CHASE for BUSINESS®

SMALL BUSINESS PULSE

Profitability steadies, payroll growth stabilizes, and payroll management remains an operational lift

SEPTEMBER 2026

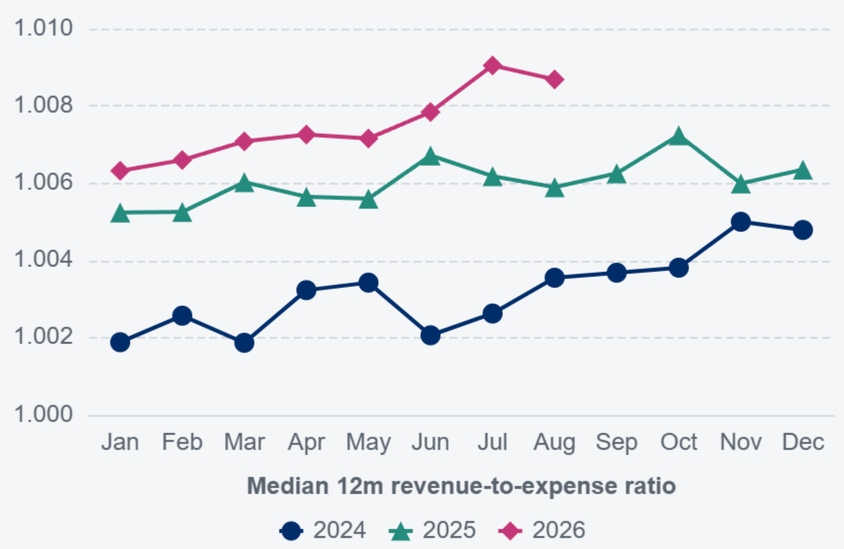
The Big Picture

Profitability cooled slightly in August, but the median small business is still in the black with revenues topping expenses. And while payroll expense growth remains steady after the spring surge, managing payroll is a real pressure point—businesses are protecting cash flow amid hiring challenges while using AI to extend what their teams can do.

What We're Seeing

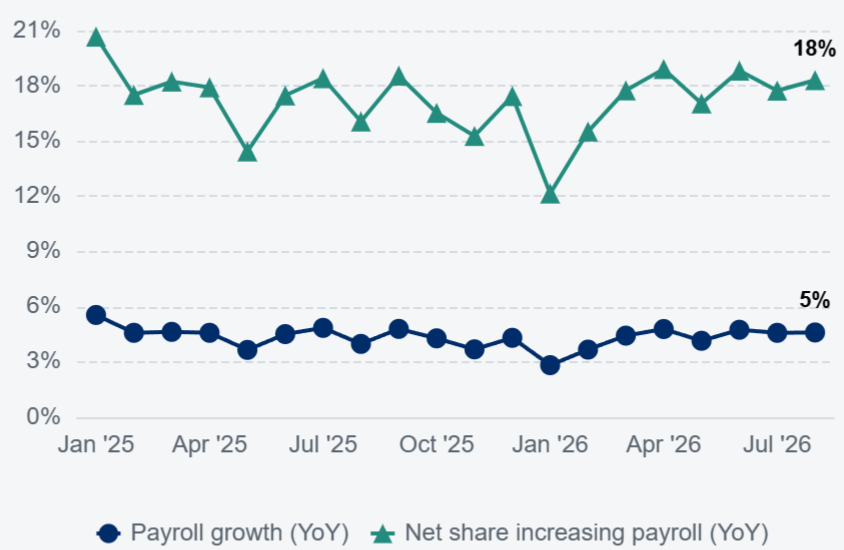
- **Profitability moderates slightly:** Our proxy for business profitability moderated slightly in August, but revenues continued to exceed expenses, indicating that small businesses remain financially resilient.
- **Payroll expense growth remains stable:** The net share of businesses expanding payrolls year-over-year remained essentially unchanged in August (18%), and median payroll growth came in at 5%, pointing to a stabilization in payroll expansion following strong growth through April 2026.
- **Payroll isn't just a routine back-office task:** Small businesses are balancing cash-flow pressure to meet payroll amid hiring challenges, while using AI to augment (not replace) existing capabilities.

