

## Fastener Distributor Index – July 2016

Written by independent analyst Charles Redding 8/9/16



### Key Takeaway:

July's seasonally adjusted FDI reading (45.9) proved materially lower, breaking a run of three consecutive +50 readings for the Index. We believe the sequential decline is largely consistent with mixed recent industry anecdotes, to include extended customer shutdowns for select manufacturers, and ongoing industry pricing pressure. This said, the monthly sales data among survey respondents was even worse than anticipated, in our view. We also note the longer-term outlook for participants remains uncertain, with 55% expecting unchanged or declining conditions in six months. We will continue watching closely for more encouraging 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**).

**July reading drops materially.** The seasonally adjusted July FDI (45.9) plunged materially versus the May (50.1) and June (50.6) readings. Of the items measured (sales, employment, delivery times, inventories, customer inventories), we believe top-line sentiment remains the most compelling indicator in the Index. For July, a paltry 14% of respondents cited stronger sales versus the June period (28% last month). Fewer monthly sales days likely impacted results for most participants, although the degree to which conditions deteriorated was surprising, in our view. Regarding customer inventories, 16% of participants viewed current levels as "too high". We note that during the headier growth period of 2013-2014, this metric averaged 4%.

**Manufacturing employment outlook still mixed.** Despite a stronger headline US jobs report for July (+255K adds vs. +180K consensus; unemployment 4.9%), we believe the outlook for hiring remains mixed for many domestic manufacturers (*US BLS*). Among our survey participants, 89% of respondents cited unchanged (or weaker) hiring conditions versus the prior month. This metric averaged 87% over the prior six-month period. In Q2'16, FAST reiterated its hiring freeze, excluding necessary vending/IT administration adds.

**Recent sentiment largely negative.** Overall, the material decline in July results is somewhat surprising, in our view, given the nascent optimism from survey participants in recent readings. One participant noted, *"July results were very disappointing."* Another called out the weaker pricing environment, suggesting, *"Sagging durable goods and transportation equipment orders will continue to apply price*

pressure....margin pressures (are still being) felt from low commodity prices 6-12 months ago.” Fastenal management recently called out added declines among its top 100 customers, and noted the potential for extended customer shutdowns into Q3'16. Last month management noted, “We saw some shutdowns here over the week of July 4...I would suspect there will be some over Labor Day as well.”

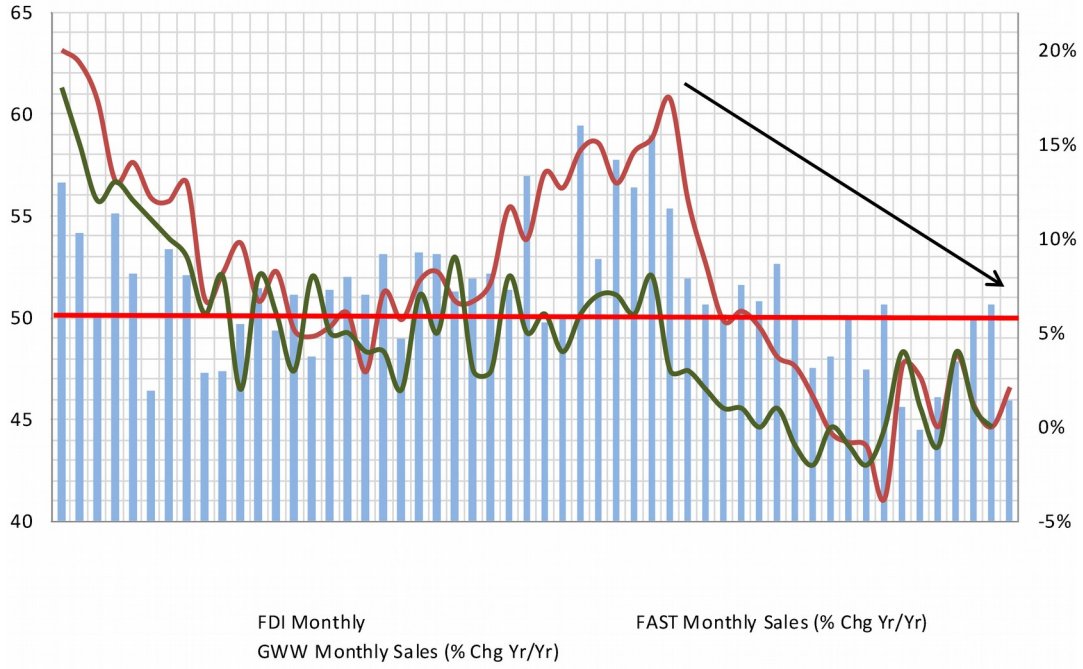
### Fastener Distribution Trends: July 2016

FASTENER DISTRIBUTION AT A GLANCE									
July 2016									
	----- Index Values ----						May--> July		
	July	June	May	Apr.	Mar.	Feb.	Change	Direction	
PMI (Manufacturing Sector)	52.6	53.2	51.3	50.8	51.8	49.5	(0.6)	Growing	
FDI (Fastener Sector)	44.6	50.0	51.1	51.3	47.6	44.0	(5.4)	Declining	
<b>FDI (Seasonally Adjusted)</b>	<b>45.9</b>	<b>50.6</b>	<b>50.1</b>	<b>47.9</b>	<b>46.1</b>	<b>44.5</b>	<b>(4.7)</b>	<b>Declining</b>	
Sales (SA)	29.4	50.8	48.4	38.2	38.6	36.7	(21.4)	Declining	
(Other Metrics; NSA)									
Employment	50.0	58.6	51.5	51.3	52.4	44.8	(8.6)	Declining	
Supplier Deliveries	55.7	53.4	54.5	56.6	53.7	51.7	2.2	Slowing	
Respondent Inventories	60.2	63.8	68.2	71.1	69.5	69.0	(3.6)	Too High	
Customer Inventories	46.6	43.1	48.5	50.0	41.5	44.8	3.5	Too Low	
Pricing, month-to-month	51.1	51.7	51.5	53.9	40.2	43.1	(0.6)	Higher	
Pricing, year-to-year	56.8	48.3	53.0	47.4	36.6	43.1	8.5	Higher	
	<u>Higher</u> <u>Same</u> <u>Lower</u>								
6-Month Outlook - July	45%	32%	23%						

*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](#)

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



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

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