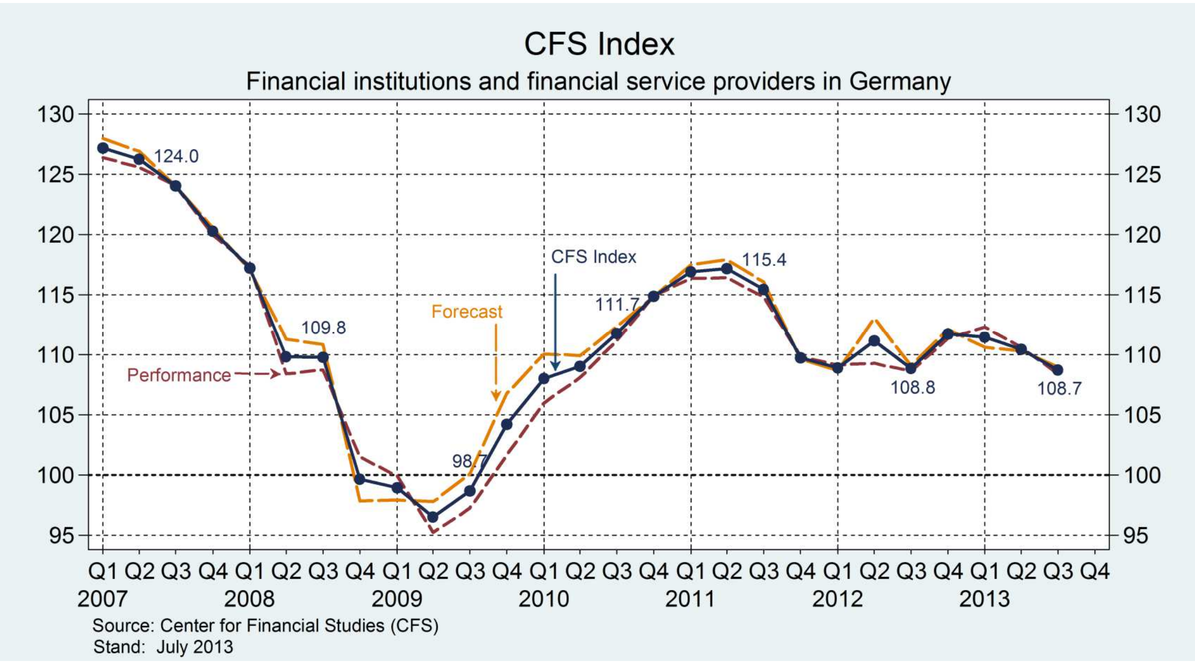
Press release

CFS Index decreases slightly

Financial institutions continue downsizing in 2nd quarter, further reductions expected/ Special survey: Majority sees end of low interest rate policy within the next two years

FRANKFURT, 15 July 2013. For the third quarter in a row, the CFS Index has shown a slight downward movement; being at 108.7 points at the end of the second quarter 2013, it almost equals its level from summer 2012. The decline can mainly be attributed to the persistent downsizing in the financial industry as well as to repeatedly negative expectations in this regard for the third quarter. Also, after strong investing activities in the first quarter of 2013, financial institutions and financial service providers showed less activity in this field in the second quarter.

In a special survey on the low interest rate environment 53 percent of the respondents express the expectation that the low interest rate policy will come to an end within the next two years. A majority of 63 percent calls the political approach to let savers help solving the government debt crisis by suffering from the real depreciation of assets wrong. Three quarters expect that private investors will redistribute their assets into stocks if the low interest rate phase continues.



Earnings of financial institutions weaker, but well over previous year's figure

Among the surveyed financial institutions at the financial center Germany, **earnings** slowed down again in the second quarter of 2013. The corresponding sub-index now remains at 104.6 points – more than ten points less than at the beginning of the year. On annual comparison, there is however an increase of 7.7 points. Service providers could partly make up the decline from the first quarter and, thus, meet their expectations expressed at the beginning of the second quarter; the corresponding sub-index now remains at 115.8 points. The financial institutions see the third quarter with slight optimism, whereas financial service providers expect a somewhat weaker development.

Growth in business volume/**revenue** again slowed down in the second quarter among both groups. The corresponding sub-indices are now at 106.1 points (financial institutions) and 118.8 points (financial service providers) respectively. In the third quarter, revenues are expected to be stable.

