

Economy

Small Business Checkpoint: Still in the black

17 April 2025

Key takeaways

- Small business optimism and real sales expectations have fallen, reversing gains from late 2024, according to the National Federation of Independent Business (NFIB). But both measures remain above levels seen during the past two years, and small business profitability is up in March, a continuation of increases seen since January.
- Although small business profit margins are holding up, there are signs of slowing spending on discretionary business items like advertising. In March, the number of transactions towards business services and advertising was down -1.3% compared to the start of the year, according to Bank of America data. The decline may be, in part, due to increased spending on inventory financing.
- This spending has helped boost hiring in the transportation sector. Payroll per small business client in that sector was up 15.6% year-over-year (YoY) in March, according to Bank of America data. More broadly, total payrolls grew 2.6% YoY in the first quarter, though this is down from levels seen in the last two quarters of 2024.

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.

Happiness is fleeting

Last month, small business uncertainty was high, but they remained relatively optimistic despite this, according to the National Federation of Independent Business (NFIB). But now, it appears the rise in uncertainty is beginning to weigh on business optimism. Small business optimism has fallen from the December high and is below the 51-year average in March (Exhibit 1).

In our view, small business uncertainty can weigh on growth, but Bank of America small business loans grew 8% year-over-year (YoY) in the first quarter of 2025. However, net charge-offs were also up, and NFIB real sales expectations fell significantly in March, highlighting small firms' views about the market outlook.

Exhibit 1: Small business optimism and real sales expectations fell sharply in March, but both remain above levels seen in the past two years

Small business optimism (monthly, index, 1986 = 100, seasonally adjusted (SA)) and respondents expecting higher real sales in six months (% , right-hand side (rhs), monthly)

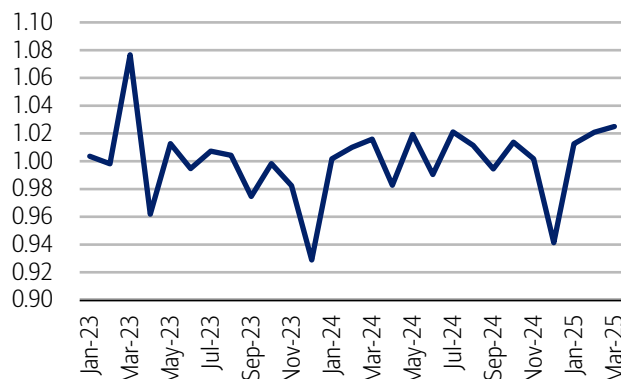


Source: NFIB, Haver analytics

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Exhibit 2: In March, small business profitability was up from the start of the year and is the second highest reading in the past two years

Small business deposit account inflow-to-outflow ratio (monthly)



Source: Bank of America internal data

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Despite these fears over the future, the ratio of payment inflows-to-outflows in Bank of America small business account data, which we view as a measure of profitability, is up from the start of the year (Exhibit 2). This may in part be due to tax refunds ([read more on this in our April Consumer Checkpoint](#)), but nevertheless, in our view, it suggests small business profit margins are holding up for now.

Small businesses taper spending on business services and advertising

While small business profitability remains in fair shape, we find increasing evidence that businesses are pulling back on spending in certain areas ([find more on this in the March Small Business Checkpoint](#)).

One notable area is advertising, with is often thought of as discretionary for most businesses and tends to be first on the chopping block when it comes to cutting back on expenses. Using Bank of America small business ACH (automated clearing house) payments data, the number of transactions towards business services and advertising slowed in March from the start of the year, falling -1.3% (Exhibit 3).

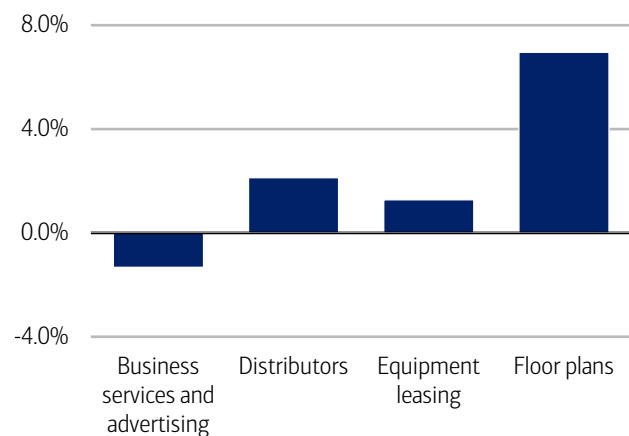
This is consistent with the view of BofA Global Research, who are of the view that higher tariffs on imports seem likely to drive up inflation, lower advertiser sales expectations, and drive a pullback in brand ad spending.

Meanwhile, the number of spending transactions on floor plans – when a business uses a short-term loan to purchase inventory items and repays the loan with proceeds from the sold inventory – is up 7.0% in March 2025 from January. This suggests some small businesses might be feeling a rush to stock since the beginning of the year, given the potential for price increases due to tariffs.

