

Economy

Small Business Checkpoint: Productivity push

16 March 2026

Key takeaways

- Small business profitability in February improved despite cost pressures. It rose 1.2% year-over-year (YoY) in February to the strongest reading since March 2025, according to Bank of America small business account data. For those small firms with <\$500K in annual revenue, there was a notable rebound.
- Hiring signals are cautious but stabilizing. Bank of America's alternative hiring indicator shows small business payments to hiring firms increased month-over-month in February after a January dip, hinting at tentative hiring ahead though payroll growth per small business client remained negative.
- Small business spending on tech services (including AI) surged more than 14% YoY in February, with small retailers leading and manufacturing close behind. Against this broader backdrop, business formation continued to rise, yet fewer applicants indicated plans to hire, suggesting that new firms are prioritizing productivity gains before expanding their workforce.

Profitability vs. price pops

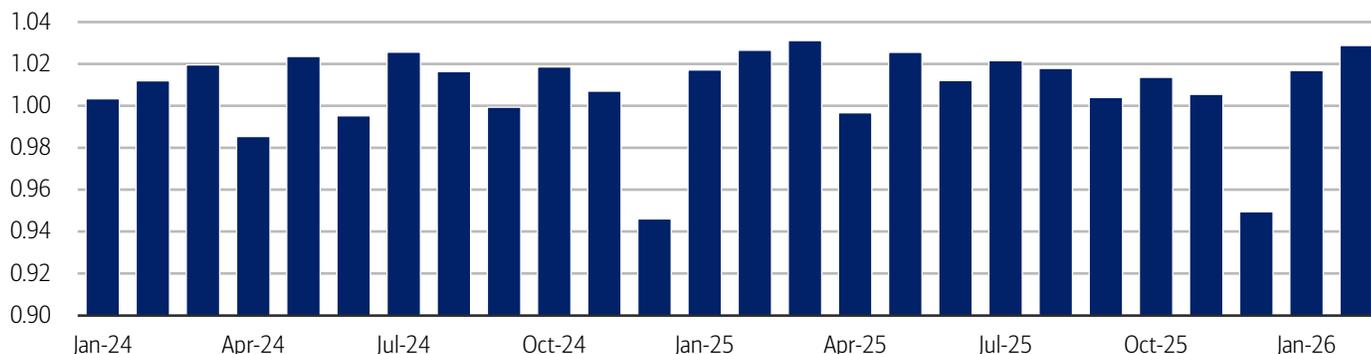
Small business profits rose 1.2% year-over-year (YoY) in February, according to Bank of America small business account data. In fact, the inflow-to-outflow ratio from Bank of America small business accounts – which represents profitability – reached 1.03 in February, the strongest level since March 2025 (Exhibit 1). That’s encouraging but profits among such companies often rise in February and March as small business owners receive tax refunds – and nearly 40% view their refund as a mix of both business and personal money.¹

The relative strength in profits among these companies in the face of continued inflationary pressures underscores resiliency. But increased economic uncertainty and the prospect of further price hikes could hit small businesses harder, pressuring future margins.

For example, the larger-than-expected rise in the Producer Price Index (PPI) in January reported by the Bureau of Labor Statistics (BLS) was driven by a surge in trade services, which measures how much wholesalers’ and retailers’ margins change over time. Yet goods prices were unchanged, suggesting businesses have passed along some tariff costs as higher prices to consumers.

Exhibit 1: Small business profits last month reached the highest level since March 2025

Small business account inflow-to-outflow ratio (monthly)



Source: Bank of America internal data
Note: A ratio of more than 1 indicates profitability.

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¹ Frankel, R. (2026, March 5). *Refund regrets: An analysis of Americans' post-tax filing spend*. Nav.

