

UK SAGE SMALL BUSINESS TRACKER - Q4 2024

A Sage report in partnership with Smart
Data Foundry and Cebr

October - December 2024

Sage  **SMART DATA
FOUNDRY**



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Headline Findings



Wages & Productivity



Resiliency



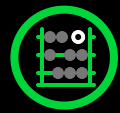
Growth



Profitability



Deep dive North East



Methodology



Headline Q4 findings

The latest Sage Small Business Tracker shows that small businesses continue to show real resilience in a tough economic climate, with average annual profit growth staying high relative to the past two years. This trend mirrors the broader UK economy, which grew 1.4% year-on-year in Q4—the fastest quarterly expansion since Q4 2022. 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, 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 eased to 7.3% year-over-year in Q4 2024, marking a second consecutive quarter of deceleration from 8.6% in Q2 and 8.2% in Q3. However, despite the slowdown, profit growth remains above the levels observed in the past two years. These gains precede the forthcoming increases in National Insurance Contributions and the National Living Wage, set to take effect in April 2025. As such, additional cost burdens from Q2 2025 onward will likely weigh on profitability as businesses adjust to the new fiscal measures.
- ii. **Small business revenues grew for a third consecutive quarter** – Small business revenues grew by 2.5% in the year to Q4 2024. This figure aligns with three-quarters of sustained growth across the wider economy.
- iii. **Expenditure growth returned to negative territory** – On an annual basis, real expenditure for the average small business fell by 0.4% in Q4 2024. This decline reflects a more cautious approach to spending, as weaker demand growth and economic uncertainty prompted firms to scale back investment and expansion plans. At the same time, the anticipation of rising labour costs from April 2025, alongside tighter credit conditions, likely led businesses to moderate hiring and control wage growth.
- iv. **Productivity entered negative territory in Q4** – Productivity contracted in Q4 2024, falling 0.9% year-on-year, as the rise in small business staffing levels outweighed the growth in revenue. Additionally, weaker demand and potential efficiency losses may have further weighed on productivity. The decline reinforces the broader trend of stagnation observed over the past two years.



Headline Findings



Wages & Productivity



Resiliency



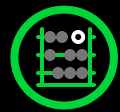
Growth



Profitability



Deep dive North East

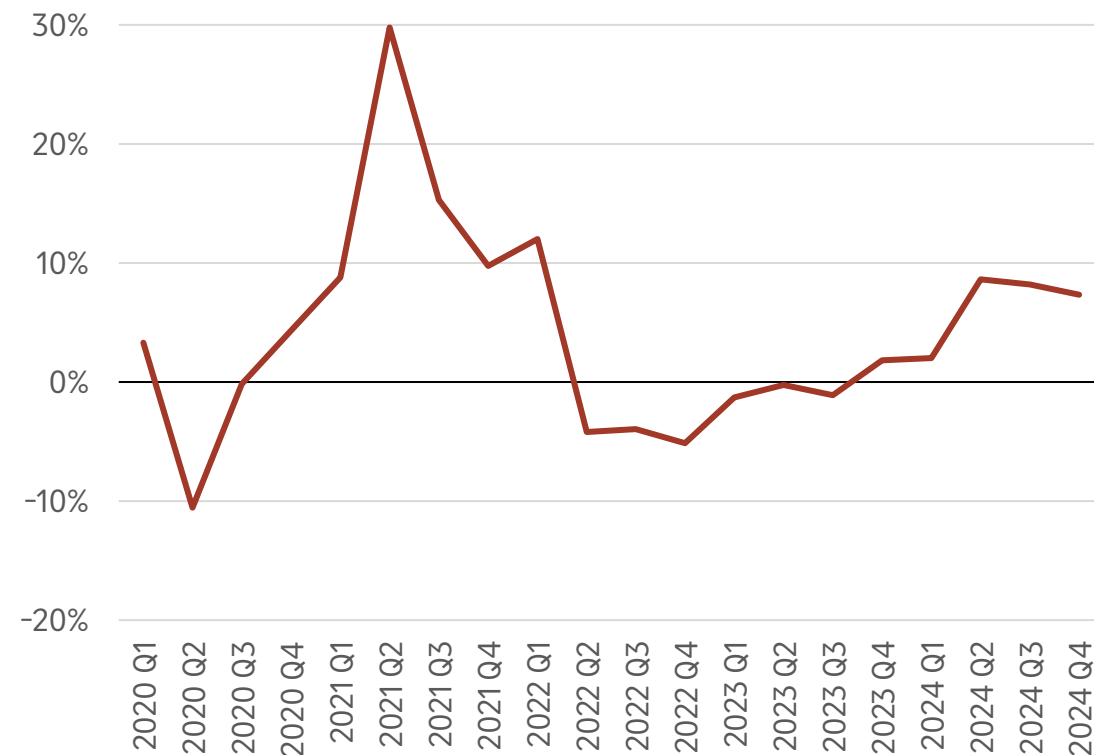


Methodology



Small business profit growth slows in Q4 as revenue decline outpaces drop in expenditure

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



Source: Sage, Smart Data Foundry, ONS, Cebr

- 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 7.3% for the average small business in the year to Q4 2024. This marks a slight deceleration from 8.2% in Q3 2024, however growth remains significantly elevated when compared with the past two years.
- The slowdown in profit growth amongst small businesses was primarily driven by a deceleration in annual revenue growth. This outweighed the 0.4% year-on-year decline in expenditures, marking the first contraction in small business spending since Q1 2024.
- However, these gains come ahead of the planned increases in National Insurance Contributions and the National Living Wage in April 2025, as well as increased energy costs. As a result, additional cost burdens from Q1 2025 onward are likely to weigh on profitability.



