Northwest
FARM CREDIT SERVICES

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MARKET SNAPSHOT

NURSERY/GREENHOUSE

Dec. 31, 2018

Executive Summary

Drivers for the nursery/greenhouse industry include labor availability, wage growth and inventories.

- A shrinking labor pool poses a challenge for producers.
- Wage growth and competition has forced agricultural employers to bump up wages to attract and retain workers.
- Plant inventories are in balance overall with the pipeline starting to fill up for some varieties.

12-Month Profitability Outlook

Northwest FCS' 12-month profitability outlook expects Northwest nurseries to be profitable. Revenues remain stable to increasing in 2018 with good demand and good sell-through[1] helping cash flow and profitability. Revenue growth is attributed more to price increases than units sold.

Labor

Nursery growers continue to bemoan tight labor supplies as the national unemployment rate hovers near a half-century low of 3.7 percent. Producers are seeing their long-time workforce age and retire, and are depending more on contract laborers and H-2A visa program workers.

Many growers are re-evaluating their operations to address the labor challenge. Changes include adopting lean management[2] practices to gain production efficiencies, cutting out labor-intensive plants that are too costly to grow and mechanizing where possible.

Wages

According to the Bureau of Labor Statistics, national average hourly earnings rose 3.1 percent over the past year. Many growers report similar increases in overall labor costs, around 3 to 5 percent. Nurseries typically pay between $14 and $17 an hour for farm labor.

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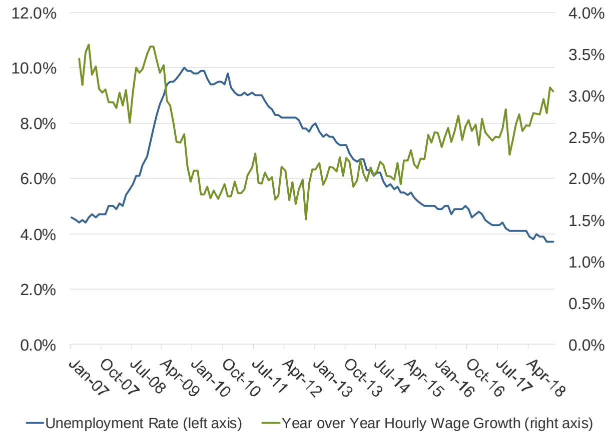
[1] Percent of available product sold

[2] Effort to continuously improve products, services or processes to increase efficiency

Unemployment Rate and Wages



Source: St. Louis Federal Reserve Economic Data

While the federal minimum wage has remained at $7.25 per hour since 2009, many states in the Northwest continue to hike state minimum wage requirements. California, Washington and Oregon have scheduled hourly minimum wage increases in 2019.

State Minimum Wage Increases

State	2018 minimum wage	2019 minimum wage	Percent increase
California	$ 11	$ 12	9.1%
Oregon	$ 10.75	$ 11.25	4.7%
Washington	$11.50	$ 12	4.3%

Wage rates are higher for some large municipalities within these states. Most nurseries pay well over the minimum and expect to increase wages further in the year ahead as they compete for qualified workers.

Inventory

Inventory levels are more balanced compared to shortages over the last couple of years. Some growers are seeing new pricing resistance from retailers, but demand remains strong for high-quality plant material. Consumer trends favor high quality, larger sizes and sculpted or in-bloom plants that provide instant gratification. Inventory costs have increased due to higher costs for labor, steel, lumber and other inputs.

Housing Sales

Home sales and home construction remain key barometers for the nursery industry. Home prices are up more than 50 percent since bottoming in 2012. Rising prices, higher interest rates, constrained housing inventory, millennials weighed down by college debt and new tax laws that reduce incentives for home buyers have all contributed to a drag on home sales.

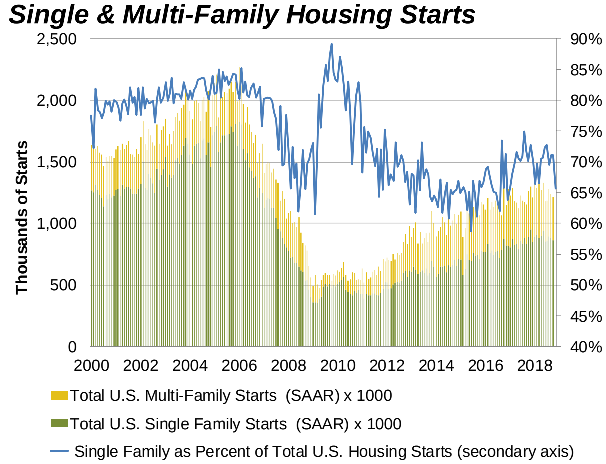
A survey commissioned by the National Association of Home Builders (NAHB) found that 75 percent of households believe the nation is suffering from a housing affordability crisis.

Construction

Total single and multi-family housing starts peaked at over two million units in 2006 and dropped to a punishing low of 400,000 to 500,000 units for a few years following the Great Recession. Housing starts have steadily risen, hovering around 1.2 to 1.3 million seasonally adjusted annual starts for the last couple years. The issuance of new permits continues to be strong, signaling strength in future home starts.

Affordability issues prevalent in the marketplace are potential headwinds for the construction and nursery industries alike.

Single & Multi-Family Housing Starts

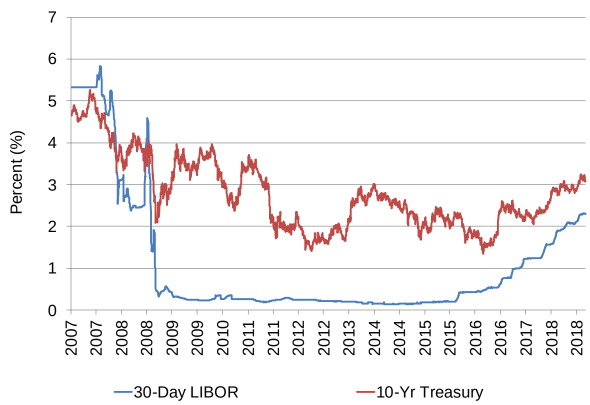


Source: Census Bureau

Interest Rate Outlook

The Federal Reserve Board remains in a tightening monetary mode, with another quarter-percent rate increase added in December, its fourth such increase in 2018, following three one-quarter percent increases in 2017.

Interest Rates



Source: NWFCS Treasury Department

Short-term rates were anticipated to rise through 2020. However, the outlook could change due to a potential slowdown in global economic growth signaled by increased volatility in financial markets, declining oil prices, and trade disputes. Long-term rates rose steadily in 2018 but are down from recent highs as the market digests these dynamics. The Fed is expected to proceed cautiously in 2019, linking further rate increases to economic performance.

Additional Information

Northwest FCS Business Management Center
www.northwestfcs.com/Resources/Industry-Insights

Nursery Management
https://www.nurserymag.com/article/nm1115-nursery-state-industry-2015

Learn More

For more information or to share your thoughts and opinions, contact the Business Management Center at 866.552.9193 or bmc@northwestfcs.com.

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