

# **Navigating the COVID-19 crisis**

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**Update on the impacts of recession in New Zealand**

**1 May 2020**

**STAKEHOLDER  
STRATEGIES**

# INTRODUCTION

Today's update is the third in our series on navigating the COVID-19 crisis

- The first update provided a high-level overview of the crisis and can be found [here](#)
- The second update outlined why we think the recession will likely be long and severe and can be found [here](#)
- Today's update seeks to identify which industries and communities will be most affected by the crisis
- The fourth update will focus on post-crisis scenarios and will be shared next week

We are sharing our knowledge and conclusions to contribute to New Zealanders' shared understanding of the COVID-19 event.

Content presented should be considered “draft” and “work-in-progress”

- It is not complete without accompanying verbal commentary
- The situation is changing rapidly, and our thinking is evolving. It is likely that some content will be out of date quickly

More information on Stakeholder Strategies can be found at [www.stakeholderstrategies.co.nz](http://www.stakeholderstrategies.co.nz) and you can sign up to receive our COVID-19 research summaries [here](#)

# THE IMPACT OF COVID-19 WILL DIFFER GREATLY

Recap: New Zealanders should plan for a long and severe economic downturn

- Detailed rationale [here](#)

Many local industries are threatened by the COVID-19 crisis

- New Zealand's main trading partners appear to have contained the virus
- Export of goods is down, except for dairy and fruit, and especially to China
- Many of New Zealand's largest sectors are exposed to material downside from a recession
- Global outlook for key industries is similarly negative but averages hide large differences
- Capital is a source of advantage for those with strong balance sheets

The impact on regions and households will also be unequal and driven by dependence on exposed industries. For example:

- Many businesses will still be financially exposed once the lockdown is lifted
- Public health restrictions disproportionately felt by individuals in lower income jobs
- Maori and Pasifika unemployment rates are already high and were hit hard by the GFC

Policymakers should plan for likely deteriorating outcomes on important wellbeing indicators

The time to act to avoid undesirable outcomes is now

# RECAP: NEW ZEALANDERS SHOULD PLAN FOR A LONG AND SEVERE ECONOMIC DOWNTURN

New Zealand seems well placed to manage the epidemic and economic situation

However, the economic outcome in New Zealand will depend on what happens in the rest of the world

The global economic downturn appears likely to be long and severe and more likely to be U or L-shaped than V-shaped

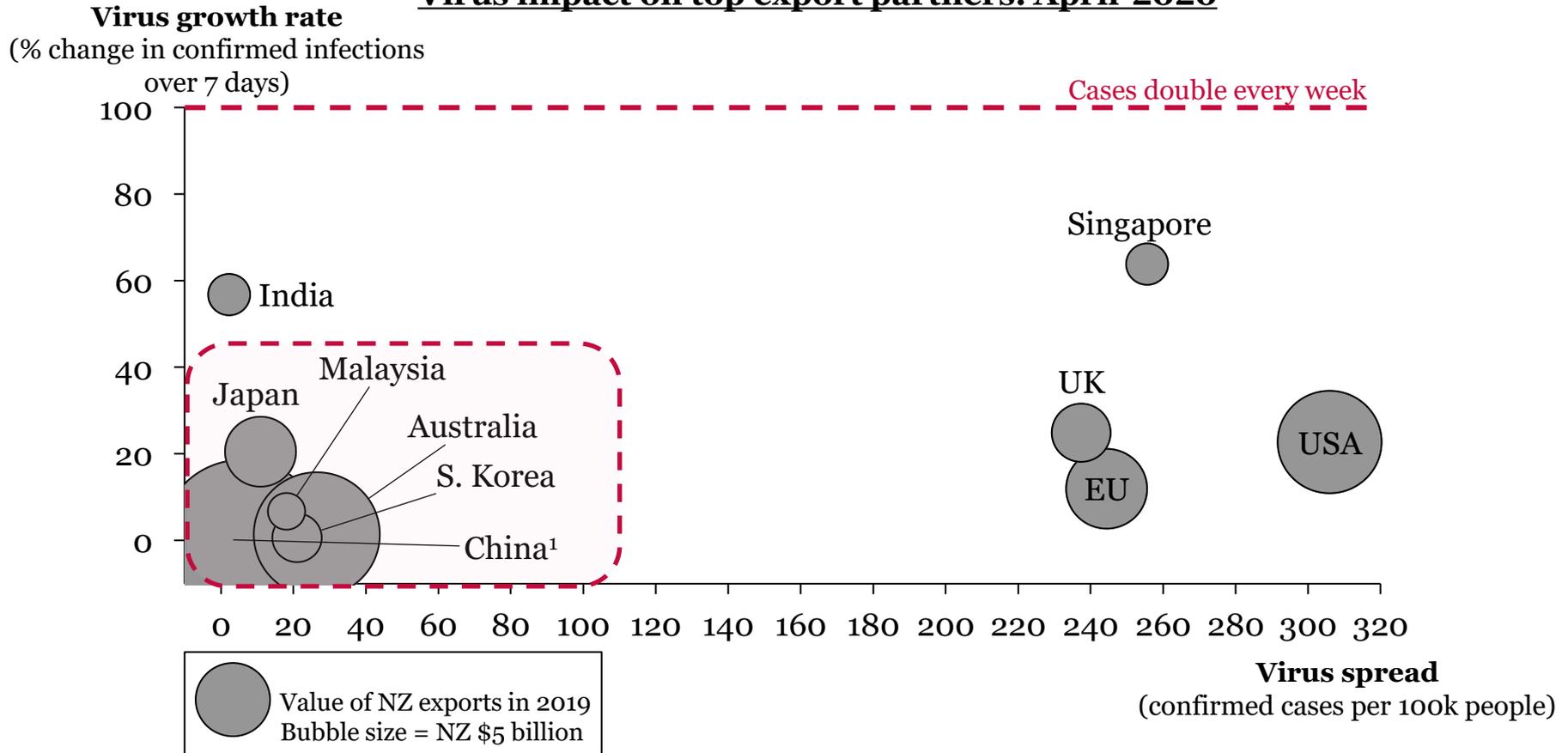
- BCG's April 24 Investor Pulse Check found that only 9% of surveyed investors thought the US economy's recovery would be V-shaped, down from 12% two weeks prior<sup>1</sup>