Outside of inventory financing, small businesses are still increasing their spending transactions to procure goods for sale. The number of purchases to distributors increased in March from January, and small businesses within services have accelerated their spending since December, currently up 10.3% YoY (Exhibit 4).

Exhibit 3: Small businesses appear to be cutting back on the number of business services and advertising transactions compared to the start of the year

Number of small business ACH payments by category in March (% change from January)



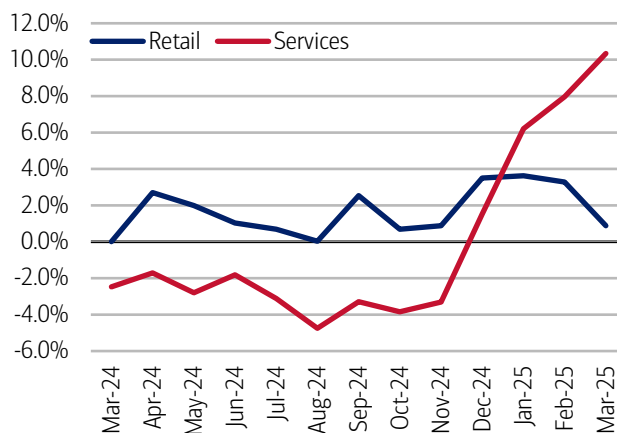
Source: Bank of America internal data

Note: Business services include payments to financial, logistics, technology, and other professional service firms.

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Exhibit 4: Small firms within the services sector have accelerated their spending to distributors since December

Small business ACH payments to distributors by industry (3-month moving average, monthly, YoY%)



Source: Bank of America internal data

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Transportation speeding ahead on hiring

Inventory demand and the threat of tariffs are also driving hiring at small transportation firms (Exhibit 5). In fact, transportation payroll per small business client surged 15.6% YoY in March and has been accelerating since June 2024.

It's possible some of this is due to a rebound from negative growth seen in 2023. But a "catch-up" effect from port strikes and widespread winter weather events, combined with peak retail season, may have fueled significant trucking job growth in the fourth quarter of 2024¹. And the ongoing tariff situation may have added more fuel to the engine, so to speak.

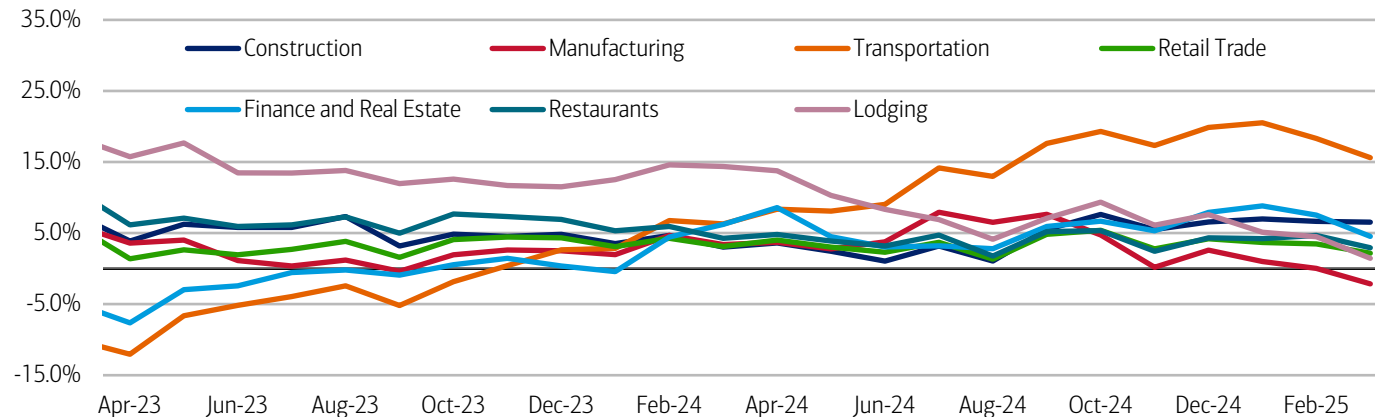
¹ Trucking jobs reset to pre-pandemic levels - Land Line

Yet the modest decline in the growth from January's peak might be reflective of growing uncertainty. BofA Global Research found that shippers' 0- to 3-month freight demand outlook signals a return to Freight Recession levels as of April 3, underscoring the view that tariff levels ultimately need to be settled before freight flow outlooks begin to rebound.

In contrast to transportation, payroll growth per small business client moderated, but remained positive in March. The exception was manufacturing which has turned negative in the past two months, perhaps also reflecting tariff uncertainty.

