

Q1 2026

YCF Business Formation Barometer

Software Development Formations Surged 86% as UK Entrepreneurship Enters Its AI Era

The UK's company formation market split in two in Q1 2026. Technology surged. Retail contracted. The data below explains what happened and what it means.



Reporting period
January - March 2026



Frequency
Quarterly



Data source
Companies house public register

206,251

Q1 2026 total formations

⬇️ Down 3.3% year-on-year

86%

Software development growth

⬆️ Up from 4,035 to 7,506 formations

74,101

March 2026 - strongest month

⬆️ 22.6% rebound from February

2,292

New companies registered per day Q1 2026

12.6%

Retail formation decline Q1 2026 year-on-year

96.7%

Of all Q1 2026 formations were private limited companies

"Q1 2026 confirmed what the data has been signalling for two years: UK entrepreneurship is not in retreat. It is in transition." — Robert Engeham, Director, Your Company Formations."

EXECUTIVE SUMMARY

A Two-Speed Economy: Digital Sectors Surged While Physical Economy Sectors Contracted

The UK's company formation market split into two distinct directions in Q1 2026. Software development formations surged 86%. Retail lost 5,573 formations. The detail sits in the sections below.

Three sectors grew: technology, financial services, and professional services. Fourteen declined. The divide between digital and physical economy sectors now defines UK formation trends more than total registration volume.

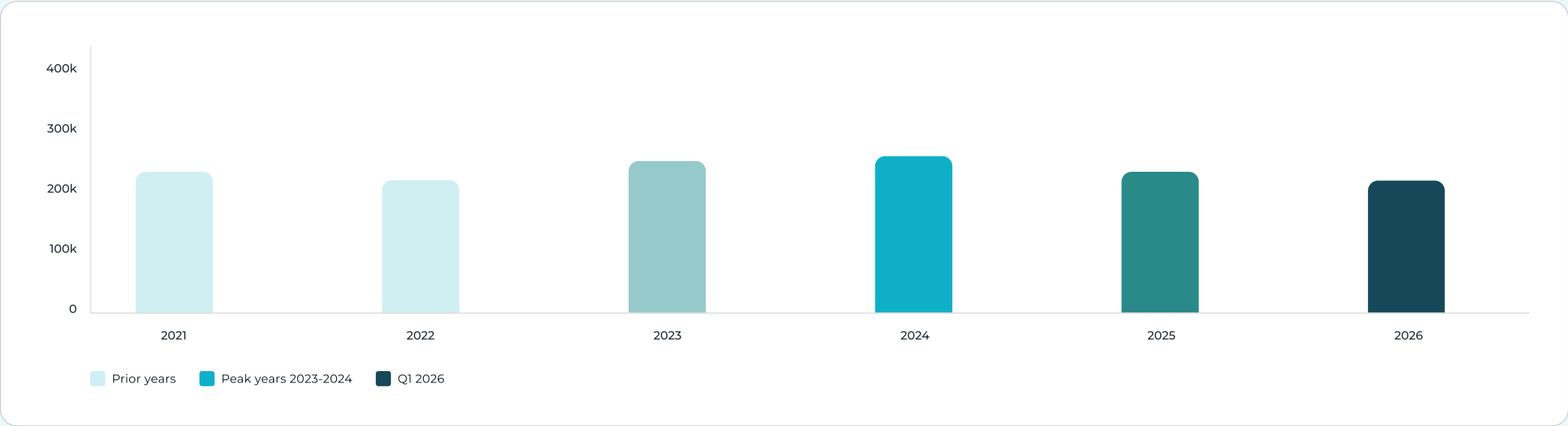
The February Companies House fee increase, which doubled the cost of digital incorporation from £50 to £100, shaped the quarter into three distinct phases. The market absorbed the 100% fee increase within a single quarter.

London and Scotland were the only two regions to record year-on-year growth. Every other region declined. Overseas company registrations collapsed 49%, a potential indicator of reduced foreign direct investment appetite for formal UK registration.

