



Eurozone after BREXIT

Implications for the Economy & Labor Market

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September 2016

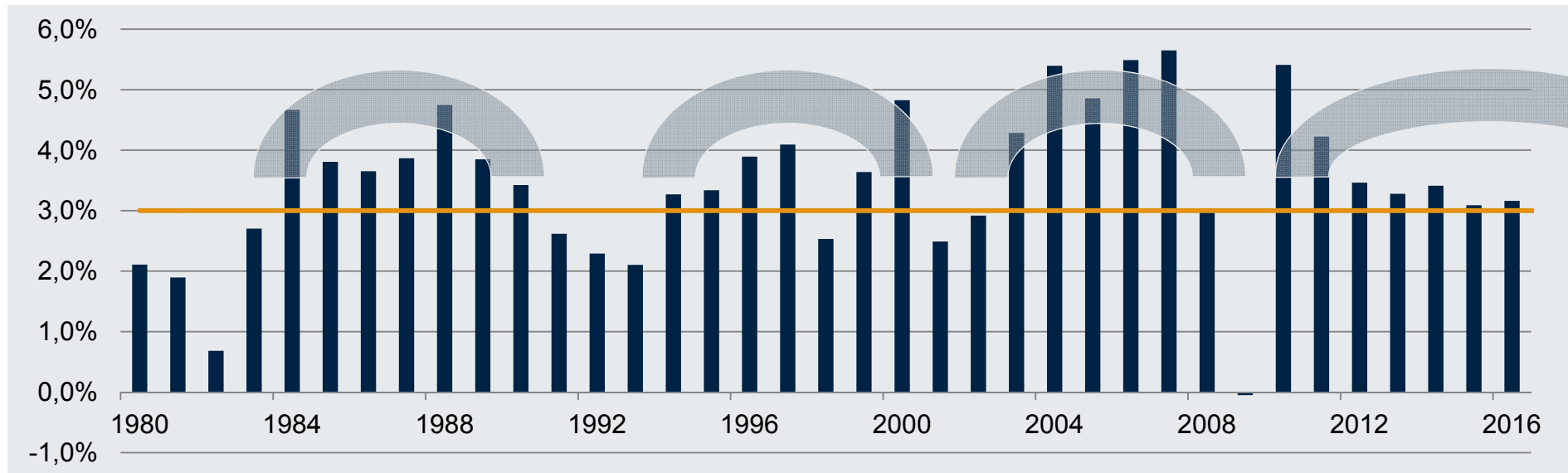


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Global Growth

Current global business cycle in it's 7th year

Global growth (IMF definition)



- Current global recovery started in 2009
- Business cycle characterized by significantly weaker momentum than previous recoveries
- ➔ No signs of overheating after six years of recovery

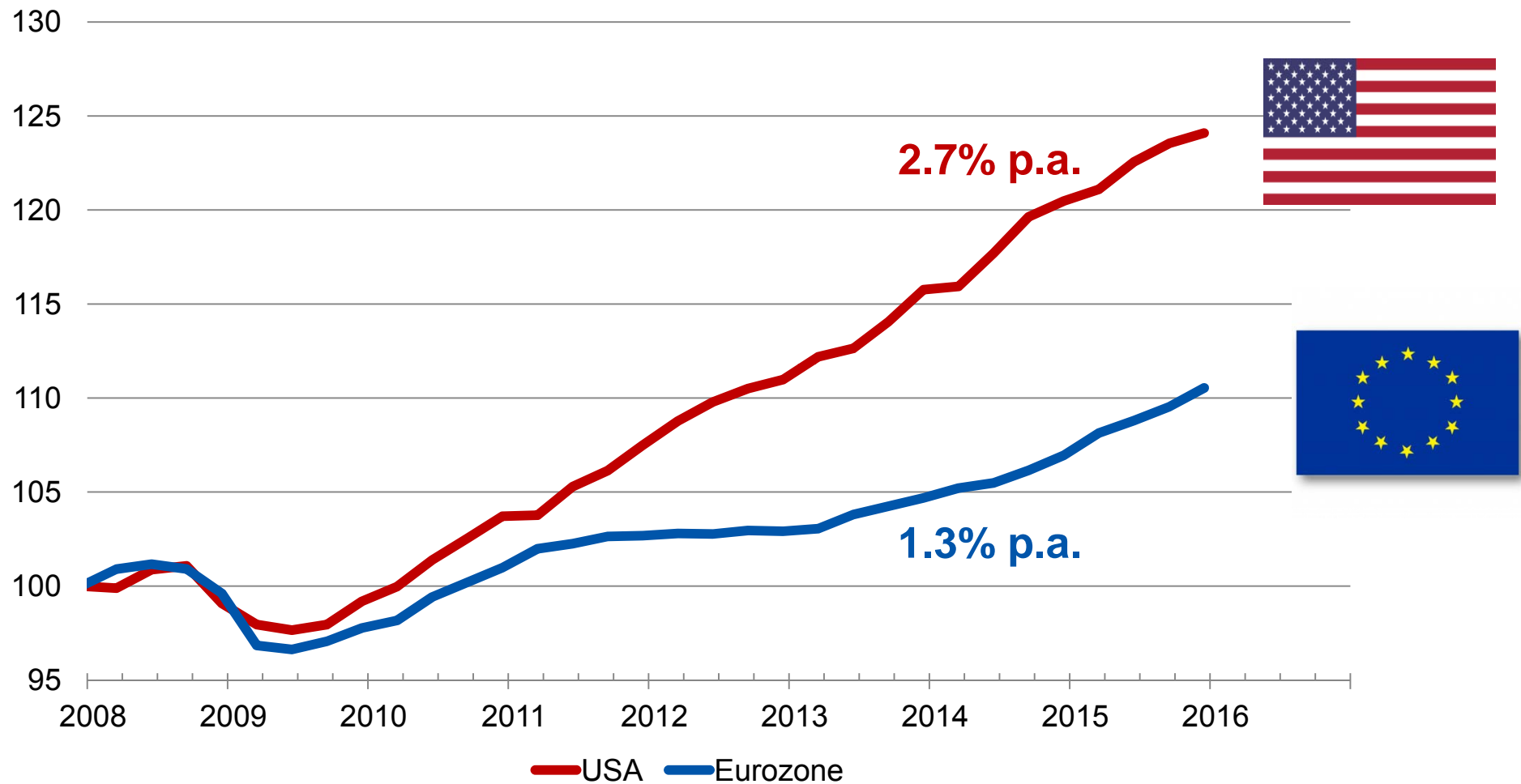
Source: International Monetary Fund, Bloomberg Finance L.P., Deutsche Asset & Wealth Management Investment GmbH
As of: May 2016

