

Small Business Checkpoint

Lower rates, better business

17 October 2024

Key takeaways

- Lingering effects of inflation have continued to cause challenges to cash flow for small businesses, driving higher utilization of credit cards. In Bank of America data, average monthly credit card balances per small business client are up more than 20% compared to 2019 average levels, and average monthly small business credit card utilization rates are approaching a decade-level high.
- However, in our view, pressure on credit card usage might ease as credit availability improves and interest rates fall. Additionally, loan payment growth, after being largely negative the past year, is starting to increase and outpace credit card payment growth for small businesses. This further suggests small businesses may be rotating back to bank financing as they anticipate further rate cuts.
- Encouragingly, results from the 2024 Bank of America Women and Minority Business Owner Spotlight provide further evidence that demand for traditional loans and lines of credit is increasing, possibly as they expect further easing while preparing for future expansion.

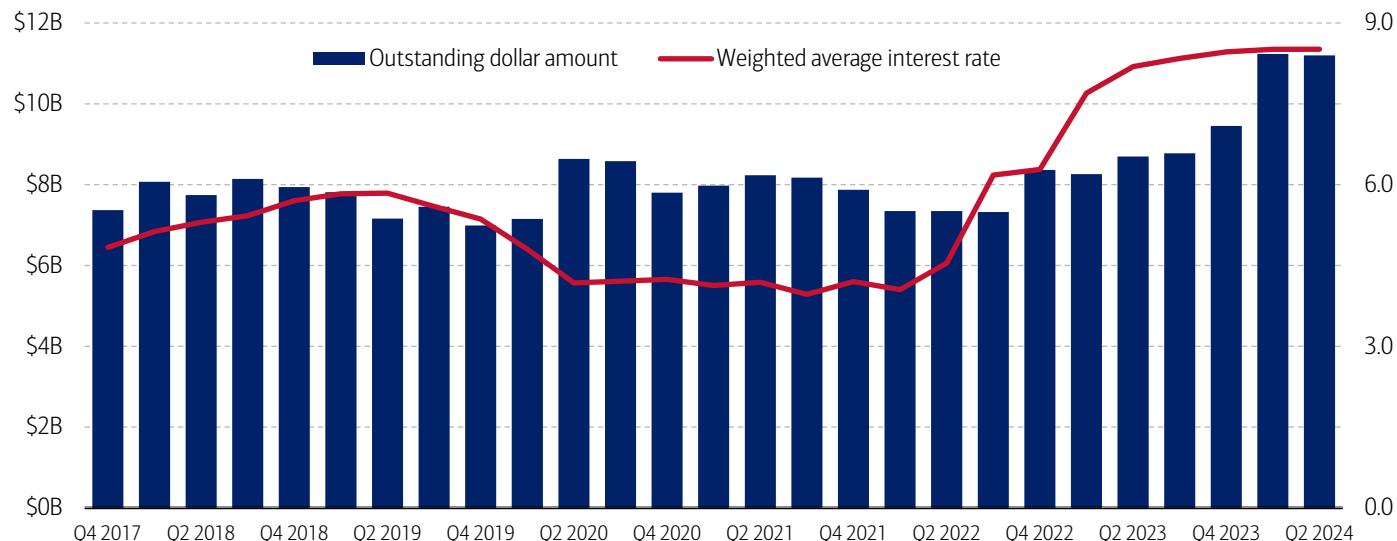
Small Business Checkpoint is a regular publication from Bank of America Institute. It aims to provide a real-time assessment of small business spending activities and financial well-being, leveraging the depth and breadth of Bank of America's proprietary data. Such data is not intended to be reflective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

Interest rates influence small business debt

In September, the Federal Reserve lowered interest rates for the first time in over four years. For small businesses, this can be beneficial because they are disproportionately reliant on bank financing and often have floating rate loans which can increase their rate sensitivity (Exhibit 1). And according to the Council of Economic Advisers, 80% of Small Business Administration (SBA) 7a loans, the SBA's primary business loan program, have variable interest rates.

