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Small Business Checkpoint

Home away from home for the holidays

15 December 2022

Key takeaways

- Small businesses are feeling the pinch from a fairly muted holiday shopping season. Bank of America data suggests account inflow per small business client in the retail trade sector was down 5% year-over-year (YoY) in November. But while consumers may not be buying as much, it seems they are still traveling: lodging account inflow per small business client was up 3% YoY in November.

- Strong demand for lodging also means more workers are needed in this sector. Payroll payments for lodging small businesses ticked up further to 16.3% YoY in November 2022, in contrast to continued moderation in other sectors, according to Bank of America data.

- Looking past the holidays, small business owners remain cautious. According to a proprietary Bank of America survey of small business owners, more than half of respondents expect a recession in 2023 and plan to reduce spending accordingly. This might be starting to play out, as payments per small business client slowed further across channels in November, according to Bank of America data.

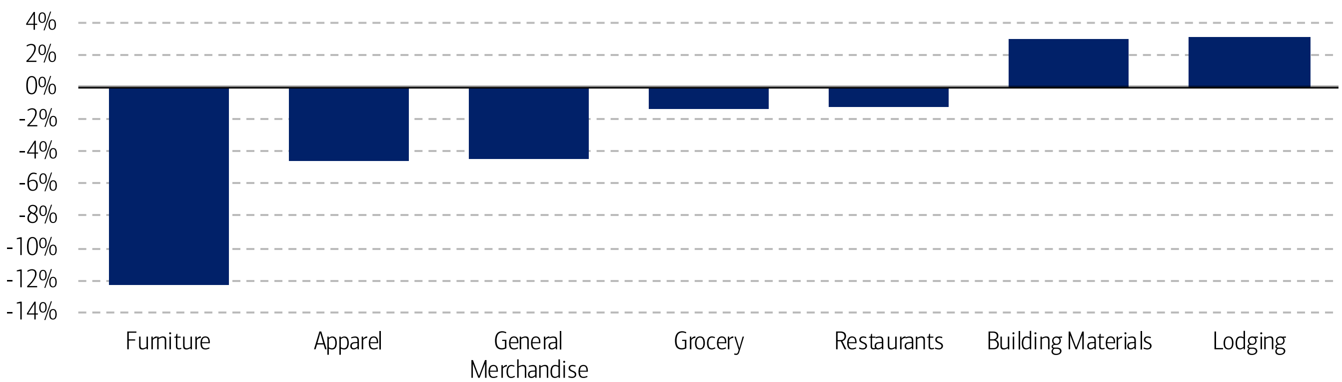
Small Business Checkpoint is a regular publication from the Bank of America Institute. It aims to provide a real-time assessment of small business spending activities and financial well-being, leveraging the depth and breadth of Bank of America's proprietary data. Such data is not intended to be reflective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

Shopping small this holiday season?

A recent survey by Bankrate found that 59% of holiday shoppers planned to shop on Small Business Saturday (the Saturday after Thanksgiving) this year, above the 56% who said they would shop on Black Friday. However, account inflow data for Bank of America small business clients suggests holiday sales at small businesses might not have lived up to expectations.

In order to focus on holiday sales, we look at small businesses in the retail trade and leisure & hospitality sectors. We then use small business account inflow data as a proxy for revenue. We caveat that this measure might include a small share of non-sales components such as deposits or may omit revenues that flow into small business accounts at another financial institution. However, we still believe this proxy to be generally reflective of revenue trends.

Exhibit 1: Small business account inflow per client in November by industry (%YoY)
In November, total account inflow per small business client for the retail sector largely saw negative YoY growth



Source: Bank of America internal data.

In November, account inflow per small business client was down 5% YoY for the retail trade category. Among the major sub-sectors, furniture stores saw the biggest contraction, at -12% YoY. The consumer spending side experienced a drop of a similar magnitude: November Bank of America consumer credit and debit card spending per household on furniture was also down 11% YoY. Both sets of numbers confirm the sluggish demand for furniture, which could reflect the weak housing market.

