EQUIFAX®

Market Pulse

Main Street Lending Report

June 2024

Equifax Main Street Lending Report — June 2024

Summary for Executives

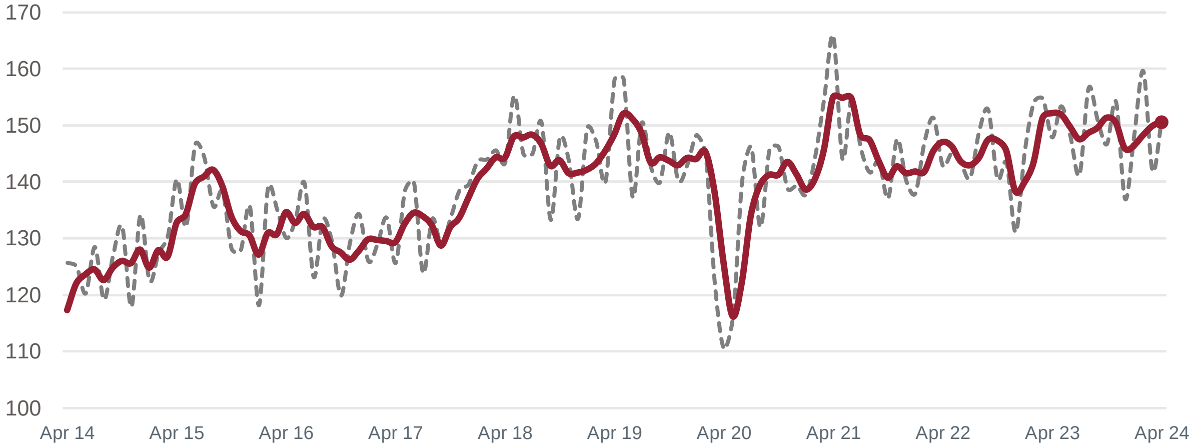
Key Takeaways

- Nominal small business lending activity improved in April (+6.1% M/M; +1.9% Y/Y), though the three-month moving average remains slightly below its year-ago level. Recent inflation data may begin to quell market concerns, but Fed officials have expressed a willingness to be patient and keep interest rates elevated for as long as necessary.
- Consumer demand appears to be weakening, reflecting a slowdown in real disposable income growth over the last year. Boosted by pandemic-era savings and a hot labor market, spending remained strong for longer than many anticipated. In recent months, however, consumers have been more cautious— a trend that is likely to continue.

Equifax Small Business Lending Index (SBLI)

SBLI			
150.6 (Level)	▲6.1% (M/M)	▲1.9% (Y/Y)	93rd Percentile

SBLI 3MMA*			
150.6 (Level)	▲0.5% (M/M)	▼1.0% (Y/Y)	96th Percentile



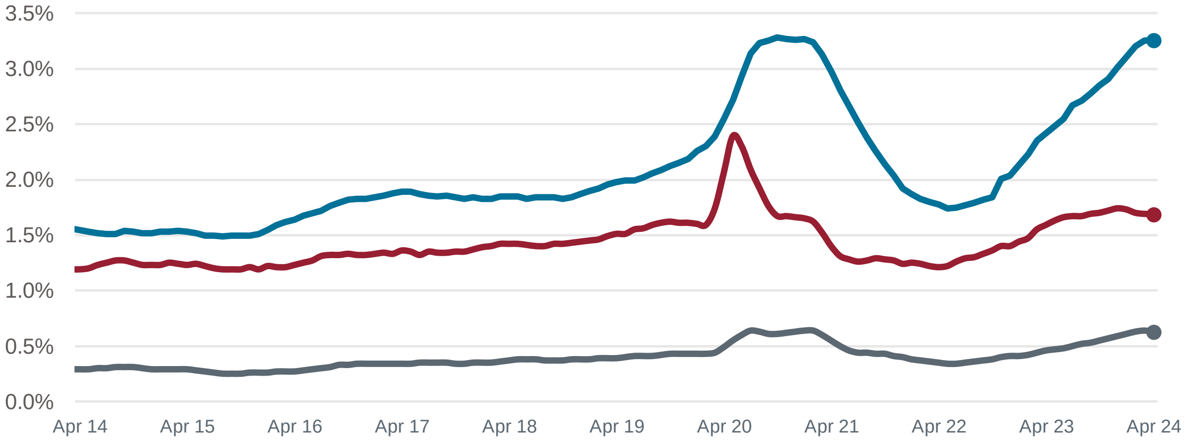
Volume of new commercial loans and leases to small businesses, seasonally adjusted index (January 2005 = 100)
*Three-month moving average

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

SBDFI		
3.26% (Level)	▲1bps (M/M)	▲84bps (Y/Y)

SBDI 31-90 Days		
1.69% (Level)	0bps (M/M)	▲10bps (Y/Y)

SBDI 91-180 Days		
0.63% (Level)	▲1bps (M/M)	▲17bps (Y/Y)



SBDFI calculated as a 12-month rolling average

Factors to Watch

Core Inflation Fell in April. Are We Back On Track?

