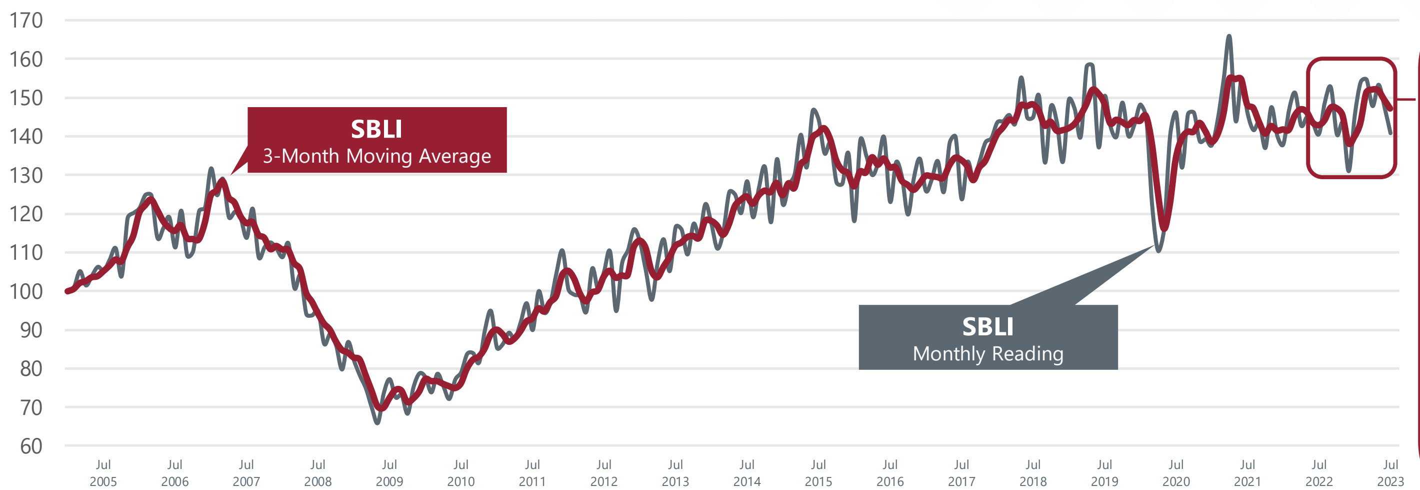
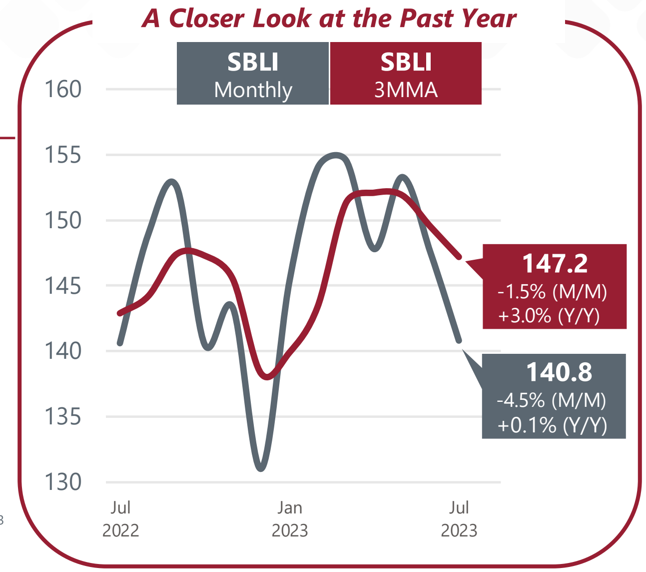
Equifax Commercial Strategic Insights: September 2023

Main Street Business Owners Feeling the Effect of Tighter Credit Conditions

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, decreased 6.7 points (-4.5%) in July to 140.8 but remains 0.2% above its year-ago level. Meanwhile, the SBLI 3-month moving average declined 2.3 points to 147.2 and is now 3.0% above its year-ago level.

