

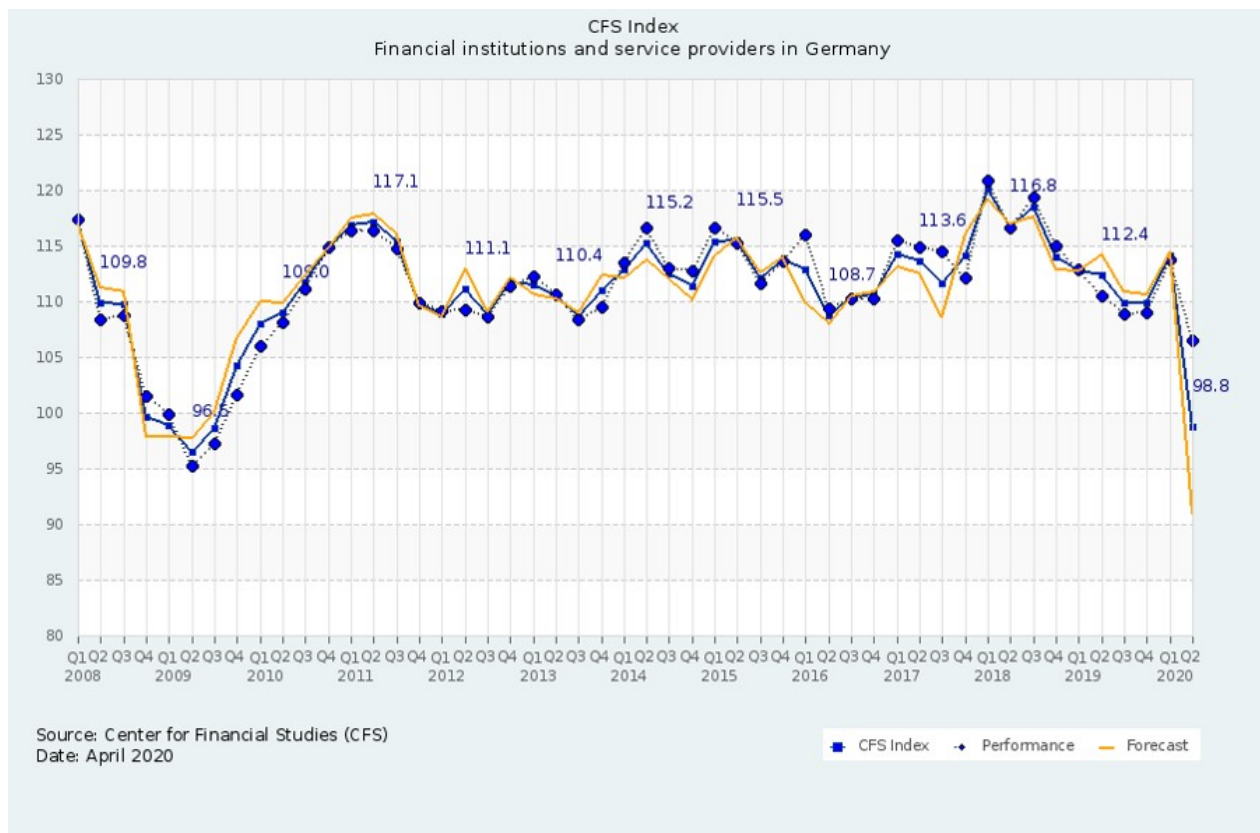
Press Release

Unprecedented slump in CFS Index

Financial industry expects steep decline in revenue, earnings and investment in the current quarter / Service providers anticipate job cuts for the first time since 2009

FRANKFURT, 30 April 2020. The CFS Index, which measures the business climate of the German financial sector on a quarterly basis, slumps by -15.4 points to 98.8 points. This is the sharpest decline on record since the index surveys began in 2007 and the first time the index has fallen below the neutral line of 100 points since 2009. Expectations of the financial sector for the current quarter have turned especially bleak. Huge slumps in revenue, earnings and investment are expected, with service providers in particular anticipating an extreme decline in revenue and earnings, now also accompanied by job cuts. By contrast, the job cuts at financial institutions, which have been ongoing for some time now, remain almost flat, and the current quarter is not expected to bring as steep a decline as the other index values.

