

Statistical bulletin

Profitability of UK companies: July to September 2014

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



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1 . Key points

- Private non-financial corporations' profitability, as measured by their net rate of return, was estimated at 12.0% in Q3 2014; up from the revised estimate of 11.6% in Q2 2014
- Manufacturing companies' net rate of return was estimated at 10.9% in Q3 2014, 0.1 percentage points higher than Q2 2014 and the highest since Q1 2002
- Service companies' net rate of return was estimated at 16.8% in Q3 2014, the highest rate since the series began in Q1 1997
- UK Continental Shelf (UKCS) companies' net rate of return was 13.9% in Q3 2014. This was the lowest estimated rate since the series began in Q1 1997. This was the second consecutive lowest estimate and 3.3 percentage points lower than the previous quarter
- UK non-CS companies' net rate of return was 12.0% in Q3 2014. This was the highest rate since Q4 1998, when it was also 12.0%
- To see the above data in more context, data for earlier periods are shown at Tables 1 and 2, they are also presented in the graphs at Figures 1 to 4

2 . About this release

The net rate of return on capital employed for UK private non-financial corporations related to their UK operations for July to September 2014. The net rate of return is a common way of measuring the profitability or economic success of a company or sector. It is calculated by expressing the economic gain or profit as a percentage of the capital used to produce it. See paragraph 2 of the Background Notes for a more comprehensive definition.

The estimates in this statistical bulletin are consistent with the [Quarterly National Accounts Q3 2014](#), published on Tuesday 23 December 2014, as described in the 'revisions' section.

3 . Your views matter

We are constantly aiming to improve this release and its associated commentary. We would welcome any feedback you might have, and would be particularly interested in knowing how you make use of these data to inform your work. Please contact us via email: profitability@ons.gsi.gov.uk or telephone Stephanie Duff on +44 (0) 1633 456098.

4 . Net rate of return of private non-financial corporations

The net rate of return of all private non-financial corporations in Q3 2014 was estimated at 12.0%. This compares with the revised estimate of 11.6% for Q2 2014.

As Figure 1 shows, the net rate of return for private non-financial corporations peaked in Q3 1997 at 14.1% and was at its lowest level in Q2 2009 at 8.8%.

Figure 1: Net Rate of Return of PNFCs, Q1 1997 to Q3 2014

UK

Figure 1: Net Rate of Return of PNFCs, Q1 1997 to Q3 2014

UK



Source: Office for National Statistics

Table 1: Net rates of return of UK Private Non-financial Companies

				%
	Total Manufacturing Services			UK Continental Shelf (UKCS)
1997	13.4	14.1	14.3	24.4
1998	12.4	12.0	14.0	20.1
1999	11.5	11.2	12.7	22.5
2000	11.4	10.4	11.7	35.8
2001	9.9	7.7	10.2	34.7
2002	11.1	9.0	11.7	33.5
2003	11.5	8.2	13.3	31.5
2004	11.8	10.0	13.1	29.2
2005	11.7	9.2	12.8	35.1
2006	11.8	8.7	12.6	38.6
2007	11.4	8.0	12.5	35.3
2008	11.4	8.1	12.6	40.3
2009	9.7	5.2	12.1	31.5
2010	10.8	5.6	13.1	39.3
2011	11.4	8.6	13.3	42.1
2012	11.2	7.0	14.4	32.4
2013	11.2	8.2	14.8	26.0

Source: Office for National Statistics

Table 2: Quarterly Net Rate of Return

				%
	Total Manufacturing Services			UK Continental Shelf (UKCS)
1997 Q1	13.0	13.2	13.5	27.5
1997 Q2	13.2	13.9	14.1	22.5
1997 Q3	14.1	14.9	15.1	23.8
1997 Q4	13.4	14.2	14.3	23.6
1998 Q1	12.6	12.2	13.0	22.7
1998 Q2	12.8	14.3	14.1	21.8
1998 Q3	11.6	10.3	14.3	17.6
1998 Q4	12.4	11.2	14.6	18.3
1999 Q1	11.7	11.9	12.0	18.5
1999 Q2	11.3	13.0	12.3	19.4
1999 Q3	11.6	10.0	13.5	25.9
1999 Q4	11.6	10.2	12.9	26.3
2000 Q1	12.1	12.6	11.3	32.2
2000 Q2	11.7	12.0	11.8	34.5
2000 Q3	11.3	9.7	13.0	37.0
2000 Q4	10.6	7.2	10.5	39.6
2001 Q1	9.2	8.1	7.7	36.9
2001 Q2	10.3	8.6	10.5	39.8
2001 Q3	10.0	7.4	11.3	31.9
2001 Q4	10.2	6.6	11.3	30.0
2002 Q1	11.1	12.0	9.6	31.4
2002 Q2	11.3	9.5	10.9	33.2
2002 Q3	11.0	8.0	13.0	31.8

