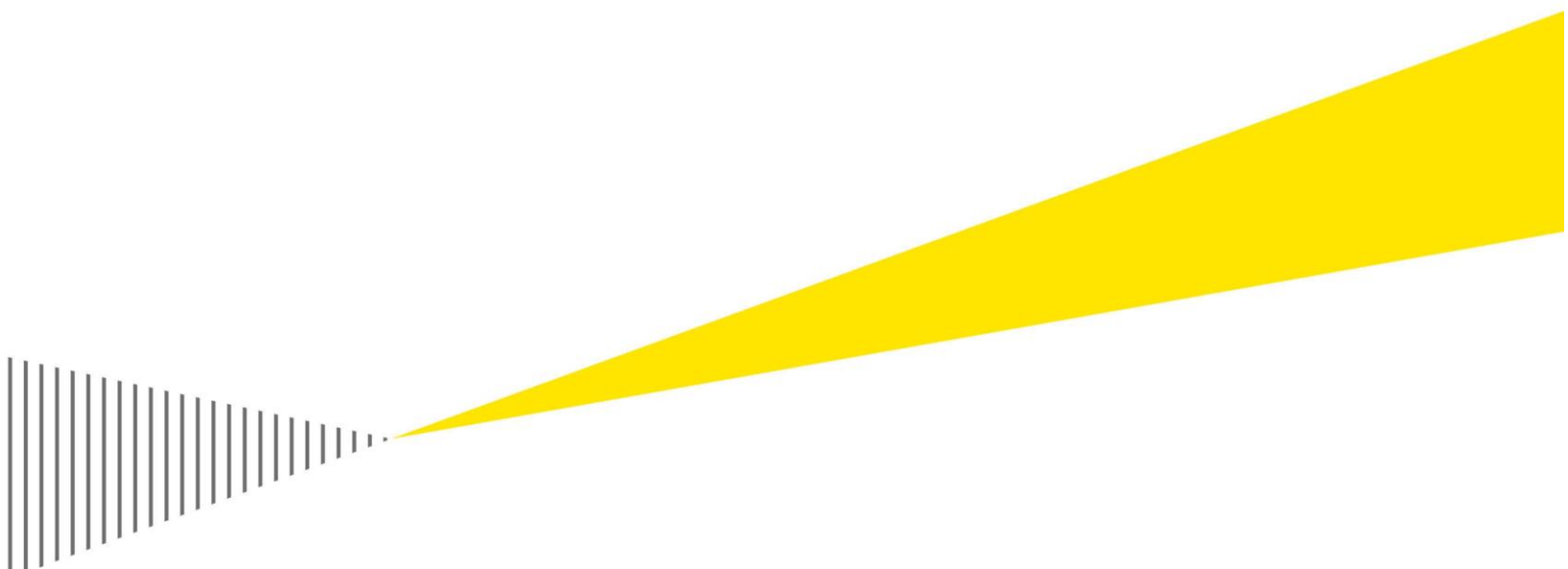


Economic contribution of private credit to the US economy in 2022

Prepared for the American Investment Council

October 2023



Executive summary

This report provides estimates of the scale of private credit and the economic activity it supported in the United States in 2022. Specifically, the jobs, wages and benefits, and gross domestic product (GDP) supported by private credit were estimated. The estimates are based on a commonly accepted attribution methodology used in non-financial reporting and use a commonly accepted economic model for economic contribution analyses.¹

This report analyzed more than 4,000 private credit deals that were active in 2022 at over 3,600 US companies. These deals were worth approximately \$500 billion, and the companies involved had roughly 2.8 million employees.² The median size of a transaction active in 2022 involving a US company was approximately \$75 million. Private credit is a form of capital. Companies frequently use capital to support their operations, expand their business, develop new products, and withstand economic downturns.

Key findings

- ▶ **Overall, the economic contribution of private credit to the US economy in 2022 was an estimated 1.6 million jobs earning \$137 billion of wage and benefits and generating \$224 billion of GDP.** Specifically:
 - Companies receiving private credit. The median company receiving private credit had approximately 150 employees. In 2022, 545,000 workers throughout the US economy earning \$57 billion in wages and benefits and generating \$90 billion of GDP were supported by private credit. These jobs reflect the portion of jobs at companies using private credit equal to the companies' share of enterprise value from private credit. The 545,000 jobs represent approximately 20% of jobs at companies receiving private credit.
 - Related supplier activity. To support the operations of companies attributable to private credit, suppliers to these companies employed an additional 406,000 workers throughout the US economy earning \$35 billion in wages and benefits and generating \$58 billion of GDP, which are attributed to private credit.
 - Related consumer spending. The consumer spending of workers attributable to private credit, both at US companies receiving private credit as well as their suppliers, supported an additional 645,000 workers throughout the US economy earning \$44 billion in wages and benefits and generating \$76 billion of GDP.

¹ The total economic contribution of private credit consists of the portion of the operations of companies in the United States supported by receiving private credit financing, as well as the related supplier activity and consumer spending. The share of operations attributed to private credit at companies receiving private credit is equal to the private credit accessed by the company as a share of enterprise value. The economic activity supported at suppliers and by related consumer spending is only that which is associated with the portion of operations supported by private credit.

All results throughout the report are only the portion supported by private credit estimated using the approach described above. For example, if a company with private credit equal to 20% of its enterprise value has 100 jobs, only 20% are attributed to private credit based on that company's financing. This report, therefore, would only include 20 jobs (=100 x 20%), as well as the related supplier and consumer spending associated with those 20 jobs.

By providing information on the economic activity supported by private credit, measured and defined in several different ways, this report attempts to shed light on the reach of the private credit within the US economy.

² This analysis relies on data from Preqin. Comprehensive and standardized data on the total size of private credit and companies receiving private credit is limited.

Table E-1. Economic activity supported by private credit in the US economy, 2022
Jobs; billions of dollars

	Companies receiving private credit	Related supplier activity	Related consumer spending	Total
Employment	545,000	406,000	645,000	1,596,000
Wages and benefits	\$57	\$35	\$44	\$137
GDP	\$90	\$58	\$76	\$224

Note: The total economic contribution of private credit consists of the portion of the operations of companies in the United States supported by receiving private credit financing, as well as the economic activity supported at suppliers to these companies and by related consumer spending. The share of operations attributed to private credit is equal to private credit accessed by the company as a share of enterprise value. The economic activity supported at suppliers and by related consumer spending is only that which is related to the portion of operations supported by private credit. Wages & benefits include all labor income (i.e., employee cash compensation and benefits, as well as proprietors' income). Wages and benefits is a component of GDP. Figures are rounded.

Source: Preqin, Refinitiv, S&P Capital IQ, and EY analysis.

- ▶ **Approximately 70% of US private credit providers surveyed in 2021 reported that companies relied on private credit because they are “too small for bank syndication.”** In the same survey, private credit providers reported the top reasons companies chose private credit was certainty and speed (91%), higher leverage than banks will support (82%), more flexible covenants (77%), and stable relationship with a lender holding loan until maturity (65%).³
- ▶ **In 2021, the largest group of investors – public and private pension funds – contributed approximately 31% of the total assets in private credit funds.** Moreover, EY’s 2022 Global Alternative Fund Survey found that over half of investors plan to increase their private credit target allocation over the next three years. Investors in private credit are typically institutional investors and high-net-worth individuals.
- ▶ **According to the Federal Reserve, the financial stability risks of private credit appear limited.** The Federal Reserve’s May 2023 Financial Stability Report stated that “the financial stability vulnerabilities posed by private credit funds appear limited. Most private credit funds use little leverage and have low redemption risks, making it unlikely that these funds would amplify market stress through asset sales.”⁴
- ▶ **Estimates indicate that private credit accounted for approximately 30% of the overall credit market in 2021.**⁵ The remainder of the market is broadly syndicated loans and high-yield bonds. In recent quarters, financing for acquisitions from traditional bank lending sources has been limited, leading to greater usage of private credit.⁶ Private credit in the United States grew from under \$400 billion in assets under management in 2012 to \$1 trillion at the end of 2021.⁷

³ Block, Joren, Young Soo Jang, Steven N. Kaplan, and Anna Schulze, “A Survey of Private Debt Funds,” NBER Working Paper No. 30868, January 2023.

