

# UK SAGE SMALL BUSINESS TRACKER - Q3 2024

A Sage report in partnership with  
Smart Data Foundry and Cebr

July - September 2024

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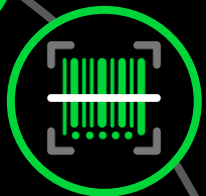
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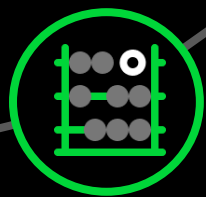
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# Headline Q3 findings



Headline Findings



Prices



Resiliency



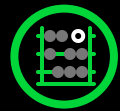
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Deep dive North East



Methodology

The latest Sage Small Business Tracker reveals that small businesses are maintaining momentum, with average annual profit growth remaining elevated when compared to the past two years. This performance aligns with the broader UK economy, which recorded 1.0% year-on-year growth in Q3 – its strongest quarterly expansion since Q4 2022. Profits increased across all UK regions in the quarter, led by the East of England.

**FORECAST:** Looking ahead, declining interest rates and an increase in the National Living Wage are expected to bolster small business performance. However, this will be partially offset by the rise in National Insurance Contributions.

- i. Profits grew in Q3** – Profits amongst small businesses grew by 8.3% on an annual basis. This marks a deceleration from 9.3% in Q2, but growth is still elevated compared with the last two years. This was driven by a combination of rising revenue growth and falling costs. These readings precede the rises to National Insurance Contributions and National Living Wage in April next year. As such, we expect that small businesses will face additional cost pressures from Q2 2025 as a result of the Budget announcements.
- ii. Small business revenues grew for a fourth consecutive quarter** – Small business revenues grew by 3.5% in the year to Q3 2024. This 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 1.0% in Q3 2024. The broad trend of declining expenditure over the past two years may reflect ongoing weakness in small business demand for goods and services.
- iv. Productivity has flatlined since mid-2022** – Productivity fell by 1.8% on an annual basis in Q3 2024, driven by a combination of weak revenue performance and increased staffing. The decline in this quarter gives further reason to suggest that productivity has remained largely stagnant in the last two years.
- v. Capital expenditure continues to fall while borrowing costs stay elevated** – Capital expenditure fell by 5.1% year-on-year in Q3 2024 despite a cut to interest rates. An additional cut by the Bank of England in November may soften the decline in capital expenditure in Q4.



Headline Findings



Prices



Resiliency



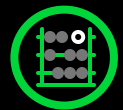
Growth



Profitability



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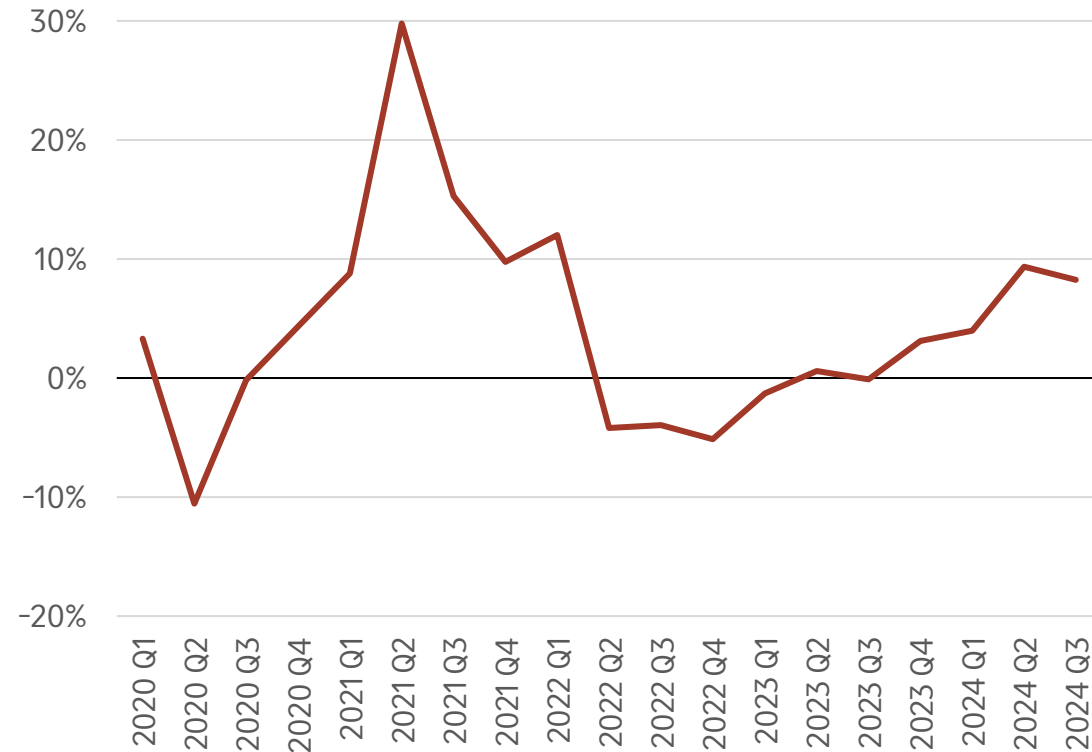


