

MARKET REPORT

Q2 2017 Review



AMA Research Ltd
www.amaresearch.co.uk

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SURVEY REVIEW

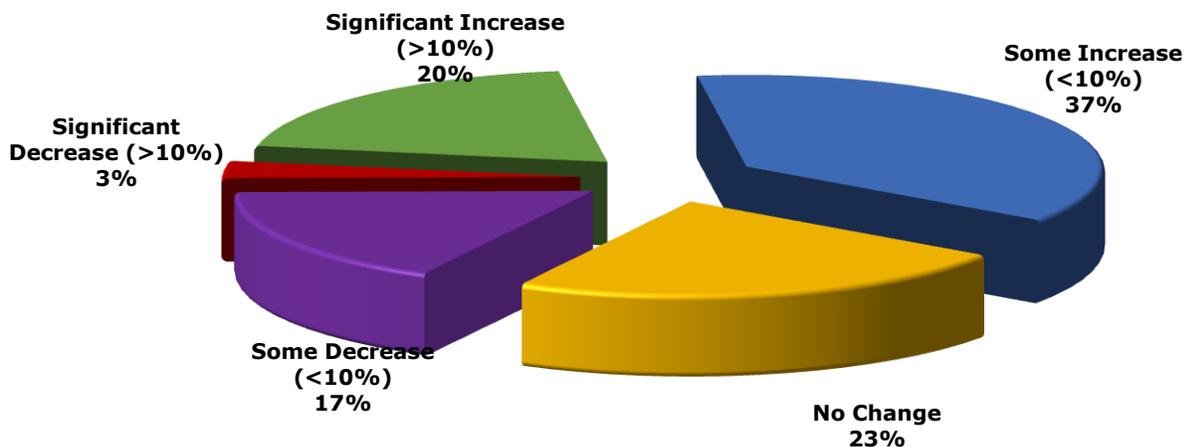
GIMA's role is primarily aimed at supporting the garden industry and helping members to grow. As a key tool in achieving this objective the **Barometer of Trade** was launched in 2015, to provide analysis of key aspects of the garden industry trade.

The survey encourages members to provide opinion on a twice-yearly basis on a number of topics currently affecting manufacturers and suppliers of garden products such as product sales, distribution and attitudes towards the business environment. Contributions from respondents are combined to give an overall analysis of the "state of trade" for the garden industry.

As the **Barometer of Trade** evolves, it is providing some overall market analysis together with an invaluable opportunity to compare your company's performance with your peer groups. The survey is now into the third year and the data generated is providing insight into market trends and indications of how the garden industry could develop over the next 12-18 months.

The latest survey is based on results for January to June 2017 which show that the optimism of the garden industry trades (in value terms) in 2016 is more cautious in the first half of 2017. This is illustrated in the following chart, and although the balance of respondents (57%) indicated that they expected sales to increase over the next year, those expecting sales to decrease has risen to 20% in June 2017 compared with only 3% in 2016:

Market Prospects by Value for 2017 Compared to 2016 (June 2017)

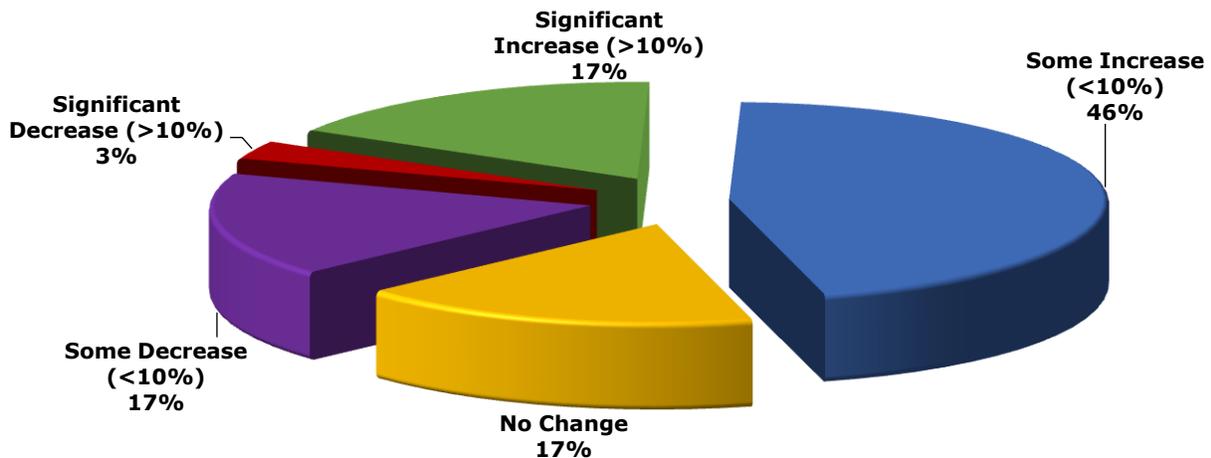


Source: GIMA Barometer of Trade

Industry confidence levels have been more volatile during H2 2016 and H1 2017, but with movement towards a less positive outlook underlined by a balance of 57% of respondents expecting improvements in trading conditions in June 2017 compared with balance of 79% forecasting some growth for 2016. The less positive outlook is also shown by 3% of respondents indicating a significant decrease (more than 10%) in sales in 2017. This contrasts with data from 2016 where none of the respondents expected sales to dip more than 10%.

