Fastener Distributor Index – Report #153 September 2024

Written by R.W. Baird analyst David J. Manthey, CFA with Quinn Fredrickson, CFA 10/7/24

Key Takeaway:

The seasonally adjusted Fastener Distributor Index (FDI) jumped to 59.0 in September (August 53.8), reflecting improvement across several metrics, including sales, employment, and pricing but also a favorable seasonal adjustment factor. Meanwhile, the month's Forward-Looking Indicator (FLI) also returned to very slight growth this month, climbing to 50.5, suggesting a relatively stable/slightly better outlook for October. Although an overall positive September performance for the index, taken together with other indicators (continued sub-50 ISM PMI in September, flat August Industrial Production, weaker FAST August sales, etc.), we believe fastener market conditions and the industrial economy in general remain soft but perhaps slightly better m/m.

Fastener Distribution Trends: September 2024

FASTENER DISTRIBUTION AT A GLANCE
September 2024

	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Direction	Rate of Change
	Index Values										
ISM PMI (Manufacturing)	47.2	47.2	46.8	48.5	48.7	49.2	50.3	47.8	49.1	Declining	Same
FDI	**59.0**	**53.8**	**47.5**	**52.1**	**52.9**	**51.6**	**53.0**	**50.5**	**49.7**	Growing	Faster
FLI	**50.5**	**47.4**	**49.6**	**50.9**	**52.8**	**50.0**	**47.3**	**47.9**	**50.4**	Growing	Faster
(Other Metrics)											
Sales	58.4	50.2	43.3	52.6	53.6	54.6	56.1	47.8	50.0	Growing	Faster
Employment	55.4	50.0	50.0	53.2	59.1	60.0	56.7	50.0	50.0	Growing	Faster
Supplier Deliveries	60.7	62.9	46.9	59.7	59.1	45.0	51.7	56.3	48.7	Growing	Slower
Respondent Inventories	64.3	67.7	62.5	64.5	60.6	63.3	66.7	67.2	61.5	Growing	Slower
Customer Inventories	55.4	50.0	48.4	45.2	45.5	48.3	48.3	48.4	51.3	Growing	Faster
Pricing, month-to-month	58.9	56.5	51.6	59.7	56.1	50.0	53.3	56.3	56.4	Growing	Faster
Pricing, year-to-year	62.5	45.2	42.2	54.8	50.0	33.3	45.0	56.3	47.4	Growing	Faster
					Higher	Same	Lower				
6-Month Outlook - September					39%	36%	25%				

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:

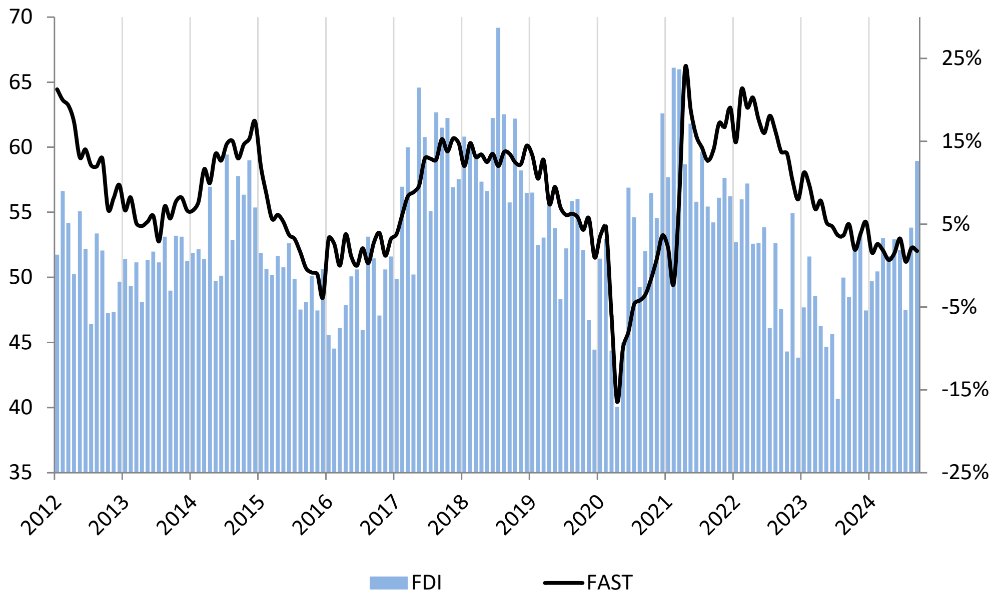
FDI sees m/m improvement, albeit aided by seasonal adjustment factor. The September seasonally adjusted FDI surged to a reading of **59.0** compared to August's 53.8, marking the highest monthly FDI reading this year. Three of the four underlying factors (sales, employment, and customer inventories) saw m/m improvement; supplier deliveries dipped slightly lower, albeit still growing (60.7 vs August 62.9). The sales index reached 58.4 in September, compared to 50.2 in August, indicating stronger demand and higher performance against seasonal expectations. That said, the seasonal adjustment factor played a significant role; ex. this, the non-seasonally adjusted FDI would have still grown (>50) but remained relatively stable m/m (54.9 vs. 53.6 in August). Demonstrating the relatively stable underlying demand conditions, just 36% of respondents indicated sales came in above seasonal expectations, which is generally consistent with the 34% average registered over the past year. Consistent with the healthy broader US jobs report in September, employment levels were solid, with the 55.4 FDI employment index a step up from last month's 50.0. Year-to-year pricing also showed a noticeably strong jump, reaching 62.5 compared to 45.2 in August, marking the highest reading this year.

