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Economy

Small Business Checkpoint: Signs of improvement

16 July 2026

Key takeaways

- For the first time since the start of the year, small business profitability growth turned positive in June, according to Bank of America account data. Revenues are growing, but not fast enough to fully offset ongoing cost pressures, which has led to a prolonged period - more than six years - of small business owners planning to raise prices to combat falling sales expectations.
- Small firms are also contending with persistently higher interest rates. Still, rates have come down from their 2022 peak, and Bank of America loan payment growth per small business client has increased, suggesting modest demand although capex plans for small firms remains muted.
- At the same time, small business hiring activity improved in June from earlier this year, according to Bank of America payments data. This was especially true for small finance, insurance and real estate firms, suggesting AI hasn't affected job demand in white collar industries.

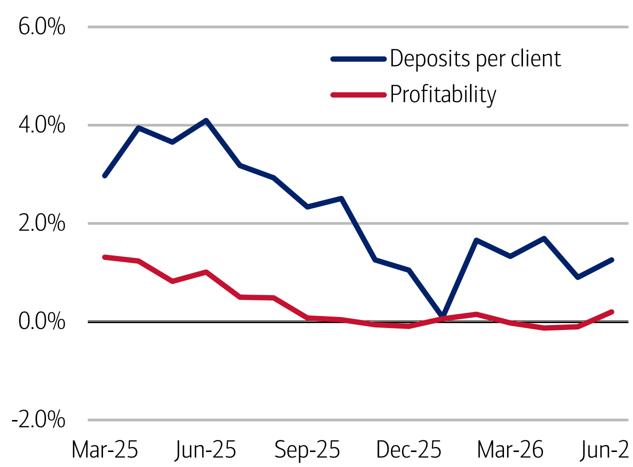
Revenues have not been keeping up with costs

Small business revenues have shown signs of stabilization in recent months, with deposit growth improving relative to earlier this year, according to Bank of America small business account data. And for the first time since the start of the year, small business profitability growth has turned positive on a three-month moving average basis (Exhibit 1).

However, stronger inflows are not necessarily leading to faster profitability growth. This suggests that many firms continue to face cost pressures that are rising as quickly as revenues, if not more so. As a result, even businesses experiencing sales growth may be finding it difficult to meaningfully improve margins.

Exhibit 1: Small business profitability growth turned positive in June

Deposits per small business client (monthly, three-month moving average, YoY%) and inflow-to-outflow ratio (monthly, three-month moving average, year-over-year (YoY) %)



Source: Bank of America internal data

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Exhibit 2: There has been a divergence in real sales expectations and owners planning to raise prices

NFIB respondents planning to raise average selling prices (%, monthly, three-month moving average) and expecting higher real sales in the next six months (%, monthly, three-month moving average)

Source: Haver Analytics, National Federation of Independent Business

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Margin pressure can often lead companies to raise prices, especially if consumers seem willing to pay them (read more on consumer spending strength in the July Consumer Checkpoint). While many small businesses surveyed in the latest National

Federation of Independent Business (NFIB) report continue to signal plans to increase prices, expectations for future real sales have moderated from the optimism seen earlier in the cycle. The wide divergence between pricing plans and expected sales has persisted for almost six years (Exhibit 2).

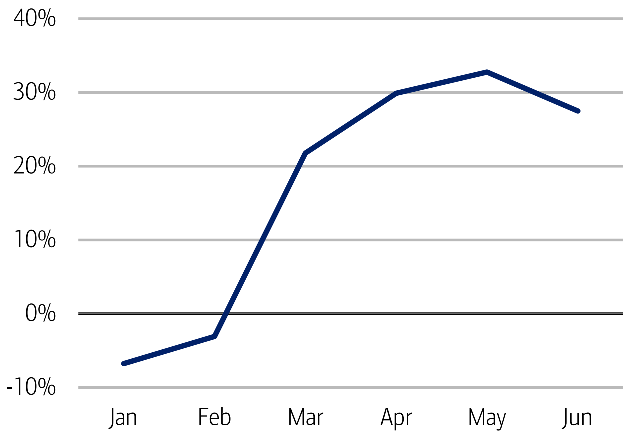
Some relief could be around the corner

Some costs for small firms might be coming down. For one, falling gas prices will provide some relief for small firms that rely on gasoline as a core operating expense (read more on this in the April Small Business Checkpoint). And though gasoline spending per small business client was still up double digits in June YoY, it came down from last month's peak (Exhibit 3).

