

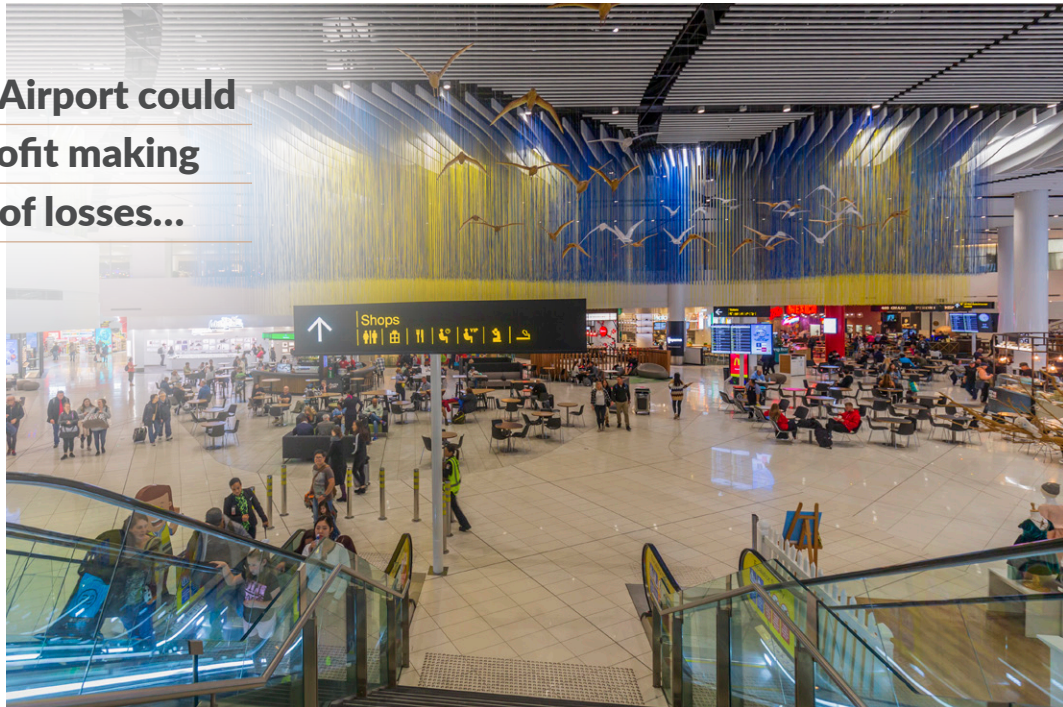
focus



Crossing the ditch in a bubble

Prime Minister Jacinda Ardern is due to announce the timing of two-way, quarantine free, travel between New Zealand and Australia on Tuesday, 6 April. The proposed 'trans-Tasman bubble' has been on the cards since May last year but repeatedly scuppered by new COVID-19 outbreaks on both sides of the Tasman and, until now, seemingly less desire from our Government. Mounting political pressure appears to have hastened it into action. Excluding the prospect of further community outbreaks on either side of the Tasman, or a worsening of the current situation in Queensland, we foresee a two-way bubble opening before the end of April.

...Auckland Airport could return to profit making after a year of losses...



Who are the winners of a trans-Tasman bubble?

Trans-Tasman travellers have historically been relatively evenly split between New Zealand and Australia. Kiwis and Aussies tend to visit each other's back yards for similar lengths of time and spend similar dollars on average per day. Assuming historic trends resume, the economic impact of a bubble would be broadly neutral for New Zealand on aggregate. However, at a sector level there would be clear winners.

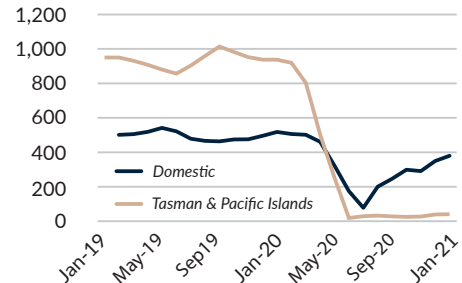
Tourism, travel and hospitality operators will be the key beneficiaries of a trans-Tasman bubble. Tourism alone contributed ~10% to national GDP in 2019. Anecdotal feedback from tourist towns across New Zealand indicate the resumption of trans-Tasman travel could not come soon enough.

Among listed companies key beneficiaries would include:

Auckland Airport could return to profit making after a year of losses, with the Tasman representing ~41% of the company's international passengers in 2019.

