

## Fastener Distributor Index – June 2017

Written by R.W. Baird analyst David J. Manthey, CFA 7/6/17



### Key Takeaway:

The seasonally adjusted FDI for June 2017 was 60.8 – decelerating slightly from May’s record 64.6 reading but remaining well in expansionary territory. Recent strong sales momentum continued in June, as the seasonally adjusted sales index of 86.6 represents a new FDI survey record. Commentary on market conditions remains positive, with respondents indicating selling conditions are strong and customer activity/backlog continues to suggest a favorable outlook. The FDI Forward-Looking Indicator also remains well in expansionary territory, registering a seasonally adjusted 64.0 – another record result.

### Key Points:

**About the Fastener Distributor Index (FDI).** The FDI is a monthly survey of North American 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, values above 50.0 signal strength, while readings below 50.0 signal weakness. Over time, results should be directly relevant to **Fastenal (FAST)** and broadly relevant to other industrial distributors such as **W.W. Grainger (GWW)**, and **MSC Industrial (MSM)**.

**June FDI ticks down slightly.** The seasonally adjusted June FDI (60.8) decreased slightly from May’s record 64.6 reading, though commentary from respondents remains bullish overall. Top-line sentiment also remained solidly positive, with 64% of distributors indicating sales were “better” relative to seasonal expectations in June, down slightly vs. a May level of 72%. Relative to historical seasonal readings in the month of June, this month represented a seasonally adjusted sales index of 86.6 – a record result. A modestly more positive reading on customer inventory levels was also registered this month, as 44% of respondents view customer inventory levels as too low, while 8% indicated inventories are too high. This compares to May results of 31% and 3%, respectively.

**FDI Forwarding-Looking Indicator remains solidly in growth mode.** The FDI Forward-Looking Indicator is based on a weighted average of four forward-looking inputs from the FDI survey. This indicator is designed to provide directional perspective on future expectations for fastener market conditions. June’s seasonally adjusted Forward-Looking Indicator ticked up slightly at 64.0 vs. 63.3 in May. The Forward-Looking Indicator averaged 49.7 during 2016, but has averaged 60.7 year-to-date in 2017. An uptick in this month’s Forward-Looking Indicator and a reading well above 50 suggest market conditions are likely to remain in growth mode, moving forward.

**Manufacturing employment outlook remains positive.** Following a notably more bullish turn in hiring sentiment in May, respondents indicated relatively stable hiring conditions in June. 36% of respondents saw hiring pick up in June (vs. 47% in May, 21% in April, and 24% in March), while 64% indicated hiring was unchanged relative to seasonal expectations— resulting in a FDI Employment Index reading of 68.0, down slightly vs. May’s 73.6 reading but still well above the 2016 average (48.9). May’s US jobs report, meanwhile, came in below expectations (+138,000 adds vs. +185,000 consensus). Domestic manufacturing employment was flattish m/m, as was the average hours per workweek for manufacturing employees (40.7 hours).

**June sentiment bullish.** Commentary on current market conditions was nearly uniformly positive, with various distributors noting strong sales momentum and increased activity among customers. One respondent characterized June as the “third really good month in a row,” while another indicated, “Sales are picking up and deliveries from vendors are having longer lead times.” Respondents continue to be optimistic regarding the outlook for the remainder of the year, with one saying, “Most of our customers have a lot of jobs booked. [They] say it will be very busy.” Consistent with this, 60% of respondents expect higher activity levels over the next six months vs. today, while only 12% expect lower.

