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Economy

Small Business Checkpoint: Tariff turbulence pressures profits

17 June 2025

Key takeaways

- For the first time this year, small business optimism increased; yet, so did uncertainty, according to the National Federation of Independent Business (NFIB). This was driven in part by taxes, but tariffs remain top of mind. Though a majority of small businesses do not make direct tariff payments, of the small share of Bank of America small business clients that do, these payments increased 91% in May compared to the 2022 average.
- Small businesses are, in some ways, more susceptible to tariff pressures than larger businesses as they tend to operate on thinner profit margins. In May, the inflow-to-outflow ratio for small businesses - which we view as a proxy for profitability - was up from the previous month, and nearly one-third of small businesses expect real sales growth in the coming months, per the NFIB.
- Across sectors, those that are disproportionately impacted by tariffs, such as wholesale and retail trade, have seen profitability growth seesaw throughout the first half of the year. This could further underscore sector-level uncertainty around the impact of tariffs on prices and demand.

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.

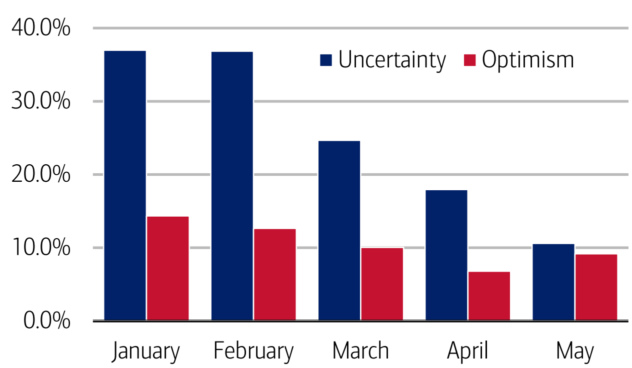
Tariffs and taxes fuel uncertainty

Small business owners are facing a challenging new paradigm. In May, for the first time this year, optimism among the group increased. Yet so did uncertainty. In fact, uncertainty outpaced the growth in optimism year-over-year (YoY), but is substantially down from January's high, according to the May National Federation of Independent Business (NFIB) report (Exhibit 1).

One reason for this was tax policy uncertainty. Taxes ranked as the single most important problem among small business owners for the first time since December 2020 in the NFIB survey. The proposed "One Big, Beautiful" bill would make the small business deduction permanent and expands it from 20% to 23%. It also renews immediate expensing of research and development costs.

Exhibit 1: Although it has come down, small business uncertainty growth still outpaced optimism in May

NFIB small business sentiment and optimism index in May (YoY%)



Source: Haver Analytics, NFIB

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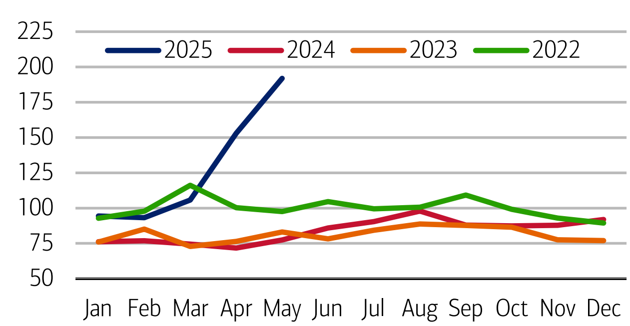
Exhibit 2: Of the small subset of small businesses making Customs and Border Protection (CBP) payments directly, these were up 91% in May compared to the 2022 average

Payments to CBP per small business client (monthly, indexed, 2022 average = 100)



Source: Bank of America internal data

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But, of course, tariffs remain a looming and predominant component of business uncertainty too. Using Bank of America internal data, we examined payments to US Customs and Border Protection (CBP) to better understand the impact of such levies on small businesses.

Note that only a small subset of small business clients makes direct tariff payments as many small businesses do not have substantial international exposure, while some will often use customs brokers as opposed to making payments directly to CBP and are not captured in this analysis. Therefore, these payments represent a very small share of overall small business clients. In May, of those small businesses making payments to CBP, tariff payments per small business client surged 91% compared to the 2022 average (Exhibit 2).

How does the tariff impact on small businesses differ from larger firms?

According to the Census Bureau, of the 242,515 total importers in the US in 2023, 97%—or 236,045—were small businesses with fewer than 500 employees, though large importers accounted for over two-thirds of the known import value, as was the case with large exporters.

Across firm size, there has been an uptick in direct CBP payments by firms since April 2025, though the transaction and client count has remained fairly steady, implying this trend is mostly a price signal of tariff pass-throughs. Of the subset of businesses making tariff payments to CBP, small businesses saw smaller month-over-month (MoM) increases in such payments in May compared to large firms. The reaction to tariff increases from different countries varies depending on the size of the companies and their differing abilities to anticipate imports, smooth price increases, and preserve market share.

