

Impact of the financial crisis on the floricultural sector

'Concerns yes; but no reason to panic,' says FloraHolland Director

Since September 2008 the world has been confronted with a world financial crisis. The crisis – also known as the credit crunch – inevitably has implications for the global horticultural sector, with no exception to the Ethiopian flower industry. The question, though, is: how big is the impact? In this article the influence of the credit crunch on the flower industry will be examined by providing an overview of press reports on the subject. Although there are obvious reasons for worrying, it will appear there is no need to panic.

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Flowers: Vulnerable in an era of recession

With flowers being a luxury product and therefore a vulnerable commodity in times of recession, there is a substantial impact of the credit crunch on the horticultural sector. The most important reason for the decrease of consumption is the loss of trust with consumers and, as a result, a decline of the demand.

Credit Crunch in brief

Problems in the United States housing market, in 2007, created the conditions for the current financial crisis. US banks faced huge problems because of decreasing values of house mortgages, with a shortage of credit as a result. The US-credit crisis affected the international financial system: from September 2008 several European banks got into deep trouble, as they were severely hit in the stock markets. European governments had to interfere and help the banks with the issuing of billion-euro loans. The crisis had started and couldn't be stopped. Many governments have now proclaimed an era of recession. As a consequence the world is, and will be in the coming years, confronted with mass dismissals, unstable currencies, lower consumption in general and less purchases of luxury products more specifically. The biggest obstacle in the credit crunch and its aftermath appears to be psychological rather than economical: there is a strong decrease of confidence with consumers

Dutch newspaper Het Financieele Dagblad reports less export of flowers, flower bulbs and pot plants from the Netherlands. The export to the Netherlands' three main clients – France, Germany, and the UK - has declined with an average of 7 percent or more, according to the Dutch agricultural press Agrarisch Dagblad. Particularly the export to the United Kingdom - the country hardest hit by the credit crunch - is suffering severely with a 20 percent decrease.

In Dutch newspaper De Volkskrant, gerbera grower Mike Lansberg explains to what extent the export of his flowers to England has declined: "These days there are two freight ships - both filled with flowers only - less shipped to the UK, in comparison to a few months ago. Two ships less, every day. That is quite a quantity of flowers." Lansberg says the crisis in the UK costs his company a 20 percent turnover. As England is drowned in recession, consumers simply don't buy any flowers. "Flowers are luxury commodities: bread should be bought first," Lansbergen points out.

Prices under pressure

Dutch flower branch organisation HBAG in its magazine states not only the export, but also even more the determination of prices - of basically all product groups - is under pressure. This influences the export value of products. Buyers are looking for cheaper – often imported – options and there is a general decline in prices. Agrarisch Dagblad, a Dutch newspaper on agriculture, therefore reports concerns within the sector: considerably more bankruptcies have been observed and more are to be expected in the future.

This trend has also been reported in Uganda where the flower industry is facing problems because of some European buyers going bankrupt due to the crisis. Juliet Mosoke, executive director of the Uganda Flower Exporters Association (UFEA) states in the Uganda newspaper New Vision: “Some of our buyers have closed down due to insolvency while others have not expressed interest in signing up new contracts. The prices have also dropped to very low levels that some growers find it unnecessary to ship because the prices offered do not even cover freight charges.”

Musoke is worried because she does not know what will happen in the future. She observes consumers are continuing to tighten their expenditures on non-essential commodities. The falling export is also troubling Ethiopian stakeholders in the flower industry. They have observed a substantial decline of flower exports to Europe, because of a dropping euro and the credit crunch (source: Reporter 06-12-2008).

No reason to panic

All stakeholders in the flower industry feel the effects of the global recession. FloraHolland, the biggest flower auction in the world, acknowledges the downturn felt in the international flower industry. It has reported a decrease in turnover of 0.4 percent, whereas it at the start of 2008 predicted a 2.7 percent overall growth. However, the total turnover in 2008 was about the same as in 2007.

Erik Leeuwaarden, FloraHolland’s financial director, says concerns are appropriate; but there is nevertheless no reason to panic. He does not want speak in terms of disaster. At a Special General Member’s Meeting of FloraHolland he said the recent developments should not be exaggerated: “When the Dutch garden centre chain Intratuin opened its Christmas market in November, there was not a single spot left in their parking lot. In the coming months the prices for our flowers and plants may well be going up and down, but I really don’t believe we will be unable to sell our volumes.” (source: www.floracultureinternational.com). It seems to be a general trend in the flower business: the prices are going down, but the volumes sold decrease with relatively small portions.

Positive sounds

FloraHolland general manager Timo Hughes thinks the falling market in the UK is the general problem for the horticultural sector, whereas the global demand has remained more or less the same. In Dutch newspaper AlgemeenDagblad he expresses his confidence for the future: “Although 2008 was not an excellent year, we may conclude

that the effect of the economical crisis on the auction is rather little. This is a positive development that gives us confidence.” FloraHolland is expecting a turnover increase of about 1 percent for 2009. Hughes explains how the contradictory combination of a recession on the one hand and a turnover increase on the other is in fact possible: “Consumers appear to hold on to their wish to decorate their houses with flowers and plants, irrespective of the harsh economical times they are going through.”

Branch organisation HBAG notes that regardless of the negative consequences of the credit crunch, there are also chances. Not only because governments endeavour to maintain the purchasing power in effect, but also because of lower flower prices opening up a market to a new group of consumers. Another outcome may be, according to the HBAG, a shift of priorities: people may not be spending their money on holidays and expensive commodities, but instead decorate their homes with flowers and plants.

The general view is that people do not stop buying flowers. Though there is a decline of flower sales in for instance supermarkets – where people purchase out of buy impulse –, sales in most specialised shops remain more or less the same, with one main reason: people wish to bring in flowers in social events like funerals, birthdays and weddings. No financial crisis can alter this desire.

Summary:

The world financial crisis does have a big impact on the flower industry. There is a lack of trust with consumers, especially in countries like France, Germany and the United Kingdom. As a result there is a declining demand. The export to the UK has decreased with 20 percent, which is a big loss to the horticultural sector.

There is a general trend been observed: particularly prices are under pressure, whereas the volumes sold often remain the same. Though a lot of growers and other stakeholders are facing difficult times, there is no reason to panic says FloraHolland financial director Erik Leeuwaarden. People are still buying flowers and plants, simply because they want their houses to be decorated. Also people will not stop buying flowers, as the commodity is essential in life cycle events like funerals, birthdays and weddings. Therefore a too negative approach, like speaking in terms of disaster, would be exaggerated. Growth is possible in times of recession as new chances are born, it appears.