

China Economy

Industrial profit in gradual improvement

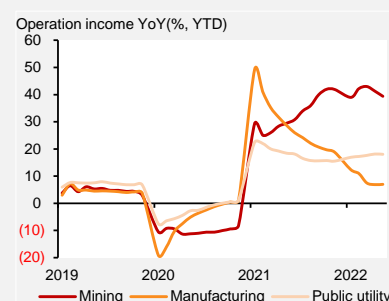
China's industrial financial performance improved noticeably in June as business activities recovered from the lockdowns in April and May. Industrial operation income picked up 9.1% in June after rising 6.9% in May and 1.7% in April, while industrial profit rose 1% in June after dropping 6.7% and 8.3% in the previous two months. By sectors, profit in energy sector maintained strong growth with moderate slowdown due to retreat of commodity inflation. Profit in iron ore, non-metal mineral product and steel product sharply deteriorated as property market slumped. General equipment also decreased as business capex was weak. Agricultural product processing significantly improved as live hog saw a recovery cycle. Automobile sharply improved in June from the lockdown shock in April, thanks to resumption in both supply chain and demand. Electrical equipment maintained rapid growth due to strong exports, but electronics sharply deteriorated because of weakening global demand. Power generation improved as electricity price rose and coal input cost declined. Looking forward, industrial profit growth may further rebound in 2H22-1H23 with the full-year growth at 6% in 2022 and 9% in 2023.

- **Energy sector remained strong with moderate slowdown.** Operation income of coal mining and petroleum & natural gas rose 57.1% and 49.6% in 1H22, compared to the growth of 60.8% and 48.2% in 5M22. Meanwhile, their profit respectively rose 157.1% and 126% after increasing 174.7% and 135% in 5M22. As the market has priced in supply chain improvement and future recession risk, energy prices retreated. Looking forward, profit growth in energy sector may gradually slow down in the medium term.
- **Housing & construction related industries weakened.** Operation income in furniture and steel product respectively dropped 4% and 3.6% in 1H22 after rising 3.2% and 2.1% in 1Q22. Meanwhile, operation income growth of non-metal mineral product and metal product slowed from 9.4% and 10.7% in 1Q22 to 3.1% and 5% in 1H22. Profit of steel product dropped 68.7% in 1H22 after decreasing 49.7% in 1Q22, and that of non-metal mineral product declined by 5.8% and 8.4% after rising 11% and 0% in 1Q22.
- **General, special equipment & instrument industries remained weak amid sluggish capex demand.** Operation income in general equipment declined 3.7%, that in special equipment rose 0.9% and instruments & meters grew 3.4% in 1H22, compared to the growth of 2.7%, 4.7% and 7.4% in 1Q22. Meanwhile, their profit respectively dropped 15.9%, 3.2% and 2.8%, after decreasing 21.3%, 4.6% and 9.6% in 5M22.
- **Electrical equipment remained strong, while computer & electronics deteriorated.** Operation income of electrical equipment maintained rapid growth at 21% in 1H22 after rising 23.9% in 1Q22. Meanwhile, its profit picked up 17.3% after rising 10.4% in 1Q22. Supportive factors included strong exports and retreat of material costs. For computer & electronic equipment, however, operation income growth slowed from 9.5% in 1Q22 to 7.7% in 1H22 and profit declined 6.6% after rising 2.8%. The major reason was a sharp slowdown of global demand amid high base last year.
- **Power generation improved amid electricity price hike and material cost relief.** Operation income of power generation & supply picked up 16.9% in 1H22 after rising 16% in 1Q22. Its profit declined 19.3% in 1H22 after dropping 35.2% in 1Q22. We expect power generation sector may further improve in 2H22 thanks to demand resumption and material cost decline.

