

The great unlocking

Key charts on vaccines, reopening, and financial markets

Free to View
Economics - Global

- ◆ The US economy continues to strengthen and service sector activity appears set to revive across Europe this summer...
- ◆ ...but India's surge in cases is an acute reminder that only effective vaccine rollouts can allow a return to normality
- ◆ Confidence continues to grow across the advanced economies and a range of asset markets

The world has split in two: those with access to vaccines and low numbers of new COVID-19 cases, and those without. Despite a slow start, the European Union is ramping up its vaccine programme, looking set to join the UK and US in achieving 'herd immunity' by late summer. But on the other hand, global cases are on the rise again driven by surges in Brazil, parts of Europe, and especially in India.

The US economy continues to recover, with high frequency data for April looking extremely strong. After the solid first quarter, the second quarter is seeing consumers return to services spending and confidence is up, although the pace of new hiring disappointed in April's labour market data. The high frequency data are striking – Americans are heading back onto planes and staying in hotels, and April consumer spending data could be comfortably higher than pre-pandemic levels.

Nowhere has had the same scale of fiscal support as the US in March/April, but the impact of easing restrictions bodes well for near-term growth in other economies. In the UK, where restrictions on outdoor dining and non-essential retail were lifted on 12 April, there has been a spike in mobility and restaurant sales. Given the further easing in May and June, this recovery may have a fair bit further to run, especially if accumulated savings are drawn down. Forward-looking survey components are picking up across the world, and the global services PMI is now pointing to faster growth than the manufacturing equivalent.

While some parts of the world may see a sharp rebound on the back of vaccines and reopening, that story isn't being repeated everywhere. India provides a timely reminder that the pandemic is far from over, and as case numbers have surged, our India recovery tracker has fallen 24% below the pre-pandemic level in just a couple of weeks while mobility data have plummeted to new lows.

The recovery in demand coupled with the supply disruptions across the world are raising fears that the jump in headline inflation prints in the next few months may not quickly reverse. Commodity prices from lumber to oil are rising and house prices continue to hit new highs. But with the major central banks still suggesting they will keep policy very accommodative, institutional and retail investors continue to chase performance through unconventional assets, such as crypto and SPACs.

This is an abridged version of a report by the same title published on 11-May-21. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.



Henry Ward
Analyst
HSBC Bank plc

James Pomeroy
Economist
HSBC Bank plc

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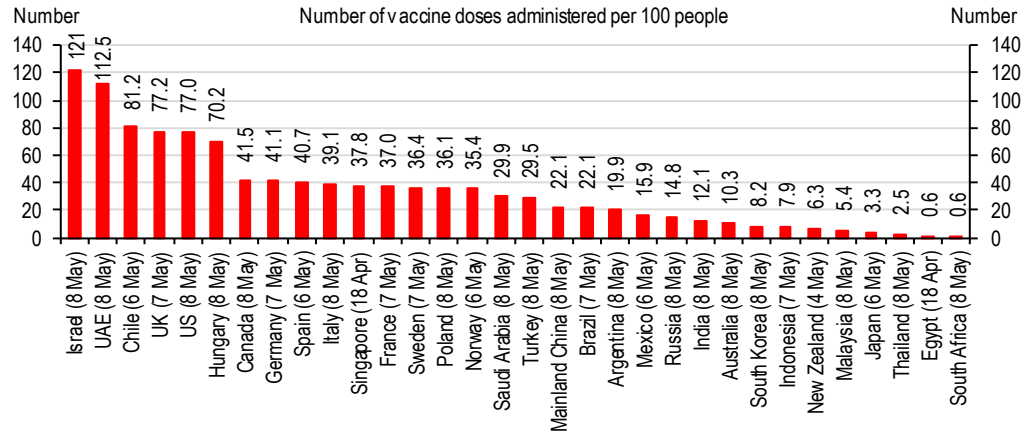
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Vaccines: Cautiously optimistic

