

Fastener Distributor Index – Report #155 November 2024

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Key Takeaway:

The seasonally adjusted Fastener Distributor Index (FDI) dropped to **46.4** in November, marking the lowest FDI reading this year (October was 56.5) and reflecting retrenchment in the sales, supplier deliveries, and customer inventory indices. In contrast, this month’s Forward-Looking Indicator (FLI) painted a rosier picture, remaining essentially stable at **52.3** and indicating expectations for growth ahead. Net, it was a softer month for participants, which runs counter to the recent improvement in the FDI, however one month does not make a trend and the FLI continues to suggest improvement ahead into 2025.

Fastener Distribution Trends: November 2024

FASTENER DISTRIBUTION AT A GLANCE												
November 2024												
	----- Index Values -----										Direction	Rate of Change
	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar			
ISM PMI (Manufacturing)	48.4	46.5	47.2	47.2	46.8	48.5	48.7	49.2	50.3		Declining	Slower
FDI	46.4	56.5	59.0	53.8	47.5	52.1	52.9	51.6	53.0		Declining	Faster
FLI	52.3	52.6	50.5	47.4	49.6	50.9	52.8	50.0	47.3		Growing	Slower
(Other Metrics)												
Sales	48.9	61.8	58.4	50.2	43.3	52.6	53.6	54.6	56.1		Declining	Faster
Employment	51.7	51.7	55.4	50.0	50.0	53.2	59.1	60.0	56.7		Growing	Faster
Supplier Deliveries	46.7	61.7	60.7	62.9	46.9	59.7	59.1	45.0	51.7		Declining	Faster
Respondent Inventories	65.0	63.3	64.3	67.7	62.5	64.5	60.6	63.3	66.7		Growing	Faster
Customer Inventories	40.0	48.3	55.4	50.0	48.4	45.2	45.5	48.3	48.3		Declining	Faster
Pricing, month-to-month	58.3	56.7	58.9	56.5	51.6	59.7	56.1	50.0	53.3		Growing	Faster
Pricing, year-to-year	56.7	56.7	62.5	45.2	42.2	54.8	50.0	33.3	45.0		Growing	Same
				<u>Higher</u> <u>Same</u> <u>Lower</u>								
6-Month Outlook - November				43%			33%			23%		

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)**.

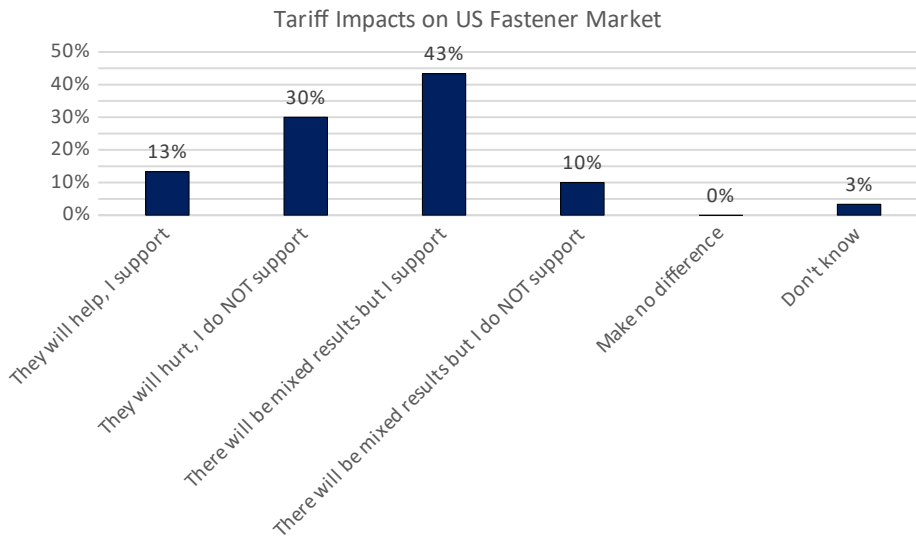
Key Points:

