Costco Wholesale (NASDAQ:COST) Q3 2011 Earnings Call May 25, 2011 11:00 AM ET

Executives

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Analysts

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Adrianne Shapira - Goldman Sachs Group Inc.

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Operator

Good morning. My name is Demitris, and I will be your conference operator today. At this time, I would like to welcome everyone to the third quarter and year-to-date operating results for FY '11. [Operator Instructions] Thank you. Mr. Galanti, you may begin your conference.

Richard Galanti

Thank you, Demitris. Good morning to everyone. This morning's press release reviews our third quarter 2011 operating results for the 12 weeks ended May 8.

As with every conference call, I'll start by stating that the discussions we are having will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and that these statements involve risks and uncertainties that may cause actual events, results and/or performance to differ materially from those indicated by such statements. The risks and uncertainties include, but are not limited to, those outlined in today's call, as well as other risks identified from time to time in the company's public statements and reports filed with the SEC.

To begin with, our 12-week third quarter operating results for the quarter. Our reported EPS came in at $0.73 a share, up 7% from last year's reported Q3 EPS of $0.68. As I'll discuss in more detail in a moment, both this year's and last year's results and a comparison of these results each included one item of note, which we outlined in the press release. They include the following: first, last year in Q3, our SG&A line was reduced or benefited by a $14 million pretax reversal as part of a charge related to a Canadian tax liability. So a onetime $0.02 per share benefit was included in last year's reported earnings.

Second, this year in Q3, as you saw in the release, we had a pretax LIFO charge of $49 million or $0.07 at pretax or $0.07 a share. As I indicated in the previous quarter's earnings call, inflation clearly is back and to expect LIFO charges at least for this quarter or the next, who knows. So the $0.73 reported Q3 EPS number includes a $0.07 per share charge for LIFO. In Q3 last year, and in fact, in all 4 quarters last fiscal year, there were no LIFO charges. I'll speak a little more about LIFO when I review with you our gross margin in a moment.

And we continue to benefit a bit this year in Q3 from FX tailwinds. Foreign operations earnings results when converted and reported into U.S. dollars helped us this year by a little over $14 million or $0.02 a share. That's assuming that FX exchange rates were flat year-over-year with the dollar weakening relative to many of the foreign currencies in the countries in which we operate. That's been a benefit to our P&L.

As I mentioned in each of the last 2 quarterly earnings conference calls, effective at the start of this fiscal year, back in September, we began consolidating the results of our operations of our Mexico venture. Historically, these operations have been treated as an equity method investment. Thus, we only reported our 50% share of the joint venture's net income within nonoperating interest income and other line item on our income statement.

Since the first quarter this fiscal year, we were required to adopt a new accounting standard, which makes it appropriate to fully consolidate the Mexico joint venture operations into our statements. So in effect, it adds about 3% to the top line sales, as well as to assets and liabilities. 100% of the venture's financial statements are now included in our P&L and balance sheet and cash flow.

And then the 50% portion held by our joint venture partners backed out at the bottom of our income statement to offset it, such that there's no net effect to our bottom line or our earnings per share, but it does change some of the percentages as we've done in each of the last 2 quarters, I'll point that out to you. So the discussion of gross margin, SG&A basis points, and of course, the interest income and other line, we'll talk about.

In all, as we go through these numbers, we look at our Q3 results, the sales have improved, membership renewals continue strong and new sign-ups as well. And as I'll discuss in the next 20 or so minutes, our underlying margin in expense percentage are continuing in the right direction. Further, we've got a lot of new openings coming up planned for Q4 '11 and into fiscal '12.

In terms of sales for the 12-week quarter, reported sales were up 16% and our 12-week reported comparable sales figure was up 12%. For the quarter, both the sales and the comp sales were positively impacted by both gasoline price inflation and by the strengthening foreign currencies relative to the U.S. dollar year-over-year.

On a comp sales basis, the 10% U.S. sales increase in Q3, excluding gas inflation, would have been up 6%. The reported 18% international comp figure, assuming flat year-over-year FX rates, would have been up 11%. So at local currencies, our foreign operations were up 11% on a comp basis. And total company comps, again, we reported at 12%, but excluding those 2 items, gas inflation and excluding FX changes, it would have been up 7% for the company overall in the quarter.

Other topics of interest. I'll review our opening activities and plans. We opened one new location in Q3. That's in Tucson, Arizona, actually our third Tucson location. We also had 2 temporarily closed locations occur in Q3 due to the Japan earthquake: one, in Makuhari, reopened last week on May 20; and the other, in Tamasakai, which was more heavily damaged, which is scheduled to reopen in the first fiscal quarter of fiscal '12 this fall.

In Q4, we expect to open a total of 12 locations, including the Makuhari reopening and one relocation. At Q3 end, we operated 580 locations worldwide. Assuming our Q4 openings go as planned, we'll end fiscal year '11 with 592 locations worldwide, up 20 from the beginning of the fiscal year.

Also this morning, I'll talk about our financial plans for '12 a little bit; our online results; our membership; a little bit of discussion, of course, about margins and SG&A, which many of you have already prewritten about, those are things that you guys want to know as well; an update on our stock buyback activities; and of course, we recently announced a dividend increase and new stock repurchase authorization going forward for the next 4 years.

So on to the discussion of the results. Sales for the quarter, again, were $20.2 billion, up 16% from last year's $17.4 billion. Again, comps on a reported basis were up 12%. The 12% third quarter comp, while not an exact month-to-month but on our monthly reports of February, March and April, we had an 8% in February, a 13% in March and 12% in April in terms of comp sales. So the 8%, 13% and 12%, excluding gas inflation and FX, would have been a 5%, 8% and 7%. So March and April were certainly higher than the previous recent months and previous recent quarters by a couple of 3 percentage points.

The 12% reported comp was positively impacted by a little over 1.5% due to the year-over-year strengthening of foreign currencies. And as I mentioned, our international comps, just looking at international, not total company, the FX impact was 7 percentage points for the year, reported 18% would have been an 11% on a local currency basis.

Gasoline had a big impact, not only on sales, of course, but on the percentages that we calculate from our SG&A and the like, and I'll kind of talk about that in a minute.

For the quarter, our 12% reported comp results were a combination of an average transaction increase of just under 7% for the quarter and an average frequency increase of nearly 5%.

The frequency trend during the past 3 months of February, March and April were plus 4, plus 5, plus 4. These frequency figures, by the way, are on top of a little more than 3.5% frequency increase during the third quarter a year ago. I think part of it is the continuing focus on our strengthened Food and Sundries and Fresh Foods, as well gasoline, not in terms of the inflation, but in fact because of the high gas prices, and it's very much top of mind.

We're seeing a lot more gallonage comp increase as well, not just price increases, but gallonage comps. Our gallonage comps in Q3 were up 16%. That compares to the low- to mid-single digit typical numbers that we've seen in prior good times.

In terms of sales comparisons by geographic region. For the quarter, California, Midwest, Southeast and Texas were the strongest. Internationally and local currencies, again, we continue to do quite well, up in the low double digits in local currency. Korea and Japan were the strongest, and U.K. showing some good life. As you know, U.K. in local currency for the last couple of years has been positive, but it's just slightly positive. It was up 6% in local currency in the third quarter. And Canada's top sales figures in local currency continue strong. Their economy has been quite robust in the last couple of years. And after an 8% local currency comp in all of fiscal year '10, we've seen 8%, 5%, 8% in the last 3 quarters in '11, but Canada has been a good economy for us.

