

Statistical bulletin

# Profitability of UK companies: July to September 2019

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



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## Table of contents

1. [Main points](#)
2. [Private non-financial corporations' net rate of return](#)
3. [Manufacturing and services](#)
4. [UK continental shelf companies](#)
5. [International comparisons](#)
6. [Profitability data](#)
7. [Glossary](#)
8. [Measuring the data](#)
9. [Strengths and limitations](#)
10. [Related links](#)

# 1 . Main points

- The net rate of return for private non-financial corporations (PNFCs) stood at 9.9% in Quarter 3 (July to Sept) 2019, slightly down from the revised estimate of 10.0% for Quarter 2 (Apr to June) 2019.
- The net rate of return for manufacturing companies fell to 11.1% in Quarter 3 2019, down 0.9 percentage points from the previous quarter's revised net rate of return of 12.0%.
- The net rate of return for services companies stood at 15.2% in Quarter 3 2019, a decrease of 0.4 percentage points from the revised estimate of 15.6% in Quarter 2 2019.
- The net rate of return for UK continental shelf (UKCS) companies fell to 1.3% in Quarter 3 2019, down from the revised estimate of 3.6% in Quarter 2 2019.

## 2 . Private non-financial corporations' net rate of return

The net rate of return for private non-financial corporations (PNFCs) fell slightly, to stand at 9.9% in Quarter 3 (July to Sept) 2019 from the revised estimate of 10.0% in Quarter 2 (Apr to June) 2019 (Figure 1).

The net rate of return has changed little since Quarter 1 (Jan to Mar) 2018. For Quarter 3 2019, a small rise in the seasonally adjusted [gross operating surplus \(GOS\)](#), coupled with a larger rise in the gross capital employed, led to a small downward movement in the net rate of return since Quarter 2 2019.

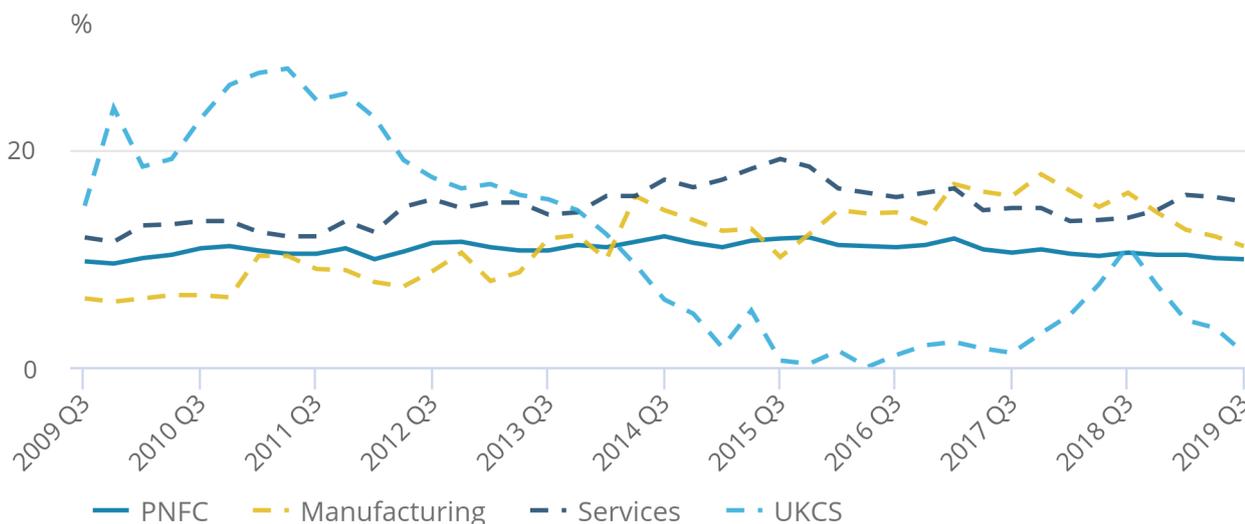
[Ernst & Young](#) reported the number of profit warnings in Quarter 3 2019 at 77. This was a 13% increase in profit warnings on Quarter 3 2018. Retailers issued nine profit warnings as did software and computer services, while the media industry issued seven profit warnings.

**Figure 1: Quarterly net rate of return for private non-financial corporations (PNFCs) has generally been stable for the past two years**

Net rate of return of UK private non-financial corporations, Quarter 3 (July to Sept) 2009 to Quarter 3 (July to Sept) 2019

Figure 1: Quarterly net rate of return for private non-financial corporations (PNFCs) has generally been stable for the past two years

Net rate of return of UK private non-financial corporations, Quarter 3 (July to Sept) 2009 to Quarter 3 (July to Sept) 2019



Source: Office for National Statistics – Quarterly Operating Profits Survey

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).