FDI retrenches in November. The November seasonally adjusted FDI decreased sharply to just 46.4 from October's 56.5. This marked the lowest reading of 2024 to date. That said, we caution against reading too much into one month's result, especially in November given Thanksgiving/potential weather. The drivers of the contraction this month included sales (48.9 vs. 61.8 last month), supplier deliveries (46.7 vs. 61.7), and customer inventories (40.0 vs. 48.3). Of the four FDI components, only the employment index was stable m/m. Looking specifically at sales, just 33% of respondents indicated sales came in above seasonal expectations, which is below the 36% YTD average and 43% in October. Employment remained stable, with a full 77% of responses saying employment levels were similar m/m. Similarly, pricing looked mostly stable with October (63% of responses).

FLI remains in a healthy spot, however. The FLI registered a 52.3 reading, which was essentially unchanged m/m (October 52.6). We view the FLI as indicative of expectations among participants for slight acceleration in the coming months/2025. Consistent with this, 43% of participants forecast better activity levels over the next six months vs. today, while just 23% see lower and another 33% forecast stable trends. This is slightly less optimistic on balance than in October, however, when 50% forecast acceleration, 33% stable, and just 17% deceleration. We believe this suggests that, although some caution persists due to ongoing macroeconomic/inflation uncertainties, overall sentiment among participants leans cautiously optimistic. This resulted in the six-month outlook index remaining quite healthy at 60.0 (October 66.7). Considering the current length of the ISM PMI downcycle/downbeat fastener market conditions, future Fed rate cuts, and potential post-election acceleration with emphasis on domestic manufacturing, we believe optimism regarding a turn in conditions ahead could be merited.

Respondent commentary also leaned positive. With the election in the rear-view and potential for tariffs coming, some participants believe customers have resumed spending and/or stocking up: *"The election jitters are over and buying has resumed. Some people are stocking up in anticipation of tariffs, which is good short term and bad long term."* Similarly, another respondent said, *"Happy to have some resolve to the election season, with a better idea of what to expect politically for next year. Domestic manufacturing has been strong most of the year and we expect steady growth in the upcoming year."* Order feedback on November was mixed as some saw steady/healthy trends, *"Steady in-coming order rate right through Thanksgiving week so that was refreshing to see."*, while others saw softening, *"Even though sales were down a bit in Nov, the two months of both Oct and Nov were much better than the two months previously of Aug and Sept."* Others indicated weakening was simply a reflection of normal seasonal slowing: *"November sales were 12% lower than October, but this drop was forecast as it is a seasonal decline that our business experiences every Nov/Dec."* Looking forward, the outlook continues to be difficult to predict with macro uncertainty, inflation, and potential tariff headwinds, but we sense participants lean net optimistic at this point: *"Our core industrial OEM business continues to be suppressed. While there are many examples of specific OEM customers with strong backlogs and bright outlooks, there are more examples of the opposite that are making for difficult y/y comparables. The causal effects of the election, inflation, interest rates, etc. have been impossible to quantify, but like everyone, we are hoping that they are in fact real so that we can expect some rebound as they are resolved."*

Special question on tariffs. This month, respondents were asked for their thoughts on the impacts of tariffs on U.S. fastener markets. As shown in the graph below, a plurality of respondents (43%) leaned towards “there will be mixed results, but I support”, followed by 30% saying “they will hurt, I do not support.” Graph and comments below:

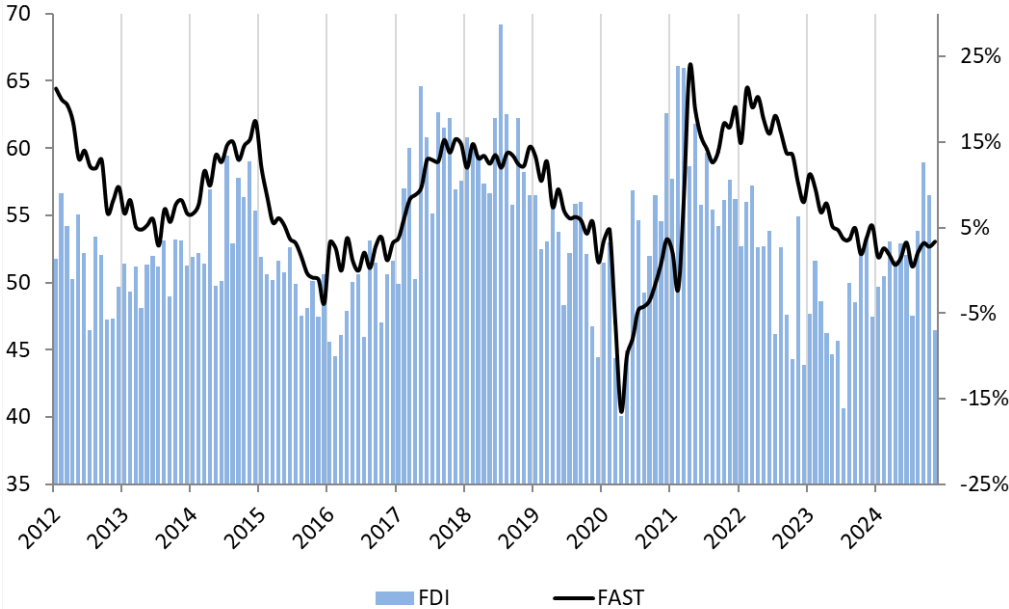


Source: Baird, FCH Sourcing Network

- "China has been dumping into the global markets for decades now. Happy to have leadership willing to do something about it, even though the US market will struggle to wean itself off of cheap goods."
- "Needs to be strategic like in 2018 but across the board is not a good plan."
- "Historically, no BLANKET tariff imposed has EVER worked since the 1800s. In fact, the Smoot–Hawley Tariff Act signed by Hoover is famous for making the existing 1929 depression into the Great Depression. Those who do not learn from history are doomed to repeat it. Only people who don't understand basic economics would think blanket tariffs are a good decision. (Note that certain countervailing duties are proven effective but those are not tariffs per se.) "
- "We will have to see what effect President Trump will have on Asia, specifically China and Taiwan situations. "
- "Canada and the USA need to band together and sign a bilateral agreement to exert pressure 1) On China and 2) Mexico as a conduit to cheap Chinese EV;s and products in Canada/USA. The US needs energy and Canada has it- those Northern States don't need a 25% tariff on Canadian oil. Let's make a deal.....and I'm quite sure we will by summer 2025."
- "WORRIED ABOUT TRADE TARIFFS. COULD CAUSE MARGIN AND SUPPLY ISSUES. NOBODY WINS TRADE WARS. "
- "Its a level playing field, we will all have to deal with them."
- "Tariffs in general are a bad idea. Just dumb. I support a free market."
- "People don't understand who actually pays those tariffs. People think we are punishing other countries, but that money goes to the US government."
- "Of course it will hurt temporarily, until it all balances out, then business as usual but with a bump in USA manufacturing. A long time coming! "

