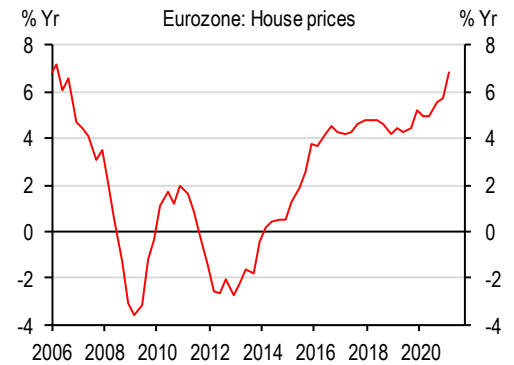
Source: ECB, HSBC.

**29. Banks reported another increase in mortgage demand despite tightening standards...**



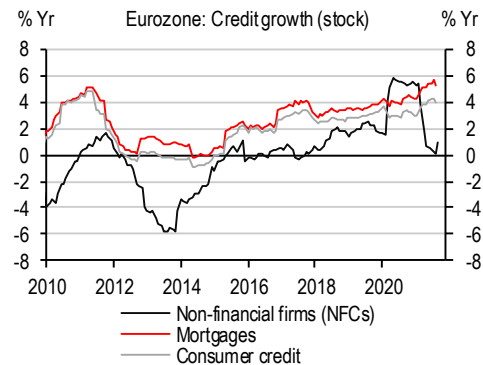
Source: ECB, HSBC.

**30. ...which is unsurprising considering the strength of the housing market across the eurozone**



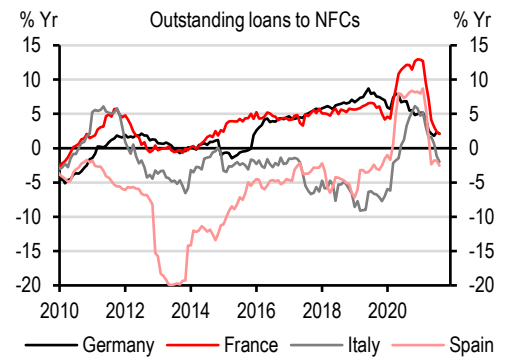
Source: Refinitiv Datastream, HSBC.

**31. Credit growth to eurozone firms recovered a little in September after dipping in August...**



Source: Refinitiv Datastream, HSBC.

**32. ... but is falling fairly rapidly in periphery countries which might be a reason for concern in terms of the recovery prospects**

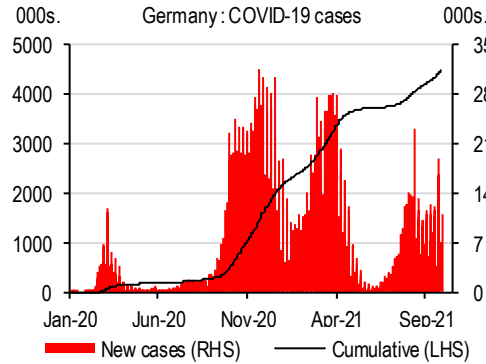


Source: Refinitiv Datastream, HSBC.



