

SAGE UK SMALL BUSINESS TRACKER - Q1 2025

A Sage report in partnership with
Smart Data Foundry and Cebr

January - March 2025

Sage  **SMART DATA
FOUNDRY**



TABLE OF CONTENTS

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

Headline Findings

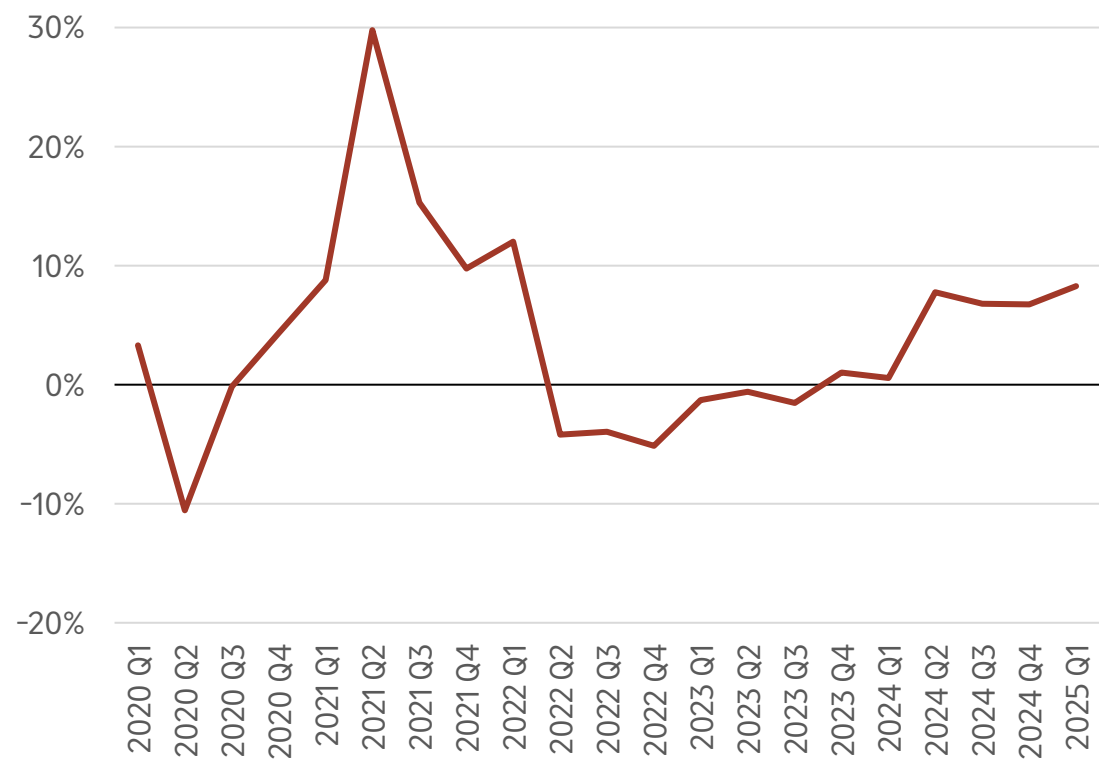
The latest Sage Small Business Tracker shows that small businesses continue to exhibit resilience, with average annual profit growth staying high relative to the past three years. This trend mirrors the broader UK economy, which grew by 1.3% year-on-year in Q1. All UK regions recorded profit growth, with the East of England leading in terms of gains.

FORECAST: Looking ahead, declining interest rates may provide some relief for small businesses, but persistent cost pressures from rising labour costs and energy prices, National Insurance Contributions hikes and global uncertainties will continue to weigh on confidence and growth in the UK.

- i. Profits increased** – Small business profit growth accelerated to 8.3% year-over-year in Q1 2025, up from 6.7% in Q4 2024. This marks the fastest pace of profit growth in three years. These gains came ahead of several cost pressures that took effect from April 2025, including increases in National Insurance Contributions and the National Living Wage. As such, rising costs from Q2 onward are expected to weigh on profitability as businesses adapt to the new fiscal environment.
- ii. Small business revenues grew for the fourth consecutive quarter** – Small business revenues grew by 2.9% in the year to Q1 2025. This figure aligns with several quarters of growth across the wider economy.
- iii. Expenditure growth returned to negative territory** – Real expenditure by the average small business declined by 1.3% year-on-year in Q1 2025. This pullback suggests a more cautious stance on spending, as firms faced ongoing cost pressures and elevated economic uncertainty. Expectations of higher labour costs from April 2025 may have also encouraged businesses to curb hiring activity and keep wage growth in check.
- iv. A sharp dip in productivity led to a marked slowdown in Q1** – Productivity growth eased to just 0.3% year-on-year in Q1 2025, as the average revenue per worker fell by 5.6% in the quarter. The slowdown underscores a broader pattern of stagnation that has persisted over the past two years.

