Costco Wholesale Corp. (NASDAQ:COST) Q2 2016 Earnings Call March 3, 2016 11:00 AM ET

Executives

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Analysts

John Heinbockel - Guggenheim Securities LLC

Joshua M. Siber - Morgan Stanley & Co. LLC

Christopher Michael Horvers - JPMorgan Securities LLC

Daniel Thomas Binder - Jefferies LLC

Michael Louis Lasser - UBS Securities LLC

Brian W. Nagel - Oppenheimer & Co., Inc. (Broker)

Paul E. Trussell - Deutsche Bank Securities, Inc.

Peter S. Benedict - Robert W. Baird & Co., Inc. (Broker)

Oliver Chen - Cowen & Co. LLC

Matthew J. Fassler - Goldman Sachs & Co.

Bob S. Drbul - Nomura Securities International, Inc.

Kelly Ann Bania - BMO Capital Markets (United States)

Scott A. Mushkin - Wolfe Research LLC

Gregory Melich - Evercore ISI

Sean P. Naughton - Piper Jaffray & Co (Broker)

Operator

Good morning. My name is Brittney and I will be your conference operator today. At this time I would like to welcome everyone to the Q2 Earnings Call and February Sales Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. Thank you.

Mr. Richard Galanti, CFO, you may begin your conference.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Thank you, Brittney. Good morning to everyone. I'll start by stating that our discussions will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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. Forward-looking statements speak only as of the date they are made and we do not undertake to update these statements except as required by law.

So last night's press release reported our second quarter and first half fiscal 2016 operating results for the 12 and 24 week periods ended February 14 as well as our monthly sales results for four week reporting month of February which ended this past Sunday, February 28. For the quarter, reported earnings came in at $1.24 a share compared to last year's second quarter earnings per share of $1.35.

Note that last year's earnings were positively impacted by two discreet income tax items that together benefited last year's second quarter earnings by $43 million or $0.10 a share, and that, excluding these two items, earnings for the second quarter last year would have been $1.25 a share. Among the factors that impacted our second quarter year-over-year earnings comparison, foreign exchange FX as compared to a year ago. During the quarter the foreign currencies where we operate continue to weaken versus the U.S. dollar in all countries but primarily in Canada, Mexico and Korea, resulting in our foreign earnings in the second quarter when converted into U.S. dollars being lower by about $32 million or $0.07 a share and if exchange rates had been flat year-over-year.

Second item of comparison is our co-branded credit card transition in the U.S. that relates to that. As you know we're transitioning to a new co-branded credit card relationship in the U.S. this year as we wind down our current relationship. New co-branded credit card's signup stopped several months ago. The short-term negative earnings impact to the loss co-branded credit card signups was $18 million pre-tax or a $0.03 per share hit to the second quarter. Recall that the earnings impact was $15 million pre-tax or $0.02 a share last fiscal quarter, and it will continue to impact earnings in Q3 and a little even into the first month of Q4.

As of today, we expect to have the new co-branded Visa cards in the hands of our members in May with a go-live transition date in June. While I can't give you any specifics regarding the new card, contractually I can't do that yet. I do look forward to sharing more details with you at that time.

Third item, IT modernization. Our major IT modernization efforts continue to impact SG&A expense percentages especially as depreciation begins on the new systems that are now being placed into service. In the second quarter on an incremental year-over-year basis these costs impacted SG&A by about $10 million or an estimated 3 basis points – 2 basis points without the gas deflation, which was about $ 0.01 a share.

There is a light at the end of this tunnel with the SG&A headwinds. Based on our current estimates we expect the year-over-year basis point impact to SG&A is likely to be just a couple of additional basis points in fiscal year 2017, and then flatten out, hopefully a little better than flattening out over the next couple of years after that.

Stock compensation expense was higher year-over-year, second quarter by $14 million or $0.02 a share. And lastly in terms of the year-over-year comparison LIFO. Last year in the second quarter we recorded a pre-tax LIFO credit of $4 million. This year in the second quarter, with deflation being a little more impactful than in the past couple months, we had a LIFO pre-tax credit of $15 million resulting in a year-over-year delta of $11 million or $0.02 a share.

Now turning to our second quarter sales. Reported sales were up 3% and our 12 week reported comp sales figure was up 1%. For the quarter, sales negatively impacted by gasoline price deflation to the tune of 80 basis points. And by weakening foreign currencies relative to the U.S. dollar by minus 340 basis points. Such that excluding gas deflation, the reported plus 3% U.S. comp for the second quarter would have been a plus 4%. The reported Canadian comp of a minus 7% in the second quarter would be a plus 10%, excluding both gas deflation and assuming flat FX rates year-over-year. And the report minus 3% international comp figure for the quarter, excluding gas and FX, would have been a plus 6%.

Total comps again reported 1% for the quarter, and excluding gas and FX would have been up 5. For the four-week month of February, which again ended this past Sunday, reported comps came in flat at 0%. That consisted of a plus 2% comp on a reported basis in the U.S., minus 2% reported in Canada and a minus 8% other international. As we discussed last month, the calendar shift of Super Bowl moved sales out of January reporting period into February. We estimated that this shift benefited our U.S. sales for the month of February by about 0.75% and the total company by about 0.5%.

Sales were negatively impacted by again gas deflation which started to head down again during the month. About 180 basis point negative impact to the number and also by weakening FX currency – foreign currencies relative to the U.S. dollar to the tune of 250 basis points. Excluding gas deflation in the U.S., the reported plus 2% U.S. comp for February would have been a plus 4%. Excluding gas deflation and FX, in February minus 2% comp in Canada would have been a plus 10%. And the reported minus 8% international comp would have been flat year-over-year ex gas and FX.

Total company comps reported, again zero for the month would have been a plus 4% excluding gas and FX. I might mention that the other international normalized number in other words ex gas and FX was zero. Mostly related to the time of the Chinese Lunar New Year holidays. We don't think that will be an issue after the timing of that.

Final comment on deflation. Beyond gasoline price deflation that we've always pointed out each month, we have seen a little additional deflation across many merchandise categories such that sales have been impacted a bit by – a little bit more in the past couple of months.

In terms of new openings. Our opening activities and plans, we opened 13 new units in Q1. Including two relos, so a net of 11 new locations in the first quarter. In Q2 we opened one new business center in Westminster, California. For all of fiscal 2016 we're still on a target to do 30 net new locations, 21 of which will be in the U.S., three in Canada, two in Japan, and one each in the U.K., Taiwan, Australia and Spain.

Also this morning I'll review with you our e-commerce activities, membership trends and renewal information, additional discussion, of course, on margins and SG&A, and a couple of other items of note.

Okay. In terms of the second quarter results, sales for the quarter were $27.57 billion up 3% from last year. On a reported comp basis, Q2 comps were up 1% for the quarter, up 5% ex gas and FX. For the quarter, our plus 1% reported comp was a combination of an average transaction decrease of minus 2.5% and an average shopping frequency increase of just over 3%.

Now in terms of the minus 2.5% average transaction decrease, again, taking FX and gas out of that number, that minus 2.5% would have been a positive number that would be just under plus 2%.

In terms of sales comparisons geographically, in the U.S., the Midwest, Texas and California regions were strongest. Internationally in Q2 in local currencies better performing countries were Mexico, Canada, Australia and Taiwan.

In terms of merchandising categories for the quarter – for the second quarter within food and sundries, overall flattish. Meat, deli and sundries were the leaders. Tobacco, negative in low-double digits as we continue to eliminate tobacco SKUs from various locations.

For hardlines, overall in the mid-single digit range. Departments with the strongest results were consumer electronics which was up in the low- to mid-teens, sporting goods, lawn and garden and tires. Within the low- to mid-single digit softlines, domestics and apparel were the standouts. And in fresh foods, comp sales were in the low-single digit range with produce showing the best results among the four main fresh foods categories.

Lastly, as we mentioned during the December and January sales calls, in the U.S., we're seeing deflation in the low-single digit range for foods, sundries and fresh foods, and now, again, a little bit more on the non-food side as well.

In terms of February, traffic was up a little over 3.5%, while the average transaction was down a little under 4%; about 3.75%. Again, gas, as I mentioned earlier, fell again a little more dramatically in February. The average sale price year-over-year in gas was down 21% for the month, which is a bigger decline year-over-year than we saw in the quarter overall.

In terms of geographic regions, again, for February, Texas, Southeast and the Midwest regions were strongest. And internationally in local currencies, Mexico and Canada were at the top.

From a merchandise category standpoint ex-FX, all categories, food, sundries, hardlines, softlines, fresh foods were in the mid-single digit range for February reporting period. Again, a little deflation impacting these. And it's a little deflation, but it's more than we have seen historically of recent history.

Moving down the line items of the income statement, membership fees, we came in for this fiscal year at $603 million, up 4% or $21 million from $582 million a year ago and up 2 basis points as a percent of sales. Again, that $21 million increase and 4% dollar increase, if you assumed flat FX, the $21 million would have been a $40 million increase, and the 4% increase ex FX would have been a 7% increase.

