

Europe COVID-19 tracker

Going different ways

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Economics - Europe

- ◆ With Omicron cases having peaked or nearing their peak across Europe...
- ◆ ...the UK has announced an end to 'Plan B' from next week...
- ◆ ...but other countries continue down the route of selective restrictions for the unvaccinated

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Infections peaking, countries taking different directions on restrictions

In Europe, there are increasing signs that Omicron cases might have peaked (in the UK) or might be nearing their peak (across the continent), with the largest number of cases seen in young people. Death rates have come down in Germany and remain contained elsewhere, while pressures on the health system appear manageable.

With that in mind, the UK Prime Minister has announced an end to 'Plan B' from 26 January (another 'Freedom day'), with people no longer asked to work from home and mask wearing no longer mandatory. Some restrictions will remain, however, on self-isolation requirements for people testing positive, although the government hopes to remove that requirement from 24 March.

On the continent, governments are following a different approach. At the other end of the spectrum, the Italian government continues to tighten further the limitations for unvaccinated people, with proof of vaccination or recovery from the virus now required also for hairdressers and beauty salons (from 20 January) and for all retail shops (including tobacco shops, which might be a strong incentive for some to get vaccinated) and all public offices, postal services and banks from 1 February.

In the coming weeks, it will be interesting to see the possible implications of these diverging approaches on the fine balance between immediate disruption to activity to the economy and restoring people's confidence to go back to their normal lives.

Temporary disruption to activity; inflation keeps surprising to the upside

On the data front, the Business Insights and Conditions Survey in the UK showed that in December around 3% of the workforce was estimated to have been on sick leave or not working because of COVID-19 symptoms, self-isolation or quarantine. Just over one-fifth of businesses reported increased cancellations from customers (and nearly half of those in the accommodation and food service sector). Short-time working is also likely to have increased in December across the continent, confirming some of the disruptions to activity from the combination of higher COVID-19 cases and tighter restrictions. However, the ZEW survey for January showed expectations improving in January for key manufacturing sectors, most importantly autos, which increased by almost 21pts, while the retail sector also saw a significant improvement. This bodes well for a relatively swift recovery. Inflation, meanwhile, surprised again to the upside in the UK in December (5.4% y-o-y), with the recent further rise in oil and gas prices due to geopolitical tensions adding pressure to inflation at the start of 2022.

This is an abridged version of a report by the same title published on 19-Jan-22. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

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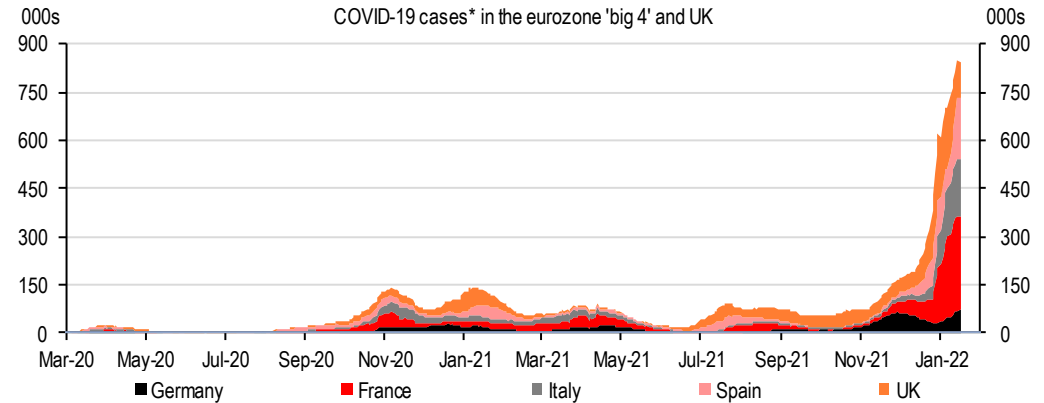
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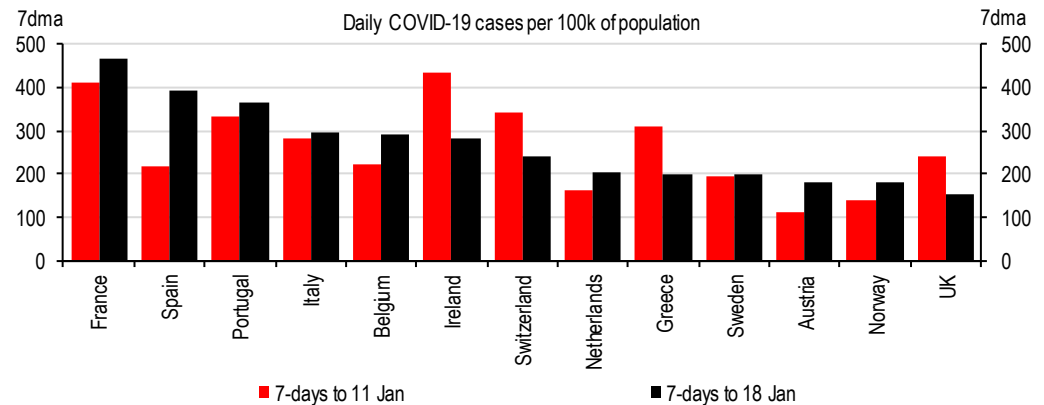
Case numbers still elevated but may be peaking

1. The Omicron wave remains strong but might be starting to peak in Europe...



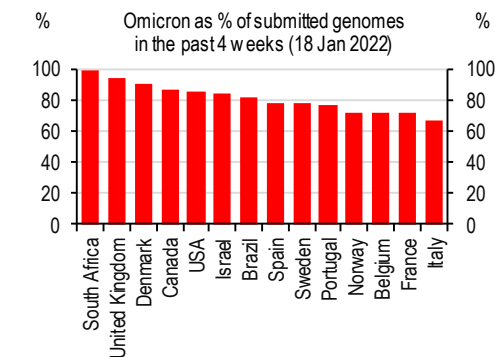
Source: Refinitiv Datastream, HSBC. Note: *7-day moving average

2. ...as case numbers have started to recede in some countries, especially in the UK



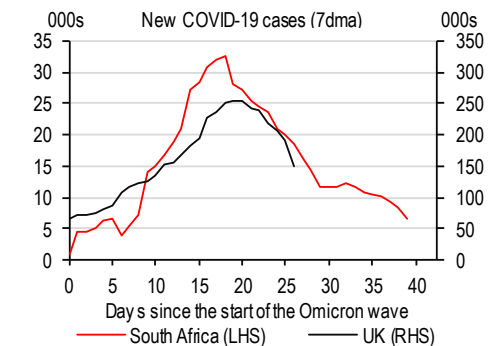
Source: Refinitiv Datastream, HSBC. Note: Weekend numbers are reported as 0 so '7-days to' does not include Saturday and Sunday.

