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Top Trends for 2017

Distributors, manufacturers brace for change

This article, based on the 2016 MDM Industry Outlook Survey, outlines and analyzes key trends and issues affecting how distributors will do business in 2017.

By MDM Editorial Staff

Change has come to wholesale distribution. Much is driven by technology, which has changed how distributors connect with their customers, as well as their employees and their suppliers.

But technology isn't the only driver of change. Each year, MDM conducts a survey of its audience members to identify key priorities and challenges for the coming year. This year, we received nearly 300 responses from distributors, manufacturers and service providers across sectors. While the specific concerns and focuses varied widely, there were some key issues that rose to the top of the list.

Here is a look at the top 10 trends to watch in 2017.

1. Growth expected in 2017, but at an uneven pace.

While the phrase "cautious optimism" continues to be bandied about, many view 2017 with "resigned optimism," according to survey respondents in MDM's annual Industry Outlook Survey. The overall expectation is that sales will grow in 2017, with 44 percent of respondents forecasting an increase of 5 percent to 10 percent, but much of that expectation is because of the 2016 reality.

2017 should be "better than this year," noted one jan-san distributor. "Note: This (year was) not good."

There's a sense that conditions have to get better, but many respondents are guarding against too much optimism.

"Generally speaking, economists are saying that 2017 should hold modest growth for distribution and manufacturing," noted a bearings manufacturer. "We're skeptical though."

While most of the major economic indicators point to a growing economy, growth in the industrial and manufacturing sectors has been more elusive. Industrial production in November was down 0.6 percent over November 2015, and the number of manufacturing jobs remained unchanged through most of 2016.

Building materials and construction, however, continued its pattern of growth and optimism. Nearly a third of respondents in this sector (32 percent) expect growth of more than 10 percent in 2017. Another 41 percent expect growth of 5 percent to 10 percent. Respondents noted "good tailwinds" and "excellent prospects" in response to a question about their overall outlook.

These uneven conditions are part of the "new industrial landscape," noted one respondent who operates in the industrial and building materials sectors. Growth will require a keen focus on identifying and meeting the needs that aren't currently being met, noted another distributor.

And uncertainty continues to have a dampening effect on overall outlook. "(2017 is) even less predictable than the recent past, which was unprecedented for its unpredictability," noted one industrial and safety products distributor.

2. The election cycle is over, but the regulatory outlook remains cloudy.

Prior to the presidential election, small-business optimism was flat, according to the National Federation of Independent Business. After the election, optimism "rocketed higher as business owners expected much better conditions under new leadership in Washington."

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INSIDE

PERSPECTIVE ■ Commentary by Eric Smith

Resolve to be More Strategic in 2017

How did your company perform this year? According to our quarterly distribution surveys, many of you struggled with top-line growth, as industry-wide revenue was down or flat throughout 2016.

Some sectors fared better than others. Building materials outperformed the industry average while industrial supply struggled to break out of the red. But the industry saw a bit of a turnaround in 3Q when distributors averaged 0.5 percent revenue growth, ending three consecutive quarters of negative growth.

That was just one of many encouraging economic signs to emerge as the year drew to a close. At this month's Heating, Air-conditioning & Refrigeration Distributors International conference in Colorado Springs, CO, economist Alan Beaulieu told attendees that the U.S. is in growth mode – albeit slow – and to expect modest improvement for the next two years.

Most manufacturing, construction and jobs reports in the last few weeks were upbeat and the Fed raised interest rates, all indicating a turnaround. And most distributors are telling us they expect similar results, if only because things couldn't get much worse than 2016. In our annual Industry Outlook Survey, 90 percent of respondents expect revenue to increase in 2017, with most of those, 43.6 percent, projecting 5 percent to 10 percent sales growth.

2017 isn't without its concerns, however. A new president could implement regulations that stymie off-shoring and international trade, and geopolitical concerns are accelerating as tensions mount across the globe.

With all this uncertainty, how well have you planned for 2017? Did you spend the past 12 months hunkering down and waiting for the business climate to improve? Or did you actively invest in technology and talent to be ready when fortunes reversed?

We've devoted a lot of time and ink this year imploring you to spend wisely on your businesses, based on whatever its needs might be, whether that's a new ERP, enhanced e-commerce capabilities, improved customer experience, revamped training program or new methods of recruiting millennials.

Distributors continue to struggle in these areas and others, but as the industry approaches an inflection point, those who strategically address their deficiencies and plan to overcome them will surge past their competitors in 2017. The best time to strategically plan for next year was last year, but the second best time is right now.

One way to properly plan for 2017 is to join Indian River Consulting Group and MDM for Sales GPS 2017, a live event March 1-2 in Austin, TX, on the future of field sales. It is just one way out of many you can prepare for whatever 2017 might bring.

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2017 Trends
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That same across-the-board optimism could not be found in responses to our annual Industry Outlook Survey. Instead, respondents were cautious and divided on what the results would actually mean for the industry. Some took it as a signal that companies would start spending again because of the expected shift to more business-positive policies.

But a number of respondents also highlighted questions about whether President-elect Donald Trump would follow through on his campaign promises, such as the infrastructure bill. Another concern raised is the potential for further "political turmoil." One HVAC distributor even listed "President-elect Trump and curtailing his damage" as one of his top concerns for 2017.

