

The value of being ‘essential’

The pandemic continues, but the worst of the health impacts appear to be passing. It is timely to turn attention to the economy and the role of essential industries like forestry and wood products in sustaining economic activity in Australia.

As the industry came to understand in the rapid evolution of the pandemic and the immediate response to it, the essential characteristic of our industry to the Australian economy cannot be taken for granted.

Had the industry faced a four-week close down, *IndustryEdge's* headline assessment is that the impact on the value of sales alone would have been in the vicinity of \$2.5 billion, inclusive of a disrupted re-start.

In that context, the continued operation of the forestry and wood products industry during the pandemic is clearly a credit to all concerned, and a testament to the industry's real importance to the national economy.

Here we set out the details of the analysis.

Essential? Don't take that for granted!

Many in the industry would consider the industry's contribution to housing and building in general (sawn timber and panels), kitchens and cabinets, furniture and other household staples, all the way through to communications (paper), personal hygiene (tissue) and packaging (paperboard and boxes) speaks for itself.

But every industry *thinks* it is essential.

Unlike many, in its advocacy, our industry was also able to point to its contributions to regional communities, where much of the sector's employment is based, which differentiates it from some other industries.

However, we have only to look to New Zealand to see it requires only a minor shift in thinking for the forestry, wood products and pulp and paper industries to be closed down.

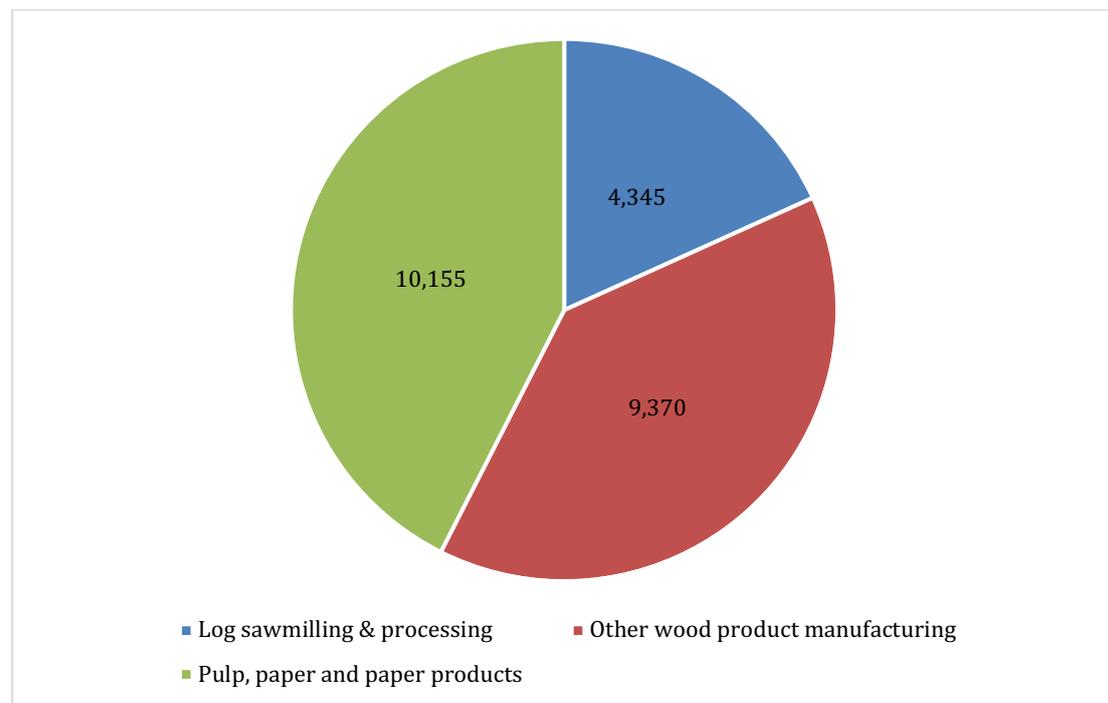
In New Zealand, nearly all of the industry was closed. Some paper (tissue) and paperboard (packaging) production was exempted from the closures. The rest of the industry was closed.

Assessing the value of being essential

So, how do we assess the value, from some different perspectives, of remaining operational over the course of a lockdown period?

There is a direct financial value. At a headline level, we can calculate this relatively easily. The industry's manufactured goods sales were valued at \$23.870 billion in 2017-18.¹

Australian Forestry & Wood Products Industry Sales: 2017-18 (AUDM)