Exhibit 1: The average quarterly interest rate small businesses pay on their loans has risen as the Federal Reserve has raised its policy rate

Outstanding variable-rate term loans as of Q2 2024 (\$ amount in billions, quarterly) and weighted average quarterly interest rate right-hand side (RHS) (%)



Source: Small Business Lending Survey, Federal Reserve Bank of Kansas City

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Small business credit card balances remain elevated

The period of relatively high interest may have led to some small businesses rotating from traditional bank loans to credit cards, in part reflecting tighter credit requirements on loans, limiting access to capital. And the effects of both inflation and higher debt servicing costs have also challenged firms' cash flow, driving higher utilization of credit cards (See: [April Small Business Checkpoint](#)).

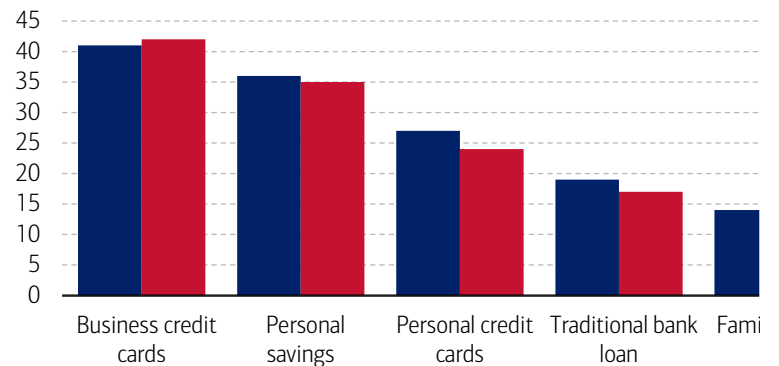
Greater use of credit cards is consistent with the findings of the [2024 Bank of America Women and Minority Business Owner Spotlight \(WMBOS\)](#) (see methodology for details), which found that business credit cards remained the top source of funding for financing small businesses, and the share of small business owner respondents increased from last year (Exhibit 2). Interestingly, according to the WMBOS, the number of small business owner respondents dipping into their retirement savings as well as using online lenders also increased whereas other sources of funding such as personal savings and traditional bank loans fell.

Using Bank of America internal data, we also find credit card balances per small business client are up more than 20% compared to 2019 average levels as of September and appear to have been slowly increasing (Exhibit 3). Additionally, average small business credit card monthly utilization rates have surpassed 2019 levels and are approaching a decade-level high (Exhibit 4).

While rising credit card activity could raise some concerns, we note a couple of reasons to be less pessimistic. First, according to Bank of America internal data, average credit card spending is the most significant driver of higher balances, and, in fact, relative to 2019, is up by more than balances. Second, inflation increased over 23% since 2019, as measured by the Consumer Price Index (CPI), so the inflation-adjusted average credit card balance is comparable to, or even lower than, 2019 levels.

Exhibit 2: For small business owners, business credit cards remain the top source of funding for financing their business

Which of the following sources do you intend to use in the year ahead to finance your business? (% of small business owner respondents)



Source: 2024 Bank of America Women and Minority Business Owner Spotlight

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Exhibit 2: For small business owners, business credit cards remain the top source of funding for financing their business

Which of the following sources do you intend to use in the year ahead to finance your business? (% of small business owner respondents)

Exhibit 3: Average credit card balances are up more than 20% compared to 2019 average

Credit card balances per small business client (monthly, indexed, 2019 average = 100)



Source: Bank of America internal data

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Exhibit 4: Average small business credit card utilization rates have surpassed 2019 levels and are approaching a decade-level high

Average small business credit card utilization rate (monthly, indexed, 2019 average = 100)



Source: Bank of America internal data

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Credit availability is improving, and loan payment growth is ticking up

In our view, if the Fed cuts interest rates further, pressure on credit card usage might ease as traditional credit availability increases. In fact, the most recent Federal Reserve Board Senior Loan Officer Opinion Survey (SLOOS) found that the net percentage of surveyed banks that were tightening commercial and industrial (C&I) loans to small firms has eased considerably from the peaks in 2023 Q1 (Exhibit 5). The current levels have come down from prior recession period levels (2000 and 2008) and are nearly equal to large firms.

