Office for National Statistics

Statistical bulletin

Profitability of UK companies: April to June 2019

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

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Next release:
To be announced

Table of contents

1 . Main points

- The net rate of return for private non-financial corporations (PNFCs) stood at 10.4% in Quarter 2 (Apr to June) 2019, slightly down from the revised estimate of 10.7% for Quarter 1 (Jan to Mar) 2019.

- The net rate of return for manufacturing companies fell to 13.9% in Quarter 2 2019, down 0.6 percentage points from the previous quarter's revised net rate of return of 14.5%.

- The net rate of return for services companies stood at 16.1% in Quarter 2 2019, a decrease of 0.2 percentage points from the revised estimate of 16.3% in Quarter 1 2019.

- The net rate of return for UK continental shelf (UKCS) companies fell to 4.1% in Quarter 2 2019, down from the revised estimate of 4.5% in Quarter 1 2019.

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; and mining and quarrying).

UKCS companies engage in oil and natural gas exploration or extraction. This only includes companies operating on the UKCS – 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.

We have made revisions to the net rates of return for PNFCs for previous quarters back to Quarter 1 (Jan to Mar) 1997, and this is consistent with the GDP quarterly national accounts and Quarterly sector accounts published on 30 September 2019.

How do we measure profitability?

Net rate of return is used as the measurement of company profitability throughout this bulletin, except in Section 6, How does UK profitability compare internationally?. 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.

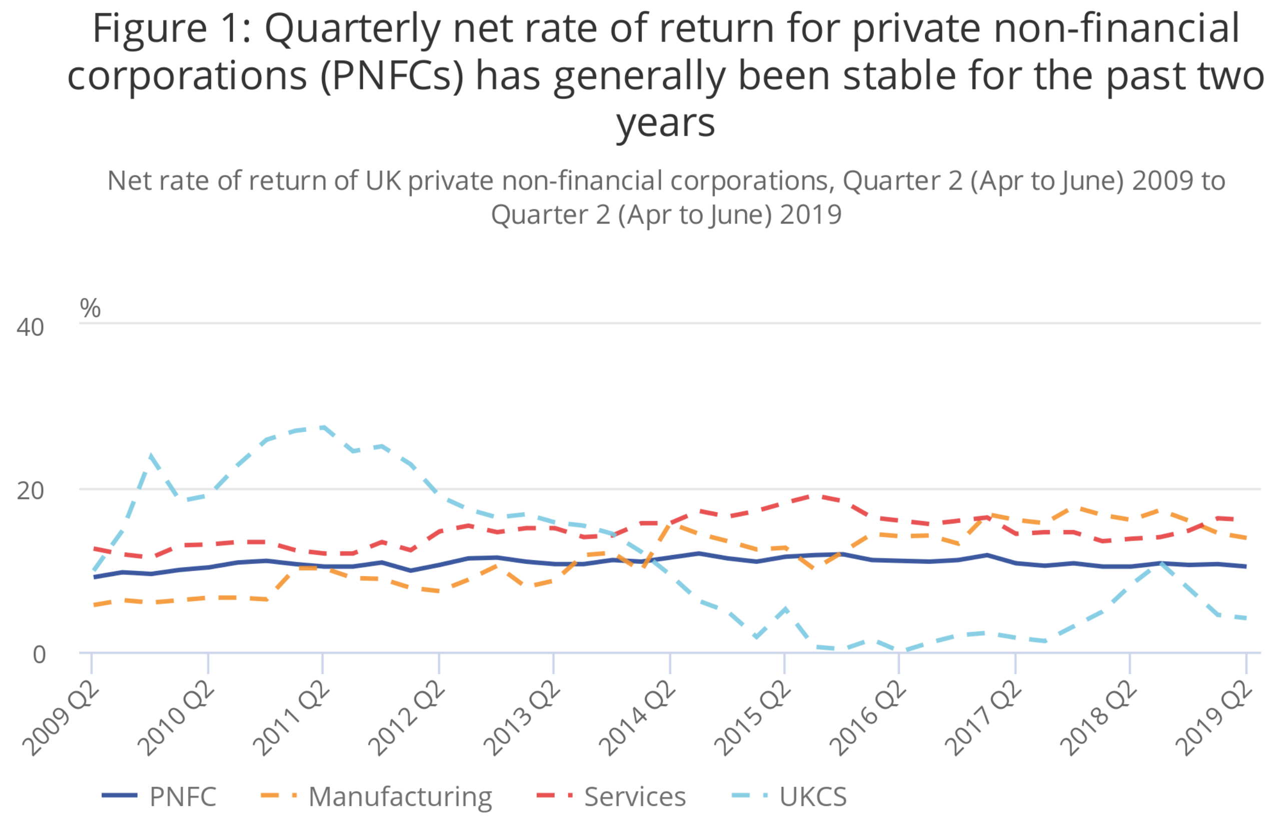
3 . Private non-financial corporations' net rate of return fell slightly to 10.4%

