

## Industrials/Multi-Industry

# Fluid Power Survey #164: Strong start for outlook in '24; demand reading more mixed

Industry Overview

### Fluid Power Survey #164, week of January 12, 2024

This week, we surveyed 50 industrial distributors from North America, EMEA, and APAC focusing on fluid power products (hydraulics and pneumatics). Our demand indicator decelerated but our outlook indicator slightly improved from last survey. Demand decelerated to 60.0 from 70.0 last survey while the outlook improved to 77.6 from 70.0 prior. While data is noisy week-to-week, the outlook has been on a general downward trend since 2H22. A positive inflection over the last few weeks would be consistent with our 4Q distributor channel checks. However, the current demand reading moderates our conviction level on inflecting positively now. [We recently published our 4Q23 preview \(see report\)](#). We recommend Parker-Hannifin (in addition to Rockwell, 3M, Vertiv, and Emerson) as our best ideas into the print. Our survey's North American outlook indicator has a strong relationship with orders in Industrial North America. Our North American outlook results have been stronger relative to 3Q. It indicates that orders in Industrial NA could be down 2-3% y/y (versus down 4% last quarter).

**Our key global outlook indicator rose to 77.6 from 70.0 prior.** This was driven by improvements in EMEA and APAC. North America slightly moderated (to 79.7 from 81.9). Outlook remains bullish in all three regions. Our demand outlook indicator has a meaningful positive correlation with ISM Manufacturing PMI (80% correlation) and ISM Manufacturing New Orders (72% correlation). We look at the relationship from July 2017 through January 2024. Outlook has been trending more positively the last two surveys after decelerating since the beginning of summer '22.

### Demand decelerates as outlook improves

Our global demand indicator decelerated relative to last survey, with the reading coming in at 60.0 versus 70.0 prior. This was driven by deceleration in North America demand. EMEA demand was flat and APAC demand improved slightly. Our key global outlook indicator rose to 77.6 from 70.0 prior and is bullish in all three regions. While data is noisy week-to-week, demand has been on a general downward trend since 2H22. A positive inflection over the last few weeks would be consistent with our 4Q distributor channel checks.

### Distributors still perceive inventories as “too low”

A reading greater than 50 indicates that more distributors perceive inventory levels are too low, whereas a reading below 50 indicates more distributors perceive inventory levels are too high. This week's indicator reading rose to 60.2 from 59.0 last survey. This suggests that inventory is perceived as lower than last survey, which contrasts with some investor concerns about destocking risk into '24.

### Pricing decelerates but still overall bullish

Distributor pricing decelerated to 76.0 from 85.0 last survey. Pricing is positive in NA and EMEA, and at breakeven (50.0) levels in APAC.

16 January 2024

Equity  
Americas  
Industrials/Multi-Industry

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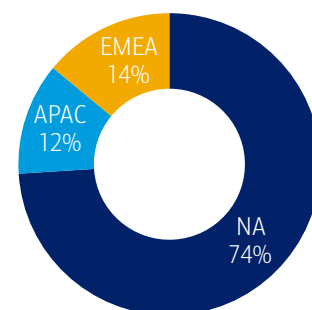
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### Exhibit 1: Distributor regional breakout

74% of distributors surveyed are North America-based



Source: BofA Global Research  
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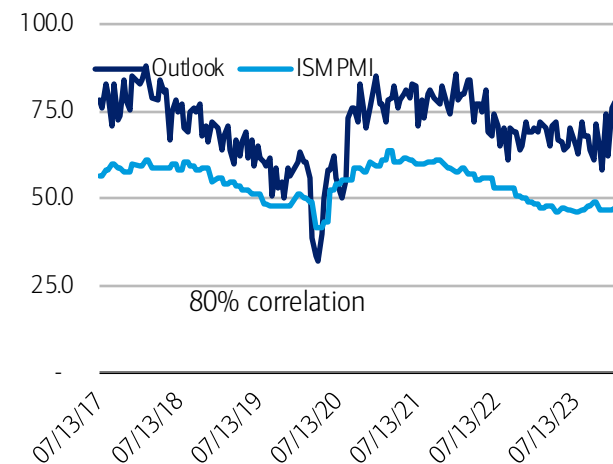
# Survey Results

