Chart of the Month

June 2014

With a goal of stimulating the Eurozone economy, the European Central Bank reduced several key interest rates on Thursday. The ECB's boldest move involved dropping the overnight deposit rate for banks to -0.1%, becoming the first major central bank to institute negative interest rates. The purpose is to encourage banks to lend rather than hold money in the hope that such borrowing will allow companies to invest these funds in new plant, equipment, and labor.

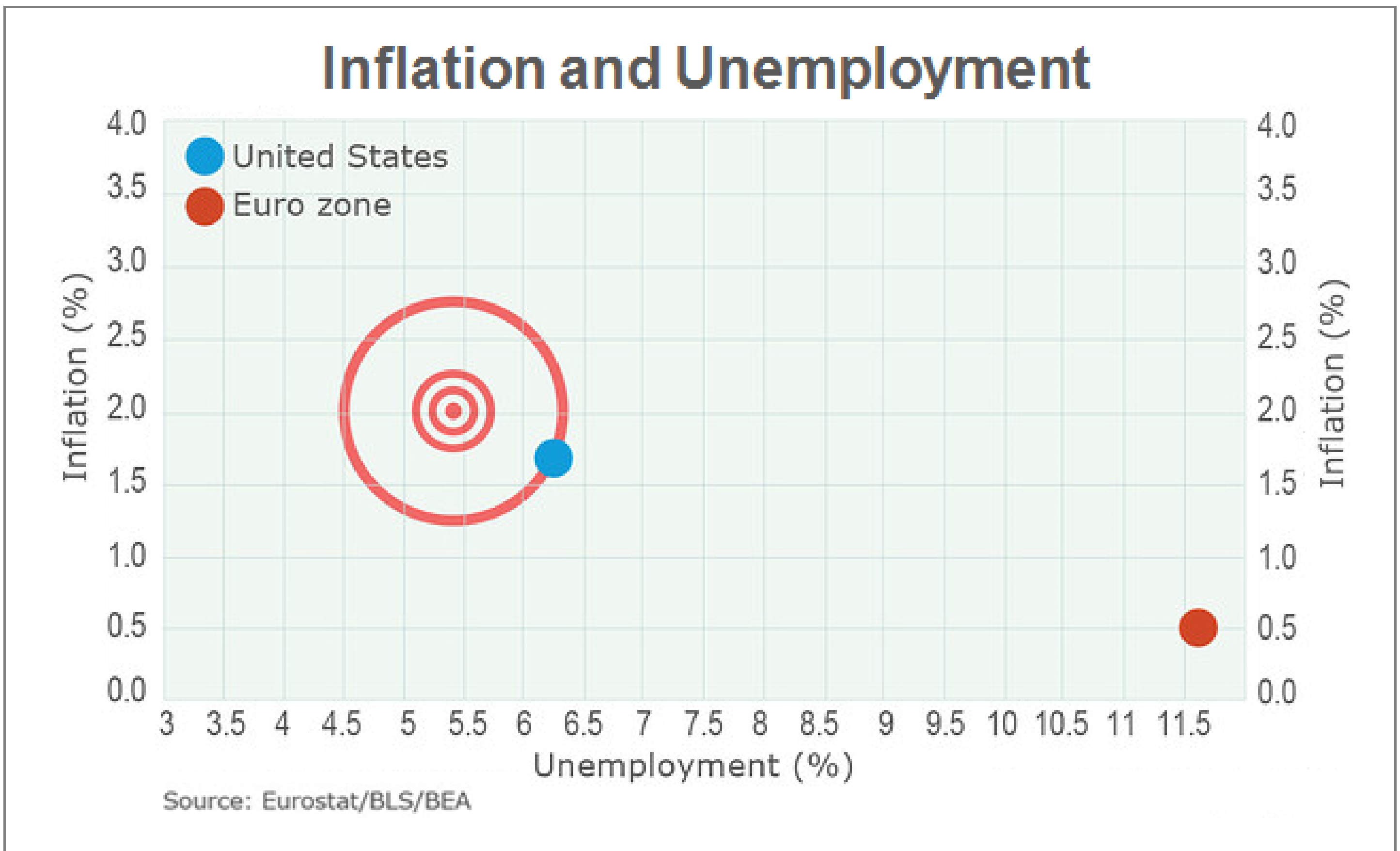
Mario Draghi's unconventional measures are the most dramatic since he announced his plan to "do whatever it takes" to save the European Union in the summer of 2012. The latest decision came two days after a report stated that inflation in the Eurozone fell to 0.5% in May, its lowest level in over four years and well below the ECB's target of just below 2% over the medium term.

As shown in the graph below, the Eurozone's inflation rate is much lower than the United States and its unemployment rate of 11.7 percent is significantly higher than the U.S. As a result, the European Central Bank is purposely trying to trade higher inflation for lower unemployment. Unlike the Federal Reserve (which has a jobless target of 5.2 to 5.6 percent), the ECB does not have a stated objective for unemployment. However, it is clear that policymakers would like to see the rate drop below the 9.6 percent average over the past 20 years.

Across the pond, the U.S. Labor Department reported this morning that employers added 217,000 jobs in May – the fourth straight month with job gains above 200,000, the first time that's happened in more than 14 years. Employment has now risen by 8.8 million since hitting a trough in early 2010, recouping the 8.7 million jobs lost during the last recession.

Due to an increase of 192,000 to the labor force, the unemployment rate held at a 5-1/2 year low of 6.3 percent. The participation rate, defined as the share of working-age people who are employed or at least looking for a job, remained subdued at 62.8 percent, matching the lowest since March 1978. The *under*employment rate, which includes part-time workers who would prefer a full-time position and people who want to work but have given up looking, fell to 12.2 percent, the lowest since October 2008.

The pace of hiring is another indication that the domestic economy is strengthening. With central bank liquidity flowing into global markets, the investment environment remains positive for both stocks and bonds, especially here at home.



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