

Fastener Distributor Index – Report #154 October 2024

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Key Takeaway:

The seasonally adjusted Fastener Distributor Index (FDI) dipped slightly to **56.5** this month (September 59.0), reflecting deceleration in employment and customer inventories but an improvement in sales. Meanwhile, this month's Forward-Looking Indicator (FLI) rose to **52.6**, suggesting some optimism for November. Although an overall positive yet slower October performance for the index, taken together with other indicators (sustained sub-50 ISM PMI in October, flattish October Industrial Production, weaker FAST October sales, etc.), we believe fastener market conditions and the overall industrial economy continue to remain soft near term. That said, we do see reasons to believe an inflection could be ahead.

Fastener Distribution Trends: October 2024

FASTENER DISTRIBUTION AT A GLANCE											
October 2024											
	----- Index Values -----										Rate of
	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Direction	Change
ISM PMI (Manufacturing)	46.5	47.2	47.2	46.8	48.5	48.7	49.2	50.3	47.8	Declining	Faster
FDI	56.5	59.0	53.8	47.5	52.1	52.9	51.6	53.0	50.5	Growing	Slower
FLI	52.6	50.5	47.4	49.6	50.9	52.8	50.0	47.3	47.9	Growing	Faster
(Other Metrics)											
Sales	61.8	58.4	50.2	43.3	52.6	53.6	54.6	56.1	47.8	Growing	Faster
Employment	51.7	55.4	50.0	50.0	53.2	59.1	60.0	56.7	50.0	Growing	Slower
Supplier Deliveries	61.7	60.7	62.9	46.9	59.7	59.1	45.0	51.7	56.3	Growing	Faster
Respondent Inventories	63.3	64.3	67.7	62.5	64.5	60.6	63.3	66.7	67.2	Growing	Slower
Customer Inventories	48.3	55.4	50.0	48.4	45.2	45.5	48.3	48.3	48.4	Declining	Faster
Pricing, month-to-month	56.7	58.9	56.5	51.6	59.7	56.1	50.0	53.3	56.3	Growing	Slower
Pricing, year-to-year	56.7	62.5	45.2	42.2	54.8	50.0	33.3	45.0	56.3	Growing	Slower
6-Month Outlook - October				Higher	Same	Lower					
				50%	33%	17%					
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:

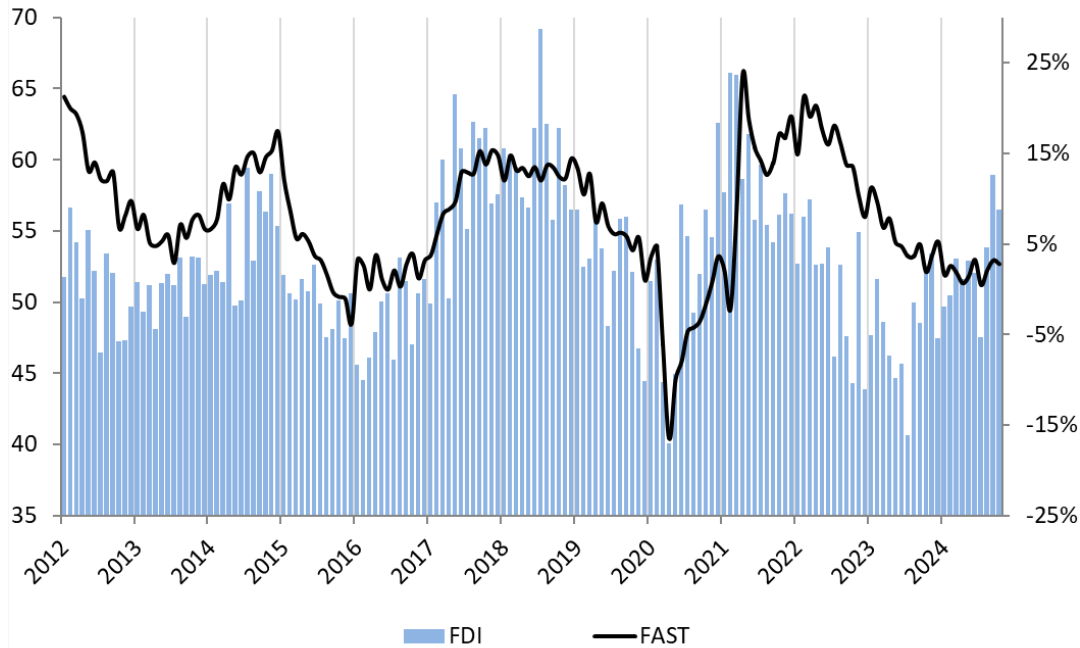
The FDI shows continued growth in October, although at a slower pace than September. The October seasonally adjusted FDI decreased to 56.5 from September's 59.0, indicating continued, but slower growth. That said, removing last month's seasonal adjusted factor would've resulted in a more stable m/m September FDI reading of 54.9, implying m/m growth in October. Two of the four underlying factors (sales and supplier deliveries) saw m/m improvement in October; employment moderated m/m while remaining above 50, while customer inventories was the only factor that posted an outright decline (sub-50 reading). Despite the m/m moderation, October's FDI reading still meaningfully marks the second highest monthly FDI reading in 2024. The sales index reached 61.8 in October, up from 58.4 in September and signaling improving momentum. Demonstrating the slight improvement in underlying demand conditions, 43% of respondents indicated sales came in above seasonal expectations, which is higher than the 36% average registered over the past year. Consistent with the relatively flat US jobs report in October, employment levels moderated a bit, with the 51.7 FDI employment index a step down from last month's 55.4 solid reading. Year-to-year pricing also noticeably lowered, reaching 56.7 compared to 62.5 in September, though still reflecting growth.