The EU vaccine rollout is picking up, but global progress remains slow

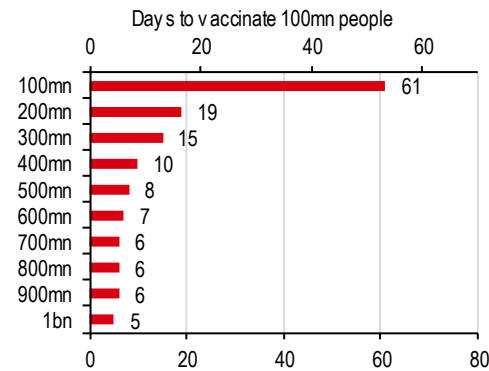
1. The EU is increasing its vaccination pace, as Asia continues to lag well behind ...



Source: Our World in Data. Note: Dates shown correspond with the latest data available. This includes first doses and second doses, so it does not mean that the given share of the population have been vaccinated fully

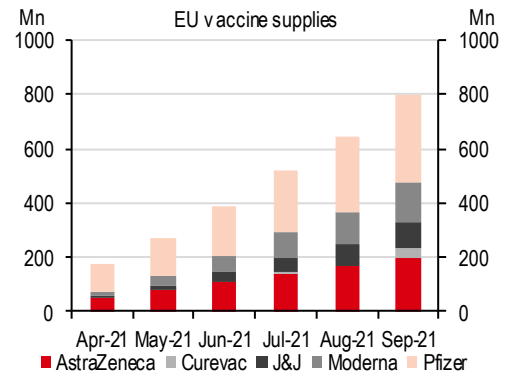
Globally, vaccine rollouts are accelerating. The EU could accelerate further ahead as supply increases

2. Globally 100m people are now being vaccinated every 5 days ...



Source: Bloomberg Vaccine Tracker. Note: Chart shows the number of days taken to vaccinate each 100m block of people, up to 1bn.

3. ... and the EU supply may make the recent improvement more sustained

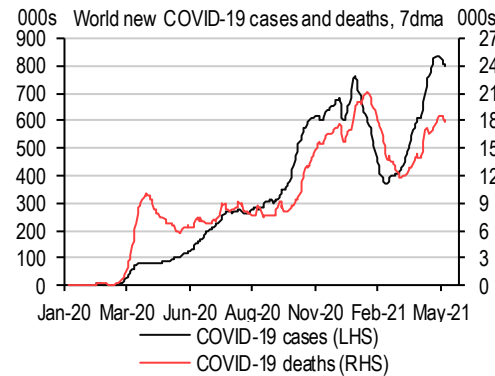


Source: Airfinity estimates. Note: Data represents cumulative deliveries

COVID-19 cases: A mixed picture

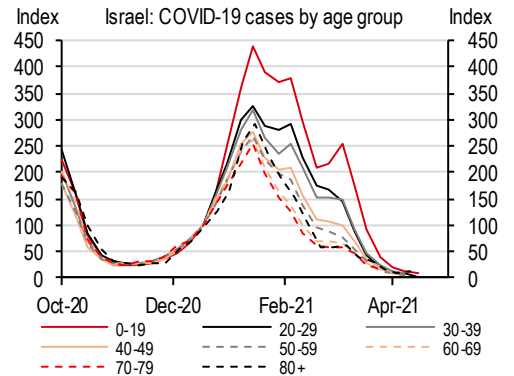
The global COVID-19 picture has worsened again. India is a reminder that the tables can turn rapidly

