

Fastener Distributor Index – Report #156 December 2024

Written by R.W. Baird analyst David J. Manthey, CFA with Quinn Fredrickson, CFA 1/9/25



Key Takeaway:

The seasonally adjusted Fastener Distributor Index (FDI) moved slightly higher at **48.1** but remains below 50, reflecting a significant retrenchment in the sales index (36.5 versus 48.9 in November). This month’s Forward-Looking Indicator (FLI) remained in expansionary levels, albeit inching lower m/m to **51.4**. Overall, the FDI ended the year on a softer note for two consecutive months, contrasting with the improvement seen August through October. Still, with the FLI and outlook data pointing to improvement ahead into 2025, we caution against reading too much into November/December trends given holidays, weather etc.

Fastener Distribution Trends: December 2024

FASTENER DISTRIBUTION AT A GLANCE											
December 2024											
	----- Index Values -----										
	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Direction	Rate of Change
ISM PMI (Manufacturing)	49.3	48.4	46.5	47.2	47.2	46.8	48.5	48.7	49.2	Declining	Slower
FDI	48.1	46.4	56.5	59.0	53.8	47.5	52.1	52.9	51.6	Declining	Slower
FLI	51.4	52.3	52.6	50.5	47.4	49.6	50.9	52.8	50.0	Growing	Slower
(Other Metrics)											
Sales	36.5	48.9	61.8	58.4	50.2	43.3	52.6	53.6	54.6	Declining	Faster
Employment	47.0	51.7	51.7	55.4	50.0	50.0	53.2	59.1	60.0	Declining	Faster
Supplier Deliveries	56.1	46.7	61.7	60.7	62.9	46.9	59.7	59.1	45.0	Growing	Faster
Respondent Inventories	63.6	65.0	63.3	64.3	67.7	62.5	64.5	60.6	63.3	Growing	Slower
Customer Inventories	48.5	40.0	48.3	55.4	50.0	48.4	45.2	45.5	48.3	Declining	Slower
Pricing, month-to-month	53.0	58.3	56.7	58.9	56.5	51.6	59.7	56.1	50.0	Growing	Slower
Pricing, year-to-year	53.0	56.7	56.7	62.5	45.2	42.2	54.8	50.0	33.3	Growing	Slower
6-Month Outlook - December					Higher	Same	Lower				
					61%	24%	15%				
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 inches higher in December. The December seasonally adjusted FDI increased slightly to 48.1 from November's 46.4. The drivers of this month's moderation were a significant drop in sales (36.5 vs. 48.9) and employment (47.0 vs. 51.7), while improvement in supplier deliveries (56.1 vs. 46.7) and customer inventories (48.5 vs. 40.0) partially offset. Looking specifically at sales, only 15% of respondents indicated sales came in above seasonal expectations, which is below the 34% average throughout 2024 and 33% in November. This was also the lowest mark since July 2023. Employment remained mostly stable, with a full 76% of responses saying employment levels were similar m/m. Similarly, pricing looked mostly stable with November (70% of responses).

