

Market Pulse



Four key lessons for small business lenders in 2024

Big trends shaping today's small businesses and ways lenders can adapt for growth

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The background features two stylized clouds made of a dot grid pattern, one at the top center and one in the middle left. At the bottom, there are two overlapping wave-like shapes, one solid grey and one dotted blue. The EQUIFAX logo is in the bottom left corner.

After a turbulent 2023,
are clearer skies on
the horizon for small
businesses?

From high interest rates and inflation to labor shortages and supply chain challenges, 2023 was hardly smooth sailing for America's small businesses and their lenders. Now that a soft landing seems more likely for 2024, many are cautiously optimistic about the road ahead.

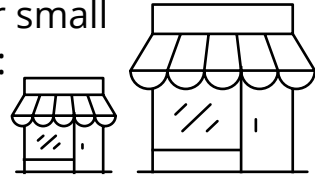
As both small businesses and lenders plan their next move, let's take a look at the top trends impacting Main Street today, and the key areas every small business lender should focus on for 2024.

1 Americans will keep creating new small businesses

Despite a December dip in borrowing, 2023 was still a record-breaking year for small business creation.¹

Five-year average for small business formations:

4.7M.²



2023 small business formations:

5.5M.²

2 Financial strain will continue to increase — but relief is on the way

While core personal consumption expenditures (PCE) inflation has returned to a 2% annualized rate over the last six months — consistent with the Federal Reserve’s target — interest rates will continue to strain small business balance sheets for a bit longer.³

By February 2024, small business default rates had increased

18 months straight.³

However, the Fed is expected to **reduce the Federal Funds Rate by**

~75

basis points (bps) before year’s end.³



3 A recovering economy brings eyes back to labor

As inflation cools and consumer spending rises, labor concerns will take center stage for small businesses once more.³

650K    
new jobs were added between December 2023 and January 2024.³

But with **40%**



of small businesses currently looking to hire and only 3.9% unemployment, keeping up with demand could be difficult.^{3,4}

4 Small businesses may be turning to non-traditional lenders

Credit quality declined across the U.S. in 2023,¹ which might cause some business owners to seek new avenues for financing. According to a 2022 Federal Reserve survey:

53% 

of credit applicants were fully approved, indicating a gap in small business financing.⁵

For medium- to high-risk applicants, the chance of being at least partially approved by a large bank was just **45%, compared to 65%** when working with online lenders and **66% with finance companies.**⁵



Four ways lenders can better serve small businesses and drive growth in 2024

Enhance your insight into emerging small businesses

As more and more small businesses enter the market each year, it is critical that lenders know who they're doing business with. At a minimum, lenders should aim to:

- Check and understand the legitimacy of a business
- Know the principals and/or owners of the business
- Uncover other businesses associated with the owner

With the help of business verification tools, lenders can easily access up-to-date information to efficiently confirm the legitimacy of small businesses and their owners.

In 2023, the number of new small business formations **increased by nearly 9% compared to the previous year.**²

The market will move fast — make sure you're paying attention

Small businesses are often the first to react to economic changes, so careful monitoring of market changes is essential for lenders. That said, not all small businesses will react to trends in the same way.

While small business default rates rose across the board in 2023, some industries showed more resilience than others:

- + 95 bps — Default rate across industries³
- + 430 bps — Default rate for transportation and warehousing³

By looking to the Small Business Indices for the latest market insights, you can keep up to date on everything happening in the economy and remain adaptable.



In 2023, the Small Business 91-180 Day Delinquency Index **climbed to its highest level since early 2021.**¹

Uncover businesses poised for growth

In any economic landscape, there is always an opportunity for growth. In 2024, businesses best positioned for growth will be those that demonstrate solid financial stability and strong employment backing. Healthcare, for example, is an industry to watch in the coming year.

In 2023, the healthcare industry:

- Employed **1 in 7 U.S. workers**¹
- Accounted for **1 in 3 new jobs**¹
- Demonstrated the **largest increase in small business borrowing of any industry**¹

Whether you're working with startups or high-growth challengers, leveraging a **comprehensive risk score** lets you efficiently assess financial stability — so you can approve more applicants with confidence and seize opportunity when you see it.



Nearly 50%
of small businesses plan to expand their operations in 2024.⁶

Leverage alternative data to strengthen customer relationships

Today's small businesses have more options to secure financing than ever. So in 2024, finding new ways to establish and maintain strong customer relationships is key. In a recent Fed survey:

- Small businesses that applied for financing with banks listed existing relationships with their lender as the #1 factor in their decision.⁵
- For businesses who used online lenders, perceived likelihood of approval and speed of funding ranked as the top reasons to apply.⁵

Incorporating alternative data into your decisioning can help you streamline processes for borrowers, boost approval ratings, and better serve your customers — so they come to you when it's time to grow.

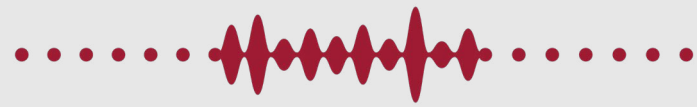


By looking beyond traditional insights, lenders can expand access to capital and financial services for

up to 4M more small businesses.⁷



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Navigate 2024's market changes with confidence

While small businesses — and small business lenders — have reason for optimism in 2024, it's important to plan strategically to ensure you're prepared for any outcome.

By keeping close watch on areas of risk and opportunity, monitoring market trends, and strengthening customer relationships, you can help protect your commercial portfolio and drive growth for you and your customers.



Want to know how Equifax can help you adapt for success in 2024?

Get in touch with us today.

equifax.com/business

¹<https://www.equifax.com/resource/-/asset/white-paper/2024-market-trends-and-predictions>

²<https://www.commerceinstitute.com/new-businesses-started-every-year/>

³<https://assets.equifax.com/marketing/US/assets/Equifax.MainStreetLendingReport.February2024.pdf>

⁴<https://www.bls.gov/cps/>

⁵<https://www.fedsmallbusiness.org/reports/survey/2023/2023-report-on-employer-firms>

⁶<https://about.bankofamerica.com/en/making-an-impact/2023-small-business-owner-report>

⁷<https://www.equifax.com/business/product/onescore-for-commercial/>