

Small Business Checkpoint

Small Businesses are spending as they emerge from pandemic

10 May 2022

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

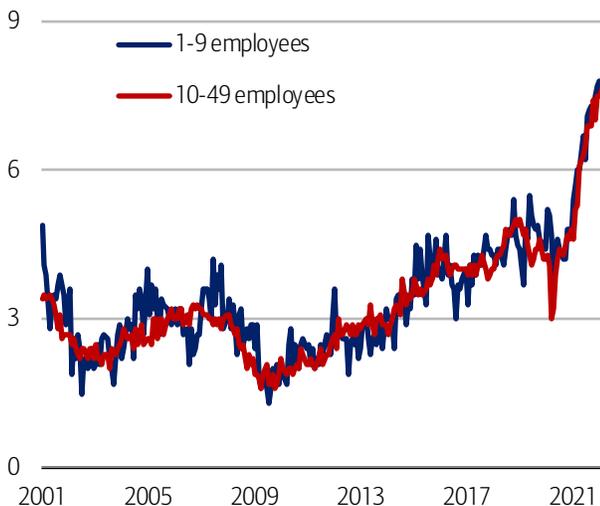
Key talking points

- Bank of America Small Business clients' aggregate credit and debit card spending was up 16% YoY in April, while card spending per client rose 13% YoY¹, remaining near all-time highs.
- Total payments across all types were up 14% per client YoY in April, demonstrating spending growth as well as the impact of inflation on Small Business expenses. Per Bank of America's 2022 [Small Business Owner Report](#), 88% of owners said that inflation is currently impacting their business.
- Strong deposit balance growth at 16% YoY for small business clients as inflows continue to trend higher than outflows (payments).

Small Business sector remains a key, dynamic driver of the US economy

Exhibit 1: Job openings by establishment size (%)

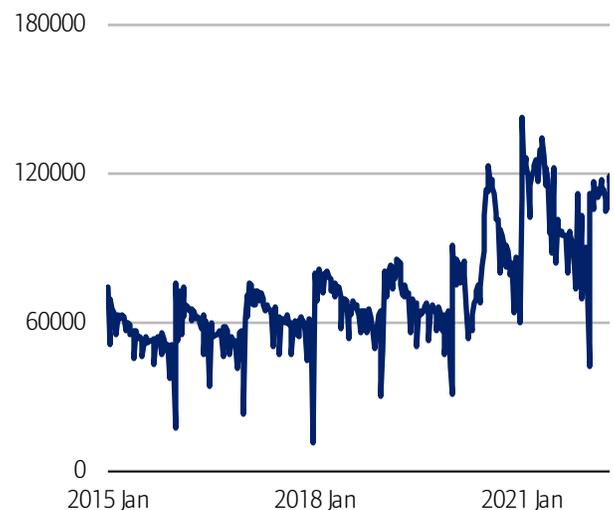
The job opening rate has been rising very sharply for smaller business. It is well above the pre-pandemic levels



Source: Bureau of Labor Statistics

Exhibit 2: Business Applications, Weekly (Not seasonally adjusted)

New business applications have been trending higher



Source: Census Bureau

Small Businesses remain a key driver of the US economy. While the pandemic represented a substantial period of economic disruption to Small Businesses, they are now bouncing back. Exhibit 1 illustrates that smaller businesses currently have record numbers of job openings as they attempt to find labor to meet demand. At the same time, as Exhibit 2 illustrates, new business applications have also been rising strongly.

¹ Per client data refers to Bank of America Small Business clients with a deposit account or a Small Business credit card.

Card spend maintains growth into the second quarter

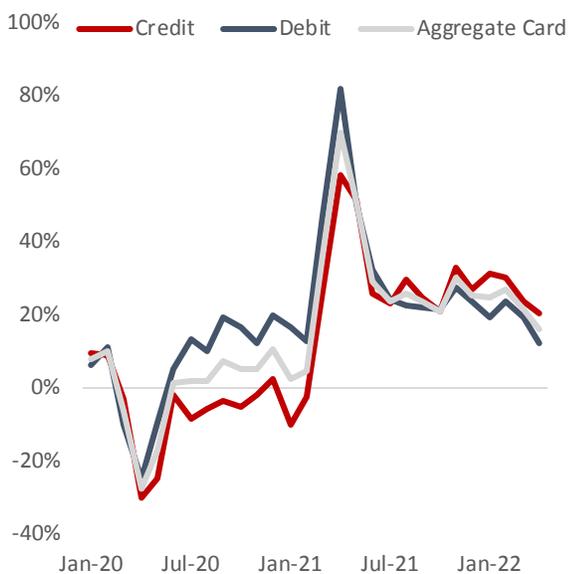
Record card spending despite declining stimulus support. Bank of America Small Business aggregate credit and debit card spending was up 16% YoY in April. Despite a decline in stimulus support in 2022, card spend is growing steadily YoY to record levels. April growth in credit card spend (20%) outpaces growth in debit card spend (12%), driven by increases in both transactions per client (up 7% YoY) and higher average ticket (up 6% YoY).