After uncomfortably high readings in Q1, core inflation was closer to target in April. This progress needs to continue for the Fed to cut rates.

How Much Will Consumer Spending Slow?

Weak disposable income growth, rising debt, and flat retail sales point to a more cautious consumer.

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Economic Trends

Economic Context

Small business owners have grown slightly more optimistic over the last month as new data releases help to ease fears of inflation reigniting. The core PCE Price Index (the Fed's preferred inflation measure) grew at an annualized rate of 3% in April, down from 4.1% in March and 5.9% in January (see top chart). Still, recent inflation readings are elevated compared to the latter half of 2023 and are above the Fed's target, leading Chairman Powell to state in mid-May that Fed officials are "willing to be patient and let restrictive policy do its work." Of course, if inflation does resume its downward trajectory, it could be a double-edged sword for Main Street: interest rates could fall in response, but it could also reflect a reduction in consumer demand.

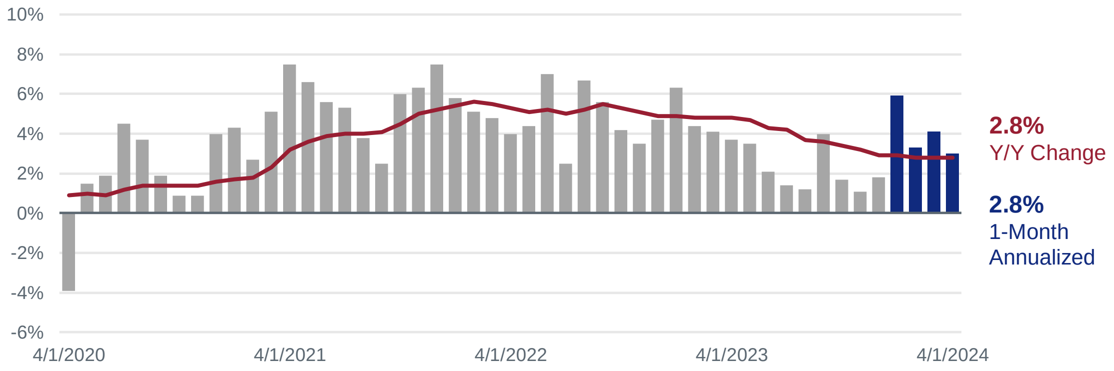
Indeed, the economy appears to be settling into a slower growth trajectory as the midpoint of the year approaches. Revised growth estimates for Q1 released in late May reveal that GDP grew at a pedestrian 1.3% during the first three months of the year, down from an initial estimate of 1.6% and substantially slower than the 3.2% growth observed during the previous quarter. U.S. consumers are becoming more cautious, as reflected in automobile sales and the retail industry. An increasing share of consumers appear to be balking at high auto prices that, combined with higher interest rates, have resulted in the average monthly payment for a new car rising to nearly $750 per LendingTree. Meanwhile, retail sales were flat in April, while inflation-adjusted personal consumption expenditures (a broader measure of consumer spending) fell 0.1%.

The spending slowdown is consistent with the weaker growth in real disposable personal income (DPI) that has taken place over the last year. Though the labor market is strong, the rate of change for real DPI has been significantly slower over the last year than during the five-year period preceding the pandemic (see bottom chart). Consumers were able to maintain elevated spending levels in 2022 and 2023 despite softer real DPI growth by drawing down pandemic-era stimulus savings and leaning on credit cards and reducing personal savings. However, it appears this pattern may be changing in 2024: most if not all pandemic-era "dry powder" has been spent and credit card debt has reached record highs. With the personal savings rate hovering around half of its typical pre-pandemic level, it appears U.S. consumers may be finally tapping the brakes on their post-pandemic spending patterns

Still, Main Street remains resilient. Most small business owners (93%) expect moderate or significant growth over the next 12 months according to a recent report from OnDeck and Ocrolus, and Equifax's SBLI data suggests that small businesses continue to invest in their businesses. Just as importantly, Equifax's SBDI (delinquency) and SBDFI (default) indices are rising more slowly and may be reaching a peak, a promising sign for financial stress. Looking ahead, business owners appear to be taking a wait-and-see approach in hopes that both inflation and borrowing costs will begin to fall.

