

Europe COVID-19 tracker

Rising worries on the Delta wave

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Economics - Europe

- ◆ Cases are rising rapidly in many European countries with a reproduction rate even higher than in previous waves
- ◆ Pressure on hospitals remains low thanks to vaccinations, but recent signs of slowing vaccine rollout are a source of concern
- ◆ Renewed local restrictions in some countries and early signs of impact on bookings point to risks on the tourism recovery

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Europe is now firmly in the grip of a new COVID-19 wave

There have been no signs of relief on the front of infection rates over the past week. New cases have continued to accelerate sharply in many countries, in particular in the UK, Spain and the Netherlands (charts 1 and 2). In other countries like France and Italy, case numbers are firmly on the rise, even if they remain low. But the effective reproduction rate has jumped to an even higher level than for previous waves, confirming that the Delta variant is more contagious than other virus strains (chart 3). This suggests that in terms of case numbers, the current wave has the potential to be stronger than previous ones.

Vaccination is a key difference, but uncertainties remain

On a more positive note, hospital admissions have remained low, even if they have edged up a bit in the UK (chart 4). The decoupling between cases and hospitalisation numbers reflects the positive role played by vaccination as infections have been concentrated among young people. This situation explains why the UK government went ahead with the end of all legal limits on social activity in England on 19 July.

However, a non-negligible share of the European population is still not vaccinated, including some of the most vulnerable people. Therefore, the risk of renewed pressure on hospital capacity cannot be ruled out. With the pace of vaccination generally slowing in Europe (chart 7), some countries could be willing to follow the example of France, which is set to buck the trend. Indeed, measures taken last week to incentivise vaccination (mandatory vaccination for health care workers and wider use of the COVID-19 health pass to access some venues) have led to a sharp rise in appointments (chart 8). Studies pointing to waning vaccine protection over time (chart 9) are also a source of concern as they suggest that vaccine boosters could be needed.

Rising downside risks on economic activity

The current COVID-19 wave could derail the tourism recovery that was firmly underway until recently (charts 16 and 17). Indeed, in some popular destination countries, new restrictions have been imposed locally, like a 1-6am curfew in Catalonia and in the island of Mykonos. In Italy, the Italian tourism association reported a 50% drop in bookings (both in Italy and abroad) last week, relative to the previous one (La Repubblica, 18 July).

Countries less dependent on foreign tourists should fare better, but economic activity could still be impacted by the current wave. For example, in the UK, polls suggest that people are not comfortable to return to some venues in spite of the end of legal restrictions (Chart 14). The recent rise in the number of people forced to self-isolate (Chart 13) and of children absent of schools for COVID-19 reasons (14% on 15 July, according to government figures) should also be a drag on the recovery in the near term.

This is an abridged version of a report of the same title published on 21 July 2021. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Disclosures & Disclaimer

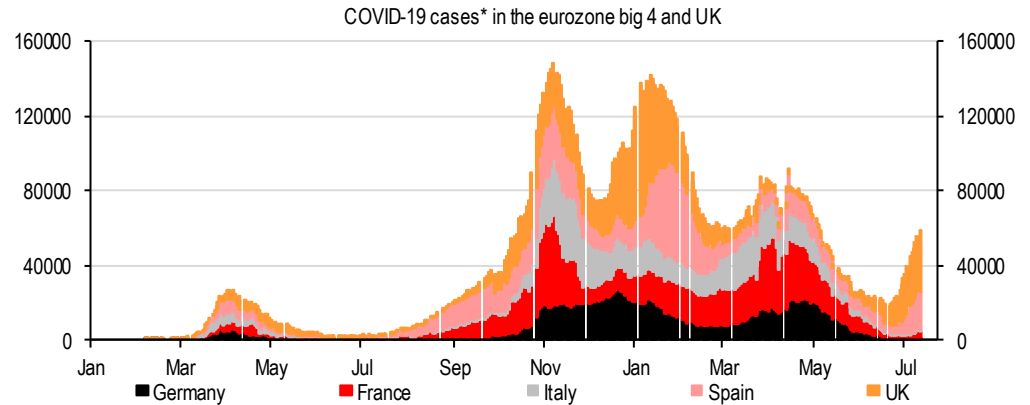
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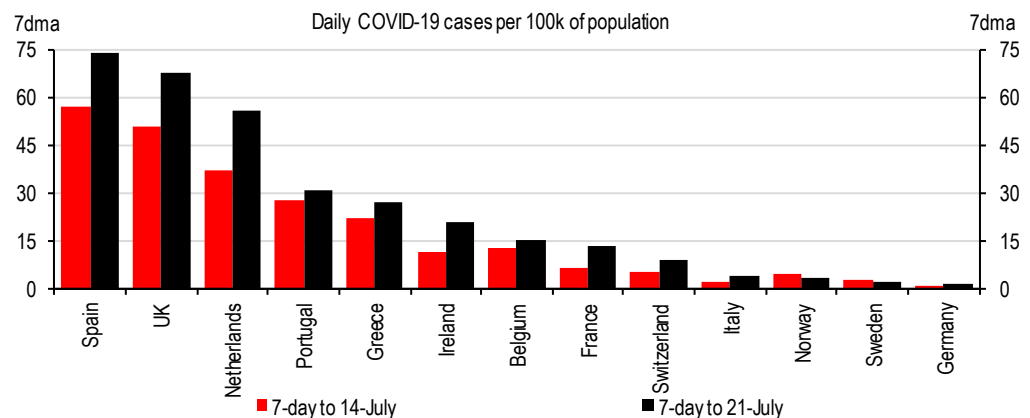
Cases are still rising rapidly, but hospitalisation rates remain low

