



MAIN STREET REPORT

Your window into small business health

Q2 2025



The Great Recalibration



Main Street Recalibrates for a New Normal

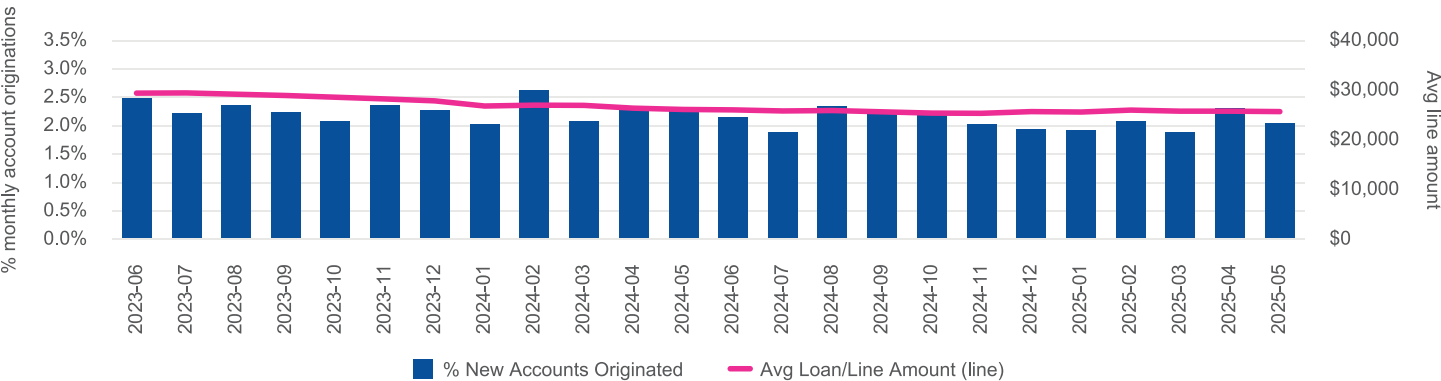
U.S. small businesses are demonstrating exceptional adaptability amid a complex post-pandemic economic environment. Inflation remains elevated above 3%, interest rates are steady between 4.25% and 4.50%, and global trade dynamics continue to introduce volatility. Despite these pressures, small firms are showing resilience, driven by improved digital capabilities, disciplined fiscal management, and a steady flow of entrepreneurial activity.

In Q2 2025, an average of 447,000 new business applications were filed, with significant contributions from minority and younger founders. The Experian Small Business Index™ held steady, credit conditions remained tight. Traditional lenders continued to restrict approvals, with just 13% of applications approved by large banks. In response, small businesses increasingly turned to fintech and embedded finance solutions for faster, data-driven access to capital.

Borrowing behaviors are shifting. The average small business credit card APRs now exceed 25%, firms are transitioning toward installment loans that offer structured repayment terms.

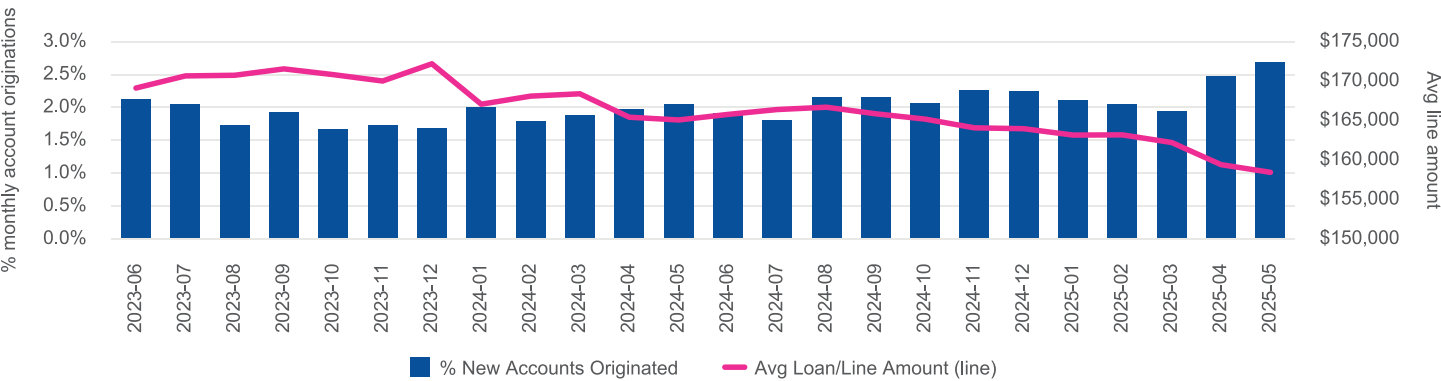
Commercial Card and Installment Origination Trends — changing borrower appetite

Commercial Card Originations



Source: Experian Commercial Benchmark

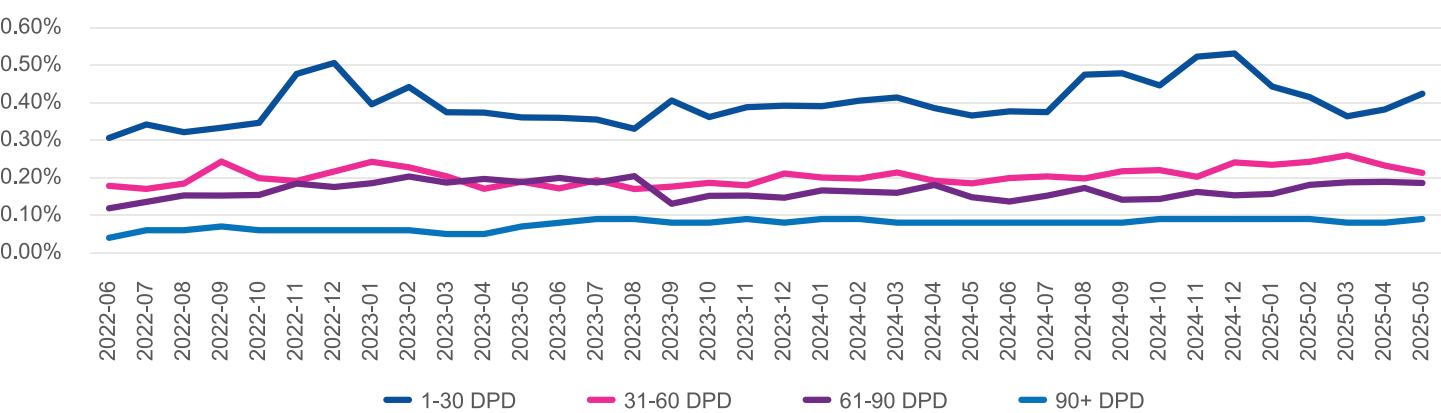
Commercial Installment Originations



Source: Experian Commercial Benchmark

Delinquency rates remain contained, underscoring a broader trend of fiscal caution.

Commercial Card Delinquency Trends



Source: Experian Commercial Benchmark

Business sentiment continues to improve. According to the U.S. Chamber of Commerce, 69% of small businesses report strong overall health, and 73% feel comfortable with their cash flow, up from 66% in the previous quarter. Steady consumer demand, digital adoption, and supply chain improvements are contributing to this renewed optimism.

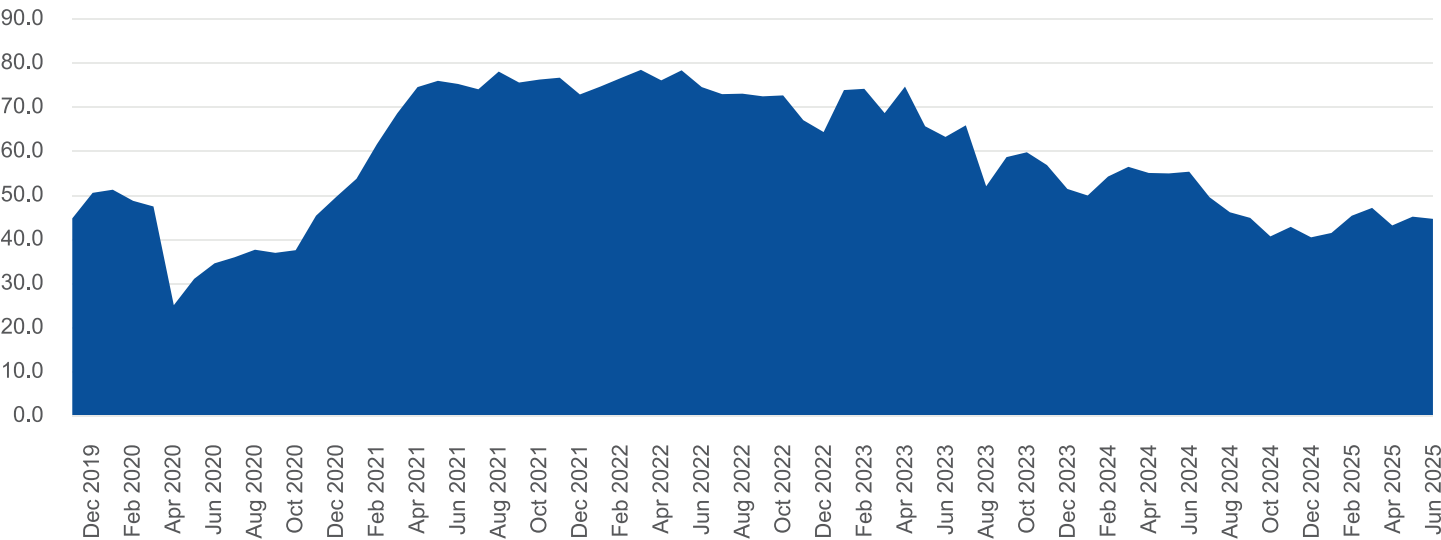
Looking ahead, success will depend on adaptability. Small firms must navigate rising compliance costs, labor market shifts, and global trade frictions, while embracing artificial intelligence, strategic sourcing, and real-time financial planning. In this recalibrated environment, operational agility and data-informed decision-making will be the defining traits of Main Street leaders entering 2026.

