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Small Business Checkpoint

Less optimistic, slower spending

19 May 2023

Key takeaways

- Small businesses are feeling less optimistic, as suggested by the National Federation of Independent Business. Generally, falling sentiment means businesses are less likely to spend and there are signs that they are pulling back on capital expenditure and hiring expenses.
- As a result, overall payments are also cooling from elevated levels a year ago. According to Bank of America internal data, total payments per small business client contracted by 8% year-over-year (YoY) in April. Across sectors, we find small businesses in real estate and wholesale trade are showing the biggest pullback in spending.
- Lastly, the latest Fed survey suggests credit conditions continue to get tighter for small businesses. While commercial & industrial (C&I) loan volume for small businesses is still increasing on a YoY basis, the pace of growth has moderated over the last month, adding additional pressure to small business spending.

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 sentiment drops

Small businesses (SB) are feeling less optimistic: in the April release of the National Federation of Independent Business (NFIB) survey, small business sentiment dropped to 97.4, the lowest reading since January 2013 (Exhibit 1). This was in part driven by weaker reported sales revenue and continued pessimism on the economic outlook.

Why is sentiment important? In general, falling sentiment means businesses are less likely to spend. In fact, according to the Spring 2023 Bank of America Small Business Owner Report, nearly half (42%) of business owners indicated they are reevaluating cash flow and spending.

In our view, small businesses might be pulling back spending in two areas: capital expenditure (capex) and hiring. According to the same NFIB survey, in April only a net of 19% of small business respondents reported plans for capex in the next three to six months, the lowest reading since November 2012 (excluding the Covid-induced plunge in April 2020) (Exhibit 2).

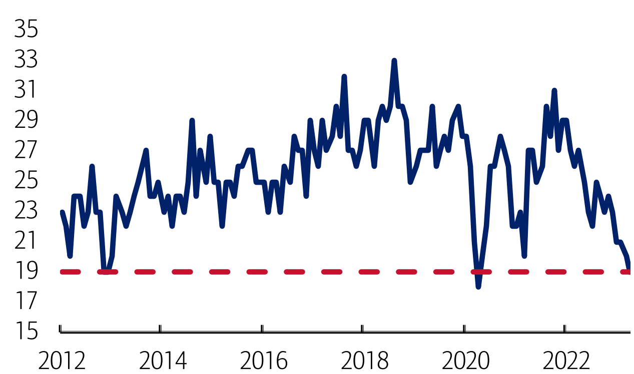
Exhibit 1: Small Business Optimism Index (seasonally adjusted (SA))

Small business sentiment dropped to 97.4 in April

Source: National Federation of Independent Business. Dotted line means latest reading.

Exhibit 2: NFIB: Percent Planning Capital Expenditures next 3 to 6 Months (SA, %)

In April, the net percentage of small business respondents quoting capex plans reached the lowest level since 2012



Source: National Federation of Independent Business. Dotted line means latest reading.

While we do not have a capex breakdown of total small business payments based on Bank of America internal data, a large portion likely falls under automated clearing house (ACH) payments as ACH captures bigger ticket purchases than card spending. As Exhibit 3 shows, ACH payment growth outpaced that of total payment growth in 2022 when capex intentions were also fairly elevated. However, the gap has been closed as of April's reading.

Besides capex, lower sentiment might also reflect weaker hiring demand. We revisited an analysis from a previous Small Business Checkpoint on small business client payments to small business-focused hiring firms. We view this as an alternative and timelier view on hiring demand than Bureau of Labor Statistics' JOLTS data.

As Exhibit 4 shows, SB payments to SB-focused hiring firms have continued to moderate. April's volume was nearly 30% lower than a year ago. Note that the slowdown was relative to the strong levels a year ago. When compared with April of 2019, though, payments to small business-focused hiring firms remained 35% higher.