Small business profits rise in Q1, marking strongest growth in two years

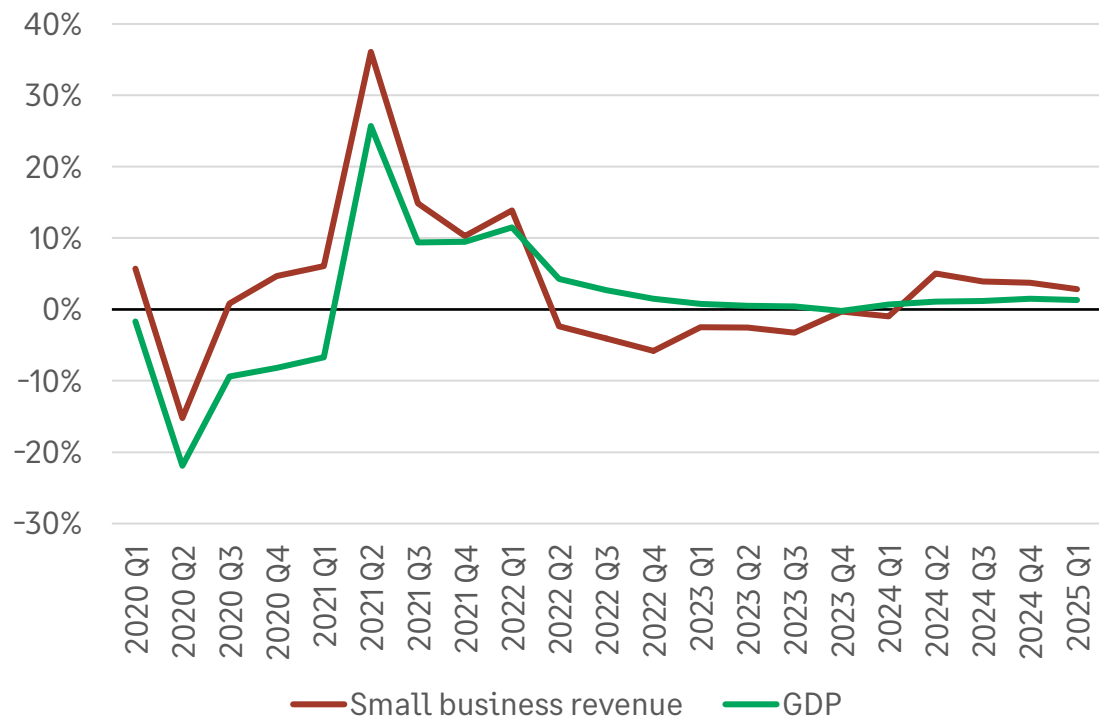
Profit growth for the average small business (2019 prices, year-on-year %)



- 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 8.3% for the average small business in the year to Q1 2025. This marks an acceleration from 6.7% in Q4 2024. Growth remains significantly elevated when compared with the past two years.
- Small business growth in Q1 2025 was driven by rising annual revenues and easing cost pressures. Real revenues grew by 2.9% year-on-year, although the pace slowed compared to the previous quarter. At the same time, expenditures fell by 1.3%. This marks a welcome reversal after two consecutive quarters of rising costs, providing additional support to profit margins.
- These gains came ahead of the increases to employer National Insurance Contributions and the National Living Wage introduced in April 2025. While rising costs are expected to exert pressure on margins, the underlying momentum in small business performance suggests profitability could continue to improve in the coming quarters.

Stronger economic activity and household demand drive small business revenue growth

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

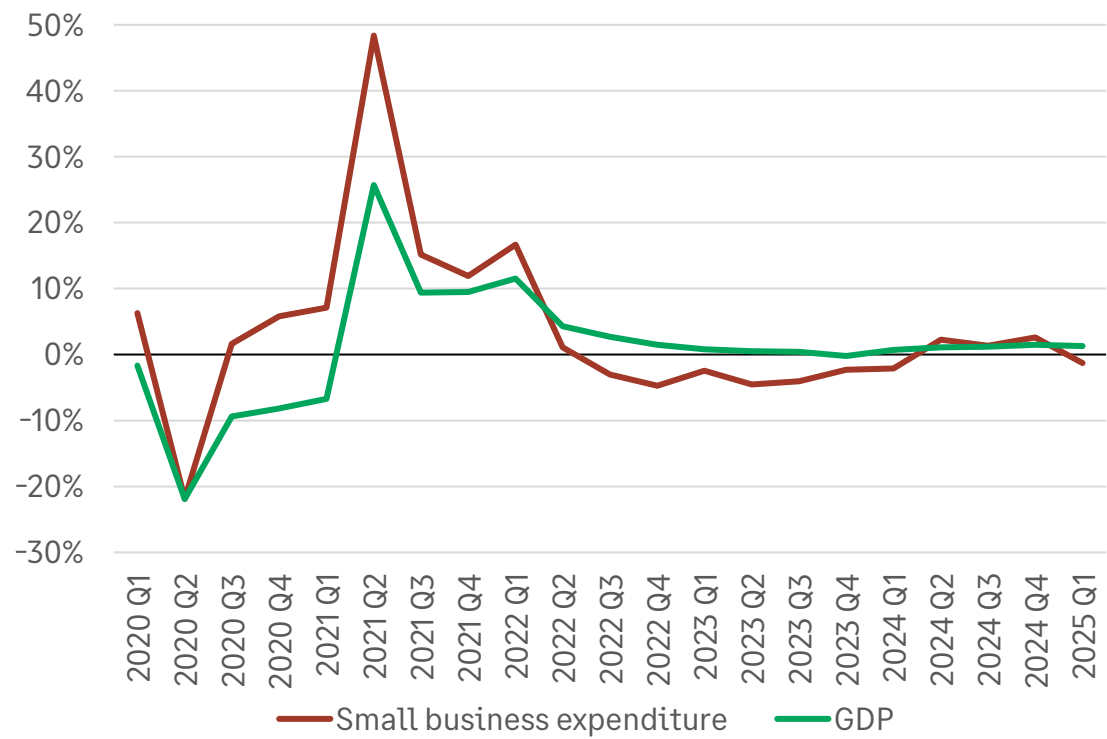


Source: Sage, Smart Data Foundry, ONS, Cebr

- Real revenues for small businesses increased by 2.9% in Q1 2025, marking the fourth consecutive quarter of growth. However, the pace of expansion has continued to slow, following gains of 5.0% in Q2 2024, 3.9% in Q3 2024, and 3.7% in Q4 2024.
- Small business revenues in the UK held up strongly in Q1 2025, supported by effective cost management and continued demand in key sectors, even as consumer and business confidence remained weak. This resilience highlights the ability of small firms to adapt despite lingering uncertainty.
- The strength in small business revenues also reflects broader economic conditions, as the latest data from the Office for National Statistics (ONS) indicates that the UK economy expanded by 1.3% year-on-year in Q1 2025.
- Household consumption rose by 0.7% in this period, supported by increased spending on household goods and services, miscellaneous items, and housing-related expenditures. Retail sales volumes also provided a boost, rising by 1.7% year-on-year in Q1 2025, supported in part by unseasonably warm weather. Indeed, this March was the third sunniest on record. Clothing and footwear retailers saw a boost in sales as consumers likely took advantage of the favourable conditions.

