

# Europe COVID-19 tracker

## As cases rise, so do downside risks

- ◆ Spain and the Netherlands have joined the UK and Portugal with rapidly rising cases
- ◆ So far, the Delta wave is concentrated among the younger, less vaccinated sections of the population...
- ◆ ...but for economies where vaccination rates among the elderly are lower, the spread poses significant downside risks

### Cases rising rapidly in some economies as the Delta variant spreads

New COVID-19 cases have accelerated across Europe, albeit from a low base in Germany, France and Italy (charts 1 and 2). But in the UK, Spain and the Netherlands, cases are accelerating sharply (chart 3) as the Delta variant spreads more widely across the continent. In mid-July, just over half of Spanish cases were the Delta variant, up from 16% a month earlier (chart 4).

With cases concentrated among young people, hospitalisation rates remain low (charts 6 and 7). But they have picked up slightly in the UK and modelling suggests that if the 19 July easing of restrictions results in a fairly swift return to pre-pandemic norms, they could rise fairly sharply (and peak around 1,500 in late summer), although there is significant uncertainty around these projections (source: FT, 12 July).

The downside economic risks posed by the Delta wave could be bigger in eurozone countries than in the UK, given lower vaccination rates among older people (chart 8). And with vaccination rates slowing (chart 9), governments are taking action. In France, President Macron announced measures to incentivise vaccination, including making it mandatory for health care workers, and wider use of the COVID-19 health pass to access leisure facilities, bars, restaurants, and some transport. Meanwhile, the Netherlands re-introduced some restrictions on restaurants, bars and nightclubs only two weeks after lifting them.

The threat of the re-introduction of widespread restrictions remains a downside risk for now, albeit a growing one. Policymakers seem keen to allow the summer holiday season, given the economic and social benefits. Indeed, the number of flights and flight bookings is picking up (charts 22 and 23). Also, the public does not seem to be clamouring for tighter restrictions, despite rising cases (although a recent UK survey showed many people supported restrictions to continue permanently, chart 17). Even if some restrictions are ultimately re-imposed, we would expect them to be less disruptive to economic activity relative to earlier in the year. Still, rapidly rising cases underline the material downside risks that remain.

### UK inflation rises, as eurozone industrial production disappoints

In terms of this week's economic data, UK inflation surprised strongly to the upside again, making it look increasingly like the US. UK CPI inflation rose to 2.5% in June, while in its May forecast, the BoE was expecting just 1.7%. This is significant upside news given it reflects core inflation. In the eurozone, industrial production fell 1.0% m-o-m in May, a little worse than the -0.8% we had expected and widening the wedge between soft and hard data (chart 20).

*This is an abridged version of a report of the same title published on 14 July 2021. Please contact your HSBC representative or email [AskResearch@hsbc.com](mailto:AskResearch@hsbc.com) for more information.*

## Free to View Economics - Europe

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### Disclosures & Disclaimer

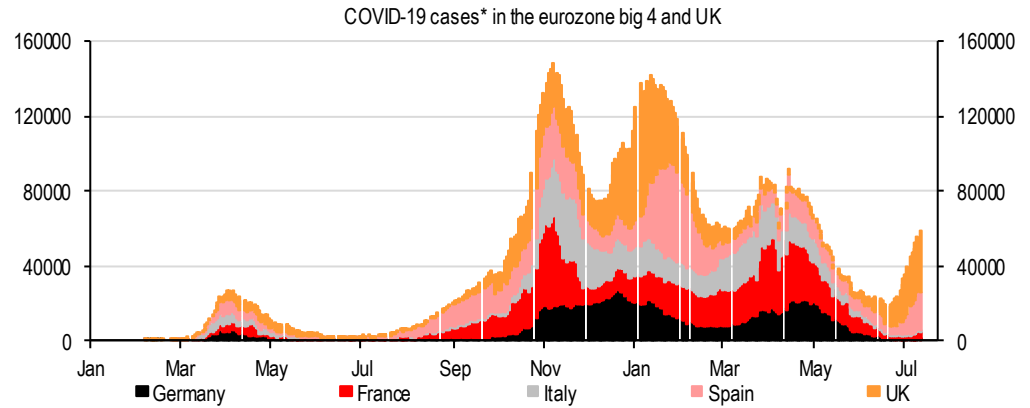
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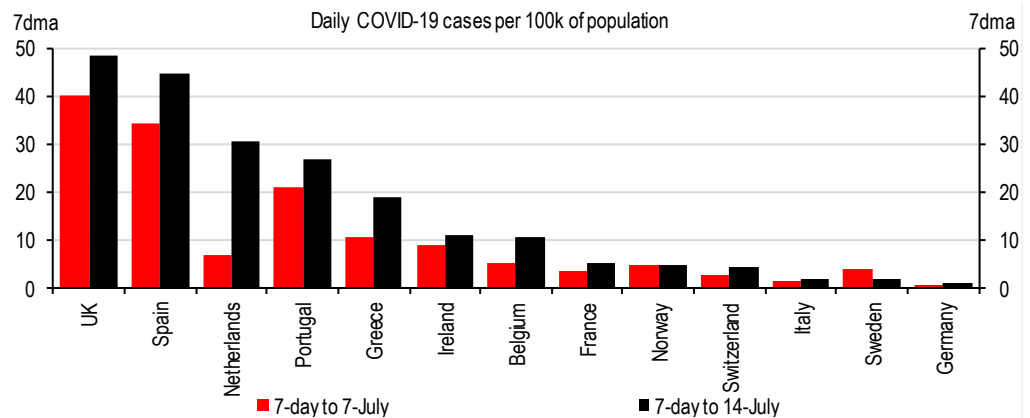
## Cases are rising as the Delta variant spreads

### 1. New infection numbers are rising sharply again, driven by Spain and the UK



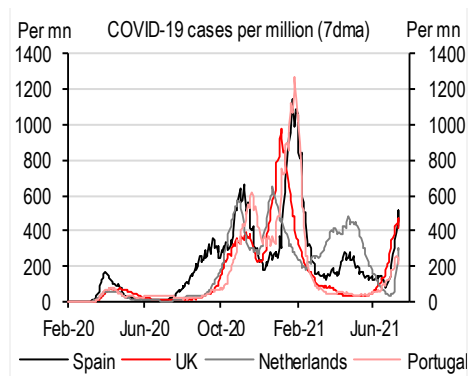
Source: Refinitiv Datastream, HSBC. Notes: \*7-day moving average.

