Accessible version

BANK OF AMERICA INSTITUTE

BANK OF AMERICA

Economy

Small Business Checkpoint: Adding up expenses

19 February 2026

Key takeaways

- Small business owners reported improved business health and higher expected sales heading into 2026, yet concerns about inflation, unemployment, tariffs, and interest rates remain elevated. Sensitivity to these factors varies sharply by region, underscoring that optimism feels different across the country.
- Small business profitability is under pressure as rising costs outpace solid consumer spending, according to Bank of America internal data. Until cost pressures - particularly tariffs and inflationary inputs - ease meaningfully, firms may remain hesitant to hire, invest, or expand, even in the face of reasonably supportive consumer fundamentals.
- Hiring momentum has cooled as firms adopt a "low-hire, low-fire" posture. Although layoffs were down at the smallest firms (<50 employees), openings were down even further. Still, a small uptick in small business payments to hiring firms growth in January might signal a rebound that's shaping the early-2026 labor landscape.

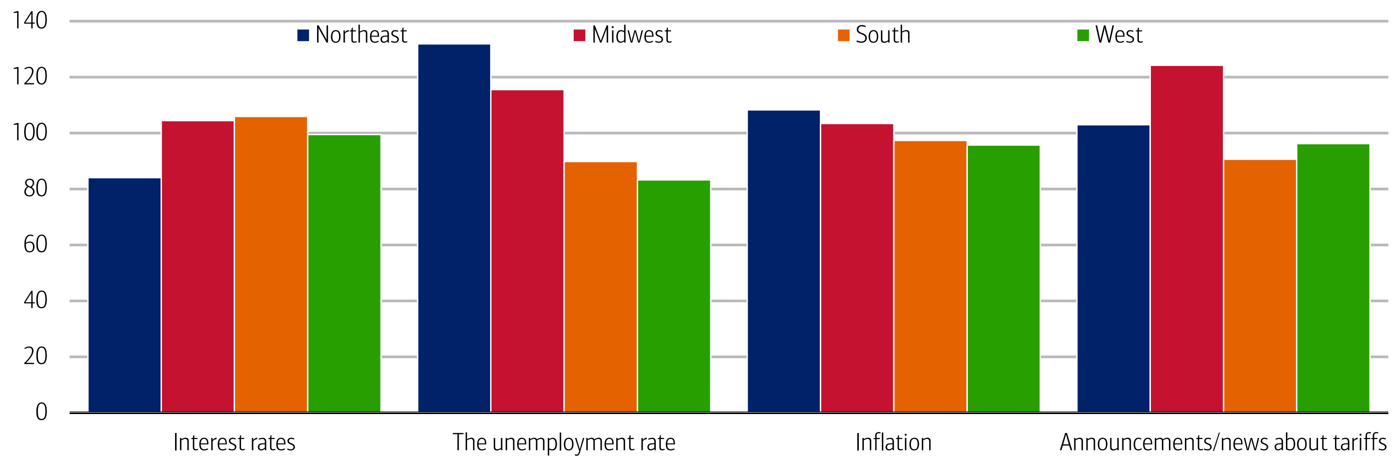
Main street mentality: Cautious optimism

Small business owners are more concerned about several economic factors – unemployment, financial markets, and interest rates – than the general population, according to a recent Bank of America proprietary survey. And the story from the January National Federation of Independent Business (NFIB) report remains stuck: small business optimism was above the historical average to start the year, but so uncertainty was also up.

More owners reported better business health and are anticipating higher sales. However, this sentiment varies across firm size, industry, and region. For example, small business owners in the Midwest and the Northeast were more likely than the national average to have their sentiment impacted by the unemployment rate than those in the West and South (Exhibit 1). But small business owners in the Midwest and the South were more sensitive in response to interest rates, underscoring different factors matter more to different business owners.

