

Small business growth outlook: The story of five industry sectors over time

Quarterly insights from the
Business Barometer study

February 2025 edition

An insight report from
Novuna Business Finance

Tomorrow. Together

Introduction: A 2025 Market Overview

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The final months of 2024 were to some extent a tale of two elections - and both had an impact on small business confidence.

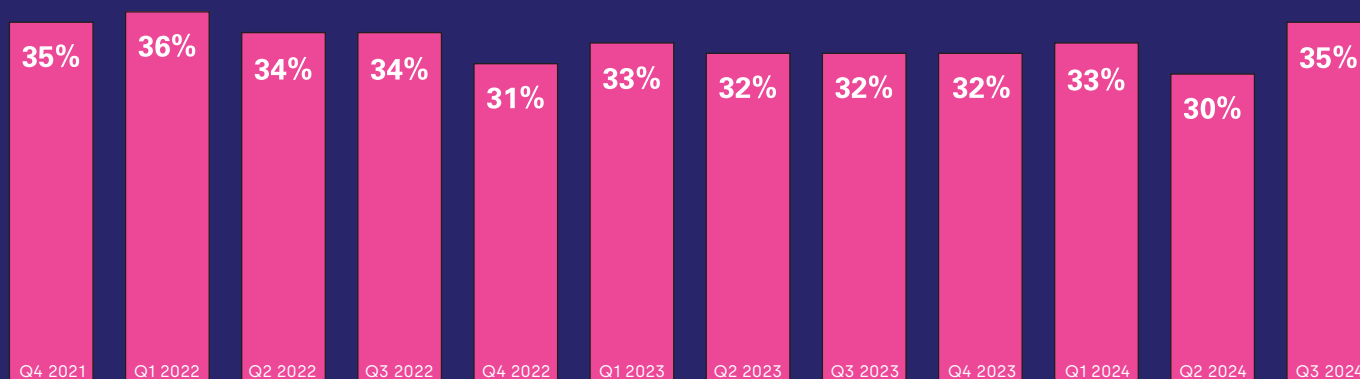
As the new Labour Government took office in July 2024, our research indicated an immediate election bounce in small business confidence. A few weeks after the General Election, the percentage of small business owners predicting growth hit its highest level for more than two years, after a period of slow decline since the start of 2022.

However, this uplift was tempered a few months later, when 86% of UK small business owners expressed fears on what they thought could be on the way in the Autumn Budget. Topping the long list of concerns was the prospect of

employer's national insurance hikes (49%), rises to VAT (48%) and income tax (50%). These were issues small business owners believed would damage business growth. Flexible working was major a concern in many traditional sectors, whilst the property sector feared the ripple-effect from the market if there were rises to Capital Gains Tax or Inheritance Tax. The range of fears cited and the depth of concern suggested that the 'election bounce' in confidence was fragile and conditional on political and economic certainty, against which small business owners could plan.

Beyond the immediacy of the domestic General Election, our Christmas 2024 research indicated that political developments over the Atlantic were also concerning small businesses in the

Percentage of small businesses predicting growth each quarter – results over time



UK. More than seven in 10 small businesses (77%) said they are fearful that policies from the new US administration could have a ripple effect on the outlook for UK small businesses. The most significant concerns included the possibility of tariffs on UK exports to the USA (43%) and fresh uncertainty around the UK's trading position in the world – with 30% fearing a weakening of the UK's special relationship with the US and 29% concerned about the UK now finding itself isolated – outside the EU and no longer as close to the USA. Further, the possibility of increased market volatility impacting the UK was also a major concern and on two counts: 33% were concerned about the impact on UK economic growth forecasts and interest rates, whilst 22% feared the impact on their own trading relationships.

All this is context, but our research of small business owners spanning 11 years tells us that their growth forecasts are, so often, heavily rooted in the prevailing economic context – and how this shapes confidence, stability and a sense of certainty.

It is therefore perhaps unsurprising that, as 2025 started, the percentage of UK small business owners predicting growth had dipped to a nine-month low. Whilst the percentage of small businesses predicting growth for the three months ahead (to 31 March) had fallen back to 33% - the Q1 2025 data also indicates a four-year high in the percentage of small businesses saying they will scale down or contract (13%). In addition, the percentage of enterprises that fear closure has hit a two-year peak (8%). For those forecasting contraction, Q1 2025 is the first time in five quarters that the figure has exceeded single digits.

