



A quarterly snapshot of U.S. business formations, financing signals, UCC lien insights, and risk trends, drawn from Middesk's proprietary dataset.

The Middesk Index

Q4 2025

Executive summary

U.S. business formation returned to a familiar seasonal pattern in Q4 2025, declining after three quarters of above-average activity. New business formations fell from 1.41 million in Q3 to 1.29 million in Q4, an 8.6% quarter-over-quarter decline that aligns closely with historical Q4 slowdowns. Even with the pullback, Q4 2025 formations remained 14% higher than Q4 2024, reinforcing that the year closed from a position of strength.

Credit activity did not follow the same seasonal path. UCC lien filings remained elevated through the end of the year. But the number of businesses accessing secured credit failed to expand, indicating credit exposure concentrated further among existing borrowers. In Q4, businesses operating for 10+ years accounted for more than 84,000 lien filings, with liens per business rising across every age cohort, signaling selective lending rather than renewed risk appetite.

Business formation declined as expected — seasonal, broad-based, and consistent with every Q4 since 2019. Underneath that, credit kept flowing, but only to the same established borrowers carrying more debt. Q4 was a normal slowdown on the surface and a quiet concentration event beneath it.

Macro forces shaping Q4 2025



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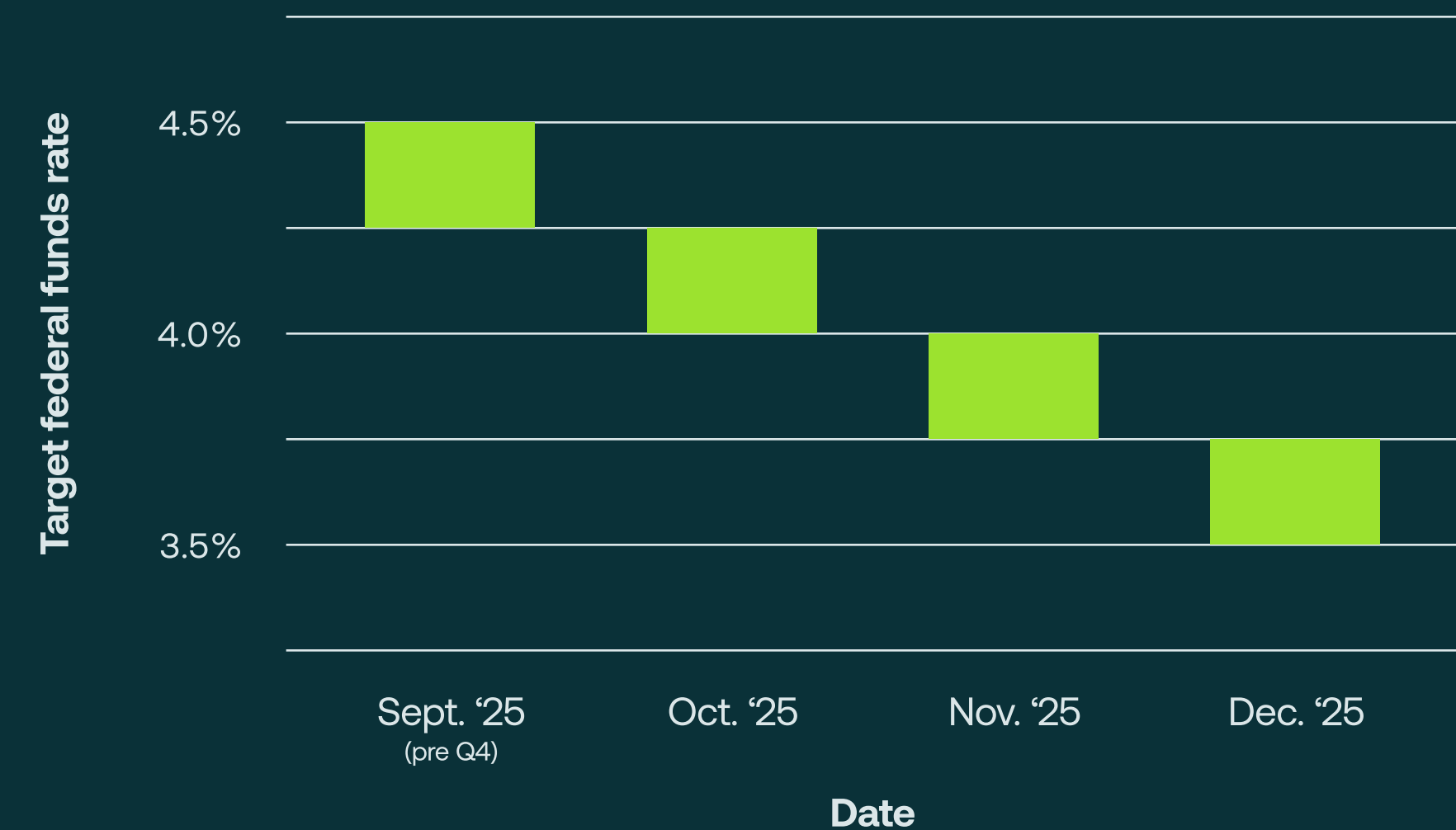
Interest rate policy eases

