



MARKET SNAPSHOT NURSERY/GREENHOUSE

Sept. 30, 2022

Executive Summary

Drivers for the nursery and greenhouse industry include strong pricing, rising input costs, challenges around sourcing containers and other materials, and a slowing housing market.

- Strong prices have offset rising input costs and driven profitability.
- Deliveries increased in the Northwest, but remain slightly behind due to excessive heat in other regions.
- Shortages of input materials and labor remain a significant challenge for growers.
- Housing sales and construction are falling and inventories are rising, suggesting a slowdown.

12-Month Profitability Outlook



Northwest FCS' 12-month profitability outlook anticipates profits for the nursery/greenhouse industry. Prices and demand are strong and have offset rising input costs. The industry faces headwinds, including input material and labor shortages as well as declining consumer wealth and home affordability. Fortunately, the customer base grew during pandemic lockdowns and this should support demand.

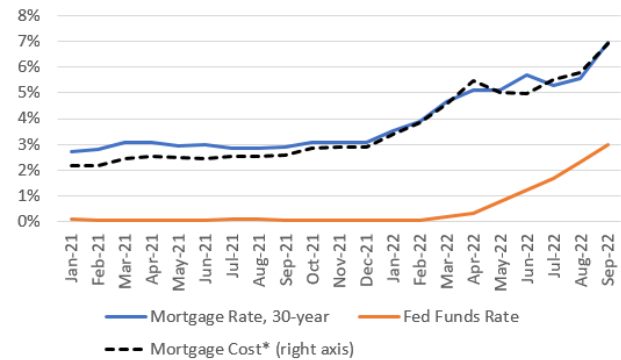
Supply

Nursery inventories have come down on stronger summer sales; however, excessive heat and limited water availability (and the risk it poses to plants) in other regions of the U.S. have slowed deliveries to these areas. Demand remains high (see below) and production capacity is increasing moderately to meet it; however, land and labor availability remain the most significant challenges to industry growth. Container and other growing material shortages continue to hinder the industry. Fertilizer and herbicide costs appear to have flattened.

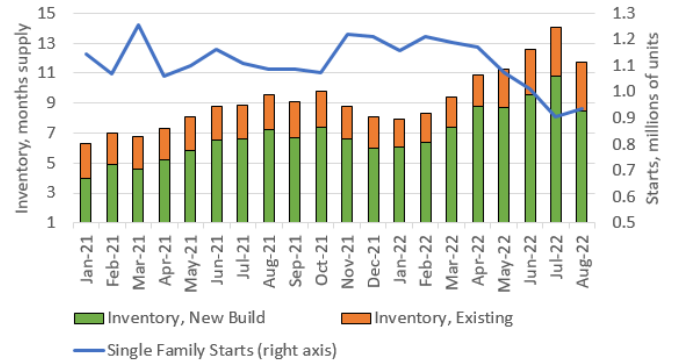
Demand

Retail sales peaked on drier weather in the Northwest. Some growers have held close-out sales, suggesting prices may be nearing their upper limits. There are indications housing construction is slowing, particularly in the single-family market (a big demand driver). Home affordability is declining rapidly as mortgage rates climb (see chart below). Leading indicators such as home builder confidence, permits issued, new / existing home inventories and new / existing home sales point to a slowdown. Further, consumer wealth continues to weaken as inflation adjusted earnings and savings fall and credit card debt increases, though it is unclear how this will impact the industry. Demand for nursery-greenhouse products may fall as people allocate more income to food and energy; however, this may be offset by people traveling less and investing in more homebased activities such as gardening. Coronavirus lockdowns led to about 18 million additional nursery-greenhouse customers from the millennial generation, which should drive demand for years to come.

Fed Funds Rate, Average 30-year Fixed Mortgage Rate and Estimate Mortgage Payment for a New Home



Single-Family Housing Inventory and Construction Starts



Source: Board of Governors of the Federal Reserve System, Freddie Mac, Census Bureau and National Association of Realtors. Mortgage payment estimated using average 30Y fixed interest rate and average new home price. Data as of Sept 27, 2020.

Profitability

Strong demand and pricing are driving profitability and most in the industry feel optimistic about the future; however, there are emerging headwinds. Rising input costs are beginning to chip away at margins in a period when prices may be reaching a top. Input material and labor shortages continue to hamper operations. While single-family home construction is strong by historical standards, it is trending down due to declining affordability. If this persists, demand for greenhouse-nursery products may eventually soften. Fortunately, demand from millennials should continue for years and while inflation may be impacting consumer wealth, reduced travel may lead to more gardening and landscaping activities.

Share your feedback! [Click Here](#) to complete a two-minute survey about this Market Snapshot resource.

Additional Information

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

Nursery Management
Nurserymag.com

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