1. Case numbers are firmly on the rise in Europe...



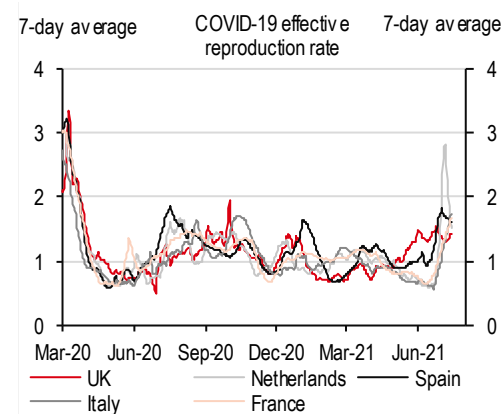
Source: Refinitiv Datastream, HSBC. Notes: *7-day moving average.

2. ...in particular in Spain, the UK and the Netherlands



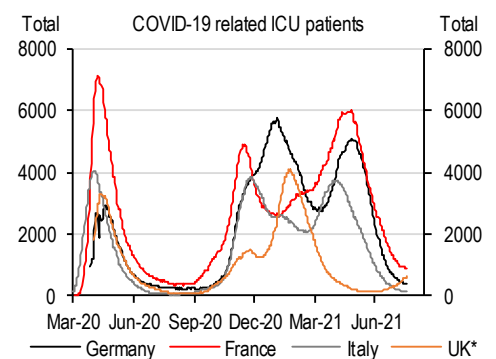
Source: Refinitiv Datastream, HSBC. Note: Weekend numbers are reported as 0, so "7-days to" does not include Saturday and Sunday.

3. The effective reproduction rate has been significantly higher in the current wave



Source: Our World in Data, HSBC

4. Hospitalisation admissions remain low but they are starting to rise again in the UK

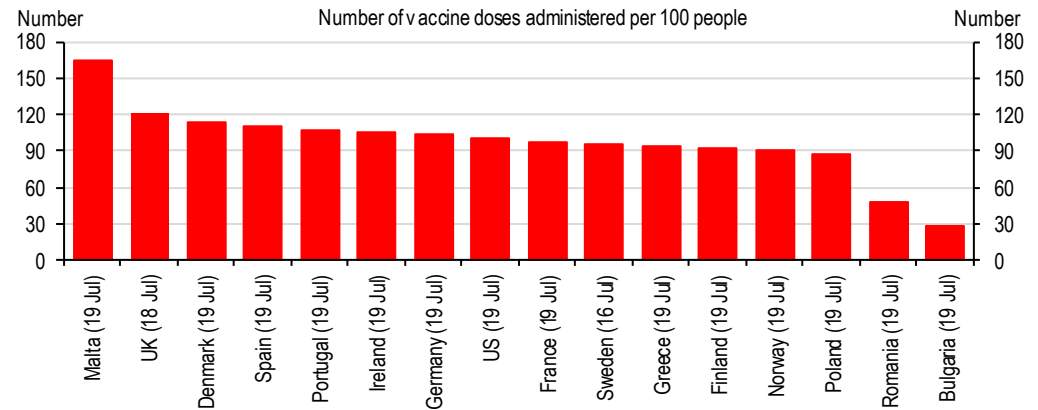


Source: Macrobond, HSBC. *Medically ventilated

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

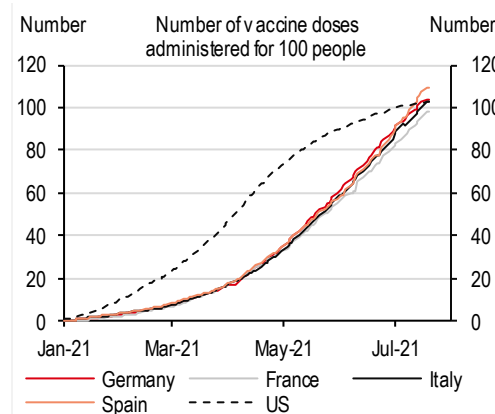
Still a tight race between vaccination and the Delta variant

