

## China: Strong industrial profits from credit growth

China's strong industrial profits in March matched with strong credit growth, and we think this should last for the rest of 2019



Workers at an electronic factory in Eastern China

### Industrial profits surged in March

Profits at China's industrial firms jumped by 13.9% year on year in March but was -3.3% in 1Q19, due to the drag from the 14% decline in the first two months of 2019.

The big difference of profit growth between March and 1Q19 is probably because of the strong yuan loan growth in March at 51%YoY, especially loans for small private firms, which is a policy objective directed from the central government.

### But account receivables still look concerning

Account receivables rose 6.5%YoY at the end of March. This means there are manufacturers that still cannot fulfil their payments, and this remains a key risk in the manufacturing sector as a whole. This is because the financial chain among manufacturers is fragile, and can be easily broken when some manufacturers miss their payments persistently.

## Credit growth should continue to support smaller manufacturers

We think the government probably sees this risk too, and therefore is likely to continue to use strong credit growth to support small private manufacturers. Having said that, we don't think the 51%YoY loan growth, as seen in March will be seen again in April. Instead, we think credit is likely to grow at a speed of 10%YoY.

## The government is still pushing fiscal stimulus

For light industries such as textiles, shoes, toys, it may be good news that the central government is pushing to upgrade home electrical appliances in some rural areas. This policy was used in 2009-2010 and was successful. Though we don't think the same degree of positive effect will repeat itself in 2019, as rural households' living standards have improved, but at least this policy should be of some help.

For the automobile industry, the same scheme is being pushed to upgrade combustion cars to electric cars, but this is slightly more difficult as electric cars charging infrastructure in rural areas may need to considerably improve before there is a substantial increase in demand for such cars.

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