Express Note
N° 122 - April 2014
AGENCE DE WALLIS-ET-FUTUNA

Wallis and Futuna's economy in 2013
Positive results marked by a slowdown in activity in the last quarter

PORTRAIT

The Territory's economic activity, which was dynamic for a large part of the year following the Pacific Mini Games, slowed down in the last months. The construction industry, a sector which drives the economy, faced particularly strong demand until September, but there was a fall in activity at the end of the year. This was mainly due to the completion of large-scale projects, which had mobilised the industry since 2010. The retail sector, which showed a positive trend for the first nine months, would also appear to have experienced a fall in its sales turnover at the end of 2013. Imports decreased during the year, but are at a high level. This fall is mainly due to positive trends in exchange rates, with the decrease in the prices of imported goods in foreign currency also contributing to the marked slowdown in inflation over the year. The latest final available data available on employment, at the end of June 2013, shows an increase in the number of registered employees, but the Wallis and Futuna Social Security Office (CPSWF) has announced that there was a significant decline in private sector employment at the end of the year.

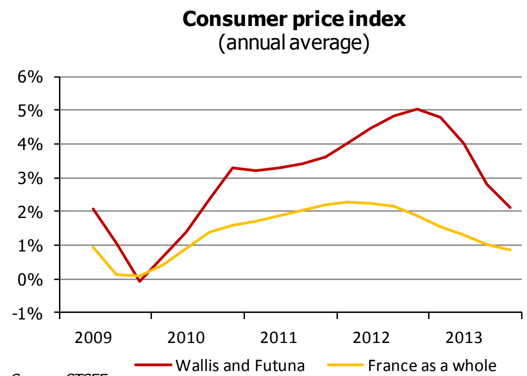
There was a marked downturn in banking activity, following a particularly dynamic year in 2012. The decline in financing activity, at the same time as deposit collection, has affected all economic actors and gives a warning sign that 2014 will be a subdued year. The consolidation of the loan portfolios of local banks is continuing and has brought down the rate of nonperforming loans to a record low level.

MIXED MACROECONOMIC INDICATORS

Marked slowdown in inflation

The slowdown in inflation, which began at the end of 2012, was confirmed in 2013. The annual average consumer price index rose by 2.1% in 2013, against 5.0% in 2012. Energy prices saw the most significant slowdown over the year (+0.8%, against +8.6 % in 2012). Food prices rose by an average of 1.7% over the year, against 5.0% in 2012. The increase in service prices also saw a marked slowdown (+2.6% in 2013, against +4.9% in 2012). The slowdown in inflation was less acute for manufactured goods (+2.5% on average, against +3.1% in 2012).

The first annual "value for money shield" agreement, under the Lurel Act between the State and retail professionals, came into force on 1st March 2013. It led to an average 10 to 13% reduction in the price of a basket of 11 consumer products.

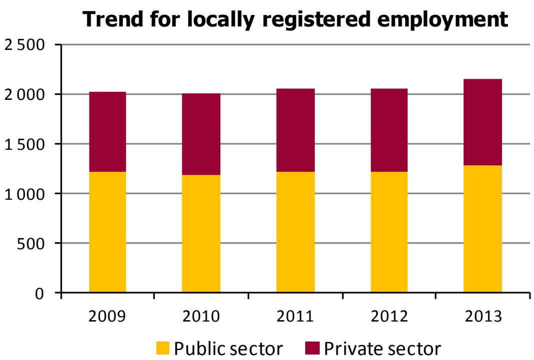


Source: STSEE.

Increase in paid employment at 30 June 2013

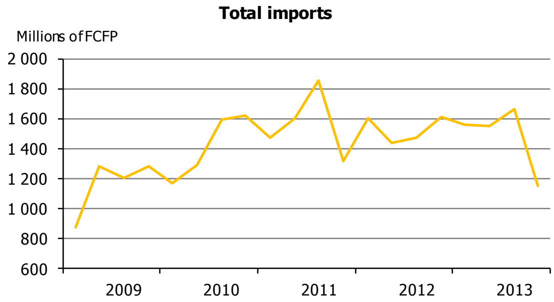
At 30 June 2013, 2,155 workers were registered at the CPSWF, against 2,062 at the end of June 2012. There was an increase in employment in both the public and private sectors, of 4.9% and 3.9%, respectively. The public sector accounts for 59.6% of registered employment (1,284 people) and the private sector 41.4% (871 employees). The construction industry, which was extremely active in 2013, saw a marked increase in its number of employees.

