

Small Business Checkpoint

Beating the Summer Heat

16 August 2022

Key talking points

- Following rapid growth during the first half of this year, Bank of America Small Business total payments per client moderated in July with a 3% increase year-over-year (YoY), while Bank of America Small Business credit and debit card spending per client increased by 7% YoY.
- Fewer business days this July than in July 2021 and a decline in small business sentiment likely contributed to slower YoY growth, but early signs point to a possible rebound in spending growth in August.
- Across sectors, according to Bank of America internal data, construction firms saw the largest increase in payments on a %YoY basis as higher costs of land and raw materials took a toll. Meanwhile, retail trade and real estate firms saw lower payments than a year ago, likely due to weakening demand for goods and a slowing housing market.
- Small business payroll payments remained elevated in July on a %YoY basis and continues to outpace wage inflation, suggesting resilience in small business hiring.

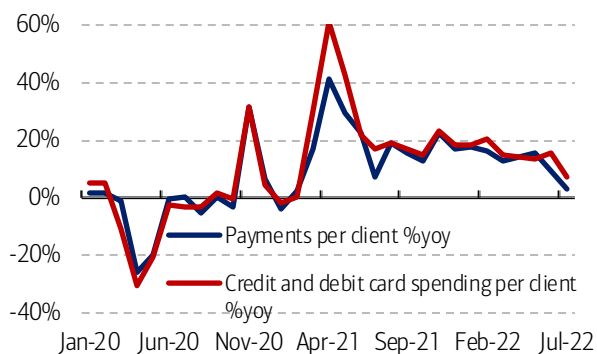
Small Business Checkpoint is a regular publication from the Bank of America Institute. It aims to provide a real-time assessment of small business spending activities and financial well-being, leveraging the depth and breadth of Bank of America proprietary data.

Bank of America Small Business total payments per client maintained YoY growth again in July, up 3% YoY following 9% YoY in the prior month. Note that total payments include credit card, debit card, Automated Clearing House (ACH), wires, bill pay, peer-to-business (P2B), cash and checks and offer a holistic view of money flow. Meanwhile Bank of America aggregated Small Business credit and debit card spending per client increased by 7% YoY in July (Exhibit 1). These rates reflect moderating growth in July after rapid growth in the first half of the year. That said, part of the growth moderation may have been driven by calendar effects as July 2022 had fewer business days than July 2021. Early signs in August point toward a rebound in YoY spend growth.

Looking at the levels for small business credit and debit card spending per client historically, we see that in the prior three years, spending in July has tended to rise, suggesting July usually has favorable seasonality. However, given fewer business days in July this year in addition to some softening in underlying spending momentum, spending levels have moderated (Exhibit 2). That said, small business spending is still growing on a nominal %YoY basis and the levels remain well above that of the prior three years, according to the Bank of America internal data.

Exhibit 1: Small business total payment per client and credit and debit card spending per client, based on Bank of America internal data (monthly, %YoY)

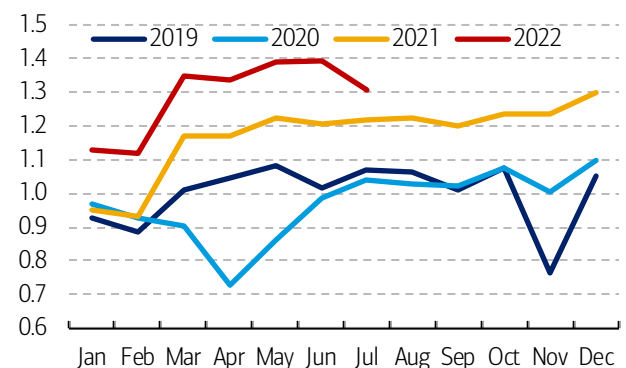
Bank of America Small Business total payments per client increased 3% YoY in July



Source: Bank of America internal data

Exhibit 2: Small business credit and debit card spending per client, based on Bank of America internal data (monthly, index, 2019 annual average = 1)

July usually has favorable seasonality, suggesting the moderation this year may be impacted by fewer business days and month end timing.



Source: Bank of America internal data

What is driving the moderation?

