

Fastener Distributor Index – February 2017

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Key Takeaway:

February's seasonally-adjusted FDI of 57.0 increased from January's 49.9 reading, representing the strongest seasonally-adjusted result seen since late 2014. Seasonally-adjusted February sales saw good momentum vs. January among distributors, with 69% of respondents noting flat or stronger selling conditions versus the preceding month. Commentary on current market conditions was mostly positive, with several respondents noting a pickup in orders, while price increases related to recent commodity price inflation are beginning to be seen. Optimism is prevalent, with a full 97% expecting higher or stable activity levels over the next six months vs. current levels. Many distributors continue to be encouraged by the potential for "inflationary, pro-growth" fiscal policy and increased infrastructure spending driven by the Trump Administration. While industrial markets are showing encouraging signs of potential stabilization and increased optimism in February, we would note the FDI has still been somewhat choppy in recent months, as uncertain demand, competitive conditions, and pricing conditions have seemingly persisted ahead of policy change implementation. Forward indicators are more positive, with the newly-developed FDI Forward-Looking Indicator ("FLI") registering a seasonally-adjusted 61.0. This was the fifth straight month of acceleration in the index, signaling good potential for future improvement in the fastener industry through 2017 and into 2018.

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**, with support from the **National Fastener Distributor 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 [FAST]** and broadly relevant to other distributors (**W.W. Grainger [GWW]**, **MSC Industrial [MSM]**).

February FDI rises nicely above 50. The seasonally-adjusted February FDI (57.0) increased over January's sub-50 reading, rising well into expansionary territory. Top-line sentiment remained positive for February, with 69% of respondents indicating better or unchanged sales, down slightly vs. a very strong January (76%). This reading includes 46% of respondents who indicated sales were better in February vs. January, and another 23% of respondents who indicated sales were roughly flat. Respondents continue to indicate customer inventory levels, meanwhile, are roughly in line with expectations as only 9% of respondents indicated inventories are too high while 29% indicated inventories are too low. This compares to January results of 3% and 30%, respectively.

FDI Forwarding-Looking Indicator. The FDI Forward-Looking Indicator (FLI) is 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. **February's seasonally-adjusted FLI had a value of 61.0 vs. 59.8 in January** – suggesting expectations for future activity are 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 four months since the election.

Manufacturing employment outlook improved slightly. Survey respondents again indicated a slight uptick in hiring, with 29% of respondents indicating hiring picked up in February (vs. 21% in January, 10% in December, and just 3% in November 2016). February represents the third consecutive month of above-50 readings for the FDI employment index following four consecutive sub-50 readings. Consistent with this, 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). February's US jobs report is expected to be released March 10.

February sentiment mostly positive. Although not universal among respondents, most survey commentary was optimistic that market conditions could show improvement in 2017, with YTD results already showing increases in order and/or quote activity for several distributor respondents. While previous commentary largely indicated increased optimism and quoting activity was not yet translating into increased orders, commentary from some respondents this month indicated orders may also now be picking up, as one distributor said, "We are starting to see optimism turn into orders." A manufacturer alluded to an inability to keep up with market demand, saying, "We are extremely busy, can't manufacture parts fast enough." In addition, expected price increases from suppliers are beginning to be seen with one respondent saying, "We are experiencing both overseas and domestic price increases due to steel increases." Fastenal reported better-than-expected February daily sales growth of +6.1% y/y, reflecting growth in all end markets/product lines. Fastener growth was +1.5%, encouragingly the first positive y/y reading in fasteners since early 2015. Overall, this is consistent with recent strong FDI and FLI results, all pointing to improving industrial trends and suggesting market conditions could be strengthening. 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 by price increases if recent higher commodity prices are sustainable.

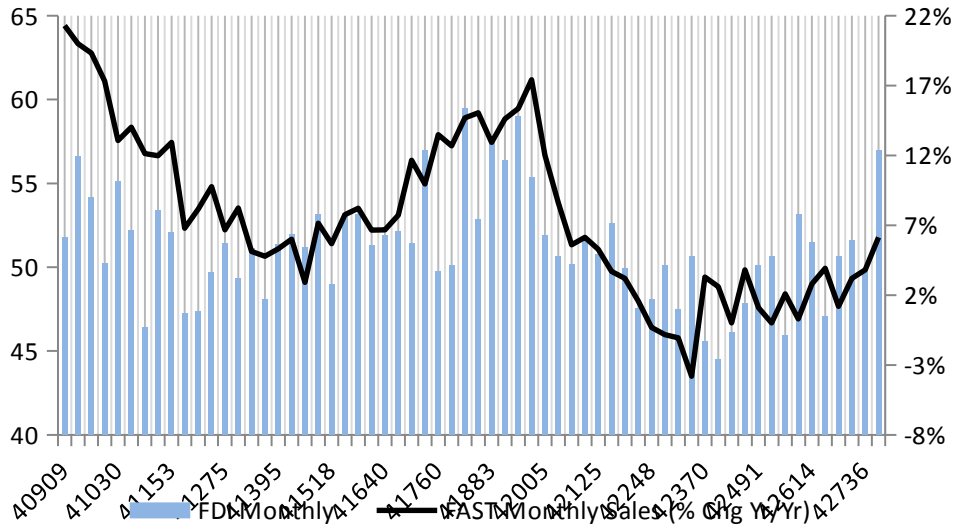
Fastener Distribution Trends: February 2017

FASTENER DISTRIBUTION AT A GLANCE										
February 2017										
	----- Index Values -----							Feb.-->Jan.		
	Feb.	Jan.	Dec.	Nov.	Oct.	Sep.	Aug.	Change	Direction	
PM (Manufacturing Sector)	57.7	56.0	54.5	53.2	51.9	51.5	49.4	1.5	Growing	
FDI (Fastener Sector)	55.4	54.5	50.3	49.3	46.6	47.7	50.8	4.2	Growing	
FDI (Seasonally Adjusted)	57.0	49.9	51.6	50.6	47.1	51.5	53.1	(1.7)	Growing	
Sales (SA)	62.7	51.6	60.6	64.5	38.3	48.1	61.6	(9.0)	Growing	
Forward-Looking (SA)	61.0	59.8	57.6	54.2	52.2	47.4	48.1	2.3	Growing	
(Other Metrics; NSA)										
Employment	62.9	57.6	51.3	45.7	47.0	46.9	40.3	6.3	Growing	
Supplier Deliveries	61.4	56.1	56.4	55.7	54.5	54.7	56.5	(0.3)	Growing	
Respondent Inventories	58.6	59.1	59.0	65.7	63.6	71.9	66.1	0.1	Growing	
Customer Inventories	40.0	36.4	41.0	42.9	43.9	48.4	48.4	(4.7)	Declining	
Pricing, month-to-month	60.0	62.1	56.4	61.4	50.0	53.1	53.2	5.7	Higher	
Pricing, year-to-year	70.0	68.2	60.3	61.4	56.1	45.3	54.8	7.9	Higher	
Higher Same Lower										
6-Month Outlook - Feb				74%	23%	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



Source: Robert W. Baird & Co., FCH Sourcing Network, company reports
