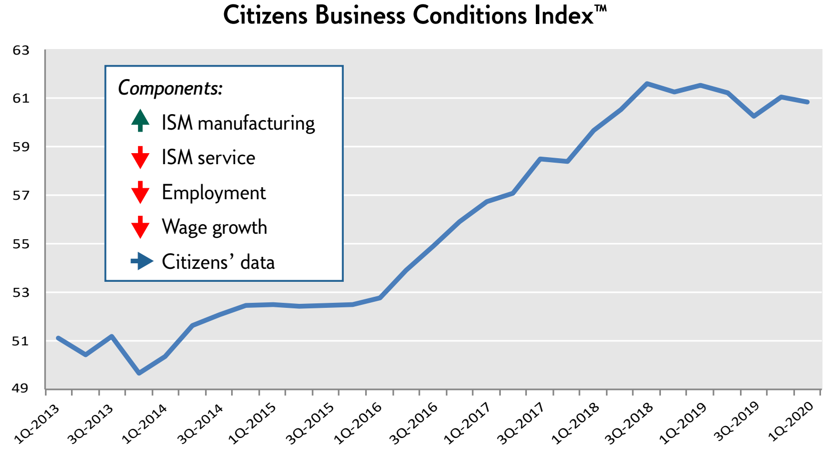
1Q20 CITIZENS BUSINESS CONDITIONS INDEX™ REPORT

First Signs of Pandemic Pain Interrupt a Solid Start to 2020

Over the course of the first quarter, the national Citizens Business Conditions Index™ declined from 61.0 to 60.8, as the earliest effects of the global COVID-19 pandemic began to turn economic metrics negative at quarter-end. Three of the five index components declined between the end of 2019 and the end of the first quarter, while a fourth component was actually higher than at year-end and the fifth was flat.

PRESSURES EMERGE

Though the index reading declined only marginally, we did see the first signs of the pandemic's economic damage among the component measures. Still, like so much economic data, these backward-looking components simply do not yet reflect the real-time pressures to families, workers and businesses across the U.S. We fully expect economic data across the second quarter to demonstrate a more pronounced reflection of the current economy, although a "V" shaped recovery could dilute the impact of the pandemic with the U.S. starting out on solid footing in Q1.



Source: Citizens Bank

A SUDDEN REVERSAL

"The U.S. economy was off to a strong start this decade and then the coronavirus spread globally and completely threw everything off track. Some sectors are doing better than others. Some have completely ground to a halt. The bull market went into a tailspin, though the government has stepped up to backstop the economy. The changes have been dramatic and more sudden than most of us have experienced in our lifetime."

- Tony Bedikian, Head of Global Markets

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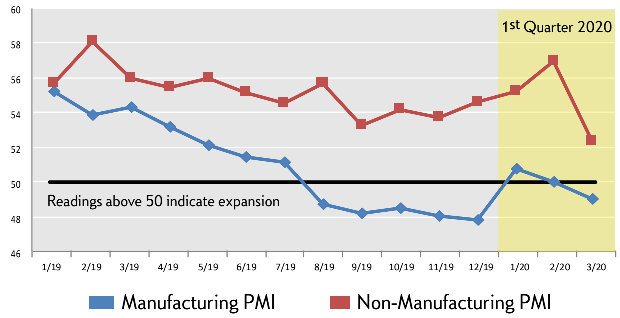
MANUFACTURING IMPROVED, SERVICES AND LABOR MEASURES DECLINED

The single metric that improved over Q1 was the manufacturing Purchasing Managers' Index (PMI) reading, which rose slightly but remained below 50. An improving trade backdrop between the U.S. and China, as well as the certainty provided by the UK's departure from the EU, were modest tailwinds for U.S. manufacturing.

Three of the index components – the non-manufacturing PMI, the unemployment rate and wage growth – turned negative. The non-manufacturing PMI took a near 5-point hit (57.3 to 52.5) between February and March, reflecting the earliest evidence of the economic fallout from efforts to contain the pandemic. Indeed, service industries are in the crosshairs as widespread stay-at-home orders limit the operations of nonessential businesses. The unemployment rate ticked slightly higher by March, but based on trends in weekly jobless claims, we anticipate a more significant jump higher over the second quarter. Wage growth, too, showed the first signs of pressure.

ISM Manufacturing & Non-Manufacturing PMI Indexes



Source: Institute for Supply Management

The final measure, a proprietary gauge of business momentum among Citizens' banking clients, moved sideways in the first quarter. We think this reflects the mixed picture, with strong momentum among middle-market businesses moderated by the domestic onset of the pandemic in late February.

BROAD POLICY SUPPORT AND IMPROVING PUBLIC HEALTH OUTLOOK

The policy response to the economic shock has been swift and broad. The economy surely sidestepped worst-case scenarios thanks to both the sweeping package of liquidity from the Federal Reserve and a massive federal stimulus bill aiming to backstop families and businesses.

Even more importantly, the social distancing efforts across the U.S. were beginning to flatten the epidemiological curve for the pandemic, though at quarter-end that fact was not yet clear. As in the case of economic data points, the rapid nature of the shock means that there's a lag between real-time turning points and the visibility into such trends.

COMMERCIAL SERVICES AND ENERGY SECTORS TAKE FIRST HITS

By sector, we saw the biggest decline in business activity among commercial services companies within our proprietary data. Energy-related companies also posted declines, as the energy sector faced pressures from a series of shocks to oil prices. Amid weakened global demand, a supply war among OPEC members drove production higher. On the other hand, a number of sectors actually reported stronger activity, including financials, government-related businesses, technology and healthcare companies.

Regionally, we saw a truly mixed bag in our proprietary data, with improved business activity across half of the states in our footprint and declining activity among the other half. By region, activity was essentially flat over the quarter in the Northeast and Mid-Atlantic, while businesses in the Midwest lagged.

PONDERING THE RECOVERY

Economists have already begun to ponder what a recovery will look like, as the country exits a shock that is unprecedented in the modern era. Knowing the lagging nature of most economic metrics, we expect the data to come will demonstrate a darker reading than we could measure at the end of the first quarter. The magnitude of economic pressure remains to be seen. Still, the first-quarter reading of the index does offer some small measure of optimism in that it provides a view of just how stable business activity was, in the first months of the year.

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