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Small Business Checkpoint

Curbing costs and raising revenues

19 February 2025

Key takeaways

- Small businesses appear to be on the upswing. A Bank of America measure of small business activity showed deposits growth outpaced that of payments for the first time in three years - a sign that revenue is rising faster than costs.
- Payroll comprises the largest single share of small business operational costs, according to Bank of America account data. With wage inflation coming down from peak levels and credit standards easing, there is evidence of relief from certain cost pressures for small businesses.
- Yet, policy changes such as tariffs, could introduce an inflationary headwind to profitability. So far, however, plans for small firms to increase inventories fell in January from the end of 2024 per data from the National Federation of Independent Business, suggesting any impact is yet to be realized.

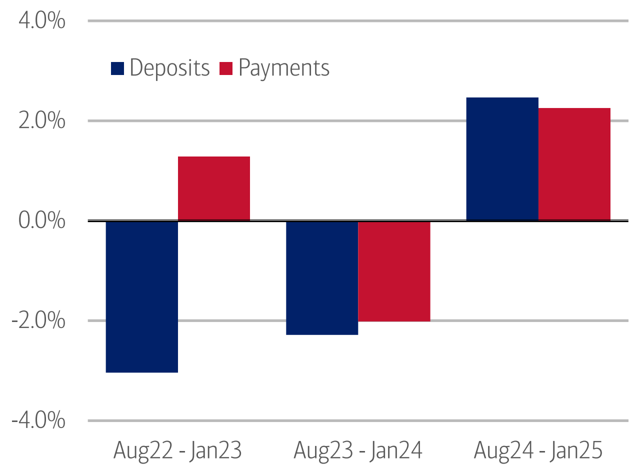
Small Business Checkpoint is a regular publication from Bank of America Institute. It aims to provide a real-time assessment of small business spending activities and financial well-being, leveraging the depth and breadth of Bank of America's proprietary data. Such data is not intended to be reflective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

Are small business revenues rising faster than costs?

The financial picture appears to be brightening for small businesses. According to Bank of America small business account data, in the six-month period from August to January, deposit growth among small business clients surpassed total payments growth for the first time in three years (Exhibit 1).

That's a sign, in our view, that revenues are going up for these enterprises. Furthermore, over the past year, the ratio of small businesses' payment inflows to outflows – which we view as a proxy for profits – has climbed steadily and increased 1.5% year-over-year (YoY) in January (Exhibit 2).

Exhibit 1: Deposits growth has surpassed payments growth for the first time in three years
Deposits per small business client (YoY%) and payments per small business client (YoY%) (six-month average)



Source: Bank of America internal data

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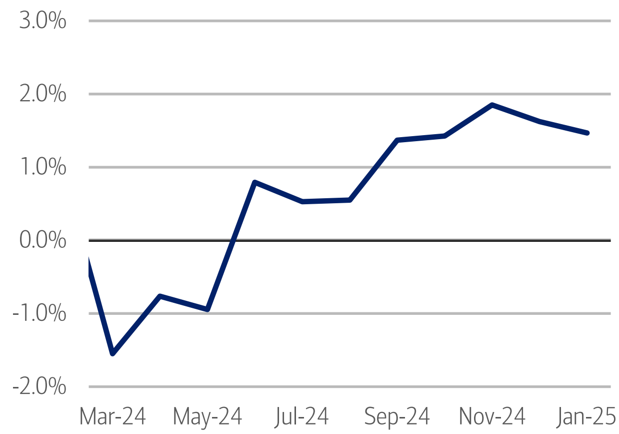
Exhibit 2: Small business profitability steadily climbed over the past year and grew 1.5% year-over-year (YoY) in January
Small business inflow-to-outflow ratio from Bank of America deposit accounts (YoY%, monthly)



Source: Bank of America internal data

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It's important to note, however, that even as revenues seem to be rising, costs don't appear to be declining. In fact, our data shows that while deposits are up, so are payments, suggesting it is possible certain cost pressures are weighing on small businesses. And given that these companies typically operate on very small profit margins, it's important to understand the extent to which costs might impact profits.

