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MARKET SNAPSHOT

Nursery/Greenhouse

September 30, 2023

12-Month Profitability Outlook

Executive summary

AgWest Farm Credit's 12-month outlook sees the nursery/greenhouse industry as profitable. Drivers include strong sales, economic concerns, increasing use of pay-by-scan contracts among big box stores, rising borrowing costs and the increasing likelihood of some business owners exiting the industry.

Industry drivers

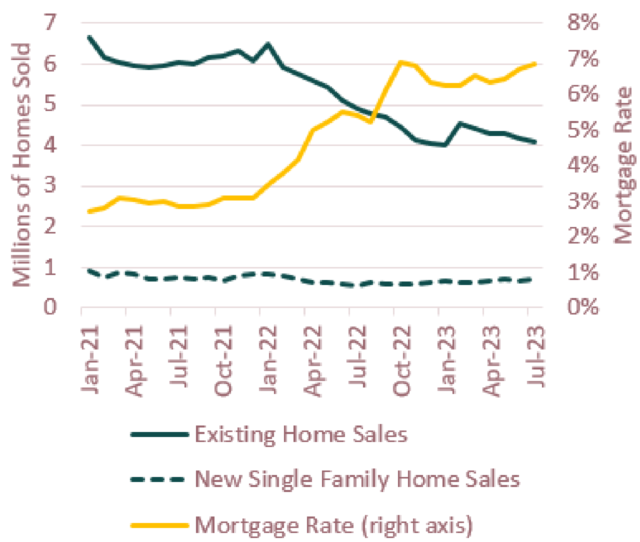
Plant sales strong

Nursery-greenhouse producers are benefiting from strong sales volumes and prices and lower fertilizer and transportation costs (see Crop Inputs Snapshot for more information). All product categories are profitable. Product movement is going well for this time of year.

Economic concerns grow

While 2023 has been a strong year, the industry is increasingly concerned that a weakening economy and housing market could lower 2024 sales. Rising delinquency rates on consumer loans and a falling savings rate suggest many consumers are financially stressed. Housing data is mixed, and while single-family home starts remain relatively strong, it is unclear how long this can last given persistently high interest rates. Further, existing home sales, an important source of nursery-greenhouse product demand, are falling. See the Quarterly Economic Update for more information on the economy and interest rates. Despite these headwinds, growers are generally well positioned for a downturn.

Home Sales and Average 30-Year Fixed Mortgage Rate



Existing home sales have been more sensitive to rising interest rates than new home sales.

Source: National Association of Realtors. Freddie Mac. Mortgage Rate for 30-Year Fixed.

Pay-by-scan contracts increase for big box stores

Anecdotal reports suggest greater usage of pay-by-scan sales (PBS) contracts among big box stores. Under PBS, retailers pay growers based on total plant sales rather than plant deliveries (purchase orders). PBS gives growers more control over maintaining plant quality at retailers, but they also assume greater risk.

Elevated interest rates reduce margins

The cost to carry inventory and/or large amounts of inputs is rising, as is borrowing for capital expenses. Rising interest expenses reduce margins and thus profitability, especially for operations with more variable rate financing. Please refer to our Quarterly Economic Update for more information on interest rates.

Some owners look to exit the industry

There is increasing interest among some nursery-greenhouse business owners to retire and/or transition away from managing operations. As succession opportunities arise, operations with production scale, existing contracts and desirable locations may find interest from potential buyers. Operations without succession plans and/or have remote locations may find it easiest to scale down or stop operations. This trend is evolving and may lower supplies for certain plants; however, it could also present unforeseen opportunities for existing and/or new businesses.

Profitability

The nursery/greenhouse industry should be profitable over the next 12 months. Growers are benefitting from strong sales and lower input costs. Elevated interest rates are pressuring profitability. Economic concerns are growing; however, growers are generally well positioned heading into a downturn. Some business owners are looking to exit the industry, which may have long-term implications for the industry.

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Additional Information

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www.AgWestFC.com/industry-insights

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Nurserymag.com

Digger Magazine

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