These findings are all from The Business Barometer study, which has tracked small business growth outlook every quarter since 2015. The latest data suggests a mood of caution offset by a deep resilience. Ever since Brexit and Covid, small businesses have responded to short-term challenges with resilience and by investing in new initiatives to

power future growth. And already, we are seeing this for 2025.

Beneath the headline figures and the national averages, the picture varies by industry sector. So for this new quarterly report, we share a series of snapshots from five industry sectors. Our ongoing Business Barometer tracking study tracks the ebb and flow of business outlook across 11 industry sectors – and for this report we have selected five to put under the spotlight:

- Manufacturing
- Media and marketing
- Construction
- Transport and distribution
- Leisure and hospitality

This selection of sectors represents the bandwidth of opinion across the sectors, a mix of traditional and modern service sectors – and all sectors that had to adjust to some of the seismic challenges of recent years. Every sector has its own story to tell and, together, they help us to understand why the small business community is so resilient: As one sector dips, so another rises - and a challenge in one sector can be viewed as an opportunity elsewhere.

At Novuna Business Finance, we are committed to supporting established small businesses across a range of sectors with flexible funding solutions. To help small businesses fulfil their true potential we also need to stop and listen. The Business Barometer study has proven to be a helpful resource to give us a glimpse into the minds of small business owners – how they plan, how they grow and how they react to the world events and issues that shape their market, present challenges and allow for opportunities.

We hope you enjoy this sector report and if you have any discussion points or requests for further information, we would love to hear from you.

About Novuna Business Finance

Novuna Business Finance provides business finance to SMEs and bigger corporations across the UK. This includes asset finance, stocking, block discounting and sustainable project finance provided through brokers, vendor organisations, manufacturers and direct to the business community.

With an asset portfolio of more than £1.8bn, the business is active across multiple sectors from transport and agriculture to construction and manufacturing and was awarded Best Service from an Asset Based Finance Provider at the 2024 Business Moneyfacts Awards.

The business' Sustainable Project Finance team is also supporting the development and construction of sustainable energy and transport projects, which are critical to the decarbonisation of the UK's infrastructure.

Novuna Business Finance is a trading style of Mitsubishi HC Capital UK PLC, part of Mitsubishi HC Capital Inc., one of the world's largest and most diversified financial groups, with over 11trn yen (£57bn) of assets.

Methodology

The research for this report was conducted by YouGov at quarterly intervals since 2014.

For each quarterly cycle of research, a nationally representative sample of more than 1,000 small business decision makers and owners of UK small businesses was surveyed.

The research was conducted online.





Short-term concern, long-term resilience

Manufacturing sector: small business outlook

A snapshot over time from Novuna Business Finance

As a new year gets underway, small businesses in the manufacturing sector are among the least likely to be predicting growth in the first three months of 2025. Whilst traditional and seasonal businesses see a quarterly decline on Q4 2024, the driving force of UK small business growth outlook is coming from the professional services sectors.

Top sectors predicting growth in Q1 2025

Media & Marketing	47%
Finance & Accounting	47%
Legal	43%

Bottom regions for predicting growth in Q1 2025

Manufacturing	27%
Construction	26%
Leisure and Hospitality	25%

Relative to the UK average, the strength of small business growth forecasts have fluctuated over time in the manufacturing sector. Significantly, in the past years, manufacturing growth outlook has peaked during Q1, whereas this year it has fallen. The contrast between Q1 2025 and the Q1 position in previous years is stark.

Percentage of manufacturing businesses that predict growth over time



This muted confidence is partially explained by 84% of manufacturing enterprises citing barriers to growth: 41% mentioned market uncertainty (which is hard to plan against) and the sector is also most likely to still be feeling the long-term impact of Brexit (42%). Access to skilled labour is also a perceived barrier for 28% of manufacturing businesses.

Awake at night

Since January 2024 there has been a sharp rise in the percentage of manufacturing business owners that say business worries keep them awake at night - up from 72% in January 2024 to 88% in January 2025.

Top causes of sleepless nights

The possibility of rising tax / interest rates	36%
How to retain business	26%
Stabilising cash flow	25%

Building future resilience today

Despite a cautious start to 2025, the Novuna research also indicates a determined resilience among UK manufacturers. Nationally, 83% of small business owners said they are working on new initiatives this year that they hope will help them achieve future growth – a figure that is rising for the sector and remains well above the national average (71%). That said, 62% of business owners said they will have to put these plans on hold if they were unable to secure funding in 2025.





