

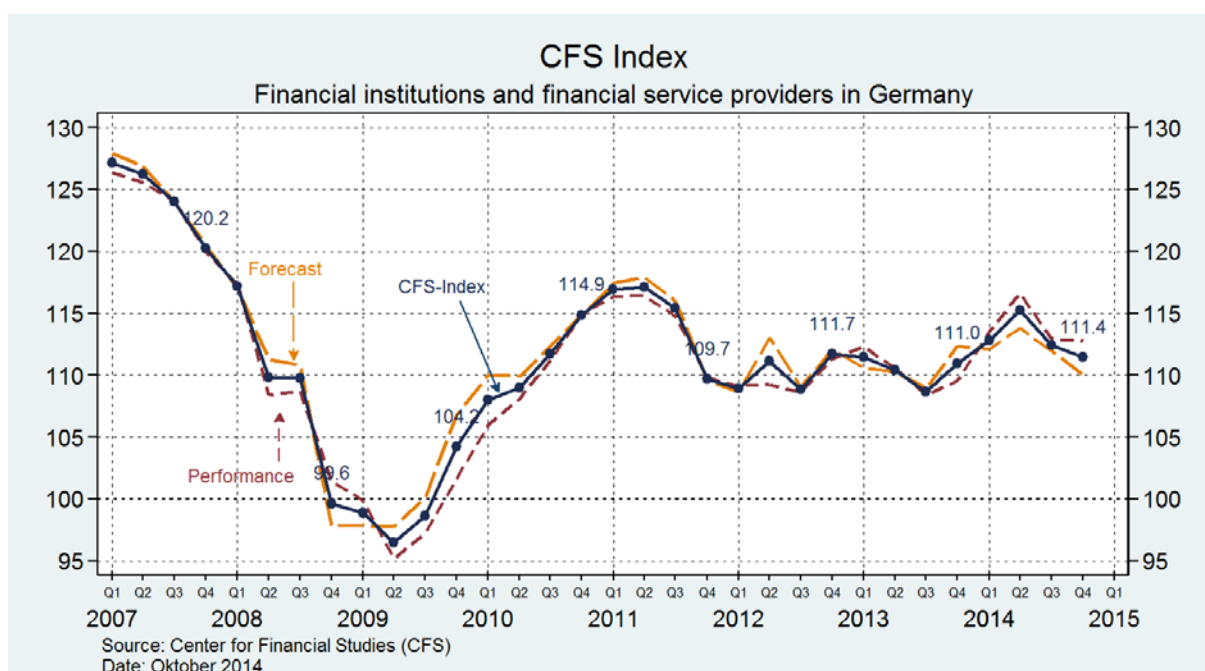
Press release

CFS Index drops again

Revenues and earnings of German financial institutions and service providers slowed down / Financial institutions reduce their headcount

FRANKFURT, 20 October 2014. The CFS Index, which measures the prevailing market sentiment of the German financial sector on a quarterly basis, decreases again during the third quarter 2014. The Index declines by one point to 111.4 points. The drop is mostly due to a weaker development of revenues and earnings among German financial institutions and service providers. Also, the surveyed financial institutions reduced their headcount and expect further downsizing for the current quarter. In contrast, service providers recruited new staff and increased their investment level during the last quarter.

“While service providers, like consultancy and auditing companies, benefit from new regulations in the financial sector, the impact is negative for financial institutions. Because of these opposite effects the CFS Index has moved sideways in the last quarter,” Professor Jan Pieter Krahen, Director of the Center for Financial Studies and academic head of the survey, comments.



Service providers increase their investment volume

The surveyed financial institutions and service providers were not able to increase their **revenues** /business volumes during the third quarter as they had expected in the previous quarter. Among financial institutions the corresponding sub-index declines by 1.5 points to 111.3 points and among service providers by 1.6 points to 119.6 points. Particularly financial institutions expect the growth in revenues to continue to decrease slightly during the fourth quarter 2014.

Earnings of financial institutions and service providers have also grown more slowly during the third quarter 2014 compared to the second quarter. This development reflects the expectations of both groups from the previous quarter. The corresponding sub-index goes down by 2 points to 106 points among financial institutions. For service providers the decline is even stronger with 5.7 points. However, the sub-index stays on a comparatively high level with 115.5 points. While financial institutions also expect a slower growth of earnings for the current quarter, service providers anticipate a slightly higher growth rate.

Service providers report an increase in the sub-index **investment volume** for the third quarter 2014 contrary to their expectations from the previous quarter. The sub-index strongly rises by 6.1 points to a value of 118.6 points. In contrast, financial institutions remain on a level of 107.7 points. Both groups anticipate a lower growth of investment volume for the current quarter compared to the previous quarter.

Among financial institutions the sub-index **employment level** stays below the neutral benchmark of 100 points, which indicates a reduction in headcount for the third quarter 2014. The sub-index declines by 2.5 points to 97.3 points. Financial institutions also expect further downsizing for the current quarter. On the contrary, service providers recruited new staff during the third quarter 2014, the corresponding sub-index rises by 4.5 points to 118 points.

About the Center for Financial Studies

The Center for Financial Studies (CFS) conducts independent and internationally-oriented research in important areas of Financial and Monetary Economics, ranging from Monetary Policy and Financial Stability, Household Finance and Retail Banking to Corporate Finance and Financial Markets. CFS is also a contributor to policy debates and policy analyses, building upon relevant findings in its research areas. In providing a platform for research and policy advice, CFS relies on its international network among academics, the financial industry and central banks in Europe and beyond.

About the CFS Index

The CFS Index is compiled from a comprehensive quarterly survey among 400 decision makers in the German financial sector (return about 50% on average). The survey contains four questions about the participant's view on different business parameters (business volume, earnings, employment level and investment volume 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 that profit from the financial sector.

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