There's a sense that Trump will have a more business-centric regulatory approach, but, as one manufacturer noted, "uncertainty around economic, trade, labor and manufacturing policies of the new president" is still cause for some concern.

Another challenge around the impact of regulations goes back to the shift in industry. Trump's promises to reinvigorate the coal industry fails to take into account the market forces that have helped make coal an expensive fuel source when compared to natural gas, for example. The industry itself has changed, and simply repealing existing regulations may not have the desired impact.

The rising cost of health care continues to be a top concern for some, but more respondents identified the general regulatory climate this year than in the past.

Historically, change doesn't come quickly to Washington. Even if Trump replaces the heads of regulatory agencies, the process for changing regulations can be slow. Many people (including MDM) will be paying close attention to the signals the new administration sends up during his first 100 days in office and how that may affect distribution and manufacturing.

3. As M&A ramps up, control what you can.
Consolidation continues to be top-of-mind for many respondents to the MDM Industry Outlook Survey, with 19.4 percent identifying it as a top industry-wide concern for 2017.

The sluggish U.S. economy in 2016 shifted the M&A landscape to one of more modestly sized transactions as companies pursued acquisitions in a slow-growth environment.

Only a handful of mergers or acquisitions this year reached blockbuster status – most notably ABC Supply Co. Inc.'s $670 million purchase of L&W Supply Corp. from USG Corp. Two other megadeals – both in the gases and welding equipment sector – were either finalized (Air Liquide and Airgas) or announced (Linde and Praxair) this year.

But plenty of large companies across most sectors were active in hopes of bolstering their top lines amid stagnant organic growth. "Companies … look to supplement organic growth with acquisition growth," T.J. Monico, head of distribution, investment banking, KeyBanc Capital Markets, told MDM earlier this year. "It's cheaper to buy growth than to wait for organic growth to return."

Today's M&A climate is about controlling what you can. It is imperative for distributors to get their own businesses in order before making any acquisition decisions – no matter which side of the deal they're on – according to Dave Gabriel, president, Sonepar North America, Charleston, SC, who spoke on a panel at the National Association of Electrical Distributors national meeting last May in Washington, DC.

"If you have an alignment … then maybe (M&A) makes sense. Know yourself first," he says. "Chasing volume for the sake of volume, or chasing geography for the sake of geography, I wouldn't advise that for anyone."

Besides knowing when to buy or sell and for how much, consolidation among customers and suppliers emerged as a chief concern for distributors, according to survey respondents. For example, if a supplier that works with another distributor gets bought, the acquiring company might keep its distribution relationship with a competitor.

"I worry about the things I can't control," Kevin Martin, vice president of operations, Pipeline Packaging, Fairfield, OH, told MDM this year after one of the company's big suppliers had been purchased. "The mergers and acquisitions of our customers and our vendors can swing our business so much, and we can't control that."

4. Increased competition from more sources drives industry change.
Distribution has always been highly competitive, but the competition is taking on a new timbre and coming from more directions than ever before.

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More big-box players are taking aim at B2B opportunities, placing even more pressure on traditional players. "Supplier favoritism toward big-box operations" was a top concern for one bearing distributor.

Amazon itself is no longer a new threat for industrial players, but it continues to be an industry concern for many. And it continues to launch new initiatives that may have a broader impact on the supply chain, including Amazon Go and an Uber-like app to connect truck drivers and shippers across its network.

And distributors and manufacturers both note increasing pressure from international or multinational players.

The key fear of the increased competition, as noted by several respondents, is a race to the bottom on price. More visibility of price – thanks in large part to online sellers – allows for easier base price comparisons. It's becoming more challenging to "maintain current levels of margin," noted one distributor, as customers challenge distributors' pricing.

Distributors want to avoid that race to the bottom, but they find it difficult to make inroads on how to challenge the price perception. "Customers are buying online because we are not properly explaining our value," noted one industrial distributor.

As customer expectations continue to evolve, they're looking to distributors to provide more than just product, and that changes how they interact with distributors.

"The selling process is less relationship-, more data-driven," noted one respondent.

5. Aim to increase ROI from technology.

While distributors and manufacturers have made strides on investing in technology in recent years, measuring a return on those investments remains a challenge for respondents to our annual Industry Outlook Survey.

The reasons for this are varied and often self-imposed. One respondent to the survey admitted to using only about "10 percent of functionality" of new system the company implemented, while others are hoping to see payoff in 2107 from increasing their tech functionality.

But implementation is only the first step. To truly reap the benefits of new technology, distributors must develop a plan for how new systems can boost efficiency and drive growth. A successful technology strategy is based on improving customer experience, according to Mike Marks, Indian River Consulting Group. It also includes training for employees and customers. However, getting employee and customer buy-in for new systems can be an obstacle.

CRM and ERP systems may seem intrusive or threatening to some employees that have gotten comfortable with how things are. One survey respondent noted the struggle with an "aging workforce disinclined to adopt new technology." Making adoption non-negotiable is important for getting the entire company on board.