Regional Story: In July, small business lending rose in seven of the ten largest states, led by Georgia (+0.9% M/M), Florida (+0.4% M/M), and Texas (+0.3% M/M). Lending fell the most in Ohio (-0.5% M/M) and California (-0.4% M/M). Measured on an annual basis, lending activity was up in eight of the ten largest states, including Florida (+7.9% Y/Y), Michigan (+6.4% Y/Y), and North Carolina (+5.9% Y/Y). On an annual basis, California (-0.2% Y/Y) was the only large state to experience a decline in lending activity, while lending activity in Illinois was essentially unchanged Y/Y.

Industry Story: Small business lending rose on a monthly basis in 10 of 18 industries in July, led by Educational Services (+1.8% M/M); Mining, Quarrying, and Oil & Gas Extraction (+1.5% M/M); Wholesale Trade (+0.9% M/M); and Health Care & Social Assistance (+0.9% M/M). Industries with weaker lending activity include Information (-3.3% M/M), Finance and Insurance (-3.1% M/M), and Agriculture (-2.8% M/M). Compared to a year ago, lending rose in 14 of 18 industries, most notably in Arts, Entertainment & Recreation (+35.6% Y/Y) and Education (+24.6%). In contrast, lending fell significantly in Transportation & Warehousing (-10.5% Y/Y), its 15th consecutive Y/Y decline.

Economic Context

The Equifax Small Business Lending Index fell 4.5% in July, leaving the nominal index essentially equivalent to its year-ago level. This decline in lending activity coincides with a variety of data indicating that lending standards continue to tighten in response to the Federal Reserve's efforts to slow inflation, including the Fed's Senior Loan Officer Opinion Survey, the ELFA Monthly Leasing and Finance Index, and the ABA Credit Conditions Index. Since last November, C&I loan growth has steadily and sharply decelerated — as of July, growth was just 1.8% Y/Y — and may slip into negative territory in the near future. While banks have clearly scaled back as they refocus on attracting deposits, small business demand for credit has also waned due to higher borrowing costs and heightened economic uncertainty. Even as the economy has shrugged off recession fears thus far due to a healthy labor market and resilient U.S consumer, the "risk-off" posture that has been adopted by an increasing number of Main Street business owners may continue, particularly given that interest rates appear set to remain at or near current levels for the remainder of the year.

Looking ahead, while near-term recession risks are lower than they were this spring, prospects for small business lending growth for the second half of the year remain murky as business owners contend with high borrowing costs.

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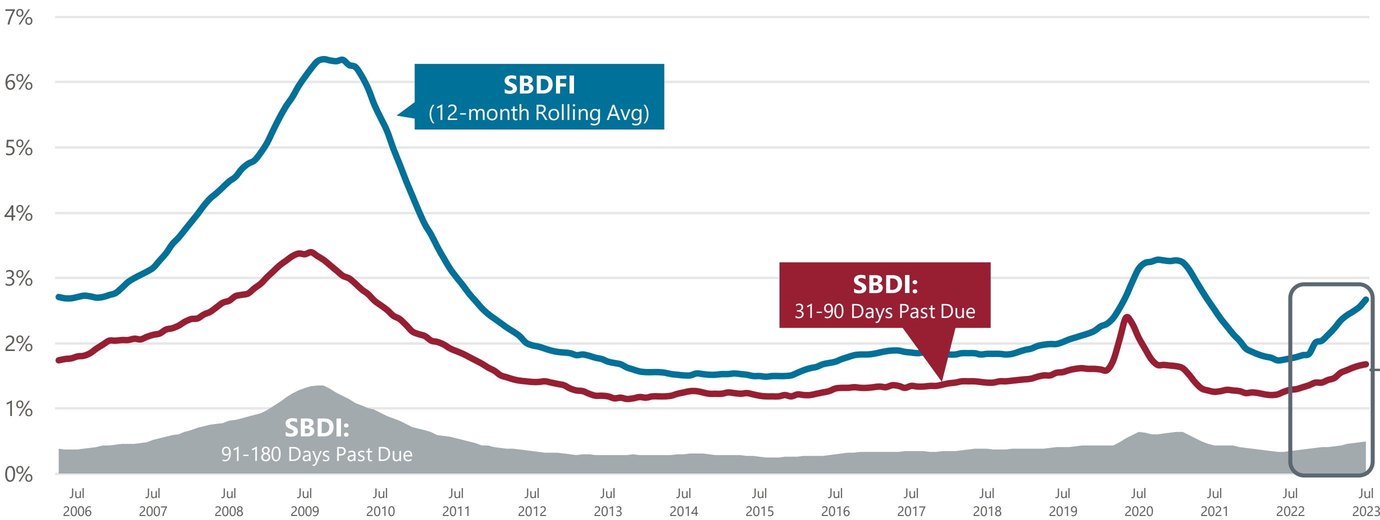
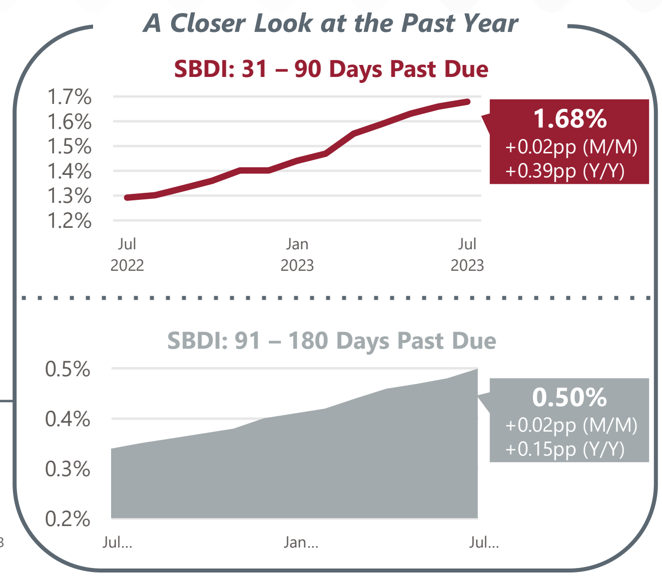
Main Street Financial Stress Continues to Rise, Led by Transportation

