

EQUIFAX[®]

Market **Pulse**

Main Street Lending Report

August 2024





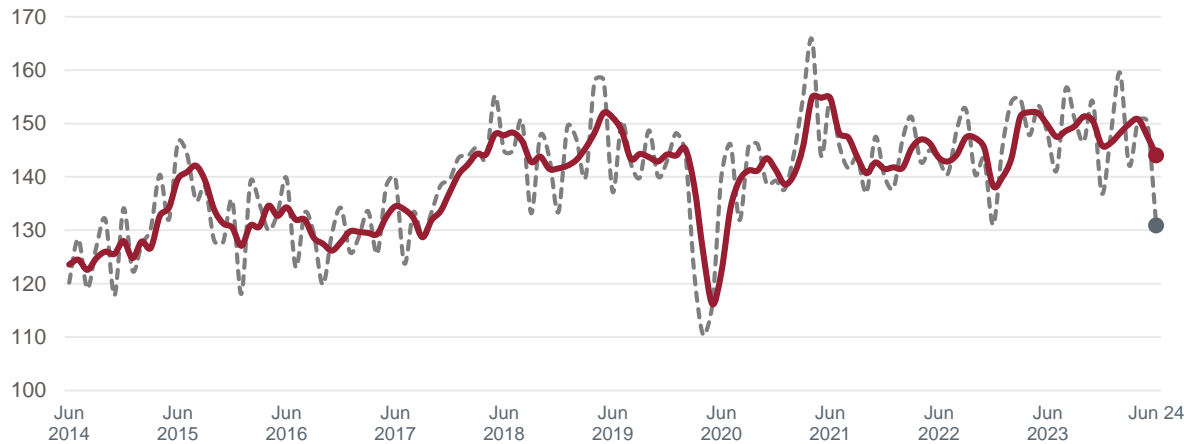
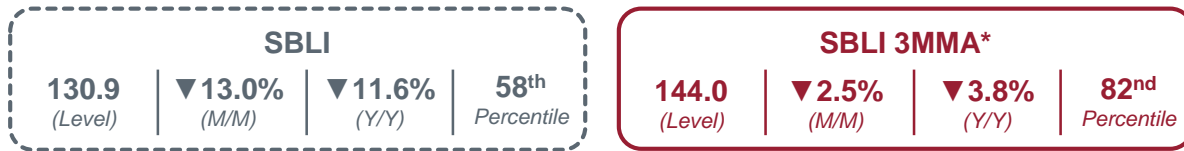
Equifax Main Street Lending Report — August 2024

Summary for Executives

Key Takeaways

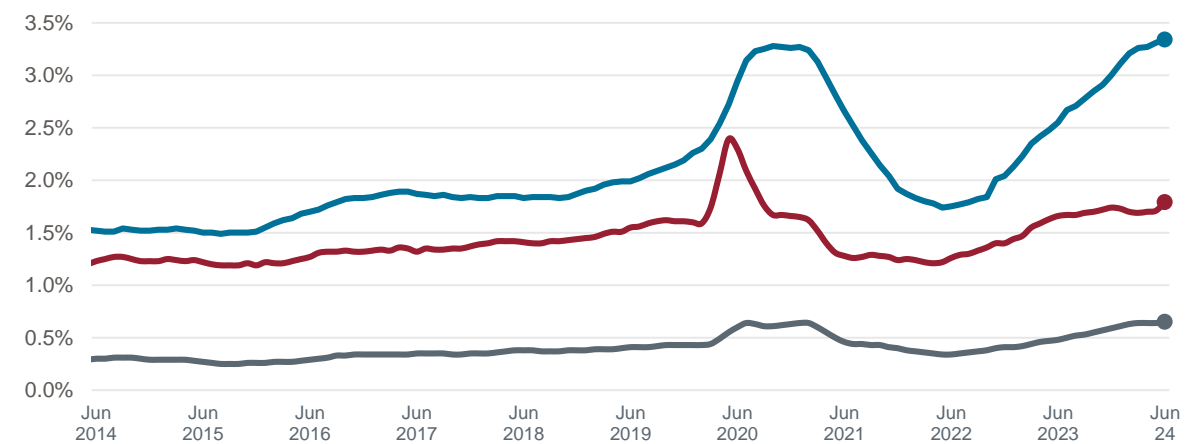
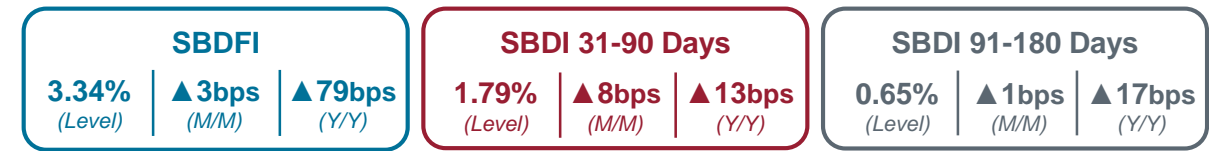
- July’s labor market report sparked global concerns about a weakening U.S. economy and increased risks of a near-term recession after the “Sahm rule” was triggered. However, both layoffs and unemployment are low by historical standards, while real disposable income and real consumer spending are consistent with a soft landing.
- Equifax’s latest SBLI reading points to softness in lending activity, though expectations for multiple rate cuts may kickstart lending activity later this year. In the meantime, many small firms continue to struggle with labor quality and labor cost, in part due to rising insurance costs.

