



Market Pulse



Main Street Lending Report

July 2024



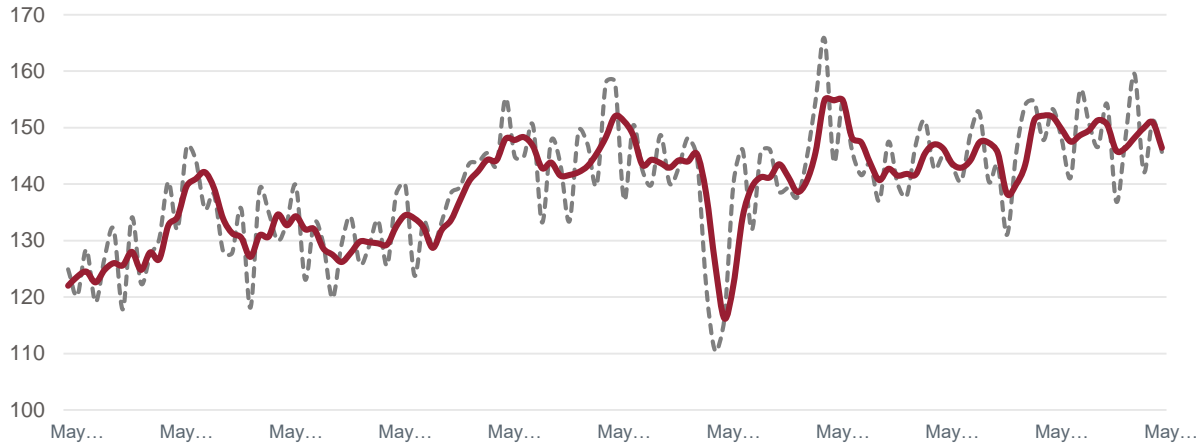
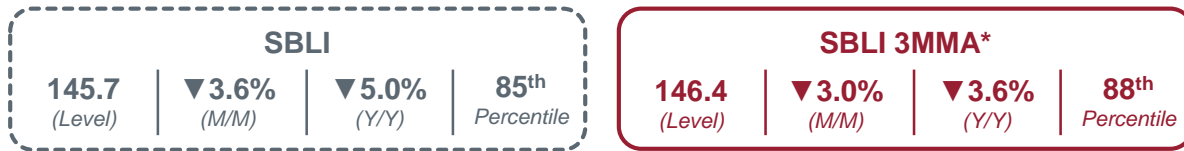
Equifax Main Street Lending Report — July 2024

Summary for Executives

Key Takeaways

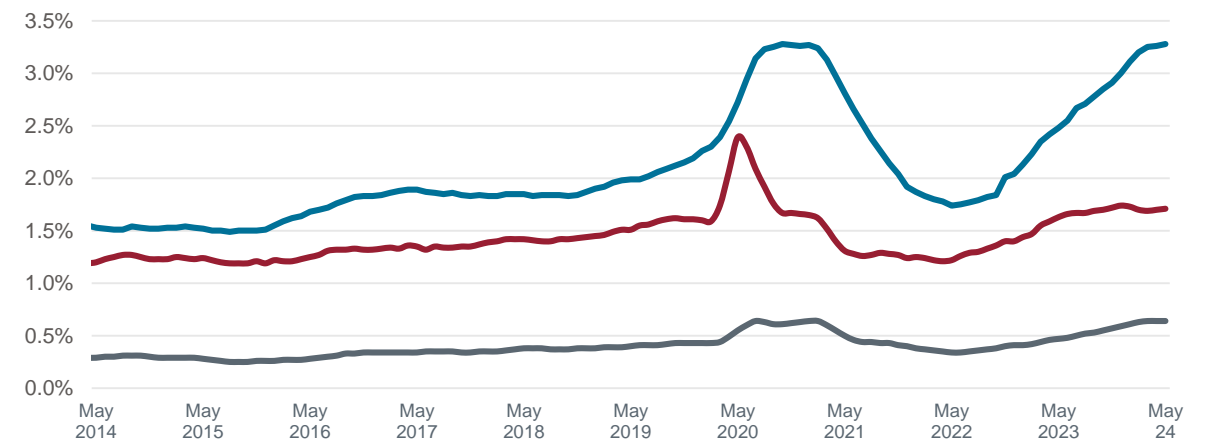
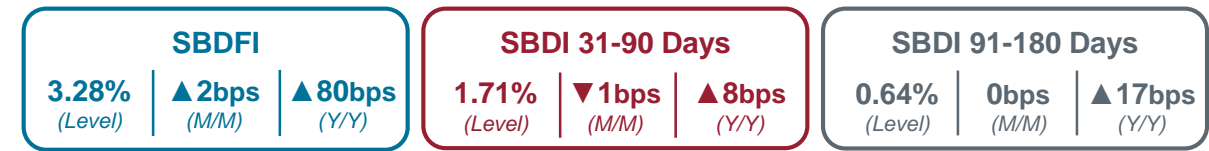
- Nominal small business lending activity declined in May (-3.6% M/M, -5.0% Y/Y), while the three-month moving average also fell. Recent softness in Equifax's data reflect higher borrowing costs as well as weak real disposable income growth, which has caused consumer spending to slow and small business owners to exercise more caution.
- At the same time, inflation data over the last three months has been encouraging, and the prospect of multiple rate cuts over the second half of the year looks increasingly likely, with the first cut coming as early as September. Lower rates should encourage additional small business borrowing and, over time, help to ease financial stress.

