

Small Business Checkpoint

A labor market balancing act

18 September 2024

Key takeaways

- There is an emerging divergence in confidence among small and large businesses - and the split is most notable on the hiring front. Establishments with less than 250 employees have slowed hiring since the beginning of this year, a sign that these business owners may be less optimistic about the economy.
- Yet while Bank of America small business payments to hiring firms, a leading indicator for payrolls, declined in the first quarter of this year, our latest update suggests their hiring is not deteriorating significantly further in the second half of the year.
- In our view, this points to a labor market in balance rather than in decline. Even as small business payroll growth is easing toward pre-pandemic levels, two key areas of strength have emerged: hiring in the services sector and the South.

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.

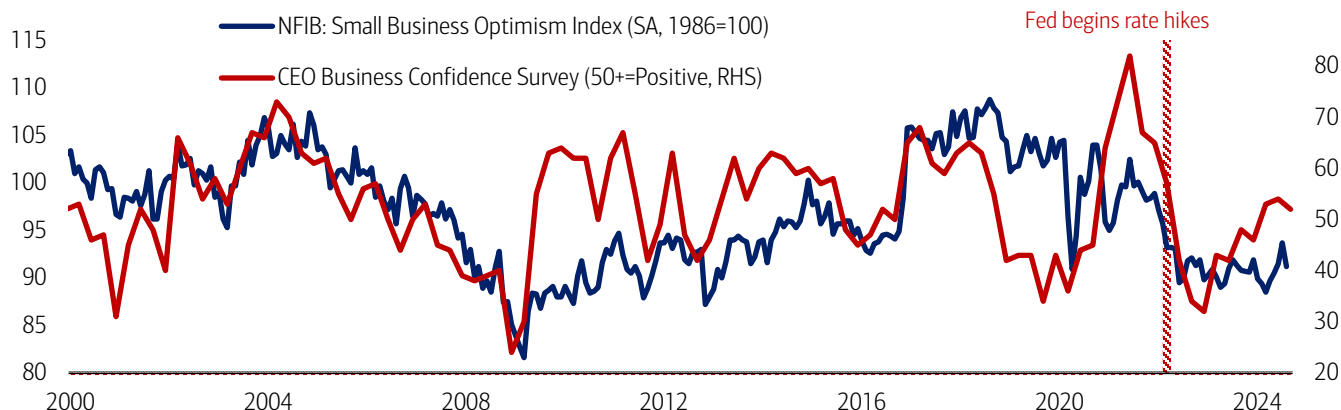
Small business confidence remains cautious

After this spring's Bank of America Small Business Owner Report reported cautious optimism, new data suggests that optimism could be waning. The National Federation of Independent Businesses (NFIB) Small Business Optimism Index fell in August (Exhibit 1), and it is important to note that the data is seasonally adjusted (SA), so the monthly analysis gives early indications of pullbacks compared to a yearly growth measure. In the major components of the survey, one positive was increased capital expenditure expectations, but labor and earnings were of greatest concern, with those planning to increase employment dropping to 13%.

The drop in small business sentiment contrasts with the Chief Executive Officer (CEO) Business Confidence Survey, which measures the sentiment of US chief executives. This has held up over the past year. Exhibit 1 shows that soon after the Fed began to hike interest rates in 2022, confidence of small and larger businesses began to diverge. Some of the main reasons for this gap could include higher leverage and costs of capital for small businesses, tight labor supply, and the exhaustion of the Covid Paycheck Protection Program (PPP) according to BofA Global Research.

Exhibit 1: Business confidence of small and large businesses have diverged post-Fed hikes

Small Business Optimism Index (monthly, seasonally adjusted (SA)) and CEO Confidence Survey right-hand side (RHS) (monthly)



Source: NFIB, Conference Board, BofA Global Research

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Hiring demand is returning to 2019 levels

The labor market is a particular area of differentiation between large and small firms. According to the federal Job Openings and Labor Turnover Survey (JOLTS), establishments with less than 250 employees have sharply curtailed their openings since the beginning of this year (Exhibit 2). Given that small businesses account for just under half of total private sector employment - and nearly half of US workers have jobs at companies with less than 250 employees - slowing labor demand in this sector could have a significant impact on the overall US economy.