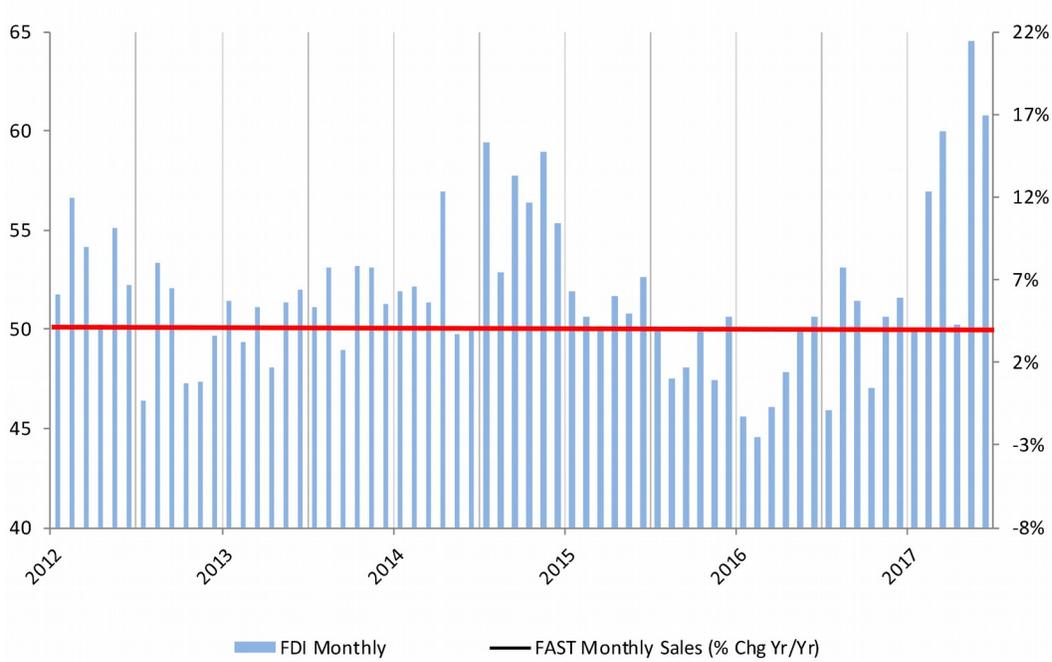
**Fastenal** reported May daily sales growth of +9.7% y/y, just above our estimate and reflecting growth in all end markets/product lines. Underlying “core” growth (excluding acquisitions and foreign exchange) was closer to 8.8% -- decelerating slightly vs. April after adjusting for Easter impacts. Fastener growth was up a solid 7% y/y, including the recent Mansco acquisition. Based on FDI data and other research inputs, we have been expecting a substantial uptick in growth among the public industrial distributors this year, with Fastenal daily sales growth now expected to average double-digit growth rates for the remainder of 2017.

## Fastener Distribution Trends: June 2017

FASTENER DISTRIBUTION AT A GLANCE									
June 2017									
	----- Index Values -----							Directbn	Rate of Change
	Jun	May	Apr	Mar	Feb	Jan	Dec		
PMI (Manufacturing Sector)	57.8	54.9	54.8	57.2	57.7	56.0	54.5	Growing	Faster
FDI (Fastener Sector)	60.5	66.3	53.7	61.3	55.4	54.5	50.3	Growing	Slower
<b>FDI (Seasonally Adjusted)</b>	<b>60.8</b>	<b>64.6</b>	<b>50.2</b>	<b>60.0</b>	<b>57.0</b>	<b>49.9</b>	<b>51.6</b>	Growing	Slower
Sales (SA)	86.6	79.6	43.8	74.6	62.7	51.6	60.6	Growing	Faster
Forward- Looking (SA)	64.0	63.3	58.9	57.4	61.0	59.8	57.6	Growing	Faster
<b>(Other Metrics; NSA)</b>									
Employment	68.0	73.6	57.4	59.8	62.9	57.6	51.3	Growing	Slower
Supplier Deliveries	64.0	72.2	66.2	61.0	61.4	56.1	56.4	Growing	Slower
Respondent Inventories	52.0	58.3	52.9	61.0	58.6	59.1	59.0	Growing	Slower
Customer Inventories	32.0	36.1	38.2	43.9	40.0	36.4	41.0	Declining	Faster
Pricing, month-to-month	52.0	59.7	60.3	63.4	60.0	62.1	56.4	Higher	Slower
Pricing, year-to-year	66.0	75.0	73.5	72.0	70.0	68.2	60.3	Higher	Slower
6-Month Outlook - June				Higher	Same	Lower			
				60%	28%	12%			
<p><i>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.</i></p>									

