

## The economy of French Polynesia in 2011 Persistently sluggish conditions

The Polynesian economy continued its downward trend. The business climate suffered from a decline in public procurement, slowed down by a new change in government in April 2011 and the weak foreign demand that is still adversely affected by the international crisis.

The fall in their turnover for the fourth consecutive year and the cash-flow difficulties with which they are faced has deteriorated the confidence of business leaders curbing their desire to invest and leading them to downsize in order to cope with declining business. The continual deterioration of the employment market had an unfavourable impact on household investment and consumption which are at a standstill.

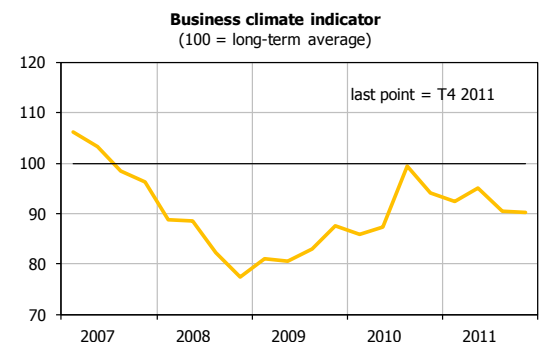
The weak economic activity has gradually progressed to all business sectors even though the tourism sector has recovered in favour of a better oriented first half-year.

Within a context of persistently subdued economic conditions, the banking sector found it hard to limit the adverse effects on loan activity, even though it saw a slight recovery in the last quarter, it recorded a net downturn compared with the previous year. The increase in the cost of risks continued moreover, draining the results of the banks by as much, banks which are faced with decrease in the deposits of economic agents.

### BUSINESS ON A DOWNWARD TREND

#### A subdued business climate

The business climate indicator (BCI) deteriorated in 2011 following a hesitant rebound in 2009 and 2010. Despite a slight surge in the second quarter, it remained largely below its long-term level (-9.7 points). This lack of confidence from professionals in the business sector generalised during 2011, going hand in hand with the difficulties faced in the tourism sector during the second half of the year and the absence of recovery of public procurement.

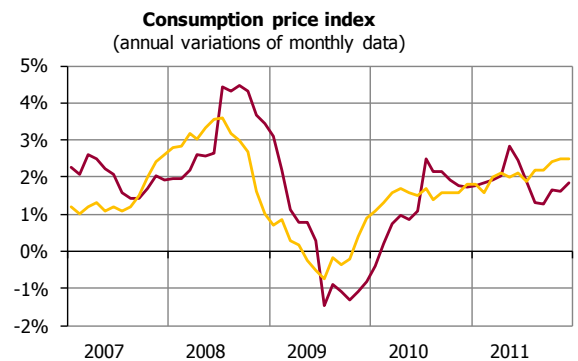


Source: IEDOM economic survey

#### Relatively constrained prices

The increase in prices remained relatively constrained in 2011. On a year-on-year basis, the consumer price index stood at +1.8 % on 31 December 2011 that is a rate largely less than that observed nationally (+2.5 %).

This increase in prices largely resulted from the rise in energy prices (+9.0 %) and foodstuffs (+4.0 %). There was a slight increase in the price of services and manufactured goods respectively 1.2 % and 0.9 %.



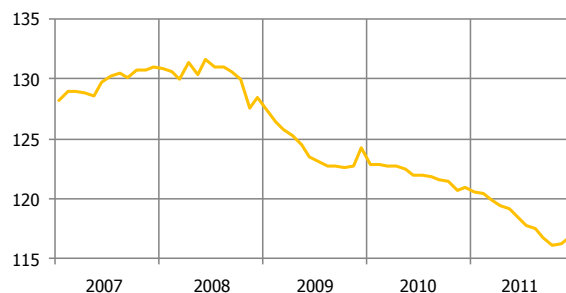
Source: ISPF

## New deterioration in the employment market

Suffering from a downward trend since 2008, the workforce declared to the social insurance fund (CPS) once again decreased. The fall was assessed at 3.4% on a year-on-year basis in September 2011 (latest figures available), after a decrease of the same significance as the year before (-3.3% in September 2010). Almost 2,200 jobs were destroyed in a year despite the aids to maintain jobs provided by the Polynesian government.

