

Industrials/Multi-Industry

Fluid Power Survey #167: Outlook holds up better than demand

Industry Overview

Fluid Power Survey #167, week of February 23, 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 to 53.0 versus 71.0 prior. We are surprised by the scope of demand deceleration, given PMI New Orders have inflected above 50 to 52.5 in January, but our survey can be volatile week-to-week. Our outlook indicator moderated slightly to 72.0 from 73.0 prior. Pricing decelerated this week to the lowest level since February 2021, but is still positive. We are modeling pricing slightly better than historical levels in 2024 (e.g., 100-200bps). We model ~2.5pts of price in our 2024 estimates for companies that disclose price vs. volume. Results can be noisy week-to-week, and so far, our survey has been supportive of q/q demand improvement in 1Q24. One distributor commented this week that, "Business has picked up and the funnel is filling in." On the other hand, we have heard from our distributors that end customers are delaying capacity expansion plans based on the current political climate. Outlook held up better than demand, with only a slight deceleration. We remain constructive on the demand outlook for industrials given PMIs have bottomed and industrial capex is poised to re-accelerate long-term.

Our key global outlook indicator decelerated slightly to 72.0 from 73.0 prior.

This was driven by deceleration in NA. APAC outlook improved and EMEA was flat. Outlook remains bullish in all 3 regions. Our demand outlook indicator has a meaningful positive correlation with ISM Manufacturing PMI (80% correlation) an ISM Manufacturing New Orders (72% correlation). We look at the relationship from July 2017 through February 2024.

Outlook more constructive than demand

Our global demand indicator decelerated relative to last survey, with the indicator coming in at 53.0 versus 71.0 prior. This was driven by deceleration in EMEA and NA. APAC demand improved from last survey. We note the data may be noisy week-to-week due to small sample size.

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 54.0 from 57.0 last survey. This suggests that inventory is perceived as higher than last survey, but still too low.

Pricing decelerates but remains robust

Distributor pricing decelerated to 61.0 from 77.0 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. North American price decelerated to 59.5 from 81.7, which is the lowest reading since February 2021.

26 February 2024

Equity
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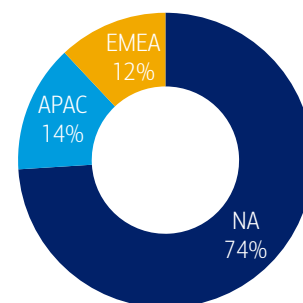
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Exhibit 1: Distributor regional breakout

74% of distributors surveyed are North America-based



Source: BofA Global Research
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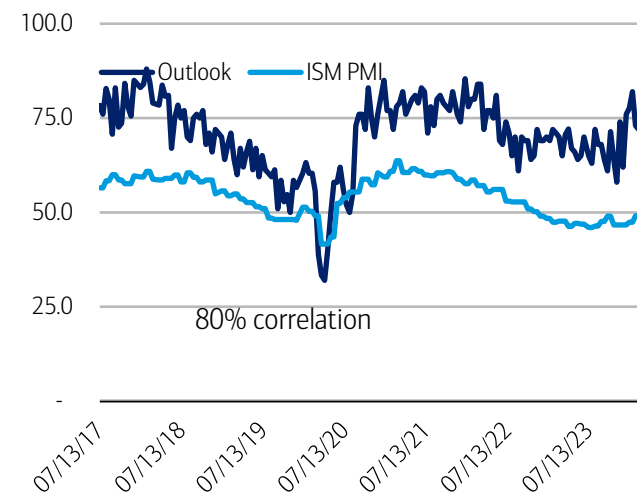
Survey Results

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 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

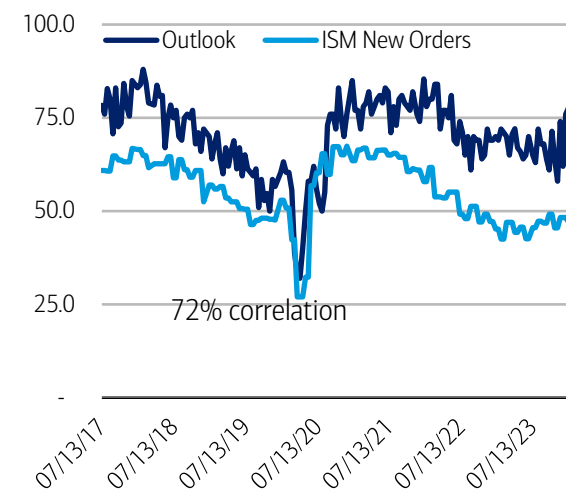


Source: BofA Global Research, Bloomberg

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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