Credit and Lending Climate

Tighter Access, Smarter Strategies

The Experian Small Business Index™ remained stable in Q2 2025, reflecting steady credit demand among U.S. small businesses. Access to capital remains uneven. Lenders are cautious, with big banks approving just 13% of small business loan applications and tightening credit standards amid persistent economic uncertainty. Approval rates are constrained in interest-sensitive sectors such as construction, retail, and professional services.

Small business index trending higher



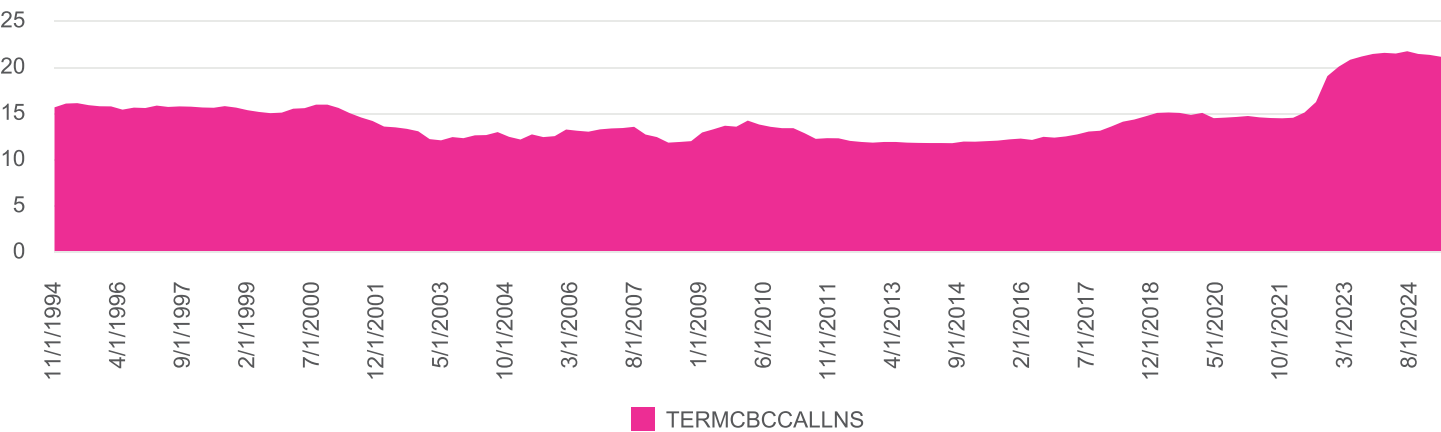
Source: Experian Small Business Index

Small businesses are increasingly seeking capital through alternative sources. Fintech lenders and embedded finance platforms have gained momentum, offering faster application processing, data-driven underwriting, and flexible repayment structures. These solutions are playing a growing role in bridging the financing gap for businesses that lack strong traditional banking relationships or collateral.

Credit utilization has held steady, but borrowing behavior is shifting. Average credit card APRs exceeding 25%, business owners are moving away from revolving debt and toward structured financing options such as term loans or merchant cash advances.

Commercial APR begins to plateau

AVG Commercial APR



Source: TERMCBCCALLNS Board of Governors of the Federal Reserve System

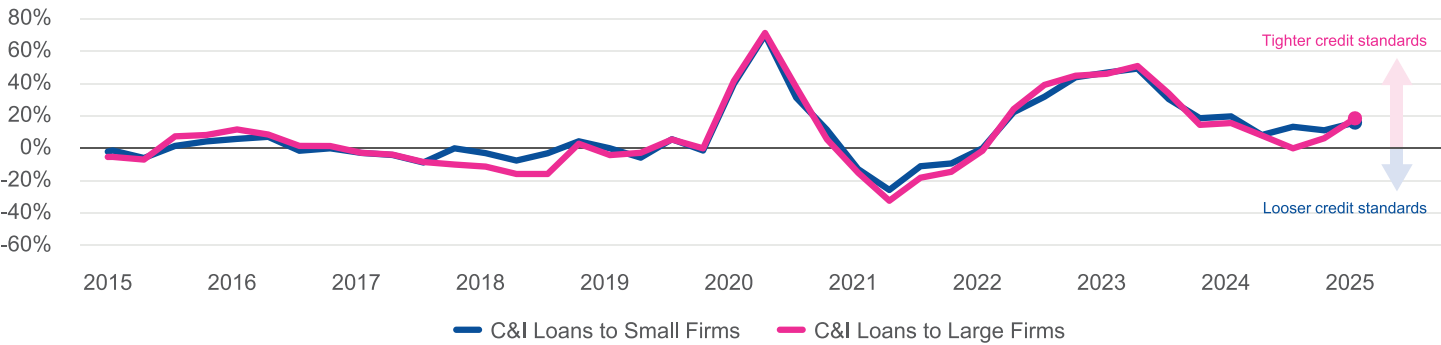
This transition reflects a broader focus on predictability and cost control.

Delinquency trends are also shifting. While consumer and small business credit delinquencies have declined year over year, lenders have not significantly loosened underwriting criteria. According to the April 2025 Senior Loan Officer Opinion Survey (SLOOS), banks maintain more conservative terms, including smaller credit lines, higher risk premiums, and stricter loan covenants. These measures respond to regulatory pressure, rising capital costs, and ongoing macroeconomic uncertainty.

Financially constrained firms, especially those with subprime credit profiles, are seeing the cost of capital rise sharply. Subprime borrowers now face credit card APRs over 30%, further straining margins and prompting a reassessment of financing strategies. Businesses with strong credit management practices are better positioned to access more favorable terms.

Credit Underwriting Policies slow to loosen

Net % of Banks Tightening Lending Standards



Source: Federal Reserve (Senior Loan Officer Opinion Survey)

To support repayment and reduce delinquency risk, lenders offer incentives such as 0% APR introductory periods, balance transfer promotions, and credit score management tools. These strategies aim to preserve portfolio performance while providing temporary relief to borrowers.

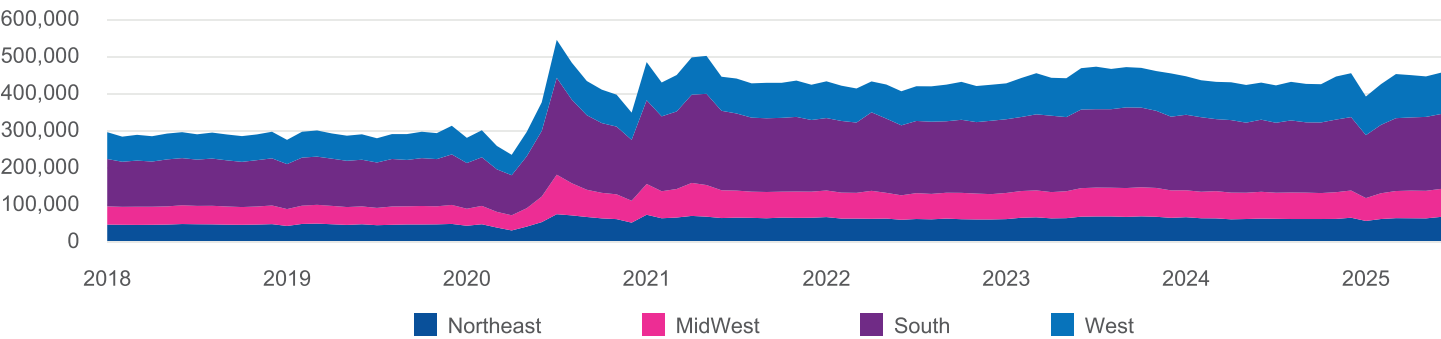
As businesses plan for 2026, effective credit management and strategic capital sourcing will be essential. In a climate of higher borrowing costs and selective underwriting, demonstrating financial discipline, maintaining healthy utilization rates, and leveraging digital financial tools will be a competitive advantage.

Entrepreneurship & Formation

Momentum Continues, Foundations Strengthen

According to U.S. Census Bureau data, entrepreneurial activity remained elevated in Q2 2025, with 457k new business applications filed in June alone. This sustained level of business formation, well above pre-pandemic averages, signals durable momentum across Main Street, even amid macroeconomic uncertainty.

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



Sources: U.S. Census Bureau

A notable share of these applications fall under the category of High-Propensity Business Applications (HBAs), up 3.3% month over month in June, indicating a high likelihood of transitioning into employer firms. This trend suggests growing confidence in long-term business viability and reflects improved planning and readiness among new entrepreneurs.

Several structural tailwinds are supporting this expansion:

- Low unemployment and rising wages have contributed to household financial stability, creating a more favorable environment for business formation.
- Digital infrastructure gains and the normalization of remote work have lowered entry barriers, particularly for service-based and e-commerce ventures.
- Alternative financing sources, including community lenders and fintech platforms, provide broader access to capital for early-stage businesses.

The Experian Small Business Index™ confirms this optimism, with steady credit application volumes despite tighter lending standards. Minority and younger founders continue to play a critical role in this expansion, contributing to a more diverse and distributed entrepreneurial landscape.



Operational dynamics are evolving. The average time between application and active employer status is shortening, indicating faster business ramp-up cycles and improved access to startup resources. Sectors such as logistics, professional services, and digital retail are experiencing higher rates of new entries. In contrast, hospitality and traditional retail industries continue to contend with margin pressures from inflation and rising input costs.

New firms still rely on immediate sales or existing cash reserves, leaving them vulnerable to economic shocks. A recent PYMNTS Intelligence survey found that over 50% of small businesses do not yet leverage cash flow forecasting tools or automated financial planning platforms.

That is beginning to change. Increased adoption of digital financial solutions, including automated accounts receivable/payable (AR/AP) systems and real-time cash monitoring tools, is helping early-stage businesses transition from a survival mindset to a growth-oriented posture.

As small business formation stabilizes above 400,000 new applications per month, the landscape ahead will be defined not only by innovation and access to capital but also by how quickly new firms can build operational resilience and scale sustainably.

Global and Domestic Macroeconomics

Volatility Abroad, Headwinds at Home

Small businesses in the U.S. entered Q3 2025 facing heightened global uncertainty and increasingly complex domestic pressures. From shifting trade policies to energy price instability, the macroeconomic environment forces Main Street to remain agile and resourceful.

