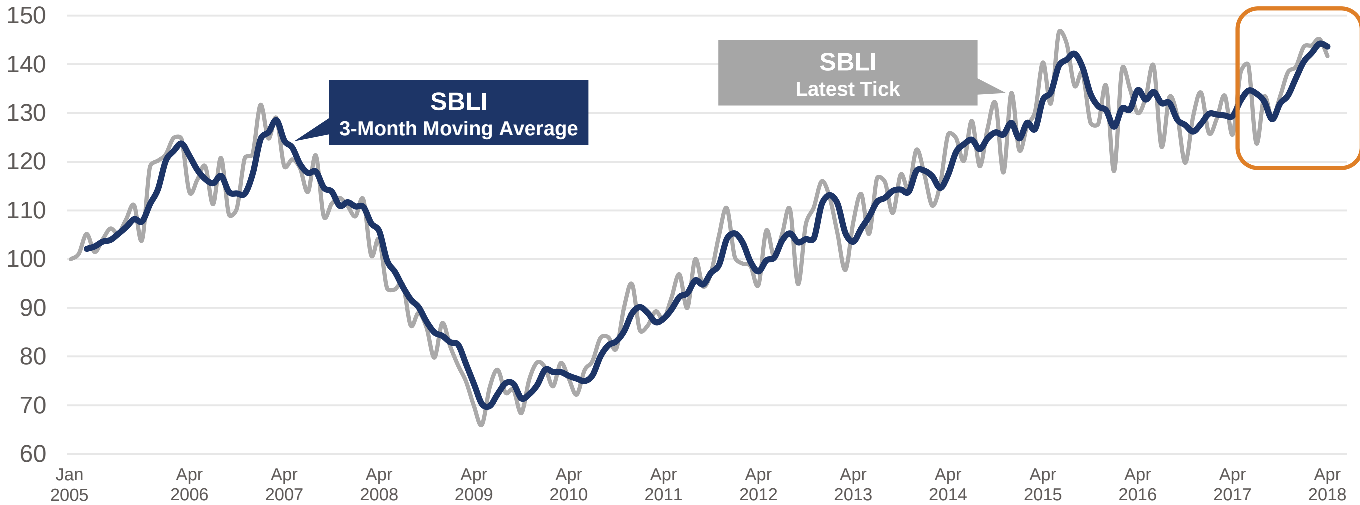
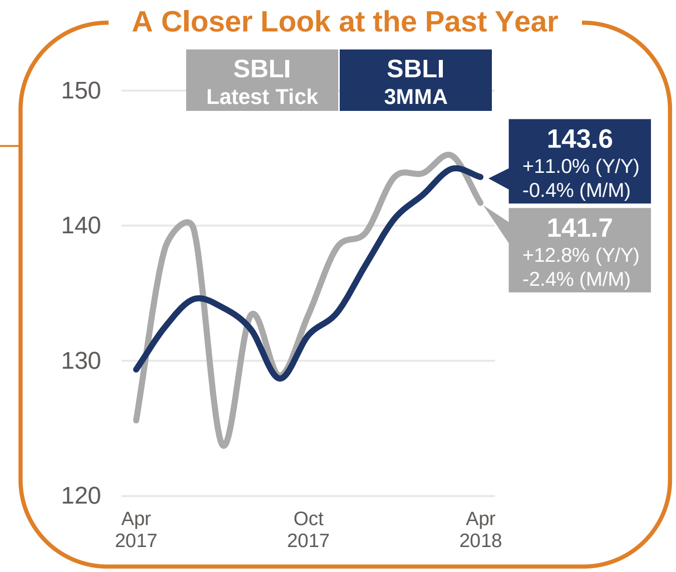
# PayNet® Strategic Insights

## June 2018

# *Main Street Leads the Way*

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




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

### Index Analysis

The Thomson Reuters / PayNet Small Business Lending Index (SBLI) fell slightly to 141.7 in April, but is up nearly 13% compared to a year ago and remains in the top 5% of all readings since PayNet began publishing the index in 2005. The SBLI 3-month moving average moderated slightly in April, but is up 11% on the year.

