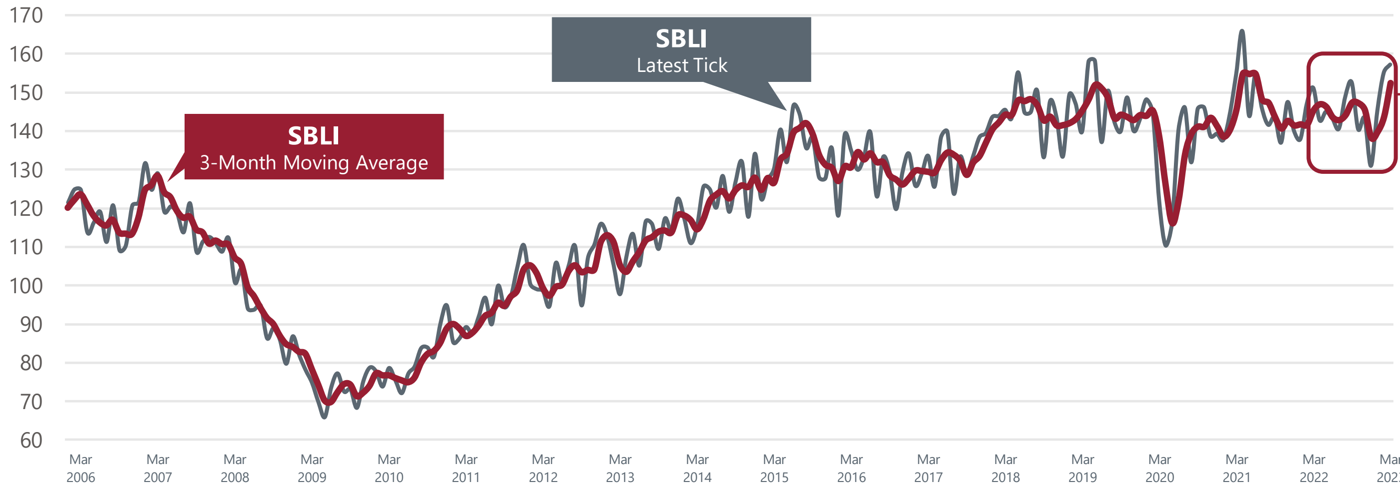
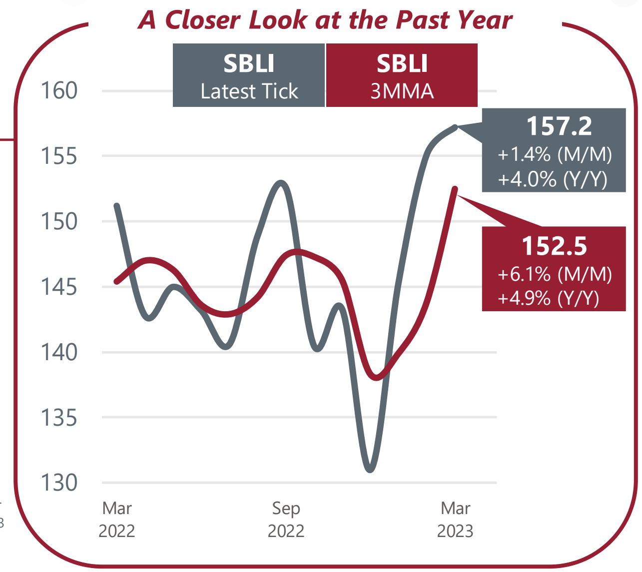
After a Strong Q1, Main Street Lending Conditions Appear Set to Tighten

Equifax Small Business Lending Index (SBLI)*





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

Index Analysis

In March, the Equifax Small Business Lending Index (SBLI) rose 2.1 points (+1.4%) to 157.2 and is now 4.0% above its year-ago level. The SBLI 3-month moving average increased 8.7 points to 152.5 and is now 4.9% above its year-ago level.

Regional Story: Small business lending rose in eight of the ten largest states in March, with Ohio and Texas reaching record highs. On a monthly basis, Michigan (+1.9% M/M), North Carolina (+1.3% M/M), and Florida (+1.1% M/M) experienced the largest increases. Illinois (-1.1% M/M) showed the largest monthly lending decline. When measured on an annual basis, lending activity was up in seven of the ten largest states, led by Florida (+5.6% Y/Y), Ohio (+3.6% Y/Y), and North Carolina (+3.0% Y/Y). Meanwhile, Pennsylvania (-1.9% Y/Y), California (-1.4% Y/Y), and Illinois (-1.0% Y/Y) experienced year-over-year declines.