And in terms of membership, renewal rates remain strong; 91% in the U.S. and Canada and 88% rounded up in worldwide. Continuing increasing penetration in the Executive Member I think helps that. New membership sign ups in Q2 company-wide were up 4%. I will point out last month, the early part of February and into the second week of February, for 12 days we ran a new membership promotion on LivingSocial. Recall that we also ran a membership promotion with LivingSocial about 18 months ago. Like that one, it went well and we don't do it too often, and we don't want to get people used to it, but it was a good result.

In terms of new members at Q2 end, Gold Star members at Q2 end was 35.4 million up from 34.7 million at Q1 end 12 weeks earlier. Business primary remained at 7.2 million. Business add-ons remained at 3.5 million. So all total, at Q2 end, we were at 46.1 million versus 45.4 million at Q1 end. And total cardholders would be 84.0 million, up from 82.7 million.

As of the end of the second quarter, paid Executive Memberships totaled 16.6 million of our members, an increase of 214,000 over the 12-week month, or 18,000 a week increase in the quarter. As I've mentioned before, Executive Members are a little more than a third of membership base and two-thirds of our sales results.

In terms of renewal rates, as I mentioned, they continue to be strong. Business in U.S. and Canada was at 94.5%, the same as it was a quarter ago. Gold Star was 89.7%, the same as a quarter ago. Total U.S. and Canada, 90.5%, same as a quarter ago. Worldwide at 87.7%, down a tick from 87.8% at Q1 end. And a little bit of rounding, and then as you know. In all new markets we generally have in the first year lower renewal rates, and that second year and the first year of renewals.

I've mentioned in the last couple months that in Canada when we did the credit card conversion, which is a little different than the one we're doing here, it was what was referred to as a de novo thing where everybody had to sign up for a new credit card and apply, and what have you. And so your renewal rates related to auto renewals, which by definition are high, it comes down a little. That will be anniversaried after next quarter. So, we saw a little tick down in Canada this quarter year-over-year as we had in the last couple quarters as well. There should be one more quarter of that, again, not terribly meaningful but we've been asked.

Going down the gross margin line, our gross margin in the second quarter was higher year-over-year on reported basis by 17 basis points. As always, we'll jot down four columns of numbers with six line items. The first two columns are Q1 2016 and Q1 2016. The columns would be reported, column one. Column two would be without gas deflation. Then we'd have Q2 2016, two columns reported and without gas deflation. Reading across, core merchandise in Q1 on a reported basis was up 24 basis points. Ex gas deflation was down 3 basis points year-over-year. For Q2 2016, reported was plus 5 basis points, and without deflation minus 3 basis points. Ancillary, plus 11 basis points and plus 4 basis points in the first quarter year-over-year. Plus 9 basis points and plus 7 basis points in Q2. 2% Reward, minus 3 basis points and minus 1 basis point. Q2, minus 1 basis points and zero. LIFO, plus 1 basis point and plus 1 basis point. And in Q2, plus 4 basis points and plus 4 basis points.

Other was minus seven and minus seven a year ago. And not an issue, zero and zero in Q2. Such that total reported year-over-year in Q1, we were up 26 basis points in gross margin. Without gas deflation, down 6 basis points. And in Q2 we were up 17 basis points and up 8 basis points ex gas deflation.

As you can see the core component of gross margin was higher by 5 basis points. 3 basis points excluding gas deflation in the quarter. Core gross margins, food and sundries, hardlines, softlines and fresh foods as a percentage of their own sales were positive year-over-year in Q1 by 11 basis points, with food, sundries and hardlines showing higher year-over-year gross margins as a percent of their own sales. While softlines and fresh foods are a little lower year-over-year as a percent of sales. But again, the net of those four major categories as a percent of their own sales was up year-over-year in the quarter by 11 basis points.

Ancillary and other business gross margins were up 9 basis points, 7 basis points without gas. Both – in terms of ancillary businesses, our gas business, our food courts, our hearing aid centers, our tire shops and our mini labs all showed higher gross margins year-over-year as a percentage of their own sales. Again, Executive Membership not an issue without deflation, a zero impact year-over-year. And again, LIFO, a 4 basis point benefit to the gross margin year-over-year.

Moving to reported SG&A. Our SG&A percentage in Q2 was higher or worse year-over-year by 34 basis points on a reported basis and higher or up by 27 basis points ex deflation. Let me again give you these tabular numbers and then I'll give you some text around those. Again, the four columns would be report Q1. The first two columns would be Q1 2016 year-over-year reported and without gas and deflation, and Q2 reported without gas. Those would be the four columns.

First line item, operations would be zero basis points in Q1 reported and plus 26 basis points without gas deflation, the plus meaning lower or better. In Q2 minus 22 basis points and minus 16 basis points. Central minus 8 basis points and minus 6 basis points in Q1. In Q2 minus 8 basis points and minus 7 basis points. Stock expense minus 12 basis points and minus 10 basis points in Q1. In Q2, minus 4 basis points and minus 4 basis points. And quarterly adjustments or unusual items, minus 8 basis points and minus 8 basis points in Q1. And no unusual items to point out, zero and zero in Q2.

Such that in Q1 year-over-year on a reported basis, SG&A was a minus 28 basis points or higher by 28 basis points. And Q1 ex-gas it was better or lower by 2 basis points, so a plus 2 basis points. In Q2 it was minus 34 basis points as I mentioned and minus 27 basis points ex-gas deflation, so higher by 27 basis points.

Now core operations, again component, the minus 22 basis points. Again, minus 16 ex-gas, ex the impact of gas deflation. Of that minus 16 basis points, payroll was about minus 2 basis points. Benefits and workers comp were minus 8 basis points, with the remaining minus 6 basis points being a variety of items including bank fees, depreciation, and various other items. Again, I think a few of those things relate to a very slight change in sales increases. And a couple things just going 1 basis point in the wrong direction.

I'll also point out that within the benefits and workers comp, about – one thing that stood out, is just in January we had what was referred to as high cost claims for employee benefits, medical claims. Typically it averages over the last two years – this is U.S. – about $6 million or $7 million. A year ago it was a little lower than that, it was about $3.5 million. This year, it was about $13 million. So nothing unusual other than what we refer to as high cost claims, anything over $100,000 but it just spiked and that's a few basis points there. But again, that will come and go in both directions.

In terms of central expense, higher year-over-year in Q2 by 8 basis points, 7 basis points without gas. As I mentioned earlier, IT was 3 basis points of that or 2 basis points without gas deflation. In addition we had several one-time items which in total represented about $9 million. Again, we always have a few one-time things that go either way. We had three items that together totaled $9 million. But they are what they are and it didn't impact our SG&A. And lastly, the stock compensation expense was 4 basis points.

Now before I move on from SG&A, I do want to mention one additional expense headwind that is just starting. In March every three years, we review our pay scales and in fact our entire employee agreement. We always review top of scale and historically increase the top of scale every year in March where the roughly 60%, 65% of our employees that are at top of scale already. In addition, this year we're also changing the starting level or entry level hourly wages. This is the first change to the entry level wages in nine years. Since 2007 our entry level wage in U.S. and Canada was $11.50 or $12 an hour. Effective this month in the U.S. and Canada, we're increasing our starting wages from $11.50 and $12 to $13 and $13.50. So up a dollar and a half.

We estimate that this will cost us about $ 0.01 a share in Q3 year-over-year, and about $0.02 a share in each of the next three fiscal quarters. Again, it's part of what we do and as – there are a few warehouses that we've already started people at a higher level. Simply markets like Bay Area or some limited markets like that. At the end of the day it will be about the numbers that I mentioned in terms of the impact to our earnings.

Next on the income statement is pre-opening expense. Pretty much the same year-over-year. $9 million last year and $10 million this year. Last year we had no actual openings in the quarter but a lot of that relates to openings that are just getting ready to occur or just occurred, as well as one opening this year. All told, operating income in Q2 came in at $856 million, down 2% from a year ago's $877 million.

Below the operating income line, reported interest expense in Q2 came in at $31 million. That's up $4 million from last year's $27 million. The increase is primarily due to interest on the $1 billion debt offering that was completed in Q3 last year related to our one-time special dividend that we did back in February a year ago.

Interest income and other was lower year-over-year by $4 million, coming in at $20 million last year and only $16 million this year. Actual interest income for the quarter was lower year-over-year by about $8 million, primarily a factor of less cash on hand this year as compared to a year earlier. This is a result again of two things. We had a $1.2 billion debt payoff last December as well as we used about $1 billion of our cash towards paying that $5 a share special dividend last February 27, a year ago. Overall pre-tax income was lower by 3% or $29 million in Q2, going from $870 million a year ago to $841 million.

In terms of income taxes, we got a little help there. Our company income tax rate this quarter came in right at 34%, up from a little over 30% a year ago in the quarter. The income tax line on this year's Q2 benefited from a few positive discrete items resulting in the 34% rate. Our normalized rate would have been a shade over 35%. While last year's income tax line benefited from, as I mentioned – we mentioned earlier, a $43 million benefit primarily relating to our $5 special cash dividend. Overall reported net income of $598 million last year in Q2 compares to $546 million of net income this year in Q2 on a reported basis.

