



# MAIN STREET REPORT

Your window into small business health

Q3 2025



# High APRs, Steady Risk: Small Firms Stay Resilient

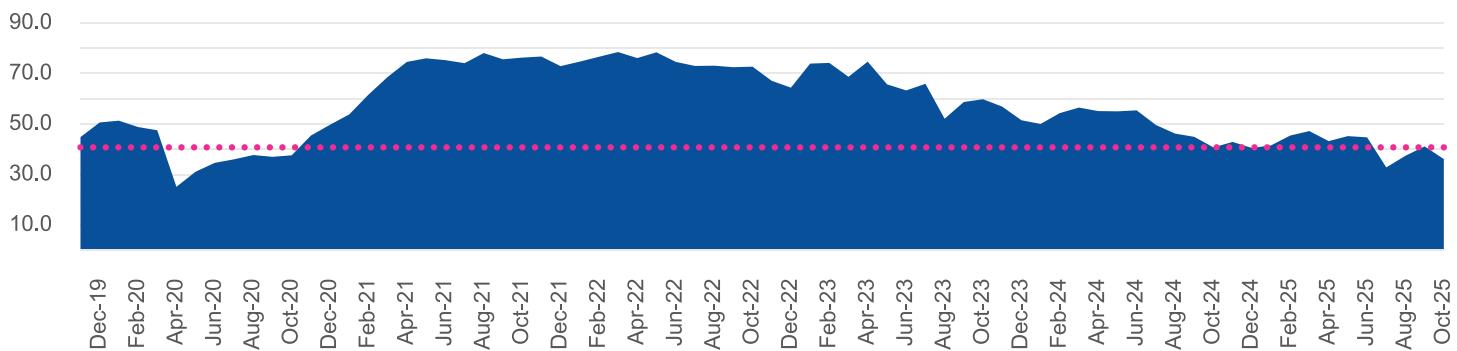


## Executive summary

The holidays are here, and Black Friday sparks a surge in consumer spending, U.S. small businesses are proving remarkably resilient despite persistent economic challenges. The Experian Small Business Index™ shows tighter credit conditions, with modest delinquency movements, disciplined utilization rates, and accelerating new business starts.



## Small business index trending



Source: Experian Small Business Index

Seasonal demand, steady wage growth, and diversified financing options are supporting activity even as elevated borrowing costs and tariff-driven price volatility challenge margins.

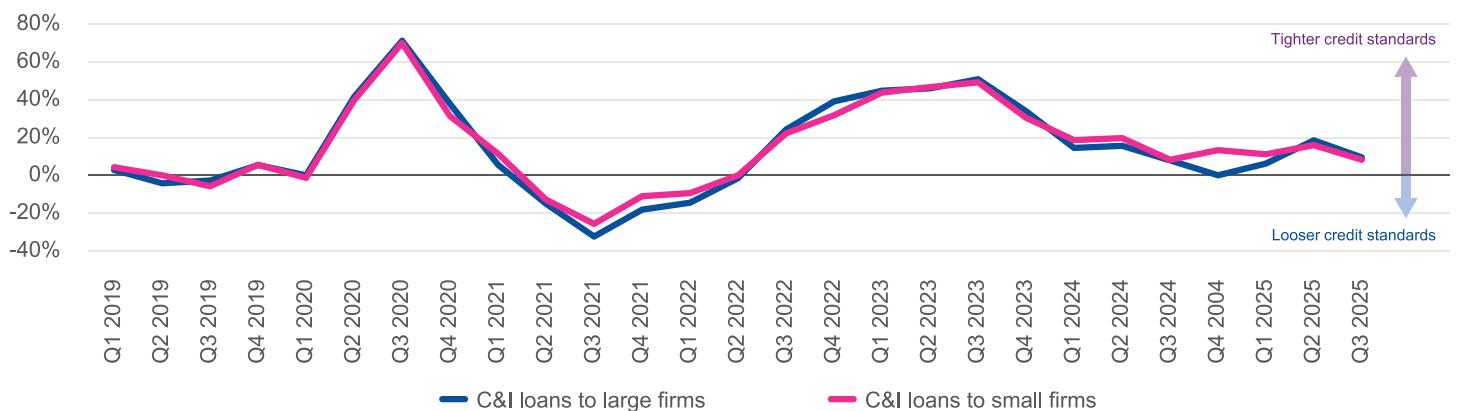
### Key Signals:

- Credit card APRs remain high, prompting businesses to consider structured loans.
- Borrowing standards tightened further for near-prime and subprime applicants.
- Formation activity remains elevated, supported by digital channels and alternative financing.
- Global supply chains are stabilizing but still face high costs and geopolitical risks.
- Consumer demand is steady at the high end but cautious among middle- and lower-income households.
- Small businesses enter Q4 positioned for steady but uneven growth as they balance financing constraints, shifting consumer behavior, and policy uncertainty.

## Credit and Lending Climate

Small business credit access remained constrained as lenders maintained tight underwriting standards across most product categories.

### SLOOS October 2025 Credit tightening

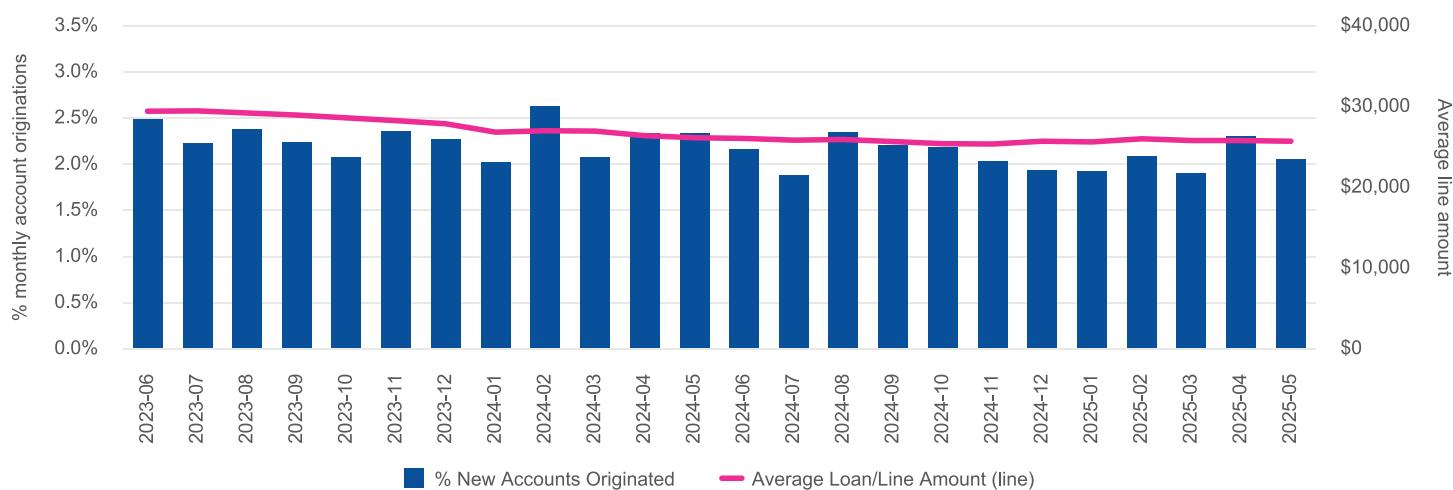


Source: Federal Reserve (Senior Loan Officer Opinion Survey)

Large banks approved fewer applications, while fintech and embedded finance platforms continued to capture share with faster decisioning and flexible terms.

