NEW ZEALAND EQUITY RESEARCH
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Equity Strategy
Recovery Heat Map; Deteriorating

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Our high frequency COVID-19 heatmap shows a wide-scale decline across our indicators, a function of the return of community transmission in Auckland and corresponding Alert Level increases. Economic sentiment, domestic flights, workplace visitation and hotel occupancy all fell sharply last week. All indicators with the exception of electricity volumes deteriorated. Uncertainty has increased and the near term outlook appears more challenged, relative to the comfort of Alert Level 1. However, overall activity is holding up well, and ahead of the levels experienced during the transition from Alert Level 3 to 2, in early/mid May. In light of the government's approach to-date, a return of Alert Level 1 nationally is likely to be some weeks away, in our opinion.

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	07-Aug	14-Aug	21-Aug
Active COVID-19 cases	331	764	908	582	344	208	122	56	28	1	1	0	0	0	0	0	0	0	0	0	30	89
Alert Level	4	4	4	4	4	3	3	2	2	2	2	1	1	1	1	1	1	1	1	1	2.3*	2.3*
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	-0.4	-1.5	
BBB credit spreads	284	303	280	256	240	226	211	198	189	179	178	173	166	144	147	144	144	143	136	134	137	
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	13.1	13.2	
Jobseeker Support/CIRP	15%	23%	27%	34%	38%	41%	42%	42%	42%	43%	43%	43%	45%	48%	50%	51%	52%	53%	54%	54%	55%	
Workplace visitation	-38%	-64%	-66%	-65%	-59%	-44%	-34%	-25%	-6%	-9%	-2%	0%	-1%	-2%	-10%	-10%	-8%	-3%	-9%	-10%	-23%	
Credit card spending	-27%	-57%	-58%	-57%	-56%	-45%	-40%	-14%	-1%	-1%	0%	1%	-1%	-2%	2%	2%	2%	1%	0%	1%	-3%	
Electricity volumes	-1%	-12%	-13%	-11%	-5%	-7%	3%	4%	5%	6%	-2%	4%	-1%	-3%	4%	5%	4%	1%	1%	-4%	2%	
Heavy vehicle traffic	-29%	-60%	-62%	-61%	-47%	-37%	-22%	-9%	-4%	-4%	2%	0%	-2%	-11%	1%	-1%	2%	-1%	1%	4%	0%	
Light vehicle traffic	-47%	-82%	-82%	-83%	-79%	-58%	-49%	-30%	-12%	-8%	2%	-4%	-4%	-11%	1%	3%	1%	1%	-1%	4%	-11%	
Domestic passenger flights	-18%	-81%	-99%	-99%	-99%	-98%	-98%	-95%	-81%	-71%	-59%	-57%	-57%	-57%	-53%	-34%	-33%	-36%	-40%	-38%	-41%	-78%
International arrivals	-99%	-100%	-100%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-98%	-99%	-98%	-99%	-99%	-100%	-99%	-99%	-98%	
Hotel occupancy	-67%	-64%	-71%	-74%	-64%	-64%	-65%	-66%	-64%	-50%	-39%	-43%	-33%	-30%	-26%	-16%	-16%	-16%	-30%	-26%	-40%	
Building consents	-80%	-31%	-56%	-55%	-11%	-30%	-31%	-19%	-13%	-23%	-40%	-25%	2%	-18%	-14%	-24%	-2%	-12%	-8%	-2%	-3%	

Source: Forsyth Barr analysis

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

* weighted average Alert Level for New Zealand based on population

Economic sentiment

The resurgence of COVID-19 in the community has caused weekly domestic economic sentiment to its lowest since the start of Alert Level 4. The data, provided by The GDELT Project, had stabilised in the prior five weeks, however, the increase in Alert Levels to Level 3 in Auckland, and Level 2 through the rest of the country has had a sharp negative impact on confidence. The realisation that our borders are not COVID-19 proof will weigh heavily on sentiment, not least given the difficulty/uncertainty of planning personal or business diaries, for the immediate future.

Domestic flights

Domestic passenger flights arriving in Auckland were down -78% versus pre-COVID-19 levels in the week ending 21 August, which compares to the previous three weeks averaging ~-40%. Flights in and out of Auckland are currently restricted to essential travel or those returning home. Flights to or from other centres in New Zealand have to observe social distancing under Alert Level 2, which limits effective capacity and load factors (i.e. empty middle seats).

Stock implications

Air New Zealand (AIR; UNDERPERFORM) and Auckland Airport (AIA; NEUTRAL) both experienced a sharp recovery in domestic air travel through Alert Level 1. However, the Alert Level increases on 12 August has dramatically reduced domestic passenger traffic. Notwithstanding the additional wage subsidy, which both companies will likely qualify for, their respective rates of cash burn will deteriorate at least temporarily. There is a wide margin for error in estimating the profile and duration of the aviation recovery. We expect international passenger demand to return to FY19 levels in FY25.

The Forsyth Barr COVID-19 recovery heat map

The 15 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
Domestic COVID-19 cases	Ministry of Health	Active COVID-19 cases as at reported day, excluding cases that originated in border quarantine
Alert Level	Ministry of Health	Weighted average of Alert Level by popluation distribution
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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