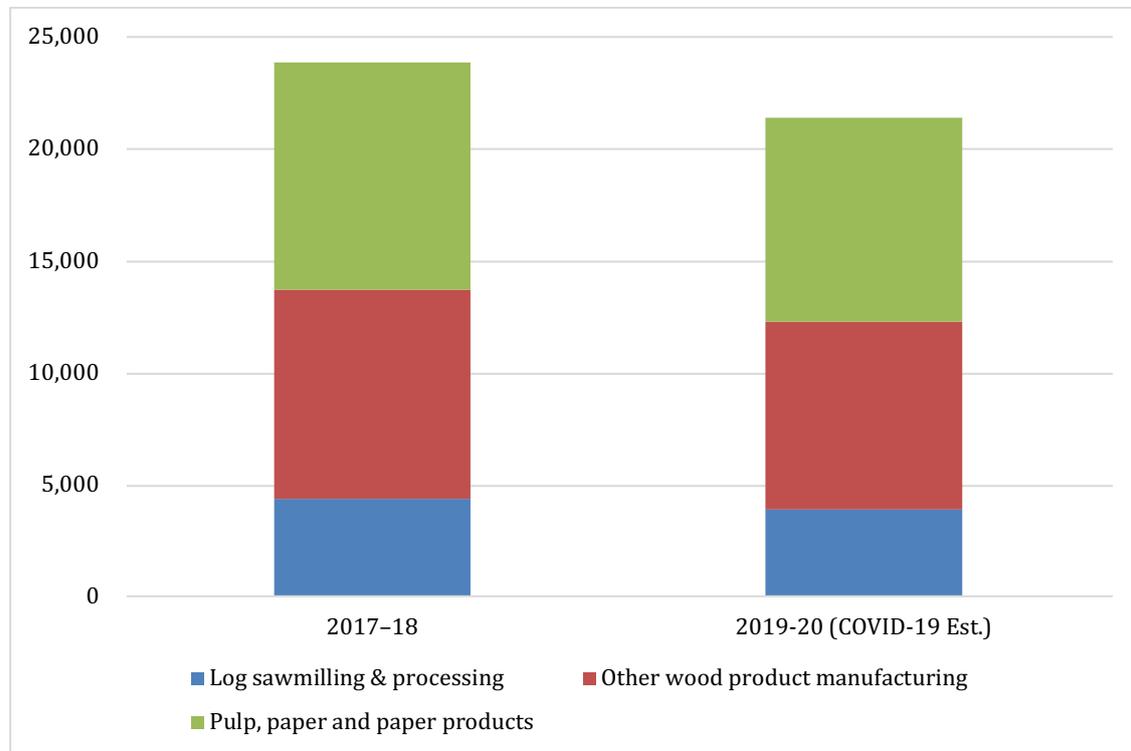
Source: ABARES

If one month of annual sales is extracted, then the industry's sales would be reduced by *at least* one-twelfth, or almost \$2.0 billion. That is a start, but from a sales perspective, it is obvious that the impact would be more significant, with the challenges of starting back up probably adding another month of disrupted sales. If it is assumed the impact in the month after lockdown is 25% less sales, then the total impact on sales would be close to \$500 million.

¹ ABARES 2019, Australian forest and wood products statistics, March and June quarters 2019, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, November 2019.
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In total, it is reasonable to assume total annual sales would be down \$2.5 billion or around 10.5% of annual sales, from a one-month closure. This is shown below, using the 2017-18 data as the base.

Australian Forestry & Wood Products Industry Sales: 2017-18 v 2019-20 (est.) (AUDM)



Source: IndustryEdge, including derived from ABARES

To understand the impact of a closed industry more specifically, using the breakdown provided by ABARES and its 2017-18 assessment of the value of sales as the base, the table below shows the impact of a one month close-down and a slow month of recovery.

AUDM	2017-18	2019-20 (COVID-19 Est.)	Difference
Log sawmilling and timber dressing			
Log sawmilling	1,563	1,400	163
Wood chipping	527	472	55
Timber resawing and dressing	2,255	2,020	235
Total	4,345	3,893	452
Other wood product manufacturing			
Prefabricated wooden building	368	330	38
Wooden structural fittings and components	6,388	5,724	664
Veneer and plywood	480	430	50
Reconstituted wood product	1,157	1,037	120
Other wood products nec	977	875	102
Total	9,370	8,396	974
Pulp, paper and converted paper products			
Pulp, paper and paperboard	3,034	2,718	316
Corrugated containers	3,610	3,235	375
Paper bag	129	116	13
Paper stationary	467	418	49
Sanitary paper product	2,193	1,965	228
Other converted paper product	722	647	75
Total	10,155	9,099	1,056
Total forest product manufacturing	23,870	21,388	2,482

Source: IndustryEdge, derived from ABARES

It is important to note that the value of sales is an important measure, but not the sum of the value to the industry or national and regional economies.

The supply chain that grows, harvests and delivers logs to manufacturing facilities is also significant. In 2017-18, the sales value of that supply-chain into the sectors set out above was \$4.879 billion, including its export revenues. A one month close-down and a disrupted recommencement would cost that sector around \$507 million, noting that is largely incorporated within the value of the industry's sales of finished goods, set out earlier.

Industry's contribution more significant than the numbers suggest

The combined Australian industry's contribution to the value of manufacturing in Australia was just 6.3% and just 0.5% of GDP in 2017-18². Industry certainly knows these numbers are higher in reality, but national records are that our contribution to employment was just 0.6% of the total (about 72,100 people) in 2018-19.³

Despite its apparently smaller contribution to the national economy than some other industries, the industry was successful in articulating its importance to the national, state and regional economies and remained in operation throughout Australia's most significant period of lockdown.

The importance of the industry's role in the housing economy cannot be over-estimated. There are very few houses and townhouses that are built without some timber and of course, the majority use significant amounts, especially for frames, trusses, flooring, windows, doors and cabinets and joinery.

Shutting the forestry and wood products industry down would have had flow on effects for the housing industry immediately and also over time, as the supply chain would quickly be emptied. It would have to be replenished before the housing industry could get rolling again.

Without an operating forestry and wood products industry, the Australian housing industry would also grind to a halt.

It is the same for the paper and paperboard sectors. The obvious examples are tissue products – where would we have been without the nation's tissue manufacturers stepping up in March and April? – and the packaging paper sector. The latter's corrugated boxes and bags deliver our food products, help our shelves be re-stocked and continued to support other industry's export activities.

IndustryEdge
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² ABARES 2019, Australian forest and wood products statistics, March and June quarters 2019, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, November 2019.

³ *ibid*