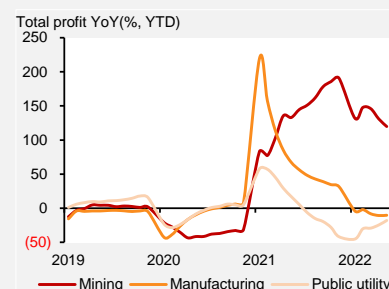
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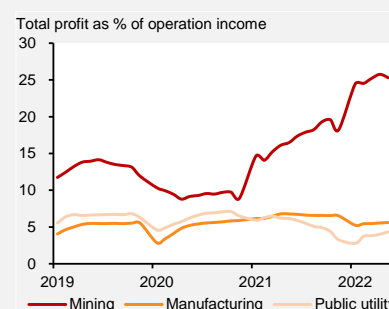
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Source: NBS, CMBIGM



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Figure 1: Operation Income Growth of China's Industries

	YoY(%)						2/3Y CAGR(%)			
	2019	2020	2021	1Q22	5M22	1H22	2021	1Q22	5M22	1H22
Mining	4.8	(10.6)	36.0	42.2	41.3	39.4	10.3	17.3	17.2	17.0
Coal	3.9	(12.0)	44.6	60.8	60.8	57.1	12.8	22.1	22.3	22.0
Petroleum & Natural Gas	1.8	(20.9)	33.3	46.6	48.2	49.6	2.7	14.0	14.1	14.7
Ferrous Metal Ores	13.1	7.1	48.3	(10.3)	(12.2)	(12.8)	26.0	11.6	11.6	12.1
Non-ferrous Metal Ores	(1.8)	(3.1)	15.3	24.4	22.6	22.1	5.7	10.9	11.7	10.9
Non-metal Minerals	6.4	(1.6)	11.3	11.0	6.4	5.6	4.7	8.2	7.0	6.8
Manufacturing	4.3	(1.2)	22.1	11.0	6.9	7.0	9.8	9.6	9.2	9.3
Agricultural product processing	4.5	2.4	14.0	3.7	3.7	3.9	8.0	7.0	7.6	7.5
Food	7.0	2.4	9.7	8.7	7.2	6.4	6.0	7.3	6.9	6.6
Liquor, Beverage & Tea	6.9	(3.5)	13.4	13.3	8.3	7.4	4.6	7.6	6.1	5.9
Tobacco	8.3	5.1	7.1	10.1	8.3	7.4	6.1	10.2	7.9	7.1
Textile	0.9	(10.5)	12.8	9.4	6.0	4.7	0.5	1.0	1.8	1.7
Textile Apparel	1.5	(13.5)	9.0	9.3	6.1	4.5	(2.9)	(0.9)	(0.0)	(0.4)
Leather, Furs & Related Products	4.2	(16.3)	8.5	10.8	8.9	6.5	(4.7)	0.4	0.4	(0.5)
Timbers, Wood & Rattan Products	0.7	(7.2)	13.0	7.4	4.3	3.1	2.4	6.1	4.7	4.1
Furniture	4.4	(9.2)	18.0	3.2	(2.5)	(4.0)	3.5	3.3	2.4	1.8
Paper & Paper Products	(3.6)	(5.0)	18.0	4.5	2.4	2.5	5.9	4.6	4.9	4.9