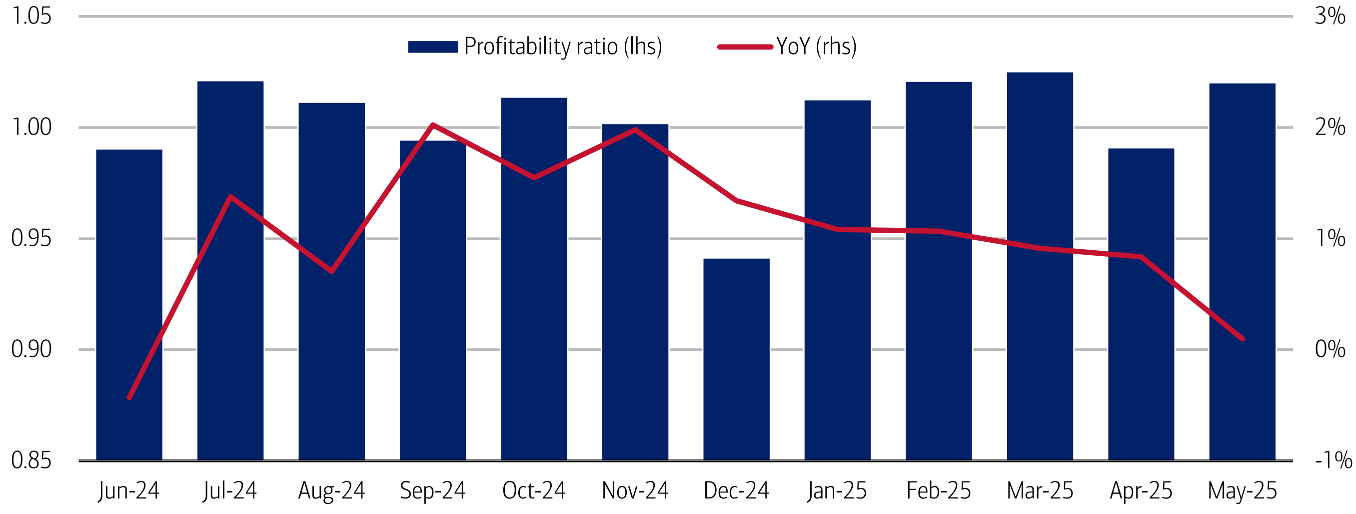
Do tariff costs get passed on to consumers?

Given the rise in tariff payments, should we expect to see these costs passed on to consumers? According to a recent New York Fed survey, 75% of firms that saw tariff-induced cost increases plan to pass on at least some onto their customers.

Small businesses may be, in some ways, more susceptible to tariff pressures than larger businesses, given their access to capital is more limited, among other things. In fact, nearly one-third of firms – the highest level in more than a year – reported they are planning to raise average selling prices in the May NFIB survey.

However, if small businesses absorb these costs, it will put more pressure on profit margins. Using Bank of America internal data, we find the small business account inflow-to-outflow ratio – which we view as a proxy for profitability – was 1.02 in May, suggesting profits among these companies remain in fair shape (Exhibit 3). And small business profitability year-over-year (YoY) growth has been increasing for nearly a year, though has been slowing, possibly due to tariffs or inflation-related expenses.

Exhibit 3: Small business profitability was up YoY in May, but momentum has been slowing since the end of last year
Inflow-to-outflow ratio for small businesses, based on Bank of America internal data (monthly, 1+ = inflow greater than outflow) ratio (left hand side (lhs), monthly) and YoY% (right hand side (rhs), monthly)



Source: Bank of America internal data
Note: A ratio less than 1 means inflow less than outflow

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Wholesalers and retailers appear more likely to raise costs

Looking across sectors, Bank of America internal data shows that small wholesale, retail, and manufacturing firms had the lowest profitability ratios in May. This could reflect tariff costs, given that these sectors are disproportionately impacted by such levies (read more on this in our recent piece Battle of the titans: Reshoring vs. friendshoring).

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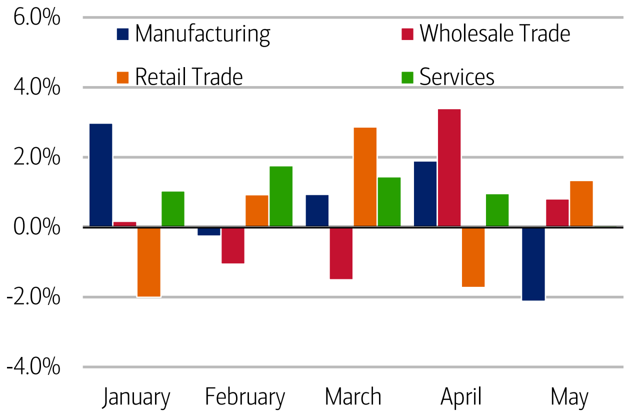
However, on a YoY basis, retail and wholesale had stronger growth than manufacturing, and have seesawed the first half of the year (Exhibit 4). This could further underscore sector-level uncertainty around the impact of tariffs on prices and demand. In fact, of the subset of small businesses making direct tariff payments, wholesalers' and retailers' tariff payments increased a staggering 208% YoY and 93% YoY, respectively, in May (Exhibit 5).

