

## Fastener Distributor Index – May 2017

Written by R.W. Baird analyst David J. Manthey, CFA 6/9/17



### Key Takeaway:

The seasonally adjusted FDI for May 2017 was 64.6, re-accelerating substantially from April's 50.2 reading. May's result was consistent with an uptick in last month's Forward-Looking Indicator, which foreshadowed a stronger FDI this month. Most notable was accelerating sales momentum, as the seasonally adjusted sales index of 79.6 was the highest result seen since November 2014. Commentary on market conditions was also positive with most respondents indicating market conditions are strong and strengthening. The six-month outlook appears favorable, with several distributors noting strong backlogs and customer activity. Forward indicators also remain positive, with the FDI Forward-Looking Indicator registering a seasonally adjusted 63.3 – 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 (**W.W. Grainger [GWW]**, **MSC Industrial [MSM]**).

**May FDI surges.** The seasonally adjusted May FDI (64.6) increased strongly from April's more anemic 50.2 reading, consistent with the uptick in last month's Forward-Looking Indicator. Top-line sentiment also turned solidly positive, with 72% of distributors indicating sales were "better" relative to seasonal expectations in May vs. an April level of 32%. This resulted in a seasonally adjusted sales index of 79.6, the highest reading since November 2014 (85.8). Respondents continue to indicate customer inventory levels are roughly in line with expectations, as just 3% of respondents indicated inventories are too high, while 31% indicated inventories are too low. This compares to April results of 6% and 29%, respectively.

**FDI Forwarding-Looking Indicator ticks back up.** 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. May's seasonally adjusted Forward-Looking Indicator had a value of 63.3 vs. 58.9 in April. The Forward-Looking Indicator averaged 49.7 during 2016, but has averaged 60.1 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 ticks up.** Survey respondents indicated hiring sentiment turned notably more bullish in May, with 47% of respondents indicating hiring picked up (vs. 21% in April, 24%

in March, and 29% in February). Consistent with this result, the FDI Employment index achieved a record 73.6 reading in May. 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).

**May sentiment bullish.** Commentary on current market conditions was positive, with various distributors noting strong sales in May and a strong backlog. One respondent commented, "May was a good month, hopefully June will be even better." Another distributor indicated, "[May was the] best month of sales in the past 18 months and increased backlog tells me it may happen again in June." Overall, optimism continues to be prevalent in the market; 61% of respondents expect higher activity levels over the next six months vs. today, while only 8% expect lower.

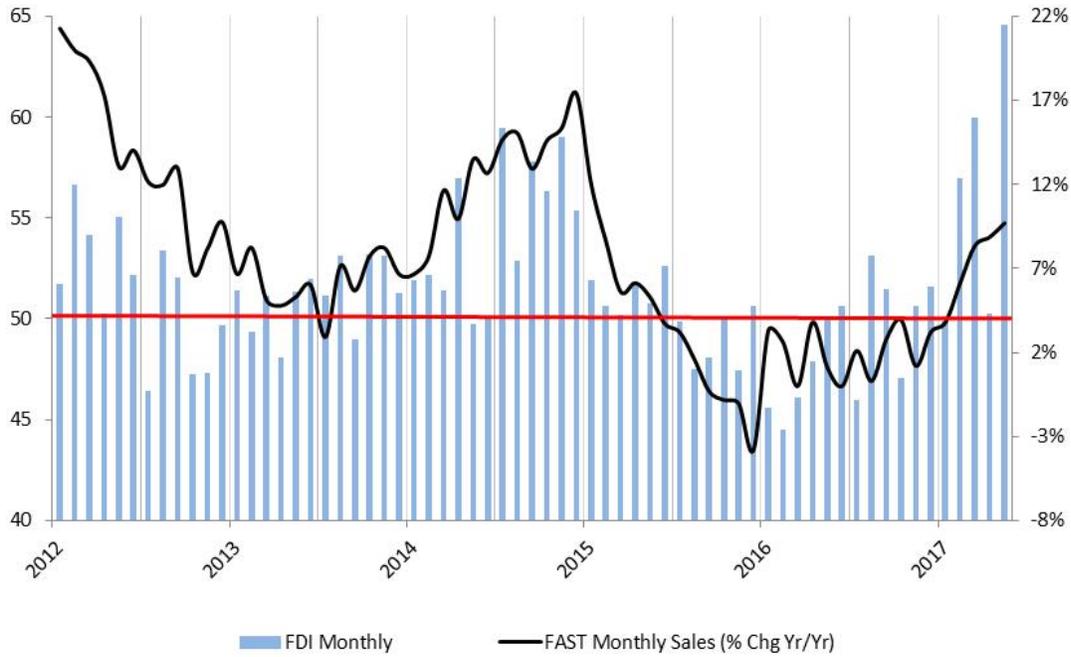
**Fastenal** reported May daily sales growth of +9.7% y/y, just above our estimate and reflecting growth in all end markets/product lines. Underlying "core" growth (excluding acquisitions and foreign exchange) was closer to 8.8% -- decelerating slightly vs. April after adjusting for Easter impacts. Fastener 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: May 2017**

