

# FINANCIAL NEWS

## Pay squeeze and job cuts ahead, warn bankers

By Liz Chong and Liam Vaughan - 26 Jul 2010

**Investment banks will be forced to cut bonuses and lay off staff – reversing their recent expansion – unless there is a significant recovery in capital markets and trading in the next few months, according to senior investment bankers and headhunters.**



The squeeze comes after levels of activity have failed to keep up with the recruitment drives that many banks launched last year to take advantage of the recovery. Buoyant performance in the second half of last year prompted a surge in hiring but, in the past three months, banks have been forced to readjust to a sharp downturn. Heads of investment banking, headhunters and banks analysts warn that many banks will be forced to cut staff if revenues don't pick up soon. A head of UK investment banking said: "With dropping revenues and increased headcount, there will absolutely be cuts unless there is a dramatic turnaround. Primary debt, ECM and M&A are all down dramatically and will bear the brunt of cuts because they have seen the biggest shortfall."

He said cuts could run as deep as 15% to 20%. "Look at 2001 and 2002 for an indication," he added. In the immediate aftermath of the crisis, banks started rebuilding in capital markets, mergers and acquisitions, and, most significantly, in sales and trading. This followed cuts introduced in 2008 and early 2009, as investment banks struggled under the weight of losses. Of the six big investment banks in the US and Europe that have reported second-quarter results, revenues were down 15.3% compared with the average run rate of the previous five quarters, according to analysis by Financial News. Revenues in sales and trading were down 20.4% on the same measure. At the same time, headcount among those banks that provided data has increased on average by 5.1% in the 12 months to June 30.

The figures do not capture some of the most aggressive recruiters over the period, including [Barclays Capital](#), [Deutsche Bank](#) and [Nomura](#), which have not yet reported second-quarter results. [Credit Suisse](#) has 9.6% more staff in its investment bank and Goldman Sachs has added 9.3%. [Morgan Stanley](#) and [JP Morgan](#) are the outliers, having added 2.8% and 1.9% respectively, while [Bank of America Merrill Lynch](#) and Citigroup do not break out headcount for their investment banking business. However, some search firms continue to predict headcount growth in investment banking. Last week, [Morgan McKinley](#) said 47% of respondents to its survey of financial services firms in the City of London expected recruitment levels to rise in the second half.

**Gustavo Dolfino, senior managing director of US executive search firm Accretive Solutions, said he expected banks would continue to hire based on expectations that global markets would pick up, but at the same time they would let go of non-producers. He added: "If that doesn't happen, they will have to begin shedding people again quickly. The rainmakers will be safe because they bring in business, and the junior guys should be ok because they cost comparatively little but the guys in the middle will bear the brunt of it."**

Banks that have cut too deeply into their staff have often regretted it. In 1998 Merrill Lynch shed 3,400 of its 55,000 employees in response to the turmoil caused by the Russian banking crisis that led to the collapse of [Long-Term Capital Management](#). The markets unexpectedly rebounded and Merrill Lynch was forced to rehire months later at vastly inflated salaries.

One senior US banker said: “The way investment banks view headcount is that staff are an option, the cost of which is salary, the pay-off of which is big fees and the cost of exercising is the bonus. If there are no fees then banks will not exercise the option and simply let people go.”