

Small Business Checkpoint

SB payrolls grow strongly, alongside payments and inflows.

10 June 2022

Key talking points

- Bank of America Small Business aggregated credit and debit card spending per client was up 12% year-over-year (YoY) in May¹. Spend per client remains near a record high in May, however the growth rate is normalizing to pre-pandemic levels.
- Total payments, which include total credit card, debit card, ACH (Automated Clearing House), wires, billpay, business-to-peer, cash and checks, were up 16% per client YoY in May, reflecting both real spend growth as well as inflation on Small Business expenses.
- Deposit balances per client have reached a new record peak in each of the last three months.
- Small Business (SB) payroll expense per client up 14% YoY in May on the back of increased employment and higher wages. That said, survey data suggest labor shortages continue to weigh on small businesses.

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.

Card spend growth continues driven by record credit card spend

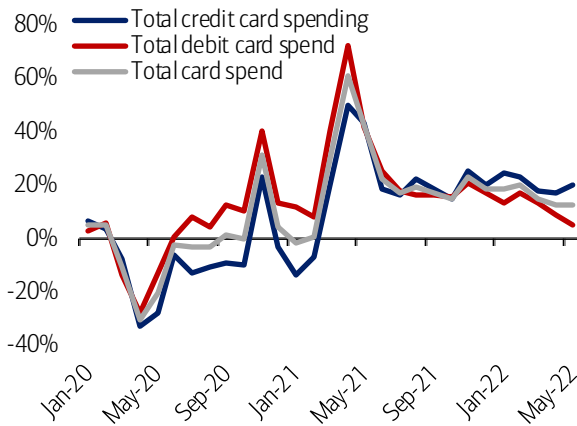
Record credit card spending. Bank of America Small Business credit card spend per client was up 20% YoY in May, reaching a new record high. Debit card, still showing strong growth, was up 5% YoY. May was the first month since April 2020 that total credit spend per client was higher than total debit spend on a dollar amount basis.

Travel and gas spend growth outpace other categories. Aggregate card spend per client was up YoY in May across all spend categories, with Gas (+54%) and Travel (+49%) significantly outpacing other categories. Specifically, gas spending also saw the strongest month-over-month (MoM) growth (+19%) in May as national retail gas prices hit a record high. Travel was up 11% MoM, pointing to continuing recovery in business travel. According to the US Travel Association, business travel made up around 26% of total travel revenue in the US in 2018 - a sustained recovery in business travel is an important part of the service sector rebound in the US.

¹ Per client data refers to Bank of America small business clients as of month end.

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

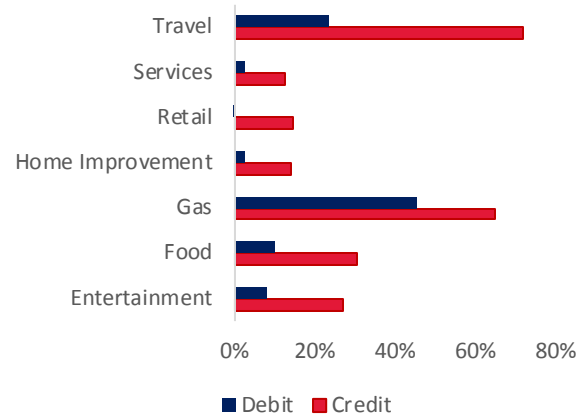
After declining in 2020, year-on-year credit card growth has outpaced debit card growth each month since Nov 2021



Source: Bank of America Internal Data

Exhibit 2: Bank of America Small Business card spend per client by category (YoY growth)

YoY growth remains high for larger categories like retail and services, but gas and travel continue to lead all categories in growth.