### 2. Case numbers are rising in most countries, albeit from a low base in France, Italy and Germany



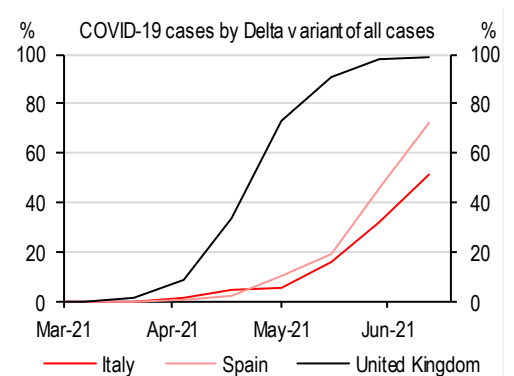
Source: Refinitiv Datastream, HSBC. Note: Weekend numbers are reported as 0, so "7-days to" does not include Saturday and Sunday.

### 3. Spain and the Netherlands have joined the UK and Portugal with rapidly rising cases...



Source: Refinitiv Datastream, HSBC

### 4. ...and where timely data are available, the proportion of Delta variant is rising fast

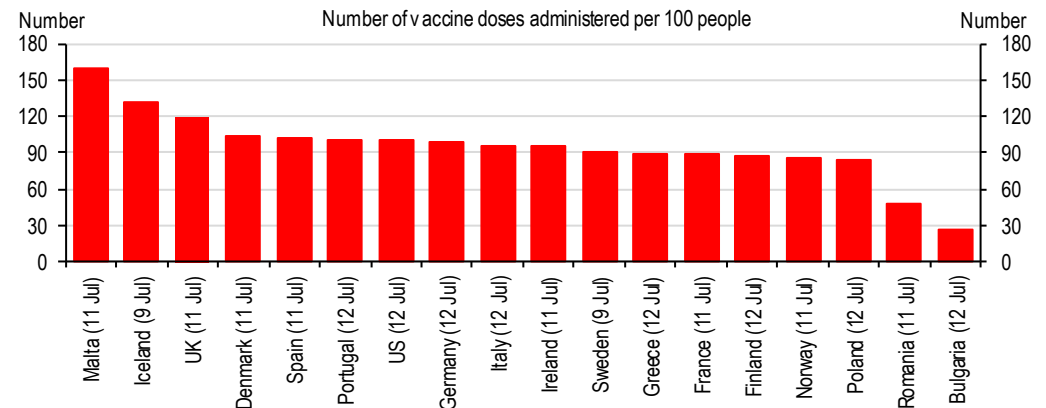


Source: The Spectator, Wellcome Sanger Institute, HSBC

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

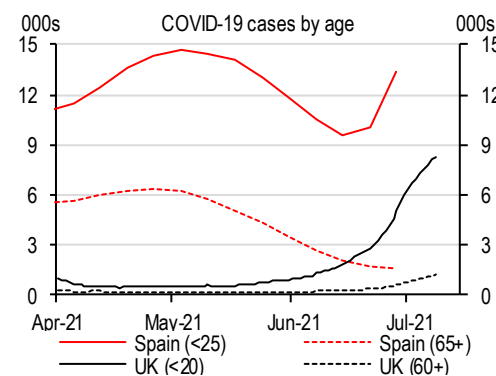
## The Delta variant poses a greater risk in some eurozone economies

### 5. Progress on vaccinations continues but remains very low in some CEE economies



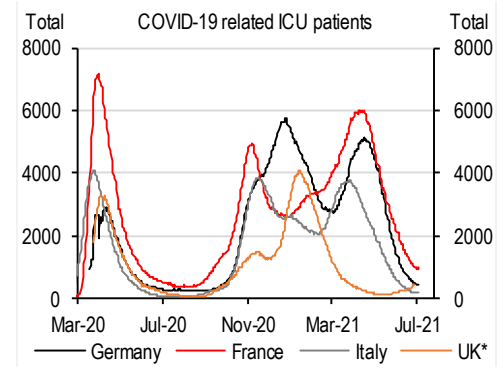
Source: Our World in Data, HSBC

### 6. New cases remain highly concentrated in unvaccinated younger people...



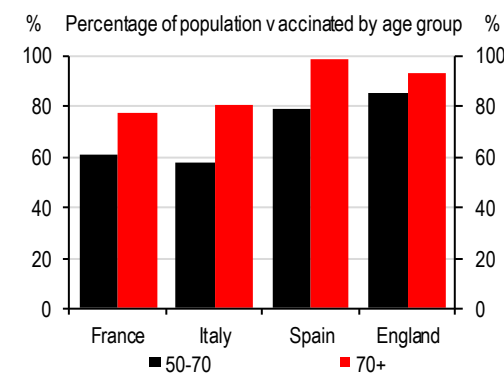
Source: NHS, ECDC, HSBC

### 7. ...and hospitalisation rates in the UK remain low but are creeping up



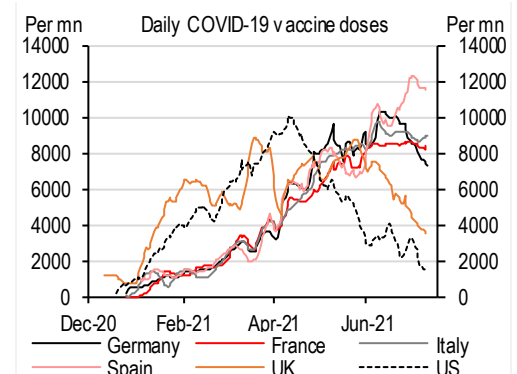
Source: Macrobond, HSBC. \*Medically ventilated