Having reached a two-year high in the first quarter of 2013, the sub-index **investment volume** among financial institutions now went down again to its long-term average at 106.8 points. Among financial service providers, the corresponding sub-index also declined to a level of now 106.3 points which is substantially below the average of recent quarters. Both groups expect an extension of their investment activities in the third quarter of 2013 with the service providers being more optimistic than the financial institutions.

For the third quarter in a row, the sub-index **employment level** among financial institutions has remained under the neutral benchmark of 100 points which indicates staff reductions. In accordance with the expectations the survey participants expressed at the beginning of the second quarter, the sub-index decreased significantly to a level of now 92.5 points – an all-time low. For the third quarter of 2013, financial institutions forecast further job cuts at a similar rate. In contrast to that, financial service providers increased their staff in the second quarter and expect even further growth in the third one. CFS Director Jan Pieter Krahnen said: "The impression is that among financial institutions job cuts add to the positive earning situation whereas, on the other hand, service providers grow because of their job creation."

In spite of the job cuts in the financial industry participants assume a growing **international importance of the financial center Germany**. Especially service providers revise their pessimistic view from last year. Reason for the confidence could be the new supervisory authorities to be built in Frankfurt, said Krahnen.

Special Survey: Low Interest Rate Environment

The road of low interest rate policy comes to an end

53 percent of the respondents express the expectation that the low interest rate policy will come to an end within the next two years. About 40 percent assume an end within the next five years. Together, more than 90 percent of the respondents think that interest rates will stay on their low level no longer than for the next five years.

A majority of 63 percent calls the political approach to let savers help solving the government debt crisis by suffering from the real depreciation of assets – given a market interest rate below inflation – wrong. Only 15 percent say the approach is right.

Growing popularity of stocks and corporate bonds expected

Three quarters of the respondents expect that private investors will redistribute their assets into stocks if the low interest rate phase continues. Half of them assume a switch into corporate bonds, 86 percent say that private investors will shift parts of their assets into real estate. Only about 15 percent suspect savers to reshuffle into commodities.

Decreasing deposits meet growing credit volume – earning opportunities vanish

According to survey participants, the low interest rate environment does not have negative effects on credit supply and demand. 86 percent of respondents say that the credit volume will either grow or will not be affected. Contrary to this, two thirds expect deposits to go down as a consequence of the low interest rates. “This correlation raises the question which means financial institutions will use to serve credit demand”, said Jan Pieter Krahnen. “There is some evidence that bank bonds will fill the financing gap.“

Two thirds of the financial institutions that responded to the survey expect the earning opportunities of their company to decrease if the low interest rate phase continues. About 40 percent assume negative effects on their company’s revenues. According to Jan Pieter Krahnen the low interest rates are threatening the business model of several financial institutions over the medium term.

Index calculation of the CFS Financial Center Index
The CFS Financial Center Index is based on a quarterly management survey of currently 400 enterprises of the financial center of Germany. The survey contains four questions about the participant's view on different business parameters (transaction volume, profits, employment and investment in product- and process innovations). The answers to the questions may be given as "positive", "neutral", or "negative" and a response is requested for the previous and the current quarter. Due to construction, the maximum index value is 150, the minimum index value is 50; a value of 100 signalizes a neutral business sentiment. The survey-panel consists of enterprises and institutions of the financial industry and selected companies, which profit from the financial sector.

Profile CFS
The Center for Financial Studies (CFS) is a financially independent research institute, affiliated to Goethe University Frankfurt. CFS conducts independent and internationally-oriented research on financial markets, financial intermediaries and monetary economics and interacts as the German partner with other international research centers specifically on the subject of financial market architecture and the role played by banks and stock exchanges. President of CFS is Prof. Dr. Dr. h.c. mult. Otmar Issing. Chairman of the supporting association: Dr. Rolf-E. Breuer. Overall management of the institute is conducted by the directors Prof. Michael Haliassos, Ph.D., Prof. Dr. Jan Pieter Krahnen, Prof. Dr. Uwe Walz.

We express our thanks for financial support of the project to the Helaba Landesbank Hessen Thüringen.

For further information, please contact:

Marcus Fleig
Center for Financial Studies
House of Finance
Goethe University Frankfurt
email: fleig@ifk-cfs.de
phone: +49 69 798 30061
www.ifk-cfs.de/cfsindex