

The Paradigm Has Changed. Now What?

Economic Outlook for the Green Industry

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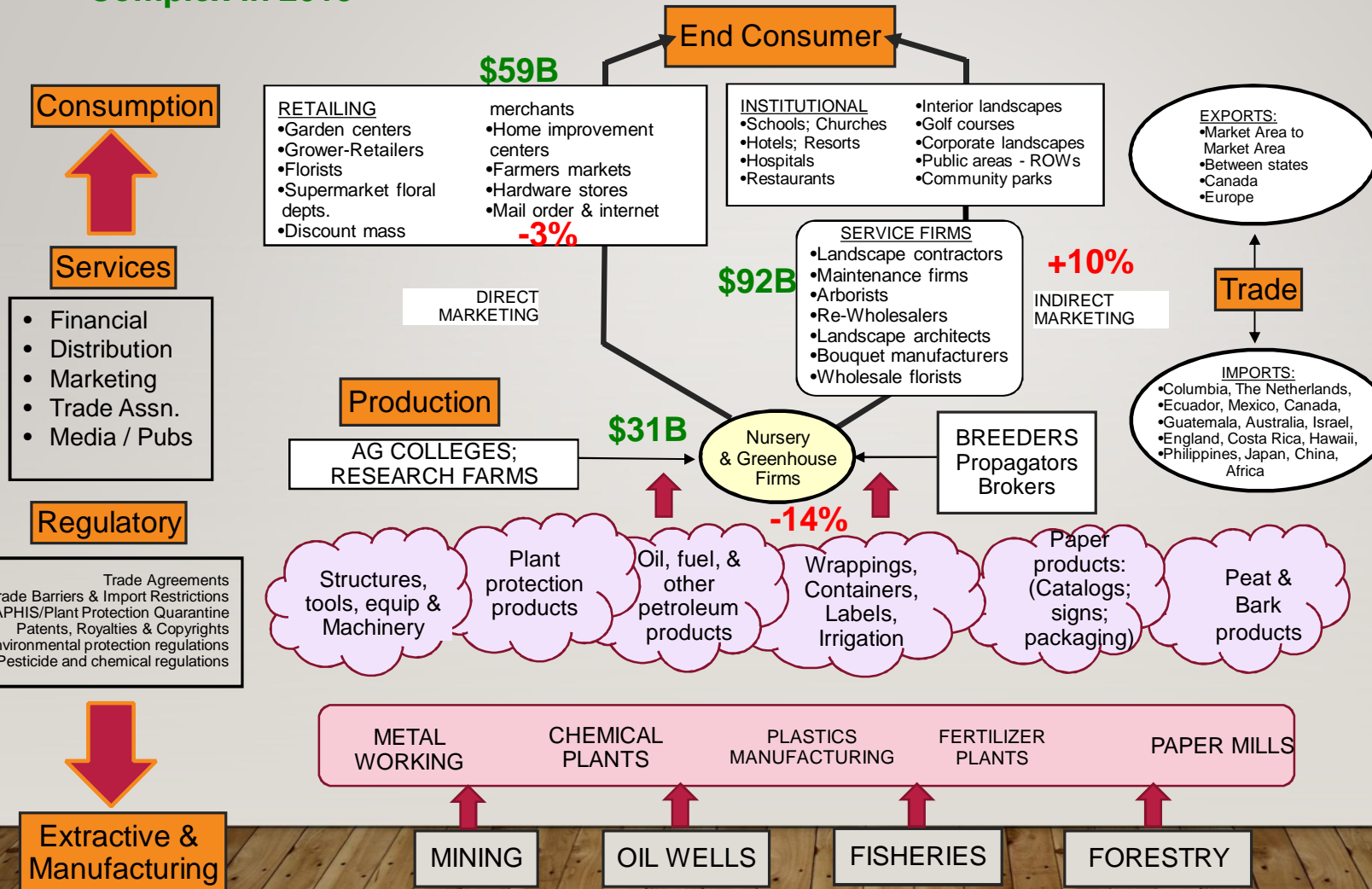
\$196 Billion Green Industry Complex in 2013

Structural aspects

Mature stage
Fragmented/Bipolar
Consolidating
Shakeout
- Costs vs. Prices
- Low ROI
- Overleveraged
- Shrink
Supply variations
Hypercompetitive
Innovation treadmill

