

Europe macro tracker

Prices soar, confidence slumps

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Economics - Europe

- ◆ Business and consumer surveys have signalled a significant decline in expectations due to the conflict in Ukraine
- ◆ The March inflation data released so far have significantly surprised to the upside
- ◆ Governments are continuing to ramp up their fiscal support as illustrated by the recent plan announced in Spain

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Sharp deterioration in business expectations

Data released over the past week have provided the first indications of the impact of the conflict in Ukraine on European economies. First, forward-looking indicators from business surveys have significantly declined. This trend was evident in flash eurozone PMIs for March with firms being far more downbeat on future activity (Charts 12-13). Domestic business climate surveys (Ifo in Germany, INSEE in France and ISTAT in Italy) have also pointed to a marked deterioration in economic sentiment, especially in the manufacturing and retail sectors (Charts 16-21). Granted, indicators on current activity (such as the headline composite PMI, Charts 10-11) and employment prospects (Charts 15 and 20) have been more resilient. But renewed upward pressures on price components (Chart 14) confirmed the significant rise in cost pressures for firms, which is not a positive development for the economic outlook.

Surging inflation hits consumer sentiment

On the consumer side, confidence has also materially declined in March, both in the eurozone and in the UK (Charts 24-25). The sharp rise in price expectations (Chart 26) has probably played a key role given the squeeze on real household incomes. The first flash inflation releases for March hinted at an even stronger income shock (Charts 22-23). German HICP inflation surged to 7.6% y-o-y in March (from 5.5% in February and versus 6.8% expected by consensus), a new record. Energy prices were a big factor, explaining about 70% of the monthly rise in inflation. The rise in Spanish HICP inflation in March was even more pronounced, from 7.6% to 9.8% y-o-y (consensus: 8.4%). Against this backdrop, governments are continuing to ramp up their fiscal support, as expected. For example, the Spanish government announced on 28 March a new EUR16bn plan to tackle the energy crisis, including subsidies for fuel purchases.

COVID-19 cases continue to rise

Against this already challenging backdrop, the renewed COVID-19 wave that we are seeing currently in several European countries (Charts 1-3) is not a welcome development. But ICU admissions are still low and until that situation changes, a return to significant economic restrictions remains unlikely. In Italy, most restrictions are still planned to be dropped on 1 April while in Spain, COVID-19 rules for travellers have recently been eased in order to boost tourism activity.

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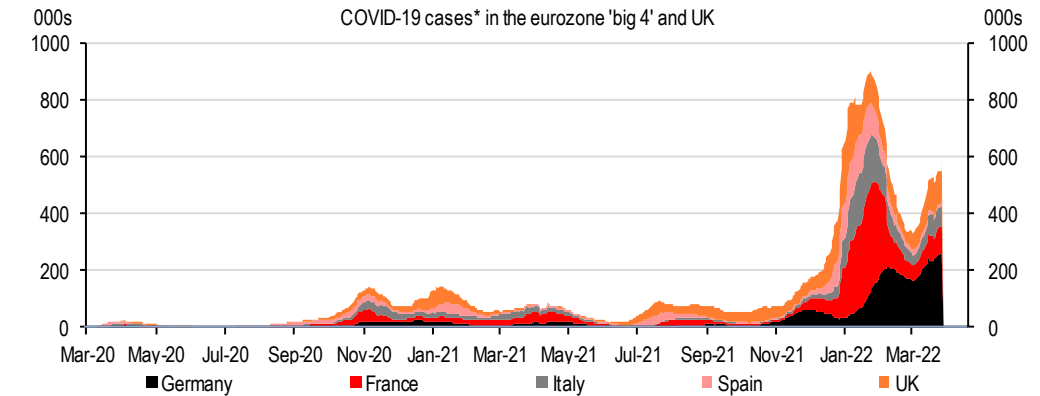
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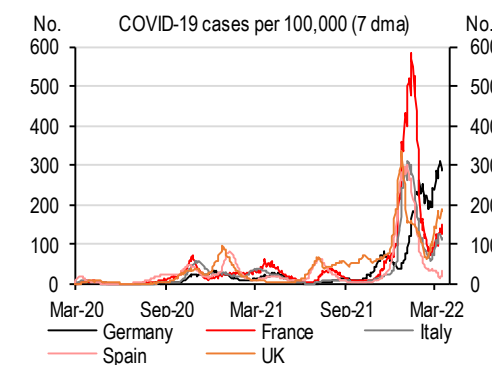
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COVID-19 in Europe

