



北京华通人商用信息有限公司

ALL CHINA MARKETING RESEARCH CO., LTD.

ACMR Newsletter

China Industry and Economic Review

March 2011



Economic Spotlight:

Slackening Momentum of Iron & Steel Industry in China:

Iron Ore Price on Decreasing Trend

Crude steel output in China hit record high of 627 million tons in 2010, 9.3% up from 2009, according to National Bureau of Statistics. In the same year, China imported 619 million tons of iron ore, 1.5% down from 2009. However, due to surging price, China paid \$78.92 billion for imported iron ore in 2010, \$28.75 billion up from 2009.

In January 2011, monthly iron ore import volume reached historic high of 68.97 million tons, and import price averaged at \$151.4/ton, 65.2% up from January 2009. In February, iron ore import volume dropped to 48.64 million tons, 1.5% and 29.5% down from February 2010 and January 2011, respectively, and average price rose slightly by 4.7% from January 2011. Due to heavy import in the last two months, iron ore stock in coastal ports in China have amounted to 81.4 million tons by the end of March 11th, 6.48 million tons up from the beginning of the year.



Reversal of Upward Trend of Iron Ore Price

With iron ore price at high level and pessimistic expectation on steel market, importers tend to stop increasing inventory in favor of careful watching. By the end of March 15th, CIF price of Indian iron ore with 63.5% iron content decreased from the peak of \$197-199/ton in February to \$172-173/ton.

Besides iron ore price, steel price has also been on decreasing trend. The latest market research report released by Ministry of Commerce showed that steel product price had been decreasing for two weeks

by the end of middle March. This trend is expected to continue in the near future.

Steel Demand Growth Easing off

However, the inertia of steel production in China is quite strong. In February 2011, crude steel output in China amounted to 54.31 million tons, 9.7% up from February 2010, equivalent to daily output of 1.94 million tons. Rising steel production placed heavy pressure on steel suppliers in the market. In the face of energy saving, emission reduction, and economic transformation, rapid growth of iron & steel industry in the past several years is nearing its end, and further expansion is expected to slow down considerably.

Iron and steel industry is expected to enter an age of thin profit margin and low energy consumption. As for development trend, the importance of basic input factors is decreasing between steel producers while importance of other advanced factors such as R&D is increasing. Domestic iron and steel industry in 2011 is expected to be adversely affected by high raw material price and sluggish downstream demand. This situation may last for a long period of time, which will spur reformation and transformation on domestic steel plants.

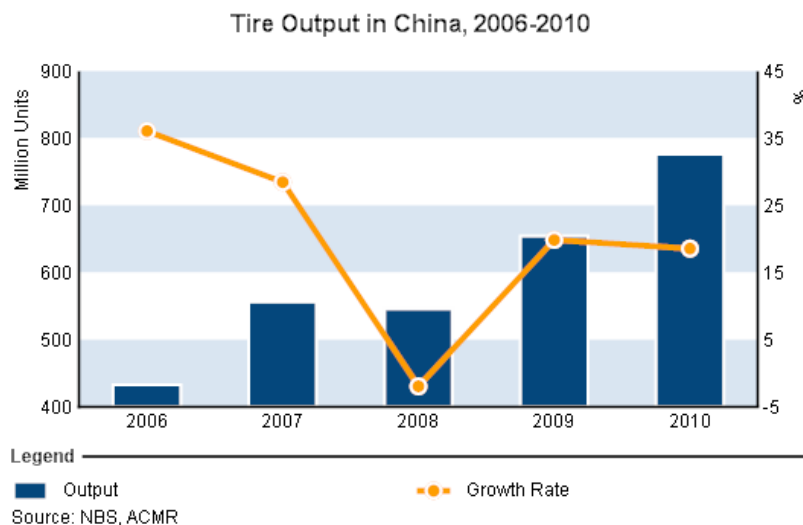
Iron and Steel Industry Benefits from Earthquake in Japan

The devastating earthquake occurred in March 11th in North East Japan brought various degrees of damage to Japanese Iron & Steel industry along the coastal areas and led to certain production halts. Japan is the second largest steel products exporter in the world and total iron ore import totaled 134 million tons in 2010. In the short term, it reduces Japanese demand for iron ore and thus lowers iron ore price.

In the long term, however, the post-earthquake reconstruction in Japan will greatly boost demand for steel products, which in turn will lead to strong demand for iron ore. Production capacity of construction steel products of Japanese steelmakers is quite small, with 1.8 million and 9.8 million tons of wire products and rod products, respectively. Reconstruction after the earthquake will boost construction steel products export from China.

Rapid Growth of Tire Manufacturing Driven by Strong Automobile Sales

In 2010, output and sales volume of automobiles in China reached 18.26 million and 18.06 million, respectively, both increasing 32.4% from 2009. The prosperous automobile market in China stimulated tire demand significantly. In 2010, output of pneumatic tires in China amounted to 776.34 million units, up 18.6% year on year. The international trade value of tires totaled \$11.61 billion in the year, up 34.8% from 2009. The industry exported 369.68 million units of tires in 2010, up 22.3% year on year.