Trade Frictions and Supply Chain Disruption

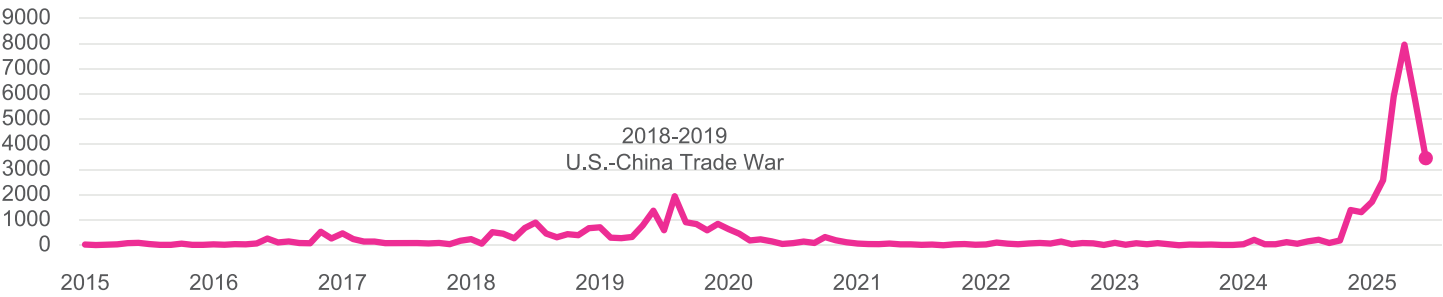
The expiration of the U.S. tariff pause on August 1st, with new country-specific tariffs ranging from 15% to 40%, reignited global trade tensions. Tariff increases affect import-reliant industries, including retail, automotive, and electronics. At the same time, geopolitical instability in regions such as the Red Sea and the Taiwan Strait is disrupting key shipping lanes, adding in some cases 10–15 days to transit times, increasing freight costs, and prompting businesses to reassess their sourcing strategies.



Trade policy uncertainty has come off peak but remains historically high

Uncertainty is impacting business hiring and investment decisions

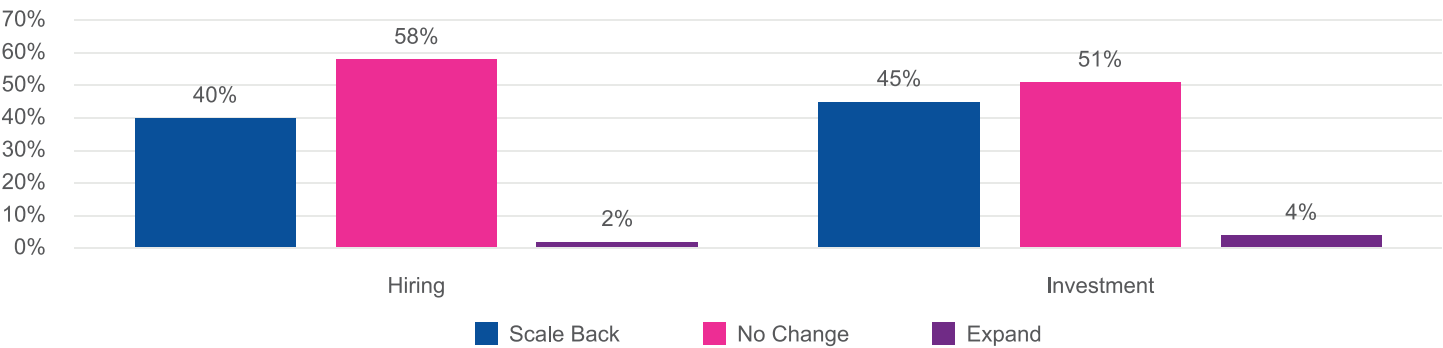
Trade Policy Uncertainty Indices



Sources: Economic Policy Uncertainty Index (Scott Baker, Nick Bloom, Stephen Davis), Federal Reserve Bank of New York (June 2025), and Experian Economic Strategy Group

Effect of Policy Uncertainty On Hiring/Investment

Has uncertainty around tariffs, taxes, government spending, monetary policy or regulation affected your firm’s plans for hiring/Investment over next 6 months?



Sources: Economic Policy Uncertainty Index (Scott Baker, Nick Bloom, Stephen Davis), Federal Reserve Bank of New York (June 2025), and Experian Economic Strategy Group

Nearshoring is gaining traction, with Mexico and Vietnam becoming favored alternatives. The transition comes with additional logistical and cost complexities. U.S. ports, already strained by earlier front-loading of inventory, are experiencing operational bottlenecks.

Energy Market Volatility and AI Investment

Mid-year military conflict in the Middle East, especially around the Strait of Hormuz, has added new pressure to oil markets, Brent crude rose from \$69 to \$79 per barrel in mid-June before stabilizing around \$70. OPEC+ production increases, 548,000 barrels/day in August, have provided near-term relief, as transportation and manufacturing firms continue to navigate unpredictable input costs. Domestic energy producers have benefited from recent policy incentives, but smaller logistics firms are struggling to absorb costs related to tariffs and AI infrastructure investments.

AI adoption is accelerating across supply chains and logistics operations. Tools for cargo routing, demand forecasting, and warehouse optimization are helping businesses manage volatility more effectively. Implementation remains uneven; larger firms are reaping greater productivity gains, while small businesses often lack the resources to invest at scale.

Currency Movements and Inflationary Spillovers

The U.S. Dollar Index fell 11% in H1 2025, its worst performance since 1991. This offered tailwinds for exporters but raised input costs for firms sourcing internationally. This trend, coupled with tariff-related cost pass-throughs, contributes to persistent inflation. Core inflation is projected to remain above 3% through Q3, delaying expectations for monetary policy easing by the Federal Reserve.

The sustained high-rate environment challenges small businesses that depend on traditional financing. Many are adopting embedded finance platforms and AI-powered liquidity tools to manage working capital better and anticipate cost fluctuations.

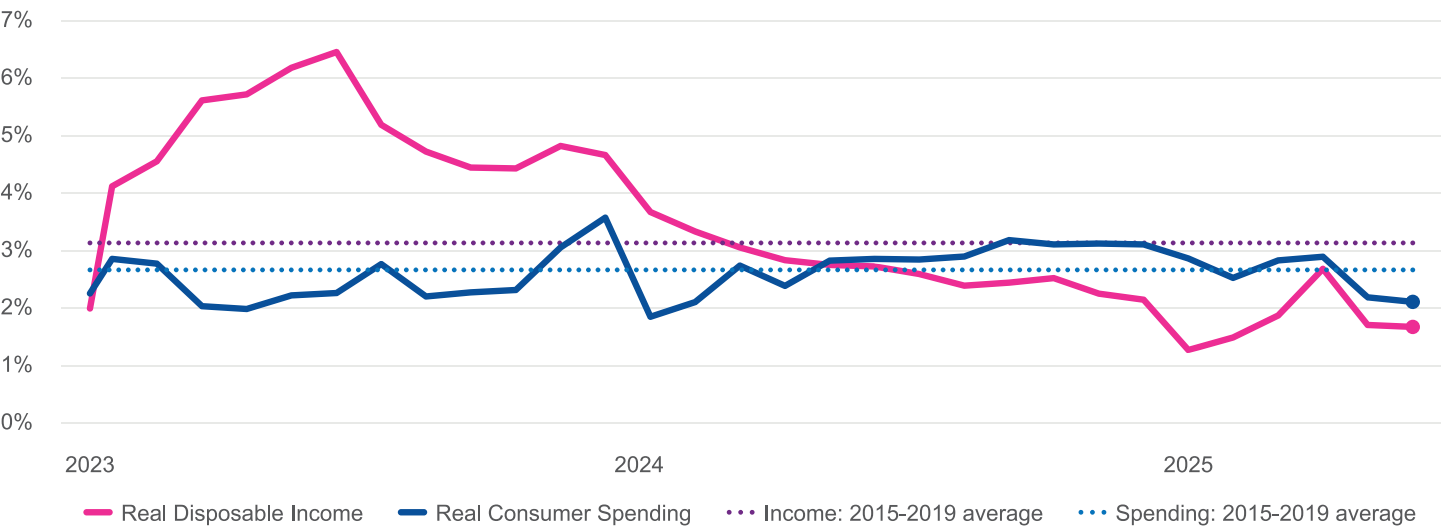
Consumer Demand Remains Resilient, but Cautious

Despite these challenges, consumer spending increased in Q2, supported by wage growth and a strong labor market. Households have shifted toward essential spending categories, particularly among lower and middle-income earners, while higher-income consumers have returned to discretionary spending following recent equity market gains.

Income growth continues to soften, spending slows

Higher income spending (which is the driver of overall spend) appears to be holding up

Real Income and Total Consumer Spending: YoY % Change



Sources: Bureau of Economic Analysis, Transportation Security Administration, and Experian Economic Strategy Group

This divergence presents risks: broad-based spending could falter if inflation persists or employment conditions deteriorate. The Bain/Dynata Consumer Health Index reported a sharp rebound in sentiment among households earning over \$100,000 annually, suggesting a near-term boost to discretionary sectors. Middle and lower-income households remain pressured by housing costs and stagnant real income growth, reinforcing the need for small businesses to stay flexible in pricing, inventory, and product mix.

