

## New Caledonia's economy in 2010: A well-oriented year but with uncertainties

New Caledonia's economy remained well-oriented, as it was in 2009, riding on the back of the robust recovery in demand in emerging countries – which notably led to a high level of nickel prices – and strong domestic demand, which was not only supported by the major ongoing works, but also by dynamic household consumption and investment.

Growth will undoubtedly be lower than that observed over the past decade (+3.4% per annum between 2000 and 2009), but it will remain higher than in the major Western economies.

Following a subdued year in 2009, the nickel sector benefited from a high nickel price and from the reopening of the Yabulu plant in Australia. The sector has consequently supported growth, despite delays in starting production at the South plant, especially when the impacts of the construction of the North plant are taken into account.

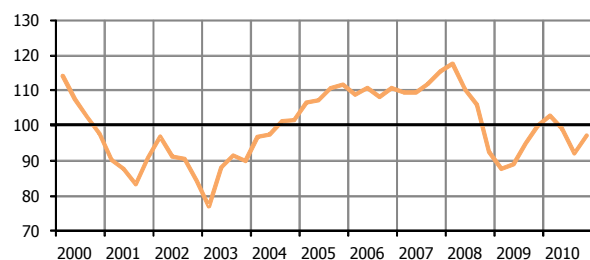
And yet 2010 has not been without concerns or uncertainties and certain indicators remain under surveillance as they are likely to affect medium-term growth. This is particularly the case for inflation, which remained high, or the recent deterioration that IEOM surveys have observed in the business climate. This fall in business leaders' confidence may seem paradoxical in view of the different economic indicators, most of which are flashing a green light. It can, however, be explained by a combination of factors which impair their long-term vision: impact of the defiscalisation law reforms, definition of Noumea's new Urban Planning Master Plan, increase in operating costs and, in particular, in the minimum wage, announcement of financial difficulties for certain local authorities, the main upcoming institutional deadlines, or again the budget tightening affecting France. This relatively negative perception of the future, although it may be disconnected from the reality of the figures of the moment, must not be neglected. Indeed, only a climate of serenity and confidence is conducive to sustainable economic growth and social development.

### A YEAR OF PARADOXES

#### Business climate hesitant

Although the Business Climate Indicator (BCI, excluding nickel), building on the improvement at the end of 2009, had recovered or even exceeded its average long-term level at the beginning of 2010, it subsequently constantly deteriorated before experiencing an upturn at the end of the year, without however reversing the slide. This paradoxical evolution of the BCI in view of the favourable economic indicators can be explained by the combination of the short/medium-term uncertainties mentioned above.

Business climate indicator (BCI) – excluding nickel  
(100 = long-term average)

