

## Small Business Checkpoint

# Construction boom?

17 August 2023

### Key takeaways

- Small businesses appeared to be more upbeat in July as the National Federation of Independent Business sentiment rose to an eight-month high. Higher sentiment also led to an improvement in small business spending. Total payments per small business client still fell in July but at a smaller degree of -1.6% year-over-year (YoY), based on Bank of America internal data, up from -3% YoY in June.
- Payments are growing the fastest for small businesses in the construction sector, per Bank of America internal data. In our view, this partly reflects growing demand in manufacturing construction as the US ramps up its reshoring initiative. Census Bureau data showed that manufacturing construction spending surged by a record 80% YoY in June.
- Regional demand in new-home building in San Antonio, Houston and Dallas might also be helping. Our analysis shows that these cities may face a longer-term housing shortage and are seeing higher construction trends than the rest of the country.

*Small Business Checkpoint is a regular publication from Bank of America Institute. It aims to provide a real-time assessment of small business spending activities and financial well-being, leveraging the depth and breadth of Bank of America's proprietary data. Such data is not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial condition or performance of Bank of America.*

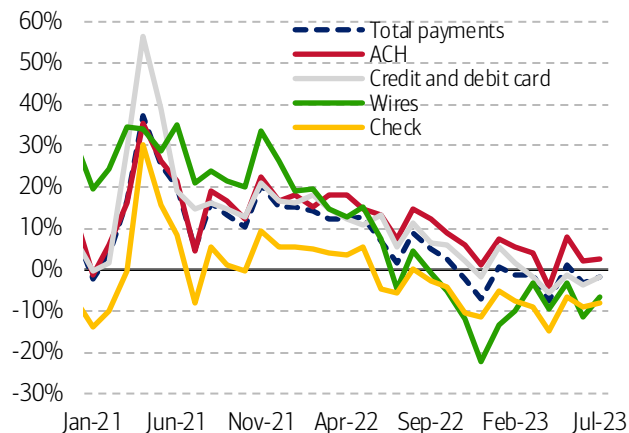
### Small businesses more confident in July

Small businesses appeared to be more upbeat in July than in prior months. The National Federation of Independent Business (NFIB) survey showed that small business sentiment rose from 91.0 in June to 91.9 in July, the highest reading since November 2022. This increase was driven by a jump in the share of small business respondents that indicated that they expect the economy to improve. Interestingly, the Bank of America [2023 Mid-Sized Business Owner Report](#) found that 67% of mid-sized businesses (those with annual revenue of \$5-50 million) also think the US economy will improve over the next 12 months.

Higher sentiment has also led to a slight improvement in small business spending. According to Bank of America internal data, total payments per small business client, which includes automated clearing house (ACH), credit and debit cards, wires, checks and person-to-business payments, were down by 1.6% year-over-year (YoY) in July, stronger than the -3% YoY in June (Exhibit 1).

**Exhibit 1: Small business payments growth by channel, based on Bank of America internal data (monthly, %YoY)**

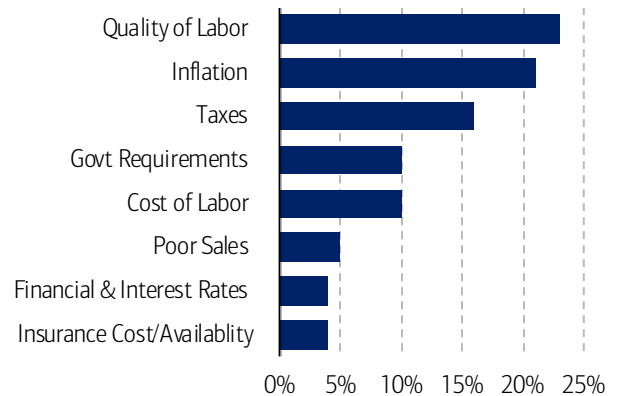
Total payments per small business client were down by 1.6% YoY in July



Source: Bank of America internal data

**Exhibit 2: Small businesses' single most important problem (% reporting)**

23% of small businesses reported quality of labor being the single most important problem



Source: NFIB

Despite the improvement, payments growth remained negative YoY, suggesting lingering challenges for small businesses. According to the same NFIB survey in July, 23% of small businesses reported quality of labor being the single most important problem, while 21% saw inflation as the biggest headwind (Exhibit 2).

