

SAGE UK SMALL BUSINESS TRACKER - Q2 2025

A Sage report in partnership with
Smart Data Foundry and Cebr

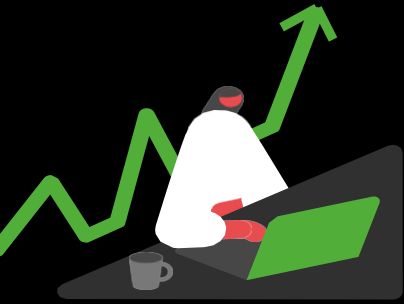
April - June 2025

Sage  SMART DATA
FOUNDRY

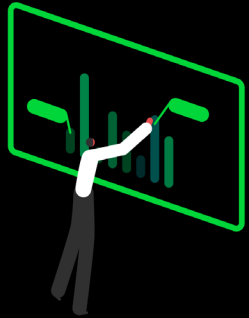


SMB Tracker

Q2 2025.



Profit Growth
+3.7%
Year-on-Year



Real Revenue
-0.2%
Year-on-Year



The average number of days it takes to pay an invoice

29 days

UK SMBs showed strong profit growth in Q2 2025, driven by a decline in expenditure.



+8.8%

London
Highest Profit Growth Amongst UK Regions



Productivity
-0.7%
Year-on-Year

Liverpool:
+21.9%

Highest Revenue Growth Amongst Urban Areas



Real Expenditure
decline in
Q2 2025.



Source: Insights from 140,000 UK SMBs

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FORECAST: Looking ahead, the UK economy is expected to remain on a relatively meagre trajectory. Headwinds such as elevated inflation, a restrictive interest rate environment, and global trade volatility, all present a risk to growth. Policy changes at the upcoming fiscal event could also impact the outlook.

Headline Findings

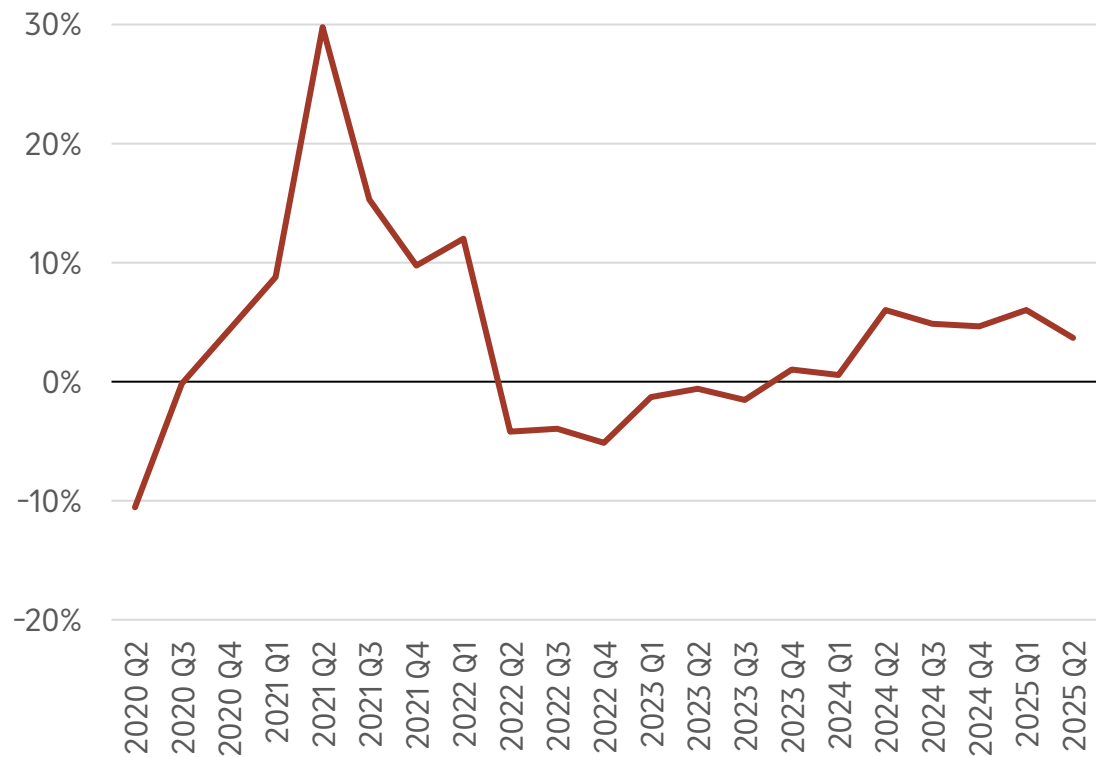
Quarterly Summary.

The latest Sage Small Business Tracker shows that small businesses continue to find profitability gains, despite falling revenues and concentrated cost pressures. This trend mirrors the broader UK economy, which grew by 1.2% year-on-year in Q2 in spite of elevated inflation and considerable uncertainty. All but one UK region recorded profit growth, highlighting widespread resilience.

- 1 Profits increased again** – Small business profits grew by 3.7% for the average small business in the year to Q2 2025. This marks a deceleration from 6.0% in previous quarter. Nevertheless, growth remains notably elevated when compared with the past two years.
- 2 Revenues dipped for the first time in a year**– Real revenues for small businesses fell by 0.2% annually in Q2 2025, following four consecutive quarters of growth. Despite the near-term fall, revenues have performed relatively well recently, amid an environment of high uncertainty and struggling confidence.
- 3 Falling expenditure supported profitability** – Real expenditure for the average small business fell by 2.9% in the year to Q2 2025, ending a run of four consecutive quarters of growth. This deceleration outweighed the fall in revenue, allowing profits to continue growing albeit at a notably slower pace than recent quarters. The expenditure decline this quarter may well prove to be temporary, with the impacts of increases to employers' NICs and the National Living Wage, which took effect in April, expected to exert continued cost pressures moving forward.
- 4 Revenue decline contributes to falling productivity, mirrored economy-wide** – In Q2 2025, productivity for the average small business fell by 0.7% year-on-year, following a 4.4% increase in Q1 2025. This compares with the ONS flash estimate, which found output per worker was 1.0% lower compared to the same period a year ago.

Profits continue to grow in Q2, albeit at a slower pace than recent quarters

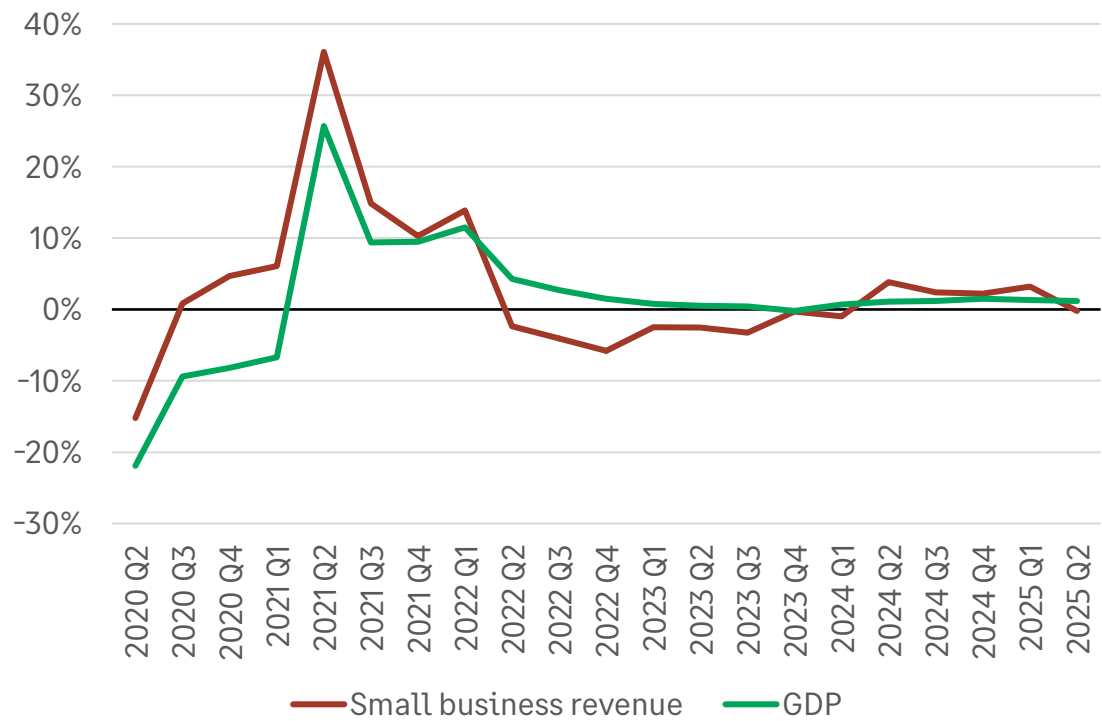
Profit growth for the average small business (2019 prices, year-on-year %)