5. Excluding Malta, the UK is still ahead of EU countries in terms of vaccine progress



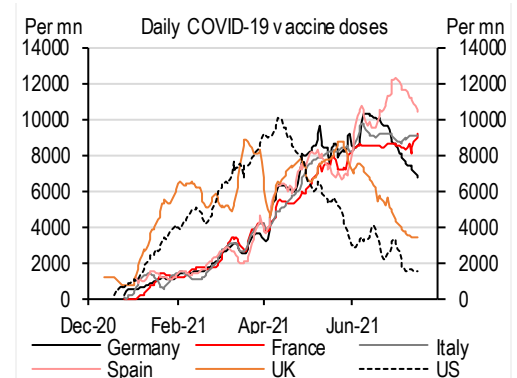
Source: Our World in Data, HSBC

6. Most of largest eurozone countries have caught up with the US...



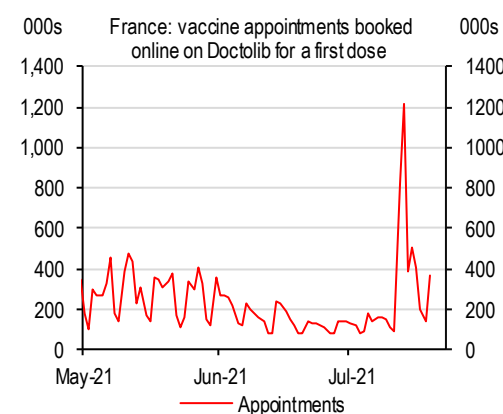
Source: Bloomberg, HSBC

7. ...even if outside France and Italy, the pace of vaccination is clearly decelerating



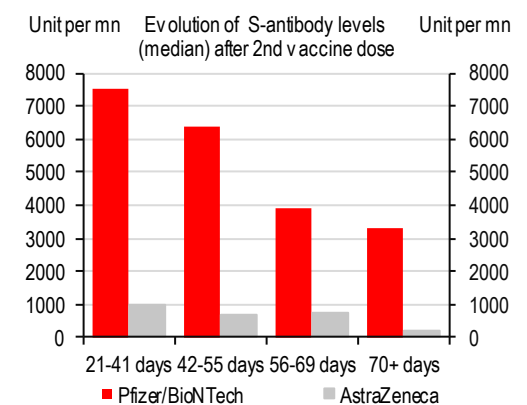
Source: Our World in Data, HSBC

8. The measures announced in France to boost vaccination have been effective



Source: Doctolib, HSBC
NB: Doctolib is one of the main platforms to book a vaccine appointment in France

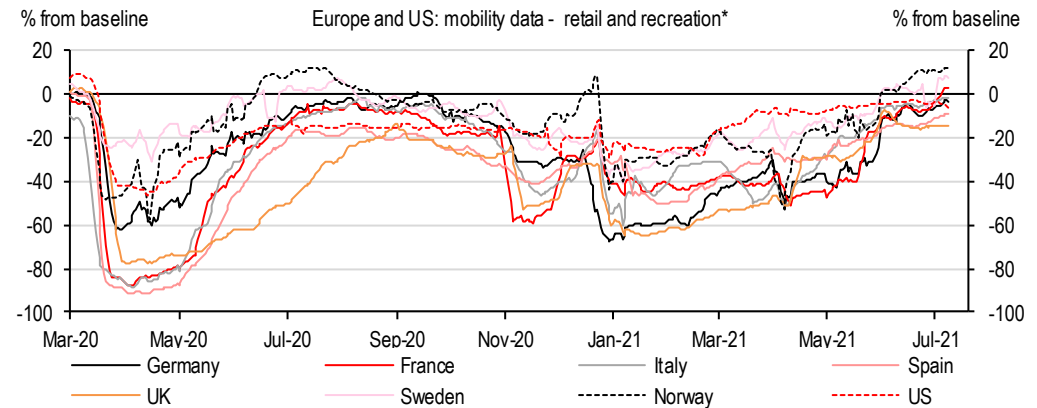
9. Waning antibody protection over time is a source of uncertainty in the reopening phase



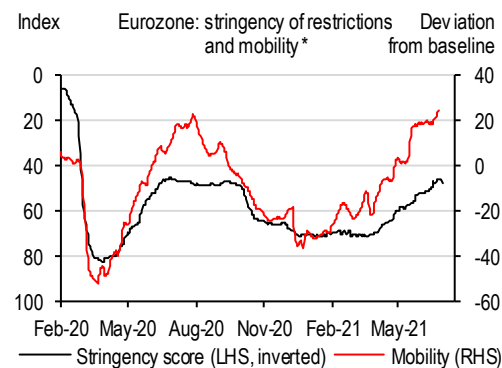
Source: Shrotri et al., Spike-antibody waning after second dose of BNT162b2 or ChAdOx1, The Lancet, July 15, 2021

The recovery in activity has lost its momentum

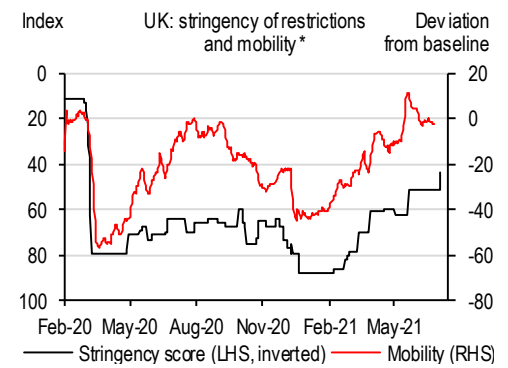
10. Social activity is now rising more slowly in Europe



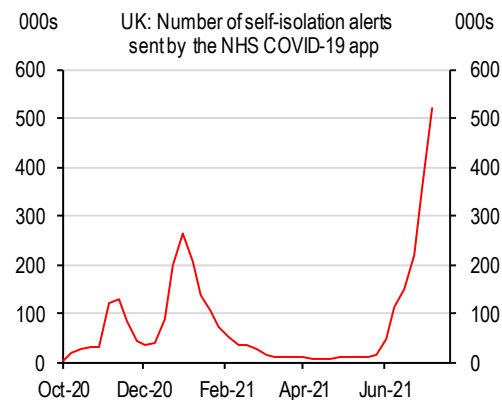
11. Restrictions in the eurozone are no longer being eased...



