

## COMPANIES MENTIONED

## Fastenal

FAST - \$51.26 - Hold

## W.W. Grainger

GWW - \$264.88 - Hold

## MSC Industrial Direct

MSM - \$82.94 - Hold

## BB&TCM's Fastener Distributor Index - September's FDI Remains Subdued

### KEY TAKEAWAY

September's FDI of 45.4 was clearly negative, but it does not incrementally sour our view of a still stagnant market. The entire erosion rests on one metric, sales, and an increasingly positive outlook hints this is more September-specific than reflecting true erosion. It feels like just one bad month. However, strong PMIs are generating some expectation of an improving tone, and while that could still happen as Q4'13 unfurls the September FDI suggests the tone from early reporters (Fastenal and Grainger) are unlikely to be much improved from their July and August reports.

### 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).

**Rough September FDI, further divergence from the PMI.** September's 45.4 was worse than August's 50.8, and one of the worst readings since we began the FDI in January 2012. Supplier Deliveries may have been a bit faster (suggesting vendors are less busy), but otherwise just one measure defined September: Sales, at 42.9, cooled considerably from August. *One rough month from one sub-component does not initiate a trend, especially when that component is the often volatile sales and when the seven month average is still 50.6. But when the PMI is suggesting some improvement as we move through Q4'13, it is a less than rousing result.*

**The outlook also keeps pessimism at bay.** Further minimizing negativity around September's FDI is that 54% of surveys still see better conditions in six months while just 6%, the lowest figure since Q1'12, think things will worsen. *If a rough sales reading doesn't erode optimism about the next six months, it is likely premature to conclude that market dynamics have actually changed over the past month.*

**Price: locked in at low levels.** As in August, sequential and annual price readings improved in September, but the lion's share of respondents still report no change. Pricing reported seems to fall solidly in the 1.5%-2.0% range. *Pricing has stabilized at levels that seem designed to manage general inflation, nothing more.*

**Supplemental question: the fate of masters?** With big distributors sourcing and stocking more product themselves over time, we wondered at the fate of the master distributor. The good news? 53% of respondents expect to use masters as they do today (41%) or to increase their use (12%). Further, 31% cite consolidation as the cause of possibly using them less; if consolidation does not alter channel dynamics between masters and wholesalers, it stands to reason they may not alter their buying habits. Only 16% of respondents plan on reducing the use of masters owing to their own internal strategies.

**What does this mean for other distributors?** Strong PMI readings are generating expectations of better sales readings from NorAm distributors. This suggests that it may not be evident in the September releases. On one level, this is not surprising. The PMI is a three to five month leader, so in truth better FDI and DSRs readings would be expected to follow through Q4'12. *However, with Fastenal and Grainger set to report in the next 10 days, the FDI suggests there should not be much positive to provide in terms of tone. MSC Industrial's report, on October 30, may be a better barometer of what to expect the balance of 2013.*