Strategic Implications

The global economic environment presents both risks and opportunities. Supply chain diversification, reshoring, and AI deployment offer paths to greater resilience but require capital and strategic foresight. The firms most likely to thrive into 2026 will be those that:

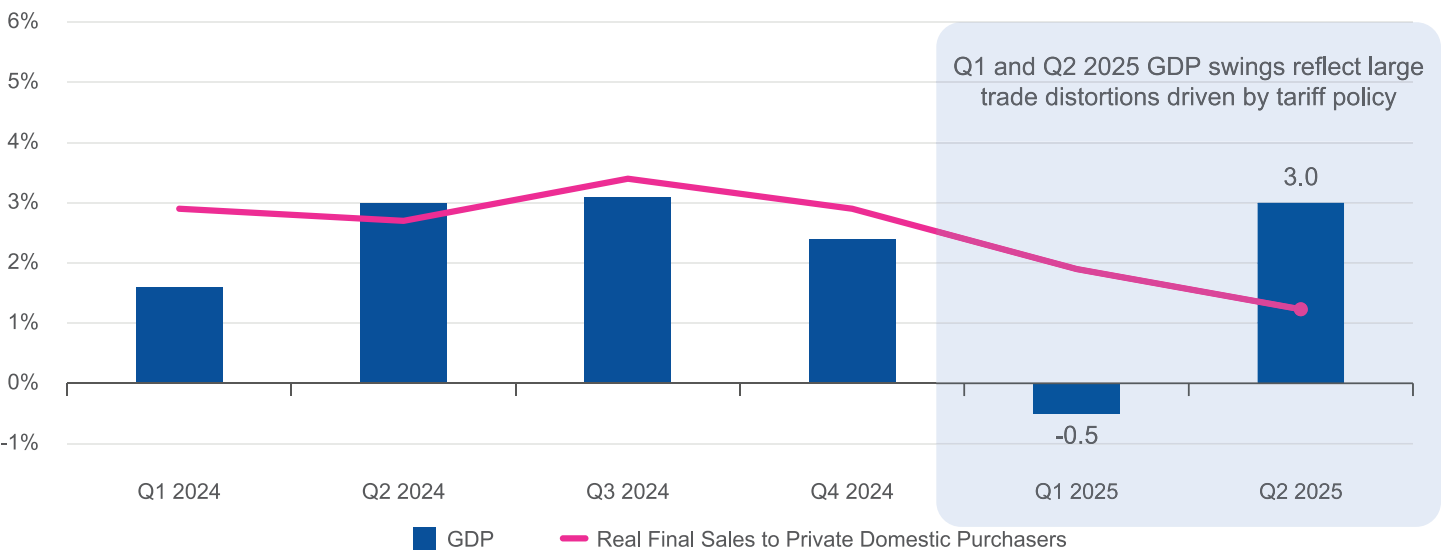
- Diversify sourcing and build supplier flexibility
- Invest in operational technologies that support real-time decision-making
- Use scenario planning to mitigate global risk exposure
- Preserve liquidity and manage input costs proactively

In this volatile macroeconomic context, small businesses must shift from reactive to predictive management modes, using data, digital tools, and disciplined planning to remain competitive.

GDP Trade distortions impact growth potential

GDP bounced back in the second quarter, but labor market weakness, lighter consumer spending, and cost pass throughs will create a drag on growth

Real Gross Domestic Product and Final Sales Quarterly % Change SAAR



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

Industry Insights

Sector Resilience Amid Economic Crosswinds

Small businesses across key U.S. industries face rising operational complexity as they contend with trade volatility, shifting consumer behavior, and uneven access to capital. Some sectors adapt through digital transformation and strategic sourcing; others struggle with margin compression and policy uncertainty.

Manufacturing and E-Commerce: Trade Policy Instability

Manufacturers and e-commerce businesses are bearing the brunt of trade uncertainty. A July 2025 survey found that over 70% of small business owners in these sectors reported difficulty planning due to abrupt changes in tariff policies. The April announcement of a 145% tariff on Chinese imports required many to reevaluate sourcing strategies and accelerate supply chain shifts toward Southeast Asia.

These pivots are costly for smaller firms. Many lack the analytical tools, liquidity, and workforce scale to redesign supply chains quickly, putting them at a disadvantage relative to larger competitors. Investment planning has slowed as uncertainty continues to dominate import cost forecasts.

Energy: Relief and Risk

The energy sector, especially oil and gas services, which is primarily composed of small firms, is benefiting from recent federal policy changes. The “One Big Beautiful Bill” passage reinstated full deductions for intangible drilling costs and delayed methane emissions fees until 2035, reducing compliance burdens for smaller producers.

Energy price volatility remains a concern for downstream industries. Hospitality, transportation, and logistics firms face elevated fuel and utility costs that are difficult to pass on to consumers, placing sustained pressure on profit margins. This is especially acute for firms operating on thin margins or in price-sensitive markets.

Retail and Travel: Pressured by Consumer Discretion

Retailers and service-based small businesses continue to experience the effects of reduced discretionary spending. Major brands like PepsiCo and American Airlines revised Q2 earnings forecasts downward, citing weaker consumer demand. For small businesses, this translates into smaller basket sizes, delayed purchases, and a growing need for promotional strategies.

Firms are responding by:

- Shifting product mix toward value-oriented offerings
- Increasing promotions and bundling
- Reducing inventory exposure in higher-priced SKUs
- Investing in e-commerce to extend reach

These tactics help mitigate demand softness but may not fully offset transaction volume or margin pressure declines. The broader risk is prolonged stagnation in consumer discretionary spending, particularly among middle-income households facing persistent inflation.

Logistics and Warehousing: Demand Up, Margins Down

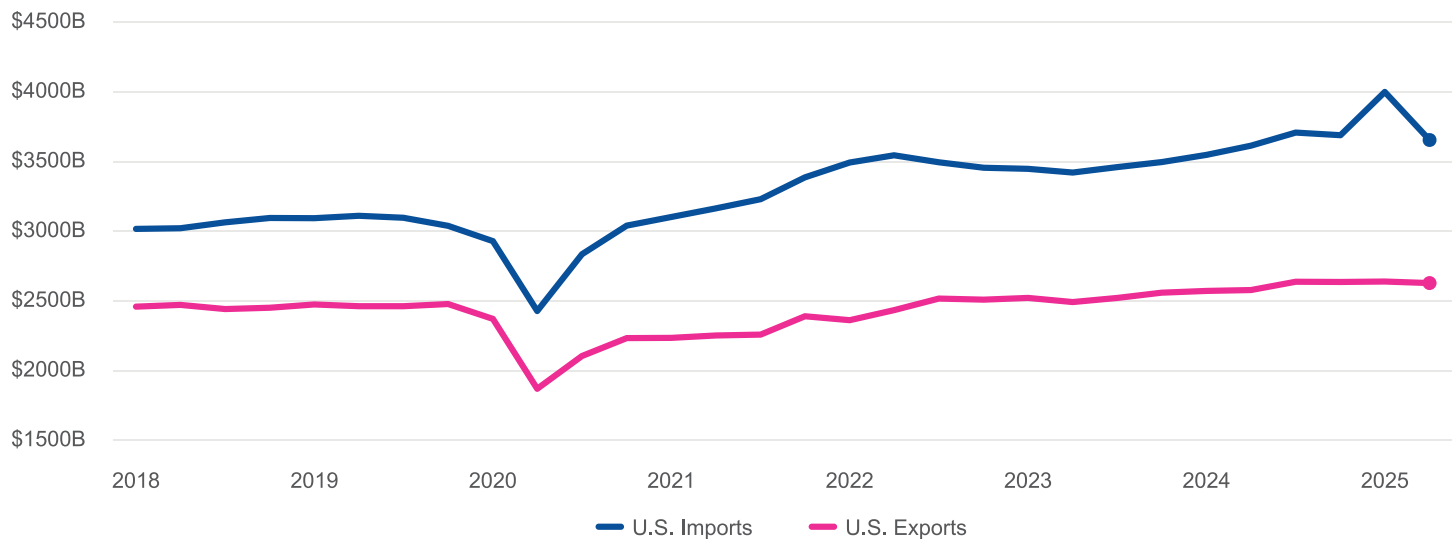
The surge in tariffs and nearshoring has increased demand for bonded and Foreign Trade Zone (FTZ) warehouse space.



Global trade impact on domestic

How small businesses are managing volatility

U.S. Real Imports and Exports (Quarterly, Level)



Source: Bureau of Economic Analysis

Firms are stockpiling inventory to hedge against future tariff hikes, driving storage costs and increasing utilization to multi-year highs.

Key dynamics:

- FTZ and bonded warehouse rates are now 1.5 to 4 times higher than traditional storage facilities
- Quote validity periods have shortened due to pricing volatility
- Smaller logistics providers report margin compression of 12–15%

To offset these pressures, larger logistics firms are deploying AI tools for demand forecasting, space optimization, and labor allocation. Smaller players often lack the infrastructure to match this level of digital adoption, leading to widening performance gaps across the sector.

Technology Adoption: Competitive Divide Emerges

Across sectors, businesses are turning to AI and automation for forecasting, pricing, and supply chain visibility. Platforms like Kinaxis and Salesforce now offer SMB-oriented tools for tariff modeling and import analysis. Retailers are also experimenting with dynamic pricing engines and AI-powered inventory optimization.

Adoption is uneven. While firms report revenue gains of over 60% from AI investment, others see little to no return, often due to underdeveloped data systems, rushed implementation, or inadequate change management. The result is a growing digital divide, where better-capitalized firms pull ahead and smaller, under-resourced businesses fall behind.

Strategic Outlook

Across industries, adaptability, particularly in pricing, sourcing, and technology deployment, is the key to resilience.

The most agile firms are:

- Diversifying supplier networks
- Shifting inventory closer to end markets
- Leveraging technology to offset labor or cost pressures
- Investing in customer experience to preserve loyalty in a value-conscious environment

Structural challenges remain, especially for smaller operators. Targeted investment in digital tools and supply chain resilience is becoming a competitive imperative rather than a strategic option.

Consumer Behavior and Confidence

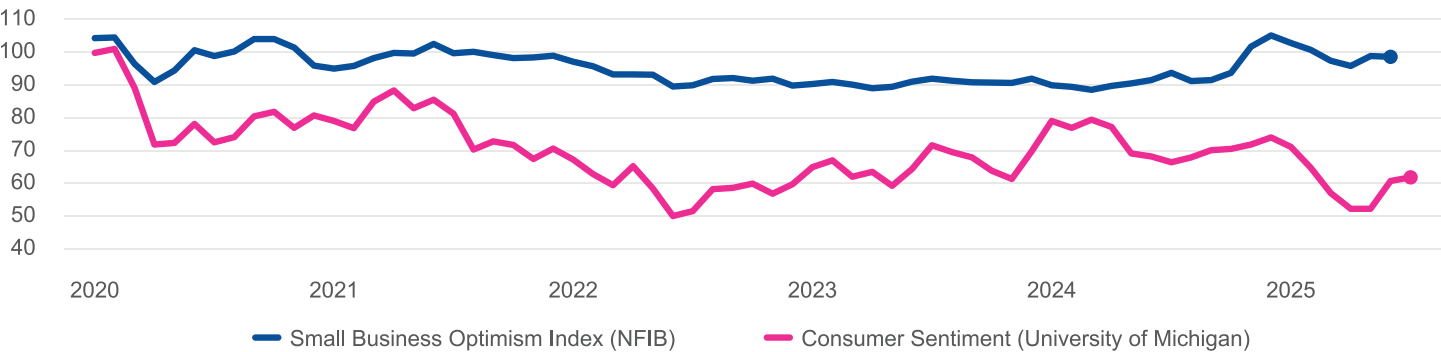
Shifting Priorities, Diverging Sentiment

Consumer sentiment and spending patterns remained mixed in Q2 2025, shaped by persistent inflation, uneven income growth, and the aftereffects of global trade volatility. Upper-income households continue to show confidence and spending power, and middle- and lower-income consumers are growing more cautious, redefining demand patterns for small businesses.