The chart below shows respondents views of likely sales volumes over the next year:

**Market Prospects by Volume for 2017 Compared to 2016
(June 2017)**



Source: GIMA Barometer of Trade

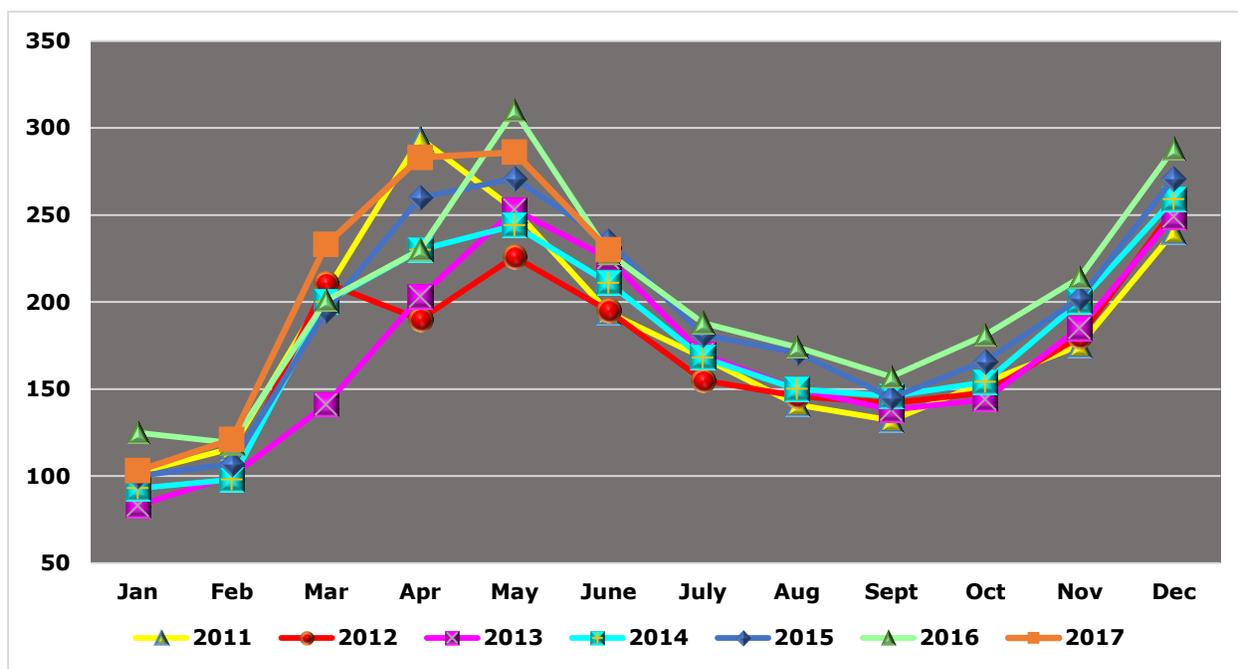
The outlook for sales volumes remains positive with 63% of respondents expecting some improvement on 2016. However, comparisons with survey data for first 6 months of 2016 show that the mood has moved slightly towards a more pessimistic outlook with those expecting "No change" decreasing from 22% in June 2016 to 17% in June 2017. In addition, the percentage of respondents now expecting some volume decrease has increased to 20% compared with only 9% in June 2016.

Key to this marginally less favourable outlook has been the continued uncertainty regarding the Brexit process which has affected the growth prospects of the UK economy and has led in part to a weakening of consumer demand in H1 2017. Consumer spending in particular, has been squeezed by stagnant wage growth and price rises for some goods.

This reduction in consumer spending is evident in the garden trade sector as consumers are spending less on garden purchases in 2017 compared with 2016. The GCA have been running a similar Barometer of Trade for around 6 years with the following chart highlighting recent trends in the **Garden Centre** sector, illustrating seasonality and general sales over the 2011-2017 period:

Garden Product Sales Trends – 2011-Q2 2017

Index: January 2015 = 100



Source: GCA Barometer of Trade

The chart indicates that 2016 was a good overall year for Garden Centres and although sales in Q1 2017 exceeded 2016 levels, this was not continued into Q2 with overall sales levels dropping back to 2016 levels in June 2017.

