



PRESS RELEASE FEBRUARY 20, 2020

## INDUSTRY UPDATE REGARDING THE CORONAVIRUS AND THE IMPACT ON 2020 FIREWORKS SEASON PRODUCTION

Ladies and Gentlemen:

As I am sure you are all aware by now the fireworks industry will be facing tough times this July 4<sup>th</sup> season due to the unprecedented events that began to take form in January of this year in China. Our hearts go out to the millions of citizens in China that are directly affected by the tragic events caused by the Coronavirus. We send our hopes and prayers to them for a strong recovery.

This is a large-scale event that has ramifications for not only the fireworks industry but all industries that obtain goods from China necessary to their businesses functioning. This will affect many industry sectors but we will direct our focus on our own – fireworks.

We have been gathering information over the past weeks and have been trying hard to verify reports before issuing a statement. This has been very difficult due to limited communications available. For much of January and the first few weeks of February offices in China relating to our industry have been virtually shuttered, closed without contact, and while things are no where near back to normal we can advise of the following:

- There will be a shortage of fireworks production across all lines of our industry 1.3G and 1.4G and 1.4S classes.
- What will be produced will arrive to the US far later than planned causing a strain on timely distribution domestically.
- US importers are bracing for this now and are working on plans to get through the first half of this year as best they can with the prognosis of a very limited inventory flow.
- While we cannot speak to inventory levels available at various suppliers in the US now we believe that there will be a definite inventory shortage this coming Spring as we prepare for the July 4<sup>th</sup> holiday so people need to be contacting their suppliers.

There have been a lot of rumors circulating and we are going to attempt to provide you with a cautious and accurate of a picture as we can given the lack of complete communication out of China.

Let us first dispel some of the rumors and add some clarity to them:

- **Rumor #1: The factories are open.** This is often construed as they are up and running again but this is not entirely factual – let's address that.
  - While some factories have reopened it is far from a large number.

- For those that have reopened, they are functioning with skeleton crews and are not running production lines. They may be “open” but they are far from functioning in their normal capacity.
- Why:
  - Limited numbers of employees are able to return to work because of localized quarantines that are hampering the movement of workers from city to city or through towns.
  - Chemical supplies are not being moved to factories, resulting in a lack of raw materials to make stars and powders.
- **Rumor #2: Fireworks were made prior to Chinese New Year are now shipping. This is false.**
  - There is no movement of fireworks from factories or warehouses happening. Nothing is being loaded and nothing is being sent to the ports. While there are stockpiles at storage warehouses, there are not workers to load them and there are no containers to put them in or trucks to move the containers.
  - There is a new transportation permit system in place in China now and they have not begun to issue any permits.
- **Rumor #3: Shipping has or will resume soon. This is false.**
  - Shipping lines have drastically reduced the number of boats on the water as the limited production of many goods in China has decreased demand for boats significantly. Presently it is projected that instead of 2 fireworks boats a week the lines will only be sending one. This is critical – At a time when we need to move as much as possible as quickly as possible there is less space available.
- **Rumor #4: There will not be price increases as a result of the problems. This is almost assuredly going to prove false.**
  - There is supply and demand. Supplies will be limited and demand is high, as we all now from our economics lessons this means price increases. Where they come from has yet to be all figured out. Factories, shipping lines, importers are all facing cash flow crunches due to a lack of production, loads to carry and inventory to sell. Our advice is to be prepared.

On Monday the 22nd there will be another official update on the formal “opening” of factories. We should learn more then and we will be reporting on the events as we can verify good information and have confidence in it.

We can also report the following:

- Feb 22<sup>nd</sup> is the next potential opening of the factories. If that happens it will take 10-12 days after factories open for us to see any real changes. If the factories open next week, inventory will be very late. If the factories don’t open till March it could be devastating.
- Schools in China are still closed and this is hampering the ability of people to go back to their jobs.
- Many local governments are taking over their areas and implementing strong rules until it is completely known that the danger has passed.
- There will be much more information to come, currently the picture is not nearly clear.
- This is a VERY complex problem and has MANY moving parts. No one has all the details and everyone wants answers.

- At this point and for the future please check back in as we will begin funneling accurate information out as soon as we can learn it.

**Sincerely,**

**Your NFA Board of Directors**