Business profitability moderates slightly



Source: Chase business deposit account data

Payroll growth stabilizes



Source: Chase business deposit account data

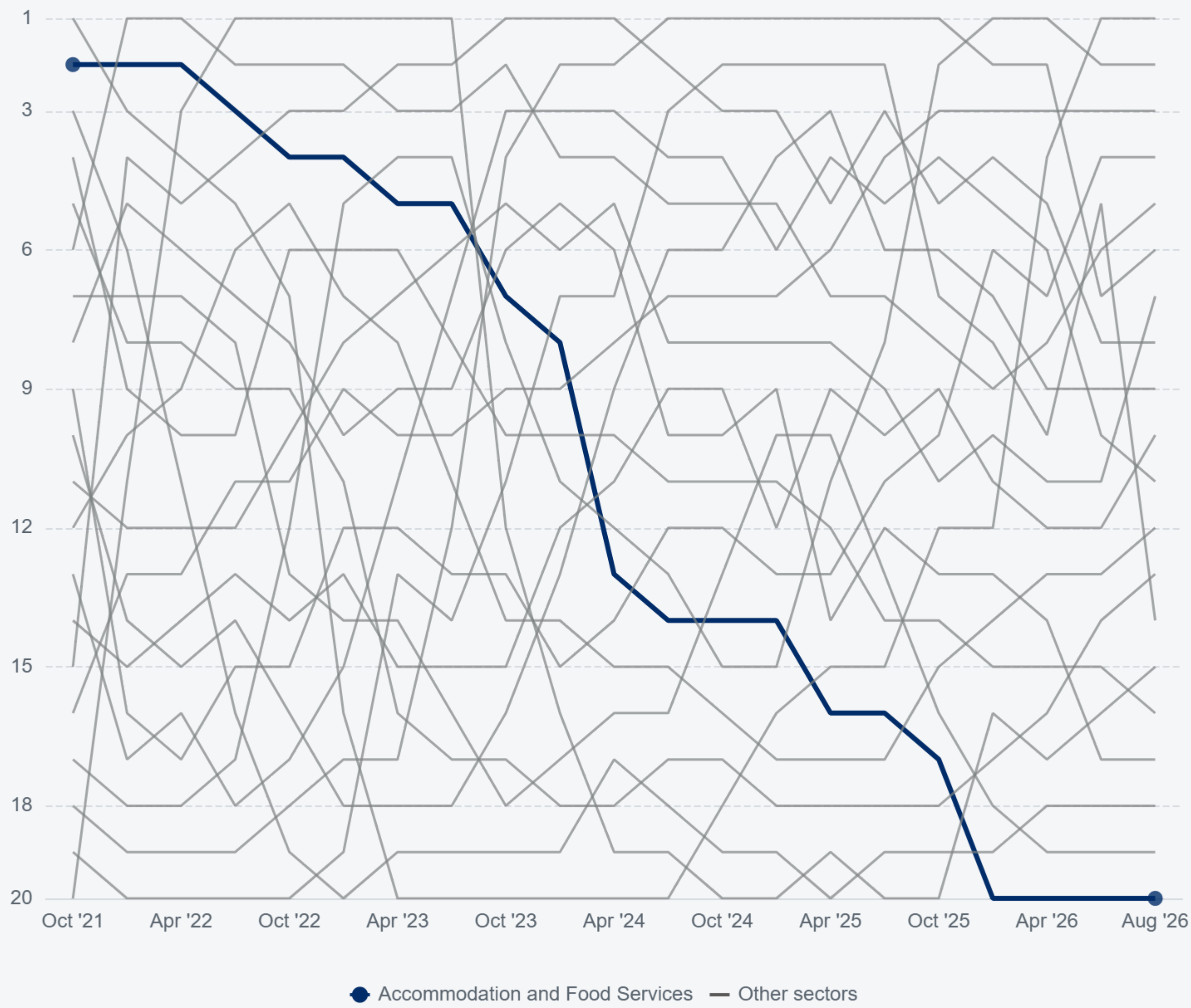
Restaurant revenue growth downshifts, but remains positive amid ongoing cost pressures

Median revenue growth among Chase small businesses has trended higher since mid-2024, but the pace of growth has not been uniform across all sectors. The clearest example is Accommodation and Food Services, where median revenue growth continued sliding from one of the fastest-growing sectors to the slowest by early 2026. While growth in the sector never turned negative, the deceleration is meaningful and persistent rather than a one-off fluctuation.

