

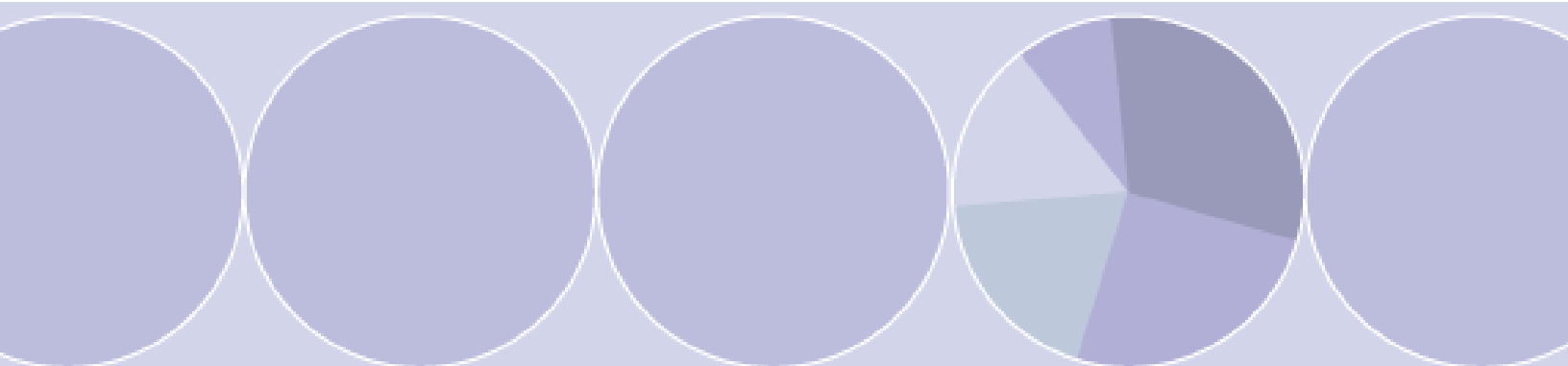


**WHERE KNOWLEDGE IS POWER**

## IBISWorld Industry Risk Rating Report

March 01 2010

### Landscaping Services in the US: **56173**

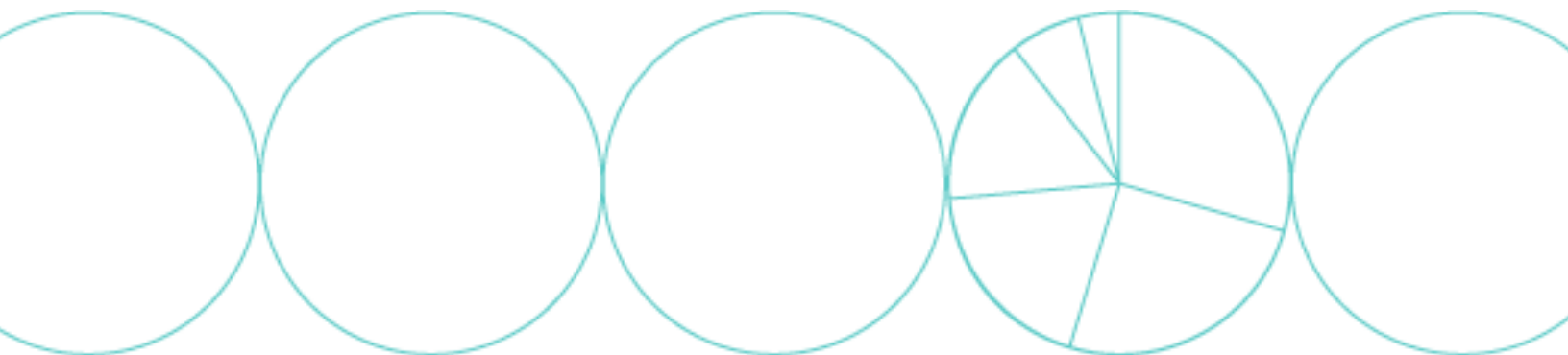


#### DISCLAIMER

This product has been supplied by IBISWorld Inc ('IBISWorld') solely for use by its authorized licensees strictly in accordance with their license agreements with IBISWorld. IBISWorld makes no representation to any person with regard to the completeness or accuracy of the data or information contained herein, and it accepts no responsibility and disclaims all liability (save for liability which cannot be lawfully disclaimed) for loss or damage whatsoever suffered or incurred by any other person resulting from the use of, or reliance upon, the data or information contained herein. Copyright in this publication is owned by IBISWorld Inc. The publication is sold on the basis that the purchaser agrees not to copy the material contained within it for other than the purchaser's own purposes. In the event that the purchaser uses or quotes from the material in this publication - in papers, reports, or opinions prepared for any other person - it is agreed that it will be sourced to: IBISWorld Inc.

# Contents

Risk Overview.....	3
INDUSTRY DEFINITION & ACTIVITIES.....	3
INDUSTRY RISK SCORE.....	3
RISK RATING ANALYSIS.....	3
Structural Risk.....	6
BARRIERS TO ENTRY.....	6
BASIS OF COMPETITION.....	7
DOMESTIC AND INTERNATIONAL MARKETS.....	7
INDUSTRY ASSISTANCE.....	8
LIFE CYCLE.....	8
INDUSTRY VOLATILITY.....	8
Growth Risk.....	10
RECENT GROWTH ANALYSIS.....	10
FORECAST GROWTH ANALYSIS.....	10
Sensitivity Risk.....	12
PER CAPITA DISPOSABLE INCOME.....	12
CONSUMER SENTIMENT INDEX.....	14
ENVIRONMENTAL PROTECTION - USE OF CHEMICALS - LANDSCAPING SERVICES.....	18
BUSINESS OUTSOURCING - GARDENING SERVICES.....	18
HOUSEHOLDS IN INCOME GROUP - HIGHEST QUINTILE.....	18
RESIDENTIAL BUILDINGS - VALUE OF CONSTRUCTION.....	21
Industry Risk and Industry Risk Scoring Methodology.....	24
WHAT IS INDUSTRY RISK?.....	24
THE INDUSTRY RISK SCORING METHODOLOGY.....	24
RISK RATING SCORE DEFINITION.....	24



## Risk Overview

### INDUSTRY DEFINITION & ACTIVITIES

This industry comprises establishments primarily engaged in providing landscape care and maintenance services and/or installing trees, shrubs, plants, lawns or gardens, as well as, establishments primarily engaged in providing these services as well as the design of landscape plans and/or construction (i.e. installation) of walkways, retaining walls, decks, fences, ponds or similar structures.

The primary activities of this industry are:

- Arborist services
- Fertilizing lawns
- Landscape care and maintenance services
- Landscape installation services
- Lawn mowing services
- Maintenance of plants and shrubs in buildings
- Spraying lawns
- Tree surgery services
- Pruning services
- Turf installation services

### INDUSTRY RISK SCORE

Forecast Period: December 31, 2010

Three types of risk are recognized in our analysis. These are: risk arising from within the industry itself (structural risk), risks arising from the expected future performance of the industry (growth risk) and risk arising from forces external to the industry (external sensitivity risk). These three types of risk are evaluated and each scored separately. These scores are then amalgamated to form a composite score which represents the overall risk affecting the industry.