### 8. Delta risks may be greater in places with lower vaccination rates for older people



Source: NHS, INE, Health Ministries, HSBC

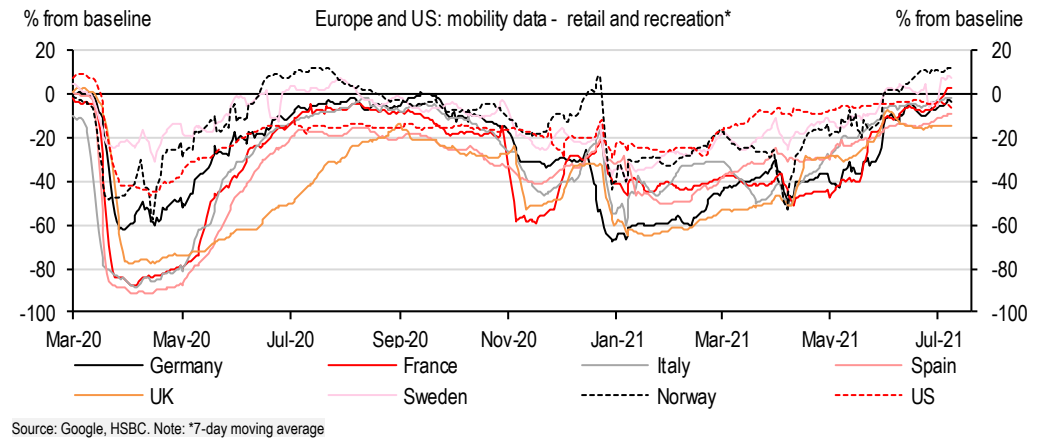
### 9. Policymakers are trying to incentivise vaccination as rates slow



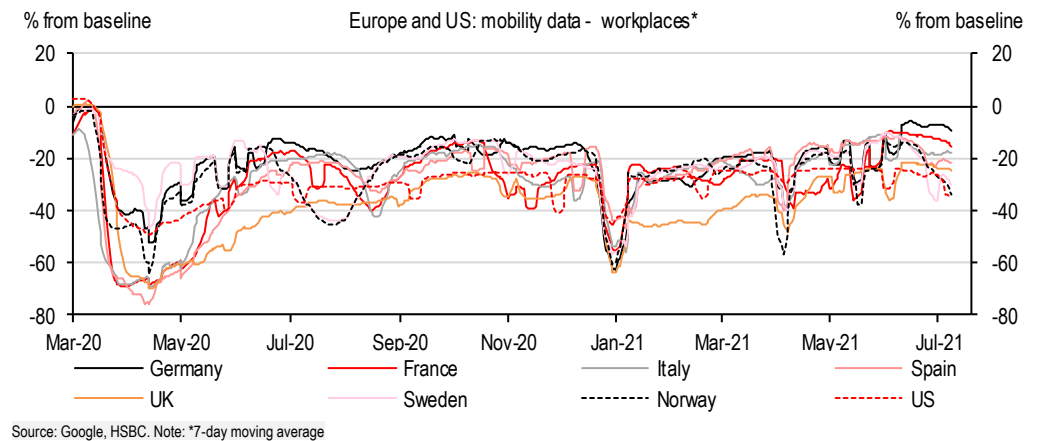
Source: Our World in Data, HSBC

## Social activity rising, but at a slower pace

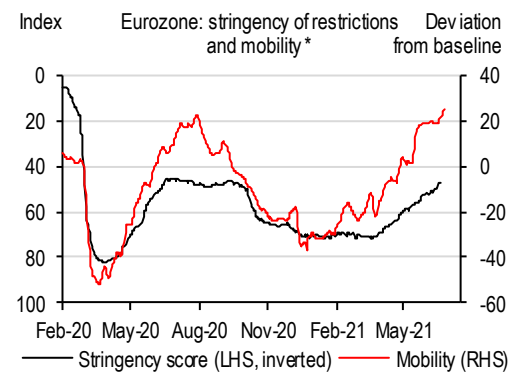
### 10. After the sharp recovery in social activity, it is now rising more slowly...



### 11. ...while mobility for work has fallen back as the holiday season begins

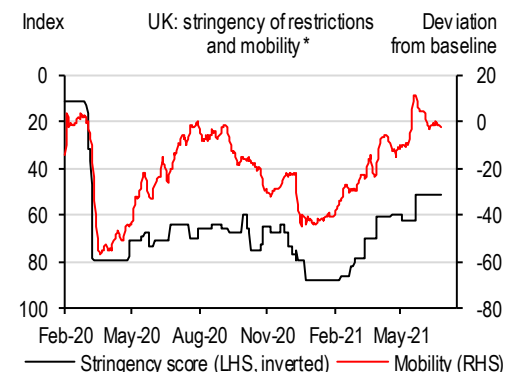


### 12. Eurozone activity levels have picked up again as restrictions continue to ease



Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC.  
Note: \*Mobility data is an average of all the components, excluding residential, 7dma

### 13. In the UK, the post lockdown activity boom abated somewhat in recent weeks



Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC.  
Note: \*Mobility data is an average of all the components, excluding residential, 7dma