Headline Findings



Wages & Productivity



Resiliency



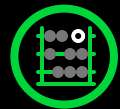
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Profitability



Deep dive North East

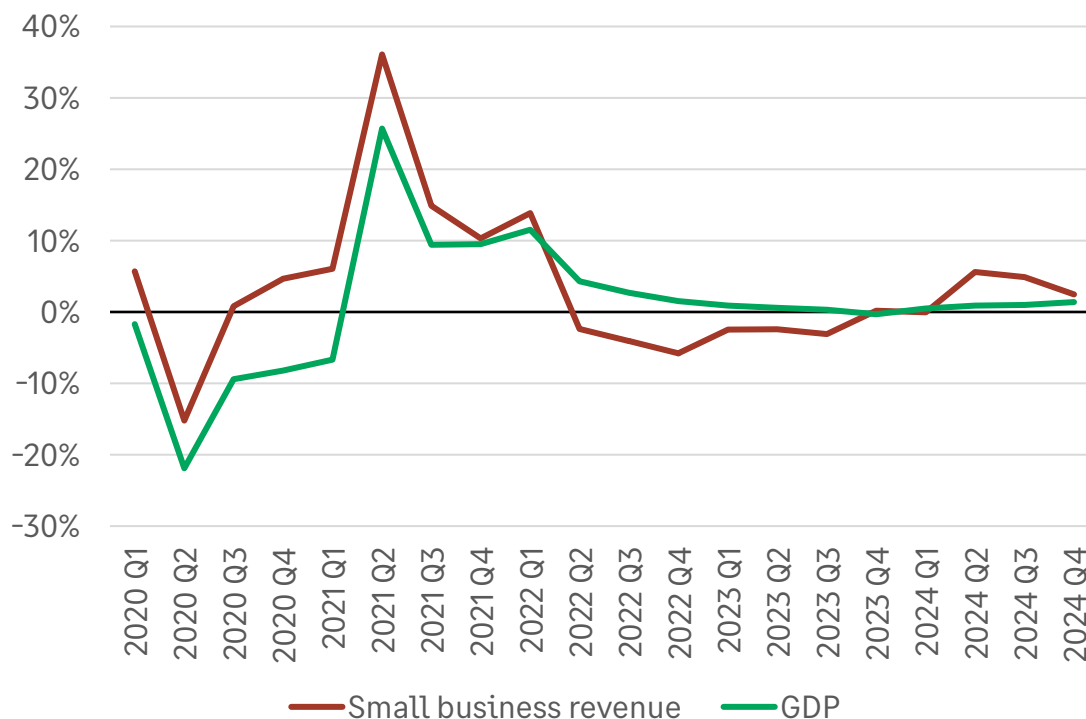


Methodology

Small business revenues grew for three consecutive quarters



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



Source: Sage, Smart Data Foundry, ONS, Cebr

- Small business performance remained resilient in Q4 2024, despite the dip in confidence following the Autumn Budget. Real revenues for small businesses grew by 2.5% in the year to Q4, building on two previous consecutive quarters of growth—5.6% in Q2 and 4.9% in Q3.
- This recovery in small business revenues marks a gradual rebound from significant economic challenges, including the surge in energy prices due to the conflict in Ukraine. Over the past year, the return to growth reflects both a broader improvement in the UK's economic conditions and the resilience of small businesses in managing inflationary pressures and supply chain disruptions.
- The latest Office for National Statistics (ONS) data suggests that the UK economy grew by 1.4% year-on-year in real terms in Q4. Although weak by historic standards, this marks the strongest annual expansion since Q4 2022. However, government consumption was a key driver, at 2.1%.
- Household consumption grew by 0.7% in 2024, despite no growth in Q4. Retail sales volumes also increased by 0.7% during the same period. Consumption growth is expected to be relatively subdued again this year, as rising real wages are met with a higher than usual savings ratio, despite falling interest rates.



