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Small Business Checkpoint

Rent pains and payroll relief

21 June 2024

Key takeaways

- While US small business optimism rose in May, it remains well below pre-pandemic levels. According to Bank of America internal account data, the inflow-to-outflow ratio, which we view as a proxy for profits, also rose in May but small businesses continue to contend with cost pressures.
- One such pressure is rent, where we find evidence that small business rent inflation is exceeding that of households. In fact, the average monthly share of rent in total payments through May is 9.1%, up significantly from the 2019 average of 5.9%. This increase is most acutely felt in the West, in cities like Las Vegas, where the average share of rent in May was more than double the national average.
- However, easing wage inflation has taken some pressure off of small business payrolls. Total nonfarm payroll growth remains strongest in the South, likely due in part to increased population growth. Consequently, we find payroll payments in cities like Charlotte and Tampa are over 30% higher than 2019 levels.

Small business optimism remains a mixed bag

According to the National Federation of Independent Business (NFIB), the US small business optimism index reached its highest level in May of this year as small firms seemed less downbeat on the overall economic outlook (Exhibit 1). However, the gain in small business optimism is only the second in 2024, and the index remains below pre-pandemic levels.

One brighter spot in the latest Bank of America internal account data is that the inflow-to-outflow ratio, which we view as a proxy for profits, rose in May and reached its highest level since March 2023. However, the ratio still remains on average lower than the past few years (Exhibit 2).

Interestingly, the proportion of small business owners in the NFIB survey indicating financing was their top business problem hit 6%, the highest share in nearly 14 years. This is consistent with our previous analysis, where we found small firms were increasingly reliant on credit cards in lieu of other traditional financing (See: Dealing with inflation).

Exhibit 1: Small business optimism reached its highest level this year, but remains below pre-pandemic levels

Small business optimism index (seasonally adjusted, monthly)

Source: NFIB

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Exhibit 2: In May, the inflow-to-outflow ratio hit its highest level since March 2023

Bank of America small business account inflow-to-outflow ratio (monthly)

Source: Bank of America internal data

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Small businesses continue to contend with higher input prices and labor costs. Yet, across regions, these challenges weigh differently on small business owners (See: The costs of doing business). Using Bank of America internal data, we can better analyze and understand these differences beyond the national and regional level, and the subsequent impact to local economies. In this publication, we focus on two primary components that contribute to small business health: rent and payroll.

More pressure from rent prices out west

Firms' rent payments can increase as they grow, change premises, or due to underlying property inflation. And in the May Consumer Price Inflation (CPI) data it was evident that rent price inflation is still persistent, with shelter inflation of 5.4% year-over-year (YoY).

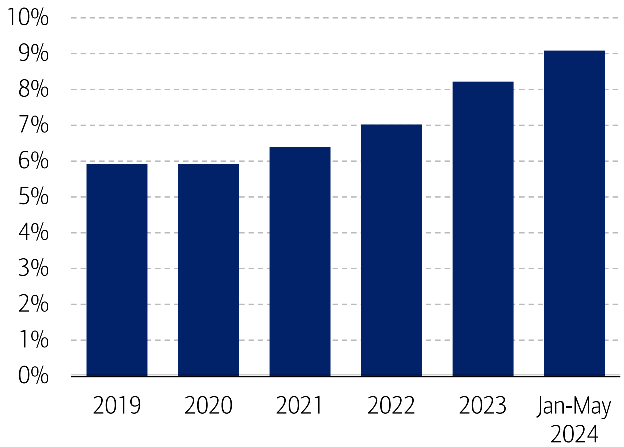
Is the same also true for small businesses and how is this distributed across the nation? According to a recent survey from Alignable, a small business network, rent delinquency reached a new three-year high in May, with nearly half of those 4,000 small business owners polled saying they are unable to pay rent in full and on-time.

To quantify the impact from higher rents, we turn to Bank of America internal data, focusing on small businesses that pay rent out of their Bank of America accounts through ACH (automated clearing house).

The average monthly rent payment growth per small business client was up 12% YoY in May (Exhibit 6). As Exhibit 4 shows, rent payments per client closely track the nonresidential real estate rents component of the Producer Price Index (PPI), suggesting that these increases are largely due to inflation rather than small businesses upgrading to bigger or better spaces.

In fact, the average share of rent of total payments through May of this year was 9.1%, up significantly from the 2019 average of 5.9% (Exhibit 3).

