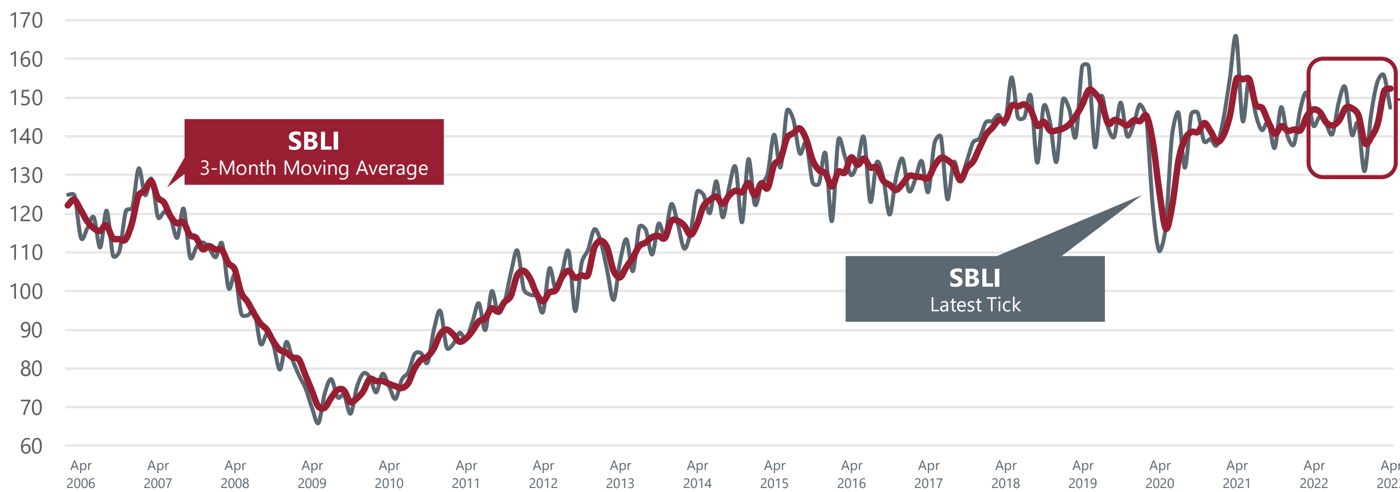
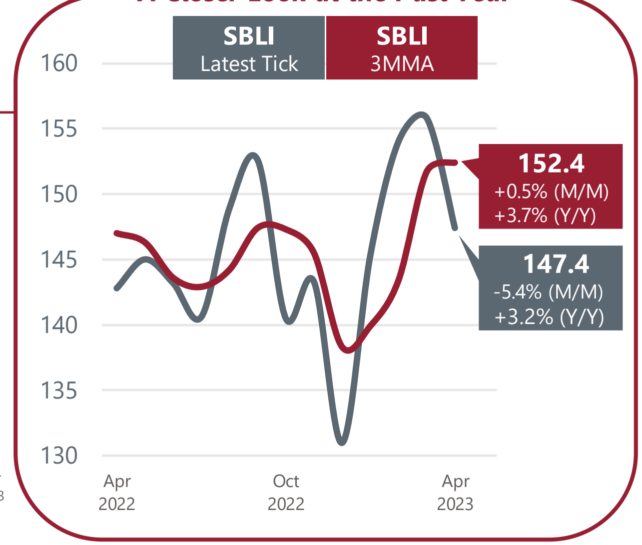
Small Business Lending Activity Wanes as Credit Conditions Tighten

Equifax Small Business Lending Index (SBLI)*



A Closer Look at the Past Year



*Volume of New Commercial Loans & Leases to Small Businesses, Seasonally Adjusted Index (January 2005 = 100)

Index Analysis

The Equifax Small Business Lending Index (SBLI) decreased 8.4 points (-5.4%) in April to 147.4 and is now 3.2% above its year-ago level. Meanwhile, the SBLI 3-month moving average ticked up 0.7 points to 152.4 and is now 3.7% above its year-ago level.

Regional Story: In April, small business lending rose in eight of the ten largest states. On a monthly basis, Michigan (+0.8% M/M), Illinois (+0.5% M/M), and Ohio (+0.3% M/M) experienced the largest increases. Georgia (-0.5% M/M) and California (-0.5% M/M) showed the largest monthly lending declines. When measured on an annual basis, lending activity was up in nine of the ten largest states. California (-1.0% Y/Y) experienced the only year-over-year decline in lending activity, while Florida (+5.5% Y/Y), North Carolina (+4.9% Y/Y), and Ohio (+4.7% Y/Y) saw the largest annual increases.