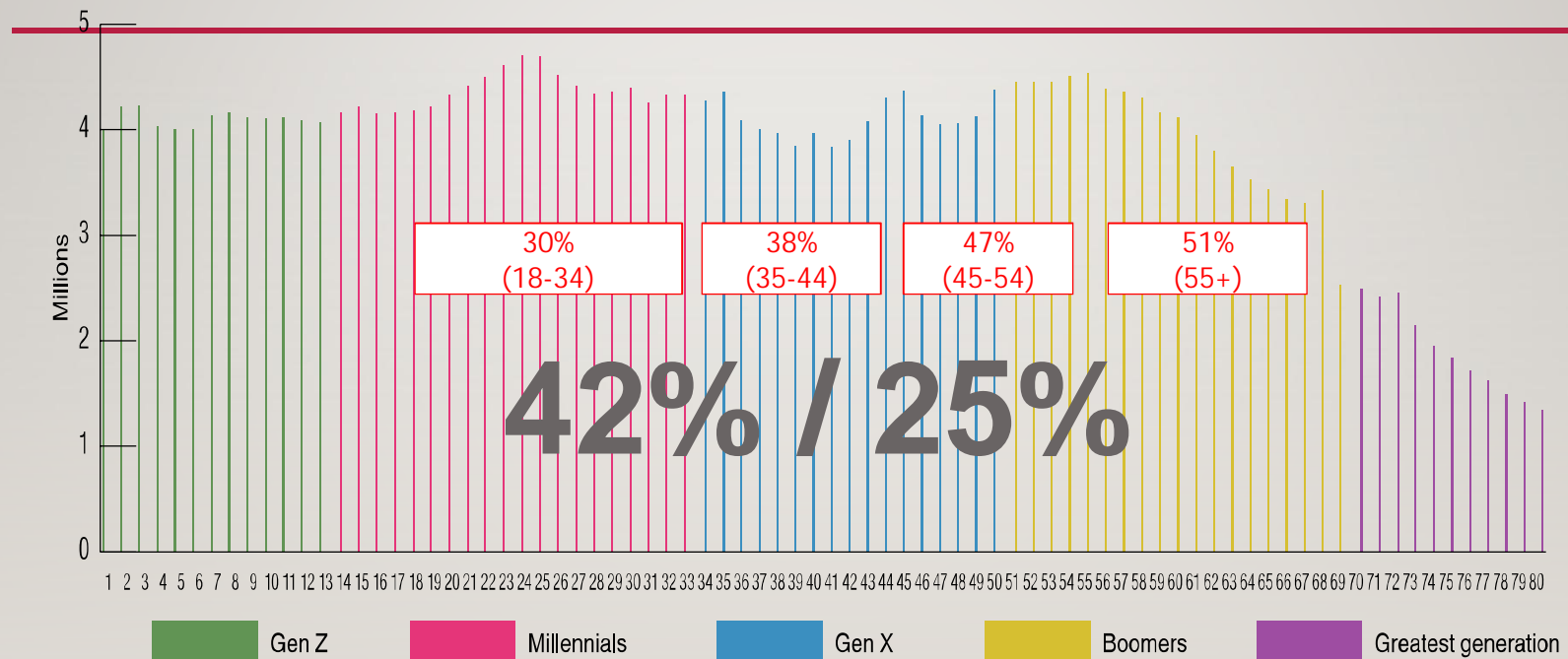
Issues

Economy
Distribution
Water
Energy
Housing
Labor
Demographics
Biophilia

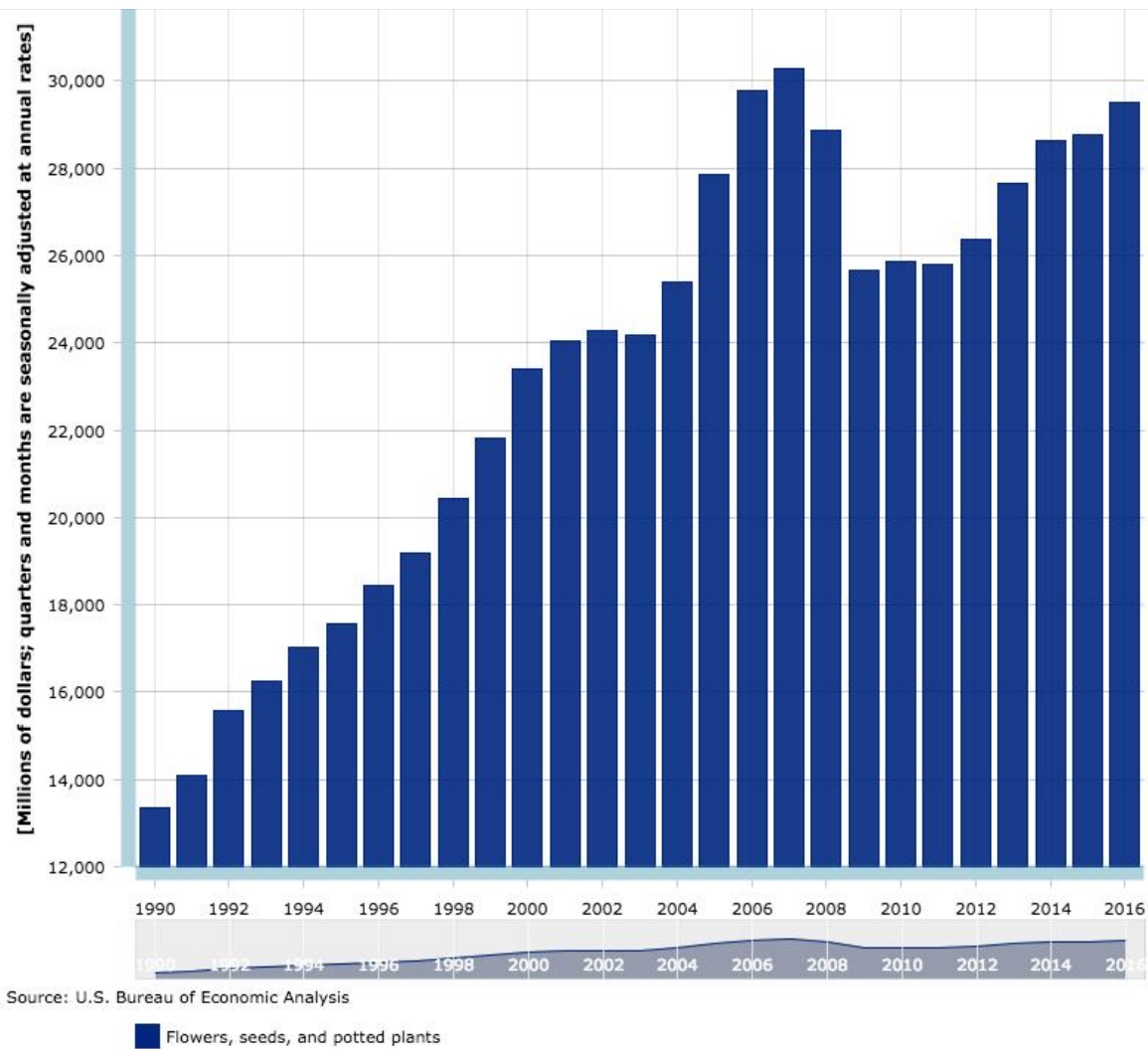


DEMOGRAPHIC INFLUENCES ON THE GREEN INDUSTRY

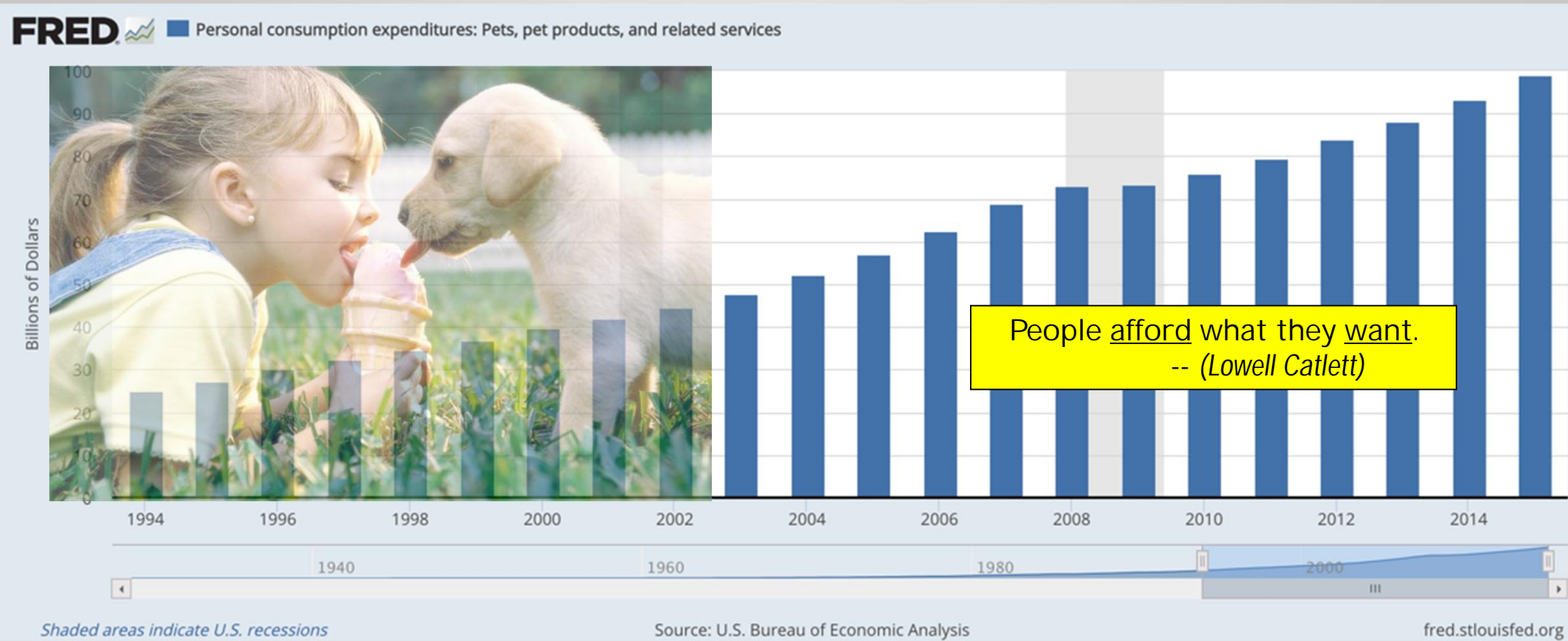
U.S. Population by Age



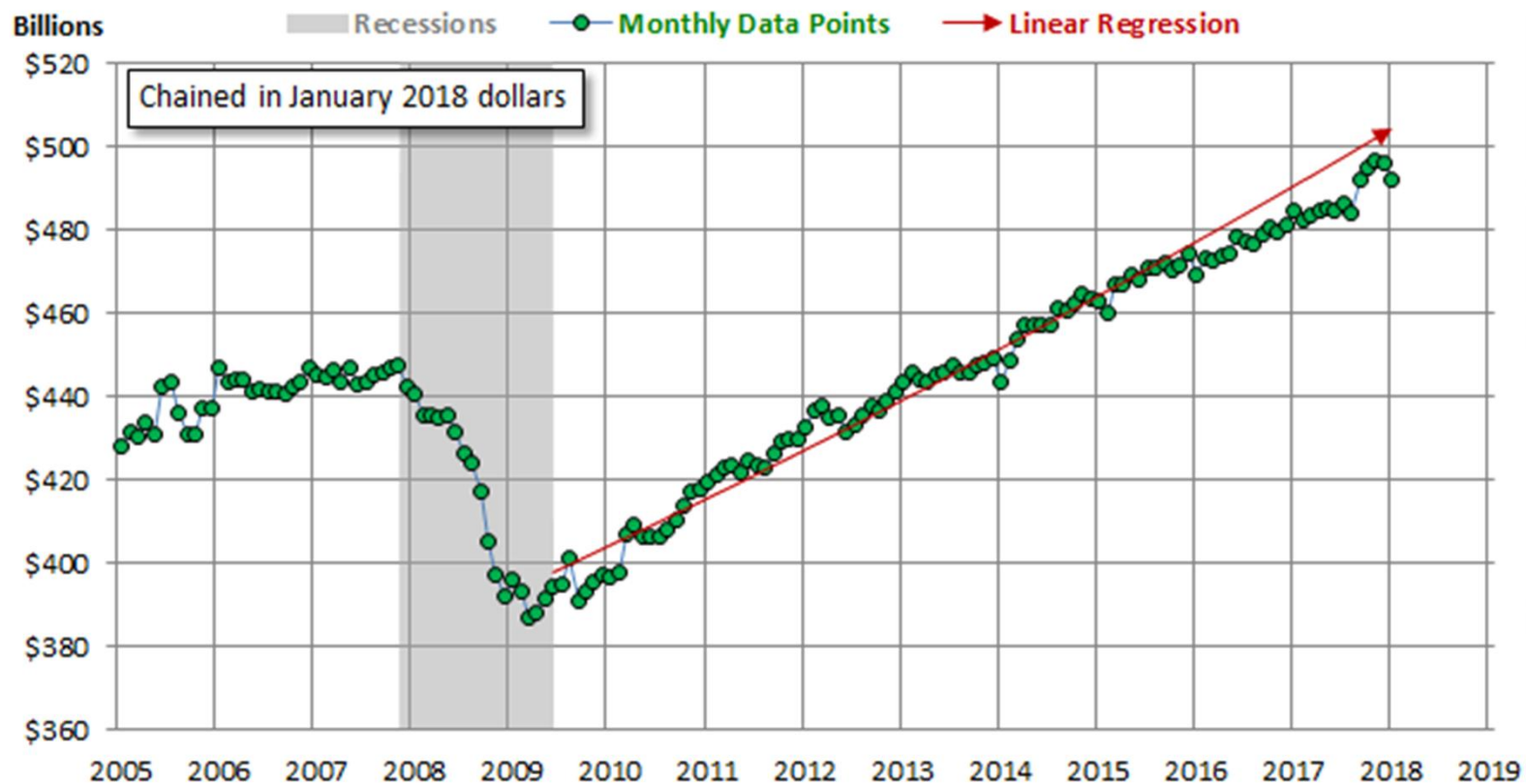
Source: U.S. Census Bureau.



U.S. PET EXPENDITURES (\$BILLIONS)



Real Retail Sales Since the End of the Last Recession



What are the implications?



People, regardless of age or any other demographic characteristic, want things that enhance the quality of their lives!

WHAT DEFINES QUALITY OF LIFE?



Value



Relevancy



Authenticity

QOL

Social Well-Being

Physical Well-Being

Psychological Well-Being

Cognitive Well-Being

Environmental Well-Being

Spiritual Well-Being

WE ARE MORE THAN PRETTY!

Economic Benefits

- Beautification draws customers & reduces shopping stress
- Boosts occupancy rates
- Generates tourism revenue
- Job creation from increased services demanded
- Reduced health care costs
- Increased property values
- Tax revenue generation
- Reduced street repairs and maintenance costs
- Upgrade effects of surrounding areas
- Revenue from educational programs & special events

Environmental Benefits

- Carbon sequestration
- Improved air quality
- Attracts wildlife and promotes biodiversity
- Energy cost savings associated with heating / cooling
- Reduced heat and cold damage
- Offsets heat islands
- Reduced noise pollution
- Reduced soil erosion
- Reduced storm water runoff
- Improved water quality
- Reduced urban glare
- Effective windbreaks
- Increased biodiversity

Health/Well-being Benefits

- Improved concentration and memory retention
- Enhanced learning capacity
- Plants generate happiness
- Reduced stress and depression
- Health and recreation benefits
- Accelerates healing process
- Therapeutic effects of gardening
- Improves relationships / compassion
- Improved human performance / energy
- Medicinal properties
- Improved mental health
- Reduced community crime
- Traffic safety / driver satisfaction

BOTTOM LINE...

