Office for National Statistics

Statistical bulletin

Profitability of UK companies: July to September 2017

The net rate of return on capital employed for UK private non-financial corporations related to their UK operations.

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1 . Main points

- Private non-financial corporations' (PNFCs') net rate of return fell to 12.6% in Quarter 3 (July to Sept) 2017, from a revised estimate of 12.7% for Quarter 2 (Apr to June) 2017.

- The net rate of return for UK continental shelf (UKCS) companies fell to 3.1% in Quarter 3 2017, from a revised Quarter 2 2017 position of 3.5%.

- Manufacturing companies' net rate of return fell to 13.4% in Quarter 3 2017 from 15.8% in the previous quarter, however, this represents an increase when compared with Quarter 3 2016 (11.7%).

- Services companies' net rate of return increased in Quarter 3 2017 to 19.1% from 16.6% (lowest point since Quarter 4 (Oct to Dec) 2013) in Quarter 2 2017.

2 . Things you need to know about this release

This bulletin provides estimates of the profitability of UK-based private non-financial corporations (PNFCs). PNFCs comprise UK continental shelf (UKCS) companies and other non-financial UK (non-UKCS) companies. Non-UKCS companies are further split into manufacturing companies, companies providing non-financial services and other industries (including construction, electricity and gas supply, agriculture, mining and quarrying).

UKCS companies engage in oil and natural gas exploration or extraction. This only includes companies operating on the UK continental shelf – the area where the UK claims mineral rights beyond the territorial waters. Owing to the nature of the industry, UKCS companies tend to be very capital-intensive and so require high levels of capital investment to operate. They also report high levels of depreciation of their fixed assets. For these reasons, the net rate of return for UKCS companies is not directly comparable with those for other sectors.

This bulletin includes new data for the latest available quarter, Quarter 3 (July to Sept) 2017; revisions made to previously published UK profitability data are available in the datasets accompanying this bulletin. This is consistent with the Quarterly national accounts for Quarter 3 2017, published on 22 December 2017. This bulletin follows the National Accounts Revisions Policy.

How do we measure profitability?

Net rate of return is used as the measurement of company profitability throughout this bulletin, except in the international comparisons section. The rate of return is calculated as the economic gain (profit) shown as a percentage of the capital used in production. "Net" refers to the rate of return after having accounted for the current value of capital consumed and capital stocks. Capital consumed refers to the decline in the current value in the stock of fixed assets (for example, due to depreciation). Gross rates of return are available in the annex tables of this release.

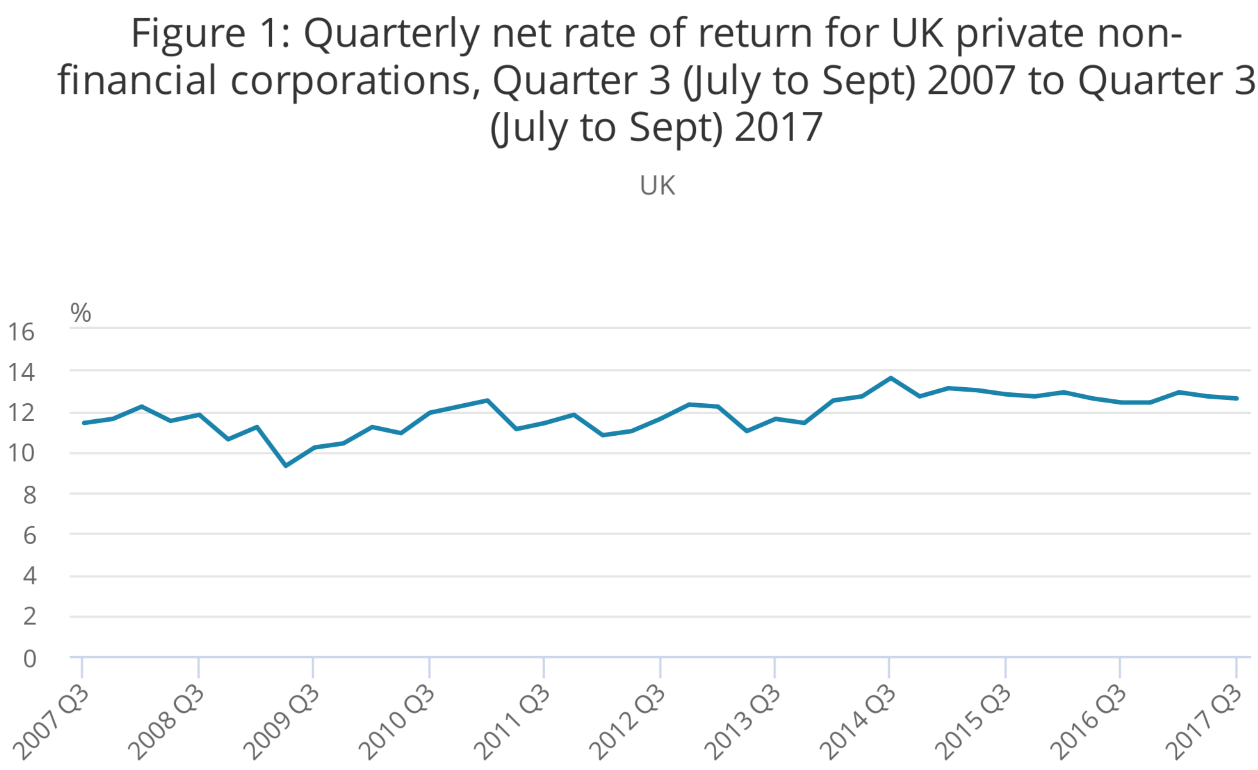
3 . Profitability of private non-financial corporations holds steady in Quarter 3 2017

