

E-book

Sage SME Pulse

Sage SME Performance Pulse

January-March 2026

Sage



In partnership with:

▲ SMART DATA
▣ FOUNDRY



UK SMBs showed robust profit growth in Q1 2026, driven by rising margins and revenues.

Profit Growth

+7.4%

Year-on-Year

Productivity

-3.0%

Year-on-Year

Real Revenue

+3.2%

Year-on-Year

Real Expenditure

+1.6%

increase in Q1 2026

East Midlands

+20.2%

Highest 1-Year profit growth of all UK Regions

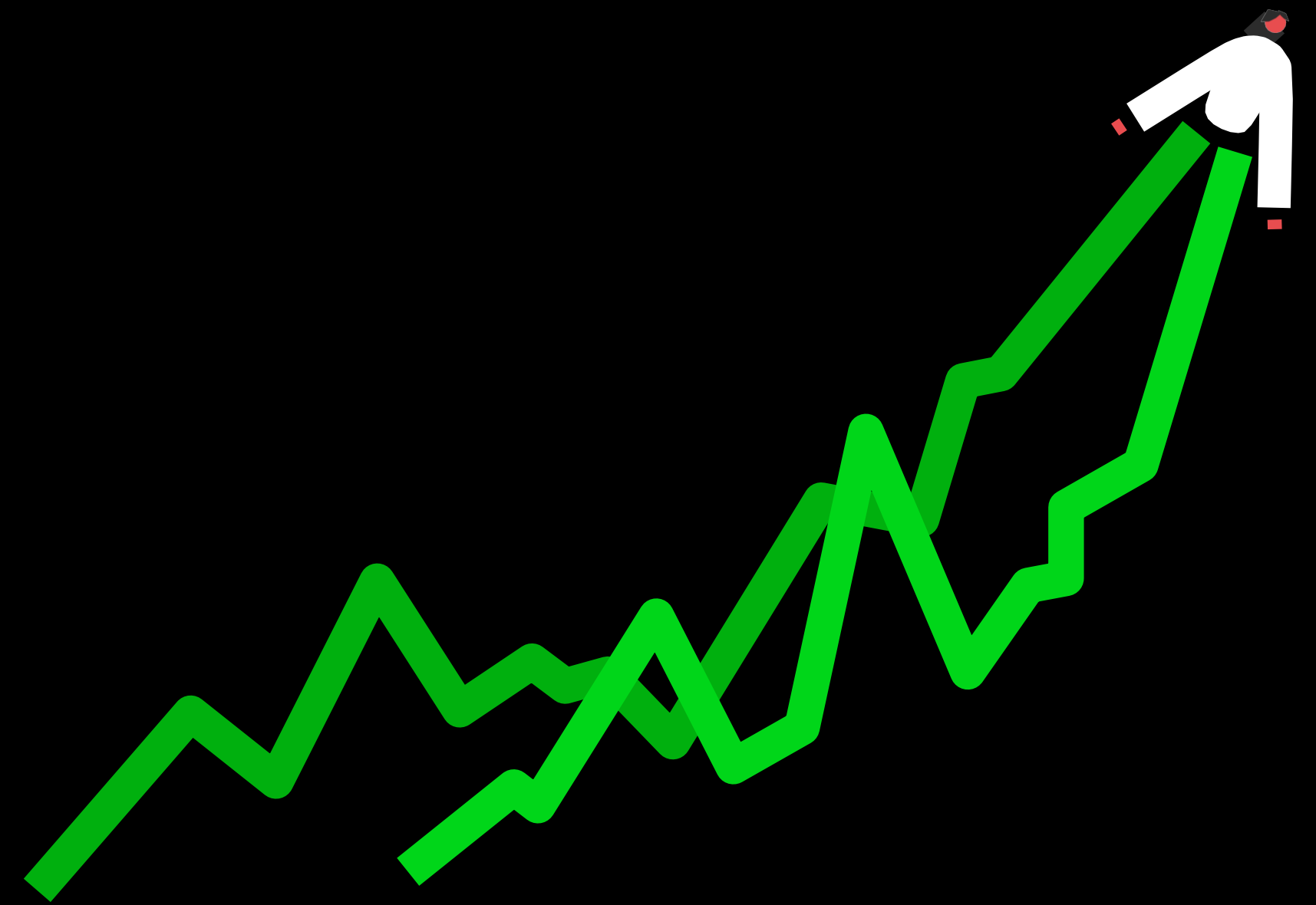
Derby

+43.6%

Highest 2-Year revenue growth of all urban areas

26.2 days

The average number of days it takes to pay an invoice



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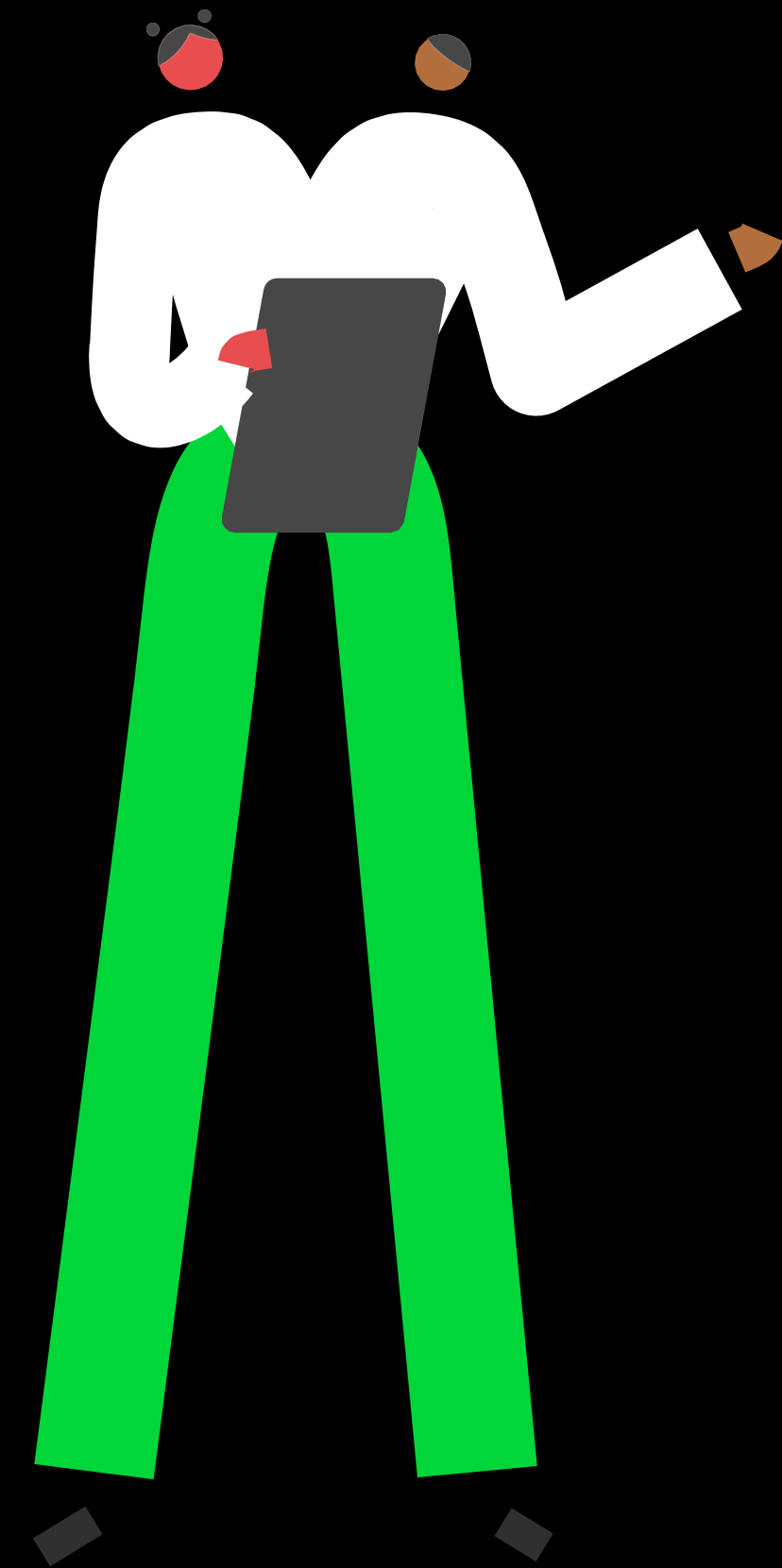
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01 Headline Findings

Headline Findings

Quarterly Summary

The latest Sage SME Performance Pulse showed robust performances for profits and growth, though this was combined with a weaker performance among indicators such as productivity. Expenditure growth decelerated more than revenue growth, leading to a strong performance for small business profits. The UK economy grew by an estimated **1.1%** year-on-year in Q1 2026, an increase in pace from the **1.0%** growth seen in Q4 2025. The latest quarter also saw the effects of rising global energy prices begin to feed through to the UK economy, though the full effects of this shock has not fully emerged.