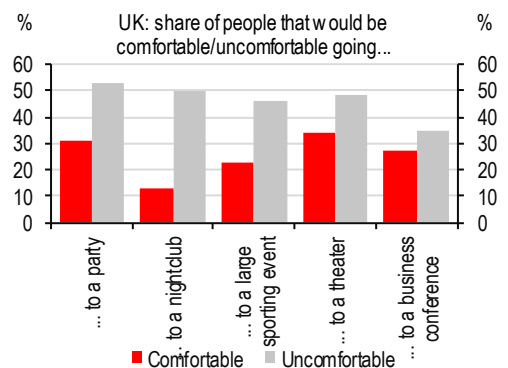
12. ...while in England, most of legal limits on social activity ended on 19 July



13. However, the recent sharp rise in the self-isolation alerts could be a drag on activity



14. Ahead of 19 July, British people were still uncomfortable to return to some venues



Local restrictions start to be re-imposed in some countries

15. 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 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 21 July, none of the 401 districts in Germany was above the critical incidence threshold of 100 and only two were 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 announced on 12 July for the overseas territories of Martinique and Réunion Island. More recently, a 11pm-6am curfew was decided on 18 July in the department of Pyrénées-Orientales (near the Spanish border), where the incidence rate rose above 200 for 100,000 people.</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

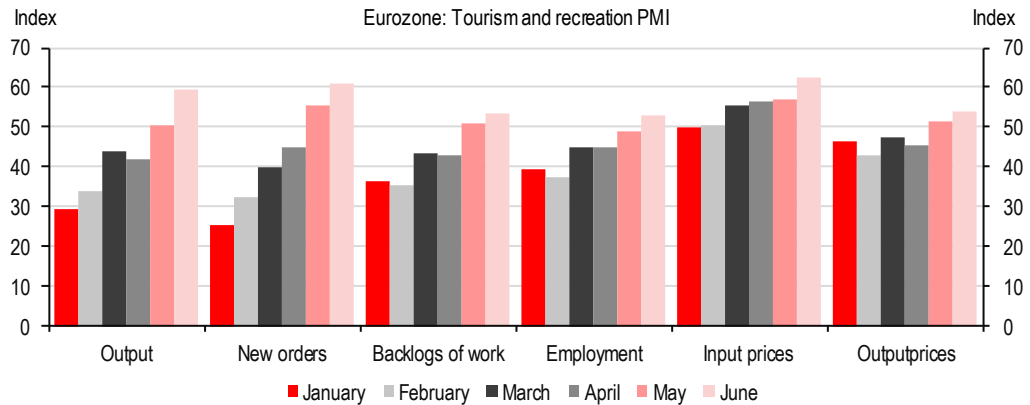
15. Latest on the restrictions from the major European countries (cont'd)

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. In addition, a 1-6am curfew has been reintroduced on 17 July in several municipalities, including Barcelona. 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 delayed final step for England, which saw government removing "all legal limits on social contact", including opening nightclubs, removing social distancing requirements for hospitality and ending mandatory mask wearing, was taken on 19 July. The government also plans to lift the requirement to self-isolate after coming into contact with someone who has tested positive from 16 August for those who have received both doses of the vaccine and for most schoolchildren. However, it has also said that entry into nightclubs will require proof of vaccination from September. 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 moved to a 'modified' form of 'Level 0' rules on 19 July, upping limits on social gatherings, and keeping mandatory mask-wearing. But the 'final' easing of restrictions, akin to that already taken in England, is targeted for 9 August. In Wales, limits remain on social gatherings and mask wearing remains mandatory with the next stage, including the opening of nightclubs, penciled in for 7 August. In Northern Ireland, the next stage of reopening will be on 26 July, but limits and mask wearing will remain in place.</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. Importantly though, the government has announced that it is working with the travel industry to enable fully vaccinated travelers from amber list countries to enter 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>

Source: Country data, HSBC

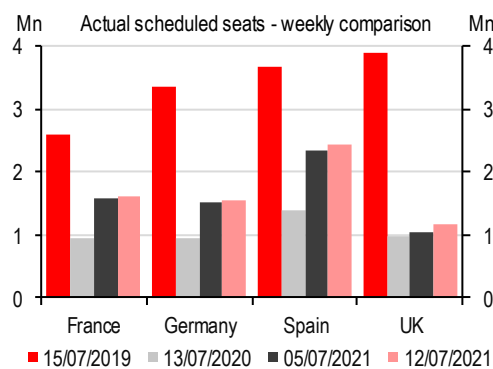
The current COVID-19 wave could derail the tourism recovery

