Economy

Small Business Checkpoint: Turning the page?

15 January 2026

Key takeaways

- Small business profitability edged higher in 2025, with the Bank of America small business account inflow-to-outflow ratio rising slightly above 2024 levels. However, profits lost steam as the year closed, with year-over-year (YoY) profitability growth turning slightly negative for the second consecutive month in December, reflecting mounting cost pressures.
- In the last few months of 2025, small business uncertainty trended downwards and optimism improved, according to the National Federation of Independent Business. Still, small business uncertainty has remained historically high over the past eighteen months due to a mix of consumer spending trends and policy affects such as tariffs.
- After slowing throughout much of the second half of 2025, small business hiring activity picked up at year-end, with payments to hiring firms up 7% from the 2024 average. Small retailers led the rebound, while services continued to lag, leaving the key question for 2026 as whether firms are ready to start hiring again.

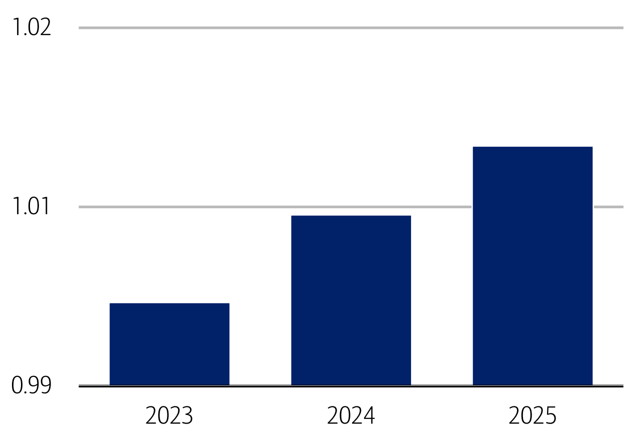
Profits remain positive, but growth is muted

How did small businesses close out the year? Profits for 2025, as measured by Bank of America small business accounts' inflow-to-outflow ratio, came in slightly above 2024 levels, continuing a trend of increases over the past two years (Exhibit 1).

However, growth slowed, and December marked the second consecutive monthly decline (Exhibit 2). Profitability growth year-over-year (YoY) for small businesses has been trending down since the start of 2025, likely due to increased costs driven in part by inflationary pressures. In fact, according to the December National Federation of Independent Business (NFIB) report, price increases remain well above the historical average.

Exhibit 1: By a marginal amount, the small business profitability ratio increased in 2025

Small business account inflow-to-outflow ratio (annual average)



Source: Bank of America internal data

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

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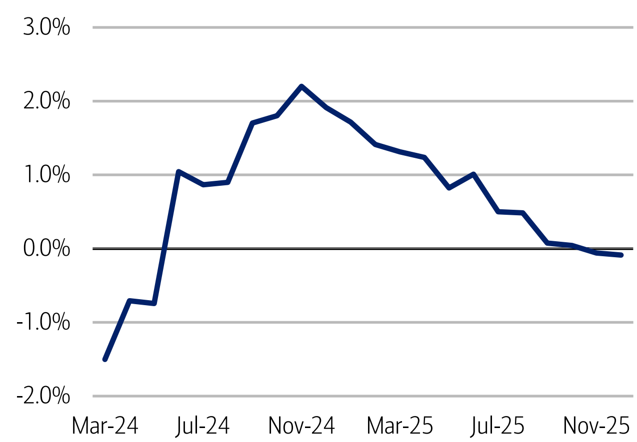
Exhibit 2: Although profit levels remain positive, YoY growth was slightly negative for the second month in a row in December

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



Source: Bank of America internal data

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Concerns about tariffs weigh on small firms

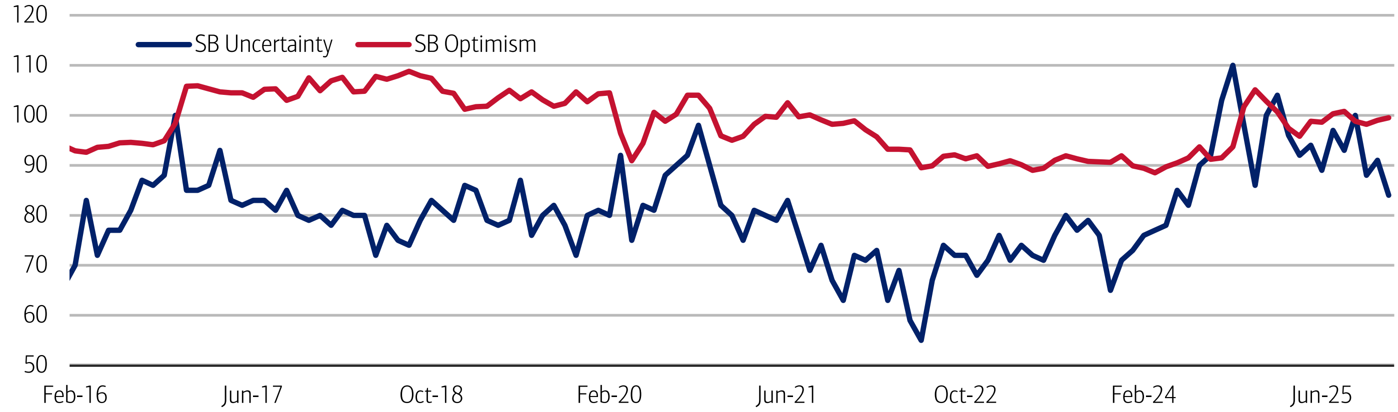
In the last few months of 2025, small business uncertainty trended downwards, and optimism improved, according to the NFIB (Exhibit 3). An increase in those expecting better business conditions primarily drove the rise in optimism in December, and uncertainty reached the lowest reading since June 2024. Still, small business uncertainty has remained historically high over the past eighteen months due to a mix of policy affects as well as consumer spending trends (read more on this in January 2026's Consumer Checkpoint).

