

## COMPANIES MENTIONED

**Fastenal**  
FAST - \$47.45 - Hold

**W.W. Grainger**  
GWW - \$257.78 - Hold

**MSC Industrial Direct**  
MSM - \$79.31 - Buy

**BB&TCM Fastener Distributor Index: November Still Slow, But Flashing Hopefully****KEY TAKEAWAY**

We characterize November similarly to October: the FDI was a still sluggish 51.7 - a bit worse than October but steady with most of 2013 - with signs of improvement. Employment was better. Supplier deliveries slowed. The pricing outlook heading into 2014 seems a bit more optimistic. Respondents expecting demand to improve are expanding. The FDI seems to be mimicking what we are seeing and hearing from other industrial data and companies: no meaningful improvement in current demand but improving sentiment. We will continue to watch and see if that will manifest itself in better demand in the near term.

**KEY POINTS**

**About the Fastener Distributor Index (FDI).** The FDI is a monthly survey of NorAm fastener distributors, conducted with the **FCH Sourcing Network**. It offers insights into current trends/outlooks. As a diffusion index, figures above 50 signal strength and below 50 signal weakness. It should be directly relevant to Fastenal and broadly relevant to other distributors (W.W. Grainger, MSC Industrial).

**November FDI: More Small Signs.** November's 51.7 was below October (52.7), but taking the big picture eight of the last nine months have fallen between 49.7 and 52.8. The last nine months have averaged 50.9. In substance, November was very much more of the same: sluggish growth. Sales continue to swing sharply back and forth across the 50 line, coming in at a poor 43.1 in November. It is hard to tell what is going on with sales, whether it is hand-to-mouth buying behavior, seasonality, etc. Respondent Inventories went up, presumably in response. But as with October, some other data was more favorable. Employment was a bit perkier again at 56.9. Supplier Deliveries slowed, suggesting more activity. Customer Inventories ticked up a bit again, but are still "too low" at 41.4, meaning pent-up demand remains. *As it pertains to the big picture, not much changed. The number is consistent with slow growth. But there continues to be some favorable movement in the components. We would hope that at some point this will manifest itself in better headline figures.*

**The outlook remains favorable.** In November, ~62% of respondents see better conditions in six months, improved on October (~54%) as fence-sitters fell on the positive side. Just ~4% think things will worsen (vs. 3% in October). *Confidence has been climbing recently, a trend we think has been mimicked in other data and commentary we track as it relates to industrial demand. We would hope that at some point this will manifest itself in better headline figures.*

**Price: perhaps a little momentum heading into 2014.** The pricing metrics have improved nicely since June/July, with the sequential reading in November being 58.6 (55.4 in October) and the annual reading being 65.5 (62.5 in October). In last month's supplemental question nearly one-third of respondents expected to realize price of 3%-plus in 2014, and we have heard **MSC Industrial** discuss 3% pricing and **Grainger** talk about 1% pricing. *It stands to be seen how much pricing will ultimately be realized, but there at least does appear to be a bit of momentum toward getting some price in the near-term.*

**What does this mean for other distributors?** In a nutshell, no reason to think November conditions are much improved, but maybe an improvement in sentiment could be expected. We have already seen **Fastenal** post November DSRs. Headline growth of +8.2% was not itself inspiring, but accelerating off October despite a harder comp is a good result, the first since August.

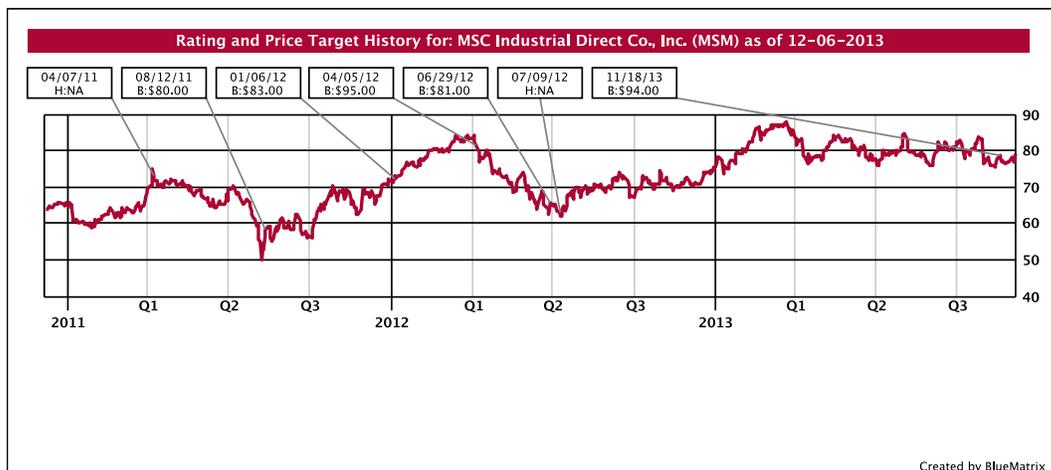
FASTENER DISTRIBUTION AT A GLANCE													
November 2013													
	----- Index Values -----											Oct.-->Nov.	
	Nov.	Oct.	Sep.	Aug.	July	June	May	Apr.	Mar.	Feb.	Jan.	Change	Direction
<b>PMI (Overall mftring sector)</b>	57.3	56.4	56.2	55.7	55.4	50.9	49.0	50.7	51.3	54.2	53.1	0.9	Growing
<b>FDI (Fastener distribution)</b>	51.7	52.7	45.4	50.8	49.7	51.3	52.4	51.6	52.8	48.7	56.9	(1.0)	Growing
Sales	43.1	73.2	42.9	58.1	58.3	50.0	63.9	68.8	58.3	48.7	82.8	(30.1)	Declining
Employment	56.9	53.6	50.0	50.0	51.4	57.1	56.9	45.3	56.9	56.4	60.3	3.3	Growing
Supplier Deliveries	65.5	44.6	52.9	59.7	56.9	60.7	51.4	53.1	52.8	47.4	44.8	20.9	Slowing
Respondent Inventories	65.5	55.4	62.9	66.1	62.5	69.6	55.6	60.9	68.1	60.3	65.5	10.2	Too High
Customer Inventories	41.4	39.3	35.7	35.5	31.9	37.5	37.5	39.1	43.1	42.3	39.7	2.1	Too Low
Pricing, month-to-month	58.6	55.4	54.3	56.5	52.8	48.2	56.9	54.7	50.0	52.6	56.9	3.3	Higher
Pricing, year-to-year	65.5	62.5	62.9	62.9	55.6	58.9	65.3	65.6	56.9	62.8	60.3	3.0	Higher
	<u>Higher</u>	<u>Same</u>	<u>Lower</u>										
6-Month Outlook - Oct.	62%	34%	3%										

*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.*

*Sources: BB&T Capital Markets' estimates, FCH Sourcing Network, Institute for Supply Management*

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**Price Chart**



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