

COMPANIES MENTIONED

Fastenal
FAST - \$51.00 - Hold

W.W. Grainger
GWW - \$254.59 - Hold

MSC Industrial Direct
MSM - \$87.24 - Buy

BB&TCM's Fastener Distributor Index: Despite Little Change, a Poor March

KEY TAKEAWAY

The FDI worsened a bit in March, though in the big picture not sufficiently to impair the slow growth picture. Sentiment remained generally favorable. Yet, we concede to having expected better, with weather likely having been less of a factor and the PMI and MBI both improving somewhat. Also, we gauge recent commentary from companies to be slightly improved, though that means sentiment going to "slight growth" from "flattish." We don't believe conditions have gotten worse. The March FDI does not suggest it has gotten better. Still, all the arrows continue to point at somewhat better readings in coming months.

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**).

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

March FDI: disappointing. March was 50.0, below February (51.3) and the fifth down month. That is unwelcome, though the last four months have been between 50 and 52, a range within which movement means little. So we wouldn't overstate the meaning of the mild downtrend. Sales popped back into growth (59.1, from 48.0 in February.). Employment is still up, but just barely (51.5, from 60.0), and Supplier Deliveries are slow but not by as much (56.1, from 62.0). Customer Inventories were still "too low" but by a lower amount than at any point since late 2012 (45.5, from 36.0). *The figure still suggests not much has changed, but we had higher hopes with weather clearing out and the PMI and MBI both being higher in March. A single month is not a trend, and we will look for better figures in upcoming reports.*

Outlook: favorable sentiment remains stable. In March, 55% of respondents expect activity in six months to be better than it is currently. Over the last seven months, this sentiment has been steady, ranging from 52%-62%. There is frequent movement between the "same" and "worse" (9%, vs. 4% in March) camps. *As long as a majority persists in the "better" camp and far outweighs the pessimists—and that has been a stable dynamic in recent months—this reading is favorable, in our opinion.*

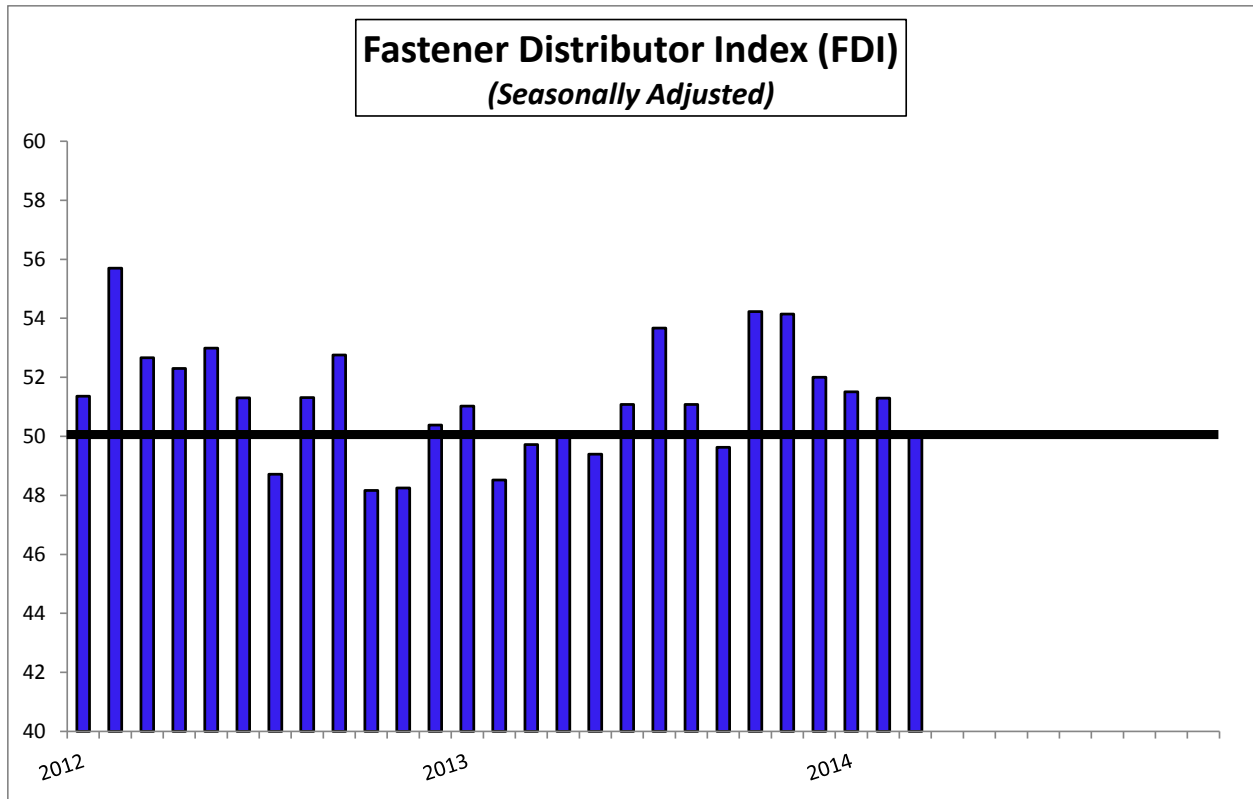
Price: not getting much. Sequential (59.1, from 60.0 in Feb.) and annual (66.7%, from 72.0) efforts are largely unchanged from February or January. Reported annual pricing was 1.0%-2.5%, mostly level with the last couple months, though it might be a very mild downtick. *Demand is still slow, and predictably so is pricing. It is a well-worn dynamic that shows little sign of changing.*

