Economy

Small Business Checkpoint: Staying the course

16 September 2025

Key takeaways

- Small business profitability growth increased 0.5% year-over-year in August and held steady from the prior month. This coincides with a small rise in business optimism as more owners reported stronger sales expectations and improved earnings in the August National Federation of Independent Business report.
- Tariffs remain a pressure on profitability and may be impacting hiring. Small business payments to hiring firms fell more than 6% from the 2024 average, according to Bank of America small business account data. However, while the services and retail sectors have slowed adding headcount, hiring among small construction and manufacturing companies was up more than 31% in August.
- Within Bank of America account data, small business payments to lenders has improved slightly over the past few months as the Fed funds rate has come down from last year. As for capex, these businesses continued to spend on tech services in August, though have become more selective with business travel 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.

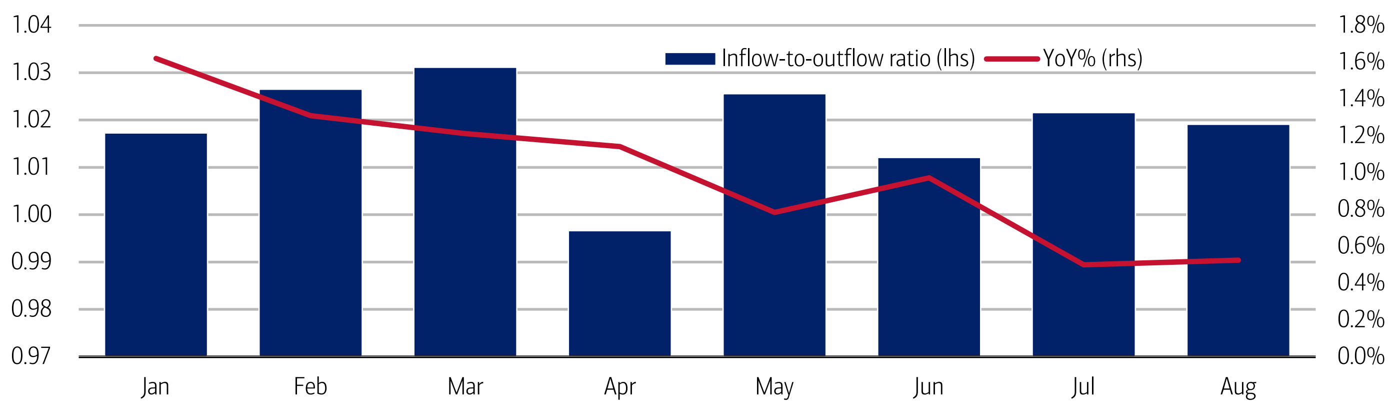
Small business profitability holds steady

Despite signals of a slowdown in certain corners of the economy, small business profitability is holding up, according to Bank of America internal data. In August, profit growth among such companies was up 0.5% year-over-year (YoY) and was unchanged from the prior month (Exhibit 1).

This is consistent with a report from the National Federation of Independent Business (NFIB) which revealed a small rise in optimism for small firms in August, largely due to more owners reporting stronger sales expectations and improved earnings. In fact, these proprietors cited an improvement in overall business health, a reversal from earlier this year.

Exhibit 1: Small business profitability remains positive, and growth was up 0.5% YoY in August

Inflow-to-outflow ratio for small businesses, based on Bank of America internal data (monthly, ratio less than 1 means inflow less than outflow), ratio (left-hand side (lhs), monthly) and YoY% (right-hand side (rhs), monthly)



Source: Bank of America internal data

Note: A ratio less than 1 means inflow less than outflow

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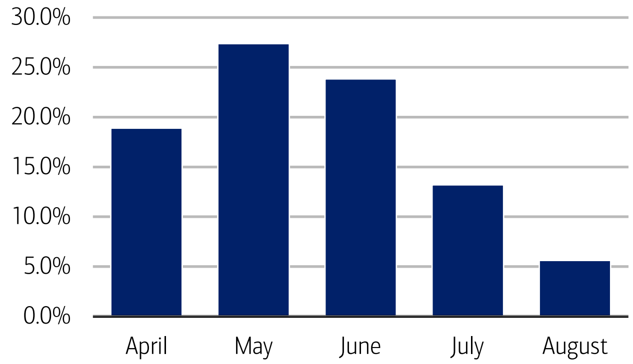
Tariffs and talent remain pain points for small businesses

Still, tariffs remain a hindrance to small business profitability and have continued to rise since the start of the year (read more on this in August's Small Business Checkpoint). Of the narrow subset of Bank of America small business clients making direct payments to US Customs and Border Protection (CBP), tariff payments per small business client increased 5.6% month-over-month (MoM) in August (Exhibit 2).