Exhibit 1: Small business owners in the Midwest and the Northeast were more likely than the national average to have their sentiment impacted by the unemployment rate than those in the West and South

How much do changes in each of the following impact how you feel – positively or negatively – about your personal finances? (November 2025 – January 2026 average, indexed, national average = 100)



Source: Bank of America proprietary survey

BANK OF AMERICA INSTITUTE

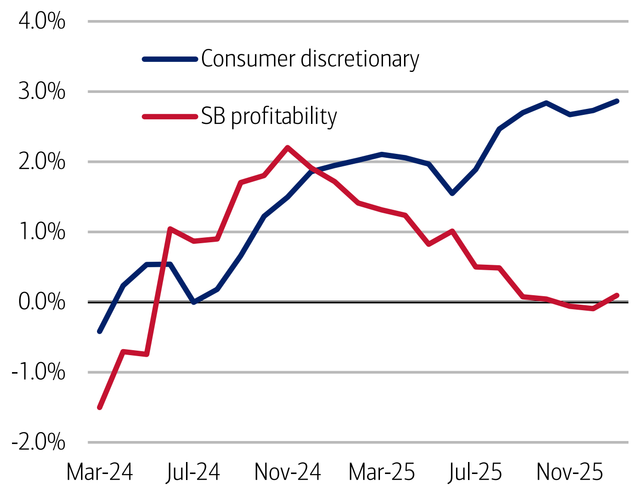
Small business profits threatened by rising costs despite consumer spending strength

The primary driver in the uptick in small business optimism originated from an increase in expected real sales. According to Bank of America aggregated credit and debit card data, consumer spending grew 2.6% year-over-year (YoY) in January – the strongest pace in nearly two years (read more on this in the February Consumer Checkpoint).

Yet, some small business owners have found it difficult to raise prices and have reported being negatively impacted by all the increased demands on their clients' income.[1] And in fact, despite consumer discretionary spending growth increasing in the second half of 2025, small business profitability growth continued to moderate, signaling a mismatch between spending and revenue gains (Exhibit 2).

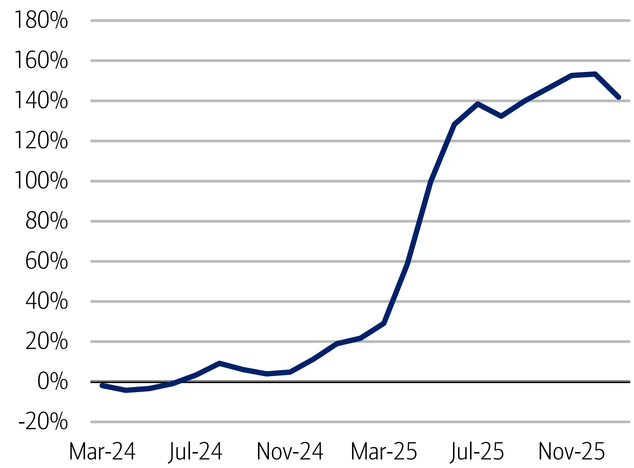
If increased revenue isn't driving growth, small firms must be faced with higher costs. Although only a small subset of clients pays Customs and Border Protection (CBP) directly, tariff payments per small business client were up 142% YoY in January on a 3-month moving average (mma) (Exhibit 3). And a recent analysis from the NY Fed found that US import prices for goods subject to the average tariff increased by 11% more than those for goods not subject to tariffs – underscoring that US firms and consumers continue to bear the economic impact of the high tariffs imposed in 2025.[2]

Exhibit 2: Consumer discretionary spending growth has deviated from small business (SB) profitability growth
Aggregated credit and debit card discretionary spending growth (monthly, 3-mma, seasonally adjusted, YoY%) and small business account inflow-to-outflow ratio (monthly, 3-mma, YoY%)



Source: Bank of America internal data
Note: Discretionary spending is total spending excluding gas, groceries and utilities.
BANK OF AMERICA INSTITUTE

Exhibit 3: Of the small subset of clients which pay CBP directly, small business tariff payments growth was up 142% YoY in January
Payments to CBP per small business client (monthly, 3-mma, YoY%)



Source: Bank of America internal data
BANK OF AMERICA INSTITUTE

Rising insurance costs weigh on small firms

Beyond tariffs, inflationary pressures remain. For example, in January, 13% of business owners reported the cost or availability of insurance as their single most important problem, up 4 points from December, according to the NFIB. The last time insurance reached this percentage was December 2018.