3. Omicron is now the dominant COVID-19 variant in most countries



Source: GISAID, HSBC.

4. The Omicron trajectory in the UK mirrors the precedent set by South Africa

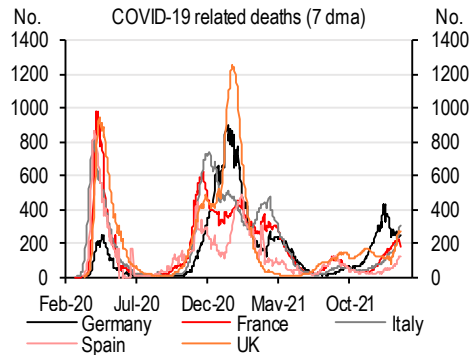


Source: Refinitiv Datastream, HSBC. Note: Start date at 23 November for South Africa and 10 December for the UK.

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

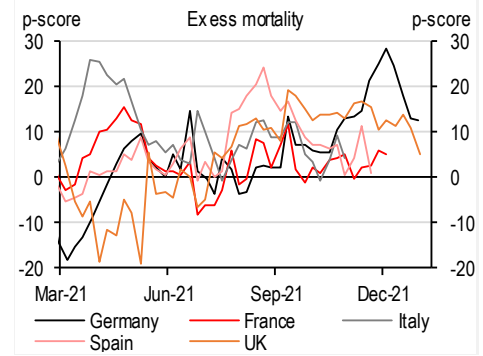
Encouraging data from hospitalisations

5. The number of deaths has started to decline in Germany and remains relatively contained elsewhere



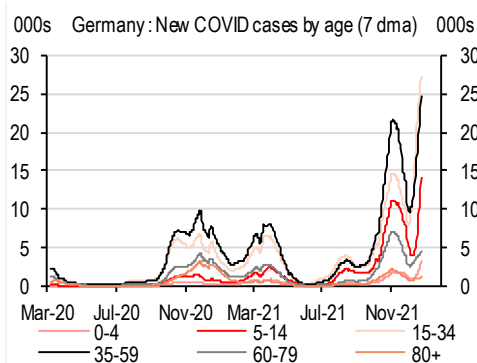
Source: Our World in Data, HSBC.

6. Excess mortality has been declining across the board more recently



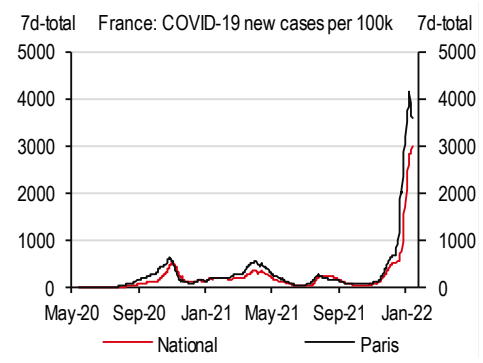
Source: Our World in Data, HSBC.

7. New cases in Germany are predominantly among the young...



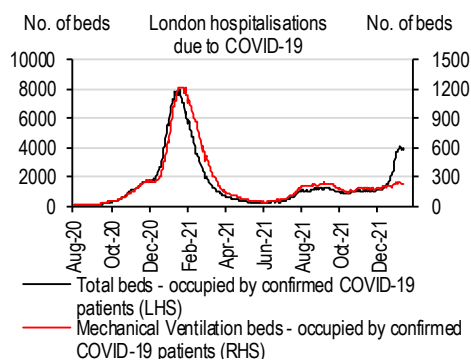
Source: Macrobond, HSBC

8. ...and in Paris cases have started to decline even if they are still on the rise nationally



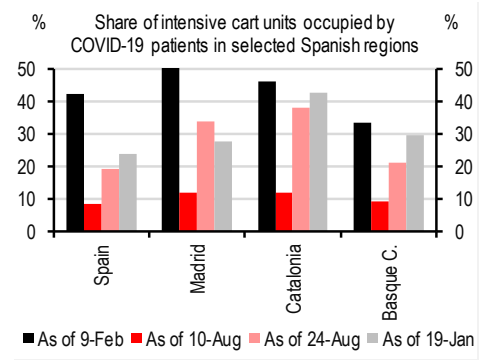
Source: French Government, HSBC.

9. Hospital admissions seem to have started to stabilise in London



Source: NHS England, HSBC.

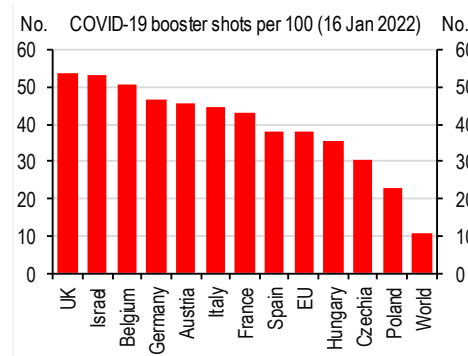
10. In Spain the pressure on the health system is not much higher than at the end of August, but is worrying in some regions



Source: El Diario, HSBC.

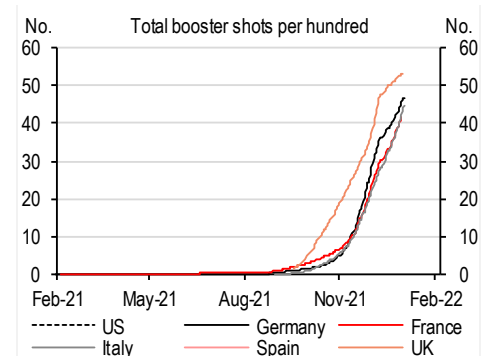
Booster campaigns are continuing at speed

11. The UK is still leading the booster campaign in Europe...



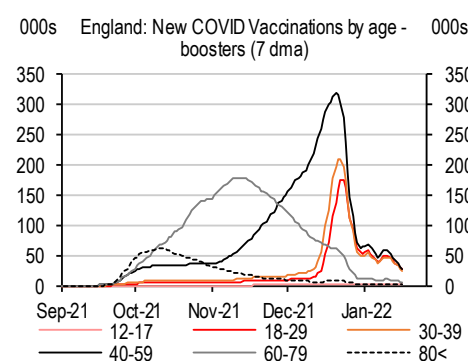
Source: Macrobond, HSBC

12. ...but other countries are closing in due to increased vaccinations and strong incentives thanks to COVID health-passes...



