

## Economy

# Small Business Checkpoint: A case of the hiring hiccups

19 August 2025

### Key takeaways

- According to Bank of America small business data, payments to hiring firms were down for a third consecutive month. And although more small businesses are expecting better business conditions, concerns about quality of labor as the single most important problem rose 31% month-over-month in July, according to the National Federation of Independent Business.
- Are tariffs contributing to the hiring slowdown? Overall small business profitability growth remains positive according to Bank of America data, but of the limited subset of small businesses that make direct tariff payments to Customs, such outlays have surged 170% since January. And for companies with revenues >\$1M, there was a stark slowdown in hiring around "Liberation Day."
- Across sectors, construction and manufacturing payments to hiring firms were up 33% from the 2024 average in July. This is likely a tale of two policy effects: on one hand, reshoring incentives could boost hiring; on the other, restricting the supply of workers has led to labor shortages. The latter is most evident in Bank of America small business payroll payments' growth, where wage inflation is most prominent in sectors such as construction and restaurants.

*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.

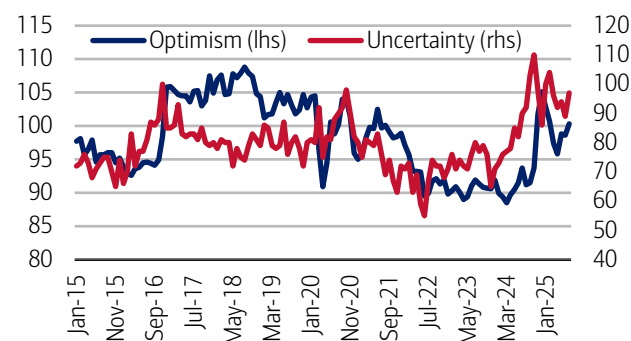
### Small business hiring fell for the third consecutive month

Once again, in July, small business optimism rose, as did uncertainty, according to the National Federation of Independent Business (NFIB) (Exhibit 1). Although better business conditions are expected by business owners in the coming months, concerns about the quality of labor rose 31% month-over-month in July, suggesting some struggle in the small business hiring market.

In fact, using Bank of America small business payments to hiring firms data, in July, small business hiring was down 6.7% year-over-year (YoY) on a three-month moving average (Exhibit 2). This was the third consecutive monthly decline.

#### Exhibit 1: Small business optimism improved, but uncertainty increased as well in July

Small business optimism index (left-hand side (lhs), monthly, seasonally adjusted, indexed, 1986 = 100) and uncertainty index (right-hand side (rhs), monthly)

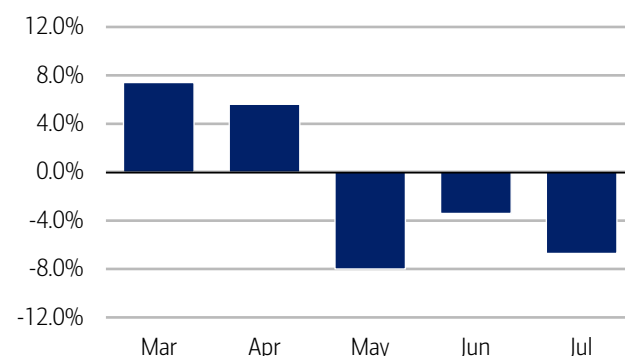


Source: NFIB

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#### Exhibit 2: Small business payments to hiring firms were down 6.7% YoY in July, a decline from the prior month

Small business hiring payments (monthly, 3-month moving average, YoY%)



Source: Bank of America internal data

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## Are tariffs contributing to the hiring slowdown?

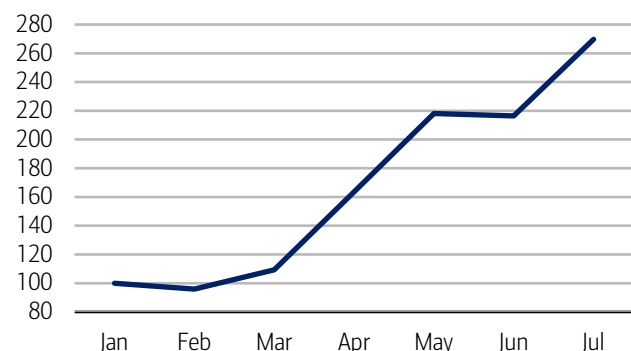
Though more trade deals have been finalized, tariffs remain not only a looming and predominant component of business uncertainty, but also now profit margin evaluations. Based on an estimate before Trump's duties took effect on August 7, the combined annual tariff impact to US small businesses is \$202 billion, which works out to about \$856,000 per firm each year, according to the US Chamber of Commerce.