Survey Question: What do you expect from margins in 2014? A lot seems to be working against margins in 2014: low volumes, minimal pricing, more hiring, higher prices from masters, etc. That said, the outlook for margins was not bad. 46% felt stresses were overstated and there are means to offset (technology-based efficiencies, knowledge-based selling, and consolidating purchasing/managing suppliers were most often cited). 27% believed easing weather issues would yield better volumes and margins. Only 27% see margins down in 2014. *Yes, 54% either see lower margins or hinge expectations for higher margins on the cloudy prospect of better volumes. Still, this does not paint a picture of oppressive margin pressures.*

FASTENER DISTRIBUTION AT A GLANCE										
March 2014										
	----- Index Values -----							Feb.-->Mar.		
	Mar.	Feb.	Jan.	Dec.	Nov.	Oct.	Sep.	Change	Direction	
PMI (Manufacturing Sector)	53.7	53.2	51.3	56.5	57.0	56.6	56.0	0.5	Growing	
MBI (Metalworking sector)	55.9	53.4	54.2	49.9	50.3	50.7	48.1	2.5	Growing	
FDI (Fastener Sector)	53.0	51.5	57.4	50.0	51.7	52.7	45.4	1.5	Growing	
FDI (Seasonally Adjusted)	50.0	51.3	51.5	52.0	54.1	54.2	49.6	(1.3)	Declining	
Sales	59.1	48.0	70.3	50.0	43.1	73.2	42.9	11.1	Growing	
Employment	51.5	60.0	55.4	53.6	56.9	53.6	50.0	(8.5)	Growing	
Supplier Deliveries	56.1	62.0	63.5	53.6	65.5	44.6	52.9	(5.9)	Slowing	
Respondent Inventories	62.1	60.0	55.4	57.1	65.5	55.4	62.9	2.1	Too High	
Customer Inventories	45.5	36.0	40.5	42.9	41.4	39.3	35.7	9.5	Too Low	
Pricing, month-to-month	59.1	60.0	62.2	50.0	58.6	55.4	54.3	(0.9)	Higher	
Pricing, year-to-year	66.7	72.0	67.6	71.4	65.5	62.5	62.9	(5.3)	Higher	
	<u>Higher</u>	<u>Same</u>	<u>Lower</u>							
6-Month Outlook - March	55%	36%	9%							