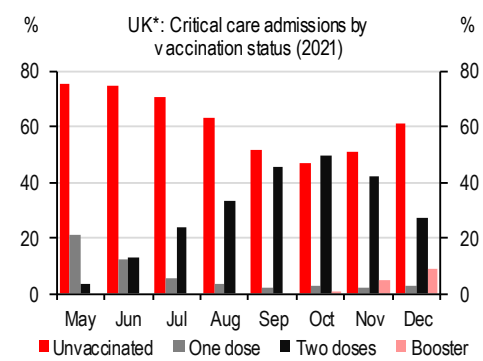
Source: Our World in Data, HSBC.

13. A slowdown in UK's booster campaign also helped others to catch up



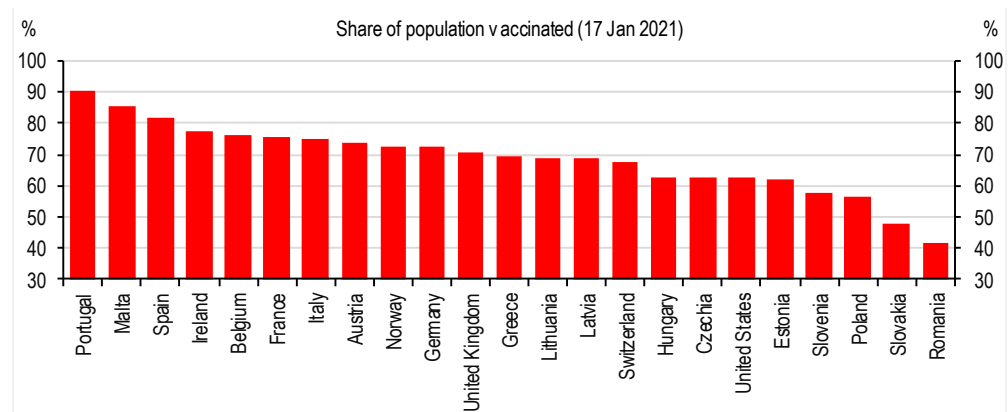
Source: UK Government, HSBC.

14 Vaccinations are proving effective in the UK in reducing the critical cases



Source: ICNARC, The Spectator, HSBC. Note: *Excluding Scotland.

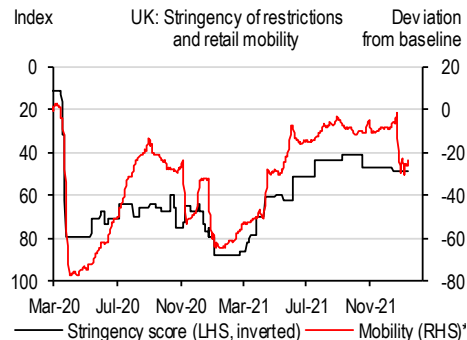
15. Vaccination coverage is still relatively low for several countries in Eastern Europe



Source: Our World in Data, HSBC.

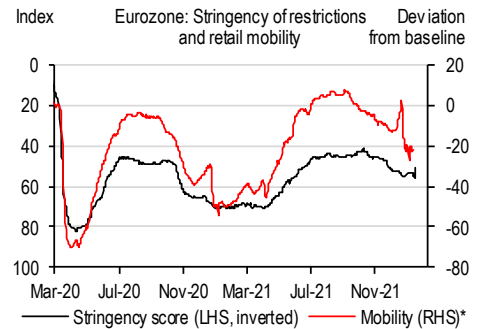
Mobility data have struggled to recover from the holiday season

16. Mobility has dropped in the UK due to holidays and 'Plan B'



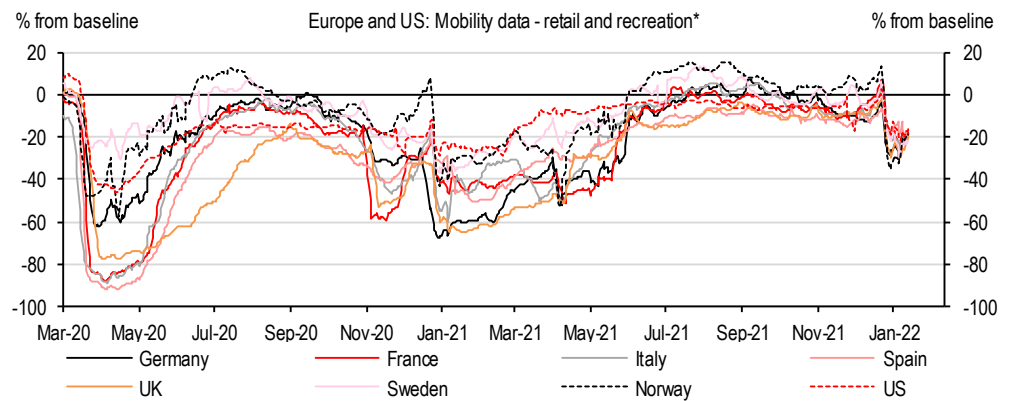
Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC
Note: *7-day moving average.