Interestingly, non-durable goods' profitability was lower in May compared to durable goods (Exhibit 6), though this could reflect a broader slowdown in consumers "buying ahead" of tariffs (read more on this in [Are May flowers wilting?]). Also, YoY growth in home furniture stores and apparel was down.

Exhibit 4: Small services firms' profits have grown every month this year, whereas other sectors have seesawed

Inflow-to-outflow ratio for small businesses, based on Bank of America internal data (monthly, YoY%)



Source: Bank of America internal data

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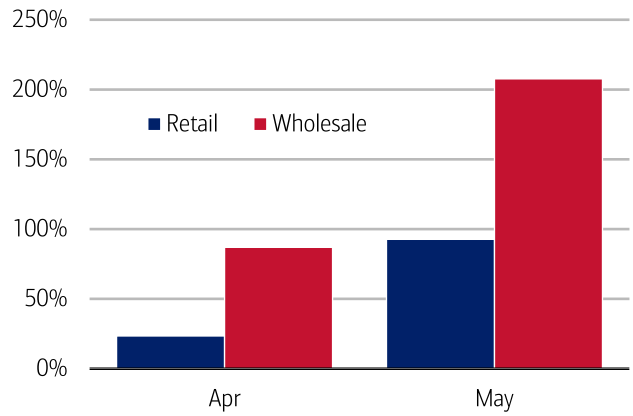
Exhibit 5: Of those making direct payments to CBP, tariff payments from small wholesalers surged 208% YoY in May

Payments to CBP per small business client by sector (monthly, YoY%)



Source: Bank of America internal data

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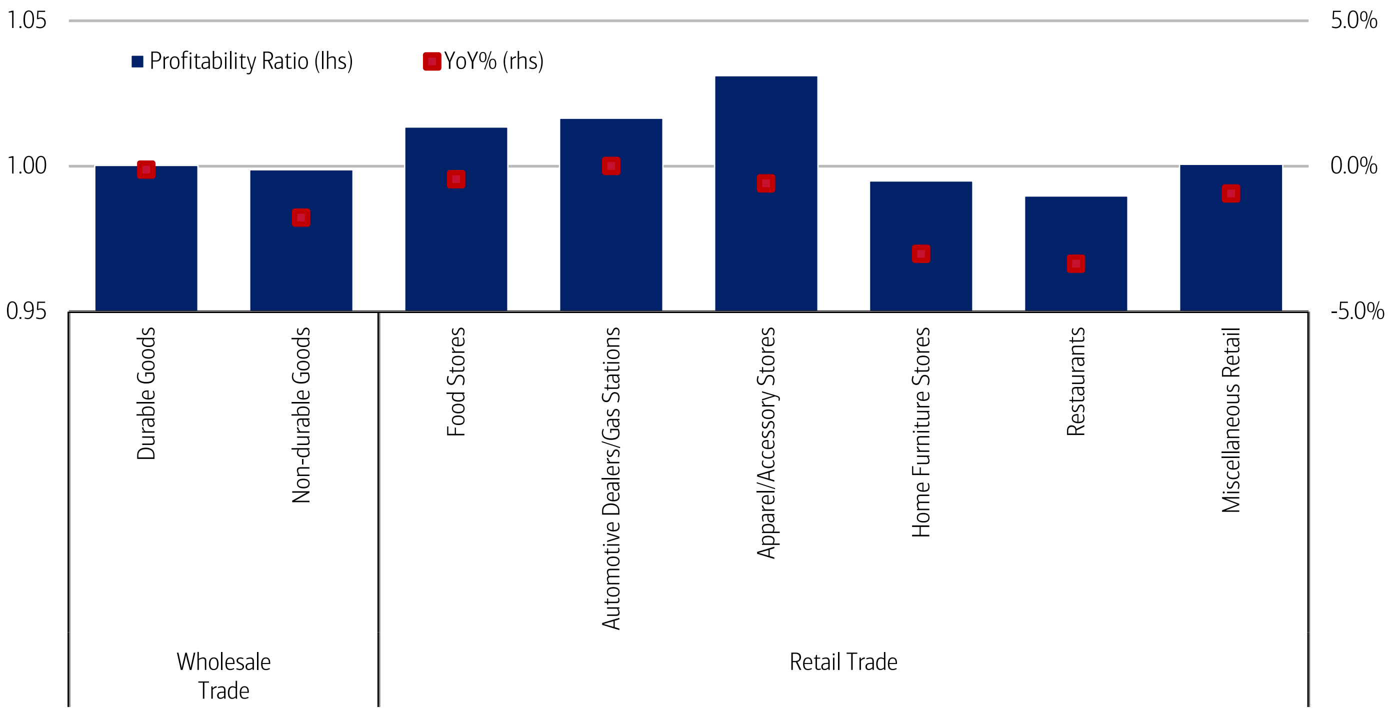
Exhibit 6: Home furnishings, restaurants, and non-durable goods had the lowest YoY% profitability growth in May compared to other sectors