Forecast

Looking ahead, the UK economy is expected to remain subdued as rising energy prices feed through into higher business costs and household bills, weighing on consumer spending and wider economic activity. Inflation is also expected to remain above target for longer, delaying monetary easing, which combined with lingering uncertainty is will act as a headwind to investment over the coming year. A deceleration in wage growth is expected to ease the burden on businesses by lowering labour costs.

01

Profits grew robustly

Small business profits grew by **7.4%** in the year to Q1 2026. This marks the highest rate of growth in four years.

02

Revenues rose

Real revenues for small businesses in the sample grew by 3.2% year-on-year in Q1 2026. This marks the fourth consecutive quarter of positive yearly growth, but a moderation from the 4.4% revenue growth recorded in the previous quarter.

03

Expenditure growth decelerated

Real expenditures among small business grew by just **1.6%** year-on-year in Q1 2026, down from 4.8% growth in the previous quarter. Lower expenditure growth than revenue growth helped support the positive result for profits over the quarter.

04

Productivity declined and wage growth moderated

Productivity for the average small business in the sample fell by **3.0%** in Q1 2026, down from **1.8%** growth in the previous quarter. Meanwhile, wage growth moderated.

Profit growth remains strong in Q1 2026

- The Sage SME Performance Pulse 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 **7.4%** for the average small business in the year to Q1 2026, up from **5.5%** the previous quarter. Profit growth has accelerated consistently over the past few quarters, currently standing at its highest level since early 2022.
- While Q1 saw the beginning of the Middle East conflict, which caused energy prices to surge, the full impact of this shock continues to emerge. The government published the Spring Statement in Q1, which was largely as anticipated and did not lead to major economic repercussions.
- Annual inflation rose to 3.3% in March 2026 before easing to 2.8% in April. However, the decline was largely driven by the lower Q2 energy price cap, which had been set prior to the recent increase in global energy prices. With the cap expected to recalibrate in Q3, upward movement in inflation is anticipated with the rate of price growth remaining solidly above target through 2026 and delaying the pace of monetary easing.

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



Profits grew

+7.4%

Q1 2026

VS

Profits grew

+5.5%

Q4 2025

Revenue growth moderates but remains robust in Q1

- Real revenues for small businesses rose by **3.2%** annually in Q1 2026.
- Although this represents a decline from **4.4%** growth in Q1 2025, revenue growth remains notably resilient given the deteriorating macroeconomic outlook.
- The latest release from the Office for National Statistics (ONS) shows that the UK economy expanded by **0.6%** quarter-on-quarter in Q1 2026, up from a revised growth rate of **0.2%** in Q4 2025. The greatest contributor to growth was the services sector, although the construction and manufacturing sectors also featured quarter-on-quarter growth in Q1.
- Cebr expects annual growth in real household consumption to stand at **0.6%** in Q1 2026, up from 0.4% the previous quarter. Cebr expects real consumption growth to accelerate somewhat over the remainder of 2026, yet the growing impact of the Middle Eastern energy shock creates substantial uncertainty around this variable.
- Looking ahead, the outlook for household consumption, a key source of demand, will play an important role in shaping business revenues and broader confidence, influencing firms' hiring and investment decisions.

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



Key: ● GDP ● Small business revenue

Real Revenue

+3.2%

Year-on-Year

UK Economy

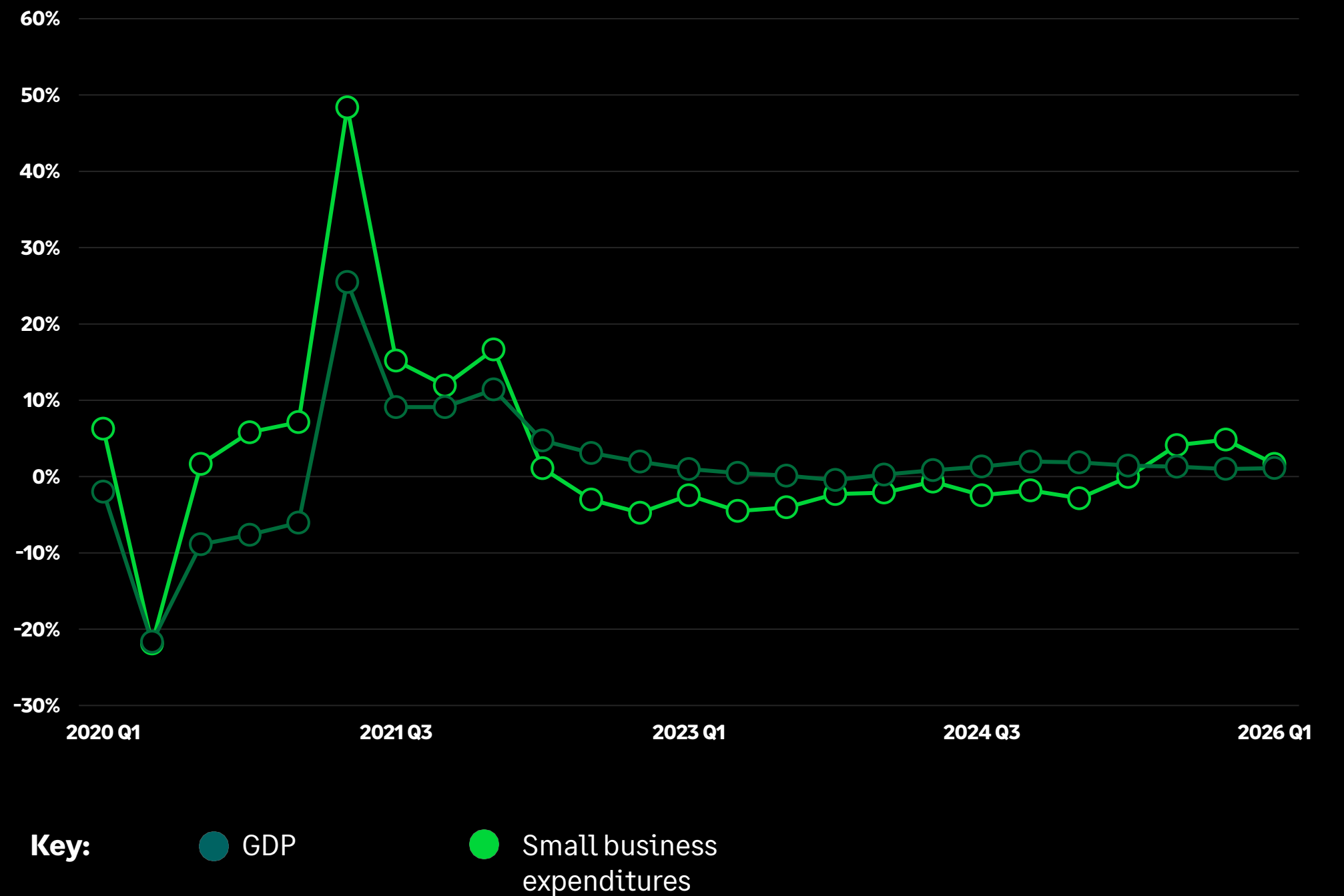
+0.6%

Quarter-on-Quarter

Small business expenditures decelerate in Q1

- Real expenditure for the average small business grew by **1.6%** in the year to Q1 2026, a moderation from the **4.8%** growth seen the previous quarter. Revenue growth remained higher in Q1, supporting strong profit growth.
- The outlook for real expenditure growth is likely to continue declining over the months ahead as the effects of higher energy prices continue to feed through and raise company input costs. Higher energy prices will also place upward pressure on inflation in 2026, delaying the pace at which monetary policy eases. This means borrowing costs are likely to remain elevated relative to what was expected before the Middle East conflict.
- The latest ONS data suggest that input cost pressures are rapidly rising for businesses. The Producer Price Index (PPI) rose by **5.4%** in the year to March 2026, up from a revised **0.7%** in February. Meanwhile, the Services Producer Price Indices (SPPI) rose by **3.0%** in the year to Q1 2026, up from a revised **2.8%** in Q4 2025.
- The overall outlook for 2026 remains weak, with Cebr forecasting GDP growth of just **0.9%** in 2026.

