EQUIFAX®

Market Pulse

Main Street Lending Report

March 2024

Equifax Main Street Lending Report — March 2024

Summary for Executives

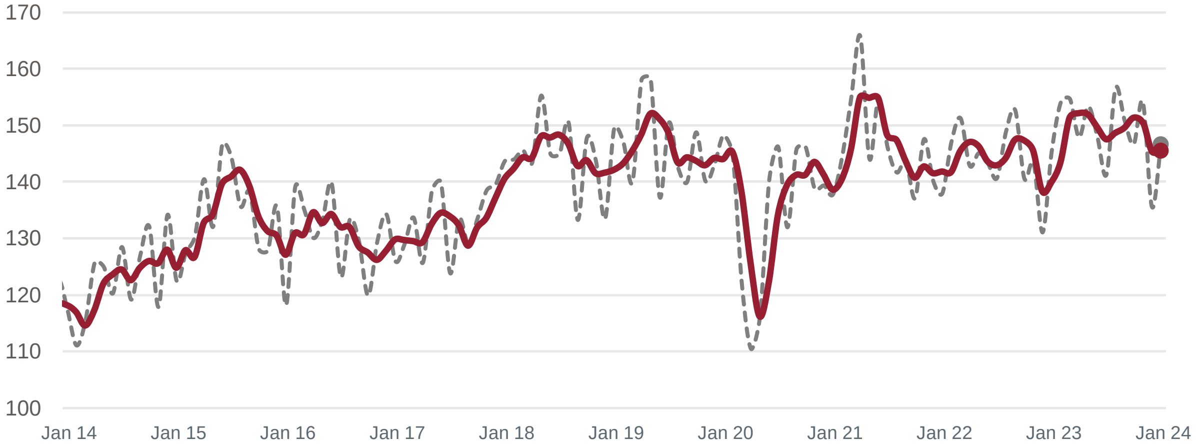
Key Takeaways

- Nominal small business lending activity improved in January following a sharp decline in December. Expectations that the Fed will delay rate cuts until at least the summer may crimp borrowing demand during the first half of the year, but the near-term economic climate for small businesses is generally positive.
- Small business financial stress continued to rise in January. Delinquency rates are now in line with pre-pandemic levels and rising slowly, while defaults are 17% above January 2020 levels and rising more quickly. Consumer debt levels could spark a spending pullback later this year, representing a key factor to watch for Main Street business owners.

Equifax Small Business Lending Index (SBLI)

SBLI			
146.6 (Level)	▲8.2% (M/M)	▲0.9% (Y/Y)	88th Percentile

SBLI 3MMA*			
145.4 (Level)	0.0% (M/M)	▲3.9% (Y/Y)	86th Percentile



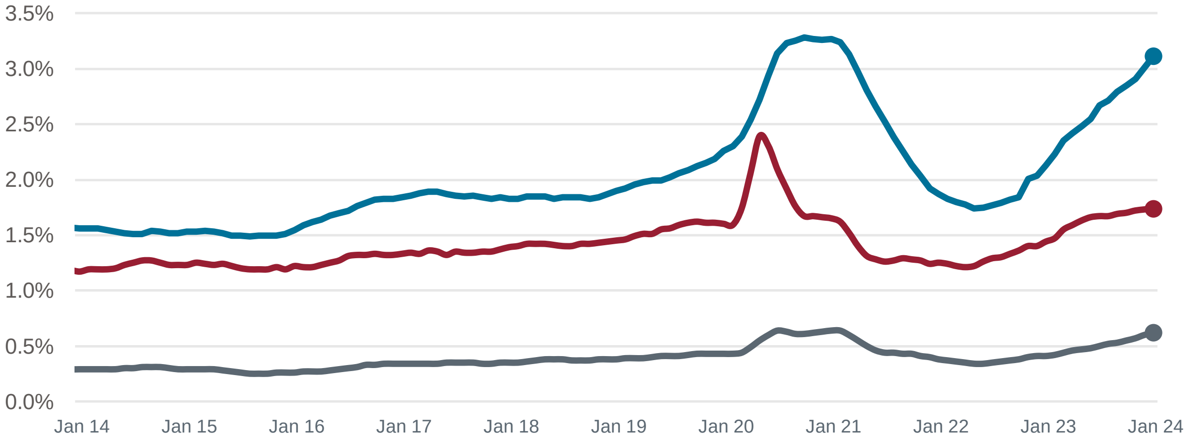
Volume of new commercial loans and leases to small businesses, seasonally adjusted index (January 2005 = 100)
Three-month moving average