Consumer Sentiment: Tentative Improvement, Underlying Concern

The University of Michigan’s Consumer Sentiment Index rose to 61.8 in July, its highest level in five months, but remains 16% below December 2024 and well below historical norms. Inflation, labor market uncertainty, and housing affordability weigh on consumer confidence.

Small Business vs Consumer Confidence



Sources: University of Michigan, National Federation of Independent Business

Sentiment is tempered among small business owners. The NFIB Small Business Optimism Index dipped slightly to 98.6, reflecting reduced expectations for real sales and economic improvement despite modest gains in hiring and earnings trends. Labor quality and inflation remain top concerns, particularly for firms in wage-sensitive industries.

Spending Patterns by Income Segment

Spending behavior is increasingly segmented. Upper-income households earning over \$100,000 annually have resumed discretionary purchases, driven by record equity market gains that boosted wealth and portfolio values. According to the Bain/Dynata Consumer Health Index, this group spends on travel and premium goods.

Middle and lower-income consumers are pulling back. Inflation-adjusted income growth has stalled, with personal disposable income flat in June and wage growth slowing. As a result, households are:

- Trading down to private-label and value brands
- Delaying or avoiding non-essential purchases
- Prioritizing essential categories such as groceries, fuel, and healthcare

Retailers, including Walmart and Target, have reported shifts in spending toward lower-margin goods and away from discretionary categories like apparel and electronics.

Implications for Small Businesses

These changing consumer dynamics are reshaping revenue forecasts and operational strategies for small businesses:

- **Inventory management** is tightening, with fewer speculative purchases and shorter order cycles
- **Marketing efforts** are shifting to emphasize value, flexibility, and convenience
- **Pricing strategies** are becoming more nuanced, as customers become more price-sensitive but still responsive to perceived value

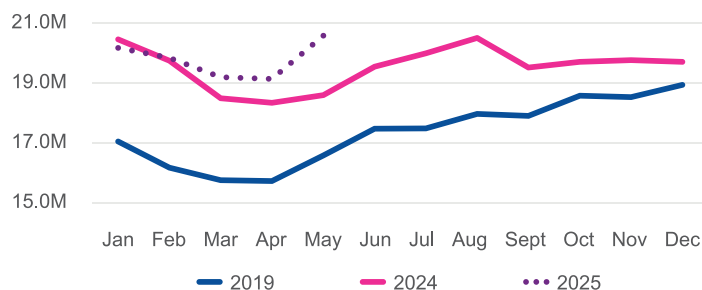
Historically supported by higher consumer liquidity, the construction and home improvement sectors are decelerating. Elevated interest rates and economic uncertainty have dampened demand for large-scale renovation projects. Companies like Home Depot and Lowe's report flat or declining same-store sales, with consumers opting for minor maintenance over major upgrades.

Credit and Consumer Financing Trends

Elevated interest rates are also shaping consumer financing behavior. Households are avoiding new debt or reducing credit card usage, while others rely more heavily on BNPL (buy now, pay later) and short-term financing products. This shift presents opportunities and risks for small businesses providing customer credit, as delinquencies in subprime segments remain elevated.

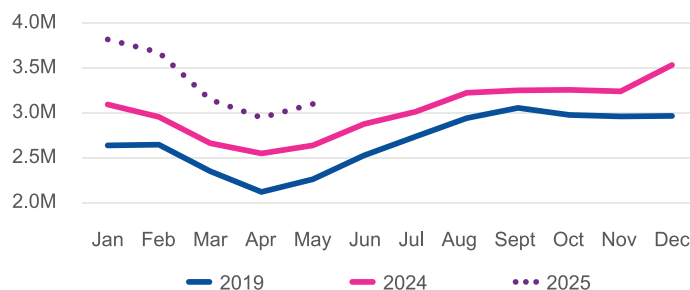
Consumer Originations are on the rise

Credit Card Originations
2019 vs 2024 vs 2025



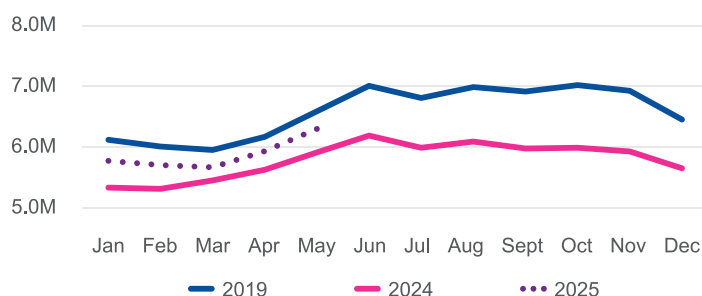
Sources: Experian Sandbox — Credit Trends Dashboard (data through May 2025) and Experian Economic Strategy Group

Unsecured Personal Loan Originations
2019 vs 2024 vs 2025



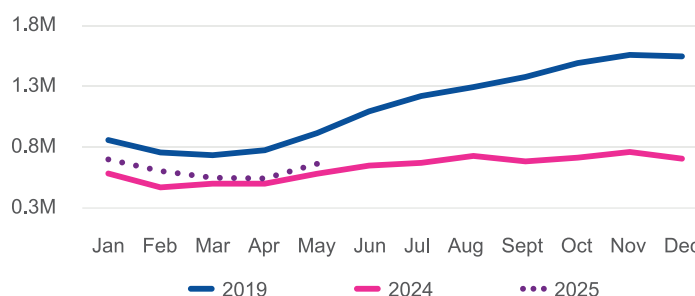
Sources: Experian Sandbox — Credit Trends Dashboard (data through May 2025) and Experian Economic Strategy Group

Auto Loan Originations
2019 vs 2024 vs 2025



Sources: Experian Sandbox — Credit Trends Dashboard (data through May 2025) and Experian Economic Strategy Group

Mortgage Loan Originations
2019 vs 2024 vs 2025



Sources: Experian Sandbox — Credit Trends Dashboard (data through May 2025) and Experian Economic Strategy Group

Experian data indicates that originations are rising again, particularly among prime and near-prime borrowers. Tighter underwriting standards and growing consumer risk profiles limit the pool of eligible applicants, creating challenges for businesses that rely on credit-driven sales.

Strategic Outlook

Small businesses must continue adjusting to a value-conscious consumer base. Those able to provide flexible purchasing options, transparent pricing, and consistent product availability are better positioned to retain loyalty and preserve revenue in a cautious spending environment.

Going into the second half of 2025, watchpoints for Main Street include:

- A potential resurgence in inflation due to tariff pass-throughs
- Cooling wage growth and employment softening
- Continued divergence between income segments in purchasing power

Agility in pricing, product positioning, and promotional cadence will remain critical as businesses navigate consumer uncertainty.

Labor Market Trends & Employment Outlook

Softening Conditions Amid Structural Shifts

The U.S. labor market entered Q3 2025 with signs of deceleration. Headline unemployment remains historically low, several underlying indicators point to growing fragility, particularly for small businesses dependent on stable wage and talent dynamics.

Employment Growth Slowing

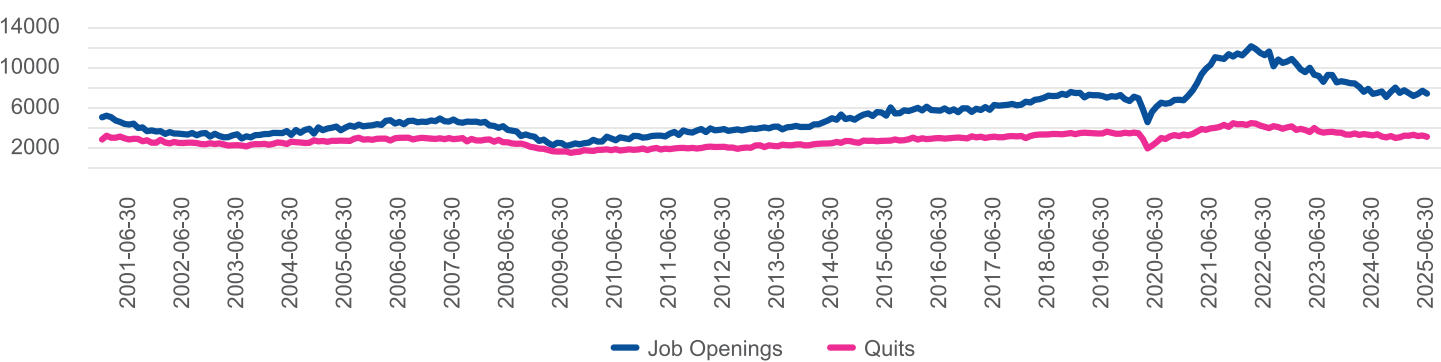
- **Nonfarm payrolls** increased by just 73,000 jobs in July, well below trend, with prior months revised downward by a combined 258,000.
- **Unemployment** increased to 4.2%, and long-term unemployment rose to 1.82 million, accounting for 25% of all jobless individuals.
- **Labor force participation** declined to 62.2%, the lowest level since 2022, driven by retirements, immigration shortfalls, and caregiving exits.

Most job gains were concentrated in health care and social assistance, which accounted for 94% of July’s net additions. Manufacturing, professional services, and government sectors posted either flat or negative employment growth.

Wage Pressures Persist in Select Sectors

Average hourly earnings rose by 0.3% month over month and 3.9% year over year. Wages are rising fastest in retail, logistics, and tech-adjacent occupations, where firms are competing for workers with AI-related skills. This wage stickiness contributes to persistent service-sector inflation and impacting hiring plans for small businesses in labor-intensive industries.

