

French Polynesia's economy in 2013 A transition year pending the recovery?

French Polynesia's economy remains fragile and has no real vitality. In 2013, it did not manage to return to a path of growth. The election in the spring of a new stable majority to head the territory and the first financial recovery measures taken have, to a small extent, restored confidence. The business climate is improving and there has been a recovery in investment, but the levels of both are still too low to revive activity. Households have been hard hit by the years of crisis and the continuing difficulties on the labour market, and have not returned to the path of consumption, which remained subdued, despite moderate inflation.

There were mixed results in the construction industry, while the retail sector suffered from a decline in its business. The tourist industry is, however, gradually improving and pearl farming exports are taking off again.

French Polynesia's banking sector continues to suffer from the effects of the lack of economic mainsprings, and there has been a decline in deposit collection and the lending activity. The loss rate remains high, but is under control.

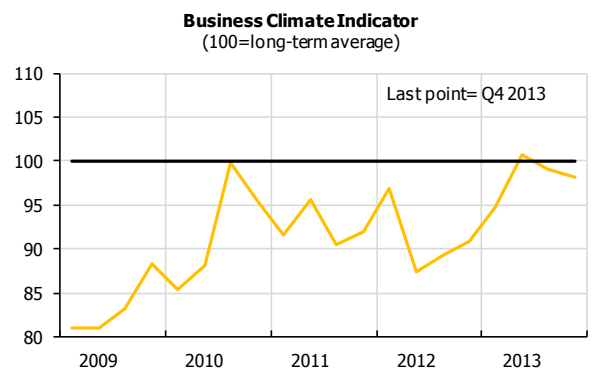
ECONOMIC ENVIRONMENT REMAINS SLUGGISH

Marked upturn in business climate

There was a marked improvement in the Business Climate Indicator (BCI) in 2013 (+7 points), especially in the first half of the year.

The renewed optimism on the part of entrepreneurs did, however, run out of steam at the end of the year, due to the lack of any clear trend: the BCI fell slightly, but remains at a level close to its long-term average.

Business leaders are on the lookout for immediate recovery measures and remain cautious, with a wait-and-see policy, especially in the construction and retail industries.



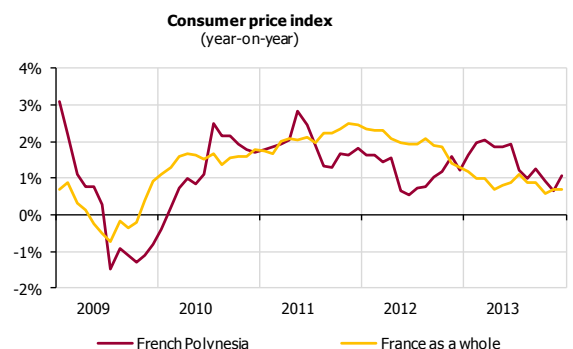
Source: IEOM economic survey.

Inflation low

Inflation remained low in 2013. It averaged 1.4% and stood at +1.1% at the end of the year, a similar rate to 2012 (+1.2%).

Prices for services (+2.5%) and food (+1.8%) rose, while prices for manufactured goods were down by 1.1%.

The rise in air fares (+8.8% year-on-year, *i.e.* the highest increase since 2008), accounts for almost half of annual inflation. When international air travel is not included, the index rose slightly (+0.5% year-on-year).



Sources: ISPF, INSEE.

Labour market still strained

There was a decline in paid employment in 2013 for the fifth year in a row. Year-on-year, the decrease (-1.0%) was, however, lower than the average for the last five years (-2.7%).

During the first three quarters of the year, the contraction in activity led to 1,300 net job losses, including 400 in the administration, where the downsizing is continuing. In the private sector, the sectors to be the most affected were the retail industry (-500 jobs, *i.e.* -5.3% year-on-year) and construction industry (-100 jobs, *i.e.* -2.3%).

