xero SMALL BUSINESS INSIGHTS

Xero Small Business Insights United Kingdom Update

July - September 2025

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Sales and jobs still growing but losing momentum

Average results for three months to September 2025

Sales
+3.1% y/y

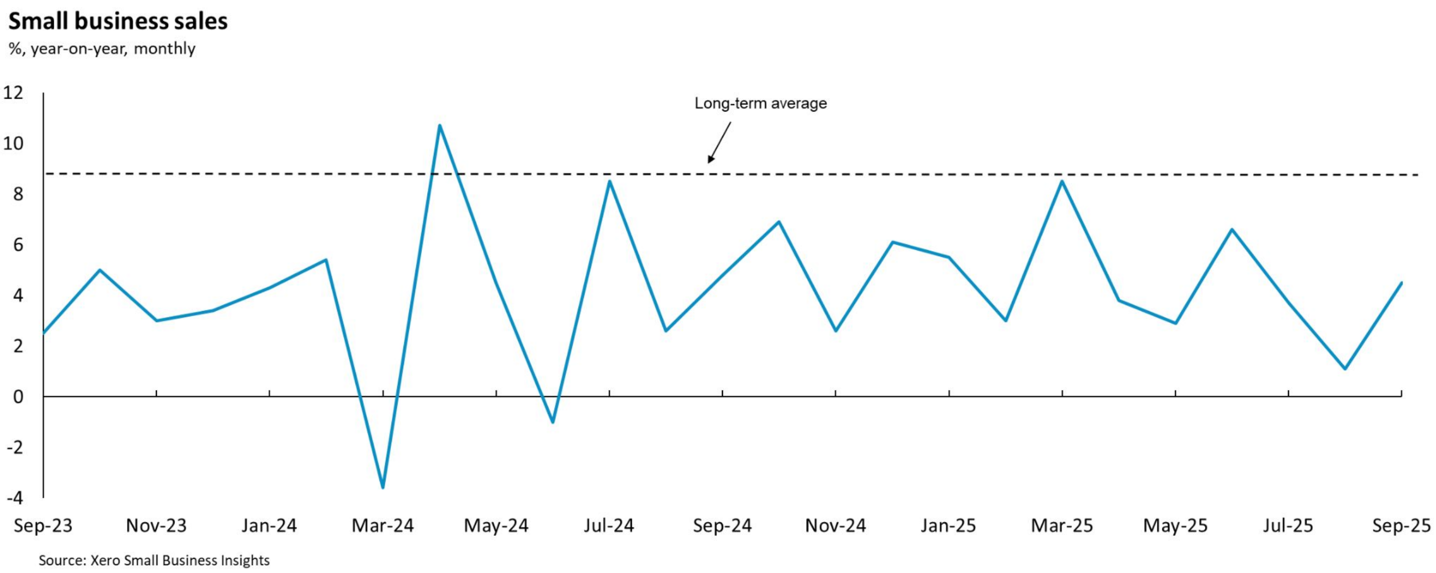
Jobs
+1.1% y/y

The latest Xero Small Business Insights (XSBI) data for the UK shows that small businesses continued to lose momentum in the September quarter. Sales (+3.1% y/y) and jobs (+1.1% y/y) are both still growing, compared to a year ago, but at a slower pace than at the start of the year. Overall, small business conditions are still below average and the directional trend of the last two quarters is concerning.

Sales in small businesses grew 3.1% year-on-year (y/y) in the September quarter, the smallest rise in a year-and-half. This continued the slowing trend seen in the June quarter, when sales were up 4.4% y/y, after a 5.7% y/y rise in the March quarter. The long-term average growth rate for this series is 8.6% y/y, meaning even the earlier quarterly results were not strong by historical standards. In addition, the recent spikes in inflation mean the September result was a decline in inflation-adjusted (real) terms.

The monthly data shows a continuation of the sales pattern seen earlier in the year, with a spike in sales in September (+4.5% y/y, from only 1.1% y/y in August) following the Bank of England's (BoE) cut in the official interest rate in August. Unfortunately, these short-term boosts are yet to be sufficient to turn the trend in sales growth back towards historical averages.

