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Market Pulse

Main Street Lending Report

April 2024

Equifax Main Street Lending Report — April 2024

Summary for Executives

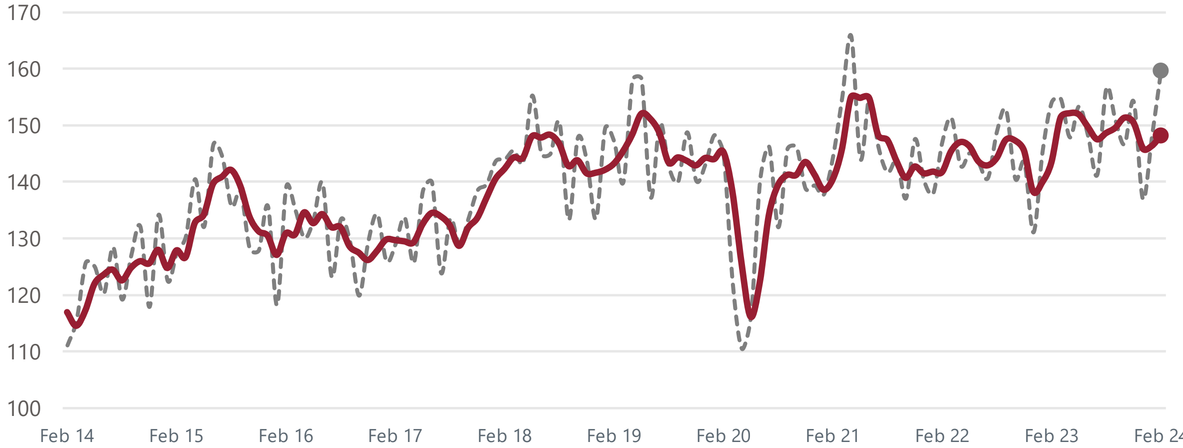
Key Takeaways

- Nominal small business lending activity increased again in February, with the three-month moving average rising 1.2% from January and 3.3% compared to a year ago. Small business default rates rose in February, but early delinquency rates fell slightly.
- Recent data indicates the U.S. economy seems to be on track for a soft landing. The labor market remains robust, inflation-adjusted wage growth is healthy, and consumer demand rebounded after a soft start to the year. Progress on inflation appears to have stalled, however, which remains a key factor to watch for Main Street.

Equifax Small Business Lending Index (SBLI)

SBLI			
159.6 (Level)	▲7.9% (M/M)	▲3.6% (Y/Y)	99th Percentile

SBLI 3MMA*			
148.1 (Level)	1.2% (M/M)	▲3.3% (Y/Y)	93rd Percentile



Volume of new commercial loans and leases to small businesses, seasonally adjusted index (January 2005 = 100)

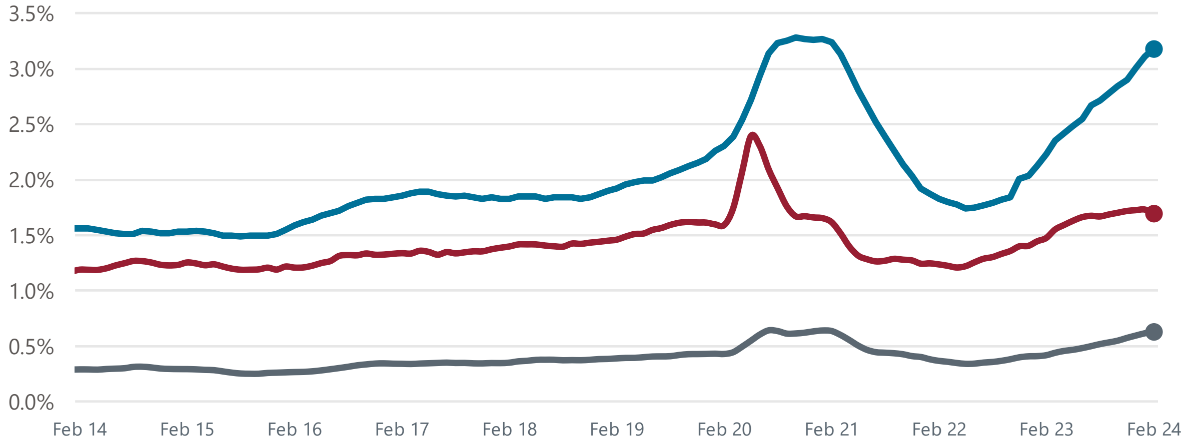
*Three-month moving average

Equifax Small Business Delinquency (SBDI) & Default Indices (SBDFI)

SBDFI		
3.18% (Level)	▲7bps (M/M)	▲95bps (Y/Y)

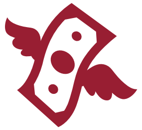
SBDI 31-90 Days		
1.69% (Level)	▼4bps (M/M)	▲22bps (Y/Y)

SBDI 91-180 Days		
0.63% (Level)	▲1bps (M/M)	▲21bps (Y/Y)



SBDFI calculated as a 12-month rolling average

Factors to Watch



Will Consumer Demand Hold Up as Job Growth Cools?