Small business expenditure falls amid falling input prices and anticipated April cost hikes

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

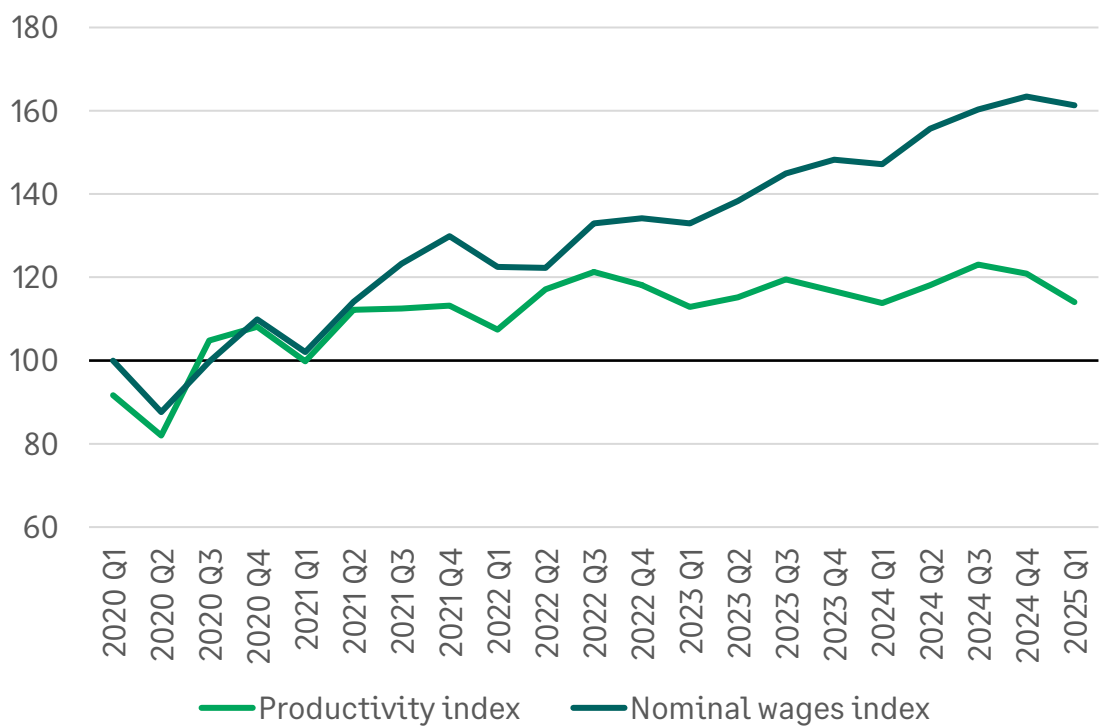


- Real expenditure for the average small business fell by 1.3% in the year to Q1 2025, after rising in the three previous quarters. Together with steady revenue growth, this has led to the highest profit growth recorded since Q1 2022.
- Over the past three years, small businesses have generally stagnated in their spending, likely reflecting greater cost-consciousness amid muted demand and persistent inflation. That said, Q1 2025 marks the first quarter since Q1 2024 in which spending growth has been negative.
- This decline in expenditure aligns with the changes in broader business costs. Indeed, the latest ONS data show that input producer prices declined by 0.1% in the year to January 2025, driven primarily by a significant drop in energy costs.
- However, the drop in small business expenditure will likely prove temporary. Cost pressures are expected to have risen in the second quarter of this year, driven by increases to employer NICs and the National Living Wage, which took effect in April. Together, these changes will add to firms’ operating costs.

Source: Sage, Smart Data Foundry, ONS, Cebr

Wage and productivity growth slows in Q1

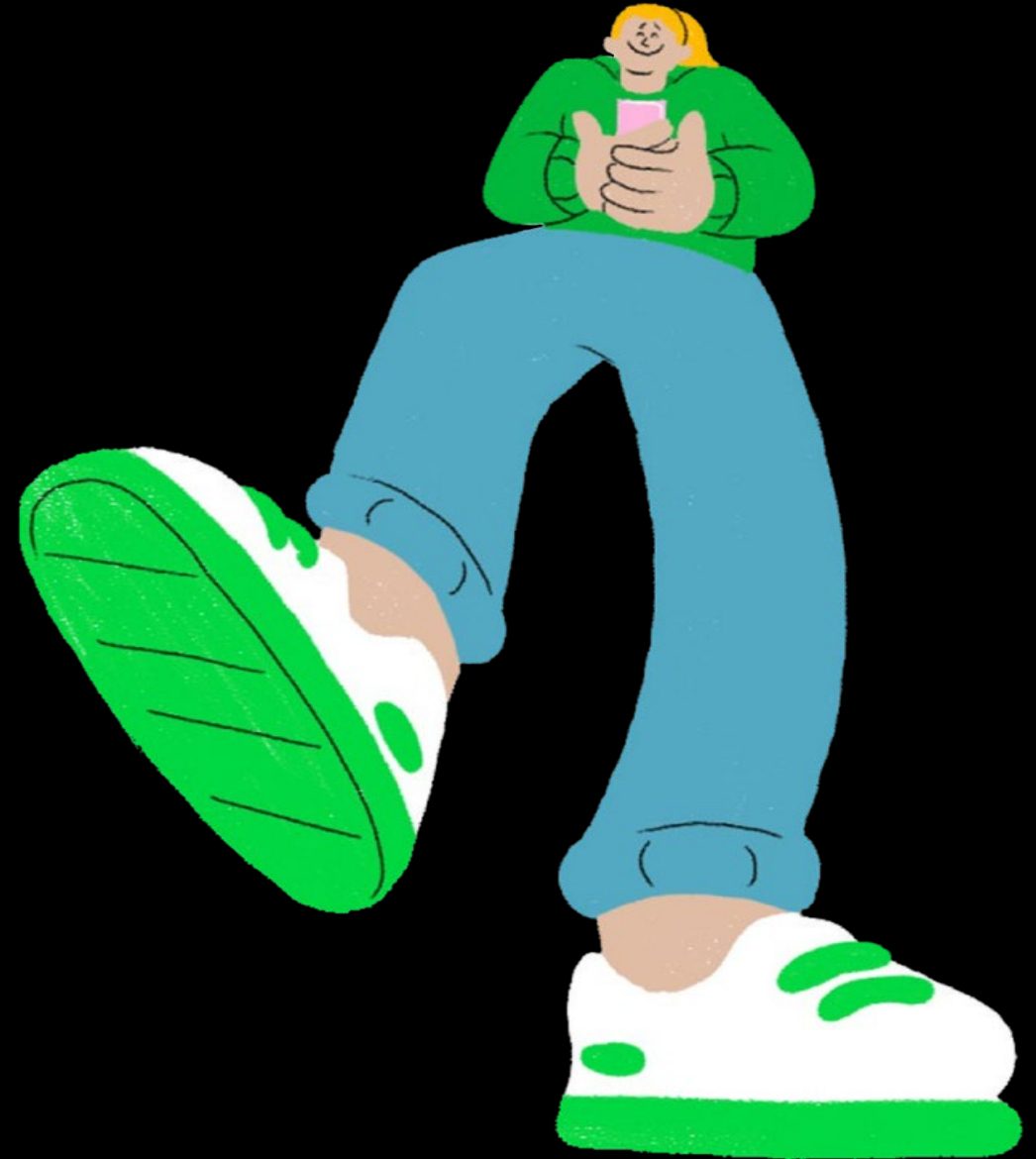
Nominal wages and real productivity (index 2019 = 100, non-seasonally adjusted)



