

French Polynesia's Economy in 2012

A sluggish economy with a persistent wait-and-see attitude

After three years of continuous deterioration, French Polynesia's economy still did not manage to regain momentum in 2012. Most of the available economic indicators¹ reflect a sluggish year, with no recovery in public procurement or household consumption. But the persistence of this depressed situation further worsened the deterioration in the labour market throughout the year, as was the case in previous years.

With a fall in their turnovers for the fifth year in a row and increasing cash flow problems, business leaders did not regain the confidence required to invest. They continued to adjust their operating expenditure in order to face the decline in their business activities.

The low level of activity continued in all sectors, with the notable exception of tourism, for which the recovery that started in 2011 was confirmed throughout 2012.

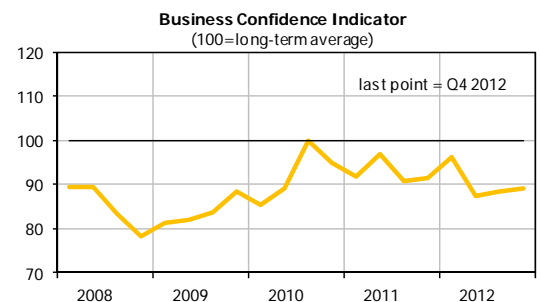
As with last year, French Polynesia's banking sector suffered from the effects of the absence of economic mainsprings. Both the collection of deposits from local economic agents and the lending activity declined in 2012. It also continued to record a high level of losses, although there was a slight improvement at the end of the year.

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DOMESTIC DEMAND DEPRESSED

Business climate worsens

The Business Confidence Index (BCI) continued to fall in 2012, although it did level off at the end of the year at 11 points below its long-term average. The improvement in the indicator during the first quarter did not subsequently take hold. The lack of confidence on the part of professionals was especially marked in the construction, retail and service sectors.

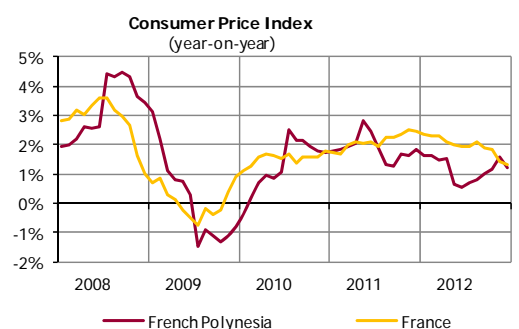


Source: IEOM economic survey.

Inflation remains low

Price inflation remained low in 2012. The annual average consumer price index stood at +1.2%, a lower rate than at national level (+2.0%).

The increase was mainly due to the rise in energy prices (+7.2%, after +6.4% in 2011) and food products (+2.2%, after +3.0% in 2011). The latter were affected by the increase in food commodity prices since the beginning of the year. However, the high level of unemployment, which restricted negotiations on salary increases, contributed to moderating inflationary pressures in the service sector.

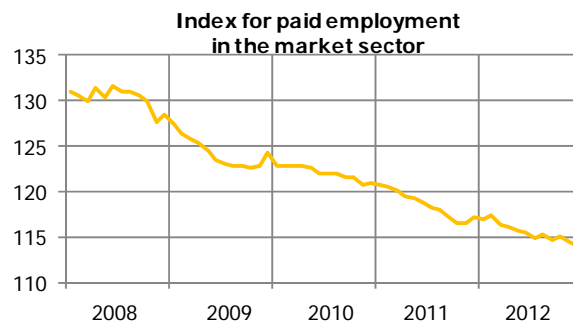


¹ The last economic accounts released were for 2007 and French Polynesia does not have rapid economic accounts.

Decline in paid employment continues

In 2012, the paid employment index fell by 2.5% on an average annual basis, after -2.9% in 2011. This index has fallen sharply for the fourth year in a row. The number of employees declared at the Caisse de prévoyance sociale (CPS – Social Security Fund) fell by 1.0% in September 2012 year-on-year (latest available data), continuing the downward trend already observed during the two previous years (-3.1% in 2011 and -3.2% in 2010).

The construction industry (-371 jobs, -4.1% year-on-year) and industry sector (-242 jobs, -4.9%) were the most affected sectors. In the retail and service sectors, employment remained stable after the adjustments made in the previous year, especially in the retail sector, thanks to the development of hypermarkets during the second half of the year.



Source: ISPF.

