Small Business Checkpoint

Signs of a normalizing labor market

20 March 2024

Key takeaways

• Small business hiring has recently surpassed overall job growth. We largely attribute this strength to small businesses playing catch up during 1H 2023, with hiring now rotating back to more “normal” levels. Bank of America payroll payments per small business client supports this view, as growth has started to moderate from peak levels.

• Notably, service industries like lodging and healthcare have seen consistently strong payroll growth over the past year. Yet, when we refresh our alternative hiring analysis, small business payments to hiring firms have been declining since December, a sign in our view of an overall easing labor market.

• One reason why small business hiring may have tempered lately is because it has become easier to find qualified workers. Looking more broadly, total payments per small business client increased 2.0% year-over-year (YoY) in February.

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Small business employment surpasses overall job growth

Small businesses have struggled with a tight labor market for months, making it difficult for them to source skilled labor. This has been a prominent factor in low small business confidence, according to the National Federation of Independent Business (NFIB). But it appears some of these pressures may be easing – small business employment data from Intuit suggests small businesses employment growth has been faster than the overall increase in payrolls since September 2023 (Exhibit 1).

Exhibit 1: Small business employment growth has recently surpassed total nonfarm employment growth

Source: Bureau of Labor Statistics (BLS); Intuit

Exhibit 2: Payroll payments per small business client increased 2.9% YoY in February

Source: Bank of America internal data

In our view, it’s possible current strong growth in small business payrolls is due to small business hiring playing catch up in early 2023. Now, looking at Bank of America payroll payments per small business client, we can see that small business employment growth is “normalizing” to pre-pandemic levels. Bank of America payroll payments per client increased 2.9% YoY on a three-month rolling basis in February, compared to 0.9% YoY in January (Exhibit 2). As we noted in our latest Consumer Checkpoint.
part of this strength can be attributed to the extra day in February due to the leap year, so the ‘underlying’ picture appears closer to a more normal trend-like figure.

Bank of America data further supports BLS reported job gains which occurred in healthcare and restaurants in February. Furthermore, lodging, restaurants and health services show notable strength on a 3-month rolling basis, underscoring the “catch-up” effect in employment in high touch services like leisure & hospitality and education & health, supporting economic activity in the process (Exhibit 3). It’s likely these trends will continue going forward, in our view, suggesting there might not yet be a sign of “normalization” for these industries, given overall employment in these industries remains below pre-pandemic levels. Although, it’s possible this growth will occur to a lesser degree as this effect runs its course.

**Exhibit 3: Leisure and health services remain strong in February**

Small business payroll payments per client by select industries (3-month moving average, %YoY)

![Graph showing payroll payments per client by select industries](source)

**Hiring demand is moderating to 2019 levels**

Will small business employment continue to grow faster than overall job growth? Bank of America data suggests this may not be the case. Our updated alternative hiring analysis (see Methodology for details), which looks at small business payments to hiring firms, shows a continued decline since December, after such payments remained broadly stable from April to November of last year. As Exhibit 4 shows, Bank of America data broadly tracks the BLS JOLTS (Job Openings and Labor Turnover Survey) job openings (across all firm sizes) data, with the benefit of providing an earlier reading.

**Exhibit 4: Monthly small business payments to hiring firms are returning to 2019 average levels**

Small business (SB) payments volume to SB-focused hiring firms (index, 3-month moving average, 2019 average =100) and JOLTS job openings

![Graph showing monthly small business payments to hiring firms](source)

**Exhibit 5: The percentage of small business owners who listed labor quality as their most important problem dipped to the lowest reading since April 2020**

NFIB: Single Most Important Problem: Percent Reporting Quality of Labor (% monthly)

![Graph showing percentage of small business owners listing labor quality as most important problem](source)
With our data indicating small business payments to hiring firms are gradually returning to 2019 levels, this suggests that even though small businesses were a driver for increased payrolls throughout 2021 and 2022, a further softening of employment growth towards pre-pandemic trend growth is possible.

Easing hiring intentions amongst small businesses is also evident in the percentage of small business owners who listed labor quality as their most important problem in the latest NFIB survey - the reading dipping to the lowest level since April 2020 (Exhibit 5). Plus, it’s possible higher quality of talent is coming from internal hiring, lessening the need to contract hiring firms. Additional data from the NFIB also reinforces this point, as the share of firms having trouble filling positions is approaching pre-pandemic levels.

**Monthly payments update**

Looking more broadly at small business activities in February, total payments per small business client increased 2.0% YoY (Exhibit 6). Among the major components, ACH (automated clearing house) jumped 7.6% YoY in January. Conversely, the largest decrease %YoY was payments by check, and wires, once again, turned negative.

![Exhibit 6: ACH payments growth remains relatively strong in comparison to other select channels](chart)

*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.

Payments to small business-focused hiring firms 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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