## Outlook: strong leading indicator for PMI/new orders

Our demand outlook indicator has a meaningful positive correlation with ISM Manufacturing PMI (80% correlation) and ISM Manufacturing New Orders (72% correlation). We look at the relationship from July 2017 through January 2024. Our demand results are somewhat positively correlated with PMI and New Orders, albeit to a lower extent than our outlook indicator.

### Exhibit 2: Strong correlation between outlook indicator and demand

We find an 80% correlation between outlook indicator and PMI

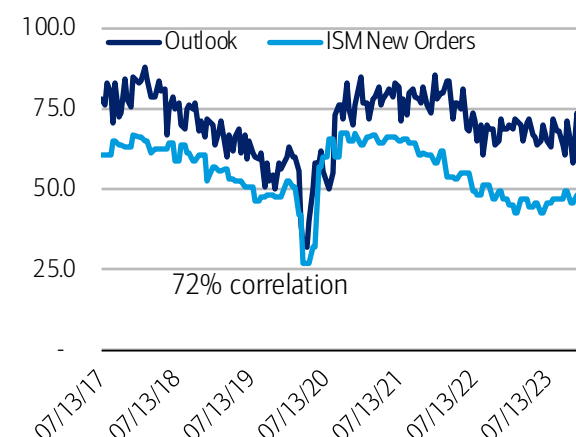


Source: BofA Global Research, Bloomberg

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### Exhibit 3: Strong correlation between outlook indicator and New Orders

We find a 72% correlation between outlook indicator and New Orders

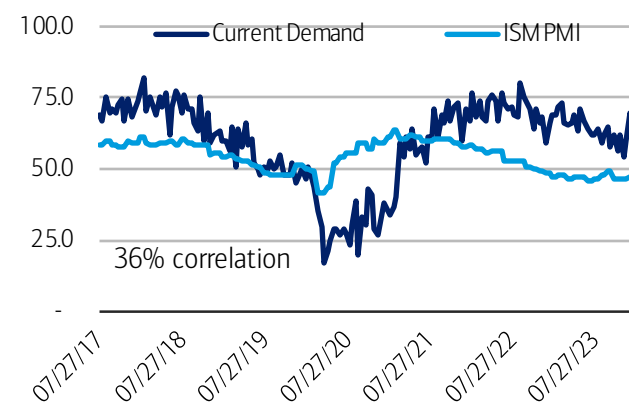


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### Exhibit 4: Demand indicator and PMI somewhat correlated

We find a 36% correlation between demand indicator and PMI

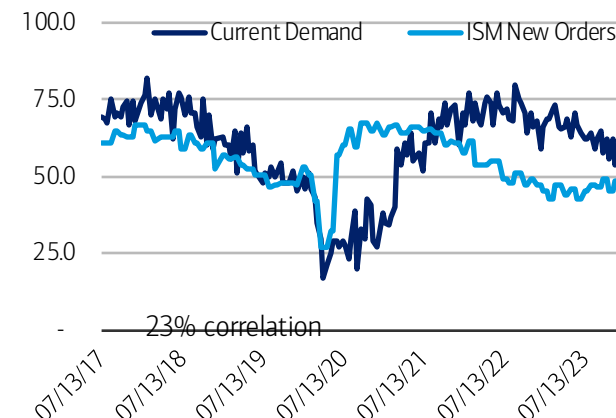


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### Exhibit 5: Demand indicator and New Orders somewhat correlated

