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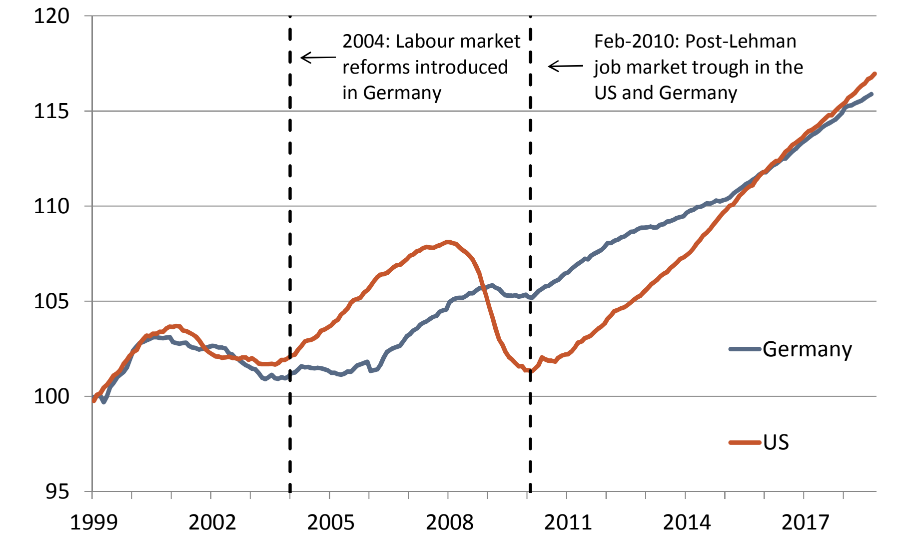
The jobs market: advantage US – or Germany?

US and German employment over the last 20 years



Total domestic employment, indexed at January 1999=100. Sources: Deutsche Bundesbank, BLS.

- **Making the jobs market great again:** Ahead of the publication of the US November jobs data later today, we compare the progress that the US and German labour markets have made since the post-Lehman trough in February 2010. In that time, the US economy has created 20m new jobs, equivalent to an average monthly gain of 190k. Over the same period, German employment has expanded at a rate of 40k for a total gain of more than 4m. In relative terms, the US has outpaced Germany. Since early 2010, employment has increased by 1.5% yoy on average in the US compared to 1.1% in Germany. Is it fair to say that the US has done a much better job? Not quite.
- **The bigger picture:** Looking only at the almost nine years of the post-Lehman recovery gives an incomplete picture. The US labour market is more cyclical than Germany's. After moving broadly in tandem from 1999 to 2003, the US surged ahead from 2004 to 2007 while Germany lagged behind. Since the 2003-05 reforms, German labour demand has increased strongly. In the 2008-09 crisis, German businesses largely held on to their workers. Employment fell by a mere 250k. However, as the US had built up excesses during the prior boom, especially in construction, it had to adjust much more in the recession: US employment plummeted by 8.7m in 2008-09. As fewer German jobs were lost during the crisis, the country had less need to re-hire workers during the recovery. Taking the long view, we find that employment has increased by 0.8% annually in both countries since 1999.
- **Population dynamics:** Germany and the US achieved comparable gains in employment despite very different rates of population growth of 0.9% yoy on average in the US versus 0.1% in Germany since 1999. The gap shows up in the employment rate. In the US, the employment-to-population ratio dropped from 60% in 2007 to 55% in 2009, and has recovered only mildly to 58% since then. Meanwhile, the ratio edged up in Germany even during the 2008-09 crisis, from 58% to 59%, and has risen further to 63.5% now. As a higher employment rate tends to make it more difficult to fill vacancies, it is quite natural that today's job growth in Germany is not quite as dynamic as it is in the US.
- **Cost to public finances:** Over the previous 12 months, both US and German jobs growth accelerated to average monthly increases of 210k and 50k, respectively. In Germany, this is likely to slow as economic growth has moderated over the course of 2018. In the US we expect strong employment gains to continue into 2019 after the growth spurt in 2018. However, the US is paying a price for stronger jobs growth with a widening deficit and more general concerns about fiscal sustainability. At the same time, the German government has run fiscal surpluses since 2014.
- **The German lesson is clear:** Countries with structural rigidities and fiscal problems need to be better at creating jobs. Germany continues to reap the rewards of its 2003-05 reforms. Strong demand for labour allows it to bring more Germans as well as EU and non-EU migrants into work. However, success breeds complacency. Instead of boosting productivity, Germany has started to reverse some of its reforms.
- **The US lesson is different:** The Trump administration has rolled back some regulations, raised the incentive for businesses to invest and drawn workers on the sidelines back into the labour market. Beyond augmenting supply, the US would be well advised to refrain from unnecessary and costly stimuli to demand.

