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UK Economic Outlook 2026

Implications for small businesses





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Introduction

The UK economy has moved out of crisis mode, but growth is modest, inflation remains persistent, and the cost of capital is structurally higher than it was throughout the 2010s. This isn't a temporary disruption to be waited out; it is a more demanding operating environment that requires one overarching skill from small and medium-sized businesses (SMEs): adaptation.

Recent data reflects these challenges clearly. UK GDP growth has been revised up to around 1.3%⁽¹⁾ for the year, and employment remains high. Yet, this near term resilience masks a constrained medium term outlook: underlying productivity growth has been revised down to around 1%⁽²⁾, and the freezing of personal tax thresholds is steadily increasing the effective tax burden on labour. Together, these forces limit real income growth and place sustained pressure on margins and cash flows.

Financing conditions add another layer of constraint. Even as interest rates begin to ease, the cost of capital is unlikely to return to the low levels of the pre-pandemic decade. Credit is more expensive and more selective.

In this white paper, we examine how these dynamics affect demand, costs, and credit risk across key economic sectors and where resilient growth is most likely to emerge.

1 <https://www.imf.org/en/publications/weo/issues/2026/01/19/world-economic-outlook-update-january-2026>

2 <https://obr.uk/efo/economic-and-fiscal-outlook-november-2025/>



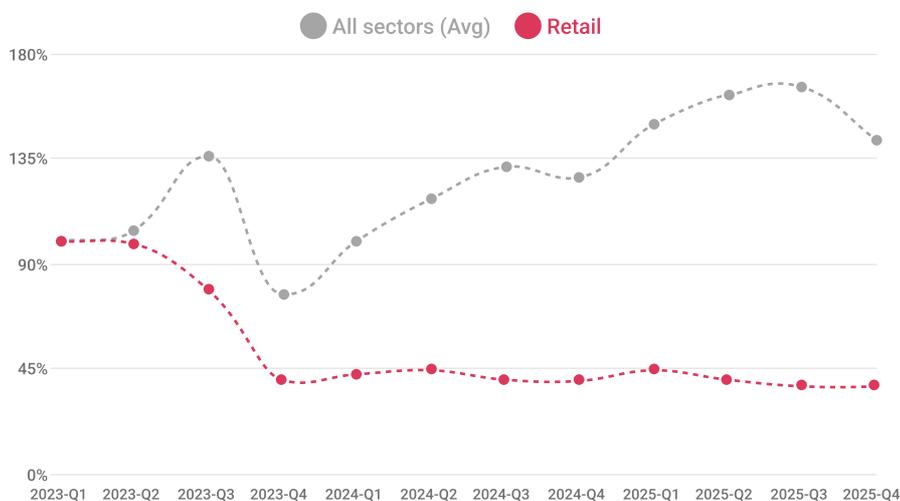
Consumer-facing sectors: retail, hospitality and leisure

After the post-pandemic rebound, consumer-facing sectors are entering a period of slower growth. Employment remains high and nominal wages continue to rise, but higher mortgage costs and tax drag are eroding spending power. Consumers are increasingly cutting back or reducing the frequency of non-essential purchases, increasing competition for their spending. Real household disposable income growth, at 3% in 2024-25, is expected to fall to 0.25% per year as wage growth moderates and fiscal drag takes effect⁽³⁾. This implies consumer spending growth of only 1% per year in 2025–26, a clear deceleration. For retailers, restaurants, and leisure operators, this points to sluggish growth rather than collapsing demand.

At the same time, cost pressures remain acute. Businesses in these sectors are labour intensive and continue to face wage inflation of around 5% in many roles⁽⁴⁾. Energy costs have eased from their 2022 peaks but remain above pre-2021 norms, while property related costs, including rent indexation and business rates, remain a structural drag on margins. Businesses with high fixed costs and limited differentiation are more exposed to cashflow strain as pandemic-era buffers run down and access to credit is constrained.