2002 Q4	10.9	6.3	13.1	37.6
2003 Q1	10.8	6.7	11.6	35.5
2003 Q2	11.1	8.2	12.9	27.2
2003 Q3	12.1	8.2	15.3	31.3
2003 Q4	12.1	9.6	13.3	31.9
2004 Q1	11.8	10.5	12.5	28.4
2004 Q2	12.2	10.6	13.5	28.9
2004 Q3	12.1	9.9	13.9	30.2
2004 Q4	11.3	9.1	12.4	29.3
2005 Q1	10.8	9.1	11.1	30.9
2005 Q2	11.7	10.1	11.8	35.1
2005 Q3	12.1	9.4	14.0	37.1
2005 Q4	12.1	8.3	14.4	37.4
2006 Q1	12.2	10.3	12.7	44.8
2006 Q2	11.7	8.8	12.2	42.3
2006 Q3	11.7	8.4	12.9	36.8
2006 Q4	11.6	7.4	12.8	30.4
2007 Q1	11.1	9.7	11.6	28.0
2007 Q2	11.5	7.7	12.7	28.5
2007 Q3	11.5	7.9	13.2	34.5
2007 Q4	11.7	6.9	12.6	50.5
2008 Q1	12.1	9.4	13.2	46.7
2008 Q2	11.8	10.3	10.9	52.6
2008 Q3	11.7	6.4	13.0	44.1
2008 Q4	10.3	6.4	13.3	17.7

2009 Q1	10.2	5.7	12.7	30.7
2009 Q2	8.8	4.6	11.5	21.4
2009 Q3	9.8	5.2	12.4	29.7
2009 Q4	10.0	5.2	11.8	44.4
2010 Q1	10.4	5.7	12.7	34.5
2010 Q2	10.1	5.6	12.2	36.4
2010 Q3	11.1	5.6	14.1	41.2
2010 Q4	11.4	5.6	13.4	45.1
2011 Q1	11.6	9.2	12.9	45.4
2011 Q2	11.2	9.5	12.7	41.3
2011 Q3	11.5	8.0	14.2	39.1
2011 Q4	11.4	7.6	13.4	42.6
2012 Q1	11.5	7.3	13.9	38.0
2012 Q2	10.5	5.9	13.8	32.6
2012 Q3	10.9	6.1	15.5	29.9
2012 Q4	11.8	8.7	14.3	29.3
2013 Q1	11.3	6.1	15.0	27.5
2013 Q2	10.6	7.0	14.1	26.1
2013 Q3	11.5	9.3	15.9	26.5
2013 Q4	11.6	10.4	14.2	24.0
2014 Q1	11.5	7.9	15.1	20.1
2014 Q2	11.6	10.8	14.9	17.2
2014 Q3	12.0	10.9	16.8	13.9

Source: Office for National Statistics

5 . Economic context

The [Quarterly National Accounts](#) confirmed that the UK economy grew by 0.7% in Q3 2014. Although this was weaker than the previous quarter, this coincided with an increase in the total net rate of return for UK companies from 11.6% to 12.0%. This suggested that gross operating surplus including the alignment adjustment – a measure of profits – grew at a faster rate than the increase in capital employed.

Breaking down the aggregate measure into its components reveals some notable features. In Q3 2014, the net rate of return for services was the highest since records began in 1997, which coincides with a strong recovery since the downturn. Services were 7.2% above pre-downturn levels in Q3 2014, compared with 2.9% for GDP as a whole. For manufacturing companies the rate of return was the highest since Q1 2002; the downward trend since 1997 appears to have subsided in the last few years. In stark contrast, the net rate of return for UK Continental Shelf (UKCS) companies has been in decline since 2011, and in Q3 2014 it dropped to its lowest recorded rate at 13.9%. UKCS companies are mainly involved in extraction of oil and gas from the North Sea.