So despite our advantaged position, a V-shaped recovery for New Zealand is unlikely

- High rates of unemployment likely as insolvencies continue
- Supply chain disruptions will continue as recurrent waves of infections occur
- A financial crisis is possible

# NEW ZEALAND'S MAIN TRADING PARTNERS APPEAR TO HAVE CONTAINED THE VIRUS

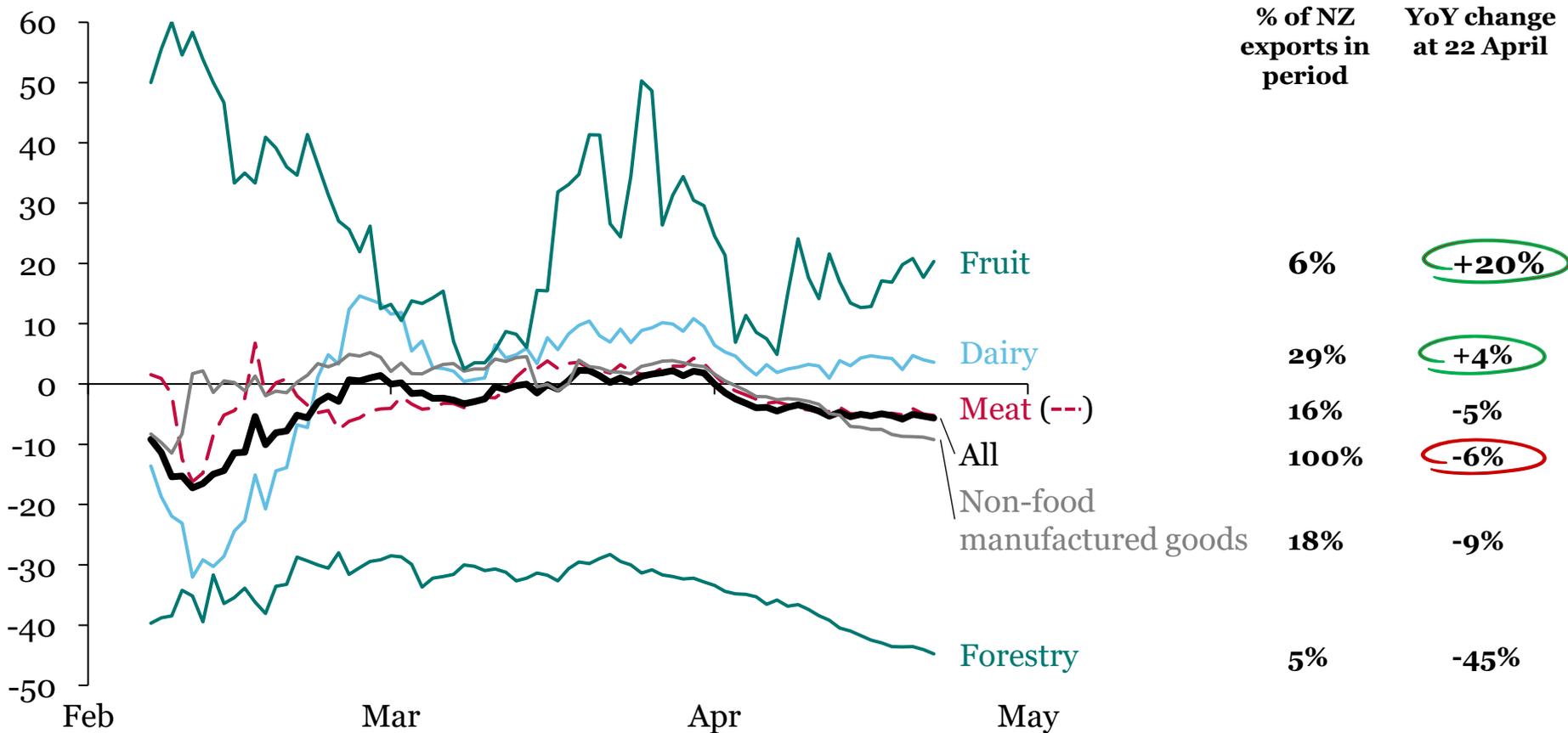
## Virus impact on top export partners: April-2020



