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Small Business Checkpoint

Planning for the unexpected

18 March 2025

Key takeaways

- Despite continued optimism, small business uncertainty is on the rise in the midst of increasingly volatile market and policy conditions. In response, according to Bank of America aggregated credit and debit card data, small businesses are slowing their card spending across the board.
- This change in sentiment and capital expenditures could slow new business formation. Across sectors, retailers have been notably strong, whereas manufacturing, construction, and finance have contracted. Notably, for small manufacturing firms with annual revenues of <$500K, their payments growth fell 5.7% year-over-year (YoY) in February.
- As new business formation returns to pre-pandemic levels, and job creation falls, this could stall overall productivity growth. And though small business hiring grew 12.3% YoY in February, this has fallen from inflation-adjusted 2019 average levels, suggesting in an uncertain economic environment, the small business labor market could slow.

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.

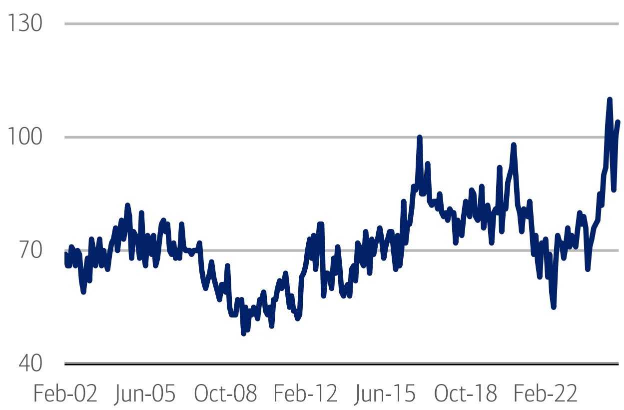
How is uncertainty impacting small businesses?

Economic uncertainty may result in market volatility and changes in consumer behavior, both of which can negatively impact small business sentiment and profitability. And according to the February National Federation of Independent Business (NFIB) survey, uncertainty rose four points to 104 – the second highest recorded reading, topped only by October 2024 (Exhibit 1).

There are several factors which could be contributing to this uncertainty including expected tariffs and persistent inflation (read more in our February Small Business Checkpoint). In reaction, it appears small businesses are spending less, with total card spending per small business client down 2.1% year-over-year (YoY) in February, according to Bank of America card data.

Exhibit 1: Small business uncertainty rose to the second highest recorded reading in February

NFIB small business uncertainty (index, monthly)



Source: NFIB

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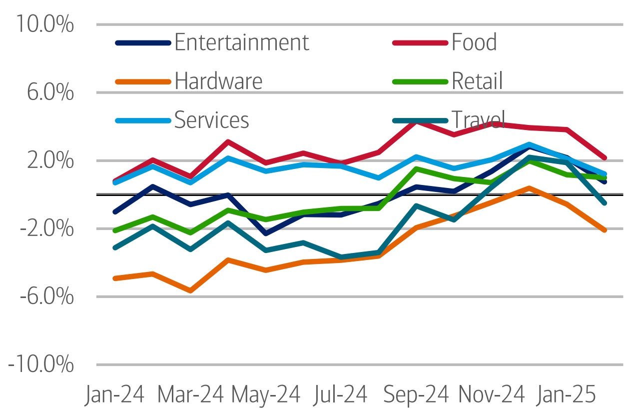
Exhibit 2: Growth in spending on food and services remains highest, though part of this is likely due to inflation, amongst the select categories below

Card spending per small business client by category (YoY%, monthly, 3-month moving average)



Source: Bank of America internal data

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Some of that decline reflected the extra leap day in February 2024, which boosted spending last year and depressed the YoY growth rate for February 2025. Additionally, total payments per small business client remained positive on a 3-month moving average, up 3.7% YoY in February, so spending on non-card is still in reasonable shape.

