

UK Horticulture Market



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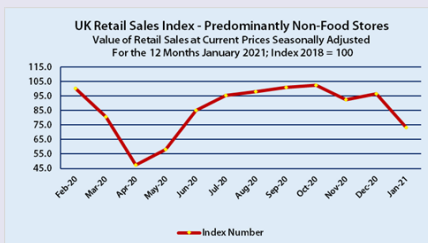


Figure 1: Retail sales index; predominantly non-food stores



Overview

According to the Horticultural Trades Association (“HTA”), British farmers produce 3.5 million tonnes of fruit and vegetables every year on 153,000 hectares of land. In addition, British farmers grow 14,000 hectares of plants and flowers. The farm gate value of UK fruit, vegetables, plants and flowers is around £3.5 billion. The horticulture sector has formed an essential part of British life for over 350 years and the UK horticulture industry employs approximately 40,000 permanent workers, plus 70,000 seasonal workers each year.

The horticulture sector includes the ornamental crop subsector, which grows bulbs, bedding plants, cut flowers, pot plants and stock mostly sold through garden centres, supermarkets, florists and DIY stores. Around 650 businesses across the UK produce ornamental crops, which contribute £1.4 billion in total to the country’s GDP annually.



Brexit

The UK is a net importer of flowers, bulbs, trees and ornamental plants by a significant margin. One concern around Brexit for the UK horticulture sector is that access to labour from outside the UK has become critical for business success as many horticultural producers in the UK rely heavily on a workforce sourced from other countries. Experts are concerned that any reduction in access to this labour supply will increase labour costs for UK growers and reduce productivity.

In their report, *Implications of Brexit for Ornamental Horticulture*, trade body International Association of Horticultural Producers (“AIPH”) explained, “One positive opportunity for UK horticulture exists if the UK government chooses to retract some of the legislative burden introduced as a result of EU rules. Some of the environmentally-based legislation from the EU has reduced UK horticultural productivity, arguably without a corresponding environmental benefit. Examples include controls on pesticides and the recent ban on neonicotinoid pesticides that, according to the UK government, is not based on sound science. The process of harmonisation for pesticides across the EU has also led to the loss of many pesticides which the UK may now decide to keep.”

“Also, the rules affecting the use of pesticides on ornamental crops may be different. The UK could also choose to take a more targeted approach to regulating Invasive Non Native Species so avoiding the problem of plants that are problems in other countries, for climatic reasons, being unnecessarily banned or controlled in the UK,” the report continued.



2020 Garden Centre Sales

January 2021 reports show that garden centres finished a difficult year with good Christmas sales with Hillier and Blue Diamond up 17% and 15%, respectively. Others reported increases in the range of 3%-6%.

Despite eight weeks of the peak season being lost when Britain’s 2,000 garden centres and nurseries closed during the coronavirus lockdown, garden centres have recovered to within a few percentage points of last year.

Sam Bosworth, with two garden centres in the Midlands, explained, “From a business perspective we have ended the year in a strong position, but it has taken a huge effort to get to this point. I would never have envisaged this at the start of lockdown one.”

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UK Retail Sector



According to latest figures from the Office for National Statistics (“ONS”), in January 2021, retail sales volumes decreased by 8.2% when compared with December 2020 as tighter nationwide coronavirus (COVID-19) restrictions affected sales.

Retail sales volumes were 5.5% lower than before the pandemic in February 2020 indicating that the impact of restrictions on the retail sector was not as large as that seen in April 2020 during the first full month of retail restrictions when sales fell by 22.2% when compared with levels before the pandemic.

The proportion spent online soared to 35.2% in January 2021, the highest on record; this compares with 29.6% in December 2020 and 19.5% reported in January 2020.

Economic Impact of Coronavirus

Undoubtedly, coronavirus is a black swan event – something that happens once in a century. Its spread has left businesses around the world counting costs, with many investors fearing the spread of coronavirus will pose an insurmountable challenge to the economic growth of all major countries across the globe. Almost every industry has been affected, with governments scrambling to somehow arrest the economic decline. Central banks in more than 50 countries, including the US Federal Reserve and the Bank of England have cut interest rates to try to strengthen their economies. Furthermore, most countries have announced unprecedented stimulus packages in the hopes of reviving their economy.

Impact on Horticulture Industry

A recent article in Horticulture Week explored some of the positive impacts of the COVID-19 on the UK horticulture sector. Namely, the huge boom in home gardening and grow-your-own.

The article stated, “Little did we know though that while coronavirus would endanger many industries, the gardening sector would explode due to budding horticulturalists seeking a connection to nature and more food security. In fact, the industry has been positively transformed in a matter of months – and many trends appear to be here to stay. Not only does the gardening industry have more customers, but growers as a whole are spending more as they stock up their horticultural armoury.”

The HTA Garden Retail Monitor found that sales of gardening products were up 34%, 17% and 19% in June, July and August, respectively, in UK garden centres, compared to the same time last year. On average, individual customers were spending 35% more on gardening products. Sales also surged in bedding plants (29%), seeds (59%) and gardening equipment (51%).

Gardening was listed as the second most popular lockdown activity people planned to do after watching TV, according to a survey by GlobalData market research, ahead of cooking, reading and exercising. And while garden centres were shut down, consumers went online.

Within 100 days of the initial lockdown, 15 million people visited the Royal Horticultural Society (“RHS”) website, compared with 20 million in the whole of 2019. The society is investing more resources into its online presence as a result of the pandemic.

UK Economic Forecast

Rising coronavirus infections and lockdown controls are expected to weigh on the economy in the opening months of 2021 before enough people can receive the vaccine and restrictions can be relaxed. GDP was expected to grow by 5.5%,

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according to Office for Budget Responsibility forecasts in November. While this would mark the strongest growth rate since the late 1980s, the depth of the COVID recession means the economy would not return to its pre-pandemic peak until late 2022.

Since the launch of tougher COVID restrictions, the Resolution Foundation thinktank now expects GDP could be as much as 6% smaller by Easter than forecast, cutting the 2021 growth rate to 4.3%.

Global Economic Forecast

The OECD Interim Economic Outlook projects global GDP to fall by 4.5% in 2020, before growing by 5% in 2021. The forecasts are less negative than those in OECD's June Economic Outlook, due primarily to better than expected outcomes for China and the United States in the first half of 2020 and a response by governments on a massive scale. However, output in many countries at the end of 2021 will still be below the levels at the end of 2019, and well below what was projected prior to the pandemic.

If the threat from COVID-19 fades more quickly than expected, improved business and consumer confidence could boost global activity sharply in 2021. But a stronger resurgence of the virus, or more stringent lockdowns could cut two to three percentage points from global growth in 2021, with even higher unemployment and a prolonged period of weak investment.

The report warns that many businesses in the service sectors most affected by shutdowns, such as transport, entertainment and leisure, could become insolvent if demand does not recover, triggering large-scale job losses. Rising unemployment is also likely to worsen the risk of poverty and deprivation for millions of informal workers, particularly in emerging-market economies.

The rapid reaction of policymakers in many countries to buffer the initial blow to incomes and jobs prevented an even larger drop in output. The Interim Outlook says it is essential for governments not to repeat mistakes of past recessions but to continue to provide fiscal, financial and other policy support into 2021. Such measures should be flexible enough to adapt to changing conditions and become more targeted.

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