But recurrent waves of infection should be anticipated

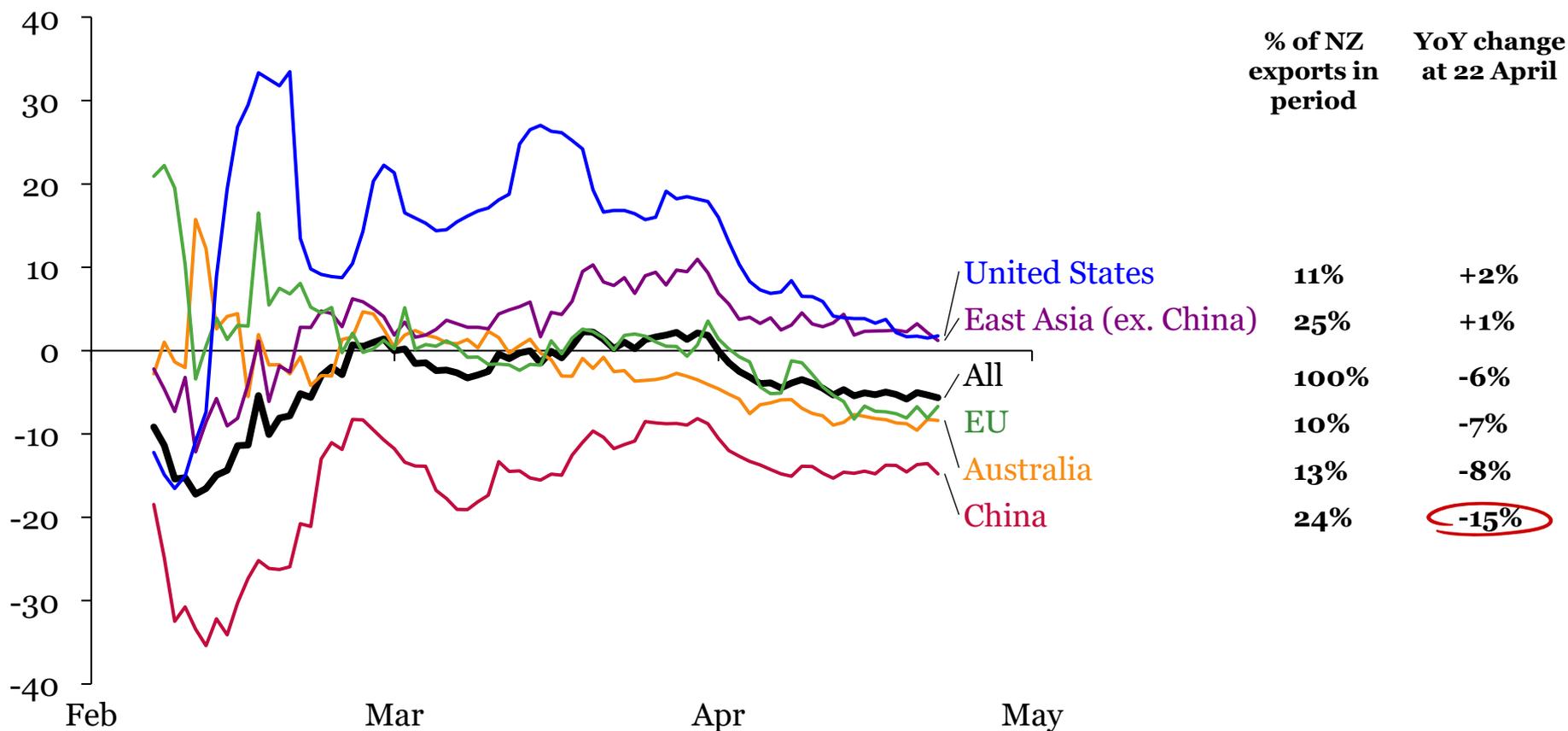
# EXPORT RECEIPTS ARE DOWN, EXCEPT FOR DAIRY AND FRUIT

Export value of goods from New Zealand  
(Cumulative YoY change, %)