With increased competition from companies of all sizes across the globe, distributors also feel pressure to provide a website that can meet ever-changing customer standards. The challenges come in many forms, from acquiring and providing good, clean data to choosing the right functionality for their customers.

Ease of implementation and use are critical for employee and customer adoption. Technology shouldn't overwhelm your company's talent and resources or require months and months of expensive training, says Ranga Bodla, head of industry marketing, NetSuite.

6. E-commerce again front of mind.

E-commerce is again a focal area for distributors, many of whom lack online and mobile ordering offerings for their customers.

In our annual Industry Outlook Survey, almost half of respondents – 48.3 percent – said e-commerce is a new technology they anticipate exploring in the next 12 months, while 41.1 percent of respondents said they plan to improve their e-commerce capabilities to build revenue in 2017.

Revenue leakage is a problem for distributors that lack e-commerce, says Bob Lewis of B2X Partners, who said distributor customers routinely tell him they like doing business with their local distributors and would buy more from them if they knew what else they offered.

"I would be willing to bet that the average distributor could do 3 to 4 percent more sales with their existing customer base just by having an online presence and a good digital marketing plan," Lewis told MDM earlier this year. "That's just putting it up there and making your current customers aware that you have it."

Companies also are focused on moving into more mature stages of e-commerce. A plumbing and heating distribution executive said that while the company is "already into e-commerce, developing that into an 'Amazon-like experience' for our customers is our goal, (along with) great products, great information with a great search function all available and optimized for all technology platforms from mobile to PC."

More distributors are exploring mobile

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technologies, as well, with 32 percent of survey respondents listing it as a new tech they plan to pursue in 2017. Close to half (42 percent) of B2B buyers use mobile devices (smartphones and tablets) during the purchasing process, a 91 percent increase over the previous two years, according to "B2B Path to Purchase Study," a 2014 report from Google/Millward Brown.

Mobile is especially critical for sectors that sell to customers who do their jobs away from the office, including electrical, building materials and HVACR (i.e., construction end markets where customers often order from job sites).

7. 'You can't cut your way to growth.'

In a highly competitive market, the best distributors and manufacturers are continually looking for ways to be more efficient. And a big part of that over the past year has been implementation of more standardization and automation throughout the business.

More than half of survey respondents identified streamlining/automating processes as a method to reduce costs in their organizations over the next 12 months. "Streamlining processes is far better than cuts," one industrial distributor said.

Another respondent agreed: "You can't cut your way to growth."

Automation has played a critical role in streamlining manufacturing operations, but more distributors are identifying it as an opportunity for their companies, as well. New technologies are making it more accessible in more areas.

Paperwork reduction and automated order processing are two core areas being explored by many distributors looking to function more efficiently and accurately. Nearly one-fifth of respondents (19 percent) identified "reducing paperwork, data entry and redundant processes" as a key business priority in 2017.

And distributors are finding more opportunities to outsource positions, such as using virtual assistants to fulfill administrative functions.

The use of automation and additional methods to streamline operations is sure to grow over the next year, and the impact may be widely felt.

8. Distributors focus on boosting employee productivity.

Employee recruitment and retention continues to plague distributors. While industrial distribution programs like the University of Nebraska at Kearney's are preparing students for a wide range of industry jobs, the competition for those graduates is fierce.

Additionally, with a high focus on cutting costs amid a sluggish economy, keeping employee morale up can be a struggle, especially if downsizing has taken place. This can lead to increased turnover, which is already a common problem at many companies.

Many distributors have increased their focus on training and productivity efforts to boost retention rates.

In our annual Industry Outlook Survey, 33.6 percent of respondents listed training as one of their top business priorities for 2017. A core challenge identified by many survey respondents is getting customers to look beyond the lowest price in an era of online visibility, and training may be a way to help overcome that struggle and gain a competitive advantage.

"Trained employees create a stronger workforce and customers appear willing to pay for knowledgeable salespeople," said one respondent.

In addition to training, many distributors plan to focus on improving employee productivity in 2017, with 65.2 percent listing it as one of the top ways they plan to cut costs.

For one survey respondent, focusing on efficiency and process improvement means that "employees make the most of their time, work more comfortably and see results from their efforts."

Providing employees with the support and training they need to be successful will increase retention as well as customer satisfaction. However, creating a successful training program is an investment in time and money that needs to be well planned out. Training methods should reflect the work habits and preferences of the new generation of workers, which includes a strong focus on online learning and other innovative programs.

9. As customer needs change, time to realign your sales force.

As customer needs change and competition grows rapidly, companies must respond accordingly. Though many distributors have created an e-commerce site to meet customer needs and grow sales, they often still hold to the original sales model.

Even with a best-in-class website, a company's sales team still needs to adjust how it interacts with customers who now want easy-to-use systems, transparent pricing and intuitive technology. Often, as one respondent to our annual Industry Outlook survey noted, technology is still outpacing the sales force.

Distributors say that loyalty is extremely low in this new price-sensitive environment. Customers are willing to switch to a competitor that better meets their needs without giving it too much thought because the cost to change has come down significantly.

While some respondents to the survey note "realignment of sales" and a "restructured sales organization" as priorities, many distributors struggle to accept and address this shift in customer behavior.