- The Sage Small Business Tracker provides timely insights into the growth of UK small businesses, given that official quarterly estimates of GDP are not broken down by company size.
- Profits grew by 3.7% for the average small business in the year to Q2 2025. This marks a deceleration from 6.0% in previous quarter. Nevertheless, growth remains notably elevated when compared with the past two years.
- Small business profits grew in Q2 2025 even as revenues dipped. Real revenues inched down by 0.2% year-on-year, bringing an end to four consecutive quarters of growth. The growth in profits was therefore driven by a more pronounced deceleration in expenditures, which were down 2.9% on the same quarter last year. This was the first decline in expenditures since Q1 2024.
- Increases to employers’ National Insurance Contributions and the National Living Wage came into effect in the second quarter of the year. The latter has a direct impact on pay and this was evident in this quarter’s data, with a 5.1% increase in real wages relative to Q1. Though these changes will create additional costs for small businesses, in turn exerting pressure on margins, the overall decline in expenditures in Q2 suggests they were offset by savings elsewhere.
- Inflation has recently picked up and is set to remain elevated, which will add further upward pressure to costs, further squeezing profit growth among small business in the coming quarters.

Revenue slips, though household consumption and retail spending continue to rise

Revenue growth for the average small business and UK GDP (2019 prices, year-on-year %)

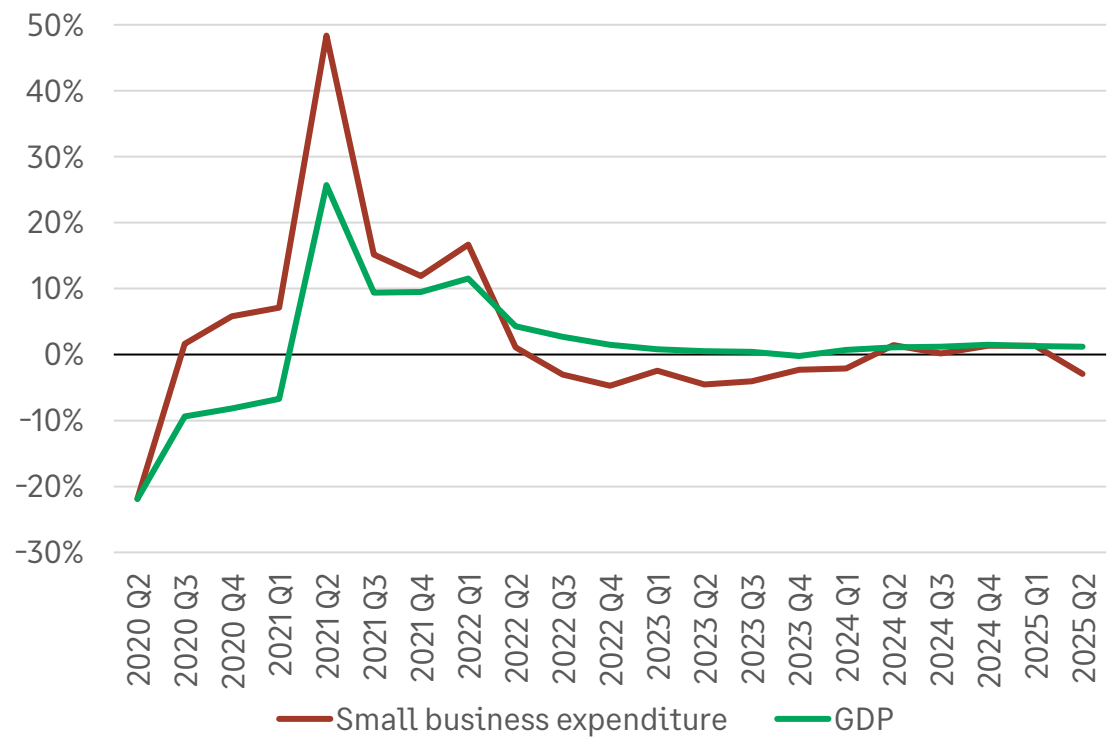


Source: Sage, Smart Data Foundry, ONS, Cebr

- Real revenues for small businesses fell by 0.2% annually in Q2 2025, following four consecutive quarters of growth.
- Despite the near-term fall, revenues have performed relatively well over the past year, amid an environment of high uncertainty and struggling confidence.
- The latest data from the Office for National Statistics (ONS) indicates that the UK economy expanded by 1.2% year-on-year in Q2 2025.
- Household consumption rose by 1.1% in this period, supported by miscellaneous goods and services, transport, clothing and footwear, and housing. Retail sales volumes continued to perform well, rising by 1.8% year-on-year in Q2 2025, with sales boosted by the warm weather.
- Higher sales of household goods in stores and in non-store retailing, predominantly online sellers, also made notable contributions to overall growth in retail sales.

Small business expenditure dips, ending several quarters of growth, though costs expected to rise

Expenditure growth for the average small business and UK GDP (2019 prices, year-on-year %)

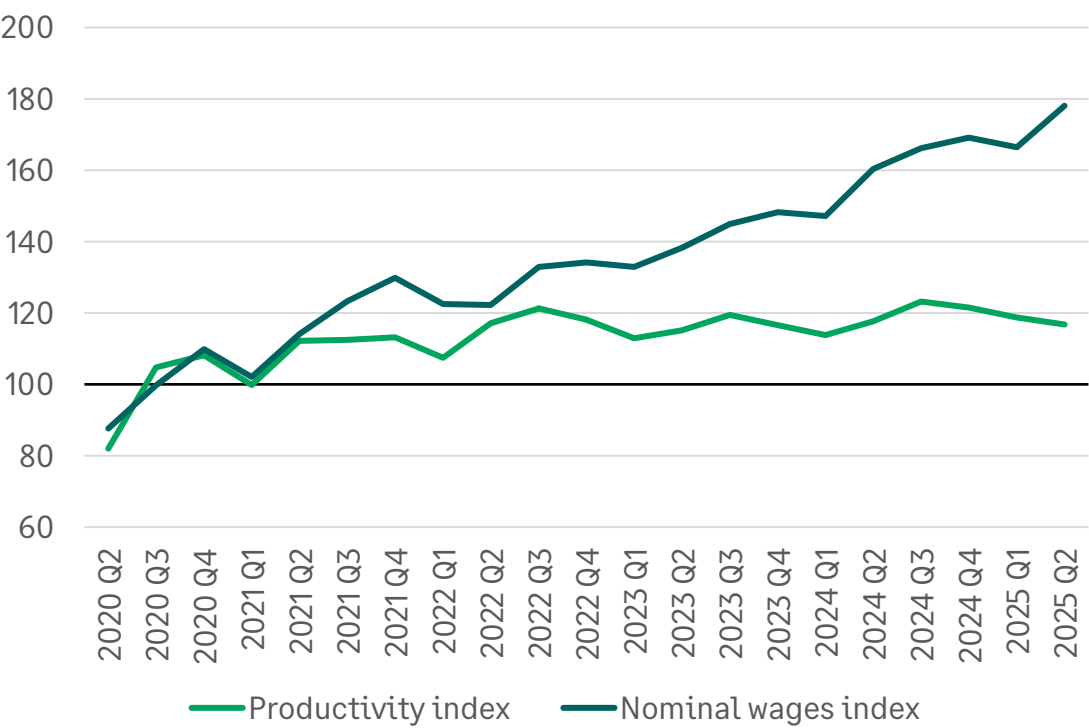


- Real expenditure for the average small business fell by 2.9% in the year to Q2 2025, ending a run of four consecutive quarters of growth. This deceleration outweighed the fall in revenue, allowing profits to continue growing albeit at a notably slower pace than recent quarters.
- Real terms spending among small businesses has effectively flatlined over the last few years, with firms wary to invest amid high levels of macroeconomic uncertainty, elevated financing costs, and persistent inflation. That said, Q2 2025 marks the first quarter since Q1 2024 in which spending growth has been negative.
- The expenditure results this quarter cannot be compared to the ONS Producer Price Index (PPI) and Services Producer Price Indices (SPPI), which remain paused owing to a methodological issue.
- The expenditure decline this quarter may well prove to be temporary, with the impacts of increases to employers’ NICs and the National Living Wage, which took effect in April, feeding into cost pressures moving forward. Together, these changes will add to firms’ operating costs. The outlook for costs will depend on the near-term trajectory of inflation and whether businesses can find savings elsewhere.