Business Cycle

Comparing the U.S. and the Eurozone



Nominal GDP (indexed, 2007 = 100)



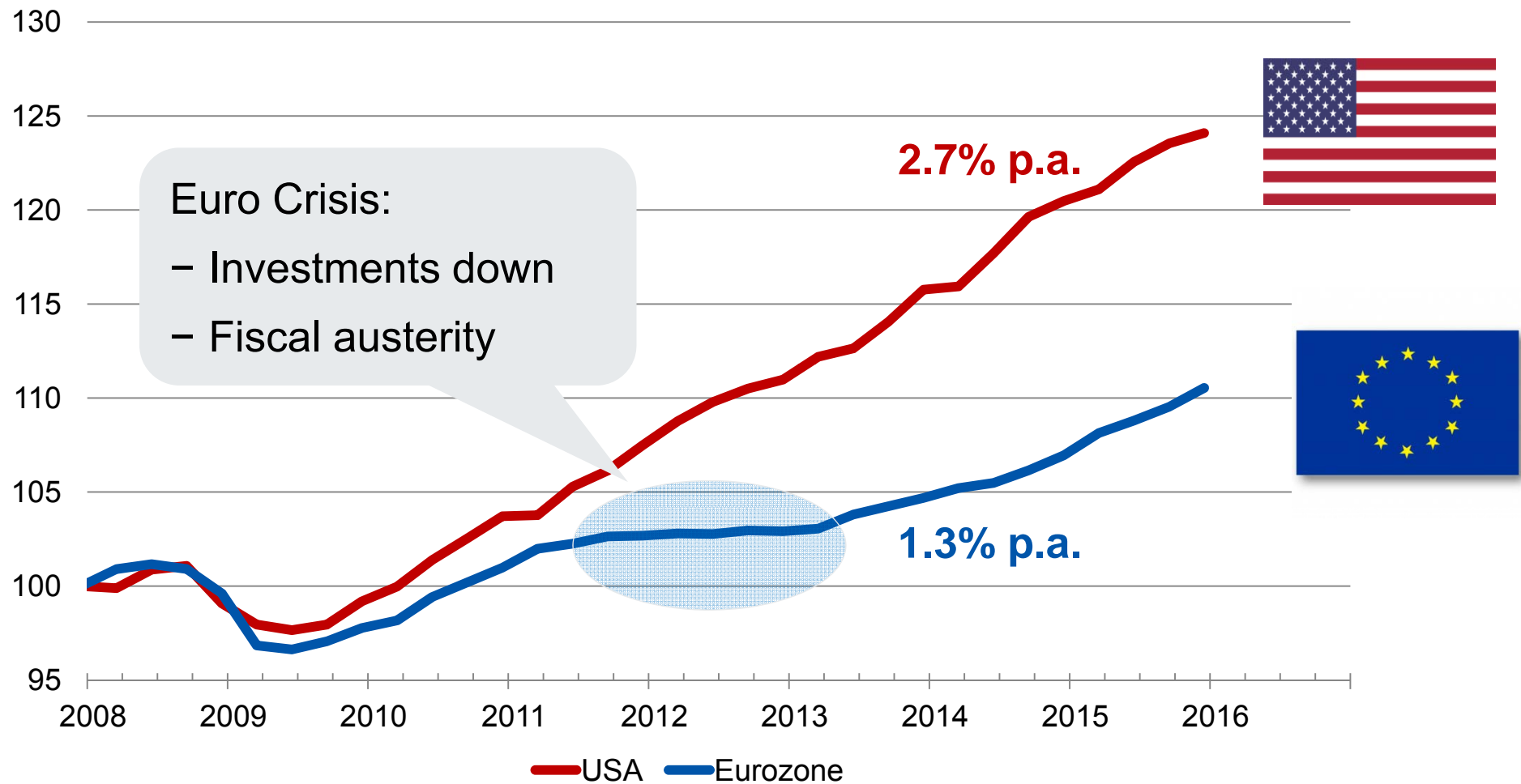
Source: Bloomberg Finance L.P. , Bureau of Economic Analysis, Eurostat As of: September 2016

Business Cycle

Comparing the U.S. and the Eurozone



Nominal GDP (indexed, 2007 = 100)