Travel spend is returning to pre-pandemic levels. As the pandemic impacts fade, Small Businesses are spending much more on travel. Travel card spending was 57% higher YoY, with a 36% increase in transactions. Volume has surpassed pre-pandemic peaks, but transactions still lag – down -13% compared with April 2019 while average ticket is up 28%.

Higher gasoline prices are impacting Small Business expenses, especially in transportation industries. Card spending on gasoline was 49% higher than the same period a year earlier, outpacing growth in all other categories except travel. The change has been driven primarily by a 32% increase in average ticket.

Exhibit 3: Bank of America credit and debit card spending (YoY growth)

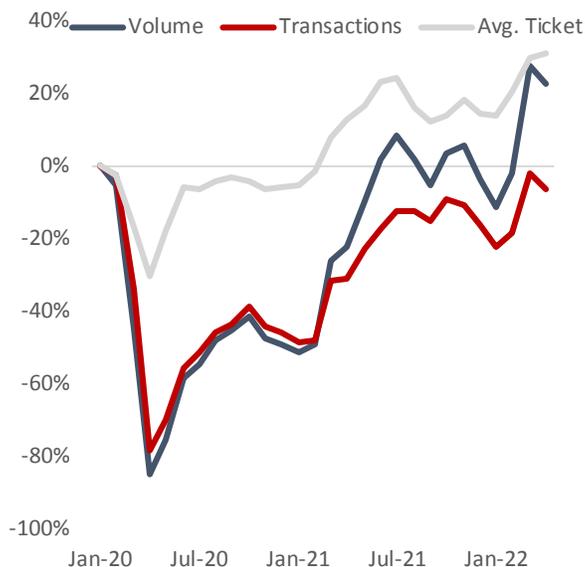
Card spend is still growing significantly albeit with some signs of slowing in recent months.



Source: Bank of America Internal Data

Exhibit 4: Growth in travel volume, transactions and ticket from Jan 2020

Travel spend is rebounding, driven by higher average ticket price.



Source: Bank of America Internal Data

Bank of America Small Business payments and inflow data show that expenses are rising, but cash flow remains strong

Small Business payments occur through additional channels other than credit and debit cards. Examining the topline trends of these payment methods provides further insight into the broader payment activity of Small Businesses.

As with card spend, Bank of America Small Business payments data shows continued YoY growth, with total payments up 17% YoY.

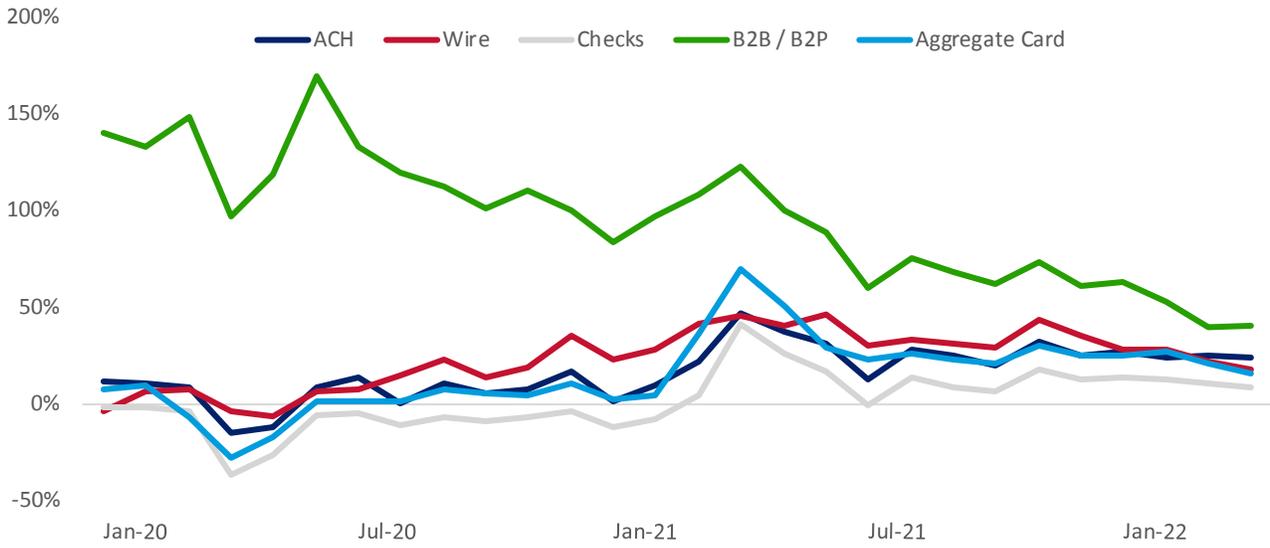
ACH (Automated Clearing House) and Wire payments grew 24% and 18%, respectively. These categories capture growth in bigger-ticket items, such as rent payments, car loans/leases, and payroll, which make up a significant portion of Small Business operating expenses.

