

## COMPANIES MENTIONED

**Fastenal**  
FAST - \$49.76 - Hold

**W.W. Grainger**  
GWW - \$250.53 - Hold

**MSC Industrial Direct**  
MSM - \$93.04 - Buy

## BB&TCM's Fastener Distributor Index: Through the Haze, Still Slow in June

### KEY TAKEAWAY

June's Fastener Distributor Index (FDI) was 49.3. A couple things are worth noting about this. First, if you strip out the odd June reading, the data has hung around 50 for much of the year. That suggests stable but low growth conditions. Second, the issue is the volatile sales component; other components are generally favorable. Plus, confidence in the six month outlook is still high. So not a great reading in total, but the details are generally more favorable, in our view. It might not be much progress, but it is not a step backward either.

### 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**).

Starting in January 2014, we began seasonalizing the data. Raw data can show signs of seasonal influence, i.e., January is usually strong coming off a holiday-impacted weaker December. This bias can be adjusted for. It will be refined as more data is gathered. In the interim, in the attached table we will show raw and adjusted figures, but in the text we will refer to the seasonally adjusted number.

**Strip out the odd April reading, and not much going on.** June was 49.3, a bit better than May (47.8). At this point, the odd April reading seems a bit of a throw-away, as absent that the picture is consistent: the FDI continues to hang around the neutral 50 level. Sales remain volatile, falling in June to 44.2 from May (48.4). That the overall figure was up sequentially despite that it speaks to improvement in the other components. Employment was 61.5 (53.1 in May) and Supplier Deliveries were a little slower at 57.7 (64.1 in May). It appears customers are still working down inventories (34.6, vs. 37.5 in May), which is not good for June but suggests better months ahead. *At this stage, we are willing to toss out the April reading as an outlier. What is left is stability and perhaps a little under-the-surface progress. Not much however, and other indexes seem to be performing better than the FDI.*

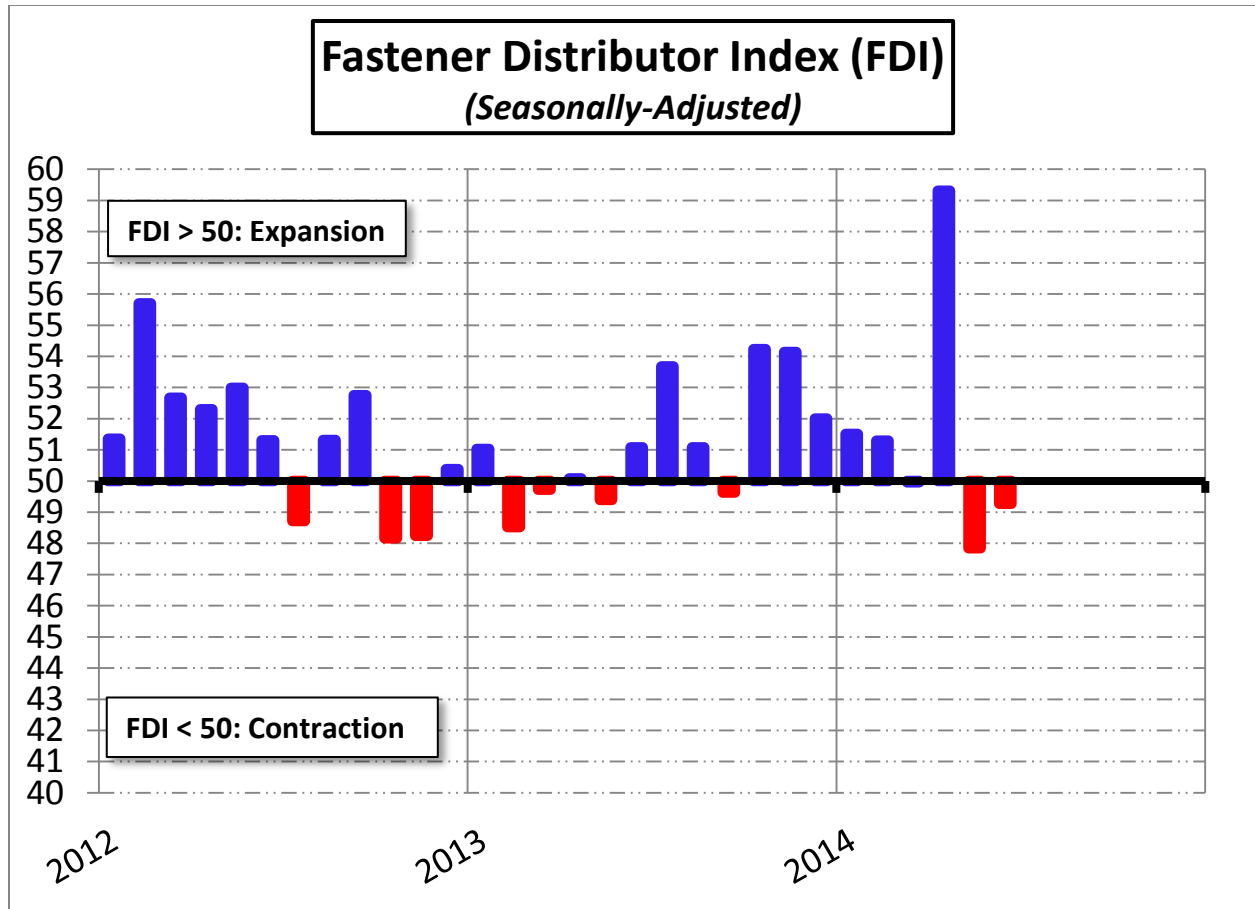
**Outlook: remarkably stable optimism.** In June, 58% of respondents foresee activity in the next six months to be better than currently, sustaining a nearly year-long range of 52%-62%. There is frequent movement between the "same" and "worse," and they shifted to the former this month with 8% of respondents in the pessimistic column (vs. 10% in May). *June was another month where the majority of respondents expect near-term improvement of demand. The outlook of respondents has proven remarkably steady.*