In terms of merchandise categories for the quarter. Within Food and Sundries, every subcategory but tobacco was positive in Q3. The positive subcategories ranging from a plus 5% to a plus 16%. Within the 2.5% Hardlines comp, the strongest subcategories were sporting goods; HABA, health and beauty aids; lawn and garden; and tires; electronics being the laggard, as we've talked about in part. And then, typically in electronics, you're seeing up units and depreciating average selling prices.

Within the Softlines comp, which is in the high-single digits, housewares, small electrics and jewelry were standouts. And within Fresh Foods, positive low-double digits. Also Fresh Foods categories were positive, each in the high-single digit to low teens comp range.

I mentioned that Japan was one of the stronger foreign local currency comp sales countries. We are constantly asked questions from you guys and others about what's going on there since the tragedy in early March. As you know, our Japan operations, we opened our first location in April of '99. We opened our ninth location in July of '09. And so in March 11, when the major earthquake hit followed by, of course, the tsunami and the aftershocks and all the other issues going on, we had 9 locations in operation. Tragically, 2 members were killed when a parking ramp collapsed at our Tamasakai warehouse.

With the earthquake, 2 locations were closed, ultimately closed for repair, one of which, I mentioned, has since reopened last week in Makuhari. And the other one, Tamasakai, which was the more heavily damaged one, was planned to reopen in November. In addition, 4 additional Japan locations, new locations, are planned to be opened between now and November. So hopefully, God willing, by the end of November, we'll have 13 locations operating in Japan. Two of those, by the way, were delayed from the July-August time frame given the earthquake and the supply, the issues with supply of certain construction items.

Japan has certainly been a growing profitable, significant per warehouse membership base operation for us. The recent tragedy that struck Japan and its people, despite this tragedy, we've been able to continue the flow of product, I think, in some cases as well if not better than some retailers in the country because of our ability to get in containers and distribute through that process.

I'm proud to say that during, but subsequent to the tragedy as we've done and a couple of other things around the world, I'm sure many other company do this as well. We used the benefit of our members to the cash register to make donations to the Japan relief effort. In over just a couple of week period, we, through our members, raised about a little over $5 million that was passed on to the various in-country Red Cross or Red Crescent Societies designated for Japan relief efforts.

Lastly, we're asked about the issues that impact financial in the company, Costco. Very minor reserves taken for losses associated with the earthquake. Those, of course, to the reserves were taken a net of interest paid in insurance coverage and they were not significant.

Now moving on to income statement line items. In Q3, our membership was $435 million, up 10% or up $40 million from $395 million a year ago. That represented a year-over-year, percentage-wise, an 11 basis point decline as a percent of sales. Excluding FX, again, the weak dollar has made all the foreign countries' numbers bigger. Instead of being up 10% and $40 million, it was up 9% and $33 million on a local currency basis. Of course, the percentage would be the same, 11 basis points down. As you'll see, the 9% dollar increase is a result of, well, I'll show you in a minute, continued strong renewals and strong new sign-ups during the quarter.

At year end -- I'm sorry, Q3 end, we had 24.3 million Gold Star members, up from 23.9 million for the previous quarter end. We had 6.3 million primary business members, around into the same number from a quarter ago. We had just under 3.9 million business add-ons, a total of 34.4 million households; and including spouse cards, 62.6 million, up from the previous quarter of 62.0 million.

At third quarter end on May 8, our paid Executive Member base was a little more than 11.3 million, an increase of about 350,000 or 3% since from 12 weeks prior at Q2 end. So on a weekly basis, we increase the Executive Member rolls by 29,000 a week. We consider those quite good results in terms of continuing to refer people to the membership, which we believe to say, they tend to on average buy more and are more loyal.

Executive members represent roughly 1/3 of our worldwide membership base and about 2/3 of our sales. In terms of membership renewal rates, at Q3 end, business renewal rate was 93.2%, up a couple of tenths from Q2 end. Gold Star, 88.0%, up about 0.3% from Q2 end at 87.7%. So total was an 89.1%, up from 88.8% at Q2 end. In the last couple of quarters, these numbers historically had always been U.S. and Canada because the newer foreign countries, you have much lower rates to start with in the first few years. Worldwide, our number at Q3 end was 86.0%, up 0.2% from 85.8% at Q2 end.

Last point with regard to memberships. Effective with our mailing to the March renewers, we increased our business add-on annual fee in the U.S. and Canada from $40 to $50. Historically, a primary business member was $50 and they could have, I believe, up to 6 add-on members, typically employees, family members, whatever, separate memberships but under the primary business membership. Historically, those were $10 less or $40 compared to the normal $50. Again, starting with the March renewers, over the course from March to next February with renewal notices, those add-ons will be $50 instead of $40. No issue relating to the first couple of months of that in terms of any major issues with our members.

There are about 3.4, whatever number I gave you on the business add-ons, 3-point -- I'm sorry, 3.9 million, 2.6 million add-ons are in the U.S. and Canada, so roughly a little over $25 million in increased annual fees. Please note that this increase will flow into the income statement over about a 23-month period beginning in March of this year.

I'll give you a quick example. Just doing simple math, assuming the 2.6 million were roughly 1/12 a month, it's a little over 200,000. But if you assume the 200,000 add-ons were March renewers, so in February, they got their renewal notice and assuming that they all paid their $10 increase in March, this incremental $2 million would flow into the fee income line, essentially, 1/12 a month for 12 months starting in March through next February. With an approximate 200,000 April renewers, the same thing, that incremental $2 million will flow in over 12-month period beginning in April to the following March and so on. And this is due, of course, to our deferred revenue recognition accounting for membership fees, so a very, very nominal amount of the Q3 membership fees, essentially, 1/12 or so or 1/12 or 2/12 or so will be March renewers and 1/12 will be April, which is not a big deal so far.

Going down the gross margin line. Reported gross margin last year in the quarter was at 10.88%. This year, it was 10.50%. So on a reported basis, down 38 basis points. I'll ask you to do a little matrix with 4 columns, the columns will be Q1 '11, Q2 '11, Q3 '11 and the last column will be Q3 '11 adjusted to the gas inflation, so without gas inflation. And that column simply reduces the sales denominator, not by any gallonage improvement, but by just taking last year's third quarter average gasoline price per gallon that we sold it at and assuming that was the price per gallon we sold it at for this fiscal year.

As you can see and I'll just look through the line items: first would be merchandising core; second, ancillary businesses; third, 2% Reward; fourth, LIFO; fifth line item is total. And I'll add 2 additional line items: the impact that Mexico had on our margin, and as you'll see in a minute, our SG&A; and then the last line item would be without Mexico.

So going across our merchandising core. In Q1 '11 year-over-year, it was up 19 basis points; in Q2 '11, up 24; in Q3 '11, down 14; in Q3 '11 adjusted for gas inflation, excluding gas inflation, up 17.

Ancillary, minus 9, minus 5, minus 3 in Q3 '11 and plus 2 without gas inflation; for 2% Reward, minus 1, minus 1, plus 3 and 0; LIFO, 0, minus 3, minus 24 and minus 25. You might ask why there's another basis point in the last column versus the next to last column. It's simply because the denominator sales has been reduced because we took out gas inflation.

So all told, the reported gross margin year-over-year in Q1 '11 versus Q1 '10 was up 9 basis points; in Q2 '11, up 15 year-over-year; in Q3 '11 on a reported basis, down 38; and again adjusted, down 6%. Mexico, again, as we consolidate these numbers by definition since these are pluses here, the gross margins are a little bit higher, plus 3 basis points, plus 6, plus 3 and plus 3; and without Mexico, the plus 9 would have been a plus 6, therefore; the plus 15 in Q2 reported would have been a plus 9, excluding Mexico's benefit; the minus 38 would be a minus 41; and the minus 6 would have been a minus 9. Now keep in mind, without inflation, the minus 6 and minus 9, the reported minus 6 still includes the hit of 25 basis points related to LIFO charge.