All right. Run down of a few other items. A balance sheet is included in this morning's press release. A couple of things I always point out on this call. Depreciation and amortization for Q2 totaled $285 million for the quarter, and $556 million year-to-date. Our AP ratio, accounts payable as a percent of payables, last year in Q2 on a reported basis it was 97%, and this year 5 percentage points lower at 92%. That includes construction and other payables. So if you just looked at merchandise payables as a percent of inventories it would be 87% a year ago, and 4% lower or at 83% this year.

Last year being higher by 4% or 5% a year is actually the anomaly. A couple of factors, part of it was last year's West Coast port slowdowns. You had a lot less inventory a year ago on some big ticket low turn items like electronics. Just that one department was $120 million-plus of higher inventory and only a few million dollars of higher accounts payable. And then gas payables again was $20 million or $30 million to the wrong side of this AP calculation as we try to keep our tanks a little full, more full, when prices decline. So again, that's running the business, and nothing per se exceptional there.

In terms of average inventory per warehouse. Pretty much flat year-over-year coming in just $6,000 higher this year, an average inventory per warehouse of $12.761 million up from $12.755 million a year ago. Ex-FX year-over-year inventory levels per warehouse were up more than the $6,000, they were up $286,000 or up 2%. But that again, on a normalized basis I think is one of the smaller increases we've seen year-over-year in that.

Overall, inventory is in good shape. Not only in good shape, we just completed mid-year or our mid-year physical inventories and it's our best shrink results ever by 1 basis point plus. So again, I think it's indicative of running a clean shop there.

In terms of CapEx, in Q1 we spent $715 million, in Q2 we spent approximately $650 million more. We were still on track this year for fiscal 2016 CapEx to be in the range of $2.8 billion-plus. Maybe as high as $3 billion but $2.8 billion to $3 billion, that compares to $2.4 billion CapEx in fiscal 2015.

Next, Costco e-commerce, Costco online. We're now in six countries, having recently opened in Korea and Taiwan. We're also of course in the U.S., Canada, U.K. and Mexico. For Q2, sales and profits were up over last year. Our total sales were up 19% in the quarter, up 22% ex-FX and on a comp basis, up 18% reported and up 21% ex-FX. So continued good results in terms of growing our e-commerce efforts.

In terms of expansion, fiscal 2016 again we opened ahead of 11 units in Q1. One new unit in Q2. So 12 through midyear. We plan seven net openings in Q3, nine openings including two relos. So seven net. And in Q4 we are on task to do 11. So that would give us the 30 total for the fiscal year.

If you go back a year ago in fiscal 2015 we added 23 net new units on a base of what was then – beginning basis 653. So about 3.5% square footage growth. This year assuming we get to the 30, that will be about 4.5% square footage growth. Again the new locations by country if we do the 30, 21 in

U.S., three in Canada, one in the U.K. and three into Asia. One in Taiwan and two in Japan. One more in Australia and one more in Spain.

At Q2 end, total square footage stood at 100.7 million square feet. Next in terms of stock buybacks in Q1 as I mentioned a quarter ago, we spent about $130 million buying 898,000 shares back, so an average price of just under $145 a share. In Q2 we spent $80 million on 531,000 shares, so an average price at just over $150 a share. During the first five weeks of the past quarter, very little stock was repurchased. In fact, of the total $80 million, $3 million of the $80 million was purchased in the first five weeks, and the remainder, the vast majority was in the last seven weeks. And that's purely a function of how we do it. We look at kind of a matrix pricing. As it goes up a little, we buy a little less, when it comes down a little, we buy a little more. As long as we feel comfortable about our runway, I think we'll continue do that.

In terms of dividends, our current quarterly dividend stands at $0.40 a share, so $1.60 annualized, which on an annual basis is about a $700 million number.

That's the quick and dirty of how Q2 went. I'll turn it back to Brittney now and be happy to answer any questions. Brittney?

Question-and-Answer Session

Operator

Your first question comes from the line of John Heinbockel with Guggenheim Securities.

John Heinbockel - Guggenheim Securities LLC

Hey, Richard, I know you have this data; I don't know if you, how deeply you dig into it, but if you look at traffic in the U.S. by your different customer segments, and particularly your most loyal customers, right, so are the most loyal customers generally fresh food customers? Is that a good part of the basket? And do you think – is it possible that a little bit of the moderation in traffic is are you maxing out with your truly best customers? It's just kind of hard to grow frequency with that group?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, I'd have to look into it. I don't know. My guess would be that our more frequent customers are bimodal. They're the ones that you mentioned that would – are shopping for frequency as families on a regular basis, and certainly food is a meaningful part of that. That's in my view, one of the two or three main factors that get people in the door on a more frequent basis. We also have small business members who are buying a lot of things, not necessarily fresh foods, but obviously some restaurants and community stores will buy some of that.

But in terms of maxing out, I've said it before, I continue to be surprised how many more Executive Members we're getting even up on the existing longer-tenured members. And so we – look, we've got to keep doing what we're doing in terms of being good merchants and constantly improving the value. And there's always saturation in everything you do. We're pretty good at figuring out ways to offset that. In the last year or two, certainly organics has helped. Not only bringing in arguably some newer perhaps younger members, but taking existing members who love Costco but there are certain things they didn't buy at Costco because they're an organic family. So I think we'll keep coming up with stuff. But I don't – I would bet that logically that makes a little sense, but I bet you it's not that big of a factor, that concern.

John Heinbockel - Guggenheim Securities LLC

Do you think the – are your best customers, do you think they're shopping three, four times a month or more frequently than that?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

I'm sorry, who?

John Heinbockel - Guggenheim Securities LLC

Your best customers, right, in terms of shopping frequency. Do you think they're up to three, four times a month or even more?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Yeah, I'd say three or four times a month. I think you – look, you have some customers shopping twice a week. A core of are small business. I have a friend that shops six times a week. That's what he tells me, and I run into him a lot, and I scratch my head why. So, but no, jokes aside, arguably when there's a family that's getting to shop four times a week, are they on that curve of incremental frequency increases that would be – it's going to be harder and harder to do. But again, we're pretty good at figuring out a reason why they need to come back. And...

John Heinbockel - Guggenheim Securities LLC

All right.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

And we're getting more – we feel good about the fact that in the last couple years, our average members' age which a half a dozen years ago was about a four-year – they were four years older than the U.S. population, that's now just under two. So it's going – that's going in the right direction for a lot of reasons. The fact that we keep adding some gas stations is driving frequency. I remember years ago, I've heard for 30 years, now that this thing is maxing out, fresh foods or gas stations, whatever it is, we keep figuring out new things. And I feel good about some of the things we're doing in a lot of the non-foods categories. Fresh foods never ceases to amaze me, and we'll keep going.

John Heinbockel - Guggenheim Securities LLC

All right. And then just lastly, you talked about two of the categories were up in gross, two were down. So just maybe a little more color on the ones up versus down? How much – mix a factor. I guess I thought fresh food might, just because of deflation and a little bit of delayed pass through. I guess maybe you pass through that a little more quickly?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, we do that – by the way, one thing that Bob here reminded me of. Another issue in terms of a year-over-year comparison, or as some of you like to talk to the two-year stack. It was a year ago when gas fell dramatically in a big way and we had a couple of months there, we had a 5.5% frequency for a couple of months. So, I think some of it's the deflation that we're seeing now a little bit, but some of it's that year-over-year comparison when we had some pretty nice numbers there. Now I'm hopeful that we'll find out in the next couple months once we – not that we've anniversaried that.

John Heinbockel - Guggenheim Securities LLC

Okay. Thank you.

Operator

Your next question comes from the line of Simeon Gutman with Morgan Stanley.

Joshua M. Siber - Morgan Stanley & Co. LLC

Hi. This is Joshua Siber on for Simeon. If gas prices stay low, do you expect to see traffic slow as that competitive advantage starts to diminish?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Again, in theory, it should be less of a factor helping sales because we're not on the news every night. We love it every year when GasBuddy comes out. Now, three or four years in a row since they started it they we're the lowest price nationally on average. I think we still get positive feedback from that. So yes, I mean at the end of the day, is it better when we had – is it better than when we had, gas was going down a buck year-over-year or over a couple months and it's on the news every night. Sure, that helps us a little more. But we still find people that are just signing up and can't believe our gas prices. Again, it's a net positive. It's less of a positive than it was in the first year, the second year and the third year.

Joshua M. Siber - Morgan Stanley & Co. LLC

Okay. And a follow up to John's question. I don't know if you have this in front of you, but would you be able to compare traffic and ticket growth across demographic groups?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

I don't have – I know that our membership and marketing people looked at that and I've seen it, but I don't know if want to go that – I don't have it in front of me so I can't answer that question.