Source: Sage, Smart Data Foundry, ONS, Cebr

Wage growth slows in Q2 while productivity declines

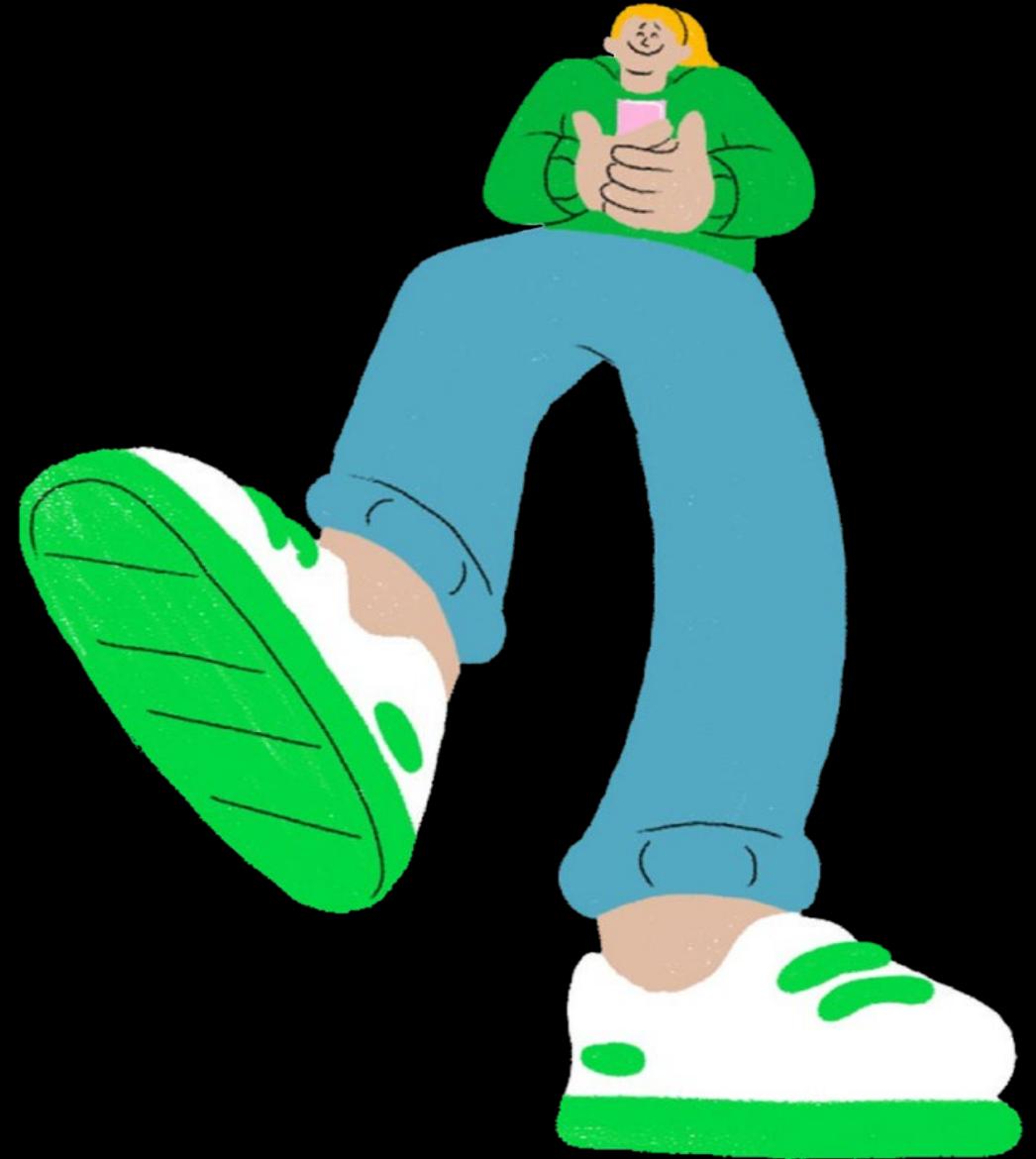
Nominal wages and real productivity (index 2019 = 100, non-seasonally adjusted)



Source: Sage, Smart Data Foundry, ONS, Cebr

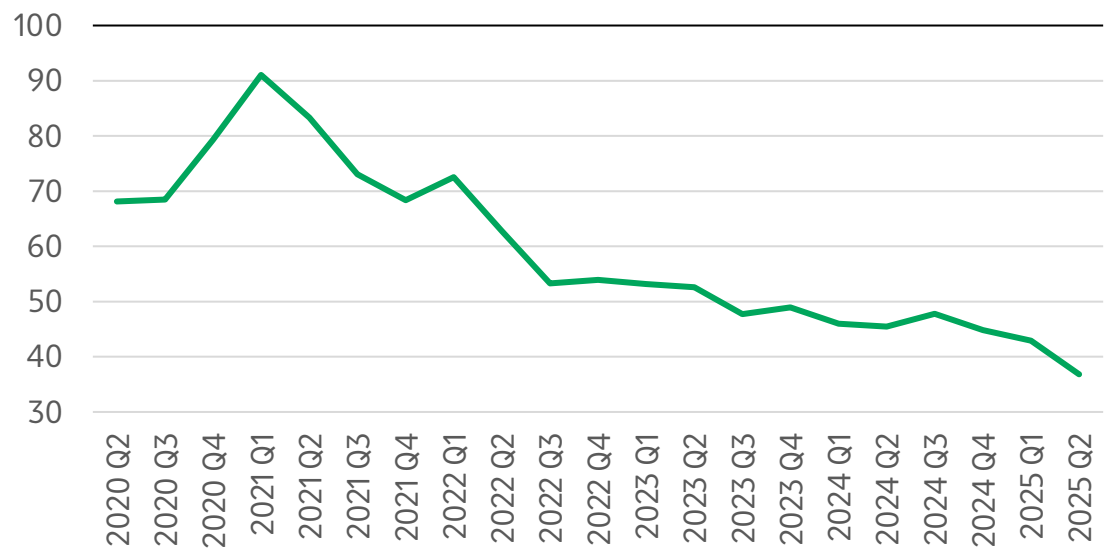
- The nominal wage index rebounded sharply in Q2 2025 following a decline in the first quarter. The annual pace of nominal wage growth dipped to 11.1% this quarter. In real terms, wages grew at 7.2% year-over-year.
- Decelerating annual pay growth among small businesses tracks ONS data on earnings growth, which has slowed consistently over 2025.
- Productivity in our large sample of small businesses is measured by revenue in real terms divided by the number of employees within a business.
- In Q2 2025, productivity for the average small business fell by 0.7% year-on-year, following a 4.4% increase in Q1 2025. This compares with the ONS flash estimate, which found output per worker was 1.0% lower compared to the same period a year ago.
- Prior to Q2, productivity had shown annual growth for five consecutive quarters. This had reflected buoyant revenue growth outpacing the increase in headcount.
- This quarter revenues dipped marginally, a downturn mirrored by year-over-year decline in productivity. While hiring activity has cooled, redundancies across the economy have remained relatively stable despite several headwinds.