Industry Story: Lending rose on a monthly basis in 13 of 18 industries in March, led by Mining (+5.9% M/M; all time high), Arts, Entertainment & Recreation (+2.8% M/M), and Accommodation & Food Services (+2.5% M/M). Lending activity fell most significantly in Transportation & Warehousing (-1.6% M/M). Compared to a year ago, lending rose in 13 of 18 industries, most notably in Information (+25.1% Y/Y) and Arts, Entertainment, & Recreation (+22.8% Y/Y). In contrast, lending fell significantly in Transportation & Warehousing (-12.6% Y/Y) and Public Administration (-4.1% Y/Y).

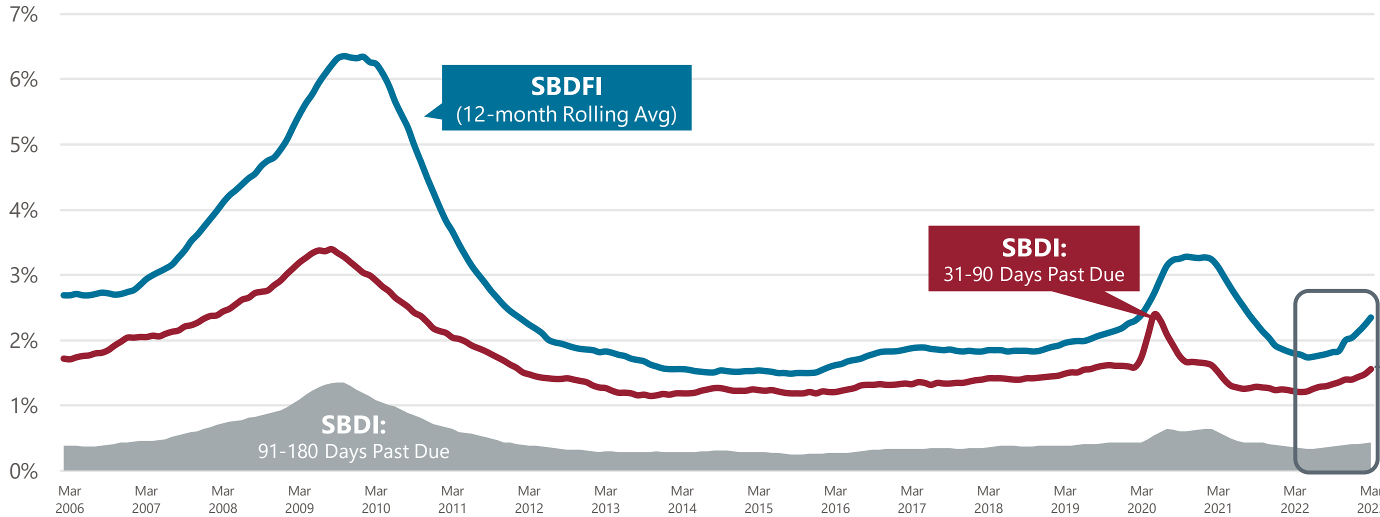
Economic Context

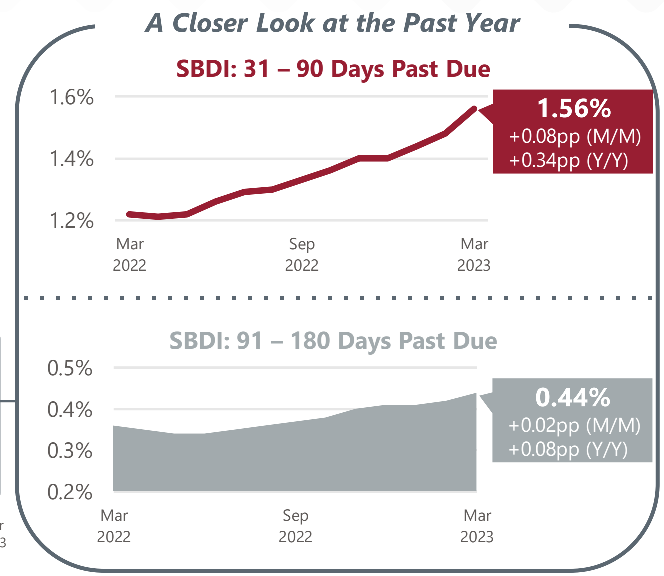
In March, the Equifax Small Business Lending Index increased to its highest point in almost two years, defying the broader slowdown taking hold in the U.S. economy. Main Street has always found ways to adapt to ever-changing economic conditions, and the first three months of 2023 were no exception. However, the U.S. economy is slowing, with Q1 GDP rising just 1.1% (SAAR) on the back of weak business investment and tepid consumer spending.