Risk	Score
Structural Risk	4.56
Growth Risk	6.53
External Sensitivity Risk	6.93
Overall Industry Risk Score	6.24

### RISK RATING ANALYSIS

#### Risk Score Trend Analysis

Overall risk in the Landscaping Services industry is forecast to be at a HIGH level over the 2010 outlook period. Risk is down from 2009, but within the same risk category. Risk is still up on the MEDIUM-HIGH level in 2007. The main risk factors over the outlook period are IBISWorld's forecast growth score for the industry and per capita disposable income growth.

#### Risk Score Context

IBISWorld data shows that the Industry Gross-Product weighted risk score for all US industries in 2010 falls into the

MEDIUM-HIGH risk band. In addition, the data illustrates that risk in the Administrative & Support & Waste Management & Remediation Services sector (of which this industry is a member) is at a MEDIUM-HIGH level. As such, the level of forecast risk in the Landscaping Services industry is at a higher level to that of the US economy and that of the more specific Administrative & Support & Waste Management & Remediation Services sector.

### **Structural Risk Analysis**

The overall structural risk score is forecast to be MEDIUM-LOW in 2009. Low barriers to industry entry have contributed to high levels of competition in the industry, which are the main structural risk factors. The basis of competition for the basic lawn maintenance services tends largely to be price related/driven, with some service differentiation. Many of the medium sized and larger firms provide a wider variety of related and value added services, at higher prices, to clients such as tree and plant pruning and some basic landscaping.

The industry is in the 'growth' stage of its economic life cycle as it benefits from: the continuing aging of the population; increasing disability rate in the population; the outsourcing of landscaping services by business and governments; the outsourcing of landscaping sources by time poor and high income households; the increasing bundling of these services to major clients; and the continuing franchising of the industry.

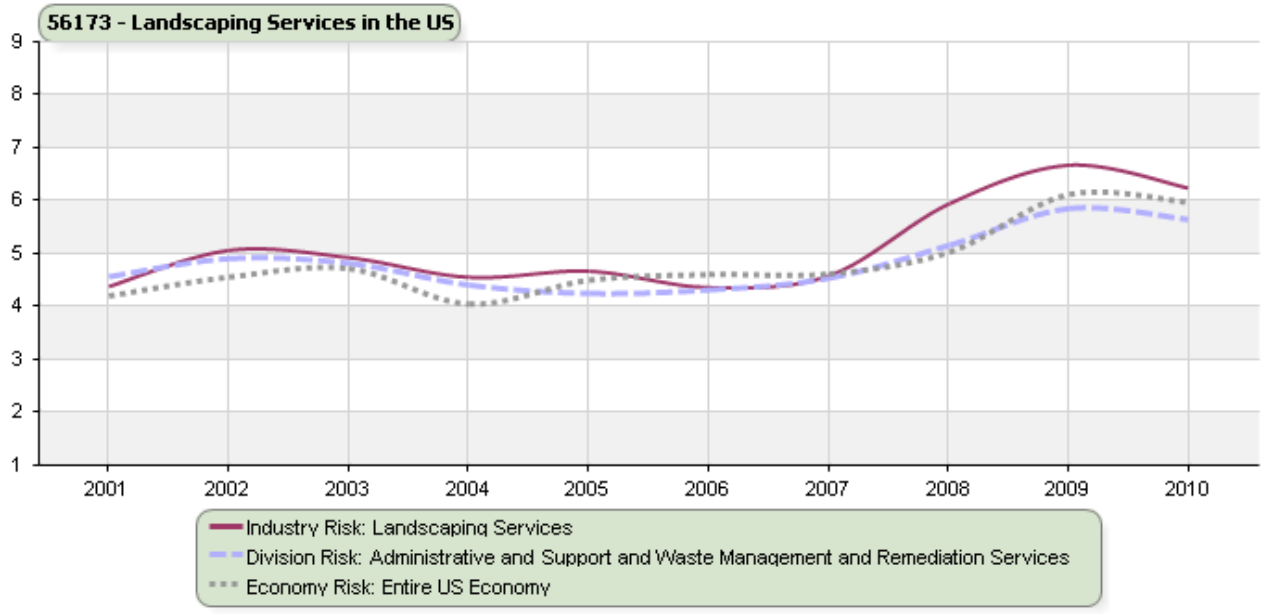
Volatility in this industry is low thanks to continuing expansion in the number of households using landscaping services. The industry largely services the domestic market and so export and import levels are low. Although there are no specific tariffs for this industry, the industry benefits from a low level of assistance. Trade levels in the industry are low.

### **Growth Risk Analysis**

Growth risk is forecast to be at a HIGH level over the outlook period. IBISWorld predicts that industry revenue will decline by 5.0% in 2010. The industry will be negatively affected by sluggish economic growth over the whole period, which will affect the growth in household disposable income and, therefore, consumer expenditure, on gardening and landscaping services

### **Sensitivity Risk Analysis**

Sensitivity risk is forecast to be at a HIGH level over the outlook period, down from a VERY HIGH level in 2009. The main factor contributing to this risk rating is slow forecast growth in per capita disposable income in 2010. Growth is up on the level in 2009, however. Consumer sentiment is also expected to improve and the number of households in the top income quintile increase. The value of residential construction is also projected to increase after four years of decline as the US housing market begins to turn around. Additionally, the industry faces risk from the high level of legislative compliance requirements relating to the use of potentially environmentally-harmful chemicals in the landscaping process.



## Structural Risk

The structural score for an industry is a weighted aggregation of structural dimension scores (SDS). These scores are functions of classifications representing quantity of or exposure to seven key indicators.

Structure Variable	Level	Trend	Score	Weight
Barriers to Entry	low	steady	9	13
Competition	high		9	20
Industry Exports	low	increasing	2	7
Industry Imports	low	steady	2	7
Level of Assistance	low	steady	7	13
Life Cycle Stage	growth		1	20
Volatility of Industry	low		1	20
Overall Structural Risk Score			4.56	

### BARRIERS TO ENTRY

The level of barrier is low

The trend of barrier is steady

- There is little formal training and low skills required to undertake lawn mowing
- The capital costs are low, through the use of personal equipment which is already owned.
- There is no requirement to initially establish a formal office, but communications equipment is required
- There are no licensing requirements
- There are only a few minor regulations which directly affect operators.

#### Analysis

Barriers to Entry outlines the factors which prevent/limit a new operator from entering this division. Key factors used to assess the barriers to entry include economies of scale, capital intensity and licenses.

#### Economies of Scale

The economies of scale illustrate the level of dominance by key players in an industry. The Landscaping Services Industry generally has a low level of concentration with the top four players estimated to account for under 7% of the available market share in 2009. The industry is fragmented and contains a large number of small operators. There are however always opportunities for niche operators, whether in geographic areas or offering specialist services.

#### Capital intensity

The degree of capital intensity is generally very low. The capital costs are also low and many people can commence operations with their own gardening and other equipment that they already own for their personal use. There is also no need for a formal office.