4. Despite vaccine rollouts the global COVID-19 picture is deteriorating ...



Source: OWID

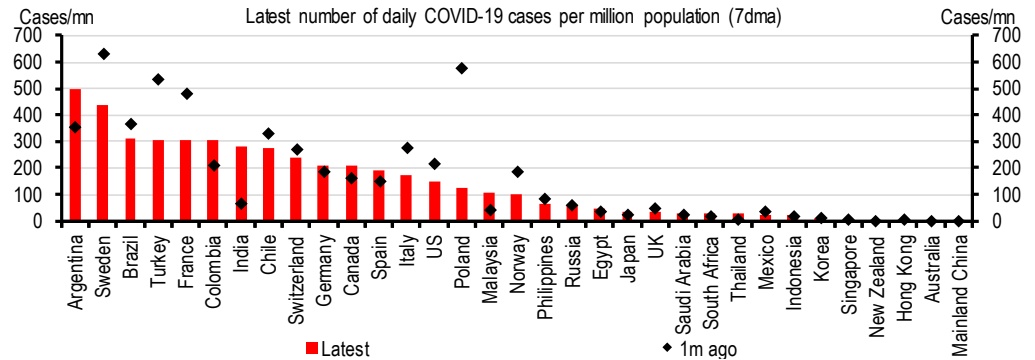
5. Israel is approaching a 'zero COVID' scenario across all age groups



Source: OWID, Israel Ministry of Health. Note: Indexed to 19 December when vaccinations started

Parts of Asia have the lowest number of COVID-19 cases

6. Case numbers continue to surge in India, parts of Europe, and Latin America...

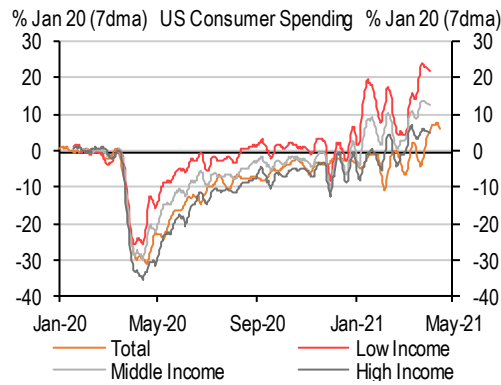


Source: Refinitiv Datastream

The great American comeback

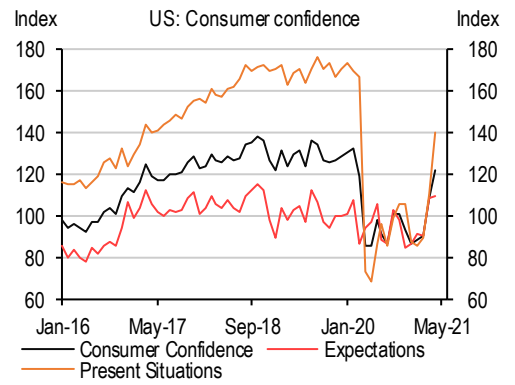
US consumers are spending again, as confidence is surging

7. Consumer spending is up, notably amongst low income earners ...



Source: Track The Recovery

8. ... and confidence is approaching pre pandemic levels

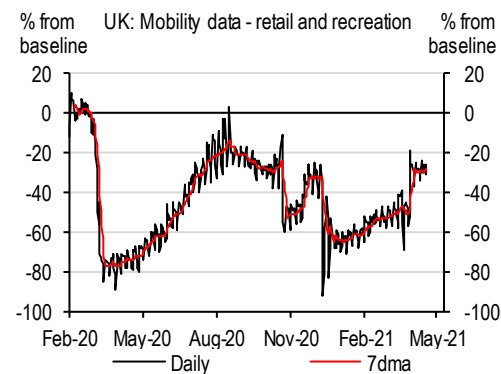


Source: The Conference Board, Refinitiv Datastream

UK: The great unlocking

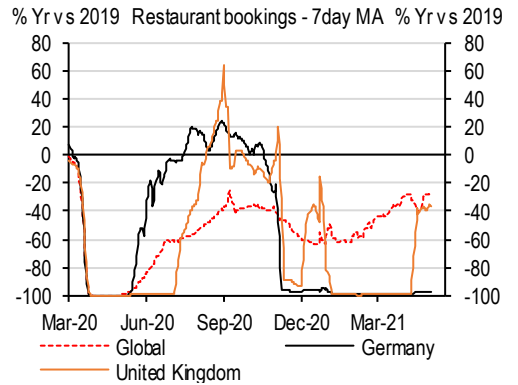
UK consumers reacted very positively to the lifting of restrictions on shops and outdoor dining

9. UK mobility data is rising as restrictions ease ...



Source: Refinitiv Datastream, Google Mobility Reports. Note: Retail and recreation series used for mobility.

