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MAIN STREET REPORT

Your window into small business health

Q1 2025

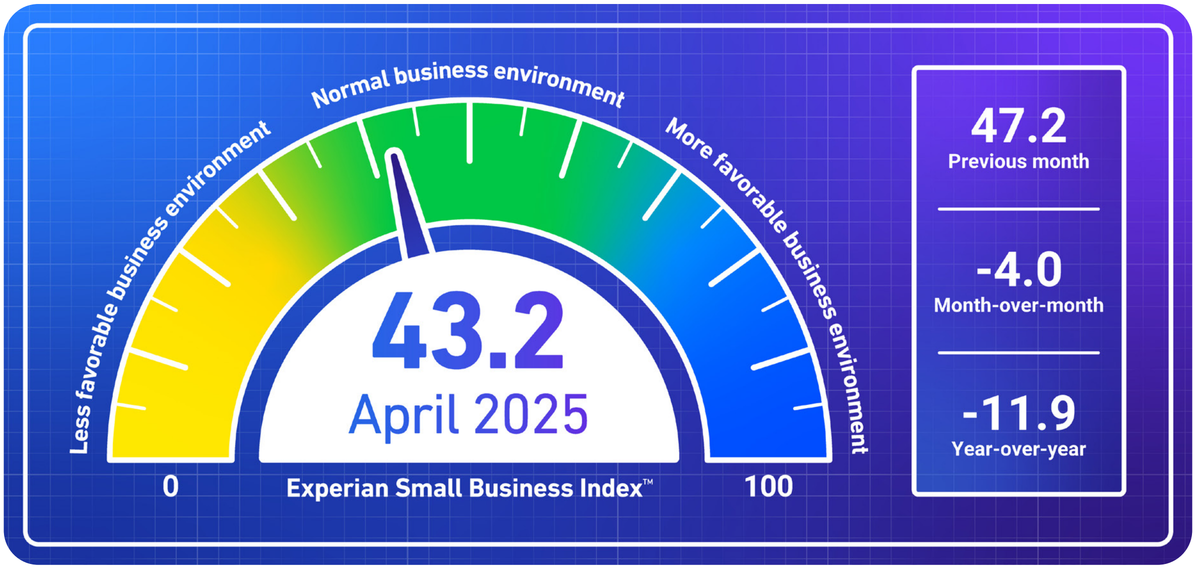
MAIN STREET REPORT

Main Street in the Middle: Navigating Credit and Policy Crosswinds

Executive summary

U.S. small businesses are navigating a challenging but stabilizing credit environment, shaped by persistent inflation, elevated interest rates, and cautious consumer sentiment. According to Experian's latest data, small business credit utilization has remained steady, reflecting disciplined borrowing behavior, while delinquency rates have shown only modest increases, suggesting overall credit health remains intact. The Experian Small Business Index™ indicates a slight uptick in new business credit applications, signaling renewed interest in growth despite macroeconomic headwinds.

Small business index dips as owners seek more opportunity



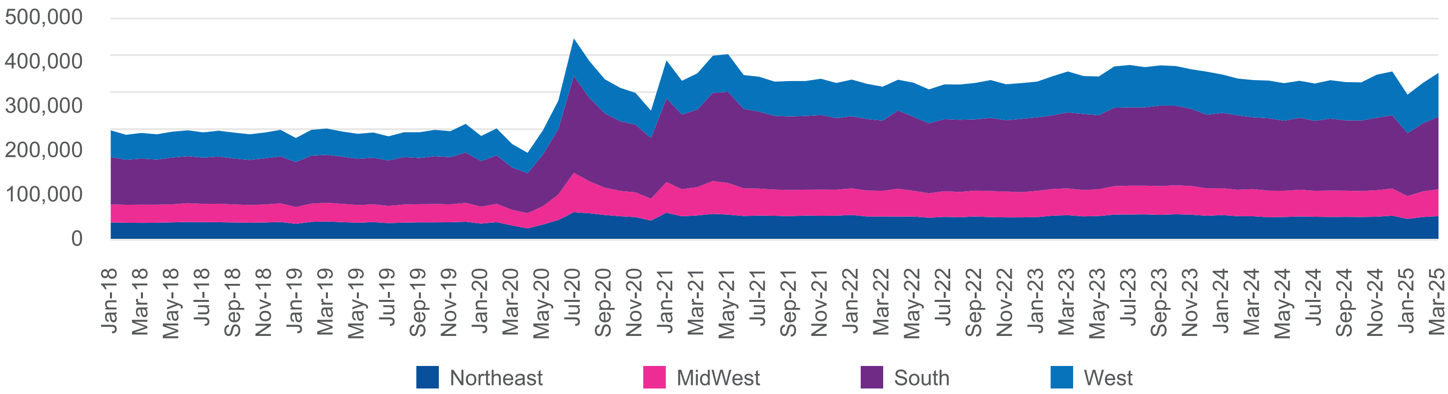
Source: Experian Small Business Index

Approval rates have tightened marginally, particularly in sectors sensitive to interest rate fluctuations. Lenders are leaning into curated and expanded data sources when analyzing risk, leading to more nuanced underwriting decisions. The number of emerging businesses continues to grow, though slower than earlier in the year, and closures have risen in industries facing margin compression. In this environment, small businesses must remain agile, balancing strategic investment with prudent credit management to sustain momentum amid evolving financial conditions.

Small Business Health

Navigating the crosswinds of 2025, small businesses are demonstrating resilience and adaptability as they chart a course through inflation, evolving consumer trends, and shifting credit conditions. While the post-pandemic surge in entrepreneurship has moderated, business formation remains historically elevated, with over 449,000 new businesses launched in April alone.

New Business Formation Applications (seasonally adjusted)



Source: U.S. Census Bureau

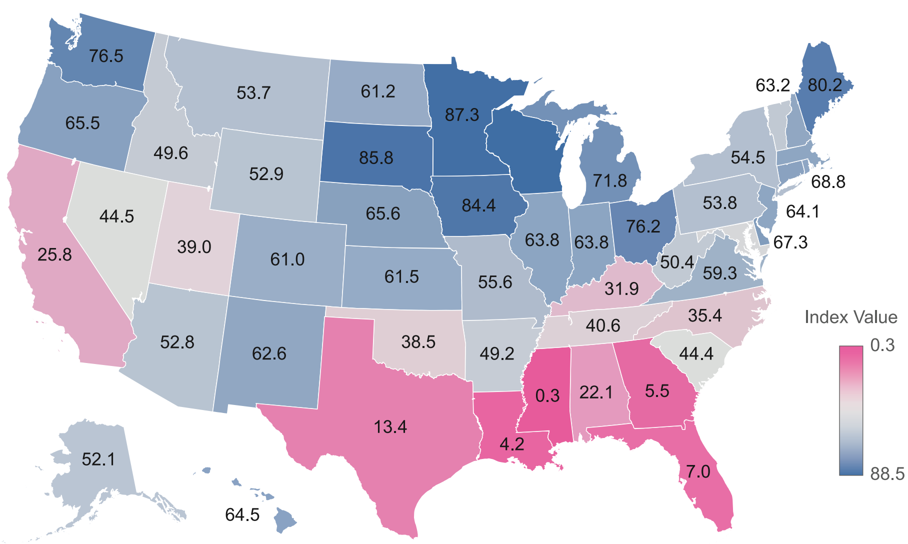
The Experian Small Business Index™ reflects a cautiously optimistic outlook. With stable credit utilization and only modest increases in delinquency rates, it indicates that small firms are managing their financial obligations responsibly despite tighter lending conditions.

Forces impacting small business health in the U.S.

Source: Experian Small Business Index

The southern U.S. continues to lead in small business growth, particularly in states like Florida and Georgia, where emerging businesses are more prevalent but face higher-than-average credit utilization and greater difficulty accessing traditional financing.

Small business health varies from state to state



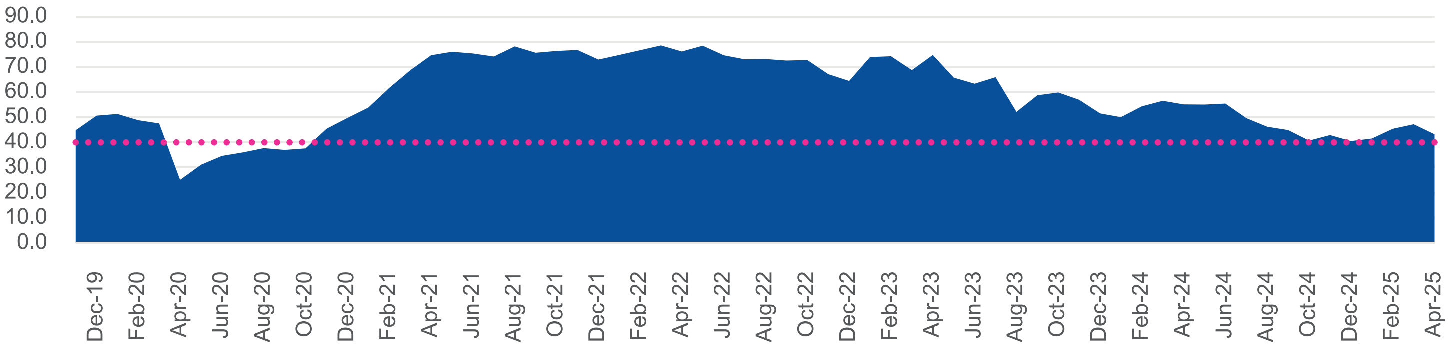
Source: Experian Small Business Index

Cash flow among small businesses remains positive, buoyed by resilient consumer demand and strategic cost management, even as inflation and labor shortages challenge margins. As lenders increasingly rely on alternative data and real-time analytics to assess creditworthiness, small businesses must adapt by maintaining strong financial records and leveraging digital tools to remain competitive in a shifting economic landscape.

