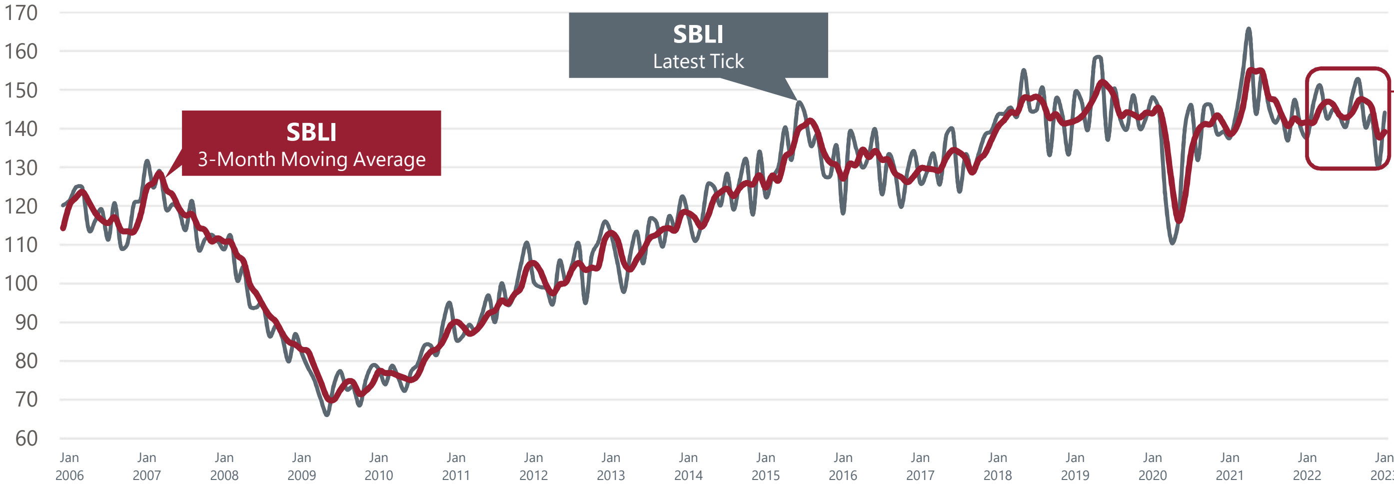
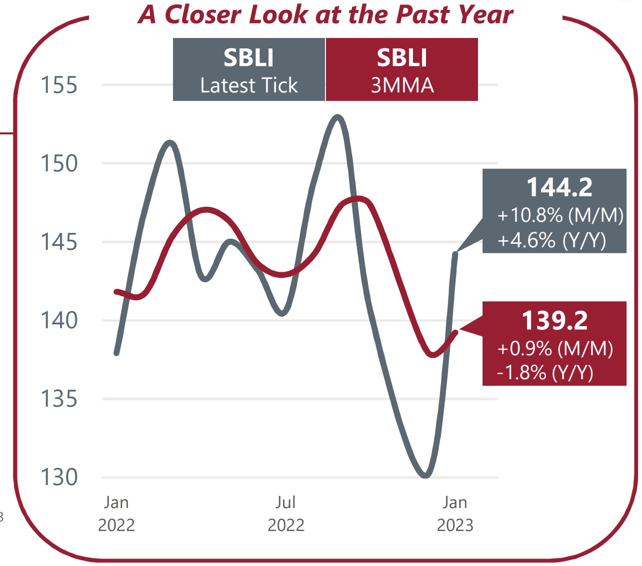
Main Street Lending Activity Off to Surprisingly Strong Start

Equifax Small Business Lending Index (SBLI)*





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

Index Analysis

In January, the Equifax Small Business Lending Index (SBLI) rose 14.1 points (+10.8%) to 144.2 and is now 4.6% above its year-ago level. The SBLI 3-month moving average, meanwhile, ticked up 1.2 points (+0.9%) to 139.2 but is 1.8% below its year-ago level.

Regional Story: Small business lending rose in nine of the ten largest states in January, with North Carolina (+1.1% M/M), Michigan (+1.0% M/M), and Florida (+1.0% M/M) experiencing the largest increases. New York (-1.1% M/M) is the only state to show a monthly lending decline. When measured on an annual basis, lending activity is up in seven of the ten largest states, led by Florida (+3.3% Y/Y), Ohio (+2.9% Y/Y), and Texas (+2.3% Y/Y). Meanwhile, California (-3.8% Y/Y), Pennsylvania (-3.2% Y/Y), and Illinois (-2.0% Y/Y) experienced the largest year-over-year declines.