In the final quarter of 2025, monetary policy began to ease meaningfully. The Federal Reserve delivered three consecutive 25-basis-point rate cuts, ending December with a federal funds target range of 3.50%–3.75%. These moves reflected cooling inflation and an effort to support labor markets without reversing progress on price stability.

Credit remains selective

However, easing arrived late in the quarter and was framed cautiously. Overall inflation, as measured by the Consumer Price Index (CPI), continued to cool into year-end, but services-driven costs remained sticky, particularly in labor-intensive categories. For many operating businesses, lower policy rates did not immediately translate into looser lending standards or reduced operating pressure.

Federal Reserve rate easing in Q4 2025



State of business formation



State of business formation

Seasonality returns, resilience remains

After an unusually steady first nine months, business formation activity declined in Q4 2025 in line with long-running historical patterns. New business formations fell from 1,407,864 in Q3 to 1,287,235 in Q4, continuing a trend observed every year since 2019, when Q4 formation reliably trails Q3.

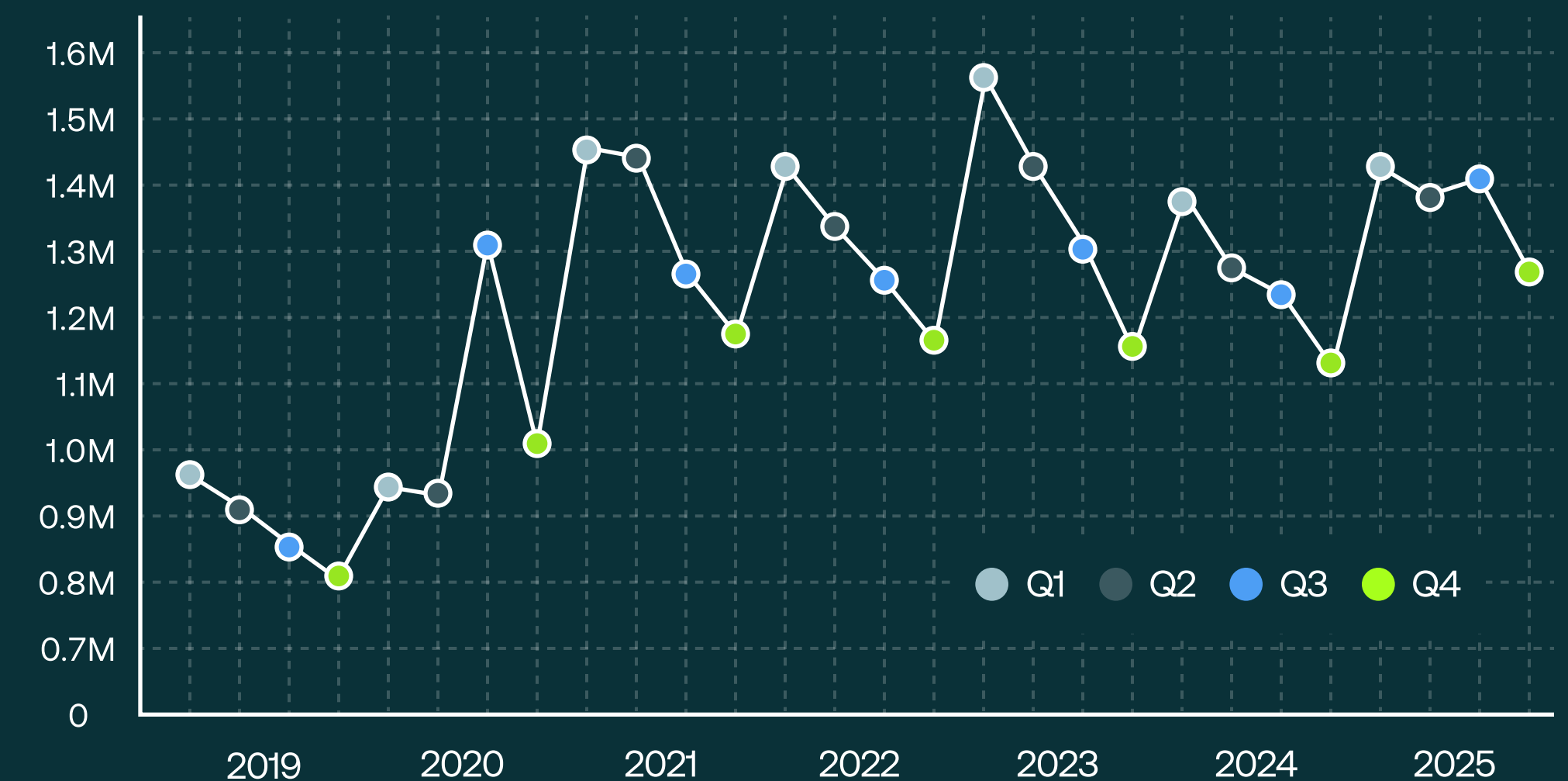
The slowdown was broad-based, not driven by isolated regional weakness. California, Texas, Florida, and every other top-10 formation state declined 8–9% quarter over quarter. And still, formation levels remained well above pre-pandemic norms.

The anomaly in 2025 was not Q4's slowdown — it was the absence of a slowdown earlier in the year. Typically, business formation starts strong and tapers off incrementally each quarter. But Q3 2025 was the first quarter since 2020 where we saw an uptick in business formation from Q2. Q4's dip is a return to trend, not a departure from it — the natural close to a year of robust business creation.

Consistent dips in new business formation for top 10 states

State	Q3 2025	Q4 2025	QoQ Change
California	181,420	166,150	-8.4%
Texas	156,998	143,210	-8.8%
Florida	142,773	129,488	-9.3%
New York	91,402	83,915	-8.2%
Illinois	52,110	47,662	-8.5%
Georgia	49,880	45,401	-9.0%
Pennsylvania	44,095	40,230	-8.8%
Ohio	42,661	39,005	-8.6%
North Carolina	41,912	38,476	-8.2%
Arizona	38,771	35,505	-8.4%

U.S. business formations by quarter (2019–2025)



