

New Caledonia's economy in 2014

Cautious return to confidence

Following a sluggish year in 2013, New Caledonia's economy showed signs of improvement throughout 2014. Although a certain wait-and-see attitude continues to have a negative impact on most of the determinants of the economy, New Caledonian business owners say that they are gradually becoming more confident in their business activity and consider that the economic situation is less negative. Household consumption is improving, but without completely returning to its past dynamism. Investment remained subdued in the first half of the year and subsequently picked up. The trade deficit fell significantly, with exports rising far more than imports. In this context, the labour market is beginning to improve, despite a limited volume of employment opportunities.

Most sectors showed a return to higher business volumes. The nickel sector benefited from the ramp-up in activity at the new metallurgical plants and the generally more positive trend in world prices. The construction industry saw an upturn in activity, mainly driven by the private construction sector in the second half of the year. The agriculture sector, which suffered from drought at the beginning of the year, showed mixed results. There was a slight decline in tourist visits during the year, but certain niche markets are gaining momentum.

The banking system also accompanied this relative recovery and there was a marked increase in total gross outstanding loans allocated to New Caledonian economic agents. Consequently, local credit institutions consolidated their performance, in particular thanks to the continued quality of their credit portfolios.

ECONOMIC SITUATION ON THE ROAD TO CONSOLIDATION

Business confidence picks up

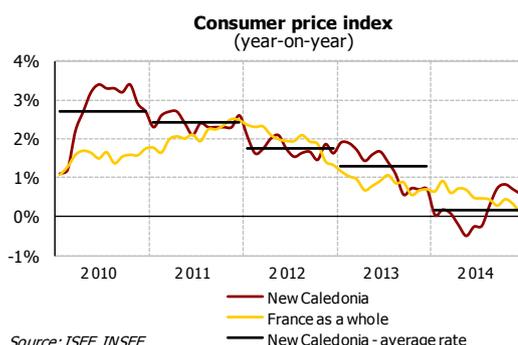
The Business Confidence Indicator (BCI) improved throughout the year and stood at 89.6 in the last quarter. It remains well below its long-term average (calculated over a 15-year period and therefore including periods with different levels of growth).

The lower level of pessimism among business owners in the first part of the year stemmed largely from positive expectations for the determinants of their future activity. Their assessment of their general activity only really improved from the third quarter onwards.



Source: IEOM quarterly economic survey.

General price levels stabilising



Source: ISEE, INSEE.

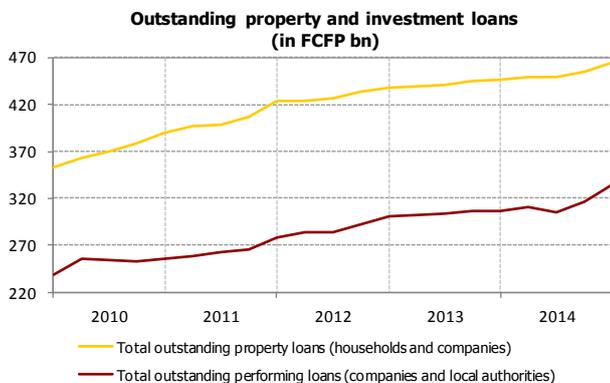
In 2014, inflation measured in terms of annual average of the Consumer Price Index (CPI) was at +0.2% and saw mixed trends. There was a very slight increase in the annual average price index (+0.2%), which saw mixed trends in 2014. It contracted in the first half of the year, concluding a long period of lower inflation, and subsequently rose, but moderately to +0.6% year-on-year at the end of December. Overall, the increase in prices was even lower than in mainland France (annual average of +0.5% in 2014). The moderate increase in food and service prices (+0.4% and +0.5%, respectively) was offset by the fall in the prices of energy (-0.6%) and manufactured products (-0.2%).

Rise in household consumption

Household consumption is gradually gaining ground, following a sluggish year in 2013, as can be seen with the renewed upturn in the opinion of retailers concerning their business activities. The automotive market is dynamic, although the 3.1% increase in the number of car registrations during the year does not compensate the decrease in 2013 (-13.5%), especially since fewer consumers now choose high-end vehicles. Imports of consumer goods rose by 0.6% during the year, with the increase in clothing products (+3.7%) offsetting the decline in household goods (-1.1%). There was also an upturn in food imports (+0.9%), which recovered their 2012 level.

