

Fastener Distributor Index – Report #157 January 2025

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Key Takeaway:

The seasonally adjusted Fastener Distributor Index (FDI) moved slightly lower and remained below 50 at **47.6** amid a slow start to the month (likely holiday/weather impacted), which drove seasonally weak sales. The Forward-Looking Indicator (FLI) also inched lower m/m to **49.9**. Overall, it was a bit of a soft start to the new year. We attribute this more to January abnormalities and tariff skittishness than true underlying weakness. As such, we caution against reading too much into the January FDI.

Fastener Distribution Trends: January 2025

FASTENER DISTRIBUTION AT A GLANCE												
January 2025												
	----- Index Values -----											
	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Direction	Rate of Change	
ISM PMI (Manufacturing)	50.9	49.3	48.4	46.5	47.2	47.2	46.8	48.5	48.7	Growing	Faster	
FDI	47.6	48.1	46.4	56.5	59.0	53.8	47.5	52.1	52.9	Declining	Faster	
FLI	49.9	51.4	52.3	52.6	50.5	47.4	49.6	50.9	52.8	Declining	Faster	
(Other Metrics)												
Sales	37.7	36.5	48.9	61.8	58.4	50.2	43.3	52.6	53.6	Declining	Slower	
Employment	51.7	47.0	51.7	51.7	55.4	50.0	50.0	53.2	59.1	Growing	Faster	
Supplier Deliveries	55.0	56.1	46.7	61.7	60.7	62.9	46.9	59.7	59.1	Growing	Slower	
Respondent Inventories	61.7	63.6	65.0	63.3	64.3	67.7	62.5	64.5	60.6	Growing	Slower	
Customer Inventories	50.0	48.5	40.0	48.3	55.4	50.0	48.4	45.2	45.5	Declining	Same	
Pricing, month-to-month	53.3	53.0	58.3	56.7	58.9	56.5	51.6	59.7	56.1	Growing	Faster	
Pricing, year-to-year	55.0	53.0	56.7	56.7	62.5	45.2	42.2	54.8	50.0	Growing	Faster	
6-Month Outlook - January				Higher	Same	Lower						
				50%	33%	17%						
<i>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.</i>												

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:

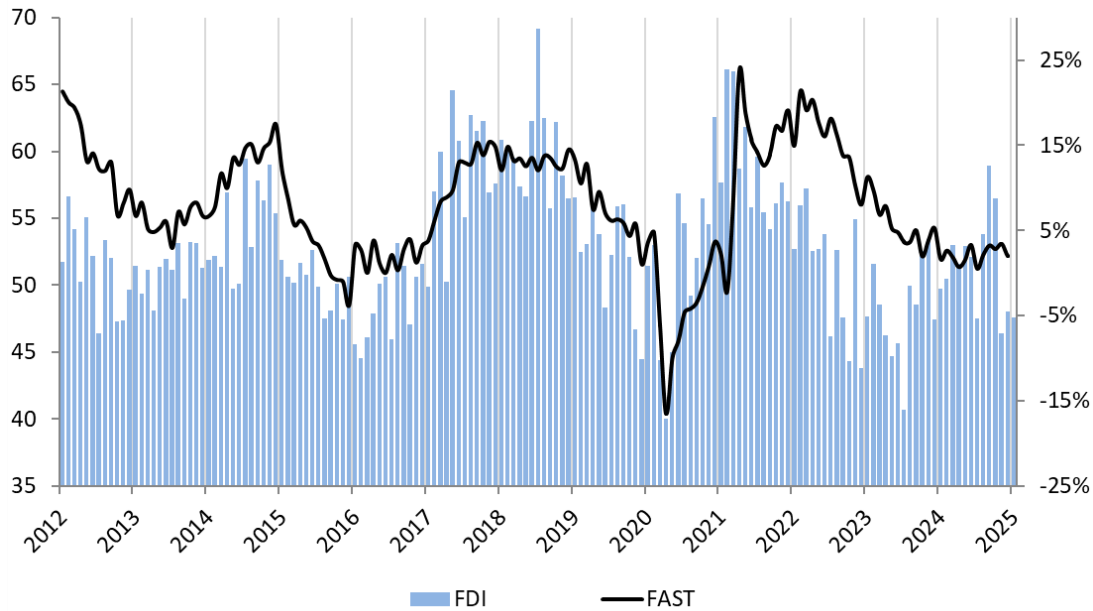
FDI moderates amid slow start to the month. The January seasonally adjusted FDI decreased to 47.6 from December's 48.1. We attribute this primarily to a weak sales index amid a slow start to the month (New Years fell on Wednesday this year prompting some to take extended shutdowns) and unfavorable weather. Publicly traded industrial distributors (Applied Industrial, Fastenal, and Grainger) have all recently made similar commentary about sluggish sales trends through mid-January before seeing acceleration in the back half of the month; at least one participant in the FDI echoed this in their commentary. Among FDI participants, only 27% of respondents indicated sales came in above seasonal expectations this month, which is below the 34% average registered throughout 2024. Employment remained mostly stable, with a full 63% of responses saying employment levels were similar m/m. Similarly, pricing looked stable with December (73% of responses).

