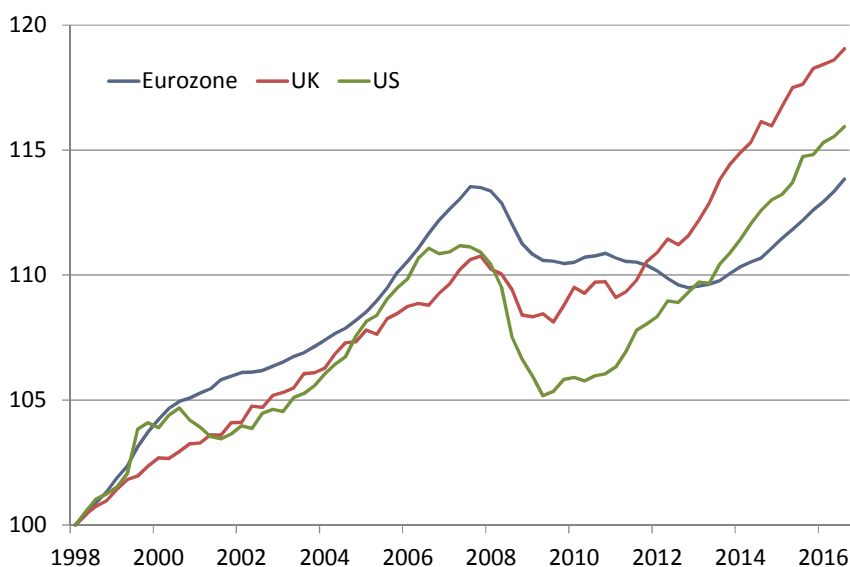


... CHART OF THE WEEK ... CHART OF THE WEEK ... CHART OF THE WEEK ... CHART OF THE WEEK

16 June 2017

Not too hot, not too cold: Goldilocks makes core Europe her home

More room for non-inflationary gains: employment Eurozone versus US and UK



Level of employment, rebased to Q3 1998=100. Source: BLS, Eurostat.

- **Three regions, three stories:** Labour markets in the US, the UK and the Eurozone have performed very differently in the wake of the Great Financial Crisis of late 2008 and early 2009. After a sharp initial downturn, US employment had rebounded to its pre-crisis peak by Q3 2014. In the flexible UK labour market, many workers saved their jobs during the crisis by allowing their wages to take a bigger hit than elsewhere. As a result, employment fell by much less in the UK than in the US and the Eurozone. It returned to its 2007 peak two years earlier than in the US.
- **Double whammy:** In the Eurozone, the nascent labour market recovery that started in mid-2010 was cut short by the euro confidence crisis of 2011 and 2012. The rot stopped when the European Central Bank (ECB) finally dared to do what the US Fed and the Bank of England had done from the very beginning. It outed itself as the lender of last resort, ready to buy serious amounts of sovereign bonds if need be. With a lag of one year, Eurozone employment started to recover in mid-2014. Only now, in Q1 2017, has the number of employed people in the Eurozone surpassed its pre-crisis peak.
- **Steady gains:** In all three regions, employment has expanded at a largely steady and healthy clip ever since it passed its turning point. Although some measures of wage inflation have moved up slightly in the US and the UK in the last two years, wage gains remain modest by historical standards. For the time being, the labour market does not suggest that central banks will need to restrain the pace of the economic recovery. They can focus on keeping satisfactory growth on track by normalising their accommodative stance so gradually that aggregate demand does not tank.
- **Inflation gap:** The differences in core inflation (2.6% yoy in the UK, 1.7% in the US, 0.9% in the Eurozone in May 2017) coincide with the differences in overall labour market performance since 2007. As the UK is enjoying the strongest aggregate gain in employment, core inflation has accelerated in the UK whereas it remains most subdued in the Eurozone. However, the surge in UK inflation pressures owes much more to the sharp depreciation of sterling in the wake of the Brexit vote a year ago than to any rise in wage pressures.
- **Nothing lasts forever:** Wage growth has surprised to the downside across the developed countries in the last six years. At some point in time, it will likely respond to tightening labour markets. Whether or not that will happen to a meaningful extent in the US and the UK within the next two years remains an open question. The Brexit-related fall in net migration into the UK has raised that risk for the UK. However, we can be fairly certain that in the Eurozone, where employment is expanding at a healthy rate but from a lower level, wage gains will not drive inflation above the ECB's target for many years to come. Goldilocks can expect to spend many more years in the Eurozone.

Economics

Chart of the week



Disclaimer

This document was compiled by the above mentioned authors of the economics department of Joh. Berenberg, Gossler & Co. KG (hereinafter referred to as “the Bank”). The Bank has made any effort to carefully research and process all information. The information has been obtained from sources which we believe to be reliable such as, for example, Thomson Reuters, Bloomberg and the relevant specialised press. However, we do not assume liability for the correctness and completeness of all information given. The provided information has not been checked by a third party, especially an independent auditing firm. We explicitly point to the stated date of preparation. The information given can become incorrect due to passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. The forecasts contained in this document or other statements on rates of return, capital gains or other accession are the personal opinion of the author and we do not assume liability for the realisation of these.