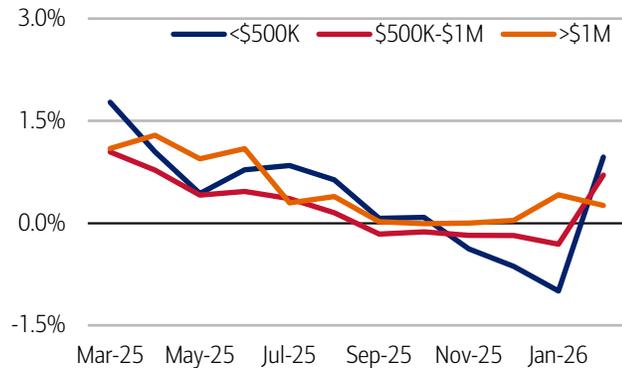
Micribusinesses operate on the thinnest margins

For those businesses with lower annual revenues (<\$500K and \$500K-\$1M), February profitability growth rebounded (Exhibit 2). Notably, for firms with annual revenues of <\$500K, profitability growth was the strongest since April 2025.

One of the largest costs for small firms is labor. According to Bank of America small business payments data, payroll payments per client were nearly 5% below the 2024 average in February, although they did increase slightly from the January low (Exhibit 3). Comparatively, small businesses with higher revenue tiers were just below or above the 2024 average. For small businesses, this underscores that wage inflation is not impacting bottom lines.

Exhibit 2: In February, across all revenue tiers, small business profitability growth was positive

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

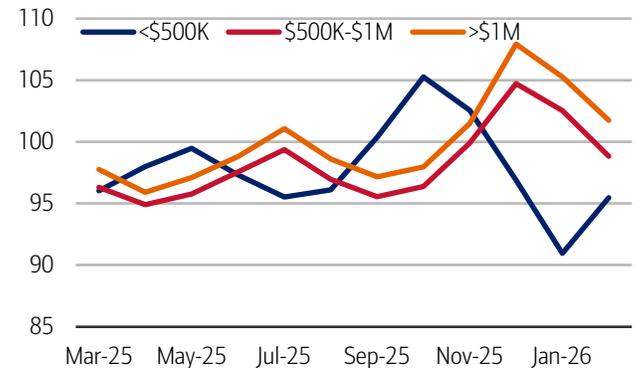


Source: Bank of America internal data

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Exhibit 3: Payroll payments for small firms with <\$500K in annual revenue remained below 2024 average levels, but ticked up in Feb

Payroll payments per small business client by revenue tier (monthly, 3-month moving average, indexed, 2024 avg = 100)



Source: Bank of America internal data

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Small business labor outlook remains cautious

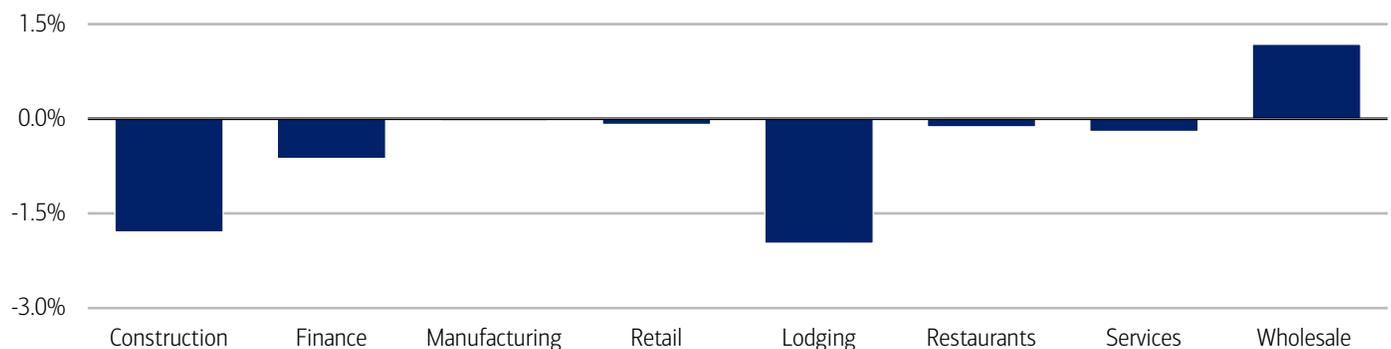
Yet, small business hiring has been uneven, and February marked a softer month for job gains, according to the latest BLS Employment Report. At the same time, Bank of America small business account data shows that payments to hiring firms rose slightly month-over-month, hinting at only modest momentum for future hiring.