Sage UK Small Business Tracker: Indicators by key themes



Prices and spending

Capital expenditure (indexed 2019 = 100, 2019 prices, non-seasonally adjusted)



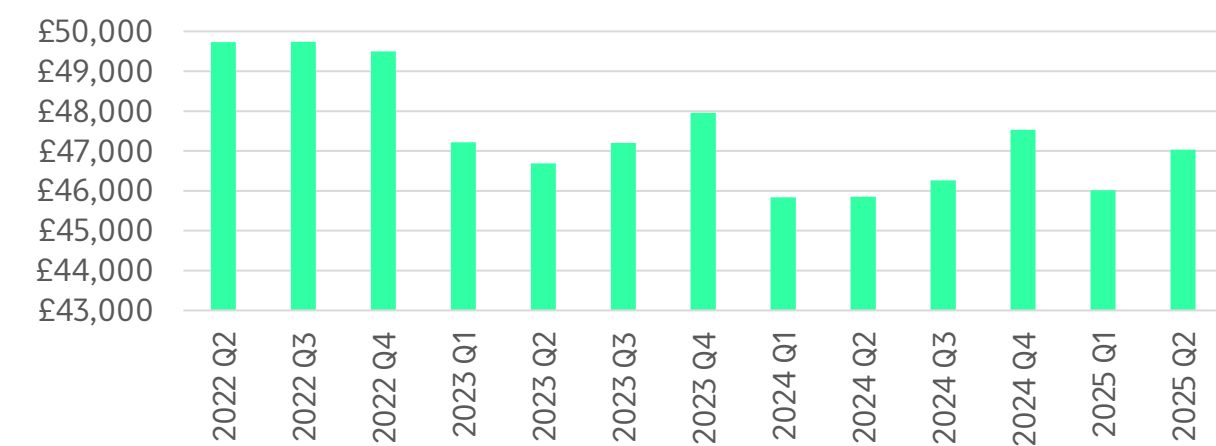
Source: Sage, Smart Data Foundry, ONS, Cebr

Capital expenditure fell sharply amidst heightened uncertainty and concentrated cost increases

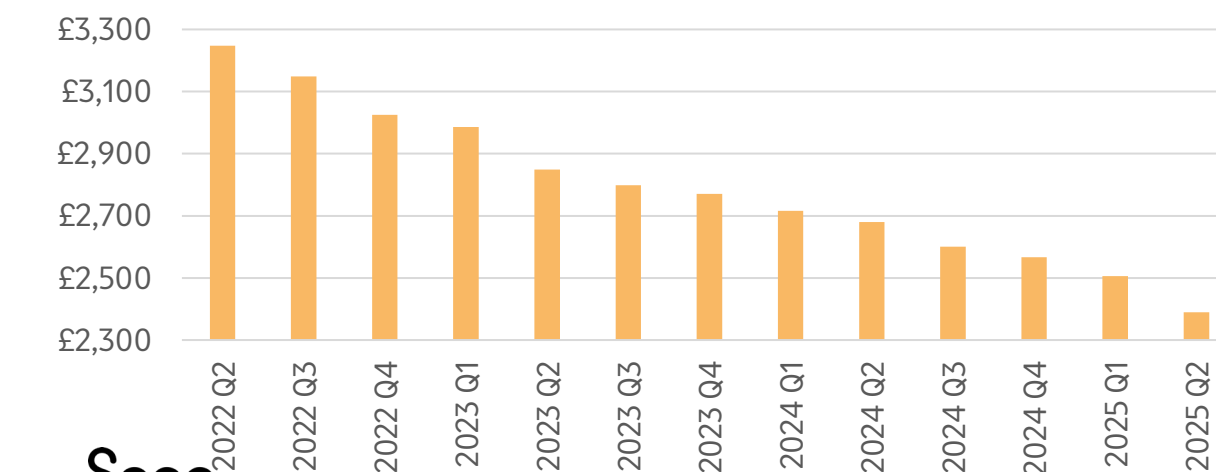
- Small business capital expenditure refers to the acquisition or upgrading of tangible assets, such as equipment or property. It does not include other forms of investment like training and development of staff or many forms of digitisation. In recent years, businesses have shown weaker activity on this measure, having faced a challenging trading environment marked by high inflation, elevated interest rates, and weak economic growth. These trends continued in Q2.
- Capital expenditure fell by 19.0% year-on-year in Q2 2025, following a 6.7% decline in Q1 2025. This marked a third consecutive quarter of contraction. Indeed, with the exception of a slight increase in Q3 2024, small businesses’ capital expenditures have shown an annual decline in each quarter since Q4 2021.
- The exacerbation of headwinds in Q2, from varied sources such as international trade volatility and mandated labour cost increases, likely dissuaded small businesses from engaging in capital expenditure. The stronger-than-expected growth in Q2 and a further cut in the Bank of England base rate ultimately provided insufficient incentives for investment.

Resilience: cash and debt

Real cash balances for average small business (non-seasonally adjusted, 2019 prices)



Real debt position for average small business (non-seasonally adjusted, 2019 prices)

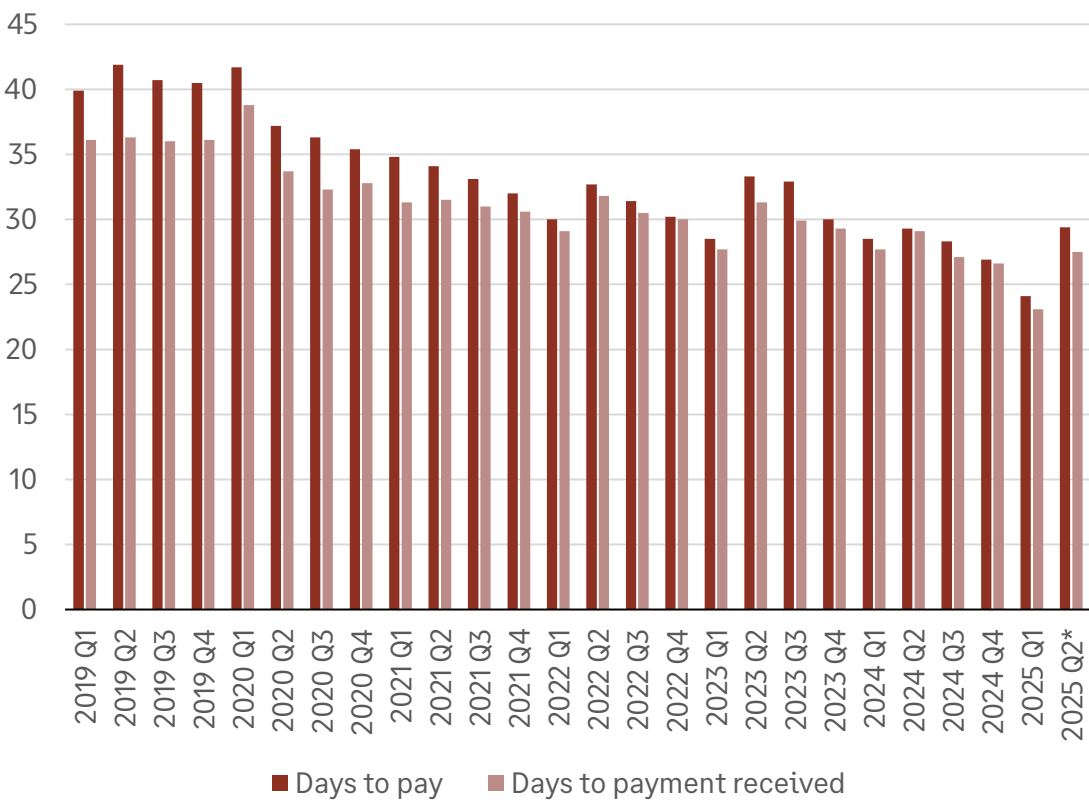


Cash balances recovered in Q2, after a drop in Q1, with the annual pace of growth also accelerating.

- Small business cash balances reflect the sum of their current account balance and the amount they have in savings. If they are struggling with clients paying late, investing heavily, or experiencing difficult trading conditions leading to lower demand, they will likely see lower cash balances. On the other hand, a difficult economic environment may also lead businesses to hold some precautionary savings. Furthermore, the recent environment of high interest rates has made saving more attractive.
- The latest data show that average cash balances among small businesses returned to quarterly growth in Q2, after a dip in Q1 2025. Annual growth also improved, accelerating to 2.6%, from 0.4% last quarter.
- Small business debt positions reflect loan utilisation, which is the sum of credit card balances and other credit available. The average debt position continued to fall in Q2, as it has done for the entirety of the last three years. Real debt balances were down 10.8% in Q2, the sharpest annual decline in nearly two years.
- Despite a further cut in Q2, interest rates remain elevated when compared with modern-day standards. As such, it is likely that businesses have prioritised decreasing debt levels over investment, amidst higher servicing costs. In a tight interest rate environment, there is also a disincentive to take on new debts.

