Equifax Main Street Lending Report — January 2024

Summary for Executives

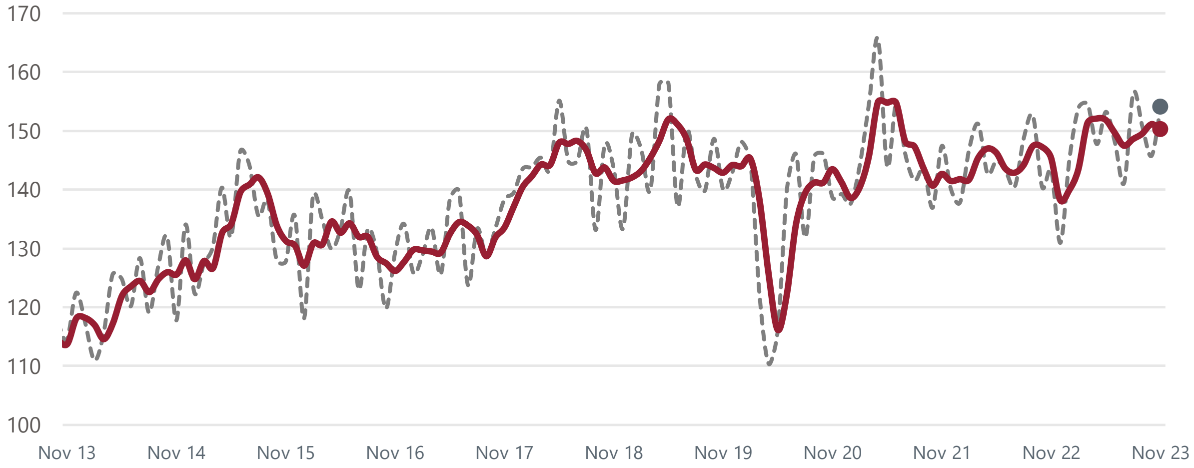
Key Takeaways

- Nominal small business lending activity increased in November, and the SBLI 3MMA is now in the top five percent of historical readings. High interest rates and a slowing economy may weigh on demand for new commercial loans in 2024, but the index's current position points to healthy lending activity in the near-term.
- Portfolio quality continued to erode in November. Early delinquencies held steady but serious delinquencies ticked up two basis points, while defaults rose. These trends are likely to continue, particularly if consumer spending slows later this year as many economists anticipate.

Equifax Small Business Lending Index (SBLI)

SBLI			
154.0	▲5.6% (M/M)	▲7.5% (Y/Y)	96th Percentile

SBLI 3MMA*			
150.2	▼0.6% (M/M)	▲3.2% (Y/Y)	96th Percentile



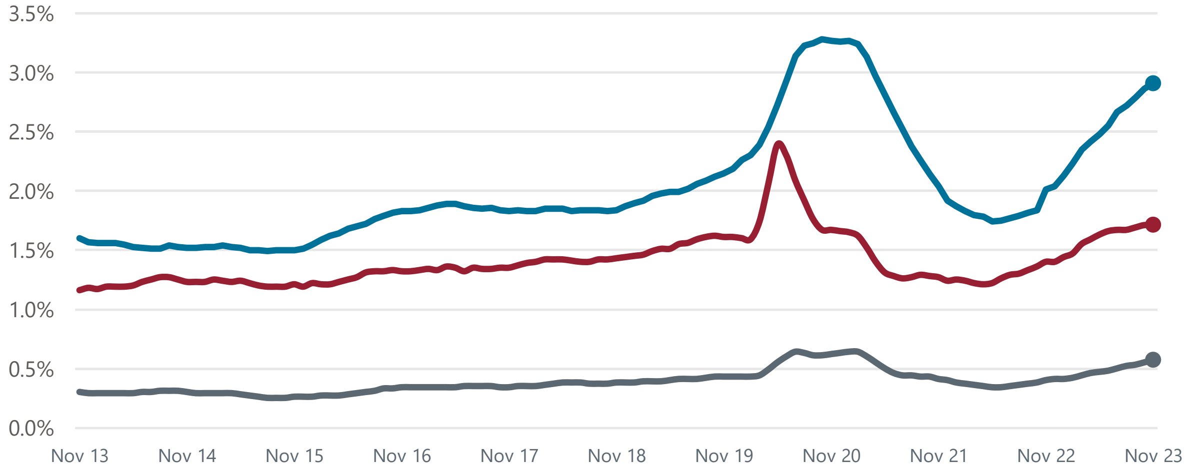
Volume of new commercial loans and leases to small businesses, seasonally adjusted index (January 2005 = 100)
Three-month moving average

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

SBDFI		
2.91%	▲5bps (M/M)	▲90bps (Y/Y)

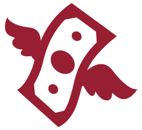
SBDI 31-90 Days		
1.71%	▲0bps (M/M)	▲31bps (Y/Y)

SBDI 91-180 Days		
0.57%	▲2bps (M/M)	▲17bps (Y/Y)



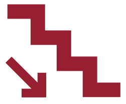
SBDFI Calculated as a 12-month rolling average

Factors to Watch



Slower Consumer Spending?