Digital payment methods such as Zelle transactions are growing rapidly at 41% YoY as Small Businesses continue digital adoption, a transition expedited by the pandemic. By contrast, check volume is declining as a percentage of transactions, down 10pp in April 2022 vs. April 2019.

Small Business inflows keep growing YoY as well, at 13%. Total inflows remain higher than total outflows resulting in deposit balance growth. Strong cash reserves are helping Small Businesses overcome some of the challenges of inflation.

Exhibit 5: Monthly YoY growth in payments by channel

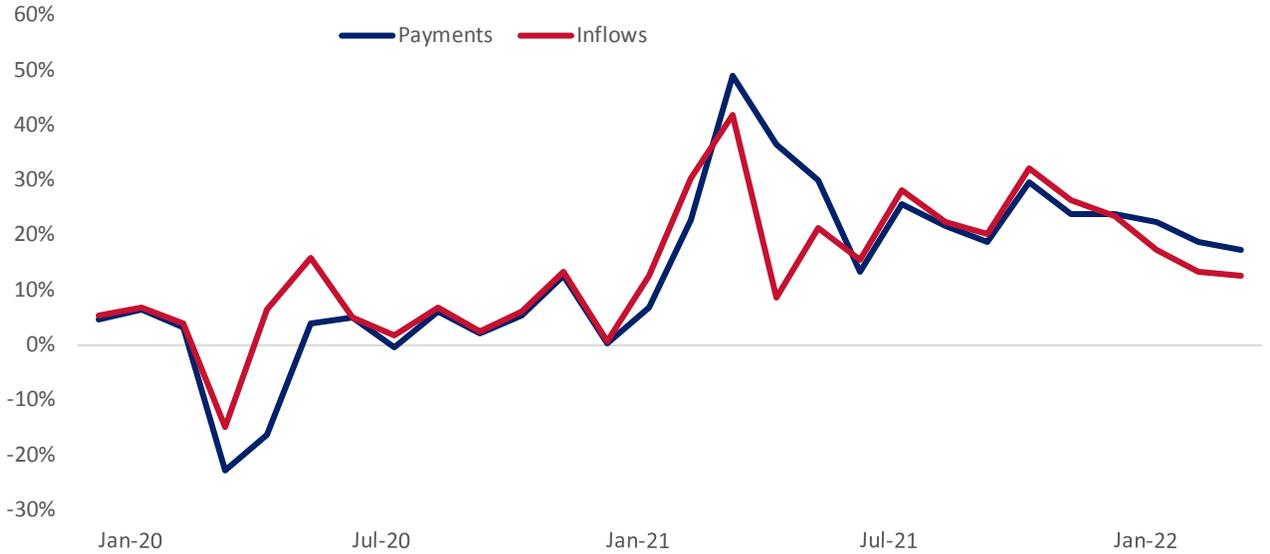
All channels are showing YoY growth, but there is some migration from traditional payment methods like checks to newer digital methods like Zelle payments.



Source: Bank of America Internal Data

Exhibit 6: Monthly YoY inflows and payments growth, 2020 to 2022

Inflows and outflows both growing YoY, but outflows are now increasing at a faster rate



Source: Bank of America Internal Data

Biggest jump in payments for transportation/utility and manufacturers

Bank of America Small Business spending and inflow data demonstrates a strong rise in spend balanced by growth in inflows and healthy balance sheets. Growth has been fueled by the return to business following the pandemic, government stimulus and the ability to pass some rising expenses onto clients. Per the [Bank of America Small Business Owner Report](#), 64% of Small Business owners expect their revenue to increase in the next 12 months.

