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Webinar



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# Quarterly Business Credit Review

Q4 2022

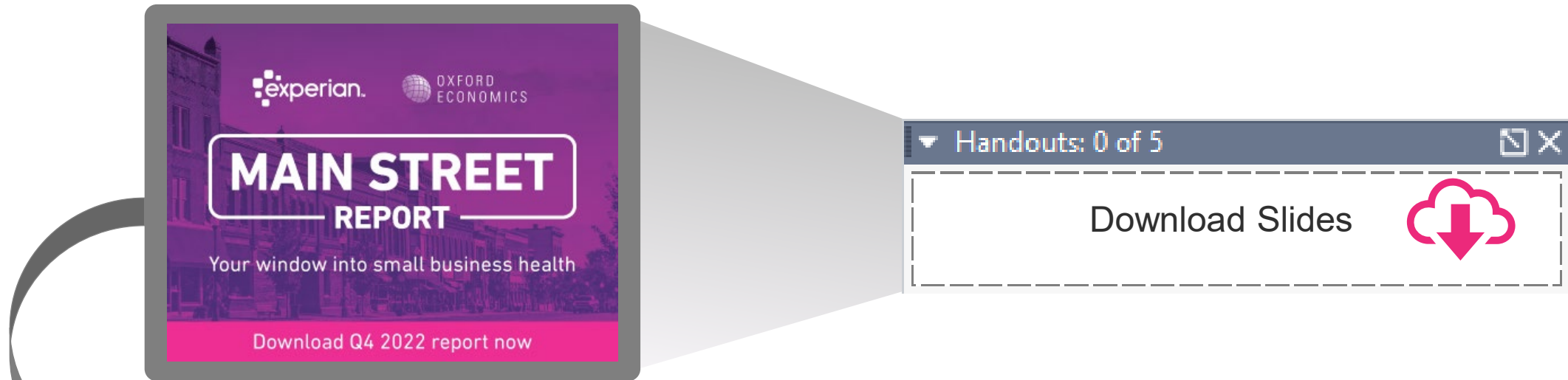
Presented by

**Brodie Oldham**  
Experian

**Ryan Sweet**  
Oxford Economics



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# MAIN STREET REPORT

Your window into small business health

Download Q4 2022 report now

# Our Presenters



**Brodie Oldham**  
VP Commercial Data Science  
Experian



**Ryan Sweet**  
U.S. Chief Economist  
Oxford Economics

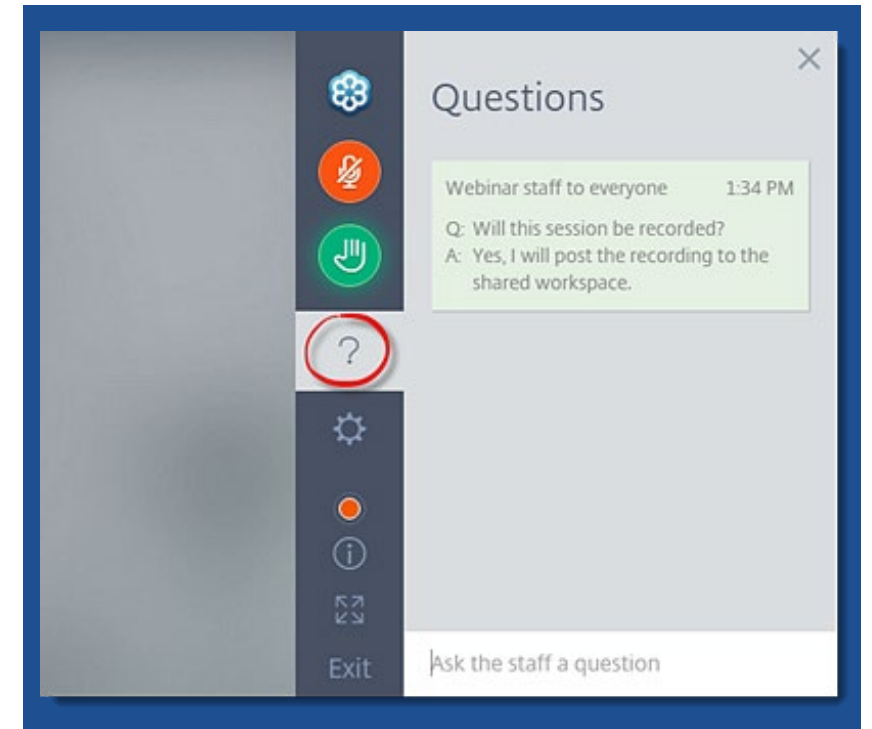






# Send us your questions

We will try to leave time at the end.



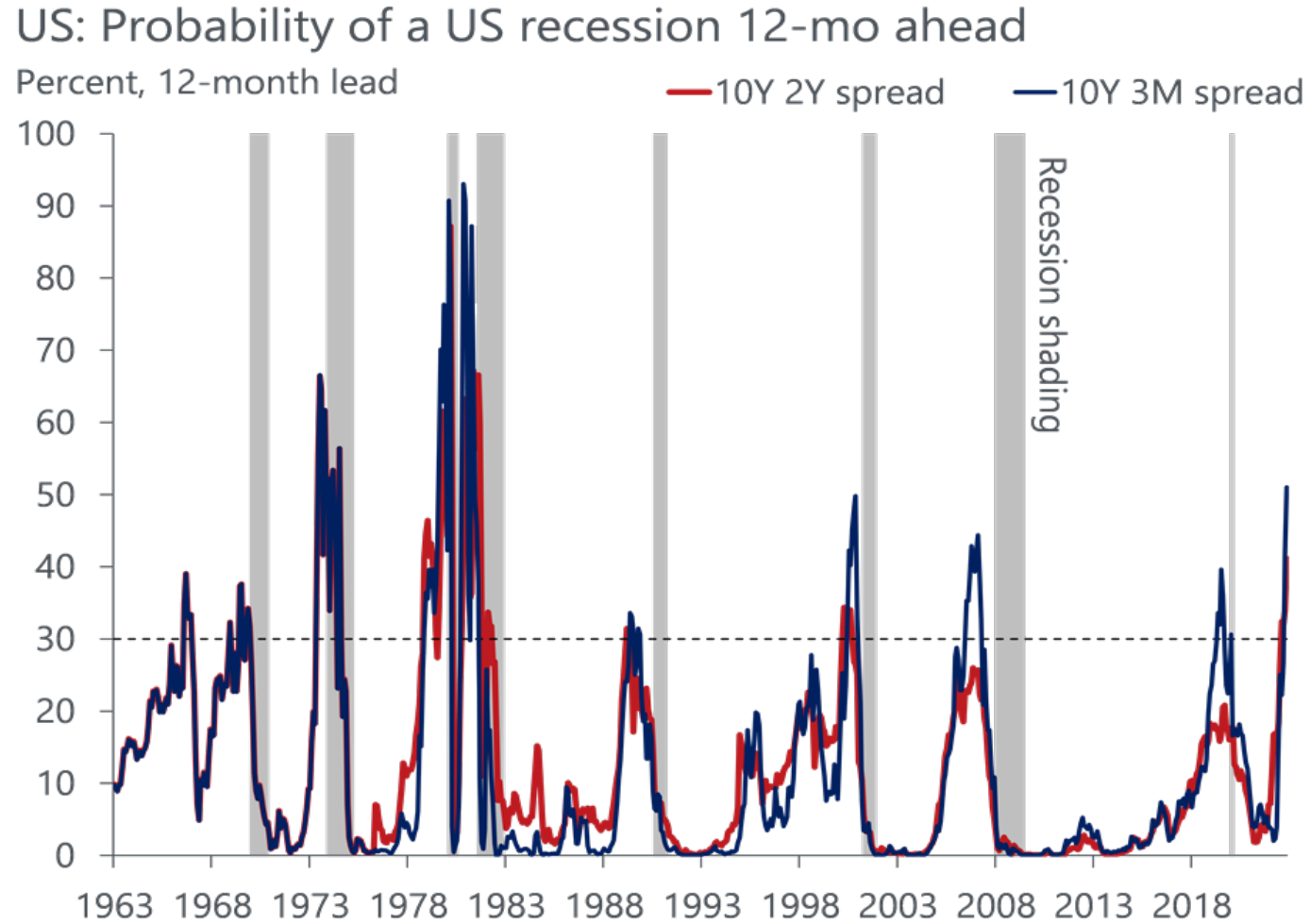


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**Ryan Sweet**  
US Chief Economist

# Recession risks are high and rising



Using the yield curve



# NBER indicators are mixed

Period	Real income less transfers	Real consumption expenditures	Real mfg & trade sales	Industrial production	Change household employment	Change nonfarm payroll
Jan-22	Green	Green	Green	Orange	Red	Yellow
Feb-22	Green	Green	Green	Green	Orange	Green
Mar-22	Yellow	Yellow	Red	Green	Orange	Yellow
Apr-22	Yellow	Yellow	Red	Green	Green	Red
May-22	Orange	Yellow	Orange	Green	Yellow	Yellow
Jun-22	Red	Orange	Orange	Yellow	Green	Yellow
Jul-22	Orange	Orange	Orange	Green	Yellow	Green
Aug-22	Yellow	Yellow	Green	Green	Yellow	Yellow
Sep-22	Yellow	Orange	Green	Green	Green	Orange
Oct-22	Orange	Red	Green	Orange	Green	Orange
Nov-22	Yellow	Red	Orange	Orange	Green	Orange
Dec-22	Yellow	Orange	Green	Red	Orange	Red
Jan-23	Orange	Yellow	Grey	Red	Orange	Green

Note: Color scales based upon an indicator's z-score versus a 2010-2019 trend. Green cells signify 'normal' levels for the indicator while red cells signify indicators under severe stress. Grey cells indicate data has yet to be released.

Period	Industrial production mfg	ISM Mfg new orders	Core Mfg new orders	Avg. weekly hours (mfg.)	Unemploy. Rate	Consumer confidence	U. of Mich consumer expectaions	Real conumer spending
Jan-22	Orange	Green	Green	Yellow	Red	Green	Green	Green
Feb-22	Green	Green	Yellow	Green	Orange	Yellow	Orange	Green
Mar-22	Green	Green	Orange	Green	Yellow	Green	Green	Yellow
Apr-22	Green	Green	Orange	Green	Yellow	Green	Green	Yellow
May-22	Yellow	Green	Orange	Green	Yellow	Orange	Orange	Yellow
Jun-22	Yellow	Yellow	Orange	Orange	Yellow	Red	Red	Orange
Jul-22	Yellow	Orange	Orange	Orange	Green	Red	Red	Orange
Aug-22	Yellow	Orange	Orange	Orange	Orange	Orange	Yellow	Yellow
Sep-22	Green	Orange	Green	Yellow	Green	Green	Yellow	Orange
Oct-22	Orange	Orange	Green	Orange	Orange	Orange	Orange	Red
Nov-22	Orange	Orange	Red	Red	Yellow	Orange	Orange	Red
Dec-22	Red	Orange	Green	Red	Green	Green	Green	Orange
Jan-23	Orange	Red	Red	Orange	Green	Yellow	Green	Yellow