Private limited companies account for 96.7% of all Q1 2026 formations. LLP registrations fell 15.7%. The decline coincides with growth in professional services limited company formations, suggesting founders are favouring Ltd structures over traditional partnerships.

Post-Boom Correction Erases Two Years of Growth, Returning Formations to 2022 Levels

Q1 2026 recorded 206,251 total formations, a 3.3% year-on-year decline and the lowest Q1 total since 2022.



Year	Q1 Total	YOY
2021	214,185	-/-
2022	207,429	-3.2%
2023	241,755	+16.5%
2024	247,089	+2.2%
2025	213,276	-13.7%
2026	206,251	-3.3%

The 2023–2024 boom set the two highest Q1 formation totals on record. The declines in 2025 and 2026 erased all of that growth. The market has returned to below its 2021 baseline.

The Companies House fee increase introduced in February 2026, combined with mandatory director identity verification under ECCTA 2023, raised the administrative barrier to entry. Speculative and defensive registrations declined as a result. The Q1 2026 cohort reflects founders registering with clearer commercial intent than in prior peak years.

How the Fee Increase Split Q1 2026 Into Three Measurably Different Months

The Companies House fee increase, which doubled the cost of digital incorporation from £50 to £100 in February 2026, produced three measurably different months within a single quarter. January rose 3.4% year-on-year as founders registered ahead of the price change. February fell 10.3% to a five-year low once the fee doubled. March rebounded 22.6%, absorbing the policy change within the same quarter.

Month	Q1 2026	Q1 2025	YOY
January	71,687	69,342	+3.4%
February	60,463	67,406	-10.3%
March	74,101	76,528	-3.2%
Q1 Total	206,251	213,276	-3.3%

JANUARY 2026

71,687

+3.4% year-on-year

Seven sectors grew year-on-year as founders registered ahead of the price change.

FEBRUARY 2026

60,463

-10.3% year-on-year

Fee doubled to £100. Physical economy sectors hit hardest. Software development grew 10.8% despite the increase.

MARCH 2026

74,101

+22.6% from February

March posted the highest monthly total of the quarter. The February dip resolved within 30 days.

March recovered strongly but remained 3.2% below March 2025. The rebound confirmed that founders absorbed the higher fee. It did not confirm that the market returned to prior-year levels.

Founders Rushed to Register in January, Producing a Broad-Based 3.4% Rise Before the Fee Doubled

January formations rose to 71,687, a 3.4% year-on-year increase. Seven sectors grew year-on-year in January, spanning technology, construction, financial services, and four others. The pattern was not limited to any single industry.

Dormant registrations, companies registered to secure a name or structure before committing to full trading activity, rose 167.2% year-on-year in January, from 591 to 1,579. No other month in the dataset recorded a higher figure.

Month	Dormant 2026	Dormant 2025	YOY
January	1,579	591	+167.2%
February	361	712	-49.3%
March	343	696	-50.7%
Q1 Total	2,283	1,999	+14.2%

Dormant registrations collapsed 49.3% in February and 50.7% in March as the fee doubled and the urgency to register dissipated. The January surge was a direct response to the impending fee change, not an underlying shift in formation intent. The high volume of dormant registrations in January inflates the month's overall formation figures.

The Fee Doubled in February, Driving Registrations to a Five-Year Low While Digital Sectors Continued Growing

Year	February Total	YOY
2020	58,258	-/-
2021	69,903	+20.0%
2022	65,804	-5.9%
2023	77,960	+18.5%
2024	80,993	+3.9%
2025	67,406	-16.8%
2026	60,463	-10.3%

February 2026 recorded 60,463 formations, a 10.3% year-on-year decline and a 15.6% drop from January.

February formations have fallen 25.4% over two years, from the peak of 80,993 in February 2024. Six years of data establish February as the most volatile month in the UK formation calendar. February's year-on-year range spans from -16.8% to +20.0%, a 36.8 percentage point spread. January and March show more stable patterns. February is where policy changes and market sentiment register first.

