

Small Business Lending Flying High

Thomson Reuters / PayNet Small Business Lending Index (SBLI)*



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

A Closer Look at the Past Year



Index Analysis

The Thomson Reuters / PayNet Small Business Lending Index (SBLI) jumped 15.1 points to 148.2 in October, mostly offsetting the sharp decline seen in September and climbing to its third-highest reading ever. On an annual basis, the SBLI rose 11%. The SBLI 3-month moving average edged up in October and is up 9.1% year-over-year.

Regional Story: In October, lending increased across all ten of the largest states on an annual basis for the eighth consecutive month. Lending levels climbed to all-time highs in Illinois (+12.6% Y/Y), Texas (+12.0% Y/Y), Michigan (+11.4% Y/Y), and Pennsylvania (+8.9% Y/Y). Meanwhile, Florida posted its second straight double-digit gain on an annual basis (+10.2% Y/Y), while California (+3.8% Y/Y) saw its strongest year-over-year growth since February 2016.

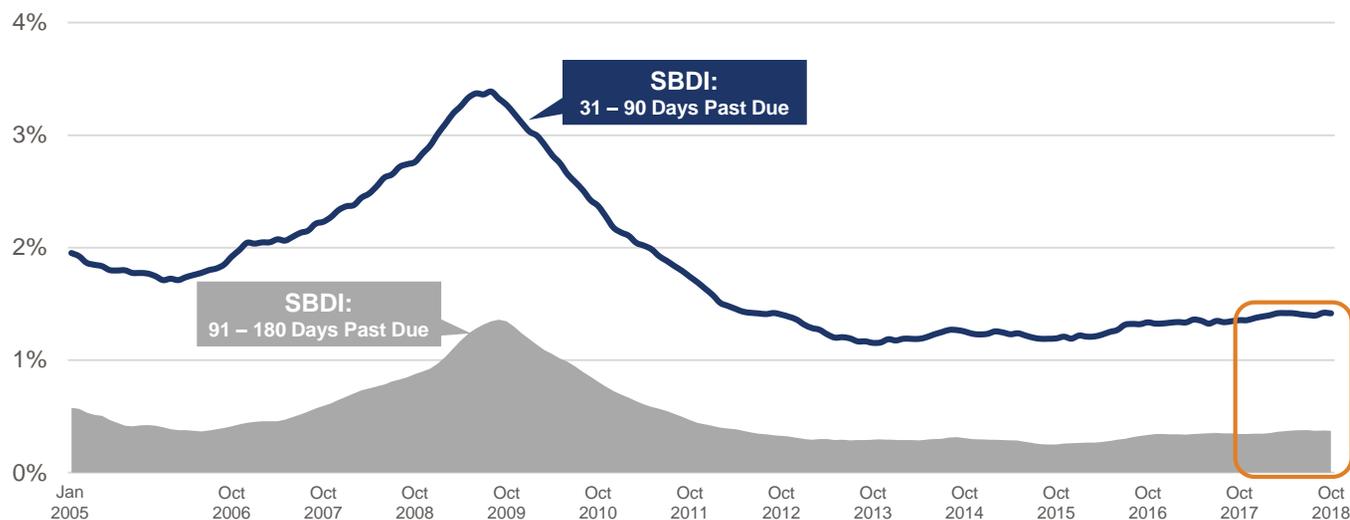
Industry Story: Most industries experienced lending growth on an annual basis in October, led by Transportation & Warehousing (+21.3% Y/Y), Mining (+16.0% Y/Y), and Construction (+7.2% Y/Y). Lending reached an all-time high in two industries: Transportation & Warehousing and Arts, Entertainment, & Recreation. However, weakness persists in select service-sector industries such as Accommodation & Food Services (-14.5% Y/Y), Information (-7.7% Y/Y), and Professional, Scientific, & Technical Services (-1.2% Y/Y).

Economic Context

Business investment was a major bright spot in the U.S. economy during the first half of 2018, powering two of the strongest quarters of economic growth since the Great Recession. While investment slowed in the third quarter, measures of small business confidence remain elevated: in addition to October's strong reading in the Thomson Reuters / PayNet SBLI, the Wells Fargo/Gallup Small Business Optimism Index reached a record high in Q3 and the NFIB Small Business Optimism Index remains near all-time highs despite recent slippage. Sustained confidence and sound fundamentals should produce a positive economic environment for small business investment in the first half of 2019, though Main Street growth may soften as the year progresses and the business cycle matures, particularly if global growth continues to slow.

Main Street Financial Stress Remains Muted

Thomson Reuters / PayNet Small Business Delinquency Index (SBDI)*



*Delinquent Percentage of Small Business Loans, Seasonally Adjusted Index

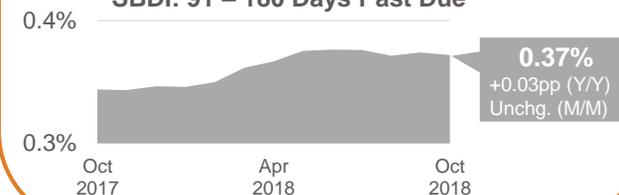
A Closer Look at the Past Year

SBDI: 31 – 90 Days Past Due



1.41%
+0.06pp (Y/Y)
Unchg. (M/M)

SBDI: 91 – 180 Days Past Due



0.37%
+0.03pp (Y/Y)
Unchg. (M/M)

Index Analysis

The Thomson Reuters / PayNet Small Business Delinquency Index (SBDI) 31–90 Days Past Due fell slightly to 1.41% in October, but remains six basis points above its year-ago level. The SBDI 91–180 Days Past Due held steady at 0.37% in October, but has risen three basis points over the last 12 months.

Regional Story: In October, delinquencies rose in seven of the largest states compared to year-ago levels, most notably in Ohio (+13bp Y/Y), Florida (+12bp Y/Y), and Georgia (+10bp Y/Y). Delinquency rates fell sharply in Pennsylvania (-25bp Y/Y), but rose 7 basis points on a monthly basis. Regarding defaults, five of the largest states posted Y/Y declines, led by Texas (-38bp Y/Y) and Michigan (-18bp Y/Y). Georgia, however, experienced its seventh consecutive double-digit annual increase (+29bp Y/Y).

Economic Context

Main street continues to exhibit low levels of financial stress. Despite the Federal Reserve raising interest rates three times thus far in 2018 (and the strong likelihood of a fourth increase in December), credit markets have not experienced a deterioration in credit quality. Indeed, according to the Fed, the delinquency rate for C&I loans fell for the eighth consecutive quarter to 1.0% in the third quarter, its lowest level in three years. Sustained health on Main Street could be due in part to some lenders not passing through to borrowers the full impact of rate increases in order to remain competitive: according to the Federal Reserve’s Senior Loan Officer Survey, a net 20.7% of banks reported that spreads on loans to small businesses narrowed in the third quarter. Another key factor is strong consumer demand, which allows small businesses to expand at relatively low risk. Overall, Main Street remains healthy, and financial stress should remain low in the first half of 2019.

Industry Story: Compared to September, delinquencies fell or held steady in all major industries except Construction (+4bp M/M), reflecting persistent weakness in the housing market. On an annual basis, delinquencies increased in most industries, including Construction (+17bp Y/Y) and Retail (+6bp Y/Y), though a notable bright spot continues to be Transportation (-23bp Y/Y), which posted its 15th straight delinquency decline. Regarding defaults, the majority of industries experienced decreases compared to year-ago levels, including Retail (-15bp Y/Y) which saw its sharpest year-over-year decline in four years.