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# INDUSTRIAL PROFITS SUFFER STEEPEST DECLINE SINCE 2011

**Earnings down 9.9pc in October owing to bigger fall in output prices, continued weakness in cost of goods from manufacturers and trade tensions**

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Profits at China's industrial firms continued to slide in October, posting their steepest fall since 2011 as producer prices remained weak and trade tensions with the United States weighed on the world's second-largest economy.

Industrial profits fell 9.9 per cent to 427.56 billion yuan (HK\$475.6 billion) last month from a year earlier, down from a 5.3 per cent contraction in September, according to the National Bureau of Statistics. The result was below analysts' expectations.

The contraction was the third straight month of declines and highlights continued problems for the country's economy, which is growing at its slowest pace in nearly three decades. Mainland stocks dropped for the first time this week after the data.

"We expect industrial profit growth to remain sluggish, given the deteriorating growth outlook and elevated uncertainty amid

the US-China trade conflict," analysts from Nomura said.

"In our view, Beijing will likely roll out more easing measures in coming months despite limited policy room."

In the first 10 months of the year, combined profits at Chinese industrial enterprises decreased 2.9 per cent year on year, the bureau said.

Profits in the manufacturing sector shrank 4.9 per cent between January and October, while mining sector profits increased 2.4 per cent and utilities sector profits rose 14.4 per cent. Coal mining and the oil and gas sector recorded declines of 2.9 per cent and 2.1 per cent, respectively.

The October fall was an acceleration from the drop in September "mainly due to a bigger decline in the output price of industrial products, slowing growth of production and sales and other factors," said Zhu Hong, a senior statistician at the bureau.

Profits grew faster than in September in hi-tech manufacturing, as well as in the strategic emerging and equipment manu-

facturing sectors, while profits at private and small firms remained stable, Zhu added.

The decline in profits earned by industrial firms is the latest in a series of grim readings for the economy.

The producer price index (PPI), reflecting the prices that factories charge wholesalers, fell by the sharpest rate in more than three years in October as prices for raw materials dropped.

The official manufacturing purchasing managers' index also declined for the sixth consecutive month in September as new export orders fell for the 17th month in a row. Exports fell in annual terms for the third straight month in October, albeit at a slower-than-expected rate.

"[The] industrial profit data confirms what we have been seeing in the first half of 2019, that negative PPI shows there are over-capacity issues due to a lack of external demand, which is bound to continue in the second part of this year," said Alicia Garcia Herrero, chief economist for the Asia-Pacific at Natixis.

"The global economy is also heading south so even if there was a mini trade deal to help sentiment, I don't think the trend will change," she added, referring to the so-called phase one trade deal being discussed between Washington and Beijing.

The economy grew 6 per cent in the third quarter of 2019, the lowest growth rate since records began in March 1992. Some analysts contend that 2020 growth could reach 6 per cent, or even exceed it, if there is a de-escalation soon in the country's trade war with the US. However, in the worst case scenario, where trade war tensions increase, the growth rate could slip to as low as 5.3 per cent next year, according to Morgan Stanley.

Xu Zhaoyuan, a research fellow of the Development Research Centre of the State Council, said the country's industrial sector was still transforming from a model of rapid expansion to high-quality development.

"But the transformation cannot be accomplished in one action or have the same speed in different areas, the transformation is still going on and has not completed yet, so the benefits are still limited," Xu said.

**Beijing will likely roll out more easing measures in coming months**

NOMURA ANALYSTS