## Despite rising cases, restrictions are not being tightened

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

Country	Latest lockdown measures
Germany	<p>The so-called national emergency break expired on 30 June, so that each federal state is now responsible for its own COVID-19 restrictions, as long as the number of new infections within seven days per 100 citizens remains below 100. Above this incidence level, the following rules would still apply, which were agreed by the Chancellery and the heads of federal states on 22 March:</p> <ul style="list-style-type: none"> <li>◆ Private meetings are limited to five persons (children up to 14 years are not counted) from two different households in public and private places.</li> <li>◆ When using public transport or visiting shops, masks of the "KN95 of FFP" standards must be worn. An even stricter rule applies for employees and visitors of nursing homes, who have to wear FFP-2 masks for at least as long as there is not sufficient protection through vaccination.</li> <li>◆ Non-essential private domestic travel should be generally avoided (but is not prohibited). Travellers from abroad who enter Germany from a designated COVID-19 risk area need to register before entering and have to quarantine for at least 10 days or provide a negative test result after five days at the earliest.</li> <li>◆ Entering Germany from a high-risk designated area additionally requires a negative test result.</li> </ul> <p>As of 14 July, none of the 401 districts in Germany was above the critical incidence threshold of 100 and indeed none was even above 35. As a consequence, most restrictions are now either eased (e.g. with respect to mask wearing in specific areas and regions) or completely abandoned (e.g. travel restrictions) but the specific rules differ across districts and federal states. Moreover, on 4 May, the Bundestag passed a decree that basically exempts fully vaccinated people and recovered COVID-19 patients from almost all restriction measures, such as providing an obligatory test to use certain services, and the general contact restrictions were lifted for them as well.</p>
France	<p>The government introduced strict additional restrictions at the start of the year, including a stricter curfew and travel restrictions. Full-time lockdowns (including closure of non-essential shops and services and further restrictions on domestic travel) were then put in place in 19 departments on 20 March, then extended to all metropolitan France on 3 April (with schools being closed for between three and four weeks, including the already planned spring holidays). Restrictions have started to be gradually eased since the end of April. Kindergartens and primary schools re-opened on 26 April, followed by secondary and high schools on 3 May. All restrictions on domestic travel were also lifted on 3 May. On 19 May, non-essential shops, cultural places (museums, cinemas) and the outdoor part of bars and restaurants partially re-opened, but with restrictions on capacity. Moreover, the start of the curfew was set at 9pm instead of 7pm. On 9 June, gyms and the indoor parts of bars and restaurants re-opened (at 50% of capacity). The capacity limit for the outdoor part of bars and restaurants was lifted, while the one on cinemas and theatres was raised to 65%. The start of the curfew was delayed to 11pm instead of 9pm. Rules on remote working were eased. Finally, attendance at some events of more than 1000 people (festivals, shows) was authorised with a COVID-19 health pass. Travel rules were also eased on 9 June: all fully vaccinated people from EU and from some other 'green' countries are no longer required to show a negative virus test to enter France, with only a proof of their vaccination status being sufficient. The curfew was completely lifted on 20 June and masks outdoors are no longer mandatory effective 17 June. On 30 June, most existing capacity limits (shops, restaurants, gyms, cultural venues) were lifted. Nightclubs reopened on 9 July, but with strict protocols (capacity limit of 75% indoors and a required COVID-19 health pass).</p> <p>Due to the rapid spread of the Delta variant, President Macron announced on 12 July new measures to boost vaccination numbers, including mandatory vaccination for health care workers (controls will start to be held on 15 September) and the widening of the scope of activities requiring a COVID-19 health pass (i.e. a proof of vaccination or a negative test): it will be required from 21 July for all leisure and cultural places (like museums or cinemas) and from early August for bars, restaurants, shopping malls, hospitals and some transports (trains, planes). In addition, PCR tests will no longer be free of charge from this autumn (unless obtained with a medical prescription).</p> <p>Local restrictions (including a renewed curfew) were also announced for the overseas territories of Martinique and Réunion Island. Such local restrictions could be taken in the coming weeks for departments where the incidence rate is above 200 for 100 000 people. Border controls were also strengthened for travellers from 'risk countries', with a mandatory quarantine period for people who are not vaccinated.</p>
Italy	<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). In the COVID-19 decree approved on 18 May, the government laid out a timeline for lifting restrictions at the national level for the 'yellow' regions (these do not apply to 'white' regions). Primary schools were re-opened everywhere (up to 13 years of age) while high school attendance is set at between 50% and 100%. Outdoor restaurants, cinemas and theatres and museums have already been allowed to re-open (in the case of restaurants, both for lunch and dinner). There are no more limits for the number of people in restaurants outdoors. From 22 May, shopping centres were also opened on weekends and ski resorts were allowed to re-open (although the ski season is basically over). From 24 May, gyms were allowed to re-open. and from 1 June, indoor restaurants. From 15 June, it will be the time of theme parks and museums, and from 1 July, indoor swimming pools, sport halls, trade exhibitions and congresses. Clubs will be allowed to re-open from 10 July. Home visits to relatives and friends remain permitted once a day, up to a maximum of four people (in addition to the residents). From 19 May, the curfew has been delayed from 10pm to 11pm (still until 5am). It will then be delayed further from 12pm from 7 June and will be abolished altogether on 21 June. From 28 June, wearing masks outdoors will no longer be required (it still is if there are gatherings or it is indoors, though). As for international travel, until 31 July, people arriving from the EU, the UK and Israel no longer have to quarantine, but they will be required to show a negative COVID-19 test undertaken within 48 hours before departure. With cases back on the rise, the government is currently reviewing the obligation of a five-day quarantine for those arriving from countries with high infection rates (e.g. Spain) and is looking into enforcing a fixed number of negative swab tests to remain in the "white zone". Additionally, the opening of clubs has been pushed back with no re-opening date communicated as of yet.</p>

Source: Country data, HSBC

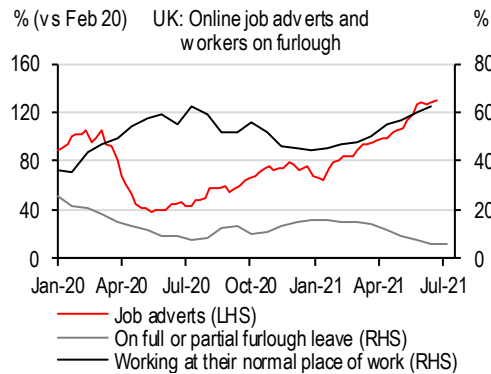
#### 14. Latest on the restrictions from the major European countries (cont'd)

