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Business

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BEIJING: People leave a shopping mall in Beijing. Earnings at China's industrial firms shrank for a second straight month in December, putting pressure on policymakers to support industries hurt by slowing prices and weak factory activity amid a protracted Sino-US trade war. —AFP

China's industrial profits shrink again in Dec

Slowing prices, weak factory activity hurt industries

BEIJING: Earnings at China's industrial firms shrank for a second straight month in December, putting pressure on policymakers to support industries hurt by slowing prices and weak factory activity amid a protracted Sino-US trade war.

The downbeat data points to more troubles ahead for the country's vast manufacturing sector already struggling with a decline in orders, job layoffs and factory closures as China's economic growth slows to its weakest in nearly three decades. China's economy expanded 6.6 percent in 2018 and growth is set to slow further this year as Beijing's efforts to reduce debt risks depress the property market and curb credit flows to the private sector, while a crackdown on pollution dents industrial activity.

Industrial profits in December fell 1.9 percent from a year earlier to 680.8 billion yuan ($100.9 billion), weighed down by weak factory-gate prices and soft demand, the National Bureau of Statistics (NBS) said yesterday. This is on top of a decline of 1.8 percent in November - the first contraction in profits in nearly three years.

"As far as the future trend is concerned, it is quite obvious that it will continue to decline because the (producer price index) has apparently turned negative last month, and when PPI has turned negative, the profits of industrial enterprises will go down," said Tang Jianwei, senior economist at Bank of Communications in Shanghai, adding that the structure of corporate profitability will also start to change.

"Profits at mid- and downstream sectors may stabilise while the upstream sector will face immense pressure." Profits at chemical, coal mining and nonferrous metal sectors all slowed significantly in December, the data showed.

For the full year, profits rose 10.3 percent to 6.64 trillion yuan in 2018, easing from 2017's robust pace of 21 percent.

Upstream sectors such as oil extraction, coal and metal mining still commanded the lion's share of profit gains last year, but analysts say that as industrial prices slow further or even shrink, profitability will come under pressure. Tang said that if large-scale tax cuts promised by the government could be rolled out in time, however, it would help put a floor on declining industrial profits in the second half.

A survey from the state planner this month showed activity at 2,500 Chinese small- and mid-sized enterprises continued to contract in the fourth quarter last year despite a flurry of supportive government policies.

The Small and Medium Enterprises Development Index stood at 93 last quarter, below the 100-mark that separates growth from contraction, according to the National Development and Reform Commission. Moody's said in a recent report the Chinese government's latest measures to support funding for private firms would be limited in effect, as credit would mostly flow to the fewer stronger privately-owned enterprises.

Demand remains soft

Yesterday's data showed industrial firms' liabilities rose 5.2 percent from a year earlier to 64.1 trillion yuan by end-2018, compared with a 5.8 percent rise as of end-November.

Though traders are replenishing inventory ahead of the Lunar New Year holiday in early February, demand remains weak. Aggravating the slowdown, the government has also vowed it will not relent on enforcing anti-pollution controls, refusing to accept mounting economic pressure as excuses.

That raises uncertainty on the overall boost to the industrial sector from support measures policymakers have pledged so far. Beijing has promised to increase spending on infrastructure projects this year and boost consumption in areas such as automobile and home appliances.

The state-run enterprise China Railway is planning a record-high rail investment worth about 850 billion yuan in 2019, according to a Nikkei report.

China's producer prices rose at their slowest pace in more than two years in December. New orders - an indicator of future activity - contracted for the first time in at least a year in December. Profits at China's state-owned industrial firms rose 12.6 percent in 2018 from a year earlier, slowing from a 16.1 percent increase in the January-November period. —Reuters

'Get a grip on Brexit', businesses tell UK's feuding politicians

LONDON: British businesses implored politicians yesterday to stop quarrelling over Brexit and agree an orderly exit from the European Union, as some big firms set up emergency situations rooms to cope with the possible tumult of a no-deal divorce. With less than nine weeks until the United Kingdom is due by law to leave the European Union on March 29, there is no agreement yet in London on how and even whether to leave the world's biggest trading bloc.

Parliament rejected Prime Minister Theresa May's Withdrawal Agreement, which includes a nearly two-year transition period to help minimize economic disruption, earlier this month. That has left the UK on course to leave without a deal, a step that could snarl up ports, fracture supply chains and send shockwaves through financial markets.

On the eve of today's votes in the British parliament on a way forward, the United Kingdom's shipping industry called for lawmakers to stop arguing and agree a deal that Prime Minister Theresa May could seal with the EU. "We need put aside party politics and in the moment of need that we find ourselves in, we need to look at the bigger picture and look at what is best for the country," Bob Sanguinetti, chief executive of the UK Chamber of Shipping, told Reuters.

The chamber, which represents 200 companies including Maersk and P&O that facilitate 95 percent of the country's trade in goods, said May should either ditch the Irish backstop-the most contentious part of the deal she agreed in November-or put a time limit on it. "In the absence of a viable alternative to the Withdrawal Agreement, we continue to be heading for a no-deal scenario which is damaging, disruptive and chaotic to business, to manufacturers and consumers," Sanguinetti said. The comments from Sanguinetti, a former commodore in the British navy, indicate just how worried British business is about the possibility that the world's fifth-largest economy could drop out of the EU without a deal.

"Situations rooms"

May is trying to use a series of votes in parliament today to find a consensus that lawmakers in her own party could support, just two weeks since her deal suffered the biggest parliamentary defeat in modern British history. But as the politicians battle over Brexit, some of the world's biggest companies are having to guess what lies in store for the UK, one of the biggest destinations for foreign investment over the past two decades.

As the crisis over EU membership approaches its finale, the possible outcomes include a no-deal Brexit, a last-minute deal, a delay, a snap election, or even a referendum that could undo the 2016 Brexit vote. "Many of the businesses we're speaking to are praying for an extension to Article 50," said James Stewart, head of Brexit at KPMG, referring to the two-year negotiation period with the EU.

"Nearly all larger firms are now preparing for Brexit, after some came late to the party-however the timing of no-deal implementation planning remains highly variable."

LONDON: Britain's Chancellor of the Exchequer Philip Hammond (center) arrives at the rear of Downing Street in central London yesterday. —AFP

"Even our most informed clients feel as if anything could happen," said Stewart. "They're thinking about getting products from A to B, market access, and staffing up situation rooms for April. Forecasting the outcome of Brexit is a bit like trying to predict a greyhound race, there are no safe bets." The Brexit challenges for business cut across sectors and are both bewildering and costly.

AstraZeneca has said it will increase stockpiles of medicines, BMW is looking for lorry parking areas and warehousing on both sides of the channel while P&O said it would shift the registration of its British ships to Cyprus to keep its tax arrangements in the bloc. —Reuters

S&P Global enters China's credit rating market amid trade war

BEIJING: Chinese bank regulators approved the registration of S&P Global's Chinese entity yesterday, giving the US tech firm access to the country's credit rating market, as the China-US trade war grinds on. The People's Bank of China-China's central bank-said S&P Global's Beijing-based subsidiary has successfully registered and has received the green light to conduct bond rating in China's interbank bond market.

"As a next step, the People's Bank of China will... support even more foreign credit rating organizations that conform to regulations and have international influence to enter the Chinese market," the bank said in a statement. Opening up China's credit rating industry is "an important part" of steadily growing China's financial market, it said.

S&P Global's entry into China comes as Beijing and Washington are locked in a bruising trade war that has spooked markets worldwide. —AFP