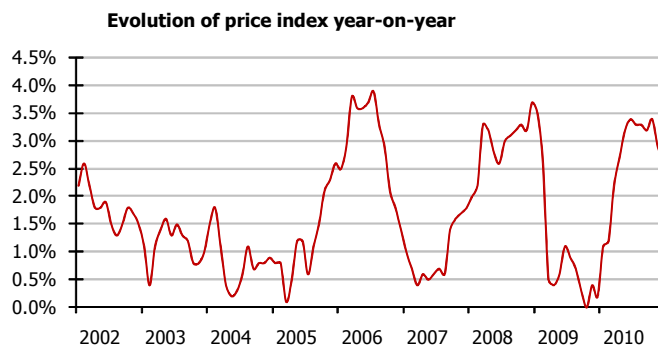


Source: IEOM quarterly economic survey

## Inflationary pressures

While the increase in prices had been held in check in 2009 (+0.2% in connection with the decline in commodity prices), it once again saw an upward trend in 2010 and reached +2.7% year-on-year at the end of December. It does, however, remain lower than the levels reached at the end of 2008. This return of inflation can be explained, for 0.5 points, by the rise in energy prices (in correlation with the rise in global oil prices) and, also for 0.5 points, by the increase in tobacco prices at the beginning of the year. However, beyond cyclical increases, the territory has suffered from strong inflationary pressure linked to the depreciation of the euro, which has led to a loss of purchasing power of the Pacific franc, particularly *vis-à-vis* Pacific zone currencies. Certain basic foodstuffs have risen at a fast rate, as a result of the surge in agricultural commodity prices, such as rice, vegetables (+10.1%) and sugar (+15.6%). Other “constrained” expenses, such as water (+12.8%), gas (+4.8%) and fuels (+8.7%) have also contributed, sometimes considerably, to the rise in the price index.

In the real estate sector, the BT 21 index, which had experienced a period of decline in 2009, also rebounded in the second half of the year, recording a 3.7% increase at the end of the year. The maximum annual increase applicable to rents, a significant feature due to its calculation method,<sup>1</sup> was nil from January to October before edging up at the end of the year.



Source: ISEE

## Active labour market

In 2010, the number of end-of-month job-seekers finished the year on a positive note at 5,716, down 5% over a year. This is the first reversal in the upward trend which began in mid-2008. The number of job-seekers in 2010 on average does, however, remain up by 5% compared with 2009 with a general increase in the three Provinces. Yet labour supply remained buoyant: it recorded a 6% decline compared with 2009, but does, however, remain at a historically high level, with some 11,000 new offers published in 2010. Paid employment provides further evidence of the dynamism of the labour market: following a slight slowdown in 2009, and according to the first figures available from CAFAT (New Caledonia Social Welfare Authority), it rose 3.1% in 2010 with some 2,200 net creations.



Source: Institut pour le Développement des Compétences en Nouvelle Calédonie

## Consumption and investment well-oriented

Following 2009, a year in which the upward trend in household consumption had run out of steam, 2010 marked the return of household confidence with practically all indicators green. This was the case for imports of foodstuffs or everyday consumer goods, which rose by 11% and 13% over a year. In the same period, passenger vehicle imports and registrations were also well-oriented (+12% and +2%).

Despite business leaders' concerns, the objective investment indicators also returned to a path of growth. For example, capital goods imports, under the impetus of various ongoing projects, rose by 23% in 2010 after having fallen in 2009 (-23%). Over the same period, commercial vehicle registrations picked up (+11% after -4% in 2009), while imports remained stable. However, these figures must be analysed with precaution as the impact of major projects, particularly for the North plant, may be difficult to measure, but is necessarily extremely strong. Household real estate investment saw a strong recovery.

## Record trade deficit despite high nickel price

A further paradox in New Caledonia's economy in 2010 is that the trade deficit reached a record level of over FCFP176 billion, despite the fact that exports (+45%) were boosted by the rise in nickel prices (+48%). This situation can be explained by the rise in imports (+36%), which was partly due to buoyant household consumption, but especially to the arrival of Chinese modules for the construction of the North plant. Industrial plants consequently account for almost half the rise in imports in 2010.

<sup>1</sup> Average smoothed over 12 months of the evolution of consumer prices and of the BT 21 index.

## MAIN BUSINESS SECTORS

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### Nickel, a buoyant sector

After a mixed year, which continued to suffer from the impact of the decline in nickel prices in 2008, the recovery in the nickel sector that began in mid-2009 took hold in 2010. The price continued to be boosted by Chinese demand and consequently rose by a yearly average of 48% to \$9.9/lb. It even reached a peak in April at over \$12/lb due to a supply/demand deficit (notably connected with the strike affecting the Sudbury mining complex in Canada).

In 2010, nickel stocks returned to more reasonable levels, giving rise to less uncertainty on markets and constituting a factor of price stability. They consequently fell from over 160,000 tons in January to 116,000 tons at the end of July, before finally rising to 134,000 tons in December.