Country	Latest lockdown measures
Spain	<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. The freedom to travel across regions has been re-established with no regions maintaining the external border closure in place (even though regions are still imposing travel restrictions in and out from specific areas within the regions). On Saturday 26 June, Spain also eased its face mask rules, making masks no longer necessary in outdoor settings where social distancing is observed. Some restrictions, though, remain in place at the regional level. Most regions impose limitations in terms of the maximum number of people allowed for gatherings and the opening times for restaurants and bars. Restrictions have recently been tightened in light of rising COVID-19 cases. For example, Aragon brought forward the closing time of clubs to 12:30am and Navarra to 1am. Recently joining them, Catalonia announced that all non-essential activities, including bars, must close by 12:30am and social gatherings must be capped at 10 people. Further, Valencia also approved curfews in 32 municipalities. Spain's external frontier remains open. For entry, a proof of vaccination or a negative COVID-19 test is required. Even then, the UK maintaining Spain in the 'amber' list of countries requiring quarantine upon re-entry could be a setback for the ability of Spain to attract foreign tourists.</p>
UK	<p>Having been in lockdown through the first quarter of the year, the UK economy has been re-opening in recent months. In England, schools re-opened on 8 March, rules on outdoor gatherings were relaxed on 29 March, hairdressers and outdoor hospitality re-opened on 12 April, and indoor hospitality restarted on 17 May.</p> <p>The next step for England, which would see the government removing "all legal limits on social contact", including opening nightclubs, removing social distancing requirements for hospitality and ending mandatory mask wearing, was initially planned for 21 June, but delayed for four weeks. On 12 July, Prime Minister Boris Johnson confirmed that this stage of reopening would take place on 19 July. However, from 19 July, the government will keep recommendations in place for certain containment measures, including the wearing of masks in enclosed spaces and for nightclubs to use vaccine passports. Meanwhile, Transport for London is maintaining an obligatory mask policy for its services.</p> <p>For the rest of the UK, plans for further lifting of restrictions vary by country. For most of Scotland, hairdressers and some retailers re-opened on 5 April and outdoor hospitality and gyms on 26 April with an indoor alcohol ban lifted and cinemas re-opened on 17 May. Scotland will move to a 'modified' form of 'Level 0' rules on 19 July, upping limits on social gatherings. But the 'final' easing of restrictions, akin to that set for this month in England, is targeted for 9 August. In Wales, the next stage of re-opening will take place on 17 July, also upping limits on gatherings, but the next stage, including the opening of nightclubs, will not be until 7 August. In Northern Ireland, the next stage of reopening will be on 26 July.</p> <p>International leisure travel has not been banned since 17 May with regulations on testing and quarantine requirements guided by a traffic light system with lighter restrictions for amber and green listed countries, depending on their levels of COVID-19 infection rates and variants present (UK government, 12 May 2021). Inbound arrivals will be subject to the same rules. However, Portugal was the only EU country on the green list originally, and it has now been downgraded to amber. Importantly though, the government has announced that it is working with the travel industry to enable fully vaccinated travelers from amber list countries to vaccinate without needing to quarantine.</p> <p>Entry into the UK from a 'red list' of 50 countries, including South Africa, Brazil and India, 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.</p> <p>Finally, fully vaccinated people who come into contact with people testing positive for COVID-19 will not need to isolate from 16 August.</p>

Source: Country data, HSBC

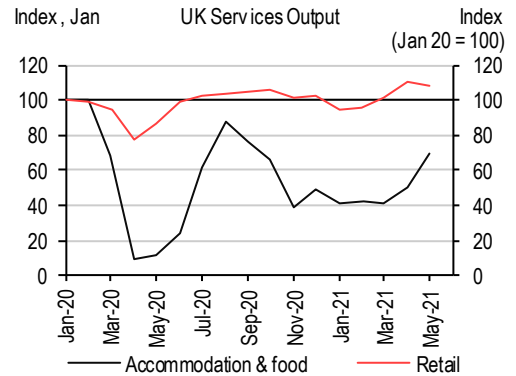
## As the UK has re-opened, inflation has risen sharply

### 15. UK job adverts remain strong as furlough scheme usage declines



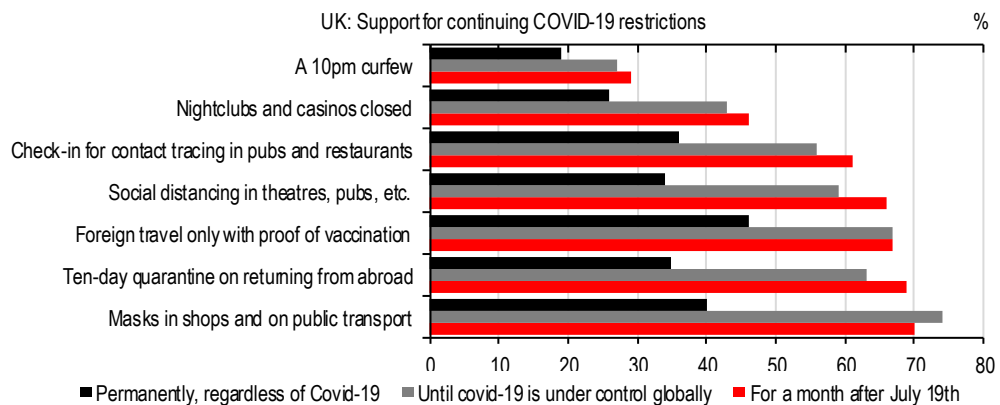
Source: The Spectator

### 16. UK GDP growth was disappointing in May, despite parts of the service sector recovering



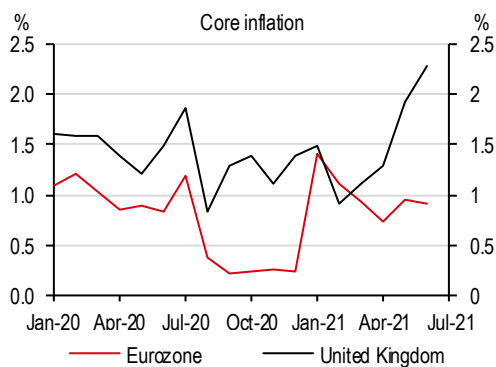
Source: Refinitiv Datastream, HSBC

### 17. A recent survey for The Economist showed significant support for maintaining key UK restrictions permanently, with nearly 20% supporting an indefinite 10pm curfew