The net rate of return for private non-financial corporations (PNFCs) as a whole remained the same as previously published in Quarter 2 2017 of 12.6% (Figure 1). This is despite the estimated UK gross domestic product (GDP) increasing by 0.4% in volume terms between Quarter 2 (Apr to June) and Quarter 3 (July to Sept) 2017, as reported in the bulletin Quarterly national accounts: July to September 2017. Ernst & Young reported 75 UK quoted companies had issued profits warnings, (PDF, 668KB) rising by two-thirds compared with last quarter when warnings were at a seven-year low.

The Bank of England Quarter 3 2017 Agents' Report (PDF, 627KB) suggests households had responded to squeezed incomes by trading down or focusing on essential purchases. As a result, demand growth had slowed across a number of consumer-facing sectors and modest nominal consumer spending growth primarily reflected price inflation. The IHS Markit UK Business Outlook (PDF, 808KB) found a sustained rise in the services sector during September whilst new business growth eased to a 13-month low. IHS Markit had stated that input cost pressures have intensified, thus affecting the profitability of companies across the sectors.

Figure 1: Quarterly net rate of return for UK private non-financial corporations, Quarter 3 (July to Sept) 2007 to Quarter 3 (July to Sept) 2017

UK



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

4 . Manufacturing companies' profitability falls from series high whilst those of services companies increased by 2.5 percentage points

Manufacturing companies

In Quarter 2 (Apr to June) 2017, manufacturing was at a series high of 15.8% and has since declined to 13.4%. However, Quarter 3 (July to Sept) 2017 is up 1.7 percentage points from Quarter 3 2016 and the second highest Quarter 3 value registered since 1997. In support of this, the latest UK Business Outlook, IHS Markit reports that manufacturers remain more upbeat about the outlook for profits than service providers (PDF, 380KB) . Resilient export demand and net product innovations are cited as factors helping to support margins for manufacturers.