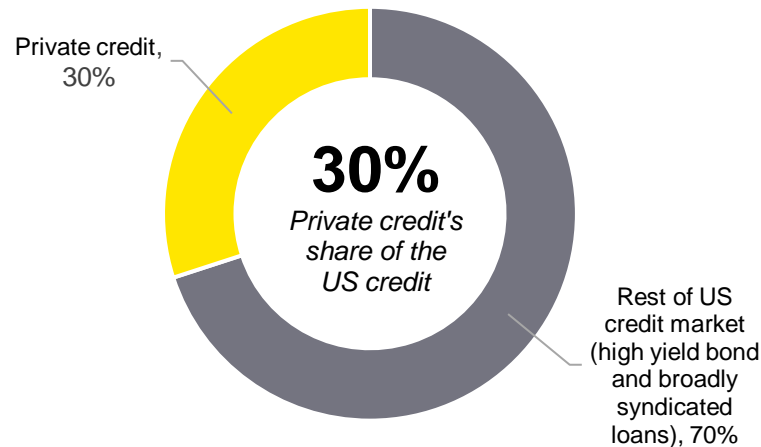
⁴ Board of Governors of the Federal Reserve System, *Financial Stability Report*, May 2023, p. 55.

⁵ Blackstone, “Private Credit’s Rapid Growth: A Secular Trend”, Blackstone, April 2022, p. 2, <https://www.bcred.com/wp-content/uploads/sites/11/2020/10/Private-Credits-Rapid-Growth-A-Secular-Trend.pdf>.

⁶ Witte, Pete, “PE Pulse: Five takeaways from 4Q 2022,” EY, January 31, 2023, https://www.ey.com/en_gl/podcasts/nextwave-private-equity/2023/01/episode-55-pe-pulse-five-takeaways-from-4q-2022.

⁷ Board of Governors of the Federal Reserve System, *Financial Stability Report*, May 2023, p. 45.

Figure E-1. Private credit share of the US credit market, 2021



Note: Data is for the third quarter of 2021. Figures are rounded.
Source: Blackstone.

Private credit

Private credit is an alternative form of financing available to companies outside of traditional bank loans, publicly traded securities, or private equity investments.⁸ With private credit, non-bank institutions or investment funds typically offer companies loans with different terms and interest rates than other financing methods. Private credit often serves small- to middle-market companies (i.e., companies with earnings less than \$100 million).⁹

Private credit often differentiates itself from traditional bank lending sources through:

- ▶ **Smaller companies and specialty financing.** Private credit deals tend to target markets that traditional lending serves less such as smaller companies, companies amid an acquisition, or companies facing distress. Smaller companies are less likely to have public ratings than larger companies, thus making them less likely to receive traditional financing. Distressed companies could be shut out of traditional financing due to the risks of lending to a business facing significant disruptions.
- ▶ **Greater flexibility.** Private credit generally faces fewer risk and regulatory restrictions than traditional financing and this allows greater flexibility to provide capital in times of stress.¹⁰ For example, in recent quarters, financing for acquisitions from traditional bank lending sources has been limited, leading to greater use of private credit.¹¹
- ▶ **Stronger covenants and higher interest rates.** Owing to greater flexibility and increased risk, lenders often attach more conditions, known as covenants, and include higher interest rates to their loans. The higher interest rate reflects the higher risk taken by private credit lenders. Stronger covenants, such as those in private credit, could require the company to achieve or maintain specific financial metrics that reflect good health or, for

⁸ Private credit is also referred to as private debt. The terms are used interchangeably in the literature, and this report uses private credit.

⁹ Gunter, Evan, Abby Latour, and Joe Maguire, "Private Debt: A Lesser-Known Corner of Finance Finds the Spotlight," S&P Global, October 21, 2021, <https://www.spglobal.com/en/research-insights/featured/special-editorial/private-debt>

¹⁰ Bill Wu, "Why companies might consider the private debt market," EY, September 21, 2021, https://www.ey.com/en_lu/private-debt/why-companies-might-consider-the-private-debt-market.

¹¹ Witte, Pete, "PE Pulse: Five takeaways from 4Q 2022," EY, January 31, 2023, https://www.ey.com/en_gl/podcasts/nextwave-private-equity/2023/01/episode-55-pe-pulse-five-takeaways-from-4q-2022.

example, in mezzanine financing, could involve conversion from loans to equity with a default.

- ▶ Closer relationships. For companies, these conditions could be considered higher costs and more restrictive relative to traditional lending. However, the closer relationships between investors and companies could allow them to work together more flexibly during financial or market issues as they arise. For example, during the pandemic, private credit funds and companies worked out amendments that prevented breaching the financial covenants or modified them to allow other forms of payment.¹²

¹² Gunter, Evan, Abby Latour, and Joe Maguire, "Private Debt: A Lesser-Known Corner of Finance Finds the Spotlight," S&P Global, October 21, 2021, <https://www.spglobal.com/en/research-insights/featured/special-editorial/private-debt>.

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Economic contribution of private credit to the US economy in 2022

I. Introduction

This report provides estimates of the scale of private credit and the economic activity it supported in the United States in 2022. Specifically, the jobs, wages and benefits, and gross domestic product (GDP) supported by private credit were estimated. The estimates are based on a commonly accepted attribution methodology used in non-financial reporting and use a commonly accepted economic model for economic contribution analyses.

The total economic contribution of private credit consists of the portion of the operations of companies in the United States supported by receiving private credit financing, as well as the related supplier activity and consumer spending. The share of operations attributed to private credit at companies receiving private credit is equal to the private credit accessed by the company as a share of enterprise value. The economic activity supported at suppliers and by related consumer spending is only that which is associated with the portion of operations supported by private credit.

All results throughout the report are only the portion supported by private credit estimated using the approach described above. For example, if a company with private credit equal to 20% of its enterprise value has 100 jobs, only 20% are attributed to private credit based on that company's financing. This report, therefore, would only include 20 jobs ($=100 \times 20\%$), as well as the related supplier and consumer spending associated with those 20 jobs.

Estimates are produced for a single point of time and, therefore, provide a snapshot of the economic footprint of activity supported by private credit in the US economy. By providing information on the economic activity supported by private credit, measured and defined in several different ways, this report attempts to shed light on the reach of the private credit within the US economy.

Overview of private credit

Private credit is an alternative form of financing available to companies outside of traditional bank loans, publicly traded securities, or private equity investments.¹ With private credit, non-bank institutions or investment funds typically offer companies loans with different terms and interest rates than other financing methods.² Private credit often serves small to middle-market companies (i.e., companies with earnings less than \$100 million).³

Private credit in the United States grew from under \$400 billion in assets under management in 2012 to \$1 trillion at the end of 2021.⁴ Estimates indicate that private credit accounted for approximately 30% of the overall credit market in 2021.⁵ The remainder of the market is broadly syndicated loans and high-yield bonds. The recent banking instability in 2023 could further push alternative investors to private credit funds as traditional lending had to step back due to market conditions.⁶

This report analyzed more than 4,000 private credit deals that were active in 2022 at over 3,600 US companies. These deals were worth approximately \$500 billion, and the companies involved had roughly 2.8 million employees. The median company receiving private credit had approximately 150 employees.⁷

Approximately 70% of US private credit providers surveyed in 2021 reported that companies relied on private credit because they are “too small for bank syndication.”⁸ In the same survey, private credit providers reported the top reasons companies chose private credit was certainty and speed (91%), higher leverage than banks will support (i.e., private credit generally lends more to these companies than banks will) (82%), more flexible covenants (77%), and stable relationship with a lender holding loan until maturity (65%).⁹

Private credit deals tend to target markets that traditional lending serves less such as smaller companies, companies amid an acquisition, or companies facing distress. Smaller companies are less likely to have public ratings than larger companies, thus making them less likely to receive traditional financing. Distressed companies could be shut out of traditional financing due to the risks of lending to a business facing significant disruptions.