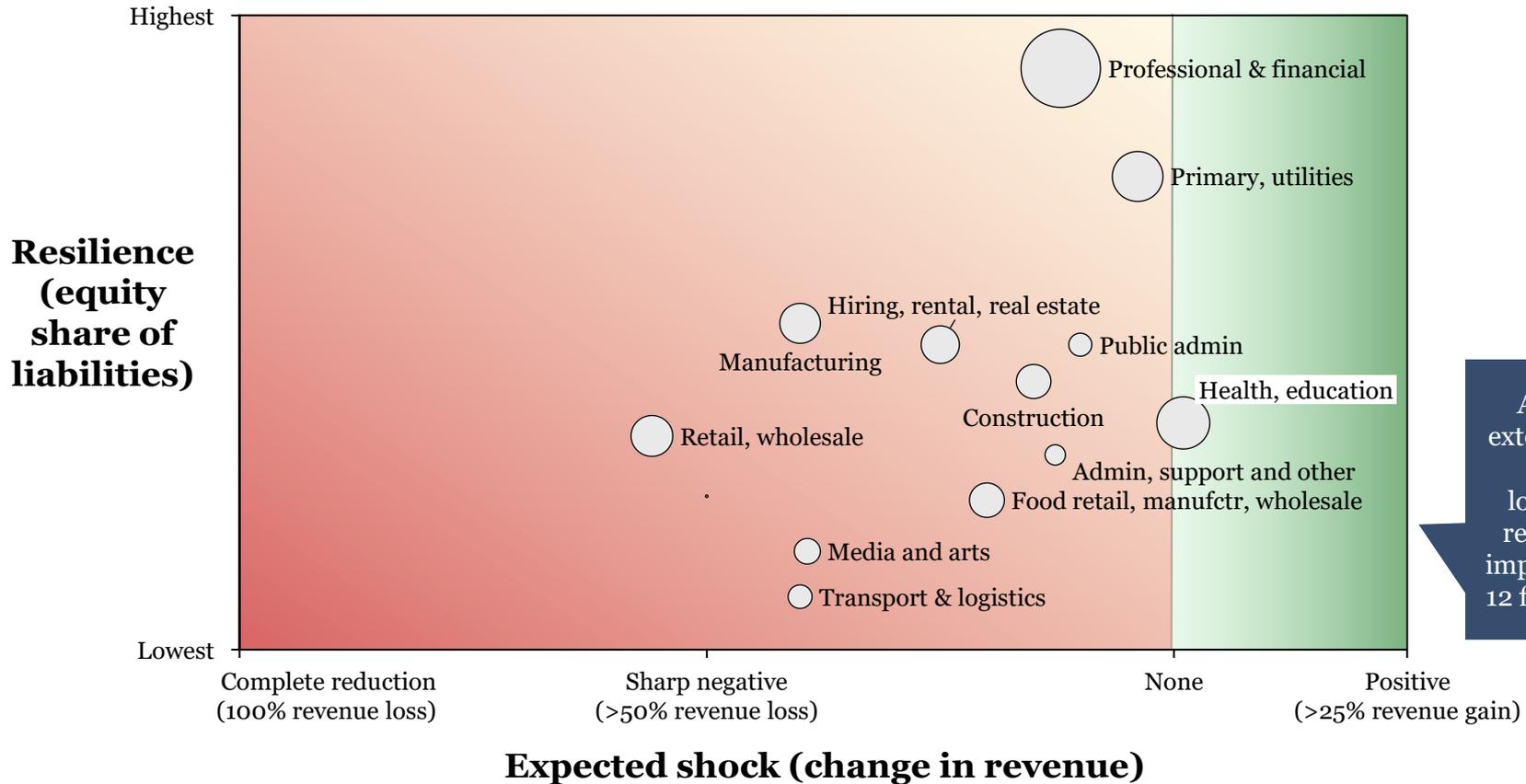
# EXPORT VALUE TO CHINA DOWN 15% VS FEBRUARY TO APRIL LAST YEAR

Export value of goods from New Zealand  
(Cumulative YoY change, %)



# MANY OF NZ'S INDUSTRIES ARE EXPOSED TO MATERIAL DOWNSIDE FROM A RECESSION

Estimated impact of the recession by industry



Analysis can extend to include impacts of lockdown and region-specific impacts. See slide 12 for an example

Sources: Equity share of liabilities from StatsNZ Annual Enterprise Survey, 2018. GDP from StatsNZ, 2019. Expected shock adapted from international research, based on ShS industry experience.

