

Press Release

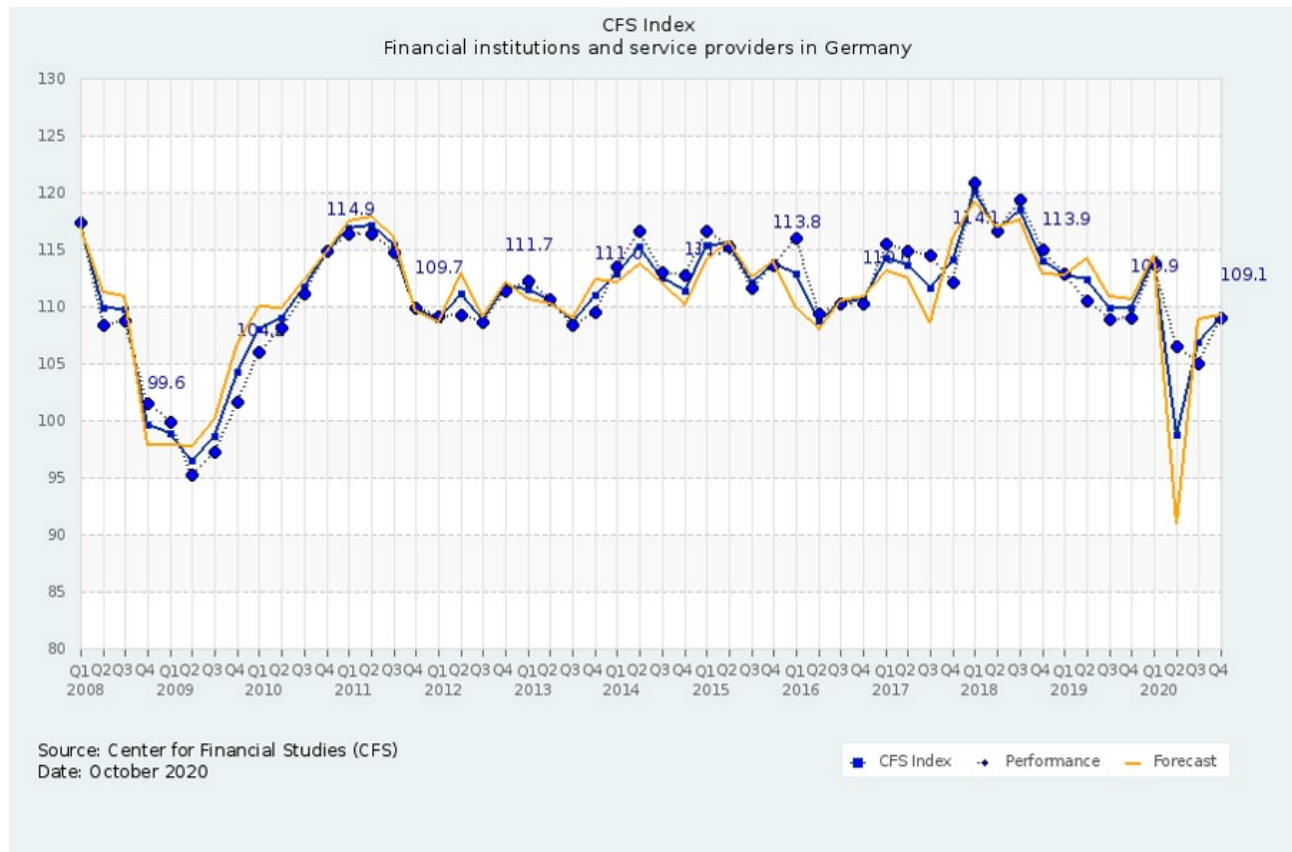
CFS Index remains positive

(Survey conducted 21-28 October 2020 for results of the third quarter 2020)

Financial institutions: rising earnings and investment growth with slight decline in revenue growth and continuing job cuts / Service providers: strong revenue growth, rising earnings and investment growth, positive employee numbers

FRANKFURT, 5 November 2020. The CFS Index, which measures the business climate of the German financial sector on a quarterly basis, rises by +2.2 points to 109.1 points for the third quarter of 2020. After the CFS Index fell below the neutral level of 100 points in the first quarter, as the Covid-19 crisis was starting to unfold, it quickly rebounded in the second quarter. The positive level was reinforced in the third quarter. This development is based on rising earnings and investment growth across the entire financial sector, as well as on tremendous revenue growth and positive employee numbers among the service providers. However, the positive trend is tempered by weaker revenue growth and ongoing job cuts at the financial institutions. In view of the sharp rise in Covid-19 case numbers, the financial sector already held rather cautious expectations at the time of the survey, which was shortly before the government decision to tighten anti-coronavirus measures in Germany.