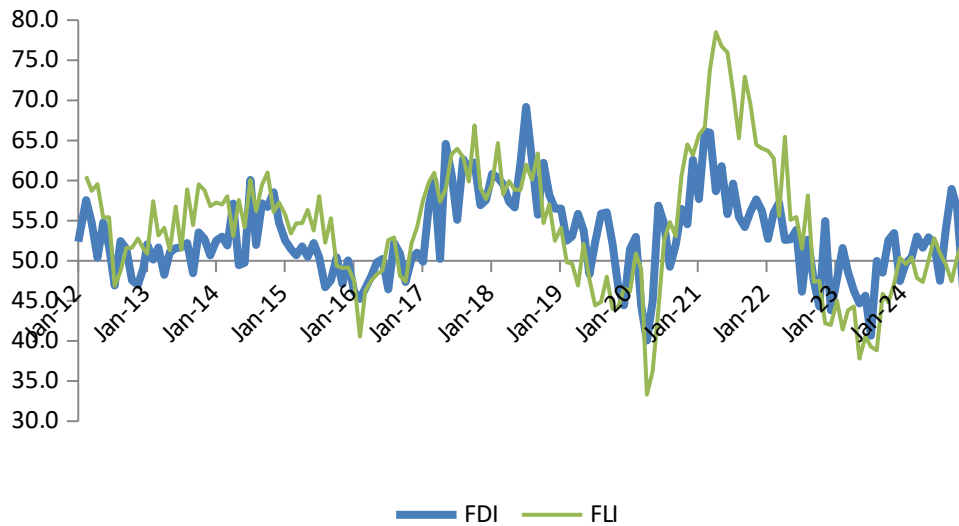
Fastenal reported November daily sales growth of +3.4% y/y, matching our estimate. Although two fewer-than-typical days were a tailwind to the daily sales growth rate, underlying growth was still slightly better than expected (0.6% better m/m than normal seasonality ex. days). Similarly, fastener sales were better than expected and flattish at +0.1% y/y, which was the first flattish result since September 2023. Elsewhere, safety sales were +5.5% and other non-fasteners grew +5.2% y/y. For December, we are modeling +2.0% y/y daily sales. Beyond the near term, we assume FAST is growing in the double-digits in the back half of 2025 based on just slightly better-than-normal seasonality in year one of what we assume is an industrial market recovery.

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 poor investor sentiment.

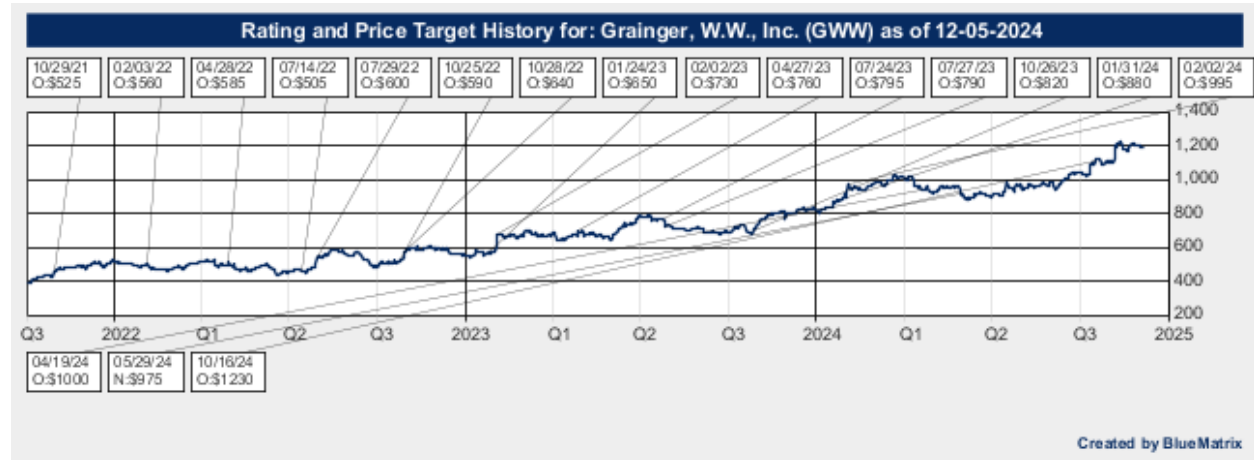
Industrial Distribution: Risks include economic sensitivity, pricing power, online pressure/competitive threats, global sourcing, and exposure to durable goods manufacturing.

Appendix – Important Disclosures and Analyst Certification

Covered Companies Mentioned

All stock prices below are as of 12/6/2024.

Fastenal Company (FAST-\$81.29-Neutral)
 W.W. Grainger Inc. (GWW-\$1185.41-Outperform)
 MSC Industrial Direct Co. Inc (MSM-\$82.80-Neutral)
 (See recent research reports for more information)



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