The improvement in the financial situation of households is reflected in the decline in bank card confiscations during the year (-3.0%). Payment incidents involving cheques fell by 21.9%, a more rapid decrease than for the number of cheques exchanged (-9.2%, in particular following the refusal of petrol stations to accept this means of payment since September 2014). Furthermore, there was a slowdown in the increase in the number of clients banned from holding a bank account (annual average of +2.4%, after +10.4% in 2013).

Investment picks up in second half of the year



While investment intentions highlighted the marked wait-and-see policy of business owners in the first half of the year, they recovered rapidly in the second half. At the end of December, they reached a level close to – but still below – their long-term average.

There was a marked increase in imports of professional capital goods (+12.5% during the year, after -6.1% in 2013). The major upturn in imports of commercial vehicle registrations (+49%, after -25% in 2013) has not yet been reflected in registrations, which stagnated at 3,650 units, well below their historical high (4,400 units in 2010 and 2011). Finally, imports of industrial units are now negligible, after having made a significant contribution to imports of goods for investments during the construction phase of the new metallurgical plants.

These trends are combined with an increase in outstanding business investment loans (+3.0% year-on-year at the end of December). Outstanding property loans also saw a marked increase (+4.1%), bolstered in particular by the new tax exemption measures for intermediate housing, which concern households (75% of property loans), but also companies *via* property investment companies.

Finally, there was an increase in public investment during the year. Financing for infrastructure in the territory (in particular the Médipôle hospital centre) has also led to a sharp rise in outstanding investment loans to local authorities (+29.6%).

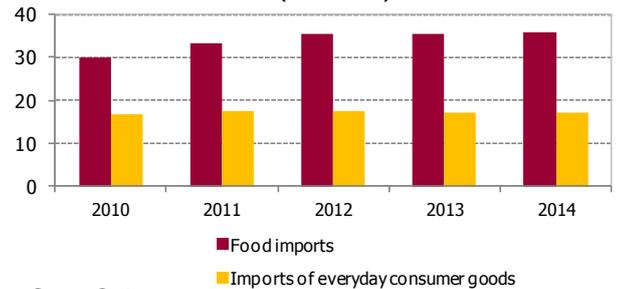
Demand for employment and the number of unemployed on benefit fell at the end of the year

Overall, there was a lack of job offers on the labour market in 2014, but its improvement at the end of the year confirms that business owners have a more positive assessment in terms of increasing their workforce.

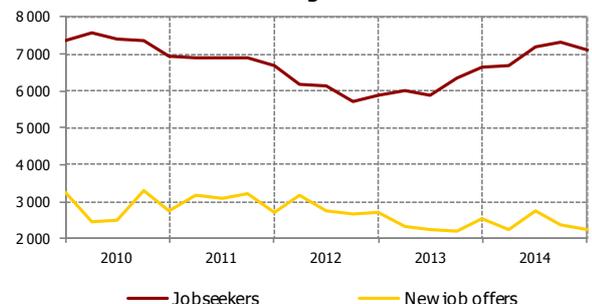
There are still not a sufficient number of job creations to absorb demand, with the increase in recruitments in the service and industry sectors being dampened by the difficulties encountered in the construction sector. The number of companies with employees remained stable and private paid employment continued to see only a slight increase (500 additional employees at 30 September 2014). At the same time, there are an increasing number of people working with a trading licence status. The number of companies without employees registered with the legal status of "natural person" consequently rose rapidly (+3.5%, *i.e.* 824 more people).

In this context, the number of jobseekers continued to rise during the year (+7.1%, *i.e.* 470 more jobseekers), but less rapidly than in 2013 (+12.7%). Most importantly, the opposite trend was seen during the second half of the year and the number of jobseekers fell during the last three months of the year, without there being an increase in the number of new job offers. The number of unemployed on benefit, after having reached a record level in April with 2,500 beneficiaries, decreased significantly in the last quarter.

Imports of household goods (in FCFP bn)



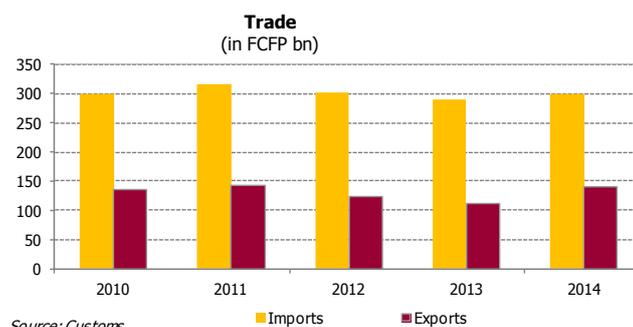
Number of jobseekers and new job offers registered



Sharp rise in exports

There was an increase in trade in 2014, in particular due to the ramp-up in activity at the new metallurgical plants. Imports rose by 2.9%, driven by mineral products (heavy fuels for power plants), machinery and electrical appliances, and transport equipment (construction site vehicles). At the same time, exports rose by 26.2% compared to 2013, driven by mineral products and nickel industry products (+32.1%) and, to a lesser extent, seafood products (+5.8%).

