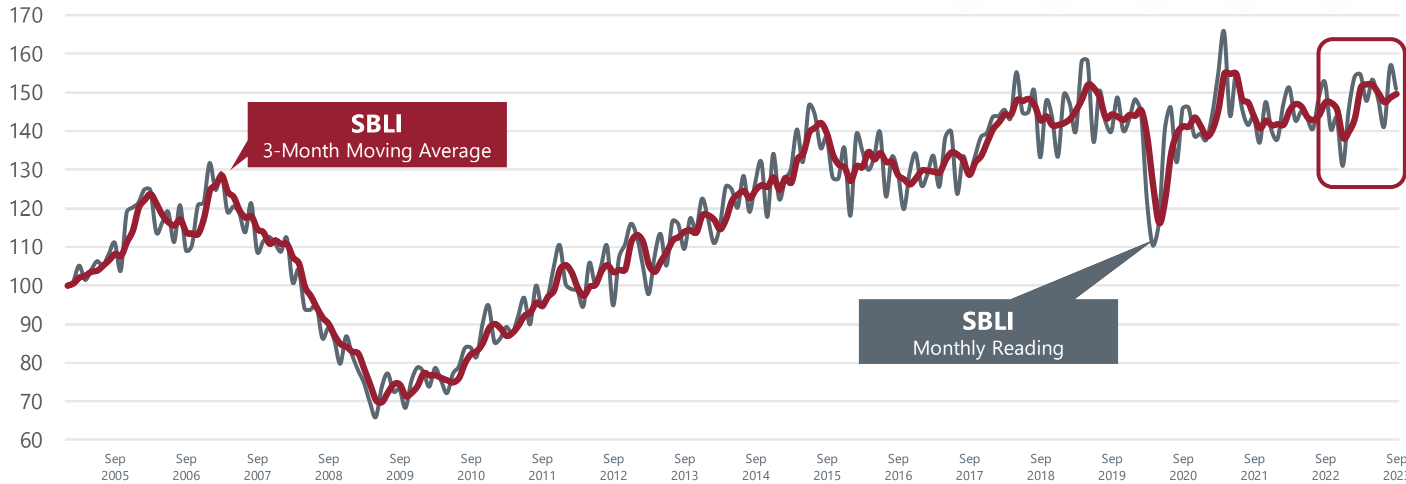
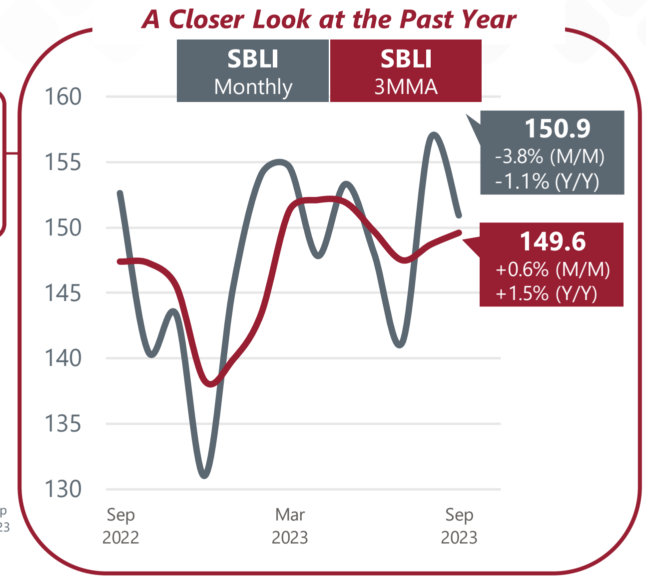
Latest Equifax Data Shows Small Business Lending Softening

Equifax Small Business Lending Index (SBLI)*





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

Index Analysis

The Equifax Small Business Lending Index (SBLI), a measure of nominal small business lending activity, fell 5.9 points (-3.8%) in September to 150.9 after spiking the prior month. The headline index is now 1.1% below its year-ago level. The SBLI 3-month moving average ticked up 0.6% in September to 149.6, up 1.5% Y/Y.

