Fastener Distributor Index – November 2016

Written by R.W. Baird analyst David Manthey, 12/5/16

Key Takeaway:

The seasonally adjusted FDI for **November of 50.6** ticked up sequentially from the October reading of 47.1—returning once again to expansionary territory. YTD results have seen a saw-tooth pattern around the neutral rating of 50—consistent with the choppy and mostly flattish conditions seen in industrial markets throughout 2016. November sales seem to indicate some stabilization or slight improvement among distributors, with 74% of respondents noting flat or stronger selling conditions versus the preceding month at just 58%, representing the strongest reading seen since April 2015. Commentary from survey respondents was somewhat mixed with some noting an uptick in activity since the US presidential election and others noting that uncertainty still remains in the market (consistent with our own recent conversations with industrial supply distributors). A post-election bump in optimism, however, was evident among respondents with 94% of respondents expecting higher or stable activity over the next 6 months amid widespread expectations for inflationary pro-growth economic policies under the Trump Administration. We continue to believe that conditions are likely to remain choppy near-term as weak demand, intense competition and pricing weakness continue to weigh on results before any 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**).

November FDI ticks above 50. The seasonally adjusted November FDI (50.6) ticked up into expansionary territory vs. an October reading in contractionary territory (47.1). Top-line sentiment improved for November as 74% of respondents saw better or unchanged sales vs. October's 58%, encouragingly in line with averages seen during the strong growth period of 2013-2014 when the metric averaged 72%. As it relates to customer inventories, 17% of respondents indicated inventories are too high while 31% indicated inventories are too low, fairly consistent with October levels of 21% and 33%, respectively.

Manufacturing employment outlook remains weak. Survey respondents indicated hiring sentiment was essentially unchanged vs. October with only 3% of respondents indicating hiring picked up in November. For the month of November, 97% of participants cited unchanged (or weaker) hiring conditions versus the prior month (unchanged vs. October). November's US jobs report came in essentially in line with expectations (+178K adds vs. +180K consensus) with a very modest decline in employment sequentially among domestic manufacturers (*US BLS*) and a slightly lower average workweek at 40.6 hours (vs 40.8 in October).

November sentiment somewhat mixed but leaning optimistic. Although not universal among respondents, some survey commentary was optimistic following the outcome of the election with only 6% of respondents expecting lower activity levels 6 months from today and several already noting an increase in quoting and order activity. One respondent commented, *"We are seeing a surge in quotes and orders since the election."* Another alluded to optimism that is prevalent throughout the industry saying, "*There is optimism that the new administration will get the economy going."* Other distributors, however, remain more cautious in their outlooks with one noting, *"There is uncertainty in the market and very few of our customers are meeting previous projected activity."* Last month, government and light manufacturing for Grainger increased in the mid-single digits, but were more than offset by continued weakness in contractor (down high-single digits), heavy manufacturing (down mid-single digits) and 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 higher recent commodity prices are sustainable. Grainger reports daily sales results for November on 12/13. Our forecast is for -0.3% y/y, and the company previously indicated November was running below the October rate, which was -0.1%.