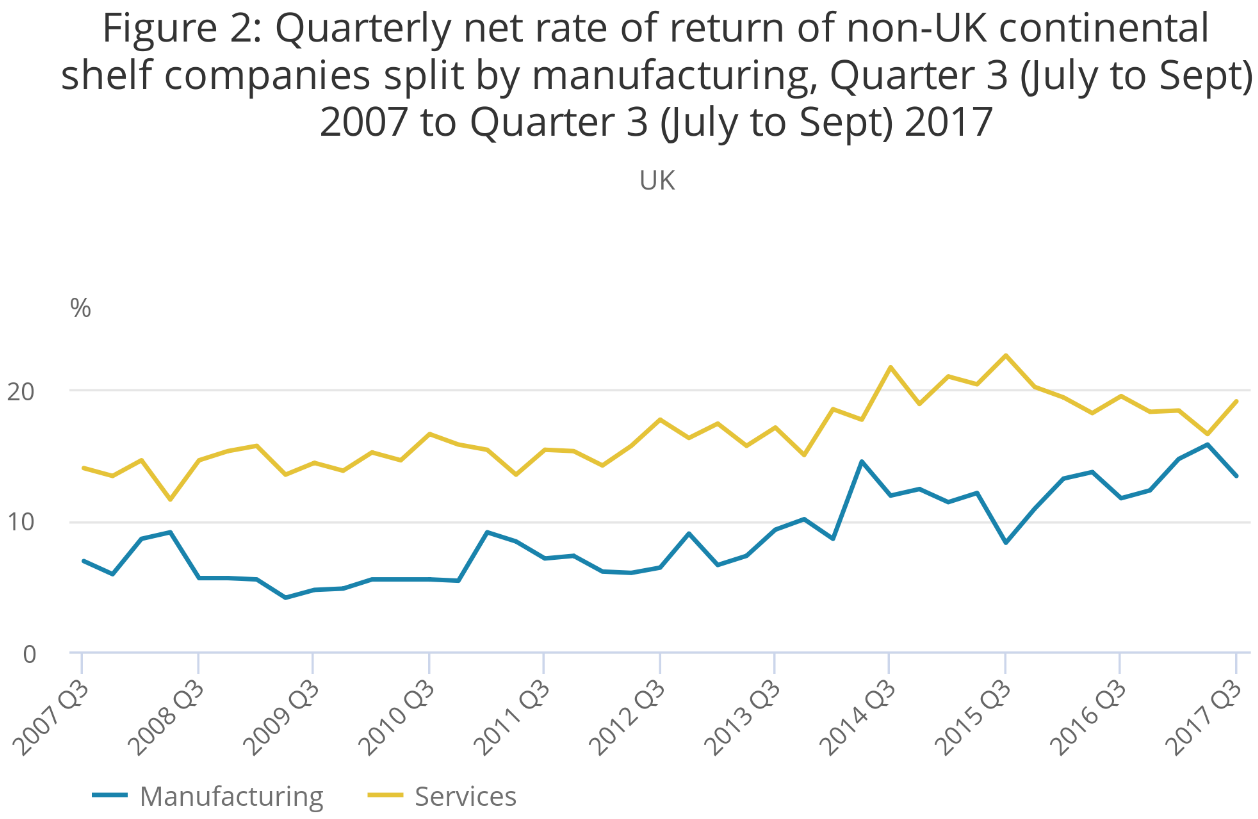
Services companies

In Quarter 3 2017, services rose above 19% for the first time since Quarter 3 2016 (Figure 2), increasing by 2.5 percentage points from the previous quarter. Historically, services in Quarter 3 produces a strong net rate of return and is often the highest quarter for each year. Bank of England Quarter 3 2017 Agents' Report (PDF, 627KB) stated business services export providers had reported strengthening demand for their services — this included legal and accounting firms supporting overseas clients on corporate transactions. Information technology (IT) and software providers also reported robust growth and inbound tourist numbers had increased markedly this summer.

Demand for services supporting the oil and gas sector had remained weak, though the sector appeared to be stabilising. However, the Bank of England did state that retail sales growth had remained subdued in values terms whilst consumer services turnover growth had slowed.

Figure 2: Quarterly net rate of return of non-UK continental shelf companies split by manufacturing, Quarter 3 (July to Sept) 2007 to Quarter 3 (July to Sept) 2017

UK



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

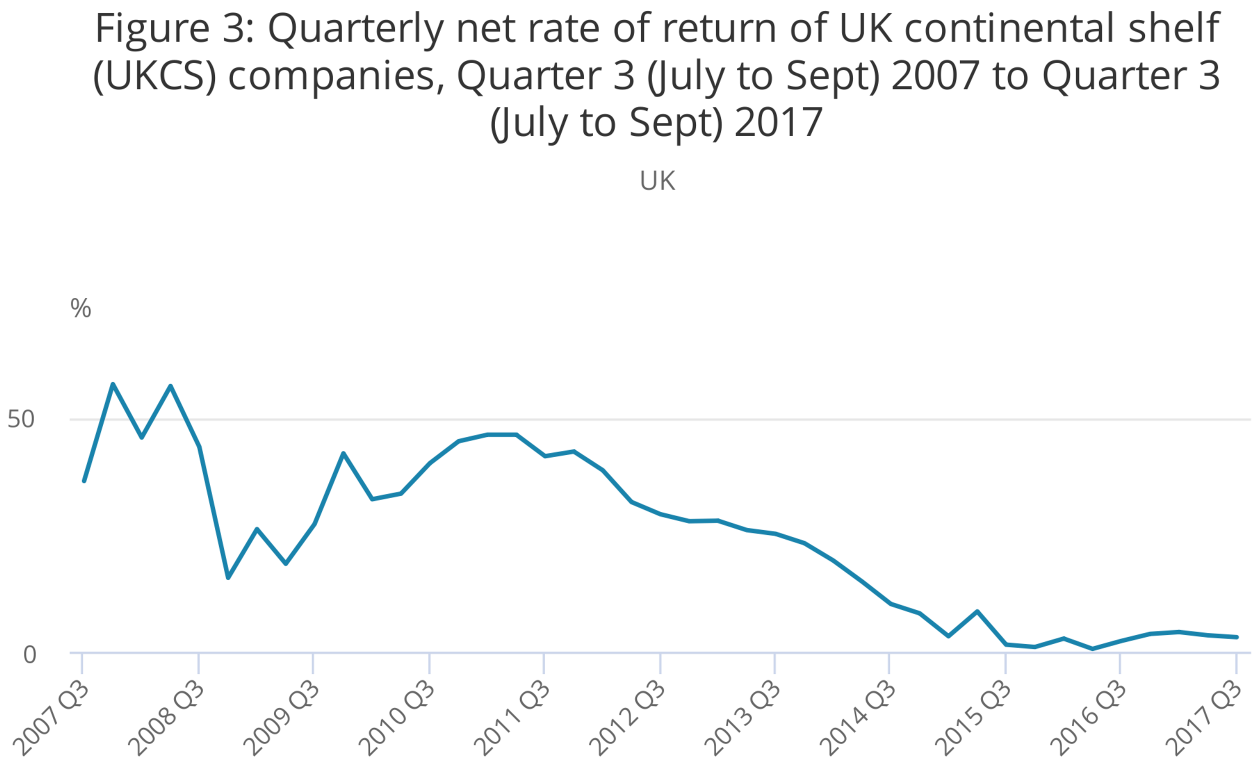
5 . UK continental shelf (UKCS) companies' profitability continues downward movement

