

Statistical bulletin

# Profitability of UK companies: April to June 2023

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



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## Notice

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In the future, we will be changing the frequency of this release from quarterly to annual. This decision gives us the opportunity to further develop the analysis of our data so that we continue to provide users with high-quality and relevant data and analysis. Please contact [profitability@ons.gov.uk](mailto:profitability@ons.gov.uk) with any questions.

# Table of contents

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

# 1 . Main points

- The net rate of return for private non-financial corporations (PNFCs) was 9.6% in Quarter 2 (Apr to June) 2023, down from the revised estimate of 10.7% in Quarter 1 (Jan to Mar) 2023.
- The net rate of return for UK continental shelf (UKCS) companies fell for the third consecutive quarter to 3.2% in Quarter 2 2023, 2.3 percentage points lower than the revised estimate for Quarter 1 2023 (5.5%), reflecting a continued decrease in gas and crude oil prices; this was the lowest value since Quarter 2 2021.
- The net rate of return for manufacturing companies was 7.8% in Quarter 2 2023, a decrease of 0.8 percentage points compared with the revised estimate of 8.6% in Quarter 1 2023.
- The net rate of return for services companies fell to 15.2%, from 16.1% in Quarter 1 2023.

## 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), was 9.6% in Quarter 2 (Apr to June) 2023, 1.1 percentage points lower than the revised estimate for Quarter 1 (Jan to Mar) 2023 (10.7%).

### Figure 1: The net rate of return for private non-financial corporations (PNFCs) has decreased in Quarter 2 2023

Net rate of return of UK private non-financial corporations, Quarter 1 (Jan to Mar) 2013 to Quarter 2 (Apr to June) 2023

The decrease in profitability seen in Quarter 2 2023 was primarily caused by decreasing net operating surplus, which reflected lower subsidies paid out to corporations as part of the Energy Bill Relief Scheme than in Quarter 1 2023.

Ernst and Young reported that [66 profit warnings were issued by UK-listed companies in Quarter 2 2023](#), which was the highest Quarter 2 number since 2020. They reported that industrial support services were the most affected, followed by construction and materials, retailers, pharmaceuticals and biotechnology. Companies cited falling sales, contractual issues, rising costs and changing credit conditions in their profit warnings.

## 3 . UK continental shelf companies

Quarter 2 (Apr to June) 2023 was the third consecutive quarter of decreasing 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 3.2% in Quarter 2 2023, a decrease of 2.3 percentage points compared with the revised estimate for Quarter 1 (Jan to Mar) 2023. This was the lowest rate since Quarter 2 2021.

This decrease in the profitability of UKCS companies in Quarter 2 was mainly caused by a fall in their net operating surplus, while their net capital employed has remained flat.

### 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 Mar) 2006 to Quarter 2 (Apr to June) 2023 and the price of Brent Crude Oil in American dollars, Jan 2006 to June 2023

Net operating surplus in UKCS companies is strongly related to oil and gas prices, with the recent fall after a trend in increasing profitability reflecting this pattern. Comparing average prices within quarters, wholesale gas prices fell by around 38% in Quarter 2 2023 compared with Quarter 1 2023. Brent Crude oil prices fell by about 4% in Quarter 2 2023, returning closer to pre-coronavirus (COVID-19) prices.

The continued fall in oil and gas prices is likely to be because of reduced demand. The reduction in demand may be caused by several factors, such as a stable supply of liquified natural gas (LNG) on the international market and high stock levels and improving gas supply-demand balances overall. However, in April 2023, OPEC (Organization of the Petroleum Exporting Countries) members agreed to cut oil production through 2023, which is expected to put upward pressure on crude oil prices.

## 4 . Manufacturing and services

### Figure 3: The net rate of return fell for both manufacturing and services sectors in Quarter 2 2023

Seasonally adjusted net rate of return for UK companies split by manufacturing and services (excluding continental shelf companies), Quarter 1 (Jan to Mar) 2023 to Quarter 2 (Apr to June) 2023

#### Manufacturing

In Quarter 2 (Apr to June) 2023, the net rate of return for manufacturing companies fell to 7.8% from the revised estimate of 8.6% in Quarter 1 (Jan to Mar) 2023, having previously increased for two consecutive quarters. This fall was caused by decreasing net operating surplus coupled with increasing net capital employed.

The [Bank of England Agents' summary of business conditions for Quarter 2 2023](#) described stabilised manufacturing output driven by improving demand, especially for the defence sector, automotive production and the semi-conductor industry. Companies in the food and drinks industries have also seen stable demand, but households reportedly traded down for more affordable alternatives.

#### Services

The net rate of return for services companies fell to 15.2% in Quarter 2 2023, 0.9 percentage points down from 16.1% in Quarter 1 2023. The main cause of the decrease was a fall in net operating surplus. Net capital employed has also increased, but to a lesser extent proportionally compared with the drop in net operating surplus.

While the [Index of Services](#) reported a 0.1% services output growth in Quarter 2 2023 compared with Quarter 1 2023, the [Producer price inflation statistics](#) data show that services producer prices have continued to rise in the same period. The [Bank of England Agents' summary of business conditions for Quarter 2 2023](#) reported price inflation driving higher turnover for business services. Companies in litigation, audit, IT, communications, and insurance businesses reported strong growth, which was offset by weaker revenues for contacts from the Bank of England survey specialising in mergers and acquisitions, and other corporate transactions.

## 5 . Revisions to data

Methodological improvements have been made to inventories data, impacting changes to deflators. These were updated for Blue Book 2023 with an overall aim to increase the accuracy and provide an up-to-date measurement of inflation to be used within the national accounts.

This has caused revisions impacting the net rate of return figures for private non-financial corporations as well.

For more information, please refer to our [methodology](#) published in July 2023, the article [Impact of Blue Book 2023 changes on gross domestic product](#) and our [deflator strategy](#) published in November 2022.

## 6 . Profitability data

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

Dataset | Released 3 November 2023

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

[Profitability of UK companies time series](#)

Dataset | Released 3 November 2023

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. 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).

## 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 QMI](#).

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

### 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 . Related links

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

Bulletin | Released 29 September 2023

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 29 September 2023

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

## 10 . Cite this statistical bulletin

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