

China Economy

Industrial profits slowed amid base effect & cost pressure

Total profit of China's mining, manufacturing and public utility industries rose 5% YoY in 2M22, sharply down from 34.3% YoY in 2021. The slowdown was mainly due to high base, rising cost & weakening demand. Compared to year 2019, the annualized growth of total industrial profits reached 21.8% in 2M22, compared to 18.2% in 2021. Due to rising costs of materials, total profits as % of operation income declined from 6.5% in 2M21 to 6% in 2M22. Looking forward, total industrial profit growth may rebound to 10% in 2022 with both supply and demand improvement in 2H22.

■ Upstream industries were in booming cycle amid commodity inflation.

Operation income of coal mining, petroleum & natural gas, non-ferrous metal ores & non-metal minerals jumped 55.1%, 41.4%, 23.5% and 11.9% YoY in 2M22, up from the YoY growth of 44.6%, 33.3%, 15.3% and 11.3% in 2021. Total profit growth rates of the above four mining industries reached 155.3%, 156.7%, 49% and 30.5% in 2M22, compared to 212.7%, 584.7%, 44.5% and 23.3% in 2021. Their gross margin ratios further climbed amid commodity inflation. Chemical materials & products and non-ferrous metals also experienced strong profit growth in 2M22 as their prices jumped significantly in 2M22. However, ferrous metal ores saw a YoY decline of operation income and a sharp slowdown of profit growth in 2M22. Iron ore prices dropped as steel production decreased amid demand weakening and production capacity cut. Looking forward, commodity inflation may remain high in 2Q22 and gradually decline in 2H22. We expect revenue & profit growth in mining industries should follow a similar pattern.

■ Food, liquor, beverage & tea, tobacco and cultural & sports goods saw stable or fast profit growth with stable demand & price bargaining power.

These industries saw their profit growth reaching 12.3%, 32.5%, 9.1% and 10.5% in 2M22. Their gross margin ratios remained relatively stable. Due to stable demand & price bargaining power, their profit growth should remain stable in future.

■ Other light industries and downstream chemical products experienced sharp profit declines amid weakening demand or rising costs.

Textile apparel, leather & fur products, wood products, furniture and paper products saw sharp profit declines in 2M22 due to weakening demand or rising costs. Total profits in medicines & chemical fibers also significantly decreased in the first two months due to high base & weakening demand in both domestic and overseas.

■ Profits in machinery, automobile, electrical equipment, computers, telecom equipment & electronics and instruments & meters also sharply declined due to high base & material cost.

For total profits, general purpose machinery, automobile and other transport equipment respectively dropped 15.7%, 9.9% and 34.7% in 2M22. Meanwhile, computers, telecom equipment & electronics declined 7.3% and instruments & meters decreased 14.9% in 2M22.

■ Industrial profit growth may gradually rebound to 10% in 2022 with both supply and demand improvement in 2H22.

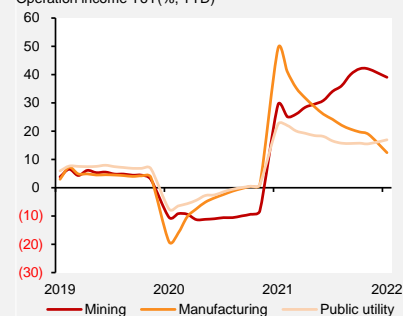
We expect industrial profit growth may gradually rebound to 10% in 2022. For the supply side, commodity and material inflation should noticeably decline in 2H22 with a rebalance of supply and demand. For the demand side, domestic consumption may gradually resume from the recent pandemic from 2Q22 and the property market may see the bottom in late 2Q22. We expect a gradual stabilization with some moderate pick-up in the economic growth in 2H22.

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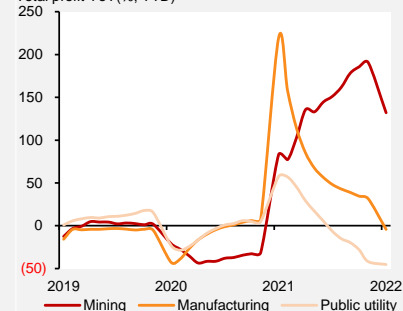
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Operation income YoY(% , YTD)



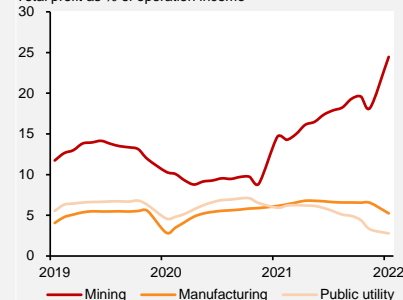
Source: NBS, CMBIGM

Total profit YoY(% , YTD)



