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NEW ZEALAND EQUITY RESEARCH
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Equity Strategy
Recovery Heat Map; Four Months On

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Our COVID-19 domestic recovery heat map this week shows that there has been a small backward step in a number of indicators. Most notably both domestic passenger flights and hotel occupancy have dropped this week, possibly a delayed result of the school holidays ending. Corporate bond spreads have widened slightly, possibly due to new issuance announced, whilst vehicle traffic, electricity volumes and credit card spending remains stable. Unemployment data released last week for the June quarter positively surprised economists' expectations, Jobseeker Support and CIRP (COVID-19 Income Relief Payment) recipients continue to increase, albeit slowly. The New Zealand economy appears remarkably resilient at this stage of the recovery.

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	31-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	-0.6
BBB credit spreads	284	303	280	256	240	226	211	198	189	179	178	173	166	144	147	144	144	143	156
Wage subisdy 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	13.1
Jobseeker Support/CIRP	15%	23%	27%	34%	38%	41%	42%	42%	42%	43%	43%	43%	45%	48%	50%	51%	52%	53%	54%
Workplace visitation	-38%	-64%	-66%	-65%	-59%	-44%	-34%	-25%	-6%	-9%	-2%	0%	-1%	-2%	-10%	-10%	-8%	-3%	-9%
Credit card spending	-27%	-57%	-58%	-57%	-56%	-45%	-40%	-14%	-1%	-1%	0%	1%	-1%	-2%	2%	2%	2%	1%	0%
Electricity volumes	-1%	-12%	-13%	-11%	-5%	-7%	3%	4%	5%	6%	-2%	4%	-1%	-3%	4%	5%	4%	1%	1%
Heavy vehicle traffic	-29%	-60%	-62%	-61%	-47%	-37%	-22%	-9%	-4%	-4%	2%	0%	-2%	-11%	1%	-1%	2%	-1%	1%
Light vehicle traffic	-47%	-82%	-82%	-83%	-79%	-58%	-49%	-30%	-12%	-8%	2%	-4%	-4%	-11%	1%	3%	1%	1%	-1%
Domestic passenger flights	-18%	-81%	-99%	-99%	-99%	-98%	-98%	-95%	-81%	-71%	-59%	-57%	-57%	-57%	-53%	-34%	-33%	-36%	-40%
International arrivals	-99%	-100%	-100%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-98%	-99%	-98%	-99%	-99%	-100%	-99%
Hotel occupancy	-67%	-64%	-71%	-74%	-64%	-64%	-65%	-66%	-64%	-50%	-39%	-43%	-33%	-30%	-26%	-16%	-16%	-16%	-30%
Building consents	-80%	-31%	-56%	-55%	-11%	-30%	-31%	-19%	-13%	-23%	-40%	-25%	2%	-18%	-14%	-24%	-2%	-12%	-8%

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

Hotel occupancy drops

Hotel occupancy last week was -30% down compared to the same week last year. This is a sharp drop from the past three weeks that were all ~-16% down on last year (due largely to school holidays), however, this is still well above levels experienced through higher Alert Levels. Industry feedback suggest that occupancy is better than expected, with quarantine hotels in particular benefiting, and lower available capacity for leisure/business demand assisting (especially in Auckland).

Corporate bond spreads increase

BBB rated corporate bond spreads are at their highest level in six weeks, as the demand pressure in debt markets finds some relief due to the announcement of new issuance such as the new Wellington International Airport Bond. However, spreads remain narrow at 156bps, likely due to elevated demand as a result of the lower volatility in bond prices as well as the rolling off of older issuance. With potential new deals in the pipeline we expect this easing in spreads to be sustained over the coming weeks.

Stock implications

Although we acknowledge the volatility in building consent data, the general trend for residential consents appears robust, with levels tracking only slightly below that of last year. New Zealand residential construction makes up ~29% of Fletcher Building's (FBU; NEUTRAL) revenue, so the recovery in consents since Alert Level 4 will be supportive to FBU's current trading. Low interest rates and tight supply is likely to see residential consents remain strong in the near term, albeit there remains considerable uncertainty over the medium term outlook.

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 subisdy and wage subisdy 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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