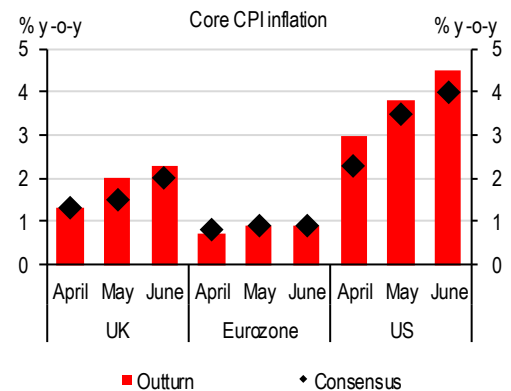
Source: Ipsos MORI

### 18. Core UK inflation reached 2.3% y-o-y in June, well above expectations



Source: Refinitiv Datastream, HSBC

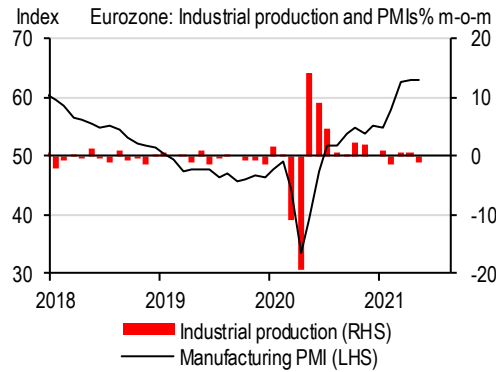
### 19. Like the US, the UK is seeing significant inflation upside surprises



Source: Refinitiv Datastream, Bloomberg, HSBC

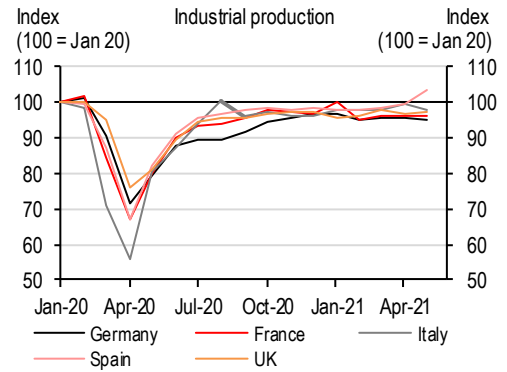
## The 'hard' industrial production data are surprisingly 'soft'

**20. Despite strong surveys, eurozone industrial production fell in May...**



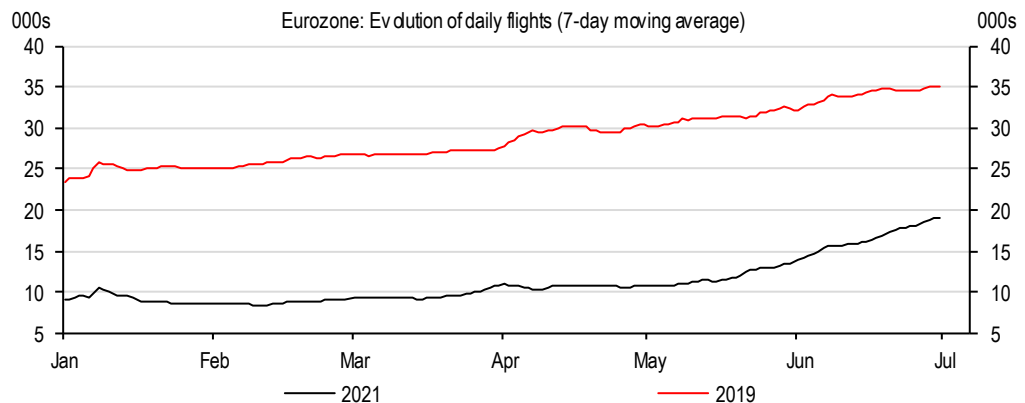
Source: Refinitiv Datastream, HSBC

**21. ...with falls in Germany, France and Italy**



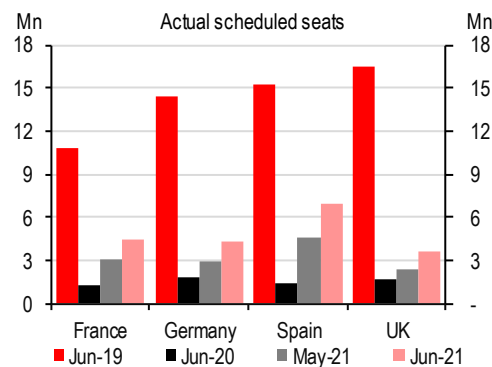
Source: Refinitiv Datastream, HSBC

**22. In a promising sign for tourism, the number of flights is rising**



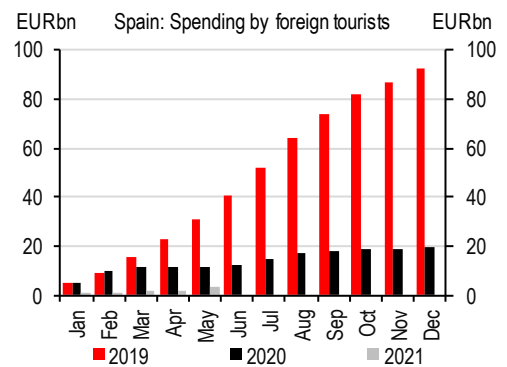
Source: Eurocontrol, HSBC

**23. While well down on 2019, the number of flight seats scheduled is up on last year...**



Source: OAG, HSBC

**24. ...but tourist spending in Spain was still well down in the year to May**

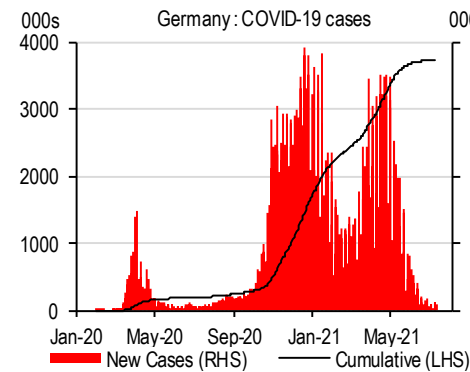


Source: INE, Egatur, HSBC



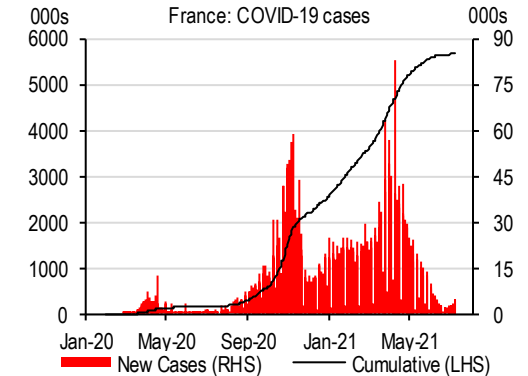
## COVID-19 in Western Europe

**25. Germany has among the lowest new infection numbers in Europe...**



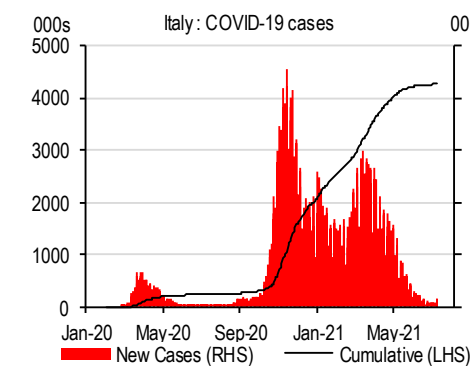
Source: Refinitiv Datastream, HSBC.

