

### A World Devoid of Brick & Mortar

The holiday shopping season is on the horizon and fast approaching. The trend is likely to continue this year as consumers turn to online platforms, including mobile which has gained traction, to complete their purchases. However, e-commerce retail sales still represents a relatively small share of total sales. According to the U.S. Census Bureau, as of June 30, 2017, the ratio was approximately 8.9 percent. By comparison, e-commerce retail sales to total sales as of December 31, 2007 was only 3.5 percent. Admittedly, certain industries are more vulnerable to sales migrating away from the traditional brick and mortar channel.

Therefore, we pose the question whether we are headed for a world devoid (or largely devoid) of brick & mortar retailers? On the side panel, we highlight a trend in the dollar of retail sales per employee for two retail segments, Nonstore and All Other. Establishments in the Nonstore Retailers subsector retail merchandise using a variety of methods, but is a reasonable proxy for electronic shopping. All Other represents establishments that retail merchandise through brick and mortar locations.

In terms of employee utilization, the Nonstore Retailers have gained significant advantage since 1992. The dollar of sales generated per employee for Nonstore was on-par with traditional retailers at approximately \$16.16 and \$12.94, respectively in 1992. While both have gained over time, partially attributed to inflation, employee utilization for Nonstore has dramatically outpaced the All Other segment. In 2016, the dollar of sales generated per employee for Nonstore improved more than 5.0x to approximately \$87.57. Over the same horizon, sales per employee for the All Other segment improved to only \$26.95.

While the trend may signal the eventual death of traditional brick and mortar, it may be an exaggerated conclusion. According to Bain & Company, a retailing strategy that combines brick and mortar with the electronic shopping channel will attract a broader range of customers and achieve higher profitability. This omnichannel approach to retailing strives to offer a superior customer experience over retailers that try to pursue either one independently. Bain suggests the online channel is more than a transactional interface that it symbolizes the “front doors” to a store. And stores, Bain concludes, are not just showrooms: They offer inspiration and community, function as test labs, help desks, sales support, advisory, pickup and return locations, and shipping centers.

### On the Move Higher in Manufacturing Sentiment

Survey measures of the manufacturing sector have rebounded significantly from the levels experienced in 2016 when the index was teetering between contraction and expansion. Over the past few months, the index has increased for five consecutive months to 60.8 in September, its highest reading since May 2004. Generally, values above 50 represent expansion while values below 50 represent contraction. In terms of the forward looking indicators such as customer deliveries, the manufacturing appears well poised for growth into the end of the year. This is confirmed by the Bureau of Labor Statistics job opening report which shows both durable and nondurable goods manufacturing at or near its highest level this cycle.

On page three, we track the trend in the ISM manufacturing index and compare it to the trade weighted U.S. dollar index. The index is a weighted average of the foreign exchange value of the U.S. dollar against the currencies of a broad group of major U.S. trading partners.

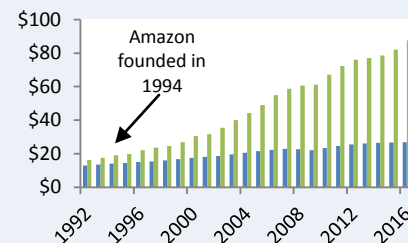
### Interest Rate Monitor

	Current	Previous
PCE:	1.4%	1.4%
Core PCE:	1.3%	1.4%
CPI:	2.2%	1.6%
Core CPI:	1.7%	1.7%
Unemployment Rate:	4.2%	4.4%
U6 Unemployment Rate:	8.3%	8.6%
Non Farm Payrolls:	-33,000	222,000
Jobless Claims (4-wk Avg):	257,500	245,750
Real GDP:	3.1%	1.4%
2-Yr Treasury Rate:	1.51%	1.37%
10-Yr Treasury Rate:	2.28%	2.35%
Next FOMC Meeting:	Oct 31 - Nov 1	
Consensus for Rate Hike:		
Fed Funds Target Range:	1.00 - 1.25	.75 - 1.00