Entity type momentum



Entity type momentum

Seasonality holds across formation types

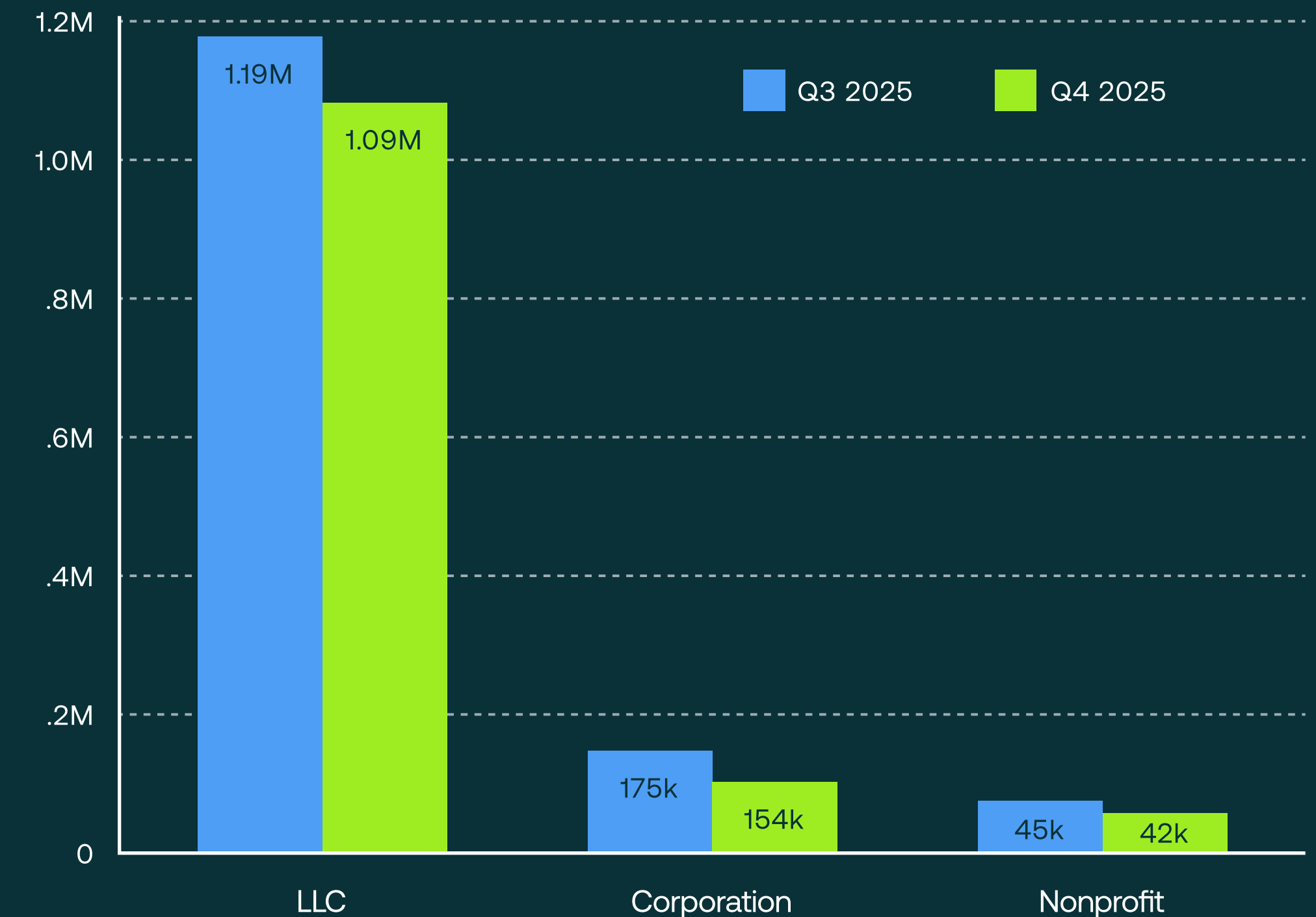
Entity-level data reinforces that Q4's formation slowdown was seasonal rather than structural.

LLC formations declined from 1,188,420 in Q3 to 1,088,756 in Q4, an 8.4% quarter-over-quarter decrease. That decline closely mirrors the 9.4% Q3-to-Q4 drop observed in 2024.

Corporate formations declined from 174,322 in Q3 to 154,198 in Q4 (-11.5% QoQ), while nonprofit formations fell from 45,122 to 42,281 (-5.8% QoQ). These movements are directionally consistent with prior year-end patterns and do not indicate a reallocation of entity preference.

Taken together, the entity-type breakdown confirms what the broader formation data suggests: Q4 reflected timing decisions, not a retreat from business creation or a structural shift in how founders choose to organize.

Business formations by entity type Q4 2025



Corporations saw the sharpest QoQ decline (-11.5%); LLCs remain the dominant entity type at over 1M new formations.

Credit and trust signals



Credit and trust signals

Borrowing continues, but trust does not widen

While formation activity slowed in Q4, secured credit activity remained elevated. Monthly UCC lien filings held steady through October, November, and December, signaling continued borrowing among operating businesses.