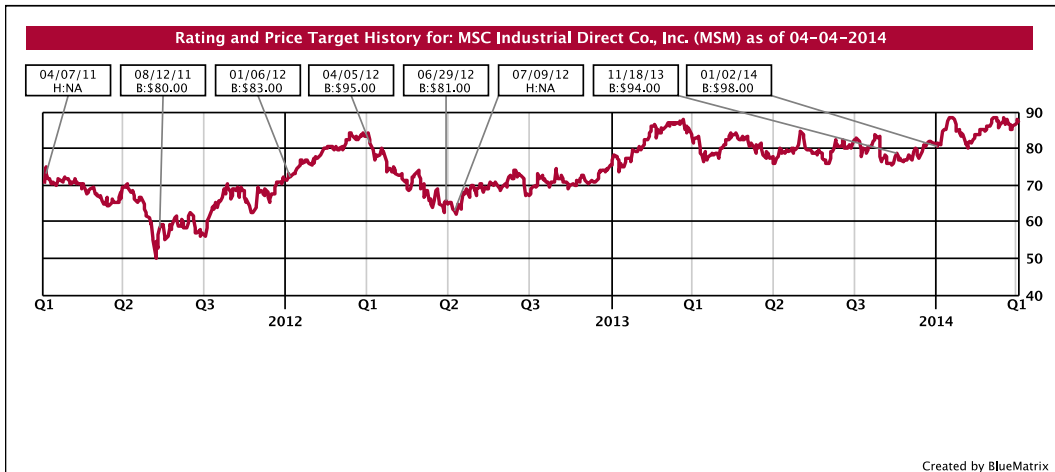
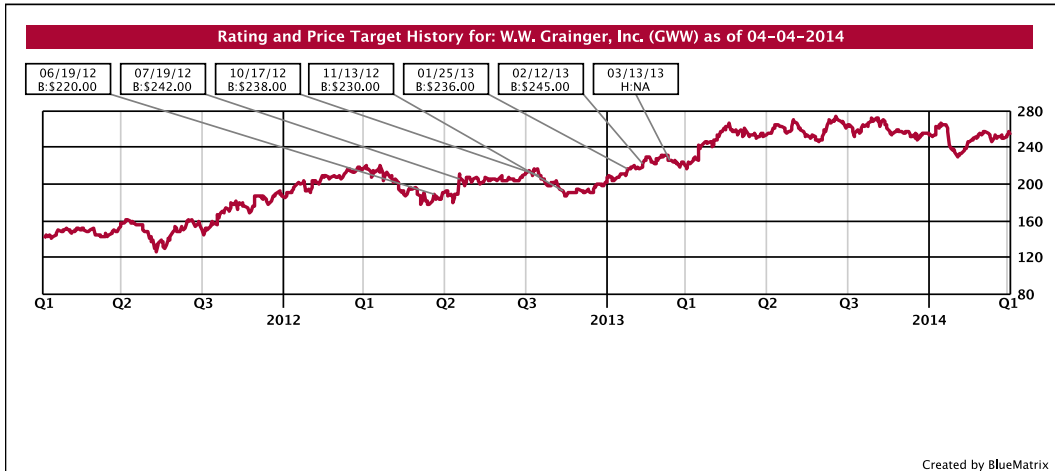
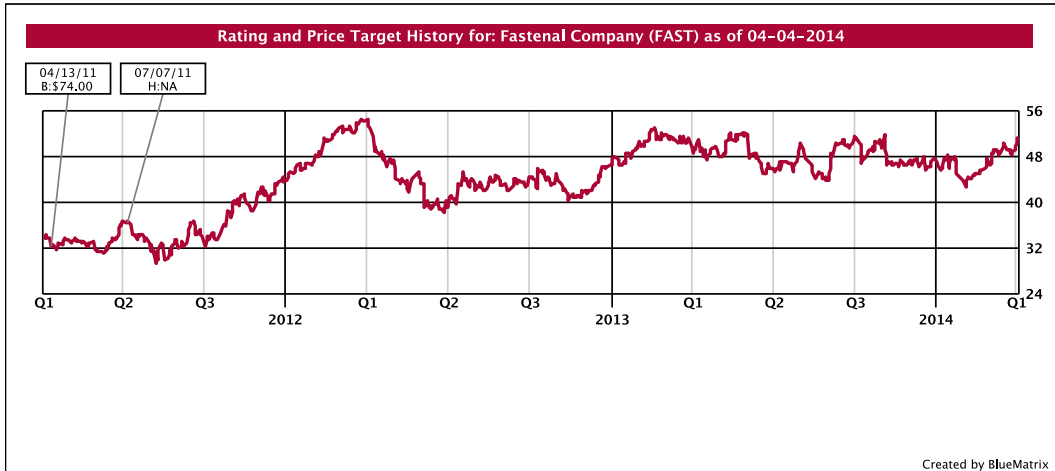
FDI and Pricing are diffusion indexes. At 50, the performance of the category listed met expectations. A reading above 50 suggests the category outperformed expectations, while a reading below 50 suggests the category underperformed expectations.

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



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Price Chart



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