New Caledonia's mineral exports rose by 30%, mainly owing to the increase in deliveries to Australia (+59%). This client accounts for half of mineral exports, which had been affected during the 1<sup>st</sup> half of 2009 by the temporary halt in production at the Yubulu hydrometallurgical plant in Australia and by the adverse weather conditions in New Caledonia. Exports to South Korea remained stable over the year, while those to Japan rose by 32%.

October was marked by the commissioning of the New Caledonia Vale plant. However, on 21<sup>st</sup> April it suffered a major incident: the body of one of the primary extraction units (used to elute nickel) broke at its base. This setback forced it to temporarily only market a semi-finished product called NHC (Nickel Hydroxyde Cake). Production at the Doniambo plant for its part reached 53,718 tons of nickel against 52,132 tons during the previous year (+3%). Its metal exports rose by 9% over the same period.

### Good year for the construction sector, boosted by North plant and major projects

In 2010, cement consumption surged by 15% compared to 2009. This increase can be explained by cement consumption for the construction of the North plant, which increased sixfold over a year and accounts for 14% of total consumption during the year. Activity in the construction sector (excluding nickel projects) was generally less buoyant in 2010, with two distinct periods: cement sales declined during the first half, then recovered with a yearly total up 2% (against +4% in 2009). This sector suffered from a considerable amount of uncertainty during the year, particularly as a result of the defiscalisation reform in mainland France, Noumea's new urban design plan, the future demobilisations at the North plant construction site or again the situation of local authority finances and, consequently, of public procurement. The situation did, however, improve slightly at the end of the year, with certain favourable amendments to the defiscalisation law being voted, as well as the Scellier Law being adjusted for the Pacific region.

### Two-sided tourism

In a context of a faster than expected recovery in global tourism in 2010 (+7%), New Caledonia experienced an opposite trend with a fall in tourist visits for the second year running (-1% after -4% in 2009). Indeed, while all world regions, particularly Oceania (+6%), saw a rise in frequentation, New Caledonia, with 98,562 tourists in 2010, once again remained below the threshold of 100,000 tourists, *i.e.* its lowest level since 1996. These results can be put down to a difficult first half with a deficit of nearly 5,700 tourists (93% were tourists from mainland France). The situation subsequently saw a marked improvement with the loss falling to 817 tourists at the end of the year. With 30,603 tourists, the fourth quarter ranks among the best quarters in terms of tourist visits. All the major outbound markets declined over the year; however, the Oceanian market improved with a marked increase in tourists from Wallis-et-Futuna, French Polynesia and Vanuatu.

On the contrary, cruise tourism, which had experienced a slowdown in 2009, topped the mark of 200,000 tourists in 2010 for the first time (+55% over the year).

### Aquaculture still in crisis and livestock raising recovering

Shrimp farming, with 746 tons exported, saw its worst year since 1996. In addition to structural problems, which have been handicapping the industry for several years, farmers did not manage to sufficiently seed their ponds due to a lack of post larvae. The Agency for the Prevention and Compensation of Agricultural or Natural Disasters consequently decided to allocate FCFP180 million of aid to compensate the losses incurred by farmers due to this shortfall in the delivery of hatcheries.

The high seas fishing sector continued to recover. Tuna exports exceeded 1,000 tons for the first time since 2005, *i.e.* a level equivalent to that prior to the onset of the crisis. These good results are particularly due to the more favourable weather conditions, which allowed a higher number of days at sea per boat.

Slaughterings of bovine and pig meat rose at a strong pace in 2010, respectively +12% and +15%. It is worth noting that bovine slaughtering consequently recovered its 2005 level, almost reaching the 3,000 tons that were produced prior to the crisis. At the same time, bovine meat imports declined (-5%) for the first time since 2003, while pig meat imports rose by 55% (after -1% in 2009).