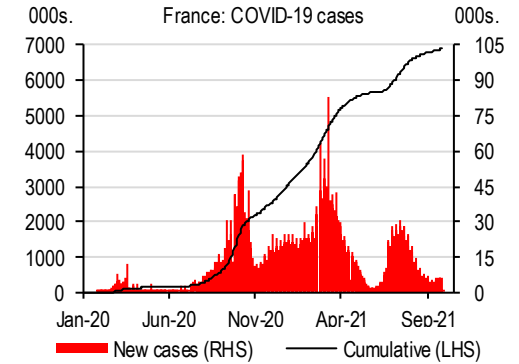
## COVID-19 in Western Europe

**33. New infection numbers keep rising in Germany...**



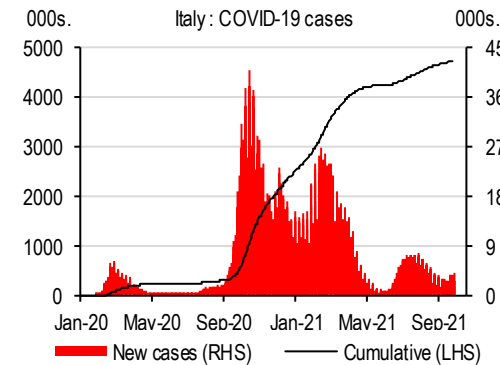
Source: Refinitiv Datastream, HSBC.

**34. ... and might have bottomed out also in France**



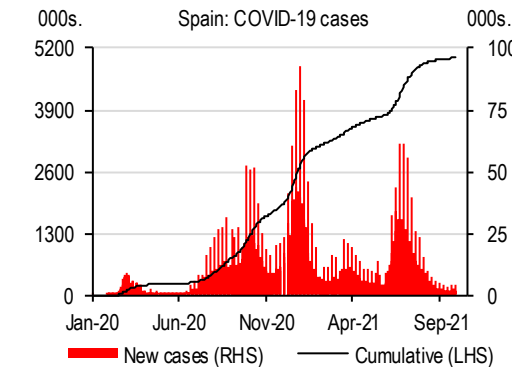
Source: Refinitiv Datastream, HSBC.

**35. Italian cases are back on the rise although largely due to more testing**



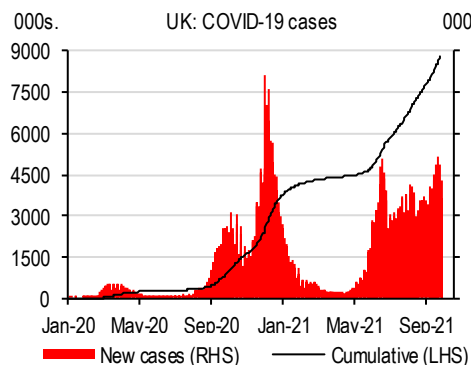
Source: Refinitiv Datastream, HSBC.

**36. ... and Spain's cases remain at low levels**



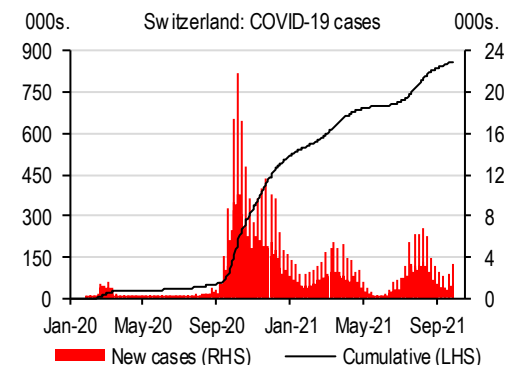
Source: Refinitiv Datastream, HSBC.

**37. UK cases might have peaked although remain elevated**



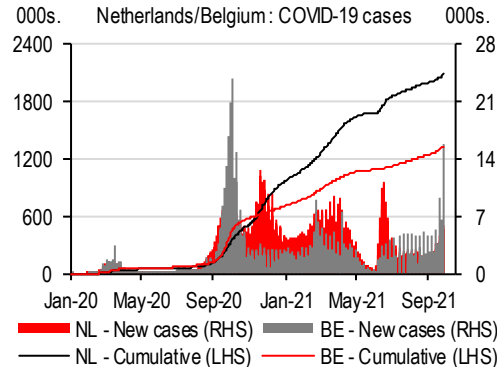
Source: Refinitiv Datastream, HSBC.