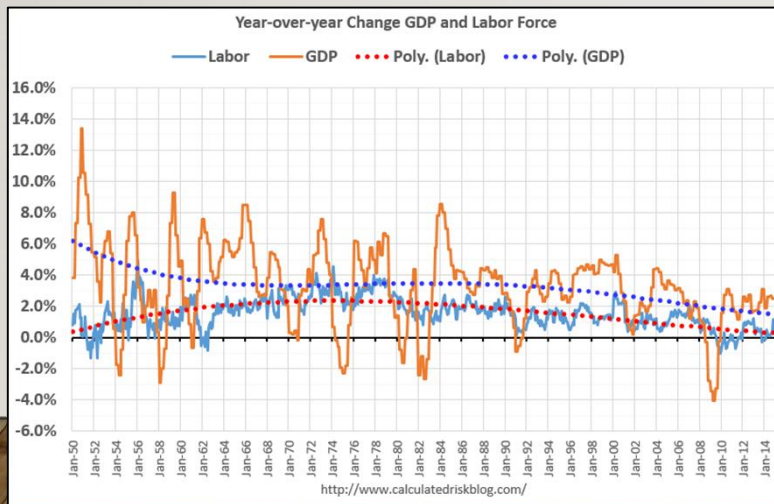
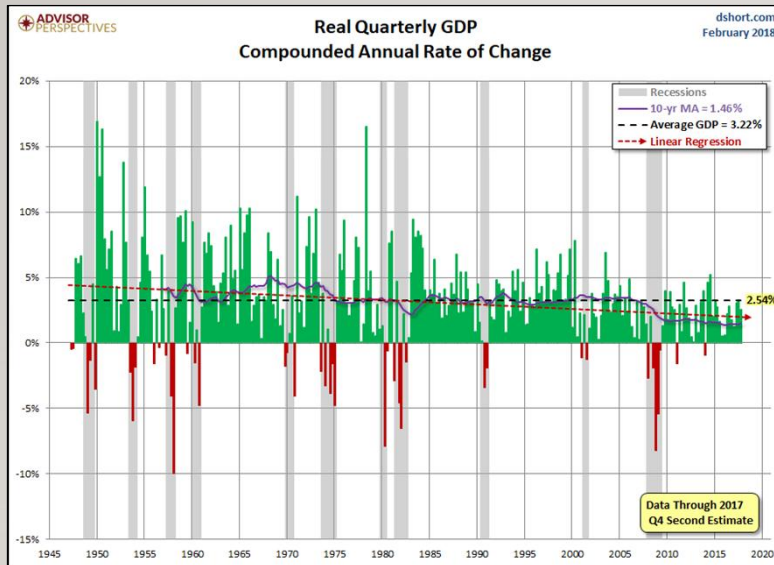
1. Demographics are working in our favor.
2. We have what people need to enhance their QOL.
3. We have an opportunity to help solve societal issues.

BUT... Will the economy be the spoiler?

CLEARING UP ERRANT ASSUMPTIONS

- Stock market performance **does not** equal economic performance.
- Consumer confidence **does not equal** economic performance.





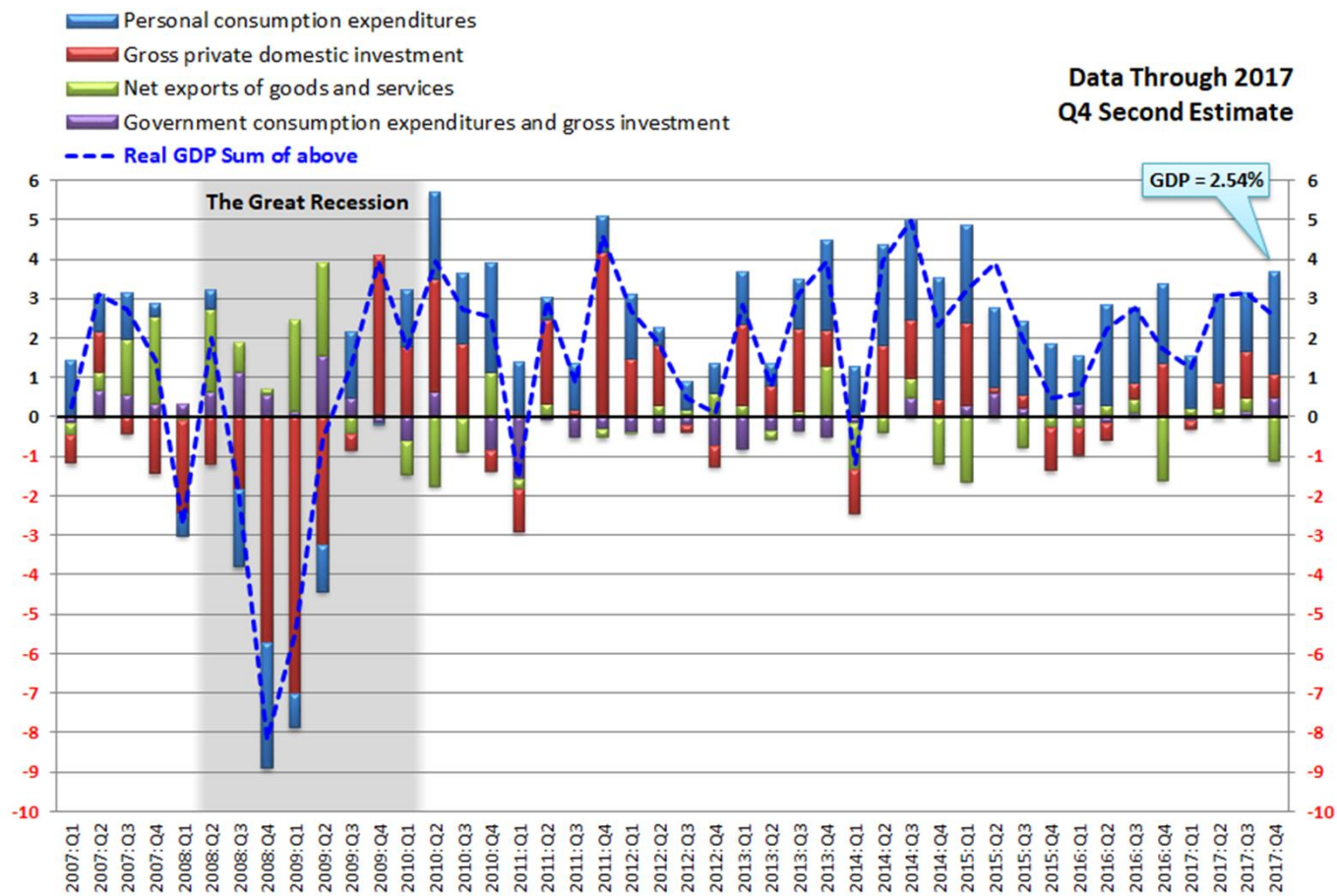
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2% is "slow and steady!"

