

Europe macro tracker

New tracker, new risks

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Economics - Europe

- ◆ We are renaming our tracker to reflect its focus on broader economic issues beyond COVID-19
- ◆ Energy-related inflation concerns have abated a little, but there may be early signs of a drag on business sentiment
- ◆ The 'hard' data have stayed robust, however, and central banks remain on track to normalise policy

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Relaunching our weekly tracker

This week we change the name of our "Europe COVID-19 tracker" to "Europe macro tracker". Granted, the risks from the pandemic are not over – indeed, case numbers have risen sharply in Western Europe over the past week (Chart 1). But in a post-vaccine world, the risk of a return to restrictions that would have a first order economic impact seems fairly low for now. And for that reason, we have rebalanced the focus of this weekly report – less on COVID-19 cases, more on other key issues facing Europe.

Energy prices have eased, but risks still loom

The most pressing concerns are now geopolitics. The big immediate risk relates to energy prices. Although there has been a sharp retracement in recent days (Charts 5 and 6), potential inflation headwinds are broader than just energy. Food prices are high (Chart 8) as are shipping rates (Chart 9). The latter are worth watching due to the lockdown in Shenzhen, which could raise freight rates further (Bloomberg, 14 March) – another reminder that COVID-19 risks have not disappeared.

Other possible risks relate to financial markets and confidence. Implied equity volatility is higher than a few weeks ago but much lower than it was in the early days of the pandemic (Chart 10). On confidence effects, it is too soon to say. One early steer comes from the German ZEW survey for March for which the activity expectations index saw its biggest ever monthly decline and inflation expectations jumped sharply (Charts 11 and 12). But the latest Banque de France survey (conducted over late February and early March) showed expectations holding up much better (Chart 13). Meanwhile, Open Table data show little let-up in household leisure spending (Chart 14).

Hard data holding up, central banks on track

Albeit relating to activity before current geopolitical risks, the recent 'hard' data have been solid. That is certainly the case in the UK with stronger-than-expected monthly GDP growth in January (Chart 17) and a further tightening in the labour market (Chart 18). Despite the downside growth risks, decent activity data and, most importantly, inflation concerns mean that central banks are still broadly on track for policy normalisation. Correspondingly, market rate expectations are now more hawkish than they were before (Charts 20 and 21). That said, the outlook remains highly uncertain.

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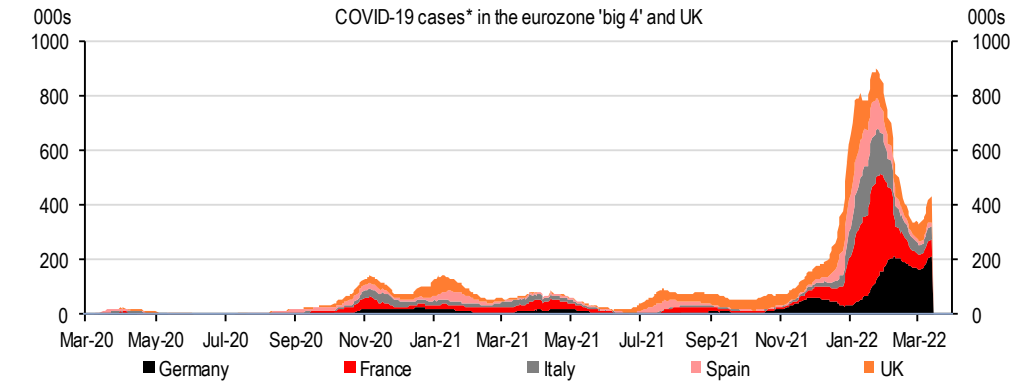
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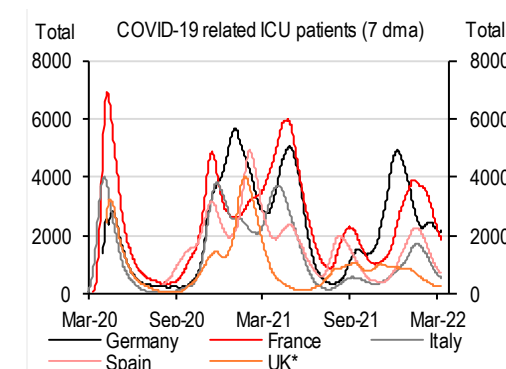
COVID-19 in Europe