Concerns about tariffs have been the major driver of the uptick in uncertainty this year. Of the small subset of clients who pay Customs directly, small business tariff payments year-over-year growth remains high while the number of transactions per client turned negative several months throughout the year, according to Bank of America small business payments data.

This suggests such firms may have struggled to maintain their supply chains or to reassess inventory needs. This is further evidenced by the sharp decline in imports seen in the October US trade deficit. Still, in the latest NFIB report, there was a positive shift from those business owners reporting a significant impact of supply chain disruptions to those reporting a moderate or mild impact.

Exhibit 3: In the last few months of 2025, small business uncertainty fell, and optimism inched higher

NFIB small business uncertainty index (monthly) and NFIB small business optimism index (monthly, seasonally adjusted, 1984=100)



Source: Haver analytics

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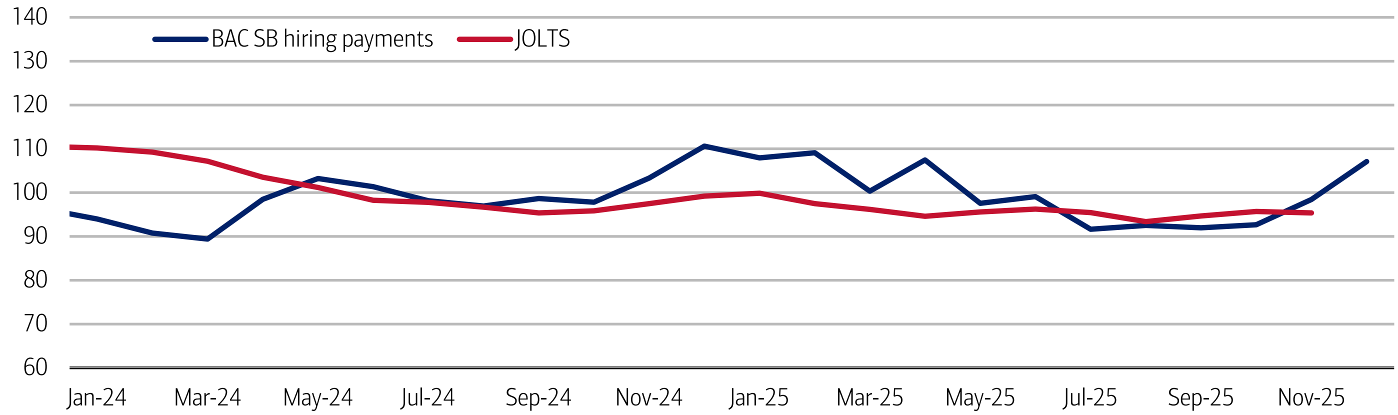
Small business hiring slowdown reverses at the end of year

These cost pressures ultimately weigh on hiring decisions. According to Bank of America internal data, small business payments to hiring firms improved in December, after remaining down for most of the second half of the year (Exhibit 4).

Such payments rose 7% from the 2024 average, and this follows an increase Bank of America payroll estimates in December (read more on this in the December Employment Report). It is also in line with Automatic Data Processing (ADP)'s report of a net gain of 9,000 jobs last month for firms with fewer than 50 employees – which was a reversal from shedding about 96,000 positions in November.

Exhibit 4: Small business payments to hiring firms improved in the final month of 2025, rising 7% from the 2024 average

Small business payments to hiring firms per client (indexed, 2024 average, = 100, monthly, 3-month moving average) and Job Openings and Labor Turnover Survey (JOLTS) (indexed, 2024 average, = 100, monthly, 3-month moving average, seasonally adjusted (SA))



