

Statistical bulletin

# Profitability of UK companies: July to September 2022

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

- The net rate of return for private non-financial corporations (PNFCs) was 9.8% in Quarter 2 (Apr to June) 2022, down from 10.3% for Quarter 1 (Jan to Mar) 2022; it then fell further to 9.7% in Quarter 3 (July to Sept) 2022.
- The net rate of return for UK continental shelf (UKCS) companies was 19.5% in Quarter 2 2022, which increased to 24.9% in Quarter 3 2022; this was the fourth-highest quarterly value since 1997 and is up 7.3 percentage points from 17.6% in Quarter 1 2022.
- The net rate of return for manufacturing companies was 8.4% in Quarter 2 2022, decreasing to 7.9% in Quarter 3 2022; this is a total decrease of 1 percentage point from the net rate of return of 8.9% in Quarter 1 2022.
- The net rate of return for services companies was 15.6% in Quarter 2 2022, up from 15.5% in Quarter 1 2022; in Quarter 3 2022 it then fell to 14.1%.

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

The net rate of return, a measure of company profitability for private non-financial corporations (PNFCs) fell to 9.8% in Quarter 2 (Apr to June) 2022, and then to 9.7% in Quarter 3 (July to Sept) 2022, a total of 0.6 percentage points down from 10.3% in Quarter 1 (Jan to Mar) 2022.

### Figure 1: The net rate of return for private non-financial corporations (PNFCs) fell in Quarter 2 and Quarter 3 2022

Net rate of return of UK private non-financial corporations, Quarter 4 (Oct to Dec) 2012 to Quarter 3 (July to Sept) 2022

Download the data

[.xlsx](#)

In Quarter 2 2022, a rise in the net capital employed coupled with a fall in the net operating surplus led to the downward movement in the net rate of return. The net operating surplus increased slightly in Quarter 3 2022, but this was offset by a greater rise in the net capital employed, causing the net rate of return to fall further.

Although the net rate of return for PNFCs has broadly remained stable overall, UK continental shelf company profitability has risen, while other manufacturing and services companies have seen falls. [Ernst & Young's Analysis of UK Profit Warnings](#) reported that 64 profit warnings were issued by UK companies in Quarter 2 2022, which then increased to 86 in Quarter 3 2022. They reported that retailers were the most affected, followed by travel and leisure, and food producers.

## 3 . UK continental shelf companies

This quarter sees the continuation of the upward trend of net rate of return for UK continental shelf (UKCS) companies from the record low recorded in Quarter 4 (Oct to Dec) 2020 (negative 5.9%). The net rate of return was recorded at 19.5% in Quarter 2 (Apr to June) 2022 and rose to 24.9% in Quarter 3 (July to Sept) 2022. This is 7.3 percentage points higher than in Quarter 1 (Jan to Mar) 2022, with Quarter 3 recording the seventh consecutive quarter of increasing profitability. It is also the highest value in 14 years and the fourth highest since 1997.

This increase in the profitability of UKCS companies was mainly caused by their rising net operating surplus, which rose for the seventh consecutive quarter. Net capital employed has also continuously risen, but to a lesser extent proportionally, compared with net operating surplus.

## Figure 2: The net rate of return for UK continental shelf companies has increased as oil prices have increased

Seasonally adjusted net rate of return of UK continental shelf companies, Quarter 1 (Jan to Mar) 2006 to Quarter 3 (July to Sept) 2022 and the price of Brent crude oil in American dollars, Jan 2006 to Jan 2022

Download the data

[.xlsx](#)

Net operating surplus in UKCS companies is strongly related to oil and gas prices, with the recent rise in profitability following this pattern. Comparing average prices within quarters, wholesale gas prices fell by around 38% in Quarter 2 2022 compared with Quarter 1 2022, and then more than doubled in Quarter 3 2022. Brent crude oil prices rose by around 13% in Quarter 2 2022, following Russia's invasion of Ukraine, and then fell back by about 11% in Quarter 3 2022, remaining higher than June 2020 prices.

## 4 . Manufacturing and services

### Figure 3: Net rate of return for both manufacturing and services sectors fell in Quarter 3 2022

Seasonally adjusted net rate of return for UK companies split by manufacturing and services (excluding continental shelf companies), Quarter 4 (Oct to Dec) 2012 to Quarter 3 (July to Sept) 2022

Download the data

[.xlsx](#)

The net rate of return for manufacturing companies fell to 8.4% in Quarter 2 (Apr to June) 2022, from 8.9% in Quarter 1 (Jan to Mar) 2022. It then fell again to 7.9% in Quarter 3 (July to Sept) 2022. This decline for two consecutive quarters was primarily driven by a fall in the net operating surplus, but there has also been a continuous rise in the net capital employed since late 2020.

The [Index of Production](#) reported that manufacturing growth remained flat at 0.0% in Quarter 2 2022, then [fell by 2.3% in Quarter 3 2022](#). Furthermore, the [Producer price inflation statistics](#) have reported increasing producer input prices for the same period.

According to the [Bank of England summary report for Quarter 2 2022](#), manufacturing output growth weakened because of supply shortages following the Russian invasion of Ukraine and China's continued COVID-related lockdowns. The [report for Quarter 3 2022](#) also linked weakening demand with low growth because of the rising cost of living.

The net rate of return for services companies rose to 15.6% in Quarter 2 2022, then fell to 14.1%, an overall 1.4 percentage points decrease from 15.5% in Quarter 1 2022. The main cause of the overall decline was a rise in net capital employed, but there was also a fall in the net operating surplus.

The [Index of Services](#) reported that services output fell by 0.4% in Quarter 2 2022 compared with Quarter 1 2022. Services output was then flat in Quarter 3 2022. Furthermore, the [Producer price inflation statistics](#) have reported rising services producer prices in the same period. The [Bank of England summary report for Quarter 2 2022](#) suggested that labour shortages have also limited growth.

## 5 . Profitability data

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

Dataset | Released 17 February 2023

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

### [Profitability of UK companies time series](#)

Dataset | Released 17 February 2023

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

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

### UK continental shelf

The UKCS is the area where the UK claims mineral rights beyond the territorial waters. Because of 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).

## 7 . 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 statistical bulletin](#) includes 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) 1997. For total PNFCs, this is consistent with the [gross domestic product \(GDP\) quarterly national accounts](#) and [Quarterly sector accounts](#) released 22 December 2022.

### 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](#).

## 8 . Related links

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

Bulletin | Released 22 December 2022

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](#)

Bulletin | Released 22 December 2022

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

## 9 . Cite this statistical bulletin

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