*PCE, CPI readings are YoY; core strips out food & energy*

*U6 Unemployment: Total unemployed, plus all marginally attached workers plus total employed part time for economic reasons*

### Dollar of Retail Sales per Employee: Nonstore vs All Other Retailers



Note: Data is annual through 2016

Source: FRED, Bloomberg

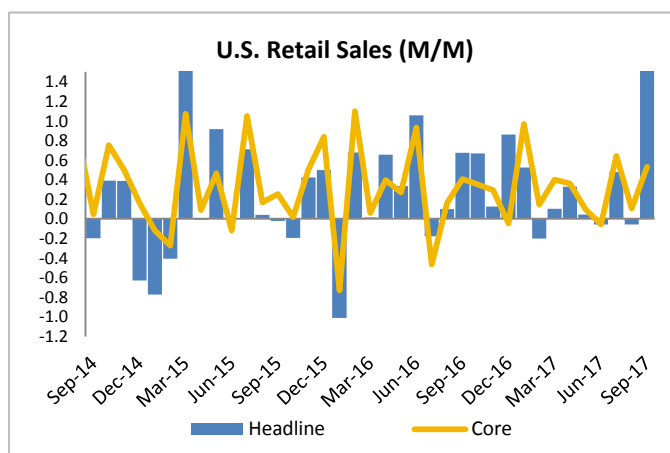
## U.S. Retail Sales – September

**Release Date:** October 13, 2017

**Market Consensus:** 1.8%

**September Result:** 1.6%

The headline retail sales figure for September advanced 1.6 percent compared to the prior month which was the fastest pace of growth since March 2015. However, the reading was two tenths shy of the market consensus which called for an increase of 1.8 percent. Effects from the landfall of hurricane Harvey in late August and Irma in early September were apparent in this month's sales data. In particular, sales



at gasoline stations were led higher (+5.8%) as supply concerns mounted from certain refineries in Texas remaining offline for several weeks. Prices adjusted abruptly increasing across the country with the national average advancing nearly 15 percent from \$2.27 a gallon for regular conventional gas for the week ended August 21 to \$2.60 for the week ended September 4. Over recent weeks, the supply concerns have largely abated and the average price has pared its gains settling back near \$2.40 for the week ended October 16.

The relatively solid gains in sales for September helped boost third quarter estimates of GDP which are now tracking near 2.7 percent, 1.7 percentage points of which are estimated to be fueled by private consumption of goods and services. By industry, advances were seen in Motor Vehicle & Parts (+3.6%), Building Material & Garden (+2.1%), Food & Beverage (+0.8%), Food Services & Drinking Places (+0.8%) and Nonstore (+0.5%) retailers.

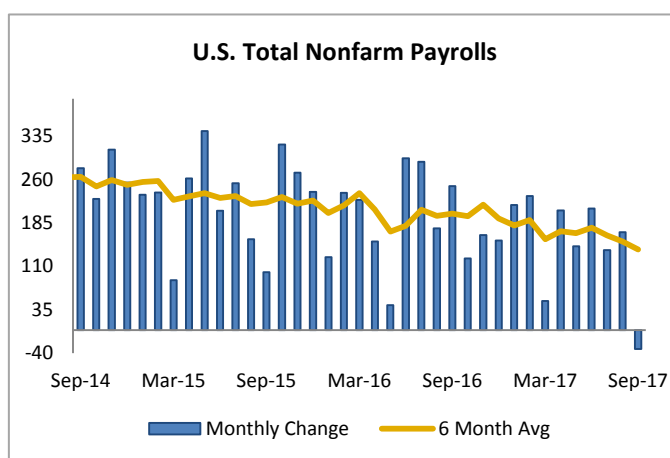
## U.S. Total Nonfarm Payrolls – September

**Release Date:** October 6, 2017

**Market Consensus:** 100K

**September Result:** -33K

The Bureau of Labor Statistics released its employment report for September last Friday. As suspected, the noise in the data from the pair of hurricanes that struck the southern portions of the U.S. has made it difficult to gauge the direction of the labor market.



