

# SAGE UK SMALL BUSINESS TRACKER - Q3 2025

A Sage report in partnership with  
Smart Data Foundry and Cebr

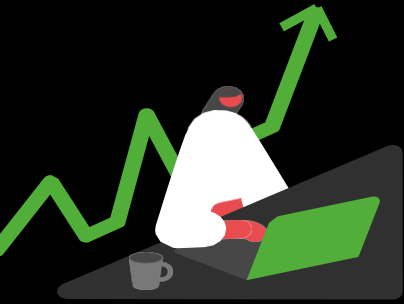
July - September 2025

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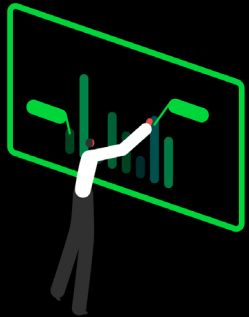


# SMB Tracker

## Q3 2025.



**Profit Growth**  
**+5.7%**  
Year-on-Year

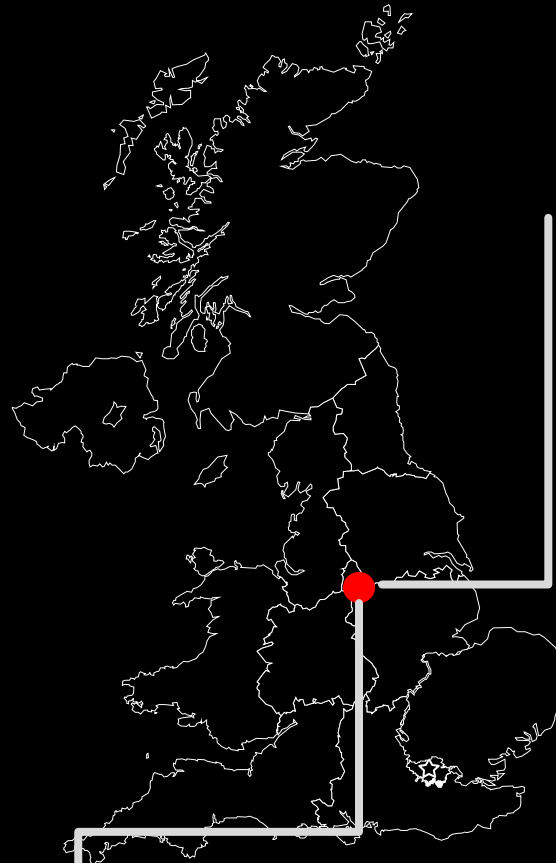


**Real Revenue**  
**+2.5%**  
Year-on-Year



The average number of days it takes to pay an invoice

**29.5 days**



**+16.3%**

**East Midlands**  
Highest 1-Year Profit Growth  
Amongst UK Regions



**Productivity**  
**-4.6%**  
Year-on-Year

**Derby:**  
**+57.4%**

Highest 2-Year Revenue Growth  
Amongst Urban Areas



**Real Expenditure**  
**increase** in  
Q3 2025.



Source: Insights from 140,000 UK SMBs

# TABLE OF CONTENTS

-  **1:** Headline Findings
-  **2:** Prices
-  **3:** Resilience
-  **4:** Growth
-  **5:** Profitability
-  **6:** Deep dive – North East
-  **7:** Methodology



# Headline Findings

## Quarterly Summary.

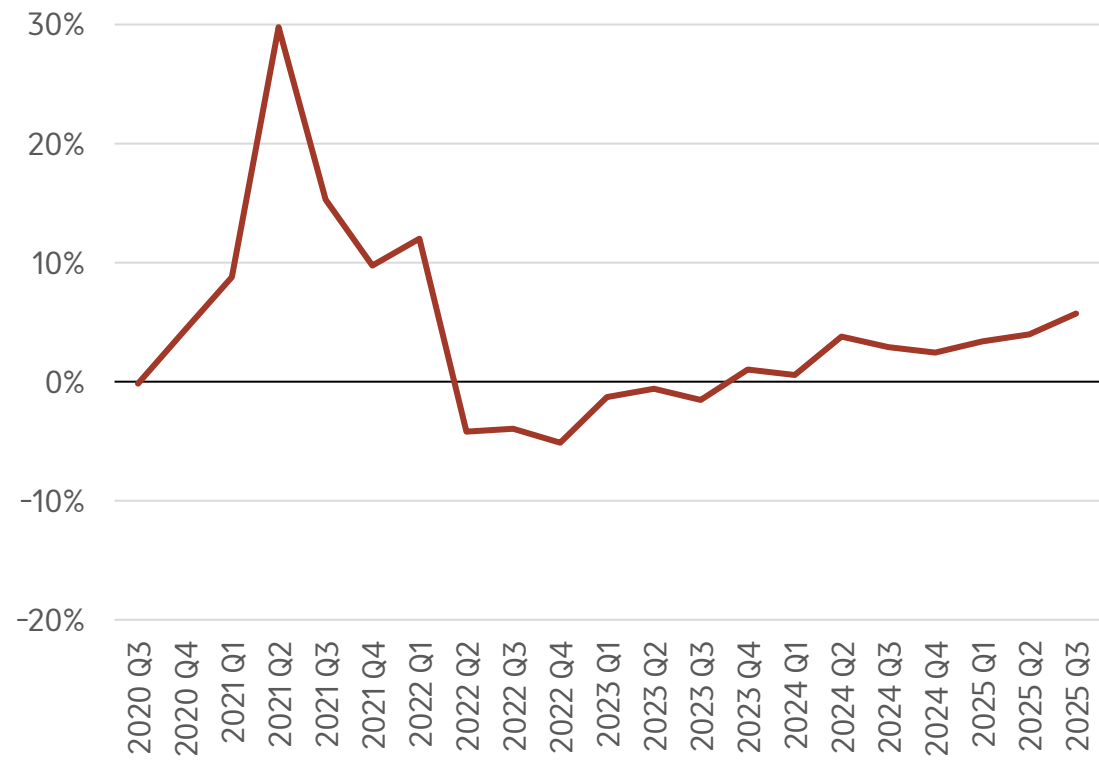
The latest Sage Small Business Tracker shows that small businesses continue to find profitability gains, aided by rising revenues, which outpaced expenditures. The wider UK economy grew 1.3% year-on-year in Q3, easing slightly from 1.4% in the previous quarter. Growth was weighed down by lingering inflation and disruption from a cyber-attack that curtailed car production. Business and consumer sentiment remains fragile, with attention shifting to the Autumn Budget and its policy announcements. Even so, all UK regions posted profit growth, underscoring broad-based resilience.

**FORECAST:** Looking ahead, the UK economy is expected to remain on a modest growth path. Although inflation has likely peaked, interest rates remain restrictive, and a softer labour market continue to drag on consumer confidence and appetite to spend.

- 1 Profits increased again** – Small business profits grew by 5.7% in the year to Q3 2025. This is the third consecutive quarter of accelerating growth and marks the highest pace of growth since Q1 2022.
- 2 Revenues continued to rise** – Real revenues for small businesses rose 2.5% annually in Q3 2025, a sixth consecutive quarter of growth. Revenue resilience has been impressive amidst the prevailing headwinds created by elevated borrowing costs, sticky inflation and struggling confidence.
- 3 Expenditure rose modestly** – Real expenditure for the average small business rose by 0.8% in the year to Q3 2025, equal to the pace in the previous quarter. Expenditures grew more slowly than revenues, allowing profits growth to accelerate. Firms are managing higher labour costs following the April increases to employers' NICs and the National Living Wage. More broadly, wage growth remains elevated, further squeezing the scope for capital investment.
- 4 Despite higher revenues, productivity fell, erasing nearly all the previous quarter's gains** – In Q3 2025, productivity for the average small business fell by 4.6% year-on-year, following a 4.6% increase in Q2 2025.

