

## China: Industrial profits turn positive on fiscal push

China's industrial profit growth turned positive in May. But this was mainly due to fiscal stimulus in the form of higher infrastructure spending. We maintain our view that industrial profits, in general, have yet to really recover



Source: Shutterstock

### Industrial profit growth turned positive but it is not market driven

From the data announced by the National Bureau of Statistics, industrial profits grew 1.1% year-on-year in May after declining 3.7% YoY in April.

This sounds good but is actually due to the impact of higher government spending on infrastructure projects.

Railway-related equipment producers posted excellent profit growth of 42.9%YoY in Jan-May while the black metal mining industry saw profits surge 229%YoY.

## Manufacturing in the private sector still seeing profits slide

Major industries in the private sector continued to experience falling profits in May, year-to-date.

- Automobile producers, for example, saw profits shrink by 27.2% YoY in Jan-May.
- Producers of computer and telecommunication equipment saw their profits fall by 13.0%YoY in the same period and we think this trend could continue amid more potential export bans of Chinese technology goods to the US.

## Automobiles and computer equipment continued to suffer from falling profits



Source: ING, Bloomberg

## Stimulus driven growth in 2019

The data suggests that the government's investment in infrastructure, particularly its decision to add more metro lines across cities in the same province, is supporting economic activity. But these activities have not benefited manufacturing in the private sector.

We have revised our projection of fiscal stimulus in 2019 from CNY 2 trillion to CNY 4 trillion, as the trade and technology war continues to escalate. That's why we think GDP growth of more than 6% in 2019 is still very likely. Our GDP forecast for 2019 remains at 6.3%.