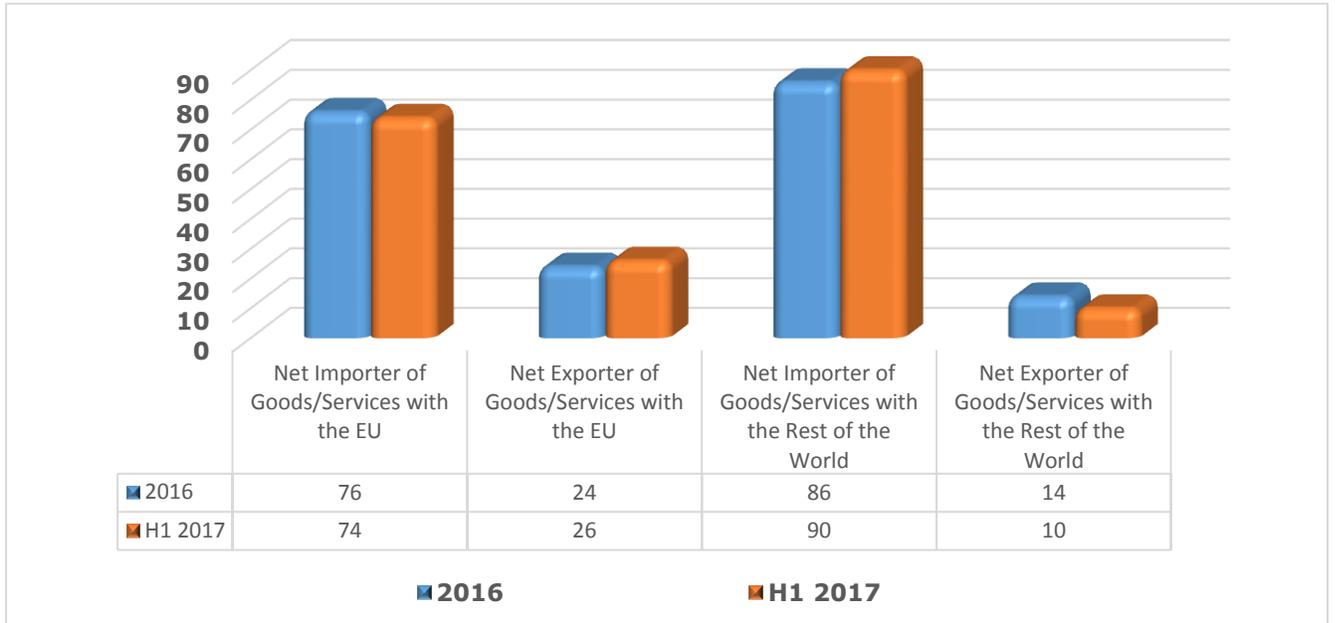
Whilst clothing sales in 2017 have continued above those of 2016, key garden product sectors including outdoor plants, garden sundries, furniture & barbecues and hard landscaping have all been below those of 2016. However, the chart does indicate that 2017, whilst not achieving the potential of 2016, could continue to be a reasonably good year for sales through garden centres.

One of the key influencing factors remains the British weather which has continued to be changeable throughout 2017. The mainly mild Spring weather had been transformed into a Summer that started with mini heatwaves but has seen July and August descend into a pattern of higher rainfall and windier conditions meaning that consumers are less able/willing to spend time enjoying, improving or maintaining their gardens.

One of the key aspects affecting the garden industry since the 2016 Referendum has been the fall in the value of Sterling and its impact on import and other business costs. GIMA members participating in the **Barometer of Trade** were asked whether they were a 'manufacturer' (27%), 'importer' (40%), or 'both' (33%). Of those who were manufacturers, 50% indicated that they manufactured in the UK, 15% indicated the EU as the main manufacturing source, 5% had manufacturing premises elsewhere across the globe whilst the remaining 30% stated that they used a combination of regions.

Respondents were also asked to indicate whether they were net importers or net exporters and whether this was within the EU or the Rest of the World with responses summarised in the following chart:

Net Importers and Exporters EU and the Rest of the World 2016 and H1 2017 - % of Respondents



Source: GIMA Barometer of Trade

The chart indicates that the percentage of respondents who are net importers from the EU has decreased slightly in H1 2017. The corresponding increase in exporters to the EU is, perhaps, a reflection of the more competitive position of UK produced goods within the EU market place following the decrease in the Sterling/Euro exchange rate. The percentage of respondents who are net importers from the Rest of the World has increased to 90% in H1 2017 from 86% in 2016 indicating that some goods/services previously sourced from Europe can now be more competitively sourced from other global regions.

