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Market **Pulse**

Main Street Lending Report

October 2024

Equifax Main Street Lending Report — October 2024

Summary for Executives

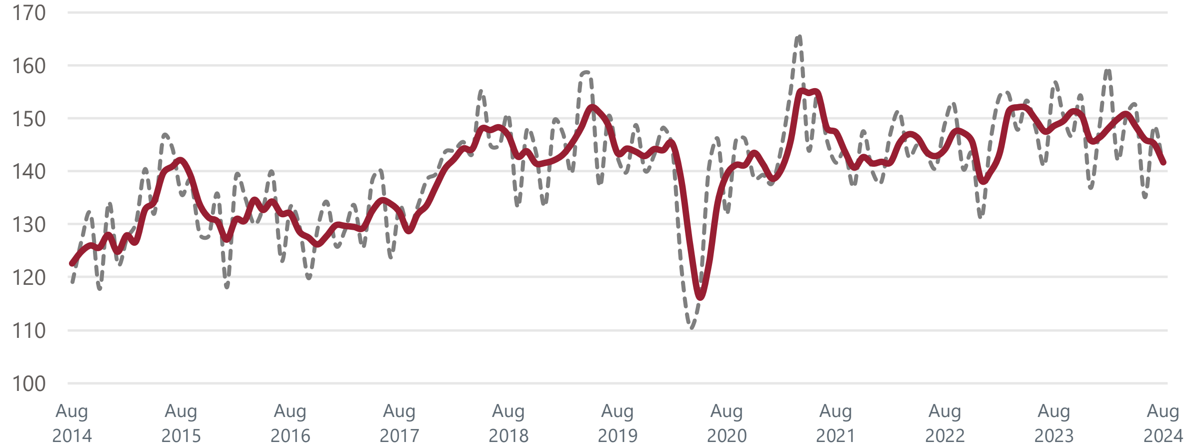
Key Takeaways

- Small Business Lending activity was dampened again in August, according to the latest Equifax SBLI reading. The Federal Reserve's decision to lower interest rates by 50 basis points in September — with additional cuts likely on the way — should provide a boost to lending activity, though perhaps not until next year.
- In the face of rising uncertainty, small business owners have adopted a "risk-off" posture that has likely held back lending activity in recent months. However, unease surrounding the labor market, geopolitical conflict, and the 2024 election is tempered by the strong September labor report and an upwards revisionto consumer disposable income.

Equifax Small Business Lending Index (SBLI)

SBLI			
141.6 (Level)	▼4.5% (M/M)	▼9.5% (Y/Y)	75th Percentile

SBLI 3MMA*			
141.7 (Level)	▼2.4% (M/M)	▼4.6% (Y/Y)	73rd Percentile



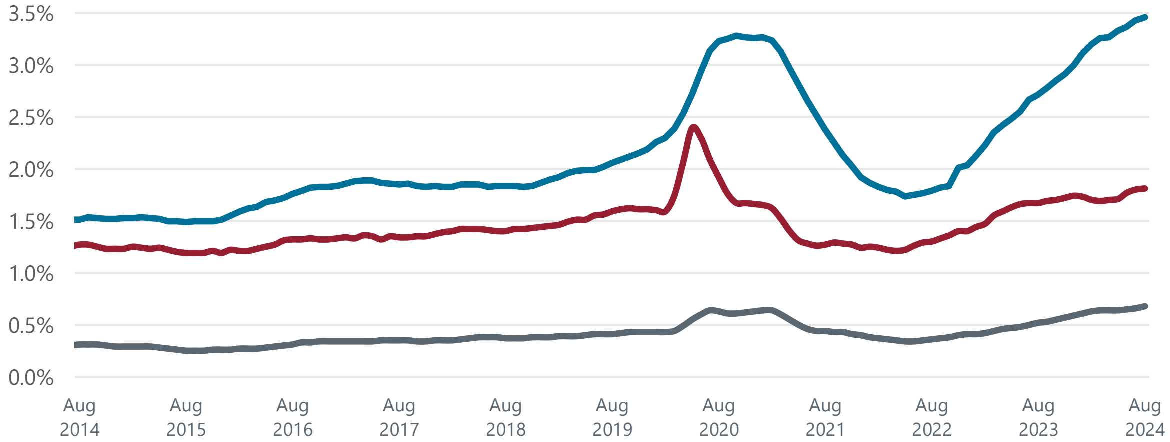
Volume of new commercial loans and leases to small businesses, seasonally adjusted index (January 2005 = 100)
Three-month moving average

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

SBDFI		
3.46% (Level)	▲3bps (M/M)	▲75bps (Y/Y)

SBDI 31-90 Days		
1.81% (Level)	▲1bps (M/M)	▲14bps (Y/Y)

SBDI 91-180 Days		
0.68% (Level)	▲2bps (M/M)	▲16bps (Y/Y)



SBDFI calculated as a 12-month rolling average

Factors to Watch

Consumer Incomes Revised Upward

After annual revisions to official government figures, personal income levels were higher than previously thought.

