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Economy

Technology services still computing for small firms

06 May 2025

Key takeaways

- Equipment and software investment has steadily increased since 2008, and reached more than $1.3 trillion at the end of 2024. However, heightened economic uncertainty threatens continued investment as more firms pause capex purchases.
- Yet, for many firms, technology-based investment can promote productivity and enhance efficiency. According to a Bank of America proprietary survey, more than 90% of small and mid-sized businesses plan to invest in digital tools. Plus, small business payments to technology services firms grew 11.1% year-over-year (YoY) in March, according to Bank of America internal data.
- Manufacturing and retail showed weaker technology services payment growth than construction and services. It's possible this is being driven by tariff-related challenges for firms exposed to more discretionary spending in end-markets such as consumer goods or auto manufacturers, according to BofA Global Research.

Uncertainty could curb equipment and software capex

Since the 2008 global financial crisis, equipment and software investment has increased steadily and significantly, despite some declines in periods of economic slowdown (Exhibit 1). However, the share of chief financial officers (CFOs) foregoing equipment purchases due to heightened uncertainty has hit a near all-time high this year (Exhibit 2), according to Bureau of Economic Analysis (BEA) data. In addition to the sizeable impact on firms, the survey also highlighted considerable uncertainty surrounding the breadth and duration of tariffs and resulting potential consequences for their firms.[1]

Exhibit 1: Non-residential equipment and software investment has continued to increase, but falls during recessionary periods
Non-residential fixed investment: Equipment & software (seasonally adjusted annualized rate, $ billions chained to 2017, quarterly)

Source: Bureau of Economic Analysis, Haver Analytics

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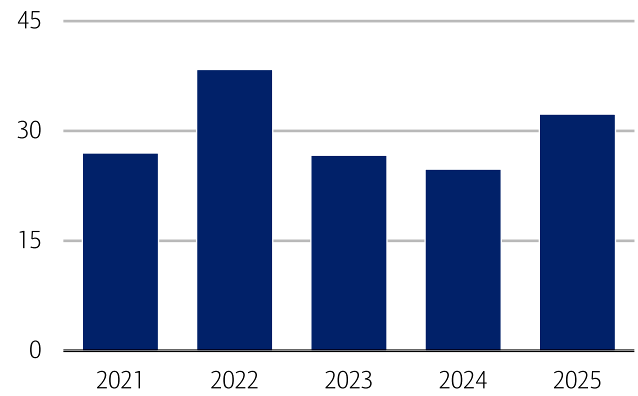
Exhibit 2: The share of CFOs foregoing equipment purchases due to heightened uncertainty is up from last year
CFO Survey: No plan to purchase equipment because of too much uncertainty, Q1 (% of respondents, annual)



Source: Duke University, Richmond Fed, Atlanta Fed, Haver Analytics

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Small business spending on technology services holding up for now

Yet, for many firms, equipment and software investment increases both optimization growth and productivity, and, according to Bank of America internal data, is holding up for now among smaller companies (read more on this topic in our March piece, A pulse on productivity). And for small businesses in particular, technology services can improve efficiency in operations and bookkeeping.

[1] How Are Tariffs Impacting Firms? | Richmond Fed

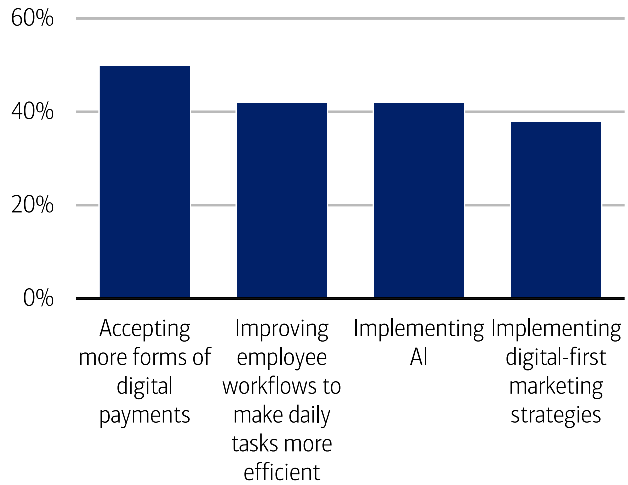
According to a 2025 Bank of America proprietary survey, more than 90% of small and mid-sized business owners plan to use digital tools over the next five years. Accepting more forms of digital payment, improving employee workflow and implementing AI were the top uses cited (Exhibit 3).

