

New Caledonia's economy in 2016 A mixed year

2016 was a record year for production in the nickel industry, which contributed to the marked improvement in the import/export cover ratio (+7 points, at 53%). Yet the longstanding low level of prices also makes it a new year of record losses for the industry, after 2015.

This tight situation in the nickel sector is the main cause of the downturn in the business climate seen in the first quarter of 2016. Business confidence fell to a record low, due to fears over the sustainability of the activity of metallurgical industries. However, from the middle of the year, with each metallurgist in turn confirming their commitment, the business climate has rallied.

In this context, and perhaps also in connection with the various institutional deadlines, households would appear to have been more inclined to save than consume. There was a slowdown in consumption in 2016, in a context of inflation generally kept under control. Tensions on the labour market continued, with a downturn in paid employment and a growing gap between labour demand and supply.

However, the territorial and national public sector acted as a buffer against the considerable swings in the confidence of economic actors, by continuing to recruit and mobilise substantial investment resources *via* increased borrowing (outstanding amount of +27%), with tax revenues having stabilised. The investment trend also remains positive for real estate acquisitions.

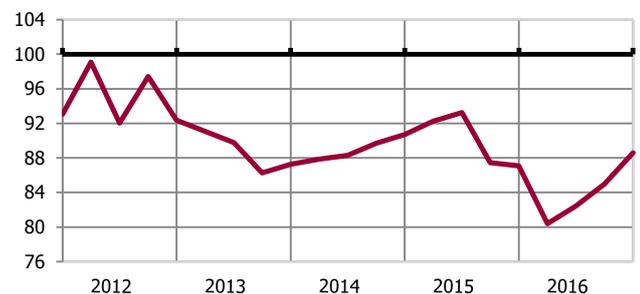
In terms of sectors, tourism professionals say that the year was generally positive, with the number of tourist visits and cruise passengers reaching a new record during the year. The primary sector and construction industry followed the downward trend at the start of the year, but there was an upturn during the second half of the year. The trade and industry sectors suffered from sluggish consumption. Finally, banking activity benefited from an increase in savings and dynamic real estate loans, in a context of controlled risks.

ECONOMIC SITUATION LESS TENSE

Confidence crisis contained

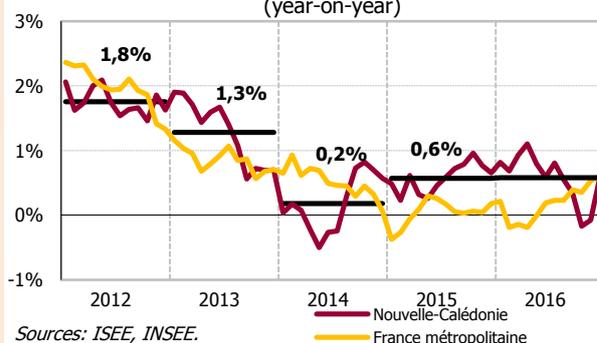
After continuing to fall in the first quarter, the Business Confidence Index (BCI) gradually picked up and reached 88.6 points at the end of the year. This level, which is still well below the long-term average, reflects the continuing economic and institutional uncertainties affecting the territory. The upturn in the BCI was, however, driven by less and less negative expectations in terms of activity and employment and more positive investment prospects.

Business Confidence Index (BCI)
(100=long-term average)



Source: IEOM quarterly economic survey.

Consumer Price Index
(year-on-year)



Inflation remains low

Inflation remained subdued in 2016, with the consumer price index increasing by an annual average of 0.6%, as in 2015.

The decline in energy prices held the increase in the overall index in check. Food prices rose by an annual average of 1.7%, and tobacco prices by 21.5%. Excluding tobacco, inflation was practically stable (+0.1%), as was the case in mainland France (+0.2%).

Fall in household consumption

Retail confidence, which collapsed in the second half of 2015 following the blockages which occurred in connection with the “truckers’ strike”, remained at a record low throughout 2016. Operators in the sector still report a negative trend in activity and a deterioration in cash flow. However, starting in the second half of the year, fewer of them reported a deterioration in their charges and intentions to invest.