The net rate of return for private non-financial corporations (PNFCs) fell slightly, to stand at 10.4% in Quarter 2 (Apr to June) 2019 from the revised estimate of 10.7% in Quarter 1 (Jan to Mar) 2019 (Figure 1).

Net rate of return has changed little since Quarter 1 2017. Minimal movement in the seasonally adjusted gross operating surplus (GOS) coupled with a small rise in the gross capital employed has led to a small downward movement in the net rate of return.

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 2 (Apr to June) 2009 to Quarter 2 (Apr to June) 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 . Manufacturing and services companies' profitability fell to 13.9% and 16.1% respectively

Manufacturing

In Quarter 2 (Apr to June) 2019, the net rate of return for manufacturing companies fell to 13.9% from the revised estimate of 14.5% in Quarter 1 (Jan to Mar) 2019 (Figure 2).

There were mixed fortunes for the manufacturing sector as reported by the Bank of England summary report where warm weather and demand around Easter had supported output growth of producers of food and drink. However, there was weaker demand from China for automotive exports. Growth in manufacturing exports was weak, following a boost from stockbuilding by EU customers before the UK's originally anticipated date of departure from the EU in Quarter 1 2019.

The Confederation of British Industry (CBI) reported that manufacturing output was broadly flat in the three months to June, affected by the changed timing of car production shutdowns.

The British Chambers of Commerce (BCC) considered that the contraction in manufacturing was unsurprising, given the downward pressure on activity from the running down of excess inventories, weakening automotive production and tougher global trading conditions.

Services

The net rate of return for services companies in Quarter 2 2019 eased slightly to 16.1%, from a revised estimate in Quarter 1 2019 of 16.3% (Figure 2). This is still a strong rate of return when compared with Quarter 2 2018 (13.8%).

Like manufacturing, there were mixed fortunes for services companies reported by the Bank of England summary report. The late timing of Easter and the mild weather boosted consumer services, as did a sustained improvement in real incomes. However, there was weaker demand for household goods owing to a softening of the housing market. Demand for advertising, marketing, insurance and corporate events was also lower because of cautious spending by companies. Logistics and haulage firms also reported a slight easing in demand in Quarter 2 2019, following a strong boost from stockbuilding activity in Quarter 1 2019.

The Index of Services, UK: June 2019 reported that services output increased by 0.1% in Quarter 2 2019 compared with Quarter 1 2019. The major contributors to this were the information and communication sectors.

Revisions to data

Figure 2 shows the period from Quarter 1 2017 to Quarter 4 (Oct to Dec) 2018 where the net rate of return for manufacturing exceeded services.

Methodological improvements have been made to capital stocks data to better reflect differences in asset lives within both assets and industries. This has affected the data for the entire economy, but the impacts are not uniform. As asset lives are shortened, the amount of capital consumed increases. As more capital is consumed, the net capital stock value of an asset decreases. The new estimates of asset lives are now more in line with estimates of asset lives used by other national statistical institutes.

For manufacturing, this change in asset lives has been applied to an improved sectorisation of industries and has particularly affected plant and machinery. A function of reduced asset lives is earlier retirement of assets, which results in reductions in gross stock estimates. This particularly affects manufacturing because it is more capital-intensive than services.

For services, the industries most affected by the change are real estate activities and professional, scientific and technical activities. Real estate changes in particular have been affected by an implementation of new sectorisation splits, which now attribute more stock to private non-financial corporations (PNFCs). Increased life lengths for transport equipment and telecommunications equipment have increased the gross stock of these assets.