Tracking small business prosperity and resilience

Despite ongoing global economic headwinds, U.S. small businesses continue to demonstrate resilience, as reflected in the Experian Small Business Index, which remained healthy for April 2025, settling at 43.2. Developed to monitor the financial health of small business owners, the Index integrates personal and commercial credit data to provide a comprehensive view at national, state, and industry levels. It evaluates key indicators such as delinquency rates, credit utilization, new credit approvals, and the volume of emerging businesses. Scores range from 0 to 100, with a typical range of 40–60; values below 40 suggest a more challenging environment, while those above 60 indicate favorable conditions. The national score remains below the midpoint, while regional dynamics tell a more nuanced story. Southern states, for instance, are experiencing a surge in new business formation, encouraging signs of entrepreneurial activity, but one that also introduces elevated credit risk. Lenders may be cautious in extending capital to these newer ventures, yet this presents a strategic opportunity: financial institutions can help catalyze economic growth in these rapidly changing markets by supporting underfunded but high-potential businesses.

Small business health stabilizing



Source: Experian Small Business Index

The **Experian Small Business Index™** marked the first month reflecting the impact of the broad tariffs announced on April 2nd. While the index experienced a decline, the decrease was modest due to the continued resilience of the U.S. economy. Unemployment remained stable at 4.2%, average hourly wages continued to rise, and 30-year fixed-rate mortgages stayed below 7% for the 17th consecutive week. The inflation rate increased by just 2.3% in April, the lowest rise since February 2021. Key metrics showed signs of deterioration, contributing to the drop in the index. The ongoing shifts in tariff policy have created uncertainty among consumers and small business owners. Consumer sentiment fell to 52.2 in April, down from 57.0 in March and 32% lower than a year ago. Small business optimism declined to 95.8 in April, marking the second consecutive month below the 51-year average of 98. Despite these economic challenges, new businesses continued to form at high rates, with 449,508 new business applications filed in April, matching March's figures and still well above pre-pandemic levels. Tariff relief with China brought welcome news to small businesses still reliant on those imports.

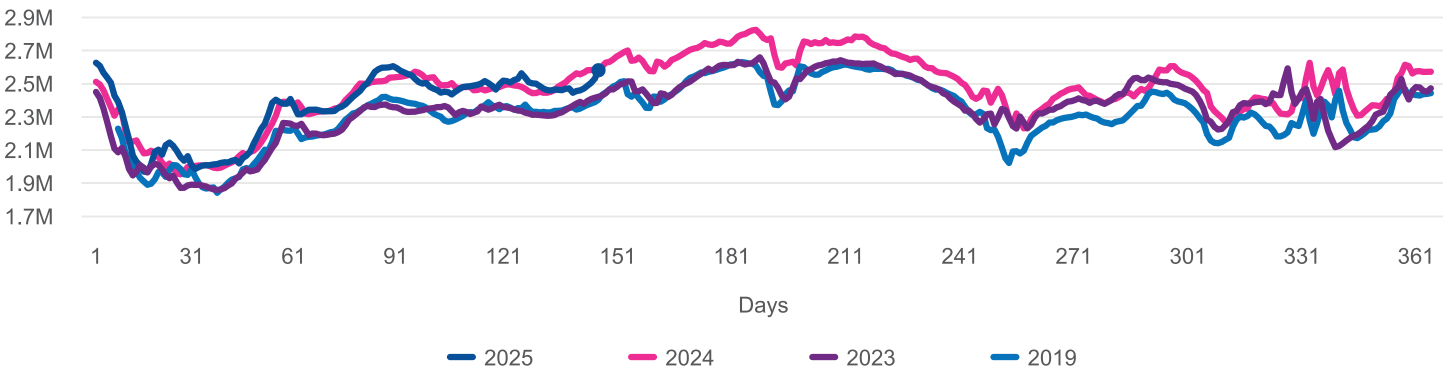
Economic Forces at Play: Stability vs. Disruption

Small business growth is being challenged by a convergence of crosswinds, including persistent inflation, rising business closures despite high application rates, tightening access to capital, strategic shifts driven by AI adoption, labor shortages, and evolving tariff landscapes. While the U.S. economy continues to serve as a global anchor of stability, the Federal Reserve has maintained interest rates at 4.25%–4.5%, reflecting a cautious stance amid sticky core inflation and early signs of labor market softening. Consumer spending remains resilient, with inflation-adjusted private final sales up 3.0% in Q1 2025 according to the U.S. Bureau of Economic Analysis (BEA), reinforcing the U.S. as a driver of global demand. Investor sentiment remains bifurcated: large-cap equities, particularly in the S&P 500 technology sector, continue outperforming due to AI-led productivity gains, while small-cap stocks face pressure. The Russell 3000 Index reflects broad market strength. Still, the Russell 2000 Index, focused on smaller firms, shows signs of stress, highlighting the financial fragility of small businesses as they grapple with higher input costs, limited pricing power, and reduced access to affordable credit. In the bond market, yields on U.S. Treasuries remain elevated, with the 10-year yield hovering near 4.43%, signaling investor caution and expectations of prolonged inflationary pressure, while widening credit spreads, especially for lower-rated corporate debt, are increasing borrowing costs for small and mid-sized enterprises. The U.S. dollar has weakened by approximately 8.5% year-to-date, driven by slowing economic growth and uncertainty around Fed policy. This depreciation may offer a modest tailwind for small exporters by making U.S. goods more competitive abroad. However, it also raises import costs, potentially squeezing margins for firms reliant on foreign inputs. Together, these dynamics in the bond and currency markets are likely to constrain small business expansion and investment through the remainder of 2025, even as the broader economy remains on stable footing.

Global Impacts on U.S. Small Business Performance

U.S. small businesses are contending with a multifaceted global environment marked by persistent inflationary pressures, elevated interest rates, and geopolitical instability that continues to reshape supply chains and consumer behavior. Although inflation has cooled slightly from its 2024 peak, core prices remain sticky, prompting the Federal Reserve to maintain a restrictive monetary stance, which sustains high borrowing costs and tight credit conditions, particularly burdensome for small firms reliant on traditional financing. Labor shortages persist in sectors such as skilled trades, healthcare, and logistics, despite a slight uptick in unemployment, driving continued wage inflation and prompting businesses to invest in workforce training and automation. Geopolitical flashpoints in the Red Sea and Taiwan Strait have disrupted maritime trade routes, increased freight costs, and prompted a strategic pivot toward nearshoring and regional diversification, with Mexico, Vietnam, and India emerging as key sourcing alternatives. Regulatory scrutiny around foreign investment and data sovereignty, especially in the EU and China, has intensified, complicating global expansion for tech-driven startups and exporters. The U.S. dollar has shown signs of weakening, particularly against the euro, which may offer relief to exporters, including agricultural producers and manufacturers in the Midwest. Energy markets remain volatile, though recent OPEC+ decisions to increase production have led to a notable decline in oil and gas prices. These shifts are influencing sectors such as transportation, food processing, and construction, which are sensitive to energy costs.

Higher-income spending is holding up (TSA Passenger Counts (7-Day Average)



Sources: Transportation Security Administration, and Experian Economic Strategy Group

Consumer spending patterns shift as households prioritize essentials over discretionary goods, impacting sectors like apparel, dining, and travel. In response, businesses are deploying AI-driven tools for demand forecasting, dynamic pricing, and inventory optimization while exploring embedded finance solutions and fintech partnerships to improve liquidity. Firms embrace sustainability as a competitive differentiator, investing in energy-efficient operations and circular economy models to meet evolving consumer expectations and regulatory mandates. In this turbulent landscape, resilience hinges on a diversified, data-informed strategy that balances cost control, supply chain agility, and market responsiveness, positioning small businesses to survive and adapt and thrive amid ongoing uncertainty.

From Ports to Portfolios: Ripple Effects of Trade Conflict

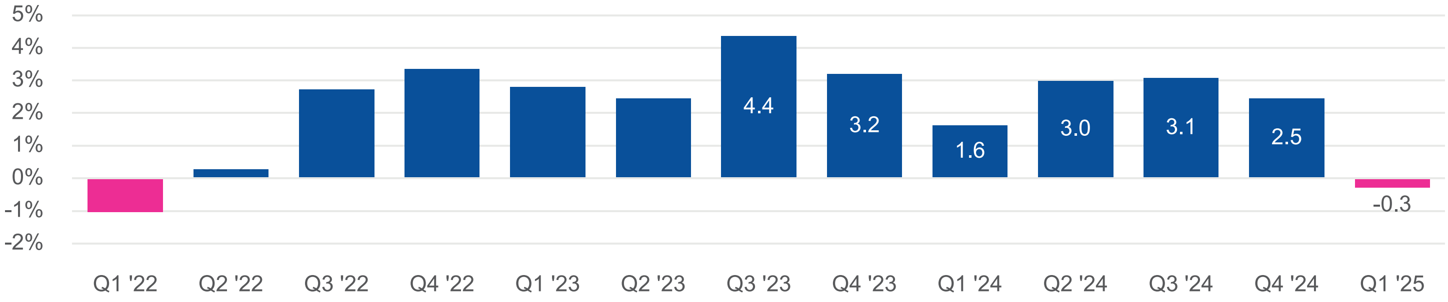
As of Q2 2025, U.S. small businesses grapple with intensified supply chain disruptions amid escalating geopolitical tensions and sweeping trade policy shifts. The U.S. has implemented broad-based reciprocal tariffs, raising effective rates by at least 10 percentage points on imports from key partners, including Canada, Mexico, and China. These measures, part of a broader trade realignment under the current administration, have sharply increased input costs for manufacturing, agriculture, and retail sectors. Small manufacturers, especially those reliant on imported steel, aluminum, and automotive components, grapple with sharp cost increases in 2025 due to new U.S. tariffs. These pressures are driving up prices and causing production delays across the sector.

The Port of Los Angeles is grappling with a sharp decline in cargo volumes due to recent U.S.-China trade tensions. Imports from China dropped by as much as 30% in early May following the imposition of a 145% tariff on Chinese goods. A 90-day agreement has since reduced tariffs to 30%, but port officials caution that this relief may not be enough to reverse the downturn. The port anticipates operating at 70–80% of normal capacity during this period. While shipping rates are rising due to a surge in Chinese exports, inventory levels at the port remain low, and 17 of 80 scheduled sailings were canceled in May, with more expected in June. Analysts suggest the tariff reprieve could trigger an early peak season as importers rush to capitalize on the temporary window, but long-term stability hinges on further trade negotiations.