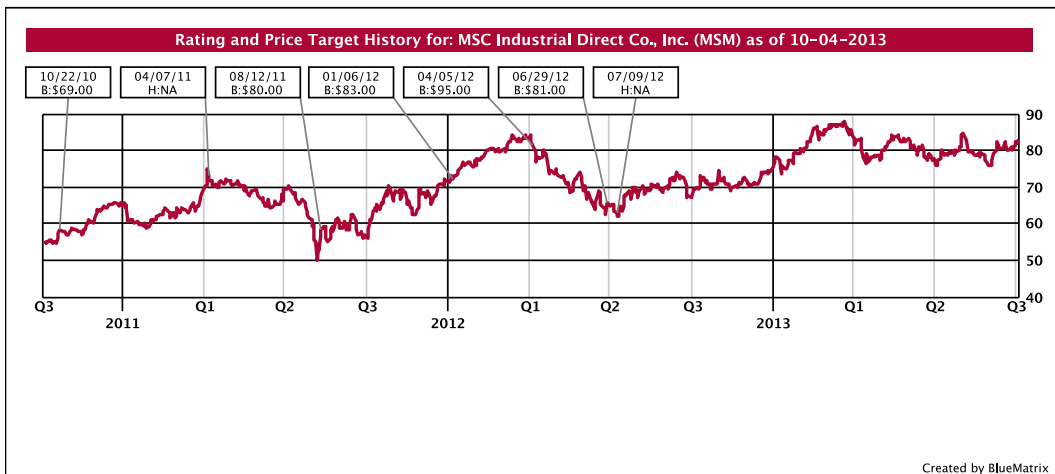
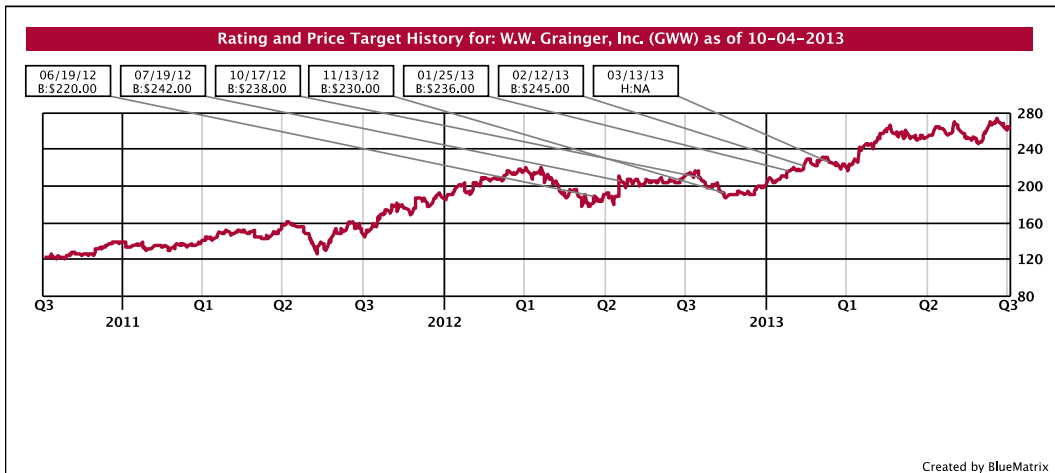
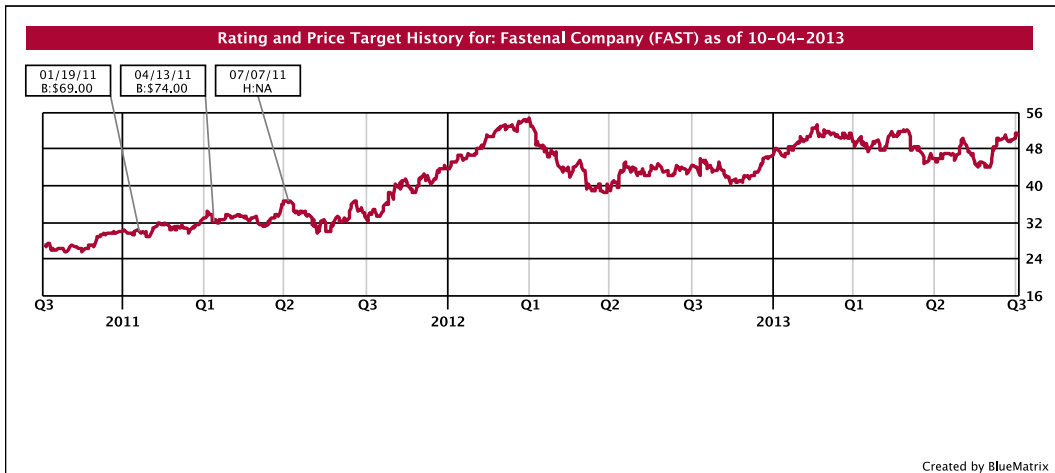
FASTENER DISTRIBUTION AT A GLANCE											
September 2013											
	----- Index Values -----									Aug.-->Sep.	
	Sep.	Aug.	July	June	May	Apr.	Mar.	Feb.	Jan.	Change	Direction
<b>PMI (Overall mftring sector)</b>	56.2	55.7	55.4	50.9	49.0	50.7	51.3	54.2	53.1	0.5	Growing
<b>FDI (Fastener distribution)</b>	45.4	50.8	49.7	51.3	52.4	51.6	52.8	48.7	56.9	1.2	Declining
Sales	42.9	58.1	58.3	50.0	63.9	68.8	58.3	48.7	82.8	(0.3)	Declining
Employment	50.0	50.0	51.4	57.1	56.9	45.3	56.9	56.4	60.3	(1.4)	Declining
Supplier Deliveries	52.9	59.7	56.9	60.7	51.4	53.1	52.8	47.4	44.8	2.7	Slowing
Respondent Inventories	62.9	66.1	62.5	69.6	55.6	60.9	68.1	60.3	65.5	3.6	Too High
Customer Inventories	35.7	35.5	31.9	37.5	37.5	39.1	43.1	42.3	39.7	3.5	Too Low
Pricing, month-to-month	54.3	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	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 - Sept.	54%	40%	6%								

*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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# Capital Markets

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Bret D. Jordan, CFA (617) 316-1345  
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Nathan P. Martin (804) 782-8799

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Peter W. Councill, CFA (804) 782-8850

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**Food & Drug Merchandising**  
Andrew P. Wolf, CFA (617) 316-1322  
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Thomas S. Albrecht, CFA (804) 787-8210  
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A. Rhem Wood Jr. (804) 782-8784

## **RESEARCH DEPARTMENT**

**Director of Research**  
Vernon C. Plack, CFA (804) 780-3257

**Assistant Director of Research**  
James H. Weber, CFA (804) 782-8773

**Equity Product Manager**  
W. Moultrie Dotterer, CFA (804) 780-3279

**Supervisory Analysts**  
Kathleen R. Schneider (732) 567-8766  
Denise Bossé Tyznar (804) 782-8880  
James H. Weber, CFA (804) 782-8773

**Editor**  
Peggy Myers Walz (804) 782-8785

## **RESEARCH OFFICES**

**Richmond  
Boston  
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Reston**