Job Openings and Quits in Decline



Source: U.S. Bureau of Labor Statistics

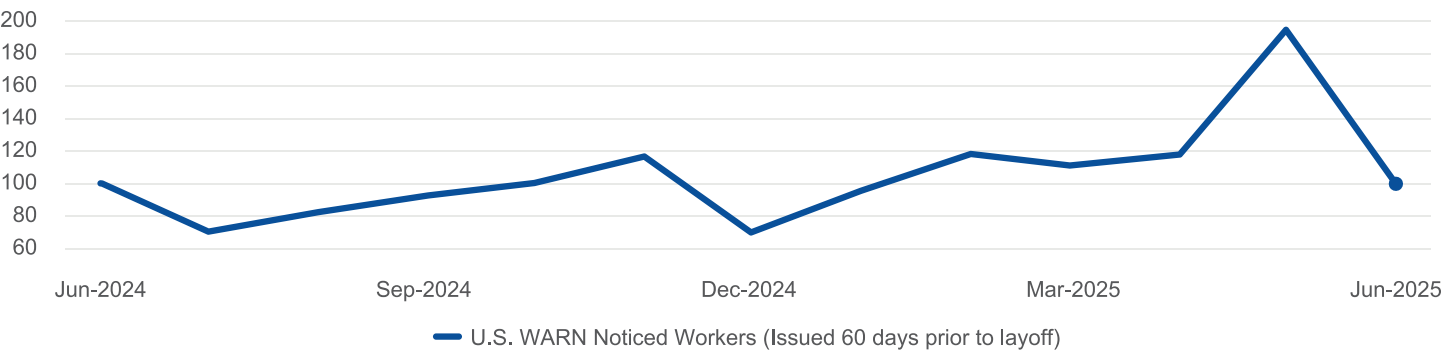
- Job openings are down 45% from early 2022 levels.
- Entry-level and recent graduate positions have seen the steepest declines.
- Quit rates are declining as workers become more risk-averse in a softening economy.

Federal data shows openings are now just 11% above pre-pandemic norms, suggesting a normalization of employer demand. Even healthcare, historically a labor market outlier, shows signs of moderation.

Layoffs Concentrated but Rising

Layoff notices jumped, which could spell higher unemployment ahead

WARN Notices: Monthly Average — Index, Jan 2025 = 100



Sources: Advance layoff Notice Data from the WARN Act (June 2025), Bureau of Labor Statistics, Department of Labor, Experian Economic Strategy Group

WARN Act filings showed 114 companies announcing job cuts in July, up from 95 in the prior month but below the June peak of 160. High-profile layoffs (500–1,000 jobs) include:

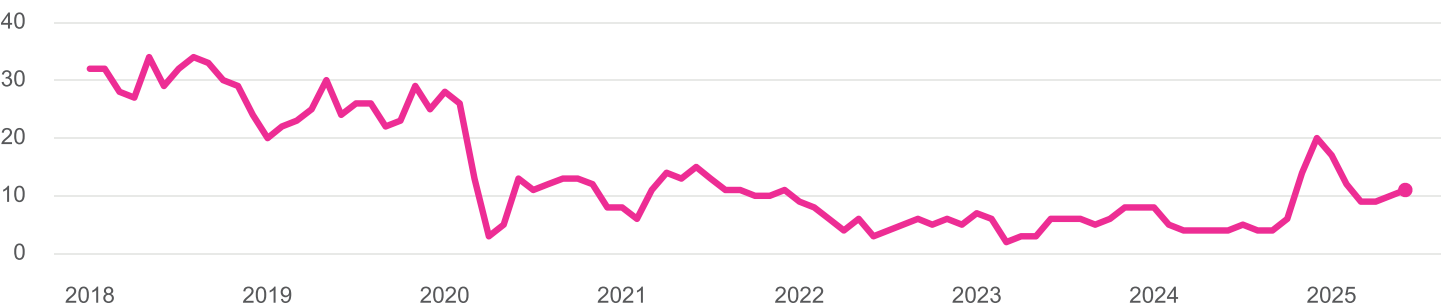
- Microsoft
- Georgia-Pacific (manufacturing)
- Pixelle Specialty Solutions (packaging and paper)

Sectors most affected include technology, manufacturing, and retail, with additional pressure from federal budget cuts and AI-driven automation. Over 10,000 job losses in July were directly attributed to generative AI adoption, part of a broader shift affecting how firms deploy talent.

Small Business Labor Outlook

Despite these headwinds, small businesses continue to show cautious hiring interest. The NFIB reported that 13% of small business owners plan to add jobs in the next three months, up slightly from May. Small businesses report difficulty finding qualified workers, particularly in skilled trades and healthcare.

OUTLOOK FOR EXPANSION Percent Next Three Months — “Good Time to Expand” (Seasonally Adjusted)



Source: National Federation of Independent Business Monthly Optimism Survey



Ongoing talent mismatches, regional labor availability gaps, and rising compensation expectations limit growth in sectors, even as economic conditions soften.

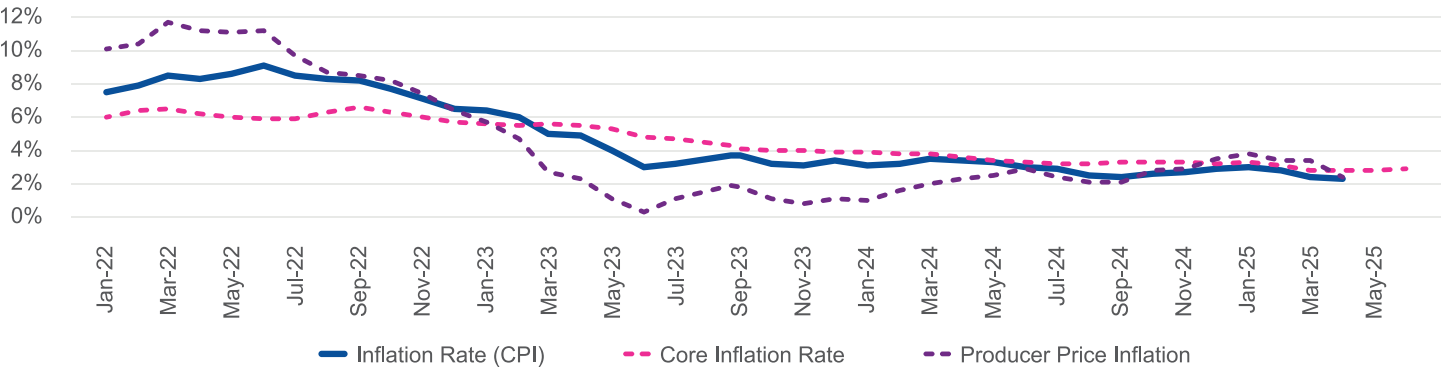
As businesses prepare for the remainder of 2025, key labor market considerations include:

- **Wage discipline:** Anticipating wage growth moderation while remaining competitive in key roles
 - **AI-driven job redesign:** Preparing for displacement risks and upskilling needs
 - **Flexible staffing models:** Leveraging part-time, remote, or project-based talent to manage volatility
 - **Workforce planning:** Building pipelines through partnerships with local training institutions
- Small businesses that remain agile in their workforce strategy—balancing automation, reskilling, and retention—will be better positioned to navigate the labor market’s next chapter.

Inflation Trends & Implications

Persistent Pressures, Shifting Impact

Year-Over-Year Rate of Inflation



Source: U.S. Bureau of Labor Statistics

U.S. core Consumer Price Index (CPI) is trending slightly above 3%, signaling persistent inflationary pressure despite earlier signs of moderation. This elevated core CPI is driven by structural factors such as rising labor costs, strong demand for rental housing, and the end of post-pandemic goods deflation. For small businesses, inflation remains the top concern, with 58% citing it as their primary challenge, according to the U.S. Chamber of Commerce’s Small Business Index.

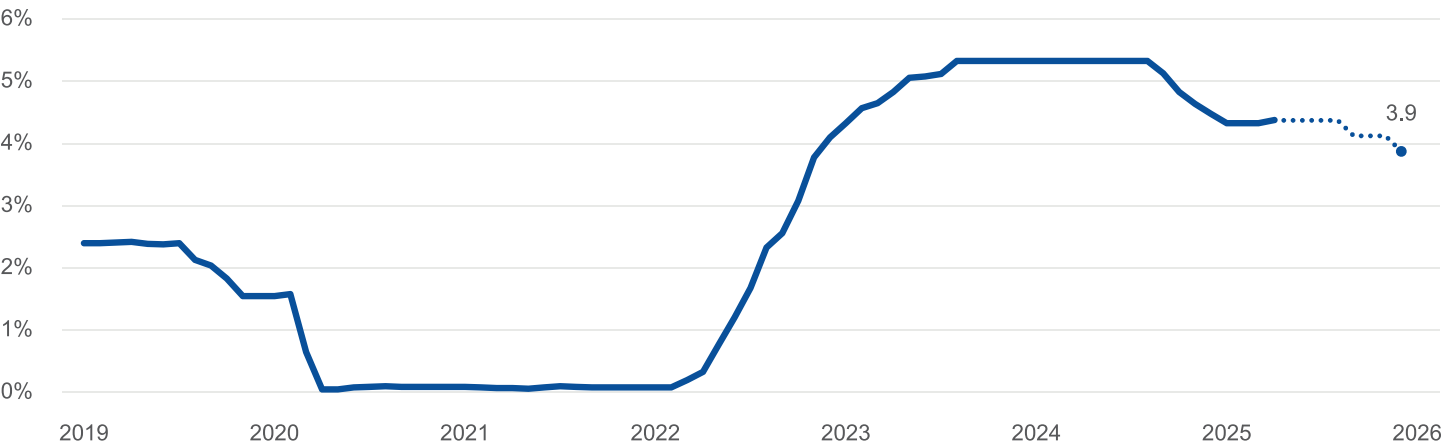
Tariffs compound cost pressures, especially for import-reliant sectors like retail, manufacturing, and home furnishings. Rising input costs squeeze margins, forcing small firms to delay hiring, reduce investment, or pass costs onto consumers. Rent inflation and high construction costs limit expansion opportunities for brick-and-mortar businesses. Despite these headwinds, small businesses remain optimistic about future hiring, particularly in manufacturing and tech-related fields. Inflation is reshaping small business strategies, with owners bracing for continued cost volatility through 2025.