One factor in explaining the decrease in UKCS companies net rate of return was movements in oil prices. UKCS companies, already experiencing rising costs of extracting oil as reserves become depleted, saw a reduction in profits following the price of oil falling below \$100 per barrel by the end of Q3 2014. For other companies who are likely to use oil as an input, the fall in price may have increased profitability by reducing costs. 'Transport & storage' and wholesale - which constitute roughly a quarter of all services – are particularly affected. Further information on oil prices and the amount that different industries rely on oil for intermediate consumption, is available in the ONS [January 2015 Economic Review](#).

The overall economic environment in Q3 2014 was mixed. Business investment contracted by 1.4% relative to Q2, although this followed strong growth in the previous quarter, and by 5.2% compared with the same quarter a year ago. Ernst and Young reported that 69 profit warnings were issued by UK quoted companies, the highest Q3 number of profit warning since 2008, with many companies citing over-capacity and intense competition.

6 . Manufacturing and service companies, Q3 2014

Manufacturing companies

The estimated net rate of return for manufacturing companies in Q3 2014 was 10.9%. This was 0.1 percentage points higher than Q2 2014.

As Figure 2 highlights, the estimates of net rate of return for the manufacturing sector can be volatile. Variation from one quarter to the next usually reflects the fortunes of a number of the larger companies and is not necessarily an indicator of improving or worsening economic performance across the sector as a whole.

Service companies

The estimated net rate of return for service companies in Q3 2014 was 16.8%. This was the highest estimated rate observed since the series began.

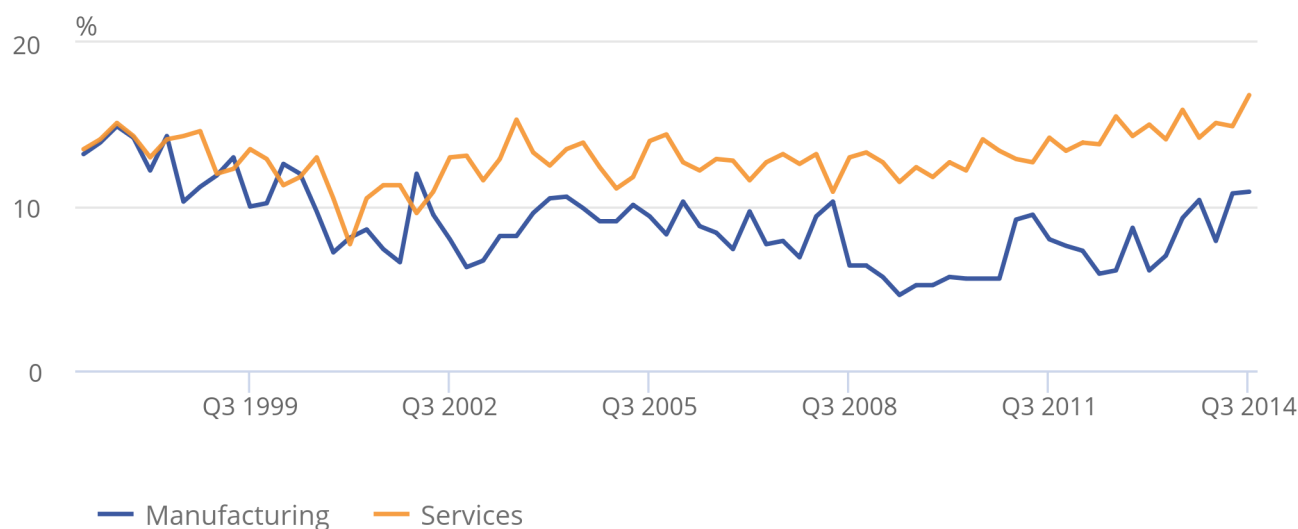
Figure 2 shows the net rate of return for service companies since Q1 1997. The underlying trend in recent years reflects the improving economic recovery.

