Accessible version

BANK OF AMERICA INSTITUTE

BANK OF AMERICA

Small Business Checkpoint

Planning on sticking around

18 October 2022

Key takeaways

- Despite looming recession fears, small businesses seem confident they can survive an economic downturn according to a recent Bank of America survey. This is likely because they feel they have sufficient financial buffers: in September, average bank deposit balances per Bank of America small business client were 51% higher than the comparable period in 2019.
- Also encouraging is that a large portion of small businesses indicate that they have no plans to pull back on hiring and payroll payments growth remains elevated. But the caveat is that higher labor costs, among other inflationary pressures, will continue to bite.
- To weather these cost pressures, small businesses plan to raise prices and rely more on business credit cards as a funding source, according to the same Bank of America survey. This is echoed by Bank of America data showing that small business credit card spending per client was up 14.2% YoY in September, dwarfing the 1.3% YoY rise in debit card spending per client.

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 conditions or performance of Bank of America.

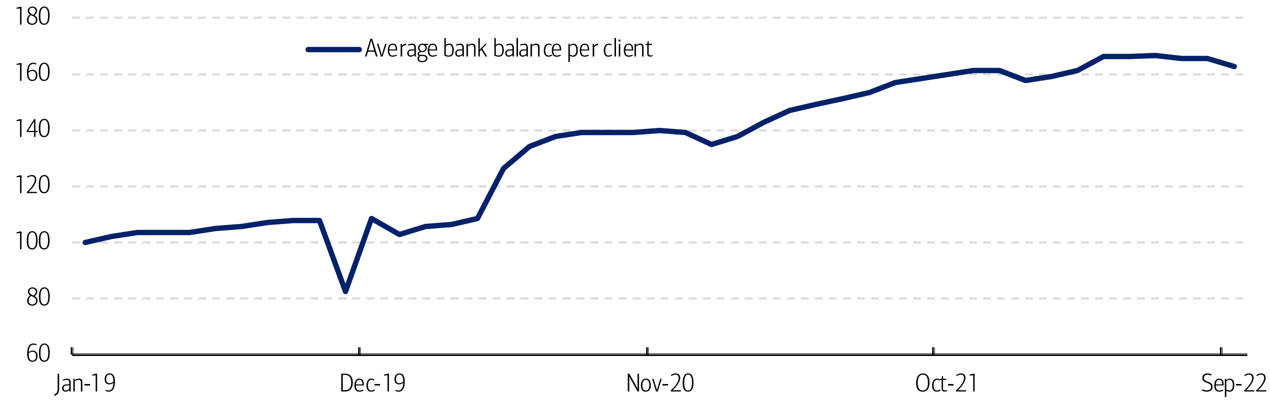
Small businesses think they can survive a recession

Recession fears are looming in the US with the Federal Reserve hiking rates at the fastest pace in four decades. BofA Global Research expects the US to enter recession around the first quarter of next year. What does this mean for small businesses?

Survey data suggests that while they expect the economy to slow, they are confident they can survive. Specifically, the fall 2022 Bank of America Small Business Owner Report showed that in August, 67% of survey respondents were worried about recession. Yet strikingly, in that same report, 77% of respondents also said their businesses were equipped to survive.

And they are optimistic for a reason. Bank of America internal data suggests that, as of September, the average bank deposit balance per client, including checking accounts, savings accounts, and certificates of deposits (CD), was up 51% and 2% relative to same time in 2019 and 2021, respectively (Exhibit 2). This suggests small businesses have higher-than-normal buffers in case of an economic downturn. Note that small business bank balances surged during 2020, due to government stimulus such as the Paycheck Protection Program (PPP), and grew steadily thereafter as the economy reopened, before peaking in recent months.

Exhibit 1: Average bank balances per small business client (index, January 2019=100)
The average bank deposit balance per client remains well above the pre-pandemic trend.



Source: Bank of America internal data. Bank balances include balances from checking, savings, CD and IRA accounts.

Still spending on payrolls despite gathering economic clouds

Historically, a deteriorating economic outlook has tended to be correlated with a pullback in small business hiring. This makes sense: when you expect fewer customers, you don't hire more staff. Yet today we see no signs that small businesses plan to pull back on hiring and payroll spending remains strong. According to the fall 2022 Bank of America Small Business Owner report, 38% of respondents plan to hire in the next 12 months – the highest percentage since 2016. Meanwhile payroll payments per Bank of America small business client rose 8.5% YoY (three-month rolling average) in September, down slightly from March but still elevated (Exhibit 2).