Source: Sage, Smart Data Foundry, ONS, Cebr

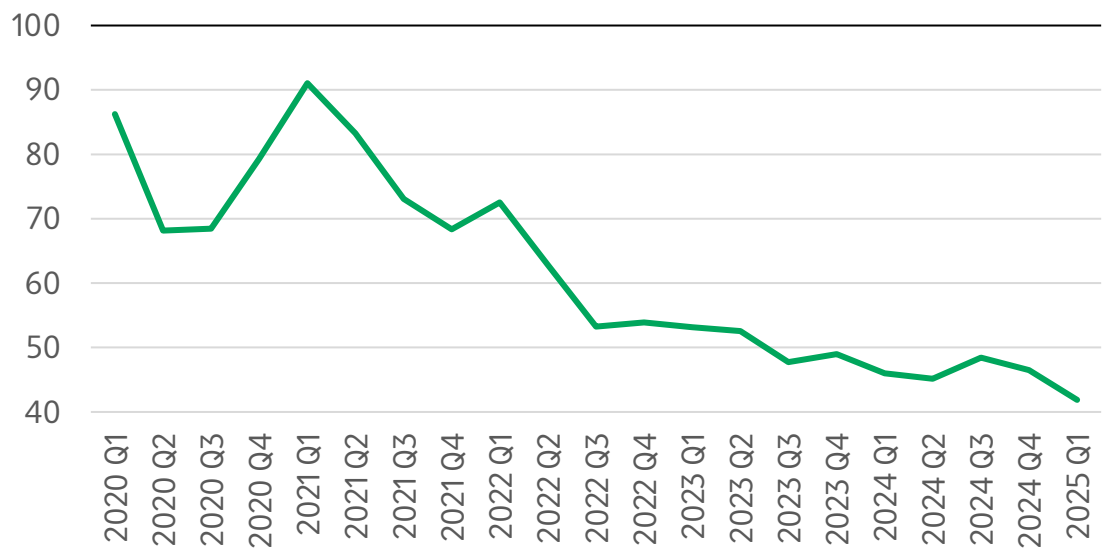
- According to the latest Sage data, the nominal wage index registered its first decline in a year. However, due to strong growth in previous quarters, annual pay growth has only slowed in Q1 2025 to 9.6%.
- The slowdown in annual pay growth among small businesses aligns with wage trends in the wider economy. According to the latest ONS data, annual growth in total earnings was 5.5% in Q1 2025, down from 6.1% in Q4.
- 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 Q1 2025, productivity for the average small business grew by 0.3% year-on-year, following a 3.6% increase in Q4 2024. This compares with the ONS flash estimate, which found output per worker fell by 0.7% in the year to Q1 2025.
- Productivity growth has been uneven over the past two years, largely due to weak revenue trends and a growing workforce. Indeed, the average number of employees rose from 5.1 in 2023 to 5.5 in 2024. Small businesses are maintaining their ability to hire and keep talent despite ongoing economic pressures. This resilience is particularly noteworthy given the broader UK landscape, where inflationary pressures, rising wage costs, and lingering post-Brexit trade frictions have continued to challenge business stability and growth.

Sage UK Small Business Tracker: Indicators by key themes



Prices and spending

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



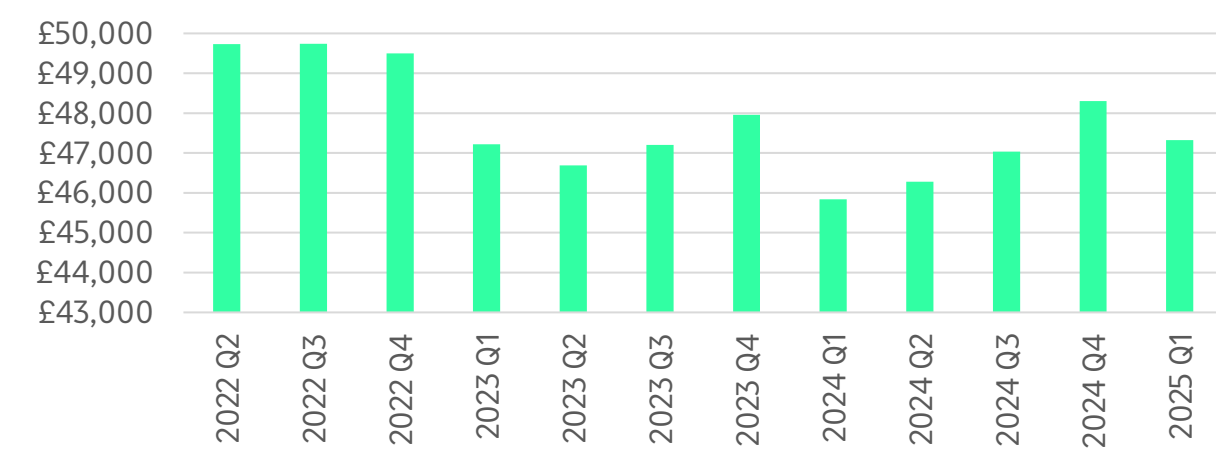
Source: Sage, Smart Data Foundry, ONS, Cebr

Bank of England rate cuts were not enough to prevent a fall in small business capital expenditure, as lingering uncertainty continued to weigh on investment.

