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Small Business Checkpoint

Having fun is serious business

18 July 2024

Key takeaways

- New business formation remains historically strong, up 28% from the 2019 average. Among applications from businesses likely to have payrolls, the accommodation and food services industry's application levels in May were almost 50% higher than the 2019 average.
- The rise in lodging and restaurant business formation is due in part to strength in consumer spending in services. Bank of America internal data indicates small businesses within services have maintained higher deposit balances than the overall trend, and leisure firms' average inflow-to-outflow ratio, which we view as a proxy for profits, continues to be above 2019 levels.
- Business expansion also means more hiring activity. Using Bank of America internal data, we find both restaurants and bars as well as lodging have payroll payment levels more than 40% above the 2019 average. Yet, a moderating labor market has cooled some momentum in hiring, and year-over-year payroll payment growth in services declined in June.

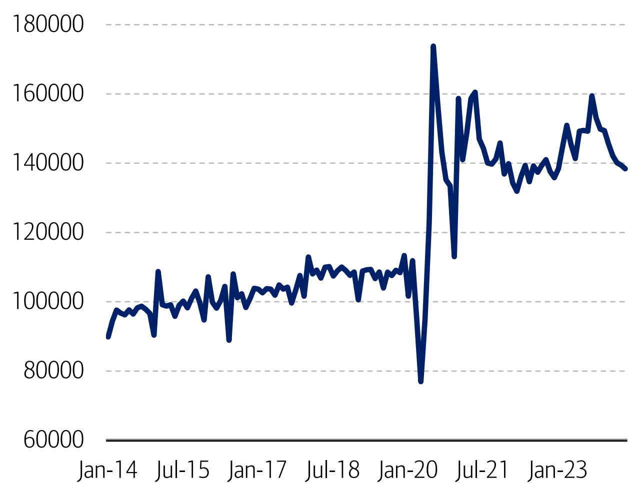
Small Business Checkpoint is a regular publication from Bank of America Institute. It aims to provide a real-time assessment of small business spending activities and financial well-being, leveraging the depth and breadth of Bank of America's proprietary data. Such data is not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial condition or performance of Bank of America

New business formation remains strong

New businesses play a key role in fostering job creation and productivity growth in the economy. According to data from the Census Bureau, in May, high-propensity business applications, which include all those made by firms that are likely to become businesses with a payroll, were 28% higher than the average level in 2019, though the number of applications has started to fall in the last six months and are down -2% year-over-year (YoY) (Exhibit 1). While not all of these businesses will survive, the net impact still points to strong growth in business formation.

Exhibit 1: Business applications were 28% higher in May than the average level in 2019

High-propensity business applications (monthly, seasonally adjusted)



Source: Census Bureau

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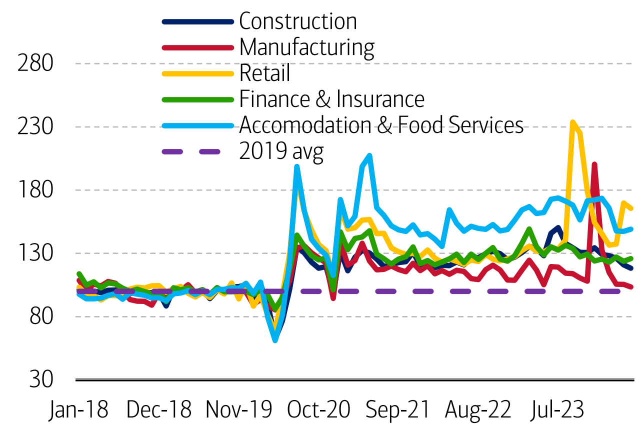
Exhibit 2: Post-pandemic, accommodation & food services has maintained significantly higher levels of applications compared to the 2019 average

High-propensity business applications by major industries (monthly, index, 2019 average =100)



Source: Census Bureau

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As Exhibit 2 shows, as of May, two sectors have noticeably higher applications than the 2019 average: accommodation & food services, and retail.

It pays to have fun

The rise in lodging and restaurant business formations is no surprise given the boom in consumer spending in these areas. In fact, compared to 2019, services card spending continues to outperform retail spending by a large margin, according to Bank of America internal data (see: [July Consumer Checkpoint]). The momentum in services spending growth per household looks solid and is perhaps even picking up.

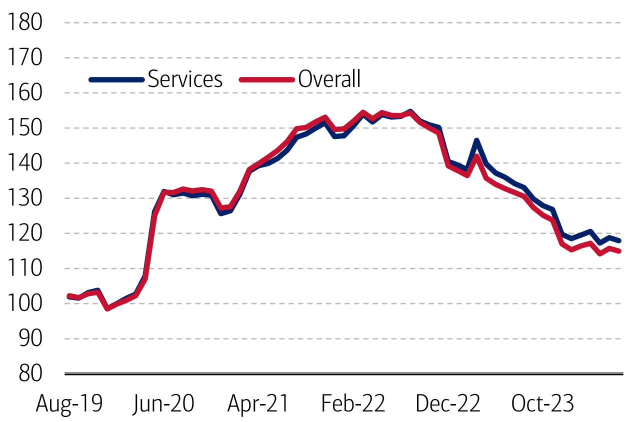
Bank of America small business data further supports this momentum, given the services industry has maintained a higher level of deposit balances than the overall small business trend since last year (Exhibit 3). And when we consider which spending categories within services showcase the greatest strength, it largely points to travel and leisure activities.