Nonfarm payrolls for the month were reported to decline by 33 thousand which was well below last month's figure of 169 thousand and well off the year-to-date average of 171 thousand (excluding the most recent month).

While the pace of hiring has certainly been slowing as the pool for labor resources continues to shrink, the abrupt decline can largely be attributed to the storms. For perspective, vulnerable industries in the services sector such as leisure and hospitality and in the goods producing sector such as manufacturing recorded sharp declines of 111 and 1 thousand jobs, respectively for the month.

Source: FRED, Bloomberg

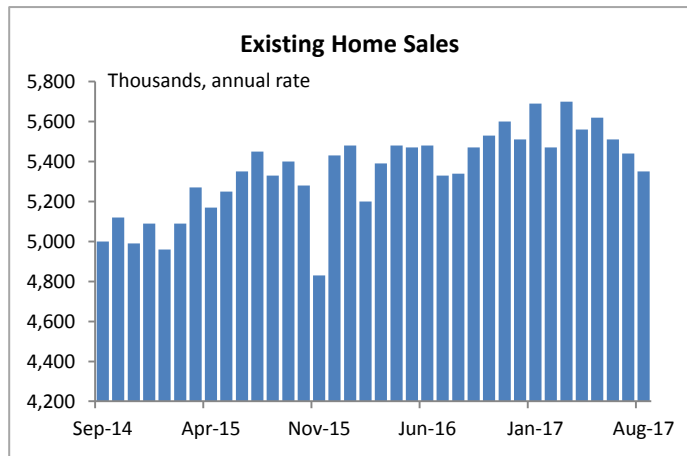
## U.S. Existing Homes Sales – September

**Release Date:** October 20, 2017

**Prior Result:** 5.35 million

**September Result:** TBA

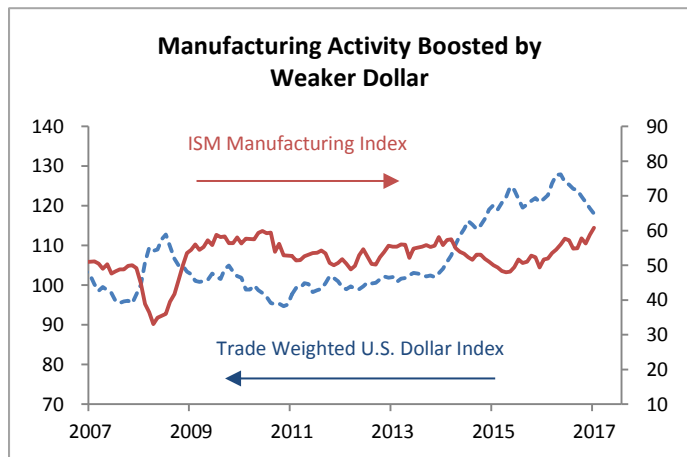
Existing home sales for September are due out later this month; however, the trends we highlighted in our October 2 weekly publication does not bode well in terms of the momentum turning around. Both existing and new home sales have been decelerating over recent months. For resales, the trend has been lower for nearly the past 5 consecutive months with a small bump in May. Affordability, particularly over a sustained period of time, will certainly impede sales growth. A combination of higher real estate prices and borrowing costs are tempering demand. However, building permits which may be a proxy for future demand has been trending higher which gives some hope to the notion that the sales deceleration will turn.



In August, U.S. existing home sales decreased 1.7 percent, compared to the prior month, to an annual rate of 5.35 million which was ahead of the market consensus of 5.30 million. As sales have softened over recent months, the median sales price has declined from a year-to-date high of \$263,300 to \$253,500 for both single- and multi-family properties. Not surprisingly, single-family housing inventories have been trending higher and the stock now represents 4.2 months worth of supply compared to 3.7 at the beginning of the year. By geographic region, sales were particularly weak in the South (-5.7%) and the West (-4.8%) while the Northeast (+10.8%) and Midwest (+2.4%) were relatively strong.