Retailers and e-commerce platforms are under strain. The suspension of the 'De minimis' rule for Chinese parcels has disrupted low-cost import channels, significantly impacting fast-fashion platforms like Shein and TEMU. These businesses are now urgently diversifying sourcing strategies, often turning to Southeast Asia or domestic suppliers, moves that introduce new logistical complexities and higher operational costs.

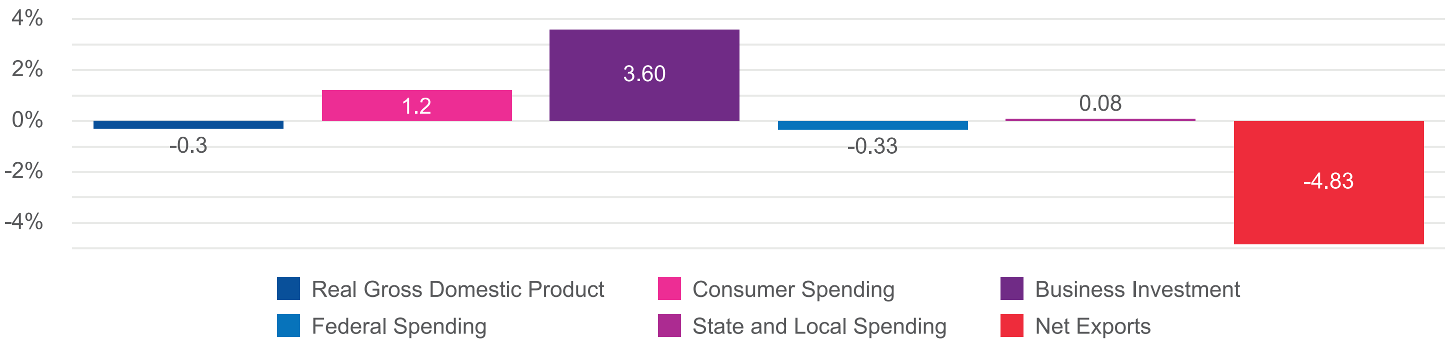
Macroeconomic indicators reflect the broader impact: U.S. GDP growth is projected to slow to 1.6% in 2025, down from 2.8% in 2024, as trade uncertainty and elevated tariffs dampen investment and consumer spending.

First quarter of contraction since Q1 2022



Source: Bureau of Economic Analysis and Experian Economic Strategy Group

Contributions to % Change in Q1 2025 Real GDP



Source: Bureau of Economic Analysis and Experian Economic Strategy Group

Global trade growth is expected to halve, from 3.3% in 2024 to just 1.6% in 2025, with inflationary pressures persisting above pre-pandemic levels in most economies.

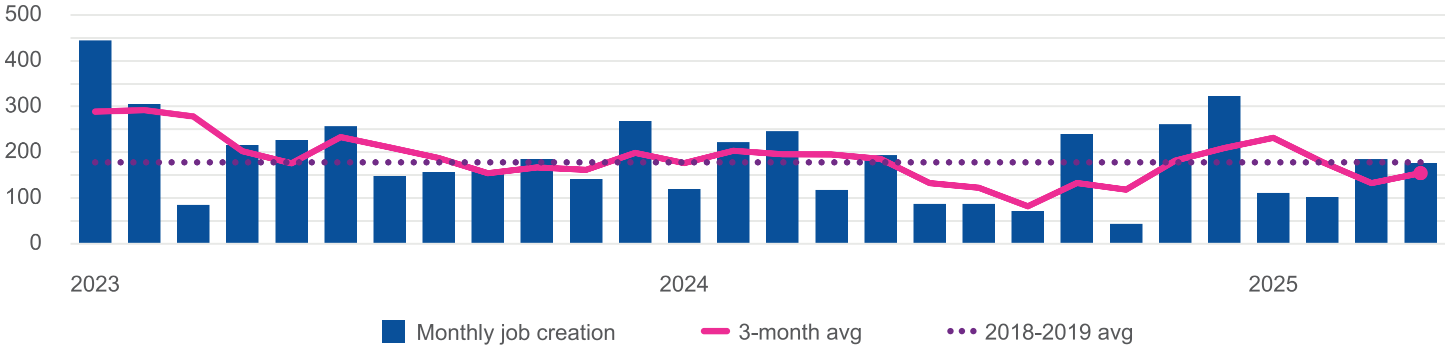
Small businesses are accelerating investments in supply chain resilience, adopting digital tools, reshoring production, and forming regional partnerships. While these strategies offer relief, the volatile trade environment and policy unpredictability suggest that disruptions will persist, requiring continued agility and innovation from small enterprises.

Domestic Impacts on U.S. Small Business Performance

Labor Market Stable as Businesses Pull Back On Hiring

The U.S. unemployment rate has remained stable over the past year, hovering between 4.0% and 4.2%. As of May 2025, the rate is 4.2%, unchanged from the previous two months. This consistency suggests a steady labor market, though not without underlying challenges. The labor force participation rate has also held steady at 62.5%, indicating that the proportion of people actively working or seeking work has not significantly shifted. This stability may reflect a mature labor market where most fluctuations are sector-specific rather than systemic.

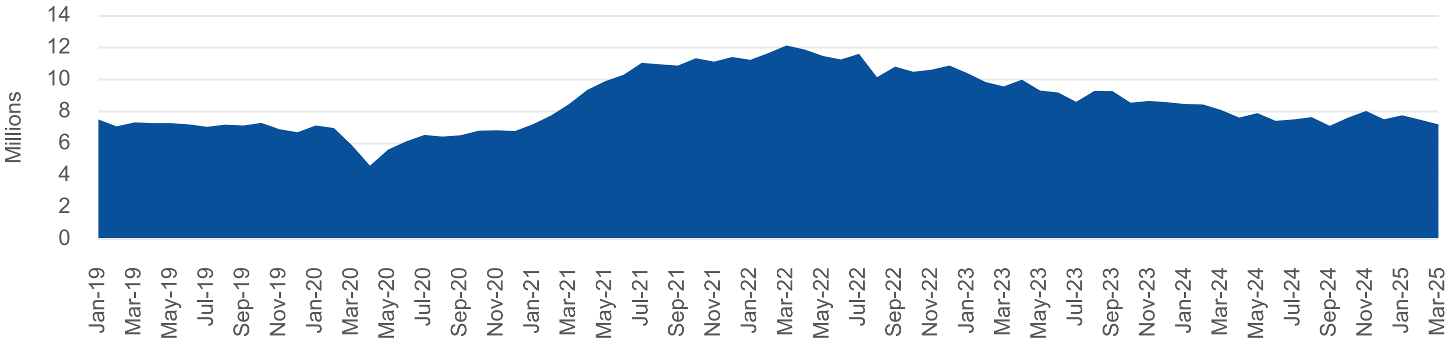
Job creation remains solid



Source: Bureau of Labor Statistics

Job creation has shown variability. In March 2025, employers added 228,000 jobs, while April saw a slightly lower but solid gain of 177,000. These figures exceeded analysts' expectations, pointing to continued resilience in healthcare, transportation, and retail sectors.

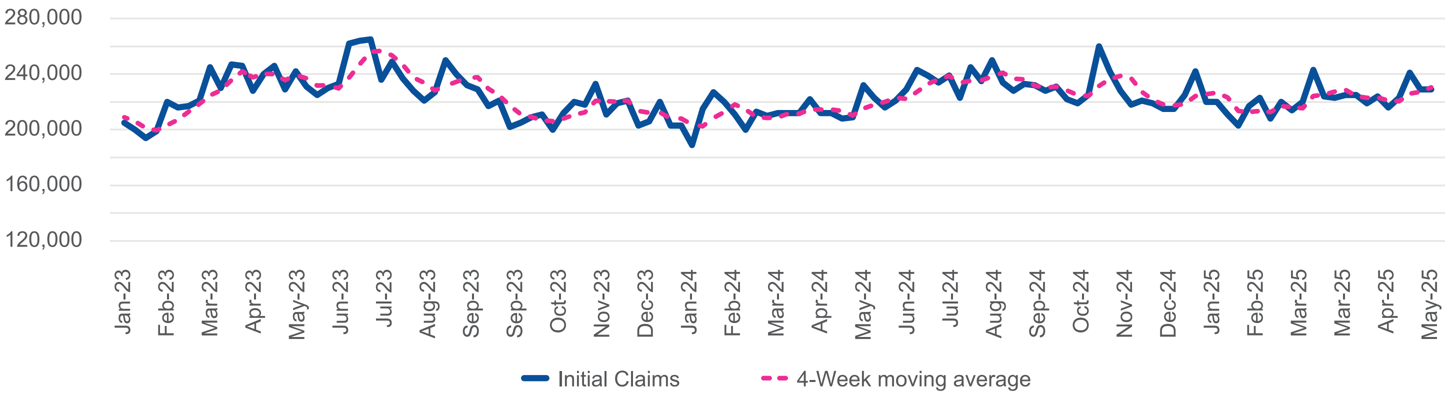
Job openings in the United States fell to 7.6 million



Source: Bureau of Labor Statistics

Job openings have declined slightly, from 7.4 million to 7.1 million in March, suggesting a modest cooling in employer demand. The persistent gap between job openings and hires suggests that the labor market remains tight, with employers still facing challenges finding qualified candidates.

