

## New Caledonia's economy in 2013 Slowdown continues

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New Caledonia's economy has continued to experience a slowdown, due to sluggish domestic demand and in the context of a downward trend on the nickel market in 2013. The increasing lack of confidence on the part of economic agents weighs on private investment and household consumption. New Caledonian entrepreneurs report a continuing decline in their business. For the first time in several years, the loss of economic dynamism has reached the labour market, with an increase in the number of jobseekers. Activities in most economic sectors have contracted, apart from the primary sector. Despite the gradual increase in factory production, the nickel sector has experienced a difficult year within a world market in surplus, which weighs on nickel prices and penalises the operating accounts of operators. The construction industry has cushioned its decline in activity, particularly thanks to the site for the Médipôle hospital centre and public works, while there has been a fall in the number of over-staying tourists.

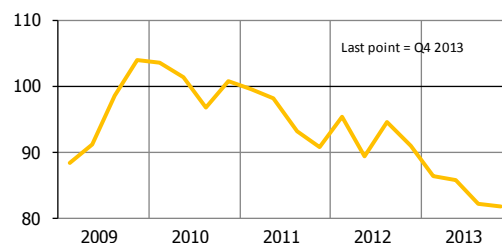
The banking system continued to support the financing of the economy, despite a further downturn in the stock of outstanding loans and a decrease in deposit collection. The quality of local credit institutions' portfolios has been slightly affected by an increase in the loss rate. The rate of nonperforming loans continues to be the lowest in the French overseas territories.

### LESS FAVOURABLE ECONOMIC CONTEXT

#### Business climate deteriorates

The Business Climate Indicator (BCI) fell throughout the year and reached 82 points at the end of 2013. It levelled off at the end of the year, as a result of less negative expectations for the beginning of 2014 on the part of entrepreneurs. The BCI clearly diverges from the long-term average, and fell below the historically low point reached during the world financial crisis in 2009.

**Business Climate Indicator (BCI)**  
(100=Long-term average)



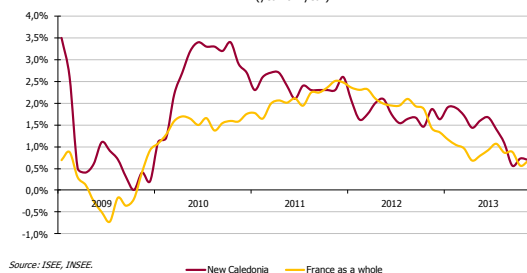
Source: IEOM economic survey.

#### Slowdown in inflation

The rise in the consumer price index experienced a slowdown on an annual average basis, following the more sustained pace in previous years (+1.3% in 2013, after +1.8% in 2012 and +2.4% in 2011). It finished the year at +0.7%, *i.e.* an increase identical to France as a whole (+0.7%).

This slowdown was due to the decline in the price of manufactured goods (-0.3%) and energy (-2.0%), for the latter as a result of the lower price for hydrocarbons and the depreciation of the dollar.

**Consumer price index**  
(year-on-year)



Source: ISEE, INSEE.

— New Caledonia — France as a whole

Conversely, the increase in prices for food and services (+1.7%) weighed on the index in 2013. Despite the measures to combat the high cost of living, food prices, which had been moderate for the first three quarters of the year, were affected by the increase in the prices of fresh products in the fourth quarter. The prices of services benefitted from the decrease in transport costs (-0.9%), but are dependent on the increase in housing-related services (+2.3%), as the rent review index continued to increase (+2.0%, against +3.2% the previous year). There was, however, a marked year-on-year decline in the BT 21 building construction index, which only rose by 1.5%, after +5.4% in 2012.

## Labour market loses dynamism

In 2013, the labour market was affected by the economic slowdown. The number of jobseekers rose for the first time since 2010 (+12.7%, after -11.8% in 2012). This trend was driven by the situation in the South Province, where three-quarters of jobseekers are located. The number of unemployed receiving benefit, which had been relatively stable during the years of strong growth, increased by 19.6% year-on-year (after +8.6% in 2012).