This sector is largely comprised of restaurants and special food services, and the slowdown appears to be mostly restaurant-driven. Several factors could be contributing to the restaurant-specific cooling: food-cost volatility (including shocks tied to tariffs and bird flu in 2025), labor constraints, and broad-based indications of traffic declines.

Accommodation & Food Services Drifts Downward in Sector Rankings since 2022

Median Inflow Growth (3M Moving Average), Ranked by NAICS2



Source: Chase business deposit account data

Restaurant labor intensity is rising

Chase platform data indicate that this cooling is coinciding with a steady rise in labor intensity at restaurants. Over the past few years, payroll's share of total expenses has climbed from 13.5% to 15.6%, meaning a larger portion of each dollar spent is going to compensation. This lines up with Chase's Survey of Business Owners (SBO), where restaurant owners have consistently reported higher labor costs and headcounts over the past six months. That shift matters because payroll is doing most of the work in driving costs: it accounts for nearly two-thirds of the topline growth rate, implying that expense growth is increasingly labor-led and leaving less room for revenue gains to translate into operating leverage. At the same time, higher compensation intensity may also reflect ongoing investments in staffing and service capacity, which could support performance as conditions stabilize.

Slowdown in the Accommodation & Food Services sector appears to be driven mostly by Restaurants

Median inflow growth: August 2023 vs. August 2026

Source: Chase business deposit account data

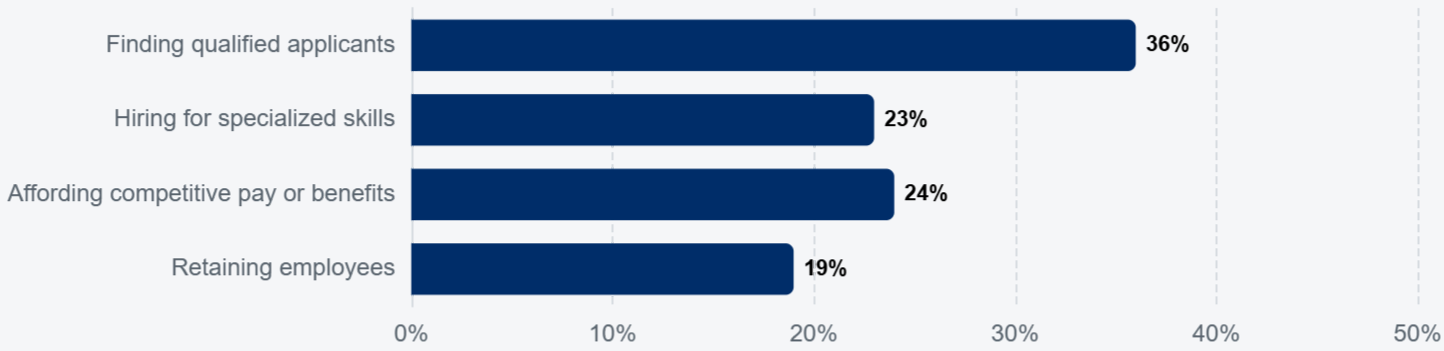
Managing payroll isn't without its challenges, especially when cash is tight

Small businesses are still hiring, but our SBO results in August show that the labor market remains a hurdle. Nearly 60% of owners cite hiring challenges in the form of finding talent: qualified applicants (36%) and hiring for specialized skills (23%), while others point to affording competitive pay or benefits (24%) and retaining employees (19%). For small businesses, the message is that growth through hiring is possible, but it requires intentional role design, compensation tradeoffs, and retention strategies.