However, since 2010, rubber supply decreased significantly due to the weather problems in Yunnan province, Thailand and India. As a result, rubber price experienced rapid increases in 2010. As costs on rubber are expected to account for about 50% of total production costs of tire manufacturers, profits of the industry dropped dramatically.

In 2010, many international tire manufacturers, such as Bridgestone and Michelin, increased the tire price by 5% to 8%. Meanwhile, domestic producers, such as Doublecoin and Triangle, also raised the tire price by 5% to 8%.

In October 2010, the government issued Tire Industry Policy to guide the development of the industry. According to this policy, by 2015, all passenger cars, 85% of light trucks and 90% of trucks in China are supposed to use radial tires. This is expected to promote the industry to adjust the product structure, and increase the demand for radial tires in the following years.

Strong Expansion of Power Generation in China

The scale of power generation in China continued to grow in 2010, with total investment in power generation being \$53.5 billion. The total newly-added installed capacity was 91,270 Megawatts. By the end of 2010, the total accumulated installed capacity of power generation in China increased to 962,190 Megawatts. From 2006 to 2010, the output of power generation industries in China increased at the annualized growth rate of 10.7%.

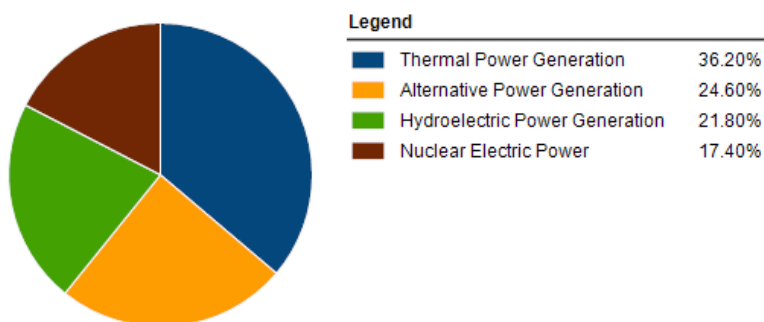
Due to environmental protection factors, the Chinese government has implemented policies and measures to close small thermal power plants. The government is also adjusting the industry's structure and updating thermal power generation equipment. In 2010, the government shutdown small thermal power plants with a total capacity of over 11 million kilowatts.

The hydroelectric power generation in China developed fast in 2010, with output and revenue increasing by 19.4% and 25.8%, respectively, from 2009. Yunan Xiaowan Hydropower Station, Laxiwa Hydropower Station and Dadu River Pubugou Hydropower Station were put into operation completely.

By the end of 2010, there had been over 30 nuclear islands under construction. China has become the world's largest country of scale of nuclear power scale under construction.

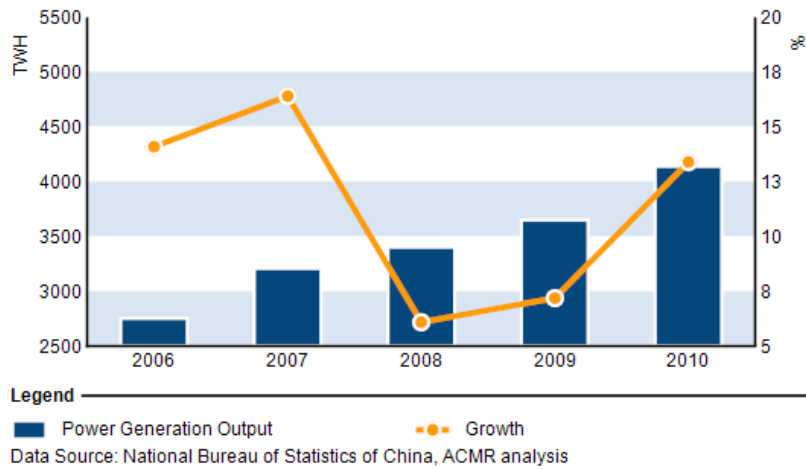
In 2010, China's accumulated installed wind power capacity had surpassed that of the US and was the first-highest in the world. The output of wind power generation in China was expected to be 45 TWH, up by 63% from 2009.

Investment in Power Generation Industries in China in 2010

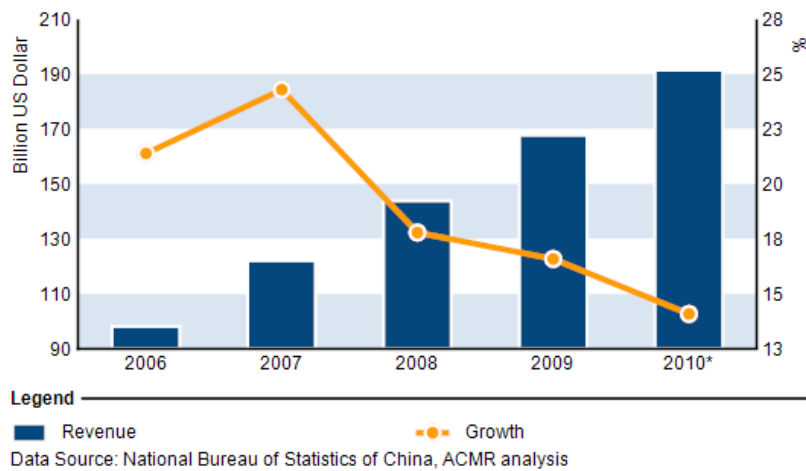


Data Source: China Electricity Council, ACMR analysis

Total Output of Power Generation in China, 2006-2010



Revenue of Power Generation Industries in China, 2006-2010*



From 2011 to 2015, China will give priority to development of hydroelectric power generation, optimize development of thermal power generation, strive to development of nuclear electric power generation and actively promote the development of alternative power generation. Overall, China will continue to increase the share of non-thermal power generation.