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



High Costs and Waning Demand Strains Main Street

Weak consumer demand may require small business owners to lower prices, which is difficult to do given that cost pressures remain elevated.



Inflation Cools Again; Rate Cuts on the Horizon

With headline inflation falling below 2% on an annualized basis over the last three months, multiple rate cuts this year are back on the table.



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Economic Trends

Economic Context

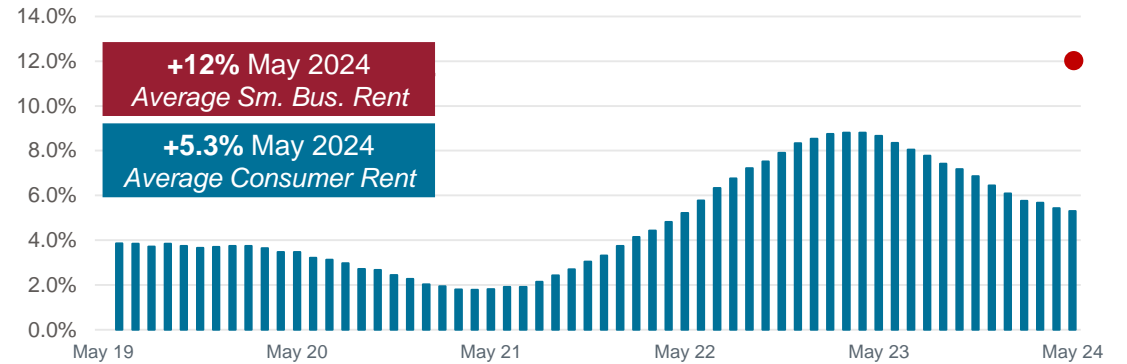
With overall economic growth softening in recent months, the business climate for Main Street businesses is mixed:

- On the positive side, inflation is clearly on the decline: after a very positive report for June, the headline Consumer Price Index (CPI) has increased at just a 1.1% annualized rate over the last three months, while core inflation (which excludes volatile food and energy categories) is up 2.1% annualized. The Fed's undeniable progress in reining in price growth has significantly increased the probability of an interest rate hike later this summer: indeed, the market-implied probability of a September rate cut is 85% as of mid-July, and the likelihood that the Fed will cut rates at least twice by the end of the year are currently above 90%. While reducing interest rates by 25–50 basis points won't necessarily open the floodgates to new small business lending, it may be enough to nudge some business owners off the sidelines over time.
- At the same time, reduced consumer spending activity has put additional pressure on small business financial health. As Equifax reported last month, real disposable income growth has slowed to around 1% over the last 12 months, compared to 2.7% during the five-year period preceding the pandemic. Given the strong correlation between disposable income and consumer spending, it is no surprise that many households are tightening their belts. Many larger retailers are responding to the spending slowdown by offering deeper price discounts, and while some small businesses may follow suit, others have less flexibility to lower prices unless they can find ways to cut costs. Unfortunately, one of the largest costs that most small businesses have is increasing rapidly: rent. Per the Bank of America Institute, the average small business rent payment increased 12% Y/Y in May (see top chart), more than double the increase in household shelter costs. Not surprisingly, some small firms are having a difficult time keeping up with ballooning expenses: according to Alignable, the share of small business owners who are unable to pay rent in full and on time rose to 46% in May, just three points shy of the pandemic-era high of 49% reached in early 2021.

One industry that is worth watching is transportation, particularly trucking. The pandemic brought a large increase in demand for trucking as consumers ramped up purchases on household goods, but the normalization in spending patterns led to a “freight recession” and corresponding sharp rise in financial stress. Indeed, per Equifax, the current delinquency rate for small transportation firms is nearly double the overall rate, while the industry default rate is at its highest level since late 2010 (see bottom chart).

Small Business Rent Inflation Comes in Higher than Consumer Avg.