However, according to the CPSWF, there was a sharp reduction in the number of employees in the private sector at the end of the year. This trend should be seen in the context of the fall in the level of activity in the construction industry.



Source: CPSWF.

Slight fall in imports over the year



Source: Customs.

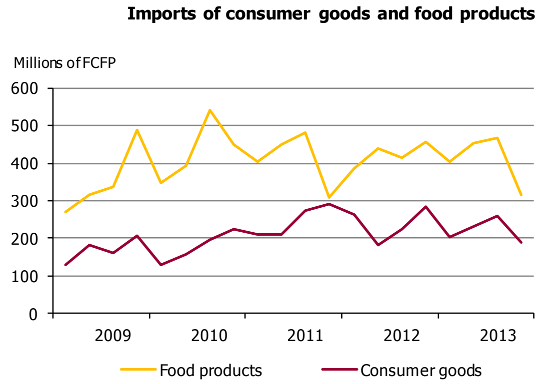
The archipelago's imports stood at FCFP 5.92bn in 2013, down 3.3% in value compared to 2012. There was a 7.5% decline in consumer goods imports, and imports of products from agricultural and food industries, which account for over a quarter of total imports, fell by 3.4% over the year. Imports of intermediate goods made the most significant contribution to the fall in imports (-18.4% compared to 2012). Conversely, there was a rise in imports of capital goods and automotive industry products over the same period (+16.8% and +16.4%, respectively).

However, it should be noted that the fall in the value of imports fits within a context of a favourable exchange rate for the Pacific franc *vis-à-vis* its main supplier countries. Indeed, in 2013, the Pacific franc strengthened against the dollar in Australia (+21.3%), Fiji (+9.6%), Singapore (+8.1%) and New Zealand (+4.5%). In addition, the sharp rise in the number of container ship arrivals in the Territory (27, against 19 in 2012), and the number of cargo containers imported (annual rate of +23.7%), also calls for caution regarding the analysis of the fall in imports in value.

Furthermore, tax revenues rose to FCFP 2.38bn in 2013, up 6.6% compared to 2012. Over 70% of these revenues come from customs duties and are strongly correlated with the level of imports, in the absence of income tax and corporate tax. Entry taxes, which are charged for all imported goods, and customs duties, which are applied to products from countries outside the European Union, rose by 7.7% and 4.3%, respectively.

In 2013, exports, which comprise seafood products and craft products, stood at FCFP 12m, against FCFP 13.25m in 2012.

Slowdown in household consumption



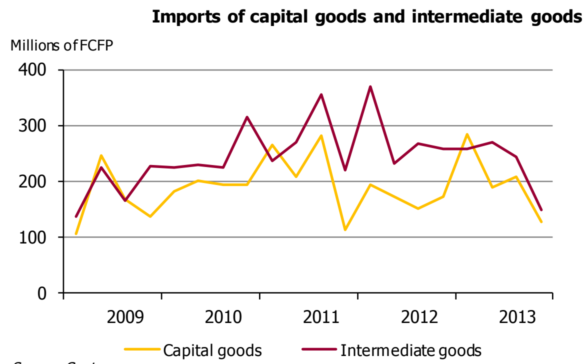
Source: Customs.

At the end of 2013, consumer goods imports reached FCFP 883m, down 7.5% on 2012. They were relatively stable during the first nine months, but fell by 27.4% in the fourth quarter. Over the year, the sharpest drop was for publishing products (-18.9%), followed by imports of pharmaceutical, perfumery and maintenance products (-10.8%), and imports of household goods (-8.9%). The only imports to increase year-on-year were clothing and leather products (+9.4%). Food imports fell by 3.4% in 2013, mainly due to their decline in the last quarter (-32.7% compared to the end of September 2013). The fall in the value of consumer goods imports should, however, be treated with caution, as explained in the paragraph on imports.

Sales of passenger vehicles fell slightly in 2013, but remain at a high level, with 95 new registrations during the year, against 103 in 2012.

The stock of outstanding consumer loans rose by 4.9% year-on-year. In 2013, there was a further improvement in the financial situation of households: the number of cheque payment incidents stood at 871, against 1,027 in 2012. The number of people banned from holding a banking account also fell, from 397 in 2012 to 330 at the end of December 2013.