Joshua M. Siber - Morgan Stanley & Co. LLC

Okay. Last one for me, then. If you could talk about the dynamics between the credit card transition and a potential membership price increase in terms of timing? Well, there's no real dynamic. It looks like we're on task, as you know. Just last week, I believe, American Express and Citi announced the agreement to purchase the portfolio. And in which I believe we're on track to issue – Citi's on track to issue cards to the existing millions of members that have the current co-branded card in May with a transition date likely in early June. But, again, that could slow up a week or two, too, we'll see. And in terms of transition, there's not a lot contractually that we can do until then. And, of course, when the cardholders are being sent those cards by Citi, they'll be getting information from Citi. And I think that will start that process of making our members aware of what the new card brings to them and then we'll go from there.

Look, we're excited about getting it done. It is a big transition in a sense that there's millions of members that have the current card and they'll get the new card in the mail. We're excited about the value proposition to our members and we think it will be a net positive long term. Like anything, when we can save money, we want to give most of it to our members, and this will be like that, as well. We'll get a little benefit from it. As it relates to the fee increase, we really haven't made any decisions which would be consistent with the six times we did it in the past. History has shown that if you just dot it out chronologically, it's about e five to six years. The last time we did it was in January of 2012. So five years would be January of 2017 and six years would be a year later.

I can only tell you that, logic would dictate we certainly wouldn't do anything during the transition. We've got enough going on this year, mid-year when we're doing this credit card transition. And so all those align to a possible answer. At the end of the day, I don't know when we'll do it. I can tell you that we feel as comfortable today as ever about the loyalty of our members and we feel as comfortable as ever today that we feel that we've improved the value on that membership way more than the likely increases that you've seen in the past. So stay tuned.

Joshua M. Siber - Morgan Stanley & Co. LLC

Okay. Thanks, Richard.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Yep.

Operator

Your next question comes from the line of Christopher Horvers with JPMorgan.

Christopher Michael Horvers - JPMorgan Securities LLC

Thanks. Good morning. So I want to follow up on the potential membership fee increases. While last time you raised the Executive Membership price in addition to Gold Star, but I believe – correct me if I'm wrong. That was the first time you had ever done it. So can you walk us through how you thought about that last time? And maybe reflect on how – what that could possibly mean for the next potential increase?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, I think the bigger issue is for about I think it's 10 or 12 or so years we had the Executive Membership out there. The Executive Membership from its inception was $100. And our view at the time was let's build it. And in theory every time – if you think about it when we originally did the Exec, I think the Gold Star was $45. And so there was a $55 delta if you will. And $55 assuming a 2% reward break-even if you will between do I stay a regular member, become an executive was $27. An incremental $2,750 of annual purchases. And as the $45 went to $50 and to $55 that delta became less, so in theory another bucket of – I think it was 2 million-plus million additional members that fell into that bucket of being above break-even than below break-even. And so we wanted to grow it. As we decided to raise it almost five years ago, four-plus years ago, not only from $50 to $55 but the $100 to $110, I think felt that we've gotten a lot of that benefit. And certainly there's a lot more benefit incrementally than $10 and so we felt comfortable doing that.

That's how we got there. How we get to next one, stay tuned.

Christopher Michael Horvers - JPMorgan Securities LLC

Understood. And then just reflecting back on the traffic I think, ex the Super Bowl, still three plus traffic comp. Do you think that much has changed in terms of the behavior of the consumer within the box in terms of maybe are you seeing it in different mix, buying less discretionary items, less sort of trade up within the category or any commentary there that you can talk about the consumer and how they're behaving in the store.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, in terms of discretionary, some of our stronger categories are not foods. And so that flies in the face of that concern. Did we see a little bit of – a little less strong numbers in some of those higher ticket categories in parts of Texas or Canada or – well, Canada was strong notwithstanding that. Or I guess North Dakota (41:04) I don't know about North Dakota. I know Texas it was a little different even though Texas overall was fine. I know that when I talked to our head of International, because of the strong dollar they saw a little bit of – a little weakening of that strength in the bigger ticket discretionary items. But overall we've had our best percentage dollar increases in electronics and statistically in TVs the last couple of months in a few years.

Christopher Michael Horvers - JPMorgan Securities LLC

Thanks very much.

Operator

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

Daniel Thomas Binder - Jefferies LLC

Hi. Good morning, thank you. My question was around membership as well. You obviously have a good retention rate and then presumably in existing clubs you have members that sign up to help fill the gap. I'm just curious if you can give us some metrics around comp membership growth, how that looks in the U.S. and then how that looks on international?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, first of all, any new market even when we went into New Orleans where we had been in Louisiana before a couple years ago. You're going to see a year hence when you have your first class of renewals, it's going be a number quite a bit lower than our company average. I think in the U.S. we typically see numbers in that first full year in a new market – and there aren't that many new markets anymore, but when we do, something in the low 70%s, perhaps.

Overseas when we first opened in Korea, Taiwan and Japan and as we've opened new units in new geographic markets in those countries, we might see in the first year our renewal rates in the high 50%s low 60%s and it grows from there. So our renewal rates – and that's why you see that we separate U.S. and Canada which is the most mature. That number is a little higher than the worldwide number for that very reason.

We always see a higher renewal rate among the Executive Members. They get it. They're spending – they're investing another $55 on top of the main $55 on that upgrade because they get it and they get the value of it. And we think that works, reward programs works. Co-branded credit card rewards works. Fresh food and gas works, all those things help.

Daniel Thomas Binder - Jefferies LLC

So, looking in aggregate, mature clubs and new markets, is the Company actually experiencing a comp store membership growth?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Yes. I'm sorry. And most of our sign-ups are comp sign-ups, so the answer is yes. I mean this is a rounded number here. But when asked, hey, if you have a 90% or 91%, well we'll use 90% for this example. If you have a 90% renewal rate and you had 100 members, what do you have a year hence? Well you have about 101 or 102. You lose 10 and you gain 11 or 12. That's kind of how it's been. And that's, and I'm shooting from the hip with this one, but that's pretty consistent with my assumption of if overall new member sign-ups are in the 4% range this past quarter.

Daniel Thomas Binder - Jefferies LLC

And you mentioned the Living Social campaign was good. Can you give us a little color around how many and how many were millennials?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

No. Millennials were – well, not in terms of the number. We were pleased with our results based on our expectations of it. But, again, we don't want to get people comfortable waiting for that kind of value proposition to sign up. And so that's why we waited 18 months. And as it relates to millennials, I know I don't have the chart in front of me, but I know the chart that our head of membership marketing shared at the budget meeting. Yes, it over-indexes the other way towards younger people relative to our existing base, which is what you'd expect.

Daniel Thomas Binder - Jefferies LLC

And then my last question for you on the LIFO credit based on what you know today about deflation storewide, are you expecting additional LIFO credits as we get into the back half of the year?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

If it were today, I'd say yes. But you never know. Keep in mind when we have a LIFO credit, your markup is probably impacted a little the other way. When you have a LIFO charge, it's because there's inflation. You've raised your prices a little bit. Sometimes there's a little bit of a gap there. So it's part of margin. But yes, I think all things we see today, it would be a LIFO credit, a little bit of that extra LIFO credit.

Daniel Thomas Binder - Jefferies LLC

Great. Thank you.

Operator

Your next question comes from the line of Michael Lasser with UBS.

Michael Louis Lasser - UBS Securities LLC

Good morning. Thanks a lot for taking my question. On the wage increases, is the increase that you are giving this year consistent with what you've done in the past? And when you've done this in the past, have you noticed any change in your sales trajectory? So employee satisfaction goes up and that leads to a better membership experience or it coincides with broader wage inflation and some people have more money to spend and they spend it at the warehouses?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Yeah, well, somebody once said it's like chicken soup, it can't hurt. I think at the end of the day, at top of the scale we've done every year for as long as I can remember. When you've got somebody that's reached top of scale, they want to know what they're going to get a year hence. And we've always erred to the high side on that. I think over the last three years, top of scale in the U.S. is in the $23 range, $22.50 or something just top of scale. And so if you – and I think it was a $0.50 or $0.60 increase, so let's say $0.55 on $23.00 would be about 2.5%, a little under 2.5% increase. I believe the current increases are similar to that kind of percentage.

What we haven't done every year is bottom of scale. We like to be – and by the way, I want to also say is that the amount of cumulative hours it takes for somebody to get from bottom of scale to top of scale on a full- time basis, not that people will always start at full-time, they don't. But on a full-time basis it takes about four-and-a-half years which is very, very short period of time. So our employees get it. But we think this will help, and it's important to do. We want to be the premium at all levels. We're a huge premium at the top of scale. That's as others raise their rates at the bottom. And frankly in some markets, this is a physically challenging job. You're on your feet, you're lifting cases, you're pushing carts at these entry level jobs. And so we thought it was time to do it. So that is incremental. And that's when I mentioned earlier on the call that the $0.01 a share in Q3, thank you. And the $0.02 a share in each of the next three quarters because there are four quarters, that's that incremental piece that I'm talking about. Now I would like to think that we're not going to have less shrink or employee shrink because of it, or they're going to be better service providers to our members. I think it reinforces what they already feel. And that's what we're all about.