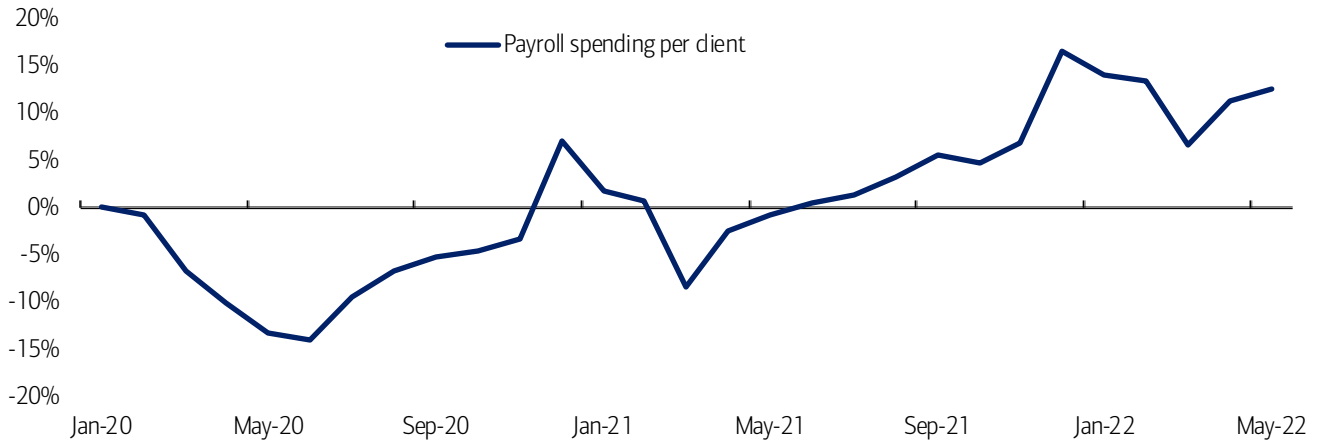
Source: Bank of America Internal Data

Small businesses drive job and wage growth through growing payrolls and new business formations

Bank of America Small Business outflow data demonstrates significant growth in Payroll spend per client, which was up 14% YoY in May. The strong payroll growth is likely a reflection of both resilient job growth and higher wages. The data also confirms signals from Bureau of Labor Statistics’ May nonfarm payrolls report which showed a solid 390k gain in jobs and a 5.2% YoY growth in average hourly earnings

Exhibit 3: Payroll spending growth per client relative to Jan 2020 (% , 3-month moving average)