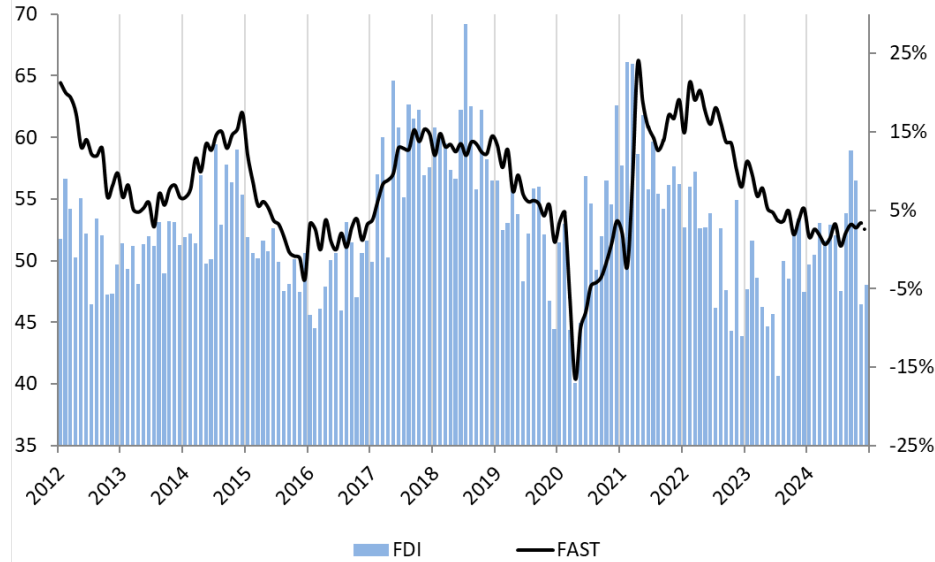
FLI ticks slightly lower but remains above 50. The FLI registered a 51.4 reading, creeping lower from November's 52.3. With a reading above 50, we view the FLI as indicative of expectations among participants for slight acceleration coming into the new year. Consistent with this, 61% of participants forecast better activity levels over the next six months vs. today, while just 15% see lower and another 24% forecast stable trends. Net, this is more optimistic on balance than in November when 43% forecast acceleration, 33% stable, and just 23% deceleration – albeit coming off a weak December. We believe this suggests that overall sentiment among participants leans cautiously optimistic heading into 2025, although some caution persists due to ongoing macroeconomic/inflation/rate uncertainties. This resulted in the six-month outlook index remaining quite robust at 72.7 (November 60.0), which is the highest reading since August 2021. Considering the current length of the ISM PMI down-cycle and persistently downbeat fastener market conditions for much of the past two years, future Fed rate cuts, and potential post-election acceleration with emphasis on domestic manufacturing, we consider a turn in conditions ahead to be a reasonable expectation.

Outlook commentary leaned positive, albeit with a cautious eye towards tariffs. With the election behind us and ongoing discussions around tariffs, participants expressed varying expectations for the future. One respondent noted, *"[It] appears things are 'status quo' now that the election and year are over. We don't expect much in the way of overall business jumping but feel domestic manufacturing will benefit from all the latest tariff talks."* Others remain cautious about potential impacts on consumer demand and pricing adjustments: *"We continue to be nervous about Trump's new tariffs. They will affect everything. The higher they are, the worse the overall impact."* Nearer term, as is typically the case, the holiday season drove a significant slowing in activity towards the end of the month, with one respondent commenting, *"RFQ's slowed in much of December so we were unable to capitalize on as many orders as we had hoped to. Hopefully, the larger number of business days in January will help us balance it out."* Another said, *"Early December sales were better than expected but slowed to expected levels as we hit the holidays."* A mid-week Christmas/New Years timing (as opposed to early/late in the week) may have contributed to the weakness, as well. Looking ahead, expectations for order activity remain stable, with potential increases in incoming purchases. As one respondent noted, *"Expecting quoting activity to be the same, but incoming POs could be higher."* Still, cautious optimism seems to be the general tone on 2025 expectations: *"2024 was a very strong year for us and we have higher expectations for the new year."* Echoing this, another participant commented, *"2024 will be our second best behind 2022. Hoping 2025 brings good things for all."*

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.

