E-book

Sage SME Pulse

Sage SME Performance Pulse

April-June 2026

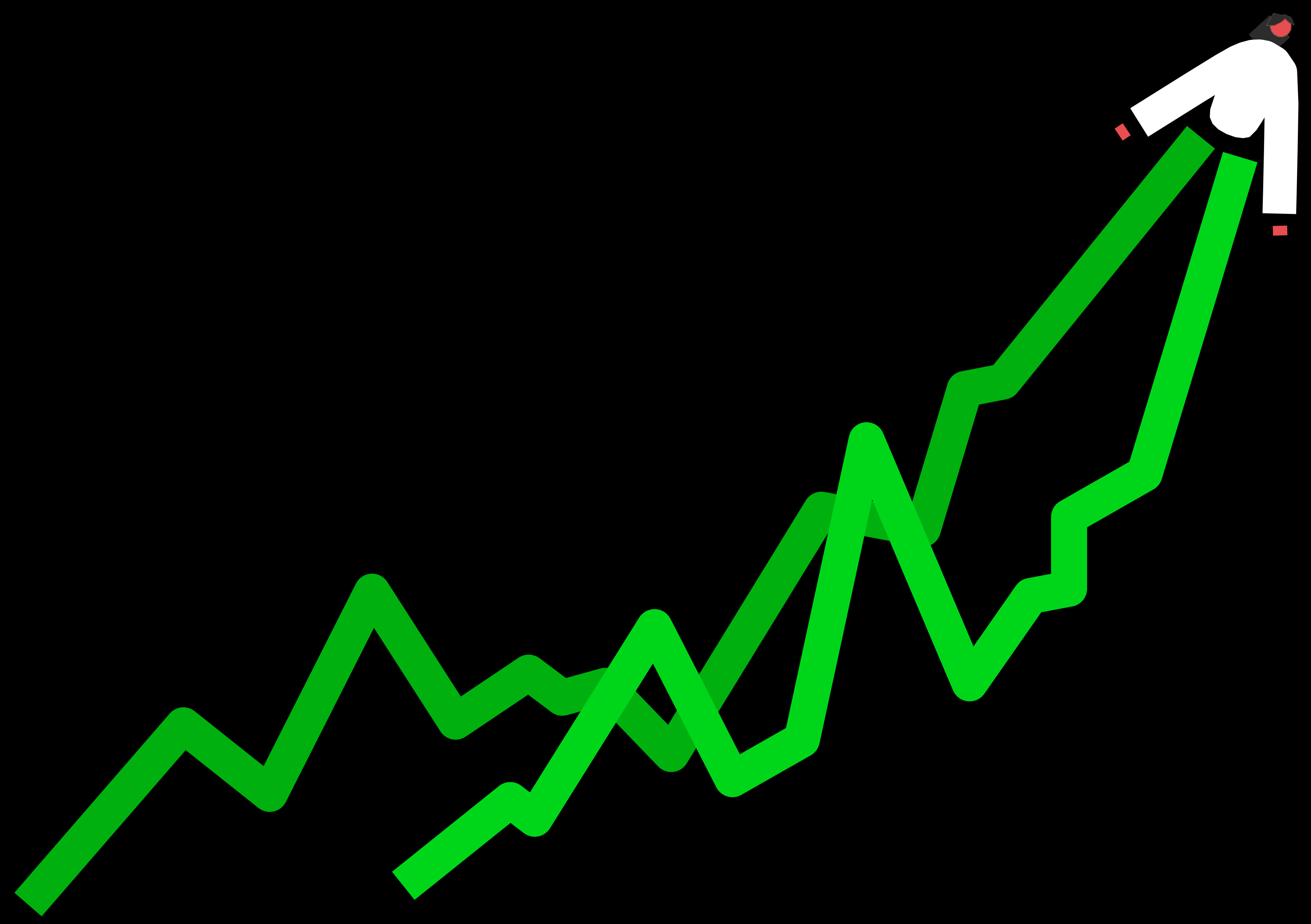
In partnersip with:

SMART DATA FOUNDRY

Cebr

Sage

UK SMBs posted profit growth in Q2 2026, as businesses manage margins defensively.



Profit Growth
+5.3%
Year–on–Year

Productivity
-3.4%
Year–on–Year

Real Revenue
+1.6%
Year–on–Year

Real Expenditure
-1.2%
increase in Q2 2026

East Midlands
+18.8%
Highest 1-Year profit growth of all UK Regions

Derby
+39.1%
Highest 2-Year revenue growth of all urban areas

29.7 days
The average number of days it takes to pay an invoice

Sage

Source: Insights from 150,000 UK SMBs

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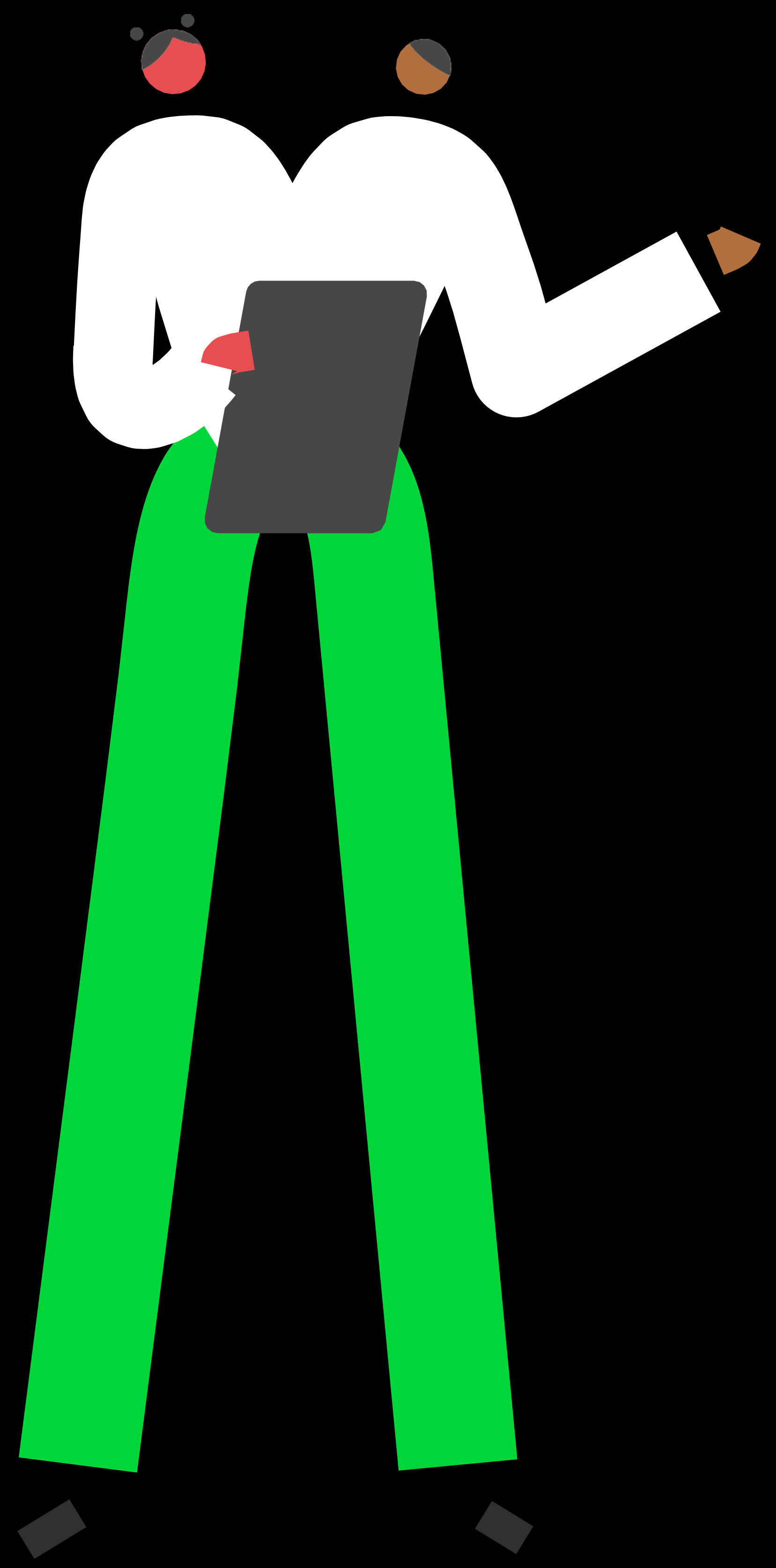

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01

Headline Findings

Headline Findings

Quarterly Summary

The latest Sage SME Performance Pulse shows profits continued to grow in the second quarter of the year, though this reflected cost control rather than stronger trading, as expenditure fell even as revenue growth slowed. Other signals of SME health pointed to a softer picture, with productivity declining and capital expenditure growth losing momentum. The UK economy grew by an estimated 1.2% year-on-year in Q2 2026, an uptick on the 0.9% growth seen in Q1 2026. The latest quarter also saw an rise in inflation as the energy price cap was recalibrated upwards in response to higher gas prices.

