



Market Pulse

Confronting and Conquering Commercial Challenges in the Current Landscape

April 18, 2024 | 2PM ET





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Macroeconomic Update
Credit Trends and Small Business Indices
Discussion
Q&A

Market Pulse



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Market Pulse

Macroeconomic Update



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Market Pulse

Macroeconomic Update

What's been driving U.S. growth over the past year? Consumers have been holding their own, but investment in structures and government spending have been driving growth the fastest.

$$\text{GDP} = \text{C} + \text{I} + \text{G}$$

GDP



+3.1%

Consumption



+2.7%

Investment Structures



+16.9%

Investment Equipment



-0.6%

Investment Residential



+0.4%

Government

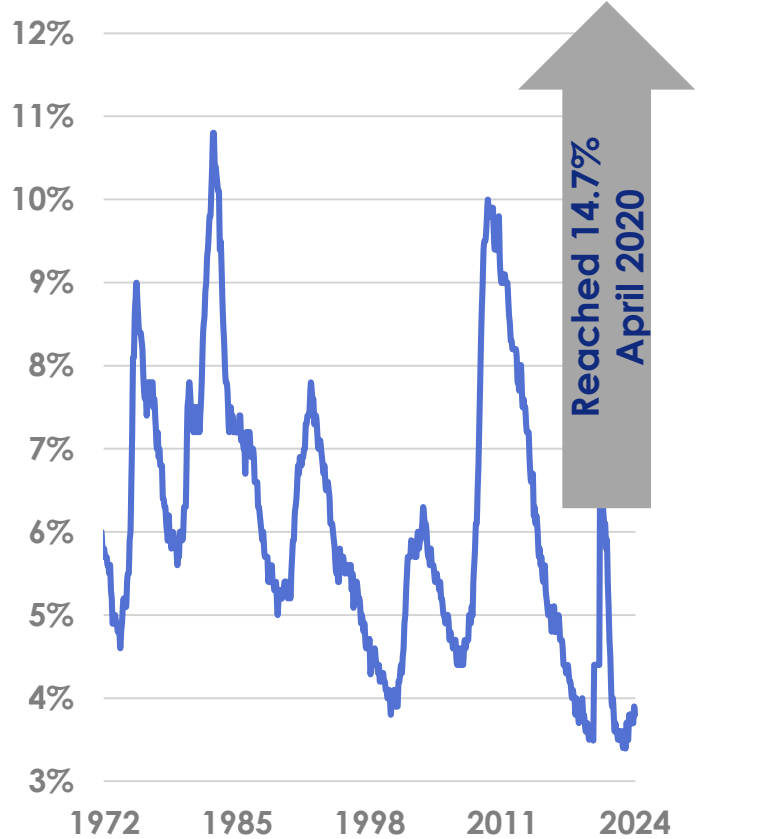


+4.6%

First the good news: the U.S. labor market remains historically strong. 25 of the 50 states have their lowest unemployment rates in history. Labor market disruptions from Covid seem finished.

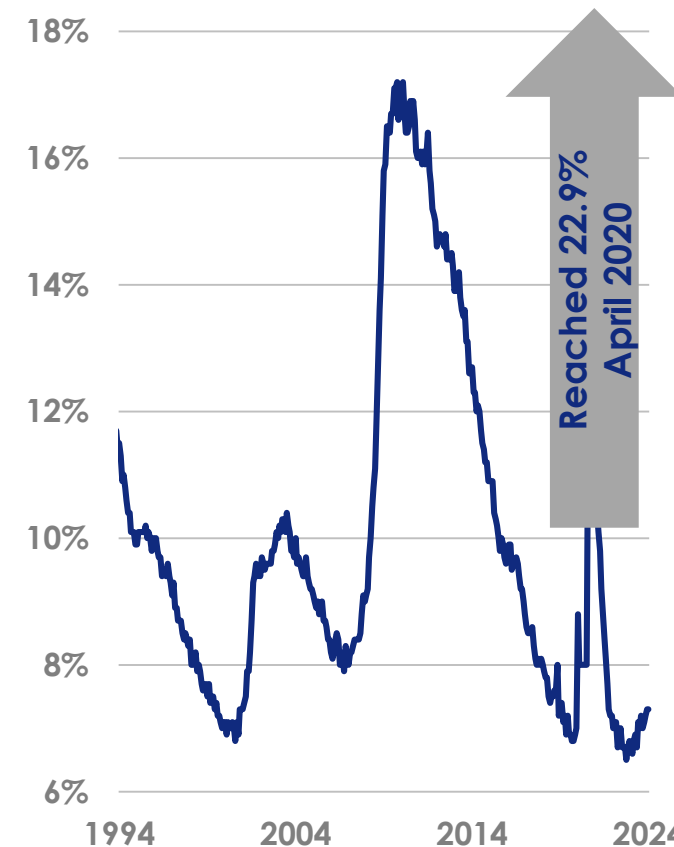
Historically Low Unemployment*

Headline unemployment rate, percent, monthly



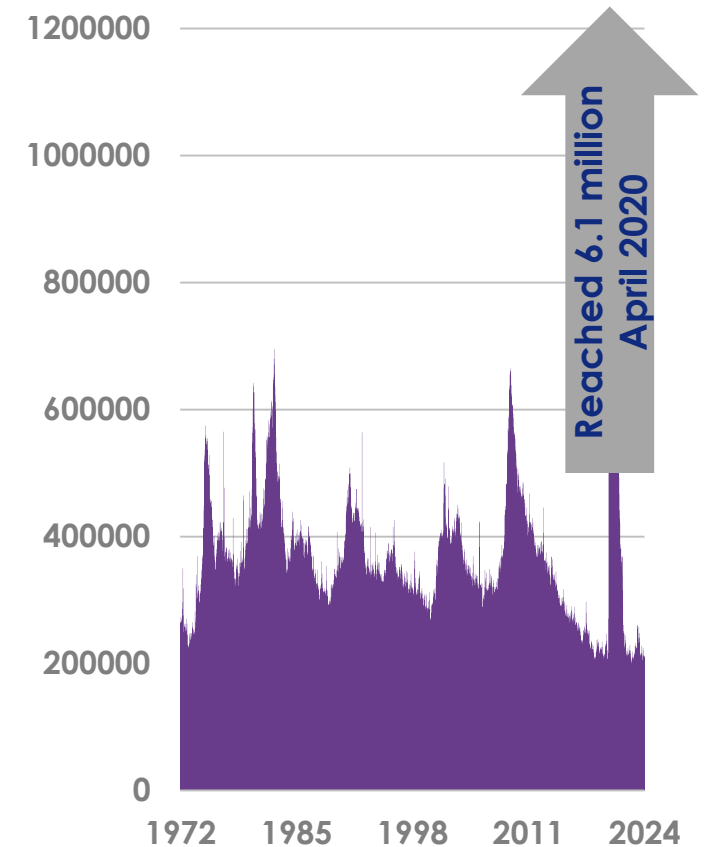
Few Discouraged Workers*

U-6 unemployment rate, percent, monthly



Low Initial Unemployment Claims**

Initial unemployment claims, weekly



In fact, unemployment has been below 4% for 26 straight months—the longest stretch since the 1960s. Labor participation rates (ages 25-54 years) are at all-time highs, driven by women.

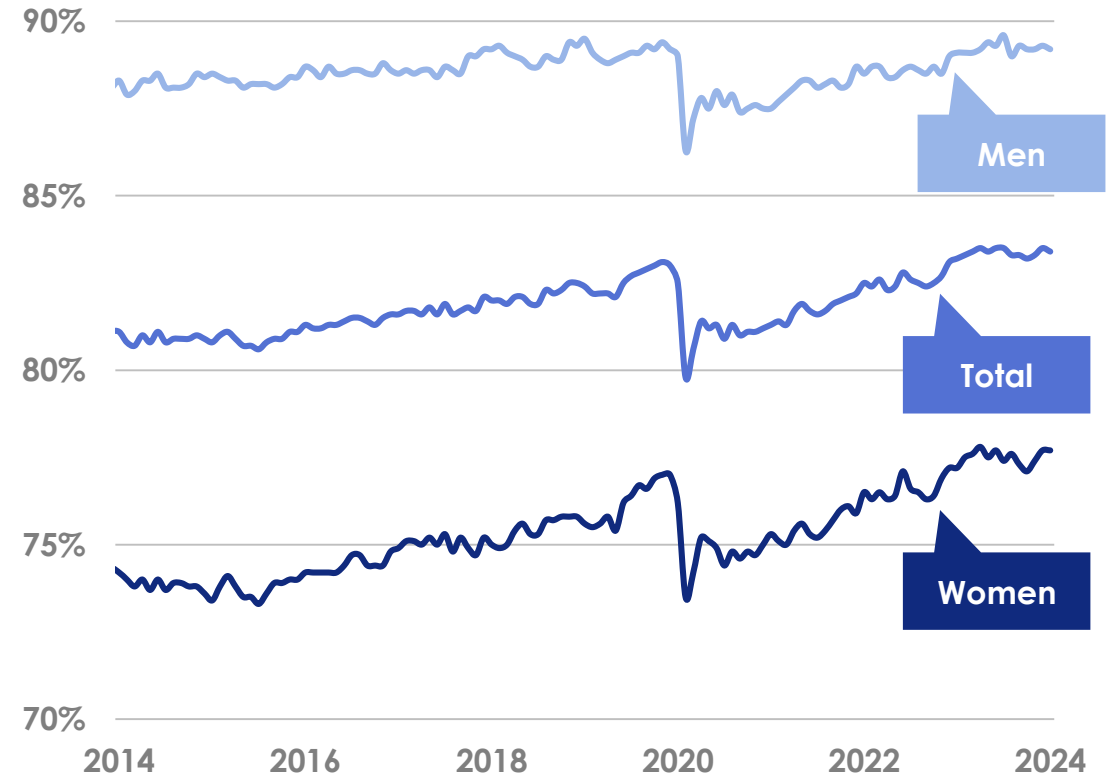
The Quits Rate is Stabilizing

Total quits as a percent of total employment, monthly*



Labor Force Participation has Recovered

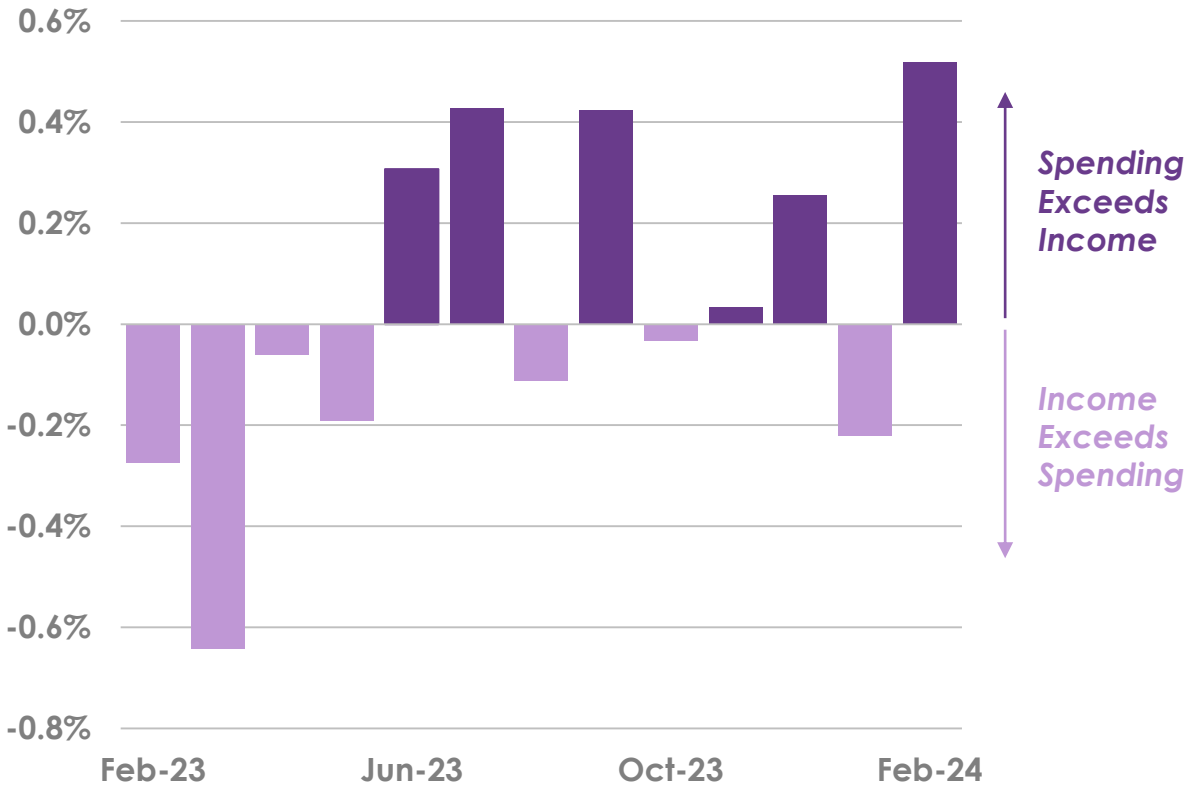
Labor force participation rate, ages 25-54, percent, monthly**



However, consumer spending is a concern. Consumer spending has exceeded income growth in 6 of the past 9 months, which has caused the household saving rate to drop to nearly a 50-year low.