1. COVID-19 cases have risen sharply recently, particularly in Germany and the UK...



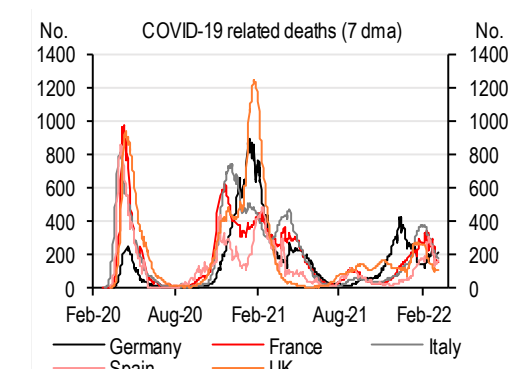
Source: Refinitiv Datastream, HSBC. Note: *Weekend numbers are reported as 0 so '7-days to' does not include Saturday and Sunday.

2. But ICU numbers continue to fall...



Source: Macrobond, HSBC. Note: *Medically ventilated

3. ...and mortality remains much lower than in past waves



Source: Our World in Data, HSBC.

4. Most restrictions have been, or will soon be, dropped

COVID-19 restrictions

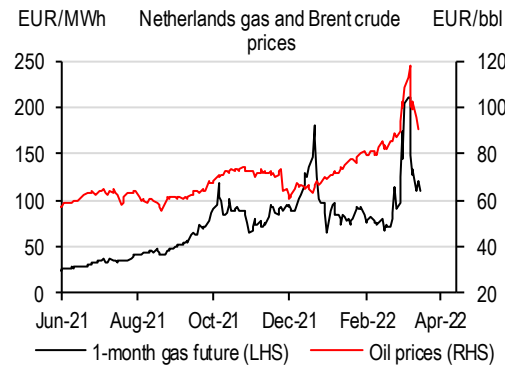
Germany	Since 4 March, restaurant and accommodation services have become accessible according to a 3G rule (meaning recovered from COVID-19, vaccinated or having been tested negative), while attending clubs as well as large events like a football match even fall under a 2G (vaccinated or recovered) or even a 2G+ rule (vaccinated and boosted and/or having also a negative test result). While some of these restrictions will likely be eased on 20 March at least some basic measures including the indoor mask mandate, including for e.g. public transport, will most probably remain in place.
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). PM Draghi said recently that the state of emergency will not be renewed beyond 31 March, which could mean most restrictions being dropped.
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.
UK	There are no remaining restrictions relating to COVID-19 in England or Northern Ireland. In Scotland, some rules will be 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 for positive cases – are set to be removed on 28 March "if the current public health situation remains stable".

Source: Country data, HSBC.

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

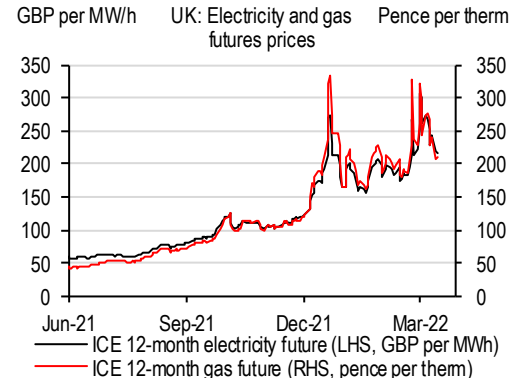
Commodity prices pose risks

5. Energy prices have come off their highs



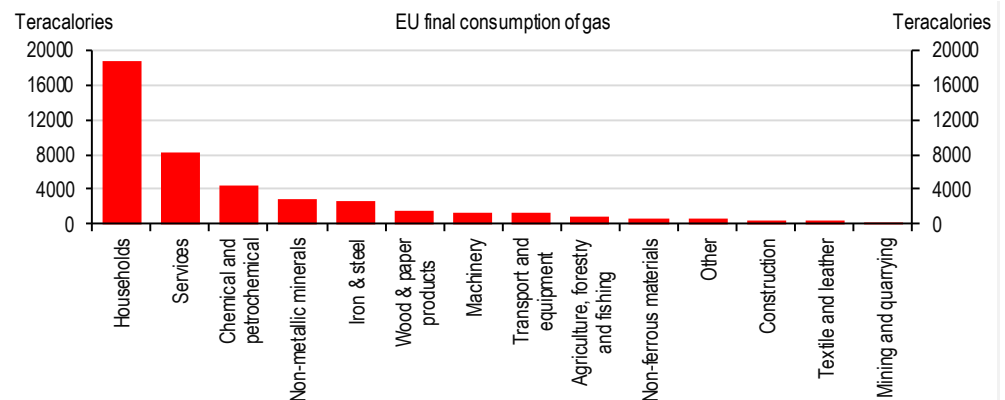
Source: Refinitiv Datastream, Bloomberg.