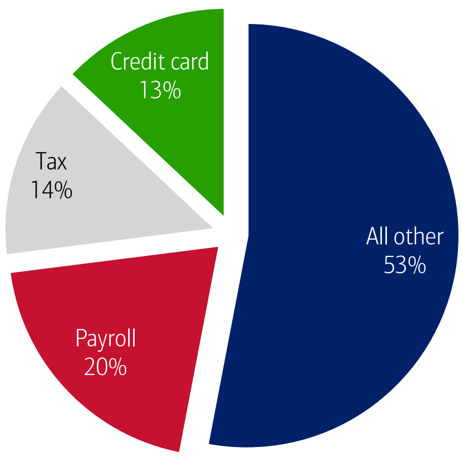
Wage inflation has slowed, easing labor costs

A broader view of small business operating expenses can be seen in automated clearing house (ACH) payments. And when we look at what's driving total average costs from January 2024 to January 2025, the three highest volume ACH categories are payroll, tax, and credit card, respectively (Exhibit 3). Perhaps unsurprisingly, payroll comprises the largest single share of small business operational costs, according to Bank of America account data. To what extent is this due to wage inflation?

According to the Bureau of Labor Statistics (BLS), the average weekly wage growth is still growing, but at a much slower rate than in recent years. For example, the average weekly wage growth at the smallest firms, those with less than 50 employees, peaked in 2023 at 8.2% YoY (Exhibit 4). And for firms with less than 500 employees – a small business as defined by the Small Business Administration – average weekly wage growth peaked in 2022 at 7.4%. While wage growth at smaller firms outpaced overall growth in 2022 and 2023, smaller firms' wage growth is now growing at a slightly slower pace.

Exhibit 3: Payroll comprised 20% of total payments for small businesses

Small business ACH payments volume (%, average of Jan24-Jan25)



Source: Bank of America internal data

Note: All other includes payments such as distributors, loans, utilities, etc.

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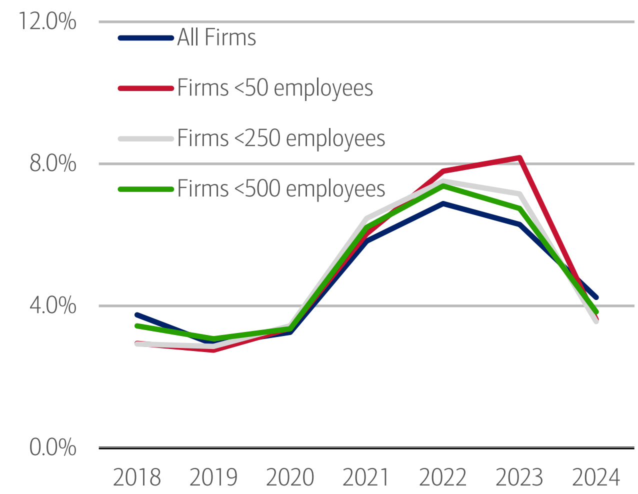
Exhibit 4: Smaller firms' weekly wages fell below the overall average in 2024, down from 2023 and 2022 peaks

Average weekly wage by employment size for all industries (annual, YoY%)



Source: Bureau of Labor Statistics

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Additionally, within Bank of America internal account data, payroll payment growth per small business client was up 4.5% YoY in January, largely flat from December (Exhibit 5).

This is in line with the findings from the February National Federation of Independent Business (NFIB) survey which has indicated little change in the percentage of firms raising worker compensation over the past three months. The survey also found that the percentage of business owners reporting labor costs as the single most important problem for business owners fell once again and is now four percentage points below the highest reading of 13% reached in December 2021.

Yet, that survey also indicates that finding quality labor remains a top concern (see: January Small Business Checkpoint). This could cause challenges for hiring as well as overall productivity.