Internal Combustion Engine and Fittings Manufacturing in China: Strong Growth in 2010

In recent years, China's high economic growth has driven strong demand for the machinery manufacturing industries. Rapid development of the downstream industries, including engineering machinery, agricultural machinery, traffic engineering, etc. contributed to development of the Internal Combustion Engine and Fittings Manufacturing in China. After some fluctuations in 2008 and 2009, this industry gradually resumed its strong growth in 2010.

Suffered from the global financial crisis, some downstream industries weakened their demand for internal combustion engine products. In 2008, output of China's internal combustion engines experiences some decline, and the output decline was especially obvious in the end of the year. For the sub sector of single cylinder diesel engine, its output shrank sharply by 27% from 2007. In 2008 and 2009, revenue of this industry only increased by 5.0% and 7.5% (constant price), going through its trough period.

With economy recovery, output of China's internal combustion gradually resumed its growth in the second half of the year. In November and December, exports also showed some recovery. In 2010, this industry gradually recovered from the trough period and showed a strong growth trend. In the first 11 months of the year, industry revenue totaled \$16.37 billion (current price), up by 39.5% from 2009. It is expected to total \$17.73 billion for the whole year.

The revenue surge of this industry in 2010 was mainly attributed to the continual recovery and development of the downstream industries. China's automobile market expanded substantially; agricultural market showed good development performance, stimulating development of the agricultural machinery industry; driven by the hysteresis effect of the "Four Trillion" investment, large amount of construction projects were put into operation and the engineering machinery industry usher the period of rapid growth. In addition, the export market gradually recovered from the global financial crisis, up by 35.2% from 2009, which also contributes to the revenue growth in the year.

Key Statistics of the Internal Combustion Engine and Fittings Manufacturing in China, 2010

Indicator	Value (current price)	Year-on-year Growth (%)
Industry Revenue (USD Million)	17854.9	30.6%
Industry Profit (USD Million)	1409.2	31.0%
Exports (USD Million)	4836.0	35.2%
Imports (USD Million)	9557.2	35.0%

Source: National Bureau of Statistics, China Customs, ACMR

Major Industry Participants List

Company Name



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Weichai Power Co., Ltd.

Changfa Group

Shanghai Diesel Engine Co., Ltd.

Hudong Heavy Machinery Co., Ltd.

Changchai Company Limited

Source: National Bureau of Statistics, ACMR



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What's New?

We currently have 177 China industry reports available across 18 economy sectors, and the number of reports is expected to reach 182 by the end of March 2011.

Recent reports and reports to be released include:

Published in February 2011:

- 0330** Poultry Farming in China
- 3421** Metal Cutting Tools Manufacturing in China
- 3761** Aircraft Manufacturing and Repairing in China
- 5110** Inter-urban Railway Transportation of Passengers in China
- 5531** Airports in China
- 7220** Realty Management in China

To be released in March 2011/April 2011:

- 0916** Aluminum Ore Mining in China
- 1320** Pet Food and Animal Feed Manufacturing in China
- 1451** Canned Food Manufacturing in China
- 4062** Bare Printed Circuit Board Manufacturing in China
- 7230** Real Estate Intermediation (Brokers and Agents) in China

Updated in February 2011

- 0790** Support Activities for Oil and Gas Mining in China
- 7440** Advertising Agencies in China
- 8511** General Hospitals in China
- 0810** Iron Ore Mining in China
- 2614** Organic Chemical Material Manufacturing in China
- 1711** Cotton Fabric and Yarn Manufacturing in China
- 3613** Building Construction Equipment Manufacturing in China
- 3070** Plastic Parts Manufacturing in China
- 3931** Wire and Cable Manufacturing in China
- 2411** Stationery and Office Supplies Manufacturing in China
- 6620** Motels in China
- 2421** Sporting Equipment Manufacturing in China
- 6592** Mail-order and Electronic Shopping Operators in China
- 8441** Higher Education in China
- 6020** Internet Services in China
- 4411** Thermal Power Generation in China
- 1440** Liquid Dairy and Dairy Products Manufacturing in China



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3711 Rail Transportation Equipment Manufacturing in China

7433 Business Management Consulting Services in China

4042 Computer Network Equipment Manufacturing in China

6930 Securities Investment in China

0610 Coal Mining in China

3726 Automobile Repair Services in China

0221 Timber Logging in China

5320 Underground Rail and Subway Transportation in China

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