Forecast

Cebr forecasts the UK economy will expand by 1.2% in 2026. Ongoing energy price volatility, combined with considerable and growing labour market slack, is expected to weigh on demand in the second half of the year. Interest rates are also acting as a drag on growth, with the Bank of England forced to keep policy more restrictive than it would otherwise have been in the absence of the conflict.

01

Profits remain in growth
Small business profits grew by **5.3%** in the year to Q2 2026.

02

Revenues rose
Real revenues for small businesses in the sample grew by **1.6%** year-on-year in Q2 2026. This marks the fourth consecutive quarter of positive yearly growth, but a moderation from the 3.6% growth recorded in the previous quarter.

03

Expenditure growth went negative
Real expenditures among small business pulled back sharply in Q2 2026, falling by **1.2%** year-on-year, compared to an increase of 4.6% in the previous quarter. Softer expenditures aligns with heightened price expectations among firms in Q2.

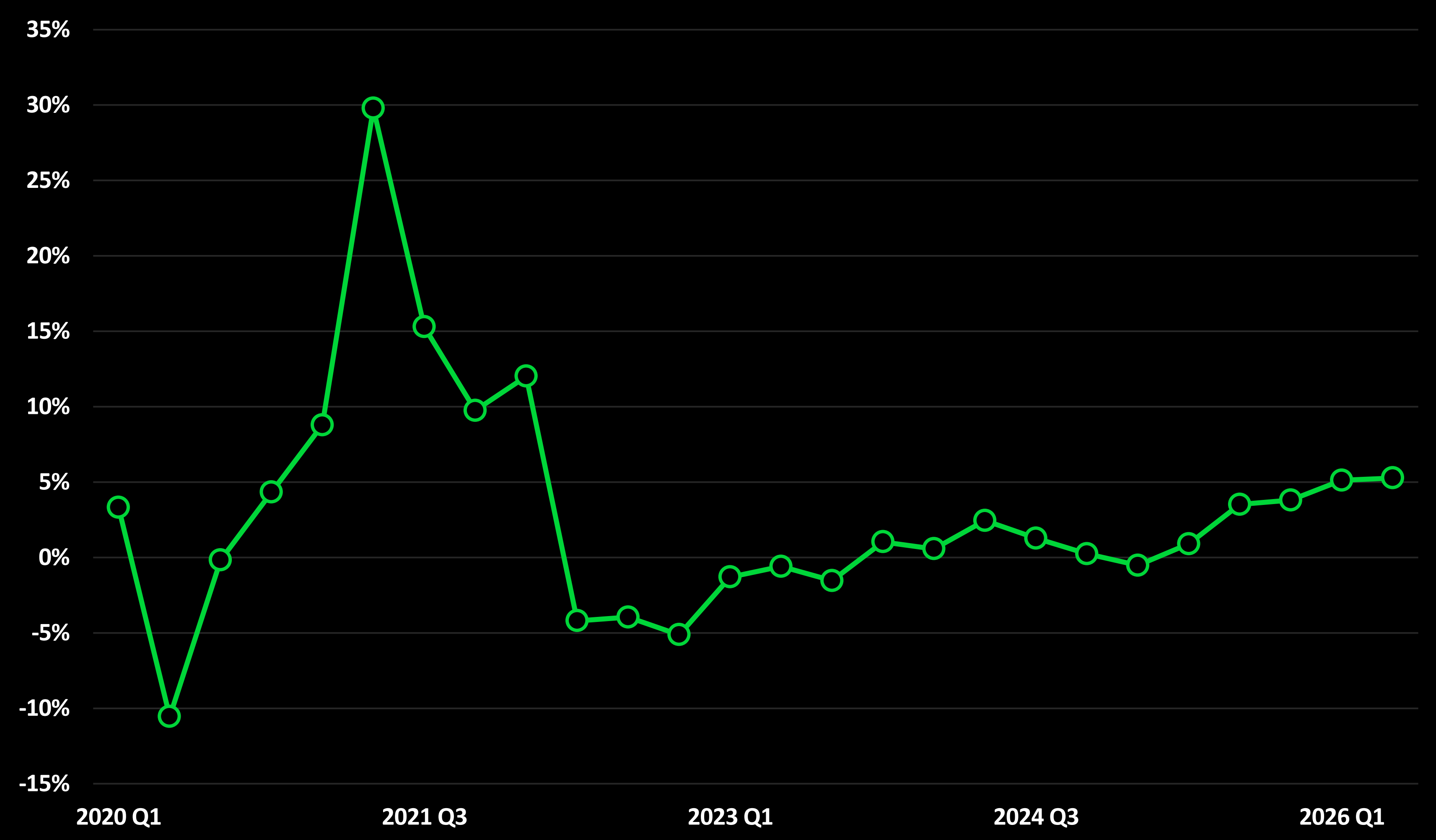
04

Productivity declined and wage growth moderated
Productivity for the average small business in the sample fell by **3.4%** in Q2 2026, down from **1.0%** growth in the previous quarter. Meanwhile, wage growth decelerated.

Profit growth protected inQ2 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 **5.3%** for the average small business in the year to Q2 2026 a marginal uptick on the 5.1% recorded in Q1. Profit growth has increased steadily over recent quarters.
- However, profit growth has been driven more by cost control than by stronger trading, as expenditure fell while revenue growth slowed over the same period. This points to small businesses managing margins defensively rather than expanding with confidence.
- Annual inflation accelerated to 2.9% in July 2026, up from 2.6% in May. The increase was strongly influenced by higher gas prices and the resulting 13% upward recalibration of the Ofgem price cap, the largest increase since October 2022.
- Underlying inflationary pressures remain elevated but showed signs of further stabilisation in the latest data. Core inflation remained unchanged at 2.6%, in July, while services inflation decelerated by 0.2 percentage points to 3.4%. The Bank of England is expected to keep rates on hold at its next meeting as it assesses the extent of any second-round effects from higher energy prices

