

Small Business Checkpoint

Small business, big spending

13 July 2022

Key talking points

- Despite inflationary pressures, small businesses continue to spend, particularly on travel. Bank of America Small Business aggregated credit and debit card spending per client was up 14% year-over-year (YoY) in June; credit card spending saw faster growth than debit card spending in June.
- Small business card spending for travel increased 32% YoY in June on a nominal basis, while the number of travel-related transactions was also up 20% YoY. This suggests that despite some pessimism around consumer travel, underlying demand for small business travel remained solid in June.
- Small business payroll spending was up 13% YoY in June, boosted both by solid hiring and higher wages. The retail trade sector saw the strongest %YoY growth in payroll spending, while that of manufacturing firms seems to be moderating.

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.

Small business card spending driven by inflation and strong demand

Bank of America Small Business credit and debit card spending per client increased 14% YoY in June, little changed from the prior month (Exhibit 1). Within the components, credit card spending per client was up 20% YoY while debit card spending per client was up 7% YoY.

Small businesses spending continues to be driven by record high inflation and particularly gas prices, with gas spending up nearly 60% YoY in June. In fact, the National Federation of Independent Business survey showed that 34% of small businesses quote inflation as “the single most important problem” in June, the highest share on record (Exhibit 2).

Exhibit 1: Bank of America Small Business credit and debit card spending per client (monthly, YoY %growth)

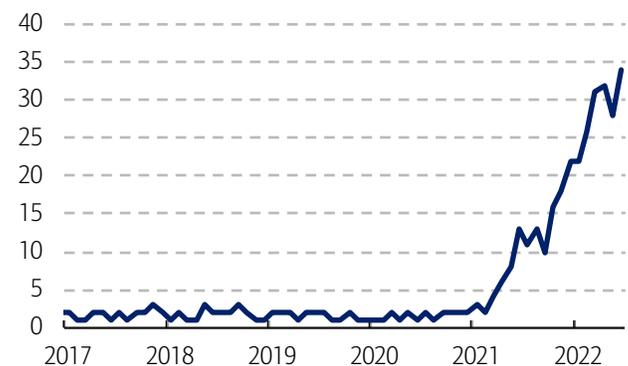
Bank of America Small Business credit and debit card spending per client increased 14% YoY in June, little changed from the prior month



Source: Bank of America internal data

Exhibit 2: Small businesses reporting inflation as the single most important problem (monthly, %)

34% of small businesses quote inflation as “the single most important problem” as of June, significantly higher than historical standards



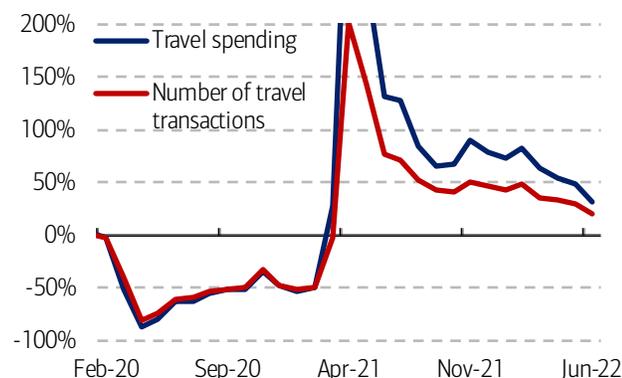
Source: National Federation of Independent Business

There have been some concerns around a weakening in travel demand for the consumers due to surging prices and poor quality of service. We find less concerns in this area for small business spending on travel. Small business card spending per client for travel, which include airlines, lodging, cruise lines, travel agency, car rental and other transportations, increased 32% YoY in June on a nominal basis, a slowdown from the 49% YoY in May though still very elevated. Looking at the number of transactions for travel, which in our view is a proxy for real spending, we found the number of travel transactions was up strongly, by 20% YoY in

June. This suggests to us the underlying demand for travel for small businesses remained solid in June despite inflationary pressures.