Year	February YOY	Context
2021	+20.0%	Sharpest February rise on record
2022	-5.9%	Post-boom correction
2023	+18.5%	Second largest February rise on record
2024	+3.9%	Growth moderated
2025	-16.8%	Sharpest February fall before 2026; preceded ECCTA verification
2026	-10.3%	Fee increase effect

The fee increase did not suppress all sectors equally. **Digital sectors continued growing through February** while every physical economy sector declined. Software development formations grew 10.8% in February, the only major sector to record double-digit growth in the month the fee doubled.

March Rebounded 22.6%, Confirming the February Drop Was a Timing Effect

March delivered 74,101 formations, the highest single month of Q1 and a 22.6% rebound from February. Founders who deferred registration in February re-entered the market in March. The recovery was broad, with four sectors recording year-on-year growth in March: construction grew 7.2% year-on-year after falling 9.6% in February. Technology grew 24.0%. Financial services grew 13.6%. Transport grew 6.3%.

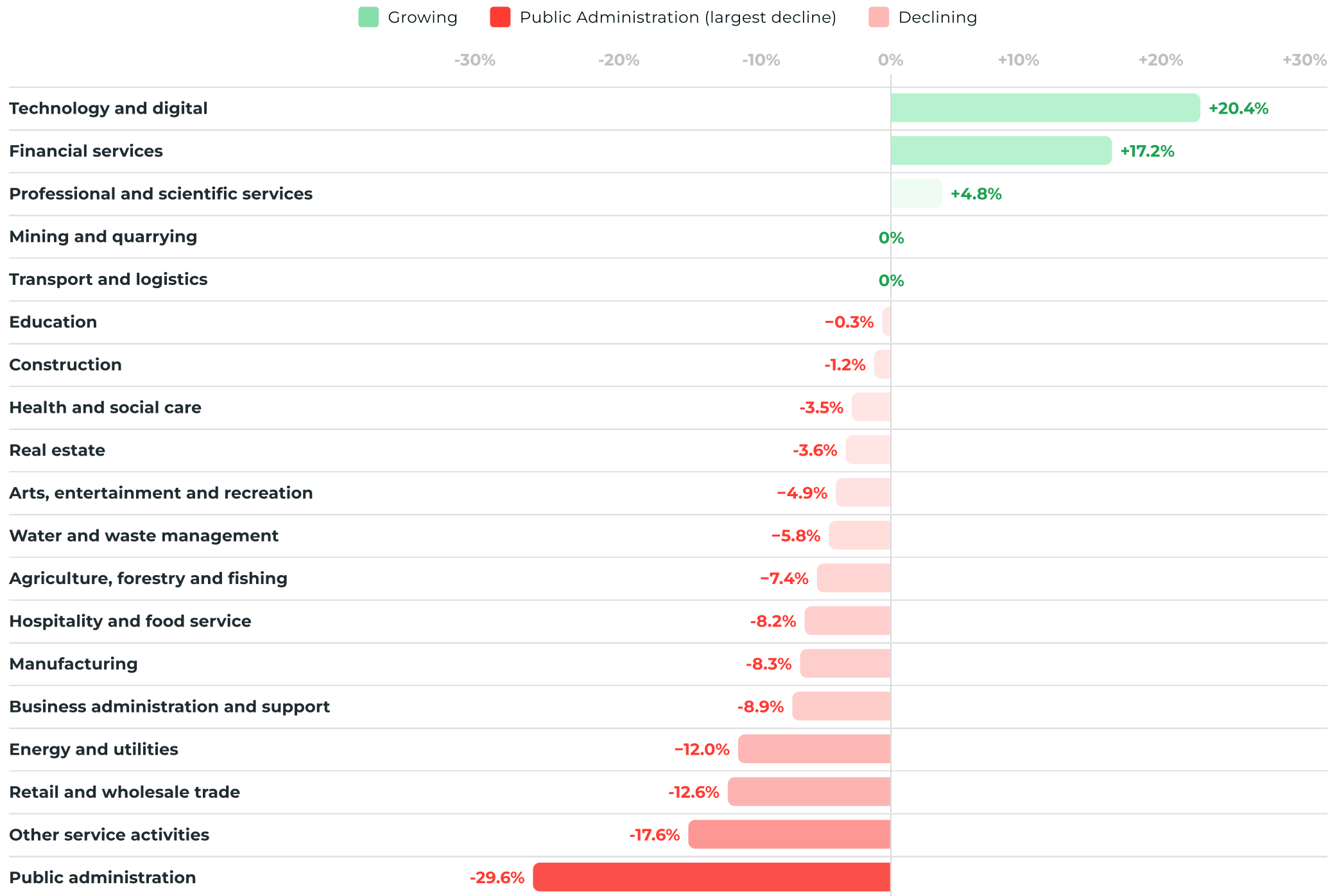
The February collapse did not persist. Founders absorbed the higher fee and re-entered within the same quarter.