Jobless Claims



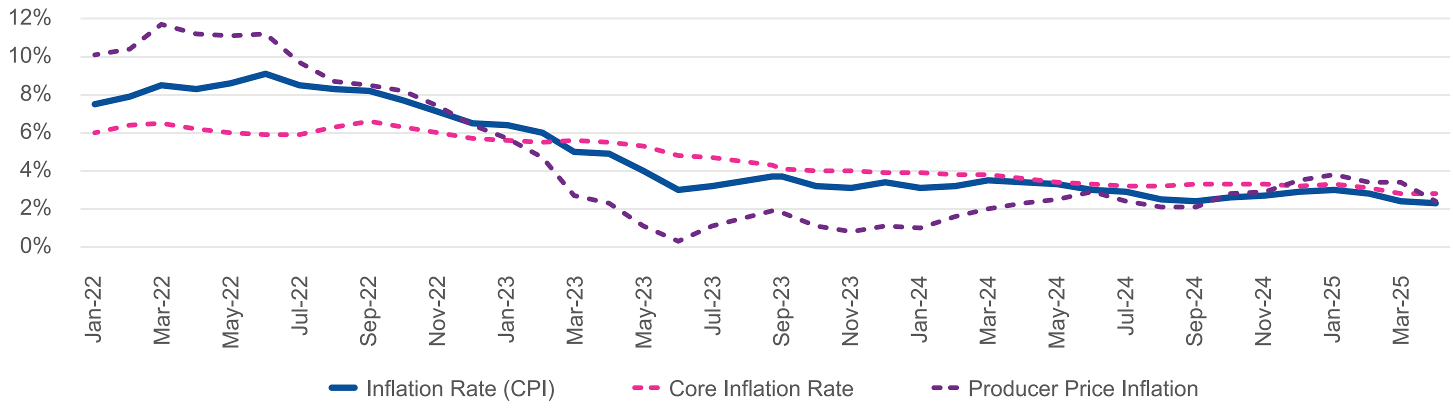
Source: Bureau of Labor Statistics

Initial jobless claims have ticked slightly, from 224,000 in April to 229,000 in May. While this increase is not dramatic, it may signal emerging stress in specific industries or regions. Weekly claims data often serve as an early indicator of labor market shifts, so this trend will be closely watched in the coming months. Despite the uptick, claims remain historically low, reinforcing the view that the labor market remains fundamentally strong.

Government layoffs have seen a modest increase in recent months, with a sizable portion attributed to restructuring within the Department of Government Employment (DOGE). This restructuring is part of a broader federal initiative to modernize public sector operations, reduce administrative overhead, and reallocate resources toward digital transformation and automation. While the layoffs are small in scale compared to the private sector, they can disproportionately impact local economies, particularly in areas where government jobs are a primary significant source of employment.

The Federal Reserve's April Beige Book indicates that businesses across key sectors, particularly manufacturing, retail, and services, have become increasingly cautious with hiring due to ongoing economic uncertainty and uneven consumer demand. While employment levels remained stable in some regions, others reported slight declines or hiring freezes, with wage growth showing only modest gains. Simultaneously, shifts in U.S. immigration policy continued to impact small businesses, especially in labor-dependent industries like agriculture, hospitality, and construction. Adjustments to visa processing and enforcement measures led to labor shortages, intensifying worker competition, and driving up wages.

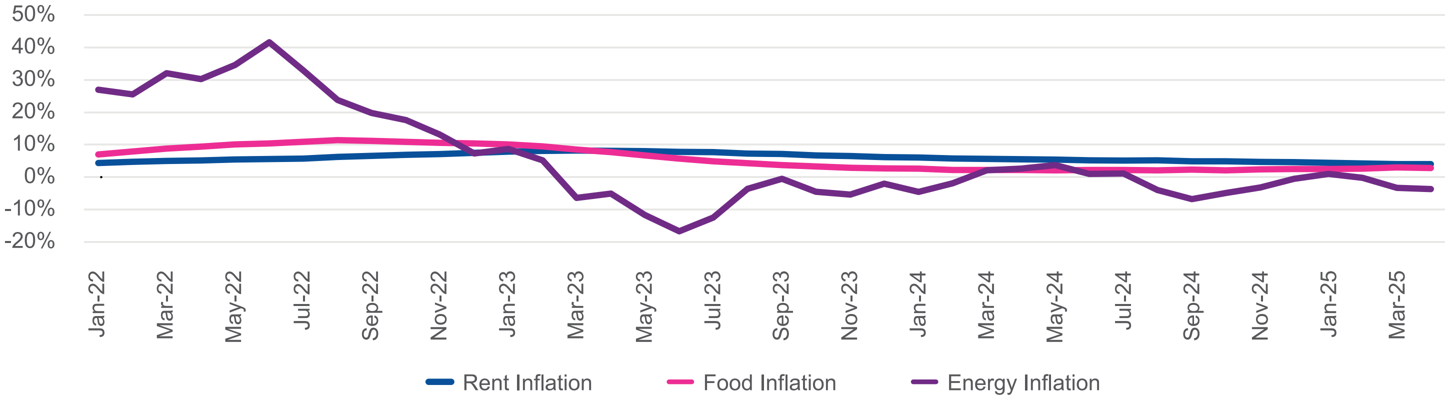
U.S. Core Inflation Rate



Source: Bureau of Labor Statistics

The U.S. core Consumer Price Index (CPI), which excludes food and energy, rose by 0.2% month-over-month and 2.8% year-over-year, reflecting persistent inflationary pressure in key categories. Shelter costs increased by 0.3% and were the most significant contributor to the monthly gain, accounting for over half of the core inflation movement. Overall food prices declined slightly by 0.1%, volatility remained within specific categories: egg prices, for instance, dropped 12.7% from March but were still up 49.3% compared to the previous year due to lingering supply disruptions from an earlier avian flu outbreak. Energy prices, which had fallen in March, rebounded modestly with a 0.7% increase, adding to the inflationary mix.

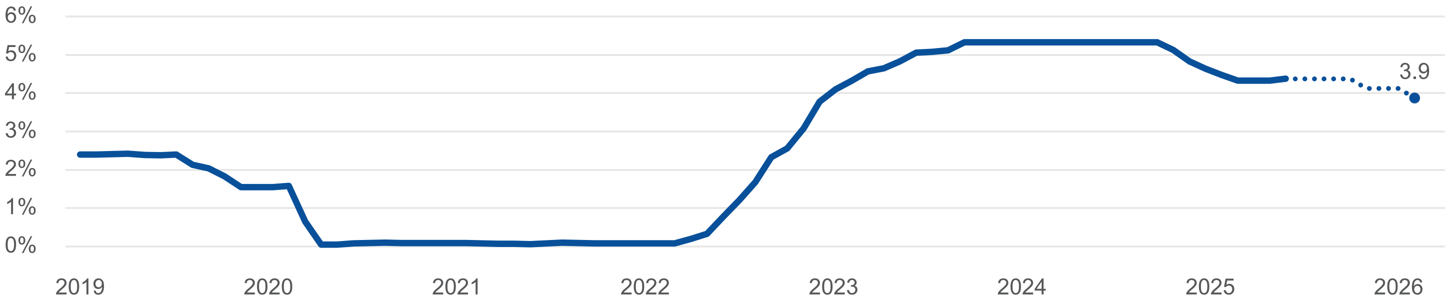
Year-Over-Year Rate of Inflation



Source: Bureau of Labor Statistics

The Federal Reserve has held the federal funds rate steady at 4.25%–4.50%, following a 100-basis point cut in late 2024, but recent inflationary pressures have dampened expectations for further easing. Fed Chair Jerome Powell emphasized that while the central bank remains committed to managing inflation, future rate adjustments will be guided by incoming economic data. Despite these headwinds, consumer spending has remained robust, supported by a resilient labor market and rising real wages, with the Fed noting continued economic expansion and stable employment conditions.

Fed likely to stay cautious in the near-term but cuts still expected



Sources: Federal Reserve and Experian Economic Strategy Group

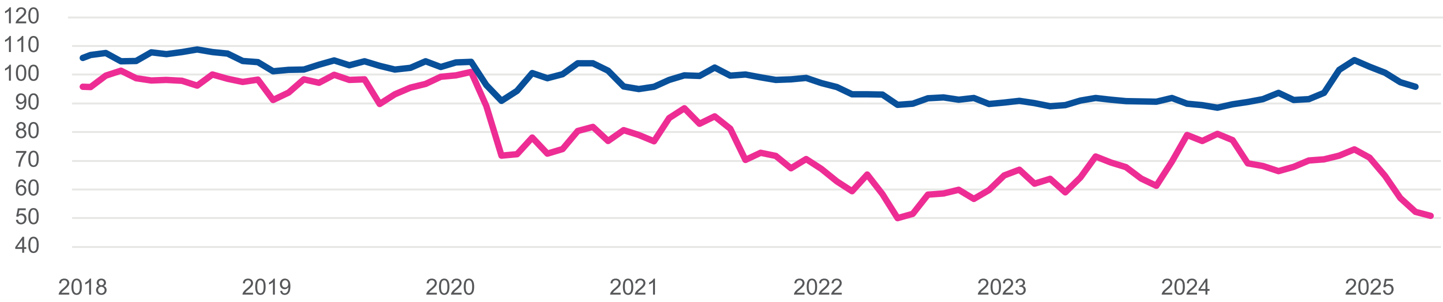
While no immediate rate cuts are planned, projections suggest the Fed may implement up to two 25-basis-point reductions by the end of 2025, potentially lowering the rate to around 3.75%–4.00%. This outlook is highly contingent on how inflation and unemployment trends develop, especially considering ongoing trade policy uncertainties and the risk of stagflation.

The Federal Reserve is approaching the end of its quantitative tightening (QT) program, with expectations that it may conclude in the first half of the year. This shift is driven by the nearing depletion of the overnight reverse repurchase agreement (RRP) facility and growing concerns about maintaining sufficient bank reserves to avoid disruptions in short-term funding markets. No formal end date has been announced; the Fed has already slowed the pace of balance sheet runoff, signaling a more cautious approach. This aligns with its broader monetary policy stance, which remains data dependent as it balances inflation control with financial stability and liquidity considerations.

Consumer and Business Confidence

Consumer and business confidence in the U.S. experienced a sharp downturn, reflecting deepening economic concerns. The University of Michigan's Consumer Sentiment Index declined to 50.8, marking its second-lowest level ever recorded and a 26.5% decline compared to May 2024. This drop continues a five-month downward trend and underscores growing anxiety over inflation, trade policy uncertainty, and weakening labor market expectations. The decline spans across income levels, age groups, and political affiliations.