#### Licenses and regulations

There are no licenses and few industry specific regulations.

#### Overall

The barriers to entry are very low and almost minimal with lawn mowing activities. There is no formal training or skills required, at the lower end, although these are useful for detailed landscape design activities.

## BASIS OF COMPETITION

Competition in this industry is high  
Competition in this industry is increasing

Basis of Competition outlines the factors which influence the level of rivalry between operators in this industry (internal competition) and operators from other industries (external competition). IBISWorld analysis indicates that competition is currently high and increasing, as evidenced by the following:

### Internal competition

The basis of competition for the basic lawn maintenance services tends largely to be price related/driven, with little evident service differentiation, with many small operators and competitors and with very low barriers to entry. For this reason, it is important to develop a list of regular clients who are seeking excellent and regular service and results, rather than those who are only price driven. Many of the medium sized and larger firms provide a wider variety of related and value added services, at higher prices, to clients such as tree and plant pruning and some basic landscaping.

A 2000 survey of customers using the services of this industry by the American Nursery & Landscaping Association found that the most important factors in selecting a firm were (in order) good references and reputation, satisfaction guaranteed and free estimates, number of years in the business, company is locally owned and operated and insurances and bonds. Being a member of a professional trade association and having certification of professional training were also important, but not as important as the others listed.

In short, it is important to have and maintain a good reputation and have many satisfied clients who will provide excellent word of mouth recommendations to others.

Associated with the above, therefore, is always to have the required number and mix of employees available (both full time and casual/seasonal), with appropriate skills and training, and possibly some with formal qualifications depending on the tasks. It is also important to have appropriate and well maintained equipment, which will assist labor productivity, and service levels and standards.

Also, software and computer hardware and communications equipment which allows for job scheduling (i.e. taking into account both the location and, therefore, travel time, as well as the actual time required to provide the desired services and to quality standards). It is also required for the recording of payments for services.

### External competition

External competition is derived from DIY households, and qualified persons who may do the odd job on weekends or after hours.

## DOMESTIC AND INTERNATIONAL MARKETS

### Domestic and International Markets Exports

Exports in this industry are low  
Exports in this industry are increasing

### Domestic and International Markets Imports

Imports in this industry are low  
Imports in this industry are steady

### Domestic and International Markets Analysis

The industry largely services the domestic market. Some large franchised operators, including TruGreen, a subsidiary of ServiceMaster, have expanded their landscaping services franchising system internationally. However, the revenue derived from this source is only small.

### INDUSTRY ASSISTANCE

The level of Industry Assistance is low  
The trend of Industry Assistance is steady

There are no specific tariffs for this industry

The industry indirectly benefits from the changes to tax laws in relation to accelerated depreciation rates on all irrigation and landscape improvements to investment properties purchased after May 5, 2003, which can be depreciated at 52.5% in the first year. Formerly this expenditure was depreciated over 15 years.

A major industry association is the Professional Landcare Network - PLANET - which resulted from the amalgamation of the former - Associated Landscape Contractors of America and the Professional Landscape Contractors of America organizations.

### LIFE CYCLE

Life Cycle Stage  
The life cycle stage is growth

Life Cycle Reasons

- Outsourcing of landscaping services by high income households
- Outsourcing of landscaping services by businesses
- Outsourcing of landscaping by government institutions
- Increasing residential and other construction activity
- Increasing aging and disability in the population.

Life Cycle Analysis

Life cycle measures the development phase of an industry. The Landscaping Services Industry is estimated by IBISWorld to be in the growth phase of its industry life cycle.

The industry benefits from continuing aging of the population and inability to undertake gardening activities and the increasing disability rate in the population. Also in its favor is the outsourcing of landscaping services by business and governments and by time poor and high income households.

Also relevant is the increasing trend towards offering bundled property maintenance services to major clients (including with security, landscaping services, catering etc). Finally, the continuing franchising of the industry is assisting to improve standards and professionalism.

### INDUSTRY VOLATILITY

The level of volatility is low

- Continuing expansion in the number of households using landscaping services
- Expansion of the number and type of services able to be provided by operators
- Expansion of franchising in this industry

## Growth Risk

In general, a high growth rate in an industry is associated with a lower overall risk of failure in a company in the industry. That is, success comes relatively easily in a quickly growing market, but a contracting market tests management skills to a much greater level, as each dollar earned requires a greater effort. Growth Scores for this industry are below:

	%	Score
Recent Growth 2007-2009	-4.76	6.72
Forecast Growth 2009-2010	-4.70	6.46
Overall Growth Risk Score		6.53

### RECENT GROWTH ANALYSIS

The industry has been particularly hard hit by the significant slump in residential construction and property market relating to the subprime mortgage crisis since late 2007. Business bankruptcies continue to increase, and government budgetary finances remain under pressure. Therefore, all three main industry client groups are reducing demand for their landscaping and gardening services. The year 2009, is expected to be another poor trading one. Over the five year period to 2009, real industry revenue is expected by IBISWorld to decline at a relatively subdued average annual rate of 0.1%. Over the same period, industry employment is expected to fall. There will be a decline in industry profitability and margins in 2009 as price-based competition continues to strengthen, especially in the current recessionary period.

The industry is sensitive to changes in household disposable income, as well as seasonal variations, and to the demand for certain value-added services, such as garden plant trimming, removal etc. The outsourcing of landscaping services by businesses, governments, and particularly by higher income households, is also a major driver of growth. There may still be some outsourcing and bundling of all property maintenance services, that includes landscaping. Changes in the level of construction activity have also had an impact. Weather conditions, including very wet, very dry or snow, can affect industry demand on a season to season or annual basis.

### FORECAST GROWTH ANALYSIS

The slow recovery from the sub-prime mortgage crisis will also adversely affect industry demand, as business and consumer sentiment remains subdued. Over the five year period to 2014, real industry revenue is forecast by IBISWorld to increase at an average annual rate of 2.5%, due to the continuing sluggish economic growth over the whole period, particularly in 2010. This will affect the growth in household disposable income and, therefore, consumer expenditure industry services. Over the same period, industry employment is expected to increase slowly, directly relating to slower growth in industry revenue and continuing industry consolidation, largely by major players. Due to sluggish growth in industry revenue and employment, industry profit is only expected to improve from 2011 onwards, as continuing price-based competition reduces margins.

The emerging industry trends are expected to lead to continuing franchising and further significant consolidation, with the largest operators acquiring middle-ranked companies in new regions. Over time, the expansion of these operators internationally may also occur. Major companies may continue to establish strategic alliances with other household and business service providers to increasingly offer a completely packaged or bundled service on an outsourced basis to major clients. The industry may, however, have to contend with increased government regulations on the use of pesticides and herbicides, and on general and noise pollution. There may also be stricter occupational health and safety regulations, which may require more formal, short course training programs. The industry will, however, always remain

largely small business, with very low barriers to entry and continuing price-based competition at the lower end. Profit margins will remain low for most of these operators.

## Sensitivity Risk

The significance of external sensitivity factors on the performance of the industry has been evaluated. The most significant (five to six) factors are identified, and weightings are chosen to represent how significant each sensitivity is on the performance of the industry. It should be noted that as other (less significant) sensitivities affect industries, and for other reasons, these weightings should not be taken as mathematical inputs to a general equilibrium model for the industry.