**26. ...while in France, an uptick is already visible**



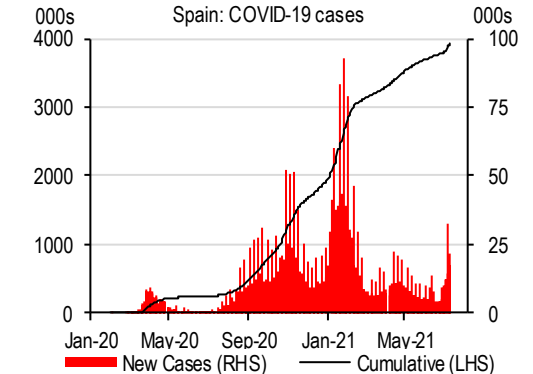
Source: Refinitiv Datastream, HSBC.

**27. In Italy, new cases remain low even though the Delta variant is spreading...**



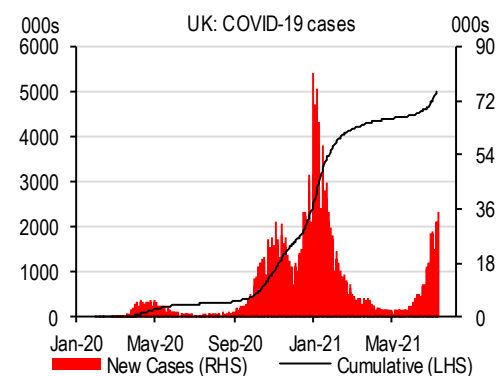
Source: Refinitiv Datastream, HSBC.

**28. ...while in Spain, new COVID-19 cases are rising rapidly**



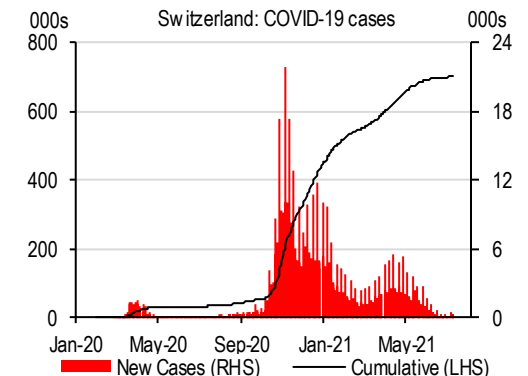
Source: Refinitiv Datastream, HSBC.

**29. The UK continues to see a rapid rise as it prepares to remove restrictions**



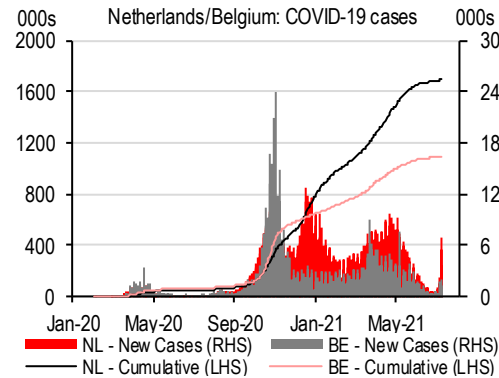
Source: Refinitiv Datastream, HSBC.

**30. For Switzerland, COVID-19 is not a major issue at the moment**



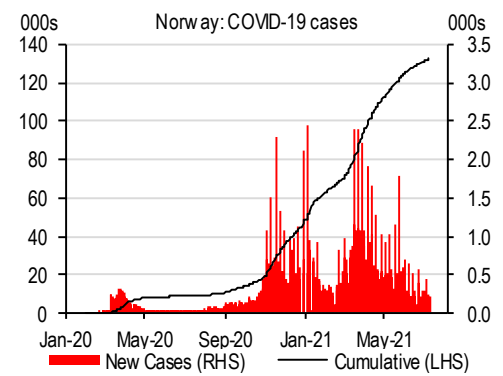
Source: Refinitiv Datastream, HSBC.

### 31. Cases in Belgium and the Netherlands are starting to rise significantly again...



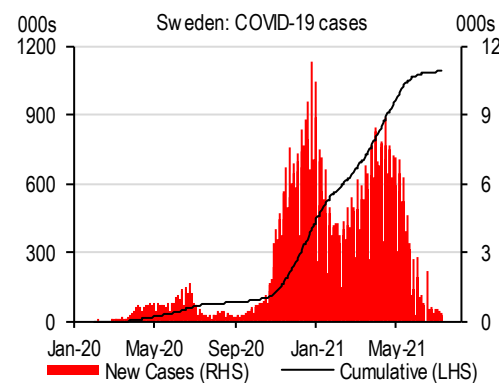
Source: Refinitiv Datastream, HSBC.

### 32. ...while cases are still low in Norway



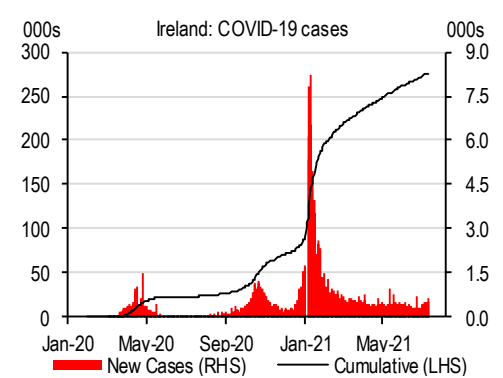
Source: Refinitiv Datastream, HSBC.