Investment higher than in 2012



Source: Customs.

Following a positive trend during the first nine months, there was a marked decline in business investment in the last quarter, with capital goods imports falling by 38.9% compared to the end of September 2013. However, over the year, these imports rose by 16.8% compared to 2012. The number of acquisitions of new commercial vehicles also rose sharply, with 107 registrations in 2013, against 59 in 2012. Imports of intermediate goods, which fell sharply at the end of the year (-39.2% during the last three months) were generally down compared to 2012 (-18.4%).

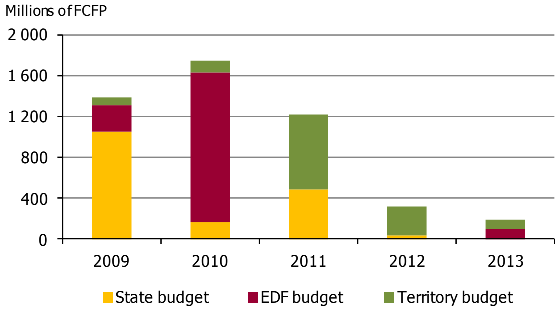
At the end of 2013, there was a decline in the financing allocated to companies for investments, which was worth a total of FCFP 1.99bn (-6.6% compared to the end of 2012). However, the stock of outstanding operating loans rose over the year, from FCFP 76m at the end of 2012 to FCFP 112m at 31 December 2013.

CONSTRUCTION AND RETAIL INDUSTRY: SECTORS THAT DRIVE THE ECONOMY

Slowdown in construction industry at the end of 2013, after nine months of dynamic activity

During the first three quarters, the construction industry benefited from a particularly strong activity. Large-scale projects, which were launched in 2010 and 2011, continued and reached completion during the year. This mainly concerns the construction of the multifunctional sports hall in Kafika (FCFP 535m), and the project for the commercial port in Mata'Utu (FCFP 1.4bn). Furthermore, several construction sites for sports facilities, which were launched in view of the Mini Games being held in the Territory (total budget of some FCFP 450m), contributed to mobilising the sector until the event took place in September. Finally, the damage caused after Cyclone Evan hit Wallis in mid-December 2012 also increased the activity in the sector in 2013.

Annual amount of notified procurement



Sources: Finance Department, Europe Unit.

Cement imports, which stood at FCFP 76m in 2013, fell by 27.7% compared to 2012. In the third quarter, the construction industry showed the first signs of a trend reversal, with a fall in cement imports, which was confirmed in the fourth quarter.

At the end of the year, a certain level of activity was maintained, thanks to some projects in both the public and private sectors, although there was a marked decline. Industry professionals are concerned about the significant decrease in the amount of public procurement notified for the third year in a row, and the absence of other opportunities in the private sector.

At the end of June, the number of workers registered in the industry – 134 employees – had risen sharply compared to the end of June 2012. A reduction in the number of workers is expected for the end of the year.

Generally positive trend for retail activity in 2013, but decline at the end of the year

After a generally positive trend during the first months of the year, activity in the retail sector also showed signs of a slowdown in the last quarter. While at the end of September the level of activity of retailers was considered satisfactory compared to 2012, the last quarter was marked by substantial decreases in sales turnover, of approximately 10 to 15% compared to the last quarter of 2012.

This observation is confirmed by the trend for consumer goods imports: indeed, while during the first nine months of the year consumer goods imports rose overall by 3.3% compared to the same period in 2012, their decline in the fourth quarter of 2013 gives an annual result that is lower than in 2012.

Tourism industry boosted by Mini Games

In 2013, 32,048 passengers took an international flight to or from Wallis. This is a marked increase compared to 2012 (+11.3%). The provision of air services reached a record level in the third quarter, thanks to the holding of the Pacific Mini Games in Wallis and Futuna, with 10,901 passengers counted by the Civil Aviation Authority.

The sports event, which was held from 2 to 12 September 2013, created a small tourist activity, albeit temporary, on the archipelago. Hotels fully benefitted, with 100% occupancy rates throughout the duration of the competition. Local craftsmen faced strong demand from visitors, which led to an exceptionally high sales turnover. Similarly, shops and snack bars near the competition venues saw a flow of customers from the sports delegations and volunteers who were there for the event.