6. UK 12-month gas futures, which matter for regulated bills, are near pre-invasion levels



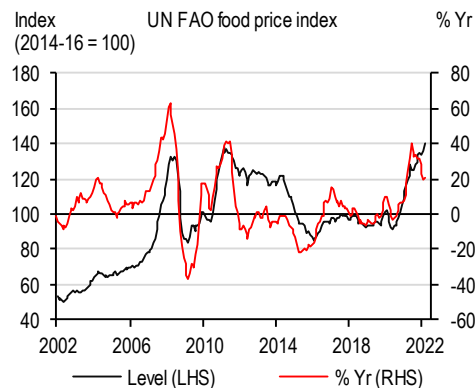
Source: Refinitiv Datastream, HSBC.

7. Beyond households, a number of industries are exposed to utility price risks



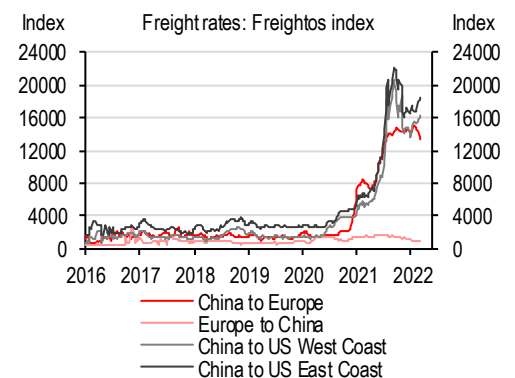
Source: Eurostat.

8. Food price inflation might be exacerbated



Source: Refinitiv Datastream, HSBC.

9. Restrictions in mainland China might pose upside risks to shipping costs



Source: Bloomberg.

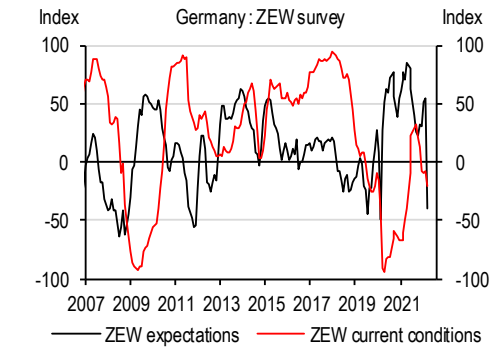
Confidence effects may start showing up soon

10. Implied equity volatility is somewhat elevated...



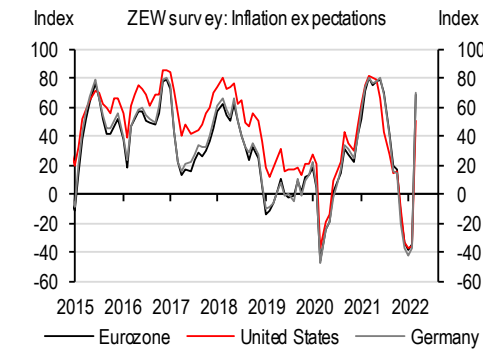
Source: Refinitiv Datastream, HSBC calculations.

11. ...while the German ZEW survey saw a sharp turnaround in March expectations...



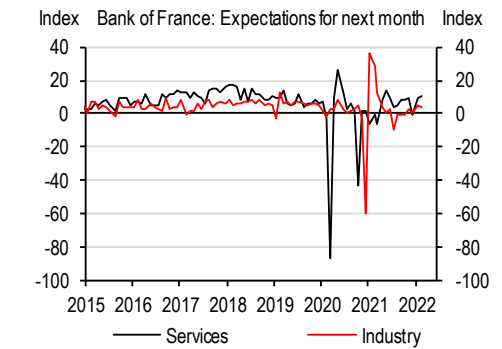
Source: Macrobond.

12. ...and a bounce in inflation expectations...