Exhibit 5: Payroll growth within transportation was up 15.6% YoY in March, significantly higher than other sectors

Payroll payments per small business client by sector (monthly, 3-month moving average, YoY%)



Source: Bank of America internal data

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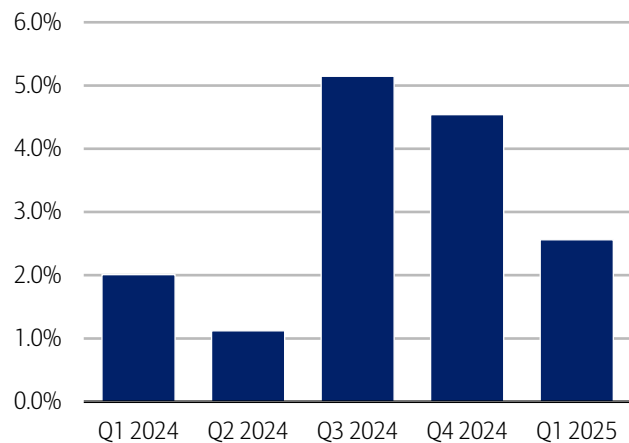
Payroll plans not quite on pause

Overall, payroll growth per small business client rose 2.6% YoY in the first quarter of 2025. As seen in Exhibit 6, this is above 2024 levels, but has been falling over the past two quarters.

This is consistent with the most recent NFIB report which found that, in March, the percentage of business owners planning to increase employment was 12% - a decline of 7 percentage points from the 2019 average (Exhibit 7).

Exhibit 6: Payroll was up 2.6% YoY in the first quarter of 2025

Payroll payment growth per small business client (quarterly, YoY%)

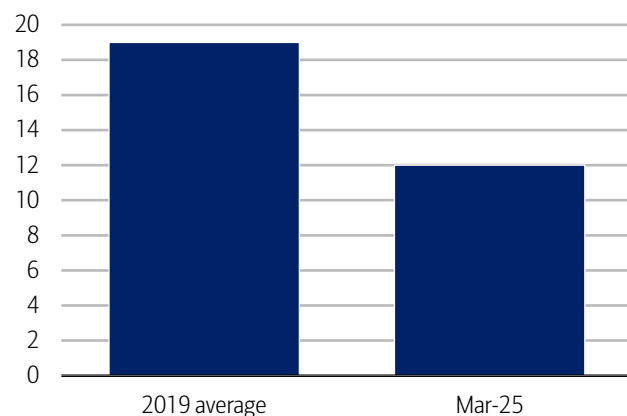


Source: Bank of America internal data

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Exhibit 7: Compared to the 2019 average, the percentage of respondents planning to increase employment is down in March

Respondents planning to increase employment, net (seasonally adjusted, %)



Source: NFIB, Haver analytics

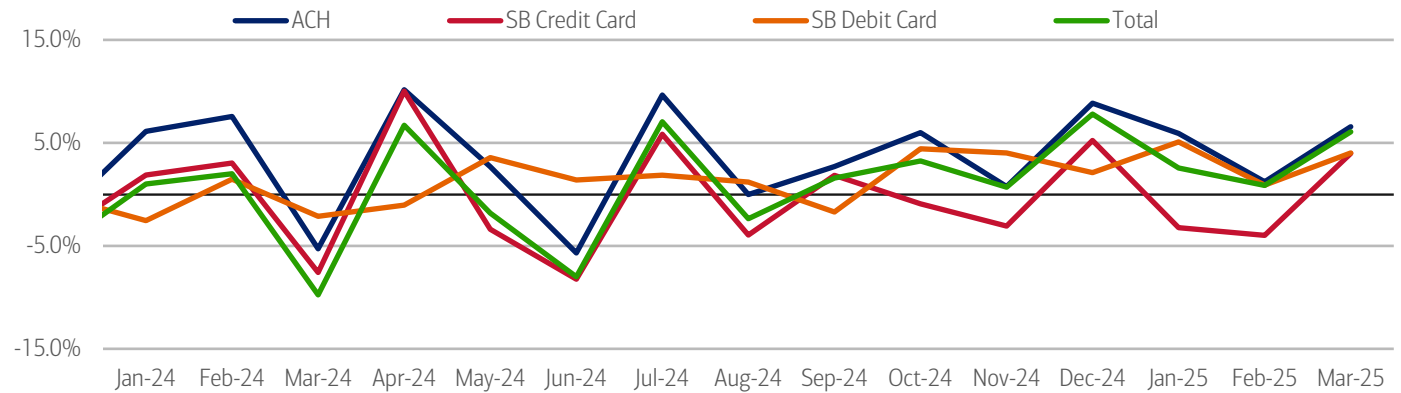
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Monthly payments update

Looking more broadly at small business activities in March, total payments per small business client rose 6.1% YoY – a strong increase from February's 0.9% (Exhibit 8). All major components posted gains from February partly due to a seasonal effect from Leap Year and Easter timing. Notably, small business credit card payments rose 4% YoY in March after declining 4% in February.

Exhibit 8: Total payments per small business client was up significantly at 6.1% YoY in March

Payments per small business client by channel (monthly, YoY%)



Source: Bank of America internal data

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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.

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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