

Europe COVID-19 tracker

Delta wave spreads; UK presses ahead

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Economics - Europe

- ◆ The UK is preparing to lift most restrictions on 19 July...
- ◆ ...but concerns persist regarding the Delta variant, as vaccination rates among the elderly still lag on the continent
- ◆ The hard data are still lagging surveys, but improving labour markets, confidence and tourism bode well for the recovery

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UK re-opens, but Delta variant concerns persist on the continent

COVID-19 cases are on the rise across Europe, particularly in the Iberian Peninsula and the UK, as the Delta variant continues to spread (charts 1-7). The Italian Health Minister expects the Delta variant to account for 90% of cases before September. UK Health Secretary Sajid Javid warned that new cases could top 100,000 a day in August (BBC, 6 July). Even then, with more than 90% of those aged 70 and older fully vaccinated (as of 6 July), the UK PM announced on 6 July that the country remains on track for the removal of most remaining COVID-19-related restrictions on 19 July.

Otherwise, relatively lower vaccination rates among the elderly in countries such as Italy and France (charts 23-24) seem to be stoking some of the worry about the Delta variant's spread. The Italian government is chasing more than 2m people over the age of 60 that still have not had their first vaccine shot (Corriere della Sera, 2 July), while some unvaccinated healthcare workers have been suspended. Germany is also considering making vaccination mandatory for health workers.

Mind the gap, tourists return

The final June PMIs confirmed the strong flash reading, with an upward revision to the eurozone services print and a particularly strong release in Spain (62.5). While the manufacturing PMIs held up well, the hard data are struggling to follow, particularly in Germany and France. In the former, industrial production (IP) took another dip in May (-0.3% m-o-m) and remains some 5% below its pre-pandemic levels, with construction the only bright spot. Industrial orders dropped 3.7% m-o-m in May, even though that might not necessarily be bad news for firms given the work backlogs. France also saw another drop in IP in May (-0.3% m-o-m), driven by the fourth consecutive large drop in car production (-7.9% m-o-m). Ireland (+4.6% m-o-m) might save the day for the eurozone, though.

On the bright side, consumer confidence keeps rising as unemployment fears fade, and retail sales bounced back in May (+4.4% m-o-m). The labour market remains supportive, with June being exceptionally strong in Spain (chart 25). This bodes well for demand recovery prospects, considering also the return of tourists. Italy's Tourism Minister said the sector was heading for a "sold out" summer (AGI, 1 July) and France is seeing more reservations even relative to 2019, with domestic tourists compensating for fewer foreign ones (La Tribune, 5 July). Countries more reliant on foreign tourists might face bigger difficulties, as travel across Europe is still limited. Investor confidence remains high, with inflation pressures seen as temporary. The European Commission revised up its eurozone growth forecasts for 2021 to 4.8% and 2022 to 4.5%, from 4.3% and 4.4%, respectively, but only nudged its 2022 inflation forecast up 0.1ppt, to 1.4%.

This is an abridged version of a report of the same title published on 7 July 2021. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Disclosures & Disclaimer

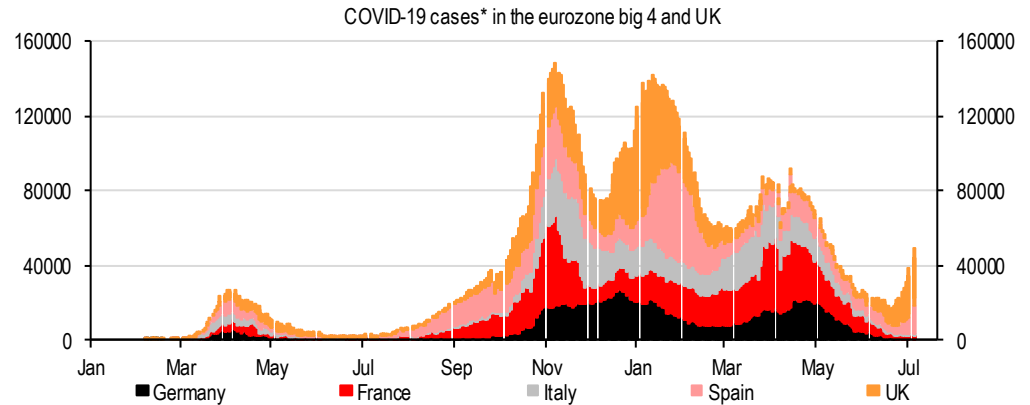
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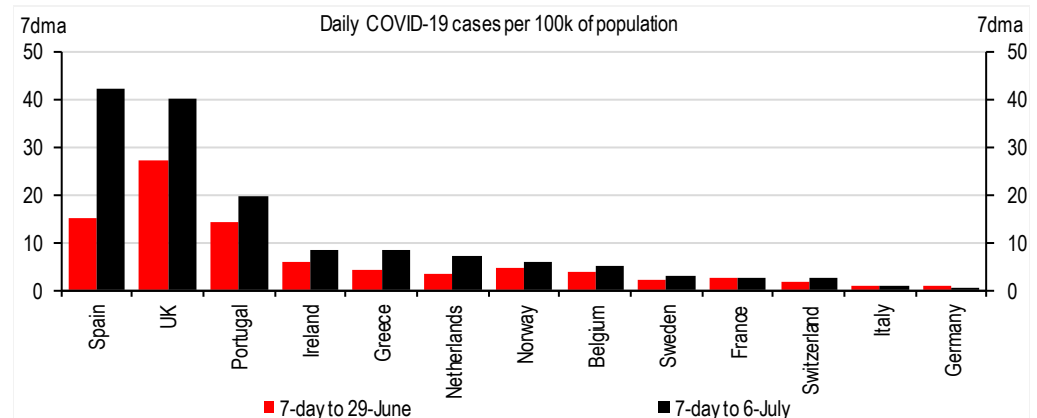
First signs of the Delta variant effect detectable on the continent

1. New infection numbers in the UK are now back on the rise in Europe



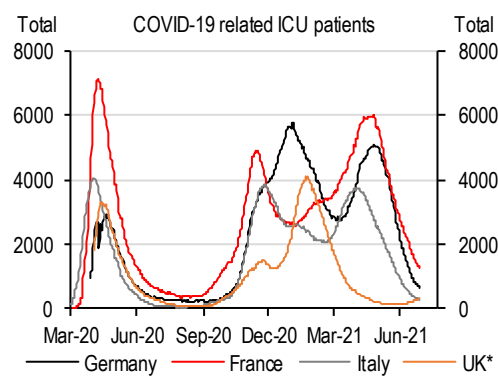
Source: Refinitiv Datastream, HSBC. Notes: *7-day moving average.