### 3 . Manufacturing and services

In Quarter 3 (July to Sept) 2019, the net rate of return for manufacturing companies fell to 11.1% from the revised estimate of 12.0% in Quarter 2 (Apr to June) 2019 (Figure 2).

The manufacturers of computers, electronic and optical products, and of electrical products, were reporting a decline in their profit data and were mainly responsible for the fall in the net rate of return. There were positive signs for the manufacturers of chemicals and chemical products alongside food products, beverages and tobacco, which have reported growth overall.

The [Confederation of British Industry \(CBI\) reported](#) that manufacturing output was flat in Quarter 3 2019. Order books of manufacturing firms were reported below normal. They also reported that a driver of growth was the food, drink and tobacco industry.

The [Bank of England \(BoE\) summary report for Quarter 3 2019](#) reports that manufacturing output and exports grew at their slowest rate in three years, as weaker global growth and Brexit uncertainty dampened demand. Also, manufacturers of construction products said that domestic demand had fallen because of a lack of major infrastructure and commercial projects.

The net rate of return for services companies in Quarter 3 2019 fell to 15.2%, from a revised estimate in Quarter 2 2019 of 15.6% (Figure 2). This is still a strong rate of return when compared with Quarter 3 2018 (13.7%).

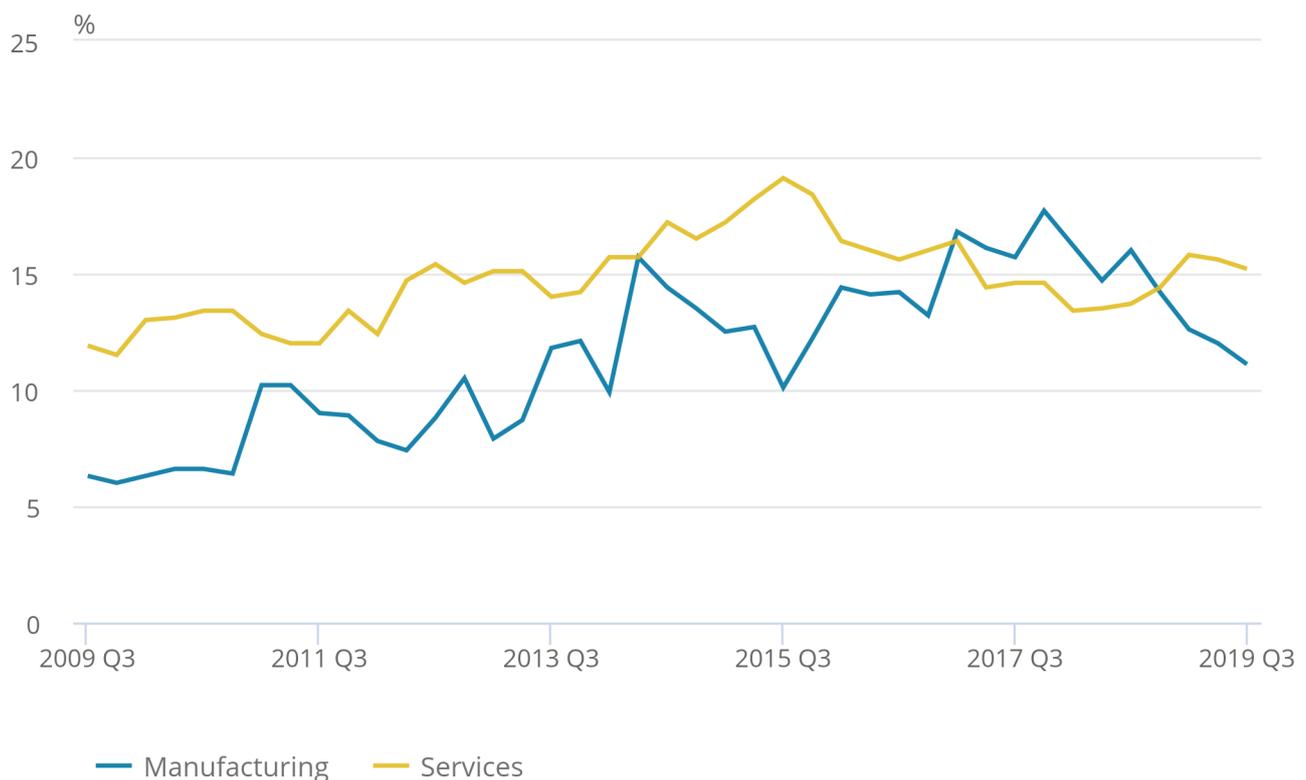
The [British Chambers of Commerce](#) reports that the balance of firms reporting increased export sales dropped to its lowest level since Quarter 4 (Oct to Dec) 2015.