So how can these companies counter this problem? The Bank of America Small Business Brief (see Methodology) identified four key factors that can help small businesses win over top talent: 1) flexible work schedules, 2) better workplace benefits, 3) better compensation than competitors, and 4) more manageable workloads (Exhibit 6). Providing tools to enhance employee wellness may also help, according to the report, as such benefits can lead to greater employee retention and more satisfied and engaged staff.

Exhibit 5: Payroll payment growth was up 4.5% YoY in January, largely flat from December
Payroll payments per small business client (monthly, YoY%, three-month moving average)

Source: Bank of America internal data

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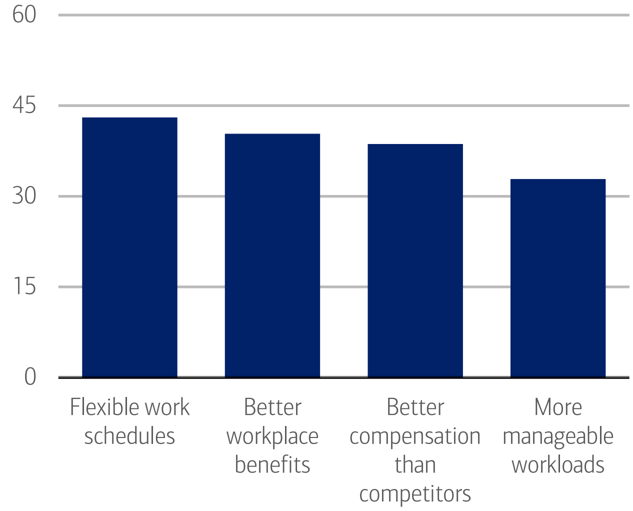
Exhibit 6: Flexible work schedules are top lever being used by small businesses to draw in talent
Reasons reported by small businesses for improving the ability to attract top talent (%)



Source: Bank of America 2024 Workplace Benefits Report

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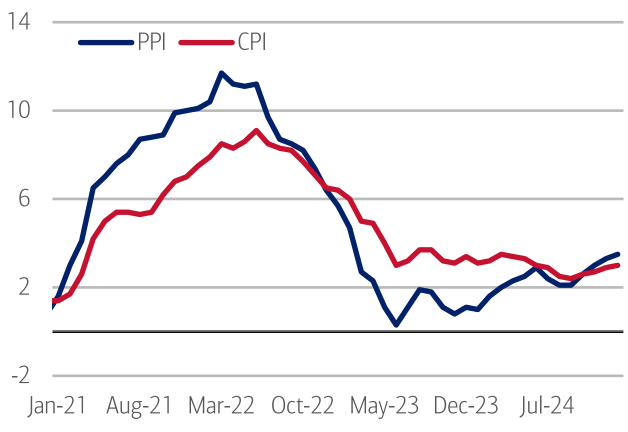
What about tariffs?

Talk of tariffs by the Trump administration could impact companies large and small – and there are signs that businesses may be facing headwinds on the cost front. After all, the costs of goods sold is a key element to small businesses' balance sheets. And while inflation has come down from its 2022 peak, the producer price index (PPI) has been outpacing the consumer price index (CPI) since November 2024, suggesting challenges for businesses producing goods and services (Exhibit 7).

Exhibit 7: As PPI outpaces CPI, this could indicate that pipeline inflation pressures are persisting
PPI final demand (monthly, YoY%) and CPI all items (monthly, YoY%)



Source: Bureau of Labor Statistics

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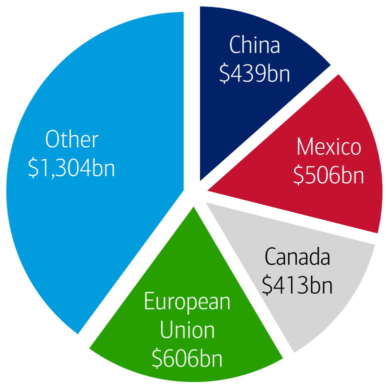
Exhibit 8: China, Mexico, Canada and the EU account for 60% of US imports
US imports (12-month total as of Dec 2024, $)



Source: Census Bureau, Haver analytics
BofA Global Research

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And with the recent implementation of tariffs on China, which is responsible for nearly 13% of all imports (Exhibit 8), it's possible this could further increase. Even so, according to BofA Global Research, the current trade, fiscal, and immigration policy agenda would only be mildly inflationary and apply to specific industries or sectors. For now, small businesses don't appear to be overly concerned about rising costs.

