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Vaccination effects are emerging but spring is not yet here for the services industry

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The European Commission's business and consumer surveys showed a marked improvement across all industries and in all major European countries in March, despite rising fears about a third wave of COVID-19 during the survey period (1-24 March). The figures for the services industry, a sector which has been heavily affected by the pandemic, pointed to an increase of the service consumption in real GDP terms. The balance of expected service demand (three months ahead) moved into positive territory for the first time since August last year (Chart 1, upper).

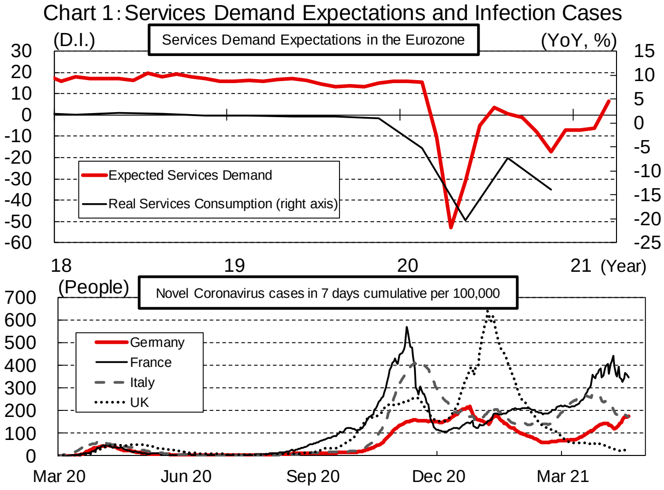
In the UK, which is leading the vaccination drive in Europe, discovered cases have been falling consecutively since reaching a peak at the beginning of the year (Chart 1, lower). Prime Minister Boris Johnson subsequently announced a plan to gradually loosen restrictions in late February. It is not strange that people in the Eurozone expected that the spread of infection would slow down with the progression of vaccinations and the restrictions would be relaxed in the coming three months.

However, the countries in the Eurozone are instead tightening restrictions further due to a third wave. France re-introduced store closures throughout the country from 3 April, and Germany plans for tougher restrictions across the whole country. On 13 April, a measure was approved by the German Cabinet to transfer the authority to implement restrictions from federal states to the federal government, though it is necessary for this measure to be passed at parliament before implementation. A concern is that the third wave emerged when certain restrictions were still in place and the level of people's mobility was lower than we had seen in the onset of the second wave (Chart 2, upper).

If vaccinations do not proceed, each country may have to continue its strict movement restrictions. In contrary to the above economic sentiment results, there is a possibility that the service industry will be confronted with further slumps in demand.

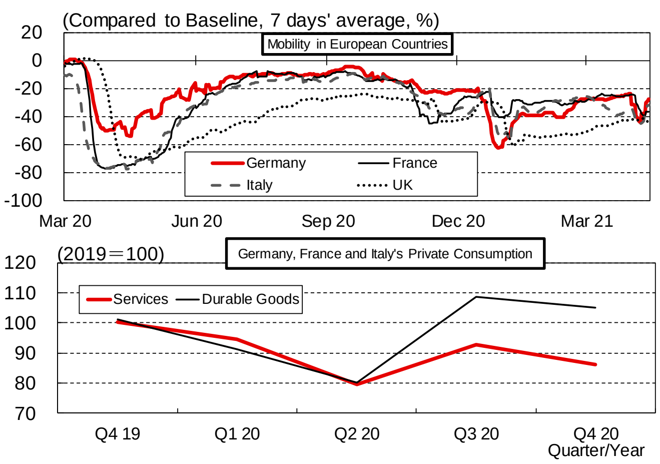
Furthermore, the recovery in demand after lifting the restrictions may not be dramatic. While overall mobility indicators recovered in Q3 last year as the COVID-19 caseload decreased, rebound in service consumption was less pronounced than in goods (Chart 2, lower). In the UK, where some restrictions were relaxed on 12 April, outdoor dining is now permitted, but it will be June before all restrictions are lifted. While confidence in the service industry may have recovered as the vaccine rollout gathered pace, it seems that the arrival of real 'spring' with a recovery in actual demand will take longer than 3 months.

Chart 1: Services Demand Expectations and Infection Cases



Caution: 'Real Services Consumption' is a calcuation based on Germany, France and Italy's statistics from the unavailability of data in the Eurozone.
Source: European Commission, Eurostat, WHO, MUFG Economic Research Office

Chart 2: Mobility & Real GDP Private Consumption



Caution: Mobility is the medium of retail shops, recreational facilities, grocery, pharmacies, public transportation and the workplace.
Source: Google, Eurostat, MUFG Economic Research Office

(Translated by Rebecca Whitter)

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