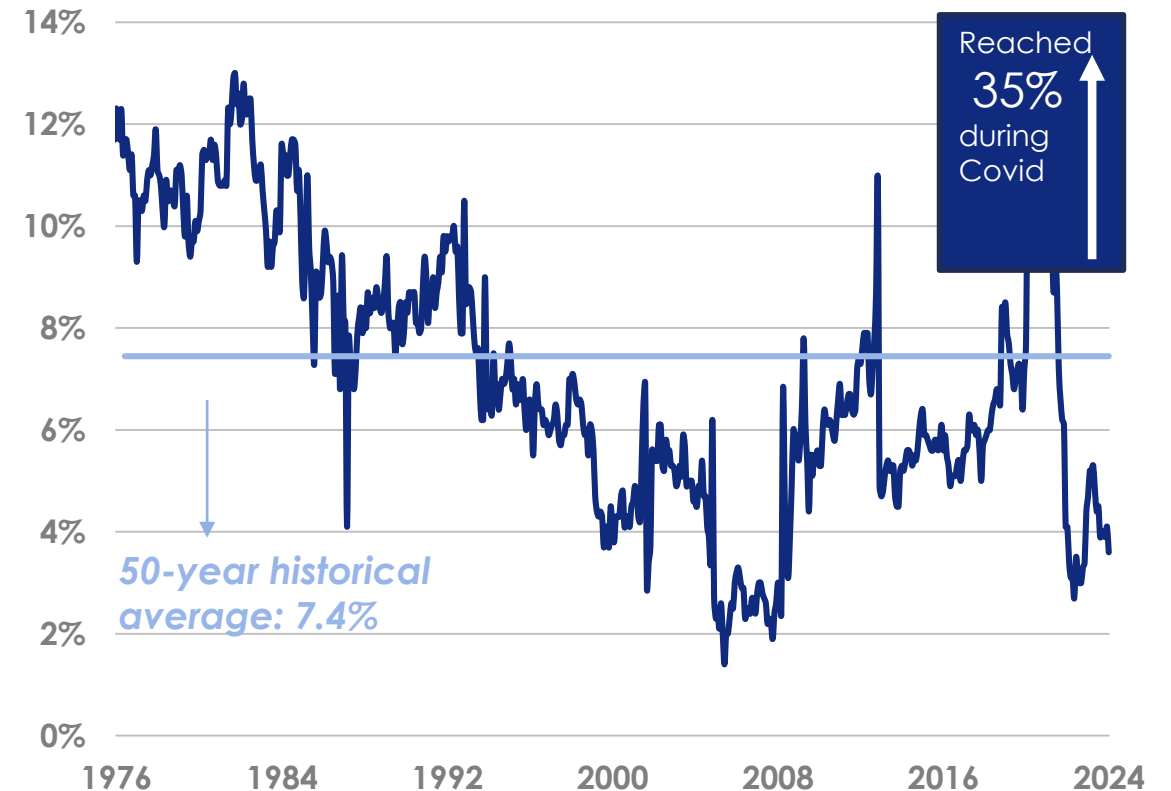
Spending Growth is Outpacing Income Growth

Percentage point difference between M/M growth in real personal consumption expenditures and real disposable personal income, monthly



The Savings Rate is Near Record Lows

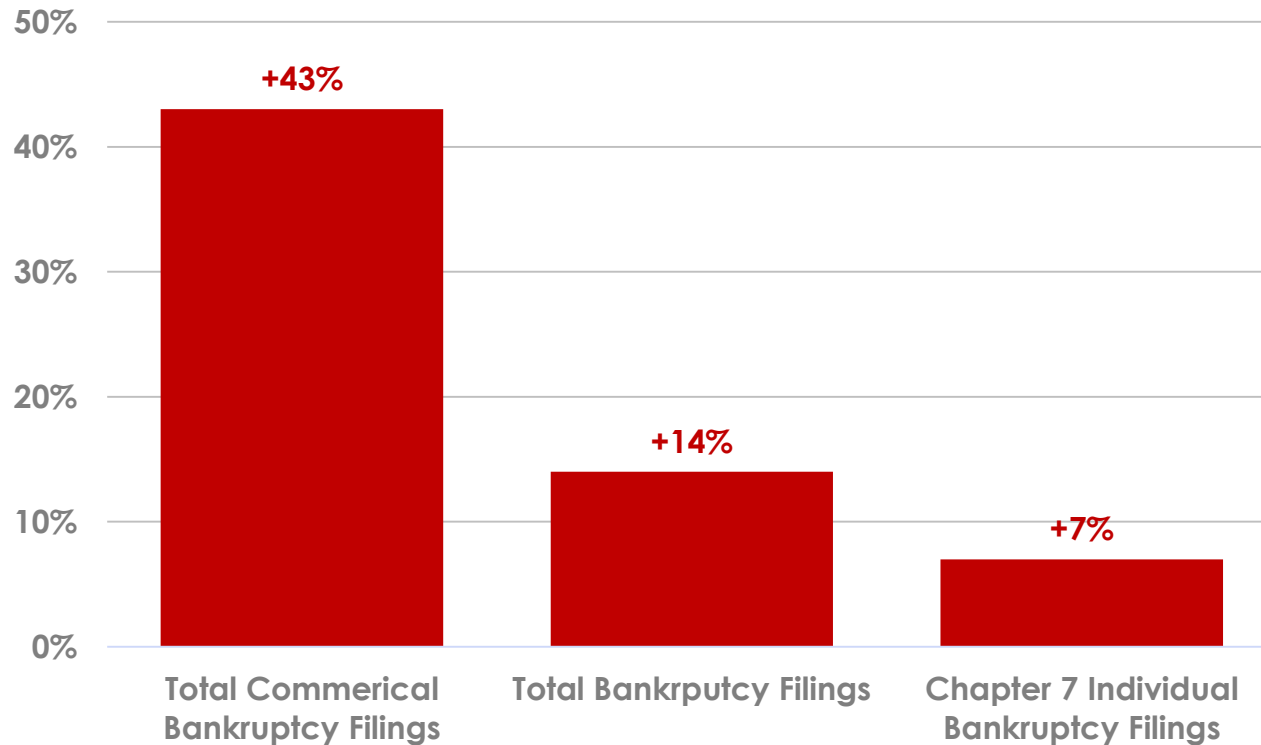
Household saving rate, percent, monthly



Adding to worries, bankruptcy filings are rising, especially for commercial businesses. Individual bankruptcies are also up, but not dramatically.

Bankruptcies are Rising

Bankruptcy filings by type, Y/Y percent change, 2024 Q1



Reasons cited:



“The higher cost of funds and interest rates”



“A reduction in consumer discretionary spending”



“Higher housing costs”



“A continued drawdown of excess savings”

Also, inflation is not done yet. Although prices of goods are softening, Keybridge’s “Top 45 CPI Categories to Watch” index of service-sector inflation is not dropping, keeping the Fed on pause.

Examples of Items in the Keybridge “Top 45 CPI Categories to Watch”

Note: these items comprise nearly 50% weight in the overall CPI

- Rent (but not owners rent equiv.)
- Food and beverages away from home
- Water, sewer, and trash collection
- Medical services and commodities
- Insurance
- Transportation services (airfares, etc.)
- Recreational services
- Educational services
- Telecommunications (internet, etc.)
- Personal services
- Electricity

Change in Consumer Prices by Designation

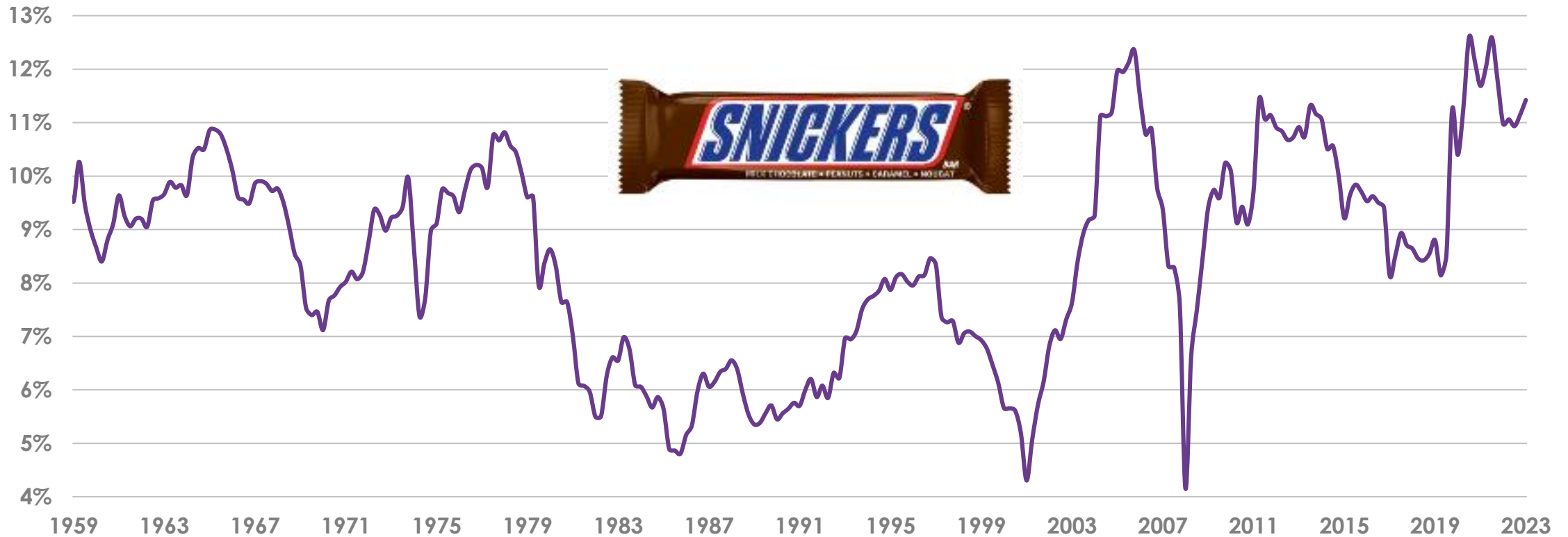
6-month annualized rates, monthly



Is “greedflation” really the problem some politicians are claiming? Corporate profits did jump after Covid, reflecting supply chain problems and stimulus checks, but recently they’ve been moderating.

Corporate Profits Did Hit Record Highs During Covid

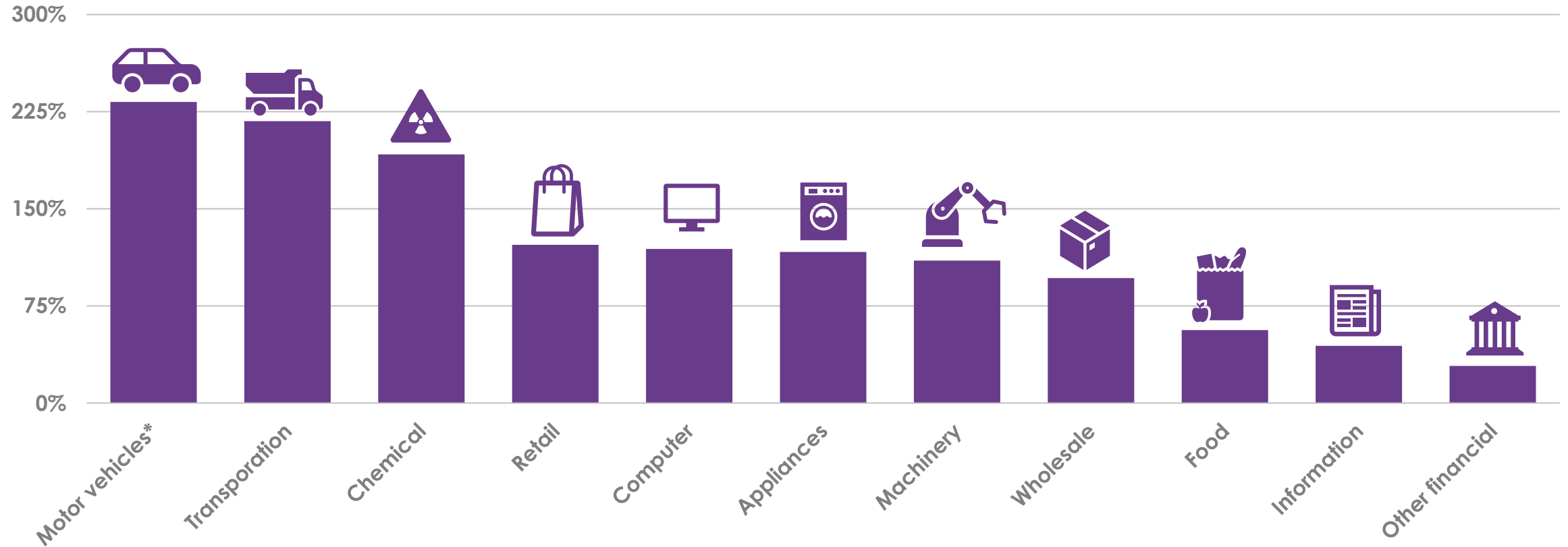
Corporate profits before tax as % of GDP, without inventory and capital consumption adjustments, quarterly



Corporate profits are up across most business sectors over the past 3 years, with autos, transportation, and chemicals posting the biggest gains.

Most Industries have Seen Profit Increases, but Some More than Others

% change in quarterly profits from 2019Q4 to 2023Q4



The U.S. industrial sector shows increasing bifurcation. Many sectors that boomed under Covid are languishing now, but some other sectors are seeing significant increases in industrial activity.

3 Themes Shaping the U.S. Industrial Sector in 2024

Post-Covid Shifts



Boosts from Government



Strong Technology Demand



Demand for data centers is off the charts, which is driving demand for steel structures, concrete, electrical equipment, electrical components, and utility-scale power and transmission lines.