The fall in the Sterling exchange rates since June 2016 will have had some pricing implications for suppliers sourcing products from outside the UK. The fall in Sterling since June 2016 has had an impact on the cost base for many organisations within the garden industry sector. **The Barometer of Trade** tracks changes in cost base for key indicators with the results shown in the following chart:

Cost Base Changes Over The Last 6 Months 2016 and H1 2017 – % Increase



Source: GIMA Barometer of Trade

Not all of the above factors have been directly affected by the fall in Sterling, with factors such as increases to the minimum wage likely to have a more immediate impact on labour costs. However, although the Sterling wage rates are likely to have increased in line with increases to the minimum wage, the lower exchange rates against the Euro and other countries now means that the UK is a less favourable destination for some seasonal workers.

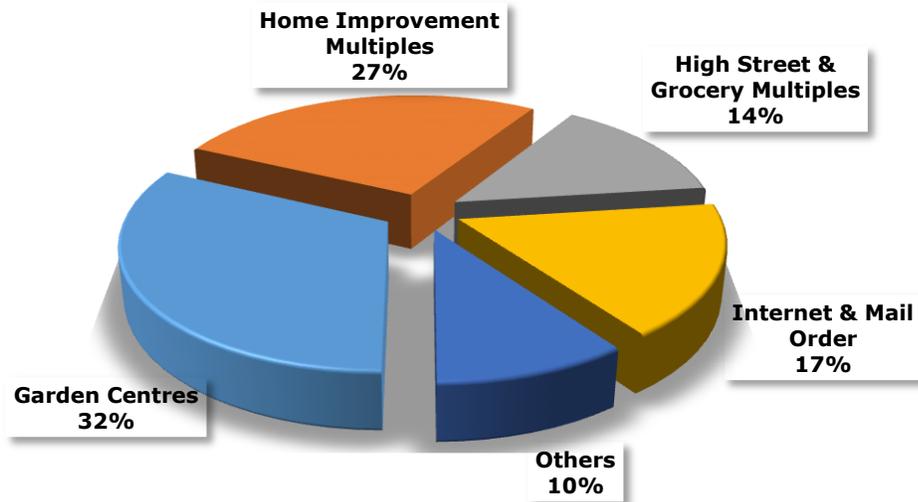
Although there has been some easing since June 2016 for factors such as raw materials, energy and freight, the chart indicates that the overall cost base continues to increase. It is therefore inevitable that these increased costs will have to be passed down the supply chain in the coming months, adding another aspect to an already highly competitive market.

Product Sector Snapshot

Another feature of the **Barometer of Trade** is a review of changing trends in distribution. Independent analysis from AMA Research provides an assessment of the garden products market reviewing market developments and product trends, while also assessing changes in distribution over the last 20 years.

The Domestic Garden Landscaping Materials market has shown steady underlying growth over the last 2-3 years as consumers continue to invest in the upgrading or updating of outdoor areas. Distribution of domestic landscaping materials is fragmented, with the following chart indicating the main channels in 2015-16:

Domestic Garden Landscaping Materials Distribution Mix 2016 – % by Value



Source: [www.amaresearch.co.uk/Trade Estimates](http://www.amaresearch.co.uk/Trade%20Estimates)

Garden centres and home improvement multiples remain the key channels for distribution of landscaping materials and together account for an estimated 59% of the market. Key to their dominant position is the wide range of domestic landscaping materials offered.

Garden centres are particularly strong in the horticultural products sector and overall account for nearly a third of the garden landscaping materials market. Whilst there is fierce competition from other channels, including DIY, merchants and online, the garden centres are able to offer expert garden knowledge and expertise. However, given the seasonality of the industry, they now promote a wide variety of products aimed at ironing out peaks and troughs in demand due to the weather.

DIY/Home Improvement multiples are close behind the garden centres and as a sector responded more quickly to the growth of online shopping, investing in transactional websites. They account for an estimated 27% share; market value has remained relatively constant, given fierce competition on pricing.

Internet, catalogue & mail order are estimated to account for 17% of the market, with online sales continuing to grow. Whilst there are a number of pureplay e-tailers in this sector, other channels have also invested in their online presence which has helped to grow the market but has also created some price competition.

The continuing growth of the internet has also led to consumers researching products in detail and generally being more informed about their purchase and market pricing. Consequently, traditional channels such as DIY outlets and merchants now have a much stronger transactional online presence, offering home delivery for a wide variety of items.

In summary, the **Barometer of Trade** survey now provides participating members with a mix of annual and seasonal sales comparisons, changes in distribution, etc. GIMA members are also benefiting from the tracking of key business indicators such as changes to the cost base, influence of imports and changes to the UK manufacturing base, all of which contribute to improved knowledge and increased understanding of the garden trades industry.

The survey provides valuable, exclusive data to member companies so if you are not already involved but would like to contribute to future surveys then please contact **GIMA** at www.gima.org.uk or by telephone on 01959 564947 to find out how to go about it.