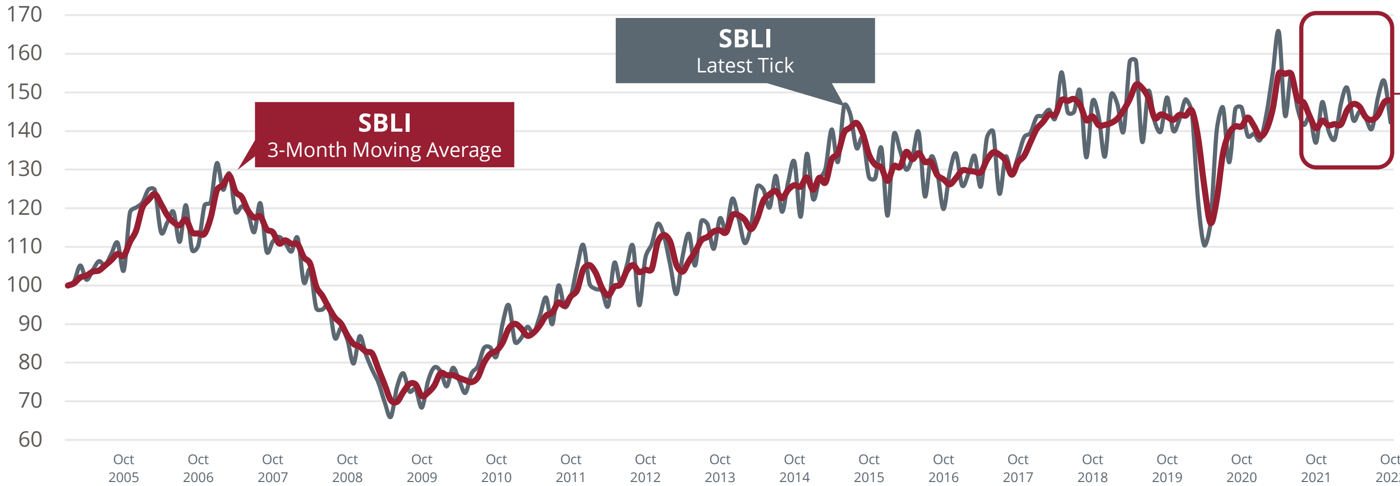
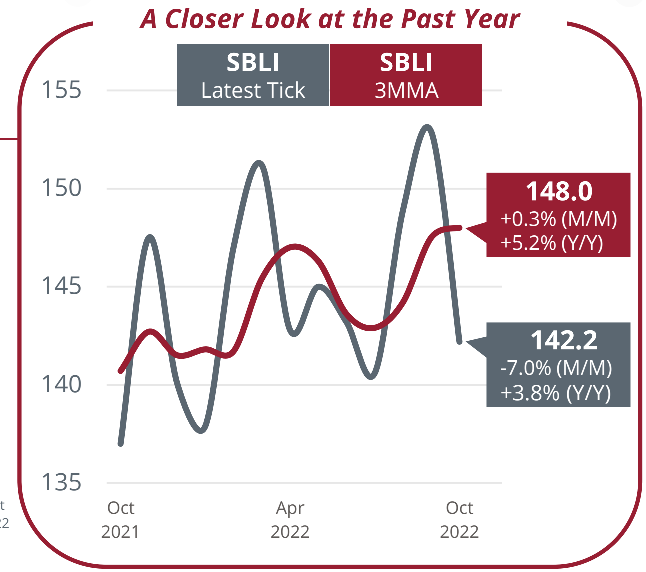
Small Business Lending Dips As Economic Slowdown Looms

Equifax Small Business Lending Index (SBLI)*





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

Index Analysis

In October, the Equifax Small Business Lending Index (SBLI) fell 10.7 points (-7.0%) to 142.2 but remains 3.8% above its year-ago level. The SBLI 3-month moving average increased 0.5 points (+0.3%) to 148.0 and is 5.2% above its year-ago level.

Regional Story: Small business lending rose in nine of the ten largest states in October, with Florida (+1.4% M/M), New York (+1.2% M/M), and North Carolina (+1.2% M/M) experiencing the largest increases. Georgia (unch. M/M) was the only state to not experience lending growth. When measured on an annual basis, lending activity was up in six of the ten largest states, including Ohio (+4.6% Y/Y, all-time high), Texas (+4.4% Y/Y, all-time high), and Florida (+3.9% Y/Y). Meanwhile, California (-2.4% Y/Y), Pennsylvania (-2.0% Y/Y), and North Carolina (-1.7% Y/Y) experienced the largest year-over-year declines.