Sensitivity List	Weight	Score	Weighted Score
Per Capita Disposable Income	30.00	7.97	2.39
Consumer Sentiment Index	10.00	8.22	0.82
Environmental Protection - Use of Chemicals - Landscaping Services	10.00	9.00	0.90
Business Outsourcing - Gardening Services	15.00	3.00	0.45
Households in Income Group - Highest Quintile	25.00	7.87	1.97
Residential Buildings - Value of Construction	10.00	3.98	0.40
Overall External Sensitivities Risk Score			6.93

### PER CAPITA DISPOSABLE INCOME

This report analyzes the level of per capita disposable income in the US, as measured by the Bureau of Economic Analysis, and denominated in chained 2005 dollars. Disposable personal income is defined as personal income less personal current taxes and some non-tax payments. Personal income is income received by individuals from all sources, including wages and supplements to wages, government transfers, rental income, receipts from assets, and proprietary income with inventory valuation and capital consumption adjustment. Examples of non-tax payments include fines, forfeitures and donations. Per capita disposable income is determined by dividing real disposable income by the US population.

Per capita disposable income determines an individual's consumption and saving patterns, as it relates to the amount that can be spent on goods and services, or put away for personal savings. Individuals may also choose to borrow to finance spending beyond their income at that time.

#### Latest Data

According to data from the final data release from the Bureau of Economic Analysis for the third quarter of 2009, real per capita disposable income decreased at an annualized rate of 2.4% over the second quarter. The fall in real per capita disposable income resulted from a continued decline in employee compensation and from a fall in government social security. The decrease in employee compensation reflects continued increases in the unemployment rate and also a decline in the level of employee compensation per capita in real terms. Social security had increased strongly over the past three quarters, but fell in the third quarter of 2009 due to coming off a large boost in the second quarter from one-time economic recovery payments of \$250 to recipients of social security, supplemental security income, veterans' pensions, and railroad retirement recipients from the American Recovery and Reinvestment Act. The number of people on unemployment benefits also fell in the third quarter of 2009, with some people running out of their entitlement. In addition, personal current taxes fell only marginally compared to a large fall in the second quarter, given the quarterly trend of compensation and the waning effect of the payroll tax credits of \$400 per worker and \$800 per couple from the Making Work Pay Credit provision of the ARRA.

The final data release for the second quarter of 2009 showed that real per capita disposable income increased at an annualized rate of 3.0%, from a significant increase in government social security payments.

IBISWorld forecasts that for the whole of 2009, per capita disposable income will grow by 0.4%. There is expected to be some upward pressure from an increase in earnings to those employed from longer hours from a boost in production in the fourth quarter. There may also be a small benefit to social security benefits as unemployment benefits have been extended.

### **Five-Year Trend**

Over the five years to 2009, per capita disposable income is forecast to increase by 0.9% per annum on average. Per capita disposable income grew by a strong 3.1% in 2006 with a large increase in employee compensation from a fall in the unemployment rate to a very low level. Per capita disposable income growth began to slow to a moderate level in 2007 and fell by a marginal 0.4% in 2008.

### **Data Volatility Level**

According to IBISWorld calculations, real per capita disposable income displays a low level of volatility. Changes in the level of this measure are tied to movements in factors such as unemployment, wages and salaries, economic growth, inflation, as well as the overall levels of education in the United States.

### **Historical Analysis**

Per capita disposable income has typically followed trends in employment and economic growth, steadily increasing over recent decades. These economic elements interact, and as per capita income increases, more income is spent on discretionary goods and services causing the economy to expand. As a consequence, per capita income growth has been strongest in the early-to-mid 1980's and mid-to-late 1990s, which were periods of strong economic prosperity.

However, while per capita disposable income increased significantly in the 1980's, since that decade income distribution has been characterized by growing inequality. In 2008, the top five state/districts in the US in terms of (nominal) per capita disposable income were, in order: the District of Columbia, Connecticut, New Jersey, Wyoming and Massachusetts. The states with the lowest disposable incomes were Utah, Mississippi, West Virginia, Arkansas and Kentucky.

### **Outlook**

In 2010 IBISWorld forecasts that per capita disposable income will grow by 0.6% year-on-year. Wages are forecast to increase as production increases. However, growth in production and the economy in general will be weak. The unemployment rate is also forecast to continue to rise, lagging economic growth, which will also keep growth in per capita disposable income weak. IBISWorld forecasts that economic growth will continue to improve over the four years to 2015, reaching growth rates consistent with long-term averages in 2012. Per capita disposable income is forecast to grow at a stronger rate in 2011 and over the following three years as unemployment falls and economic growth strengthens at a growing rate. Over the five years to 2014, IBISWorld forecasts that per capita disposable income will grow by 1.3% to \$34,852.

Graph: Per Capita Disposable Income

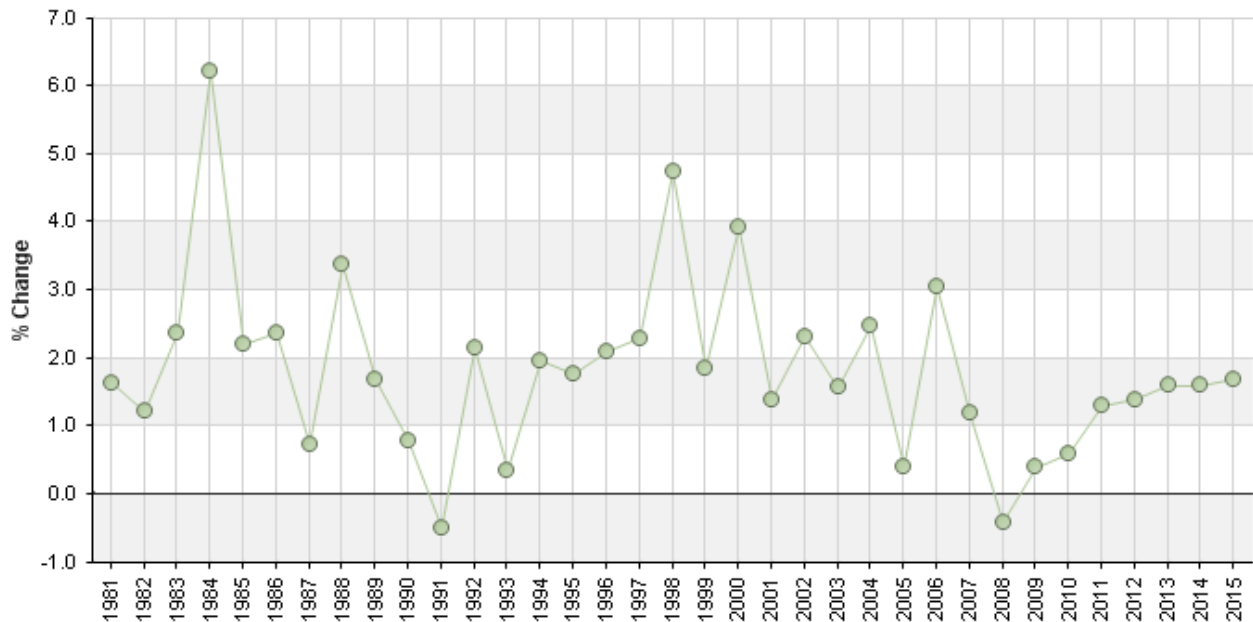


Table: Per Capita Disposable Income

Year	Dollars	% Change
1981	19,173.0	
1982	19,406.0	1.22
1983	19,868.0	2.38
1984	21,105.0	6.23
1985	21,571.0	2.21
1986	22,083.0	2.37
1987	22,246.0	0.74
1988	22,997.0	3.38
1989	23,385.0	1.69
1990	23,568.0	0.78
1991	23,453.0	-0.49
1992	23,958.0	2.15
1993	24,044.0	0.36
1994	24,517.0	1.97
1995	24,951.0	1.77
1996	25,475.0	2.10
1997	26,061.0	2.30
1998	27,299.0	4.75