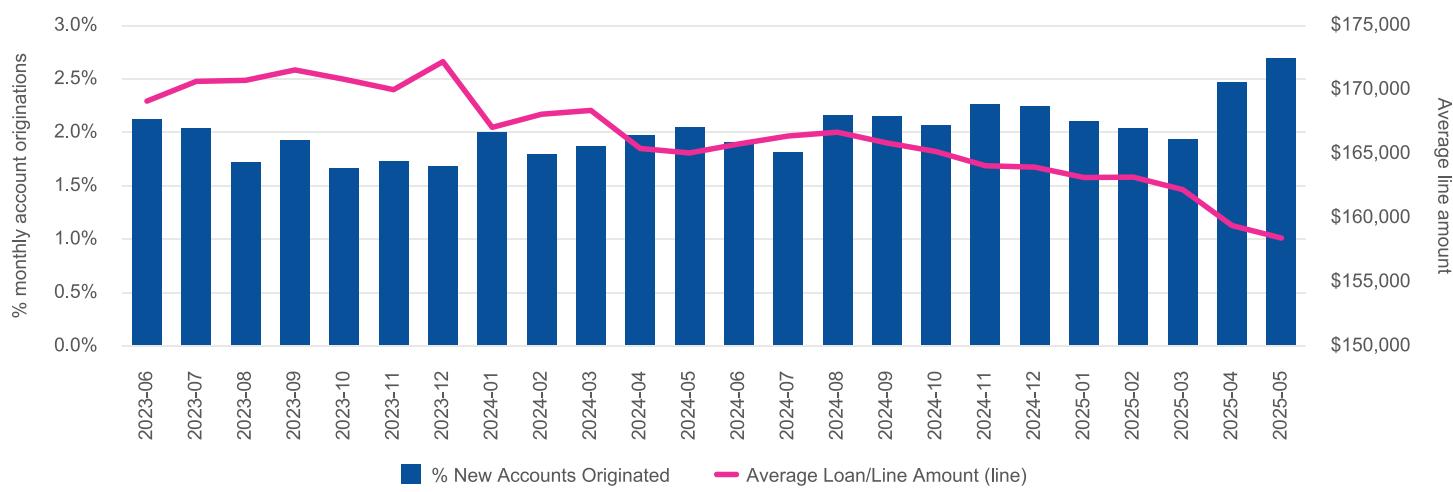
## Commercial Card and Installment Origination Trends — changing borrower appetite

### Commercial Card Originations



Source: Experian Commercial Benchmark

### Commercial Installment Originations

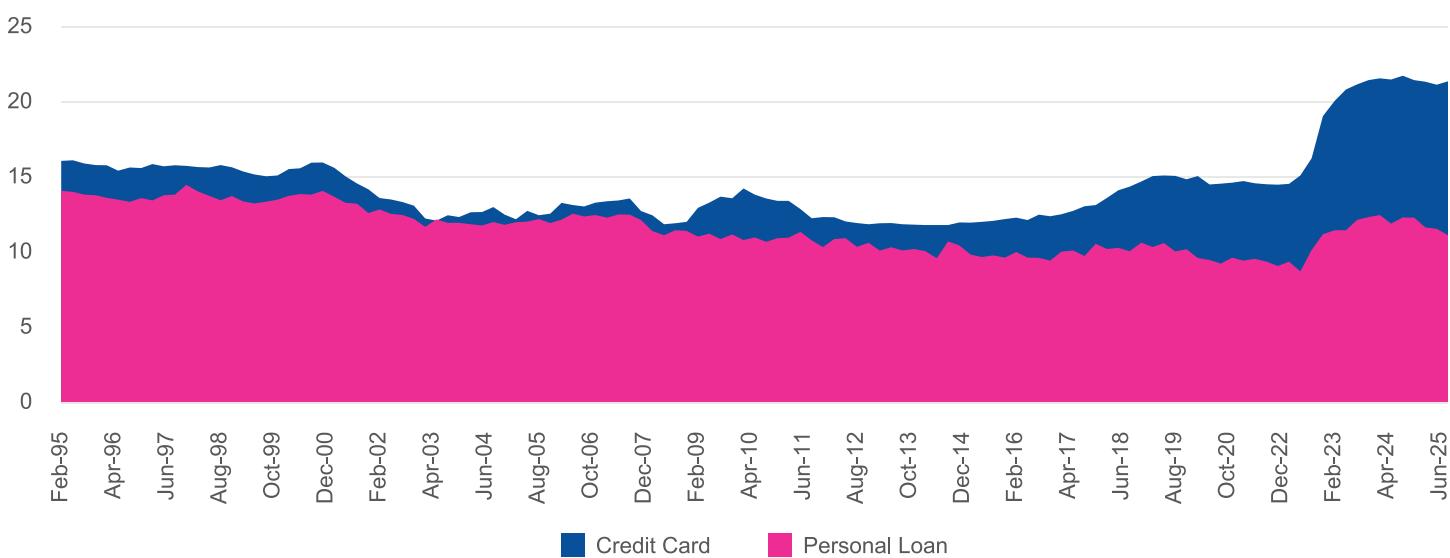


Source: Experian Commercial Benchmark

### Key Lending Developments:

- Interest-sensitive sectors like retail and construction are reporting the greatest pressure.
- Continued shift from revolving credit to term loans and merchant cash advances.
- Subprime rates exceeding 30%, squeezing margins and raising default risk.
- SLOOS data indicates resistance to loosening underwriting criteria, with selective easing only for top-tier borrowers.

## Commercial and consumer APR trends



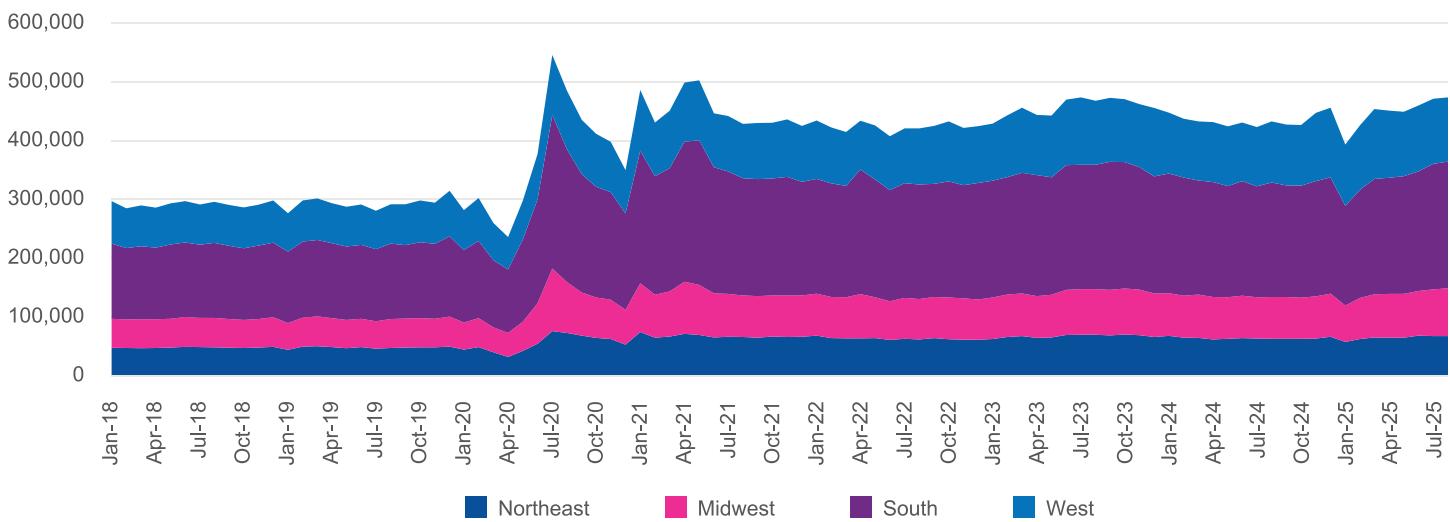
Source: <https://fred.stlouisfed.org/series>