Methodology



# Small business profits decelerated in Q3, but growth was still strong compared with the last two years

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



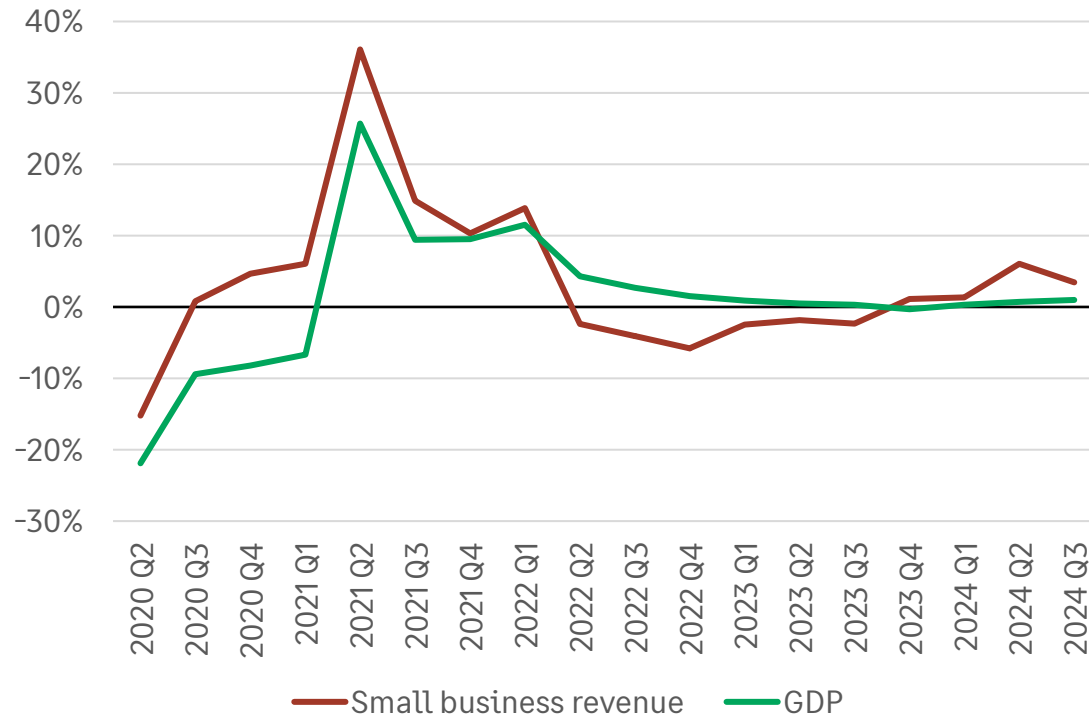
- The Sage small business tracker provides timely insights into the growth of UK small businesses, given that official quarterly estimates of GDP are not broken down by company size.
- Profits grew by 8.3% for the average small business in the year to Q3 2024. This marks a deceleration from 9.3% in Q2 2024, however, growth remains significantly elevated when compared with the past two years.
- Growth amongst small businesses was supported by a combination of rising annual revenues and declining costs. Indeed, annual real revenues grew by 3.5% in Q3 2024, seeing a similar deceleration in profits compared to the previous quarter. Meanwhile, small business expenditures contracted by 1.0% on an annual basis.
- Though profit growth remains strong compared to the last two years, we expect that there are significant challenges ahead for small businesses. The upcoming increases in National Insurance Contributions (NICs) and the National Living Wage in April are expected to impose additional cost pressures on small businesses, likely constraining profit growth in the coming quarters.

Source: Sage, Smart Data Foundry, ONS, Cebr



# Small business revenues grew for a fourth consecutive quarter

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 have now increased year-on-year for four consecutive quarters, after rising by 3.5% in Q3 2024. This follows an upwardly revised annual growth figure of 6.0% in Q2 2024.
- Small business revenues have seen a gradual recovery after facing significant economic headwinds, including the surge in energy prices following the conflict in Ukraine. The return to growth over the past year reflects the broad improvement in the UK economic backdrop.
- The latest Office for National Statistics (ONS) data suggests that the UK economy grew by 1.0% year-on-year in Q3. Although weak by historic standards, this marks the strongest annual expansion since Q4 2022. Growth was driven by an expansion in the services sector, which more than offset the contractions across the construction and production sectors.
- The growth in services has been supported by an uptick in household consumption. Indeed, household expenditure rose by 1.0% on an annual basis in Q3 following a subdued first half to 2024. Additionally, retail sales volumes saw their largest annual rise in September, over two years, to the benefit of consumer-facing businesses.
- Although consumption growth remains low by historical standards, it should continue to grow due to positive real wage growth, the interest rate cutting cycle and the increase in the National Living Wage.