We find a 23% correlation between demand indicator and New Orders



Source: BofA Global Research, Bloomberg

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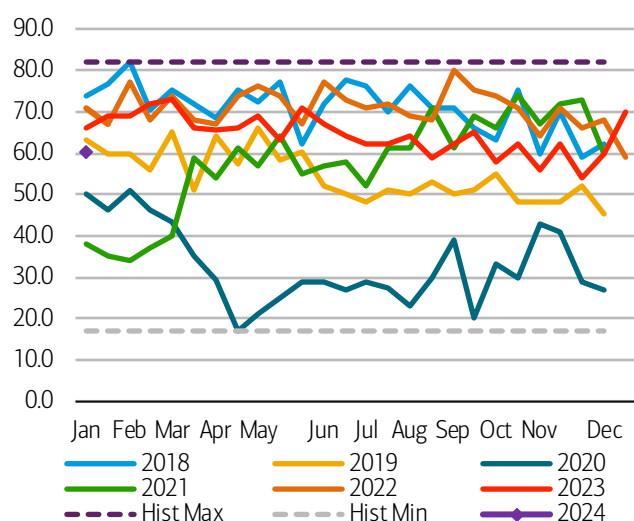
We analyze the data using our global demand indicator, which measures sentiment week-to-week through demand trends, pricing, and inventory levels. An indicator value greater than 50 marks improving sentiment, while below 50 marks deteriorating sentiment. To calculate the indicator value, we assign a value of +1 to responses of “better” demand, “too low” inventory levels, and “improving” pricing. “Same”, “normal”, and “flat” are assigned a value of 0, and “worse”, “too high”, and “declining” are assigned -1. We divide the sum of these values by the number of survey respondents, multiply by 50, and add 50 to get a value relative to our 50.0 baseline.

### Question 1: Compared to the same time a year ago, is demand for fluid power products the same, better, or worse?

This week’s current demand indicator decelerated versus last survey, with the indicator reading coming in at 60.0 versus 70.0 prior. This was driven by deceleration in North America. EMEA demand was flat and APAC demand ticked up slightly. We note that the data may be noisy week to week due to the small sample size.

#### Exhibit 6: Current demand for fluid power products on stack basis (2018-2024)

Global demand decelerated to 60.0 versus 70.0 prior

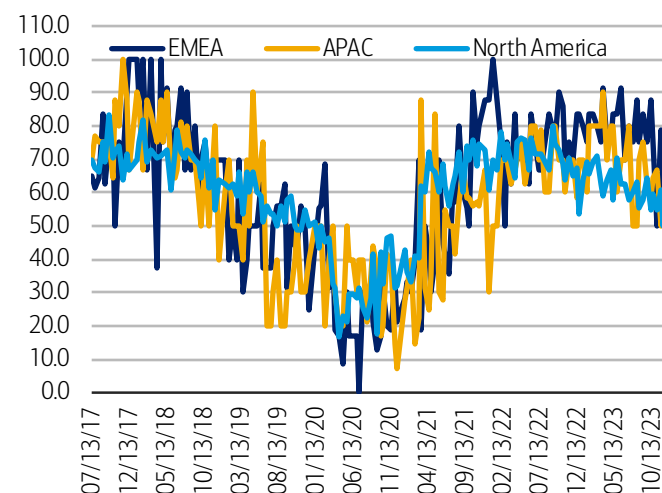


Source: BofA Global Research

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#### Exhibit 7: Demand was flat in EMEA, slightly ticked up in APAC, and decelerated in NA

Demand remains bullish on an absolute basis in all three regions



Source: BofA Global Research

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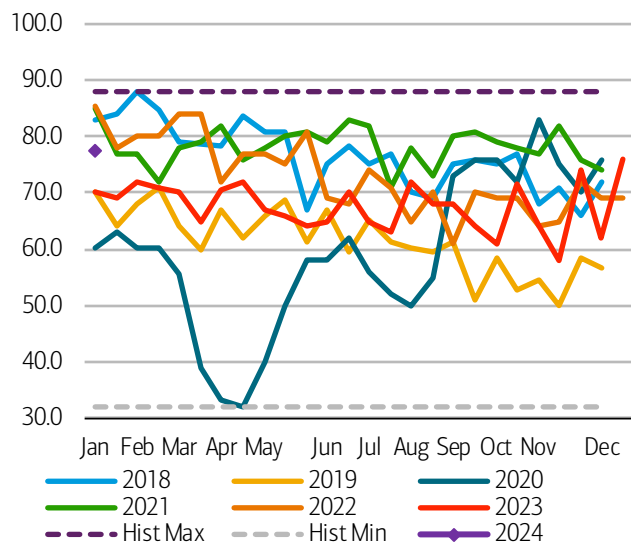
Disclaimer: The indicator identified as a Global Demand Indicator above is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