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 July to 1.68% and is 39bp above its year-ago level. The SBDI 91–180 Days Past Due increased 2bp to 0.50% and is up 15bp Y/Y. Defaults rose 11bp in July to 2.67% and are now 90bp above year-ago levels.

Regional Story: In July, delinquencies rose in eight of the ten largest states, led by Georgia (+13bp M/M) and North Carolina (+9bp M/M), while Illinois (-7bp M/M) and Florida (-2bp M/M) saw the largest monthly decline. On an annual basis, delinquencies increased in all ten of the largest states, led by Florida (+85bp Y/Y). Regarding defaults, all ten of the largest states experienced an increase in July, led by Georgia (+18bp M/M) and Michigan (+18bp M/M). On an annual basis, defaults rose in each of the 10 largest states, including triple-digit increases in Georgia (+169bp Y/Y), Texas (+151bp Y/Y), Florida (+147bp Y/Y), and California (+100bp Y/Y).

Industry Story: Delinquencies rose in four of the six tracked industries in July, most notably in Transportation (+19bp M/M), where monthly delinquencies have increased by double digits in 10 of the last 12 months. On an annual basis, delinquencies climbed in all six tracked industries, once again led by Transportation (+166bp Y/Y). Meanwhile, defaults increased in 16 of the 18 tracked industries in July, led by Transportation (+35bp M/M) and Retail (+22bp M/M). Public Services (-9bp M/M) saw the largest monthly decline. On an annual basis, defaults rose in all 18 tracked industries, led by Transportation (+345bp Y/Y) and Accommodations and Food Services (+139bp Y/Y).

Economic Context

The Equifax Small Business Delinquency Index and the Small Business Default Index both worsened in July, continuing a trend of rising small business financial stress that began over a year ago. While the deterioration is broad based — nearly every tracked industry registered higher delinquency and default readings in July — the steep and persistent decline among Transportation and Warehousing firms is particularly concerning given this industry's close association with overall economic conditions. Other data sources align with Equifax data: for example, the Equipment Leasing and Finance Association reported that 30+ day accounts receivable rose to its highest level in more than five years. In addition, NFIB's most recent sentiment survey found that small business owners' sales expectations remain underwater (net -12%) while the share of owners expecting business conditions to improve was an even lower net -30%. These dismal readings were actually an improvement over the previous month's data, but they indicate a general sense of pessimism.

Looking ahead, there is little reason to expect that delinquencies or defaults will level off in the months ahead, though it is worth noting that, with the exception of Transportation, delinquency rate increases in July were more modest than in previous months.

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