Recording Media Printing	1.1	(6.5)	12.7	3.8	0.8	1.1	2.7	2.0	2.7	2.8
Cultural, Educational & Sports Goods	4.5	(7.5)	17.8	11.1	2.5	4.0	4.4	5.6	3.8	4.4
Petroleum & Coal Processing	3.0	(13.6)	32.6	24.5	23.8	23.6	7.0	10.7	11.7	12.3
Chemical Materials & Products	(0.6)	(6.9)	32.8	24.1	20.2	19.9	11.2	12.7	13.1	13.4
Medicines	8.4	1.6	24.4	5.5	2.3	(0.6)	12.4	8.7	7.9	7.5
Chemical Fibres	4.0	(13.8)	33.3	14.9	11.7	10.6	7.2	6.4	7.1	6.8
Rubber & Plastic Products	2.6	(4.0)	17.1	3.8	1.2	1.4	6.0	5.6	5.6	5.5
Non-metallic Mineral Products	12.5	(2.0)	16.8	9.4	4.6	3.1	7.0	8.1	7.1	6.5
Ferrous Metal Smelting & Pressing	8.5	1.2	40.7	2.1	(2.9)	(3.6)	19.3	11.1	11.6	11.5
Non-ferrous Metal Smelting & Pressing	7.6	1.5	35.8	24.4	19.5	18.4	17.4	17.0	17.6	17.7
Metal Products	5.5	(1.8)	27.7	10.7	5.7	5.0	12.0	9.5	9.7	9.4
General Purpose Machinery	3.5	0.8	20.3	2.7	(3.5)	(3.7)	10.1	6.0	5.4	5.6
Special Purpose Machinery	6.7	5.2	17.4	4.7	(0.7)	0.9	11.1	8.6	8.0	8.6
Automobile	(4.2)	0.5	11.3	0.9	(9.0)	(4.2)	5.8	6.1	2.8	4.1
Other transport equipment	8.0	(1.6)	14.0	2.2	(0.6)	0.3	5.9	4.8	4.8	4.4
Electrical Machinery & Equip	5.5	0.4	27.5	23.9	20.2	21.0	13.1	15.0	15.2	15.6
Computers, Telecom Equip & Electron	5.4	7.4	16.3	9.5	7.4	7.7	11.8	12.2	11.0	11.2
Instruments & Meters	7.4	2.1	18.9	7.4	2.6	3.4	10.2	7.4	7.4	7.8
Public utility	7.1	(0.6)	15.7	17.2	18.1	18.0	7.2	10.2	10.4	10.7
Power	5.9	0.4	14.2	16.0	17.1	16.9	7.1	10.0	10.2	10.4
Gas	16.6	(9.2)	27.1	26.2	27.7	28.3	7.4	10.9	11.6	12.8
Water	9.4	4.1	16.6	8.6	7.4	8.5	10.2	10.1	9.4	9.7

