

Fastener Distributor Index – November 2019

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Key Takeaway:

The seasonally adjusted Fastener Distributor Index (FDI) for November was 46.7, slowing sharply vs. October and dipping back into contractionary territory. Sales trends on a seasonally adjusted basis were significantly weaker m/m, with a majority of respondents' sales below expectations. The six-month outlook was modestly improved, however, and the Forward-Looking Indicator (FLI) was also slightly better. Overall, November fastener market conditions were soft following a string of four relatively solid months, but respondents' implied December forecasts are for better demand conditions given an improved (albeit still sub-50) FLI.

Fastener Distribution Trends: November 2019

FASTENER DISTRIBUTION AT A GLANCE										
November 2019										
	----- Index Values -----									
	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Direction	Rate of Change
PMI (Manufacturing Sector)	48.1	48.3	47.8	49.1	51.2	51.7	52.1	52.8	Declining	Faster
FDI (Fastener Sector)	45.5	52.2	52.4	55.5	50.9	48.8	55.9	57.8	Declining	Faster
FDI (Seasonally Adjusted)	46.7	52.1	56.0	55.9	52.2	48.3	53.8	55.8	Declining	Faster
Sales (SA)	35.5	48.2	56.4	52.1	40.4	38.5	57.4	61.3	Declining	Faster
Forward- Looking (SA)	46.5	44.2	44.0	48.0	44.9	44.4	47.7	52.1	Declining	Slower
(Other Metrics; NSA)										
Employment	48.5	48.7	51.6	55.9	55.4	56.5	57.8	55.4	Declining	Faster
Supplier Deliveries	51.5	55.1	58.1	58.8	64.3	50.0	60.9	66.2	Growing	Slower
Respondent Inventories	65.2	69.2	69.4	64.7	69.6	61.3	65.6	66.2	Growing	Slower
Customer Inventories	51.5	52.6	53.2	52.9	48.2	51.6	43.8	41.9	Growing	Slower
Pricing, month-to-month	57.6	59.0	61.3	61.8	66.1	66.1	62.5	58.1	Growing	Slower
Pricing, year-to-year	78.8	84.6	79.0	80.9	80.4	82.3	89.1	82.4	Growing	Slower
6-Month Outlook - November				Higher	Same	Lower				
				30%	42%	27%				
<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: 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 sharply decelerates. The seasonally adjusted November FDI (46.7) ticked down from a relatively solid October (52.1). This was driven by soft selling conditions, which produced a seasonally adjusted sales index of just 35.5 compared to 48.2 last month. For the first time in over three years, a majority of respondents (52%) saw sales growth below seasonal expectations, while just 12% characterized sales as above seasonal expectations. Pricing remained stable sequentially for a large majority of respondents. Lastly, the employment index was essentially unchanged.

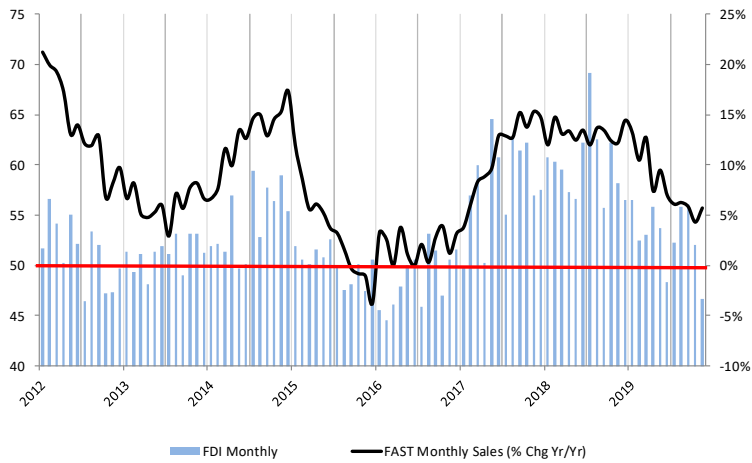
November FLI recovers, but remains at contractionary levels. The seasonally adjusted FLI improved to 46.5 (October 44.2). Respondent and customer inventory levels and a better six-month outlook drove the improvement in the headline reading. While the sequential improvement is encouraging, this month's reading remains below the neutral level of 50 and represented the tenth sub-50 reading of eleven months YTD.

Hiring sentiment unchanged. Hiring sentiment remained stable m/m, as 97% of respondents characterized the pace of hiring as similar to/unchanged from October. Looking at the broader economy, the November jobs report is expected to be released December 6. Economists are forecasting 187,000 jobs to be added. This compares to a better-than-expected October jobs report in which 128,000 jobs were added (85,000 expected). Nevertheless, the rate of adds has slowed considerably since the end of 2018, when the economy was adding an average of 223,000 jobs per month. The unemployment rate in October remained at 3.6%, which is also economists' expectations for November. Manufacturing employment in October decreased by 36,000, although this reflected a temporary decline of 42,000 jobs within motor vehicles and parts employment due to the GM strike.

