

Equity Strategy

Recovery Heat Map; Solid

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Our COVID-19 recovery heat map shows another week of solid data from the domestic economy. Economic sentiment had its best read in almost two months and other key barometers (consumer spending and both light and heavy vehicle traffic data) were positive. Domestic tourism is enjoying a sustained boost from school holidays; domestic air travel and hotel occupancy consolidated the prior week's gains. In contrast international travel remains challenged and increasingly the first meaningful steps of its recovery appear to be a 2021 story. Unemployment continues to deteriorate, but seemingly only at a trickle given the relatively sedentary rise in Jobseeker/COVID-19 Income Relief Payment (CIRP) recipients.

Figure 1. Forsyth Barr COVID-19 recovery heat map

Week ending	27-Mar	03-Apr	10-Apr	17-Apr	24-Apr	01-May	08-May	15-May	22-May	29-May	05-Jun	12-Jun	19-Jun	26-Jun	03-Jul	10-Jul	17-Jul
Economic sentiment	-1.2	-1.0	-1.4	-1.3	-1.0	-1.0	-0.7	-0.9	-0.4	-0.7	-0.7	-0.7	-1.0	-0.8	-0.7	-0.6	-0.4
BBB credit spreads	284	303	280	256	240	226	211	198	189	179	178	173	166	144	147	144	144
Wage subsidy paid (NZ\$bn)	3.8	5.4	8.9	10.1	10.5	10.6	10.8	10.9	10.9	11.0	11.0	11.2	11.9	12.3	12.7	12.9	13.0
Jobseeker Support/CIRP	15%	23%	27%	34%	38%	41%	42%	42%	42%	43%	43%	43%	45%	48%	50%	51%	52%
Workplace visitation	-38%	-64%	-66%	-65%	-59%	-44%	-34%	-25%	-6%	-9%	-2%	0%	-1%	-2%	-10%	-10%	-8%
Credit card spending	-27%	-57%	-58%	-57%	-56%	-45%	-40%	-14%	-1%	-1%	0%	1%	-1%	-2%	2%	2%	2%
Electricity volumes	-1%	-12%	-13%	-11%	-5%	-7%	3%	4%	5%	6%	-2%	4%	-1%	-3%	4%	5%	4%
Heavy vehicle traffic	-29%	-60%	-62%	-61%	-47%	-37%	-22%	-9%	-4%	-4%	2%	0%	-2%	-11%	1%	-1%	2%
Light vehicle traffic	-47%	-82%	-82%	-83%	-79%	-58%	-49%	-30%	-12%	-8%	2%	-4%	-4%	-11%	1%	3%	1%
Domestic passenger flights	-18%	-81%	-99%	-99%	-99%	-98%	-98%	-95%	-81%	-71%	-59%	-57%	-57%	-57%	-53%	-34%	-33%
International arrivals	-99%	-100%	-100%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-98%	-99%	-98%	-99%	-99%
Hotel occupancy	-67%	-64%	-71%	-74%	-64%	-64%	-65%	-66%	-64%	-50%	-39%	-43%	-33%	-30%	-26%	-16%	-16%
Building consents	-80%	-31%	-56%	-55%	-11%	-30%	-31%	-19%	-13%	-23%	-40%	-25%	2%	-18%	-14%	-24%	-2%

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

Economy finding stability

The recovery heat map has stabilised in the past few weeks, with retail spending, vehicle traffic and electricity volumes all remaining at similar levels compared to the prior year. Credit spreads are stable and economic sentiment is improving. The rate of increase in both the number of Jobseeker/COVID-19 Income Relief Payment recipients and wage subsidy payments have been slowing. Despite promising vaccine news, the biggest risk to the recovery appears to be virus re-entry at this stage, as illustrated by the speed of escalation in Victoria (Australia).

Increased demand for domestic tourism

There appears to be strong demand for domestic tourism, as highlighted by another week of elevated levels of indicators exposed to travel, namely hotel occupancy and domestic passenger flights that are largely unchanged vs last week. This is supported by a report from Stats NZ Data Ventures that shows that at the peak of school holidays there were 550,000 Kiwi's out of their home region, with all regions experiencing an increase in domestic visitors compared to the same period last year. These indicators will likely reverse some of the gains made during the school holiday period over the coming weeks. However, Air New Zealand's (AIR; UNDERPERFORM) forward demand outlook has given it sufficient confidence to boost its domestic capacity in August from ~55% of pre COVID-19 levels to ~70%.

Stock implications

Mainfreight (MFT; OUTPERFORM) will be a beneficiary of the domestic recovery and current stable economic backdrop. Its New Zealand operations remain the largest contributor to group earnings (~43%). Recent domestic data bodes well for the company's 1Q21 trading update (June quarter) at its Annual Shareholder Meeting this week.

The Forsyth Barr COVID-19 recovery heat map

The 13 different data series provided in our heat map come from a variety of different sources as summarised in Figure 2.

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
Wage subsidy paid (NZ\$bn)	Ministry of Social Development	Total amount of government wage subsidy and wage subsidy extension paid
Jobseeker Support and CIRP recipients	Ministry of Social Development	Weekly number of Jobseeker support recipients vs prior year plus COVID-19 Income Relief Payment (CIRP) recipients
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
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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