# GLOBAL OUTLOOK FOR KEY INDUSTRIES IS SIMILARLY NEGATIVE...

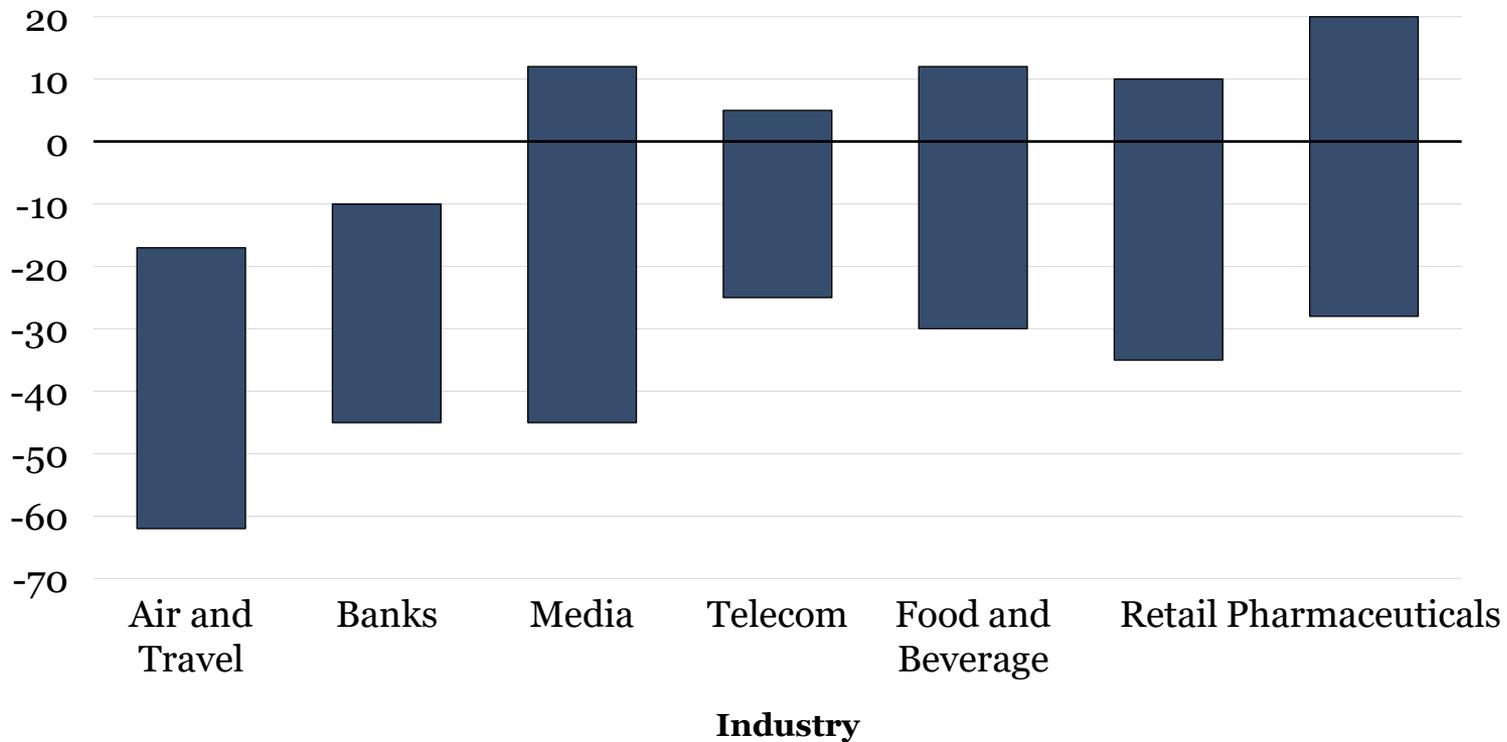
Industry	Avg. stock price change <sup>1</sup>	Examples of industry specific impact
<b>Air and Travel</b>	-36%	<ul style="list-style-type: none"> <li>70-80% initial demand hit due to travel bans</li> <li>Peak summer travel period in N. Hemisphere impacted</li> <li>US and other governments providing grants or other assistance, but only expected to last 2-6 months</li> <li>Int. travel expected to be hit twice as hard as domestic</li> </ul>
<b>Oil and Gas</b>	-34%	<ul style="list-style-type: none"> <li>Impacted on two fronts, with demand collapse due to COVID-19, and oversupply due to OPEC negotiation issues</li> <li>Erosion of gas and energy demand due to shutdowns</li> <li>Prices expected to be depressed for 1-2 years</li> </ul>
<b>Insurance</b>	-22%	<ul style="list-style-type: none"> <li>Life and health insurers hit by immediate health impact</li> <li>New business and underwriting impacted by medical underwriting not able to take place</li> <li>Global lockdowns forced insurers to extend grace periods for renewing policies for 15 to 30+ days, which will decrease premiums in 2020</li> </ul>
<b>Automotive</b>	-21%	<ul style="list-style-type: none"> <li>Existing issues (trade war, declining sales) amplified by sharp drop in global demand</li> <li>Initial research suggests US car buyers deferring purchase by 6+ months or no longer planning to purchase</li> <li>15% volume decline in China, 25-30% in EU and US</li> <li>Supply chain disruptions further damaging industry</li> </ul>

Source: Adapted from McKinsey COVID-19 implications for business, 13<sup>th</sup> April.

1. Stock price change in last 30 days for selected industry indices.

# ...THOUGH AVERAGES HIDE LARGE DIFFERENCES IN PERFORMANCE WITHIN INDUSTRIES

**Distribution of year-to-date total shareholder returns by industry**  
(% returns, global top 3000 companies by 2019 market cap)



■ 90<sup>th</sup> percentile range of performance within industry

# CAPITAL IS A SOURCE OF ADVANTAGE FOR THOSE WITH STRONG BALANCE SHEETS

## For investors

### BAU sources of capital to enable SME growth likely to become constrained

- Retained earnings threatened by lockdown and recession
- Ability to raise debt threatened by balance sheet stress and banks' risk appetite
- New equity from existing investors may be harder to access (less discretionary capital available, lower risk appetite)

### New acquisition opportunities

- If you can fund through to when recovery begins

“Private-equity firms, which have mountains of committed investor cash, may start buying up fundamentally sound but impecunious suppliers in various industries, aware that when demand returns such companies will see its first fruits.”

*The Economist,  
The Changes COVID-19 Is Forcing On To Business*

## For companies

**Ability to fund operations through crisis and downturn will become a source of advantage in disrupted industries**

**Making strategic plays and taking a long-term perspective were key drivers of TSR differences during the GFC**

“Top 20% of companies that emerged from the GFC [which increased TSR] grew revenue by 30%, ... divested 1.5x more during the downturn and acquired 1.2x more during the recovery...”