Source: NBS, CMBIGM

Figure 2: Total Profit Growth of China's Industries

	YoY(%)						2/3Y CAGR(%)			
	2019	2020	2021	1Q22	5M22	1H22	2021	1Q22	5M22	1H22
Mining	1.7	(31.5)	190.7	147.8	130.9	119.8	41.1	47.1	45.3	44.0
Coal	(2.4)	(21.1)	212.7	189.0	174.7	157.1	57.1	57.9	58.2	55.8
Petroleum & Natural Gas	1.8	(83.2)	584.7	151.1	135.0	126.0	7.3	33.4	28.5	29.2
Ferrous Metal Ores	396.5	74.9	113.5	17.4	(0.7)	(4.0)	93.2	75.4	53.6	50.8
Non-ferrous Metal Ores	(28.8)	14.7	44.5	74.8	54.2	59.1	28.7	31.1	36.4	36.2
Non-metal Minerals	6.1	4.2	23.3	29.4	14.9	17.9	13.3	17.4	14.7	12.5
Manufacturing	(5.2)	7.6	31.6	(2.1)	(10.8)	(10.4)	19.0	15.5	11.3	10.6
Agricultural product processing	3.9	5.9	(9.2)	(22.9)	(8.3)	(6.8)	(1.9)	3.4	6.6	4.1
Food	9.1	6.4	(0.1)	13.3	10.1	8.3	3.1	7.8	7.7	7.5
Liquor, Beverage & Tea	10.2	8.9	24.1	25.6	21.0	21.0	16.3	17.1	14.9	15.1
Tobacco	1.3	25.4	3.3	9.4	7.2	6.7	13.8	18.6	16.7	14.8
Textile	(10.9)	7.9	4.1	14.0	(2.5)	(5.3)	6.0	(0.7)	(2.9)	(2.9)
Textile Apparel	(9.8)	(21.3)	14.4	10.9	(4.6)	4.0	(5.1)	(3.5)	(4.8)	(4.9)
Leather, Furs & Related Products	(1.9)	(20.7)	1.5	3.9	3.2	(0.8)	(10.3)	(4.3)	(5.3)	(7.4)
Timbers, Wood & Rattan Products	(6.2)	(8.8)	13.1	3.7	(5.9)	(4.9)	1.6	(1.0)	(1.7)	(2.1)
Furniture	10.8	(11.1)	0.9	0.4	(2.1)	2.6	(5.3)	(3.3)	(3.4)	(2.7)
Paper & Paper Products	(9.1)	21.2	6.9	(49.3)	(48.7)	(46.2)	13.8	0.6	(0.1)	(1.6)
Recording Media Printing	4.1	(5.7)	(0.4)	(7.3)	(9.6)	(7.2)	(3.1)	(5.3)	(3.1)	(3.7)
Cultural, Educational & Sports Goods	9.9	(9.2)	19.2	7.1	4.4	6.6	4.0	1.9	0.9	1.9
Petroleum & Coal Processing	(42.5)	(26.5)	224.2	(29.8)	(29.6)	(32.4)	54.4	(185.1)	(178.0)	(154.6)
Chemical Materials & Products	(25.6)	20.9	87.8	18.4	13.8	16.4	50.7	31.6	29.6	29.8
Medicines	5.9	12.8	77.9	(8.9)	(20.6)	(27.6)	41.7	13.2	12.8	11.8
Chemical Fibres	(19.8)	(15.1)	149.2	(54.9)	(54.2)	(51.2)	45.5	5.9	16.5	11.4
Rubber & Plastic Products	12.0	24.4	(2.9)	(29.6)	(24.7)	(20.4)	9.9	5.3	4.6	4.3
Non-metallic Mineral Products	7.5	2.7	14.3	11.0	(3.3)	(5.8)	8.3	7.4	3.5	2.9
Ferrous Metal Smelting & Pressing	(37.6)	(7.5)	75.5	(49.7)	(64.2)	(68.7)	27.4	2.8	(9.9)	(14.5)
Non-ferrous Metal Smelting & Pressing	1.2	20.3	115.9	52.9	26.6	16.6	61.2	82.7	51.4	45.3
Metal Products	5.9	4.1	28.7	0.0	(9.8)	(8.4)	15.7	9.7	7.5	7.4
General Purpose Machinery	3.7	13.0	8.3	(17.0)	(21.3)	(15.9)	10.6	2.9	2.3	3.8
Special Purpose Machinery	12.9	24.4	10.2	4.8	(4.6)	(3.2)	17.1	18.9	15.5	15.2
Automobile	(15.9)	4.0	1.9	(11.9)	(37.5)	(25.5)	2.9	18.1	(9.0)	(5.0)
Other transport equipment	11.9	(1.5)	(15.9)	(15.3)	(3.2)	(3.7)	(9.0)	(0.8)	1.4	0.8
Electrical Machinery & Equip	10.8	6.0	12.2	10.4	14.6	17.3	9.1	16.0	14.9	14.3
Computers, Telecom Equip & Electronics	3.1	17.2	38.9	2.8	0.2	(6.6)	27.6	29.7	26.3	19.9
Instruments & Meters	5.9	11.6	11.0	(7.4)	(9.6)	(2.8)	11.3	9.3	9.8	7.7
Public utility	15.4	4.9	(41.9)	(30.3)	(24.7)	(18.1)	(21.9)	(7.9)	(6.8)	(4.4)
Power	19.0	3.4	(57.1)	(35.2)	(26.9)	(19.3)	(33.4)	(12.2)	(9.8)	(7.2)
Gas	0.6	7.7	18.4	(14.6)	(17.0)	(17.1)	12.9	11.3	6.9	5.7
Water	5.6	16.5	4.8	(5.0)	(18.6)	(7.5)	10.5	10.9	2.9	7.1