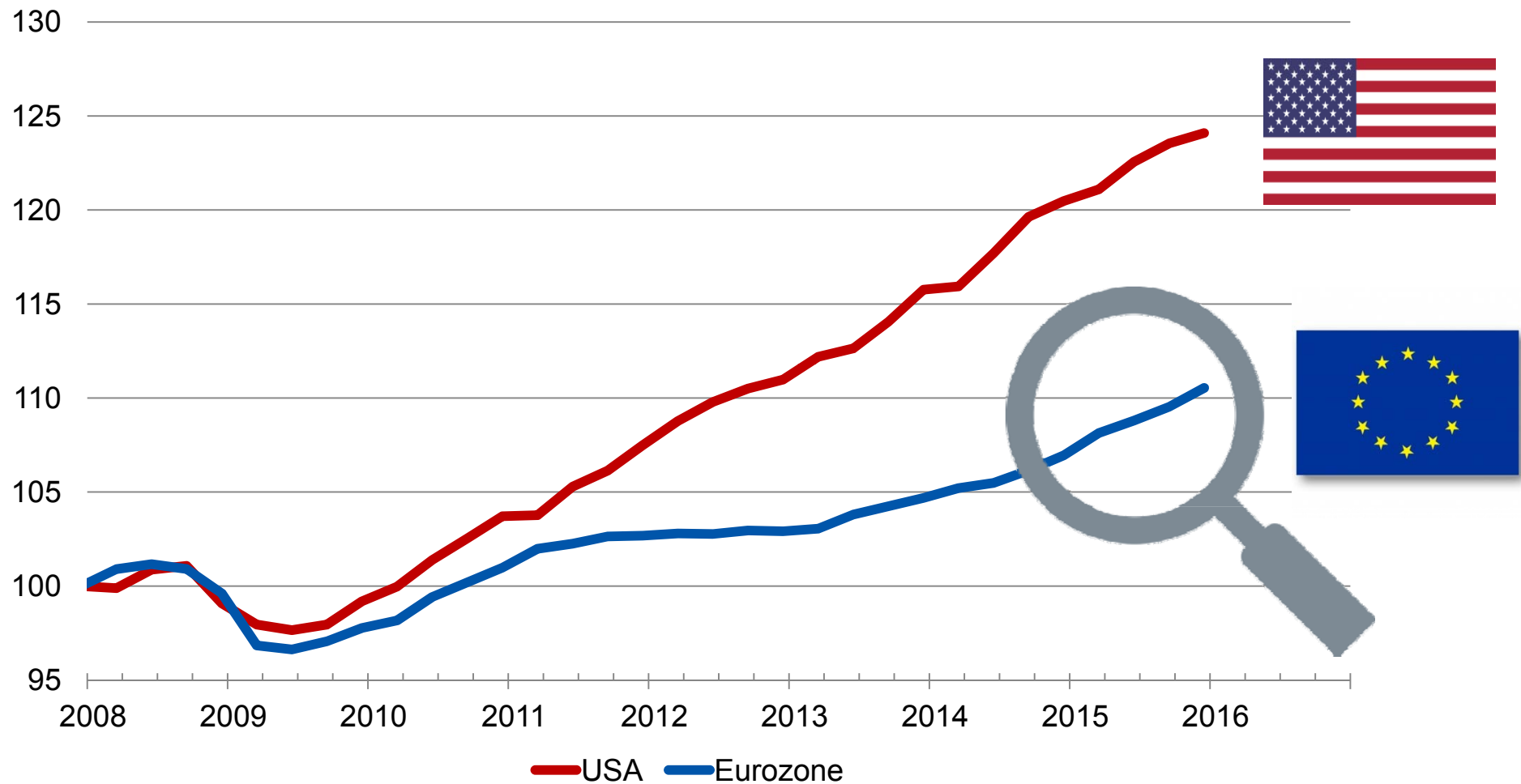
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Business Cycle