Florian Hense
European Economist
+44 20 3207 7859
florian.hense@berenberg.com

BERENBERG
PARTNERSHIP SINCE 1590

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Contacts

BERENBERG
PARTNERSHIP SINCE 1590

JOH. BERENBERG, GOSSLER & CO. KG

Internet www.berenberg.com

E-mail: firstname.lastname@berenberg.com

EQUITY RESEARCH

BUSINESS SERVICES, LEISURE & TRANSPORT	
BUSINESS SERVICES	
Zaim Beekawa	+44 20 3207 7855
Tom Burlton	+44 20 3207 7852
LEISURE	
Roberta Ciaccia	+44 20 3207 7805
Jack Cummings	+44 20 3753 3161
Najet El Kassir	+44 20 3207 7836
Stuart Gordon	+44 20 3207 7858
Annabel Hay-Jahans	+44 20 3465 2720
TRANSPORT & LOGISTICS	
William Fitzalan Howard	+44 20 3465 2640
Joel Spungin	+44 20 3207 7867
Adrian Yanoshik	+44 20 3753 3073
CONSUMER	
BEVERAGES	
Javier Gonzalez Lastra	+44 20 3465 2719
Matt Reid	+44 20 3753 3075
FOOD MANUFACTURING AND H&PC	
Rosie Edwards	+44 20 3207 7880
Fintan Ryan	+44 20 3465 2748
James Targett	+44 20 3207 7873
FOOD RETAIL	
Dusan Milosavljevic	+44 20 3753 3123
GENERAL RETAIL	
Michael Benedict	+44 20 3753 3175
Thomas Davies	+44 20 3753 3104
Graham Renwick	+44 20 3207 7851
Michelle Wilson	+44 20 3465 2663
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Mariana Horn	+44 20 3753 3044
Lauren Molyneux	+44 20 3207 7892
Zuzanna Pusz	+44 20 3207 7812
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Jonathan Leinster	+44 20 3465 2645
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Adam Barrass	+44 20 3207 7923
Frederick Brennan	+44 20 3753 3171
Michael Christodoulou	+44 20 3207 7920
Andrew Lowe	+44 20 3465 2743
Eoin Mullany	+44 20 3207 7854
Peter Richardson	+44 20 3465 2681

DIVERSIFIED FINANCIALS	
Panos Ellinas	+44 20 3753 3149
Chris Turner	+44 20 3753 3019
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Charles Bendit	+44 20 3465 2729
Trevor Moss	+44 20 3207 7893
Emanuele Musio	+44 20 3207 7916
Philip Ross	+44 20 3465 2726
REAL ESTATE	
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Scott Bardo	+44 20 3207 7869
Alistair Campbell	+44 20 3207 7876
Klara Fernandes	+44 20 3465 2718
Tom Jones	+44 20 3207 7877
Samantha Osborne	+44 20 3207 7882
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Laura Sutcliffe	+44 20 3465 2669
Charles Weston	+44 20 3465 2746
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Ross Law	+44 20 3465 2692
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Cristian Dirpes	+44 20 3465 2721
Alexander Haissl	+44 20 3465 2749
Viktoria Oushatova	+44 20 3207 7890
Fei Teng	+44 20 3753 3049
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Jonathan Coubrough	+44 20 3465 2699
Nicholas Housden	+44 20 3753 3050
Philippe Lorrain	+44 20 3207 7823
Rizk Maidi	+44 20 3207 7806
Jaroslaw Pominkiewicz	+44 20 3753 3035
Simon Toennessen	+44 20 3207 7819
Ethan Zhang	+44 20 3465 2634
MATERIALS	
CHEMICALS	
Sebastian Bray	+44 20 3753 3011
Xian Deng	+44 20 3753 3014
Anthony Manning	+44 20 3753 3092

CHEMICALS (cont'd)	
Rikin Patel	+44 20 3753 3080
METALS & MINING	
Charlie Clark	+44 20 3207 3133
Richard Hatch	+44 20 3753 3070
Laurent Kimman	+44 20 3465 2675
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Ilkin Karimli	+44 20 3465 2684
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Georgios Kertsos	+44 20 3465 2715
Tammy Qiu	+44 20 3465 2673
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Lou Ann Yong	+44 20 3753 3159
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Alastair Reid	+44 20 3207 7841
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Laura Janssens	+44 20 3465 2639
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Carl Murdock-Smith	+44 20 3207 7918
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Oyvind Bjerke	+44 20 3753 3082
Steven Bowen	+44 20 3753 3057
Asad Farid	+44 20 3207 7932
Robert Lamb	+44 20 3465 2623
Paul Marsch	+44 20 3207 7857
Saliha Shariff	+44 20 3753 3097
Julia Schrameier	+44 20 3753 3172