The articles latest developments and changes to capital stocks and the methodology behind these changes help explains the revisions to the data.

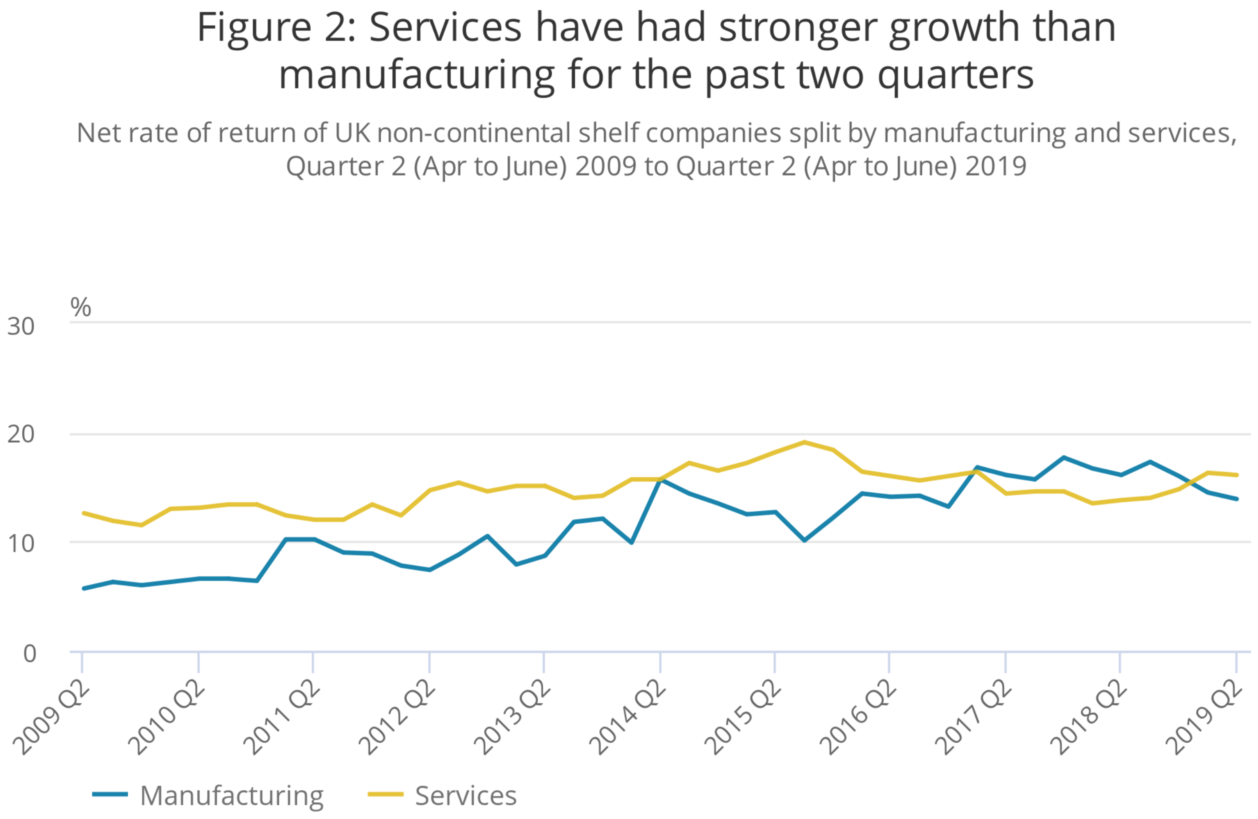
We have made revisions to the net rates of return for PNFCs for previous quarters back to Quarter 1 (Jan to Mar) 1997.

For more information, please refer to Revisions policies for economic statistics, which brings together our work on revisions analysis, links to relevant documentation and revisions policies.

The estimates quoted in Section 6, How does UK profitability compare internationally? 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.

Figure 2: Services have had stronger growth than manufacturing for the past two quarters

Net rate of return of UK non-continental shelf companies split by manufacturing and services, Quarter 2 (Apr to June) 2009 to Quarter 2 (Apr to June) 2019



Source: Office for National Statistics – Quarterly Operating Profits Survey

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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).