The Federal Reserve maintains a cautious and data-driven approach to managing inflation and labor market conditions. The Fed held its policy interest rate steady at 4.25%–4.50%, citing persistent inflation slightly above its 2% target and elevated economic uncertainty, particularly due to recent tariff increases.

Fed holds firm

Long-term rates have continued to remain elevated despite concern over economic outlook

Effective Federal Funds Rate and 2025 Forecast



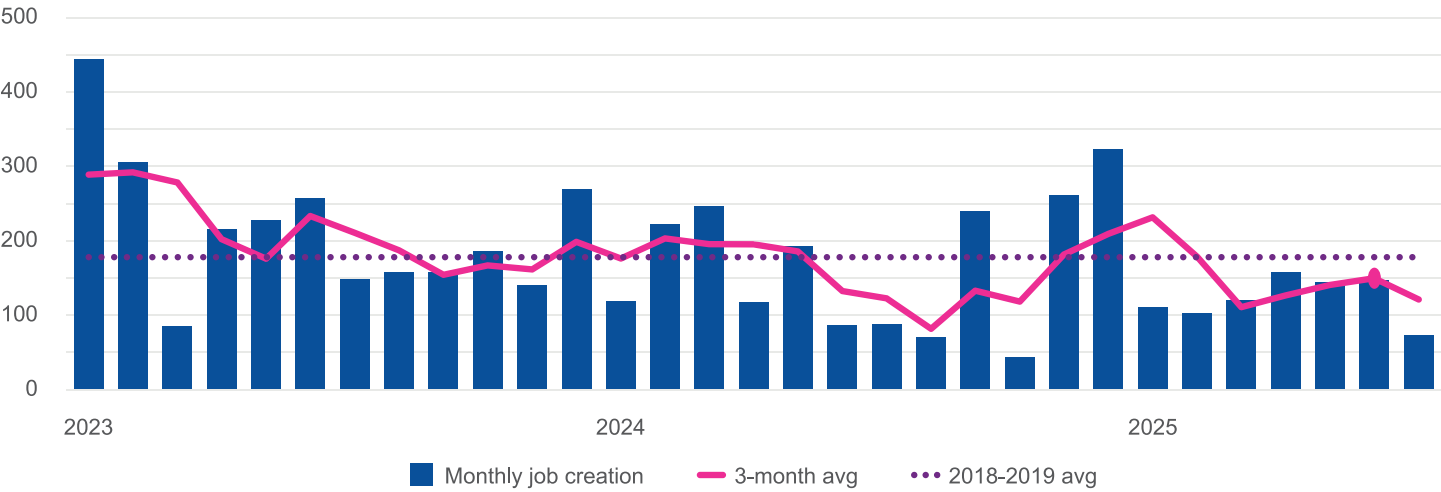
Source: Federal Reserve

Core PCE inflation, the Fed’s preferred gauge, rose 2.83% year-over-year, while CPI inflation remains above target, driven by services and tariff-related goods inflation. Despite these pressures, the Fed views its current monetary stance as “modestly restrictive” and appropriate for guarding against inflation risks without unduly harming growth. Labor market conditions remain solid, with unemployment at 4.1% and payroll gains averaging 150,000 per month, though job creation has slowed.

Job creation solid but weak in higher-wage industries

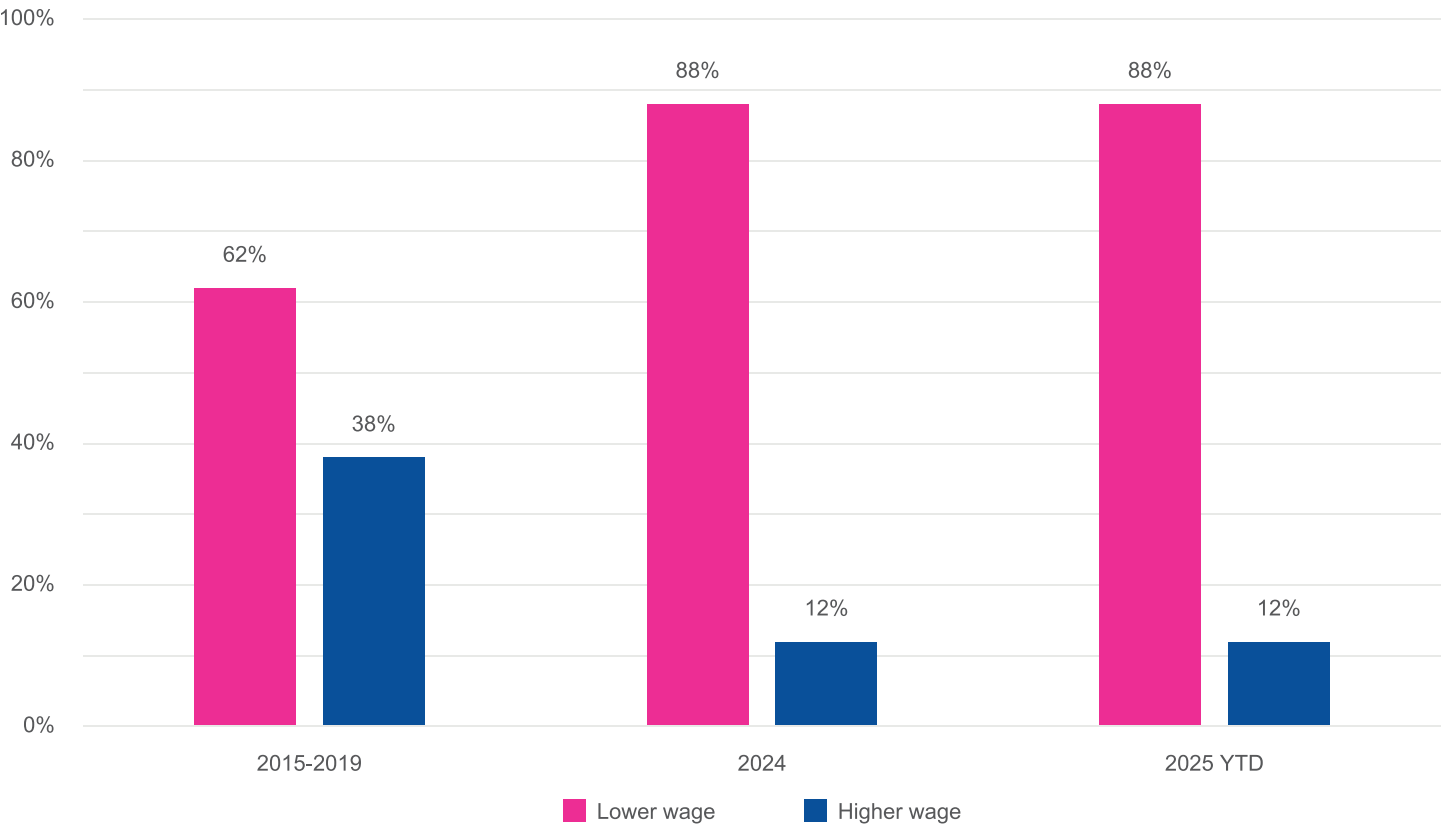
White-collar and higher-wage industries are lagging

U.S. Monthly Job Creation (in thousands)



Sources: Bureau of Labor Statistics and Experian Economic Strategy Group

% of Private Job Creation by Wage Level



Sources: Bureau of Labor Statistics and Experian Economic Strategy Group

The Fed closely monitors wage growth, which continues to outpace inflation but has moderated in recent months.

Chairman Powell emphasized a “wait-and-see” approach, noting that two labor and inflation data rounds will be reviewed before the next policy meeting in September. Internal dissent is emerging, with two Fed governors favoring rate cuts now, while others advocate patience until more apparent signs of labor market stress or inflation relief appear. The Fed remains committed to its dual mandate of maximum employment and price stability, balancing inflation risks with the need to support economic resilience.

The Fed is approaching the end of its balance sheet reduction campaign. Its Treasuries and mortgage-backed securities holdings have declined by over \$2 trillion from their peak, and the pace of runoff has been significantly slowed, from a monthly cap of \$25 billion to just \$5 billion. This signals a shift toward stabilizing the balance sheet at a “steady state,” aiming to avoid liquidity shocks and disruptions in interbank lending. The Fed continues to roll over maturing securities within capped limits and reinvest excess agency MBS proceeds into Treasuries, maintaining operational flexibility. With QT complete, the Fed focuses on managing interest rates and inflation expectations, with future rate decisions hinging on upcoming labor and inflation data.



Regional Overview

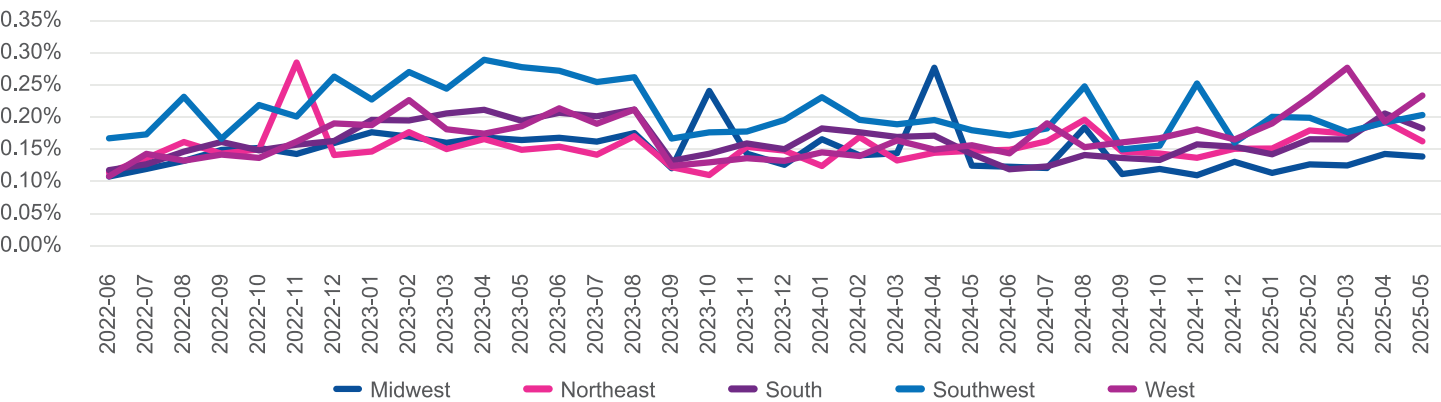
Local Economies, National Impacts

National indicators show broad resilience in small business activity, and regional differences are becoming more pronounced.

