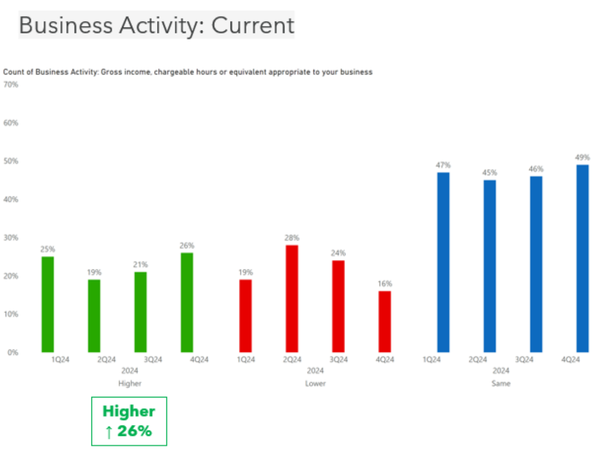
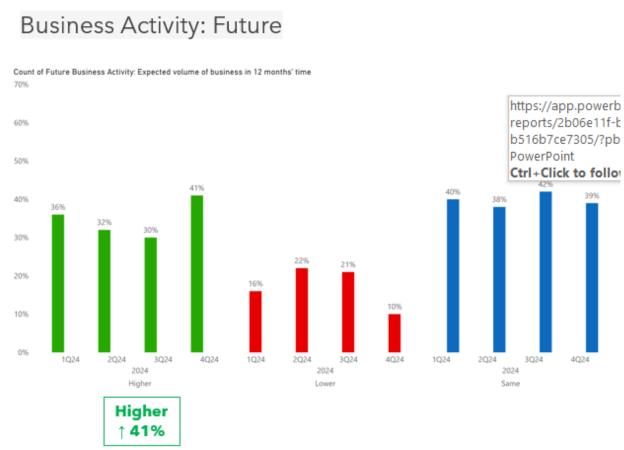
SYNOVUS

Synovus Market Intelligence and Analytics conducted a comprehensive Commercial Client Survey for the fourth quarter of 2024, providing critical insights into the current state of business activity, with specific commentary on margin compression and cash inflow trends. The survey's findings highlight patterns and shifts in the commercial landscape. By examining the data, it offers perspective of how businesses are navigating these challenges amidst a dynamic economic environment.

<u>4Q24 Commercial Client Survey</u>:
Synovus issues a quarterly Commercial Client Survey that asks questions regarding business activity levels, input costs for materials and labor, and employment activity. We introduced this almost three years ago-it is basically a clone of those for the national manufacturing and service sectors we just discussed. We also have a narrative component where we can glean additional color from the respondents, of which there are over 500 representing a wide range of industries.

<u>Business Activity</u>:
Although half of respondents said they saw the same amount of business in the fourth quarter compared to the third, the % of those citing more business grew to the highest level of the year, and the % of those citing lower business volumes dropped to the lowest level in the history of the survey.



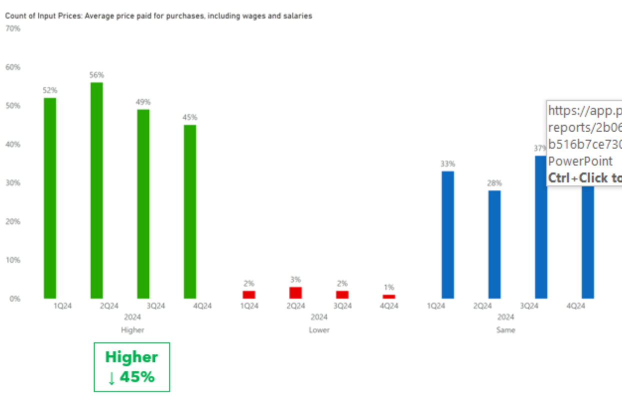


Let’s look at expectations of business volume one year from now-this varied throughout the year. Note how the level of those expecting higher levels of future business was high in 1Q24-this was due to summer rate cut expectations. This dropped in the second quarter as the June survey was conducted in an environment that called for no rate cuts. In the third quarter the focus shifted from rate uncertainty to election concerns. Despite conducting the survey <u>after</u> the Fed made its first 50 bps cut, future expectations continued to worsen. The fourth quarter changed all of that, and the commentary took a much more hopeful and optimistic tone with almost no mention of rate concerns. There is an expectation that the next survey will have plenty of client commentary on the rate environment given the most recent Federal Reserve dot plot.