While that is a moderation from May's peak of 27.4%, these outsized payments are likely weighing on hiring decisions for some firms. In fact, small business payments to hiring firms fell more than 6% in August from the 2024 average on a three-month moving average (Exhibit 3). In total volume amount, August marked the smallest monthly payment since the start of our series in January 2023.

Exhibit 2: Of the small subset of Bank of America small business clients making CBP payments directly, tariff payments rose 5.6% MoM in August 2025

Payments to CBP per small business client in 2025 (monthly, MoM%, 3-month moving average)



Source: Bank of America internal data

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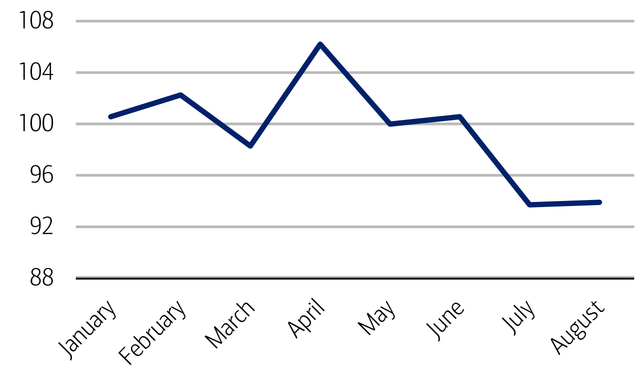
Exhibit 3: Hiring has flatlined, and fallen more than 6% below the 2024 average level in August 2025

Small business hiring payments in 2025 (indexed, 2024 average = 100, 3-month moving average, monthly)



Source: Bank of America internal data

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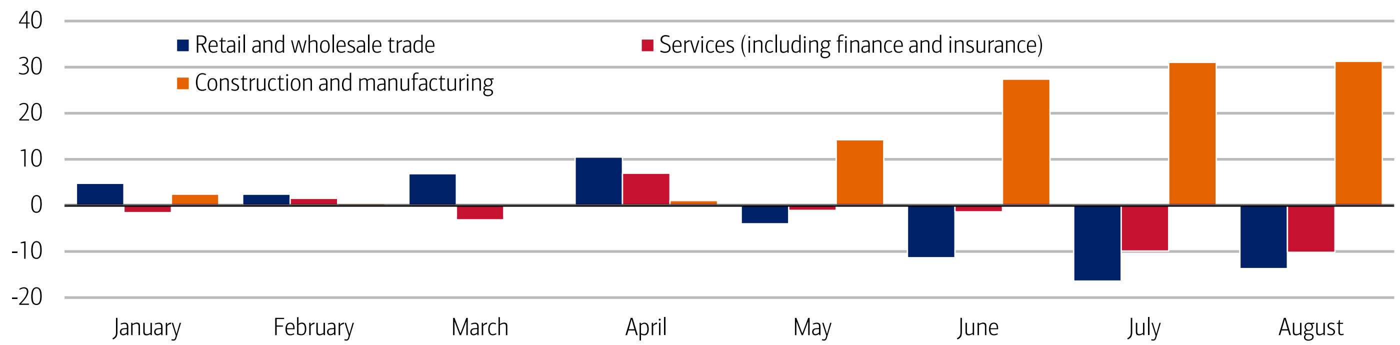
Construction and manufacturing firms ramp up hiring

There are divergent signals in the labor market. According to Bank of America small business payments data, our proprietary alternative hiring indicator (see Methodology below) found that the slowdown in hiring among retail and services firms is continuing. By contrast, construction and manufacturing firms have ramped up staffing and their payments last month were more than 30% above the 2024 average level (Exhibit 4).

In an already tight construction labor market, immigration actions could potentially deepen workforce shortages, drive up costs and create additional financial risks for contractors. This coincides with the August NFIB findings, which showed that the difficulty in filling open positions is particularly acute in the construction, manufacturing, and transportation industries. Nearly half (49%) of small businesses in the construction industry had a job opening they could not fill, while openings were the lowest in the wholesale and finance industries.

Exhibit 4: Small construction and manufacturing firms have increased hiring payments by more than 30% above the 2024 average, whereas other sectors have pulled back

Small business hiring payments by sector (percentage point difference from 2024 average, 3-month moving average, monthly)



Source: Bank of America internal data

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Uncertainty eases as financing expectations improve and capex plans increase

Although hiring challenges are likely to continue, NFIB small business uncertainty improved from the prior month, primarily for two reasons.