Consumer and Small Business Sentiment 2024



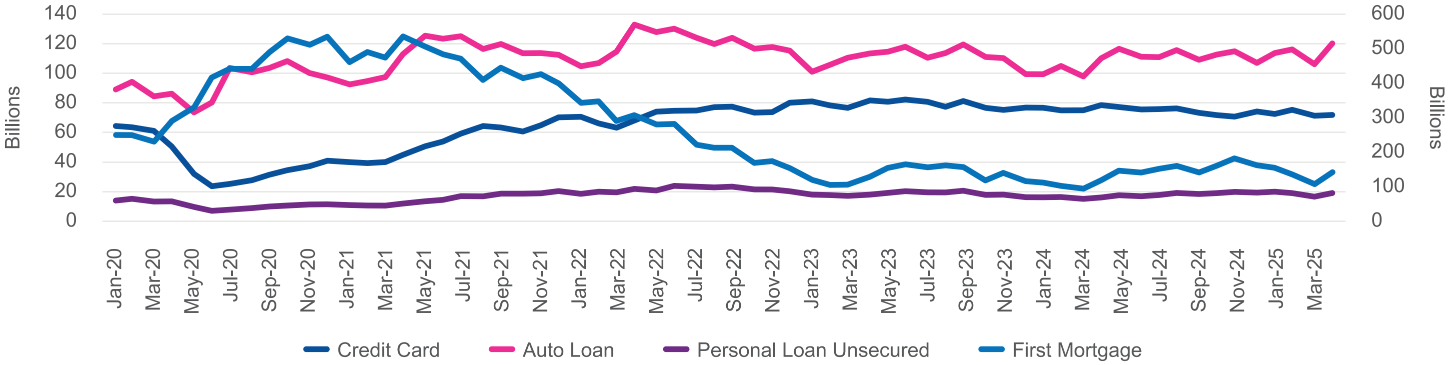
Sources: University of Michigan; NFIB

The NFIB Small Business Optimism Index declined by 1.6 points to 95.8, marking its lowest level since October 2024 and remaining below the 51-year average of 98 for the second consecutive month. This downward trend reflects growing unease among small business owners, driven by persistent labor shortages, inflationary pressures, and economic policy uncertainty. Thirty-four percent of owners reported having job openings they could not fill, the lowest level since 2021, while only 15% expected better business conditions soon, a 6-point drop from the previous month. Inflation weighs heavily on sentiment, with 16% of respondents identifying it as their most pressing concern, particularly due to rising input costs. Although the Uncertainty Index edged slightly to 92, it remains significantly above its historical average, underscoring the cautious stance small businesses are adopting in response to a challenging and unpredictable economic environment.

Consumer Spending

Consumer spending in the United States remains resilient as of May 2025, underpinned by a strong labor market and modest real wage growth. As economic momentum slowed in 2024, real GDP expanded by approximately 2.1%, with consumer expenditure continuing to drive 69% of overall development. Inflation, while down from its 2022 highs, remains above the Federal Reserve's 2% target, with recent data showing renewed price pressures, especially in services. Household debt rose by $93 billion in the final quarter of 2024, half from new credit card balances, indicating that consumers are increasingly relying on borrowing to support their spending, raising concerns about financial sustainability amid elevated interest rates.

Consumer Originations are on the rise



Source: Experian Ascend State of Credit Dashboard

HELOC and cash-out refinance, where equity is elevated, and Unsecured personal lending is rising as consumers look for products to pull out cash or bolster credit to support spending behaviors. Retailers navigate a complex environment marked by robust consumer demand and persistent inflation. Companies like:

Lowe's

Lowe's is navigating a cautious consumer environment shaped by macroeconomic headwinds, including inflation and a sluggish housing market. The company reported a 1.7% decline in comparable sales in Q1, attributing the softness in part to unfavorable weather and broader economic uncertainty. However, Lowe's noted mid-single-digit growth in Pro and online sales, suggesting that while general consumer demand may be subdued, spending among professional customers and digital shoppers remains resilient. This bifurcation in consumer behavior is reflected in Lowe's reaffirmed full-year guidance, which anticipates flat to modestly positive comparable sales growth, supported by continued investment in customer service, technology, and store experience.

TJX Companies

TJX Companies sees the current economic climate as favorable for its off-price retail model. The company reported a 3% increase in comparable sales in Q1 FY26, driven by higher customer transactions across all divisions and geographies. Consumers are increasingly prioritizing value, and TJX's ability to offer brand-name merchandise at discounted prices is strongly resonating with them. The company believes that economic uncertainty enhances its appeal, enabling it to gain market share as shoppers seek affordability without sacrificing quality. TJX expects this value-driven behavior to persist throughout the year, supporting its maintained guidance for 2% to 3% comparable sales growth and continued profitability.

Walmart

Walmart presented a balanced view of consumer financial health, reporting growth across all income cohorts in Q1 FY26, with robust gains among higher-income households. The company observed that consumers remain "choiceful and consistent," focusing on value and convenience, especially in essential categories like groceries, health, and wellness. Walmart's 4.5% U.S. comp sales growth was driven by increased transactions and unit volumes rather than inflation, indicating healthy underlying demand. However, the company is closely monitoring the impact of tariffs and inflation on general merchandise, where it has seen slight deflation and softness in categories like electronics and home goods. Walmart is leveraging its scale, e-commerce growth (up 22% globally), and diversified profit streams, including advertising and membership, to maintain affordability and absorb cost pressures. This strategic flexibility underpins Walmart's confidence in achieving its full-year guidance, even amid a fluid economic and trade environment.

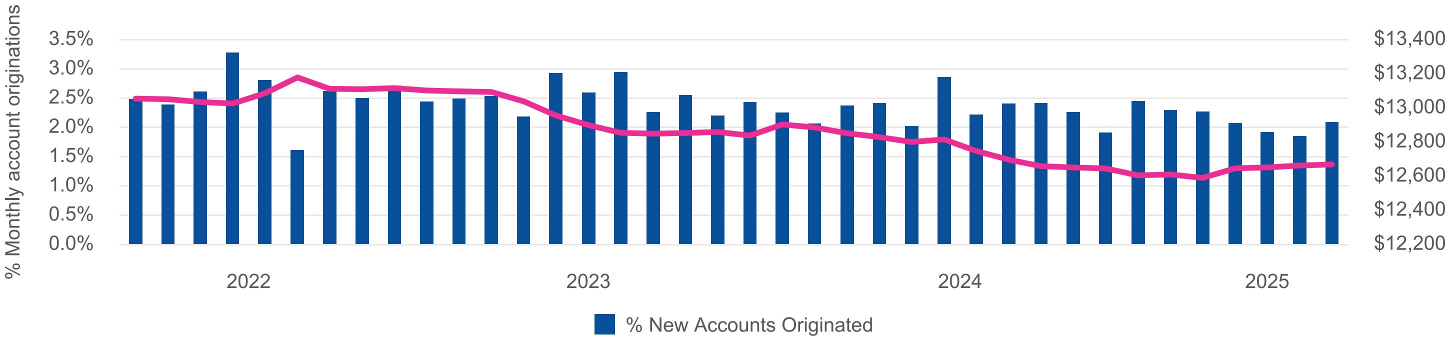
Looking ahead, the economic outlook for 2025 is influenced by policy uncertainties, including proposed tariffs and changes in immigration policies. These factors could elevate costs and impact consumer spending patterns, particularly among middle-income households.

U.S. Business Regional Engagement

Small businesses across the United States continue to demonstrate resilience and innovation amid a complex and evolving economic environment, building on strategic groundwork laid in late 2024 that emphasized regional strengths, digital transformation, and operational agility to navigate inflationary pressures and supply chain disruptions. While demand for small business financing remains strong, commercial loan originations have plateaued over the past year, with traditional lenders maintaining cautious underwriting standards, a trend that began in mid-2022 and persists due to ongoing economic uncertainty and elevated interest rates.

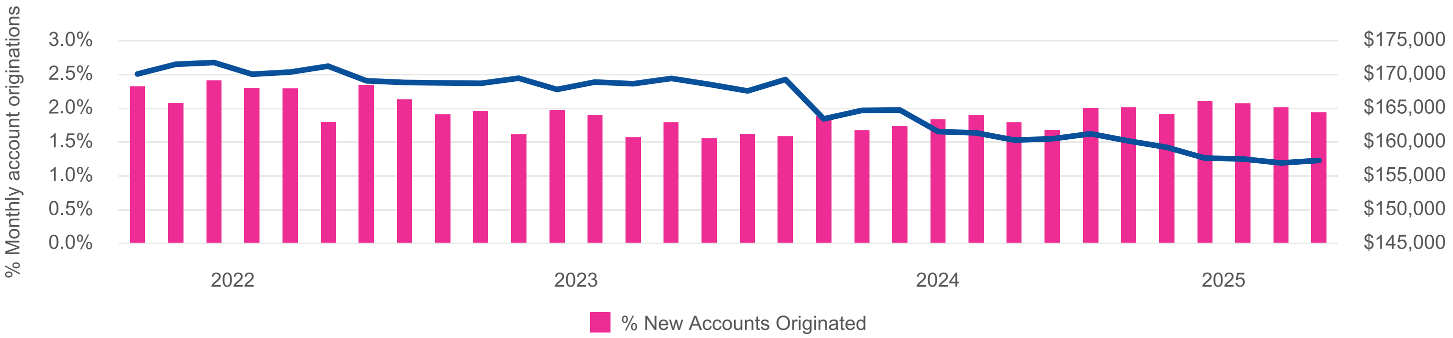
Stable fundamentals with a call down to grow expectations

