

Some Impacts of Recession on California's Nursery and Floral Industry

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The recession following the burst of the housing bubble in 2007 had a disproportionate impact on California's nursery and floral industry. Combined sales of nursery and floral products dropped from second to fourth among all California agricultural commodities, and from 12.2% to 7.8% of total California agricultural sales. A sharp reduction in the number of California retailers handling nursery and floral products will have long-lasting impacts on both producers and consumers.

California's nursery and floral industry will feel the effects of the "housing bubble" and the economic recession following its 2007 "burst" for many years. These effects are evident throughout the industry, ranging from the production of plants and material to structural aspects of product distribution. While there are no readily available empirical studies of the demand for nursery and floral products, it is widely accepted that housing and consumer income are important determinants of their demand.

Thus, the economic downturn beginning in 2007, characterized by increasing unemployment, reduced consumer incomes, decreasing home prices, shrinking equities and foreclosures, would be expected to adversely affect the demand for nursery products. This article uses industry data to outline industry changes and to speculate on some possible implications of these changes.

Sales Trends

The California floral and nursery sector's ties to the real estate industry, and the unique nature of its crops, contributed to uninterrupted sales growth between 1993 and 2007. This growth continued despite the major challenges presented by shipping restrictions related to pests and diseases, increased competition from imported flowers, the impact of increased energy costs on production and transportation, limited and expensive water supplies, and less-than-ideal weather conditions. As a result of plunging house prices and recession, the combined sales of nursery and floral products dropped in 2008, 2009 and 2010 before recovering slightly in 2011.

Data from USDA's annual publication, *California Agricultural Statistics*, indicate that nursery production and sales typically ranked third among all California crops (following dairy and grapes), while floral crops usually ranked around tenth. When combined, nursery and floral production typically ranked second in value of production among all California crops.

As shown in Figure 1, total sales of California nursery and floral crops increased steadily from \$2.71 billion in 1995 to a record \$3.97 billion in 2007. Sales then decreased to about \$3.37 billion in 2010 before recovering to \$3.69 billion in 2011. Nursery and floral products' share of total California agricultural sales increased from 9.6% in 1995 to a high of 12.5% in 2002 and then, with the exception of 2006, decreased steadily to 7.8% in 2011. Combined sales of nursery and floral products dropped to fourth place among all California agricultural products in 2011, following dairy, grapes, and almonds.

Nursery and floral products' decreasing share of total California agricultural sales beginning in 2002 is due to two major factors. Most important, for most of the period from 2002 through 2007, the rate of growth for other agricultural products outpaced the growth for nursery and floral products. Then with the onset of recession, combined nursery and floral sales decreased while some other major California commodities enjoyed increasing sales.

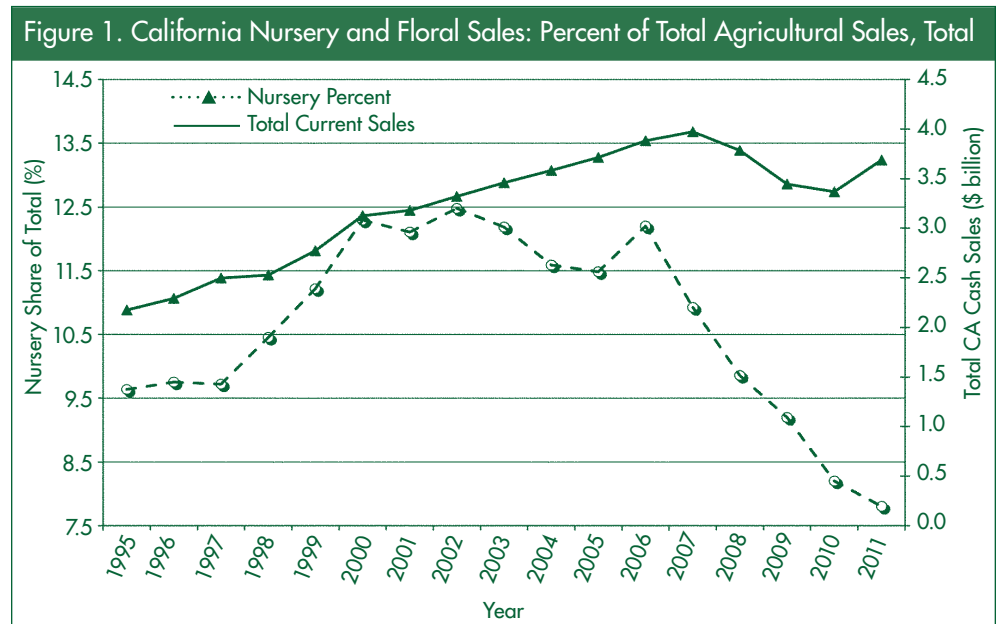


Table 1. Annual Taxable Sales and Number of Outlets, California Florists and Farm and Garden Stores, 2000–2011