17. In the eurozone, mobility hasn't recovered yet from the holiday effect



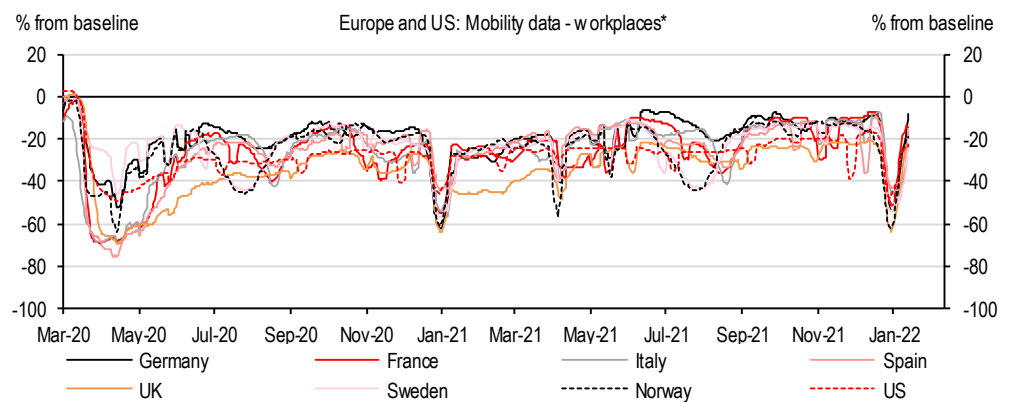
Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC
Note: *7-day moving average

18. Retail mobility data have not shown signs of marked rebound at the start to 2022...



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

19. ...while the recovery in workplace mobility has been more pronounced after the holidays



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

New restrictions focused on unvaccinated people, UK to re-open

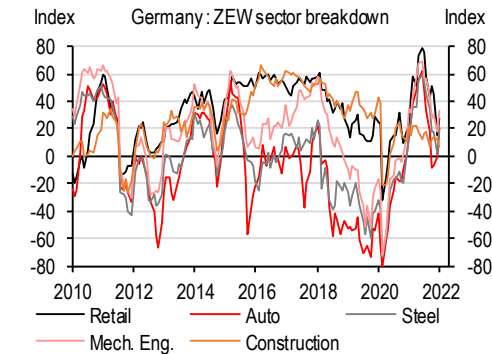
20. Latest on the restrictions from the major European countries

Country	Latest lockdown measures
Germany	<p>Germany further tightened some COVID-19 restrictions after a summit on 7 January and extended all previous restrictions announced in December. Apart from the general limit of just 10 people (not accounting for children) for private and public meetings irrespective of the COVID-19 situation and the vaccination status, a general banning of spectators from visiting "non-regional" (sporting) events indoors and outdoors and a closure of all dance clubs and potentially bars (though the latter depends on the federal states' local legislation), the so-called 2G+ rule will now be applied to the whole gastronomy sector. This means that even fully vaccinated (or recently COVID-19 recovered) people now require a negative test result that is not older than 24 hours to enter a restaurant. However, people who have had a booster shot are exempt from the test mandate. This new regulation thus extends the general nationwide 2G-rule for almost all other activities, including retail shopping or private and public services irrespective of the local COVID-19 situation, and federal states are allowed to selectively apply a 2G+ rule to these sectors as well if the infection situation requires it. Moreover, unvaccinated people are even restricted from meeting with a maximum of two people from different households and need to provide a negative COVID-19 test to use public transport. Since the beginning of the pandemic, indoor mask wearing has been mandatory, including on public transport. More restrictive measures in general could still be applied on a local or federal state level depending on the respective infection situation. All these measures will be in place until at least the next scheduled COVID-19 summit on 24 January.</p>
France	<p>Current restrictions are mainly targeted on unvaccinated people (aged above 12) via the imposition of a health pass (i.e. a proof of full vaccination, recovery or a negative test) to access some activities (museums, cinemas, bars, restaurants, large shopping malls, hospitals and some long-distance transport such as aeroplanes and trains). In addition, vaccination is mandatory for some key occupations (healthcare, firefighters). Since 15 January, a booster is required 7 months after the last dose to maintain the pass. In addition, by the end of January, it will no longer be possible to present a negative test for people aged above 16 years.</p> <p>Among other restrictions, nightclubs have been closed since 10 December and will not reopen before the end of January at the earliest. Large events in closed places are now limited to a ceiling of 2000 people. Wherever possible, remote working is now mandatory for at least 3 days (and preferably 4 days) per week. Non-compliant firms are subject to fines. Mask wearing is mandatory outdoors in several departments. Regarding travel, all non-EU travellers coming to France have to present a negative test, even if they are vaccinated.</p> <p>Conversely, self-isolation rules were loosened on 3 January, due to the sharp rise in COVID-19 cases led by the Omicron variant. For infected people, the length of the isolation period has been cut to 7 days for vaccinated people, against 10 days for unvaccinated people. Besides, vaccinated people in contact with infected people don't have to quarantine if they have a negative test, contrary to unvaccinated people that have to isolate for 7 days.</p>
Spain	<p>Since May, Spain hasn't been in a state of emergency and the nationwide curfew has ended. As the number of COVID-19 cases has started to increase again, though, some restrictions have been reintroduced in some areas. Most regions have now introduced a 'green pass' requirement for entering restaurants, bars and all cultural and sports events. Some regions have also imposed additional limits on: the opening hours of bars, restaurants and clubs (2am or 4am if all the staff are vaccinated or had a negative COVID-19 test); the size of gatherings (8 or 12 people, depending on the region) and the capacity of buildings for events. Catalonia is the region which has imposed the toughest restrictions, imposing a 1am curfew in the cities with higher infection rates and limiting gatherings to 10 people. Asturias has closed bars and restaurants indoors. Other regions have imposed other restrictions to the opening hours of restaurants bars and clubs. Masks are not necessary in outdoor settings where social distancing is observed</p>
Italy	<p>Since mid-September, a 'green pass' (full vaccination or negative COVID-19 test) has been required to go into restaurants and bars (indoors), theatres, cinemas public transport, as well as some outdoors venues, and attend concerts and sporting events. Since 15 October, it has also been a requirement for all public and private sector workers, with high penalties for the non-compliant. This was tightened on 15 December with the introduction of a 'super green pass', restricting access to social events (cinemas, restaurants, theatres, etc.) to people who are vaccinated or have had the virus in the past six months – so it's no longer enough to have tested negative. A negative test is still sufficient to go to work though. Restrictions have been tightened further since 10 January with the super-green pass requirement extended to several professions (health, education, military, public facing jobs) while the vaccination has been made mandatory for people of more than 50 years of age. From 20 January, the super green pass will also be required for hairdressers, beauty salons and all retail shops, and from 1 February for all public offices, postal services and banks.</p> <p>Currently, only six regions are left in the 'white' category while the remaining 14 are now back in the 'yellow' category with obligatory mask wearing outdoors and further restrictions to mobility. Press reports suggest some regions could move into the 'orange' category (with a further extension of the super green pass to restaurants, shopping malls, and mobility across different municipalities limited to essential reasons). Some municipalities in Northern Italy are now back in the 'red zone' with curfews from 8pm to 5am. As for international travel, arrivals from the EU no longer have to quarantine, but they are required to show a negative COVID-19 test undertaken within 48 hours before departure (from 16 December even if fully vaccinated).</p>
UK	<p>Mask wearing is mandatory in public spaces, but England, Scotland and Wales have announced the end to the Omicron-specific measures introduced in December. In England, this means the working from home guidance will be lifted and no more vaccine passport arrangements will apply from 26 January (and masks are no longer mandatory in schools as of 20 January). In Scotland, it means nightclubs can reopen and the three household limit on social interactions has been lifted. In Wales, restrictions on outdoor and indoor activity will be lifted on 21 and 28 January, respectively.</p> <p>As of 7 January 2022, pre-departure tests are no longer required for arrivals into the UK, and passengers will need to take a lateral flow test, not a PCR, by day two after arrival. UK PM Boris Johnson has said that he is hoping to let all COVID-19 rules lapse – including self-isolation for those testing positive – when the legislation expires in March.</p>

