



COMMERCIAL PULSE

Small Business Impacts

Executive Summary

U.S. Economic and Regulatory Highlights

- Q3 2022 real gross domestic product (GDP) was adjusted upward from the previously reported 2.6% to an annual increase of 2.9%. The increase in the third quarter primarily reflected increases in exports and consumer spending that were partly offset by a decrease in housing investment. (U.S. Bureau of Economic Analysis)
- November unemployment was 3.7%, flat to October and remained close to September's two-year low of 3.5%. (Source: U.S. Bureau of Labor Statistics)
- The U.S. economy added 263K jobs in November, down from October's 284K but much stronger than industry expectations. (Source: U.S. Bureau of Labor Statistics)
- The number of job openings edged down to 10.3MM as of the end of October. During October, the number of hires and total separations were basically flat at 6.0MM and 5.7MM, respectively. Within separations, quits (4.0MM) and layoffs and discharges (1.4MM) changed little. (Source: U.S. Bureau of Labor Statistics)
- In the week ending November 19, the advance figure for seasonally adjusted initial claims was 240,000, an increase of 17,000 from the previous week's level. The 4-week moving average was 226,750, an increase of 5,500 from the previous week's average. (Source: U.S. Department of Labor)
- On Cyber Monday, consumers spent a record total of \$11.3B, which is 5.8% growth year-over-year (YoY). So far this holiday season, online sales are up 8.7% YoY at \$107.7B through November 28. (Source: Adobe Analytics)
- November Consumer Sentiment declined to 55.6 in November to reverse the trend of four consecutive months of increases which showed improvement from the record low in June. (Source: University of Michigan)
- U.S. total business end-of-month inventories for September 2022 were \$2,464.4 billion, up 0.4% from August. (Source: U.S. Census Bureau)
- U.S. total business sales for September were \$1,847.9 billion, up 0.2% from August. (Source: U.S. Census Bureau)
- After President Biden requested that Congress step in to avert railroad worker strike, the U.S. House and Senate passed bills on November 30th and December 1st that would bind companies and workers to a proposed settlement that was reached in September but rejected by some of the 12 railroad unions. A strike would be a blow to the U.S. economy, causing another shock to the supply chain and delay deliveries of many items from food to fuel as well as other goods going into the holiday season.
- Gas prices have declined steadily over the past month. Regular gas is up only 3% year-over-year, but diesel is up 42% which is making it more expensive to ship goods. (Source: AAA)
- The average 30-year fixed mortgage rate was 6.58% last week, down from the recent high of 7.08%. (Source: FreddieMac)
- October existing home sales in the U.S. fell to a seasonally adjusted annual rate of 4.43MM, the ninth consecutive monthly decline. (Source: National Association of Realtors)
- Sales of new single-family houses in October 2022 were at a seasonally adjusted annual rate of 632,000, 7.5% above the September rate of 588,000, but is 5.8% below the October 2021 level. (Source: U.S. Census Bureau and the Department of Housing and Urban Development)

Macroeconomic Overview

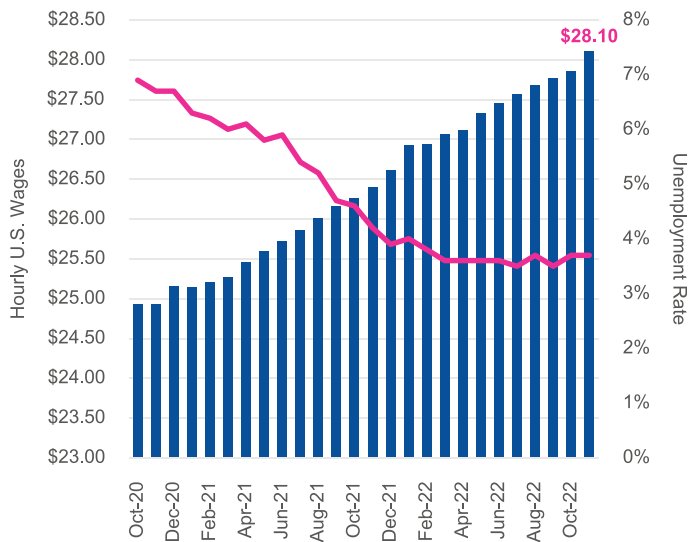
Consumer Sentiment
55.6 in November
University of Michigan