For small businesses within leisure (see methodology for details), the average inflow-to-outflow ratio, which we view as a proxy for profits, remains not only above 2019 levels, but also higher than overall small business Bank of America internal account data for the first half of this year (Exhibit 4). While the average overall inflow-to-outflow ratio has been gradually declining, leisure has remained steady. Note that the major jumps in 2020 and 2021 were primarily driven by federal Paycheck Protection Program (PPP) loan disbursements.

Interestingly, within leisure, small businesses' share of cash deposits has declined from the 2019 average (Exhibit 5), and, over the last six months, the volume of cash deposits per small business client has begun to decline, suggesting possible slowing consumer momentum. This may also signal that that industry has further shifted to card or other forms of electronic payments for inflow. However, given that the average share of cash deposits for the first half of 2024 is 17%, there is still a fairly significant portion of inflows that card spending data on leisure activities does not capture.

Exhibit 3: Small businesses within the services industry have seen a more gradual decline in balances compared to the overall trend

Deposit balances per small business client account in services vs. all small businesses (indexed, monthly, 2019 average = 100)



Source: Bank of America internal data

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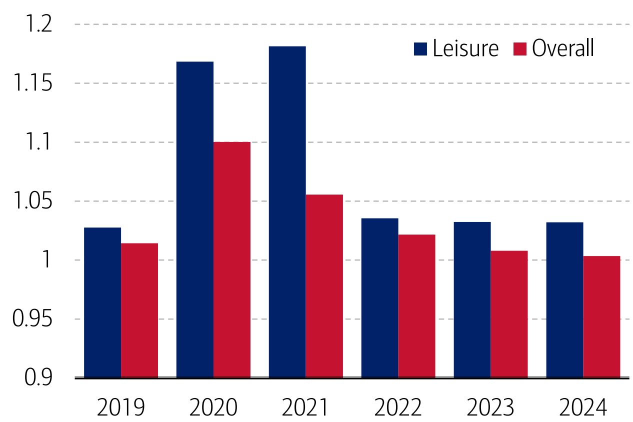
Exhibit 4: Although overall inflow-to-outflow ratio remains below pre-pandemic average for the first half of the year, small businesses within the leisure industry are above

Average inflow-to-outflow ratio through June of each year



Source: Bank of America internal data Note: Leisure is defined as restaurants and bars, amusement parks, and museums.

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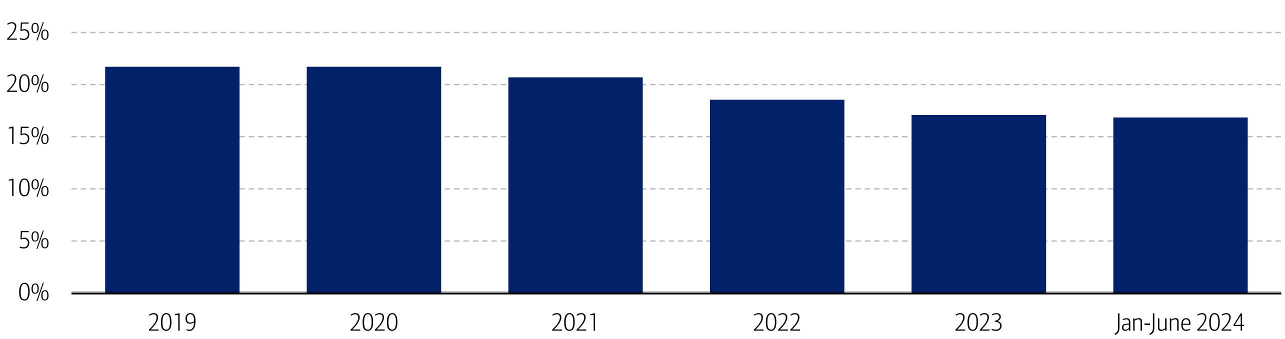
Exhibit 5: The average share of cash deposits for small firms in leisure has declined since the period before the pandemic, but remains a fairly significant portion of inflow

Share of cash of total deposits per leisure small business client (%)



Source: Bank of America internal data Note: Leisure is defined as restaurants and bars, amusement parks, and museums.