Headline Findings



Wages & Productivity



Resiliency



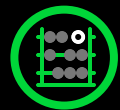
Growth



Profitability



Deep dive North East

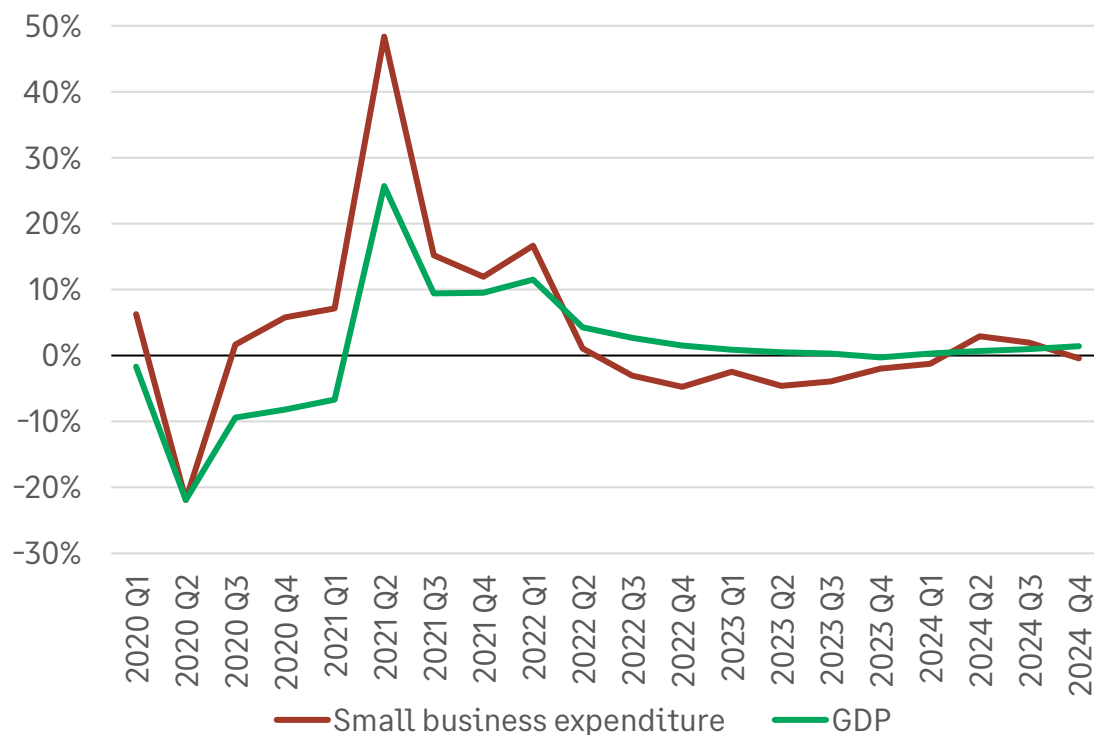


Methodology



Small business expenditure falls as cost management drives strong profit growth

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

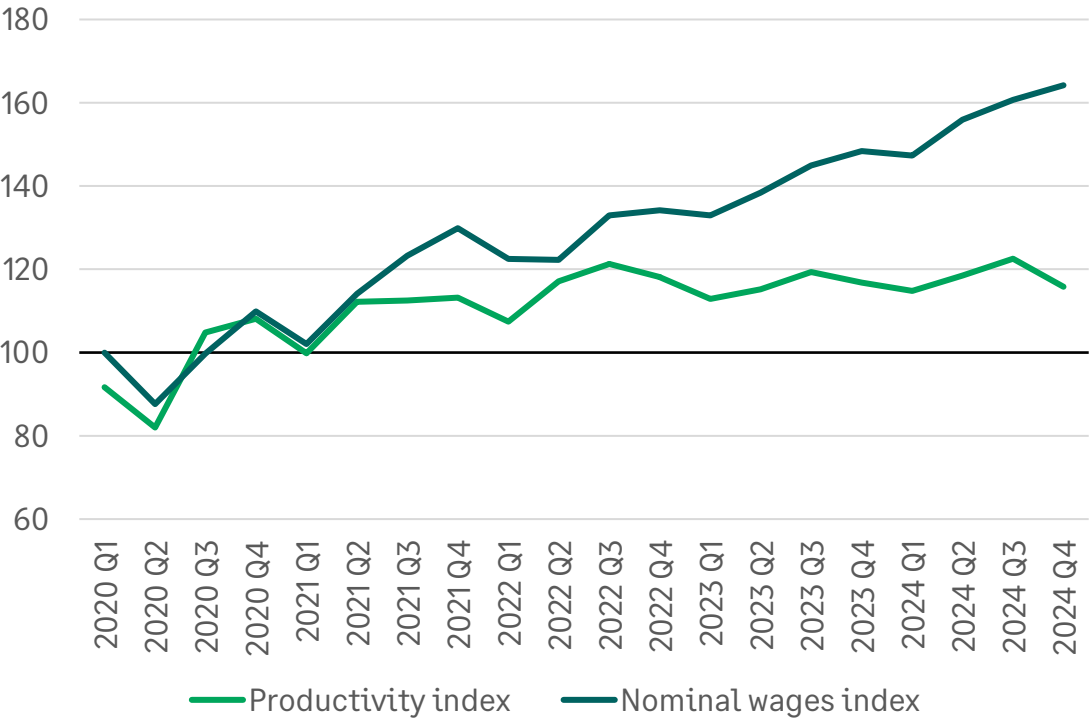


Source: Sage, Smart Data Foundry, ONS, Cebr

- Real expenditure for the average small business fell by 0.4% in the year to Q4 2024, after rising in the previous quarter (1.9%). Together with steady revenue growth, this has led to historically-strong profit growth of 7.3%, as mentioned earlier in the report.
- This decline in expenditure aligns with the changes in broader business costs. Indeed, the latest ONS data shows that input producer prices fell by 1.5% in the year to December 2024, with inputs of fuel being the largest downward contributor.
- Over the past two years, small businesses have broadly shown a trend of reducing expenditure, likely reflecting a heightened focus on cost control amid subdued demand in a high-inflation environment.
- Cost pressures are set to rise in the coming months as increases to employer NICs and the National Living Wage take effect in April. While the smallest firms are partially protected from the NICs hike, others will need to balance how much of the added cost they can absorb versus what must be passed on. The key question remains whether this will primarily result in lower wage growth, higher prices, or reduced employment.