**Regional Story**: In April, the SBLI increased in all ten of the largest states on both a monthly and year-over-year basis. Growth among large states was led by North Carolina (+12.4% Y/Y), Texas (+11.5% Y/Y), and Michigan (+9.1% Y/Y). Notably, the North Carolina and Michigan SBLIs both reached record highs, and the Texas SBLI has increased on a monthly basis for 14 consecutive months.

**Industry Story**: Most industries experienced year-over-year small business lending growth in April, led by Mining (+14.0% Y/Y), which has increased on a year-over-year basis for each of the last 10 months. Other strong performers in April include Construction (+7.8% Y/Y) and Transportation & Warehousing (+13.1%). Echoing recent trends, service sector industry performance was less robust, including a double-digit decline in Information (-11.4% Y/Y). However, Health Care rose for the second month in a row (+3.7% Y/Y) after falling in each of the 21 prior months.

### Economic Context

Business investment continues to be a major bright spot in the U.S. economy, and the outlook for small businesses remains positive. According to a recent survey published by the 12 regional Federal Reserve Banks, two-thirds of small businesses anticipate revenue growth in 2018, the highest level since 2015. Small businesses are benefitting from a host of tailwinds, including strong international growth and reduced regulatory and tax burdens. Further, an 18-year low unemployment rate should boost consumer spending, though the strong labor market is likely to drive labor costs higher for small business and could make it more difficult to find qualified workers in the months ahead. Indeed, the National Federation of Independent Business found that 58% of small businesses were looking to hire in May, and 35% reported increasing employee compensation. Overall, U.S. economic growth is expected to remain solid over the coming quarters, and small business activity appears set to lead the way.

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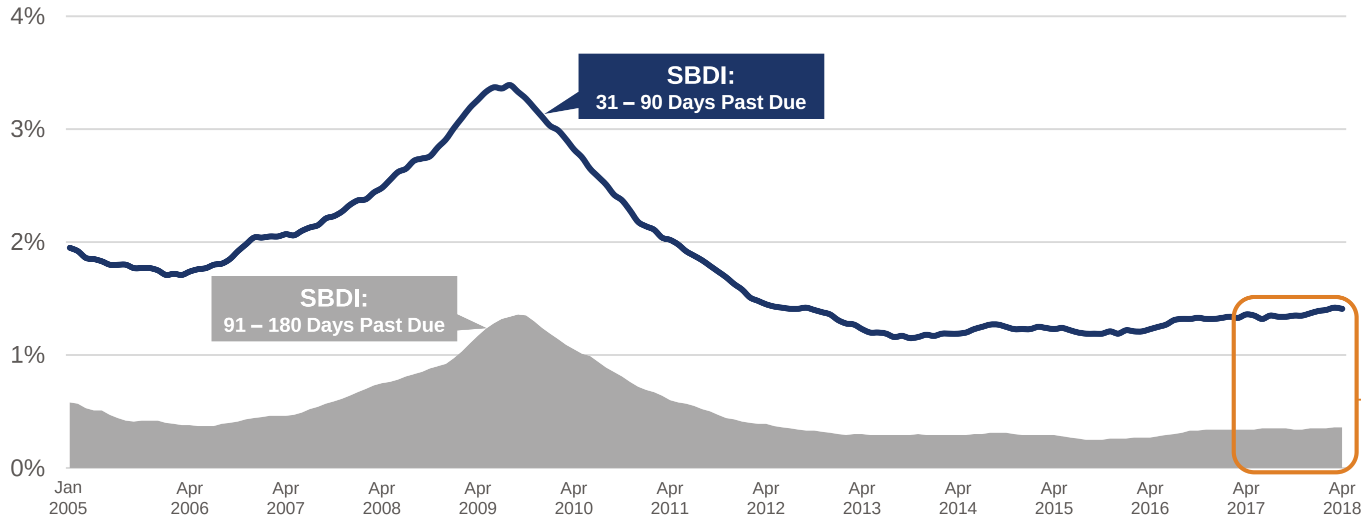
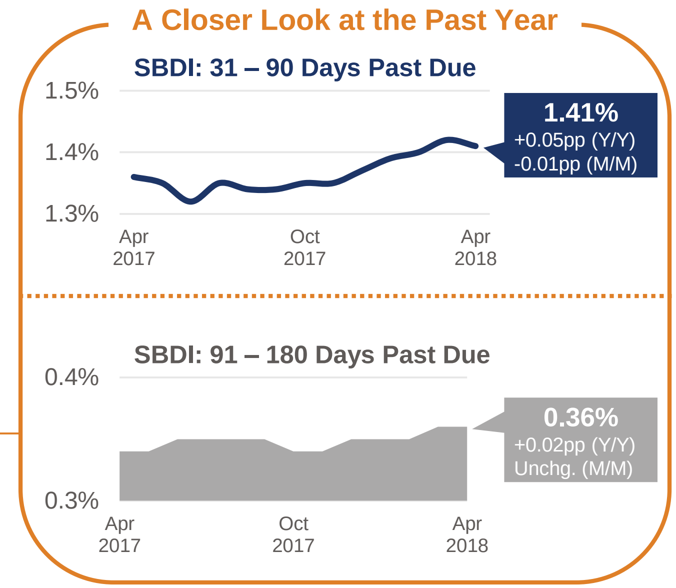
# Financial Health Stabilizes