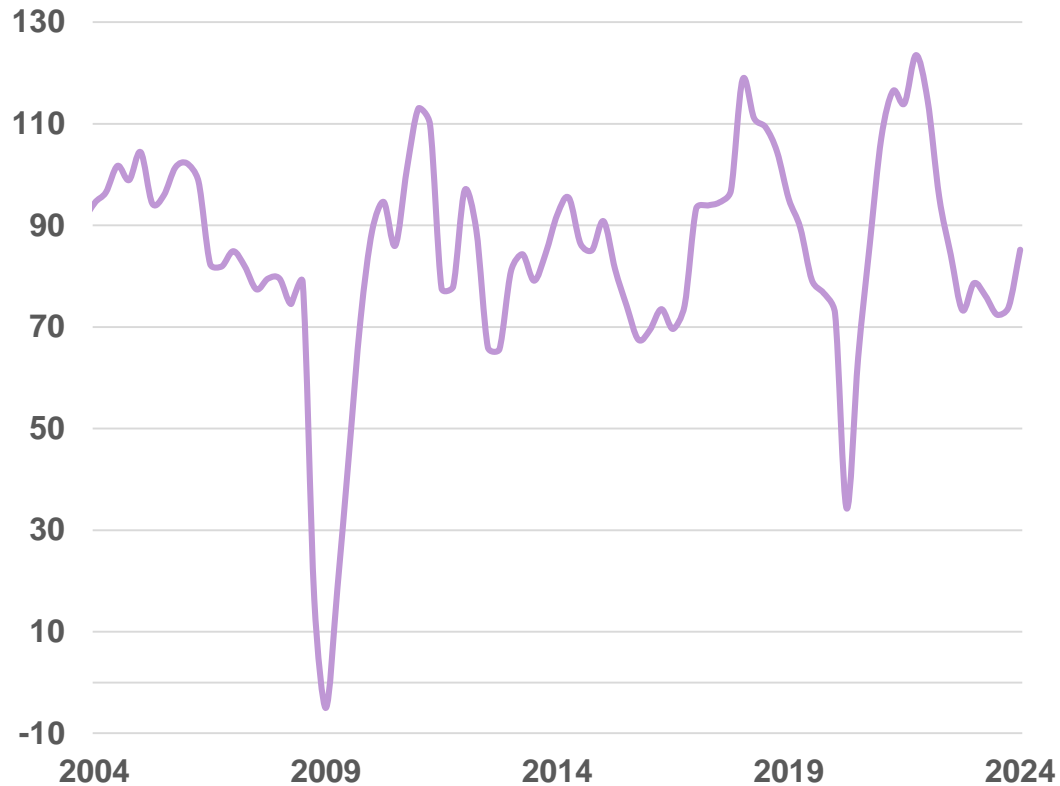
Data Centers Create Their Own Economic Ecosystems

- Nearly \$70 billion in announced data center investments are now on the books
- Typical cost of \$1 billion each (Microsoft, Amazon, and Google are big players)
- Currently multi-year backlog for electrical supplies like transformers, switches, and power conditioning equipment
- Currently, data centers account for 2% of all U.S. electricity usage—will rise sharply.
- Rising demand for onsite renewable power. Microsoft may even build nuclear power plants to supply energy

Worth noting: an “optimism” gap is opening up between large businesses and small businesses. In the past year, corporate profits are up 5.1%, but proprietor’s income is up just 3.1% (below inflation).

Big Business Confidence is Rising (Business Roundtable)

CEO economic outlook index, quarterly*



Small Business Optimism is Low (NFIB)

Small business optimism index, SA, monthly**



Looming Commercial Real Estate Risks

Work-from-home habits have driven office vacancy rates to a record high 19.6% in 2023 Q4*. Recently, commercial office buildings have sold for fractions of their pre-pandemic purchase value.

Downtown DC



2017 purchase price: **\$61.75 million**

January 2024 sale price: **\$18.2 million**

Suburban Boston



2018 purchase price: **\$43 million**

March 2024 sale price: **\$6 million**

Commercial real estate loan delinquencies have not risen much yet. But this could change soon as more than \$900 billion of debt comes due this year – 20% of all commercial real estate loans.*

Commercial Real Estate Loan Delinquencies See a Slight Uptick**

Delinquency rates on commercial real estate loans, percent, SA, quarterly



While it is still too early to panic about the implications for the wider financial system, CRE loans represent about 1/3 of the asset base of small and medium-sized banks, presenting the biggest risks.





Audience Poll

Market Pulse

Consumer Credit Trends and Small Business Indices



Jesse Hardin
Equifax

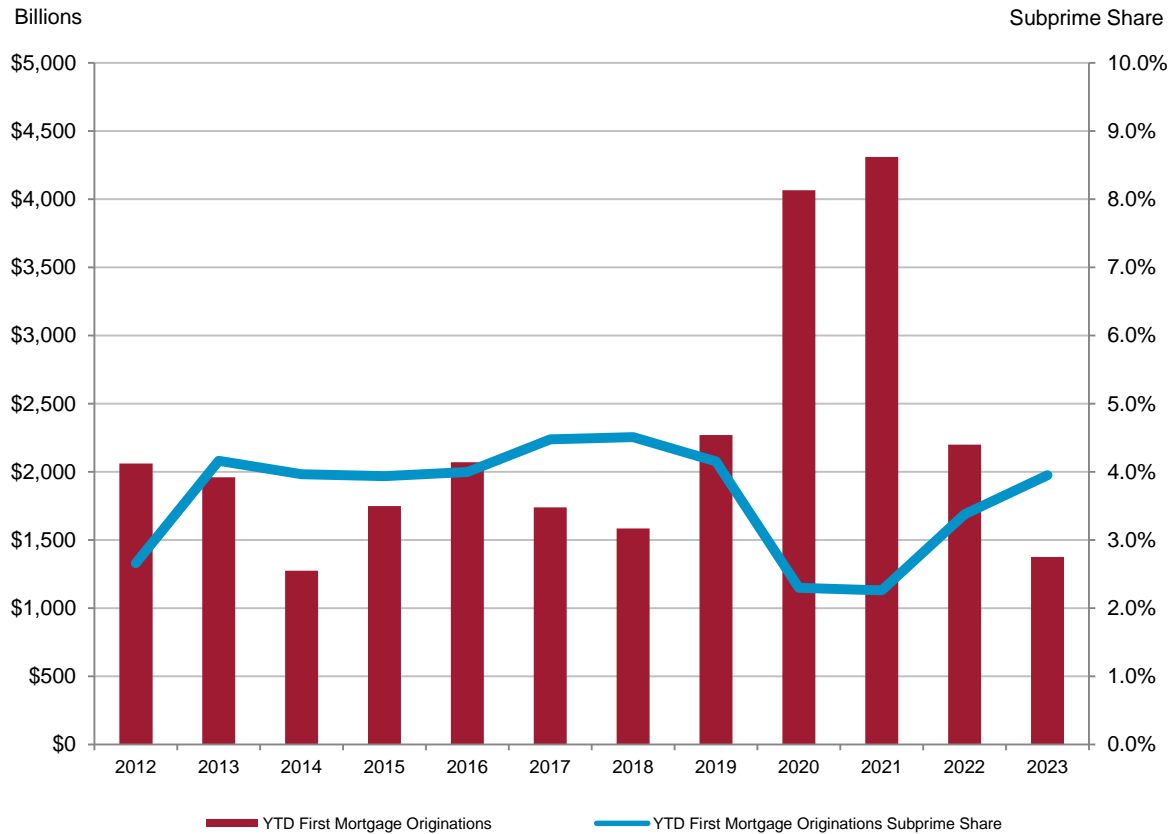


Market Pulse

First Mortgage originations through December 2023 continue to be lower and have fallen below 2015 levels; Auto YTD originations decreased, and the subprime share has dropped from 2018-2020 levels and is lower YOY.

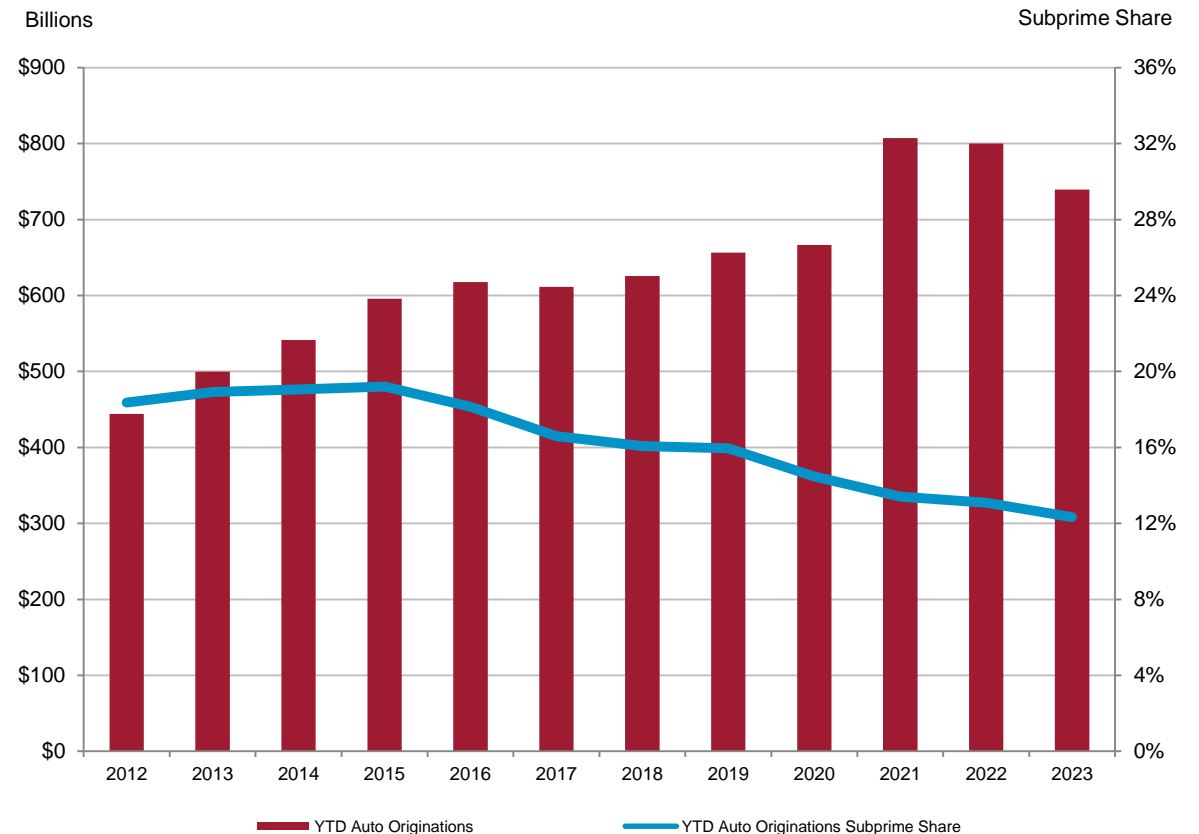
First Mortgage Originations

Total Credit Limits December YTD in \$Trillions, NSA



Auto Originations

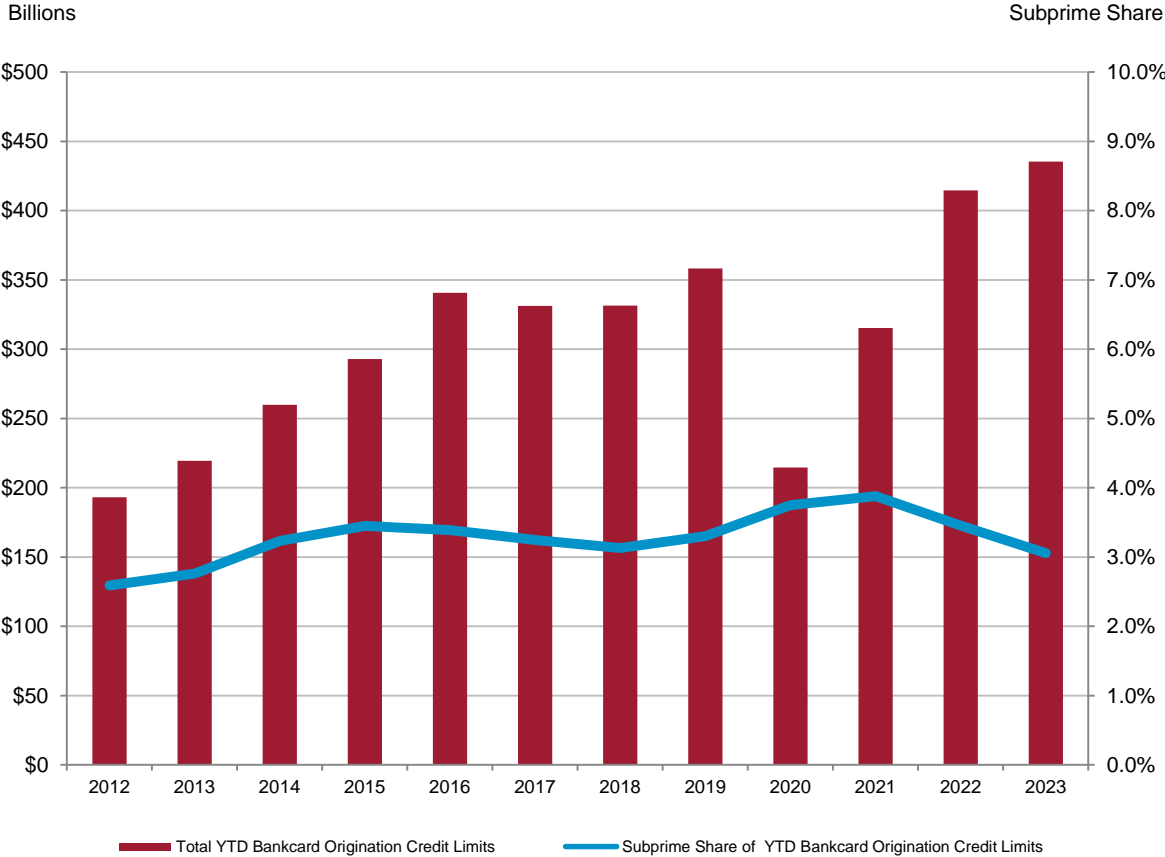
Total Credit Limits December YTD in \$Billions, NSA



December 2023 YTD Bankcard \$ limit originations continue to grow YOY; subprime share has declined since its high in 2021 (left), and # of new cards originated December YTD is lower than 2022(right)