# Profit growth strengthened in Q3, the highest pace in over three years

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

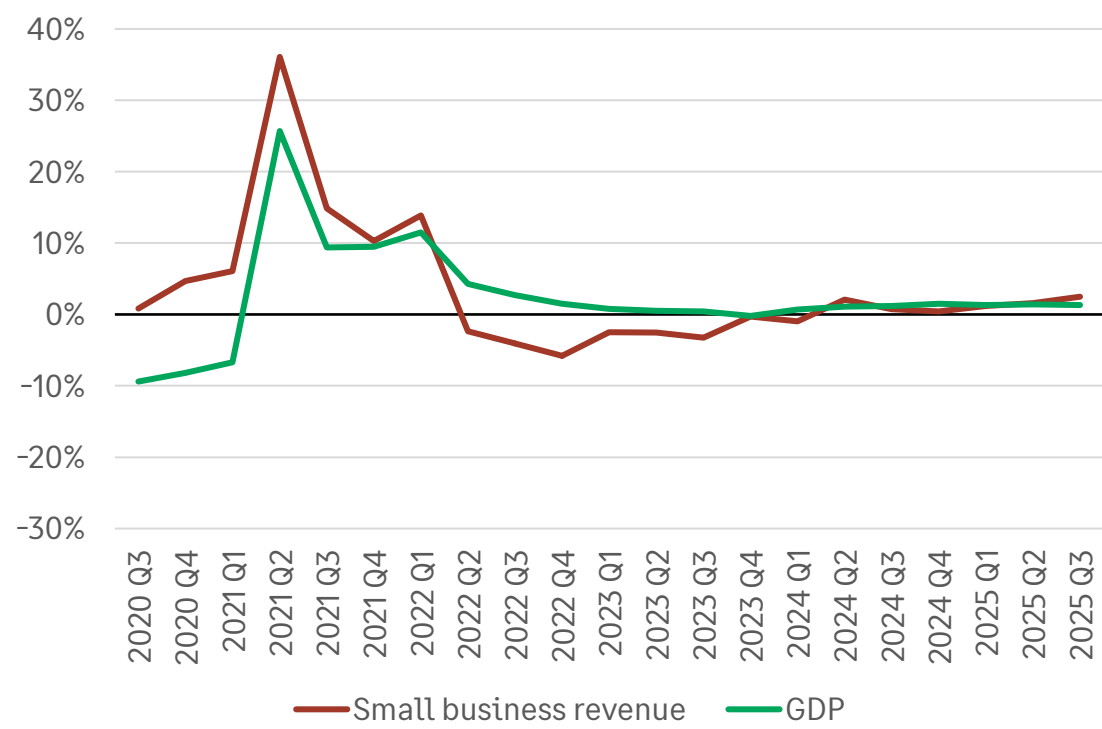


- The Sage Small Business Tracker provides timely insights into the growth of UK small businesses, given that official quarterly estimates of GDP are not broken down by company size.
- Profits grew by 5.7% for the average small business in the year to Q3 2025. This marks an acceleration from 4.0% in previous quarter. This acceleration brings profit growth to the highest level since the first quarter of 2022.
- The growth in small business profit in Q3 2025 was underpinned by rising revenues. Revenue growth outpaced expenditure growth, which held pace with the previous quarter at 0.8% year-on-year.
- Increases to employers’ National Insurance Contributions and the National Living Wage came into effect in the second quarter of the year. Though these changes have created additional costs for small businesses, in turn exerting pressure on margins, robust profit growth in Q3 suggests these costs were offset by savings elsewhere.
- Inflation was unchanged at 3.8% throughout Q3. This is expected to represent a peak with price growth forecast to decelerate over the coming months. Lower inflation set the stage for further rate cuts, easing credit conditions and strengthening investment appetite.



# Revenue growth rises, despite economic slowdown in Q3

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

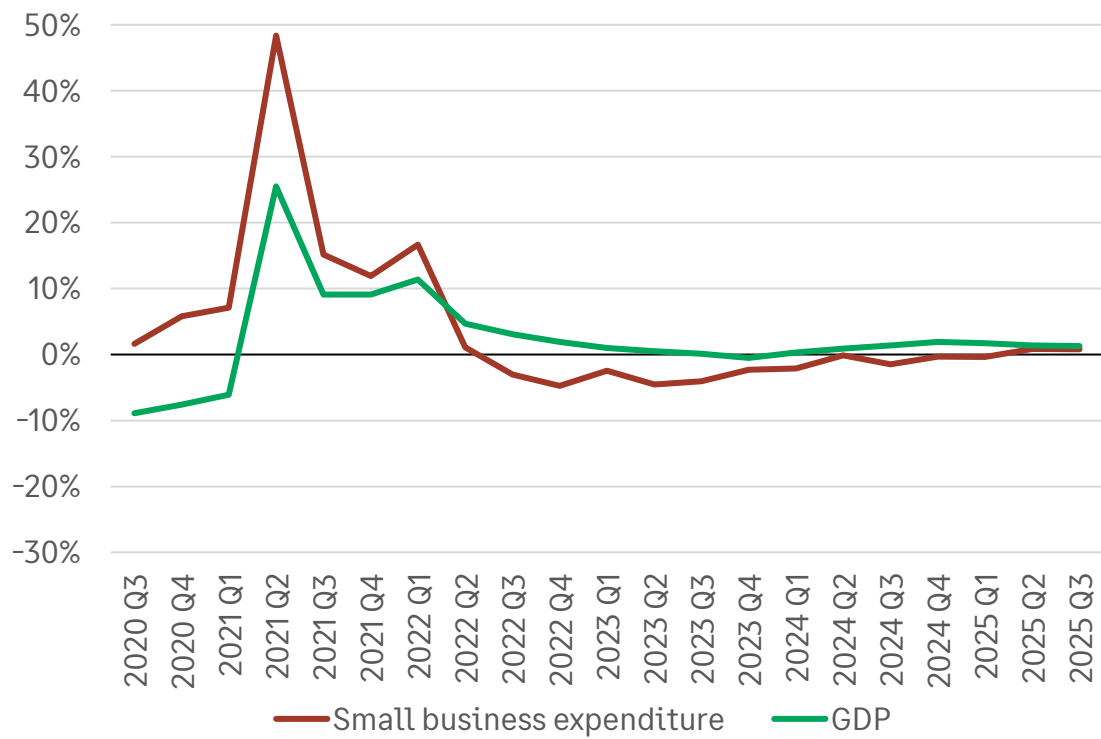


Source: Sage, Smart Data Foundry, ONS, Cebr

- Real revenues for small businesses rose by 2.5% annually in Q3 2025, marking the sixth consecutive quarter of growth.
- Revenues have shown resilience against a backdrop of high uncertainty and struggling consumer and business confidence.
- The latest data from the Office for National Statistics (ONS) indicate that the UK economy expanded by 1.3% year-on-year in Q3 2025.
- Household consumption rose modestly by 0.7% in this period, supported by spending on clothing and footwear and recreation and culture. Retail sales volumes rose by 1.0% year-on-year in Q3 2025, with sales supported by the warm weather.
- A cyber-attack on Jaguar Land Rover triggered a sharp decline in car production in the third quarter, dragging down overall output. However, the slowdown in Q3 cannot be attributed to the attack alone. Broader weakness was evident, with reduced activity in professional, scientific and technical services, as well as in consumer-facing industries.