International air traffic

Source: Civil Aviation.

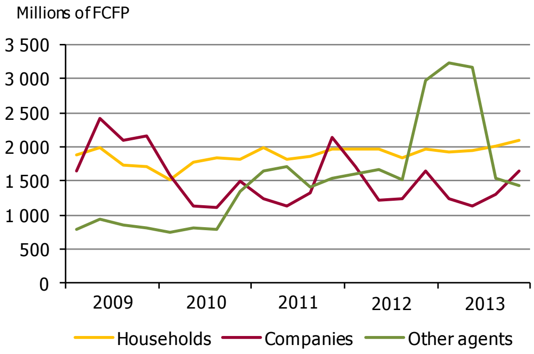
The number of tourist visits to the Territory at the end of the year remained relatively high compared to the period preceding the Mini Games.

DECLINE IN HOUSEHOLD AND CORPORATE FINANCING

Marked decline in savings

Over the year, financial assets fell by 18.3%, with a total outstanding stock of FCFP 7.17bn. Locally collected deposits, the main savings component (75%), fell by 21.3% year-on-year. Economic agents' preference for more liquid deposits is clearly visible. The decline in term deposits and special savings accounts (-64.8 % and -14.1%, respectively), was only partially offset by the increase in overnight deposits (+5.7%). There was a more moderate decline in investments outside the issuing area (-9.5%), attributable exclusively to money market fund shares, which reached maturity during the year (-64.9%).

Local deposits by economic agent

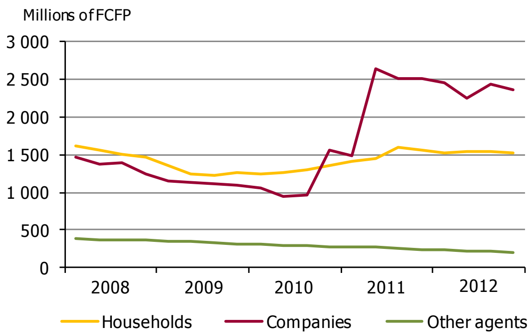


Source: IEOM.

Decline in financing activity

Following on from a dynamic year in 2012, the stock of outstanding loans allocated by all the banking institutions operating locally fell by 4.4% year-on-year (FCFP 4.16bn). Over the year, there was a 5.7% decline in corporate financing, with an outstanding stock of FCFP 2.37bn, while financing allocated to households fell by 2% over the same period (FCFP 1.53bn). Financing for local authorities is exclusively earmarked for investment and fell by 15% (FCFP 204m). Local banks allocated 44.3% of loans at local level, against 42.1% at 31 December 2012.

Outstanding loans by economic agent



Source: IEOM.

Slight fall in loss rate

The stock of outstanding gross nonperforming loans stands at FCFP 93.1m, down 2.7% year-on-year. The quality of the portfolio has remained stable since December 2012. Banks show an unprecedented rate of nonperforming loans at 4.8%, down 0.2 points over the year.

OUTLOOK

At the beginning of 2014, the construction industry, a core sector for the local economy, is experiencing a marked slowdown in its activity. The site for the reconstruction of the Leava Quay in Futuna is currently the only large-scale public contract programmed. It requires additional studies and the signing is still pending. This project is receiving FCFP 1.83bn of financing under the 10th territorial EDF.

While public procurement was the main driving force for the construction industry, local economic agents are extremely concerned about the substantial decrease in notified public procurement and the absence of other opportunities in the private sector. Indeed, the level of activity in this sector plays an essential role in the Territory's economy. It especially contributes to monetising households in an economy that continues to be traditional. The programmes for development contracts and the financing allocated under the European Development Fund earmarked for infrastructure should, nevertheless, provide companies with an activity for the coming years, albeit at a lower level than in recent years.

Since 2012, great efforts have been made to develop and professionalise the primary sector. The aim is to strengthen its contribution to local economic life in terms of the creation of wealth and employment. A recent mission conducted by the Ministry of Agriculture recommends including the development of this sector as a political priority, in particular to promote access to employment, but also to better meet the needs of the local market, which is heavily reliant on imports.

2014 could prove to be a crucial year for the Territory. The creation of a framework that is conducive to the development of private sector activity, both in terms of start-up business support and the introduction of tools to give access to bank financing, would appear to be the prerequisite for endogenous economic development.

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