Looking ahead, even though small business lending activity remains elevated, both hiring plans and capex plans are falling sharply, and credit conditions continue to tighten. Indeed, according to NFIB's most recent report, while only 2% of small business owners report that their borrowing needs are not satisfied, the share of small business owners reporting that loans are harder to obtain than they were three months ago rose to its highest point in more than a decade. Given that the survey was conducted in March, it may not fully reflect the credit tightening that has occurred in the wake of several high-profile bank failures, or concerns about the health of broader banking system. With inflation still running at 4–5%, the Fed faces a dilemma: continue to slowly raise interest rates to bring inflation back to acceptable levels, even if it further weakens the balance sheets of some small and mid-sized banks; or keep rates where they are and hope that inflation continues to cool? Either way, the environment for small business lending appears to be softening and tighter credit conditions are likely on the horizon, despite a strong Q1 for the SBLI.

Financial Stress Edges Up as Consumer Spending Slows

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 8bp in March to 1.56% and was 34bp above its year-ago level. The SBDI 91–180 Days Past Due increased 2bp to 0.44% and was up 8bp Y/Y. Defaults rose 12bp in March to 2.35% and were 55bp above year-ago levels.

Regional Story: In March, on both a monthly and annual basis, delinquencies rose in all ten of the largest states, led by Florida (+16bp M/M, +70bp Y/Y). Delinquencies increased least on an annual basis in Michigan (+12bp Y/Y), followed by Ohio (+13bp Y/Y). Meanwhile, defaults rose in nine of the ten largest on both a monthly and annual basis in March, led by Texas (+24bp M/M), Georgia (+23bp M/M), and New York (+18bp M/M). Defaults fell slightly in Illinois (-3bp M/M) and rose only slightly in Ohio (+2bp M/M). Annually, defaults increased the most in Georgia (+118bp Y/Y) but eased slightly in New York (-2bp Y/Y).

Industry Story: Delinquencies rose in five of six tracked industries in March, led by Transportation (+10bp M/M) and Retail (+7bp M/M), while delinquencies eased for Agriculture (-2bp M/M). On an annual basis, delinquencies increased in five of six tracked industries, most notably for Transportation (+132bp Y/Y), while delinquencies in Agriculture were flat compared to last year. Regarding defaults, all but one of the 18 tracked industries increased in March, led by Information (+37bp M/M), Transportation (+28bp M/M), and Real Estate (+28bp M/M). Compared to last year, defaults rose in every industry, led by Transportation (+187bp Y/Y) and Finance (+100bp Y/Y).

Economic Context

In March, both the Equifax Small Business Delinquency Index and the Small Business Default Index continued to increase slowly. The steady rise in Main Street financial stress corresponds with a decrease in the NFIB Small Business Optimism Index, which ticked down to 90.1 in March. Further, consumer spending (the biggest component of the economy) flattened in March as consumers continue to cope with high prices and rapidly rising credit card debt, putting downward pressure on small business sales. In response to reduced sales, more than half of small businesses plan to reduce costs over the next six months according to the WSJ Vintage Survey, and of those who plan to cut costs, many plan to delay hiring (47%) or reduce capital expenses (54%).

Equifax data indicate that delinquencies and defaults have returned to pre-pandemic levels, suggesting that the "normalization" period of credit market conditions that has characterized the last year is now over. In its place, a new era has begun in which financial stress, while still manageable for most small firms, is approaching sustained levels that have not been experienced in more than a decade. Should the economy enter a mild recession this year as many economists expect, Main Street financial stress may rise more quickly. For now, however, most small business owners are on solid ground.