FLI stays above 50, signaling better November expectations. The FLI climbed to 52.6 in October, up from 50.5 in September, suggesting an even more optimistic forward view for November among respondents. This positive shift was driven primarily by a stronger six-month outlook, as well as lower inventory levels. 50% of survey participants anticipate increased activity levels in the coming six months, up from 39% in September. Conversely, concerns about lower activity in the coming months decreased, with only 17% of respondents expressing this sentiment compared to 25% in September. This suggests that although some caution persists due to ongoing macroeconomic uncertainties, overall sentiment is becoming more positive. 33% of participants expect activity levels to remain stable. This caused the six-month outlook index to jump to 66.7 compared to 57.1 last month. Considering the current length of the ISM downcycle/downbeat fastener market conditions, future rate cuts, and post-election acceleration, we believe this month's optimism regarding a turn in conditions ahead could be merited.

Respondent commentary leaned net positive. October was a strong month for sales, with a respondent reporting a *"near-record month of sales,"* driven by both higher prices and volume. Many noted improvements in the supply chain, with delays easing as *"problems with overseas product [are] starting to ease with the railyards finally clearing out and the shipyard strike resolved."* However, some disruptions continued, particularly at the LA port, where *"container deliveries have jumped to 10 weeks."* On the other hand, the election brought a mix of caution and frustration. Some respondents mentioned a seasonal slowdown that started earlier than usual, with one stating, *"this year is worse because everyone is waiting to see which idiot wins the presidential election."* Concerns over potential tariffs also affected outlooks, with one respondent stating, *"most Americans don't seem to realize we (the buyers) pay tariffs, not the seller."* Overall, October feedback leaned positive, with steady demand, e-commerce growth, and improving supply chains. Election uncertainty, however, remained an overhang, affecting outlooks and market sentiment.