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Headline Findings



Prices



Resiliency



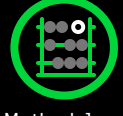
Growth



Profitability



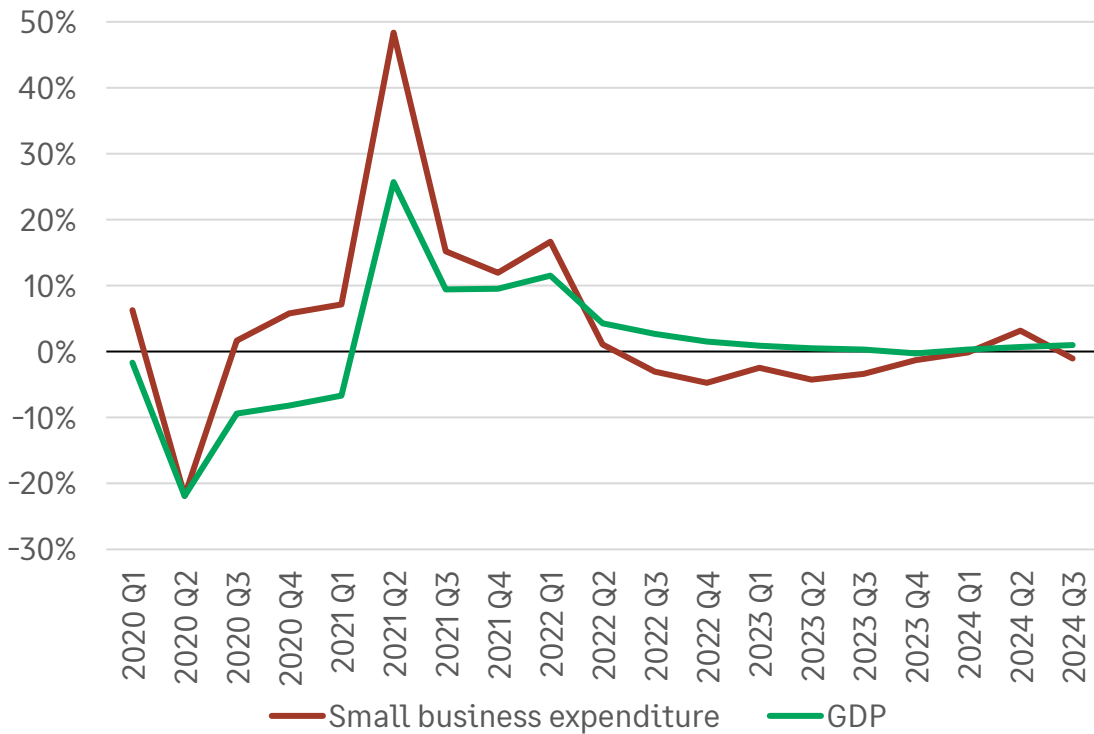
Deep dive North East



Methodology

# Small business expenditure growth returned to negative territory, aligning with drop in input prices

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



- Real expenditure for the average small business fell by 1.0% in Q3 2024, after a rise in the previous quarter. Together with steady revenue growth, this has led to historically strong profit growth of 8.3%, as mentioned in 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 witnessed a 2.3% year-on-year decline in Q3, largely driven by a drop in the price of crude oil.
- The general trend of decreasing small business expenditure seen over the past two years may also indicate increased cost consciousness, given ongoing subdued demand levels.
- Costs will face upward pressure in the coming months as the increases to employer NICs and National Living Wage take effect in April. Although the smallest firms have been protected from the NICs change, many others will likely face a choice on how much the cost increase they can absorb and how to pass on what they can not. It remains to be seen whether the primary channel of pass-through is lower wage growth, higher prices, or lower employment.

Source: Sage, Smart Data Foundry, ONS, Cebr



# Wages and Productivity



Headline Findings



Prices



Resiliency



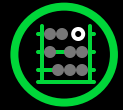
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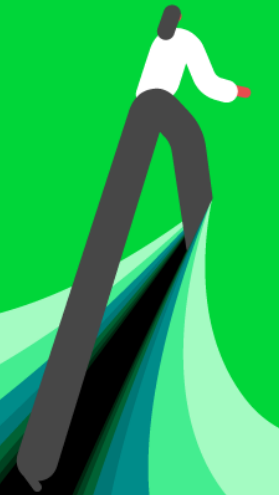
Nominal wages and real productivity (index 2019 = 100, non-seasonally adjusted)



Source: Sage, Smart Data Foundry, ONS, Cebr

- Small business wage bills continued to grow in Q3 2024. According to the latest Sage data, nominal wages increased by 12.6% year-on-year, slightly down from 13.8% in Q2 2024.
- This slowdown in annual pay growth amongst small businesses is corroborated by wage data for the wider economy. The latest statistics from the ONS show that average total pay growth in the UK slowed to 4.3% on an annual basis in Q3 2024, continuing the trend of gradually easing growth seen throughout the year.
- Productivity in our large sample of small businesses is measured by revenue in real terms divided by the number of employees within a business.
- In Q3 2024, productivity for the average small business fell by 1.8% year-on-year, following a 2.3% increase in Q2 2024. The latest reading gives reason to suggest that productivity amongst 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 5.6 in 2024 thus far. 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







# Prices and spending



Headline Findings



Prices



Resiliency



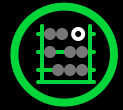
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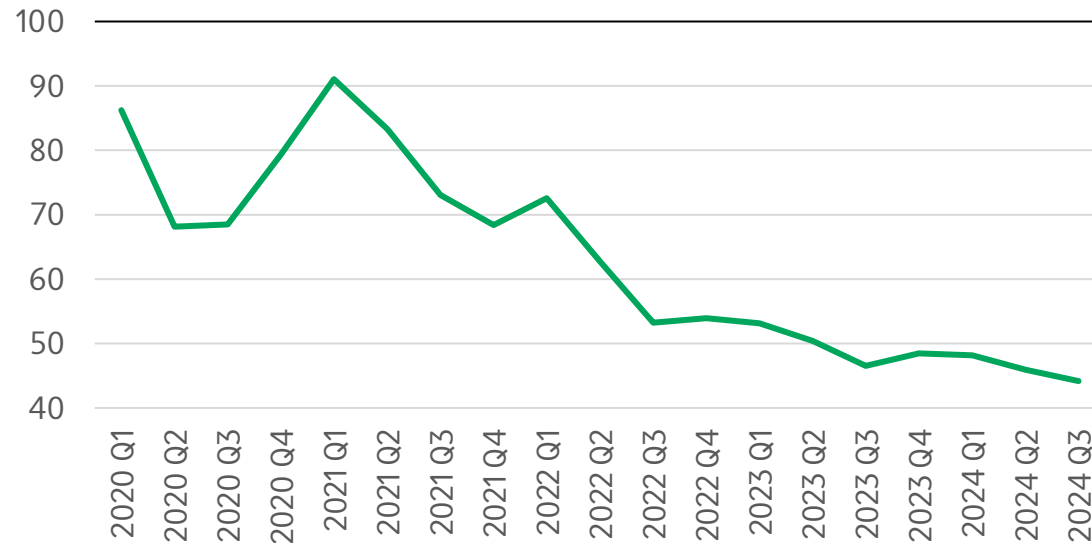


