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## Small Business Checkpoint

# ‘Tis the season of labor

**19 November 2024**

## Key takeaways

- Bank of America data suggests that hiring over this year's holiday period could be slower than the last. Our alternative hiring analysis showed a relative decline in small business hiring in the first three quarters of this year, a signal of a potential labor slowdown ahead.
- The deceleration in job growth over the past few months is being felt more broadly, though Bank of America payroll growth remains positive. So where is hiring happening? Hiring demand in services was more than 33% higher in October than the 2019 average, and Bank of America payroll levels per small business client found restaurants and lodging were around 50% higher.
- While job growth is slowing overall, labor productivity is a bright spot. New business formation remains strong, and the growth in employer firms could mean that productivity could prove more persistent. And with small businesses accounting for nearly 70% of these job gains this year, this strength can positively drive overall economic growth.

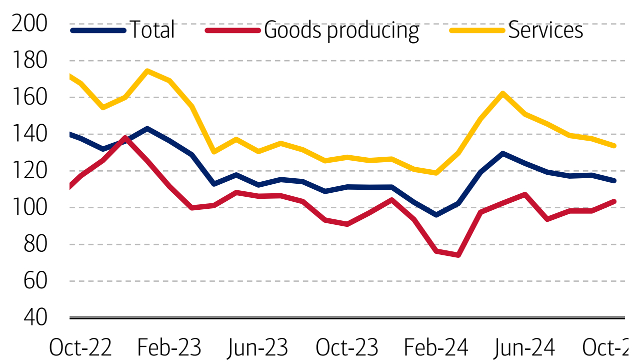
*Small Business Checkpoint is a regular publication from Bank of America Institute. It aims to provide a real-time assessment of small business spending activities and financial well-being, leveraging the depth and breadth of Bank of America's proprietary data. Such data is not intended to be reflective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

## Will holiday hiring freeze over?

Could holiday hiring be tempered this year? To get a sense of upcoming holiday hiring, we have refreshed our alternative hiring analysis (see methodology for details), which uses Bank of America data to examine small business payments to hiring firms. Here, we also extend the analysis by breaking the data down by industry group (goods and service producing industries). This updated alternative hiring analysis shows a relative decline in small business hiring in the first three quarters of this year, a potential sign of a further slowdown ahead in small firm job openings (Exhibit 1).

**Exhibit 1: Since 2019 small business hiring in services has noticeably outpaced goods and was 33% above the 2019 average level in October**

Small business (SB) payments volume to SB-focused hiring firms by industry group through October (index, three-month moving average, 2019 average =100)




**Source:** Bank of America internal data

Note: Goods producing includes retail and wholesale trade. Services includes all services plus restaurants and financial services firms.

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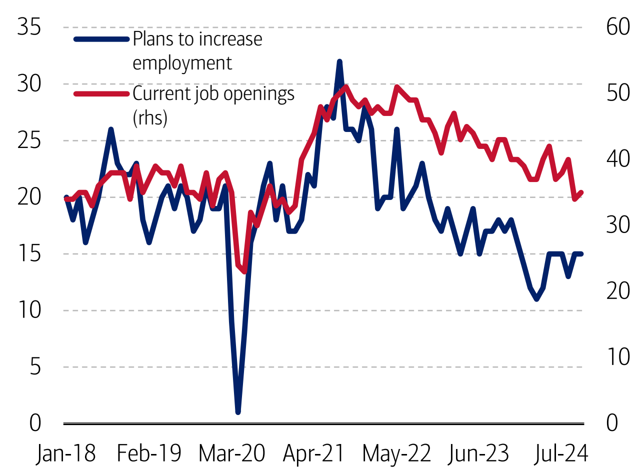
**Exhibit 2: In October, 35% of small firms had current job openings and 15% reported plans to increase employment**

Percent of firms with plans to increase employment (%, monthly) vs. those with positions not able to fill right now (%, monthly, right-hand side (rhs))




**Source:** National Federation of Independent Businesses (NFIB)

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When we look by industry group, Bank of America data shows that since 2019 small business hiring in services has noticeably outpaced goods and was 33% above the 2019 average level in October. However, services hiring now appears to be slowing since its peak in 2022.

These findings are consistent with the National Federation of Independent Businesses (NFIB) survey in October, which found the percentage of overall small firms with reported current job openings was 35%, steadily coming down from peak 2022 levels and roughly in line with December 2019 levels (Exhibit 2). The percentage of small businesses planning to increase employment has also been declining steadily over the past two years.