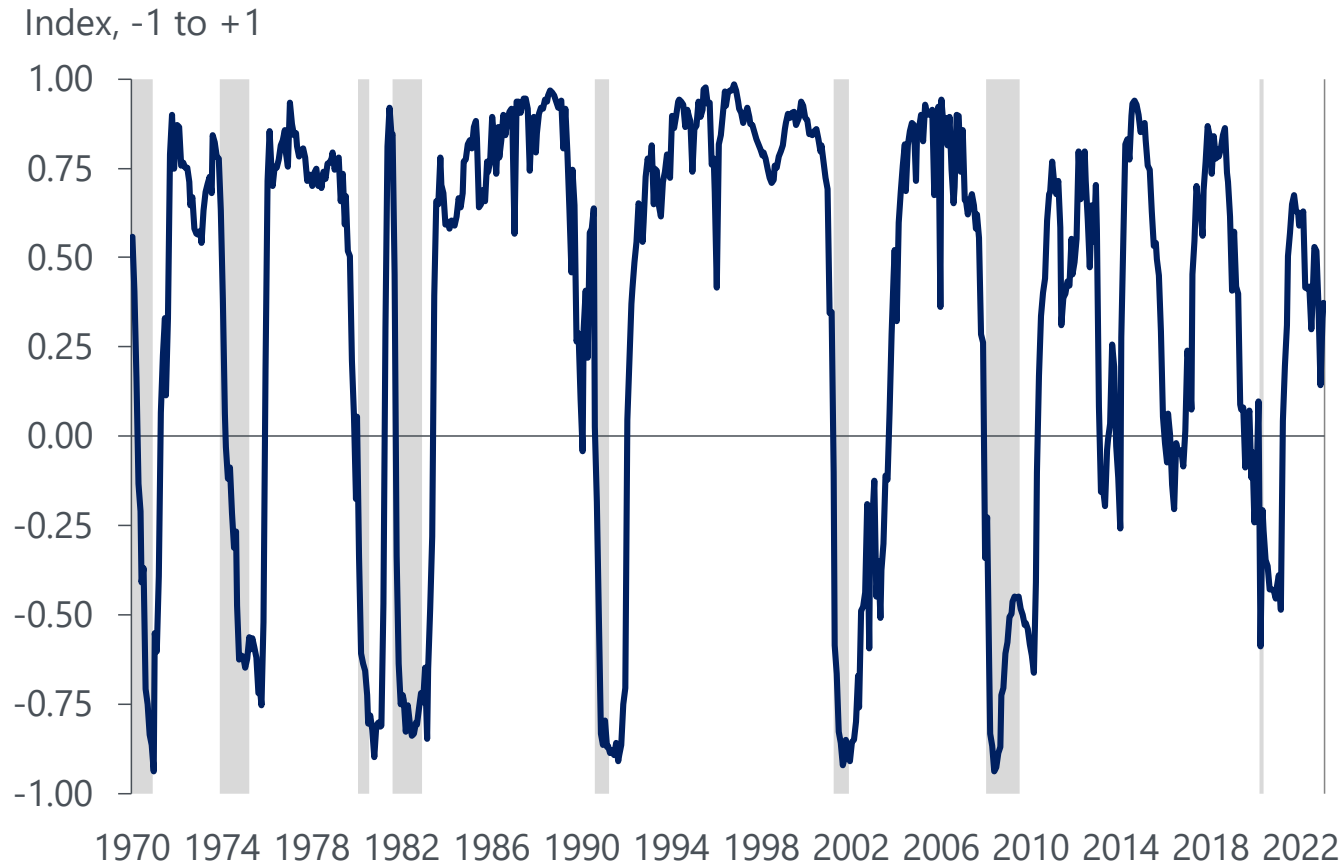
Note: Color scales based upon an indicator's z-score versus a 2010-2019 trend. Green cells signify 'normal' levels for the indicator while red cells signify indicators under severe stress. Grey cells indicate data has yet to be released.

This table displays the measures of aggregate real economic activity used by the National Bureau of Economic Research (NBER) to date the business cycle. The NBER normally doesn't declare the start of a recession until its well underway.

There are clear signs that the economy is softening, leaving it vulnerable to anything else that goes wrong.

# Economy isn't in recession yet, but it is at a turning point

US: Business cycle indicator via fuzzy-k-means clustering



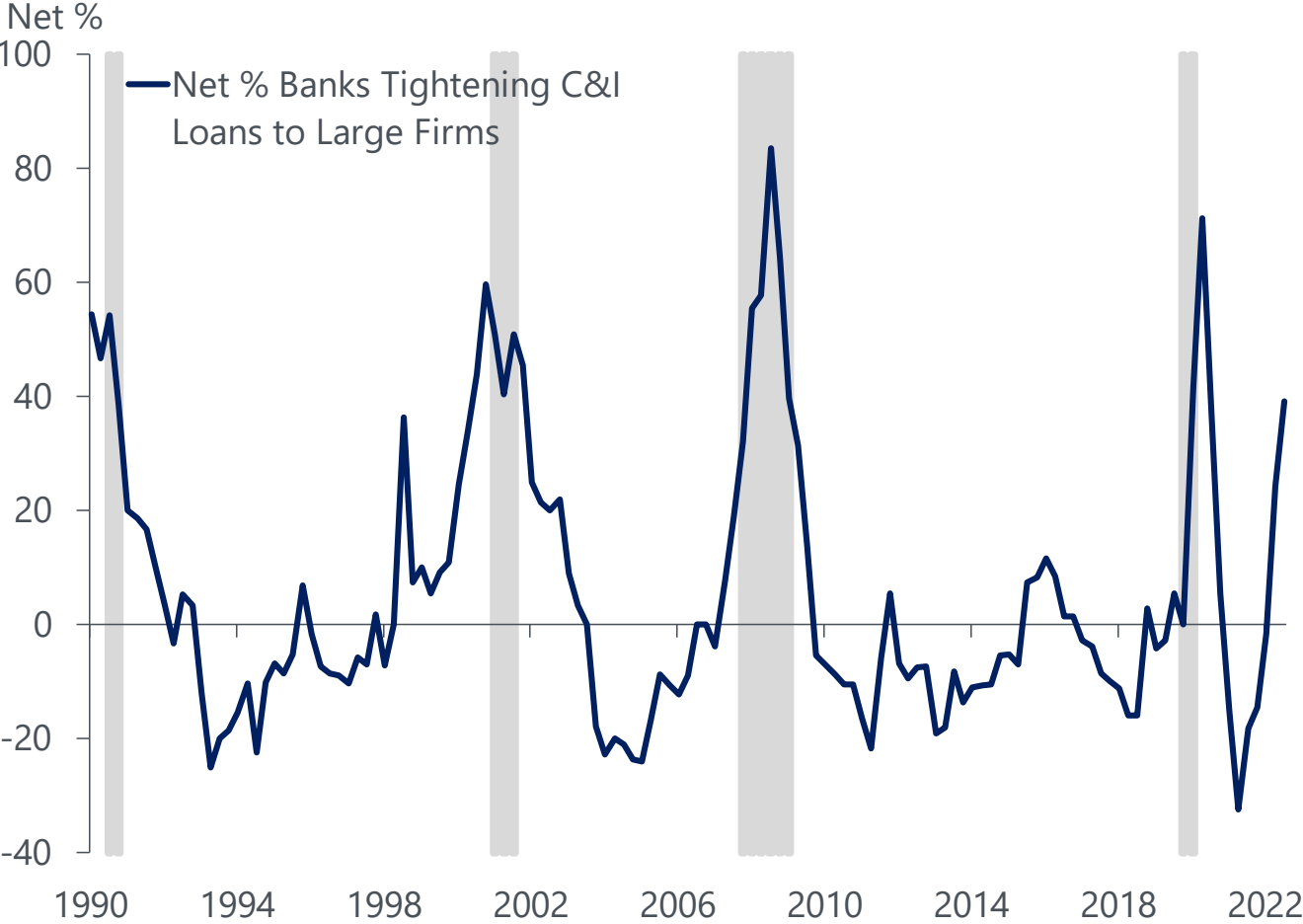
Source: Oxford Economics/Haver Analytics

We developed a proprietary tool using key economic data to date in real-time where the economy is in the business cycle. The index is a coincident indicator, with large drops corresponding with each of the eight prior recessions.

The index shows that while the economy has yet to enter a recession, it is clearly at a turning point and is vulnerable to anything that goes wrong. We would expect a recession to likely coincide with a reading in the -0.25 to -0.50 region.

# Credit conditions becoming less favorable

US: FRB Sr Officers Survey: Banks Tightening C&I Loans to



Source: Oxford Economics/Haver Analytics

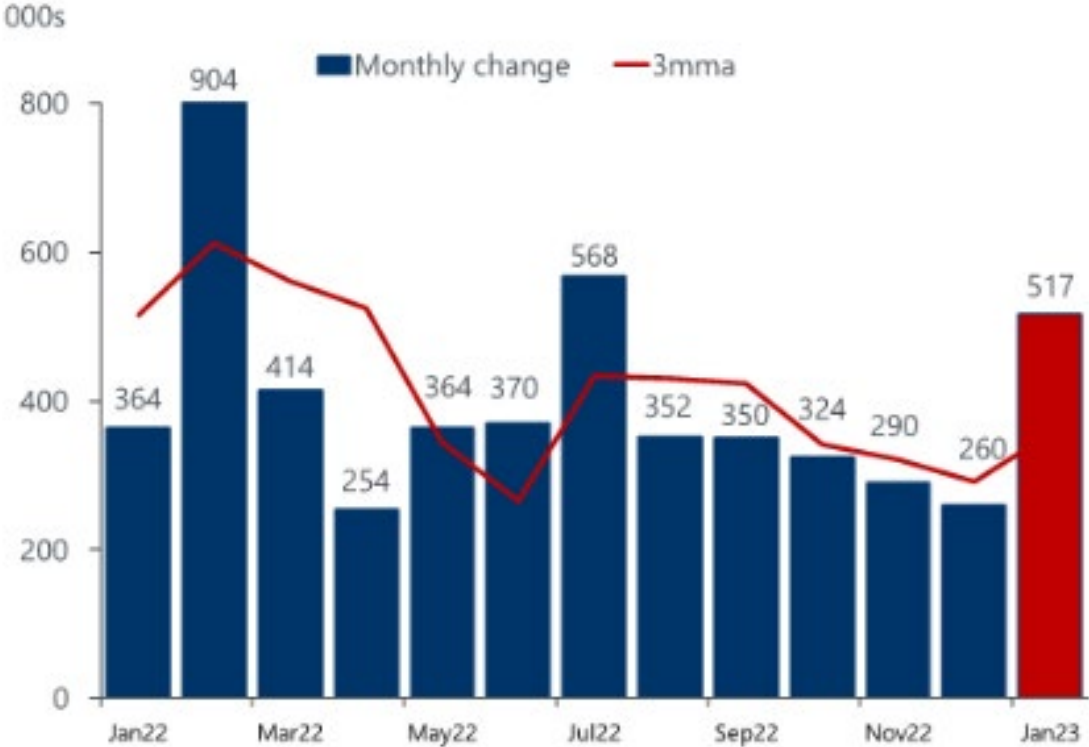
Typically leading up to, and during a recession, banks tighten underwriting standards for their C&I loans. The availability of credit is critical to the economy.

As of Q4 (the latest datapoint), lending standards for C&I loans were already approaching levels associated with recessions in the past.



# Tight labor market but wage growth is moderating

US: Nonfarm payroll employment



Source: Oxford Economics/BLS/Haver Analytics

US: Wage Tracker



Note: The wage tracker is estimated using the first and second principal components of the ECI, average hourly earnings, unit-labor costs, and the Atlanta Fed's Wage Growth Tracker  
Source: Oxford Economics

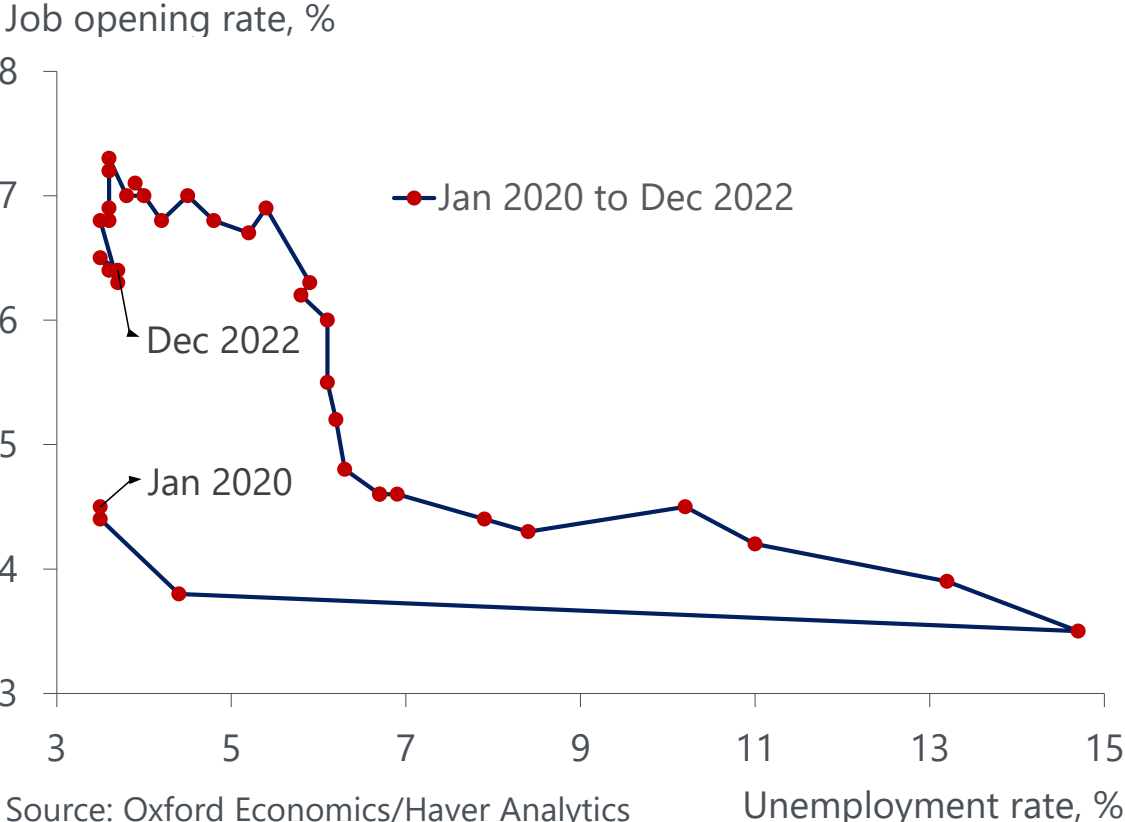
# Beveridge curve suggests there is still a path to a soft landing