*McKinsey & Company,  
COVID-19 Briefing Materials 25 March 2020*

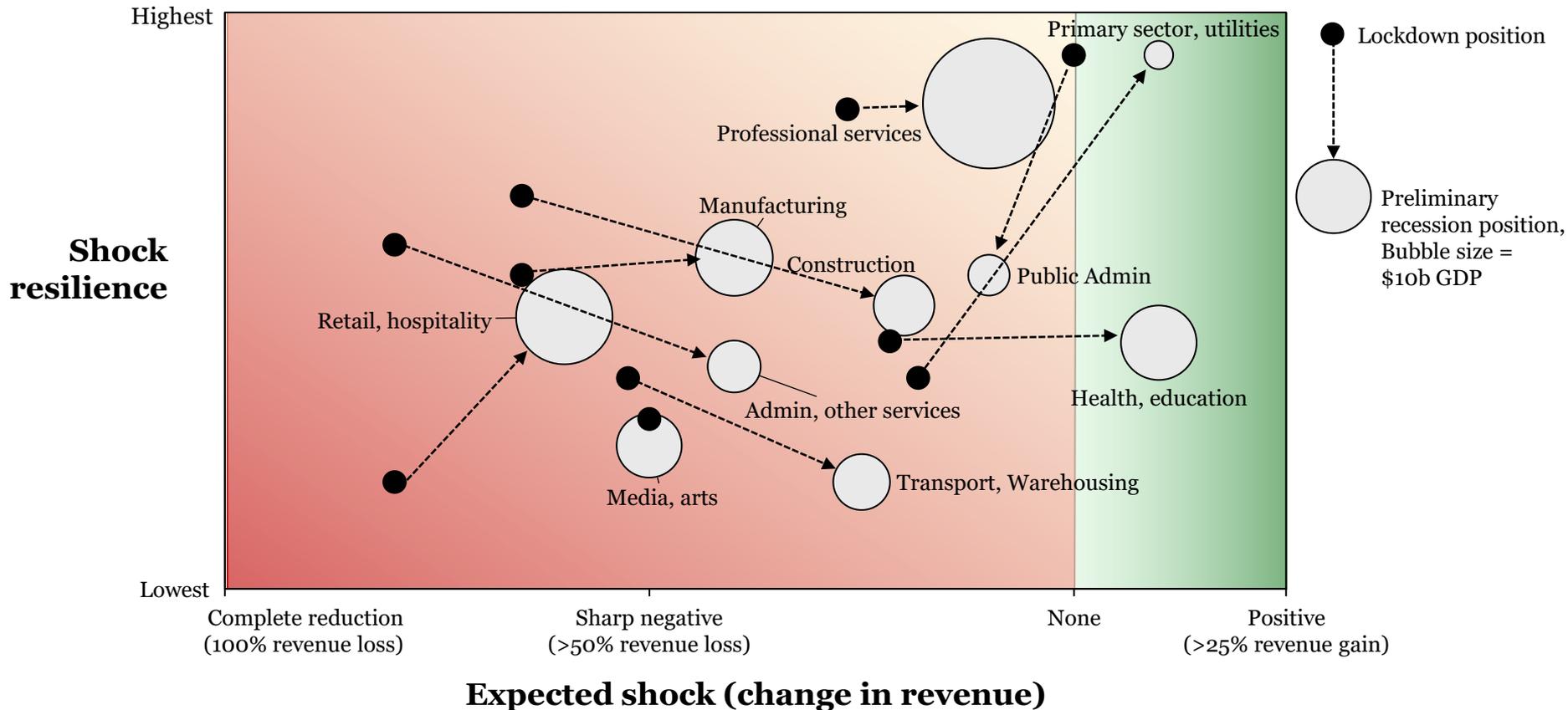
**Many companies are already looking at investment and M&A opportunities**

“50% of companies have/plan to assess investment and M&A opportunities” during the downturn