Year	Florists		Farm and Garden Stores	
	Number*	Sales (\$1,000)	Number*	Sales (\$1,000)
2000	5161	983,396	3601	2,060,713
2001	5338	988,022	3711	2,059,040
2002	5474	998,781	3834	2,135,472
2003	5572	1,005,452	3943	2,266,142
2004	5703	1,077,694	4061	2,386,377
2005	5708	1,133,896	4188	2,662,956
2006	5825	1,172,658	4188	2,930,230
2007	6160	1,203,148	4285	2,965,697
2008	6427	793,882	4715	2,751,233
2009	5070	461,349	5133	2,216,767
2010	4950	449,893	5427	2,269,297
2011	4798	464,761	5600	2,392,542

Source: California State Board of Equalization. Taxable Sales In California, annual reports, 2000 – 2011.

* Number of licenses, July 1 of each year.

Annual nursery and floral product sales decreased 4.7% from 2007 to 2008, then decreased 9.0% from 2008 to 2009, and 2.2% from 2009 to 2010. Finally, combined farm level nursery and floral sales increased 9.5% from 2010 to 2011.

Channels of Distribution

Nursery and floral products take a variety of paths in moving from the California producer to final customers, depending on the product and the nature and location of the customer. Due to the bulky nature and perishability of the products, most of the channels tend to be relatively short. For example, some producers have established retail outlets adjacent to their growing operations, especially in urban areas.

Nursery operations supplying inputs to other growers (trees, vines and other plant materials) tend to deal directly, or sometimes through a sales intermediary. Even large multiproduct retailers who deal through wholesalers and jobbers often receive shipments directly from the nursery producer.

While farm level sales of nursery and floral products decreased in both

absolute and relative terms, the most dramatic impacts of the recession and housing problems occurred at the retail level. Increasing unemployment and reduced consumer incomes combined with increased competition from alternative outlets to make retail florists an “endangered species.”

At the same time, a collapse in home building put substantial pressure on specialized farm and garden stores and retail nurseries. Data from taxable retail sales reports and the directory of firms licensed to sell nursery products help to outline the changes occurring.

Retailers and Taxable Sales: The California State Board of Equalization reports sales by type of retail outlet and the number of outlets. There are two retail store types for which nursery and floral products are the major products sold: florists and lawn and garden equipment and supplies stores (listed as farm and garden supplies stores through 2008). An increasing share of nursery and floral products are sold in other store types such as supermarkets, big box retailers (Home Depot, Lowe’s, K-Mart, Costco, etc.), and food and variety stores, but we

have no measure of the breakdown of sales by product line for any retailers.

Changes in store numbers and annual sales for California florists between 2000 and 2011 are dramatic (Table 1). The number of California florists increased from 5161 in 2000 to a peak of 6427 in 2008 (24.5 %), with store numbers increasing in 2008 even as sales began to plunge. Annual florists’ sales decreased over 34% from 2007 to 2008, 41.9% from 2008 to 2009, and another 2.5% from 2009 to 2010.

Total sales by California florists in 2010 were only 37.4% of their level just three years earlier in 2007. Large numbers of florists began closing in 2008, with total numbers decreasing 25.3% by 2011 (from 6,427 in 2008 to 4,798 in 2011).

Sales for California lawn and garden stores increased from just over \$2.06 billion in 2000 to a high of over \$2.96 billion in 2007 and then decreased over 25.2% the next two years before increasing 2.4% in 2010 and 5.4% in 2011 (Table 1). However, the number of lawn and garden stores increased each year from 2000 through 2011 even when total sales decreased.

Note that average per store sales peaked for both florists and lawn and garden stores in 2006 (\$201,315 and \$699,373, respectively), decreased and reached a low in 2010 (\$90,887 and \$418,149, respectively) and then recovered with increased sales per store of 6.6% for florists and 2.2% per store for lawn and garden stores.