**38. Cases have been increasingly slightly also in Switzerland**



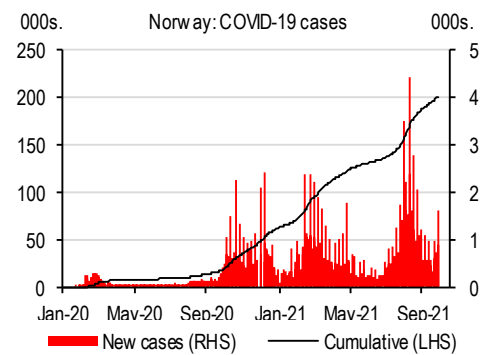
Source: Refinitiv Datastream, HSBC.

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



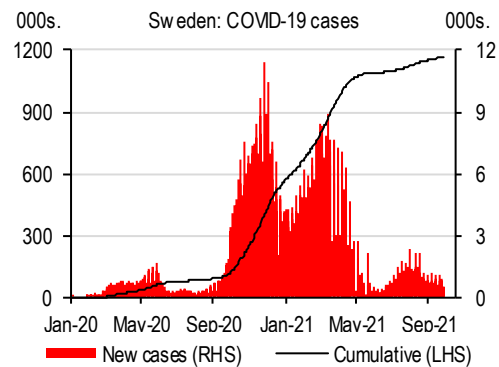
Source: Refinitiv Datastream, HSBC.

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



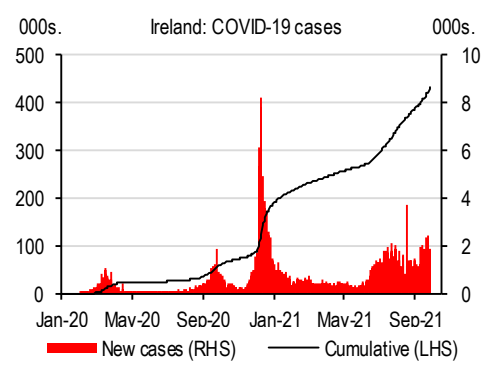
Source: Refinitiv Datastream, HSBC.

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



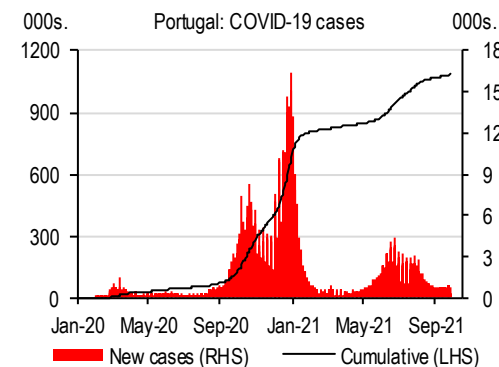
Source: Refinitiv Datastream, HSBC.

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



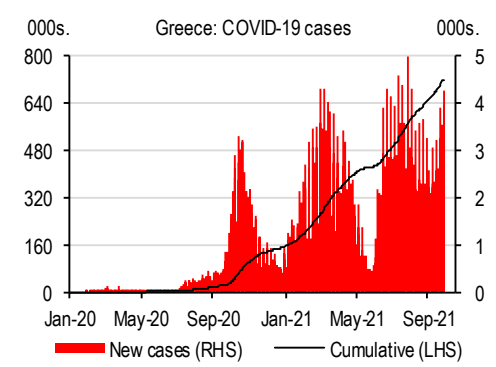
Source: Refinitiv Datastream, HSBC.

**43. In Portugal, new cases remain low as the government keeps fairly tight restrictions**



Source: Refinitiv Datastream, HSBC.

