

# MARKET REPORT

---

Q3 2016 Review

---



**AMA Research**

**October 2016**

## SURVEY REVIEW

GIMA continues to seek ways of supporting the garden industry and helping members to grow, and as many members will be aware, we launched the **Barometer of Trade** in 2015. This is a bespoke and unique analysis that provides participants with feedback on overall performance on product sales, distribution and attitudes towards the business environment.

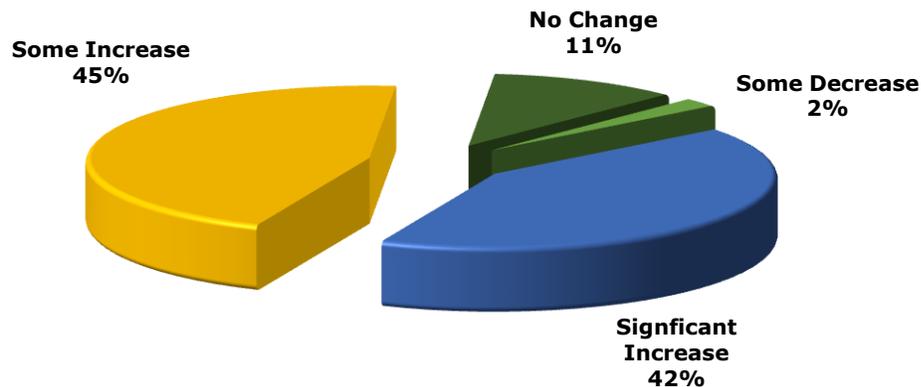
The key objective of the *Barometer of Trade* is providing research that can help you manage the development of your business and, perhaps more importantly, it provides an invaluable opportunity to compare your company's performance with your peer groups by product sector.

While the *Barometer of Trade* is still in the early stages of development, figures from 2015 and into 2016 are providing some good insight into market trends and trade attitudes on how the garden industry will develop over the next year.

As a starting point, it's worth highlighting changing attitudes towards market prospects between our survey at the beginning of 2016 and views in the July/August survey.

Firstly, as illustrated in the chart below, at the beginning of the year almost 90% of respondents indicated they were positive about the year ahead, with around half of these forecasting 'significant' growth of at least 10%. At that time, only 2% of respondents were forecasting market decline, indicating a very positive view overall of industry prospects in 2016.

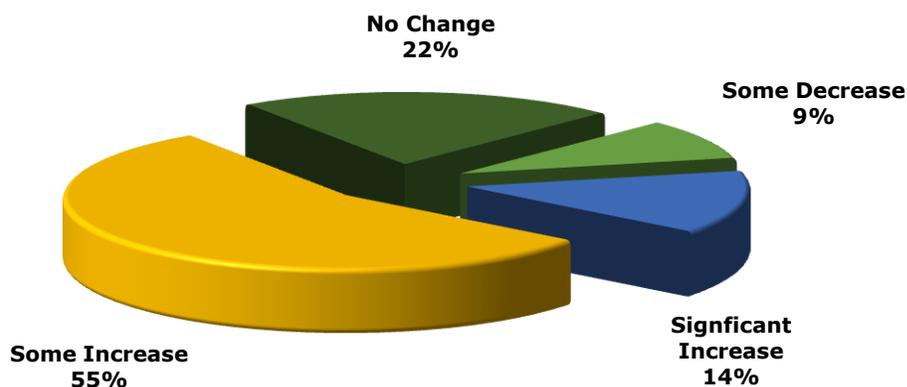
### Market Prospects for 2016 Compared to 2015 (January 2016)



Source: GIMA Barometer of Trade

However, moving forward around 6 months and confidence levels are much less optimistic, with the chart below highlighting more recent views:

## Market Prospects for 2016 Compared to 2015 (July 2016)



Source: GIMA Barometer of Trade

The chart illustrates a more cautious view with only 14% of respondents confident of a 'significant increase' in sales in 2016 - compared to 42% at the beginning of the year. However, in broader terms, almost 70% were still expecting an increase in overall activity levels, while the percentage of respondents expecting a decline had only increased from 2% to 9% between the 2 surveys.