Air New Zealand will also receive a welcome boost; Tasman and the Pacific Islands made up ~27% of passenger revenue in 2019, and it will likely also increase domestic volumes. The company has acknowledged it will not return to profitability until long-haul travel resumes.

AIR NEW ZEALAND REVENUE PASSENGER KILOMETRES (RPKS), DOMESTIC VS TASMAN AND PACIFIC ISLANDS



Source: Company reports, Forsyth Barr Analysis

Other listed company beneficiaries will be SkyCity and Tourism Holdings. The impact on retailers is unclear and will likely have winners and losers. Inbound tourists increase the addressable retail market, but a portion of discretionary spend of New Zealand residents will be reallocated to foreign travel.

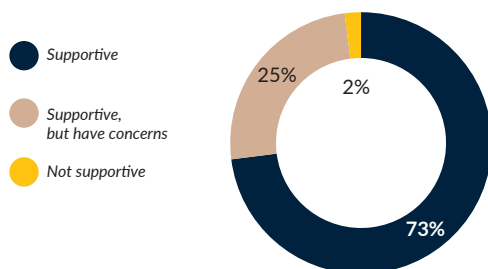
Demand heading into winter

Australian visitors are New Zealand's largest tourism market and New Zealand's brand has improved due to our COVID-19 response. A recent Tourism New Zealand survey found that over two million Aussies are considering travelling to New Zealand once borders reopen – of those actively considering travel, nearly two-thirds indicated New Zealand's health response improved their perceptions of the country as a holiday destination.

...Queenstown will be a key destination in demand...

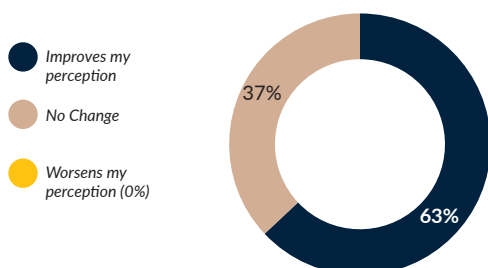


AUSTRALIAN 'ACTIVE CONSIDERERS' SUPPORT OF A TRANS-TASMAN BUBBLE



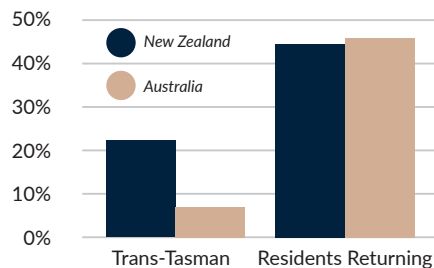
Source: Tourism New Zealand, Forsyth Barr Analysis

HOW DID NEW ZEALAND'S HEALTH RESPONSE AFFECT YOUR PERCEPTION OF NZ AS A TOURIST DESTINATION?



Source: Tourism New Zealand, Forsyth Barr Analysis

TASMAN AND RESIDENT TRAVEL HAS HISTORICALLY MADE UP A LARGE PORTION OF BOTH AUSTRALIA AND NEW ZEALAND'S INTERNATIONAL TRAVELLERS



Source: Statistics New Zealand, Forsyth Barr Analysis

The timing of a potential trans-Tasman bubble comes as New Zealand enters its tourism off-season, with May and June generally the months with the lowest visitor arrivals by some margin. However, Queenstown will be a key destination in demand, and generally experiences its highest international arrivals in July and August, when Australian school holidays align with the New Zealand ski season.

How would it work?

A bubble would allow travellers from Australia to enter New Zealand, and vice versa, without needing to quarantine. Travellers may or may not be required to perform pre-departure (and possibly on arrival) testing.

...airlines will be preparing mothballed aircraft...



Other agreed protocols between the national and state governments of Australia and New Zealand will include (1) passenger separation at airports in green or red zones, and (2) a common and consistent approach to dealing with new outbreaks. The Prime Minister also wants Australia to be more stringent in determining a COVID-19 hotspot, with Australia's current policy of 30 cases in three days too high.

Key risks

The cautious approach to a trans-Tasman bubble taken to date by the New Zealand Government reflects three key risks.

First, increased risk of community outbreaks in New Zealand, exacerbated by a higher mix of high risk travellers in MIQ (managed isolation and quarantine) facilities. This will at least be partly mitigated by vaccination administered to the majority of front line workers.