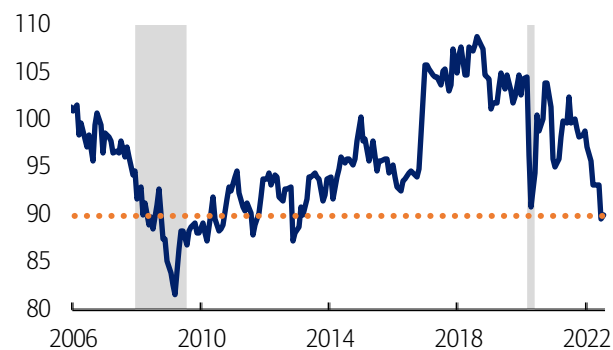
Moderation in Bank of America Small business total payments and credit and debit card spending is likely due to a confluence of factors. Fewer business days and month end timing have some contribution, and we think the absence of these factors in August will likely increase YoY growth. Additionally, as government stimulus from the pandemic wanes, small businesses will continue to adjust their spending.

Some of the moderation in Small Business total payments and card spending may also be attributable to business pessimism. According to the National Federation of Independent Business (NFIB), US small business optimism came in at 89.9 in July, a marginal uptick from the 89.5 in June but well below the levels seen last year (Exhibit 3). Small business sentiment continues to be weighed down by economic uncertainties and persistent inflation. In fact, the survey showed that 37% of small businesses quote inflation as “the single most important problem” in July, an increase of 3 percentage points from June and the highest reading on record (Exhibit 4).

Another contributing factor for the slowdown in Small Business payments and card spending in July is the drop in gasoline prices, which in turn reduced gasoline spending. As Exhibit 5 shows, Small Business credit and debit card spending per client on gas was up 19% YoY in July, meaningfully down from 33% YoY in June. Average transaction amount for gasoline purchases declined 6.4% month-over-month, the first decline since December 2021. However, even as small businesses freed up cash from lower gas prices, they didn't seem to spend it elsewhere as card spending per client on travel and retail also moderated on a %YoY basis.

Exhibit 3: NFIB Small Business Optimism Index (monthly, index, 1986=100)

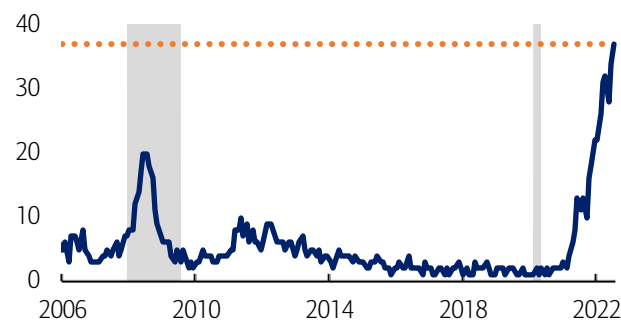
US Small Business optimism increased slightly in July to 89.9



Source: Haver Analytics. Shaded areas mean recessions.

Exhibit 4: NFIB: small businesses reporting inflation as the single most important problem (monthly, %)

37% of small businesses quote inflation as “the single most important problem” as of July, significantly higher than historical standards



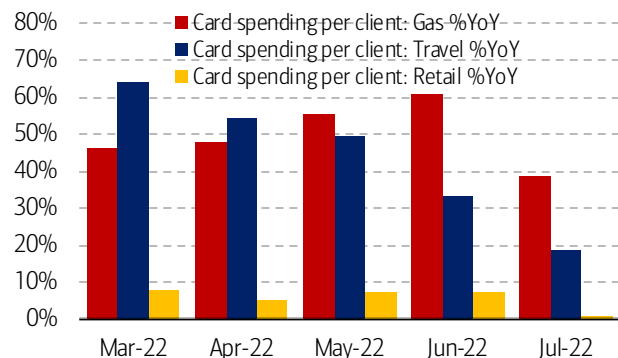
Source: Haver Analytics. Shaded areas mean recessions.

The sector divide

Sector level payments data suggests that construction firms saw the biggest increase in payments per client for the month of July, up 10% YoY (Exhibit 6). This could be related to rising cost of raw materials for these firms. For example, the National Association of Home Builders quoted rising cost of land and construction among main reasons for plunging home builder sentiment. Meanwhile total payments per client for real estate/finance and retail trade firms contracted on a %YoY basis, likely due to a slowing housing market and weakening demand for goods, respectively.