Industry Story: Lending rose on a monthly basis in 14 of 18 industries in October, led by Information (+3.3% M/M), Educational Services (+2.3% M/M), and Professional Services (+2.2% M/M). Lending activity dropped in Transportation and Warehousing (-0.8% M/M), Construction (-0.6% M/M), and Agriculture (-0.3% M/M). Compared to a year ago, lending rose in 11 tracked industries, most notably in Information (+34.9% Y/Y) and Accommodation and Food Services (+17.1% Y/Y). By contrast, lending fell significantly in Public Administration (-15.8% Y/Y), Transportation and Warehousing (-8.3% Y/Y), and Mining (-4.5% Y/Y).

Economic Context

Small business lending fell in October, returning to summer readings and extending its recent bout of volatility amid high inflation, rising interest rates, and fears of an economic downturn. While Main Street has been able to weather these headwinds so far, there is evidence that some small business owners are less optimistic about their near-term prospects. According to the 2022 Nationwide Economic Pressures Report, 70% of small business owners expect a recession over the next six months, while a net -13% of respondents in NFIB's Small Business Survey expect sales to improve over the next three months — a weaker reading than any pre-pandemic, non-recessionary period.

In response to these headwinds, many Main Street business owners are taking a second look at their expenses and planned investments. In fact, the same Nationwide report suggests that from April to October, a significant share of business owners reduced business expenses (58%), used personal savings to support their business (38%), or canceled or postponed a major business investment (22%). Many also reported plans to eliminate future hiring or employee raises.

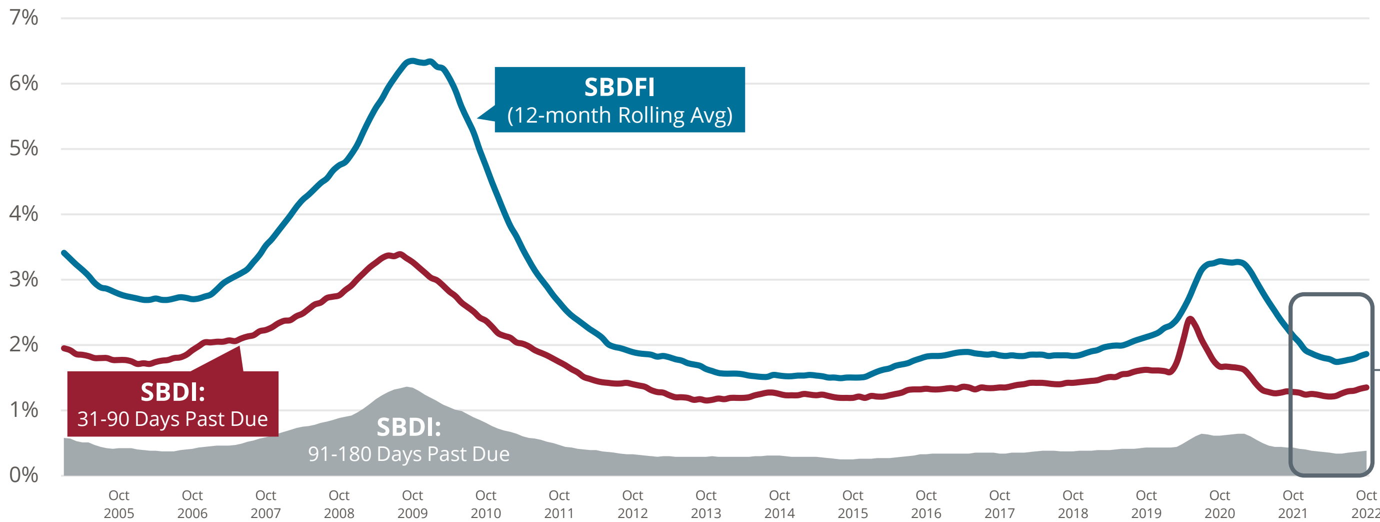
With even higher interest rates looming on the horizon, it will become increasingly difficult for businesses to pursue expansion plans. Nevertheless, a "soft landing" is still within the Fed's reach as consistently positive labor market data suggests the economy — and Main Street — are holding up thus far.

