

## Small Business Checkpoint

# Starting the new year strong

17 January 2025

### Key takeaways

- Small business profitability in the last quarter of 2024 was stronger than the past two years, according to Bank of America account data. Plus, there are signs of positive growth ahead, with small business optimism above average levels, per the NFIB.
- Bank of America data on small business average payrolls showed growth remains fairly strong across all revenue tiers, though firms with annual revenue >\$1M were strongest at 5.7% year-over-year. Across sectors, finance had the strongest recovery from last year. Conversely, average services payroll growth per small business client was weaker in 2024 than in 2023.
- Even so, there were some positive trends in segments of the services sector. Payroll growth in high-touch services such as lodging and health services was more than twice as strong as overall growth, per Bank of America internal data. And although small business hiring remains 20% above 2019 levels, quality of labor could pose an increased risk to filling job openings.

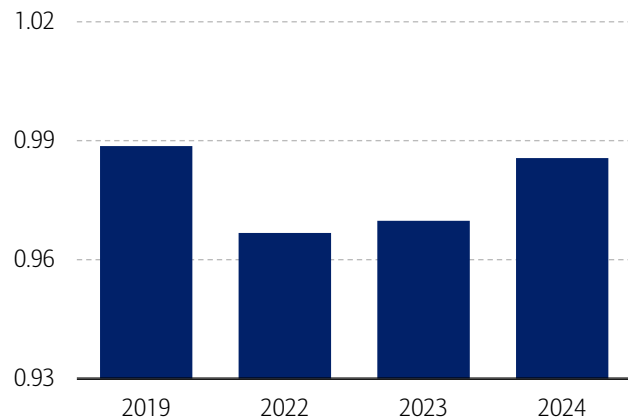
### Signs of good things ahead?

Small business optimism is at a six-year record high,<sup>1</sup> and, despite some headwinds, there are signs of growth ahead (see: [December Small Business Checkpoint](#)). According to Bank of America deposit data, small business accounts' inflow-to-outflow ratio, which we use as a proxy for profitability, is greater than the last two years' Q4 levels, though remains below 2019 (Exhibit 1).

In addition to an increase in optimism, the Q4 2024 average survey results from the National Federation of Independent Business (NFIB) indicated an increasingly positive picture compared to 2023 (Exhibit 2). Not only are fewer respondents reporting that credit is harder to get, but more than a third of small firms reported now is a good time to expand and are planning to increase employment.

#### Exhibit 1: In Q4 2024, profits were close to pre-pandemic levels

Small business inflow-to-outflow ratio (Q4 of each year) from Bank of America deposit accounts (1+ = inflow greater than outflow)

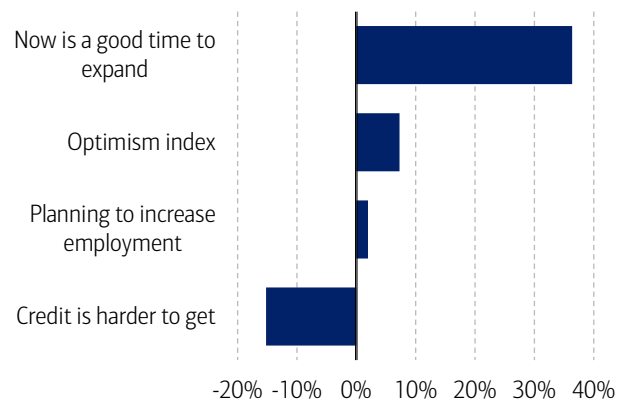


Source: Bank of America internal data

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#### Exhibit 2: Across several indicators, the Q4 2024 average survey results from the NFIB indicated an increasingly positive picture from last year

NFIB Q4 2024 survey average % of respondents by category (%YoY)



Source: NFIB

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<sup>1</sup> SBET Report - NFIB

## Small business payrolls continue to grow

Another positive sign came in last month's extremely solid jobs report. Nonfarm payrolls increased 256k in December, per the Bureau of Labor Statistics (BLS), stronger than expectations.