Exhibit 5: Small Business credit and debit card spending per client for gas, travel and retail, based on Bank of America internal data (%YoY)

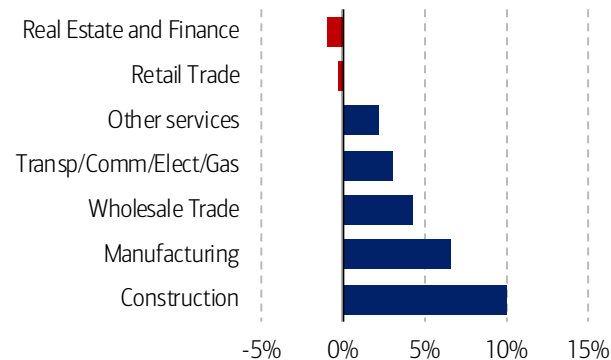
Small business credit and debit card spending per client on gas was up 19% YoY in July, meaningfully down from 33% YoY in June



Source: Bank of America internal data

Exhibit 6: Small business payments per client in July, based on Bank of America internal data (%YoY)

Construction firms saw the biggest increase in payments per client, up 10% YoY



Source: Bank of America internal data

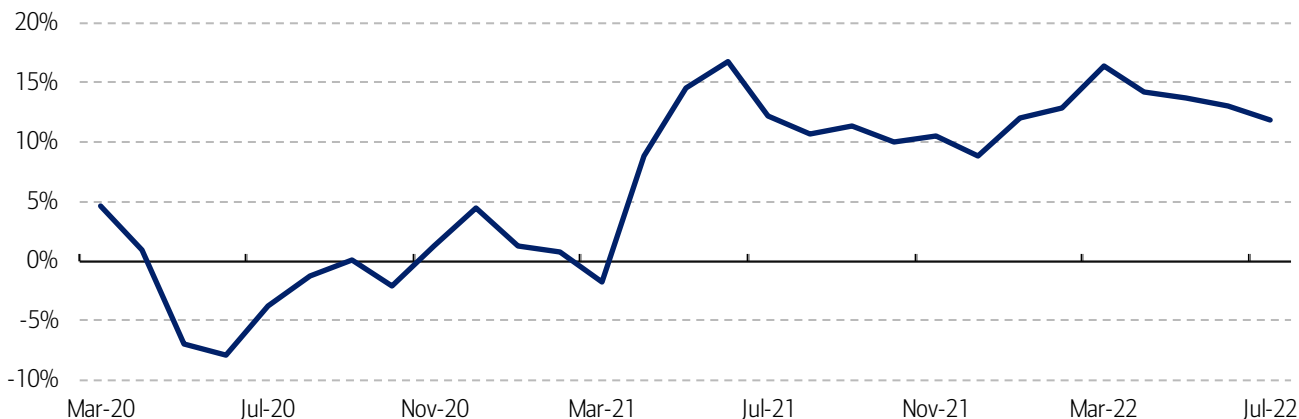
Payroll spending remains elevated

Bank of America Small Business outflow data demonstrates continued strength in payroll spend growth. The 3 month rolling average of payroll spend per client was up 12% YoY in July, one percentage point lower than the prior month (Exhibit 7). Note total payroll spend growth can be influenced by both increased hiring and higher wages. According to the Bureau of Labor Statistics, average weekly earnings for July increased by 4.6% YoY. This would roughly translate to a 7% YoY increase in small business employment.

Broadly speaking, the US labor market remains red hot with nonfarm payrolls increasing by 528k in July, compared with the average monthly increase of 194k during 2011-2019. Even as wage inflation moderates, labor income remains elevated (as also seen in the small business payments data), which should continue to support consumers and the economy.

Exhibit 7: Growth in payroll payment for all industries (% YoY, 3-month moving average)

Bank of America small business outflow data demonstrates continued strength in payroll spend growth per client, which was up 12% YoY 3-month moving average in July



Source: Bank of America internal data

The bottom line

Bank of America Small Business total payments per client increased by 3% year-over-year (YoY) in July while small business credit and debit card spending per client increased by 7% YoY, moderating in July following rapid growth during the first half of this year. Calendar effects (fewer business days in July '22 than in July '21) and a decline in Small Business sentiment contributed to slower YoY growth, but early signs point to a possible rebound in growth in August. Across sectors, according to Bank of America internal data, construction firms saw the largest increase in payments on a %YoY as higher cost of land and raw materials take a toll. Meanwhile retail trade and real estate firms saw lower payments than a year ago. Small business payroll spending remained elevated in July on a %YoY basis and continues to outpace wage inflation, suggesting resilience in small business hiring.

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Methodology

Selected Bank of America transaction data are 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 are not comprehensive; they are 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.

Total payments include total credit card, debit card, ACH, wires, billpay, business-to-peer, cash and checks. The 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), billpay, checks and wire. Bank of America per 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 generally defined as under \$5mm in annual sales revenue. Data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

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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