China

August 2021

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since January 2021 · Sources: Atradius, Oxford Economics

Agriculture

Remains Excellent

China is the world's largest importer of agricultural products. The sector has been only partially impacted by lockdown measures in early 2020 (e.g. transport and supply chain issues). In 2021 agricultural imports are expected to increase by 5%, and sector value added is forecast to grow by about 2%.

Automotive/Transport

Up from Poor to Fair

Both automotive production and sales started to rebound in Q2 of 2020 due to government stimuli and large discounts by manufacturers and dealers. Mainly due to the sharp decline in Q1, automotive production and sales decreased by 2% year-on-year in 2020.

In the January-May 2021 period, both automotive production and sales grew by 36% year-on-year, and sector output is expected to increase by about 12% this year. While production has been impacted by a lack of semiconductors, it is expected that those shortages will ease as of Q3 of 2021. In the 2021-2025 period a compound annual growth rate of 4% is forecast.

The electric vehicles segment remains a promising subsector. However, loss making and heavy reliance on funding are still common problems for electric vehicle companies, while quality issues have raised some public attention.

Overdue payment cases have decreased as the automotive market has rebounded. However, the overall payment period in the industry still remains quite long. Car producers still pay suppliers slowly, usually with longer payment term and an acceptance bill with 3-6 months maturity. This adds additional pressure to the margins and capital base of smaller and/or private-owned suppliers. Low-cost manufacturers that currently produce basic parts are particularly expected to leave the market. Small car dealers recorded slim margins due to discount rates needed to stimulate sales after the slump in 2020.

Chemicals/Pharmaceuticals

Remains Fair

Chemicals value added is expected to grow by more than 10% in 2021 after a 4.5% increase in 2020, benefitting from robust domestic and external demand. After a slump in early 2020 the rebound gained momentum in H2. In Q4 of 2020, the reduction of revenues and profits was narrowed to 8.7% and 13.5% respectively, compared to 11.9% and 58.8% in Q2.

In the pharmaceuticals sector, total industry revenue amounted to CNY 10 trillion (EUR 1.3 trillion) in 2020. In 2021, domestic healthcare spending and pharmaceutical sales are forecast to grow by 8.2% and 9.8% respectively. The robust growth rates are sustained by the government's healthcare reform, an aging population and rising disposable incomes. Private health expenditures by urban consumers are expected to increase by more than 10% annually over the next decade. The government will further increase investment in the pharmaceutical sector, and encourage domestic businesses to increase their R&D expenditures and to improve their innovation ability.

Construction/ Construction Materials

Remains Poor

Construction value added increased by only 1.3% last year. The severe economic downturn in Q1 of 2020 led to higher payment defaults of private-owned and smaller players, as their working capital was not sufficient during the lockdown period. Several smaller construction businesses filed for bankruptcy in 2020.

In 2021 the sector is expected to grow by more than 6%. Both payment delays and insolvencies decreased year-on-year in H1. However, the credit cycle of the construction industry still remains very long, and large (mostly state-owned) construction companies with high bargaining power habitually pay slowly. Up to 200-300 days sales outstanding are common, which puts pressure on the working capital of SMEs, and many smaller players face cash flow issues. Additionally, Chinese construction businesses with large sales/projects in overseas markets severely affected by the pandemic (e.g. India, Indonesia) have suffered setbacks and face issues with their account receivables collection.

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Consumer Durables

Remains Fair

In Q1 of 2020, private consumption of non-food consumer goods sharply deteriorated due to the coronavirus impact, with many businesses temporarily closed due to the lockdown. Despite a rebound as of Q2, retail sales of consumer goods contracted 3.8% last year.

In the January-May 2021 period the sales of consumer goods increased by 26%% year-on-year. While the number of payment delays increased in the industry in Q1 of 2020, payment behaviour has improved again since Q2 of 2020, a tendency that has continued in H1 of 2021. Retail sales are forecast to increase by more than 9% this year.

Electronics/ICT

Remains Fair

Electronics and computer value added increased 5.9% in 2020, and in 2021 a 16% growth rate is forecast. The ICT market is expected to amount to USD 711.1 billion in 2021, additionally stimulated by "new infrastructure" construction in 14th five-year plan (2021-2025). Corresponding ICT expenditure will reach CNY 1.5 trillion (USD 231 billion). The establishment of a nation-wide 5G network is one of key segments of "new infrastructure".

IoT, AI, power equipment, and advanced robots are the most promising segments to develop in the coming years. Chip making is of major importance, as in this segment Chinese businesses are technologically behind their competitors in South Korea, Japan, and the US. Chinese high-tech companies are still subject to sanctions in terms of key and high-end technology. In the 14th five-year plan China aims to build an internal economic ecosystem less prone to external sanctions, which marks a shift in priorities towards industrial and national security, as well as reduced technology imports. It is believed that ICT will benefit from increased public investment in R&D in order to decrease the dependency on the US.

