NIP group

WHITEPAPER

State of the Growing Industry: 2022

Executive summary

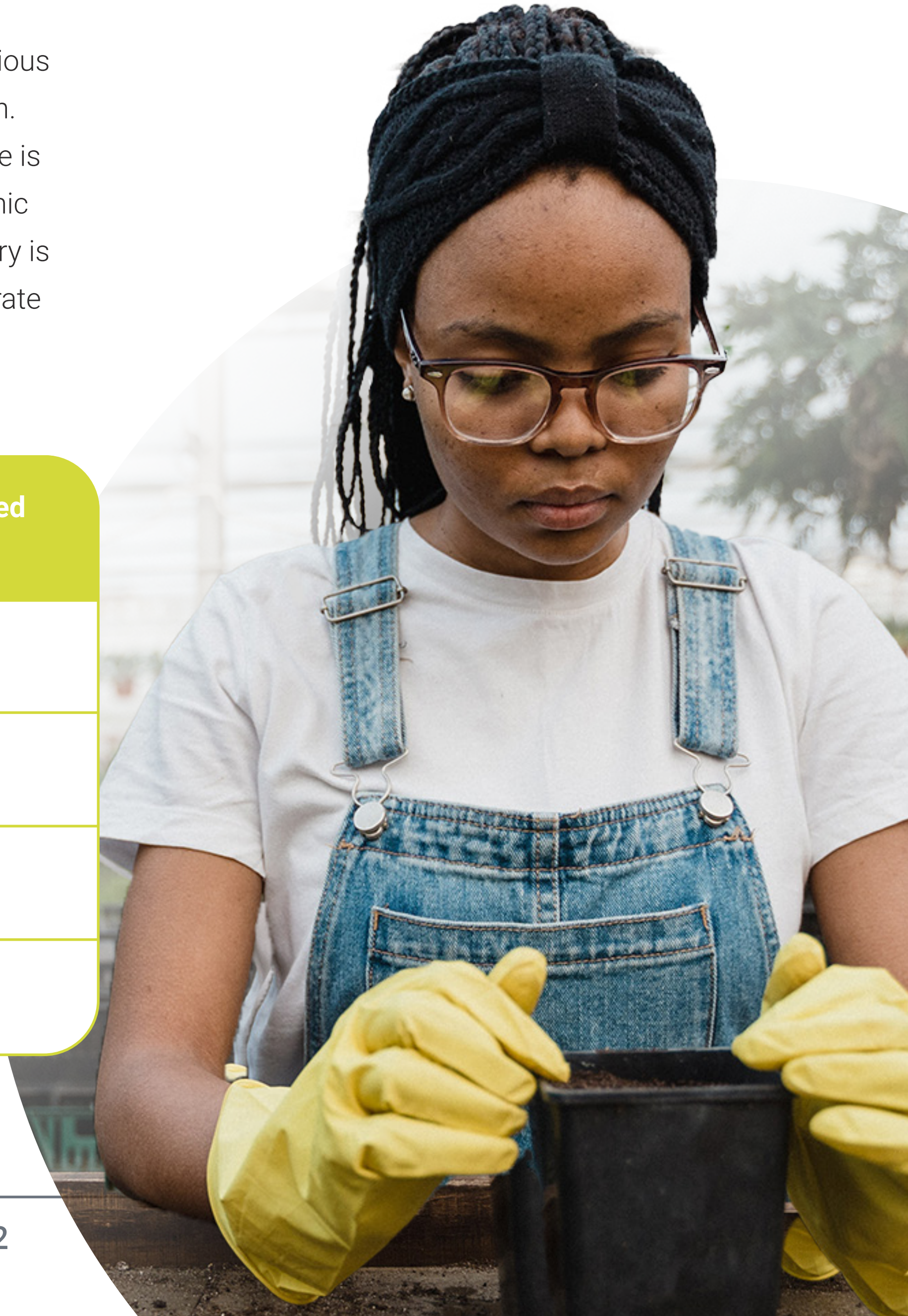
The growing industry has experienced a high degree of change over the previous five years, due in large part to fluctuating demand, increased foreign competition and the threat of climate change. Despite these factors, the industry actually performed quite well during the COVID-19 pandemic, as a sharp demand for plants and flowers from consumers created huge opportunities for growth.

By 2021, industry revenue had experienced an annualized growth rate of 1.0% during the previous five years, bringing total revenue to $15.8 billion. As market conditions stabilize, industry revenue is also expected to normalize to near pre-pandemic levels. In the next five years to 2026, the industry is projected to experience an annualized growth rate of 1.5%, for an industry total of $17.1 billion.

Although projected annual growth is relatively steady, growing businesses are not free from more substantial risk and change. Globalization continues to impact the industry, creating higher competition from abroad that serves to undercut prices, while exposing the industry to fluctuating global market conditions. The industry also suffers from a low level of foreign investment, due primarily to low business concentration.

A number of external forces are expected to drive this growth, including:

- Demand for florists
- Disposable income
- Demand for nurseries
- Threat of natural disaster



The growing industry today

The growing industry had a volatile few years even before the pandemic struck. A sharp increase in revenue in 2015 was mostly balanced out by a significant drop-off in 2016 and 2019, contributing to an annualized growth rate of just 1.0% in the five years prior to 2021. That figure brought total industry revenue to $15.8 billion, with profit estimated at $840.0 million.

Although the industry was negatively impacted by the closure of businesses and commercial properties during the pandemic, demand from consumers skyrocketed. With more people at home and fewer recreational activities allowed, many consumers opted to use their free time to invest in home improvement projects. Greenhouses and nurseries were deemed essential services, giving the industry a unique advantage to serve those customers. As a result, the growing industry saw its highest year of growth in 2020, with a rate of around 8%.