GENERAL MID CAP	
MID CAP - DACH	
Saravana Bala	+44 20 3753 3043
Carl-Oscar Brendengen	+44 20 3753 3160
Marta Bruska	+44 20 3753 3187
Martin Comtesse	+44 20 3207 7878
Charlotte Friedrichs	+44 20 3753 3077
Gustav Fröberg	+44 20 3465 2655
James Letten	+44 20 3753 3176
Alexander O'Donoghue	+44 20 3207 7804
Gerhard Orgonas	+44 20 3465 2635
Henrik Paganetty	+44 20 3453 3140
Benjamin Pfannes-Varrow	+44 20 3465 2620
Alexandra Schwetje	+44 20 3753 3042
MID CAP - EU core	
Beatrice Allen	+44 20 3465 2662
Fraser Donlon	+44 20 3465 2674
Christoph Greulich	+44 20 3753 3119
Andreas Markou	+44 20 3753 3022
Anna Patrice	+44 20 3207 7863
Trion Reid	+44 20 3753 3113
Jan Richard	+44 20 3753 3029
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Joseph Barron	+44 20 3207 7828
Calum Battersby	+44 20 3753 3118
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Robert Chantry	+44 20 3207 7861
Sam Cullen	+44 20 3753 3183
Ned Hammond	+44 20 3753 3017
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Lush Mahendrarajah	+44 20 3207 7896
Benjamin May	+44 20 3465 2667
Iain Pearce	+44 20 3465 2665
Anthony Plom	+44 20 3207 7908
Eoghan Reid	+44 20 3753 3055
Owen Shirley	+44 20 3465 2731
Donald Tait	+44 20 3753 3031
Sean Thapar	+44 20 3465 2657

ECONOMICS

Florian Hense	+44 20 3207 7859
Carsten Hesse	+44 20 3753 3001
Kallum Pickering	+44 20 3465 2672
Holger Schmieding	+44 20 3207 7889

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Ramnique Sroa	+44 20 3753 3064
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Jonathan Smith	+44 20 3207 7842
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THEMATICS	
Chris Armstrong	+44 20 3207 7809
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Alexandre Chevassus	+33 1 5844 9512
Dalila Farigoule	+33 1 5844 9510
Kevin Nor	+33 1 5844 9505
Guillaume Viret	+331 5844 9507

BENELUX	
Miel Bakker	+44 20 3207 7808
Bram van Hijfte	+44 20 3753 3000
SCANDINAVIA	
Donata Leonova	+44 20 3753 3156
Mikko Vanhala	+44 20 3207 7818
Marco Weiss	+49 40 3506 0719
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Thomas Baker	+44 20 3753 3062
James Burt	+44 20 3207 7807
Fabian De Smet	+44 20 3207 7810
Marta De-Sousa Fialho	+44 20 3753 3098
Jules Emmet	+44 20 3753 3260
Katie Ferry	+44 20 3753 3041
Robert Floyd	+44 20 3753 3018
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Karl Hancock	+44 20 3207 7803
Sean Heath	+44 20 3465 2742
Stuart Holt	+44 20 3465 2646
James Hunt	+44 20 3753 3007
James McRae	+44 20 3753 3036
David Mortlock	+44 20 3207 7850
Jacqueline Nestel	+44 20 3753 3194
Eleni Papoula	+44 20 3465 2741
Bhavin Patel	+44 20 3207 7926
Kushal Patel	+44 20 3753 3038

UK (cont'd)	
Richard Payman	+44 20 3207 7825
Christopher Pyle	+44 20 3753 3076
Adam Robertson	+44 20 3753 3095
Joanna Sanders	+44 20 3207 7925
Mark Sheridan	+44 20 3207 7802
George Smibert	+44 20 3207 7911
Sam Stannah	+44 20 3753 3157
Alexander Wace	+44 20 3465 2670
Paul Walker	+44 20 3465 2632
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
Joerg Wenzel	+49 69 91 30 90 743
SWITZERLAND, AUSTRIA & ITALY	
Duncan Downes	+41 22 317 1062
Andrea Ferrari	+41 44 283 2020
Gianni Lavigna	+41 44 283 2038
Jamie Nettleton	+41 44 283 2026
Yeannie Rath	+41 44 283 2029
Mirco Tieppo	+41 44 293 2024
COO Office	
Fenella Neill	+44 20 3207 7868
Greg Swallow	+44 20 3207 7833