Those talent decisions quickly collide with an operational reality: payroll isn't just a back-office function, it's a day-to-day balancing act that can add friction across the business. Nearly half of businesses (45%) say payroll taxes are their biggest payroll challenge, alongside paying accurately and on time (38%), staying on top of compliance and recordkeeping (31%), and tracking hours, tips, or commissions (27%). Add benefits, deductions, and PTO (26%) plus corrections or off-cycle payments (24%), and it's clear: for small businesses, payroll complexity can consume time and even shape hiring decisions.

Finding qualified workers remains difficult

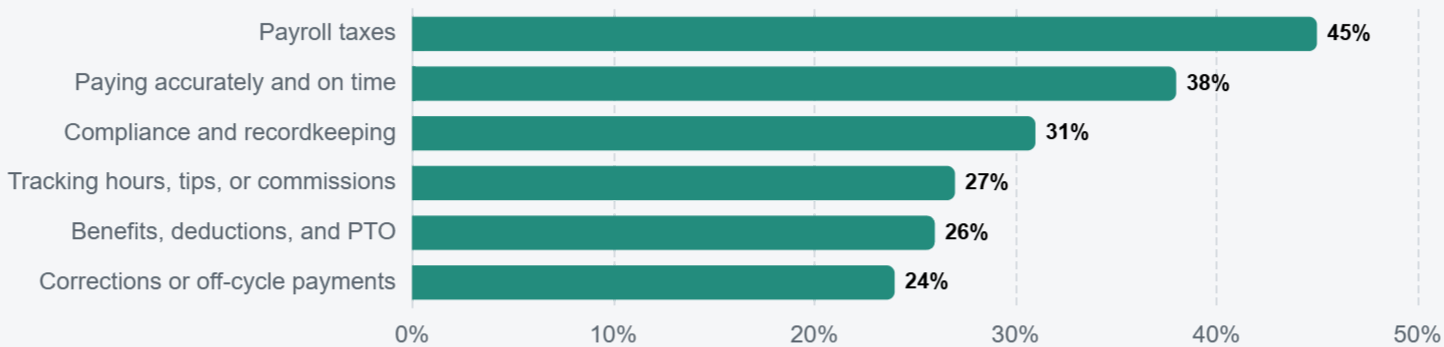
Top labor needs or hiring pressures



Source: Chase Survey of Business Owners (SBO), August 2026.

Managing payroll isn't challenge-free

Top challenges when managing payroll



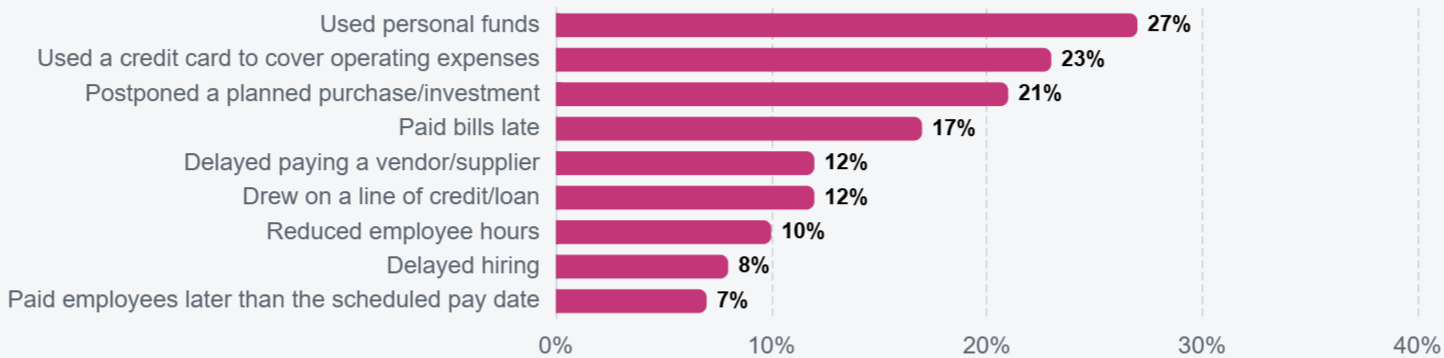
Source: Chase Survey of Business Owners (SBO), August 2026.