## Weaker U.S. Dollar Contributing to Stronger Levels in Manufacturing

Survey measures of the manufacturing sector have rebounded significantly from the levels experienced in 2016 when the index was teetering between contraction and expansion. Through much of 2016 and into the early part of 2017, the U.S. dollar relative to the currencies of its trading partners appreciated rather meaningfully causing the sector to weaken. Since peaking in January 2017 at 127.9, the dollar has depreciated 7.7 percent to 118.02 at the end of September and led to the reversal of the ISM index.



While the recent foreign exchange dynamics certainly support the pick-up in manufacturing, the index began its ascent higher well before the dollar depreciation. Seemingly, a portion of the stronger data can likely be attributed to a change in the tone from the White House. President Trump has consistently advocated for companies to contribute to the manufacturing sector in the U.S. and as a result is reflecting in certain measures of sentiment and activity.

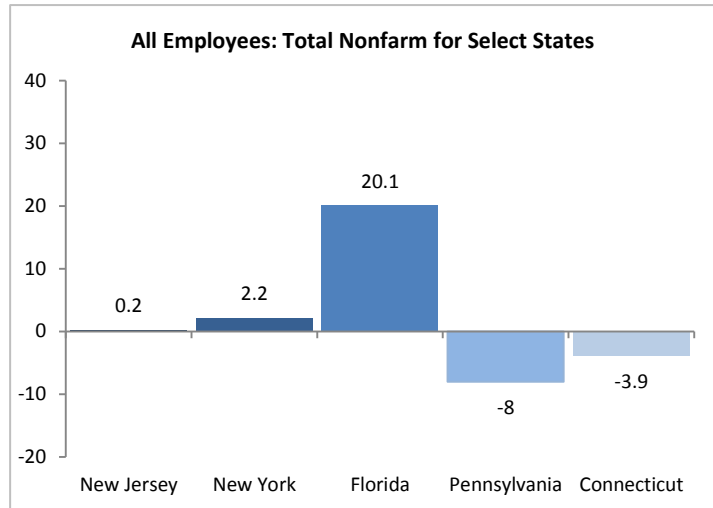
Source: FRED, Bloomberg

**All Employees: Total Nonfarm – August**

Release Date: September 27, 2017

Change, thousands of persons

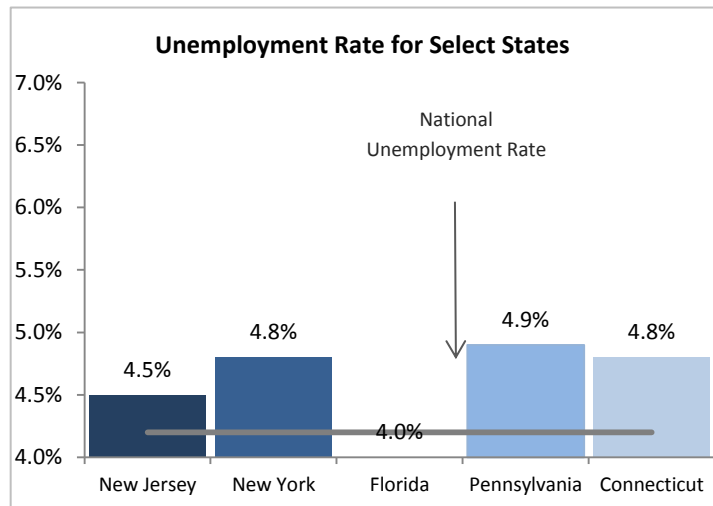
	Current	Prior
New Jersey	0.2	6.7
New York	2.2	14.6
Florida	20.1	28.2
Pennsylvania	-8	36.9
Connecticut	-3.9	-1.7