Additionally, Bank of America small business account data shows that of those firms that have made tariff payments directly to US Customs and Border Protection (CBP), an estimated 23.4% of them have been returned as of June. This was up from 6.7% in May, and additional tariff relief is likely on the way as cash withdrawals from CBP continued into early July (Exhibit 4).

Still, it is unlikely that refunds meaningfully stimulate hiring or investment due to their one-off nature, according to BofA Global Research. The refunds are more likely to be used to pay down debt or save cash, especially for small businesses that already operate on thin margins.

Exhibit 3: Small business gas spending growth was up 27% YoY in June
Gasoline credit and debit card spending per small business client (monthly, YoY%)



Source: Bank of America internal data

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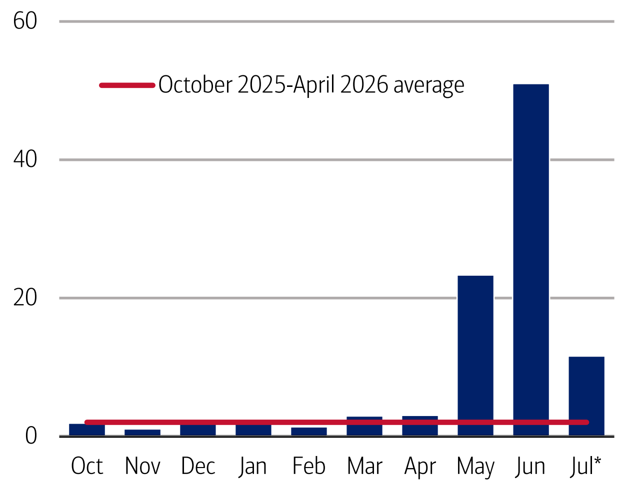
Exhibit 4: Tariffs continue to be refunded quickly
CBP cash withdrawals ($bn)



Source: Daily Treasury Statement US Treasury Department, BofA Global Research
*Note: July data is through July 7.

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High interest rates impact margins and credit demand

Among the continuing pressures facing small business is the rising cost of credit. After several years of elevated borrowing costs, debt servicing remains key for many of these companies (read more on this in the June Small Business Checkpoint). After all, higher loan payments can reduce financial flexibility, particularly for firms seeking to expand, hire workers or make capital investments.