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



Profits grew

+5.3%

Q2 2026

VS

Profits grew

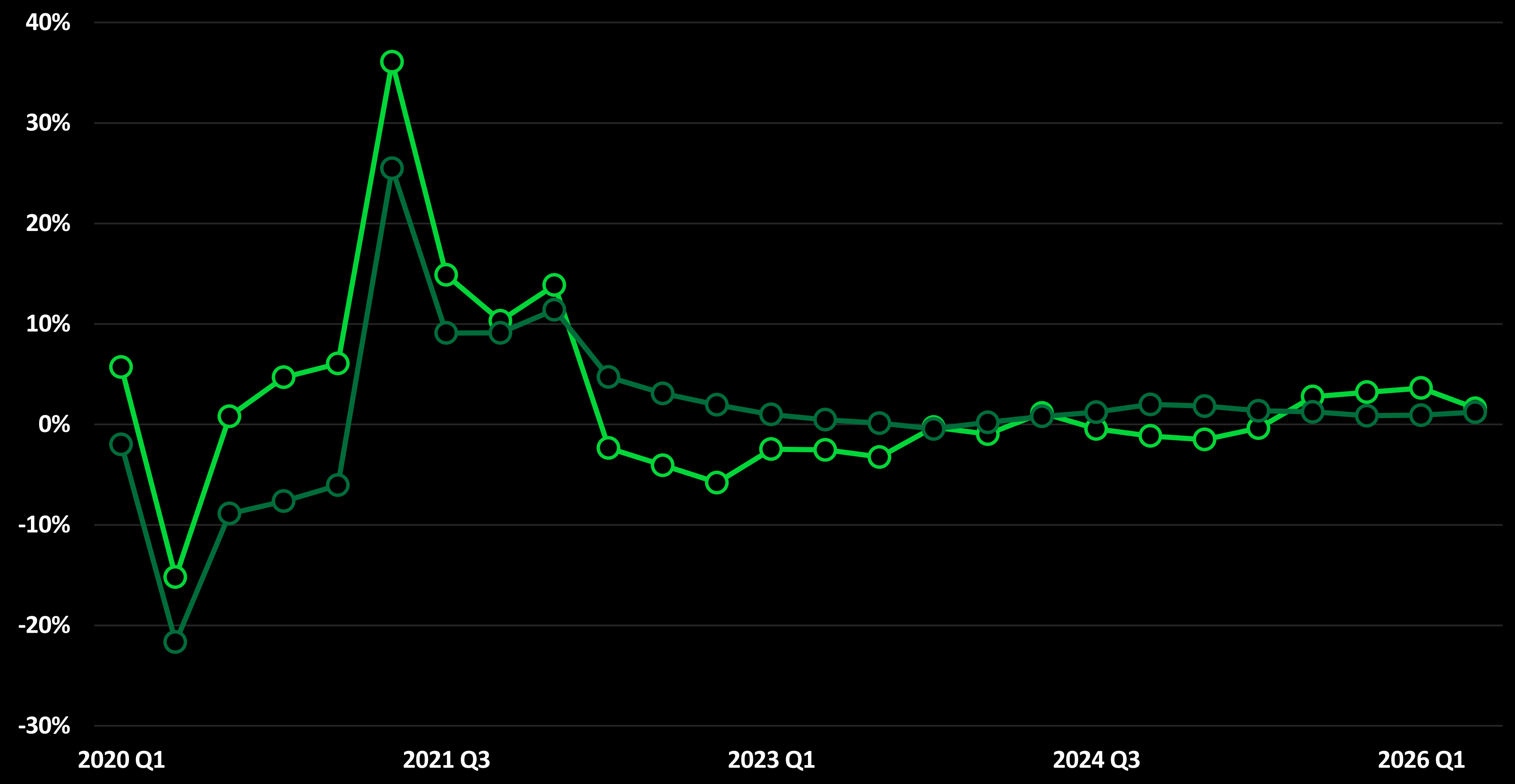
+5.1%

Q2 2025

Revenue growth slows but remains positive in Q2

- Real revenues for small businessess rose by **1.6%** annually in Q2 2026, down notably on the 3.6% pace recorded in the previous quarter.
- The deceleration in revenue growth suggests softening underlying demand for small businesses' goods and services. Consumer spending faces headwinds from persistent inflationary pressure and a loosening of the labour market.
- The latest release from the Office for National Statistics (ONS) shows that the UK economy expanded by 1.2% year on year in Q2 2026, up from 0.9% in Q1 2026. The greatest contributor to growth was again the services sector. Construction also made a positive contribution while there was no growth in the production sector.
- The ONS preliminary first quarterly estimate indicates that real household consumption slowed to 0.3% in Q2 2026, down from 0.6% the first quarter. Cebr's outlook for real consumption growth is subdued over the remainder of 2026 as households navigate weaker real income growth and lingering price pressures.

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



Key: GDP Small business revenue

Real Revenue

+1.6%

Year–on–Year

UK Economy

+1.2%

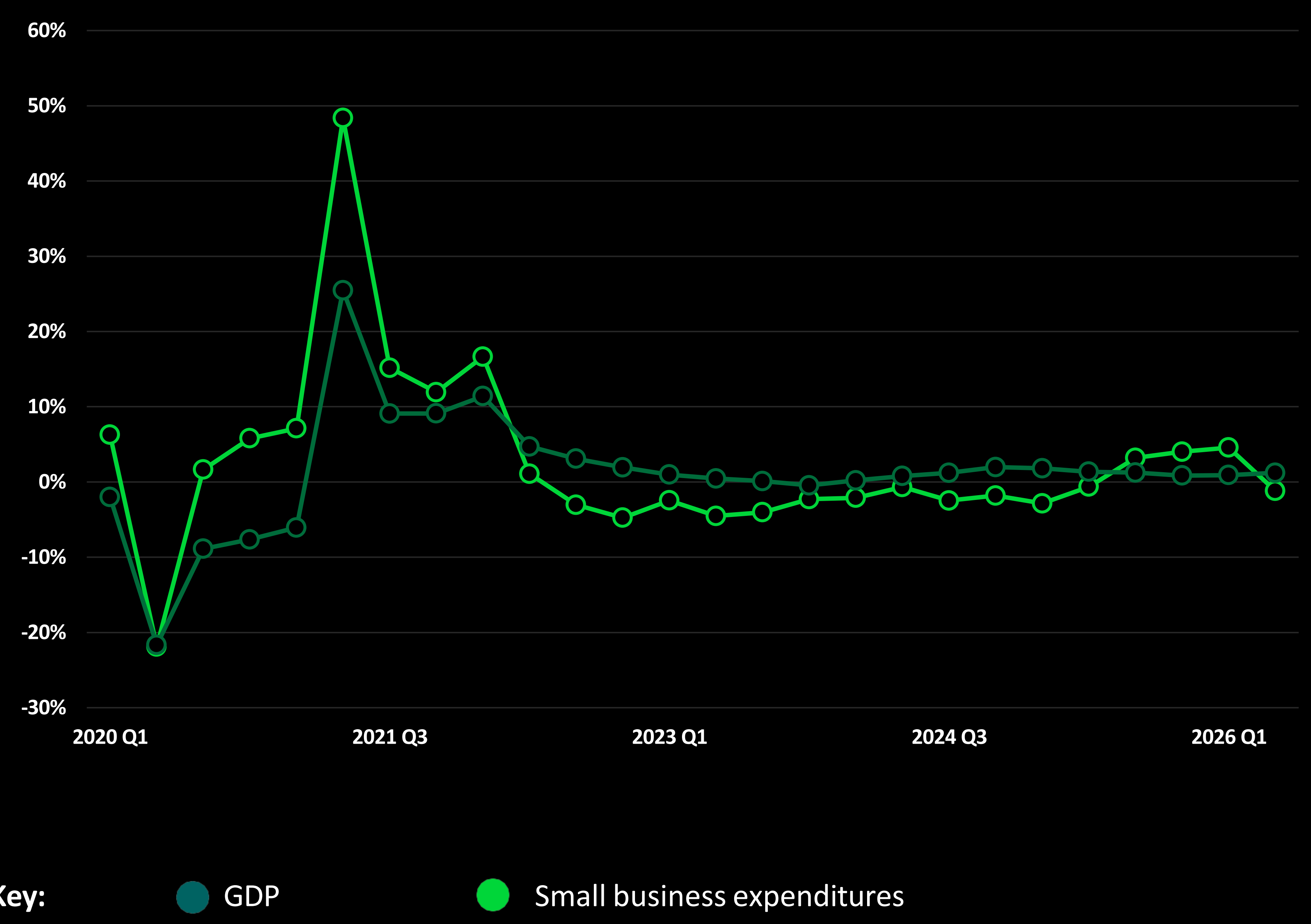
Year–on–Year

Source: Sage, Smart Data Foundry, ONS, Cebr

Small business expenditures decelerate again in Q2

- Real expenditure for the average small business fell by 1.2% in the year to Q2 2026, a significant moderation from the 4.6% growth seen the previous quarter.
- The outlook for real expenditure growth points to further softening over the months ahead, as the effects of higher global energy prices continue to feed through to input costs and renewed inflationary pressure delays the pace of monetary easing, leaving borrowing costs more elevated than businesses had anticipated before the Middle East conflict.
- Against this backdrop, small businesses have a clear incentive to rein in spending now: cutting costs helps protect margins against rising input prices and higher-for-longer borrowing costs, even at the expense of investment and stock-building in the near term.
- The latest ONS data suggest that input cost pressures remain acute for businesses. The Producer Price Index (PPI) rose by **7.3%** in the year to June 2026, up from a revised **9.3%** in May. Meanwhile, the Services Producer Price Indices (SPPI) rose by **4.3%** in the year to Q2 2026, up from a revised **3.2%** in Q1 2026.
- Cebr forecasts GDP growth of **1.2%** in 2026, with momentum waning in the second half of the year.

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



Source: Sage, Smart Data Foundry, ONS, Cebr

Wage growth moderates in Q2 as productivity declines

- The nominal wage index grew by **4.9%** year-on-year in Q2 2026, down on the **10.0%** growth recorded in Q1 2026. In real terms, wages grew by 2.3% in the latest quarter, down from 6.5% the previous quarter.
- Productivity in our large sample of small businesses is measured by the mean of the ratio of revenue to the the number of employees.
- In Q2 2026, average productivity declined by **3.4%** year-on-year in real terms, following growth of **1.0%** the previous quarter.
- The fall in productivity relative to the same quarter a year ago differs from the latest ONS flash estimate for the whole economy, suggesting output per worker rose 0.4% year-on-year in Q2 2026. However, both the ONS and Sage productivity estimates show that while productivity has recovered from the disruption caused by the pandemic, growth has been weak since 2022.
- Firms are not cutting headcount and are still raising pay faster than prices, but are getting less output per worker, likely reflecting employers retaining experienced staff while softer revenue growth makes them cautious about hiring and progressing younger workers, which helps explain the productivity slippage.

