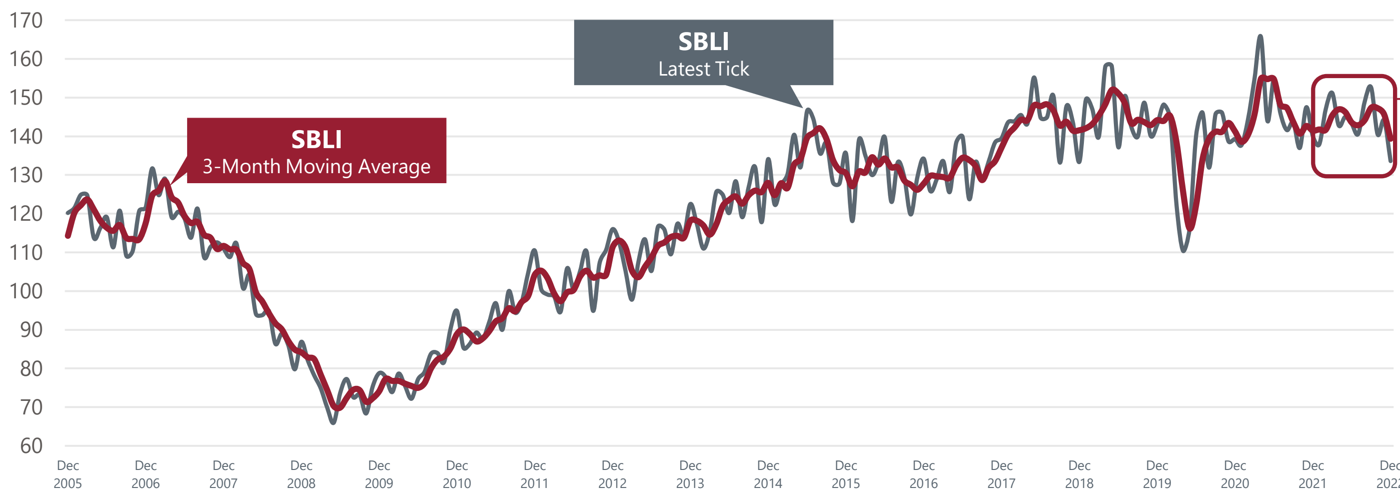
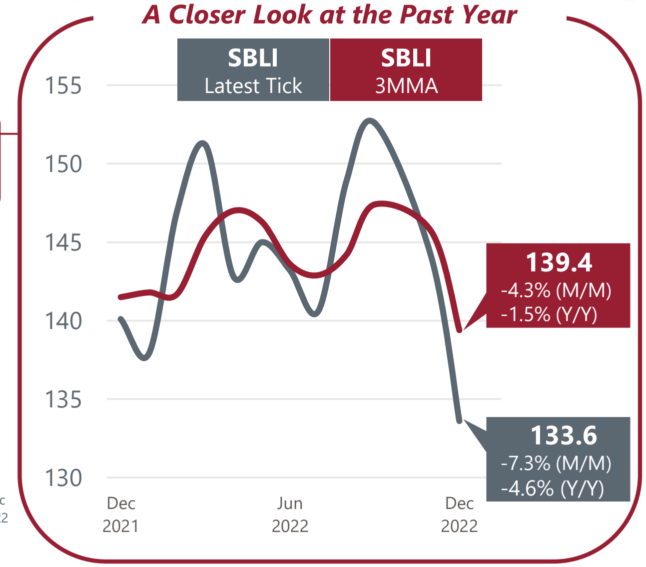
Lending Activity Eases as Consumers Tighten Their Belts

Equifax Small Business Lending Index (SBLI)*





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

Index Analysis

In December, the Equifax Small Business Lending Index (SBLI) fell 10.5 points (-7.3%) to 133.6 and is 4.6% below its year-ago level. The SBLI 3-month moving average fell 6.3 points (-4.3%) to 139.4 and is 1.5% below its year-ago level.

Regional Story: Small business lending rose in four of the ten largest states in December, with Michigan (+1.9% M/M) and North Carolina (+0.7% M/M) experiencing the largest increases. California (-1.4% M/M), Georgia (-1.1% M/M), and Illinois (-1.1% M/M) experienced the largest monthly lending declines. When measured on an annual basis, lending activity was up in half of the ten largest states, led by Florida (+3.5% Y/Y), Texas (+3.3% Y/Y), and Ohio (+2.8% Y/Y). Meanwhile, California (-4.3% Y/Y), Pennsylvania (-4.2% Y/Y), and Illinois (-2.7% Y/Y) experienced the largest year-over-year declines.

