

## New Caledonia's economy in 2015

### Morale falls again, but fundamentals resilient

The consolidation of New Caledonia's economy, which started in 2014, did not gain hold in 2015. While the main economic indicators remained stable, New Caledonian business owners consider that there was a substantial downturn in the economy and say that they are much less confident in their business. In this gloomy economic context, the labour market deteriorated again, marked by a continuous rise in demand for employment, against subdued job opportunities. However, household consumption, albeit limited, did hold up. Investment remained strong, despite a sharp deterioration in the future investment plans of business owners in the second half of the year. Foreign trade declined in value, mainly due to the fall in the prices of the main goods traded.

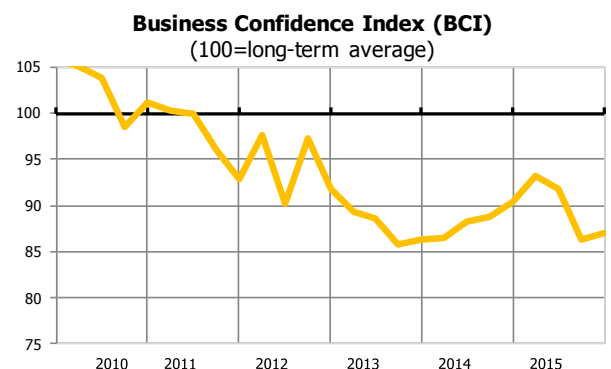
At sectoral level, there were mixed trends. Nickel operators are suffering from the deterioration in world prices, which has a long-term impact on the value of their exports and forces them to defer their investments. The primary sector showed mixed results following a further year of drought. However, despite the slowdown in public procurement, activity in the construction sector generally remained positive, driven in particular by private construction. Finally, there was a significant increase in the number of tourist visits, breaking with several years of slowdown.

In this ailing economic context, banking activity remained dynamic overall. There was a marked increase in total gross outstanding loans allocated to economic agents, as was the case with deposit collection. The performance of local credit institutions remained positive, despite a slight deterioration in the quality of their credit portfolio.

### LESS POSITIVE ECONOMIC SITUATION

#### Slump in confidence

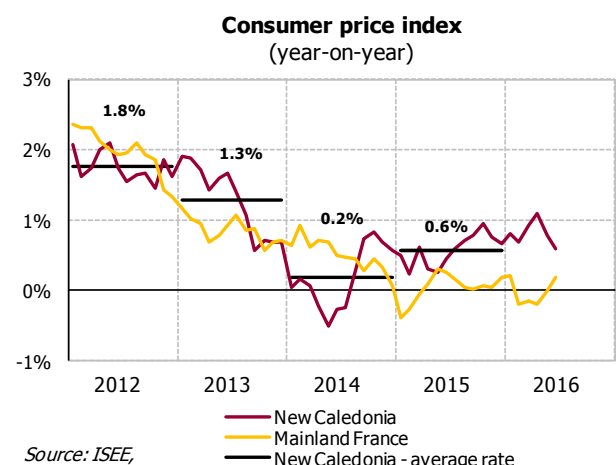
While the Business Confidence Index (BCI) had picked up throughout 2014, it fell back in 2015. It finished the year at 86.3, well below its long-term average. The downturn in the opinion of business owners starting in the second quarter stemmed from negative expectations concerning their activity and investments, which were badly affected by the truckers' dispute. Despite this, their assessment of their activity during the last quarters and the related operating conditions remained positive over the year, except in the third quarter.



#### Inflation remains low

Inflation remained limited in 2015, with the price index increasing at an annual average of 0.6% (+0.3% excluding tobacco). This increase is slightly more marked than in 2014 (+0.2%), and higher than in mainland France (0.0%).

The increase in the overall index was moderated by the fall in energy prices, particularly in the first half of the year. In the second half, the increase in prices was driven by the rise in prices for services and food, as well as the official increase of 30% in tobacco prices, which came into effect at the end of September.



## Household consumption stabilised

Following a slight rise in 2014, the picture was more mixed for household consumption in 2015. Retail confidence, which had gradually been restored, collapsed following the blockages in August. Business owners in the sector signal a decline in their business volume in the second half of the year, which was combined with a fall in the prices charged. However, at macroeconomic level, food product imports remained strong throughout the year, increasing in both value (+5.8%) and volume (+2.7%). At the same time, imports of consumer goods fell slightly (-1.0%), with the increase in clothing goods (+4.2%) not being sufficient to offset the fall in furniture imports (-4.1%). The slight increase in imports of passenger vehicles (+1.2%) was not reflected in registrations, which fell by 6.2% and consequently stood at their lowest level for fifteen years. These trends were combined with a decline in the production of leases and cash loans to households (-1.5% and -2.5%, respectively).