Michael Louis Lasser - UBS Securities LLC

And then my second question is on the competitive landscape. Traffickers remain good on a multiyear basis, but a little bit more volatile just on a one-year basis. Are you seeing any signs that you are having more interference from competition? It certainly doesn't look like it from some of your club peers, but maybe some of your online players are peeling off, some members, or peeling off some trips from your member base.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

I don't think so. I mean again, on the margin, are there a few? I'm sure there's somebody that made one less trip to Costco because they bought something online or somewhere else. But I think we're still doing a pretty good job of getting them in the door particularly with fresh foods, with gas for the Executive Member with a quality co-brand offer in terms of rewards. So all those things help. I think we got, again – look, online is taking a piece. And some of those pieces, we're not going take. We're not going take the single unit items, some small-value food and sundry things that are going to be delivered to your door by 7 in the morning if you ordered six hours earlier. That's not us. We can't do that at 10% and 11% margins. We're taking little pieces of other things. Again, we still feel pretty good about what's going on.

Michael Louis Lasser - UBS Securities LLC

Awesome. Thank you so much.

Operator

Your next question comes from the line of Brian Nagel with Oppenheimer.

Brian W. Nagel - Oppenheimer & Co., Inc. (Broker)

Hi. Good morning. Thanks for taking my questions. I want to go back, and this may be a follow-up to some of the earlier questions. But if the U.S. comps ex-gas in January and February, so my numbers – you had a 1% and a 4%. And you had mentioned before there was some shift between those two months, just given weather and then more importantly, the timing of the Super Bowl. But I guess the question I have, Richard, if you look at those months and then maybe take them in total, is that tracking – are sales in the U.S. tracking where you'd expect them to be and if not, is there something we can point to explain why?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, look. Like a teenager, we always want more. I think when we look at the detail, deflation is probably the biggest factor. And that gives us comfort that fundamentally there's not been a lot of change in our view. We still, it bothers us that it tracked a little differently. Again, that just makes us look at everything, what else can we do? And we've got a lot of good things going on out there. So do we like it a little better? Sure.

Brian W. Nagel - Oppenheimer & Co., Inc. (Broker)

And on the deflation point, you probably gave these numbers already, but was deflation a more significant factor here in the first two months of 2016 than it had been say in the second half or latter part of 2015?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Again, there's different ways to measure deflation. The answer's yes, first of all. But there's different ways to measure deflation. If I look at a first, just from a LIFO index which is U.S. inventories. If everything started at a cost – everything that we had in our warehouse had a cost of 100.00, that was the baseline, at the end of Q1, so in late November, that LIFO index was 99.49. So a 0.5% lower. On average, that's that inventory LIFO calculation. In the last eight weeks, the 99.5 has gone to 99.06, so down 44 more basis points.

So yes, that continues. So that's where I got the – it's a little lower. We're seeing a little bit more deflation. And particularly we're seeing it in some of those non-food categories. When I look at the 85% plus of our goods that go through our depot operations, again, this is just one parameter.

The number of pounds being shipped through with a dollar value, that dollar value is down a little over a 1% year-over-year. Now year-over-year, not from the beginning of this fiscal year. So again, that would indicate to me again we're seeing a little bit more deflation. I can give you crazy numbers on given items. On a year-over-year basis, when you look down, just candy. M&Ms down 10% year-over-year. American single slices of cheese down 15%. Bacon down 20%, so. But there's also some inflationary items.

But, overall, I think the LIFO index and that depot calculation, although it's not a perfect calculation, would indicate that we're seeing a little bit more deflation than we had overall. And particularly on the nonfood side you're seeing it. I think I mentioned a quarter or two ago when asked about that, with oil prices coming down, what about some nonfood items like plastic bags and things that require a lot of petroleum based products. And the answer I got back, and I shared with everybody, was yes you're seeing it but you've got to ask for it more frequently and more strongly. And even then it took a little longer because sometimes you've got vendors that have committed out several months, if not a year, on raw material prices. And we're going work with them. We're going to do what we can, but we're not going to create hurt. And so again, we're starting to see a little bit of that. But that's retail.

Brian W. Nagel - Oppenheimer & Co., Inc. (Broker)

Got it. That is helpful. Then the second question I had just with respect to the forthcoming shift in credit card and I know it is early but is there anything you are watching as some type of leading indicator as to how your members may or may not react to this shift?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Look, you've got 11 million or so members that have the co-brand card. You've got however many, high 20 million of member households in the U.S. We've had our share of letters both ways. Good. I'm glad you're changing, I never liked whoever. And then you've got those that say how dare you change, I got it for this reason, and I love my card, my existing card. So aside from that, we feel comfortable or we wouldn't have done it. We recognize that – we are looking to spend afterwards. I think with the reward proposition, with the – any possible improvement in merchant fee to us, with the fact that the new card will be accepted more places. There's a lot of reasons why it should be a positive. We have to get there and see.

Brian W. Nagel - Oppenheimer & Co., Inc. (Broker)

All right. Thank you very much. Appreciate it.

Operator

Your next question comes from the line of Paul Trussell with Deutsche Bank.

Paul E. Trussell - Deutsche Bank Securities, Inc.

Hey. Good morning, Richard. You spoke about the incremental labor costs that are forthcoming with the $0.01 hit in Q3 and $0.02 thereafter over the next 12 months. But can you just dig a little bit more into the expense deleverage from the second quarter? Certainly as you mentioned, there was a little bit lighter sales volume so perhaps that had an impact. But how should we think about the results in 2Q and the outlook on payroll and benefits and operations central, et cetera?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, I think, first of all, sales drive leverage. And I remember years ago, when we were always asked the question, what comp sales number do you need to get any leverage at all, or to be consistent? And our guesstimate at the time – this has been years ago, was something in the 4% or 5% range an underlying comp. But my stronger and more confident proportionate response was, whatever other companies do to be able to better leverage if sales showed a little weakness, we're not going be as good, because we're not going to do some things. We are going to still clean the bathrooms every hour, and we are still going to make sure all the carts are inside, and not sitting out there, and we are not going to cut labor. In fact, we'll enhance labor. We've done that at times at the front end to drive more business.

So I think again the bottom of the scale increase that's easy, that's quantifiable. A few of the moves lined up on a few items, I mentioned the high cost claims was 3 basis points or 4 basis points. I mentioned there were three other items that usually two of them go one way, and one go the other way. And so it's a couple million, or a $0.0025 or $0.005 impact to the quarter. This time it was all in one direction. And so you're always going always going have that. But I guess I too get a little more defensive when we miss the number. Some of it was we could have done a little better job. And so directionally we're going to try to do a better job.

We're going to hope the moons (57:30) line up two to one to the positive, not three to zero the other way. And we know that we're getting a little less hit from IT modernization a year or two in. Other than that, that's what we do for a living. I think the other thing is to drive more business, and we're pretty good at that.

Paul E. Trussell - Deutsche Bank Securities, Inc.

Fair enough.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

By the way, then the credit card. You've heard it before, I've said it before. Whatever this additional bucket of potential money is, we're going to give most of it to the customer in the form of a co-brand offering. But we're going to keep a little of it, and that helps merchant fees. But that's not going to start until the summer, and we'll go from there. So that should help us a little. We've got our fingers crossed.

Paul E. Trussell - Deutsche Bank Securities, Inc.

I appreciate that color. Certainly we will take a look at the 10-Q when that is out to see some of the margin detail geographically. But could you maybe just give us a little bit of preview of any changes year-over-year from a U.S. or Canada or international standpoint? Maybe you can just speak to some of the performances ongoing in those particular markets?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

No, I think we'll have to wait until the quarter is out. The only thing that you've seen in the past historically is gas continues to be strong, but on a year-over-year basis, there's not a big difference. And gas is a big thing to the U.S. I think you've seen a couple of quarters in the 10-Q, in the last couple of – two or three quarters where the biggest improvement year-over-year on that, in the segment analysis of operating income as a percent of sales, you had – the most improved was the U.S. column, which is one of the lower columns. And that – and we've mentioned as part of that is attributed to gas. But I know in Q2, there was not a big, it was still good, but it was also still, it was very good a year ago. So other than that, I can't really talk to you about until it comes out.

Paul E. Trussell - Deutsche Bank Securities, Inc.

Thank you. Lastly from me and very quickly on e-commerce, you continue to have very solid growth, up I think it was 19% this quarter, 22% ex-FX. Can you just speak to some of the categories really driving that strength? Is there any expansion of assortment that we've seen online of late? And just a quick update on the Google and Instacart partnerships?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, we have over the last couple of years expanded some of the categories in what we'll call velocity categories; some sundries items, some limited non-perishable food items, some apparel items, socks and underwear, just speaking of things like that; health and beauty aids. So yeah, that's a little of it, but those are small pieces relative to if you can drive sales in furniture and exercise equipment and electronics. So those things are helping us as well. I think it's a lot of the things we've done. Some out there would argue it's about time. But we're getting to it. And we're driving – we're starting to do a few new things.