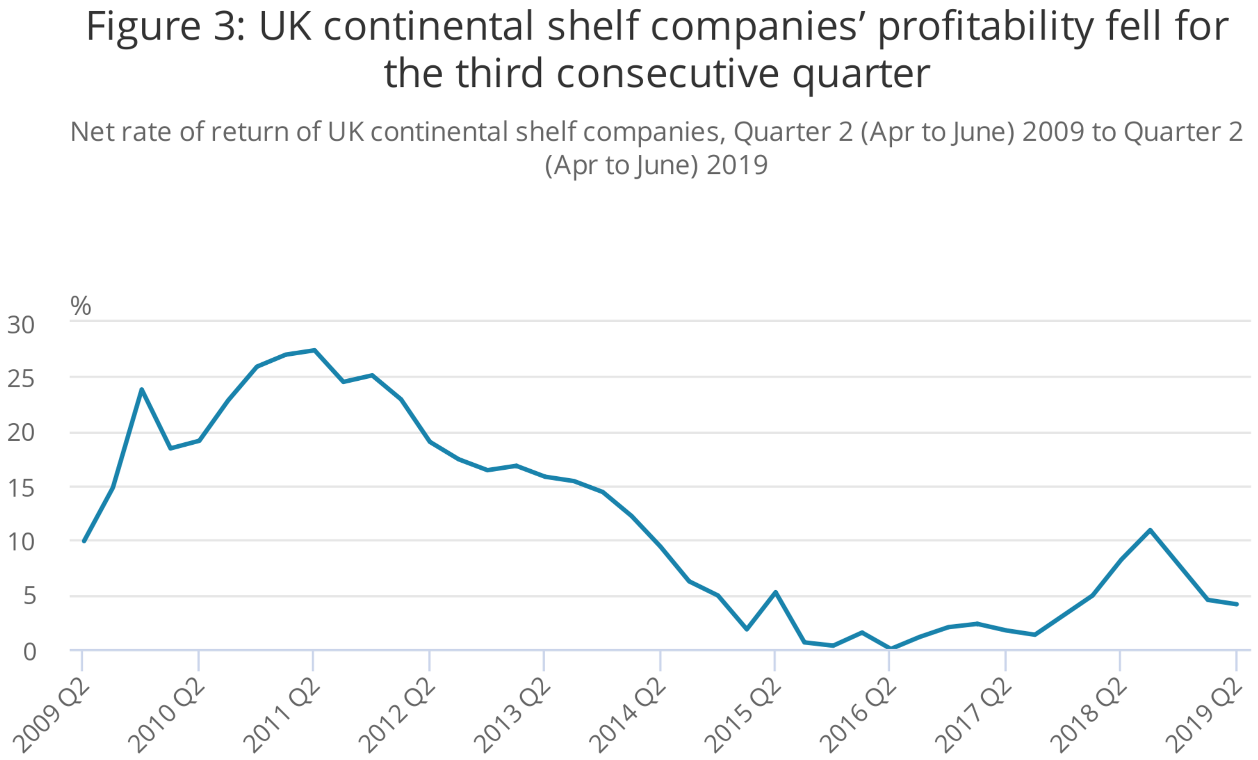
5 . UK continental shelf companies’ growth fell to 4.1% as oil prices fell

The estimated net rate of return for UK continental shelf (UKCS) companies in Quarter 2 (Apr to June) 2019 fell to 4.1% (Figure 3). This was down 0.4 percentage points from the revised estimate of 4.5% in Quarter 1 (Jan to Mar) 2019. This is the third consecutive quarter of falling profitability.

Last year, natural gas prices were driven higher by rising oil prices and tightening global markets. However, Brent Crude dropped over 20% in Quarter 2 2019. This is being driven by members of the Organization of the Petroleum Exporting Countries (OPEC) committing to offset potential sanction-related losses of Iranian oil exports. As a result, the demand for OPEC oil dropped, as [reported by Ignite Energy](#).

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

Net rate of return of UK continental shelf companies, Quarter 2 (Apr to June) 2009 to Quarter 2 (Apr to June) 2019



Source: Office for National Statistics – Quarterly Operating Profits Survey

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6 . How does UK profitability compare internationally?