The unemployment rate measured by census has almost doubled in five years. According to the ISPF (French Polynesia Statistics Office), it rose from 11.7% in 2007 to 21.8% in 2012.

Household consumption still sluggish

Household consumption is weak due to the unfavourable context.

Imports of fast-moving consumer goods (-1.1%), food products (-2.8%), and new passenger vehicle registrations (-5.4%) were down, while retail industry professionals report a decline in activity throughout the year.

At the same time, there was a slight fall in the stock of outstanding consumer loans (-1.5% year-on-year).

Recovery in investment

There was, however, a marked recovery in private investment: capital goods imports (+15.4%), and the stock of outstanding business investment loans (+2.5%), rose thanks to a few large-scale operations and there was a strong upturn in commercial vehicle registrations (+8.2%).

Home loans continued on an upward trend, benefitting from favourable interest rates (+1.5% year-on-year, after +2.1% in 2012). Household investment in property was, however, less dynamic than in previous years: in 2013, local production of new loans stood at FCFP 20bn, against FCFP 21.6bn in 2012.

The trend for investment plans was generally more positive, but was, however, negative at the end of 2013, although it did not fall to the extremely low levels of recent years.

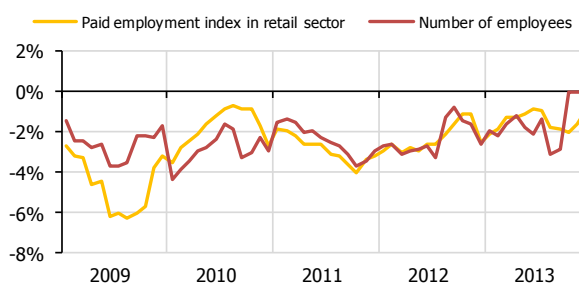
Trade deficit widens with rise in imports

There was a modest increase in imports (+1.9% to FCFP 161.5bn), driven at the end of the year by capital goods (+15.4%), following the acquisition of a new plane by the regional airline company Air Tahiti and the arrival of a ship serving Moorea (Aremiti Ferry 2). When capital goods are excluded, imports were down slightly (-0.7%), particularly those for households (-1.6%).

Local exports did, however, rise slightly (+0.4% to FCFP 11.9bn), thanks to the 11% increase in crude pearl revenues, which offset the marked downturn in other export products (fish, noni, copra, mother-of-pearl).

All in all, the trade balance deficit widened again and stood at FCFP 150bn (after FCFP 146bn in 2012).

Trend for paid employment
(year-on-year)



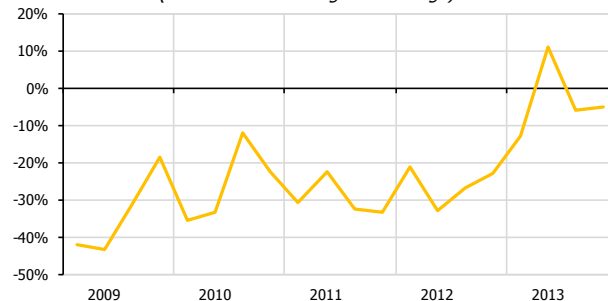
Sources: CPS, ISPF.

Imports of household goods
(in millions of FCFP)



Sources: ISPF, Customs.

One-year investment plans
(focussed on their long-term average)



Source: IEOM economic survey.

Foreign trade
(in millions of FCFP)



Sources: ISPF, Customs.

MIXED YEAR IN MOST SECTORS

Pearl and vanilla sectors escape marked downturn in primary sector

Following several difficult years, there was an upturn in the pearl industry in 2013, which was enhanced by the success of the auctions organised by the Poe o Rikitea Economic Interest Grouping (EIG). There was an 11% increase in export revenues from crude pearls, thanks to the 16% rise in the average price per gram, which went up from FCFP 491 in 2012 to FCFP 568 in 2013. At the same time, vanilla exports, the volume of which levelled off at 17.5 tonnes, rose by 5% to FCFP 316m.