# Small business expenditures rise, matching the pace of the previous quarter

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

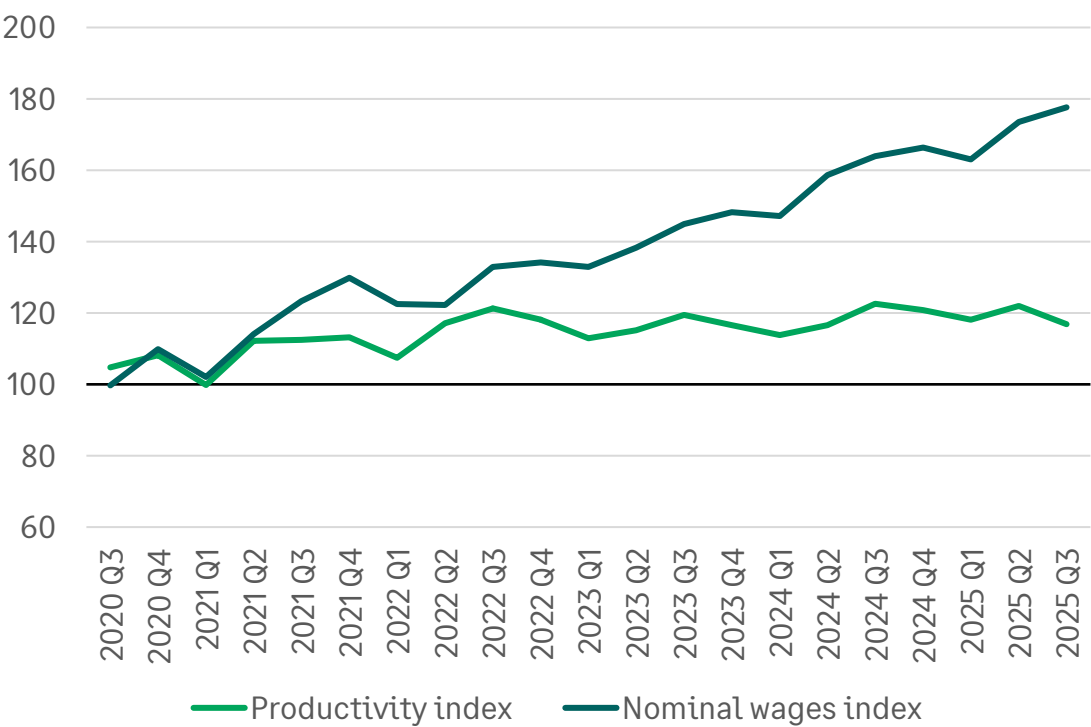


- Real expenditure for the average small business rose by 0.8% in the year to Q3 2025, matching the pace of the previous quarter. The rate of expenditure growth was outpaced by revenue growth resulting in a higher pace of profit growth.
- Real terms spending among small businesses has effectively flatlined over the last few years, with firms wary to invest amid high levels of macroeconomic uncertainty, elevated financing costs, and lingering inflation.
- The ONS has now resumed production of the Producer Price Index (PPI) and Services Producer Price Indices (SPPI). In Q3, the SPPI rose by 2.1% while the input PPI rose by 0.8% in September. Both indices ticked up over the summer a sign of renewed upward pressure on business costs
- Expenditure has remained broadly flat, despite recent increases to employers’ NICs and the National Living Wage, introduced in April, adding to operating costs.
- The outlook, for business expenditure and other variables, will depend on the upcoming Budget, which is expected to provide greater clarity on policy measures. Whether businesses can identify savings elsewhere to manage these cost pressures will also play a role.

Source: Sage, Smart Data Foundry, ONS, Cebr

# Wage growth accelerates in Q3 while productivity declines

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

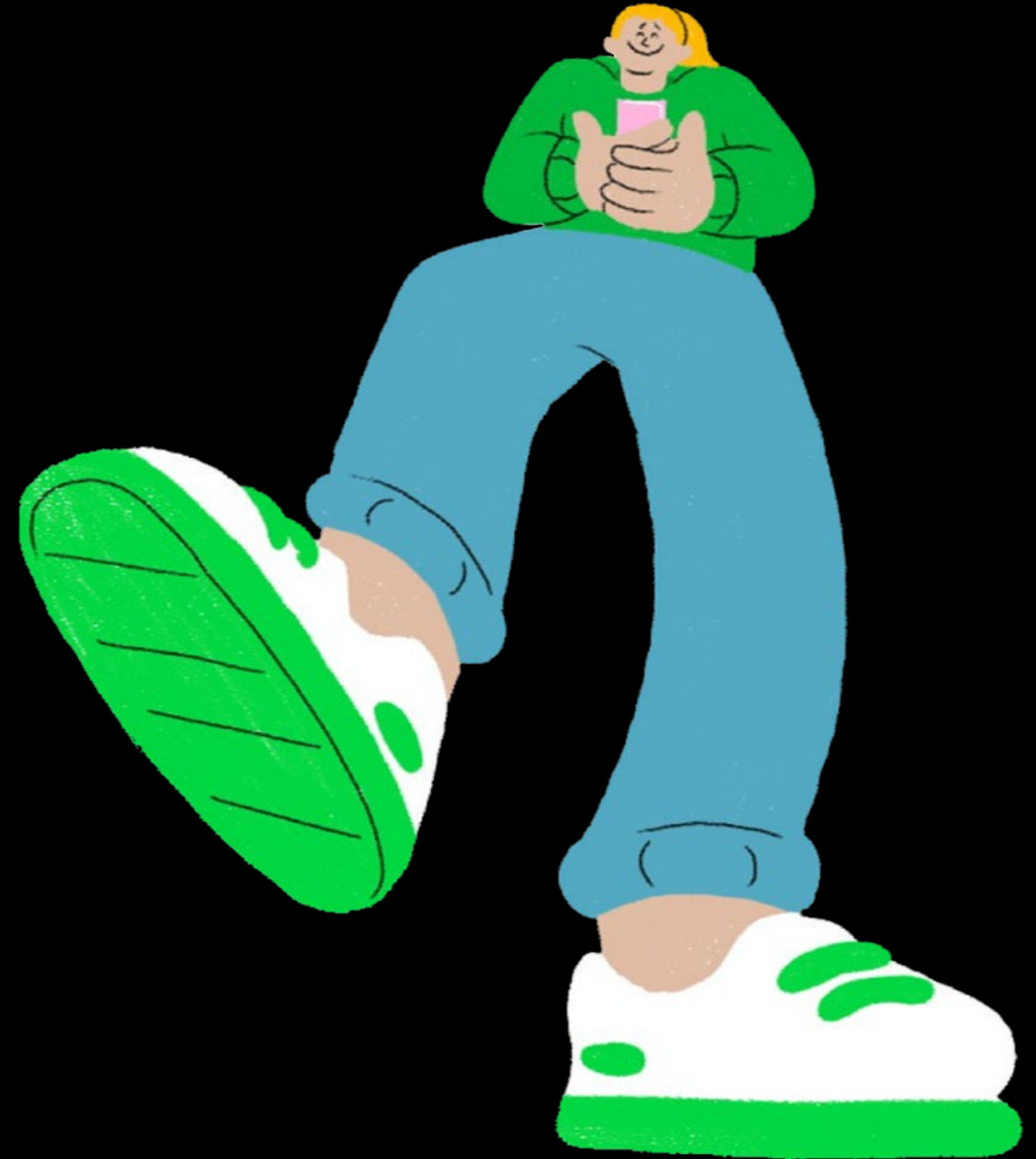


Source: Sage, Smart Data Foundry, ONS, Cebr

- The nominal wage index rose in Q3 2025, building upon the increase in the previous quarter. The annual pace of nominal wage growth dipped to 8.4% this quarter. In real terms, wages grew at 4.4% year-over-year.
- A gradual deceleration in annual pay growth among small businesses tracks ONS data on earnings growth, which has shown a slowdown 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 Q3 2025, productivity for the average small business fell by 4.6% year-on-year, following a 4.6% increase in Q2 2025. This compares with the ONS flash estimate, which found output per worker unchanged on the same period a year ago.
- Prior to Q3, productivity had shown annual growth for six consecutive quarters.
- In Q3, mean headcount increased by 2.1% within the sample. Businesses are showing resilience and maintaining their ability to retain talent despite ongoing economic pressures.