16. Activity in the tourism sector was clearly improving ahead of summer holidays



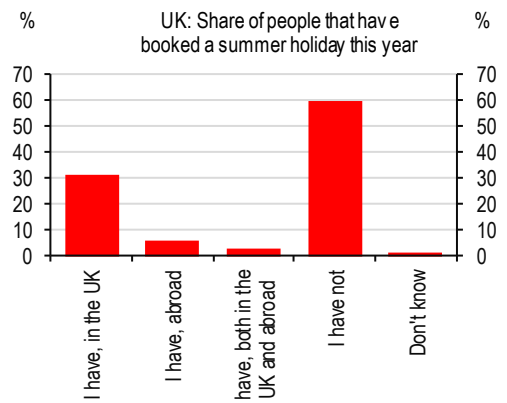
Source: Refinitiv Datastream, IHS Markit, HSBC.

17. The number of flight seats scheduled is still up relative to last year



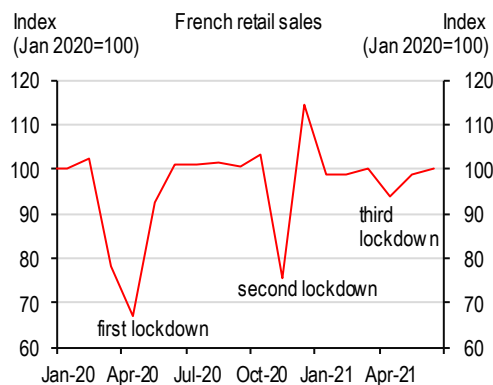
Source: OAG.

18. However, prospects of summer holidays abroad for British people remain very uncertain



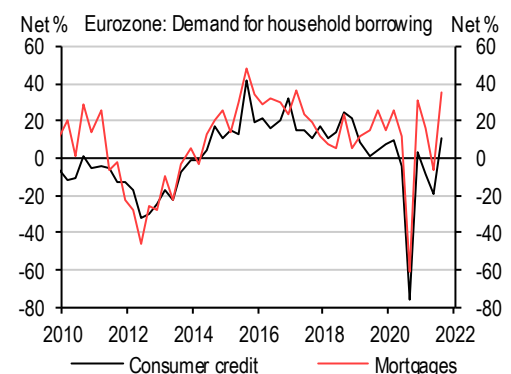
Source: YouGov poll (19 July)

19. French consumption rose more modestly in June, after the post-lockdown rebound in May



Source: Bank of France, HSBC

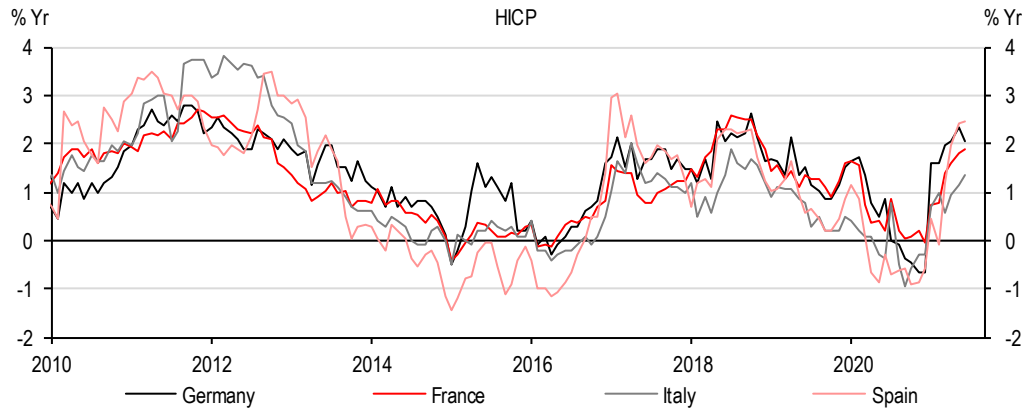
20. Eurozone household credit demand improved markedly in Q2



Source: ECB.

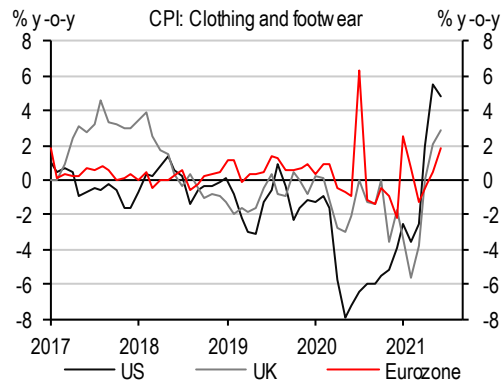
Price pressures in the eurozone are more limited than elsewhere

21. Eurozone inflation did not move much in June...



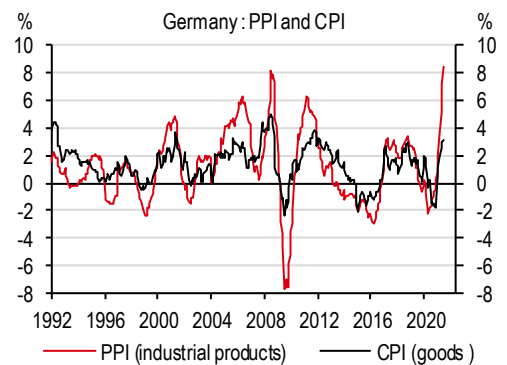
Source: Eurostat, European Commission, HSBC.