Small business account inflow-to-outflow ratio (left hand side (lhs), monthly) and YoY% (right hand side (rhs), monthly)



Source: Bank of America internal data

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Lower producer prices and cooling wage inflation could offset some tariff costs

Looking ahead, businesses are likely to face difficulty making capital expenditure decisions and determining the appropriate pricing strategies under such heightened uncertainty.

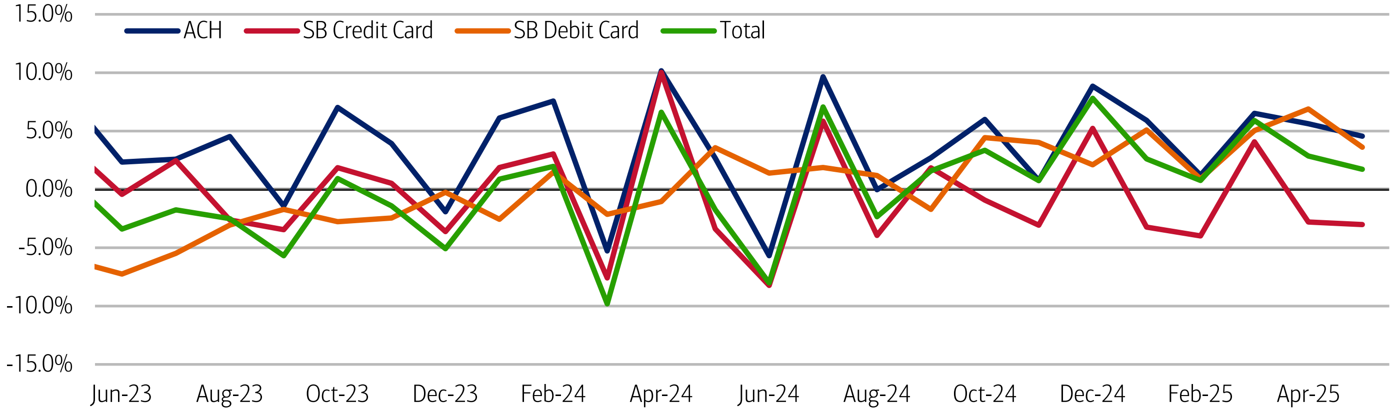
In our view, tariffs present a headwind to future small business profitability growth. While inventory payments growth per small business client remains relatively low (read more on this in our May Small Business Checkpoint), a net 1% (seasonally-adjusted) of owners viewed current inventory stocks as “too low” in May’s NFIB report. That is up 7 points from April and the highest reading since August 2022, suggesting there could be more stocking concerns to come.

But cooling inflation on both inputs and wages could act as a buffer to some of these pressures. For example, in the May NFIB survey, the net percent of owners expecting higher real sales volumes rose 11 points from April and contributed the most to the Optimism Index’s improvement. Furthermore, wage inflation has largely cooled, with hourly earnings among small businesses reaching a four-year low at 2.77% YoY in May, according to Paychex Small Business Employment Watch.

Monthly payments update

Looking more broadly at small business activities in May, total payments among such clients grew 1.7% YoY, according to Bank of America internal data (Exhibit 7). Notably, automated clearing house (ACH) and small business (SB) debit card remain above total payments growth.

Exhibit 7: Total payments per small business client were up 1.7% YoY in May
Payments per small business client by channel (YoY%, monthly)



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.

The alternative hiring indicator consists of payments from Bank of America small business clients to small business-focused hiring firms which include both direct deposits through Automated Clearing House (ACH) and payments via credit and debit cards.

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.

Contributors

Taylor Bowley

Economist, Bank of America Institute

Sources

Pat Williams

Senior Vice President, Analytics, Modeling and Insights

Joshua Long

Senior Vice President, Consumer and Small Business

Kevin Burdette

Vice President, Consumer and Small Business

Vivek Siwatch

Vice President, Specialty Lending & Banking

BofA SERA Research Team

BofA SERA Data Science Team

Disclosures