Industry Story: Lending rose on a monthly basis in nine of 18 industries in December, led by Arts, Entertainment, & Recreation (+5.2% M/M), Education (+4.9% M/M), and Public Administration (+2.0% M/M). Lending activity fell in Mining (-4.3% M/M), Transportation & Warehousing (-2.3% M/M), and Agriculture (-2.2% M/M). Compared to a year ago, lending rose in 10 of the 18 tracked industries, most notably in Information (+26.1% Y/Y) and Accommodation & Food Services (+17.7% Y/Y). By contrast, lending fell significantly in Public Administration (-15.1% Y/Y), Transportation and Warehousing (-11.2% Y/Y), and Mining (-9.4% Y/Y).

Economic Context

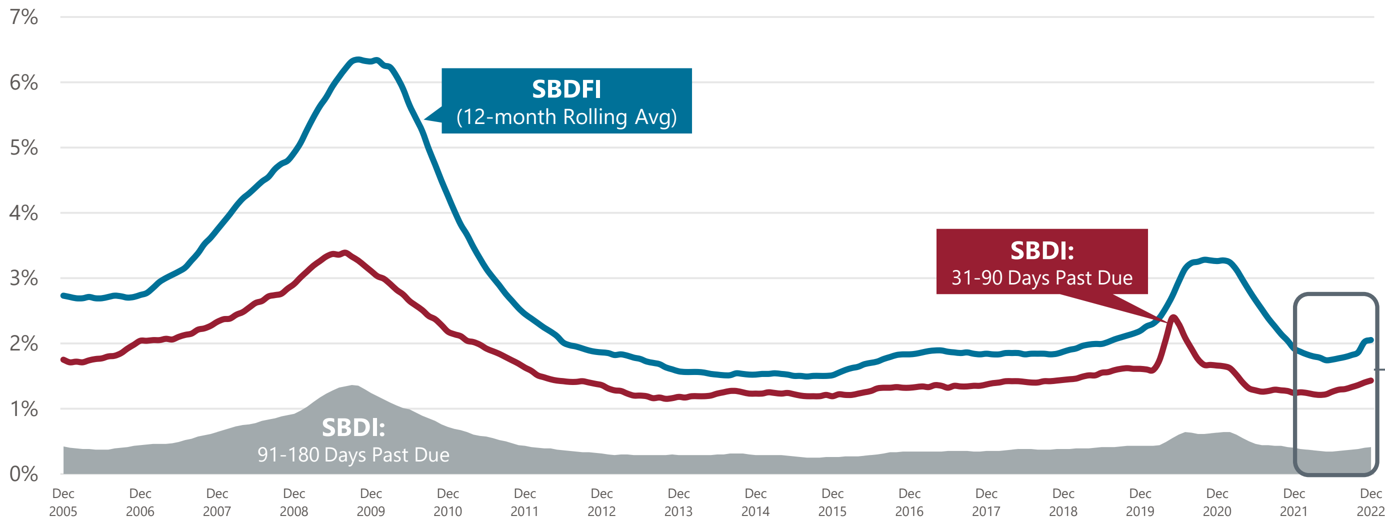
Though the U.S. economy seemingly ended the year on a high note due to stronger-than-expected fourth quarter GDP growth, a look under the hood reveals that the core of the economy slowed to a crawl — a development confirmed by the latest Small Business Lending Index reading. A closely-tracked measure of core economic activity known as Real Final Sales to Private Domestic Purchasers (defined as the sum of consumer spending and private sector investment) expanded just 0.2% (annualized) in Q4, its worst reading since the peak months of the pandemic. While businesses pull back on investment plans, consumers are also tightening their belts: even before adjusting for inflation, consumer spending contracted in both November and December.

