EQUIFAX

Market **Pulse**

Main Street Lending Report

January 2025

Equifax Main Street Lending Report — January 2025

Summary for Executives

Key Takeaways

- Small Business Lending activity was flat month-over-month in November while the three-month-moving-average ticked up for the first time since April, according to the latest Equifax SBLI reading. Meanwhile, defaults and delinquencies were either flat or falling in November, a positive sign for both lenders and small businesses.
- The U.S. economy entered 2025 on a high note with solid Q3 growth of 3.1% and a reasonably strong expected growth rate of 2.4% in Q4 to round out 2024. While the current outlook is optimistic, it is likely that there will be fewer rate cuts and tighter lending conditions in 2025 than anticipated a few months ago.

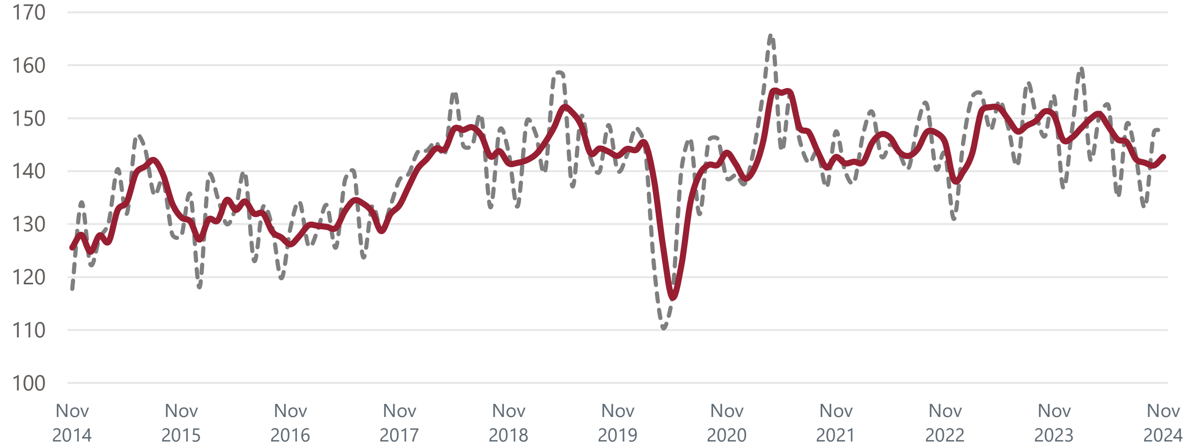
Equifax Small Business Lending Index (SBLI)

SBLI

147.5	▲0.1%	▼4.3%	87th
(Level)	*(M/M)*	*(Y/Y)*	*Percentile*

SBLI 3MMA*

142.7	▲1.1%	▼5.2%	76th
(Level)	*(M/M)*	*(Y/Y)*	*Percentile*



Volume of new commercial loans and leases to small businesses, seasonally adjusted index (January 2005 = 100)

**Three-month moving average*

Equifax Small Business Delinquency (SBDI) & Default Indices (SBDFI)

SBDFI

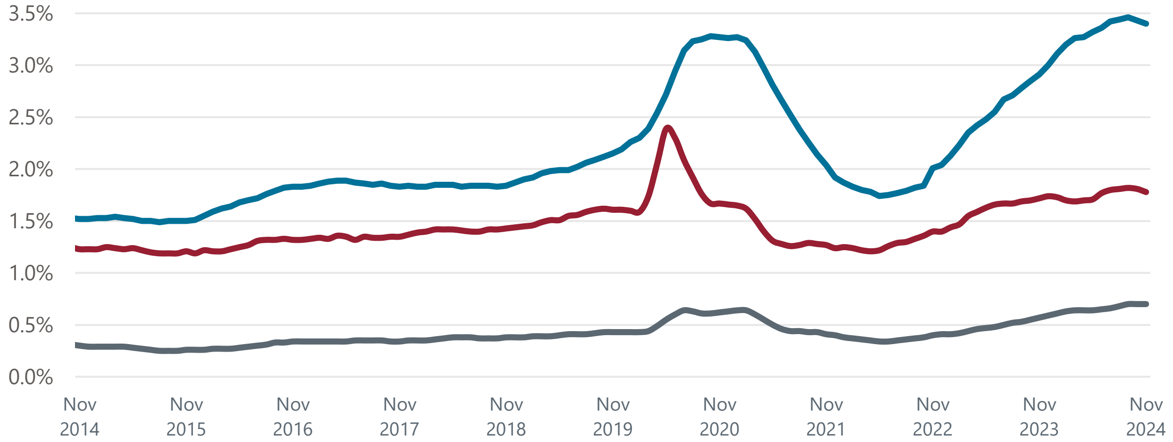
3.40%	▼3bps	▲49bps
(Level)	*(M/M)*	*(Y/Y)*

SBDI 31-90 Days

1.78%	▼3bp	▲6bps
(Level)	*(M/M)*	*(Y/Y)*

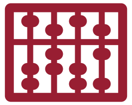
SBDI 91-180 Days

0.70%	0bps	▲13bps
(Level)	*(M/M)*	*(Y/Y)*



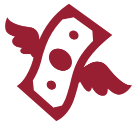
SBDFI calculated as a 12-month rolling average

Factors to Watch



Holding Out for Rate Cuts

Small business owners are hoping for more rate cuts in 2025, but the market expects only 1–2 cuts this year.



A Bifurcated Picture of Consumer Spending

High income households continue to support spending growth, but lower-income households continue to pull back.