We find evidence of this in Bank of America small business payments data. Payments to technology services firms (refer to Note in Exhibit 4 for a definition) from small businesses increased in March, following negative growth through the first half of 2024 (Exhibit 4). Up 11.1% year-over-year (YoY) in March, this outpaced overall small business payment growth in March, suggesting spending towards technology services is a priority for small firms.

Moreover, user engagement with desktop software is a good proxy for small business software spend, and the March data suggests a sustained improvement, according to BofA Global Research.

Exhibit 3: Accepting more forms of digital payments was cited as the top use case for implementing digital tools

Top uses for implementing digital tools by small and mid-sized businesses (% of respondents)



Source: Bank of America 2025 proprietary survey

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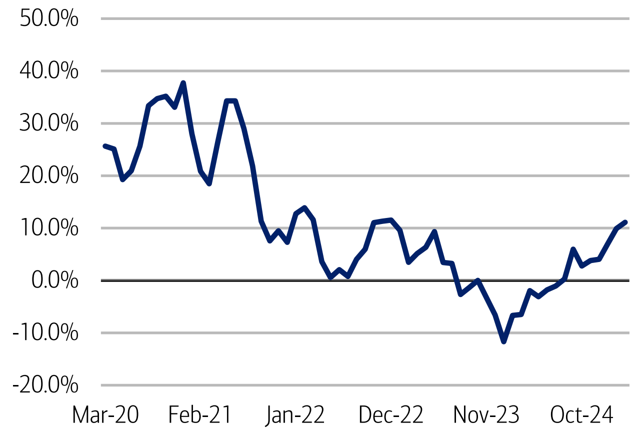
Exhibit 4: Payment growth to technology services firms from small businesses has been increasing since early 2024

Small business payments to technology services (3-month moving average, YoY%, monthly)



Source: Bank of America internal data

Note: Technology services includes software, information technology (IT), and technical services firms.

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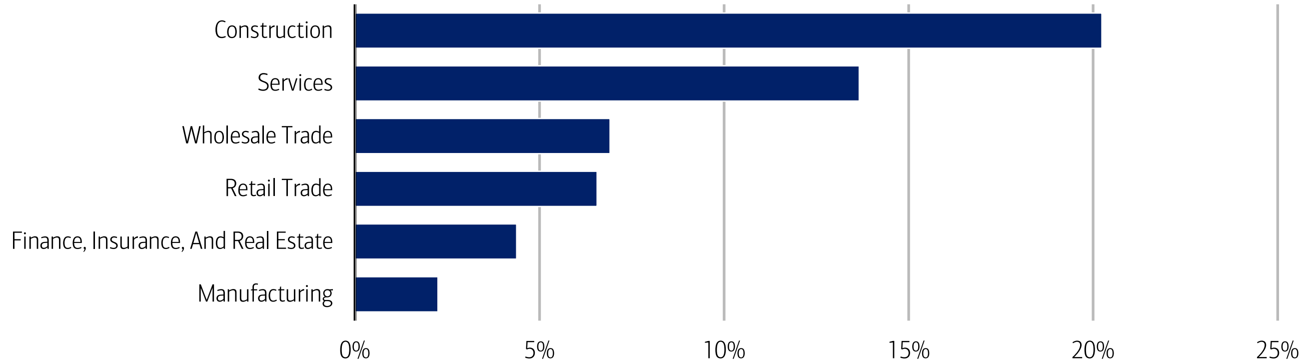
Small construction firms had the strongest growth in Q1

Looking at Bank of America payments data by sector, small construction firms had the strongest technology services payment YoY growth in the first quarter of 2025 (Exhibit 5). It's possible these firms are leveraging digital tools and AI to increase their capacity and capabilities to offset labor shortages, for example, by optimizing a portion of work hours.[2]

Exhibit 5: Small construction firms had the strongest YoY growth in technology services payments in 1Q25

Small business payments to technology services by industry in 1Q25 (YoY%)



Source: Bank of America internal data

Note: Technology services includes software, IT, and technical services firms.

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[2] 2025 Engineering and Construction Industry Outlook | Deloitte Insights

Manufacturing, finance/real estate/insurance, and retail, on the other hand, showed among the slowest growth rates in tech services payments, potentially driven by tariff-related challenges. Furthermore, these industries tend to be more cyclical than most and therefore could be harder hit by heightened economic uncertainty.