Deep dive North East



Methodology

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



Source: Sage, Smart Data Foundry, ONS, Cebr

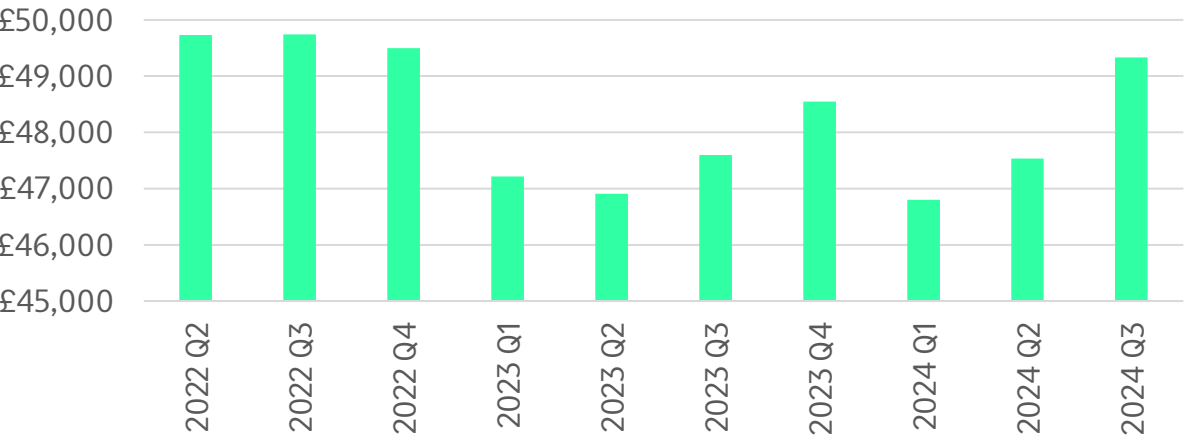
Capital expenditure continued to decline amidst weak output growth and elevated borrowing costs.

- Small business capital expenditure refers to the acquisition or upgrading of tangible assets, such as equipment or property. It doesn't 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, interest rates, and weak economic output growth.
- On an annual basis, capital expenditure fell by 5.1% in Q3, after declining by 8.9% in Q2 2024. Despite the further fall, the year-on-year declines in capital expenditure have now slowed for six consecutive quarters. This is likely a result of the slowly improving economic backdrop and the subsequent impact on demand.
- The cut to interest rates by the Bank of England likely also contributed to the softening in declining small business capital expenditure. The additional cut in November is expected to add further upward pressure on capital expenditure in Q4, as the cost of borrowing has decreased.

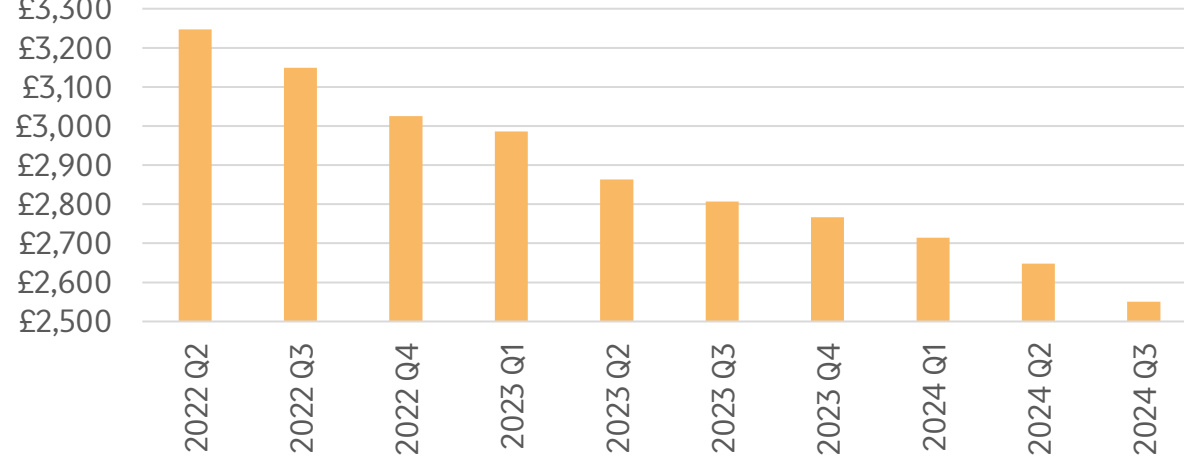


# Resiliency: cash and debt

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 have improved for a third consecutive quarter, while debt balances continued its downward trend in Q3 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 Q3 2024, rising by 3.7% compared to a year earlier in Q3 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 9.1% 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.
- The trend for cash and debt in 2024 thus far broadly mirrors each other. Amidst high interest rates and weak demand, small businesses have increased their cash levels and reduced borrowing.