22. ...in spite of a marked pickup in clothing inflation



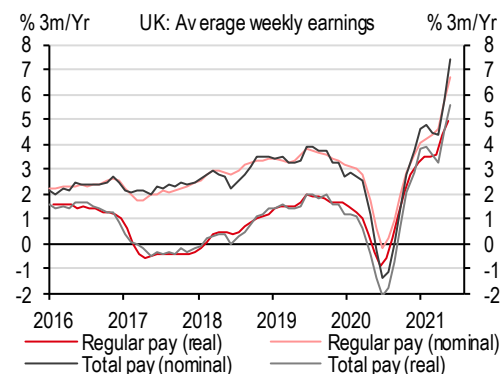
Source: Refinitiv Datastream, HSBC.

23. German producer prices accelerated markedly in June



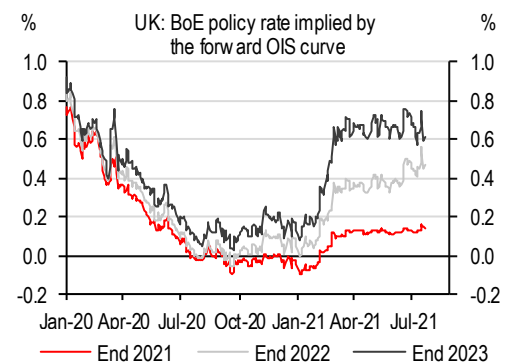
Source: Macrobond, HSBC.

24. Pay growth has risen rapidly in the UK



Source: Macrobond, HSBC.

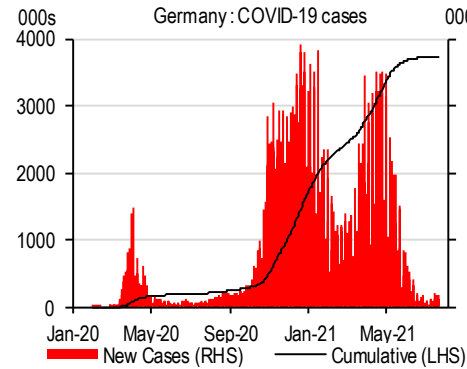
25. Market rate expectations on the BoE policy rate have not increased materially



Source: Bloomberg, HSBC

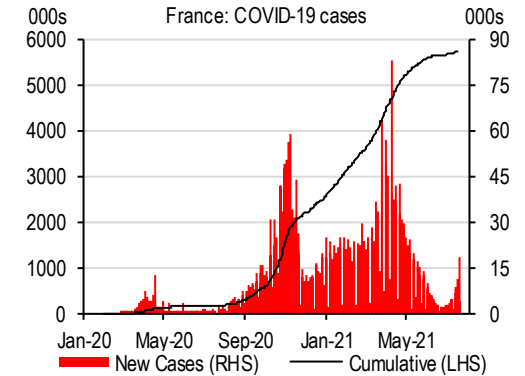
COVID-19 in Western Europe

26. New cases in Germany remain low but they have started to tick up...



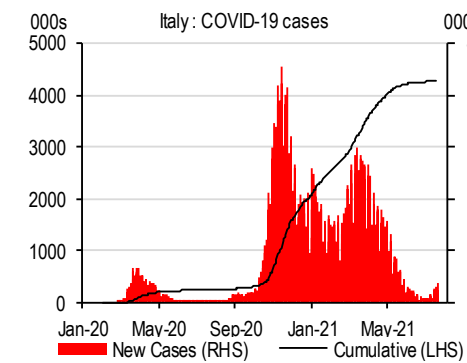
Source: Refinitiv Datastream, HSBC.

27. ...while they are now clearly on the rise in France



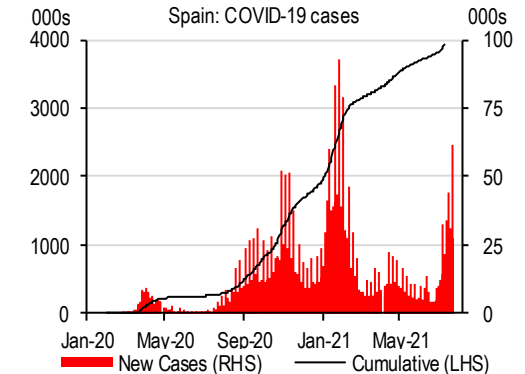
Source: Refinitiv Datastream, HSBC.

28. Infection rate is slightly edging up in Italy



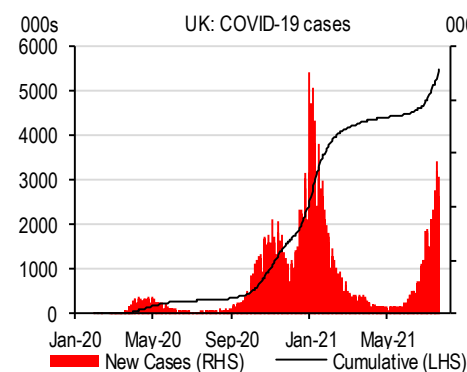
Source: Refinitiv Datastream, HSBC.