Additionally, the NFIB indicates the percentage of owners planning to increase inventory in the coming months fell last month dampening the immediate impact of price increases. However, shelves will eventually have to be restocked and according to BofA Global Research, we can likely expect companies to build up inventories sometime in the first half of this year.

Reliance on credit cards has fallen as credit availability increases

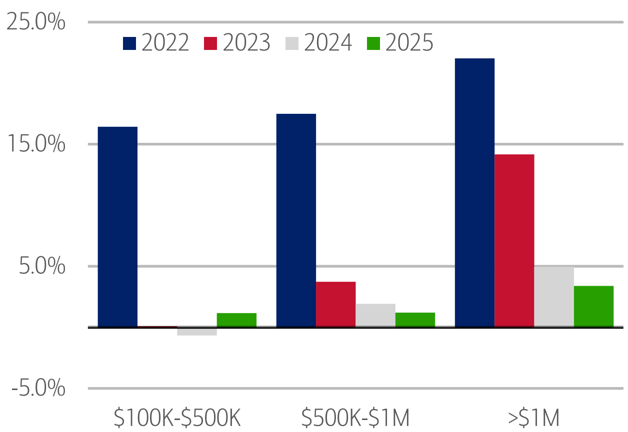
While credit cards can increase small businesses' purchasing power and finance continued growth, we see signs that companies are moving away from them. There is evidence that more firms rotating towards traditional loans and lines of credit (see: October Small Business Checkpoint). That contrasts from two years ago when small businesses were moving from bank loans to cards, in part reflecting tighter credit requirements from lenders.

Indeed, according to the NFIB, a net 3% of owners reported in February that their last loan was harder to a previous one. Additionally, the last time the percentage was this low was in June 2022.

What are small businesses spending on? Looking across credit card categories, much like consumers (see: February Consumer Checkpoint), spending on services has outpaced retail (Exhibit 10). In January, services spending for such clients rose 1.5% year-over-year (YoY) whereas retail fell 0.3% YoY.

Exhibit 9: Number of transactions has fallen for all revenue tiers since 2022, though has increased slightly for firms with annual revenue of $100K-$500K

Credit card transactions per small business client by revenue tier for January (YoY%)



Source: Bank of America internal data

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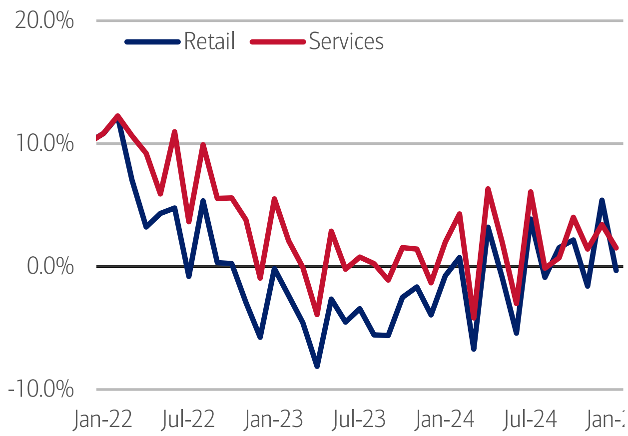
Exhibit 10: In January, services spending per small business client rose while retail was down

Credit card spending per small business client by category (monthly, YoY%)