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

Key: Productivity index   Nominal wages index

Real wage growth

+2.3%

Q2 2026

VS

Real wage growth

+6.5%

Q1 2025

Source: Sage, Smart Data Foundry, ONS, Cebr

Sage SME Performance Pulse:
Indicators by key themes

02

Prices

Prices and spending

Capital expenditure grows year-on-year in Q2

- 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.
- Following an uptick in Q1, business investment growth slowed in Q2 2026, with capital expenditure rising by 2.1% year-on-year. While there are some signs of stabilisation declining steadily between 2021-2024, the measure remains highly variable and should be interpreted with caution.
- This subdued investment appetite fits the broader defensive posture seen elsewhere in the data: firms have prioritised building cash reserves and paying down debt over committing to new capital projects, favouring balance sheet resilience over expansion in the current climate.
- Persistently weak capital spending also carries a longer-term risk: under-investment in equipment and technology tends to weigh on productivity growth over time, suggesting today's subdued capex could reinforce rather than reverse the productivity declines already evident elsewhere in this quarter's data..

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

Capital expenditure

+2.1%

Q2 2026

vs

Capital expenditure

+30.4%

Q1 2025

Source: Sage, Smart Data Foundry, ONS, Cebr

03

Resilience

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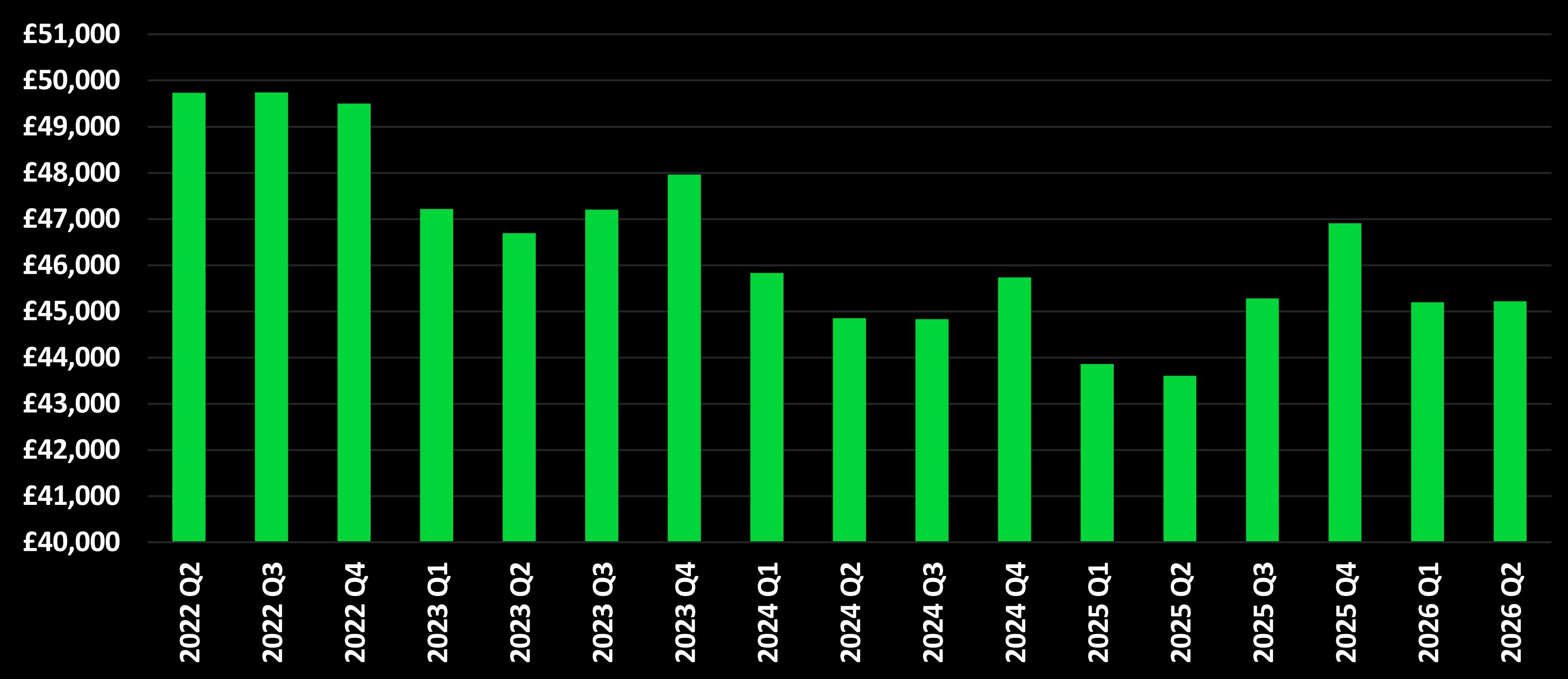
Resilience: cash and debt

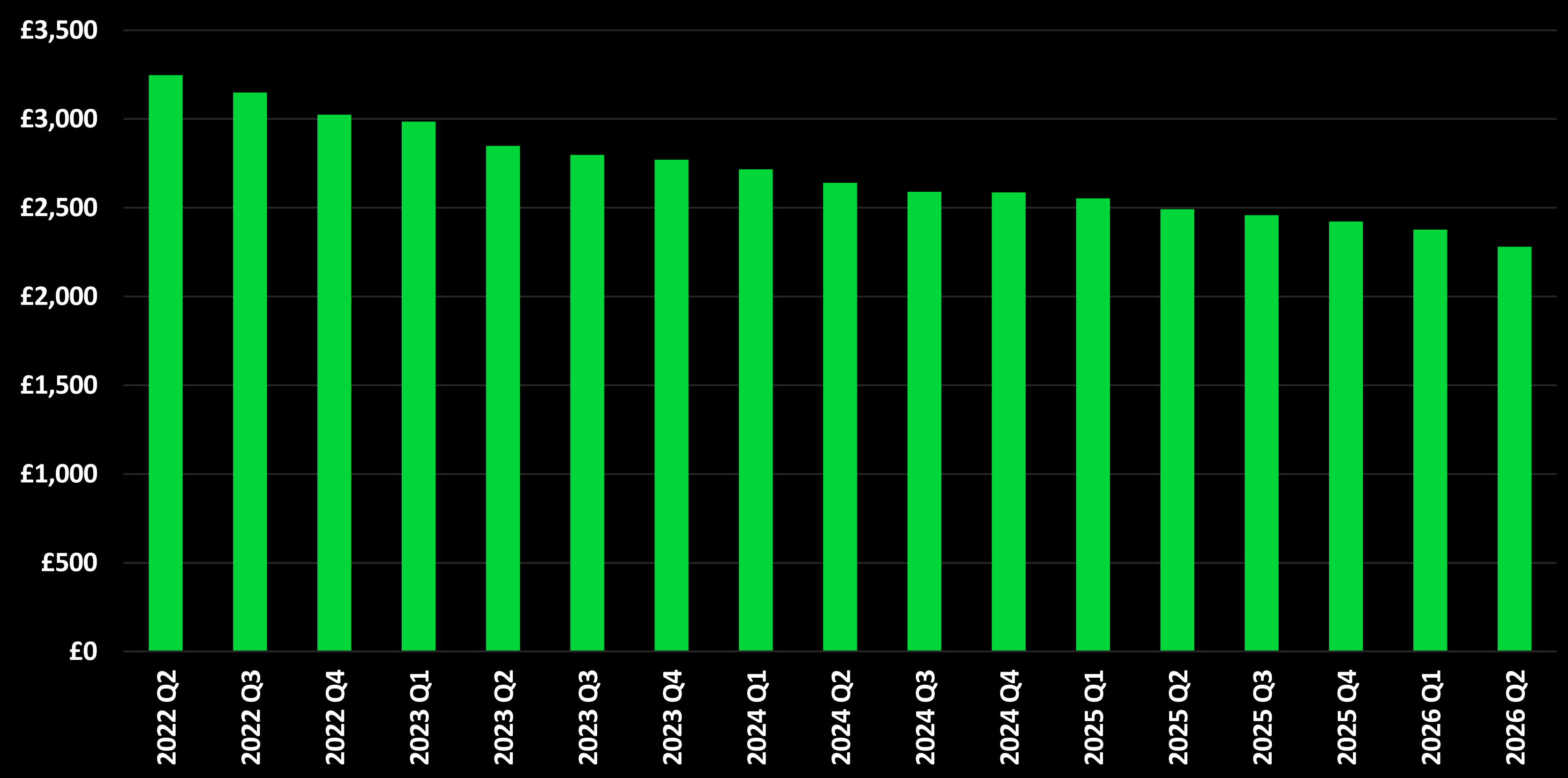
Debt positions declined in Q2 relative to the previous quarter, though real cash balances were largely unchanged.