The financial situation of households broadly remained sound. Overdrafts with financial institutions and payment incidents involving cheques fell by 18.0% and 1.0%, respectively, while the number of individuals banned from holding a bank account and confiscations of bank cards remained stable year-on-year (+0.6% and -0.2%, respectively).

## Investment remains relatively robust

Following a continuing positive trend in the first half of the year, the investment intentions of the business owners interviewed by IEOM sharply deteriorated in the second half, reflecting marked pessimism. They particularly fell in highly capital-intensive sectors (construction industry and nickel sector), in relation to the substantial postponement of investments announced by metallurgical operators.

Imports of capital goods did, however, continue to rise (+8.7% compared to 2014), and outstanding business investment loans remained stable (+0.2% year-on-year at the end of December). The trend for the commercial vehicle market remained negative: imports of commercial vehicles fell (-22.1%, after +48.7% in 2014), combined with a decline in registrations (-14.1%), to their lowest level for ten years.

The construction industry is still driven by the local tax exemption mechanism for intermediate housing (+7.0% for outstanding property loans, mainly for households). Public procurement also remained dynamic, with the completion of the works on and equipment of the Médipôle hospital centre. Investment loans to local authorities continued to increase (+11.6% year-on-year at the end of December 2015, after +29.6% in the previous year).

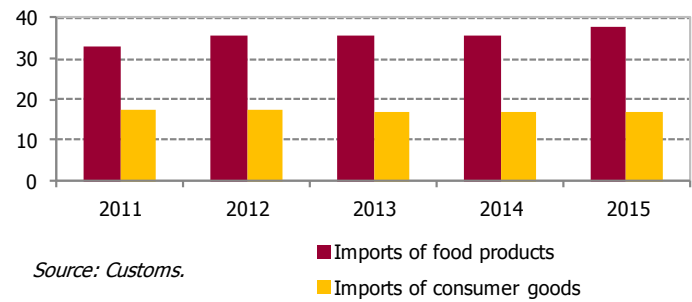
## Deterioration in job market

Following a slight upturn in late 2014, the situation of the labour market once again gives cause for concern, confirming the deterioration in the opinion of the business owners interviewed by IEOM on the trend for their workforce.

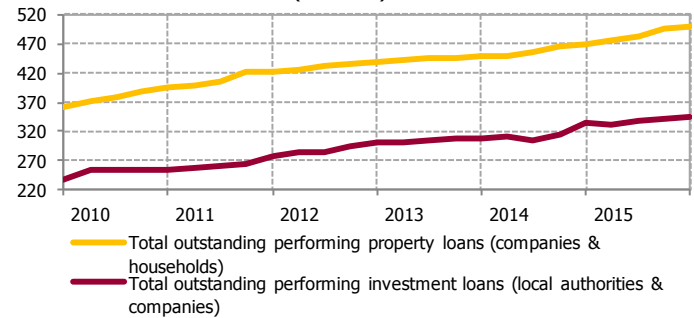
The number of companies with employees fell (-3.9%, *i.e.* -250 entities), and, for the first time, was combined with a marked decline in paid employment (-1.3% at the end of December, *i.e.* 800 employees less year-on-year). Conversely, the number of self-employed workers increased: the number of companies without employees registered with the legal status of "natural person" rose by 4.2%, representing 950 additional people.

The number of new job offers posted during the year fell by 14.2%, to its lowest level for ten years. At the same time, demand for employment (seasonally adjusted) rose continuously once again, starting in the second quarter. Year-on-year, it consequently rose by 8.9% (*i.e.* 523 additional jobseekers), a rate faster than in 2014 (+7.1%). There was a slowdown in the increase in the number of unemployed on benefit (+2.1%, after +5.5%), but the number of jobseekers concerned remains high (2,300 beneficiaries on average).

**Imports of household goods**  
(FCFP bn)



**Outstanding property and investment loans**  
(FCFP bn)

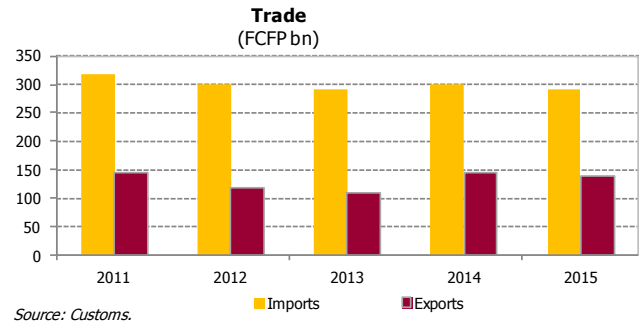


**Number of jobseekers and new job offers registered**



## Slight decline in foreign trade

Foreign trade fell slightly in 2015. Imports were down by 2.5% (FCFP -7.6bn), as a result of the fall in oil prices. At the same time, exports fell by 5.2% in value, partly reflecting the less buoyant economy. This FCFP 6.0bn decline was mainly due to the fall in value of the mineral products shipped (-5.1%), metallurgical products (-7.3%) and, with a marginal impact, seafood products (-15.0%), with the latter also falling in volume. The trade deficit fell by 1.0% in 2015 to FCFP 153.3bn. The coverage rate stood at 47.4% (-0.8 points).