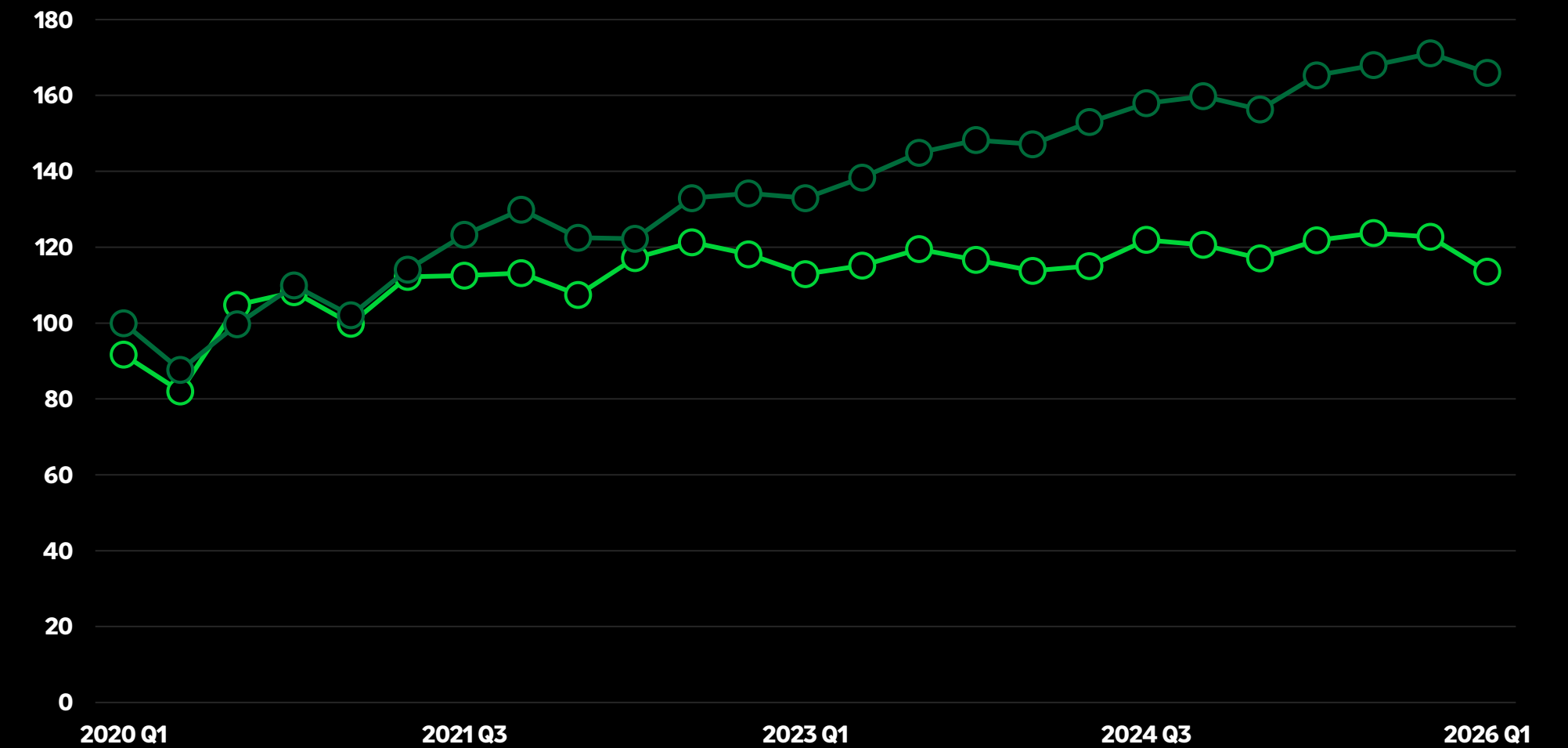
Expenditure growth for the average small business and UK GDP
(2019 prices, year-on-year %)



Wage growth moderates in Q1 as productivity declines

- The nominal wage index grew by a robust **6.2%** year-on-year in Q1 2026, down from the **7.1%** growth experienced in Q4 2025. In real terms, wages grew by 2.8% in the latest quarter, down from 3.6% the previous quarter.
- Productivity in our large sample of small businesses is measured by the mean ratio of revenue divided by the number of employees.
- In Q1 2026, average productivity declined by **3.0%** year-on-year in real terms, following growth of **1.8%** the previous quarter.
- The decline in productivity outpaced that experienced by the economy as a whole, with the latest ONS flash estimate estimating that output per worker fell by **0.1%** year-on-year in Q1 2026.

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



Key: ● Productivity index ● Nominal wages index

Real wage growth

+2.8%

Q1 2026

vs

Real wage growth

+3.6%

Q4 2025

Sage SME
Performance Pulse:
Indicators by
key themes





02
Prices

Prices and spending

Capital expenditure was strong in Q1, but remains highly volatile

- 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.
- Business investment remained volatile in Q1 2026, with capital expenditure rising by 24.7% year-on-year following a 16.9% decline in Q4 2025. While this marks a notable rebound, the measure remains highly variable and should be interpreted with caution.
- Uncertainty continues to weigh on investment decisions, with firms still facing a challenging trading environment characterised by weak demand, elevated labour costs, and ongoing geopolitical and economic risks. Uncertainty over a protracted conflict in the Middle East and energy supply continues to weigh on business confidence and limit appetite for major capital spending commitments.
- Renewed inflationary pressures are also likely to delay the pace of monetary easing that had previously been expected in 2026. As a result, borrowing conditions may remain restrictive for longer, acting as a headwind to business and further weighing on the willingness to commit to larger capital expenditure projects.