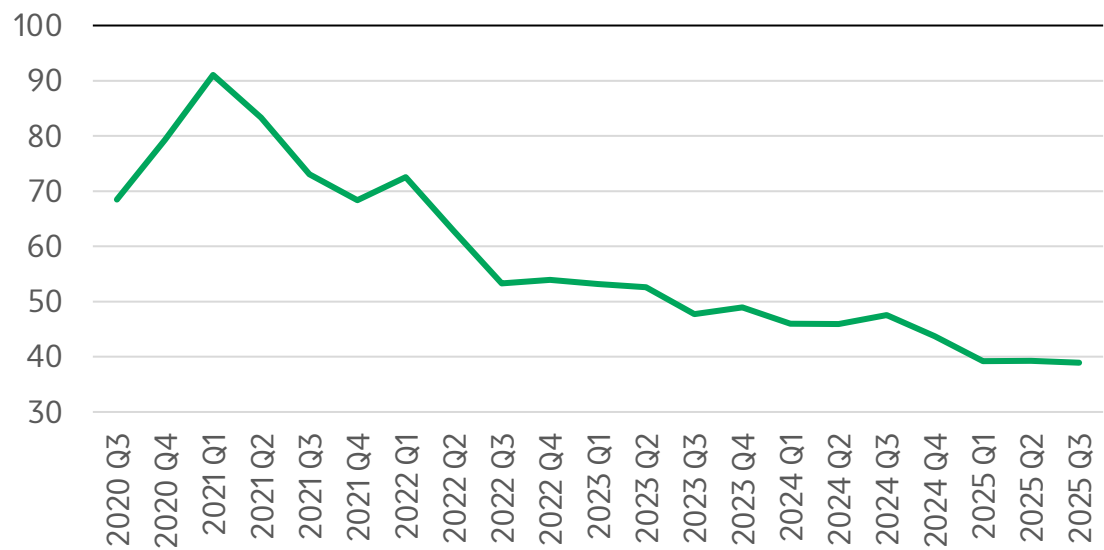


# Sage UK Small Business Tracker: Indicators by key themes



# Prices and spending

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



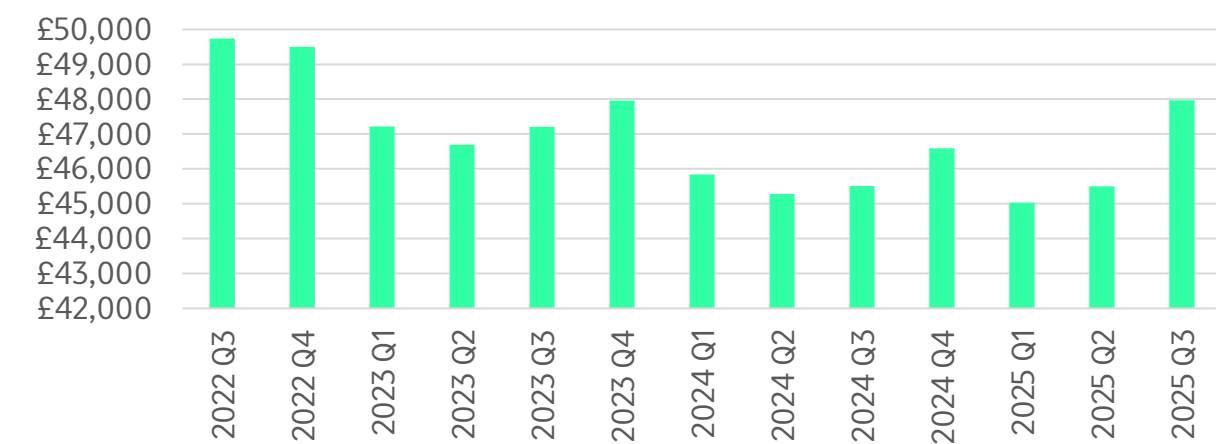
Source: Sage, Smart Data Foundry, ONS, Cebr

Capital expenditure continued to decline, as uncertainty surrounding forthcoming fiscal measures and the trajectory of future rate cuts weighed on investment decisions.

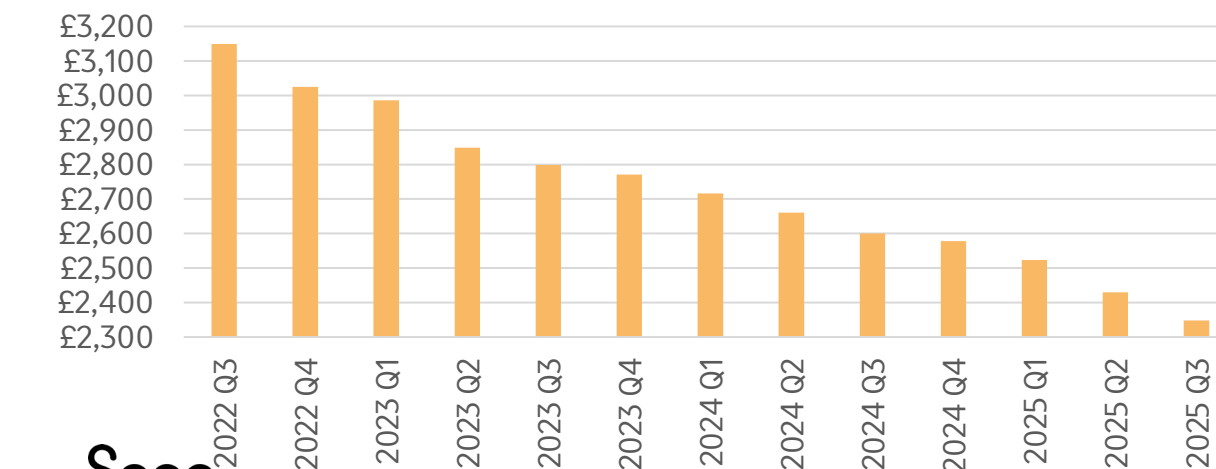
- Small business capital expenditure refers to the acquisition or upgrading of tangible assets, such as equipment or property. It does not include other forms of investment like training and development of staff or many forms of digitisation. In recent years, businesses have shown weaker activity on this measure, having faced a challenging trading environment marked by high inflation, elevated interest rates, and weak economic growth. These trends continued in Q3.
- Capital expenditure fell by 18.1% year-on-year in Q3 2025, following a 14.5% decline in Q2 2025. This marked the 16<sup>th</sup> consecutive quarter of contraction. Low investment appetite among firms is symptomatic of several factors including concerns over future demand and financial constraint in an environment of elevated input and labour cost growth.
- Several factors continue to discourage small businesses from investing in capital expenditure. Uncertainty around potential fiscal measures in the upcoming Budget is prompting firms to take a cautious stance, as many will want clarity on how any new policies may affect their costs before committing to investment. At the same time, elevated energy and labour costs have eroded the financial capacity for capital spending. And with only a single Bank of England rate cut during the quarter, monetary easing provided too little incentive to spur 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)