Contributions to Percent Change in Real GDP Since 2007

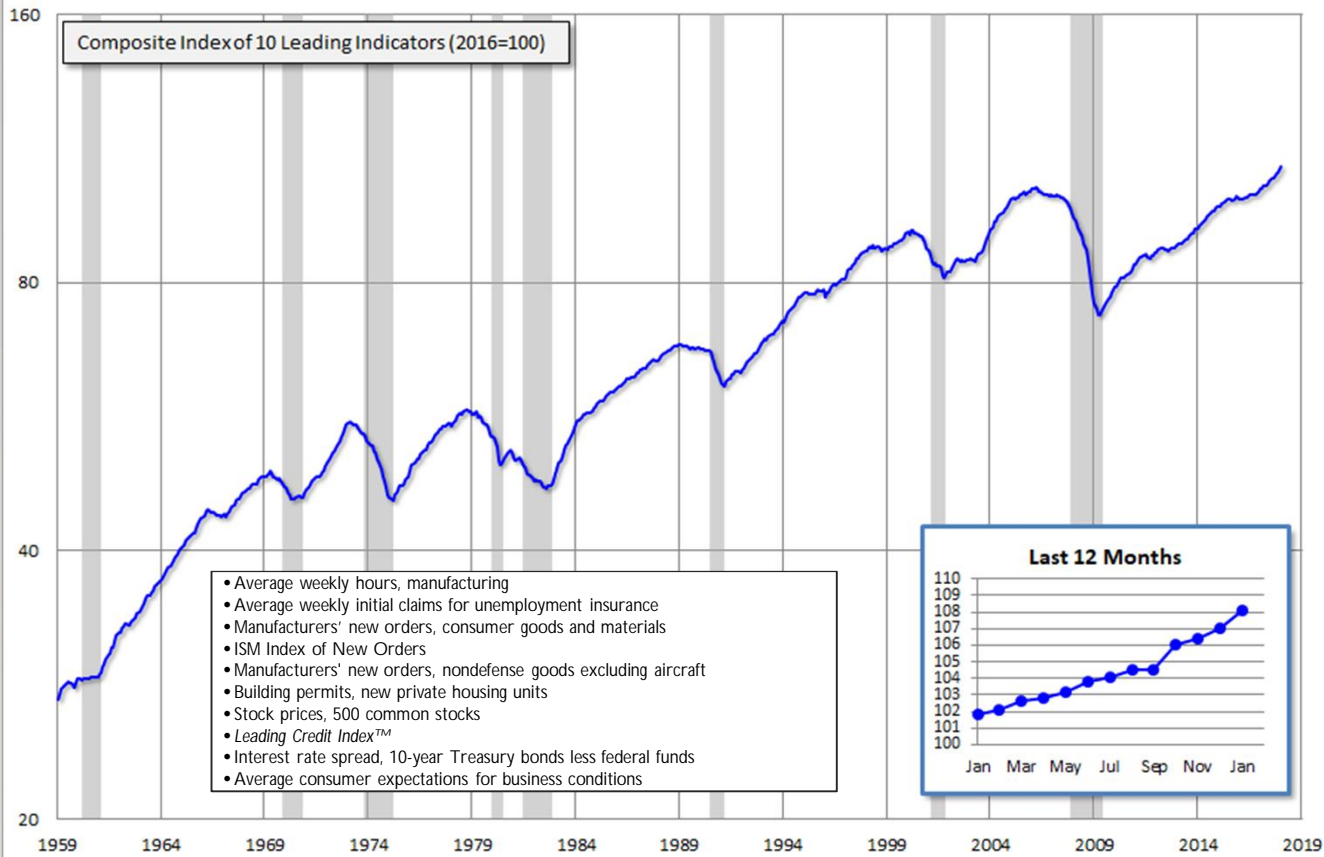
dshort.com
February 2018



Conference Board Leading Economic Index with Recessions Highlighted

dshort.com
February 2018
Data through January

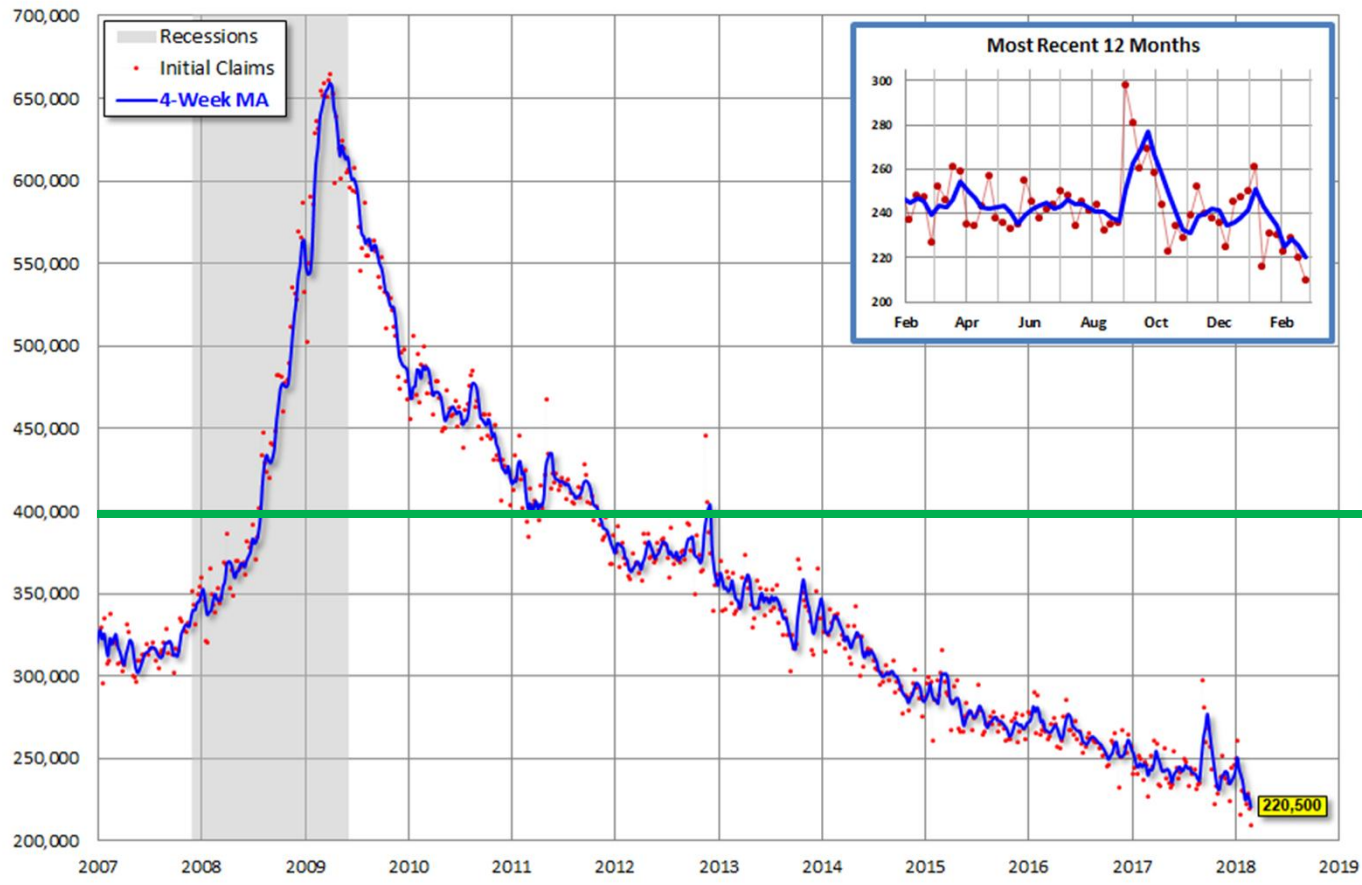
Log Scale



Unemployment Insurance Weekly Claims Report

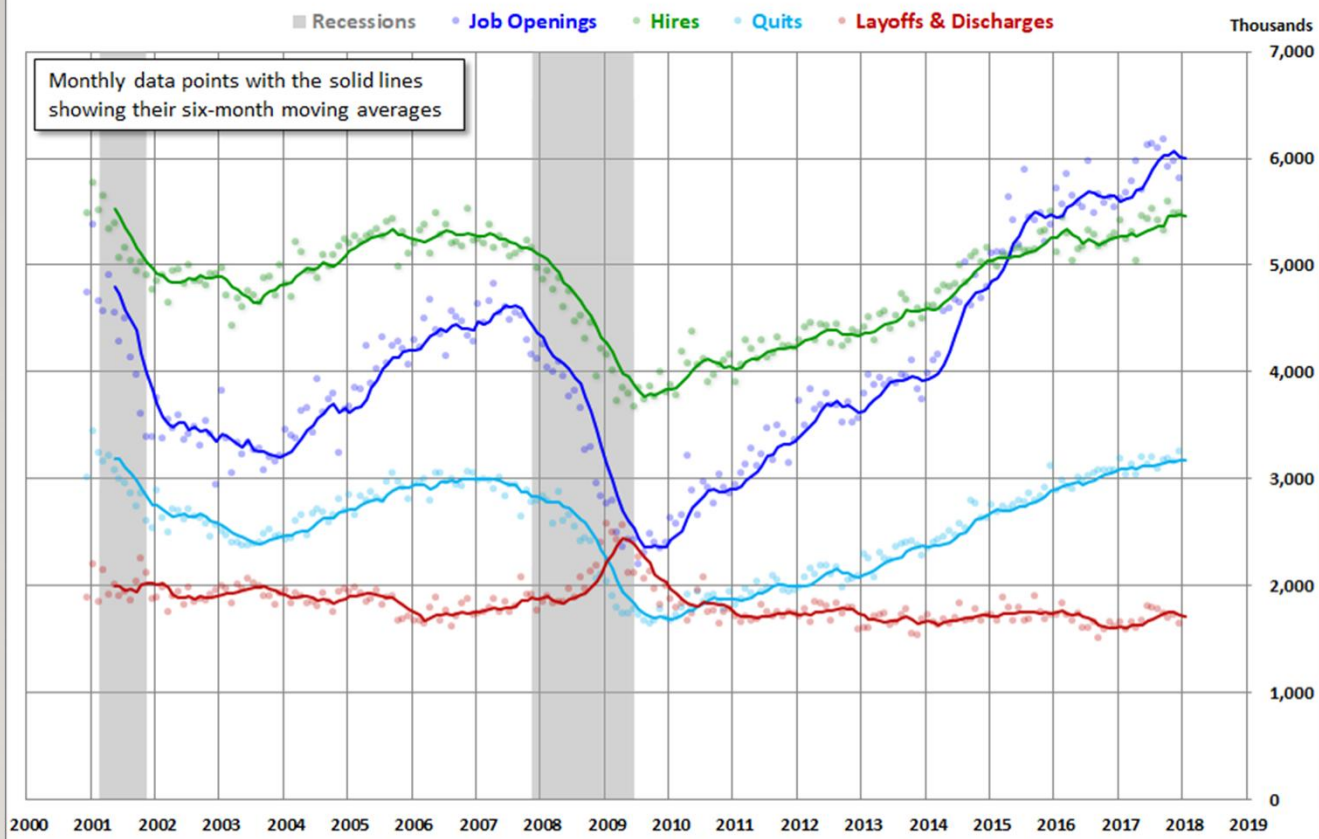
Seasonally Adjusted with the Four-Week Moving Average

dshort.com
March 1, 2018
As of February 24



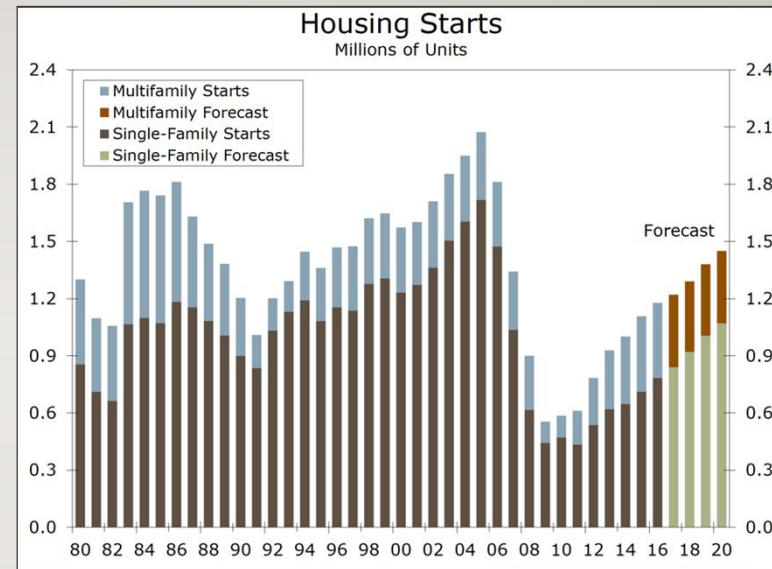
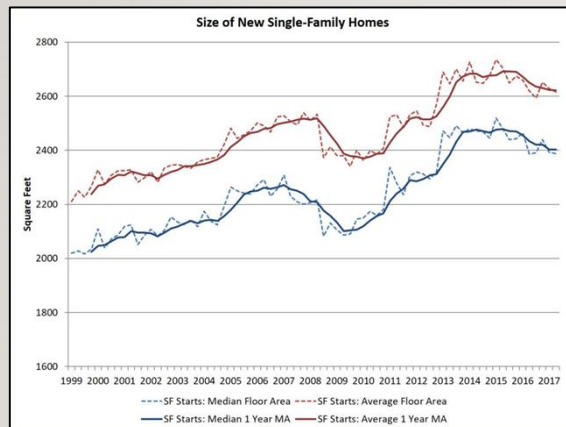
JOLTS Report for Total Nonfarm Employment: Job Openings and Labor Turnover

dshort.com
February 2018
Data through December



HOUSING MARKET

- LMI ↑ for most metro areas
- Home prices up YOY
- Certain MSA's skewing the avg.
- Geographic mismatch
- Lack of existing home turnover
- Rising number of 1st-time buyers

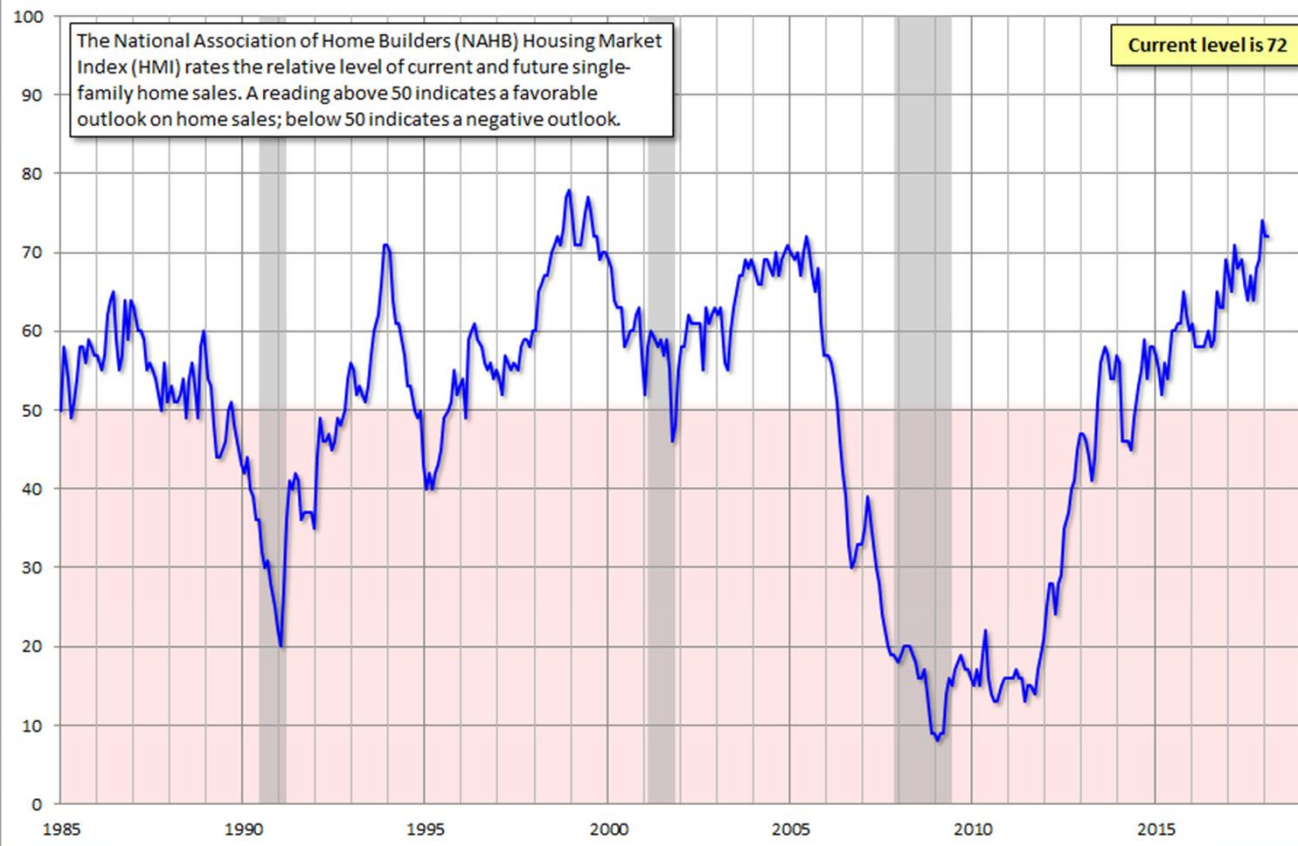


HEADWINDS

- Lumber prices are up
- Shortage of lots
- Labor availability

Housing Market Index (HMI)