Wages and Productivity

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



Source: Sage, Smart Data Foundry, ONS, Cebr

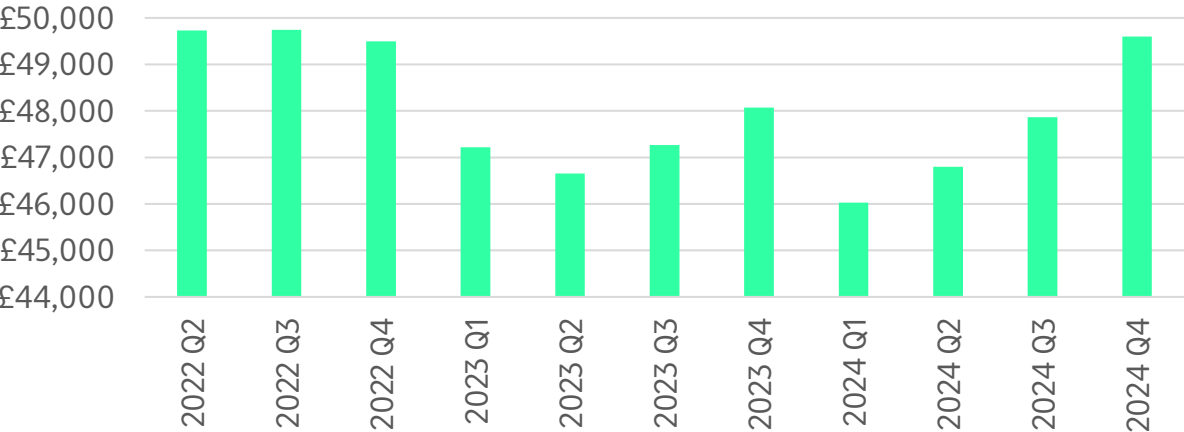
- Small business wage bills continued to grow in Q4 2024. According to the latest Sage data, nominal wages increased by 10.7% year-on-year, slightly down from 10.8% in Q3 2024 and 12.7% in Q2 2024.
- The slowdown in annual pay growth among small businesses contrasts with broader wage trends in the wider economy. According to the latest ONS data, annual growth in total earnings was 6.0% in Q4 2024, following a slowdown in Q3.
- 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 Q4 2024, productivity for the average small business fell by 0.9% year-on-year, following a 2.7% increase in Q3 2024. This compares with the ONS flash estimate, which found output per worker fell by 0.1% in the year to Q4 2024. The latest reading suggests that productivity among small businesses has largely flatlined since mid-2022.
- The wavering growth in productivity over the past two years can be attributed to weak revenue performance, coupled with an increase in the average number of employees. Indeed, this figure has increased from an average of 5.1 in 2022, to 5.5 in 2024. This indicates that small businesses are able to retain and attract talent, despite the ongoing economic headwinds.