Owners protect teams when cash gets tight

When cash gets tight, owners often prioritize protecting their people—and the SBO results show that strain is common: 37% say meeting payroll pressured cash flow in the past six months, and 60% report tight cash. Among those under pressure, many bridged gaps with personal funds (27%) or credit cards (23%) rather than immediately cutting labor, which lines up with how they're approaching AI: more help than replacement. For example, 21% of business owners used AI to augment their marketing and content operations, with only 13% using AI tools as a replacement for employee tasks. For small businesses, the takeaway is that stability and growth may come from keeping teams intact while using AI to expand capacity and get more done.

Owners protect employees when managing tight cash

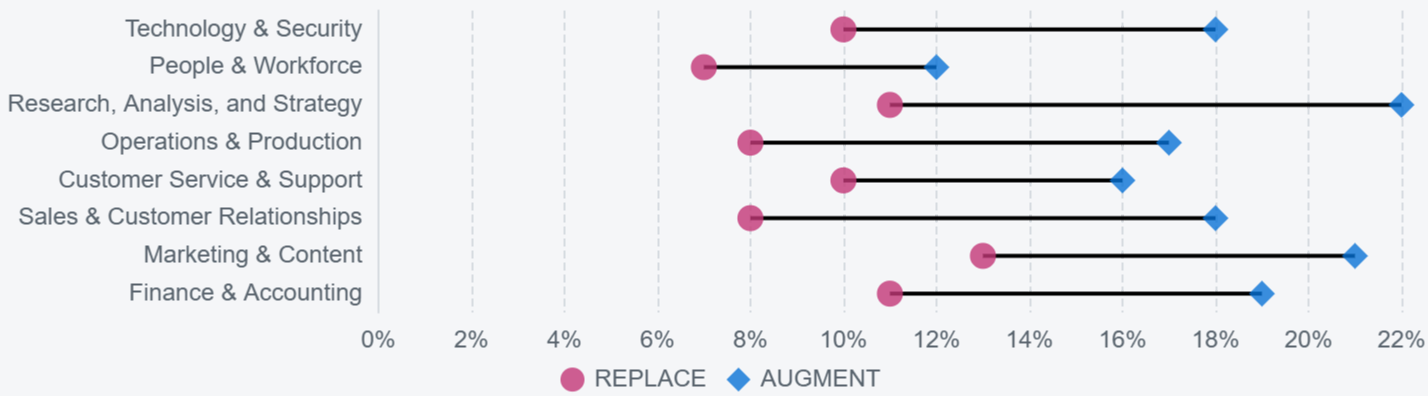
Actions taken as a result of cash being tight



Source: Chase Survey of Business Owners (SBO), August 2026.

AI augments more than it replaces

AI use by business function



Source: Chase Survey of Business Owners (SBO), August 2026.

Why This Matters

Business profitability moderates

Even though profitability cooled a bit in August, the median small business is still bringing in more revenue than it spends—meaning conditions remain broadly healthy, but with slightly less margin for error if costs keep rising or demand softens.

Payroll growth remains steady

With continued stability in payroll expenses, businesses can better plan for future operations and cash flow with fewer last-minute adjustments.

Managing payroll isn't challenge-free

Even with tight cash and ongoing hiring challenges, small businesses are finding pragmatic ways to keep operating and make progress—protecting payroll while using tools like AI to extend what their teams can do.

Methodology: Chase surveyed approximately 700 small business owners across the nation in mid-August 2026. Respondents include both Chase and non-Chase customers. A Chase business is defined as an employer business if within the past 12 months, they had 6 or more months of observed payroll expenses. Expenses are tagged as payroll-related if they are associated with a selection of major payroll processors. Chase business data includes households that have at least 2 years of account history and have at least 3 months with >$500 in outflows and 10+ transactions over the prior year. Y/y comparisons require two years' worth of data. Keywords: small business performance, small business revenue growth, cash flow, cash flow volatility, inflation, labor market, small business hiring, small business owner concerns, small business economic outlook, SMB Pulse report