Interestingly, small businesses in the building materials sector saw +3% YoY growth in account inflow per client in November. This could suggest some people might be renovating and upgrading their existing homes instead of purchasing new ones amid high interest rates and record home valuations. Elsewhere, small businesses in the apparel, general merchandise and grocery sectors all saw negative YoY growth in inflow per client, according to the Bank of America data, as goods demand remained weak across the board relative to a year ago.

But it's not all bad news. We still see resilience in the services space with small businesses in the lodging industry showing 3% YoY growth in inflow per client, the highest across the major categories we track (Exhibit 1). Demand for travel surged earlier this year and has remained elevated since then. In our view, even as the economy cools over the coming months, travel demand should come down only gradually. In fact, according to a recent data release by the commercial real estate company CoStar, weekly hotel demand (measured by room nights sold) in the US reached a record level of 296k for the week ending November12.

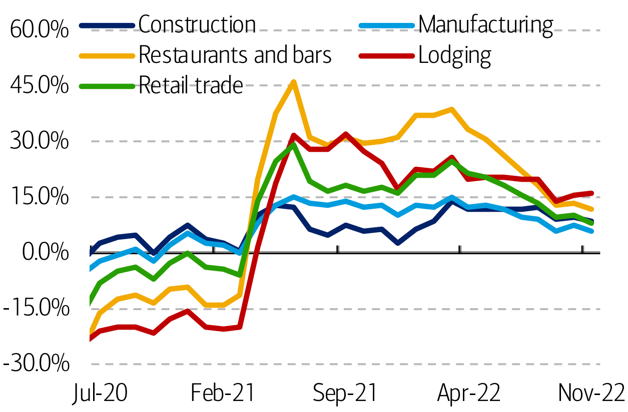
Resilient demand supports lodging small business payroll payments

Strong demand for lodging also means that small businesses in this sector will need to hire more workers. Therefore, payroll payments per client for lodging remained solid in November even as other sectors saw continued moderation. Specifically, lodging small businesses spent 16.3% more on payrolls in November 2022 than a year ago, a further uptick from the 15.7% YoY in October (Exhibit 2). And such strong growth isn't simply due to higher wages, as wage growth in the lodging sector actually moderated meaningfully in November: average hourly earnings for the accommodations sector slowed to 2.3% YoY from 10.2% in the prior month, according to data from the Bureau of Labor Statistics (Exhibit 3).

In contrast, manufacturing small businesses are seeing relatively slower payroll payments growth. As we discussed in a recent Sector Morsel, the manufacturing sector faces downward pressure in the near term as the tailwind from an easing global supply chain fades and final demand undergoes a cyclical weakening, which we think should weigh on hiring.

Exhibit 2: Growth in small business payroll payments for select industries (% YoY, 3-month moving average as of November)

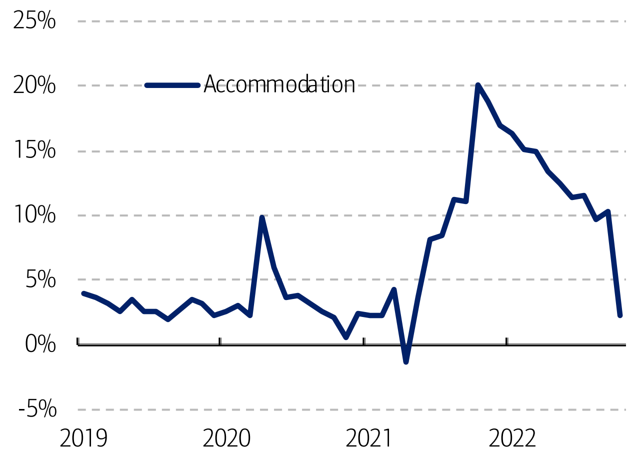
For select industries, lodging is the only sector which saw an uptick in payroll payments in November



