

Fastener Distributor Index – April 2019

Written by R.W. Baird analyst David J. Manthey, CFA 5/6/19



Key Takeaway:

The seasonally-adjusted Fastener Distributor Index (FDI) for April was 55.8, accelerating vs. a stable March reading. Sales trends were better, and the seasonally-adjusted sales index reversed the pattern of deceleration seen over the past two months. Respondent commentary remained hesitant, although both the six-month outlook and the Forward-Looking Indicator (FLI) saw nice improvements m/m. The FLI returned to expansionary levels for the first time in three months. Overall, results were more encouraging in April than recent trends.

Fastener Distribution Trends: April 2019

FASTENER DISTRIBUTION AT A GLANCE											
April 2019											
	----- Index Values -----									Directbn	Rate of Change
	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep			
PMI (Manufacturing Sector)	52.8	55.3	54.2	56.6	54.1	59.3	57.7	59.8	Growing	Slower	
FDI (Fastener Sector)	57.8	54.4	50.9	60.2	55.6	56.9	62.0	52.8	Growing	Faster	
FDI (Seasonally Adjusted)	55.8	53.0	52.5	56.5	56.5	58.2	62.2	55.8	Growing	Faster	
Sales (\$A)	61.3	45.3	51.3	62.2	58.1	51.8	73.4	46.5	Growing	Faster	
Forward-Looking (\$A)	52.1	46.9	49.6	49.8	54.1	52.5	57.0	54.7	Growing	Faster	
(Other Metrics; NSA)											
Employment	55.4	56.5	51.7	57.4	66.1	64.5	67.3	61.1	Growing	Slower	
Supplier Deliveries	66.2	62.9	62.1	61.1	59.7	69.7	61.5	63.0	Growing	Faster	
Respondent Inventories	66.2	72.6	60.3	70.4	62.9	64.5	57.7	59.3	Growing	Slower	
Customer Inventories	41.9	48.4	43.1	44.4	43.5	47.4	40.4	46.3	Declining	Faster	
Pricing, month-to-month	58.1	67.7	62.1	59.3	71.0	76.3	75.0	70.4	Growing	Slower	
Pricing, year-to-year	82.4	85.5	81.0	83.3	91.9	90.8	88.5	92.6	Growing	Slower	
6-Month Outlook - April				Higher	Same	Lower					
				51%	32%	16%					

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: Baird, FCH Sourcing Network, Institute for Supply Management

About the Fastener Distributor Index (FDI). The FDI is a monthly survey of North American fastener distributors, conducted with the **FCH Sourcing Network**, the **National Fastener Distributors Association**, and **Baird**. It offers insights into current fastener industry trends/outlooks. Similarly, the Forward-Looking Indicator (FLI) 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. As diffusion indexes, 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)**.

Key Points:

FDI results more positive in April. The seasonally-adjusted April FDI (55.8) accelerated vs. March (53.0). Sales trends rebounded nicely from weak March trends, which saw a contractionary sales reading. Just over 50% of respondents indicated sales were better than seasonal expectations, in line with 2018 levels (55%) and above weaker YTD results (41%). The pricing index moderated some on both a m/m and y/y basis, although a majority of respondents indicated stable pricing levels vs. March. Customer inventory levels continue to be perceived as in line with expectations, while respondents' inventories came down some, albeit still elevated relative to last year.

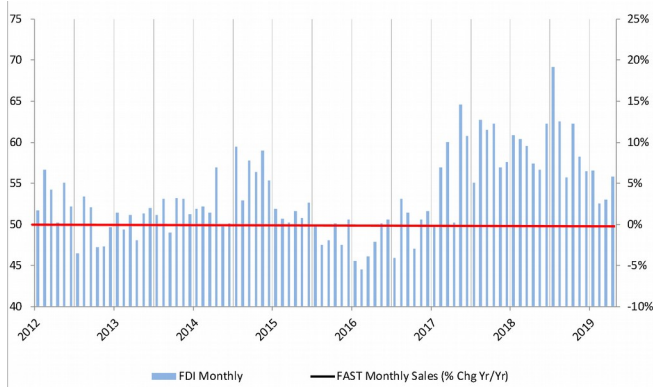
April FLI returns to expansionary levels. The seasonally-adjusted FLI surged m/m (52.1 vs. 46.9), returning to expansionary levels for the first time since December. Of the FLI's components (employment index, respondent inventories, customer inventories, and six-month outlook), all but the employment index improved sequentially. We view the improvement in the FLI as an encouraging indicator, consistent with positive, though moderating, growth.