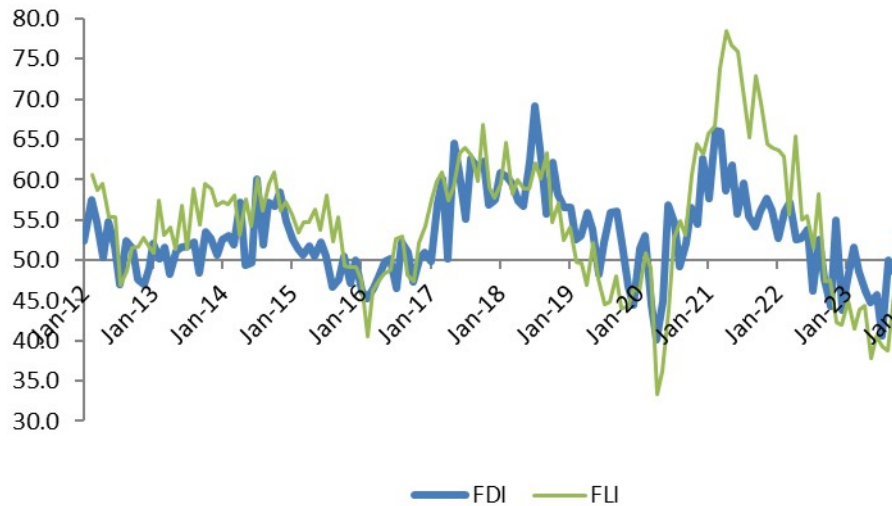
Fastenal reported October daily sales growth of +2.8% y/y, below our +3.9% estimate. Although more-than-typical days were a headwind, results were 130bps below what normal seasonality would imply. Fastener sales, specifically, were -2.0% y/y, better vs. September's -3.3% (consistent with the FDI m/m non-seasonally adjusted improvement) but still down y/y and marking the 18th consecutive month of either flat or declining y/y sales for this product line. Elsewhere, safety sales were +5.1% and other non-fasteners grew +5.1% y/y. For November, we are modeling +3.4% y/y daily sales. 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.

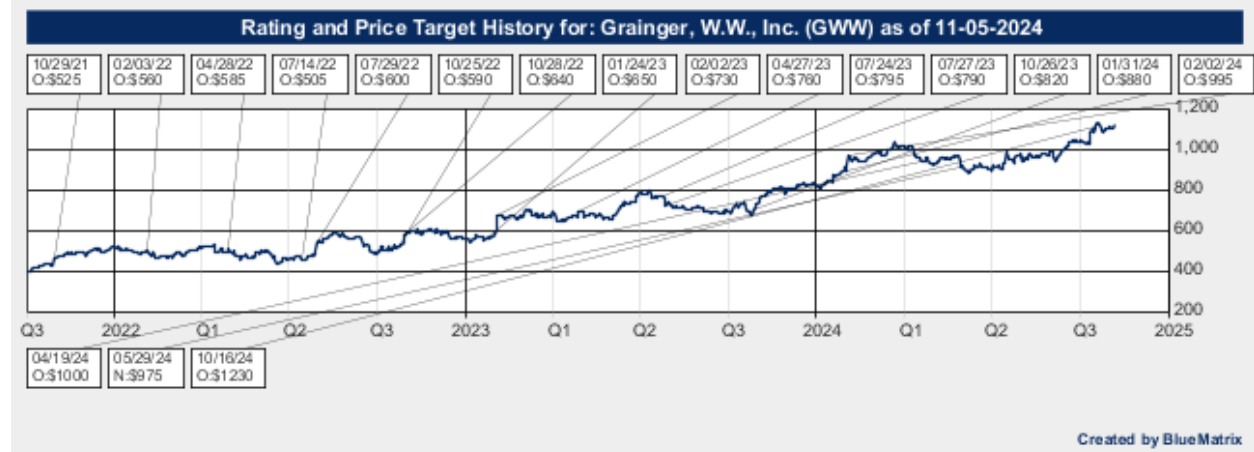
Industrial Distribution: Risks include economic sensitivity, pricing power, online pressure/competitive threats, global sourcing, and exposure to durable goods manufacturing.

Appendix – Important Disclosures and Analyst Certification

Covered Companies Mentioned

All stock prices below are as of 11/6/2024.

Fastenal Company (FAST-\$83.57-Neutral)
 W.W. Grainger Inc. (GWW-\$1194.96-Outperform)
 MSC Industrial Direct Co. Inc (MSM-\$88.79-Neutral)
 (See recent research reports for more information)



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