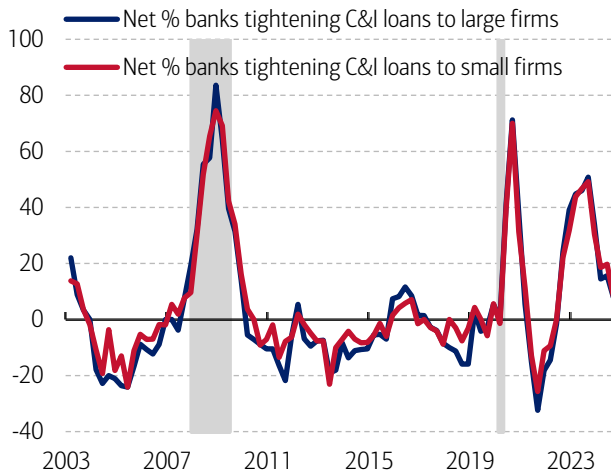
Using Bank of America small business account data, we find that loan payment growth has increased over the last few months and has outpaced credit card payment growth (Exhibit 6). As total payments growth remains positive, and loan payment growth picks up, it's possible that small businesses anticipate further rate easing while preparing for future expansion.

Plus, according to Bank of America earnings results, modifications of loans to troubled borrowers for Commercial Lease Financing and US Small Business Commercial were not significant during the first half of 2024 and 2023¹.

¹ 2Q24 10-Q as filed exhibits (bankofamerica.com)

Exhibit 5: The latest reading of SLOOS data shows tightening standards have eased as of 1Q24

Reported banks tightening commercial and industrial (C&I) loans: large banks vs. small banks (%)

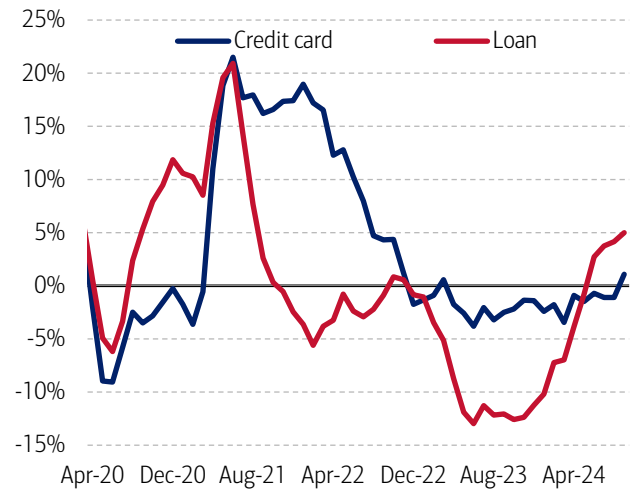


Source: Federal Reserve Board, SLOOS
Note: Shaded areas indicate a recessionary period.

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Exhibit 6: Loan payment growth has outpaced credit card payment growth over the past few months

Payments per small business client by automated clearing house (ACH) category (year-over-year (YoY)%, monthly, three-month moving average)



Source: Bank of America internal data

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Bank of America 2024 Women and Minority Business Owner Spotlight

Encouragingly, results from the 2024 Bank of America Women and Minority Business Owner Spotlight (WMBOS) provide further evidence that demand for traditional credit is increasing for both small and medium-sized business owners (see methodology for details) (Exhibit 7).

Though more small business owner respondents reported experiencing challenges when accessing capital, there has been an increase in applications for a business loan or line of credit within the past year compared to the past two years (Exhibit 8).

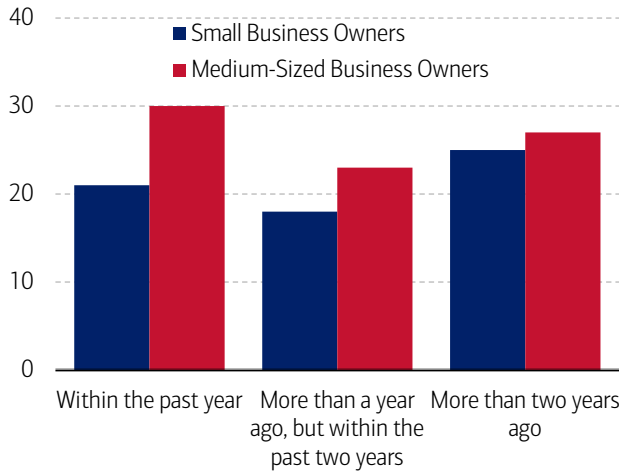
This is especially encouraging for women and minority business owners, as they are more likely to rely on rate-sensitive sources of credit². In fact, according to the WMBOS, most women business owners anticipate revenue increases and over half plan to expand their business, with 83% of respondents planning to obtain funding over the next 12 months.