However, even the ones who have embraced it are still faced with the challenge of changing their company culture to align with customer desires. One survey respondent said that "sales turn their back as soon as (CRM) is discussed."

But not having a record of customer interactions can be a recipe for disaster – especially if the sales rep in charge of that account leaves the company. As Brian Gardner mentions in his book *ROI from CRM*, a key part of getting buy-in revolves around providing consequences for non-participation. "If it isn't in the CRM, it didn't happen," he writes as an example.

And, according to Mike Marks, Indian River Consulting Group, the field sales rep role is in danger of going away entirely if distributors don't adjust to the changing market. "It will fade because it is costly and ineffective in the new market environment," he says.

The sales rep needs to transition from being a "self-directed generalist to a management-directed specialist," he says. They should be focused on creating demand instead of just serving existing customers – a task that can now be entirely automated.

10. Growing revenue with product expansion

While all companies remain hopeful of faster economic growth for themselves, their customers and the U.S. as a whole, many are taking action into their own hands by exploring the best ways to grow revenue and improve profitability in 2017.

One way is by adding new products or product categories, with 39 percent of respondents to our annual Industry Outlook Survey saying this is part of their plan to build revenue over the next 12 months. The answer was third behind only growing revenue from existing customers (60.2 percent) and improving e-commerce capabilities (40.7 percent).

Many distributors said they already explored product expansion in 2016 as part of a strategy to grow the top line and improve profitability. In addition to efforts to "standardize sales practices and sell more aggressively," one industrial distribution executive said her company spent last year working to "bring on different products to service more diverse audiences."

A plastics executive said his company is "aggressively adding new products," and a fastener executive noted that introducing new product segments to sell in 2016 "led to sales growth."

Product additions make sense only if your existing customers want them, and the best way to find out if they do is by asking them.

Mapping the customer experience from start to finish and identifying the gaps – in services as well as products – can be an eye-opening experience. They will provide a variety of responses, with any number of possibilities emerging: the need for an e-commerce site, a more robust e-commerce site, a previously unoffered product or something else.

Forecast: Continued Growth in 2017

ISM semiannual report: Manufacturers expect revenue growth of 4.6 percent

The Institute for Supply Management provides a semiannual forecast that distributors can use to gauge the health and expectations of manufacturing and non-manufacturing industries. This article provides the highlights from the latest forecast, which was released in December.

Economic growth in the United States will continue in 2017, say the nation's purchasing and supply management executives in their December 2016 Semiannual Economic Forecast. Expectations are for continuation of the economic recovery that began in mid-2009, as indicated in the monthly Institute for Supply Management's Report on Business.

The manufacturing sector is optimistic about growth in 2017, with revenues expected to increase in 16 manufacturing industries, and the non-manufacturing sector expects 14 of its industries will see higher revenues.

Capital expenditures, a major driver in the U.S. economy, are expected to increase by 0.2 percent in the manufacturing sector and decrease by 0.2 percent in the non-manufacturing sector. Manufacturing expects that its employment base will grow by 0.6 percent, while non-manufacturing expects employment growth of 1.2 percent

Manufacturing Summary

Expectations for 2017 are positive as 67 percent of survey respondents expect revenues to be greater in 2017 than in 2016. The panel of purchasing and supply executives expects a 4.6 percent net increase in overall revenues for 2017, compared to a 0.9 percent increase reported for 2016 over 2015 revenues.

The 16 manufacturing industries expecting revenue improvement in 2017 over 2016 – listed in order – are: Printing & Related Support Activities; Textile Mills; Fabricated Metal Products; Furniture & Related Products; Electrical Equipment, Appliances & Components; Computer & Electronic Products; Transportation Equipment; Miscellaneous Manufacturing; Petroleum & Coal Products; Chemical Products; Primary Metals; Paper Products; Food, Beverage & Tobacco Products; Nonmetallic Mineral Products; Plastics & Rubber Products; and Machinery.

In 2016, manufacturing experienced eight months of growth overall from January through November, including three consecutive months of growth from September through November, resulting in an average PMI of 51.2.

Manufacturing purchasing and supply executives are optimistic about overall business prospects in the first half of the year and slightly more optimistic about the second half.

Manufacturers expect raw materials pricing pressures in 2016 to be low and profit margin improvement in 2017. They also predict growth in both exports and imports.

In the manufacturing sector, respondents report operating at 81.9 percent of their normal capacity, up 0.2 percentage point from the 81.7 percent reported in April 2016. Purchasing and supply executives predict that capital expenditures will increase by a modest 0.2 percent in 2017 over 2016, compared to the 7.3 percent increase reported for 2016 over 2015.

Labor and benefit costs are expected to increase an average of 2.5 percent.

Respondents also expect the U.S. dollar to strengthen against all seven currencies of major trading partners in 2017, as was the case in 2016.

The panel predicts prices paid for raw materials will increase by 0.9 percent during the first four months of 2017 and an additional 0.4 percent during the balance of the year, with an overall increase of 1.3 percent for 2017. This compares to a reported 0.4 percent decrease in raw materials prices for 2016 compared with 2015.

Four special questions were asked of the panel in this year's report. The first special question asked about the strength of the U.S. dollar's net impact on profits for 2016. The responses from the manufacturing panel were: "negative" (17.8 percent), "negligible" (52.6 percent), "positive" (11.3 percent) and "unsure" (18.3 percent).