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# FINANCING THE ECONOMY

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## Assets stock higher, but “wait and see” policy

At 30<sup>th</sup> September 2010, the rise in money supply gathered pace with strong growth in M3 (+15% in one year against +8.8% in 2009). This evolution particularly concerns the M1 narrow aggregate (+17.2% against +9.9%), under the influence of demand deposits (+18% against +10.2%), notably reflecting the cautious behaviour on the part of economic agents for several quarters. The local banking system, which is structurally seeking client resources, benefited from a collection rate that was higher than its financing activity (+19.8% rise in collected deposits against +7.3% for loans). The banking sector consequently shows an improvement in its balance of client fund sources-uses (which improved by 25%). This was also the case for its net external position (difference between assets and commitments located outside the issuing zone) of which the balance, which is structurally negative in New Caledonia, was reduced by 30% to -FCFP57 billion at 30<sup>th</sup> September 2010 against -82 billion one year before.

## Lease financing no longer popular...

Although the activity was generally more buoyant in 2010, the evolution was not homogeneous among financial establishments. For example, establishments outside the issuing zone benefited from a buoyant financing demand from social operators and local authorities, with outstanding amounts up 20.8% over twelve months. Local credit establishments, for their part, saw a smaller increase in their outstanding amounts at +7.3%. They did, however, benefit from greater household demand (+10.4% over a year against +7.2% in 2009), particularly in terms of real estate loans, while corporate demand for financing fell slightly (+3.8% against +4.3% in 2009).

Local financial companies, for their part, saw a marked decline in their activity, with a gross outstanding loan amount down 2.8% over twelve months. This evolution should be compared with the fall observed – for all categories of economic agent – in demand for lease financing (-3% over twelve months), which accounts for the bulk of their activity. Moreover, financial companies saw a deterioration of their portfolio quality, with a rate of doubtful loans rising from 5.9% to 6.4% in one year, whereas this rate remained stable (at only 2.6%) for the other local credit establishments.

## ...unlike real estate financing

Household real estate investment saw a strong recovery with outstanding home loans rising by 10.8% between September 2009 and September 2010, against an 8.3% rise during the previous period. This evolution is partly related to the favourable conditions in terms of interest rates: the six-monthly survey on the cost of credit conducted by IEOM for the months of July and August 2010 show a half-point decline over a year of the averaged weighted rate of real estate loans to private customers to 4.76% against 5.28% one year before. The production of new home loans for households consequently once again exceeded 50 billion in 2010 after having fallen to FCFP42 billion in 2009.

## OUTLOOK FOR 2011

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2011 has not begun under the best auspices with, notably, the passage of the powerful tropical depression Vania, which affected the economy in general and agriculture in particular. Moreover, although New Caledonian households recovered their morale and the path of consumption in 2010, business leaders continue to remain extremely cautious, particularly in terms of their intentions to invest. The political context is also experiencing some tensions at this beginning of the year. However, several factors are likely to foster the return of confidence: interest rates are expected to remain low, benefiting investment by both households and businesses; emerging countries – and notably China – are experiencing a marked growth in their economies, which should benefit nickel, a key sector for New Caledonia’s economy, with prices that should remain at high levels according to analysts; 2010 was profitable in terms of tax revenues, which will give local authorities some leeway and will allow them to support public procurement; finally, the latest amendments to the defiscalisation law in mainland France provide some reassurance for the real estate activity.

A number of challenges will also have to be faced, since 2011 will be a crucial year for several major projects (holding of Pacific Games, continuation of the North plant construction, increase in activity at South plant) for which the investment phases are reaching completion and for which relays will need to be identified. Holding inflation in check will also be a major challenge. Indeed, endogenous and exogenous inflationary pressures will need to be monitored: impact of the revaluation of the minimum guaranteed wage, fluctuation in euro parity with the currencies of New Caledonia’s main supplier countries, evolutions on agricultural commodity markets, as well as the price of the barrel of crude oil. Moreover, most of the paradoxes observed in 2010 are related to issues that New Caledonia needs to resolve in the medium term, such as, for example, the stabilisation of public finance revenues or again the trade balance deficit and the underlying need to seek external financing.

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