Adapting to rising costs today - and needing finance to grow tomorrow

Construction sector: small business outlook

A snapshot over time from Novuna Business Finance

Nationally, small business growth forecasts have fallen during Q1 2025 – with 33% predicting growth by the end of March. A new government double-whammy could be at play here: The rise in small business growth forecasts that followed the new UK Government taking office last July has now worn off - and 77% of small businesses expressed concern over the ripple effect the new US administration could have on small businesses in 2025.

Chief concerns included:

the possibility of tariffs on UK exports to the USA	43%
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Leisure and Hospitality	25%
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Within this national context, growth outlook in the construction sector has not yet recovered from the pandemic years. After a sharp fall in the second half of 2020 and Q1 2021, there was an initial resurgence in growth forecasts in early 2022 as Covid restrictions fell away. But soon after growth forecasts fell and they have remained at a lower level ever since.

At the beginning of 2025, construction (27%) was one of three sectors where growth forecasts were the lowest – alongside manufacturing (27%) and the leisure and hospitality sector (25%).

Cost of living crisis impact on construction

Following the impact, the cost of living crisis hit 86% of small businesses with a range of serious challenges. The negative impacts most intensely felt in construction included:

Customers spending less money with us	36%
Rising energy costs	26%
Rising costs being passed on from our suppliers	25%
Not being able to pass on price increases to our customers	24%

Investing in the future

Despite the long term challenges, 79% of construction businesses started 2025 with strategic plans to invest in the future and make their enterprises stronger for the future.

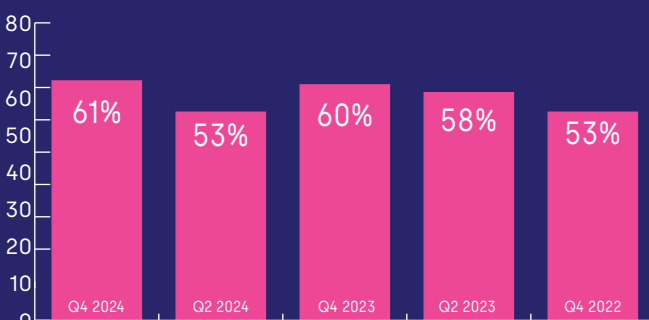
Key priority areas for 2025

Increasing new business income / sales	35%
Reducing fixed costs	29%
Building up financial reserves	26%
Planning ahead with business budgeting	14%
Diversifying the business, offering new service lines/ products	13%

Access to finance

Whilst the number of construction businesses planning for future growth is significant, a record number of business owners say these plans are conditional on securing finance.

Percentage of construction businesses that need funding to grow

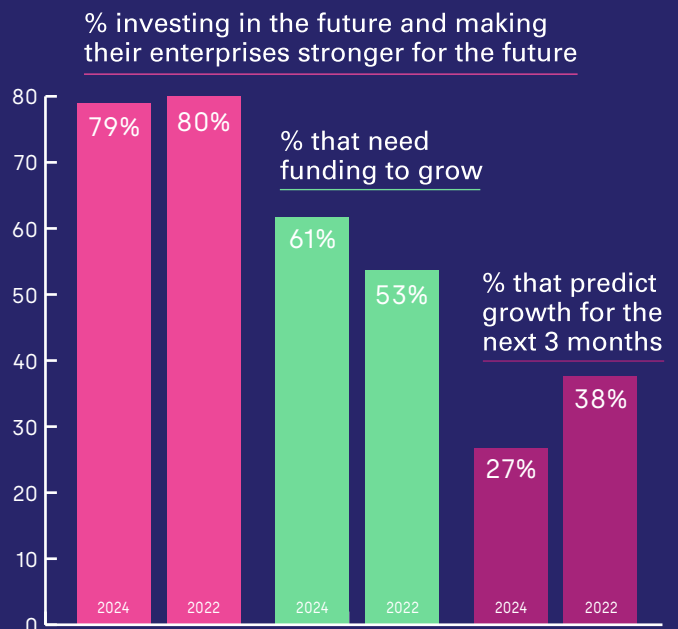


The specific initiatives construction businesses would not be able to do without securing finance included:

Increase headcount/ hire new people	31%
Invest in new vehicles	29%
Pay suppliers on time	24%
Launch into new market segments within the UK	22%
Invest in new production lines / machinery	12%

Quick fact file: Construction outlook now compared to 2022

The specific initiatives construction businesses would not be able to do without securing finance included:





Caution in the face of market change

Hospitality & Leisure sector: small business outlook

A snapshot over time from Novuna Business Finance

As UK small business confidence enjoyed an election bounce following the election of a new Government in July 2024, small business owners in the hospitality and leisure sector were a little more concerned about the future – and growth forecasts in this sector remained flat. As summer moved into autumn, enterprises in the hospitality and leisure sector were most concerned about potential negative impacts from the Autumn Budget (87%). Their concerns mirrored their exposure to economic shocks that could destabilise the sector’s relatively fragile business confidence.

Top Autumn Budget concerns:

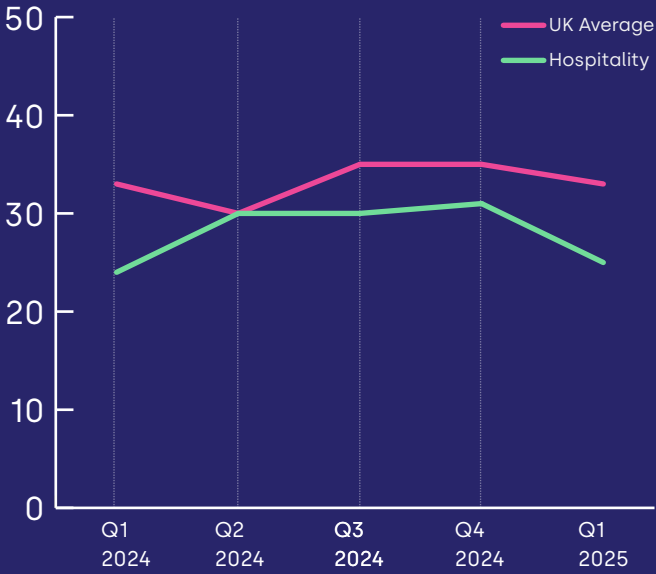
Rising VAT	49%
Employer’s NI	40%
Changes to zero hour contracts	19%
Employees getting parental leave and statutory sick pay from first day of a new job	18%

The sensitivity of small businesses to policy changes can be understood by remembering how the sector was almost destroyed by the social restrictions of the Covid era – and at its lowest point, only 7% of hospitality and leisure small businesses predicted growth during the first national lockdown, the lowest of any industry sector.

Resilience and rebuilding: 2024-5

Three years on from Covid restrictions finally ending and one in four small businesses in the sector predict growth for Q1 2025. 2024 was the year when growth forecasts for the sector returned to a position of upturn and stability although the sector still trails the national average – a sign of the challenges many small businesses still face.

Percentage of hospitality and leisure businesses that predict growth over time



Working on growth for 2025

Whilst the actual growth forecasts for small businesses in the sector are lower than the national average, the resolve to build future growth is strong. The sector has seen a significant jump since January 2024 on the percentage of small businesses working on new growth initiatives for the quarter ahead – up from 63% to 81%. The figure for hospitality and leisure is also well above the Q1 2025 national average (71%).

Top sector projects to power growth in Q1 2025

Keeping fixed costs down	71%
Improving cash flow	33%
Reassessing finance commitments	18%
Investing in new equipment	16%
Being stricter with getting paid on time	15%

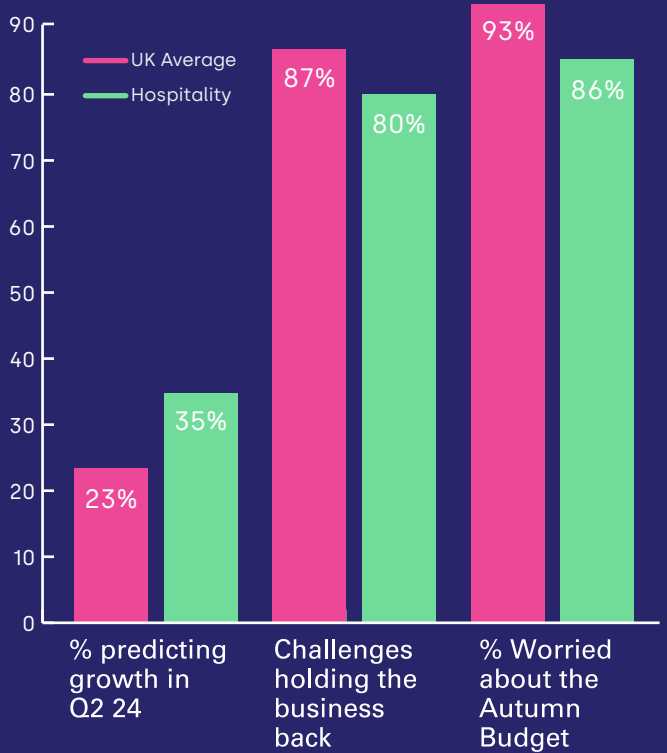
Whilst fixed costs remain the key issue, there has been an upturn this year in the percentage of small businesses reassessing their finance commitments and also looking for funding to invest in new equipment.

