Key Takeaway:

The seasonally adjusted FDI for March 2017 was 60.0, increasing from February's 57.0 reading and representing the strongest seasonally adjusted result ever seen in the 5+ year history of the FDI Survey. Seasonally adjusted March sales saw recent strong momentum continue, with 93% of respondents noting flat or better selling conditions versus the preceding month. Although not universal, commentary on current market conditions was mostly positive, as several respondents noted strong y/y and m/m sales growth, as well as favorable end-market dynamics. A slightly more cautious six-month outlook was expressed this month, though optimism nevertheless remains much higher than 2016 pre-election average levels, as 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 an encouraging sign, we would note the FDI was sub-50 as recently as January and uncertainty remains ahead of any potential new policy implementation. Forward indicators are positive, with the FDI Forward-Looking Indicator registering a seasonally adjusted 57.4 – decelerating slightly from last month’s strong 61.0 result. While still well above 50 (signaling good potential for future growth), the March Forward-Looking Indicator also may foreshadow a pause/retrenchment in the FDI’s upward trajectory in the next month or two.

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 [FAST] and broadly relevant to other distributors (W.W. Grainger [GWW], MSC Industrial [MSM]).

March FDI rises to a record. The seasonally adjusted March FDI (60.0) increased over February’s strong 57.0 reading, achieving the highest reading seen in the FDI Survey’s 5+ year history. Top-line sentiment remained positive for March, with 93% of respondents indicating better or unchanged sales, up vs. February’s 69% reading. This level includes 68% of respondents who indicated sales were better than expected in March vs. February (highest since January 2013), and another 24% of respondents who indicated sales were roughly flat. Respondents continue to indicate customer inventory levels are roughly in line with expectations, as only 10% of respondents indicated inventories are too high while 22% indicated inventories are too low. This compares to February results of 9% and 29%, respectively.
FDI Forward-Looking Indicator stays strong. The FDI Forward-Looking Indicator 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 a diffusion index, values above 50 signal strength, while values below 50 signal weakness. This month’s seasonally adjusted Forward-Looking Indicator had a value of 57.4 vs. 61.0 in February. For context, the Forward-Looking Indicator averaged 49.7 during 2016, but had increased sequentially in each of the past five quarters before peaking at 61.0 last month and ticking down to 57.4 this month. While still well above 50 (signaling good potential for future growth), the March Forward-Looking Indicator also may foreshadow a pause/retrenchment in the FDI’s upward trajectory in the next month or two.

Manufacturing employment outlook ticks down slightly. Survey respondents indicated a slight deceleration in hiring vs. February, with 24% of respondents indicating hiring picked up in March (vs. 29% in February, 21% in January, and 10% in December). Nevertheless, March represents the fourth consecutive month of above-50 readings for the FDI employment index following four consecutive sub-50 readings – suggesting employment has mostly stabilized or slightly improved of late. Consistent with this, February’s US jobs report came in above expectations (+235,000 adds vs. +190,000 consensus), along with a gain in employment among domestic manufacturers (+28,000 jobs added vs. January, US BLS). The average workweek for manufacturers was unchanged m/m at 40.8 hours.

March sentiment mostly positive. Although not universal, various respondents expressed optimism that market conditions could show improvement in 2017, with several distributors noting favorable end market dynamics and strong YTD results. Consistent with the FDI reading, March results were mostly characterized as strong, with one distributor characterizing it as “an incredibly good month.” Referencing current favorable end-market dynamics, one respondent said, “While certain sectors are flat, some, like construction and some export opportunities, are opening up big time.” Price increases from suppliers related to commodity price inflation have also continued, with one distributor noting, “Continuing to get steel price increases from both overseas and domestically.” Overall, optimism continues, though some respondents are still somewhat cautious, with one distributor saying, “I believe we will see some improvement compared to 2016 overall, but the activity will remain ‘choppy’.”

Fastenal, meanwhile, 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 very consistent with recent strong FDI and Forward-Looking Indicator results, all pointing to improving industrial trends and suggesting market conditions could be strengthening. Based on FDI data and other factors, we expect a substantial uptick in growth among the public industrial distributors this year, with Fastenal daily sales growth approaching double-digits y/y.
## Fastener Distribution Trends: March 2017

### FASTENER DISTRIBUTION AT A GLANCE

**March 2017**

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<tbody>
<tr>
<td>PMI (Manufacturing Sector)</td>
<td>57.2</td>
<td>57.7</td>
<td>56.0</td>
<td>54.5</td>
<td>53.2</td>
<td>51.9</td>
<td>51.5</td>
<td>-0.5</td>
<td>Growing</td>
</tr>
<tr>
<td>FDI (Fastener Sector)</td>
<td>61.3</td>
<td>55.4</td>
<td>54.5</td>
<td>50.3</td>
<td>49.3</td>
<td>46.6</td>
<td>47.7</td>
<td>5.9</td>
<td>Growing</td>
</tr>
<tr>
<td>FDI (Seasonally Adjusted)</td>
<td>60.0</td>
<td>57.0</td>
<td>49.9</td>
<td>51.6</td>
<td>50.6</td>
<td>47.1</td>
<td>51.5</td>
<td>3.0</td>
<td>Growing</td>
</tr>
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| Source: Robert W. Baird & Co., FCH Sourcing Network, company reports |

| Sales (SA) | 74.6 | 62.7 | 51.6 | 60.6 | 64.5 | 38.3 | 48.1 | 11.9 | Growing  |
| Forward-Looking (SA) | 57.4 | 61.0 | 59.8 | 57.6 | 54.2 | 52.2 | 47.4 | (3.6) | Growing  |

(Other Metrics; NSA)

| Employment | 59.8 | 62.9 | 57.6 | 51.3 | 45.7 | 47.0 | 46.9 | (3.1) | Growing |
| Supplier Deliveries | 61.0 | 61.4 | 56.1 | 56.4 | 55.7 | 54.5 | 54.7 | (0.5) | Growing |
| Respondent Inventories | 61.0 | 58.6 | 59.1 | 59.0 | 65.7 | 63.6 | 71.9 | 2.4 | Growing |
| Customer Inventories | 43.9 | 40.0 | 36.4 | 41.0 | 42.9 | 43.9 | 48.4 | 3.9 | Declining |

| Pricing, month-to-month | 63.4 | 60.0 | 62.1 | 56.4 | 61.4 | 50.0 | 53.1 | 3.4 | Higher |
| Pricing, year-to-year | 72.0 | 70.0 | 68.2 | 60.3 | 61.4 | 56.1 | 45.3 | 2.0 | Higher |

### 6-Month Outlook - Mar

<table>
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<tr>
<th>Higher</th>
<th>Same</th>
<th>Lower</th>
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<tr>
<td>66%</td>
<td>27%</td>
<td>7%</td>
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FDI and Pricing are diffusion indices. A reading above 50 suggests the category outperformed expectations, while a reading below 50 suggests the category underperformed expectations.


## Fastener Distributor Index (FDI): Seasonally Adjusted

![Graph showing Fastener Distributor Index (FDI) Seasonally Adjusted over time]

Source: Robert W. Baird & Co., FCH Sourcing Network, company reports
FDI vs. Forward-Looking Indicator (Seasonally Adjusted)

Appendix – Important Disclosures and Analyst Certification

Fastenal Company (FAST- $52.68)

WW Grainger Inc. (GWW- $233.29)
Appendix – Important Disclosures and Analyst Certification

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