The second special question asked about the net impact of depressed prices for oil and related commodities on profits. The responses from the manufacturing panel were: "negative" (19.6 percent), "negligible" (22.4 percent), "positive" (48.6 percent) and "unsure" (9.3 percent).

The third special question asked about the combined net impact on profits for both of those categories. The responses from the manufacturing panel were: "negative" (18.9 percent), "negligible" (28.8 percent), "positive" (35.4 percent) and "unsure" (17 percent).

The fourth special question asked if trade liberalization with Japan and/or Europe would help their businesses. The responses from the manufacturing panel were: "yes, with Europe" (13.6 percent), "yes, with Japan" (5.6 percent), "yes, both" (31.5 percent) and "no" (49.3 percent).

Non-Manufacturing Summary

Fifty-seven percent of non-manufacturing supply management executives expect their 2017 revenues to be greater than in 2016. They currently expect a 4.1 percent net increase in overall revenues for 2017 compared to a 2.7 percent increase reported for 2016 over 2015 revenues.

The 14 non-manufacturing industries expecting revenue improvement in 2017 over 2016 – listed in order – are: Information; Professional, Scientific & Technical Services; Construction; Arts, Entertainment & Recreation; Agriculture, Forestry, Fishing & Hunting; Management of Companies & Support Services; Retail Trade; Wholesale Trade; Mining; Utilities; Accommodation & Food Services; Finance & Insurance; Health Care & Social Assistance; and Other Services.

ISM reported that non-manufacturing supply managers' report operating at 85.2 percent of their normal capacity, lower than the 86.5 percent reported in April 2016. They are optimistic about continued growth in the first half of 2017 compared to the second half of 2016 even though there are some projected decreases in growth rate and capital reinvestment.

Capacity to produce products and provide services is forecast to rise by 3 percent during

2017, and capital expenditures are forecast to decrease by 0.2 percent from 2016 levels.

Respondents in non-manufacturing industries expect the prices they pay for materials and services will increase by 1.8 percent during 2017. They also forecast their overall labor and benefit costs will increase 2.5 percent in 2017. Profit margins are reported to have increased in the second and third quarters of 2016, and respondents expect them to increase between now and April 2017.

The same four special questions were asked of the non-manufacturing panel. The first special question asked about the net impact on their organization's profits for the year 2016 thus far related to the strength of the U.S. dollar. The responses from our non-manufacturing panel were: "negative" (8.1 percent), "negligible" (50.6 percent), "positive" (13.8 percent) and "unsure" (27.5 percent).

The second special question asked about the net impact on their organization's profits for the year 2016 thus far related to the depressed prices of oil and related commodities in 2016. The responses from our non-manufacturing panel were: "negative" (10.4 percent), "negligible" (27 percent), "positive" (43.6 percent) and "unsure" (19 percent).

The third special question asked about the combined net impact from the strength of the U.S. dollar and the depressed prices of oil and related commodities in 2016. The responses from our non-manufacturing panel were: "negative" (12.4 percent), "negligible" (33.5 percent), "positive" (32.9 percent) and "unsure" (21.1 percent).

The fourth special question asked whether trade liberalization with Japan and/or Europe would help their businesses. The responses from our non-manufacturing panel were: "yes, with Europe" (7.4 percent), "yes, with Japan" (0.6 percent), "yes, both" (21.5 percent) and "no" (70.6 percent).

Employment Outlook for Next 12 Months

The table below shows the percentage of respondents to the ISM survey who expect higher, same or lower employment levels for the next 12 months.

	Manufacturing Predicted 2017	Non-manufacturing Predicted 2017
Higher	34%	40%
Same	51%	47%
Lower	15%	13%
Average Change	+0.6%	+1.2%

Revenue Outlook for Next 12 Months

The table below shows the percentage of manufacturing and non-manufacturing respondents to the ISM survey who expect higher, same or lower revenue for the next 12 months.

	Manufacturing Predicted 2017	Non-manufacturing Predicted 2017
Higher	67%	57%
Same	24%	32%
Lower	9%	11%
Average Change	+4.6%	+4.1%

Capital Expenditures: 2017 vs. 2016

The table below shows the percentage of manufacturing and non-manufacturing respondents to the ISM survey who predict higher, same or lower capital expenditures in 2017. The bottom row shows the average change expected in capital expenditures.

	Manufacturing Predicted 2017	Non-manufacturing Predicted 2017
Higher	38%	38%
Same	41%	43%
Lower	21%	19%
Average Change	+0.2%	-0.2%

Production Capacity in 2017: Manufacturing

The table below shows the percentage of manufacturing respondents to the ISM survey who expect higher, the same or lower production capacity in 2017.

	Predicted Capacity for 2017
Higher	47%
Same	47%
Lower	6%

Prices: Predicted Change 2017 vs. 2016

The table below shows the percentage of manufacturing and non-manufacturing respondents to the ISM survey who expect to pay higher, the same or lower prices by the end of 2017 (EOY). The bottom row shows the average price change expected.