Job growth accelerated in Q1, defying forecasts and driving consumer demand. However, spending may weaken when the labor market slows.

Will Core Inflation Resume Its Downward Trajectory?

Inflation is proving sticky in 2024, and small businesses are under pressure from high debt servicing, wage, and operating costs.

Economic Context

With the first quarter of 2024 in the rear-view mirror, it is a good time to take stock of the economy's prospects to achieve a desired "soft landing" in which inflation returns to the target level of 2% without leading to labor market turmoil. Thus far, labor markets remain strong, but inflation progress has stagnated.

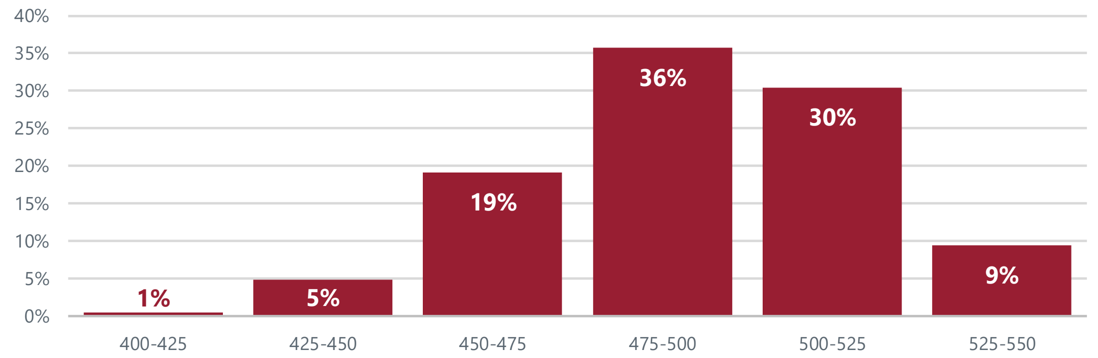
- **Labor market**: Nearly 830,000 jobs were created in the first quarter, representing an acceleration compared to the second half of 2023. Wage growth is also holding up: nominal wages have grown 4.1% over the last year — a solid pace, but not indicative of overheating, and a full percentage point faster than inflation. Given labor market strength, it is unsurprising that consumer spending has been healthy: after a slow start to the year, spending bounced back in February, including a 5.3% annualized increase in real personal consumption expenditures.
- **Inflation**: By some measures, inflation is nearing the Fed's target: headline CPI registered 3.5% Y/Y in March, while the core PCE Price Index (the Fed's preferred measure) fell to 2.8% Y/Y. However, over the last three months, headline CPI is running at a 4.6% annualized rate, while core PCE expanded at a 3.5% annualized rate. These readings are significantly better than 2023 data, but they also suggest progress toward the Fed's target may have stalled in Q1.

With the labor market still robust but recent inflation data less positive than hoped, the Fed's decision to hold rates steady for the time being is sensible. Market forecasts now suggest 1 – 2 rate cuts this year (see top chart), which is broadly consistent with Chair Powell's comments in early April: "Recent data do not…materially change the overall picture, which continues to be one of solid growth, a strong but rebalancing labor market, and inflation moving down towards 2 percent on a sometimes-bumpy path."

So, what does all this mean for Main Street? There is little question that if progress on inflation has truly stalled, it would be an unwelcome development. Inflation has been a major thorn in the side of small business owners for more than two years (see bottom chart), and it recently retook labor quality as their top worry. Still, their current level of concern is lower than it was in 2022 and 2023, and while labor quality is an oft-cited problem, this concern is actually less acute than it was prior to the pandemic. Indeed, employment trends have generally been a bright spot for Main Street: small business payroll growth outpaced overall growth in 2023, and as Bank of America recently reported, most small firms have transitioned from "catch-up" hiring to steady-state growth that is more in line with pre-pandemic trends. Bank of America's research finds that it is becoming less difficult for small firms to find qualified workers, and recent trends in NFIB's data support this view. As long as labor markets remain healthy and consumer demand remains strong, the economic climate on Main Street is likely to be positive.