FASTENER DISTRIBUTION AT A GLANCE										
May 2017										
	----- Index Values							May.--> Apr.		
	May	April	Mar.	Feb.	Jan.	Dec.	Nov.	Change	Directbn	Rate of Change
PMI (Manufacturing Sector)	54.9	54.8	57.2	57.7	56.0	54.5	53.2	(2.4)	Growing	Faster
FDI (Fastener Sector)	66.3	53.7	61.3	55.4	54.5	50.3	49.3	(7.6)	Growing	Faster
<b>FDI (Seasonally Adjusted)</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>	<b>50.6</b>	(9.8)	Growing	Faster
Sales (SA)	79.6	43.8	74.6	62.7	51.6	60.6	64.5	(30.8)	Growing	Faster
Forward- Looking (SA)	63.3	58.9	57.4	61.0	59.8	57.6	54.2	1.6	Growing	Faster
(Other Metrics; NSA)										
Employment	73.6	57.4	59.8	62.9	57.6	51.3	45.7	(2.4)	Growing	Faster
Supplier Deliveries	72.2	66.2	61.0	61.4	56.1	56.4	55.7	5.2	Growing	Faster
Respondent Inventories	58.3	52.9	61.0	58.6	59.1	59.0	65.7	(8.0)	Growing	Faster
Customer Inventories	36.1	38.2	43.9	40.0	36.4	41.0	42.9	(5.7)	Declining	Faster
Pricing, month-to-month	59.7	60.3	63.4	60.0	62.1	56.4	61.4	(3.1)	Higher	Slower
Pricing, year-to-year	75.0	73.5	72.0	70.0	68.2	60.3	61.4	1.6	Higher	Faster
				Higher Same Lower						
6-Month Outlook - May				61%	31%	8%				
<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>										