Sage small business tracker: Indicators by key themes

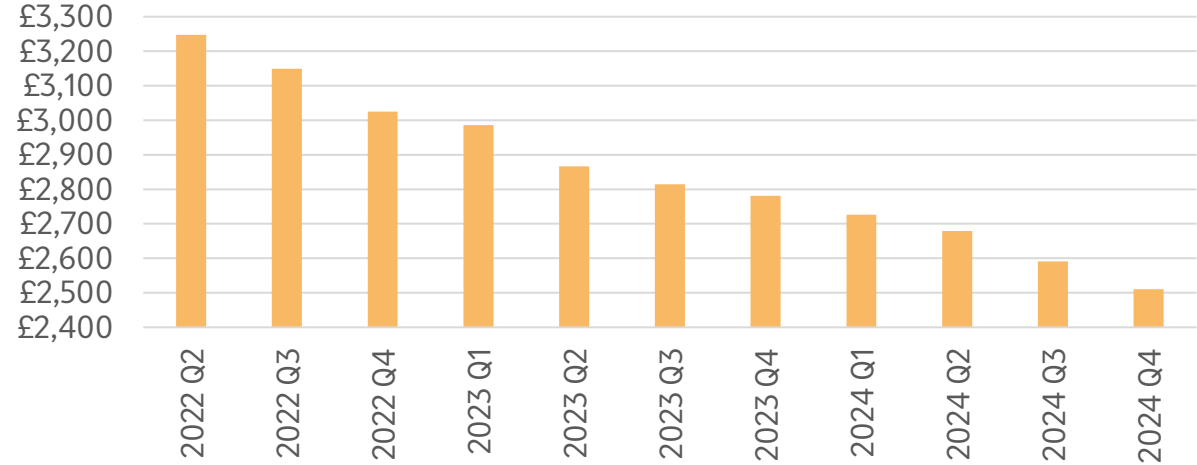


Resiliency: cash and debt

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



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



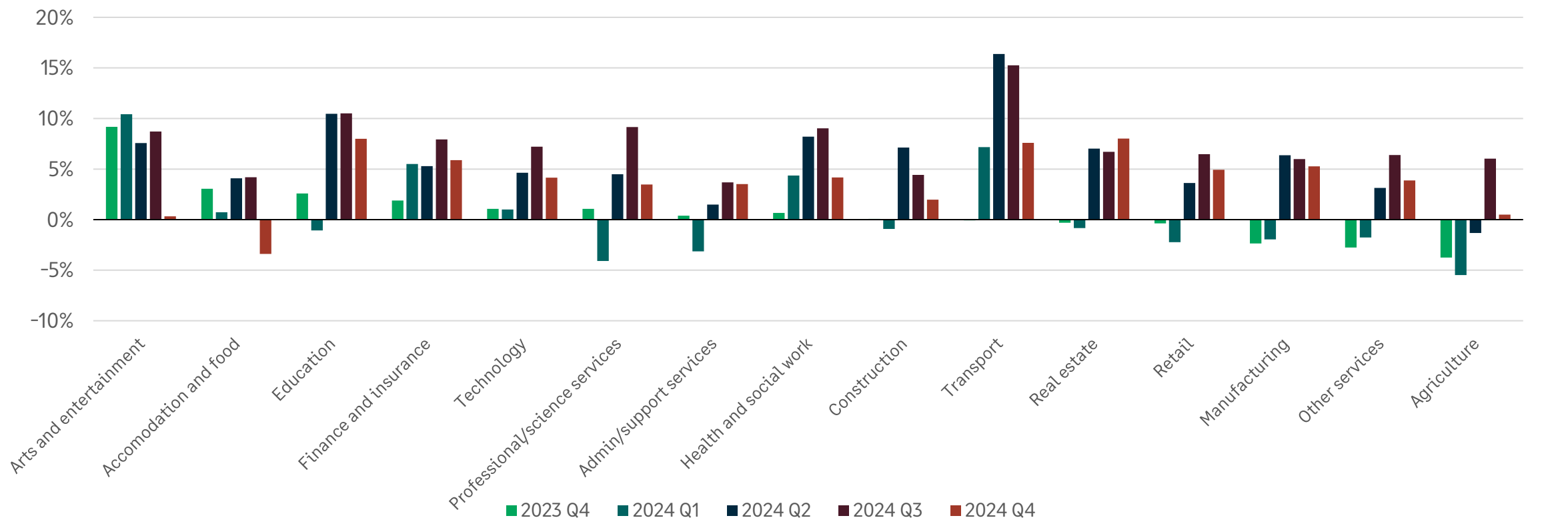
Source: Sage, Smart Data Foundry, ONS, Cebr

Real cash balances for small businesses increased this quarter, while debt balances continued its downward trend in Q4 2024.

- 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 shows that cash balances for the average small business improved substantially in Q4 2024, rising by 3.2% compared to a year earlier in Q4 2023.
- 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 two years, and in real terms, debt has fallen 9.7% compared to a year earlier.
- Despite recent cuts, interest rates remain elevated by historical standards. As such, borrowing costs are still relatively high for small businesses. Therefore, many of these businesses have likely opted to decrease their debt levels rather than invest.
- However, the most recent increase in cash balances indicates potential cash hoarding by small firms, given falling economic confidence toward the end of 2024.

Deep dive - annual change in revenue by industry

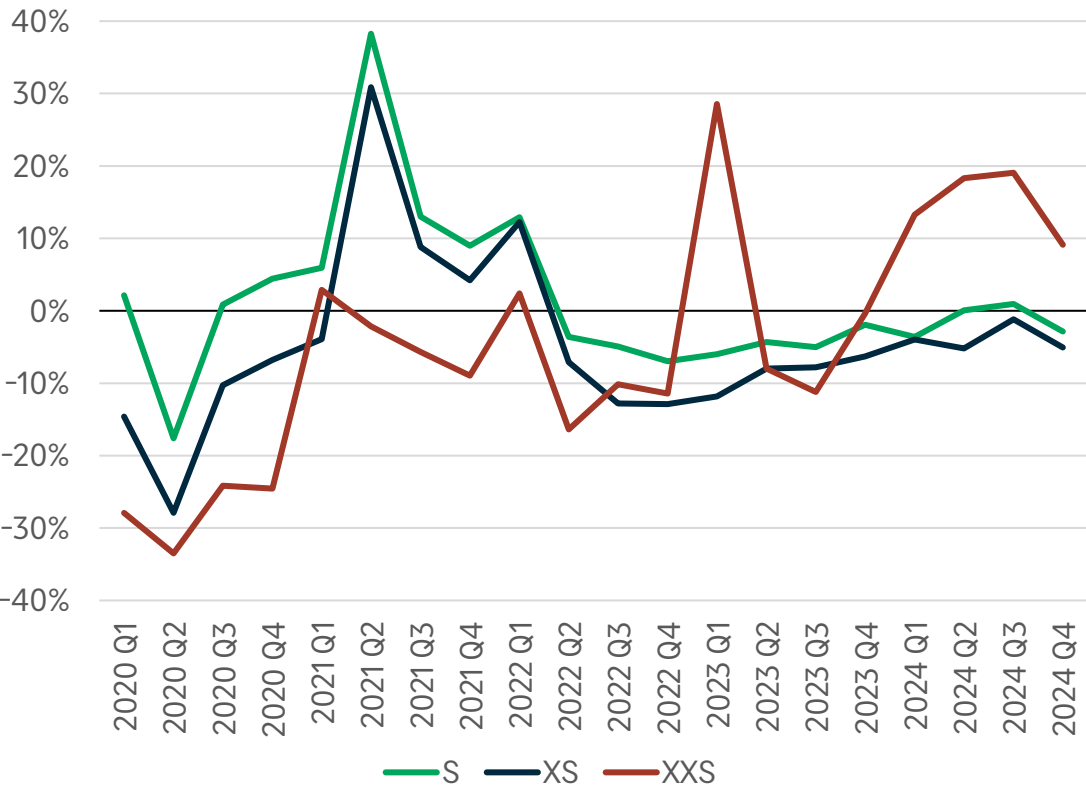
- Hospitality was the only industry to record a contraction in revenue in the year to Q4 2024, declining by 3.4% over the period. With revenue growth within the arts and entertainment sector also subdued, these data suggest that consumers are being more selective with discretionary spending given the higher cost of living in the past few years.
- Conversely, the real estate sector saw the fastest revenue growth among industries, rising 8.0% year-on-year. Lower borrowing costs following Bank of England rate cuts likely boosted investment by reducing mortgage rates, making property purchases more affordable, and encouraging commercial and residential development.