Time to pay

Average number of days taken to either pay invoice or be paid per small business

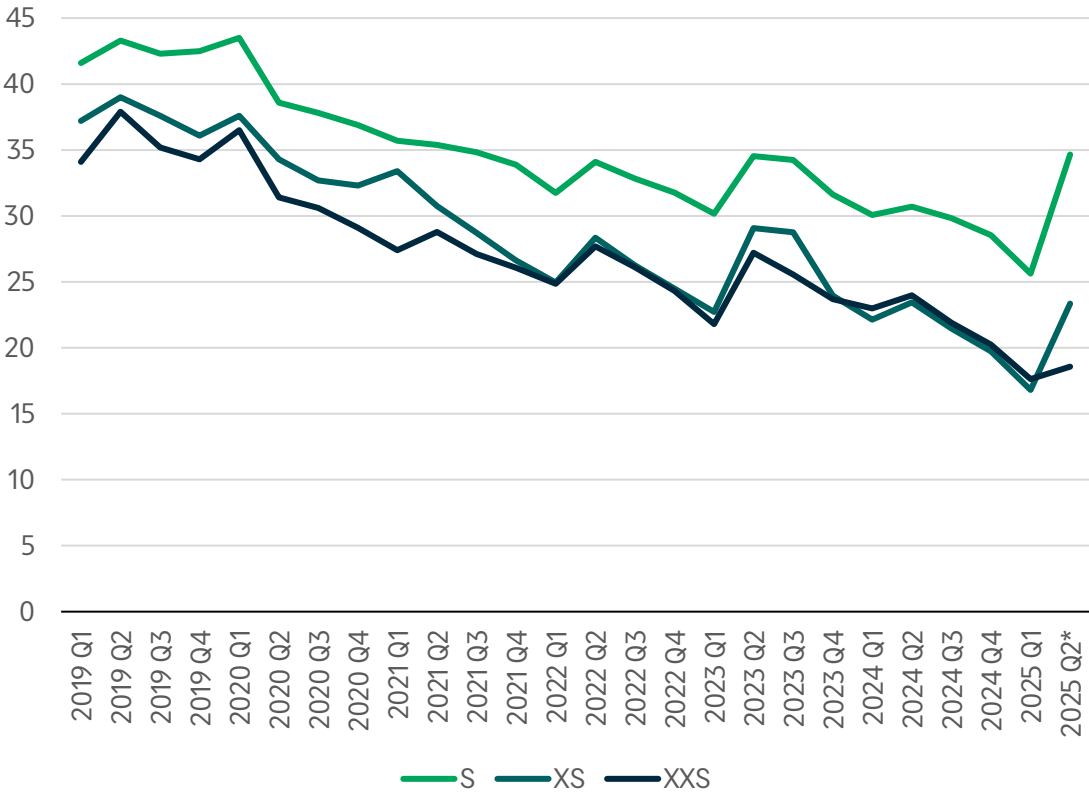


Data show there was an uptick in the days to pay or be paid in Q2 2025, but payment times remain broadly stable.

- Small businesses, on average, received payment on invoices after 27.5 days, down from 29.1 days compared to the same quarter a year prior.
- Meanwhile, the average number of days small businesses took to pay an invoice was 29.4 in Q2 2025. This marked a marginal increase from the 29.3 days averaged in Q2 2024.
- While the latest figures show a slight uptick in the time taken to pay or receive an invoice in Q2, payment times remain broadly stable compared with the past two years. This stability is notable given the challenges posed by the pandemic and subsequent high inflation. These pressures may have incentivised small firms to improve payment processes, enhancing resilience during difficult economic conditions.
- Making payments on time supports daily cash flow management while strengthening relationships with suppliers, avoiding late fees, and building a solid credit history. As inflation pressures ease and economic conditions stabilise, small businesses will be better placed to sustain healthy cash flows and take advantage of growth opportunities.
- The government is preparing to unveil new legislation aiming to penalise suppliers who are consistently late with payments and limit invoice terms to two months. As part of the new proposals, the small business commissioner would be granted powers to fine late-paying companies.

Deep dive – time to pay by business size

Average number of days taken to pay an invoice per small business by business size

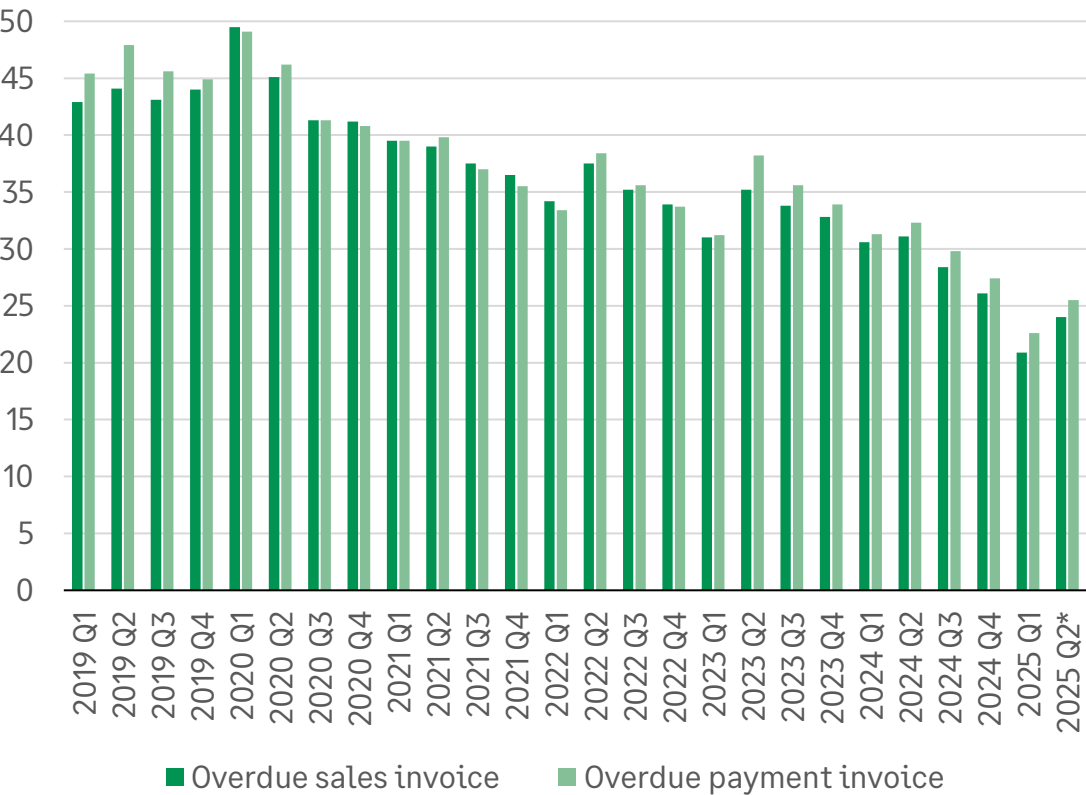


Across all three business size groups, the average time taken to pay an invoice rose this quarter.

- Average time to pay an invoice by business size data rose across all business sizes. The increase was most pronounced among small and extra small businesses with a smaller increase observed among nano businesses.
- The average extra-small (XS) business took 23.4 days to pay an invoice in Q2 2025, roughly in line with the time take in the same quarter a year prior.
- Meanwhile, nano business (XXS) took an average of 18.6 days to pay an invoice in Q2 2025. This marks an improvement from the 24 days recorded in the same quarter a year earlier.
- The small (S) grouping of businesses averaged 34.7 days to pay in Q5 2025, up from 30.7 days in the same quarter last year.
- Smaller firms in our sample consistently record shorter payment times than do larger ones. This may be because smaller teams are able to process invoices more efficiently and prioritize prompt payments more highly, as they often experience greater cash flow pressures. Driven by the notable uptick in the average payment times among the small (S) grouping of firms, the divergence between in payment times among small and nano firms increased this quarter.
- A rise in time to pay invoices may suggest that small businesses are experiencing increased cash flow challenges. This could reflect broader economic pressures, such as declining sales or rising operational costs.