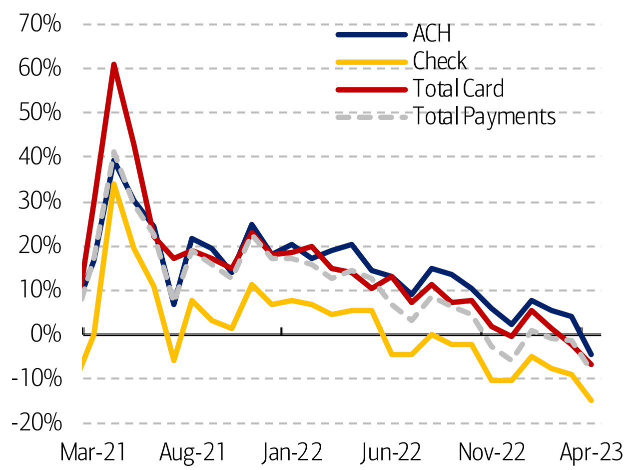
Weaker capex and hiring point to moderation in overall payments slowdown

As a result, overall small business payments are also showing signs of cooling. According to Bank of America internal data, total payments per small business client, which includes ACH, cards, wires, checks and person-to-business payments, contracted by 8% year-over-year (YoY) in April. However, since payments levels were elevated a year ago, there are some unfavorable base effects in our figures, so even with the YoY decline, the level of small business spending remains strong by historical standards. Another caveat is that April 2023 had one less business day than April 2022, which could bias the YoY to the downside slightly.

Within components, ACH payments per small business client slipped into contractionary territory at -4% YoY, the first negative reading since January 2021. Meanwhile, credit and debit card spending per client was down 6% YoY, its second consecutive negative monthly YoY reading.

Exhibit 3: Small business payments growth by channel, based on Bank of America internal data (monthly, %YoY)

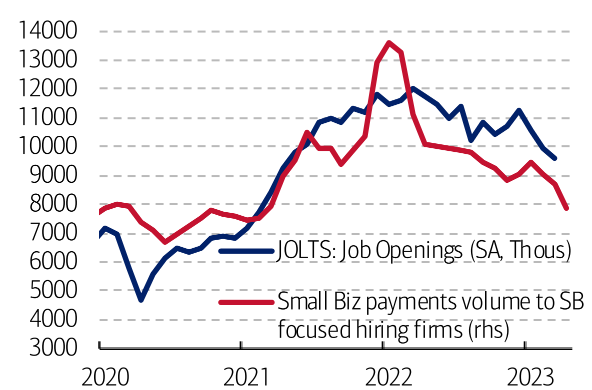
ACH payments per small business client contracted 4% YoY in April



Source: Bank of America internal data

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

Small business payments to small business-focused hiring firms continued to moderate in April



Source: Bank of America internal data, Bureau of Labor Statistics for JOLTS

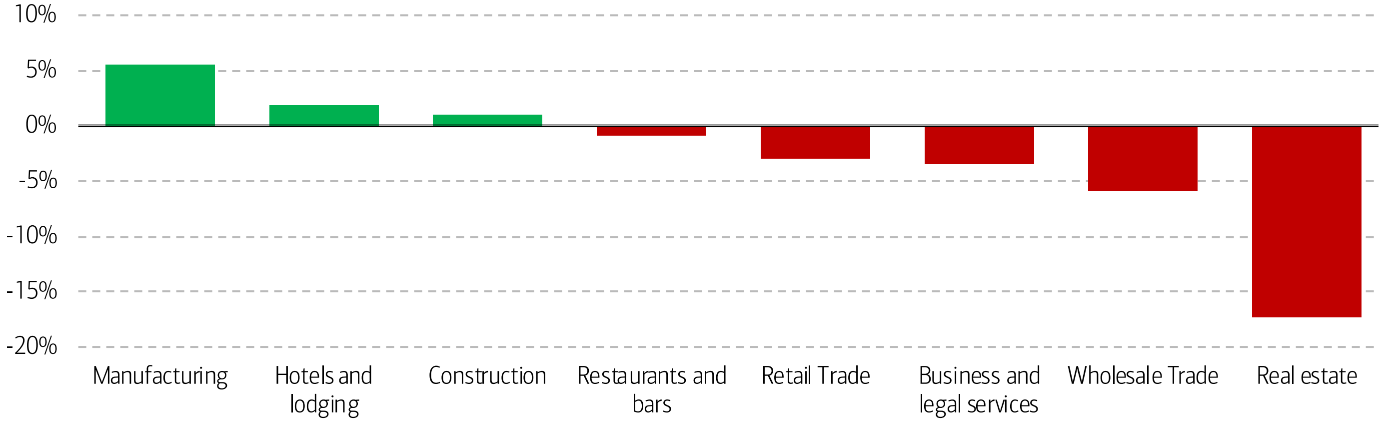
Real estate and wholesale trade small businesses show a bigger pullback

We also find that not all sectors are affected equally by the macroeconomic environment. Exhibit 5 shows the total payments per small business by select sectors and reveals that real estate and wholesale trade are the two sectors with the biggest YoY contractions.