2. Most countries have reported a higher caseload this week than in the previous one



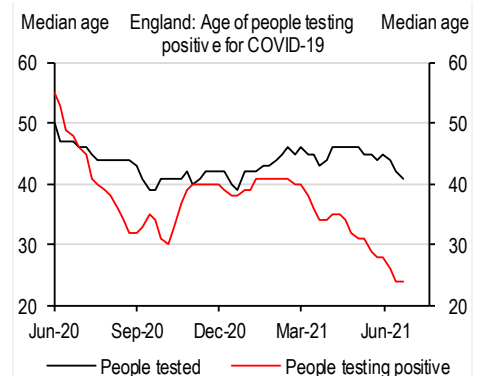
Source: Refinitiv Datastream, HSBC. Note: Weekend numbers are reported as 0, so "7-days to" does not include Saturday and Sunday.

3. ICU numbers have started to tick up in the UK but remain very low...



Source: Macrobond, HSBC. *Medically ventilated

4. ...as the age of people testing positive to COVID-19 has fallen dramatically

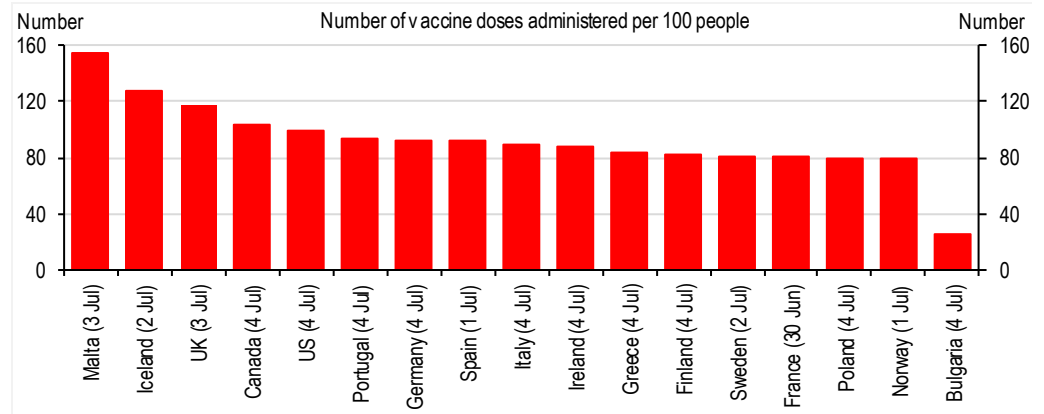


Source: The Spectator, Wellcome Sanger Institute, HSBC

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

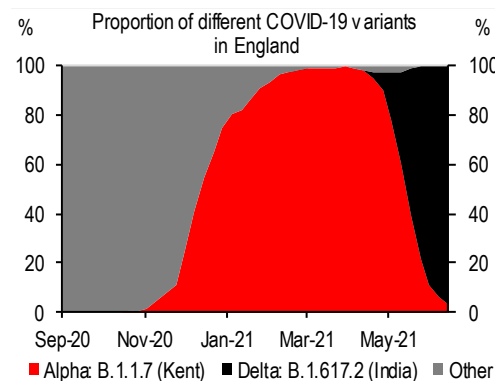
Can vaccination progress outrun the Delta variant?

5. Progress on vaccinations is fairly consistent across the continent, even though it is still lagging the UK in most EU countries



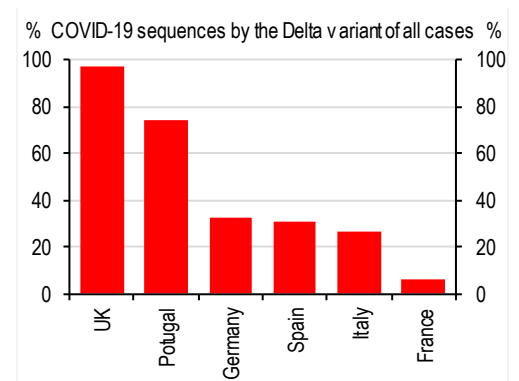
Source: Our World in Data, HSBC

6. The Delta variant is predominant in the UK...



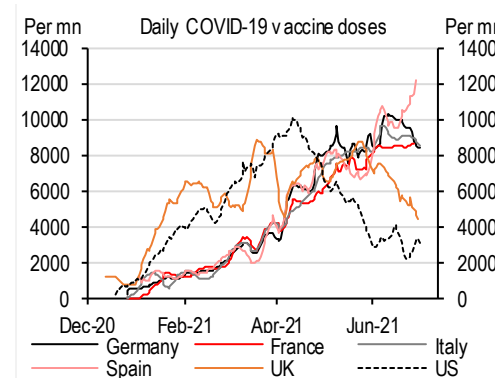
Source: The Spectator, Wellcome Sanger Institute, HSBC