US: Number of job openings per unemployed



Source: Oxford Economics/Haver Analytics

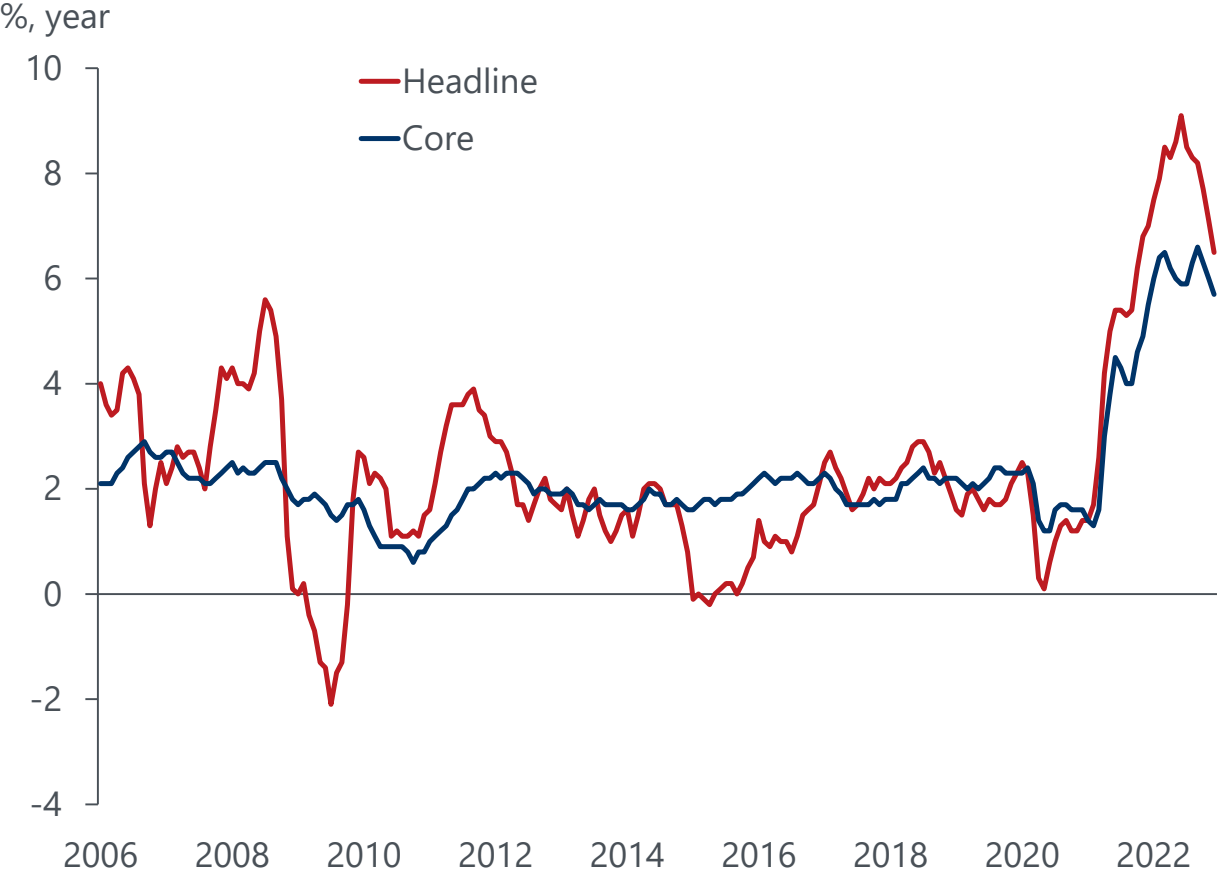
US: Beveridge curve



Source: Oxford Economics/Haver Analytics

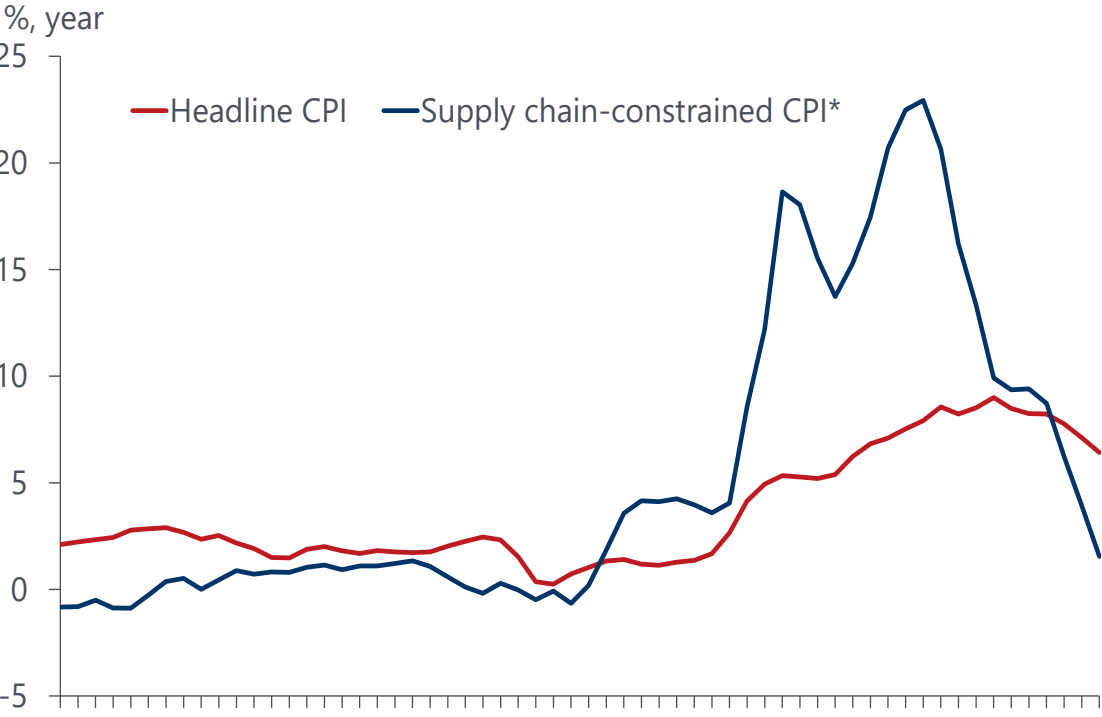
# Not the start of the year that the Fed wanted

US: Consumer prices



Source: Oxford Economics/Haver Analytics

US: CPI inflation

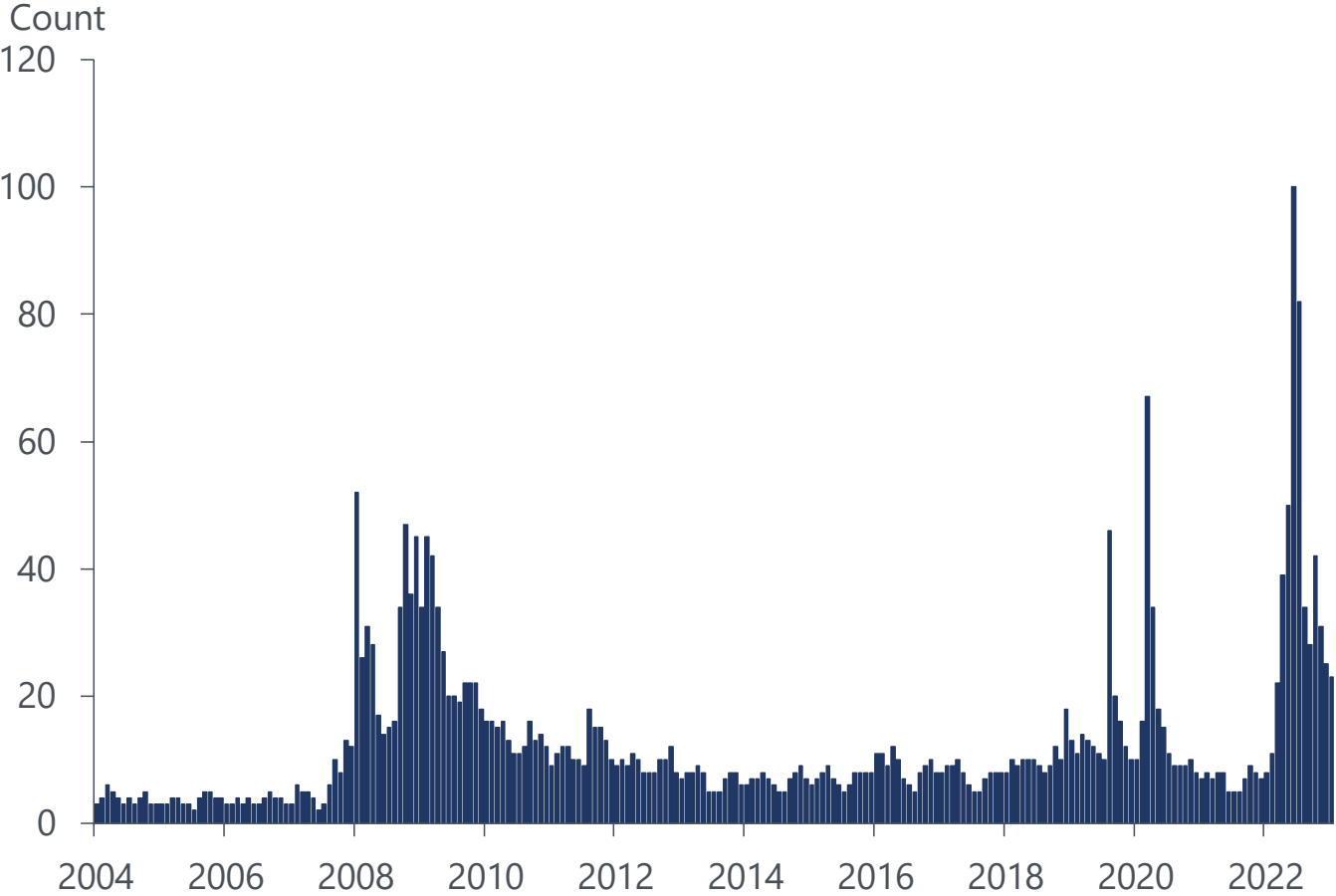


Jan-18 Jul-18 Jan-19 Jul-19 Jan-20 Jul-20 Jan-21 Jul-21 Jan-22 Jul-22  
Note: Includes new vehicles, used cars and trucks, motor vehicles and parts, motor vehicle maintenance and repair, IT commodities, sporting goods, and furniture and bedding  
Source: Oxford Economics/Haver Analytics



# Recession has been increasingly on the mind

Frequency of the word 'Recession' searched on Google



Source: Oxford Economics/Google

We watch consumer's and businesses do rather than say. However, at inflection points in the business cycle, sentiment matters. Therefore, we track Google searches for various key words because it someone is searching for it that topic is on their mind.