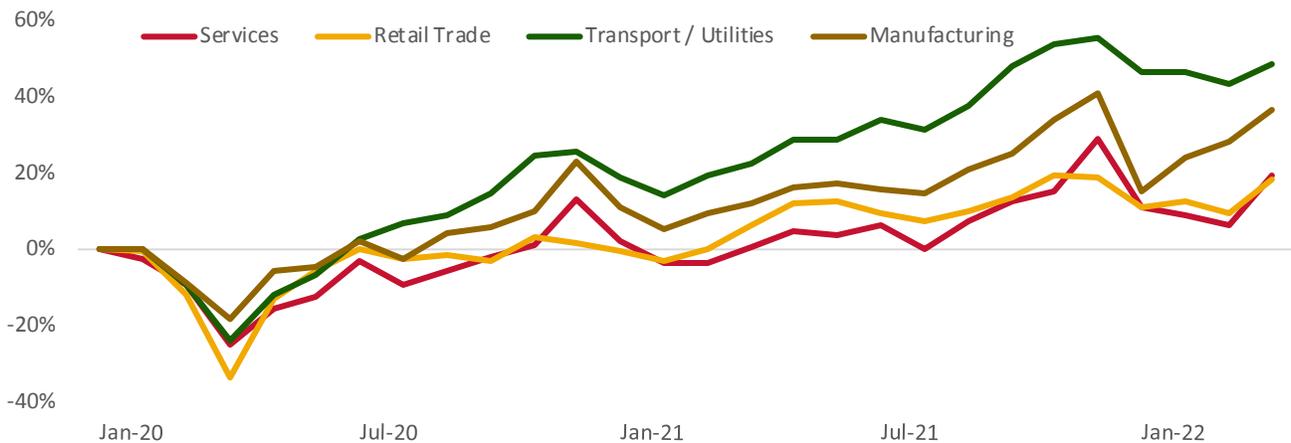
Inflation and supply chain issues continue to weigh on Small Business owners with 88% and 76% citing them as currently impacting their business, respectively. As a result, these businesses could face increasing pressure to raise prices and re-evaluate spending.

Impact differs by industry. Industries more reliant on energy and commodities have felt the most significant impact on payment volume since the pandemic began. Per client payments are up 49% compared to Jan 2020 pre pandemic for the combined transportation and utility industries and up 37% for manufacturers. This compares to only 19% and 18% for services and retail, respectively. Per client inflows show a similar trend; up 49% for transportation and 33% for manufacturing. Inflows are up 16% for services and up 20% for the retail trade compared to January 2020.

Gas is a growing portion of total spend. Rising gas prices outpaced total inflation in April. This impacts Small Businesses, particularly as many businesses and consumers came to rely on rapid shipping during the pandemic. Gas now accounts for 7% of aggregate card spend, up from 5% in April 2021. The transportation industry, which grew significantly during the pandemic, faces a stronger impact and has seen total card spend rise 39% over the prior April compared to 14% for all other industries.

Exhibit 7: Growth in payments per client per business day, by select industries from Jan 2020

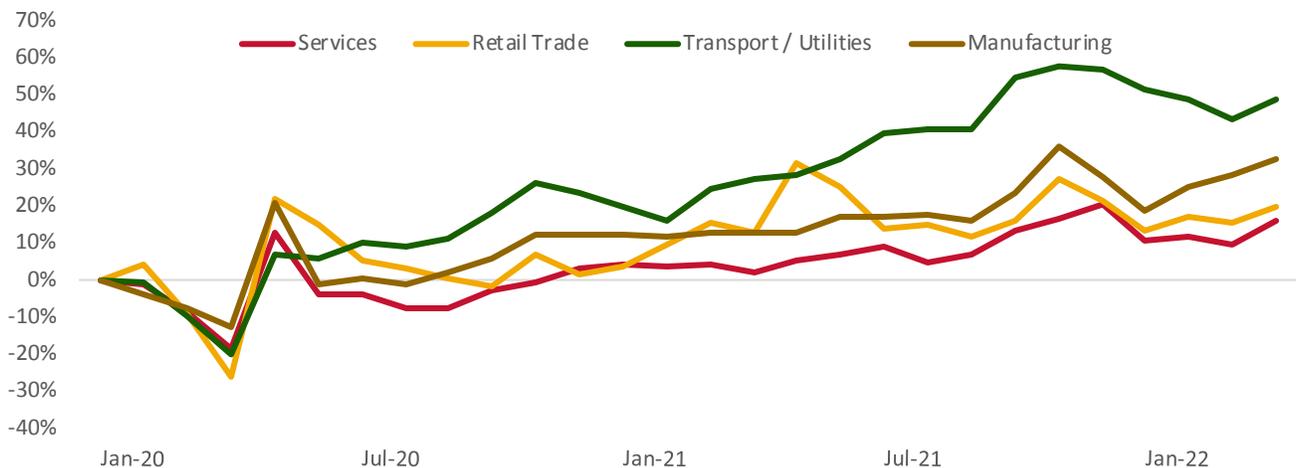
Industries dependent on energy and commodities have seen most growth in payments since 2020.



Source: Bank of America Internal Data

Exhibit 8: Growth in inflows per client per business day, by select industries.

Inflow growth is more similar across industries.



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.

Disclosures

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