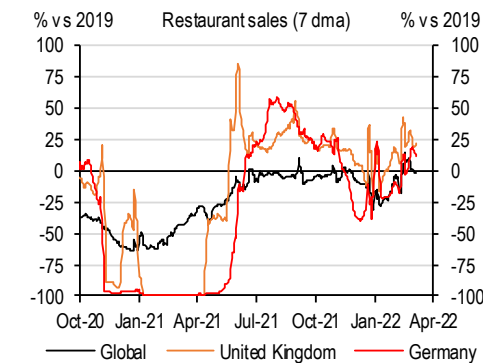
Source: Macrobond.

13. ...but the Banque de France survey showed expectations holding up better



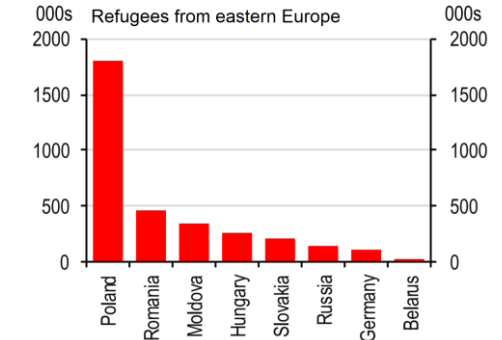
Source: Bank of France.

14. Open Table data suggest continued strength in household leisure spending



Source: OpenTable.

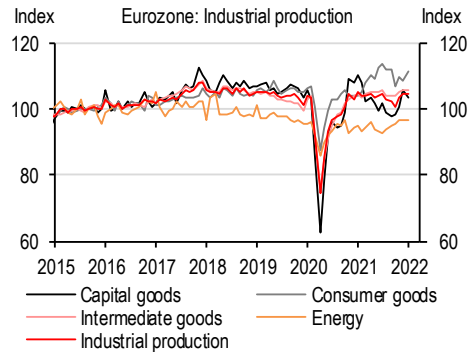
15. Another longer term issue relates to significant migration flows within Europe



Source: The Local, UNHCR.

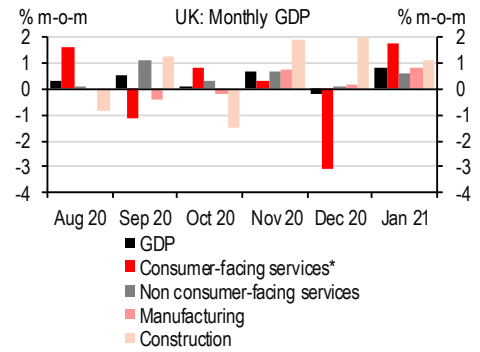
Hard data holding up; central banks on track

16. Eurozone industrial production was flat in January...



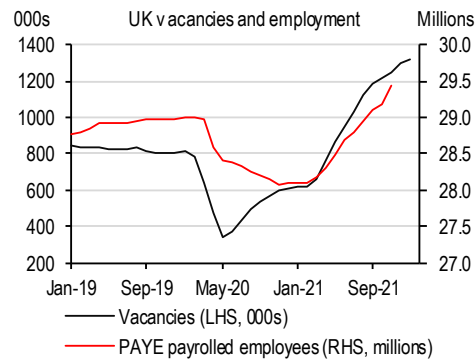
Source: Refinitiv Datastream.

17. ...while the UK saw solid January growth across the main sectors...



Source: Refinitiv Datastream, HSBC.

18. ...continued employment gains...



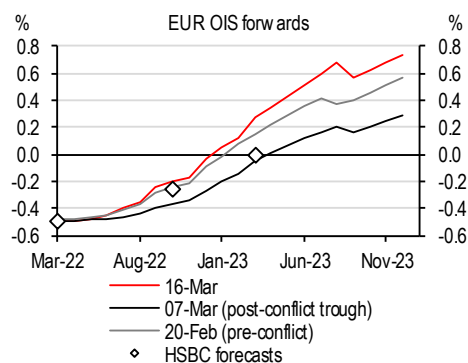
Source: PAYE, Refinitiv Datastream.

19. ...and ongoing wage strength



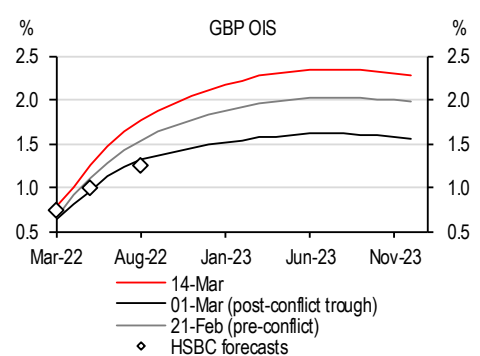
Source: Refinitiv Datastream, HSBC.

