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Younger and Lower Income Consumers Drive Small Business Spending

JPMorgan Chase Institute Insight

Small businesses are a critical component of local economies, and over the 2015-2016 period, their growth was primarily driven by spending from younger and lower income consumers.[1] *However, there is material regional variation in small business growth.*

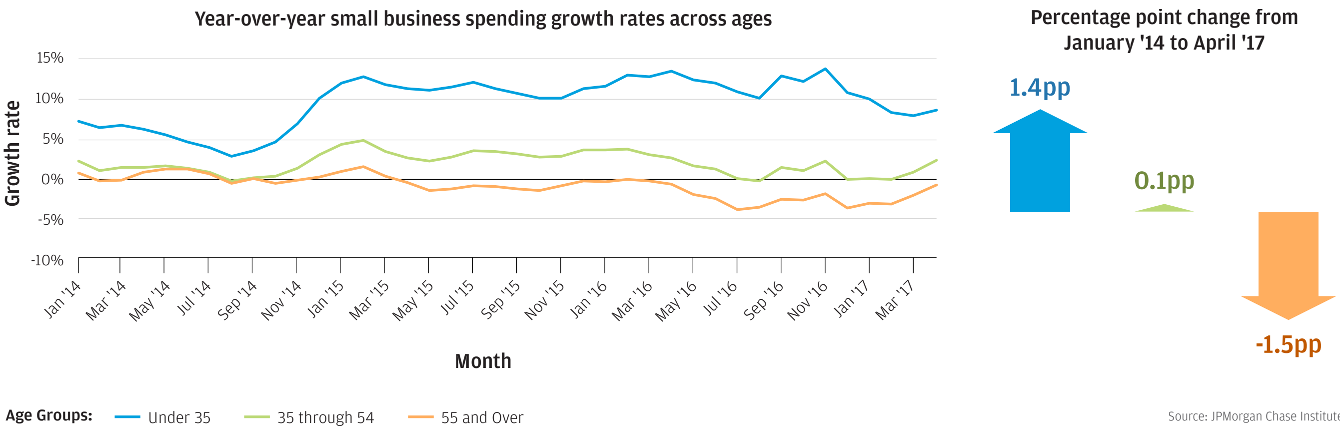
KEY FACTS

- Younger and lower income consumers drove small business spending growth between 2015 and 2016.
- Small business spending growth is higher for younger consumers than older consumers; the growth rate gaps remains relatively stable over time.
- Small business spending varies materially across metro areas.

In 2014, the US Census Bureau reported that small businesses employed 48 percent of the US workforce, and separate research estimated that economic activity at small businesses accounted for 45 percent of US GDP in 2010.[2, 3] Meanwhile, our own examination of firm liquidity in *Cash is King: Flows, Balances, and Buffer Days* revealed that small businesses often exist in a state of financial vulnerability, with half of small businesses holding only enough cash to support just under a month of typical outflows.[4] Vulnerability to short-term financial changes means that small businesses are particularly susceptible to changes in consumer spending. To better understand this exposure, the JPMorgan Chase Institute analyzed the differences in small business spending for different groups of consumers.

We find that younger and lower income consumers drove small business spending growth between 2015 and 2016 (see Figure 1).[5] Growth increased in early 2015 for consumers younger than 35 and remained at high levels throughout 2016. Meanwhile, growth stayed relatively flat for consumers between the ages of 35 and 54, and declined for consumers 55 and older. By contrast, spending growth at medium and large businesses declined across all age groups over the same time period.