Slowdown in household consumption

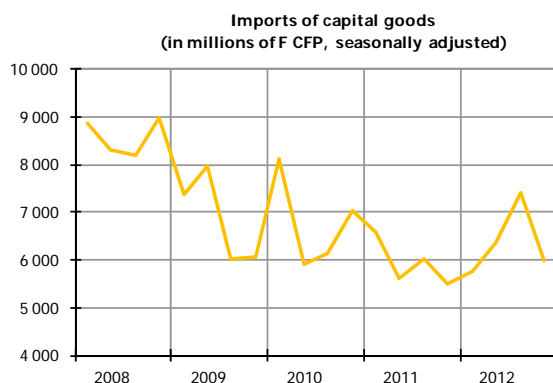
The deterioration of the employment market affected household consumption, which tended to be reduced to a minimum. Indeed, equipment purchases fell sharply, together with imports of non-food consumer goods (-5.5%, after -1.3% in 2011) and registrations of new private vehicles (-5.3% in 2012). Food product consumption was the only item to increase at a similar rate to the previous year: imports of food products rose in value by 3.8% (+5.8% in 2011).

Consumer credit also decreased (-2.5% year-on-year).



Source: ISPF.

Business investment levels off



Source: ISPF.

As French Polynesian companies did not see an upturn in their activity, they once again invested little and widely adopted a wait-and-see policy. Imports of capital goods, which had fallen over the three previous years, rose by 7.8% in value in 2012. This recovery is mainly due to exceptional operations (acquisition of a boat and investments related to the establishment of a new telephone operator). Apart from this expenditure, business investment generally remained stable.

Household investment in housing was also not very dynamic, with the growth rate for outstanding home loans slowing down to 2.1% (after +4.2% in 2011).

Negative trend for foreign trade balance

Imports of goods in French Polynesia rose by 3.0% and reached F CFP 158.5bn, while exports fell by 10.2% (F CFP 12.9bn). The increase in imports in value was not only due to purchases of capital goods, but also to the increase in world commodity prices (oil, cereals, metals, wood, paper, etc.). There was a decline in the volume of imports of bulk commodities.

The fall in the value of exports can primarily be explained by the exceptional result of the previous year, due to the sale of a plane. Apart from this item, exports of local products continued to increase (+4.6% in 2012, after +2.6% in 2011), with significant increases in sales of fish and vanilla, which offset the decreases for mother-of-pearl, Monoi, Noni and pearls.

On balance, the trade deficit increased in 2012 and reached F FCP 145.6bn (after F FCP 140.1bn in 2011).

TOURISM SPARED BY ECONOMIC DOWNTURN

Good year for fishing

Activity in the primary sector continued the trend that began in the second half of 2011 and declined in the first half of 2012. However, professionals in the sector have reported that there was an upturn in mid-2012. The results are, nevertheless, extremely mixed depending on the products.

The pearl industry once again saw a decline in the value of its exports of raw pearls (-3.2%, after -3.3% in 2011 and -1.5% in 2010). There was also a downturn in the volumes exported (-4.4%). The sale price continued to remain low, at an average of F CFP 491/gramme over the year, despite the upturn in the fourth quarter.

However, there was a sharp rise in fishing yields this year, with an 86.1% increase in the value of exported fish. This good result is both due to the increase in tonnages (+62% for exports) and the improvement in the average sale price (F CFP 930 in 2012, after F CFP 810 in 2011 for exports).

Finally, the volume of copra production rose by an annual average of 16.9% in 2012. This growth consolidates the good results achieved in 2011 and is gradually offsetting the losses caused by Cyclone Oli in February 2010.

Rollercoaster industrial activity

In 2012, the activity of industrial companies was generally sluggish, with a decline in the first quarter and an improvement in the third quarter. This sluggish activity can be seen with the stagnation of imports of intermediate goods (+0.5%) and by the weak growth in power generation (+1.0%).

Coconut oil production developed well once again (+8.3%, after +44.7% in 2011). However, exports of agrifoodstuffs (excluding fish) continued on a negative trend, with the decline in sales of Noni puree and juice (-18.0%), coconut oil (-3.3%) and Monoi oil (-10.9%).

Persistent difficulties in the construction industry

As in previous years, the construction industry was marked by a downturn in activity, combined with cash flow situations in companies that continued to be extremely tight, in particular due to the longer client payment periods.

The public works branch once again showed weaker performance, with another decline in public procurement in 2012, which mainly focused on redevelopment works for port, airport and road infrastructure, as well as sanitation works financed by the European Union. The building branch saw an even more marked decrease in its activity as there were no major construction projects, and as a result of the low level of household investment.

Slight increase in tourism industry

The recovery in the tourism industry that began in 2011 was confirmed, with a 3.8% increase in the number of tourists in 2012. However, despite the upturn in this sector, the pre-2008 levels of activity have not been reached.