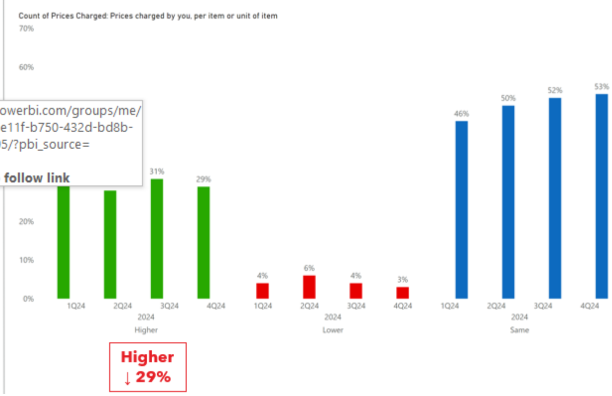
<u>Input Costs and Margin</u>:

The rate concerns are driven by the possibility of higher inflation, and when we asked our clients if they are seeing any relief from input and labor costs, almost half of them replied no. The good news is the percentage of respondents citing higher costs has moved from 56% to 45%. The bad news is only 29% of our clients are saying they can pass those costs along to their customers, so margin is clearly being squeezed.

Cost of Materials and Labor



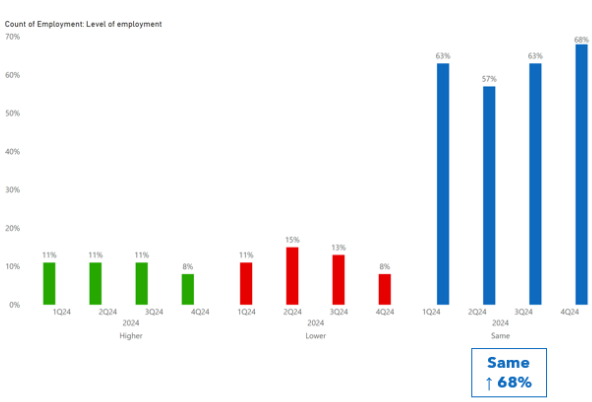
Prices Charged per Unit



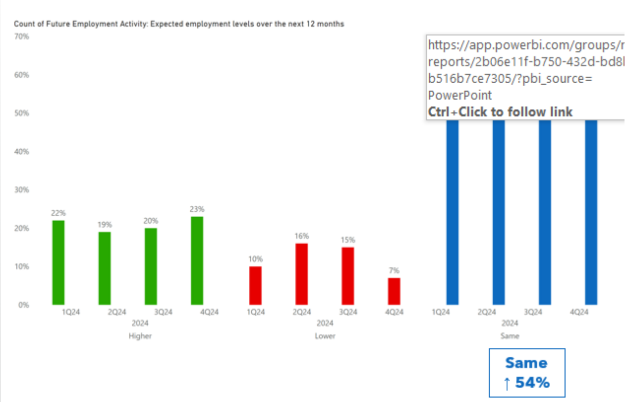
The narrative responses give clear answers as to who is weathering this margin pressure better, and those sectors have not changed from last year. Services with a health basis or those aimed at wealthier clients generally are doing well; goods and services that are discretionary or related to the residential housing market generally are not, and we will see examples of that shortly. Operations with larger scale also seem more resilient, and that sets up the discussion on employment trends.

There was not a lot of hiring amongst our clients throughout the year and the fourth quarter showed the least change of the year. Per the narrative responses, this static activity was mainly driven by either a more conservative stance, or in sectors that are performing well, an inability to find skilled labor that will work at rates our clients are willing to pay.

