

Uncertainty and rising costs lead small businesses to slow down on payroll growth

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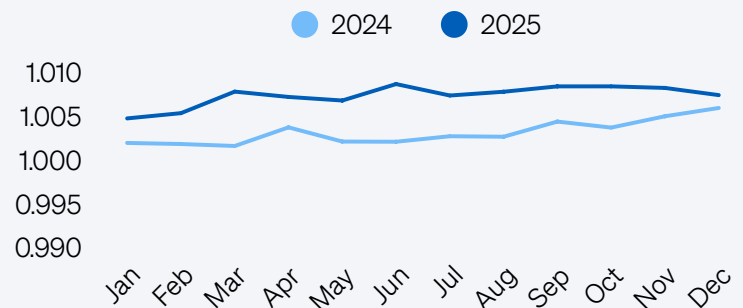
The big picture

Small employers' financial positions were broadly stable through 2025, with profitability measures improving or stable among Chase clients. Optimism soared over the summer and remained elevated through December. However, despite this strength, payroll expansion gradually slowed the past year. Payroll growth deceleration is concentrated in industries facing the steepest cost pressures, suggesting that rising expenses and uncertainty are driving hiring restraint more than weak demand. The slowdown in small business hiring is a key factor in recent labor market weakness overall.

What we're seeing

- Profitability stabilizes after sustained growth:** Profitability remains positive for the median business, with positive YOY growth that has been roughly stable over the last half of 2025. This financial strength sends positive signals about firms' ability to weather shocks.
- Sentiment rides high:** Small business optimism has been buoyant through the summer. Sentiment among business owners in December clocked in at series highs, with nearly ¾ of owners optimistic about their business.
- Payroll decelerates as businesses manage costs, uncertainty:** Payroll expense growth has gradually slowed while total expense growth has ticked up, suggesting expense control is shaping labor decisions and contributing to the broader slowdown in employment growth.

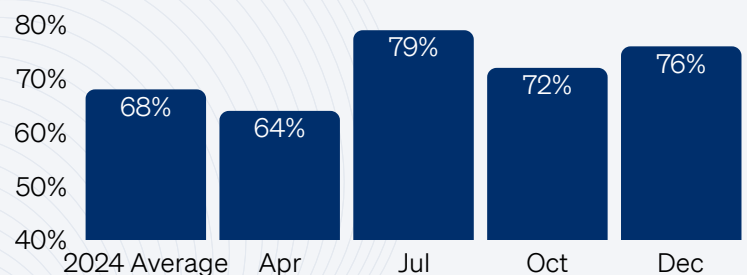
Median Chase employer's inflow-to-outflow ratio, 12m moving average



Source: Chase business deposit accounts, 2024 - 2025

Overall, how are you feeling about the state of your business?

% of respondents who feel positive

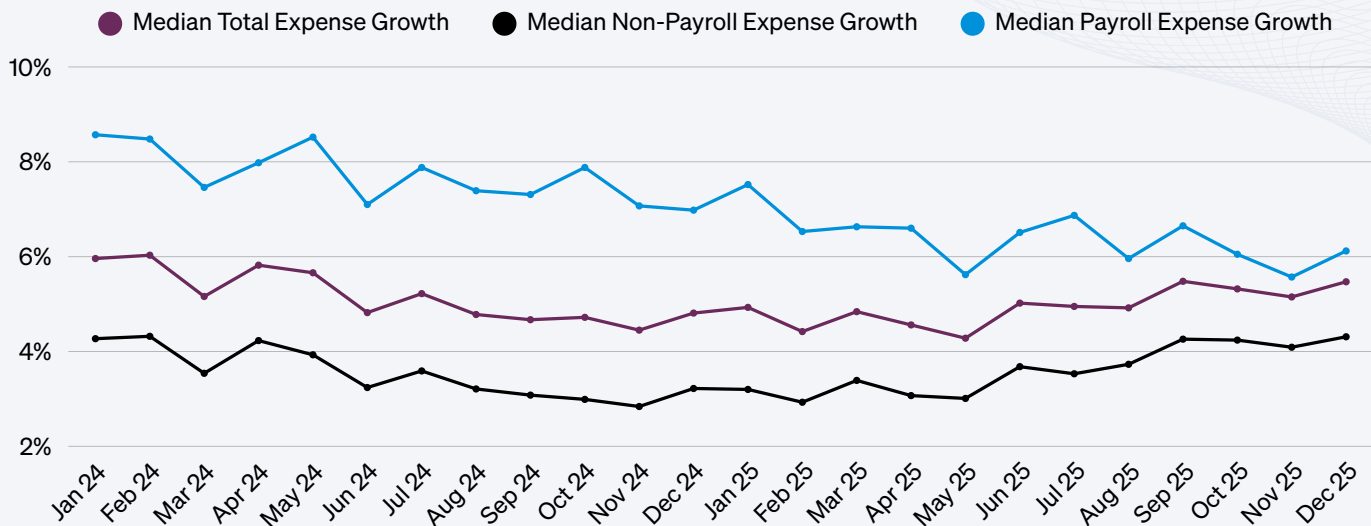


Source: Chase survey of small business owners, Dec 2025

Businesses are cautious on growing payroll amidst rising costs

Chase business account data shows businesses are slowing down payroll growth as cost pressures mount. Median non-payroll expenses have risen year-on-year since about April, while payroll growth YOY has mildly decelerated the past year. This indicates businesses are actively trying to manage rising costs by either pausing hiring or reducing hours, but not necessarily cutting payroll, underscoring how expense control is shaping labor decisions and contributing to the broader slowdown in employment growth.