Overdue invoice payment times ticked up in Q2

Average number of days overdue to either pay invoice (payment) or be paid (sales) per small business, by quarter

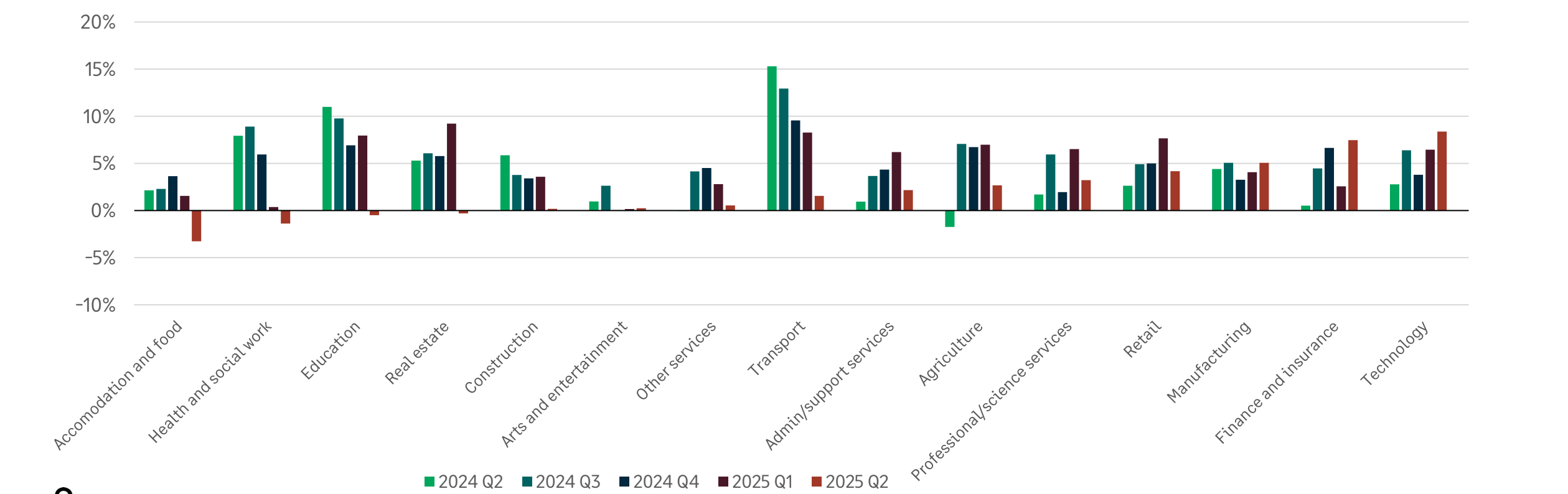


Small businesses saw overdue invoice payment times increase for the first time in two years. However, the average time taken to pay an invoice remained substantially lower than pre-pandemic levels.

- Preliminary estimates suggest that the average number of days for small businesses to be paid a sales invoice once it was overdue in was 24.0 days. This marks a slowdown from an average of 20.9 days in the previous quarter.
- The inherent difficulties in collecting late payments data means that a degree of nowcasting is required to provide a realistic estimate for the latest quarter. As such, this estimate is treated as preliminary and may be subject to revisions in later quarters.
- Despite the rise this quarter, the average time taken to pay an invoice remained substantially lower than the pre-pandemic period. Indeed, in 2019, the average number of days a small business was late on their invoice when they were overdue was 45.9 days.
- Improved credit control practices and strengthened relationships between businesses and their customers could be driving this positive trend. Additionally, during periods of economic uncertainty, businesses may be putting in extra effort to collect their outstanding payments.
- The overall share of invoices which were late was 45.3% in Q2 2025. This is broadly in line with the average of 45.1% since 2021, where the share of late invoices has remained notably elevated.

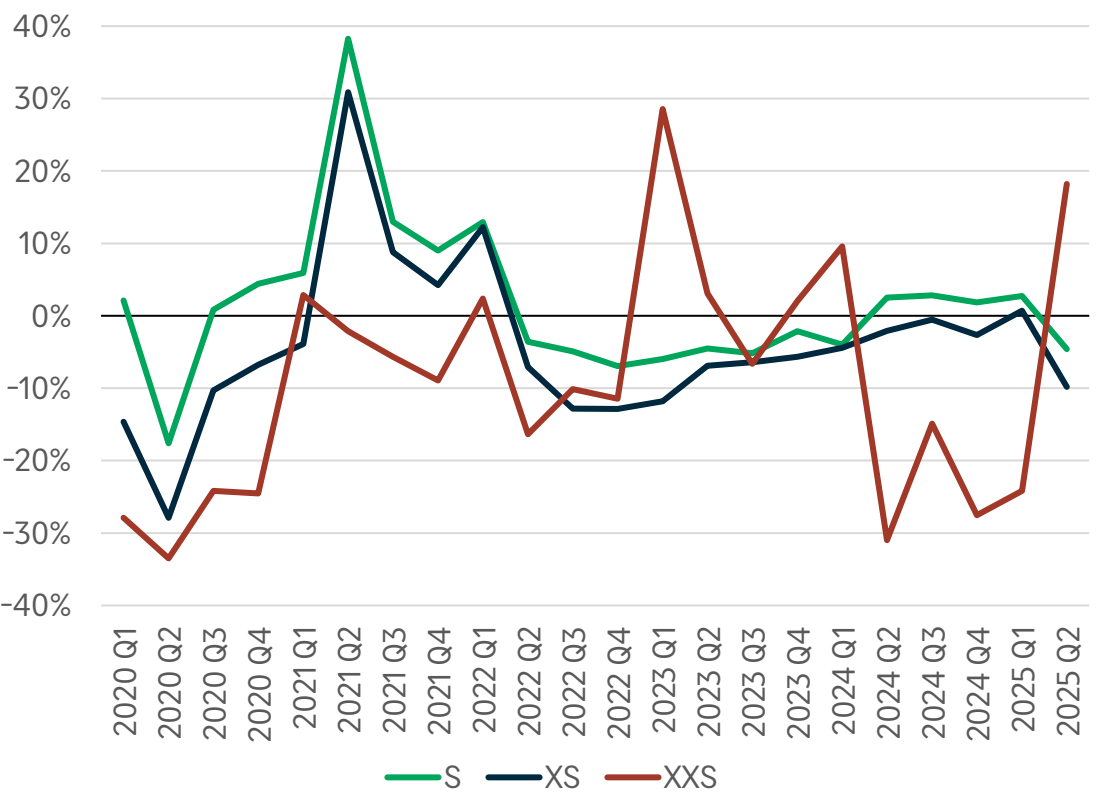
Deep dive - annual change in revenue by industry

- The accommodation and food services sector experienced a 3.3% decline in revenue in the year to Q2 2025. Stubbornly high food and energy prices have squeezed disposable incomes and thus demand for discretionary goods has weakened. Revenues also contracted year-on-year in the health and social care, education, and real estate sectors.
- Technology saw the largest growth in the 12 months to Q2 2025, with an 8.4% gain recorded. Ongoing adoption of emerging technologies is helping to drive growth as are government support and inflows of private investment. Rising demand has also led to higher overhead costs in the sector, which rose by 4.0% this quarter, second only to finance and insurance. Revenues in the latter sector rose 7.5%, reflecting the strong performance of UK assets.