Commercial Card Originations



Source: Experian Commercial Benchmark

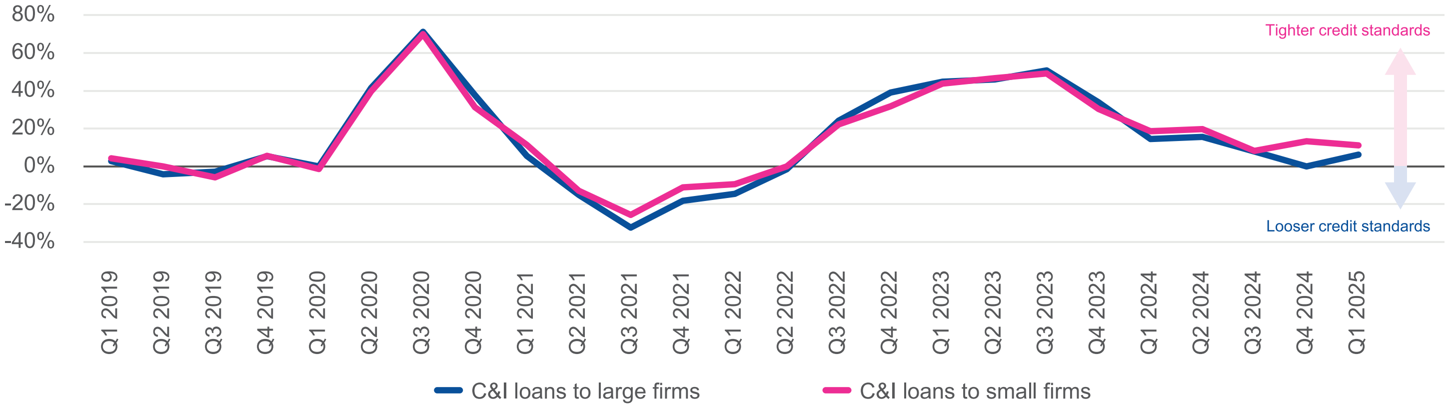
Commercial Installment Originations



Source: Experian Commercial Benchmark

The Small Business Administration (SBA) has implemented stricter lending rules under SOP 50 10 8 to mitigate default risks, though these changes may limit borrowers. Fintech lenders and alternative financing platforms are increasingly stepping in to meet demand with faster, tech-driven solutions, albeit often at higher costs. Targeted funding initiatives are also gaining traction, particularly in sectors like green energy and underserved communities. Despite these headwinds, entrepreneurial momentum remains strong, as evidenced by a 7.8% rise in new business applications and a projected 10% increase in business formations in early 2025, signaling continued optimism and growth potential.

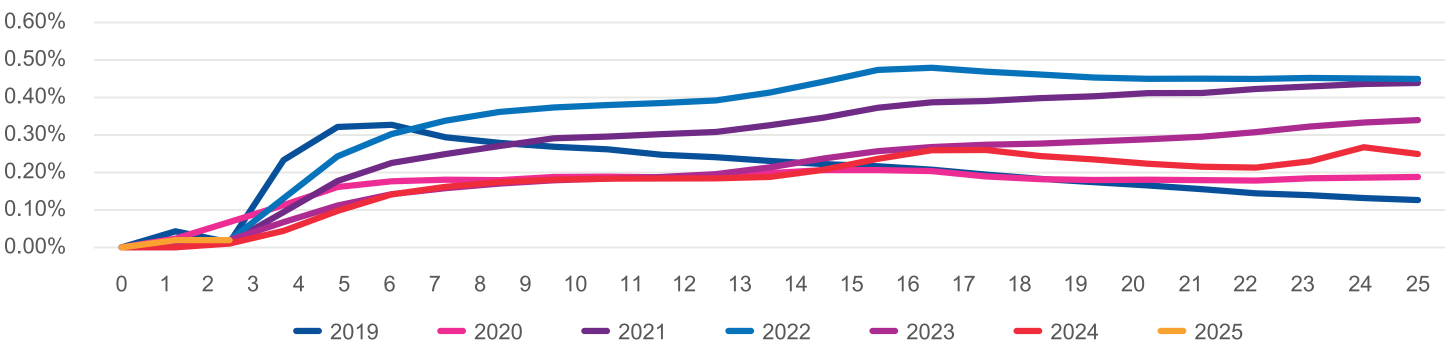
Credit underwriting policies



Source: Federal Reserve (Senior Loan Officer Opinion Survey)

More lenders began to consider loosening underwriting criteria at the start of 2025 as vintage delinquency rates showed exceptional performance compared to the past 5 years.

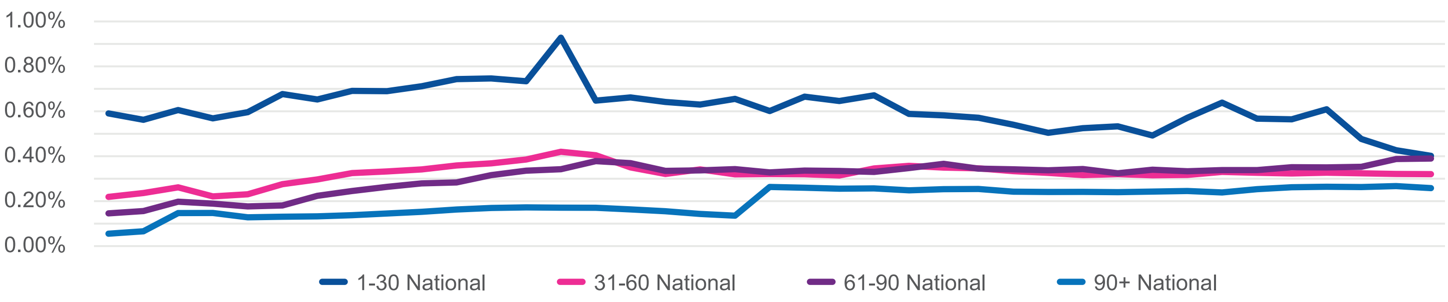
Commercial Card Vintage Delinquency Trends 60- 90DPD60- 90DPD



Source: Experian Commercial Benchmark

Unlike consumer delinquency rates for credit cards, small business delinquency rates have declined since the summer of 2023.

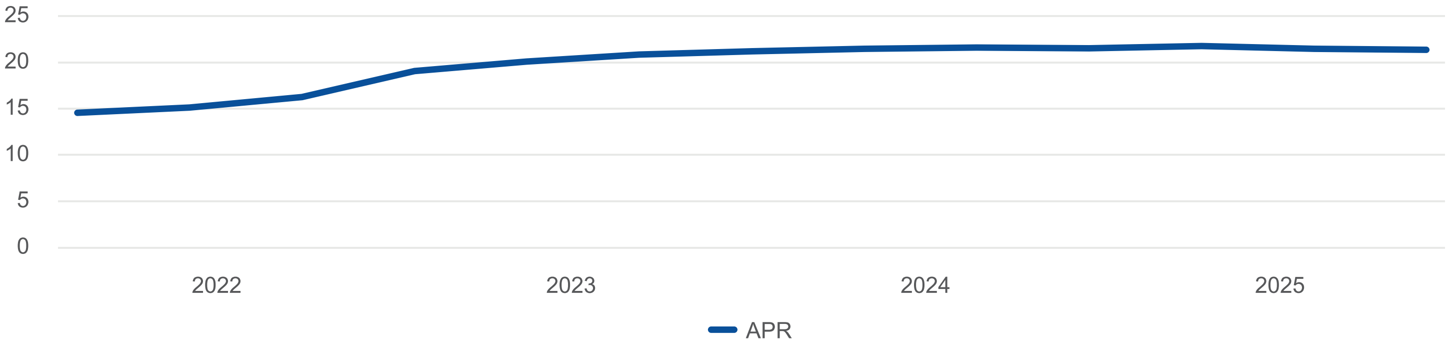
Commercial Card Vintage Delinquency Trends 60-90DPD



Source: Experian Commercial Benchmark

In the first quarter of 2025, small business credit card and term loan delinquencies in the U.S. showed signs of stabilization and slight improvement. Transition rates into serious delinquency for credit cards remained steady. This suggests that small businesses may be adapting to tighter credit conditions and managing their revolving debt more effectively. The Federal Reserve's April 2025 Financial Stability Report noted that interest rates on small business loans have stabilized, and credit card delinquency rates have slightly declined.

APR Trends on Revolving Unsecured Credit

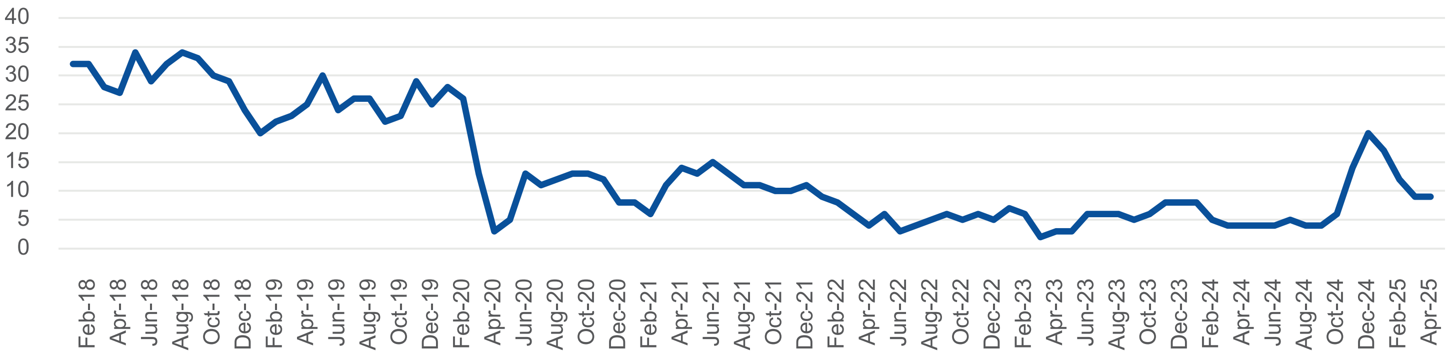


Source: St. Louis Federal Reserve (FRED)

These trends lead to a cautiously optimistic outlook for small business credit health as the year progresses.

