

Fastener Distributor Index – August 2016

Written by independent analyst Charles Redding 9/7/16



Key Takeaway:

The seasonally adjusted FDI reading for August (53.1) proved materially higher, as overall results bounced back nicely from a notably weak July. August sales led the sequential improvement, with 68% of respondents noting flat or stronger selling conditions versus the preceding month. Overall conditions remain choppy for many fastener distributors, in our view. Nonetheless, we believe the stronger August results are encouraging, particularly given prior industry warnings for extended customer shutdowns. We will continue watching closely for more consistent results.

Key Points:

About the Fastener Distributor Index (FDI). The FDI is a monthly survey of NorAm fastener distributors, conducted with the **FCH Sourcing Network** and the **National Fastener Distributors Association**. It offers insights into current industry trends/ outlooks. As a diffusion index, figures above 50 signal strength, while readings below 50 signal weakness. It should be directly relevant to **Fastenal** and broadly relevant to other distributors (**W.W. Grainger, MSC Industrial**).

August FDI bounces back nicely. The seasonally adjusted August FDI (53.1) improved materially versus an abnormally weak July reading (45.9). Of the items measured (sales, employment, delivery times, customer inventories), we believe top-line sentiment remains the most compelling indicator in the Index. For August, a solid 68% of respondents cited unchanged/ stronger sales versus the July period (just 39% last month). The stronger August results were more reflective of prior index momentum in the May (50.1) and June (50.6) readings. Regarding customer inventories, 23% of participants viewed current levels as "too high". We note that during the headier growth period of 2013-2014, this metric averaged just 4%.

Manufacturing employment outlook still mixed. We believe the weaker US jobs report for August (+151K adds vs. +180K consensus; unemployment 4.8%), reflects mixed hiring conditions for many domestic manufacturers (*US BLS*). Among our survey participants, 90% of respondents cited unchanged (or weaker) hiring conditions versus the prior month. This metric averaged 87% over the prior six-month period. In Q2'16, Fastenal reiterated its hiring freeze, excluding necessary vending/IT administration adds.

August sentiment implies early optimism. Overall commentary was reflective of the stronger August reading. One participant noted, *"August more than made up for a weak July."* Another partially attributed nascent improvement to ongoing strength in residential construction, noting, *"This has been a dry summer, but (there are) some positive signs. Housing is strong and, as such some- not a lot- of light duty equipment markets are picking up."* Last Month, US light manufacturing sales for Grainger increased

in the low single digits, partially offsetting continued weakness in heavy manufacturing (down mid-single digits) and natural resources (down high teens). Fastenal and Grainger report daily sales results for August on 9/7 and 9/13, respectively.

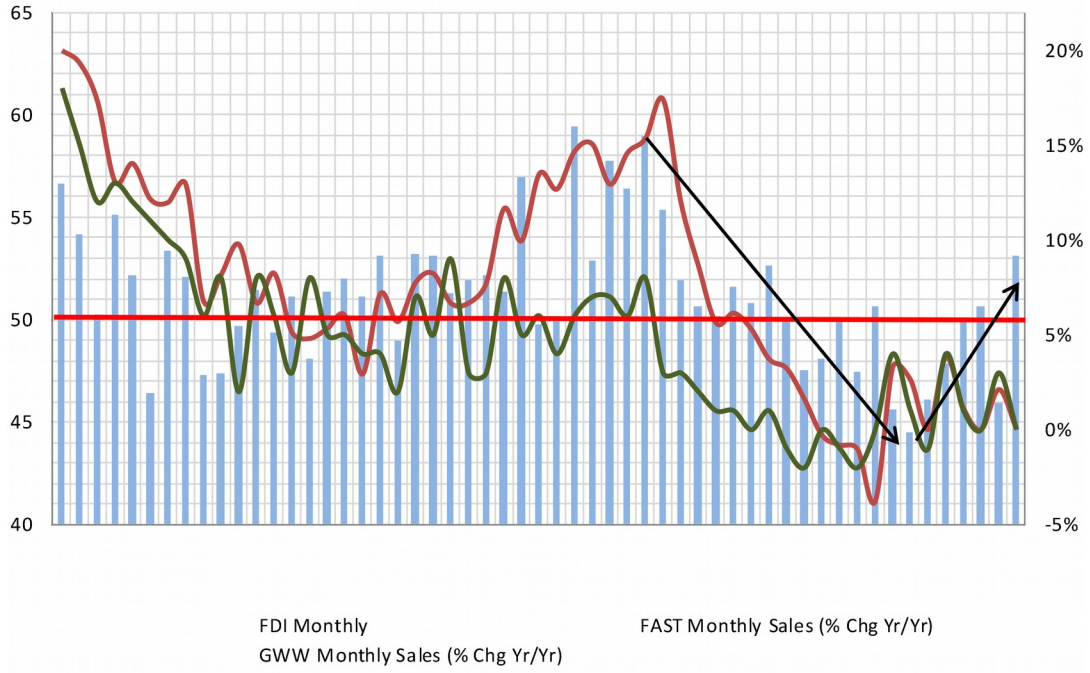
Fastener Distribution Trends: August 2016

FASTENER DISTRIBUTION AT A GLANCE								
August 2016								
	----- Index Values -----						Aug--> July	
	Aug.	July	June	May	Apr.	Mar.	Change	Direction
PMI (Manufacturing Sector)	49.4	52.6	53.2	51.3	50.8	51.8	(3.2)	Declining
FDI (Fastener Sector)	50.8	44.6	50.0	51.1	51.3	47.6	6.2	Growing
FDI (Seasonally Adjusted)	53.1	45.9	50.6	50.1	47.9	46.1	7.2	Growing
Sales (SA)	61.6	29.4	50.8	48.4	38.2	38.6	32.2	Growing
(Other Metrics; NSA)								
Employment	40.3	50.0	58.6	51.5	51.3	52.4	(9.7)	Declining
Supplier Deliveries	56.5	55.7	53.4	54.5	56.6	53.7	0.8	Slowing
Respondent Inventories	66.1	60.2	63.8	68.2	71.1	69.5	5.9	Too High
Customer Inventories	48.4	46.6	43.1	48.5	50.0	41.5	1.8	Too Low
Pricing, month-to-month	53.2	51.1	51.7	51.5	53.9	40.2	2.1	Higher
Pricing, year-to-year	54.8	56.8	48.3	53.0	47.4	36.6	(2.0)	Higher
	<u>Higher</u>	<u>Same</u>	<u>Lower</u>					
6-Month Outlook - Aug	39%	45%	48%					

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: [BB&TCM](#), [FCH Sourcing Network](#), [Institute for Supply Management](#)

Fastener Distributor Index (FDI); Seasonally Adjusted



Source: BB&TCM, FCH Sourcing Network, company reports