Businesses with strong documentation, healthy utilization, and disciplined repayment are securing the most favorable terms. Those relying on higher-cost products are navigating elevated risk as lenders prioritize predictable cash flows.

## Entrepreneurship and Business Formation

Formation activity stayed near its multi-year elevated pace, with more than 470,000 seasonally adjusted applications in August. Labor market softening continues to push displaced workers toward self-employment.

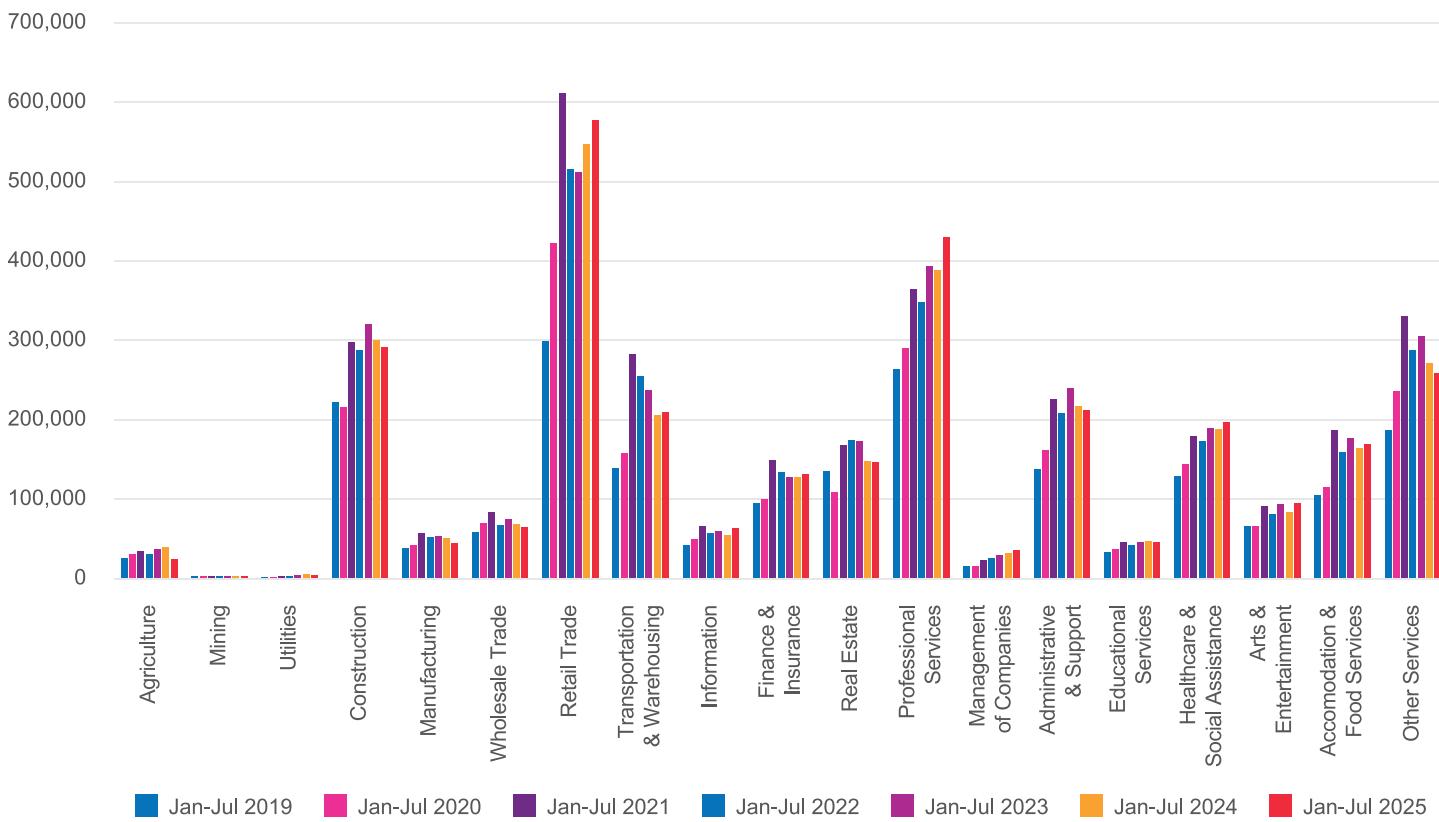
### New Business Formation Applications (seasonally adjusted) set a new baseline north of 400K



Source: U.S. Census Bureau

Digital-first retail, professional services, and construction remain the most active segments, with minority and younger founders driving a significant share of growth.