**Brodie Oldham**  
VP Commercial Data Science



# Small Business Credit

Supporting our mission

- ✓ A **consortium** of banks, credit card, leasing agencies, utilities, telecommunications and other companies, contributing detailed credit, financial and non-financial data
- ✓ Millions of transactions across a wide range of small businesses
- ✓ A clearer, more comprehensive picture of **small business borrowers**





# Where were we a year ago

Healthy business growth emerging from the pandemic



## State of Markets

- Spend accelerating
- Historic low delinquency
- Tightening labor market
- Supply Chain challenges
- Global conflicts/ economies shaky

**716**

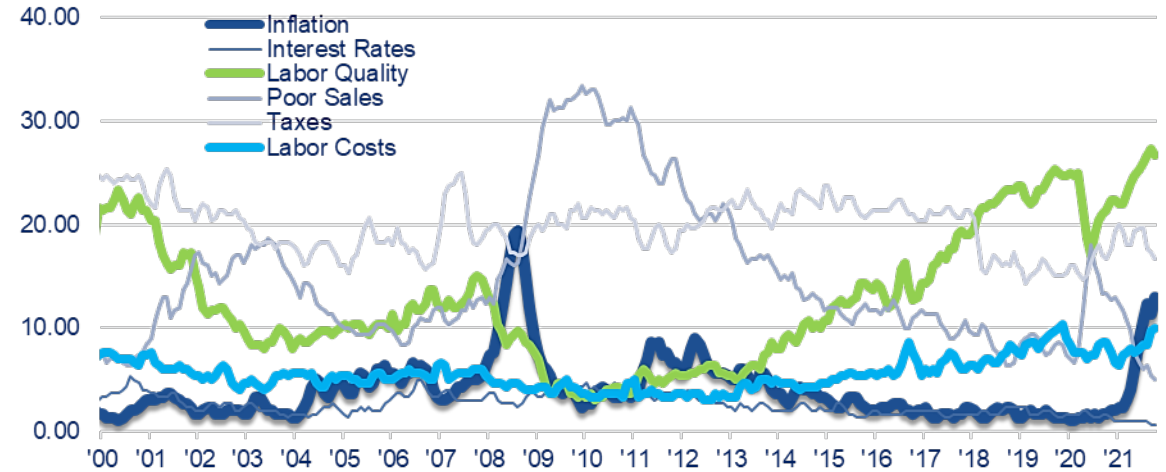
Consumer

**761**

Commercial

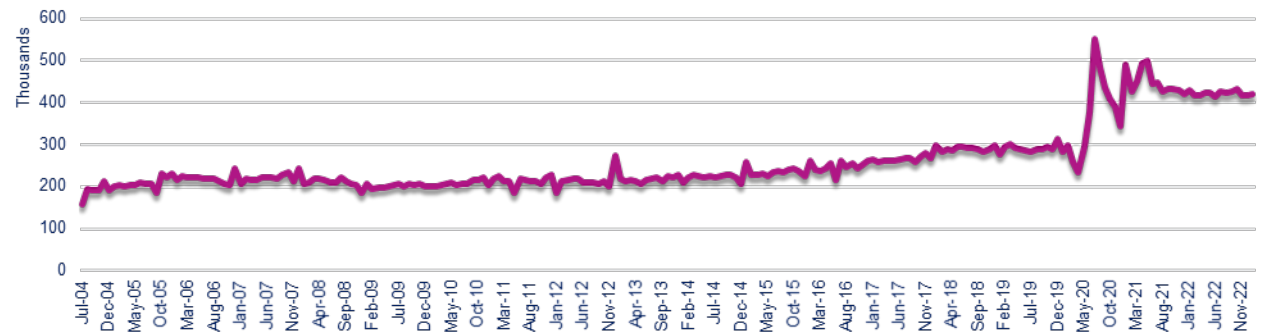
Rising average credit scores

## Small business concerns



Source: National Federation of Independent Business (NFIB), Moody's

## Business Formation Statistics



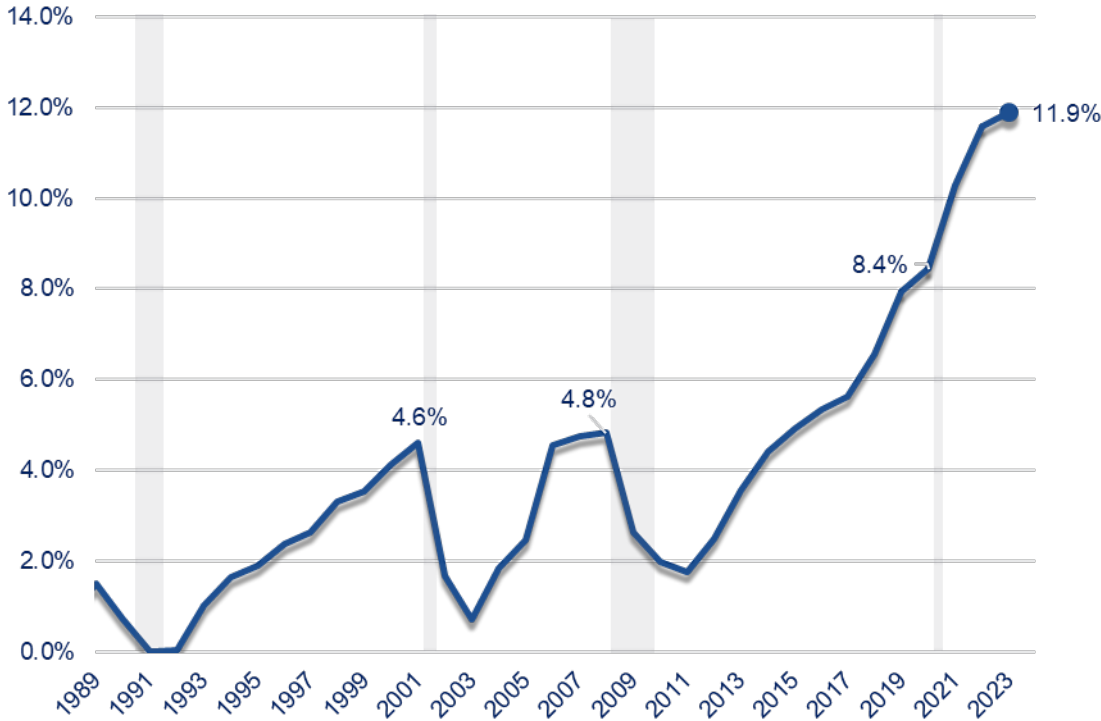
Source: Census.gov

Business Formation Statistics

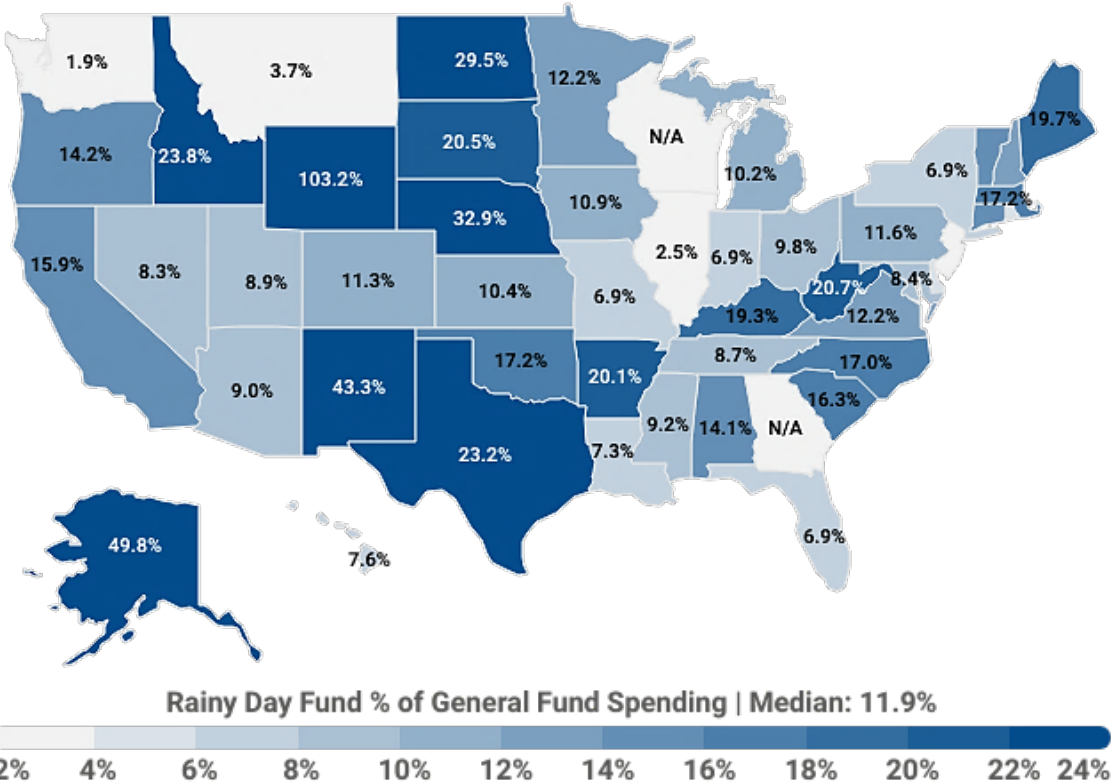
# States have record high rainy-day funds

High level of state savings should provide buffer if the economy enters a recession

Median Rainy Day Fund Balance as a Share of General Fund Spending

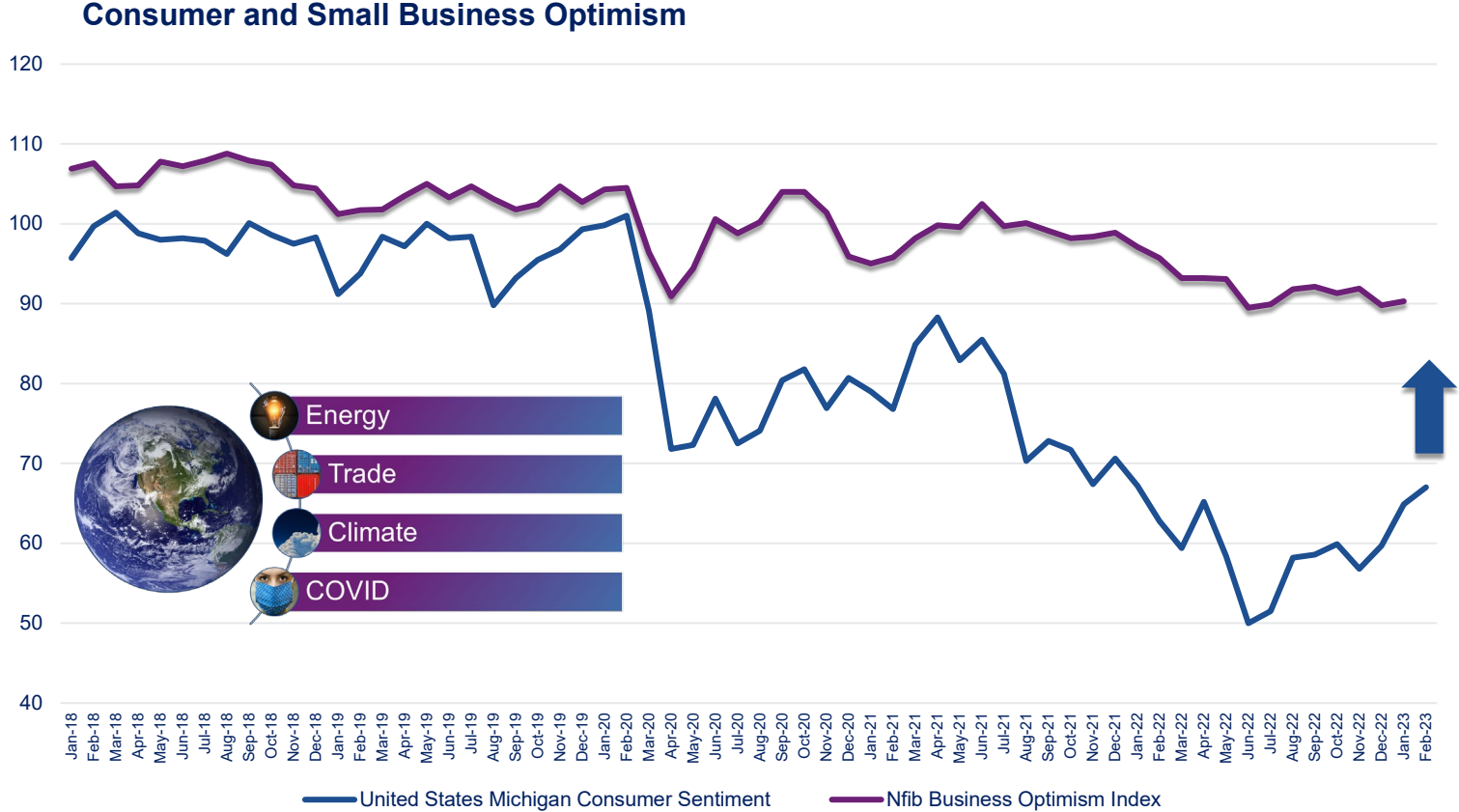


Source: National Association of State Budget Officers



# Commercial health

Consumer optimism has been recovering – what does this mean for small business...