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



Labor Market Cooling is Good — Until It Isn’t

The latest employment report suggests the labor market has loosened considerably and should be closely monitored.



September Rate Cuts on the Horizon

The Fed will almost certainly cut rates at their mid-September meeting, with most anticipating a 25–50bps decline.



Economic Context

The outlook for Main Street remains mixed. Positive developments, including lower inflation and the increased likelihood of multiple rate cuts this year, have been tempered by heightened concerns about the labor market. The July employment report fell short of expectations, recording just 114K jobs added for the month (see top chart) while unemployment rose to 4.3%.

- **Sahm Rule:** The three-month average unemployment rate has now risen 0.53 percentage points from its low over the past year, triggering a recession indicator known as the Sahm Rule. In part due to renewed concerns about a potential U.S. recession (as well as rising interest rates in Japan), a global stock market self-off occurred after the report was released.

While acknowledging the weak employment data, many economists have pointed out that unemployment remains quite low by historical standards, and that while job growth was weaker than expected, other economic measures, including real disposable income and real consumer spending, remain healthy. Economist Claudia Sahm, who developed the Sahm Rule, acknowledged that while the risk of a recession has risen, the metric is likely overstating the labor market’s weakening for several reasons, including lingering pandemic-era effects and increased labor market participation among recent immigrants.

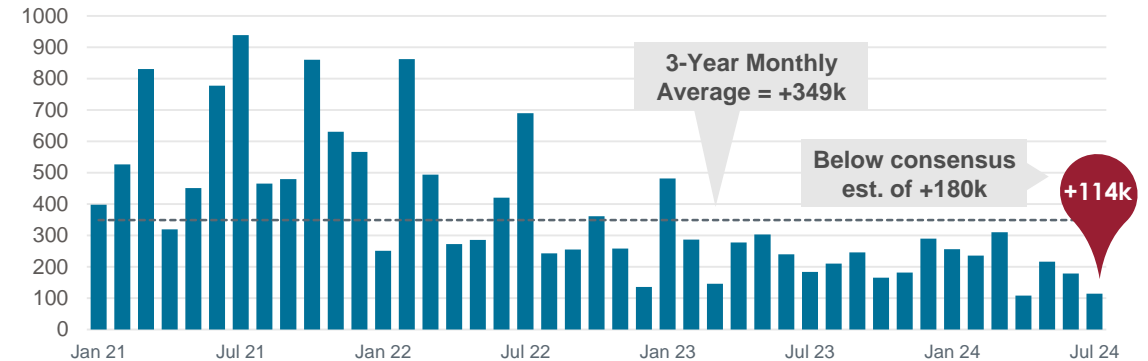
- **Labor Quality and Labor Costs:** For small businesses who have been struggling to hire and keep wages competitive, a softening labor market may be a positive development. Per the NFIB, 38% of small business owners reported job openings that they could not fill in July, an improvement from two years ago but still above most pre-pandemic readings. Labor cost or labor quality are the top concern for nearly one-third of small business owners, so a softer labor market should help to alleviate these issues — indeed, just 18% of small businesses are planning to increase wages over the next few months, the lowest level since April 2021.

Labor costs are driven by more than just higher wages, however: rising insurance costs continue to be a headwind for Main Street. According to the WSJ/Vistage Small Business CEO Survey, around half of small businesses reported a 10+% increase in health insurance costs, with some reporting increases of 25% or more. While a less restrictive labor market should reduce upward pressure on wage growth, rising insurance costs appear to be offsetting much of the savings — and, potentially, reducing hiring capacity, at least on the margins.

- **Lending Activity:** Equifax’s SBLI is down nearly 4% Y/Y, reflecting tighter lending conditions and subdued demand for commercial and industrial loans — though both measures have been trending positively (see bottom right chart). With multiple rate cuts appearing increasingly likely in the coming weeks and uncertainty surrounding the U.S. election soon to be resolved, small business lending activity may improve later this year.