## Types of New Business Formation Applications



Sources: U.S. Census Bureau

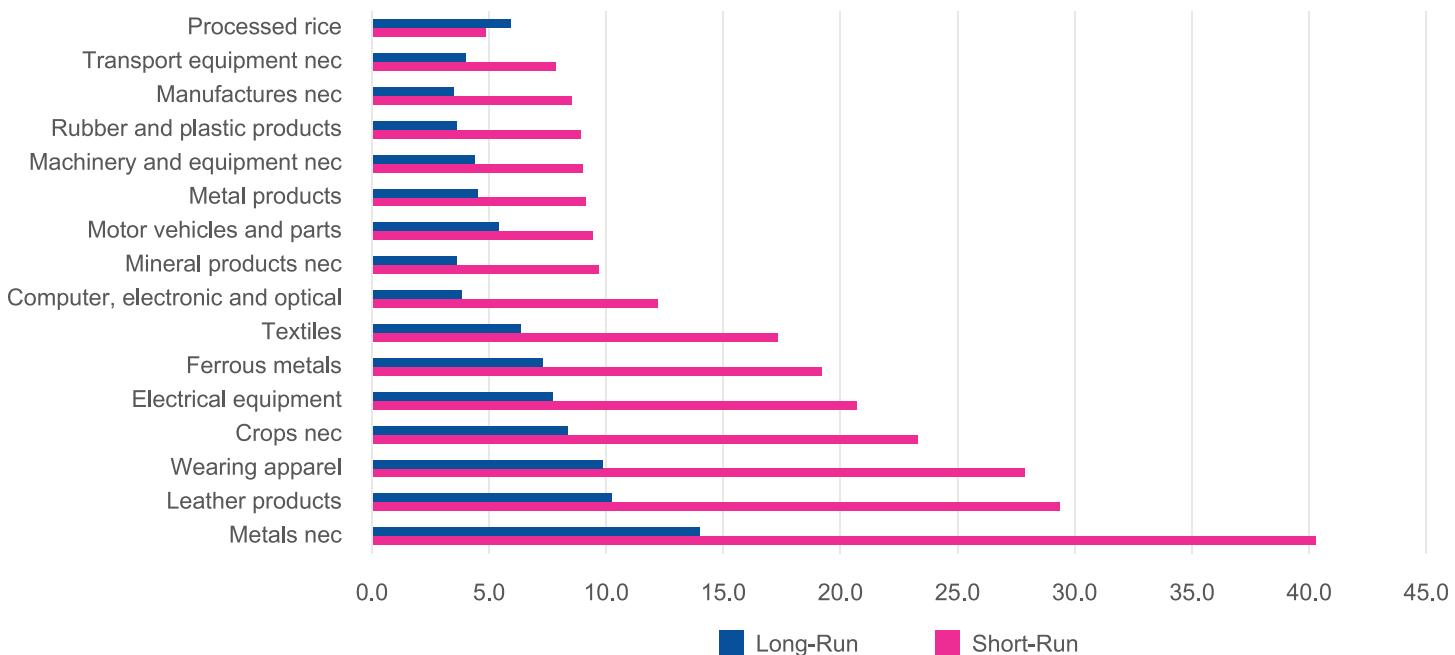
Despite tighter credit, early-stage firms are gaining traction through alternative financing, embedded capital solutions, and automation tools that strengthen early cash-flow visibility.

## Macroeconomic and Supply Chain Forces

Several global disruptions affected cost structures but did not derail overall business activity.

A few of the top influences include; Tariff levels at multi-decade highs continue to raise input prices for goods-heavy sectors, Red Sea and Taiwan Strait tensions have pushed shipping costs higher and extended transit times, U.S. port volumes softened, lowering congestion but lifting storage fees and insurance costs, and energy markets remain volatile, with diesel near \$3.84 per gallon and natural gas costs rising seasonally.

## Tariff impact or current listing of high-profile tariff

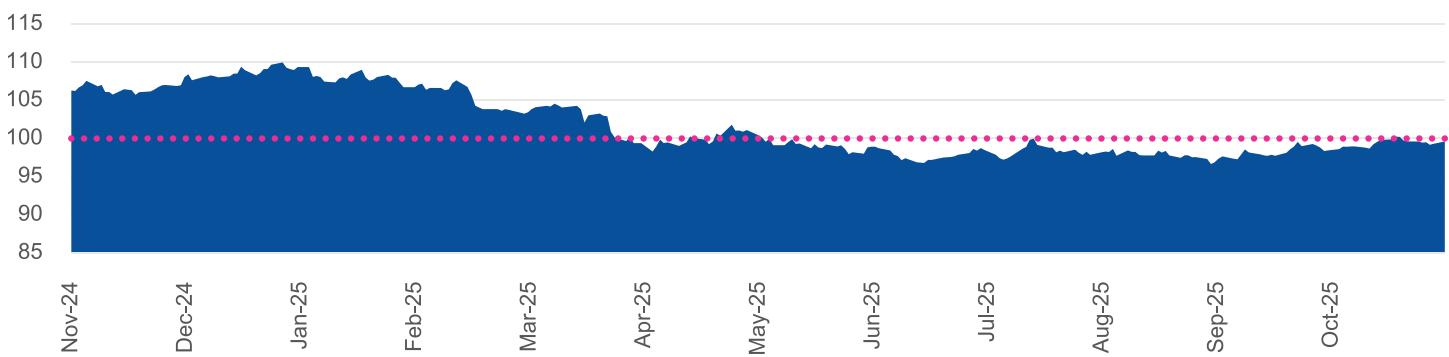


Sources: Yale Budgetlabs: Tate-us-tariffs-october-17-2025

## Currency Movements and Inflationary Spillovers

November saw the U.S. dollar remain strong despite earlier declines, as persistent core inflation near 3% kept the Federal Reserve cautious on rate cuts. The weakness benefited exporters, small businesses reliant on imported goods face rising input costs, compounded by lingering tariffs on steel, aluminum, and heavy equipment. These dynamics, alongside global supply chain shifts toward Latin America and Southeast Asia, are forcing small firms to rethink sourcing strategies and absorb higher logistics expenses.

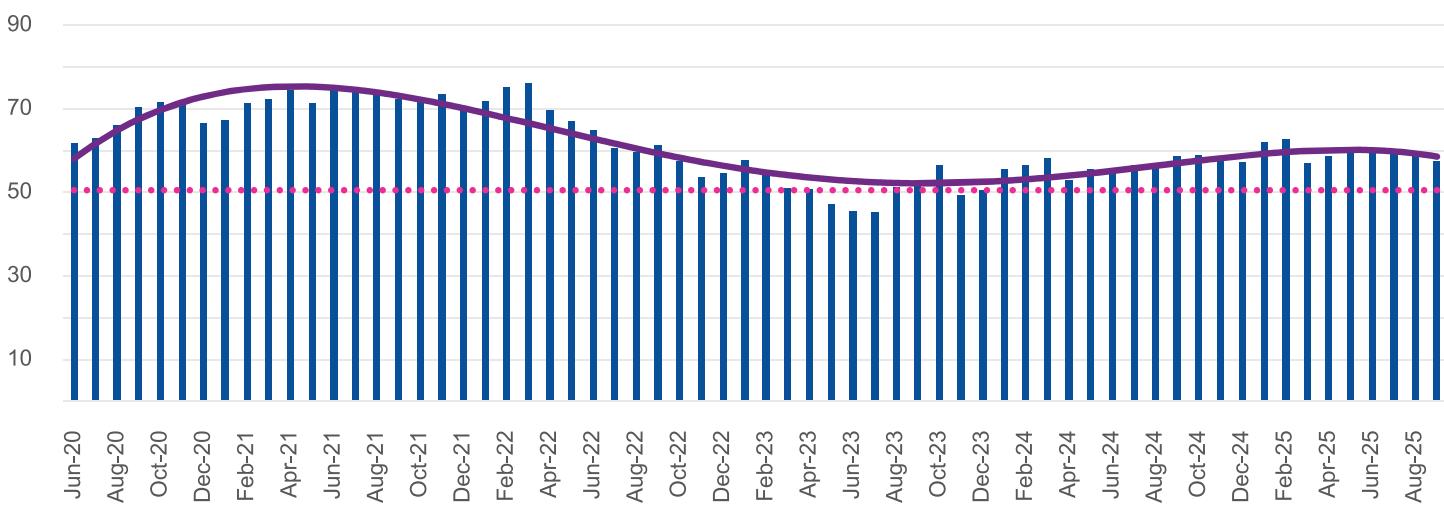
### Dollar strength trend over the past 12 months



Sources: Tradingeconomics.com/DXY

Small import-reliant businesses face tighter logistics margins as freight and warehousing costs remain elevated.