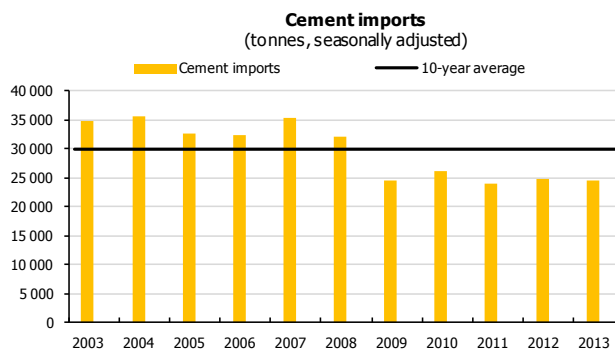
Conversely, copra production and fish and monoi exports fell by 20%, 31% and 29%, respectively, a sign of the serious difficulties in structuring several branches in the sector.

Difficulties continue in construction industry

The situation remains difficult in the construction industry, despite a slight upturn at the end of the year.

Cement consumption remained stable, but was well below the average for the last ten years (-18%). The sector continues to be marked by cashflow problems due to the lengthening of client payment periods, as well as to the low level of activity in the building sector, which has suffered from an insufficient number of new construction sites, particularly for social housing.

There was, however, an upturn in activity in the public works sector in the second half of the year, thanks to large-scale road works (tunnel construction in Punaauia, development of a dual carriageway at the East entrance to Papeete), but the increase in validated expenditure incurred is at this stage insufficient to relieve the sector.

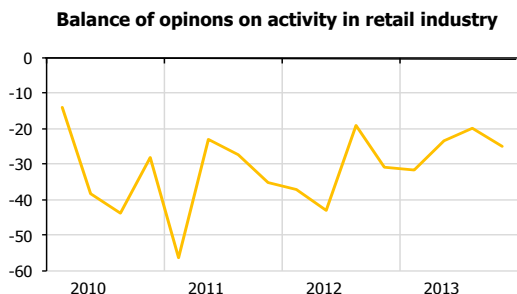


Sources: ISPF, Customs, seasonally adjusted by IEOM.

Agrifood and retail industries suffer from sluggish consumption

There was a negative trend for the activity of agrifood industries, which suffered from the low level of household consumption: copra oil production fell by 13% in volume to 6,100 tonnes, and there was once again a downturn for exports of agrifood products (-15% in volume), with the decline in sales of noni puree and juice (-28%), copra oil (-41%) and monoi (-7%).

The retail industry was also adversely affected by the decrease in consumer demand: industry professionals suffered from a downturn in activity throughout the past year and report persistent cashflow problems.



Source: IEOM economic survey.

Tourist industry gradually picking up

The trend for activity in the tourist industry remains positive, despite a slight fall in the number of tourists (-2.7%) over the year. The number of paid-for overnight stays rose (+1.2%), supported by an increase in the average length of stay (+0.3 days). The industry's sales turnover rose by 4.7% during the first nine months of the year.

The average coefficient for the hotel occupancy rate thus rose by 4 points to 61%, due to a reduction in hotel accommodation (-9%), which was higher than the decline in the number of visits. Professionals generally report an improvement in their cashflow, supported by a revaluation of retail prices.

Despite the buoyant US market, the number of visitors for land-based tourism fell by 4.4%, due to the sharp decline in arrivals from France, Italy and the main Pacific markets. The number of cruise passengers did, however, rise by 6.9%, as a result of the increase in the frequency of stops by certain locally-based cruise ships.



Source: ISPF.

FURTHER SLOWDOWN IN BANKING ACTIVITY

With a sluggish economic environment, there was a further slowdown in banking activity in 2013. There was a decline in the stock of outstanding performing loans for the second year in a row, and deposit collection continued on a downward trend.