However, borrower expansion did not accompany this activity. In Q4 2025, total lien filings increased while the number of unique businesses filing liens remained largely flat, resulting in higher exposure per borrower.

Credit concentration was most pronounced among older firms:

- Businesses operating 10+ years accounted for 84,854 lien filings in Q4, with an average of 1.15 liens per business
- Firms aged 5–10 years filed 40,780 liens, averaging 1.09 liens per business
- Younger firms (<3 years) remained a relatively small share of secured borrowers

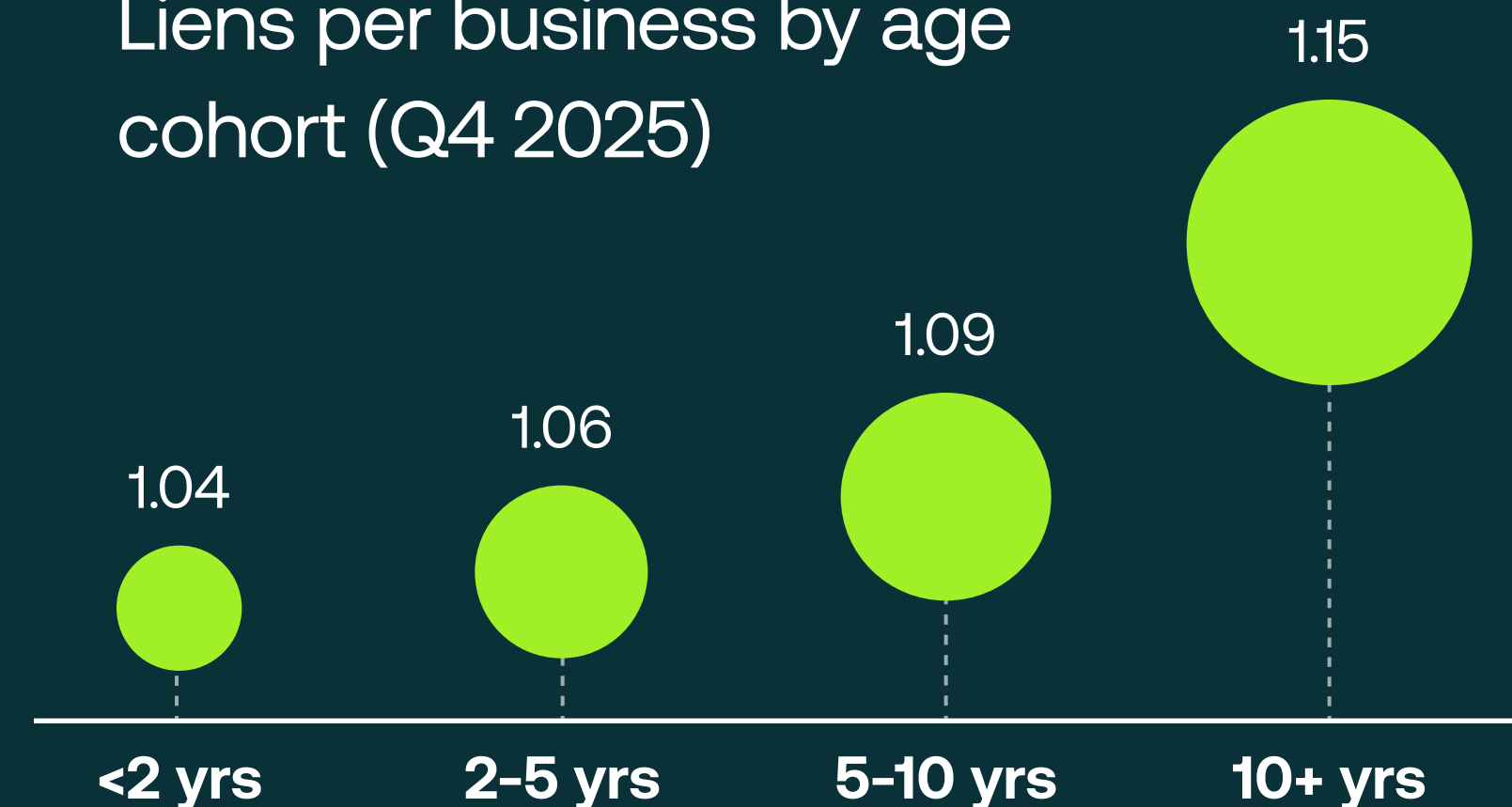
Industry data reinforced this pattern, with construction, transportation, and healthcare continuing to dominate lien activity.