FLI also retrenches; sentiment likely influenced by tariffs. The FLI retreated below 50 for the first time since August, coming in at 49.9 (December 51.4). Based on respondent commentary and a slightly weaker six-month outlook, we believe tariff headlines likely pressured sentiment and the FLI. Consistent with this, 50% of participants forecast better activity levels over the next six months vs. today – down vs. 61% last month. Another 33% see similar trends continuing (up vs. 24% in December), while 17% forecast deteriorating sales (vs. 15% last month). Still, sentiment leans net optimistic, and the FLI had been on a mostly upward trend since August. Thus, we believe that, although some caution persists due to ongoing macroeconomic/inflation/tariff uncertainties, overall sentiment among participants continues to lean cautiously optimistic on the 2025 outlook overall. Indeed, the six-month outlook index continues to be quite healthy at 66.7, which, although down from 72.7 in December, still represented the second highest reading since August 2021. With the ISM PMI downcycle of 26 consecutive months of a sub-50 reading also coming to an end in January, the potential for additional Fed rate cuts ahead, and industrial sentiment improving post-election, we continue to consider a turn in conditions ahead to be a reasonable expectation.

Commentary focused on soft January and tariff threat. As previously mentioned, we believe the slower-than-expected January sales in part reflected a sluggish early January due to holiday timing. One participant said, *"January sales were slightly below expectation, especially early in the month but rebounded as the month closed, signaling hope for the rest of the quarter."* Remaining commentary mostly focused on tariffs and the potential headwinds both to demand, *"Worried about the tariffs from Canada and Mexico....if they happen, it will be a challenging year"*, and supply chain/logistics *"Continued trepidation with how Trumps trade policies will affect international business on both the sell and buy side, and its effects on the supply chain and logistics."*; *"We are concerned with the affect the new tariff situation will have on our supply chain."* Tariffs are seen as likely to be a renewed source of inflation, which respondents may/may not be successful in passing along: *"Join the wild tariff ride! No telling what may happen. Expect delays at the ports for 1-3 weeks as the deadline approaches to clear customs before the increase hits. Domestic manufacturing should heat up and material prices are expected to increase as domestic manufacturers take advantage of the ability to improve pricing while tariffs are increased."*

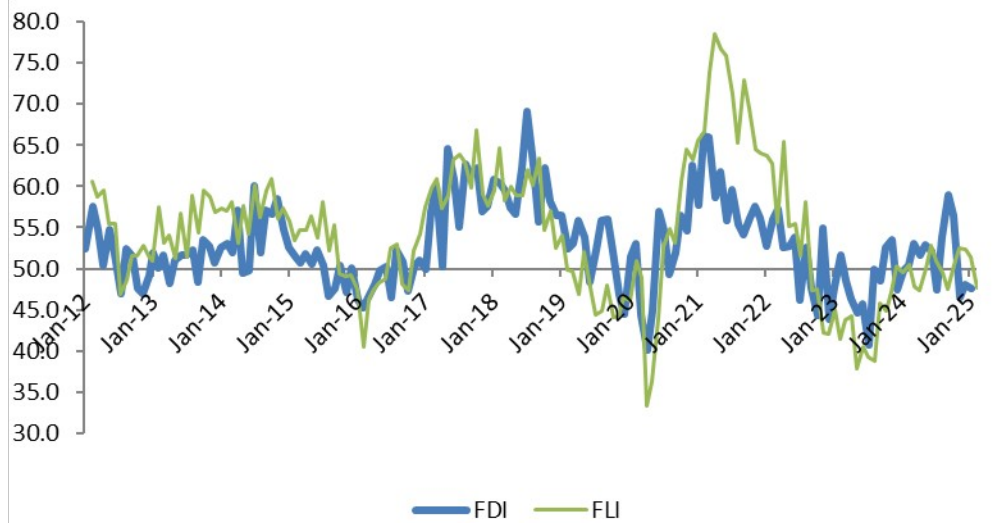
Fastenal reported January daily sales growth of +1.9% y/y, below our +2.6% estimate. Growth was +1.4% weaker than normal seasonality would imply due to weather and holiday timing. Consistent with the weak FDI/FLI, fastener sales were down y/y at -1.7%. Elsewhere, safety sales were +3.7% and other non-fasteners grew +3.5% y/y. For February, we are modeling an improvement in trend to +3.6% y/y daily sales growth as weather/holiday impacts normalize. 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, cyclicalities, and international operations.

