

Statistical bulletin

Profitability of UK companies: October to December 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 profitability of private non-financial corporations (PNFCs) remained stable in Quarter 4 (Oct to Dec) 2022 with a net rate of return of 9.8%, remaining unchanged compared with the revised estimate for Quarter 3 (July to Sept) 2022.
- Profitability of UK continental shelf (UKCS) companies decreased following a continued drop in crude oil prices; the net rate of return for UKCS companies was 12.7% in Quarter 4 2022, 11.2 percentage points lower than the revised estimate for Quarter 3 2022 (23.9%).
- The net rate of return for manufacturing companies was 8.4% in Quarter 4 2022, up from the revised estimate of 8.3% in Quarter 3 2022.
- The net rate of return for services companies grew by 1 percentage point compared with Quarter 3 2022, to stand at 15.7% in Quarter 4 2022.

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), remained 9.8% in Quarter 4 (Oct to Dec) 2022, the same as the revised estimate in Quarter 3 (July to Sept) 2022.

Figure 1: The net rate of return for private non-financial corporations (PNFCs) remained stable in Quarter 4 2022

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

Download the data

[.xlsx](#)

The stability seen in Quarter 3 and Quarter 4 is caused by the net capital employed and the net operating surplus both increasing to a similar extent, causing the net rate of return to remain flat.

Although the net rate of return for PNFCs has remained unchanged overall, UK Continental Shelf company profitability has seen the largest quarterly decrease since Quarter 4 2008, while manufacturing and services companies have increased their profitability. A [report from EY](#) (formerly known as Ernst & Young) showed that 83 profit warnings were issued by UK companies in Quarter 4 2022, slightly down from 86 in Quarter 3 2022. They reported that retailers were the most affected, followed by travel and leisure, software and computer services, industrial support services and personal care, drug and grocery stores.

3 . UK continental shelf companies

This quarter sees a fall in the net rate of return for UK continental shelf (UKCS) companies after a trend in increasing profitability since the beginning of 2021. The net rate of return was recorded at 12.7% in Quarter 4 (Oct to Dec) 2022, a decrease of 11.2 percentage points compared with the revised estimate for Quarter 3 (July to Sept) 2022. This is the lowest value since Quarter 3 2021 and the largest quarterly decrease since Quarter 4 2008. Despite this drop, the profitability of UKCS companies remains higher than recent pre-coronavirus levels.

This decrease in the profitability of UKCS companies was primarily caused by their falling net operating surplus. Their net capital employed has also increased, but to a lesser extent proportionally compared with the decrease in net operating surplus.

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

Seasonally adjusted net rate of return of UK continental shelf companies, Quarter 1 (Jan to March) 2006 to Quarter 4 (Oct to Dec) 2022 and the price of Brent Crude Oil in American dollars, Jan 2006 to Sep 2022

Download the data

[.xlsx](#)

Net operating surplus in UKCS companies is strongly related to oil and gas prices, with the recent fall after a trend in increasing profitability following this pattern. Comparing average prices within quarters, wholesale gas prices fell by around 41% in Quarter 4 2022 compared with Quarter 3 2022. Brent Crude Oil prices fell by about 12% in Quarter 4 2022, but still remain above June 2020 prices.

The fall in oil and gas prices reflects reduced demand in Quarter 4 2022, which may result from several factors including high prices, the European Union (EU) having reached its storage fill target by the beginning of September, the EU's target for a voluntary reduction in gas demand, and COVID-19 lockdowns in China.

4 . Manufacturing and services

Figure 3: Net rate of return for both manufacturing and services sectors rose in Quarter 4 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 4 (Oct to Dec) 2022

Download the data

[.xlsx](#)

Manufacturing

In Quarter 4 (Oct to Dec) 2022, the net rate of return for manufacturing companies rose to 8.4% from the revised estimate of 8.3% in Quarter 3 (July to Sept) 2022, having previously fallen for two consecutive quarters. The leading cause of this growth was net operating surplus increasing to a greater extent proportionally than net capital employed.

Our [Index of Production bulletin](#) reported that production output declined by 0.2% in Quarter 4 2022 compared with Quarter 3 2022. According to our [Producer price inflation statistics \(published in our November 2022 bulletin\)](#), producer input prices increased in October 2022, but fell in November and December 2022, as shown in our [Producer price inflation, UK bulletin](#), decreasing about 1% in Quarter 4 2022 overall.

The [Bank of England summary report](#) for Quarter 4 2022 linked weakened manufacturing output growth mainly to weak demand, especially for household items and home renovations, potentially caused by the rising cost of living. They reported that companies less reliant on consumer spending, however, such as within IT, defence and aerospace sectors continued to report growth.

Services

The net rate of return for services companies rose to 15.7% in Quarter 4 2022, 1 percentage point up from the revised estimate of 14.7% in Quarter 3 2022. The main cause of the growth was a rise in net operating surplus. Net capital employed has also increased, but to a lesser extent proportionally compared with net operating surplus.

Our [Index of Services bulletin](#) reported that services output remained flat in Quarter 4 2022 compared with Quarter 3 2022. Our [Producer price inflation statistics](#) data show that services producer prices have continued to rise in the same period. The [Bank of England summary report for Quarter 4 2022](#) reported moderate growth in revenues overall, which was largely led by higher prices while volume growth was muted.

5 . Profitability data

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

Dataset | Released 30 May 2023

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

[Profitability of UK companies time series](#)

Dataset | Released 30 May 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, owing to depreciation). Gross rates of return are available in our [accompanying dataset](#).

UK continental shelf

The UKCS 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).

7 . Measuring the data

Our [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 our [Profitability of UK companies QMI](#) and in our [Quarterly Operating Profits Survey QMI](#).

Our [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) 2022. For total PNFCs, this is consistent with our [gross domestic product \(GDP\) quarterly national accounts](#) and with our [quarterly UK 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](#)

Statistical 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](#)

Statistical 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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