## MIXED SECTORAL TRENDS

### Decline in primary sector production

In 2015, cattle slaughters fell by 5.6%. While the drought remains intense, in 2015 it did not lead to slaughters being moved forward to the same extent as in 2014. In the pork sector, slaughters fell by 6.0% year-on-year, following a marked decline in the number of births and problems related to feed quality. Shrimp production fell sharply (-25.9%), due to a shortage of hatchery-produced postlarvae, leading to a marked decline in shrimp exports (-30.9% in volume and -27.1% in value). There was, however, an increase in the volume of longline fishing, with a 2.1% rise in the tonnage fished. Tuna exports (the main resource) rose (+22.0% in volume and +46.0% in value).

### Mining and metallurgical activity suffers from fall in prices

The persistent supply surplus on the world nickel market has led to a long-term decline in prices. Nickel prices on the LME consequently fell to below the USD 4/lb mark at the end of the year. This supply surplus results from the start of production at new plants in Madagascar, Brazil and New Caledonia, at the same time as an increase in the volumes produced by China of an increasingly competitive nickel pig iron. In this context of increased production capacity, LME stocks stood at 441 thousand tonnes at the end of December 2015.

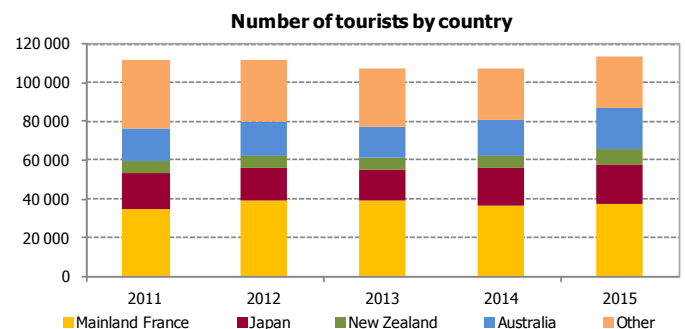
Metallurgical production, bolstered by the continuing ramp-up of production at the new plants (particularly the South Plant), rose in 2015 (+13.6% tonnes of nickel content, after +19.6% in 2014). This is due to the sharp rise in the production of NiO (+185.7%) and cobalt carbonate (+260.3%), as well as the moderate increase in ferronickel production (+3.3%), which offset the decline in matte and NHC production (-18.0% and -22.3%, respectively). The extraction of nickel ore, which is intended for local factories (61.0%) and export (39.0%), rose by 9.0% in volume. However, in value, exports of nickel ore and metallurgical products declined by 5.1% and 7.3%, respectively (9.9% excluding cobalt). This deterioration in export values has a long-term negative impact on the operating accounts of sector operators.

### Satisfactory business volume in the construction industry

The business owners in the construction industry interviewed by IEOM signal a generally more positive trend for the business volume than in 2014, and an improvement in their cash flow, while payment periods are becoming shorter. In detail, the private construction segment benefited from a positive business trend, despite a slight sluggishness at the beginning of the year related to uncertainties over the extension of the local tax exemption system for intermediate housing. In 2015, public construction once again benefited from certain large-scale projects (final works on the Médipôle hospital centre site, developments in the VKP area, etc.). However, the situation rapidly deteriorated again at the end of the year, according to business owners in the sector, who express a marked pessimism for the coming months, which is shown by the sharp fall in their investment and business plans.

### Rebound in tourism

In 2015, there was a rebound in tourism, with the number of tourist visits reaching 114,000 (+6.3%, *i.e.* 6,800 additional tourists). The recent signing of "destination contracts" boosted the number of visitors from Australia (+15.8%) and New Zealand (+25.8%). At the same time, the territory received 440,000 cruise passengers in 2015. Cruise tourism is consequently continuing its growth (+4.7% in 2015, after +9.3% in the previous year), driven by the arrival of short-stay cruise ships from Australia.



