

Big jump in Chinese industrial profits

Chinese industrial profits have started to expand again. Is this a starting point for faster profit growth in manufacturing in 2020?



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Improvement in China's manufacturing industry

With manufacturing PMI switching back to above 50 in November, industrial profits also showed strength in the manufacturing industry.

Industrial profits grew by 5.4% year on year in November after a contraction of 9.9%YoY in October, marking the fastest growth in 2019 except in March.

Which sectors have fastest profit growth?

In terms of the growth rate of profits, ferrous metal mining had a 170.7%YoY year-to-date increase in profits in November.

From another perspective, if we rank the operating profits of the reported manufacturing industries, the biggest operating profit industry, which is the computer, telecommunication, and electronic equipment industry, earned a profit of CNY 10.2 trillion YTD in November that grew by 4.1%YoY year-to-date.

Not every industry comes bearing good news

Export related manufacturing industries continued to suffer from slower profit growth. Papermaking and paper products, which are highly related to export activities, e.g. carton boxes for packaging, suffered a 10.7%YoY year-to-date negative growth of profits. The textile industry experienced a 7.0%YoY year-to-date contraction in profits.

The trade war continued to damage export-related manufacturing activities. As long as the 'phase-one' deal is not signed, the tariffs imposed on China's export to the US will not be rolled back. But, even if the 'phase - one' deal is signed, the rollback of tariffs, according to the media, will be just [7.5% on \\$120 billion goods](#), which is too small to stop damages on overall Chinese exports.

China lowering import tariff could help manufacturing activities

The good news may be that China will lower provisional import taxes that are lower than the most-favoured-nation tariff rates for more than 850 goods starting from 1 January 2020, according to the Customs Tariff Commission of the State Council.

China will also carry out the fifth reduction in the most-favoured-nation tariff rates for 176 information technology profits from 1 July 2020 according to the same source.

The most widely reported benefit of these tariff cuts are a reduction of imported food costs and the opening up of the Chinese consumer market to foreign companies. But, we also see that [these two policies](#) will reduce manufacturers' import costs, and therefore enhance their profitability in 2020.

Expect a rebound of industrial profits in 2020

Because of the two growth engines in 2020 - infrastructure projects and 5G - industrial profits are expected to enjoy positive growth in 2020.

But profits from export-related industries still depend on the progress of tariff rollback from the US. Those businesses will rely on further trade negotiations between China and the US in 2020. We will be aware that the low base effect in 2020 could mask industrial profit damages of these export-related sectors.

Our projection for 2020 is divergence in profit growth within sectors.

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