## Post-seasonal slowdown?

As we head into the holiday season, retail businesses often hire seasonal workers to help meet consumer demand. Spending on holiday items has shown modest increases in October compared to the past two years (see: Consumer Checkpoint), which should potentially provide some additional incentive for retailers to hire in order to meet robust demand.

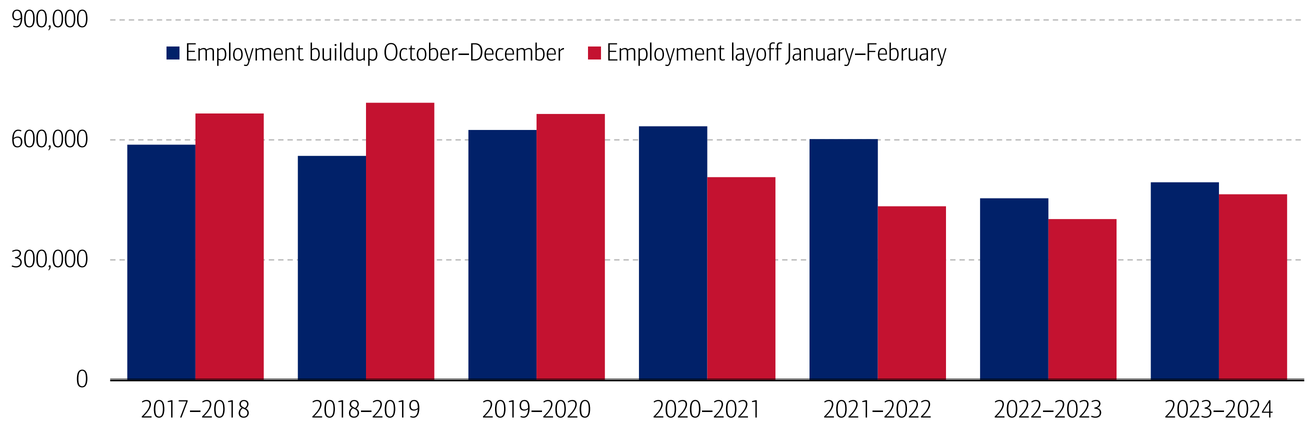
But while the most recent few months have seen an uptick in goods-producing business payments to hiring firms, suggesting a possible preparation for the holidays, the uptick looks relatively modest compared to the 2022 period.

Pre-pandemic, retailers would hire a lot of people in the run-up to the busy holiday season, then lay off more than they actually hired as the retail industry (see methodology for definition) entered its slow season in January and February. In the three years before the pandemic, retailers added an average of 591,000 seasonal jobs during the holiday buildup and laid off an average of 84,000 more employees than hired in the following January-February, per data from the Bureau of Labor Statistics (BLS) (Exhibit 3).

In the period from 2020-2021, the retail trade holiday employment buildup and layoff trends shifted, with more hiring than layoffs. But over the last two holiday periods the ratio of buildup-to-layoff has shrunk and might be even more tempered or reverse this season as pre-pandemic norms return.

If this move back to more pre-pandemic norms does occur, then the softening in hiring intentions we see in our alternative hiring indicator for goods might also imply a weaker post-holidays period, too.

**Exhibit 3: In recent years, more workers have stayed on following seasonal hiring as opposed to previous years where more were laid off**
Holiday buildup and layoff in retail trade employment, selected industries, not seasonally adjusted, 2017–2024




**Source:** BLS
**Note:** Retail trade holiday sectors can be found at https://www.bls.gov/opub/ted/2024/retail-trade-holiday-employment-buildup-and-layoff-2017-2024.htm

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## Job growth is slowing, but leisure and services persist

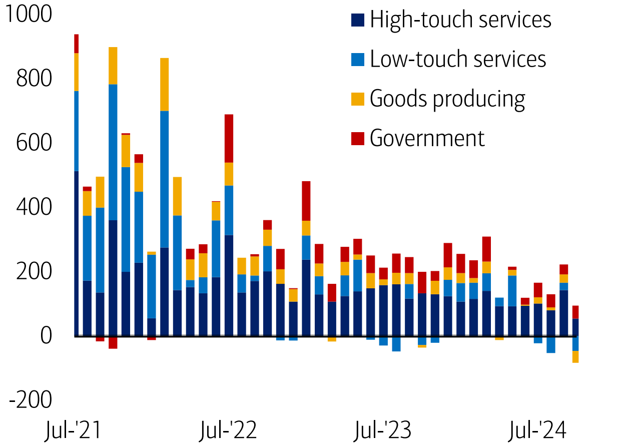
While retail hiring may soften, looking at Bank of America internal data, payroll payments per small business client shows a relatively solid picture for small businesses overall, with payrolls increasing 3.0% year-over-year (YoY) on a three-month rolling basis in October.