Firms Licensed to Sell Nursery Products: Firms must be licensed by the California Department of Food and Agriculture to sell nursery products in California and licensed firms are listed in the annual *Directory of Nurserymen and Others Licensed to Sell Nursery Stock in California*. The firms by category were tabulated for 2003 and 2011 in a previous report and data for 2013 were tabulated for this report.

The data in Table 2 show a significant reduction in the number of retailers between 2003 and 2011 with a slight recovery in 2013. There were also less dramatic decreases in the total numbers of middlemen (wholesalers, jobbers and brokers) as well as landscapers and producers from 2011 to 2013.

Structural Changes

Changing sales and reductions in the number of firms producing and marketing California nursery and floral products point to some rather basic structural changes with implications for both producers and consumers. First is the sharp reduction in the number of California florists and their total sales associated with the recession. The number of florists in 2011 dropped 1629 (25.3 %) from the peak of 6427 in 2008 while sales decreased \$753.26 million (62.6 %) from 2007 to 2010.

The change in farm sales of floral products was much less dramatic. California farm-level floral product sales reached a high of \$1.036 billion in 2007. Sales then dropped to \$1.015 billion in 2008 and further to \$937.0 million in 2009 before recovering to \$1.015 billion in 2010. The large decrease in sales by florists with only a small change in farm level sales is due to a significant change in retail market shares for floral products. Specifically, other outlets such as supermarkets gained market share for floral products at the expense of individual florists.

The situation for lawn and garden equipment and supplies stores is much different than florists or other retailers of nursery products. While total sales decreased after the peak occurring in 2007, the number of retail licenses continued to increase.

This is not the case for other retailers handling nursery products. As shown in Table 2, there are fewer producers (including some with direct

Year	Cut Flowers and Greens Wholesalers	Jobbers and Brokers	Landscapers	Producers ¹	Incidental Retailers ²	Retailers ³	Total
2003	853	476	454	2999	2715	3756	9821
2011	880	460	463	2959	736	2158	5848
2013	854	447	421	2833	842	2180	5834

Source: California Department of Food and Agriculture, *Directory of Nurserymen and Others Licensed to Sell Nursery Stock in California*.

¹ A producer is a commercial producer who grows and sells a total of \$1,000 or more of nursery stock in one year.

² An incidental retailer is an operator of a retail sales outlet for nursery stock that is handled incidental to other merchandise. Retailers such as Home Depot, Wal-Mart, Lowes and supermarkets are in this category.

³ A retailer is an operator of a sales outlet that has no growing grounds except small areas devoted to the production of plants for local distribution and those producing less than \$1,000.

sales to consumers) as well as incidental and specialized nursery retailers.

The number of retailers licensed to sell nursery stock decreased from a total of 6,471 in 2003 to 3,022 in 2013, a 3,449 (53.3%) reduction in number of outlets. Given much smaller reductions in wholesale nursery sales, the surviving retailers are larger on average and probably have smaller operating margins than was typical for florists.

This very significant reduction in the number of California retailers handling nursery and floral products has implications for both producers and consumers. Some producers undoubtedly lost their major retail customers while many lost important retail outlets. The impact of the loss of outlets was not uniform but it was widespread.

This consolidation of outlets may offer some economies in distribution but the short-run impact on floral and nursery product sales will be negative. Products are not as available at the consumer level as previously, which tends to reduce consumer choice and negatively impact impulse buying.

A change from specialized to multiproduct retailers tends to reduce customer service and may reduce product assortments. And, finally, the changes noted may be

associated with more market power in the hands of surviving retailers.

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For additional information, the author recommends:

Carman, H., and A. M. Rodriguez. 2004. *Economic Contributions of The California Nursery Industry*. Berkeley: University of California Agricultural Experiment Station, Giannini Foundation Information Series No. 04-1. <http://giannini.ucop.edu/InfoSeries/041-Nursery.pdf>.

Carman, H. 2011. *Economic Aspects of the California Nursery and Floral Industry, 2001–2009*. Berkeley: University of California Agricultural Experiment Station, Giannini Foundation Information Series No. 11-1. <http://giannini.ucop.edu/InfoSeries/111-Nursery.pdf>.