Lower interest rates can also lead to greater economic confidence, with nearly half of Hispanic-Latino and Black small business owner respondents affirming this sentiment in this year's WMBOS.

² [Lower Rates are Good for Business | CEA | The White House](#)

Exhibit 7: There has been an increase in business owners applying for a business loan or line of credit within the past year

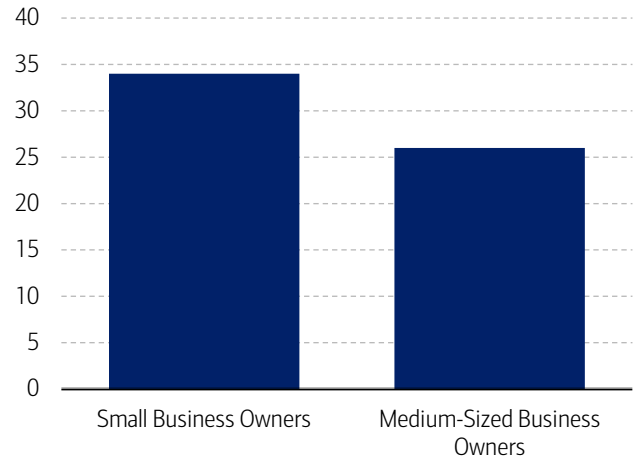
When was the last time you applied for a business loan or line of credit? (% of respondents by business size)



Source: 2024 Bank of America Women and Minority Business Owner Spotlight
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Exhibit 8: More small business owners reported experiencing challenges when accessing capital

Have you experienced challenges accessing capital for your business? (% of respondents)



Source: 2024 Bank of America Women and Minority Business Owner Spotlight
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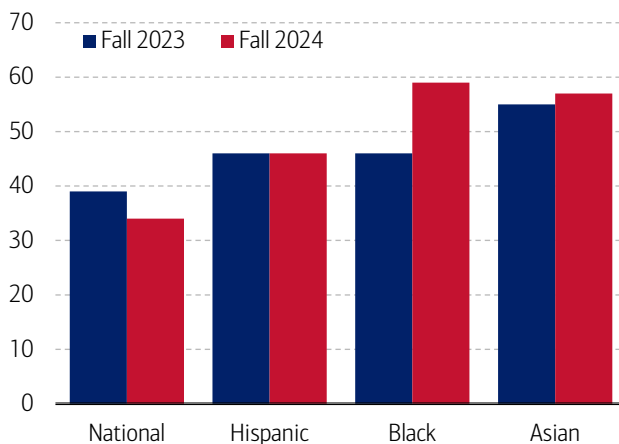
This is likely because more minority small business owners reported experiencing challenges when accessing capital for their business than the national average (Exhibit 9).

And compared to last year, both Black and Asian-American Pacific Islander (AAPI) small business owners reported an increase in challenges, despite the national average decreasing. Plus, 61% of AAPI business owners noted that credit availability is a concern for the year ahead, compared to just 45% of non-AAPI business owners.

Yet, across minority-owned small businesses, expectations for economic growth and business expansion remain. In fact, minority-owned small businesses are increasingly more likely to expand their business, all reporting at least 13 percentage points above the national average in the WMBOS (Exhibit 10).

Exhibit 9: More minority-owned small businesses reported experiencing challenges when accessing capital for their business than the national average

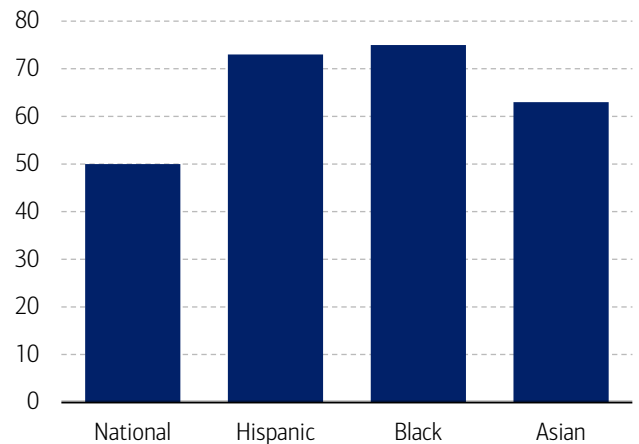
Have you experienced challenges accessing capital for your business? (% of small business respondents by ethnicity)



