



## AUTOMATION EFFECTS ON THE LABOR FORCE

Good day everyone. Thank you for joining us here at Seifried & Brew for our weekly briefing. I am Jamie Sumner here, chief analyst. For this week's briefing, what I want to do is maybe break away from our mold about talking about the economics and talking about interest rates. We're going to look maybe a little bit into the future and talk about **automation**. (Slide 2) This is something that's coming down the pike here particularly in the banking realm. And in the retail realm we've seen automation a lot in the industrial phase and manufacturing and now we're beginning to see it ramp up in the retail space. I was talking to an x-Walmart/Sam's Club employee and they were telling me how Sam's Club has begun this process of automation. They started it several years ago and now they're on the cusp of getting rid of all their cash office employees. So no longer will they have individuals there who will count the cash in the registers, making sure everything balances out. That will all be managed by machine. Also, they're moving toward utilizing all of the checkout kiosks as being a self-checkout. So, they're slowly moving into that process. So, we're seeing this retail firm beginning to become more and more automated, requiring less and less manpower in their facilities. In fact, they're starting the process to begin hiring only part-time employees. So, all their employees primarily will be part-time, very few full-time employees at those locations. And I think that's a trend we're going to continue to see as we move down this track both in the retail space as well as when we look into our banking environment. I can see that automation taking place as well.

When we look at this study (Slide 3) put out earlier this year by the World Economic Forum shaping the future of retail for consumer industries, a very interesting read. You can get this at the following link: [http://www3.weforum.org/docs/IP//2016/CO/WEF\\_AM17\\_FutureofRetailInsightReport.pdf](http://www3.weforum.org/docs/IP//2016/CO/WEF_AM17_FutureofRetailInsightReport.pdf). But a couple of statistics that come out of this is kind of concerning (Slide 4); #1) Retail Positions at Risk. About 30-50% (this report says) of the day-to-day operations are at risk to be taken over by technology. That's a pretty big number when you consider about 10% of the U.S. labor force is hired inside the retail space. In fact, when we look at the numbers, it's about 16 million individuals that are working in that retail space. So about 4-8 million of those jobs will be removed or eliminated and be done for with automation.

And in a separate study done by The Oxford University (Slide 5), we can see the different types of jobs that are at the highest risk here of being taken over by computerization. This study was done back in 2003. So overall, order clerks, a parts salesman, there are sales persons, counter and rental clerks, a very high level of probability of being taken over by computerization. So back then when we look at these numbers, this is according to 2014 figures as far as the number of workers in these retail spaces, you're looking at 7.5 million workers back in 2014. So that's the risk right there that we're seeing. And we see this going through, you know, the past three or four years when you look at places like Panera moving from having you come up and give your order to a person, to now doing it at a kiosk as well as the grocery store utilizing the self-checkout. You look at Amazon, Amazon with their Amazon Go Store. That was a beta store out in Seattle where there's no checkout lines, no waiting. You picked up your items and you walked out. That is currently still in the beta stage, but they're trying to perfect that, to eliminate the need to even go through a checkout line. But overall that's a lot of employees, a lot of jobs that are going by the way sign through this automation. When you look at the retail space (Slide 6), 15% of retail stores (this report says) are anticipated to close over the next decade. So, think about that, 15% of the retail stores closing over the next decade. And that's a net change, that's total closures.

We see this happening overall in the banking environment. You look at the number of branches across the United States (Slide 7). These are insured FDIC institutions. So, the number of branches versus the number of overall institutions. We see the ramp up here. We're on a downward trend inside the number of branches. We peaked out at 2012, a little over 83,000 branches, and now we're coming back down. We're down to just around 80,000



branches in here for the banking environment. And we look at the number of institutions; the number of institutions continuing to fall. We're down to just over that 5,000-institution mark. We continue to see 200-300 banks disappear every year through the acquisition. Over the past five years we've had less than five new bank charters created. And in fact, over the past 3-4 years we haven't had any de novo banks created. So, we see this continual trend in here of moving down in a number of banks and in the number of branches. And it makes sense when we think about it. All that you can do on your cell phone (if you go back 10 years remote deposit was fairly new and only offered to commercial customers) and now just about any bank can offer remote deposit, not only to their commercial customers, but to their retail customers, simply by a click of a picture of the check and sending it out and your money is deposited.

So, when we think about this automation we think about the need for efficiencies inside the institutions because of those tight spreads inside the market. When you're in this budgeting process for the next 12 months, 18 months, 24 months in here, you want to think about areas of your institution that perhaps could be automated a little more in their reach out to your vendors. Looking at different conversions, software conversions. Or if you're planning on going through a new software conversion over the next couple of years look at how maybe you can integrate even more of your processes through one software package in order to alleviate yourself from the mundane and the need for data integration on the outside of that software platform.

So that's what we have for you today. We look forward to seeing you next week back here at Seifried & Brew. Have a great week everyone.

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