Exhibit 3: The average share of rent in total payments per small business client so far this year is much higher than previous years
Average share of rent per small business client in total payments per small business client (%)



Source: Bank of America internal data

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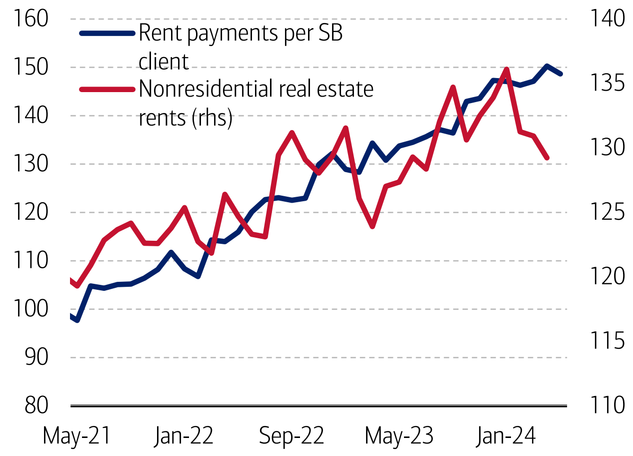
Exhibit 4: Generally, rent payments per small business client closely track the nonresidential real estate rents component of the PPI
Rent payments per small business client (indexed, 2019 average = 100) and nonresidential real estate rents (levels, monthly)



Source: Bank of America internal data, Bureau of Labor Statistics (BLS)

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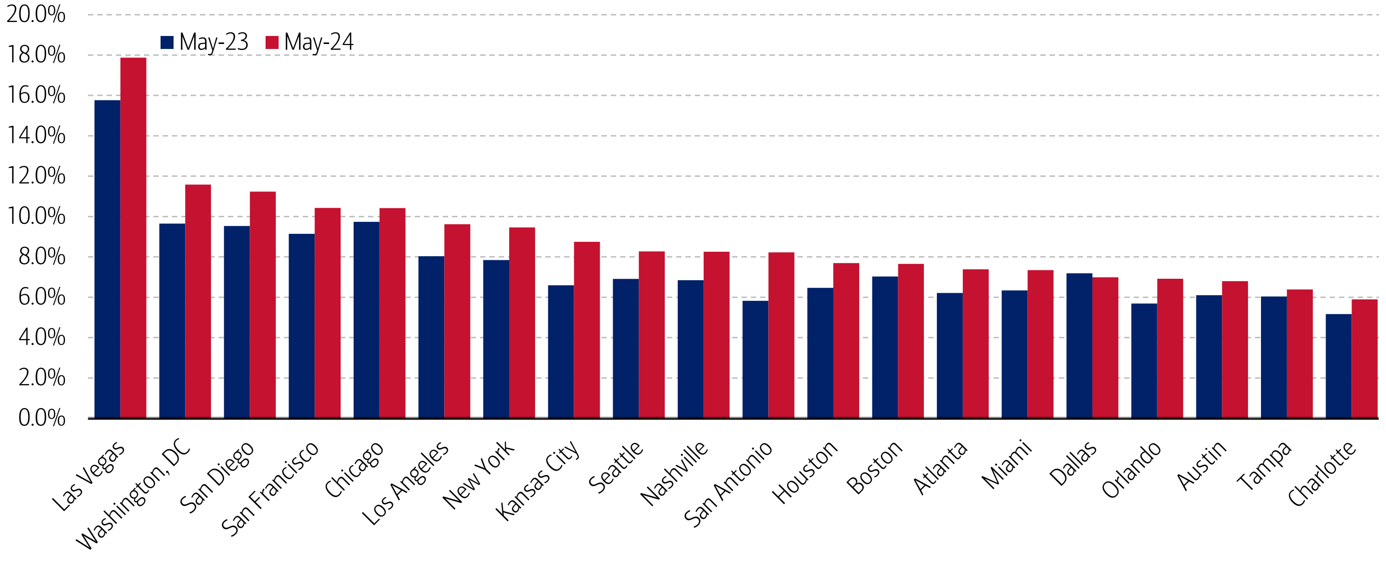
Looking across the country, we find that the top Census Bureau statistical areas (CBSAs) with the highest rent payment share in May 2024 were predominantly in the West, though Washington, DC, and Chicago were in the top five (Exhibit 5). Cities in the South generally had lower average shares.