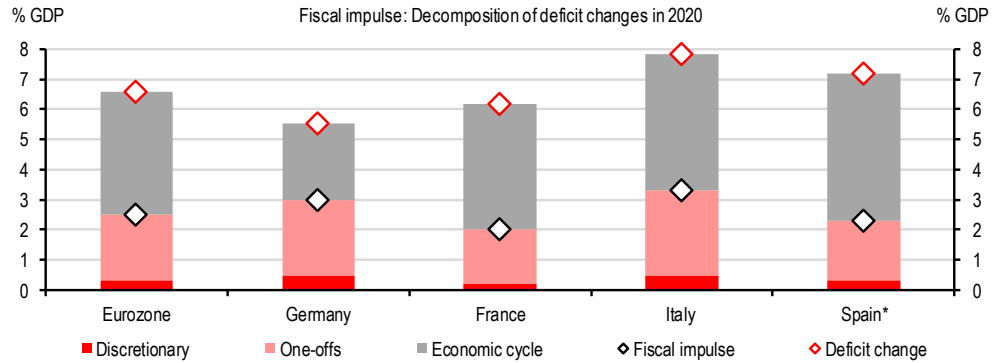
**44. ...In Greece cases remain more elevated and are now back on the rise**



Source: Refinitiv Datastream, HSBC.

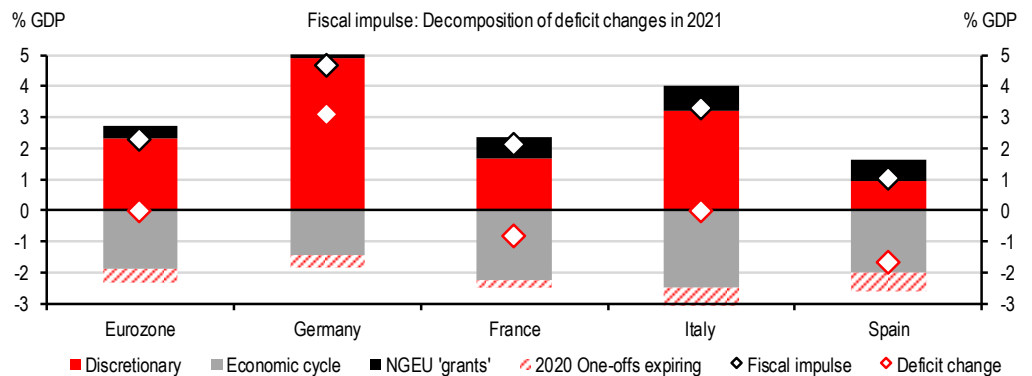
## Fiscal measures (in the Big 4 eurozone countries and the UK)

### 45. 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



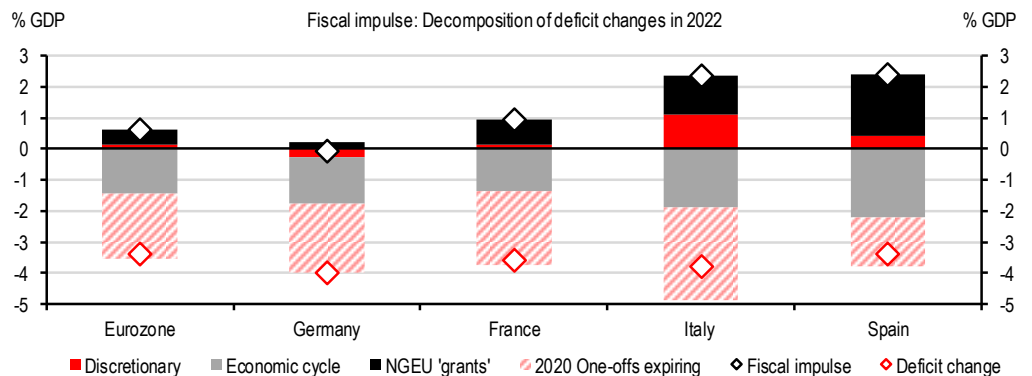
Source: HSBC calculations based on national statistical institutes, Eurostat and European Commission, 2020 budgets and amendments. Notes: \* Discounting the impact (0.9% of GDP) of the incorporation of 'Sareb' under the public sector. The 'Economic Cycle' component for eurozone countries and the Big 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.

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



Source: HSBC calculations based on 2022 Draft Budget Plans, 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.

### 47. 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



Source: HSBC calculations based on 2022 Draft Budget Plans, 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

## Analyst Certification

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