While jobs growth is slowing, Bank of America small business payrolls data indicates a gradual moderation over the last six months as opposed to a sharp drop. This is consistent with the general pattern of jobs growth reported by the BLS over the past year (see: September Small Business Checkpoint).

In the October BLS employment report, job growth was primarily driven by a few services categories including leisure and hospitality as well as government jobs (Exhibit 4). This pattern appears similar for small businesses, with Bank of America data showing payroll payment levels per small business client in industries like restaurants and lodging both up around 50% in

October compared to the 2019 average (Exhibit 5). Health and education services are also up in October more than 30% from the 2019 average. Given we have seen wage inflation ease, this strength suggests greater headcount amongst these sectors.

**Exhibit 4: Job growth remains driven by a few services categories and government**
Job growth by categories through October 2024 (m/m thousands, seasonally adjusted (SA), monthly)




**Source:** BLS, Haver Analytics, BofA Global Research
**Note:** High-touch services includes education and health, leisure and hospitality, and other services. Low-touch is all else.

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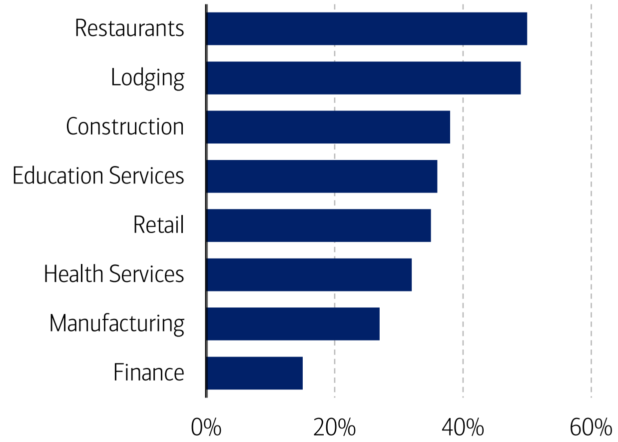
**Exhibit 5: Restaurants and lodging have the highest payroll levels in October compared to the 2019 average**
Payroll payment levels per small business client in October compared to 2019 average by industry (%)




**Source:** Bank of America internal data

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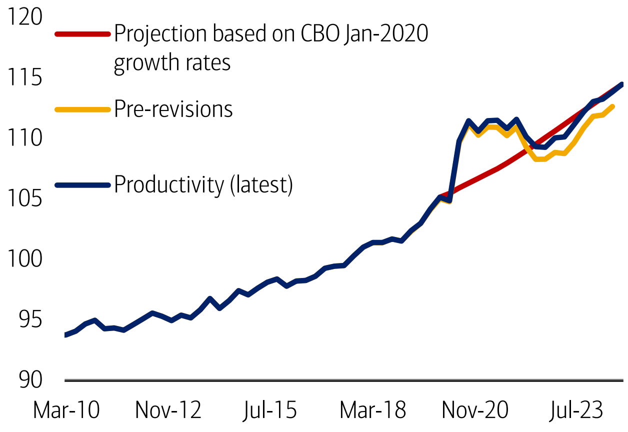
## Labor productivity remains strong

Productivity growth has been steadily increasing in the United States and the latest data suggests the trend in productivity is in line with the Chief Budget Office's (CBO) projected growth rates made just before the pandemic (Exhibit 6). According to BofA Global Research, those projections were optimistic since they were consistent with trend growth of around 2.3%.