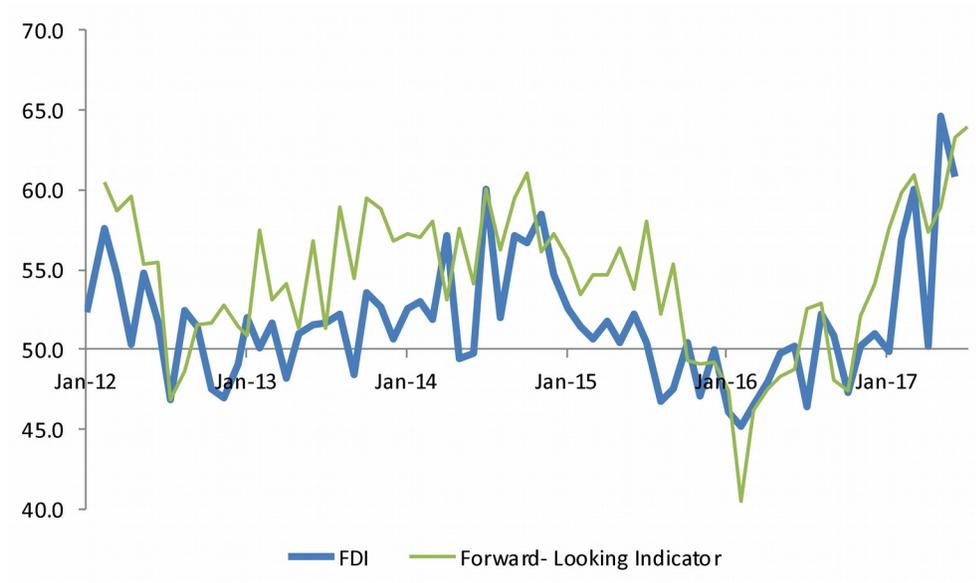
Source: Robert W. Baird & Co., FCH Sourcing Network, Institute for Supply Management