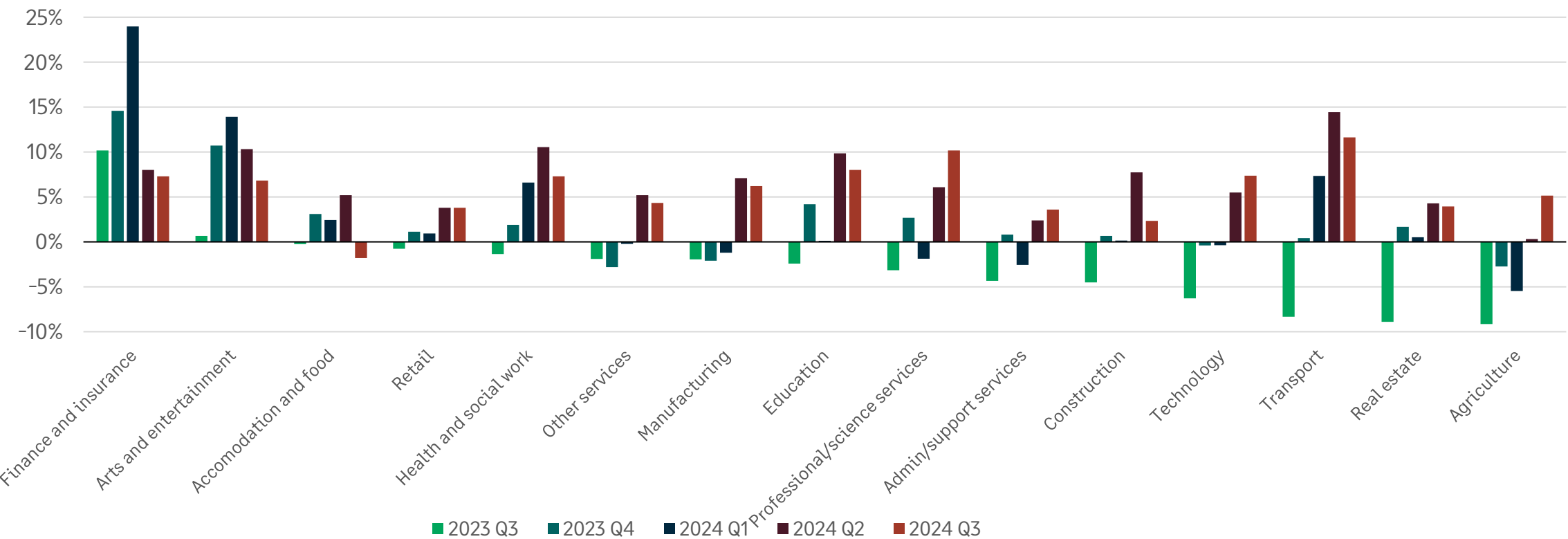
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# Deep dive - annual change in revenue by industry

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- Hospitality was the only industry to record a contraction in revenue in the year to Q3 2024, declining by 1.8% over the period. This suggests that consumers are being more selective about where to spend their money given the higher cost of living in the past few years.
- Conversely, the transport sector experienced the fastest revenue growth among industries, rising by 11.6% year-on-year. The strength of this increase can be partially attributed to base effects, with the sector rebounding from a significant decline in revenues in 2023, including Q3, which provided a low comparative baseline for growth.