1. COVID-19 cases have continued to rise over the past week

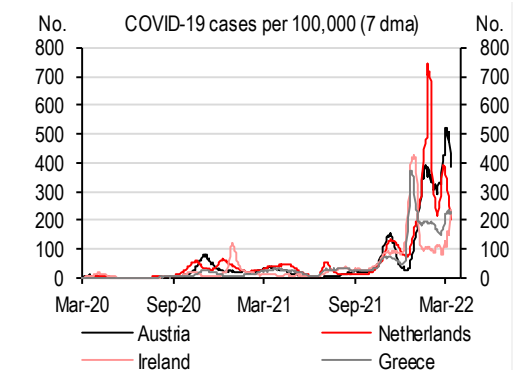


2. Among the largest countries, Germany still has the highest infection rate



Source: Refinitiv Datastream, HSBC.

3. New cases remain especially high in Austria



Source: Refinitiv Datastream, HSBC.

4. Although the end of some restrictions has been delayed, most have been scrapped

COVID-19 restrictions

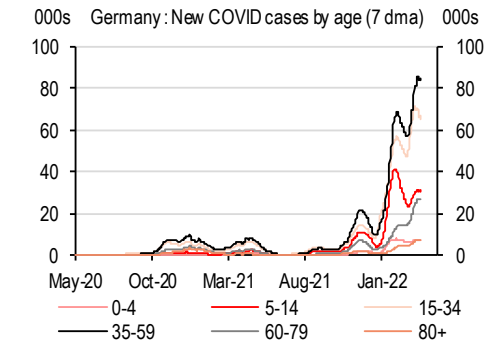
Germany	Since 20 March, most restrictions have been abolished on the national level apart from basic protection measures such as compulsory mask wearing in hospitals, public transport as well as air travel. However, a transitional period until 2 April allows federal states to still apply stricter measures in line with the former Infection Protection Act and gradually amend federal state legislation accordingly to the new national standard. Afterwards, stricter local regulations can only apply if the local infection situation requires it according to legislation taken by the respective federal state parliament.
France	The vaccine/health pass was suspended on 14 March, except for hospitals where a health pass is still required. Wearing masks remains mandatory on public transport for people aged 6 or over. Finally, vaccination remains required for health care workers.
Italy	Italy implements a strict "super green pass" whereby unvaccinated people cannot participate in most social events and there is a mandatory vaccine requirement for several professions (health, education, military, public facing jobs, over 50s). With the state of emergency not being renewed beyond 31 March, most restrictions will be dropped from 1 April.
Spain	Recently, most of the additional restrictions adopted at the regional level have been dropped with no region requiring the "COVID-19 health pass" and only Cantabria and the Canary Islands maintaining some limits on nightlife. To boost tourism, visitors will no longer be required to self-isolate or go through testing even with mild COVID symptoms.
UK	There are no remaining restrictions relating to COVID-19 in England or Northern Ireland. In Scotland, some rules were lifted on 21 March, but mask wearing in some public places will remain mandatory until April, after a planned relaxation was delayed. In Wales, all remaining rules – i.e. mask wearing and self-isolation requirements for positive cases – remain in effect due to rising COVID-19 cases.

Source: Country data, HSBC.