Source: Sage, Smart Data Foundry, Cebr

Deep dive – revenue growth by business size

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



Source: Sage, Smart Data Foundry, ONS, Cebr

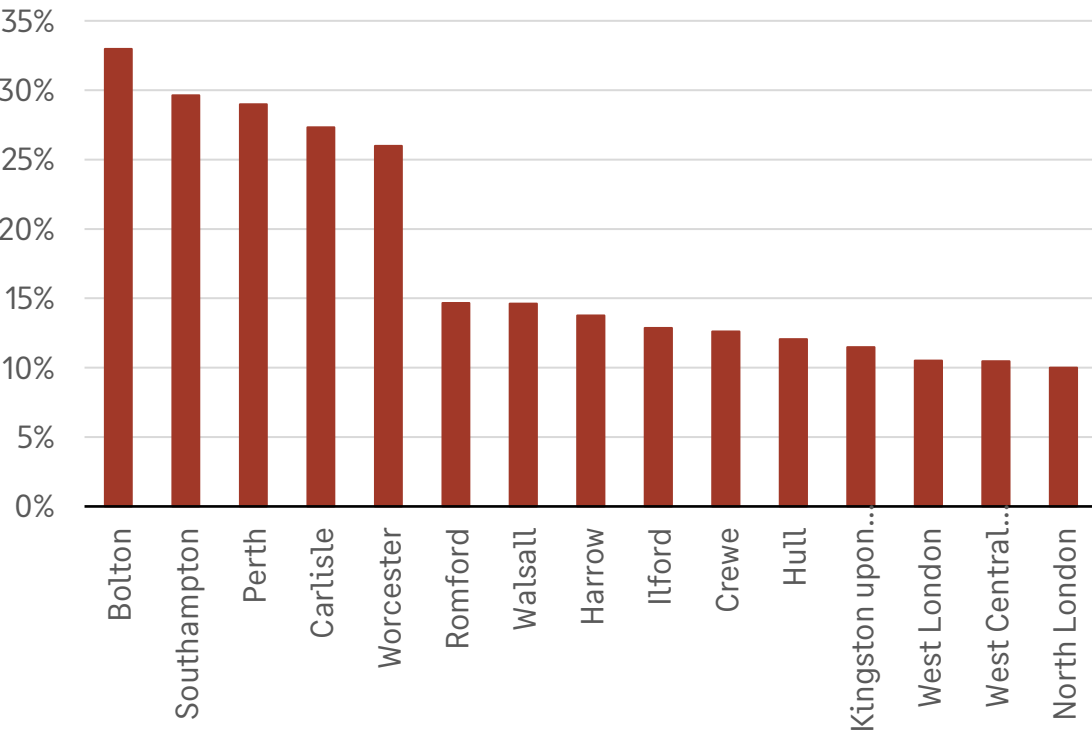
Nano-businesses continued to buck the trend of larger small businesses, despite the slowdown in annual revenue growth.

- 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 remains true in recent years where there was a strong post-pandemic recovery, followed by a sharp decline towards sluggish growth.
- Over the past two years, UK GDP has largely stagnated, with medium (XS) and larger (S) small businesses facing ongoing revenue declines. This trend deepened in Q4 2024, as revenues fell by 5.1% and 2.8% year-on-year, respectively, pushing both categories into negative growth.
- In contrast, nano-businesses (XXS) have shown significantly more revenue volatility than their larger counterparts. Although their annual revenue growth slowed sharply from 19.1% in Q3 to 9.1% in Q4 2024, they remain the only segment still seeing positive growth.