According to BofA Global Research, IT services with greater exposure to discretionary, consulting-oriented initiatives may be squeezed more. Specifically, the spike in economic uncertainty has been impacting discretionary spending in end-markets such as consumer goods, manufacturing, and insurance.

Tariffs and technology – not all risks are equal

According to BofA Global Research, the direct impact from tariffs on IT services is limited to e-commerce. However, other companies will be indirectly affected as increased macro uncertainty created by tariffs could weigh on the near-term discretionary spending plans of firms large and small (read more on this in our March Small Business Checkpoint).

Plus, tariffs could have a wider influence on software demand and IT services indirectly through a variety of factors including slower overall economic growth and more measured hiring.

Discretionary software vendors could face cost-cutting amid slower growth

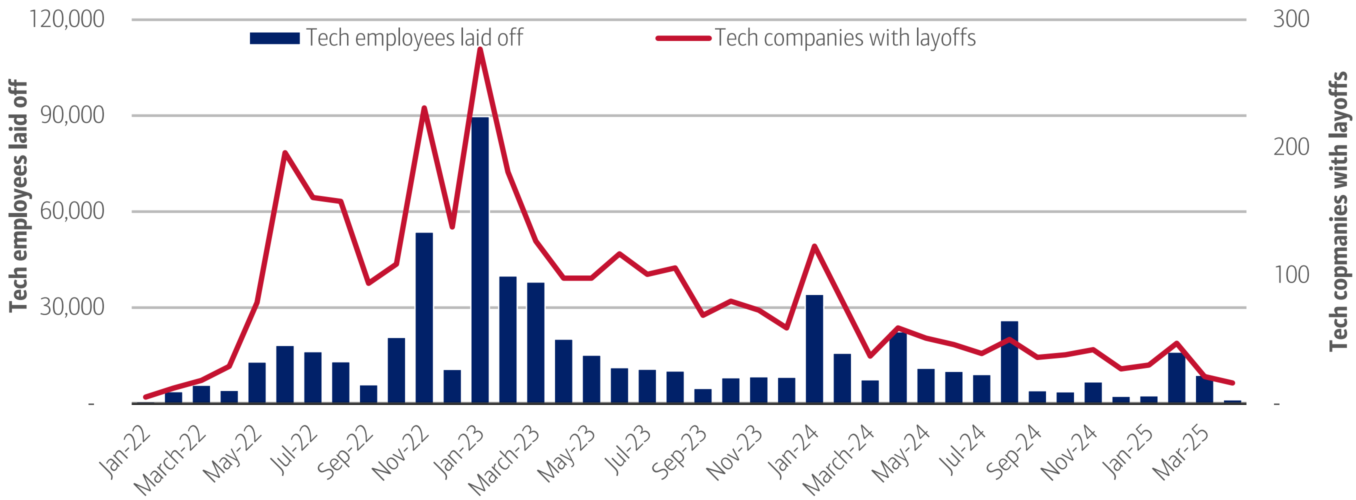
On April 2, the US administration announced that the de minimis exemption for China and Hong Kong will be ending on May 2. The de minimis exemption is a rule whereby imported packages worth less than $800 have minimal custom declaration requirements versus those valued at more than $800. The exemption makes it easier to dropship products directly from international manufacturers to consumers in the US, and the termination of the rule could severely hinder smaller retailers' supply chains.

BofA Global Research finds tariffs also pose risks to the marketing and ad-tech software categories, as campaign budgets could be reduced first in a softening consumer demand scenario (read more on this in our April Small Business Checkpoint).

Do tech layoffs signal slowing demand?

Technology industry layoffs have been picking up since the beginning of 2025 (Exhibit 6). Plus, according to BofA Global Research, the drivers of layoffs typically relate to efficiency gains and reinvesting capital into strategic long-term growth categories. But the number of layoffs thus far in 2025 does pose the question – could the layoffs be the canary in the coal mine of a worsening demand environment?

Exhibit 6: While tech layoffs are down substantially from 2023 peaks, they picked up in February and March
Summary of total tech employees laid off and companies (right hand side) implementing layoffs through April 23



Source: BofA Global Research, layoffs.fyi

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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.

The Bank of America proprietary survey collected data from small and mid-sized business owners in March 2025.

The CFO Survey panel includes firms that range from small operations to Fortune 500 companies across all major industries. Respondents include chief financial officers, owner-operators, vice presidents and directors of finance, accountants, controllers, treasurers, and others with financial decision-making roles.

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

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