

Equity Strategy

Recovery Heat Map; Waiting on the World to Change

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Our COVID-19 recovery heatmap has shown a broad improvement in the last week, albeit indicators remain well below levels experienced prior to the re-escalation of the Alert Levels. The number of active cases in the community has fallen to 75. The government claims to have largely controlled the South Auckland cluster and consequently has lowered Auckland's Alert Level to '2.5'. Domestic passenger flights have increased sharply, as Aucklanders who have been unable to travel in recent weeks took advantage of fewer restrictions. There is also improvements evident in vehicle traffic and workplace visitation.

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 | 28-Aug | 04-Sep |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 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 | 113 | 75 |
| 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* | 2.3* | 2.2* |
| 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 | -1.2 | -1.3 | |
| BBB credit spreads | 284 | 303 | 280 | 256 | 240 | 226 | 211 | 198 | 189 | 179 | 178 | 173 | 166 | 144 | 147 | 144 | 144 | 143 | 136 | 134 | 137 | 135 | 133 | |
| 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 | 13.1 | 13.1 | 13.2 | 13.4 | 13.7 | |
| Jobseeker Support/CIRP | 15% | 23% | 27% | 34% | 38% | 41% | 42% | 42% | 43% | 43% | 43% | 43% | 45% | 48% | 50% | 51% | 52% | 53% | 54% | 54% | 55% | 56% | 57% | |
| Workplace visitation | -38% | -64% | -66% | -65% | -59% | -44% | -34% | -25% | -6% | -9% | -2% | 0% | -1% | -2% | -10% | -10% | -8% | -3% | -9% | -10% | -23% | -22% | -19% | |
| Credit card spending | -27% | -57% | -58% | -57% | -56% | -45% | -40% | -14% | -1% | -1% | 0% | 1% | -1% | -2% | 2% | 2% | 2% | 1% | 0% | 1% | -3% | -18% | -17% | |
| Electricity volumes | -1% | -12% | -13% | -11% | -5% | -7% | 3% | 4% | 5% | 6% | -2% | 4% | -1% | -3% | 4% | 5% | 4% | 1% | 1% | -4% | 2% | -1% | 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% | -8% | -7% | |
| Light vehicle traffic | -47% | -82% | -82% | -83% | -79% | -58% | -49% | -30% | -12% | -8% | 2% | -4% | -4% | -11% | 1% | 3% | 1% | 1% | -1% | 4% | -11% | -27% | -22% | |
| 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% | -92% | -59% |
| International arrivals | -99% | -100% | -100% | -99% | -99% | -99% | -99% | -99% | -99% | -99% | -99% | -99% | -99% | -98% | -99% | -99% | -99% | -100% | -99% | -99% | -98% | -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% | -4% | 5% | |

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

Aucklanders fly after lockdown

Domestic passenger flight arrivals into Auckland Airport (AIA) have improved materially this week, down -59% on a pre COVID-19 average, compared to -92% down in the week prior. This follows the c.2.5 weeks that Auckland endured at Alert Level 3 with travel restrictions to/from the rest of New Zealand. The increase in domestic air travel will be overstated at a passenger level due to necessary social distancing measures (i.e. no middle seat) on aircraft. Unless the government eases this control measure, the ability of airlines to fly commercially at Alert Level 2 (or 2.5) is significantly compromised.

Lack of confidence persists

Economic sentiment data provided by the GDELT Project remains at depressed levels, down to -1.3 last week. This sustained lack of confidence is likely a result of the re emergence of COVID-19. The data is supported by another week of reduced credit card spending which was down -17% on the same week last year. We expect economic confidence and private consumption to experience a step improvement in next week's data, which will capture Auckland's move to Alert Level 2.5.

Stock implications

The recent sharp, albeit possibly temporary, reduction in both light and heavy vehicle traffic will have further reduced demand for Refining NZ's (NZR; NEUTRAL) fuel processing capacity, exacerbating the impact from reduced aviation demand. NZR is currently operating in a 'dialled-down' mode. We expect NZR to remain in this low output mode for the remainder of 2020 and NZR's earnings are stemming largely from fee-floor top up payments. The small improvement in the Singapore Dubai refining margin in recent weeks will be a small positive for the refinery.

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 population 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 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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