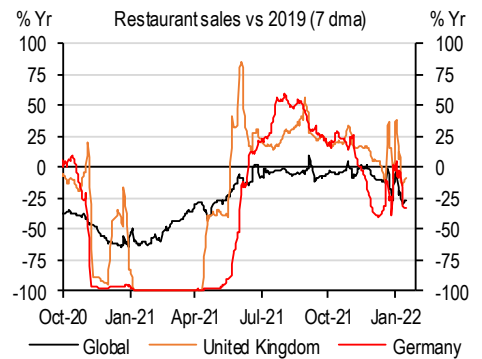
Source: Country data, HSBC

Limited hit to activity from restrictions

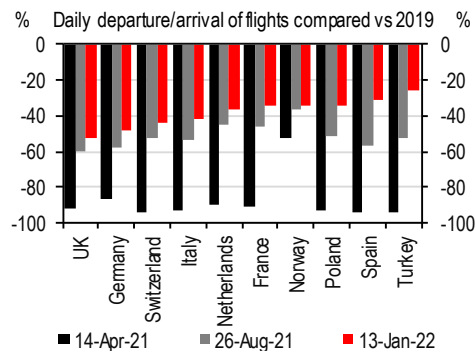
21. The ZEW has shown a rebound in expectations in some key sectors such as manufacturing (driven by autos) and retail



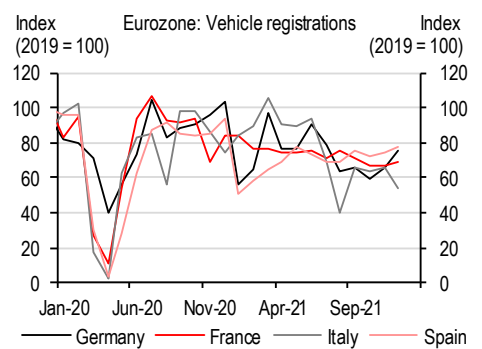
22. Restaurant sales are still down following some of the recent restrictions



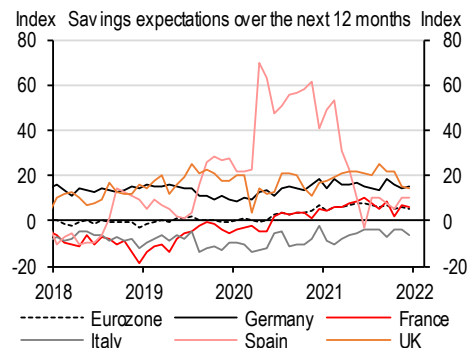
23. Disruption to the number of flights has been relatively contained, however



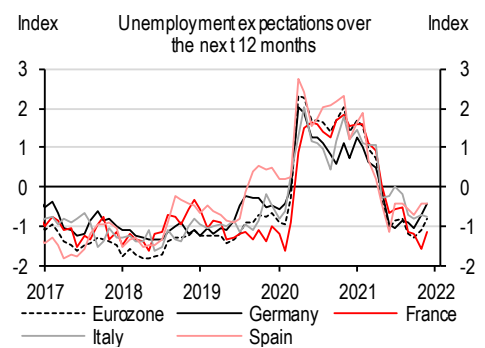
24. Car registrations were a bit of a mixed bag in December, but Germany is showing encouraging signs



25. Household savings expectations remain higher than before the pandemic...

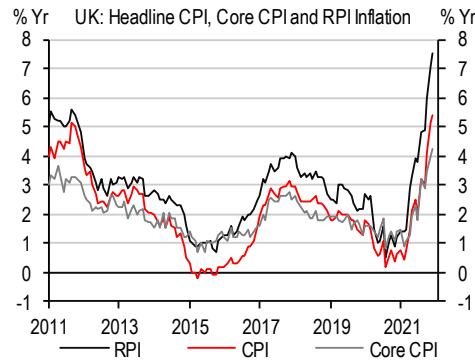


26. ...and unemployment fears have edged up again, which might deter consumption

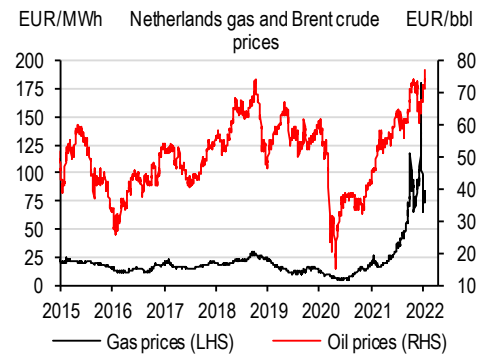


More upside surprises on inflation

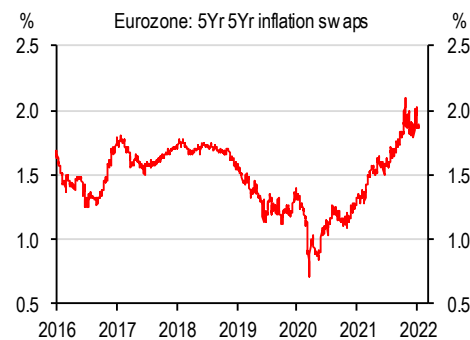
27. UK inflation surprised again to the upside in December