Source: NBS, CMBIGM

Total profit as % of operation income



Source: NBS, CMBIGM

Figure 1: Operation Income Growth of China's Industries

	YoY(%)				2/3Y CAGR(%)	
	2019	2020	2021	2M22	2021	2M22
Mining	4.8	(10.6)	36.0	39.0	10.3	17.2
Coal	3.9	(12.0)	44.6	55.1	12.8	22.4
Petroleum & Natural Gas	1.8	(20.9)	33.3	41.4	2.7	12.5
Ferrous Metal Ores	13.1	7.1	48.3	(9.8)	26.0	11.6
Non-ferrous Metal Ores	(1.8)	(3.1)	15.3	23.5	5.7	10.9
Non-metal Minerals	6.4	(1.6)	11.3	11.9	4.7	7.5
Manufacturing	4.3	(1.2)	22.1	12.4	9.8	10.7
Agricultural product processing	4.5	2.4	14.0	2.5	8.0	7.1
Food	7.0	2.4	9.7	10.0	6.0	7.2
Liquor, Beverage & Tea	6.9	(3.5)	13.4	16.8	4.6	7.9
Tobacco	8.3	5.1	7.1	9.1	6.1	12.5
Textile	0.9	(10.5)	12.8	13.7	0.5	3.2
Textile Apparel	1.5	(13.5)	9.0	12.2	(2.9)	(0.7)
Leather, Furs & Related Products	4.2	(16.3)	8.5	12.9	(4.7)	(0.6)
Timbers, Wood & Rattan Products	0.7	(7.2)	13.0	6.7	2.4	5.6
Furniture	4.4	(9.2)	18.0	6.9	3.5	3.6
Paper & Paper Products	(3.6)	(5.0)	18.0	4.7	5.9	5.9
Recording Media Printing	1.1	(6.5)	12.7	6.3	2.7	3.5
Cultural, Educational & Sports Goods	4.5	(7.5)	17.8	14.7	4.4	6.6
Petroleum & Coal Processing	3.0	(13.6)	32.6	24.2	7.0	10.3
Chemical Materials & Products	(0.6)	(6.9)	32.8	27.7	11.2	13.8
Medicines	8.4	1.6	24.4	2.3	12.4	8.8
Chemical Fibres	4.0	(13.8)	33.3	14.6	7.2	6.8
Rubber & Plastic Products	2.6	(4.0)	17.1	5.5	6.0	7.1
Non-metallic Mineral Products	12.5	(2.0)	16.8	9.5	7.0	8.5
Ferrous Metal Smelting & Pressing	8.5	1.2	40.7	3.6	19.3	11.9
Non-ferrous Metal Smelting & Pressing	7.6	1.5	35.8	26.4	17.4	17.4
Metal Products	5.5	(1.8)	27.7	12.2	12.0	11.4
General Purpose Machinery	3.5	0.8	20.3	5.9	10.1	8.6
Special Purpose Machinery	6.7	5.2	17.4	9.0	11.1	11.7
Automobile	(4.2)	0.5	11.3	6.5	5.8	9.2
Other transport equipment	8.0	(1.6)	14.0	2.9	5.9	5.5
Electrical Machinery & Equip	5.5	0.4	27.5	25.2	13.1	17.2
Computers, Telecom Equip & Electronics	5.4	7.4	16.3	8.5	11.8	13.0
Instruments & Meters	7.4	2.1	18.9	10.3	10.2	10.9
Public utility	7.1	(0.6)	15.7	16.9	7.2	9.8
Power	5.9	0.4	14.2	15.6	7.1	9.4
Gas	16.6	(9.2)	27.1	26.6	7.4	11.6
Water	9.4	4.1	16.6	7.8	10.2	9.9