Unemployment **3.7%**
in November
U.S. Bureau of Labor Statistics

263,000 Jobs
in November
U.S. Bureau of Labor Statistics

2.9% Q3
GDP Growth
U.S. Bureau of Economic Analysis

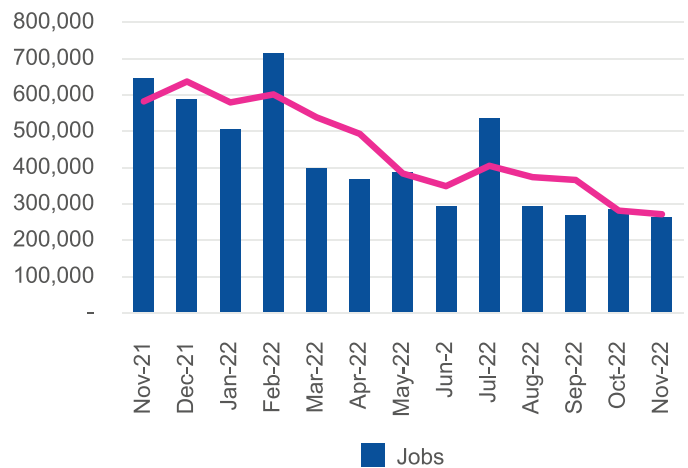
November unemployment was 3.7%, flat to October and remained close to September's two-year low of 3.5%. Wages continue to rise due to the tight labor market.



Source: U.S. Bureau of Labor Statistics

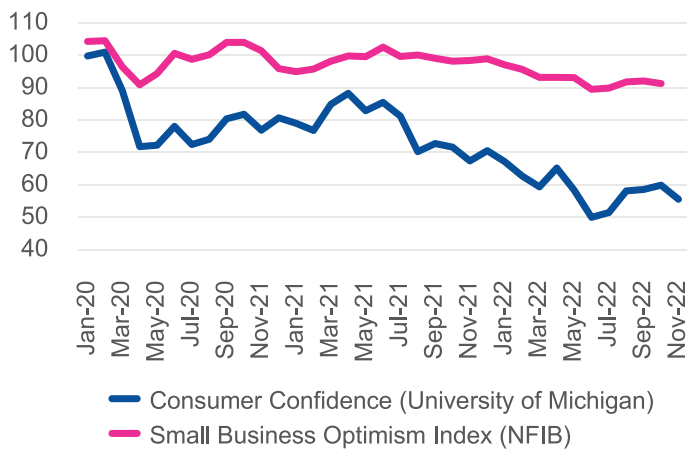
The U.S. economy added 263K jobs in November, up slightly from October's 284K but much higher than industry expectations. The gain was primarily driven by the Leisure and Hospitality sector which continued to rebound from Covid reductions by adding 88K positions.

U.S. Non Farm Payrolls (Seasonally adjusted)



Source: U.S. Bureau of Labor Statistics

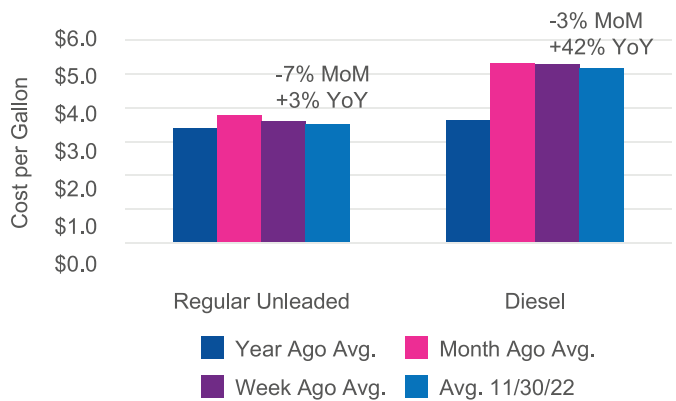
Consumer confidence tailed off in November after four consecutive months of increases bouncing back a little from the record low in June.



Source: University of Michigan; NFIB

Gas prices have declined steadily over the past month. Regular gas is up only 3% year-over-year, but diesel is up 42% which is making it more expensive to ship goods.