Median Chase employer business's year-on-year growth in annual expenses, separated by category

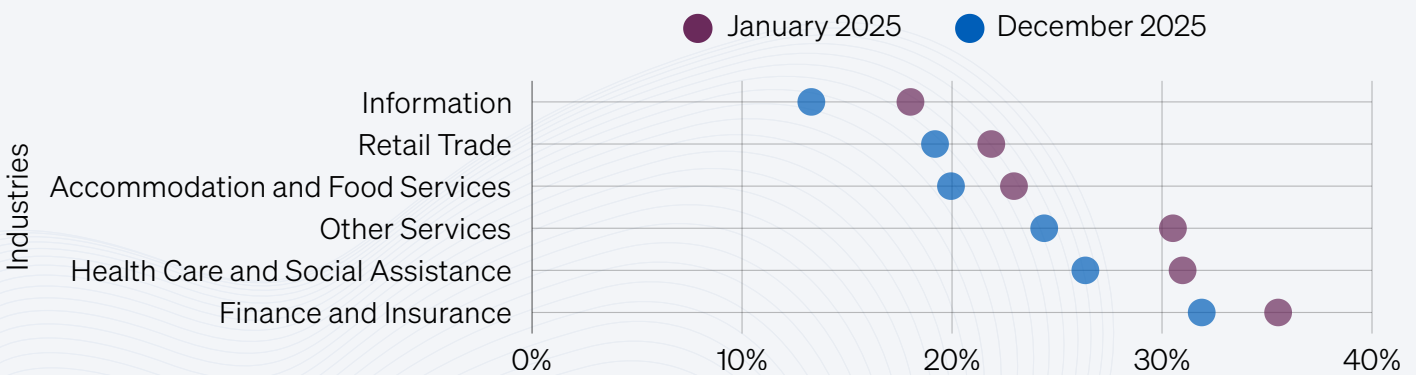


Source: Chase business deposit accounts, 2024-2025

Hotels/restaurants, retail and tech weakest for payroll expansion; health care and finance are standouts

All major industries saw a slight deceleration in payroll expansion from January to December 2025. Cost pressures, uncertainty, and labor quality and availability may be broadly dampening payroll growth and contributing to overall labor market slowdowns.

Net share of Chase employer businesses increasing payroll year-on-year, by major industry January vs. December 2025



Source: Chase business deposit accounts, 2025

Hotel and bar businesses in the **Accommodation and Food Services** industry are seeing the slowest growth in net payroll expansion. Trends towards declining alcohol consumption and international tourism may be impacting demand for these businesses.

Retail subsectors like Shoe, Furniture/Home Furnishing, and Clothing retailers are slowing on net payroll growth more than the broader industry. Their relative decline highlights how targeted cost pressures like tariffs may be amplifying the broader labor market slowdown in industries most exposed to trade policy shifts.

Nearly all **Information** subsectors are slowing net payroll growth, mirroring the broader “white-collar slump”. Motion Picture/Video Industry businesses and Software Developers decelerated the most. The broad pullback hints at the possibility of structural changes within the broader industry from AI adoption and business model transformation, fueling volatility in tech-related employment.