Deep dive – revenue growth by business size

Year-on-year change in real revenue for the average small business (in 2019 prices)



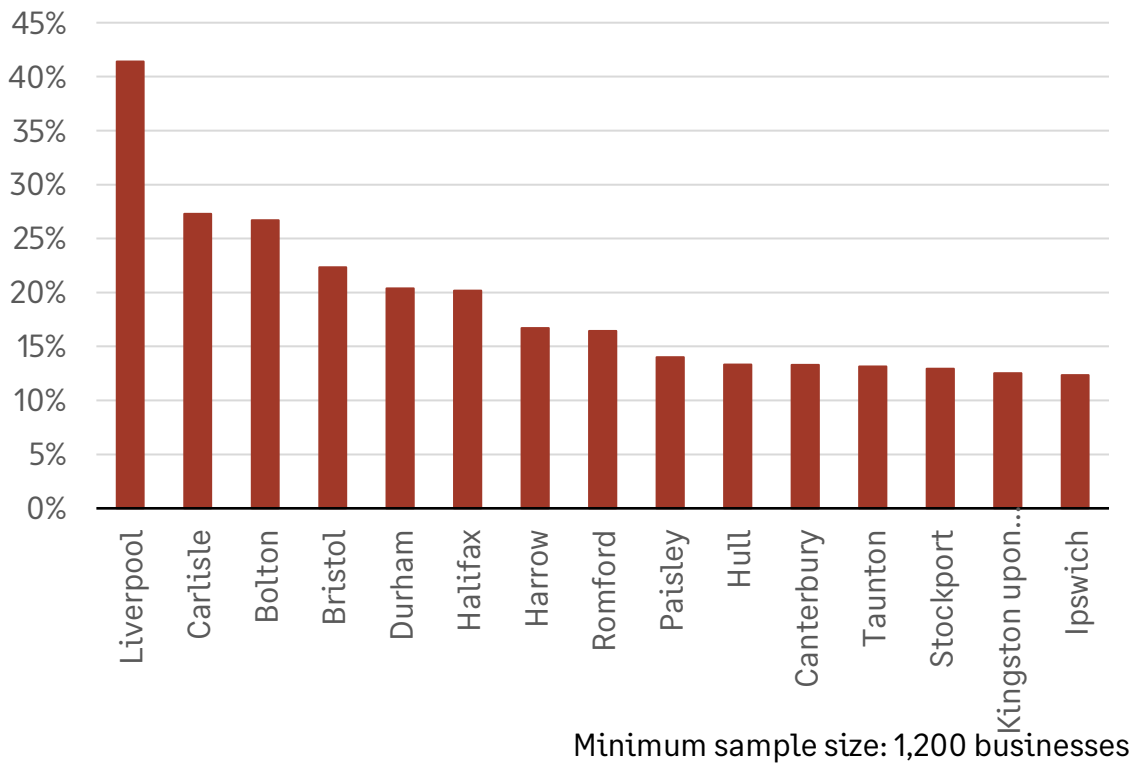
Nano-businesses report strong revenue growth, while small and extra small businesses see contractions

- Looking at business revenue across our three subgroups of size shows that small (S) and extra small (XS) sized businesses have followed similar trends since Sage began collecting revenue data. This is typified by a strong post-pandemic recovery, followed by a sharp decline, towards sluggish growth.
- Nano-businesses (XXS) saw a strong rise in revenue this quarter, with year-on-year growth of 18.2%. In contrast, extra-small businesses experienced a sharp fall in revenue of 9.8%. After a brief positive uptick in revenue growth last quarter, the trend of sustained negative growth has resumed.
- In a further example of the correlation between small and extra small businesses' performance, the former group also recorded a decline in revenue in the year to Q2 2025, amounting to 4.6%. This ended a period of growth spanning four consecutive quarters.

Source: Sage, Smart Data Foundry, ONS, Cebr

Deep dive – the fastest growing urban areas over the past two years

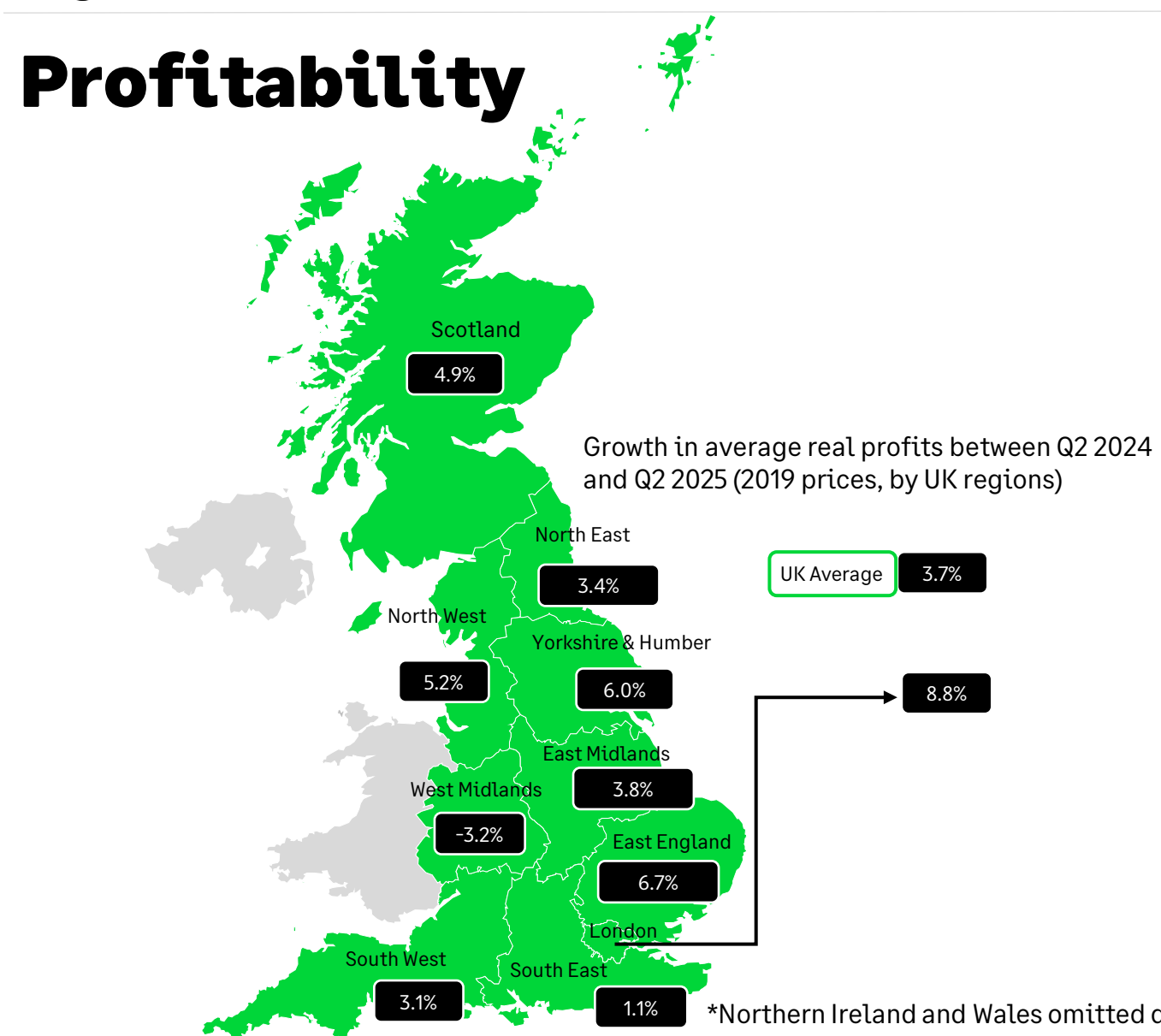
Growth in average business revenue between Q2 2023 and Q2 2025 (2019 prices, top 15 urban areas)



Source: Sage, Smart Data Foundry, ONS, Cebr

Over the two years between Q2 2023 and Q2 2025, there were considerable disparities between regions. From over 100 areas across the UK, 73% saw average small business revenue increase.

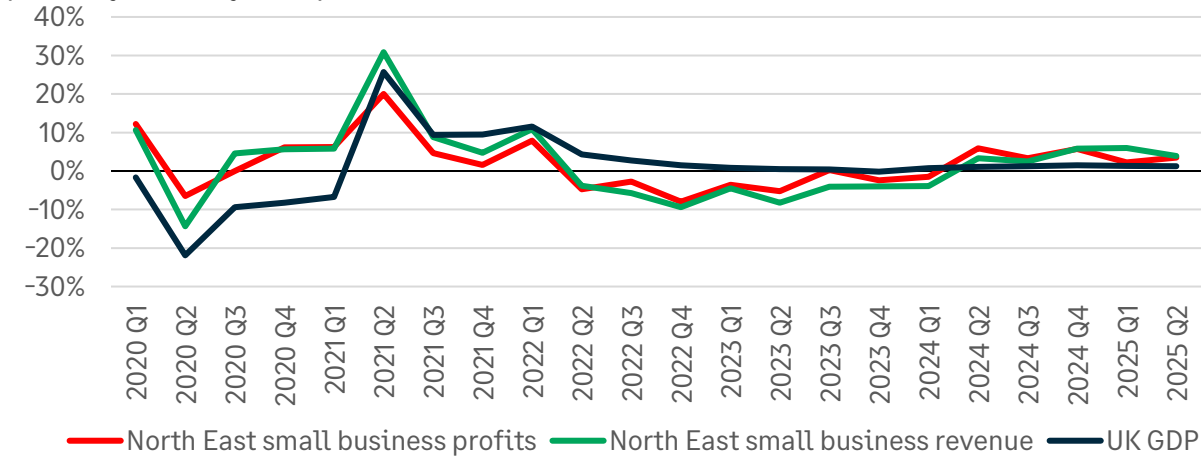
- At the urban area level, Liverpool again recorded the strongest average revenue growth at 41% over the two years to Q2 2025, driven largely by the tourism and hospitality sectors. Carlisle had the second-highest growth at 27.3%, albeit notably lower than Liverpool.
- This quarter, three of the 15 fastest-growing areas are located in the North West, reflecting the region’s 16% overall increase in average revenues. In contrast, London accounted for just two of the 15 fastest-growing urban areas.
- In contrast to the high-performing urban areas, several locations in the East and West Midlands underperformed in the two years to Q2 2025. Hereford recorded the steepest decline, with revenues down 42%, while Leicester and Nottingham saw contractions of 11.3% and 8.5% respectively