Figure 1 - Funding application by sectors: the decline of the retail sector

Indexed volume of funding applications (2023 - Quarter 1 = 100)



3 <https://obr.uk/economic-and-fiscal-outlook-november-2025/>

4 <https://www.bankofengland.co.uk/monetary-policy-report/2025/november-2025>

The decline in funding applications (Figure 1) within the retail sector is indicative of a debt saturation; while other industries have begun to deleverage, the wholesale & retail sectors remain burdened by the largest volume of outstanding pandemic-era debt, with repayment data from September 2025 showing that a significant portion of the £12 billion⁽⁵⁾ originally drawn remain on balance sheets. This high level of debt, coupled with an arrears rate that outpaces other sectors, has effectively capped the sector's borrowing capacity.

Figure 2 - Credit Score Heatmap
Share of businesses with an A–D credit score, by company size.

COMPANY SIZE	RETAIL	BUSINESS SERVICES	MANUFACTURING	PROFESIONAL SERVICES	WHOLESALE	FINANCE	HEALTH	CONSTRUCTION	PROPERTY
Nano	2%	19%	13%	17%	13%	17%	9%	14%	20%
Micro	20%	67%	60%	66%	56%	68%	38%	58%	59%
Small	28%	75%	71%	56%	66%	77%	72%	68%	75%
Medium	47%	81%	82%	83%	79%	85%	84%	79%	88%
Large	47%	90%	90%	89%	86%	88%	97%	87%	93%
Extra Large	50%	97%	96%	92%	90%	84%	94%	82%	78%
Extra Extra Large	50%	100%	99%	98%	93%	89%	100%	92%	100%

Notes: Scores range from A (highest) to G (lowest). Values shown represent the aggregate percentage of businesses rated A through D. Legend: ● 0%–20% ; ● 21%–40% ; ● 41%–60% ; ● 61%–80% ; ● 81%–90% ; ● 91%–100%

Source: 123,083 companies signed up to the Capitalise Platform with available credit score data, as reflected on our platform as of January 2026. Sectors presented are those with the highest number of businesses represented on our platform



⁵ <https://www.british-business-bank.co.uk/news-and-events/news/analysis-of-final-coronavirus-loan-scheme-data-shows-79-3bn-of-loans-to-1-67m-businesses-evenly-distributed-across-whole-of-the-uk>

Professional and B2B services

Professional and B2B services reflect broader business sentiment, while playing an outsized role in the UK economy. The sector contributed approximately 12% of UK Gross Value Added (GVA) in 2024⁽⁶⁾ and demonstrates above average productivity per worker. As SMEs become more cautious, discretionary spending on areas such as marketing, consulting, and recruitment is under pressure, while compliance-driven services remain resilient.

Demand for accounting, tax, legal compliance, and managed IT services remains steady as they benefit from recurring requirements, even as project based work slows. At the same time, sales cycles are lengthening and pricing pressure is increasing.

Cost pressures are concentrated in labour with **average weekly earnings in professional services exceeding the UK median by more than 20%** in late 2025⁽⁶⁾. The freezing of employer NIC thresholds further increases the effective cost of employment as wages rise.

Credit risk varies accordingly. Firms with recurring revenues and diversified client bases are more resilient than agencies and consultancies reliant on discretionary project spend or a small number of clients. While churn in business services is high due to low barriers to entry, official data shows that insolvency rates in this sector remain lower than in more capital-intensive sectors such as construction or retail, underlining its aggregate resilience.⁽⁷⁾

Professional and B2B services in a snapshot⁽⁶⁾



UK GVA, TheCityUK (2025), Office for National Statistics, Insolvency Service, England and Wales, Q2 2025

⁶ <https://www.thecityuk.com/our-work/key-facts-about-uk-based-financial-and-related-professional-services-2025/>

⁷ <https://www.gov.uk/government/statistics/company-insolvencies-december-2025/commentary-company-insolvency-statistics-december-2025>

Construction and property services

Construction sector spotlight

 Employment 2.2m Employees	 Market size 870k Total businesses	 Insolvencies 3,950 12month to Oct 2025	 GDP Share ~6% of UK GDP
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The outlook for construction and property services remains uncertain. Mortgage rates, still hovering around 4-5%⁽⁸⁾ continue to dampen housing transactions and weigh on new build activity. In private sector projects, weak business investment in commercial property is holding back growth. Additionally, the introduction in the recent Budget of new council tax bandings for higher priced homes increases pressure on the market.