At the same time, following an initial decline in 2012, employment opportunities continued on a downward trend and fell by 17.9% year-on-year (after -7.8% in 2012). This trend is due to a concomitant decline in the needs of the South Province (-13%) and the North Province (-32%). There has been little change in private sector paid employment, at +1.5% (after +0.4% in 2012 and +4.5% in 2011), *i.e.* some 900 net job creations, mainly in industry and services.

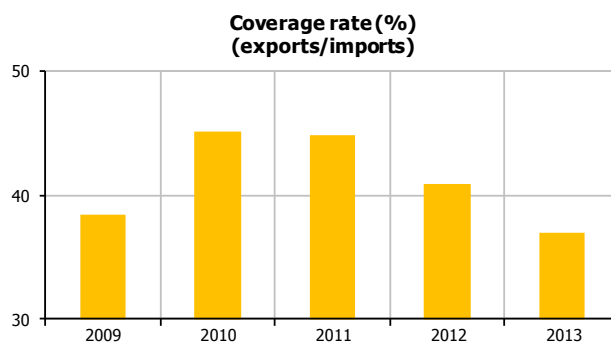
## Household consumption stagnates while investment declines

Household consumption, which had previously proved to be fairly resilient, slowed down in 2013. There was a decline in imports of food products and everyday consumer goods (-1.2% and -1.3%, respectively). Similarly, there was a fall in new vehicle sales (-13.5%), and retail sector professionals report a decline in their business throughout 2013. There was a slowdown in the stock of outstanding consumer loans (+1.0%, after +2.6%), due to the downturn in the automotive market. Household investment in property continued the turnaround that started in 2011, with moderate growth in the stock of outstanding home loans (+1.7% in 2013, after +3.2% in 2012 and +8.4% in 2011).

Business investment has been affected by the climate of uncertainty. Several indicators were on a downward trend over the year: there was a decline in imports of professional capital goods (-6.3%, after +10.3% the previous year) and commercial vehicle registrations continued to fall (-6.8%, after -11.3% in 2012). At the same time, there was a fall in the stock of outstanding business investment loans (-3.4%, after +7.1% in 2012).

## Trade deficit widens with fall in exports

There was a fall in trade in 2013, due to the completion of factory constructions and the lower value of nickel exports. The decline in imports was, however, moderate (-3.5%), as it was offset by needs for inputs to start factory production, with an increased use of mineral products (+11.4% in value and +39.6% in volume). At the same time, exports (-12.9%) were affected by the difficulties in the nickel sector: low level of prices and slower than expected start-up of production in the factories in the North and South. In the end, the trade deficit widened once again, at some FCFP 183bn, against FCFP 178bn in 2012. The coverage rate deteriorated and fell to a record low at 37% (-4 points).



Source: ISEE.

## SECTORS EXPOSED TO THE UPS AND DOWNS OF THE GLOBALISED ECONOMY

### Nickel activity increases in a downward international market

There was a sharp decline in nickel prices in 2013, which obliged the entire sector to make a stronger effort to reduce production costs. The average nickel price indeed fell well below the average level in 2012 (-14.3% to USD 6.8/lb). World LME nickel stocks continued to increase in 2013 and rose from 147,000 tonnes in January to 256,000 tonnes in December. According to industry experts, this unprecedented situation means that a sustainable recovery in prices will not be possible before 2016. The market has increased its surpluses, in particular due to the low cost of Chinese "nickel pig iron".

In 2013, there was an increase in metal production in New Caledonia, thanks to the rise in production at the South factory, which reached a total of 69,206 tonnes of nickel (+11.3% year-on-year). The increase in the production of finished and semi-finished products in this factory (a total of +170%) largely offset the decline in ferronickels, and the South factory produced 15,500 tonnes (nickel oxide and nickel hydroxide cake). Production in the North factory was, at the same time, lower (1,500 tonnes), with the industry finalising its manufacturing process by commissioning a second production line in February 2014.