There are two reasons as to why insurance could be top of mind: 1) tenants' insurance in the Consumer Price Index was up 8.4% YoY in January on a 3-mma – the highest print on record – and 2) expiring American Care Act (ACA) subsidies will impact many small businesses.

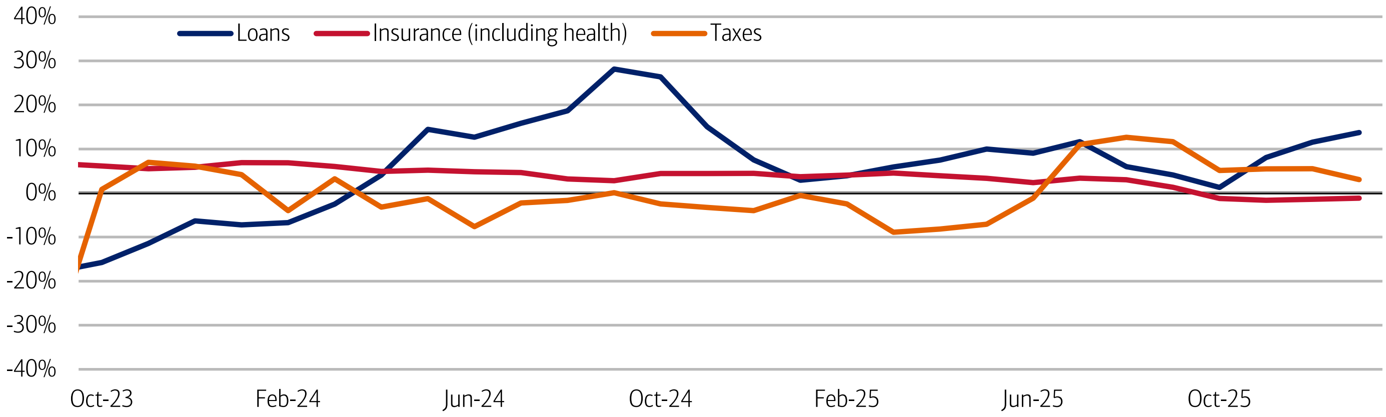
For now, insurance payments (including healthcare) were down 1.2% YoY in January (Exhibit 4). Interestingly, lending-related automated clearing house (ACH) payments per small business client have picked up at the start of 2026, while tax payments have edged lower on a year-over-year basis.

There are a few potential reasons lending is moving higher. Rising financing needs early in the year – whether for working capital, equipment, or refinancing – may be playing a larger role. At the same time, moderating growth in tax outflows could reflect a softer start to taxable activity, although small businesses are also set to benefit from the One Big Beautiful Bill Act.[3]

---

[1] NFIB Research Foundation. (2026, February 10). *Small Business Optimism Index*. NFIB.
[2] Amiti, M. Flanagan, C. Heise, S. Weinstein, D. (2026, February 12). *Who is paying for the 2025 US tariffs?* Federal Reserve Bank of New York.
[3] McLeish, W. Corrigan, S. (2025, July 21). *Tax Bill Delivers Permanent Relief for Small Businesses.* US Chamber of Commerce.

Exhibit 4: Lending payments growth has increased at the start of 2026, while taxes have come down
Small business ACH payments per client by type (monthly, 3-mma, YoY%)



