FORSYTH BARR

NEW ZEALAND EQUITY RESEARCH
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Equity Strategy
Recovery Heat Map; Progress Slowing

ANDY BOWLEY
andy.bowley@forsythbarr.co.nz
+64 4 495 8246

SCOTT ANDERSON
scott.anderson@forsythbarr.co.nz
+64 4 914 2219

FORSYTH BARR RESEARCH TEAM
fb.research@forsythbarr.co.nz
+64 4 499 7464

Our high frequency data heat map shows that New Zealand's economic recovery has slowed as consumer behaviour closes in on pre-COVID levels. Real time data points show that early Alert Level 1 activity appears similar to late Alert Level 2. Notwithstanding the ending of the government's first wage subsidy, Jobseeker Support and COVID-19 Income Relief Payment (CIRP) recipients remain broadly static. We expect this to change over the coming weeks as redundancy programmes are concluded. Following almost four weeks of no new COVID-19 cases, seven new cases were reported over the past week, all directly related to inbound travellers. The significant public and political response to the relaxing of quarantine measures infers a meaningful delay to a potential trans-Tasman bubble; prolonging the recovery profile for travel and tourism related companies.

Figure 1. Forsyth Barr COVID-19 recovery heat map

Week ending	27-Mar-20	03-Apr-20	10-Apr-20	17-Apr-20	24-Apr-20	01-May-20	08-May-20	15-May-20	22-May-20	29-May-20	05-Jun-20	12-Jun-20
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
BBB credit spreads	284	303	280	256	240	226	211	198	189	179	178	173
Jobseeker Support/CIRP	15%	23%	27%	34%	38%	41%	42%	42%	42%	43%	43%	43%
Workplace visitation	-38%	-64%	-66%	-65%	-59%	-44%	-34%	-25%	-6%	-9%	-2%	0%
Credit card spending	-27%	-57%	-58%	-57%	-56%	-45%	-40%	-14%	-1%	-1%	0%	1%
Electricity volumes	-1%	-12%	-13%	-11%	-5%	-7%	3%	4%	5%	6%	-2%	-1%
Retail fuel volumes	-36%	-75%	-74%	-74%	-68%	-51%	-41%	-29%	-19%	-19%	-18%	-12%
Commercial diesel volumes	-27%	-52%	-58%	-56%	-49%	-27%	-6%	-4%	-3%	-8%	-22%	-11%
Heavy vehicle traffic	-29%	-60%	-62%	-61%	-47%	-37%	-22%	-9%	-4%	-4%	2%	0%
Light vehicle traffic	-47%	-82%	-82%	-83%	-79%	-58%	-49%	-30%	-12%	-8%	2%	-4%
Domestic passenger flights	-18%	-81%	-99%	-99%	-99%	-98%	-98%	-95%	-81%	-71%	-59%	-57%
International arrivals	-99%	-100%	-100%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%	-99%
Hotel occupancy	-67%	-64%	-71%	-74%	-64%	-64%	-65%	-66%	-64%	-50%	-39%	-43%
Building consents	-80%	-33%	-57%	-56%	-9%	-32%	-33%	-21%	-16%	-26%	-46%	-28%

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

Negative economic sentiment disconnect with spending

Credit card data indicates that retail spending for the week ending 12 June 2020 is now above that of the same week in 2019. This recovery trend is contrary to economic sentiment which remains negative. We suspect consumers are continuing to use cash savings made in Alert Levels 4 and 3 to fund pent-up demand.

Hitting the highways

Heavy vehicle traffic is at or above prior year levels, highlighting the resurgence of the domestic freight market. However, it remains unclear how much of current activity reflects pent-up consumer demand or supply chain restocking. In contrast, light vehicle traffic remains below prior year levels and is consistent with lower retail fuel volumes, despite workplace visitation data suggesting a return to normal.

Stock implications

Consumption trends are supportive to domestic retailers, particularly where e-commerce fulfilment is a profitable and growing part of their business, such as Kathmandu (KMD; OUTPERFORM) and Briscoe (BGP; no rating). The latter will benefit from surging homeware growth, which is leading retail category growth through both physical and online channels. In addition, the shift from Alert Level 2 to 1 provided a welcome boost to companies exposed to social distancing requirements including SKYCITY (SKC; OUTPERFORM) and Air New Zealand (AIR; UNDERPERFORM). SKC mentioned this week that its visitation numbers are tracking above expectations. AIR's domestic services have benefited from greater load factors with the ending of 'middle seat' restrictions.

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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
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
Retail fuel volumes	Z Energy	Weekly retail road fuel consumption vs pre COVID-19 average
Commercial diesel volumes	Z Energy	Weekly commercial diesel consumption vs pre-COVID average
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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