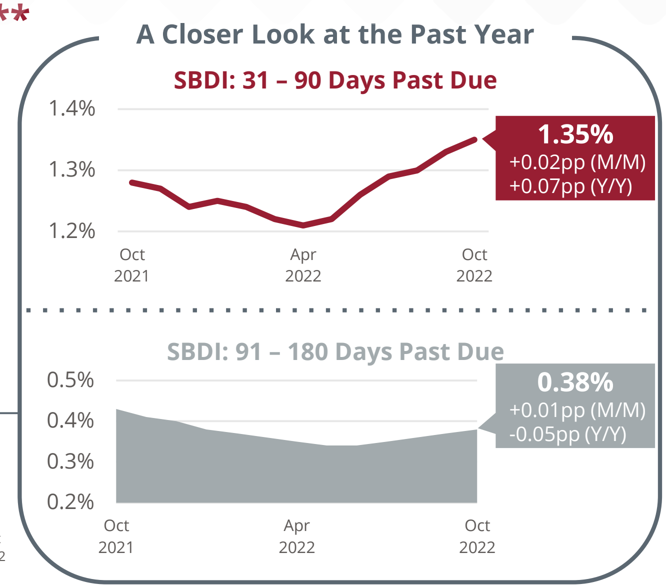
EQUIFAX

Equifax Commercial Strategic Insights: December 2022

Financial Stress Building, But Main Street Enters 2023 On Sound Footing

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 October to 1.35% and is 7bp above its year-ago level. The SBDI 91–180 Days Past Due edged up 1bp to 0.38% but is down 5bp Y/Y. Defaults rose 3bp in October to 1.86% but are 28bp below year-ago levels.

Regional Story: In October, delinquencies rose in six of the ten largest states, with the biggest increase occurring in Florida (+10bp M/M) and the largest decrease in Michigan (-6bp M/M). Measured on an annual basis, delinquencies rose in eight of the ten largest states, including Georgia (+32bp Y/Y) and Pennsylvania (+29 bp Y/Y), while Ohio and Texas (-3bp Y/Y each) were the only states to show declines. Defaults rose in seven of the ten largest states, most notably in Michigan (+11bp M/M) and Texas (+6bp M/M), while New York (-4bp M/M) was the only state with a decrease. Overall, defaults remain low by historical standards, though Georgia (+10bp Y/Y) and Illinois showed increases (+2bp Y/Y) compared to year-ago levels.

Industry Story: Delinquencies rose in four of six tracked industries in October, led by Transportation (+15bp M/M) and Health Care (+4bp M/M), while Agriculture (-1bp M/M) was the only industry in which delinquencies fell. On an annual basis, delinquencies increased in four of six tracked industries, most notably for Transportation (+57bp Y/Y), while they declined in Agriculture (-4bp Y/Y) and Retail (-3bp M/M). Regarding defaults, 12 of 18 tracked industries showed increases, led by Public Administration (+20bp M/M). Compared to last year, defaults rose three tracked industries, including Public Administration (+54bp Y/Y) and Finance (+24bp Y/Y). Default rates in most industries remain well below their historical average.

Economic Context

Despite recession worries, Equifax data indicate that small businesses are generally on solid financial footing. Defaults and delinquencies reported in Equifax's Small Business Delinquency and Default Indices are still below pre-COVID levels and significantly below their long-term average, though the readings increased modestly in October. The uptick is in keeping with the expected impact from headwinds that have been battering small businesses, including labor shortages, high input costs, and rising interest rates that increase the cost of borrowing. Each of these headwinds is closely linked to inflation, and while the news has improved modestly in recent weeks as monthly CPI increases have eased somewhat, cost pressures continue to plague Main Street and erode earnings. Labor costs are chief among these pressures, as they remain elevated due to a labor market that still has far too many unfilled job openings — particularly among small businesses — which is restricting business owners' ability to meet customer demand.

Overall, the Fed's efforts to fight inflation is likely to increase financial stress on Main Street in early 2023, and certain industries (e.g., Transportation) should be closely monitored. Still, Equifax data suggest that small business loan portfolios are on sound footing, and a rapid rise in delinquencies and defaults is unlikely.