China: Industrial profits fell sequentially in May

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Bottom line:

China's industrial profits increased by 21.0% yoy, and revenue rose by 6.7% yoy in May (vs. +26.0% yoy and +5.8% yoy, respectively, in April). In seasonally adjusted sequential terms, industrial profits fell by 8.4% (vs. +7.9% in April), and revenue grew by 0.4% sa non-annualized (vs. +0.7% in April).

Key numbers:

Industrial profits: +21.0% yoy in May (sequential growth: -8.4% non-annualized, seasonally adjusted by GS); April: +26.0% yoy (sequential growth: +7.9% sa non-annualized).

Industrial revenue: +6.7% yoy in May (sequential growth: +0.4% non-annualized, seasonally adjusted by GS); April: +5.8% yoy (sequential growth: +0.7% sa non-annualized).

Main points:

1. In year-over-year terms, China's industrial profits increased by 21.0% yoy in May, compared to 26.0% yoy in April. In sequential terms, profits fell by 8.4% non-annualized in May after seasonal adjustment, following an increase of 7.9% in April (Exhibit 1).
2. On a year-over-year basis, downstream profits rose by 10.2% yoy in May, compared to +9.0% in April. Upstream profit growth remained strong at 58.3% yoy (vs. +83.5% yoy in April), mostly driven by profit gains in chemical materials, coal mining/dressing, and non-ferrous metal mining and smelting. The NBS commented that raw materials manufacturing sector contributed 10.2pp to the 18.8% industrial profit growth in Jan-May, followed by high-tech manufacturing sector at 8pp, and equipment manufacturing sector at 5.2pp. The global AI boom supported profit growth in electronics industry, as well as non-ferrous metals, including aluminum and copper.
3. In year-over-year terms, industrial revenue increased by 6.7% yoy in May, vs. +5.8% yoy in April. Sequentially, revenue increased by 0.4% non-annualized in May (vs. +0.7% in April). Overall profit margins (total profits divided by revenues) edged up in May on a 12-month average basis (Exhibit 2), mostly driven by improving upstream profit margin.

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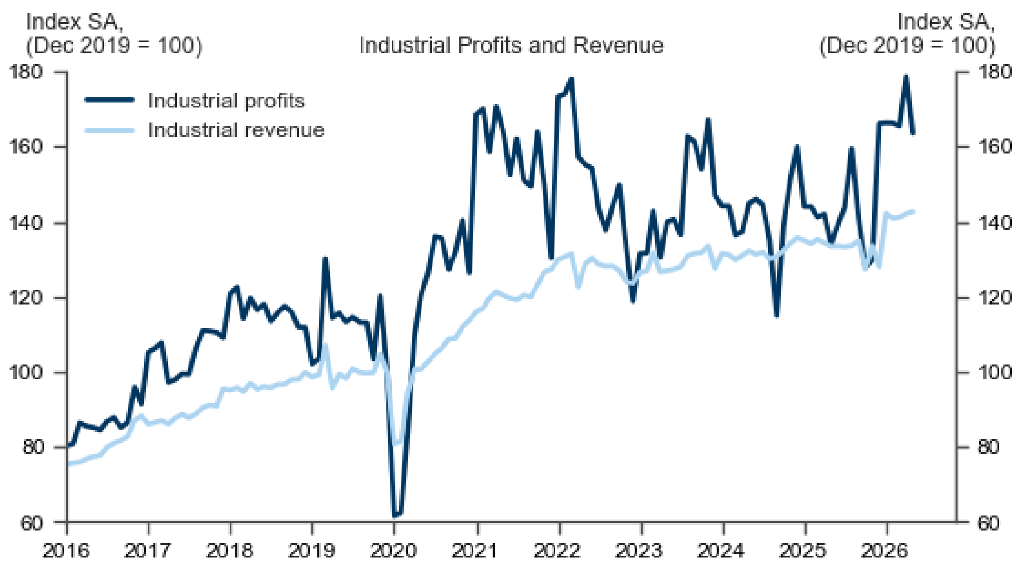
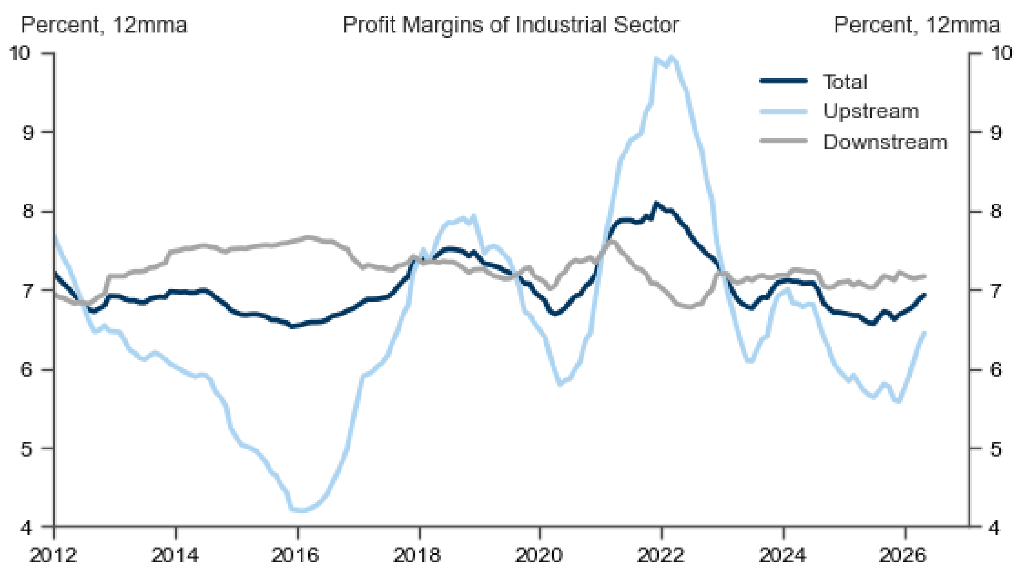
Exhibit 1: Industrial profits fell sequentially in May while revenue rose



Source: NBS, Goldman Sachs Global Investment Research

Exhibit 2: Total profit margins continued to edge up in May on a 12-month average basis, led by upstream sectors



Source: NBS, CEIC, Goldman Sachs Global Investment Research

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