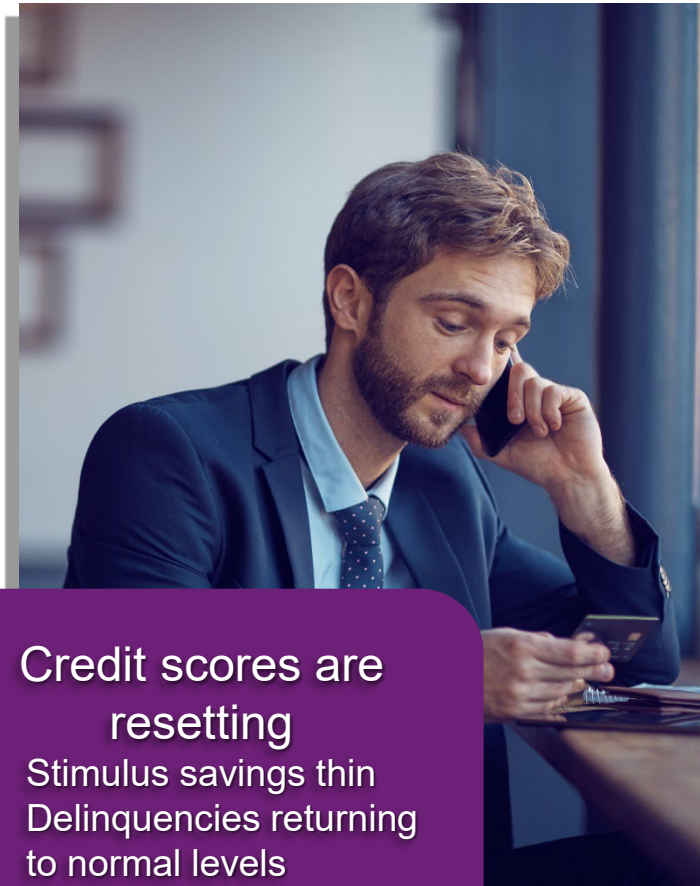
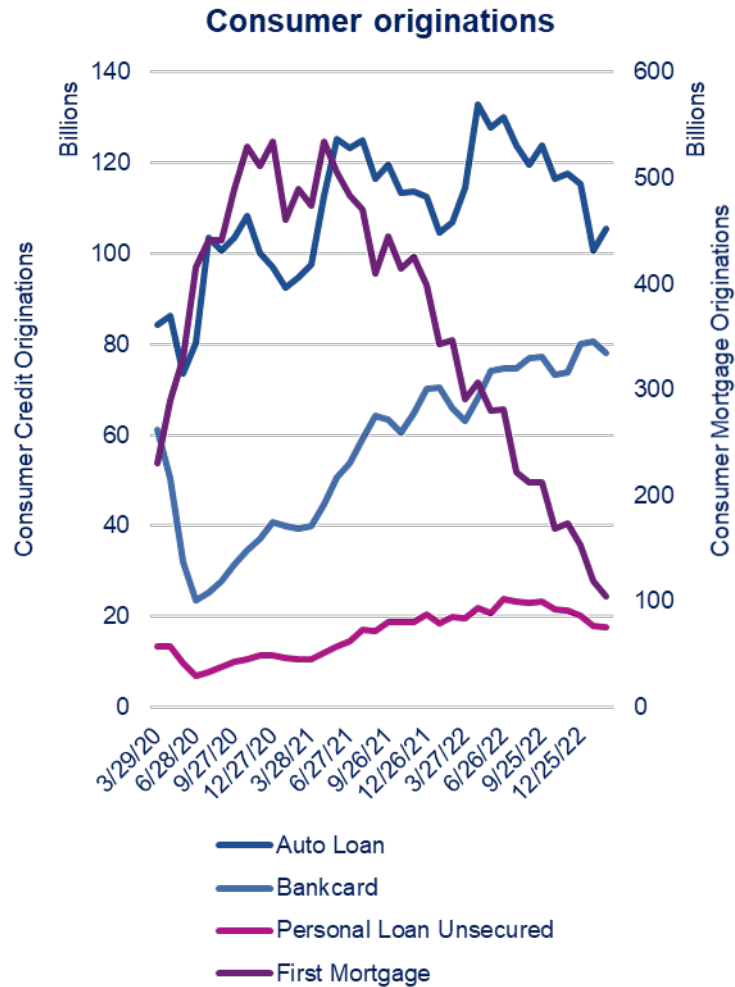
Source: NFIB, Small Business Monthly Optimism Survey





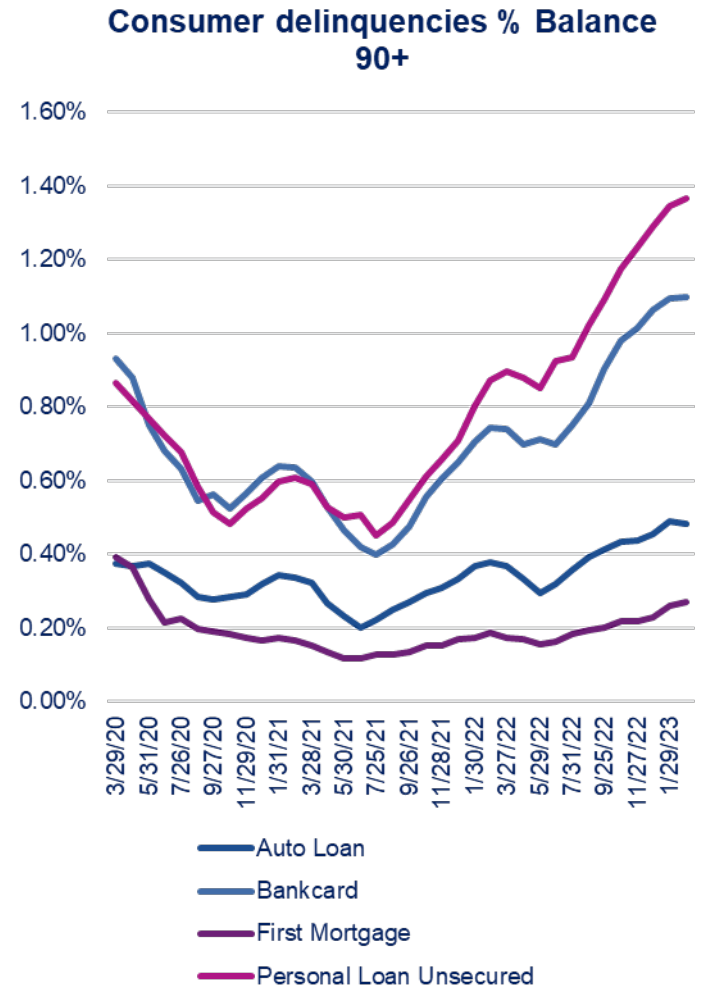
# What changed...

Consumer borrowing has slowed



**Credit scores are resetting**

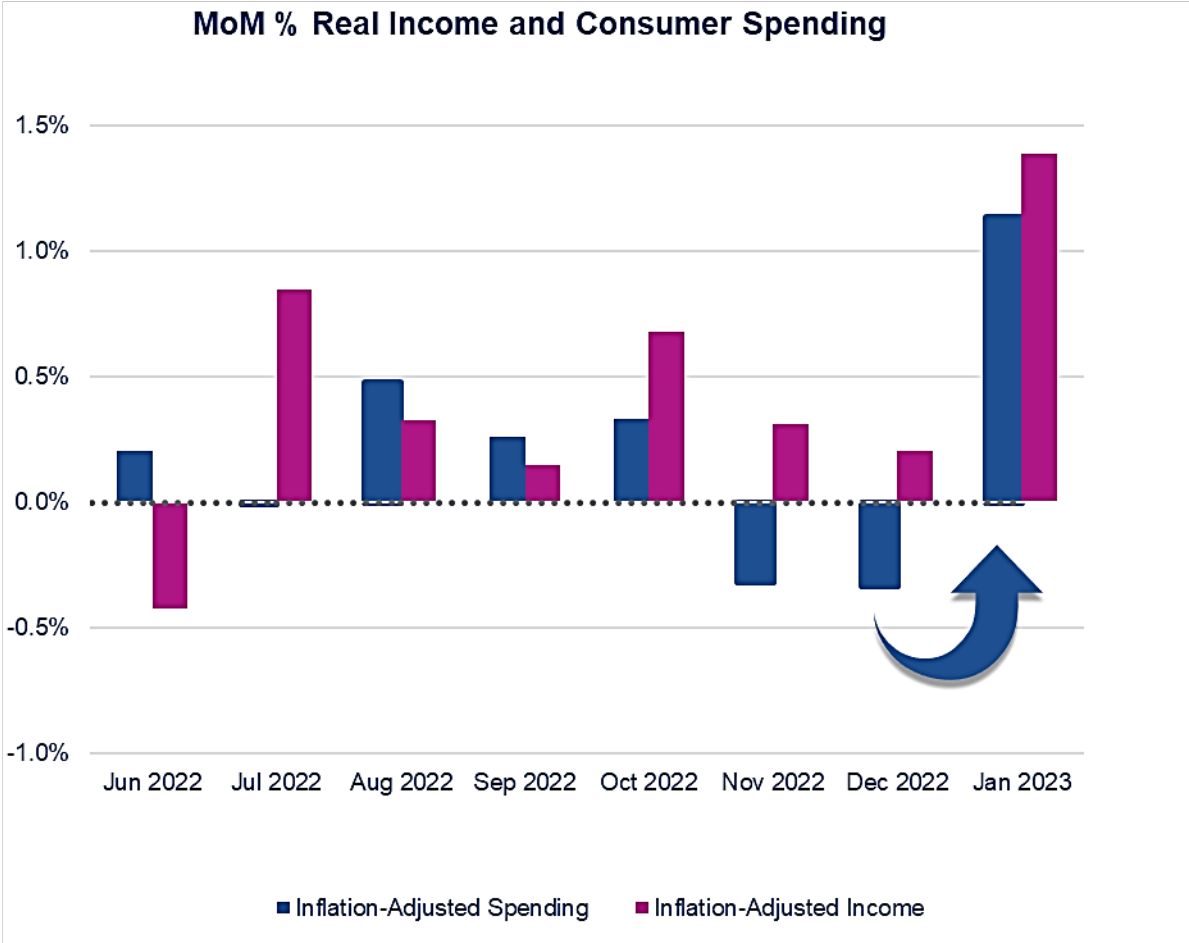
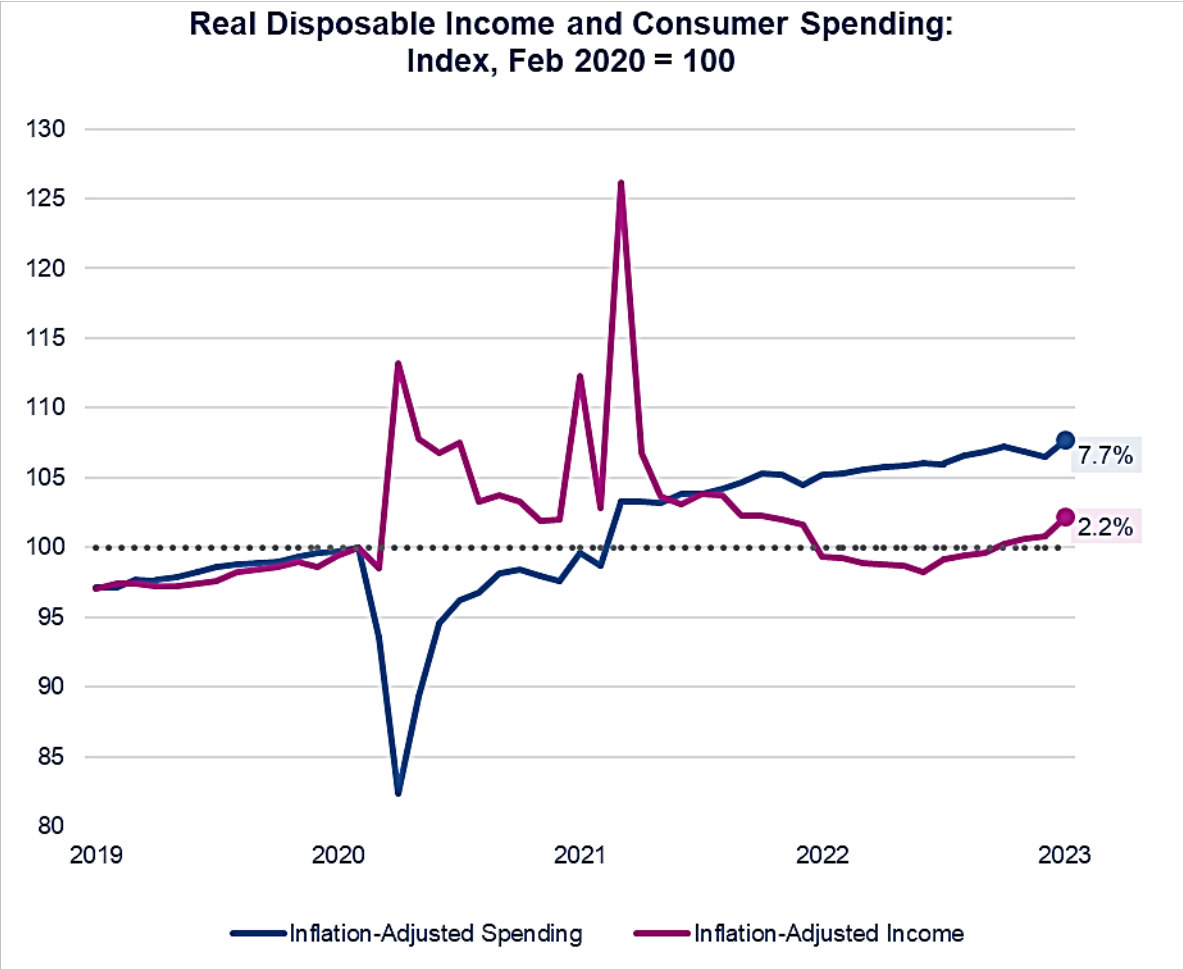
- Stimulus savings thin
- Delinquencies returning to normal levels
- Spend normalizing