## Question 2: What are your expectations for demand for fluid power products over the next 12 months?

Demand outlook improved versus last survey, with the indicator reading coming in at 77.6 versus 76.0 prior. This was driven by improvements in EMEA and APAC, while NA demand decelerated slightly. Outlook remains bullish in all 3 regions. Again, we note that the data may be noisy week to week due to the small sample size.

### Exhibit 8: Demand outlook for fluid power products on stack basis (2018-2024)

Global outlook improved to 77.6 versus 76.0 prior

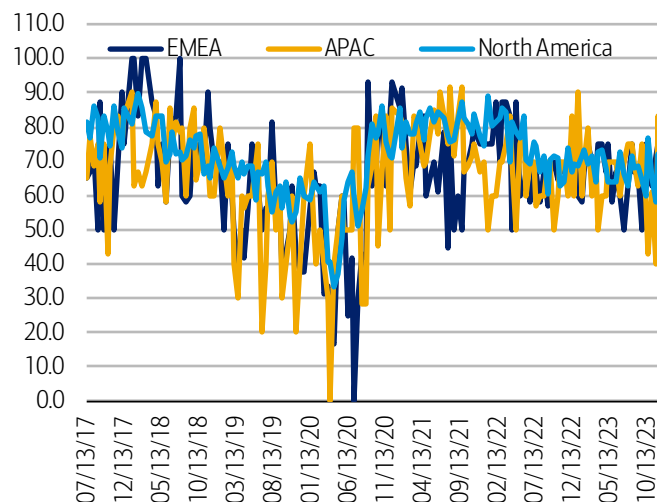


Source: BofA Global Research

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### Exhibit 9: Demand outlook improved in EMEA and APAC

NA demand decelerated slightly, but outlook is positive in all three regions



Source: BofA Global Research

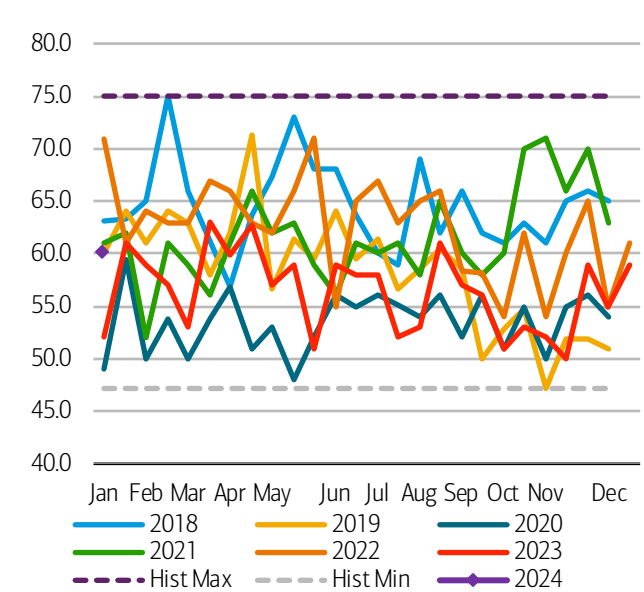
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Question 3: How would you describe current inventory levels of fluid power products?

A reading greater than 50 indicates that more distributors perceive inventory levels are too low, whereas a reading below 50 indicates more distributors perceive inventory levels are too high. This week’s indicator reading rose to 60.2 from 59.0 last survey. This suggests that inventory is perceived as slightly lower than last survey.

