

## Industrials/Multi-Industry

# Fluid Power Survey #166: Short-cycle demand reaccelerates after January pause

Industry Overview

### Fluid Power Survey #166, week of February 9, 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 improved to 71.0 from 52.0 last survey. Our outlook indicator decelerated to 73.0 from 82.0 prior. The Manufacturing Purchasing Managers' Index (PMI) January reading improved sequentially to 49.1 from 47.4 in the prior month. New Orders inflected about 50 to 52.5. While data is noisy week-to-week, outlook had been on a general downward trend since 2H22. 4Q23 earnings so far have showed a mixed bag of operational results. Broadly speaking, demand seems to have slowed more than company expectations in 4Q. Our survey is broadly supportive of sequential improvement in 1Q. We believe Parker's fluid connectors and instrumentation businesses were the ones most impacted by destocking. It seems the hydraulics side of the business has held up better than short-cycle bears would have expected, consistent with our survey.

**Our key global outlook indicator decelerated to 73.0 from 82.0 prior.** This was driven by deceleration in EMEA and NA, while APAC demand improved. Outlook remains bullish in all 3 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 February 2024. Our survey has been more positive to start the year as New Orders turned positive last month.

### Improving demand to start February

Our global demand indicator improved relative to last survey, with the reading coming in at 71.0 versus 52.0 prior. This was driven by improvement in all three regions. While corporate commentary was more bearish to start the year, our survey has been more constructive. We note that the data may be noisy week to week due to the small sample size. Seemingly weather issues did have an impact on weaker January attitudes at distributors and some corporates.

### 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 fell to 57.0 from 59.0 last survey. This suggests that inventory is perceived as higher than last survey, but still too low.

### Pricing remains robust

Distributor pricing decelerated to 77.0 from 82.0 last survey. While our companies have been guiding to "normalizing" price in 2024, distributors have highlighted that supplier price increases have been coming in more than expected (e.g., Applied Industrial Technologies).

12 February 2024

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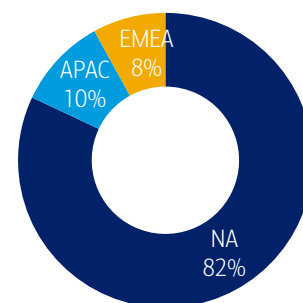
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### Exhibit 1: Distributor regional breakout

82% of distributors surveyed are North America-based



Source: BofA Global Research  
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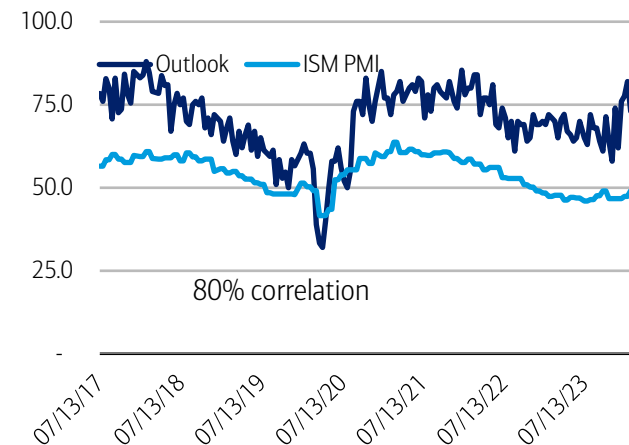
# Survey Results

## 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 February 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

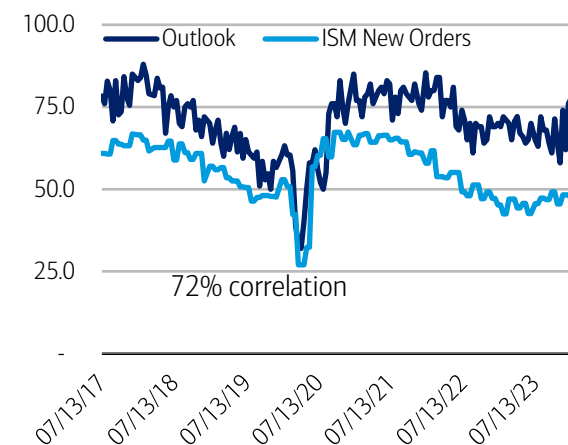


Source: BofA Global Research, Bloomberg

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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