Year	Dollars	% Change
1999	27,805.0	1.85
2000	28,899.0	3.93
2001	29,303.0	1.40
2002	29,984.0	2.32
2003	30,454.0	1.57
2004	31,209.0	2.48
2005	31,338.0	0.41
2006	32,296.0	3.06
2007	32,679.0	1.19
2008	32,546.0	-0.41
2009	32,674.0	0.39
2010	32,869.8	0.60
2011	33,297.1	1.30
2012	33,763.3	1.40
2013	34,303.5	1.60
2014	34,852.4	1.60
2015	35,444.9	1.70

## CONSUMER SENTIMENT INDEX

### Summary

The Consumer Sentiment Index is calculated by the University of Michigan, based on a monthly survey of households' perceptions of current economic conditions and expectations for the near-term and long-term future. The base period for this index is the first quarter of 1966.

### Latest Data

For 2007 as a whole, the average level of the main Consumer Sentiment Index was 85.6, down from the previous year's average of 87.3. The impacts of the housing slump and rising inflation (with the Federal Reserve forced to cut the Federal Funds rate to address the economic fallout from the subprime mortgage crisis, therefore leaving inflation somewhat unchecked), along with fears of a looming recession, have seen consumer confidence wane. The weakening labor market and diminishing household wealth as a result of falling home prices have negatively affected consumer spending power, helping to contribute to this low level of confidence. Nevertheless, consumer expenditure was strong in the first and third quarters of the year.

For the first half of 2008, the index fell an aggregate 25.3%, or 19.1 points, to reach 56.4 in June. Nine out of every ten survey respondents signaled their belief that the US economy is currently in recession. Richard Curtin, the director of the University of Michigan's Survey of Consumers, cited "surging gas prices, high food prices, disappearing jobs, declining home values and record foreclosures" as the prime concerns creating this drain in consumer confidence. It was also cited that two-thirds of respondents "expect the economic slump to extend into the next several years" and have bullish expectations of long-term inflationary pressures.

The June result marks the third-lowest result in the survey's history, having only been lower in April and May of 1980 (52.7 and 51.7 respectively). The highest proportion (57%) also reported that their household financial situation had worsened. Additionally, the Index of Consumer Expectations has fallen 38% since its most recent peak. Previous recessions have normally seen a fall in the Expectations Index of between 25% and 35%.

The Consumer Sentiment Index trended upward over the third quarter, due largely to moderating inflation and falls in gasoline prices over that period. However, the October rating fell sharply by 12.7 points in October amid the renewed financial and economic turmoil, the largest single-month decline in the history of the survey. Confidence fell slightly lower again in November before rebounding to a level of 60.1 for December mainly as a result of price declines for automobiles and household durable goods. Overall, the average level of the Consumer Sentiment index for 2008 was 63.8, a decline of 25.5% compared to the 2007 average.

In the December survey, a majority of respondents reported that their personal financial situation had worsened, and the lowest number of people reporting increases in their income in more than fifty years.

For the first quarter of 2009, the index averaged 58.3, enjoying a bounce in January as a result of the transition to a new Presidential administration.

### Five Year Trend

In 2002, the Consumer Sentiment Index stood at an average level of 87.6. The aggregate fall in the index over the following five years was 23.5 points. The annual average was roughly constant for much of this period, with the exceptions of a spike in 2004 as the economy recovered in earnest from the previous recession and the large annual fall for 2008. A relatively sustained downward trend in the monthly index (with a few trend-defying months, specifically

January and July of 2007) was seen to be at or around October 2006, at which time the economic impact of the burst of the housing bubble was first being felt.

By comparison, aggregate growth in the Consumer Sentiment Index over the five years to the end of 2003 was -17 percentage points, with growth in consumer confidence over the 1998-2000 period (the height of the 'dot com' bubble) more than offset by the negative effects of the recession that followed the burst of this bubble.

### **Data Volatility Level**

According to IBISWorld calculations, data relating to consumer confidence displays a medium level of volatility. Over the current analysis period, significant fluctuations were seen at the time of the 2001 recession (with a decline in the index actually beginning in December 2000, highlighting its usefulness as a leading indicator) and the spike seen in 2004. Though consumer sentiment is built upon relatively stable factors such as employment and income, the index nevertheless displays a medium level of volatility due to the forward-looking nature of the survey questions from which the index is derived. It also appears to be somewhat susceptible to non-economic factors, such as geopolitical instability or disaster. For example, a large fall was seen in September and October of 2005, following Hurricane Katrina, but the index rose significantly by December.

### **General Characteristics**

The survey used by the University of Michigan to measure the consumer sentiment index asks a number of questions relating to economic conditions over the past twelve months and past three months in addition to expectations for the next year and the next five-to-ten years. In addition to general perceptions of whether or not conditions have gotten better or worse, and to what extent, respondents are asked to give specific reasons for their judgments.

The survey, and consequently the index itself, incorporates attitudes toward a number of areas. These include: household finances, business conditions, unemployment, inflation, income, government economic policy, and whether it is a good time to buy or sell a house, automobile and/or major household items.

By including questions regarding consumer expectations of future conditions, the index has a degree of predicative value. This is not necessarily because respondents have any special knowledge of the future, but rather because consumption decisions based upon consumers' future expectations of the economy can turn such expectations into a self-fulfilling prophecy. For example, in times of declining economic growth, low consumer sentiment due to expectations of an upcoming recession can lead to decreased present expenditure, helping to create recessionary conditions.

### **Historical Situation**

Despite the volatile nature of the index, trends in the index can be seen to have followed those of the economy as a whole during the 1990s and 2000s. From 1997 until 2000 for example - the time of the IT bubble - the index averaged 105.3.

### **Outlook**

IBISWorld predicts that consumer sentiment will remain at depressed levels over 2009, particularly in the first half of the year as disposable incomes continue to fall and consumers continue to hear dire economic news (such as the inevitable announcement of a strong decline in real GDP for the fourth quarter of 2008). The presumed passage of the new economic stimulus bill in January may help to mitigate some of the gloom, but consumer sentiment will not see an

appreciable and extended recovery until the end of the recession, when the unemployment rate may conceivably fall within twelve months of that time.