### 33. In Sweden there is no clear indication of an uptick in case numbers



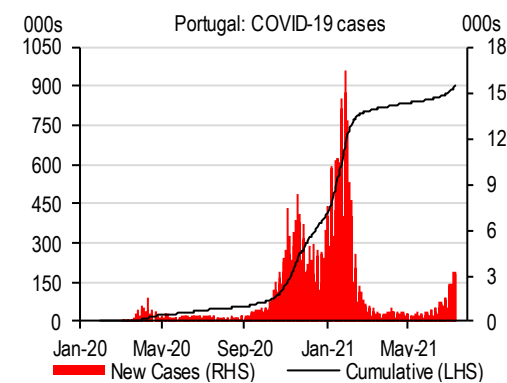
Source: Refinitiv Datastream, HSBC.

### 34. Ireland has a low but rising rate of new infections



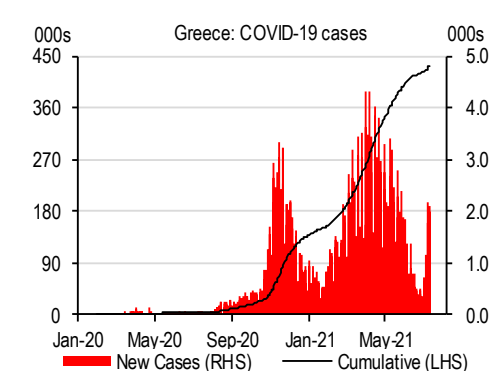
Source: Refinitiv Datastream, HSBC.

### 35. Portugal meanwhile has seen the new caseload increase recently...



Source: Refinitiv Datastream, HSBC.

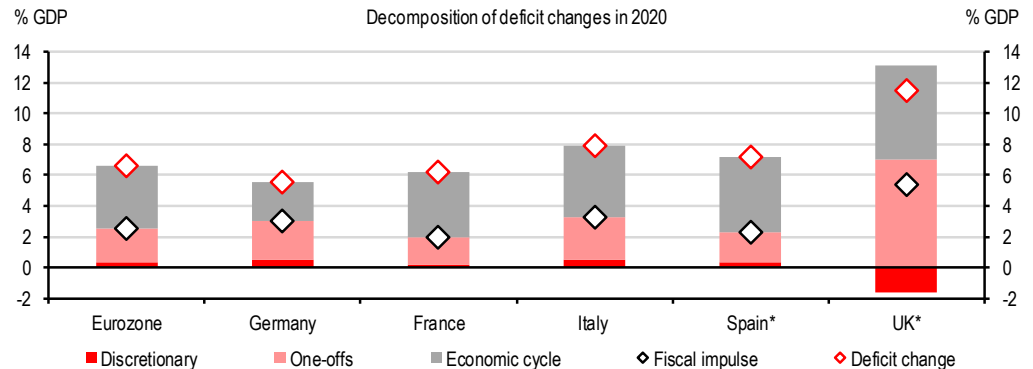
### 36. ...and more recently cases have started to rise in Greece as well



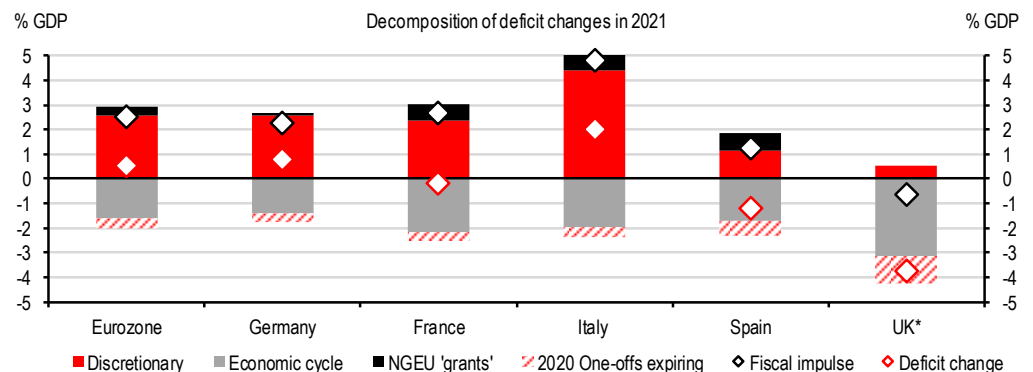
Source: Refinitiv Datastream, HSBC.

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

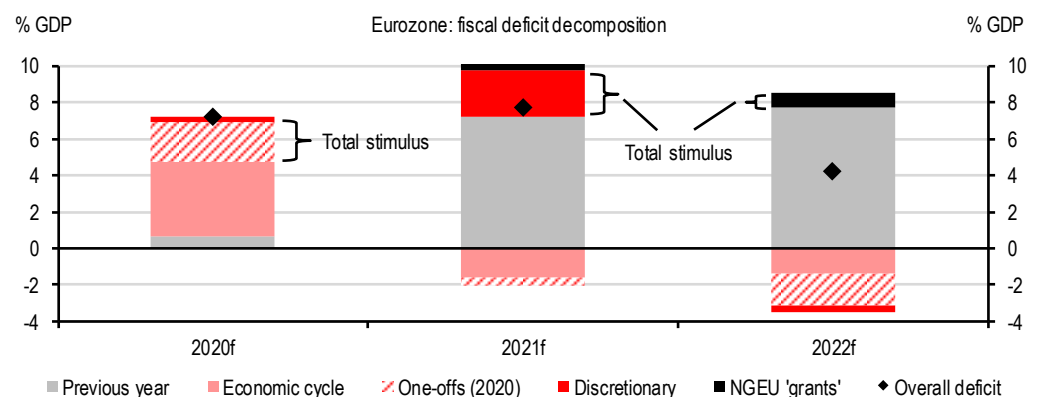
**37. Fiscal policy was highly supportive of growth last year even if a significant chunk of support did not make it into the economy due to restrictions and was actually saved**



**38. After the latest significant upward revisions of this year's deficit targets by most eurozone countries, fiscal policy could be even more supportive of growth this year**



**39. Fiscal policy should remain expansive in 2022 in the eurozone thanks to the Next Generation EU fund, while Brussels has said that EU fiscal rules will remain suspended**



# Disclosure appendix

## Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Simon Wells

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