20. Eurozone rate expectations are now more hawkish than pre-conflict levels...



Source: Bloomberg.

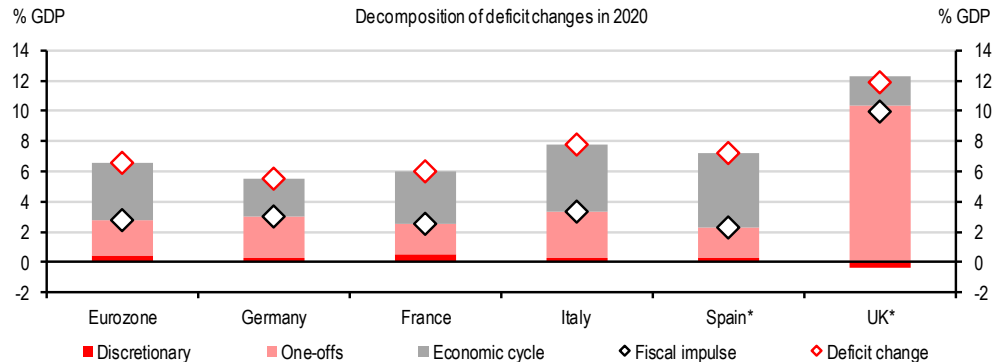
21. ...so are UK expectations



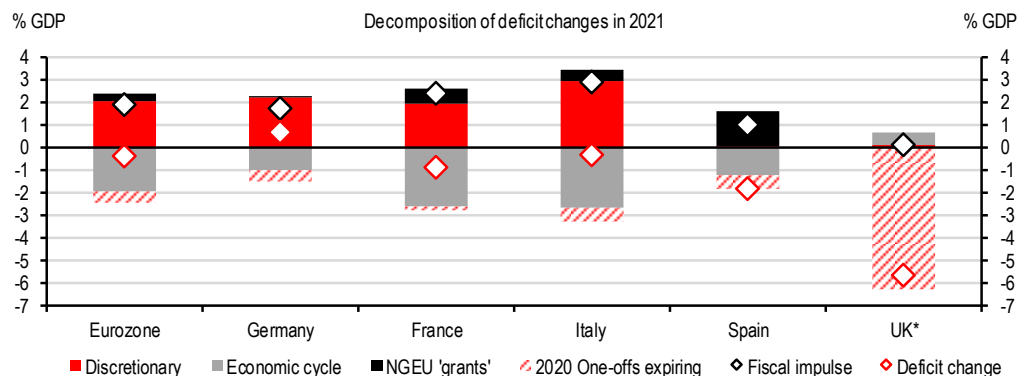
Source: Bank of England.

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

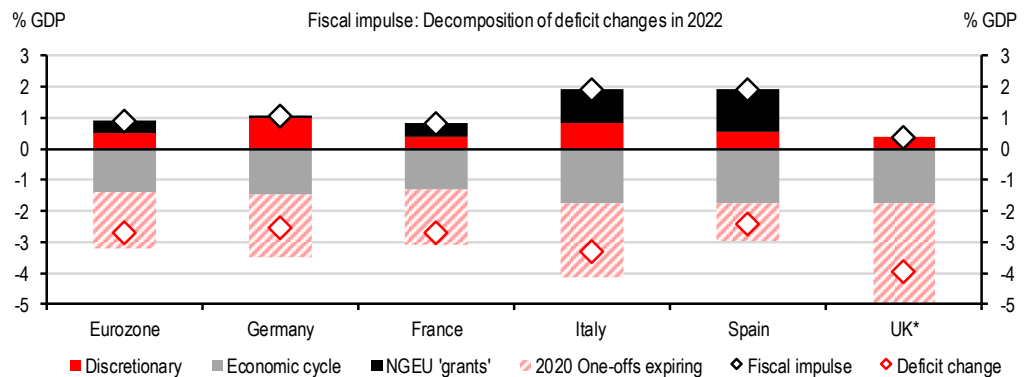
22. Fiscal policy was highly supportive of growth in 2020 even if a significant chunk of support did not make it into the economy due to restrictions and was actually saved



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



24. This year, 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



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