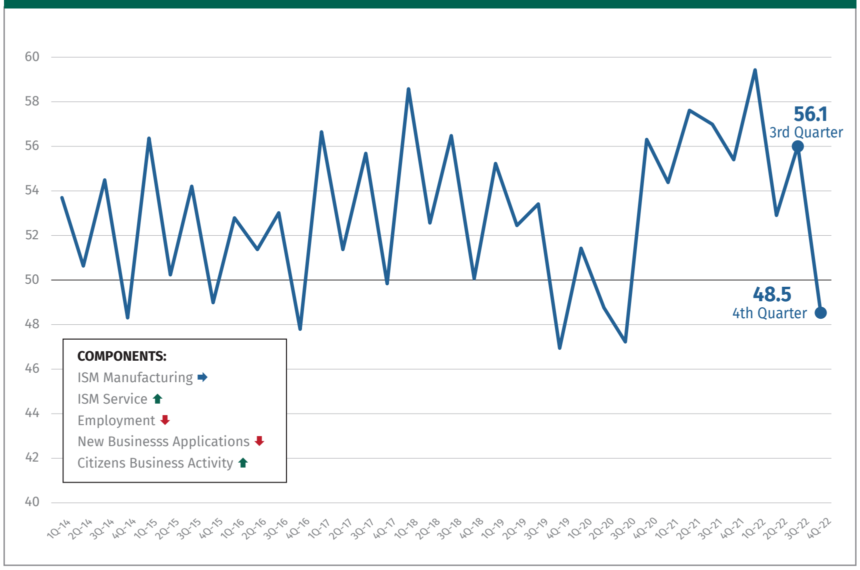
4Q 22 CITIZENS BUSINESS CONDITIONS INDEX™ REPORT

Inflation Relief as Fed's Campaign Cools Conditions

The national Citizens Business Conditions Index™ (CBCI) registered 48.5 in the fourth quarter, reflecting cooling conditions. The reading marked a downshift from a near-60 peak in 2022, indicating that rate hikes from the Federal Reserve Bank (Fed) are having the intended effect.

Business activity was moderated but still showed areas of strength in the period as the underlying components of the index were mixed. For the first time in 2022, inflation did not come in at higher-than-expected levels, and in fact it declined steadily across the quarter. The Fed continued its rate-hike campaign with two additional hikes, supported by the general strength of the employment market. Consumer activity proved strong in many categories, with healthy spending in travel and recreation. The Treasury market continued to signal a potential slowdown with an inverted yield curve, where rates on two-year Treasuries were above rates on 10-year Treasuries. However, yields across maturities ended the quarter down from highs, indicating a shifting consensus about the outlook for inflation in the quarters to come.

Citizens Business Conditions Index™



Source: Citizens

> "This quarter was a turning point for sentiment as we saw heightened impact from the Fed's policy actions. The process is ongoing, but reducing inflation remains at the top of the economic agenda."
>
> \- Eric Merlis
> Head of Global Markets

[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.

Citizens™

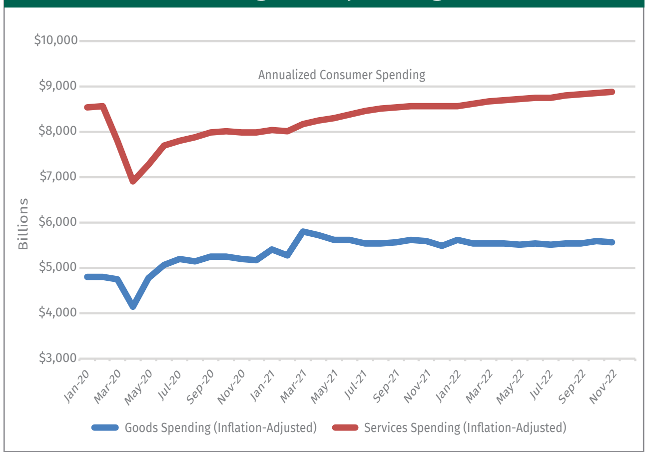
RELIEF FROM INFLATION SURPRISES

The underlying components of the index showed mixed dynamics in the business environment. Two of five components boosted the index level, one was neutral and two weighed on the reading, bringing the overall CBCI level close to neutral.

The proprietary activity data of our commercial banking clients, a component of the index, was strong, suggesting that the conditions at middle-market businesses across our banking footprint remained positive. The ISM non-manufacturing index also remained expansionary, though it did soften in December as extreme weather hampered holiday travel and interrupted power in some communities. Consumers spent more on services as they shifted away from large-goods purchases, which tend to be more connected to financing costs.

The strength of the consumer relies directly on employment, which has eased modestly but remains sturdy overall. As an index component, employment trends detracted from the index thanks to rising initial jobless claims; layoffs were announced in some tech, financial and automotive companies. New business applications also softened, weighing on the index. Still, the unemployment rate ticked down to 3.5% in December and non-farm payrolls edged higher in the tight labor market.

Continued Strength in Spending on Services



Source: Bureau of Economic Analysis

The ISM manufacturing index had a neutral impact on the CBCI level, easing from prior quarters. New orders in manufacturing have declined for four months on softer demand. The trend has contributed to inflation relief as well as to easing backlogs across the supply chain.

The mix of trendlines captures a quarter where softening demand for goods was deflationary while demand for services was steady amid broader employment stability.

ANOTHER QUARTER OF COMMODITY-RELATED LEADERSHIP

Within our proprietary business-activity data, we saw a broad-based downshift across all sectors, with some sectors still in expansionary territory and others demonstrating more of a slowdown.

Commodity-related sectors led performance for the sixth quarter in a row; this quarter, energy and utilities were the strongest. Many commodities were down from mid-year peaks but remained at elevated levels amid the ongoing war in Ukraine and the prospect of higher demand from a reopening China. Financials and government entities were laggards in the quarter. Financial companies faced lower revenues from slower loan and deposit growth, as well as weaker dealmaking activity in the final quarter.

Geographically, we saw the highest levels of activity among companies in the Midwest region, followed closely by companies in the Mid Atlantic. Companies in the Northeast showed the lowest levels of growth.

NAVIGATING A TRANSITIONAL TIME

The fourth quarter CBCI revealed a business environment that is finally seeing the results of a year-long rate hike campaign from the Fed that drove short-term rates 4.25% higher. After eight quarters of surging activity post-pandemic, momentum finally moderated, allowing inflation to come steadily down from peak levels. With ongoing signals of recession from the bond market, the outlook for rates remains in focus amid a new set of conditions where deflationary forces are beginning to take root. Yet, the tightness in the labor market could have a stabilizing effect as business conditions search for a new post-tightening normal.

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