So as you see, our overall reported gross margin was lower by 38. Again, the big impact was -- the 2 big impacts were the gas price inflation and the $49 million LIFO charge. So let me go through this.

Within the 38 basis point reported figure, our core merchandising gross margin was minus 14. And ancillary businesses, as I mentioned, was plus -- was minus 3. Our gas business and its currently higher level of price inflation, it really impacts these margin comparisons. Sales penetration of our higher margin core business was down over 2 percentage points in Q3 from a little under 81% a year ago to 78%, a little over 78%. Whereas sales penetration of our ancillary businesses was up 2.6 percentage points. And within that 2.6, in fact, gasoline was up 3 percentage points.

So while stand-alone gross margins of our core merchandise business, and I talked about core as being Food and Sundries, Hardlines, Softlines and Fresh Foods, they were higher year-over-year in Q3 by 19 basis points. The core's aggregate lower sales penetration, however, cause the year-over-year increases to show this minus 14 that you see in the chart. So the underlying businesses, the margins are doing fine and we're up 19 basis points year-over-year in the quarter. Food and Sundries, margins on Food and Sundries sales, Hardlines margins on Hardlines sales, Softline and Fresh Foods as well.

The merchandise category gross margin increase year-over-year in Q3 was strongest in Hardlines, followed by Food and Sundries. Fresh Foods margins were up slightly in Q3 compared to these being down slightly Q2 year-over-year. All in all, I think it continued a good showing in our core gross margin.

The impact of our Executive Membership showed a benefit of 3 basis points that will reflect a slightly declining sales penetration of rewardable sales. Again, it's gas -- with the gas price inflation, gas, tobacco and alcohol are nonrewardable items. And given the gasoline sales penetrations is up dramatically in the quarter and year-over-year, that's caused that impact.

In terms of LIFO, as I mentioned again, a quarter ago in early March in the earnings conference call, inflation is clearly back. We did expect and now did realize more in Q3. We saw quite a bit of inflationary pricing pressures again beginning in late Q2 and into Q3 and we're seeing some more in Q4 so far.

One possible caveat to the LIFO charge in Q4, keep in mind, the $49 million Q3 charge included about $11 million from gasoline price inflation alone. Since Q3 end, gasoline prices are coming down the last couple of weeks but that certainly does not -- certainly, we have no way of knowing what tomorrow's inflation or deflation will be.

Also, as I've mentioned before, and as I'm sure you guys all know with regard to LIFO, you guys all know, it's a book charge. That is our cost of sales, and in fact, results in positive cash flow savings due to reduced income taxes as the company is on a tax LIFO basis.

So now after taking all this margin information into account, I think the easiest way to summarize Q3 '11 over Q3 '10 gross margin is by looking at the rightmost column of the matrix we just drew. Excluding gas price inflation, year-over-year in Q3, our core merchandising gross margin x LIFO was up 17 basis points. And so those trends so far have been, in our view, pretty good.

Moving to reported SG&A. Our SG&A percentage year-over-year were as lower or better by 43 basis points, coming in at 9.86% of sales compared to 10.29% a year ago. Again, the same impact, you've got a much bigger than average denominator in terms of sales that's impacted by gas price inflation more than anything.

In terms -- let me give you your chart here, again, 4 columns, the same 4 columns, Q1 '11, Q2 '11, Q3 '11 and Q3 '11 without gas inflation. The line items are core operations, central, stock compensation, quarterly adjustments, total. And then 2 lines below the total, the impact of Mexico and then the total without that impact.

Going across, plus numbers here are good, meaning lower year-over-year SG&A basis points. In terms of core operations, in Q1 '11 year-over-year, it was plus 17 basis points; in Q2, plus 13; in Q3, plus 46; excluding gas inflation, it was plus 20. So it's still better by 20, but I think that's a fairer way to look at it is in the plus 46.

Central, plus 1, minus 2, plus 3 and plus 1; stock compensation, plus 1, plus 1, plus 2, plus 1; quarterly adjustments, 0, plus 12, minus 8 and minus 8. And again, that minus 8 is the $14 million reversal of a Canadian tax liability a year ago with no compensating benefit to this year's SG&A.

So total reported year-over-year SG&A comparison, plus 19, or lower by 19 in Q1 year-over-year plus 24 in Q2; plus 43 in Q3; and adjusted for gasoline inflation, plus 13.

Mexico had, again, like with margin, had a -- it has lower SG&A percentages than the company overall. So now we're consolidating, that helps those reported numbers I just mentioned. The Mexico impact was plus 7, plus 11, plus 6 and plus 7. So again, without Mexico impact, plus 12, plus 13, plus 37 and plus 6.

A little editorial on these numbers. Again, in terms of Q3 '11 column with gas inflation, again, it was reported 43 basis point improvement. I think a more meaningful way to look at this is to look at the Q3 SG&A in the last column without gas inflation. When we view this column, you can see the following: Again, core operations was lower or better by 20 basis points year-over-year. I might add that both payroll and healthcare costs as a percent of sales contributed to this improvement, 11% -- 11 basis points of the 20 basis points was improved warehouse payroll percentage, and 4 basis points was an improved total benefits percentage, which I think is the first time that we've had an underlying improvement there. It's still growing at a decent amount but so are top line sales, even excluding gas inflation.

Our central expense was lower year-over-year, better by a basis point as was stock compensation, not a whole lot to explain there. Quarterly adjustment, I mentioned to you.

So overall again, we think a pretty good performance in SG&A trend wise. We continue to work hard, and you are seeing some of the fruits of focusing even more so in SG&A. Sales certainly helped as well, of course.

Next on the income statement is preopening expense. Preopening expense last year was $3 million. This year was $8 million, so 2 basis points higher. We only had one opening in each of the quarters. The big difference though really there's no surprises, the big difference, the big dollar delta, if you will, year-over-year was about $4 million in international preopening costs in this year's Q3.

Those are for openings scheduled in either Q4 or Q1. And as I mentioned, we had a couple of delays of openings that were planned in July-August in Japan that were moved into the fall, as well as 2 additional ones that were planned for the fall. So those 4 alone, we're seeing the preopening costs, particularly those first 2 that were delayed in the quarter.

I mentioned, we've got a number of locations, not much larger than the locations planned for Q4 and into Q1 of '12, and I'll pinpoint that out in a moment.

In terms of provision for asset impairment and closing costs. Last year, we had charges totaling $3 million a quarter compared to a charge of $1 million this year, not a big deal either way. All told, operating income in Q3 was up $66 million or 13% from $490 million last year in the quarter to $556 million this year. Recall, please remember that the $66 million operating income increase was impacted by the $14 million expense reversal last year that benefited last year's Q3 earnings and by the $49 million LIFO charge this year that reduced this year's Q3 operating earnings.

Below the operating income line, reported interest expense was essentially the same year-over-year coming in at $27 million. These amounts mainly reflect the interest expense on our $2 billion debt offering that we did in February of '07. $900 million of that debt, by the way, will be -- this was 5-year debt and will become due in March of '12. We'll basically cut a check for it and see the earnings improvement from reducing interest expense to a greater level than improving and causing us a little interest, reduced interest income from use of that cash.

Interest income and other was lower year-over-year by $5 million, $5 million this year, a number on the line item, versus $10 million a year ago so lower by $5 million. Actual interest income was higher this year in Q3 by about $6 million, a reflection of both higher cash balances and a little higher interest rate, as we had actually locked in some still safe but higher than down near 0 interest income rates in preparation for paying that March debt payment.