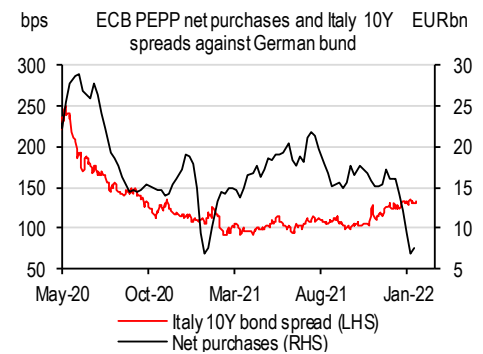
28. Further rises in oil and gas prices could put further pressure on inflation



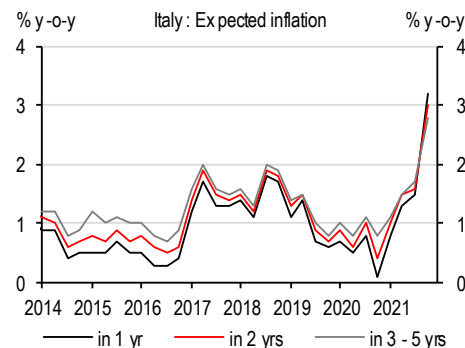
29. Market inflation expectations for the eurozone have ticked back up but remain contained



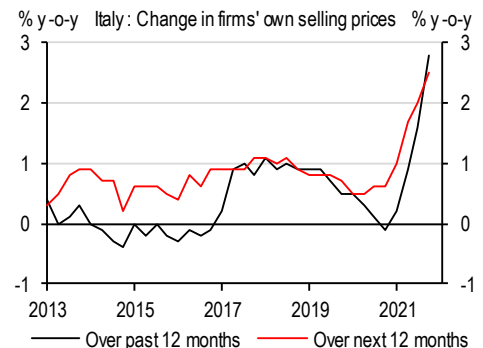
30. As the ECB has scaled back monthly asset purchases, some pressure on bond spreads is re-emerging



31. In Italy, firms are now expecting above-target inflation in the coming years...

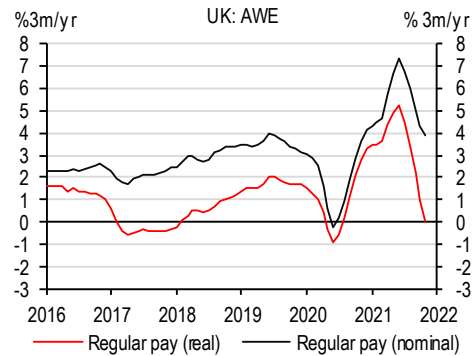


32. ...and plan to continue to pass on the higher costs to the consumers



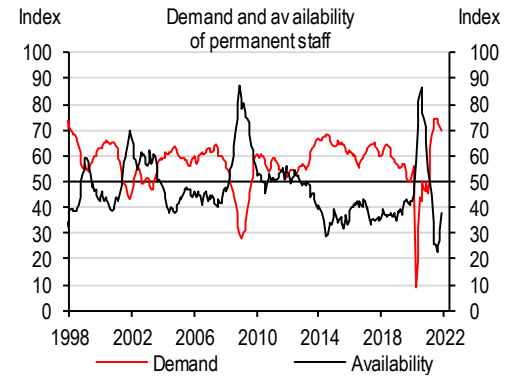
Labour market

33. Regular pay rose 3.8% 3m/yr in the UK in November, but in real terms it is flat given high inflation



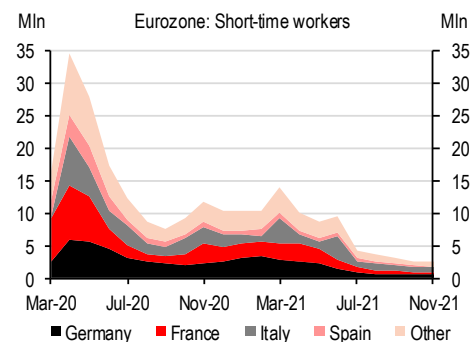
Source: ONS, Refinitiv Datastream.

34. The last couple of jobs PMIs point to a slightly less frenetic recruitment market in the UK



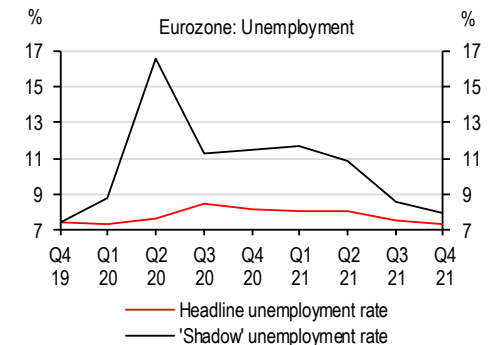
Source: ONS, Refinitiv Datastream.

35. Eurozone short-time workers dropped to around 2.5m last November but should have ticked up in December based on data from Germany and Spain



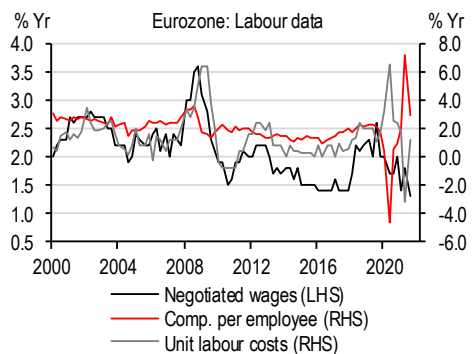
Source: HSBC calculations based on Ministries of Labour, national security institutes and IFO.

36. The unemployment rate (7.2% last November) has dropped below the pre-pandemic level in the eurozone, but it is still near 8% including short-time workers



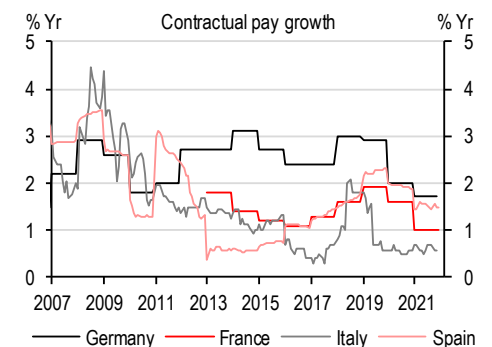
Source: Refinitiv Datastream, Eurostat, HSBC calculations.

37. There is mixed evidence on wage growth in the eurozone but so far there is nothing that should make the ECB too worried



Source: Eurostat, Refinitiv Datastream.