7. ...and is becoming more widespread on the continent



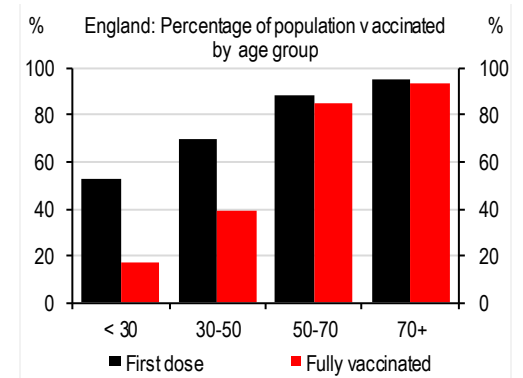
Source: Our World in Data, HSBC

8. The pace of vaccinations has started to ease in some countries



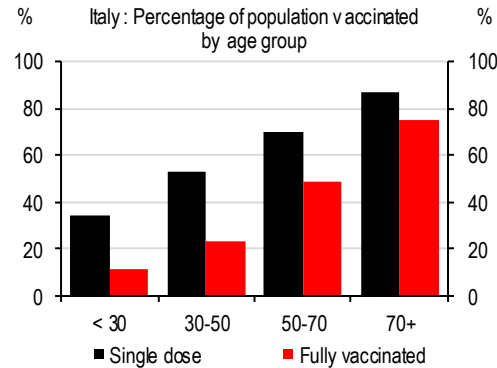
Source: NHS

9. Most elderly people are now fully vaccinated in the UK



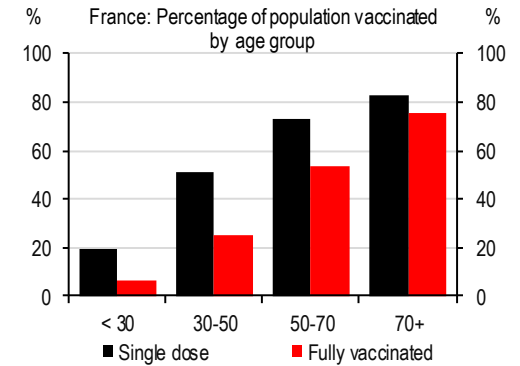
Source: NHS, HSBC

10. In Italy, less than half of the people in the 50-70 age bracket are vaccinated...



Source: Italian Government, HSBC

11. ...and also in France, there is still a way to go to give the elderly full protection



Source: French Ministry of Health, HSBC

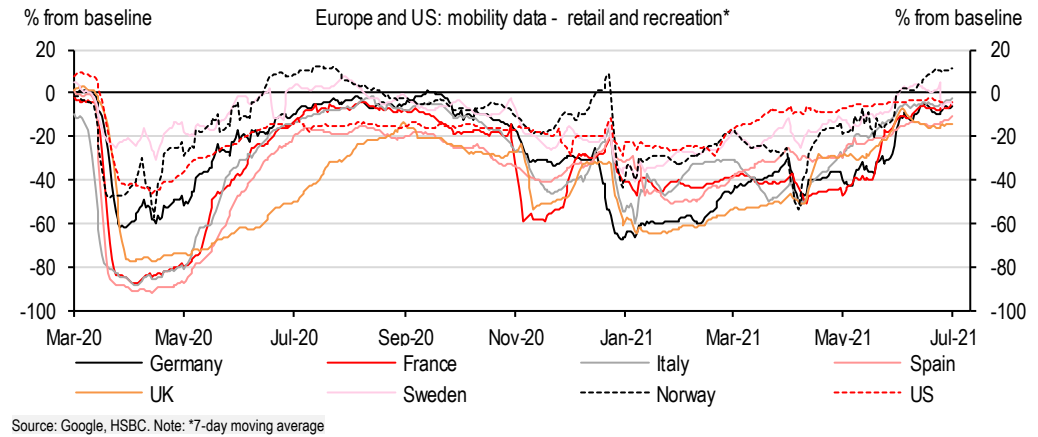
12. The slowdown in vaccination rates does not seem to be related to vaccine supply issues

EC			
Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	Up to 400m	Adenovirus	70.4%
BioNTech/Pfizer	Up to 604m + 1.8bn**	mRNA	95%
CureVac	Up to 405m	mRNA	TBD
GSK/Sanofi	Up to 300m	Protein adjuvant	TBD
Janssen/JNJ	Up to 400m	Adenovirus	66%
Moderna	Up to 460m	mRNA	95.6%
Germany			
Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	56m	Adenovirus	70.4%
BioNTech/Pfizer	30m + 64m from EC = 94m	mRNA	95%
CureVac	20m + 54m from EC	mRNA	-
GSK/Sanofi	55m	Protein adjuvant	TBD
Janssen/JNJ	37m	Adenovirus	66%
Moderna	50m	mRNA	95.6%
France			
Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	Up to 60m from EC	Adenovirus	70.4%
BioNTech/Pfizer	Up to 91m from EC	mRNA	95%
Moderna	Up to 69m from EC	mRNA	95.6%
CureVac	Up to 45m from EC	mRNA	TBD
GSK/Sanofi	Up to 24m from EC	Protein adjuvant	TBD
Janssen/JNJ	Up to 35m from EC	Adenovirus	66%
Italy			
Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	16m from EC	Adenovirus	70.4%
BioNTech/Pfizer	40.5m from EC	mRNA	95%
Various providers	70m	-	-
Spain			
Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	31.5m from EC	Adenovirus	70.4%
BioNTech/Pfizer	20m + 94m** from EC	mRNA	95%
Janssen/JNJ	20m	Adenovirus	66%
UK			
Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	100m	Adenovirus	70.4%
BioNTech/Pfizer	100m	mRNA	95%
GSK/Sanofi	60m	Protein adjuvant	TBD
Janssen/JNJ	30m	Adenovirus	66%
Moderna	17m	mRNA	95.6%
Novavax	60m	Protein adjuvant	89%
Valneva	60m	Inactivated whole virus	TBD

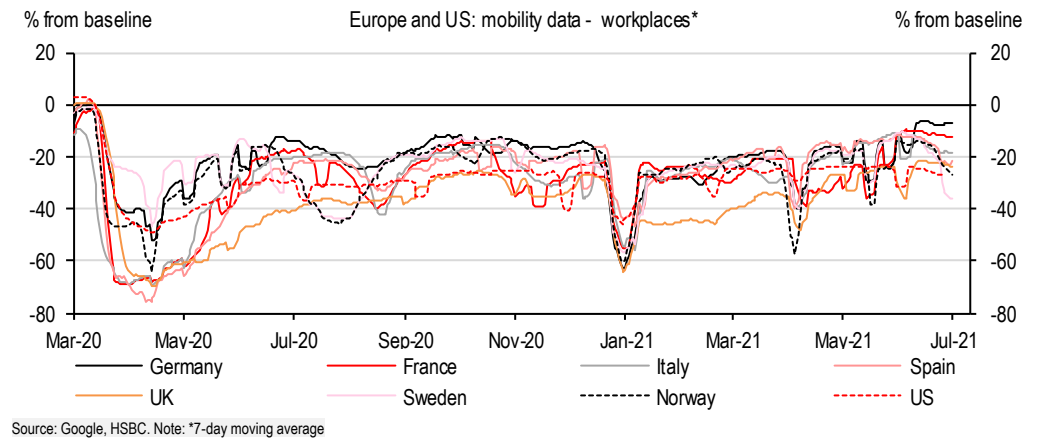
Source: AstraZeneca, BioNTech, CureVac, GSK, Janssen, Moderna, Novavax, IDT Biologika, Valneva, HSBC. Note: *Maximum reported. **Between end-2021 and 2023

