

Xero Small Business Insights

United States Update

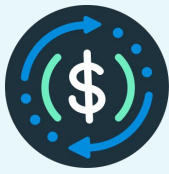
January - March 2024

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Sales continue to improve, payment times mixed

Average results for three months to March 2024



Sales
-1.8% y/y



Late Payments
9.8 days



Time to be paid
28.5 days

The latest Xero Small Business Insights (XSBI) data for the US shows small business sales continued to improve at the start of 2024. The payment data was more mixed, with an improvement in the length of time small businesses waited to be paid but a deterioration in the average late payment metrics.

Sales fell an average of 1.8% y/y in the three months to March. It is disappointing that sales continue to fall, however, this is smaller than the 2.4% y/y decline in the three months to December. Sales declined 2.1% y/y in January before increasing 1.3% y/y in February, which was the first positive monthly sales result since January 2023. The March quarter weakness was largely due to March itself, when sales fell 4.7% y/y. However, don't reading too much into this result, which could be impacted by the earlier-than-usual timing of Good Friday. While not a Federal public holiday, this is a holiday in some US States and there is evidence from other XSBI countries, where Good Friday is a national public holiday, that sales weakened in March due to the lost business trading day. The two-month average for January and February (-0.4% y/y) represents a more realistic picture of small business sales performance for early 2024.

Late payment times deteriorated in the first three months of the year, largely due to particularly poor results in February (12.6 days). Late payment times averaged 9.8 days in the three months to March 2024, up from 9.0 days in the three months to December 2023. In contrast, the time small businesses waited to be paid after issuing an invoice averaged 28.5 days, a slight improvement from 28.7 days in the three months to December.

The improvement in sales performance was reflected in all major US regions except the Midwest. The West had the shortest quarterly payment times across four major regions, and the West and Midwest both had payment times that were shorter than the previous quarter.

Looking ahead, US small businesses continue to eagerly wait for the Federal Reserve to start cutting interest rates. [Inflation](#) was 3.0% y/y in June. While still above the Bank's 2% target, prices actually fell 0.1% m/m in June. At its latest meeting in June, before the inflation results for that month were released, the [Federal Reserve](#) noted: "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals have moved toward better balance over the past year. The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks." This suggests that while inflation is moving in the right direction, the Federal Reserve was still wary about starting to lower interest rates until it has more confidence that inflation is back under control.

Overall, there were some positive signs for small business at the start of the year, and if this trend continues, US small businesses could soon be back to consistently experiencing positive sales growth. Nevertheless, small businesses continue to underperform compared to the rest of the US economy, which recorded 5.8% y/y growth during the March quarter (nominal GDP). A cut in interest rates by the Federal Reserve in the coming months would add to this improving momentum and give customers a little extra to spend in local small businesses. In contrast to the sales result, the longer late payment times is disappointing and highlights how important it is to take steps to encourage prompt payment of invoices, such as having as many options to pay as possible, adding a 'pay now' button to invoices and sending reminders to late paying customers.

Sales record first growth in over a year during February

Small business sales fell 1.8% y/y in the three months to March. While still a decline in sales, this is smaller than the 2.4% y/y fall in the three months to December and the 3.7% decline in the three months to September.

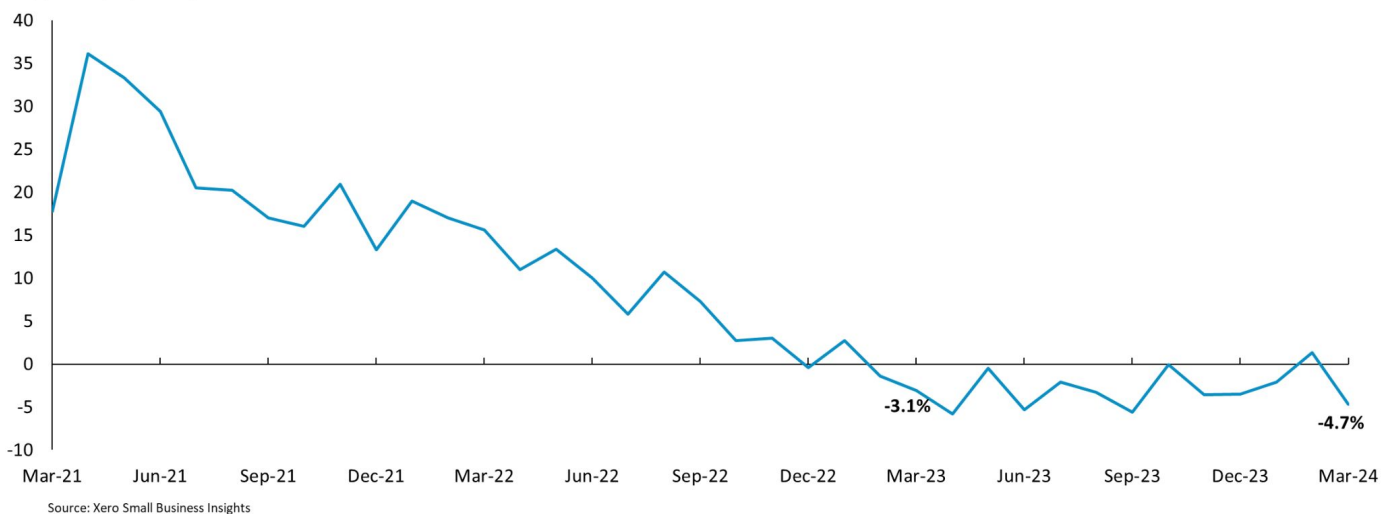
Looking at the monthly pattern, sales growth improved between December (-3.5% y/y), January (-2.1% y/y) and February (+1.3% y/y) - the first rise in sales in 13 months - before deteriorating in March (-4.7% y/y), a result that is at least partly due to Good Friday falling early this year.