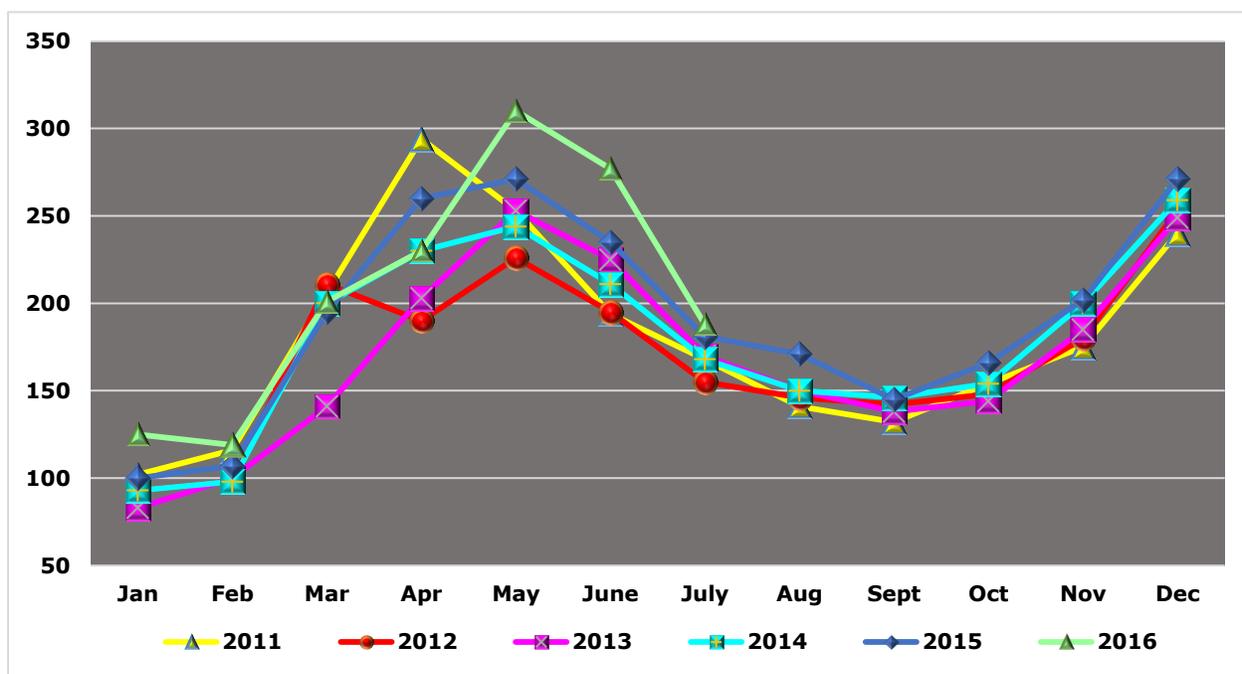
A key point to emphasise is that the later views reflect the immediate post-Brexit Referendum climate. As we are already discovering, initial reactions in a wide range of business surveys were very pessimistic in relation to the short term impact of the Referendum on consumer and business spending confidence and spending levels.

Even in the last month or so, more data and surveys are emerging which suggests the initial pessimism has been overplayed and that the economy hasn't 'ground to a halt' - though indicators remain mixed. It will, therefore, be interesting to monitor how the mood has evolved again when a little more time has elapsed and the next set of survey results from the *Barometer of Trade* are published.

In addition, we can also compare these views with findings from the GCA who have been running a similar Barometer of Trade for over 5 years and have developed a good base of data over this period.

The chart below highlights recent trends in the **Garden Centre** sector, illustrating seasonality and general sales over the 2011-2016 period. The data is based on an Index and the chart contrasts the difficult period in 2012/13 with more buoyant sales in 2014-2016:

## Garden Product Sales Trends – 2011-2016 Index: January 2011 = 100



Source: GCA Barometer of Trade

The chart shows that Garden Centres enjoyed a strong start to 2016, with sales reaching the highest level for 6 years in May, before reverting back to normal seasonal patterns. July was the first month after the Referendum, but sales held up well and were around 3% up on 2015, illustrating that the sector was not as adversely affected by the vote as perhaps anticipated.