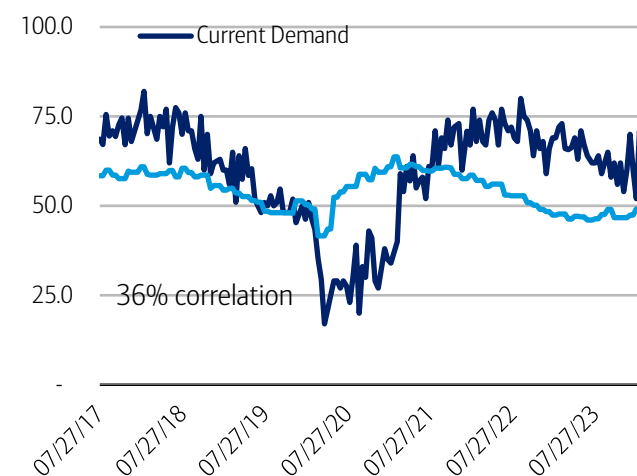


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Exhibit 4: Demand indicator and PMI somewhat correlated

We find a 36% correlation between demand indicator and PMI

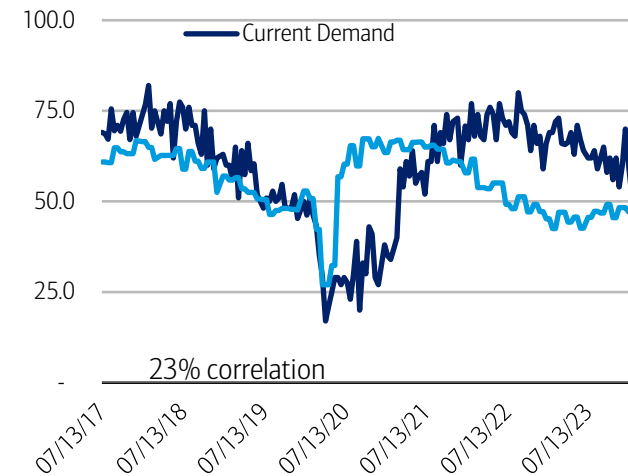


Source: BofA Global Research, Bloomberg

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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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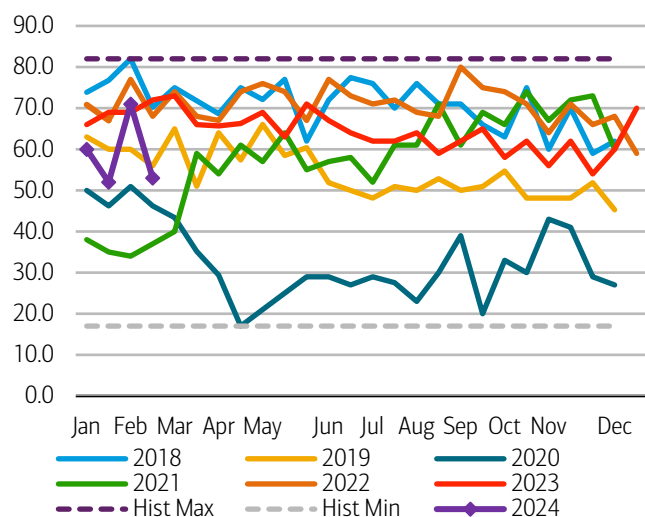
We analyze the data using our global demand indicator, which measures sentiment week-to-week through demand trends, pricing, and inventory levels. An indicator value greater than 50 marks improving sentiment, while below 50 marks deteriorating sentiment. To calculate the indicator value, we assign a 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 53.0 versus 71.0 prior. This was driven by deceleration in EMEA and NA. APAC demand improved from last survey. 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 53.0 versus 71.0 prior

