

Equity Strategy

Recovery Heat Map; School Holiday Boost

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This week's update of our COVID-19 recovery heat map shows the significant impact of school holidays on domestic tourism, and a sense of stability in key economic activity measures, though unemployment continues to drift higher. Domestic passenger flights have increased sharply in the past week and hotel occupancy has enjoyed another strong week of improvement, helped by both domestic tourism and higher numbers of quarantined arrivals. Vehicle traffic, retail spending and general economic sentiment appear stable. However, both wage subsidy payments and Jobseeker/COVID-19 Income Relief Payment recipients continue to rise steadily week on week. The underlying impact of COVID-19 on the economic base rate of activity is, and will remain, clouded by a number of factors given (1) school holidays, (2) the wage subsidy ending, (3) the typically more conservative consumption trends pre-election, and (4) increasing optimism over a vaccine solution.

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
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
BBB credit spreads	284	303	280	256	240	226	211	198	189	179	178	173	166	144	147	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	12.8	13.5	14.3	14.7
Jobseeker Support/CIRP	15%	23%	27%	34%	38%	41%	42%	42%	42%	43%	43%	43%	45%	48%	50%	51%
Workplace visitation	-38%	-64%	-66%	-65%	-59%	-44%	-34%	-25%	-6%	-9%	-2%	0%	-1%	-2%	-10%	-10%
Credit card spending	-27%	-57%	-58%	-57%	-56%	-45%	-40%	-14%	-1%	-1%	0%	1%	-1%	-2%	2%	2%
Electricity volumes	-1%	-12%	-13%	-11%	-5%	-7%	3%	4%	5%	6%	-2%	4%	-1%	-3%	4%	5%
Heavy vehicle traffic	-29%	-60%	-62%	-61%	-47%	-37%	-22%	-9%	-4%	-4%	2%	0%	-2%	-11%	1%	-1%
Light vehicle traffic	-47%	-82%	-82%	-83%	-79%	-58%	-49%	-30%	-12%	-8%	2%	-4%	-4%	-12%	1%	2%
Domestic passenger flights	-18%	-81%	-99%	-99%	-99%	-98%	-98%	-95%	-81%	-71%	-59%	-57%	-57%	-57%	-53%	-34%
International arrivals	-99%	-100%	-100%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-98%	-99%	-98%	-99%
Hotel occupancy	-67%	-64%	-71%	-74%	-64%	-64%	-65%	-66%	-64%	-50%	-39%	-43%	-33%	-30%	-26%	-16%
Building consents	-80%	-31%	-56%	-55%	-11%	-30%	-31%	-19%	-13%	-23%	-40%	-25%	2%	-18%	-14%	-24%

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

Strong rally in domestic air travel

Domestic passenger flights have recovered to their highest level since the first week of Alert Level 4. The principal driver of this surge is the first week of school holidays. Air New Zealand (AIR) announced it was putting on 268 extra flights to meet the school holiday demand, as well as using its 787-9 Dreamliners between Auckland and Christchurch, an aircraft that the airline would usually reserve solely for international travel. Due to the Dreamliner having much larger seat capacity the number of passengers travelling may be more pronounced than the number of flights. We expect domestic air travel to remain elevated for at least another week given school holidays, however, we expect demand will likely fall back thereafter.

Economic sentiment continues to improve

The New Zealand domestic economic sentiment index recorded by GDEL has improved again this week, making it the third consecutive week of improvement. This is supported by retail credit card spending remaining elevated week to week at +2% above the same week last year and stable vehicle traffic stats. These indicators are supportive of the broader domestic recovery, however, we are wary of the impact of government stimulus falling away over the next few months.

Stock implications

Air New Zealand (AIR; UNDERPERFORM) and Auckland Airport (AIA; NEUTRAL) will both be benefiting from the spike in domestic air travel experienced in the last week, however, we expect this to be a temporary lift in leisure demand. The prospect of a trans-Tasman bubble opening this year is evaporating quickly, given rising COVID-19 case numbers in Australia, and while there is scope for other air bridges to open (i.e. Cook Islands) the earnings impact for both AIR and AIA would likely be small.

The Forsyth Barr COVID-19 recovery heat map

The 14 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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