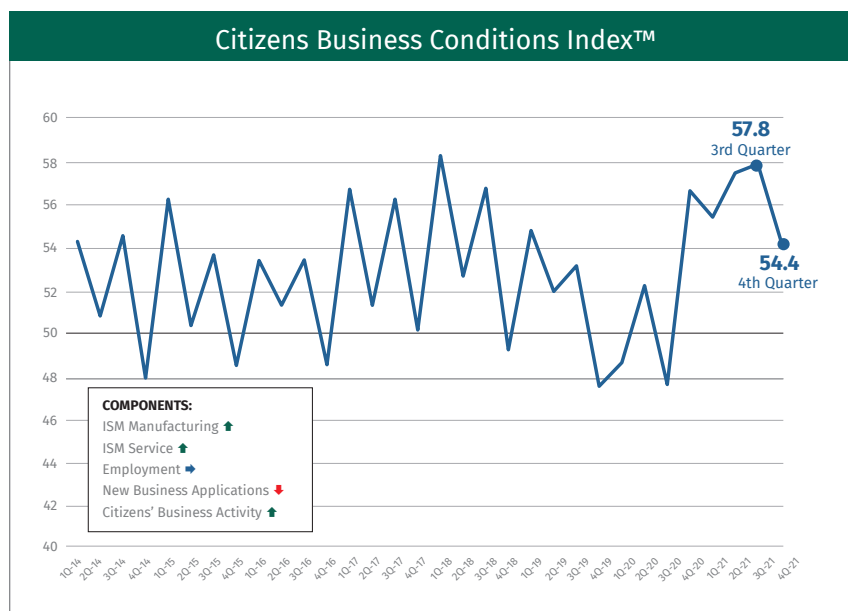


# 4Q21 CITIZENS BUSINESS CONDITIONS INDEX™

## Momentum Encounters Inflation, Omicron

The national Citizens Business Conditions Index™ (CBCI) posted 54.4 in the fourth quarter, down from 57.8 in September but still in expansionary territory. The CBCI has been above 50 for five straight quarters. Following particularly high readings in the second and third quarters, the latest index value reflects a business environment still driven by demand but starting to encounter substantial speed bumps.

With increasing concerns about inflation and a new COVID variant surging late in the period, there was considerable volatility. Supply-chain issues continued, something the Omicron wave could aggravate in coming periods, while potent demand levels continued to drive economic activity at a strong pace. Indeed, the Federal Reserve Bank (Fed) announced changes to its policy outlook in an effort to pressure the growing inflation trend. Against this backdrop, three of the five underlying components in the CBCI were additive, while one was neutral and one had a moderating effect.



Source: Citizens

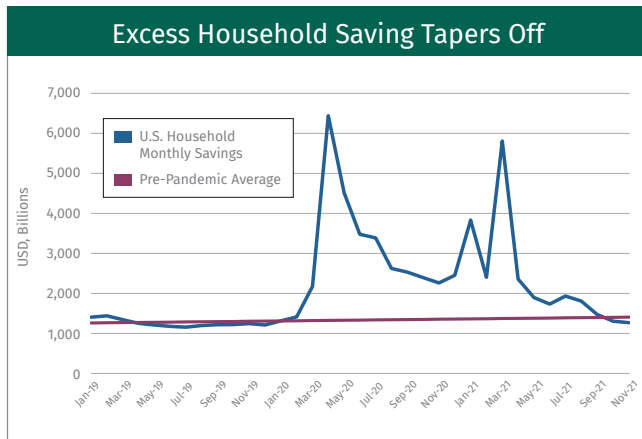
“The vast majority of companies have successfully adapted to the pandemic. This quarter we started to see the evidence of some overheating trends. That’s prompting an adjustment back to a more normal pace of growth. A slight pullback will help the supply chain continue to normalize and allow the labor market to keep adjusting, which are both constructive for confidence levels.”

- Eric Merlis  
Head of Global Markets

# 4Q21 Business Confidence Index™

## MOMENTUM PREVAILED IN Q4

High readings in the Institute of Supply Management (ISM) indexes for manufacturing and non-manufacturing contributed to the positive CBCI value this quarter. As of December, the manufacturing index reflected some progress in supply chain and labor issues. The services index hit an all-time high in November. These indexes also capture sentiment, reflecting the broad-based confidence that continued this quarter throughout the economy.



Source: Institute for Supply Management

Employment markers were neutral in the period, neither boosting nor pressuring the CBCI. Hiring activity continued on its trendline, driving the unemployment rate down, while wage inflation ticked upward. New-business applications were an area of relative weakness in the fourth quarter. However, we saw strength in the proprietary activity data of our commercial banking clients, which is an underlying component of the CBCI as well.

## EXCESS SAVINGS, IMPROVED EMPLOYMENT POWERED SPENDING

Looking back at 2021, a number of trends solidified the recovery and even drove the economy toward early indications of overheating. Excess savings have been a key driver of the high demand level. With multiple rounds of stimulus payments and involuntary savings prompted during lockdowns, U.S. households amassed considerable excess cash since the pandemic hit. The steady improvement in the labor market also supported high spending throughout the year.

The impact of these two factors differed across income brackets. Higher-income households stockpiled cash at a faster rate than lower-income households, and they were also less likely to experience job loss. Lower-income households bore the brunt of unemployment, so job gains over the course of the year were a more critical factor for boosting confidence.

In the fourth quarter, we saw signs that excessive savings have finally tapered off. This trend doesn't tell us if the accumulated savings will continue to drive higher-than-normal demand, but it is one sign that households are slowly returning to pre-pandemic behaviors.

## COMMODITY-RELATED SECTORS LEAD AGAIN

Within our proprietary business-activity data, we saw the same broad trends – a downshift from the previous quarter, but still reflecting strong activity. This trend was true across all of the sectors in our proprietary data. Basic materials and energy companies continued to lead performance as commodity prices remained high, dipping through early December but recovering by the end of the period. Government-sector organizations, financials and healthcare companies were again the laggards.

In terms of regional trends, companies in the Mid-Atlantic showed the highest momentum for the quarter in our proprietary data, followed closely by companies in the Northeast. Companies in the Midwest showed the lowest levels of business activity, though their figures still reflected growth from prior quarters.

## EASING BUT STILL HEALTHY TRENDS

The key theme we saw in the index data this quarter was that business activity pulled back modestly from second- and third-quarter peak levels, but remained sturdy. This quarter offered a mixed bag: signs of continued strength, some indication of overheating trends, and some markers of normalizing behaviors in the economy. As policymakers work toward removing support and moving toward a more hawkish position, a moderating trend in business activity should also ease inflationary pressures.

[citizensbank.com/commercial](https://citizensbank.com/commercial)



Disclaimer: This document has been prepared for discussion and informational purposes only by Citizens Bank, N.A. ("Citizens"). In the preparation of this document, Citizens has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources. Citizens makes no representation or warranty (express or implied) of any nature, nor does it accept any responsibility or liability of any kind, with respect to the accuracy or completeness of the information in this document. The information in this document is subject to change without notice and Citizens does not undertake a duty or responsibility to update these materials. The information contained herein should not be construed as investment, legal, tax, financial, accounting, trading or other advice. Under no circumstances should the information be considered recommendations to enter into transactions. You should consult with your own independent advisors before acting on any information herein.

©2022 Citizens Financial Group, Inc. All rights reserved. Banking products and services are offered by Citizens Bank, N.A. Member FDIC. Securities products and services are offered through Citizens Capital Markets, Inc., Member FINRA, SIPC. Citizens is a brand name of Citizens Bank, N.A.