The estimated rate of return for UK continental shelf (UKCS) companies in Quarter 3 (July to Sept) 2017 was 3.1%. This was down 0.4 percentage points from the revised estimate of 3.5% in Quarter 2 (Apr to June) 2017 (Figure 3).

In support of the UKCS rate of return falling in Quarter 3 2017, there were 17% of all companies in the FTSE sector (oil, equipment, services and distribution) making profit warnings according to the Ernst & Young Profitability Warning (PDF, 668KB) release for Quarter 3 2017.

Figure 3: Quarterly net rate of return of UK continental shelf (UKCS) companies, Quarter 3 (July to Sept) 2007 to Quarter 3 (July to Sept) 2017

UK



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

6 . How does UK profitability compare internationally?

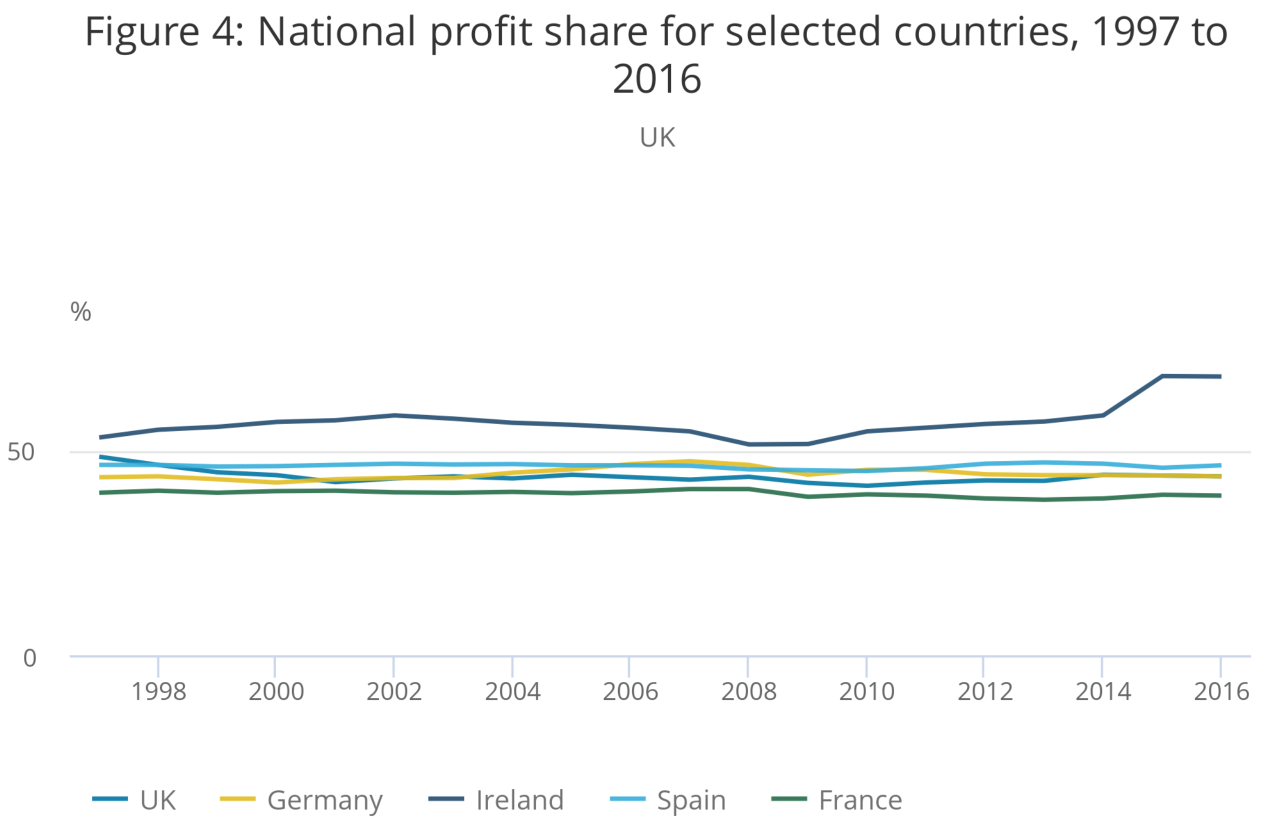
Profitability is a relative measure of profit and what created it. This bulletin shows the rate of return on capital employed. Unfortunately, other countries use a range of different measures, making international comparisons difficult.

