China: Industrial profits flat in September while revenue edged down sequentially; October PMIs preview

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Bottom line:

China's industrial profits increased by 14.1% yoy, and revenue rose by 6.6% yoy in September (vs. +4.9% yoy and +7.4% yoy, respectively, in August). In seasonally adjusted sequential terms, industrial profits remained roughly unchanged (vs. +0.6% in August), and revenue ticked down by 0.1% sa non-annualized (vs. +0.9% in August).

Key numbers:

Industrial profits: +14.1% yoy in September (sequential growth: 0% non-annualized, seasonally adjusted by GS); August: +4.9% yoy (sequential growth: +0.6% sa non-annualized).

Industrial revenue: +6.6% yoy in September (sequential growth: -0.1% non-annualized, seasonally adjusted by GS); August: +7.4% yoy (sequential growth: +0.9% sa non-annualized).

Main points:

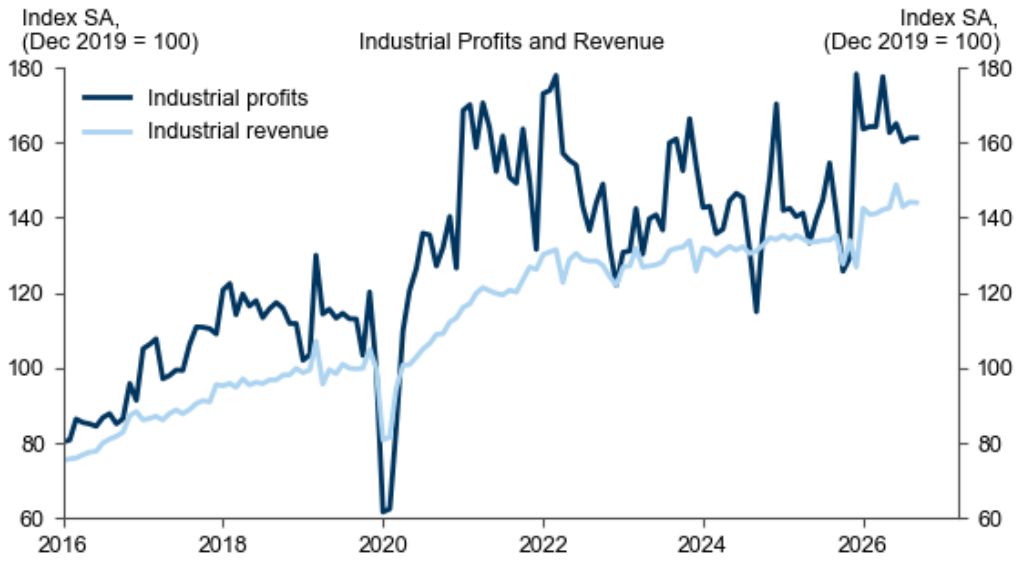
1. In year-over-year terms, China's industrial profits increased by 14.1% yoy in September, largely reflecting base effects, up from 4.9% yoy in August. In sequential terms, profits remained flat in September after seasonal adjustment, following an increase of 0.6% in August (Exhibit 1).
2. On a year-over-year basis, downstream profits rose 4.4% yoy in September, accelerating from 0.5% yoy in August. Upstream profit growth rose to 38.4% yoy from 19.8% yoy in August, with the main contribution coming from non-ferrous metal smelting and pressing and coal mining and dressing. The NBS commented that the electronics sector contributed 9.6pp to the 15.5% industrial profit growth in Jan-September, followed by the raw materials manufacturing sector at 5.9pp.
3. In year-over-year terms, industrial revenue increased by 6.6% yoy in September (vs. +7.4% yoy in August). Sequentially, revenue ticked down by 0.1% non-annualized in September (vs. +0.9% in August). Overall profit margins (total profits divided by revenues) ticked up in September on a 12-month average basis, mainly led by improving upstream profit margin (Exhibit 2).
4. We provide our October PMIs forecast in this note too. We expect the NBS manufacturing PMI to fall to 49.7 in October from 50.1 in September. While the emerging industry PMI rose notably after seasonal adjustment, residual

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seasonality typically points to a softer October reading. We forecast the RatingDog manufacturing PMI to decrease to 51.7 in October from 52.1 in September. The RatingDog manufacturing PMI tends to have a higher sensitivity to export activity, and high frequency indicators suggest that the export momentum weakened in October. We expect the NBS non-manufacturing PMI to decline to 49.9 from 50.2, consistent with typical seasonal weakness in both construction and services PMIs in October. Finally, we expect the RatingDog services PMI to edge down to 51.4 from 51.6.

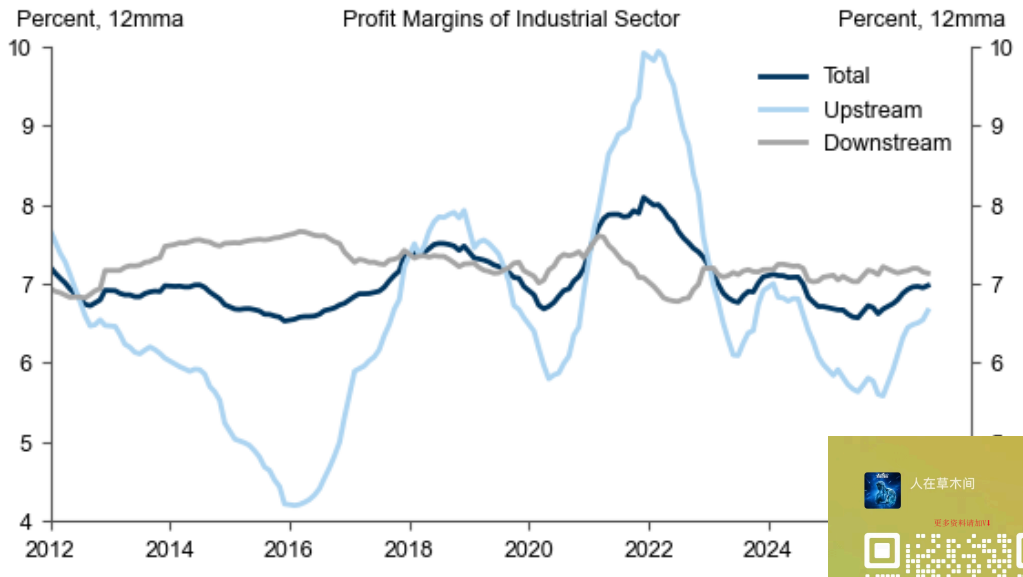
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Exhibit 1: Industrial profits remained unchanged while revenue ticked down in September



Source: NBS, Goldman Sachs Global Investment Research

Exhibit 2: Total profit margins ticked up in September on a 12-month average basis



Source: NBS, CEIC, Goldman Sachs Global Investment Research

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