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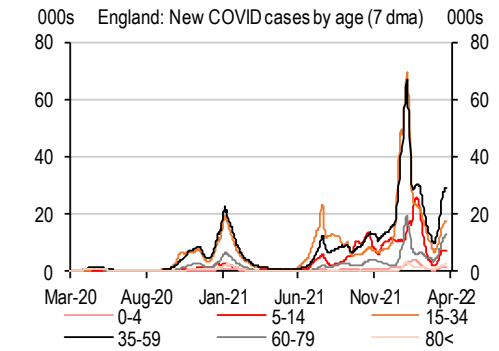
Cases are rising but ICU admissions remain low

5. In Germany, elderly people have also been impacted by the latest wave...



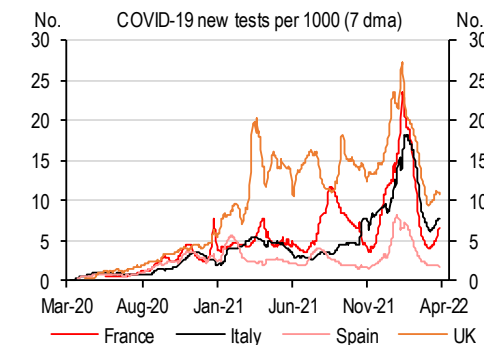
Source: Macrobond.

6. ...which is also true for the UK to some extent



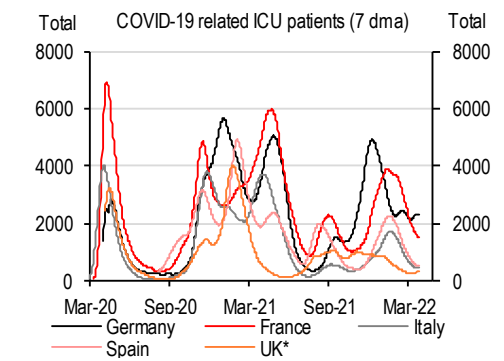
Source: UK government, HSBC.

7. Low levels of testing suggest that official data could underestimate actual cases...



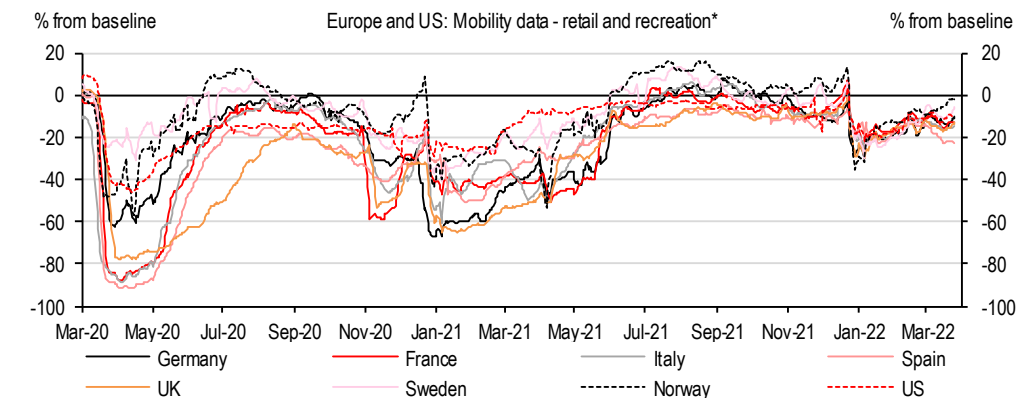
Source: Our World in Data, HSBC.

8. ... but on a more positive note, ICU admissions remain low



Source: Macrobond, HSBC. Note: *medically ventilated

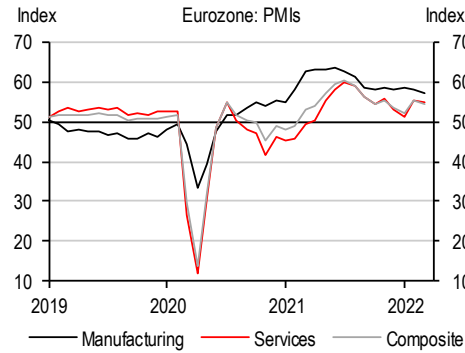
9. Mixed trends on mobility data over the recent weeks



Source: Our World in Data, HSBC. Note: *7-day moving average.