Private credit generally faces fewer risk and regulatory restrictions than traditional financing and can offer greater flexibility and provide capital in times of stress.¹⁰ Traditional financial institutions are often subject to more regulatory requirements aimed at limiting the risks to depositors, such as capital adequacy and liquidity requirements. This can limit the flexibility of these institutions. For example, in recent quarters, financing for acquisitions from traditional bank lending sources has been limited, leading to greater use of private credit.¹¹

Owing to the greater flexibility and increased risk, lenders often include higher interest rates to the companies taking loans and attach more conditions, known as covenants, to those loans. The higher interest rate reflects the higher risk taken by private credit lenders. Stronger covenants could require the company to achieve or maintain specific financial metrics that reflect good health or, for example, in mezzanine financing, could involve conversion from loans to equity with a default.

For companies, these conditions could be considered higher costs and more restrictive relative to traditional lending. However, the closer relationships between investors and companies could allow them to work together more flexibly during financial or market issues as they arise. For example, during the pandemic, private credit funds and companies worked out amendments that preventing breaching the financial covenants or modified them to allow other forms of payment.¹²

Although it has existed for decades, private credit lending increased significantly after the financial crisis of 2008. Both the financial crisis and higher regulatory scrutiny compelled traditional banks to tighten their lending criteria and step back from providing certain types of capital. Private funds and investors searching for yield in the low-interest-rate environment following the financial crisis filled the gap left by traditional banks with private credit.¹³ EY’s 2022 Global Alternative Fund Survey found that over half of investors plan to increase their private credit target allocation over the next three years while only 3% plan to decrease their allocation.¹⁴

Investors in private credit

Investors in private credit are typically institutional investors and high-net-worth individuals. In 2021, the largest group of investors – public and private pension funds – contributed approximately 31% of the total assets in private credit funds. The second-largest group of investors were other private funds, holding around 14% of the assets, while insurance companies and individual investors each accounted for about 9%.¹⁵

Funds managing private credit typically require their investors to commit a certain amount of capital to the fund. The investors do not need to provide all the capital immediately but will need to if the firm managing the private credit requests it. This is known as a capital call. Private credit funds typically require their investors to “lock up” their capital for a duration of time. This “lock up” combined with the current lack of public trading of this debt generally requires investors to be prepared to hold this debt until its maturity.¹⁶

While locking up investor commitments can create liquidity concerns for the investor, for companies this could be viewed as an advantage. Traditional financial institutions such as banks typically rely on their deposits as a source of capital for lending, and investors typically rely on broadly syndicated loans (BSL) and high-yield offerings. As seen during the first half of 2023, deposits can be withdrawn almost instantly during times of significant market distress, often called a “run,” and the BSL market can step away in periods of excess volatility. By requiring investors to lock-in their commitment, both private credit funds and the companies they lend to mitigate the risk of capital drying up quickly during times of significant market distress such as runs.

Overall, the Federal Reserve’s May 2023 Financial Stability Report notes that “the financial stability vulnerabilities posed by private credit funds appear limited. Most private credit funds use little leverage and have low redemption risks, making it unlikely that these funds would amplify market stress through asset sales.”¹⁷

Types of private credit

Private credit includes a variety of financing and strategies. There are multiple definitions of private credit; this report relies on Prequin’s private credit data and its definition of private credit.¹⁸ These data – and therefore the definition in this report – do not include collateralized loan obligations (CLOs).

Below is a brief description of the major types of private credit:¹⁹

- ▶ **Direct lending** involves providing loans directly to companies from investors without involving traditional financial institutions. Companies receiving direct lending may not be able to access traditional financing due to their relatively small size and could receive their capital faster. Investors and funds providing private capital tend to be more involved in the companies they lend to and typically include a higher interest rate than traditional loans.
- ▶ **Distressed financing** focuses on companies experiencing significant business disruptions or undergoing bankruptcy. These companies receive a needed capital infusion, and investors aim to help the company restructure and rebound. Given the risk involved in distressed financing, investors can often lend or purchase loans at significantly

less than book value, and if the company recovers, the lenders will continue receiving payments.

- ▶ **Mezzanine financing** is a hybrid form of capital that operates between senior debt and equity. The investors provide financing to a company, and if the company defaults, the financing turns into equity in the company. This allows company owners to receive capital and maintain ownership of the company. For investors, they receive interest payments, and in the event of default, receive the company without lengthy bankruptcy proceedings.
- ▶ **Special situations/specialty finance** could encompass various strategies that focus on unique circumstances and expertise. For example, a special situation could involve companies spinning off an aspect of its business into a separate entity or a merger between two companies. These situations or financings tend to require specialized expertise to manage and navigate the financing process and address any complications that arise.
- ▶ **Real estate credit** involves financing large real estate projects or developments. These projects often require significant capital, and the loans could have repayment terms that last decades. Both companies and lenders in this space will likely have a particular expertise in these projects. This could be considered a type of specialty finance but could be a separate category.

The above list only focuses on major types of private credit. As the private credit market continues to expand and evolve, other types of private credit could emerge as companies and investors continually work on how to allocate capital.

II. Economic activity supported by private credit at companies receiving private credit

The economic activity described in this report includes the following indicators:

- ▶ **Employment.** Employment is measured as the total headcount of workers. For example, a company with three full-time workers and a company with two full-time workers and one part-time worker would both be measured as having three workers.
- ▶ **Wages and benefits.** Wages and benefits include employee cash compensation and benefits as well as proprietor income.²⁰ Wages and benefits is a component of GDP.
- ▶ **GDP.** GDP measures a sector's contribution to the production of all final goods and services produced in the United States.

All results throughout the report are only the portion estimated to be attributable to private credit. The analysis uses a modified version of a standard non-financial reporting methodology to estimate the economic activity supported by private credit at companies receiving private credit. The share of operations attributed to private credit at companies receiving private credit is equal to the private credit accessed by the company as a share of enterprise value. The economic activity supported at suppliers and by related consumer spending is only that which is associated with the portion of operations supported by private credit.²¹

For example, if a company with private credit equal to 20% of its enterprise value has 100 jobs, only 20% are attributed to private credit based on that company's financing. This report, therefore, would only include 20 jobs (=100 x 20%), as well as the related supplier and consumer spending associated with those 20 jobs.

See the appendix for further details on the methodology.

Supported economic activity









As displayed in Table 1, 545,000 workers throughout the US economy were supported by private credit at companies receiving private credit in 2022. The median company receiving private credit had approximately 150 employees. The table also displays the type of economic activity of these jobs.²²

The largest share of these jobs was estimated to be in business services. Business services accounted for 216,000 jobs, or 40% of the total. Business services include finance and insurance, real estate and rental and leasing, professional, scientific, and technical services, management of companies and enterprises, administrative and support services, and waste management and remediation services. The analysis does not include economic activity at private credit funds or the companies that manage them; therefore, their employment, wages and benefits, and GDP are not included.

The manufacturing sector employed the second largest share with 129,000 jobs, or 24% of jobs attributable to private credit at companies receiving private credit. Personal services is the third largest segment. Personal services include healthcare, accommodation, food services, recreation, and other personal services. In 2022, 77,000 workers were estimated to be attributable

to private credit at companies receiving private credit in the personal services sector. This is 14% of the total. These three segments – business services, manufacturing, and personal services – comprise over three-quarters of the total. Other significant segments include information (56,000 jobs; 10% of the total), transportation and warehousing (24,000 jobs; 4% of the total), wholesale trade (20,000 jobs; 4% of the total), and retail trade (14,000 jobs; 3% of the total).

Table 1. US jobs supported by private credit at companies receiving private credit, 2022
Thousands of jobs

	Jobs	% of total	
Business services	216	40%	
Manufacturing	129	24%	
Personal services	77	14%	
Information	56	10%	
Transportation and warehousing	24	4%	
Wholesale trade	20	4%	
Retail trade	14	3%	
Construction	5	1%	
Mining	2	*	
Agriculture	1	*	
Utilities	1	*	
Total	545	100%	

* Less than 0.5%.