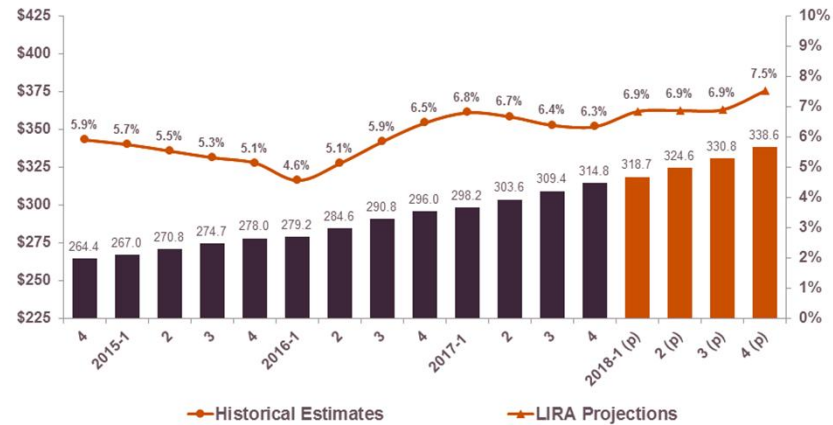
Recessions Highlighted in Gray



Leading Indicator of Remodeling Activity – Fourth Quarter 2017

Homeowner Improvements & Repairs
Four-Quarter Moving Totals
Billions

Four-Quarter Moving
Rate of Change

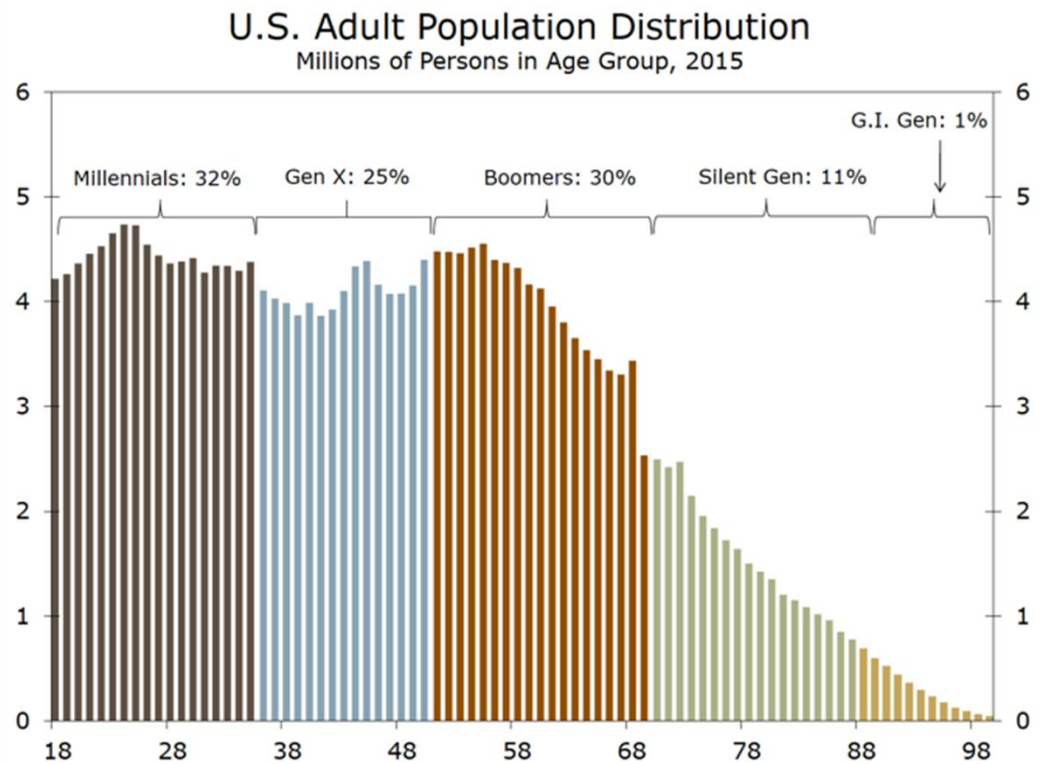


Notes: The former LIRA modeled homeowner improvement activity only, while the re-benchmarked LIRA models home improvement and repair activity. Historical estimates are produced using the LIRA model until American Housing Survey data become available.
Source: Joint Center for Housing Studies.

FRED — Advance Retail Sales: Building Materials, Garden Equipment and Supplies Dealers



A steady stream of Millennials are approaching the age that homeownership tends to rise.

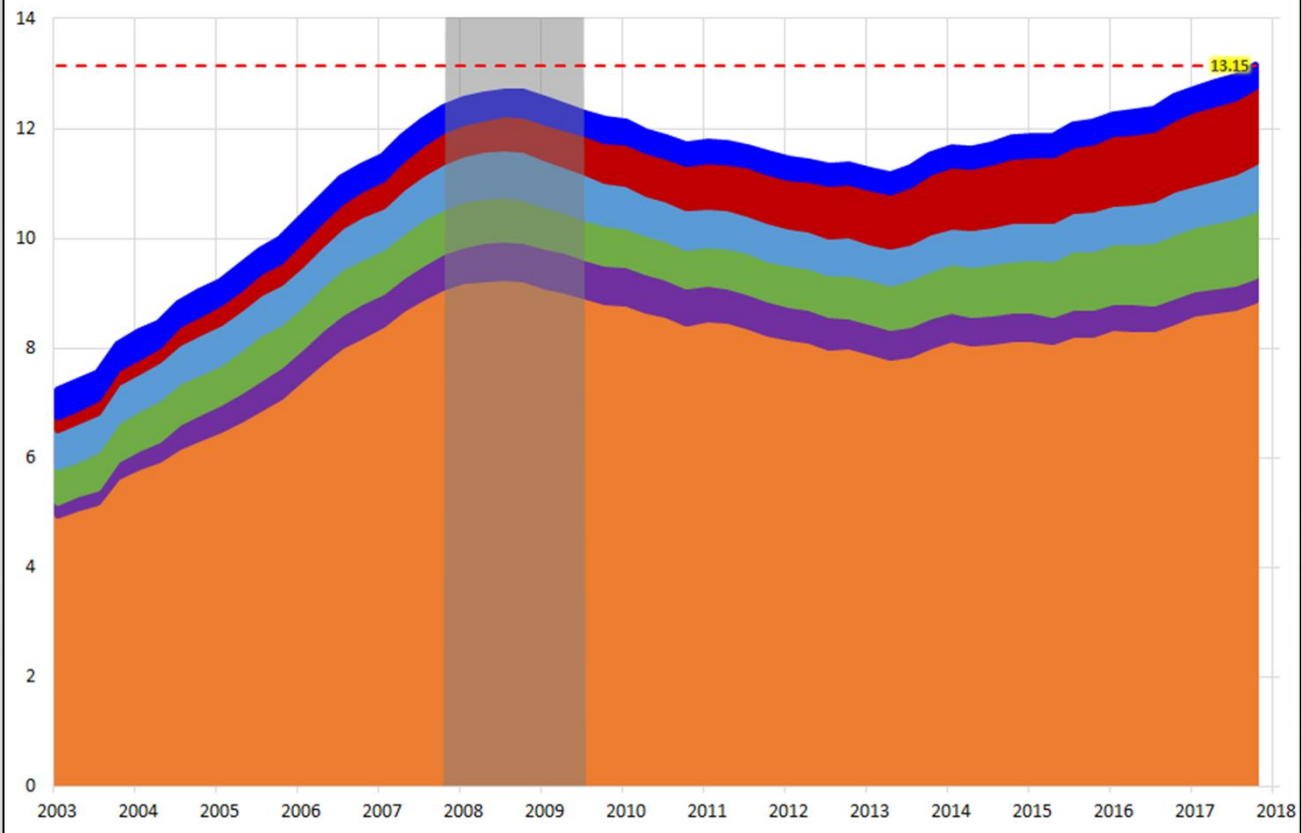


Source: U.S. Department of Commerce and Wells Fargo Securities

Total Household Debt Balance (Trillions)