Core Personal Consumption Expenditures (PCE) Price Index

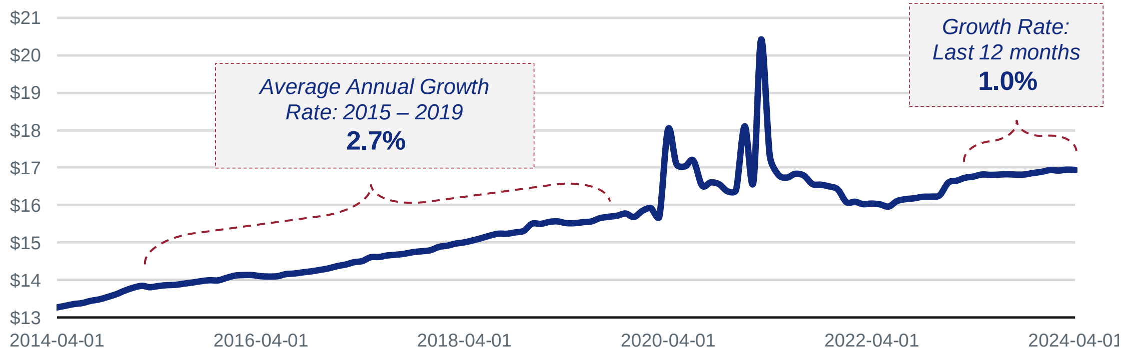
M/M annualized change (bars) v. Y/Y percent change (line)



Source: U.S. Bureau of Economic Analysis.

Real Disposable Personal Income (DPI)

Monthly, chained 2017 dollars, billions



Source: U.S. Bureau of Economic Analysis.

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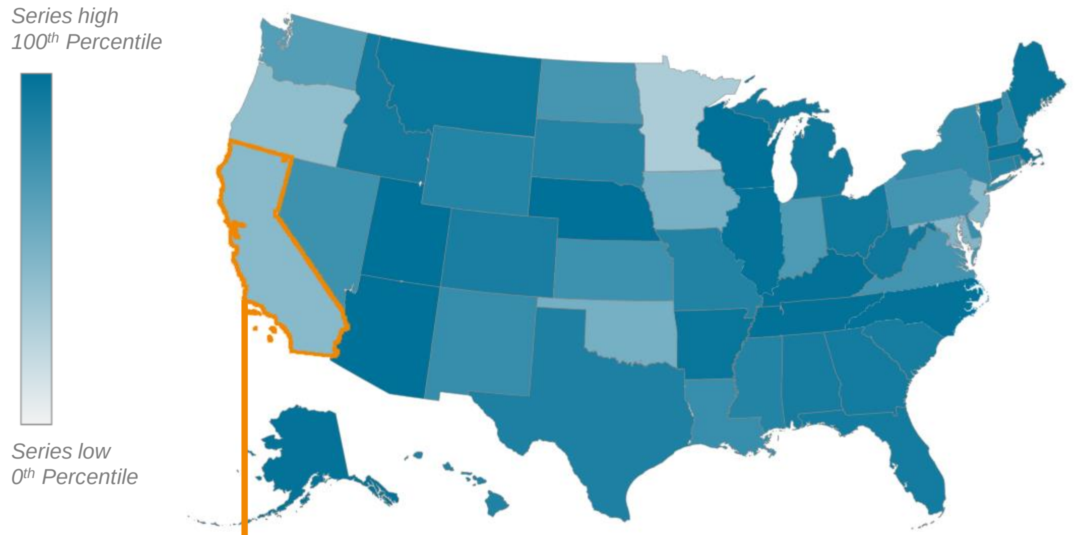
State & Industry Trends

Regions at a Glance

In April, lending activity weakened in several states, including in this month's featured state: California (see callout below).

Small Business Lending Index



Map created using Equifax data. Powered by Bing. © GeoNames, Microsoft, TomTom.

California

Lending	98.7	▼ 0.8% (M/M)	▼ 0.6% (Y/Y)	49th Percentile
Delinquency*	1.62%	▼ 3bps (M/M)	▲16bps (Y/Y)	67th Percentile
Default	3.69%	▼ 7bps (M/M)	▲94bps (Y/Y)	72nd Percentile

Industries at a Glance

In April, construction industry lending hit a series high while delinquencies and defaults ticked up. Meanwhile, agricultural lending weakened while delinquencies and defaults rose significantly.

Construction

Lending	124.9	▲0.4% (M/M)	▲8.0% (Y/Y)	Series High
Delinquency*	2.31%	▲1bps (M/M)	▲21bps (Y/Y)	61st Percentile
Default	3.33%	▲2bps (M/M)	▲74bps (Y/Y)	72nd Percentile

Agriculture

Lending	141.7	▼1.1% (M/M)	▼10.9% (Y/Y)	63rd Percentile
Delinquency*	0.91%	▲5bps (M/M)	▲22bps (Y/Y)	85th Percentile
Default	2.57%	▲8bps (M/M)	▲44ps (Y/Y)	89th Percentile

*31-90 Days Delinquent

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