**Figure 2: Services have experienced stronger growth than manufacturing for the past four quarters**

**Net rate of return of UK non-continental shelf companies split by manufacturing and services, Quarter 3 (July to Sept) 2009 to Quarter 3 (July to Sept) 2019**

Figure 2: Services have experienced stronger growth than manufacturing for the past four quarters

Net rate of return of UK non-continental shelf companies split by manufacturing and services, Quarter 3 (July to Sept) 2009 to Quarter 3 (July to Sept) 2019



**Source: Office for National Statistics – Quarterly Operating Profits Survey**

**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 . UK continental shelf companies

The estimated net rate of return for [UK continental shelf \(UKCS\)](#) companies in Quarter 3 (July to Sept) 2019 fell to 1.3% (Figure 3). This was down 2.3 percentage points from the revised estimate of 3.6% in Quarter 2 (Apr to June) 2019. This is the fourth consecutive quarter of falling profitability.

The price of wholesale gas decreased in Quarter 3 2019 and this, combined with a fall in production, contributed to a reduction in sales of gas. Similarly, a fall in oil production from the previous quarter coupled with a drop in the quarter-on-quarter price of Brent crude has contributed to lower sales receipts. These factors combined to produce the lowest net rate of return for this sector since Quarter 3 2017.

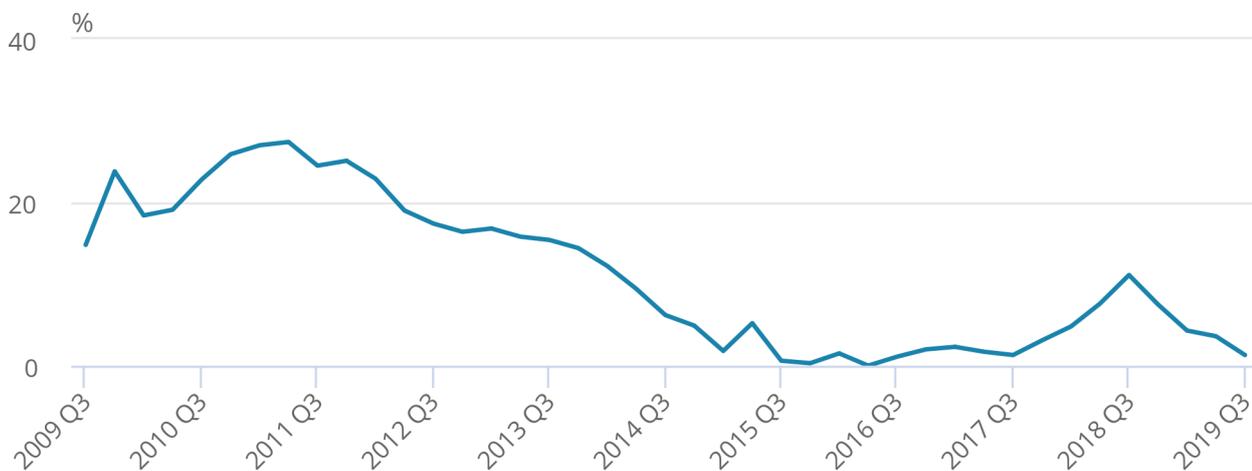
Compared with Quarter 3 2018, production remained stable for both oil and gas. However, the continued fall in the net rate of return since Quarter 3 2018 is being driven by the downward fall in the price of both commodities. For comparison, the price of Brent crude dropped 26.5% between Quarter 3 2018 and Quarter 3 2019. The average price per therm of wholesale gas for Quarter 3 2018 was 64.26 pence compared with 27.95 pence in Quarter 3 2019.

### Figure 3: UK continental shelf companies' profitability fell for the fifth consecutive quarter

Net rate of return of UK continental shelf companies, Quarter 3 (July to Sept) 2009 to Quarter 3 (July to Sept) 2019

Figure 3: UK continental shelf companies' profitability fell for the fifth consecutive quarter

Net rate of return of UK continental shelf companies, Quarter 3 (July to Sept) 2009 to Quarter 3 (July to Sept) 2019



Source: Office for National Statistics – Quarterly Operating Profits Survey

#### 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 . International comparisons

Users should note that international comparisons of profitability can be problematic, as we discuss in the [Strengths and limitations section](#).

