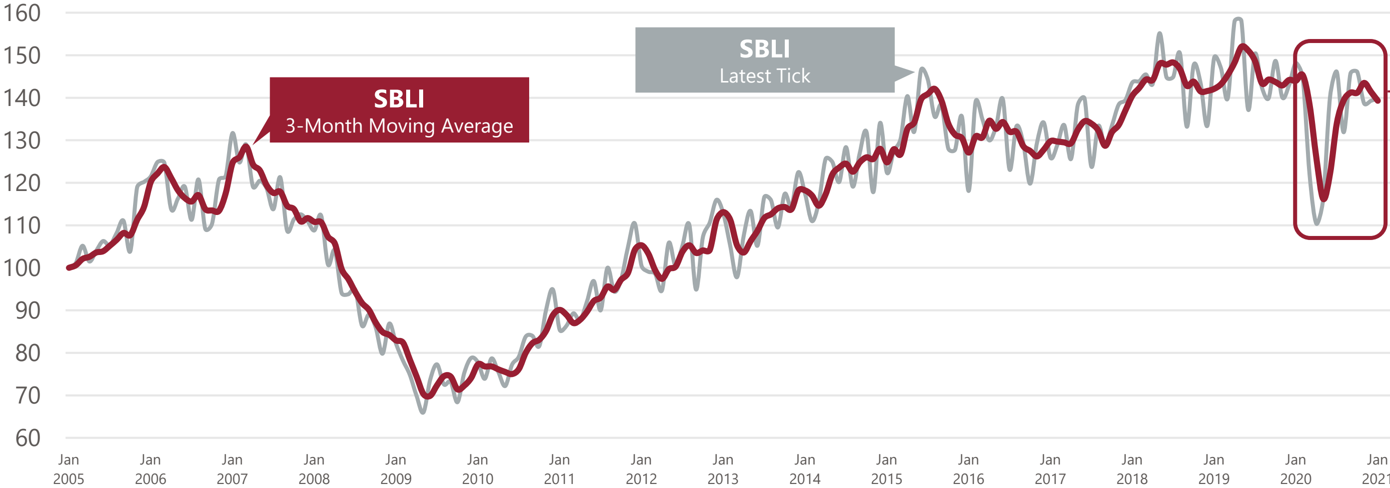
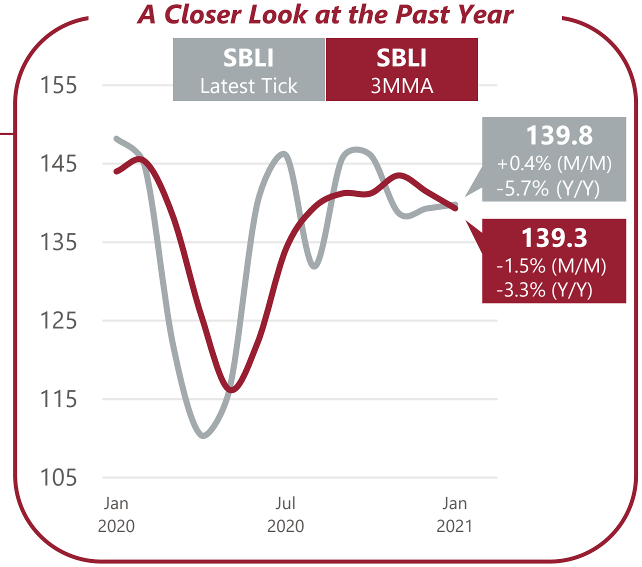
Small Business Lending Sluggish to Begin New Year

Equifax Small Business Lending Index (SBLI)*



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



Index Analysis

In January 2021, the Equifax Small Business Lending Index (SBLI) inched up 0.5 point to 139.8 (+0.4%) but was 5.7% below its level from a year ago. Meanwhile, the SBLI 3-month moving average slipped 1.5% to 139.3, 3.3% below its year-ago level.

Regional Story: Lending activity declined in eight of the ten largest states in January including Michigan (-1.6% M/M), Texas (-1.5% M/M), New York (-1.5% M/M), and Georgia (-1.1% M/M). In contrast, loan activity picked up slightly in Ohio (+0.5% M/M) and Pennsylvania (+0.2% M/M). Measured on an annual basis, there was little change from the month prior as all ten of the largest states continued to show negative growth for the 10th straight month. Since January 2020, the largest declines have occurred in New York (-15.7% Y/Y), Pennsylvania (-12.9% Y/Y), and California (-9.1% Y/Y), while Illinois (-3.8% Y/Y) and Georgia (-1.2% Y/Y) have fared slightly better.

