

The economy of New Caledonia in 2011

Still positive but with waning confidence

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In 2011, the economy of New Caledonia remained well oriented in keeping with 2010. Despite a slight fall during the second half of the year, the economy took advantage of the high level of nickel prices and the increase in its production whereas domestic demand continued to be supported by major works and sustained household consumption.

The favourable positive trend was spurred on by several factors especially the substantial demand from emerging countries which raised the level of nickel prices in the first half of the year. The sector has stimulated business and employment with diversified production by the South plant and on-going construction of the North plant.

Nevertheless, following an exceptional 2010, investment has been slightly on the decline; business leaders are unsure of the future and this has been demonstrated by the deterioration of the business climate which impacted on their desire to invest and take on new employees. Supported by the positive situation of the employment market, household consumption remained steady, however, it was curbed by the perpetual increase in prices and uncertainties regarding energy prices.

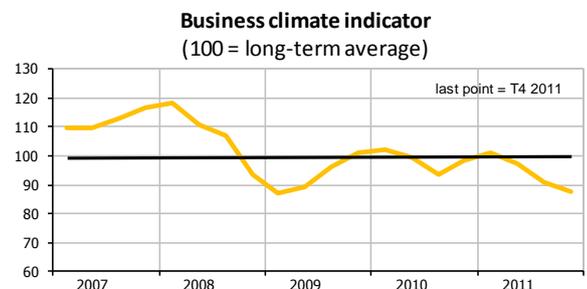
Bank financing continued to increase in a climate of low loss ratio thereby making it possible to provide assistance for the projects of the various economic agents.

UNSURE CONFIDENCE

A turnaround in the business climate

The recovery of the business climate indicator (BCI), which began mid-2010 experienced a downturn from the second quarter of 2011.

Therefore, at the end of the year the BCI was close to the lowest point of 2009 (after the international financial crisis), thus falling below the average long-term level.



Source: IEOM economic survey

Business deteriorated in the second half of the year.

Several economic sectors which had taken full advantage of the "major works" effect saw a substantial decline in their business.

Business leaders do not have a clear view of the future for the short and medium term and are therefore taking a very cautious approach in managing their workforce and investment forecasts.

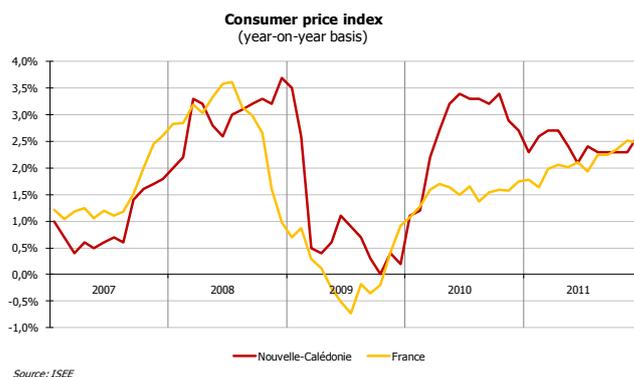
Constantly increasing prices

The consumer price index continued to increase after accelerating in 2010 and reached +2.6 % at the end of the year, that is a rise close to that of France (+2.5 %) but slightly lower than 2010 (+2.7 %).

The territory has suffered from imported inflationary pressure in particular connected with the rise in energy prices and foodstuffs and the depreciation of the Euro and accordingly that of the CFP Franc compared with other currencies in the Pacific Zone notably the Australian and New Zealand dollars.

As a result of the rise in prices for certain agricultural commodities such as cereal or meat, the prices of certain foodstuffs continued their swift rise (+4.0 %) whereas the prices of fresh produce were unfavourably affected in the first half of the year, due to the consequences of the tropical cyclone *Vania*. Energy prices substantially increased (+7.7 %). There was a more modest rise in the prices of manufactured goods and services (+0.8 % et +1.4 % respectively).

In the real estate sector, the BT 21 index which rebounded in 2010 (+3.7 % for the year), continued its upward trend in 2011, recording a 4.1 % at the end of the year. This situation led to a new increase in the rent reference index (IRL) of +4 % over a year.



An economy that continues to create jobs

Confirming the trend initiated in 2010, the number of end of month job seekers finished in 2011 on a positive note, down by 2.4 % over a year (CVS). Employment opportunities remained well oriented up by 12% over the year largely supported by the requirements related with the North plant work site. They are at an all-time high with more than 12, 000 new job offers published in 2011. Paid employment rose 5.3% in 2011 with approximately 3, 800 net creations.