Comparing the U.S. and the Eurozone



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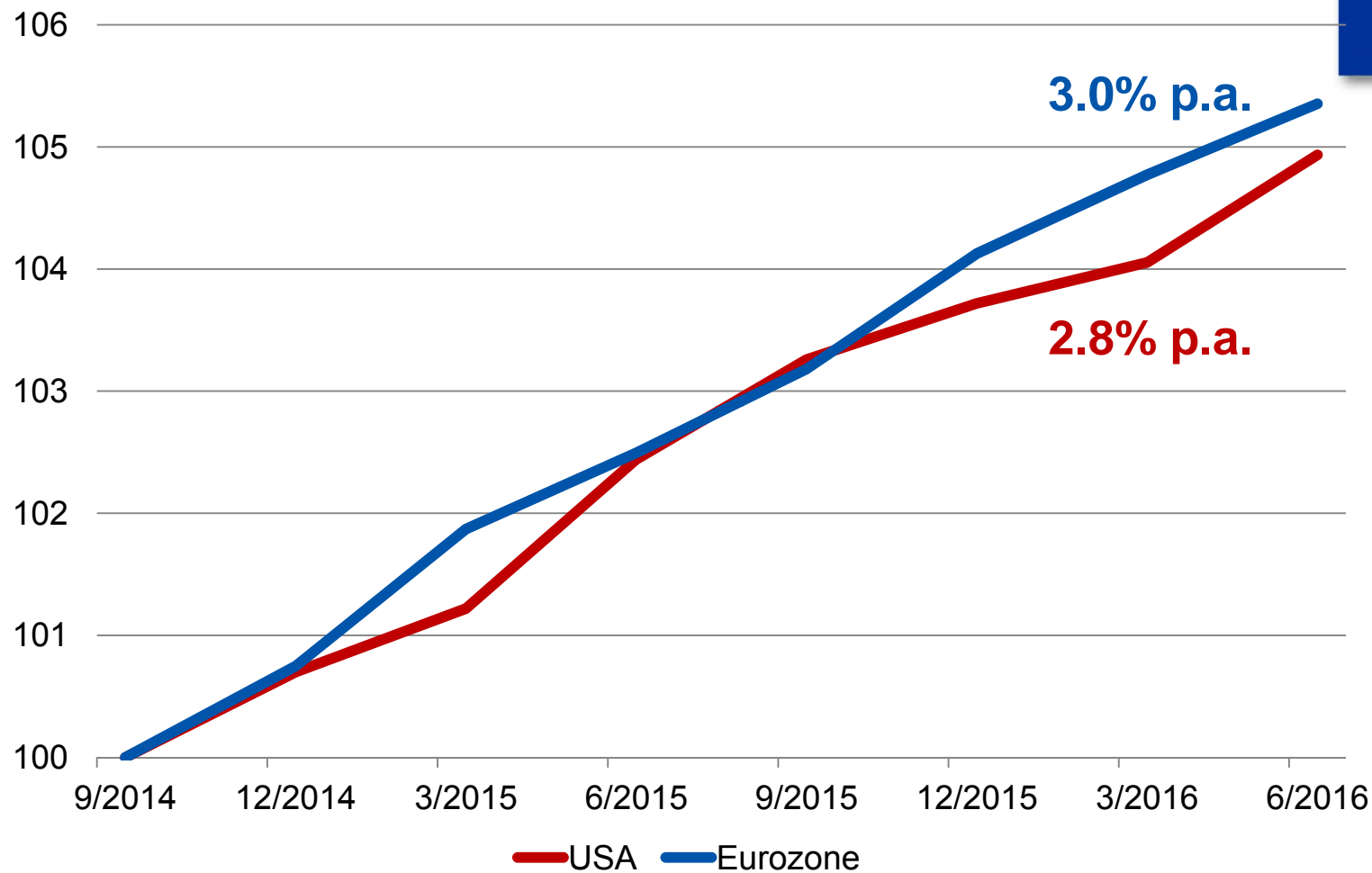
Source: Bloomberg Finance L.P. , Bureau of Economic Analysis, Eurostat As of: September 2016

Business Cycle

Comparing the U.S. and the Eurozone



Nominal GDP (indexed, Q3/2014 = 100)

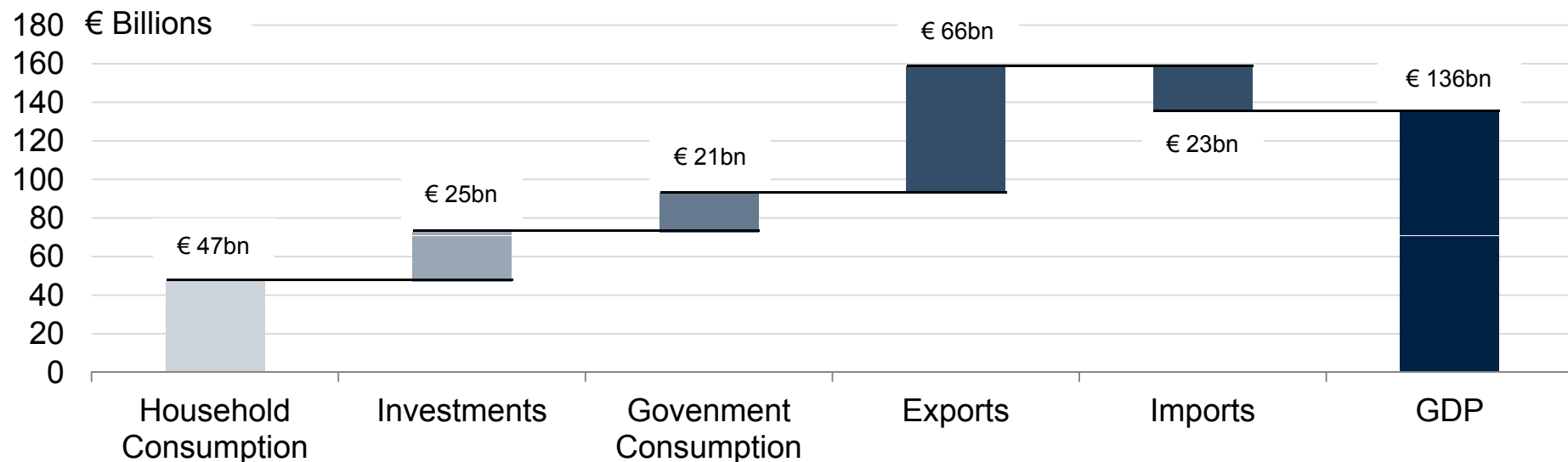


Source: Bloomberg Finance L.P. , Bureau of Economic Analysis, Eurostat As of: September 2016

Eurozone Growth

Drivers of growth

Contribution to Eurozone nominal GDP growth Q3/2014 – Q2/2016



- Household consumption and net exports contributed ca. 1/3 each to strong Eurozone GDP performance over the past 2 years
- Investment spending and government consumption accounted for the remaining 1/3 of overall growth