I'll tell you this positive variance of $6 million in the actual interest income was an $11 million variance related primarily to the consolidation of Mexico's investment income in our financial statements. In the current year, as I mentioned, 100% of Mexico's results were fully consolidated into each line item of our income statement. Previously, like last year, the joint venture partner's 50% share was just added to interest income and other. So last year, you had the benefit of 1/2 the earnings of Costco Mexico's quarterly earnings. This year, you have no benefit there and that's spread out everywhere else.

So overall, pretax income was up 13% on a reported basis from $474 million last year to $534 million. Again the 2 impacts, and I won't repeat, but they were in the press release so you can look at those as well.

On to our income tax rate. Our company tax rate this quarter came in at 36.1% versus 34.5% last year. So about 1.6 percentage points higher year-over-year in the quarter. Our last year's tax rate actually, as I mentioned last year, had a couple of positive discrete items that helped the flow in the rate a bit. This year, there are a couple of negative discrete items that hid it or increased our effective tax rate a bit, no big deal either way. It happens every quarter but again, a higher tax rate this year than compared to last.

A quick rundown of other topics. The balance sheet along with some other pertinent information will be in the supplement that is posted -- will be posted shortly after the call. We have, as you know, quite a strong balance sheet. Some of you always ask for, since we don't include the cash flow statement until the 10-Q, what depreciation and amortization was for Q3. In

Q3, it was $196 million. And year-to-date through Q3, depreciation and amortization was $582 million.

Another metric that many of us and you look at are accounts payable as a percent of inventories, how much of our trade payables are being funded by -- how much of our inventories are being funded by trade payables. On a reported basis, the number is over 100%. In Q3, it was 106% compared to 108% a year ago. In that payable, there was not just merchandise payables, it also includes construction payables. And again, we've got 12 or so openings coming in the next quarter so there's -- you might expect quite a bit of payable in there.

If you take out that and just look at merchandise payables and merchandise inventories, the number a year ago was 90% of our inventories will be funded with trade payables, up 1% to 91% in Q3 of this year.

Average inventory per warehouse last year at Q3 end, it was $10,366,000 a warehouse. This year at Q3 end, it was $11 million, right at $11 million, so up about $640,000 or 6%. Again, that number is impacted greatly by the FX. If you had FX and assumed FX with no impact from a year ago, the same currency from a year ago, that $642,000 per warehouse, I had figured, would be $388,000 or about 3.8% higher year-over-year. And the increase is, of course, spread to many merchandise categories. There's no one category that range from $20,000 to $60,000 per subcategory. Some of that is inflation and some of that is a little high inventory but really no inventory concerns on our part.

In terms of CapEx. In Q3, we spent $139 million last year. In Q3 this year, we spent $278 million. Year-to-date, $818 million, but again, we've got a bunch of stuff coming up right as we speak. I'd estimate that our CapEx for the year will be somewhere between $1.3 billion and $1.4 billion range.

Costco Online for Q3. Sales and profits were up over last year. Sales were up 11% and E-commerce profits were up 31% for the quarter. While our average ticket has come down, recognizing we're known for higher average tickets, higher average ticket merchandise on there, our site traffic continues to grow. It was actually up 17% in the third quarter year-over-year.

Next on discussion, expansion. This year, it looks like we'll open a net of 20. But we'll have opened 23 and that includes 3 relocations. I believe it includes 2 relocations and then the reopening of Makuhari, which we closed and then reopened prior to this fiscal year, of course, so a net of 20 net new units. Adding 20 units on the original base at the beginning of the year of 572, that's about 3.5% unit growth, so closer probably to 4% square footage growth, given that the new units tend to be a little bigger and we constantly are doing remodels and relocations so we adjust the units as well. Our square footage total at Q3 end was 82,916,000. Some of you asked for that number.

In terms of expansion plan for '12, we're still, let me say, 4 or so months out from the beginning of the fiscal year. There are currently 30 active projects on the current construction list. My guess is that figure for '12 will ultimately be around 25 plus and including about a little under 1/2 and about 12 or so outside of North America. So we continue to ramp up in other countries where we have been pretty successful overseas.

In terms of the stock repurchases. Since June of '05 and through third quarter end, we've repurchased 104 million shares at an average price of $55.02 or $5.7 billion. As you know, and I guess in a month ago, we had a press release announcing both an increase in our quarterly dividend rate, which we typically have done every spring, as well, we had a small amount of stock repurchase authorization that was going to expire in July. Basically, that additional authorization was canceled and a new $4 billion board repurchase authorization was put in place with a 4-year life to it.

In the first quarter this year, we bought back 150 million in stock; in the second quarter, 94 million; and in the third quarter, 102 million. And we would expect to continue to do so, and we'll let you know each quarter.

With that, I did mention the dividend increase. We increased it on an annual basis from $0.82 a share annually or $0.205 a quarter. We increased it 17% effective with the current quarterly dividend or $0.96 or $0.24 per share per quarter.

With that, I'm going to turn it back over to Demitris and have it opened up for questions. Thank you.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Adrianne Shapira with Goldman Sachs.

Adrianne Shapira - Goldman Sachs Group Inc.

Richard, just if you could talk a little bit about the inflation levels, what it was in the quarter, how you're foreseeing that, what you expect going forward, and how we should be thinking about future LIFO charges? It seems like this quarter, we have sort of a pretty big step up and I'm wondering, how we should be thinking about it going forward?

Richard Galanti

Okay, well, first of all, keep in mind, LIFO is a U.S. accounting phenomenon. And we got a little over $4 billion of U.S. inventory. So $49 million rough number would be about 1.2%, I'm rounding here, inflation from the beginning to the end of the fiscal quarter. Mind you also that this is an annual event. So in reality, the calculation will be done, what was your inventory at cost at the beginning of the year by item, and then what is it at the end of the fiscal year. If you're early in the year, you're supposed to guess as best as you can what you think it's going to be. We've always chosen, historically chosen to take the entire amount that occurred in that quarter. And of course, a lot of these big increases came in the last 12 to 16 weeks. Just examples, and I'm not going to give brand names, but these are all branded items, everything from dry dog food of 3.5%; to all your detergents of 10-plus percent; to various waters, 10-or-so percent; to all your plastic dinnerware, your plates and your plastic cups and everything, 8% and 9%; plastic trash bags, 4% on top of other ones. So again, you can't just say everything is up 4% to 10% because there's -- sometimes the private label is a little less because of our buying power. But the reality is that these are hitting not -- it doesn't rain just on us. My guess is it's impacting us a little sooner because we turn our inventory faster so we're buying more recent, if you will. Mind you, we are able to pass on these increases. Ultimately, we all have to. We're going to try to keep -- if a manufacturer typically will say, "Okay, next Monday, there's a price increase. Or a week from Monday, we'll allow you to buy 4 or 6 or so many weeks at the old price based on your prior 6 months in average weekly purchases." We're always going to take full advantage of that, which I assume most retailers, be it supermarkets or other big discount stores are going to take advantage of. We feel that we always know we take full advantage of it, then we'll hold the price for a few of those weeks and benefit on the tail-end of it and cover our costs. But we're going to hold the prices as long as we can. I've given you in the past quarters a couple of examples, where we will hold it even further and eat into our margins. But again, those are the exception, not the norm. Ultimately, when all your merchandise is going up, you're going to have to: a, be competitive. But I think you've seen in my readings of some of your guys' reports out there on the supermarkets and the discount stores that ultimately it has to be passed on. There's still a lot of vendors announcing increases to retailers. I think there was an article in a journal just a couple weeks ago that cited 4 or 5 well-known consumer product brand names, where their comments -- or maybe it was an analyst report, but their comments in the last couple of months of what they're announcing. And again, they're announcing, they're not asking all the time. But we, of course, have to be ever diligent, and Jim and Craig and Doug are constantly reminding the buyers that don't just take it for face value, push and push and push and be willing to switch sometimes. And so overall, inflation is hitting everybody. It's going to continue. At least, it's is continuing so far this fiscal quarter. I can't tell you what it's going to be starting next Thursday other than there are some pending price announcements, price increase announcements from, including some of the ones I just mentioned that are effective in early and mid June, all the way out into then, and so those are pushed. I think yesterday, we saw publicly there was one of the coffee suppliers announced 11% increases in the wholesale coffee prices to their retail customers, their retail vendors, their retailers. And that was the fourth increase in coffee that they've passed on in the last 12 months. So it's here. When will it subside? Hopefully, soon. But we're probably going to -- we probably got hit first, I think, back in Q4 of '08 when we had a big LIFO charge when the floodgates of inflation that opened before, they were shuttered quickly in late '08 with the economy and the stock market. I think again, then too, we were the first ones to have a big LIFO charge. I don't think you're going to be surprised. I'm not going to be surprised by seeing what other retailers on LIFO are going to do over the next several months when they announce various numbers. But it is what it is. And we're fighting as you might expect to keep them lower, keep them delayed and get as much at the old price we can before it goes up. And we'll go from there. One other -- I think I mentioned -- maybe I didn't mention it, one small caveat in terms of LIFO outlook for the quarter. Again, we can't predict what exactly it's going to be. In the first couple of weeks, gas prices have come down. So whereas gas alone in the $49 million charge was a little over $11 million, in the last couple of weeks, it would be probably be $1 million, $1.5 million reduced not promising. Even 0 would be nice frankly out of whatever x is in Q4, but we'll see.

