

## COMPANIES MENTIONED

**Fastenal**  
FAST - \$47.89 - Hold

**W.W. Grainger**  
GWW - \$258.28 - Hold

**MSC Industrial Direct**  
MSM - \$78.97 - Hold

**BB&TCM's Fastener Distributor Index: Still Waters****KEY TAKEAWAY**

There is little to report on the FDI in August: at 50.8, it sustained a recent pattern of oscillating around 50. The overall character of demand in August - sluggish growth - seems unaltered from where it has been mired for most of 2013 (despite Fastenal's release - that looked better than it was). The real question is why things remain so slow when the PMI is surging. Maybe the FDI will follow the PMI as we enter Q4'13. Just as possible is that strength is centered in markets (consumer-related) that are not high-intensity users of industrial fasteners. Maybe its a combination. At this point, the NorAm fastener market is in wait-and-see mode.

**KEY POINTS**

**About the Fastener Distributor Index (FDI).** The FDI is a monthly survey of NorAm fastener distributors, conducted with the **FCH Sourcing Network**. It 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**).

**August FDI: better, but still diverging from the national index.** August's 50.8 gained on July's 49.7; movement nowadays is mostly noise. Since February 2013, the FDI has ranged from 48.7 to 52.8, averaging 51.0, defining stable, slow growth. Supplier Deliveries were a bit slower (59.7 in August, from 56.9) and Customer Inventories were not quite so gutted (35.5 in August, from 31.9). But overall, there was little month-to-month change in the FDI's parts. *A sluggish growth reading is not surprising. But given the surge in the national PMI, it is disappointing not to see better results. The PMI may be leading, or it may reflect strength in markets with a lesser impact on fastener distribution.*

**Outlook: a sunnier outlook returns.** Folks with a positive outlook fell (36% of respondents, vs. 50% in July) and those with a negative outlook ticked up (16% of respondents, vs. 8% in July). The greatest pool of respondents - 48.4% - continue to expect no change. *There remains little fear of an erosion in demand. But nor is there much expectation of strengthening.*

**Price: improvement, but mostly at the margin.** The readings for both sequential and annual pricing improved in August. Still, the increases were modest and the larger pool of respondents still report no change. Further, most continue to report sub-2% price increases. *There remains little or nothing going on with pricing.*

**Supplemental question: leading indicators.** Distribution moves coincident with demand, but we wondered if MRO and OEM might perform differently. A healthy chunk of respondents (43%) in fact watch the OEM business as a leading indicator of overall demand. Along those lines, a whopping 77% of respondents report those two categories performing similarly while 19% are seeing relative strength in OEM (a good thing). *A fair number of people use OE trends as a leading indicator. But that leading indicator has yet to trigger a more favorable outlook.*

**What does this mean for other distributors?** **Fastenal** surged after it reported an acceleration in its August DSR. However, we believe this acceleration was due to an easy comp relating to the timing of the July 4th holiday. Accounting for this, we believe Fastenal's performance was consistent with recent, modest growth, which is more in line with the message of the FDI. We would expect **Grainger** and **MSC** to report similarly still-sluggish trends when they report. *PMI aside, the industrial malaise does not seem to have broken yet.*

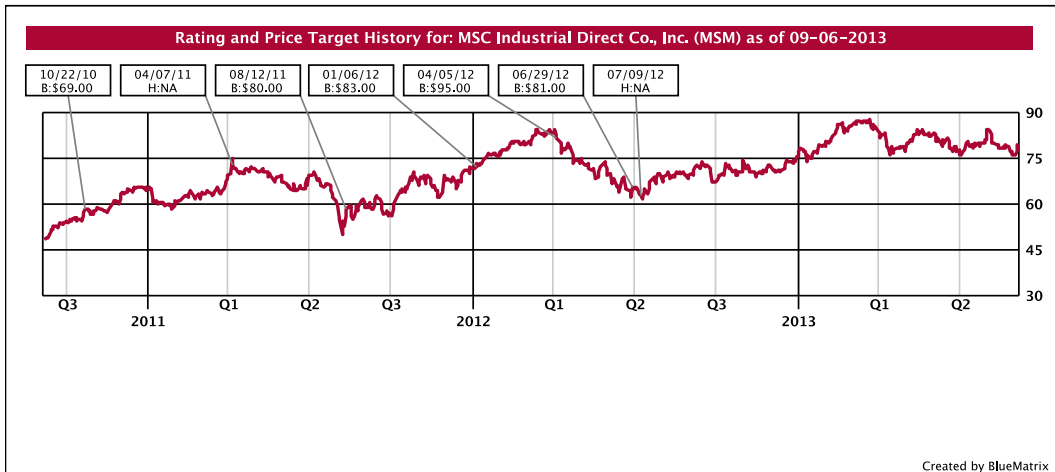
FASTENER DISTRIBUTION AT A GLANCE												
August 2013												
	----- Index Values -----								Jul.-->Aug.			
	Aug.	July	June	May	Apr.	Mar.	Feb.	Jan.	Change	Direction		
<b>PMI (Overall mftring sector)</b>	55.7	55.4	50.9	49.0	50.7	51.3	54.2	53.1	0.3	Growing		
<b>FDI (Fastener distribution)</b>	50.8	49.7	51.3	52.4	51.6	52.8	48.7	56.9	1.2	Growing		
Sales	58.1	58.3	50.0	63.9	68.8	58.3	48.7	82.8	(0.3)	Growing		
Employment	50.0	51.4	57.1	56.9	45.3	56.9	56.4	60.3	(1.4)	No Chg.		
Supplier Deliveries	59.7	56.9	60.7	51.4	53.1	52.8	47.4	44.8	2.7	Slowing		
Respondent Inventories	66.1	62.5	69.6	55.6	60.9	68.1	60.3	65.5	3.6	Too High		
Customer Inventories	35.5	31.9	37.5	37.5	39.1	43.1	42.3	39.7	3.5	Too Low		
Pricing, month-to-month	56.5	52.8	48.2	56.9	54.7	50.0	52.6	56.9	3.7	Higher		
Pricing, year-to-year	62.9	55.6	58.9	65.3	65.6	56.9	62.8	60.3	7.3	Higher		
	<u>Higher</u>	<u>Same</u>	<u>Lower</u>									
6-Month Outlook - August	35%	48%	16%									

*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.*

*Sources: BB&T Capital Markets' estimates, FCH Sourcing Network, Institute for Supply Management*

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**Price Chart**



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Not Rated (NR)	0.00%	Not Rated (NR)	0.00%

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