Note: The total economic contribution of private credit consists of the portion of the operations of companies in the United States supported by receiving private credit financing, as well as the economic activity supported at suppliers to these companies and by related consumer spending. The share of operations attributed to private credit is equal to private credit accessed by the company as a share of enterprise value. The economic activity supported at suppliers and by related consumer spending is only that which is related to the portion of operations supported by private credit. Company industry classifications use the North American Industry Classification System (NAICS), which is commonly used in government statistics. Company NAICS classifications were generally identified using Preqin industries. Figures are rounded.

Source: Preqin, Refinitiv, S&P Capital IQ, and EY analysis.

III. Economic activity of suppliers and consumer spending supported by private credit

The total economic contribution of private credit consists of the portion of the operations of companies in the United States supported by receiving private credit financing, as well as the economic activity supported at suppliers to these companies and by related consumer spending. The economic activity supported at suppliers and by related consumer spending is only that which is related to the portion of operations of companies receiving private credit attributable to private credit.

- ▶ **Related supplier activity.** Economic activity is supported in the US economy from the purchases of goods and services by businesses receiving private credit. This, in turn, supports jobs, wages and benefits, and GDP at these supplier businesses. Moreover, demand for these goods and services leads to additional rounds of economic activity as suppliers purchase operating inputs from their own suppliers. Goods and services imported from abroad are not included in this report's estimates of US economic activity.
- ▶ **Related consumer spending.** The consumer spending of workers attributable to private credit, both at US companies receiving private credit as well as their suppliers, supports additional economic activity in the US economy. That is, when these workers spend their earnings at US businesses (e.g., grocery stores, retailers, movie theaters), they support economic activity in those sectors. The earnings that these workers spend on food at a restaurant, for example, creates jobs at the restaurant and at farms, transportation companies, and other industries that are involved in the restaurant's supply chain.

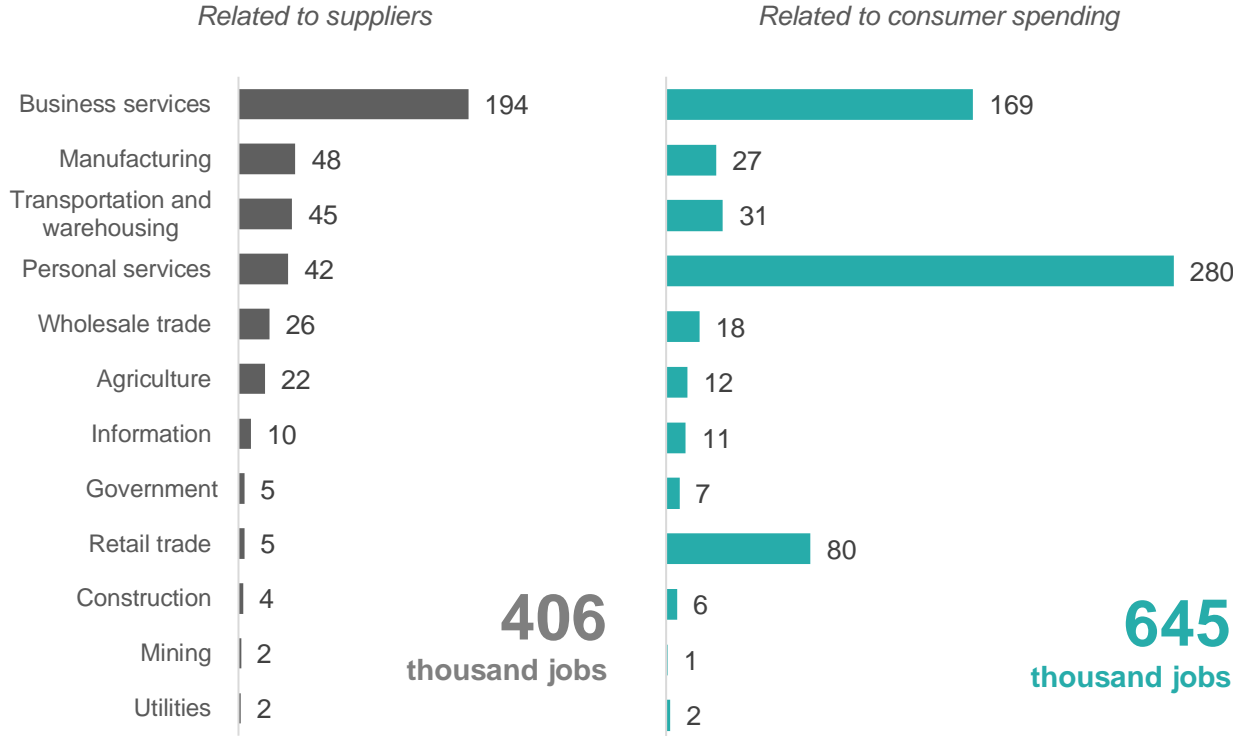
The magnitude of the economic activity related to economic activity supported by private credit at companies receiving private credit is estimated with the 2021 Impacts for Planning (IMPLAN) input-output model of the United States.²³ Unlike other economic models, IMPLAN includes the interaction of more than 500 industries, thus identifying the interaction of specific industries that are supported by private credit. See the appendix for further details.

To support the operations of companies attributable to private credit, suppliers to these companies employed an additional 406,000 workers throughout the US economy (Figure 3), which are attributed to private credit. The largest segments of suppliers were estimated to be business services (194,000 jobs; 48% of the total), manufacturing (48,000 jobs; 12% of the total), and transportation and warehousing (45,000 jobs; 11% of the total). These three supplier industries comprise nearly three-quarters of the total. The remaining related supplier employment includes personal services (42,000 jobs; 10% of the total), wholesale trade (26,000 jobs; 6% of the total), agriculture, forestry, fishing, and hunting (22,000 jobs; 5% of the total), information (10,000 jobs; 2% of the total), retail trade (5,000 jobs; 1% of the total), construction (4,000 jobs; 1% of the total), mining, quarrying, and oil and gas extraction (2,000 jobs; less than 0.5% of the total), and utilities (2,000 jobs; less than 0.5% of the total).

The consumer spending of workers attributable to private credit, both at US companies receiving private credit as well as their suppliers, supported an additional 645,000 workers throughout the US economy in 2022. The largest segments of employment supported by the related consumer spending were estimated to be personal services (280,000 jobs; 43% of the total), business

services (169,000 jobs; 26% of the total), and retail trade (80,000 jobs; 12% of the total). These three industries comprise more than three-quarters of the total. The remaining employment supported by the related consumer spending was in transportation and warehousing (31,000 jobs; 5% of the total), manufacturing (27,000 jobs; 4% of the total), wholesale trade (18,000 jobs; 3% of the total), agriculture, forestry, fishing, and hunting (12,000 jobs; 2% of the total), information (11,000 jobs; 2% of the total), and construction (6,000 jobs; 1% of the total).

Figure 3. Economic activity related to that supported at companies receiving private credit, 2022
Thousands



Note: The total economic contribution of private credit consists of the portion of the operations of companies in the United States supported by receiving private credit financing, as well as the economic activity supported at suppliers to these companies and by related consumer spending. The share of operations attributed to private credit is equal to private credit accessed by the company as a share of enterprise value. The economic activity supported at suppliers and by related consumer spending is only that which is related to the portion of operations supported by private credit. Industry definitions are based on the North American Industry Classification System (NAICS). Figures are rounded.
Source: EY analysis.

As seen in Table 2, overall, the economic contribution of private credit to the US economy in 2022 was an estimated 1.6 million jobs earning \$137 billion of wage and benefits and generating \$224 billion of GDP. Specifically, 545,000 workers throughout the US economy earning \$57 billion in wages and benefits and generating \$90 billion of GDP were supported by private credit at companies receiving private credit. To support the operations of companies attributable to private credit, suppliers to these companies employed an additional 406,000 workers throughout the US economy earning \$35 billion in wages and benefits and generating \$58 billion of GDP, which are attributed to private credit. The consumer spending of workers attributable to private credit, both

at US companies receiving private credit as well as their suppliers, supported an additional 645,000 workers throughout the US economy earning \$44 billion in wages and benefits and generating \$76 billion of GDP.