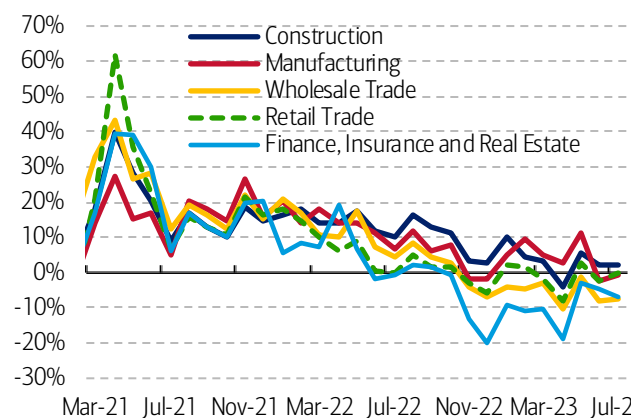
## Construction sector leads business payment growth

Small businesses in the construction sector are seeing the strongest YoY payment per client growth, up +2% YoY in July. Meanwhile, the wholesale trade sector saw the weakest spending in July, down -7.5% YoY. More specifically, payroll spending for construction small businesses is also growing at a faster pace, at 6% YoY as of July, than the overall small business sample, at 2% YoY (Exhibit 4).

Why are small construction businesses particularly strong? In our view, this partly reflects strong demand in nonresidential construction. According to data from the Census Bureau, while overall construction spending grew at a moderate pace of 3.5% YoY in June, it increased at a much faster pace of 18% YoY in nonresidential construction, the fastest rate since 2007.

### Exhibit 3: Small business payments growth by select industries (monthly, %YoY)

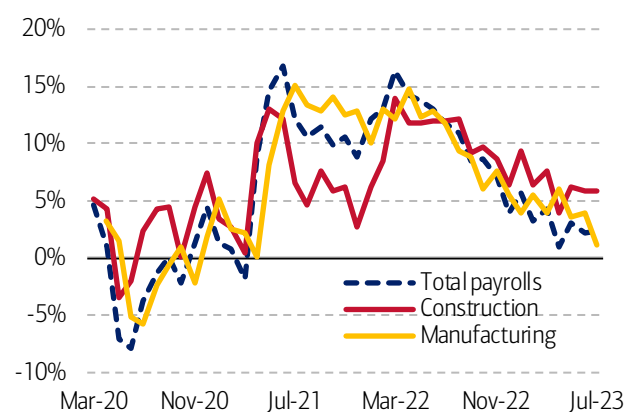
We find that small businesses in the construction sector are seeing the strongest payment per client YoY growth, up +2% YoY in July



Source: Bank of America internal data

### Exhibit 4: Growth in small business payroll payments by select sectors (% YoY, 3-month moving average)

Payroll spending for construction businesses is also growing at a faster pace, at 6% YoY as of July.



Source: Bank of America internal data

Notably, manufacturing construction spending showed a record rate of increase of 80% YoY in June, according to the same Census data (Exhibit 5). This likely reflects the ongoing reshoring effort by the US to bring back manufacturing, as supported by policies such as the Creating Helpful Incentives to Produce Semiconductors and Science Act (CHIPS Act) and the Inflation Reduction Act (IRA).

Looking ahead, we think that there might be further upside potential to domestic nonresidential construction. Our recent publication [IRA ripple effect: 10 areas of impact](#) noted that while the biggest impacts of the IRA are expected to begin in 2024 and 2025, thus far, more than 270 new clean energy projects have been announced, with investments totaling ~\$132 billion.

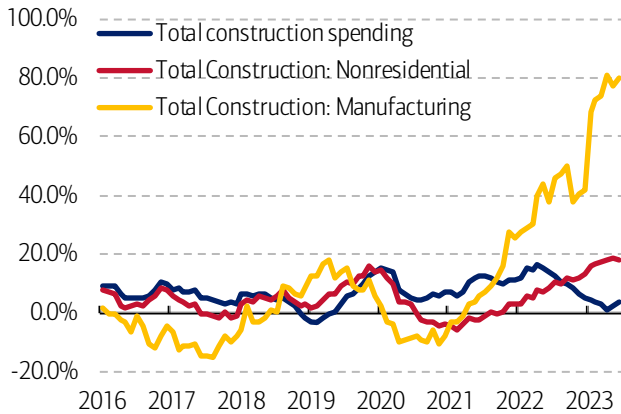
## Construction firms might also benefit from regional demand for new homes

Beyond nonresidential construction, small construction businesses might also be benefitting from residential demand in some regions in the US. In a recent [Housing Morse!](#), we identified cities in the US that might be facing longer term housing shortages. Specifically, San Antonio, Dallas, Orlando and Houston are seeing continued population inflows while the housing stock is lower than national average.