Operator

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

Peter S. Benedict - Robert W. Baird & Co., Inc. (Broker)

Hey, Richard. How's the growth in trips to the pump changed as gas prices have dropped here around $2? Has that been, have you seen a noticeable change there? And remind us what percentage of those fill-up trips correspond with a visit inside the club?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, for every 100 people that pump gas during the hours that we're open in the warehouse, because we open a couple hours earlier than the warehouse opens at the gas pump and close an hour later, it's in the low-50%s. And that's improved a little from 50% and 49%, but it's in the low-50%s. What was the other part of the question? I'm sorry.

Peter S. Benedict - Robert W. Baird & Co., Inc. (Broker)

I mean, have you seen the growth in trips moderate as gas prices have fallen? I think – whether you mentioned that by comp gallon growth or what have you.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Yes. Well, what we see is when it really spiked a year and a quarter ago, we saw a spike there as well – well in terms of gallon-age comps. It's still positive and it still beats the U.S. averages out there, but it's more muted than when you have those big deltas.

Peter S. Benedict - Robert W. Baird & Co., Inc. (Broker)

Okay. That's fair. That makes sense. And then just on the organic...

Richard A. Galanti - Executive Vice President, Chief Financial Officer

By the way, that means we're retaining it.

Peter S. Benedict - Robert W. Baird & Co., Inc. (Broker)

Yeah, no, understood. And then just on the organics, can you remind us where your penetration is at this point, what the pace of growth has been and where you think you can take that? Do you have more room to continue to improve the penetration of organics?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Yeah, we're about $4 billion, which was I think in the last two years, it was up 30%-ish. And we're on task, I think our goal this year to have a double-digit number that has a two in front of it, and we feel good about it. We are I think doing as good a job as anybody in terms of sourcing. And part of the challenge is availability. And the industry is growing, needless to say. There are more farmers and more poultry producers and more beef producers that are committing more to this. And we're certainly out there literally in the fields here and abroad getting these growers and processors to do more. So, I think it still has some good opportunities there.

Peter S. Benedict - Robert W. Baird & Co., Inc. (Broker)

Okay. And then last question just on D&A was up about 9% year-over-year in the quarter. Is that a pace that you are comfortable with kind of going forward? Is that going to accelerate at all as some of these investments come in or I'm just trying to get a sense for how we should be thinking about the growth in D&A going forward?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

It's partly going up because of IT modernization and because we're opening 30 units instead of 23. And, although this 30, 21 or so are in the U.S. which is a little different than I would have guessed two years ago what it would be by now. So I would say that it will – for a couple years here it has kicked up. We got at least one more year where it will kick up because of IT modernization, this year or next. And then it probably kicks up a little bit because of just a little bit more expansion and a little bit more expensive expansion.

Peter S. Benedict - Robert W. Baird & Co., Inc. (Broker)

Okay.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

So does that the number, if D&A – if sales are growing X, does D&A grow at X plus two or three? I'd have to look at it, but it's probably as good a guess as anybody. I look at what it's done historically and probably it grows a little faster than that the next couple years – couple or three years percentage-wise

Peter S. Benedict - Robert W. Baird & Co., Inc. (Broker)

Okay. Makes sense. Thank you.

Operator

Your next question comes from the line of Oliver Chen with Cowen & Company.

Oliver Chen - Cowen & Co. LLC

Thanks a lot, Richard. The average transaction increase was impressive at that plus 2% range. Do you expect that that will be a dynamic that will continue and within consumer electronics, what are the major pluses there given that it had such nice performance? Richard, as we do model the next year, what is the magnitude of deflation in terms of the impacts to comps?

Is it in the 100 basis point range? And just I think you mentioned several different categories but is there an overall take on which categories it is applying to most?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, starting with last question first. Again, I think the difference now is that we're seeing a little bit more deflation on some of the non-food items, particularly like, for example, plastic bags and garbage bags and things like that that require petroleum-based products.

I still think again, you get the sound bites of the things that are down 10% and 20% but overall, if deflation as measured by our LIFO indexes are down, have been down 0.25% a year, and then last year maybe it was more than that. This year it seems like it's a little more. It's less than 1%. Maybe it's 0.5% to 1% instead of a 0.25% to 0.5%. But I'm guessing there. Then in terms of electronics, I think a couple things. I think arguably if we have a higher number that probably helps. We certainly over-indexed on bigger TVs. I know that during the four weeks between Thanksgiving and New Year's; Thanksgiving and Christmas we had outsized TV sales dollars in talking to every major supplier that we buy from relative to everybody else, online and offline, and I think part of that was is that over-indexing to the 60-inch and 80-inch TVs. But we're seeing strength in phones. TVs is the thing that drives it. Cameras are better. But then cameras are better because they were weaker the last couple years.

Oliver Chen - Cowen & Co. LLC

And, Richard, just to remind us, as a percentage of the total what is consumer electronics?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

I have it in front of me. But I think Department 24, it's four or five. Four plus.

Oliver Chen - Cowen & Co. LLC

Okay. Okay.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

With the...

Oliver Chen - Cowen & Co. LLC

And, Richard...

Richard A. Galanti - Executive Vice President, Chief Financial Officer

With TVs would probably 40%-plus of that.

Oliver Chen - Cowen & Co. LLC

Okay. And Richard, as you think about Costco for the long-term just for the five-year story of Costco, we know that you don't have the buy online and pick up in store, the BOPiS, so what are customers asking for as you really try to execute to customer desires? Is there anything on the delivery speed front and mobile that you would highlight as where you are focusing efforts on in terms of your human capital and strategic priorities as you look to bricks and clicks over the long-term?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

One of the challenges we have with picking up at the store is, we've got an average location that's doing $175 million, $180 million which means we've got a bunch of locations that are doing $200 million to $300 million and several that are doing more than that. We don't want somebody to come by necessarily and pick it up. Maybe that would change if we were having minus 3% comps in our lives. So we want to do everything possible to get them in the store and not just come and pick something up. So I don't see that as being a strategic focus of ours, at least in the near term.

We also – part of the thing of trying to get people in the store with treasure hunt items, with fresh foods, with gas. So we'll keep driving that. As we've done, our relationship with like the in six markets with Google Shopping and I think 16 markets with Instacart, there are people that want things delivered to them, and we're selling them. We're still selling it, but we're doing it that way. And so I think that's what we'll continue to do. We are getting better.

And again, some out there would say we've gone from an F to a C or an F to a D. Some would say we've gone to a B plus. We'd like to think of ourselves as we still have some things to do, but we've improved our mobile apps. We've gotten a little smarter about how we do it. We know that when you come in store, you're going buy a lot more than when you shop online in general, and recognizing our average online transaction is actually higher than our in-store visit. But that's because we started with just big ticket items. It's just recently we've put on some other smaller ticket items.

But we know that compared to let's say, an Instacart or a Google experience, the in-store visit is two-and-a-half to three times if not a little more than that. Now what we're finding is that that customer comes in a little less frequency, does the online several times, and then another, too, is an aggregate improvement in their comp. So that works. But we're still taking it slowly in terms of – I don't see us doing pickup at store at least in the near – in the next year or two, because we've got enough traffic there. We're trying figure out how to keep driving that.

Oliver Chen - Cowen & Co. LLC

Richard, you have been experiencing such robust traffic and healthy fundamentals. What is your take on the health of the consumer because there seems to be different factors going on at different income levels and at the same time, there is definitely stock market volatility? And a related question is if there is something that keeps you up at night for the next year, what would you highlight as risk factors as you evaluate them and think about them internally?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, I think one of the things I read, first of all, first and foremost, when we do our competitive price shops, we feel as good if not better than ever. When we look at our renewal rates and our customer loyalty, we feel as good as ever. When we look at our employee loyalty and our turnover rates, we feel as good if not better than ever. We certainly like to read those nice things that everybody says about us. And I think it reinforces, and we're doing it because we do it and we then reap the benefit of it.

So I think from that perspective, now at the same token, my favorite negative word or negative phrase out there, we talked about the volatility and the choppiness. There's a lot of what somebody referred to, not me, but toxic anxiety out there. The world is a little different. And this dollar strength doesn't help everything. And even the U.S. economy, while good, there's not a big engine driving it necessarily. So there is a lot going on out there. I think I'm comforted by our consistency even if it's come down a little bit in the last couple months. And I can explain some of that with the strength frequency a year ago. But look we'd still like an extra 0.5 point or 1 point there.

In terms of what keeps me up at night, what do we as a company or what does Craig, our CEO, get, and what do Bob and I and Jeff ask about? You know a lot of it centers around dot com and what are you going to do. And we try to not avoid it or be arrogant about it but also recognize we try not to freak out about it. So I think in my older age, I lose sleep for age-related issues not the company-related issues. I really feel pretty good fundamentally about our company and what we've got going on, what we're doing in terms of global sourcing, what we're doing in terms of the strength of our current signature brand. And things could change, but we're – and we'll keep trying do a few things on the Internet more, but we're going to take it steady.