SECTOR ANALYSIS

Sector Analysis: How the Digital-Physical Divide Shaped Every Industry in Q1 2026

Three Sectors Grew, Fourteen Declined, as the UK Economy Split Along Digital-Physical Lines

Three sectors grew in Q1 2026: technology (+20.4%), financial services (+17.2%), and professional and scientific services (+4.8%). Two sectors were flat. Fourteen declined. The three growing sectors share a common profile: lower fixed costs, scalability, and demand that is not tied to a physical location. The fourteen declining sectors share the opposite: physical premises, local footfall, or high operational overhead.



Bars encode year-on-year growth rate. Volume shown in table below.

Sector	Q1 2026	Q1 2025	YOY	% of total
Retail and wholesale trade	38,494	44,072	-12.6%	18.7%
Real estate	22,433	23,281	-3.6%	10.9%
Professional and scientific services	21,677	20,691	+4.8%	10.5%
Technology and digital	21,307	17,697	+20.4%	10.3%
Construction	19,396	19,626	-1.2%	9.4%
Hospitality and food service	14,876	16,201	-8.2%	7.2%
Business administration and support	12,334	13,540	-8.9%	6.0%
Financial services	9,310	7,949	+17.2%	4.5%
Health and social care	7,701	7,977	-3.5%	3.7%
Other service activities	7,340	8,913	-17.6%	3.6%
Manufacturing	7,071	7,709	-8.3%	3.4%
Transport and logistics	6,792	6,792	0.0%	3.3%
Education	4,694	4,707	-0.3%	2.3%
Arts, entertainment and recreation	4,526	4,758	-4.9%	2.2%
Agriculture, forestry and fishing	995	1,074	-7.4%	0.5%
Water and waste management	677	719	-5.8%	0.3%
Public administration	428	608	-29.6%	0.2%
Energy and utilities	338	384	-12.0%	0.2%
Mining and quarrying	235	235	0.0%	0.1%

Retail's Structural Collapse Dwarfs Every Other Sector, Losing 5,573 Formations Across All Three Months

Retail and wholesale trade is the largest single sector by formation volume at 18.7% of all Q1 2026 registrations by absolute volume. Retail also recorded the steepest absolute decline of any sector, losing 5,573 formations year-on-year.

Retail declined in all three months of Q1 2026. It fell 2.1% in January before the fee increase took effect, 19.4% in February, and 16.7% in March. The consistency of decline across all three months confirms the contraction is structural, not a fee timing effect.

Sector	Formations lost (Q1 2025 to Q1 2026)
Retail and wholesale trade	-5,573
Other service activities	-1,573
Hospitality and food service	-1,325
Business administration and support	-1,206
Real estate	-848
Manufacturing	-638
Health and social care	-276
Arts, entertainment and recreation	-232

Physical Retail Formations Fell Up to 27.5% While Online Retail Held Relatively Steady at 4.1%, Preserving Its Position as the Largest Single SIC Code

AI Demand Fuelled an 86% Surge in Software Development, Making Technology the Quarter's Defining Growth Story

The retail and wholesale trade sector figure of -12.6% covers all retail formats.