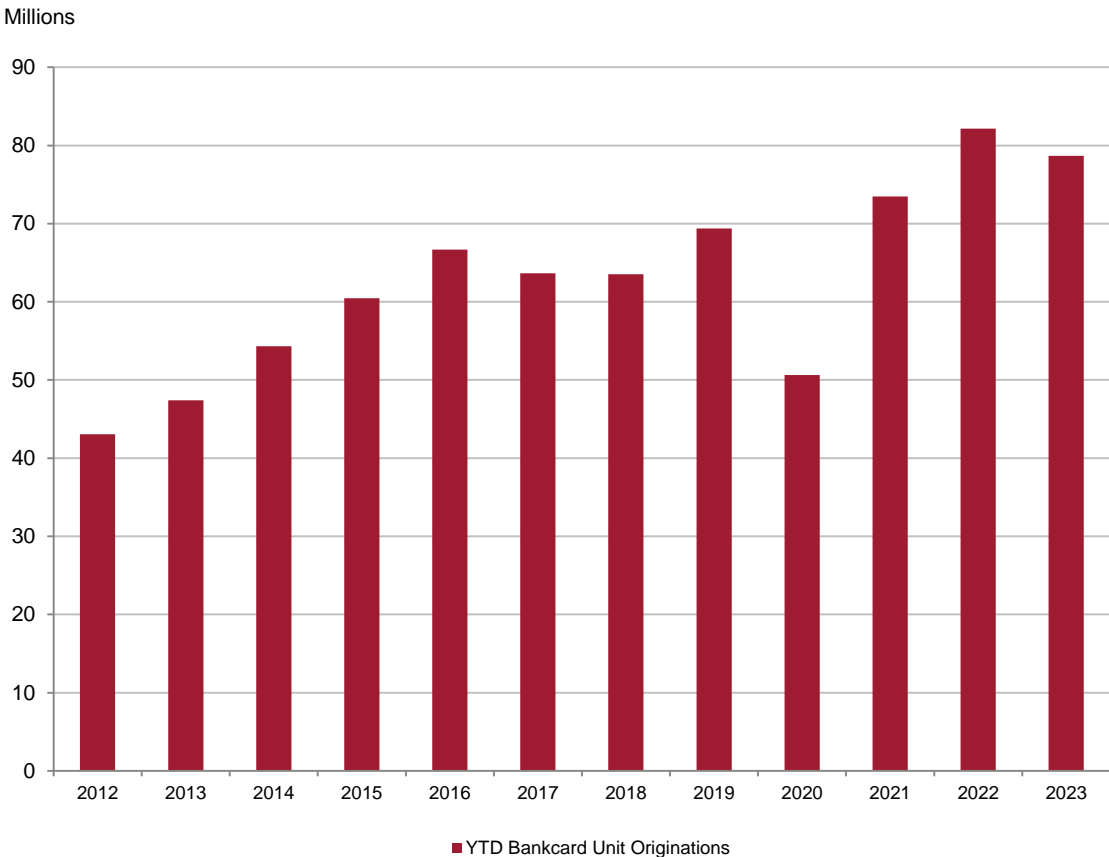
Bankcard \$ Limit Originations

Total Credit Limits December YTD in \$Billions, NSA



Bankcard Unit Originations

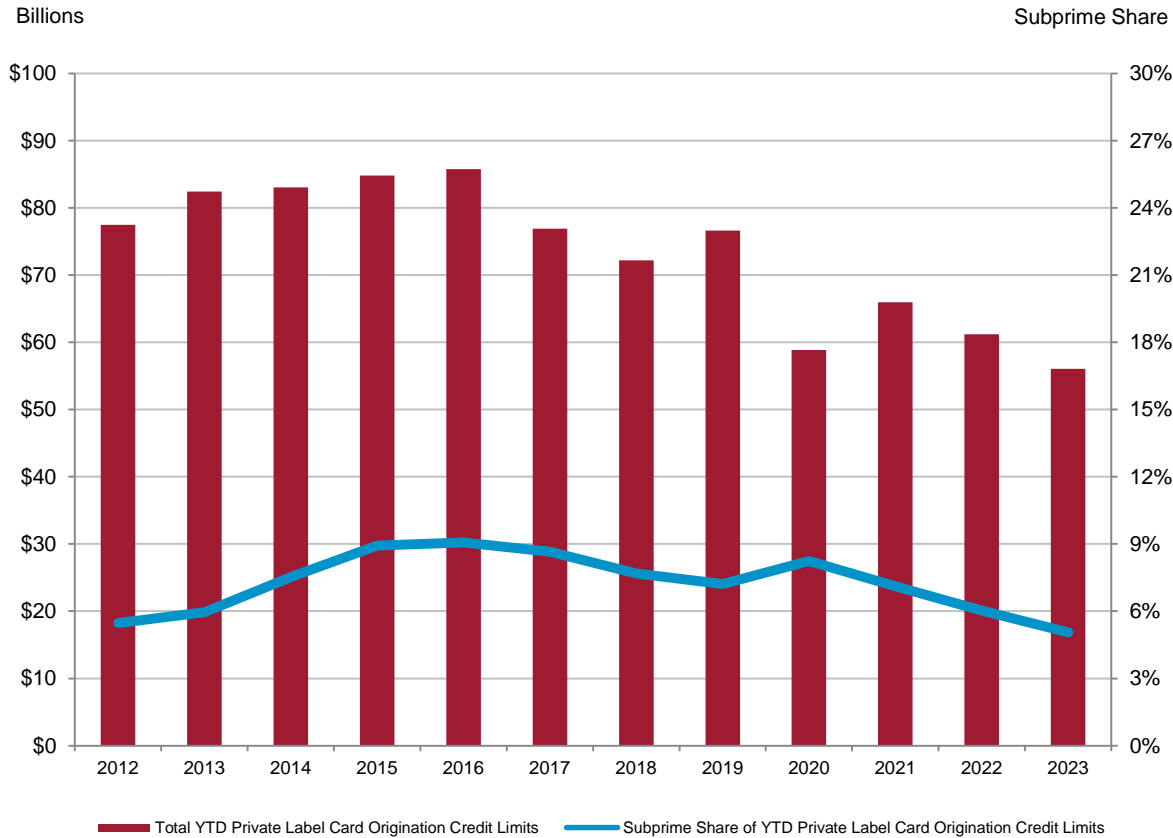
Total # Bankcard Originations December YTD in Millions, NSA



December 2023 YTD Private Label \$ limit originations are down YOY; subprime share decreased, and number of new cards originated is at its lowest since 2020 (right).

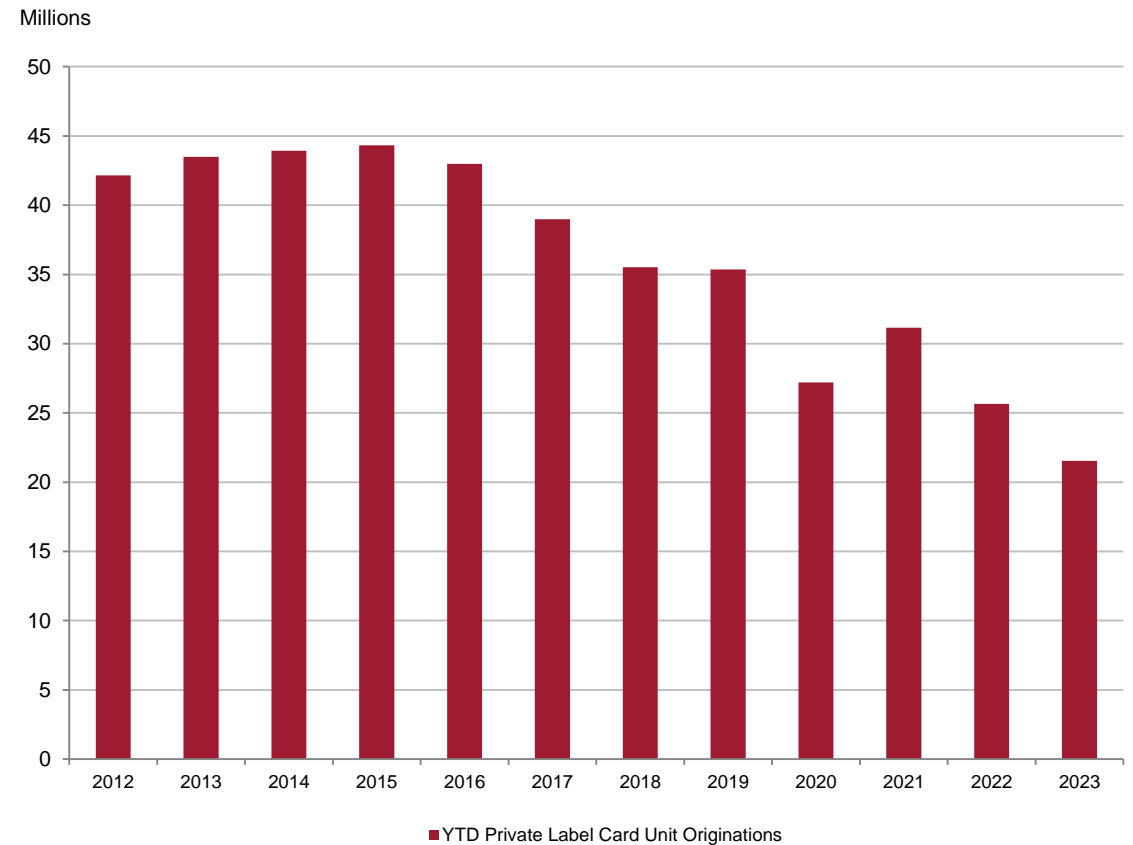
Private Label \$ Limit Originations

Total Credit Limits December YTD in \$Billions, NSA



Private Label Unit Originations

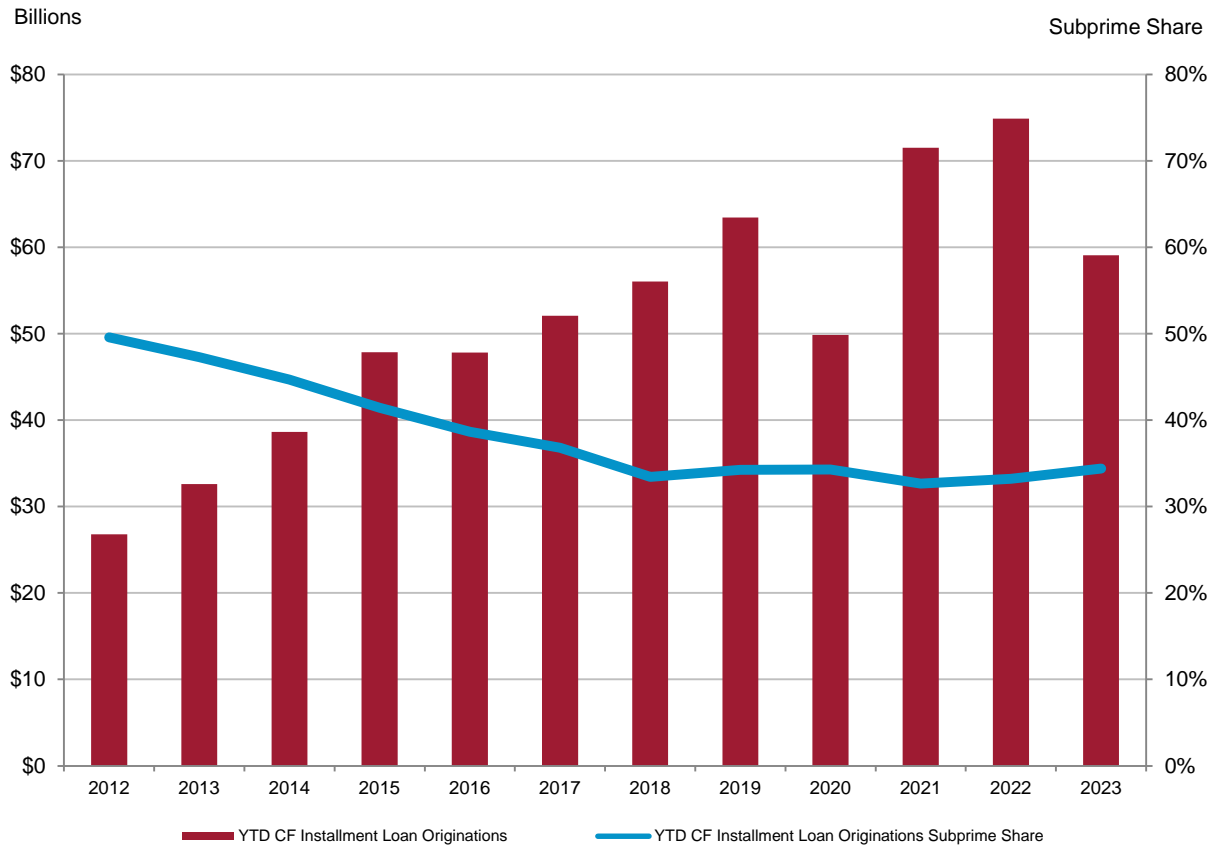
Total # Private Label Originations December YTD in Millions, NSA



YTD through December 2023 Unsecured PL \$ originations balances saw a steep decline; subprime share rose (left), and # of new loans originated December YTD is also down (right)