**Price: stuck at a low boil.** Like respondents' outlooks, the pricing situation remains stable. Sequential (59.6, vs. 62.5 in May) and annual (73.1, vs 73.4 in May) figures remained healthy. Annual pricing remains in the 2.0%-2.5% range. *There may not have been many signs of improvement from recent levels, which we hope to see as industry-specific forces ripple through (higher nickel, plating issues, etc.). But at least conditions are steady.*

FASTENER DISTRIBUTION AT A GLANCE									
June 2014									
	----- Index Values -----						May-->Jun.		
	Jun.	May	Apr.	Mar.	Feb.	Jan.	Change	Direction	
PMI (Manufacturing Sector)	55.3	55.4	54.9	53.7	53.2	51.3	0.5	Growing	
MBI (Metalworking sector)	53.6	53.9	53.6	55.9	53.4	54.2	0.3	Growing	
FDI (Fastener Sector)	49.5	50.8	61.1	53.0	51.5	57.4	(1.3)	Declining	
<b>FDI (Seasonally Adjusted)</b>	<b>49.3</b>	<b>47.8</b>	<b>59.3</b>	<b>50.0</b>	<b>51.3</b>	<b>51.5</b>	<b>1.4</b>	<b>Declining</b>	
Sales	44.2	48.4	76.9	59.1	48.0	70.3	(4.2)	Declining	
Employment	61.5	53.1	57.7	51.5	60.0	55.4	8.4	Growing	
Supplier Deliveries	57.7	64.1	69.2	56.1	62.0	63.5	(6.4)	Slowing	
Respondent Inventories	59.6	65.6	51.9	62.1	60.0	55.4	(6.0)	Too High	
Customer Inventories	34.6	37.5	40.4	45.5	36.0	40.5	(2.9)	Too Low	
Pricing, month-to-month	59.6	62.5	65.4	59.1	60.0	62.2	(2.9)	Higher	
Pricing, year-to-year	73.1	73.4	80.8	66.7	72.0	67.6	(0.4)	Higher	
	<u>Higher</u>	<u>Same</u>	<u>Lower</u>						
6-Month Outlook - June	58%	35%	8%						