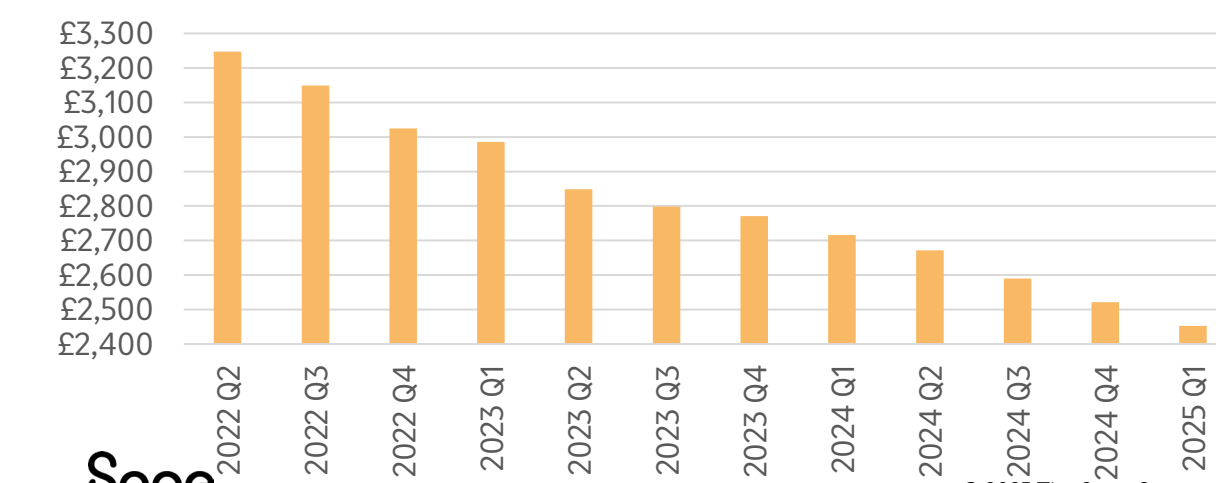
- Small business capital expenditure refers to the acquisition or upgrading of tangible assets, such as equipment or property. It does not include other forms of investment like training and development of staff or many forms of digitisation. In the last two years, this measure has been adversely affected by the challenging trading environment caused by high inflation, elevated interest rates, and weak economic output growth.
- Capital expenditure fell by 9.0% year-on-year in Q1 2025, following a 5.0% decline in Q4 2024. The back-to-back contractions reflect subdued market sentiment and operational adjustments ahead of impending labour cost pressures.
- The Bank of England’s interest rate cuts were not enough to soften the decline in small business capital expenditure in Q1 2025. Ongoing economic uncertainty and the prospect of rising wage costs appear to have been enough to dissuade large 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)

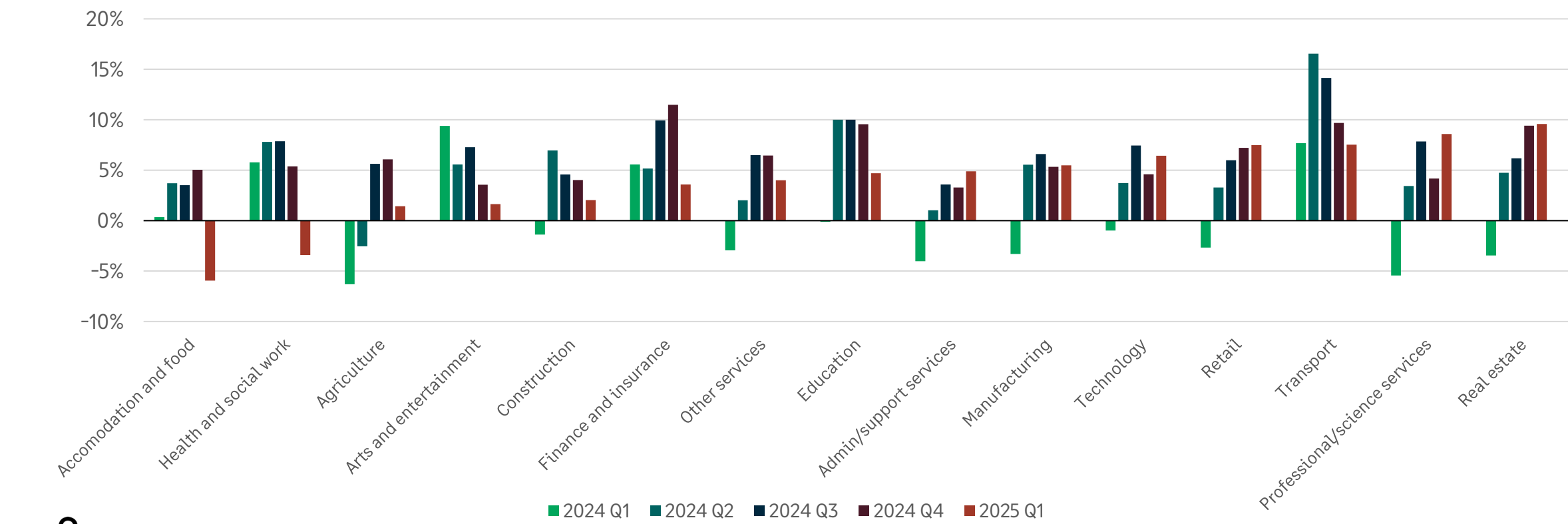


Both real cash balances and debt balances for small businesses declined this quarter.

