

Equity Strategy

Recovery Heat Map

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Our real time heat map shows the COVID-19 recovery in New Zealand is in full swing and should benefit further if the government decides to move to Alert Level 1 this week. Unemployment levels have been stable in recent weeks having grown materially through Alert Level 4, though we are wary of the initial 12 week wage subsidy scheme ending this month for most claimants. Economic sentiment remains depressed but credit card spending has returned to prior year levels. Credit spreads in the bond market have fallen from their peak but remain elevated compared to pre COVID-19 levels. Mobility data suggests most New Zealanders are now back at work. The weakest parts of the economy are those exposed to international travel and tourism. These sectors will remain challenged under Alert Level 1 until border restrictions ease. Unsurprisingly, the nature of the recovery to date lags the sustained equity market rally since the trough on 23 March 2020. Any hiccups in the data over the coming weeks will present opportunities for investors to pause, consider and step aside from the rising risk tolerance of recent weeks.

Figure 1. Forsyth Barr COVID-19 recovery heat map

Week ending	27-Mar-20	03-Apr-20	10-Apr-20	17-Apr-20	24-Apr-20	01-May-20	08-May-20	15-May-20	22-May-20	29-May-20
Economic sentiment	-1.2	-1.0	-1.4	-1.3	-1.0	-1.0	-0.7	-0.9	-0.4	-0.7
BBB credit spreads	249	256	198	185	214	161	188	177	173	171
Jobseeker Support recipients	15%	23%	27%	34%	38%	41%	42%	42%	42%	43%
Workplace visitation	-38%	-64%	-66%	-65%	-59%	-44%	-34%	-25%	-6%	-9%
Credit card spending	-27%	-57%	-58%	-57%	-56%	-45%	-40%	-14%	-1%	-1%
Electricity volumes	-1%	-12%	-13%	-11%	-5%	-7%	3%	4%	5%	6%
Retail fuel volumes	-36%	-75%	-74%	-74%	-68%	-51%	-41%	-29%	-19%	-19%
Commercial fuel volumes	-40%	-60%	-56%	-65%	-60%	-51%	-41%	-39%	-38%	-43%
Heavy vehicle traffic	-28%	-59%	-62%	-62%	-46%	-36%	-20%	-6%	0%	-2%
Light vehicle traffic	-44%	-81%	-82%	-83%	-78%	-56%	-47%	-27%	-6%	-4%
Domestic passenger flights	82%	19%	1%	1%	1%	2%	2%	5%	19%	29%
International arrivals	-99%	-100%	-100%	-99%	-99%	-99%	-99%	-99%	-100%	-99%
Hotel occupancy	-67%	-64%	-71%	-74%	-64%	-64%	-65%	-66%	-64%	-49%
Building consents	-80%	-33%	-57%	-56%	-9%	-32%	-33%	-21%	-16%	-26%

Source: Forsyth Barr analysis NOTE: refer to page 2 of this report for more detail on each data series, grey box signifies data not yet available

Heat map indicators

Our recovery heat map incorporates a number of key weekly economic, industry and market related data points. The latest data includes data for the week ending 29 May 2020. As New Zealand likely moves to Alert Level 1 this week, we expect further improvements in underlying trends. However, we don't expect the data points to be synchronised given the different demand profiles relating to (1) continued restrictions on travel and tourism, (2) rising unemployment with increased risk after the initial 12 week wage subsidy scheme expires in 3-4 weeks, and (3) pent-up demand that has boosted various market sectors in recent weeks.

Key questions

Our heat map doesn't provide all of the answers to the COVID-19 recovery, but should provide key real time insights into the shape and timing of the recovery. Over the coming weeks we expect it to be able to answer key questions including: How much of the recent up-tick in business activity reflects pent-up demand and supply chain restocking? How will unemployment levels trend through July after the initial wage subsidy scheme payments roll-off? What additional activity benefits will prevail when we enter Alert Level 1? What will be the impact on international travel from a trans-Tasman bubble?

The Forsyth Barr COVID-19 recovery heat map

The 14 different data series provided in our heat map come from a variety of different sources as summarised in Figure 1.

Figure 2. Summary of heat map data series

Data point	Source	Data provided
Economic sentiment	The GDELT Project	Weekly index of New Zealand economic sentiment
BBB credit spreads	Bloomberg	Average of weekly BBB credit spreads
Jobseeker Support recipients	Ministry of Social Development	Weekly number of Jobseeker support recipients vs prior year
Workplace visitation	Google	Average weekly workplace mobility compared to the baseline period of 3 Jan to 6 Feb 2020
Credit card spending	Paymark	Weekly credit card spend against prior year
Electricity volumes	NZX Energy	Weekly electricity demand vs prior year
Retail fuel volumes	Z Energy	Weekly retail road fuel consumption vs pre COVID-19 average
Commercial fuel volumes	Z Energy	Weekly commercial fuel consumption (includes commercial diesel, jet, marine and other) vs pre COVID-19 average
Heavy vehicle traffic	NZTA	Weekly heavy vehicle traffic against the prior year
Light vehicle traffic	NZTA	Weekly light vehicle traffic vs prior year
Domestic passenger flights	FlightAware	Weekly Air New Zealand and Jetstar domestic flights arriving at Auckland Airport vs pre COVID-19 weekly average
International arrivals	Stats NZ	Weekly arrivals of non-New Zealand passport holders coming in to New Zealand against the prior year
Hotel occupancy	STR	Weekly New Zealand hotel occupancy vs prior year
Building consents	Auckland Council	Weekly Auckland building consents vs an average from pre COVID-19 levels

Source: Forsyth Barr analysis

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