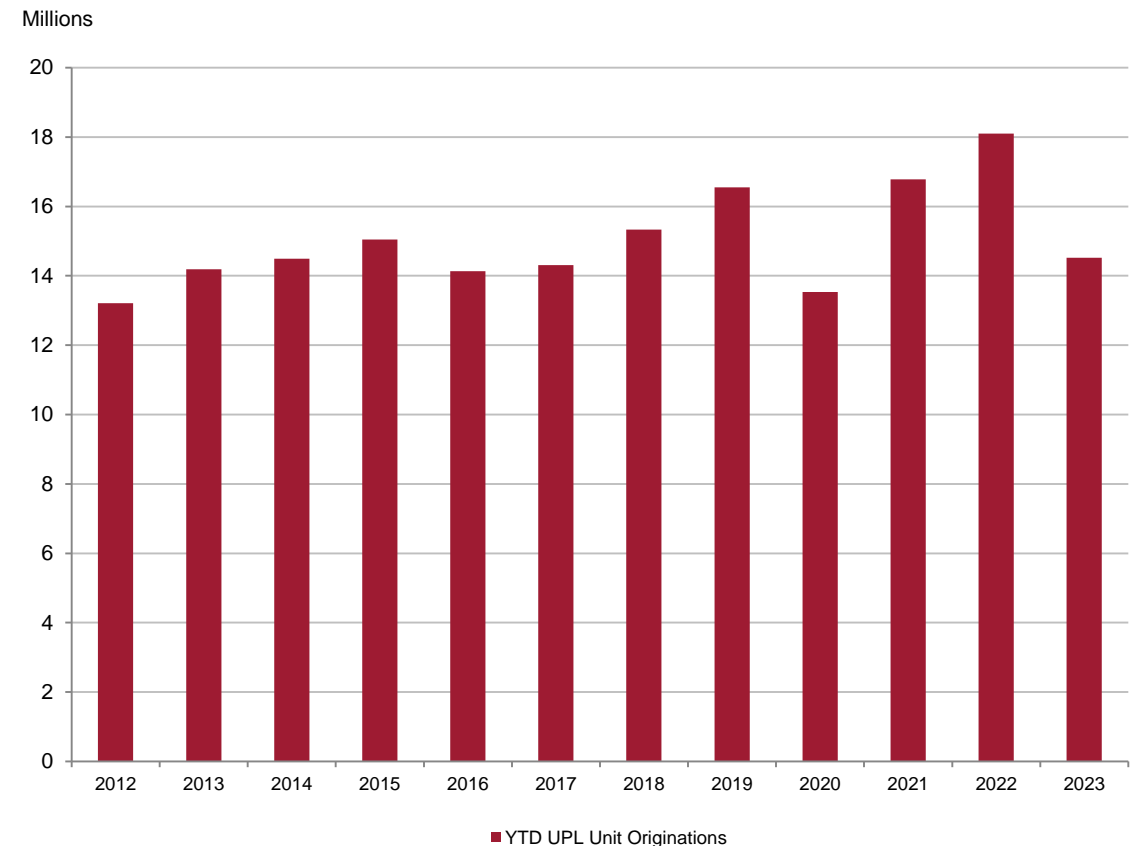
Unsecured Personal Loan \$ Balances Originations

Total Balances December YTD in \$Billions, NSA



Unsecured Personal Loan Unit Originations

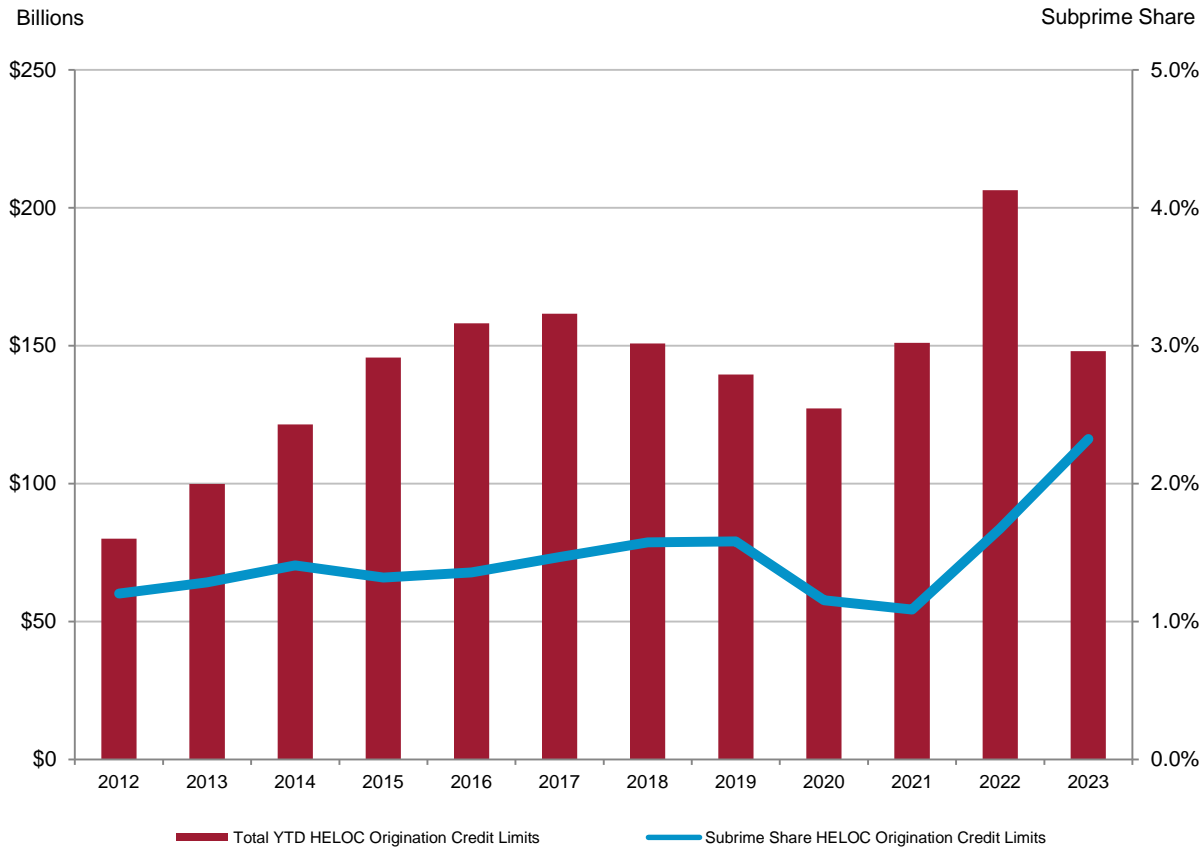
Total # UPL Originations December YTD in Millions, NSA



December 2023 Year to Date Home Equity Revolving \$ limit (left) and unit (right) originations declined after a peak in 2022 (left), although they are higher than 2020-2021.

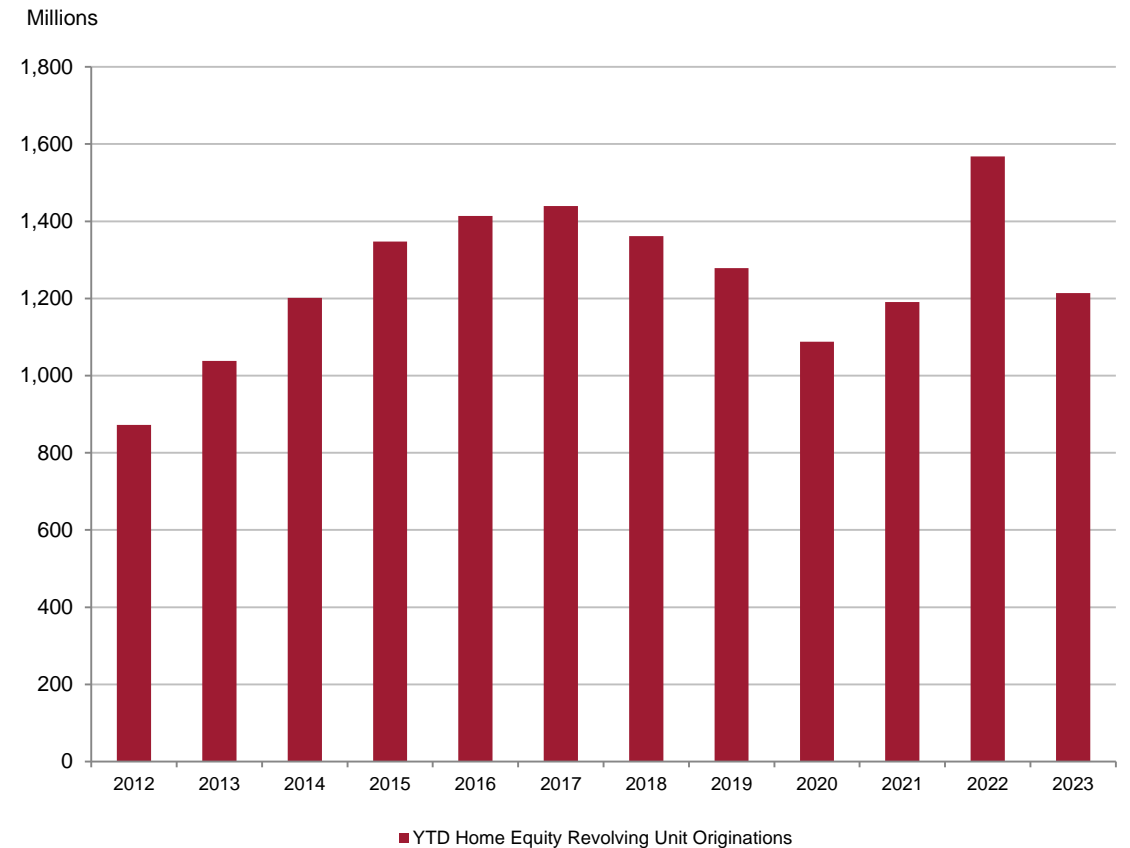
Home Equity Revolving \$ Limit Originations

Total Credit Limits December YTD in \$Billions, NSA



Home Equity Revolving Unit Originations

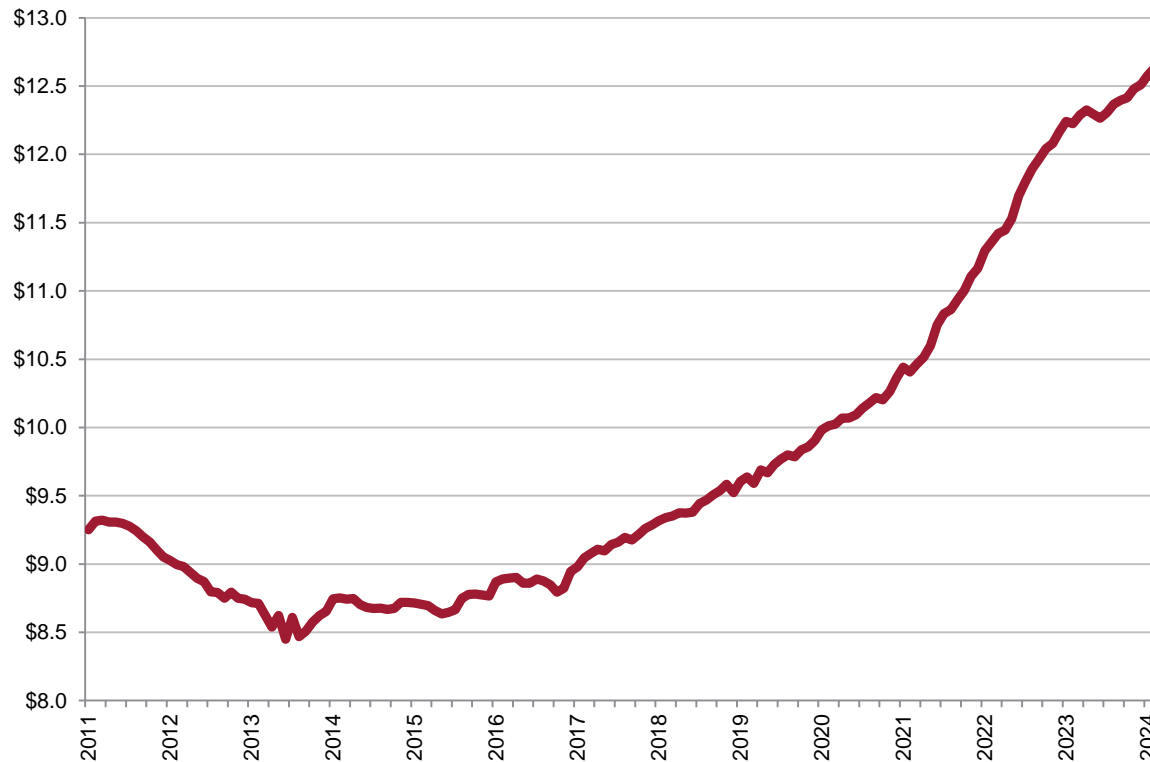
Total # Home Equity Originations December YTD in Thousands, NSA



Mortgage Debt at \$12.5T and increased; Non-Mortgage Debt decreased for the 2nd consecutive month