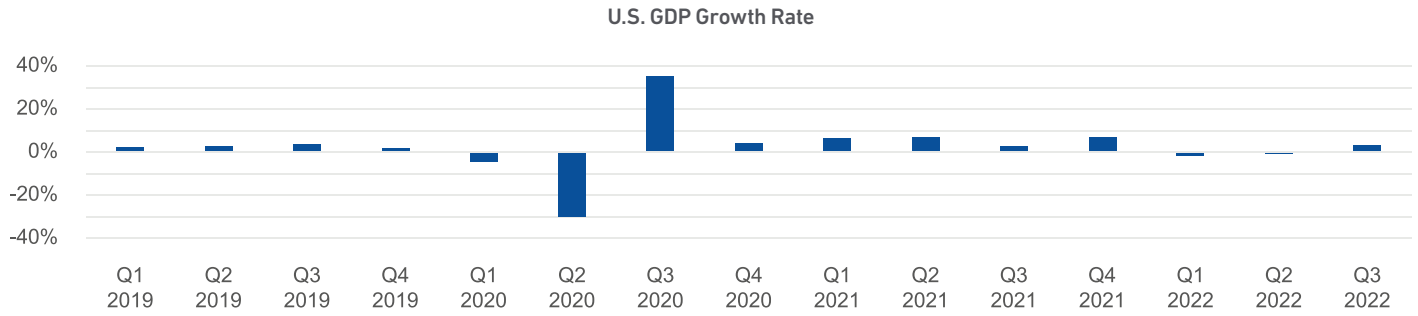
Average Gas Prices



Source: AAA

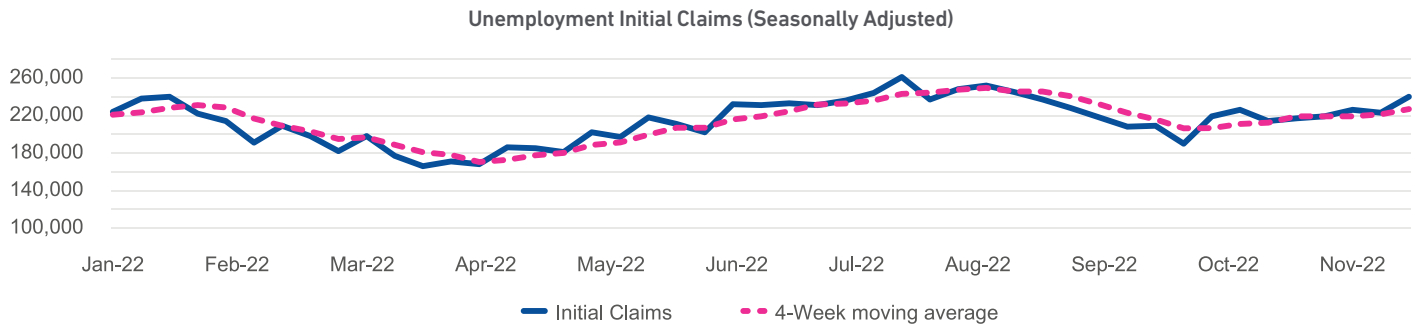
Macroeconomic Overview (continued)

The U.S. economy expanded 2.9% in the third quarter, rebounding from a contraction in the first half of 2022.