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**

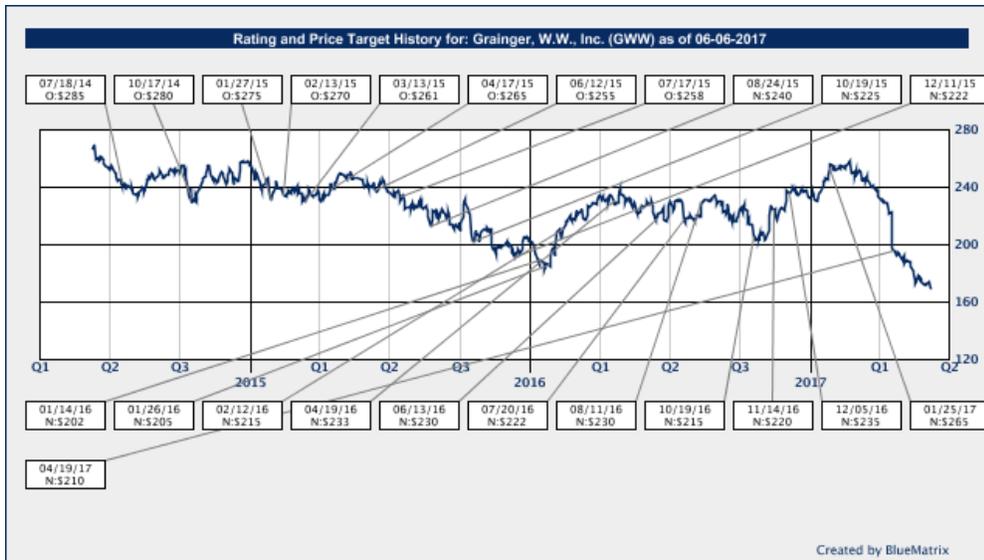
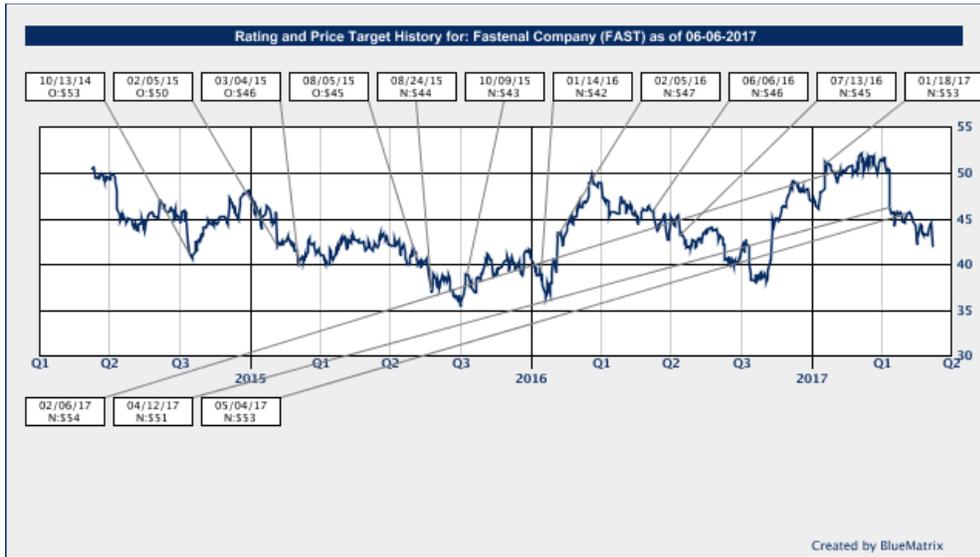
All stock prices below are the 6/7/17 closing price.

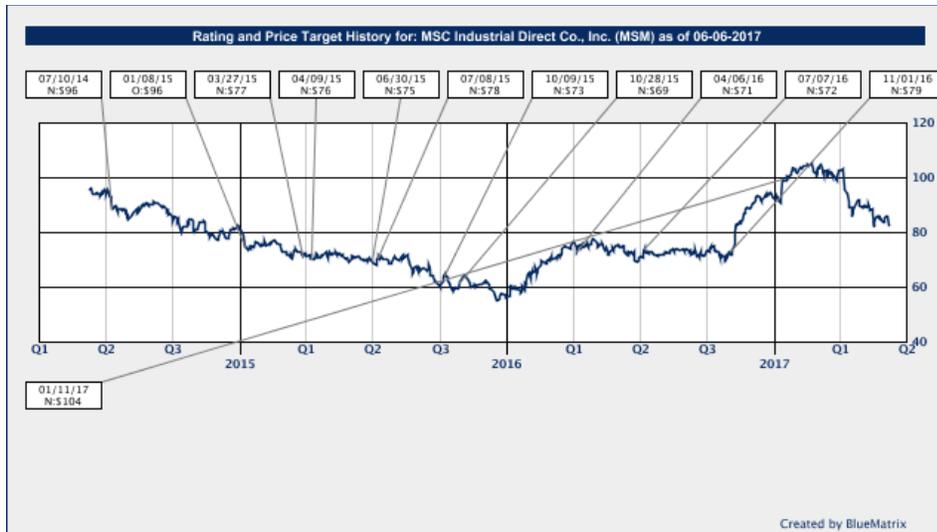
Fastenal Company (FAST- \$42.16)

WW Grainger Inc. (GWW- \$169.51)

MSC Industrial Direct Co. Inc (MSM- \$82.15)

(See recent research reports for more information)





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