Oliver Chen - Cowen & Co. LLC

Are you still selling tons of diamonds? Have your diamond luxury sales been really good?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Yes. I mean, I know in fiscal 2015 they were up – percentage wise up like 150 plus thousand karats which is 15% or so. Yeah.

Oliver Chen - Cowen & Co. LLC

Thank you. Thank you. Best regards.

Operator

Your next question comes from the line of Meredith Adler with Barclays.

Operator

Meredith? Your line is open, you may be on mute?

Operator

Your next question comes from line of Matthew Fassler of Goldman Sachs.

Matthew J. Fassler - Goldman Sachs & Co.

Thanks so much and good afternoon at this point. My first question relates to the U.S. versus international traffic and ticket mix. When the numbers were quite similar in terms of total sales or comp growth ex gas and FX for U.S. international, I guess we were a bit less curious about how the traffic trends you are seeing that you report which I believe are our global – correct me if I am wrong – were different so any sense as to how different the traffic number is in the U.S. particularly over the past few months?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

No. I mean, again, the biggest factor was a year ago, with the gas – our view was it was gas related. We had a couple of months of mid 5s which was anomaly the other way, so we're just finishing comparing to that. One surprise would be in Canada. The underlying comp there is surprisingly strong given that oil prices are down. When I look at for Q2, in terms of kind of front end transaction growth, which is shopping frequency, that's how we measure it. Overall we were again in the low 3s or the mid-3s. The U.S. was in the mid-2s. Although that's impacted again by – more impacted than anybody by gas. And by gas a year ago the shopping frequency.

When I look internationally, it ranges from flat to up 14%. And no rhyme or reason it to. A little – well a little of it is in the Asian countries in Q2 was a little flatter because of opening new units as well.

Matthew J. Fassler - Goldman Sachs & Co.

Got it. If I could also focus on sales for a second question, so I guess the difference really between January and February in the U.S. if you knock out the weather and Super Bowl, et cetera, it is actually seems to be at least in the overall number seems to be less about traffic and more about ticket. I know that there is a component of ticket that is obviously deflation. Is the decel in ticket ex-gas and FX in the past couple of months entirely about deflation or is there any change in basket size or units per basket, et cetera?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, it's basket size related to deflation.

Matthew J. Fassler - Goldman Sachs & Co.

So deflation pure and simple rather than any kind of units per transaction?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

A month ago – we don't do this all the time, but a month ago we had – Bob had everybody look – last two months, we looked at the basket size and the actual number of items in the basket? The number of items in the basket was up less than 1%, about 0.25%. And the average basket dollar amount was a little down. So that would imply again a little deflation, but we had to buy in slightly more things than a year ago.

Matthew J. Fassler - Goldman Sachs & Co.

Got it. Understood. And then finally on SG&A and the forward guide on wages just to be clear is what is different over the upcoming four quarters or so, simply the change in the entry-level hourly wage rather than the increases you would give your experienced team members or does that increase also flow through at a greater than usual rate to the...?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

The top of scale close to the same rate. But, again, if you have 60% percent of your employees who currently are making 22 or 23, whatever that top scale is, and every March we got to at $0.55, $0.60 an hour increase, we've experienced that through all times for 30 years percentage wise is pretty similar. The unique thing this time is the bottom of the scale which just taking – what would it be without it? And what'll be with it? It affects not only the entry level, it affects the first couple of increases. If we were at $11.50 and $12, was it – if we were $11.50 and $12 currently prior to now, three months or however many cumulative hours later, then somebody goes from $11.50 to $11.75. Then $11.75 to $12 or $12.25. Well, everybody below $13 is going to $13. But what's the incremental cost, all things being equal? The incremental cost is about $0.08 a share over the course of a year. It's a $0.01 this quarter because it's a partial quarter. And then it's more. It's about $0.02 a quarter. And then it will anniversary next year this time.

Matthew J. Fassler - Goldman Sachs & Co.

Got it. Thank you, and thanks for the transparency today.

Operator

Your next question comes from the line of Bob Drbul with Nomura Securities.

Bob S. Drbul - Nomura Securities International, Inc.

Hi, Richard. I just have a couple of questions I think. The first one is on the membership fee income growth, what would it have been without the impact of no American Express sign-ups?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

We don't measure it. On the margin we think somebody's coming to sign up because of us first and the co-brand card second. A distant second. Whether it's Amex or Citi Visa or anybody. They come in to be a member of Costco. I don't think they come to the desk and say never mind and walk away. So I think – now, because part of our relationship with our former partner and our upcoming new partner – current and soon-to-be-former partner and our upcoming new partner – is they do some marketing for us. They do some things to get people to come in also. So there's probably a little bit but we don't try to measure, we just know it's zero right now.

Bob S. Drbul - Nomura Securities International, Inc.

Got it. Okay. And then in your softlines business, there has been some – the private label component I think has increased and I was just wondering if you could talk through a little bit on the impact that weather has played in that segment of your business both from like a markdown perspective but also in terms of what you are really seeing as buying opportunities throughout the last few months in the current market?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, the only thing that was impactful is I believe there was a relatively warm – there was more men's outer wear markdowns this last few months than we had historically but it was completely weather-related. And I didn't even point it out on the call. That's probably a little bit of softline's impact. That was one of the reasons that the softline's margins I mentioned year-over-year was a little down. Beyond that, at the last budget meeting when we were looking at the – some of the apparel buyers came and talked about some of the new seasonal things, we keep getting a few more brands. I can't think of any off the top of my head right now. But I think it's a consistent – we've enjoyed Apparel business with comps in the 10% to 15% range compound for a couple years now. And we're still seeing decent growth in those areas.

So it's a good category for us. I think we're trying a couple of men's athletic items. We've been very successful with the three pieces, the bottom, the top of the jacket. KS, I know we're bringing in a few other items on the men's pant. Not just the fancy wool pant but the khakis and the gabardines.

Bob S. Drbul - Nomura Securities International, Inc.

Okay. Great. Thank you very much.

Operator

Your next question comes from the line of Kelly Bania with BMO Capital Markets.

Kelly Ann Bania - BMO Capital Markets (United States)

Hi. Thanks for taking my question. Richard, just wanted to go back to the credit card transition. You've talked in the past about kind of reinvesting some of the savings but I think you just also mentioned maybe keeping a little bit of it. I'm just curious, is that a change, are you considering letting some more of that flow through – I mean you have had a lot of expense on the IT front now with the wage increase FX has been a headwind? So just curious if there is any change in how you are thinking about the savings there? And now that we are kind of very close to it, any comment on what those savings could be in terms of magnitude?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, no comments until we get there. So it really is going be probably not until early October when we report our year-end and fourth quarter numbers. Since early June would be the beginning of the first – about three weeks into our fourth quarter. So I can't really tell you anything about it. We've made no change in what piece of this bucket we're thinking of saving. If anything, as we went through the final negotiation several months ago of what the rewards structure would be, Craig pushed it further towards the customer, towards the member who would get this card. We want it to be a great card, and so if anything, we went the other way a little bit.

I just mentioned – perhaps I didn't mention it that when I talk to people, as people have talked to me, my standard line has been like anything we do, when we save a buck on a piece of merchandise, we can buy better, and we're going to give, as a rule of thumb, the majority of it maybe 80% even 90% back to the customer. We're going to do the same thing here, we're going give most of it back to the member.

That being said, again, in the throes of the final figuring out what exactly do we want the reward structure to be, and because we want that card to be top-of-wallet, as we do with our current co-brand. Top-of-wallet and be used not only at Costco but outside of Costco and to be used at Costco as much as possible. We – Craig pushed the envelope with us and with the third parties to make sure that that value proposition is geared more towards them than us. So there's been no change in terms of that.

Kelly Ann Bania - BMO Capital Markets (United States)

Got it. That is helpful. And then just on the transition, will you have any grace period for a member that say doesn't have the cobranded card but tends to use their AmEx at the store and didn't get a new card in the mail obviously but gets up to the register and goes to pay and you are not taking AmEx anymore or will they just have to find a debit card or have you thought about how to treat that situation?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, first of all, there's going be a lot of communication several times by us to our members about timing and everything. Contractually, there's a lot of things we can't do until near the end. There will be plenty of information provided. We're still going to upset a few members when they come in. We did it with gas pumps years ago when we stopped accepting certain things.

And – but at the end of the day, there will be plenty of opportunities. The fact is that there will be some members that have an existing Visa card in their wallet while we would prefer them to have ours. There will be cannibalization that way. Frankly, there will be some cannibalization. Look, whether it's American Express or Citi or any other big credit card issuer, they're the bank that determines credit eligibility for somebody signing up. Now that doesn't impact the portfolio people, all the people that have the current co-brand. They're going to get a new card similar in terms of credit capacity and things from their existing co-brand relationship. But somebody who has to sign up, there are millions of people that never got an Amex card because they couldn't. They have resorted to debit or cash or check. There are some of those people that haven't – will be thrilled. There's some debit cardholders that will do this. But when you add it all up, we think that it's a net – we know that it's a net positive certainly in terms of what we've negotiated, and we'll see where it goes from there.