Source: Bank of America internal data

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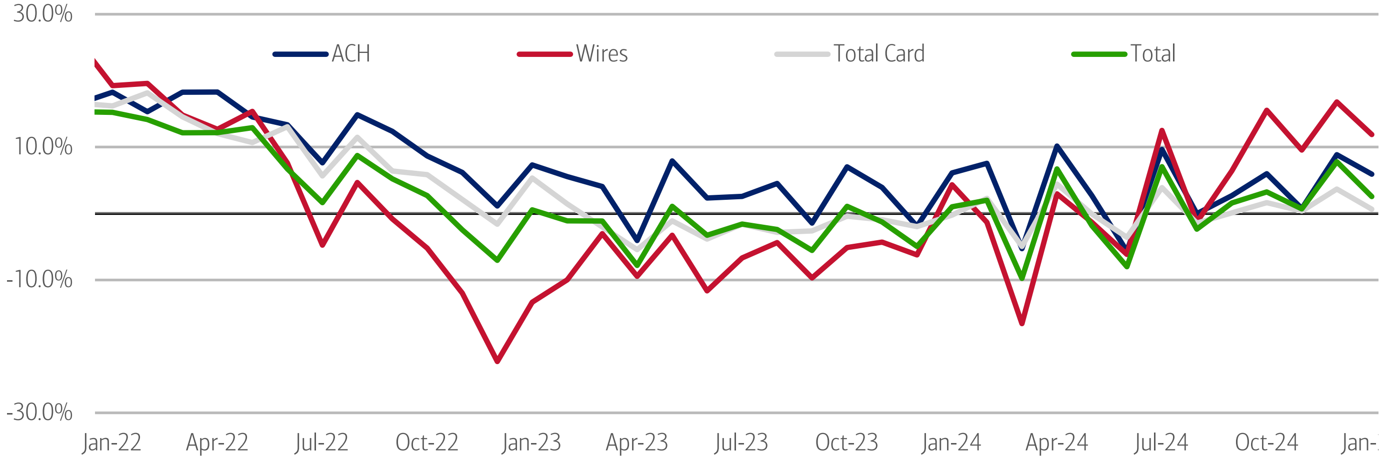
Using Bank of America internal account data, the number of credit card transactions per small business client have fallen across all revenue tiers since 2022 (Exhibit 9). For small firms with annual revenue of $100K-$500K, transaction growth has increased from the prior two years, while firms with annual revenues of $500K-$1M and >$1M have seen consistent declines. Furthermore, the rise in small business credit card balances has stayed below the rate of inflation (see: December Small Business Checkpoint) in all revenue categories.

However, despite interest rate cuts from the Fed, banks tightened their standards for households and businesses in the fourth quarter according to the January 2025 Senior Loan Officer Opinion Survey. So far, small businesses entered 2025 with a lot of momentum but if credit tightening increases, this could cause obstacles for growth down the line.

Monthly payments update

Looking more broadly at small business activities in January, total payments for such clients were up 5.9% YoY but fell slightly from December (Exhibit 11). All major components posted declines prior to last month. Wires showed the largest increase, up around 12% YoY in January.

Exhibit 11: Wires continued to exhibit the strongest growth, and total payments grew 5.9% YoY in January
Payments per small business client by channel (monthly, %YoY)



Source: Bank of America internal data

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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 are 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.

Revenue tiers are determined by the combination of following factors: 1) stated revenue on small businesses credit or Paycheck Protection Program applications, 2) actual account inflow into Bank of America Deposit Accounts, and 3) third party revenue estimation.

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.

For the Bank of America Small Business Brief, Escalent surveyed a national sample of 955 employees who are working full-time and participate in 401(k) plans, and 804 employers who offer both a 401(k) plan and have sole or shared responsibility for decisions made in the plan. The survey was conducted between November 22, 2023, and January 4, 2024. To qualify for the survey, employees had to be current participants in a 401(k) plan and employers had to offer a 401(k) plan option. Neither was required to work with Bank of America. Bank of America was not identified as the sponsor of the study.

Additional information about the methodology used to aggregate the data is available upon request.

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Disclosures