Regional Story: In September, small business lending rose in six of the ten largest states, including three that reached series highs: North Carolina (+1.8% M/M), Michigan (+0.01% M/M), and Florida (+0.3% M/M). Meanwhile, lending activity declined in Ohio (-0.5% M/M), California (-0.4% M/M), and Georgia (-0.4% M/M). Measured on an annual basis, lending activity improved in nine of the ten largest states, led by Florida (+8.2% Y/Y), Michigan (+6.6% Y/Y), and North Carolina (+5.7% Y/Y). California (-2.1% Y/Y) was the only large state to experience an annual decline in lending activity.

Industry Story: Small business lending rose on a monthly basis in 10 of 18 tracked industries in September, led by Public Administration (+1.9% M/M) and Health Care and Social Assistance (+1.4% M/M) which both hit series highs. Lending activity weakened the most in Transportation and Warehousing (-2.0% M/M) which continues to slide and is now at its lowest level since 2017. Compared to a year ago, lending rose in 13 of 18 industries, most notably in Arts & Entertainment & Recreation (+33.2% Y/Y) and Education (+29.7% Y/Y). In contrast, lending fell in Transportation & Warehousing (-13.6% Y/Y) and Agriculture (-13.1% Y/Y).

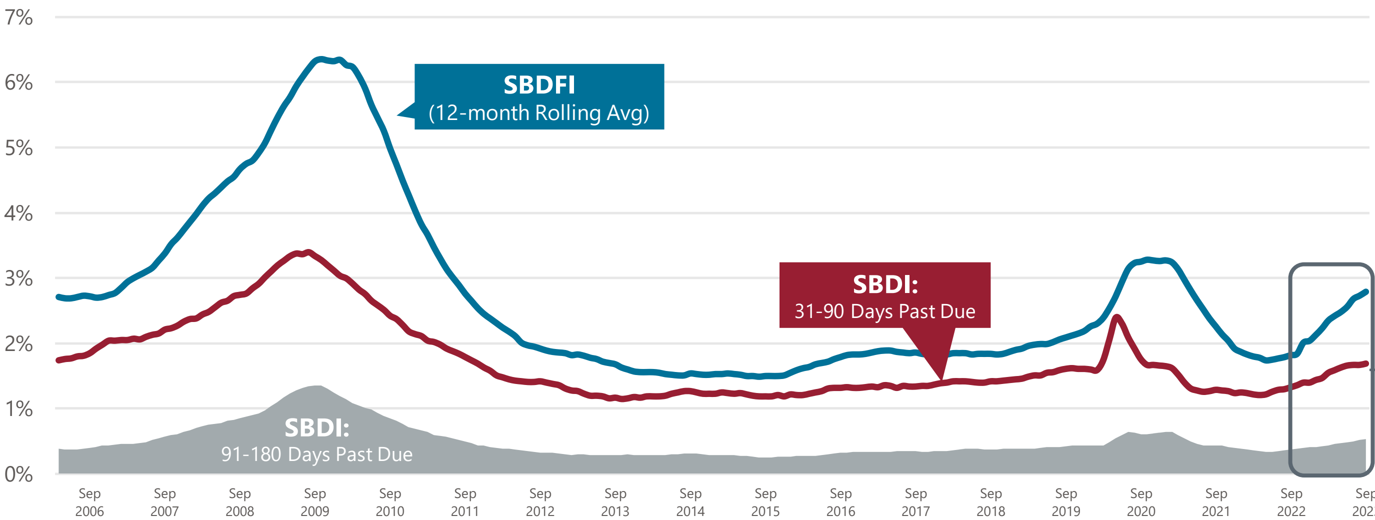
Economic Context

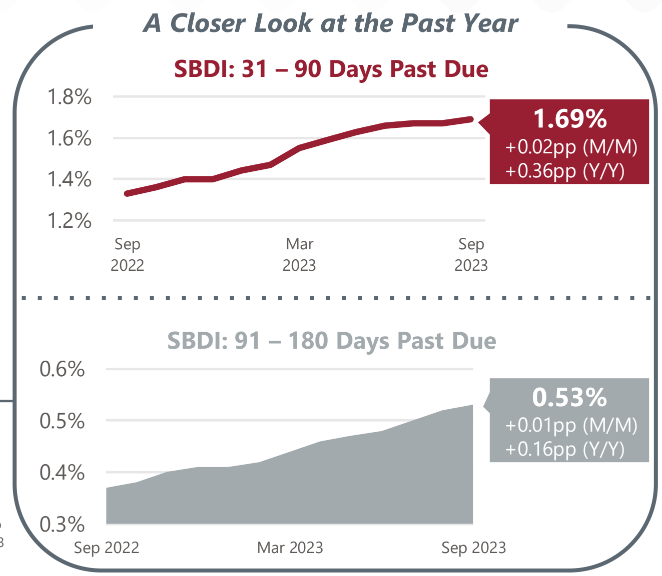
The Equifax Small Business Lending Index softened in September after spiking in August, consistent with a growing sentiment that lenders are becoming more cautious in the face of elevated interest rates and a slowing economy. PayPal data suggest that small business lending is down significantly compared to last year, with principal and interest receivables falling nearly 30% in the most recent quarter (PYMNTS). Lenders have been tightening standards for several quarters: per the Kansas City Fed, small business lending fell 17% Y/Y in Q2, while the ABA Credit Conditions Index has signaled deteriorating business credit conditions for more than a year and forecasts weaker credit conditions over the next six months. Moreover, even though the economy expanded at a robust 4.9% annualized rate in Q3, business investment actually contracted slightly, led by a 3.8% annualized decline in equipment investment.

Despite a cloudier near-term outlook for small business lending, the current reading of the nominal SBLI remains elevated, indicating that lending activity is still above water. According to research from PYMNTS, nearly half of small firms were actively seeking credit as recently as this summer, and NFIB reported in its October jobs report that labor demand remains strong. Still, with the Fed appearing inclined to keep interest rates where they are for the foreseeable future and early forecasts for Q4 growth hovering near zero, some Main Street business owners may become more cautious about borrowing in the months ahead.

Main Street Financial Stress Continues to Build, Led by Transportation