At the major region level, in the first three months of 2024, sales fell the most in the Northeast (-3.5% y/y) and the Midwest (-3.3% y/y), with the South (-1.7% y/y) and the West (-0.5% y/y) recording smaller falls than the national average. The Northeast region is the one most impacted by Good Friday holidays observed in that region's States.

Sales volumes (which removes the effect of price changes from the XSBI series so that we can measure changes in how many goods and services have been sold) have been even weaker than the nominal-based XSBI series. Using the US CPI as a proxy for prices, sales volumes declined an average 5.1% y/y in the three months to March after declining an average of 5.6% y/y in the three months to December.

Small business sales

%, year-on-year, monthly



Source: Xero Small Business Insights

Other data shows confidence improving and small businesses still hiring

More recent data, from the June 2024 [National Federation of Independent Business Survey](#), suggests views about the economy are gradually improving. The NFIB Small Business Optimism Index reached its highest reading of 2024 in June, at 91.5 points, but it is still the 30th month below the historical average of 98.

Uncertainties in the economy continue to be challenging for small businesses. The Uncertainty Index fell 3 points to 82, which is still high by historical standards. Over 1 in 5 (21%) of owners reported inflation was the most important problem in operating their business, down just 1 point from May and still the top business problem among owners.

Small businesses are also continuing to hire staff despite the ongoing softness in sales. [ADP](#) data shows private employment in small and medium sized businesses increased 70,000 in June. [Bureau of Labor Statistics](#) data also showed little change in the job openings rate, hires rate, and total separations rate for establishments with 1 to 9 employees in May 2024.

Average payment times improve but late payments lengthen

Average payment times improved slightly but late payment times worsened in the three months to March.

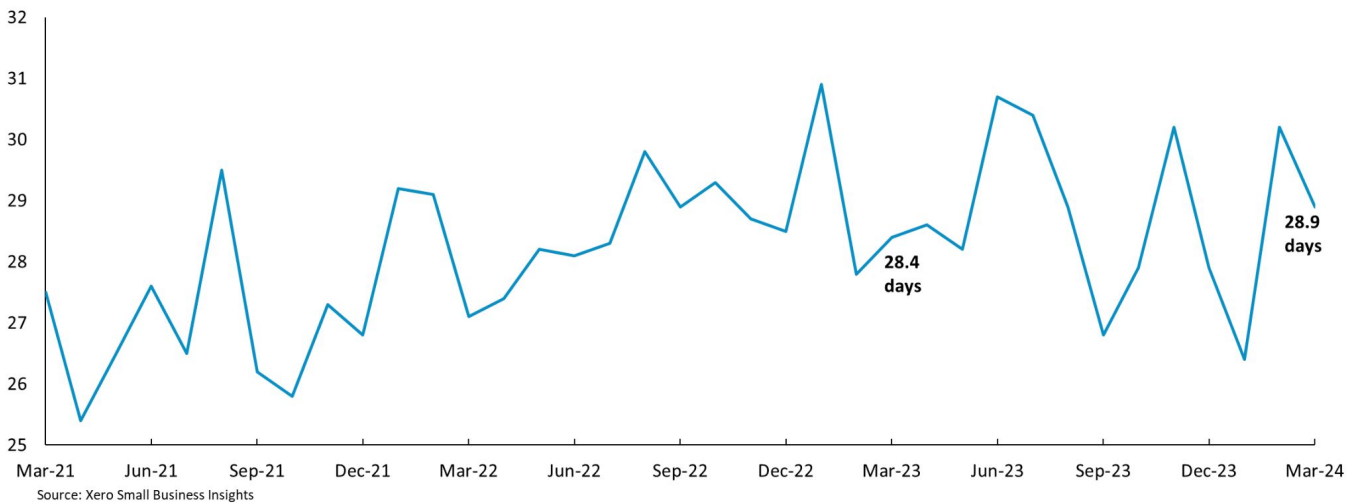
Small businesses **waited an average of 28.5 days to be paid** in the March quarter, 0.2 days shorter than the December and September quarters (both 28.7 days) and 0.7 days shorter than in the June quarter (29.2 days). This improvement was particularly impacted by the January result, when payment times dropped to 26.4 days.