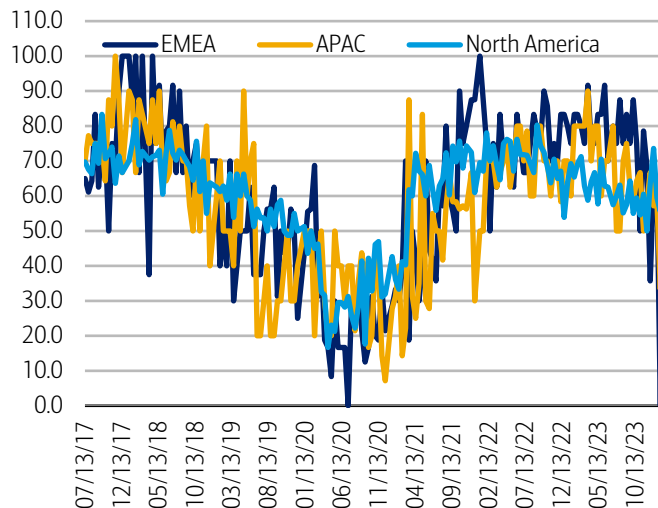


Source: BofA Global Research

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

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



Source: BofA Global Research

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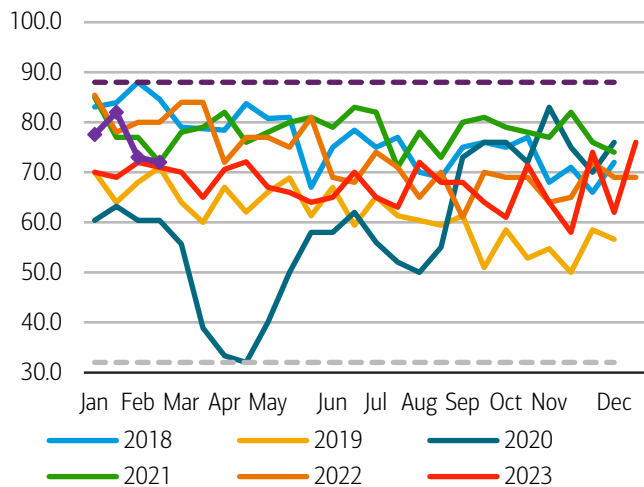
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Question 2: What are your expectations for demand for fluid power products over the next 12 months?

Demand outlook decelerated slightly versus last survey, with the indicator reading coming in at 72.0 versus 73.0 prior. This was driven by deceleration in NA, while APAC outlook improved and EMEA was flat. 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 72.0 versus 73.0 prior

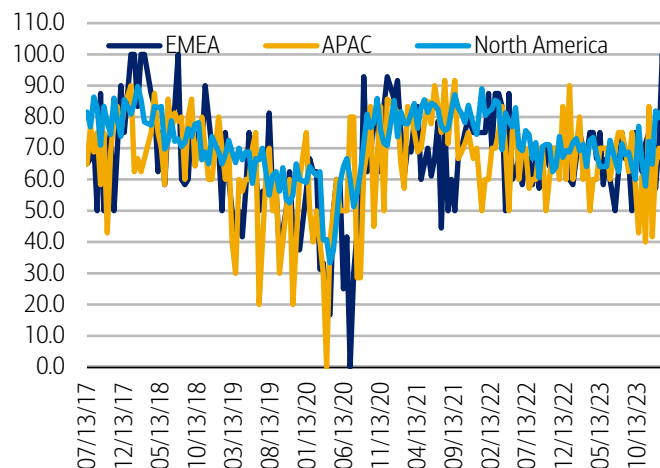


Source: BofA Global Research

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Exhibit 9: Demand outlook decelerated NA, flat in EMEA, and improved in APAC

Outlook is still positive in all three regions



Source: BofA Global Research

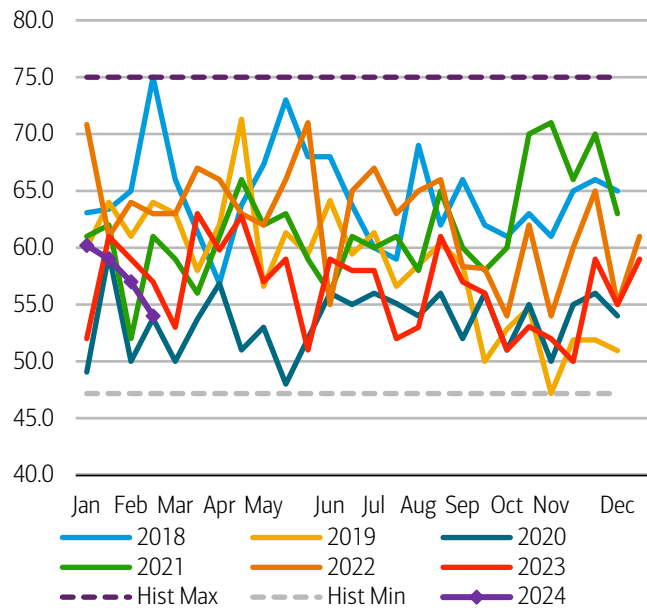
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Question 3: How would you describe current inventory levels of fluid power products?

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 54.0 from 57.0 last survey. This suggests that inventory is perceived as slightly higher than last survey.