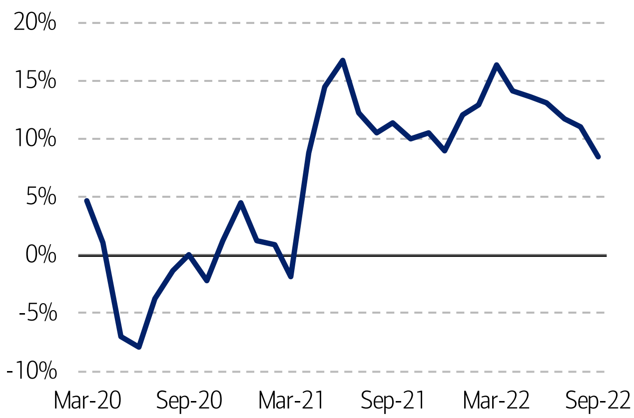
In our view, two factors explain this strong payroll spending.

First, even as the economy slows, labor shortages persist in many sectors. According to data from the Bureau of Labor Statistics, as of August, for every unemployed person, there were 1.7 job openings in the economy, compared with just 0.7 between 2011 and 2019. As such, companies still have excess demand for labor.

Second, a lack of labor also means small businesses need to raise wages to attract and retain workers. These higher wages further drive up payroll payments. In September, average hourly earnings increased by 5% YoY, according to the Bureau of Labor Statistics, which suggests that surging wages are the main driver behind payroll payments growth (Exhibit 2). This is particularly evident in industries with more acute labor shortages such as leisure and hospitality: in September, small business payroll payments growth for lodging (i.e. hotels) and restaurants & bars were up a strong 14% and 13% YoY, respectively, on a three-month rolling basis (Exhibit 3).

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

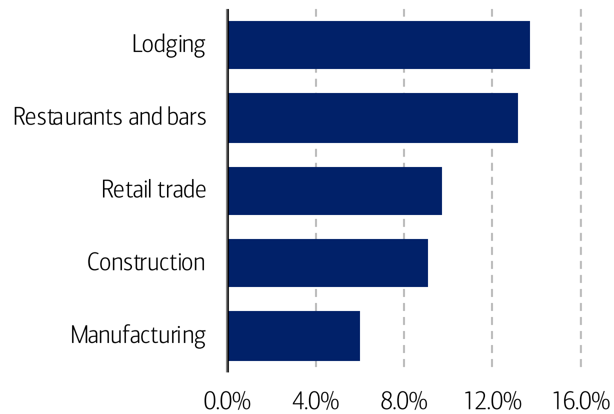
Surging wages are likely the main driver behind the 8.5% YoY growth in small business payroll spending



Source: Bank of America internal data

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

Leisure and hospitality sectors experienced the largest small business payroll payments growth YoY



Source: Bank of America internal data

How to cope with inflation? Raise prices and use credit cards

Small businesses are not only contending with rising labor costs. They also face broad-based price increases in areas like rent and raw materials. With September Consumer Price Index (CPI) inflation reaching 8.2% year-over-year (YoY), 30% of small businesses surveyed by the National Federation of Independent Businesses (NFIB) cited "inflation" as their single most pressing problem (Exhibit 4). Similarly, the Bank of America Small Business Owner report showed that in August, 75% of survey respondents were worried about inflation, the highest among all economic concerns.

Besides drawing down their business account balances, small businesses have other ways they can weather inflation: for example, raise prices or funding. The fall 2022 Bank of America Small Business Owner report showed that 57% of surveyed businesses are raising prices, similar to the 51% in the NFIB survey. The good news is that consumers remain fairly well positioned (for more details on the health of the consumer, please see Consumer Checkpoint) and continue to spend even as prices increase, so for now at least businesses may find they have some ability to raise prices.

The fall 2022 Bank of America Small Business Owner report also found that, over the next 12 months, 83% of business owners plan to obtain funding for their business, up from 70% in the spring. Nearly half of those (48%) will reach for their business credit card, the most popular choice of funding channels. Only 31% plan to take out traditional bank loans (Exhibit 6). Interestingly, 44% of respondents also quoted that they plan to draw down on personal savings to fund their business. This coincides with elevated consumer bank balance data, according to Bank of America internal data.

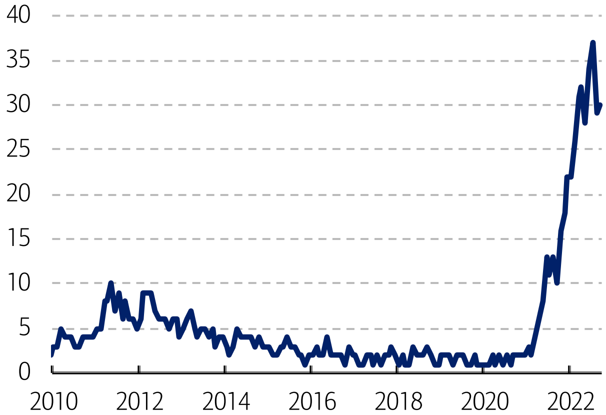
This preference for business credit cards is echoed by our data, which shows that small business credit card spending per client has considerably outpaced debit card spending per client. Specifically, spending on credit cards was up 14.2% YoY in September,

BANK OF AMERICA INSTITUTE

compared with just 1.3% YoY for debit cards. This trend has been witnessed across the whole of 2022, ever since inflation started to surge (Exhibit 6).