- 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 Q2 2026, continually elevated interest rates continue to create a strong incentive for small businesses to hold cash reserves, though elevated input costs challenge their ability to do so.
- Cash balances among small businesses grew year-on-year in Q2 by **3.7%**, though this partly reflects base effects, as cash balances declined in Q2 2025. Annual growth in cash balances in Q2 outpaced the **3.1%** growth recorded in Q1 2026. In monetary terms, they were effectively unchanged on the previous quarter.
- 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 **8.5%** in Q2 2026. This consistent downward trend over the last four years 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)

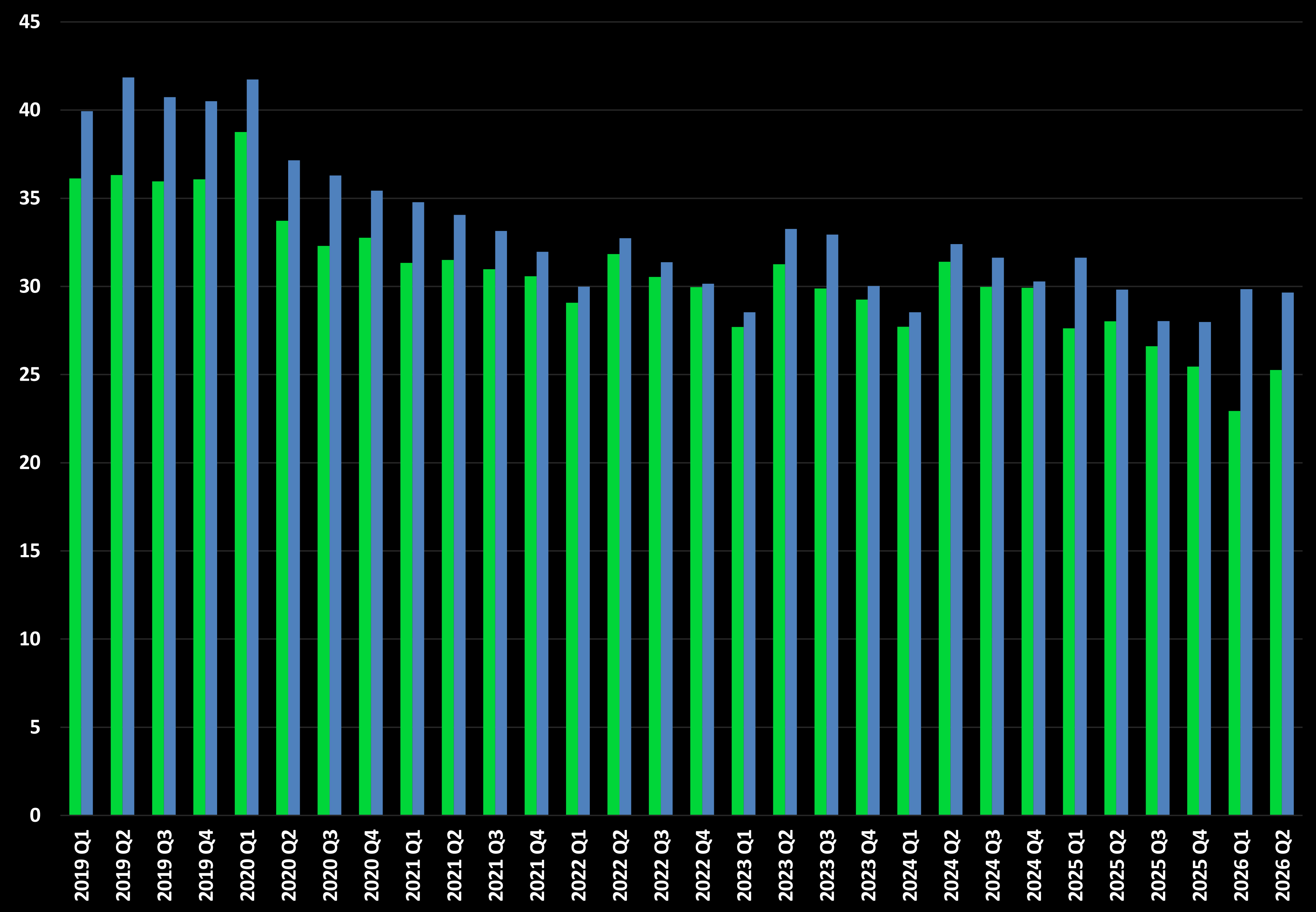


Time to pay

The average number of days it takes to be paid increased quarter-on-quarter in Q2 2026, although declined slightly compared to a year earlier.

- On average, small businesses received payment on invoices after **25.3 days**, down from **28.0 days** in Q2 2025.
- Meanwhile, the average number of days that small businesses took to pay an invoice was **29.7 days** in Q2 2026, roughly in line with the **29.8 days** recorded in Q2 2025.
- The last two years have seen a downward trend in both days to pay and be paid, though rises recorded in recent quarters have seen this trend stall, possibly reflecting firms stretching out payments to preserve working capital amid softer demand and elevated costs.
- 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



Key: Days to be paid   Days to pay

Days to be paid

25.3

Q2 2026

Days to pay

29.7

Q2 2026

Deep dive—time to pay by business size

The average time taken to pay an invoice increased quarter-on-quarter in Q2 among small and nano businesses.

- The average extra-small (XS) business took **17.9 days** to pay an invoice in Q2 2026, down from **20.0 days** in Q1 2026 and **24.9 days** in Q2 2025.
- Nano businesses (XXS) took an average of **22.5 days** to pay an invoice in Q1 2026, down from **23.5** in Q1 2025.
- Meanwhile, small businesses (S) averaged **33.0 days** in Q2 2026, up from **31.0 days** a year earlier.
- Despite quarter-on-quarter increases, nano and extra-small firms continued to pay invoices faster than small businesses in Q2 2026, as has historically been the case for most of the period since the pandemic.
- The widening gap in payment times between small and extra-small firms suggests that small SMEs may be facing greater operational and financing pressures in the current environment.

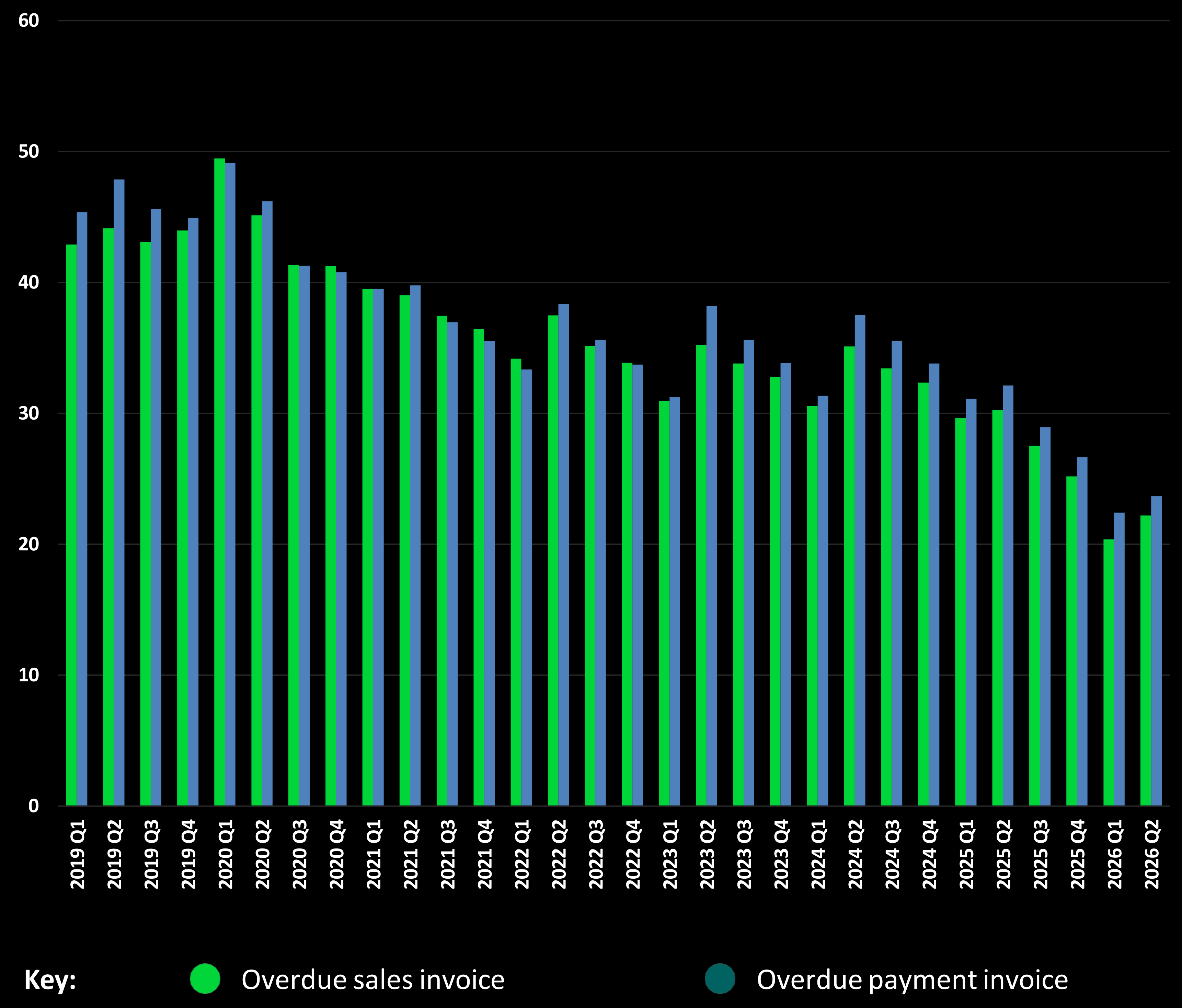
Average number of days taken to pay an invoice per small business by business size

Overdue invoice payments declined year-on-year in Q2

The average number of days overdue invoices to pay and be paid declined year-on-year in Q2 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 was **23.7 days in 2026 Q2**, up from **20.4 days** in the previous quarter but down from **32.1 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 Q2, 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 **47.4%** in Q2 2026, an indication that late payments remains a common challenge.