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Economic Trends

Economic Context

The U.S. economy is on solid footing at the start of 2025. Annualized GDP growth for Q3 2024 was finalized at a healthy 3.1%, and the Atlanta Fed's GDPNow estimate projects 2.4% quarter-over-quarter annualized growth for Q4. Steady unemployment claims, which dipped to an eight-month low in the first week of January, and moderate hiring suggest a "low hire, low fire" labor market. While this might mean fewer openings for workers, small business owners may be able to hire for long-unfilled positions more easily.

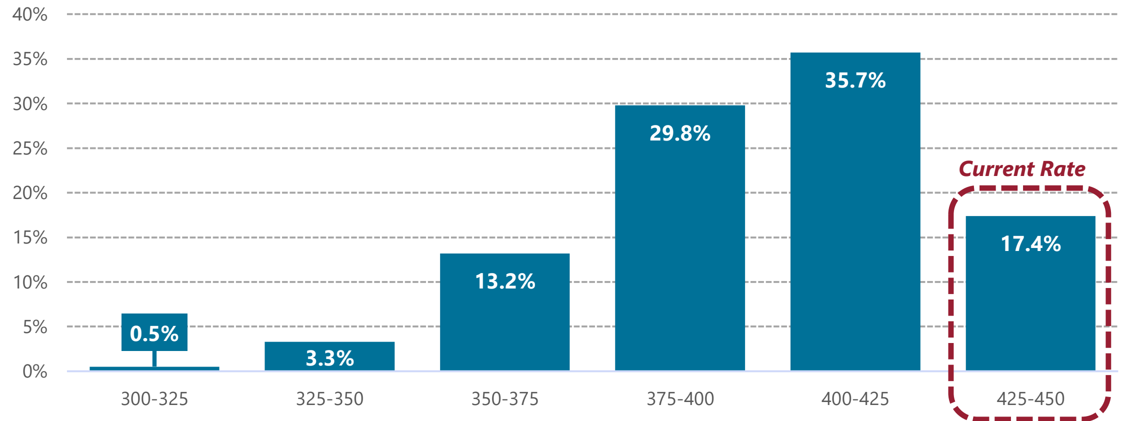
However, inflation progress in recent months has been underwhelming, indicating that the "last mile" of inflation reduction remains challenging. The FOMC signaled a cautious approach to rate cuts in 2025 after a split vote to lower the policy rate by 25 basis points at their December meeting. In his following press conference, Chair Powell highlighted the need for prudence amid greater economic uncertainty: "It's not unlike driving on a foggy night…you just slow down." Markets reacted strongly to the Fed's cautious tone, with the Dow Jones falling more than 1,100 points on the same day. Markets now anticipate just one or two rate cuts this year, with a not-insignificant chance of zero cuts (see upper chart), which could impact small business lending on the margins. Indeed, according to the Federal Reserve's Senior Loan Officer Opinion Survey, more lenders tightened standards for commercial and industrial loans to small businesses than loosened them in Q4 (see bottom chart). By contrast, lending conditions remained unchanged for medium-to-large businesses over the same period.

Consumer spending also remains a key factor to watch. Though the University of Michigan's Index of Consumer Sentiment improved in December, it is still well below its pre-pandemic level, suggesting that consumers are still somewhat cautious about the near-term trajectory of the economy. Households are still feeling the pressure from high prices. Despite easing headline inflation, consumers are paying roughly 16% more for groceries than they were three years ago and 27% more than five years ago. Meanwhile, recent data suggests that consumer spending may become further bifurcated in 2025 as higher-income households continue to fuel spending growth and lower-income households further tighten their belts. Indeed, early data from the holiday shopping season points to strong growth for upscale brands and sluggish growth among discount retailers.

While the economy has entered 2025 on a relative high note, challenges remain. Last-mile inflation, cautious monetary policy, uneven consumer spending, and general policy uncertainty suggest a more complex set of circumstances to monitor in the year ahead.

Fed Set to Slow Pace of Rate Cuts in 2025

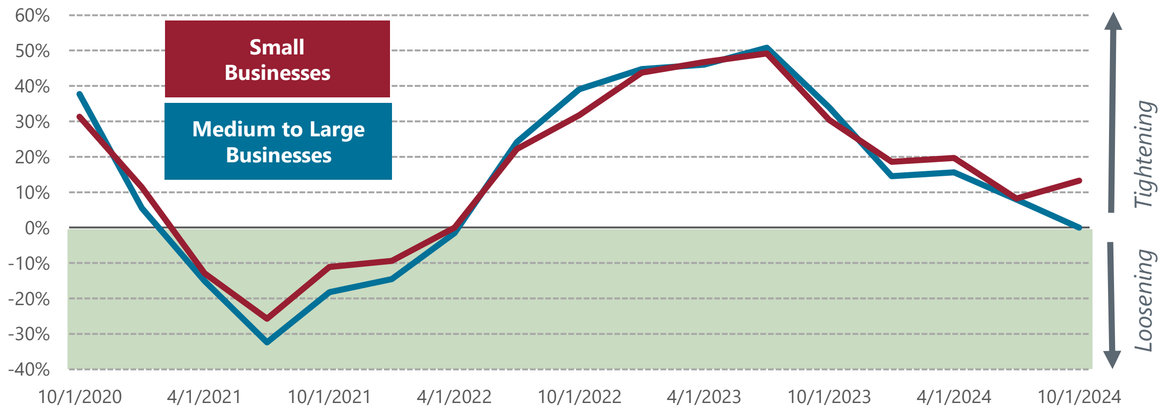
Target rate probabilities for December 2025 FOMC meeting



Source: CME FedWatch as of December 6, 2025.

C&I Loan Standards Still Tightening for Small Businesses

Net percentage of domestic respondents tightening standards for C&I loans at small businesses



Source: Federal Reserve, Senior Loan Officer Opinion Survey (SLOOS).

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