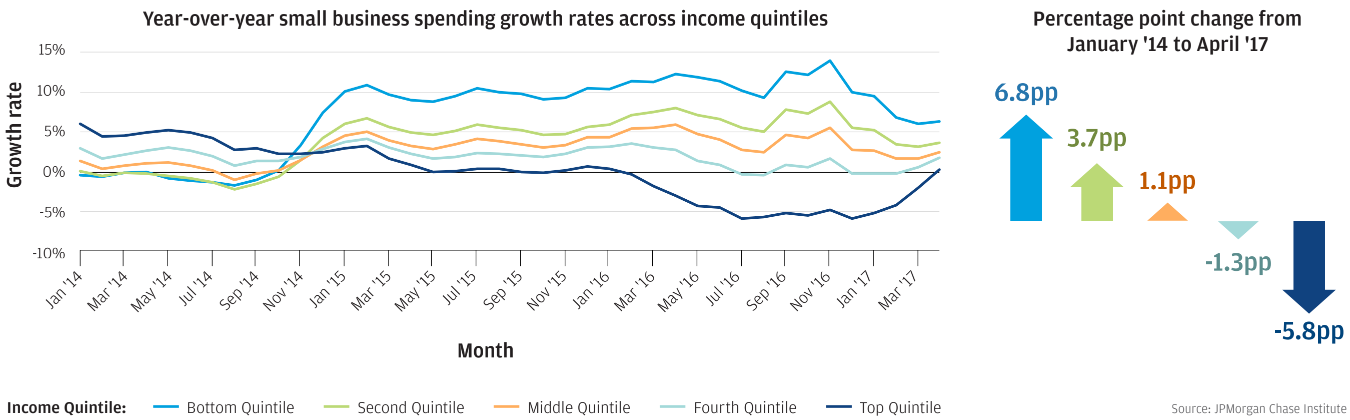
Figure 1: Younger Consumers Drove Small Business Spending Growth.



Source: JPMorgan Chase Institute

Similarly, Figure 2 shows that small business growth was highest for lower income quintiles over 2015-2016. By contrast, growth in spending at medium and large businesses declined for all income quintiles during that time.

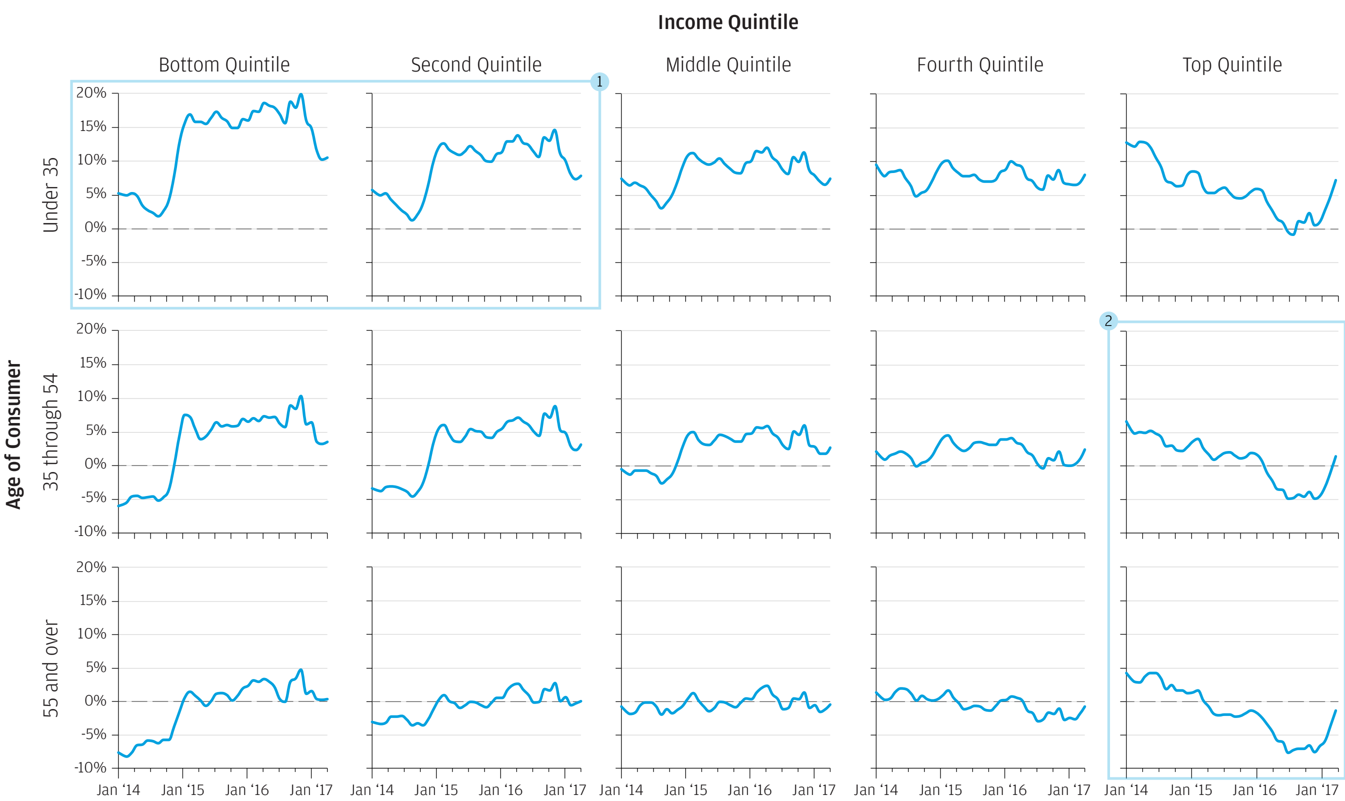
Figure 2: Small Business Spending Growth Was Primarily Driven By Lower Income Consumers.