Second, the prospect of thousands of New Zealanders being stranded in Australia, should the bubble have to close at any stage, with limited insurance cover. This is the key challenge

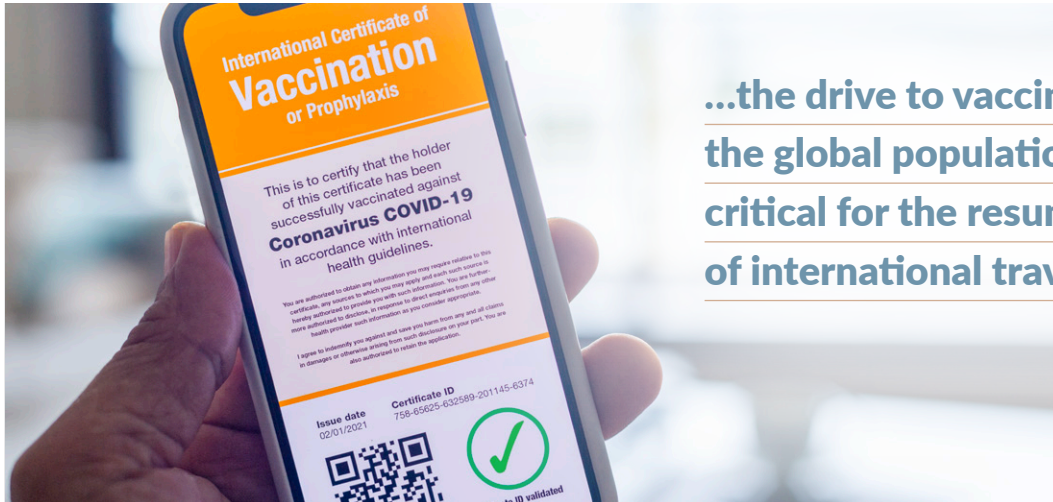
and potential political hot potato. The government has been vocal in highlighting this issue to would be travellers and should the bubble open we expect it to increase the rhetoric.

Third, sub-optimal contact tracing mechanisms exist in New Zealand for both residents and tourists. This would likely mean large scale lockdowns are repeated should community transmission re-emerge in New Zealand.

Will NZ be ready?

The good news is that the travel industry has been preparing for a bubble. Airports have already set up terminals for green and red-zoned travellers, and airlines will be preparing mothballed aircraft that have been grounded for an extended period.

On the other hand, the majority of tourism operators are running at much lower capacity than they were pre COVID-19. There will be some hesitation to scale up and re-staff in case the government defers a decision on the bubble, or demand is not as robust as forecast.



...the drive to vaccinate the global population will be critical for the resumption of international travel...

Beyond the bubble

The lifespan of a potential trans-Tasman bubble is unknown. It could be weeks, months or years. This depends on a number of factors including Australasian vaccination rates, and ultimately the shift in the respective government's COVID-19 strategies from elimination to suppression.

Beyond Australasia, the drive to vaccinate the global population will be critical for the resumption of international travel at anywhere close to the pre COVID-19 levels. We expect border restrictions internationally to ease during the second half of 2021. When they do, vaccine passports will likely be a key tool in crossing borders. The likely patchwork of different airline and border rules will mean a much more complicated global travel environment in the post COVID-19 world, irrespective of how long we may be able to enjoy a bubble with our Australian cousins.

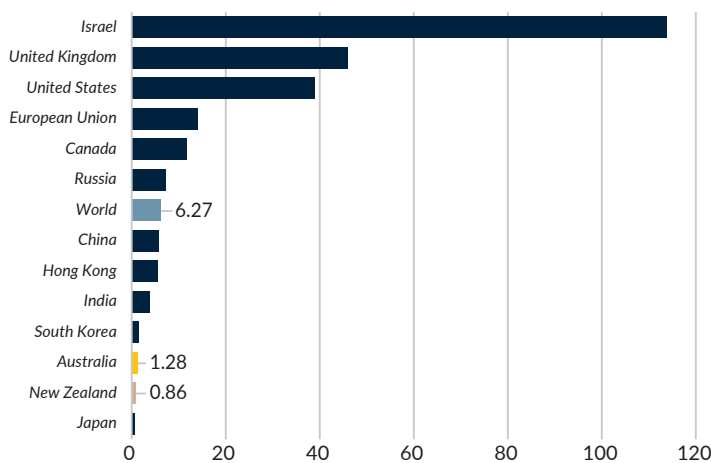


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VACCINES ADMINISTERED PER 100 PEOPLE (AS AT 25 MARCH 2021)



COVID-19 vaccinations administered per 100 people

Source: Our World in Data, Forsyth Barr Analysis

Understanding that sudden changes in financial markets can cause concern or indicate opportunity, your Forsyth Barr Investment Adviser is available to provide you with advice and assistance at any time.

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