Survey data from the National Federation of Independent Business (NFIB) reinforces this picture: the small business labor market remains tight by historical standards, with job openings and compensation pressures still elevated. Yet conditions are gradually easing as fewer firms report severe labor shortages compared to late 2025, according to the NFIB.

Across sectors, small wholesalers were the only group to see an increase in payroll growth per small business client on a three-month moving average through February (Exhibit 4). Still, with the exception of retail, payroll levels across most sectors remain below their 2024 average, based on Bank of America small business payments data. Overall, the data point to a labor market that is easing at the margins, but not enough to prompt broad-based hiring among small firms.

Exhibit 4: Small wholesalers were the only group to see an increase in payroll growth per small business client through February

Payroll payments per small business client in February by industry (YoY%, 3-month moving average)



Source: Bank of America internal data

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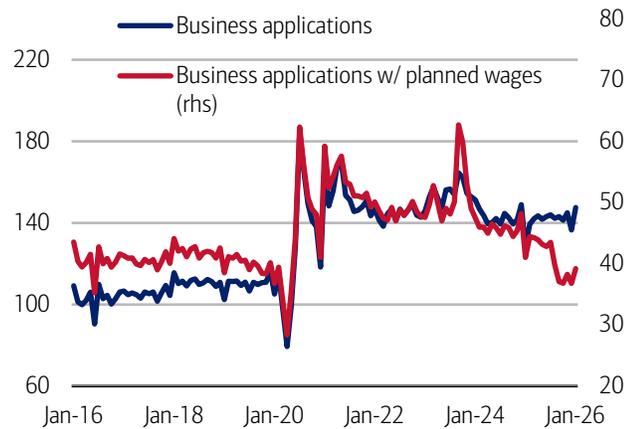
Small businesses scale up AI spending

While the hiring landscape remains relatively depressed, companies appear to be ramping up their spending on AI. In fact, according to Bank of America small business payments data, spending on tech services – which includes AI – grew more than 14% in February (Exhibit 6). This was the most since the start of the data series.

This might be linked to a productivity push. In fact, productivity is showing signs of accelerating relative to the pre-pandemic average, likely because of increased business formation and pandemic efficiencies, according to federal data. While the number of high-propensity business applications was up 15.1% YoY in January, applications with planned wages fell 4.4% and the number trended down over the course of last year (Exhibit 5).

Exhibit 5: The number of business applications with planned wages improved slightly in January, but remains depressed compared to the overall level

High-propensity business applications and business applications with planned wages (right-hand side (rhs)) (monthly, thousands, seasonally adjusted)

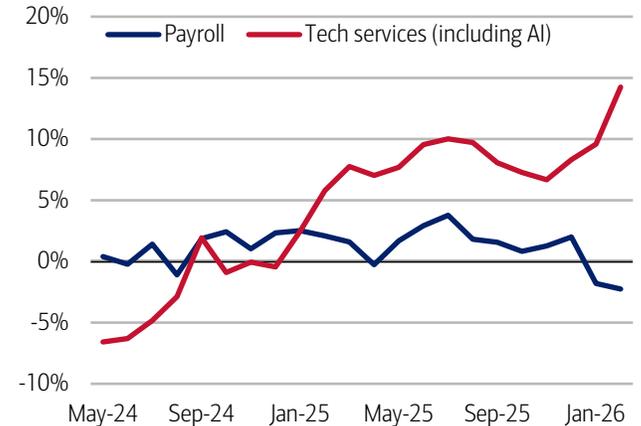


Source: Haver Analytics

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Exhibit 6: Small business spending growth on tech services and AI reached the strongest pace in our series to date

Payments to tech services per small business client and payroll payments per small business client (monthly, YoY%, 3-month moving average)



Source: Bank of America internal data

Note: Tech services includes AI and other software services.

