

Equity Strategy

Recovery Heat Map; Stability Continues

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Our high frequency recovery heat map shows continued stability last week, with most indicators largely unchanged from the week prior. This steadiness will be helping trading conditions for domestic businesses, and is supported by comments from accounting software firm Xero (XRO) that highlight small business revenue has recovered to similar levels to last year during June 2019. There have been small week-on-week changes to indicators impacted by the school holidays, with workplace visitation improving and domestic passenger flights declining as families will have for the most part returned home, although hotel occupancy compared to the prior year continues to be strong, supported by inbound quarantine, and is unchanged from school holiday levels. Corporate bond spreads remain narrow, however, new issuance that has been announced may help relieve some of the demand pressure currently being experienced in debt markets.

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	24-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	-0.5
BBB credit spreads	284	303	280	256	240	226	211	198	189	179	178	173	166	144	147	144	144	143
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	13.0
Jobseeker Support/CIRP	15%	23%	27%	34%	38%	41%	42%	42%	42%	43%	43%	43%	45%	48%	50%	51%	52%	53%
Workplace visitation	-38%	-64%	-66%	-65%	-59%	-44%	-34%	-25%	-6%	-9%	-2%	0%	-1%	-2%	-10%	-10%	-8%	-3%
Credit card spending	-27%	-57%	-58%	-57%	-56%	-45%	-40%	-14%	-1%	-1%	0%	1%	-1%	-2%	2%	2%	2%	1%
Electricity volumes	-1%	-12%	-13%	-11%	-5%	-7%	3%	4%	5%	6%	-2%	4%	-1%	-3%	4%	5%	4%	3%
Heavy vehicle traffic	-29%	-60%	-62%	-61%	-47%	-37%	-22%	-9%	-4%	-4%	2%	0%	-2%	-11%	1%	-1%	2%	-1%
Light vehicle traffic	-47%	-82%	-82%	-83%	-79%	-58%	-49%	-30%	-12%	-8%	2%	-4%	-4%	-11%	1%	3%	1%	1%
Domestic passenger flights	-18%	-81%	-99%	-99%	-99%	-98%	-98%	-95%	-81%	-71%	-59%	-57%	-57%	-57%	-53%	-34%	-33%	-36%
International arrivals	-99%	-100%	-100%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-98%	-99%	-98%	-99%	-99%	-100%
Hotel occupancy	-67%	-64%	-71%	-74%	-64%	-64%	-65%	-66%	-64%	-50%	-39%	-43%	-33%	-30%	-26%	-16%	-16%	-16%
Building consents	-80%	-31%	-56%	-55%	-11%	-30%	-31%	-19%	-13%	-23%	-40%	-25%	2%	-18%	-14%	-24%	-2%	-12%

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

Workplace visitation rebounds

Workplace visitation was down -3% last week relative to pre COVID-19 levels according to Google's mobility data. Returning to work following school holidays will be a key driver. This is the highest level recorded in the past three weeks, and follows a swift recovery in late May/early June 2020 as New Zealand transitioned down the Alert Levels and then a subsequent decline due to school holidays.

Wage subsidy payments reducing

The weekly amount of the government wage subsidy paid has been slowly declining for the past few weeks, likely a function of most applicants having already applied for the wage subsidy extension by now. In order to qualify for the wage subsidy extension companies had to have experienced a -40% decline in profitability for the previous 30-day period. We expect an economic impact when the wage subsidy extension ends next month.. Unemployment is likely to rise, which will mean an increase in the number of Jobseeker/COVID-19 Income Relief Payment (CIRP) recipients.

Stock implications

Freightways (FRE; NEUTRAL) has benefitted from a significant lift in business-to-consumer (B2C) parcel volumes since Alert Level 3, given an ecommerce boom driven by greater online uptake among consumers. In contrast its higher margin business-to-business (B2B) segment, demand for which is more GDP related, will have taken longer to track back to prior year activity levels. However, in light of the clear improvement in, and stability of, underlying economic conditions in recent weeks, we suspect its B2B segment is now close to being on par with the prior year.

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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