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




*Delinquent Percentage of Small Business Loans, Seasonally Adjusted Index




### Index Analysis

The Thomson Reuters / PayNet Small Business Delinquency Index (SBDI) 31–90 Days Past Due edged down to 1.41% in April after rising in each of the last four months, but remains five basis points above its year-ago level. The SBDI 91–180 Days Past Due held steady in April and has risen two basis points over the last 12 months.

**Regional Story**: On a monthly basis, delinquencies fell in all ten of the largest states in April, reversing the trend of the previous seven months. However, delinquencies remain above year-ago levels in eight of the ten largest states, led by Florida (+17bp), Illinois (+12bp), and Ohio (+11bp). Default rates were down 3bp overall, driven by Texas (-44bp) and Illinois (-23bp), though other large states, including Georgia (+14bp) and North Carolina (+11bp) saw default rates rise.

**Industry Story**: Most large industries saw delinquencies rise in April on a year-over-year basis, led by Construction (+8bp Y/Y) and Health Care (+5bp Y/Y). However, delinquencies in Transportation continued to fall sharply (-50bp Y/Y), marking the ninth consecutive year-over-year decrease. Regarding defaults, half of the major industries saw declines in April, led by Mining, Oil, & Gas (-218bp Y/Y). Retail defaults rose on an annual basis for the fifth straight month after decreasing for the previous 11 months, potentially reflecting weak consumer spending in Q1.

### Economic Context

Small business delinquencies and defaults have edged up in recent months, though this is to be expected at this stage of the business cycle and does not signal an imminent deterioration in credit conditions. While rising interest rates continue to put upward pressure on borrowers' financial health, heightened competition among lenders appears to be keeping the cost of credit in check. According to the Fed's Senior Loan Officer Survey, nearly 12% of banks reported easing the cost of credit lines to small firms over the past three months (compared to just 3% that reported raising costs), and these banks were unanimous in their view that aggressive competition from other lenders was an important or somewhat important factor. Moreover, recent tax cuts should alleviate some financial stress among small businesses and encourage borrowing. Overall, small business financial health remains quite strong, but should be closely monitored over the coming months if federal interest rates continue to rise.