

Small Business Checkpoint

The return of cautious optimism

15 September 2022

Key takeaways

- Small businesses are heading into the fall with cautious optimism, as reflected by both a higher sentiment index and stronger spend growth. Bank of America Small Business payments per client rose 11% year-over-year (YoY) in August, up from 3% in July, while card spending per client was up 13% YoY in August, outpacing July's 7% growth rate.
- This cautious optimism is further reflected in resilient business travel demand. Bank of America internal data suggests the number of travel transactions per small business client is at 90% of the 2019 annual average, the highest level since the pandemic began. This is important given that business travel is crucial to an overall travel industry rebound – it made up 26% of total US travel spending pre-pandemic.
- In yet another encouraging sign, small businesses continue to see strength in payroll payments. The three-month rolling average of payroll spend per client rose 11% year-over-year (YoY) in August, suggesting robust hiring and wage growth momentum. Restaurant and bar payroll payments may be moderating the most from recent highs, partly reflecting easing wage inflation in leisure & hospitality, but even here 18% YoY growth in August is reassuring.

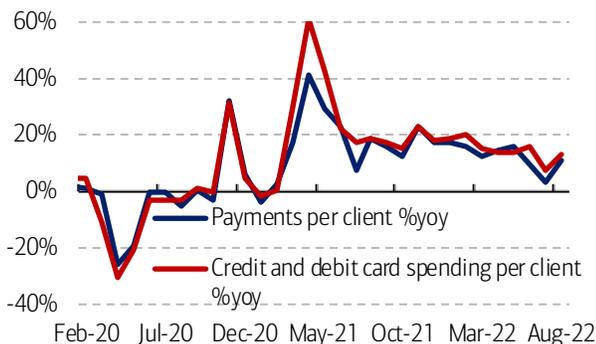
Small Business Checkpoint is a regular publication from the Bank of America Institute. It aims to provide a real-time assessment of small business spending activities and financial well-being, leveraging the depth and breadth of Bank of America's proprietary data. Such data is not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial conditions or performance of Bank of America.

Spending up as optimism starts to build

Signs of returning small business optimism are mounting by the month: the August Small Business Optimism Index increased by 2 points from July to the highest level in three months, according to data by the National Federation of Independent Business (NFIB). This tick-up in confidence is also reflected in the Bank of America Small Business payments data: Bank of America small business payments per client increased 11% YoY in August, up from 3% YoY in the prior month (admittedly partly boosted by an additional business day last month compared with 2021). Similarly, Bank of America Small Business credit and debit card spending per client gained 13% YoY in August, outpacing the prior month's 7% growth rate (Exhibit 1). Note that total payments include credit card, debit card, Automated Clearing House (ACH), wires, bill pay, peer-to-business (P2B), cash and checks and offer a holistic view of money flow.

Exhibit 1: Small business payments per client and card spending per client, based on Bank of America internal data (monthly, %YoY)

Bank of America small business payments per client increased 11% YoY in August while small business card spending per client gained 13% YoY



Source: Bank of America internal data

Exhibit 2: NFIB Small Business Optimism Index (monthly, index, 1986=100)

US Small Business optimism increased slightly in August to 91.8



Source: Haver Analytics. Shaded areas mean recessions, defined by the National Bureau of Economic Research

Business trips are back- transactions now at highest levels since Covid began

For the travel industry to rebound, both consumers and businesses need to get on the move again. Business travel accounted for more than a quarter of total travel spending in the US prior to the pandemic, according to the US Travel Association.

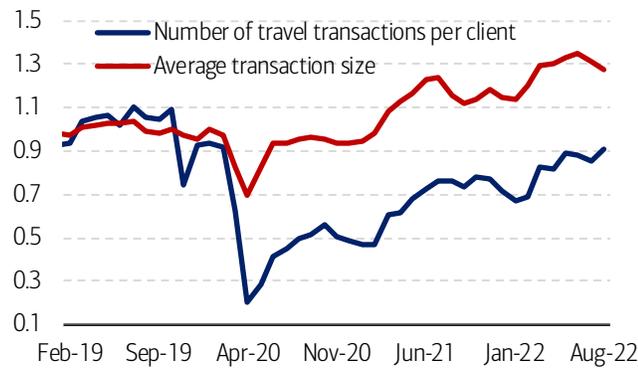
Small Business travel demand, a subset of overall business travel, gives cause for optimism. Bank of America internal data suggests small business card spending per client for travel – which includes airlines, lodging, cruise lines, travel agency, car rental and other transportation – rose 31% YoY in August, up from 19% in July. Things look even better for Small Businesses with annual revenue of more than \$1 million, with equivalent travel spending up 43% YoY in August. While this may partially reflect a base effect given the delta variant depressed spending last year, it is still encouraging.