Fastener Distribution Trends: November 2016

FASTENER DISTRIBUTION AT A GLANCE
November 2016

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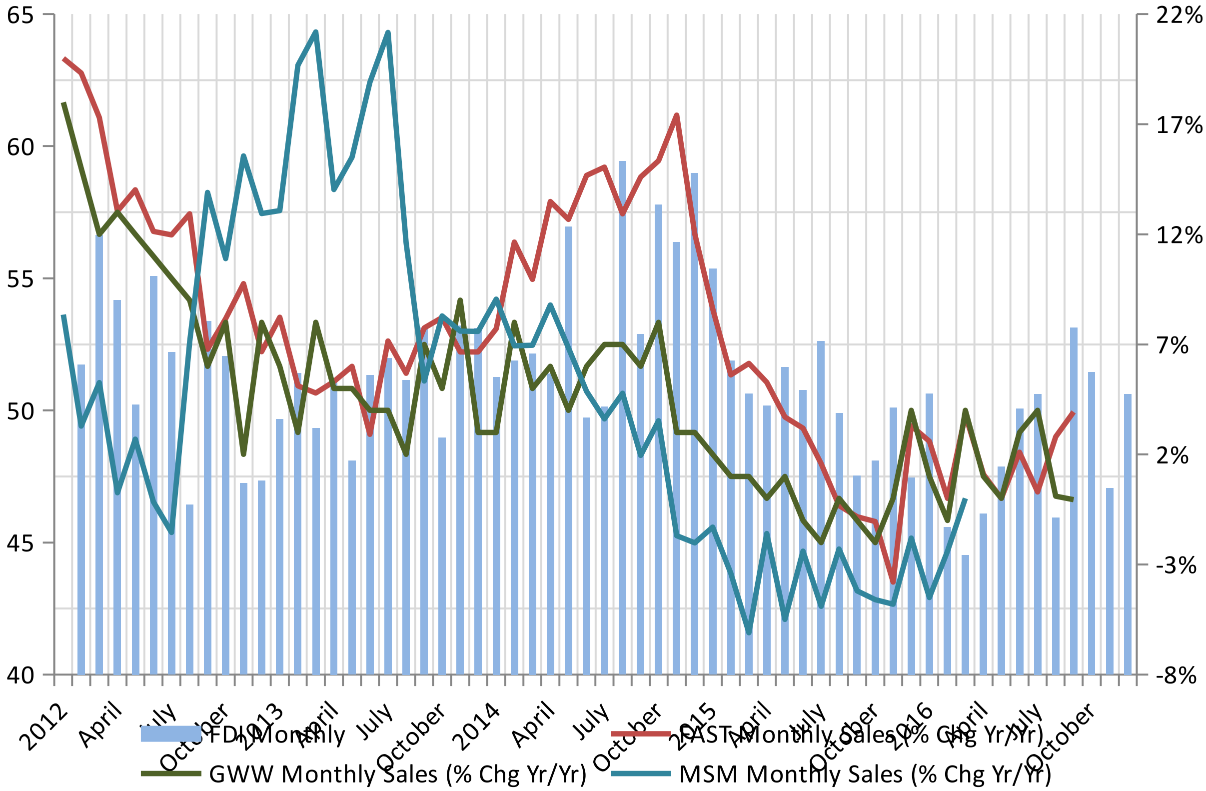
	Nov.	Oct.	Sep.	Aug.	July	June	May	Change	Direction
PMI (Manufacturing Sector)	53.2	51.9	51.5	49.4	52.6	53.2	51.3	1.3	Growing
FDI (Fastener Sector)	49.3	46.6	47.7	50.8	44.6	50.0	51.1	2.7	Declining
FDI (Seasonally Adjusted)	**50.6**	**47.1**	**51.5**	**53.1**	**45.9**	**50.6**	**50.1**	3.6	Growing
Sales (SA)	64.5	38.3	48.1	61.6	29.4	50.8	48.4	26.2	Growing
(Other Metrics; NSA)									
Employment	45.7	47.0	46.9	40.3	50.0	58.6	51.5	(1.3)	Declining
Supplier Deliveries	55.7	54.5	54.7	56.5	55.7	53.4	54.5	1.2	Growing
Respondent Inventories	65.7	63.6	71.9	66.1	60.2	63.8	68.2	2.1	Growing
Customer Inventories	42.9	43.9	48.4	48.4	46.6	43.1	48.5	(1.1)	Declining
Pricing, month-to-month	61.4	50.0	53.1	53.2	51.1	51.7	51.5	11.4	Higher
Pricing, year-to-year	61.4	56.1	45.3	54.8	56.8	48.3	53.0	5.4	Higher

	Higher	Same	Lower
6-Month Outlook - Nov	69%	26%	6%

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

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