IBISWorld predicts that the average level of the Consumer Sentiment Index over 2009 will be 62.6, a decrease of 1.9% compared to the previous year, before increasing to 71.8 in 2010 and increasing for the remainder of the outlook period. Annualized growth in the level of the Consumer Sentiment Index over the five years to the end of 2014 is forecast to be 7.5%, with a final figure of 90 at the end of the outlook period.

Graph: Consumer Sentiment Index

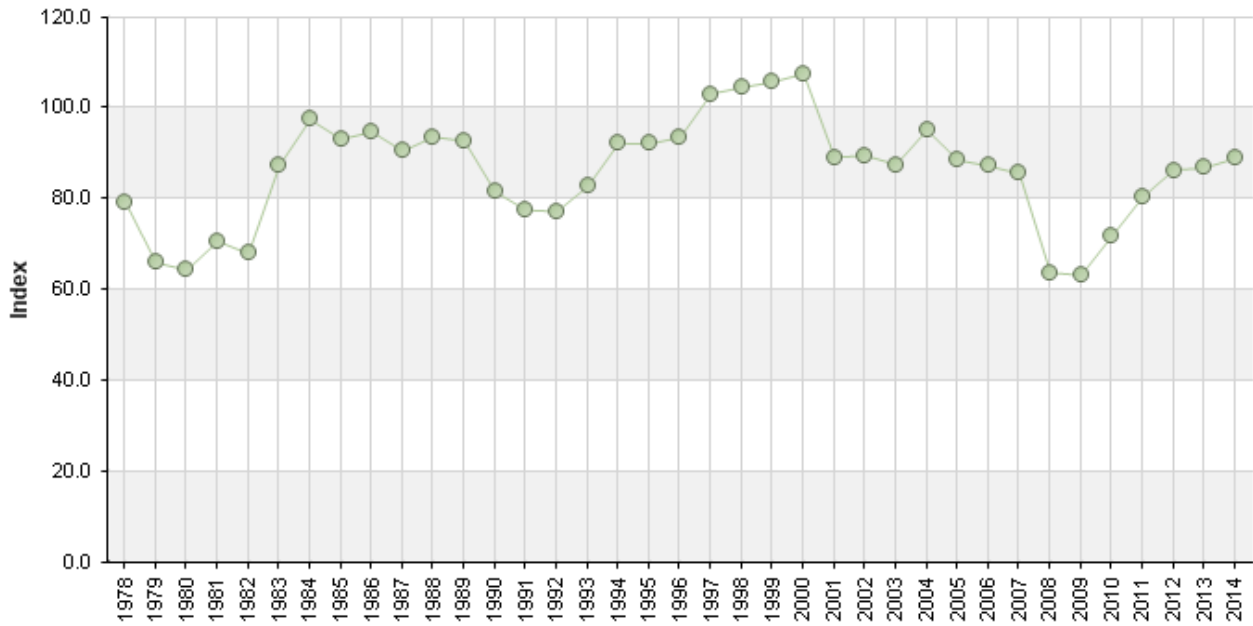


Table: Consumer Sentiment Index

Year	Index	% Change
1978	79.4	
1979	66.0	-16.88
1980	64.4	-2.42
1981	70.7	9.78
1982	68.0	-3.82
1983	87.4	28.53
1984	97.5	11.56
1985	93.2	-4.41
1986	94.8	1.72
1987	90.6	-4.43
1988	93.7	3.42
1989	92.8	-0.96
1990	81.6	-12.07
1991	77.6	-4.90
1992	77.3	-0.39
1993	82.8	7.12
1994	92.3	11.47
1995	92.2	-0.11
1996	93.6	1.52

Year	Index	% Change
1997	103.2	10.26
1998	104.6	1.36
1999	105.8	1.15
2000	107.6	1.70
2001	89.2	-17.10
2002	89.6	0.45
2003	87.6	-2.23
2004	95.2	8.68
2005	88.6	-6.93
2006	87.3	-1.47
2007	85.6	-1.95
2008	63.8	-25.47
2009	63.3	-0.78
2010	71.9	13.59
2011	80.5	11.96
2012	86.4	7.33
2013	86.9	0.58
2014	89.0	2.42

## ENVIRONMENTAL PROTECTION - USE OF CHEMICALS - LANDSCAPING SERVICES

There is a ban on the use of chemicals with chlorpyrifos, as it has been identified as a chemical which should not be used under the Food Quality Protection Act. Other chemicals are being constantly tested.

## BUSINESS OUTSOURCING - GARDENING SERVICES

The outsourcing of landscaping services by businesses is an area of growth. The bundling of services including security, catering, maintenance and landscaping services as part of outsourced contracts to major corporations is also increasing.

## HOUSEHOLDS IN INCOME GROUP - HIGHEST QUINTILE

The highest income bracket is defined by a household income of \$100,000 and over. Data is sourced from the US Census Bureau.

### Latest Data

The latest official data indicates that in 2008, 20.5% of households were placed in this income bracket. This equates to around 24 million households, a rise of 1.8% compared to the previous year. The number of households in this income bracket tends to rise strongly in most years; however, in 2008 the growth was very slow. The subdued growth was the result of the subprime mortgage crisis and recession leading to an increase in unemployment. Lower demand for labor forced many people out of work or to accept lower wages. Another reason for the slower growth was simply lower demand for high-paid employees, as companies struggled to survive the recession. It must be noted that most people who fall out of this category would be losing their work, rather than taking a pay cut due to many people's wages being significantly

above \$100,000. On the other hand, lower taxes decreased costs for businesses and aided consumer spending which limited the economic decline and rise in unemployment.

Over 2009, IBISWorld forecasts that the number of households in the highest income bracket will rise by 2% to 24.5 million as continuing high unemployment puts more people out of work and pushes down wages. Low demand for new workers will have the largest impact, as companies try to cut costs and getting rid of high-paid workers will be an attractive way to do this. Lower taxes will once again aid growth in the number of households in the highest income category.

#### Five Year Trend

Over the five years to 2009, the number of households with an income of \$100,000 and over grew at an annualized rate of 6.6%. This took the number from 17.8 million in 2000 to the 24.5 million in 2009. Over 2005 and 2006, the number of households in the highest income bracket rose strongly as a result of robust economic growth and low unemployment. Growth slowed, but remained high, in 2007 as economic growth slowed ahead of the 2008 recession. Growth slowed considerably in 2008 and 2009 as the US entered a recession and the global financial crisis unfolded.

#### Historical Situation

Between 1996 and 2000, the number of households in the highest income bracket rose by an average of 14.9% per annum. This period was characterized by strong economic growth, low unemployment, low inflation and productivity gains. The NASDAQ crash in early 2000 saw a lot of high income investors lose money, and this explains the slowdown of households in the top income bracket over the early 2000s. Growth slowed in 2001 and 2002, due to poor economic performance, before recovering in 2003.