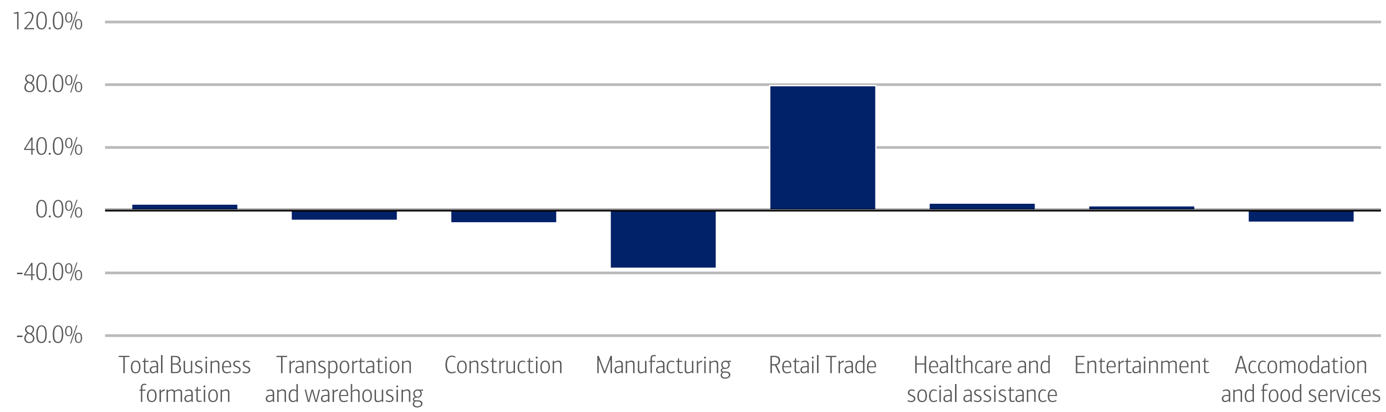
Looking across spending categories, food spending growth was modest, and part of this growth is likely due to inflation within these categories (see our [March Consumer Checkpoint] for more) (Exhibit 2).. However, travel and hardware had a sharp deterioration in the past month, possibly as business looked to cut costs amid weakening demand and growing uncertainty. Cutting back on business travel could be indicative of slowing demand. Additionally, this could be a reflection that fewer small businesses that are interested in expanding or improving their existing business models.

A shaky outlook could suppress new business formation and productivity

In fact, the NFIB found that the number of small businesses reporting "now is a good time to expand" fell in February from December's five-year high, although the level was above the average for the past four years. Plus, compared to the peak during Covid, the number of high-propensity business applications is down 16.7% in February.

However, high-propensity business applications, which include all businesses that are more likely to become employers, were still 35% higher than the average level in 2019. As Exhibit 3 shows, business applications are currently being driven by retail.

Exhibit 3: Retail, healthcare and social assistance, and entertainment drove positive total business formation growth in February
High-propensity business applications by industry in February (YoY%, 3-month moving average)



Source: Census Bureau Note: These businesses plan to pay wages and exclude sole proprietorships or pass-through limited liability companies (LLCs).

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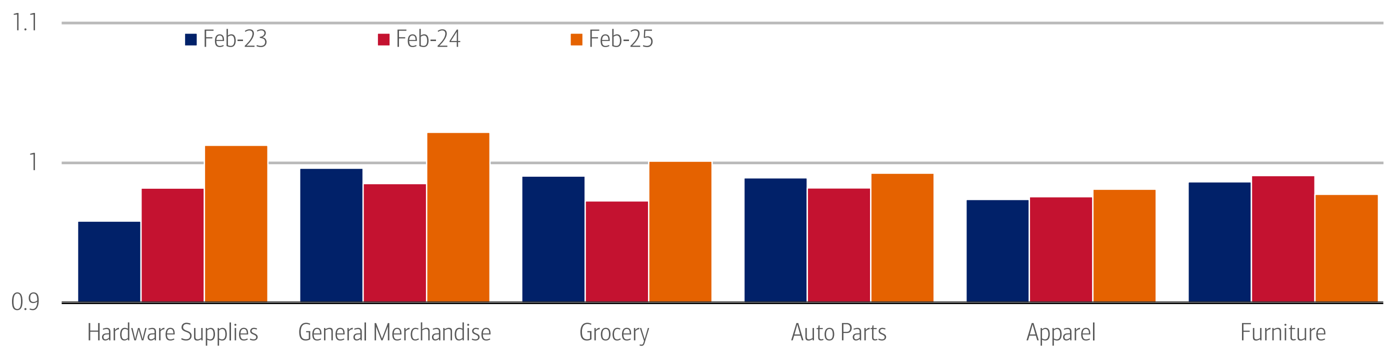
Why is retail all the rage?

