China Industrial-Profit Growth Accelerates as Sales Increase

By Bloomberg News - May 27, 2013

Gains in Chinese industrial companies' profits quickened in April on increases in the power-production and automotive sectors, aiding growth after a survey showed a contraction in manufacturing this month.

Net income rose 9.3 percent from a year earlier to 437 billion yuan ($71.3 billion), after a 5.3 percent increase in March, the National Bureau of Statistics said today in Beijing. Profit in the first four months increased 11.4 percent to 1.61 trillion yuan, the agency said, down from a 12.1 percent pace in the first quarter.

Stronger profit growth may spur investment in factories and equipment, helping sustain growth in the world's second-biggest economy as the government avoids adding stimulus. Stocks in China have dropped 6 percent since this year's high on Feb. 6 and a survey last week showed manufacturing is contracting this month for the first time since October.

“The data point to a stabilization of industrial profit growth at a lower level,” consistent with recent momentum in economic expansion, said Ding Shuang, senior China economist at Citigroup Inc. in Hong Kong. “If growth decelerates toward 7 percent and unemployment pressure mounts, more policy easing is likely,” including an interest-rate cut, Ding said.

Industrial companies’ revenue rose 11.9 percent in the first four months to 30.4 trillion yuan, according to the statistics bureau statement, after a previously reported 11.9 percent increase in the first quarter. No figure was given for April sales.

Electricity Profits

The agency said three industries drove profit growth in the latest report: electric and thermal power production, autos and computers, telecommunications and other electronic equipment.

The benchmark Shanghai Composite Index was little changed at the 11:30 a.m. local-time break.

Japan’s Komatsu Ltd., the world's second-biggest maker of construction and mining equipment after Caterpillar Inc. of the U.S., showed an 8 percent increase in April demand for excavators in China, the first gain in two years, according to Bloomberg Industries.

Premier Li Keqiang said May 13 that “to achieve this year’s targets, the room to rely on stimulus policies or government direct investment is not big -- we must rely on market mechanisms.”

Investors soured on China’s outlook in a Bloomberg global poll this month, with the share of respondents who see the economy deteriorating doubling from January.

China’s growth unexpectedly slowed to 7.7 percent in the first quarter from a year earlier. The preliminary reading of a Purchasing Managers’ Index released last week by HSBC Holdings Plc and Markit Economics showed manufacturing is contracting in May for the first time in seven months.

The median estimate in a Bloomberg News survey this month was for second-quarter growth of 7.8 percent, down from 8 percent in April's poll.

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