“The financial institutions, whose traditional business models are already threatened by the sustained low interest rate policy and the emergence of digital competitors, are rigorously implementing innovations and structural changes – with support from the service providers. By doing so, they are also laying the necessary groundwork to withstand the further impacts of the coronavirus pandemic,” comments Professor Rainer Klump, Director of the Center for Financial Studies.



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In spite of the Covid-19 crisis, the **future international importance of the Financial Centre Germany** is viewed with a little more optimism, following two weak quarters. With an increase of +3.9 points, the index value currently stands at 115.2 points.

“Hesse and the financial centre Frankfurt have so far weathered the crisis much better than other European locations. The positive development of the CFS Index underlines the effects of the extensive aid measures and development loans of the Federal Government and Frankfurt's outstanding position in the European structure,” explains Gerhard Wiesheu, President of Frankfurt Main Finance. “In addition, shortly before the final spurt of the Brexit negotiations, I am optimistic about Frankfurt's positioning as the regulatory hub of Europe and further impulses.”

Third quarter: service providers see tremendous revenue growth; slight decline in growth among financial institutions / Earnings and investment volume positive across the financial sector

As previously expected, the surveyed financial institutions report slightly lower growth in **revenues/business volume** in the third quarter. The corresponding index value falls -3.3 points to 118.6 points. The service providers managed to fulfil their very optimistic expectations for the third quarter. With an increase of +12.7 points to 113.2 points, the corresponding sub-index is slightly above its level from before the onset of the Covid-19 crisis. At the time of the survey, the financial sector expects to maintain this level in the fourth quarter.

The **earnings** of both groups follow a clearly positive trend in the third quarter of 2020. With an increase of +6.9 points, the corresponding sub-index for the financial institutions reaches a level of 114.8 points, which is 11.3 points higher than one year ago. The service providers report a rise in earnings growth of +7.8 points in the third quarter, which brings them back to a positive growth level of 105.3 points. This increase is higher than previously expected. Even based on indications given ahead of the decision to tighten anti-coronavirus measures, financial institutions anticipate a decline in earnings growth in the current quarter, whereas the service providers expect the positive trend to continue at this point.

The growth in **investment volume** in product and process innovations also increased across the financial sector in the third quarter, particularly among the service providers. The corresponding sub-index for the financial institutions climbs +1.7 points to 104.5 points. The service providers report a huge gain of +9.1 points, almost entirely cancelling out the extreme decline of the previous quarter. Nevertheless, with a value of 103.5 points, the corresponding sub-index is still 10.6 points below its level of one year ago. As is the case with earnings, the financial institutions anticipate a decline in investment growth in the current quarter at the time the survey is conducted, while the service providers foresee a slightly positive development.

Financial institutions: further staff reductions in the third quarter / Service providers: job cuts halted

Job cuts at the financial institutions, which have been ongoing for some time, turned out to be higher than expected in the third quarter. The **employee numbers** sub-index falls -5.2 points to 92.3 points. Nevertheless, it remains 1.9 points above the level of one year ago. After reporting job cuts in the previous quarter, the service providers now see an improvement in their situation. The corresponding sub-index rises +6.3 points to 105.3 points and is now only 3.4 points below its level of this time last year. As for the current quarter, the financial institutions expect job cuts to ease off. The service providers foresee a decline in recruitment, but are not anticipating job cuts. As with the other survey results for the fourth quarter, this optimistic assessment was made on the eve of the decision to tighten anti-coronavirus measures.

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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. The 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, the CFS relies on its international network among academics, the financial industry and central banks in Europe and beyond.

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