As of February, retail exhibited the strongest YoY% growth in high-propensity business applications, whereas manufacturing was weakest. What is driving strength in retail growth amongst new business formation? In February, the Fiserv Small Business Index found growth in small businesses was broad, but the strongest month-to-month increase in spending occurred in restaurants, sporting goods, auto parts, furniture and clothing; conversely, service-oriented spending declined in the areas of professional services and hotels[1].

Exhibit 4: With the exception of furniture stores, all retailers had improved profitability levels compared to last year
Inflow-to-outflow ratio by retail industry



Source: Bank of America internal data

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[1] FiServ February 2025 Small Business Index

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This is somewhat supported by Bank of America small business account data which shows, across retail categories, the inflow-to-outflow ratio – our measure of profitability – is higher than the past two years except for furniture stores (Exhibit 4).

Another reason for retail growth could be found in the rise of ecommerce. At the start of the pandemic, retail trade saw the biggest surge in high-propensity business applications, driven largely by the growing demand for e-commerce, according to commentaries from the Census Bureau.

Mounting pressure for manufacturing, finance, and construction

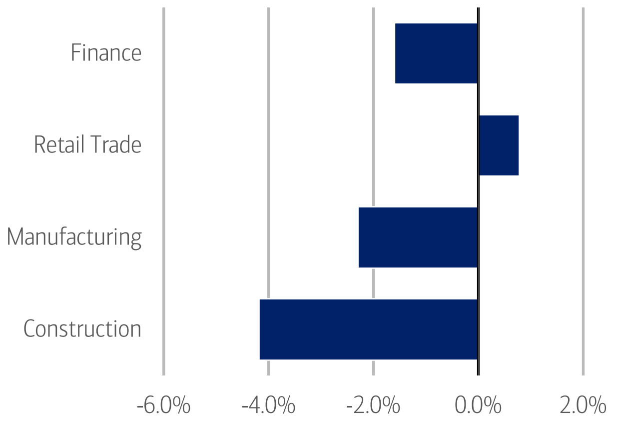
New business formation typically signals future growth for both US GDP and productivity, especially since small businesses employ nearly half the entire American workforce and represent 43.5% of America's GDP. More broadly, new business formation has historically been a driver of capital expenditures (capex) – investments in persons, places, or things – per BofA Global Research.

Unlike retail, small construction, manufacturing, and finance firms appear to be under pressure. Across four major industries, manufacturing, finance and construction payments growth per small business client was negative in February while retail was positive (Exhibit 5). Though it's possible that payments growth is down due to easing costs, our data hasn't indicated that's the case (see our February Small Business Checkpoint for more).

In our view, it's more likely smaller firms are feeling more pressure and less concentrated on outlays within these industries given the possible policy and tax credit rollbacks proposed by the Trump administration as well as the higher for longer interest rate environment.

Additionally, for manufacturing microbusinesses (those with <$500K in annual revenues), their payments growth was down almost 5% YoY in February suggesting more pressure for those newly formed businesses and startups (Exhibit 6).

