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Main Street Remains in Expansion Mode in Q2, According to PayNet

U.S. Private Business Lending Continues Trend of Increased Investment in the Midst of Strong Financial Health

CHICAGO – (Aug. 14, 2018) – The latest [Quarterly Credit Outlook](#) from [PayNet](#), the leading provider of small business credit data and analysis, shows Main Street closing Q2 2018 with modest growth and strong financials. The [Thomson Reuters / PayNet Small Business Lending Index](#) (SBLI) seasonally adjusted originations decreased 8% from 155.6 in May 2018 to 142.6 in June 2018, and the 3-month rolling average edged down. However, compared to the same month one year ago, the index is up 2%, marking the ninth consecutive monthly increase on a year-over-year basis. Similarly, the 3-month moving average is up nearly 10% compared to a year ago.

“While a modest year-over-year increase is perhaps less exciting than the double-digit growth we saw earlier this year, it is a sign that business owners are avoiding irrational exuberance and embracing a more sustainable growth trajectory,” said PayNet President William Phelan. “At the same time, financial health remains at near pristine levels, indicating strong financial capacity for future growth. Modest growth and strong financials suggest that the current expansion remains on solid footing.”

The expansion phase looks intact in Q2 2018, and the SBLI remains above 140 for the second consecutive quarter. Compared with June last year, most industries showed solid investment support, led by Transportation and Warehousing (+17%), Mining (+13%) and Agriculture (+7%). Only three industry sectors showed year-over-year weakness, including Accommodation and Food Services (-10%), Information Services (-7%) and Professional Services (-2%). Geographically, expansion is becoming more broad-based as each of the ten largest states experienced growth over the prior year, led by Texas (13%), North Carolina (12%) and Illinois (9%).

The [Thomson Reuters/PayNet Small Business Delinquency Index](#) (SBDI) showing loans 31-90 days past due held steady at 1.41% from May to June 2018. Year-over-year, the delinquency rate increased by nine basis points, and most large industries saw delinquencies rise. One major exception was Transportation (-56bp Y/Y), where year-over-year delinquencies have fallen by double-digits for 10 consecutive months. Delinquencies rose in six of the ten largest states compared with June 2017, led by Georgia (+26bp Y/Y). However, delinquency levels remain at least 145 basis points below their historic peaks across all ten largest states.

Compared with May 2018, the [Thomson Reuters/PayNet Small Business Default Index](#) (SBDFI) fell three basis points to 1.81% in June, its lowest level since September 2016. The SBDFI fell six basis points compared to a year ago, its sixth straight annual decline. Compared to a year ago, defaults rose in a third of the major industries, led by Information Services (+90bp Y/Y). Notably, Mining (-158bp Y/Y) and Transportation & Warehousing (-142bp Y/Y) posted triple-digit declines, while Agriculture defaults also fell (-9bp Y/Y). On an annual basis, four of the ten largest states experienced an increase in defaults in June, led by Georgia (+23bp Y/Y) and North Carolina (+18bp Y/Y). During that same timeframe, Texas (-34bp Y/Y) and New York (-15bp Y/Y) saw defaults decline.

“Main Street has undertaken a clear mindset shift in the last year, resulting in record levels of investment and an increased willingness to take risks,” added Phelan. “While the run of double-digit gains in lending activity appears to have subsided, the fact that most industry groups continue to expand is indicative of a broad-based strengthening of the Main Street economy. With credit risk remaining subdued by historical standards, we expect Main Street businesses to continue serving as the engine for economic growth in the months ahead.”

About PayNet

[PayNet, Inc.](#), is the leading provider of credit ratings on small businesses enabling lenders to manage credit risk, grow earning assets and operate credit at lower cost. PayNet maintains the largest proprietary database of small business loans, leases and lines of credit encompassing over 24 million contracts worth over \$1.6 Trillion. Using state-of-the-art analytics, PayNet converts raw data into real-time marketing intelligence and predictive information that subscribing lenders use to make informed small business financial decisions and improve their business strategy. For more information visit www.paynet.com.

Thomson Reuters/PayNet Small Business Lending Index (SBLI)

The Small Business Lending Index (SBLI) is based on new commercial loan and lease originations by major U.S. lenders in PayNet's proprietary database. This index measures the volume of loans to small businesses normalized to January 2005. Small businesses generally respond to changes in economic conditions more rapidly than do larger businesses, so this statistic is a leading indicator of the economy and predicts changes in GDP between 2-5 months.

Thomson Reuters/PayNet Small Business Delinquency Index (SBDI)

The Small Business Delinquency Index (SBDI) measures the financial stress of small businesses with \$1mm or less in credit outstanding.

PayNet Small Business Default Index (SBDFI)

The PayNet Small Business Default Index (SBDFI) measures small business defaults and signals insolvency across multiple sectors of the economy at the national, state and industry levels. Default is a point-in-time measurement of borrowers that have failed to remain current and as such is a vital piece of information to assess risk exposure and evaluate the health of the overall economy.