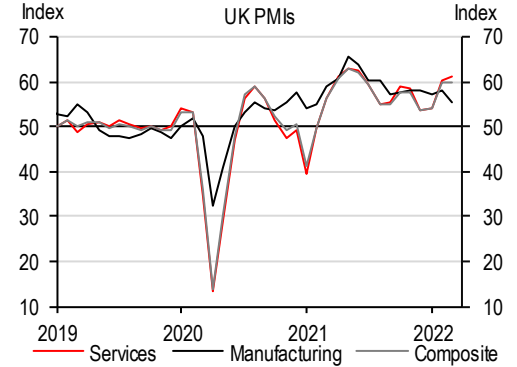
PMI surveys: lower expectations and rising price pressures

10. Eurozone headline PMIs were resilient in March...



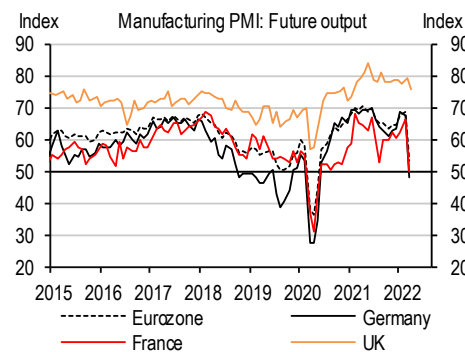
Source: S&P Global PMIs, Refinitiv Datastream.

11. ...and in the UK, the services PMI even improved



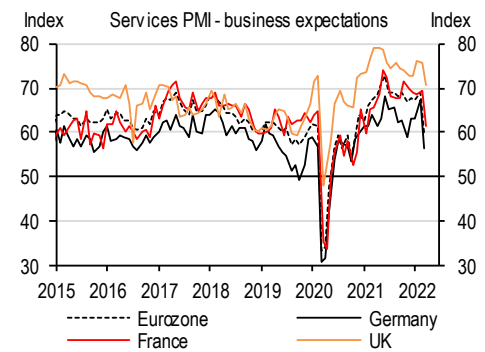
Source: S&P Global PMIs, Refinitiv Datastream.

12. However, expectations on activity sharply fell in the manufacturing sector...



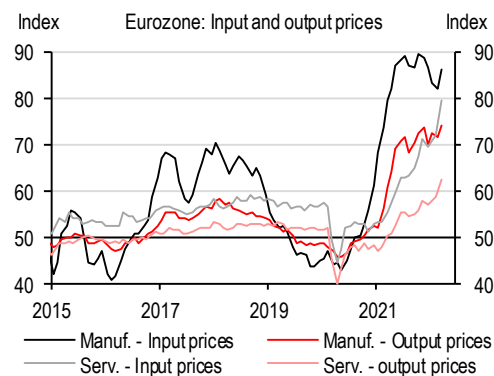
Source: S&P Global PMIs, Refinitiv Datastream.

13. ...and in services



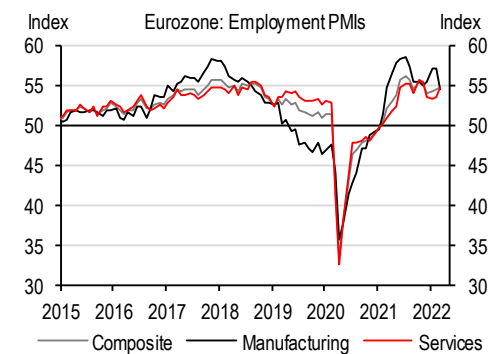
Source: S&P Global PMIs, Refinitiv Datastream.

14. Renewed upside pressures on PMI price components in the eurozone



Source: S&P Global PMIs, Refinitiv Datastream.

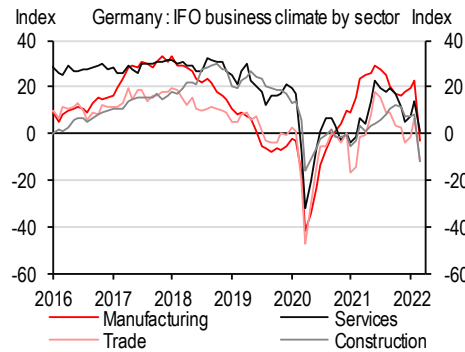
15. Employment indices were more steady



Source: S&P Global PMIs, Refinitiv Datastream.

