BANK OF AMERICA INSTITUTE

BANK OF AMERICA

Small Business Checkpoint

In good shape and handling hurdles

18 January 2024

Key takeaways

- Small businesses displayed resilience in 2023, and were an important driver of the overall buoyancy in the US labor market. Bank of America internal data shows monthly payroll payments per small business client rose year-over-year (YoY) for most of 2023.
- Payroll growth, however, moderated significantly compared to the peak in March 2022. This moderation could indicate more "sustainable" growth going forward, as we think this primarily reflects slowing wage growth especially in high-touch sectors like leisure and healthcare that were more strongly impacted by persistent labor problems during that period.
- Small business resilience will likely continue to be tested in 2024. Bank of America internal data shows December 2023 had the second lowest inflow-to-outflow ratio for small businesses' checking and savings accounts across the last five Decembers, highlighting pressure on small firms' profits.

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.

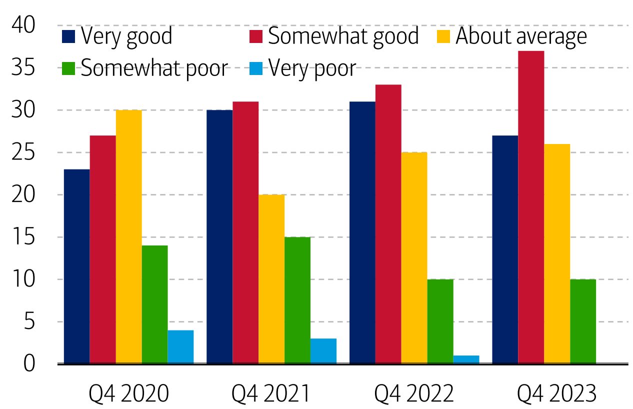
2023 was a resilient year for small businesses

Small businesses faced several challenges in 2023, including rising interest rates, the failure of some regional banks and inflation that pushed costs higher. The good news is that, at the start of 2024, small firms appear to have largely navigated those headwinds.

One example of this resilience is illustrated by the MetLife and U.S. Chamber of Commerce Small Business Index. According to this index, at the end of 2023 a majority of respondents considered the overall health of their small businesses to be in "somewhat good" or "very good" shape (Exhibit 1). And taken together, these responses were the most positive since 2020.

Exhibit 1: A majority of respondents said the overall health of their small business was somewhat good or very good at the end of 2023

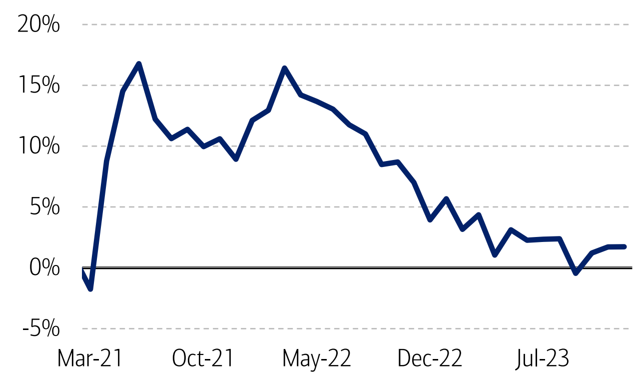
Survey responses to "How would you rate the overall health of your business?" as of Q4 2023 (% of respondents)



Source: The MetLife and U.S. Chamber of Commerce Small Business Index

Exhibit 2: Payroll payments growth increased in the last few months of 2023

Payroll payments per small business client (3-month moving average (ma), %YoY)



Source: Bank of America internal data

Bank of America internal data also shows the relative strength of small businesses. In particular, small firms had solid forward momentum in hiring in 2023, with payroll payments per small business client showing a year-over-year (YoY) expansion throughout most of 2023. In December, payroll payments per small business client increased 1.7% YoY on a three-month rolling basis, having gradually risen over the last few months of the year (Exhibit 2).

Since nearly half of US workers are employed at companies with less than 250 employees, this performance was likely a major driver of the overall solid US labor market. It is also consistent with news from the December nonfarm payrolls report from the Bureau of Labor Statistics (BLS), which showed a strong increase of 216k jobs, up from 173k the previous month.

Post-pandemic normalization driving softening in payroll growth

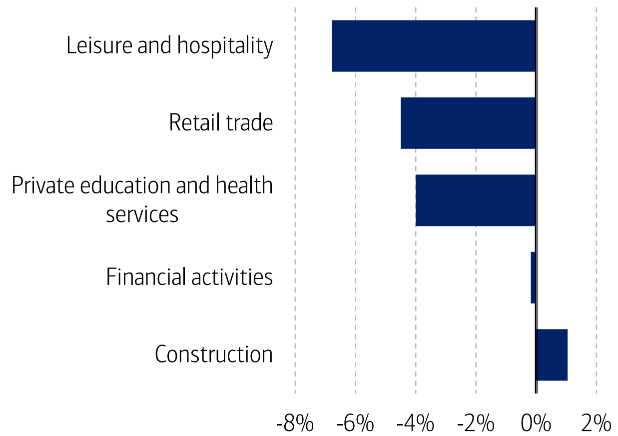
Yet even as hiring improved, Bank of America internal data shows small business payroll growth has moderated since its peak in March 2022.