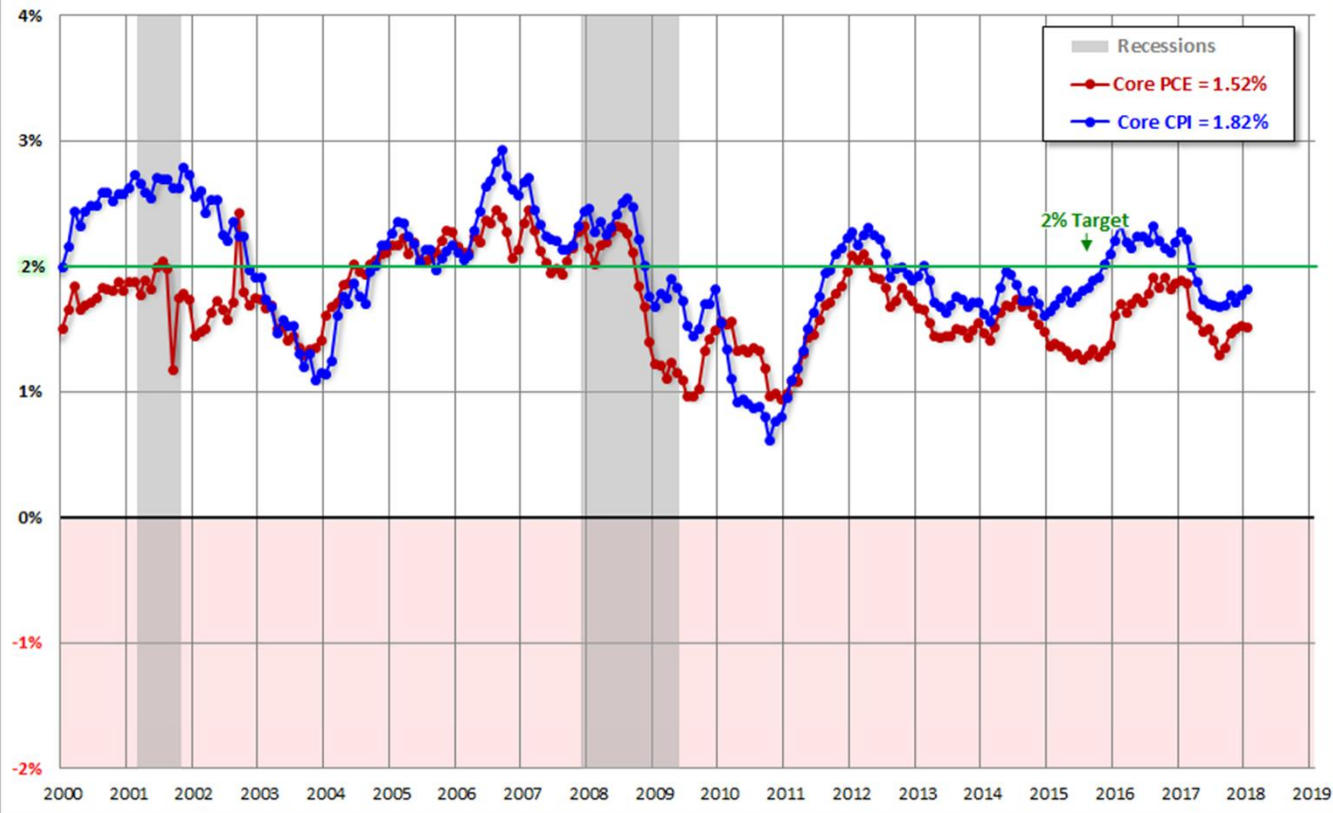
dshort.com
Data Through Q4 2017

Mortgage HE Revolving Auto Loan Credit Card Student Loan Other



Consumer Price Index and PCE Price Index The Core Comparison (Excluding Food & Energy) Since 2000

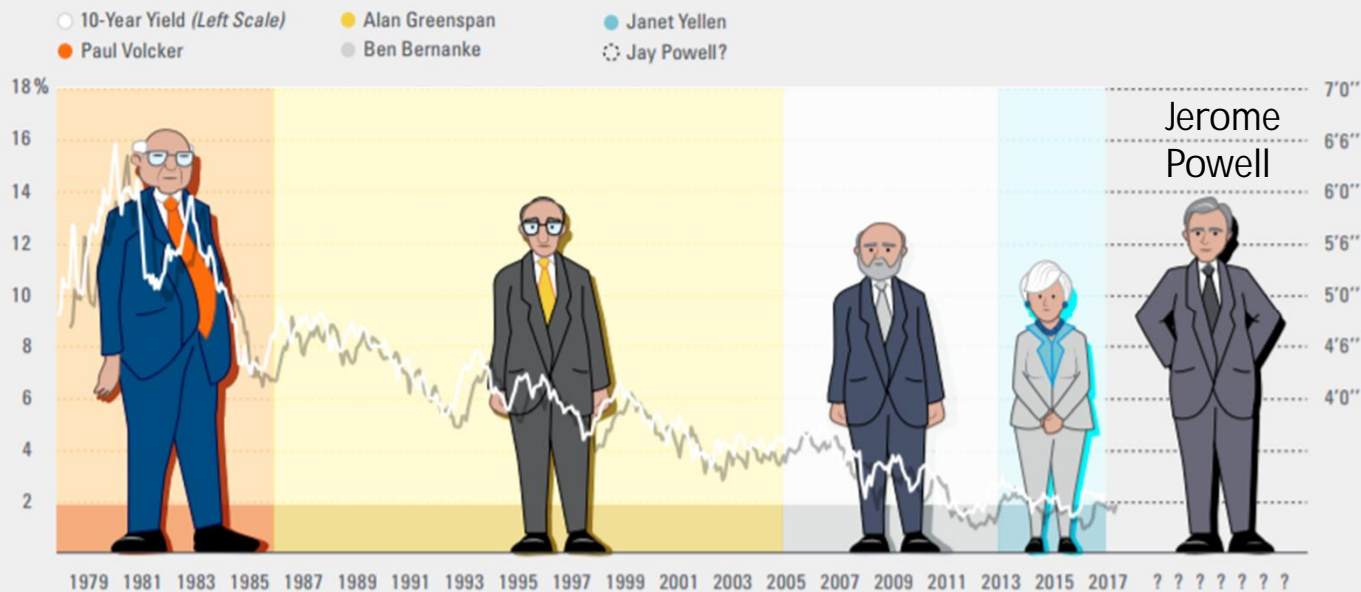
dshort.com
March 2018
Data through January



INTEREST RATES

2

BOTH THE HEIGHT OF THE FED CHAIR AND RATES HAVE FALLEN OVER TIME, COULD A TALLER FED CHAIR MEAN RATES RISE?



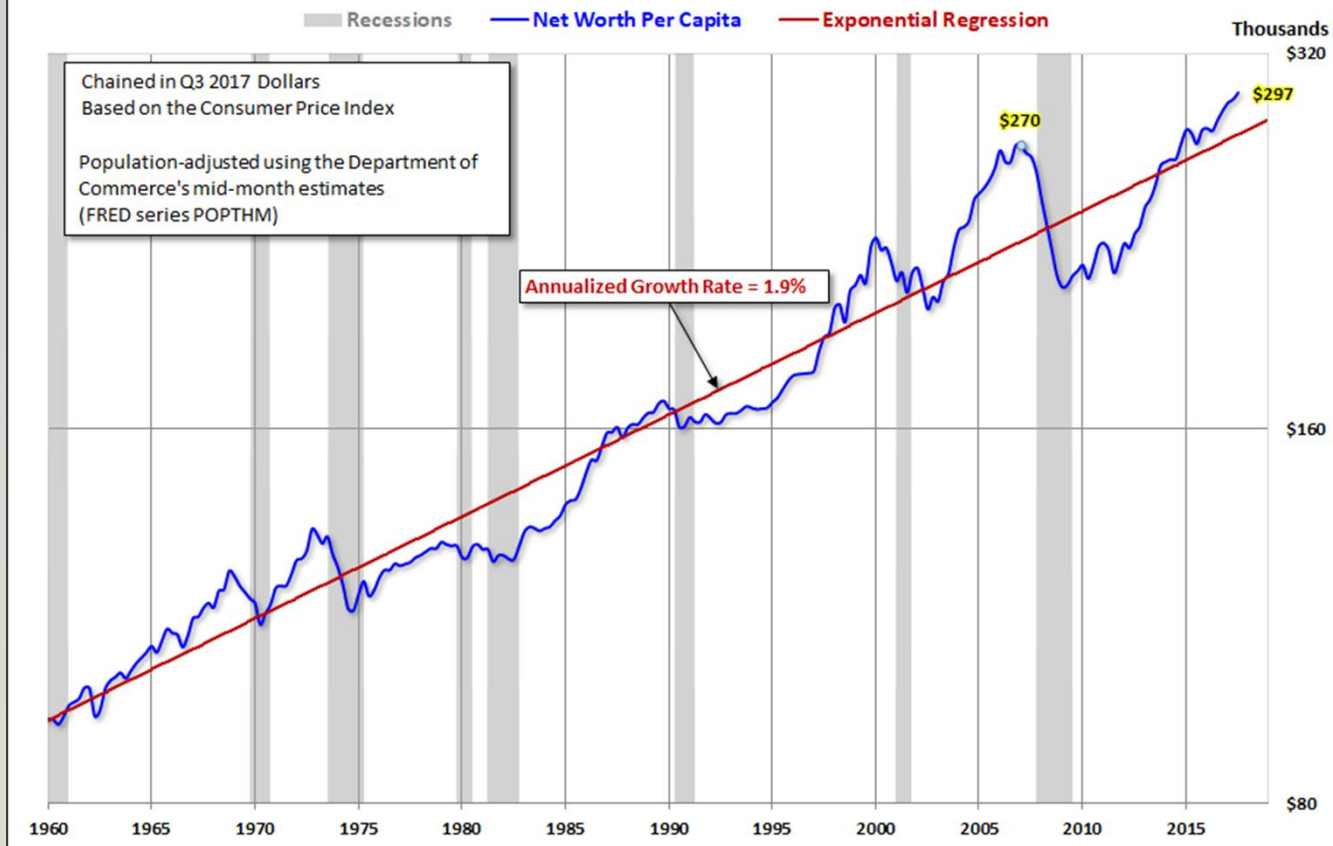
Source: LPL Research, Bloomberg 10/22/17

We don't actually believe that interest rates are determined by the height of the Fed chair, but it has been an interesting coincidence.

"Now--a decade from the onset of the crisis and nearly seven years since the passage of the Dodd-Frank Act and international agreement on the key banking reforms--a new question is being asked: Have reforms gone too far, resulting in a financial system that is too burdened to support prudent risk-taking and economic growth?"