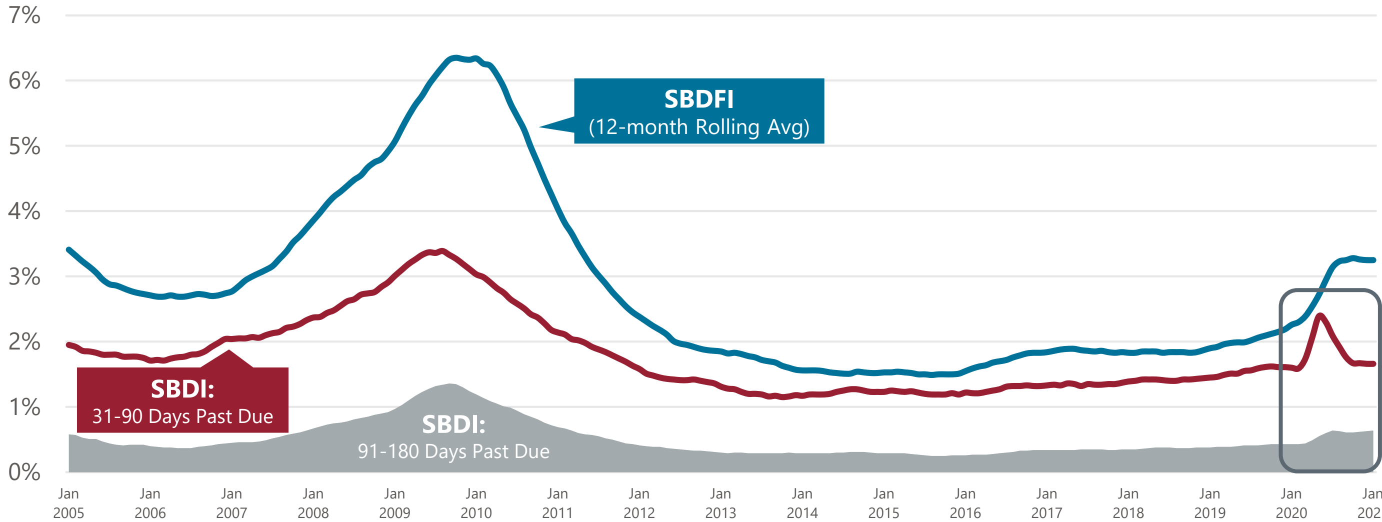
Industry Story: In January, lending improved in just three of eighteen industries, including Agriculture (+0.2% M/M) and Construction (+0.1% M/M). However, large declines were seen in many industries including Accommodations (-4.8% M/M), Arts & Recreation (-4.7% M/M), and Finance & Insurance (-3.4% M/M). Measured on a year-on-year basis, four industries have seen lending improve: Agriculture (+10.5% Y/Y), Construction (+9.1% Y/Y), Public Administration (+4.6% Y/Y), and Administrative and Support and Waste Management Services (+3.5% Y/Y). In contrast, the lending environment remains weak for Accommodations (-32.3% Y/Y), Arts & Recreation (-29.0% Y/Y), and Professional Services (-17.9% Y/Y; all-time low).