The long term picture

Looking beyond Q1, 83% of small businesses in the hospitality and leisure sector are also working on long term projects that will make them stronger and more resilient for the long-term:

Increasing new business income/ sales	45%
Reducing fixed costs	36%
Planning ahead with business budgeting	23%
Diversifying the business, offering new service lines/ products	21%

Quick fact file: Hospitality and Leisure Vs. the national average





Market concerns take toll on business confidence

Transport & Distribution: small business outlook

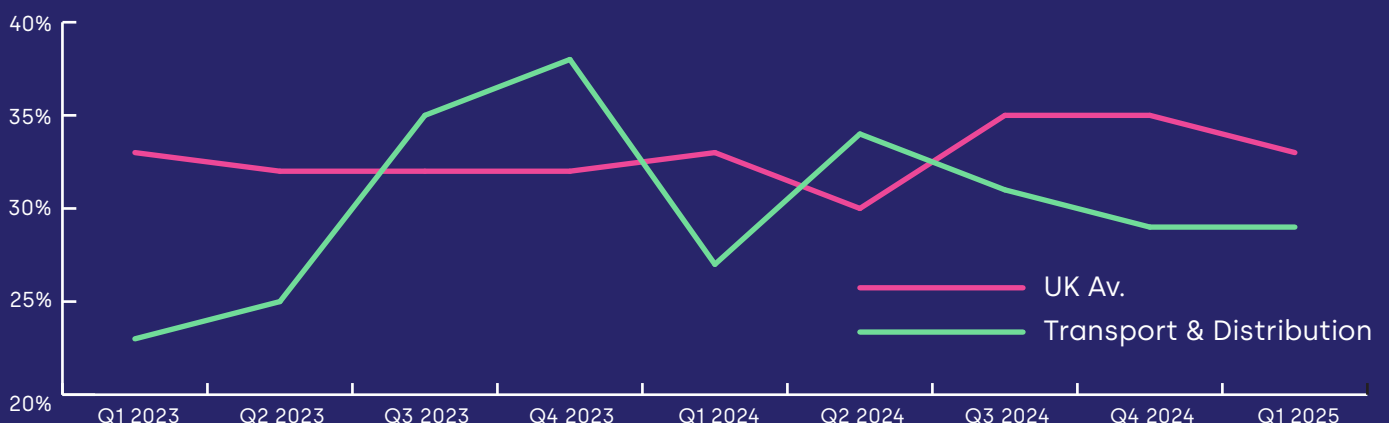
A snapshot over time from Novuna Business Finance

Growth forecasts in this sector have bucked the national trend over the last 12-months. Whereas UK small business confidence rose following the Labour Government taking office in July 2024 – in transport and distribution it started falling. Over the last 12 months, small business growth forecasts in this sector have fallen over each of the last four consecutive

quarters. The quarterly falls have been gradual but overall growth forecasts in transport and distribution sector are now significantly lower than they were in the second half of 2023.

The sector was significantly affected by the ripple of the cost-of-living crisis – nine in ten business owners saying they experienced

Percentage of transport and distribution businesses that predict growth over time



adverse impacts. Coping with rising costs from suppliers was a key concern through 2024 (30%) and transport and distribution was the sector most impacted by rising energy costs in terms of the cost of running a business (27%).