Source: Bank of America internal data, Haver analytics

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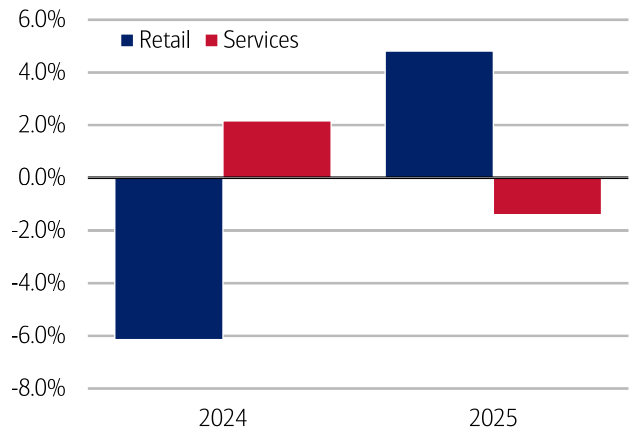
Small retailer hiring trends: A shift from 2024

For retailers, the hiring landscape in 2025 contrasted sharply with the previous year (Exhibit 5). In 2024, small retailers had reduced their hiring activity, pulling back on payments to hiring firms. However, this trend reversed in 2025, as Bank of America small business payments data indicates that small retailers increased their hiring efforts, with payments to hiring firms rising compared to the prior year, possibly due to the pickup in retail spending by households in the second half of this year. The opposite was true of services.

The key question for 2026 is whether the small signs of improvement in December's private employment data point to a more stable hiring environment – or even a pickup in hiring – rather than just employers moving forward with layoffs. An additional sign that the labor market for such companies has tightened is that fewer small businesses have reported being unable to fill positions (Exhibit 6).

Exhibit 5: Small retailers' payments to hiring firms grew 4.8% YoY in 2025, while services fell 1.4% YoY

Small business hiring payments per client by industry (YoY%, annual average)



Source: Bank of America internal data

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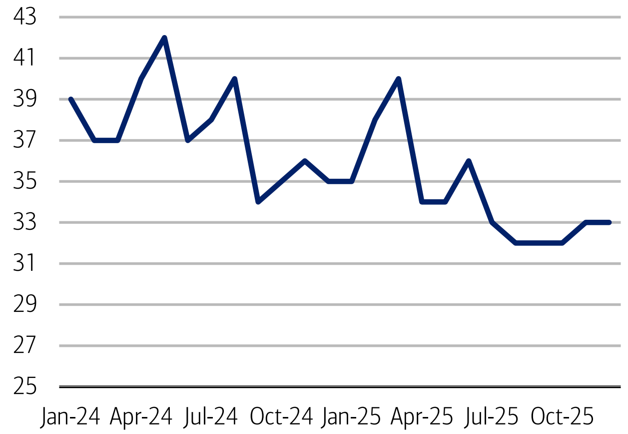
Exhibit 6: Fewer small businesses have reported being unable to fill positions compared to last year

Percent of firms with positions not able to fill right now (SA, %)



Source: Haver analytics

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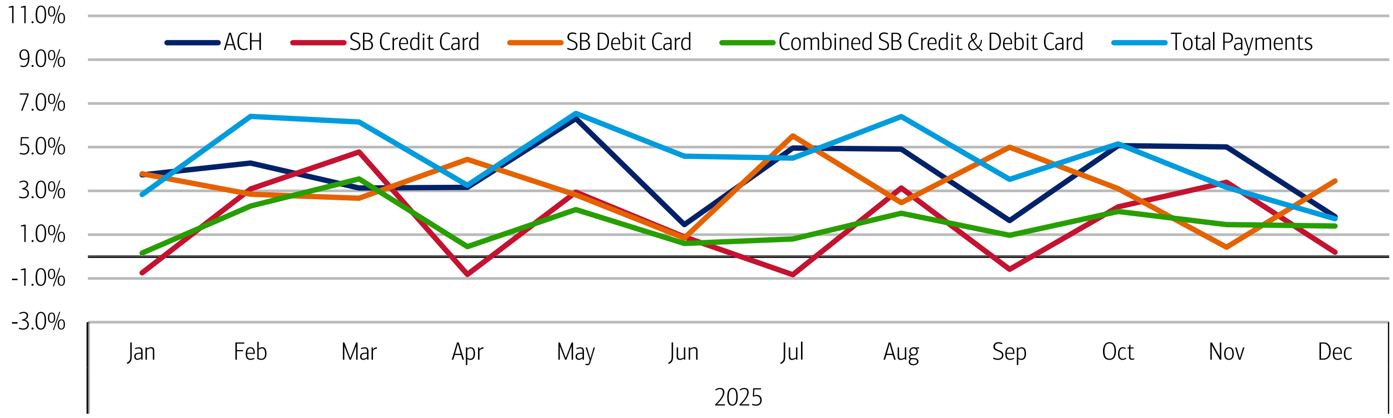
Monthly payments update

Looking more broadly at small business activities in December, total payments among such clients increased 1.7% YoY but fell from the prior month, according to Bank of America internal data (Exhibit 7). Among major components, small business (SB) debit card rose the most, increasing 3.5% YoY and a reversal from the trend in prior months, while credit card payments were up only 0.2% YoY.

Exhibit 7: Total payments per small business client were up 1.7% YoY in December

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

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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 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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Sources

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Disclosures