Nickel ore production set a new record in 2013, with 11.1 million tonnes extracted (+15.2%, after +4.6% in 2012). The increase in saprolite ore (+8.3%) was driven by the needs of South Korea (especially due to the increase in production at the Gwangyang plant), while there was a recovery in laterites (+28.5%).

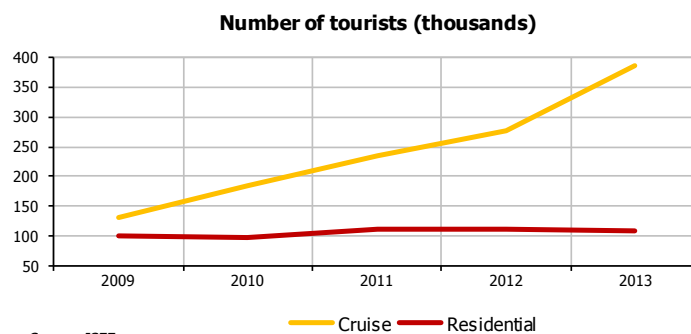
## Building industry waiting for a recovery in housing construction

Following a slowdown in 2012, the construction industry managed to cushion the decline in its activity thanks to the Médipôle hospital centre site and public works. There was a stabilisation in paid employment, after a fall in the previous year. Cement sales were sluggish (-0.7% at the end of September 2013), following a 16% decline in 2012.

The situation in the construction industry does, however, remain fragile. While population projections show a continuous increase in housing requirements until 2030, the number of housing units authorised fell in 2013 and reached its lowest point over the last ten years. The Congress set out to address this situation by adopting the tax exemption law on intermediate housing, and the Provinces are attempting to revive social housing construction programs.

## Unlike the cruise industry, it is difficult for residential tourism to capture flows from the Asia-Pacific region

There has been a decline in tourism in New Caledonia after the record levels of previous years. The number of tourist visits to the archipelago has fallen (-4.0%, after +0.3% in 2012). This trend contrasts with the more favourable trend in the Asia-Pacific region (+6% in 2013, including +4% for Oceania) with, in particular, Fiji, which attracts 40% of arrivals in Oceania.



The growth of markets in mainland France and Europe (+1.1% and +7.8%) has not offset the decline in the traditional Australian and Japanese markets (-11.3% and -10.1%, respectively), which have suffered from the fall in their currencies in 2013. These trends have led to a decline in the number of overnight stays in and outside Nouméa (-4% and -12%, respectively).

With over 385,000 passengers, cruise tourism is continuing to grow (+38.7% year-on-year), benefitting from tours from Australia. However, the latter are short stopovers, which have only a limited impact on the economy.

## Mixed trends for aquaculture and livestock farming

Shrimp farming has continued the recovery that began in the previous year, with a further increase in exports, which rose by 6% in volume (and by 14% in value). In the fishing industry, tuna exports are relatively stable in volume (-0.5%), but have fallen in value (-35.8%). Following a favourable year in 2012, pork production continued to grow in 2013 (+6.9%), while beef production remained relatively stable (-1.1%).

## FINANCIAL ACTIVITY ALIGNED WITH ECONOMIC ACTIVITY

The sluggish economic climate led to a slowdown in banking activity in 2013. Compared to 2012, there was a marked decline in the rate of growth for both the stock of outstanding loans and deposits.

### Virtual stabilisation of financial assets

The financial assets of economic agents rose by 0.9%, after +10.5% in 2012: local deposits fell by 0.1%, while there was strong growth in savings managed outside New Caledonia (+5.0%).