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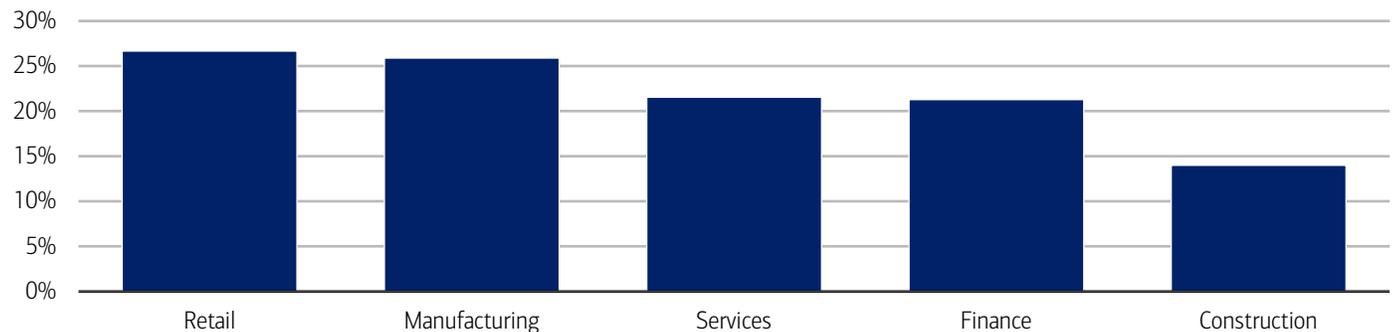
Small businesses scale up AI spending

Small businesses continued to invest in tools that boost productivity and streamline operations, with February posting the strongest growth in tech services and AI spending among retailers in this group. (Exhibit 7). This sector had the largest gains across industries. According to BofA Global Research, these investments allow retailers to bolster the user experience of their websites to control product discovery, recommendations, checkout, and post-purchase services.

Manufacturing was next, likely due to efforts to modernize workflows and adopt AI-enabled solutions in production and supply chains. These trends point to a broader shift in how small businesses are adopting technology: it's not being used just to cut costs, but also to enhance competitiveness in a tight labor market.

Exhibit 7: Small retailers' spending on tech services and AI rose the most in February of categories of small businesses, followed closely by manufacturing

Payments to tech services per small business client by industry in February (YoY%)



Source: Bank of America internal data

Note: Tech services includes AI and other software services.

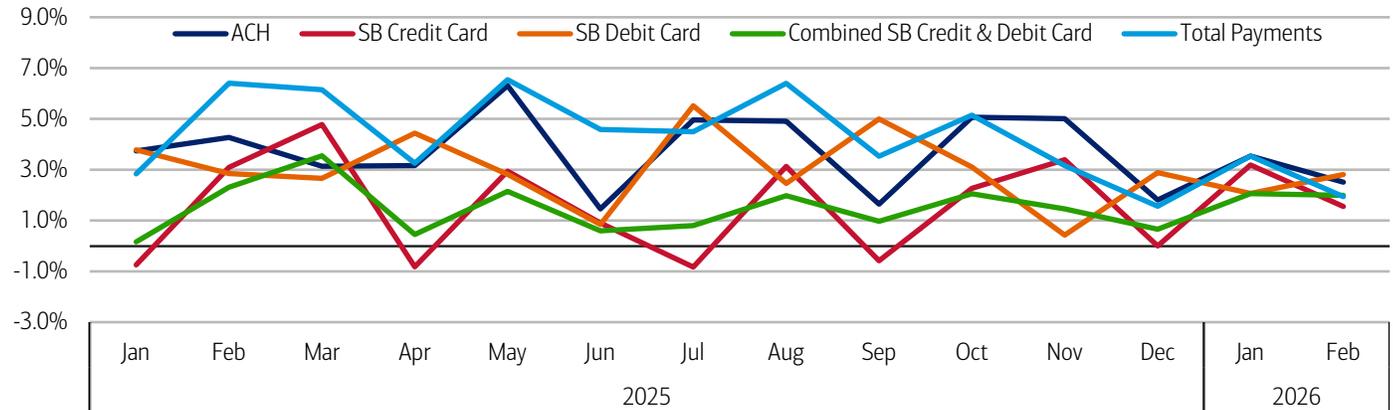
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Monthly payments update

Looking more broadly at small business activities in February, total payments among such clients increased 1.9% YoY but declined from the prior month, according to Bank of America internal data (Exhibit 8). Among major components, all categories except Small Business (SB) debit card moderated from January, with SB debit card up nearly 3% YoY.

Exhibit 8: Total payments per small business client were up 1.9% YoY in February

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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