

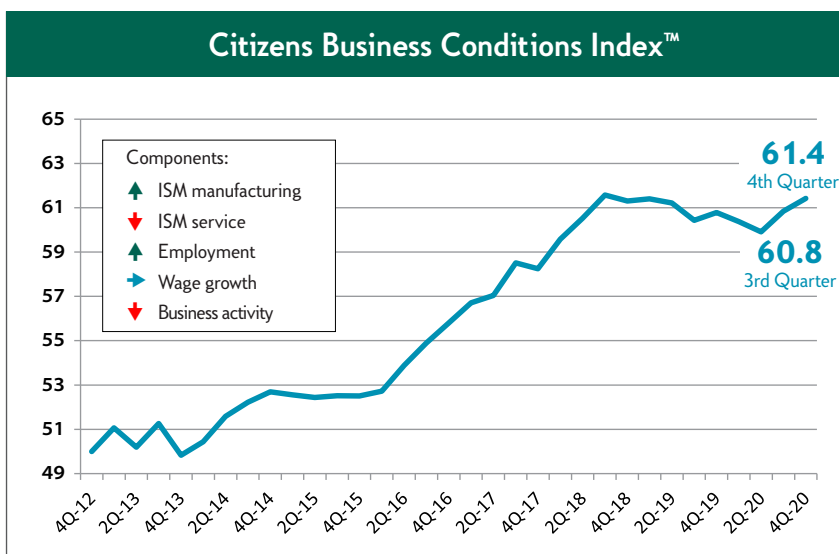
4Q20 CITIZENS BUSINESS CONDITIONS INDEX™

Confidence Returns as Vaccines Bring Optimism

The national Citizens Business Conditions Index™ (BCI) rose modestly again in the fourth quarter to 61.4, the second consecutive quarter of gains after the impact of COVID-19 pressured the index earlier in 2020.

Optimism for the future was a clear theme for the period. Though the pandemic raged higher in case rates and loss of life, the breakthrough news of two effective vaccines offered communities and businesses a concrete marker of when and how the pandemic will end. The definitive outcome of the presidential election was also supportive. By year end, a picture of a better 2021 came into view. CEOs reported more upbeat outlooks for sales and capital investments, according to sentiment surveys.¹

Still, the operating environment of the fourth quarter reflected the ongoing challenges. Among components of the BCI, we saw softening in the ISM non-manufacturing numbers and within our proprietary data measuring business activity for Citizens' commercial banking clients. Wages were steady, while a strong rebound in manufacturing drove the index higher. Labor markets also showed robust gains from earlier lows.



Source: Citizens Commercial Banking

“The fourth quarter was a real turning point. With the vaccine news and a clear outcome for the presidential election, we saw a lot more confidence about the future among business leaders.”

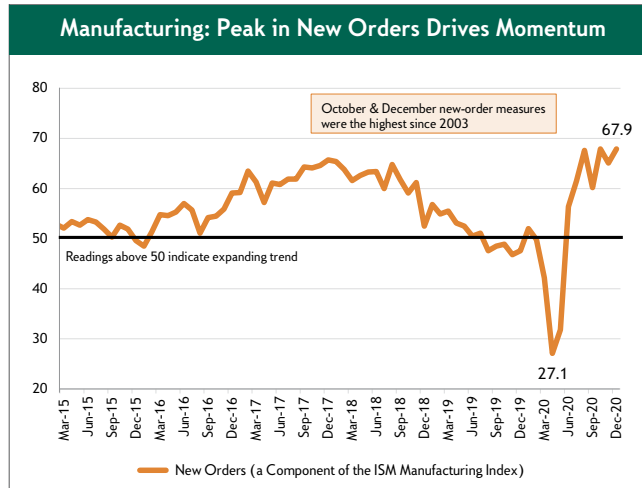
- Tony Bedikian
Head of Global Markets

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MANUFACTURING CONTINUES TO LEAD RECOVERY

As in the third quarter, manufacturing strength was a major contributor to the BCI's quarterly uptick. With a widespread return to safe operations, manufacturers reported particularly high numbers for new orders, supplier deliveries, production levels and pricing levels.²

Employment trends were also a positive contributor to the BCI. Though national unemployment still measured near 7% at year end, labor markets showed steady improvement from the pandemic peak of 14.8% in April. We also saw evidence of stability in wage-growth numbers.



Source: Bloomberg

SOFTENING IN SERVICES, BUSINESS ACTIVITY

We did see the continued challenges reflected elsewhere. The ISM non-manufacturing index remained in expansionary territory but slipped slightly from the third-quarter reading. Likewise, within our proprietary data measuring business activity, we saw softer numbers in aggregate. Given the dominance of the service sector in the U.S. economy, these measures show the impact of continued business closures and consumer concerns about safety as communities navigated rising COVID-19 numbers.

FINANCIALS, ENERGY ARE TOP PERFORMERS

Among our proprietary business-activity data, the financials sector demonstrated strength. As the tone turned optimistic in the fourth quarter, long-dated interest rates showed signs of life. The spread between 2-year Treasuries and 10-year Treasuries rose from 0.56% to 0.80%, boosting the profitability outlook for banks. The Fed also announced it would allow banks to resume share buybacks, another

step out of its earlier crisis stance. Higher equity markets and rebounding M&A activity further supported gains among financial companies.

The energy sector was also a contributor. Rallying oil prices reflected the improving sentiment and manufacturing strength at home, as well as the economic gains abroad, particularly in China. Pricing strength was a theme across goods.

UTILITIES, CONSUMER SECTORS LAGGED

Utilities companies and consumer businesses were laggards in the period, within our proprietary data. Higher interest rates and higher commodity prices both pressured utilities. Consumer spending, though improved from springtime lows, reflected the continued restraints in day-to-day life as well as still-elevated unemployment. A second fiscal support package was approved near the end of the period.

NORTHEAST SHOWING MOMENTUM

The Northeast region led quarterly gains within our proprietary business-activity data, while the Mid-Atlantic and Midwest regions contracted slightly in Q4. However, year-over-year, the Northeast still has the furthest to go to return to pre-pandemic activity. We are also seeing evidence of this impact elsewhere, such as a recent Pew report that the Northeast had the largest spike in retirements among Baby Boomers in 2020. COVID-19 took a particular toll on the region.

STILL FAR TO GO, BUT OPTIMISM TAKING HOLD

After the enormous challenges of 2020, many businesses still have ground to cover to return to pre-pandemic levels. Yet, after several months of uncertainty, the developments of the fourth quarter provided welcome relief and optimism.

¹ Business Roundtable, December 2020

² Institute of Supply Management, December 2020

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