

China Economy

Divergence of profit growth in China's industries

Total profit of China's mining, manufacturing and public utility industries picked up 8.5% YoY in 1Q22 after rising 5% YoY in 2M22, due to commodity inflation and base effect. Different industries saw divergence of profit growth in March. Coal mining, oil & gas, nonferrous metal, food, beverage & tobacco product maintained strong YoY growth, while clothing, medicine, nonmetal mineral product, electrical equipment & materials and computer, telecom equipment & electronic equipment significantly improved in March. But plastic & rubber product, steel product, general equipment and automobile experienced a deterioration in profits. Looking forward, industrial profits may deteriorate in April due to the epidemic shock and gradually improve from May. The growth of industrial profits may further rebound in 2H22 as demand resumes and material costs decline. We expect the YoY growth of industrial profits may reach 10% in 2022.

■ Strong income & profit growth in mining sector amid the inflation effect.

Operation income of coal mining, petroleum & natural gas, non-ferrous metal ores & non-metal minerals jumped 60.8%, 46.6%, 24.4% and 11% YoY in 1Q22, compared to the growth of 55.1%, 41.4%, 23.5% and 11.9% YoY in 2M22. Their pre-tax profit growth reached 189%, 151.1%, 74.8% and 29.4% YoY in 1Q22, versus the corresponding growth of 155.3%, 156.7%, 49% and 30.5% in 2M22. Looking forward, commodity prices may remain high in 2Q22 and significantly decline in 2H22. We expect income & profit growth in mining sector should follow a similar pattern.

■ Slowdown of income & profit growth in steel & chemical products amid rising material costs and slowing demand.

Operation income in steel product and chemical product respectively rose 2.1% and 24.1% YoY in 1Q22, down from the growth of 3.6% and 27.7% YoY in 2M22. The pre-tax profits in steel product, chemical fibers and rubber & plastic product dropped 49.7%, 54.9% and 29.6%, respectively in 1Q22. Looking forward, 2Q22 may continue to see squeeze pressure as material costs may remain high and demand may remain weak. But 2H22 may see some improvement as material costs should decline and demand gradually stabilize.

■ Improvement of profit performance in food, tobacco product, medicine, textile, clothing, electrical equipment & materials and computer, telecom equipment & electronic equipment due to stable demand & base effect.

The pre-tax profits in the above seven industries respectively rose 15.2%, 10.8%, 12.3%, 15.3%, 24.4%, 16.2% and 15.7% YoY in March, compared to the YoY growth of 12.3%, 9.1%, -17.6%, 13.1%, 5%, 5.7% and -7.3% in 2M22.

■ Deterioration of profit condition in papermaking, general equipment and automobile.

Their pre-tax profits respectively dropped 35.2%, 18.5% and 15.3% YoY in March after decreasing 57.7%, 15.7% and 9.9% in 2M22.

■ Industrial profit growth may slow in April due to the epidemic shock and gradually rebound from May with the 2022 growth at 10%.

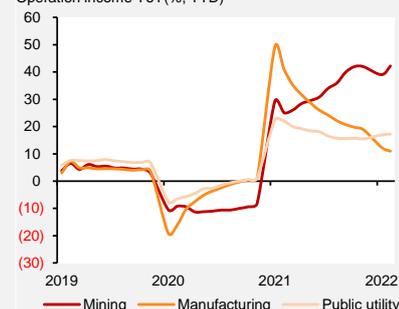
Due to the epidemic shock in Shanghai, industrial profits may deteriorate in April. The profit prospect may gradually improve from May as we expect the epidemic should gradually fade out. But high costs and weak demand may continue to restrain the growth of profits in 2Q22. 2H22 may see more significant improvement of industrial profit growth as material costs decline, domestic demand stabilizes and comparison base further decreases. We expect the industrial profit growth may reach 10% for 2022.

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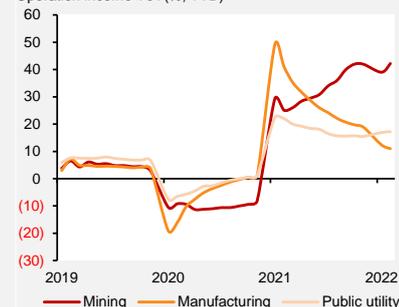
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Operation income YoY(% , YTD)