Exhibit 3: %YoY growth for travel spending and number of transactions (% YoY)

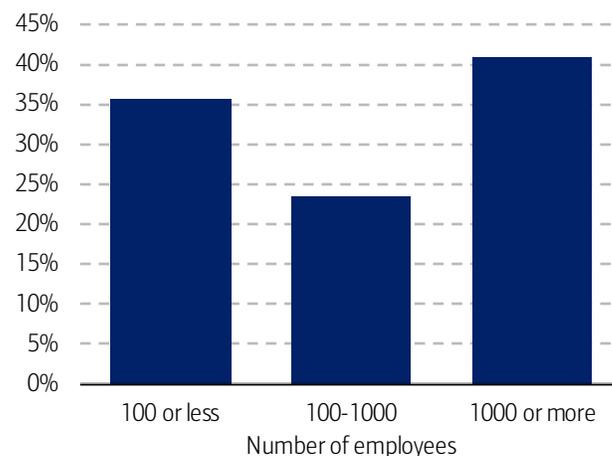
Both nominal travel spend growth and transaction number growth were elevated in June though moderating on a %YoY basis



Source: Bank of America internal data. Note: travel include airlines, lodging, travel agency, car rental etc.

Exhibit 4: Share of employment by firm size (%)

A big share of workers were employed by small businesses



Source: Bureau of Labor Statistics. Data is as of 2021.

Another month of solid payroll spend

According to data from the Bureau of Labor statistics, as of 2021, 35% of workers were employed by firms with 100 or fewer employees (Exhibit 4). Another 23% were employed by firms that have between 100 and 1000 employees. As a result, the health of small business employment will be crucial to the overall labor market.

Bank of America Small Business outflow data demonstrates continued strength in payroll spend growth per client, which was up 13% YoY in June (Exhibit 5). Note total payroll spend growth was driven by both increased hiring and higher wages. The data also confirms signals from Bureau of Labor Statistics' June nonfarm payrolls report which showed a solid 372k gain in jobs and a 5.1% YoY growth in average hourly earnings.

We see positive payroll spend growth across major industries with retail trade leading the gain at 18% YoY. Payroll spend growth for manufacturing small businesses seem to be moderating. This is in line with the ISM manufacturing survey's employment index, which slipped into contraction territory since May.

Bottom line

Despite inflationary pressures, small businesses continue to spend, particularly on travel. Payroll spending also remains elevated, boosted both by solid hiring and higher wages with the retail trade sector seeing the strongest %YoY growth in payroll spending in June.

Exhibit 5: Growth in payroll payment for all industries (% YoY)

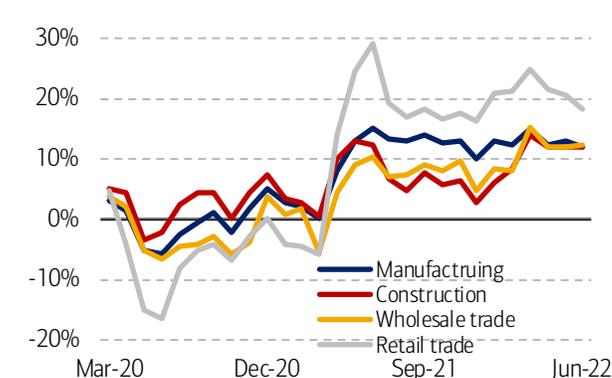
There was continued strength in payroll spend growth per client, which was up 13% YoY in June



Source: Bank of America internal data

Exhibit 6: Growth in payroll payment for select industries (% YoY)

We see positive payroll spend growth across major industries with retail trade leading the gain at 18% YoY



Source: Bank of America internal data

Contributors

Anna Zhou

Economist, Bank of America Institute

Sources

Carol Lee Mitchell

National Strategy & Segmentation Executive, Small Business

Julie Murphy

Small Business Analytics Executive, Digital and Marketing

Josh Long

Consumer Product Strategy Manager, Consumer and Small Business

Chris Wong

Head of Small Business Products, Consumer and Small Business

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.

The small business sample include clients with at least one card transaction in each month. Payroll payments data include channels such as ACH (automated clearing house), billpay, checks and wire.

Data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions. Bank of America per client data represents activity spending from active Small Business clients with a deposit account or a Small Business credit card. Small businesses in this report include business clients within Bank of America and generally defined as under \$5mm in annual sales revenue.

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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