Real Total Net Worth Per Capita Households and Nonprofit Organizations

dshort.com
Data through Q3 2017

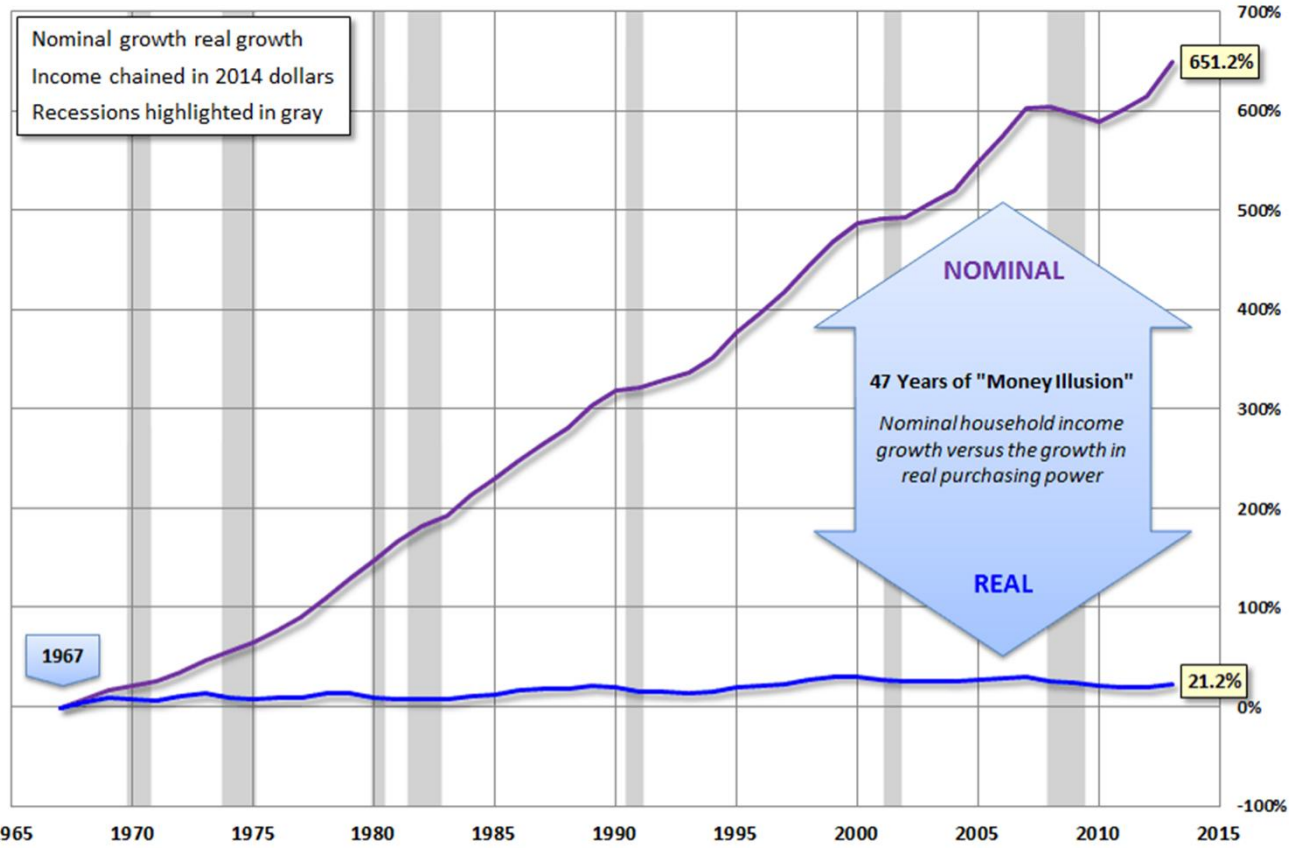


Annual Data
Through 2014

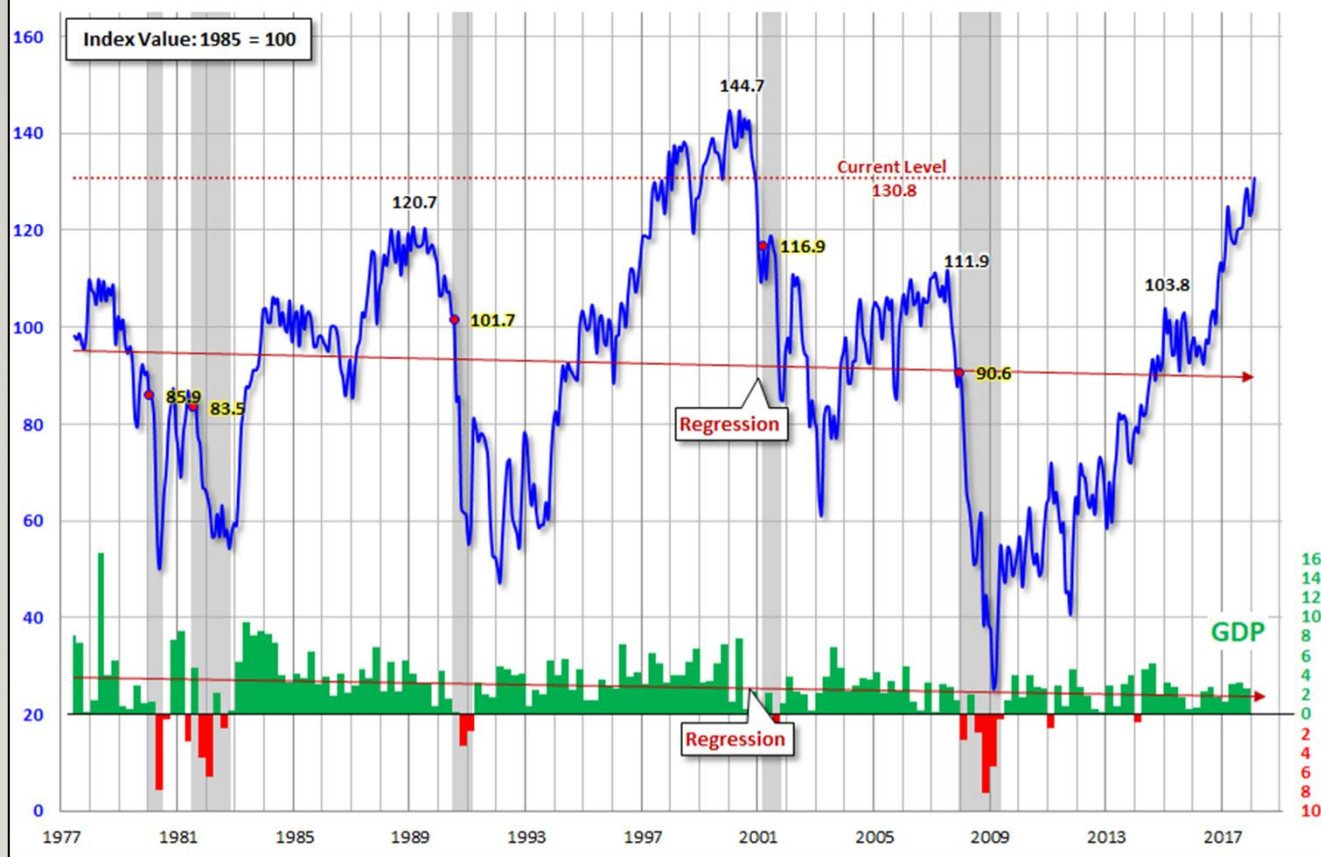
Median Household Income Growth

dshort.com

— Nominal Growth — CPI-U-RS Adjusted



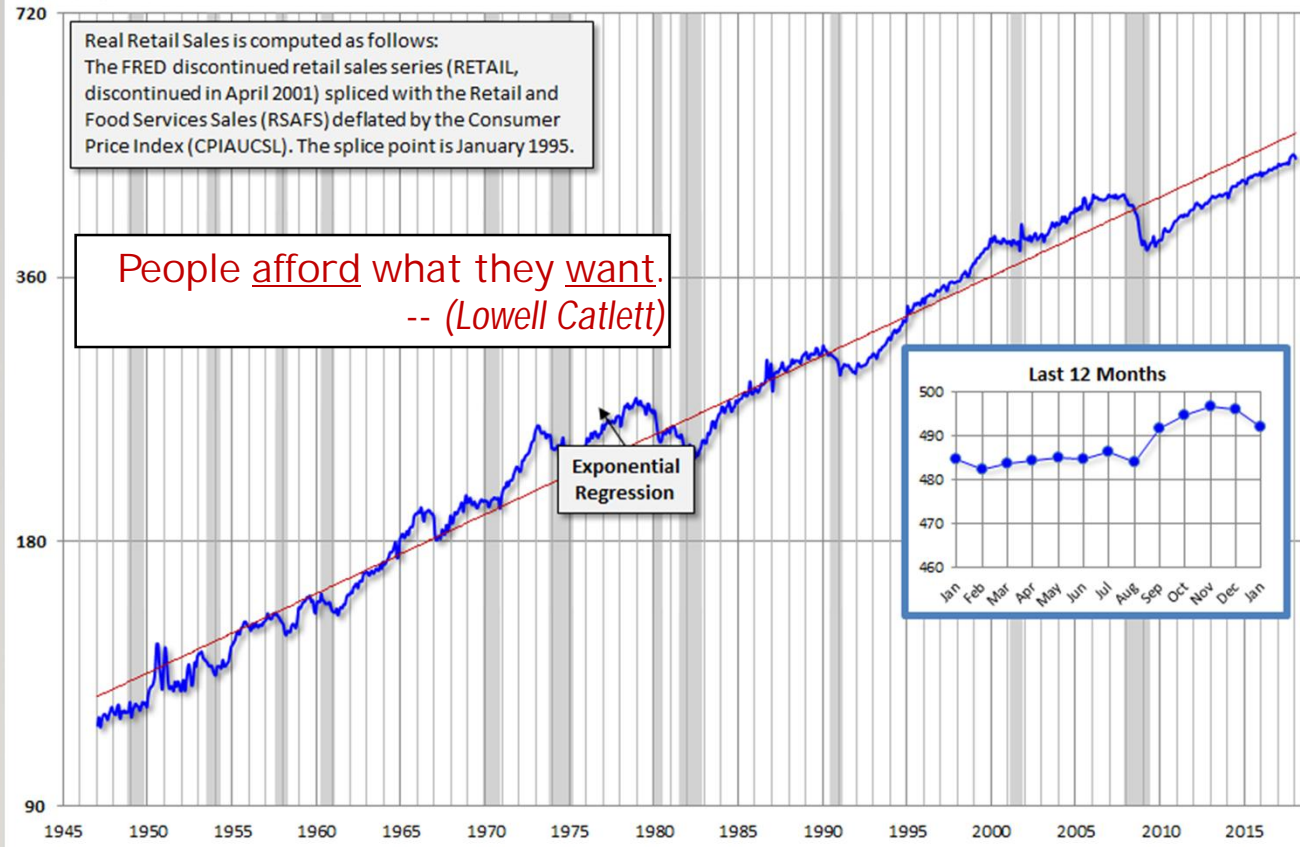
Conference Board Consumer Confidence Index Recessions Highlighted in Gray, Real GDP Shown Below



Real Retail Sales Growth Since 1947

With an Exponential Regression

Billions (Log scale)



WHEN WILL THE NEXT RECESSION START?





