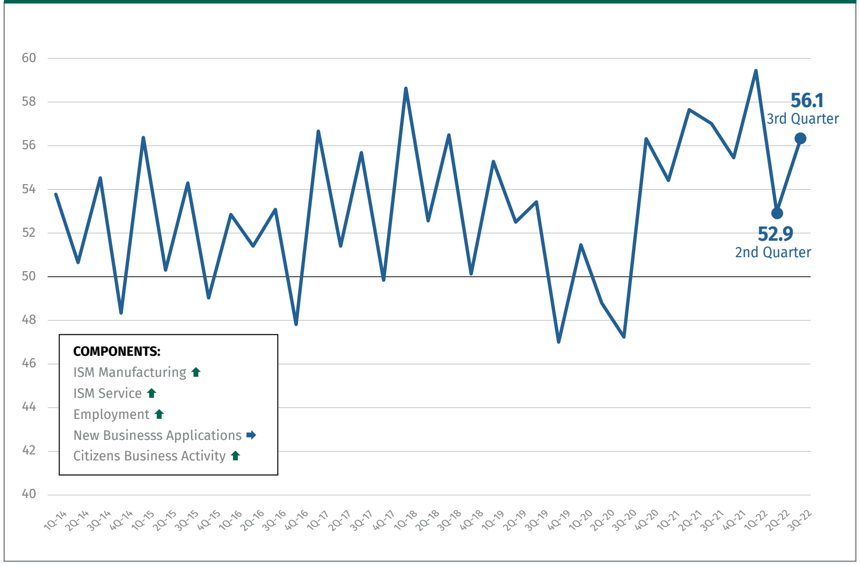
3Q 22 CITIZENS BUSINESS CONDITIONS INDEX™

Amid Solid Job Trends, Momentum Returns

The national Citizens Business Conditions Index™ (CBCI) registered 56.1 in the third quarter, regaining momentum. The index extended its streak to eight straight quarters above 50, indicating continued growth conditions for businesses.[1]

Business activity rallied from the second quarter when inflation shocks battered sentiment. Job strength was a key factor in the index's trendline, as the employment market withstood the dual headwinds of continued inflation and ambitious interest-rate hikes from the Fed. Inflation continued at higher-than-expected levels through the quarter, prompting two more jumbo rate hikes from the Fed and boosting expectations for rate hikes to come. The treasury market continued to signal a potential slowdown on the horizon, as the yields on 2-year treasuries stayed higher than yields on 10-year treasuries, known as an inverted yield curve. Though the outlook for 2023 remains uncertain, momentum prevails in the present.

Citizens Business Conditions Index™



Source: Citizens

[1]The Index draws from public information and proprietary corporate data to establish a unique view of business conditions across the country. An index value greater than 50 indicates expansion and points to positive business activity for the next quarter.

> "The highest inflation in 40 years, a weakening housing market, mixed economic signals, aggressive Fed action via interest rate hikes and quantitative tightening have not derailed the strong labor market. There are other mixed signals in the economy, but as long as most people are reliably employed – and seeing wage gains, as in Q3 – then there's a floor to the economic impact of rate hikes."
>
> \- Eric Merlis
> Head of Global Markets

Citizens™

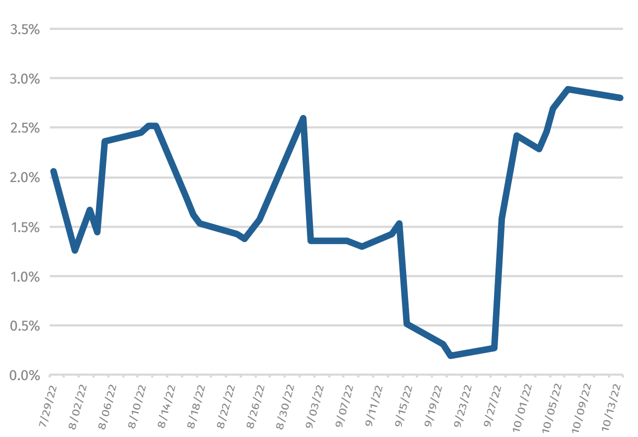
REBOUNDING TO LOFTY LEVELS

Four of five components of the index were additive in the third quarter, an uptick from the moderation of the prior period. The biggest change was in the trendline for employment. After a "neutral" reading in the second quarter, employment numbers printed better-than-expected in the third quarter. Against the backdrop of high-single-digit inflation and a cumulative 3% in rate hikes from the Fed year-to-date, the resiliency in jobs provides key support for the broader economic picture. Wage increases also helped bolster consumers in the environment, though inflation and higher rates directly pressure household budgets.

Both the manufacturing and non-manufacturing indexes from the Institute of Supply Management continued to reflect expansionary activity across the economy. Manufacturing numbers moderated slightly from Q2 as supply-chain backlogs eased and inventory management became a bigger issue in some sectors. Service-sector numbers ticked upward from Q2, revealing strong sentiment despite rate hikes.

The proprietary activity data of our commercial banking clients, another underlying component of the CBCI, also reflected strength in the quarter. On the other hand, applications for new business formation were neutral in the period, improving from Q2 but not boosting the CBCI value overall.

Real-Time Estimates Suggest Solid 3Q GDP



Source: Federal Reserve Bank of Atlanta

Taken together, these components paint a picture of robust business activity – which is also echoed in the GDPNow forecasts for the third quarter, as produced by the Federal Reserve Bank of Atlanta. Negative GDP growth in the first and second quarters, ongoing inflation and rate hikes all suggest a high possibility of continued GDP contraction, but strength in business activity could indicate a period characterized by expansion.

COMMODITY-RELATED SECTORS LEAD AGAIN

Within our proprietary business-activity data, we also saw positive sector trends, with all sectors remaining in expansionary zones and showing some rebound from second-quarter levels. Utilities and basic materials led performance, perhaps both boosted by the ongoing elevation in most commodity and energy prices.

Industrials, government entities and financials showed the lowest levels of growth, comparatively, but still registered positive conditions. Industrials could be showing some strain from the stronger dollar, another dominant trend over the third quarter.

Geographically, we saw the highest levels of growth among companies in the Mid-Atlantic region, extending the trend from the second quarter. Companies in the Northeast showed the lowest levels of growth, and those in the Midwest were in the middle, though all regions had expansionary numbers.

RECONCILING A STRONG PRESENT WITH AN UNCERTAIN FORECAST

The third-quarter CBCI showed a business environment where activity regained steam from a second-quarter moderation. With stubbornly high inflation, the outlook for interest-rate hikes remains in focus. Still, the pent-up demand from the COVID era seems to keep fueling activity at a high level, as the broader trend across the last eight quarters indicates. While the bond market continues to issue recessionary signals, the prevailing job security in the present was a key source of support for the quarter.

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