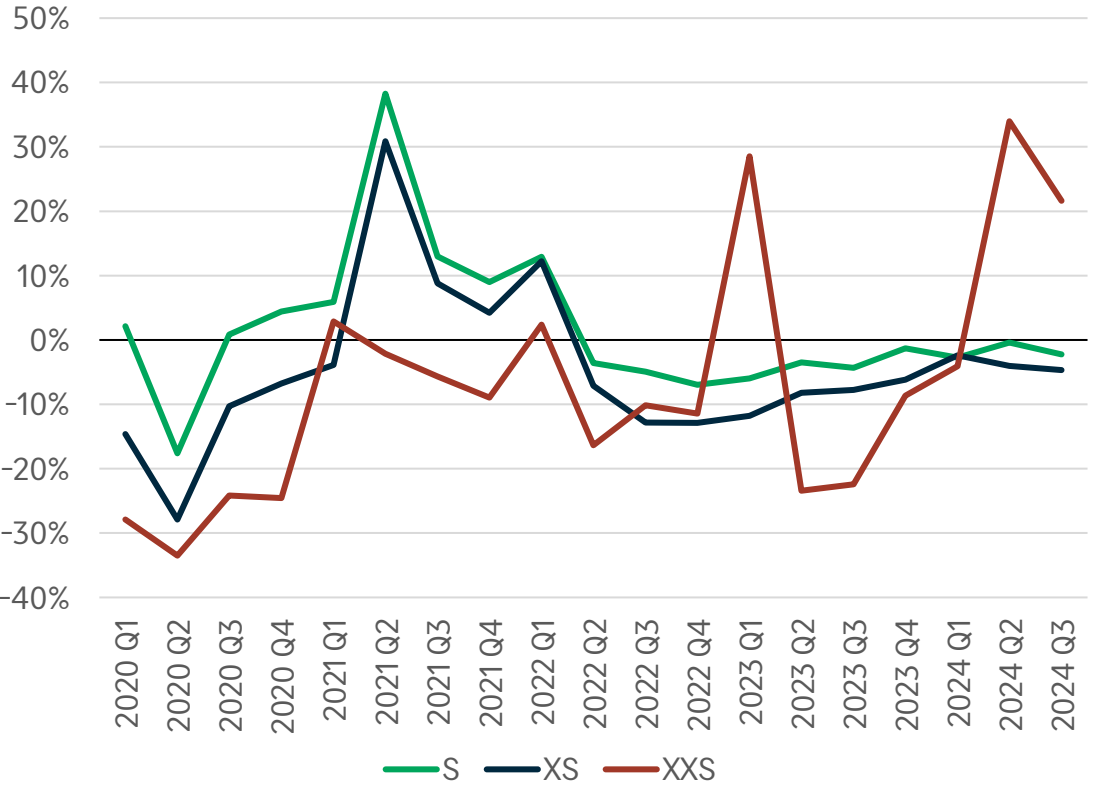
Source: Sage, Smart Data Foundry, Cebr



# Deep dive – revenue growth by business size

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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, after recording strong annual revenue growth for a second consecutive quarter.

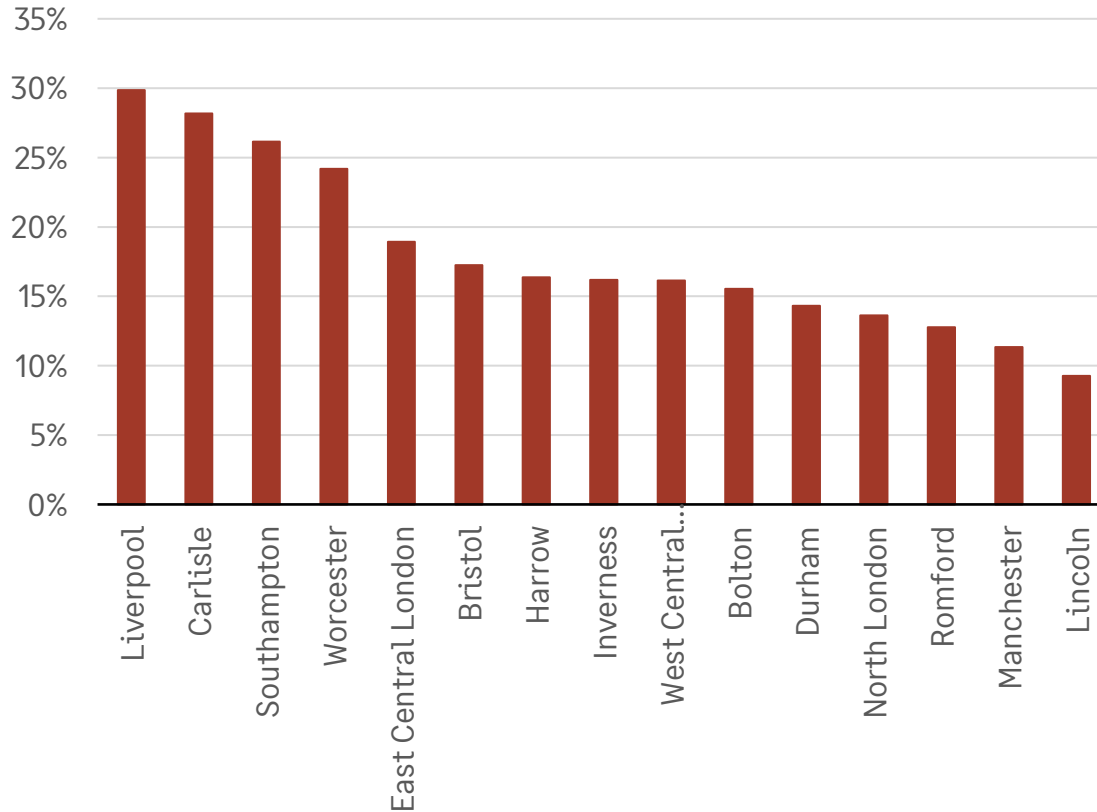
- Looking at business revenue across our three subgroups of size shows that small (S) and extra small (XS) sized businesses have followed similar trends since Sage began collecting revenue data. This remains true in recent years where there was a strong post-pandemic recovery, followed by a sharp decline towards sluggish growth.
- In the last two years, while the UK GDP has largely flatlined, larger small businesses have seen revenues falling consistently, with Q3 2024 as no exception to the rule.
- Nano-businesses (XXS), the smallest businesses in our sample, have exhibited a different trend. Over the past two years, real revenue growth has been notably volatile when compared with their larger counterparts. This quarter, nano-businesses have seen a drop in annual revenue growth to 21.6% in Q3 2024 from 34% last quarter.