Table 2. Economic activity supported by private credit in the US economy, 2022
Jobs; billions of dollars

	Companies receiving private credit	Related supplier activity	Related consumer spending	Total
Employment	545,000	406,000	645,000	1,596,000
Wages and benefits	\$57	\$35	\$44	\$137
GDP	\$90	\$58	\$76	\$224

Note: The total economic contribution of private credit consists of the portion of the operations of companies in the United States supported by receiving private credit financing, as well as the economic activity supported at suppliers to these companies and by related consumer spending. The share of operations attributed to private credit is equal to private credit accessed by the company as a share of enterprise value. The economic activity supported at suppliers and by related consumer spending is only that which is related to the portion of operations supported by private credit. Wages & benefits include all labor income (i.e., employee cash compensation and benefits, as well as proprietors' income). Wages and benefits is a component of GDP. Figures are rounded.

Source: Preqin, Refinitiv, S&P Capital IQ, and EY analysis.

IV. State distribution of US economic activity supported by the private credit

The distribution of jobs, wages and benefits, and GDP by state (plus the District of Columbia) of the economic activity supported by private credit at companies receiving private credit is displayed in Table 3 and Figure 4. The states estimated to have the most employment supported by private credit are: (1) California (82,000 jobs), (2) Texas (46,000 jobs), (3) New York (38,000 jobs), (4) Florida (32,000 jobs), and (5) Illinois (27,000 jobs).²⁴

Table 3. Economic activity supported by private credit at companies receiving private credit by state, 2022

Thousands of jobs; millions of dollars

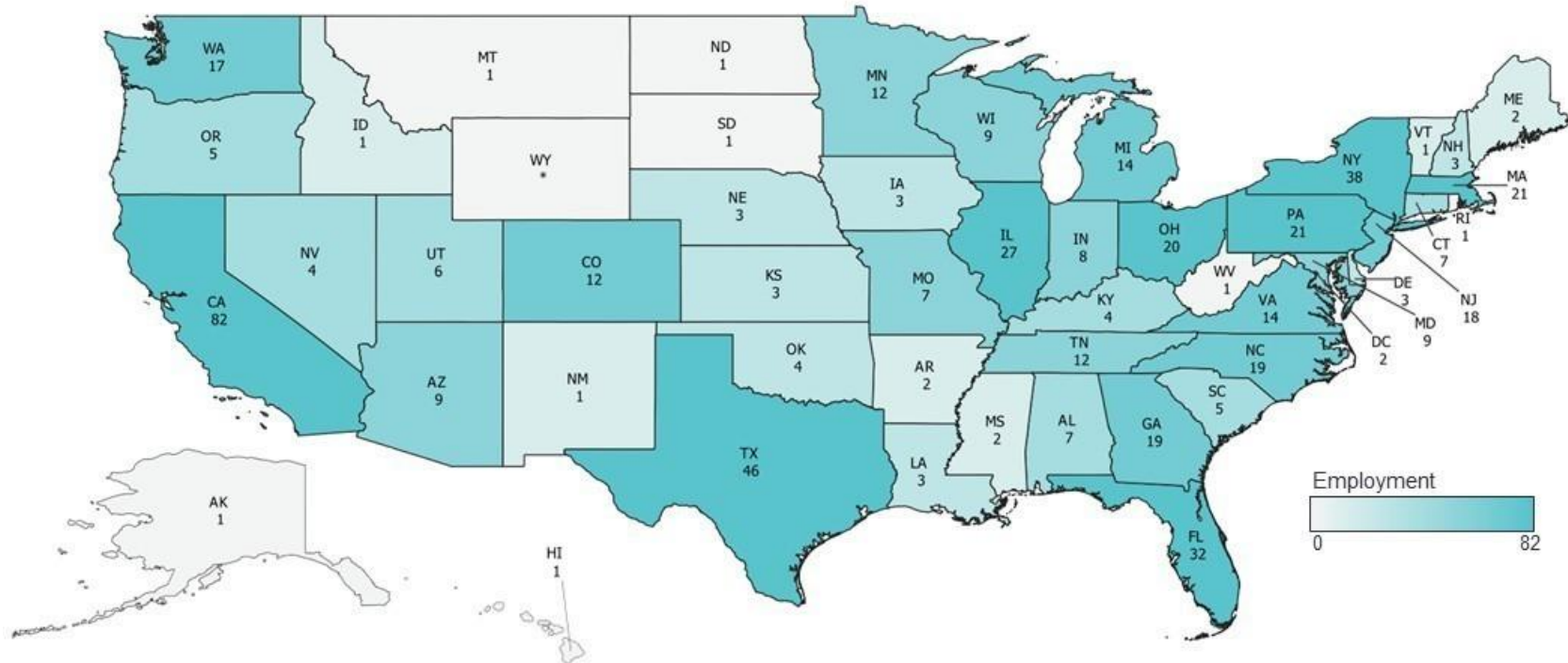
	Jobs	Wages & benefits	GDP		Jobs	Wages & benefits	GDP
Alabama	7	697	1,095	Montana	1	95	149
Alaska	1	69	108	Nebraska	3	277	435
Arizona	9	940	1,478	Nevada	4	400	628
Arkansas	2	258	406	New Hampshire	3	305	480
California	82	8,658	13,608	New Jersey	18	1,909	3,001
Colorado	12	1,280	2,013	New Mexico	1	128	201
Connecticut	7	715	1,124	New York	38	4,042	6,353
Delaware	2	164	257	North Carolina	19	1,999	3,142
District of Columbia	3	349	549	North Dakota	1	62	97
Florida	32	3,423	5,380	Ohio	20	2,148	3,376
Georgia	19	1,981	3,114	Oklahoma	4	376	591
Hawaii	1	106	166	Oregon	5	486	763
Idaho	1	129	203	Pennsylvania	21	2,259	3,551
Illinois	27	2,846	4,473	Rhode Island	1	84	132
Indiana	8	872	1,371	South Carolina	5	550	864
Iowa	3	304	477	South Dakota	1	79	124
Kansas	3	307	482	Tennessee	12	1,278	2,009
Kentucky	4	422	664	Texas	46	4,853	7,628
Louisiana	3	347	545	Utah	6	679	1,068
Maine	2	163	257	Vermont	1	136	214
Maryland	9	970	1,524	Virginia	14	1,462	2,299
Massachusetts	21	2,194	3,448	Washington	17	1,815	2,853
Michigan	14	1,492	2,345	West Virginia	1	105	164
Minnesota	12	1,231	1,935	Wisconsin	9	980	1,540
Mississippi	2	173	272	Wyoming	*	26	42
Missouri	7	758	1,192	United States	545	\$57,380	\$90,191

*Total employment under 500 jobs.

Note: The total economic contribution of private credit consists of the portion of the operations of companies in the United States supported by receiving private credit financing, as well as the economic activity supported at suppliers to these companies and by related consumer spending. The share of operations attributed to private credit is equal to private credit accessed by the company as a share of enterprise value. The economic activity supported at suppliers and by related consumer spending is only that which is related to the portion of operations supported by private credit. Wages & benefits include all labor income (i.e., employee cash compensation and benefits, as well as proprietors' income). Wages and benefits is a component of GDP. Figures are rounded.

Source: EY analysis.

Figure 4. Economic activity supported by private credit at companies receiving private credit by state, 2022
Thousands of jobs



Note: The total economic contribution of private credit consists of the portion of the operations of companies in the United States supported by receiving private credit financing, as well as the economic activity supported at suppliers to these companies and by related consumer spending. The share of operations attributed to private credit is equal to private credit accessed by the company as a share of enterprise value. The economic activity supported at suppliers and by related consumer spending is only that which is related to the portion of operations supported by private credit. Figures are rounded.
 Source: EY analysis.