Figure 2: Net Rate of Return of Manufacturing and Services Companies, Q1 1997 to Q3 2014

UK

Figure 2: Net Rate of Return of Manufacturing and Services Companies, Q1 1997 to Q3 2014

UK



Source: Office for National Statistics

7 . United Kingdom non-continental shelf (UK non-CS) companies, Q3 2014

UK non-CS companies comprise manufacturing, service and other UK non-CS companies (such as construction and power supply).

The estimated net rate of return for UK non-CS companies in Q3 2014 was 12.0%. This was the highest rate since Q4 1998, when it was also 12.0%.

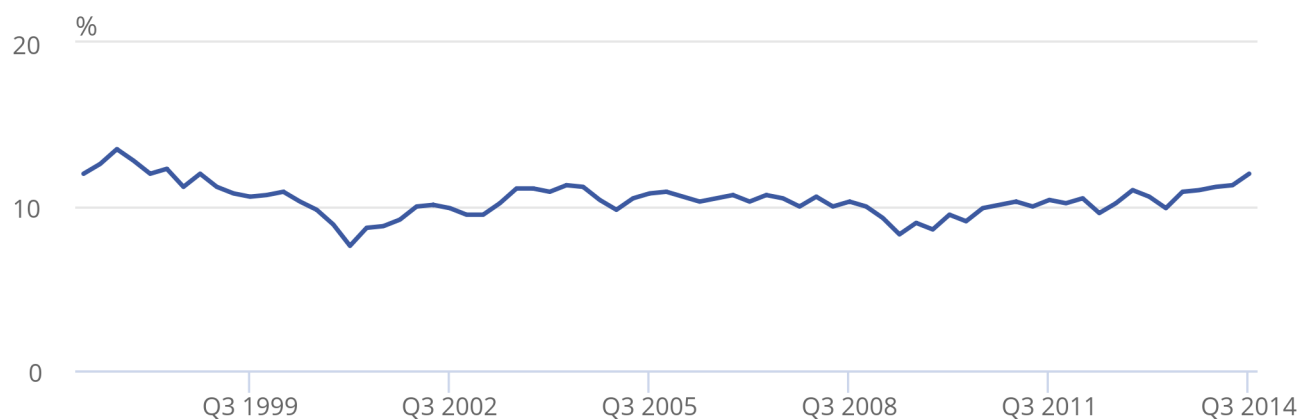
As the net rate of return of UK non-CS companies makes up the majority of private non-financial corporations, Figure 3, shows a comparable picture to that of all private non-financial corporations (Figure 1).

Figure 3: Net Rate of Return of UK non-CS Companies, Q1 1997 to Q3 2014

UK

Figure 3: Net Rate of Return of UK non-CS Companies, Q1 1997 to Q3 2014

UK



Source: Office for National Statistics

8 . United Kingdom continental shelf (UKCS) companies, Q3 2014

UKCS companies are defined as those involved in the exploration for, and extraction of, oil and natural gas in the UK. Due to the nature of the capital assets employed, net rates of return for continental shelf companies are not directly comparable with those for other industries.

The estimated net rate of return for UKCS companies in Q3 2014 was 13.9%, the lowest recorded estimated rate since the series began in 1997. This was the second consecutive lowest estimate and was 3.3 percentage points lower than the previous quarter. As described in the Economic Context this could be due to the rising costs of extracting oil as reserves become depleted, and a reduction in profits due to the price of oil falling to less than \$100 per barrel by the end of Q3 2014.

Figure 4: Net Rate of Return of UKCS Companies, Q1 1997 to Q3 2014

UK

Figure 4: Net Rate of Return of UKCS Companies, Q1 1997 to Q3 2014

UK



Source: Office for National Statistics

9 . International comparisons

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.

Eurostat show comparisons, across the European Union, of the aggregated national profit share defined as Gross Operating Surplus (GOS) plus Mixed Income divided by Gross Value Added (GVA) on a European System of Accounts 2010 (ESA10) 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.