Small businesses are showing more willingness to borrow

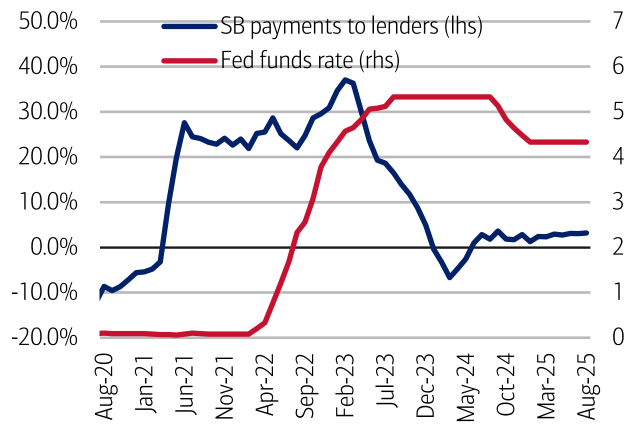
For one, there was a marked improvement in uncertainty about financing expectations. In August, the average rate paid on short maturity loans was 8.1%, down 0.6 points from July and the lowest reading since May 2023, according to the NFIB. Furthermore, there has been a slight uptick in small business (SB) payments to lending services in Bank of America small business account data over the past several months, suggesting more willingness to borrow (Exhibit 5).

During a period of rising interest rates, taking on debt becomes more costly and can ultimately cut into cash flow. And small businesses with variable rate loans are even more subject to this pinch. This may explain why their payments to lending services increased the most YoY% during the period of low rates – and has since come down as rates have risen.

Still, only 23% of small business owners reported borrowing on a regular basis, according to the NFIB, and the most recent Federal Reserve Board Senior Loan Officer Opinion Survey (SLOOS) found that the net percentage of surveyed banks that were tightening commercial and industrial (C&I) loans to small firms has increased since the start of the year, though remains below that of large firms (Exhibit 6).

Exhibit 5: Small business payments to lenders increased the most when the Fed funds rate was low

Small business automated clearing house (ACH) payments to lenders (monthly, 3-month moving average, YoY%, left-hand side (lhs)) and effective Fed Funds rate (%, monthly, right-hand side (rhs))



Source: Bank of America internal data, Haver Analytics

Note: SB payments to lenders includes non-Bank of America loans and lines of credit.

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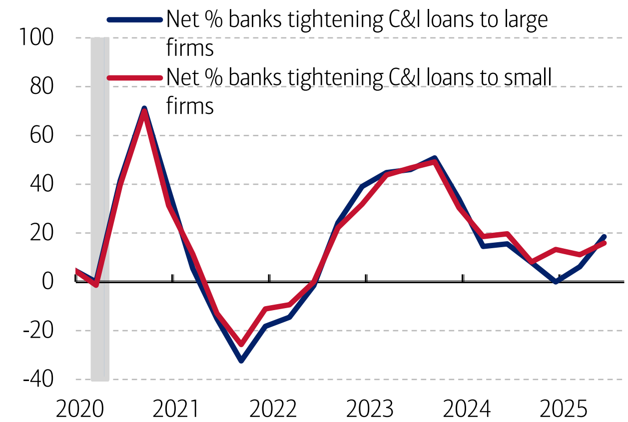
Exhibit 6: According to the most recent SLOOS, larger firms experienced tighter credit standards than smaller firms in June

Reported banks tightening commercial and industrial (C&I) loans: large banks vs. small banks (%)



Source: Bank of America internal data

Note: Data is through June 2025. Shaded area indicates a recessionary period.

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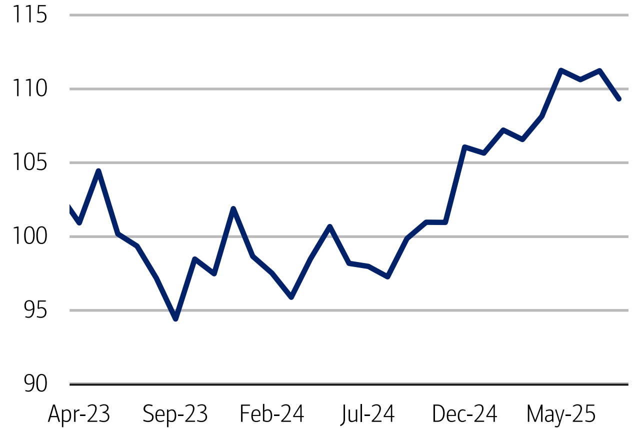
Small businesses continue to spend on tech, less so on travel

Another sign that uncertainty has eased is that more small business owners are planning to increase capital expenditures. And according to Bank of America small business payments data, these companies are continuing to invest in improving their businesses through technology services (Exhibit 7). Some of that may be in AI, and in fact, a recent survey from the NY Fed found that businesses are using AI in a myriad of ways including business analysis as well as marketing and advertising.

Small businesses, however, have pulled back in one area: business travel (Exhibit 8). According to Bank of America small business credit and debit card spending, overall travel spending per small business client fell 3% YoY in August on a three-month moving average. Airlines spending growth was flat YoY, and lodging was also down.