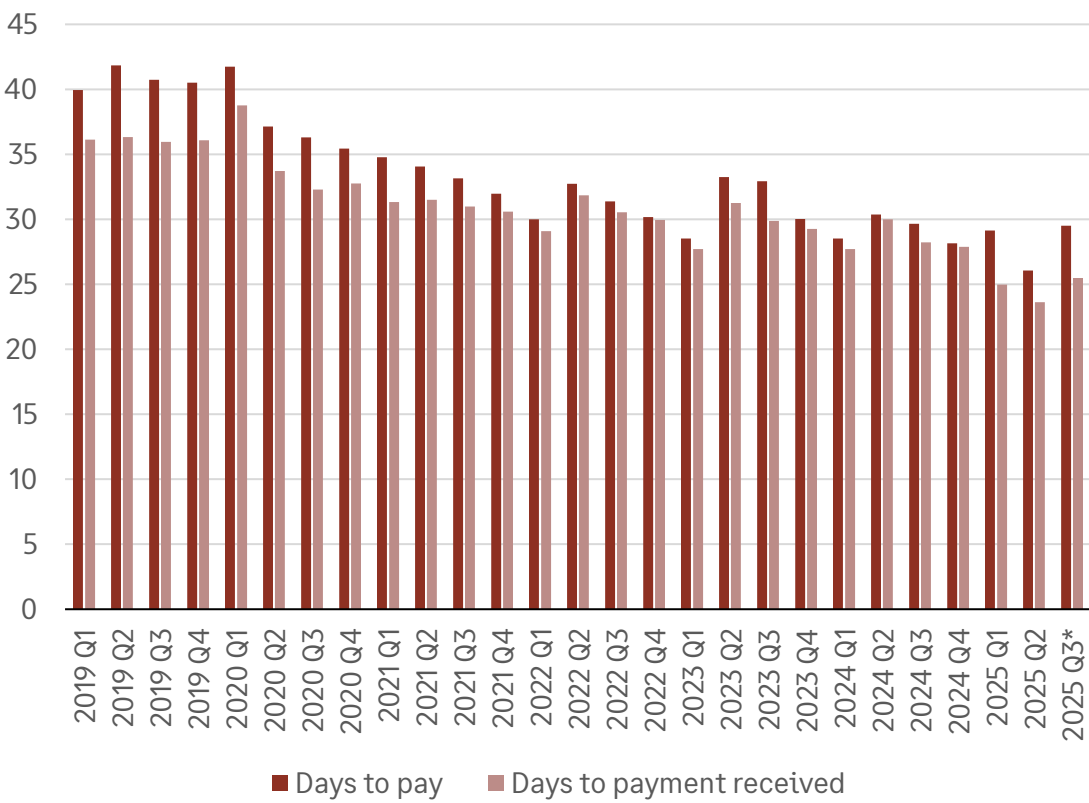


Cash balances continued to growth in Q3, but debt positions narrowed amidst restrictive interest rate environment

- 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 continued to grow in Q3. Year-on-year growth improved, accelerating to 5.4%, from 0.5% 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 Q3, as it has done for the entirety of the last three years. Real debt balances were down 9.7% in Q3, the sharpest annual decline in two years.
- Despite a further cut in Q3, 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

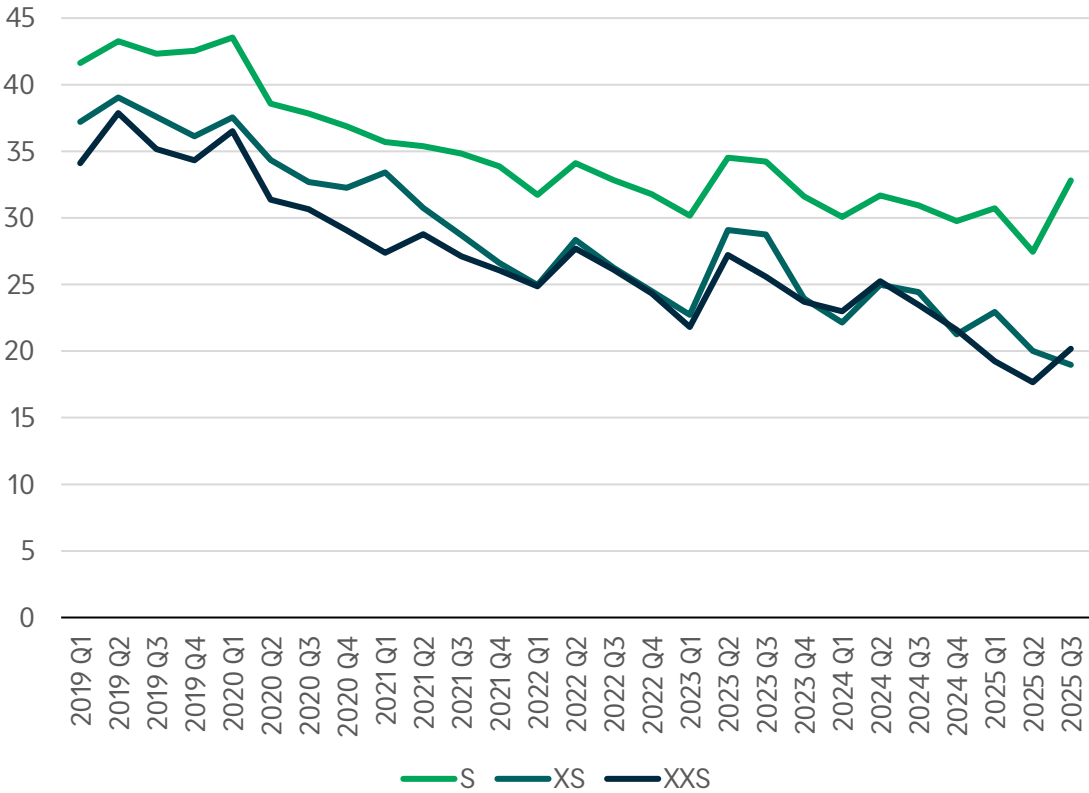


Data show there was an increase in both the days to pay or be paid in Q3 2025, compared to the previous quarter.

- Small businesses, on average, received payment on invoices after 25.5 days, down from 28.2 days in the same quarter a year prior.
- Meanwhile, the average number of days small businesses took to pay an invoice was 29.5 in Q3 2025. This marked a increase from the 28.2 days averaged in Q3 2024.
- While the latest figures show an increase in the time taken to pay or receive an invoice in Q3, payment times remain broadly stable. 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.
- Paying invoices promptly helps businesses maintain steady cash flow, preserve strong supplier relationships, avoid penalty charges, and establish a reliable credit profile. As inflation cools and the economic outlook becomes more stable, small firms will find it easier to keep their finances on track and position themselves to pursue new 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