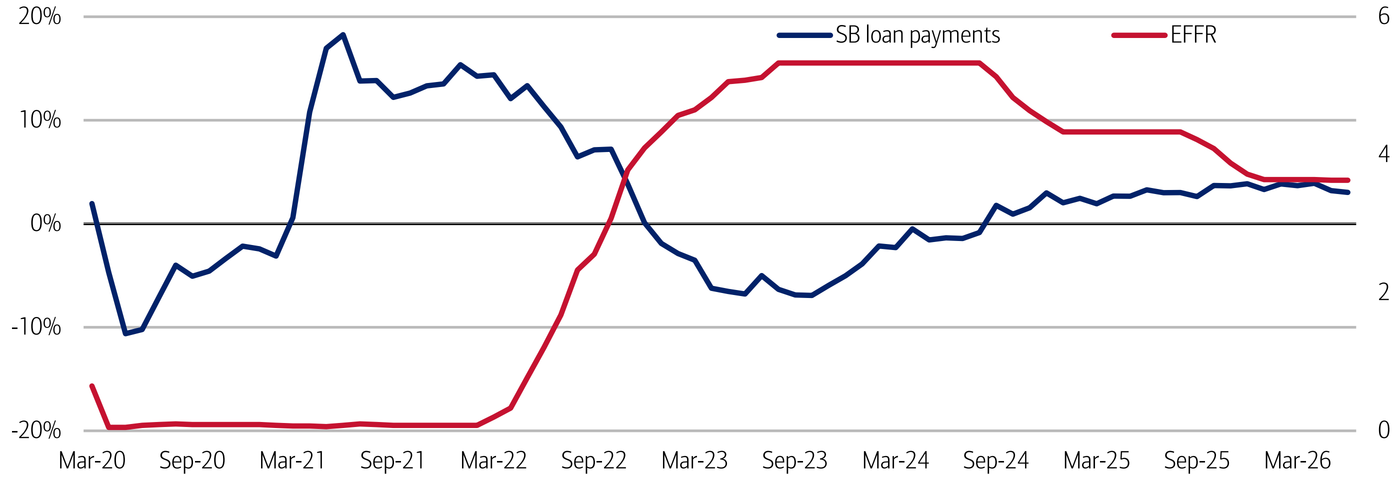
Although rates have come down from last year, borrowing costs remain elevated compared to before the pandemic, leaving many firms with substantially more expensive credit than during much of the 2010s. The EFFR (Effective Federal Funds Rate) is the interest rate banks charge each other for overnight, unsecured loans of excess reserves and acts as a critical benchmark for short-term borrowing costs.

Bank of America small business payments data shows that the appetite for borrowing was higher when rates were lower and fell when rates hit a peak (Exhibit 5). In the past several months, growth in loan payments has risen, and there have been four consecutive quarters of YoY small business average loan growth.[1]

This could mean two things are true: 1) with capex plans reportedly around 2009 levels per the NFIB, higher debt-service costs are continuing to show up on balance sheets and 2) many of these payments are likely on floating rates, so growth in the face of declining rates could indicate growing demand.

[1] Bank of America Corporation (BAC). (2026, July 14). *Quarterly Earnings.* BAC.

Exhibit 5: Small business loan payment growth has slowly increased from early 2024, though is broadly stable
Loan payments per small business client (monthly, three-month moving average, YoY%) and EFFR (monthly, %)



Source: Bank of America, Haver Analytics
*Note: SB loan payments include payments to alternative lenders, cash advance, traditional loans and lines of credit. Includes both BAC and non-BAC products.

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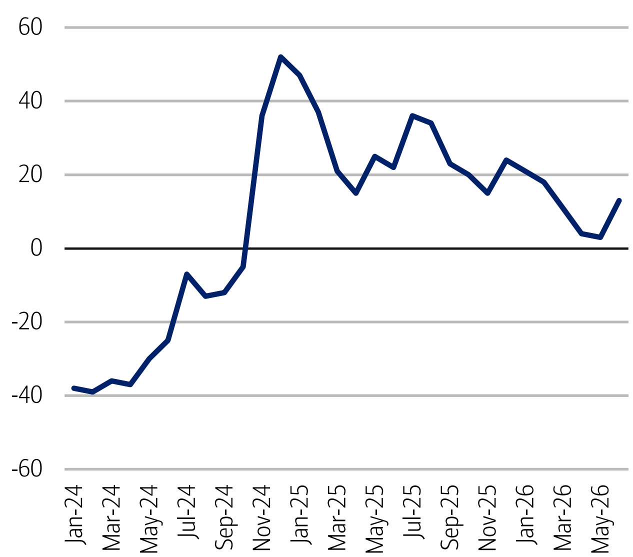
Not so great expectations despite elevated hiring

Business owners' expectations often shape hiring decisions, and research shows small business owners have become less optimistic about the economy, although the net percentage of owners expecting better business conditions improved for the first time this year (Exhibit 6). This may explain why a "low-hire, low-fire" business environment has remained intact for over a year, characterized by restrained hiring and limited layoffs (read more on this in the Institute Employment Report: June 2026).