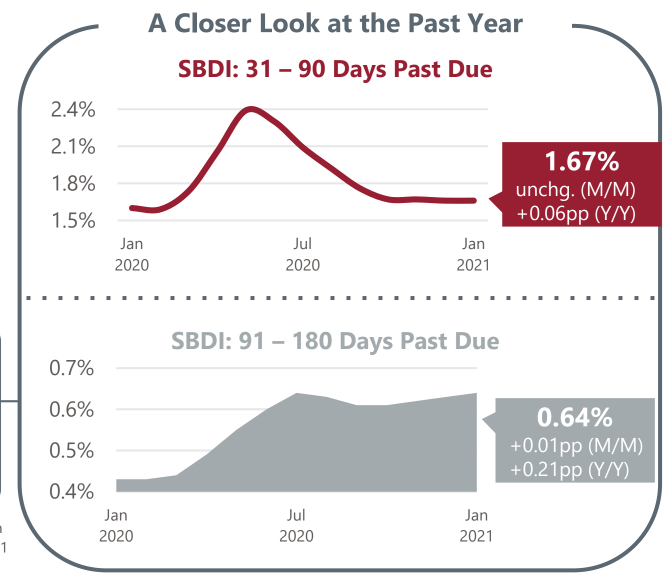
Economic Context

While small business lending activity was flat to begin the new year, the core economic story driving the Main Street outlook in January was the $900 billion relief bill passed in December. Much like the CARES Act, the bill had a massive impact on household balance sheets, driving the second largest monthly increase (+10%) in personal income on record. Much of this new income was spent in January: personal consumption expenditures increased for the first time since October while card transaction data showed average monthly retail spending jumping to 9% above the pre-COVID baseline in January. This coincided with small business revenues reaching their highest levels since November, according to Opportunity Insights data. Further, an NFIB survey conducted in the final week of January found there were more small businesses reporting revenues above pre-COVID levels (20%) than there were those reporting revenues less than half of pre-COVID levels (15%) — the first time this has occurred during the pandemic era. However, the impact of the stimulus appears to be waning, as both card transactions and small business revenue have fallen back toward pre-relief bill levels. Temporary support can keep businesses and households afloat, but as Congress debates another relief package, it is important to bear in mind that a sustained, full economic recovery for the small business sector largely depends on the success of the national vaccination effort, which will provide businesses and consumers with the confidence necessary for a return to normal levels of economic activity.

Financial Stress Plateaus; Main Street Continues to Ride Out Storm

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 was unchanged in January, 6bp above its year ago level. The index has moved just 1bp since October. The SBDI 91–180 Days Past Due ticked up 1bp and is 21bp above its year-ago level. Defaults were unchanged from the prior month at 3.25% and are 99bp above year-ago levels.

Regional Story: After declining across the board from July-October, delinquencies rose in most of the largest states for the third straight month in January. Georgia (+15bp M/M), Florida (+14bp M/M), and North Carolina (+10bp M/M) experienced sizable increases, while Illinois ticked down (-3bp M/M). Compared to a year ago, just North Carolina (-18bp Y/Y) and Florida (-2bp Y/Y) have seen delinquencies decline. Meanwhile, defaults declined in five of the ten largest states including the first decline in New York (-7bp M/M; +229bp Y/Y) in over a year. In contrast, Illinois (+11bp M/M; +110bp Y/Y), Pennsylvania (+1bp M/M; +78bp Y/Y), and North Carolina (+12bp M/M; +56bp Y/Y) rose to their highest levels in nearly a decade.

Industry Story: In January, delinquencies declined in four of six industries. While Construction (+3bp M/M; -31bp Y/Y) and General (+2bp M/M; +10bp Y/Y) ticked up, Retail (-7bp M/M; +64bp Y/Y) and Health Care (-6bp M/M; +20bp Y/Y) fell to their lowest levels of the pandemic. Compared to a year ago, the decline in Transportation delinquencies (-8bp M/M; -91bp Y/Y) has vastly outpaced every other tracked industry. Regarding defaults, the story is a bit murkier as 11 of 18 industries experienced increases including Accommodations (+24bp M/M; +373bp Y/Y) and Mining (+28bp M/M; +213bp Y/Y), while Agriculture (+6bp M/M; +94bp Y/Y) hit an all-time high. In contrast, Transportation (-28bp M/M; -63bp Y/Y; only industry with year-on-year declines) and Real Estate (-9bp M/M; +65bp Y/Y) experienced sharp improvements.

Economic Context

The SBDI and SBDFI remained flat in January, continuing the recent trend of stable financial stress. Though partly a positive story, defaults remain elevated (+99bp Y/Y) and are concentrated in the industries most impacted by the pandemic. In response, the Biden administration has revised the PPP process and its new COVID relief proposal includes tens of billions more for high-risk industries. These actions come at a time where traditional lending channels remain less accessible than they were before the pandemic: the Q1 2021 Fed Senior Loan Officer Survey found that on balance, banks tightened standards on small business loans, with a higher net share reporting tighter standards (11.4%) than any pre-COVID level since Q4 2009. Further, according to the Census Bureau's Small Business Pulse Survey, as of mid-February nearly one-in-four small businesses reported that they would need to obtain financial assistance or additional capital in the next six months. Though this is an improvement from late-2020 levels, it illustrates how a significant share of small firms are still struggling to stay afloat. As such, the topping-off of the PPP and the potential for further assistance in the next relief package should be welcome developments for Main Street, as they offer a bridge to the summer/fall, when widespread vaccination could allow for a return to quasi-normal operating conditions.