Slight decline in the assets of economic agents

Deposits made by economic agents fell by 0.6% in 2013 (after -2% in 2012): the net outflow of savings reached FCFP 4.2bn at the end of the year. The contraction in the outstanding volume was particularly marked for companies (-4%), which made substantial withdrawals from their term deposit accounts (-16%). This was partially offset by cash deposits on current accounts (+3.7%).

There was, however, a 3% increase in household assets, driven by the good performance of long-term savings (+7%, for example, for homebuyer savings plans and +4% for life insurance contracts). Deposits by other agents continued to fall (-23% year-on-year), as a result of withdrawals made by certain institutional operators.

Decline in business financing

There was a decline in the stock of performing loans for the second year in a row (-1.7% in 2013, after -1.2% 2012).

The decrease in business financing (-6.6%), and more particularly operating loans (-10%), reflects the low level of economic activity. There was, however, a slight increase in investment loans (+2.5%), thanks to certain large-scale operations in the energy, transport and mass-market retailing sectors.

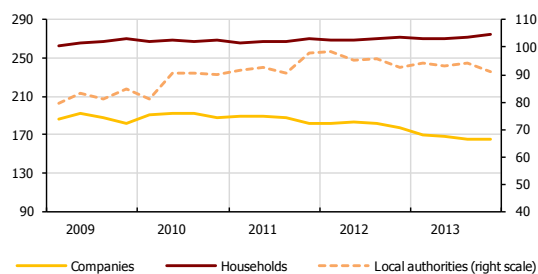
The stock of outstanding loans to local authorities fell by 1.9% over the year, due to important maturities being reached. Household loans were the only ones to increase (+1%), as the rise in home loans (+1.5%) outpaced the decline in consumer loans (-1.5%).

Loss rate remains high

The quality of the portfolios of local credit institutions continued to be stable in 2013, but the loss rate remained at a high level. The rate of gross nonperforming loans in French Polynesia's local banking sector stood at 12.6% at the end of the year (+0.6 points), while the provisioning rate was up 4.8 points to 59%.

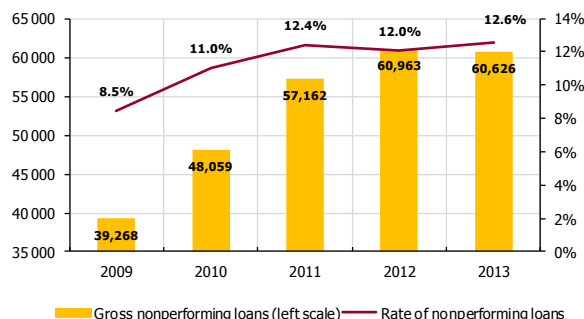
The 19.1% increase in the rate of nonperforming corporate loans (against 17.5% at the end of 2012) shows a deterioration in their capacity for financial resilience after five years of crisis. The rate of nonperforming household loans has increased more moderately (+0.5 points) and stands at 8.3%.

Outstanding performing loans by agent
(in billions of FCFP)



Source: IEOM, Surfi.

Outstanding gross nonperforming loans of local credit institutions
(in billions of FCFP and as a % of gross outstanding amount)



Source: IEOM, Surfi.

OUTLOOK FOR 2014 REMAINS UNCERTAIN

Following several years of crisis, 2013 would appear to have been a year of transition, marked by the arrival of a stable majority to govern the territory, which it was lacking. This return to stability is necessary in order to restore confidence and has brought about hope of a recovery, which is long in coming. A turnaround would, however, appear to be emerging, particularly for investment and the business climate, which should be strengthened by the rapid implementation of the Territorial Recovery Plan.

In 2014, the outlook is promising for a recovery in certain key sectors of the economy, such as the construction industry *via* large-scale public investments, or the tourism industry with the mobilisation of stakeholders and the upturn in the cruise industry. However, uncertainty remains over their ability to rapidly create a sufficient number of jobs to bring down unemployment. In the coming months, the strengthening of French Polynesia's economy remains dependent on the continued consolidation of the country's finances, which is necessary in order to recover leeway for public procurement.

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