Adrianne Shapira - Goldman Sachs Group Inc.

And just following on that, in light of the fact that we might see continued increases. Any sense the $49 million in LIFO charge doesn't anticipate continued price increases?

Richard Galanti

Well, the $49 million charge is simply the calculation of our LIFO inventory as of the beginning of Q3 and the end of Q3. Period. End of story. I'm sorry, fiscal year end. So but at the incremental amount. We had an amount in Q2 end, which was going to $6 million, which had it through that -- from the beginning of year to that, so it's really the delta since Q2 end for the most part. Again, as I understand it -- no. Our Controller, Dave Petterson, is here will shake his head, yes or no, if I'm wrong and shake it, no. But my understanding is that let's say we were just reporting our first fiscal quarter and we had this calculation indicate it's $49 million. If we believed and if we talked to our buyers and felt that you know what, pretty much the inflation party is over and from the vendors' perspective, we are not seeing -- we've seen a lot. The rate of increase has slowed down, we could correctly choose to take less of it because if our anticipation was, hey, we know through the first 12 weeks of our fiscal year, it was $49 million. And our best guess it's going to be, I'm making this number up, $80 million for the whole year, a totally made-up number, then you might only choose to take 1/4 of the $80 million because you think it's going to be $80 million. Our view is, is that it is what it is. We're also in the third quarter, not the first quarter. And we're going to be, I think, taking a conservative approach to it. I can tell you again, there are price increases that have not hit yet our balance sheet, including some ones in later May and in June that I mentioned some of those just a few minutes ago.

Adrianne Shapira - Goldman Sachs Group Inc.

Okay, that's helpful. And then, just if we could talk a little bit about the merchandise margins. You gave us a lot of detail. And I'm just wondering, since you are lapping by the easiest compare from a year ago, the down 11, I'm sorry down 10 basis points on your merchandise margin, how should we be thinking about that compared to x gas? I mean the plus 17, given the fact that Q2 had sort of -- Q2 last year was up against a tougher compare and then it decelerated to down 10. Given that you had an easier compare, I'm just wondering how we should put the plus 17 in context up against that easy compare in what may be an apples-to-apples comparison is to year-over-year x gas from a year ago?

Richard Galanti

Adrianne, it's hard to say. Who the heck knows what's gas? I read a research report yesterday from someone who follows not only us but Kroger and Safeway who also have a lot of gas stations. And their view was I think correctly so that with a declining gas price, it's more profitable. You guys know that from what we've said in the past. That will help a little. It will also help because there will be lower sales penetration from gas inflation. But again, I think the trend -- I don't have in front of me last year's exact numbers, but the trend in the last couple of quarters has been that the underlying core margins have been up. I can't predict what tomorrow's going to bring.

Operator

Your next question comes from the line of Colin McGranahan with Bernstein.

Colin McGranahan - Sanford C. Bernstein & Co., Inc.

First question, just on the increase in the business add-on membership fee. Richard, can you talk about what the rationale for that was and how that's maybe influencing your thinking about an overall membership fee increase?

Richard Galanti

I know there had been some off and on discussions over time. I think originally that the focus on the add-on fee being $10 lower was simply for small businesses who've got 2 or 3 family owners or a handful of employees. It could be a benefit to them. And we wanted to incent in some cases, perhaps that owner of that business to buy memberships for their employees. Overtime, 2 things have happened, particularly in the last few years. If you wanted to be an Executive Member and get the Executive Member benefits, you would roll out from under that primary business member and become your own member, and you go effectively from $40 to $100. And so that has happened over time, that trend has continued. And I think the view at the end of the day was is that we've got a loyal membership base. We think that we've continued to provide even greater value, that every time, and I know this sounds a little noble, but we sincerely believe that when we have increased fees in the past, and this time as well, that we've created significantly more value than that increase. And at the end of the day, as you know, we keep things simple. And it's simpler to have a $50 instead of a $50 and a $40. And so it evolved into the $50. I don't think there's a lot of science that went into it other than that ongoing discussion, the ongoing trend toward some of those people moving out from underneath anyway to become their own Executive Member. In terms of the rationale going forward, I think what I said in last fiscal quarter, you guys all know after we send out the first month of renewal notices that has an increase in it. We have not made that decision. We have shown over 25 years that we're not afraid to. We have shown, I've communicated to you time and again that our renewal rates continue to be quite strong. We are not completely terribly concerned about with our members and what our competitors' fee levels are. And but we're also conscious enough to know what the economy is right now and we're not going to be completely arrogant out there. So at some point, we'll see and stay tuned.

Colin McGranahan - Sanford C. Bernstein & Co., Inc.

Okay, that's helpful. Then a second question, kind of a little bit different, given that we get the segment data on a lag basis in the Q. But if you look at the last couple of quarters, the last 3, 4 quarters, there's been some fairly dramatic improvement in the profitability of other international, up 190, 200, and pretty nice improvement in Canada and really no improvement in the U.S. Can you comment on what's driving the significant improvement in Canada -- in the other international and Canada, which are already dramatically more profitable than the U.S.?

