

Fastener Distributor Index – December 2016

Written by R.W. Baird analyst David Manthey, 1/10/17



Key Takeaway:

December's seasonally adjusted FDI of 51.6 increased slightly from November's 50.6 reading and remained in expansionary territory. Results for 2016 overall were mixed with half of the monthly readings registering below the neutral rating of 50 and half above—consistent with the choppy and mostly flattish conditions seen in industrial markets throughout 2016. That said, in the second half of the year, the seasonally-adjusted FDI was above 50.0 in 4 of 6 months, implying slightly better conditions exiting the year. December sales saw moderate growth vs. November among distributors, with 67% of respondents noting flat or stronger selling conditions versus the preceding month. Commentary from survey respondents on current market conditions remained mixed, but with a slightly more optimistic tone on hopes that end markets will show improvement in 2017. A post-election bump in optimism continued, with 95% of respondents expecting higher or stable activity levels over the next six months. Many distributors continue to be encouraged by the potential for inflationary pro-growth economic policies and increased infrastructure spending driven by the incoming Trump Administration. We continue to believe that conditions are likely to remain choppy in the near term as weak demand, competition, and pricing pressure continue to weigh on results before policy changes can be implemented.

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, figures above 50 signal strength, while readings below 50 signal weakness. Over time, results should be directly relevant to **Fastenal** and broadly relevant to other distributors (**W.W. Grainger, MSC Industrial**).

December FDI remains above 50. The seasonally adjusted December FDI (51.6) remained in expansionary territory following a November reading of 50.6. December's reading represented the second highest seen in 2016, trailing only August (53.1). Top-line sentiment remained mostly positive for December as 67% of respondents saw better or unchanged sales but did decelerate slightly vs. November (74%). As it relates to customer inventories, 13% of respondents indicated inventories are too high while 31% indicated inventories are too low vs. November levels of 17% and 31%, respectively.

Manufacturing employment outlook improved but still mixed. Survey respondents indicated an uptick in hiring with 10% of respondents indicating hiring picked up in December. For the month of December, 90% of participants cited unchanged (or weaker) hiring conditions versus the prior month (improving slightly from November's 97% reading). December's US jobs report came in slightly below expectations (+156K adds vs. +180K consensus) but with a slight gain in employment among domestic manufacturers (+17,000 jobs added vs. November, *US BLS*) and a slightly longer average workweek at 40.7 hours (vs 40.6 in November).

December sentiment somewhat mixed but leaning optimistic. Although not universal among respondents, some survey commentary was optimistic that market conditions could begin to improve in 2017. One respondent commented, *“The incoming administration’s focus on cutting taxes and regulations should be a positive to getting manufacturing going again.”* Another alluded to cautious but uncertain optimism that is prevalent for many distributors saying, *“Election results plus recent stock market activity has created ‘speculation’ that 2017 will show improvement. We shall see...”* Others remain more cautious, however, with one respondent noting, *“New business development remains a major challenge.”* In November, government, light manufacturing and retail for Grainger increased in the low-single digits, but were more than offset by continued weakness in contractor (down high-single digits), heavy manufacturing (down mid-single digits) and reseller/natural resources (down low-double digits). Fastenal reported November daily sales growth of just +1.2% y/y, slowing from October’s +3.9% rate. We expect a moderate uptick in growth next year, but believe conditions will remain challenging with lackluster demand and a stronger US Dollar possibly offset slightly by price increases if recent higher commodity prices are sustainable. Grainger is scheduled to report December-quarter results on January 25, 2017. Our forecast for December daily sales growth is for +0.1% y/y, as the company previously indicated December was trending flat, but above the November rate, which was -3.2%.

