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CHINA

China: Industrial profits jump again

Industrial profits jumped 11.5%YoY on larger revenue growth in June compared to last year. Can this profit growth be sustainable?

Passengers cheer up for Wuhan while waiting to take train K81 at Wuchang Railway Station in Wuhan, central China's Hubei Province, late April 7, 2020.

Source: Shutterstock

Low number of Covid-19 cases helped industrial profits in June

Industrial profits grew 11.5%YoY in June after the 5.5%YoY rise in May. This looks quite incredible, but it's not that amazing. Covid-19 has subsided a lot in China, and therefore social distancing measures have also reduced substantially. This is positive for domestic demand and for related manufacturing activity in China. Some recovery from Covid-19 in parts of the rest of the world will also have helped China's manufacturing output and profitability in June.

Not every industry is experiencing growth

Stimulus-driven industries have experienced profit growth, e.g. in steel and non-ferrous metals. We expect that as infrastructure projects began to pick up speed in June (after the Two Sessions meeting in May), infrastructure projects should be able to bring some profit growth to building material sectors in the coming months.

The biggest profit growth was seen in technology-related sectors. This is most likely due to domestic 5G infrastructure developments, though there has been negative news on exports of 5G services.

However, there were still a lot of industries recording a yearly shrinkage in profits in 1H20. The recovery of some of these industries could be slow as they are not growth engines of Chinese manufacturing, or they do not benefit from the growth of infrastructure projects. e.g. textile and garment, and machinery repair. The recovery of profits in these industries will likely be slower.

The flood's impact on future profit growth

The recent flooding is not over yet, even if it is not actually getting worse. Reconstruction following the flood will increase industrial activity, and hopefully, bring some profit to industries that have not been beneficiaries of infrastructure projects.

But this may not be enough to cover the economic loss from the flood, which has damaged a lot of buildings, dams, and agricultural land.

We will continue to follow this closely to estimate the economic impact on the Chinese economy, including GDP growth forecasts.

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