

Fastener Distributor Index – October 2016

Written by R.W. Baird analyst David Manthey, 11/7/16



Key Takeaway:

The seasonally adjusted FDI for October (47.1) ticked down sequentially from the September reading of 51.5 and again fell back into contractionary territory. YTD results have seen a saw-tooth pattern emerge around the neutral rating of 50—consistent with the choppy and mostly flattish conditions seen in industrial markets throughout 2016. October sales were mixed, with 58% of respondents noting flat or stronger selling conditions versus the preceding month. Survey respondents were largely cautious in their commentary with several anticipating weakness in the remainder of the year due to uncertainty surrounding the US presidential election and normal holiday slowdowns. Notably, optimism remains for improved results over the next six months as 82% of respondents indicate they expect activity will either stay the same or improve. We believe conditions are likely to remain choppy near-term as weak demand, intense competition and pricing weakness continue to weigh on results.

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**).

October FDI dips below 50. The seasonally adjusted October FDI (47.1) dipped into contractionary territory vs. a September reading that registered in expansionary territory (51.5). Top-line sentiment improved slightly for October as 58% of respondents saw better or unchanged sales vs. September (53%), although we do note this still remains well below averages seen during the strong growth period of 2013-2014 when the metric averaged 72%. As it relates to customer inventories, 21% of respondents indicated inventories are too high while 33% indicated inventories are too low—suggesting demand is likely to remain relatively flattish moving forwards.

Manufacturing employment outlook remains weak. Survey respondents indicated hiring sentiment was essentially unchanged vs. a weak September result with only 3% of respondents indicating hiring picked up in October. For the month of October, 97% of participants cited unchanged (or weaker) hiring conditions versus the prior month (vs. 91% in September). Not surprisingly, last month's US jobs report came in weaker than expected (+156K adds vs. +176K consensus) with essentially unchanged employment among domestic manufacturers (*US BLS*).

October sentiment cautious. Survey commentary was somewhat mixed with one respondent noting an increase in booking activity, but sentiment overall remaining cautious. One respondent commented, *"We are seeing a down trend in usages from many customers and most are not meeting their earlier*

projections.” Another alluded to caution among customers in light of the US presidential election saying, “We will be glad to get past Nov 8th!” Last month, government and retail sales for Grainger increased in the low-single digits, but were entirely offset by continued weakness in contractor (down mid-single digits), manufacturing (down low-single digits) and natural resources (down low-double digits). Fastenal reported +3.9% y/y October daily sales, slightly better than year-to-date readings, but also maintaining a saw-tooth pattern YTD. In each of the first three quarters of 2016, Fastenal’s first month represented the strongest y/y growth rate of the quarter. We forecast that October will also represent the highest growth rate of the fourth quarter based on year-ago comparisons and typical month-to-month trends in November and December. Grainger reports daily sales results for October on 11/11.

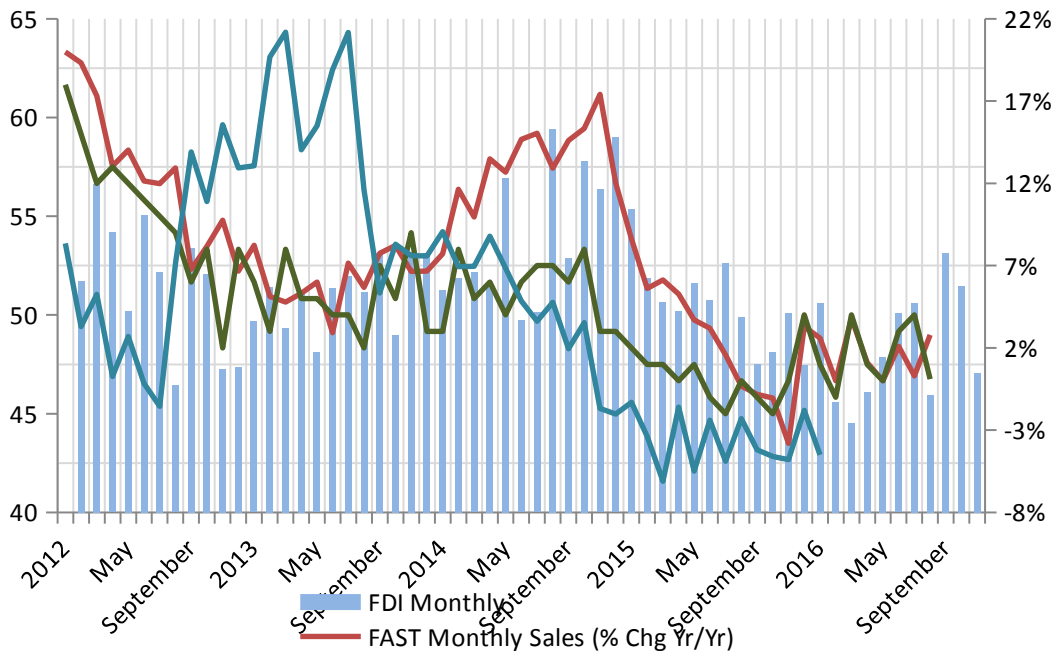
Fastener Distribution Trends: October 2016

FASTENER DISTRIBUTION AT A GLANCE																															
October 2016																															
	----- Index Values -----							Oct.--> Sep.																							
	Oct.	Sep.	Aug.	July	June	May	Apr.	Change	Direction																						
PMI (Manufacturing Sector)	51.9	51.5	49.4	52.6	53.2	51.3	50.8	0.4	Growing																						
FDI (Fastener Sector)	46.6	47.7	50.8	44.6	50.0	51.1	51.3	(1.1)	Declining																						
FDI (Seasonally Adjusted)	47.1	51.5	53.1	45.9	50.6	50.1	47.9	(4.4)	Declining																						
Sales (SA)	38.3	48.1	61.6	29.4	50.8	48.4	38.2	(9.8)	Declining																						
(Other Metrics; NSA)																															
Employment	47.0	46.9	40.3	50.0	58.6	51.5	51.3	0.1	Declining																						
Supplier Deliveries	54.5	54.7	56.5	55.7	53.4	54.5	56.6	(0.1)	Slowing																						
Respondent Inventories	63.6	71.9	66.1	60.2	63.8	68.2	71.1	(8.2)	Too High																						
Customer Inventories	43.9	48.4	48.4	46.6	43.1	48.5	50.0	(4.5)	Too Low																						
Pricing, month-to-month	50.0	53.1	53.2	51.1	51.7	51.5	53.9	(3.1)	Lower																						
Pricing, year-to-year	56.1	45.3	54.8	56.8	48.3	53.0	47.4	10.7	Higher																						
<table border="0" style="width:100%; text-align:center;"> <tr> <td></td> <td><u>Higher</u></td> <td><u>Same</u></td> <td><u>Lower</u></td> <td colspan="7"></td> </tr> <tr> <td>6-Month Outlook - Oct</td> <td>55%</td> <td>27%</td> <td>18%</td> <td colspan="7"></td> </tr> </table>											<u>Higher</u>	<u>Same</u>	<u>Lower</u>								6-Month Outlook - Oct	55%	27%	18%							
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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