Capital expenditure

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



Capital expenditure

24.7%

Q1 2026

vs

Capital expenditure

-16.9%

Q4 2025



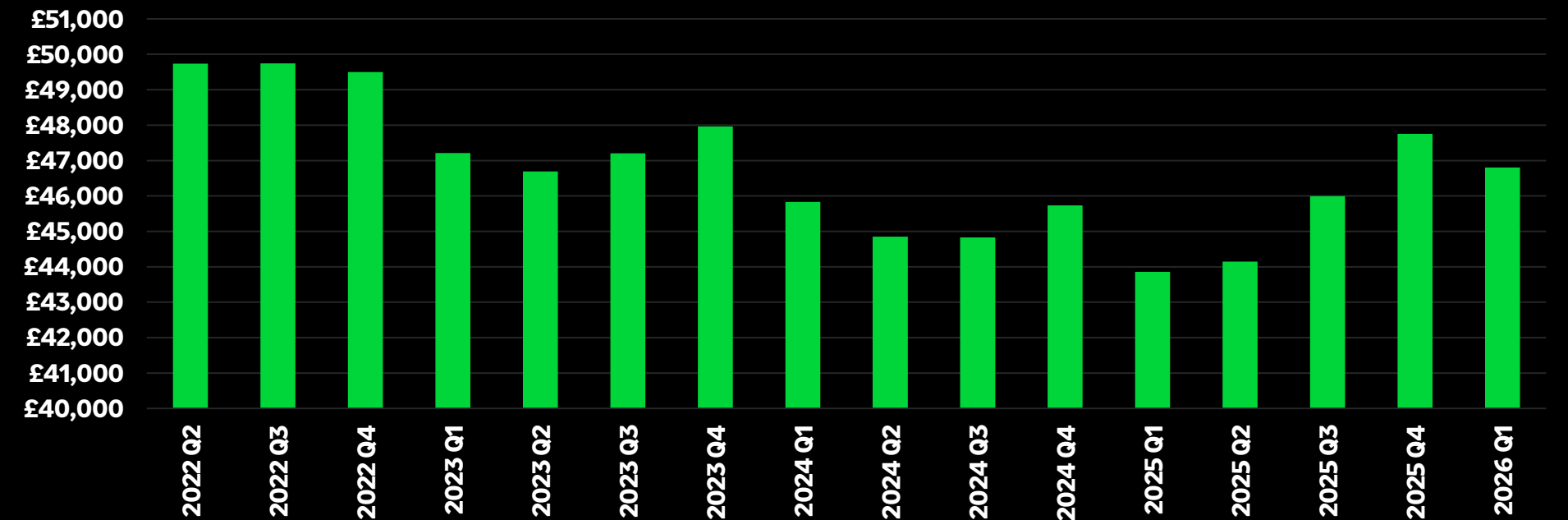
03
Resilience

Resilience: cash and debt

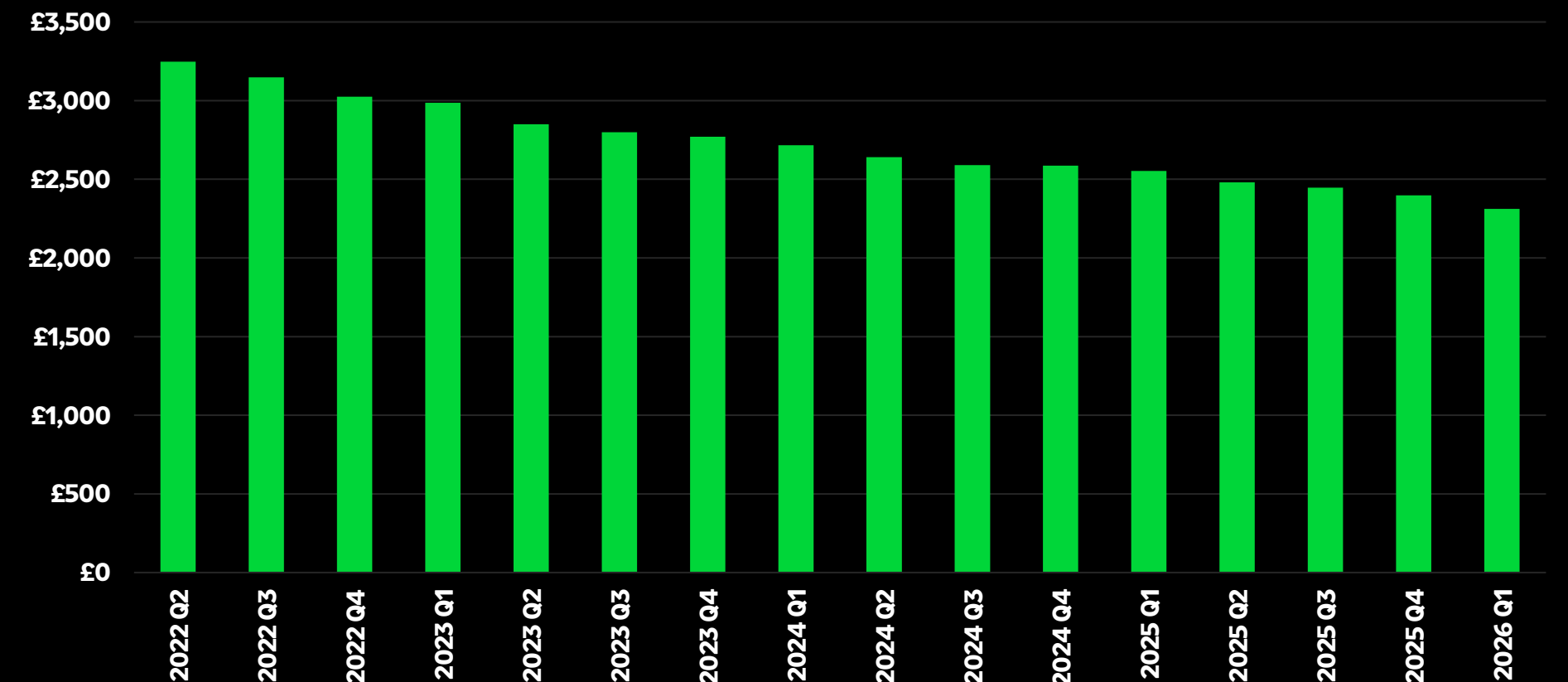
Both cash balances and debt positions declined in Q1 relative to the previous quarter, though real cash balances remained above their level a year prior.

- 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. As of Q1 2026, continually elevated interest rates continue to create a strong incentive for small businesses to hold cash reserves, though rising input costs will challenge firms' ability to do so.
- Cash balances among small businesses grew year-on-year in Q1 by **6.7%**, though this partly reflects base effects, as cash balances had previously declined significantly in Q1 2025. Growth in cash balances in Q1 outpaced the **4.4%** growth achieved in Q4 2025.
- Small business debt positions reflect loan utilisation, which is the sum of credit card balances and other credit available. The average debt position in the sample declined by 9.4% in Q1 2026, down from a 7.3% decline in Q4 2025. This implies an improvement in the debt position of small firms, offering greater capacity to borrow and invest in the future. This deleveraging likely reflects continually elevated borrowing costs, which make the holding of debt more expensive.

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



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

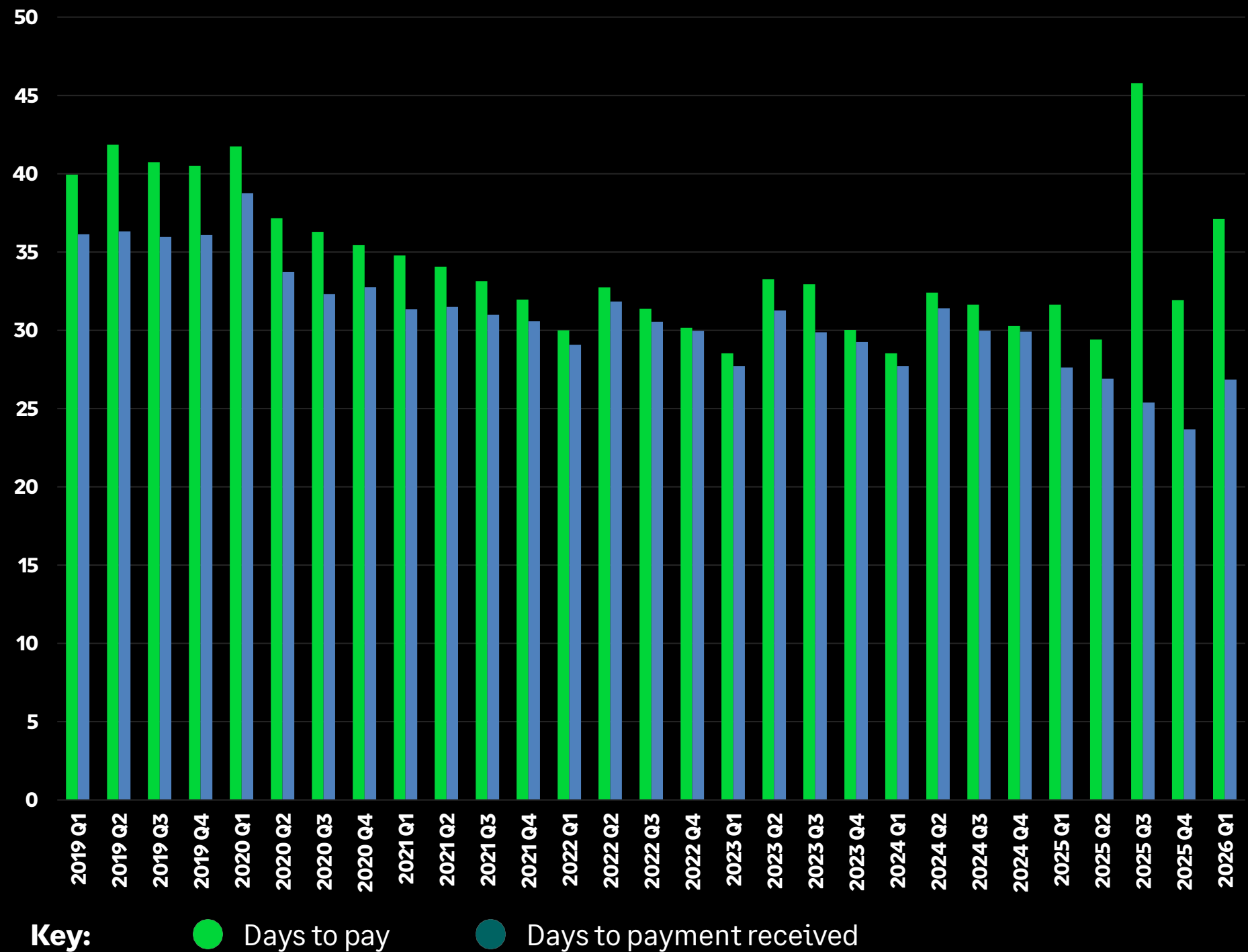


Time to pay

The average number of days it takes to both pay and be paid increased quarter-on-quarter in Q1 2026, although the number of days to be paid declined slightly compared to a year earlier.

