

## Small Business Checkpoint

# Small business job growth catching up

18 October 2023

### Key takeaways

- Small business hiring remains healthy, with payroll spending per small business client growing year-over-year (YoY) across revenue tiers, according to Bank of America internal data. We find that overall job growth earlier this year has largely been supported by big enterprises, but in recent months small businesses have been catching up.
- Small business payments to hiring firms, a leading indicator for payrolls, are gradually returning to 2019 levels. This is in line with the view that the labor market is normalizing to its trend growth.
- Overall, small businesses continue to face crosscurrents. On the positive side, US consumer spending has held up well, according to Bank of America internal data, which, in turn, points to healthy revenues for small businesses. However, higher interest rates and quality of labor have become more of a concern relative to a year ago.

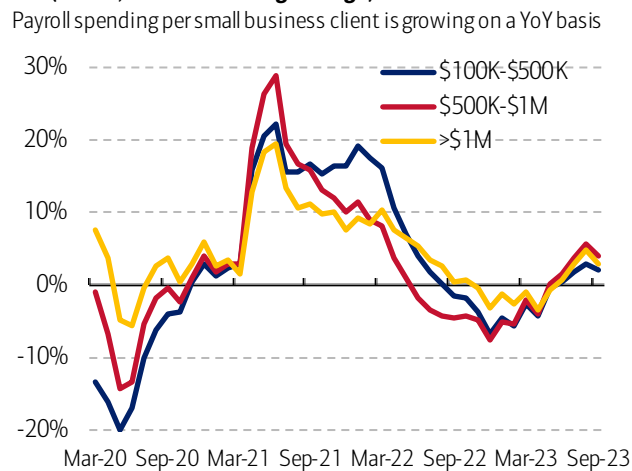
*Small Business Checkpoint is a regular publication from Bank of America Institute. It aims to provide a real-time assessment of small business spending activities and financial well-being, leveraging the depth and breadth of Bank of America's proprietary data. Such data is not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial condition or performance of Bank of America*

### Small business hiring catches up to overall job growth

The September nonfarm payrolls report from the Bureau of Labor Statistics (BLS) showed a strong increase of 336k jobs, the highest reading since January 2023. However, there has been some debate on whether the underlying labor market is as strong as this headline number suggests, given that the BLS Household Survey showed a more tepid rise of 86k jobs in September. To better understand the state of the labor market, we turn to Bank of America internal data on small business payroll spending since nearly half of US workers work for companies with less than 250 employees.

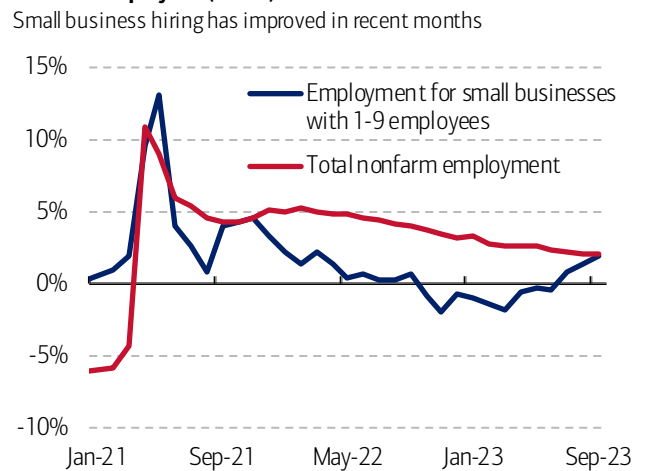
Small business hiring remains healthy with payroll spending per small business client increasing YoY for all three small business client revenue tiers, though it was relatively weak during the first half of 2023 with payroll spending growth in negative territory (Exhibit 1). This echoes data from Intuit, which tracks employment at small businesses (SB) with 1-9 employees (Exhibit 2).

**Exhibit 1: Small business payroll payments per client by revenue tier (% YoY, 3-month moving average)**



Source: Bank of America internal data

**Exhibit 2: Employment for total nonfarm and at small businesses with 1-9 employees (%YoY)**



Source: Bureau of Labor Statistics, Intuit through Haver Analytics

We also note that total nonfarm payrolls have been growing at around 3% YoY during 1H 2023, which suggests that job growth earlier in the year was supported by larger businesses hiring, but more recently, small business hiring has played catch-up.

Lastly, there is no meaningful difference in the most recent payroll spending growth across small business client revenue tiers. Businesses with annual revenue between \$500k and \$1M see the highest increase of 4% YoY for the three months through September, followed by 3% for businesses with annual revenue over \$1M and 2% YoY for \$100k-\$500k. This stands in contrast with late 2021 and early 2022 when small businesses with lower revenue were seeing noticeably higher growth in payroll spending.