Yet, not all segments are struggling. Demand for repair, maintenance, and retrofit work is far more resilient, as homeowners opt to improve rather than move. Public sector pipelines, including energy efficiency upgrades and school/hospital refurbishments, provide some stability at the lower-risk end of the sector.



Cost pressures have moderated since the 2021–22 highs: timber, steel, and cement prices have eased. However, labour remains a major pressure point. Shortages of skilled trades continue to push wage inflation well above headline CPI⁽⁹⁾, and fuel and vehicle costs remain high for property services firms.

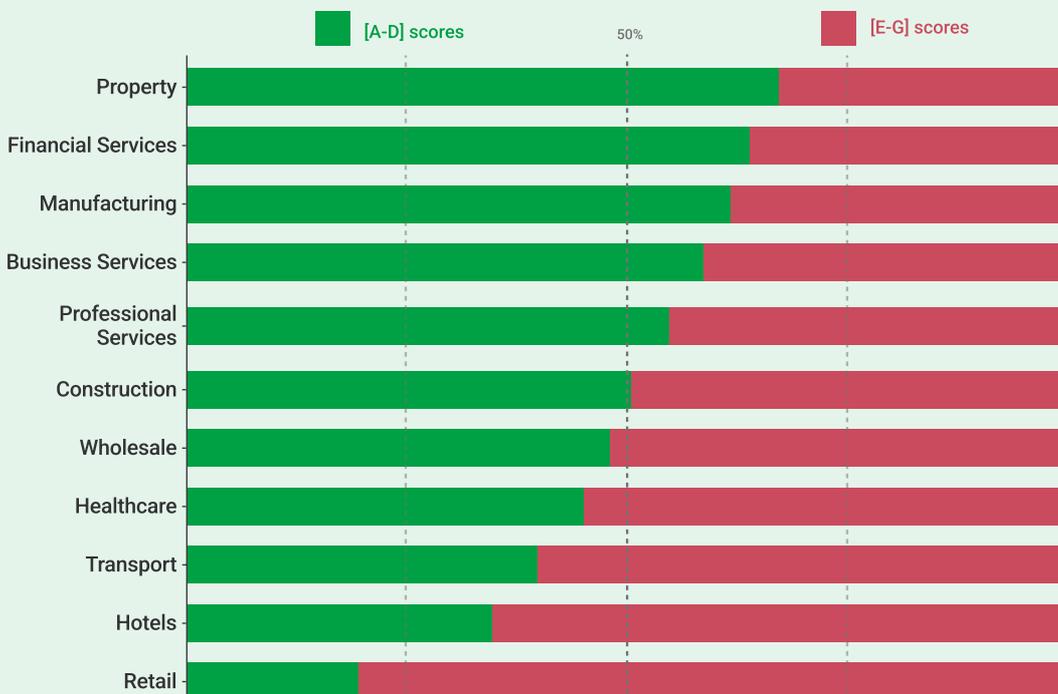
8 <https://www.standard.co.uk/homesandproperty/buying-mortgages/mortgage-rates-fall-below-five-per-cent-november-b1256184.html>

9 <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2025>

Credit risk is highly uneven. Construction saw the highest number of insolvencies in the UK in the 12 months to October 2025: 3,950 firms, 17% of all company insolvencies¹⁰. Within the sector, the difference between the stable and the distressed is stark.

Figure 3: Credit score distribution among key economic sectors

The distribution of credit scores across UK sectors reveals significant variation in financial resilience. While property and financial services firms show relatively strong credit health, sectors like retail, hospitality, and transport are dominated by higher risk profiles. These differences aren't always visible in headline economic data but are critical for understanding the financial vulnerability, or strength, of the UK's SME base. This cross sector view helps contextualise risk and opportunity in today's more selective credit environment.



Source: 47,361 companies with industry data available among all companies signed up to the Capitalise Platform. Credit score as of January 2026.

¹⁰ <https://www.gov.uk/government/statistics/company-insolvencies-december-2025/commentary-company-insolvency-statistics-december-2025>

Manufacturing and exporting

Manufacturing SMEs face a complex and uneven environment. Domestic demand is broadly stable, supporting GDP growth, but much of this activity relates to machinery and tools replacement rather than expansion. Niche manufacturers supplying specialised or high-value products tend to fare better than commodity producers.