Industry Story: Lending rose on a monthly basis in 16 of 18 industries in January, led by Arts, Entertainment, & Recreation (+3.0% M/M), Education (+2.8% M/M), and Public Administration (+2.4% M/M). Lending activity fell in Transportation & Warehousing (-1.2% M/M) and Agriculture (-0.1% M/M). Compared to a year ago, lending rose in 11 of 18 tracked industries, most notably in Information (+23.5% Y/Y) and Accommodation & Food Services (+17.3% Y/Y). In contrast, lending fell significantly in Transportation & Warehousing (-11.7% Y/Y), Public Administration (-10.4% Y/Y), and Administrative and Support Services (-5.2% Y/Y).

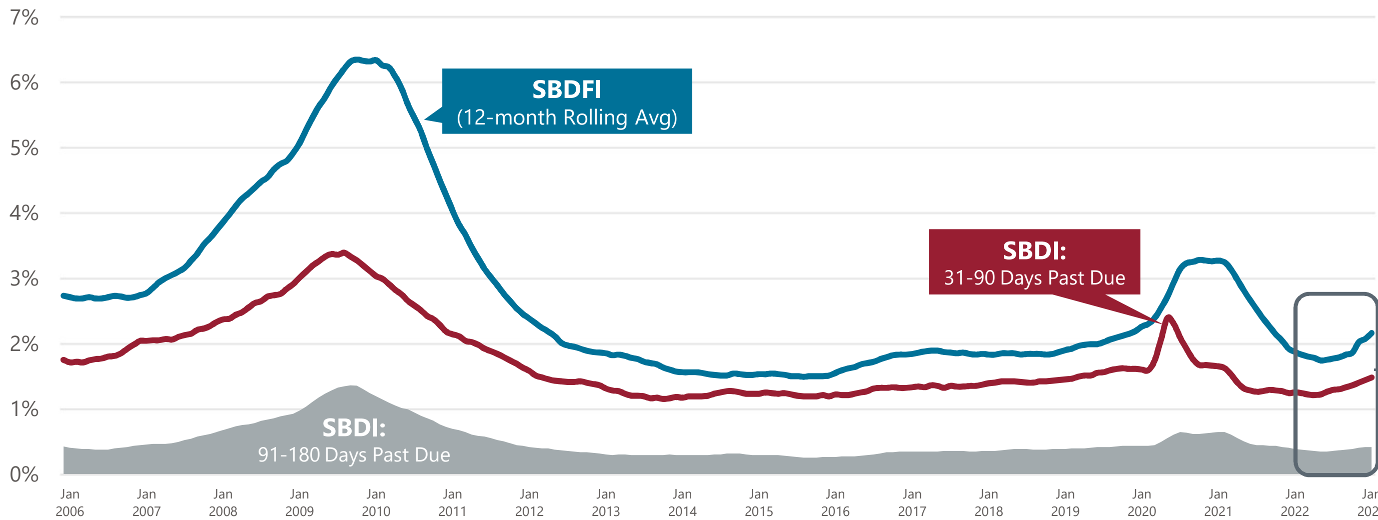
Economic Context

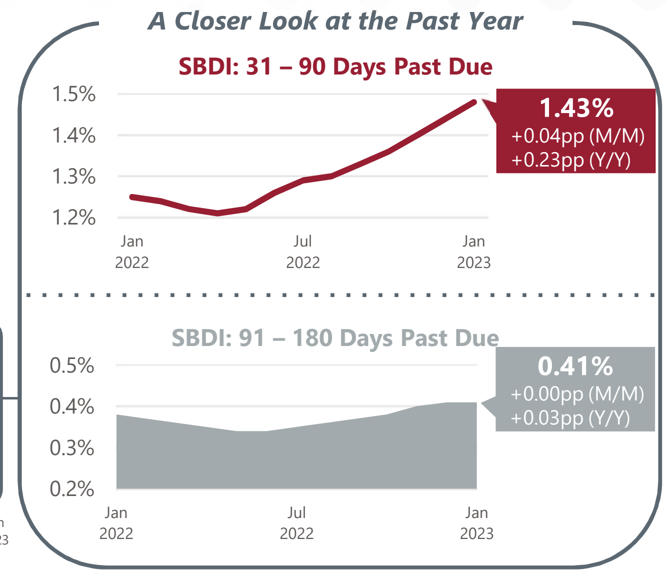
While Equifax's Small Business Lending Index improved in January, the increase comes on the heels of a steep decline in December, resulting in an Index reading roughly equivalent to its 2022 average. The Index's recent volatility reflects the bumpy road that Main Street has endured in recent months due to inflation, labor shortages, and uncertain consumer demand, and there is good reason to believe that more twists and turns are in store for small business owners this year. The latest PCE Price Index reading (the Fed's preferred inflation measure) suggests that inflationary pressures, which had been receding for several months, may be ramping up once again, which will likely trigger additional rate hikes from the Fed at its upcoming FOMC meetings (and, potentially, heightened recession risk later in the year). As borrowing costs rise, delinquency rates on credit cards and auto loans are rising steadily, which may foreshadow a pullback in spending later this year.

The good news, however, is that despite these headwinds, small business owners remain generally optimistic about their prospects this year. In a recent WSJ/Vistage survey, 47% expect their profits to improve in 2023 (the largest share in nine months), while 56% plan to expand their workforce. Moreover, the share of small business owners who expect economic conditions to worsen over the next year (43%) has fallen a sizeable 15 points since November. As the year kicks off, Main Street borrowing is holding up — though time will tell whether the January surge in lending activity is a temporary blip or something more sustainable.

Amid Steady Increase in Financial Stress, Small Firms Look to Adapt

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 January to 1.48% and was 23bp above its year-ago level. The SBDI 91–180 Days Past Due remained at 0.41% and was up 3bp Y/Y. Defaults rose 9bp in January to 2.16% and were 29bp above year-ago levels.