Exhibit 5: Manufacturing, construction, and finance payments were down significantly compared to other industries
Payments per small business client by industry in February (YoY%)



Source: Bank of America internal data

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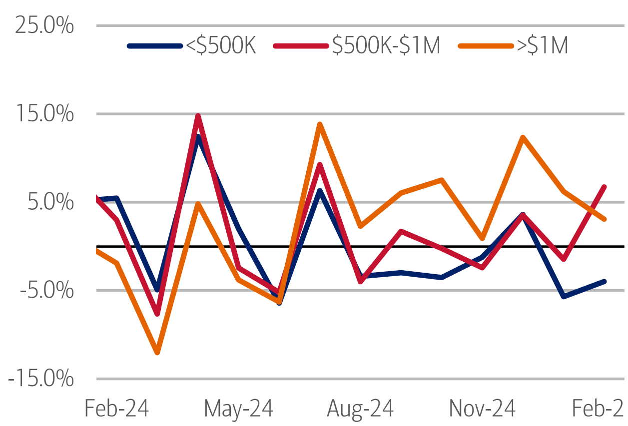
Exhibit 6: Manufacturing firms with smaller annual revenues had negative payments growth the first two months of the year and while those in the largest revenue tier were still positive but have slowed
Payments per small business manufacturing client by revenue tier (monthly, YoY%)



Source: Bank of America internal data

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Small business hiring up from last year, but job creation is declining

More broadly, the pandemic era surge in the number of establishments was also associated with a peak in job creation by entrants per research from the Richmond Fed. This research also found that while the average entrant hired fewer employees than before the pandemic, the total number of jobs created by entrants reached a high of 1.12 million at the end of 2021- levels that have not been observed in the past 20 years.

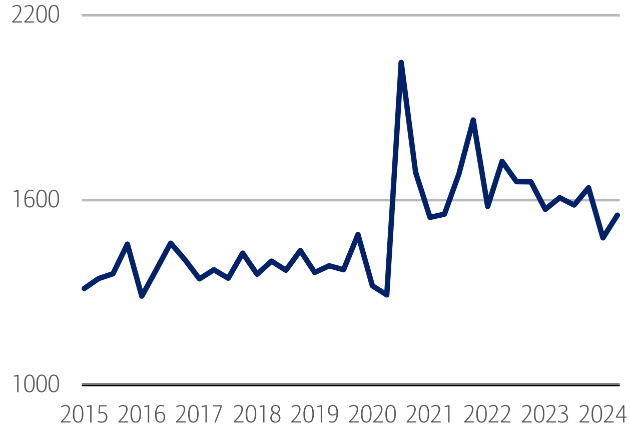
So, will new business openings and their associated job creation be sustained now that peak pandemic growth is behind us? Not necessarily. For one, the pandemic featured historical levels of unemployment, so the rise in establishment openings and associated job creation created a more-than-welcome boost to the US economy.

For another, there are increasingly signs that establishment openings and entrant job creation are reverting to pre-pandemic trends, according to the Richmond Fed. This could indicate that the pandemic surge in employer activity was only a temporary phenomenon.

Nevertheless, levels in new employer activity are still higher than before the pandemic (Exhibit 7). Employer startups constitute only a small fraction of the stock of aggregate employment, as it has historically been less than 3%[2].

However, their contribution to aggregate job creation and productivity growth is disproportionately high per the Richmond Fed. Despite their small size, employer startups have contributed about 15% to aggregate job creation, and some studies have shown that about 25% of aggregate growth can be attributed to entrants alone[3].