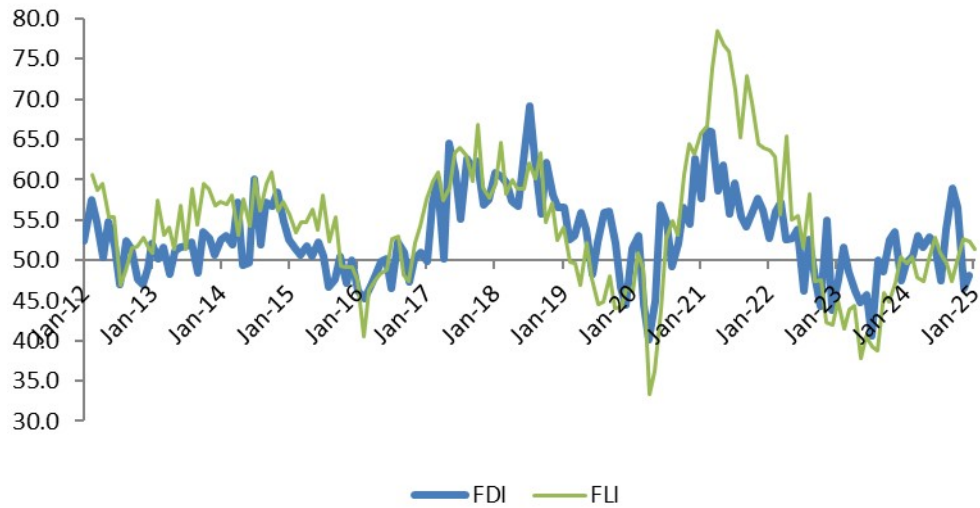
Elsewhere, safety sales were +5.5% and other non-fasteners grew +5.2% y/y. For December (to be reported on January 17), we are modeling +2.0% y/y daily sales, which would be a slight deceleration (consistent with the FDI). Beyond the near term, we assume FAST is growing in the double-digits in the back half of 2025 based on just slightly better-than-normal seasonality in year one of what we assume is an eventual 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.

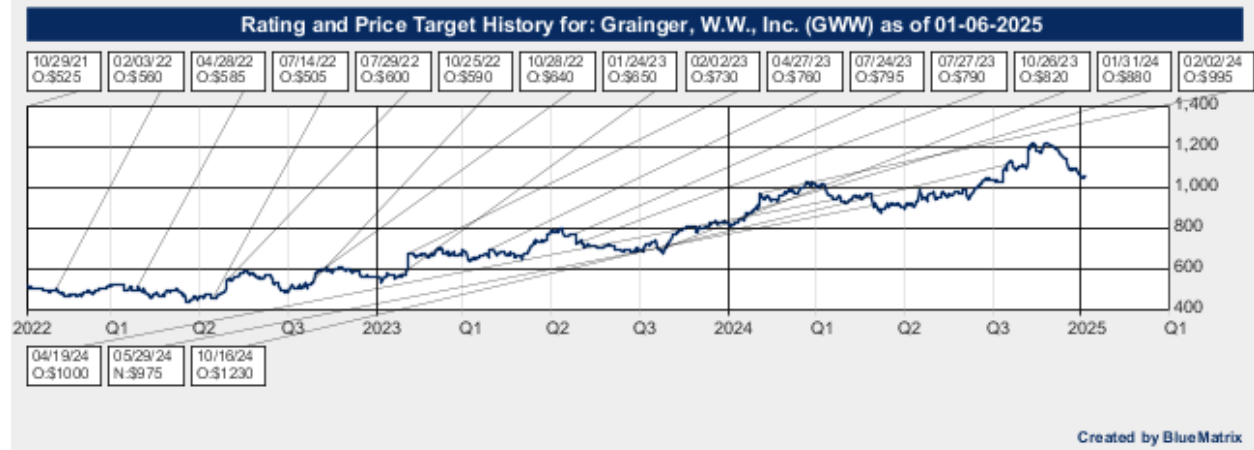
Industrial Distribution: Risks include economic sensitivity, pricing power, online pressure/competitive threats, global sourcing, and exposure to durable goods manufacturing.

Appendix – Important Disclosures and Analyst Certification

Covered Companies Mentioned

All stock prices below are as of 1/7//2025.

Fastenal Company (FAST-\$72.06-Neutral)
 W.W. Grainger Inc. (GWW-\$1058.26-Outperform)
 MSC Industrial Direct Co. Inc (MSM-\$79.51-Neutral)
 (See recent research reports for more information)



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