

Fastener Distributor Index – Report #152 August 2024

Written by R.W. Baird analyst David J. Manthey, CFA with Quinn Fredrickson, CFA 9/6/24



Key Takeaway:

The seasonally adjusted Fastener Distributor Index (FDI) improved to **53.8** this month (July 47.5), mainly on a recovery from last month’s abysmal sales reading, much slower supplier deliveries, and slightly higher pricing. Conversely, this month’s Forward-Looking Indicator (FLI) decelerated m/m, dropping to **47.4**, suggesting some weakening ahead. When taken together with other indicators (continued sub-50 ISM PMI in August, recent weak jobs report, weak FAST August sales, etc.), we believe fastener market conditions and the industrial economy in general continued to be soft but slightly better m/m in August.

Fastener Distribution Trends: August 2024

FASTENER DISTRIBUTION AT A GLANCE												
August 2024												
	----- Index Values -----										Direction	Rate of Change
	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec			
ISM PMI (Manufacturing)	47.2	46.8	48.5	48.7	49.2	50.3	47.8	49.1	47.4		Declining	Slower
FDI	53.8	47.5	52.1	52.9	51.6	53.0	50.5	49.7	47.5		Growing	Faster
FLI	47.4	49.6	50.9	52.8	50.0	47.3	47.9	50.4	49.6		Declining	Faster
(Other Metrics)												
Sales	50.2	43.3	52.6	53.6	54.6	56.1	47.8	50.0	47.4		Growing	Faster
Employment	50.0	50.0	53.2	59.1	60.0	56.7	50.0	50.0	50.0		Same	Same
Supplier Deliveries	62.9	46.9	59.7	59.1	45.0	51.7	56.3	48.7	43.1		Growing	Faster
Respondent Inventories	67.7	62.5	64.5	60.6	63.3	66.7	67.2	61.5	75.9		Growing	Faster
Customer Inventories	50.0	48.4	45.2	45.5	48.3	48.3	48.4	51.3	46.6		Same	Same
Pricing, month-to-month	56.5	51.6	59.7	56.1	50.0	53.3	56.3	56.4	44.8		Growing	Faster
Pricing, year-to-year	45.2	42.2	54.8	50.0	33.3	45.0	56.3	47.4	50.0		Declining	Slower
				Higher			Same			Lower		
6-Month Outlook - August				32%			39%			29%		

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:

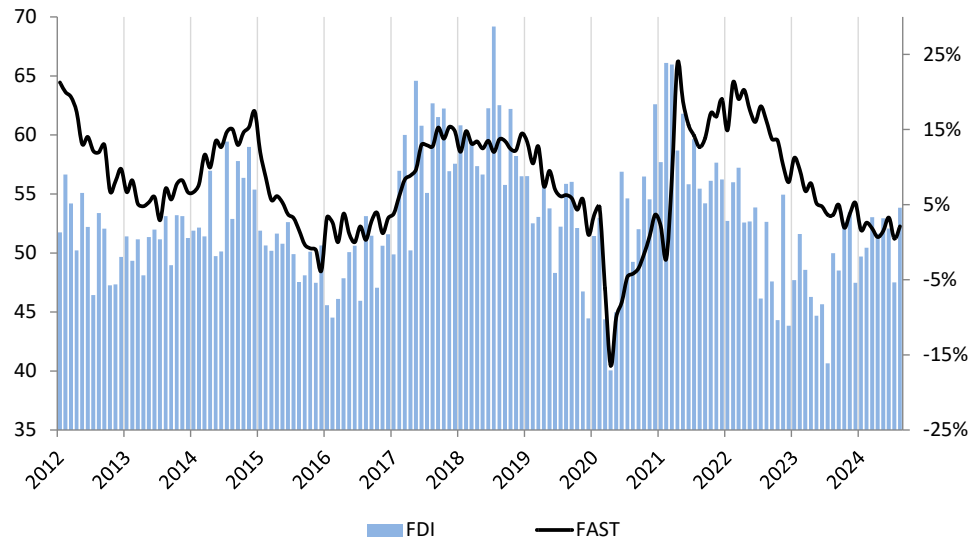
FDI bounces higher m/m. The August seasonally adjusted FDI improved to a reading of 53.8 compared to July's 47.5. Three of the four underlying components (sales, supplier deliveries, and customer inventories) drove the improvement; employment was flat m/m. Looking at the sales index specifically, this month saw a nice recovery from a very soft July. 35% of respondents indicated sales came in above seasonal expectations compared to just 22% last month and the 34% average over the past year. An equal amount of respondents said sales were in line with expectations (32% vs. 31% in July) or below expectations (also 32%, July 47%).

FLI moves further below 50. Despite the headline strength in the FDI, respondents seem to consider this month's performance more of a short-term bump as evidenced by the move lower in the FLI. Compared to last month, the FLI decreased to 47.4 (July 49.6), which is the third consecutive m/m decline in the index and the second-lowest reading all year. Residing well below a neutral reading of 50.0, the FLI signals an expectation for contraction m/m in future market activity levels. Higher respondent and customer inventories coupled with a less positive six-month outlook drove the contraction in the FLI. On the outlook specifically, views again leaned net more positive than negative (32% expecting higher activity levels six months from now vs. today compared to 29% lower) but the enthusiasm gap continues to narrow (May/June had a 24% net more optimistic outlook, July was 7% net optimistic). The remaining 39% of participants forecast similar activity. In July, 38% expected higher activity, 31% similar, and 31% lower. This drove the six-month outlook index to weaken to just 51.6 from 53.1 last month.