Using Bank of America internal data, we examined payments to US Customs and Border Protection (CBP) to better understand the impact of these levies. In July, tariff payments to the CBP per small business client surged 170% compared to January 2025 (Exhibit 3). It's important to note this data is limited in that only a small subset of Bank of America small business customers make direct tariff payments to CBP, given many do not have substantial international exposure, while others rely on customs brokers.

These tariff payments may be negatively impacting profitability for some small firms. Although, small business profitability, as proxied by the ratio of payments into small business accounts compared to the outflow, continues to rise. It was up 0.5% YoY in July, on a three-month moving average, but has been decelerating since the end of last year (Exhibit 4). Plus, according to the NFIB, the percentage of small business owners reporting poor sales as their top business problem rose one point to 11% in July – the highest level of reported poor sales since February 2021.

### Exhibit 3: Of the small subset of small business clients making CBP payments directly, these were up almost 170% from the start of this year

Payments to CBP per small business client (monthly, indexed, January 2025 = 100)

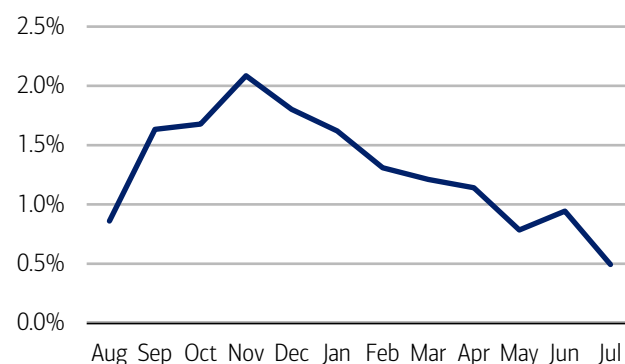


Source: Bank of America internal data

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### Exhibit 4: Small business profitability growth has largely been decelerating since the end of last year

Small business account inflow-to-outflow ratio (YoY%, monthly, 3-month moving average)



Source: Bank of America internal data

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

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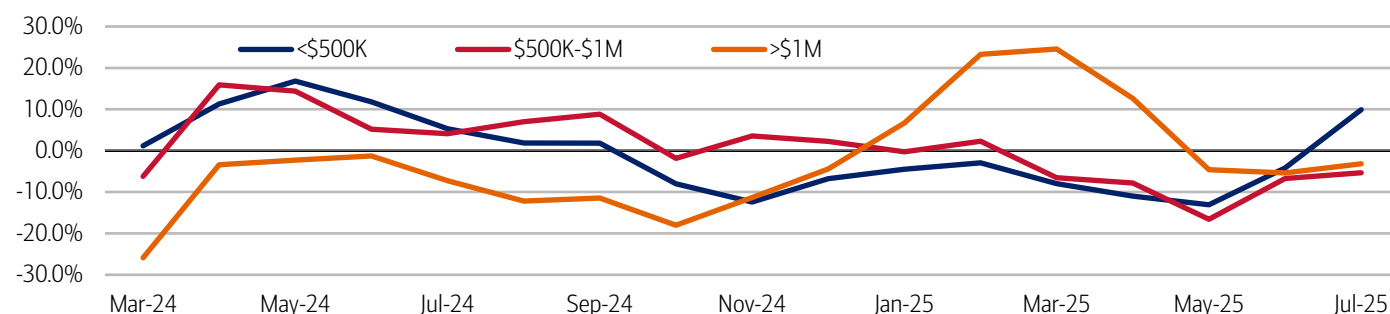
## The smallest of small businesses increased hiring in July

Across revenue tiers, for firms with revenues >\$1M, there was a stark slowdown in hiring in July, particularly around "Liberation Day," suggesting uncertainty could have played a role in employment decisions. In fact, for those with revenues >\$1M, it declined 3.2% YoY, and for small companies with revenues \$500K-\$1M, hiring was down 5.3% YoY (Exhibit 5).

Still, there are signs slowing profit growth isn't deterring newly formed businesses from hiring – especially the smallest of small businesses.

### Exhibit 5: For those firms with revenues <\$500K, hiring growth increased significantly in July, up 9.9% YoY

Small business hiring payments by revenue tier (monthly, 3-month moving average, YoY%)



Source: Bank of America internal data

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Hiring growth has improved markedly over the past couple of months for firms with revenues <\$500K. This is positive, as such companies tend to comprise a larger proportion of total net job creation. And, if the smallest businesses have the capacity to hire, that is good news for labor productivity growth (read more on this in the [May Small Business Checkpoint](#)).

