China

September 2020

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 June 2020 · 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). Agricultural imports are expected to increase further in 2020, and sector value added is forecast to increase 5.5% in 2020.

Automotive/Transport

Remains Poor

Both automotive production and sales started to rebound in Q2 of 2020 due to government stimuli and large discounts by manufacturers and dealers. The recovery is expected to continue in H2 of 2020, albeit modestly. Mainly due to the sharp decline in Q1, automotive added value is expected to decrease 7% in 2020. Year-on-year production and sales contracted 11.8% and 12.7% respectively in the January-July 2020 period.

The credit risk of many smaller players in the market has deteriorated due to the coronavirus pandemic. The number of overdue payment cases increased during the lockdown period, but this trend has abated since then. However, the overall payment period in the industry is very long (up to one year). 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.

With large stocks on hand and sharply deteriorated demand in Q1 of 2020, many smaller car dealers had to close their businesses and lay off staff. While the situation has improved in Q2, all car dealers still had to offer discount rates, which squeezed their margins.

Chemicals/Pharmaceuticals

Remains Fair

In H1 of 2020, deteriorating demand from key buyer sectors had a negative impact on chemicals performance. Revenues and profits decreased by 10.5% and 32% respectively. In H2 of 2020, the situation is expected to improve, and chemicals value added is forecast to grow 1% in 2020.

The short-term outlook for pharmaceuticals is more benign, as demand has increased due to increased health expenses. Value added is expected to grow by more than 4% in 2020. China has experienced rapid growth in this industry, up from the worldwide 9th largest pharmaceutical market in 2007, to the second largest in 2019. However, local manufacturers still focus on low-end products and record low R&D investments, and the distribution segment is highly fragmented. However, in the long term, the government will increase investment in the pharmaceutical sector and encourage domestic businesses to increase their R&D expenditures and improve their innovation ability.

Construction/ Construction Materials

Remains Poor

In 2019 construction and related industries (e.g. cement) were impacted by excess capacity, with many businesses being highly indebted. Operating margins were very tight, with increased credit risk mainly for smaller and private-owned players. The severe economic downturn in Q1 has led to higher payment defaults of private-owned and smaller players, as their working capital was not sufficient during the lockdown period. However, in H2 of 2020 and into 2021, construction will benefit from large infrastructure investments by the government meant to sustain the economy.

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Consumer Durables

Up from Poor to 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. While retail sales decreased 19% in Q1, they have rebounded since then. While retail sales growth was still negative in H1 of 2020 (down 11.4%), it improved to a negative 1.8% in June. Online retail sales increased 7.3% in H1. In 2020 a 4% retail sales contraction is forecast, followed by a rebound of more than 14% in 2021. While in Q1 of 2020 the number of payment delays increased in the industry, since May 2020, the payment behaviour has improved again.

Electronics/ICT

Remains Fair

The coronavirus pandemic has posed both challenges and opportunities to the Chinese ICT industry. Thanks to online education encouraged by the Chinese government and the shift towards online sales, consumer demand for PCs and tablets has increased. Commercial ICT demand suffered in Q1 of 2020, but has bounced back since Q2. H2 of 2020 is expected to be a peak season. Value added growth of the ICT sector is forecast to increase 3% in 2020. 5G, AI, IoT, ICloud, etc. remain promising segments, characterized by innovative technology, high demand and high entry barriers.

However, for Chinese ICT manufacturers, competition has become fiercer, especially from overseas businesses. Oversupply in some subsectors like panels, printed circuit boards and lithium batteries has caused worries about price wars. At the same time, a further escalation of the Sino-US trade war poses a substantial downside risk to the Chinese ICT industry, given the heavy reliance of the sector on export sales and imported technology. The impact of US sanctions imposed on Chinese ICT companies would be different along subsectors. Segments with rather low technological requirements could replace US items with domestic ones. However, businesses requiring high-tech key components (e.g. semiconductors and chips) would face difficulties in easily substituting US technology.