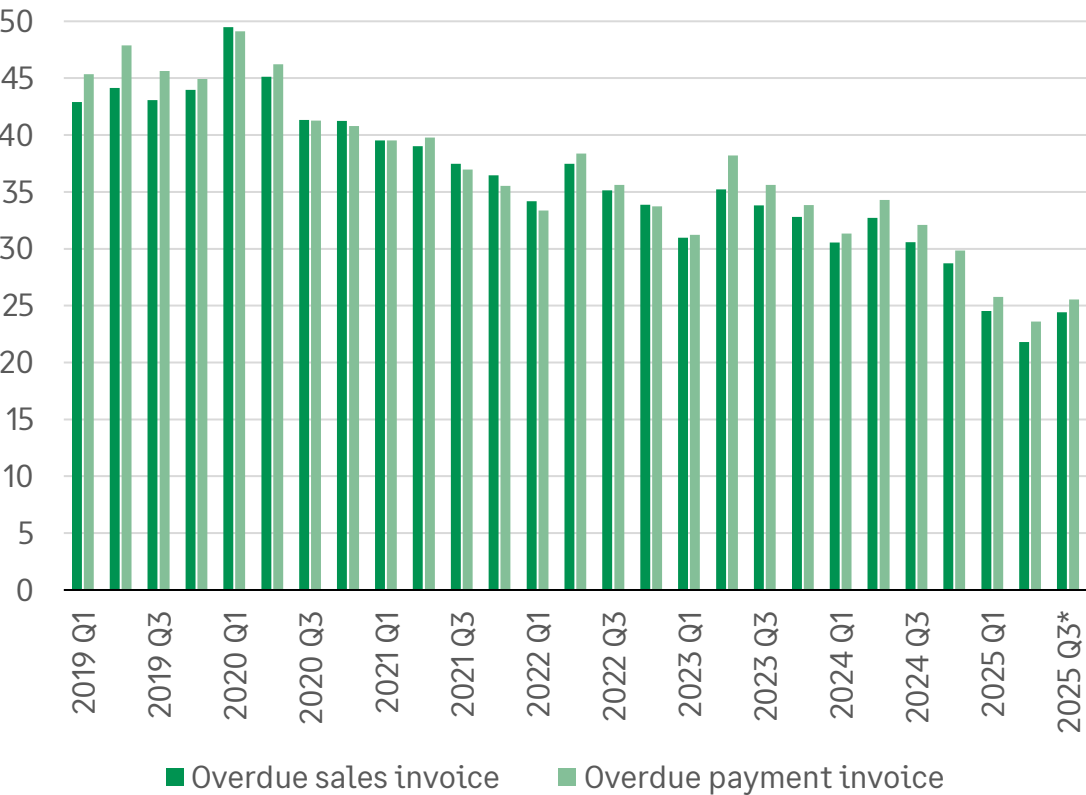


Among small and nano businesses, the average time taken to pay an invoice rose this quarter, while the number fell among extra-small businesses .

- The average extra-small (XS) business took 19.0 days to pay an invoice in Q3 2025, down from 24.4 days in the same quarter a year prior.
- Meanwhile, nano business (XXS) took an average of 20.2 days to pay an invoice in Q3 2025. This marks an improvement from the 23.5 days recorded in the same quarter a year earlier.
- The small (S) grouping of businesses averaged 32.8 days to pay in Q3 2025, up from 30.9 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 Q3

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



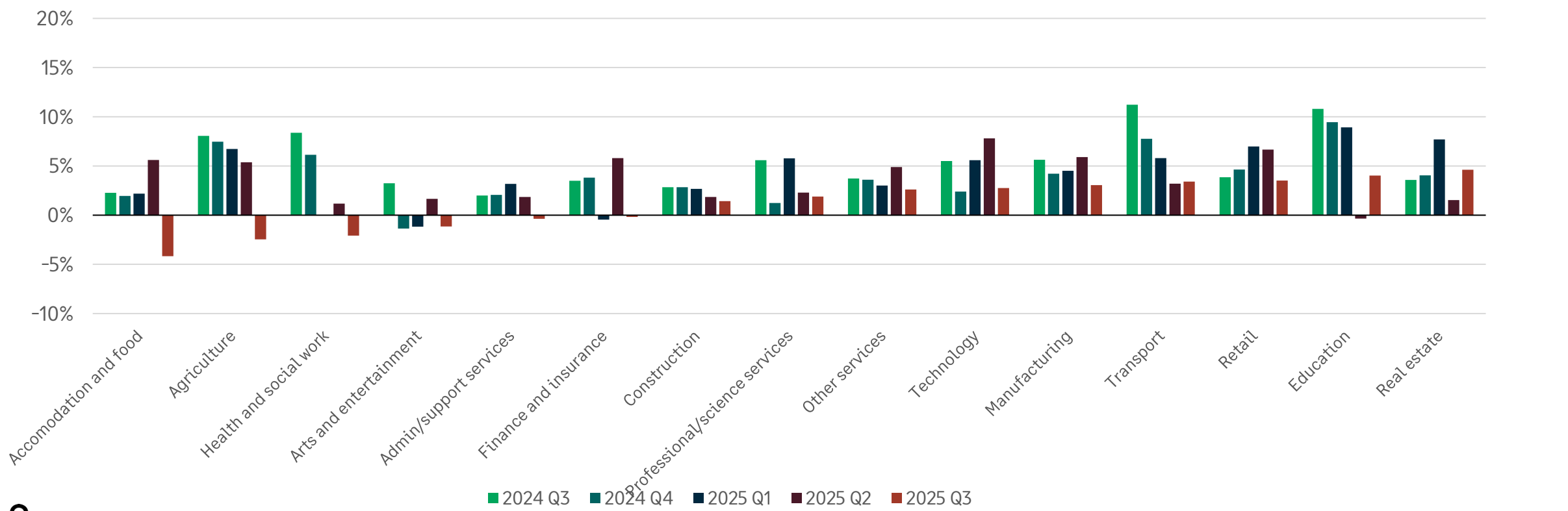
Small businesses saw overdue invoice payment times increase for the first time in over a year. However, the average time taken to pay an invoice remained substantially lower than pre-pandemic levels.

- Preliminary estimates suggest that the average number of days for small businesses to be paid a sales invoice once it was overdue in was 24.4 days. This marks a slowdown from an average of 21.8 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 46.3% in Q3 2025. This is slightly above the average of 44.8% since 2021, where the share of late invoices has remained notably elevated.