Deep dive – the fastest growing cities and towns over the past two years

Growth in average business revenue between Q3 2022 and Q3 2024 (2019 prices, top 15 cities)

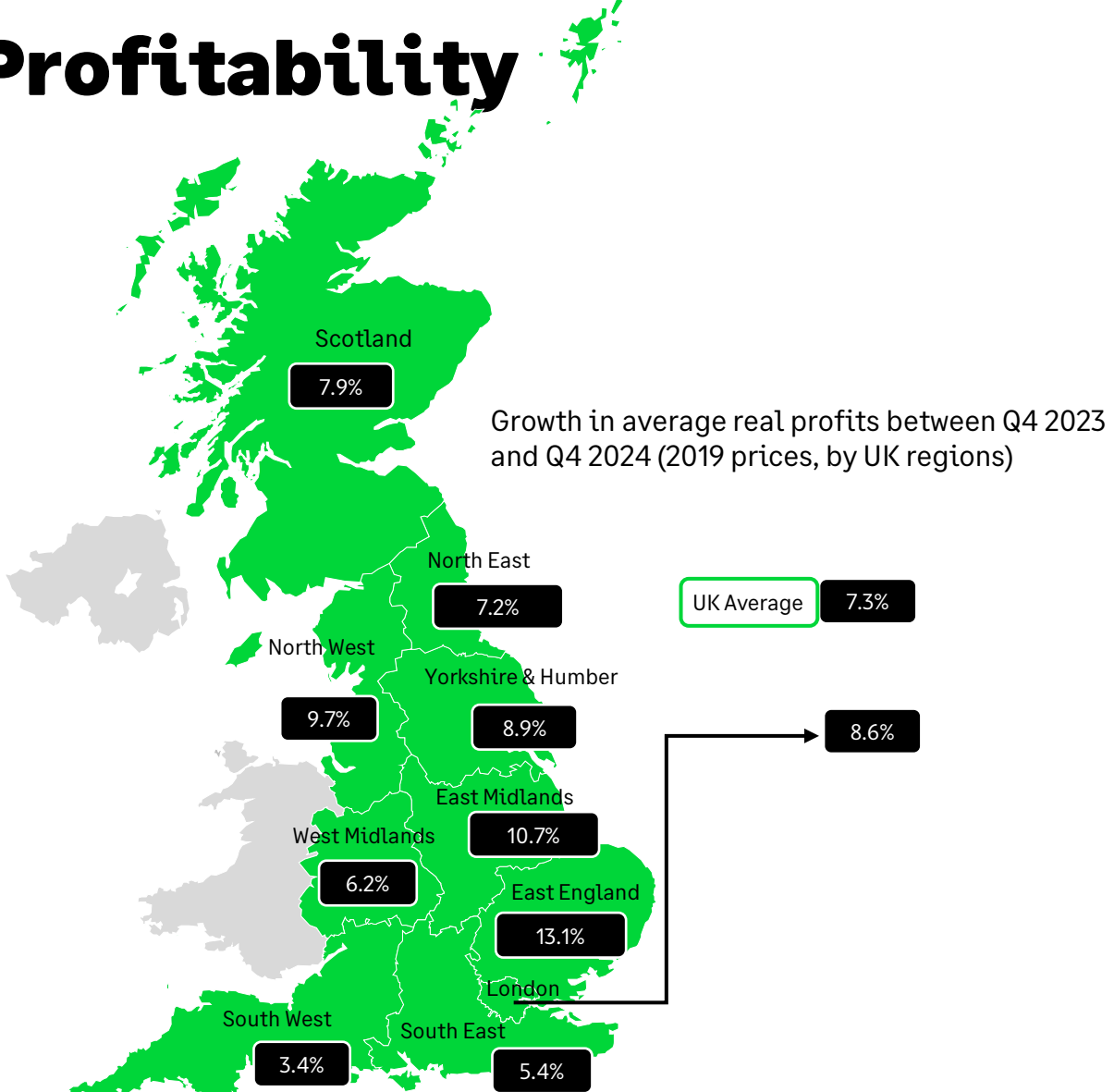


Minimum sample size: 1200 businesses
Source: Sage, Smart Data Foundry, ONS, Cebr

Over the two years between Q2 2022 and Q2 2024, revenue growth varied greatly by region. From over 100 areas across the UK, 58.9% saw average small business revenue increase.

- At the town and city level, small businesses in Bolton saw the strongest growth in real revenues in the two years to Q4 2024, at 33.0%. Bolton has seen recent success in becoming a TV and film hotspot, leading to many people dubbing it “Hollywood of the North”. Southampton experienced the second-strongest revenue growth at 29.6%.
- Out of the fifteen fastest-growing towns and cities, seven are within London, and three are in North West England. The strength in revenue growth has translated to solid annual profit growth at the regional level, with the North West and London seeing the third and fifth-fastest growth in Q4 2024 respectively.
- In contrast to the high-performing towns and cities, areas within these regions, such as Salisbury, Hereford, and Stoke-on-Trent recorded contractions in annual revenue of more than 11%.

Profitability



The average small business saw profits rise by 7.3% in the year to Q4 2024, with the East of England recording the strongest growth of any UK region.