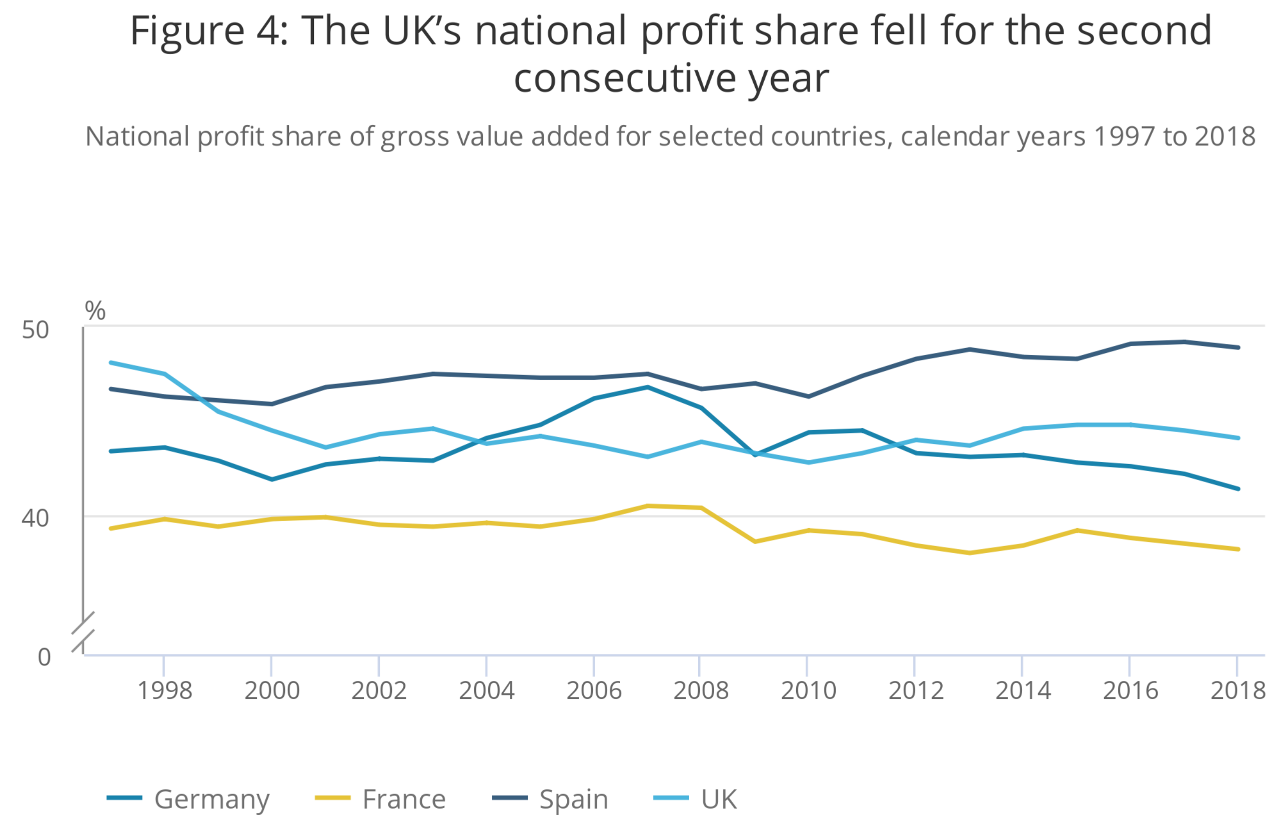
International comparisons of profitability can be problematic; the UK measures the rate of return on capital employed, while other countries use a range of different methods, making international comparisons difficult.

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 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.

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



Source: Office for National Statistics – Quarterly Operating Profits Survey

All four countries experienced a decline in national profit share for 2018, and 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.

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 the main sector accounts aggregates.

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

8 . What has changed in this release?

We have made revisions to the net rates of return for private non-financial corporations (PNFCs) for previous quarters back to Quarter 1 (Jan to Mar) 1997. This is consistent with the quarterly national accounts for Quarter 2 (Apr to June) 2019, published on 30 September 2019.

The estimates quoted in Section 6, How does UK profitability compare internationally? 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 David Summers on +44 (0)1633 456602.

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 (QMI) reports contain important information on:

- the strengths and limitations of the data and how they compare with related data
- the 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 stocks and fixed capital consumption QMI.