Source: U.S. Bureau of Economic Analysis

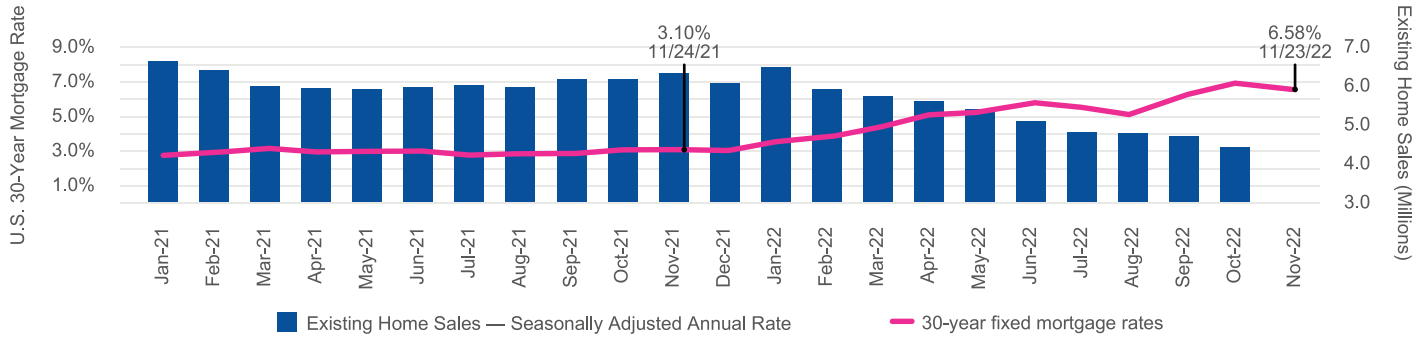
In the week ending November 19, the advance figure for seasonally adjusted initial claims was 240,000, an increase of 17,000. The 4-week moving average was 226,750, an increase of 5,500 from the previous week's average and the seventh consecutive week with an increase.



Source: U.S. Department of Labor

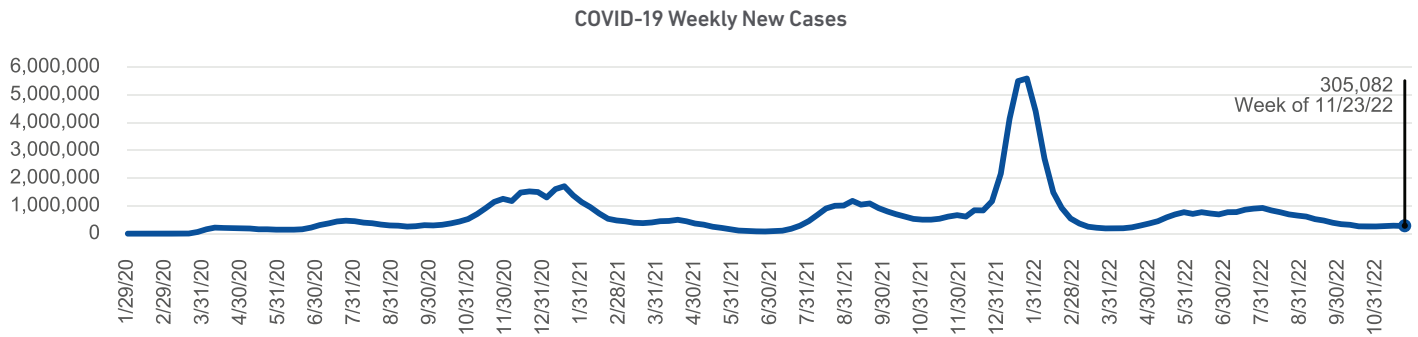
Macroeconomic Overview (continued)

The average 30-year fixed mortgage rate was 6.58% last week, down from the recent high of 7.08%. With interest rates still more than double the level of a year ago, home buyers' purchasing power has diminished and is driving down existing home sales. October existing home sales in the U.S. fell to a seasonally adjusted annual rate of 4.43MM, the ninth consecutive monthly decline.



Source: Freddie Mac, National Association of Realtors

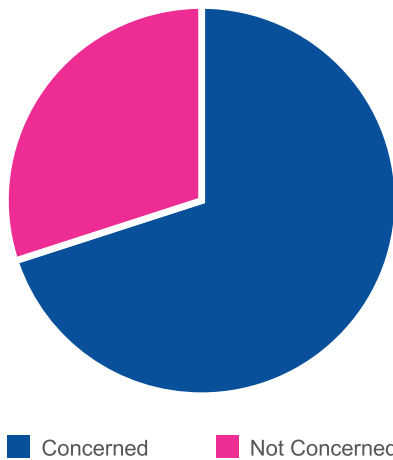
The average number of COVID-19 cases increased over the past few weeks last week saw 305K new cases, averaging almost 43K per day. There are concerns that this upward trend will continue through the winter.