U.S. Labor Market Continues to Cool

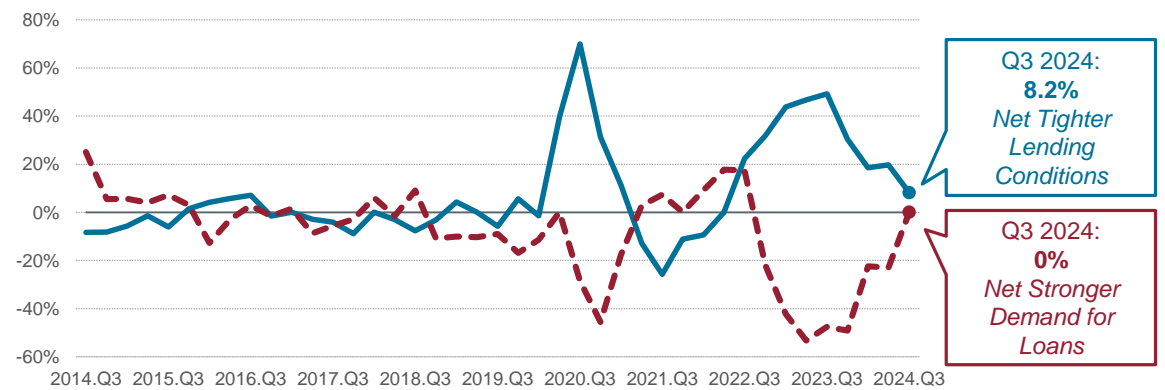
M/M Change in Nonfarm Payrolls, SA



Source: U.S. Bureau of Labor Statistics

Lenders and Borrowers “Tread Water” As Fed Considers Rate Cuts

Federal Reserve Senior Loan Officer Survey, Net Percent of Respondents



Source: Federal Reserve Board, Senior Loan Officer Opinion Survey on Bank Lending Practices.



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State & Industry Trends

Regions at a Glance

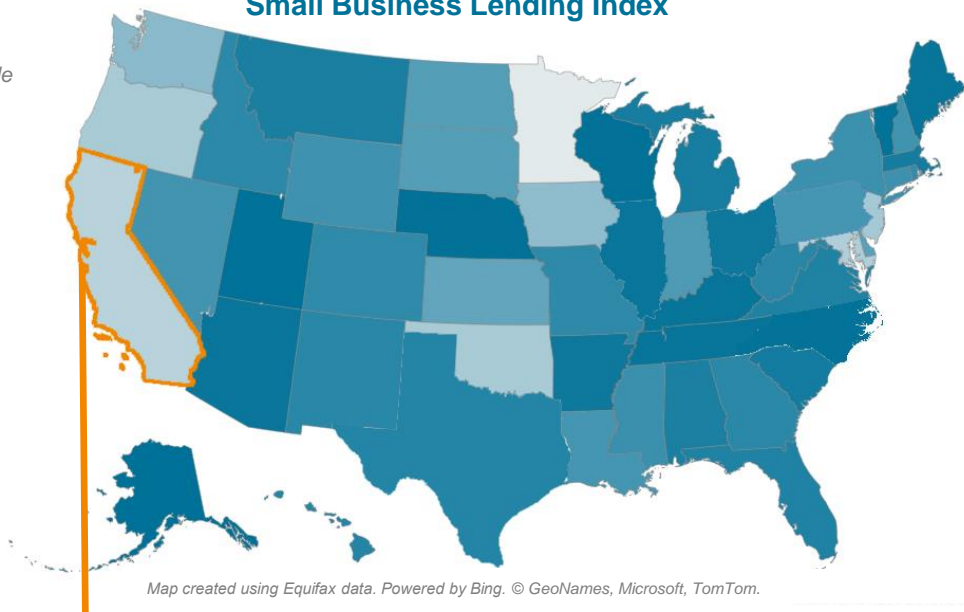
In June, small business lending activity weakened in many states, including in this month's featured state, California, where lending fell to its lowest since February 2021.

Small Business Lending Index

Series high
100th Percentile



Series low
0th Percentile



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

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California

Lending	96.11	▼ 1.4% <small>(M/M)</small>	▼ 3.2% <small>(Y/Y)</small>	52 nd <small>Percentile</small>
Delinquency*	1.62%	▲ 3bps <small>(M/M)</small>	▲ 24bps <small>(Y/Y)</small>	68 th <small>Percentile</small>
Default	3.99%	▲ 10bps <small>(M/M)</small>	▲ 119bps <small>(Y/Y)</small>	76 th <small>Percentile</small>

*31-90 Days Delinquent

Industries at a Glance

Lending activity declined, and delinquencies ticked up in both the Agriculture and Construction industries in June. Despite some downturn, construction lending remains near all-time highs.



Agriculture

Lending	137.7	▼ 2.6% <small>(M/M)</small>	▼ 8.5% <small>(Y/Y)</small>	58 th <small>Percentile</small>
Delinquency*	0.91%	▲ 2bps <small>(M/M)</small>	▲ 17bps <small>(Y/Y)</small>	85 th <small>Percentile</small>
Default	2.66%	▲ 4bps <small>(M/M)</small>	▲ 55bps <small>(Y/Y)</small>	91 st <small>Percentile</small>



Construction

Lending	124.1	▼ 1.1% <small>(M/M)</small>	▼ 6.6% <small>(Y/Y)</small>	98 th <small>Percentile</small>
Delinquency*	2.41%	▲ 7bps <small>(M/M)</small>	▲ 29bps <small>(Y/Y)</small>	70 th <small>Percentile</small>
Default	3.37%	0bps <small>(M/M)</small>	▲ 64ps <small>(Y/Y)</small>	73 rd <small>Percentile</small>

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