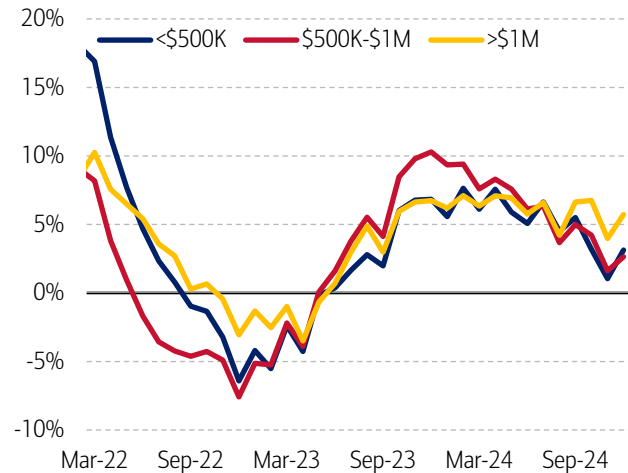
Furthermore, small business payroll spending remains healthy as we enter 2025, according to Bank of America internal data. In December, payroll spending for such firms increased year-over-year (YoY) for all three client revenue tiers, though it has slowed from early 2024 peaks (Exhibit 3).

Businesses with annual revenue >\$1M saw the highest increase of 5.7% YoY for the three months through December, followed by 3.1% for businesses with annual revenue <\$500K. This stands in contrast with late 2021 and early 2022 when small businesses with smaller revenues were seeing noticeably higher growth in payroll spending.

Bank of America internal data further supports BLS data when we look by sector. Payroll payment growth per small business client was higher in 2024 YoY for finance, retail, and manufacturing firms (Exhibit 4). Notably, finance payrolls increased 5.8% YoY on average in 2024, a recovery from a 2% YoY decline in 2023. Manufacturing also increased; conversely, construction's payroll growth was less than it was in 2023.

### Exhibit 3: Small business in the highest revenue tier had the strongest average payroll growth in December at 5.7% YoY

Payroll payments per small business client by revenue tier (monthly, YoY%, three-month moving average)

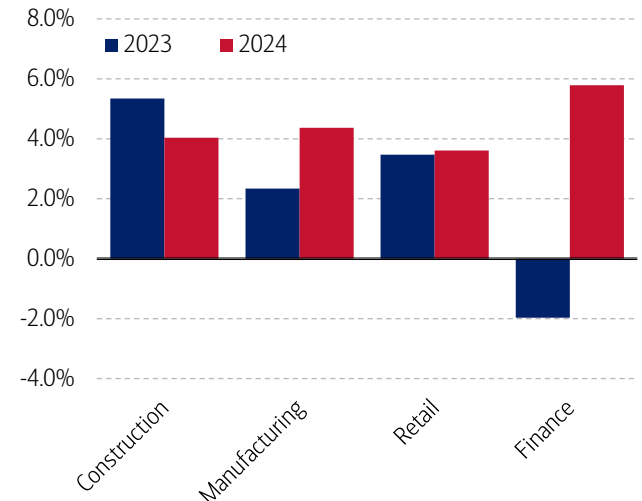


Source: Bank of America internal data

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### Exhibit 4: Small business average payroll growth was higher in 2024 than in 2023 for finance, retail, and manufacturing firms

Payroll payments per small business client by sector yearly average (YoY%)



Source: Bank of America internal data

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## New year, same services story

Interestingly, small firms in the services sector had the weakest average payroll growth in 2024 compared to 2023, according to Bank of America internal data. However, beneath the surface, there is more to the services story.

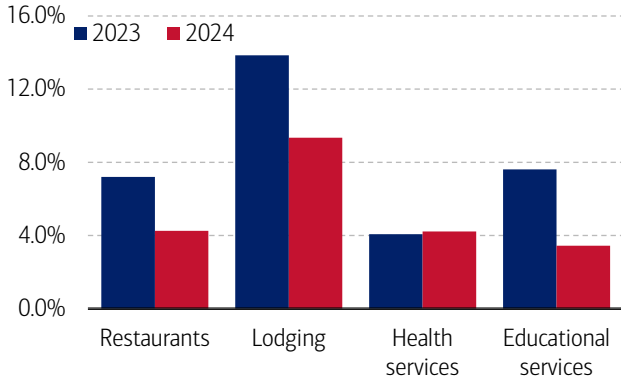
The "catch-up" effect in employment in high-touch services like leisure & hospitality as well as education and health is apparent, given Bank of America small business data shows growth levels above overall services sector growth in lodging, restaurants, and health services (Exhibit 5).