Small business growth is being held back by a mix of economic uncertainty, weak sales expectations, and persistent cost pressures, according to the latest NFIB Small Business Economic Trends (SBET) report. The NFIB Small Business Optimism Index dropped to 95.8 in April, remaining below the 51-year average of 98 for the second consecutive month. Only 18% of small business owners plan capital outlays in the next six months, the lowest since April 2020, while a net negative 15% expect better business conditions ahead. Real sales expectations also declined for the fourth straight month, falling to a net negative 1%. Labor quality remains the top concern for 19% of owners, followed by inflation at 14%, and rising insurance costs, now cited by 10%, the highest since March 2020. Despite these challenges, 13% of owners rated their business health as excellent and 56% as good, suggesting that while expansion is at a pause for many, operational resilience remains strong. According to recent surveys, small business owners cite concerns about potential new regulations and global market volatility as top challenges. Additionally, inflation, reduced consumer spending, and limited access to capital continue to weigh heavily on small enterprises. While small businesses are eager to expand, these headwinds are making them more cautious about hiring, investing, and scaling operations.

Percent of businesses investing in growth



Sources: NFIB, Small Business Monthly Optimism Survey

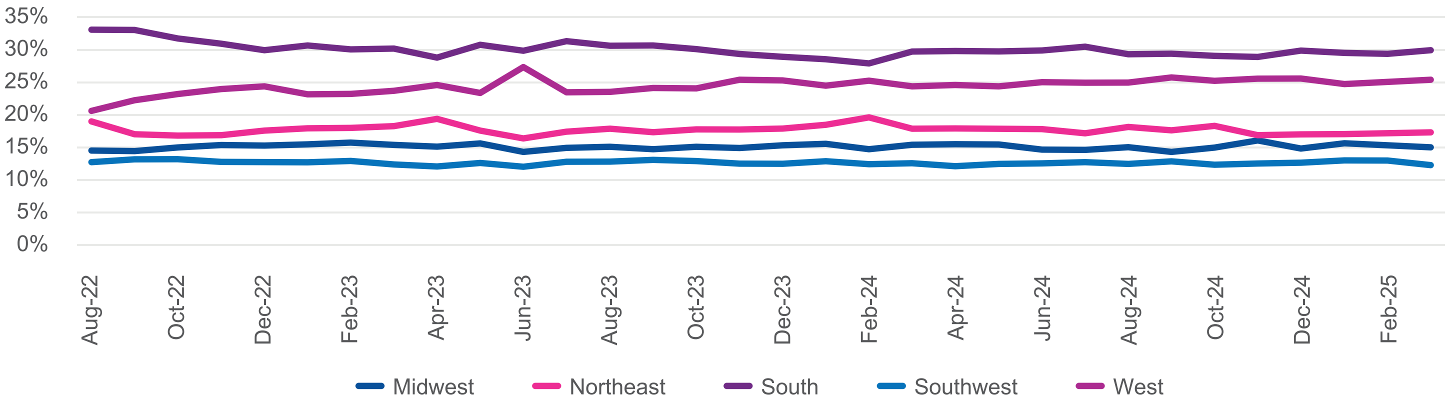
Key tailwinds are supporting small business growth in 2025. According to the NFIB Small Business Economic Trends report, hiring intentions have slightly increased, and 40% of owners report unfilled job openings, signaling strong labor demand. Inflation pressures are easing, as fewer owners are raising prices, potentially boosting margins and consumer demand. Borrowing activity has also risen, suggesting improved access to capital. More owners now rate their business health as "excellent" or "good," reflecting confidence in long-term prospects. These trends, along with a stabilizing regulatory environment and recovering consumer spending, are creating a more supportive climate for small business expansion.

Regional Performance Overview — February 2025

Small businesses across the United States are navigating a complex economic landscape shaped by inflation, shifting credit conditions, global conflicts, and evolving supply chain dynamics. While federal policy initiatives, such as infrastructure investments and clean energy incentives, have provided targeted relief, regional disparities remain pronounced. Each U.S. region faces unique challenges and opportunities, influenced by local industries, demographic trends, and access to capital. From the tech-driven hubs of the West to the manufacturing heartland of the Midwest, small businesses are adapting in real time. The following regional analysis explores financial health, credit trends, and macroeconomic pressures impacting small enterprises, with real-world examples illustrating how businesses are responding to the current climate.

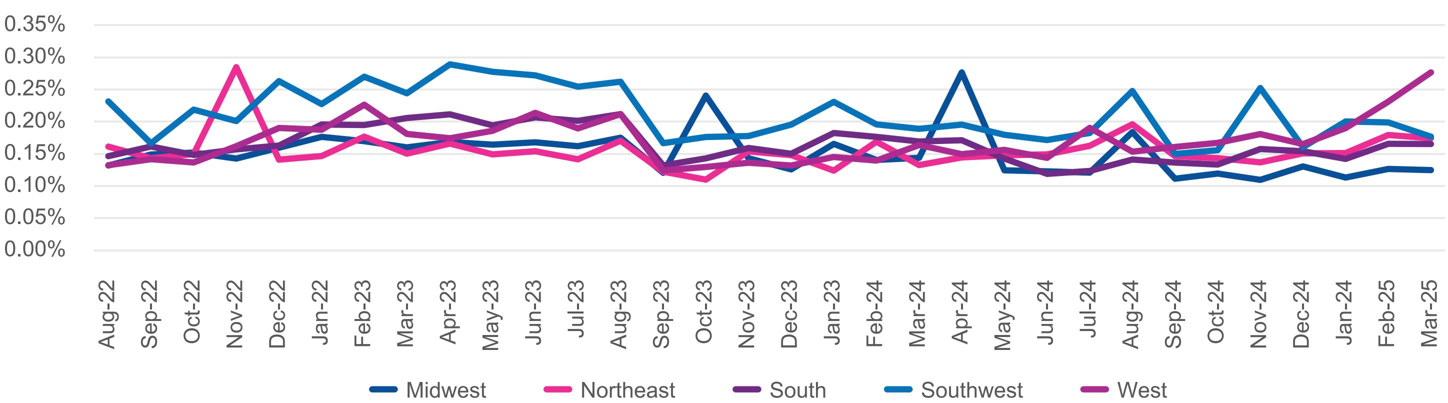
Regionally focused origination and delinquency trends

New Account Originations by Region (All products)



Source: Experian Commercial Benchmark

Regional Commercial Card 60-91 Delinquency



Source: Experian Commercial Benchmark

- **Northeast**: The Northeast remains economically stable, with a 4.1% unemployment rate and consistent wage growth of 3.6% year-over-year. Urban centers like Boston and New York continue to drive regional GDP through finance, healthcare, and education. Consumer spending is resilient, supported by income growth that has outpaced inflation since mid-2024. However, high living costs and aging infrastructure pose long-term challenges. Small businesses in the Northeast are showing cautious optimism. Access to capital has improved, particularly for tech startups and clean energy ventures, thanks to state-level green innovation grants. Yet, small business owners cite regulatory complexity and high commercial rents as persistent barriers. In cities like Philadelphia and Providence, local governments are piloting microloan programs and co-working subsidies to support early-stage entrepreneurs. Retail and hospitality are recovering steadily, though foot traffic remains below pre-pandemic levels in downtown areas. The region's strong educational institutions are also fostering a new wave of student-led ventures, especially in biotech and AI. While the Northeast's small business ecosystem is rebounding, it remains uneven, with rural areas lagging urban innovation hubs.

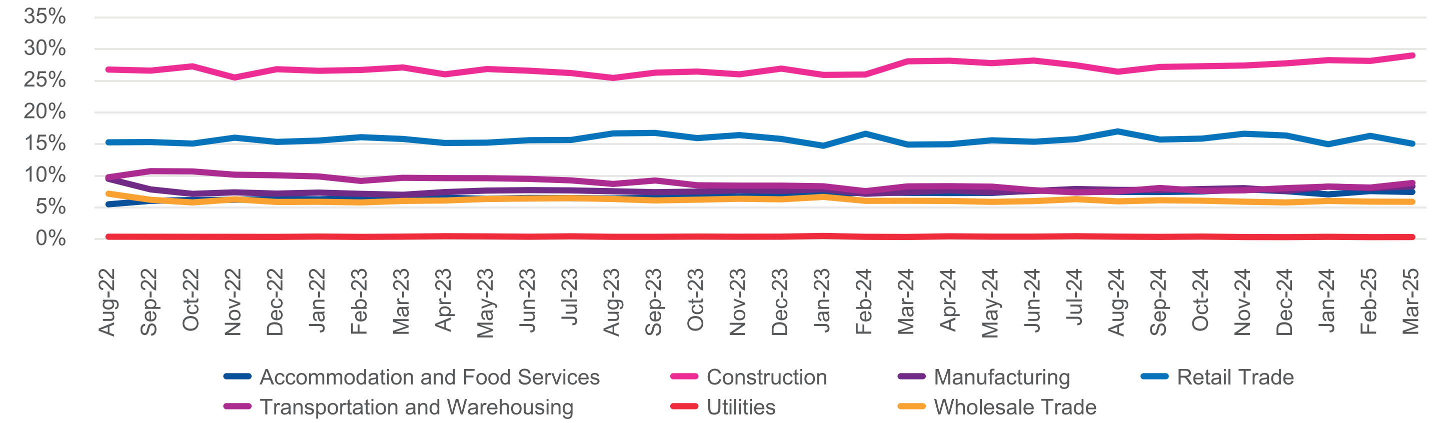
- **Midwest**: The Midwest is undergoing a gradual economic transformation, balancing its traditional strengths in manufacturing and agriculture with emerging sectors like electric vehicles (EVs), renewable energy, and advanced logistics. States such as Michigan, Ohio, and Illinois are investing heavily in EV battery plants and semiconductor facilities, supported by federal incentives and private capital. The region faces demographic headwinds, including population stagnation and an aging workforce, which could limit long-term growth unless offset by immigration or workforce retraining programs. Small business health in the Midwest is mixed but improving. According to recent regional surveys, over 60% of small businesses reported stable or growing revenues in Q1 2025, a notable improvement from 2023. Access to capital has improved, particularly through community banks and state-backed loan guarantees. Rural entrepreneurs still face challenges in securing funding and broadband access. Urban centers like Chicago, Minneapolis, and Columbus are seeing a resurgence in small business formation, especially in food services, logistics, and tech-enabled services. Local governments are also expanding incubator programs and offering tax incentives to encourage entrepreneurship. Labor shortages remain a concern, particularly in skilled trades and healthcare. Several states are partnering with community colleges to offer fast-track certification programs to address this issue. Overall, small businesses are cautiously optimistic, with innovation hubs emerging alongside legacy industries.