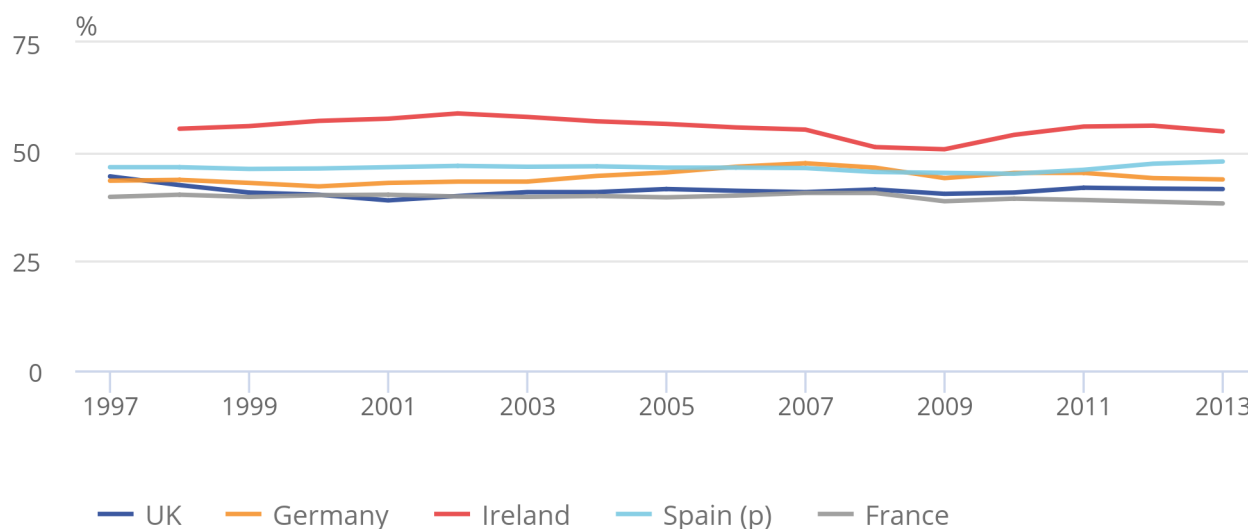
International data on an ESA10 basis are only available at the aggregate National level (Figure 5).

Figure 5: International Profit Share 1997 to 2013

International Comparisons

Figure 5: International Profit Share 1997 to 2013

International Comparisons



Source: Office for National Statistics, Eurostat

The UK aggregated profit share in 2013 was 41%, down from 42% in 2012. Across the years, as shown in Figure 5, the UK aggregated profit share was comparable with that of France. With the exception of 1997 it was consistently lower than the other selected European countries.

10. Background notes

1. What's new

Forthcoming changes

As the Profitability release is consistent with the Quarterly National Accounts revisions policy, ONS has decided to reduce the revisions period to the April 2015 release to avoid opening up to potential revisions three quarters in a row. This decision is consistent with the recommendations of the recently published [National Statistics Quality Review \(NSQR\)](#).

Revisions

In this release, revisions to the net rates of return for PNFCs have been made back to Q1 2013, and are consistent with the [UK National Accounts revisions policy](#). These incorporate revisions arising from the production of the [Quarterly National Accounts Q3 2014](#).

2. Understanding the data

Interpreting the data

Private non-financial corporations (PNFCs) are comprised of UK Continental Shelf (UKCS), manufacturing, non-financial service sector companies and others (including construction, electricity and gas supply, agriculture, mining and quarrying). UKCS companies are defined as those involved in the exploration for, and extraction of, oil and natural gas in the UK.

The rates of return presented are ratios of operating surpluses compared to capital employed, expressed as percentages. The ratios measure the 'accounting' rates of return achieved in a particular period against total capital employed. The rates of return are on the basis of current replacement cost and relate to UK operations of PNFCs. The net rate of return uses capital estimates which are net of capital consumption, and is more widely used than the gross rate of return. Rates of return are published for quarters and for years.

The main components of the operating surpluses data used in the compilation of the rates of return are the profits data from the Quarterly Operating Profits Survey (QOPS) and provisional HMRC company profits data.

The underlying capital data used to calculate these rates of return are based upon capital stocks and capital consumption data.

Definitions and explanations

The gross operating surplus of PNFCs consists of gross trading profits, plus income from rental of buildings, less inventory holding gains.

Gross trading profits include only that part of a company's income arising from trading activities in the UK. It does not include income from investments or other means, such as earnings from abroad. Gross trading profits are calculated before payments of dividends, interest and tax. The gross trading profits figures used in the calculation of **gross operating surplus** exclude the quarterly alignment adjustments applied to non-UKCS companies' gross trading profits, as published in the Quarterly National Accounts.

