

COMPANIES MENTIONED

Fastenal
FAST - \$49.40 - Hold

W.W. Grainger
GWW - \$261.47 - Hold

MSC Industrial Direct
MSM - \$92.85 - Buy

BB&TCM's Fastener Distributor Index (FDI): May Backtracks, Trend OK

KEY TAKEAWAY

May's FDI was weak at 47.8, but on the heels of an April that felt too strong (59.3), this retreat is not overly surprising. We think there is some value in smoothing the result, and if you do that the FDI, PMI and MBI indexes all reflect stable growth. Respondents remain confident that the next six months will remain positive. Also, the pricing picture seems to be improving as a result of better demand and sector-specific factors. Overall, we think the overall environment for fastener distributors continues to gradually improve.

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.

Unsurprisingly, May's FDI backs up. May was 47.8, retreating from April (59.3). We are not surprised it came down, as April felt strong. The metric can be volatile due to the Sales component (48.4, vs. 76.9 in April), so we see value in averaging out some of the volatility. In that vein, April/May were in the 52-54 range, above the weather impaired February/March period and consistent with the latter parts of 2013. These are consistent with steady growth. Key components did not change much: Employment was 53.1 (57.7 in April), Supplier Deliveries were a little faster at 64.1 (69.2 in April), and Customer Inventories remain "too low" at 37.5 (40.4, in April). *May was surprisingly poor, but April was surprisingly strong, so there is value in averaging the result. Taking three month averages, the FDI was 52.4 while the PMI was 54.7 and the MBI was 54.4, all in satisfactory growth mode.*

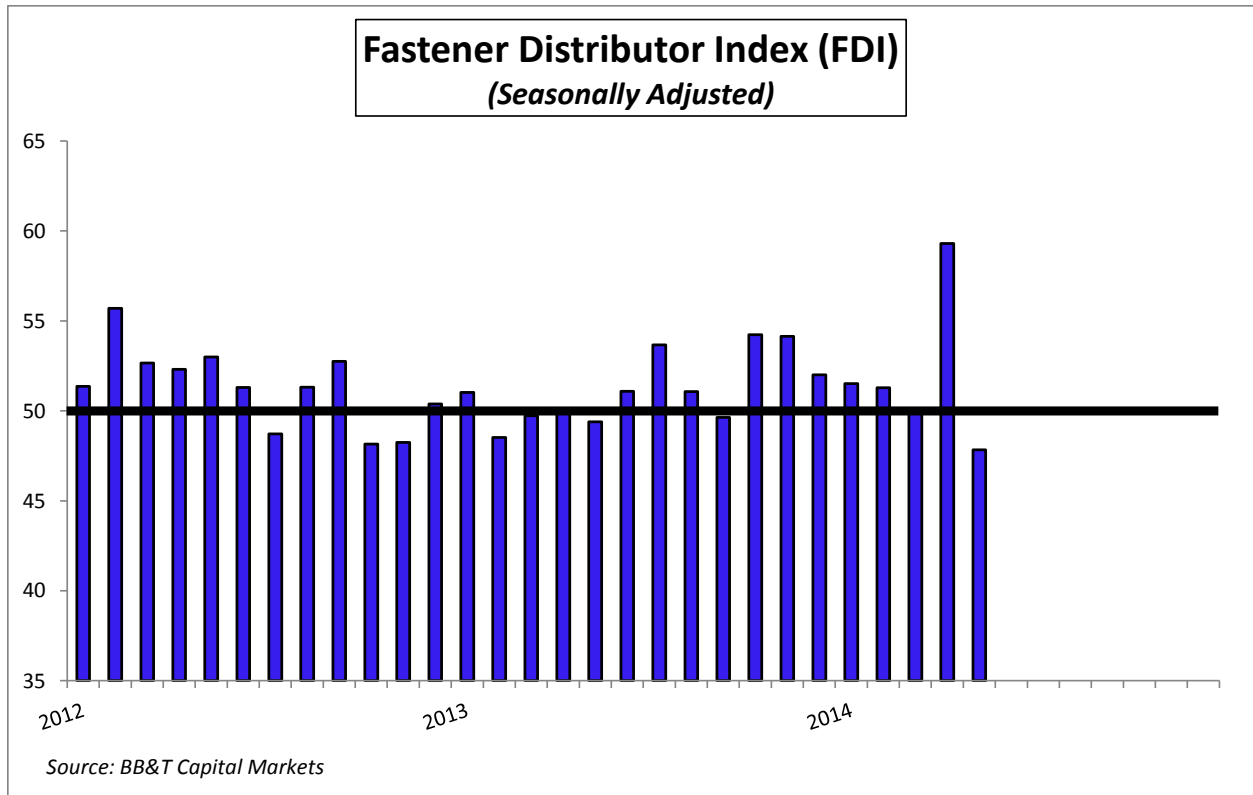
Outlook: still favorable. In May, 52% of respondents foresee activity in the next six months to be better than currently, sustaining a nine-month range of 52%-62%. There is frequent movement between the "same" and "worse," and they shifted to the latter this month with 10% of respondents in the pessimistic column (vs. 4% in Mar.). *May was another month where the majority of respondents expect near-term improvement of demand. The outlook of respondents has proven remarkably steady.*