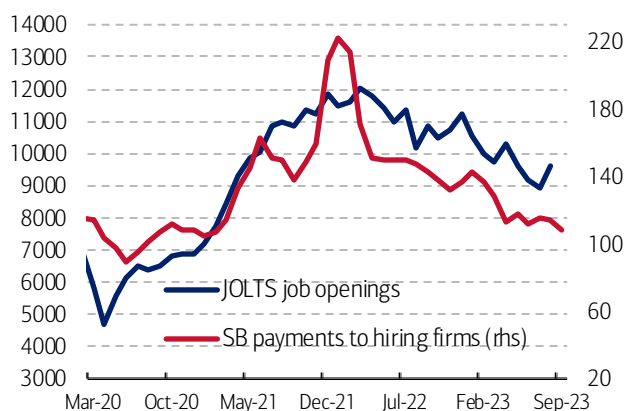
## Stabilizing hiring demand

What about small business hiring prospects over the coming months? We refreshed our alternative hiring analysis (small business payments to hiring firms) and noted a small decline in September, after being fairly stable between April and August. As Exhibit 3 shows, our data broadly tracks the JOLTS job openings data from Bureau of Labor Statistics but has the benefit of providing an earlier reading.

In our view, small business payments to hiring firms are gradually returning to 2019 levels, consistent with the labor market normalizing to its trend growth. But the caveat is that paying to advertise for a job does not necessarily lead to filling the position.

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

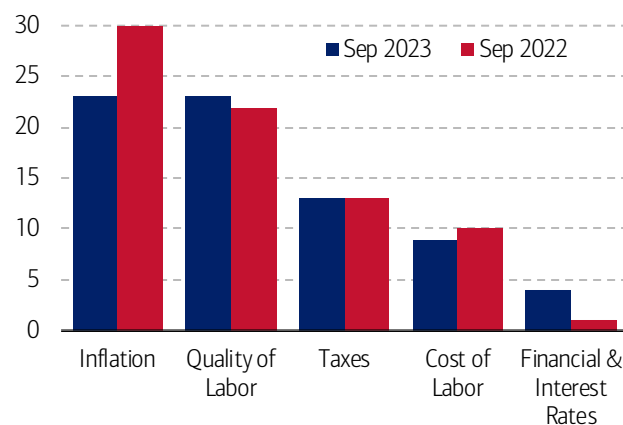
Small business payments to hiring firms have been fairly stable between April and August of this year and showed a small decline in September



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

### Exhibit 4: Single most important problem for small businesses (% reporting)

Inflation, although remaining as the top problem for small businesses, is moderating



Source: National Federation of Independent Businesses

## Small businesses continue to face crosscurrents

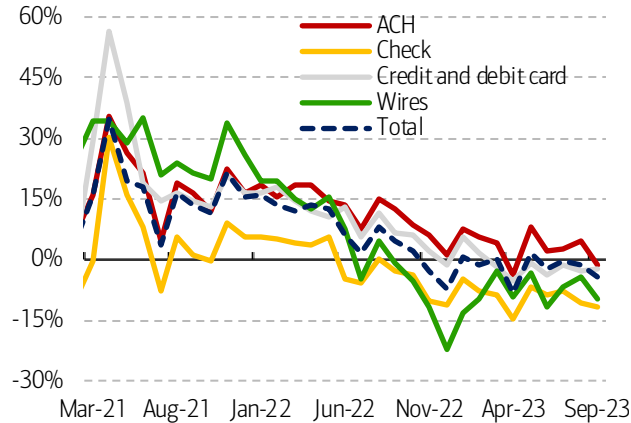
Looking more broadly at the health of small businesses, we continue to see crosscurrents. On the positive side, US consumer spending has held up well, which in turn points to healthy revenues for small businesses (for more on consumer spending, please see the latest [Consumer Checkpoint](#)). While inflation remains the top problem for small businesses according to a recent National Federation of Independent Businesses survey, it is moderating, which, in turn, means that it is easing some of the cost pressure that companies face (Exhibit 4). On the flip side, higher interest rates and quality of labor have become more of a concern to small businesses relative to a year ago.

Due to this confluence of factors, small business spending growth has moderated from the elevated rates in 2022 but has remained broadly stable over the last few months. In September 2023, total payments per small business client were at -4% YoY, compared with the revised rate of -1.4% YoY in the prior month (Exhibit 5). Note that the relative weakness in the September reading was largely due to the month ending on a weekend, which pushed the transaction processing for the last day into October. As such, we do expect a rebound in payments growth in October as this impact reverses.