Export growth is weak, with UK export volumes expected to grow by only 2.3 % in 2026⁽¹¹⁾, held back by sluggish global trade growth and persistent post-Brexit trade friction. Some exporters benefit from a weaker trade-weighted sterling against the euro, down by roughly 4% since early 2025⁽¹²⁾, but this advantage is uneven.

Energy prices are well below their 2022 peaks and raw material costs have stabilised, but labour costs remain high for skilled technicians and engineers.

These pressures are compounded by **higher financing costs**, as firms face steeper rates on inventory and working capital borrowing in a tighter credit environment.

As a result, credit risk varies significantly by business model: export-heavy firms with narrow product ranges and limited pricing power are more exposed, while manufacturers with long term contracts, diversified markets, or sole supplier positions show greater resilience.



11 <https://obr.uk/efo/economic-and-fiscal-outlook-november-2025/>

12 <https://obr.uk/efo/economic-and-fiscal-outlook-november-2025/>

Manufacturing sector: distribution of credit score by company size

Credit score distribution reveals a sharp divergence in resilience by company size.

COMPANY SIZE/ CREDIT SCORE	A	B	C	D	E	F	G
Large	5%	0%	1%	0%	0%	0%	0%
Medium	9%	5%	5%	2%	0%	2%	2%
Small	2%	4%	9%	3%	1%	4%	2%
Micro	0%	0%	7%	4%	1%	3%	2%
Nano	0%	0%	1%	3%	3%	11%	7%

Capitalise proprietary data, January 2026. Includes platform users with active credit scoring profiles.

Larger manufacturers are generally better positioned to withstand weak trade conditions, with credit scores skewed towards the higher bands. Their scale, diversified customer bases, and stronger balance sheets likely provide greater resilience in an environment of subdued export growth and elevated cost pressures.

Medium-sized and small manufacturers also tend to display relatively stronger credit profiles than their smaller peers, although their scores are more dispersed. These firms benefit from some operational scale and market diversification, but remain more exposed to fluctuations in demand, input costs, and financing conditions.

In contrast, nano and micro manufacturers show a pronounced concentration of credit scores in the lower bands [D to G]. This reflects limited economies of scale, narrower product ranges, and greater sensitivity to rising labour costs and tighter credit conditions. For these firms, constrained pricing power and dependence on a small number of customers materially weaken credit strength.

Overall, the distribution highlights the importance of scale and diversification in manufacturing, where larger firms are better able to absorb external shocks, while smaller businesses face significantly higher credit risk.



Transport, logistics and fleet-heavy SMEs

Demand in transport and logistics follows trade and retail activity. With trade growth modest, freight volumes are expected to grow slowly but remain positive, supported by essential goods distribution and e-commerce volumes that remain above pre-pandemic levels.

Cost pressures are a defining feature. Driver wages are structurally elevated following Brexit-related labour shortages, while maintenance, insurance, and vehicle replacement costs have risen sharply. Fuel costs have been temporarily supported by the fuel duty freeze until 2026, but operating costs are expected to rise thereafter.

Margins in logistics are typically thin, making cash flow management critical. Many SMEs in the sector are asset-heavy, with vehicles financed through leases or hire purchase, increasing sensitivity to revenue volatility with significant impact coming from FRS102 from January. Overall, resilience depends on operational efficiency, contract structures, and sensible borrowing, rather than demand growth alone.





Tech, digital and high growth SMEs

The outlook for tech and digital SMEs has reset from the growth-at-all-costs environment of the early 2020s. Corporate clients are more cautious, sales cycles are longer.

Funding conditions have tightened materially. Higher interest rates, lower valuations, and more selective investors have raised the bar for external capital, while talent costs for experienced engineers remain high.

Credit risk is highly dispersed. Venture style businesses with high burn rates remain unsuitable for debt financing, while profitable or near break-even SaaS firms with low churn and recurring revenues increasingly display greater resilience.



Health, social care and education

Health, social care, and education related SMEs benefit from strong structural demand driven by demographics and public policy commitments. Demand continues to rise as the population ages and pressure on public services intensifies.