Richard Galanti

Sure. Well, and every country has a little bit of a different story. On average, forgetting about some overall metrics -- looking at the overall metrics of your basic core items. In Canada we are the only club operator. In the U.S, we have dramatic competition in many of our markets. That's going to be some amount of basis points, more than 50 and less than 200 depending on where and how close but it could be significant. You have a dramatic -- the other line item components that are different -- that can be significantly different as a percent of sales is payroll. And even though we're always going to pay relatively higher in a given country, the average wage in the U.S. is approaching $20. In another country, it might be $9 or $12 or $15 or $8. And it really is in those kind of ranges. Conversely, healthcare is the other big one. Healthcare, in the U.S -- through the last couple of years, as I've talked about healthcare, I've talked about the U.S. healthcare, which is dramatically higher than any other country that we're in, and it grows at a dramatically higher rate than anywhere we're in. The other thing, of course, is comps. In Canada, as I mentioned, underlying local currency comps in the last 2 years now, 2.5 years, throughout this horrible economy in the U.S., it has been pretty robust up there. They didn't have the craziness of the market breakdown and meltdown. And certainly, they've enjoyed a pretty robust economy. So mid- to high-single digit local currency comps have helped us there as well. In Asia and other countries, I think part of it is, is Asia is a bigger component of other international. And as I mentioned also in this call, our comps in local currency in the U.K. was actually showing some life this past quarter, up 6. It has been a bit closer to flat the last couple of years. And that was a bigger piece of other international as we've gone from 0 to 23 units in the 3 Asian countries, which on average are a higher margin, higher sales volume, more profitable businesses for us. And so now, why has then the U.S. coming down? Look at our comps over the last few years, while not withstanding, they've been quite a bit better of late and somewhat better over the last year versus the prior year or 2, you had -- we've enjoyed for a number of years high volume, decent comp U.S. numbers, and they have hit for a while. And again, they're coming back a little but certainly, we recognized too that our growth and profitability over the next few years, while we continue to come from some of this improvement and critical mass in countries where we are expanding now, the bigger piece of the ship is the 73% or 74% or whatever percent it is of our company that's U.S.. And we're working on it. And as Jim and Craig will tell you, top line sales growth is the best thing you can do for it.

Operator

Your next question comes from the line of Dan Binder with Jefferies.

Daniel Binder - Jefferies & Company, Inc.

It's Dan Binder. Rich, I just wanted to clarify a point on this LIFO charge. If I understood you correctly, you're saying that you're basing your LIFO charge in the quarter on where you think your inventory is going to be at the year and the inflation that you're seeing to date. So is it fair to say that you have not factored in price increases that you know are coming next quarter? And if that's the case, based on what you know today, I mean very round number is what should we be thinking about for a LIFO charge in Q4?

Richard Galanti

On the latter part of that question, we don't know. But keep in mind, we booked the entire calculation in Q3 because we're nearing the end of the year. And we could have probably saved a little if we -- well, I doubt we would have saved anything because knowing what we know for some pending price increases in the first -- mind you, you're not getting price increases on 4,000 items. But all you need is 10 or 15 of these big items and you know you're going to have some. We'll have to wait and see. I really can't tell you because we don't know.

Daniel Binder - Jefferies & Company, Inc.

Okay. But I mean, it's fair to say that the LIFO charge we saw this quarter is incorporating -- is it incorporating all price changes that you're aware or which are the ones that have happened?

Richard Galanti

It's the ones that have happened. So yes, we're aware of price changes that will be a hit to LIFO, an increase in LIFO in Q4, but I'm looking at just that side of the equation. I'm looking at other things, be them few, that from down a little and what else is going to happen. If you have a big increase and some key items throughout Q3, even if there has been a few increases over the course of the year, you may be at the end of that so you're not going to have any increase in Q4. Gas, again, was over 20% of Q3. I only have 2 weeks of history and I can't predict from that but so far, gas is less than 0.

Daniel Binder - Jefferies & Company, Inc.

And then just 2 other quick questions. In terms of the buyback, what do you think is a reasonable number or goal to shoot for on an annual basis given your balance sheet and cash flow? And is there any change you would refi [refinance] that debt that's coming off in March of 2012?

Richard Galanti

Well, I don't anticipate refinancing the debt. I expect us to write a check for $900 million in some interest and some of the annual interest expense payment in March of '12. And say, 5-plus percent interest with or near a little over 0% interest income reduced and so that's a no-brainer. We got plenty of cash. Some of you would like to see us ramp it up more. We feel we've done pretty well by kind of on a regular basis as long as we feel good about our future, which we have and continue to. We'll be a regular buyer. As you guys know, the stock has moved very rapidly. We've historically have in the last few years have bought through blackouts with using 10b5-1s. Sometimes given the stock price speed at which it moves, it moves past that little matrix that we have in place and we might not buy for a week or 2. But at the end of the day, we continue to buy. I can't predict what it is. I can tell you that the board authorized $4 billion with a 4-year life, and that's as good as a guess as anything in terms of simple math.

Operator

Your next question comes from the line of Robbie Ohmes with Bank of America.

Robert Ohmes - BofA Merrill Lynch

Richard, just a few quick follow-ups. One was just on the -- in the areas where you have seen some price increases, I think one of your regional competitors had mentioned things like acceleration of private label and trade down to smaller pack sizes. And can you just comment on any sort of behavioral changes you've seen in your customer related to that, if any? And then the other question was just the March-April acceleration, is it just increased traffic from your gas station supporting that? Or is there something else going on that's causing the acceleration?

Richard Galanti

Well, traffic is certainly a big part of it. But the average ticket net of inflation and then everything else is flat to up slightly. I think it's overall improved a little bit. The net numbers improved but we try to give you as much information as we have ourselves on that. It's continuing so far so good. I hope the last 2 months portend what the next few is but we won't know until we get there. We continue to see private label increase sales penetration partly because we keep adding items. And starting last fall, we began, as an example, expanding private label into some canned goods, fruits and vegetables, where the quality, the amount of water in the can is better, it was lower. The quality is a little better in our view. It's a higher end at a great price. And that helps that penetration. I think if you go back to late counter '08, when the stock market went to hell and everybody was feeling a lot poorer, during those next 6 months in '09, we saw I think we saw like a 300 basis point increase in private label sales penetration. That was a real big change. We're not seeing that now, we're seeing normal progression in it. In terms of the trade down thing, you're really not going to see that here because we don't do it. We -- the only area where you are going to see some average price declines is probably in pharmacy where, and we've all read about it, there is some very well-known branded items that are going to become generic this coming year. But in terms of regular merchandise out there, even if the -- what we tested in Vorenus, [ph] we tested a couple of patio sets in early calendar '09 with instead of a $1,299 price point at $999, but we still have $1,299 in there, and guess what, the $999 sold better. But it didn't then -- we didn't rush to do everything at $899 and at $999 to the opposite. By spring of '10, we got out of those price points and tried to trade the customer up because if you're trading the customer down, it's darn tough to get them back. So we have not reduced pack sizes. The only time we are going to reduce pack size, I can't say we never, the examples that come to mind is in the last few months are on what they call limited quantity commodity resource, limited resource commodities like pine nuts. Some obscure item where -- and these are not exact numbers, but let's say, we were selling you a 4-pound pack and nobody but us sells a 4-pound pack for $19.99. Well, now it's 2.5- to 3-pound pack for $16.99 because the price per pound is doubled or whatever. So whatever that actually is there have been some examples like that. But for the most part, we are not reducing the ounces in the can of coffee or the number of M&Ms in the M&M bag. And we conversely are pushing the envelope the other way. And I think our customers that are hiring customers so that we're not as impacted perhaps as some of the lower medium end customer retailers. Perhaps, by the end of the day, we're not seeing the trade down thing.

Operator

Your next question comes from the line of Chuck Cerankosky with Northcoast Research.

Charles Cerankosky - Northcoast Research

When you're looking at some of these new members sign ups, especially in the U.S. where you have the gas, how are they reacting to the gasoline? And can you look at the sales data and see how the availability of this kind of gas is attracting numbers?