*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.*

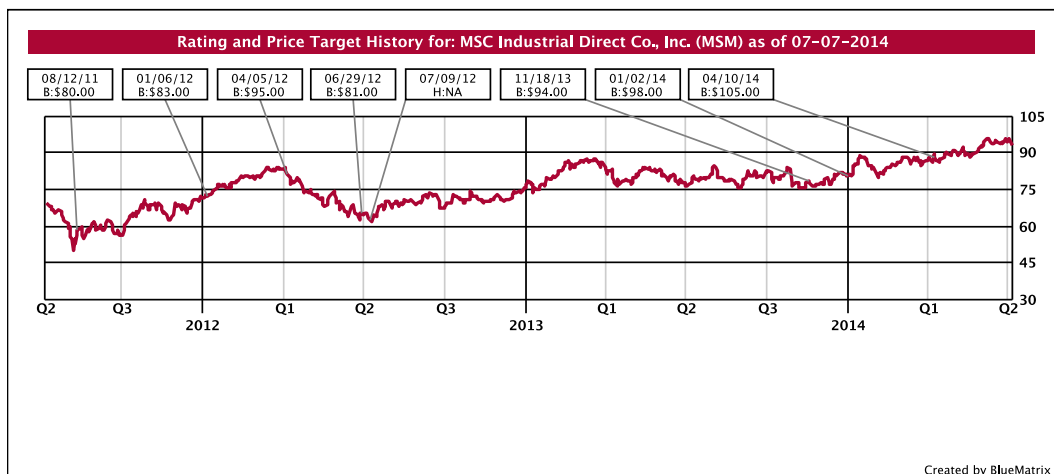
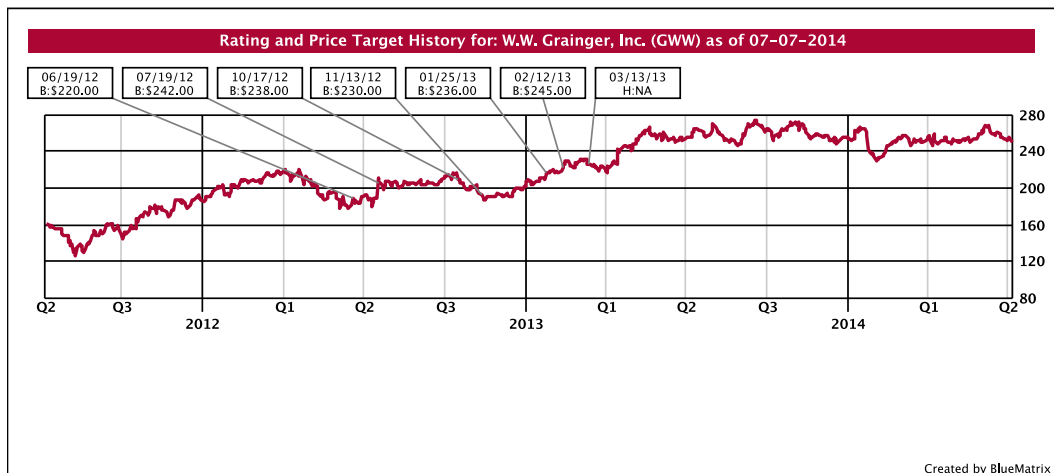
*Sources: BB&T Capital Markets, FCH Sourcing Network, Institute for Supply Management, Gardner*



Source: BB&T Capital Markets

**IMPORTANT DISCLOSURES**

**Price Chart**



**BB&T Capital Markets rating distribution by percentage (as of July 8, 2014):**

<p>All companies under coverage:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Buy (1)</td> <td style="text-align: right;">49.47%</td> </tr> <tr> <td>Hold (2)</td> <td style="text-align: right;">50.18%</td> </tr> <tr> <td>Underweight/Sell (3)</td> <td style="text-align: right;">0.35%</td> </tr> <tr> <td>Not Rated (NR)</td> <td style="text-align: right;">0.00%</td> </tr> </table>	Buy (1)	49.47%	Hold (2)	50.18%	Underweight/Sell (3)	0.35%	Not Rated (NR)	0.00%	<p>All companies under coverage to which it has provided investment banking services in the previous 12 months:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Buy (1)</td> <td style="text-align: right;">24.11%</td> </tr> <tr> <td>Hold (2)</td> <td style="text-align: right;">16.08%</td> </tr> <tr> <td>Underweight/Sell (3)</td> <td style="text-align: right;">0.00%</td> </tr> <tr> <td>Not Rated (NR)</td> <td style="text-align: right;">0.00%</td> </tr> </table>	Buy (1)	24.11%	Hold (2)	16.08%	Underweight/Sell (3)	0.00%	Not Rated (NR)	0.00%
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The definition of each rating is as follows:

Buy (1): estimated total return potential greater than or equal to 10%, Hold (2): estimated total return potential greater than or equal to 0% and less than 10%, Underweight (3): estimated total return potential less than 0%

**B:** Buy **H:** Hold **UW:** Underweight **NR:** Not Rated **NA:** Not Applicable **NM:** Not Meaningful **SP:** Suspended

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