# Spending still holding up as real income starts to rise

Inflation-adjusted income has risen for seven-consecutive months

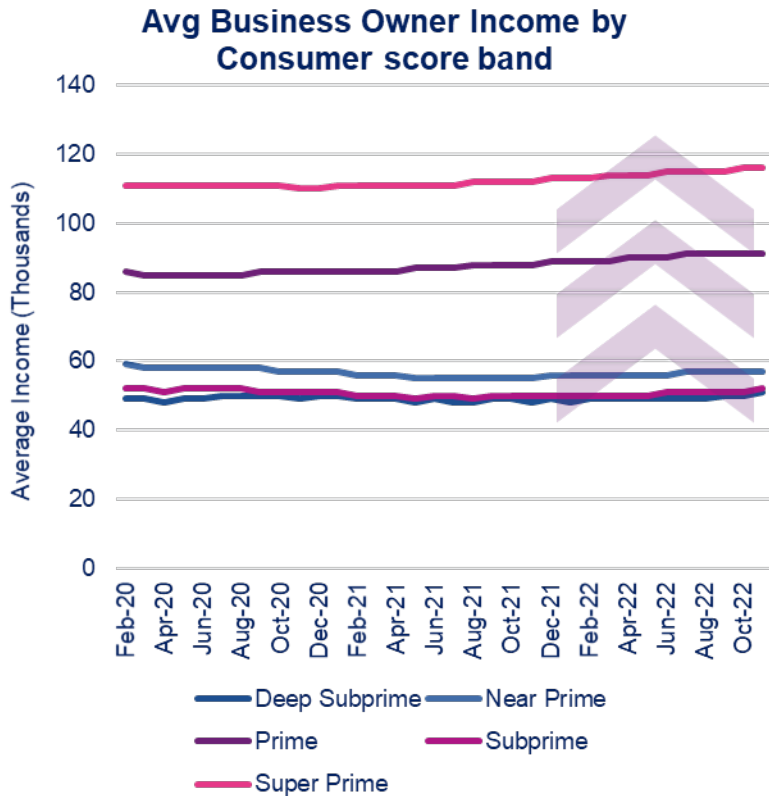


Source: Bureau of Economic Analysis and Author's Calculations

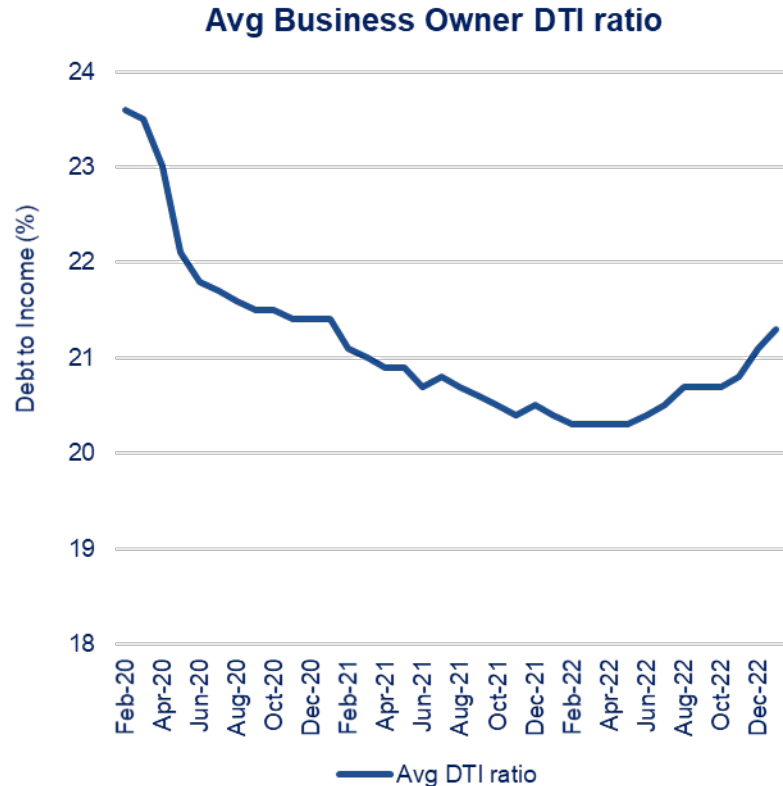


# Business owners...

Growing wealth but debt management behaviors are resetting



source: Experian Commercial Benchmarking



source: Experian Commercial Benchmarking



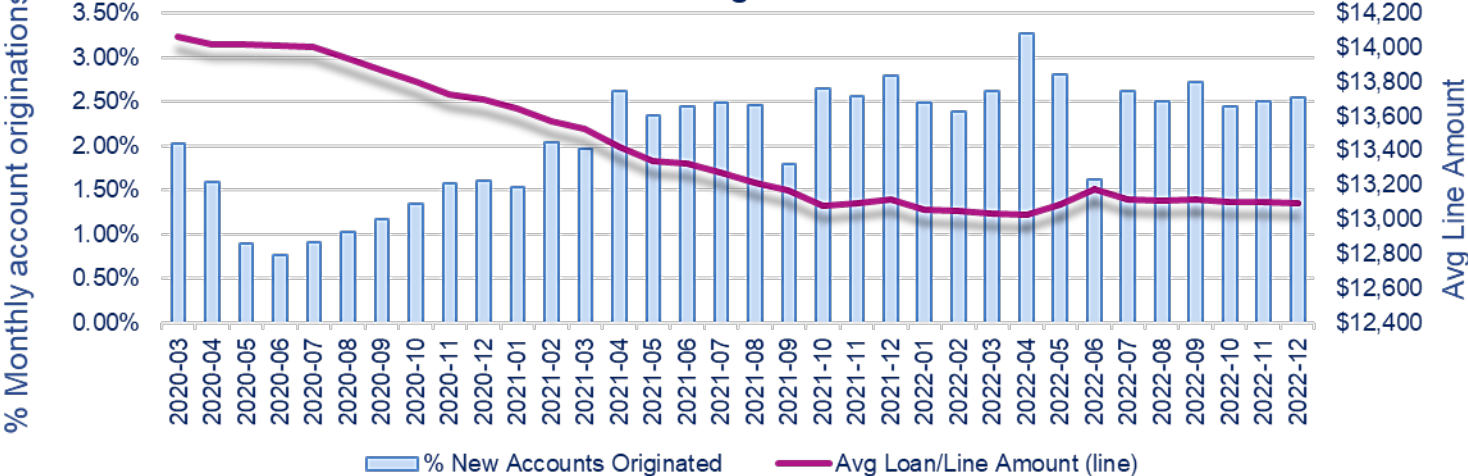
**756**  
Commercial

# Commercial borrowing behavior

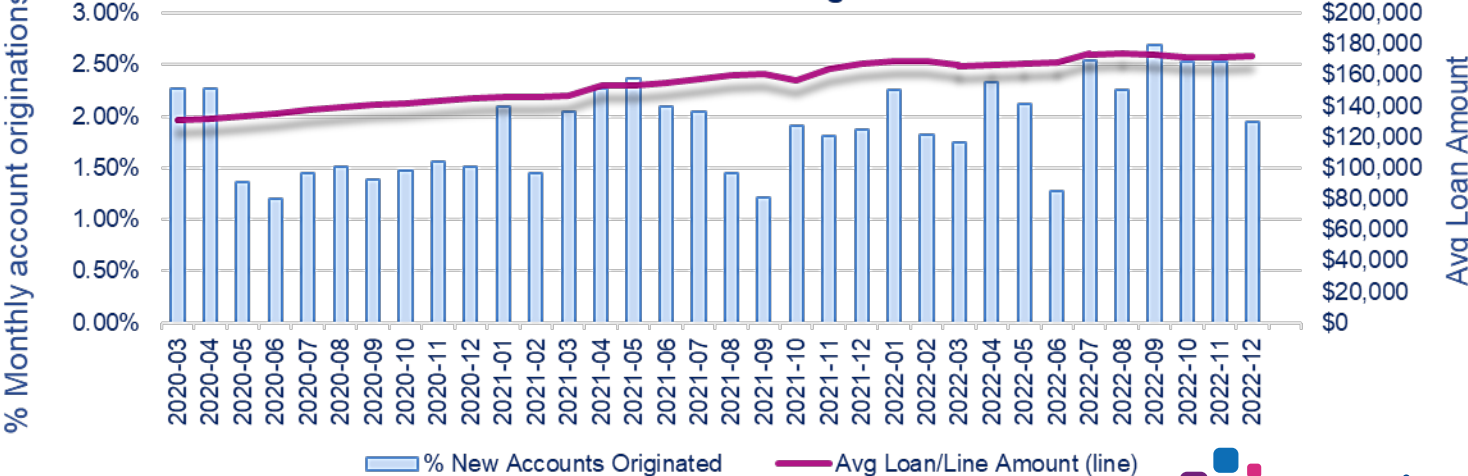
Originations slow as delinquency and interest rates rise



Commercial Card Origination Trends



Commercial Installment Origination Trends



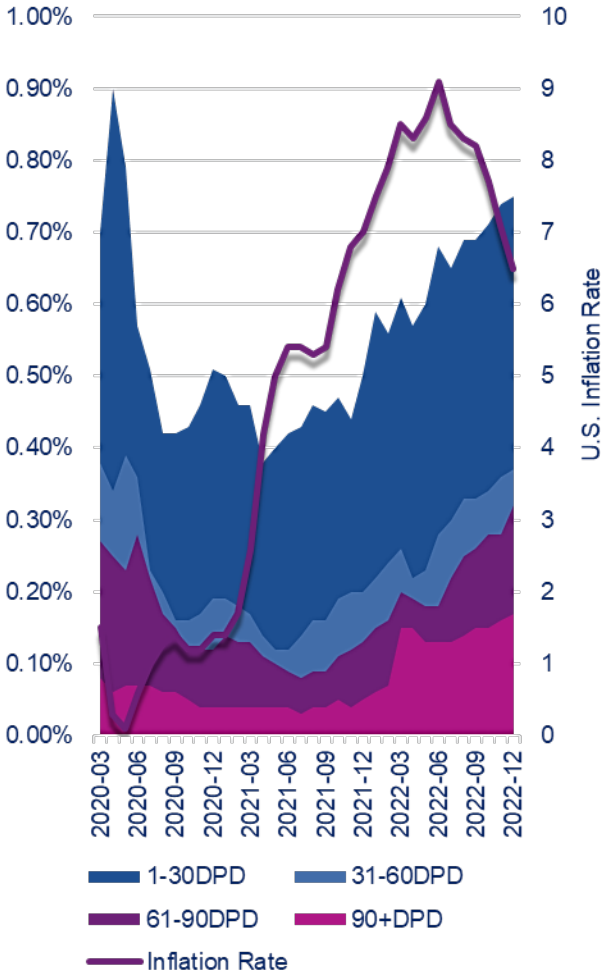
source: Experian Commercial Benchmarking