Industry Story: Small business lending rose on a monthly basis in 8 of 18 industries in April, led by Health Care & Social Assistance (+2.7% M/M), Arts, Entertainment & Recreation (+2.5% M/M), and Public Administration (+2.4% M/M). Lending activity fell most in Information (-2.9% M/M) and Mining, Oil & Gas (-2.1% M/M). Compared to a year ago, lending rose in 14 of 18 industries, most notably in Arts, Entertainment & Recreation (+26.9% Y/Y) and Accommodation & Food Services (+17.8% Y/Y). In contrast, lending fell significantly in Transportation & Warehousing (-11.7% Y/Y) and Mining, Oil & Gas (-4.5% Y/Y).

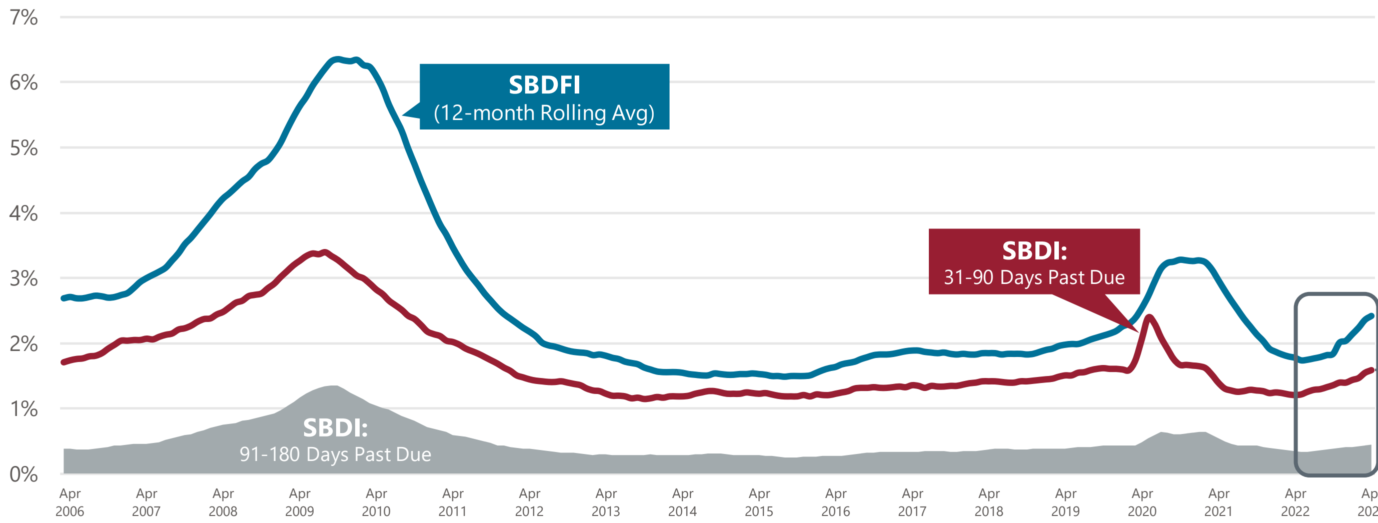
Economic Context

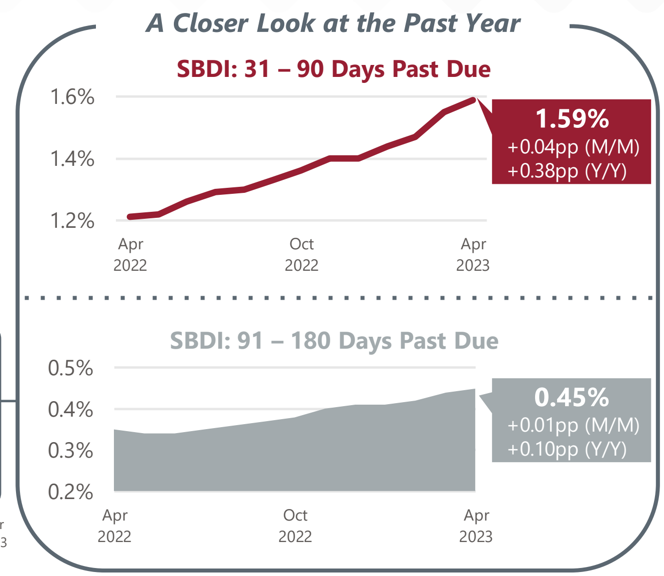
The Equifax Small Business Lending Index fell in April, potentially reflecting multiple prominent bank failures which has sparked greater caution and tighter credit standards among lenders. In recent weeks, multiple surveys have pointed to the likelihood of reduced credit access later this year, including the Fed's May Senior Loan Officer Survey, in which nearly half of banks reported stricter loan standards for small businesses and more than half said they expect to further tighten small-business lending standards later this year. Similarly, the American Bankers Association's Credit Conditions Outlook has been signaling tighter business lending conditions for several quarters, while the Biz2Credit Small Business Lending Index found that loan approvals for Main Street at big banks fell in May.