10. ... we have seen an immediate surge in restaurant bookings

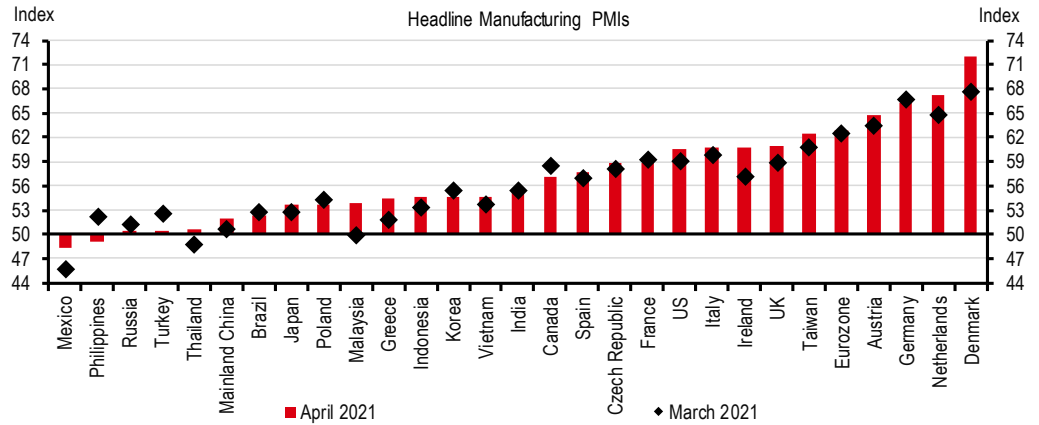


Source: Opentable

Confidence is broadly up

The manufacturing sector across the worlds continues to perform strongly as goods demand remains high

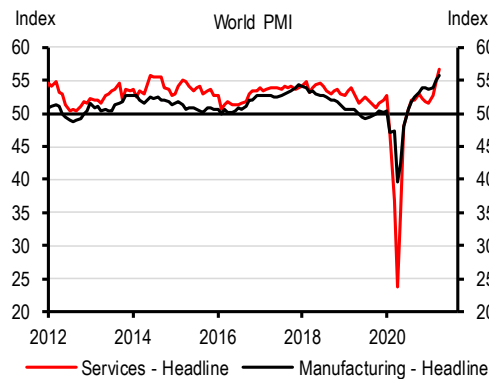
11. Manufacturing PMIs continued to edge up in most parts of the world in April



Source: IHS Markit

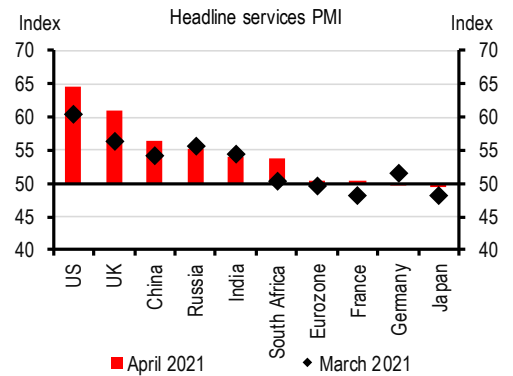
As Europe starts to unlock we could see services PMI pick up strongly, globally the have been more resilient than we may have expected given recent restrictions