Autumn budget concerns

Whilst small businesses in other sectors welcomed the change of government in July 2024, 82% of small businesses in the transport and distribution sector were worried about the Autumn Budget that followed. Chief concerns included:

A potential rise in fuel duty	62%
A rise in employer's national insurance	52%
Increase to National Living Wage	24%

Access to finance

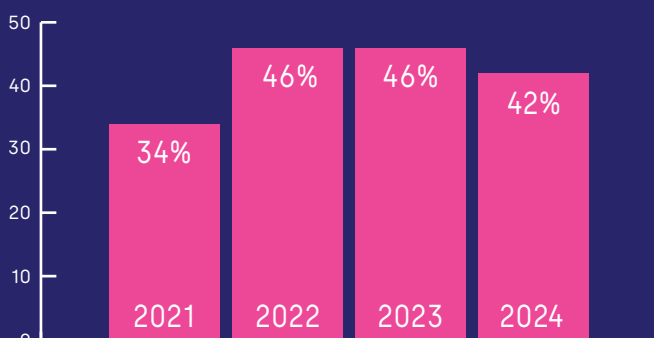
Whilst many business owners were looking to back new growth initiatives, 57% of small business owners said they needed to secure funding or finance to activate these plans. Without finance, many growth initiatives would have to be dropped, including:

Investing in new vehicles	49%
Increase to National Living Wage	24%

Growth held back

In addition to needing finance, business owners in this sector have consistency felt there are external barriers holding back their growth.

Percentage of transport and distribution businesses that cite barriers to growth

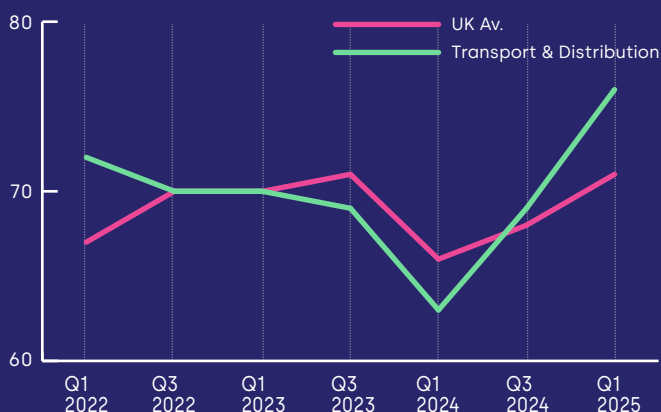


The key barriers to growth mentioned included: absorbing high fixed operating costs 28%, the cost of skilled labour 20%, the burden of red tape 18% - and 17% said they still feel the negative legacy of Brexit on their business.

A positive reset for the future

Despite the falling growth forecasts over the last 12 months and the perception of market induced burdens and barriers, small business owners in the sector are working on long term growth initiatives – in fact transport and distribution sees a big upturn in Q1 2025, above the national average. With many expanding into new markets, re-assessing the structure of their finance agreements and investing in new equipment – there is promise of a positive upturn for the sector's small businesses later in 2025.

Percentage of transport and distribution businesses investing in new growth initiatives for the future





Growth forecasts peak as 2025 gets underway

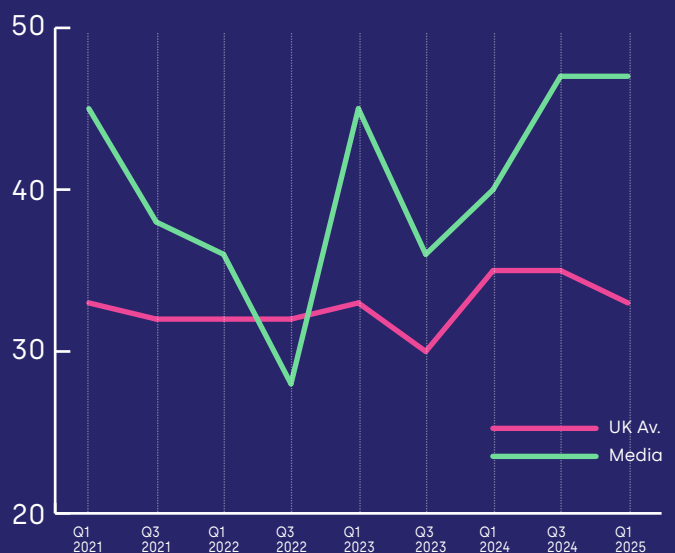
Media and marketing: small business outlook

A snapshot over time from Novuna Business Finance

Over time, the percentage of small businesses in the media and marketing sector that predict growth each quarter has stood above the national average. Despite a solitary, surprise dip in Q4 2023 the picture has been remarkably consistent over the last two years – and, as 2025 started, media and marketing ranked the top sector in terms of business owner confidence, predicting growth for the first quarter of the year.