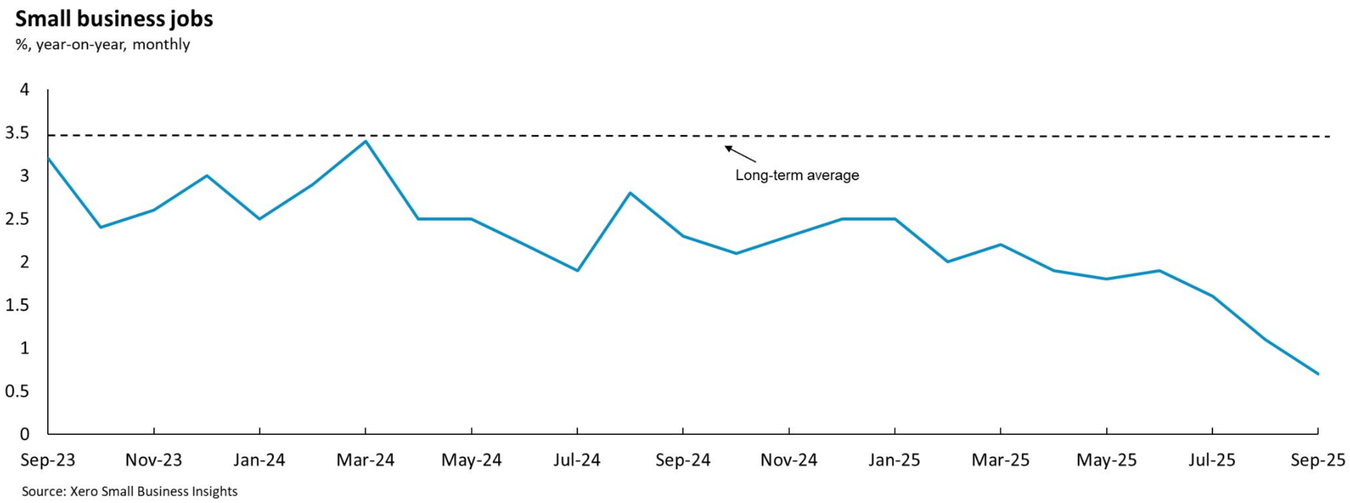
The latest XSBI data is consistent with the BoE's media release following the decision to leave the official interest rate on hold in September. The Bank noted that GDP growth in the UK remained subdued and that downside risks, both domestic and geopolitical, remained. We will need to wait for the next round of data to see if the latest (5th) cut in the official interest rate is sufficient to turn around sales momentum during the upcoming crucial festive season.



Jobs[1] in small businesses grew 1.1% year-on-year (y/y) in the September quarter, after a 1.9% y/y rise in the June quarter. The monthly pattern shows that this slowdown happened consistently across the quarter. After rising 1.9% y/y in June, they rose 1.6% y/y in July, 1.1% y/y in August and only 0.7% y/y in September. This slowdown in jobs growth likely reflects both softer sales performance and the impact of heightened uncertainty, with business owners reluctant to take on staff when the outlook remains particularly unclear. This elevated uncertainty is coming from both international sources, such as US trade policy and ongoing conflict in Europe, and domestic sources, such as concern about potential tax hikes in the Autumn Budget in November.

The slowdown in jobs growth is also reflected in the share of small businesses growing their workforce, which fell to 26.4% in the quarter, from 26.8% in the June quarter. The latest result is the smallest share since mid-2020. In addition, there was a rise in the share of small businesses reducing the size of their workforce, at 24.4% compared to 24.0% in the June quarter. The latest result is the largest share in two years.

The latest XSBI results are broadly consistent with employment trends across the UK economy, as shown in the latest ONS data. The unemployment rate has been gradually rising over 2025, from 4.4% to 4.8%. Job vacancies are also now below pre-pandemic levels, suggesting demand for labour has also softened during 2025.



Regional data showed a broad-based moderation in sales and jobs in the September quarter. The best performing region overall was the **South East** - sales grew 4.0% y/y (the second strongest) and jobs grew 2.6% y/y (the strongest). Other strong performing regions over the quarter include **East Midlands** (+3.1% y/y sales and +2.3% y/y jobs) and the **North East** (+3.2% y/y sales and +2.0% y/y jobs). In contrast, **Wales** was the worst performing region - sales grew only 1.8% y/y (the smallest rise) and jobs were 1.8% lower than a year ago (the largest decline). In **London**, sales grew 3.9% y/y and jobs grew only 1.0% y/y. This was a relatively better performance, compared to other regions, than in the June quarter. However, the capital hasn't returned to its previously held position as a clear outperformer compared to the rest of the UK.