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

SBDFI		
3.11% (Level)	▲10bps (M/M)	▲98bps (Y/Y)

SBDI 31-90 Days		
1.74% (Level)	▲1bps (M/M)	▲30bps (Y/Y)

SBDI 91-180 Days		
0.62% (Level)	▲2bps (M/M)	▲21bps (Y/Y)



SBDFI Calculated as a 12-month rolling average

Factors to Watch

Confidence in the Economy Appears to be Building

After a period of elevated inflation, rising interest rates, and recession worries, measures of consumer and business confidence are improving.

Will Household Debt Finally Dampen Spending?

With the restart of student loan repayments, ballooning credit card debt, and low savings rates, will consumers pare back their spending?

Copyright © 2024 Equifax Inc. All Rights Reserved. Equifax is a registered trademark of Equifax Inc.

Economic Trends

Economic Context

In many respects, the U.S. economy appears to be in solid shape. Job growth remains robust, with a net 794,000 jobs created over the last three months. Inflation has slowed: core CPI is running at a 3.6% annualized rate over the last six months, while core PCE, the Fed's preferred measure, is just 2.5% over the same period. Amid these trends, the University of Michigan's Index of Consumer Sentiment has risen 15 points over the last three months, and although small business confidence is little changed, Business Roundtable reported that large businesses expect stronger sales and more capital investment over the next six months.

While these data suggest that the overall business climate for small businesses is generally positive, Main Street will be closely monitoring two potentially worrisome trends: a potential slowdown in consumer spending and the continuing buildup of financial stress.

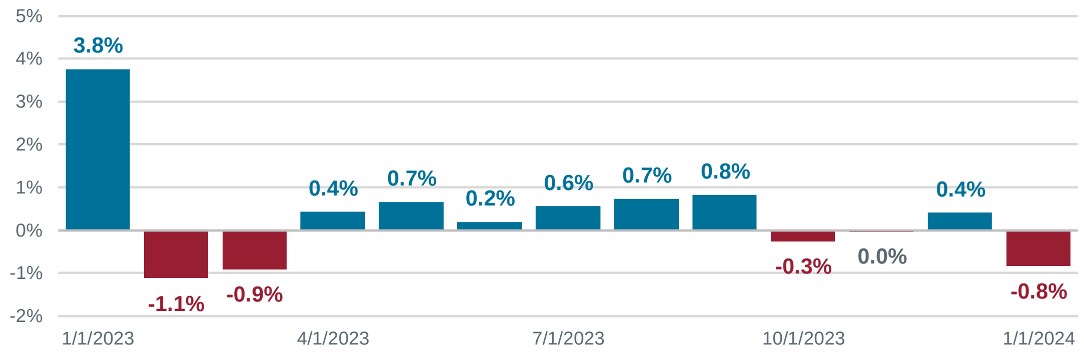
- **Spending slowdown?** In January, retail sales fell 0.8% from December, well below market expectations and the largest monthly drop in nearly a year (see top chart). Economists pointed to unusually harsh winter weather in January as a likely contributor, so it is unclear whether the weak data represents the early stages of a sustained downshift in spending or is simply a blip.
- **Rising debt levels.** The New York Fed reported an increase of $212 billion in household debt during the fourth quarter (+1.2%). While the increase is not alarming on its own, credit card balances climbed to $1.13 trillion and are up 14.5% Y/Y, marking the seventh consecutive quarter of double-digit Y/Y increases (for perspective, from 2011-2019, credit card spending rose at an annual rate of around 3.5%; over the last three years, annual growth has exceeded 11%). With credit card spending rising this quickly, it is not surprising that delinquencies are also climbing.