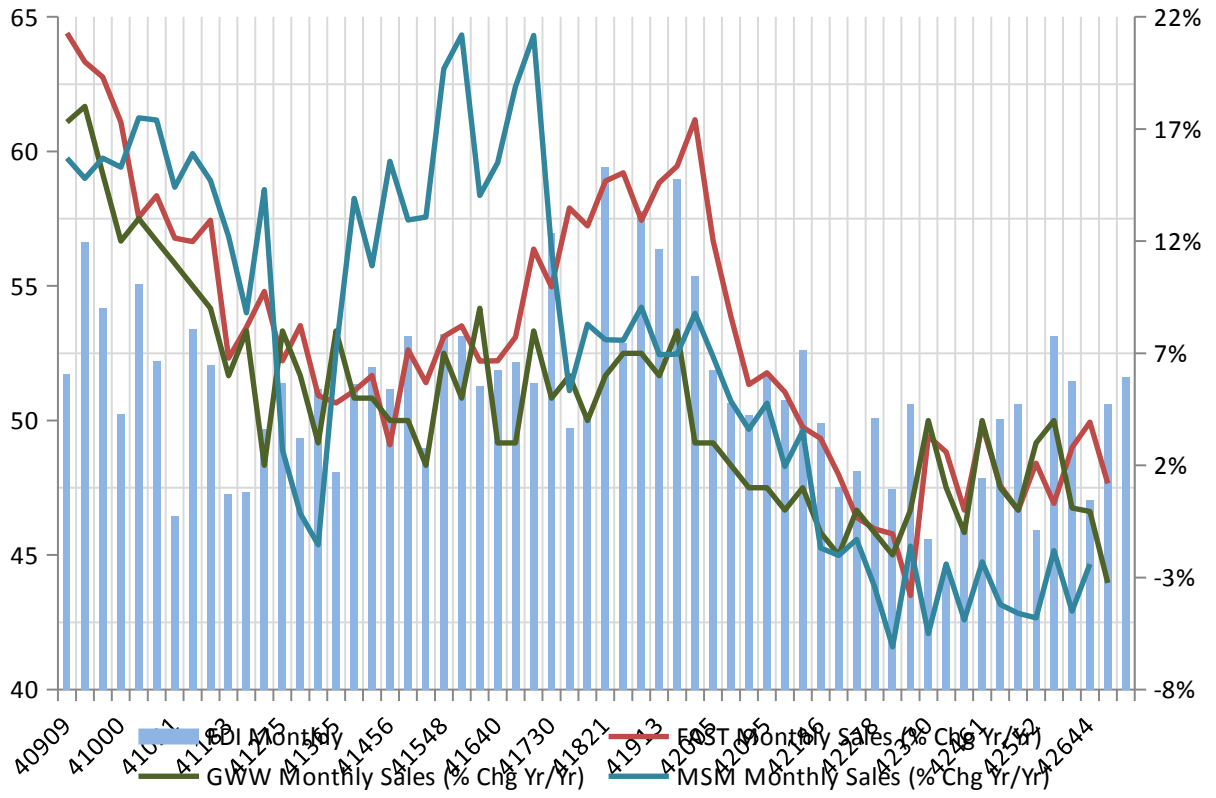
Fastener Distribution Trends: December 2016

FASTENER DISTRIBUTION AT A GLANCE									
December 2016									
	----- Index Values -----						Dec.--> Nov.		
	Dec.	Nov.	Oct.	Sep.	Aug.	July	Change	Direction	
PMI (Manufacturing Sector)	54.7	53.2	51.9	51.5	49.4	52.6	1.5	Growing	
FDI (Fastener Sector)	50.3	49.3	46.6	47.7	50.8	44.6	1.0	Growing	
FDI (Seasonally Adjusted)	51.6	50.6	47.1	51.5	53.1	45.9	1.0	Growing	
Sales (SA)	60.6	64.5	38.3	48.1	61.6	29.4	(3.9)	Growing	
<i>(Other Metrics; NSA)</i>									
Employment	51.3	45.7	47.0	46.9	40.3	50.0	5.6	Growing	
Supplier Deliveries	56.4	55.7	54.5	54.7	56.5	55.7	0.7	Growing	
Respondent Inventories	59.0	65.7	63.6	71.9	66.1	60.2	(6.7)	Growing	
Customer Inventories	41.0	42.9	43.9	48.4	48.4	46.6	(1.8)	Declining	
Pricing, month-to-month	56.4	61.4	50.0	53.1	53.2	51.1	(5.0)	Higher	
Pricing, year-to-year	60.3	61.4	56.1	45.3	54.8	56.8	(1.2)	Higher	
<u>Higher</u> <u>Same</u> <u>Lower</u>									
6-Month Outlook - Dec							69%	26%	5%

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: 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

For additional information: www.fdisurvey.com