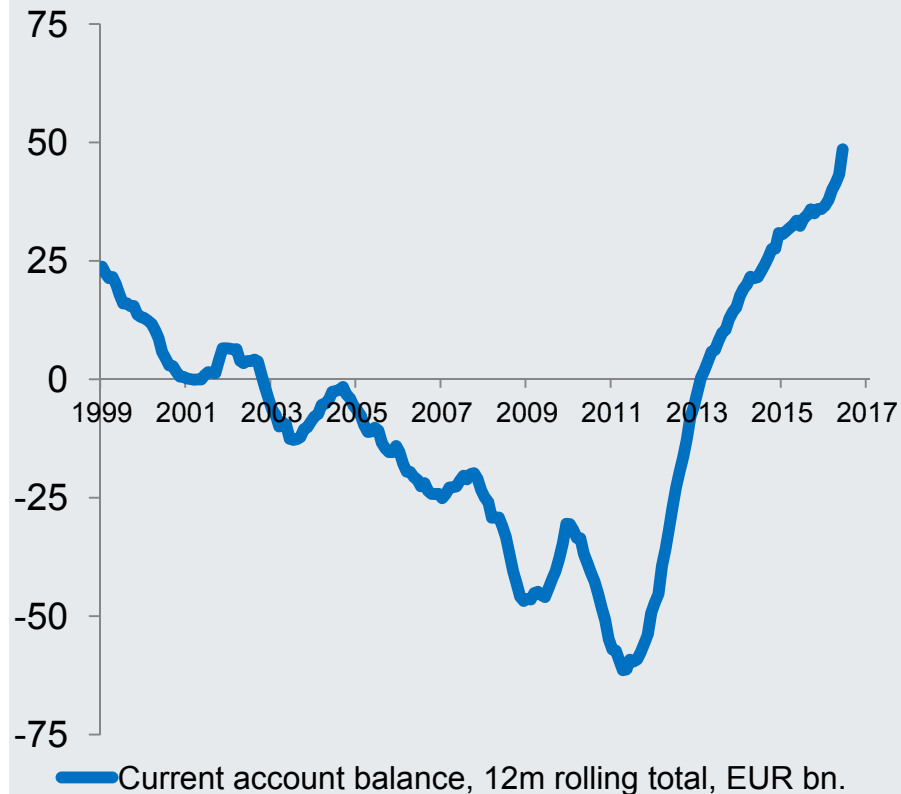
Source: Bloomberg Finance L.P., Eurostat, Deutsche Asset Management Investment GmbH As of: September 2016

Current Account Balances

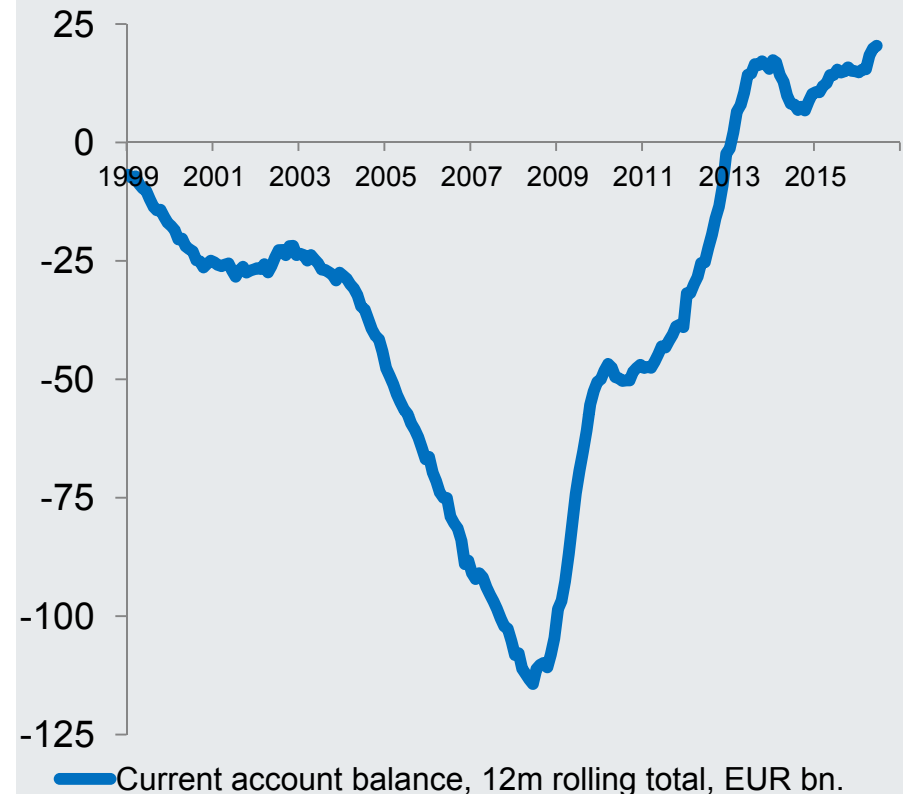
External balance improved throughout the Eurozone