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



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04

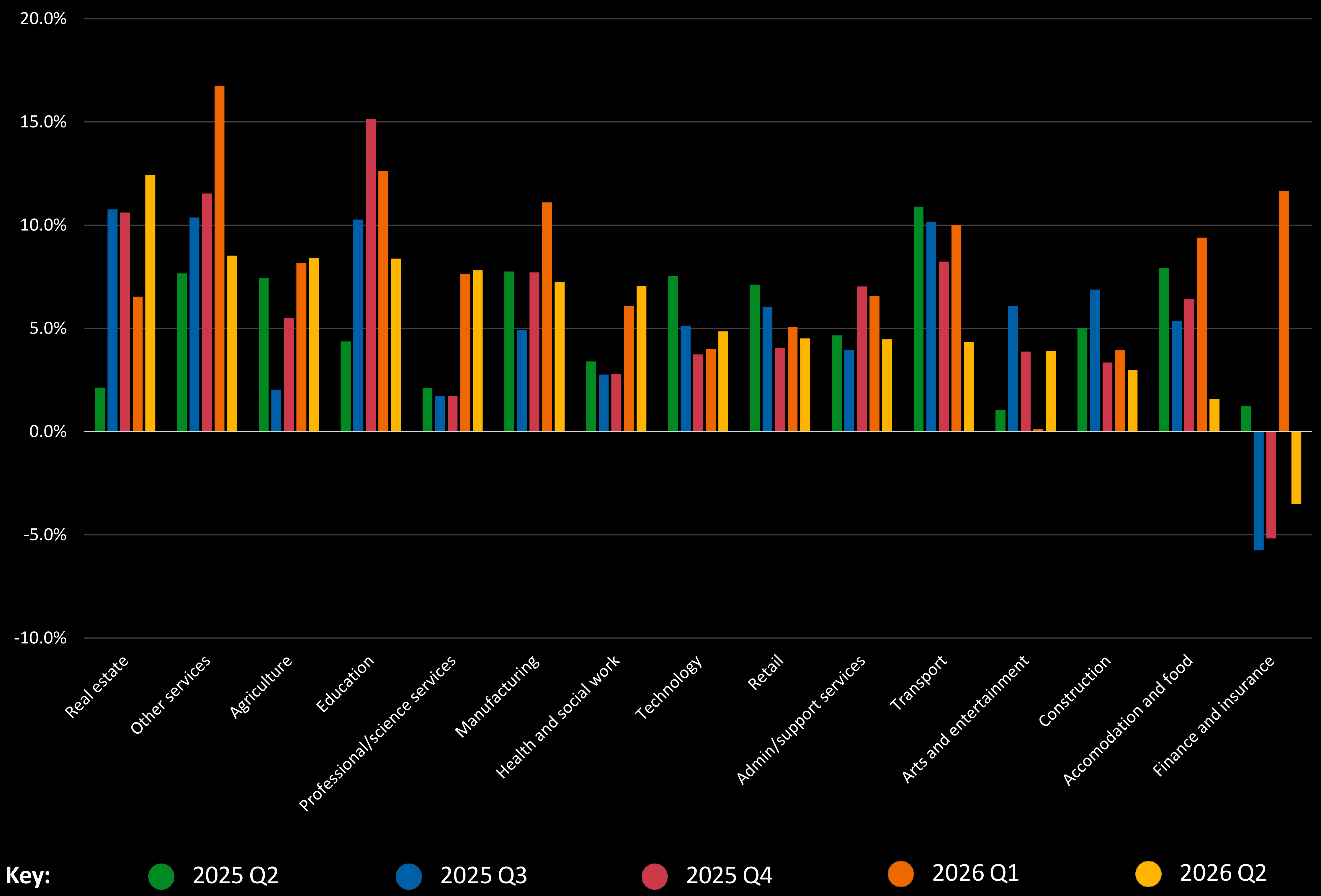
Growth

Deep dive—annual change in revenue by industry

- The real estate sector experienced the highest annual growth in revenue in Q2 2026 at **12.4%**. The next highest-growing sectors were other services and agriculture, which saw revenues increase by **8.5%** and **8.4%**, respectively.

- In contrast, the finance and insurance sector saw the lowest growth in the sample of small businesses, with revenue falling by 3.5%. It was followed by accommodation and food services and construction sectors, which grew by **1.6%** and **3.0%**, respectively.

Annual change in revenue, by industry and quarter



Source: Sage, Smart Data Foundry, Cebr

Sage

Deep dive—
revenue growth by business size

Nano-businesses saw the highest revenue growth in the sample in Q2 2026, though this is primarily reflecting the base-year effects after revenues dropped sharply in the same quarter a year prior. Meanwhile, revenue growth among extra-small and small businesses entered negative territory.

- Average real revenue in nano businesses (XXS) grew by a substantial 34.5% in Q2 2026, rebounding from four quarters of negative year-over-year growth.
- Average revenue in extra-small (XS) businesses rose by **1.9%** in Q2 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 much more volatile.

Revenues rising

1.6%

Q2 2026

vs

Revenues rising

3.6%

Q1 2026

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

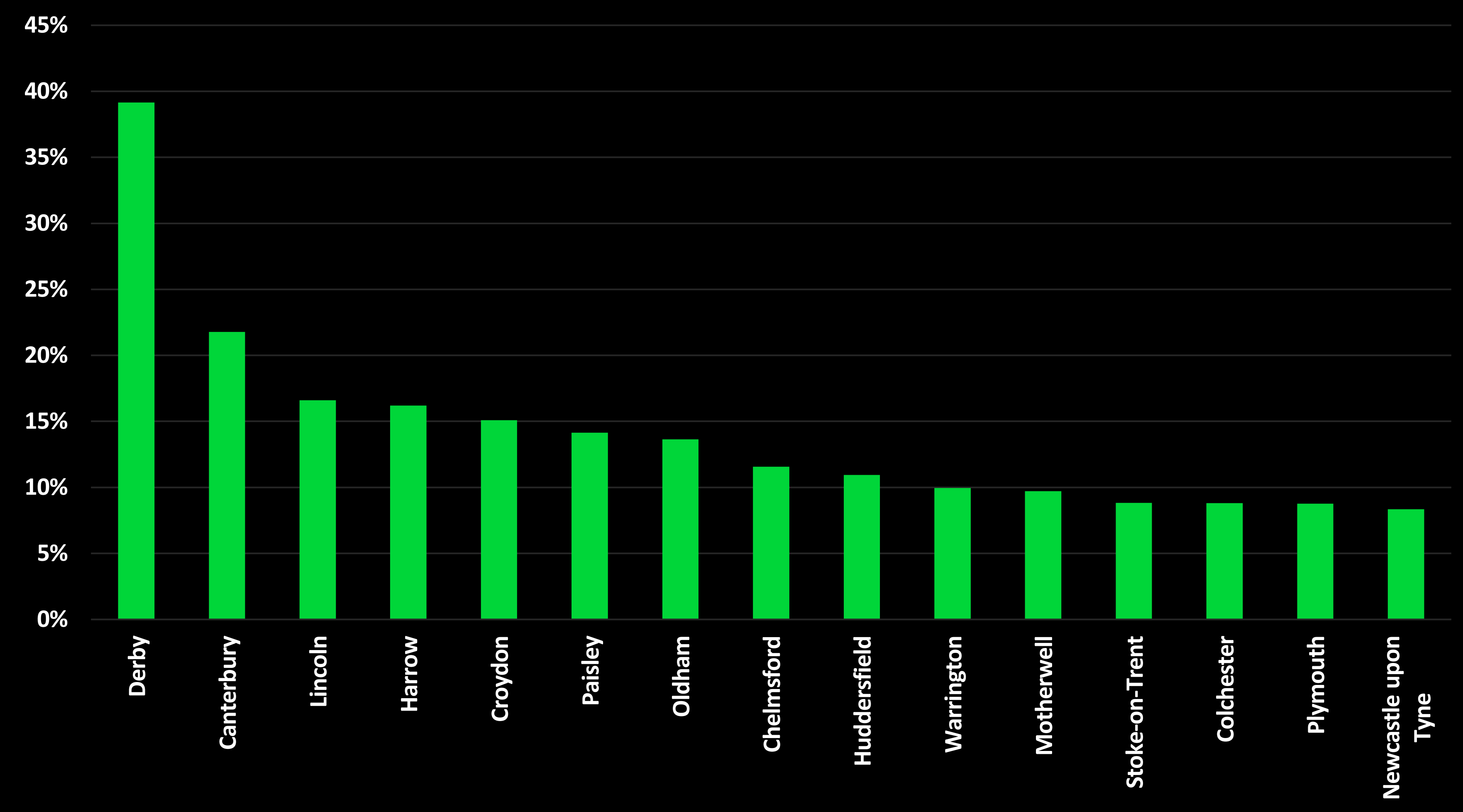
Source: Sage, Smart Data Foundry, ONS, Cebr