#### Outlook

Over 2010, IBISWorld expects the number of households earning \$100,000 or more to rise by 4.6% to 25.6 million. The US economy will improve but is expected to remain sluggish well into 2011 as consumers hold back on spending to pay off debts. This could also slow the recovery in employment, which is already expected to remain high during most of this period. As a result, the number of high income households is expected to rise at a relatively slow rate over 2010, accelerating slightly in 2011.

Growth in the number high income households will accelerate in 2012 as private debt returns to manageable levels, strengthening consumption and economic growth. Higher taxes are expected during these years as the Government is forced to repay public debt accumulated through stimulus packages and bailouts. Higher taxes will increase business costs and decrease consumption, having a constraining effect on economic growth, employment, and consequentially, income levels. Overall however, the unemployment rate will fall back to healthier levels greatly aiding growth of households in the high income bracket. Over the remainder of the outlook period, the number of households earning \$100,000 or more is expected to increase at an annualized rate of 6.4%, reaching 33.4 million in 2014.

The following data shows the number of households with an average income of \$0 to \$24,999 a year; Data in thousands (000s).

Graph: Households in Income Group - Highest Quintile

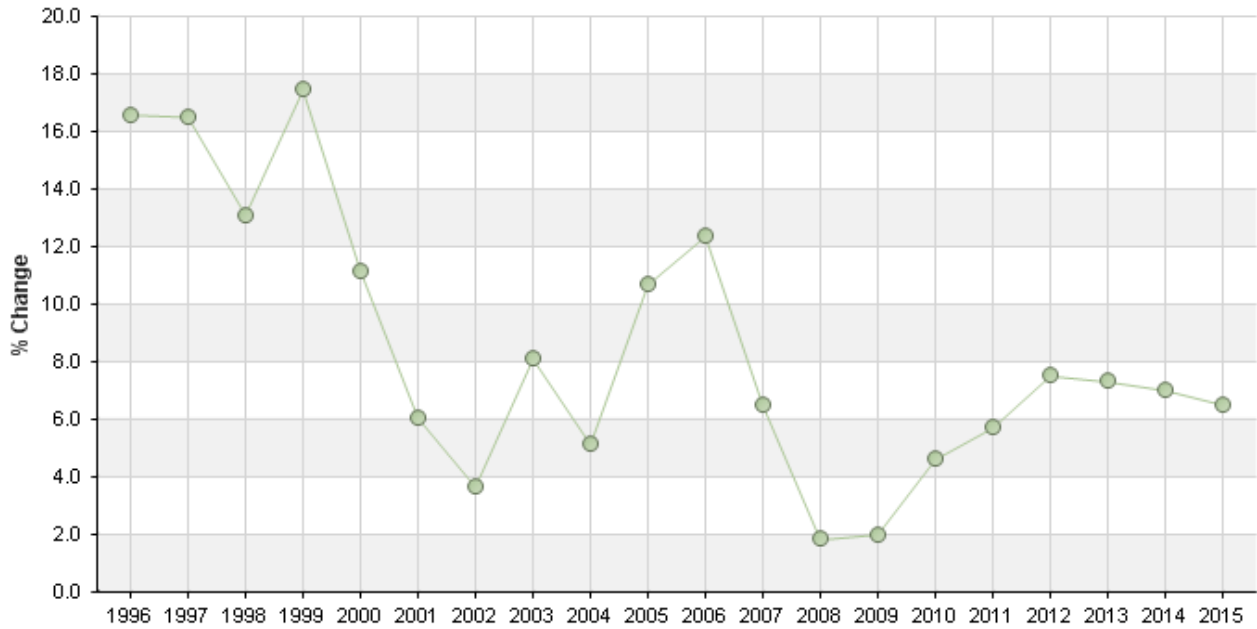


Table: Households in Income Group - Highest Quintile

Year	Thousands	% Change
1996	8,293	
1997	9,661	16.50
1998	10,926	13.09
1999	12,831	17.44
2000	14,262	11.15
2001	15,124	6.04
2002	15,676	3.65
2003	16,945	8.10
2004	17,814	5.13
2005	19,716	10.68
2006	22,151	12.35
2007	23,586	6.48
2008	24,013	1.81
2009	24,493	2.00
2010	25,620	4.60
2011	27,080	5.70
2012	29,111	7.50
2013	31,236	7.30
2014	33,423	7.00
2015	35,595	6.50

## RESIDENTIAL BUILDINGS - VALUE OF CONSTRUCTION

This report analyzes trends in the total value of residential construction put in place (private and public), measured in chained 2005 dollars (billions). Types of construction included are single and multi family houses, accounting for 65% and 8% of the total respectively, and home improvements (only to owner occupied structures, excludes improvements to rental, vacant or seasonal properties). The data for this report is gathered from the US Census Bureau; separate data for public construction was not available prior to 2002, therefore, all data prior to this point are IBISWorld estimates. The US Census Bureau revises data on regular basis and what is shown in this report is revised data available in November 2009.

### Latest Data

According to the latest Census data, IBISWorld estimates that the total value of residential construction put in place in 2009 will be \$235.3 billion. This would be a 19.8% drop compared to 2008. The drop in 2009, which followed larger falls in 2007 and 2008, was the result of a surplus of empty houses amidst a high level of foreclosures.

Residential construction spending is forecast to begin to recover over 2010, rising by 8.3% to \$254.9 billion. House prices appear to have touched bottom and have risen over the past few months which would suggest that the issue of oversupply is diminishing. The labor market is also showing signs of improving with unemployment likely to begin falling sometimes this year.

### Five-Year Trend

Over the five years to 2010, the value of residential construction put in place is expected to fall at an annualized rate of 17.3%. Construction began falling in 2006 but remained high while the subprime mortgage crisis developed. Construction fell sharply in 2007, by 20% as growth in house prices began to fall. Consumer confidence crashed along with house prices, while foreclosures skyrocketed. The decline accelerated substantially in 2008, with the value of residential construction dropping a further 41%. Homebuilders were unwilling to invest in new homes as housing prices continued to fall in the wake of the subprime mortgage meltdown. The freeze in credit markets and tighter lending conditions also made it more difficult to finance new projects, while rising foreclosures suppressed the need for new homes. Consumer sentiment also collapsed amidst rising unemployment.

It is important to note that the massive decline in the value of construction occurred in the private sector whereas public construction increased each year. During the sharpest fall in construction in 2008, the value of public residential construction increased by 2.7%, reflecting state spending on community housing for the rising number of people foreclosing on their homes as well as ongoing reconstruction efforts due to hurricane Katrina and the Californian bushfires. The value of public construction is expected to have increased by 10.7% in 2009 due mainly to government stimulus spending on community housing.

### The Housing Bubble

Low interest rates designed to stimulate the economy in the wake of the 2001 recession and a large inflow of foreign funds created loose credit conditions in the early 2000s, fuelling a housing and consumption binge in the US. Housing prices soared over the period, leading many to refinance their mortgages at lower rates or finance consumption by taking out second mortgages, leading household debt to reach unsustainable levels. In mid 2006, the housing bubble burst as an excess supply of homes led housing prices to decline, leaving many unable to refinance their mortgages. As Adjustable Rate Mortgages (ARM) reset at higher rates, highly leveraged homeowners with negative equity in their homes were forced to foreclose on their mortgages, increasing the supply of homes on market and placing further downward pressure on house prices. Construction activity has fallen sharply since, with a growing glut of housing and steadily declining house prices reducing the incentive to build new homes and tighter credit conditions increasing the cost of financing new construction. By January 2008, the inventory of unsold new homes was 9.8 times the December 2007 sales volume, the

highest level since 1981. House prices only started to recover at the end of 2009 but this recovery has been slow and is not guaranteed to continue.

