

# Equity Strategy

## Recovery Heat Map; Closer to Normality

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Our real time, high frequency, data heat map shows that New Zealand is continuing to benefit from easing restrictions on consumers and businesses, with most indicators having improved since last week. Further improvements are likely over the coming weeks given last week's move to Alert Level 1. Consumer activity is now largely back to prior year levels as evidenced by credit card spending, light vehicle traffic and workplace visitation. 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. Moreover, the outlook for the building sector suggests some easing given a sustained lower level of building consents. Unsurprisingly, the nature of the recovery to date lags the sustained equity market rally since the trough on 23 March 2020; however, we remain wary of economic headwinds from rising unemployment.

**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	05-Jun-20
Economic sentiment	-1.2	-1.0	-1.4	-1.3	-1.0	-1.0	-0.7	-0.9	-0.4	-0.7	-0.7
BBB credit spreads	249	256	247	231	214	201	188	177	173	171	168
Jobseeker Support recipients	15%	23%	27%	34%	38%	41%	42%	42%	42%	43%	43%
Workplace visitation	-38%	-64%	-66%	-65%	-59%	-44%	-34%	-25%	-6%	-9%	-2%
Credit card spending	-27%	-57%	-58%	-57%	-56%	-45%	-40%	-14%	-1%	-1%	0%
Electricity volumes	-1%	-12%	-13%	-11%	-5%	-7%	3%	4%	5%	6%	-2%
Retail fuel volumes	-36%	-75%	-74%	-74%	-68%	-51%	-41%	-29%	-19%	-19%	-18%
Commercial diesel volumes	-27%	-52%	-58%	-56%	-49%	-27%	-6%	-4%	-3%	-8%	-22%
Heavy vehicle traffic	-29%	-60%	-62%	-61%	-47%	-37%	-22%	-9%	-4%	-4%	2%
Light vehicle traffic	-47%	-82%	-82%	-83%	-79%	-58%	-49%	-30%	-12%	-8%	2%
Domestic passenger flights	-18%	-81%	-99%	-99%	-99%	-98%	-98%	-95%	-81%	-71%	-59%
International arrivals	-99%	-100%	-100%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%
Hotel occupancy	-67%	-64%	-71%	-74%	-64%	-64%	-65%	-66%	-64%	-50%	-39%
Building consents	-80%	-33%	-57%	-56%	-9%	-32%	-33%	-21%	-16%	-26%	-26%

Source: Forsyth Barr analysis NOTE: refer to page 2 of this report for more detail on each data series

**Resumption of a more normal day-to-day**

There has been a broad return to consumer normality this week highlighted by (1) the return of workers to their workplaces, with workplace visitation now down only -2% from pre COVID-19 levels, and (2) retail spending increasing, as shown by credit card spending being broadly flat against the same time last year. We expect next week's data (week ending 12 June 2020) to show a workplace mobility level similar to that of pre COVID-19, due to the final social distancing rules having been eased. Anecdotal evidence points to a substantial increase in public transport use.

**Domestic tourism boosted**

Domestic tourism appears to be ramping up as both hotel occupancy and number of domestic passenger flights have improved significantly on a sequential weekly basis (although both remain at materially depressed levels). Light vehicle traffic also rebounded to a level above that of the same week last year. We expect this domestic tourism trend to continue following the move to Alert Level 1 on 8 June 2020, which removes the need for social distancing on planes, as well as reducing restrictions placed on hotels and motels in dealing with guests. International arrivals remain at essentially zero and will do so until boarder restrictions are removed.

**Stock implications**

The recovery trade has been a key feature of most equity markets in recent weeks with companies most exposed to COVID-19 bouncing strongly. Despite New Zealand's relative success in battling the virus, the near, medium and long term earnings outlook for those exposed to international travel (Air New Zealand [UNDERPERFORM], Tourism Holdings [UNDERPERFORM], and to a lesser extent Auckland Airport [NEUTRAL]) remains extremely uncertain. We retain a negative bias towards these names.

## 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**

<b>Data point</b>	<b>Source</b>	<b>Data provided</b>
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 diesel volumes	Z Energy	Weekly commercial diesel consumption vs pre-COVID 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 into 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 week from pre COVID-19 levels

Source: Forsyth Barr analysis

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