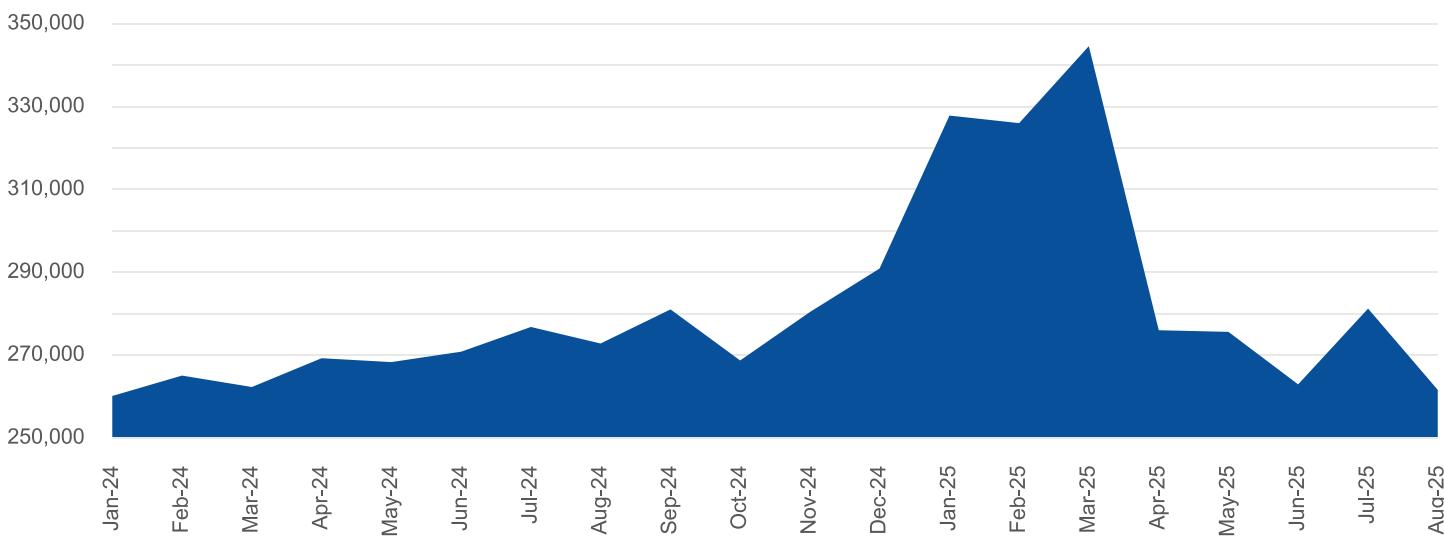
## The Logistic Managers Index (LMI)



Source: Logistic Managers Index

U.S. ports are facing logistical drag as global inventory front-loading slows down further imports. In November, container volumes are forecasted to decline by 14.4% year-over-year dropping to approximately 1.85 million TEUs from 2.16 million in 2024.

## Front loading import

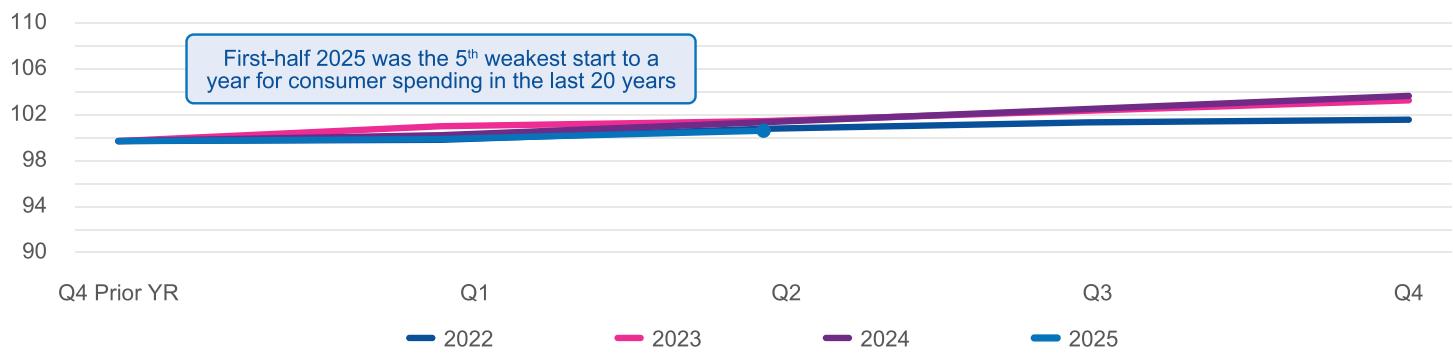


Source: U.S. Bureau of Labor Statistics

## Consumer Behavior and Demand

Consumer spending grew 5.6% year-over-year, supported by wage growth and a strong labor market, though households are increasingly cautious amid persistent inflation near 3% and elevated borrowing costs despite recent Fed rate cuts.

## Consumer spend cohort



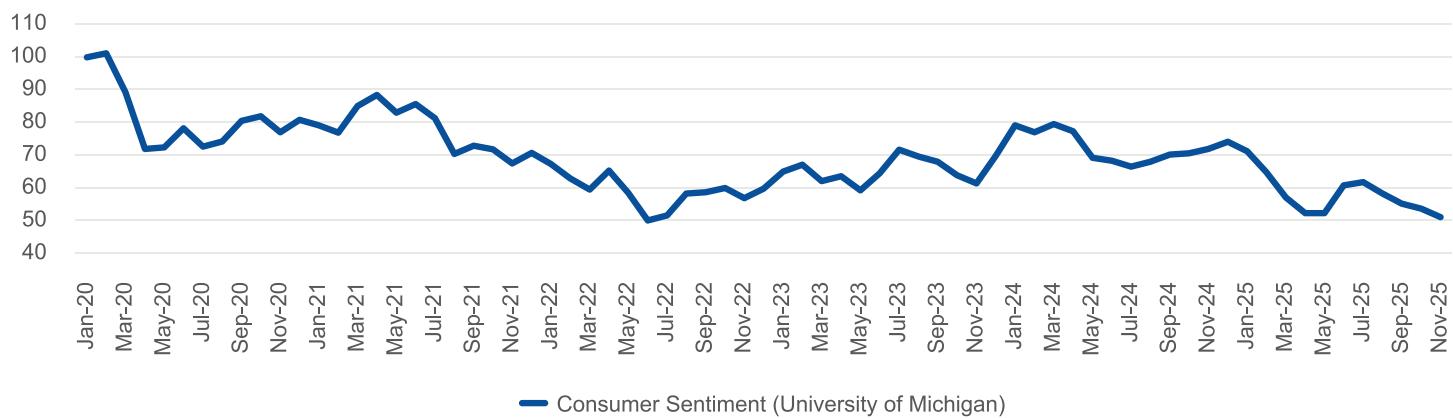
Sources: Bureau of Economic Analysis, OpenTable, and Experian Economic Strategy Group

**High-income households** increased discretionary purchases, supporting premium goods, travel, and specialty services.

**Middle- and lower-income households** shifted toward value categories as inflation and borrowing costs constrained budgets. Retailers are reporting increased demand for essentials and value-priced products.

Consumer confidence has weakened sharply in November 2025, with the University of Michigan's Consumer Sentiment Index dropping to 51.0, its second-lowest reading since 1980.