Kelly Ann Bania - BMO Capital Markets (United States)

Got it. That's helpful and then if I could just ask one more on online. A lot of retailers are spending a lot of money investing in their online business. It has kind of pressured the margins for them there. I believe your e-commerce business is higher margin. Just curious how you think about spending there going forward and is that higher margin structure sustainable?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

I'm sorry. Could you repeat that?

Kelly Ann Bania - BMO Capital Markets (United States)

In terms of online, just a lot of retailers have been talking about how much they are investing in their online business and that pressuring their margins for that side of the business. I believe Costco's margins online are higher margin and I am just curious how you think about spending there, and is that higher margin structure for e-commerce as sustainable?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, first of all, our gross margins online are a little lower. Its operating margin is quite a bit higher because you have a substantially lower SG&A. Now the fact that we're not spending hundreds of millions of dollars online perhaps is part of that. But at the end of the day, we certainly make more when that dollar is sold online than it is in-store. And notwithstanding the fact that our gross margin, what we charge the member is lower online than it is in-store.

Kelly Ann Bania - BMO Capital Markets (United States)

I guess the question is do you see that sustainable?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

I do because the SG&A portion is so low and because we're so extreme.

Kelly Ann Bania - BMO Capital Markets (United States)

Great. Thank you.

Operator

Your next question comes from the line of Scott Mushkin with Wolfe Research.

Scott A. Mushkin - Wolfe Research LLC

Hey, guys. Thanks for letting it go so long. I just wanted to poke at the environment that almost everyone seems to be operating in right now. I mean I think you talked about traffic and I assume February traffic is in that kind of 2 to 2.5 range too. Talked about the deflation outlook. We talked about wages going up. I guess as you kind of move forward here and this is not just a Costco question, I guess this is from an analyst perspective that covers a lot of retail, it seems like everybody is facing a lot of the same challenges. I mean, do you see a light at the end of the tunnel?

We had deflation now minus 1 maybe, we have wage inflation, we have traffic that has kind of come down a little bit. Not a great environment and so it seems again that maybe something has to give here. Is the wage inflation going to finally pick up demand? Where does this in your opinion kind of end? Even Costco which is probably one of the best retailers in the world domestically is feeling the pressure. And I'm just trying to understand what is the end game here generally and I don't know if you have any thoughts on that? That's my question.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

I don't know if this will give you comfort or anxiety. We're going to keep doing what we do. In bad times, we probably have the benefit of being more aggressive to drive stuff. And if anything, I think we're doing it from a stronger position now than we've ever been in. We're going out there driving prices down. We see our competitive moat actually even relative to traditional brick and mortars, not only our direct competitors but other forms of – and not just clubs but other forms of category diamond retailers. That moat has widened a little bit of late – of late being the last year or two. And the answer around here is well, can we get a little more margin? And the answer is, of course no, if we could drive more business so we could make it tougher on everybody. So I think – and then again, I think some of the things we're doing in terms of our strength with our vendors and our global sourcing, all that stuff, that helps. We've got a – we're doing a lot of good things.

Scott A. Mushkin - Wolfe Research LLC

So do you have concern though given the slow wind down that we are seeing, Richard, a little bit on the components I mentioned, higher costs, yet deflation and the traffic? I mean is that – I think someone asked what do you stay up at night? I mean I guess I'm old too, it's hard to stay up because you're getting old but generally does that get you a little nervous as you look at the business and is the broader economy that something is just a little off?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, I think I used the word earlier I quoted from some economist about toxic anxiety. The world is filled with it. Our economy is darn good compared to a lot of them out there. And the fact that wages are increasing and unemployment has improved, all that's positive. And frankly, higher wages at the lowest wage levels is, in my view, is a positive. I think we've just got our head down and doing a lot of good things. I think that what we're doing again on some of the global sourcing stuff is something that very few can touch. And the strength of our KS brand name, and we're going to figure out how to create more value.

So other than everybody in the world never wanting to leave their house and only typing stuff to order and get it at the front door, other than that risk, I think that the strength of our merchandising, the strength of our competitiveness, the fact that we're able to be successful in other countries, I come to every four-week budget meeting and listen to merchants and some of the things they're doing. And I go out and feel better about what we've got going on.

So in terms of – I think by the way, when it is tougher for everybody else, everybody else does it less extreme than us. They figure out ways to cut costs that aren't necessarily long-term the right way or as right of a way in our view. And maybe we're righteous and we're standing on our own pedestal here, but it seems to have worked for us through good and bad economies.

Scott A. Mushkin - Wolfe Research LLC

Perfect. Thanks for taking my question.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Okay. We're going to take two more questions.

Operator

Okay. And your next one comes from the line of Greg Melich with Evercore ISI.

Gregory Melich - Evercore ISI

Hi. Thanks. I have two questions, Richard. What drove the acceleration in membership fee income growth besides the Living Social program?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Well, Living Social had virtually no impact because it's deferred accounting. Even if we had a little bump in that first week, or last week of Q2, when the Living Social thing was happening, virtually none of it hits the income statement. Because for a new member, that $55 or $110 goes into the P&L over the next 12 months. And my guess is it's probably some strength a year earlier that we're not getting the full benefit of that.

Gregory Melich - Evercore ISI

Okay.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

It might even be strong membership.

Gregory Melich - Evercore ISI

That is the best reason. So I guess the second question then is on the ancillary business because I know these have been growing a lot and you gave us a few numbers I think last quarter. Is there any way to sort of pull those together and say what percentage of your members are doing a car rental or a travel program or car buying or one of these things that – is it 5% of the transactions if you think of it that way?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

I think some of those services, it's 1% or less. I think one number that we've seen and presented in some of our PowerPoint Presentations, I think last year we had car rentals above about 2.5 million car rentals. Let's assume 2.5 million car rentals weren't 2.5 million mutually exclusive customers. But maybe it was 2 million members. I don't know if it's 1.5 million or 2 million. But if it was even 2 million members that would be less than 10%. Probably 7% or 8%. So, my guess is less than that. So, maybe 5%. We've got – not everybody needs a mortgage, not everybody is doing forms check printing. On some of the items like, as a percentage of our total membership base it low. But there's a lot of room for it to grow.

Gregory Melich - Evercore ISI

So basically that nice tailwind to gross margin, that could be there for a while if we continue to get...

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Yeah, I think it is. I haven't – absolutely. It probably over time moves the needle a little. It definitely moves the needle a little positively.

Gregory Melich - Evercore ISI

Great. All right. Good luck.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Thank you.

Operator

And your final question comes from the line of Sean Naughton with Piper Jaffray.

Sean P. Naughton - Piper Jaffray & Co (Broker)

Hi. Good morning. So just following up on the Living Social deal, understanding that the deferred accounting doesn't really impact it but how did that impact the total membership numbers for the quarter? And then also how was the retention rate really on the one that you had about 18 months ago?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

I aggregate number of members, we signed up a few more than we did the last time. And I think the 4% increase would be lower and it would be somewhere north of zero and south of 4%.

Sean P. Naughton - Piper Jaffray & Co (Broker)

Okay. But the mechanics of the program when somebody buys that deal, they automatically they get it done. They don't have to take it to the warehouse to get activated?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

They buy the coupon or whatever online. They print it out. They go to the warehouse where they sign up for a membership.

Sean P. Naughton - Piper Jaffray & Co (Broker)

Okay. So you don't get those...

Richard A. Galanti - Executive Vice President, Chief Financial Officer

It's that latter take that when we represent, when we recognize it as a member and when we start our deferred accounting. Which will be small in first year because you have offsets, you have a value proposition to that purchaser.

Sean P. Naughton - Piper Jaffray & Co (Broker)

Okay. So there could be more people that are signing up in the current quarter that we are in now that have purchased that deal?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

There will be. Yeah.

Sean P. Naughton - Piper Jaffray & Co (Broker)

And then I guess the second question would be just around – you didn't talk much about the other international business being flat in February. You did say something that the Chinese New Year but is there something going on in the Japan business? You haven't called it out in the monthly for a long time as being a real positive contributor to comps. Just any comment you can elaborate on for February for other international and then also specifically in Japan?

Richard A. Galanti - Executive Vice President, Chief Financial Officer

I think in Japan the last couple years we've had probably a little more cannibalization and their economy is soft. I know of late, again, as it relates to the strong dollar, in all countries where the dollar is much stronger there is a little weakness in some of the bigger ticket items.

Sean P. Naughton - Piper Jaffray & Co (Broker)

Okay.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

Not big but there's (1:37:40) a little.

Sean P. Naughton - Piper Jaffray & Co (Broker)

Okay. Thank you, Richard.

Richard A. Galanti - Executive Vice President, Chief Financial Officer

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

Operator

Ladies and gentlemen, this does conclude today's conference call. You may now disconnect.