Weakness in real estate small business payments likely reflects general weakness in the housing market. Existing home sales remained more than 20% lower than a year ago in March and real estate activity is likely still depressed by high interest rates and low affordability. Meanwhile, wholesale trade could be feeling downward pressure from sluggish overall goods spending.

Interestingly, small businesses in manufacturing are experiencing 6% YoY growth in total payments per client in April, despite the ISM Manufacturing Index suggesting the sector is in a recession. One possible explanation is that the ongoing onshoring practices have led to businesses increasing their investment for future use.

Exhibit 5: Small business payments growth by select sector, based on Bank of America internal data (%YoY for April 2023)
Manufacturing small businesses have the strongest payment growth in April, while those in real estate have the weakest



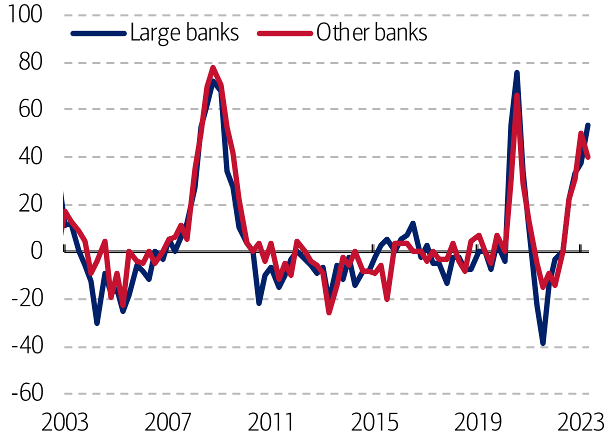
Source: Bank of America internal data

Credit tightness adds to the pressure

Last but not the least, credit conditions continue to tighten for small businesses, adding to their expenditure headwinds. Last month, we argued that banks had already started to tighten lending conditions in 2022 and recent developments in the banking sector suggest this will continue, if not accelerate.

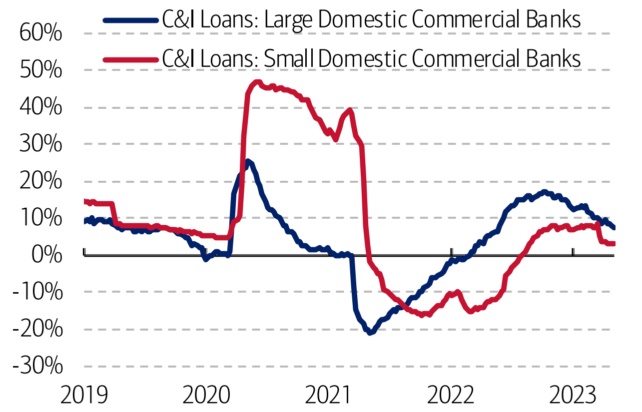
This view is further confirmed by the May release of the Senior Loan Officer Opinion Survey (SLOOS). The net percentage of surveyed large banks that were tightening commercial and industrial (C&I) loans to small firms increased to 53% in 2Q, at levels consistent with prior recessionary periods (Exhibit 6). Meanwhile, smaller banks seemed to have loosened conditions slightly in 2Q, though still at very tight levels by historical standards. As a result, actual C&I volume growth from both large and small banks moderated further over the last month, though both are still positive on a YoY basis (Exhibit 7).

Exhibit 6: Net percentage of banks tightening commercial and industrial (C&I) loans to small firms: large banks vs. other banks
Banks continued to tighten lending conditions to small firms in 2Q 2023



Source: Federal Reserve Board, data as of 2Q 2023

Exhibit 7: C&I loans volume growth at large and small domestic commercial banks (weekly data, %YoY)
Actual C&I volume growth from both large and small banks continued to moderate over April



Source: Federal Reserve Board

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.

Payments to small business-focused hiring firms include both direct deposits through Automated Clearing House (ACH) and payments via credit and debit cards.

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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