Buoyant household consumption and faltering business investment

Household consumption, the main driver of economic growth remained well oriented, taking advantage of the positive momentum of the labour market. In keeping with 2010, imports of foodstuffs or everyday consumer goods markedly increased (respectively +11 % and +9 % over a year), whereas private car registration experienced much lower growth (+ 2%).

Business investment, however, declined after an outstanding 2010 which was boosted by the impact of major works including the North plant. The investment intentions of business leaders deteriorated and several indicators confirmed this trend: imports of capital goods slowed down falling by 9% in 2011 after having increased 23% in 2010 whereas commercial vehicle registrations slightly decreased (-1 %, following +11 % in 2010). Household real estate investment confirmed the increase noted in 2010 in view of very significant increase in home loans (+9.4 %).

Widening trade deficit despite increase in exports

A testimony to the increasingly open nature of the New Caledonian economy, trade continued to grow in 2011. The rise in imports of (+6.1 %) was partly due to buoyant household consumption and the needs for mineral products and industrial assemblies, whereas exports (+10.1 %) were boosted by the nickel sector which represented 94%. Finally, the trade deficit reached record level of over XPF 169 billion; the coverage ratio improved for the second consecutive year (46%).

WELL ORIENTED NICKEL AND TOURISM SECTORS

Nickel production diversifies

Nickel prices followed the downward trend in 2011, the raw material market (excluding petrol) was unfavourably affected by the world-wide economic downturn from the second half of the year. However, its average rate stayed above the average 2010 level up by 5% to reach \$10.4/lb. The worldwide nickel stocks stored at the London Metal Exchange (LME) decreased throughout 2011 and picked up in December. They consequently fell from 136,000 tons in January to 90,000 tons in December.

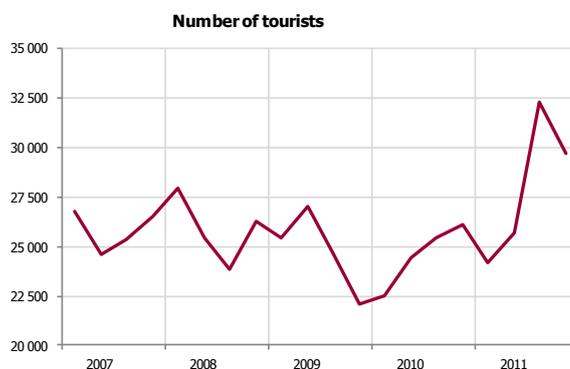
Metallurgical production stood at 61,400 tons of nickel an increase of 14% over a year. This trend stemmed from contribution of the South plant which produced 7,600 tons of semi-finished Nickel Hydroxyde Cake (NHC) products, after only 222 tons in 2010. New Caledonia's mineral production rose by 2% in 2011 owing to the increase in laterite extraction (+19 %).

An air pocket in the construction and public works industry

The sector depends on demobilisation of the North plant work site and a wait-and-see policy in the launch of new calls for tenders. The progressive completion of the major works related in particular to the metallurgical plants and the accommodation infrastructure for the Pacific Games, the construction and public works sector experienced a decline from the second quarter affecting the related economic sectors such as industry and services. Cement sales fell 8% in 2011 after increasing by 15% in 2010. Building permit requests fell on the new real estate market attesting to a down turn in business. Despite increasing demand for housing, the construction sector was unfavourably affected by the uncertainties related to tax exemption, implementation of the Municipal Planning Tax (TCA) and the rise in construction costs. Nevertheless, the construction sector should benefit from the construction of the Médipôle de Koutio as from mid-2012. Another source of growth for the sector should also be the rise in State - Province development contracts for the 2011-2015 period.

Restored tourism allure

After being on the side-lines of the world-wide tourism recovery in 2010, New Calendonia's tourist visits picked up in 2011 under the impetus of the Pacific Games and the return of tourists from Metropolitan France. The island experienced buoyant growth in the number of visitors (+14 %, after -1 % in 2010). This development is in sharp contrast with that of other regions across the world (+4 % against +6 % in 2010), including Oceania (+0.3 %) which suffered from the impact of the decline in the Japanese outbound market after the earthquake in March 2011. Visitor numbers topped 100,000 tourists for the first time since 2008 standing at 111,875 visitors in 2011. The neighbouring outbound markets (Australia, Japan, New Zealand) experienced low variations contrary to the metropolitan market and other European countries (respectively +39 % and +9 %).