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Wage inflation is slowing in services

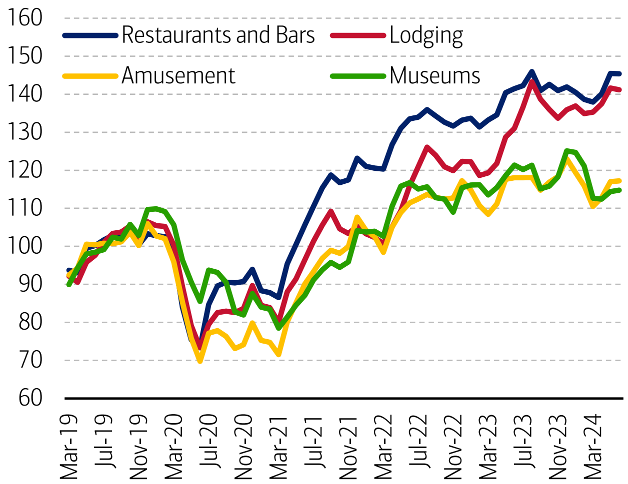
Expansion of businesses also means more hiring activity. Using Bank of America internal data, we find both restaurants and bars as well lodging have elevated payroll payment levels compared to 2019, though appear to be stabilizing (Exhibit 6).

Both were over 40% higher than the 2019 average in June. A large driver of this is wage inflation that occurred in the post-pandemic recovery period. By contrast, payroll payments for small firms in leisure activities such as amusement parks and museums have begun to return to 2019 levels.

It's notable that payroll payment growth in services has slowed, having declined 0.2% YoY in June (Exhibit 7). In our view, this is further evidence of a moderating labor market (see report: The Great Hesitation). After all, the sector was among those with the strongest post-pandemic payroll payment growth, but those gains have started to normalize to 2019 levels. This is also consistent with our after-tax wage consumer data for households, which continues to largely show positive growth even as it has moderated significantly over the past few years.

Exhibit 6: Wage inflation remains a likely driver of elevated payroll payments in accommodation and food services

Payroll payment amounts per small business client (indexed, 2019 average = 100, three-month moving average)



Source: Bank of America internal data

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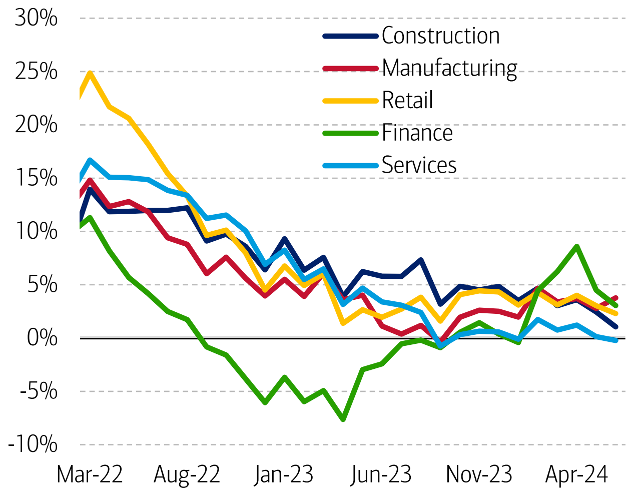
Exhibit 7: Payroll growth for small businesses in services has cooled significantly since 2022

Payroll payment amounts per small business client by industry (monthly, YoY%, three-month moving average)



Source: Bank of America internal data

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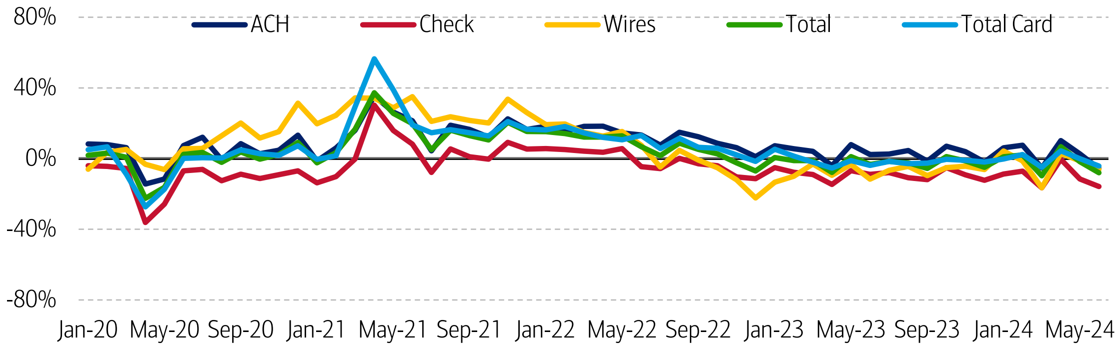
Monthly payments update

Looking more broadly at small business activities in June, total payments per small business client remained in negative territory at -8.0% YoY, a further decline from the previous month (Exhibit 8). Note that June had fewer processing days. Among the major components, check showed the largest decrease, down 15.8% YoY in June.

Exhibit 8: Across all channels, payment growth per small business client continued to decline in June

Small business payments growth 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.

Payments to small business-focused hiring firms include both direct deposits through Automated Clearing House (ACH) and payments via credit and debit cards.

Leisure is defined as an aggregated group from the Standard Industrial Classification, including restaurants and bars, amusement parks and museums.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

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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