Employment Level: Current



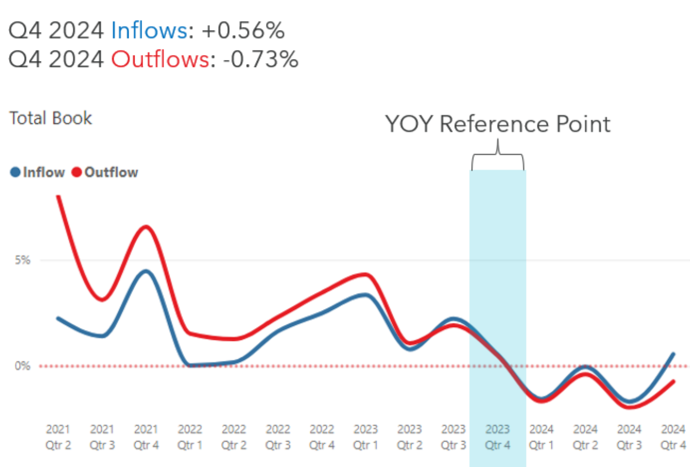
Employment Level: Future



There is an interesting take from future employment plans. Despite higher business expectations, we don't see a similar degree of movement in employment growth. Again, this is due to margin pressure-there were several narrative responses that cited changes in operating procedures designed to reduce costs, like automation efforts. One of those is a clear emerging trend where our clients are looking to cut less profitable business lines and customers. Although this seems like common sense on the surface, the practice isn't as prevalent in small to medium enterprises compared to larger operations. This is where scale could really come into play in 2025-if you are a truly small business, and you aren't as profitable to your suppliers as larger operations, then you might get cut and be forced to move to more expensive or less reliable suppliers. This will further impact your margin. This is a sentiment expressed multiple times in the back half of last year and it is something we are watching closely at Synovus.

4Q24 Commercial Cash Inflow Analysis

The survey is one way Synovus monitors the health and sentiments of our commercial clients; another is our Cash Inflow/Outflow analysis. This process aggregates commercial deposit account cash flows at both the 2 and the 6-digit NAICS level and compares the current month to the same month one year ago; this eliminates seasonality. In the graphic below, the line chart on the left shows the flows: the blue line represents inflows and is a proxy for revenues. The red line shows outflows, and it can be representative of expense growth or inflation. The red dotted line represents 0%, or no change.



Sector	Sample	Inflow	Outflow
11-Agriculture, Forestry, Fishing & Hunting	3,793	3.76%	-0.58%
81-Other Services	27,719	3.49%	1.02%
56-Admin/Support & Waste Management	6,548	2.86%	1.97%
61-Educational Services	2,862	2.55%	0.71%
53-Real Estate & Rental & Leasing	24,999	1.63%	-0.52%
71-Arts, Entertainment, & Recreation	3,663	1.29%	-1.46%
72-Accommodation & Food Services	8,106	0.95%	-1.81%
22-Utilities	555	0.91%	1.44%
52-Finance & Insurance	6,901	0.81%	0.46%
62-Health Care & Social Assistance	11,655	0.28%	-0.31%
51-Information	1,255	0.06%	-0.39%
92-Public Administration	1,895	0.01%	1.98%
23-Construction	16,995	-0.06%	0.02%
54-Professional, Scientific, & Tech Services	15,021	-0.62%	-0.84%
48-Transportation & Warehousing	3,321	-1.29%	-1.92%
33-Manufacturing	4,362	-1.58%	-2.44%
31-Manufacturing	1,152	-2.15%	1.10%
42-Wholesale Trade	4,983	-2.56%	-5.32%
55-Management of Companies	1,752	-2.97%	-3.97%
49-Transportation & Warehousing	623	-3.10%	-6.58%
44-Retail Trade	4,701	-3.25%	-3.62%
45-Retail Trade	5,482	-3.87%	-3.84%
32-Manufacturing	1,831	-4.38%	-4.36%
21-Mining	466	-7.25%	-5.76%

Focus on margins in 2025. With inflation, interest rates, and labor costs rising, it's crucial to evaluate less profitable business lines and customers. Prioritize efficiency and strategic decision-making to navigate these challenges effectively.

Cal Evans - Senior Director, Market Intelligence/Credit Analytics
Sean Flannery – Senior Vice President, Commercial Banking Manager