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 2bp in September to 1.69% and is now 36bp above its year-ago level. The SBDI 91–180 Days Past Due rose 1bp to 0.52% and is up 16bp Y/Y, while defaults rose 6bp in September to 2.79% and are now up 97bp Y/Y.

Regional Story: In September, delinquencies increased in seven of the ten largest states, led by Georgia (+10bp M/M) and Florida (+9bp M/M). Delinquencies eased in New York (-3bp M/M) and Illinois (-1bp M/M). On an annual basis, delinquencies increased in nine of the ten of the largest states, led by Florida (+87bp Y/Y) and easing only in Illinois (-2bp Y/Y). Regarding defaults, all ten of the largest states experienced an increase in September, led by Georgia (+21bp M/M). Defaults rose in all ten states on an annual basis as well, with triple-digit increases in Georgia (+184bp Y/Y), Texas (+175bp Y/Y), and Florida (+149bp Y/Y).

Industry Story: In September, delinquencies rose in five of the six tracked industries and were flat in Retail. Similar to previous months, delinquencies rose most notably for Transportation (+15bp M/M). On an annual basis, delinquencies climbed in all six tracked industries, once again led by a triple-digit increase in Transportation (+170bp Y/Y). Meanwhile, defaults increased in 15 of the 18 tracked industries in September, with sharp increases in Transportation (+36bp M/M) and Information (+29bp M/M). Mining (-8bp M/M) and Education (-8bp M/M) saw the largest monthly declines. On an annual basis, defaults rose in all 18 tracked industries, led by Transportation (+421bp Y/Y) and Information (+157bp Y/Y).

Economic Context

Financial stress continues to slowly build on Main Street, as both delinquency and default rates increased again in September across most states and industries. Even as the broader U.S. economy boomed in Q3 (+4.9% SAAR), financial stress increased for small firms. Reportedly, only one-in-four has access to the equivalent of 60 days of revenue, while 17% have no immediate access to emergency funds (PYMNTS). Small business optimism is dismal: the NFIB Small Optimism Index fell another half-point in September, and the share of respondents who expect business conditions to improve over the next six months fell 6 points to a net negative 43%.

While the increase in financial stress is broad-based, it is most pronounced in the transportation sector, where delinquencies and defaults have skyrocketed. Transportation firms face a laundry list of headwinds including fluctuating gas prices, high interest rates, difficulty hiring, and inflation. These headwinds are also impacting other Main Street industries but are particularly pernicious for transportation firms. Unfortunately, conditions appear unlikely to improve in the near term, particularly if consumer spending slows in Q4 as expected. Consumers have been the engine of the U.S. economy for the last 2+ years, fueled by pandemic-era savings and a robust labor market. However, as consumer debt continues to climb, spending may slow — presenting an unwelcome new headwind to Main Street.