Italy: current account balance



Spain: current account balance

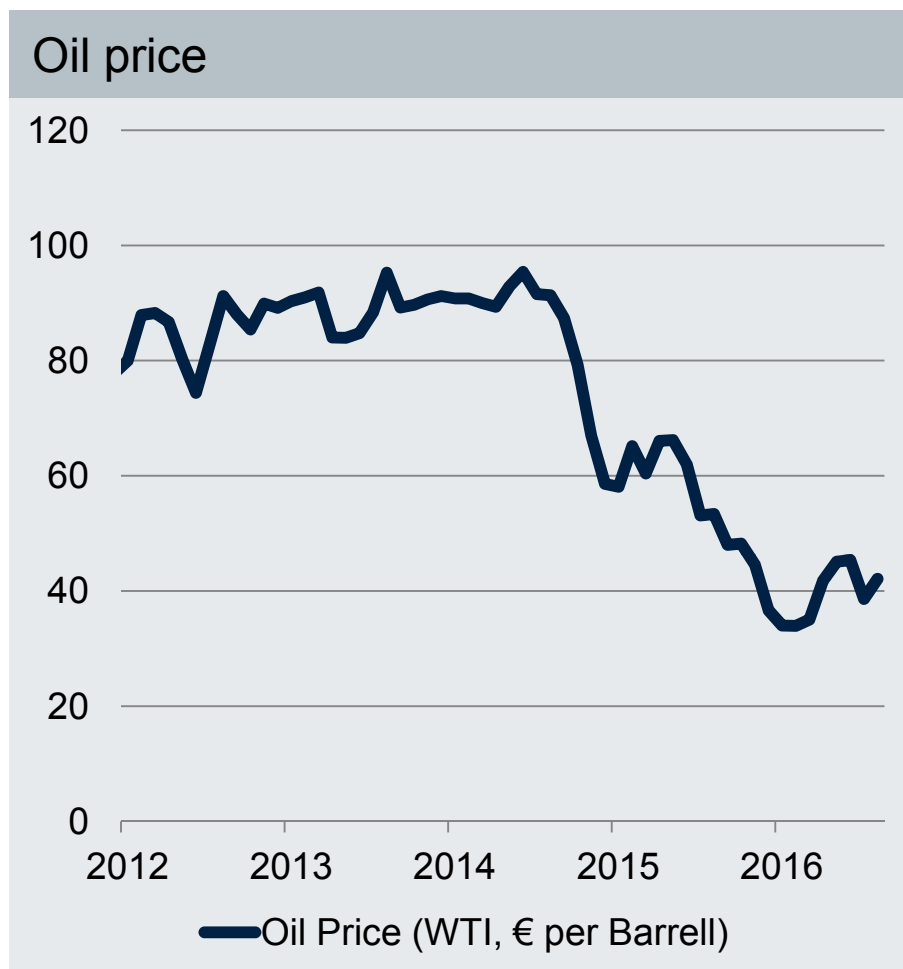


Source: Bloomberg Finance L.P. As of: September 2016

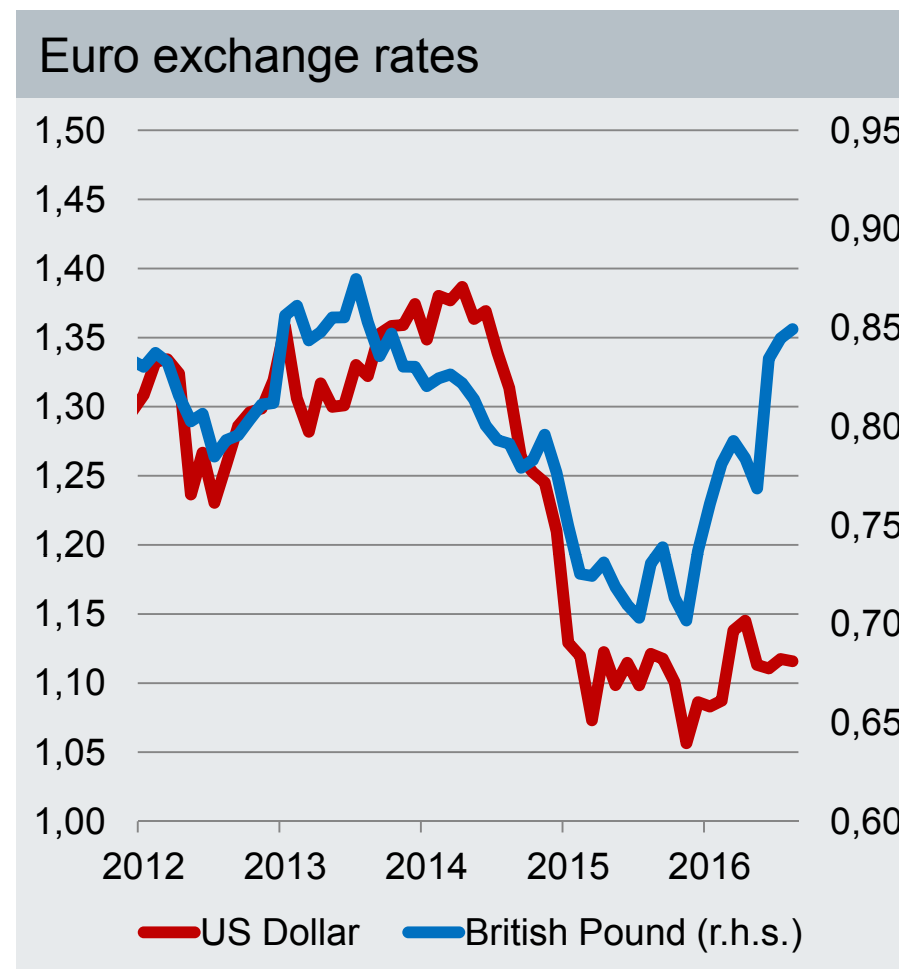
Source: Bloomberg Finance L.P. As of: September 2016

