

## Fastener Distributor Index – Sept 2016

Written by independent analyst Charles Redding 10/6/16



### Key Takeaway:

The seasonally adjusted FDI for September (51.5) remained in growth territory, although results took a step back from the elevated August reading of 53.1. Despite implications for modest ongoing growth, September sales proved mixed, with just 53% of respondents noting flat or stronger selling conditions versus the preceding month. Moreover, commentary among survey respondents was decidedly negative. Conditions remain choppy for many fastener distributors, in our view, as intense sales and pricing pressure continues. Additionally, we believe the survey's notably tepid employment sentiment could suggest a more material near-term pullback in hiring among manufacturers. We will continue watching closely for more consistent results.

### Key Points:

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

**September FDI remains above 50.** The seasonally adjusted September FDI (51.5) remained in expansion territory, albeit weaker versus the August reading (53.1). Of the items measured (sales, employment, delivery times, customer inventories), we believe top-line sentiment remains the most compelling indicator in the Index. For September, just 53% of respondents cited unchanged/ stronger sales versus the August period (68% last month). Regarding customer inventories, 22% of participants viewed current levels as "too high". We note that during the headier growth period of 2013-2014, this metric averaged just 4%.

**Manufacturing employment outlook not pretty.** We believe the prevailing hiring sentiment among survey respondents remains decidedly negative, and has deteriorated further in recent weeks. For September, 91% of participants cited unchanged (or weaker) hiring conditions versus the prior month (79% this past June). Not surprisingly, last month's US jobs report came in weaker than expected (+151K adds vs. +180K consensus), reflecting mixed hiring conditions for many domestic manufacturers (*US BLS*). Also, just this week, payroll processor *ADP* noted that US manufacturers cut jobs for the eighth consecutive month, with September adds the fewest since April (*ADP*). Last quarter, Fastenal reiterated its hiring freeze, excluding necessary vending/IT administration adds.

**September sentiment decidedly cautious.** Overall survey commentary continues to imply notable divergence among select fastener distributors. While one participant called out increased order activity, the large majority of respondents continue to exercise caution. One noted, “After a strong first half, Q3 activity level has fallen significantly...we anticipate more of the same in Q4. Another indicated, “Q3’16 was our weakest quarter in three years.” Last month, US light manufacturing sales for Grainger increased in the low-single digits, partially offsetting continued weakness in heavy manufacturing (down mid-single digits) and natural resources (down mid-teens). Fastenal and Grainger report daily sales results for September on 10/11 and 10/18, respectively.

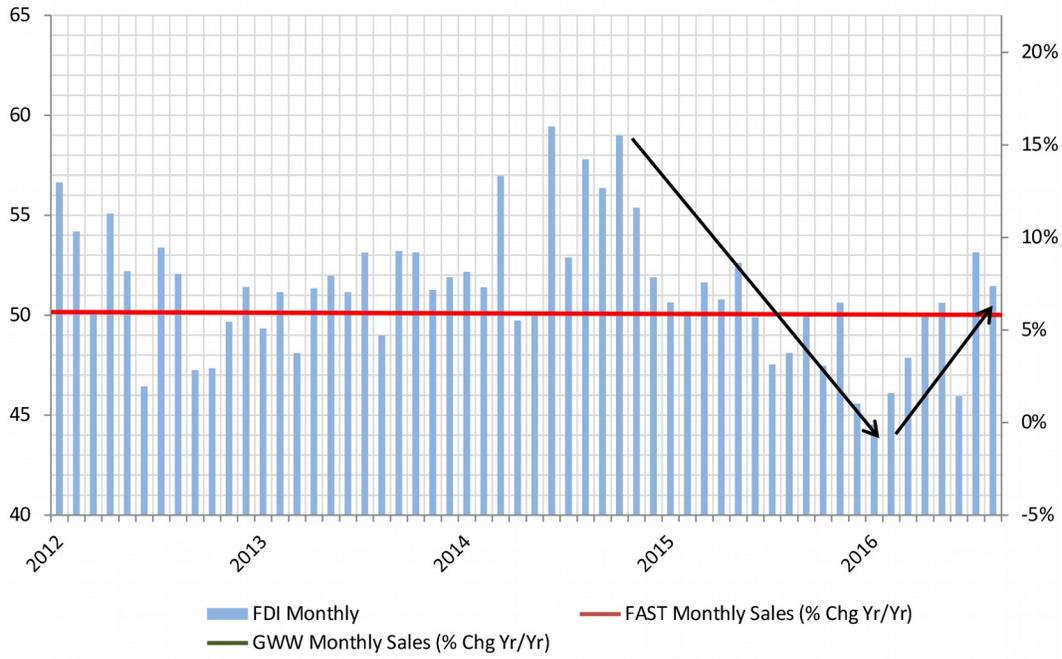
### Fastener Distribution Trends: September 2016

| FASTENER DISTRIBUTION AT A GLANCE |                          |             |             |             |             |             |           |           |
|-----------------------------------|--------------------------|-------------|-------------|-------------|-------------|-------------|-----------|-----------|
| September 2016                    |                          |             |             |             |             |             |           |           |
|                                   | ----- Index Values ----- |             |             |             |             |             | Sep-> Aug |           |
|                                   | Sep.                     | Aug.        | July        | June        | May         | Apr.        | Change    | Direction |
| PMI (Manufacturing Sector)        | 51.5                     | 49.4        | 52.6        | 53.2        | 51.3        | 50.8        | 2.1       | Growing   |
| FDI (Fastener Sector)             | 47.7                     | 50.8        | 44.6        | 50.0        | 51.1        | 51.3        | (3.2)     | Declining |
| <b>FDI (Seasonally Adjusted)</b>  | <b>51.5</b>              | <b>53.1</b> | <b>45.9</b> | <b>50.6</b> | <b>50.1</b> | <b>47.9</b> | (1.7)     | Growing   |
| Sales (SA)                        | 48.1                     | 61.6        | 29.4        | 50.8        | 48.4        | 38.2        | (13.5)    | Declining |
| (Other Metrics; NSA)              |                          |             |             |             |             |             |           |           |
| Employment                        | 46.9                     | 40.3        | 50.0        | 58.6        | 51.5        | 51.3        | 6.6       | Declining |
| Supplier Deliveries               | 54.7                     | 56.5        | 55.7        | 53.4        | 54.5        | 56.6        | (1.8)     | Slowing   |
| Respondent Inventories            | 71.9                     | 66.1        | 60.2        | 63.8        | 68.2        | 71.1        | 5.7       | Too High  |
| Customer Inventories              | 48.4                     | 48.4        | 46.6        | 43.1        | 48.5        | 50.0        | 0.1       | Too Low   |
| Pricing, month-to-month           | 53.1                     | 53.2        | 51.1        | 51.7        | 51.5        | 53.9        | (0.1)     | Higher    |
| Pricing, year-to-year             | 45.3                     | 54.8        | 56.8        | 48.3        | 53.0        | 47.4        | (9.5)     | Lower     |
| Higher Same Lower                 |                          |             |             |             |             |             |           |           |
| 6-Month Outlook - Sep             | 38%                      | 31%         | 31%         |             |             |             |           |           |

*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&TCM, FCH Sourcing Network, Institute for Supply Management

**Distributor Index (FDI); Seasonally Adjusted**



Source: BB&TCM, FCH Sourcing Network, company reports

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