SIC 47910, non-store retail covering online and mail-order commerce, is the single largest SIC code in the entire Q1 2026 dataset with 13,292 formations. Non-store retail declined only 4.1% year-on-year. Physical store retail SIC codes fell far more steeply: non-specialised store retail (SIC 47190) declined 27.5% and clothing retail (SIC 47710) declined 21.9%. Founders are not abandoning retail broadly. Online retail formation remains the single largest registration category in the UK.

Technology and digital formations grew 20.4% in Q1 2026, from 17,697 to 21,307. Growth was sustained across all three months: 25.7% in January, 10.8% in February despite the fee increase, and 24.0% in March. No other major sector outside financial services maintained growth through all three months. Within the technology sector, a single SIC code drove 96% of all growth.

SIC 62012, business and domestic software development, grew 86% year-on-year from 4,035 to 7,506 formations. No other SIC code in the full Q1 2026 dataset grew by a larger absolute number.

SIC	Description	Q1 2026	Q1 2025	YOY
62012	Business and domestic software development	7,506	4,035	+86.0%
58290	Software publishing	1,341	922	+45.4%
63120	Web portals	535	420	+27.4%
62090	Other IT service activities	1,908	1,823	+4.7%
62020	IT consultancy	4,646	4,916	-5.5%

There is no dedicated SIC code for artificial intelligence companies in the UK classification system. Businesses working in AI register primarily under SIC 62012, business and domestic software development, making it the closest proxy for AI formation activity in the dataset. SIC 62011, which covers ready-made leisure and entertainment software, grew only 11.0% over the same period, from 336 to 373 formations. The contrast between 62011's modest growth and 62012's 86% surge shows the growth is specific to business and AI software development, not a broad software category effect.

Beauhurst's New Startup Index 2026, covering 2025 data, identified SIC 62012 growing 38.4% over the full year. Q1 2026's growth rate has already exceeded the full-year trajectory for 2025.

IT consultancy (SIC 62020) declined 5.5% year-on-year while software development grew 86%. Founders are building software businesses directly rather than positioning themselves as consultants. Technology company formation is shifting from advisory to product.

Holding Companies Signal Founders Are Structuring for Future Deals, Not Immediate Trading

Financial services formations rose 17.2% in Q1 2026, from 7,949 to 9,310. Growth was recorded across all three months: 28.0% in January, 11.8% in February, and 13.6% in March.

SIC 64209, activities of holding companies, drove that growth, rising 34.4% from 4,681 to 6,290 formations. A holding company registered in Q1 2026 may not become an operating business until Q3 or Q4. Its registration is a declaration of intent rather than a record of current activity. Founders and investors are establishing corporate structures in advance of anticipated deals and investments.

Management consultancy (SIC 70229) grew 14.2% from 7,880 to 9,001, making it the second-largest individual SIC code in the dataset. Limited partnerships fell 27.5% from 273 to 198 in the same period. Investment structure formation is moving from limited partnerships toward holding company vehicles.

Professional Services Growth Conceals a Structural Shift Away From Partnerships Toward Limited Companies

Professional and scientific services registered 21,677 formations in Q1 2026, up 4.8% from 20,691 in Q1 2025. The sector grew 8.0% in January, 1.1% in February, and 4.9% in March.

LLP registrations across the UK fell 15.7% in the same period, from 1,164 to 981. LLPs are concentrated in professional services, and the decline coincides with a 4.8% rise in limited company formations within the sector. The pattern suggests founders in professional services are favouring private limited company structures over the traditional LLP model. The sector is growing in volume while the partnership structure it historically relied on is contracting.

A Market Defined by Private Limited Companies, With Warning Signs in Every Other Category

96.7% of All Formations Are Private Limited Companies as Alternative Structures Fall Across the Board

The UK formation market is structurally a private limited company market. 199,517 of 206,251 formations in Q1 2026 were private limited companies. Every other company type declined year-on-year, with two exceptions.