Exhibit 4: NFIB: small businesses reporting inflation as the single most important problem (monthly, %)

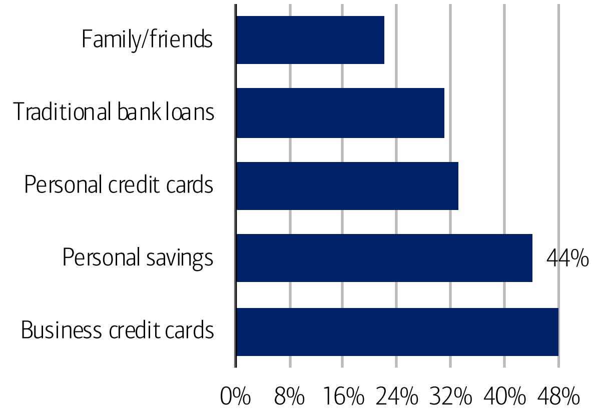
The percentage of small businesses reporting inflation as the single most important problem remains extremely elevated



Source: NFIB Survey

Exhibit 5: Over the next 12 months, how will small business owners obtain funding?

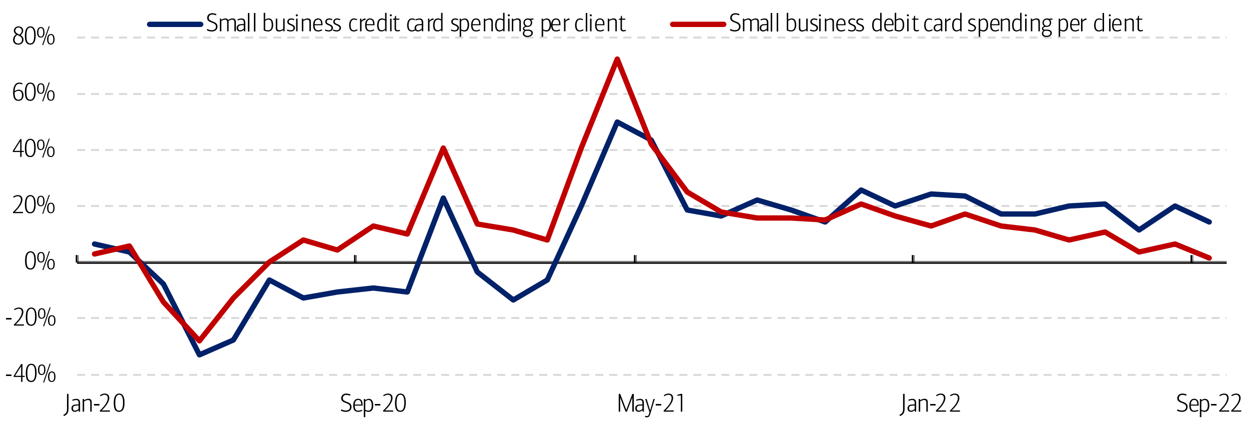
Though business credit cards are the most common source of funding, small business owners will also use personal accounts to fund their business



Source: Bank of America Small Business Owner Report

Exhibit 6: Small business credit and debit card spending per client, based on Bank of America internal data (monthly, %YoY)

Small business credit card spending per client was up 14.2% YoY in September, compared with 1.3% YoY for debit card spending per client



Source: Bank of America internal data

Contributors

Anna Zhou

Economist, Bank of America Institute

Taylor Bowley

Analyst, 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

Kevin Burdette

Consumer Product Strategy Analyst, Consumer and Small Business

Don Vecchiarello

Bank of America Media Relations Executive, Retail, Consumer & Small Business Products, Retirement, Small Business

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.

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

These materials have been prepared by the Bank of America Institute and are provided to you for general information purposes only. Such materials are not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial conditions or performance of Bank of America. The Bank of America Institute is a think tank dedicated to uncovering powerful insights that move business and society forward. Drawing on data and resources from across the bank and the world, the Institute delivers important, original perspectives on the economy, Environmental, Social and Governance (ESG) and global transformation. Unless otherwise specifically stated, any views or opinions expressed herein are solely those of the Bank of America Institute and any individual authors listed, and are not the product of the BofA Global Research department or any other department of Bank of America Corporation or its affiliates and/or subsidiaries (collectively Bank of America). The views in these materials may differ from the views and opinions expressed by the BofA Global Research department or other departments or divisions of Bank of America. Information has been obtained from sources believed to be reliable, but Bank of America does not warrant its completeness or accuracy. Views and estimates constitute our judgment as of the date of these materials and are subject to change without notice. The views expressed herein should not be construed as individual investment advice for any particular client and are not intended as recommendations of particular securities, financial instruments, strategies or banking services for a particular client. This material does not constitute an offer or an invitation by or on behalf of Bank of America to any person to buy or sell any security or financial instrument or engage in any banking service. Nothing in these materials constitutes investment, legal, accounting or tax advice.

Copyright 2022 Bank of America Corporation. All rights reserved.