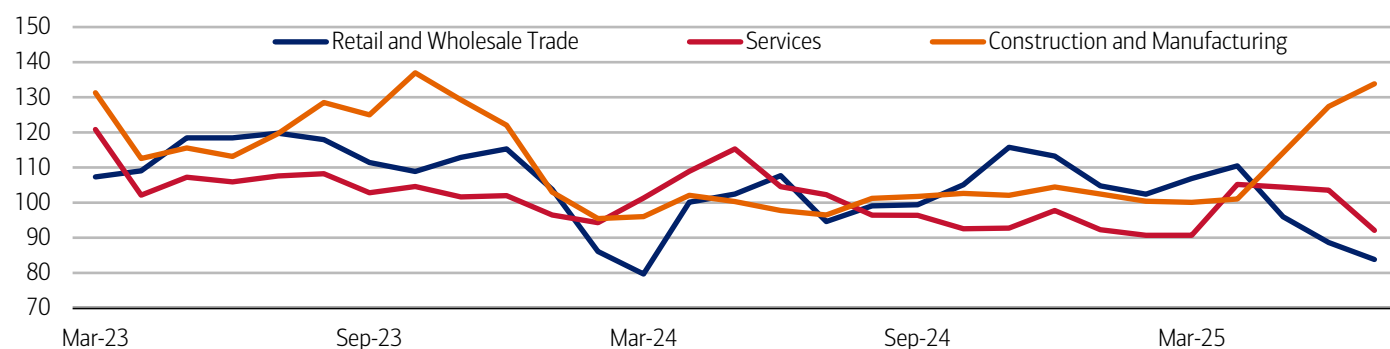
## Construction and manufacturing lead the small business hiring front

According to Bank of America internal data for July, across sectors, construction and manufacturing lead in hiring, with small business payments to hiring firms up 33% from the 2024 average in July (Exhibit 6). Meanwhile, for small retailers and wholesalers, as well as small services firms, payments were down 17% and 8%, respectively.

Why might construction and manufacturing be leading the small business hiring front? It's notable this rise in small business payments to hiring firms began after "Liberation Day." And since most US manufacturers are small businesses, it's possible demand for workers has increased, as fiscal policy might incentivize reshoring (read more on this in our [June Manufacturing publication](#)).

### Exhibit 6: Construction and manufacturing small firms' hiring payments increased 33% from the 2024 average in July

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



Source: Bank of America internal data

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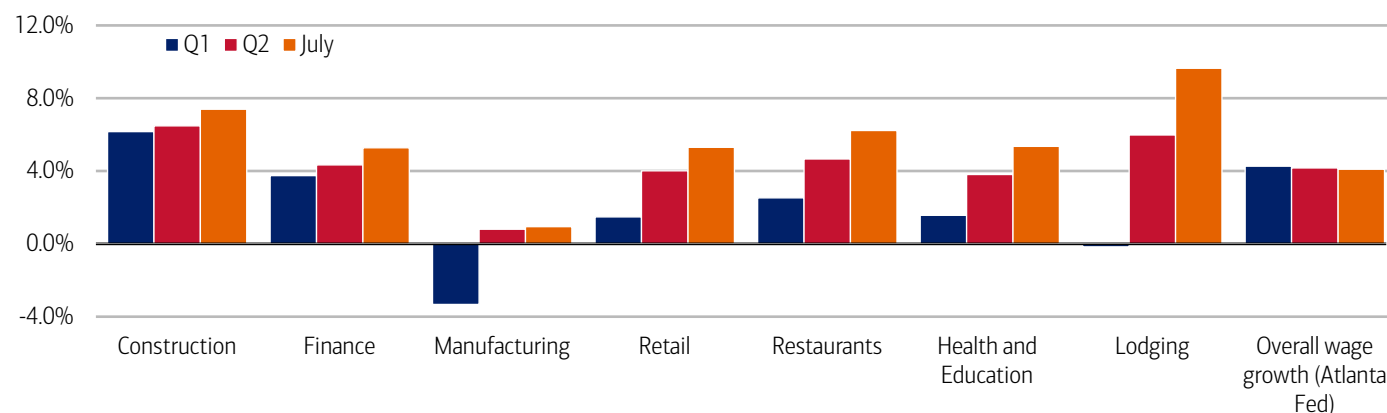
## Wage inflation is a big factor in sectors with labor shortages

Immigration policy may also be impacting labor supply. Nationally, according to the Bureau of Labor Statistics (BLS), almost 20% of all workers are foreign-born. In construction, that number is higher – 34% are immigrants, according to the National Association of Home Builders. In some trades — like drywall installers or plasterers — that number is over 60%.<sup>1</sup>

In an already tight construction labor market, immigration actions could potentially deepen workforce shortages, drive up costs and create serious financial risks for contractors. And for sectors like construction, this might be playing a significant role in the need for more workers, especially as construction spending on facilities such as data centers only increases (read more on this in [July's Power check: Watt's going on with the US grid?](#)).