Hiring sentiment mostly unchanged. Hiring sentiment was relatively stable in April as hiring was in line to above seasonal expectations for nearly all fastener distributors, consistent with March results. On an economy-wide basis, the April US jobs report was better than expected with 263,000 jobs added (~185,000 expected). The unemployment rate declined to 3.6%, the lowest since December 1969. April's largest gains were registered in professional and business services, construction, health care, and social assistance. Manufacturing employment was little changed for the third consecutive month (+4,000 m/m), a notable change from the average of 22,000 jobs added per month prior to February. Average hours per work week for manufacturing employees were unchanged at 40.7 hours.

Respondent commentary still cautious. Qualitative comments were fewer in number this month, but the tone remained somewhat cautious. One respondent noted strong current trends but perhaps some signs of leveling off in activity by saying, "April was still strong, but calls are definitely dropping off." Another indicated, "A very soft April. I hope this is not the beginning of a slowdown. Hopefully just a slow month." The six-month outlook was more optimistic this month, however, with 51% of respondents expecting higher activity levels, 32% expecting similar activity, and 16% expecting lower activity. The percentage of respondents expecting higher activity compared favorably to 2018 averages (~49%) and YTD levels (~37%).

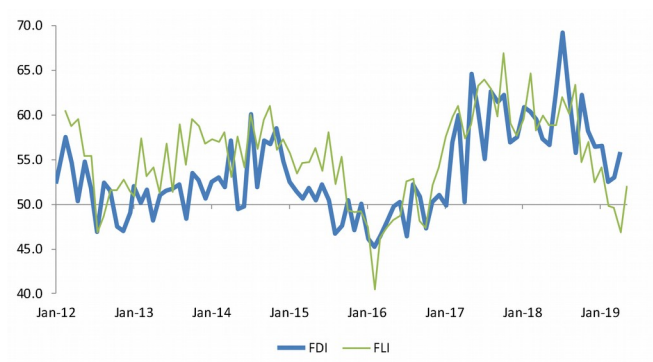
Fastenal reported 7.4% April daily sales growth, below our +11.8% estimate. M/m growth was meaningfully impacted by Easter timing and one additional day. Underlying organic growth of +7.9% nonetheless decelerated ~5% sequentially and represented the first month of single-digit organic growth since May 2017. Fastener growth moderated significantly to +5.1% (March +13.5%). Based on FDI data and other research inputs, we largely expect positive, albeit moderating top-line growth across public industrial distributors in 2019, partially offset by higher pricing.

Fastener Distributor Index (FDI); Seasonally Adjusted



Source: Baird, FCH Sourcing Network, Company reports

1-Month Lagged FDI vs. FLI (Both Seasonally Adjusted)



Source: Baird, FCH Sourcing Network

Risk Synopsis

Fastenal: Risks include economic sensitivity, pricing power, relatively high valuation, secular gross margin pressures, success of vending and on-site initiatives, and ability to sustain historical growth.

Industrial Distribution: Risks include economic sensitivity, pricing power, online pressure/competitive threats, global sourcing, and exposure to durable goods manufacturing.

Appendix – Important Disclosures and Analyst Certification

Covered Companies Mentioned

All stock prices below are as of 5/3/2019.

Fastenal Company (FAST-\$70.55-Neutral)
 W.W. Grainger Inc. (GWW-\$283.67-Neutral)
 MSC Industrial Direct Co. Inc (MSM-\$83.62-Neutral)
 (See recent research reports for more information)



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