- 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 high-interest rate environment has made saving more attractive.
- The latest data show that average cash balances among small businesses fell in the quarter in Q1 2025 for the first time in a year. That said, annual growth remains positive at 3.3%.
- Small business debt positions reflect loan utilisation, which is the sum of credit card balances and other credit available. The average debt position has fallen gradually in the last three years, and, in real terms, debt has fallen 9.7% compared to a year earlier.
- Despite cuts in Q1, interest rates remain elevated when compared with recent standards. As such, it is likely that businesses have prioritised decreasing debt levels over investment.

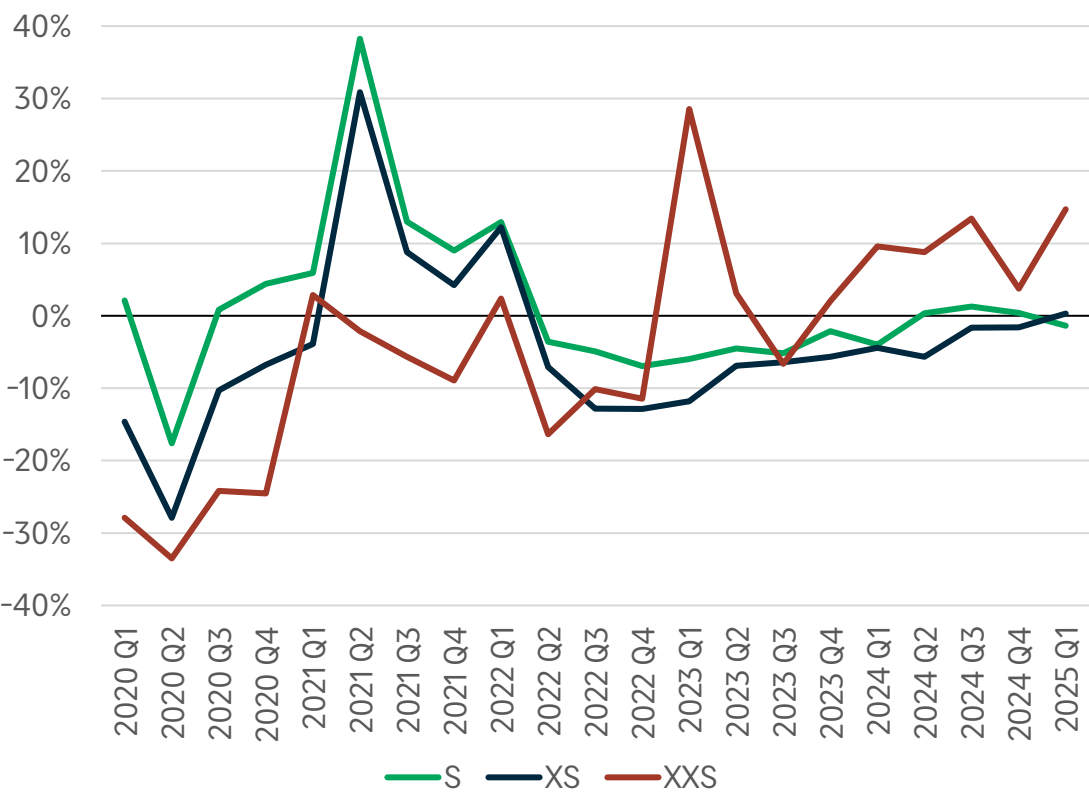
Deep dive - annual change in revenue by industry

- The accommodation and food services sector recorded a revenue decline of 5.9% in the year to Q1 2025. This trend, alongside subdued growth in the arts and entertainment sector, suggests that UK consumers are becoming more cautious with discretionary spending in response to the ongoing issues surrounding the high cost of living.
- The real estate sector posted the strongest growth this quarter, rising 9.6% in the year to Q1 2025. The Bank of England’s recent move to begin cutting interest rates, alongside expectations of further reductions, is creating a more supportive environment for investment and activity, positioning the sector for sustained momentum through the rest of the year.



Deep dive – revenue growth by business size

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



Nano and micro businesses show revenue growth while larger small businesses experience slowdown.

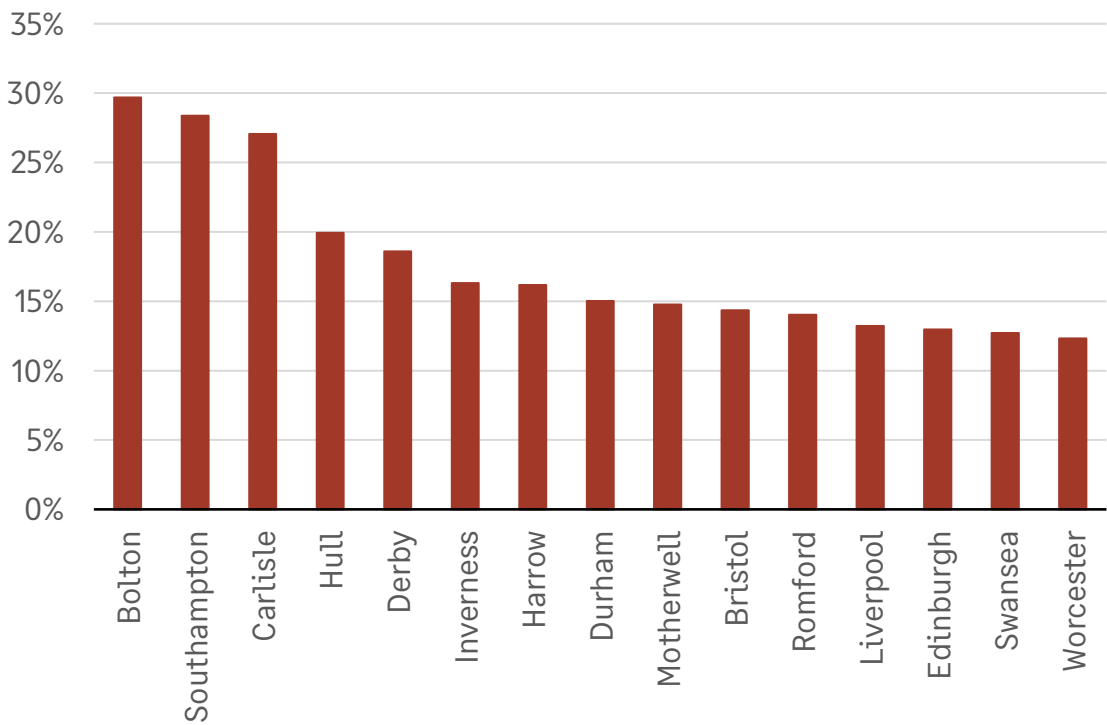
- Looking at business revenue across our three subgroups of size shows that small (S) and extra small (XS) sized businesses have followed similar trends since Sage began collecting revenue data. This is typified by a strong post-pandemic recovery, followed by a sharp decline, towards sluggish growth.
- Nano-businesses (XXS) saw a strong rise in revenue this quarter, with year-on-year growth of 14.7%. In contrast, extra-small businesses posted sluggish growth of just 0.3%. Yet, notably, this marks the first time in nearly three years that revenue growth has turned positive for this group.
- Small businesses (S), however, were the only size category to record negative revenue growth, declining by 1.4% year-on-year. This is the first contraction in revenue for this segment since Q1 2024.
- The diverging performance may reflect the relative agility of nano-businesses in adapting to shifting consumer demand.