Richard Galanti

Well, again, Chuck, if you look at that 16% comp in gallonage in Q3, that's huge. Again, in good economies, we've seen, call it, mid-single digit numbers, when I assume the overall U.S. economy gallonage comps were just slightly lower than that but still positive. Well, I don't know the source but I remember reading recently, in this economy, whatever total U.S. gallonage comps for the economy was x, it's now x minus a couple percent, maybe 2% instead of 4%, whatever x was. We went from that mid-single up to the mid-teens. So we are -- gas is top of mind. It's on the news many nights in many cities. And again, that frequency, I haven't seen any numbers internally lately like how many of those members are doing an incremental shot. But we know that our traffic is up. When we talk about traffic frequency, by the way, we talk about front-end registered frequency, not pharmacy or optical or gas station frequency. So clearly, part of our increased frequency is people coming to get gas and some portion of those saying, "Hey, I'm going to go in and shop for a little bit." And some of those shops are incremental, not just replacing one from 2 days later that would have happened anyway.

Charles Cerankosky - Northcoast Research

Got you. And looking at how consumers behave in overall, would you be able to give us some idea of sales comps growth between consumables and general merchandise?

Richard Galanti

Well, again, if you look in the subcategories, all the basic Food and Sundries categories, other than tobacco, are pretty consistent and up in those mid-single or mid-to-high single digit. Again, a little of that -- again, if you look at LIFO is not a perfect extract, but if you look at the $49 million on $4 billion of sale -- a little over $4 billion, that's a little over 1% inflation in our inventory. In that 12 weeks, we saw inflation and a lot of that was in those consumer products. You look at comps and what I'd call, the middle price ticket discretionary nonfood items like small electrics and domestics and surprisingly, jewelry, which are quite strong in the teens and 20s, and for months now. I mean, it may vary but on average, they've been much stronger. So who the heck knows, other than people are buying and maybe they're not buying as bigger ticket but they're buying.

Operator

Your next question comes from Deborah Weinswig with Citi.

Deborah Weinswig - Citigroup Inc

What's your biggest surprise on the gross margin side in the quarter?

Richard Galanti

I mean, again, it's hard to get surprised when we see weekly stuff here. I mean, what was your biggest surprise? LIFO. Again, I get -- I feel good about the fact that despite my confidence that we are ever more competitive and we're always leading the pack and being the toughest out there, all you got to do is look at our gross margins compared to anybody else, that we're able to still improve underlying margins while remaining very competitive. And I think Jim on -- he hasn't been on a lot of calls in the last few years like these calls, but he's always -- when he's here, he'll talk to you and then he's always -- when asked that kind of questions, he'd basically say, "Guys, margins aren't our problem." We are going to still be very competitive but the good news is we still know -- we think we're smart enough how to make some margins. And it's still driving traffic. When they're ready to buy, they're in to look at, they're in. So that's good, and the loyalty is great. I think -- there's really haven't been honestly a lot of -- I can't think of any real surprises on margin.

Deborah Weinswig - Citigroup Inc

And I think last quarter, on Fresh Food margins, can you just provide guidance and some details there for this quarter?

Richard Galanti

Well, I think I mentioned on Q2, I gave, again, some examples, which spooked everybody a little bit that as commodity prices, underlying raw material prices were rising, there's some key items that we've chosen to see our realized gross margin go from the low to mid-teens down to the low single digits in some examples, some extreme examples. And they would be like pizza. We're not going to change the price of pizza everyday even though cheese prices skyrocketed. We are not going to change the 15 or so pack of muffins that restaurants and commissaries and daycare centers and everybody else buy from, I'm making a number up, from $5.99. Well, and so what happens is, is the margin, I don't know if it's a word but "devolves" a decline over a 4- or 6-month period. And then finally, they're allowed to take the price point from, I'm making it up, from $5.99 to $6.49 and we go right back to the high teens. So it's not a permanent reduction, but it's kind of stairstepped because we want to be fiercely competitive. And those are more of the exceptions rather than the rule. In Q2, when I was sharing why I believed bakery margins were down year-over-year in the quarter, it was because we were holding the price, many of which we've since taken up. And so again, trying to -- I think I've scared everybody saying this is the old, we're just going to keep them down and damn the torpedoes and that was not the case. We're going to be competitive, and hopefully, you got to take those price increases into account.

Deborah Weinswig - Citigroup Inc

Okay. And then, we appreciate the comment and color around SG&A. Historically, we don't have profound forecast but it has impacted our model pretty far, and it looks like one of the best performances, historically. How sustainable should we think about some of the improvements that you called out?

Richard Galanti

Well, I mean there is a sustainable -- I think in terms of our focus on driving the costs down, which I probably reiterated more in the last 3 or 4 quarters than before. I used to always say there's not a lot of silver bullets, were pretty efficient. And the fact of the matter is -- and let's face it, Craig [Craig Jelinek], who's our President, his background is 40 years in operations or maybe 35-plus in operations and 5 or so in merchandising. And certainly, he would be saying himself, he's an operator first, and he is completely focused on that and so are the operators, the EVPs, Senior VPs and all the way down. So I think there's some sustainability. Top line sales are going to do more for it than anything else. And again, I feel -- I can't tell you what the consumer is going to feel tomorrow but I feel confident that our merchants are at the top of their game, and we got a lot of good stuff going on.

Deborah Weinswig - Citigroup Inc

Okay. And then last question, could you talk about, how you [indiscernible] inside the U.S. versus internationally?

Richard Galanti

I'm sorry, you were in and out again. What was that?

Deborah Weinswig - Citigroup Inc

Sorry, can you talk about how your new clothes are performing inside the U.S. versus internationally?

Richard Galanti

Really as expected. I mean, you're always going to have a few that are little better, a little worse. But overall, existing U.S. markets are no-brainers. There aren't a lot of "new" U.S. markets. They tend to be no-brainers. They start off slower. Probably, the thing that has been on the upside surprisingly successful is Asia and Australia. And we only have one in Australia but it's our best opening ever, sales-wise. We have -- and again, some of these numbers are helped also by the weak dollar and I'm expressing the numbers of dollars. But I think we have one unit this fiscal year that is gearing on having a 4 in front of it, 400 million, or 3, high 3, very high 3s. And so certainly, that's fun. Beyond that, I don't -- again, it's not like '02, or '01 and '02, or '02 and '03 when we opened, in 2 years, 61 units, 45 of which were in the Midwest or in "new markets" or Midwestern Texas, where we knew that it was going to be slow growing. Those are all doing pretty well. When we opened our 16th and 17th and 18th or 15th, 16th, 17th Chicago units this past fiscal year in a one-week period, they all started off pretty well.

Operator

Your next question comes from the line of Laura Champine with Cowen and Company.

Laura Champine - Cowen and Company, LLC

Richard, the growth that you talked about in Asia is a little faster than what we expected and particularly in Japan. You just mentioned that your new store productivity is strong there. But any other reasons you want to call out for Costco's stepping up its growth in Asia at this time?

Richard Galanti

Well, we've got a lot of money. We too -- we feel the pressure not just from you guys but from ourselves. And that we want to ramp up the expansion, recognizing we're also our own toughest cost controller when a unit comes in and we just spent an extra $3 million or $5 million. And Jim, as you might expect, is saying no, go find something more reasonable, and so -- but we're trying to open. The other thing is, is we -- I think this is our history. We tended to be relatively slow growing in a foreign country as we get 5 or 8 units, and then there's a little bit of a spurt afterwards. Look, Japan is a huge economy. It clearly -- not just Japan, Korea and Taiwan, the concept clearly works. There aren't a lot of players necessarily looking at the Orient. And we're profitable so let's benefit from that. But I think probably more than anything is that we're certainly comfortable in all those countries, and we certainly have the money. Let's ramp it up a little bit.

Operator

Your next question comes from the line of Gregory Melich with ISI.

