

Fastener Distributor Index – January 2017

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Key Takeaway:

January's seasonally adjusted **FDI of 49.9 decreased slightly** from December's 51.6 reading, falling just barely into contractionary territory to start the year. January sales saw good growth vs. December among distributors, with 76% of respondents noting flat or stronger selling conditions versus the preceding month. However, this is consistent with normal seasonal trends, as the previous four years of January sales all saw seasonal improvement vs. more moderate December sales trends. Commentary on current market conditions was mostly positive, with several respondents noting a pickup in orders and/or quoting activity. Optimism continues to be prevalent, with a full 97% 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 Trump Administration. While industrial markets are showing encouraging signs of potential stabilization and increased optimism, the FDI indicates that current conditions remain choppy with relatively weak demand, competitive conditions, and pricing pressure continue to weigh on results before policy changes can be implemented. Forward indicators are more positive, with the newly-developed **FDI Forward-Looking Indicator ("FLI") registering a seasonally-adjusted 59.8**, signaling good potential for future improvement in the fastener industry during 2017.

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**).

January FDI ticks down just barely below 50. The seasonally-adjusted January FDI (49.9) fell slightly, falling into contractionary territory after two straight monthly readings (and four of the previous six) in expansionary territory. Top-line sentiment did, however, remain positive for January as 76% of respondents saw better or unchanged sales, up vs. December (67%). This is inclusive of 61% of respondents who indicated sales were better in January vs. December (highest percentage seen in any month since April 2014), and another 15% of respondents who indicated sales were roughly flat. As it relates to customer inventories, only 3% of respondents indicated inventories are too high while 30% indicated inventories are too low vs. December levels of 13% and 31%, respectively.

Introducing the FDI Forwarding-Looking Indicator. This month, we are introducing the FDI Forward-Looking Indicator ("FLI") based on a weighted average of four forward-looking inputs from the FDI survey. The FLI is designed to provide directional perspective on future expectations for fastener market

conditions. As a diffusion index, values above 50 signal strength, while values below 50 signal weakness. This month's seasonally-adjusted FLI had a value of 59.8 vs. 57.6 in December – suggesting expectations for future activity is positive and strengthening. For context, the FLI averaged 48.5 from January 2016 through October 2016, and has moved higher in each of the past three months since the election.

Manufacturing employment outlook improved but still mixed. Survey respondents again indicated a slight uptick in hiring, with 21% of respondents indicating hiring picked up in January (vs. 10% in December). Consistent with this reading, January's US jobs report came in above expectations (+227,000 adds vs. +174,000 consensus), but with a very slight gain in employment among domestic manufacturers (+5,000 jobs added vs. December, *US BLS*) and a slightly longer average workweek at 40.8 hours (vs 40.7 in December).

January sentiment positive. Although not universal among respondents, most survey commentary was optimistic that market conditions could show improvement in 2017, with January already showing increases in order and/or quote activity for several distributor respondents. One respondent commented, *"January was unexpectedly busy, but we are not complaining."* Another alluded to increased quoting activity that is encouraging, but has not yet translated into additional orders, saying, *"Quoting, quoting, quoting but no slew of additional orders yet. RFQ's make me optimistic, though."* **Fastenal** reported January daily sales growth of +3.8% y/y, essentially flat vs. the previous October ex-currency, the strongest organic January reading in this ratio since January 2010. **W.W. Grainger's** US December daily sales saw solid growth in commercial (up high-single-digits), government, heavy manufacturing, and light manufacturing (all up low-single-digits), while continued weakness in reseller (down high-single-digits), natural resources (down low-single-digits), and contractor (also down low-single-digits) were slight offsets. This drove December US daily sales growth of +4.3% (although January daily sales were running slightly negative through January 25). We expect a moderate uptick in growth among the public industrial distributors this 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.

Fastener Distribution Trends: January 2017

FASTENER DISTRIBUTION AT A GLANCE								
January 2017								
	----- Index Values -----						Jan.--> Dec.	
	Jan.	Dec.	Nov.	Oct.	Sep.	Aug.	Change	Direction
PMI (Manufacturing Sector)	56.0	54.7	53.2	51.9	51.5	49.4	1.3	Growing
FDI (Fastener Sector)	54.5	50.3	49.3	46.6	47.7	50.8	4.2	Growing
FDI (Seasonally Adjusted)	49.9	51.6	50.6	47.1	51.5	53.1	(1.7)	Declining
Sales (SA)	51.6	60.6	64.5	38.3	48.1	61.6	(9.0)	Growing
Forward-Looking (SA)	59.8	57.6	54.2	52.2	47.4	48.1	2.3	Growing
<i>(Other Metrics; NSA)</i>								
Employment	57.6	51.3	45.7	47.0	46.9	40.3	6.3	Growing
Supplier Deliveries	56.1	56.4	55.7	54.5	54.7	56.5	(0.3)	Growing
Respondent Inventories	59.1	59.0	65.7	63.6	71.9	66.1	0.1	Growing
Customer Inventories	36.4	41.0	42.9	43.9	48.4	48.4	(4.7)	Declining
Pricing, month-to-month	62.1	56.4	61.4	50.0	53.1	53.2	5.7	Higher
Pricing, year-to-year	68.2	60.3	61.4	56.1	45.3	54.8	7.9	Higher
Higher Same Lower								
6-Month Outlook - Jan				64%	33%	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.

Source: Robert W. Baird & Co., FCH Sourcing Network, Institute for Supply Management

Fastener Distributor Index (FDI); Seasonally Adjusted