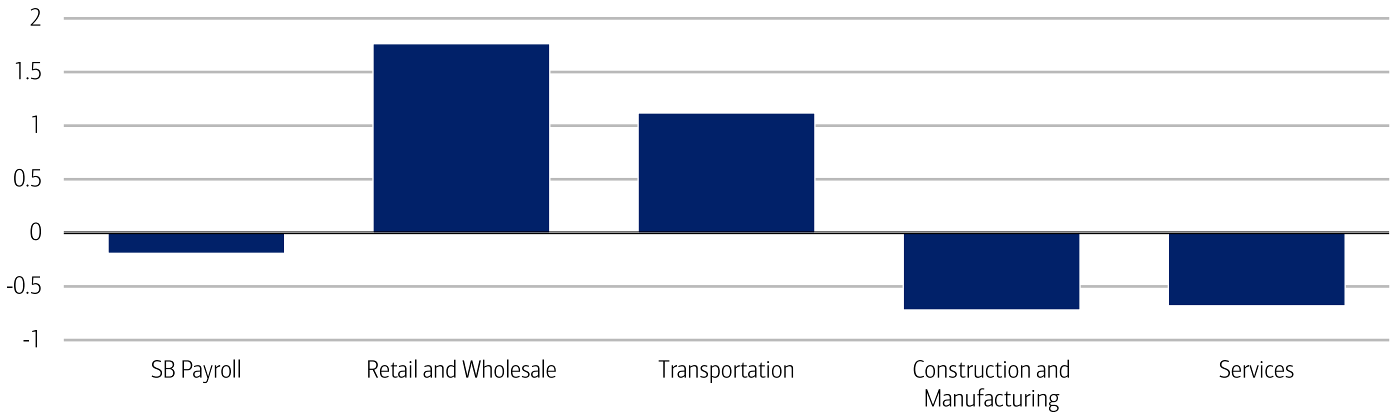
Source: Bank of America internal data
Note: Loans include all payments, including to BAC and external, as well as alternative lenders and factoring. Taxes include payments to tax services firms as well as local, state, and federal taxes.
BANK OF AMERICA INSTITUTE

Weakened sentiment translates into weaker hiring

Still, until cost pressures – particularly tariffs and other inflationary inputs – moderate more meaningfully, small business owners may remain hesitant to scale up hiring or investment despite reasonably resilient consumer demand. This has important implications for the overall labor market as small businesses comprise 38.7% of private sector payroll, according to the Small Business Administration (SBA).

According to Bank of America small business account data, payroll growth per small business client in January was up 0.6% YoY on a 3-mma. On average in 2025, growth remained relatively stable, although compared to the 2024 annual average, small business payroll levels decreased overall, though not for small retailers and transportation firms (Exhibit 5).

Exhibit 5: Small business payrolls in retail and wholesale trade as well as transportation increased in 2025 from the 2024 annual average
Payroll payments per small business client by industry in 2025 (% difference from 2024 annual average, indexed, 2024 average = 100)



Source: Bank of America internal data
BANK OF AMERICA INSTITUTE

Are small businesses driving layoffs?

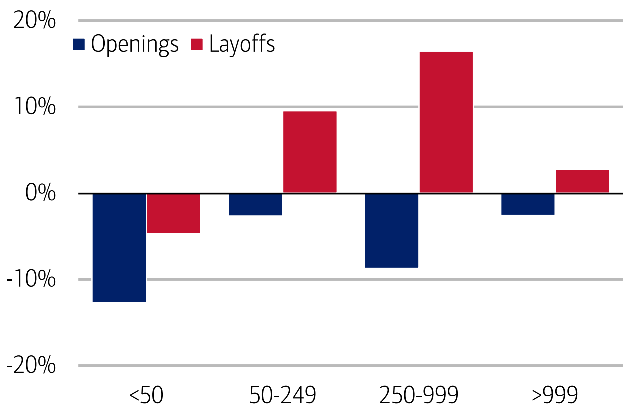
Firms with fewer than 50 employees accounted for 50% of job openings in 2025, according to the Bureau of Labor Statistics via the Job Openings and Labor Turnover Survey (JOLTS). However, they also accounted for 46% of layoffs. Still, those firms are the only ones in which job opening levels remained above the 2019 average.

Small businesses with more employees are significantly increasing layoffs and scaling back on hiring. According to our alternative hiring indicator (see Methodology), payments to hiring firms per small business client improved slightly in January but remain down significantly compared to last year (Exhibit 7).

Although layoffs are down at the smallest firms, openings were down even further at the end of 2025 (Exhibit 6). This further underscores the narrative of a "low-hire, low-fire" labor market as we enter 2026, and hints at an increased "K-shape" at the business level (read more on this in the November Small Business Checkpoint). The extent to which AI adoption could be playing a role is limited; however, according to the SBA, businesses most likely to have used AI were those with more than 250 employees.