- On average, small businesses received payment on invoices after **26.9 days**, down from **27.6 days** in Q1 2025.
- Meanwhile, the average number of days that small businesses took to pay an invoice was **37.1** in Q1 2026, substantially above **31.9** in Q1 2025.
- The quarterly increases in both figures stand in contrast to a wider trend towards declining payment times since the pandemic.
- The uptick in payment times may reflect businesses taking a more cautious approach to cash flow management amid a weaker and more uncertain macroeconomic environment.
- Longer payment cycles can place additional strain on working capital, particularly for smaller firms with tighter cash reserves and greater exposure to short-term cost pressures.

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



Deep dive-time to pay by business size

The average time taken to pay an invoice increased quarter-on-quarter in Q1 across small, extra-small, and nano businesses.

- The average extra-small (XS) business took **24.0 days** to pay an invoice in Q1 2026, up from **17.7 days** in Q4 2025 but down from **26.1 days** in Q1 2025.
- Nano businesses (XXS) took an average of **18.3 days** to pay an invoice in Q1 2026, down from **22.5** in Q1 2025.
- Meanwhile, small businesses (S) averaged **39.1 days** in Q1 2026, up from **33.2 days** a year earlier.
- Despite quarter-on-quarter increases, nano and extra-small firms continued to pay invoices faster than small businesses in Q1 2026, as has historically been the case for most of the period since the pandemic.
- The widening gap in payment times between small and smaller firms suggests that larger SMEs may be facing greater operational and financing pressures in the current environment.

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



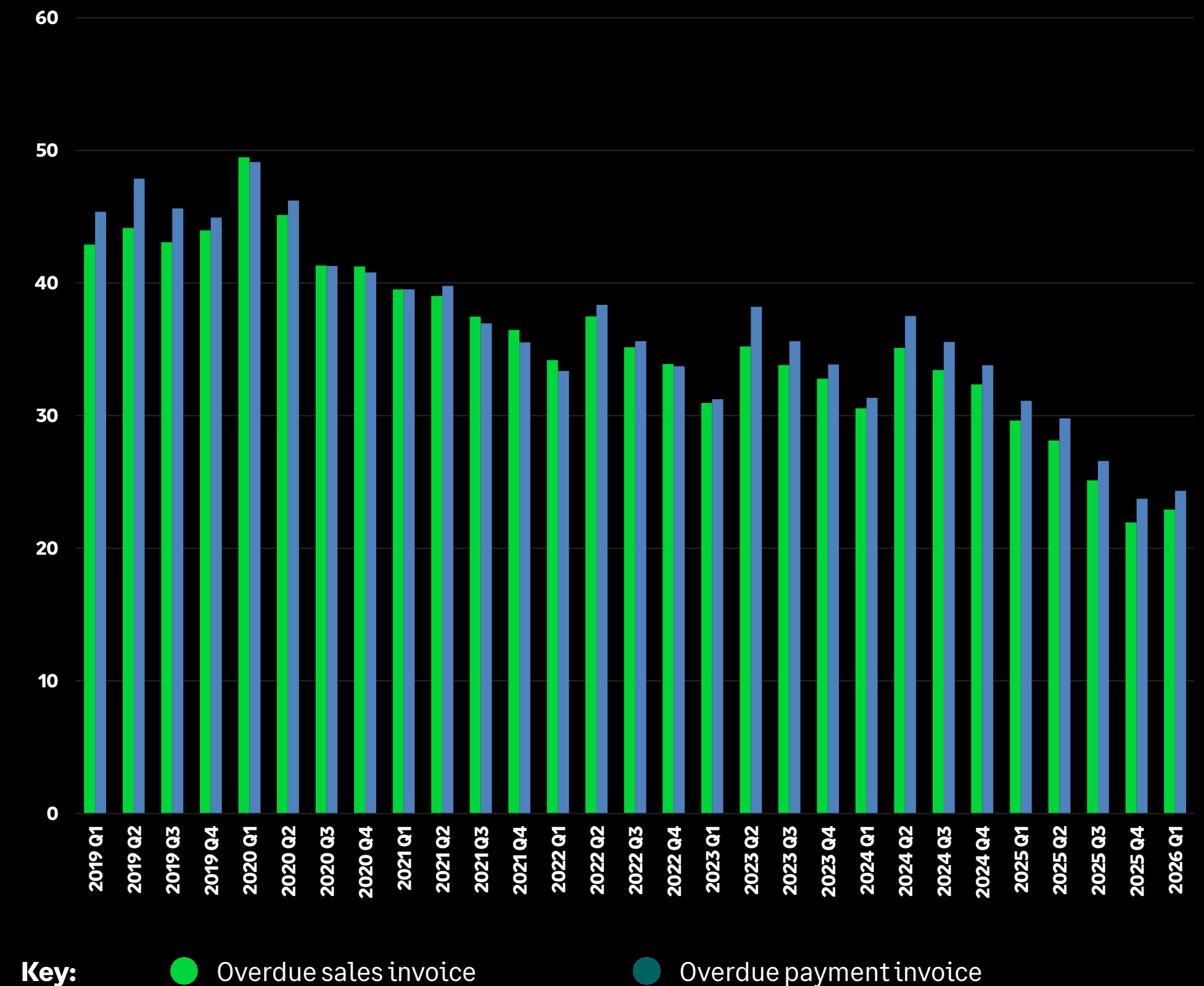
Key: ● S ● XS ● XXS

Overdue invoice payments declined year-on-year in Q1

The average number of days overdue to both pay and be paid invoices declined year-on-year in Q1 2026, yet both measures also saw slight quarter-on-quarter increases.

- Initial estimates suggest that the average number of days for small businesses to be paid a sales invoice once it was overdue stood at **22.9 days in 2026 Q1**, up from **22.0 days** in the previous quarter but down from **31.1 days** a year prior.
- 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.
- As with the payment times, there has been generally been a downward trend in the number of days taken to settle overdue invoices over the past few years
- Despite a small quarterly increase in Q1, the average time taken to pay an invoice remained substantially below its level a year earlier – reflecting a clear downward trend in overdue invoice payments.
- This could point to a lasting shift in how businesses manage and prioritise payments, with overdue invoices being addressed more quickly than in the past due to improved processes among small businesses.
- The share of invoices that were overdue is estimated at **49.2%** in Q1 2026, above the long-run average.

