

Fastener Distributor Index – Report #142 November 2023

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Key Takeaway:

The seasonally adjusted Fastener Distributor Index (FDI) improved m/m and returned to an above-50 reading at **52.6**. Improving attitudes about the economy and more stable trends within respondents' businesses were noted this month. Importantly, this marked the first reading above 50 since February (August was 50.0). The Forward-Looking Indicator (FLI) improved m/m and continues to climb closer to a neutral 50 reading rising to **47.1**. Overall, results suggest slightly healthier market conditions in October compared to September.

Fastener Distribution Trends: October 2023

FASTENER DISTRIBUTION AT A GLANCE										
October 2023										
	----- Index Values -----								Direction	Rate of Change
	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar		
ISM PMI (Manufacturing)	46.7	49.0	47.6	46.4	46.0	46.9	47.1	46.3	Declining	Faster
FDI	52.6	48.5	50.0	40.7	45.6	44.7	46.3	48.6	Growing	Faster
FLI	47.1	44.8	45.9	38.8	39.3	40.6	37.8	44.3	Declining	Slower
(Other Metrics)										
Sales	52.6	44.9	48.8	22.3	41.9	35.9	43.2	49.5	Growing	Faster
Employment	51.6	41.9	45.7	38.3	44.8	55.6	46.3	54.2	Growing	Faster
Supplier Deliveries	51.6	50.0	52.9	43.3	46.6	42.6	40.0	43.1	Growing	Faster
Respondent Inventories	64.1	71.0	70.0	73.3	69.0	75.9	73.8	73.6	Growing	Slower
Customer Inventories	51.6	51.6	50.0	56.7	51.7	50.0	57.5	48.6	Growing	Same
Pricing, month-to-month	45.3	54.8	55.7	48.3	55.2	55.6	55.0	52.8	Declining	Faster
Pricing, year-to-year	60.9	62.9	61.4	61.7	62.1	72.2	60.0	62.5	Growing	Slower
				Higher Same Lower						
6-Month Outlook - October				29% 45% 26%						

FDI and Pricing are diffusion indexes. At 50, the performance of the category listed met expectations. A reading above 50 suggests the category outperformed expectations, while a reading below 50 suggests the category underperformed expectations.

Source: Baird, FCH Sourcing Network, Institute for Supply Management

About the Fastener Distributor Index (FDI). The FDI is a monthly survey of North American fastener distributors, conducted with the **FCH Sourcing Network** and **Baird**. It offers insights into current fastener industry trends/outlooks. Similarly, the Forward-Looking Indicator (FLI) is based on a weighted average of four forward-looking inputs. This indicator is designed to provide directional perspective on future expectations for fastener market conditions. As diffusion indexes, values above 50.0 signal strength, while readings below 50.0 signal weakness. Over time, results should be directly relevant to **Fastenal (FAST)** and broadly relevant to other industrial distributors such as **W.W. Grainger (GWW)** and **MSC Industrial (MSM)**.

Key Points:

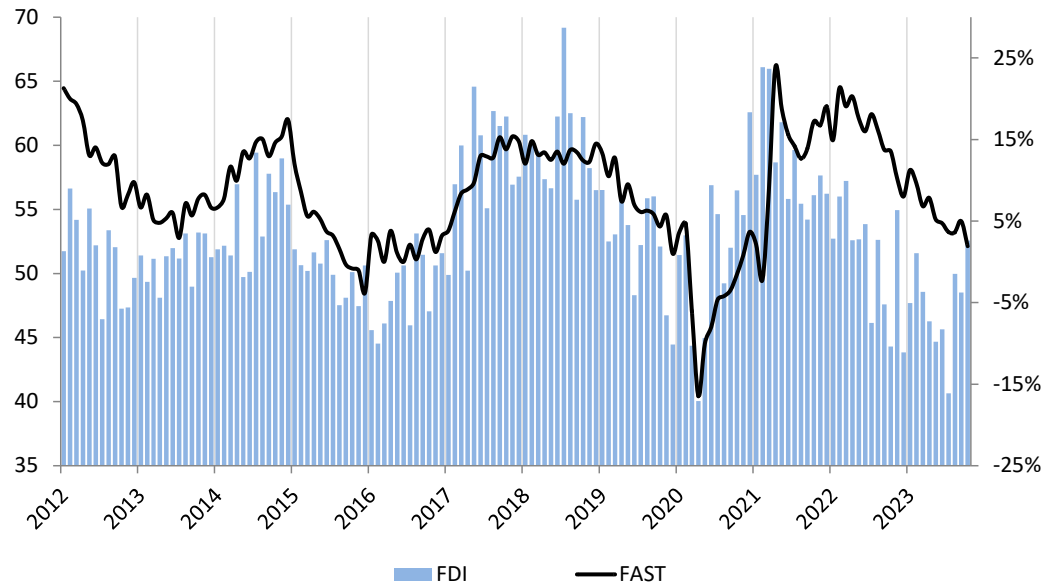
FDI improves m/m, back to expansionary levels. The seasonally adjusted October FDI (52.6) improved from last month (48.5) and returned to growth (>50) for the first time since February. Looking at the overall components of the FDI, three of the four (sales, employment, and supplier delivers) improved m/m, while customer inventories were unchanged. The sales index saw the biggest m/m improvement (non-seasonally adjusted index improved from just 37.1 last month to 54.7 in October). Respondents reported a bit of a lift from the economy this month: *“The economy seems to be causing an increased demand for products within our niche market.”* 44% of respondents indicated sales were above seasonal expectations compared to just 16% last month. Another 22% said sales were in line (42% last month), while 34% saw weaker sales than expected (September 42%).