In detail, the trend remains positive for household saving (+4.8%) while, conversely, there has been a decline in the assets of non-financial companies (-7.9%). Overnight deposits have increased by 7.0%, as have passbook accounts (+3.5%), supported by the Livret A accounts (+8.0%). Conversely, there was a marked decrease in term deposits (-8.4%), breaking with the continuous growth in previous years, due to the less attractive interest rates.

## Further slowdown in growth of stock of outstanding loans

The financing activity was lower than in previous years. The total stock of outstanding loans of credit institutions rose by 2.7%, after +5.3% in 2012 and +7.4% in 2011. Local credit institutions, in particular, showed a moderate increase in their stock of outstanding loans, at +0.8% against +4.7% a year earlier, falling below the growth rate in mainland France (+1.4%). There has been an erosion in the stock of outstanding household loans (-0.1%, against +4.1% in 2012) due to the stagnation in locally allocated home loans. Consequently, the local production of new loans fell to FCFP 33bn, against FCFP 40bn in 2012.

Corporate financing was less dynamic than in previous years (+0.7%, against +6.1% in 2012) and was mainly supported by building loans (+2.8%). Operating loans fell by 1.2%, while there was a marked slowdown in investment loans (+0.3%, after +3.9% in 2012).

At the same time, the quality of the portfolios of local credit institutions was slightly affected by the increase in the loss rate for businesses and households.

The rate of nonperforming loans, for its part, reached 2.95% (+0.3 points), while the provisioning rate was down, at 60.8% (-4 points).

All in all, there has been a deterioration in the local banking system's balance between client uses-resources, which has increased by 4.8%, under the combined effect of virtually stable collection (-0.1%) and a moderate increase in the stock of outstanding loans (+0.8%).

The net external position (difference between the assets and commitments located outside the issuing area) fell by 1.5%: its balance, which is structurally negative in New Caledonia, reached FCFP -70bn at 31 December 2013, against FCFP -71bn a year earlier.

## OUTLOOK FOR 2014

The economic situation would appear to be stabilising at a low level, in the expectation of a rebound. The end of the election period should restore confidence in the second half of the year and support a recovery in private investment and consumption. At the same time, the government of New Caledonia has established a stimulus budget to revive public investment, with the continuation and creation of new large-scale projects (Médipôle hospital centre, refurbishment of high schools, road infrastructure...).

In the nickel sector, the manufacturing processes in the two new factories are now operational, meaning that it will be possible to significantly increase production. However, market conditions are expected to remain unfavourable due to the record level reached by world stocks, and despite Indonesia's decision in early 2014 to stop mineral exports. The construction industry will continue to remain dependent on the materialisation of new bid invitations for housing construction and public procurement projects. Long-stay tourism will have to face a new challenge, with the need to start up the Gouaro Deva hotel complex, which will require at least 10,000 additional tourist arrivals.

Consequently, 2013 underscores the vulnerabilities of New Caledonia's economy due its almost exclusive dependence on a single product, nickel. While the economy benefitted from a stabiliser with public expenditure, the import/export coverage rate fell to a record low, and the competitiveness of operators encountered difficulties faced with regional players (China, Indonesia), which have sharply increased their market share. One of the current challenges still facing New Caledonia is to diversify growth drivers in order to absorb these economic shocks and address issues related to its development.

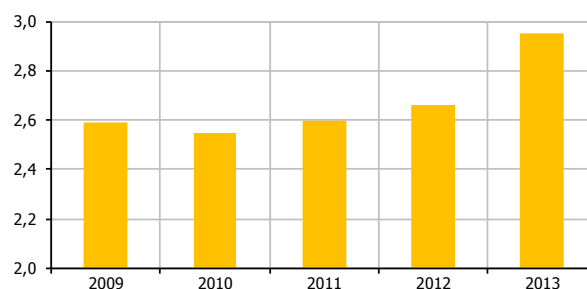
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Rate of gross nonperforming loans (%)



Source: IEOM.