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

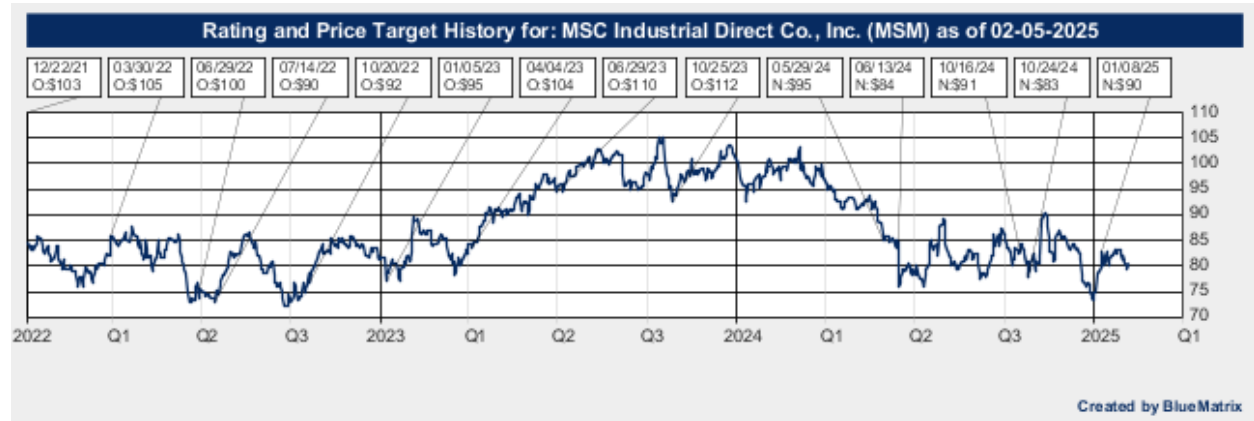
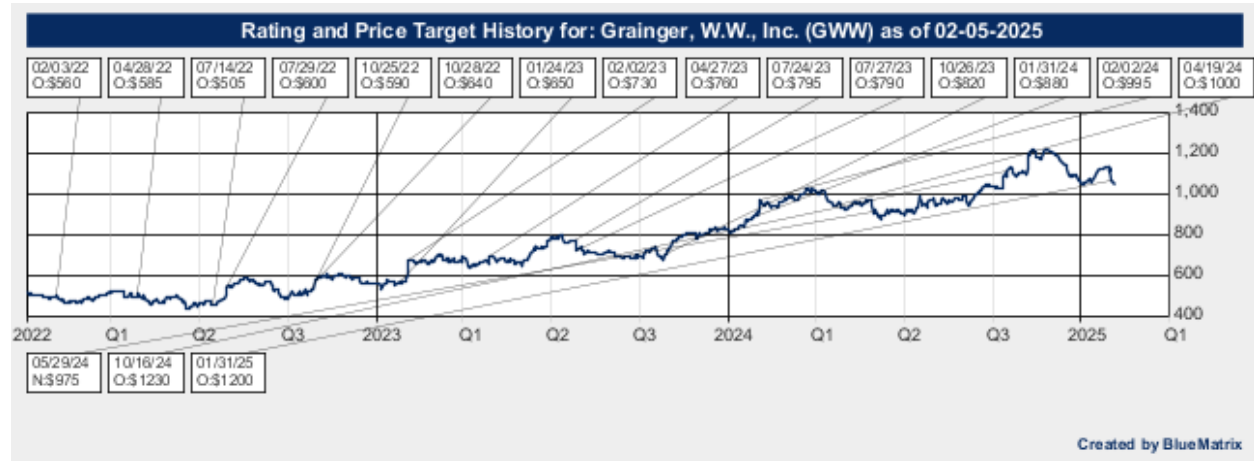
Industrial Distribution: Risks include economic sensitivity, pricing power, online pressure/competitive threats, global sourcing, and exposure to durable goods manufacturing.

Appendix – Important Disclosures and Analyst Certification

Covered Companies Mentioned

All stock prices below are as of 2/6/2025.

Fastenal Company (FAST-\$73.54-Neutral)
 W.W. Grainger Inc. (GWW-\$1042.92-Outperform)
 MSC Industrial Direct Co. Inc (MSM-\$80.57-Neutral)
 (See recent research reports for more information)



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