

FOCUS

SPECIAL REPORT

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Living in a bubble

It really is quite remarkable how quickly the world can change. Two months ago most New Zealanders were happily enjoying summer. Most of us had never heard the terms coronavirus, social distancing or self-isolation before. Today we're living in our bubble, hoping it's only for three more weeks, but nervously suspecting it might be longer. The future is uncertain. If it wasn't, investing would be easy.

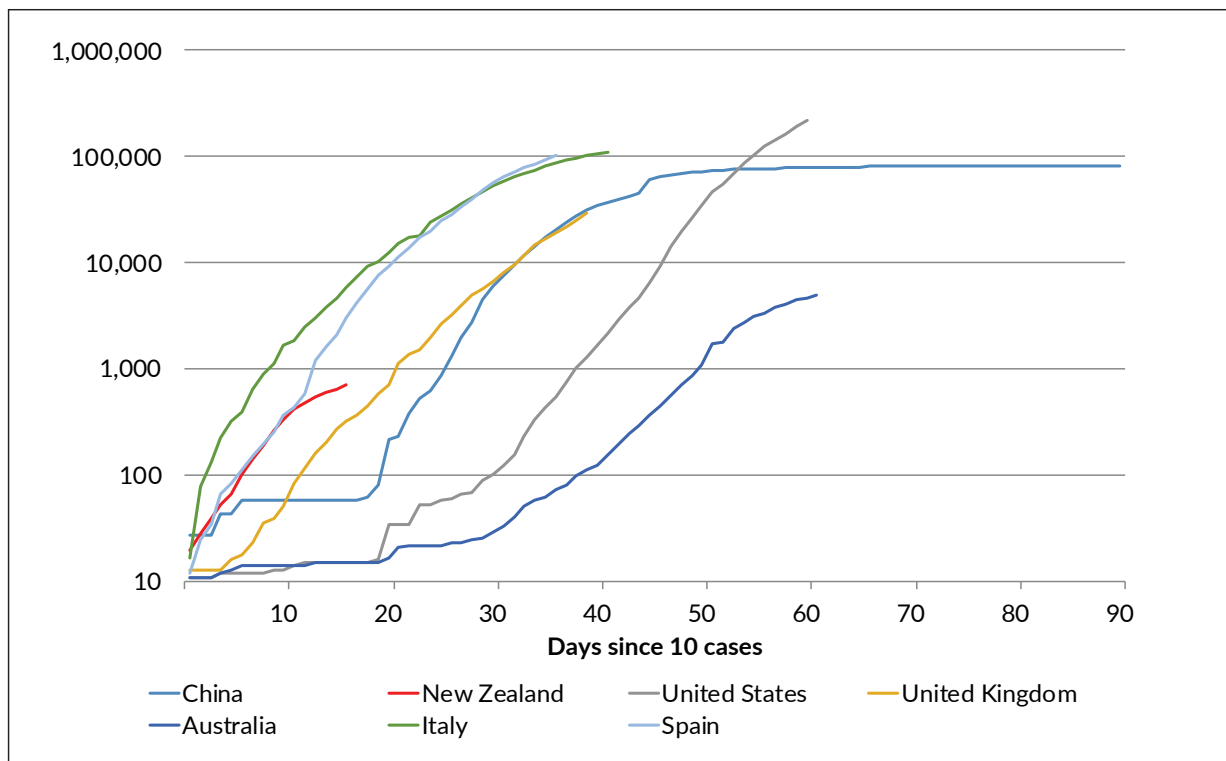
Lockdown

Governments around the world have grappled with how to respond to COVID-19. Choices are not straightforward. It's still unclear how contagious and fatal the virus is, or how effective and costly containment measures will be.

Measures such as quarantining, social distancing and travel restrictions aim to save lives and stop health systems from being overwhelmed as they have been in places like Wuhan in China, Italy, and Spain, and increasingly in the UK and parts of the United States. Locking down an economy does, however, come at a significant cost. Businesses fail. People lose jobs. And the evidence is clear, greater unemployment, and the stress it causes, results in an increase in all manner of social ills.

New Zealand, as an island nation in a far corner of the world, has (hopefully) had the benefit of forewarning. We saw the impact of the virus's uncontained spread in other countries before it gained a firm foothold here. The aim of the lockdown is to stop the virus altogether. If not completely successful, at least it will slow the spread, preventing our health system from being overwhelmed.

Total reported COVID-19 cases (exponential scale)



Source: WHO, Forsyth Barr Analysis

A high cost

A lockdown requires shutting down a large part of the economy. A big reduction in economic activity is unavoidable. Economists are forecasting New Zealand's GDP will fall anywhere between -10% and -33% in the June quarter. Unemployment is forecast to spike to 10%.