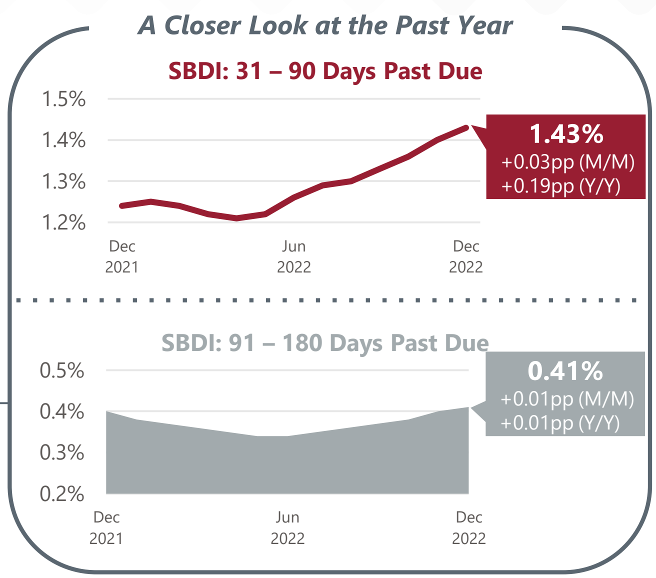
Inflation, along with the Fed's response, is undoubtedly weighing on households, and small business owners are pessimistic about the ability of consumers to drive sales growth this year. Indeed, a net negative 51% of respondents to NFIB's December Small Business Survey expect business conditions to improve over the next six months, and NFIB's headline Small Business Optimism Index is now 10 points below its 49-year average.

The expectation of weaker demand and higher borrowing costs has led Main Street to pull back on borrowing activity. However, with labor demand still strong in many sectors and growing evidence that inflation is receding, a soft landing is still possible. Still, 2023 is shaping up to be a challenging year for Main Street.

Financial Stress Continues to Slowly Rise, but Labor Demand Remains Strong

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 3bp in December to 1.43% and is 19bp above its year-ago level. The SBDI 91–180 Days Past Due edged up 1bp to 0.41% and is up 1bp Y/Y. Defaults rose 3bp in December to 2.05% and are now 13bp above year-ago levels.

Regional Story: In December, delinquencies rose in nine of the ten largest states. North Carolina (+14bp M/M) showed the largest increase while Illinois (Unch. M/M) was the only state that did not increase. Measured on an annual basis, delinquencies rose in each of the ten largest states, led by Pennsylvania (+41bp Y/Y) and Florida (+37 bp Y/Y). Defaults rose in four of the ten largest states, most notably in Texas (+6bp M/M) and Florida (+4bp M/M). Georgia (-4bp M/M) showed the largest decline. Overall, defaults were above year-ago levels in seven states, with Georgia (+61bp Y/Y) and Illinois (+51bp Y/Y) showing the largest increases. New York (-49bp Y/Y) remains the furthest below last year's default levels.

Industry Story: Delinquencies rose in four of six tracked industries in December, led by Transportation (+17bp M/M), while Agriculture (-1bp M/M) and Health Care (-1bp M/M) showed declines. On an annual basis, delinquencies increased in five of six tracked industries, most notably for Transportation (+91bp Y/Y), while Agriculture (Unch. Y/Y) was the only industry without an increase. Regarding defaults, nine of 18 tracked industries showed increases, led by Transportation (+22bp M/M). Compared to last year, defaults rose in ten tracked industries, including Finance (+54bp Y/Y) and Public Administration (+52bp Y/Y). Default rates in Accommodations (-69bp Y/Y) remain the lowest compared to last year's levels.

Economic Context

Small business delinquency and default rates continued to climb through December according to Equifax data, with the SBDI and SBDFI both indicating that financial stress, while still relatively low by historical standards, is on the upswing. The trend is consistent with broader small business trends: for example, NFIB reported in December that the gap between small business owners reporting shrinking sales and those reporting growing sales widened yet again. The top concerns cited for this strain on revenues included high inflation and labor-related challenges (e.g., availability and cost), and it appears likely that stress will continue rising in the near term.

In response, some larger corporations have begun laying off workers (particularly in the finance and technology sectors), but Main Street has largely maintained employment levels thus far, despite growing pessimism among small business owners. Indeed, a recent WSJ analysis revealed that small firms, which have driven job growth for the last two years, currently account for nearly 80% of job openings — a remarkable statistic given that smaller business hiring typically closely tracks near-term economic activity. All told, financial stress is expected to continue slowly rising in the months ahead, but Main Street has demonstrated impressive resilience in the face of an increasingly challenging economic environment.