29. New COVID-19 cases are sharply accelerating in Spain...



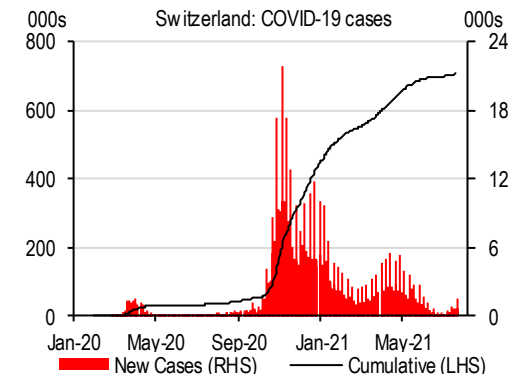
Source: Refinitiv Datastream, HSBC.

30. ...and in the UK



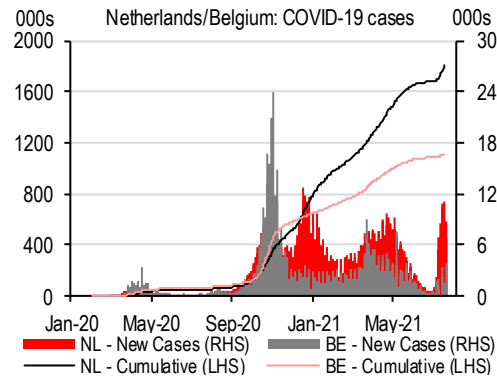
Source: Refinitiv Datastream, HSBC.

31. A small uptick is now visible in Switzerland



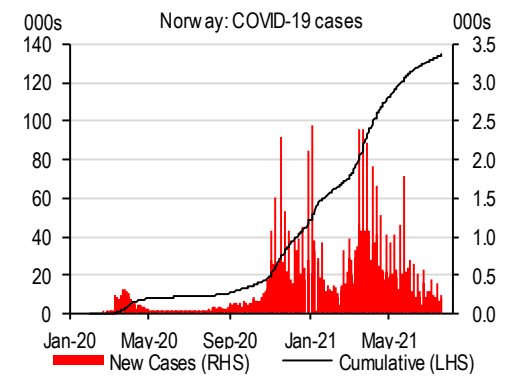
Source: Refinitiv Datastream, HSBC.

32. The Netherlands are one of the most affected countries in the current wave



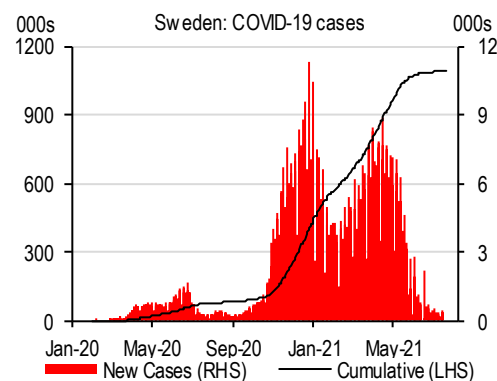
Source: Refinitiv Datastream, HSBC.

33. Cases are still low in Norway...



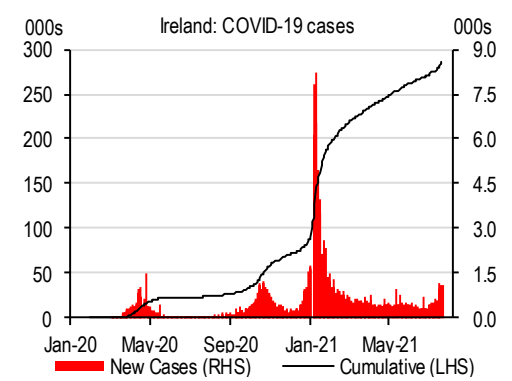
Source: Refinitiv Datastream, HSBC.

34. ...and in Sweden



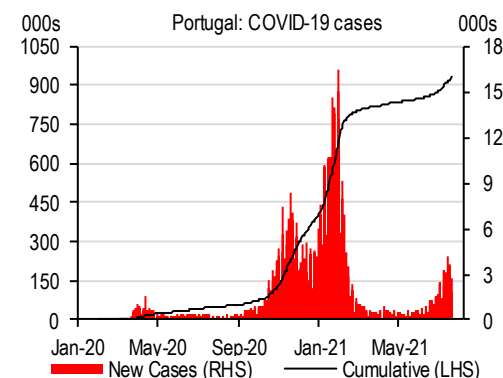
Source: Refinitiv Datastream, HSBC.