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

Global inventory reading fell to 54.0 from 57.0 prior

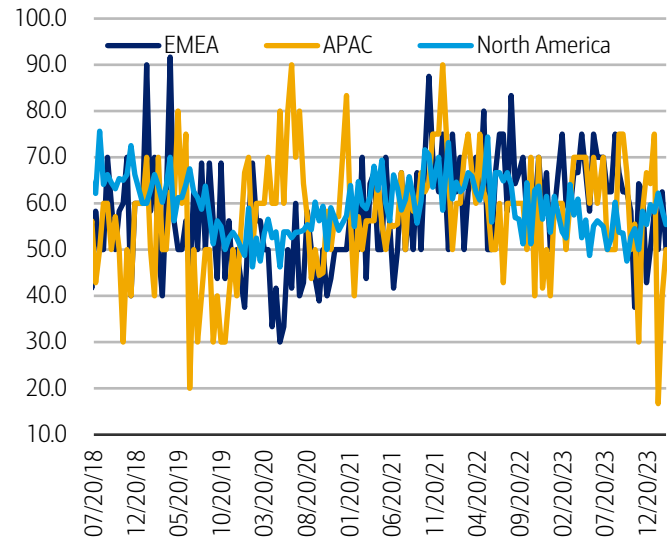


Source: BofA Global Research

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Exhibit 11: Inventories are perceived as too low in NA and breakeven in APAC and EMEA

Inventories are perceived as higher in EMEA and NA, and lower in APAC



Source: BofA Global Research

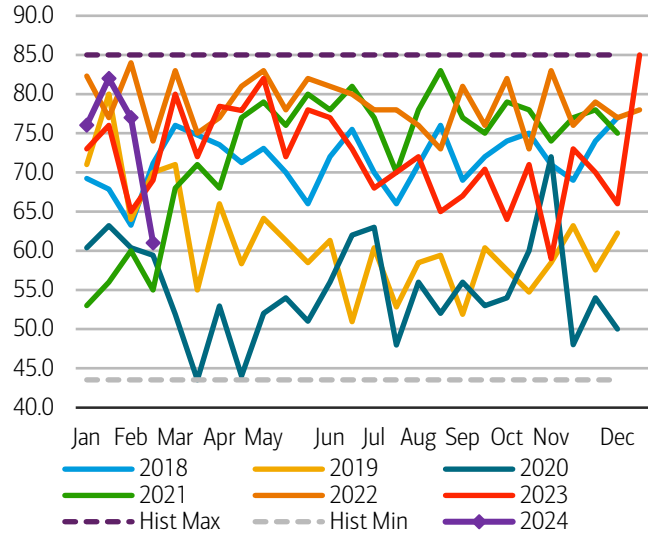
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Question 4: How would you describe current pricing in the market for fluid power products?

Distributor pricing fell relative to last survey, with the indicator coming in at 61.0 versus 77.0 prior. Pricing power decelerated in EMEA and NA. APAC pricing improved.

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

Global pricing reading decelerated to 61.0 versus 77.0 prior

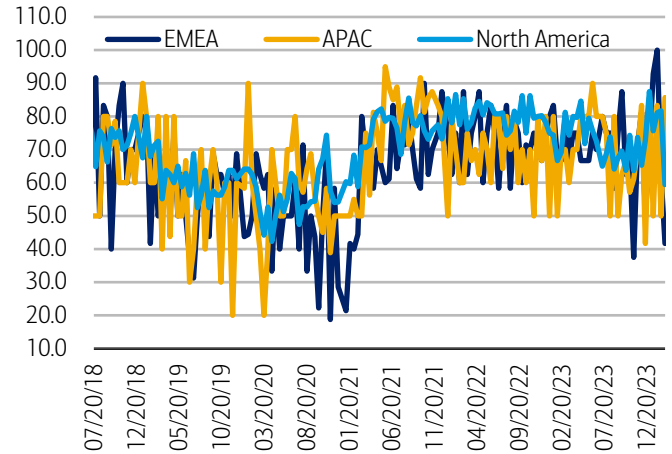


Source: BofA Global Research

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Exhibit 13: Pricing power decelerated in EMEA and NA, improved in APAC

Pricing power is positive overall in APAC and NA; negative in EMEA



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 are constructive on business picking up

Commentary	Country
Business has picked up and the funnel is filling in.	USA
End users are holding onto cash and not making capacity expansion investments they were planning based on the current political climate.	USA
Good customer service	USA

Source: BofA Global Research

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