Recovery in activity taking a breather

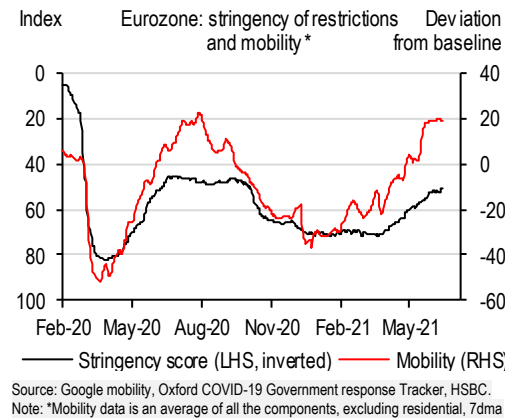
13. After the sharp recovery in mobility when the bulk of restrictions were lifted between April and May, activity rates have been moving sideways more recently...



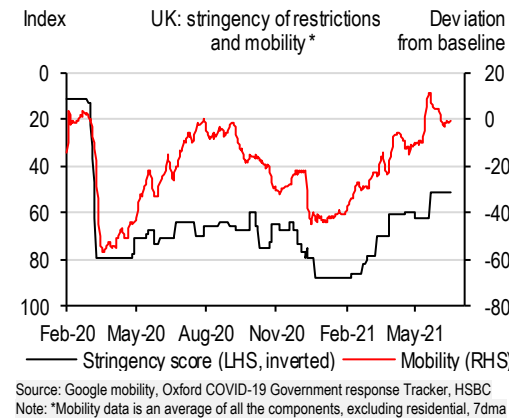
14. ...while remote working still seems to be keeping workers at home



15. Activity levels have plateaued in the eurozone also, as some restrictions remain



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



Gearing up for a relatively restriction-free summer

17. 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"> ◆ Private meetings are limited to five persons (children up to 14 years are not counted) from two different households in public and private places. ◆ 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. ◆ 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. ◆ Entering Germany from a high-risk designated area additionally requires a negative test result. <p>As of 7 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) or completely abandoned (like travel restrictions and private meetings in public) but the specific rules differ across regions 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. On 20 March, full-time local lockdowns were put in place in 19 departments (covering all the Paris region). The restriction measures in confined departments include the closure of non-essential shops and services, limitations of travel to within 10km from homes and a ban on interregional travel. On 31 March, President Macron announced an extension of these rules to all metropolitan France from 3 April in the evening. In addition, schools were closed for between three and four weeks, including the already planned two-week-long spring holidays.</p> <p>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.</p> <p>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.</p> <p>The curfew was completely lifted on 20 June and masks outdoors are no longer mandatory effective 17 June.</p> <p>On 30 June, most existing capacity limits (shops, restaurants, gyms, cultural venues) were lifted. The only exception is for indoor concerts and festivals, where a capacity limit of 75% is maintained. Nightclubs will re-open on 9 July, but with strict protocols (capacity limit of 75% indoors and a required COVID-19 health pass).</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 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.</p>

Source: Country data, HSBC

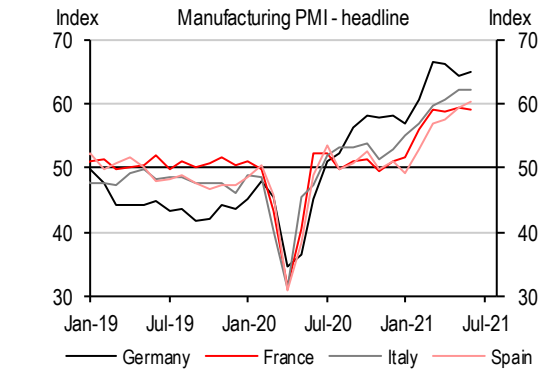
17. Latest on the restrictions from the major European countries (cont'd)

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. Catalonia took a significant step back relative to previous provisions and has now announced that only outdoors club can be open and not indoor ones, and only until 3am. 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 5 July, Prime Minister Boris Johnson confirmed plans to move ahead with this stage of re-opening in England on 19 July.</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. In Scotland, it is hoped that all regions will move to '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 has been delayed from 21 June, with First Minister Mark Drakeford announcing that further guidance is expected next week. In Northern Ireland, remaining regulations will be reviewed on 8 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. The next review will take place by 28 June. Importantly though, the government has announced that it is working with the travel industry to enable fully vaccinated travellers 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, it was also announced this week that fully vaccinated people who come into contact with people testing positive for COVID-19 will not need to isolate from 16 August.</p>

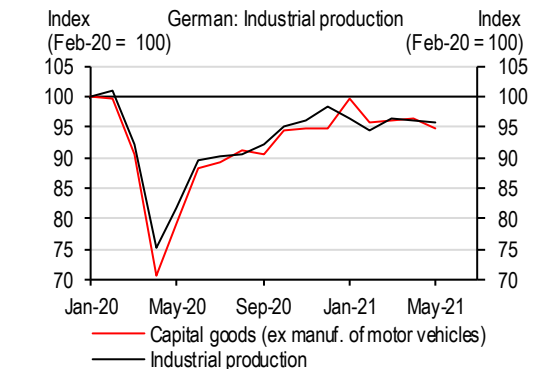
Source: Country data, HSBC

Widening disconnect between soft and hard data

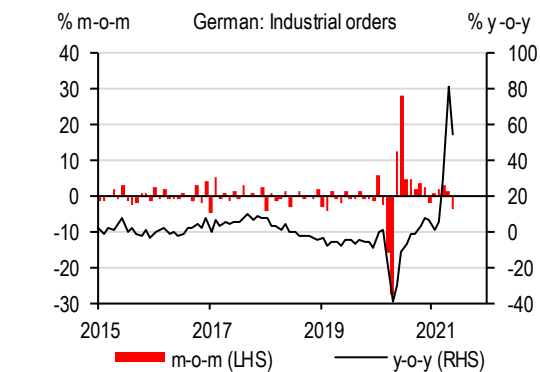
18. The manufacturing PMIs remained surprisingly strong in July...