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



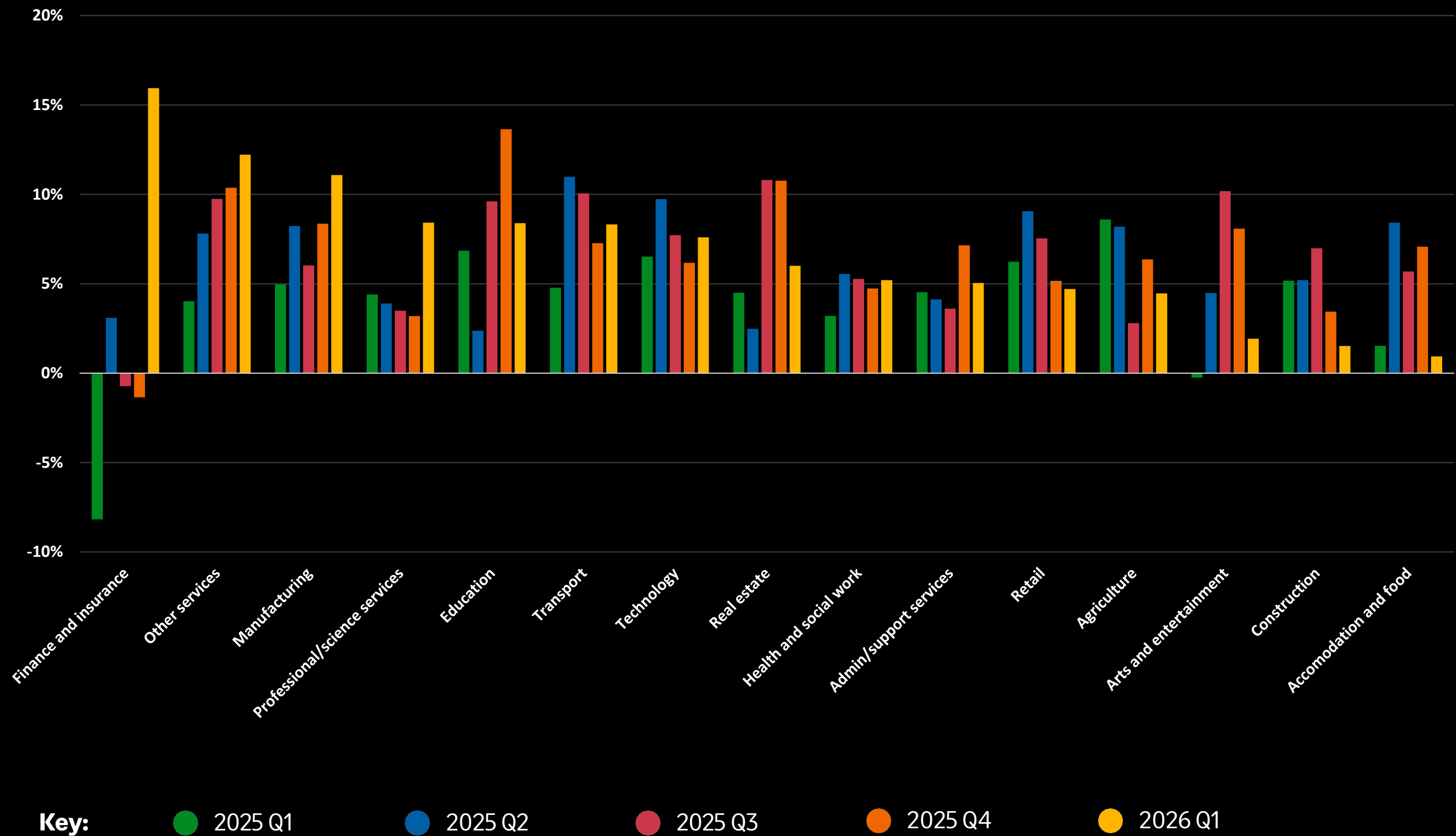


04
Growth

Deep dive— annual change in revenue by industry

- The finance and insurance sector experienced the highest annual growth in revenue in Q1 2026 at **15.9%**, a reversal from the 1.3% contraction the sector experienced in Q4 2025. The next highest-growing sectors were other services and manufacturing, which saw revenues increase by **12.2%** and **11.1%**, respectively.
- In contrast, the accommodation and food sector saw the lowest growth in the sample of small businesses, with revenue rising by just 0.9%. It was followed by the construction and arts and entertainment sectors, which grew by **1.5%** and **1.9%**, respectively.

Annual change in revenue, by industry and quarter



Deep dive— revenue growth by business size

Nano-businesses saw by far the highest revenue growth in the sample in Q1 2026, continuing their strong performance in the previous quarter. Meanwhile, extra-small business posted subdued growth, while small businesses remained in negative territory.

- Average real revenue in nano businesses (XXS) grew by a substantial 22.7% in Q1 2026, up from 11.0% the previous quarter and a decline of 5.6% in Q1 2025.
- Average revenue in extra-small (XS) businesses rose by **1.9%** in Q1 2026, up from **1.1%** the previous quarter, while small (S) businesses saw a **0.3%** decline, down from **2.1%** growth the previous quarter.
- More broadly, small (S) and extra small (XS) businesses have followed similar trends since data collection began, while average revenue for nano businesses (XXS) has been more volatile.

Revenues rising

3.2%

Q1 2026

vs

Revenues rising

4.4%

Q4 2025

Sage

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



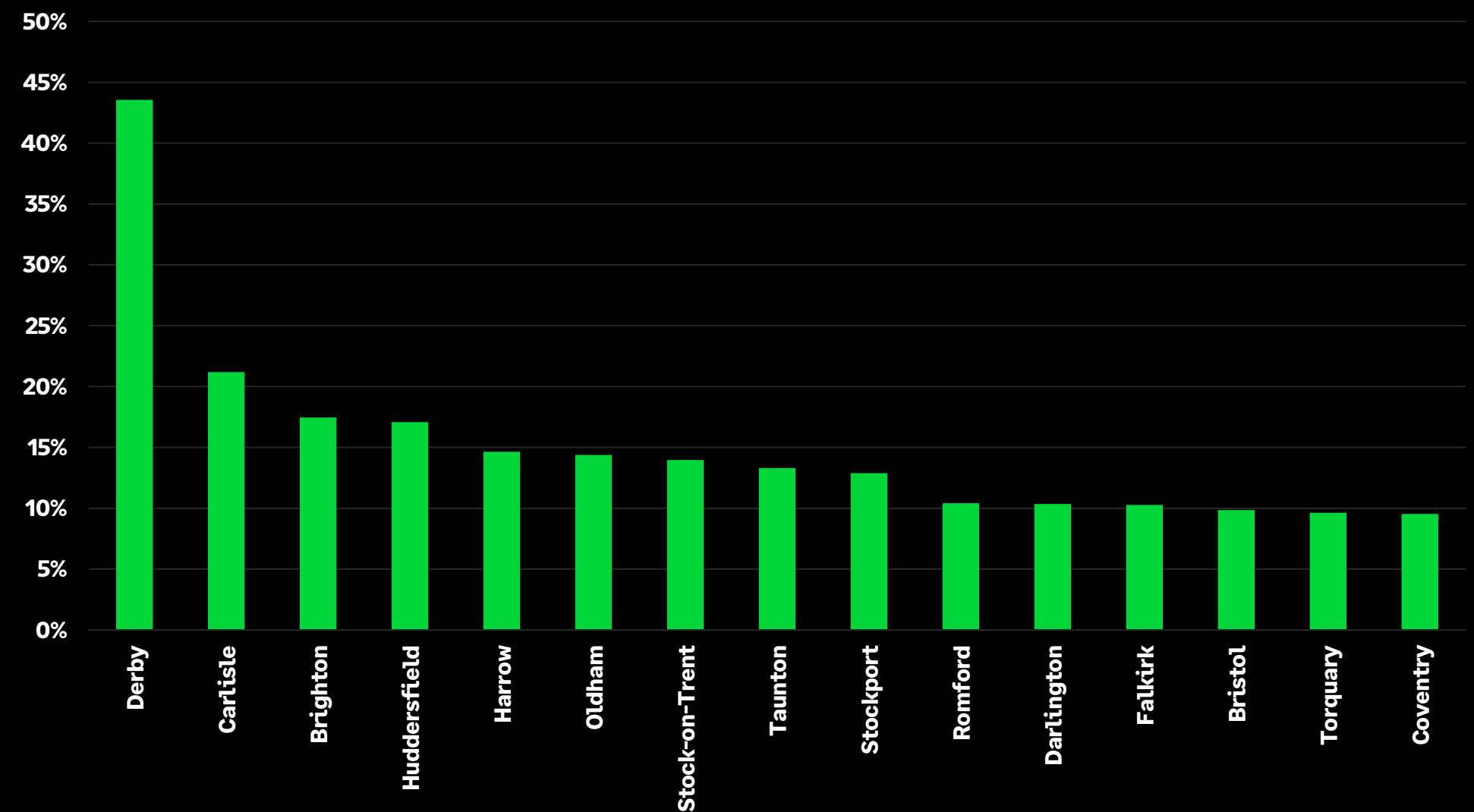
Source: Sage, Smart Data Foundry, ONS, Cebr

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

Derby remained the UK leader in small business revenue growth over the two years from Q1 2024 to Q1 2026. It was followed by Carlisle and Brighton, which have climbed up the ranks in the most recent quarter.

- Small businesses in Derby saw greater revenue growth than any urban area in the UK in the two years to Q1 2026, with average growth standing at **43.6%**. This represents the third consecutive quarter in which Derby leads the pack.
- Carlisle saw the second-highest growth in the sample, with its equivalent growth figure standing at **21.2%**.
- Three out of the top 15 urban areas were located in the North West, making this the largest growth cluster. These urban areas are Carlisle, Oldham, and Stockport.
- Newport saw the greatest decline in average revenues, posting a decline of **43.0%** over the two years to Q1 2026. It was closely followed by Jersey, which saw revenues decline by **39.9%**, and then Kingston upon Thames, which posted a decline of 36.6%.