FLI rises above 50, signaling stable to slightly better October expectations. In contrast to last month's contraction (August 47.4), the FLI climbed to **50.5** in September, suggesting a touch more optimistic forward view for respondents. This marks a positive shift, driven primarily by better employment levels and a stronger six-month outlook. Inventory levels were a slight headwind to the index as customer inventories rose modestly (21% said customers inventories were too high this month vs. 16% in August). Respondent inventories normalized some (index was 64.3 vs. August 67.7), although a strong majority see inventory as at appropriate levels (64%). On the outlook specifically, 39% of participants anticipate higher activity levels in the six months ahead, up from 32% in August but still at relatively muted levels. On the other hand, a segment of respondents (25%) remains concerned about lower activity in the coming months, indicating that some level of caution persists with an ongoing uncertain macro environment. The remaining 36% of participants forecast similar activity. In August, only 32% expected higher activity, 39% similar, and 29% lower. This caused the six-month outlook index to jump to 57.1 compared to 51.6 last month.

Respondent commentary mixed but leaned net positive. Several saw healthy sales/order activity in September and an improving supply chain: "*Another surprising good month of sales. The orders come in and we ship them out.*" Similarly, "*Manufacturer price increases have slowed and factory deliveries are starting to improve. The pandemic supply chain disruption created a backlog that appears to be working itself out. Slow but steady.*" Others see persistently challenging supply chain conditions negatively impacting their ability to meet (otherwise healthy) demand: "*September was a brisk month of activity, however, our supply chain didn't really seem to match that level of expectation. Invoicing was slowed due to product not arriving on time, otherwise we would've experienced an above average month. Bookings remain strong even though the economy is starting to show cracks.*" Those with more mixed feedback indicated an uneven cadence to recent months: "*Our U.S. orders had rebounded in August after a very slow July but [our] incoming order rate dropped back down again in September. On the bright side, our International order activity was very strong in September.*" Others lean towards expecting a further slowing ahead: "*This year has been impossible to gauge. We have had mixed results, but as the year progresses, we are experiencing slowing sales, particularly over the past four weeks, with no historic correlation. Fed interest rate reductions, and inverted bond rates (among others) all point to a recession, except for Labor. [It's] usually 3-6 months after a FED rate reduction. The average is 5.5 Years between recessions, and we are approaching 5. I'm not sure if we will avoid it, but I definitely see an impact this year.*" Net, mixed results continue, but overall feedback leaned slightly positive on balance.