Average payroll spending has grown significantly since second half of last year

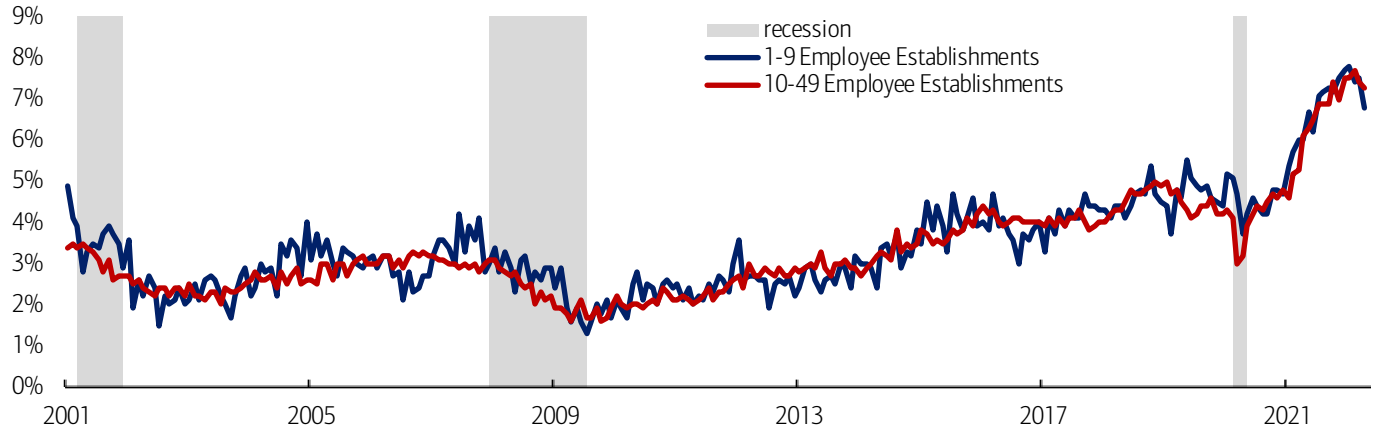


Source: Bank of America Internal Data

That said, just like the rest of the labor market, small businesses are also facing labor shortage challenges. Bureau of Labor Statistics continue to highlight very high levels of job openings in the US economy. And according to Bank of America’s 2022 Small Business Report, 41% percent of Small Businesses say labor shortages are impacting their businesses. Of those, 35% are having difficulty filling job openings and 29% are raising wages to attract talent. 26% of business owners expect to hire in in the next 12 months, up from 21% in 2021. The good news is that the labor force participation rate ticked up by a tenth to 62.3% in May, suggesting increasing supply of labor.

Exhibit 4: Job openings rate by establishment size (%) (BLS)

The job opening rate surged since the pandemic as labor shortages become a challenge for Small Business owners



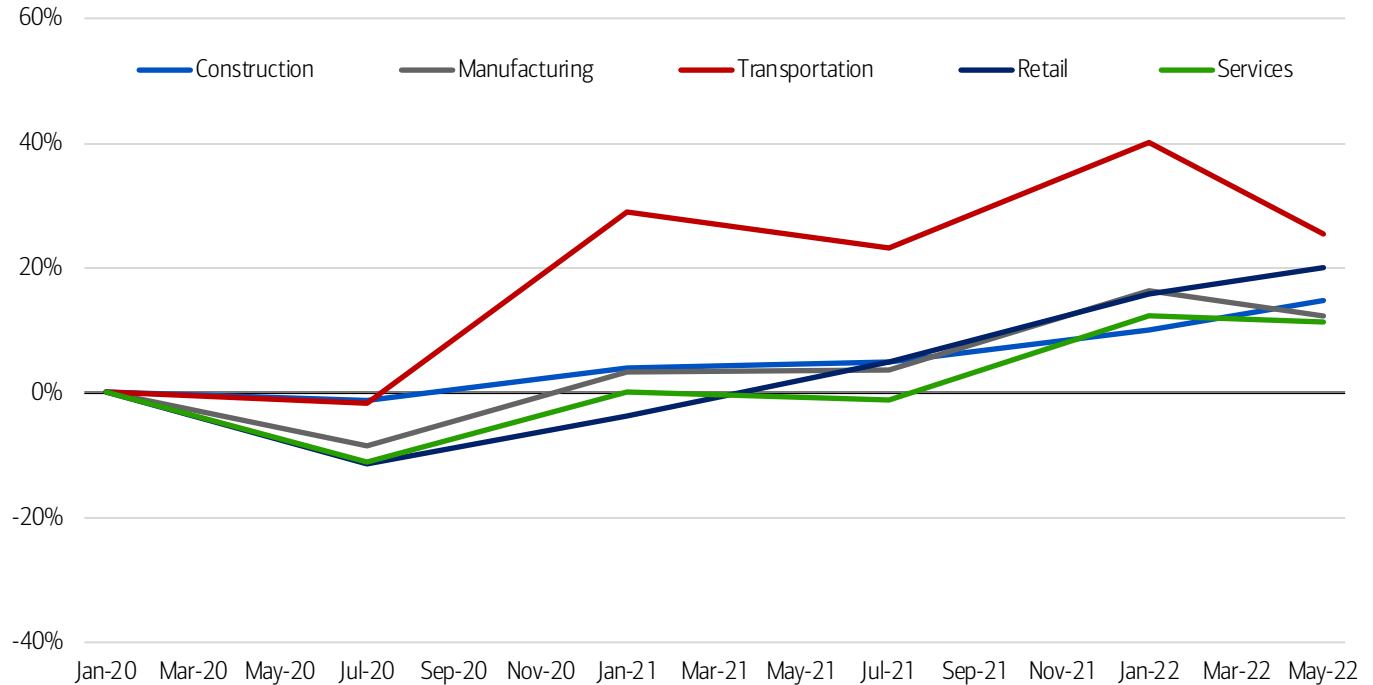
Source: Bureau of Labor Statistic (BLS). Note: job opening rate is the ratio between number of job openings and total employment.