The increase in consumer debt, particularly credit card debt, is a key factor to watch on Main Street, as it could lead to lower spending. Indeed, some business owners may already be feeling the pinch: NFIB reported a notable decline in near-term sales expectations in January. Small business delinquency and default rates are also rising steadily (see page 1), and although some industries have been buoyed by consumer demand and federal investment, others are struggling. For example, the Transportation and Warehousing industry which is traditionally viewed as a bellwether for broader economic conditions, has experienced large monthly increases in both delinquency and defaults for more than a year, in part a reflection of the post-pandemic slowdown in goods purchases and return of services-driven spending patterns (see bottom chart).

Still, while there are evident and emergent pressures on small businesses, overall economic conditions remain positive. The U.S. Chamber of Commerce continues to report "sunny" outlooks in their small business forecast, finding that general positive sentiment outweighs negative sentiment among business owners for the first time in two years.

Retail Sales Lower Than Expected in Early 2024

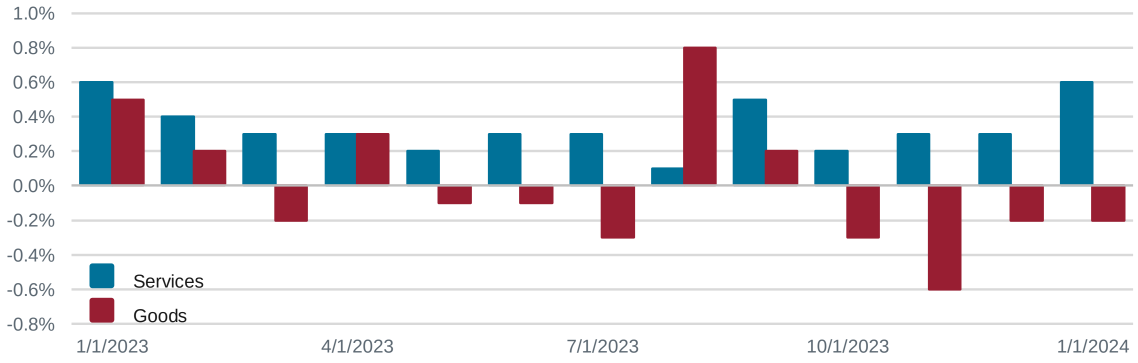
M/M Percent Change, Advance Monthly Sales for Retail and Food Services, Seasonally Adjusted



Source: U.S. Census Bureau

Spending Patterns on Goods vs. Services Diverge

M/M Percent Change, Personal Consumption Expenditures by Product Type



Source: U.S. Bureau of Economic Analysis

Copyright © 2024 Equifax Inc. All Rights Reserved. Equifax is a registered trademark of Equifax Inc.

Equifax Main Street Lending Report — March 2024

State & Industry Trends

Regions at a Glance

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

Small Business Lending Index

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

Wisconsin

Lending	134.9	▲ 1.4% (M/M)	▲ 15.7% (Y/Y)	Series High
Delinquency*	1.35%	▲ 15bps (M/M)	▲ 28bps (Y/Y)	70th Percentile
Default	2.00%	▲ 3bps (M/M)	▲ 73bps (Y/Y)	61st Percentile

Industries at a Glance

In January, construction lending reached an all-time high, though defaults and delinquencies also rose. Agriculture delinquencies fell modestly but remain above Y/Y levels, while defaults continued to climb.

Agriculture, Forestry, Fishing and Hunting

Lending	142.9	▼ 0.4% (M/M)	▼ 9.4% (Y/Y)	65th Percentile
Delinquency*	0.81%	▼ 3bp (M/M)	▲ 13bps (Y/Y)	63rd Percentile
Default	2.35%	▲ 5bps (M/M)	▲ 39bps (Y/Y)	85rd Percentile

Construction

Lending	124.7	▲ 1.1% (M/M)	▼ 6.8% (Y/Y)	Series High
Delinquency*	2.26%	▲ 5bps (M/M)	▲ 21bps (Y/Y)	58th Percentile
Default	3.20%	▲ 10bps (M/M)	▲ 93bps (Y/Y)	71st Percentile

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

*31-90 Days Delinquent