This document is only for information purposes. It does not constitute investment advice or recommendation to buy financial instruments. It does not replace consulting regarding legal, tax or financial matters.

Remarks regarding foreign investors

The preparation of this document is subject to regulation by German law. The distribution of this document in other jurisdictions may be restricted by law, and persons, into whose possession this document comes, should inform themselves about, and observe, any such restrictions.

United Kingdom

This document is meant exclusively for institutional investors and market professionals, but not for private customers. It is not for distribution to or the use of private investors or private customers.

United States of America

This document has been prepared exclusively by Joh. Berenberg, Gossler & Co. KG. Although Berenberg Capital Markets LLC, an affiliate of the Bank and registered US broker-dealer, distributes this document to certain customers, Berenberg Capital Markets LLC does not provide input into its contents, nor does this document constitute research of Berenberg Capital Markets LLC. In addition, this document is meant exclusively for institutional investors and market professionals, but not for private customers. It is not for distribution to or the use of private investors or private customers.

This document is classified as objective for the purposes of FINRA rules. Please contact Berenberg Capital Markets LLC (+1 617.292.8200), if you require additional information.

Copyright

The Bank reserves all the rights in this document. No part of the document or its content may be rewritten, copied, photocopied or duplicated in any form by any means or redistributed without the Bank's prior written consent.

© January 2017 Joh. Berenberg, Gossler & Co. KG

Contacts: Investment Banking

www.berenberg.com

e-mail: firstname.lastname@berenberg.com / e-mail US: firstname.lastname@berenberg-us.com



BERENBERG

PARTNERSHIP SINCE 1590

JOH. BERENBERG, GOSSLER & CO. KG

Internet www.berenberg.com

E-mail: firstname.lastname@berenberg.com

EQUITY RESEARCH

AEROSPACE & DEFENCE

Ryan Booker +44 20 3753 3074
Andrew Gollan +44 20 3207 7891
Charlotte Keyworth +44 20 3753 3013
Ross Law +44 20 3465 2692

AUTOMOTIVES

Alexander Haissl +44 20 3465 2749
Paul Kratz +44 20 3465 2678
Fei Teng +44 20 3753 3049

BANKS

Adam Barrass +44 20 3207 7923
James Chappell +44 20 3207 7844
Andrew Lowe +44 20 3465 2743
Andreas Markou (EM) +44 20 3465 3022
Alex Medhurst +44 20 3753 3047
Eoin Mullany +44 20 3207 7854
Peter Richardson +44 20 3465 2681
Jonathan Sharpe +44 20 3753 3031

BEVERAGES

Javier Gonzalez Lastra +44 20 3465 2719
Batuhan Karabekir (EM) +44 20 3465 2631
Adam Mizrahi +44 20 3465 2653
Matt Reid +44 20 3753 3075

BUSINESS SERVICES, LEISURE & TRANSPORT

Roberta Giaccia +44 20 3207 7805
Najet El Kassir +44 20 3207 7836
Stuart Gordon +44 20 3207 7858
Josh Puddle +44 20 3207 7881
Katherine Somerville +44 20 3753 3081
Julia Winarso +44 20 3465 2627

CAPITAL GOODS

Sebastian Kuenne +44 20 3207 7856
Philippe Lorrain +44 20 3207 7823
Rizk Maidi +44 20 3207 7806
Horace Tam +44 20 3465 2726
Simon Toennessen +44 20 3207 7819

EQUITY SALES

SPECIALIST SALES

AEROSPACE & DEFENCE, CAPITAL GOODS
Bruna Zugliani +44 20 3207 7818

AUTOMOTIVE & THEMATICS

Chris Armstrong +44 20 3207 7809

BANKS, DIVERSIFIED FINANCIALS & INSURANCE

Iro Papadopoulou +44 20 3207 7924
Calum Marris +44 20 3753 3040

BUSINESS SERVICES, LEISURE & TRANSPORT

Rebecca Langley +44 20 3207 7930

CONSTRUCTION, CHEMICALS, METALS & MINING

James Williamson +44 20 3207 7842

CONSUMER STAPLES

Rupert Trotter +44 20 3207 7815

CONSUMER DISCRETIONARY

Victoria Maignot +44 20 3753 3010

HEALTHCARE

Frazer Hall +44 20 3207 7875
Abigail James +44 20 3753 3078

MEDIA & TELECOMMUNICATIONS

Julia Thannheiser +44 20 3465 2676

SPECIAL SITUATIONS

Jeremy Grant +44 20 3207 7890

SALES

BENELUX

Miel Bakker +44 20 3207 7808
Martin de Laet +44 20 3207 7804
Alexander Wace +44 20 3465 2670