In fact, the "catch-up sectors" continued to dominate job growth in December, with leisure & hospitality, healthcare & education, and government accounting for about 60% of the jobs added, supporting economic activity in the process (Exhibit 6).

It's possible these trends will continue going forward, in our view, given overall employment in these industries remains below pre-pandemic levels. Although, it's also likely this growth will occur to a lesser degree as this effect slowly runs its course.

**Exhibit 5: Health services payroll growth increased marginally from last year, but across most leisure and services sectors, average small business payroll growth fell from last year**

Payroll payments growth per small business client by sector yearly average (YoY%)

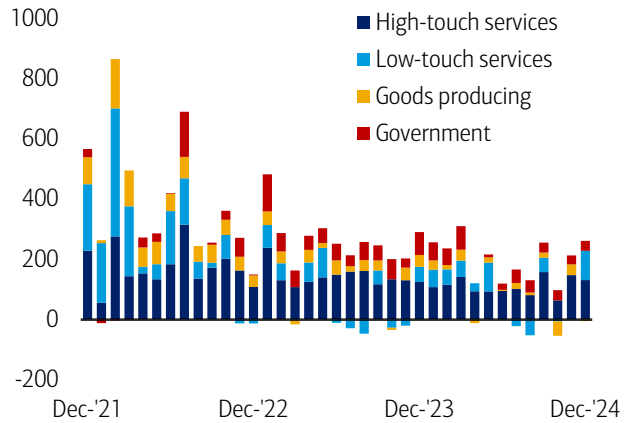


Source: Bank of America internal data

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**Exhibit 6: High touch services continue to be the driving force behind payroll gains**

Nonfarm payroll growth (m/m, thousands, seasonally adjusted)



Source: BLS, Haver Analytics  
BofA Global Research

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**Will quality or quantity of labor pose a risk to hiring?**

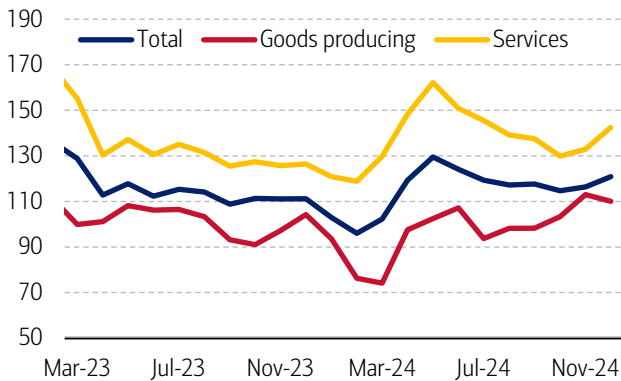
What about small business hiring prospects over the coming months? We refreshed our alternative hiring analysis (small business payments to hiring firms; see Methodology) and found overall hiring for December 2024 remained more than 20% above 2019 levels and was up from December 2023's 10% relative rise (Exhibit 7).

Markedly, services hiring jumped almost 43% above 2019 average levels. This further supports our view of continued payroll growth ahead. Moreover, small business payments to hiring firms are gradually returning to 2019 levels, though small business hiring in 2024 was stronger than in 2023. But there's a caveat: advertising a job does not necessarily lead to filling it.

In fact, the rise in such payments may reflect the increasing difficulty some companies are having filling job openings. Some evidence of this is seen in the latest NFIB survey which found that the quality of labor has nearly surpassed inflation as the single most important problem for firms for the first time since November 2023 (Exhibit 8).