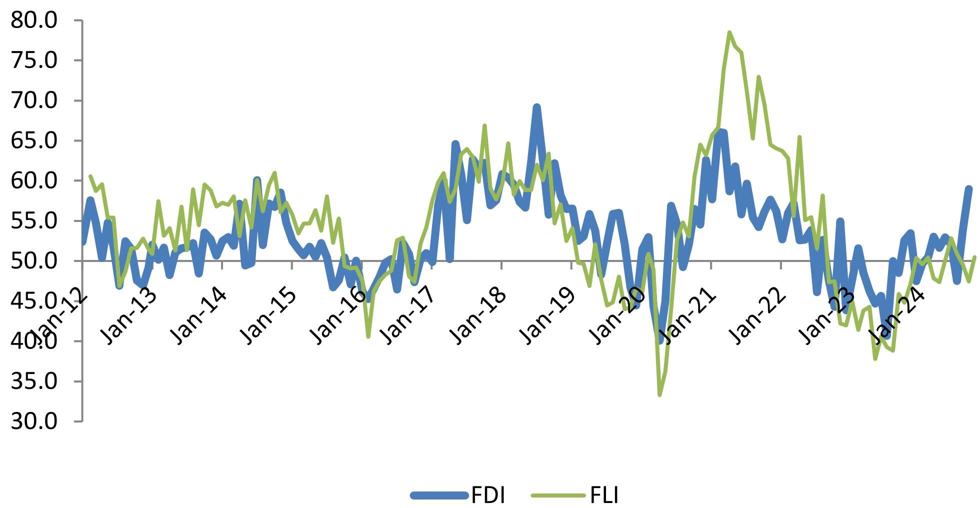
Fastenal reported August daily sales growth of +2.1% y/y, just slightly below our +2.4% estimate. We estimate this was 0.3% below what normal, days-adjusted seasonality would have implied for the month. Fastener sales, specifically, were -2.2% y/y, better vs. last month's -6.3% (consistent with the FDI m/m improvement) but still down y/y and marking the 16th consecutive month of either flat or declining y/y sales for this product line. Elsewhere, safety sales were +5.8% and other non-fasteners grew +3.7% y/y. Fastenal will report September daily sales in conjunction with 3Q24 earnings on October 10th. We are modeling September daily sales +1.8% y/y which would be in line with normal days-adjusted seasonality. This outlook is consistent with a relatively unchanged reading in the non-seasonally adjusted FDI for September. Beyond the near term, we assume 2025 returns to just modestly above normal seasonality.

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, cyclicality, and international operations.

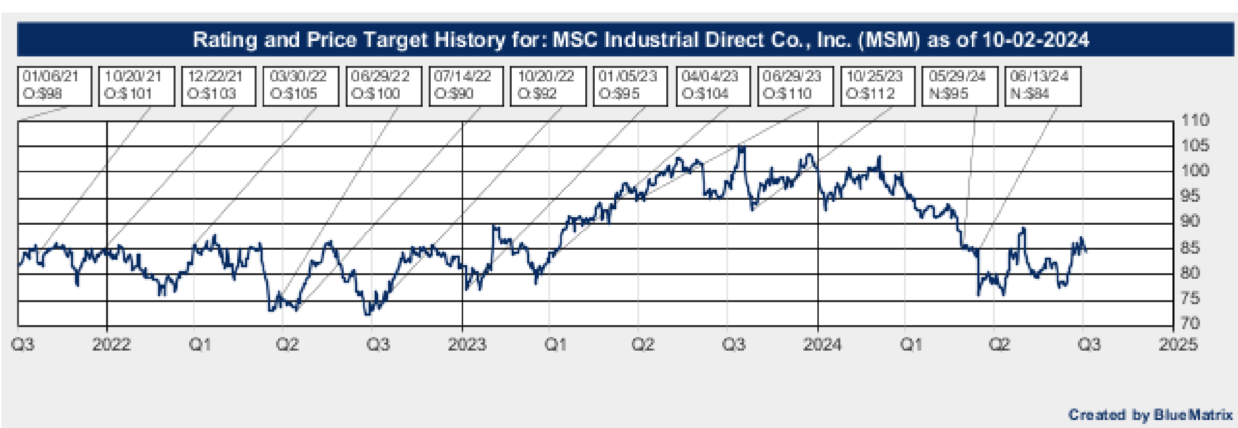
MSC Industrial: Risks include cyclicality, maintaining and managing growth, success of Mission Critical initiative, and poor investor sentiment.

Industrial Distribution: Risks include economic sensitivity, pricing power, online pressure/competitive threats, global sourcing, and exposure to durable goods manufacturing.

Appendix – Important Disclosures and Analyst Certification

Covered Companies Mentioned
All stock prices below are as of 10/4/2024.

Fastenal Company (FAST-$70.06 -Neutral)
W.W. Grainger Inc. (GWW-$1030.06-Neutral)
MSC Industrial Direct Co. Inc (MSM-$83.55-Neutral)
(See recent research reports for more information)



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