Source: 2024 Bank of America Women and Minority Business Owner Spotlight
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Exhibit 10: Compared to the national average, minority-owned small business owners have greater levels of planned business expansion

Over the next 12 months, do you plan to expand your business? (% of small business respondents by ethnicity)



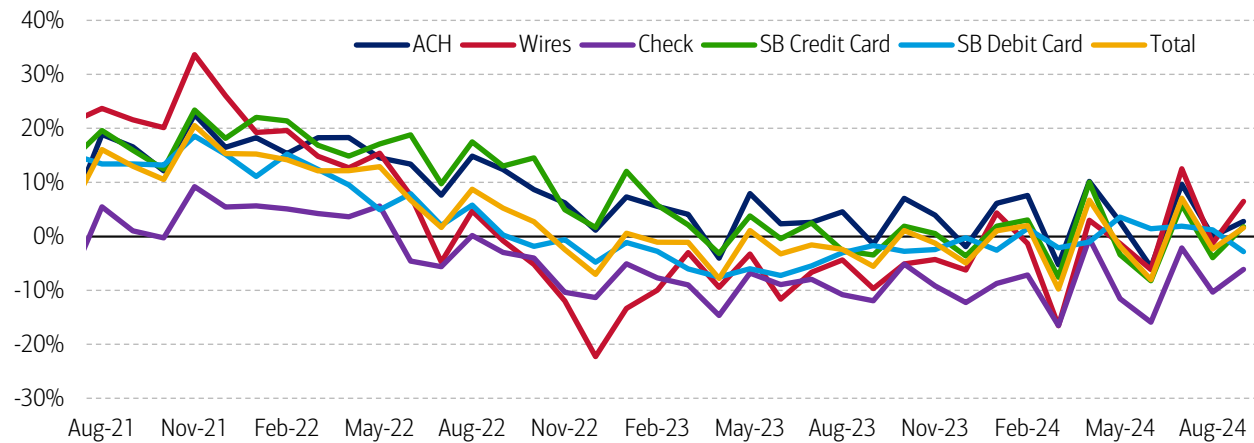
Source: 2024 Bank of America Women and Minority Business Owner Spotlight
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Monthly payments update

Looking more broadly at small business payments in September, according to Bank of America internal data, total payments per small business client grew 1.6% year-over-year (YoY) (Exhibit 11). Across all channels except small business debit card, payments ticked up, with wires exhibiting the greatest growth in September at 6.5% YoY.

Exhibit 11: All payment channels except debit card ticked up this month, with wires exhibiting the greatest growth in September

Payments per small business client by select channels (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.

Ipsos conducted the Women & Minority Business Owner Spotlight survey online between August 7 and August 21, 2024, using a pre-recruited online sample of small and mid-sized business owners. Ipsos contacted a national sample of 752 small business owners in the United States with annual revenue between \$100,000 and \$4,999,999 and employing between two and 99 employees, as well as 406 interviews of Hispanic-Latino small business owners, 269 interviews of Black/African American small business owners, and 160 interviews of Asian American Pacific Islander (AAPI) small business owners. Ipsos also interviewed a national sample of 323 mid-sized business owners in the United States with annual revenue between \$5,000,000 and \$49,999,999 and employing between two and 499 employees, along with 200 interviews of Hispanic-Latino mid-sized business owners, 159 interviews of Black/African American mid-sized business owners, and 55 interviews of AAPI mid-sized business owners. The final results for the national segments, the demographic segments and combined samples of the small and mid-sized business owners were weighted to national benchmark standards for size, revenue and region.

Ipsos conducted the Bank of America Small Business Owner Pulse Survey online between July 19 to 25, 2023 using a pre-recruited online sample of small business owners. Ipsos contacted a national sample of 542 small business owners in the United States with annual revenue between \$100,000 and \$4,999,999 and employing between two and 99 employees. The final results for the national sample were weighted to national benchmark standards for size, revenue and region.

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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Sources

Bank of America 2024 Women and Minority Business Owner Spotlight

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