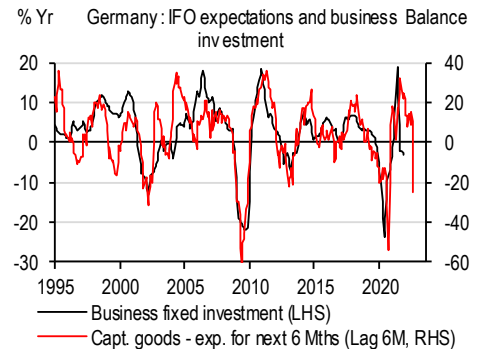
Similar picture in the national business surveys

16. Broad-based decline in the Ifo business climate, due to lower expectations



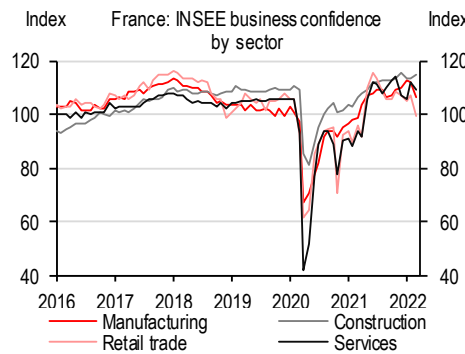
Source: Refinitiv Datastream, HSBC.

16. Ifo expectations sent a negative signal on the German investment outlook



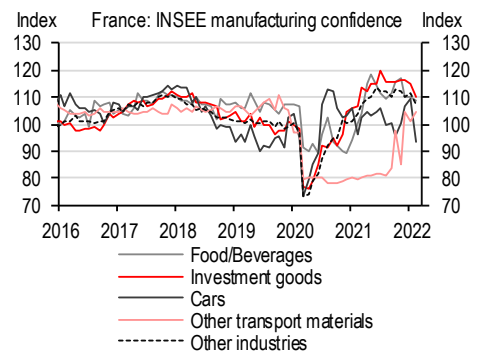
Source: Macrobond.

18. The drop in INSEE business confidence was especially marked for the retail sector...



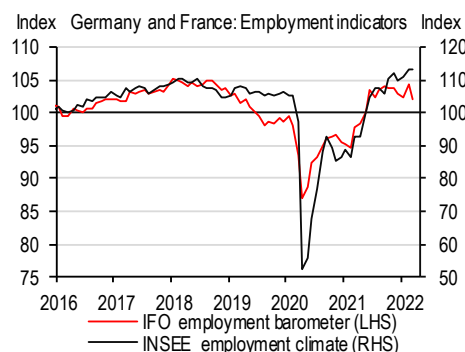
Source: INSEE, HSBC.

19. ... and for cars and investment goods in the manufacturing sector



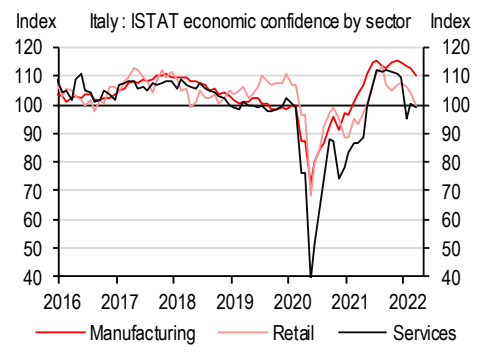
Source: INSEE, HSBC.

20. However, employment indicators have remained resilient in both surveys



Source: Refinitiv Datastream, HSBC.

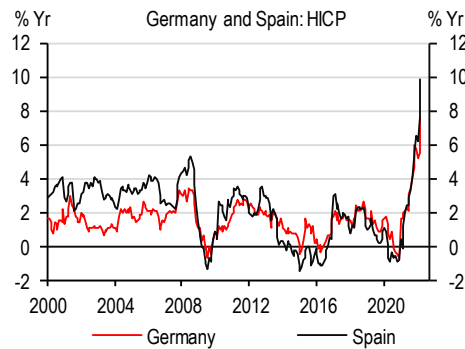
21. In Italy, the fall in economic confidence was led by retail and manufacturing



Source: Refinitiv Datastream, HSBC.