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

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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

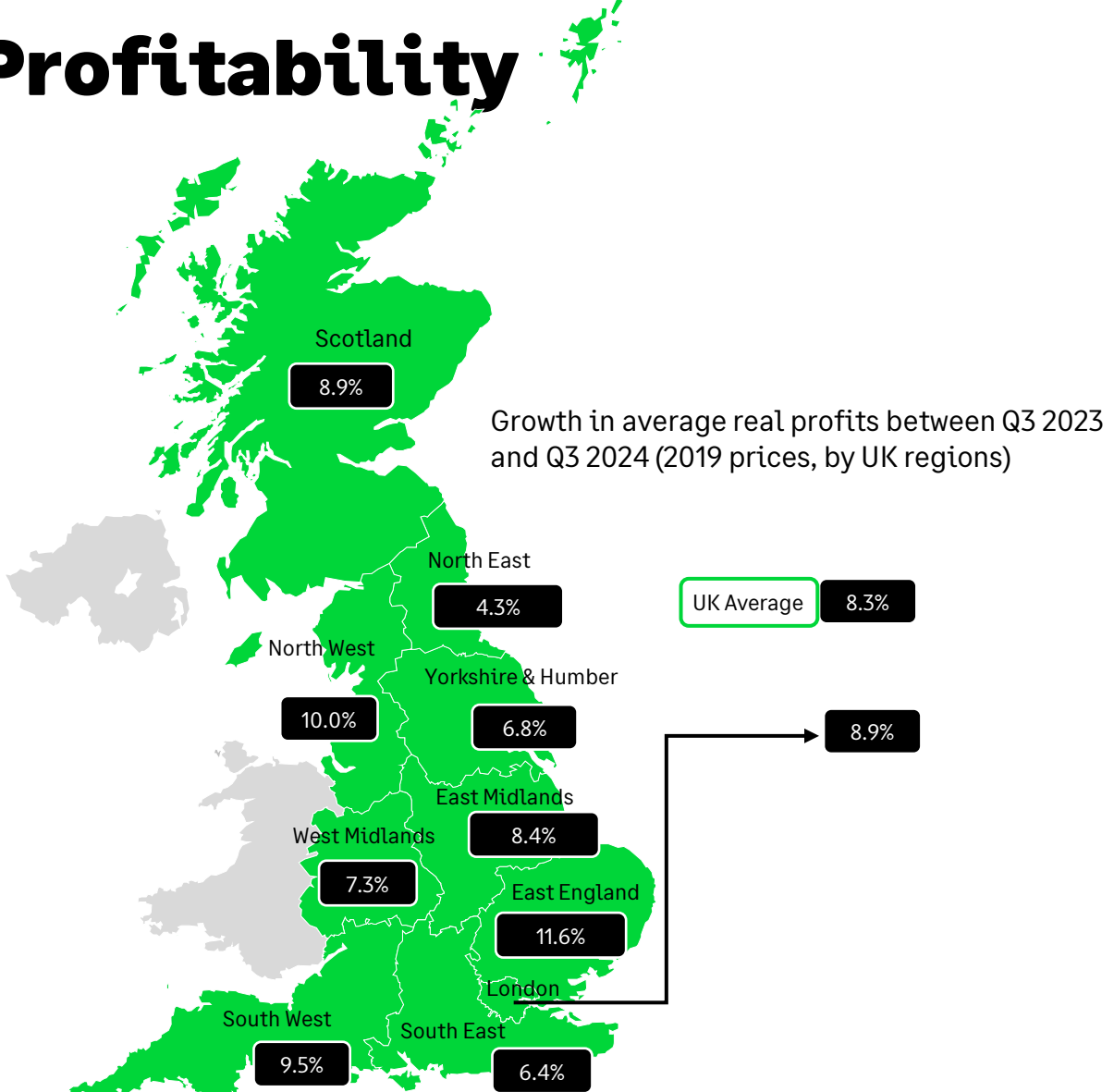
Over the two years between Q2 2022 and Q2 2024, revenue growth varied greatly by region. From over 100 areas across the UK, 48% saw average small business revenue increase.

- At the town and city level, small businesses in Liverpool saw the strongest growth in real revenues in the two years to Q3 2024, at 29.9%. Liverpool is undergoing a period of regeneration, with many key construction projects underway. The Data City found it to be the UK’s fastest-growing city last year. Carlisle experienced the second-strongest revenue growth at 28.2%.
- Out of the fifteen fastest-growing towns and cities, eight are within London or the North West of 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 second and fourth-fastest growth in Q3 2024 respectively.
- In contrast to the high-performing towns and cities, areas within these regions, such as North West London and Blackburn, recorded contractions in annual revenue of more than 11%. This likely weighed on regional profits, preventing these regions from reaching the top spot as a result.



# Profitability

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Growth in average real profits between Q3 2023 and Q3 2024 (2019 prices, by UK regions)

\*Northern Ireland and Wales omitted due to sample size Source: Sage, Smart Data Foundry,

The average small business saw profits rise by 8.3% in the year to Q3 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 Q3 2024, Sage’s data indicates the average small business saw profits rise by 8.3%. This marks a deceleration from 9.3% in Q2 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 11.6%. Scotland was also a high performer, recording profit growth of 10.0%.
- On the other end of the spectrum, the North East saw the slowest annual profit growth, with 4.3%. The West Midlands, Yorkshire & Humber and South East all also weighed on the UK average by posting profit growth below 8.3% in Q3.

