



**Forestry Innovation  
Investment®**

**Impact of COVID-19 on China's Wood Import,  
Construction and Real Estate Industry**

**Forestry Innovation Investment China**

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# Table of Content

<b>I. Foreword</b> .....	2
<b>II. Current Situation in China</b> .....	3
1. Prevention and Control of COVID-19.....	3
2. Impact on China's Economy .....	3
<b>III. Impact on Business Operation</b> .....	5
1. Work Resumption .....	5
2. Ports and Logistics.....	5
3. Payment Collection .....	6
4. Wood Inventory .....	6
5. Forecast of Wood Import, Construction and Sales.....	7
6. Business Models and Scopes .....	9
<b>IV. Policy Support</b> .....	10
1. Central Government Policies .....	10
2. Local Government Policies .....	10
<b>V. Company Countermeasures</b> .....	11
1. Fully Prepare Labor and Materials for Returning to Work .....	11
2. Reduce Cost.....	11
3. Expand Financing Channels .....	11
4. Explore New Ways of Doing Business .....	11
5. Take Social Responsibility and Improve Brand Recognition .....	11

## I. Foreword

FII China commissioned RCC China in completing a survey on the Impact of Novel Coronavirus (COVID-19) to wood traders, wood frame manufacturers and real estate enterprises. The survey includes 45 questions that cover-impact on business operation, policy support and company countermeasures.

### Numbers of Enterprises Being Interviewed

Targets	Type	QTY
Wood trader	Trade, retail	10
Wood frame manufacturer	Production	13
Real estate enterprise	Production	11
<b>Total</b>		<b>34</b>

### Regions and Attributes

Thirty-four percent of the interviewed enterprises are based in North China, 28% in East China, 23% in South China, 6% in Central China, 6% in Northeast China, and 3% in Southwest.

Seventy-three percent of the respondents are domestic private companies, 21% state holding companies, and 6% wholly foreign-owned companies.

Data are mainly collected from official sources, such as the websites of State Council, the National Health Commission, and the General Administration of Customs.

Based on RCC's survey, FII China has developed this report to update our Canadian stakeholders on the current situation and its impact on wood related businesses.

## **II. Current Situation in China**

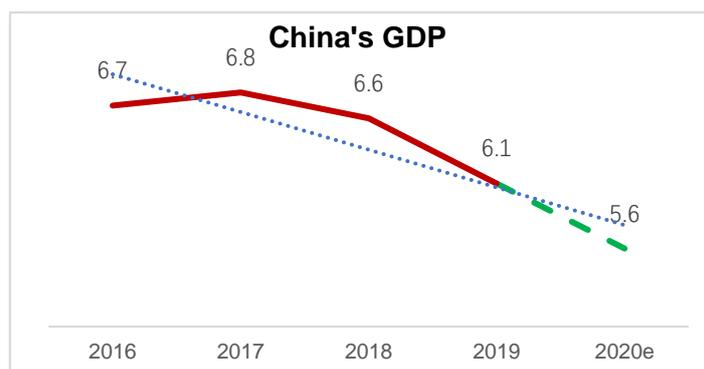
### **1. Prevention and Control of COVID-19**

Since the initial stage of the COVID-19 outbreak in December 2019, the Chinese government took immediate preventative measures to control its outbreak. An expert team was sent to Wuhan to examine the nature and transmission channels of the virus. Shortly following their arrival, the COVID-19 was pronounced Class A, the highest level of public health emergency on January 23, 2020. China enforced stringent control measures across the country. The Hubei Province was locked down before the Chinese Spring Festival transportation rush, with travelling in and out of its borders banned. Traffic control, minimizing public gathering, and effective social distancing carried out from Central to local levels of governments, even down to communities were stringently implemented by a collective of 1.4 billion Chinese people.

These prevention and control measures have achieved remarkable results. Since the beginning of March, live statistics tracking the number of confirmed cases across China went down dramatically, which indicated that the epidemic has been effectively contained. On March 19, China reported zero home-grown case for the first time since the outbreak.

### **2. Impact on China's Economy**

The COVID-19 outbreak is expected to slow China's GDP growth to around 5.6% in 2020. Up to March 19, the resumption of work and production has not resulted in a second wave of contagion.



Source: State Council, EIU

### Imports and Exports

China's total imports and exports stood at 4.12 trillion yuan in the first two months of 2020, 9.6% below the same period in 2019. Exports decreased by 15.9%, while imports decreased by 2.4%. The volume of imported wood was 12,344 thousand cubic meters, decreased by 9.7%, while the import value stood at 14.30 billion yuan, decreased by 24.2%. The data indicates that the impact of COVID-19 on China's exports is far greater than that of imports, mainly because domestic production was brought to a standstill.

