

Slowdown in industrial profits growth

**Results for July signal
headwinds on horizon
as cooling measures
take economy off boil**

Reuters in Beijing

Earnings growth for the mainland's industrial firms cooled in July after accelerating for three straight months, reinforcing expectations the economy will slow in coming quarters as higher lending costs and property market curbs bite.

Profits earned by mainland industrial companies in July rose 16.5 per cent from a year earlier to 612.7 billion yuan (HK\$720 billion), slower than the previous month, the National Bureau of Statistics said yesterday.

That was the slowest rate of growth since profits rose by 14 per cent in April.

Profit growth slowed in July because some companies halted production due to especially high temperatures, NBS official He Ping said.

For the first seven months of the year, companies notched up profits of 4.25 trillion yuan, a 21.2 per cent jump from the same period last year and a touch slower than the 22 per cent annual growth from January to June.

Earnings for the industrial sector were boosted by a year-long, government-led construction spree, which fuelled demand and prices for building materials.

Strong earnings, in turn, have opened the way for fresh investment and given the country's long ailing "smokestack" industries more cash flow which could, in theory, be used to start paying down a mountain of debt.

Aluminium Corp of China reported on August 17 that its six-month net profit rose more than tenfold year on year as it benefited from sky-high aluminium prices.

A day later, the top state-run aluminium smelter said it would be making further investment in raising output in the second half.

The manufacturing sector, which accounts for 88 per cent of industrial profits, saw profit growth of 18.1 per cent in the first seven months, down only slightly from the 18.5 per cent recorded in the first half.

Source : South China Morning Post

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But analysts say economic growth is starting to slow as measures to cool heated property prices and clamp down on riskier forms of lending put the brakes on activity.

Beijing's efforts to reduce debt have pushed up lending rates, signalling tighter margins and tougher operating conditions for firms as debt servicing costs go up – a sign of slowing earnings growth over coming months.

Weaker performance in the industrial sector is in line with July economic data that was mostly weaker than expected, after forecast-beating GDP growth of 6.9 per cent in the first half.