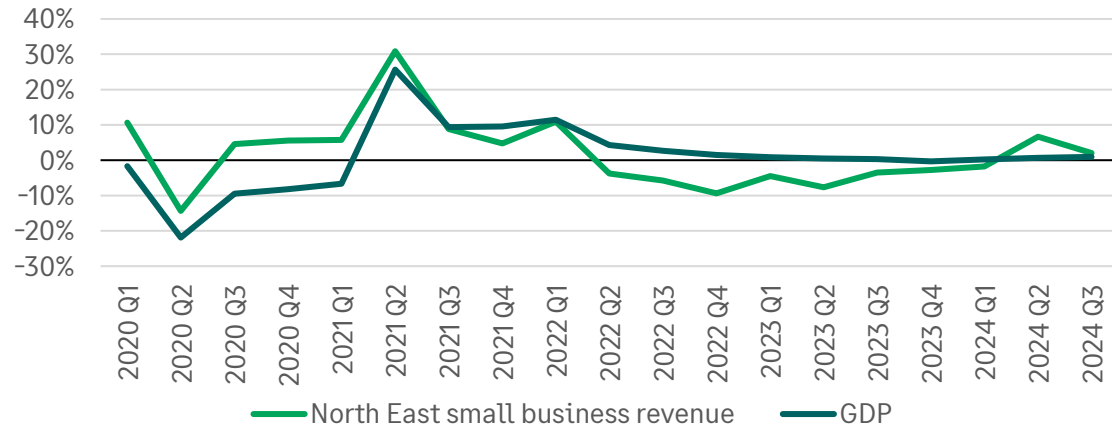




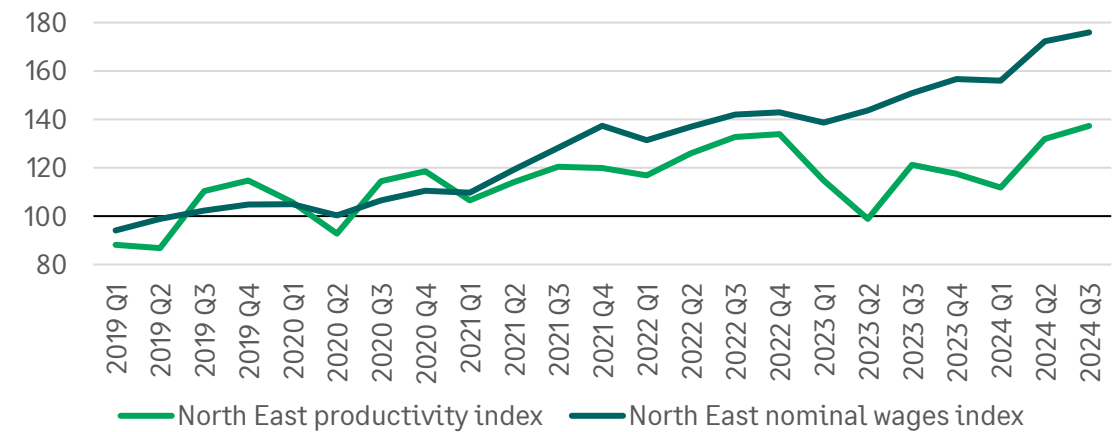
# Deep dive – North East and its hospitality industry



Revenue 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)



Source: Sage, Smart Data Foundry, ONS, Cebr

The average small business in the North East saw real revenues grow by 2.0% in the year to Q3 2024, below the national average

- Small business revenue rose by 2.0% in the North East in the year to Q3 2024, in real terms. This was below the average for small businesses UK-wide, at 3.5%, and marks a significant slowdown from 6.7% for the region in Q2 2024.
- In this edition of the Sage Small Business Tracker, we have provided a deep dive into the North East’s hospitality sector. The industry has struggled to see positive revenue growth in the last two years, following the post-pandemic recovery between 2021-22. Indeed, in Q3 2024, the sector saw an average annual revenue fall of 4.5%. However, the sluggish performance in recent quarters may reach a turning point in the future, as local leaders unveiled plans in September to double tourists in the region by 2034.
- Productivity in our sample of North East small businesses is measured by revenue divided by the number of employees within a business.
- While the average UK small business has seen a decline in productivity, the North East has a rise of 13.3% in the year to Q3 2024. Meanwhile, the nominal wage bill for the average small business in the North East rose by 16.6% in Q3 2024. This was stronger than the 12.6% increase across the UK-wide sample.
- In contrast to its regional trend, the North East’s hospitality sector has underperformed against the UK average with regards to productivity and wage growth. Indeed, the sector recorded annual nominal wage growth of 7.7%, while productivity declined by 0.9%.



# Methodology



# Methodology and data



Headline Findings



Prices



Resiliency



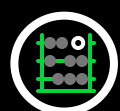
Growth



Profitability



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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  $EBITDA = Revenue - Expenditure - Overheads$
- 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 is subject to revisions on a quarterly basis as more business records are added to the dataset.



# Our small business sample

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- In Q3 2024, our sample was 138,000, which contained the following demographics.

### Size

- 38% 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)
- 28% were nano (XXS) businesses (average annual revenue less than or equal to £50,000)

### Region

- Within the sample, over 128,000 of businesses identified their region.

Region	South East	London	Yorkshire and The Humber	North West	East of England	West Midlands	South West	Scotland	East Midlands	North East	Wales	Northern Ireland
Share	13%	11%	10%	10%	9%	10%	9%	9%	8%	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 22k small businesses)

- The overall sample size changes between reports due to changes in Sage’s customer base and the removal of outliers.



# Glossary



Headline Findings



Prices



Resiliency



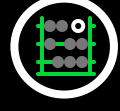
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**EBITDA** - Earnings before interest, taxes, depreciation and amortization (EBITDA) is a common measure of business performance. It is derived as  $EBITDA = Revenue - Expenditure - Overheads$ .

**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.



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