FLI inching closer to neutral 50 level. The FLI also saw improvement, coming in at 47.1 vs. 44.8 last month. With the index still below 50, some additional softening could be expected in the near term, but bigger picture, the FLI continues to climb back up towards 50, which we see as encouraging. A softer employment reading and lower respondent inventory levels more than offset a modestly weaker six-month outlook, driving the m/m improvement in the FLI. On the outlook specifically, 25% of respondents predicted higher activity levels six months from now vs. today compared to 29% last month. The percentage anticipating similar activity was 47% compared to 45% in September, while the percentage expecting softer activity was modestly higher at 28% from 26%. After the seasonal adjustment factor, the six-month outlook came in at 47.1 vs. 44.8 last month.

Soft landing tone starting to emerge, raising confidence in outlook. We noticed more positive commentary on the direction of the overall economy this month. As one respondent said, *“I am beginning to be a bit more confident that the long-promised recession isn't coming,”* while another commented, *“The economy seems to be causing an increased demand for products within our niche market.”* The UAW strike caused some temporary headwinds to be felt this month though this factor should seemingly be eliminated given the recent agreements reached: *“UAW strike has slowed shipments to automotive tier 1 & 2 customers. Industrial segment has been consistent for several months. RFQ activity for new business remains steady.”* Lastly, a theme of consistency/steadiness was expressed by several: *“Trend shows sales are not strong but remain steady. Slow growth as expected. We will finish the year as forecasted. Unsure of what to expect Q1 2024 to set a path forward.”* Echoing this, one participant said, *“Very steady. Good revenue train this year but lower than last year and slightly lower profit than last year.”* This is not a universal outlook, however, as some participants see continued softening/uncertainty in certain areas: *“Smaller manufacturers are not planning ahead for stock delays. Big key accounts are still doing well, but smaller accounts have fallen off”; “Expectations of higher activity in 6-months is due to new business, not due to increases in current customers. Overall, we are seeing a softening in activity.”*

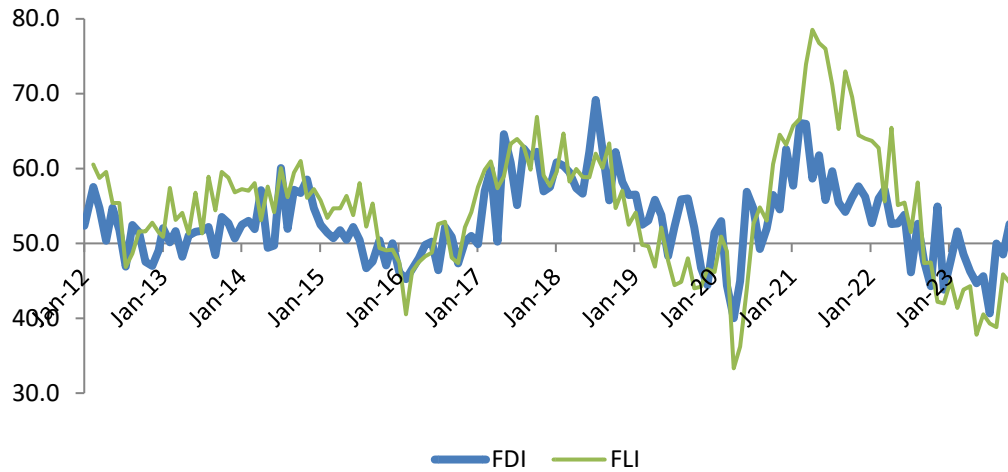
Fastenal reported October daily sales growth of +1.9%, just below our +2.8% estimate and what normal seasonality would imply (+3.1%). This included fastener sales -2.6% y/y, which reflected further m/m deceleration and marked the sixth consecutive month of either flat or declining y/y sales. Safety sales were +6.4% and other non-fasteners grew +3.3% y/y. Looking forward, we model November daily sales +2.5% y/y which would also be slightly below days-adjusted normal seasonality. This outlook is consistent with a string of sub-50 readings in the ISM and the sub-50 FLI. Beyond the near term, we assume 2024 returns to just modestly above normal seasonality in year one of an industrial recovery beginning in 2H24.

Fastener Distributor Index (FDI); Seasonally Adjusted



*FAST March 2020 – December 2021 Monthly Sales Presented as ex. Safety Products
 Source: Baird, FCH Sourcing Network, Company reports

1-Month Lagged FDI vs. FLI (Both Seasonally Adjusted)



Source: Baird, FCH Sourcing Network

Risk Synopsis

Fastenal: Risks include economic sensitivity, pricing power, relatively high valuation, secular gross margin pressures, success of vending and on-site initiatives, and ability to sustain historical growth.

Grainger: Risks include ability to maintain margins, internet-only industrial supply sources, ability to sustain secular growth, cyclical, and international operations.

MSC Industrial: Risks include cyclical, maintaining and managing growth, success of Mission Critical initiative, and dual classes of stock.

Appendix – Important Disclosures and Analyst Certification

Covered Companies Mentioned

All stock prices below are as of 11/6/2023.

Fastenal Company (FAST-\$58.43-Neutral)
 W.W. Grainger Inc. (GWW-\$759.71-Outperform)
 MSC Industrial Direct Co. Inc (MSM-\$97.08 -Outperform)
 (See recent research reports for more information)



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