	Manufacturing EOY 2017	Non-manufacturing EOY 2017
Higher	55%	53%
Same	21%	36%
Lower	24%	11%
Average Change	+1.3%	+1.8%

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Industrial & Construction Markets Update

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HD Supply Sales Up 3.4% in Third Quarter

HD Supply Holdings Inc., Atlanta, GA, reported sales for the fiscal third quarter ended Oct. 30 of $2 billion, an increase of 3.4 percent compared to the same period a year ago. Profit decreased 76 percent to $60 million.

For the first nine months, sales for HD Supply were $5.8 billion, up 4.8 percent year-over-year. Profit decreased 76 percent to $144 million.

The company is bullish on 2017, HD Supply CEO Joe DeAngelo said on the third-quarter earnings call with analysts. Citing the "significant amount of speculation regarding increased infrastructure investment" in the first year of the Trump administration, DeAngelo said the company is cautiously optimistic for the opportunities that might arise.

"HD Supply Waterworks and construction and industrial are very well positioned to benefit from incremental infrastructure spending," he said. "We believe benefit from the spending would likely occur late 2017 or beyond. Like most, we will continue to monitor this topic."

The company updated its guidance to reflect both the potential and the uncertainty surrounding possible infrastructure investment.

"We're hopeful that this time around, the infrastructure spend is defined more quickly and is put into place more quickly than it was in 2009," CFO Evan Levitt said. "So hopefully, as a nation we've learned from 2009 and the new administration takes that into account, but at this point we're just speculating."

In spite of the uncertainty, HD Supply remains upbeat about the outlook. DeAngelo told analysts that in "all the discussions I've had with customers, suppliers and everybody out there (including 'fellow CEOs'), there is a high degree of optimism."

Distributor News

Acklands-Grainger, Toronto, Ontario, pleaded guilty, in the Provincial Court of Alberta, for contravening the Ozone-Depleting Substances Regulations, 1998, made pursuant to the Canadian Environmental Protection Act, 1999, according to Environment and Climate Change Canada. The company was fined $500,000, an amount that will be directed to the Environmental Damages Fund.

Grainger, Chicago, IL, reported daily sales for November were down 3 percent compared to the same period a year ago. Results for the month included a 1 percentage point decrease in volume, a 1 percent decline in price and a 1 percentage point decline from lower sales of seasonal products.

Praxair Inc., Danbury, CT, and **Linde AG** have agreed to merge. The deal will create the largest gases supplier in the world with more than $30 billion in annual revenue.

Praxair Inc. will increase prices for bulk gas and medical gas customers in North America, effective Jan. 1, 2017, or as contracts permit.

Linde Korea, a member of **Linde AG**, has acquired **Air Liquide** Korea's industrial merchant and electronics onsite and liquid bulk air gases business in South Korea.

Fastenal Co., Winona, MN, reported sales for November of $316.8 million, a 6.3 percent increase year-over-year. Daily sales increased 1.2 percent to an average of $15.1 million.

European distributor **Wolseley plc** reported sales for the fiscal first quarter ended Oct. 31 of £4.4 billion (US$5.6 billion), up 22.9 percent over the same period a year ago. Trading profit grew 21.2 percent to £303million (US$385.4 million). **Ferguson**, Wolseley's U.S. business, reported first-quarter sales of £2.9 billion (US$3.8 billion), up 8.9 percent over a year ago (based on a constant-currency comparison).

Ferguson Enterprises Inc., Newport News, VA, has acquired **Matera Paper Co. Inc.**, San Antonio, TX.

Staples Inc., Framingham, MA, has agreed to sell controlling interest of its European operations to an affiliate of private equity firm **Cerberus Capital Management LP**.

Beacon Roofing Supply Inc., Herndon, VA, has acquired roofing distributor **BJ Supply**, Bristol, PA.

Curbell Plastics Inc., Orchard Park, NY, has acquired San Diego, CA-based **Plastics & Metals Enterprises**, dba **Cal Plastics and Metals Inc.**, a provider of plastic and metal sheets, rods and tubes.

SRS Distribution, McKinney, TX, a roofing distribution holding company, has acquired **Metro Roofing Supplies**, Stamford, CT.

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MARKETS UPDATE SUPPLEMENT P. 2

News Digest

Continued from p. 1 of this section

O-ring and seals distributor **Rocket Seals Corp.**, Denver, CO, has been acquired by private equity firm **Lynwood Capital Partners**.

Tencarva Machinery Company LLC, Greensboro, NC, has opened a branch office in El Dorado, AR.

Motion & Flow Control Products Inc., Littleton, CO, a distributor of hydraulic components and accessories, opened a new location in Williston, ND.

Technology distributor **Avnet Inc.**, Phoenix, AZ, has promoted Graham McBeth to president of **Premier Farnell Plc**.

Chemical distributor **Univar Inc.**, Downers Grove, IL, has named Nick Powell as president, EMEA & APAC.

McCoy's Building Supply, San Marcos, TX, has appointed Meagan McCoy Jones as executive vice president and COO.

Economic News

October U.S. manufacturing technology orders totaled $335.5 million, according to AMT – The Association for Manufacturing Technology. This total, as reported by companies participating in the USMTO program, was up 0.2 percent from October 2015, but down 32.9 percent from September. Year-to-date, total orders were $3,244.1 million, down 5.6 percent compared to the same point in 2015.