Growth in average business revenue between Q1 2024 and Q1 2026
(2019 prices, top 15 urban areas)



Minimum sample size:

1,200 businesses

The background features a dark grey to black gradient with a pattern of concentric, slightly irregular circles and arcs. Some of these shapes are solid, while others are hollow outlines, creating a sense of depth and movement. The overall effect is reminiscent of a stylized fingerprint or a complex geometric pattern.

05
Profitability

Profitability

The average small business saw profits grow by **7.4%** in the year to Q1 2026, with profits rising fastest in the East Midlands.

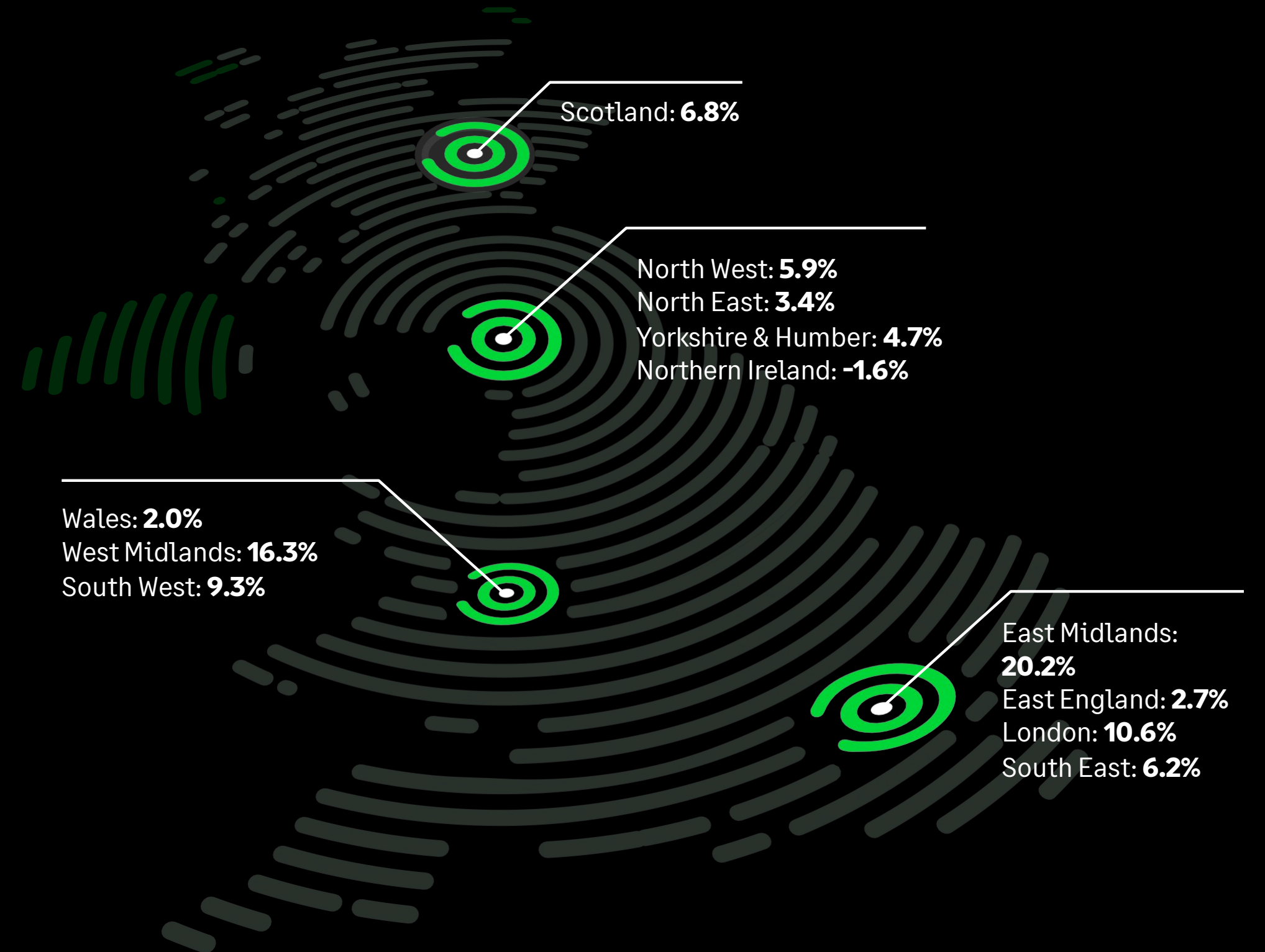
- The Sage SME Performance Pulse provides timely insights into regional growth figures, as official GDP statistics are only produced following a significant time lag.
- In the year to Q4 2025, Sage data show that the average small business saw profits rise by **7.4%**, up from **5.5%** the previous quarter.
- The East Midlands saw the greatest increase in average profits at **20.2%**. The next highest-growing regions were the West Midlands, at **16.3%**, and London, at **10.6%**.
- All regions recorded positive growth except Northern Ireland, which saw average small business profits decline by 1.6% year-on-year. Other regions with below average growth included Wales, the East of England, and the North East.

UK Average

+7.4%



Growth in average real profits between Q1 2025 and Q1 2026
(2019 prices, by UK regions)



*Northern Ireland is omitted due to sample size
Source: Sage, SmartDataFoundry, ONS, Cebr

06

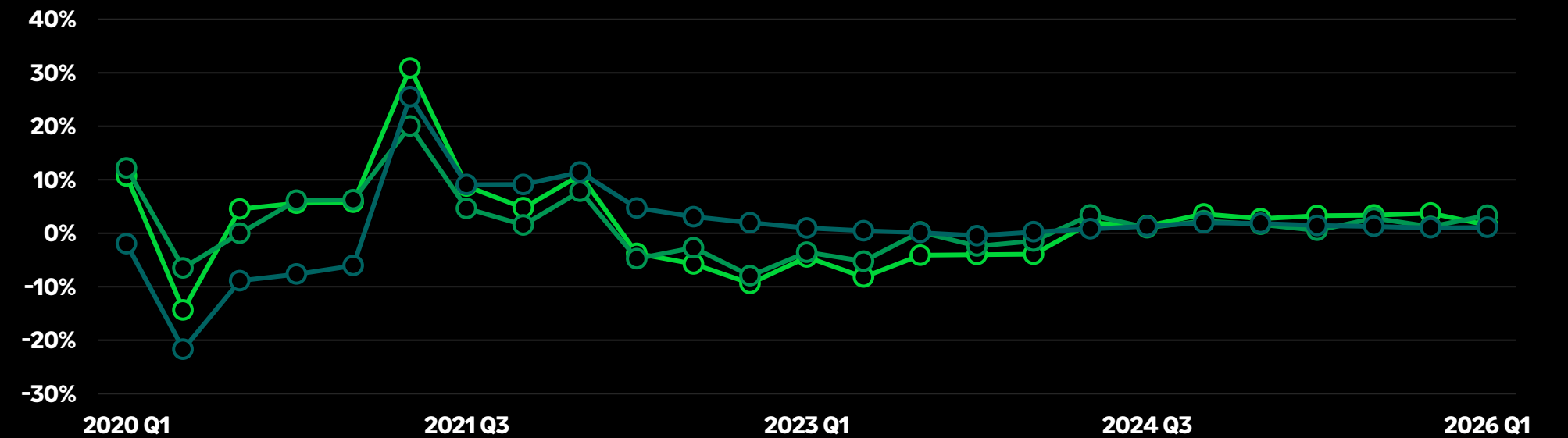
Deep dive — North East

Deep dive— North East

In the year to Q1 2026, the average small business in the North East saw real revenues rise by **1.5%** and profits rise by **3.4%**.