Price: on the numbers and the survey, price is encouraging. Sequential (62.5, vs. 65.4 in April) and annual (73.4, vs 80.8 in April) figures remained healthy. Annual pricing remains in the 2.0%-2.5% range. In our survey, we asked what the effects of master distributor consolidation, rising nickel, and tighter plating capacity might mean to pricing in the near term. 58% of respondents expect higher pricing to result, mostly in the 0%-3% range, while 42% see no change to pricing as a result. *We believe the pricing picture has continued to improve as the year has worn on.*

FASTENER DISTRIBUTION AT A GLANCE									
April 2014									
	----- Index Values -----						Apr.-->May		
	May	Apr.	Mar.	Feb.	Jan.	Dec.	Change	Direction	
PMI (Manufacturing Sector)	55.4	54.9	53.7	53.2	51.3	56.5	0.5	Growing	
MBI (Metalworking sector)	53.7	53.6	55.9	53.4	54.2	49.9	0.1	Growing	
FDI (Fastener Sector)	50.8	61.1	53.0	51.5	57.4	50.0	(10.3)	Growing	
FDI (Seasonally Adjusted)	50.1	59.3	50.0	51.3	51.5	52.0	(9.2)	Growing	
Sales	48.4	76.9	59.1	48.0	70.3	50.0	(28.5)	Declining	
Employment	53.1	57.7	51.5	60.0	55.4	53.6	(4.6)	Growing	
Supplier Deliveries	64.1	69.2	56.1	62.0	63.5	53.6	(5.2)	Slowing	
Respondent Inventories	65.6	51.9	62.1	60.0	55.4	57.1	13.7	Too High	
Customer Inventories	37.5	40.4	45.5	36.0	40.5	42.9	(2.9)	Too Low	
Pricing, month-to-month	62.5	65.4	59.1	60.0	62.2	50.0	(2.9)	Higher	
Pricing, year-to-year	73.4	80.8	66.7	72.0	67.6	71.4	(7.3)	Higher	
	<u>Higher</u>	<u>Same</u>	<u>Lower</u>						
6-Month Outlook - May	52%	39%	10%						