Financial Services

Remains Excellent

Thanks to the credit easing policy meant to support the economy, China's commercial banks remain healthy for the time being, posting a net profit growth rate of 5% year-on-year in Q1 of 2020. However, downside risks have increased for some segments. While large state-owned commercial banks are in good shape, smaller banks record eroding asset quality and increasing credit risk. This is because the quality of loans to small- and medium-sized businesses (many of them severely damaged by the pandemic) is deteriorating.

Food

Remains Good

Despite ongoing sales, the sector has been impacted by the consequences of the lockdown (e.g. transport and supply chain issues) in Q1 of 2020. As a consequence of the lockdown, demand for frozen and convenience food has increased. The pandemic has also triggered two significant trends in the Chinese food industry for the immediate future. First, fresh food e-commerce has become popular, since people increasingly tend to eat at home. Second, due to increased health concerns, demand for healthy foods like nutraceuticals is expected to increase significantly.

Machines/Engineering

Remains Fair

Companies in this industry are generally more financially resilient compared to other industries. In 2019 revenue growth of China's machinery industry weakened to 2.5%, weighed down by automotive as a main buyer industry. However, while the automotive-related machinery segment was a significant underperformer, robot and intelligent manufacturing related machinery reported high growth. In 2020 the industry will benefit from large infrastructure investments by the government. Machinery industrial production grew by 15.6% year-on-year in July 2020, far above China's industrial production growth of 4.8%.

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Metals

Remains Bleak

Even before the coronavirus outbreak, the industry already suffered from decreasing demand from key buyer sectors, mainly due to China´s ongoing economic deleveraging program. Meanwhile, the China-US trade dispute negatively impacted domestic business sentiment in 2019. In the metals sector, excess capacity is a major issue, with many businesses being highly indebted and experiencing very tight operating margins.

Demand from automotive and property construction will remain subdued in 2020. The credit risk situation of many private-owned metal producers is deteriorating, and both payment delays and insolvencies are expected to increase in the coming months.

Paper

Remains Poor

Paper producers were impacted by less demand due to the lockdown measures in early 2020, lower growth and the ongoing digitalization. Mainly affected were the printing paper and packaging paper segments, while the performance of household paper has been relatively stable, as people spend more time at home. The sector is impacted by overcapacity, fierce competition and working capital pressure for many businesses. Additional environmental restrictions and structural changes to demand 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, and it is common to see intensive promotions intended to attract consumers and recover business. Additionally, the government is promoting local tourism (e.g. free entry policy and the loosening of the Hainan province's duty free regulations). That said, domestic tourism is expected to decline, to CNY 5,500 billion (2019: CNY 6,630 billion). In 2020 hotel and catering value added is expected to contract by more than 30%. Service business failures have risen in H1 of 2020, with further increases expected in the coming months.

Steel

Remains Bleak

Even before the coronavirus outbreak, the industry suffered from decreasing demand from key buyer sectors, mainly due to China´s ongoing economic deleveraging program. Meanwhile, the China-US trade dispute negatively impacted domestic business sentiment in 2019. In the steel sector, excess capacity is a major issue, with many producers being highly indebted and experiencing very tight operating margins. The majority of private Chinese metals and steel traders do not have sufficient fixed assets, thus suffering from slim margins and very limited bank facilities.

Given supportive fiscal policies, many steel businesses believe that infrastructure investment will boost steel demand in H2 of 2020. However, demand from property construction and the automotive industry is expected to remain weak, dampening the outlook.

While leading state-owned steel makers still show some resilience, many private-owned steel and metals producers and traders face serious trouble, with both payment delays and insolvencies expected to increase in the coming months of 2020.

Textiles

Remains Poor

Producers already suffered in 2019 from overcapacity, fierce competition and working capital pressure. Wholesalers and retailers are negatively affected by changes in customer behaviour and increased competition from new online retailers. Their performance has further deteriorated due to low sales during the lockdown in early 2020, with only a modest rebound in Q2 of 2020. Textile value added is expected to decrease by almost 10% in 2020. Given the difficult market condition, payment defaults and business failures are expected to increase in the coming months.