■ Licensing signals: an early lens on labor capacity

Middesk is now tracking licensing data to gain deeper insights into the labor market and identify trends that may extend to entire industries. In states with strong licensing coverage, labor supply is tightening unevenly. In Colorado, new electrician and plumber licenses fell by roughly 26% YoY in 2025, reaching their lowest levels since 2020. In Florida, real estate licenses declined more than 20% YoY, while EMT certifications rose nearly 50%.

Whether these shifts directly drive borrowing behavior is still being established. But the directional pattern is consistent with labor constraints keeping incumbent operators credit-dependent rather than capacity expansive — and licensing data may prove to be one of the cleaner early signals for where credit pressure is building.

Liens per business by age cohort (Q4 2025)



Risk and volatility watch



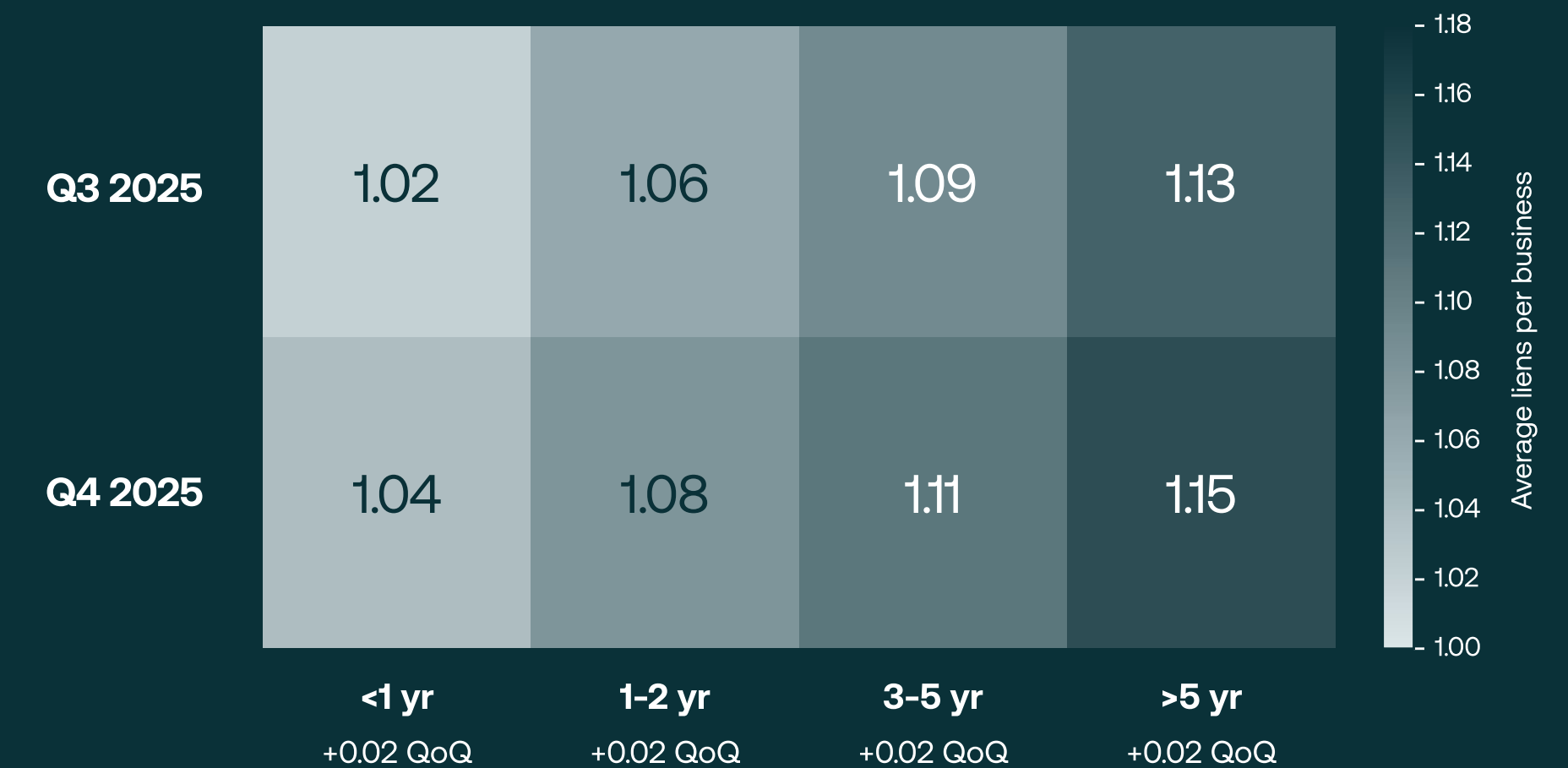
Risk and volatility watch

Quiet tightening beneath the plateau

Q4 did not surface risk through abrupt contraction or default. Instead, risk accumulated quietly through higher exposure among the same borrowers. Rising liens per business across mature cohorts indicate balance-sheet management rather than growth-driven borrowing.

This pattern aligns with an environment of persistent operating costs and constrained labor capacity, particularly in asset-heavy sectors. Lenders continued to extend credit, but did so selectively, prioritizing known entities and collateral coverage.

UCC liens per business Q3 vs Q4 2025 by cohort



Lien counts increased marginally across all business age cohorts QoQ, with older cohorts consistently carrying more liens.

What to watch next

As 2026 begins, the question is not whether formation activity holds — it's what kind of economy it holds inside. Policy is easing. Cost pressures are uneven. Credit access remains selective. Q1 will clarify whether stability turns into momentum or becomes the new baseline.

Credit access

Rate cuts alone won't reopen credit. Watch whether secured lending expands beyond today's established borrowers, particularly among younger and smaller businesses. A broader borrower base would signal renewed confidence. Continued concentration would reinforce caution.

Formation behavior