Source: SEE, seasonally adjusted by IEOM

Market low in aqua culture but favourable trend in livestock

Shrimp farming is still suffering from the structural problems of hatcheries which have been handicapping production for several years. Exports fell by 6% (CVS) in 2011 (after -31 % in 2010) and stand at a new market low. The offshore fishing sector was also faced with difficulties, experiencing a decrease in fish exports in 2011 (-16 % in CVS).

Slaughtering of bovine and pig meat rose again in 2011 at a rate of +2 % and +10% respectively in line with a favourable 2010.

FINANCING THE ECONOMY

The rise in the money supply slowed down with a modest growth of M3 (+3.2 % in a year as at 31 December 2011 compared with +11.6 % in 2010). This development particularly concerned the M1 narrow aggregate (+1.0 % against +13.8 %), under the influence of a low increase in demand deposits (+0.5 % against +14.5 %), kept in check by business deposits in particular. After two outstanding years related to major works, there was a decline in the outstandings of these deposits in 2011 (-3.6 %, after +14.1 % in 2010 and +18.5 % in 2009). However, the M3 money supply benefited from the positive development of savings accounts (+6.9 %) and term deposits (+4.6 %), which serve as "safe havens" in a financial market which is in crisis.

More moderate growth of outstandings

Banking activity remained buoyant however the total outstandings of credit institutions experienced a slight fall: up by 7.4% after +9.5 % in 2010. Local credit institutions recorded more modest rise in outstandings, +6.8% against 8.4% a year earlier. Household demand remains buoyant (+8.6 % over a year against +10.2 % in 2010), both in terms of real estate loans and consumption loans whereas the corporate demand for financing remained steady (+4.3 % against +4.2 % in 2010). Operating loans increased 3.4% with a rebound in ordinary debt accounts (+9.4 %), and investment loans slowed down (+5.4 % as against +8.5 % in 2010). Local financial companies for their part recorded a new decline in their business with a gross outstanding loan amount down 7.6% over 12 months due to the decrease in lease financing (-6 % over a year), which accounts for the bulk of their outstandings. The portfolio quality stabilised for local credit institutions with a moderate rate of doubtful loans standing at 2.6 % and the provision rate was in line with this slight decline at 66 % (-3 points).

Continued buoyancy of real estate financing

Household real estate investment was once again well-oriented, outstanding home loans progressed by 9.4% over a year against a rise of 10.4% in 2010. Real estate investment remains a safe haven and financing conditions were stable throughout the year contrary to metropolitan France where they increased. The six month survey on cost of credit conducted by IEOM for the months of July and August 2011, show a 0.1 point decline over a year of the averaged weighted rate of real estate loans to private customers to 4.63 % against 5.28% one year before. The production of new home loans for households consequently continued to rise, to 48 billion against FCFP 47 billion in 2010.

Finally, as the rise in fundraising was less buoyant than the financing business the local banking system experienced a deterioration in its customer supply and use balance (which increased by 20%), as its net external position (difference between credits and commitments outside the issuing zone) whose balance structurally negative in New Caledonia increased 23% to SFCP - 81 billion on 31 December on 2011 against -65 billion one year before.

OUTLOOK FOR 2012

2012 begun on a wait-and-see note with the national elections coming up in the spring and an expected deterioration of worldwide economic growth. However, it is still difficult to forecast how the Asia/Pacific zone and New Caledonia withstand this new crisis. The slowdown in the economies of emerging countries is limited enough to not have recessive effects on these economies. Moreover, nickel prices which reached their lowest point in December in 2011 have since picked up given that the requirements of these countries remain high.

Therefore, nickel should continue to play a key role in the territory's economy and all the more so as increased volume production should materialise with the ramp-up of the South plant and opening of the North plant. Thus, the territory is on the verge of marked growth in its exports. At the same time, the construction sector which experienced a fall back in activity should benefit from the start of the Médipôle construction and the first projects involved in the State-Province contracts.

Looking forward beyond the 2012, New Caledonia will be faced with several challenges. The sustained economic growth of the last decade has made it possible to approach the level of Metropolitan France in terms of standard of living per inhabitant (except for île de France), however the poverty rate remains higher than that of Metropolitan France. The diversification of the economy is still an on-going project with expected increases in exports based on a single product. Finally, the financial resources will probably be made sustainable by setting up sovereign funds.