Small business hiring indicators appear broadly consistent with that view, though there has recently been some upswing in our alternative hiring indicator (Exhibit 7). Payments to hiring firms per small business client grew 11% YoY in June and has broadly followed the trend seen by data from the Job Openings and Labor Turnover Survey (JOLTS) published by the Bureau of Labor Statistics.

Exhibit 6: In June, the net percentage of owners expecting better business conditions improved for the first time this year
NFIB respondents expecting the economy to improve in the next six months (%, seasonally adjusted)



Source: Haver Analytics

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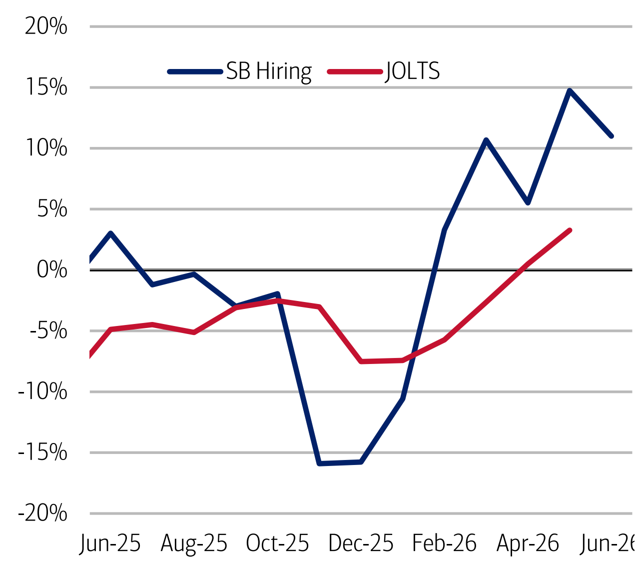
Exhibit 7: Small business hiring continues to show improvement
Payments to hiring firms per small business client (monthly, three-month moving average, YoY%) and JOLTS (monthly, YoY%)



Source: Bank of America internal data, Haver Analytics

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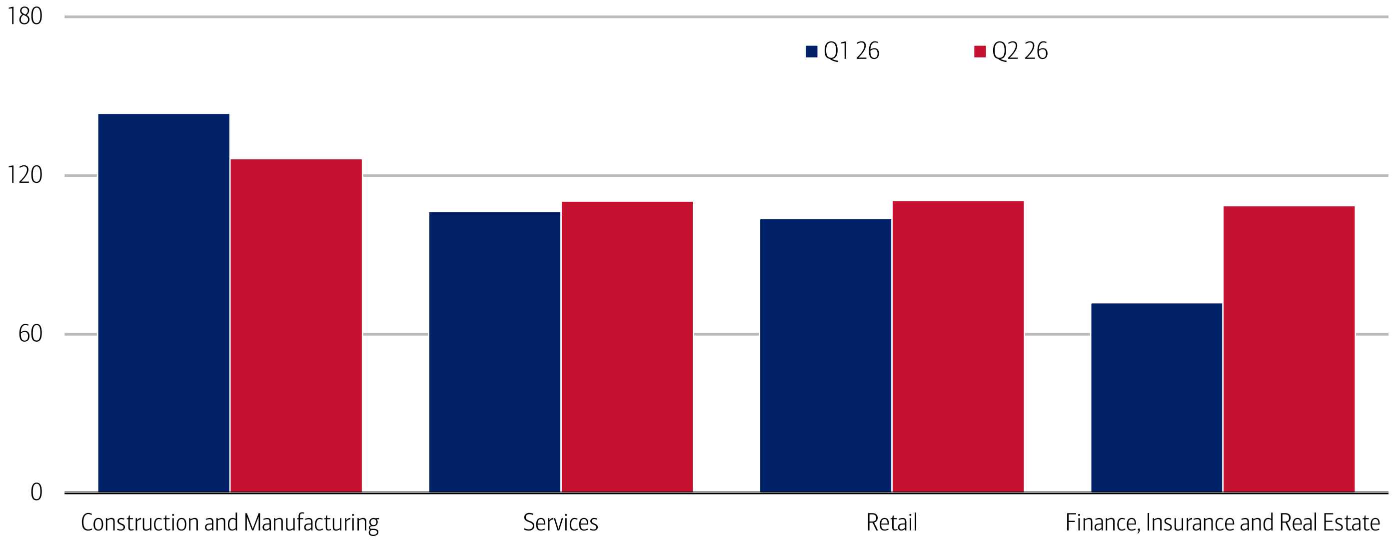
Construction and manufacturing post the strongest hiring levels, while finance has improved the most