In addition to the economic activity attributed to private credit at companies receiving private credit, this report also estimates the related economic activity supported: (1) at suppliers to US companies receiving private credit, and (2) by related consumer spending. The states estimated to have the most employment attributed or related to private credit are: (1) California (235,000 jobs), (2) Texas (139,000 jobs), (3) New York (125,000 jobs), (4) Florida (89,000 jobs), and (5) Illinois (70,000 jobs).

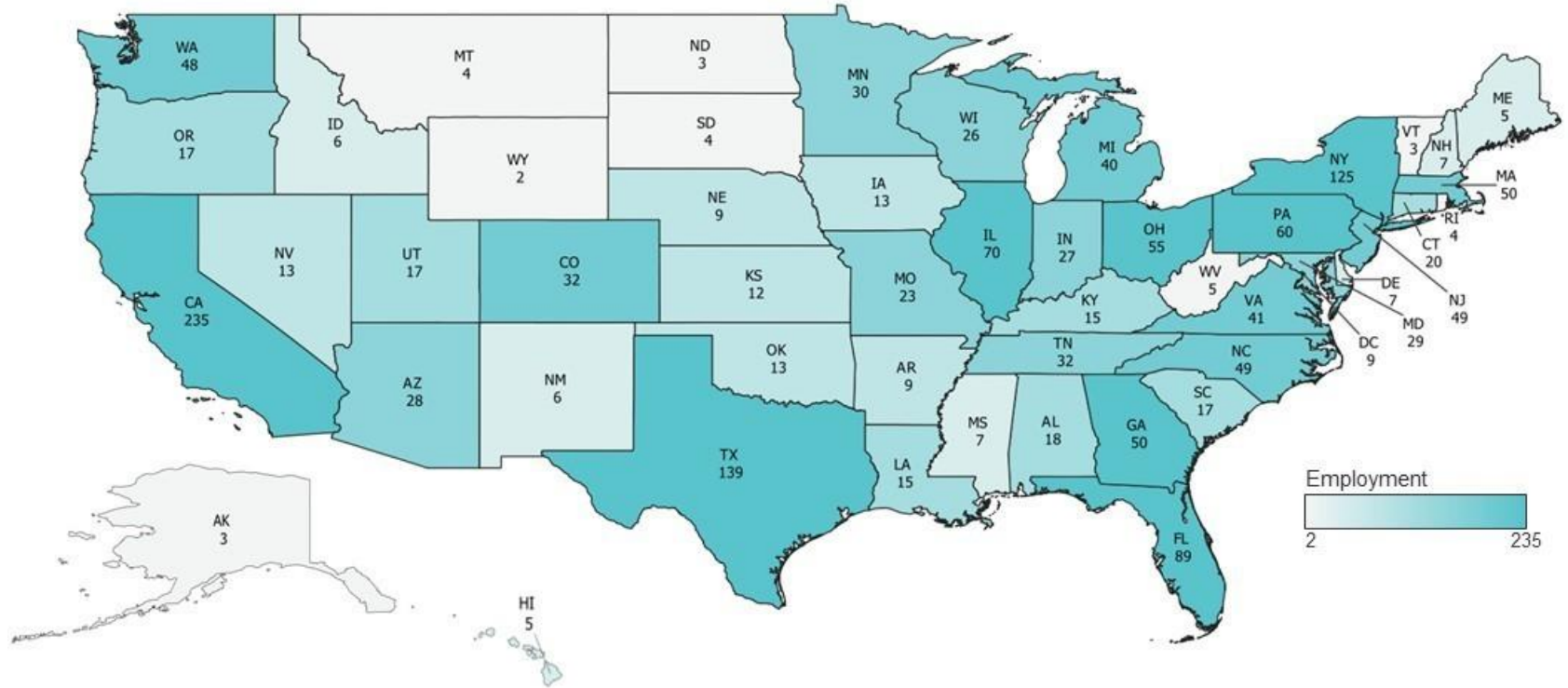
Table 4. Economic activity supported by private credit in the US economy by state, 2022
Thousands of jobs; millions of dollars

	Jobs	Wages & benefits	GDP		Jobs	Wages & benefits	GDP
Alabama	18	1,570	2,560	Montana	4	297	488
Alaska	3	266	439	Nebraska	9	779	1,279
Arizona	28	2,383	3,899	Nevada	13	1,068	1,750
Arkansas	9	769	1,263	New Hampshire	7	648	1,055
California	235	20,244	33,055	New Jersey	49	4,255	6,938
Colorado	32	2,779	4,528	New Mexico	6	504	832
Connecticut	20	1,740	2,844	New York	125	10,573	17,314
District of Columbia	9	692	1,143	North Carolina	49	4,273	6,959
Delaware	7	628	1,017	North Dakota	3	280	463
Florida	89	7,736	12,619	Ohio	55	4,747	7,738
Georgia	50	4,356	7,101	Oklahoma	13	1,116	1,832
Hawaii	5	419	691	Oregon	17	1,421	2,333
Idaho	6	460	758	Pennsylvania	60	5,160	8,420
Illinois	70	6,094	9,925	Rhode Island	4	313	516
Indiana	27	2,291	3,751	South Carolina	17	1,477	2,420
Iowa	13	1,048	1,727	South Dakota	4	291	480
Kansas	12	964	1,586	Tennessee	32	2,745	4,471
Kentucky	15	1,237	2,031	Texas	139	11,901	19,457
Louisiana	15	1,235	2,036	Utah	17	1,453	2,367
Maine	5	431	706	Vermont	3	264	428
Maryland	29	2,494	4,083	Virginia	41	3,540	5,786
Massachusetts	50	4,397	7,145	Washington	48	4,142	6,759
Michigan	40	3,457	5,643	West Virginia	5	398	657
Minnesota	30	2,648	4,312	Wisconsin	26	2,246	3,665
Mississippi	7	611	1,006	Wyoming	2	169	281
Missouri	23	1,990	3,259	United States	1,596	136,996	223,815

Note: The total economic contribution of private credit consists of the portion of the operations of companies in the United States supported by receiving private credit financing, as well as the economic activity supported at suppliers to these companies and by related consumer spending. The share of operations attributed to private credit is equal to private credit accessed by the company as a share of enterprise value. The economic activity supported at suppliers and by related consumer spending is only that which is related to the portion of operations supported by private credit. Wages & benefits include all labor income (i.e., employee cash compensation and benefits, as well as proprietors' income). Wages and benefits is a component of GDP. Figures are rounded.

Source: EY analysis.

Figure 5. Economic activity supported by private credit in the US economy by state, 2022
Thousands of jobs



Note: The total economic contribution of private credit consists of the portion of the operations of companies in the United States supported by receiving private credit financing, as well as the economic activity supported at suppliers to these companies and by related consumer spending. The share of operations attributed to private credit is equal to private credit accessed by the company as a share of enterprise value. The economic activity supported at suppliers and by related consumer spending is only that which is related to the portion of operations supported by private credit.
 Source: EY analysis.

V. Caveats and limitations

The estimates of the economic activity supported by private credit in the United States presented in this report are based on an input-output model of the US economy and the data and assumptions described elsewhere in the report. Readers should be aware of the following limitations of the modeling approach and limitations specific to this analysis.