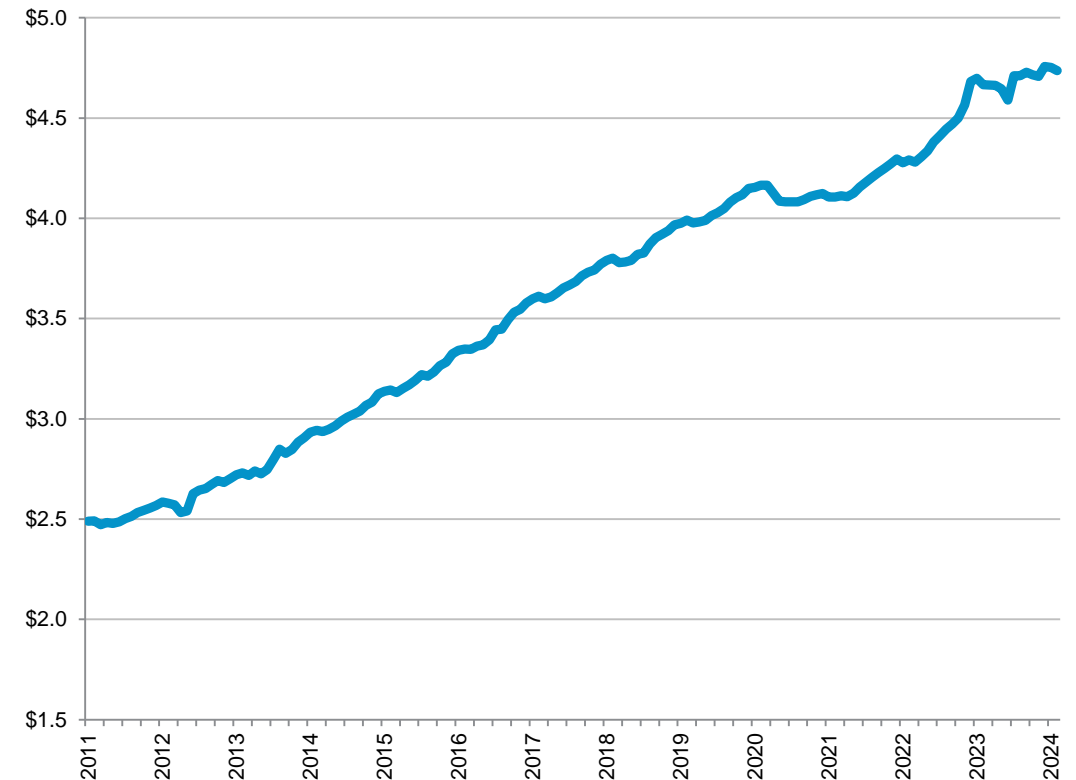
Mortgage Debt

First Mortgage, Home Equity Lines and Loans;
Balances in \$Trillions; NSA



Non-Mortgage Debt

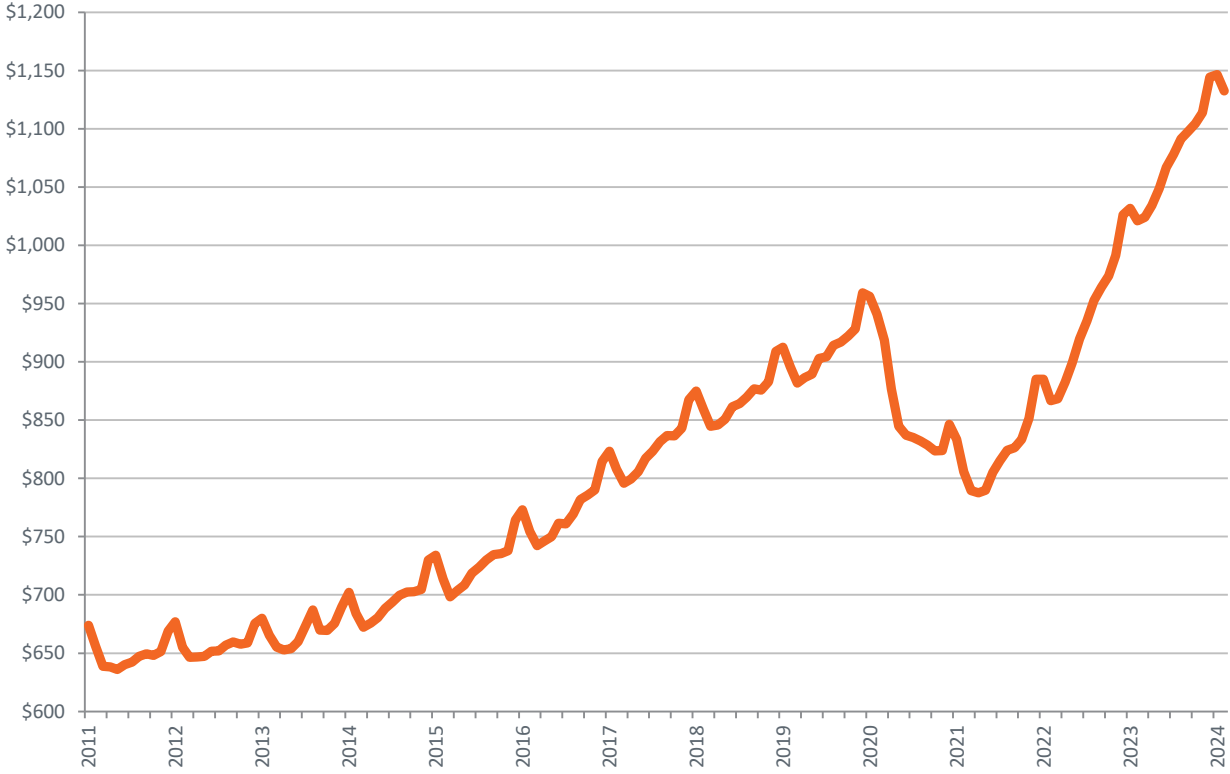
Auto, Bankcard and Private Label Credit Card, Student Loan, Other;
Balances in \$Trillions; NSA



Revolving Debt in February 2024 is at its highest level; Non-Revolving Debt decreased again this month

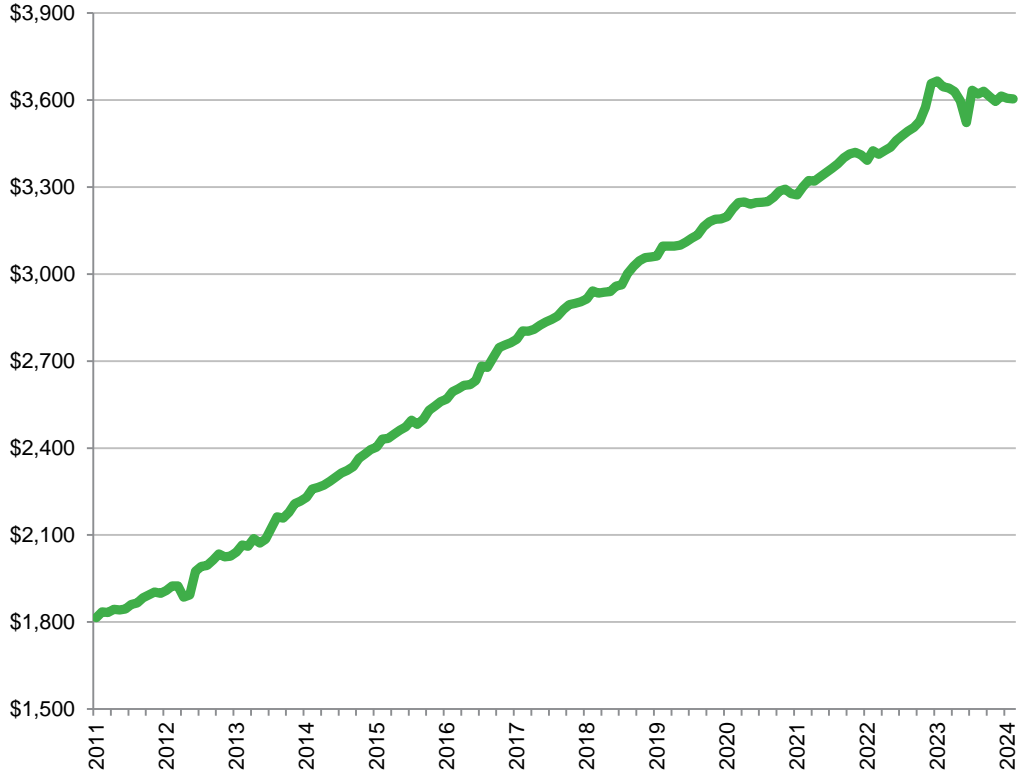
Revolving Debt

Bankcard and Private Label Card;
Balances in \$Billions; NSA



Non-Revolving Debt

Auto, Student Loan, and Other;
Balances in \$Billions; NSA

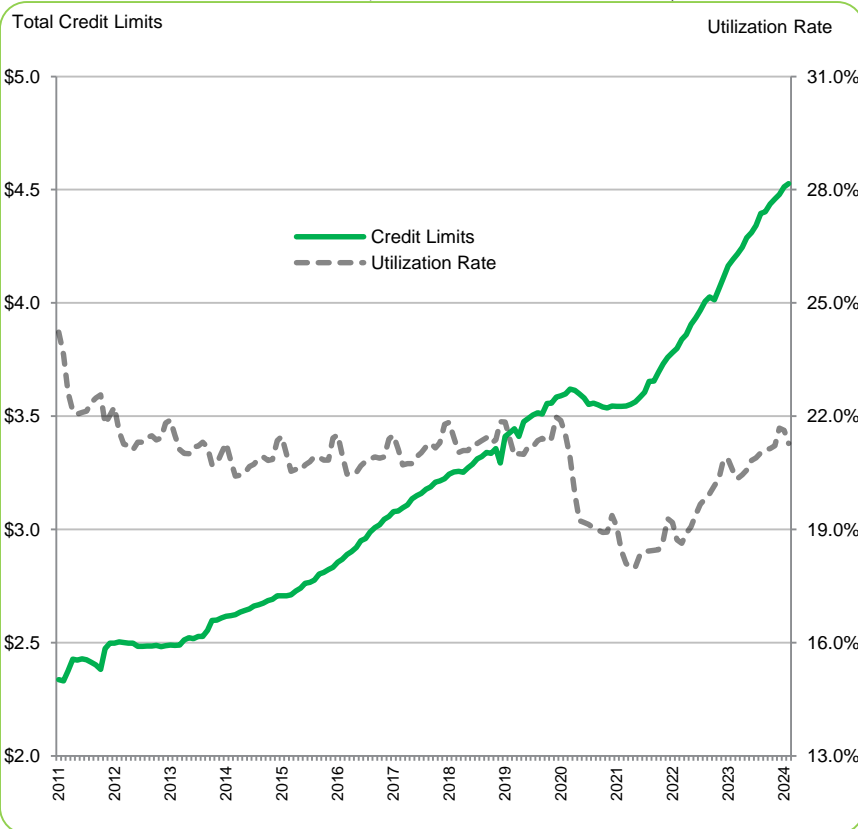


Utilization increased for Bankcard, Private Label Card and Home Equity Lines. Credit Limits have risen for the Bankcard as well as for Home Equity.