Federal Reserve Still Expected to Cut Rates this Year

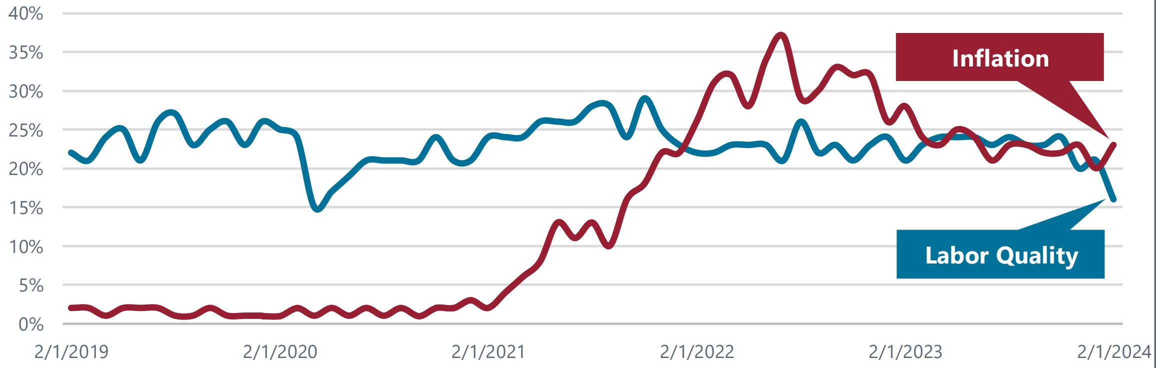
Target Rate Probabilities for December 2024 Fed Meeting (Current Target Rate is 525-550)



Source: CME FedWatch Tool

Inflation Number One Concern for Small Business Owners

Percent of Small Business Owners Reporting Issue as "Single Most Important Problem"



Source: NFIB Small Business Economic Trends

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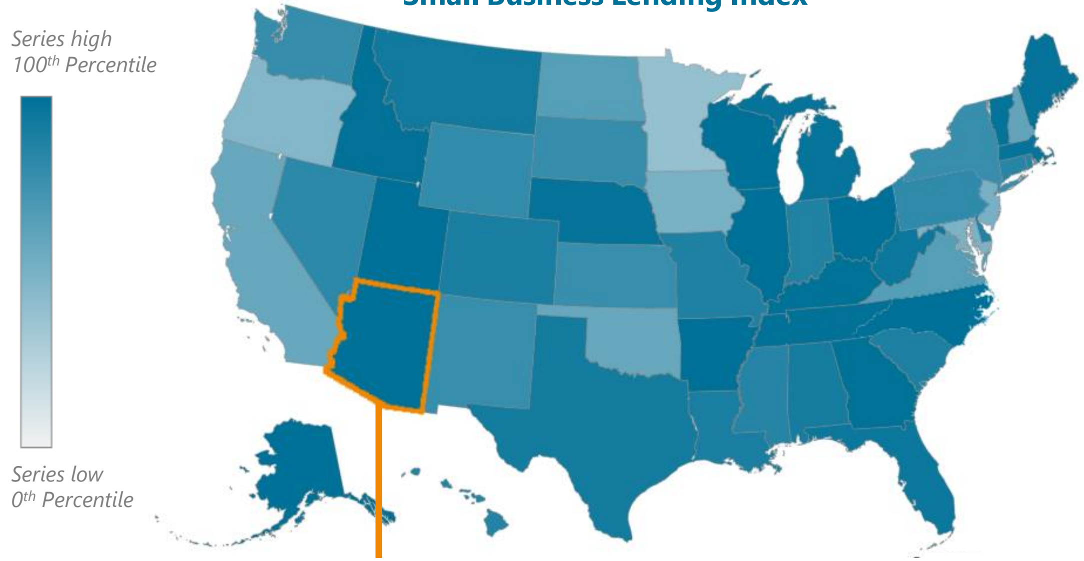
State & Industry Trends

Regions at a Glance

Eight states reached series-high levels of nominal lending activity in February, including this month's featured state: Arizona (see callout below).

Small Business Lending Index



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Arizona

Lending	119.1	▲ 1.2% (M/M)	▲ 4.3% (Y/Y)	*Series High*
Delinquency*	1.67%	▲ 3bps (M/M)	▼ 10bps (Y/Y)	60th Percentile
Default	3.59%	▲ 1bps (M/M)	▲136bps (Y/Y)	78th Percentile

*31-90 Days Delinquent

Industries at a Glance

In February, lending increased slightly for the retail trade and transportation sectors. However, these two industries are also beset by large year-over-year increases in defaults, which are up 125 bps for retail and 404 bps for transportation.

Retail Trade

Lending	106.1	▲ 0.04% (M/M)	▲ 4.6% (Y/Y)	92nd Percentile
Delinquency*	1.56%	▼ 2bps (M/M)	▲ 18bps (Y/Y)	60th Percentile
Default	3.19%	▼ 5bps (M/M)	▲125bps (Y/Y)	74th Percentile

Transportation and Warehousing

Lending	102.4	▲ 0.9% (M/M)	▼ 10.7% (Y/Y)	41st Percentile
Delinquency*	3.16%	▼ 11bps (M/M)	▲ 97bps (Y/Y)	82nd Percentile
Default	7.31%	▲ 9bps (M/M)	▲ 404bps (Y/Y)	83rd Percentile

To learn more about Equifax full suite of state, industry, and state/industry commercial business data, please contact a sales specialist today.