However, funding constraints create significant challenges. Acute staff shortages are driving above average wage growth, and regulatory requirements limit flexibility in adjusting staffing levels. Public sector pay settlements often spill over into higher costs for private providers without equivalent increases in funding rates they receive from the government or local authorities.

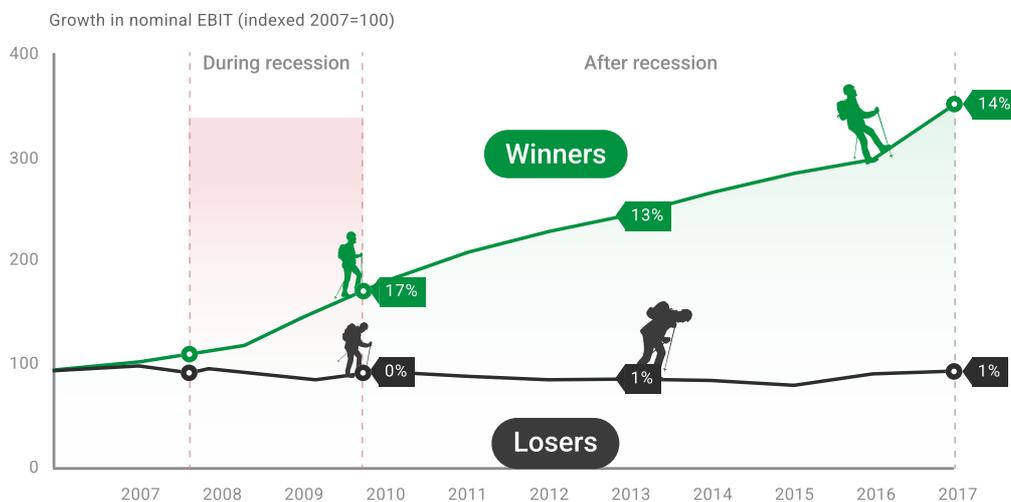
While revenue is relatively stable, credit risk is heavily policy driven. Exposure to financially stretched local authorities and higher interest rates, particularly for larger care providers, can undermine cash flow resilience.



Resilience determines the winners

The data indicates that the UK economy is currently in a "fog" of persistent inflation and shifting policy. History shows that during such periods of uncertainty, a "fork in the road" emerges: studies suggest only 10% of businesses achieve significantly higher growth over a decade following a crisis. The remaining 90% typically stagnate.

Businesses value creation analysis



Sources: S&P Capital IQ; Bain Sustained Value Creator analysis, winners (n=415) losers (n=3,449)

The difference is rarely down to the sector alone. It is determined by a choice to move from reactive survival to disciplined financial execution. In this environment, resilience is no longer a defensive concept; it is the engine that allows a business to seize market share while others retrench. By focusing on data-led decisions, managing credit risk, and maintaining control of working capital, SMEs can move into that fast growing decile.



“At Capitalise, we provide the tools to navigate uncertainty. Our platform is designed to give small businesses the same financial sophisticated and "clean data" usually reserved for large corporations, turning financial health into a competitive advantage.”

Jack Johnson, Head of Product

The SME Resilience Toolkit

To join the 10% of firms that thrive, businesses should be encouraged to focus on four fundamental pillars of financial health:

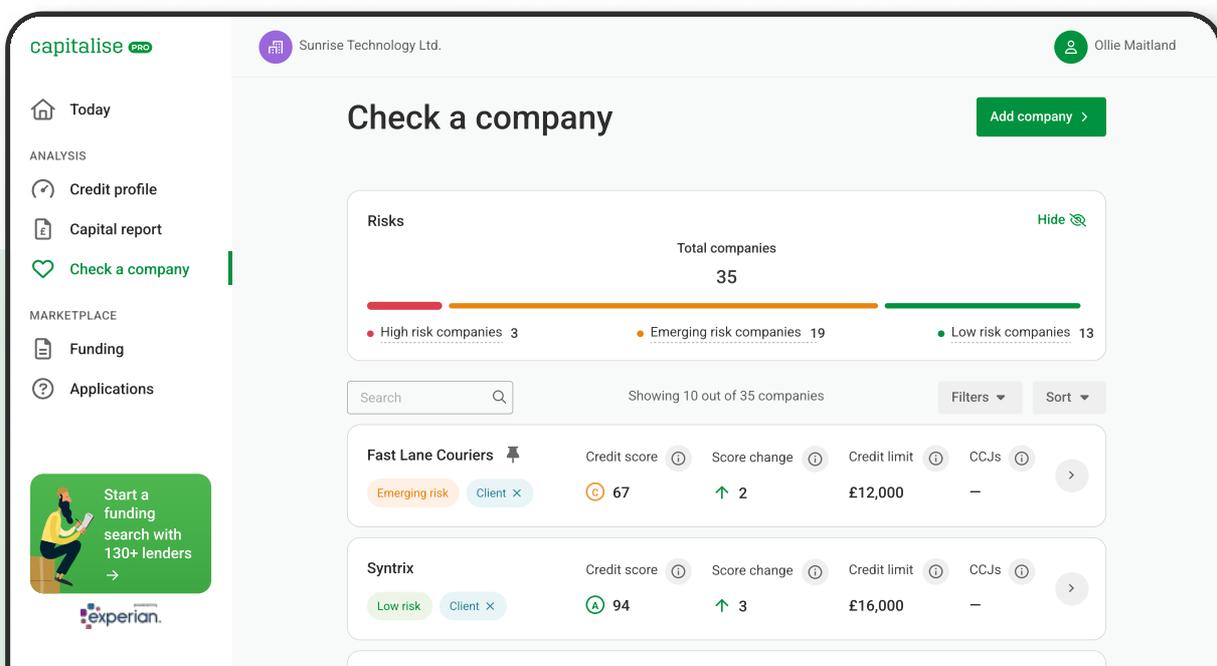
Clean up business data: maintaining a strong business credit profile ensures the company looks "bankable" to the market. Identifying risks and building positive signals can lift a credit score, this unlocks higher trade credit limits, and improves the terms offered by suppliers.

Credit risk management: with insolvencies rising in key sectors, businesses must monitor their debtors. Running regular credit checks on key customers provides a clear picture of their financial health, allowing the business to set sensible payment terms and act early if a customer's risk profile starts to change.

Strengthen working capital: efficient cash flow forecasting is the most important way for a business to manage daily operations. By understanding their KPIs, management can avoid "reactive cost-cutting" (such as slashing marketing) that often hampers long term recovery.

Marketplace access: when funding is required, businesses should avoid the "panic search". Our marketplace connects SMEs to over 130 lenders, matching businesses with the right facility, so that they secure the best rates available and support their strategic growth.

Used together, these four pillars of financial health help business owners to stay in control, manage risk and make better decisions, whatever the market conditions.



Authors



Paul Surtees
CEO & CO-FOUNDER

 paul@capitalise.com

 [Paul Surtees](#)

Prior to founding Capitalise, Paul brings over 15 years of experience in global capital markets specialising in interest rate bonds & derivatives serving bank treasuries, sovereign wealth and pension funds across Europe.



Hacina Smaini
HEAD OF MARKETING

 hacina.smaini@capitalise.com

 [Hacina Smaini](#)

With a deep background in investment banking and finance, Hacina specialises in SME lending ecosystems. She drives growth and partnership strategies that connect businesses with the capital they need to grow.

Capitalise values

KEEP IT
SIMPLE



DO THE RIGHT
THING



ALWAYS
DETERMINED



FUTURE
POSITIVE



BETTER
TOGETHER



About Capitalise

Capitalise is a financial platform built to help UK SMEs take control of their finances. By combining smart technology with real-time credit insights, Capitalise **enables businesses to understand, build and monitor their credit profile**, strengthen their financial position, and secure the right funding at the best available rate.

With access to over **130 trusted UK lenders** and credit data powered by Experian, Capitalise simplifies access to finance while helping businesses improve their financial health over time. The platform also enables businesses to check the financial health of the companies they work with, making credit risk visible, not invisible.

Capitalise partners with accountants, lenders, and advisers to make sure businesses don't face these challenges alone. When financial health is visible, businesses can move forward with confidence.

[Capitalise.com](https://capitalise.com) | Press: communication@capitalise.com

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