Company type	Q1 2026	Q1 2025	YOY
Private limited company (Ltd)	199,517	205,869	-3.1%
Private limited by guarantee	4,730	4,868	-2.8%
Limited liability partnership (LLP)	981	1,164	-15.7%
Limited guarantee (limited exemption)	245	283	-13.4%
Registered overseas entity	242	301	-19.6%
Limited partnership	198	273	-27.5%
Overseas company	108	212	-49.1%
UK establishment	108	213	-49.3%
Private unlimited company	83	56	+48.2%
Public limited company (PLC)	34	33	+3.0%

Fee Hikes and ECCTA Rules May Be Deterring Foreign Investment as Overseas Registrations Collapsed 49%

Foreign companies registering a UK presence fell from 212 to 108, a 49.1% decline. UK establishment registrations fell from 213 to 108, a 49.3% decline.

Overseas companies and UK establishments together represent foreign businesses choosing to establish a formal UK footprint. The combined collapse of these two foreign registration categories, approximately 49%, is the sharpest percentage decline of any company type in the dataset.

The Companies House fee increase and ECCTA 2023 identity verification requirements may have deterred foreign entities from registering in the UK. Both changes created proportionally more cost and administrative complexity for foreign founders than for domestic ones. The scale of the decline warrants attention as a leading indicator of reduced foreign direct investment appetite for formal UK registration.

Private Unlimited Company Formations Rose 48% as Founders Seek Structures That Limit Public Disclosure

Private unlimited companies do not file accounts publicly. The 48.2% rise from 56 to 83 formations is small in absolute terms but notable in direction. Private unlimited companies offer maximum confidentiality under UK company law. Growth in an environment of increased ECCTA 2023 regulatory scrutiny and mandatory director identity verification points to a subset of founders actively seeking structures that limit public disclosure while retaining the benefits of a formal corporate structure.

GEOGRAPHIC ANALYSIS

Formation Activity Concentrates in London While Regions Diverge

London and Scotland Bucked the National Trend; Every Other Region Declined

Two regions recorded year-on-year growth in Q1 2026: London at +2.8% and Scotland at +0.6%. The remaining ten regions and nations all declined, with Northern Ireland recording the steepest fall at 8.6%.

Region	Q1 2026	Q1 2025	YOY	% of total
 London	73,717	71,688	+2.8%	35.7%
 Scotland	10,926	10,856	+0.6%	5.3%
 North West	22,475	22,568	-0.4%	10.9%
 South East	20,434	21,217	-3.7%	9.9%
 West Midlands	16,163	16,915	-4.4%	7.8%
 East of England	14,707	14,903	-1.3%	7.1%
 Yorkshire and Humber	12,799	13,480	-5.1%	6.2%
 South West	10,696	11,029	-3.0%	5.2%
 East Midlands	9,326	9,730	-4.2%	4.5%
 Wales *	5,437	5,708	-4.7%	2.6%
 North East	5,220	5,448	-4.2%	2.5%
 Northern Ireland *	2,691	2,943	-8.6%	1.3%



A significant proportion of UK company formations use a registered address service rather than their actual place of business. **Your Company Formations, based at 128 City Road, London EC1V, is one such provider.** EC1V is consistently among the top postcode districts in the formation dataset. Regional figures reflect registered office address distribution, not operational business location. See the Methodology section for full detail.

* Wales and Northern Ireland figures exclude Companies House default address registrations (CF14 8LH and BT1 9DY respectively).

At 35.7% of all UK formations, London alone registered more companies in Q1 2026 than the bottom eight regions and nations combined. Growth in London may reflect increased use of London registered addresses by founders based elsewhere rather than increased London-based business activity specifically.

Scotland's 0.6% growth is consistent with the NatWest and Beauhurst New Startup Index 2026 identifying Scotland as a growth region in full-year 2025.