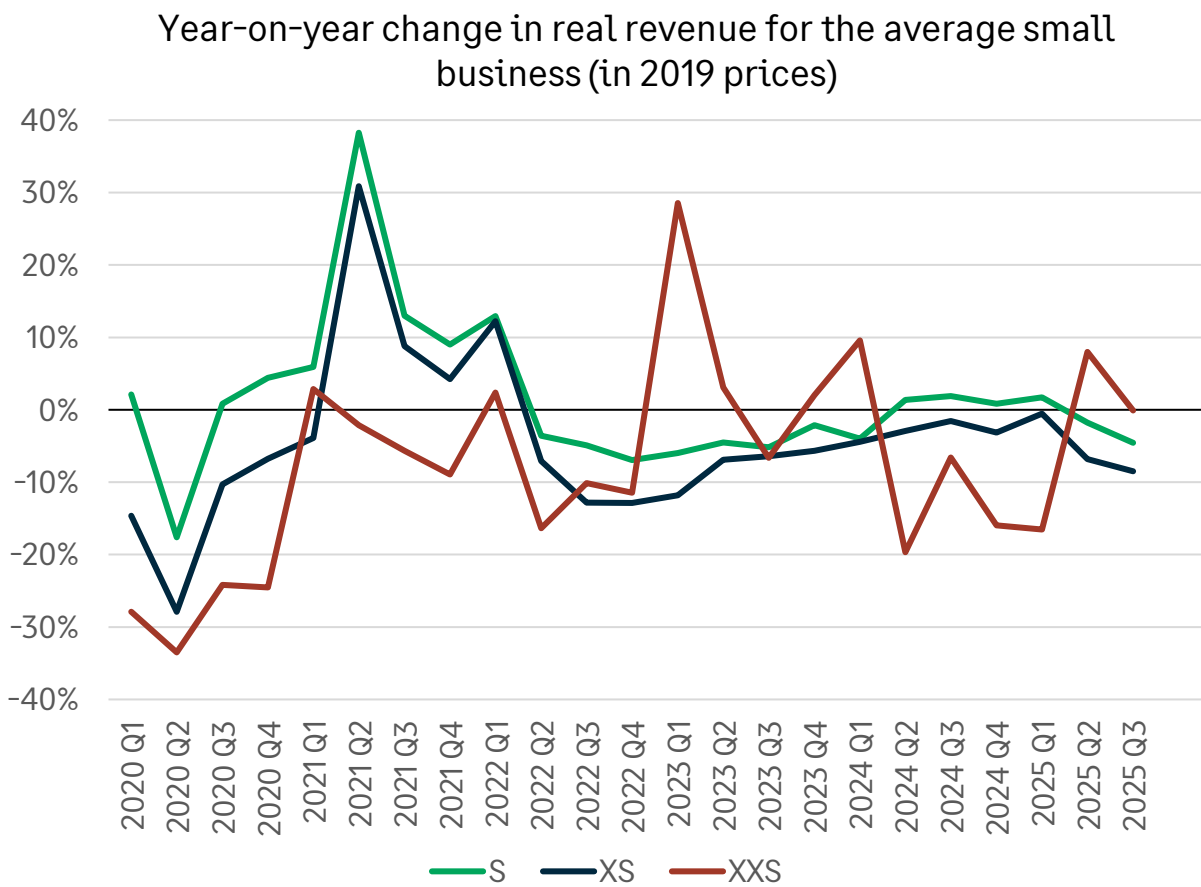


# Deep dive - annual change in revenue by industry

- The accommodation and food services sector experienced a 4.2% decline in revenue in the year to Q3 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 agriculture, health and social work, arts and entertainment and admin/support services.
- Real estate recorded the strongest growth over the 12 months to Q3 2025, with revenue up 4.6%. While residential activity remains below historical norms, the sector shows early signs of recovery, supported in part by the commercial real estate segment.



# Deep dive – revenue growth by business size



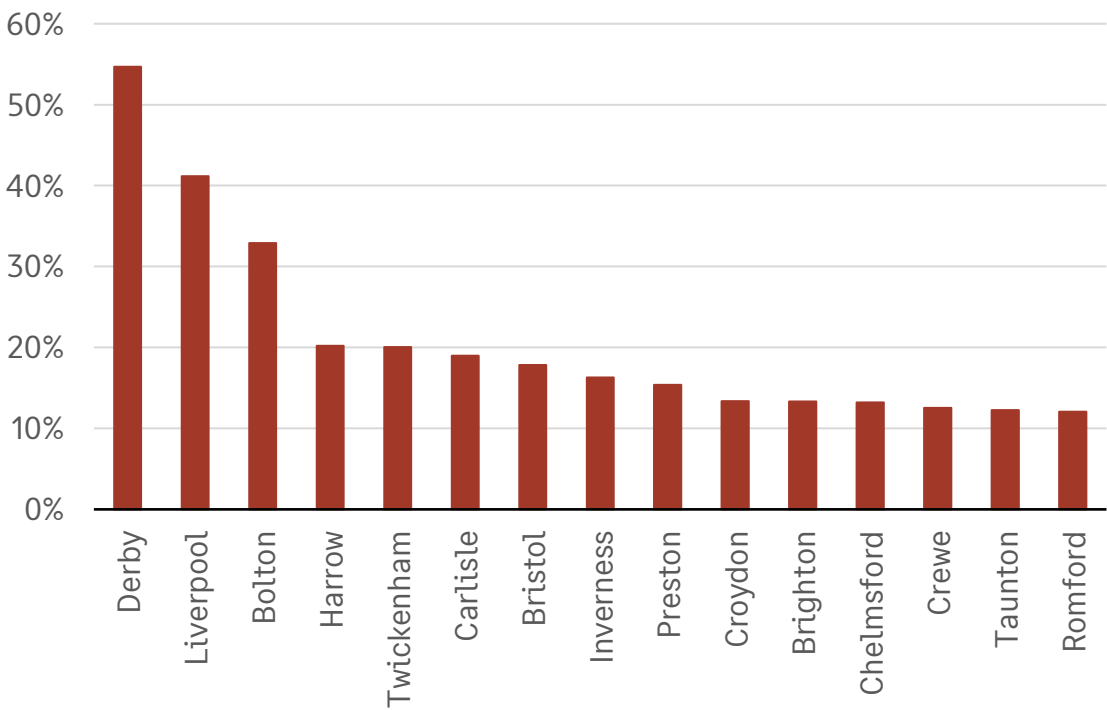
Revenue growth among nano-businesses turned slightly negative, while small and extra-small businesses continued to experience declines.

- 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.
- After a strong increase in the previous quarter, nano-businesses (XXS) saw a dip in revenue in Q3, bringing year-on-year growth to -0.1%. Real revenues among extra-small businesses were 8.5% smaller than a year ago. Year-on-year revenues have now contracted for two consecutive quarters among small and extra small businesses.
- Small businesses also recorded a decline in revenue in the year to Q3 2025, amounting to 4.6%.

Source: Sage, Smart Data Foundry, ONS, Cebr

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

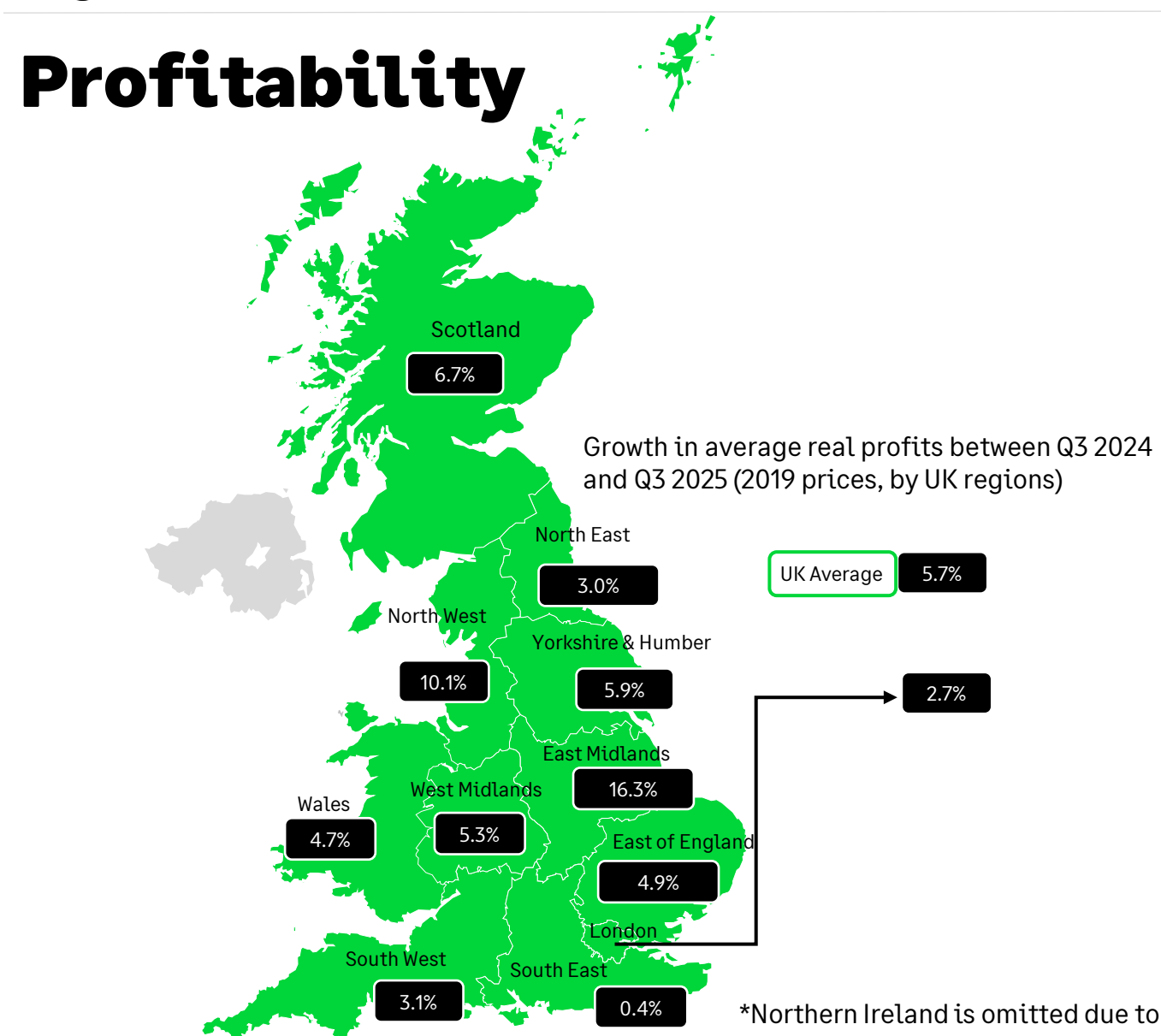
Growth in average business revenue between Q3 2023 and Q3 2025 (2019 prices, top 15 urban areas)