While small business loans are growing harder to access, they also are getting more expensive: the Fed raised the Federal Funds Target Rate another 0.25 bp in May, pushing the upper limit of the target rate to 5.25%, its highest level since 2007. Tighter monetary policy has put significant upward pressure on the average interest rate for a small business loan: for example, rates for SBA loans (which tend to be lower than rates for bank loans) have jumped above 10%, prompting some Main Street business owners to pause or delay borrowing. All told, high interest rates, a slowing economy, and increased cautiousness among bank lenders may impair small business lending activity in the months ahead.

Main Street Financial Stress Continues to Slowly Increase

Equifax Small Business Delinquency Index (SBDI)* & Default Index (SBDFI)**





**Delinquent Percentage of Small Business Loans, Seasonally Adjusted Index | **Default Percentage of Small Business Loans & Leases, Seasonally Adjusted Index*

Index Analysis

The Equifax Small Business Delinquency Index (SBDI) 31–90 Days Past Due increased 4bp in April to 1.59% and is 38bp above its year-ago level. The SBDI 91–180 Days Past Due increased 1bp to 0.45% and is up 10bp Y/Y. Defaults rose 6bp in April to 2.42% and are now 64bp above year-ago levels.

Regional Story: In April, delinquencies rose in five of the ten largest states, led by Georgia (+8bp M/M) and North Carolina (+8bp M/M) while California (-6bp M/M) saw the largest monthly decline. On an annual basis, delinquencies increased in all ten large states, led by Florida (+74bp Y/Y). Defaults rose in six of the ten largest states in April, led by sharp increases in Florida (+22bp M/M) and Georgia (+19bp M/M). Defaults saw the largest monthly declines in Ohio (-5bp M/M) and Michigan (-3bp M/M). On an annual basis, defaults increased in nine of the ten largest states, led by Georgia (+137bp Y/Y) and easing only in New York (-5bp Y/Y).

Industry Story: Delinquencies rose in five of six tracked industries in April, led by Transportation (+15bp M/M). Delinquencies eased in Construction, but only slightly (-1bp M/M). Year-over-year, delinquencies increased in all six tracked industries, led by Transportation (+148bp Y/Y) and Construction (+40bp Y/Y). Meanwhile, defaults increased in twelve of the eighteen tracked industries in April, led by Transportation (+33bp M/M) and Accommodations & Food Services (+24bp M/M). On an annual basis, defaults rose in all eighteen tracked industries, led by Transportation (+232bp Y/Y) and Finance (+102bp Y/Y).

Economic Context

The Equifax Small Business Delinquency Index and the Small Business Default Index continued to worsen in April. Both indices have risen steadily for the last year and are now roughly equivalent to pre-pandemic readings. Main Street continues to face headwinds, particularly with respect to filling open positions and contending with rising labor costs. According to the latest JOLTS report from the Bureau of Labor Statistics, layoffs at small businesses with fewer than 50 employees have trended upward since last year. Broadly, the uptick in layoffs reflects slowing sales and increasing financial stress and is likely driving recent declines in NFIB's Small Business Optimism Index.

On a more positive note, inflation continues to ease. Both the CPI and the PCE price index have fallen steadily since peaking last summer (though both measures remain elevated), and most recent surveys indicate that inflation is no longer the top concern facing small businesses and households. In response, the Fed appears likely to pause rate hikes in the short term, in part due to concerns that rapid rate increases are straining portfolios at small and mid-sized banks. Additional rate hikes later this year are possible, however, and recent trends suggest that small business loan delinquencies and defaults are likely to continue rising in the months ahead.