

## Fastener Distributor Index – August 2019

Written by R.W. Baird analyst David J. Manthey, CFA 9/6/19



**Key Takeaway:**

The seasonally-adjusted Fastener Distributor Index (FDI) for August was 55.9, improving for the second consecutive month. Sales trends on a seasonally-adjusted basis were also much improved, with the sales index returning to expansionary levels after sub-50 readings in July/June. Although the six-month outlook was better, respondent commentary nevertheless remained cautious. The Forward-Looking Indicator (FLI) recovered further, albeit while remaining below 50 for the seventh time YTD. Overall, while August results showed additional improvement in fastener market conditions, we continue to see stable or moderating demand as likely near term given cautious respondent commentary and a still contractionary FLI reading.

**Fastener Distribution Trends: August 2019**

FASTENER DISTRIBUTION AT A GLANCE										
August 2019										
	----- Index Values -----									
	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Direction	Rate of Change
PMI (Manufacturing Sector)	49.1	51.2	51.7	52.1	52.8	55.3	54.2	56.6	Declining	Faster
FDI (Fastener Sector)	55.5	50.9	48.8	55.9	57.8	54.4	50.9	60.2	Growing	Faster
<b>FDI (Seasonally Adjusted)</b>	<b>55.9</b>	<b>52.2</b>	<b>48.3</b>	<b>53.8</b>	<b>55.8</b>	<b>53.0</b>	<b>52.5</b>	<b>56.5</b>	Growing	Faster
Sales (SA)	52.1	40.4	38.5	57.4	61.3	45.3	51.3	62.2	Growing	Faster
Forward- Looking (SA)	48.0	44.9	44.4	47.7	52.1	46.9	49.6	49.8	Declining	Slower
<b>(Other Metrics; NSA)</b>										
Employment	55.9	55.4	56.5	57.8	55.4	56.5	51.7	57.4	Growing	Faster
Supplier Deliveries	58.8	64.3	50.0	60.9	66.2	62.9	62.1	61.1	Growing	Slower
Respondent Inventories	64.7	69.6	61.3	65.6	66.2	72.6	60.3	70.4	Growing	Slower
Customer Inventories	52.9	48.2	51.6	43.8	41.9	48.4	43.1	44.4	Growing	Faster
Pricing, month-to-month	61.8	66.1	66.1	62.5	58.1	67.7	62.1	59.3	Growing	Slower
Pricing, year-to-year	80.9	80.4	82.3	89.1	82.4	85.5	81.0	83.3	Growing	Faster
6-Month Outlook - August				Higher	Same	Lower				
				26%	41%	32%				
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** and **Baird** with support from the **National Fastener Distributors Association**. 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 accelerates in August.** The seasonally-adjusted August FDI (55.9) increased for the second consecutive month (July 52.2). Better sales trends and a slight improvement in the employment index were the main contributors of the improvement. From a sales perspective, 41% of respondents experienced sales above seasonal expectations, much improved m/m (July 18%) but still well below average 2018 levels (55%). Pricing was stable sequentially for a large majority of respondents.

**August FLI recovers further.** The seasonally-adjusted FLI continued to recover (48.0 vs. 44.9 last month), but was still the seventh sub-50 reading in eight months YTD. Of the FLI's components (employment index, respondent inventories, customer inventories, and six-month outlook), all but customer inventories turned more bullish m/m. The six-month outlook also nicely improved after last month's reading came in at the second lowest level in FDI survey history.

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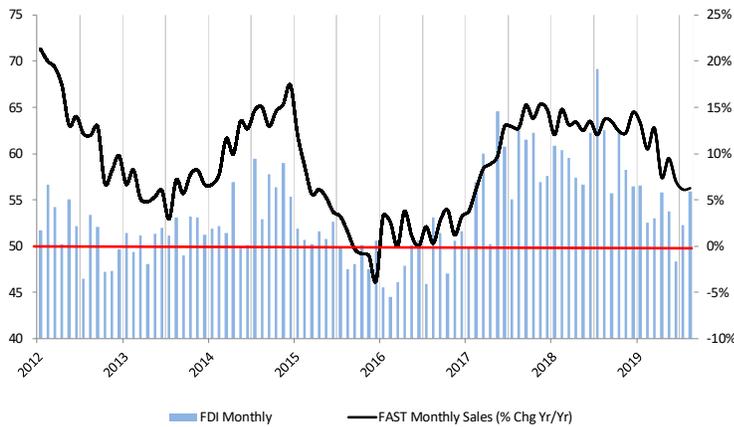
**Hiring sentiment mostly unchanged.** Hiring sentiment was fairly stable vs. July as hiring was again in line with to above seasonal expectations for nearly all fastener distributors, consistent with the pattern over the last six months. The August US jobs report was a little light of economist expectations with 130,000 jobs added economy wide vs. expectations of +160,000. Manufacturing employment was essentially unchanged and remains below the pace of 2018 adds (+22,000 average).

**Respondent commentary remains hesitant.** The tone of qualitative commentary remained cautious this quarter. One respondent summarized the current environment and outlook by saying, "Slower growth was already being forecast for latter half of the year. The trade war has further stymied growth due to all the uncertainty it has created." Echoing the theme of a broader slowdown, one participant commented, "Slowdown is starting to rear its ugly head. We are starting to get push outs on deliveries as well, for

inventory already in stock.” The six-month outlook, however, did improve modestly, with 26% of respondents expecting higher activity (July 21%), 41% expecting similar activity (July 32%), and 32% expecting lower activity (July 46%). Putting this into context, however, the percentage of respondents expecting lower activity remains very elevated vs. the 16% in April.

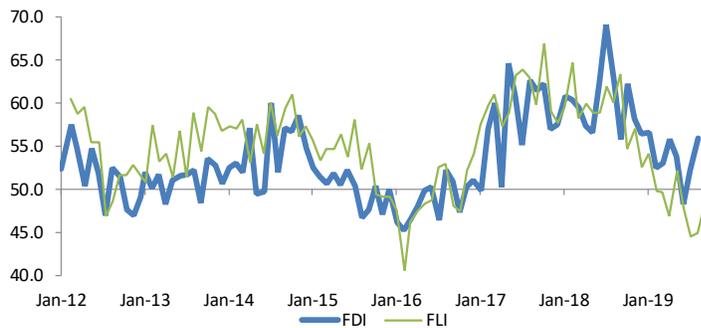
**Fastenal** reported +6.3% August daily sales growth, slightly below our +7.0% estimate. Sales to manufacturing customers accelerated 90bps m/m, while non-residential construction end market growth weakened 20bps further. Underlying organic growth of +6.5% was up slightly vs. July (+6.2%). Consistent with the improvement in the FDI this month, fastener growth improved sequentially at +4.6% (July +1.8%). September daily sales growth will be reported on October 11 with 2Q19 earnings. Based on FDI data and other research inputs, we continue to 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

## Appendix – Important Disclosures and Analyst Certification

### Covered Companies Mentioned

All stock prices below are as of 9/6/2019.

Fastenal Company (FAST-\$31.48-Neutral)  
 W.W. Grainger Inc. (GWW-\$278.39-Neutral)  
 MSC Industrial Direct Co. Inc (MSM-\$69.64-Neutral)  
 (See recent research reports for more information)



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