Source: JPMorgan Chase Institute

We further examined small business spending growth for each intersection of income and age, as shown in Figure 3. Small business spending growth was highest for younger consumers in the bottom two income quintiles in 2015-2016. The relationship between age and small business spending differed from the relationship between income and small business spending. We saw that overall spending growth is lower for older consumers than younger consumers (even through early 2017), but the distance between growth rates for these groups remained relatively stable. By contrast, spending growth declined faster over time for higher income consumers relative to lower income consumers throughout the 2015-2016 period.

Figure 3: Younger, Lower-Income Consumers Drive Small Business Spending Growth, While Older, Higher-Income Consumers Subtract From Growth.



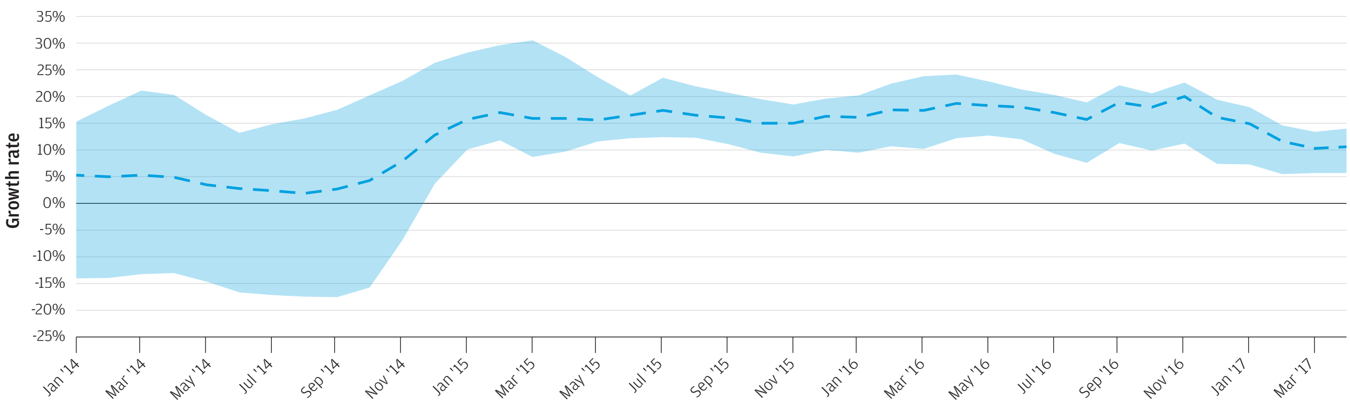
Source: JPMorgan Chase Institute

The overall trend informs the general state of small business growth in metropolitan areas across the US, but spending patterns differed for specific metro-areas.

Figure 4 displays the overall small business trend (via the dashed blue line) bounded by the minimum and maximum growth among our 15 metro areas in each month. The top panel depicts consumers under 35 in the bottom income quintile, and the bottom depicts consumers 55 and over in the top income quintile. These two groups represent the extreme ends of the income and age distributions, which highlights their impact on small business growth. While the overall trend in small business spending growth was generally consistent across the 15 metro areas we study, there was material variation in the level and sometimes even the direction of small business growth between different metro areas.