Will Lower Borrowing Costs Spur Main Street Lending?

The Federal Reserve cut rates by 50 basis points at their September meeting, but the near-term effect on small business lending is unclear.

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Economic Trends

Economic Context

Lending activity has weakened in recent months according to the Equifax Small Business Lending Index (SBLI). Overall, business conditions are generally positive, but there is still significant uncertainty in the near-term outlook for business leaders, which is weighing on lending activity.

NFIB's most recent Small Business Optimism Index indicates that Main Street confidence fell 2.5 points in August and held steady in September, erasing gains from July. Meanwhile, the NFIB Uncertainty Index rose to an all-time high in September (*see top chart*), with NFIB attributing the increase to concerns over near-term sales expectations and unease about developments in foreign policy and the stock market. The upcoming election is also likely playing a role: according to a PNC survey in September, more than two-thirds of small and mid-sized business owners are concerned about the risk political uncertainty poses to their business.[1] Uncertainty tends to lead to a "risk-off" posture for smaller firms and has likely held back lending activity this summer.

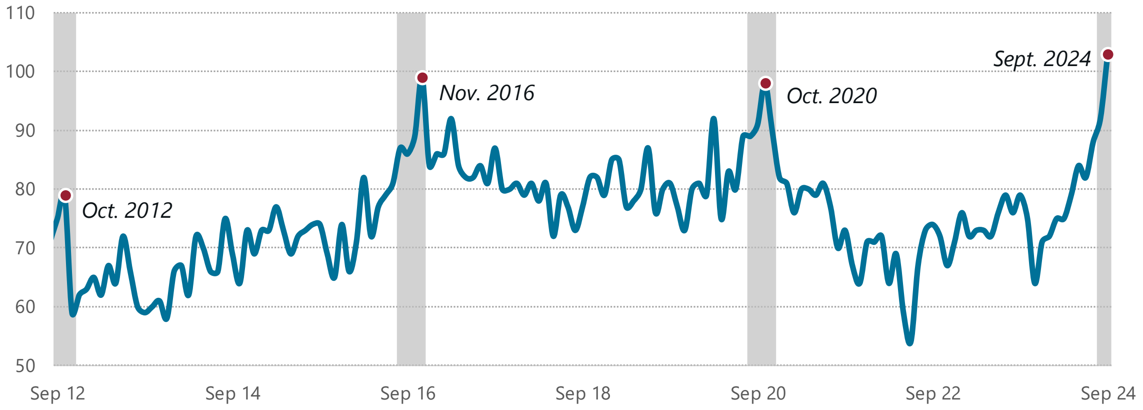
The labor market may also be a source of uncertainty for business owners. Job growth slowed significantly over the spring and summer: an average of 149,000 jobs per month created from April – August (down from 267,000 per month in Q1), and the unemployment rate rose from 3.8% to 4.2%. However, job growth accelerated to a robust 254,000 in September and the unemployment rate eased. Meanwhile, recent data revisions suggest that the personal savings rate is higher than previously assumed (now 4.8%, up from 2.9%). As such, consumer spending levels may be more sustainable than previously thought. These developments should provide some reassurance to business owners and suggest that the U.S. economy remains on track.

Looking ahead, the Fed's rate cut in September, combined with its signaling that additional cuts are likely on the way in the months ahead, should provide a boost to lending activity. By opting to cut rates by 50 bps rather than 25 bps, the Fed chose a more aggressive path that reflects its concerns about the state of the labor market, particularly before the strong September employment report was released. Fed Chair Jay Powell emphasized the decision should not be viewed as an emergency reaction, however, but rather a "recalibration" of rates toward a "more neutral stance."

It will take some time for the effect of rate cuts to filter through the economy. That said, some small businesses already may be recalibrating their spending and investment plans: a WSJ/Vistage Worldwide survey conducted in early September found that roughly one-in-four entrepreneurs viewed a 50-bps rate cut as large enough to affect their businesses.[2] Still, the most likely outcome is that small business lending will remain muted this fall before bouncing back in 2025, assuming interest rates and the broader U.S economy follow the Fed's projected path (*see bottom chart*).