**Unemployment Rate – August**

Release Date: September 27, 2017

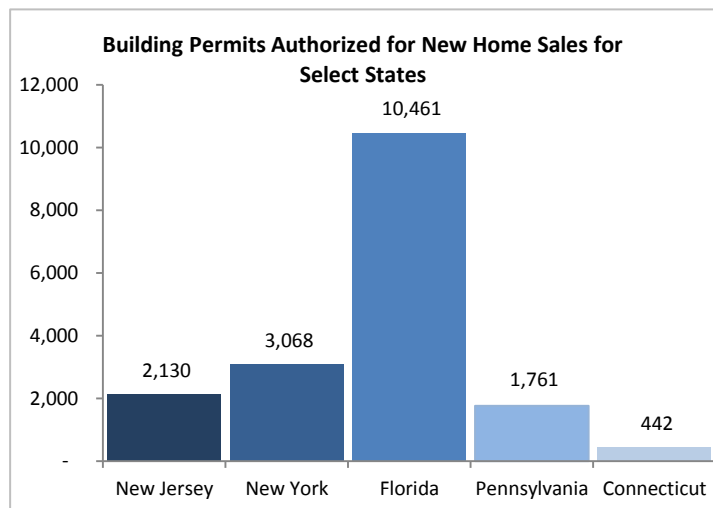
	Current	Prior
New Jersey	4.5%	4.2%
New York	4.8%	4.7%
Florida	4.0%	4.1%
Pennsylvania	4.9%	5.0%
Connecticut	4.8%	5.0%



**Building Permits Authorized for New Home Sales – August**

Release Date: September 27, 2017

	Current	Prior
New Jersey	2,130	2,328
New York	3,068	2,902
Florida	10,461	10,191
Pennsylvania	1,761	1,778
Connecticut	442	391