Respondent commentary uneven. Feedback on the demand environment suggests an uneven pace to business activity currently. One respondent commented, "It seems slow day to day, but on other days the phone is ringing off the hook?" Another commented, "Normally we experience a slowdown in customer spending in November and December. YTD sales are tracking with 2018 sales." The six-month outlook showed moderate improvement compared to last month but remains somewhat muted, with 27% of respondents now expecting lower activity six months from now (October 33%), 42% expecting similar activity (October 38%), and 30% expecting higher activity (October 28%).

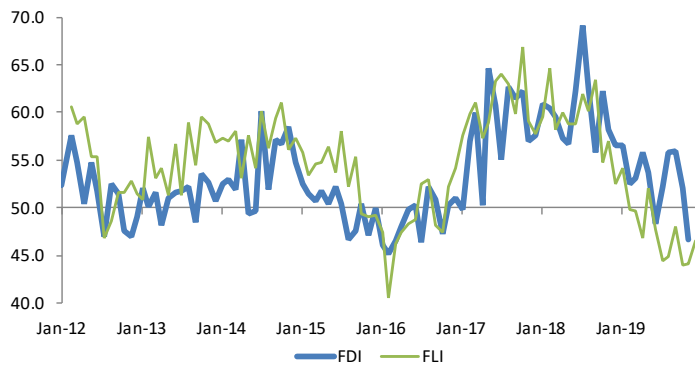
Fastenal reported +5.7% overall November daily sales growth, slightly above our comparable 4.8% estimate. Sales growth to manufacturing customers accelerated nearly 2% m/m, while non-residential construction end market growth accelerated 1% sequentially. Overall organic growth of +5.8% improved vs. +4.4% in October. Fastener growth specifically was slightly worse, however, at +2.4% (October +3.4%), consistent with the weaker FDI reading this month. Based on FDI data and other research inputs, we continue to expect positive, albeit moderating top-line growth across public industrial distributors into 2020.

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.

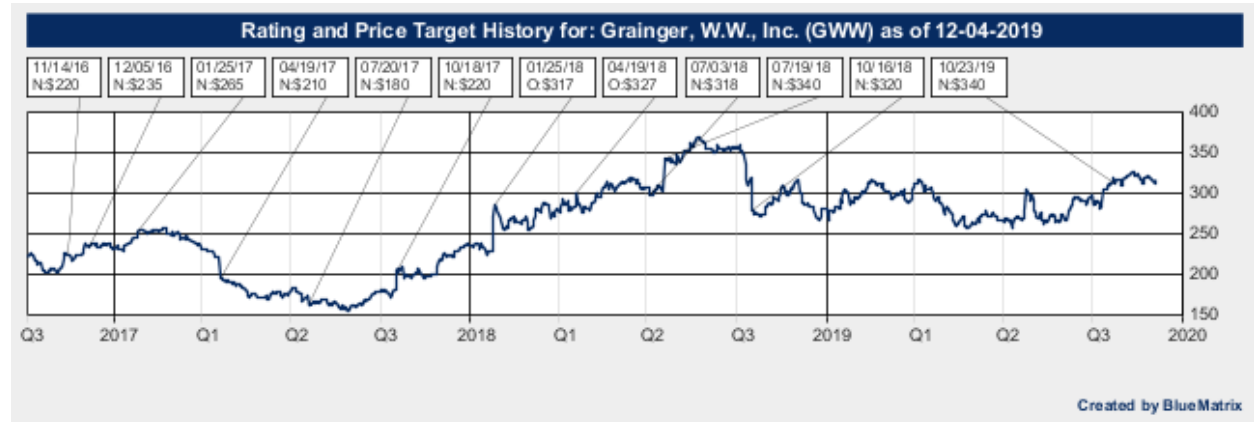
Industrial Distribution: Risks include economic sensitivity, pricing power, online pressure/competitive threats, global sourcing, and exposure to durable goods manufacturing.

Appendix – Important Disclosures and Analyst Certification

Covered Companies Mentioned

All stock prices below are as of 12/5/2019.

Fastenal Company (FAST-\$35.36-Neutral)
 W.W. Grainger Inc. (GWW-\$319.14-Neutral)
 MSC Industrial Direct Co. Inc (MSM-\$71.73-Neutral)
 (See recent research reports for more information)



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