12. Services PMIs are beginning to recover after the winter lockdowns ...



Source: IHS Markit

13. ...with much of this growth driven by developed economies re-opening

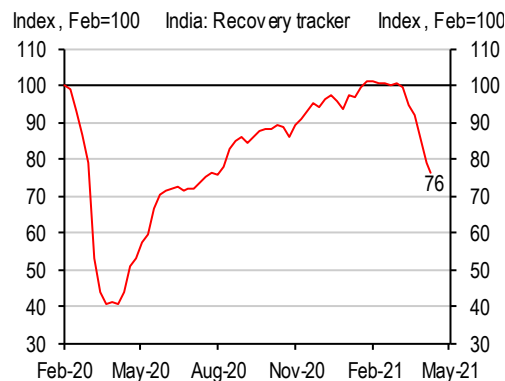


Source: IHS Markit

Not all the data is up

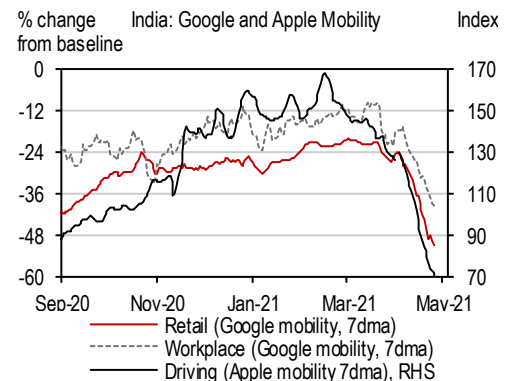
Having reached pre-pandemic levels, the India recovery tracker dropped 24% in just a few weeks and mobility has reached now lows

14. India's recovery tracker has dropped 24% below pre-pandemic levels ...



Source: CEIC, POSOCO, GSTN, HSBC. The tracker includes six variables: Google mobility (workplace, recreation), Apple mobility (driving), labour force participation, electricity consumption and e-way bills generation.

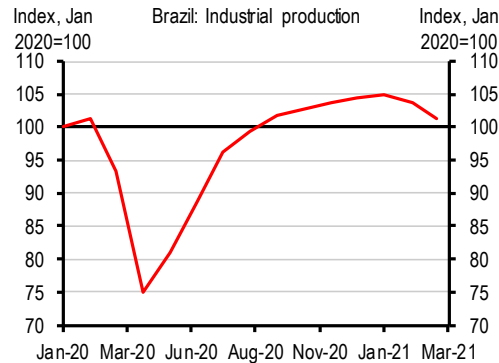
15. ... and mobility has plummeted across the board



Source: CEIC, HSBC. Note: For Google data, the baseline is the median value, for the corresponding day of the week, during the five-week period of 3 January 2020- 6 February 2020.

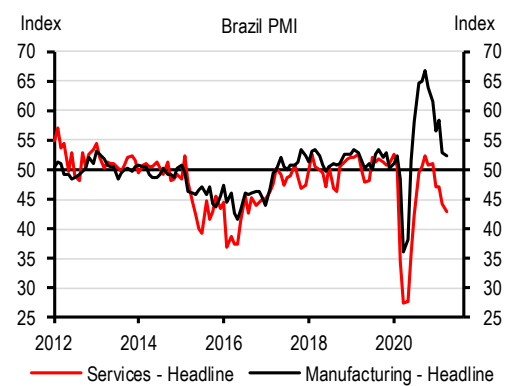
As Brazil battles a second wave of COVID-19, the economic data have sunk across both manufacturing and services