The positive position for Q1 2025 is also the result of a consistently high percentage of businesses also investing time and resources backing new growth initiatives. In Q1 2025, 86% of media and marketing enterprises were working on new initiatives to achieve further growth in the next three months:

Percentage of small businesses in the media and marketing sector that predict growth over time



Key growth initiatives being actioned in Q1 2025:

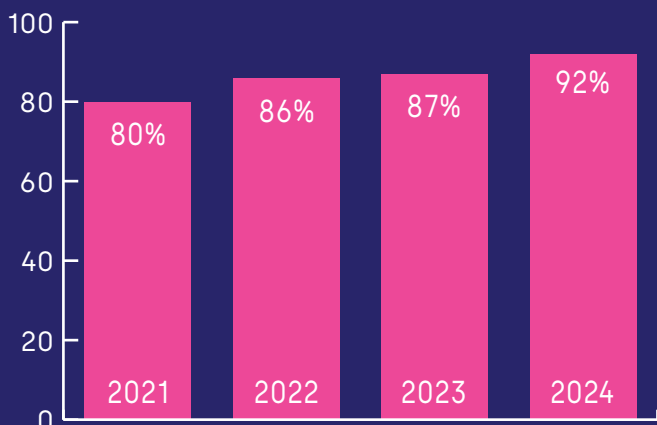
Keeping fixed costs down	50%
Improving cash flow	37%
Being stricter with getting paid on time	29%
Expanding into new markets overseas	28%
Hiring more people	16%
Reassessing finance commitments	14%
Investing in new equipment	14%

In contrast to some other sectors where small businesses focused more on defensive and cost control measures to deliver growth through efficiency savings, in the media and marketing sector, the delivery of short term growth featured more expansive moves in the mix – such as hiring more people, expanding into new markets and investing in new equipment.

Securing long-term resilience

Working concurrently with short-term growth plans, media and marketing sector enterprises are also the small businesses most likely to be investing in the long terms. Nationally 92% of small businesses in this sector said they were working on initiatives that would make their businesses stronger and more resilient for the longer term over the next 12 months. This trend has steadily increased over four consecutive years.

Percentage of small businesses investing in long-term growth initiatives



Key initiatives to secure long term resilience

For this sector, it was the range of depth of initiatives backed that was impressive. Perhaps unsurprisingly, small businesses in this sector rated the importance of running advertising and awareness campaigns. But they also prioritised the importance of staff training, making strategic hires, improving operational efficiency and diversifying their business model. The sector emerges as embracing change as an opportunity and building agile, innovative businesses.

Increase new business income	45%
Planning ahead with business budgeting	28%
Advertising online to increase awareness or sales	23%
Diversifying the business, offering new service lines/ products	21%
Invest more money in marketing the business to raise awareness of our brand and services	20%
Reviewing and looking for efficiencies in our back office	16%
Investing more time/ money to improve the digital capabilities of the business	14%
Making senior hires, bringing in people with specialist skills/ experience	11%
Expanding into new geographical markets	11%
Encouraging staff to attend training courses/ E-learning	11%
Reducing fixed costs	11%



Concluding remarks

Our sector snapshots in this report underscore that small businesses are not a simple homogenous group. Across the sectors there are widely contrasting views on opportunity and risk and these shape overall business owner views on growth and the projects to back to deliver it – in both the short and long-term.

Taking time to listen to small businesses helps us to frame the products, services and support that can best support them – and our decade-long Business Barometer study has proven helpful in allowing us to follow trends over time.

As 2025 gets underway, our national research presents a picture of cautious optimism. After a rally in growth forecasts during the second half of 2024, many small businesses continue to invest heavily in growth initiatives for the year ahead, but they also have concerns about a range of market factors. Given the various

seismic market shocks of the last five years, it is perhaps prudent that small businesses take a close interest in the market risks that could have a ripple effect on their enterprises.

We hope you have enjoyed the highlights from this report – it is the latest of a series and I do encourage you to explore the various other titles available on our website. If you have any discussion points or requests for further information, we would love to hear from you.

Geoff Maleham
Managing Director
Novuna Business Finance
February 2025