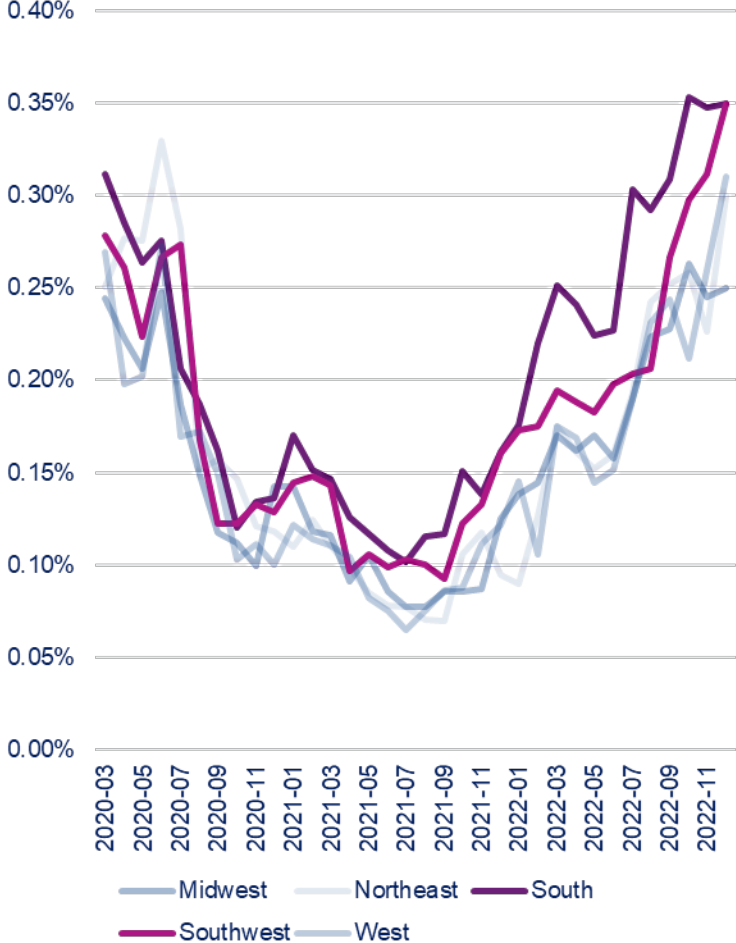
# Relationship between utilization and 90+ delinquency

Delinquencies increase with inflation as markets experience reset activity

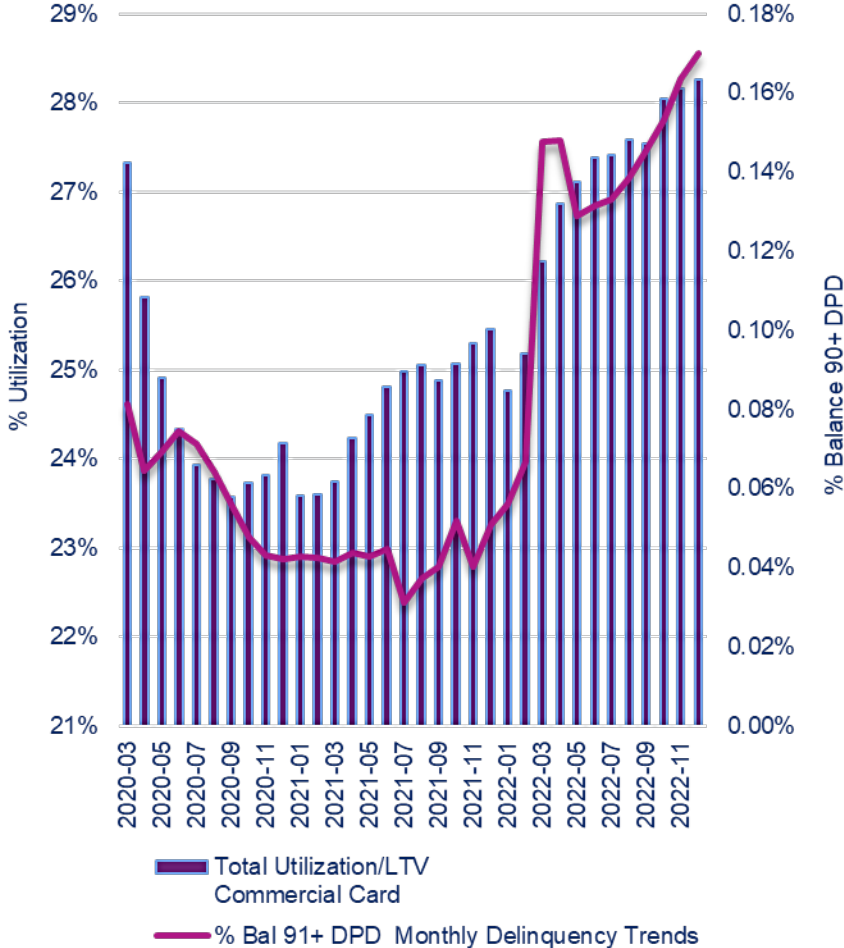
US Commercial Card Delinquency Trends



Regional Commercial Card Delinquency Trends



Commercial Card Utilization Trends



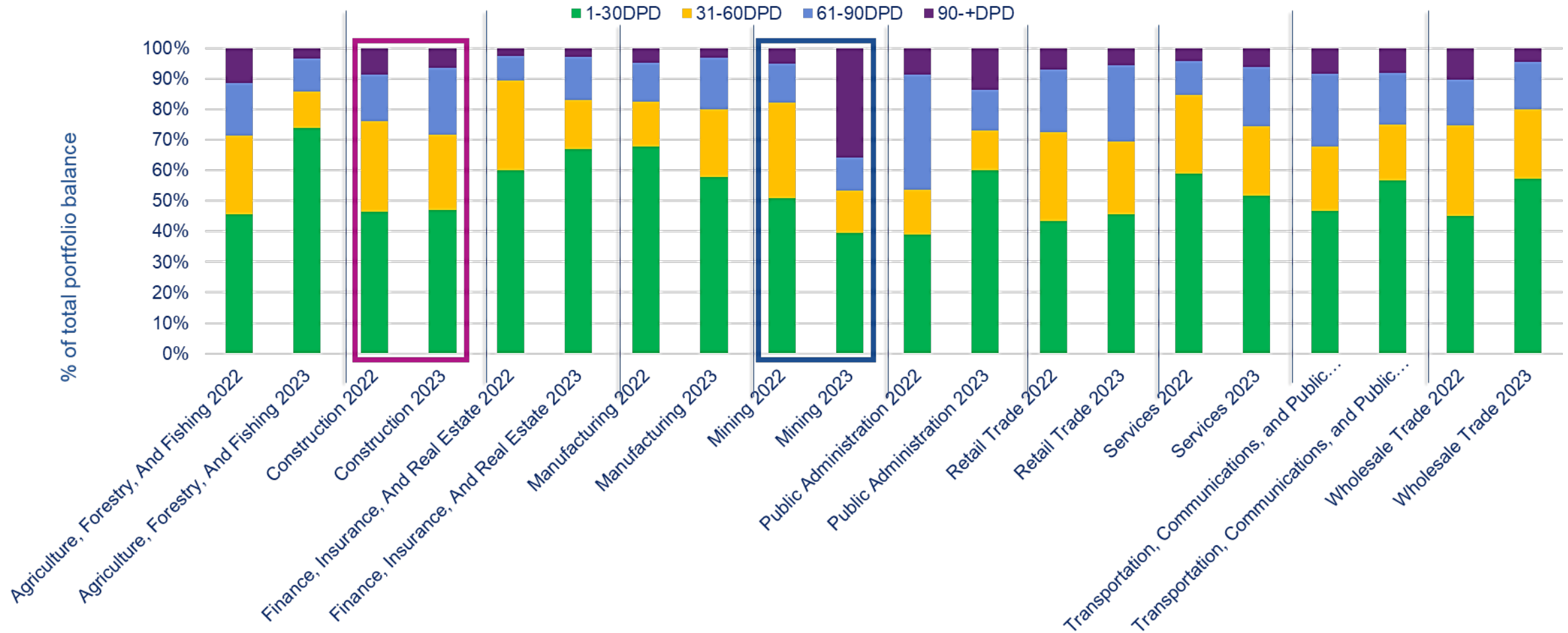
source: Experian Commercial Benchmarking





# Industry focused portfolios

Improvement across industries with a few exceptions (All products)