Oilprice and Exchange Rate

Two major supporting factors for the Eurozone economy since 2014



Source: Bloomberg Finance L.P. As of: September 2016

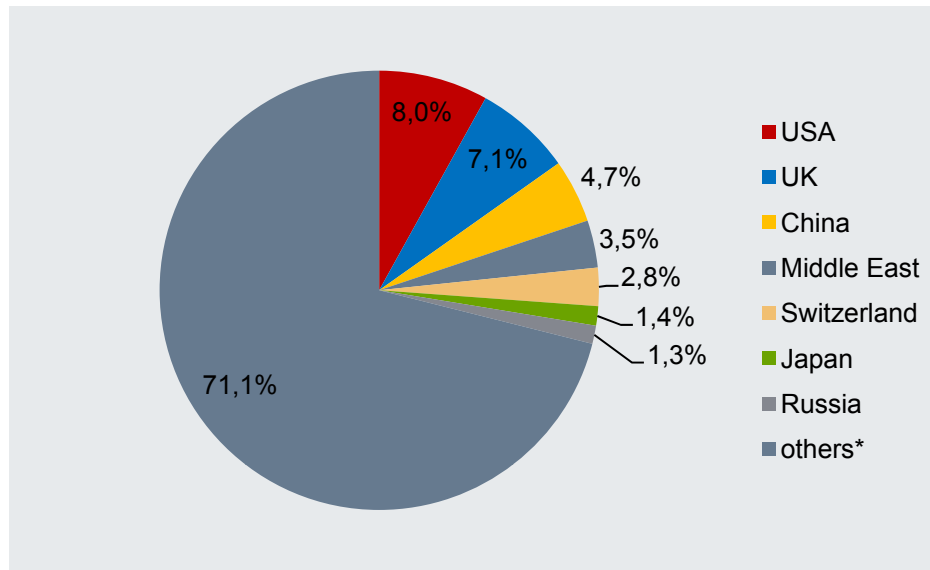


Source: Bloomberg Finance L.P. As of: September 2016

U.K. & Eurozone Trade

United Kingdom is the 2nd most important ex-EMU export destination

Eurozone exports



Eurozone exports to U.K.



Eurozone trade with U.K. can be impacted by three factors:

- Exchange rate
- Strength of demand in U.K.
- Trade barriers

* including intra-Eurozone trade

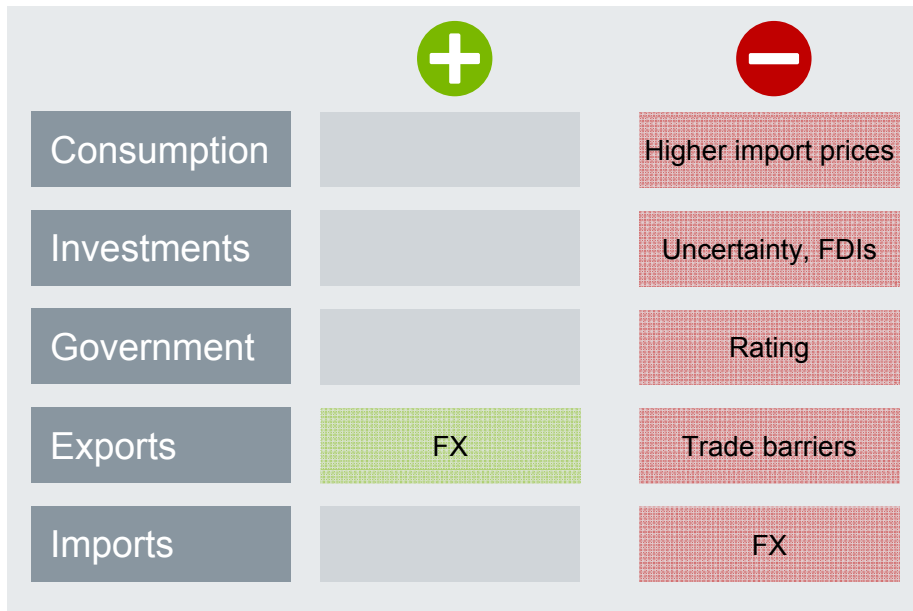
Source: IMF DOT statistics, Bloomberg Finance L.P. As of: September 2016

BREXIT

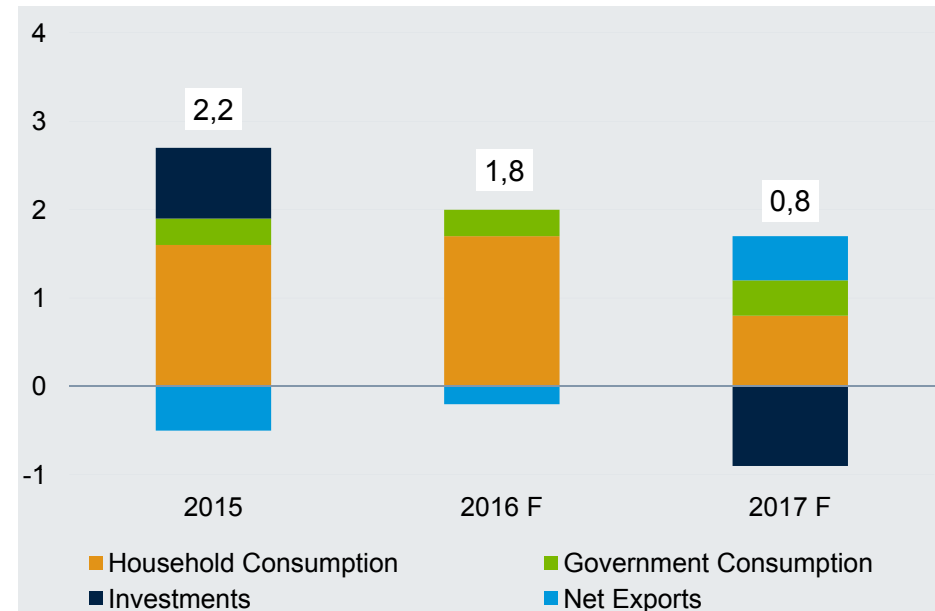
Economic consequences for the United Kingdom