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 Q2 2024 to Q2 2026. It was followed by Canterbury and Lincoln, 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 Q2 2026, with average growth standing at **39.1%**. This represents the fourth consecutive quarter in which Derby leads the pack.
- Canterbury saw the second-highest growth in the sample, with its equivalent growth figure standing at **21.8%**.
- Stronger performers were widely distributed with five regions tied for the largest cluster, each accounting for two of the 15 areas: London (Harrow, Croydon), the North West (Oldham, Warrington), Scotland (Paisley, Motherwell), the East of England (Chelmsford, Colchester), and the East Midlands (Derby, Lincoln), with no single region claiming three or more.
- Newport saw the greatest decline in average revenues, posting a decline of **43.1%** over the two years to Q2 2026. It was closely by Watford, which saw revenues decline by **18.3%**, and Portsmouth, which posted a decline of 13.9%.

Growth in average business revenue between Q2 2024 and Q2 2026
(2019 prices, top 15 urban areas)



Minimum sample size per region:

1,200 **businesses**

Source: Sage, Smart Data Foundry, ONS, Cebr

05

Profitability

Profitability

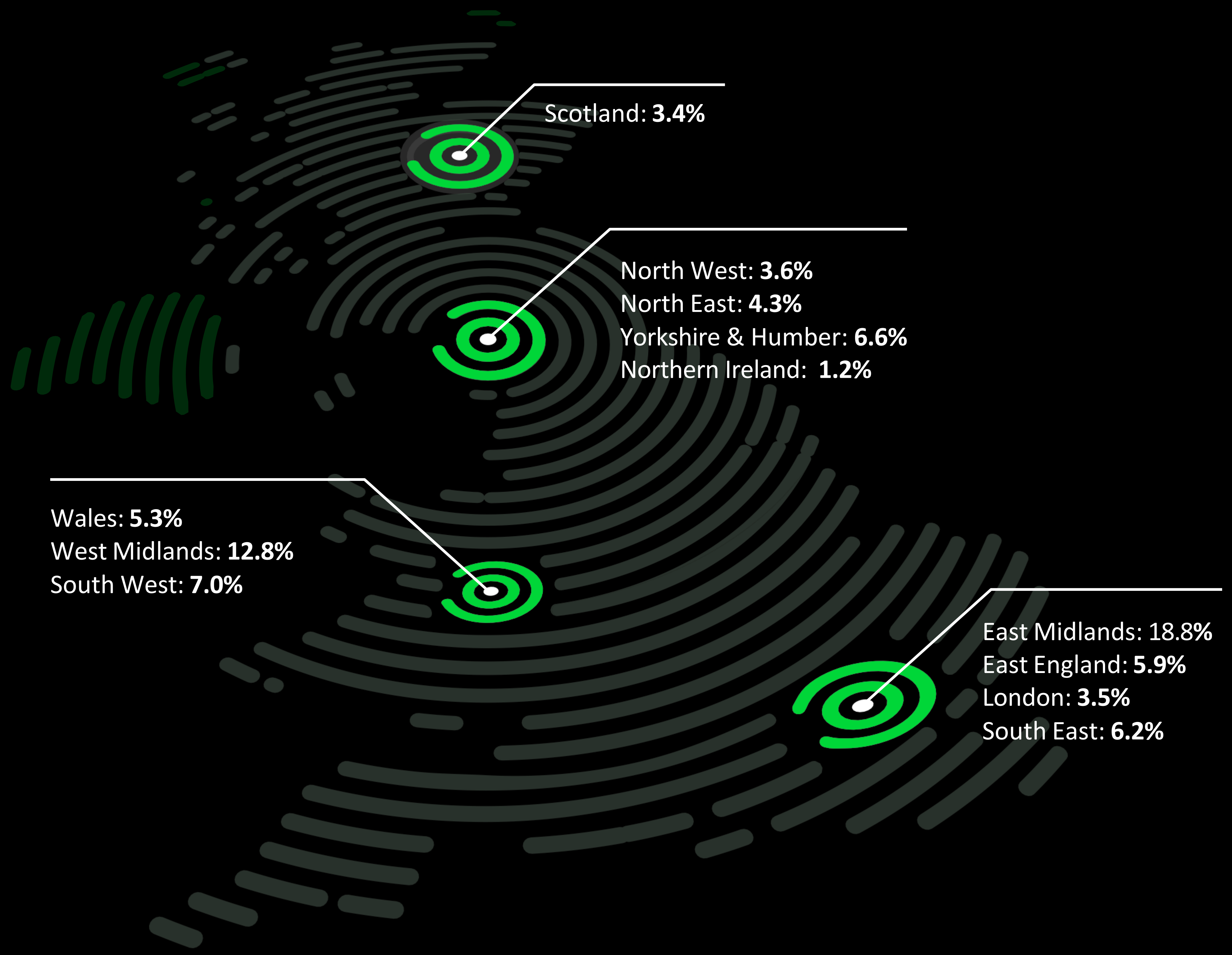
The average small business saw profits grow by **5.3%** in the year to Q2 2026, with profits rising fastest in the East Midlands.

- 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 Q2 2026, Sage data show that the average small business saw profits rise by **5.3%**, up from **5.1%** the previous quarter.
- The East Midlands saw the greatest increase in average profits at **18.8%**. The next highest-growing regions were the West Midlands, at **12.8%**, and the South West, at **7.0%**.
- All regions recorded positive growth. Regions with below average profit growth included Scotland, London, the North West and the North East.

UK Average

+5.3%

Growth in average real profits between Q2 2025 and Q2 2026
(2019 prices, by UK regions)