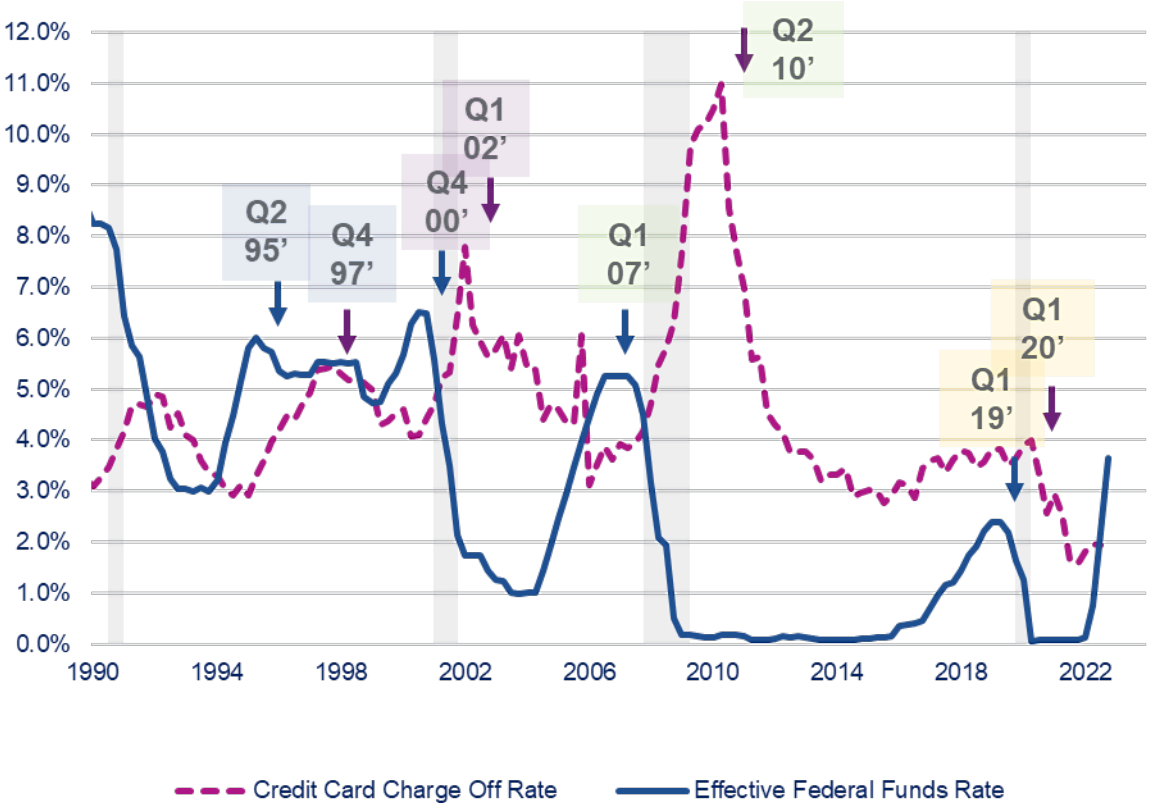


Source: Experian Commercial Benchmark

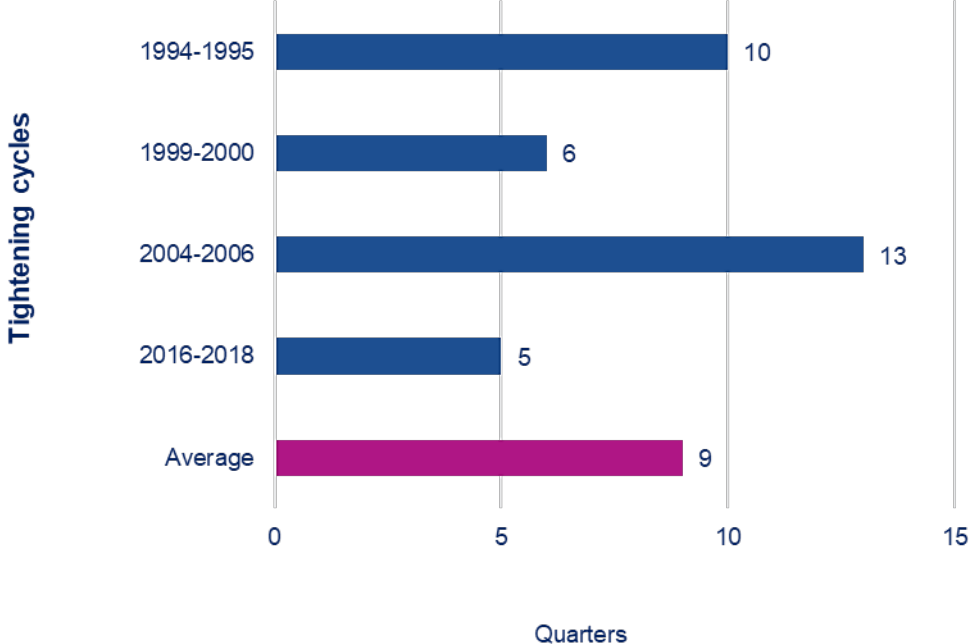
# Historical record suggests consumer stress still in early stages

In previous rate hike cycles, CC charge-offs didn't peak till 9 quarters after rates peaked

Rate hike cycles and credit card charge offs (Quarterly)



Quarters After Rate Hike Cycle Ends to Peak Credit Card Charge Offs

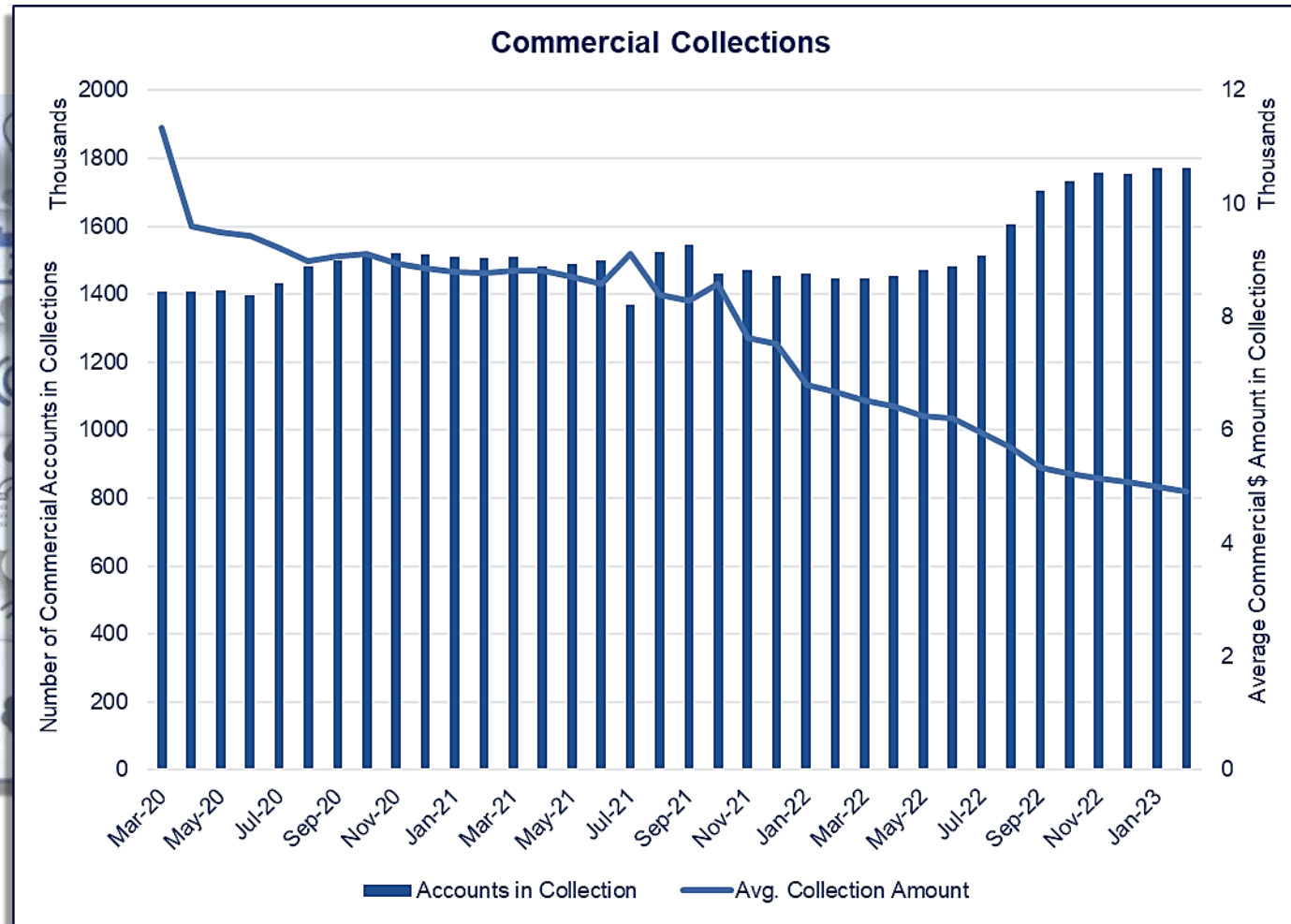


Source: Federal Reserve Board of Governors and author's calculation



# How are small businesses keeping up...

Commercial collections rising but with smaller placement amounts



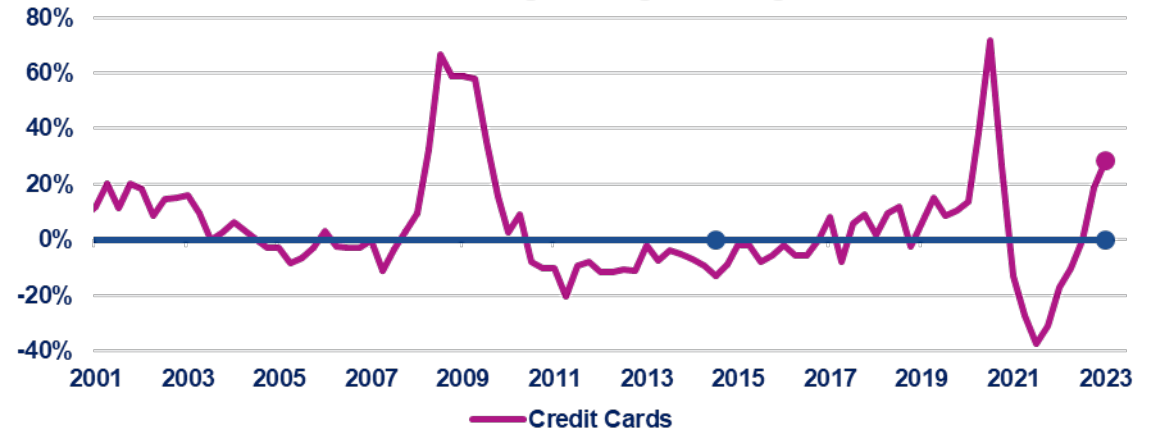
Source: Experian Commercial Ascend

# Commercial Credit Underwriting Strategies

Tightening coming?

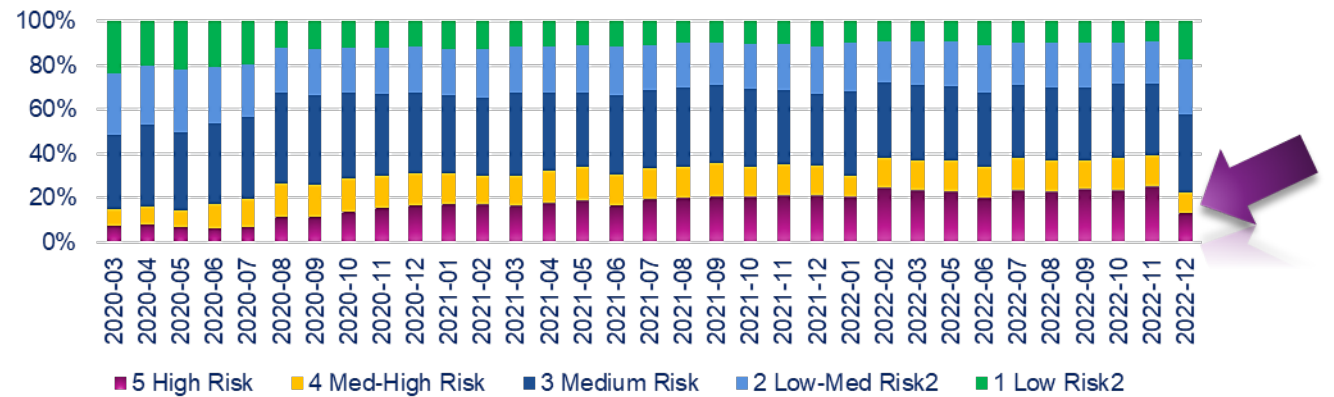


Net % of Banks Tightening Lending Standards



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

Not seeing tightening of commercial card underwriting...yet



Source: Experian Commercial Benchmark Tool



# Wrapping it up

Outlook remains positive with challenging second half 2023

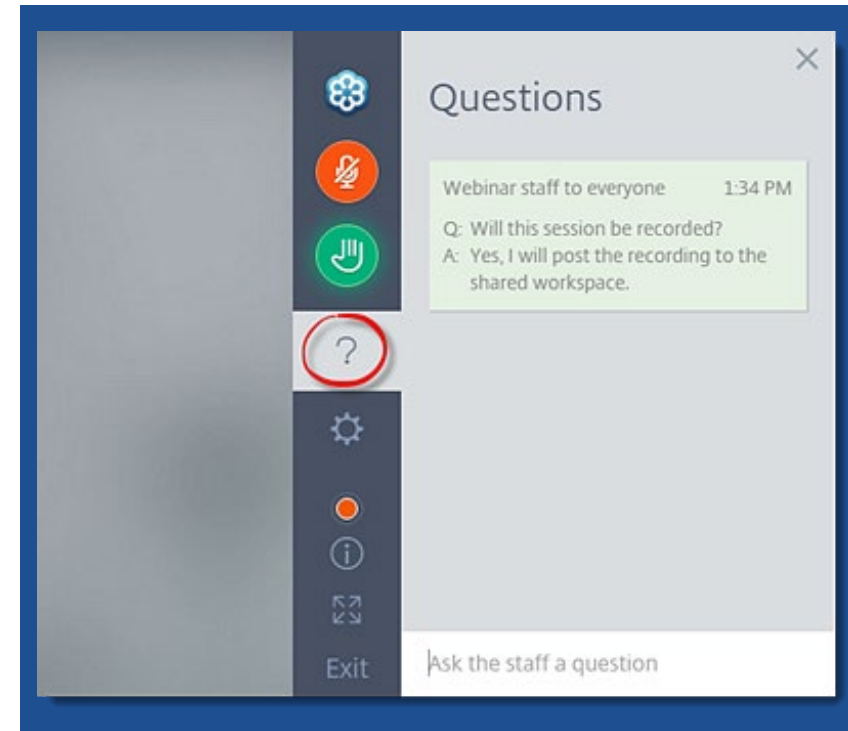


- **Economic slowdown** risk rising for latter part of 2023
- Consumers are **changing behaviors** as cost pressure rises
- Small businesses see lingering elevated **inflation** as the **highest risk** to cost containment and growth
- **Delinquency rates** are rising but still low
- Lenders are **expanding product diversity** to limit exposure rather than tighten criteria
- **Oversight** is expanding



# Questions

And now we would like to take any questions if you have them.





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- Please take a moment to fill out our short exit-survey
- Helps us keep improving our webinars
- Tell us what else we should be covering





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