

COMPANIES MENTIONED

Fastenal

FAST - \$47.86 - Hold

W.W. Grainger

GWW - \$248.53 - Hold

MSC Industrial Direct

MSM - \$80.07 - Hold

BB&TCM's Fastener Distributor Index (FDI) - An April Tease Amid Little Change**KEY TAKEAWAY**

In substance, April (51.6) was little changed from March. This was in part due to customer stocks slipping, and a positive tease is that if any volume-firming catalyst can emerge thin inventories may enhance it. Pricing similarly teased with slightly better results. But taken as a whole, with low-50s readings (similar to the national PMI) and a tempered outlook, it seems most accurate to portray April as seeing optimism slip into realism. In the near-term, more of the same seems in store.

KEY POINTS

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

April FDI: at 51.6, more of the same. After wild gyrations in January/February, March (52.8) and now April (51.6) have settled into a sluggish-but-positive range. While April is technically a step down from March, in substance there is not a lot of difference in the two figures. Sales stayed at good, and in fact improved levels (68.8, vs. 58.3 in Mar.). However, employment expectations moderated (45.3, vs. 56.9 in Mar.) and customers continued to slim down inventories (39.1, vs. 43.1 in Mar.). *Sales were stronger in April, but remember the FDI is a breadth, not depth, index. In total, the picture remains growing but at subdued rates for the fastener industry (averaged 52.5 YTD) as well as broader manufacturing (PMI averaged 52.3 YTD).*

Outlook: tempered, but still positive. In April, the ratio of respondents that were optimistic slid in April (47%; in 64% in Mar.). Still, this largely reflects a retreat into the "Same" camp, as pessimists remained low and largely unchanged in April (13%, vs. 13.9% in Mar.). *Dewey-eyed optimism may be giving way to pragmatic realism, but this figure still reflects little fear of a downturn the next six months.*

Price: twitches up, but does it lead to something? Both sequential (54.8, vs. 50.0 in Mar.) and annual (65.6, vs. 56.9 in Mar.) pricing ticked up. The metric improved, though the largest group by far remains that seeing little change. Actual pricing reported by respondents was ~1%, a bit better than the 0%-1% of recent months. *This may be small steps to offset non-material inflation, or it may be distributors taking tentative steps in light of reports of higher foreign steel prices. But it will take further readings to know if this is a trend or a hiccup.*

Supplemental query: Fastenal's presence. Fastenal's fastener growth is stalled, which made us wonder if it was still a share-gaining juggernaut of yore. 53% of respondents felt its size is now such that its fastener business simply reflects the sluggish market trends. 44% believed the company has slipped of late in selling fasteners. *Even recognizing that questions such as these exhibit a touch of bravado from respondents, it is still telling that almost no one felt Fastenal was hoovering up market share. Such responses fuel our worries that its fastener business may be suffering as resources route elsewhere.*

What does this mean for other distributors? April's reading suggests little has changed where fastener demand is concerned: conditions remain sluggish. That may be wearing down forward-looking sentiment a bit, but overall it suggests the trends that firms like **Grainger** (which have not been awful for MRO) and **MSC Industrial** are likely facing the same trends they have faced year-to-date. Indeed, **Fastenal** just reported an April DSR that was a bit soft.

Additional Discussion**Figure 1: April FDI eases a bit, but in substance looks like March; are inventories too low?**

FASTENER DISTRIBUTION AT A GLANCE								
April 2013								
	Index - Apr.	Index - Mar.	Index - Feb.	Index - Jan.	Index - Dec.	Index - Nov.	Mar.-->Apr. Change	Direction
PMI (Overall mfring sector)	50.7	51.3	54.2	53.1	50.7	49.5	(0.6)	Growing
FDI (Fastener distribution)	51.6	52.8	48.7	56.9	48.4	46.1	(1.2)	Growing
Sales	68.8	58.3	48.7	82.8	32.8	34.4	10.4	Growing
Employment	45.3	56.9	56.4	60.3	53.1	50.0	(11.6)	Declining
Supplier Deliveries	53.1	52.8	47.4	44.8	60.9	56.3	0.3	Slowing
Respondent Inventories	60.9	68.1	60.3	65.5	64.1	59.4	(7.1)	Too High
Customer Inventories	39.1	43.1	42.3	39.7	64.1	43.8	(4.0)	Too Low
Pricing, month-to-month	54.7	50.0	52.6	56.9	51.6	48.4	4.7	Higher
Pricing, year-to-year	65.6	56.9	62.8	60.3	57.8	53.1	8.7	Higher
	<u>Higher</u>	<u>Same</u>	<u>Lower</u>					
6-Month Outlook - Apr.	47%	41%	13%					