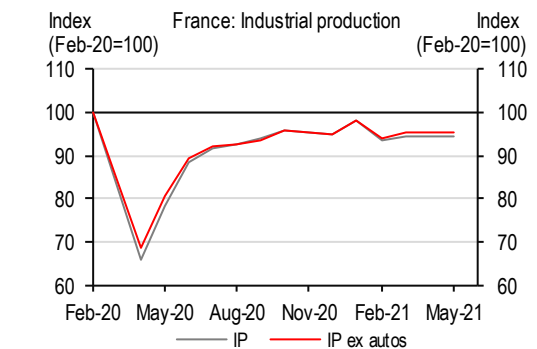
19. ...but production continued to disappoint in Germany in May...



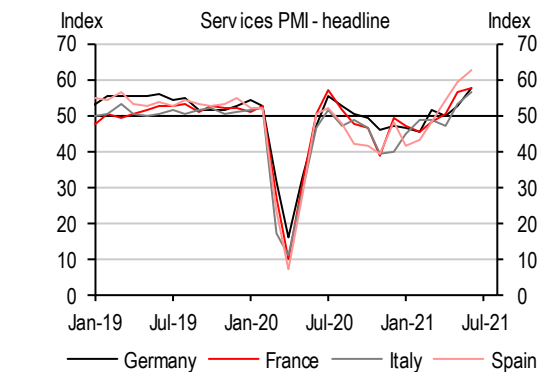
20. ...while industrial orders took an even bigger dip even if following a surge in previous months



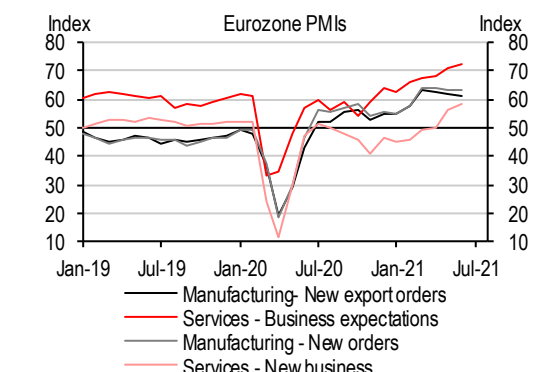
21. The manufacturing recovery also seems to have come to a halt in France, dragged by cars



22. The services PMIs soared in June as more restrictions were lifted, and particularly in Spain

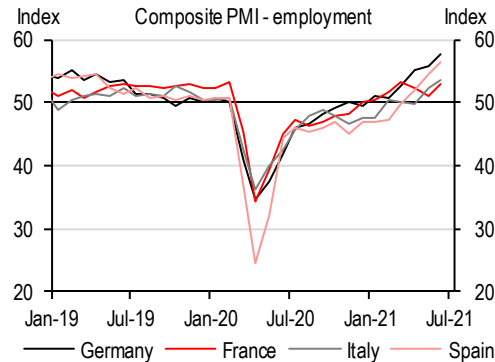


23. Forward-looking indicators are still pointing upwards particularly for services



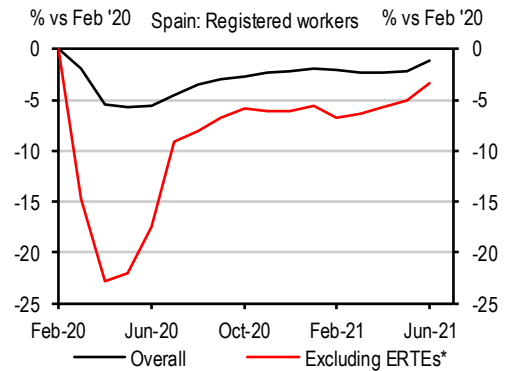
Consumer confidence and labour market still supportive

24. The employment component of the PMIs is looking better and better across the eurozone



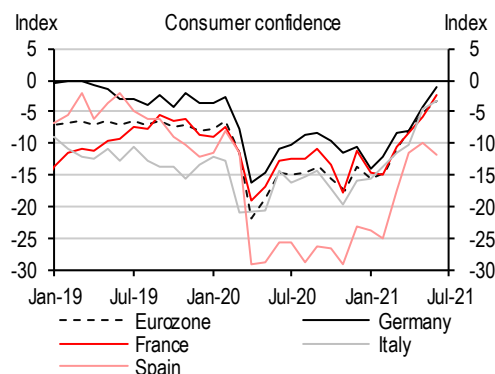
Source: Refinitiv Datastream, HSBC

25. June was a really good month for the labour market in Spain



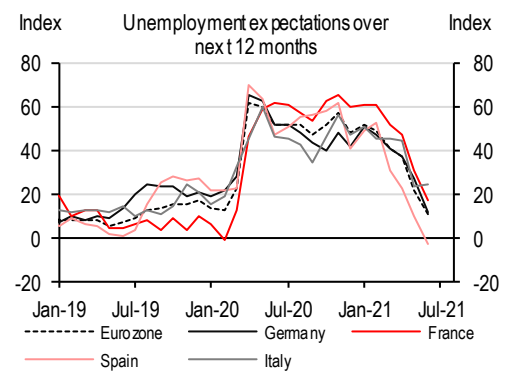
Source: HSBC calculations based on Spain Ministry of Labour. Notes: * Short-time work.

26. Consumer confidence keeps improving in the eurozone, outside Spain...



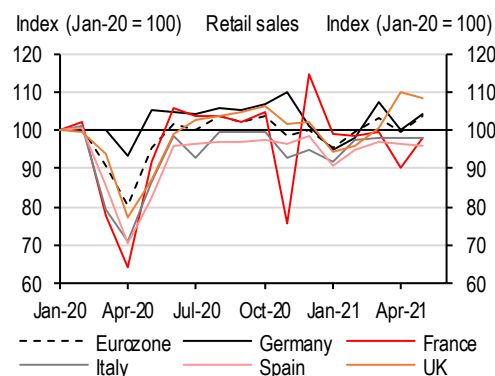
Source: Refinitiv Datastream, HSBC

27. ...as unemployment fears keep falling, most notably in Spain given the healthy labour market