The trade deficit fell by over FCFP 20bn to FCFP -158bn. The coverage rate, which stood at 47.1%, thus rose by 9 points and reached its highest level since 2007.



CONTRASTING SECTORAL TRENDS

Mixed results for the agriculture sector

The high levels of drought in March and April had a negative impact on the activity of the agriculture sector in 2014. The lack of fodder and food for cattle prompted breeders to move their slaughters forward. The latter rose by 6.9% for the beef sector and by 5.2% for the pork sector, thereby reaching record high volumes. Meat imports have, at the same time, mechanically declined, but this decrease is likely to be temporary. In terms of seafood products, there has been an upturn in shrimp exports, which have risen by 10.2% in value. There has, however, been a marked decline in the volumes exported from offshore fishing, which has been partly offset by an increase in the value of products (-7.2% in value, against -21.5% in volume).

Increase in mining and metallurgical activity

In a world nickel market that shows a substantial surplus, world stocks were continuously revised up in 2014. The regulation on mineral exports that Indonesia imposed on itself, whereas it had up to now been China's main supplier, and the geopolitical tensions in Ukraine, did, however, allow nickel prices to rise gradually, from USD 6.3/lb in December 2013 to over USD 8/lb between May and September 2014. Price trends have once again become negative since this date, but this decline is largely offset by the strong appreciation of the US dollar against the euro (and consequently against the FCFP). In this context, the average FCFP price rose by 12.3% between 2013 and 2014.

Metallurgical production in New Caledonia once again experienced a sharp rise in 2014 (+19.6%, after +11.3% in 2013), following the ramp-up in activity at the two new metallurgical plants. The increase in the production of ferronickels and semi-finished products (NHC) offset the decline in mattes and finished products (Nickel Oxide). The nickel ore extracted, which is intended for New Caledonian factories, but also for a rapidly expanding export market, is also progressing at a fast rate (+9.3%).

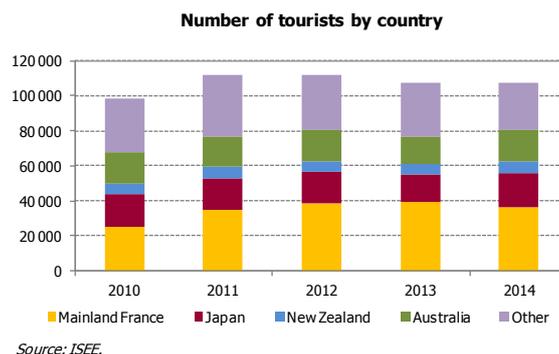
Gradual improvement in certain construction industry sectors

The construction sector continues to be faced with the significant decline in its business volume since 2012, following the restriction on large-scale social housing programmes and the completion of major infrastructure projects (particularly metallurgical plants). Paid employment in the sector weakened again (-1.0%, after -3.1%), but this decline was offset by a further increase in the number of self-employed workers. There was a sharp rise in the number of jobseekers (annual average of +11.4%), but it did, however, fall in the last quarter. The activity related to the construction of private housing is gradually being boosted by the tax exemption system for intermediate housing. In this context, the opinion of business owners concerning the activity and workforce was once again positive at the end of the year, although there continue to be concerns over cash flow due to the extension of payment periods.

Increase in tourist expenditure

The number of tourist visits to New Caledonia fell slightly again in 2014 (-0.5%, after -4.0% in 2013) to 107,200 tourists. The decline in the number of tourists from mainland France (-6.7%), which was the main source market with 36,500 visitors in 2014, was partly offset by the strong performance of Japanese markets (+21.8%, 19,100 visitors) and Australian markets (+14.9%, 18,100 visitors). This rebalancing led to an increase in tourist expenditure (+8.3%, excluding international transport).

The territory also received 421,600 cruise passengers in 2014. Consequently, cruise tourism is continuing to grow, but at a slower rate (+9.3%, after +38.7% in the previous year), benefiting from tours of short duration from Australia.