Manchester's 12.4% Growth Reveals Urban Concentration Inside a Flat Region

Manchester's growth illustrates how a single urban centre can mask a regional decline. Manchester registered 5,677 companies in Q1 2026, up 12.4% from 5,051 in Q1 2025. The North West overall fell 0.4% in the same period. Manchester's growth is masking declines elsewhere across the region.

A 13.6% Rise in "United Kingdom" Classifications While England Fell 7.8% Points to a Data Anomaly Worth Monitoring

Companies House classifies registered companies by country of incorporation address. In Q1 2026, 79,550 companies are classified as "United Kingdom" rather than England, Scotland, Wales, or Northern Ireland, up 13.6% from 70,010 in Q1 2025. England fell 7.8% over the same period.

Companies classified as "United Kingdom" are likely online registrations where no specific nation was assigned to the address at the point of registration. Growth of 13.6% in that classification against a backdrop of overall market decline is unexplained by domestic formation trends. The Barometer will monitor this in future quarters.

Most UK Companies Do Not Survive Five Years, and Peak Formation Years Produced the Most Casualties

Formation Volume Does Not Predict Business Durability; the 2024 Record Cohort Had 49% Dissolution Within Two Years

The Companies House register snapshot of 26 May 2026 shows that fewer than four in ten companies formed in Q1 2021 remain active five years later.

Formation Year	Q1 Formed	Active May 2026	Active %	Age at Snapshot
2021	214,185	82,964	38.7%	~5 years
2022	207,429	85,830	41.4%	~4 years
2023	241,755	103,053	42.6%	~3 years
2024	247,089	125,931	51.0%	~2 years
2025	213,276	193,065	90.5%	~14 months

The Q1 2024 cohort set a record at 247,089 formations. Despite producing the highest formation total on record, the Q1 2024 cohort saw 121,158 companies (49%) dissolve within two years. High formation volume does not predict high survival.

The 2026 cohort, at 2–5 months old, is too young for meaningful survival analysis. Q1 2026 survival data will appear in the Q2 2026 edition of the Barometer.

Real Estate Retains 65% of Formations at Five Years; Retail and Transport Retain Fewer Than One in Four

Five-year survival rates from the Q1 2021 cohort reveal which sectors produce durable businesses and which produce high early-stage attrition.



Real estate · Q1 2021

65.3%

Nearly 2 in 3 still active at five years. Most durable sector.



Financial services · Q1 2021

55.8%

More than 1 in 2 active at five years.



Technology and digital · Q1 2021

39.1%

50% more likely to survive than retail.



Hospitality and food · Q1 2021

29.4%

91% at year one; 29.4% at year five. Deceptively healthy early data.



Retail and wholesale · Q1 2021

26.1%

Highest formation volume; fewest durable businesses.



Transport and logistics · Q1 2021

25.5%

Least durable sector — fewer than 1 in 4 survives.

Sector	Formed Q1 2021	Active May 2026	5 Year Survival
Real estate	19,665	12,833	65.3%
Financial services	8,237	4,600	55.8%
Professional and scientific services	20,425	9,251	45.3%
Health and social care	7,320	3,238	44.2%
Construction	21,975	9,179	41.8%
Technology and digital	15,230	5,949	39.1%
Manufacturing	9,400	3,242	34.5%
Business administration and support	15,804	5,023	31.8%
Hospitality and food service	12,565	3,692	29.4%
Retail and wholesale trade	44,560	11,634	26.1%
Transport and logistics	7,679	1,959	25.5%

With 44,560 formations in Q1 2021, retail produced the highest volume of any sector. Of those, 32,926 have since dissolved. No sector produces more formations and fewer durable businesses. Based on Q1 2021 cohort survival rates, a technology company was 50% more likely to reach five years than a retail company formed in the same quarter.