— St. Louis Fed Financial Stress Index©

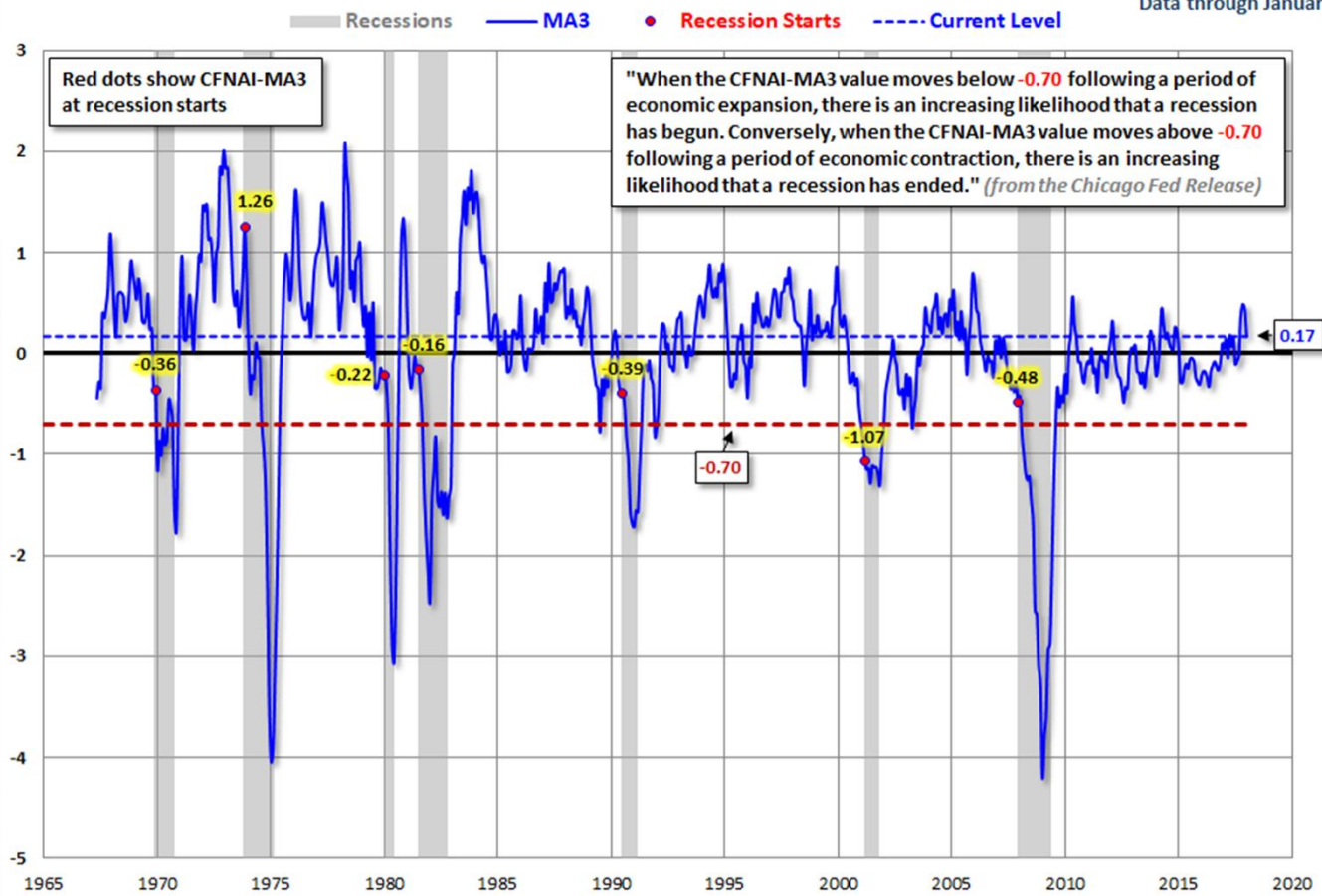


Source: Federal Reserve Bank of St. Louis
fred.stlouisfed.org

myf.fred/g/epwQ

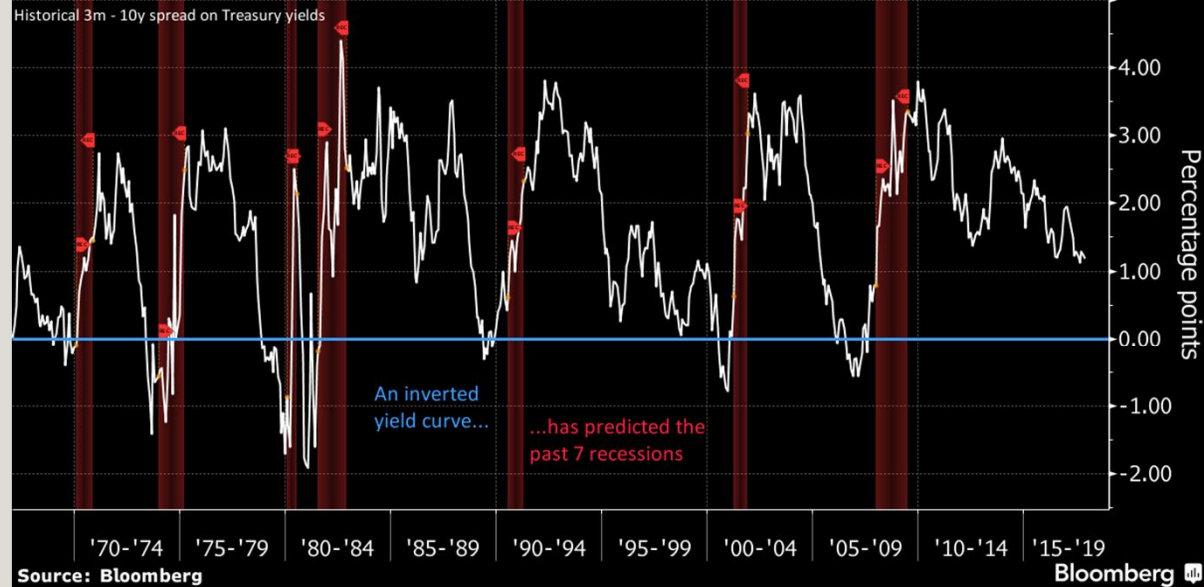
Chicago Fed National Activity Index

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Data through January

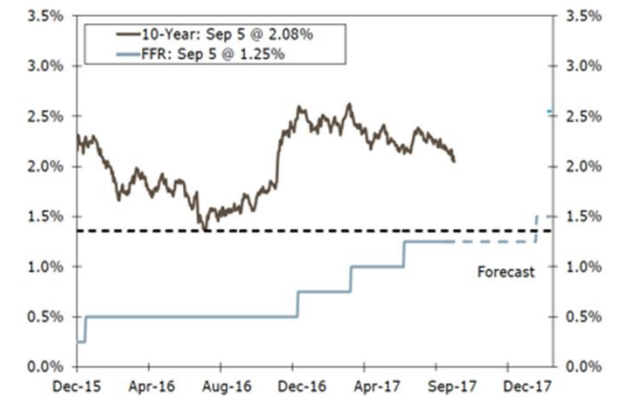


Stop Sign

An inverted U.S. yield curve often portends an imminent recession



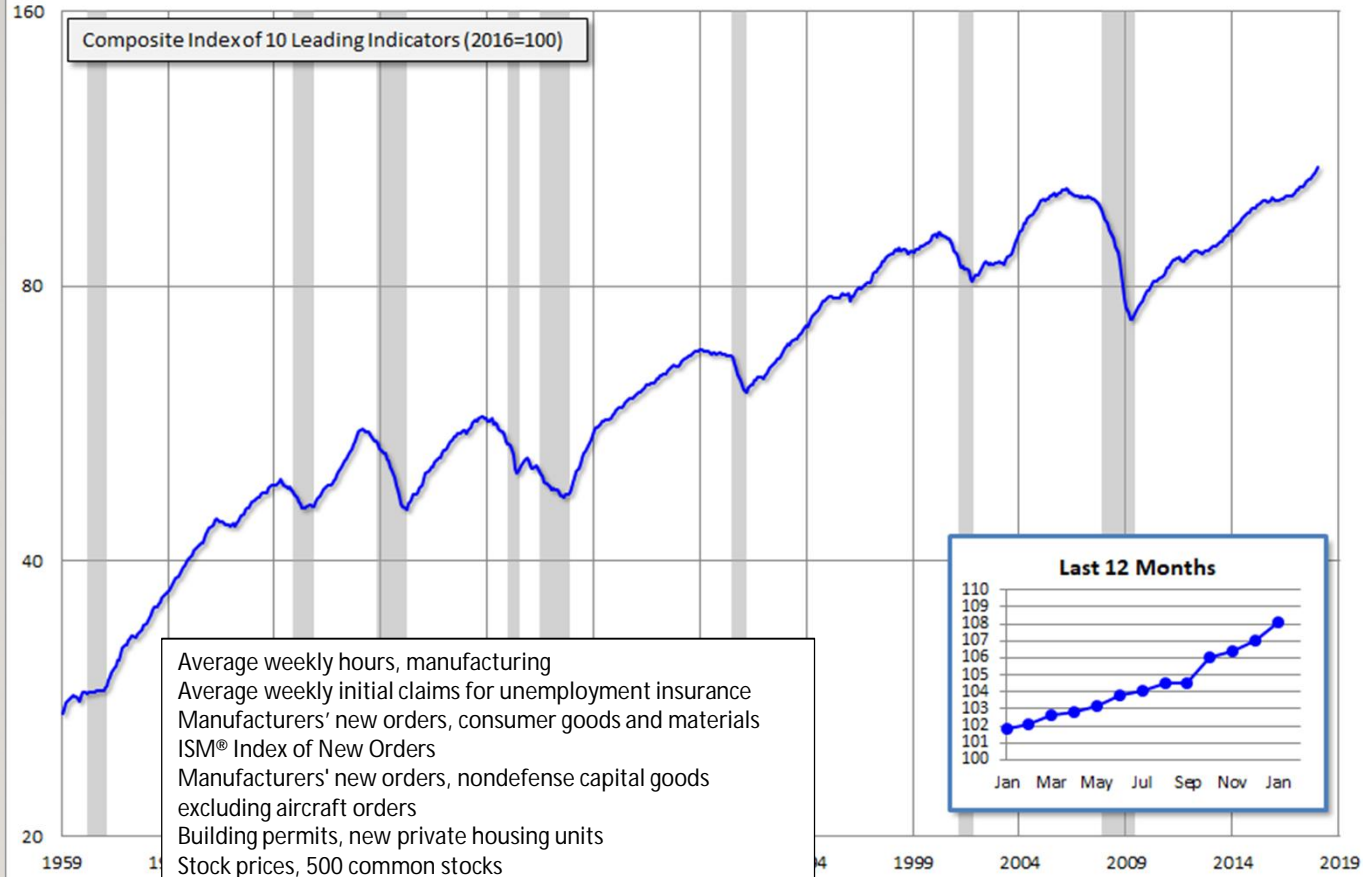
10-Year and Federal Funds Rate



Conference Board Leading Economic Index with Recessions Highlighted

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Log Scale



25% CHANCE OF RECESSION BEFORE THIS TIME NEXT YEAR

Ceteris paribus – Includes 15% risk factor.

DO YOU HAVE A CONTINGENCY PLAN IN PLACE?

1. How well prepared am I for a mild economic slowdown or even a more severe downturn?
2. What predetermined cycle strategies should I have on my play sheet, ready to deploy at the right moment, instead of in the heat of battle?