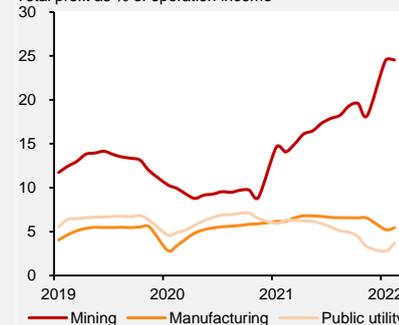
Source: NBS, CMBIGM

Operation income 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	1Q22	2021	2M22	1Q22
Mining	4.8	(10.6)	36.0	39.0	42.2	10.3	17.2	17.3
Coal	3.9	(12.0)	44.6	55.1	60.8	12.8	22.4	22.1
Petroleum & Natural Gas	1.8	(20.9)	33.3	41.4	46.6	2.7	12.5	14.0
Ferrous Metal Ores	13.1	7.1	48.3	(9.8)	(10.3)	26.0	11.6	11.6
Non-ferrous Metal Ores	(1.8)	(3.1)	15.3	23.5	24.4	5.7	10.9	10.9
Non-metal Minerals	6.4	(1.6)	11.3	11.9	11.0	4.7	7.5	8.2
Manufacturing	4.3	(1.2)	22.1	12.4	11.0	9.8	10.7	9.6
Agricultural product processing	4.5	2.4	14.0	2.5	3.7	8.0	7.1	7.0
Food	7.0	2.4	9.7	10.0	8.7	6.0	7.2	7.3
Liquor, Beverage & Tea	6.9	(3.5)	13.4	16.8	13.3	4.6	7.9	7.6
Tobacco	8.3	5.1	7.1	9.1	10.1	6.1	12.5	10.2
Textile	0.9	(10.5)	12.8	13.7	9.4	0.5	3.2	1.0
Textile Apparel	1.5	(13.5)	9.0	12.2	9.3	(2.9)	(0.7)	(0.9)
Leather, Furs & Related Products	4.2	(16.3)	8.5	12.9	10.8	(4.7)	(0.6)	0.4
Timbers, Wood & Rattan Products	0.7	(7.2)	13.0	6.7	7.4	2.4	5.6	6.1
Furniture	4.4	(9.2)	18.0	6.9	3.2	3.5	3.6	3.3
Paper & Paper Products	(3.6)	(5.0)	18.0	4.7	4.5	5.9	5.9	4.6
Recording Media Printing	1.1	(6.5)	12.7	6.3	3.8	2.7	3.5	2.0
Cultural, Educational & Sports Goods	4.5	(7.5)	17.8	14.7	11.1	4.4	6.6	5.6
Petroleum & Coal Processing	3.0	(13.6)	32.6	24.2	24.5	7.0	10.3	10.7
Chemical Materials & Products	(0.6)	(6.9)	32.8	27.7	24.1	11.2	13.8	12.7
Medicines	8.4	1.6	24.4	2.3	5.5	12.4	8.8	8.7
Chemical Fibres	4.0	(13.8)	33.3	14.6	14.9	7.2	6.8	6.4
Rubber & Plastic Products	2.6	(4.0)	17.1	5.5	3.8	6.0	7.1	5.6
Non-metallic Mineral Products	12.5	(2.0)	16.8	9.5	9.4	7.0	8.5	8.1
Ferrous Metal Smelting & Pressing	8.5	1.2	40.7	3.6	2.1	19.3	11.9	11.1
Non-ferrous Metal Smelting & Pressing	7.6	1.5	35.8	26.4	24.4	17.4	17.4	17.0
Metal Products	5.5	(1.8)	27.7	12.2	10.7	12.0	11.4	9.5
General Purpose Machinery	3.5	0.8	20.3	5.9	2.7	10.1	8.6	6.0
Special Purpose Machinery	6.7	5.2	17.4	9.0	4.7	11.1	11.7	8.6
Automobile	(4.2)	0.5	11.3	6.5	0.9	5.8	9.2	6.1
Other transport equipment	8.0	(1.6)	14.0	2.9	2.2	5.9	5.5	4.8
Electrical Machinery & Equip	5.5	0.4	27.5	25.2	23.9	13.1	17.2	15.0
Computers, Telecom Equip & Electronics	5.4	7.4	16.3	8.5	9.5	11.8	13.0	12.2
Instruments & Meters	7.4	2.1	18.9	10.3	7.4	10.2	10.9	7.4
Public utility	7.1	(0.6)	15.7	16.9	17.2	7.2	9.8	10.2
Power	5.9	0.4	14.2	15.6	16.0	7.1	9.4	10.0
Gas	16.6	(9.2)	27.1	26.6	26.2	7.4	11.6	10.9
Water	9.4	4.1	16.6	7.8	8.6	10.2	9.9	10.1