Q4 seasonality is expected. What matters is whether Q1 formation rebounds in line with historical patterns. A strong Q1 would confirm that founders were waiting, not retreating. A muted start would suggest timing delays are giving way to restraint.

Exposure levels

Liens per business rose quietly in late 2025. Watch whether exposure stabilizes as costs ease, or continues climbing among mature firms. A plateau would point to balance-sheet repair. Further increases could signal pressure lingering beneath the surface.

Sector signals

Asset-heavy sectors continue to anchor credit activity, while capital-light sectors remain cautious. Watch for early movement at the margins — particularly in services, logistics, or healthcare — where changes in borrowing behavior often surface before broader shifts appear.

■ The bottom line:

The foundation remains intact, but the direction isn't set. Early 2026 will show whether easing conditions translate into broader trust, or whether businesses continue to operate with discipline, selectivity, and patience.

Methodology & sources

The Midedesk Index is built on our proprietary dataset of U.S. business registrations, drawing from state-level filings across all 50 states and the District of Columbia. We aggregate and normalize this data to identify trends in entity type, geography, and industry risk signals.

Where helpful, we benchmarked against publicly available datasets and research to provide macro context:

- Monetary policy: FOMC's target range for the federal funds rate
- Inflation: Consumer Price Index

- This combination of Midedesk's proprietary filings data with external economic and policy signals allows us to capture both the granular shifts in business formation and the broader forces shaping entrepreneurship in the U.S.

About Middesk

Middesk is the business identity layer for financial services. Since 2018, Middesk has aggregated state-level business registrations, UCC filings, licensing records, and government data sources into a single verification infrastructure — used by banks, fintechs, and payment providers to onboard and monitor business customers.

More than 400 financial institutions rely on Middesk to verify business identity, assess risk, and accelerate onboarding. Middesk came out of Y Combinator, is backed by Sequoia Capital and Accel Partners, named to the Forbes Fintech 50, and recognized as an industry leader in business verification by Liminal.