Welfare of Population as a Factor for Market Capacity Forecasting

on the Basis of the Nursery Stock Market of Latvia

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Current state of Latvian nursery sector

Latvian nursery sector - growing and sale of trees, shrubs and flowers used for improvement and greening of living-space

Industrially undeveloped sector, with the main problems regarding:
- Small production volumes and fragmented production structure;
- Lack of specialization;
- Low level of capital investments;
- Orientation towards direct sales (retail)

Uncertainty about the market potential- limiting factor for the development
- Lack of market information (the sector has practically not been studied so far) has largely hindered appropriate investment decisions and the development of the sector.
  - *low intensity in acquisition of co-funding from the available European Union prestructural (SAPARD) and structural funds show that*

Evaluation of market capacity...

- **No direct data available, which could be used for calculation;**
- **The main factors influencing the demand and consumption of nursery stock include** (according to the experts of the sector):
  - Development of construction industry;
  - Development of the welfare of population,
- GDP growth per capita - universal indicator for describing the both

- Is there the relationship between the **GDP per capita and the development level of nusery sector?**

Correlation between the levels of population welfare and plant consumption (observed in other countries)
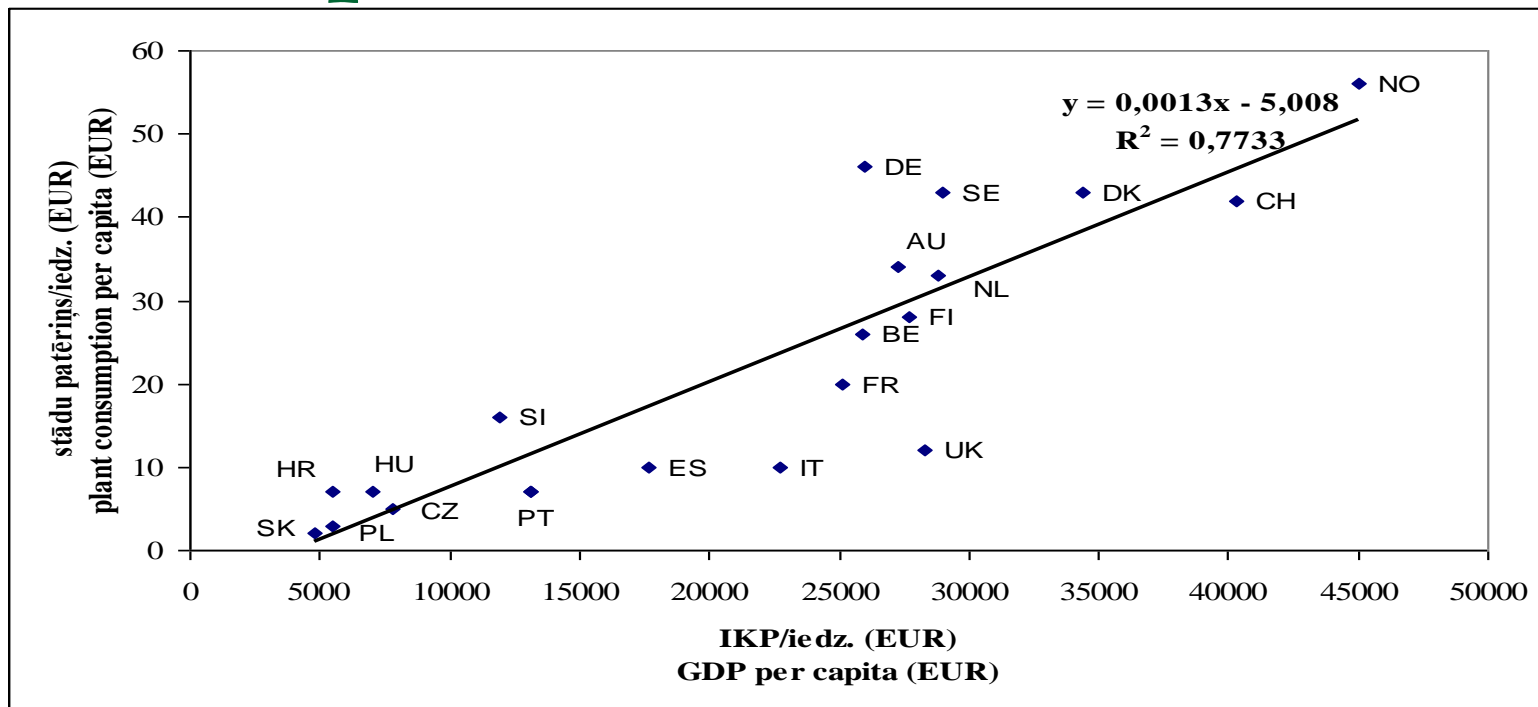
Source: calculations based on AIPH and Eurostat data - year 2002