Exhibit 10: Inventory level indicator reading on stack basis (2018-2024)

Global inventory reading rose to 60.2 from 59.0 prior

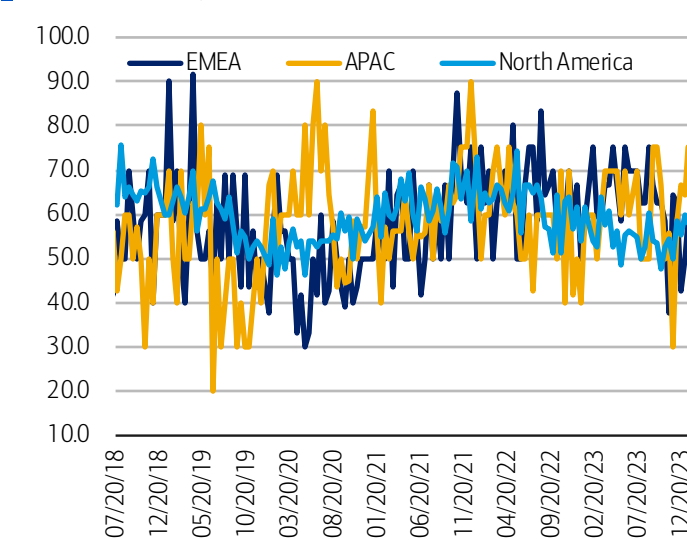


Source: BofA Global Research

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Exhibit 11: Inventories are perceived as too low in all three regions

Inventories are still perceived as too low



Source: BofA Global Research

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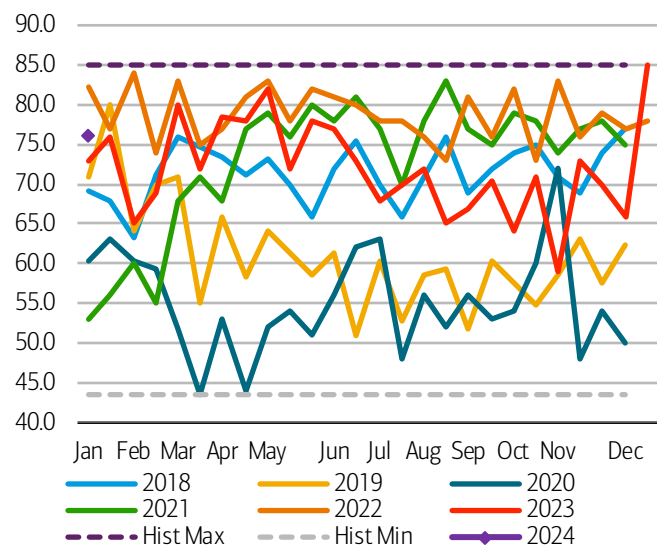


## Question 4: How would you describe current pricing in the market for fluid power products?

Distributor pricing decelerated relative to last survey, with the indicator coming in at 76.0 versus 85.0 prior. Pricing power improved in EMEA, moderated (but still overall positive) in NA, and decelerated to breakeven 50.0 levels in APAC.

### Exhibit 12: Pricing power indicator on stack basis (2018-2024)

Global pricing reading moderated to 76.0 from 85.0 prior

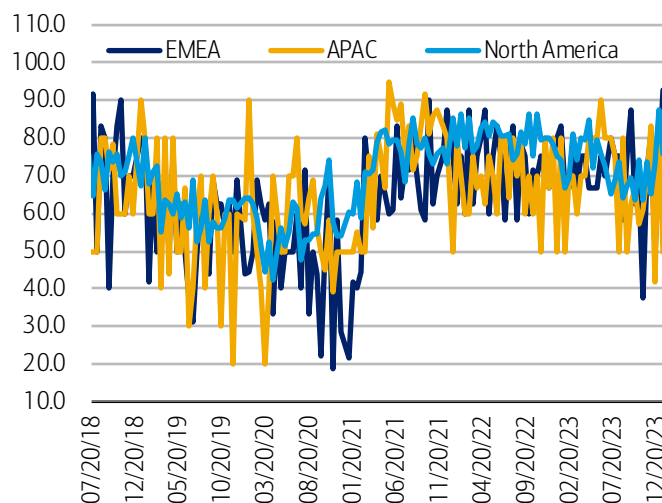


Source: BofA Global Research

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### Exhibit 13: Pricing power decelerated (but still positive) in NA; improved in EMEA; and decelerated to 50.0 in APAC