Regionally focused origination and delinquency trends

Regional Delinquency Trends

% Bal 61-90 DPD Monthly Delinquency Trends



Sources: Experian Commercial Benchmark

Economic momentum, policy support, sector composition, and infrastructure capacity vary widely across U.S. regions, creating distinct opportunities and challenges for small businesses.

Northeast

Stable but Fragmented Growth

Small businesses in the Northeast continue to benefit from strong consumer spending and wage growth, particularly in urban centers such as Boston and New York. The region's finance, healthcare, and higher education sectors provide stable demand, while green technology grants are spurring innovation in sustainability-focused ventures.

Challenges include:

- High commercial rents and aging infrastructure
- Uneven digital adoption across rural areas
- Limited affordable space for startups and retail tenants

Local governments are experimenting with targeted support; Providence and Philadelphia, for example, have launched microloan and co-working subsidy programs to encourage early-stage business formation.

Midwest

Gradual Recovery with Manufacturing Tailwinds

The Midwest is undergoing a steady economic shift, supported by public and private investment in clean energy, logistics, and advanced manufacturing. Cities like Detroit, Minneapolis, and Columbus are seeing increased small business formation, particularly in tech-enabled and service-based sectors.

Tailwinds:

- EV and renewable energy manufacturing
- State-backed credit access and loan guarantees
- Urban incubator and workforce development programs

Headwinds persist in rural areas, where aging populations, limited broadband access, and skilled labor shortages continue restraining business growth.

South

Leading National Growth, With Labor Constraints

The South remains the most dynamic region for small business expansion, driven by strong domestic migration, business-friendly tax policies, and a diversified industrial base. Tech hubs in Atlanta, Raleigh, and Austin are growing quickly, while housing, healthcare, and consumer services continue to scale across Florida, Georgia, and Texas.

Notable dynamics:

- Over 70% of small businesses reported revenue growth in the past year
- Access to e-commerce platforms and digital tools is accelerating adoption
- Minority- and women-owned business accelerators are expanding regional inclusion

Labor shortages, particularly in healthcare and skilled trades, are beginning to constrain expansion. Rapid housing cost increases in metro areas threaten affordability for workers and small business owners.



West

Innovation Stronghold with Cost Pressures

The Western U.S., led by California, Washington, and Colorado, is a hub for innovation, particularly in tech, clean energy, and advanced manufacturing. Startups in cities like San Francisco, Seattle, and Denver report strong access to venture funding and growing demand for sustainable products and services.

Key advantages:

- High rates of online sales and digital engagement
- Well-developed startup ecosystems
- Strong public-private partnerships in clean energy and climate resilience

The region faces stronger headwinds:

- High commercial rents and labor costs
- Regulatory complexity and permitting delays
- Persistent rural broadband and infrastructure gaps

Utah and Idaho are emerging as lower-cost alternatives, attracting startups seeking affordability and access to talent.

Southwest

Diversified Growth with Trade Advantages

Anchored by Arizona and New Mexico, the Southwest is seeing robust growth across energy, manufacturing, and cross-border logistics. Arizona's semiconductor and solar energy sectors are expanding rapidly, while New Mexico is leveraging federal infrastructure and defense spending to support local small business ecosystems.

Growth drivers:

- Federal investment in clean energy and advanced manufacturing
- Expanding angel investor networks and state-backed capital programs
- Cross-border trade with Mexico is enhancing logistics efficiency

Challenges remain in labor availability, rising commercial real estate prices, and scaling rural entrepreneurship programs. The region's cost competitiveness and pro-business environment support continued small business expansion.

Strategic Implications

Across all regions, a few common themes emerge:

- Urban centers benefit from stronger digital infrastructure, capital access, and sector diversity
- Rural regions face persistent gaps in broadband, workforce development, and funding
- State and local policy play a critical role in shaping small business outcomes

Tailored strategies, grounded in regional realities, will be essential to sustaining the national small business recovery as 2026 approaches.



Legislative and Policy Signals

Compliance Pressures and Strategic Shifts on the Horizon

In Q2 2025, new federal and state legislation introduced a more complex regulatory environment for small businesses. These changes, from data privacy to credit reporting, reflect growing political momentum toward consumer protection, algorithmic accountability, and digital transparency. For small firms, particularly those relying on automation, lending, or personal data, the coming 12–18 months will require active compliance planning.

Data Privacy and Digital Accountability

States, led by California, are advancing laws to improve digital transparency and user control. These initiatives may increase compliance burdens, particularly for firms that rely on online marketing, algorithmic decision-making, or personalized pricing.

Key legislative actions:

- **California AB 566:** Requires websites to honor browser-based opt-out signals for data tracking, which affects businesses with digital advertising or analytics platforms.
- **California AB 1018:** Mandates anti-discrimination audits for automated decision-making systems, which has direct implications for AI-based hiring, lending, and pricing tools.
- **California AB 446 and SB 384:** Restrict the use of surveillance-based and algorithmic pricing models, potentially impacting dynamic pricing strategies in retail and e-commerce.

These regulations expand California's stringent consumer data protections and may serve as models for similar legislation in other states.

Credit Reporting and Lending Reform

Congress is also considering major reforms that could reshape how small businesses access credit and manage customer or tenant evaluations.

Proposed federal legislation includes:

- **H.R. 5180 (Credit Reporting Reform Act):** This would reduce the length of time that negative credit data can remain on consumer reports, prohibit the reporting of medical debt, and require new transparency standards for credit scoring models.
- **S. 1654/H.R. 3418:** Would allow the inclusion of rent, utility, and telecom payment histories in credit reports—potentially expanding credit access for thin-file small business owners and sole proprietors.
- **VantageScore 4.0 Approval:** The FHFA has authorized Fannie Mae and Freddie Mac to use VantageScore 4.0, introducing greater competition into credit scoring and prompting broader adoption by lenders.

Automated Lending and Algorithmic Underwriting

California is also advancing legislation that specifically targets AI and automation in financial services.

- **Automated Decision-Making Technology (ADMT) Regulations (Effective 2027):** These regulations require pre-use notices, consumer opt-out mechanisms, and algorithmic audits for lending decisions made using ADMT. Although many banks are exempt under GLBA, non-bank lenders and fintech platforms may be affected, especially those using enhanced or alternative data in underwriting.

Small business lenders and technology providers using embedded finance, credit decisioning engines, or AI-based analytics should prepare to evaluate models for fairness, transparency, and explainability under these emerging standards.

Strategic Implications for Small Businesses

For small business owners, these developments present both risks and opportunities:

- **Compliance investments** will be necessary to meet new standards, especially for firms using AI in hiring, pricing, or customer engagement.
- **Credit access may improve** for underserved or thin-file businesses if rent and utility data become more broadly reportable.
- **Lenders and fintechs** must ensure transparency, documentation, and bias mitigation within algorithmic underwriting processes.

Staying ahead of these changes will require close coordination with legal counsel, compliance teams, and technology partners. Small businesses that adopt strong governance practices and invest in data transparency now will be better positioned to navigate the regulatory landscape of 2026 and beyond.

Main Street Recalibration Momentum

Positioning for Growth Amid Ongoing Disruption

As the second half of 2025 begins, U.S. small businesses are navigating a complex environment marked by persistent inflation, elevated interest rates, and global volatility. The overall picture is one of resilience and strategic adaptation.

The **Experian Small Business Index™** remains stable, indicating steady credit utilization and only modest increases in delinquencies. Business owners are responding to tighter lending conditions by shifting toward structured financing, embracing alternative lending platforms, and adopting digital tools to strengthen liquidity management.

Entrepreneurial momentum remains strong, with **over 457k new business applications** filed in June, a signal of long-term optimism, particularly among younger and minority founders. Even as closures rise in margin-sensitive industries, new business formation is helping to offset churn and drive innovation.



Key Indicators from Q2 2025:

- **Credit dynamics:** Commercial card delinquencies hold at 2.8%, while businesses increasingly favor term loans over revolving debt to manage costs.
- **Business sentiment:** 69% of small businesses report strong overall health, and 73% are comfortable with their cash flow, both improvements over Q1.
- **Labor market:** The unemployment rate rose slightly to 4.2%, with increases in long-term joblessness. Wage growth remains positive, particularly in retail and information sectors.
- **Access to capital:** Traditional credit access remains constrained, with large banks' approval rates below 15%. Digital-first and embedded finance platforms are gaining market share.
- **Sectoral outlook:** Logistics, clean energy, and professional services benefit from policy support and structural shifts, while retail and manufacturing face continued challenges from tariffs and input cost volatility.

At the same time, macroeconomic conditions, such as trade tensions, energy price swings, and evolving Federal Reserve policy, force businesses to become more strategic in their sourcing, pricing, and hiring decisions. A shift is underway from short-term survival tactics to long-term recalibration.

Strategic Priorities Looking Ahead:

- **Invest in operational agility:** Digital cash flow management, inventory optimization, and AI-driven planning are no longer optional, they are key to navigating ongoing uncertainty.
- **Preserve access to capital:** Strong financial documentation, disciplined credit usage, and diversified funding sources will be critical in a high-rate, selective lending environment.
- **Respond to regulatory shifts:** Compliance with emerging data privacy, algorithmic governance, and credit reporting reforms will require active planning and technology integration.
- **Align with consumer behavior:** Firms must remain responsive to changing spending patterns, especially the divergence between high-income and value-driven consumers.

Despite external pressures, the fundamentals remain intact. Consumer demand is holding, inflation is gradually moderating, and GDP rebounded 3.0% in Q2 following a contraction in Q1.

Small businesses that embrace discipline, technology, and adaptability will be positioned not only to weather the current cycle but also to enter 2026 with 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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