- **South**: The Southern U.S. is the nation's economic growth leader, driven by rapid population increases, business-friendly policies, and a diversified industrial base. States like Florida, Georgia, North Carolina, and Tennessee benefit from strong in-migration from other U.S. regions and internationally. This demographic momentum is fueling housing, healthcare, education, and consumer services demand. The tech sector is expanding rapidly in cities like Atlanta and Raleigh, while logistics and manufacturing continue to thrive in inland hubs such as Chattanooga and Birmingham. Small business health in the South is robust. According to recent regional data, over 70% of small businesses reported revenue growth in the past year, with many citing improved access to digital tools and e-commerce platforms. The region's low cost of living and real estate affordability have made it attractive for startups and sole proprietors. State and local governments are actively supporting entrepreneurship through tax incentives, grant programs, and workforce development initiatives. For example, Texas and Florida have launched new accelerator programs targeting minority- and women-owned businesses. However, challenges remain. Labor shortages, particularly in skilled trades and healthcare, are constraining growth. Additionally, rising housing costs in fast-growing metros are beginning to impact affordability for both residents and small business owners. Despite these hurdles, the South's small business ecosystem is vibrant and expanding, with strong momentum heading into the second half of 2025.
- **West**: The Western U.S. continues to be a powerhouse of innovation and economic dynamism, led by California, Washington, and Colorado. The region benefits from robust performance in technology, entertainment, clean energy, and advanced manufacturing. California's economy alone would rank among the top five globally if it were a country, and its tech sector continues to drive national trends in AI, biotech, and green infrastructure. Meanwhile, states like Utah and Idaho are experiencing rapid growth due to lower costs and an influx of remote workers and startups. Small business health in the West is strong but varies significantly between urban and rural areas. In major metro areas like San Francisco, Seattle, and Denver, small businesses are rebounding well from pandemic-era disruptions. Many have embraced digital transformation, with over 75% reporting increased online sales and customer engagement. Access to venture capital and angel investment remains robust, particularly for tech and sustainability-focused startups. High commercial rents, regulatory complexity, and labor shortages, especially in hospitality and skilled trades, are pressing concerns. In rural areas, limited broadband access and workforce availability continue to hinder small business growth. States are responding with targeted grants, infrastructure investments, and rural entrepreneurship programs. Overall, the West's small business ecosystem is vibrant, tech-forward, and increasingly diversified, though disparities between urban and rural regions remain a key issue.
- **Southwest**: The Southwest, anchored by Texas, Arizona, and New Mexico, is experiencing dynamic and broad-based economic growth in 2025. Texas continues to lead the nation in job creation and business relocations, driven by its energy sector, booming tech industry, and favorable tax environment. Arizona is emerging as a semiconductor and clean energy hub, with significant investments from global manufacturers. New Mexico is leveraging federal infrastructure and defense spending to modernize its economy. The region benefits from a young, diverse population and strategic proximity to Mexico, enhancing cross-border trade and logistics. Small business health in the Southwest is among the strongest in the country. In Texas alone, small business formation has surged by over 12% year-over-year, with Austin and Dallas leading in tech startups and creative industries. Access to capital is improving, thanks to a growing network of angel investors, state-backed loan programs, and community development financial institutions (CDFIs). Arizona's small businesses are thriving in sectors like solar energy, construction, and tourism, while New Mexico is seeing growth in artisan goods, food production, and cultural tourism. Challenges include rising commercial real estate costs in urban centers and a tightening labor market, particularly in skilled trades and healthcare. Nonetheless, the region's entrepreneurial ecosystem is vibrant, supported by strong infrastructure, pro-business policies, and a culture of innovation.

Industry-specific impacts

The commercial lending environment reflects a clear divergence across sectors. The transportation and warehousing industries are experiencing a pullback in loan activity due to a cooling freight market following the pandemic surge. Rising fuel and labor expenses have further dampened momentum, prompting companies to shelve growth initiatives amid stricter lending standards.

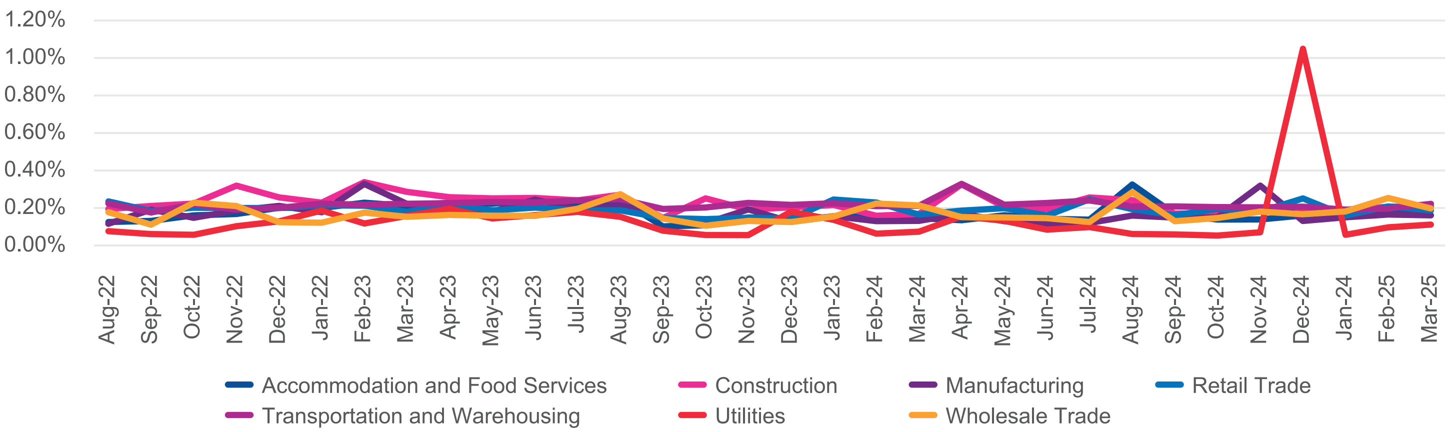
Industry-focused origination trends by industry



Source: Experian Commercial Benchmark

Small business lending is showing encouraging signs of improvement in most sectors, with delinquency rates declining. The manufacturing industry is bucking this trend, experiencing a rise in delinquencies due to a convergence of persistent supply chain disruptions, elevated raw material costs, and softening global demand. Manufacturers, having overextended themselves during previous growth cycles, are now struggling to manage higher debt obligations in an environment where interest rates remain elevated. These pressures are not only straining individual businesses but also prompting lenders to reassess risk and adjust their strategies, making manufacturing a focal point in the evolving credit landscape of 2025.

Industry focused delinquency trends% Bal 61-90 DPD Monthly Delinquency Trends (All Accounts)



Source: Experian Commercial Benchmark

Small businesses are recalibrating their strategies amid a cautiously optimistic economic climate. With inflation showing signs of easing and interest rates beginning to decline, entrepreneurs are focusing on efficiency, digital transformation, and supply chain resilience. The shift toward localized production and sustainability is no longer optional but essential, as consumers and regulators alike demand more responsible practices. Emerging technologies, such as AI, automation, and advanced analytics, enable even the smallest enterprises to innovate and compete on a larger scale. Despite lingering challenges like unpredictable consumer behavior and tighter credit conditions, businesses that remain agile and forward-looking are discovering new avenues for growth and long-term success in a rapidly evolving global marketplace.

Main Street Momentum: Navigating the Now, Building the Next

As we move through 2025, U.S. small businesses continue to demonstrate remarkable resilience amid a complex economic landscape shaped by inflation, evolving credit conditions, and global policy shifts. The Experian Small Business Index™ remains within a stable range, reflecting disciplined credit utilization and modest delinquency increases, signs of responsible financial management despite tighter lending standards.

Key trends include a sustained high rate of new business formation, with over 449,000 applications in April alone, and a regional surge in entrepreneurial activity, particularly in the South and Southwest.

Key highlights:

- **Emerging opportunity**: ~450k new businesses launched in April 2025
- **Small Business Index**: Held at 43.2, signaling stable credit health
- **Labor market stability**: Unemployment held steady at 4.2% in April 2025
- **Ability to pay**: U.S. Commercial credit card delinquencies have declined since mid-2023
- **Challenging the national sentiment surveys**: More owners now rate their business health as "excellent" or "good"

Source: NFIB

Access to traditional financing remains constrained, and alternative lenders and fintech platforms are stepping in to fill the gap, offering faster, data-driven solutions. Sectors like construction and clean energy are benefiting from public investment and policy support, even as manufacturing faces headwinds from tariffs and supply chain disruptions.

Lenders are increasingly leveraging alternative data and real-time analytics to refine risk assessments, creating opportunities for more inclusive and nuanced underwriting. For small businesses, maintaining strong financial records, embracing digital tools, and investing in operational agility will be critical to navigating the road ahead.

Despite the crosswind, the outlook is cautiously optimistic. Inflation easing, interest rates stabilizing, and consumer demand holding firm, the foundation for growth is solidifying. Lenders and small businesses alike have a shared opportunity: to collaborate, innovate, and build a more resilient Main Street economy. **In the face of credit crosswinds and policy pivots, Main Street isn't just holding steady, it's gearing up for its next big leap!**

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.).

About Experian's Business Information Services

Experian's Business Information Services is a leader in providing data and predictive insights to organizations, helping them mitigate risk and improve profitability. The company's business database provides comprehensive, third-party-verified information on 99.9 percent of all U.S. companies. Experian provides market-leading tools that assist clients of all sizes in making real-time decisions, processing new applications, managing customer relationships and collecting on delinquent accounts. For more information about Experian's advanced business-to-business products and services, visit www.experian.com/commercial.

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