16. Brazil's IP fell for the first time in 10 months in February ...



Source: Refinitiv Datastream

17. ... whilst manufacturing and services PMIs are at 10-month lows

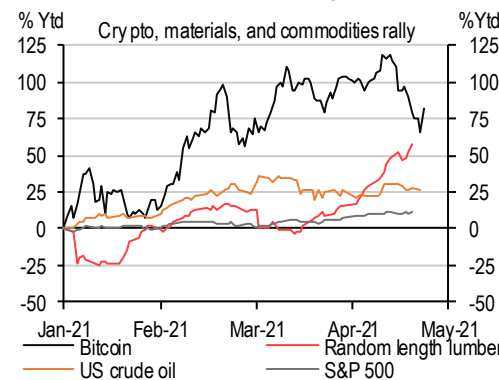


Source: IHS Markit

Asset prices are soaring still

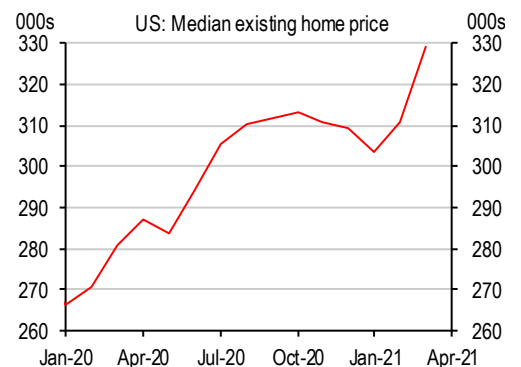
All sorts of assets and commodities have seen significant price rises

18. A range of goods and assets have rallied since the turn of the year ...



Source: FactSet, CoinDesk

19. ... as the housing market booms too

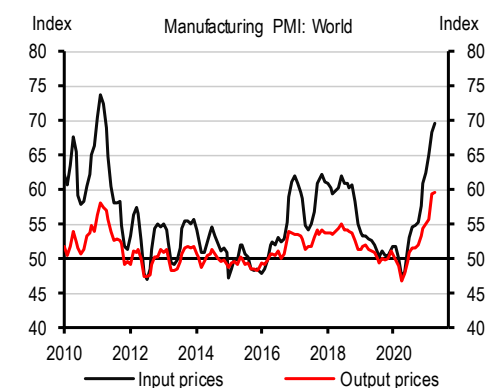


Source: National Associations of Realtors, Refinitiv Datastream. Note: Price in USD.

Don't forget about inflation

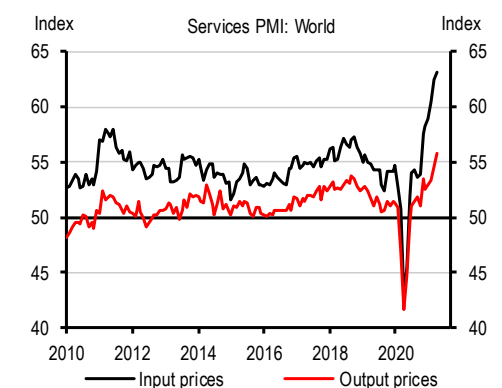
PMIs show that firms are facing higher input costs and this is feeding through into output prices

20. Manufacturers are starting to pass on the rise in input prices ...



Source: IHS Markit

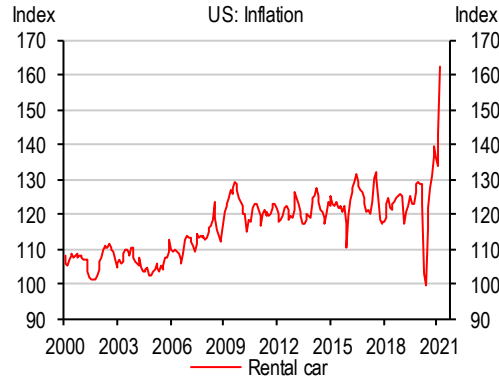
21. ... and it is the same story for services



Source: IHS Markit

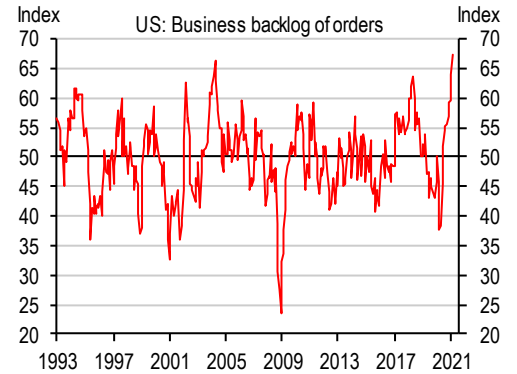
Intriguing inflation data keep coming in the US with rental car inflation, as business backlogs drive inflation more broadly

