

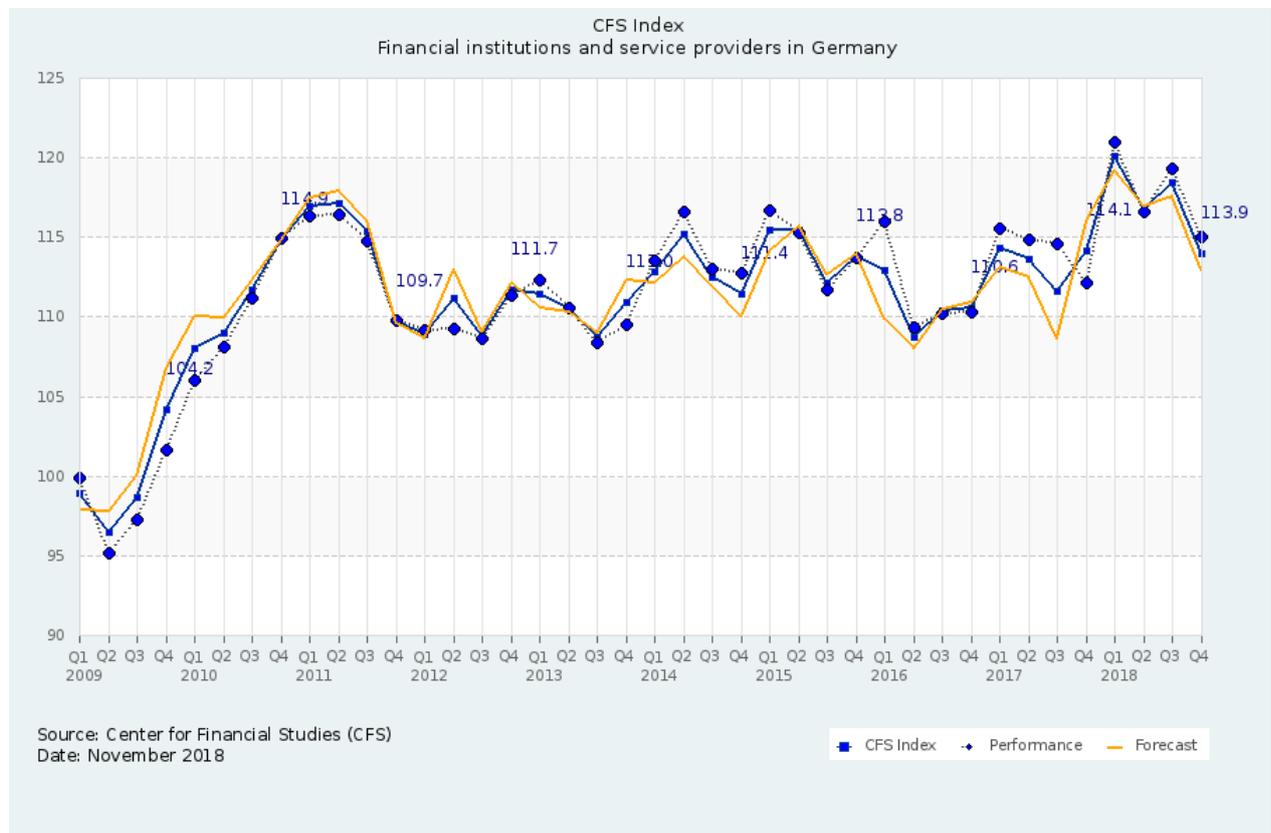
Press Release

CFS-Index takes a clear downturn

Strong decline in earnings and employee growth among service providers / Financial industry as a whole reports slower growth in revenues and investment / However, financial institutions record higher earnings growth and neutral sentiment on employee numbers

FRANKFURT, 3 December 2018. The CFS Index, which measures the business climate of the German financial sector on a quarterly basis, falls by 4.5 points to 113.9 points in the third quarter of 2018. The significant decline is primarily due to weaker growth in earnings and employee numbers among service providers as well as slower growth in revenues and investment volume throughout the financial sector. Among the financial institutions, however, the downturn in revenue growth is offset by an increase in earnings, while sentiment regarding employee numbers is neutral.

“Given the contrary trends in the earnings of banks and service providers – rising for the former, falling for the latter – the question arises as to why their investment behaviour is so similar. It appears that macroeconomic and political uncertainties (Brexit, Italy, USA, China) are the primary cause of the slowdown in investment,” Professor Jan Pieter Krahen, Director of the Center for Financial Studies, interprets the results.



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The future international importance of the Financial Centre Germany is still rated positively, albeit to a lesser degree.

Since the Brexit vote in 2016, the **future international importance of the Financial Centre Germany** had been rated at historically high levels. In the third quarter of 2018, the corresponding figure of 126 points remains at a good level, despite recording a significant decline of -5.3 points.

“The downward trend in the assessment of Germany’s future international significance as a financial centre is seeing the glass half empty. In recent months, other financial centres in the European Union have indeed also benefited from Brexit. In this context, the positive developments in Frankfurt could seem less significant,” comments Hubertus Văth, Managing Director of Frankfurt Main Finance e.V., on the survey results. “But when you look at it closely, the decisions by more than 30 financial institutions to move their European headquarters to Frankfurt speak for themselves. In 2019, the Financial Centre Frankfurt will gain considerably in international importance.”

Financial industry revenue growth declines / Positive earnings growth among financial institutions, negative among service providers

As forecast by the financial institutions in the previous quarter, growth in **revenues**/business volume declined in the third quarter. The corresponding sub-index for the financial institutions falls by 6.1 points to 112.7 points. Service provider revenues are 5.3 points down on the previous quarter at 123.7 points. Both groups are anticipating a further slight decline in the current quarter.

There is a stark contrast between the **earnings growth** of the two groups. After a weak second quarter, the financial institutions have returned to a good level. The corresponding sub-index rose by 9.8 points to 111.6 points. The service providers, on the other hand, recorded a sharp decline of 11.3 points to 116.3 points. For the current quarter, both groups expect a slight decline in their earnings growth.

Investment volume down

Contrary to expectations, the growth in **investment volume** in product and process innovations at the financial institutions fell by 5.3 points to 110.8 points. This low level is expected to persist in the current quarter. The sub-index for the service providers also fell by 3.4 points, though at 118.9 points it still remains at its third-highest level since the surveys began in 2007. However, a further downturn is expected in the current quarter.

Financial institutions show neutral sentiment on employee numbers

After the brief period of job cuts at the financial institutions in the second quarter, the employee numbers sub-index rises by 3.6 points and now signals a neutral sentiment at 100.1 points. As expected, the growth in employee numbers at the service providers has slowed. However, even after falling by 8.4 points, the corresponding sub-index remains at a good level of 117.9 points. As for the current quarter, the service providers expect employee growth to decline further, while the financial institutions are forecasting job cuts.

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The results are based on a quarterly management survey in the German financial sector.

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.

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