In 2012, land-based tourism (+5.3%) was the driving force of this growth, while there was a decline in the number of cruise passengers (-4.0%). The average coefficient of hotel occupancy rates rose to 56.8%, against 53.7% a year before, as a result of the combined effect of the increase in the number of rooms sold (+3.6%) and the reduction in the number of available rooms (-2.1%), following the closure of hotels during the year.



Source: ISPF.

Retail activity limited

The retail sector suffered from the fall in household demand. Industry professionals report a decline in business throughout last year. The opening of several hypermarkets in 2012 increased competition between chain stores, obliging them to adjust their prices and extend their opening hours, which increased their operating costs. Companies in this sector are increasingly suffering from cash flow problems.

SLOWDOWN IN BANKING ACTIVITY

The activity of local credit institutions remained subdued in 2012, due to the depressed business climate. The overall trend for the collection of deposits was negative during the year, despite an upturn in the last quarter of the year. This was also the case for outstanding loans, which fell by 0.6% compared to the previous year.

Fall in deposits by economic agents

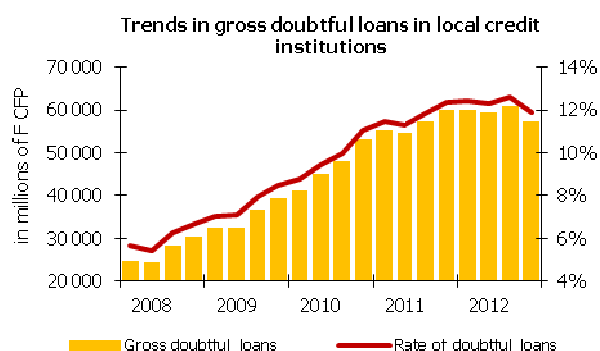
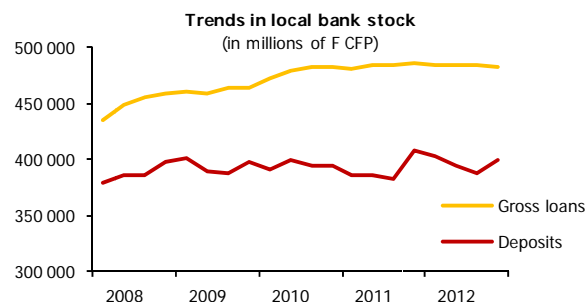
In 2012, the deposits made by economic agents fell by 2%. They remained relatively stable for companies, which preferred to transfer liquidity from their current accounts to their deposit accounts (+17%). However, household assets fell by 0.9% as a result of the constantly deteriorating labour market. This affected both short-term investments (-1.9% for overnight deposits) and long-term saving, as was the case with life insurance contracts (-2.5%). Finally, there was a sharp fall in deposits from the other agents (-15.3%), as a consequence of funds being transferred outside the country by certain institutional operators during the year.

Slight decrease in outstanding loans

The stock of performing loans fell by 1.2% between 2011 and 2012. For companies, operating loans fell sharply during the year (-7.4%), but there was an upturn in investment loans (+4.1%), thanks to some large-scale operations (notably in the mobile phone sector). The stock of loans to local authorities fell by 5.2% during the year, as there were no major structural projects (such as the Papeete passenger terminal, which was delivered in early 2012). Loans to households, for their part, rose slightly (+0.6%), as the increase in home loans (+2.1%) was higher than the decline in consumer credit (-2.5%).

Heavy losses persist

After having totalled 12.6% in the third quarter of 2012, the rate of gross doubtful loans in French Polynesia's banking market declined at the end of the year (11.9%), as a result of the consolidation efforts made by certain credit institutions. The decrease concerned companies (17.5%, against 18.4% in December 2011), as the rate of gross doubtful loans for households deteriorated (7.8% against 7.5% in December 2011). The quality of the portfolio of local credit institutions remains fragile.



OUTLOOK FOR 2013

2012 ended with a very strong wait-and-see policy. This is highly likely to continue in the first half of 2013, pending the elections which, as a result of the new electoral law, should put an end to the political instability that French Polynesia has been suffering from for almost a decade. There are also continued expectations over whether the country's public finances will effectively be consolidated. This was backed by Government support measures at the end of 2012. It is essential in order to stimulate public procurement and depends on the effectiveness of the restructuring plan adopted by the country. The degree of financial resilience of companies and households, which has been increasingly tested over the past four years, is the third major challenge that will mark 2013 and will in many ways be a determining factor for the country's economic future.

With their order books still down, professionals in the construction industry are not expecting an upturn in early 2013. However, certain corroborating elements would appear to point to a possible revival in business leaders' confidence: according to the results of the latest business survey, they are counting on an upturn in activity in the first quarter of 2013, combined with an improvement in the labour market. In the short term, however, they continue to be pessimistic about the trend for their financial situation and remain reluctant to invest over the coming year.