When the lockdown ends, and people are allowed back in shops and back at work there will a sharp recovery. But it won't be back to where we were before. Economic damage will have been done. Sectors like tourism may take a long time to recover. Some businesses will have failed. Jobs will have been lost. Debt will be higher, making businesses less willing to invest. Consumers' assets will have fallen in value, and incomes will be lower, making them more cautious.

Government's role

Government has two critical roles to limit long-term damage to the economy. Firstly, preserving jobs and businesses through the lockdown. And secondly, supporting the recovery on the other side. This will not be cheap.

Fortunately, the New Zealand government entered the crisis with a strong balance sheet and well positioned to respond. To date, it has announced around NZ\$18 billion of support measures including an NZ\$8 billion to \$12 billion wage subsidy scheme, and NZ\$6.25 billion loan scheme for small and medium-sized businesses (SMEs). Implementation of these schemes is just as important as the amount of dollars committed. We hear firms have been able to access cash quickly with minimal fuss. This is critical for keeping businesses solvent and people in jobs.

Once we are out of the crisis, policymakers will have a key role in supporting a recovery. The Reserve Bank (RBNZ) will undoubtedly keep interest rates low. Government will need to step in to replace some of the private sector demand that will be lost. As an example, it is already looking to accelerate and expand its substantial infrastructure investment programme.



It's not all bad

Despite all this, and despite being confined to home for at least the next three weeks, New Zealand is in a relatively fortunate position. Our government entered the crisis in a strong financial position. It reacted quicker than most others to try and contain the virus. We have a high quality health system, albeit without much surplus capacity if the spread of the virus escalates. Supply chains for essential goods appear to be operating well (with the exception of flour ... everyone is a baker now). We are a net producer of food, and demand for our agricultural and horticultural products will remain strong. Export earnings will be helped by the lower New Zealand dollar, and China, our biggest trading partner, appears to have contained the virus and its economic activity is steadily recovering.

The future and investing is always uncertain

The future is always uncertain. When things are settled, the outlook feels predictable. But it's not. At the beginning of 2020 no one thought half the world would be in lockdown only three months later.

Conversely, when we're in the midst of a crisis the risks and uncertainties feel enormous. We don't know exactly how and when New Zealand and the world will navigate out of the COVID-19 crisis. The virus could be contained by social isolation policies, a medical treatment or a vaccine could be found, or we could get to herd immunity when enough of the population has been infected that the virus is no longer able to spread. What we do know for sure, however, is that a pandemic will ultimately pass.

A key part of investing is about recognising uncertainty and that a range of different outcomes (both positive and negative) are possible. Long-term investors understand the need to navigate tough times – recessions, financial crises, terrorist attacks, pandemics – to capture the benefit of the good times. No one can tell you for certain whether the market bottom is behind us or ahead of us. We can tell you that good opportunities do emerge during periods of market distress. At Forsyth Barr we continue to work hard to find opportunities that will benefit portfolios in the years ahead.



We hope you and your loved ones remain safe. As communicated last week, the entire Forsyth Barr team remains available at all times to respond to any needs you may have for investment advice, broking or portfolio management services.

Matt Henry
Head of Wealth Management Research

Continues



Forsyth Barr donates \$200,000 to community

As everyone adapts to life in isolation, it's clear that while the impact is widespread it is not being evenly felt – there are some New Zealanders who have been seriously impacted, have lost their jobs or income, and are struggling. There has been a significant increase in the number of people relying on food parcels to feed their families. This is forecast to become a much bigger problem in the coming weeks.

Recognising this urgent community need, Forsyth Barr has made donations to The Foodbank Project and KiwiHarvest. These organisations are doing valuable work ensuring that people who are severely-impacted are supported and have access to food parcels.

- The Foodbank Project works closely with the Salvation Army, and we join Countdown and Zuru as supporters (Zuru is matching dollar-for-dollar public donations to the initiative). Seven Sharp covered the work of The Foodbank Project, and Zuru and Forsyth Barr's involvement, in a recent story.
- KiwiHarvest is a national food rescue charity that collects food before it goes to waste and distributes it to those in need. KiwiHarvest is also chaired by Forsyth Barr Chairman, David Kirk.

The \$200,000 donation combines a donation Forsyth Barr decided to make as a business along with the proceeds from brokerage generated on institutional transactions undertaken on Thursday, 2 April (kindly supported by Forsyth Barr's institutional fund manager clients).

We applaud all those who are already supporting the many organisations nationwide supporting our communities. We encourage anyone who is in a position to do so to consider joining us in donating to The Foodbank Project or KiwiHarvest.

As Forsyth Barr, we speak proudly of being a New Zealand-owned business. We are fortunate to be in a position to support two great organisations helping parts of our communities that are struggling.