Source: CDC (Centers for Disease Control and Prevention)

Small businesses are less able to weather the effects of high interest rates than their larger counterparts

Small Business Owners Concerned About Impact of Rising Interest Rates



Source: Business News Daily (<https://www.businessnewsdaily.com/loans/fed-interest-rate-small-business>)

Cause for concern:

- 39% of small business owners have had to borrow to cover higher materials and supply costs caused by rising inflation and the number of businesses seeing increases in the cost to borrow is increasing.
- Worker shortages are persistent and have led to increased labor costs with salaries rising 4.4% last year and expectations of another 4% increase this year — small businesses struggle to offer competitive compensation plans compared to larger companies.
- Need to hedge on costs by accumulating more inventory, leading to higher storage and transportation costs.
- Access to capital for reinvestment and growth — with rising interest rates, small businesses will have to seek alternative methods of funding, such as private equity, venture capital, and personal resources.

“Macro-level economic changes hit small businesses a little harder, partly because small businesses don’t have the same financial tools and flexibility as large corporations – even though they are dealing with many of the same issues, among them a historic worker shortage and ongoing supply chain disruptions.”

– Aleksandar Tomic, Economist and Associate Dean, Boston College

Business owners are showing declining optimism and altered business practices as they face climbing interest rates

Small business Optimism

Index Component	Net %	From Last Month	
Plans to Increase Employment	20%	▼	-3
Plans to Make Capital Outlays	23%	▼	-1
Plans to Increase Inventories	2%	▲	2
Expect Economy to Improve	-46%	▼	-2
Expect Real Sales Higher	-13%	▼	-3
Current Inventory	0%	▼	-1
Current Job Openings	46%	—	0
Expected Credit Conditions	-8%	▼	-2
Now a Good Time to Expand	5%	▼	-1
Earnings Trends	-30%	▲	1

Source: National Federation of Independent Businesses (NFIB)

The NFIB found the business owner optimism continues to fall

- The optimism index is 91.3, representing the 10th straight month below the 49-year average of 98
- Of the 10 index components the NFIB tracks, 2 increased, 1 remained unchanged, and 7 decreased
 - Expectations for an improved economy and higher sales were particularly negative and still falling

Source: National Federation of Independent Businesses (NFIB)

Small businesses are having to adjust their business practices to deal with rising interest rates

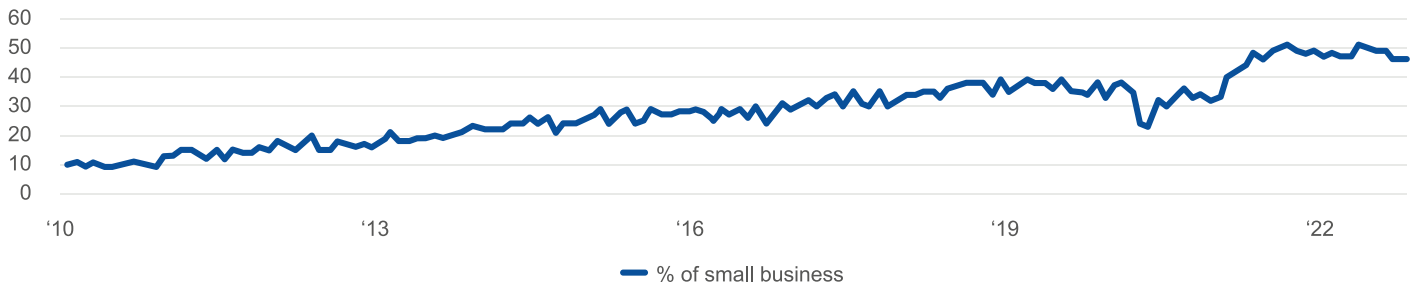
- The cost of some types of existing financing are increasing, such as on credit cards, lines of credit, and adjustable-rate loans
- The cost of new financing is increasing
- 46% of small-business owners have said higher interest rates are affecting their businesses
- Some businesses are now requiring payment up front on some items to avoid having to borrow between the customer order and delivery

Source: Wall Street Journal

Technology workers were recently laid off by the thousands, but small businesses are still looking for workers

Can small businesses hire enough workers?