- ▶ **The results show a snapshot of economic contributions.** The input-output modeling and Partnership for Carbon Accounting Financials (PCAF) standard used in this analysis shows the 2022 economic activity supported by private credit in the United States based on its relationships with other industries and households in the US economy. The analysis is at a single point in time (i.e., 2022). The results do not reflect or attempt to estimate an expansion, contraction, or any other changes, or related impacts, of the sector.
- ▶ **Estimates do not reflect the economic impact of the private credit.** This analysis does not attempt to estimate or indicate the effect or impact of the private credit on the US economy. Rather, the analysis presents estimates of the economic contribution or footprint of the private credit provided to US companies. An economic impact analysis might instead analyze the impact on the US economy of a change to or in an industry or sector, perhaps due to a policy change, natural disaster, or some other exogenous factor. An economic impact analysis might attempt to account for the economic dynamics that occur in response to such a change and show the impact net of shifts of economic activity across different parts of the economy (e.g., industries, sectors) as impacts ripple through the economy.²⁵
- ▶ **Estimates are limited by available public information.** The analysis relies on information reported by federal government agencies (primarily the US Bureau of Economic Analysis, US Bureau of Labor Statistics, and US Census Bureau), and other publicly available sources (i.e., Preqin, Refinitiv, S&P Capital IQ, and IMPLAN model). In particular, data on private companies and the details of their deals is difficult to measure, collect, and standardize. The analysis did not attempt to verify or validate this information using sources other than those described in the report.
- ▶ **Modeling the economic contribution attributed to private credit relies on government industry classifications.** This report relates the activities of US companies receiving private credit to the operating profiles of various industries as defined by the North American Industry Classification System (NAICS) to most effectively model the economic activity attributable to private credit. Workers in these companies are assumed to receive the average wages and benefits of workers in their respective industry and to require the level of operating input purchases characteristic of the industries into which they have been categorized. This analysis relies on estimates of the domestically purchased inputs from the IMPLAN economic model, which are estimated using aggregate trade flow data and may vary by industry.
- ▶ **Input-output modeling can include double counting.** Input-output modeling can include double counting in its indirect and induced estimates. For example, a private-credit-supported company's suppliers or suppliers of suppliers could also receive private credit and consumer re-spending of income supported by private credit could be at private credit supported businesses or businesses with private credit supported suppliers. This limitation is due to the

use of industry averages in estimating indirect and induced economic contributions in input-output modeling. This analysis attempts to remove double counting by assuming the US companies supported by private credit are included in the indirect and induced contributions, by industry, proportional to their direct employment share in each industry.

- ▶ **State-level results are high-level estimates.** The state-level results are generally an allocation of the national results to the 50 states (plus the District of Columbia) with a high-level estimate based on the industries in which the US companies supported by private credit operate. An allocation approach is necessary because sufficiently detailed data for these companies are not available by state from publicly available sources. For example, for a given private credit-supported company only a total employment number is available, not a state-by-state number.²⁶
- ▶ **Results do not include employment and labor income of private credit funds or the companies that manage them.** The analysis does not include economic activity at private credit funds or the companies that manage them; therefore, their employment, wages and benefits, and GDP are not included in estimates throughout the report.
- ▶ **Modeling from publicly traded securities can vary significantly year to year.** The PCAF standard in this analysis relies on market capitalization and total debt of public companies. As market conditions change, the relative value of debt and equity can shift significantly. For example, if public equity markets decline significantly, the attribution for a particular investment will increase even though its book value remains the same, and vice versa. This methodology reflects a point in time and different market conditions could lead to different results.

Appendix. Modeling approach

Private credit data

The analysis sources data on private credit deals and the companies receiving private credit from Preqin. The data generally contain debt size, announcement dates, maturity dates, company name, company location, and company employment. The data do not include information on collateralized loan obligations (CLOs). The analysis removed companies not located in the United States and deals that matured before 2022. Note that comprehensive and standardized data on the total size and companies receiving private credit are limited.

The sample contains more than 4,000 private credit deals that were active in 2022 and at US companies; these deals are worth more than \$300 billion (before estimating missing data). Information on employment for these US companies was available from Preqin for more than 98% of the deals. Where employment data was absent, the analysis estimated employment. Overall, these companies employed approximately 2.8 million workers. The analysis mapped Preqin industry classifications to NAICS codes and verified the top 50 debt size companies and any company with over 1,000 attributed jobs.

For debts without available maturity dates, the analysis assumed the deal lasted the average deal length in the sample. This was nearly 5 years from the announcement date. Approximately 58% of the sample did not have debt sizes. In this case, the analysis estimated the private credit debt size. After estimating missing data the more than 4,000 deals were worth approximately \$500 billion.

Jobs supported by private credit at companies receiving private credit

The analysis uses a modified version of the Partnership for Carbon Accounting Financials (PCAF) Global Greenhouse Gas (GHG) Accounting and Reporting Standard for the Financial Industry ("PCAF standard") to estimate the jobs at companies receiving private credit attributable to private credit in 2022. Specifically, instead of attributing GHG emissions this report attributes jobs. Over 400 financial institutions representing over \$92 trillion in assets globally have committed to using or disclosed using the PCAF standard.²⁷

The PCAF standard provides banks and financial institutions with a consistent methodology to measure the GHG emissions a bank or financial institution supports through its lending or equity investments.²⁸ The analysis follows the PCAF standard but for replacing company GHG emissions with company employment. This, therefore, creates a snapshot in time of jobs attributable to private credit at companies receiving private credit.

Generally, the PCAF standard aims to derive a financial attribution factor for each debt or equity investment made by an institution as a fraction of the value of the company. This attribution factor represents the institution's share of that company. The financial attribution factor is the share of jobs attributed to private credit.

In this analysis, for public companies, the attribution factor is the total book value of private credit provided to a company divided by the company's enterprise value including cash (EVIC).²⁹ The

analysis sources this public company financial data from Refinitiv. The attribution factor is then multiplied by the company employment data provided by Preqin to estimate the attributed jobs (see equation below). The average attribution factor for the public companies in the analysis was roughly 23% and the total attributed jobs is approximately 108,000. This is approximately 20% (=108,000 / 545,000) of the total attributed jobs at companies receiving private credit.

$$\text{Attributed jobs}_{\text{public}} = \frac{\text{Outstanding private credit amount}}{\text{Public company EVIC}} \times \text{Company jobs}$$

For private companies, the attribution factor is the total book value of private credit provided divided by the total equity and debt of the receiving company. Given the lack of available data on private companies, the PCAF standard provides alternatives to estimate attribution.³⁰

Specifically, the analysis creates median of total company value per employee by NAICS code using S&P Capital IQ data on public companies listed on major US exchanges. The analysis matches these estimates by NAICS code to the Preqin company data. It then multiplies the estimates by the Preqin company employee data (i.e., number of employees) to create an estimate of total company value. In other words, the median per-employee enterprise value across public companies by NAICS code is used to estimate the total enterprise value for companies accessing private credit. The total amount of the private credit provided was divided by the estimated company value to create a financial attribution factor (see equation below).³¹

$$\text{Attributed jobs}_{\text{private}} = \frac{\text{Outstanding private credit amount}}{\left[\text{Median} \left(\frac{\text{EVIC of public companies}}{\# \text{ of public company employees}} \right)_{\text{NAICS}} * \text{Company jobs} \right]} \times \text{Company jobs}$$

The analysis sums the attributed jobs from public and private companies and considers that the jobs attributable to private credit at companies receiving private credit. The total represents approximately 20% (=545,000 / 2.8 million) of the total jobs at companies that received private credit in the sample.

If the analysis used the average of total company value per employee by NAICS code instead of the median for the private company analysis, the total attributed jobs would be approximately 3% higher at 559,000 jobs. This amounts to an attribution factor of approximately 20% (= 559,000 / 2.8 million). If the analysis used the median of total company value per employee for public companies with a market cap less than \$2 billion (i.e., for small- and micro-cap companies) for the private company analysis, the total attributed jobs would be approximately 7% higher at 585,000 jobs. This amounts to an attribution factor of approximately 21% (=585,000 / 2.8 million).³²

IMPLAN model of the US economy

The magnitude of the economic activity related to economic activity supported by private credit at companies receiving private credit is estimated with the 2021 Impacts for Planning (IMPLAN) input-output model of the United States. IMPLAN is used by more than 500 universities and government agencies. Unlike other economic models, IMPLAN includes the interaction of more

than 500 industries, thus identifying the interaction of specific industries that are related to the US companies supported by private credit.

