

## Small Business Checkpoint

# A timelier look at hiring demand

16 February 2023

### Key takeaways

- We offer a timelier view on hiring demand from small businesses given that public data on job openings is only available on a two-month lag. Aggregated small business (SB) client payments to hiring firms, based on Bank of America internal data, suggest that hiring demand in January remained robust by pre-Covid standards but was cooling from a year ago.
- Despite growing macroeconomic headwinds, small businesses continue to look for workers. This is partly due to lingering labor shortages, though we think the gap between demand and supply for workers should continue to narrow. In addition, despite slowing revenues, small businesses continue to make profits.
- In January, small business payments to SB-focused hiring firms were 72% higher than in January 2020 but 25% lower than the same period in 2022. Similarly, the number of transactions for these payments is over 80% higher than the same time in 2020 but 17% lower than a year ago.

*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.*

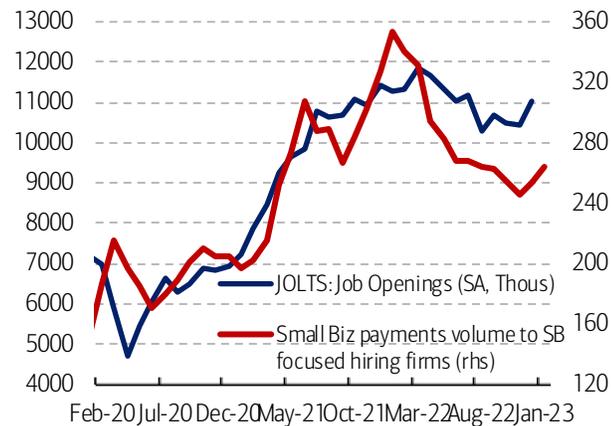
### An alternative, timelier view on hiring demand

With persistent price pressures and declining savings, consumers' ability to spend in the medium to long term will largely be supported by labor income. As a result, the labor market is a crucial factor in determining the state of the economy.

One widely followed demand-side indicator is the JOLTS data, which tracks the number of specific jobs openings in the economy. However, this data lags by two months and can sometimes be outdated given the fast developments in the labor market these days.

**Exhibit 1: Small business payments volume to SB-focused hiring firms (index, 3-month moving average, 2019 average =100) and JOLTS job openings**

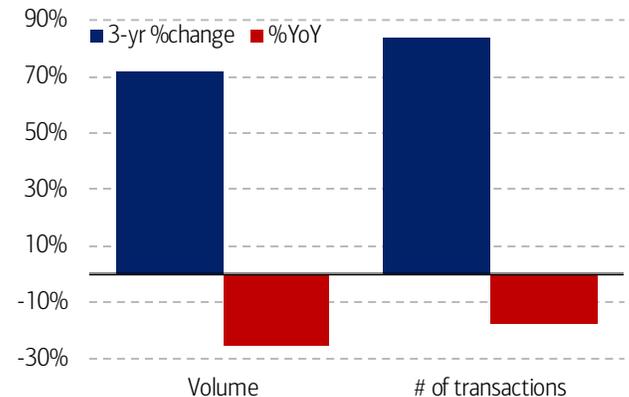
SB payments to SB-focused hiring firms picked up in January



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

**Exhibit 2: 3-yr and YoY % change in the volume and number of transactions for SB payments to SB-focused hiring firms**

Hiring demand for small businesses remains robust but is certainly cooling from a year ago



Source: Bank of America internal data

We therefore offer an alternative, timelier view on hiring demand, using Bank of America internal data. Specifically, we aggregate small business client payments to small business-focused hiring firms. In our view, such payments are indicative of the number of openings SB clients are trying to fill through employment agencies. The caveat is that we might not be capturing jobs that are advertised offline. Note that these payments include both direct deposits through Automated Clearing House (ACH) and payments via credit and debit cards.

As Exhibit 1 shows, SB payments to SB-focused hiring firms directionally track JOLTS data well, though the former tends to be more volatile. In our view, part of the volatility is due to that fact that the Bank of America data sample includes only small businesses, which are likely to be more sensitive to the macro environment than larger corporations. Another potential complication could be that small businesses might not be paying employment services firms in real time as they post an opening. Still, we believe the data offers an insight into hiring trends among small businesses.

The latest data, as of January 2023, suggests that SB hiring is robust by pre-Covid standards but is cooling from a year ago. Payments to SB-focused hiring firms ticked up from December 2022 and are 72% higher than in January 2020 but 25% lower than the same period in 2022 (Exhibit 2). Looking at the number of payments to SB-focused hiring firms yields a similar result: the number of transactions is over 80% higher than in January 2020 but 17% lower than a year ago.