Small firms are, in our view, a vital part of this productivity story. Most obviously, for the past 20 years, small businesses have accounted for roughly 40% of the United States' gross domestic output, which equates to trillions of dollars of economic activity.[1]

**Exhibit 6: Productivity growth has been strong, but the level is in line with a pre-pandemic counterfactual.**
Nonfarm labor productivity (2017=100, SA, monthly)




**Source:** BLS, CBO, Haver Analytics
Note: Pre-revisions refers to the reported productivity level prior to revisions
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**Exhibit 7: Business applications were 30% higher in October than the average level in 2019**
High propensity business applications (monthly, seasonally adjusted)


**Source:** Census Bureau

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[1] Small Business Saturday: Everything You Need to Know | U.S. Chamber of Commerce (uschamber.com)

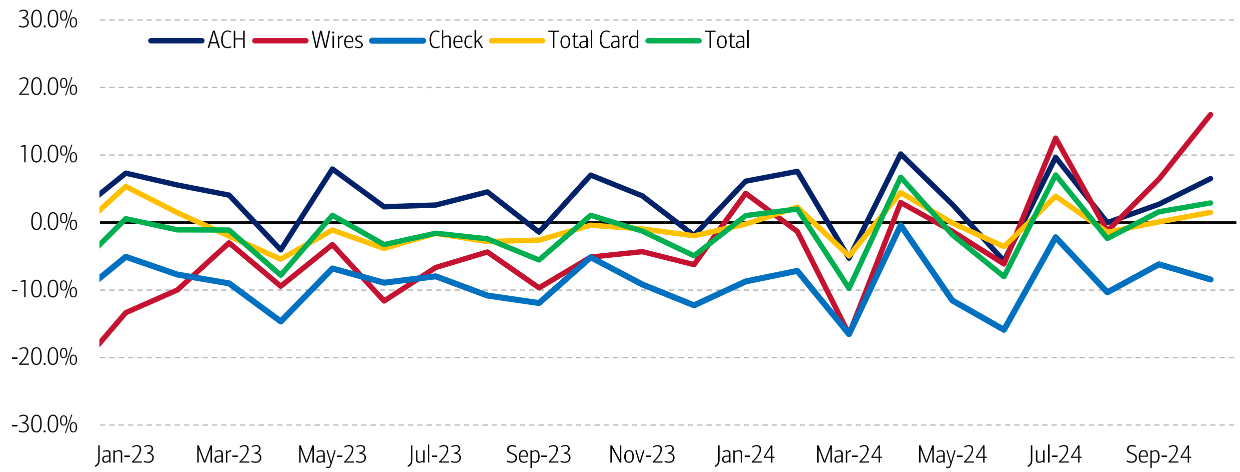
Importantly, the pandemic has resulted in a boom in new business formation, with high propensity business applications (those that have a higher likelihood of becoming businesses with employees and payroll capabilities) still running well above pre-pandemic levels (Exhibit 7). These new small firms may be taking advantage of new technology (such as artificial intelligence) and market opportunities, helping drive the productivity upturn.

New small businesses and the growth of existing ones have also driven the solid payrolls growth we have seen, with firms of <250 employees accounting for nearly 70% of new job gains in the first quarter of this year.[2] So, overall, the dynamism in the economy implied by rising productivity and new business openings suggests to us that even though small business hiring is cooling, the underlying trend remains promising.

## Monthly payments update

Looking more broadly at small business activities in October, total payments per small business client increased 2.9% YoY (Exhibit 8). Among the major components, ACH increased 6.5% YoY, and, conversely, the largest decrease %YoY was payments by check.

**Exhibit 8: Wires had the strongest YoY% growth in October, whereas checks have the largest decrease**
Payments per small business client 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.

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

[2] Business Employment Dynamics Summary - 2024 Q01 Results (bls.gov)

While the retail trade sector comprises nine industries, data from the BLS focuses on the five industries that hire seasonal employees to meet holiday demand: furniture, home furnishings, electronics, and appliance retailers; general merchandise retailers; health and personal care retailers; clothing, clothing accessories, shoe, and jewelry retailers; and sporting goods, hobby, musical instrument, book, and miscellaneous retailers.

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.


## Contributors

**Taylor Bowley**

Economist, Bank of America Institute

**David Michael Tinsley**

Senior Economist, Bank of America Institute



## Sources

**Patrick Williams**

Senior Vice President, Analytics, Modeling and Insights

**Stephen Juneau**

US Economist, BofA Global Research

**Joshua Long**

Consumer Product Strategy Manager, Consumer and Small Business

**Kevin Burdette**

Consumer Product Strategy Analyst, Consumer and Small Business

**Michael Lutz**

Strategy Executive, Small Business, Specialty Lending & Banking

# Disclosures