October **U.S. cutting tool consumption** totaled $169 million, according to the U.S. Cutting Tool Institute and AMT – the Association for Manufacturing Technology. This total, as reported by companies participating in the Cutting Tool Market Report collaboration, was down 4.7 percent compared with October 2015 and down 1.6 percent from September. With a year-to-date total of $1.698 billion, 2016 is down 6.9 percent compared to 2015.

Industrial production in the U.S. declined 0.4 percent in November after edging up 0.1 percent in October, according to the Federal Reserve.

The Producer Price Index for final demand increased 0.4 percent in November, seasonally adjusted, according to the U.S. Bureau of Labor Statistics. On an unadjusted basis, the final

Calculation of MDM Inflation Index for November 2016

		BLS Price Indices Nov '16	BLS Price Indices Oct '16	BLS Price Indices Nov '15	% Sales Weight	Weighted Indices Nov '16 (1)X(4)	% Change Nov '16 Oct '16	% Change Nov '16 Nov '15
1136	Abr. Prod.	584.8	585.4	568.2	19.1	111.70	-0.10	2.93
1135	Cutting Tools	508.9	508.7	506.5	18.9	96.19	0.05	0.48
1145	Power Trans.	813.5	812.6	814.4	15.4	125.28	0.12	-0.12
1081	Fasteners	516.4	516.6	512.8	9.0	46.47	-0.05	0.68
1149.01	Valves, etc.	962.9	963.1	961.3	7.6	73.18	-0.02	0.17
1132	Power Tools	379.1	379.1	371.1	6.5	24.64	0.00	2.15
1144	Mat. Handling	600.6	600.1	596.0	6.2	37.24	0.10	0.77
0713.03	Belting	832.4	832.4	831.4	6.1	50.78	0.00	0.12
1042	Hand Tools	785.6	786.0	779.2	8.1	63.64	-0.04	0.83
108	Misc. Metal	469.3	469.3	472.9	3.1	14.55	0.00	-0.78

"New" November Index	336.3	November Inflation Index	643.66	0.01	0.81
"New" October Index	336.3	October Inflation Index	643.61		
		November 2015 Inflation Index	638.46		

New index reflects 1977-100 base other #: 1967 To convert multiply by .52247 demand index increased 1.3 percent for the 12 months ended in November.

Privately owned housing starts in November were at a seasonally adjusted annual rate of 1,090,000, according to the U.S. Census Bureau and the Department of Housing and Urban Development. This is 18.7 percent below the revised October estimate of 1,340,000 and 6.9 percent below the November 2015 rate of 1,171,000.

New orders for manufactured goods in October, up four consecutive months, increased $12.5 billion or 2.7 percent to $469.4 billion, according to the U.S. Census Bureau. This followed a 0.6 percent September increase.

The Conference Board Employment Trends Index increased in November to 130, up from 129 in October. This represents a 2.7 percent gain in the ETI compared to a year ago.

Total October **exports** were $186.4 billion and **imports** were $229 billion, according to the U.S. Census Bureau and the U.S. Bureau of Economic Analysis, through the Department of Commerce. This resulted in a goods and services deficit of $42.6 billion, up $6.4 billion from September. October exports were down $3.4 billion from September, and October imports were up $3 billion.

Municipalities issued C$7.6 billion (US$5.7 billion) worth of **Canadian building permits** in October, up 8.7 percent from September, according to Statistics Canada. Higher construction intentions for commercial structures and residential dwellings in Alberta were responsible for much of the gain, as builders filed permits in advance of the changes in the provincial Building Code.

Production capacity of Canadian industries operated at 81.9 percent in the third quarter, up from 79.7 percent in the previous quarter, according to Statistics Canada.

Canadian investment in new housing construction increased 4.9 percent to C$5 billion (US$3.7 billion) in October compared with the same month in 2015, according to Statistics Canada.

Manufacturing sales in Canada declined 0.8 percent to C$51 billion (US$38.1 billion) in October, with the largest decreases in the primary metal, petroleum and coal product, and machinery industries, according to Statistics Canada.

Compared with September, October **European seasonally adjusted production in the construction sector** was up 0.8 percent in the euro area (EA19) and 0.4 percent in the EU28, according to first estimates from Eurostat, the statistical office of the European Union. In September 2016, production in construction fell by 0.1 percent in the euro area and fell by 0.1 in the EU28. In October 2016 compared with October 2015, production in construction rose by 2.2 percent in the euro area and by 1.1 percent in the EU28.

European seasonally adjusted industrial production fell by 0.1 percent in October in the euro area (EA19) and by 0.3 percent in the EU28, according to estimates from Eurostat, the statistical office of the European Union. In September, industrial production fell by 0.9 percent in the euro area and by 0.7 percent in the EU28. In October 2016 compared with October 2015, industrial production increased by 0.6 percent in the euro area and by 0.5 percent in the EU28.

Manufacturer News

Diversified manufacturer **3M**, St. Paul, MN, has agreed to sell the identity management business within its traffic safety and security division to **Gemalto** for $850 million.