Source: NBS, CMBIGM

Figure 3: Gross Margin Ratio of China's Industries

(%)	2018	2019	2020	2021	1Q22	5M22	1H22
Mining	28.1	27.2	25.9	34.6	38.7	39.4	39.5
Coal	28.8	27.5	29.6	38.3	39.7	40.7	40.6
Petroleum & Natural Gas	39.2	37.8	23.4	38.0	52.7	53.6	54.2
Ferrous Metal Ores	17.3	20.8	21.3	25.4	21.7	22.3	22.2
Non-ferrous Metal Ores	23.8	22.6	28.6	31.4	33.4	33.6	33.8
Non-metal Minerals	21.7	23.1	24.3	26.5	25.4	25.9	26.1
Manufacturing	15.9	15.7	16.0	16.0	15.3	14.8	14.6
Agricultural product processing	10.4	9.9	9.7	8.7	8.3	8.1	8.0
Food	21.6	22.5	22.6	21.3	21.1	20.8	20.6
Liquor, Beverage & Tea	31.0	32.7	34.2	31.8	35.6	33.4	33.1
Tobacco	64.2	65.9	68.6	69.9	73.5	72.0	71.2
Textile	10.9	11.4	12.4	12.2	10.9	10.6	10.6
Textile Apparel	15.2	15.0	14.9	15.0	14.8	14.3	14.0
Leather, Furs, Down & Related Products	13.5	13.9	13.8	13.6	13.4	13.1	13.1
Timbers, Wood, Bamboo & Rattan Products	12.0	11.3	10.9	10.6	9.4	9.4	9.4
Furniture	16.6	17.4	17.0	16.9	16.1	15.9	16.1
Paper & Paper Products	13.7	13.8	15.2	14.2	11.9	11.9	11.9
Printing, Reproduction of Recording Media	16.1	16.8	16.6	16.1	15.1	15.2	15.1
Cultural, Educational & Sports Goods	13.1	13.8	13.8	13.8	13.0	13.2	13.1
Petroleum, Coal & Other Fuel Processing	18.7	15.8	16.8	18.7	17.3	16.1	15.5
Chemical Materials & Products	16.8	16.2	17.0	18.4	17.2	17.1	17.1
Medicines	41.6	43.5	43.1	46.7	42.4	41.7	41.7
Chemical Fibres	9.7	9.0	8.9	11.6	7.9	7.5	7.5
Rubber & Plastic Products	14.1	14.9	17.0	15.8	14.3	14.3	14.3
Non-metallic Mineral Products	17.9	18.0	17.9	17.7	16.0	16.2	16.0
Ferrous Metal Smelting & Pressing	11.1	8.1	7.8	8.4	6.1	5.8	5.3
Non-ferrous Metal Smelting & Pressing	6.7	6.3	6.9	8.1	8.0	7.8	7.4
Metal Products	12.4	12.9	12.8	12.5	11.6	11.4	11.3
General Purpose Machinery	17.3	17.7	18.5	17.9	16.9	16.9	16.9
Special Purpose Machinery	18.9	20.9	21.8	21.0	20.9	20.6	20.6
Automobile	15.9	15.6	15.4	14.6	14.0	13.4	13.4
Other transport equipment	15.5	15.6	15.7	15.0	14.0	14.0	14.3
Electrical Machinery & Equipment	15.9	16.2	15.9	14.7	13.2	13.4	13.4
Computers, Telecom Equip & Other Electronic Products	12.3	12.7	13.1	14.0	12.6	12.6	13.0
Instruments & Meters	22.2	24.4	25.2	25.2	23.4	23.5	23.7
Public utility	10.5	11.8	12.3	8.3	8.4	8.9	9.1
Power	9.4	10.9	11.4	6.8	7.6	8.1	8.3
Gas	13.9	13.1	14.0	12.4	9.0	9.1	9.5
Water	27.3	26.9	26.5	25.8	23.9	24.9	25.0