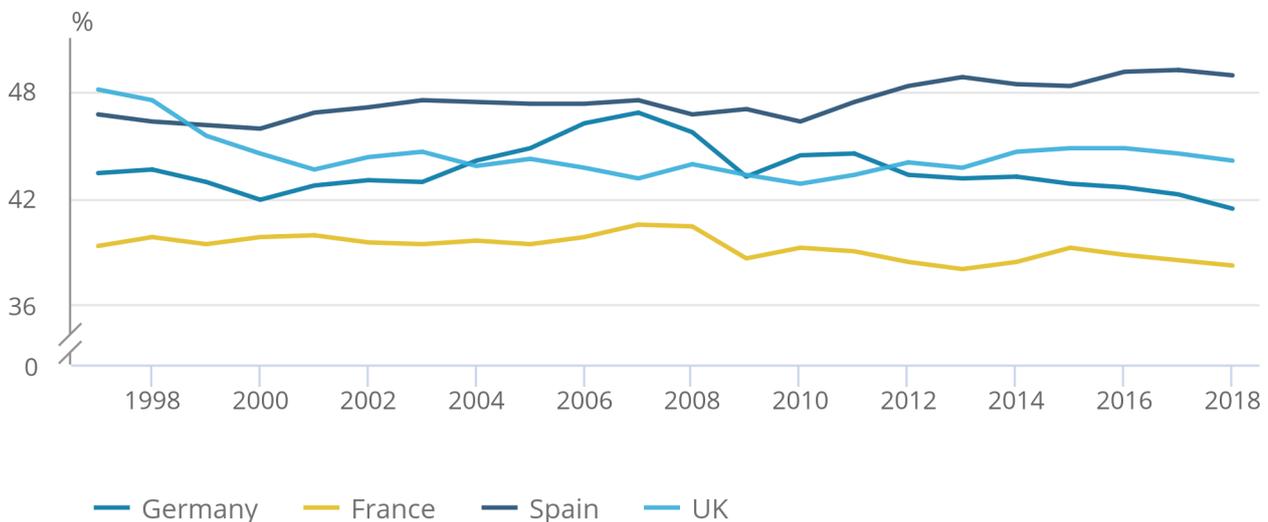
International data on a European System of Accounts 2010 (ESA 2010) basis are only available at the aggregate national level, which is shown for selected countries in Figure 4.

**Figure 4: The UK's national profit share fell for the second consecutive year**

National profit share of gross value added for selected countries, calendar years 1997 to 2018

Figure 4: The UK's national profit share fell for the second consecutive year

National profit share of gross value added for selected countries, calendar years 1997 to 2018



Source: Office for National Statistics – Quarterly Operating Profits Survey, Eurostat

All four countries experienced a decline in national profit share for 2018. For the UK, Germany and France, this was the second consecutive annual decrease. Germany saw the largest percentage fall in 2018, down 0.8%.

For the UK, Germany and France, the decline coincided with a period of slower growth in 2018, when their respective gross domestic product (GDP) grew at a lower rate than that experienced by the EU as a whole, as [reported by Eurostat](#).

## 6 . Profitability data

[Profitability of UK companies - rates of return and revisions](#)

Dataset | Released 23 January 2020

Rates of return and revision tables of UK private non-financial corporations by quarter.

[Profitability of UK companies time series](#)

Dataset | Released 23 January 2020

Annual and quarterly data for the latest profitability estimates of UK companies.

## 7 . Glossary

### Private non-financial corporations

Private non-financial corporations (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; and mining and quarrying).

### Net rate of return

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, owing to depreciation). Gross rates of return are available in the [dataset with this release](#).

### UK continental shelf (UKCS)

This is 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. The net rate of return for UKCS companies is not directly comparable with those for other sectors.

### Gross operating surplus

The gross operating surplus (GOS) of 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).

## 8 . Measuring the data

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.

More quality and methodology information on strengths, limitations, appropriate uses, and how the data were created is available in the [Profitability of UK companies](#) and [Quarterly Operating Profits Survey QMI](#).

The [Quarterly sector accounts](#) include estimates of national production, income and expenditure, UK sector accounts, and the UK Balance of Payments.

We have revised the net rates of return for PNFCs for previous quarters back to Quarter 1 (Jan to Mar) 2018. For total PNFCs, this is consistent with the [GDP quarterly national accounts](#) and [Quarterly sector accounts](#) published on 20 December 2019.

The estimates quoted in [international comparisons](#) 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](#).

## 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 stocks and fixed capital consumption QMI](#).

# 9 . Strengths and limitations

## Lack of international comparability

International comparisons of profitability can be problematic; the UK measures the rate of return on capital employed, while other countries use a range of different methods.

It is possible to compare the aggregated national profit share, defined as [gross operating surplus \(GOS\)](#) plus mixed income (that is, 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 a result of the value added using 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, while the rest of this bulletin refers to the activities of private non-financial corporations (PNFCs) only.

# 10 . Related links

### [GDP quarterly national accounts](#)

Statistical bulletin | Released 20 December 2019

Revised quarterly estimate of gross domestic product (GDP) for the UK. Uses additional data to provide a more precise indication of economic growth than the first estimate.

### [Quarterly sector accounts](#)

Statistical bulletin | Released 20 December 2019

Detailed estimates of quarterly sector accounts that can be found in the UK Economic Accounts (UKEA).