Additionally, some sectors appear to have accelerated adding workers in Q2 26. Construction and manufacturing businesses continue to exhibit relatively stronger hiring than many service-oriented industries, perhaps because of improving profitability growth (read more on this in the June Small Business Checkpoint).

Notably, all industries except construction and manufacturing increased payments to hiring firms per small business client in the second quarter from the first quarter of 2026 (Exhibit 8). Small finance, insurance and real estate firms showed the most payment growth, pushing back on the narrative that AI will lead to job replacement.

Exhibit 8: From the first quarter of 2026, all industries except construction and manufacturing increased hiring spending in the second quarter
Payments to hiring firms per small business client by industry (quarterly average, indexed, 2025 average = 100)



Source: Bank of America internal data

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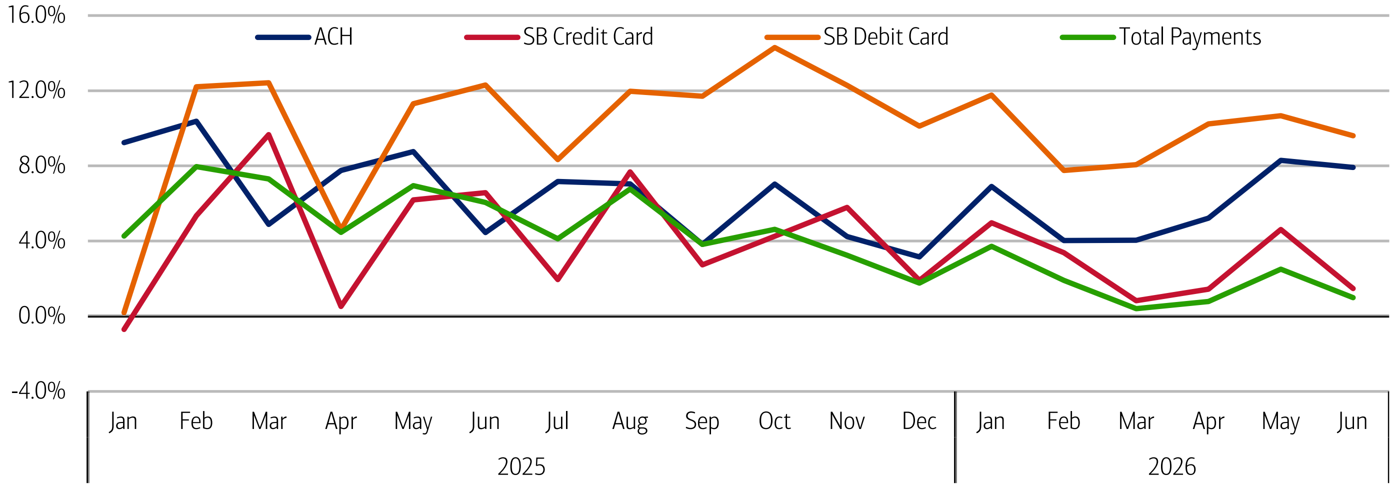
Monthly payments update

Looking more broadly at small business payment activities in May, total payments among such clients increased by 1% YoY and rose from the prior month, according to Bank of America data (Exhibit 9). Among major components, small business (SB) debit card continued to exhibit the strongest growth, up nearly 10% YoY in June.

Exhibit 9: Total payments per small business client were up 1.0% YoY in June
Payments* per small business client by channel (monthly, per day volume, YoY%)



Source: Bank of America internal data
*Note: 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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