We break down spending further into the number of travel transactions per client and the average transaction size. As Exhibit 3 shows, an average client made more transactions in August, now at the highest level since the start of the pandemic at 90% of the 2019 annual average. However, the size of those transactions has declined slightly, though still around 30% above the 2019 average. This likely reflects prices coming down in certain travel-related categories, as suggested by the Consumer Price Index (CPI) report. Prices peaked in May 2022 for airfares and lodging but have been moderating steadily since (Exhibit 4).

Interestingly, inflation worries seem to be easing for small businesses despite overall price pressures edging higher in August (headline CPI at 8.3% YoY). According to the National Federation of Independent Business survey, 29% of respondents reported inflation as the single most important problem in August, down from the record high of 37% in the prior month.

Exhibit 3: Number of travel transactions per client and average transaction size for Small Businesses (index, 2019 average =1 for each series)

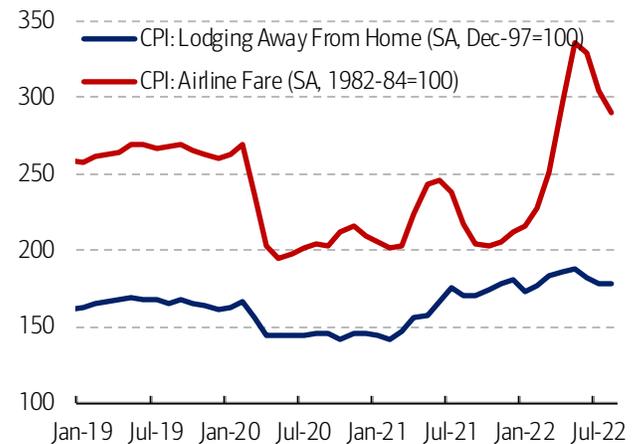
Number of travel transactions per client increased to the highest level since the start of the pandemic while average transaction size seems to be cooling



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

Exhibit 4: Airfare and lodging CPI (index, Seasonally Adjusted (SA))

On a level basis, prices for airfare and lodging seem to have peaked in May this year



Source: Bureau of Labor Statistics

Payroll payments resilient: restaurants down from record high as wage bill eases

Payroll spending growth is a good indicator of small businesses' employment activities. Bank of America Small Business outflow data shows average payroll spending per client was up 11% YoY in August on a 3 month rolling basis, one percentage point down on July (Exhibit 3). Total payroll spending growth can be influenced by both increased hiring and higher wages. According to the Bureau of Labor Statistics, average hourly earnings for August increased by 5.2% YoY, while the after-tax wages, based on Bank of America aggregated consumer deposit data, were up 6.1% YoY on a 3-month rolling basis in August (for more please see our latest [Consumer Checkpoint](#)). These numbers roughly translate to a 5-6% YoY increase in small business employment. The US labor market remains red hot, with nonfarm payrolls rising by an average of 378k for the last three months (June-August).

Looking at Small Business payroll payments by industry, we found growth in payroll payments for eating and drinking places (i.e. restaurants and bars) had the biggest slowdown this year. They grew 18% YoY on a three-month rolling basis in August – still resilient yet far from the 39% figure in March. This likely because restaurants had to increase their payrolls as they reopened after Covid-19 lockdowns. Since then, wages in the leisure and hospitality industry have moderated. According to the Bureau of Labor Statistics, average hourly earnings for leisure and hospitality grew 8.6% YoY in August, down from the peak of 13.3% reached in December last year. We find similar trends for the retail trade sector as well (Exhibit 6).