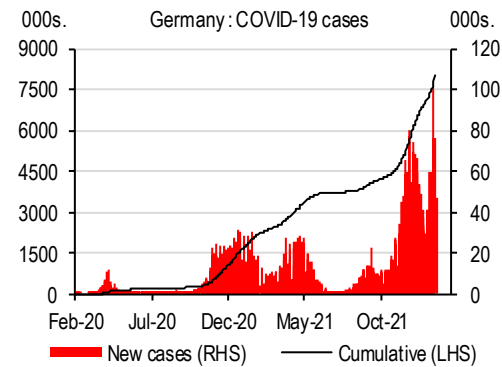
38. Even in Germany contractual pay growth remains modest, and in the other Big 4 countries it is even softer



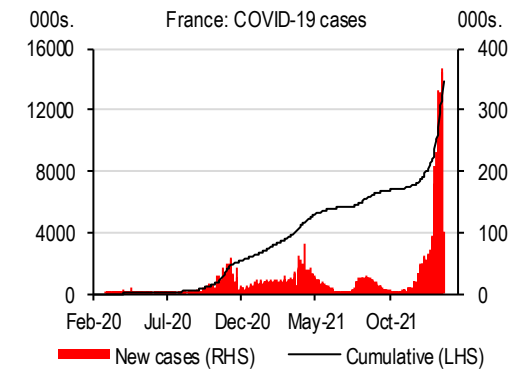
Source: Macrobond, Refinitiv Datastream, HSBC.

COVID-19 in Western Europe

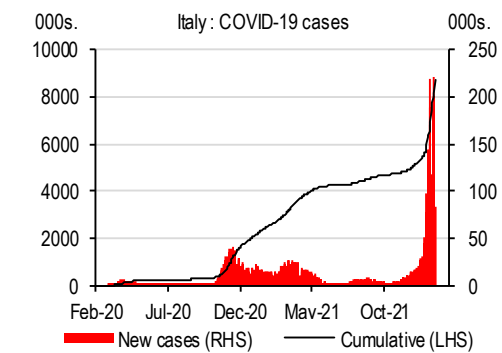
39. COVID-19 cases seem to be past the peak in Germany...



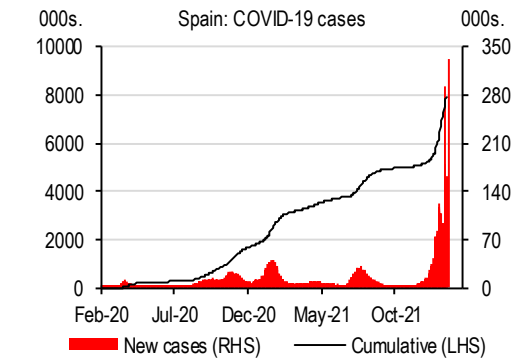
40. ...while in France the trend is still upwards



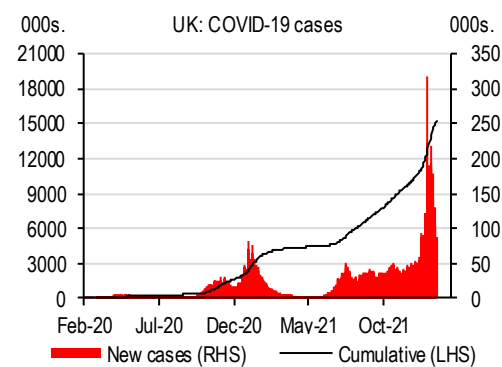
41. Cases are still on the rise in Italy...



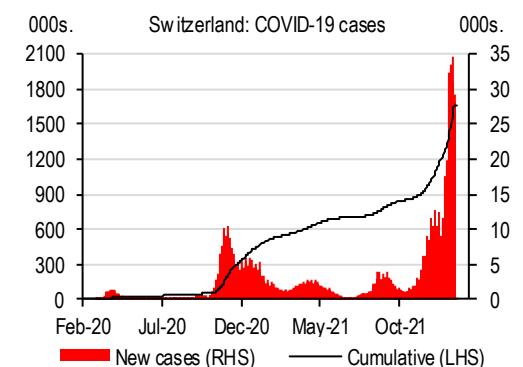
42. ...and also in Spain



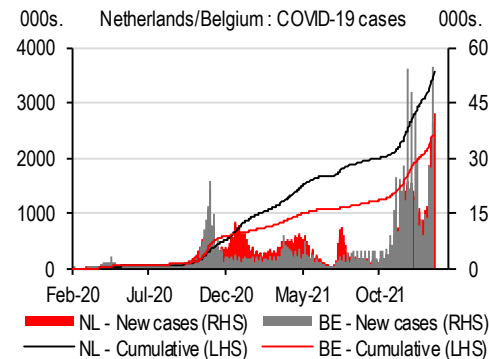
43. The Omicron wave seems to have clearly peaked in the UK



44. ...and also possibly in Switzerland, despite a still elevated number of cases

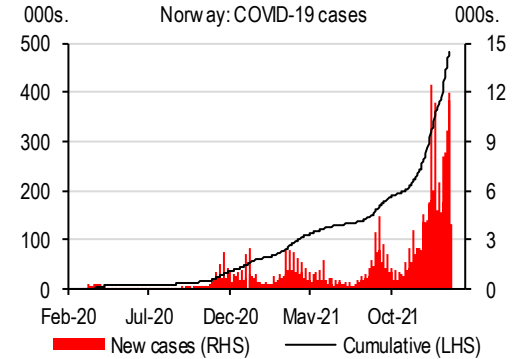


45. Benelux cases are back on the rise after a relatively quieter period



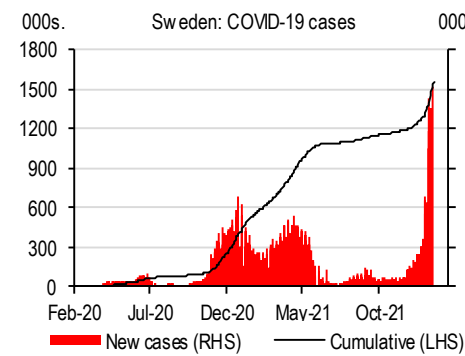
Source: Refinitiv Datastream, HSBC.