Inventory holding gains are the differences in the change in the book value of inventories measured at replacement cost and historic cost. The holding gain is subtracted from profits because revaluations are not considered to be part of economic activity, as defined for National Accounts purposes.

Estimates of gross capital stock are a measure of the cost of replacing all produced capital assets held at a particular point in time. Capital employed is the value of fixed assets, plus the value of inventories. It measures the value at replacement cost of all fixed assets at the end of a calendar year. This includes all tangible assets and intangible assets which have been produced and are themselves repeatedly or continuously used in the processes of production for more than a year. Tangible assets include buildings, plant and machinery. Intellectual property products include computer software and mineral exploration costs. For UKCS companies, capital employed includes mineral exploration costs and oil rigs, but not the oil and gas reserves that are classified as non-produced assets. Inventories include raw material and fuel that are used up in production. Book values are used for levels of inventories.

In the calculations for net rates of return, estimates of net operating surplus are net of capital consumption (depreciation). Capital consumption is derived from capital stock and covers the depreciation of fixed assets over their service lives. Estimates of net capital are net of accumulated capital consumption; that is, they are a measure of the written down replacement costs of fixed assets.

Use of the data

The underlying profits data used to calculate the rates of return are used within the [UK National Accounts](#). They are consistent with the [Quarterly National Accounts Q3 2014](#) and the [UK Economic Accounts Q3 2014](#), both published on 23 December 2014.

3. Methods

Sampling methodology

Details on the methods used for the [Quarterly Operating Profits survey](#) are available in the [Quality Methodology Information \(160.1 Kb Pdf\)](#) document.

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, Consumption of Fixed Capital 2014](#)', publication, which was published on 14 November 2014.

4. Quality

The net rate of return is defined as the ratio of the operating surplus compared to the capital employed, expressed as a percentage. The accuracy of the data in the numerator is likely to be high because the main component (profits) is benchmarked every six months to definitive, comprehensive, HMRC data. The accuracy of the data in this release for the denominator is likely to be more accurate than in previous releases due to the recent methodological changes.

The [Quality Methodology Information report \(118.8 Kb Pdf\)](#) for Profitability is available on the Office for National Statistics website.

The standard error of a series is a measure of the spread of possible estimates that might be obtained when taking a range of different samples of the same size. This provides a means of assessing the accuracy of the estimate: the lower the standard error, the more confident one can be that the estimate is close to the true value. Standard errors for quarterly profits, a key component of the numerator in the profitability data, are currently being developed and will be published in this bulletin in the near future.

Revisions

Table R1 accompanying this bulletin shows the revisions to the net rates of return made back to Q1 2013. These revisions are consistent with the data published in the latest [Quarterly National Accounts Q3 2014](#) statistical bulletin on 23 December 2014.

Estimates for the most recent quarters are provisional and, as usual, are subject to revisions in the light of updated source information consistent with the [National Accounts revisions policy](#). ONS has a web page dedicated to [revisions to economic statistics](#) which brings together ONS work on revisions analysis, links to relevant articles, revisions policies and key documentation from the Statistics Commission's report on revisions.

Further detailed information on all changes to National Accounts can be found here:

[National Accounts articles, Summary of ESA10 and BPM6 changes on Sector and Financial Accounts](#)

[United Kingdom National Accounts, the Blue Book, 2014 Edition](#)

[Capital Stock, Capital Consumption, Impact of the methodological changes to the estimation of capital stocks and consumption of fixed capital](#)

5. Relevant links

[Quarterly National Accounts](#)

[United Kingdom Economic Accounts](#)

6. Publication policy and Code of Practice for Official Statistics

Details of the policy governing the release of new data are available from the Media Relations Office.

Also available is a [list of those given pre-publication access](#) to the contents of this release.

National Statistics are produced to high professional standards set out in the [Code of Practice for Official Statistics](#). They undergo regular quality assurance reviews to ensure that they meet customer needs. They are produced free from any political interference.

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7. Accessing data

The complete run of data in the tables of this statistical bulletin is available to view and download in electronic format through ONS Time Series Data. Users can download the complete bulletin in a choice of zipped formats, or view and download their own sections of individual series

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11. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.