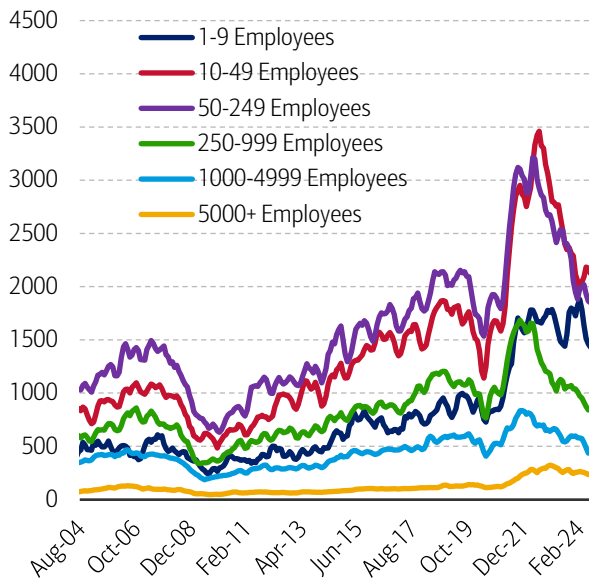
To dig deeper, we have refreshed our alternative hiring analysis (see Methodology for details) which examines small business payments to hiring firms. This measure showed a relative decline in bringing on new employees in the first quarter of this year ahead of the JOLTS survey (Exhibit 3). Bank of America data has the additional benefit of providing an earlier reading.

Notably, we found an uptick in our measure in the second quarter, but it dropped again in the past several months. In our view, this suggests that while small business labor demand continues to slow, there isn't a significant deceleration. This is consistent with the Federal Reserve's August Beige Book which found staffing contacts continued to report little change in demand.

Finding quality labor is one challenge facing smaller firms. Of the 62% of owners hiring or trying to hire in August, 90% reported few or no qualified applicants, according to the NFIB survey.

Exhibit 2: Establishments with <250 employees experienced the biggest increases in job openings in the fall of 2021, and have seen the strongest decline since the beginning of this year

JOLTS job openings by establishment size (monthly, three-month moving average, non-seasonally adjusted (NSA), thousands)



Source: Bureau of Labor Statistics

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Exhibit 3: Small business payments to hiring firms are approximately 17% above 2019 levels

Small business (SB) payments volume to SB-focused hiring firms (index, three-month moving average, 2019 average =100) RHS and JOLTS job openings for establishments with <250 employees



Source: Bureau of Labor Statistics, Bank of America internal data

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Two key areas of payroll strength: Services and the South

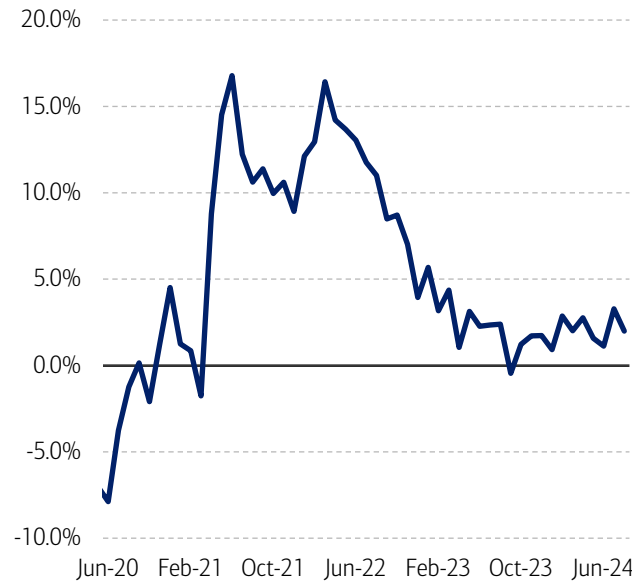
Looking at Bank of America payroll payments per small business client, we see that while employment growth is slowing to pre-pandemic levels it has remained relatively solid. Bank of America payroll payments per small business client increased 2.0% year-over-year (YoY) on a three-month rolling basis in August, compared to 3.3% YoY in July (Exhibit 4).

In our view, the labor market is moving towards balance rather than signaling a sharp slowdown. This is supported by two further findings in Bank of America data.

First, when we look at payroll payments by Census region, we find broad-based employment growth across the US. While the South is continuing to drive gains, the Midwest has experienced the greatest increase since last August (Exhibit 5). Domestic migration is likely playing a strong role in this trend (See: [On the Move](#) and [Midwestern progress](#)). Yet not every region is seeing such strength. The Northeast, for example, has had the biggest pullback in growth, and the West is up only slightly compared to last year.