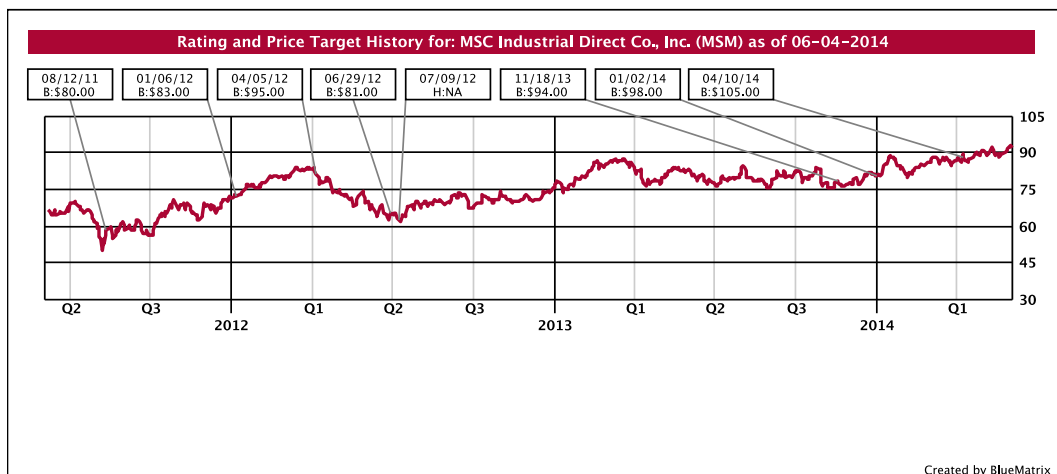
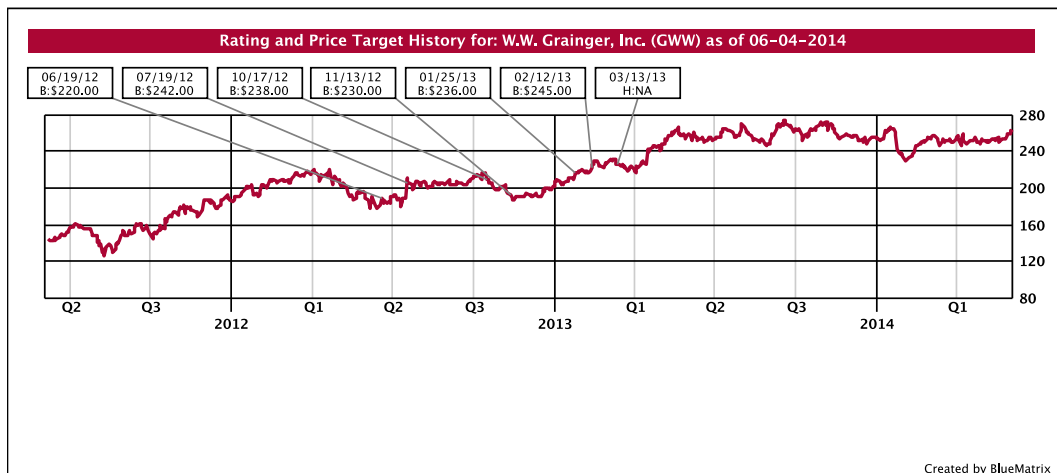
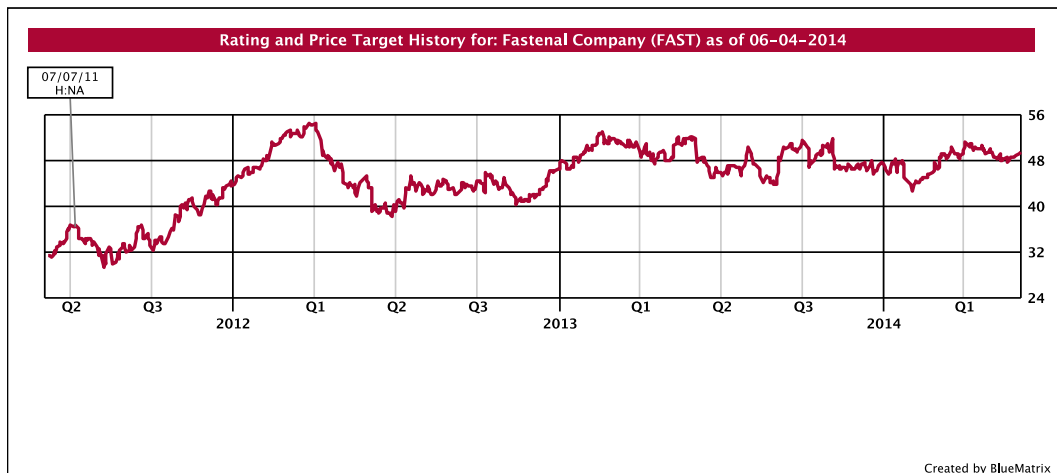
FDI and Pricing are diffusion indexes. At 50, the performance of the category listed met expectations. A reading above 50 suggests the category outperformed expectations, while a reading below 50 suggests the category underperformed expectations.

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



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Price Chart



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