*The Boston Consulting Group,  
BCG COVID-19 Company Survey*

# MANY SECTORS WILL STILL BE FINANCIALLY EXPOSED ONCE THE LOCKDOWN IS LIFTED

## Estimated impact of the lockdown and recession by industry in Auckland

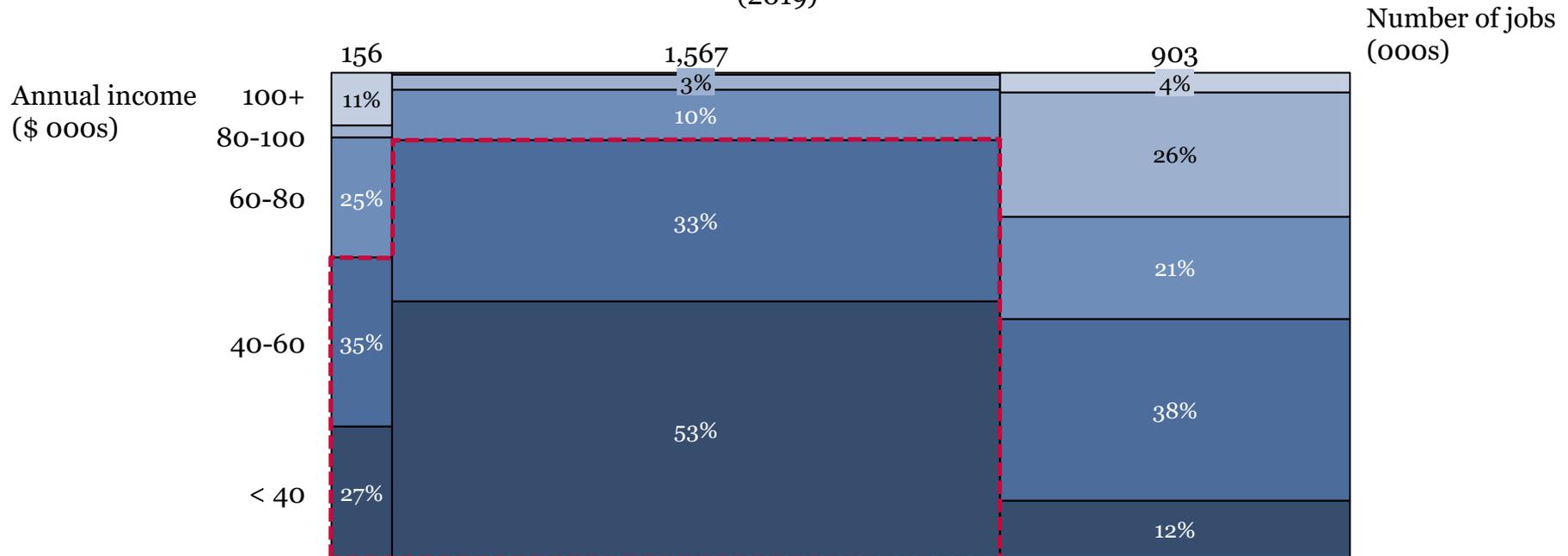


<sup>1</sup> Resilience ratios: near term resilience measured using quick ratio, medium term resilience using equity share of liabilities  
 Sources: Quick Ratio and equity share of liabilities from StatsNZ Annual Enterprise Survey, 2018. GDP from StatsNZ, 2019. Expected shock adapted from international research, based on ShS industry experience.

# PUBLIC HEALTH RESTRICTIONS DISPROPORTIONATELY FELT BY PEOPLE IN LOWER INCOME JOBS

## Breakdown of New Zealand jobs by annual median income and nature of work

(2019)



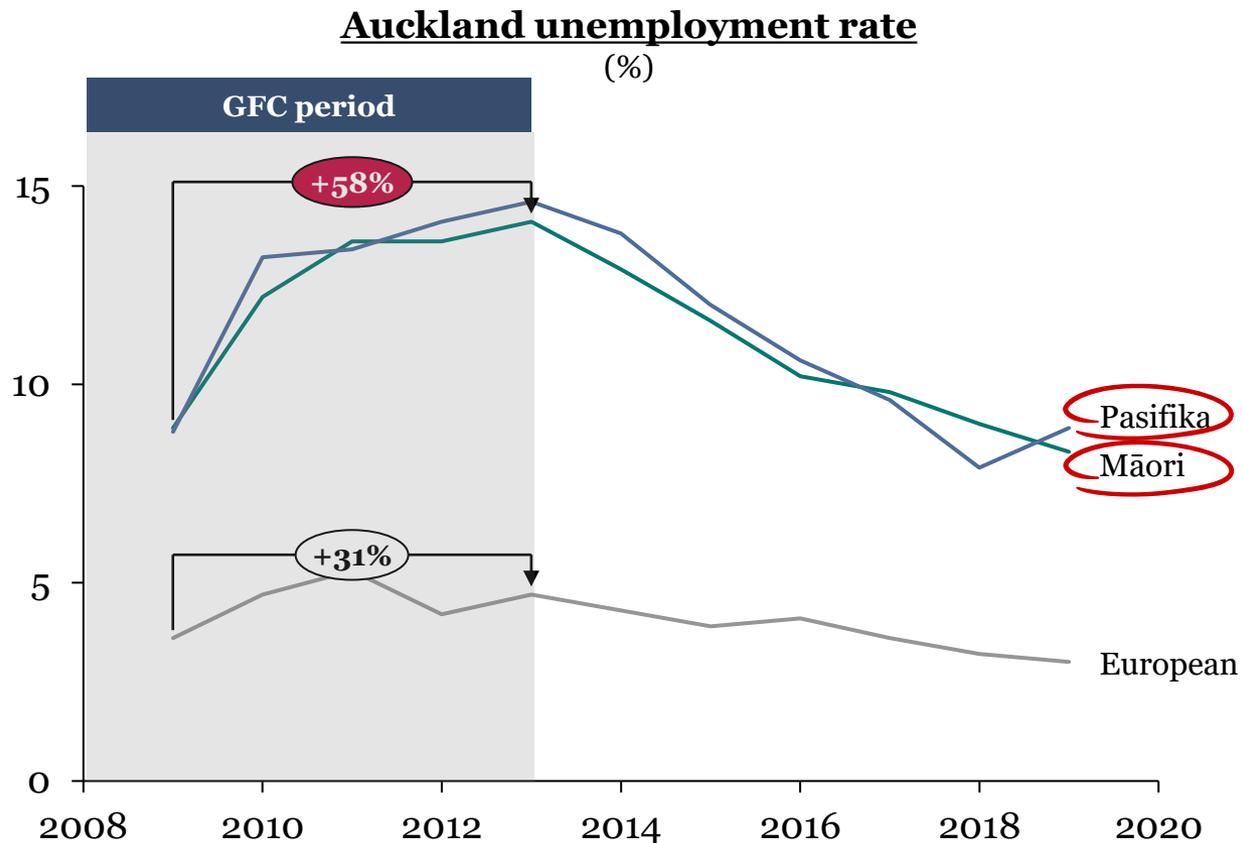
‘Frontline’ roles include those in healthcare or supermarket checkouts where exposure to the virus is higher

Roles that **typically require being on site** to complete, such as trades workers, plant operators or education providers

Roles **typically completed in an office** and can more easily be completed from home, such as professional services providers, administrative workers, and managers