Minimum sample size: 1,200 businesses  
Source: Sage, Smart Data Foundry, ONS, Cebr

Over the two years between Q3 2023 and Q3 2025, there were considerable disparities between regions. From over 100 areas across the UK, 71% saw average small business revenue increase.

- At the urban area level, Derby took the top spot with the strongest average revenue growth at 54.7% over the two years to Q3 2025. Liverpool, which topped the list last quarter, had the second-highest growth at 41.2%.
- In Q3, four of the 15 fastest-growing areas were in the North West, four were in London and two were in the South West.
- In contrast to the high-performing urban areas, several locations in Wales and the West Midlands underperformed in the two years to Q3 2025. Newport recorded the steepest decline, with revenues down 42.1%, while Hereford and Stoke-on-Trent saw contractions of 39.0% and 18.5% respectively



The average small business saw profits rise by 5.7% in the year to Q3 2025, with the East Midlands 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 Q3 2025, Sage data show that the average small business saw profits rise by 5.7%, an acceleration from 4.0% last quarter. This marked an eighth consecutive quarter of growth.
- The East Midlands led the way with an annual increase of 16.3%. The North West also performed strongly, with growth of 10.1%.
- While all regions recorded positive profit growth, growth in the South East was the weakest, at an annual pace of just 0.4%. Below average growth was also recorded in London, the South West, the North East, Wales and the West Midlands.

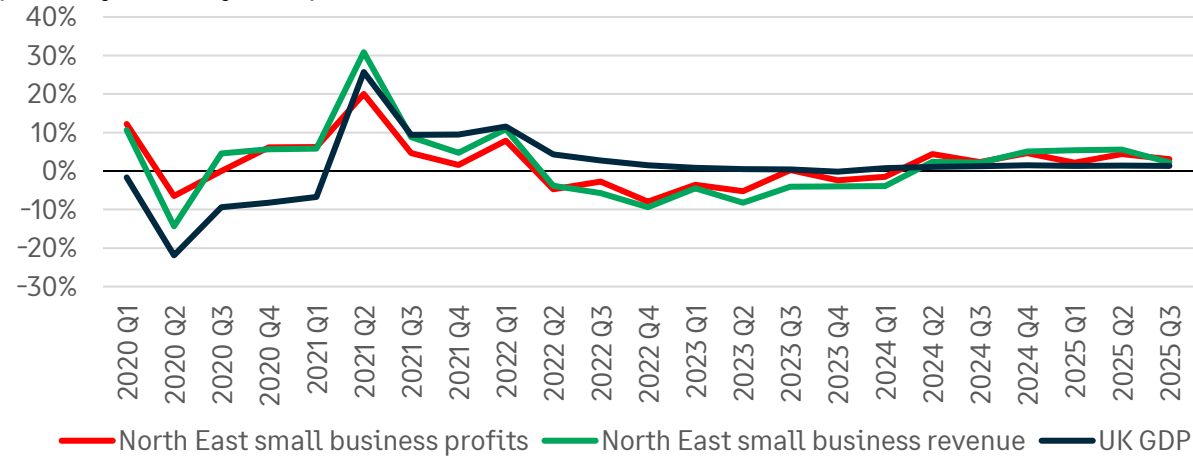
\*Northern Ireland is omitted due to sample size

Source: Sage, Smart Data Foundry, ONS, Cebr

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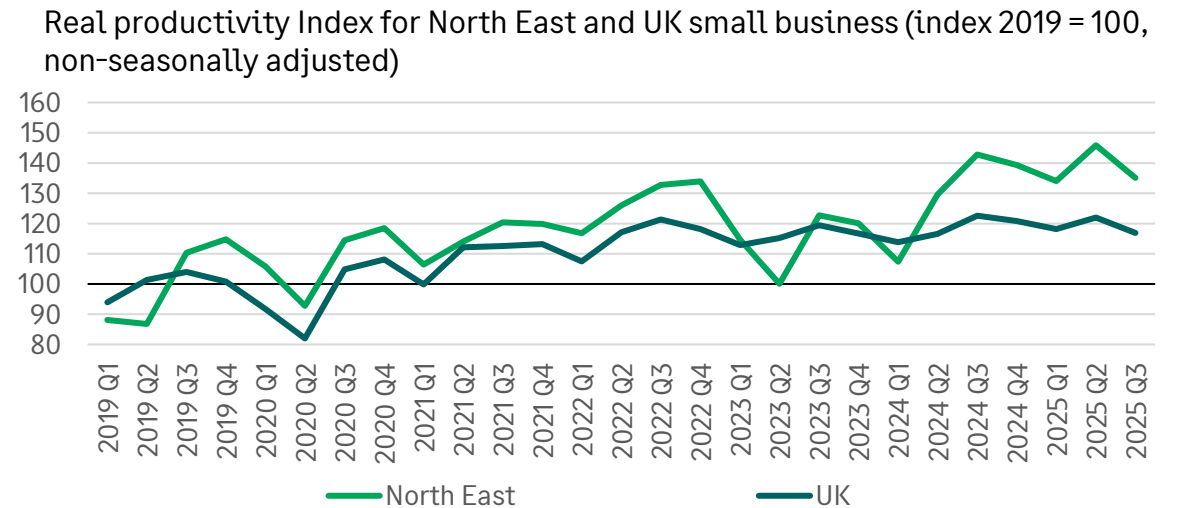
# Deep dive – North East

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



In the year to Q3 2025, the average small business in the North East saw real revenue growth of 2.2%, while profits rose by 3.0%

- Both revenue and profit growth in the North East were weaker than the UK-wide average this quarter.
- Notably, real wage growth was stronger in the North East than UK-wide in Q3, at 10.9% and 4.4%, respectively. This likely reflects the North East’s industry composition, with a disproportionate share of workers at the lower end of the pay scale, who will have been more likely affected by the recent change to the National Living Wage.
- Productivity, measured as revenue per employee, fell in Q3 offsetting the rise in the previous quarter. The decline in productivity, 5.4% year-on-year, was more pronounced than that recorded at the national level.



# 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 Q3 2025, our sample was 140,496, 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 <sup>1</sup>	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 services<sup>1</sup>

**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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