“There has never been such a severe deterioration in financial industry expectations of all the measured performance indicators – revenues, earnings, employee numbers, investment – since the survey began in 2007 – not even during the financial crisis of 2008. It would therefore appear crucial to pay the utmost attention to impacts on financial stability when pursuing rescue and recovery measures in reaction to the coronavirus pandemic – especially now that we have created a supervisory regime that makes a wholesale bailout difficult,” Professor Jan Pieter Krahen, Director of the Center for Financial Studies, interprets the results.



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Owing to the corona crisis, the **future international importance of the Financial Centre Germany** is also seen to be progressively declining. The corresponding sub-index falls by -5.8 points to 111.2 points and is now at its lowest level since 2012. The decline is increasingly driven by the assessment of the service providers. The relevant value for this group stands at 113.7 points, 7.8 points lower than in the previous quarter. The assessment of the financial institutions falls by -3.6 points to 108.8 points.

Dr. Lutz Raettig, President of Frankfurt Main Finance e.V., explains, "The slump in the rating of Germany's future international importance as a financial centre is a result of the uncertainty surrounding, and not clearly foreseeable course of the global corona pandemic. In fact, Germany is considered to be on the cutting edge in managing the current crisis. The federal and state governments were able to rely on an efficient financial sector and get the billion-euro "corona protection shield for Germany" up-and-running in the shortest possible time without triggering negative reactions on the capital markets."

Financial industry expects huge slumps in revenue, earnings and investment in the current quarter

The surveyed financial institutions and service providers report a significant decline in their **revenues**/business volume in the first quarter of 2020, with the corresponding index value dropping by -8.2 points to 112.4 points for the financial institutions and by -13.8 points to 108.6 points for the service providers, relative to the previous quarter. With these figures for the first three months of 2020, each sector is still only 2.6 points below the previous year's level. However, the financial industry is anticipating the sharpest drop in revenues since the surveys began in 2007 and an index value of well under 100 points for the current quarter.

The **earnings** of both groups developed in line with revenues in the first quarter of 2020. The corresponding sub-index for the financial institutions reached a level of 103.3 points after falling by -8.0 points, but is still 2.3 points above the previous year's level. The service providers report an extreme decline in revenue growth. The sub-index drops by -16.4 points to 106.4 points. Although this is still close to the previous year's level for the first quarter, this group is anticipating an extraordinary slump to well under 100 points in the current quarter.

Growth in investment volume now below last year's level

The growth in **investment volume** in product and process innovations in the financial sector also declined in the first quarter of 2020, but not to the same extent as the revenue and earnings figures. The corresponding sub-index falls by -6.9 points to 101.8 points for the financial institutions and by -4.5 points to 108.1 points for the service providers. The financial institutions are now 10.2 points below last year's level, the service providers are 6.7 points below. With respect to the current quarter, the financial sector as a whole is expecting a strong decline in investment to a level well below 100 points. Among the service providers, however, the expected downturn in investment is less pronounced than the extreme revenue and earnings declines anticipated in this segment.

Financial institutions: job cuts almost flat in the first quarter / Current quarter slump should not be as severe as other index values / Service providers: jobs expected to be shed for the first time since 2009

Job cuts at the financial institutions, which have been ongoing for some time, are less severe in the first quarter of 2020 than in the previous quarter. The **employee numbers** sub-index rises accordingly by 0.7 points to 95.2 points, just 1 point under the previous year's level. Although the service providers hired fewer employees in the first quarter of 2020 than in previous quarters, their employee numbers indicator remains in positive territory, at 105.5 points, after slipping by just -0.6 points. For the current quarter, the financial institutions are expecting a larger reduction in employee numbers, albeit less drastic than the anticipated declines in other index values. By contrast, the service providers are expecting to shed jobs for the first time since 2009.

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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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