Source: NBS, CMBIGM

Figure 4: Total Profit to Operation Income Ratio of China's Industries

(%)	2018	2019	2020	2021	1Q22	5M22	1H22
Mining	11.5	11.4	9.2	18.2	24.5	25.8	25.3
Coal	11.7	11.4	11.1	21.3	25.0	27.1	26.6
Petroleum & Natural Gas	18.7	18.5	3.9	18.5	35.5	35.4	34.8
Ferrous Metal Ores	2.2	6.2	9.6	13.3	17.1	16.1	15.7
Non-ferrous Metal Ores	11.3	9.0	13.3	16.6	21.5	22.0	22.1
Non-metal Minerals	7.9	8.7	9.3	10.7	8.7	9.8	10.0
Manufacturing	6.1	5.6	5.9	6.5	5.4	5.6	5.6
Agricultural product processing	4.4	4.0	4.2	3.5	2.8	3.1	3.0
Food	8.3	8.8	9.1	7.8	8.3	8.0	7.9
Liquor, Beverage & Tea	13.5	14.5	16.3	16.5	16.6	15.4	21.3
Tobacco	8.8	8.3	10.1	9.7	14.9	14.5	14.4
Textile	4.5	4.2	4.9	4.7	3.3	3.4	3.4
Textile Apparel	5.8	5.5	4.7	5.2	4.1	4.2	4.5
Leather, Furs, Down & Related Products	5.9	5.9	5.5	5.2	4.7	4.7	4.5
Timbers, Wood, Bamboo & Rattan Product	5.2	4.4	4.1	4.1	3.2	3.3	3.3
Furniture	6.0	6.5	6.1	5.4	3.9	4.5	4.9
Paper & Paper Products	5.5	5.1	6.4	5.9	3.5	3.5	3.5
Printing, Reproduction of Recording Media	6.6	6.6	6.4	5.8	4.2	4.8	4.8
Cultural, Educational & Sports Goods	5.3	5.3	5.2	5.4	4.0	4.4	4.5
Petroleum, Coal & Other Fuel Processing	4.7	2.6	2.1	4.8	4.1	3.9	3.7
Chemical Materials & Products	7.1	5.3	6.7	9.7	9.2	9.7	9.5
Medicines	12.8	13.0	14.1	21.4	15.4	15.9	15.8
Chemical Fibres	4.7	3.6	3.3	6.1	2.5	2.9	3.1
Rubber & Plastic Products	5.0	5.4	6.8	5.9	4.2	4.6	4.6
Non-metallic Mineral Products	8.8	8.5	8.5	8.4	6.6	7.2	7.2
Ferrous Metal Smelting & Pressing	6.0	3.8	3.4	4.4	2.0	2.1	1.8
Non-ferrous Metal Smelting & Pressing	2.7	2.2	2.7	4.5	4.8	4.6	4.2
Metal Products	4.6	4.6	4.6	4.8	3.5	3.7	3.6
General Purpose Machinery	6.6	6.4	7.1	6.7	5.1	5.6	5.9
Special Purpose Machinery	6.8	7.5	8.6	8.1	7.4	7.5	7.5
Automobile	7.3	6.3	6.2	6.1	5.4	4.7	5.2
Other transport equipment	5.7	5.5	5.5	4.1	3.3	4.2	4.7
Electrical Machinery & Equip	5.8	5.9	5.9	5.3	4.4	4.9	5.0
Computers, Telecom Equip & Electronics	4.4	4.4	4.9	5.9	4.2	4.6	4.6
Instruments & Meters	9.5	9.7	10.7	10.5	7.0	8.5	9.3
Public utility	5.7	6.2	6.4	3.3	3.7	4.0	4.3
Power	5.2	5.9	6.0	2.3	3.4	3.7	3.9
Gas	7.9	6.8	7.7	7.3	5.1	5.1	5.5
Water	10.6	10.6	11.5	10.8	6.1	7.6	8.8

Source: NBS, CMBIGM

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