

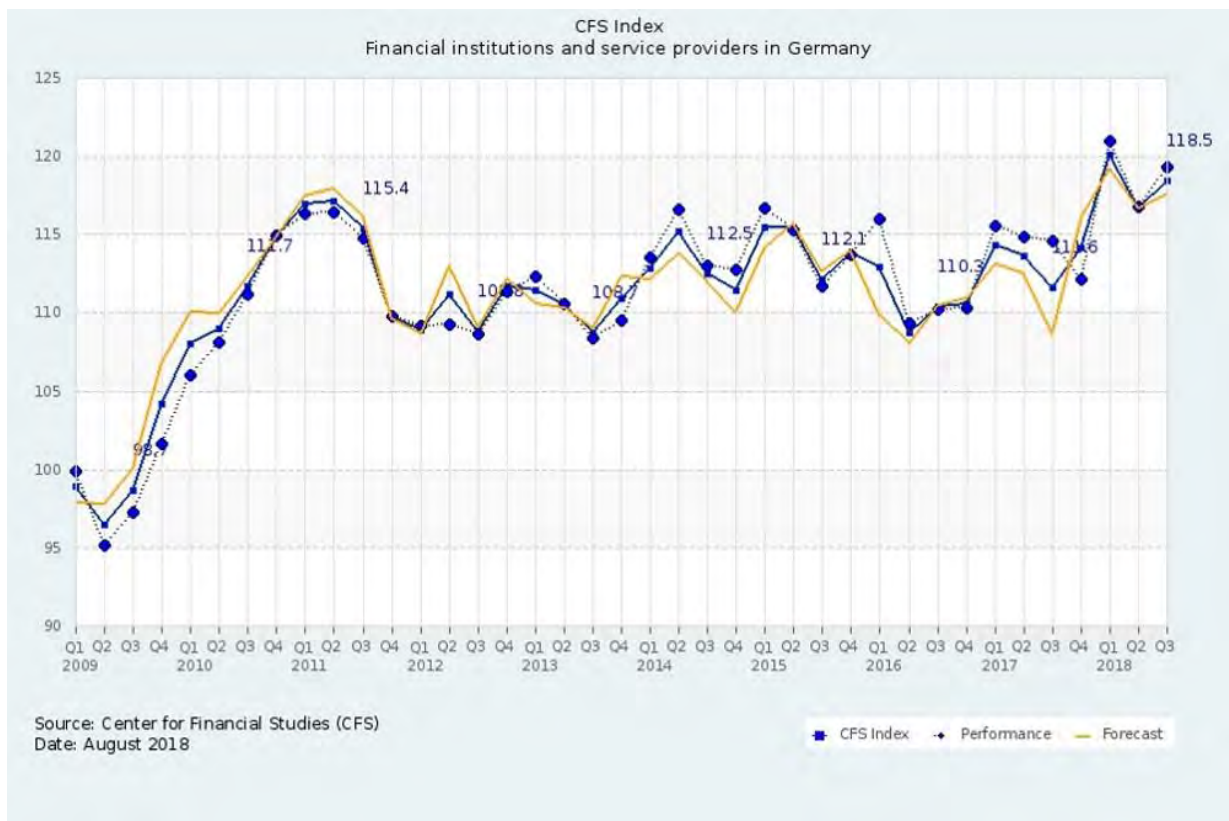
Press Release

CFS Index rises slightly

Financial institutions report strong decline in earnings growth, despite continued positive revenue growth / Service provider investment volume reaches second-highest level since survey began in 2007

FRANKFURT, 24 August 2018. The CFS Index, which measures the business climate of the German financial sector on a quarterly basis, rises by 1.8 points to a strong level of 118.5 points in the second quarter of 2018. The slight increase can be attributed to an all-round positive development in revenues, earnings, investment and employee numbers among the service providers. The financial institutions, on the other hand, report a clear decline in earnings growth, despite continued positive revenue growth. A further decline is expected in the current quarter, and this also applies to revenue growth. In addition, the financial institutions scaled back jobs temporarily in the second quarter. However, they are more optimistic in this regard for the current quarter. The investment volume of the financial industry remains stable at a high level.

“In the banking sector the increased competitive pressure, especially with regard to innovation, is evident from the survey results: earnings are on the decline, while investments have increased and many new employees have been hired,” 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 continues to be rated very positively

With a slight decrease of 0.5 points to 131.3 points, the business location sub-index, which measures the **future international importance of the Financial Centre Germany**, remains almost unchanged at a very high level, which has been maintained since the Brexit vote in 2016.

“The importance of the Financial Centre Frankfurt will continue to grow – a progress the financial industry has no doubt about as is shown by the indicator. The degree to which Frankfurt’s importance will grow depends on how those responsible will make use of the opportunities arising for the Financial Centre,” comments Hubertus Văth, Managing Director of Frankfurt Main Finance e.V. on the survey’s results.

Financial industry revenues at a high level / Earnings growth declines slightly among financial institutions but remains positive among service providers

Revenue growth among the surveyed financial institutions remains almost unchanged, edging up 0.2 points to a strong level of 118.8 points, which represents a year-on-year increase of 12.4 points. The corresponding sub-index for the service providers sees a significant rise of 7.6 points to 128.9 points, which is 4.4 points higher than one year ago. A further increase is anticipated. The financial institutions, by contrast, are expecting a fairly considerable decline in revenue growth in the current quarter.

The **earnings growth** of the two groups reveals contrasting trends. The financial institutions record a 9.3 point decrease to 101.8 points, which is the lowest level of this sub-index for two years. They are expecting a similarly substantial decline in the current quarter. The service providers, on the other hand, record a 5.4 point increase to 127.6 points, reaching the second-highest level since 2007. They remain optimistic regarding the current quarter.

Service provider investment volume reaches second-highest level since survey began in 2007

The growth in **investment volume** in product and process innovations among the service providers rises by 9.8 points to 122.4 points, reaching its second-highest level since the survey began in 2007. However, it is expected to decrease again in the current quarter. The corresponding sub-index for the financial institutions also reveals a slight increase of 1.3 points to 116.1 points. This group expects the positive trend to continue in the current quarter.

New brief period of job cuts at financial institutions

Following the prolonged period of job cuts in recent quarters, the financial institutions reported that their employee numbers rose again for the first time in the first quarter of 2018. This trend is now temporarily interrupted, as the **employee numbers** sub-index falls by 6.2 points to 96.4 points. However, the financial institutions are more optimistic regarding the current quarter. The trend among the service providers is positive; their level of recruitment is on the rise. The sub-index rises by 3.3 points to 126.3 points. Slightly lower growth in employee numbers is expected in the current quarter.

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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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