Within sectors, we continue to see relative strength in payments spending growth for health services (Exhibit 6). As we discussed [last month](#), there has been a growing demand for healthcare services, which has led to both formation of new businesses as well as expansions for the existing firms, which is driving up total payments. On the flip side, payments spending growth is lagging in finance, insurance, and real estate sectors.

**Exhibit 5: Small business payments growth by channel, based on Bank of America internal data (monthly, %YoY)**

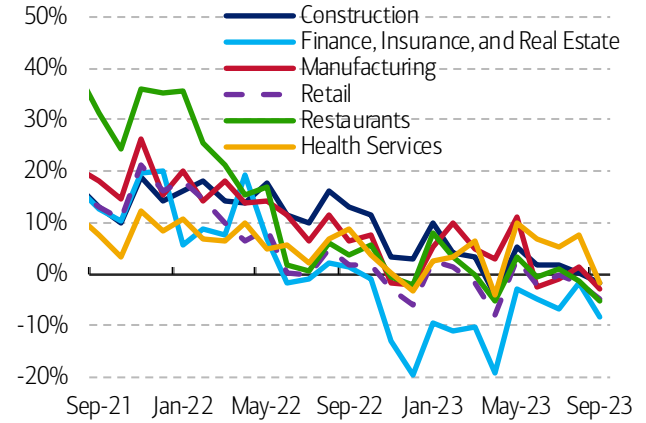
In September 2023, total payments per small business client was at -4% YoY, compared with the revised rate of -1.4% YoY in the prior month



Source: Bank of America internal data

**Exhibit 6: Small business payments growth by select industries, according to Bank of America internal data (monthly, %YoY)**

Healthcare companies have strongest small business payments growth compared to other sectors since June



Source: Bank of America internal data

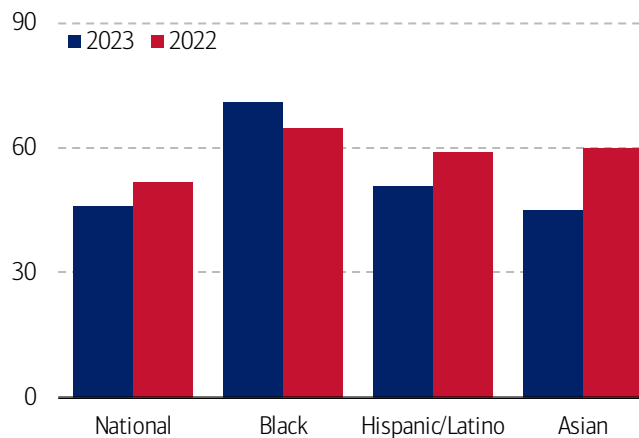
**Survey shows that women small business owners have a more tempered outlook**

Even amongst small business owners, the health of their small business and national economic outlook varies. The [2023 Women & Minority Business Owner Spotlight](#) provides further insights into small business owner sentiment for women and minority groups. For instance, expansion plans for most small business owners across ethnicities, except Black business owners, are lower than Fall 2022 (Exhibit 7). And women small business owners generally have a positive business outlook, though tempered when compared to their male counterparts. Despite this, most women small business owners expect revenue growth over the next 12 months, and a majority feel equipped to weather a potential recession.

Another factor that's more prevalent for women small business owners is that of caregiving. With 34% of women small business owners identifying as a caregiver (compared to 23% of men), they are more likely to take on caregiving roles than their male counterparts, resulting women small business owners making sacrifices such as planning their business' schedule around caregiving while still actively running their business (Exhibit 8). And as we found in our [latest Consumer Checkpoint](#), rising caregiving costs for children pose risks to the labor market.

**Exhibit 7: Over the next 12 months do you plan to expand your business? (% of respondents)**

Except for Black business owners, most have lowered expansion plans from last Fall



Source: Women & Minority Business Owner Spotlight

**Exhibit 8: How do your caregiving responsibilities impact your ability to run your business? (% of respondents)**

Caregiving responsibilities like feeling burnt out and rearranging schedules impact owners' ability to run their businesses



Source: Women & Minority Business Owner Spotlight

## 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.

Ipsos conducted the Bank of America Summer 2023 Small Business Owner Pulse Survey online between July 19 to 25, 2023 using a pre-recruited online sample of small business owners. Ipsos contacted a national sample of 542 small business owners in the United States with annual revenue between \$100,000 and \$4,999,999 and employing between two and 99 employees. The final results for the national sample were weighted to national benchmark standards for size, revenue and region.

Additional information about the methodology used to aggregate the data is available upon request.

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