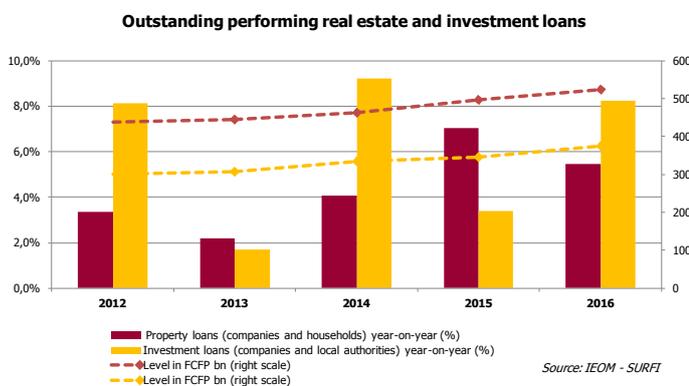
This strong sense of pessimism among retailers reflects the drop in household consumption. The 8.5% increase in imports of durable consumer goods (household appliances, electronic devices) did not offset the 4.6% decline in non-durable consumer goods. Food imports fell by 4.0%, partly due to price effects. Clothing and shoe imports lost 11.9%, and imports of hygiene and pharmaceutical products fell by 1.2%.

The decline in private vehicle registrations continued in 2016 (-10.6%, after substantial decreases in the previous years). They consequently reached a record low, and the small volume of passenger car imports (-10.2% in value) shows that car dealers continue to be pessimistic and do not expect a significant pick up in sales in the short term.

These trends are combined with a decline in consumer credit, for which the outstanding amount fell by 0.7%. The production of cash and leasing loans in particular fell sharply (-11.8% and -5.9%, respectively, compared to 2015).

The financial situation of households does, however, remain generally healthy. There was a decline in outstanding household overdrafts with financial institutions (-3.8%), and the number of persons banned from holding a bank account remained generally stable and concerned less than 7,000 people. Finally, household savings rose overall by 2.9% in 2016.

Investment mainly driven by real estate



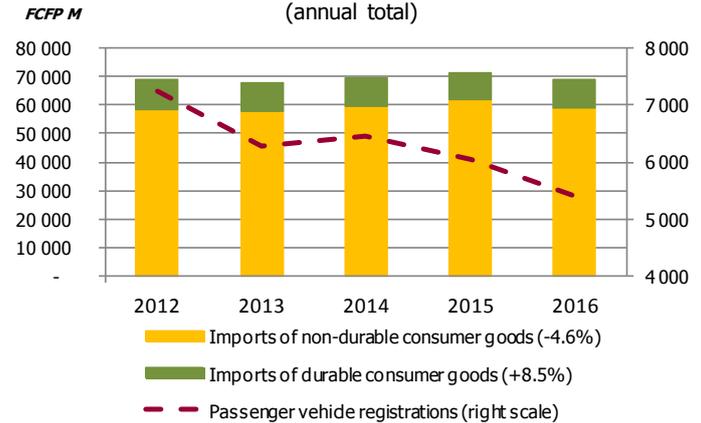
Outstanding investment loans have risen by 8.2%, driven by the increase in credit lines to local authorities. In addition, the construction industry continues to be bolstered by building construction, which benefits from the local tax exemption system for intermediate housing. Total outstanding real estate loans rose by 5.5%, due to a dynamic production for households.

Tension persists on the job market

There are growing tensions on the job market, with an ever-increasing gap between the number of end-of-month jobseekers (annual average of +9.7%) and new job offers posted (-13.5%). The number of paid work fell (annual average of -1.0%, i.e. a net loss of some 680 jobs, particularly in the industry, trade and construction sectors), which is in line with the deterioration in the opinion of the business owners consulted by IEOM on trends for their employment levels. In this context, there was a sharp increase in the number of unemployed who receive benefits (+12.4%, after -2.7% in 2015).

The number of companies with employees has stabilised (-0.3% in 2016, after a decline of 3.9% in 2015). At the same time, the number of self-employed workers rose again during the year, by 3.3%.

Main household consumption items (annual total)

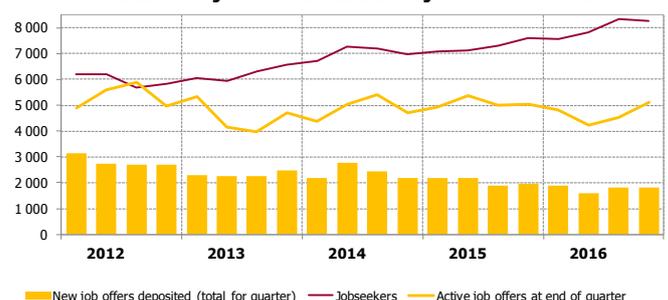


Imports of capital goods (excluding motor vehicles) fell by 11.0% to their 2013 level. At the same time, there were only 2,500 registrations of commercial vehicles, representing a further fall of 19% compared to the record low of 2015.

The investment intentions of the business owners consulted by IEOM fit in with this observation, as they fell in the first half of the year. They did, however, see an upturn in the second half of the year, and only business owners of the industry and mining sectors still expressed lower investment intentions at the end of the year. In this context, outstanding business equipment loans have stabilised.

