

Snap | 27 July 2020

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.

### **Author**

#### **Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

### **Disclaimer**

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct

## **THINK economic and financial analysis**

Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).