Exhibit 4: Payroll payment growth has largely remained flat over the past six months

Small business payroll payments (monthly, YoY%, three-month moving average)

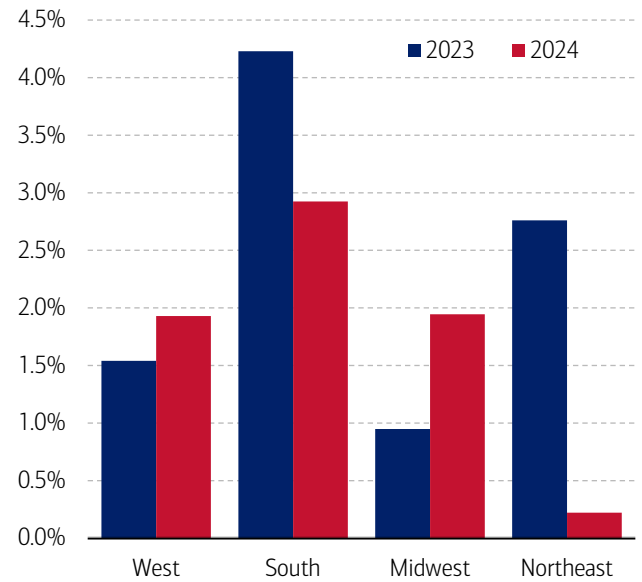


Source: Bank of America internal data

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Exhibit 5: The South continues to exhibit the strongest payroll growth, though it is down from last year

Small business payroll payments by US Census region by year (%YoY, three-month moving average in August)



Source: Bank of America internal data

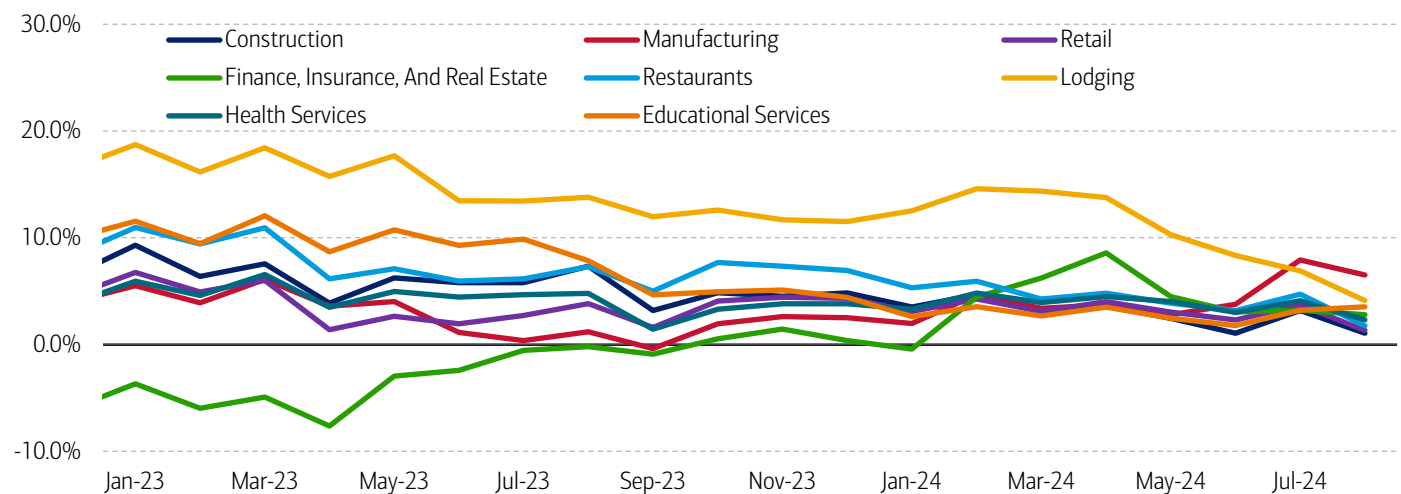
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Second, services' payroll growth continues to show healthy expansion. Bank of America data for small business payrolls is consistent with the Bureau of Labor Statistics reported job gains in leisure and health services in August. Furthermore, lodging and educational services also showed strength on a three-month rolling basis (Exhibit 6). Interestingly, manufacturing has seen a notable gain over the past few months within our payrolls data and had the strongest %YoY growth at 6.5% in August. It's possible this is due to Inflation Reduction Act credits and could be a sign of manufacturing strength to come.