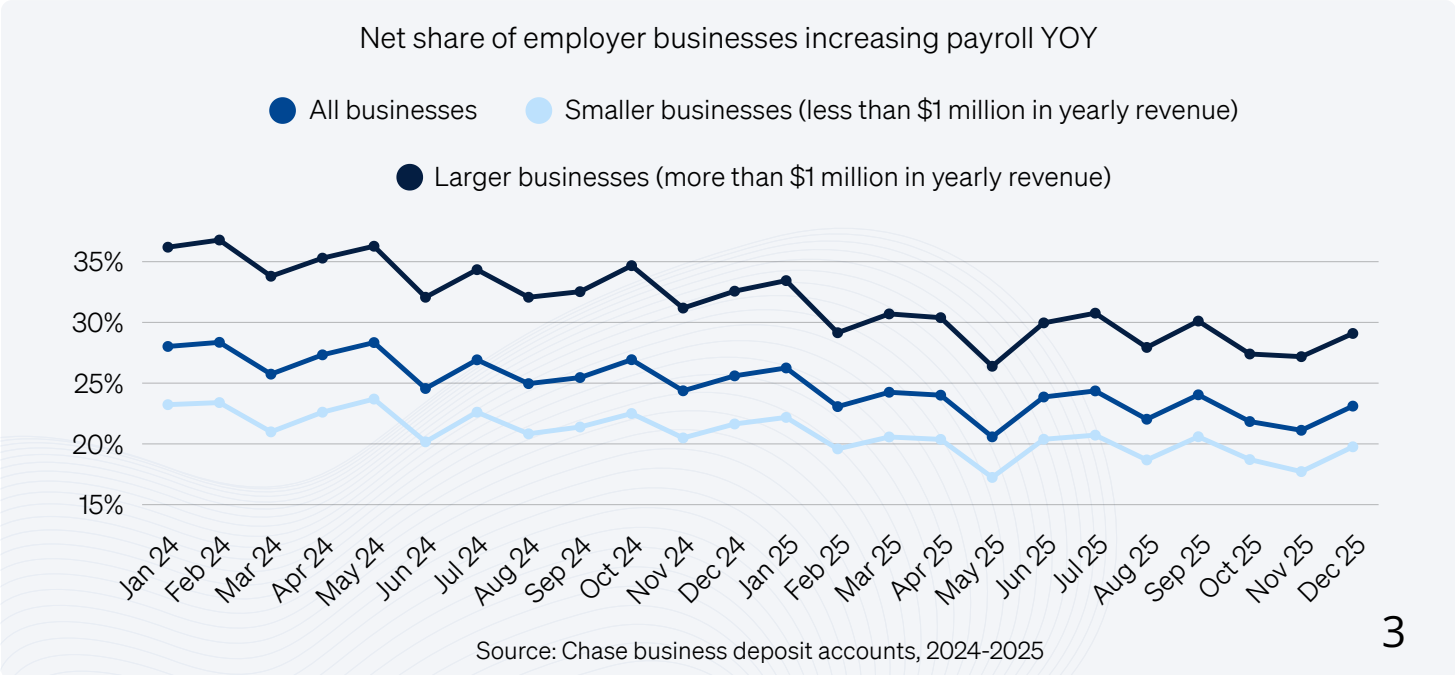
Other Services, which encompasses a wide range of service-oriented businesses ranging from repair stores to charities, sees sharp contrasts in net payroll growth. Grantmaking and giving organizations, dry cleaning services, and commercial machinery repair shops are growing payroll the most, while personal care services—like hair salons or barber shops—saw the largest slowdown.

Finance and Insurance is still expanding the most, buoyed by insurance agencies and financial advisors, reflecting ongoing demand for guidance amid rising wealth and uncertainty.

Healthcare’s strongest subsectors - Continuing Care Facilities and Home Healthcare Services - highlight that aging trends continue to be a tailwind for healthcare businesses.

Smaller businesses are more impacted

Payroll expansion decelerated for business of all sizes the past year, but smaller businesses have consistently been weaker on growth. Smaller businesses have greater difficulties navigating economic conditions. In our December survey of owners, 38% of businesses with 10 employees or less faced negative impacts due to inflation, compared with just 29% of larger ones.

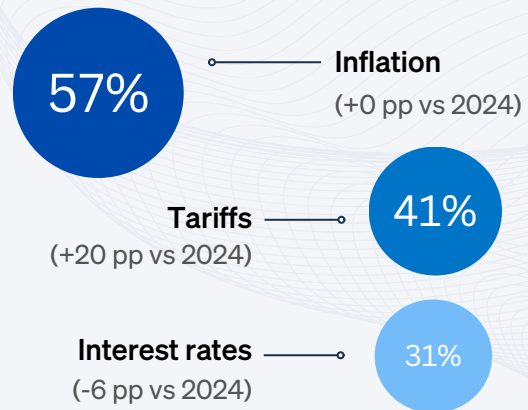


Mixed prospects for payroll re-acceleration in early 2026 as cost uncertainty continues

In Chase's December survey of small business owners, inflation is the most common uncertainty in 2026, with tariffs and interest rates close behind.

Despite December's uptick in payroll expansion, it's too early to tell if this is a trend or not. Uncertainty and cost pressures remain obstacles to confident business planning, suggesting mixed prospects for a near-term reversal of small business payroll caution.

What are the greatest uncertainties for your business in 2026?



Source: Chase survey of small business owners, December 2025

So What?

Businesses remain financially stable

Despite multiple macro headwinds, increased cost drivers and policy uncertainty, businesses have overall adapted to this environment.

Caution still needed on labor market

Overall data points on the labor market in January from public and other private sources trended positive, but our Chase data points to small businesses still slowing down on payroll growth. We'll closely monitor layoff trends and payroll growth to see if the hiring environment picks up among small businesses later this year.

Outlook is cautiously optimistic

Elevated business sentiment indicates that business owners are confident about the future. Expectations of tax cuts and investment incentives may help spur small business growth this year and maintain economic dynamism.

Methodology: Chase surveyed approximately 500 small business owners across the nation in mid-December 2025. 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.

Keywords:

small business performance, small business revenue growth, temporary staffing agencies, inflation, labor market, small business hiring, impact of tariffs on small businesses, small business owner concerns, small business economic outlook, SMB Pulse report

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