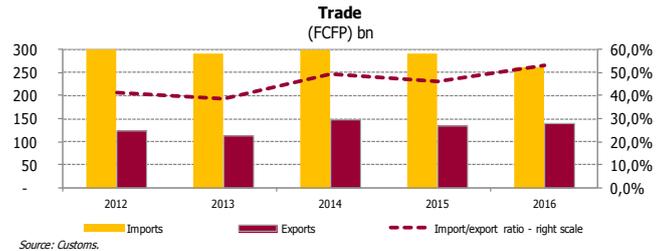
Overall, there is a more positive trend for investment.

Number of jobseekers and new job offers recorded



Sharp drop in trade deficit

There was a decline in foreign trade in 2016, especially during the first half of the year. Imports fell sharply by 10.2% (FCFP -30bn), in particular as a result of the fact that raw material prices remain low. At the same time, exports rose by 3.5% (FCFP +5bn), reflecting the vitality of the nickel industry, despite the continuing very low price levels. Indeed, 2016 was a record year for metallurgical and nickel ore exports (+4.4% in value and +11.3% in volume for metallurgical products, -14.9% in value and +5.3% in volume for nickel ore). In this context, New Caledonia's import-export cover ratio rose by 7 points in 2016 to 52.9%.

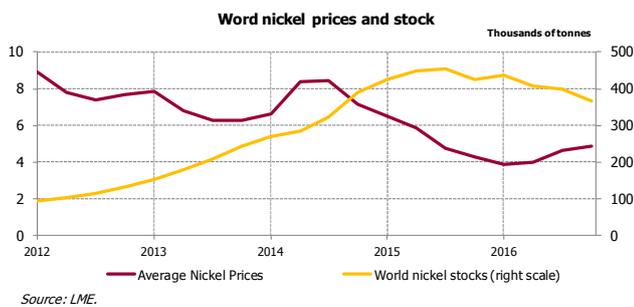


MIXED SECTORAL TRENDS

Decline in primary sector production

In 2016, cattle slaughters fell by 10.6%, as herds had been reduced following the drought in 2014 and 2015. Pig slaughters are gradually picking up (+2.5% during the year, after -6.0% in 2015). There has been an upturn in shrimp production (+21.7%), following the sharp decline in 2015 (-25.9%). In 2016, the trend was also negative for longline fishing, which is mainly destined for the local market (-12.1% in tonnage). Export volumes fell by 45.9% as a result.

Record year for nickel industry, despite low price levels



Since mid-2015, world nickel stocks have been on a downward trend (-14.1% year-on-year). Consequently, prices are gradually increasing, following a record low in the first quarter. They do, however, remain low, and have prompted operators to make significant efforts to improve competitiveness. This led to a 3.7% decline in employment in the nickel sector in 2016.

The extraction of nickel ore rose by 8.0% in volume, and is destined for local factories (62.2%), and exports (37.8%). The latter rose by 5.3% in volume, but fell by 14.9% in value.

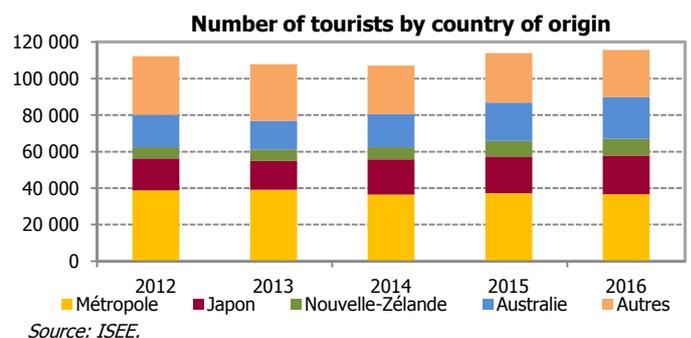
Metallurgical production, bolstered by the continuing ramp-up of production at the new plants, continued to show sustained growth (+14.4% in tonnes of nickel content, after +13.6% in 2015). At the same time, there was a sharp increase in cobalt carbonate production (+61.4%), which is reaching a significant level. Metallurgical exports rose by 4.4% in value.

Business volume in decline in construction industry

The business owners in the construction industry consulted by IEOM reported a less positive trend for business volumes than in 2015, and a fall in the number of their employees and in their prices. This overall trend masks mixed developments during the year: after reporting serious difficulties during the first half of the year, the situation was subsequently not as bad, with business owners having more positive assessments of the sector in terms of investment intentions, their cash flow, the level of prices, and employment trends. The private construction segment in particular benefits from continuing strong demand, partly driven by the regular increase in real estate loans. In this context of gradual improvement, the number of call for tenders is increasing again.