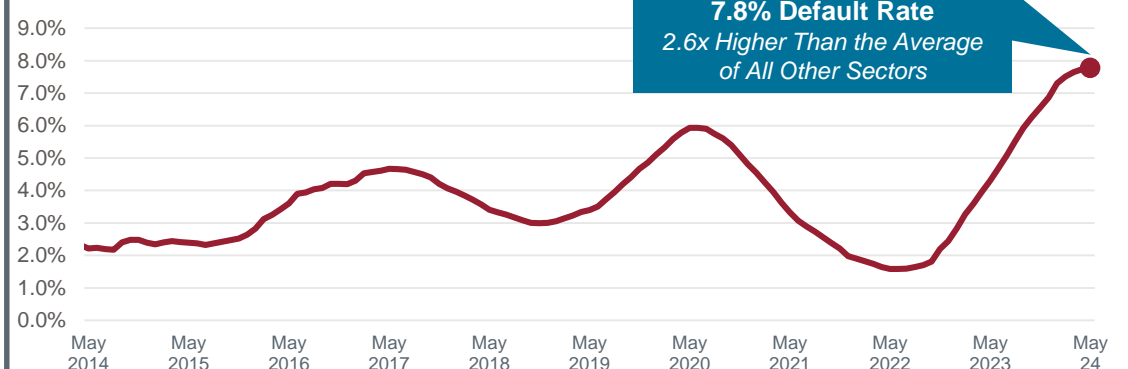
Y/Y percent change in small business rent (dot) and consumer rent of primary residence (bars)



Source: U.S. Bureau of Economic Analysis; Bank of America Institute.

Small Business Default Index for Trucking/Transportation Industry

Default rate, percent



Source: Equifax



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State & Industry Trends

Regions at a Glance

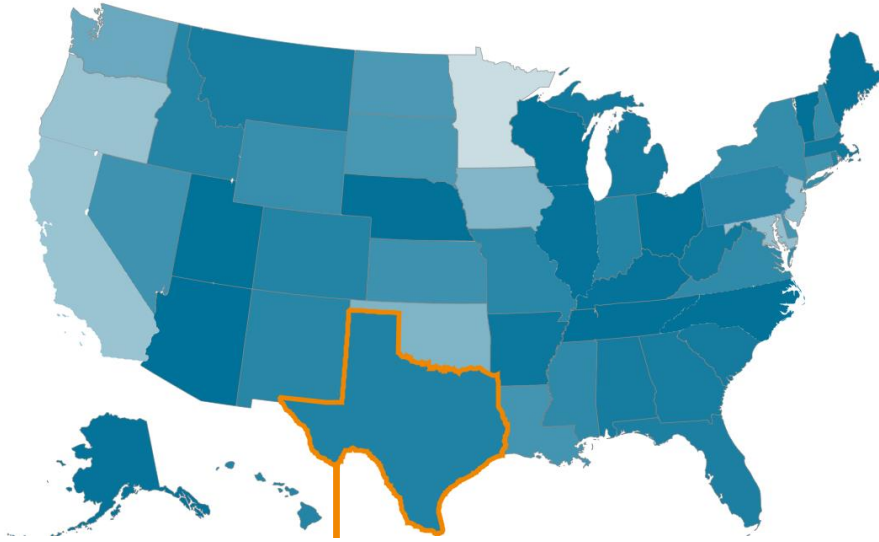
In May, small business lending activity weakened in several states, including in this month's featured state, Texas, where lending fell to its lowest since December 2021.

Small Business Lending Index

Series high
100th Percentile



Series low
0th Percentile



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

	Lending	140.1	▼ 0.6% (M/M)	▼ 3.3% (Y/Y)	86 th Percentile
	Delinquency*	1.93%	▼ 8bps (M/M)	▲ 16bps (Y/Y)	69 th Percentile
	Default	4.08%	▼ 5bps (M/M)	▲ 74bps (Y/Y)	82 nd Percentile

*31-90 Days Delinquent

Industries at a Glance

In July, defaults in the transportation & warehousing sector hit their highest level since 2010, while lending weakened. In the retail sector, delinquencies are also on the rise but remain lower than most other industries.



Retail Trade

Lending	104.7	▼ 1.6% (M/M)	▼ 1.1% (Y/Y)	90 th Percentile
Delinquency*	1.56%	▼ 1bps (M/M)	▲ 5bps (Y/Y)	59 th Percentile
Default	3.43%	▲ 3bps (M/M)	▲ 109bps (Y/Y)	80 th Percentile



Transportation & Warehousing

Lending	99.5	▼ 1.7% (M/M)	▼ 10.0% (Y/Y)	39 th Percentile
Delinquency*	3.15%	▲ 4bps (M/M)	▲ 63bps (Y/Y)	81 st Percentile
Default	7.78%	▲ 4bps (M/M)	▲ 347ps (Y/Y)	84 th Percentile

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