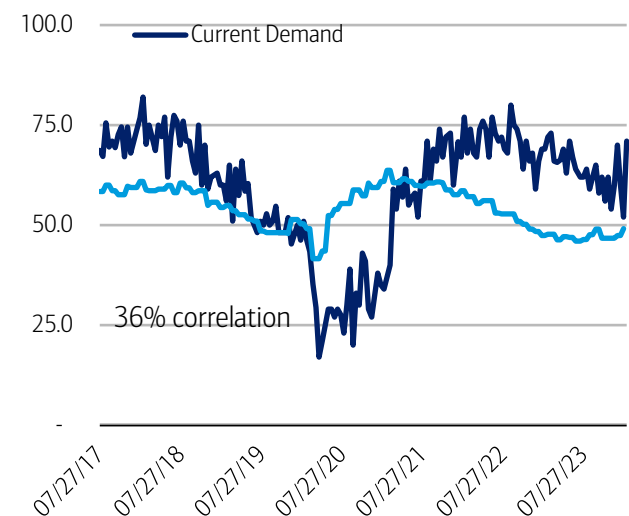


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### Exhibit 4: Demand indicator and PMI somewhat correlated

We find a 36% correlation between demand indicator and PMI

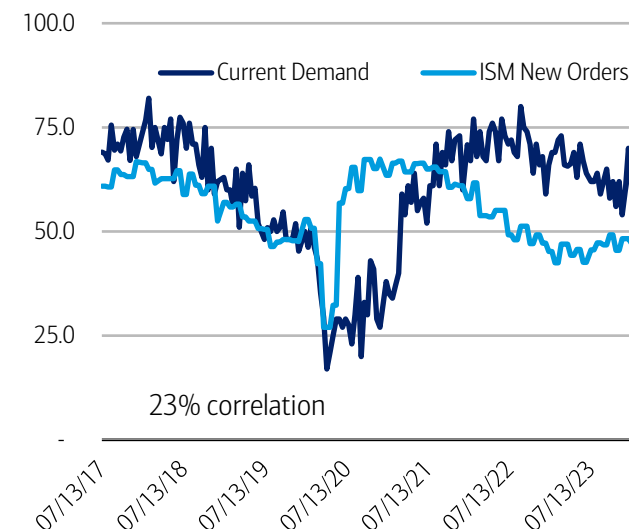


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### Exhibit 5: Demand indicator and New Orders somewhat correlated

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



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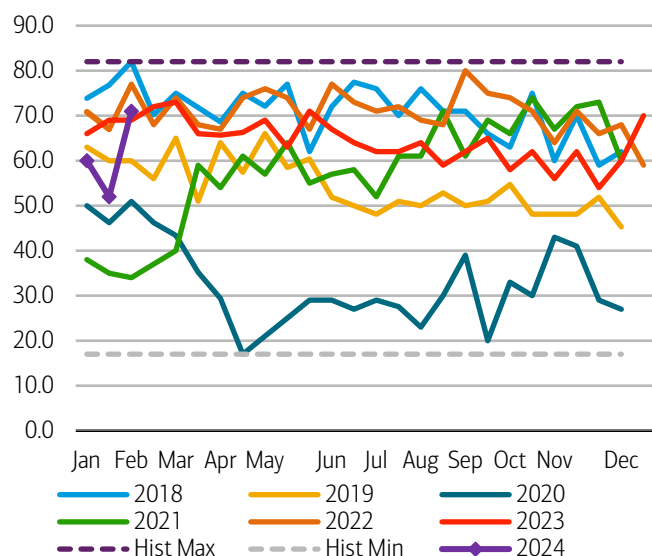
We analyze the data using our global demand indicator, which measures sentiment week-to-week through demand trends, pricing, and inventory levels. An indicator value greater than 50 marks improving sentiment, while below 50 marks deteriorating sentiment. To calculate the indicator value, we assign a 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 improved versus last survey, with the indicator reading coming in at 71.0 versus 52.0 prior. This was driven by improvement in all three regions. 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 improved to 71.0 versus 52.0 prior

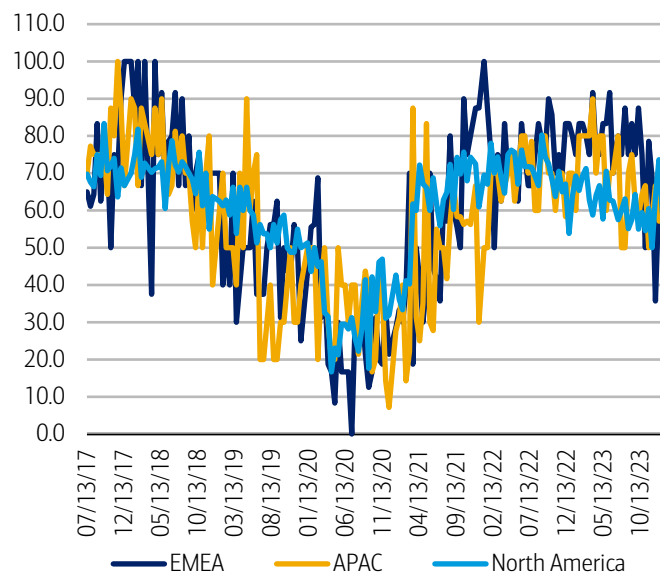


Source: BofA Global Research

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#### Exhibit 7: Demand improved in NA, EMEA, and APAC