Out of the 20 cities highlighted below, all of them except Dallas experienced growth in the three-month moving average share from May 2023, with San Antonio, Kansas City, New York, Nashville, and Orlando all seeing an increase of over 20% compared to last year. And for those cities whose average share is above the national average and growing, it could mean continued pressures for small businesses in those areas, and, subsequently, broader ramifications for those local economies as a whole.

Exhibit 5: Cities in the West, such as Las Vegas and San Diego, generally have a greater average share of rent outflows within total payments per small business client compared to cities in the South

Average share of rent per small business client in total payments per small business client (%, 3-month moving average)



Source: Bank of America internal data

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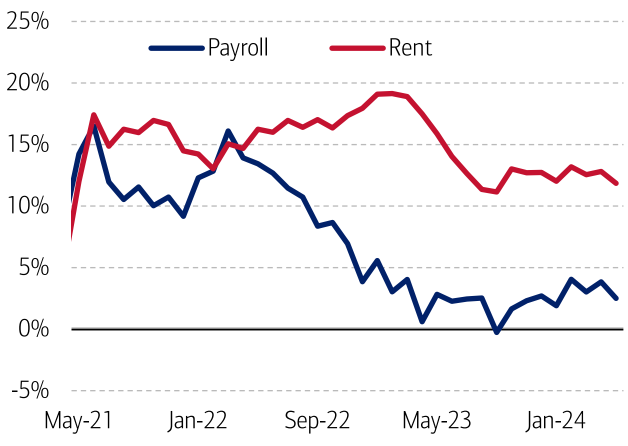
Payroll pains have gradually eased

Meanwhile, the growth rate of small business payroll payments has been slowing on a YoY basis since March 2022, although remained positive at 2.5% YoY as of May (Exhibit 6). This is likely due to easing wage inflation, which we saw in our latest Consumer Checkpoint (See: [The kids are alright (for now)](#)) as job creation remains modestly strong, though appears to be slowing going into the second half of the year.

Yet, total payroll volume has continued to outpace that of total transaction count, suggesting wage inflation remains an issue for some small businesses (Exhibit 7).

Exhibit 6: Rent payment growth per small business client is nearly five times higher than payroll payment growth

Payroll payment per small business client (3-month moving average, %YoY) and rent payment per small business client (3-month moving average, %YoY)



Source: Bank of America internal data

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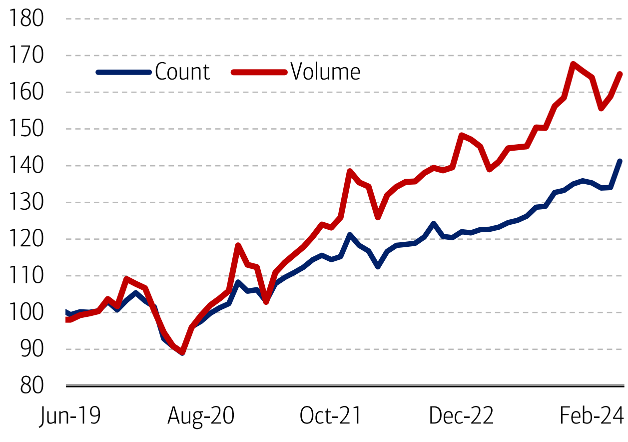
Exhibit 7: Total payroll volume has been increasing at a faster rate than transaction count as wage inflation persisted post-pandemic

Payroll transaction count (indexed, 2019 average = 100) and payroll volume (indexed, 2019 average = 100)



Source: Bank of America internal data

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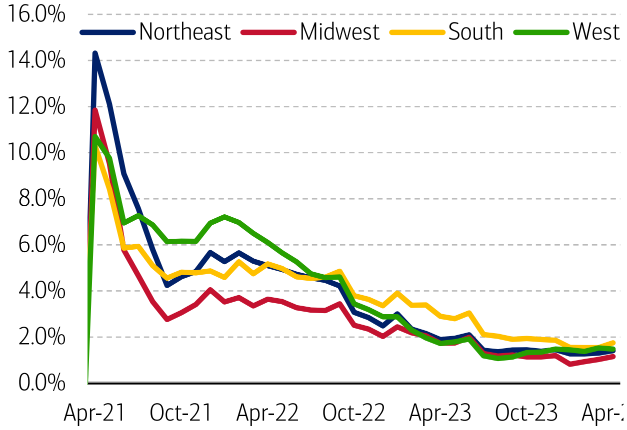
The recent Fed Beige Book report showed that wage growth remained mostly moderate, near the pre-pandemic historical average, and hiring plans were mixed. Across regions, total nonfarm payroll employment remains positive per data from the BLS, though has moderated to pre-pandemic levels, with the South exhibiting the strongest growth in April (Exhibit 8).