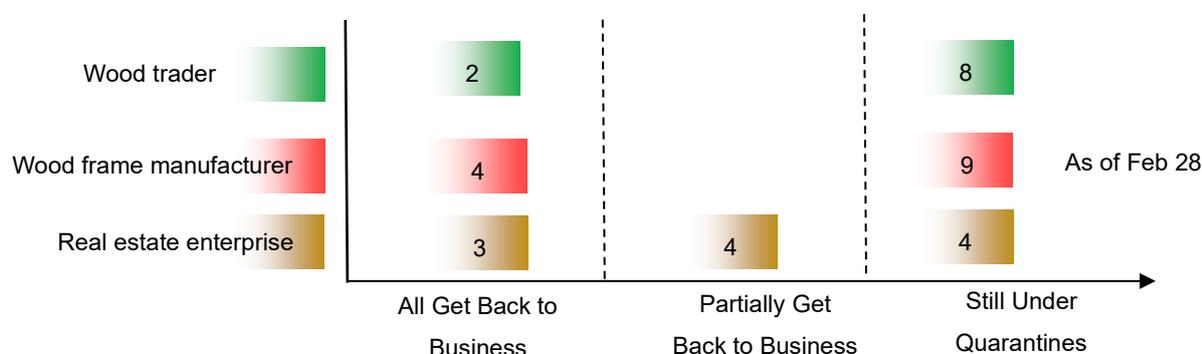
### Real Estate Industry

According to the statistics of China Real Estate Information Corporation (CREIC), the sales of TOP100 real estate companies in China decreased by 19.9% from January to February 2020, while land sales increased by 5.5%. According to the China Ministry of Housing and Urban-Rural Development (MOHURD), there were 192,500 projects under construction across the country, 111,900 of which resumed operations as of March 8. These stats show that COVID-19 has resulted in some slowdown, but its impact is expected to be limited as work resumes.

### III. Impact on Business Operation

#### 1. Work Resumption

It is expected to take roughly a month for Chinese wood traders to resume operations, while the construction and real estate industries may have to wait longer before going back to normal. As Hubei is the most severely affected by COVID-19 in China, the province is expected to resume regular operations no early than May.



*Note:* Partially getting back to business means that their office staff have returned to office. Yet the project has not started, or only part of the projects related to people's livelihood have been resumed.

Among the ten wood traders surveyed, two companies reported full work resumption as most of their staff members are local residents. They do not need to quarantine because they have not travelled during the Chinese Spring Festival. The remaining eight companies are following government quarantine regulations as their staff have to remain at home for 14 days before returning to work.

#### 2. Ports and Logistics

According to wood traders surveyed, custom clearance was not affected, and ports have resumed operations on February 28, 2020. However, domestic transportation posed as problems in some cases due to labor shortage, traffic restriction and the closure of downstream companies.

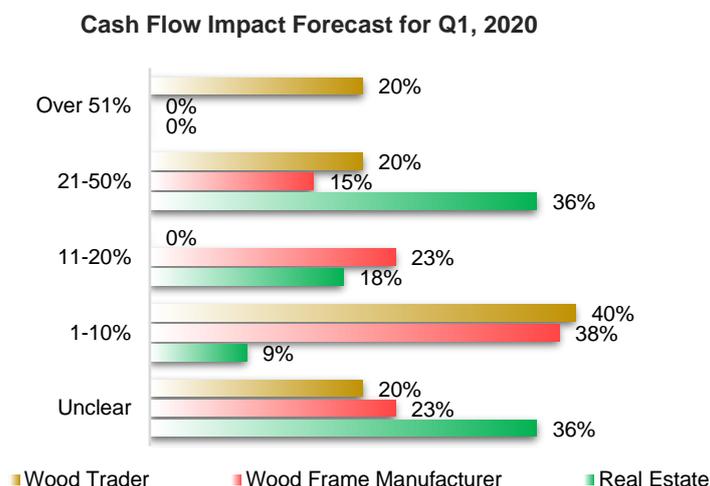
To date, most wood frame manufacturers have not resumed full production, and many projects are being suspended. The downstream subcontractors mostly used the local raw materials to mitigate the impact of traffic restriction and logistic bottleneck.

### 3. Payment Collection

As wood traders strictly apply the delivery upon payment policy, COVID-19 has limited impact on their cash flow in Q1.

It is common for wood frame manufacturers to get payment based on the completion stages of construction. COVID-19 only affected the cash flow of the manufacturers whose construction ended near December 2019.