GERMANY

Michael Brauburger +49 69 91 30 90 741
Nina Buechs +49 69 91 30 90 735
André Grosskurth +49 69 91 30 90 734

CHEMICALS

Sebastian Bray +44 20 3753 3011
Rikin Patel +44 20 3753 3080
Andrew Heap +44 20 3207 7918

CONSTRUCTION

Saravana Bala +44 20 3753 3043
Lush Mahendrarajah +44 20 3207 7896
Robert Muir +44 20 3207 7860
Olivia Peters +44 20 3465 2646

ENERGY

Yuriy Kukhtanych (EM) +44 20 3465 2675

FOOD MANUFACTURING AND H&PC

Rosie Edwards +44 20 3207 7880
Yordana Mavrodieva +44 20 3207 7817
Fintan Ryan +44 20 3465 2748
James Targett +44 20 3207 7873

FOOD RETAIL

Batuhan Karabekir (EM) +44 20 3465 2631

GENERAL MID CAP - EU

Gunnar Cohrs +44 20 3207 7894
Martin Comtesse +44 20 3207 7878
Charlotte Friedrichs +44 20 3753 3077
Flavien Hias +44 20 3465 2693
Aymeric Lang +44 20 3753 3037
Gerhard Orgonas +44 20 3465 2635
Anna Patrice +44 20 3207 7863
Benjamin Pfannes-Varrow +44 20 3465 2620
Simona Sarli +44 20 3207 7834
Julia Scheuffler +44 20 3753 3016

GENERAL MID CAP - UK

Robert Chantry +44 20 3207 7861
Sam England +44 20 3465 2687
Ned Hammond +44 20 3753 3017
Edward James +44 20 3207 7811
Benjamin May +44 20 3465 2667

GERMANY (cont'd)

Florian Peter +49 69 91 30 90 740
Joerg Wenzel +49 69 91 30 90 743

UK

Alexandra Clément +44 20 3753 3018
Fabian De Smet +44 20 3207 7810
Karl Hancock +44 20 3207 7803
Sean Heath +44 20 3465 2742
David Hogg +44 20 3465 2628
Gursumeet Hhaj +44 20 3753 3041
Peter Kaineder +44 20 3753 3062
James Matthews +44 20 3207 7807
James McRae +44 20 3753 3036
David Mortlock +44 20 3207 7850
Eleni Papoula +44 20 3465 2741
Bhavin Patel +44 20 3207 7926
Kushal Patel +44 20 3753 3038
Richard Payman +44 20 3207 7825
Clémence Peyraud +44 20 3465 2651
Christopher Pyle +44 20 3753 3076
Joanna Sanders +44 20 3207 7925
Mark Sheridan +44 20 3207 7802
George Smbert +44 20 3207 7911
Anita Surana +44 20 3207 7855
Paul Walker +44 20 3465 2632

FRANCE

Thibault Bourgeat +33 1 5844 9505
Alexandre Chevassus +33 1 5844 9512
Dalila Farigoule +33 1 5844 9510
Benjamin Voisin +33 1 5844 9507

SCANDINAVIA

Frederik Angel +44 20 3753 3055
Marco Weiss +49 40 350 60 719

GENERAL MID CAP - UK (cont'd)

Owen Shirley +44 20 3465 2731

GENERAL RETAIL

Conrad Bartos +44 20 3753 3053
Michelle Wilson +44 20 3465 2663

HEALTHCARE

Scott Bardo +44 20 3207 7869
Jakob Berry +44 20 3465 2724
Alistair Campbell +44 20 3207 7876
Klara Fernandes +44 20 3465 2718
Tom Jones +44 20 3207 7877
Joseph Lockey +44 20 3465 2730
Louise Pearson +44 20 3465 2747
Laura Sutcliffe +44 20 3465 2669

INSURANCE

Trevor Moss +44 20 3207 7893
Emanuele Musio +44 20 3207 7916
Iain Pearce +44 20 3465 2665
Sami Taipalus +44 20 3207 7866

LUXURY GOODS

Mariana Horn +44 20 3753 3044
Zuzanna Pusz +44 20 3207 7812

MEDIA

Robert Berg +44 20 3465 2680
Laura Janssens +44 20 3465 2639
Alastair Reid +44 20 3207 7841
Sarah Simon +44 20 3207 7830

METALS & MINING

Alessandro Abate +44 20 3753 3029
Fawzi Hanano +44 20 3207 7910
Yuriy Vlasov +44 20 3465 2674