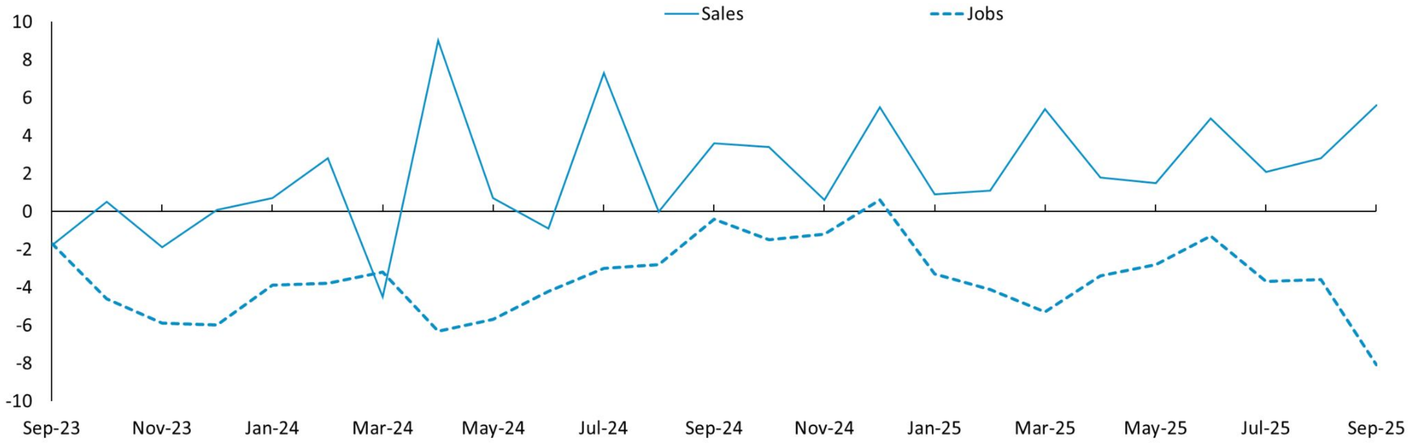
[1] *The COVID-19 pandemic caused significant volatility in many datasets, including XSBI. To account for this the XSBI jobs data series previously had a 'COVID-19 adjustment' made to it. Sufficient time has now passed since the end of the pandemic period to remove this temporary adjustment. As a result, historical XSBI jobs growth data has been subjected to larger than usual revisions in this latest publication.*

Industry data shows a mixed picture for sales, less so for jobs. This is best illustrated by the contrast in sales and jobs performance in **information media and telecommunications** and **administrative and support services**. These two industries both recorded sales growth of 3.5% y/y, placing them around the middle of the 12 industries tracked by XSBI. But they were two of only four industries that had stronger sales growth in the September quarter than the June quarter. However, they were the two worst performing industries in terms of jobs, with declines of 0.9% y/y and 5.1% y/y respectively. Indeed, these two sectors have both been shedding jobs for some time now. While too early to be definitive, this emerging trend could reflect the impact of increased AI adoption to automate media and administrative based tasks. Interestingly this trend - sales growing while jobs are declining - has not been seen in Australia, where XSBI also tracks this industry.

The strongest sales growth was recorded in **healthcare** (+5.8% y/y - although this is softer than recent performances), **professional services** (+4.7%y/y) and **manufacturing** (+4.7% y/y). The best jobs performers were **retail trade** (+3.3% y/y), **real estate services** (+2.1% y/y) and **construction** (+2.1% y/y).

Small business sales and jobs - Administrative and support services

%, year-on-year, monthly



Source: Xero Small Business Insights

Overall, the latest XSBI data shows that UK small businesses aren't performing as well as they were at the start of the year. Of most concern is that while sales and jobs growth are still positive, they are both tracking below average and the directional trend is slowing rather than improving. The November Autumn Budget is a key upcoming event for small businesses, especially given increased anxiety about the risk of tax increases. In terms of monetary policy, the prospect of more rate cuts is dependent on the future direction of inflation. The Bank of England is likely to want to be more certain that the recent uptick in inflation is only temporary before they cut interest rates again.

This data is a great reminder to everyone about the importance of supporting local small businesses when considering purchases, especially over the festive period, that is so important for many consumer-facing small businesses.

Additional details about Xero Small Business Insights

About Xero

Xero is a global small business platform that helps customers supercharge their business by bringing together the most important small business tools, including accounting, payroll and payments — on one platform. Xero's powerful platform helps customers automate routine tasks, get timely insights, and connects them with their data, their apps, and their accountant or bookkeeper so they can focus on what really matters. Trusted by millions of small businesses and accountants and bookkeepers globally, Xero makes life better for people in small business, their advisors, and communities around the world.

About Xero Small Business Insights

The aim of Xero Small Business Insights is to create insights to help inform decision makers in support of the small business economy as a whole. The principal source of small business insights in this report is customer data from Xero - a small business platform that supports online accounting and a range of other applications. Xero is a responsible custodian of our customers sensitive data and does not release any data that could identify individual businesses. The data used is aggregated and anonymised to ensure the privacy of Xero subscribers, and their counterparts.

As part of the program, we publish regular blogs and research notes and deep-dive Special Reports on specific small business topics. These can all be found at xero.com/xerosbi.

Methodology

Changes were made to the XSBI methodology in July 2025. This includes changing the definition used for a small business and the way we identify regional-based businesses. Full details of the methodology used to construct Xero Small Business Insights can be found **here**.

Disclaimer

This report was prepared using Xero Small Business Insights data and publicly available data for the purpose of informing and developing policies to support small businesses.

This report includes and is in parts based on assumptions or estimates. It contains general information only and should not be taken as taxation, financial, investment or legal advice. Xero recommends that readers always obtain specific and detailed professional advice about any business decision.

The insights in this report were created from the data that was available as at the date it was extracted. Data used was anonymised and aggregated to ensure individual businesses can not be identified.