Percentage with at least 1 unfilled opening, Jan. '10 - Oct. '22

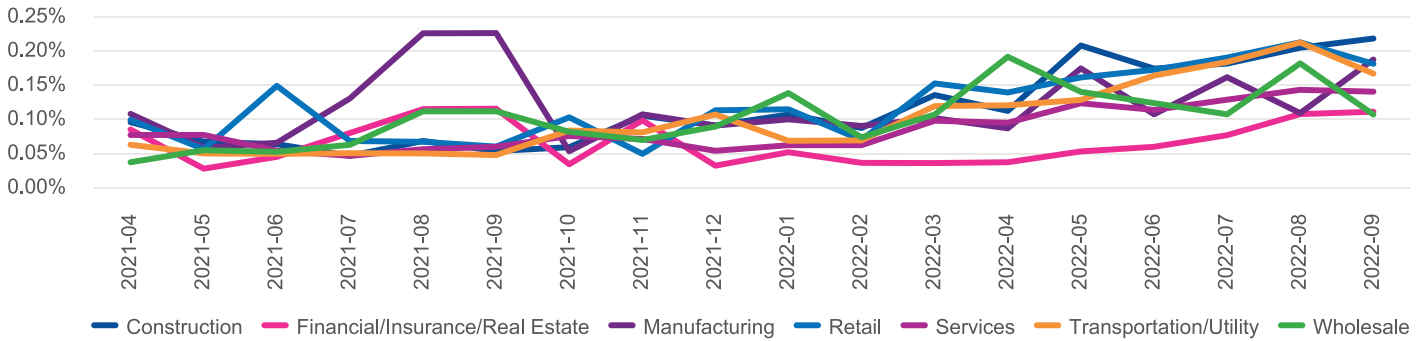


Source: National Federation of Independent Businesses (NFIB)

- Large, well-known tech companies have laid off thousands of workers recently – many of them highly coveted, well-compensated technology workers.
- This new supply of workers is proving to be an opportunity for other companies, including both legacy companies that weren't seen as a desirable place to work, as well as new start-ups able to secure venture capital and private equity funding.
- Nearly half of small businesses surveyed by NFIB still have at least one unfilled opening – there may be more opportunity now than in the past to attract top talent.

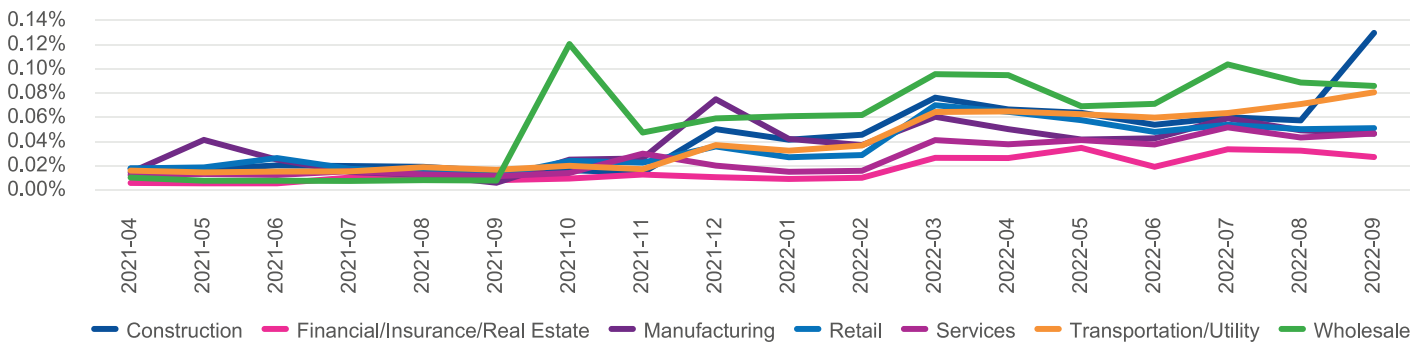
Delinquency rates are climbing, including 90+ delinquencies