Consumer debt has risen rapidly over the last year, and some house-holds may cut back on spending at the start of 2024.



Interest Rate Cuts in Q1?

Forecasters predict that the Fed may begin rate cuts during the first half of the year, which could provide a boost to lending activity.

Economic Context

Nominal lending on Main Street was relatively healthy at the end of 2023, despite headwinds generated by a combination of monetary policy and slowing economic growth. With a series of rate cuts looking increasingly likely this year as the economy achieves the "soft landing" the Federal Reserve has been targeting, 2024 is shaping up to be a more promising year for small business lending activity, even as financial stress continues to increase. Ultimately, the strength of both lending demand and financial health among U.S. small businesses will hinge on whether consumers continue to spend robustly as debt levels rise and payment obligations build.

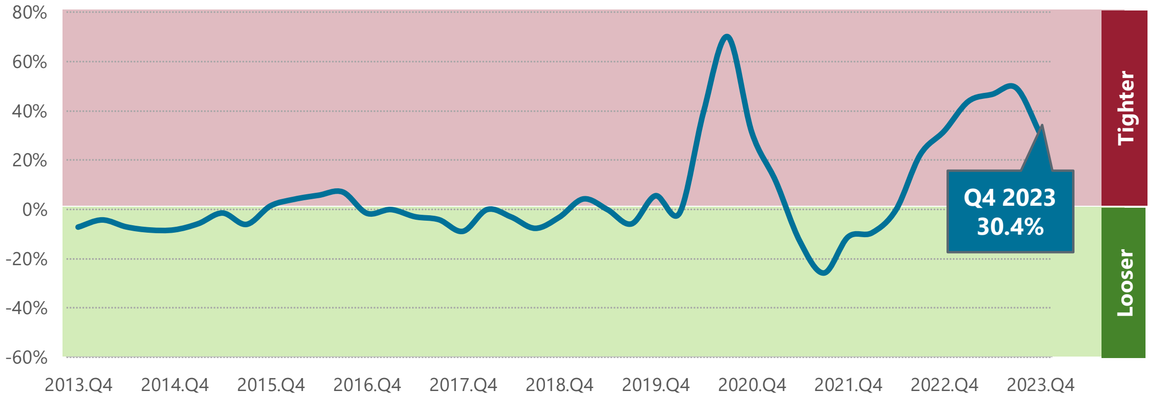
Monetary policy was a significant headwind for Main Street lending in 2023, with the Federal Funds Rate rising 125 bps to 5.5%, the highest level in more than two decades. While these rate hikes (along with normalizing supply chains) were generally successful in taming inflation, they also raised borrowing costs and reduced loan demand, particularly among smaller firms. According to the Federal Reserve Board's Senior Loan Officer Survey, lenders reported tightening standards for small businesses for the sixth consecutive quarter at the end of 2023, including a net 30% of lenders reporting tightening standards for small firms (see left chart). Credit conditions are expected to loosen in the near term, however, with the CME FedWatch Tool suggesting a more than a 50% chance of a rate cut in March. All else equal, lower rates will make small business loans more affordable and should boost loan demand.

While lower borrowing costs should encourage some small business owners who maintained a "wait and see" posture last year to come off the sidelines and invest in their businesses, concerns continue to build over rising financial stress. As shown on the previous page, the Equifax Small Business Delinquency Index has been climbing steadily for more than a year and a half and is now above its pre-pandemic level, while the increase in the Small Business Default Index has been even sharper. Financial stress is most acute in the transportation sector, where delinquency rates have risen 162 bps and default rates have surged 426 bps over the last year according to Equifax data.

As financial stress rises on Main Street, consumers also face mounting debt levels. Credit card debt rose rapidly in 2023, and with credit card interest rates at all-time highs, student loan payments restarted, and delinquency rates climbing (see right chart), consumers may tighten their belts this year. Indeed, small business owners appear to be anticipating a pullback and confidence remains subdued amid a gloomy near-term sales outlook, per NFIB. With economic activity set to slow this year, an increasing number of small firms are likely to feel the pinch.

Lenders Tighten Standards for Business Loans for Small Firms

Federal Reserve Senior Loan Officer Survey, Net Percent of Respondents



Increasing Share of Borrowers are Newly Delinquent

Federal Reserve Bank of New York, Share of Newly Delinquent Borrowers by Median Income Quartile