Rise in number of tourist visits

With 115,700 tourists recorded, the number of tourist visits rose slightly in 2016 (+1.5%, *i.e.* 1,725 additional tourists). At the same time, the territory received 509,500 cruise passengers in 2016. Cruise tourism is consequently continuing its growth (+14.7% in 2015, after +5.3% in the previous year), and reached a new record level driven by the arrival of short-stay cruise ships from Australia.



TREND REMAINS POSITIVE FOR FINANCIAL ACTIVITY

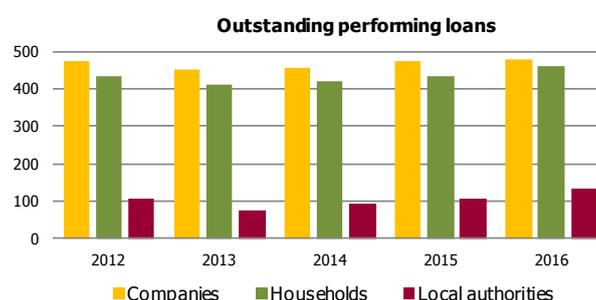
Banking activity remained generally strong in 2016. The main monetary indicators rose, although the activity was slowed down by the outstanding amount of financial assets held by economic agents. There was a 5.2% increase in loans allocated to the entire New Caledonian economy in 2016, a stable rate compared to 2015. However, this dynamism masks mixed trends depending on the type of loan and client segment.

Savings collection gains momentum and benefits locally managed products

The outstanding amount of financial assets held by New Caledonian economic agents rose by 2.2% in 2016, with a total outstanding amount of FCFP 783bn. The net collection of savings stood at FCFP 17bn for the year, mainly for local investments. The outstanding amount of investments outside the issuing area (mainly life insurance contracts, but also Livret A savings accounts) rose at a slower pace (+1.4%) to FCFP 152bn (*i.e.* 20% of the outstanding amount of savings collected locally). Locally collected deposits do not structurally cover loan allocations, and the balance of customer-related assets and liabilities deteriorated again. The deficit consequently increased by FCFP 12bn in 2015 (*i.e.* +9.4%).

Positive trend for outstanding loans, driven by property loans

Since the end of 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%, as in 2015. Local credit institutions accounted for 67.1%, a figure down slightly compared to the end of 2014 (-0.8 points). There was a slowdown in the growth of the total outstanding amount of performing business loans (+0.9%, after +3.2% in the previous year), while the amount for household loans held steady (+4.6%, after +4.9%). Financing for local authorities was particularly dynamic (the outstanding amount of performing loans rose by 26.6% in 2016), following the trend observed in previous years. Consequently, in 3 years, the outstanding amount to local authorities has doubled, with the latter now borrowing more to finance their investments, in a context of a stabilisation of tax revenues.



Source: IEOM (All credit institutions, in FCFP bn).

By type of financing, real estate and construction loans rose by 5.5% (after +7.0% in 2015), with demand still being driven by the tax exemption system for intermediate housing implemented locally. The outstanding amount for business investment loans remained stable (+0.4%, after +0.2%), while there was a sharp increase in the outstanding amount for loans to local authorities (+26.8%, after +11.6% in 2015), mainly driven by institutions established outside the territory.

Loss ratio stabilises at a limited level

The quality of the portfolio of local credit institutions, which had deteriorated in 2015 with a marked rise in the stock of gross nonperforming loans (+7.3% year-on-year), stabilised in 2016 (+0.6%). This increase, which was not as rapid as for total gross outstanding loans, led to a slight reduction (-0.13 points) in the rate of nonperforming loans, which stood at 2.8% at the end of December 2016. The amount for local institutions was only slightly higher and remained stable at 3.1%.

The consolidated Net Banking Income (NBI) of the four banks established in New Caledonia has stabilised (+0.2%, after +2.2% in 2015), with the fall in fees (-3.7%) offsetting the increase in net interest (+2.7%). The operating ratio of New Caledonian banks deteriorated slightly, but at 50.3%, remains generally higher than in mainland France. The cost of risk has practically doubled, after bad debts were recorded as losses and substantial provisions were made for risks and charges. Consequently, the consolidated net income of the four local banks stood at FCFP 7.7bn, down 12.8% compared to 2015.

A CYCLICAL IMPROVEMENT TO BE CONTINUED IN 2017

Economic actors became increasingly concerned in 2016, as a result of trends on the world nickel market. This had an impact on economic activity, particularly *via* a negative trend in household consumption.

However, the record volume of nickel produced, the continuation of public spending, and the good performance of real estate boosted by credit did minimise the impact of this increase in concerns over growth. There was also a more positive trend for the economy starting mid-year. Consequently, the gradual return of a less unfavourable business climate gives a sign of a better start to 2017, provided, however, that the wait-and-see attitude, particularly with the upcoming institutional deadlines, do not prevail.

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