Demand is bullish on an absolute basis in NA, EMEA and APAC regions



Source: BofA Global Research

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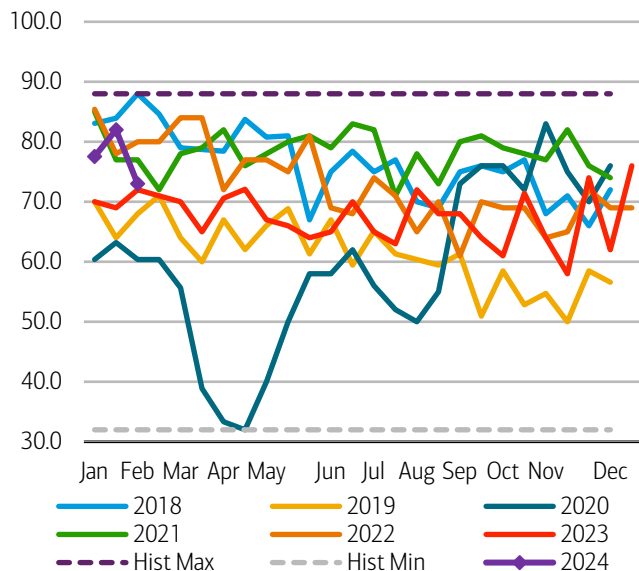
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## Question 2: What are your expectations for demand for fluid power products over the next 12 months?

Demand outlook decelerated versus last survey, with the indicator reading coming in at 73.0 versus 82.0 prior. This was driven by deceleration in EMEA and NA, while APAC demand improved. 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 decelerated to 73.0 versus 82.0 prior

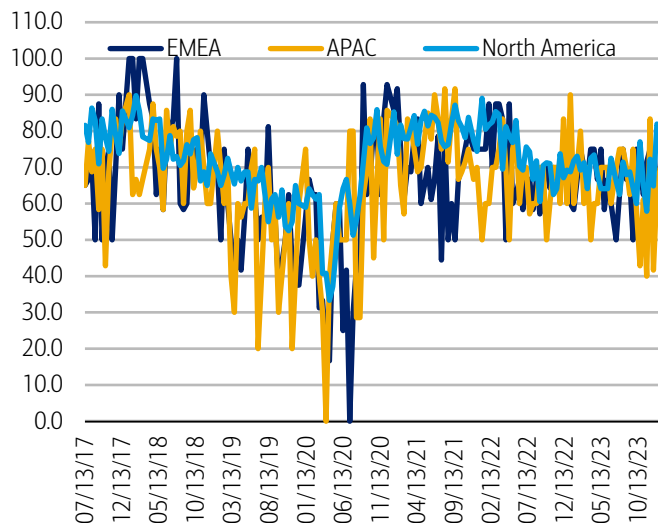


Source: BofA Global Research

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### Exhibit 9: Demand outlook decelerated in EMEA and NA

NA and EMEA demand decelerated slightly, outlook is still positive in all three regions



Source: BofA Global Research

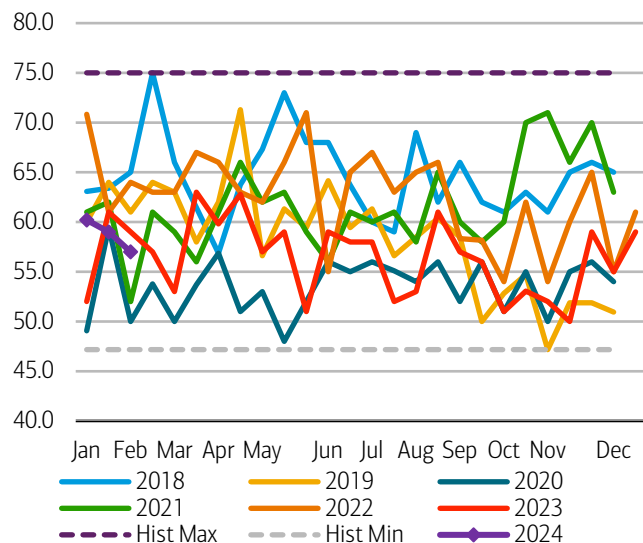
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### Question 3: How would you describe current inventory levels of fluid power products?