Source: FRED, Bloomberg

Key Economic Indicators													
Economic/Financial Indicator	Units	Period	Current	Prior	Prior Year	07/01/17	04/01/17	01/01/17	07/01/16	01/01/16	01/01/15	5Yr Max	5 Yr Min
<b>Price Levels</b>													
PCE Core Inflation <sup>1</sup>	Y/Y % Chg	Aug	1.3%	1.4%	1.9%	1.4%	1.6%	1.9%	1.8%	1.6%	1.4%	1.9%	1.3%
Consumer Price Index	Y/Y % Chg	Sep	2.2%	1.9%	1.5%	1.7%	2.2%	2.5%	0.9%	1.4%	-0.2%	2.8%	-0.2%
CPI excluding food & energy	Y/Y % Chg	Sep	1.7%	1.7%	2.2%	1.7%	1.9%	2.3%	2.2%	2.2%	1.6%	2.3%	1.6%
Producer Price Index: Final Demand Services	Y/Y % Chg	Sep	2.1%	2.1%	1.4%	1.8%	1.7%	1.1%	1.1%	1.2%	2.0%	2.2%	0.2%
Producer Price Index: Final Demand Goods	Y/Y % Chg	Sep	3.3%	3.1%	-0.4%	2.3%	4.1%	3.2%	-2.1%	-2.5%	-3.8%	4.1%	-5.2%
Personal Consumption Expenditures Price Index	Y/Y % Chg	Aug	1.4%	1.4%	1.1%	1.4%	1.7%	2.0%	1.0%	1.1%	0.2%	2.2%	0.2%
<b>Employment &amp; Labor Markets</b>													
All Employees: Total Nonfarm Payrolls, Monthly Change	Thsd	Sep	(33)	169	249	138	207	216	291	126	234	344	(33)
Unemployment Rate	Percent	Sep	4.2%	4.4%	4.9%	4.3%	4.4%	4.8%	4.9%	4.9%	5.7%	8.0%	4.2%
U6 Unemployment Rate <sup>2</sup>	Percent	Sep	8.3%	8.6%	9.7%	8.6%	8.6%	9.4%	9.7%	9.9%	11.3%	14.8%	8.3%
4-Week Moving Average of Initial Jobless Claims, Monthly	Thsd	Oct	258	267	250	244	250	254	267	272	285	404	236
Average Duration of Unemployment	Weeks	Sep	26.8	24.4	27.3	24.9	24.1	25.1	28.0	29.0	31.9	39.8	24.1
Avg Hourly Earnings of All Employees (Private)	Y/Y % Chg	Sep	0.0	1.8	1.8	0.0	0.0	0.0	0.0	0.0	0.0	3.6	1.7
Avg Wkly hrs worked (Manu: Production & Nonsupervisory)	Hours	Sep	41.8	42.0	41.8	42.0	41.9	41.9	42.0	41.9	42.0	42.2	41.5
<b>Retail Trade, Housing &amp; Other Activity</b>													
Total Vehicle Sales	Millions	Sep	18.9	16.5	18	17.1	17.4	17.7	18.1	18.1	17.1	18.9	14.8
Retail Sales	Y/Y % Chg	Sep	4.4%	3.5%	3.1%	3.7%	4.5%	5.6%	2.3%	2.8%	4.1%	5.6%	1.6%
Retail Sales ex Auto	Y/Y % Chg	Sep	4.6%	4.1%	3.0%	3.6%	4.5%	5.4%	2.0%	2.3%	2.3%	5.4%	0.6%
Housing Starts	Thsd	Aug	1,180	1,190	1,164	1,190	1,154	1,236	1,223	1,123	1,101	1,328	754
New Housing Units Under Construction	Thsd	Aug	1,075	1,197	1,040	1,197	1,098	1,083	1,086	1,051	952	1,230	652
Real Estate Loans, All Commercial Banks	Y/Y % Chg	Sep	4.0	4.3	7.3	4.6	5.2	6.2	7.2	6.5	3.3	7.5	-0.7