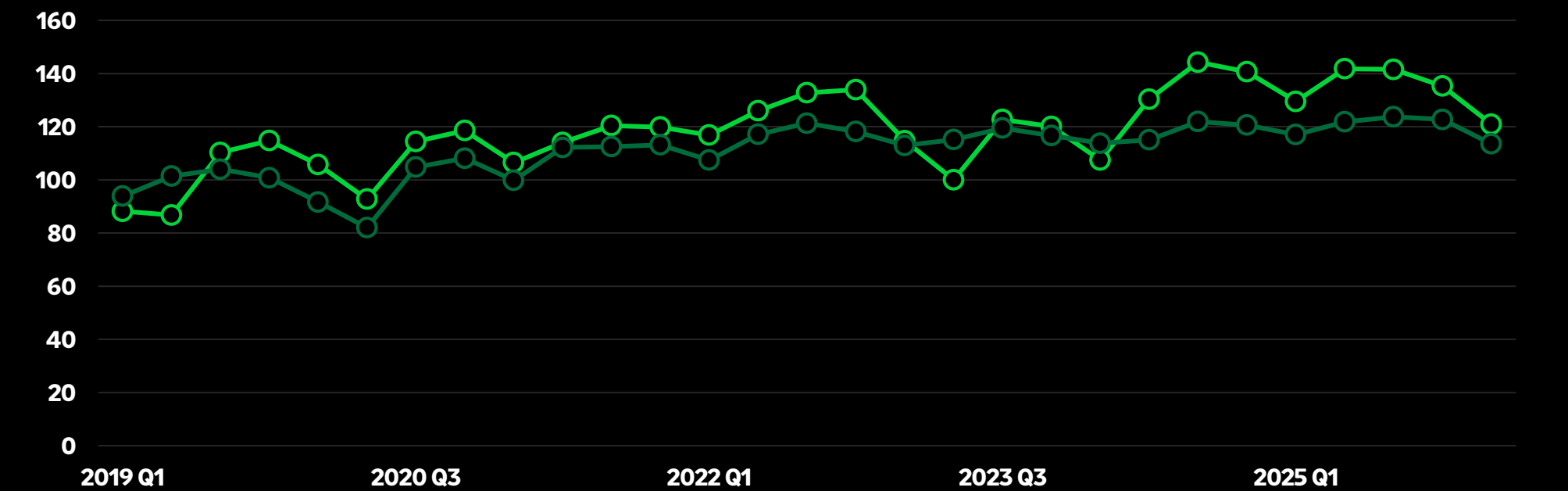
- While both revenue and profit growth were lower in the North East than the UK average, the region mirrored the wider national performance in profits rose faster than revenues.
- Despite the North East's slightly weaker revenue and profits performance, real wage growth remained significantly higher than the UK average in the year to Q1 2026. Real wages among small businesses rose by **6.7%** over this period, substantially higher than the **2.8%** growth experienced by the country as a whole.
- Productivity declined in Q1, by **6.6%** year-on-year. This decline was greater than the national average, which recorded a decline of **3.0%**.

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



Key: ● North East small business profits ● North East small business revenue ● UK GDP

Real productivity index for North East and UK small business
(index 2019 = 100, non-seasonally adjusted)



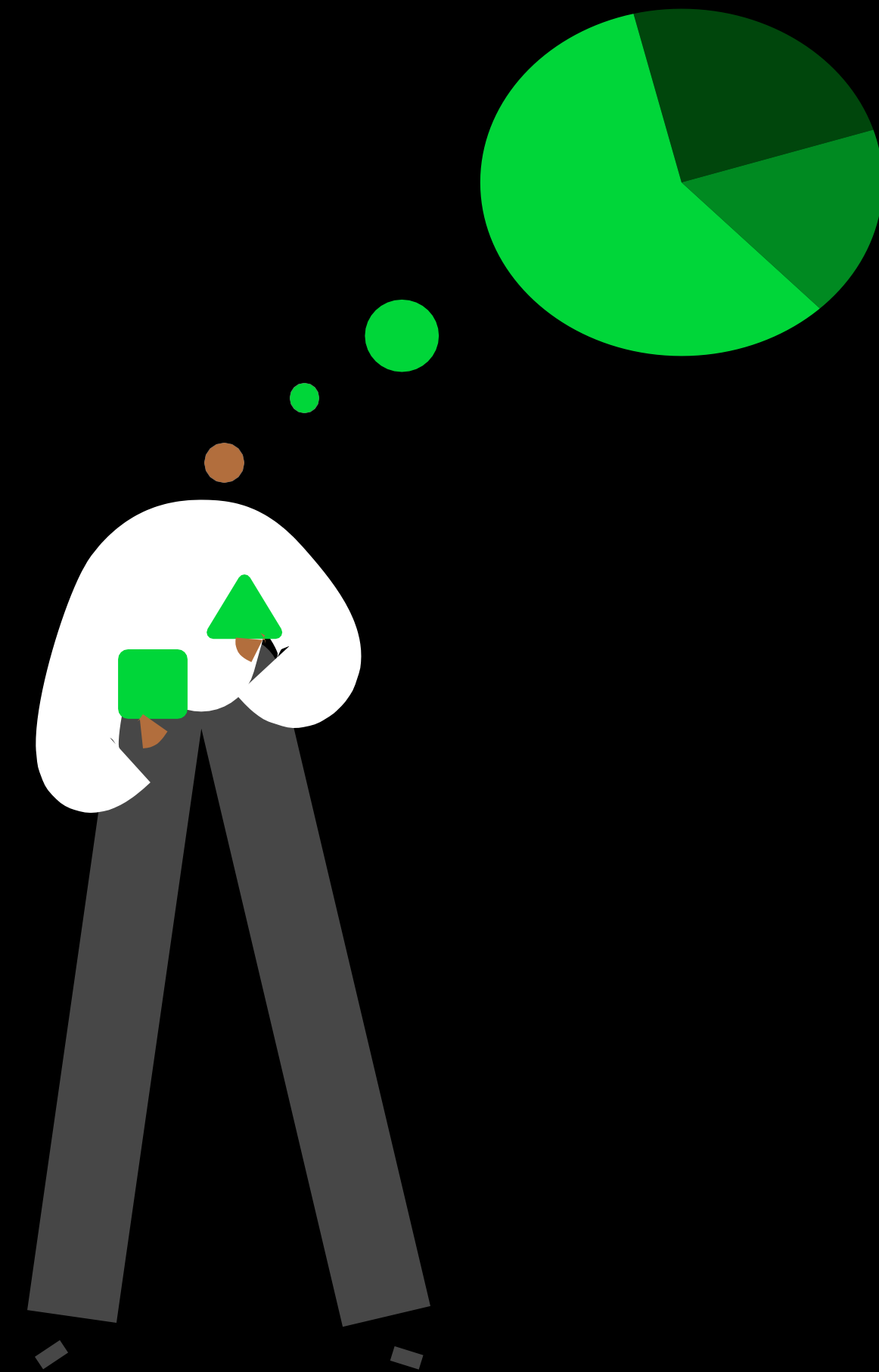
Key: ● North East ● UK

The background features a dark grey to black gradient with several concentric circles of varying shades of grey, creating a ripple effect. There are also several abstract, rounded rectangular shapes scattered across the background, some in a slightly lighter shade of grey than the circles.

07 Methodology

Methodology and data

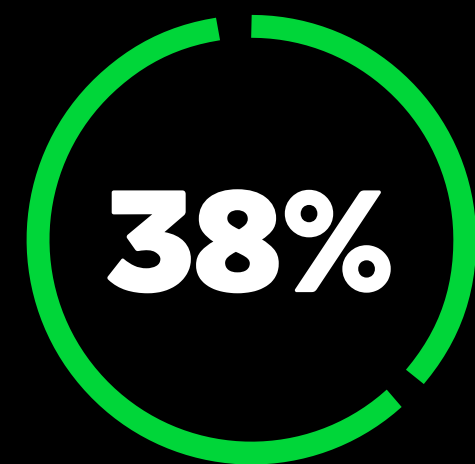
- The Sage SME Performance Pulse uses data from Sage's accounting and payroll software. The Smart Data Foundry aggregates and cleans the data, before Cebr deflates and analyses the data ahead of its publication. The data is not currently seasonally adjusted due to the length of the historical data available 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 Q1 2026, our sample was **149,188**, which contained the following demographics.

Size



were small (S) businesses (average annual revenue greater than £200,000).



were extra-small (XS) businesses (average annual revenue greater than £50,000 and less than or equal to £200,000).



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	Share ¹
South East	13%
London	11%
West Midlands	10%
Yorkshire and The Humber	10%
North West	10%
East of England	9%
South West	9%
Scotland	9%
East Midlands	8%
North East	4%
Wales	4%
Northern Ireland	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.

1. Figures do not sum to 100% due to rounding error.

Glossary

EBITDA:	Earnings before interest, taxes, depreciation and amortisation (EBITDA) is a common measure of business performance. It is derived as EBITDA = Revenue - Expenditure – 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.

Get in touch

Liam Daly
ldaly@cebr.com
020 7324 2864





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