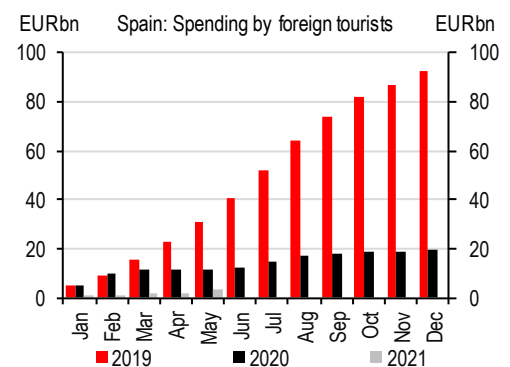
Source: Refinitiv Datastream, HSBC

28. Retail sales have seen hefty gains in most countries in May



Source: Refinitiv Datastream, HSBC

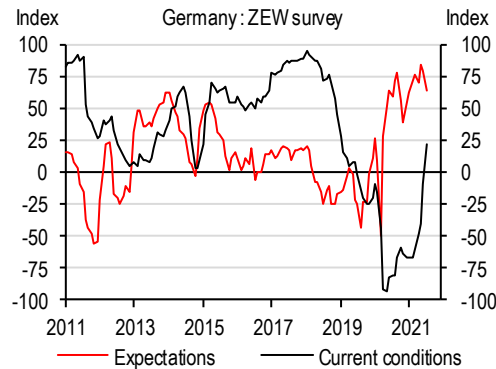
29. Some tourists have started to come back to Spain in May and June should have been better



Source: INE, Egatur, HSBC

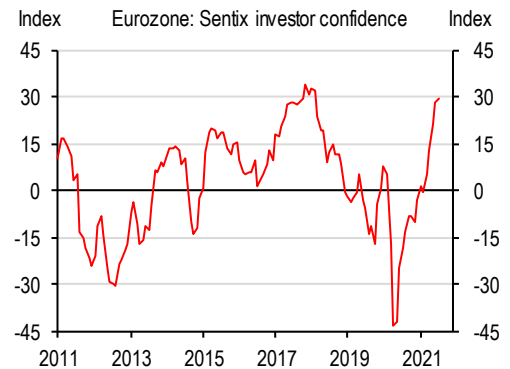
Investor confidence remains high despite inflation concerns

30. The current conditions component of the ZEW had another record-high rise in July



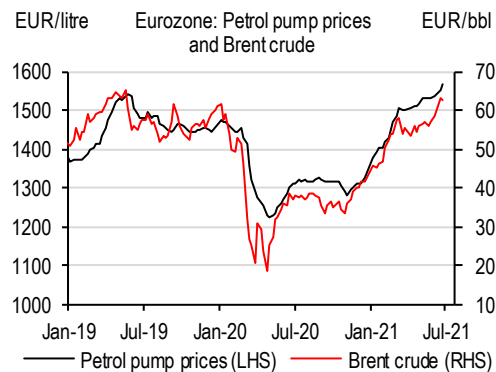
Source: Bloomberg, HSBC

31. The eurozone Sentix index of investor confidence is now well above pre-crisis levels



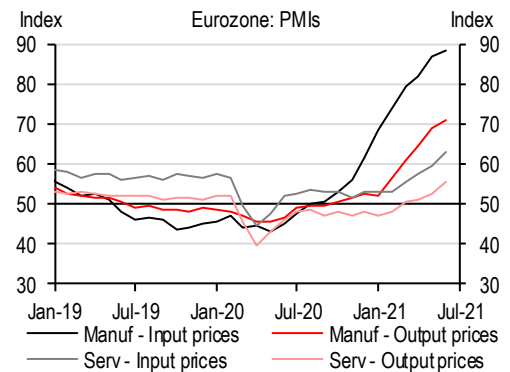
Source: Bloomberg, HSBC

32. The oil price keeps rising which should add near-term pressures to inflation



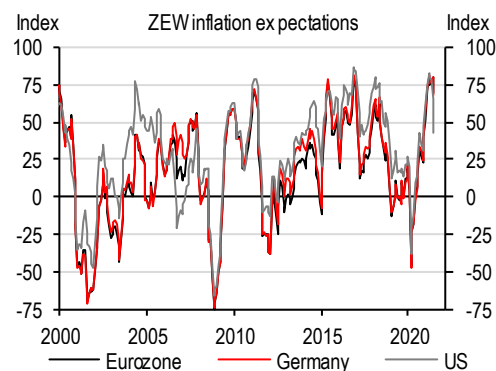
Source: European Commission, Refinitiv Datastream, HSBC

33. The latest PMIs point to fast rising output prices as well as input prices



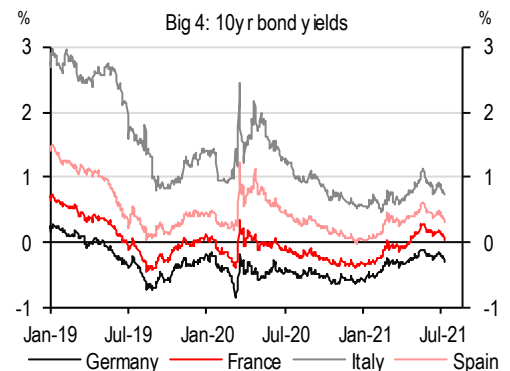
Source: Refinitiv Datastream, HSBC

34. Investors are still relatively unfazed by the medium-term inflation risks...



Source: Macrobond, ECB

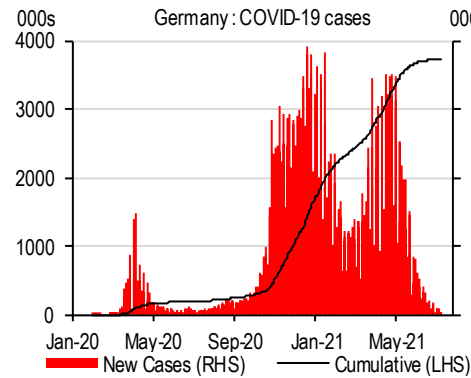
35. ...which together with rising cases has helped keep government bond yields down



Source: Bloomberg, HSBC

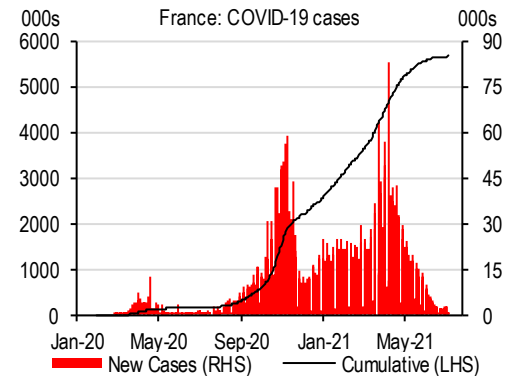
COVID-19 in Western Europe

36. Germany now has the lowest new infection number in Europe...



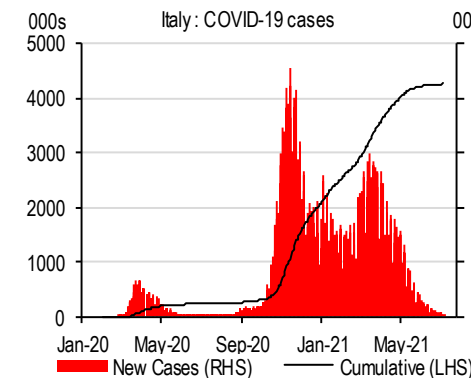
Source: Refinitiv Datastream, HSBC.