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 decelerated to 57.0 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 fell to 57.0 from 59.0 prior

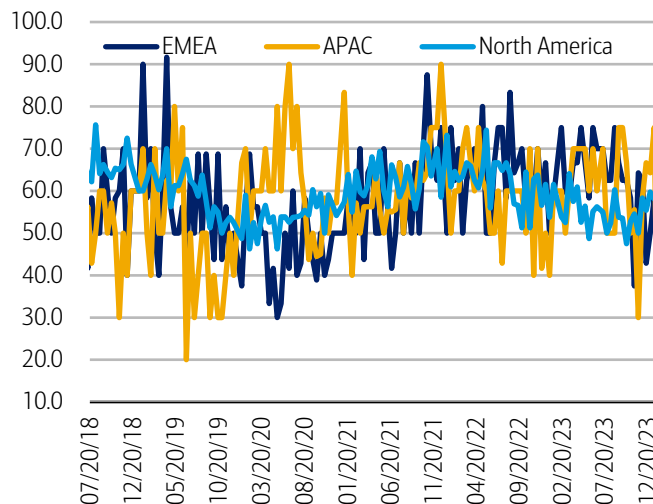


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#### Exhibit 11: Inventories are perceived as too low in NA and EMEA, and too high in APAC

Inventories are still perceived as too low in NA and EMEA



Source: BofA Global Research

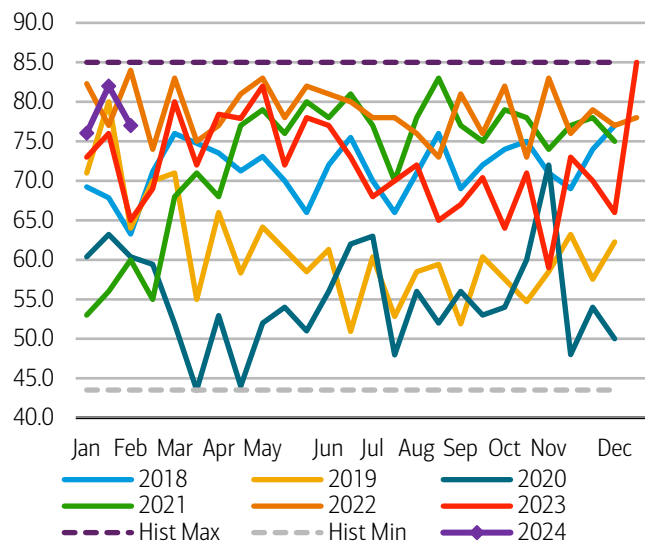
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## Question 4: How would you describe current pricing in the market for fluid power products?

Distributor pricing fell relative to last survey, with the indicator coming in at 77.0 versus 88.0 prior. Pricing power decelerated in EMEA and APAC. NA pricing improved slightly.

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

Global pricing reading decelerated to 77.0 versus 88.0 prior

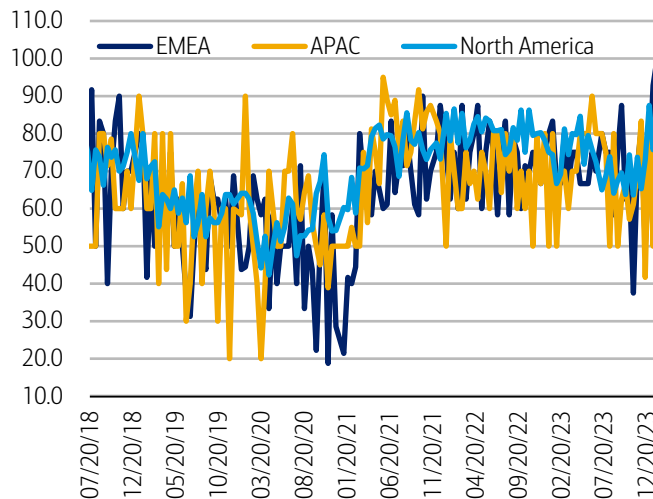


Source: BofA Global Research

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### Exhibit 13: Pricing power decelerated in EMEA and APAC

Pricing power is positive overall in EMEA and NA; at breakeven in APAC



Source: BofA Global Research

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Underperform	N/A	≥ 20%

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