For some cities in the South, such as Charlotte and Tampa, payroll levels per small business client were around 40% and 30% higher respectively, from January-May 2024 (Exhibit 9). Though some of these increases are due to wage inflation and general cost-of-living increases, another factor is increased labor opportunities or types of jobs available. For instance, hiring plans in areas of population growth such as the South (See: [On the Move]) are more likely to result in elevated payroll levels.

Exhibit 8: In the post-pandemic recovery, total nonfarm payroll employment growth has moderated, and the South exhibited the strongest growth in April
Total nonfarm payroll employment by Census region (%YoY, monthly)



Source: Bureau of Labor Statistics

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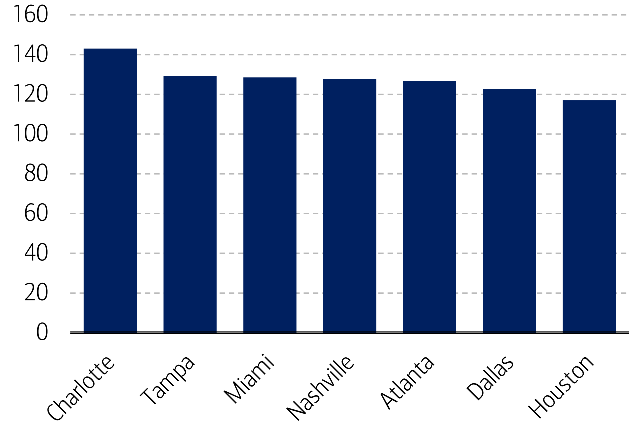
Exhibit 9: In Charlotte, payroll payments are over 40% higher than the 2019 period average
Payroll payments per small business client (indexed, Jan-May 2019 average = 100)



Source: Bank of America internal data

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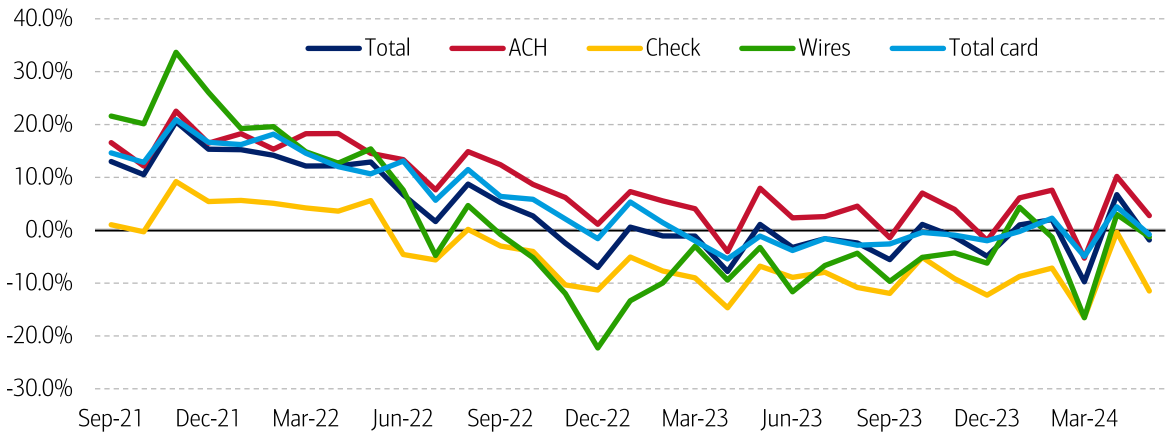
Monthly payments update

Looking more broadly at small business payments in May, according to Bank of America internal data, total payments per small business client decreased 1.8% YoY after a 6.7% rise in April (Exhibit 10). As noted in a recent Consumer Checkpoint (See: [May Consumer Checkpoint]), this year has been impacted by seasonal factors such as an early Easter compared to 2023, making for a lot of movement in the data.

Among the major components, ACH payments increased 2.7% YoY in May, and total card decreased 0.8% YoY in May.

Exhibit 10: Total payments per small business client decreased 1.8% YoY in May following a seasonal boost in April
Payments per small business client by channel (%YoY, monthly)



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.

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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