### Exhibit 7: Payroll payment growth in July was strongest in lodging, construction, and restaurants

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



Source: Bank of America internal data, Haver analytics

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<sup>1</sup> Coleman | Construction Dive

The fiscal fallout of labor supply issues can be more clearly seen in payroll payments per small business client (Exhibit 7). Notably, even as hiring fell in services as well as retail and wholesale, payroll growth improved in July from both Q1 and Q2 across all sectors. That indicates wage inflation is driving up costs for these businesses, especially in services, according to the BLS, as companies are being forced to pay more for new hires.

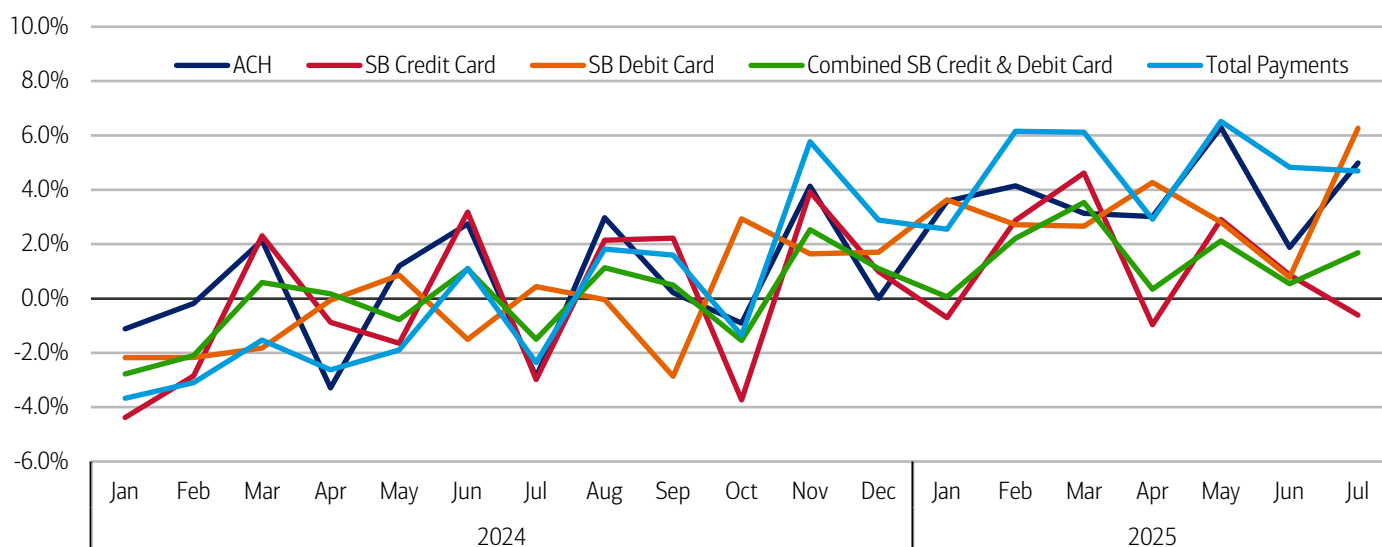
Bank of America small business account data supports this – with leisure and hospitality sectors such as restaurants and lodging as acute examples. Starting in Q2, their payroll growth per small business client began to outpace overall median wage growth. It's possible health and education services are also facing similar issues, whereas finance's wage growth is likely due to a continuation of robust spending and pay increases among higher-income households (read more on this in [August's Consumer Checkpoint](#)).

## Monthly payments update

Looking more broadly at small business activities in July, total payments among small business clients increased 4.7% YoY, according to Bank of America internal data (Exhibit 8). Amongst major components, small business (SB) debit card and automated clearing house (ACH) payments rose the most, up 6.3% YoY and 5% YoY, respectively.

### Exhibit 8: Total payments per small business client was up 4.7% YoY in July

Payments\* per small business client by channel (monthly, per day volume, YoY%)



Source: Bank of America internal data

\*Note: 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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