The multipliers in the IMPLAN model are based on the Leontief production function, which estimates the total economic requirements for every unit of direct output in a given industry based on detailed inter-industry relationships documented in the input-output model. The input-output framework connects commodity supply from one industry to commodity demand by another. The multipliers estimated using this approach capture all of the upstream economic activity (or backward linkages) related to an industry's production by attaching technical coefficients to expenditures. These output coefficients (dollars of demand) are then translated into dollars of GDP and wages and benefits and number of employees based on industry averages. The economic activity attributed to private credit is estimated to have an employment multiplier of 2.9, a wages and benefits multiplier of 2.4, and a GDP multiplier of 2.5.

Endnotes

¹ Private credit is also referred to as private debt. The terms are used interchangeably in the literature, and this report uses private credit.

² For more details on the typical differences between private credit and traditional loans see, Gunter, Evan, Abby Latour, and Joe Maguire, "Private Debt: A Lesser-Known Corner of Finance Finds the Spotlight," S&P Global, October 21, 2021, <https://www.spglobal.com/en/research-insights/featured/special-editorial/private-debt>.

³ Gunter, Evan, Abby Latour, and Joe Maguire, "Private Debt: A Lesser-Known Corner of Finance Finds the Spotlight," S&P Global, October 21, 2021, <https://www.spglobal.com/en/research-insights/featured/special-editorial/private-debt>.

⁴ Board of Governors of the Federal Reserve System, Financial Stability Report, May 2023, p. 45.

⁵ Blackstone, "Private Credit's Rapid Growth: A Secular Trend", Blackstone, April 2022, p. 2, https://www.bcred.com/wp-content/uploads/sites/11/2020/10/Private-Credits-Rapid-Growth_A-Secular-Trend.pdf.

⁶ Witte, Pete, "Private Equity Pulse: takeaways from 1Q 2023," EY, May 1, 2023, https://www.ey.com/en_gl/private-equity/pulse.

⁷ This analysis relies on data from Preqin. Comprehensive and standardized data on the total size and companies receiving private credit is limited.

⁸ Block, Joren, Young Soo Jang, Steven N. Kaplan, and Anna Schulze, "A Survey of Private Debt Funds," NBER Working Paper No. 30868, January 2023, p. 38.

⁹ Ibid, p 39. The survey allowed for multiple responses and results reported are for US responses only.

¹⁰ Gunter, Evan, Abby Latour, and Joe Maguire, "Private Debt: A Lesser-Known Corner of Finance Finds the Spotlight," S&P Global, October 21, 2021, <https://www.spglobal.com/en/research-insights/featured/special-editorial/private-debt>.

¹¹ Witte, Pete, "PE Pulse: Five takeaways from 4Q 2022," EY, January 31, 2023, https://www.ey.com/en_gl/podcasts/nextwave-private-equity/2023/01/episode-55-pe-pulse-five-takeaways-from-4q-2022.

¹² Gunter, Evan, Abby Latour, and Joe Maguire, "Private Debt: A Lesser-Known Corner of Finance Finds the Spotlight," S&P Global, October 21, 2021, <https://www.spglobal.com/en/research-insights/featured/special-editorial/private-debt>.

¹³ For more details see, Wu, Bill, "Why companies might consider the private debt market," EY, September 21, 2021, https://www.ey.com/en_lu/private-debt/why-companies-might-consider-the-private-debt-market.

¹⁴ EY, "Can resilience shape a shifting landscape? 2022 Global Alternative Fund Survey," November 2022, p. 15, https://www.ey.com/en_gl/wealth-asset-management/global-alternative-fund-survey.

¹⁵ Board of Governors of the Federal Reserve System, Financial Stability Report, May 2023, p. 46.

¹⁶ For more details on the typical differences between private credit and traditional loans see, Gunter, Evan, Abby Latour, and Joe Maguire, "Private Debt: A Lesser-Known Corner of Finance Finds the Spotlight," S&P Global, October 21, 2021, <https://www.spglobal.com/en/research-insights/featured/special-editorial/private-debt>.

¹⁷ Board of Governors of the Federal Reserve System, Financial Stability Report, May 2023, p. 47.

¹⁸ For more details see, Preqin, "Private Debt," accessed on August 8, 2023, <https://www.preqin.com/academy/lesson-4-asset-class-101s/private-debt>.

¹⁹ For more details on the types of private credit see, Preqin, "Private Debt," accessed on August 8, 2023, <https://www.preqin.com/academy/lesson-4-asset-class-101s/private-debt> or American Investment Council, "Private Credit: Investing in Main Street," March 2021, p. 9-10, <https://www.investmentcouncil.org/wp-content/uploads/2021/03/private-credit-investing-in-main-street.pdf>.

²⁰ Proprietor income includes the payments received by self-employed individuals and unincorporated business owners.

²¹ The analysis uses a modified version of the Partnership for Carbon Accounting Financials (PCAF) Global Greenhouse Gas (GHG) Accounting and Reporting Standard for the Financial Industry ("PCAF standard") to estimate the economic activity supported by private credit at companies receiving private credit. That is the PCAF standard is followed by this report except instead of estimating carbon emissions attributable to private credit at companies receiving private credit it is used to estimate the jobs and economic activity attributable to private credit at companies receiving private credit.

²² Companies are classified based on the North American Industry Classification System (NAICS), which is commonly used for industry classification in government statistics. Company NAICS classifications were generally identified by mapping Preqin industry sectors to NAICS codes.

²³ The results from the IMPLAN model are in 2021 dollars and are adjusted using the personal consumption expenditures (PCE) index to 2022 dollars.

²⁴ Direct employment (i.e., employment at US companies attributed to private credit) is generally allocated by the headquarters location for companies with fewer than 1,000 employees and allocated based on the state share of US employment by industry from the Bureau of Economic Analysis for companies with 1,000 or more employees. For indirect and induced, the employment is allocated based on the state share of US GDP from Bureau of Economic Analysis. Alternative distribution methodologies did not significantly alter these results.

²⁵ A key point is that an economic impact analysis typically attempts to estimate impacts that net out shifts in economy activity across industries and sectors as the economy moves from its initial equilibrium to its new equilibrium. In contrast, an economic contribution analysis shows the gross amount of economic activity tied to an industry or sector directly, and through its suppliers and related consumer spending. EY Quantitative Economics and Statistics (QUEST) practice has other modeling frameworks it uses to account for the shifts in economic activity and estimate net impacts.

²⁶ Supported economic activity at companies receiving private credit is generally allocated by the headquarters location for companies with fewer than 1,000 employees and allocated based on the state share of US employment by industry from the Bureau of Economic Analysis for companies with 1,000 or more employees. For indirect and induced, the employment is allocated based on the state share of US GDP from Bureau of Economic Analysis.

²⁷ Partnership for Carbon Accounting Financials, “Financial institutions taking action”, accessed on August, 8, 2023, <https://carbonaccountingfinancials.com/financial-institutions-taking-action>.

²⁸ For more details, see Partnership for Carbon Accounting Financials, “Financed Emissions: The Global GHG Accounting & Reporting Standard: Part A,” Second edition, December 2022, <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>

²⁹ Enterprise value including cash is the sum of a company’s market capitalization, total debt, minority interest, preferred equity shares, and cash or cash equivalents. PCAF specifies that book value of debt should be used. All attribution factors are capped at one (i.e., private credit cannot support more than 100% of a company’s enterprise value). The analysis sources this public company financial data from Refinitiv. For details on the methodology see, “Financed Emissions: The Global GHG Accounting & Reporting Standard: Part A,” Second edition, December 2022, p. 51-52 and p. 142, <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>.

³⁰ Ibid, p.143.

³¹ The analysis makes two further adjustments to the attribution factor. First, it caps all attribution factors at one, i.e., private credit cannot support more than 100% of a company’s enterprise value. Second, if a company has multiple deals, each was reviewed to ensure they were not duplicates and the analysis splits company employment evenly over the deals to avoid double counting.

³² Companies with a market capitalization of \$2 billion and under correspond to the Financial Industry Regulatory Authority’s (FINRA) definition of small-cap and micro-cap companies. For more details on market capitalization cutoffs see, FINRA, “Market Cap Explained”, September 30, 2022, <https://www.finra.org/investors/insights/market-cap>.