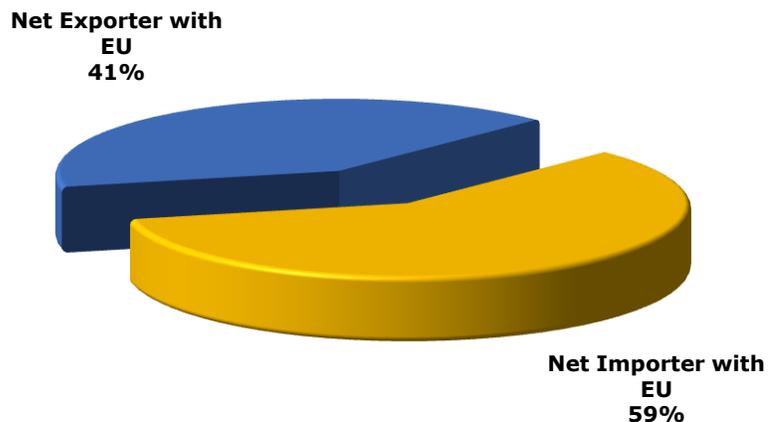
In addition, overall sales in the GCA survey up to the end of July were also up by around 3% over the corresponding period in 2015, and it will be interesting to see how the rest of the year develops in the light of respondents' views on prospects going forward.

However, while there appears to be a return of some optimism, we should continue to remain cautious in the light of the Brexit vote. The UK is a long way off from finalising the terms of exit and, in particular, establishing trade deals with our major trading partners - both in the EU and the rest of the world - and this will continue to create volatility in the UK economy

GIMA's new monthly economic snapshot - **Pulse** - highlights some contrasting aspects of the impact of the Referendum. While Retail Sales and the Stock Market have remained strong and even risen, Sterling has fallen strongly by over 15% against the US Dollar and over 10% against the Euro, which will inevitably feed into rising costs for imported products and materials - impacting on many GIMA members as we move forward.

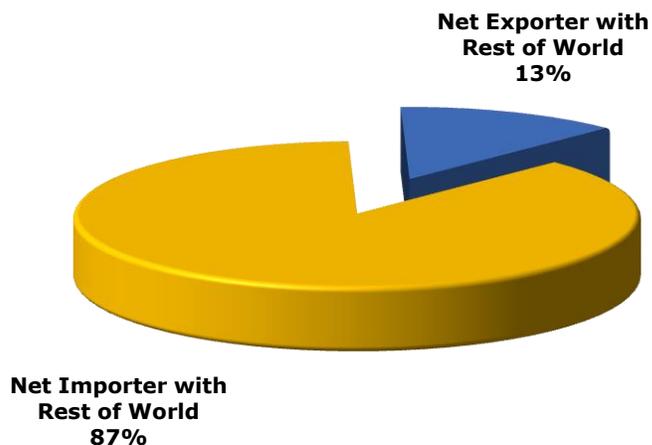
For the first time, participants in the *Barometer of Trade* survey were asked to indicate their trading relationships with both the EU and the Rest of the World in terms of whether they were a net importer or net exporter of goods or services with each region and, as the charts below illustrate, there were some interesting findings:

## Trade Links with EU – Survey Respondents



Source: Barometer of Trade

## Trade Links with Rest of the World – Survey Respondents



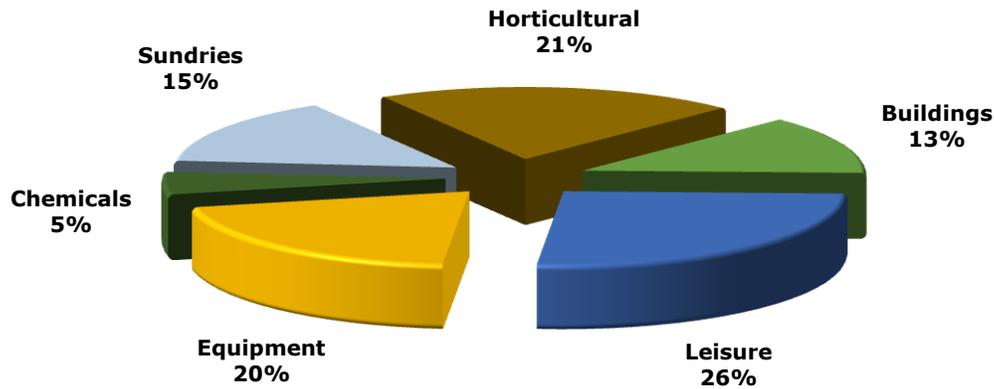
Source: Barometer of Trade

While the survey only provides a snapshot view of a sample of GIMA members, the figures indicate a heavy emphasis on imports from the Rest of the World, though there is a more balanced trading relationship with EU markets. As a result, the fall in Sterling against the Dollar and Far East currencies will inevitably feed through into rising costs - and eventually prices in the sector - particularly as we head towards 2017.