Looking at the major region level data, during the March quarter invoices took, on average, 31.4 days to be paid in the Northeast, 28.3 days in the South, 27.3 days in the Midwest and 27.2 days in the West. The March quarter results were better than the December quarter for the Midwest and the West but worsened in the Northeast and the South.

Small businesses were **paid an average of 9.8 days late** in the March quarter, which is 0.8 days longer than the December and September quarter (both 9.0 days) and 0.3 days longer than in the June quarter (9.5 days). The late payments data can be volatile and this quarterly deterioration was largely due to February, when payments were made 12.6 days late. This is the third longest late payment time in the series following 13.7 days in June 2020 and 12.8 days in July 2023. Both the January 2024 (6.5 days) and the March (10.3 days) late payments data were much better outcomes.

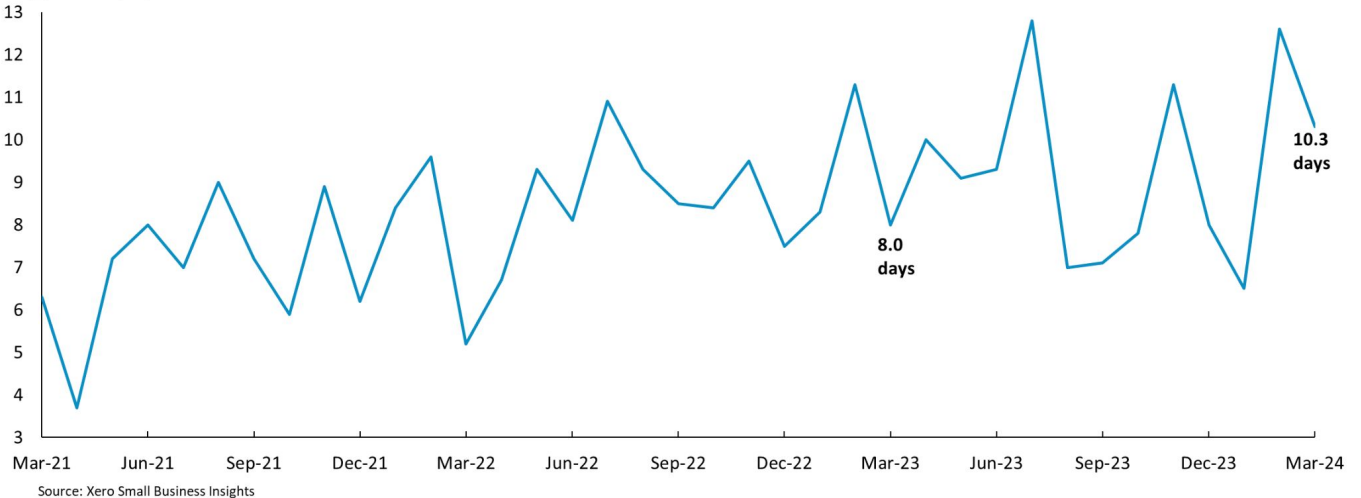
Time to be paid

Days, seasonally adjusted



Average Late Payments

Days, seasonally adjusted



Additional details about Xero Small Business Insights

About Xero

Xero is a global small business platform with 4.2 million subscribers. Xero's smart tools help small businesses and their advisors to manage core accounting functions like tax and bank reconciliation, and complete other important small business tasks like payroll and payments. Xero's extensive ecosystem of connected apps and connections to banks and other financial institutions provide a range of solutions from within Xero's open platform to help small businesses run their business and manage their finances more efficiently.

About Xero Small Business Insights

The aim of Xero Small Business Insights is to create insights to help inform decision makers in support of the small business economy as a whole. The principal source of small business insights in this report is customer data from Xero - a small business platform that supports online accounting and a range of other applications. Xero is a responsible custodian of our customers sensitive data and does not release any data that could identify individual businesses. The data used is aggregated and anonymized to ensure the privacy of Xero subscribers, and their counterparts.

As part of the program, we publish regular blogs and research notes and deep-dive Special Reports on specific small business topics. These can all be found at xero.com/xerosbi.

Methodology

Full details of the methodology used to construct the Xero Small Business Index can be found [here](#).

Disclaimer

This report was prepared using Xero Small Business Insights data and publicly available data for the purpose of informing and developing policies to support small businesses.

This report includes and is in parts based on assumptions or estimates. It contains general information only and should not be taken as taxation, financial, investment or legal advice. Xero recommends that readers always obtain specific and detailed professional advice about any business decision.

The insights in this report were created from the data that was available as at the date it was extracted. Data used was anonymised and aggregated to ensure individual businesses can not be identified.