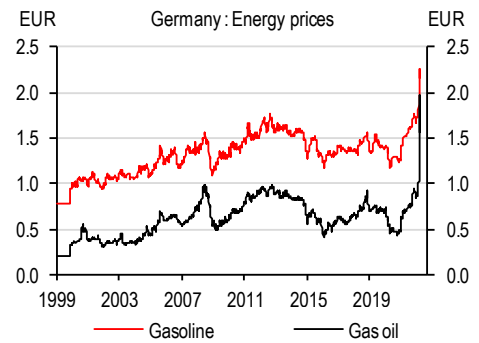
Consumer confidence has been hit by higher inflation

22. Inflation surged more than expected in March in Spain and Germany



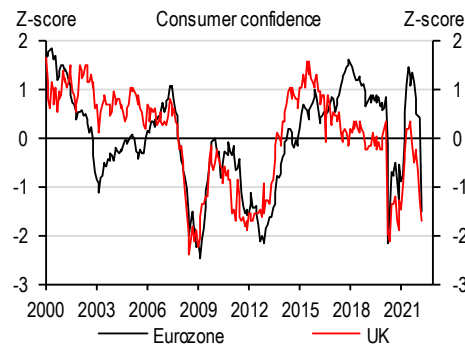
Source: Refinitiv Datastream, HSBC.

23. The upside surprise in Germany was led by energy prices



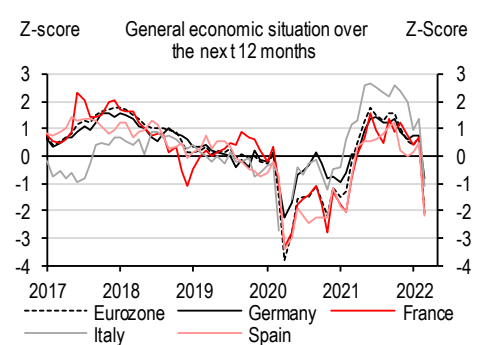
Source: Macrobond.

24. Consumer confidence plunged in March in the eurozone and the UK



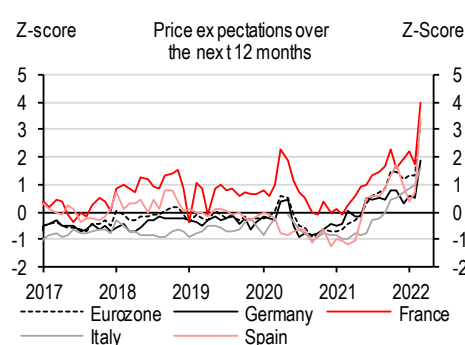
Source: Refinitiv Datastream, HSBC.

25. Consumers are more downbeat on economic prospects...



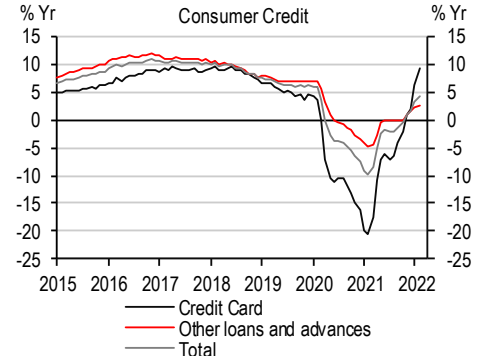
Source: Refinitiv Datastream, HSBC.

26. ...with higher prices expectations being the main source of concerns



Source: Refinitiv Datastream, HSBC.

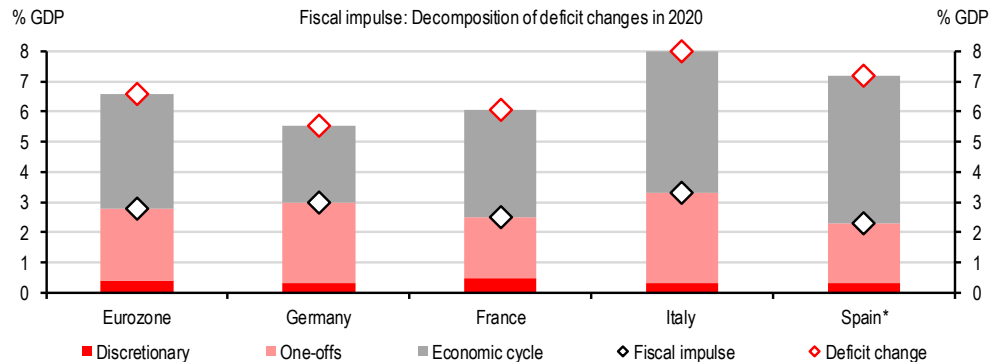
27. The income squeeze may explain the recent rise in consumer credit use in the UK