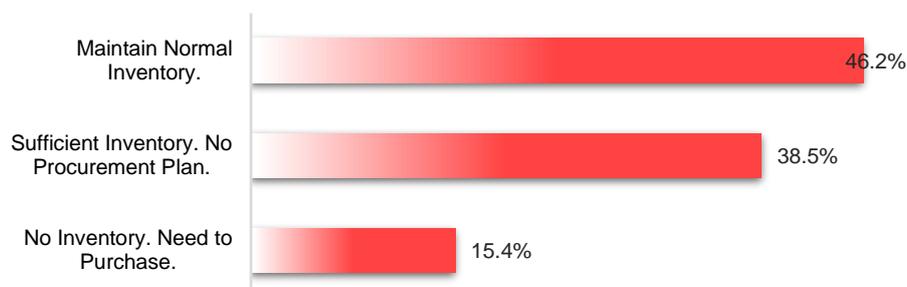
Real estate sales declined, and their Q1 sale receipts will decrease by 20 to 30 percent due to COVID-19 outbreak.



### 4. Wood Inventory

Wood inventory has a direct impact on wood frame manufacturers. According to the survey, 46.2% wood frame manufacturers said most of the downstream

companies have not gone back to business due to COVID-19 as of February 28, 2020, but they chose to maintain normal inventory. 38.5% said that they had sufficient inventory and had no procurement plans. Only 15.4% said that they had no inventory, but once they resume regular business, they will start procurement again.



## 5. Forecast of Wood Import, Construction and Sales

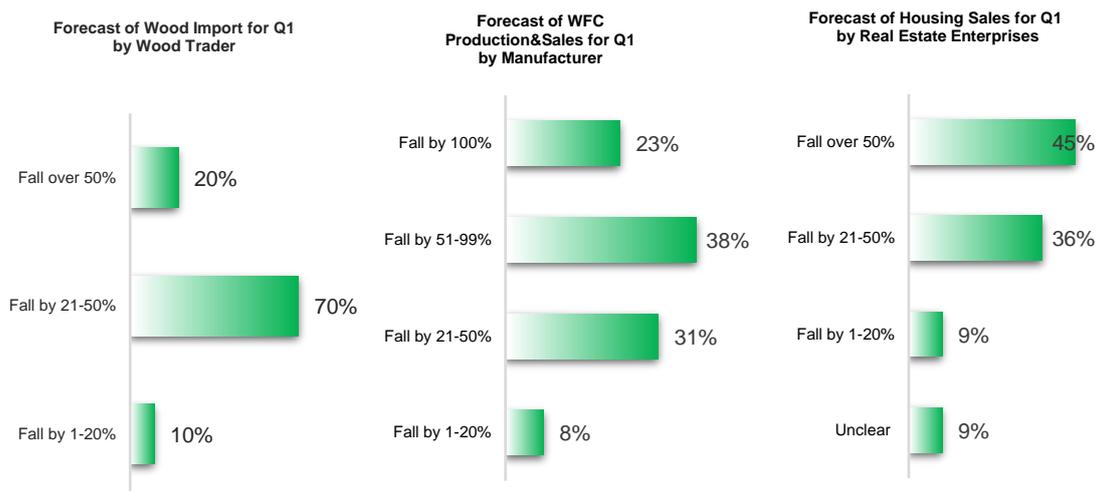
### Forecast for Q1

COVID-19 outbreak has a great impact on construction and sales in Q1.

Seventy percent of wood traders said that wood imports would decrease by 21 to 50 percent in Q1, 20% said that the imports would decrease by more than 50 percent, and 10% said that the imports would decrease by less than 10 to 20 percent.

Thirty-eight percent of wood frame manufacturers said that their construction and sales would decrease by more than 50% in Q1, 31% said that the construction and sales would decrease by 21 to 50 percent, 8% said that construction and sales would decrease by 10 to 20 percent, and 23% said that there would be no order in Q1.

Forty-five percent of real estate respondents said that their sales in Q1 would decrease by more than 50%, 36% said their sales would decrease by 21 to 50 percent, and 9% said that sales would decrease by 10 to 20 percent.