35. Ireland has a low but rising rate of new infections



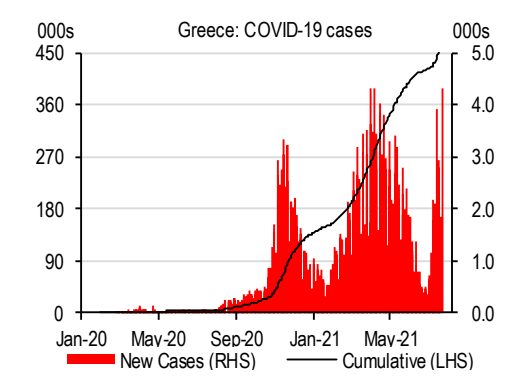
Source: Refinitiv Datastream, HSBC.

36. Cases are rising rapidly in popular summer destinations like Portugal...



Source: Refinitiv Datastream, HSBC.

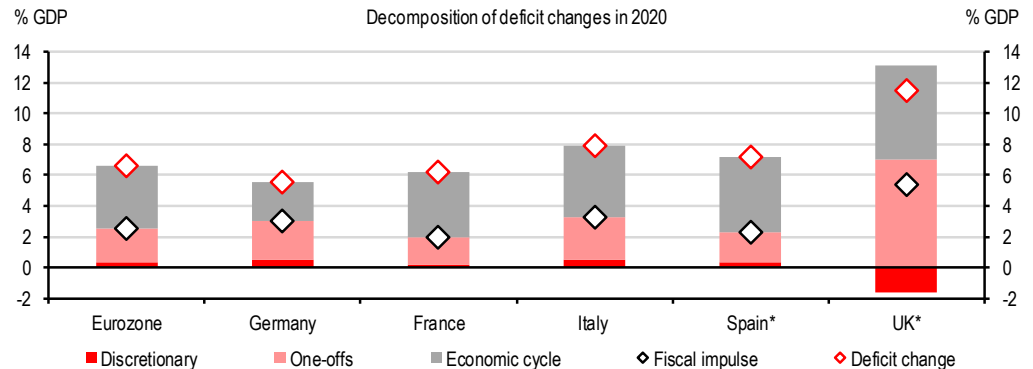
37. ...and Greece



Source: Refinitiv Datastream, HSBC.

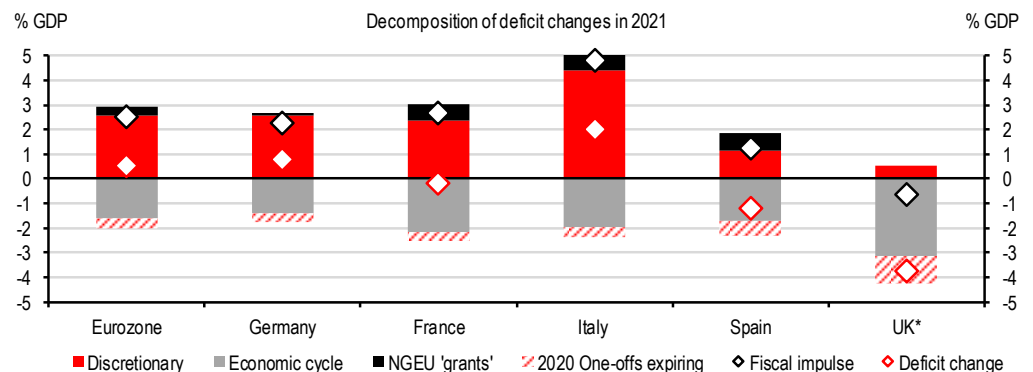
Fiscal measures (in the Big 4 eurozone countries and the UK)

38. 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



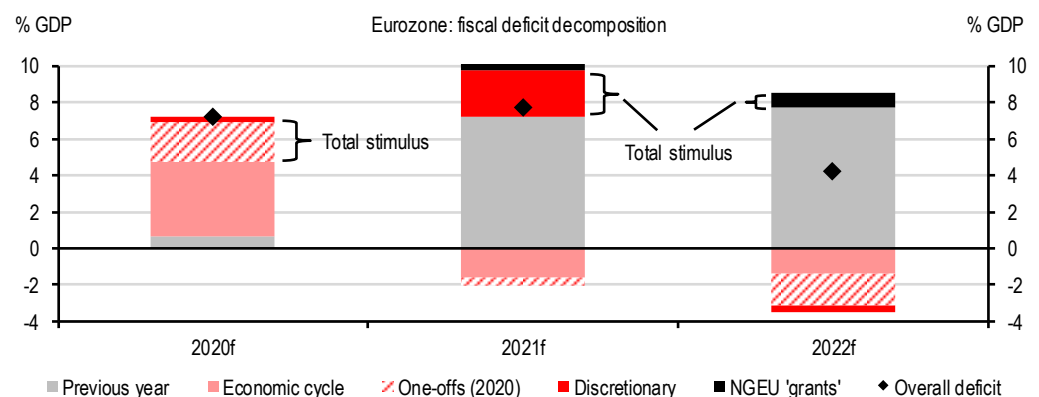
Source: HSBC calculations based on national statistical institutes, Eurostat and European Commission, 2020 budgets and amendments. Notes: *Refers to fiscal year 2020/21. **Discounting the impact (0.9% of GDP) of the incorporation of 'Sareb' under the public sector. The 'Economic Cycle' component for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

39. 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).

40. 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.

Disclosure appendix

Analyst Certification

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