Source: Refinitiv Datastream, HSBC.

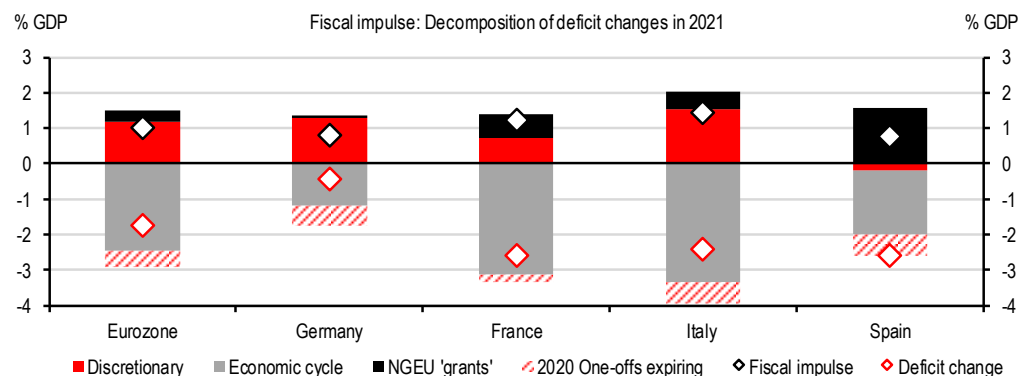
Fiscal measures (in the Big 4 eurozone countries and the UK)

28. Fiscal policy was highly supportive of growth in 2020 even if a significant chunk of support did not make it into the economy due to restrictions and was actually saved



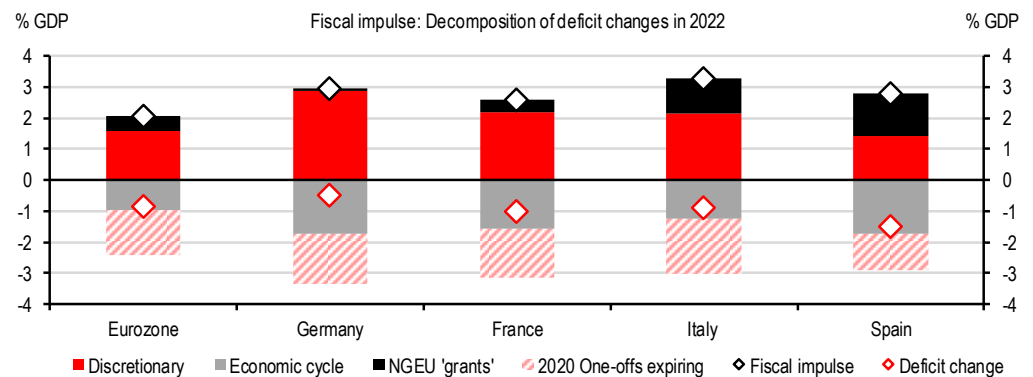
Source: HSBC calculations based on national statistical institutes, Eurostat and European Commission, 2020 budgets and amendments.
Notes: *Discounting the impact (0.9% of GDP) of the incorporation of 'Sareb' under the public sector. The 'Economic Cycle' component for eurozone countries and the Big 4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

29. Stronger-than-anticipated growth helped contain the fiscal deficits in 2021 despite a strongly expansionary fiscal policy, particularly in the eurozone



Source: HSBC calculations based on 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. *UK refers to fiscal year 2021/22

30. This year, the fiscal policy stance should remain expansionary in the eurozone, particularly after the recently announced measures in response to the energy crisis



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.

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