BANK OF AMERICA INSTITUTE

BANK OF AMERICA

Small Business Checkpoint

Signs of a normalizing labor market

20 March 2024

Key takeaways

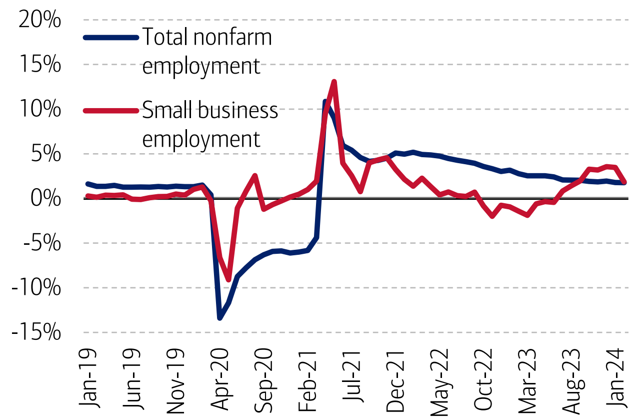
- Small business hiring has recently surpassed overall job growth. We largely attribute this strength to small businesses playing catch up during 1H 2023, with hiring now rotating back to more "normal" levels. Bank of America payroll payments per small business client supports this view, as growth has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

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 business employment surpasses overall job growth

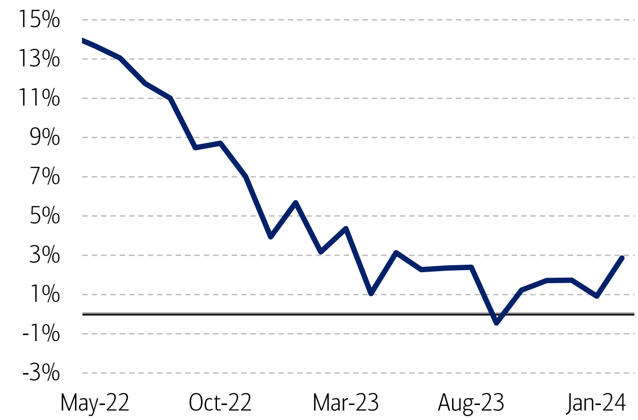
Small businesses have struggled with a tight labor market for months, making it difficult for them to source skilled labor. This has been a prominent factor in low small business confidence, according to the National Federation of Independent Business (NFIB). But it appears some of these pressures may 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
Total nonfarm employment (seasonally adjusted, YoY%) and small business employment (seasonally adjusted, YoY%)



Source: Bureau of Labor Statistics (BLS), Intuit
BANK OF AMERICA INSTITUTE

Exhibit 2: Payroll payments per small business client increased 2.9% YoY in February
Payroll payments per small business client (3-month moving average, YoY%)

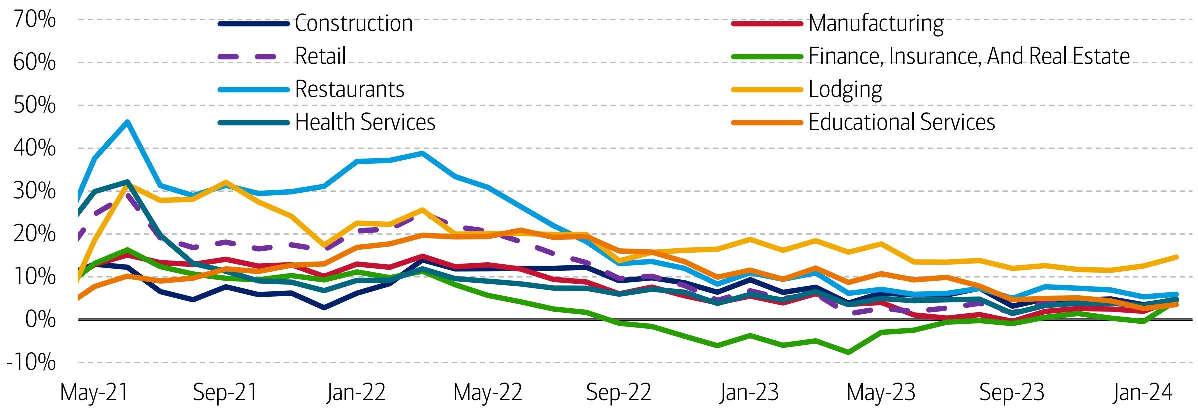


Source: Bank of America internal data
BANK OF AMERICA INSTITUTE

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)