37. ...while in France, a small uptick is already visible



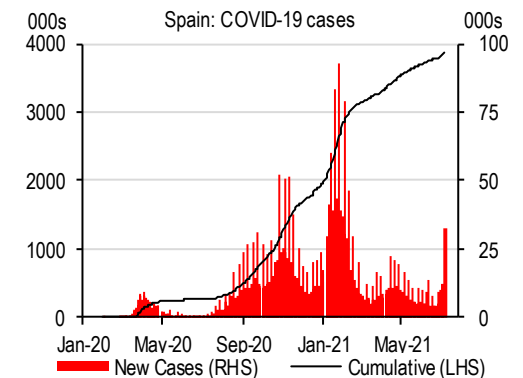
Source: Refinitiv Datastream, HSBC.

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



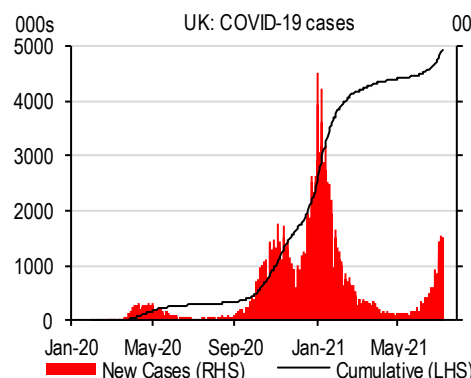
Source: Refinitiv Datastream, HSBC.

39. ...while in Spain, new COVID-19 cases have jumped markedly



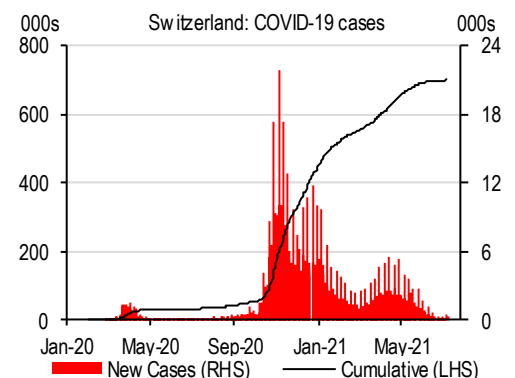
Source: Refinitiv Datastream, HSBC.

40. In the UK the increase in case numbers is exponential again



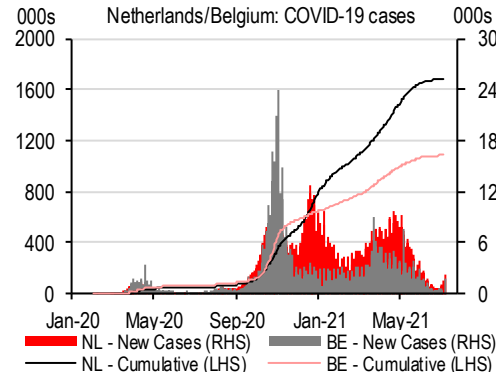
Source: Refinitiv Datastream, HSBC.

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



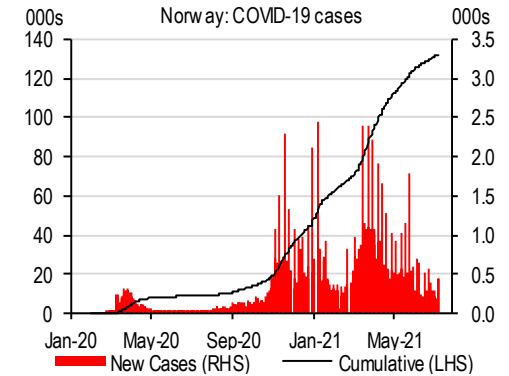
Source: Refinitiv Datastream, HSBC.

42. Cases in Belgium and the Netherlands are starting to creep up again...



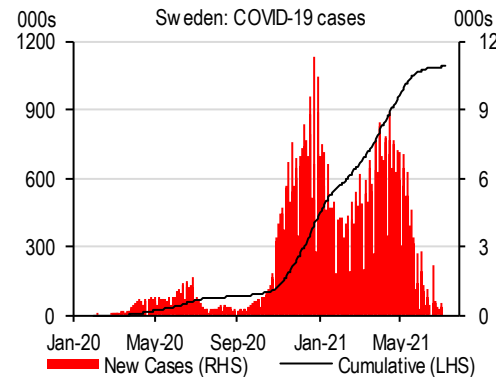
Source: Refinitiv Datastream, HSBC.

43. ...while cases are still low in Norway



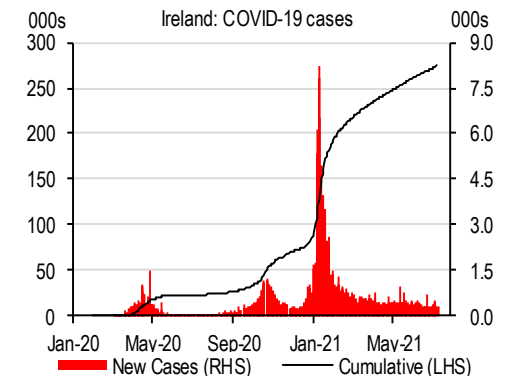
Source: Refinitiv Datastream, HSBC.