**Exhibit 7: Goods hiring decreased slightly in December, whereas services hiring jumped almost 43% above 2019 average levels**

Small business (SB) payments volume to SB-focused hiring firms by industry group through December (index, three-month moving average, 2019 average =100)



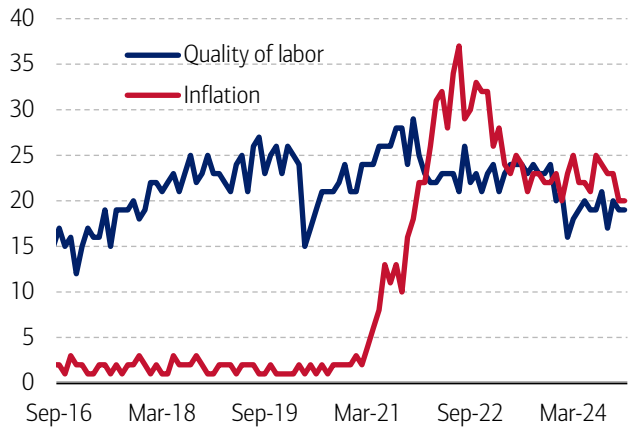
Source: Bank of America internal data

Note: Goods producing includes retail and wholesale trade. Services includes all services plus restaurants and financial services firms.

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**Exhibit 8: The percentage of respondents who are reporting inflation is the single most important problem has come down and is at the lowest level in three years**

Single most important problem: inflation (% of respondents) and quality of labor (% of respondents)



Source: NFIB

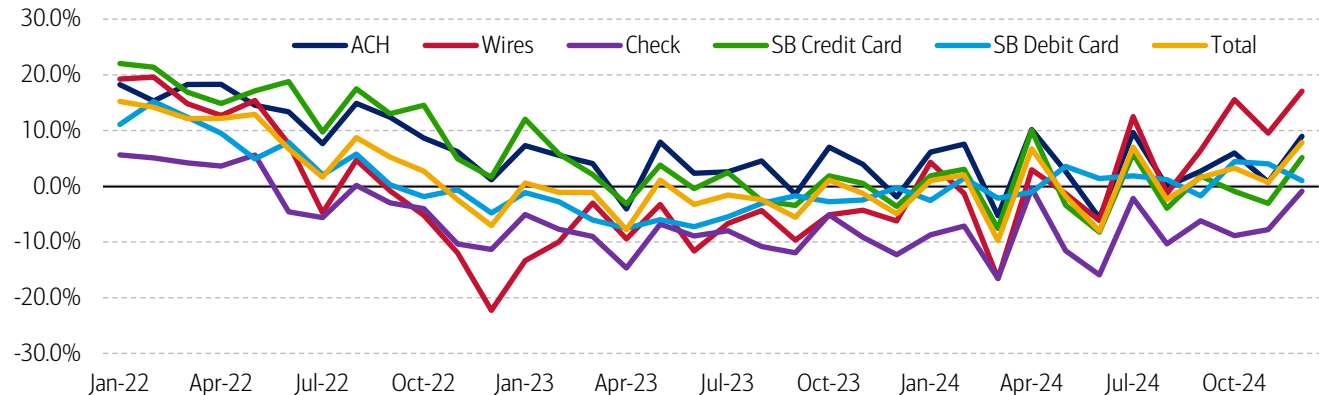
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## Monthly update

Looking broadly at small business activities in December, total payments per client were up 7.9% YoY (Exhibit 9). Among the major components, payments by wire showed the largest increase, up around 17% YoY in December after a gain of 10% YoY in November. The only component to have slowed was small business (SB) debit card payments but it still remains positive at 1.0% YoY.

### Exhibit 9: Across all channels, payments increased sharply %YoY in December

Payments per small business client across select channels (%YoY)



Source: Bank of America internal data

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## 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 Paycheck Protection Program applications, 2) actual account inflow into Bank of America Deposit Accounts, and 3) third party revenue estimation.

The alternative hiring indicator consists of payments from Bank of America small business clients to small business-focused hiring firms which include both direct deposits through Automated Clearing House (ACH) and payments via credit and debit cards.

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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