The good news is that these cities with lower housing supply are already seeing higher construction trends. Looking at the potential number of units coming through the pipeline, all four cities saw higher-than-average permits issued per capita during the first five months of 2023, with Houston leading (Exhibit 6).

**Exhibit 5: US private and public construction spending (%YoY)**

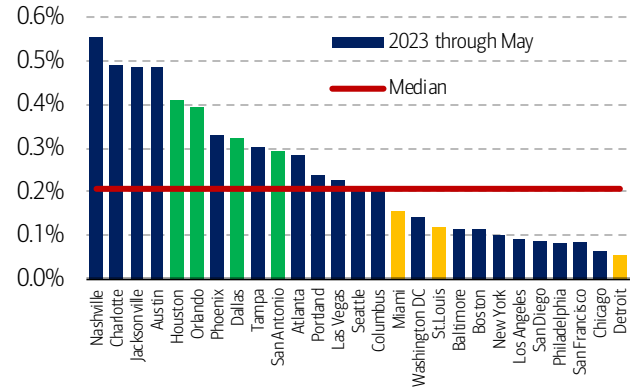
Manufacturing construction spending showed a record rate of 80% YoY in June



Source: Census Bureau

**Exhibit 6: Building permits issued as a share of local population (Jan to May 2023)**

All four cities saw higher-than-average permits issued per capita issued during the first five months of 2023, with Houston leading

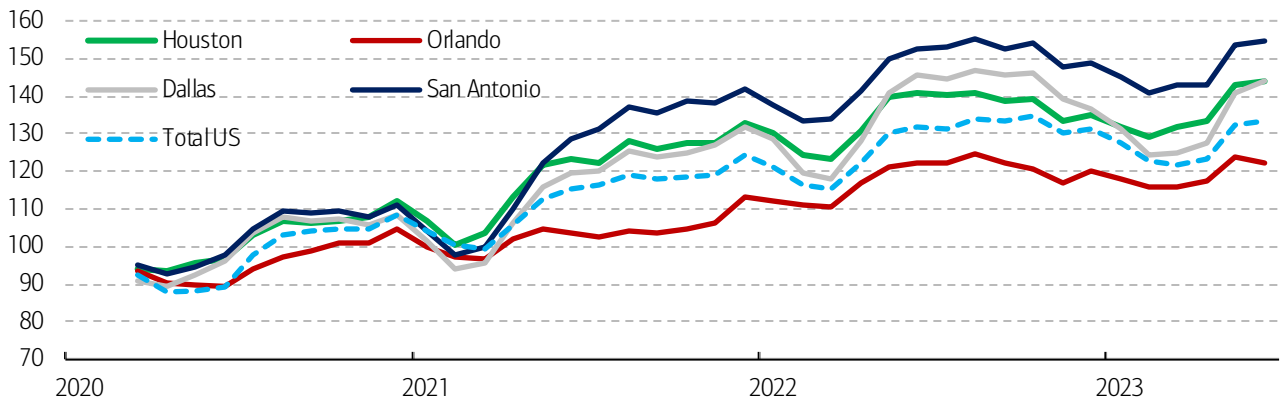


Source: Census Bureau, Haver Analytics

This is also reflected in Bank of America small business spending data. As Exhibit 7 shows, small businesses in the construction sector in San Antonio, Dallas and Houston have all seen much stronger spending than the national average. The only exception is Orlando, where the spending growth of small construction businesses has lagged the national average.

**Exhibit 7: Construction small business spending per client by select MSAs (index, 2019=100 for each MSA, 3-month moving average)**

Construction small businesses in San Antonio and Houston have seen much stronger spending than the national average



Source: Bank of America internal data

**Methodology**

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Any **Small Business** payments data represents aggregate spend from Small Business clients with a deposit account or a Small Business credit card. Payroll payments data include channels such as ACH (automated clearing house), bill pay, checks and wire. Bank of America per Small Business client data represents activity spending from active Small Business clients with a deposit account or a Small Business credit card and at least one transaction in each month. Small businesses in this report include business clients within Bank of America and are generally defined as under \$5mm in annual sales revenue.

Payments to small business-focused hiring firms include both direct deposits through Automated Clearing House (ACH) and payments via credit and debit cards.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

Additional information about the methodology used to aggregate the data is available upon request.

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