Exhibit 7: Job gains at new businesses have fallen but are up from pre-pandemic levels
Private sector gross job gains at opening establishments through 2Q24 (seasonally adjusted, thousands)



Source: Bureau of Labor Statistics

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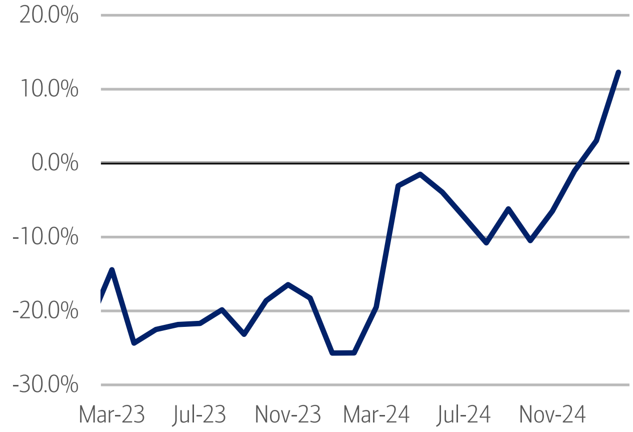
Exhibit 8: Small business hiring growth has been improving since the beginning of last year
Small business (SB) payments volume to SB-focused hiring firms through February (monthly, 3-month moving average, YoY%)



Source: Bank of America internal data

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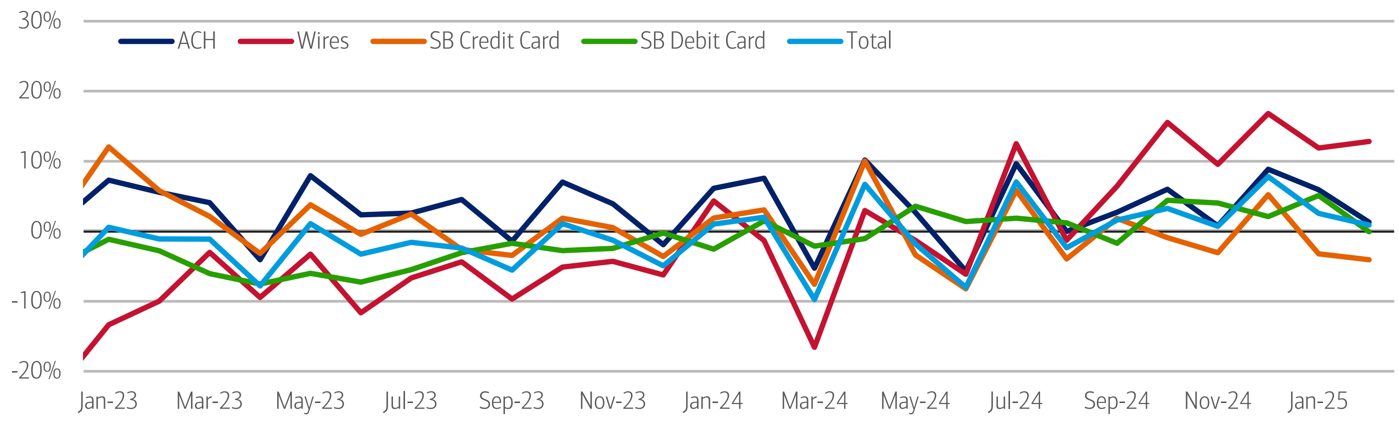
Encouragingly, small business hiring activity has grown, increasing 12.3% YoY in February on a three-month rolling average (Exhibit 8). This continues a trend of relative improvement. Still, hiring payment levels have now fallen below the inflation-adjusted 2019 average, signaling a modest pullback from last year.

Monthly payments update

Looking more broadly at small business activities in February, total payments for such clients were up 0.9% YoY but fell from January (Exhibit 9). All major components posted declines prior to last month. Wires showed the largest increase, up around 13% YoY in February.

Exhibit 9: Wires continued to exhibit the strongest growth, and total payments grew 0.9% YoY in February
Payments per small business client by channel (monthly, %YoY)



Source: Bank of America internal data

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[2] Will the Pandemic Surge in Employer Business Formation Last? | Richmond Fed
[3] Such studies include the 2001 book chapter "Aggregate Productivity Growth: Lessons From Macroeconomic Evidence" by Lucia Foster, John Haltiwanger and C.J. Krizan and the 2018 paper "Growth Through Heterogeneous Innovations" by Ufuk Akcigit and William R. Kerr.

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.

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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Disclosures