% of Balances 61-90 Days Delinquent by Industry



Source: Experian Benchmarking Report

% of Balances 91+ Days Delinquent by Industry

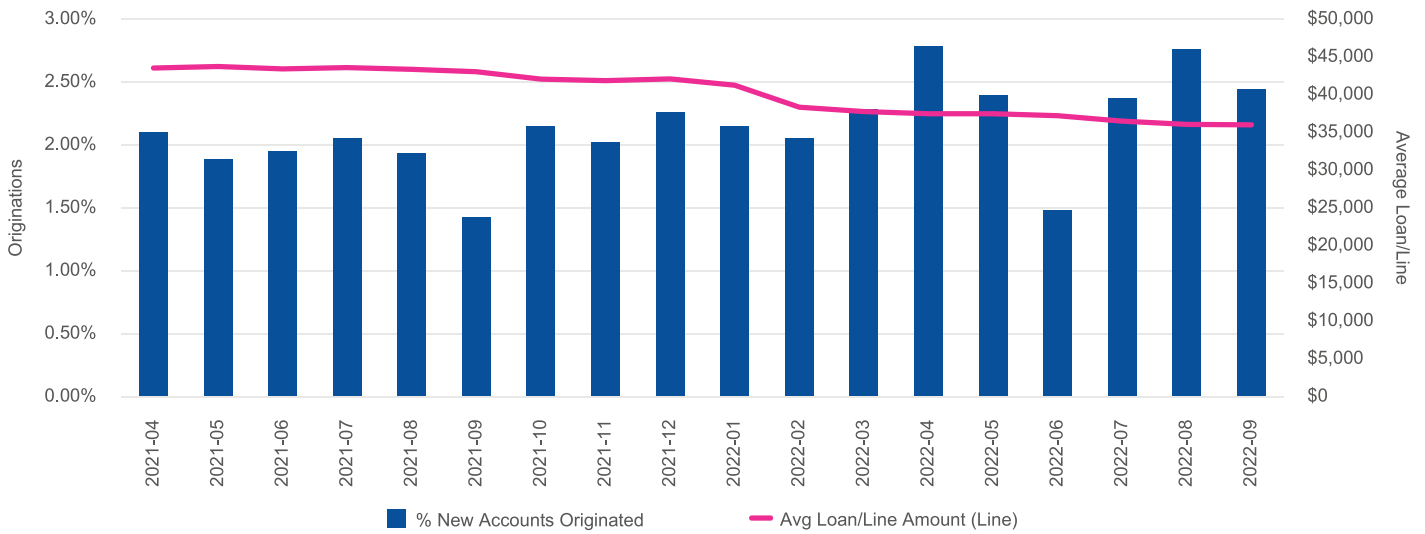


Source: Experian Benchmarking Report

New loan origination numbers remain strong and currently are not showing any signs that high interest rates are slowing demand

The average loan/line amount given out per origination has fallen 16% YoY, which could indicate either businesses requesting lower lines, or lenders starting to tighten their policies — or a combination of both.

New Originations and Average Amounts



Source: Experian Benchmarking Report

What I found interesting



About the author

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Marsha leads strategic analytic solutions within Experian's U.S. Commercial Data Sciences team. In her role, she consults with various clients to drive comprehensive businesses strategies through use of Experian data and analytics across the product lifecycle from prospecting, account acquisition and underwriting through account management. Marsha is an industry expert with 30 years of experience in Financial Services focusing on both risk and marketing analytics for consumer and commercial lending.



Contributor

Emily Garrett

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Emily leads a team of analytical consultants with strong statistical and decision science skills who focus on bringing the rich and diverse data contained within the Ascend platform. She brings a strong analytical background, including in small business lending, and uses this experience to lead innovation within the small business lending space.

Higher interest rates are affecting the way that businesses report doing business and their appetite for expanding credit usage. However, so far new commercial credit originations are still climbing so many businesses still have a need for credit. The average loan/line amount given out per new commercial account has fallen 16% year-over-year, which could indicate either businesses requesting lower lines, or lenders starting to tighten their policies — or a combination of both. As commercial delinquencies rise, it is likely that lenders will further tighten policies and availability of credit may become limited for small businesses.

Another strong jobs report for November displays the resiliency of the U.S. economy despite the Federal Reserve's aggressive efforts to tame inflation. However, the tight labor market makes it difficult for small business owners to hire. With higher credit costs and limited labor availability, small businesses will have difficulty growing in the coming months.

What I am watching:

While there have been some very public large-scale layoffs in the tech industry, hiring is still strong, and businesses are still looking for workers. It will be interesting to see what actions the Federal Reserve take at their next meeting in mid-December. The Fed has indicated they may slow the pace of interest rate hikes which could help businesses and the economy strike the balance between inflation and interest rates, thereby achieving the soft-landing the Fed is aiming for.

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