It is possible to compare the aggregated national profit share, defined as gross operating surplus (GOS) plus mixed income (income made by the self-employed and other non-incorporated businesses) divided by gross value added (GVA) on a European System of Accounts 2010: ESA 2010 basis. GVA is the difference between the cost of inputs (whether capital or labour) and the cost of the output. The difference in the cost is due to the value added by the use of labour and capital. GOS is the income earned from capital. The national profit-share measure includes the activity of other profit-making sectors, such as financial corporations and public corporations, whilst the rest of this bulletin refers to the activities of private non-financial corporations (PNFCs) only.

International data on an ESA 2010 basis are only available at the aggregate national level, shown for selected countries (Figure 4).

Figure 4: National profit share for selected countries, 1997 to 2016

UK



Source: Office for National Statistics and Eurostat

Notes:

1. Calendar years are used for Figure 4.

The UK, France and Germany experienced a decline in the national profit share in 2016, whilst Spain reported a small increase in contrast to prior decreases. In Quarter 3 2017, the UK economy grew by 0.4% but is weaker than the 0.6% recorded across the European Union (Monthly economic commentary, November 2017).

7 . Links to related statistics

The gross operating surplus (GOS) of private non-financial corporations (PNFCs) is a component of the income approach to measuring gross domestic product (GDP). GOS consists of gross trading profits, plus income from rental of buildings, less inventory holding gains (changes in inventory value caused by price). See the Quarterly national accounts for a detailed breakdown of the components of GDP, as well as main sector accounts aggregates.

The Quarterly sector accounts includes estimates of national production, income and expenditure, UK Sector Accounts and the UK Balance of Payments.

Office for National Statistics (ONS), like all government departments, has to ensure all of its outputs meet accessibility guidelines. As a result, from the Quarter 4 (Oct to Dec) 2017 (29 March 2018) release onwards we will no longer be publishing a PDF file of the United Kingdom Economic Accounts (UKEA). The data contained in the current PDF file will continue to be available within the UKEA datasets that are currently published.

8 . What's changed in this release?

Revisions to the net rates of return for PNFCs have been made back to Quarter 1 (Jan to Mar) 2016. This is consistent with the Quarterly national accounts for Quarter 3 (July to Sept) 2017, published on 22 December 2017.

For more information, please refer to [revisions to economic statistics](), which brings together our work on revisions analysis, links to relevant documentation and revisions policies.

The estimates quoted in this international comparison section are the latest available estimates published by the respective bodies (referenced) at the time of preparation of this statistical bulletin and may subsequently have been revised. The data are sourced from Eurostat.

We welcome any feedback and are particularly interested in knowing how you use the data to inform your work. Contact us via email at profitability@ons.gov.uk or telephone Curtis Sanders on +44 (0)1633 455053.

9 . Quality and methodology

The 'Profitability of UK companies' statistical bulletin reports the estimates for net rate of return on capital employed for UK private non-financial corporations (PNFCs) related to their UK operations.

The Profitability of UK companies and Quarterly Operating Profits Survey Quality and Methodology Information reports contain important information on:

- the strengths and limitations of the data and how it compares with related data
- uses and users of the data
- how the output was created
- the quality of the output including the accuracy of the data

Perpetual inventory method

Underlying estimates of capital stock and capital consumption are produced using the perpetual inventory method. Further details are available in the Capital stock, capital consumption, methodological changes to the estimation of capital stocks and consumption of fixed capital publication, the latest release is available as of 22 November 2017.