Source: NBS, CMBIGM

Figure 2: Total Profit Growth of China's Industries

	YoY(%)				2/3Y CAGR(%)	
	2019	2020	2021	2M22	2021	2M22
Mining	1.7	(31.5)	190.7	132.0	41.1	49.6
Coal	(2.4)	(21.1)	212.7	155.3	57.1	61.7
Petroleum & Natural Gas	1.8	(83.2)	584.7	156.7	7.3	31.3
Ferrous Metal Ores	396.5	74.9	113.5	15.5	93.2	85.4
Non-ferrous Metal Ores	(28.8)	14.7	44.5	49.0	28.7	34.7
Non-metal Minerals	6.1	4.2	23.3	30.5	13.3	17.7
Manufacturing	(5.2)	7.6	31.6	(4.2)	19.0	20.6
Agricultural product processing	3.9	5.9	(9.2)	(29.4)	(1.9)	1.7
Food	9.1	6.4	(0.1)	12.3	3.1	7.9
Liquor, Beverage & Tea	10.2	8.9	24.1	32.5	16.3	19.8
Tobacco	1.3	25.4	3.3	9.1	13.8	22.2
Textile	(10.9)	7.9	4.1	13.1	6.0	3.7
Textile Apparel	(9.8)	(21.3)	14.4	5.0	(5.1)	(4.6)
Leather, Furs & Related Products	(1.9)	(20.7)	1.5	(2.7)	(10.3)	(7.6)
Timbers, Wood & Rattan Products	(6.2)	(8.8)	13.1	1.6	1.6	(3.0)
Furniture	10.8	(11.1)	0.9	(15.2)	(5.3)	(5.1)
Paper & Paper Products	(9.1)	21.2	6.9	(57.7)	13.8	(2.4)
Recording Media Printing	4.1	(5.7)	(0.4)	(11.2)	(3.1)	(1.7)
Cultural, Educational & Sports Goods	9.9	(9.2)	19.2	10.5	4.0	1.3
Petroleum & Coal Processing	(42.5)	(26.5)	224.2	(39.6)	54.4	(146.5)
Chemical Materials & Products	(25.6)	20.9	87.8	27.3	50.7	36.8
Medicines	5.9	12.8	77.9	(17.6)	41.7	12.8
Chemical Fibres	(19.8)	(15.1)	149.2	(32.7)	45.5	10.6
Rubber & Plastic Products	12.0	24.4	(2.9)	(31.8)	9.9	8.7
Non-metallic Mineral Products	7.5	2.7	14.3	5.2	8.3	7.4
Ferrous Metal Smelting & Pressing	(37.6)	(7.5)	75.5	(56.5)	27.4	1.9
Non-ferrous Metal Smelting & Pressing	1.2	20.3	115.9	63.8	61.2	96.0
Metal Products	5.9	4.1	28.7	(0.6)	15.7	12.7
General Purpose Machinery	3.7	13.0	8.3	(15.7)	10.6	10.0
Special Purpose Machinery	12.9	24.4	10.2	4.0	17.1	32.6
Automobile	(15.9)	4.0	1.9	(9.9)	2.9	69.0
Other transport equipment	11.9	(1.5)	(15.9)	(34.7)	(9.0)	(0.6)
Electrical Machinery & Equip	10.8	6.0	12.2	5.7	9.1	21.3
Computers, Telecom Equip & Electronics	3.1	17.2	38.9	(7.3)	27.6	93.3
Instruments & Meters	5.9	11.6	11.0	(14.9)	11.3	20.9
Public utility	15.4	4.9	(41.9)	(45.3)	(21.9)	(12.9)
Power	19.0	3.4	(57.1)	(49.1)	(33.4)	(16.0)
Gas	0.6	7.7	18.4	(32.0)	12.9	(2.2)
Water	5.6	16.5	4.8	(25.7)	10.5	3.0