Building Permits Authorized for New Private Housing	Thsd	Aug	1,272	1,230	1,200	1,230	1,228	1,300	1,175	1,193	1,069	1,363	832
<b>Production &amp; Business Activity</b>													
Industrial Production	Index	Sep	104.6	104.3	103.0	105.1	105.0	103.5	103.2	103.5	105.6	106.6	99.9
Capacity Utilization: Total Industry	Percent	Sep	76.0%	75.8%	75.6%	76.5%	76.6%	75.7%	75.9%	76.1%	78.1%	79.2%	75.4%
Coincident Economic Activity Index	Index	Aug	2.7%	2.8%	3.0%	2.8%	2.8%	2.7%	3.0%	3.4%	3.5%	3.8%	2.7%
<b>National Accounts</b>													
Real Gross Domestic Product	Q/Q % Chg	Q2	3.1%	1.2%	2.2%	2.7%	3.1%	1.2%	2.8%	0.6%	3.2%	5.2%	-0.9%
Nonresidential Fixed Investment	Q/Q % Chg	Q2	8.7%	8.8%	3.5%	8.7%	8.7%	8.8%	3.1%	-4.8%	3.1%	12.0%	-5.6%
Residential Fixed Investment	Q/Q % Chg	Q2	-3.1%	13.0%	0.8%	-3.1%	-3.1%	13.0%	1.6%	16.2%	12.0%	27.3%	-3.1%
Change in Private Inventories	Billions	Q2	4.9	(0.1)	12.2	4.9	4.9	(0.1)	16.5	42.2	148.6	148.6	(0.1)
Net Exports of Goods & Services	Billions	Q2	(567.2)	(582.8)	(501.6)	(567.2)	(567.2)	(582.8)	(492.8)	(526.2)	(538.2)	(440.9)	(582.8)
Trade Balance: Goods & Services	Millions	Aug	(42,395)	(43,558)	(41,130)	(43,558)	(47,375)	(48,775)	(41,294)	(43,409)	(41,819)	(34,813)	(49,040)
Government: Current Expenditures	Q/Q % Chg	Q2	-4.1%	4.7%	2.1%	-4.1%	-4.1%	4.7%	3.4%	4.6%	3.0%	8.1%	-7.4%
<b>Financial Indicators</b>													
Standard & Poors 500 Index	Index	Oct-16	2,441	2,438	2,186	2,423	2,363	2,239	2,103			2,558	-
10 Yr Treasury Rate	Percent	Oct-16	2.30%	2.28%	1.80%	2.31%	2.40%	2.45%	1.46%			3.04%	1.37%
2-10 Yr Treasury Rate Spread	Percent	Oct-16	0.77%	0.82%	0.90%	0.93%	1.13%	1.25%	0.87%			2.66%	0.76%
Oil Price (WTI)	Spot Price	Oct-10	49.58	49.34	49.76	46.02	50.54	53.75	49.02			110.62	26.19
Gold Price	Spot Price	Oct-17	1,290	1,290	1,252	1,242	1,245		1,340			1,751	1,049
<b>Credit Markets &amp; Monetary Data</b>													
Money Supply M2	Y/Y % Chg	Oct	5.2%	5.2%	7.9%	5.5%	6.1%	6.8%	6.9%	5.7%	6.1%	8.7%	0.0%
Velocity of M2	Percent	Q2	1.4%	1.4%	1.5%	1.4%	1.4%	1.4%	1.4%	1.5%	1.5%	1.6%	1.4%
Loans & Leases in Bank Credit, All Commercial Banks	Y/Y % Chg	Oct	3.3%	3.3%	7.9%	3.4%	4.0%	6.2%	7.9%	7.9%	7.5%	8.5%	1.9%
Total Consumer Credit, Outstanding	Y/Y % Chg	Aug	5.5%	5.8%	2.9%	5.8%	6.1%	6.6%	2.6%	3.1%	7.0%	7.3%	2.6%