Financial Services

Remains Excellent

In line with the ongoing robust economic growth, bank loans are forecast to rise by 12% in 2021. Banks' profits increased by 1.5% in Q1 of 2021 after a 3% decline in 2020, and asset quality continues to improve. The sector's aggregate non-performing loans ratio decreased by 10% in Q4 of 2020, followed by another 1.8% decline in Q1 of 2021.

Food

Remains Good

Food added value is expected to grow by about 9% in 2021 after a 1.2% increase in 2020. In Q1 of 2021 sales and net profits of listed companies in the food and beverage sector increased by 26% and 28% respectively. Due to rising incomes and increased health concerns, demand for fresh and healthy food continues to increase significantly. Online sales of fresh food are expected to grow by 15% in 2021.

Machines/Engineering

Remains Fair

Engineering has benefited from the economic recovery, in particular infrastructure investment and energy construction-related projects. In the January-April 2021 period operating revenues of machinery/engineering businesses increased 43.5% year-on-year. However, since Q2 of 2021 the positive effects of the stimulus package on engineering have started to abate. In April and May sales growth rates decreased, and the market is gradually returning to normal track. As construction is a major buyer industry, issues in real estate (price bubbles and strict government control) are a concern.

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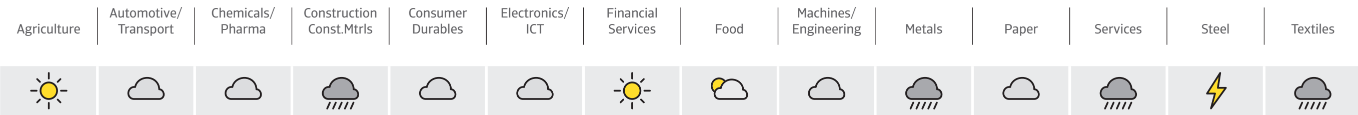

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Metals

Up from Bleak to Poor

Due to the global economic recovery and supply shortage from major non-ferrous metal exporters (e.g. Peru), non-ferrous metal prices increased further in H1 of 2021. China's metal sector recorded a robust expansion in Q1 as output of 10 types of non-ferrous metals increased 12%, amounting to 16 million tonnes. At the same time, China has released national reserves of copper, aluminum and zinc in order to stabilize the volatile bulk commodity market. However, it is expected that raw material prices will remain elevated in the coming months, which negatively affects the credit risk situation of many private-owned metal producers, as high commodity prices will further squeeze their profitability. For businesses dependent on infrastructure construction projects, the average collection periods are relatively long.

Paper

Up from Poor to Fair

Both corrugated base paper and container board production recorded growth of more than 10% last year, while output of uncoated printing and writing paper decreased by 3%. Paper value added is expected to increase by about 7% in 2021. However, the sector is still impacted by overcapacity, fierce competition and working capital pressure for many smaller, private-owned businesses. Additionally, environmental restrictions and structural demand changes could lead to further industry consolidation.

Services

Remains Poor

Due to the comprehensive lockdown measures in early 2020, many segments suffered heavily, especially hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. Hotels and restaurants have gradually reopened since March 2020. However, catering revenues decreased 17% year-on-year in 2020, the annual occupancy rate of hotels declined by 25%, and tourism revenues decreased by 62%. As the pandemic is under control, the rebound of catering and hotels is ongoing in China, and domestic tourism revenue is forecast to grow by 48% this year. However, foreign tourism remains suspended for the time being.

Steel

Remains Bleak

The steel sector has benefited from government infrastructure investments as part of the stimulus measures to counter the economic repercussions of the pandemic. Steel value added increased 7% in 2020, and sales of key iron and steel enterprises grew by 11%. In 2021 steel value added is expected to grow by about 4%, but many producers are impacted by high commodity prices.

Excess capacity remains a major issue for the steel industry, with many businesses being highly indebted and experiencing very tight operating margins. End of December 2020 the asset-liability ratio of key steel companies was high at 62%. Additionally, the requirement to shift to greener production methods is likely to trigger a reshuffle and consolidation process among steel mills. China has pledged to phase out 236 million tonnes of steel capacity in its 14th five-year plan (2021 to 2025). Another 221 million tonnes is earmarked to be produced under more environmentally-friendly conditions.

Textiles

Remains Poor

Producers already suffered before the pandemic outbreak from overcapacity, fierce competition and working capital pressure. Wholesalers and retailers have been negatively affected by changes in customer behaviour and increased competition from new online retailers. In 2020 textile industry sales decreased 6.7% year on year, and about 22% of businesses recorded losses. In 2021 a rebound of domestic demand has led to improved profitability, but textile exporters still face ongoing price and demand pressure when selling in overseas markets.