Implications



UK: Growth outlook (in %, yoy)



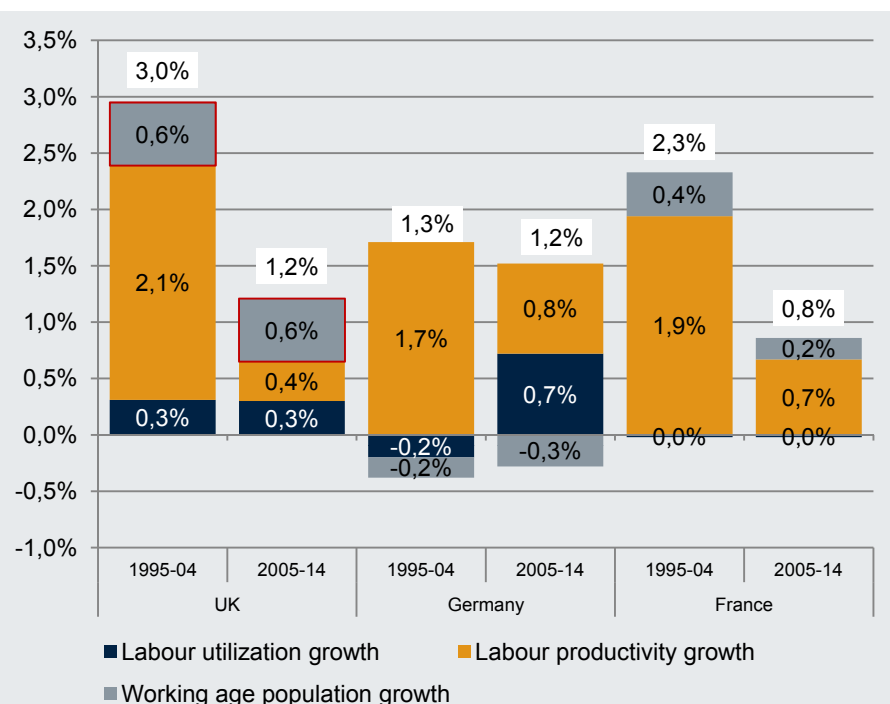
Key points

- Immediate impact of referendum less negative than feared
 - Q2 GDP data stable which implies that economy ran on “no Brexit” assumption
- Adjustments are expected to materialize in 2017 with GDP growth +0.8%
- BoE delivered a comprehensive pack to offset transition shocks

BREXIT – UK Labor Market Considerations



Contribution to GDP growth



Impact on UK growth from less migration

Natural population growth accounts for ar. 45%-50% of total

Rest of population growth from net migration, mainly work-related

Share of highly educated EU-migrants (46%) is higher than the share of native born (33%)

In total there are ~ 2.23 mio EU nationals working in the UK

In the UK it is estimated that 4.3 mio jobs are associated with exports to the EU



Negative effects on UK growth and UK labour markets

Past Performance and forecasts are not reliable indicators of future returns. No assurance can be given that any forecast or target will be achieved.
Source: Bloomberg Finance L.P., Credit Suisse, UK ONS, Cebr, Deutsche Asset & Wealth Management Investment GmbH, as of March 2016

Brexit – EU Labour Market Considerations



Trade in Goods and EU Labour Markets

Sectors* (% 2015 GDP)		1	2	3	4	5	6	7	8	Σ
UK Imports from country in % country GDP	France	0.2%	0.1%	0.1%	0.0%	0.3%	0.1%	0.1%	0.6%	1.4%
	Germany	0.1%	0.3%	0.0%	0.0%	0.5%	0.1%	0.1%	1.1%	2.9%
	Italy	0.1%	0.1%	0.1%	0.0%	0.2%	0.2%	0.1%	0.5%	1.2%
	Ireland	2.1%	0.6%	0.2%	0.2%	2.0%	0.2%	0.4%	1.4%	7.1%
	Spain	0.3%	0.2%	0.0%	0.0%	0.2%	0.1%	0.1%	0.8%	1.7%

Trade relationships: potential impact on demand

Main impact from less trade in Germany & Ireland

Less impact on Italy expected



Ireland will be affected the most from changes in trade-regimes

*Sector legend: 1 Food and live animals / 2 Crude materials, inedible, except fuels / 3 Beverages and tobacco / 4 Minerals, fuels, and lubricants / 5 Chemical products / 6 Miscellaneous manufactured goods / 7 Processed goods / 8 Machinery and transport equipment

**Y/Y change in 3m average export flow in respective sector on the horizontal axis vs. 6 months lagged Y/Y change of employment in the manufacturing sector

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Machinery and transport equipment

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Food and live animals

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Chemical products

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Sensitivity of Labour Markets**

German manufacturing sector relative resilient (“Kurzarbeit”)

Ireland is likely to be affected in manufacturing, food less sensitive



Ireland will be affected the most from changes in trade-regimes

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Summary



-
- Eurozone growth significantly driven by strong external trade performance
 - Oil price and Euro depreciation have supported Eurozone growth
 - United Kingdom is the 2nd most important ex-EMU export destination
 - Eurozone trade with the U.K. will be negatively impacted by exchange rate, demand in U.K., and trade barriers
 - Countries most affected by weaker exports to U.K. are Germany and Ireland
 - Impact will materialize gradually over time

Source: Deutsche Asset Management Investment GmbH As of: September 2016

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