## FINANCIAL ACTIVITY REMAINS POSITIVE

Banking activity, which had experienced a sharp slowdown in 2013, is gradually picking up. The main monetary indicators are improving and at a faster pace in 2015 than during the previous year. Financial activity, which was moderate in the first half of the year, was much more dynamic in the second half. While it consequently generally runs contrary to the Business Confidence Index, it should, however, be pointed out that there has been a gradual stabilisation in investment loans.

### Savings collection gains momentum and benefits locally managed products

The outstanding amount of financial assets held by New Caledonian economic agents rose by 4.5% in 2015 to FCFP 766bn. The net collection of savings stood at FCFP 33bn for the year and mainly benefited local investments. The outstanding amount of investments outside the issuing area (mainly life insurance contracts, but also Livret A savings accounts) remained stable, at FCFP 150bn (*i.e.* 20% of the outstanding amount of savings collected locally). Although locally collected deposits do not cover loan allocations, the balance of customer-related assets and liabilities improved. The deficit consequently fell by FCFP 9.5bn in 2015 (*i.e.* -7.0%).

### Positive trend for outstanding loans, driven by property loans

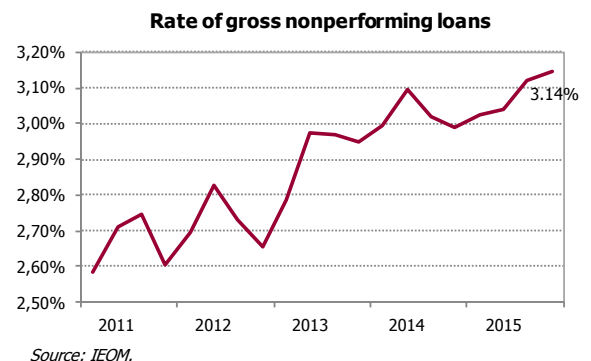
Since late 2014, the total stock of gross outstanding loans allocated to New Caledonia's economy has exceeded the FCFP 1,000bn mark. It rose by 5.2%, after +3.4% in 2014. Local credit institutions accounted for 67.9%, a figure down slightly compared to the end of 2014 (-1.5 points). The outstanding amount of performing loans to companies increased (+3.2%, after +1.1% in the previous year), as was the case for household loans (+4.9%, after +2.1%). However, although the growth rate for loans to local authorities remained high, it weakened (+12.1%, after +27.2% during 2014), due to the completion of the works on the Médipôle hospital centre.

By type of financing, property and construction loans rose by 7.0% (after +4.1% in 2014), with demand being driven throughout the year by the tax exemption system for intermediate housing implemented locally. There was a marked slowdown in the growth of investment loans (+4.6%, after +9.1%), due to the stabilisation of business loans (+0.2%, after +3.0% in 2014). The trend remained positive for investment loans to local authorities (+11.6%, after +29.6% in 2014, mainly provided by institutions established outside the issuing area).

### Loss ratio increases, but remains limited

The quality of the portfolio of local credit institutions deteriorated, with a marked rise in the stock of gross nonperforming loans declared by local credit institutions (+8.3% year-on-year). This increase, which was more rapid than for total gross outstanding loans, has led to the rate of nonperforming loans being raised by 0.15 points, although it does remain limited (+0.15 points, at 3.14% at the end of December 2015).

The Net Banking Income (NBI) of credit institutions established in New Caledonia rose by 2.2%, bolstered by the rise in both net interest and fees. There has been a slight deterioration in the operating ratio of New Caledonian banks but, at 50.1%, it generally remains higher than in mainland France. The cost of risk, which has risen, has not allowed local banks to translate their NBI performance in their results. The consolidated net income of the 4 local banks stood at FCFP 8.9bn, down 4.7% compared to 2014.



## MARKED WAIT-AND-SEE POLICY AT THE START OF 2016

Since mid-2015, New Caledonia has once again been faced with a marked wait-and-see attitude on the part of business owners, related to the deep and protracted crisis affecting the mining and metallurgical sector, and which is spreading to all business sectors. The renewed confidence cautiously expressed by professionals throughout 2014 has consequently completely subsided. Furthermore, the gradual deterioration in public finances, related to an increase in social spending at a faster rate than for resources, limits the possibilities of supporting the local economy through public procurement. Finally, the weight of political issues, which is going to be lasting in view of the forthcoming referendum on self-determination, contributes to the negative impact on the business climate.

In this context, it is necessary to actively seek to diversify growth engines and improve competitiveness in order to allow the territory to more effectively cushion the economic shocks it is facing. The dynamism of New Caledonia's entrepreneurship and its strong potential for innovation must, under the impetus of local decision-makers, support the development of sectors which have proven growth potential, such as agriculture (import substitution), tourism or the blue economy.

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Edited and printed by: IEOM

Printed: April 2016 – Legal deposit: April 2016 – ISSN 1968-6277