GROWERTALKS

Features

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There’s Still Reason for Optimism

Dr. Charlie Hall

The green industry outlook for spring 2018 remains positive. There are a few red flags among current economic indicators, but none that should upset economic performance in the first couple of quarters of 2018. Even a potential increase in interest rates by the FOMC in December will likely have a minimal impact.

Although slowing, one of the continuing bright spots in the coming year is the housing market, a prime influencer of derived demand for green industry products and services. Since residential investment and housing starts are usually the best leading indicator for the green industry economy, this suggests that green industry sectors will continue to grow in 2018. In fact, a recent econometric forecast of historic personal consumption expenditures on plant sales indicates that, holding all other things constant, the market for ornamental crops will continue to rise through 2019.

For consumers, lower gasoline prices are another positive. As of press time, gasoline prices are currently around $2.39 per gallon, slightly higher than last year at this time, but near the lowest since the recession. There are still problems—not everyone has participated equally in the current expansion: wealth and income inequality are at record extremes, there’s too much student debt—but there are many economic reasons to be thankful this holiday season.

Hurricane impact

Looking back at the third quarter, real GDP was up a little over 2% from a year ago, which is exactly equal to the growth rate since the beginning of this recovery back in 2009. Looking at these four-quarter or eight-year growth rates, many people argue that the economy is still stuck in the mud. But looking in the rearview mirror always misses positive developments. The economy hasn’t turned into a thoroughbred, but the plowing is easier. Regulations are being reduced, federal employment growth has slowed (even declined) and monetary policy remains extremely loose with some evidence that a friendlier business environment is lifting monetary velocity.

While some economic data have shown surprising resilience since Hurricanes Harvey and Irma, the housing data are not among them. Home sales were already soft before the storms hit and have weakened notably in their aftermath. Most leading indicators of housing activity, such as pending home sales and mortgage purchase applications, have weakened as well. The declines are understandable given that Harvey and Irma hit Texas and Florida—two of the nation’s largest and fastest-growing housing markets.

Given the short timeline between now and the end of the year, and the typical fall-off in activity that occurs around the holidays, I expect storm-related disruptions to hold back sales and new home construction through year-end. Housing starts should be stuck at around their current levels, although unseasonably mild weather might boost a single month's seasonally adjusted numbers off their current low base.

The back-to-back hurricanes have put some additional pressure on prices for lumber and other building materials and also have worsened the already tight labor market for construction laborers in Florida and Texas (not good news for green industry folks). The monthly sales figures will likely swing considerably during the next couple of months, as some sales are shifted from the third quarter to the normally slower fourth quarter.

While hurricanes often lead to a spike in building activity, I suspect that physical constraints—including a lack of buildable lots, shortages of skilled construction workers, rising material prices and tighter underwriting standards—will keep a relatively low ceiling on housing starts. Efforts are being made to break the log jam, with several municipalities looking to streamline the permitting process and investment in worker training and lumber mills is increasing. Such efforts, however, will still take time to produce meaningful results.

GDP growth and shipping rates

The U.S. economy had strong momentum prior to the storms. Second quarter real GDP growth was revised modestly higher to a 3.1% pace, reflecting stronger growth in services outlays. Average hourly wages were also revised higher and show much more strength than previously reported. Moreover, the unemployment rate has fallen to 4.2% and appears to have been minimally impacted by the storm. The drop in the unemployment rate reflects a catch-up in household employment growth and stronger labor force growth. The lower jobless rate is consistent with other survey data, also indicating a tightening labor force.

Early signs suggest solid growth in the fourth quarter as well. Put it all together and we may be seeing an acceleration toward the mid-2% range for underlying trend economic growth. Less government interference frees up entrepreneurship and productivity growth powered by new technology. Yes, the Fed is starting to normalize policy, but fiscal and monetary policy together are still pointing toward a good environment for growth.

Data published in the American Trucking Association (ATA) recently released (July 2017) forecast paints a positive picture for the next few years. For the remainder of this year, ATA predicts freight volumes to grow 2.8%. Beginning in 2018, volumes are expected to grow 3.4% annually until 2023.

Also, according to ATA, the trucking industry is currently short around 48,000 drivers, with that number expected to surge to 890,000 by 2025. The actual extent of the driver shortage is still unknown, with a lot of it having to do with upcoming regulations.

The value proposition for the green industry in the future must focus on the unique ways in which quality of life is improved for its customer base. Much research has validated the emotional and environmental benefits of flowers, plants and trees. In a nutshell, green industry products and services improve emotional health and well-being, build stronger communities, mitigate environmental externalities and improve the economic value of homes—just to name a few of the benefits.

The green industry cannot overemphasize the importance of this quality of life message, particularly in focusing its differentiation strategies in the future—that because of whatever generation one is a member of, quality of life is a "higher order" need that's important to them. Research shows that there's no better way to do this than through the daily use and/or enjoyment of flowers, plants and trees.

In other words, plants enhance the quality of our lives through numerous health and well-being benefits, environmental ecosystems services benefits and economic benefits. All the green industry has to do now is convince consumers to view their products and services as necessities instead of luxuries. This will, of course, make the industry even more recession-resistant in the future. **GT**

Dr. Charlie Hall is a Professor and holds the Ellison Chair in International Floriculture in the Department of Horticultural Sciences at Texas A&M University, College Station. He can be reached at charliehall@tamu.edu.