Exhibit 7: Tech payments from small businesses was up nearly 10% from the 2024 average in August
Small business payments to technology services (monthly, indexed, 2024 average = 100, 3-month moving average)



Source: Bank of America internal data
Note: Technology services includes software, information technology (IT), and technical services firms.

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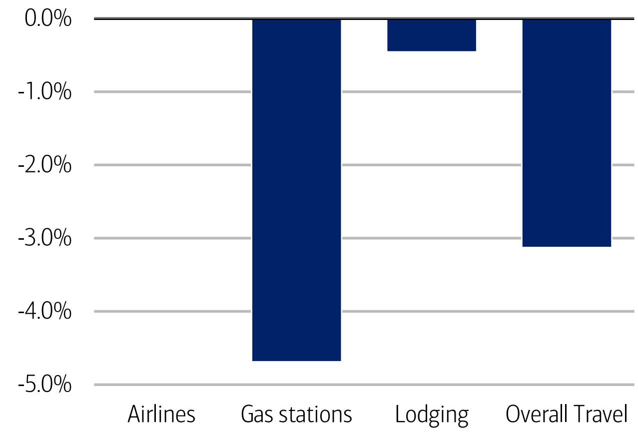
Exhibit 8: Small businesses have limited their spending on travel
Small business credit and debit card spending per client by category in August (YoY%, 3-month moving average)



Source: Bank of America internal data

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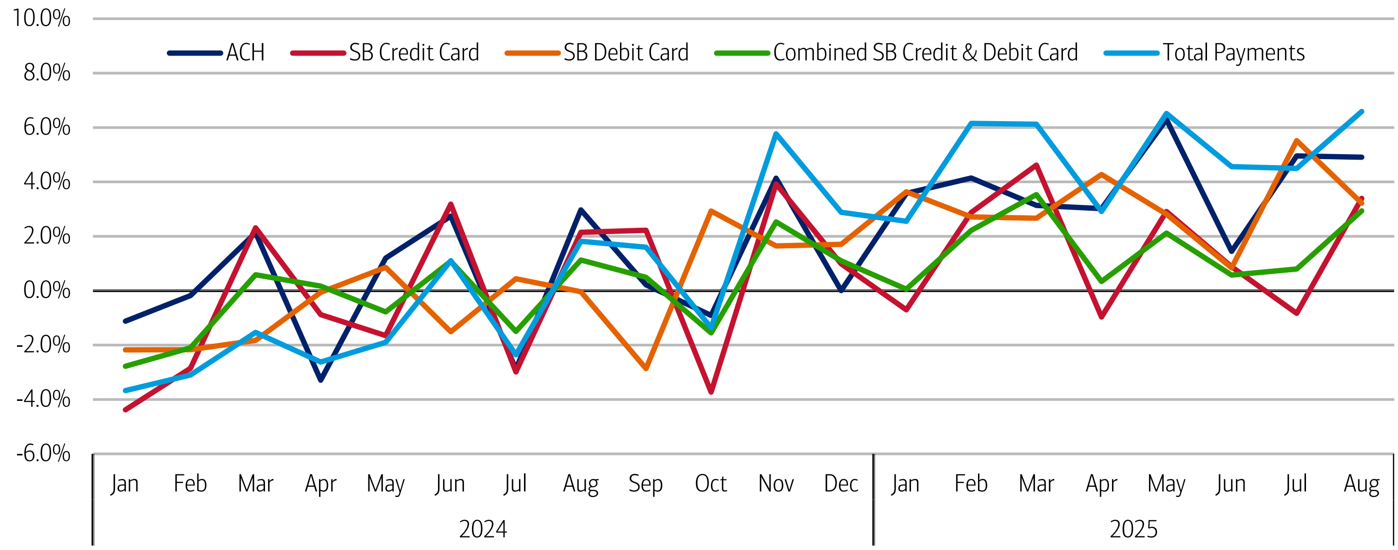
Monthly payments update

Looking more broadly at small business activities in August, total payments among small business clients increased 6.6% YoY, according to Bank of America internal data (Exhibit 9). Among major components, SB credit card and automated clearing house (ACH) payments rose the most. They were up 3.4% YoY and 4.9% YoY, respectively.

Exhibit 9: Total payments per small business client was up 6.6% YoY in August
Payments* per small business client by channel (monthly, per day volume, YoY%)



Source: Bank of America internal data
*This data is adjusted for the number of calendar days available for processing in a month.

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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.

Revenue tiers are determined by the combination of following factors: 1) stated revenue on small businesses credit or Paycheck Protection Program applications, 2) actual account inflow into Bank of America Deposit Accounts, and 3) third party revenue estimation.

The alternative hiring indicator consists of payments from Bank of America small business clients to small business-focused hiring firms which 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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Disclosures