Source: NBS, CMBIGM

Figure 3: Gross Margin Ratio of China's Industries

(%)	2018	2019	2020	2021	2M22
Mining	28.1	27.2	25.9	34.6	38.0
Coal	28.8	27.5	29.6	38.3	39.5
Petroleum & Natural Gas	39.2	37.8	23.4	38.0	49.8
Ferrous Metal Ores	17.3	20.8	21.3	25.4	21.4
Non-ferrous Metal Ores	23.8	22.6	28.6	31.4	33.3
Non-metal Minerals	21.7	23.1	24.3	26.5	25.5
Manufacturing	15.9	15.7	16.0	16.0	15.7
Agricultural product processing	10.4	9.9	9.7	8.7	8.4
Food	21.6	22.5	22.6	21.3	21.9
Liquor, Beverage & Tea	31.0	32.7	34.2	31.8	37.8
Tobacco	64.2	65.9	68.6	69.9	75.3
Textile	10.9	11.4	12.4	12.2	11.1
Textile Apparel	15.2	15.0	14.9	15.0	15.4
Leather, Furs, Down & Related Products	13.5	13.9	13.8	13.6	13.3
Timbers, Wood, Bamboo & Rattan Products	12.0	11.3	10.9	10.6	9.8
Furniture	16.6	17.4	17.0	16.9	16.2
Paper & Paper Products	13.7	13.8	15.2	14.2	11.7
Printing, Reproduction of Recording Media	16.1	16.8	16.6	16.1	15.2
Cultural, Educational & Sports Goods	13.1	13.8	13.8	13.8	13.1
Petroleum, Coal & Other Fuel Processing	18.7	15.8	16.8	18.7	17.1
Chemical Materials & Products	16.8	16.2	17.0	18.4	17.1
Medicines	41.6	43.5	43.1	46.7	42.9
Chemical Fibres	9.7	9.0	8.9	11.6	7.5
Rubber & Plastic Products	14.1	14.9	17.0	15.8	14.6
Non-metallic Mineral Products	17.9	18.0	17.9	17.7	16.0
Ferrous Metal Smelting & Pressing	11.1	8.1	7.8	8.4	5.5
Non-ferrous Metal Smelting & Pressing	6.7	6.3	6.9	8.1	8.0
Metal Products	12.4	12.9	12.8	12.5	11.9
General Purpose Machinery	17.3	17.7	18.5	17.9	17.1
Special Purpose Machinery	18.9	20.9	21.8	21.0	21.3
Automobile	15.9	15.6	15.4	14.6	14.2
Other transport equipment	15.5	15.6	15.7	15.0	13.9
Electrical Machinery & Equip	15.9	16.2	15.9	14.7	13.4
Computers, Telecom Equip & Other Electronics	12.3	12.7	13.1	14.0	12.0
Instruments & Meters	22.2	24.4	25.2	25.2	23.5
Public utility	10.5	11.8	12.3	8.3	7.5
Power	9.4	10.9	11.4	6.8	6.9
Gas	13.9	13.1	14.0	12.4	7.5
Water	27.3	26.9	26.5	25.8	23.6

Source: NBS, CMBIGM

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

(%)	2018	2019	2020	2021	2M22
Mining	11.5	11.4	9.2	18.2	24.5
Coal	11.7	11.4	11.1	21.3	25.6
Petroleum & Natural Gas	18.7	18.5	3.9	18.5	33.2
Ferrous Metal Ores	2.2	6.2	9.6	13.3	17.2
Non-ferrous Metal Ores	11.3	9.0	13.3	16.6	20.8
Non-metal Minerals	7.9	8.7	9.3	10.7	8.8
Manufacturing	6.1	5.6	5.9	6.5	5.2
Agricultural product processing	4.4	4.0	4.2	3.5	2.8
Food	8.3	8.8	9.1	7.8	8.5
Liquor, Beverage & Tea	13.5	14.5	16.3	16.5	17.9
Tobacco	8.8	8.3	10.1	9.7	15.5
Textile	4.5	4.2	4.9	4.7	3.2
Textile Apparel	5.8	5.5	4.7	5.2	4.3
Leather, Furs, Down & Related Products	5.9	5.9	5.5	5.2	4.5
Timbers, Wood, Bamboo & Rattan Products	5.2	4.4	4.1	4.1	3.3
Furniture	6.0	6.5	6.1	5.4	3.4
Paper & Paper Products	5.5	5.1	6.4	5.9	2.9
Printing, Reproduction of Recording Media	6.6	6.6	6.4	5.8	3.9
Cultural, Educational & Sports Goods	5.3	5.3	5.2	5.4	3.9
Petroleum, Coal & Other Fuel Processing	4.7	2.6	2.1	4.8	3.5
Chemical Materials & Products	7.1	5.3	6.7	9.7	8.8
Medicines	12.8	13.0	14.1	21.4	15.9
Chemical Fibres	4.7	3.6	3.3	6.1	3.1
Rubber & Plastic Products	5.0	5.4	6.8	5.9	4.0
Non-metallic Mineral Products	8.8	8.5	8.5	8.4	6.2
Ferrous Metal Smelting & Pressing	6.0	3.8	3.4	4.4	1.6
Non-ferrous Metal Smelting & Pressing	2.7	2.2	2.7	4.5	4.7
Metal Products	4.6	4.6	4.6	4.8	3.6
General Purpose Machinery	6.6	6.4	7.1	6.7	4.6
Special Purpose Machinery	6.8	7.5	8.6	8.1	7.0
Automobile	7.3	6.3	6.2	6.1	5.4
Other transport equipment	5.7	5.5	5.5	4.1	1.9
Electrical Machinery & Equip	5.8	5.9	5.9	5.3	3.9
Computers, Telecom Equip & Electronics	4.4	4.4	4.9	5.9	3.5
Instruments & Meters	9.5	9.7	10.7	10.5	5.6
Public utility	5.7	6.2	6.4	3.3	2.8
Power	5.2	5.9	6.0	2.3	2.5
Gas	7.9	6.8	7.7	7.3	3.5
Water	10.6	10.6	11.5	10.8	5.1

Source: NBS, CMBIGM

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