All industry segments showed growth in payroll spend by client YoY in May and when compared to pre-pandemic period.

- Transportation leads payroll spending growth relative to Jan 2020 (up +25%) but the YoY % growth is more modest at 3%.
- Retail sector payroll spending returned to pre-pandemic levels in June 2021 and saw 20% YoY growth in May, the strongest among all sectors. Within the components of retail, Apparel Stores (+23%) and Restaurants and Bars (28%) saw the strongest payroll spending growth.
- Payroll spend per client for services is slightly higher than all other industries with some sub segments like Amusement and Recreation (+26%), Business Services (+26%) and Hotels/lodging (+21%) showing stronger % YoY growth driven by business reopening.

Exhibit 5: Growth in payroll from Jan 2020 by Industry

All industry segments show growth in payroll vs. 2020 and YoY, though some like Transportation and Retail have seen the most significant growth



Source: Bank of America internal data

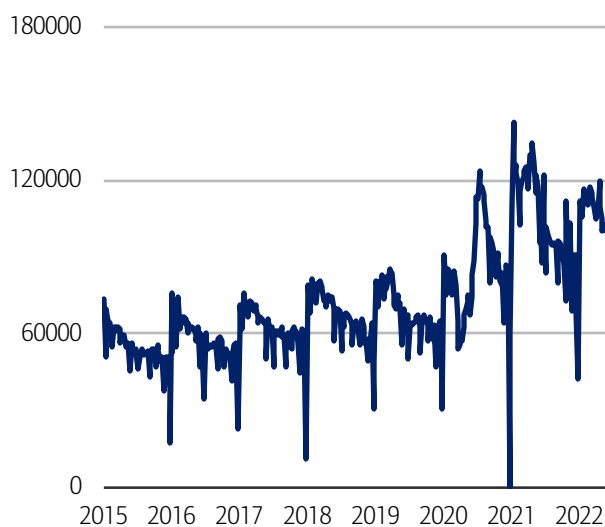
In addition to payroll, small businesses drive employment growth through new business starts. According to data from the US Census Bureau, new business formation has grown rapidly in recent years from 67k/week in 2019 to 107k/week in 2022. Bank of America credit card application data is consistent with this trend. In addition, we also found that there is a strong desire for credit cards among these newly formed businesses. According to Bank of America internal data, by July 2020 credit card applications from new customers with newly formed businesses were back to pre-pandemic (January 2020) norms. In March 2021 these applications were up 41% and in May 2022, applications from new clients with newly formed businesses are up 59%. By contrast, credit card applications from new small business clients with existing businesses have only recently recovered, meeting pre-pandemic levels for the first time in March 2022.

Credit card application volume from new businesses varied significantly by industry.

- Industries reflective of personal interest or skill like Amusement and Recreation Services (+148%), Repair Services (+82%) and Personal Services (+151%) saw higher than average growth in new business credit card applications from Jan 2020 to May 2022.
- Motor Freight Transportation, driven by growth in shipping and last mile distribution soared, growing almost 14x January volume.
- Conversely, credit card applications from newly formed business in Restaurant and Bar or Educational Services industries are up only 8% and 15% respectively.

Exhibit 6: Business Applications, Weekly (Not seasonally adjusted)

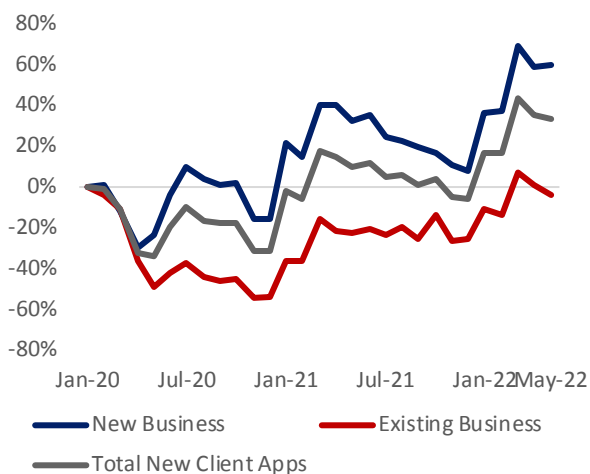
New business applications remain high relative to pre-pandemic (Jan 2020)