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



Source: Robert W. Baird & Co., FCH Sourcing Network, company reports

**FDI vs. Forward-Looking Indicator (Seasonally Adjusted)**



Source: Robert W. Baird & Co., FCH Sourcing Network

## Appendix – Important Disclosures and Analyst Certification

### Covered Companies Mentioned

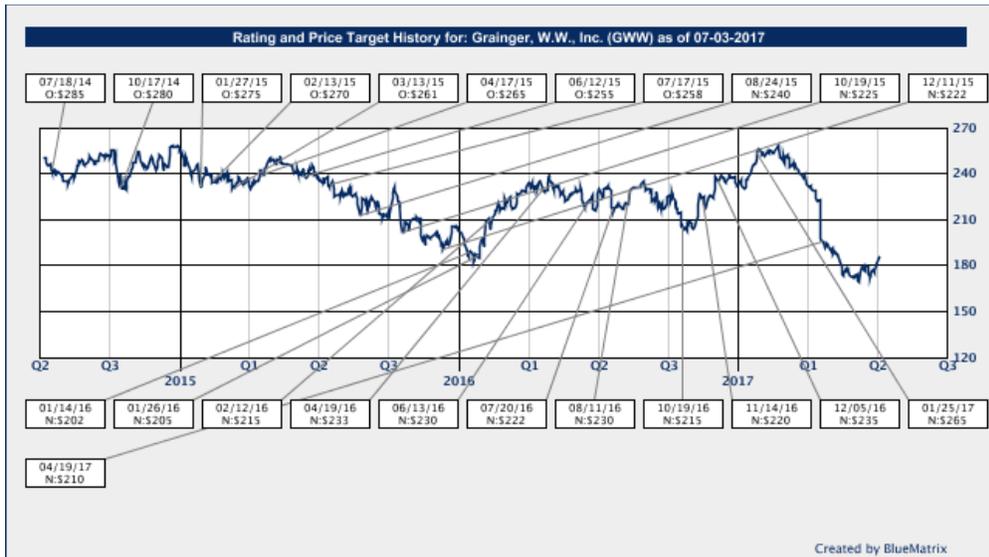
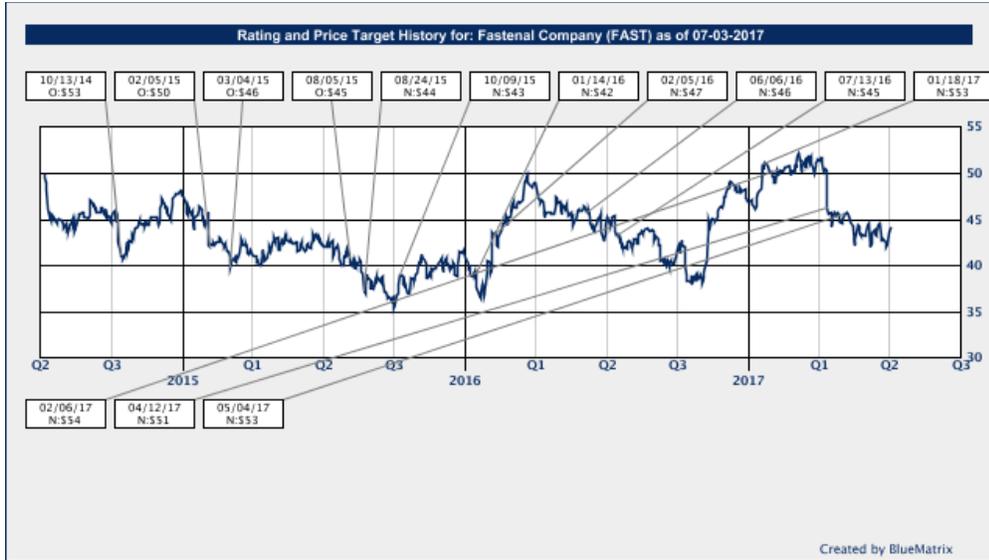
All stock prices below are as of 7/5/2017.

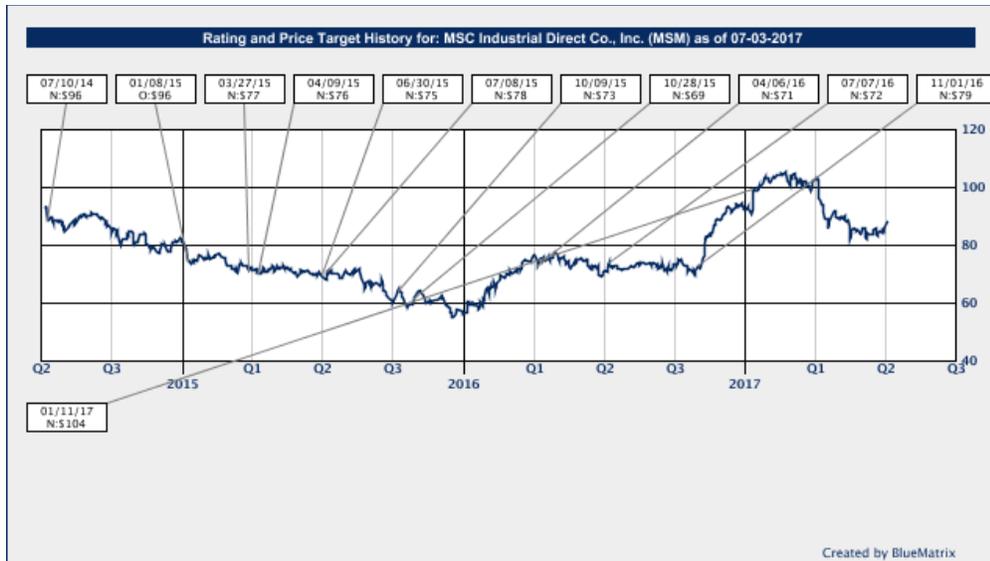
Fastenal Company (FAST- \$43.98)

WW Grainger Inc. (GWW- \$182.41)

MSC Industrial Direct Co. Inc (MSM- \$87.95)

(See recent research reports for more information)





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