Transport Retains Fewer Than One in Four Companies at Five Years, While Hospitality's Collapse From Year One Reveals the Widest Gap Between Early Promise and Long-Term Survival

At 14 months, nine of eleven sectors show survival rates above 90%. The divergence begins at year two and accelerates through years three to five. Transport drops from 90.3% to 25.5%. Hospitality drops from 91.0% to 29.4%. Formation data alone does not reveal which sectors will retain their companies over time.

Sector	14 months	2 years	3 years	4 years	5 years
Real estate	93.3%	73.3%	68.9%	66.2%	65.3%
Financial services	94.5%	71.2%	64.8%	56.7%	55.8%
Professional and scientific services	92.3%	62.5%	55.5%	49.5%	45.3%
Health and social care	92.3%	64.8%	54.3%	50.5%	44.2%
Construction	93.0%	54.3%	47.9%	44.0%	41.8%
Technology and digital	90.2%	51.5%	45.5%	43.2%	39.1%
Manufacturing	91.3%	43.8%	43.0%	37.7%	34.5%
Business administration and support	89.5%	42.1%	41.5%	32.5%	31.8%
Hospitality and food service	91.0%	52.5%	42.7%	34.6%	29.4%
Retail and wholesale trade	86.9%	33.2%	29.2%	26.5%	26.1%
Transport and logistics	90.3%	46.0%	35.7%	26.0%	25.5%



Transport's 64.8 percentage point drop between 14 months and five years is the steepest long-term attrition of any sector in the dataset. Hospitality follows at 61.6 percentage points. Both sectors appear healthy at year one, with survival rates above 90%. The five-year register data tells a different story. Hospitality's trajectory is particularly deceptive: at 14 months, hospitality and construction show near-identical survival rates of 91.0% and 93.0%. By year five, construction retains 41.8% while hospitality retains only 29.4%.

How We Analyse 200,000+ Companies House Records Each Quarter

Data source and collection

All formation data is drawn from the Companies House public register, the official statutory record of every company incorporated in the United Kingdom. YCF built a custom data pipeline that queries the register on a day-by-day basis. Each pull captures company number, name, type, status, up to four SIC codes, and registered office postcode.

Classification method

The Barometer maps individual SIC codes to 20 broad industry groups using the primary SIC code only. The SIC codes are standard Companies House classifications. The grouping of those codes into 20 sector labels is a YCF editorial decision. Companies are assigned to UK regions based on registered office postcode prefix. CF14 8LH and BT1 9DY (Companies House default addresses) are excluded from Wales and Northern Ireland totals, respectively. Your Company Formations, at 128 City Road, London EC1V, is a registered address provider contributing to EC1V's high formation count. Regional figures reflect registration patterns, not operational locations.

Survival analysis and limitations

Survival data reflects company's status on 26 May 2026. Active means Companies House records the company as active, open, or registered. The 2026 cohort is excluded as it is 2 to 5 months old. Formation data captures legal registrations, not active trading businesses. A registered company may be dormant, a holding entity, or a vehicle for future planning. Interpret formation volumes as registration intent.

Reporting cycle

Q1 2026 covers January 1 to March 31, 2026. Year-on-year comparisons use the equivalent period in Q1 2025. The YCF Business Formation Barometer publishes quarterly. Each edition covers the preceding completed quarter with a year-on-year comparison to the equivalent quarter in the prior year.

ABOUT US

About Your Company Formations

Your Company Formations is a UK company formation agent based at 128 City Road, London EC1V 2NX. The company registers limited companies, LLPs, and other corporate structures on behalf of UK and international founders through direct integration with Companies House.

No publicly available source was tracking what UK company formation data reveals about the economy quarter by quarter at SIC code level. As a formation agent processing thousands of registrations each year, YCF is positioned to analyse the patterns in that data and publish them. The Business Formation Barometer provides founders, business owners, advisors, and market observers with timely, quarterly intelligence on UK company formation trends.

MEDIA ENQUIRIES

Contact for Media Enquiries

Robert Engeham

Director, Your Company Formations

re@yourcompanyformations.co.uk

yourcompanyformations.co.uk