Source: Census Bureau

Exhibit 7: Growth from Jan 2020 in credit card applications from new Small Business clients

Credit card applications from newly formed businesses surged in 2021 and continue to grow in 2022



Source: Bank of America internal data

Strong inflows continue to drive deposit balance growth even amidst rising payments

Small Business payments occur through additional channels other than credit and debit cards, such as ACH, wires, billpay, business-to-peer, cash and checks. Examining the topline trends of these payment methods provides further insight into the broader payment activity of Small Businesses.

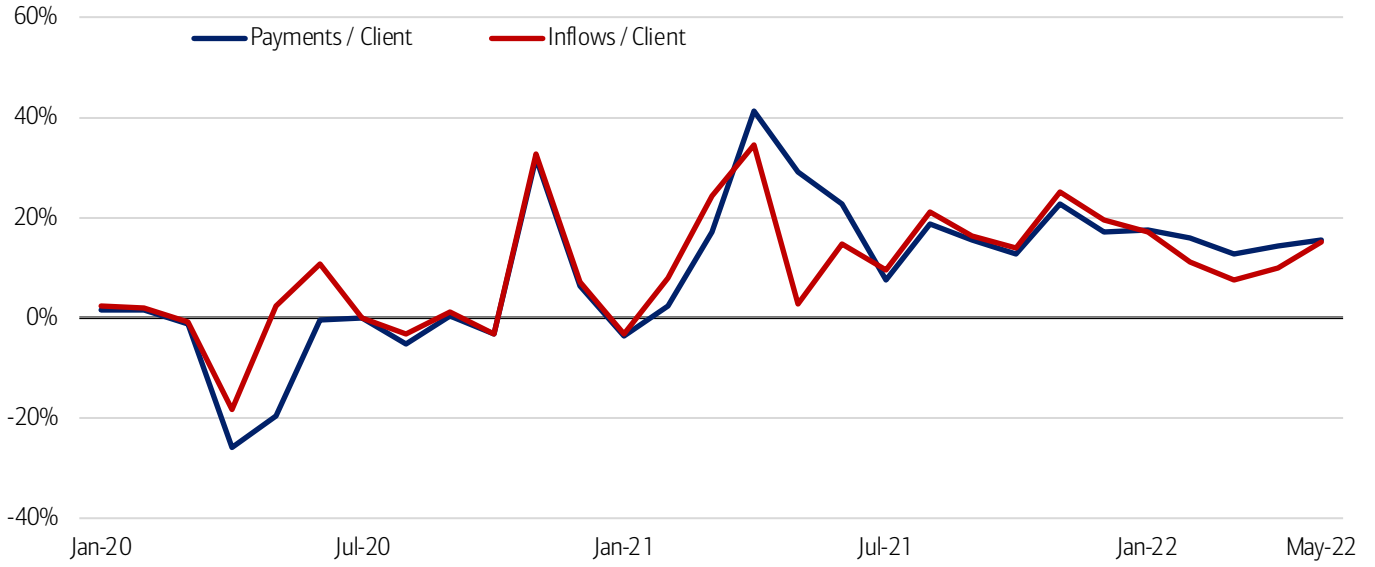
As with credit and debit card spend, Bank of America Small Business payments data shows continued YoY growth, with total payments per client up 16% YoY in May.

ACH and Wire payments per client both grew 18% YoY in May. These categories capture 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.

Small Business inflows per client keep growing YoY as well, up 15% per client in May, continuing to drive consistent balance growth. Strong cash reserves are helping Small Businesses deal with challenges of inflation.

Exhibit 8: YoY inflows and payments growth, 2020 to 2022

Strong growth in inflows continues to offset high payments and drive deposit balance growth.



Source: Bank of America internal data

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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. Total inflows include total ACH, wires, peer-to-business, cash, checks, credits to debit cards. The inflows data represents aggregate spend from Small Business clients with a deposit account. 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.

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