NFIB Uncertainty Index Reaches All-Time High

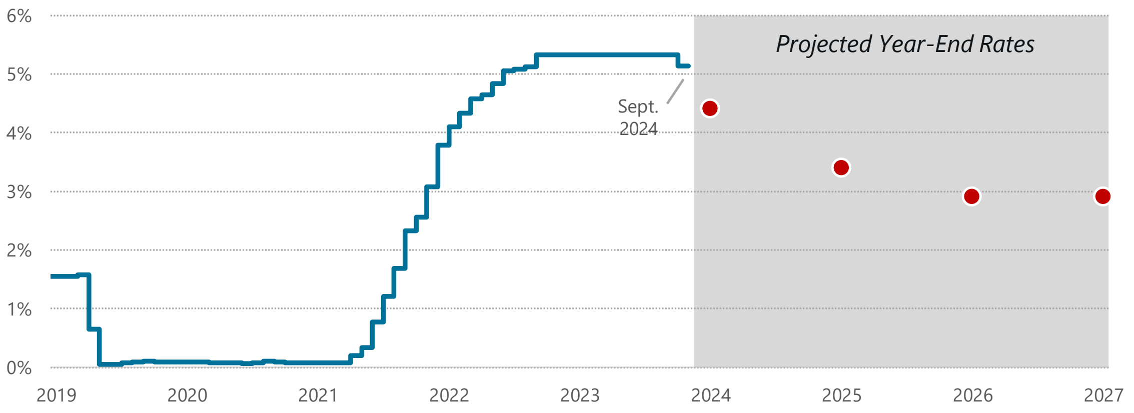
Index, Shaded bars represent months leading up to Presidential elections



Source: National Federation of Independent Businesses

Projected and Actual Federal Funds Rate

Effective rate and median FOMC member year-end "appropriate" policy rate, September 2024



Source: Federal Reserve, FOMC projections

[1] The PNC Economic Outlook, Survey of Small & Middle-Market Business Owners, September 2024. Data collected from July 1 to August 6, 2024.
[2] September 2024 WSJ/Vistage Small Business CEO Confidence Index. Data collected from September 3-17, 2024.

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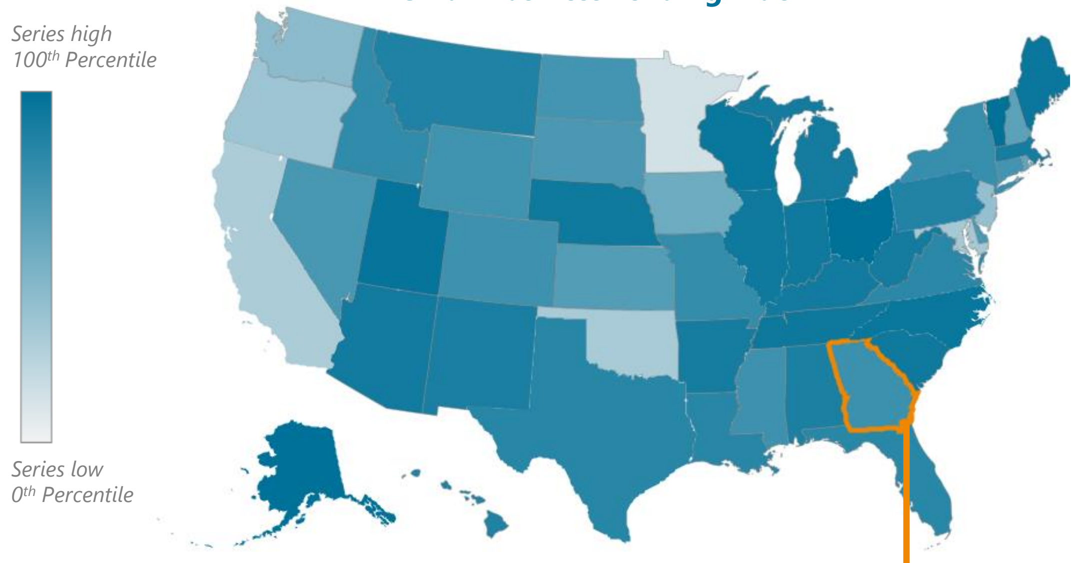
State & Industry Trends

Regions at a Glance

In August, small business lending activity decreased in several states, including this month's featured state, Georgia, where lending activity fell to its lowest level since 2021.

Small Business Lending Index



Map created using Equifax data. Powered by Bing. © GeoNames, Microsoft, TomTom.

Georgia

Lending	109.2	▼1.9% (M/M)	▼7.8% (Y/Y)	81st Percentile
Delinquency*	2.38%	0bps (M/M)	▼13bps (Y/Y)	66th Percentile
Default	4.52%	▼14bps (M/M)	▲74bps (Y/Y)	76th Percentile

*31-90 Days Delinquent

Industries at a Glance

On an annual basis, lending rose in the construction industry and fell in the agriculture industry. Delinquencies and defaults increased in both industries, however.

Agriculture

Lending	137.0	▼0.8% (M/M)	▼3.2% (Y/Y)	57th Percentile
Delinquency*	0.89%	▲1bps (M/M)	▲8bps (Y/Y)	83rd Percentile
Default	2.81%	▲10bps (M/M)	▲66bps (Y/Y)	94th Percentile

Construction

Lending	123.1	▼1.4% (M/M)	▲4.1% (Y/Y)	96th Percentile
Delinquency*	2.45%	▲1bps (M/M)	▲33bps (Y/Y)	72nd Percentile
Default	3.48%	▲6bps (M/M)	▲58bps (Y/Y)	78th Percentile

To learn more about Equifax's full suite of state, industry, and state/industry commercial business data, please contact a sales specialist today.