Regional Story: In January, delinquencies rose in each of the ten largest states, led by Georgia (+20bp M/M) and Florida (+15bp M/M). Measured on an annual basis, delinquencies rose in nine of the ten largest states, led by Pennsylvania (+50bp Y/Y); Michigan (-3bp Y/Y) was the only large state with a decline. Defaults also rose in all ten large states, particularly in New York (+36bp M/M) and Florida (+14bp M/M). Overall, defaults were above year-ago levels in nine of ten states, with Georgia (+71bp Y/Y) and Florida (+61bp Y/Y) seeing the largest increases. New York (-1bp Y/Y) is now the only large state where defaults are below year-ago levels.

Industry Story: Delinquencies rose in five of six tracked industries in January, led by Transportation (+17bp M/M), while Agriculture (-4bp M/M) was the only state with a decline. On an annual basis, delinquencies increased in all tracked industries, most notably for Transportation (+108bp Y/Y) and Health Care (+41bp Y/Y). Regarding defaults, 15 of 18 tracked industries showed increases, led by Transportation (+36bp M/M). Compared to last year, defaults rose in 13 tracked industries, including Transportation (+92bp Y/Y) and Finance (+80bp Y/Y). Default rates in Information (-33bp Y/Y) are the lowest compared to last year's levels.

Economic Context

The Equifax Small Business Delinquency and Default Indices continued to climb in January, reflecting broad-based increases in financial stress that have been evident across the economy. Some of this stress can be attributed to labor shortages, which edged out inflation as the most significant problem facing small business, according to the Goldman Sachs' *10,000 Small Business Voices* survey in February . Indeed, a striking 82% of owners who are hiring reported difficulty finding and recruiting qualified candidates, though half still expect to create new jobs this year.

Still, despite persistent labor shortages and evidence of rising financial stress, there are signs that small businesses are adapting to a new operating environment. A recent WSJ/Vintage survey found that since November, the share of small businesses saying that hiring challenges have impacted their ability to operate at full capacity has fallen by 15 percentage points, suggesting that businesses are finding ways to operate despite ongoing labor shortages. Moreover, per Goldman Sachs, roughly two-thirds of small firm owners are optimistic about their financial trajectory this year.

Looking ahead, Main Street financial stress is likely to continue rising in the months ahead, but current readings do not suggest that a recession is imminent.