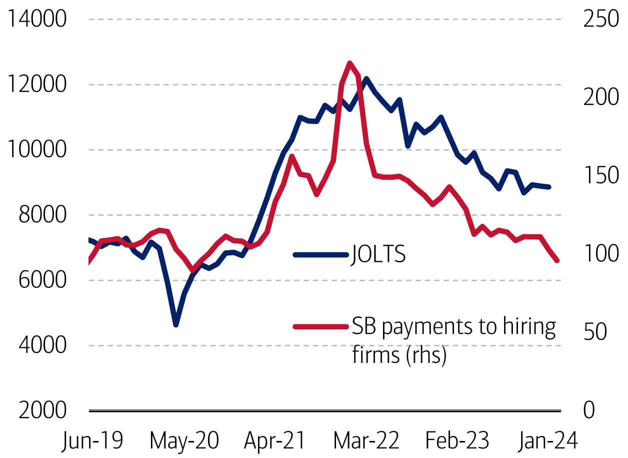
Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

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.

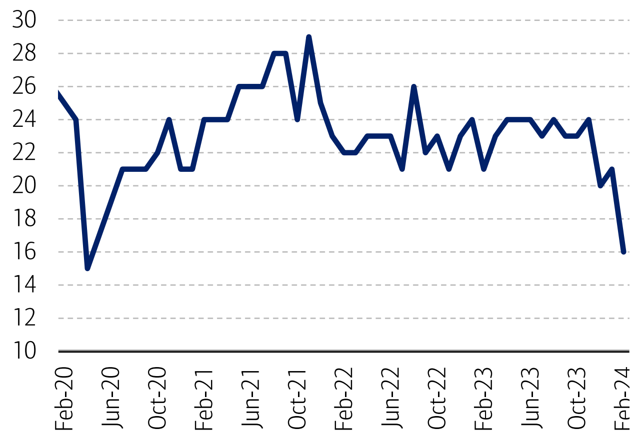
Exhibit 4: Monthly small business payments to hiring firms are returning to 2019 average levels
Small business (SB) payments volume to SB-focused hiring firms (index, 3-month moving average, 2019 average =100) and JOLTS job openings



Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

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)



Source: NFIB

BANK OF AMERICA INSTITUTE

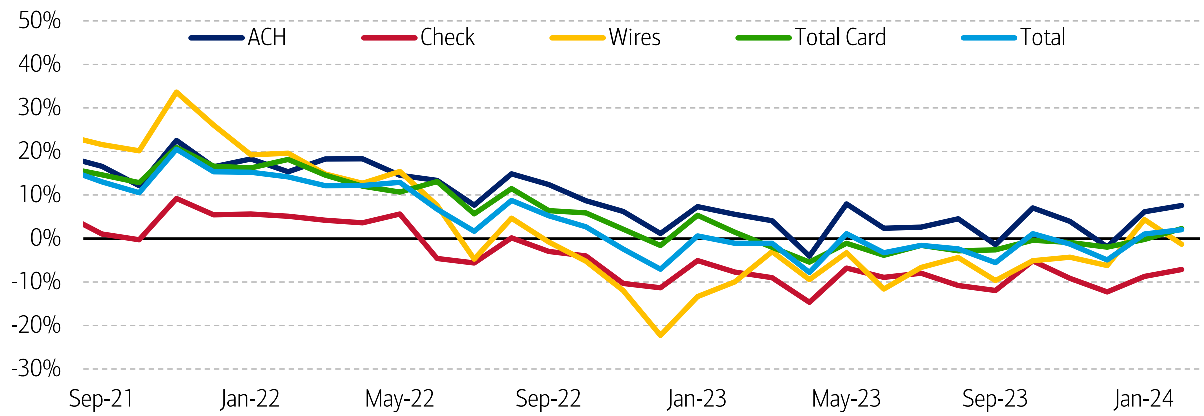
With our data indicating small business payments to hiring firms are gradually returning to 2019 levels, this suggests that even though small businesses were a driver for increased payrolls throughout 2021 and 2022, a further softening of employment growth towards pre-pandemic trend growth is possible.

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



Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

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.

Contributors

Taylor Bowley

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 person and are not intended as recommendations of particular securities, financial instruments, strategies or banking services for a particular person. 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.