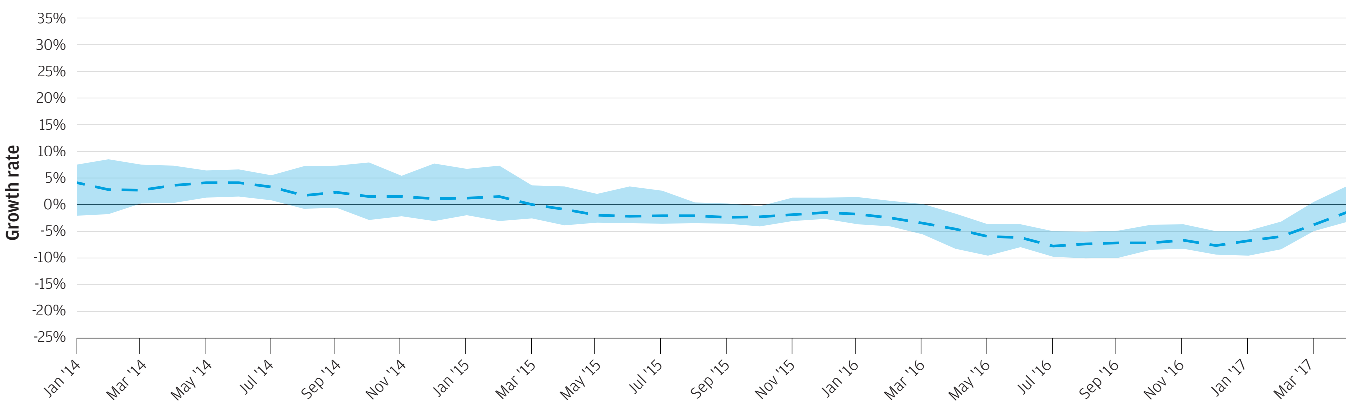
Figure 4: There Is Regional Variation In Small Business Spending Growth.

1 Year-over-year small business spending growth rates for consumers younger than 35, in the bottom income quintile



Source: JPMorgan Chase Institute

2 Year-over-year small business spending growth rates for consumers 55 and older, in the top income quintile



Source: JPMorgan Chase Institute

Small businesses are an important component in determining the vibrancy and health of economies. Understanding which groups of consumers are patronizing these small businesses provides decision makers and business owners with vital information regarding their consumer base. The JPMC data provide an unprecedented view of the real economic activity happening at businesses within the 15 metropolitan areas we track, providing vital information that can better inform economic analysis and policymaking for the public good.

1 While the trends discussed in this insight occur over the 2015 to 2016 period, we display data from 2014 through 2017 to highlight these trends.

2 *Statistics of U.S. Businesses*. US Census Bureau.

3 Kobe, Kathryn. *"Small Business GDP: Update 2002-2010."* Small Business Administration

4 Farrell, Diana and Chris Wheat. *"Cash is King: Flows, Balances, and Buffer Days."* JPMorgan Chase Institute

5 Note that all growth rates in this Insight reflect 3-month rolling averages. We smoothed these series to highlight longer term trends.

Suggested Citation

Farrell, Diana and Bryan Kim. "Younger and Lower Income Consumers Drive Small Business Spending." JPMorgan Chase Institute.

Related Content

- *Seniors Lead the Slowdown in Local Consumer Commerce*
- *The Local Consumer Commerce Index*

This analysis employs the Local Consumer Commerce (LCC) data asset, which encompasses over 19 billion de-identified credit and debit card transactions from over 59 million consumers in 15 major metropolitan areas. The LCC Index, built on the LCC asset, captures year-over-year growth in everyday spending across a range of consumer and merchant groups. The transaction-level data in the LCC data asset are augmented by the zip codes of both the consumer and merchant, providing a local, place-based view of spending growth. Consequently, we can evaluate trends at both the city level and across the 15 cities we track.