- The average small business saw profits rise by 3.7% in the year to Q2 2025, with London recording the strongest growth of any UK region.
- The Sage Small Business Tracker provides timely insights into regional growth figures, as official GDP statistics are only produced following a significant time lag.
 - In the year to Q2 2025, Sage data show that the average small business saw profits rise by 3.7%, a deceleration from 6.0% last quarter. This marked a seventh consecutive quarter of growth.
 - There were disparities in profit growth across regions. London led the way with an annual increase of 8.8%. The East of England also performed strongly, with growth of 6.7%.
 - At the other end of the scale, the West Midlands was the only region to record a contraction in Q2, at an annual rate of 3.2%. Below average growth was also recorded in the South East, South West, and North East.

Deep dive – North East

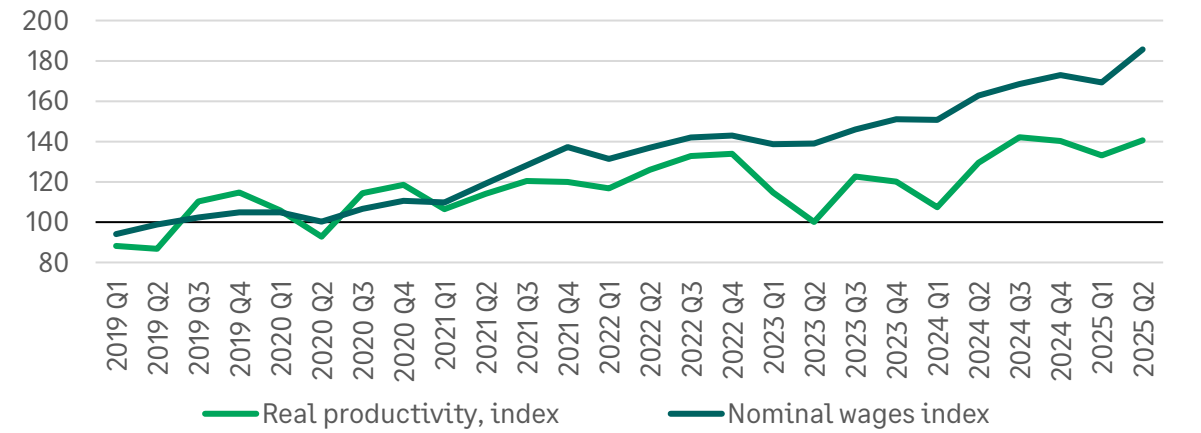
Revenue and profits growth for the average North East small business and GDP (2019 prices, year-on-year %)



In the year to Q2 2025, the average small business in the North East saw real revenue growth of 3.9%, while profits rose by 3.4%

- In the year to Q2 2025, small business revenue in the North East grew by 3.9% in real terms, while profits rose by 3.4%. Revenue growth outpaced the UK-wide average, which indicated a fall, though profit growth was below the national figure.
- Collectively, these results suggest that costs grew at a faster pace in the North East. Notably, real wage growth was stronger in the North East than UK-wide in Q2, at 10.1% and 7.2%, respectively. This likely reflects the industrial makeup of the North East, where a higher proportion of workers are in lower-paying jobs and therefore more likely to have been impacted by the recent increase in the National Living Wage.
- The stronger real wage growth also manifested in the nominal wages index, which showed a marked uptick in Q2, both on the quarter and the year.
- Productivity, measured as revenue per employee, returned to improvement in Q2, after falling for the two prior quarters. Productivity also increased on the year, at a rate of 8.5%.

Nominal wages and real productivity for the average North East small business (index 2019 = 100, non-seasonally adjusted)



Methodology



Methodology and data

- The Sage Small Business Tracker uses data from Sage’s accounting and payroll software. The Smart Data Foundry aggregates and cleans the data, before Cebr deflates and analyses the data ahead of its publication. The data is not currently seasonally adjusted due to the length of the historical data available for analysis.
- Filters are applied to the data to ensure it is not impacted by outliers. This includes a maximum monthly revenue figure of £1m and a maximum annual payroll figure of £1.1m.
- Earnings before interest, taxes, depreciation and amortisation (EBITDA) is a common measure of business performance. It is derived as $EBITDA = \text{Revenue} - \text{Expenditure} - \text{Overheads}$
- Net rate of return is used as the measurement of company profitability for total businesses. The rate of return is calculated as the economic gain (profit) shown as a percentage of the capital used in production obtained from the ONS.
- Small businesses are classified by size groupings via their average annual revenue within Sage’s data. The categories are as follows: nano/extra-extra small (average annual revenue less than or equal to £50,000), extra-small (average annual revenue greater than £50,000 and less than or equal to £200,000) and small (average annual revenue greater than £200,000).
- Data are subject to revisions on a quarterly basis as more business records are added to the dataset.

Our small business sample

- In Q2 2025, our sample was 140,000, which contained the following demographics.

Size

- 39% were small (S) businesses (average annual revenue greater than £200,000).
- 33% were extra-small (XS) businesses (average annual revenue greater than £50,000 and less than or equal to £200,000)
- 28% were nano (XXS) businesses (average annual revenue less than or equal to £50,000)

Region

- Within the sample, over 130,000 businesses identified their region.

Region	South East	London	West Midlands	Yorkshire and The Humber	North West	East of England	South West	Scotland	East Midlands	North East	Wales	Northern Ireland
Share	13%	11%	10%	10%	10%	9%	9%	9%	8%	4%	4%	4%

Sector (of the over 67,000 of businesses for which we know the sector)

- 27% were in heavy industry
- 21% were in light industry
- 53% were in services¹

Payroll (our data for productivity and workforce-related variables are based on a smaller sub-sample of 22,000 small businesses)

- The overall sample size changes between reports due to changes in Sage’s customer base and the removal of outliers.

Glossary

EBITDA - Earnings before interest, taxes, depreciation and amortisation (EBITDA) is a common measure of business performance. It is derived as $EBITDA = \text{Revenue} - \text{Expenditure} - \text{Overheads}$.

Net rate of return - Used as the measurement of company profitability for total businesses. The rate of return is calculated as the economic gain (profit) shown as a percentage of the capital used in production obtained from the ONS.

Overheads - In this report, overheads include both fixed and semi-variable overheads such as rent, energy and utility bills.

Productivity - In our large sample of small businesses, productivity is measured by revenue in real terms divided by the number of employees within a business.

Capital expenditure - Small business capital expenditure refers to the acquisition or upgrading of long-term assets, such as equipment or property.

Cash balance - Small business cash balances reflect the sum of their current account balance and the amount they have in savings.

Debt position - Small business debt positions reflect loan utilisation, which is the sum of credit card balances and other credit available.

Days to pay - Sale payment time in days.

Days to payment received - Purchase payment time in days.

Nominal - The nominal value of an economic variable is the value expressed in current prices.

Real - The real value of an economic variable is the nominal value adjusted for inflation.

Technical recession - Two consecutive quarters of negative quarterly growth in real GDP.

Monetary policy - Action a central bank can take to influence how much money is in a country's economy and what the cost of borrowing is. This can include raising or lowering the base interest rate.

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