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&T Capital Markets' estimates, FCH Sourcing Network, Institute for Supply Management

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Price Chart



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Hold (2)	51.66%	Hold (2)	5.85%
Underweight/Sell (3)	1.21%	Underweight/Sell (3)	0.00%
Not Rated (NR)	0.00%	Not Rated (NR)	0.00%

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AUTOMOTIVE AFTERMARKET/ AUTOMOTIVE DEALERSHIPS

Bret D. Jordan, CFA (617) 316-1345
David L. Kelley (617) 316-1344

COMMERCIAL AND INDUSTRIAL

Advanced Manufacturing & Distribution

Holden Lewis (703) 471-3894
Vineet Khanna (703) 471-3896

Building Materials

John F. Kasprzak Jr. (804) 782-8715
Paul Betz, CFA (804) 782-8746
Teresa T. Nguyen, CFA (804) 782-8745

Commercial Durables

Matthew S. McCall, CFA (804) 780-3582

Environmental Services/Specialty Construction

Adam R. Thalhimier, CFA (804) 344-8377
Charles E. Redding (804) 782-8853

Industrial Flow Control

Kevin R. Maczka, CFA (804) 782-8811
Nicholas V. Prendergast (804) 782-2006

Industrial Machinery

C. Schon Williams (804) 782-8769
Aaron M. Reeves (804) 780-3237

ENERGY

Coal

Mark A. Levin (804) 782-8856
Nathan P. Martin (804) 782-8799
Garrett S. Nelson (804) 787-8259

Diversified Mining

Garrett S. Nelson (804) 787-8259
Nathan P. Martin (804) 782-8799

Energy Infrastructure

Robert F. Norfleet III (804) 787-8231
John D. Ellison, CFA (804) 782-8732
Basil M. Jones III (804) 782-8893

FINANCIAL SERVICES

Banks/Thriffs

Cary A. Morris (804) 782-8831
Blair C. Brantley, CFA (804) 727-2604

Specialty Finance

Vernon C. Plack, CFA (804) 780-3257
Peter W. Councill, CFA (804) 782-8850

FOOD AND AGRIBUSINESS

Agribusiness/Consumer Foods

Heather L. Jones (804) 780-3280
Brett M. Hundley, CFA (804) 782-8753

Food & Drug Merchandising

Andrew P. Wolf, CFA (804) 787-8224
Ashby W. Price (804) 782-8711

RETAIL AND CONSUMER

Apparel, Footwear, & Specialty Retail

Scott D. Krasik, CFA (212) 822-8138
Kelly L. Halsor, CFA (212) 822-8132

Specialty/Hardlines Retailers

Anthony C. Chukumba (212) 822-8143
Eric Cohen (212) 822-8140

TECHNOLOGY

Aerospace

F. Carter Leake (804) 482-7167

Commercial IT Services/ Government Services

George A. Price Jr. (703) 471-3892
Jethro R. Solomon (703) 471-3893

Defense

Jeremy W. Devaney (617) 316-1321

TRANSPORTATION SERVICES

Airfreight & Logistics/Maritime

Kevin W. Sterling, CFA (804) 782-8804
William W. Horner (804) 787-1143
Chip Rowe (804) 782-8787

Railroads

Mark A. Levin (804) 782-8856
Nathan P. Martin (804) 782-8799
Garrett S. Nelson (804) 787-8259

Surface Transportation

Thomas S. Albrecht, CFA (804) 787-8210
Willard P. Milby, IV (804) 775-7919
John L. Washington (804) 225-5898
A. Rhem Wood, Jr. (804) 782-8784

RESEARCH DEPARTMENT

Director of Research

Vernon C. Plack, CFA (804) 780-3257

Assistant Director of Research

James H. Weber, CFA (804) 782-8773

Product Manager

W. Moultrie Dotterer, CFA (804) 780-3279

Supervisory Analysts

Kathleen R. Schneider (732) 567-8766
Denise Bossé Tyznar (804) 782-8880
James H. Weber, CFA (804) 782-8773

Editor

Peggy Myers Walz (804) 782-8785

RESEARCH OFFICES

Richmond

Boston

New York

Reston