## Consumer Sentiment



Source: University of Michigan

Holiday spending forecasts show modest growth slightly above 1%, with consumers prioritizing: Discounts and bundled promotions, free shipping options, hybrid fulfillment .

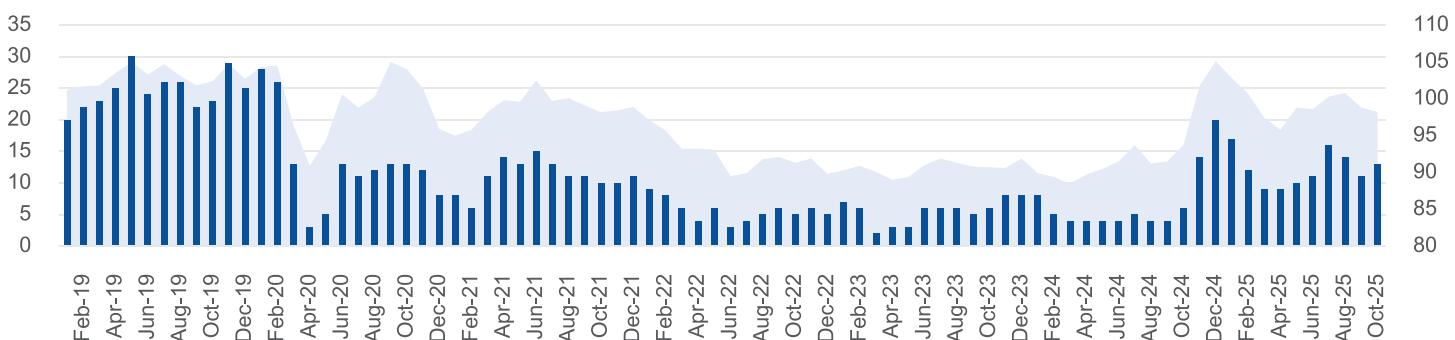
Small businesses are adjusting with leaner inventory, tighter pricing strategies, and value-driven marketing.

## Sector Insights

### SBA Lending and Shutdown Effects

A prolonged federal shutdown delayed over \$5 billion in SBA-backed loans, interrupting capital access for thousands of firms and delaying hiring and expansion plans.

### NFIB Small Business Expansion Expectation



Source: National Federation of Independent Business

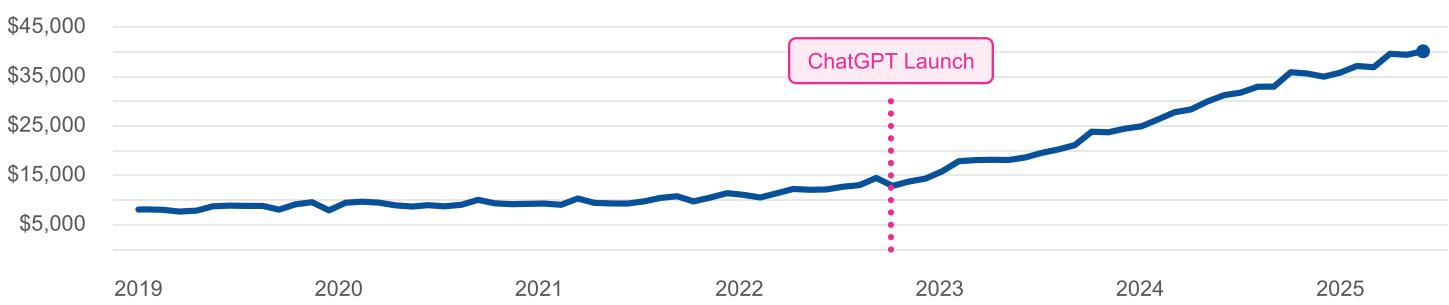
### Manufacturing and E-Commerce

Tariff volatility and tighter customs enforcement have raised landed costs and compliance risk. Retailers and manufacturers are expanding sourcing from Southeast Asia to reduce reliance on China, though startups face steep onboarding and compliance requirements.

### Energy

Upstream service firms benefited from eased regulations and lower crude prices, while downstream sectors face sustained operational cost pressure from fuel load availability and utility infrastructure capacity.

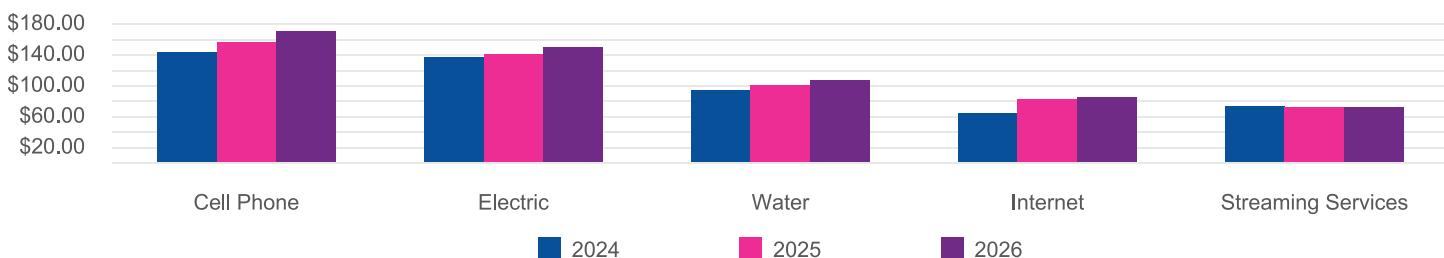
### AI energy infrastructure investment — Energy needs increasing for AI, driving prices up for consumers and small businesses



Source: Experian Economic Strategy Group

The rapid development of AI data centers is driving up electricity demand nationwide. Utilities are warning that power consumption from hyperscale facilities could raise wholesale energy prices, especially in regions with constrained grids.

## Increasing prices



Sources: Trading economics.com/Monthly-residential-utility-costs-by-state-us-2023. SuperMoney; WhistleOut (Mint Mobile); J.D. Power (via TelecomLead); EIA; J.D. Power (water)

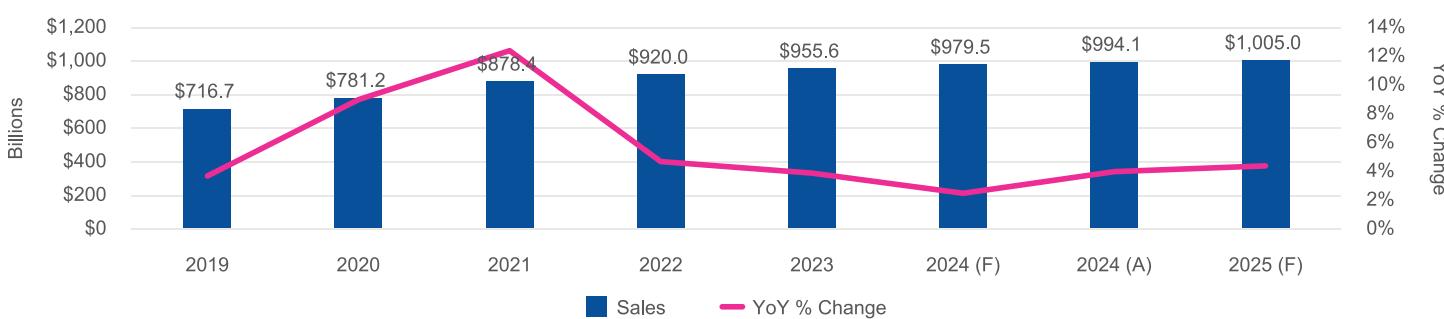
Small businesses impact means higher operating costs, not only for transportation and manufacturing, but also for digital services they increasingly rely on. Rising energy bills combined with AI infrastructure costs risk squeezing margins further, underscoring the need for efficiency strategies and policy support.