CRM	
Megan Connolly	+44 20 3753 3244
Laura Cooper	+44 20 3753 3065
Beau Dibbs	+44 20 3753 3048
Jessica Jarmyn	+44 20 3465 2696
Madeleine Lockwood	+44 20 3753 3110
Vikram Nayar	+44 20 3465 2737
Rita Pilar	+44 20 3753 3066
CORPORATE ACCESS	
Lindsay Arnold	+44 20 3207 7821
Sally Fitzpatrick	+44 20 3207 7826
Maz Gentile	+44 20 3465 2668
Robyn Gowers	+44 20 3753 3109
Dipti Jethwani	+44 20 3207 7936
Ross Mackay	+44 20 3207 7866
Stella Siggins	+44 20 3465 2630
Lucy Stevens	+44 20 3753 3068
Abbie Stewart	+44 20 3753 3054
EVENTS	
Charlotte David	+44 20 3207 7832
Suzy Khan	+44 20 3207 7915
Natalie Meech	+44 20 3207 7831
Eleanor Metcalfe	+44 20 3207 7834
Rebecca Mikowski	+44 20 3207 7822
Sarah Weyman	+44 20 3207 7801

SALES TRADING

LONDON	
Charles Beddow	+44 20 3465 2691
Mike Berry	+44 20 3465 2755
Joseph Chappell	+44 20 3207 7885
Stewart Cook	+44 20 3465 2752
Mark Edwards	+44 20 3753 3004
Tom Floyd	+44 20 3753 3136
Tristan Hedley	+44 20 3753 3006
Luke Holmes	+44 20 3465 2750
Peter King	+44 20 3753 3139
Simon Messman	+44 20 3465 2754
LONDON (cont'd)	
AJ Pulleyn	+44 20 3465 2756
Michael Schumacher	+44 20 3753 3006
Paul Somers	+44 20 3465 2753
PARIS	
Vincent Klein	+33 1 58 44 95 09

EQUITY TRADING

HAMBURG	
David Hohn	+49 40 350 60 761
Lukas Niehoff	+49 40 350 60 798
Lennart Pleus	+49 40 350 60 596
Marvin Schweden	+49 40 350 60 576
Philipp Wiechmann	+49 40 350 60 346
Christoffer Winter	+49 40 350 60 559
LONDON	
Christopher Brown	+44 20 3753 3085
Edward Burlison-Rush	+44 20 3753 3005
LONDON (cont'd)	
Jack Clayton	+44 20 3753 3166
Will Kain	+44 20 3753 3167
Richard Kenny	+44 20 3753 3083
Chris McKeand	+44 20 3207 7938
Ross Tobias	+44 20 3753 3137
Robert Towers	+44 20 3753 3262

ELECTRONIC TRADING

Jonas Doehler	+44 40 3506 0391
Matthias Führer	+49 40 3506 0597
Sven Kramer	+49 40 3506 0347

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Member FINRA & SIPC

Internet www.berenberg-us.com

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

EQUITY RESEARCH

GENERAL MID CAP - US

Samuel England	+1 646 949 9035
Alex Maroccia	+1 646 949 9033
Brett Knoblauch	+1 646 949 9032

HEALTHCARE

MED. TECH/SERVICES

Ravi Misra	+1 646 949 9028

SPECIALTY PHARMACEUTICALS

Patrick R. Trucchio	+1 646 949 9027

CAPITAL GOODS

Andrew Buscaglia	+1 646 949 9040

LEISURE

Brennan Matthews	+1 646 949 9024

INDUSTRIAL MATERIALS

Paretosh Misra	+1 646 949 9031

REAL ESTATE

Nate Crossett	+1 646 949 9030
Connor Siversky	+1 646 949 9037

SHIPPING & TRANSPORTATION

Donald McLee	+1 646 949 9026

SOFTWARE & IT SERVICES

Alexander Frankiewicz	+1 646 949 9029
Gal Munda	+1 646 949 9021
Joshua Tilton	+1 646 949 9036

TECHNOLOGY HARDWARE

Andrew DeGasperi	+1 646 949 9044

ECONOMICS

Mickey Levy	+1 646 949 9099
Roiana Reid	+1 646 949 9098

EQUITY SALES

SALES

Albert Aguiar	+1 646 949 9218
Nate Emerton	+1 617 292 82 11
Kelleigh Faldi	+1 617 292 8288
Ted Franchetti	+1 646 949 9231
Rich Harb	+1 617 292 8228
Zubin Hubner	+1 646 949 9202
Jessica London	+1 646 949 9203
Anthony Masucci	+1 646 949 9217
Ryan McDonnell	+1 646 949 9214
Emily Mouret	+1 415 802 2525
Peter Nichols	+1 646 949 9201
Kieran O'Sullivan	+1 617 292 8292
Rodrigo Ortigao	+1 646 949 9205

CORPORATE ACCESS

Adriane Klein	+1 617 292 8202
Olivia Lee	+1 646 949 9207
Robert Meyers	+1 646 949 9215

EVENTS

Laura Hawes	+1 646 949 9209

SALES TRADING

Ronald Cestra	+1 646 949 9104
Mark Corcoran	+1 646 949 9105
Michael Haughey	+1 646 949 9106
Christopher Kanian	+1 646 949 9103
Lars Schwartau	+1 646 949 9101
Bob Spillane	+1 646 949 9102