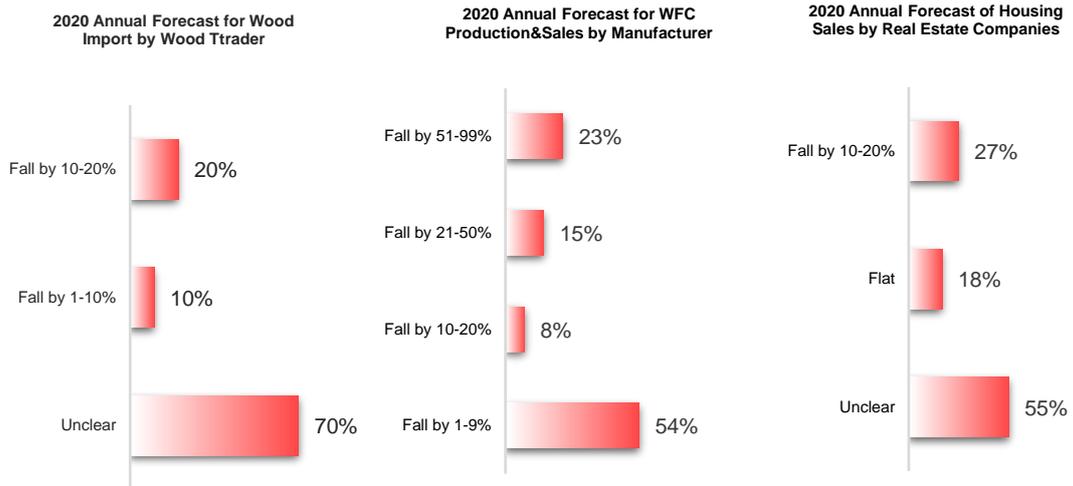
### Annual Forecast for 2020

Most of the respondents expressed uncertainty about this year's market trend due to the complexities of the current situation. Some compared it to the year of SARS and considered that market will only rebound once the COVID-19 is fully controlled.

Seventy percent of wood traders could not foresee the total imports throughout the year, 20% said that the imports might decrease by 10 to 20 percent, and 10% said that COVID-19 may reduce by less than 10 percent.

Fifty-four percent of wood frame manufacturers said COVID-19 had limited impact, and the constructions and sales would decrease by only 5 to 10 percent. However, wood frame manufacturers in Hubei are expected to decrease more than 50% on their constructions and sales in 2020 even if the COVID-19 is controlled and the market starts to rebound.

Twenty-seven percent of real estate companies believed that the annual sales would decrease by 10 to 20 percent, and 18% said that the company would strive to prevent sales decline. 55% are unclear.



## 6. Business Models and Scopes

All ten wood traders said that they would not change their business plans.

All 13 wood frame manufacturers said that whether to expand or reduce their business would depend on market opportunities.

All 11 real estate companies said that the short-term COVID-19 outbreak would not affect the company's business scope.

## **IV. Policy Support**

Since the outbreak of COVID-19, Central government, provincial and municipal governments have issued a series of policies to fight against coronavirus in order to protect people's livelihood and support enterprises to return to work.

### **1. Central Government Policies**

- Provide sufficient liquidity, and appropriately reduce interest rates of loans.
- Reduce company taxes, exempt personal income tax, and provide interest discounts on corporate loans.
- The Ministry of Transport mandated that from February 17, 2020 to the end of the epidemic prevention and control work, national highways and expressways can be accessed free of charges.

### **2. Local Government Policies**

- Increase credit support, reduce financing costs and administrative fees.
- Roll out fiscal stimulus including deferred payment of taxes and fees and reduction of land use taxes, real estate taxes, utility charges and rent.
- Return 25-100% of the unemployment insurance premium to companies that do not lay off staff during the COVID-19 outbreak.
- Ramp up the production of protective gears, such as masks, thermometers, disinfectants and other protective materials to support enterprises in disease prevention and control.
- Ports, terminals and domestic mainstream shipping companies in Tianjin, Shanghai, Shandong, Jiangsu, Zhejiang, Guangdong, Fujian and other jurisdictions have all announced the exemption of demurrage fees, extended container-free and stack-free periods. For example, the grace period of the container being entered through Taicang Port during the period of January 24 to February 9, is extended by 20 days.

## **V. Company Countermeasures**

### **1. Fully Prepare Labor and Materials for Returning to Work**

- For urgent projects, recruit local workers in advance for construction.
- Arrange special transport for non-local workers with high density.
- Strictly implement the national disease control regulations and assign special personnel to ensure the procurement, storage, and delivery of key protective materials (masks, disinfection alcohol, etc.).

### **2. Reduce Cost**

- Reduce labor costs, focus on optimizing employee job allocation, optimizing business processes, and improving work efficiency.
- Reduce operating costs such as rent and storage.
- Reduce management costs not related to revenue.

### **3. Expand Financing Channels**

- Take benefits of tax reduction and other related policies issued by governments.
- Expand financing channels, innovate financing methods, and actively replenish funds to ensure financial security and stable cash flow.

### **4. Explore New Ways of Doing Business**

- Expand online sale channels and cultivate potential customers.
- Maintain customer relationships via WeChat, telephone, and/or internet.

### **5. Take Social Responsibility and Improve Brand Recognition**

- It reflects the social responsibility and brand value for some enterprises to

cooperate and participate in fighting against coronavirus. Among the respondents, some enterprises donated mobile cabin for disease quarantine, monitoring stations, and donated masks, protective clothing and other materials to hospitals, and actively played their part in fighting against coronavirus.