Source: Sage, Smart Data Foundry, ONS, Cebr

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

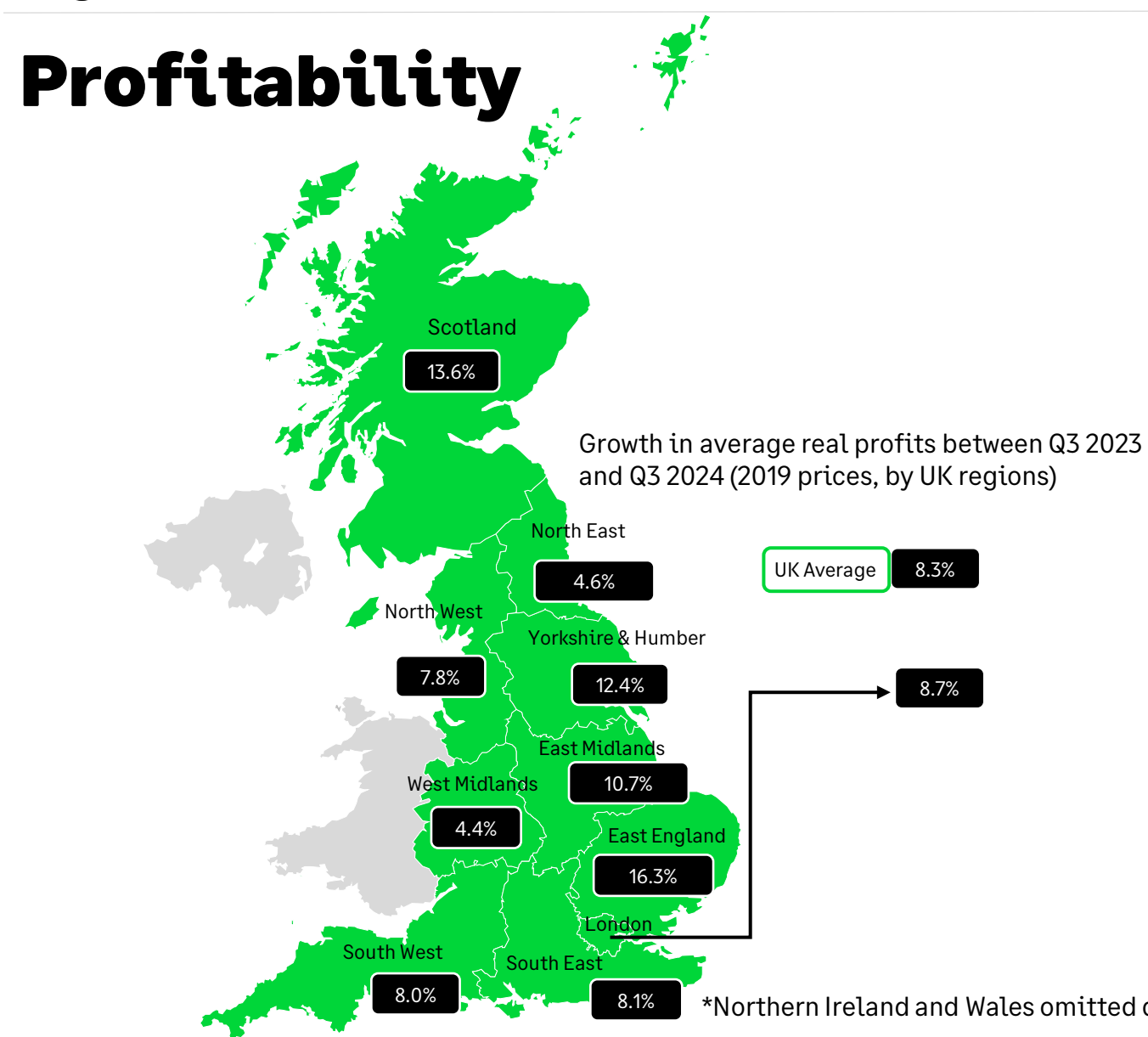
Growth in average business revenue between Q1 2023 and Q1 2025 (2019 prices, top 15 urban areas)

Over the two years between Q1 2023 and Q1 2025, revenue growth varied greatly by region. From over 100 areas across the UK, 68% saw average small business revenue increase.



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

- At the urban area level, Bolton recorded the strongest growth in real revenues for the second consecutive quarter, reaching 29.7% in the two years to Q1 2025. Its reputation as a creative hub is likely contributing to this growth. Southampton followed closely, with the second-highest revenue growth at 28.4%.
- This quarter, only two of the fifteen fastest-growing urban areas were in Greater London. In contrast, three were in the North West and three in Scotland. For the latter, this strong local performance is reflected at the regional level, where Scotland recorded the second-highest annual profit growth at 13.6%.
- In contrast to the high-performing urban areas, several places in the west of England, particularly parts of the West Midlands and North West, were among the weakest performers this quarter. Areas such as Hereford, Stoke-on-Trent, and Blackpool recorded some of the sharpest contractions, each posting declines more than 11%.