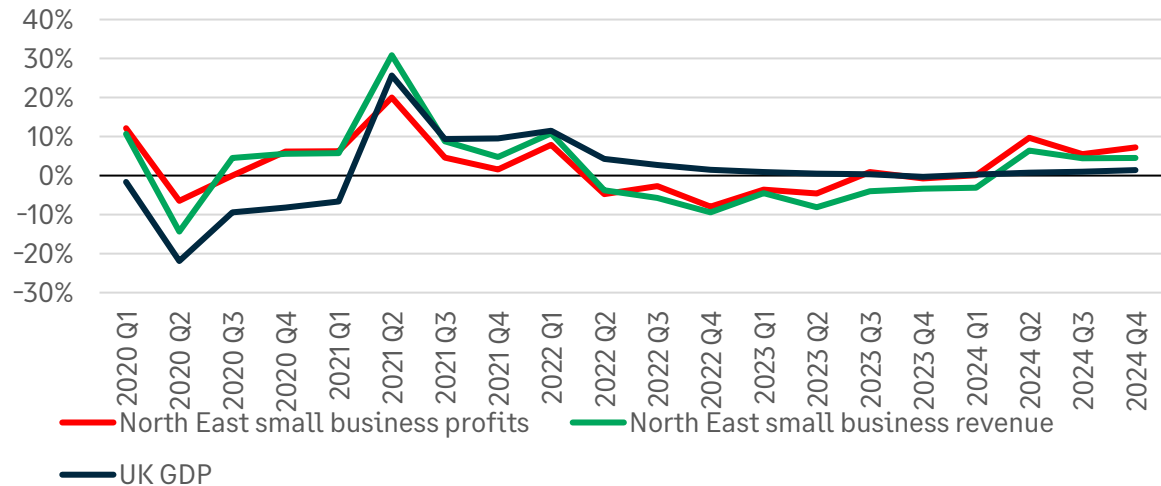
- The Sage small business tracker provides timely insights into regional growth figures, with official regional GDP statistics produced with a long lag.
- In the year to Q4 2024, Sage’s data indicates the average small business saw profits rise by 7.3%. This marks a deceleration from 8.2% in Q3 2024 but remains elevated by historic standards.
- Although all regions displayed growth, there were disparities in small business profitability over the past year. The East of England witnessed the largest annual rise, at 13.1%. East Midlands was also a high performer, recording profit growth of 10.7%.
- On the other end of the spectrum, the South West saw the slowest annual profit growth, with 3.4%. The South East, West Midlands, and North East all also weighed on the UK average by posting profit growth below 7.3% in Q4.

*Northern Ireland and Wales omitted due to sample size.

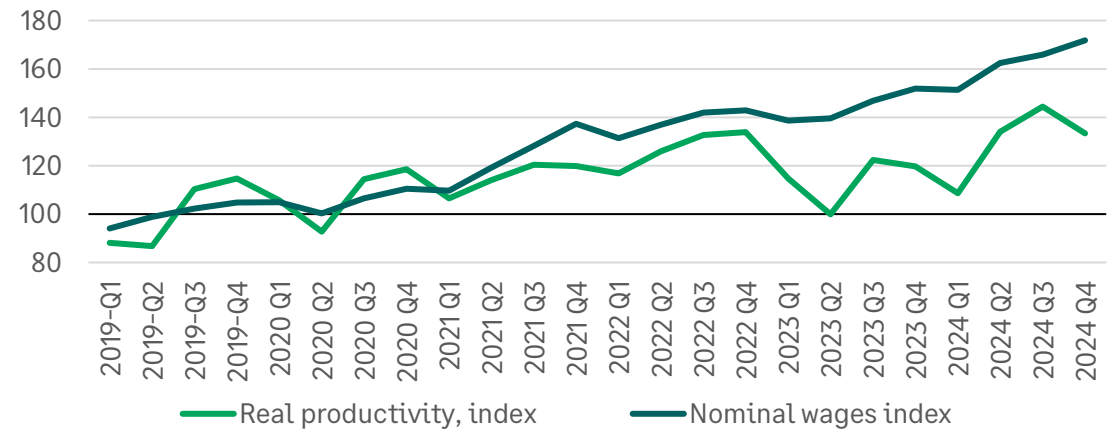
Source: Sage, Smart Data Foundry, ONS, Cebr

Deep dive – North East

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



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



In the year to Q4 2024, the average small business in the North East saw real revenue growth of 4.5%, while profits rose by 7.2%, outpacing the national average.

- In the year to Q4 2024, small business revenue in the North East grew by 4.5% in real terms, while profits rose by 7.2%, following a similar trend. Revenue growth outpaced the UK-wide average of 2.5%, though profit growth was just below the average of 7.3%.
- Productivity, measured as revenue per employee, showed an upward trend among North East small businesses.
- Despite a 0.9% decline in productivity across UK small businesses, the North East saw a remarkable 11.4% increase in the year to Q4 2024, widening the gap between wages and productivity in the region.
- Meanwhile, the nominal wage bill for small businesses in the North East rose by 10.3%, slightly below the UK-wide increase of 10.7%. Yet, with productivity rising significantly, the region continues to outperform national trends.

Source: Sage, Smart Data Foundry, ONS, Cebr



Methodology



Methodology and data



Headline Findings



Wages & Productivity



Resiliency



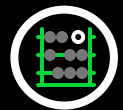
Growth



Profitability



Deep dive North East



Methodology

- 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 back history 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 amortization (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 is subject to revisions on a quarterly basis as more business records are added to the dataset.



Our small business sample

- In Q4 2024, our sample was 136,000, 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 127,000 of businesses identified their 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
Region Share	13%	11%	10%	10%	10%	9%	9%	9%	7%	4%	4%	3%

Sector (of the over 66,000 of businesses for which we know the sector)

- 27% 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 23k 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 amortization (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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