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

06

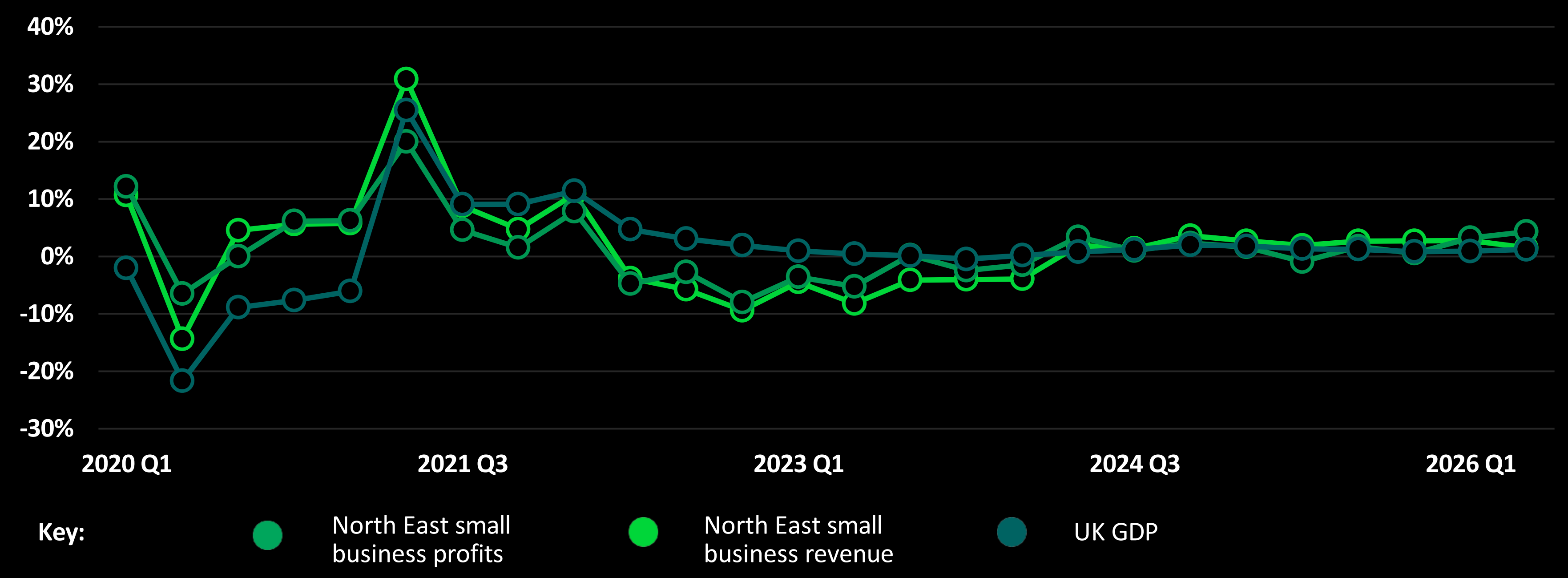
Deep dive – North East

Deep dive—
North East

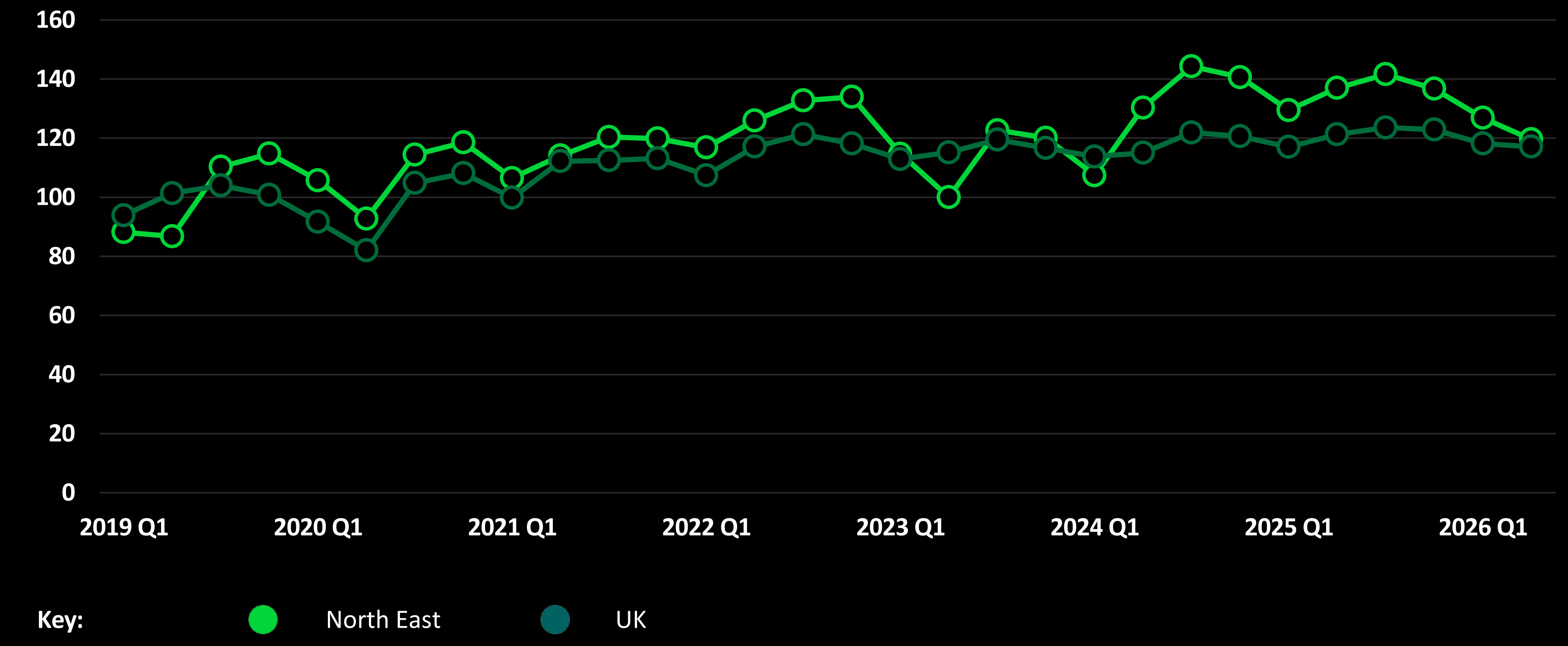
In the year to Q2 2026, the average small business in the North East saw real revenues rise by **1.5%** and profits rise by **4.3%**.

- While both revenue and profit growth were lower in the North East than the UK average, the region mirrored the wider national performance in that profits rose faster than revenues.
- Real earnings in the North East fell by 5.5% year-on-year well below UK average growth of 2.3% in Q2 2026.
- Productivity among firms in the North East declined in Q2, by **12.7%** year-on-year. This decline was greater than the national average, which recorded a decline of **3.4%**.

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



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



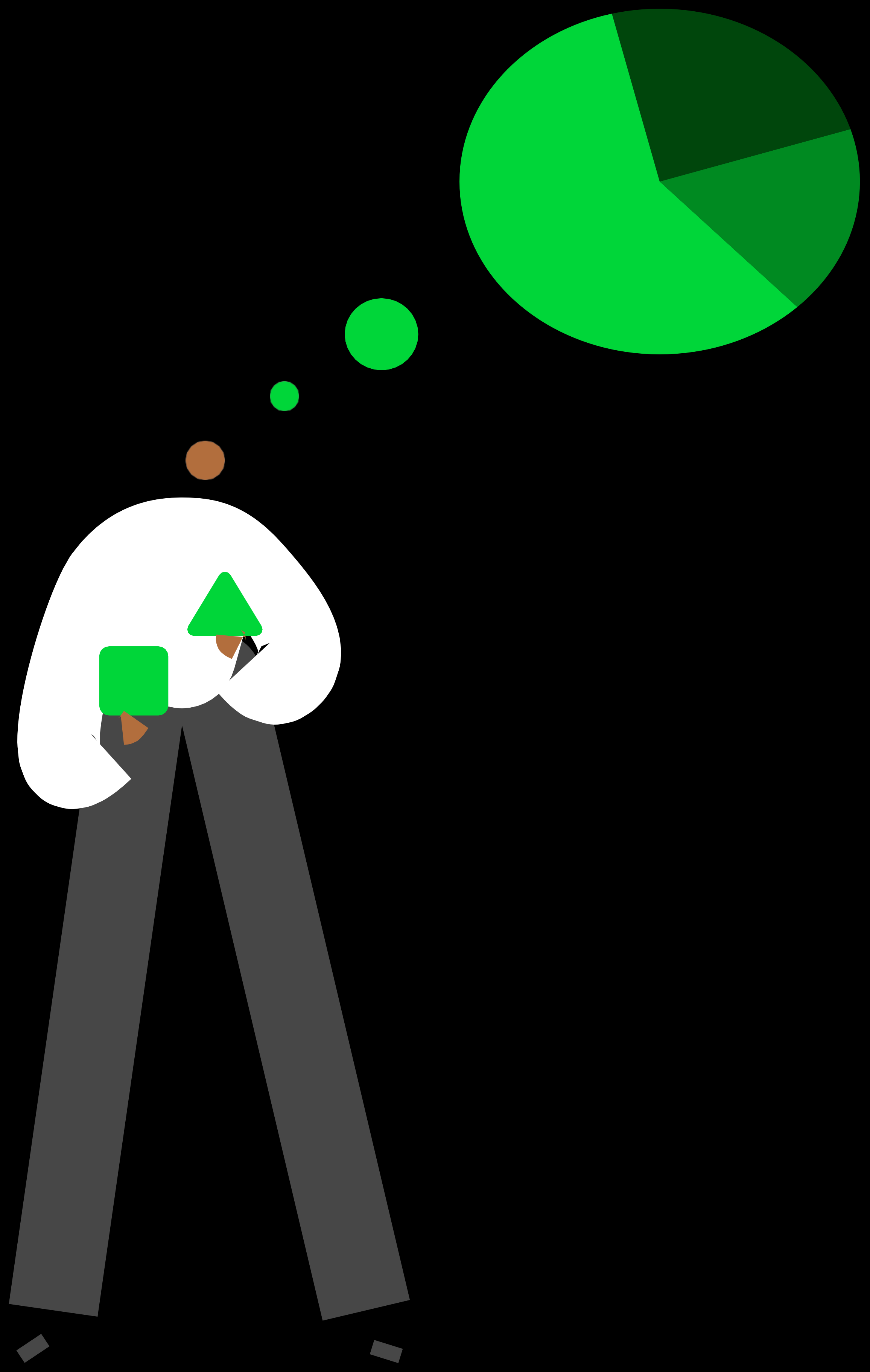
Source: Sage, Smart Data Foundry, ONS, Cebr

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 = Revenue - Expenditure – 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 **142,569**, which contained the following demographics.

Size

39%

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

34%

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

27%

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	7%
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
- **52%** were in services[1]

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

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