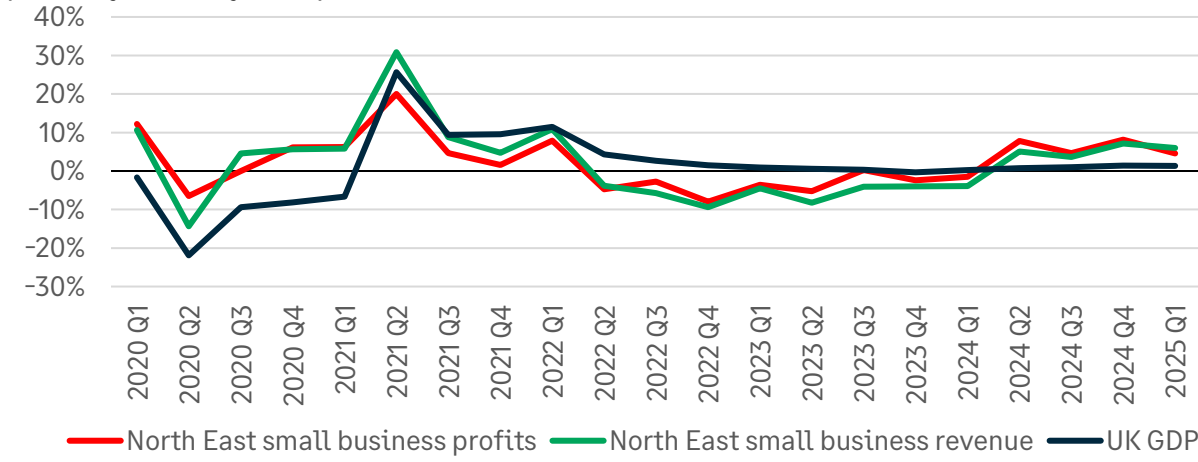


The average small business saw profits rise by 8.3% in the year to Q1 2025, with the East of England recording the strongest growth of any UK region.

- 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 Q1 2025, Sage data show that the average small business saw profits rise by 8.3%, an acceleration from 6.7% in Q4 2024 and the highest growth rate recorded in three years.
- Although all regions displayed growth, there were disparities. The East of England witnessed the largest annual rise, at 16.3%. Scotland was also a high performer, recording profit growth of 13.6%.
- On the other end of the spectrum, the West Midlands saw the slowest annual profit growth, with 4.4%. The North East, North West, South East and South West also weighed on the UK average by posting profit growth below average in Q1.

Deep dive – North East

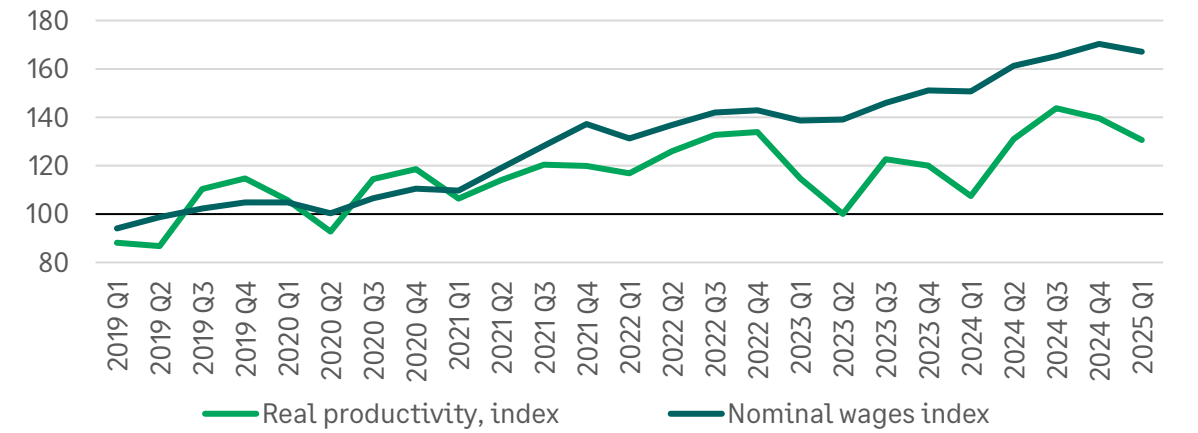
Revenue and profits growth for the average North East small business and GDP (2019 prices, year-on-year %)



In the year to Q1 2025, the average small business in the North East saw real revenue growth of 6.0%, while profits rose by 4.6%, below the national average.

- In the year to Q1 2025, small business revenue in the North East grew by 6.0% in real terms, while profits rose by 4.6%. Revenue growth outpaced the UK-wide average of 2.9%, though profit growth was below the average of 8.3%.
- The below-average profit growth was likely a consequence of rising expenditures amongst small businesses in the region. Indeed, the North East saw real expenditure increase by 4.4% in the year to Q1 2025, compared with a 1.3% decline across the UK.
- Productivity, measured as revenue per employee, has shown a downward trend in recent quarters since peaking in Q3 2024. That said, productivity has improved significantly since Q1 2024, increasing by 21.6% in the year to Q1 2025.
- Meanwhile, the nominal wage bill for small businesses in the North East rose by 8.1%, slightly below the UK-wide increase of 9.6%. This signals a widening gap between productivity and wage growth for the region.

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 $\text{EBITDA} = \text{Revenue} - \text{Expenditure} - \text{Overheads}$
- 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 2025, our sample was 138,000, 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 128,000 businesses identified their region.

Region	South East	London	Yorkshire and The Humber	West Midlands	North West	East of England	Scotland	South West	East Midlands	North East	Wales	Northern Ireland
Share	13%	11%	10%	10%	10%	9%	9%	9%	7%	4%	4%	3%

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

- 26% were in heavy industry
- 21% were in light industry
- 53% were in services

Payroll (our data for productivity and workforce-related variables are based on a smaller sub-sample of 24,000 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.

Contact

Charlie Cornes

ccornes@cebr.com

020 7324 2841

Sara Pinerros

spinerros@cebr.com

020 7324 2872