Greg Melich - ISI Group Inc.

I just wanted to follow up on the traffic and ticket inflation a little bit. If the U.S. comp was around 6%, what's the break between traffic and ticket at x fuel? It seems to me like traffic might be up 2% or 3% and then the rest, ticket. If that's the case, what portion of the ticket would you ascribe to inflation that you've actually seen already?

Richard Galanti

I think our U.S. traffic is about the same, Greg. It's like 4-ish. I don't have that in front of me.

Greg Melich - ISI Group Inc.

So the U.S. traffic is like the global?

Richard Galanti

Maybe a shade lower but less than -- it could round to the same number, it might round to 1 percentage point difference. U.S -- okay, Jeff Elliott just gave me, U.S. in the quarter was 3.7% frequency in the U.S.

Greg Melich - ISI Group Inc.

Got it. So then the remaining 2.3%, should we just think of the inflation that being the 1.2% that we saw in the inventory or do you think it's a little more?

Richard Galanti

I would say it's a good barometer. On one hand, you'd say, yes, maybe it is a little bit, but the other way -- if you look at the other way is any incremental trend in private label, when you switch from the branded item and the private label is 20%, 25% lower price on average, that's going to deflate it a little bit. That still inflates your inventory cost but it deflates your sales comp numbers, your item numbers. So yes, I think it goes the other way a little bit, but I don't have the numbers in front of me to look at that.

Greg Melich - ISI Group Inc.

Is it fair to say that, that the gasoline -- it was nice to break it out, the denominator on the margin shifts, but was the profitability of gasoline hurt in the quarter given the rapid rise in gas during the quarter, how you burn through the inventories so quickly? Did that have an effect?

Richard Galanti

Yes. It was still profitable but not a whole lot of fun. And again, I'll quote one of the analysts that follows us and Safeway. He said the last couple of weeks have been a lot of fun profitability-wise and it is more profitable with prices coming down.

Greg Melich - ISI Group Inc.

Okay. And at which -- in your matrix, where would that show up, that portion of the gas profitability?

Richard Galanti

It would be under ancillary businesses but it's kind of distorted because when prices are going up and even more exacerbated now because gallonage is so far up because it's such a high price. It's also time when profitability even the gross margin of the gas business itself is coming down a little bit. In the matrix, you've got increased sales penetration x a lower margin number, they kind of offset each other in that matrix. We're trying to keep it simple and not do a 3D matrix.

Greg Melich - ISI Group Inc.

Yes, we'll try our best. But basically, that whole thing compresses as a result, so you don't see it but that's where it is?

Richard Galanti

Yes.

Greg Melich - ISI Group Inc.

And then lastly, you mentioned Hardlines electronics being sold at store point. Can you just fill us in what the actual -- in the passage, sort of tell us where TV is in particular up or down in dollars? I know you've put some more inventory there. Did it actually net out to slightly up or was it still down?

Richard Galanti

I think we gave it. I know you have every month. I believe we're slightly -- it's still deflationary. It's almost -- the sales number for the whole department is down mid- to high singles in the last couple of months, I don't know what the quarter was. I know a month or 2 ago when the department was mid-single down, TVs themselves were roughly flat. Average selling price was down 9 or 10, and units were up 10 or 11. Computers are down. Units -- part of that down, I think in the last several months was everybody was waiting for the new Intel chip or something. And that was something that our buyer mentioned at the budget meeting. We're also not selling Apple products. That is a small piece of it. It has a negative in front of it. We were selling iTouch's and iMinutes, iTunes cards, last year to 0.

Greg Melich - ISI Group Inc.

So in electronics now, it sounds like the TV trend hasn't changed much but maybe some of the computing and notebooks may be a bigger negative than TVs, is that fair?

Richard Galanti

Yes, I would say that's fair.

Operator

Your next question comes from the line of Peter Benedict with Robert Baird.

Peter Benedict - Robert W. Baird & Co. Incorporated

Richard, a couple of questions. First on the U.S. healthcare expenses. I think last year, they were just over $800 million. Where do you see those coming in this year now that we're 3 quarters through and it sounds like you obviously had welled the benefits in the third quarter?

Richard Galanti

I think dollar-wise in the quarter, they were up like 8% or 9%, maybe. It was below 10% in actual dollars. And again, that's a reduction in the level of increase from prior quarters and notwithstanding there are some things that have increased it like mental healthcare effect that we gained this last fiscal year. If you took that quarter, and let's say it was 9% or 10% x $800 million, that's $880 million or $870 million. So it's probably in the high 8s.

Peter Benedict - Robert W. Baird & Co. Incorporated

All right, good. And then just with respect to May trends in the U.S., can you comment on any regional trend you're seeing thus far? I mean there's some crazy weather out there, just wondering what -- how the business has gone so far in May?

Richard Galanti

Yes, we have not really been impacted by the tornadoes since we're not very well penetrated down there. You don't want to be a boat seller in the Northwest, it's still winter. No, I'm thinking of just the regional operators at the last 2 budget meetings, there really hasn't been a lot of issues. I mean the strength has continued. It's really all the ships have risen with the regional -- the geographically regional ships here have risen.

Operator

[Operator Instructions] Your next question comes from the line of Bob Drbul with Barclays Capital.

Robert Drbul - Barclays Capital

Richard, just 2 quick ones for me. The first one is, are you seeing more opportunities for co-branded private label given some of the inflationary trends? And the second one is, are you seeing any more opportunistic buys in areas where inventories are maybe getting out of line a little bit, I'm talking about maybe the apparel category in Softlines?

Richard Galanti

I don't think there's any -- the answer to both is yes, there are some. Again, nothing like the first half of calendar '09 after the economy went to hell. But we are seeing -- yes, we're continuing to do both and for a lot of reasons. But it's not like the huge inventory buildup problems that many high-end nonfood manufacturers had, whether it was furniture or apparel or luggage or you name it or watches, that was -- that came all at once when the economy got hammered in late '08. Those types of over-inventory positions out there are fewer and further -- a bit farther between, but we keep adding new stuff.

Michael Exstein - Crédit Suisse AG

Great. And then just my last question is on California, you talked about it being one of the stronger regions for you in this quarter, areas in this quarter. Can you talk a little bit about any of the trends in California sort of what's really changed there and what you're seeing in California?

Richard Galanti

I think the biggest change is, is they're buying more. I mean I'm not saying -- I don't even feel it but it's across category and the regions that were hit the hardest after November or so of '08 have come back, gas also. Our savings -- again, gas is all regional and there's more pricing volatility in California, Southern California, than anyone in the country, I think. And with our savings right now I believe in California are bigger than other parts of the country. But it's all a function of all the different state rules and winter gas and summer gas and you name it, there's those variances.

Operator

The final question comes from the line of Michael Fistein (sic) [Michael Exstein] with Credit Suisse.

Michael Exstein - Crédit Suisse AG

I think it's Michael Exstein but I'll take the opportunity anyway. Richard, can you just follow up on Chuck's question in terms of frequency, what sort of the attachment, if you're 16% more gallons of gasoline sold, what was that in terms of frequency? And you go and fill up with gasoline to 90% of the time, do you go into the warehouse, do you track that specifically?

Richard Galanti

I can tell you what we have tracked of late is the percentage of people that bought gas shopped on the same day has not changed. It's still about 30%. And so if there's 16% -- if they used to have 3% or 5% gallonage comp and now we have 16%, there is 10-plus percent more people, about 30% of whom are coming into shop.

Operator

There are no further questions at this time.

Richard Galanti

Okay. Well, thank you, everyone. Have a good day.

Operator

Thank you. This concludes today's conference call. You may now disconnect.