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



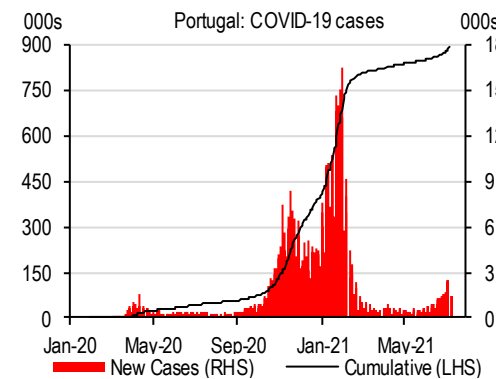
Source: Refinitiv Datastream, HSBC.

45. Ireland has a constant and comparably low rate of new infections



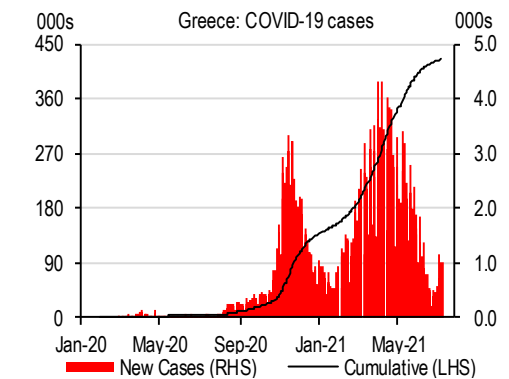
Source: Refinitiv Datastream, HSBC.

46. Portugal meanwhile has seen the new caseload increase recently...



Source: Refinitiv Datastream, HSBC.

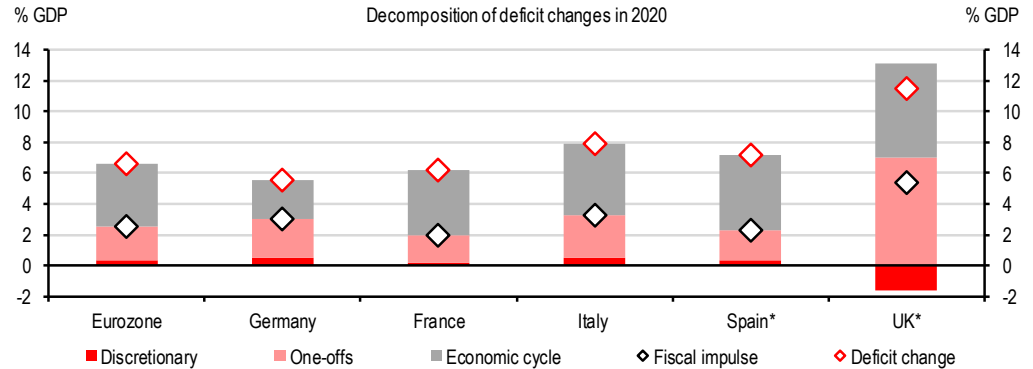
47. ...and more recently cases have started to creep up in Greece as well



Source: Refinitiv Datastream, HSBC.

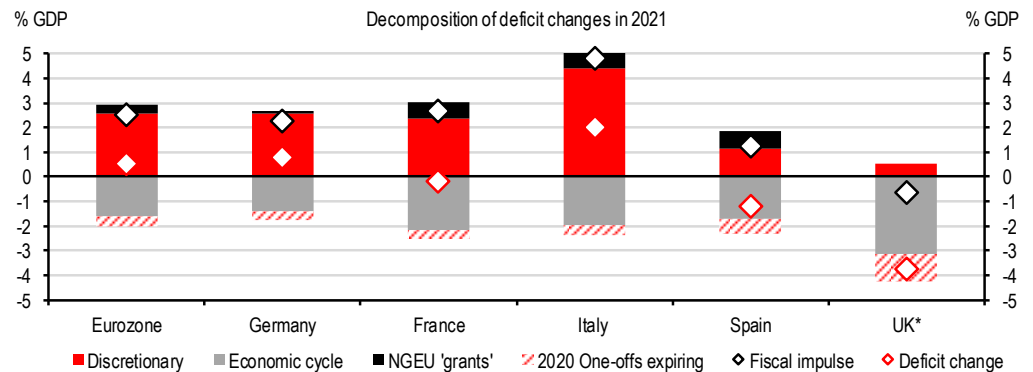
Fiscal measures (in the Big 4 eurozone countries and the UK)

48. 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



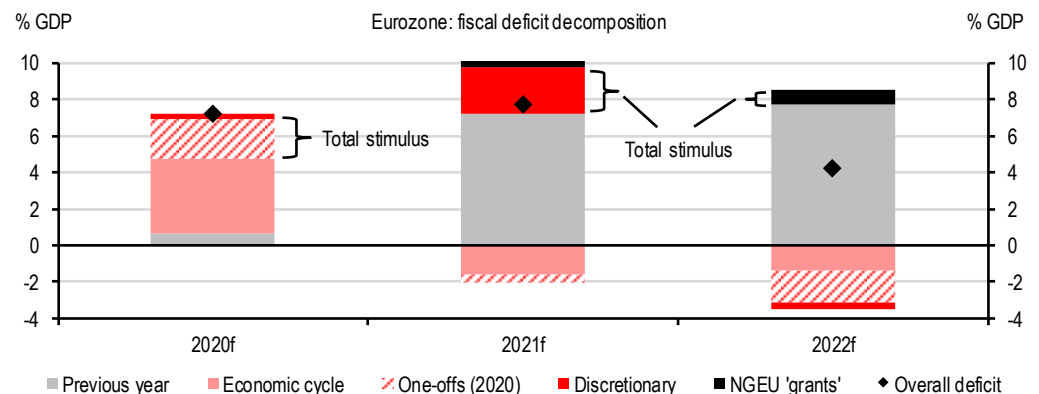
Source: HSBC calculations based on national statistical institutes, Eurostat and European Commission, 2020 budgets and amendments. Notes: * Refers to fiscal year 2020/21. **Discounting the impact (0.9% of GDP) of the incorporation of 'Sareb' under the public sector. The 'Economic Cycle' component for 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. For the UK, it includes the Job Retention Scheme (JRS).

49. 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



Source: HSBC calculations based on national statistical institutes, Eurostat and European Commission, 2020 budgets and amendments. Notes: * Refers to fiscal year 2020/21. 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. For the UK, it includes the Job Retention Scheme (JRS).

50. 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



Source: HSBC calculations based on national statistical institutes, Eurostat and European Commission, 2020 budgets and amendments. Note: 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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