<sup>1</sup>Personal consumption expenditures core inflation excludes food & energy prices

<sup>2</sup>Total unemployed, plus all marginally attached workers plus total unemployed part time for economic reasons

Regional Economic Indicators													
Economic Indicator	Units	Period	Current	Prior	Prior Year	07/01/17	04/01/17	01/01/17	07/01/16	01/01/16	01/01/15	5 Yr Max	5 Yr Min
<b>New Jersey</b>													
All Employees: Total Nonfarm	Thsd Chg	Aug	0.2	6.7	6.3	6.7	0.7	13.9	15.1	1.8	-3.8	23.5	-15
Unemployment Rate	Percent	Aug	4.5%	4.2%	5.0%	4.2%	4.1%	4.6%	5.1%	5.0%	6.5%	9.4%	4.1%
Building Permits Authorized for New Private Housing	Units	Aug	2,130	2,328	2,347	2,328	1,535	2,583	1,482	1,556	2,165	4,001	1,267
Leading Index	Percent	Aug	-0.48%	0.58%	1.49%	0.58%	1.76%	1.55%	1.32%	1.41%	1.36%	2.29%	-0.48%
<b>New York</b>													
All Employees: Total Nonfarm	Thsd Chg	Aug	2.2	14.6	4.7	14.6	4.4	26.2	34.2	14.3	11.8	44.1	-24.8
Unemployment Rate	Percent	Aug	4.8%	4.7%	4.9%	4.7%	4.3%	4.6%	4.9%	4.9%	5.7%	8.4%	4.3%
Building Permits Authorized for New Private Housing	Units	Aug	3,068	2,902	2,988	2,902	3,630	6,900	2,825	1,620	3,448	13,687	1,620
Leading Index	Percent	Aug	0.26%	-0.08%	1.03%	-0.08%	0.76%	2.16%	0.72%	0.79%	1.61%	2.70%	-0.08%
<b>Florida</b>													
All Employees: Total Nonfarm	Thsd Chg	Aug	20.1	28.2	20.4	28.2	10.8	55.6	44	20.8	23.8	55.6	-6.2
Unemployment Rate	Percent	Aug	4.0%	4.1%	4.9%	4.1%	4.5%	5.0%	4.9%	5.0%	5.7%	8.3%	4.0%
Building Permits Authorized for New Private Housing	Units	Aug	10,461	10,191	10,475	10,191	10,725	10,237	9,130	8,048	7,805	11,108	5,165
Leading Index	Percent	Aug	2.03%	1.97%	1.75%	1.97%	3.06%	1.49%	1.70%	2.28%	2.19%	3.06%	1.49%
<b>Pennsylvania</b>													
All Employees: Total Nonfarm	Thsd Chg	Aug	-8	36.9	2.1	36.9	-4.1	12.8	29.8	5.9	-6.8	36.9	-20.5
Unemployment Rate	Percent	Aug	4.9%	5.0%	5.5%	5.0%	4.9%	5.2%	5.5%	5.3%	5.4%	7.8%	4.8%
Building Permits Authorized for New Private Housing	Units	Aug	1,761	1,778	1,929	1,778	1,676	1,892	1,319	1,809	1,273	2,636	1,161
Leading Index	Percent	Aug	1.41%	1.14%	1.04%	1.14%	0.68%	2.12%	1.03%	0.98%	0.92%	2.55%	0.21%
<b>Connecticut</b>													
All Employees: Total Nonfarm	Thsd Chg	Aug	-3.9	-1.7	0.6	-1.7	-3.1	6.5	1.8	0.1	2.4	6.5	-6.1
Unemployment Rate	Percent	Aug	4.8%	5.0%	4.9%	5.0%	4.9%	4.5%	5.1%	5.5%	6.1%	8.5%	4.4%
Building Permits Authorized for New Private Housing	Units	Aug	442	391	324	391	281	400	259	200	362	916	200
Leading Index	Percent	Aug	2.46%	0.40%	2.89%	0.40%	0.00%	0.40%	2.38%	1.37%	1.58%	3.15%	-1.08%
<b>New York Metropolitan Area</b>													
All Employees: Total Nonfarm	Thsd Chg	Aug	1.2	12.5	2.6	12.5	-7.2	1.2	45.7	18.6	13.8	63.4	-45.3
Unemployment Rate	Percent	Aug	4.6%	4.3%	4.9%	4.3%	4.2%	4.3%	4.9%	4.8%	5.9%	8.8%	4.0%
Building Permits Authorized for New Private Housing	Units	Aug	3,737	3,657	3,863	3,657	3,800	6,904	2,655	1,913	4,093	16,264	1,913
<b>Orlando Metropolitan Area</b>													
All Employees: Total Nonfarm	Thsd Chg	Aug	0.7	6.8	1.9	6.8	2.8	15.2	10.3	2.7	4	15.2	-4.4
Unemployment Rate	Percent	Aug	3.6%	3.7%	4.4%	3.7%	3.9%	4.7%	4.4%	4.6%	5.5%	8.3%	3.6%
Building Permits Authorized for New Private Housing	Units	Aug	2,193	1,967	1,810	#N/A	1,678	1,597	1,523	1,524	979	3,387	648
<b>Miami Metropolitan Area</b>													
All Employees: Total Nonfarm	Thsd Chg	Aug	-11.9	15.7	3.5	15.7	15.6	12	15.5	6.9	5.5	15.7	-11.9
Unemployment Rate	Percent	Aug	4.1%	4.2%	4.9%	4.2%	4.7%	5.2%	4.9%	5.1%	5.7%	8.2%	4.1%
Building Permits Authorized for New Private Housing	Units	Aug	1,557	2,215	2,145	2,215	2,290	2,032	1,491	1,275	2,018	2,569	689
<b>U.S. Regional Existing Home Sales</b>													
Northeast Census Region	Thsd	Aug	720	650	710	650	730	800	660	750	640	-	-
South Census Region	Thsd	Aug	2,150	2,280	2,170	2,280	2,290	2,310	2,200	2,240	2,100	-	-
West Census Region	Thsd	Aug	1,200	1,260	1,190	1,260	1,180	1,290	1,200	1,190	1,100	-	-
Midwest Census Region	Thsd	Aug	1,280	1,250	1,270	1,250	1,360	1,290	1,270	1,300	1,120	-	-

Source: VNB Institutional Research, FRED

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