Overall, small firm payroll growth reflects changes in jobs, wages and hours worked at small firms. We think part of the moderation in small firm payrolls is coming from slowing wage growth in sectors where there is significant small business representation. High-touch sectors that have a sizeable presence of small firms were more affected over the pandemic, and as a result, persistent labor supply problems in the aftermath tended to impact smaller firms more than larger firms.

With labor shortages now becoming less persistent, wage inflation, which lingered in some of these high-touch sectors has begun to come down (Exhibit 3). This is contributing to some slowing of payroll growth in lodging, restaurants and retail (Exhibit 4), though continuing strong jobs growth in these areas is somewhat offsetting this impact. Meanwhile, healthcare employment also continues to grow strongly, driving payroll growth in this sector, reflecting post-pandemic staffing increases and higher demand for health services among aging Baby Boomers.

Exhibit 3: High-touch sectors such as leisure and retail have seen the largest decrease in average hourly earnings since March 2022

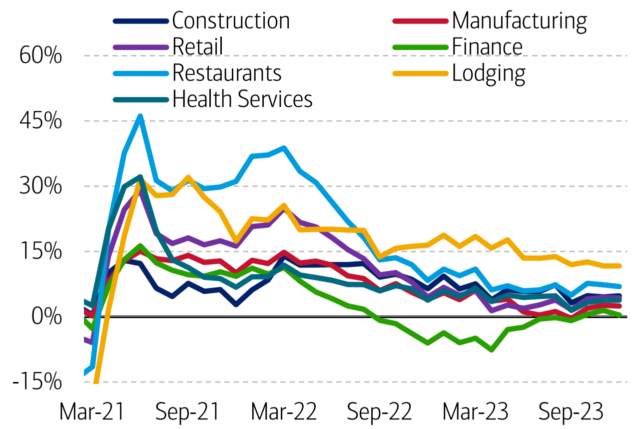
Percentage point (pp) decline in average hourly earnings from March 2022 to December 2023



Source: Bureau of Labor Statistics

Exhibit 4: Leisure sectors like retail and lodging had the highest payroll growth in December

Payroll payments per small business client by select sector (3-month ma, %YoY)



Source: Bank of America internal data

Profits under pressure could lead to persistent price hikes

What will 2024 hold for small business? With economists widely forecasting a ‘soft landing’ and the start of Federal Reserve interest rate cuts, small firms may find relief this year.

Even so, profits are likely to be constrained by inflation and cost pressures. While headline consumer price inflation is slowing, higher input prices are a top concern for many small businesses. And against the strong labor market, pressure on wages (and the difficultly in attracting quality workers) are likely to be headwinds to small business profitability.

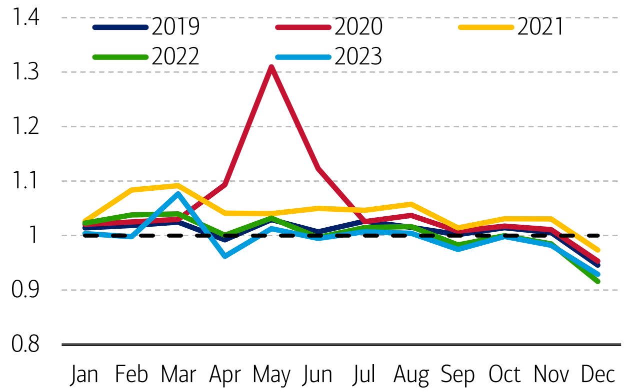
One way to gauge profits using Bank of America internal data on small business is to look at the inflow-to-outflow ratio for small businesses’ checking and savings accounts. Specifically, we view the inflow into small business accounts as a proxy for revenues (though there is a small non-revenue component, such as deposits) and outflow as expenses. A ratio of less than 1 would then imply lower revenue than expenses.

Exhibit 5 shows that Bank of America data indicates that the small business inflow-to-outflow ratio for December stood at just 0.93, the second lowest inflow-to-outflow ratio across the last five Decembers. This is up slightly from 0.92 in the prior year.

Faced with these cost pressures, the latest National Federation of Independent Business (NFIB) survey shows that there has been a recent increase in the number of small businesses planning to raise their own prices (Exhibit 6).

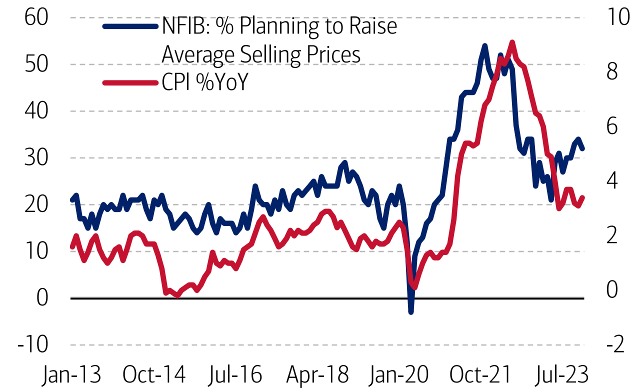
Whether or not small firms will be in a position to put these planned price increases through will in part depend on the state of the overall economy, including consumer demand. Small firms may be able to navigate the soft-landing scenario with some confidence, but harder slowdowns would likely limit their ability to pass on price rises and would squeeze their profitability further.