AMA Research also provide an independent assessment of distribution channels and their view is that online has continued to take share in 2015/16, but some of this growth has been at the expense of mail order/catalogue sales rather than from traditional Garden Centres.

While there are various estimates of online sales of garden products, AMA estimate sales via the Internet are now above the £500m level. However, the mix of Online product sales differs significantly from other channels, with AMA's estimates illustrated in the chart below:

**Internet Sales - Garden Product Mix (Horticultural, Leisure, Equipment, Buildings, Sundries, Chemicals) – % by Value 2015**



*Source: AMA Research /Trade Estimates*

Leisure products are estimated to account for the largest share of online sales at around 26%, with garden equipment such as lawnmowers and power tools also representing major sales opportunities. Both sectors incorporate high value product ranges which are relatively easy to research online and are also easy to store and deliver.

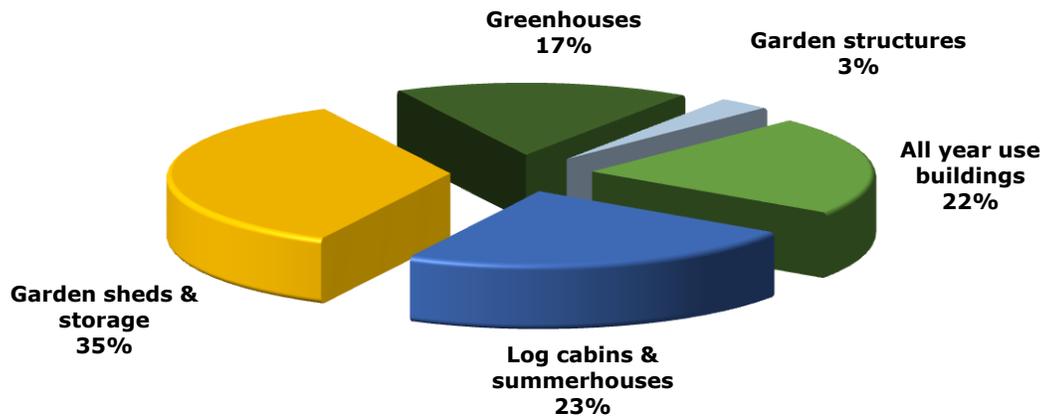
Garden buildings account for an estimated 13% of Internet sales of garden products, and are a key sector for online retailers - either through non-specialist online retailers such as DIY multiples, or more specialist online garden building retailers - with consumers appearing to be switching towards higher-value buildings such as garden rooms, log cabins and summerhouses.

**Garden Products Snapshot**

While it is early stages to analyse product data from the survey, AMA provide an interesting insight into the development of the garden products market, which will be incorporated into the *Barometer of Trade* review to provide some background context to the survey findings as the data develops.

**Garden Buildings & Structures** is a key sector with a wide range of products from basic sheds and storage through to garden rooms for 'all year-round' use. The market has grown steadily in recent years and is worth around £300m at retail prices, with the mix illustrated in the chart below:

## UK Market for Domestic Garden Buildings & Structures Product Mix by Value 2015



Source: AMA Research

While greenhouses and sheds are mature sectors, more recent growth has been in larger garden rooms, log cabins etc, driven by demand for more flexible use of the garden. The trend towards homeworking and providing accommodation for parents and children are both driving demand, while many homeowners use garden buildings for a wide range of activities including gyms, hobby areas, entertainment rooms, BBQ cabins etc.

Growth is forecast to continue as consumers look to upgrade specifications across most sectors of the market, though the trend towards smaller gardens in new properties is a limiting factor in the longer term.

Finally, it is still relatively early to draw many conclusions from the early findings from the *Barometer of Trade* survey. However, the benefits to participating members will rise rapidly from further submissions, which will provide a mix of annual and seasonal comparisons, changes in distribution, peer group comparisons in product sectors etc - as well as adding other issues into the survey, such as import/export trends, which will help GIMA members improve their knowledge of key industry trends.