**Outlook**

The value of residential construction put in place is expected to exhibit constrained growth in 2011. US economic growth is set to slow following the conclusion of the American Recovery and Reinvestment Act at the end of 2010. This is expected to temporarily dampen consumer and builder confidence which will prevent strong growth in private construction spending. A likely decline in public construction will further dampen growth. IBISWorld expects the value of residential construction put in place to rise by only 6.2% in 2011 to \$270.4 billion.

House prices should begin to grow at a faster pace in 2012 as the US economic recovery gains speed. As unemployment falls and house prices remain relatively low compared to their peak, pent up demand amongst first home buyers should encourage builders and homebuyers to return to the market. High demand is expected in the New Orleans region as much of the approximately 300,000 houses destroyed by Hurricane Katrina are replaced.

Residential construction activity is expected to pick up there after, with the aging population and the 'baby boomer' generation entering retirement expected to fuel strong growth in retirement home construction in particular. IBISWorld predicts that the total annual value of residential construction will grow at an annualized rate of 11.7% over the outlook period, reaching \$444 billion in 2015.

The following time series represents the percentage change in the total value of residential construction put in place, measure in chained 2005 dollars:

Graph: Residential Buildings - Value of Construction

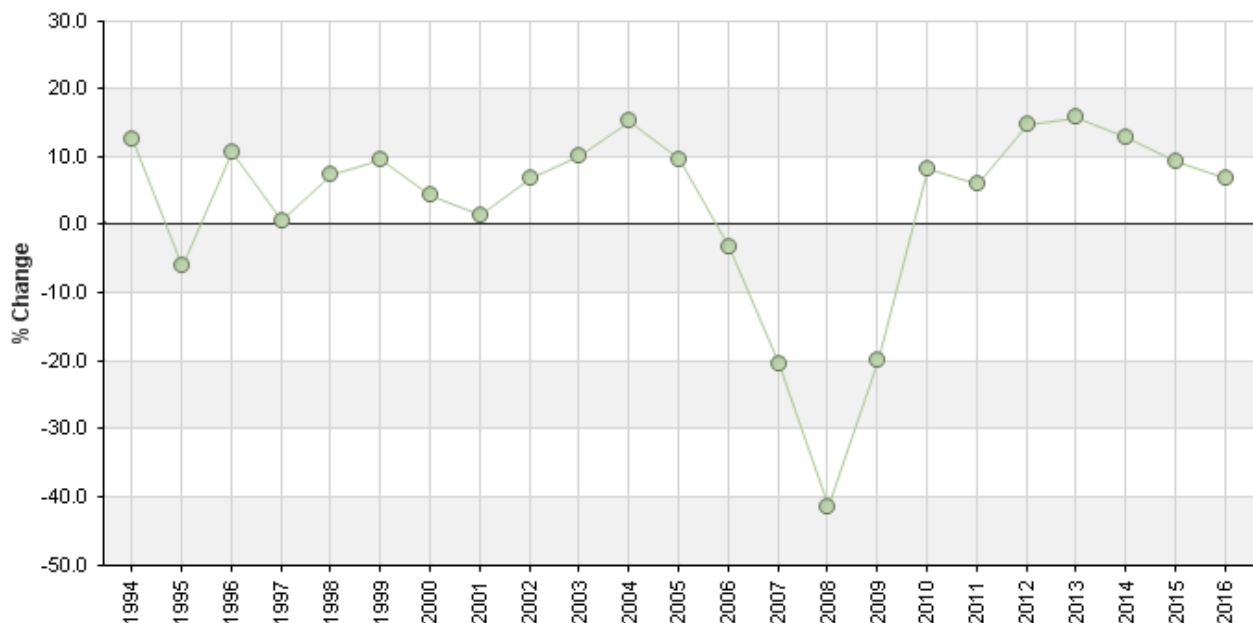


Table: Residential Buildings - Value of Construction

Year	Billion Dollars	% Change
1994	331.2	
1995	311.2	-6.04
1996	344.8	10.80
1997	347.4	0.75
1998	373.2	7.43
1999	409.3	9.67
2000	427.2	4.37
2001	433.9	1.57
2002	463.8	6.89
2003	511.3	10.24
2004	589.4	15.27
2005	647.0	9.77

Year	Billion Dollars	% Change
2006	626.8	-3.12
2007	499.9	-20.25
2008	293.6	-41.27
2009	235.3	-19.86
2010	254.9	8.33
2011	270.4	6.08
2012	310.4	14.79
2013	359.5	15.82
2014	405.9	12.91
2015	444.0	9.39
2016	474.7	6.91

# Industry Risk and Industry Risk Scoring Methodology

## WHAT IS INDUSTRY RISK?

IBISWorld Industry Risk evaluates the inherent risks associated with hundreds of different industries in the United States. Industry Risk is assumed to be "the difficulty or otherwise of the operating environment". This approach is new in that it analyses non-financial information surrounding each industry.

The Industry Risk score is forward looking, and the score looks at expected Industry Risk over the next 12-18 months. The methodology is based on industry classifications and is designed to identify and quantify risks inherent in specific industries both now and into the 12 month forecast.

Industry-based information would, for example, enable the examination of a loan book (portfolio) with regards to risk, which would enable a more sophisticated assessment of risk spread and pricing to risk. Alternatively, individual exposures can be better evaluated using an assessment of structure and key drivers of change in the industry of the exposure.

## THE INDUSTRY RISK SCORING METHODOLOGY

A numeric scoring system is used and is based on a scale of 1 to 9, where a score of 1 represents the lowest risk and 9 is the highest risk. For each of the three major risk categories (Structure, Growth and External Sensitivities) a component score is derived from various sub components. Finally an overall score is derived by combining the three major risk categories.

**Overall Score:** This is derived from an amalgamation of the various component scores, as explained below:

**Structure Score:** This score is made up by analyzing internal industry risk factors. These factors are an industry's; level of volatility, barriers to entry, external assistance, trade exposure imports and exports (if any), industry life cycle, and amount of competition. This component contributes to 25% of the overall score.

**Growth Score:** This figure is derived as an amalgamation of background and forecast growth scores. This component contributes to 25% of the overall score.

**Sensitivity Score:** This figure is derived by examining external and exogenous factors which affect risk within the industry. Examples include input costs, number of housing starts, commodity prices, etc. This component contributes to 50% of the overall score.

## RISK RATING SCORE DEFINITION

Risk Score	Level of Risk
1 - 3	Very Low
>3 - 4.1	Low
>4.1 - 4.7	Medium - Low
>4.7 - 5.3	Medium
>5.3 - 5.9	Medium - High
>5.9 - 7	High
>7 - 9	Very High