Exhibit 5: The inflow-to-outflow ratio for small businesses ticked up slightly compared to last December.
Inflow-to-outflow ratio for small businesses, based on Bank of America internal data (monthly, 1+ = inflow greater than outflow)



Source: Bank of America internal data

Exhibit 6: There has been a significant upward trend of small businesses planning to raise their own prices
NFIB respondents planning to raise average selling prices (monthly, %) and CPI (monthly, %YoY)

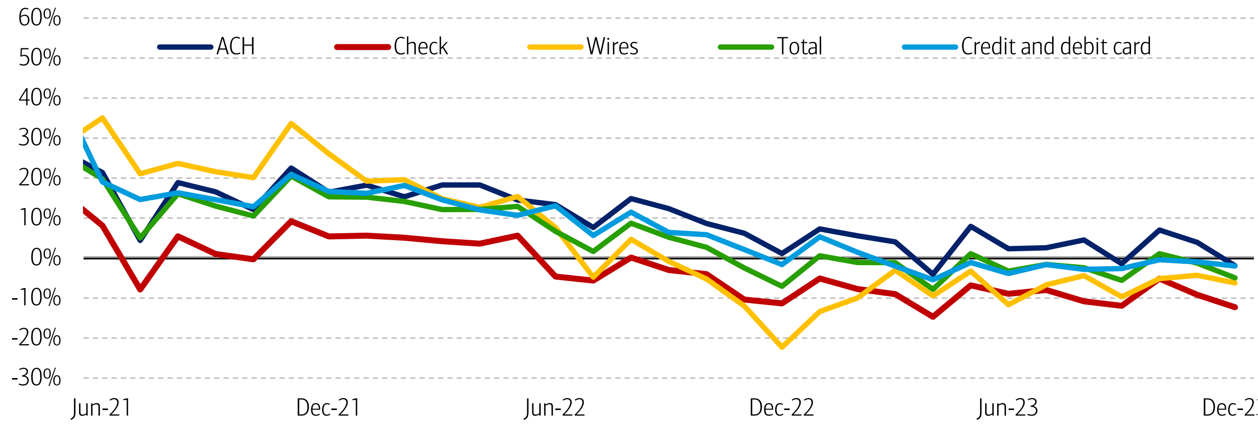


Source: Haver analytics

Monthly payments update

Looking more broadly at small business activities in December, total payments per small business client were down 4.9% YoY (Exhibit 7). Among the major components, ACH showed the smallest decrease, down 1.9% YoY in December. Conversely, the largest decrease %YoY was payments by check.

Exhibit 7: Across all channels, payments decreased %YoY
Payments per small business client across select channels (%YoY)



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.

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

Revenue tiers are determined by the combination of following factors: 1) stated revenue on small businesses credit or PPP applications, 2) actual account inflow into BofA Deposit Accounts, and 3) third party revenue estimation.

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.

Generations, if discussed, are defined as follows:

1. Gen Z, born after 1995
2. Younger Millennials: born between 1989-1995
3. Older Millennials: born between 1978-1988
4. Gen Xers: born between 1965-1977
5. Baby Boomer: 1946-1964
6. Traditionalists: pre-1946

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

Contributors

Taylor Bowley

Economist, Bank of America Institute

David Michael Tinsley

Senior Economist, Bank of America Institute

Sources

Patrick Williams

Senior Vice President, Digital Marketing

Josh Long

Consumer Product Strategy Manager, Consumer and Small Business

Kevin Burdette

Consumer Product Strategy Analyst, Consumer and Small Business

Michael Lutz

Strategy Executive, Small Business, Specialty Lending & Banking

Disclosures

These materials have been prepared by Bank of America Institute and are provided to you for general information purposes only. To the extent these materials reference Bank of America data, such materials are not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial conditions or performance of Bank of America. Bank of America Institute is a think tank dedicated to uncovering powerful insights that move business and society forward. Drawing on data and resources from across the bank and the world, the Institute delivers important, original perspectives on the economy, sustainability and global transformation. Unless otherwise specifically stated, any views or opinions expressed herein are solely those of Bank of America Institute and any individual authors listed, and are not the product of the BofA Global Research department or any other department of Bank of America Corporation or its affiliates and/or subsidiaries (collectively Bank of America). The views in these materials may differ from the views and opinions expressed by the BofA Global Research department or other departments or divisions of Bank of America. Information has been obtained from sources believed to be reliable, but Bank of America does not warrant its completeness or accuracy. Views and estimates constitute our judgment as of the date of these materials and are subject to change without notice. The views expressed herein should not be construed as individual investment advice for any particular client and are not intended as recommendations of particular securities, financial instruments, strategies or banking services for a particular client. This material does not constitute an offer or an invitation by or on behalf of Bank of America to any person to buy or sell any security or financial instrument or engage in any banking service. Nothing in these materials constitutes investment, legal, accounting or tax advice.