Northwest
FARM CREDIT SERVICES

Contact your local Northwest FCS branch.
800.743.2125 | northwestfcs.com

MARKET SNAPSHOT
NURSERY/GREENHOUSE

June 30, 2018

Executive Summary

Drivers for the nursery/greenhouse industry include a strong economy, robust sales growth and strong prices.

- Mild Northwest weather helped the greenhouse sector rebound for a strong 2018 season.
- Housing construction is at an 11-year high, helping bolster demand for landscaping material.
- Rising labor and shipping costs threaten margins despite strong prices.

12-Month Profitability Outlook

The Northwest FCS 12-month profitability outlook calls for profitable returns to growers. Sales growth remains strong for all segments of the industry. Due to solid demand, growers are able to steadily increase prices. Labor and trucking will continue to challenge the industry.

Straw Poll

The straw poll is an annual survey of Northwest FCS' nursery customers that collects sales numbers through May 31. The straw poll reported 2018 year-over-year sales growth of 5.65 percent for the industry as a whole. The industry was hit hard during the Great Recession. Following low sales numbers, year-over-year percentage growth was exuberant. The industry has fully recovered and sales growth is on a more sustainable growth trend. Overall, the industry's current position and projected outlook for 2018-19 remains strong.

Greenhouse

The segment enjoyed a rebound from declines last season with nearly 12 percent growth over a disappointing 2017. Sales of products typically grown in greenhouses

Straw poll results	2012	2013	2014	2015	2016	2017	2018
Total sales (000s)	$119,797	$128,077	$138,138	$157,052	$171,489	$178,785	$188,882
Y/Y % change		6.91	7.86	13.69	9.19	4.25	5.65

Source: Northwest Farm Credit Services customers surveyed.

depend on sunny spring weather that drives consumers to garden centers

Oregon and southwest Washington had near-record spring rainfall in 2017. Rainy conditions caused a pullback in regional sales despite strong national sales. More favorable spring weather drove 2018 sales recovery in the greenhouse segment.

Greenhouse growers are well suited for mechanization and technological enhancements. In the past, using mechanization was a market differentiator. However, as labor becomes scarcer, expensive mechanization might be required to operate effectively.

Many large retailers are consolidating their buyers, moving away from local offices. Therefore, greenhouses that produce on a regional or national scale might be more appealing to large retail stores compared to smaller-scale greenhouse operations.

Shade Tree

As a result of good demand for landscaping products from a strong housing market, this segment continues to see steady and stable growth of 4.96 percent in 2018.

With quicker inventory turn times than container growers, this segment has the ability to shift production more rapidly and capture improving demand faster.

Although the industry is performing well, producers have pulled back on growth after experiencing the Great Recession. A difficult labor market is also keeping brakes on extensive growth. These constraints will lead to steady, albeit restricted, expansion in 2019.

Container and B&B

Growers in the container and B&B (ball & burlap) segment saw less growth in 2018 sales – at 3.82 percent – compared to the other segments. Sales growth was restricted by generally limited inventory.

Product availability remains a challenge to producers. Inventory rotations are still recovering from the Great Recession and market preferences have shifted, leaving excess availability in some categories and acute shortages in others. Producers are working to rebuild rotations and adjust to changing popular species.

Another reason for slower container and B&B sales was a colder spring in the central and eastern U.S. The weather reduced the sales window and restrained opportunities to capture additional reorders.

Further, increasing logistical challenges associated with the trucking electronic logging device mandate as well as labor shortages will test the industry.

However, growers have pricing power and are able to secure reasonable and steady price increases resulting in growing revenues.

Interest Rate Outlook

The Federal Reserve continues on a steady drumbeat with two years of nearly regular 25-basis-point increases to the target rate. Prime rate and other interest rate markets responded with short-term funding costs reaching the highest levels since the Great Recession. At least one more increase in the short-term Fed target rate and a similar increase to longer-term funding costs in the second half of 2018 are expected.

Inflation is closely watched by the Federal Reserve when deciding on target rates. Despite near-record employment, gross domestic product growth and equity market gains, inflation remains mild at 2.2 percent as of May 2018. This rate of inflation is within the Fed’s targets. However, it is the highest rate of inflation since 2008 and has been on a steady climb since the 2016 election.

Economic Performance

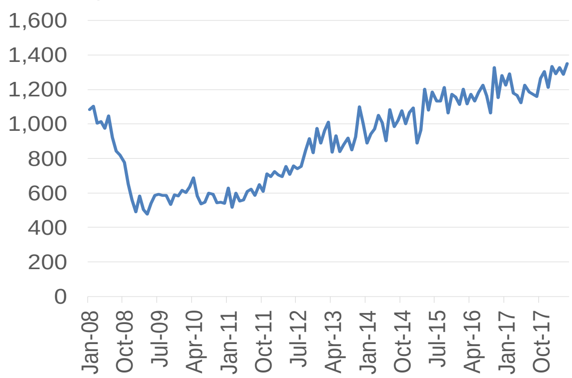
Increasing short-term interest rates are designed to moderate economic expansion, help prevent excessive inflation and limit the development of equity “bubbles.”

Increasing rates have resulted in compressing yield spreads as long-term rates have not kept up with short-term rates. Historically, a recession has followed when short-term rates are higher than long-term rates, referred to as an inverted yield curve. However, the consensus among economists is that risk of a recession is limited.

The U.S. economy is strong, which will support demand for the nursery/greenhouse industry. Housing starts and disposable income are two key drivers of consumers’ demand for plant material and both are favorable for Northwest producers.

As of May 2018, housing starts are at the highest levels since 2008 at a seasonally adjusted annual rate of 1.4 million units.

Housing starts



Source: Census Bureau.

Disposable income is showing signs of growth. Levels of debt servicing to disposable income are also at multi-decade lows leaving consumers with money to spend. Strong economic factors continue to fuel a strong market for nursery producers.

Percent of debt payments to disposable income

Source: FRED Economic Research, St. Louis Federal Reserve.

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 bmc@northwestfcs.com.

To receive email notifications about Northwest and global agricultural and economic perspectives, trends, programs, events, webinars and articles, visit www.northwestfcs.com/subscribe or contact the Business Management Center.