

## China industrial profits turned positive thanks to infra

China industrial profits turned positive in July, mostly because of support from infrastructure projects and a technically low base last year. Both factors will continue to support industrial profits' yearly growth, which continues to mask the negative impact of the trade war.



Workers at an electronic factory in Eastern China

### Infrastructure projects support industrial profits

Industrial profits amounted to CNY512.67 billion in July, up 2.6%YoY in July from a contraction of 3.1%YoY in June.

The most prominent profit contribution to this growth was support from infrastructure projects, specifically from the construction of railways, which pushes up profits in the mining and electrical products sectors. Electric products enjoyed profit growth of 30.8%YoY in July. Well up from 4.2%YoY in June.

### Trade war still dragged profits in trade related sectors

The negative impact of the trade war was masked by supportive fiscal stimulus in the form of

railway construction. Trade-related sectors continued to suffer from shrinking profits. Paper making, which is heavily related to packaging for exports, saw its profits shrink by 23.7%YoY YTD in July.

### **But risks faced by manufacturers haven't gone away**

The average payback period for account receivable was 54.2 days, an increase of 1.1 days over the same period last year. The longer the account receivable cycle, the higher the risk of low liquidity and the higher the risk of business closures.

We believe that most private enterprises suffer from long account receivable cycles. They may be the low-end subcontractors of infrastructure projects. We worry that they may be the last to receive payments from their construction works.

It is, therefore, possible that even though infrastructure projects help to support the economy as a whole, the government is expected to support the lower-end sub-contractors to avoid any chance of a series of defaults of small private firms.

The central bank can offer more targeted liquidity for small private firms to keep them liquid. Policies could be targeted at the medium term lending facility and/or targeted RRR.