Atlas Copco, Stockholm, Sweden, has agreed to acquire the business of **hb Kompressoren Druckluft- und Industrietechnik GmbH**, a German distributor and service provider of industrial air compressors and related systems.

Material handling products manufacturer **Columbus McKinnon Corp.**, Amherst, NY, has agreed to acquire **STAHL CraneSystems**, a business of **Konecranes Plc**.

Newell Brands Inc., Hoboken, NJ, has agreed to acquire two companies – New Zealand-based **Sistema Plastics** for NZ$660 million (US$470 million) and **Smith Mountain Industries** for $100 million.

Protective Industrial Products Inc., Albany, NY, has acquired **Century Glove Inc.**

Wire and cable manufacturer **Southwire Company LLC**, Carrollton, GA, has acquired **Sumner Manufacturing**, Houston, TX, a manufacturer of material lifts, jack stands, welding tools, material carts and other tools and equipment for the construction market.

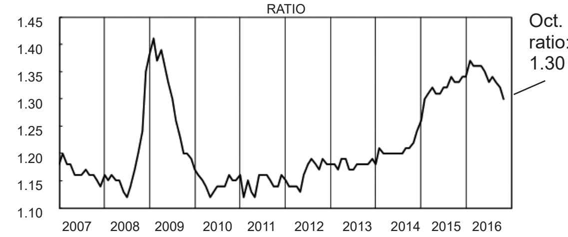
Monthly Wholesale Trade Data

Wholesale revenues in October were $452.2 billion, up 2.2 percent from October 2015 and up 1.4 percent from September. October sales of durable goods were up 1.1 percent from last month and up 2.5 percent from a year ago. Sales of nondurable goods were up 1.6 percent from September and up 1.9 percent from last October.

Inventories. Inventories were $587.7 billion at the end of October, down 0.4 percent from the revised September level. October inventories of durable goods were down 0.3 percent from last month and down 2.2 percent from a year ago. Inventories of nondurable goods were down 0.4 percent from September, but were up 2.5 percent from last October.

Monthly Inventories/Sales Ratios of Merchant Wholesalers: 2007-2016

(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Source: U.S. Census Bureau

Inventories/Sales Ratio. The October inventories/sales ratio for merchant wholesalers was 1.30. The October 2015 ratio was 1.33.

Sales and Inventories Trends: October 2016

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 9/16-10/16	Percent Change Sales 10/15-10/16	Percent Change Inventory 9/16-10/16	Percent Change Inventory 10/15-10/16
42	**U.S. Total**	**452,169**	**587,730**	**1.30**	**1.4**	**2.2**	**-0.4**	**-0.4**
423	**Durable**	**216,401**	**352,934**	**1.63**	**1.1**	**2.5**	**-0.3**	**-2.2**
4231	Automotive	36,681	64,190	1.75	0.1	1.3	0.3	-1.8
4232	Furniture & Home Furnishings	7,297	11,378	1.56	0.1	3.6	1.6	3.0
4233	Lumber & Other Construction Materials	10,304	14,961	1.45	1.7	6.0	0.7	4.8
4234	Prof. & Commercial Equip. & Supplies	37,237	39,671	1.07	-1.0	1.6	0.4	2.7
42343	Computer Equipment & Software	17,838	15,188	0.85	-2.3	-5.8	-0.3	-0.6
4235	Metals & Minerals	11,785	24,917	2.11	2.0	-0.9	-1.0	-14.9
4236	Electrical Goods	48,762	45,958	0.94	2.2	4.3	-0.3	-4.5
4237	Hardware, Plumbing, & Heating Equipment	11,360	23,008	2.03	0.8	3.6	-0.6	1.8
4238	Machinery, Equipment & Supplies	34,406	102,959	2.99	1.1	0.7	-1.0	-1.4
4239	Miscellaneous Durable	18,569	25,892	1.39	4.4	4.6	-0.8	-4.5
424	**Nondurable Goods**	**235,768**	**234,796**	**1.00**	**1.6**	**1.9**	**-0.4**	**2.5**
4241	Paper & Paper Products	7,906	8,362	1.06	-2.1	-4.2	0.1	2.7
4242	Drugs	55,801	60,366	1.08	0.2	6.1	-3.2	3.3
4243	Apparel, Piece Goods & Notions	14,012	29,518	2.11	-0.1	-2.9	0.3	-4.4
4244	Groceries &Related Products	49,960	34,587	0.69	-0.6	-1.5	0.2	0.7
4245	Farm-product Raw Materials	18,176	24,285	1.34	8.3	-3.6	2.0	8.6
4246	Chemicals & Allied Products	10,484	12,492	1.19	2.4	4.5	-1.1	-2.0
4247	Petroleum & Petroleum Products	46,628	20,208	0.43	6.6	7.5	1.9	12.2
4248	Beer, Wine & Distilled Beverages	11,500	15,551	1.35	0.7	0.3	1.0	0.8
4249	Miscellaneous Nondurable Goods	21,301	29,427	1.38	-2.4	-1.8	-0.2	2.6

U.S. Bureau of the Census, Current Business Reports, Monthly Wholesale Trade, Sales and Inventories Series: MDM compilation and analysis.
Adjusted for seasonal and trading day differences. Figures for sales and inventories are preliminary adjusted estimates.