Our findings are echoed by the National Federation of Independent Business survey, which showed that 45% of small businesses had job openings in January 2023, eight percentage points higher than the reading in January 2020 but down from 47% a year ago.

### Hiring demand remains as labor market imbalance persists

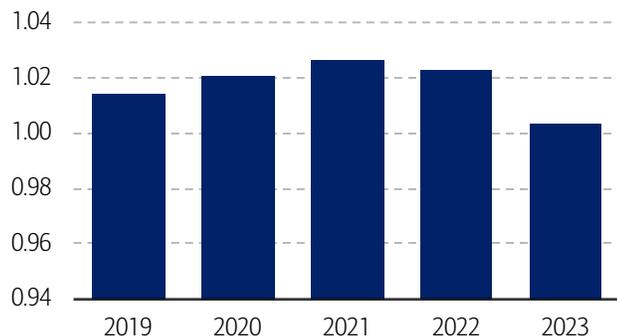
Hiring demand for small businesses, albeit moderating, is not slowing as fast as some economists have predicted amid increasing macroeconomic headwinds. Why is that?

One of the reasons could be that the labor market experienced a huge imbalance during the pandemic with shortages impacting a wide range of businesses. Therefore, as the economy cools, the gap between demand and supply for labor has narrowed but still exists. And with the labor force participation rate remaining stubbornly below 2019 levels, small businesses continue to struggle to fill every job opening.

Moreover, despite slowing revenues, small businesses continue to make profits. The ratio of inflows into Bank of America small business checking and savings accounts to outflows, which we view as a proxy for profits, remained above 1 in January (Exhibit 3).

#### Exhibit 3: Inflow-to-outflow ratio for small businesses in January of each year, based on Bank of America internal data (monthly, 1+ = inflow greater than outflow)

Despite slowing, the inflow to outflow ratio for small businesses remained above 1 in January



Source: Bank of America internal data. Data for January of each year only.

### Small business payments ticked up in January

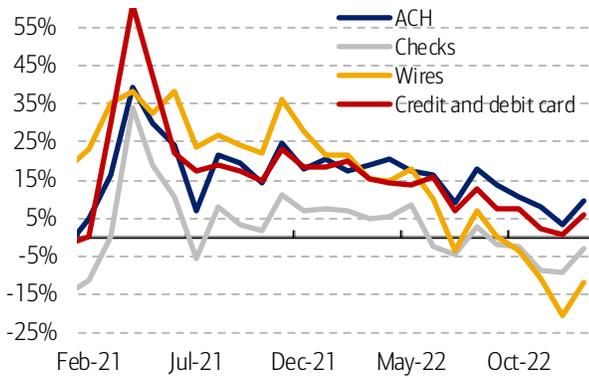
Looking beyond hiring activities, small businesses saw an uptick across payment channels in January. Specifically, ACH and card payments per small business client were up 10% YoY and 6% YoY, respectively, up from 4% and 1% in the prior month (Exhibit 4). Interestingly, we saw a similar strengthening in consumer spending in January. That said, part of the strength in the % YoY rate in spending for both small businesses and consumers is due to favorable base effects as levels were depressed by the Omicron wave in January 2022.

Looking at travel spending through small business cards, we find that the transaction amount per client is roughly in line with 2019 levels as of January but the number of transactions per client continues to lag (Exhibit 5). This suggests that inflation continues to drive up nominal spend but underlying travel activities by small businesses have room to recover.

Elsewhere, for the first time since August 2022, both check and wire volumes per small business client improved on a % YoY basis in January. However, wires were still negative on a % YoY basis, which likely reflects the impact of the housing market slowdown on payments to escrow and title companies.

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

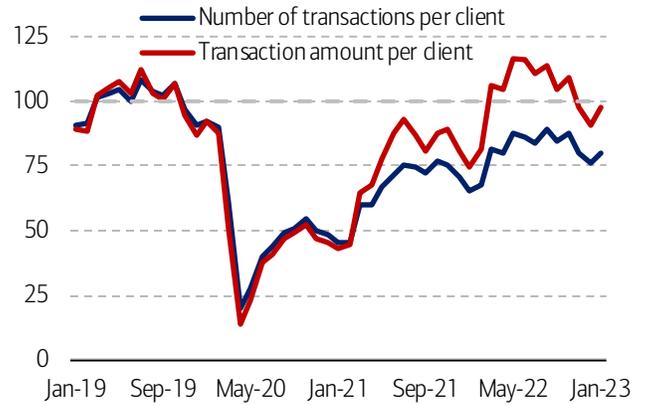
Select payment channels ticked up in January



Source: Bank of America internal data

**Exhibit 5: Small business card spending on travel (2019 average = 100)**

The transaction amount for travel increased in January



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.

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

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.

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