46. In Norway, the number of cases remains elevated



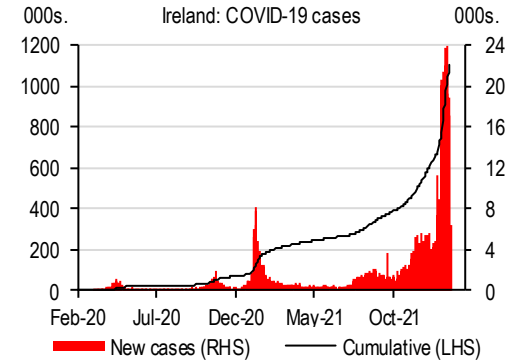
Source: Refinitiv Datastream, HSBC.

47. Sweden has finally been caught by Omicron



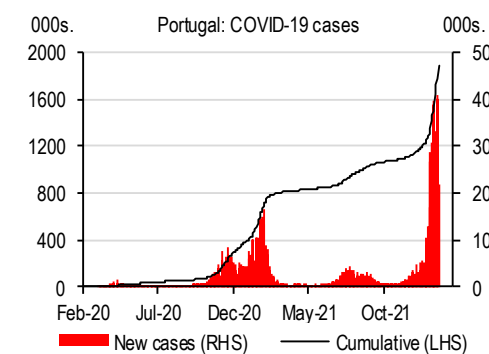
Source: Refinitiv Datastream, HSBC.

48. The impact of Omicron has been especially marked in Ireland but the tide might be turning



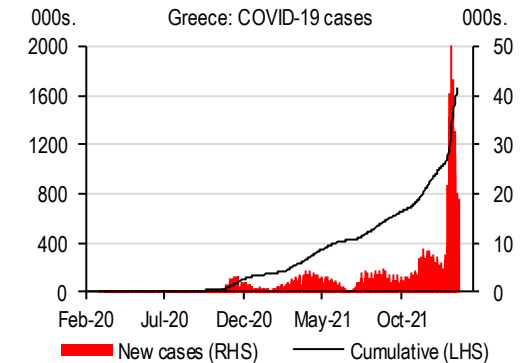
Source: Refinitiv Datastream, HSBC.

49. Omicron has also spread rapidly across Portugal...



Source: Refinitiv Datastream, HSBC.

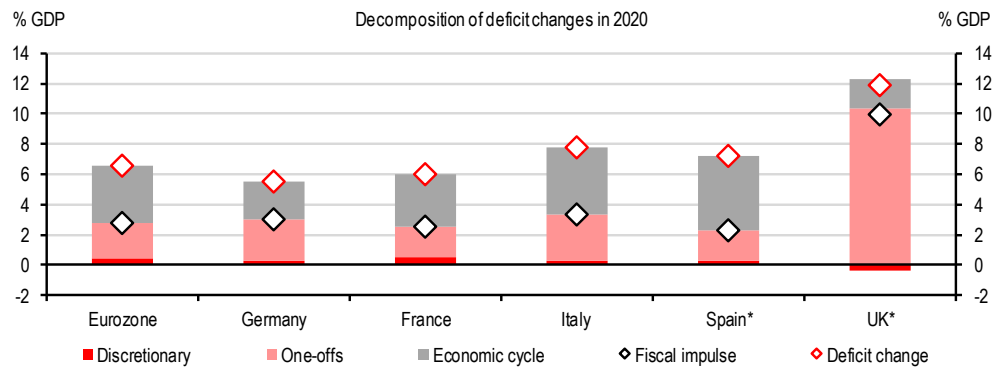
50. ... and Greece, even though more recently we are starting to see a decline



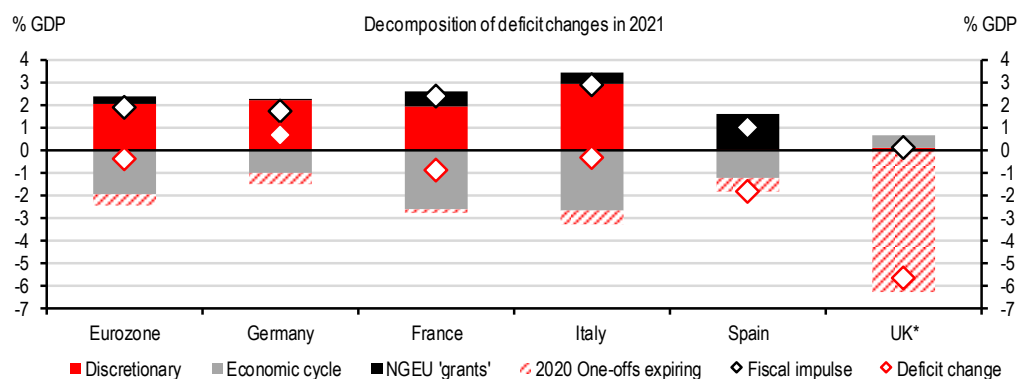
Source: Refinitiv Datastream, HSBC.

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

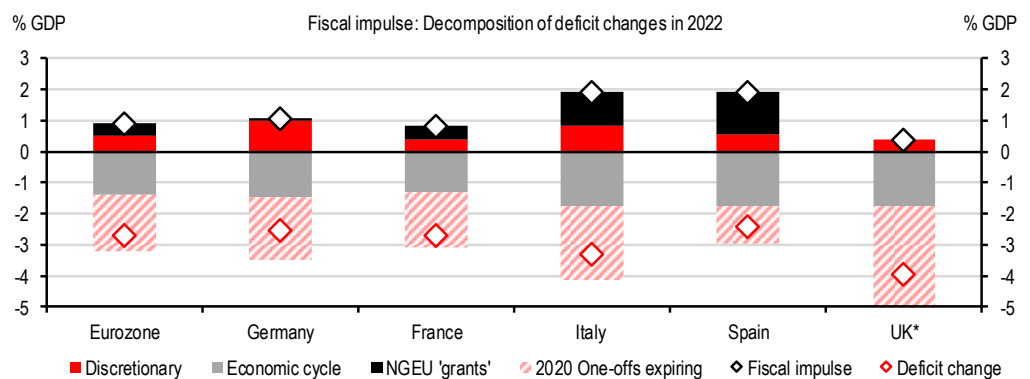
51. Fiscal policy was highly supportive of growth last year even if a significant chunk of support did not make it into the economy due to restrictions and was actually saved



52. Stronger-than-anticipated growth has helped contain the fiscal deficits this year despite a strongly expansionary fiscal policy, particularly in the eurozone



53. In 2022, the domestic fiscal policy stance should remain mildly expansionary in the eurozone, thanks also to the support provided by the Next Generation EU (NGEU) fund



Disclosure appendix

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