Source: NBS, CMBIGM

Figure 2: Total Profit Growth of China's Industries

	YoY(%)					2/3Y CAGR(%)		
	2019	2020	2021	2M22	1Q22	2021	2M22	1Q22
Mining	1.7	(31.5)	190.7	132.0	147.8	41.1	49.6	47.1
Coal	(2.4)	(21.1)	212.7	155.3	189.0	57.1	61.7	57.9
Petroleum & Natural Gas	1.8	(83.2)	584.7	156.7	151.1	7.3	31.3	33.4
Ferrous Metal Ores	396.5	74.9	113.5	15.5	17.4	93.2	85.4	75.4
Non-ferrous Metal Ores	(28.8)	14.7	44.5	49.0	74.8	28.7	34.7	31.1
Non-metal Minerals	6.1	4.2	23.3	30.5	29.4	13.3	17.7	17.4
Manufacturing	(5.2)	7.6	31.6	(4.2)	(2.1)	19.0	20.6	15.5
Agricultural product processing	3.9	5.9	(9.2)	(29.4)	(22.9)	(1.9)	1.7	3.4
Food	9.1	6.4	(0.1)	12.3	13.3	3.1	7.9	7.8
Liquor, Beverage & Tea	10.2	8.9	24.1	32.5	25.6	16.3	19.8	17.1
Tobacco	1.3	25.4	3.3	9.1	9.4	13.8	22.2	18.6
Textile	(10.9)	7.9	4.1	13.1	14.0	6.0	3.7	(0.7)
Textile Apparel	(9.8)	(21.3)	14.4	5.0	10.9	(5.1)	(4.6)	(3.5)
Leather, Furs & Related Products	(1.9)	(20.7)	1.5	(2.7)	3.9	(10.3)	(7.6)	(4.3)
Timbers, Wood & Rattan Products	(6.2)	(8.8)	13.1	1.6	3.7	1.6	(3.0)	(1.0)
Furniture	10.8	(11.1)	0.9	(15.2)	0.4	(5.3)	(5.1)	(3.3)
Paper & Paper Products	(9.1)	21.2	6.9	(57.7)	(49.3)	13.8	(2.4)	0.6
Recording Media Printing	4.1	(5.7)	(0.4)	(11.2)	(7.3)	(3.1)	(1.7)	(5.3)
Cultural, Educational & Sports Goods	9.9	(9.2)	19.2	10.5	7.1	4.0	1.3	1.9
Petroleum & Coal Processing	(42.5)	(26.5)	224.2	(39.6)	(29.8)	54.4	(146.5)	(185.1)
Chemical Materials & Products	(25.6)	20.9	87.8	27.3	18.4	50.7	36.8	31.6
Medicines	5.9	12.8	77.9	(17.6)	(8.9)	41.7	12.8	13.2
Chemical Fibres	(19.8)	(15.1)	149.2	(32.7)	(54.9)	45.5	10.6	5.9
Rubber & Plastic Products	12.0	24.4	(2.9)	(31.8)	(29.6)	9.9	8.7	5.3
Non-metallic Mineral Products	7.5	2.7	14.3	5.2	11.0	8.3	7.4	7.4
Ferrous Metal Smelting & Pressing	(37.6)	(7.5)	75.5	(56.5)	(49.7)	27.4	1.9	2.8
Non-ferrous Metal Smelting & Pressing	1.2	20.3	115.9	63.8	52.9	61.2	96.0	82.7
Metal Products	5.9	4.1	28.7	(0.6)	0.0	15.7	12.7	9.7
General Purpose Machinery	3.7	13.0	8.3	(15.7)	(17.0)	10.6	10.0	2.9
Special Purpose Machinery	12.9	24.4	10.2	4.0	4.8	17.1	32.6	18.9
Automobile	(15.9)	4.0	1.9	(9.9)	(11.9)	2.9	69.0	18.1
Other transport equipment	11.9	(1.5)	(15.9)	(34.7)	(15.3)	(9.0)	(0.6)	(0.8)
Electrical Machinery & Equip	10.8	6.0	12.2	5.7	10.4	9.1	21.3	16.0
Computers, Telecom Equip & Electronics	3.1	17.2	38.9	(7.3)	2.8	27.6	93.3	29.7
Instruments & Meters	5.9	11.6	11.0	(14.9)	(7.4)	11.3	20.9	9.3
Public utility	15.4	4.9	(41.9)	(45.3)	(30.3)	(21.9)	(12.9)	(7.9)
Power	19.0	3.4	(57.1)	(49.1)	(35.2)	(33.4)	(16.0)	(12.2)
Gas	0.6	7.7	18.4	(32.0)	(14.6)	12.9	(2.2)	11.3
Water	5.6	16.5	4.8	(25.7)	(5.0)	10.5	3.0	10.9

Source: NBS, CMBIGM

Figure 3: Gross Margin Ratio of China's Industries

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

Source: NBS, CMBIGM

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

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

Source: NBS, CMBIGM

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