REAL ESTATE

Kai Klöse +44 20 3207 7888
Tina Munda +44 20 3465 2716

SWITZERLAND, AUSTRIA & ITALY

Andrea Ferrari +41 44 283 2020
Carsten Kinder +41 44 283 2024
Gianni Vignina +41 44 283 2038
Jamie Nettleton +41 44 283 2026
Benjamin Stillfried +41 44 283 2033

CRM

Laura Cooper +44 20 3753 3065
Louise Hughes +44 20 3753 3066
Jessica Jarmyn +44 20 3465 2696
Edwina Lucas +44 20 3207 7908
Greg Swallow +44 20 3207 7833

CORPORATE ACCESS

Lindsay Arnold +44 20 3207 7821
Jennie Jiricny +44 20 3207 7886
Stella Siggins +44 20 3465 2630

EVENTS

Laura Hawes +44 20 3753 3008
Suzy Khan +44 20 3207 7915
Charlotte Kilby +44 20 3207 7832
Natalie Meech +44 20 3207 7831
Ellen Parker +44 20 3465 2684
Sarah Weyman +44 20 3207 7801

SALES TRADING

HAMBURG

Tim Storm +49 40 350 60 415

PARIS

Vincent Klein +33 1 58 44 95 09
Antonio Scutto +33 1 58 44 95 03

TECHNOLOGY

Jean Beaubois +44 20 3207 7835
Georgios Kertsos +44 20 3465 2715
Gal Munda +44 20 3465 2746
Richard Odumusu +44 20 3207 7851
Tammy Qiu +44 20 3465 2673

TELECOMMUNICATIONS

Josep Bori +44 20 3753 3058
Ondrej Cabejsk (EM) +44 20 3753 3071
Nicolas Didio +44 20 3753 3091
Usman Ghazi +44 20 3207 7824
Siyi He +44 20 3465 2697
Laura Janssens +44 20 3465 2639
Paul Marsch +44 20 3207 7857
Michael Summerville +44 20 3207 7914

THEMATIC RESEARCH

Nick Anderson +44 20 3207 7838
Asad Farid +44 20 3207 7932
Robert Lamb +44 20 3465 2623
James Sherborne +44 20 3753 3073

TOBACCO

Jonathan Leinster +44 20 3465 2645

UTILITIES

Andrew Fisher +44 20 3207 7937
Neha Saxena +44 20 3753 3048
Lawson Steele +44 20 3207 7887

ECONOMICS

Florian Hense +44 20 3207 7859
Carsten Hesse (EM) +44 20 3753 3061
Kallum Pickering +44 20 3465 2672
Holger Schmieding +44 20 3207 7889

LONDON

Mike Berry +44 20 3465 2755
Stewart Cook +44 20 3465 2752
Mark Edwards +44 20 3753 3004
Tristan Hedley +44 20 3753 3006
Peter King +44 20 3753 3139
Christoph Kleinsasser +44 20 3753 3063
Chris McKeand +44 20 3207 7938
Simon Messman +44 20 3465 2754
A.J. Pulley +44 20 3465 2756
Matthew Regan +44 20 3465 2750
Asbjorn Rogge +44 20 3753 3051
Michael Schumacher +44 20 3753 3006
Paul Somers +44 20 3465 2753

EQUITY TRADING

HAMBURG

David Hohn +49 40 350 60 761
Gregor Labahn +49 40 350 60 571
Lennart Pleus +49 40 350 60 596
Marvin Schweden +49 40 350 60 576
Linus Weidner +49 40 350 60 798
Philipp Wichmann +49 40 350 60 346
Christoffer Winter +49 40 350 60 559

LONDON

Edward Burlison-Rush +44 20 3753 3055
Richard Kenny +44 20 3753 3083

ELECTRONIC TRADING

Daniel Eichhorn +49 40 350 60 391
Matthias Führer +49 40 350 60 597

BERENBERG CAPITAL MARKETS LLC

Member FINRA & SIPC

E-mail: firstname.lastname@berenberg-us.com

EQUITY SALES

SALES

Kelleigh Faldi +1 617 292 8288
Isabella Fantini +1 646 445 4861
Shawna Giust +1 646 445 7216
Rich Harb +1 617 292 8228
Zubin Hubner +1 646 445 5572
Jessica London +1 646 445 7218
Ryan McDonnell +1 646 445 7214

SALES (cont'd)

Emily Mouret +1 415 802 2525
Peter Nichols +1 646 445 7204
Kieran O'Sullivan +1 617 292 8292
Rodrigo Ortigao +1 646 445 7202

CORPORATE ACCESS

Olivia Lee +1 646 445 7212
Tiffany Smith +1 646 445 4874

SALES TRADING

Christopher Kanian +1 646 445 5576
Lars Schwartzau +1 646 445 5571
Brett Smith +1 646 445 4873
Bob Spillane +1 646 445 5574

ECONOMICS

Mickey Levy +1 646 445 4842
Roiana Reid +1 646 445 4865