Credit Limits and Utilization Rates

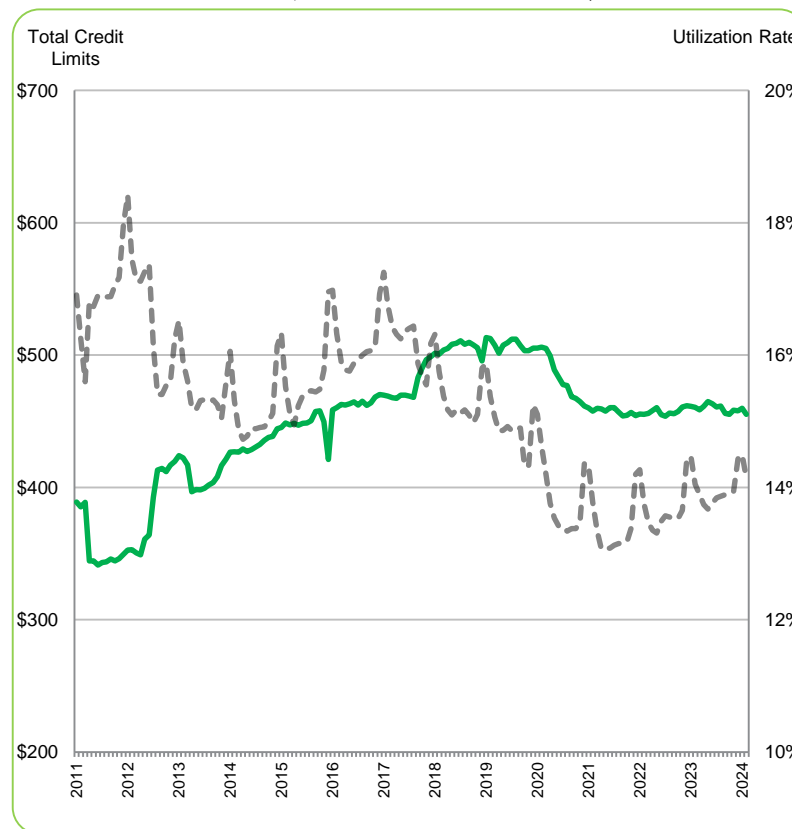
Bankcard

Credit Limits in \$ Trillions and Utilization Rate %; NSA



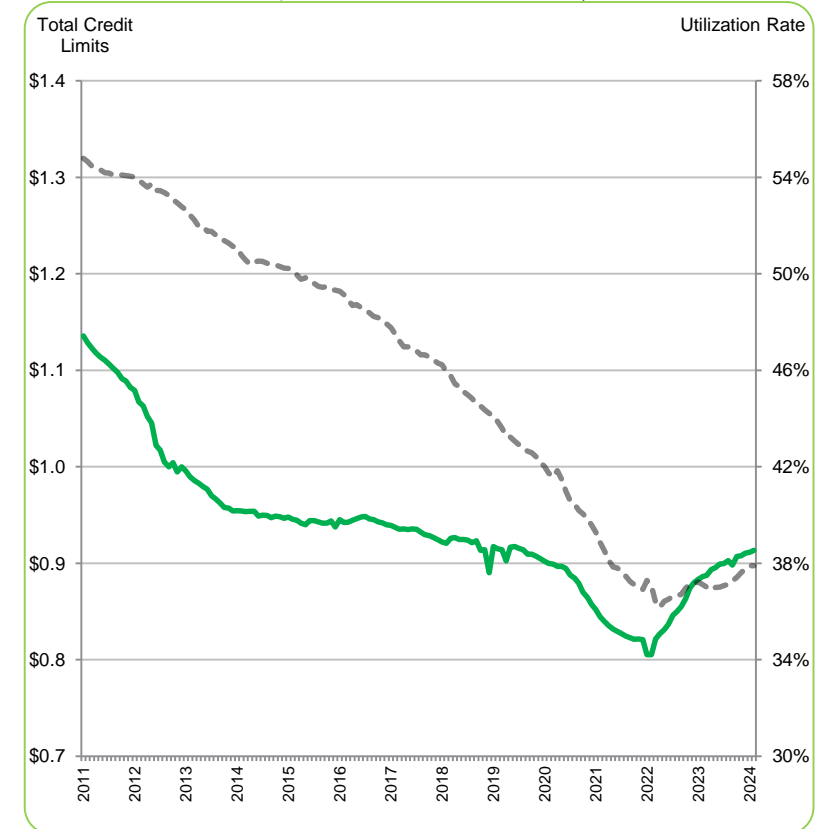
Private Label Card

Credit Limits in \$ Billions and Utilization Rate %; NSA



Revolving Home Equity

Credit Limits in \$ Trillions and Utilization Rate %; NSA



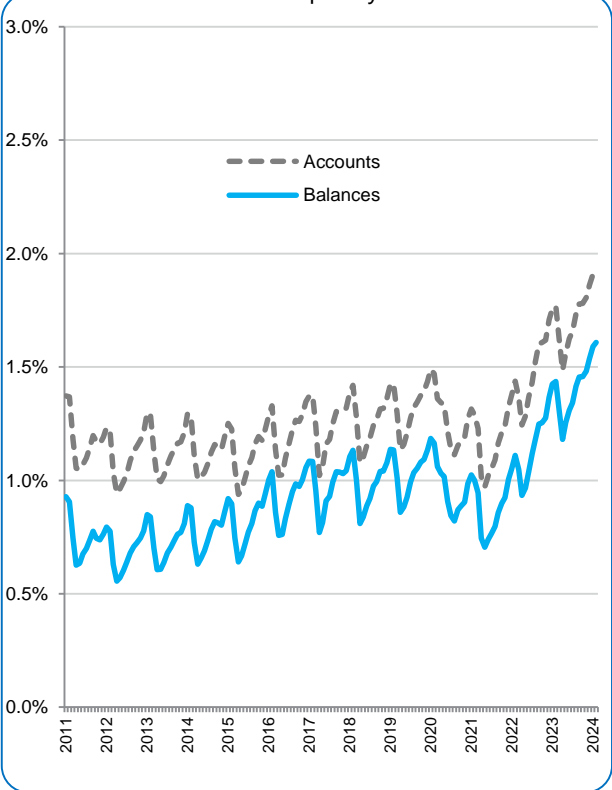
Delinquencies on all of the products shown below rose MoM.

Severe Delinquency Rates

Percentage of Accounts and Balances, Excluding Severe Derogatory, NSA

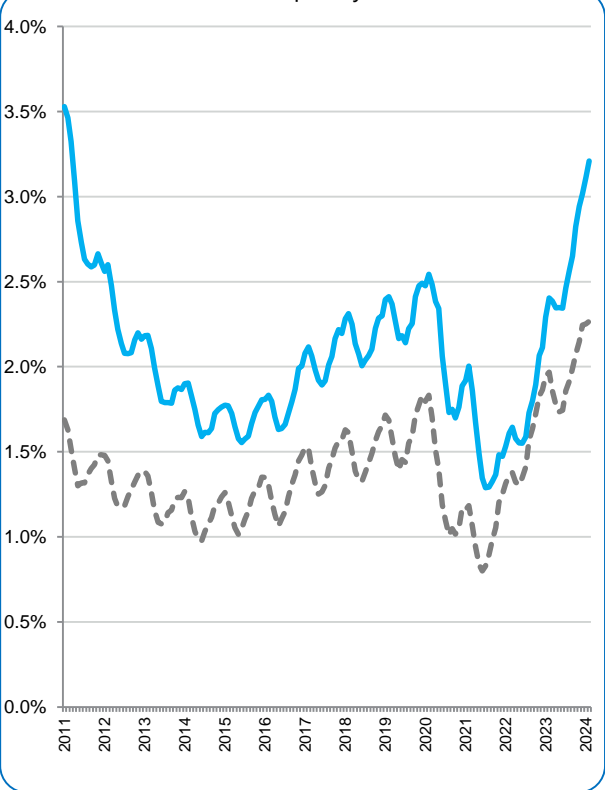
Auto

60+ Delinquency Rate



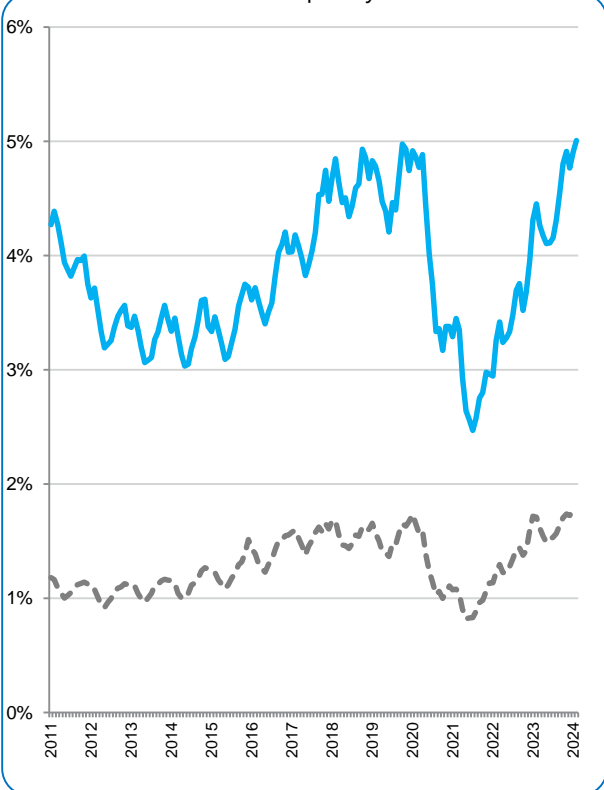
Bankcard

60+ Delinquency Rate



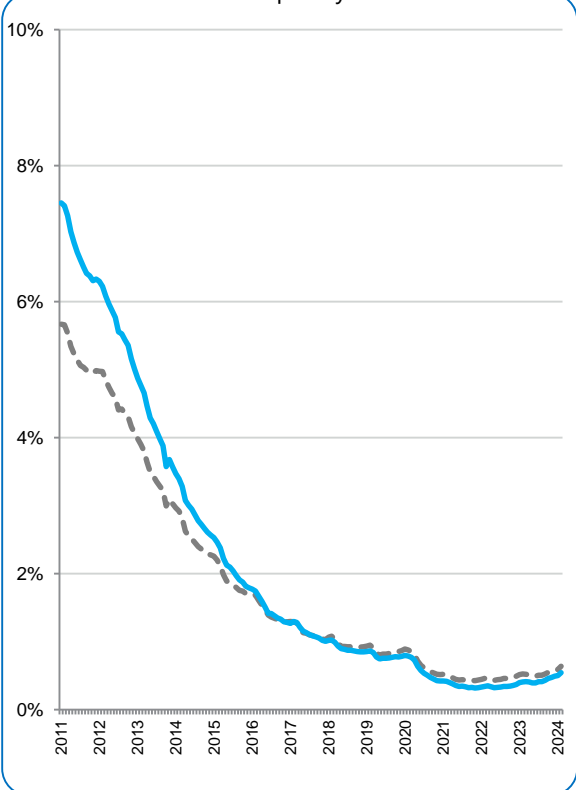
Private Label Card

60+ Delinquency Rate



First Mortgage

90+ Delinquency Rate



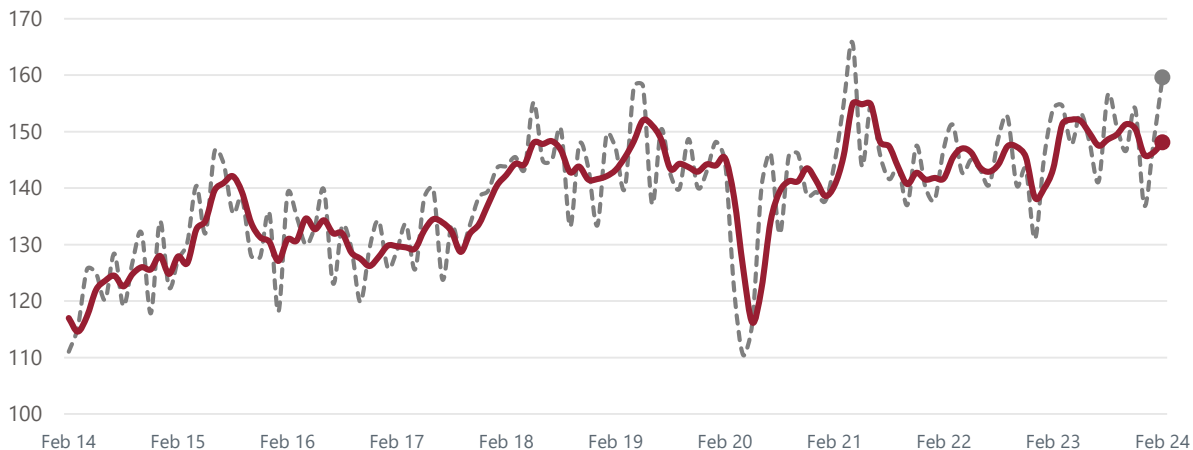
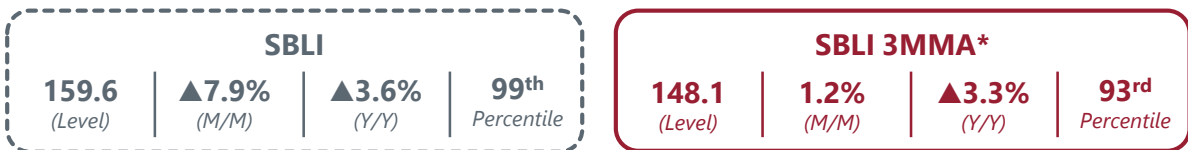


Equifax Main Street Lending Report — April 2024

Key Takeaways

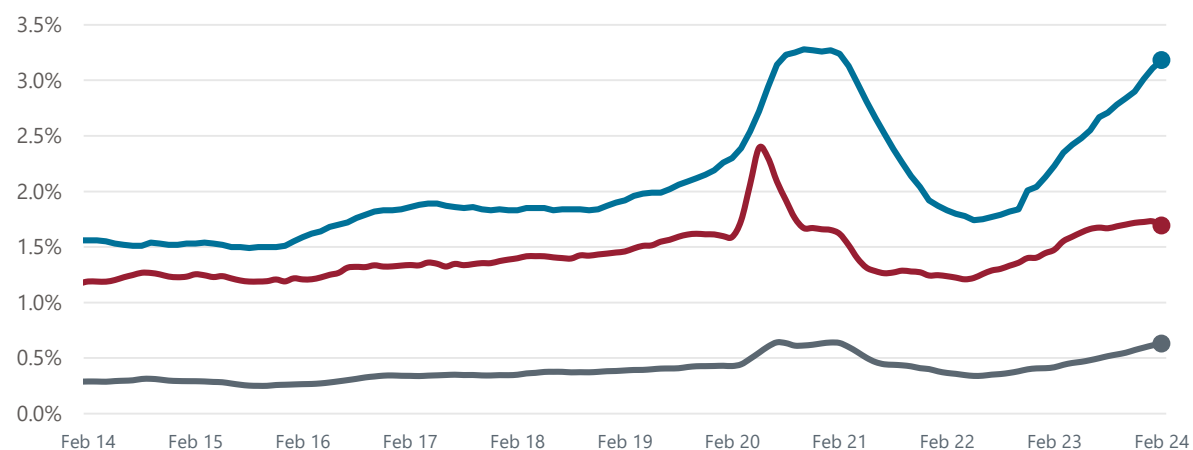
- Nominal small business lending activity increased again in February, with the three-month moving average rising 1.2% from January and 3.3% compared to a year ago. Small business default rates rose in February, but early delinquency rates fell slightly.
- The U.S. economy appears to be on track for a soft landing. The labor market remains robust, inflation-adjusted wage growth is healthy, and consumer demand rebounded after a soft start to the year. Progress on inflation appears to have stalled, however, which remains a key factor to watch for Main Street.

Equifax Small Business Lending Index (SBLI)



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 calculated as a 12-month rolling average

Factors to Watch



Will Consumer Demand Hold Up as Job Growth Cools?

Job growth accelerated in Q1, defying forecasts and driving consumer demand. However, spending may weaken when the labor market slows.



Will Core Inflation Resume Its Downward Trajectory?

Inflation is proving sticky in 2024, and small businesses are under pressure from high debt servicing, wage, and operating costs.



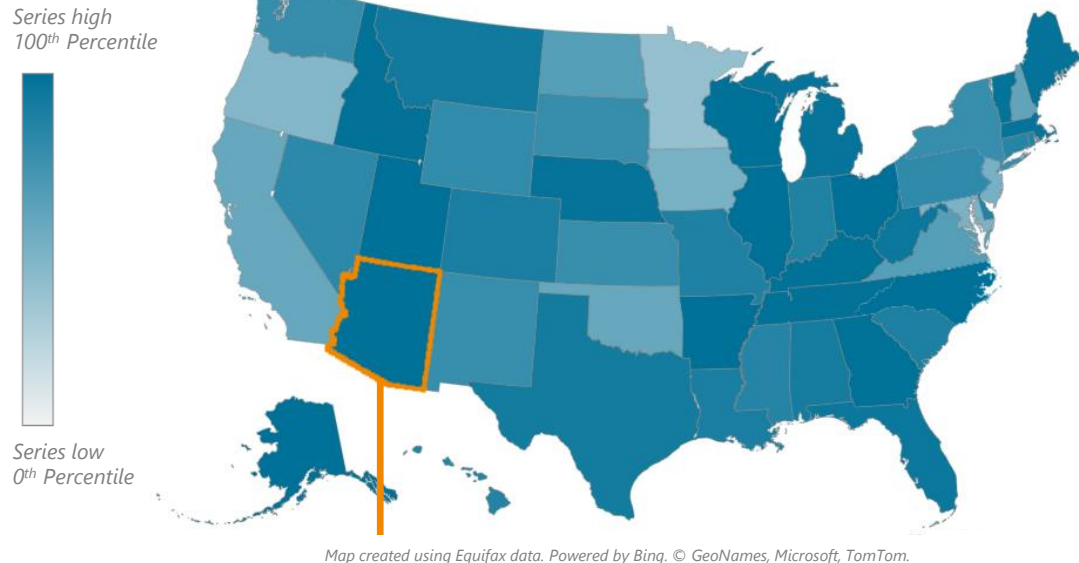
Equifax Main Street Lending Report — April 2024

State & Industry Trends

Regions at a Glance

Eight states reached series-high levels of nominal lending activity in February, including this month's featured state: Arizona (see callout below).