Exhibit 5: Growth in payroll payments for all industries per client (% YoY, 3-month moving average)

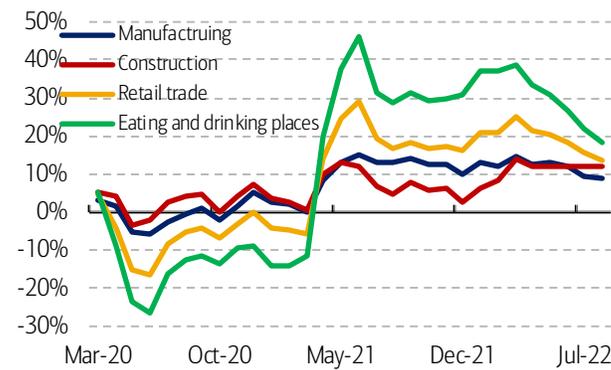
Bank of America small business outflow data demonstrates continued strength in payroll spending growth per client, which was up 11% YoY 3-month moving average in August



Source: Bank of America internal data

Exhibit 6: Growth in payroll payments for select industries per client (% YoY, 3-month moving average)

As wage inflation slows, the %YoY for Small Business payroll payments in Retail Trade and Restaurants industries are also moderating, though still at elevated levels



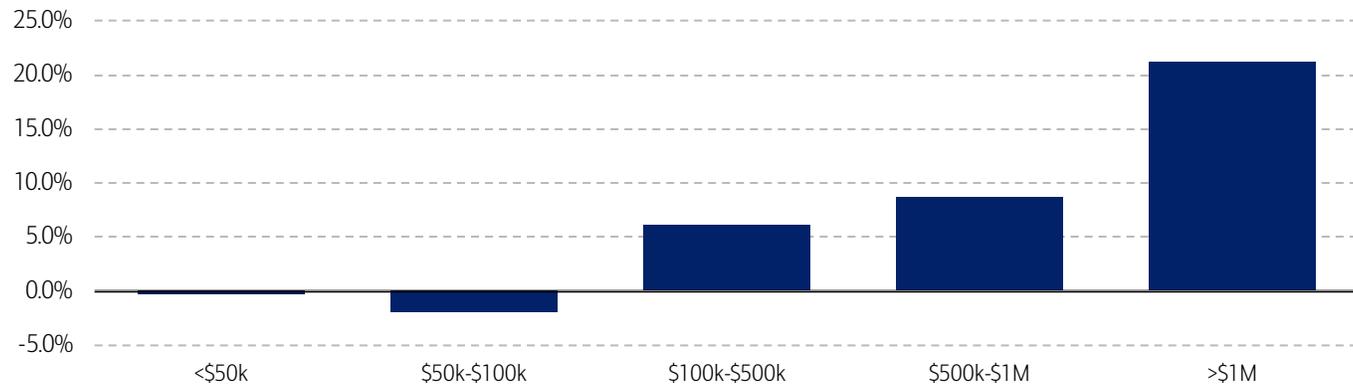
Source: Bank of America internal data

A tale of five revenue tiers

While Small Business total card spending was resilient on aggregate in August, the picture across different small businesses is mixed. Specifically, we found that small businesses with greater annual revenues are spending at a faster pace than their smaller counterparts. Looking at Small Business credit and debit card spending per client by Annual Revenue Sales tier, we see an uneven distribution: for the three months ending August, spending contracted by almost 2% on a %YoY basis for businesses with annual revenue of \$50k to \$100k. This is in sharp contrast to clients with \$100k-\$500k in sales, whose card spending has risen more than 6% YoY in the past three months. Businesses with revenue of more than 500k saw even higher spending.

Exhibit 7: Small Business card spending per client by annual revenue tier, based on Bank of America internal data (%YoY, 3-month moving average through August 2022)

Small Business card spending per client by annual revenue tier decreased %YoY for clients with <\$100k in annual revenue, and increased for those >\$100k.



Source: Bank of America internal data

The bottom line

Small businesses are heading into the fall with cautious optimism, as reflected by both a higher sentiment index and stronger spend growth. Bank of America Small Business payments per client rose 11% year-over-year (YoY) in August, up from 3% in July, while card spending per client was up 13% YoY in August, outpacing July’s 7% growth rate.

This cautious optimism is further reflected in resilient business travel demand. Bank of America internal data suggests the number of travel transactions per small business client is at the 90% of the 2019 annual average, the highest level since the pandemic began. This is important given that business travel is crucial to an overall travel industry rebound – it made up 26% of total US travel spending pre-pandemic. In yet another encouraging sign, small businesses continue to see strength in payroll payments. The three-month rolling average of payroll spend per client rose 11% year-over-year (YoY) in August, suggesting robust hiring and wage growth momentum. Restaurant and bar payroll payments may be moderating the most from recent highs, partly reflecting easing wage inflation in leisure & hospitality, but even here 18% YoY growth is reassuring.

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

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.

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