- 77% of all fluctuations of plant consumption can be explained by changes in GDP per capita
- Correlation coefficient R=0,88 – strong correlation

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Expenditures for plants according to income level in Latvia

■ Expenditures for "miscellaneous goods and services" (which include also plants), % from total expenditures by quintile in Latvia in 2006

❑ Expenditures for "miscellaneous goods and services" grow by larger income
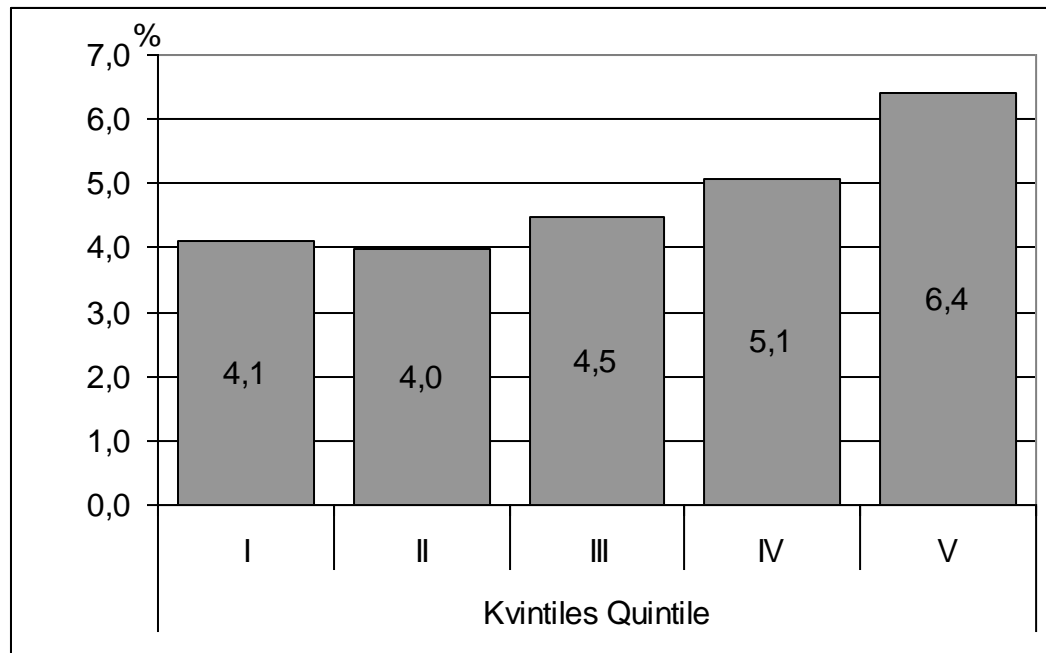
Source :CSB of Latvia

■ It can be forecasted that by increase in welfare of population and growing income level, the consumption of plants will also increase in Latvia

Market capacity forecast in Latvia (using the obtained correlation equation)

- **Current consumption of plants** - **total market capacity** – **Ls 6.6 mio** (2006), which gives **Ls 2.88 per capita**,

- **Total market capacity** in **2010 – Ls 11.6 mio**, in **2015 – Ls 16,7 mio** (*GDP and population figures based on forecasts of Ministry of Economics and LAS Economic Institute*)

  - The positive trend is anticipated to continue at least till 2030, when the EU-15 average level of GDP per capita is achieved

- May be it's worthwile to use this method for evaluation of market capacity also in other **new and little-researched industries**