Respondent commentary was mixed/divergent. Representative comments from participants were as mixed as the data. Some saw strong incoming orders and have a generally positive outlook for the remainder of 2024: *"August in-coming order rate was better than July so that was good to see. High hopes for the final four months of the year."* Similarly, *"In spite of several conversations with customers that leaned towards pessimism concerning future sales, the orders keep coming in. Good month after good month leave us pleasantly surprised."* Another participant said, *"This was our best August in terms of sales in our company's 50-year history!"* Conversely, one comment warned of slowing into the fourth quarter: *"Customers are warning about a slow fourth quarter."* Others saw very soft order/sales trends this month: *"Much slower period, sales fell off a cliff,"* and *"More weakening sales activity at this time. Slightly weaker than expected."* Net, results/outlook were clearly divergent among the respondent base this month.

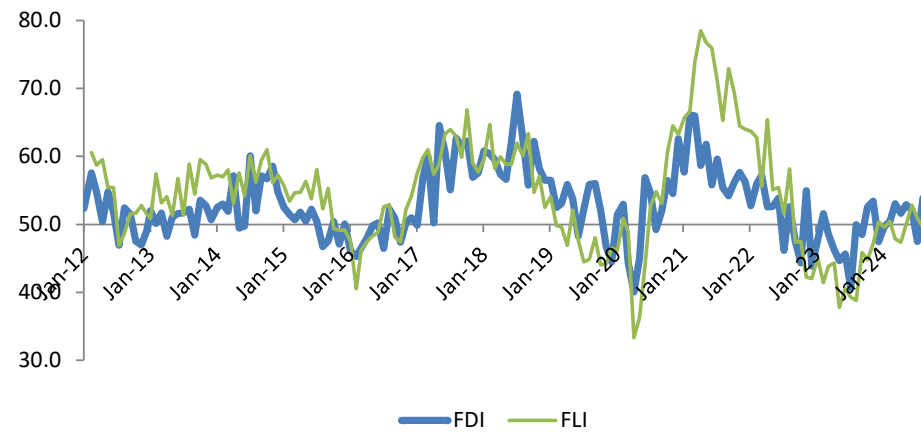
Fastenal reported August daily sales growth of +2.1% y/y vs. our +2.4% estimate. We estimate this was 0.3% below what normal, days-adjusted seasonality would have implied for the month. Fastener sales, specifically, were -2.2% y/y, better vs. last month's -6.3% (consistent with the FDI m/m improvement) 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. For September, we are modeling +1.8% y/y daily sales growth which would be in line with normal days-adjusted 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, cyclicity, and international operations.

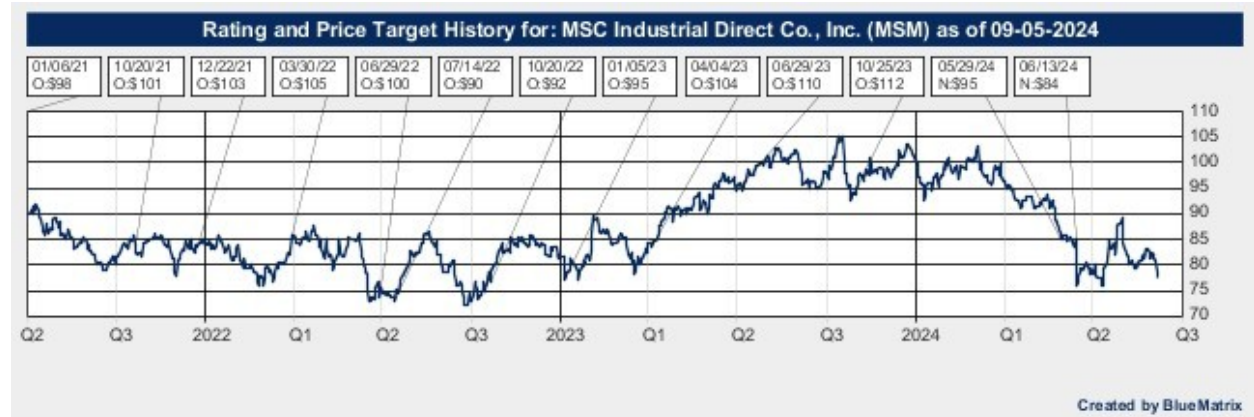
MSC Industrial: Risks include cyclicity, maintaining and managing growth, success of Mission Critical initiative, and poor investor sentiment.

Appendix – Important Disclosures and Analyst Certification

Covered Companies Mentioned

All stock prices below are as of 9/6/2024.

Fastenal Company (FAST-\$66.29-Neutral)
 W.W. Grainger Inc. (GWW-\$949.22-Neutral)
 MSC Industrial Direct Co. Inc (MSM-\$78.37-Neutral)
 (See recent research reports for more information)



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