Small Business Lending Index



A

Arizona

Lending	119.1	▲ 1.2% <small>(M/M)</small>	▲ 4.3% <small>(Y/Y)</small>	Series High
Delinquency*	1.67%	▲ 3bps <small>(M/M)</small>	▼ 10bps <small>(Y/Y)</small>	60 th <small>Percentile</small>
Default	3.59%	▲ 1bps <small>(M/M)</small>	▲ 136bps <small>(Y/Y)</small>	78 th <small>Percentile</small>

Industries at a Glance

In February, lending increased slightly for the retail trade and transportation sectors. However, these two industries are also beset by large year-over-year increases in defaults, which are up 125 bps for retail and 404 bps for transportation.



Retail Trade

Lending	106.1	▲ 0.04% <small>(M/M)</small>	▲ 4.6% <small>(Y/Y)</small>	92 nd <small>Percentile</small>
Delinquency*	1.56%	▼ 2bps <small>(M/M)</small>	▲ 18bps <small>(Y/Y)</small>	60 th <small>Percentile</small>
Default	3.19%	▼ 5bps <small>(M/M)</small>	▲ 125bps <small>(Y/Y)</small>	74 th <small>Percentile</small>



Transportation and Warehousing

Lending	102.4	▲ 0.9% <small>(M/M)</small>	▼ 10.7% <small>(Y/Y)</small>	41 st <small>Percentile</small>
Delinquency*	3.16%	▼ 11bps <small>(M/M)</small>	▲ 97bps <small>(Y/Y)</small>	82 nd <small>Percentile</small>
Default	7.31%	▲ 9bps <small>(M/M)</small>	▲ 404bps <small>(Y/Y)</small>	83 rd <small>Percentile</small>

*31-90 Days Delinquent



Audience Poll

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Conquering Commercial Challenges

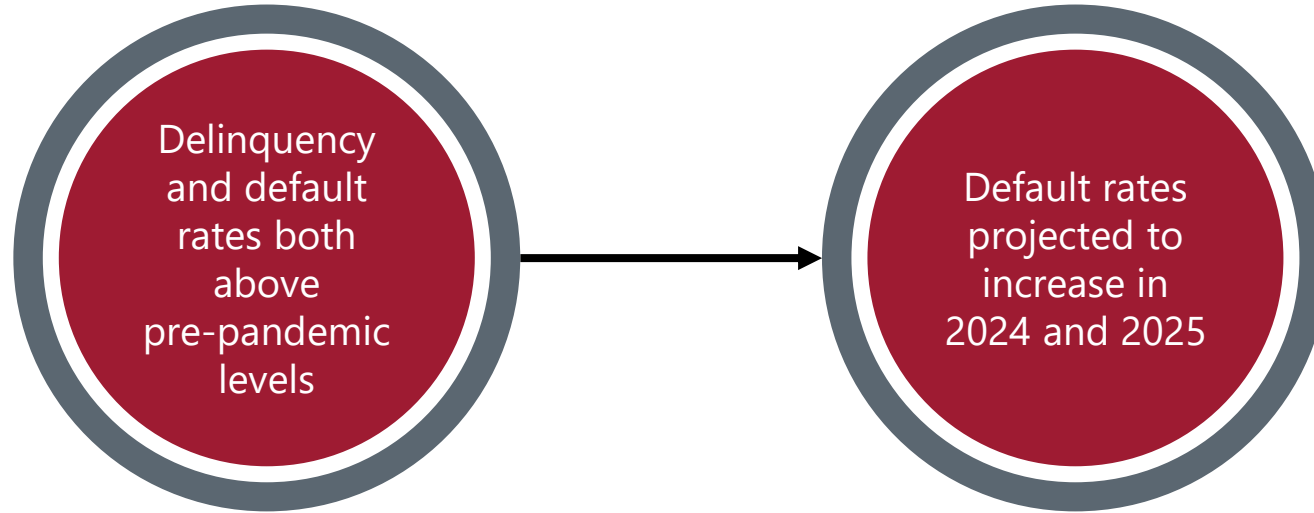


David Adams
Matt Moddelmog
Equifax



Market Pulse

Commercial Insights



- All six industry segments tracked on a delinquency basis are up year-over-year
- Transportation has been hit particularly hard with 31-90% up 45% YoY and 12-mo rolling default rate up 124% YoY
- However, all sectors impacted: Retail default rate up 64% YoY, Professional Services up 23% YoY

- Default rates are projected to increase to 4.4% in 2024 and 5.5% in 2025
- Multiple industry sectors are projected to have default rates in 2024 higher than 5% such as Transportation, Accommodations and Construction



5M+

**number of new
businesses created every
year since 2021.**

Source: Small Business Administration ([Link to Article](#))



21%

Percentage of small business owners started new businesses.

Source: Business.com Data ([Link to Article](#))

60%

**estimated amount of losses to
small businesses that are never
recovered**

Source: Florida Atlantic ([Link to Article](#))





\$200B+

**Is the estimated amount of
funds stolen by fraudsters
between 2020 and 2022 from
federal aid**

Source: NBC News ([Link to Article](#))

A nighttime photograph of a city skyline with numerous lit-up buildings against a dark blue and purple sky. The foreground shows a dense residential or commercial area with many windows and balconies, some of which are illuminated.

2.9% ±

**Current default rate for
small businesses.**

Source: Equifax Small Business Indices ([Link to Report](#))

Actual and Predicted Default Rates

FROM SBDFI AND ABSOLUTE[®]

Industry Segment	Actual Historical Default Rates						Forecast Default Rates	
	2018	2019	2020	2021	2022	2023	2024	2025
Transportation	3.0%	4.9%	4.8%	2.0%	2.4%	6.7%	9.0%	9.0%
Information	3.9%	3.4%	6.0%	3.7%	3.3%	4.9%	6.2%	7.5%
Accommodation and Food	2.6%	3.4%	7.0%	3.2%	2.4%	3.8%	6.0%	5.5%
Health Care	2.1%	2.1%	3.8%	2.0%	2.3%	3.2%	4.4%	4.0%
Retail	1.7%	2.4%	3.2%	1.7%	1.7%	3.2%	4.1%	4.9%
Manufacturing	1.8%	2.3%	3.4%	2.1%	2.0%	3.2%	4.2%	5.5%
Construction	2.1%	2.5%	2.8%	1.9%	2.2%	3.1%	5.0%	8.0%
Finance	1.4%	1.8%	2.5%	1.7%	2.2%	3.0%	3.9%	5.0%
Professional Services	1.7%	2.1%	3.1%	2.2%	2.3%	2.9%	4.1%	5.3%
Administrative Services	2.1%	2.3%	3.2%	1.9%	2.0%	2.8%	4.9%	6.3%
Other Services	1.6%	1.8%	2.6%	1.5%	1.8%	2.6%	4.0%	4.8%
Real Estate	1.6%	1.7%	2.6%	1.6%	1.7%	2.5%	4.2%	5.9%
Agriculture	2.1%	2.1%	3.0%	2.0%	1.9%	2.3%	2.9%	3.5%
Mining	2.5%	1.8%	3.5%	1.8%	1.4%	2.1%	3.7%	6.1%
Education	0.8%	1.1%	2.3%	1.2%	1.7%	1.9%	5.1%	6.8%
Wholesale	1.7%	1.7%	2.6%	1.5%	1.4%	1.8%	3.5%	4.5%
Entertainment	1.0%	1.6%	2.8%	1.2%	0.8%	1.5%	3.4%	3.4%
All Industries	1.9%	2.2%	3.3%	1.9%	2.0%	3.0%	4.4%	5.5%



The Front Line of Defense...

...Evaluate business customers and suppliers

No matter the current market,
there's always risk of duplicitous businesses...

Money laundering, corruption, and counter-terrorist financing are only a few of the potential risks of working with a new business

Assessing **business ownership** that can change quickly

Determining if **ownership and control** sits outside the published organization structure is not always clear

Accessing and verifying up-to-date data can be difficult even under ideal conditions

Meeting **regulatory compliance**, as applicable, that can vary globally for anti-money laundering and counter-terrorism

But you still need to **know who you're doing business with:**



Review company background

Limit your exposure by checking the basic company information and ensure it matches a legitimate business.



Maintain regulatory compliance

Ensure you're following applicable government regulations and performing the Office of Foreign Assets Control (OFAC) screening as required.



Know the principal

Confirm the business owner is who they say they are and avoid the risk of hidden influences and parties

The appetite to lend to SMBs remains strong . . .

82%

One-employee SMB

Making SMB credit intertwined with that of the owner



38%

SMB fail rate due to running out of capital

Access to capital is critical, even if the SMB has a thin credit file



\$26B

2022 SBA loan amount to SMBs

Indicating a substantial opportunity for lending if the risk is right



Tap into a holistic view of businesses



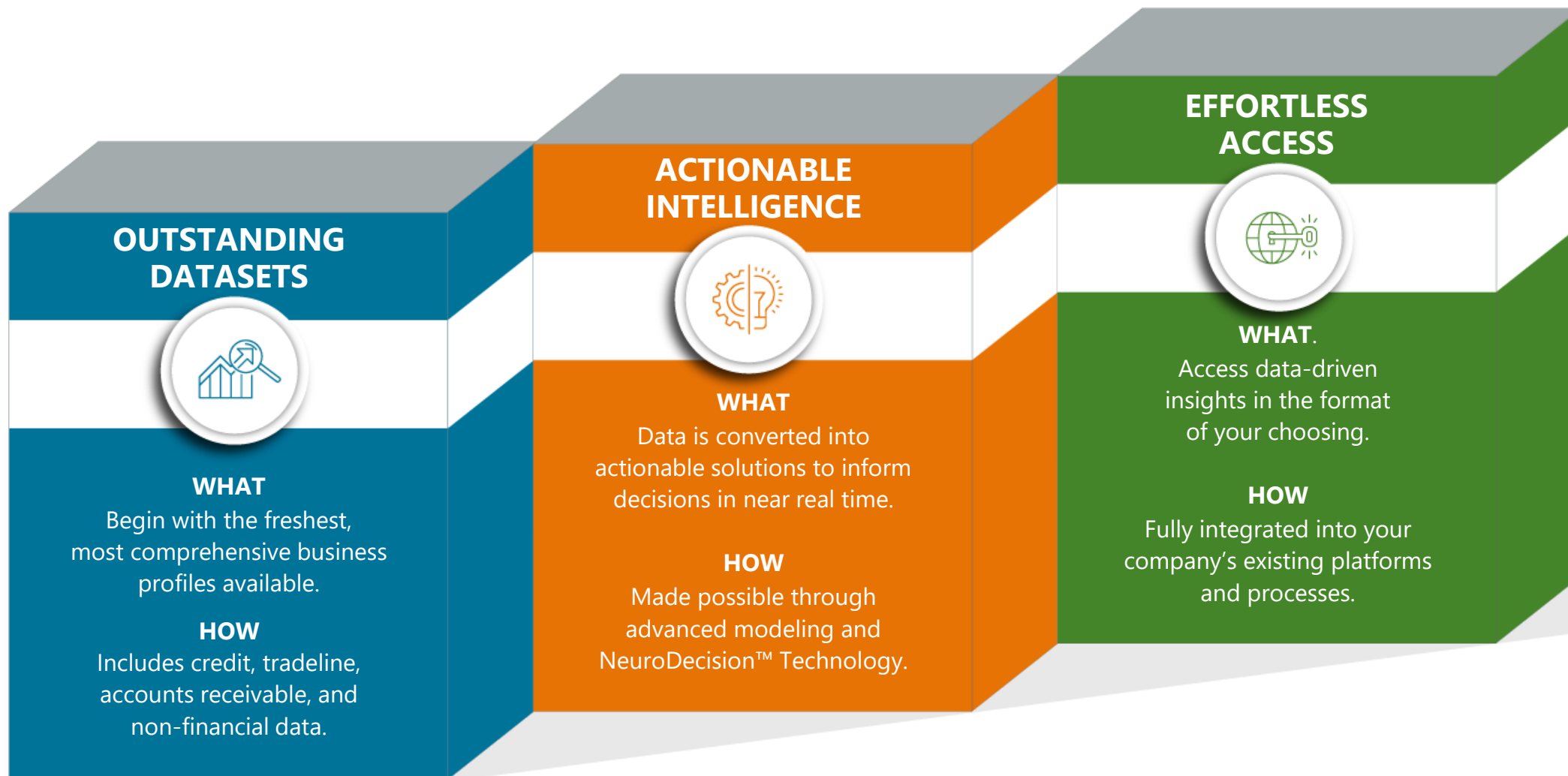
Traditional and non-traditional business data is the bread and butter of making more informed decisions across the customer journey.



HIGH-IMPACT DATA



While multi-data solutions change the game, actionable and accessible data wins the championship.





Q&A

Market Pulse

Focus on Forward



Turn insights into action

- All Equifax data and insights presented today come from the Equifax Consumer Credit Trends reports and the Main Street Lending Report, which are available at **[equifax.com/marketpulse](https://www.equifax.com/marketpulse)**
- Ensure you have the optimal tools to evaluate and verify customers and suppliers.
- Go beyond traditional scores with deeper insights on payment histories and financial behaviors

To learn how to leverage data and analytics for your unique needs, contact the Equifax Risk Advisory Team — **riskadvisors@equifax.com**



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- Register for the May 16 webinar
- Download our monthly Main Street Lending Report
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