

# Trade war eating up China industrial profits

While other data still have yet to show the trade war impact, industrial profits seem to show that the trade war is eating up profits of manufacturers in China, and even more so for foreign manufacturers



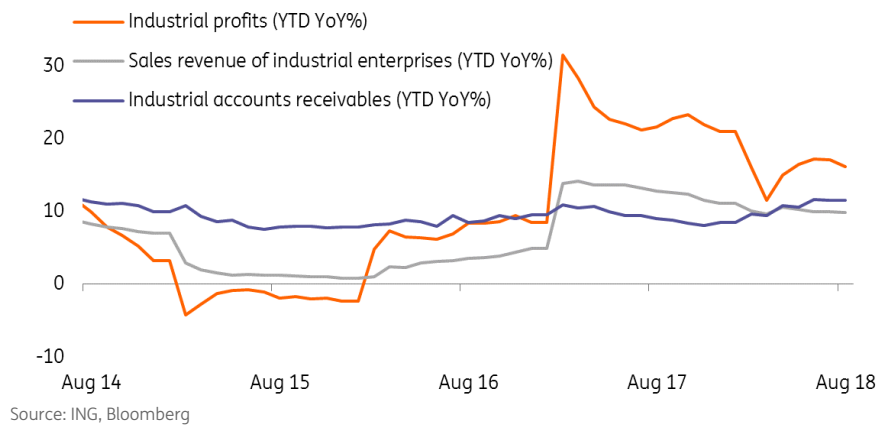
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## Trade war impact has started

Industrial profits of manufacturers in China slowed to 9.2% YoY in August from 16.2% YoY in July. These manufacturers include foreign investments in China.

Not only have profits slowed but account receivables have increased. The data pair reflects that manufacturers could, in fact, be earning much lower profit margins than reported if the account receivables cannot be collected in the future.

At the same time, sales growth has also fallen.



## Trade war has hit foreign-owned factories in China

Foreign-owned factories have faced slower profit growth (+7.6% YoY) than Chinese-owned private enterprises (+10.0% YoY), and of course more so compared to state-owned enterprises (SOEs) at 26.7% YoY. We believe that the higher profit growth of SOEs come from some projects that could be related to fiscal stimulus, eg, railway infrastructure projects. And those no so profitable infrastructure projects, eg, anti-pollution, could be under local government financial vehicles, which are not considered as local government entities but corporate entities.

## Are these the result of the trade war? Yes!

We would like to explore alternative factors affecting industrial profits in China, but it is difficult to find an excuse not to blame the trade war.

Overcapacity reform has stopped since the start of the trade war in the middle of the year. In fact, financial deleveraging has become re-leveraging as interest cost has lowered quickly.

We, therefore, conclude that this slowdown in industrial profits is a result of the trade war.

## Interest cost has fallen