## Retail and Travel

Discretionary retail remains under pressure, but domestic travel is holding steady, offering revenue stability for regional service providers.

## Holiday shopping spend trends

### Retail Holiday Sales



Sources: National Retail Federation; Forrester

### Expected Per- Person Consumer Holiday Spending Plans



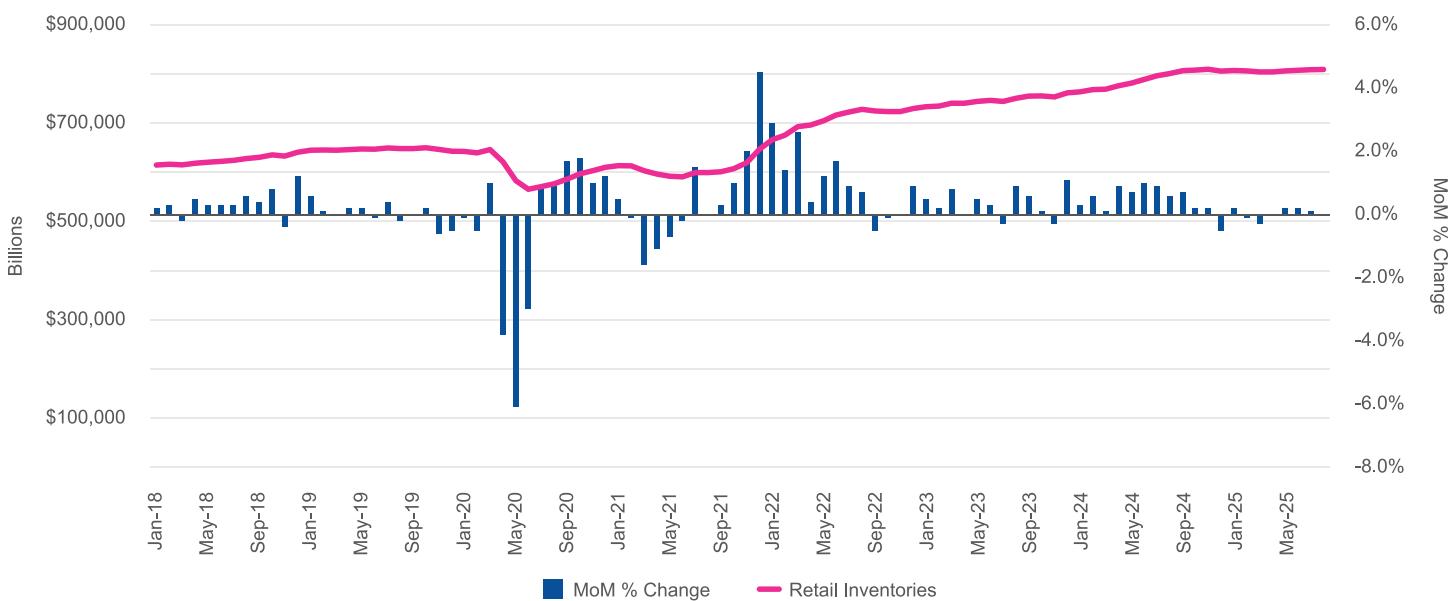
Sources: National Retail Federation; Forrester



Growth in retail inventories, Since June 2020, outpaced growth in retail sales; 43% to 41% respectively. In August the U.S. Census Bureau reported retail inventories increased by only 1% while retail sales are up 5% in the same time frame. Increasing retail sales and flat growth in retail inventories is decreasing the sales to inventory ratio denoting decreased supply for increasing demand. Low supply with anticipated high holiday demand could increase the prices of consumer goods across all business categories.

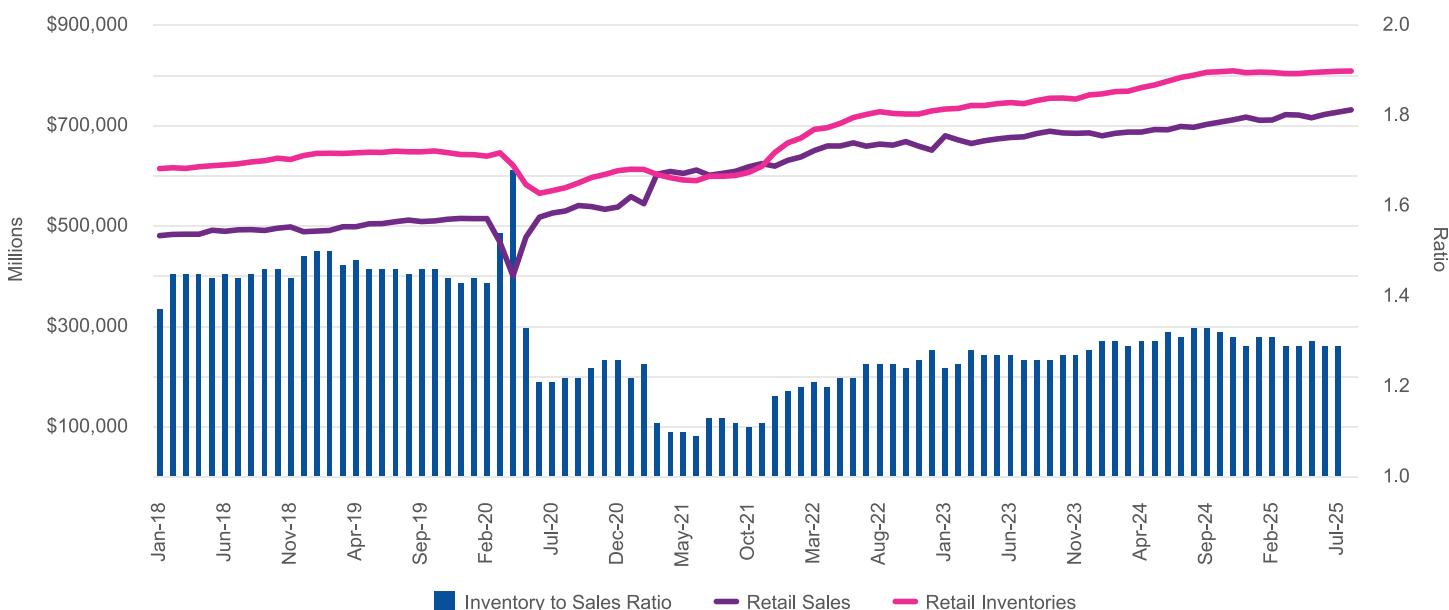
## Retail spending growth for 2025 season