Exhibit 6: In December 2025, firms with 250-999 employees had the greatest growth in layoffs, but firms with <50 employees had the greatest drop in openings

Job openings and layoffs by firm size in December 2025 (YoY%, 3-mma)

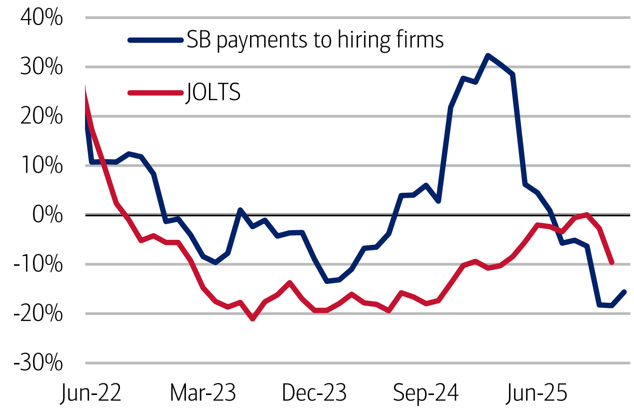


Source: Haver Analytics

BANK OF AMERICA INSTITUTE

Exhibit 7: Small business payments to hiring firms improved slightly in January after declining most of the second half of 2025

Small business payments to hiring firms per small business client (YoY%, 6-mma, monthly) and JOLTS (monthly, YoY%, 3-mma)



Source: Bank of America internal data, Haver Analytics

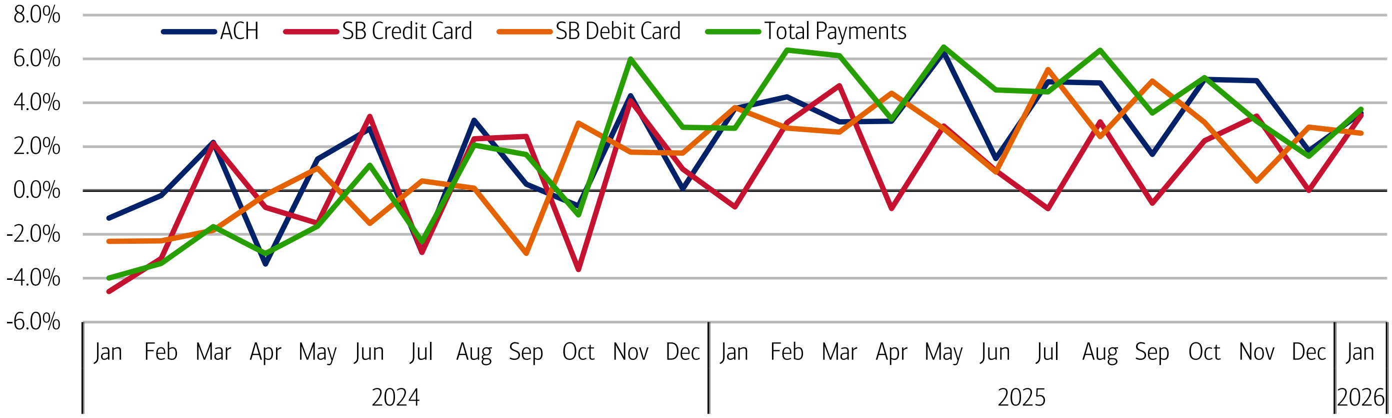
BANK OF AMERICA INSTITUTE

Monthly payments update

Looking more broadly at small business activities in January, total payments among such clients increased 3.7% YoY, an increase from the prior month, according to Bank of America internal data (Exhibit 8). Among major components, all categories except SB debit card increased from December, with ACH having risen the most, increasing 3.5% YoY.

Exhibit 8: Total payments per small business client were up 3.7% YoY in January

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



Source: Bank of America internal data

* Payments are adjusted for the number of processing days in a month.

BANK OF AMERICA INSTITUTE

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 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.

The Bank of America 2025 Navigator Monthly Landscape Survey was conducted online each month between November 2025 to January 2026. The survey consisted of 4,683 respondents throughout the US. Respondents in the study were age 18+ and were representative of the composition of the US Census for age, gender, household income and Census region.

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

Contributors

Taylor Bowley

Economist, Bank of America Institute

Sources

Patrick Williams

Senior Vice President, Analytics, Modeling and Insights

Kevin Burdette

Vice President, Consumer and Small Business

Vivek Siwatch

Vice President, Business Banking

Riley Fillius

Senior Vice President, Analytics, Modeling and Insights

Disclosures