FINANCIAL ACTIVITY STRENGTHENED

The recovery in the business confidence indicator is combined with a gradual increase in monetary indicators, which had slowed significantly in 2013. Financial activity was moderate in the first half of the year, but was significantly more dynamic in the second half.

Savings progress moderately

The financial assets held by New Caledonian economic agents rose by 2.4% in 2014, for a total outstanding amount of FCFP 732.5bn. The net collection of savings stood at FCFP 17.4bn for the year, including FCFP 14.1bn managed at local level and FCFP 3.3bn invested outside the issuing area (mainly life insurance contracts, but also Livret A savings accounts). The share of savings invested outside the issuing area remained relatively stable, in the region of 20% of local savings.

Positive trend for equipment loans and property loans

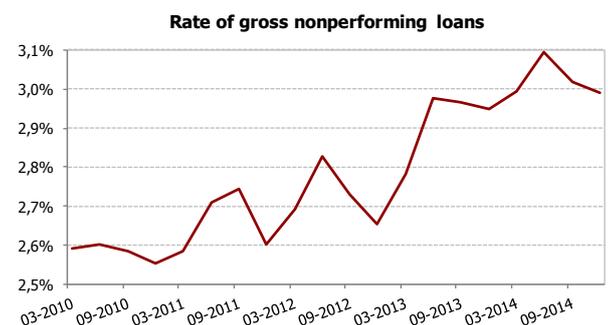
For the first time, the total stock of gross outstanding loans granted to New Caledonia's economy exceeded the FCFP 1,000bn mark at the end of 2014. It rose by 3.4%, after +2.7% in 2013. Local credit institutions accounted for 69.4% of this stock, a figure slightly lower than at the end of 2013 (-1.4 points). The total stock of performing loans to companies improved (+1.1%, after -0.8% in the previous year). The stock for households increased (+2.1%, after +1.4%), but without recovering previous growth rates (+3.3% in 2012, and +7.7% in 2011). Finally, the growth rate of outstanding loans to local authorities remains particularly high (+27.2%).

By type of financing, property and construction loans rose by 4.1% (after +2.2% in 2013), with particularly strong demand in the second half of the year, supported by the tax exemption system for intermediate housing introduced at local level. There was a rapid increase in investment loans (+9.2%, after +1.7% in the previous year) to the benefit of companies (+3.0%, *i.e.* an additional net outstanding amount of FCFP 7.1bn) and, especially, local authorities (+29.6%, *i.e.* an additional net outstanding amount of FCFP 20.2bn, including FCFP 2.4bn provided by locally established institutions).

Improvement in operating conditions for banks

The quality of the portfolio of local credit institutions, which deteriorated in 2013 following an increase in the loss rate for businesses and households, gradually stabilised in 2014. At 3%, the rate of nonperforming loans remains the lowest in the French overseas departments and territories. There was a marked increase in the Net Banking Income (NBI) of credit institutions established in New Caledonia, supported by the rise in the intermediation margin and, to a lesser extent, in the margin for commissions. The strong performance in terms of NBI is reflected in the net income of local banks thanks to the operating ratio of New Caledonian banks, which is generally higher than in mainland France, as well as a controlled cost of risk.

Although locally collected deposits do not cover credit allocations, the difference between customer-related assets and liabilities improved. The deficit fell by FCFP 1.3bn in 2014 (*i.e.* -1.0%), whereas it rose in 2013 (+4.8%). The net external position (difference between assets and commitments located outside the issuing area), which is structurally negative in New Caledonia, fell by 7.4%, to FCFP -64.8bn.



Source: IEOM.

MARKED WAIT-AND-SEE POLICY AT THE START OF 2015

At the start of 2015, New Caledonia is once again facing the wait-and-see attitude of business owners due to the institutional crisis affecting the government. In this context, the renewed confidence cautiously expressed by professionals since mid-2014 may fall back. Political issues, in view of the forthcoming referendum on self-determination, may affect the business climate.

However, the challenges facing New Caledonians are not only institutional. They are also economic and social. It is necessary to seek to diversify growth engines and improve competitiveness in order to allow the territory to more effectively cushion the economic shocks it is facing. To achieve this, there is a need to continue to mobilise the dynamism of New Caledonia's entrepreneurship and further develop its innovation potential. On the labour market, there is a persistent mismatch between part of supply and demand, which requires promoting a greater fluidity in employment, in particular by assisting and training future middle and senior managers.

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