**Lower income jobs are more likely to be exposed to the virus at work and less likely to have jobs than can be completed from home**

# MAORI AND PASIFIKA UNEMPLOYMENT RATES ARE ALREADY HIGH AND WERE HIT HARD BY THE GFC



# ACTION IS REQUIRED TO AVOID WORSE OUTCOMES ON IMPORTANT WELLBEING INDICATORS (1)

Indicator	Measure	2011 value	2019 value	COVID-19 impact*	Comment
<b>Social</b>					
Unemployment	Unemployment rate	6.5%	4.2%	Negative	Treasury estimates unemployment to increase to 13% in their best-case scenario
Income inequality	Gini value (lower is better)	0.33	0.34	Negative	Lower income households disproportionately harmed by pandemic and recession
Assault mortality	Rate per 100,000	1.3	1.1	Negative	Police report increases in domestic violence during lockdown and past recessions
Suicide	Rate per 100,000	11.2	11.0	Negative	GPs have seen an increase in mental health issues which is likely to continue in the medium term
Life expectancy	Years	80.8	81.9	Uncertain	Too early to discern impacts

Source: Adapted from research completed by Stakeholder Strategies on New Zealand's performance on a range of social, economic and environmental measures relative to other OECD countries.

\* During the crisis and post-crisis recession period.

## ACTION IS REQUIRED TO AVOID WORSE OUTCOMES ON IMPORTANT WELLBEING INDICATORS (2)

Indicator	Measure	2011 value	2019 value	COVID-19 impact*	Comment
<b>Economic</b>					
Household wealth	Gross National Savings % of GDP	17.7%	20.2%	Negative	Lockdown and recession will impact incomes and reduce asset values
GDP per capita	\$/Capita	\$48,367	\$54,027	Negative	Treasury scenarios project GDP to be 13.5% to 34% lower in 2021 than 2019 forecasts
Labour productivity	Real \$/hour	\$58.0	\$60.0	Negative	Has not recovered since GFC shock, any increase likely due to low-skilled job loss
Innovation and dynamism	OECD index (higher is better)	4.3 index value	4.8 index value	Negative	Startup Genome estimates 74% of early-stage innovators are downsizing due to COVID-19
Educational achievement	Mean PISA score	524	503	Uncertain	Lockdown has exposed learning inequalities but it is too early to discern the impact of the recession

Source: Adapted from research completed by Stakeholder Strategies on New Zealand's performance on a range of social, economic and environmental measures relative to other OECD countries.

\* During the crisis and post-crisis recession period.

# ACTION IS REQUIRED TO AVOID WORSE OUTCOMES ON IMPORTANT WELLBEING INDICATORS (3)

Indicator	Measure	2011 value	2019 value	COVID-19 impact*	Comment
<b>Environmental</b>					
Co2 concentration in atmosphere	Parts per million CO2 in atmosphere	392 ppm	407 ppm	Uncertain	Too early to discern impacts <ul style="list-style-type: none"> <li>• The GFC drove a drop in global carbon emissions</li> </ul>
CO2e emissions per capita	Tonnes of CO2 emitted per capita per annum	12.61 T	17.0 T		<ul style="list-style-type: none"> <li>• CO2 emissions dropped by 18% over Feb-March 2020 in China, but are already bouncing back</li> </ul>
Agricultural land	Agricultural land per capita	2.7 Ha	2.3 Ha		<ul style="list-style-type: none"> <li>• Long term impact will be driven by shape and speed of recovery, and whether environmental commitments are upheld during and beyond the recover period</li> </ul>
Water quality	Nitrate concentration	0.99mh/L nitrate	1.01mh/L nitrate		
Invasive species	Annual spend on eradication	\$3.3b	\$6.4b	Uncertain	Unknown, funding for eradication may be affected

Source: Adapted from research completed by Stakeholder Strategies on New Zealand's performance on a range of social, economic and environmental measures relative to other OECD countries.

\* During the crisis and post-crisis recession period.

# THE TIME TO ACT IN ORDER TO AVOID UNDESIRABLE OUTCOMES IS NOW

Phases of economic impact	Stage of gov't response	Impact	Response	Intent
<b>Crisis</b> Next 12-18 months	<b>Lockdown</b> March – May in New Zealand	Acute production reduction, redundancies and insolvencies of most vulnerable	Direct funding of individuals and firms most affected  Limited capacity for medium and long-term interventions	Keep people fed and ready to return to work when restrictions ease
	<b>Stimulus</b> April '20 for next 1-2+ years	Supply chain disruption as the post-lockdown restarts are asynchronous  Firms fail	Keynesian fiscal stimulus via investment in infrastructure and transfer payments  Government debt and printing money	Preservation of status quo  Avoid undesirable wellbeing outcomes
<b>Recession</b> Following 1-5+ years	<b>Austerity</b> May be avoided in New Zealand	Governments run out of capacity to fund	Possible inflation, hyperinflation Switch to austerity  Limited capacity to intervene to solve wellbeing issues	Hold societies together  Creative destruction
	<b>New Normal</b> Following 3-5+ years	Redistribution of wealth and power, ensure resilience	Establish new deals, new institutions and policies	Design fit-for-purpose institutions

# FURTHER INFORMATION

For further information on how we can help you, please contact:

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Thank you,

The Stakeholder Strategies team