In our view, these trends are supported by the fact that overall employment in these industries remains slightly below pre-pandemic levels, suggesting a continued post-pandemic recovery is still in play. At the same time, consumer spending strength is primarily tied to services (see: [Consumer Checkpoint](#)), which also supports hiring in these related sectors. Over time, hiring growth may cool as hiring recovery runs its course or if consumer momentum slows further. But for now, in our view, the outlook remains relatively positive.

Exhibit 6: Leisure and services industries showed notable payroll strength on a three-month rolling basis in August

Small business payroll payments by industry (monthly, YoY%, three-month moving average)



Source: Bank of America internal data

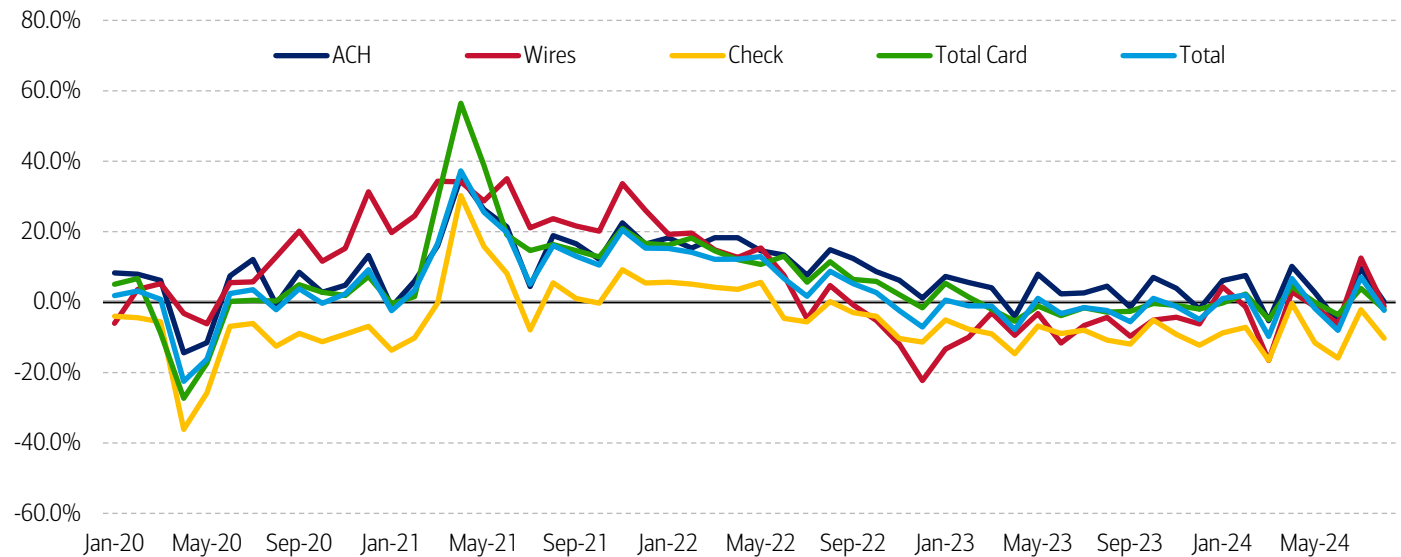
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Monthly payments update

Looking more broadly at small business activities in August, total payments per small business client decreased 2.4% YoY (Exhibit 7). Among the major components, ACH increased 0.1% YoY, and, conversely, the largest decrease %YoY was payments by check.

Exhibit 7: ACH payments growth remains relatively strong in August in comparison to other channels

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.

Payments to small business-focused hiring firms include both direct deposits through Automated Clearing House (ACH) and payments via credit and debit cards.

Ipsos conducted the 2024 Bank of America Business Owner Report survey online between March 4 and March 28, 2024 using a pre-recruited online sample of small business owners. Ipsos contacted a national sample of 1,038 small business owners in the United States with annual revenue between \$100,000 and \$4,999,999 and employing between two and 99 employees. In addition, approximately 250 small business owners were surveyed in each of ten target markets: Atlanta, Boston, Chicago, Dallas, Houston, Los Angeles, Miami, New York, San Francisco and Washington, D.C. The final results for the national and designated market area segments 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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