Source: Bank of America internal data

Exhibit 3: Average hourly earnings for accommodation (%YoY)

Wage growth in the lodging sector moderated meaningfully in November



Source: Bureau of Labor Statistics

Small businesses might cut costs as economy slows

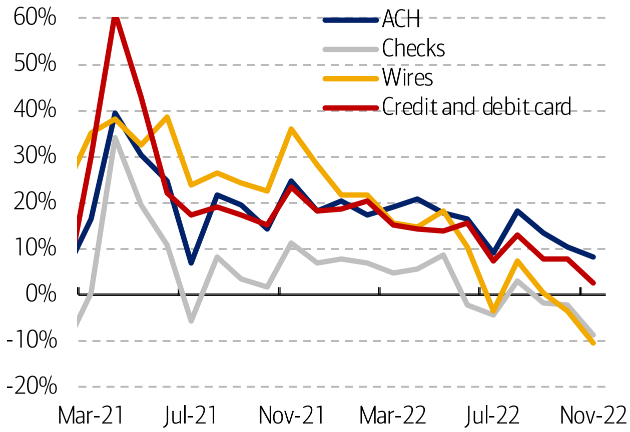
Looking past the holidays, it seems small business owners remain cautious. According to a recent Bank of America survey of small business owners, the full results of which will be published in January, 78% of respondents expect some impact from a potential recession in 2023. Of those respondents who expect a recession, the majority are looking to raise prices of goods/services (58%) and reduce spending (52%) (Exhibit 5).

The latest small business payments data indicates that some of the spending moderation might already be playing out. In November, payments per Bank of America small business client moderated across channels. Specifically, automated clearing house (ACH) and card payments per small business client were up 8% YoY and 2% YoY, respectively, down from 10% and 8% in the prior month (Exhibit 4). As a reminder, ACH captures growth in bigger-ticket items, such as rent payments, car loans/leases, and payroll, which make up a significant portion of small business operating expenses.

However, both check and wire volumes per small business client continued to contract on a %YoY basis in November, and, for the first time since March 2021, wire volumes (-11% YoY) declined more than check volumes (-9%). It looks like the steep slowdown in wire payments growth may be due to base effects as wire payments were elevated at the end of last year.

Exhibit 4: Small business payments growth by channel, based on Bank of America internal data (monthly, %YoY)

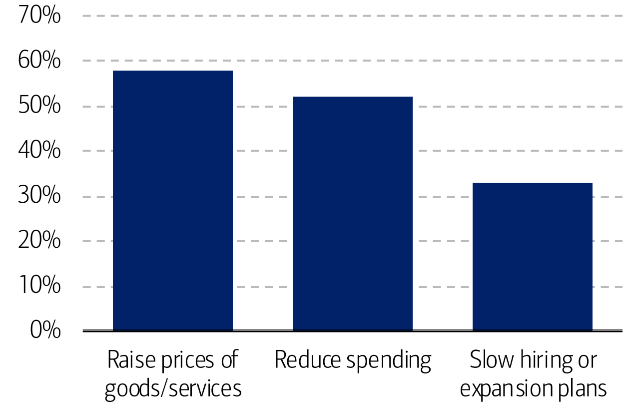
YoY% growth continues to moderate across all payment channels



Source: Bank of America internal data

Exhibit 5: For small business owners who are expecting a recession, they will... (% of respondents)

The majority of respondents who expect a recession plan to at minimum raise prices of goods/services



Source: Bank of America November 2022 Small Business Owner Pulse Survey

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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 generally defined as under $5mm in annual sales revenue.

Ipsos Public Affairs conducted the Bank of America November 2022 Small Business Owner Pulse Survey online between November 18 and November 29, 2022 using a pre-recruited online sample of small business owners. Ipsos contacted a national sample of 534 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.

Unless otherwise stated, 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.

Disclosures

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