22. US car rentals have seen a particularly large surge in prices ...



Source: Refinitiv Datastream

23. ...and the backlog of business orders are at an all-time high

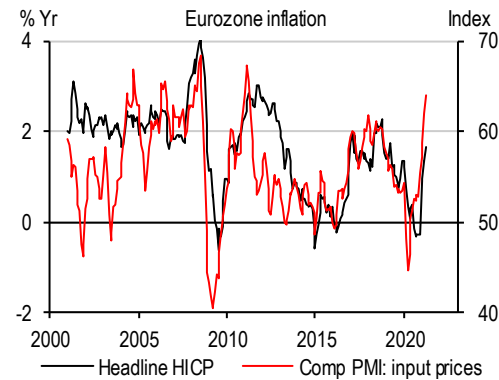


Source: Refinitiv Datastream

For prices, the only way is up for now

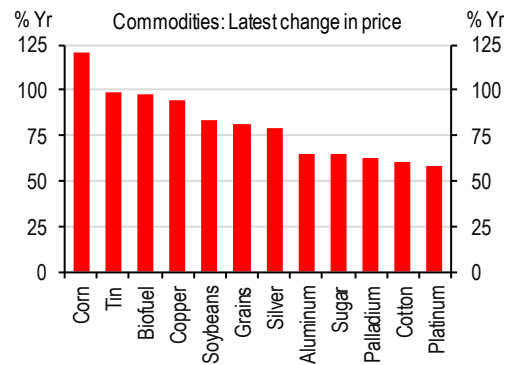
A number of factors are behind rising input costs, not least a booming commodities market

24. Input costs are rising in Europe , and HICP is tracking up as a result ...



Source: Refinitiv Datastream, HSBC

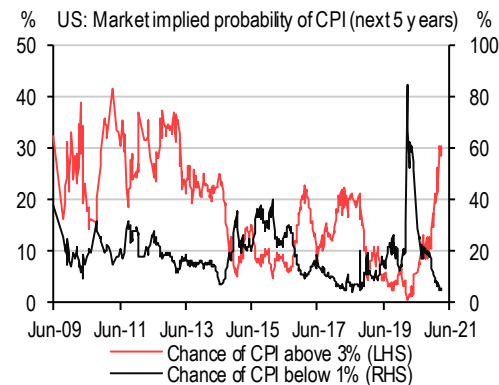
25. ... whilst commodities continue to surge across the board



Source: Refinitiv Datastream

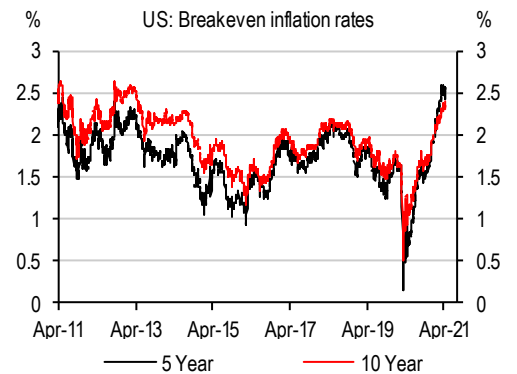
Financial markets are now pricing in higher US inflation for the medium term

26. Expectations of CPI above 3% are at the highest level for 8 years...



Source: Federal Reserve Bank of Minneapolis
Note: Option market estimates of probabilities

27. ... and breakeven inflation rates are at the highest levels since 2013



Source: Federal Reserve Bank of St Louis

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Issuer of report

HSBC Bank plc
8 Canada Square, London
E14 5HQ, United Kingdom
Telephone: +44 20 7991 8888
Fax: +44 20 7992 4880
Website: www.research.hsbc.com

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