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Growers will be affected by a series of external drivers that will impact industry performance over the five years to 2026. These include:

Demand for florists:
Florist demand at retail outlets is one of the primary drivers of demand for nurseries and growing businesses. Consumer demand was expected to grow in 2021 after a steep decline in 2020, meaning firms in the growing industry have a major opportunity for growth.

Demand for nurseries:
Industry growth at large relies on the demand for nurseries and garden stores, which constitute a substantial buying group for plants and flowers alike. Demand for those goods is expected to rise in 2021, helping to fuel growth across the wider industry.

Higher disposable income:
Demand for nurseries and growers is highly dependent on the amount of per capita disposable income, which gives consumers more resources to spend on discretionary goods, like plants and flowers. Disposable income is expected to continue growing in 2021, fueling demand in the growing industry.

Threat of natural disaster:
The growing industry is susceptible to adverse weather conditions, meaning the threat of natural disaster poses a severe risk to the health of the industry. Fortunately, many growing businesses operate in enclosed conditions, meaning the threat is not as acute as it is for many other agricultural industries.

Projections for the growing industry

2020 was a year of exceptional — and rare — growth for the industry. Although revenue growth is not expected to remain at 2020 levels, a number of key factors will contribute to a steady growth rate in the five years to 2026.

The effect of imports and exports

Nurseries and garden stores are becoming increasingly exposed to the forces of globalization, as large retailers prefer to buy from businesses in countries with longer growing periods, like Ecuador and Colombia. Prices for agricultural goods in those countries tend to be lower, forcing domestic growers in the United States to respond by dropping their own prices. Globalization has had a net negative effect on the industry, but the collapse of international trade due to the pandemic in 2020 was not expected to return to pre-pandemic levels in 2021, giving domestic growers relief from foreign competition.

Although industry exports are traditionally relatively low, their value has risen at an annualized rate of 1.7% in the five years prior to 2021. This trend is expected to continue in the five years to 2026, combining with lower imports to deliver an annualized growth rate of 1.5% for the industry, bringing total industry revenue to $17.1 billion in the same period.

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Diversification of product offerings

New industry trends will cause a number of growers across the industry to change their products, processes and outputs. As the demand for agricultural products increases, many farmers will likely need to diversify their crops to keep up with the demand. That's particularly true of farmers who don't currently grow foodstuffs but hope to attract lucrative agricultural subsidies from the government.

Declining number of enterprises

Despite individual growers innovating to make themselves more competitive, the total number of businesses in the industry is projected to decline, dropping at a rate of 0.1% each year to 2026. That decline is largely due to the rapid advancement of transportation and communication technologies, which enables growers in more suitable climatic regions in the country — namely in the warmer southern regions — to sell products across the country, undercutting in-state growers. This has led to a concentration of larger firms at the top, which has squeezed out many smaller firms unable to compete.

Unlike many other agricultural businesses, profit margins in the growing industry are not very volatile, due primarily to the use of indoor growing facilities, which guard against unpredictable weather conditions. Steady profit margins are likely to continue in the five years to 2026.

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Changes/risks facing the industry

The growing industry — like other agricultural industries — experiences a modest rate of change over time. The effect of some recent developments could create new risks for the industry in the coming five years.

Globalization

Businesses in the growing industry face a moderate level of exposure to globalization, though that is steadily rising. Foreign crops, flowers, foodstuffs and other agricultural products tend to be cheaper when produced in countries with longer growing seasons (like those in South America), leading to a high rate of competition from foreign producers. Although the pandemic has temporarily reduced foreign competition, the rate of globalization in the industry is expected to continue rising.

Foreign market conditions

A high rate of globalization exposes the growing industry to global market conditions, making this an additional source of risk. The value of exports in foreign markets is highly dependent on the state of foreign exchange markets and consequent fluctuations in international prices. The value of products on the domestic market is similarly affected by foreign growing conditions, which impact the number of imports arriving in the domestic market.

Decentralization

Although the industry has seen a steady increase in the number and size of large-scale farming enterprises, most farms in the United States are still run by families on a small scale. Due to the relatively small, decentralized nature of farms in the country, direct foreign investment is low, leading to a low rate of foreign ownership of U.S. farms that dries up a potential source of revenue and resources.

Conclusion

After five years of high volatility, the growing industry largely landed on its feet in 2021, logging a steady annualized growth rate of 1.0% in the five years prior to 2021. Unlike many other traditional industries with a low rate of digitization, the COVID-19 pandemic presented a major opportunity for growers as statewide lockdowns encouraged many people to invest in home improvement projects.

Although the level of demand reached in 2020 was expected to recede in the coming five years to 2026, growers will still benefit from an unusually high level of demand from florists, meaning there is still some positive upside for the industry. Industry revenue is expected to grow at a slightly higher annualized rate of 1.5% in the five years to 2026.

The outlook is generally positive, but growers are still exposed to risk, particularly from foreign competition abroad that makes domestic growers — who tend to be smaller, family-owned farms — susceptible to volatile foreign market conditions.

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Having the right insurance coverage is essential to navigate that change and ensure future growth in the growing industry. Market conditions are notoriously unpredictable, and climate change poses a severe risk to the industry that's difficult to properly quantify. Partnering with the right team of insurance providers can help ensure that your business is able to withstand those changes and continue experiencing success.

Reach out to our team at **nipgroup.com** to get started.

900 Route 9 North, Suite 503
Woodbridge, NJ 07095-1003
800.446.7647
www.nipgroup.com

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