

China: Industrial profits continued nosedive

China's industrial profits growth has kept falling sharply. External demand has shrunk and is having a feedback effect on China's domestic demand. We expect a combination of fiscal and monetary policy to keep SMEs and jobs stable.



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Another deep fall in industrial profits

Industrial profits fell 34.9%YoY in March after falling 38.3%YoY in January to February.

The continued deep fall in industrial profits shows that China has faced a continued fall in demand for goods from foreign economies due to Covid-19's impact on those economies' job markets and wages growth.

-34.9% China industrial profits
%YoY in March

Profits may not come back as lockdowns relax

The re-opening of a few European and US cities does not mean a meaningful rebound of activity and demand for goods and services even in these places. Unemployment rates are rising, and even those hanging on to jobs could face a fall in wages.

This means that the demand for goods in a large part of the world will be weaker than in pre-Covid-19 times. As such manufacturing and exports from China will continue to face difficulties.

Industrial profits will have to rely more on domestic demand. But conditions are not much better in China. With the shrinkage in demand from overseas, factories are receiving fewer export orders, and they too need fewer employees or may need to cut wages. There will be also challenges from domestic demand.

In need of a combined fiscal and monetary policy

Interest rates and RRR cuts are still necessary as these will lower interest rates for the whole economy.

But there are limitations on monetary policy tools. Smaller firms are more at risk as they are less likely to get loans from banks due to their weak credit profile.

So fiscal policy will fill the gaps, and it is expected that the government will help those SMEs with guarantees so that banks can be confident to approve their loans.

We expect 4 more rate cuts and 6 more RRR cuts. But these monetary policies will really only be effective if there is matching fiscal support. We expect the Two Sessions will reveal more fiscal stimulus. For now, we estimate the size of fiscal stimulus at 6% to 8% of GDP.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com