Pricing power is positive overall in EMEA/NA; breakeven in APAC



Source: BofA Global Research

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## Question 5: What was the most positive or negative market surprise this quarter?

### Exhibit 14: Fluid power distributor comments

Comments on pricing

#### Commentary

Our growth is being hindered by slow deliveries from suppliers and continued price increases from US suppliers. Shortages of materials. Citing Covid and Russia is getting boring. When companies declare record returns.

#### Country

South Africa

Source: BofA Global Research

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## Price objective basis & risk

### Parker Hannifin Corporation (PH, \$460.32, B-1-7)

We base our \$525 price objective on a 14x EV/EBITDA multiple applied to our CY25E estimate. Our 14x target multiple is at a discount to the 15x multi-industrial peer average on 2024E and 18x Aerospace Suppliers peer average on 2024E. Parker has historically traded at a discount, but we believe it should start to close the gap with high quality peers AME and ITW.

Downside risks are: 1) industrial short-cycle destocking worse than expected, 2) Meggitt integration, and 3) the ability to offset material inflation through pricing. Upside risks: 1) Aerospace recovery has more upside given more exposure from Meggitt, and 2) Multiple expansion as the company closes the performance gap.

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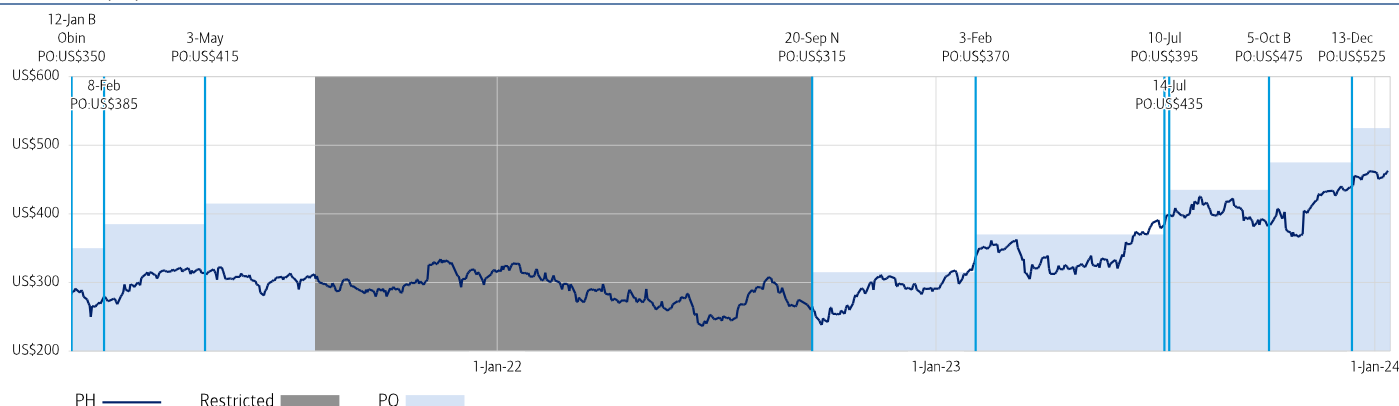
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	Flowserve	FLS	FLS US	Andrew Obin
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	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
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	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
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	Vontier	VNT	VNT US	Andrew Obin
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	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
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	Ansys, Inc.	ANSS	ANSS US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
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	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA

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## Parker Hannifin (PH) Price Chart



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Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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