### Retail Inventories



Source: U.S. Census Bureau

### Retail Inventories to Retail Sales

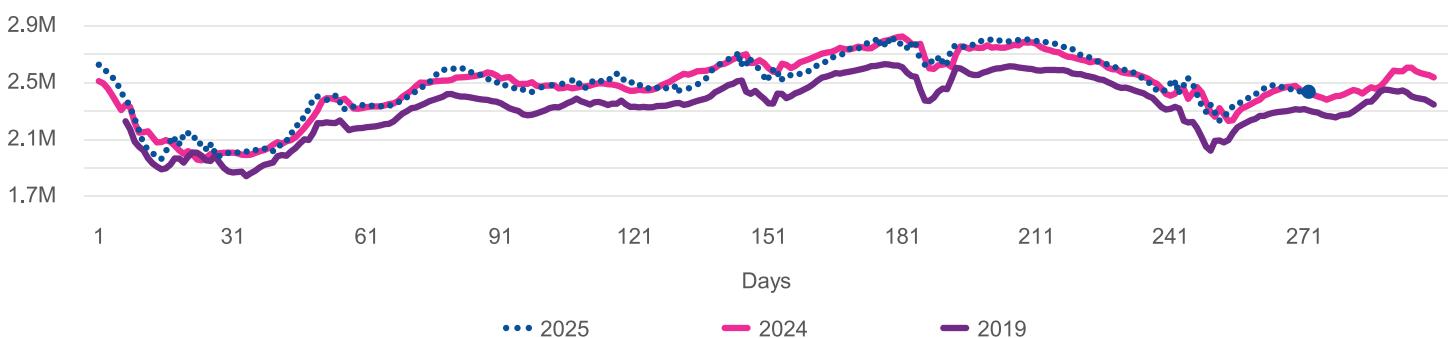


Source: U.S. Census Bureau

Domestic travel shows modest resilience, offering relief for regional hospitality and tourism operators, but global travel remains subdued amid visa restrictions and tariff uncertainty.

## Domestic TSA travel resiliency

### TSA Passenger Counts (7-Day Average)



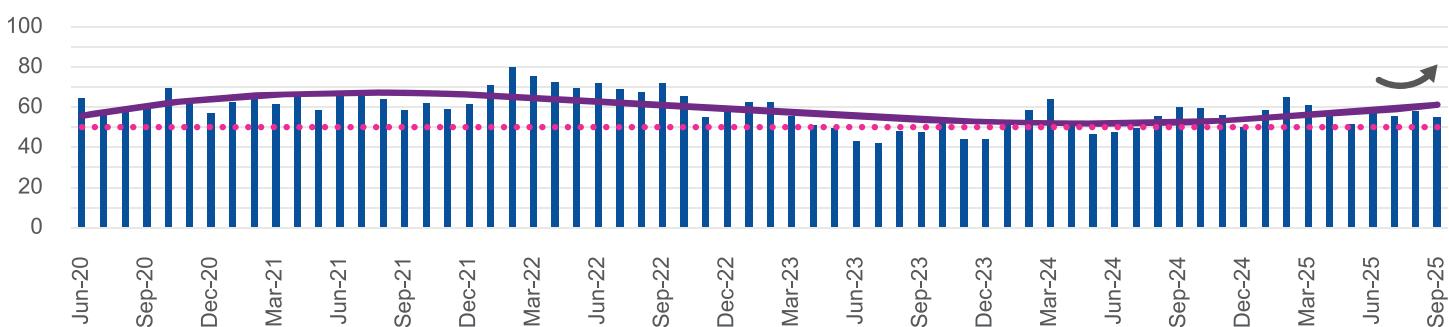
Sources: Bureau of Economic Analysis, Experian Economic Strategy Group

## Logistics and Warehousing

High warehouse utilization and rising storage costs are compressing margins. Larger firms are deploying AI-driven optimization tools, widening the gap between tech-enabled logistics operators and smaller competitors.

### LMI Warehousing and inventory costs

#### Inventory Levels



Source: Logistic Managers Index

#### Inventory Cost



Source: Logistic Managers Index

## Technology Adoption

SMBs are accelerating digital modernization, particularly in pricing automation, cash-flow management, and forecasting. However, uneven data infrastructure limits ROI for many firms and creates a widening capability divide.

## Labor Market Trends

The labor market is cooling gradually, with unemployment at 4.4% and job creation slowing. Wage growth remains elevated relative to pre-pandemic norms, especially for roles requiring technical and AI-adjacent skills.

### Key Signals:

- Job openings continue trending back toward pre-2020 levels.
- Quit rates are falling as workers seek stability.
- AI-driven restructuring continues across large employers, with spillover effects on supply chains and consumer demand.
- Small businesses continue facing wage rigidity and skill shortages.
- Many are adopting flexible staffing models, part-time labor, and partnerships with training providers.

## Policy and Regulatory Outlook

November brought several policy developments likely to influence early-2026 planning:

- Proposed CFPB revisions to Section 1071 reduce reporting requirements for many lenders.
- House Small Business Committee advanced measures targeting rural banking capacity, AI readiness, and capital access.
- SBA programs resumed after shutdown delays, though backlog resolution may stretch into early 2026.

Small businesses should prepare for tighter HR compliance oversight and continue monitoring lending-related rule changes.





## Regional Overview

- **Northeast:** Seasonal slowdowns affected workforce participation, though credit origination remained stable. Urban markets show resilience due to steady consumer demand.
- **Midwest:** Manufacturing liquidity remains supported by strong SBA activity. Urban incubator programs are leveraging SBA-backed capital to sustain tech-enabled small business growth. Despite aging demographics in rural counties, state workforce development initiatives are mitigating skilled labor shortages.
- **South:** The region remains a growth leader with low delinquency and strong capital access, though Texas metros show caution in revenue and hiring expectations. Digital adoption and minority-owned business accelerators are expanding inclusion.
- **West:** Tech and clean-energy ecosystems continue to support steady credit performance. Operating costs remain a challenge for early-stage firms. Emerging markets in Utah and Idaho are attracting cost-sensitive firms seeking affordability and talent.
- **Southwest:** Benefiting from semiconductor and infrastructure investment, the region shows improving origination trends and strong cross-border trade advantages.

## Strategic Outlook

Small businesses are entering 2026 with cautious optimism. Credit performance remains broadly stable, but firms are navigating a landscape shaped by elevated costs, persistent inflation near 3%, and selective capital access.

Strategic priorities for firms include strengthening financial controls and maintain disciplined utilization, expanding the use of digital forecasting, cash-flow tools, and inventory optimization, diversify financing and supplier relationships, and refining pricing and product strategies to align with polarized consumer behavior.

Despite external pressures, the underlying fundamentals remain sound. Consumer demand is resilient, inflation persistent but holding steady, and GDP targeted near 4% for second half of 2025 after a contraction in Q1. Small businesses that prioritize discipline, technology adoption, and adaptability are poised not only to weather ongoing disruption but to enter 2026 with renewed momentum.





# MAIN STREET REPORT

## About the report

The *Experian Main Street Report* brings deep insight into the overall financial well-being of the small-business landscape, as well as providing commentary around what specific trends mean for credit grantors and the small-business community. Critical factors in the *Main Street Report* include a combination of business credit data (credit balances, delinquency rates, utilization rates, etc.) and macroeconomic information (employment rates, income, retail sales, industrial production, etc.).

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