The construction (-282 jobs, that is -5.5 % on a year-on-year basis) and the trade (-342 jobs, that is -3.7%) sectors were the most affected by these reductions. Contrary to other business sectors, the agri-food industry created 170 jobs hence an increase in the workforce of 12%. Finally, as the labour market experienced a more significant downturn at the end of the year, the paid employment index saw a decline of 3.5% on a year-on-year basis at 31 December 2011 after - 2.7% at the close of 2010

**Paid employment index in the business sector**



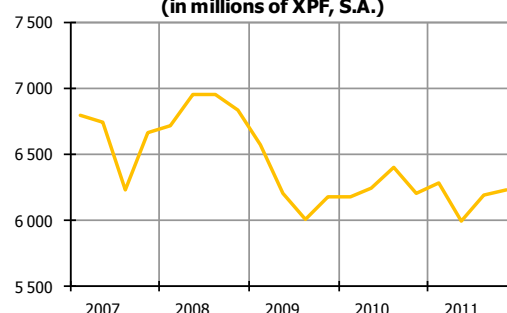
Source: ISPF

## Subdued household consumption

Household consumption remained sluggish after once again suffering from the decline in the labour market. Whilst imports of agri-food products continued to rise at the same rate as the year before (+5.9 %), imports of non-food consumer goods saw a downturn (-1.3 % after +0.5 % in 2010). Moreover, following in the wake of the end of the car scrapage scheme there was a sharp decline in registration of new private cars which decreased from 3,900 vehicles in 2010 and 2009 to 3,000 in 2011.

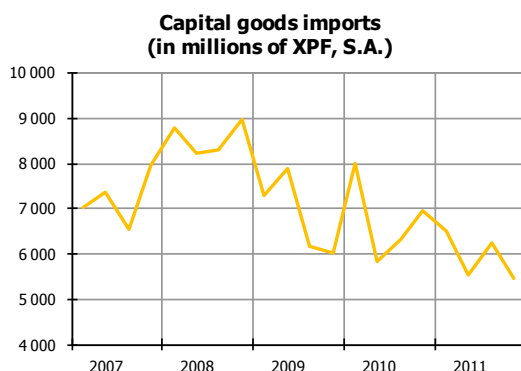
There was a significant decrease in consumer credits (-6.2% year-on-year).

**Consumer goods imports (in millions of XPF, S.A.)**



Source: ISPF

## Corporate investment stagnates



Source: ISPF

According to the IEOM economic survey, businesses significantly reduced their investments owing to a faltering level of activity throughout the year and uncertainties with regard to the medium-term future. Capital goods imports which had already decreased in 2009 and 2010 once again significantly fell in 2011 (-12.2%), sales of new commercial vehicles also saw a decline along the same lines (-12.4%). Private investments are now supplanting public procurement which has been suffering a downward trend since 2008, restricted by budgetary difficulties of the territory.

Household investments have also suffered a downturn: home loans outstanding decreased by 28.7% over a year despite implementation of a new scheme to facilitate home ownership decided by the Polynesian government in September 2010.

## Waning external trade

There was a fall of 0.9% of goods imports to French Polynesia which recorded XPF 154 million francs whereas exports rose by 3.6% (XPF 14.4 billion). The fall in imports resulted from varied sources: significant decrease recorded for purchase of capital goods, intermediate goods and products of the automotive sector were in fact compensated by significant increase in the energy bill (+22.1%) related to the surge in oil prices and to a lesser extent the increase in agri-food products (+5.9%).

For the most part, the rise in export resulted from the increase in local exports with considerable rises in sales of fish, coconut oil, mother of pearl, monoi oil, noni fruit puree and juice. Only sales of unworked pearls and vanilla fell respectively by 3.3 % and 4.4 % in value.

Finally, there was a slight decrease in the trade deficit in 2011 which stood at XPF -139.6 million (against -141.5 in 2010).

# GENERAL DETERIORATION OF THE ECONOMIC CONDITION

## Mixed results for the primary sector

There was noted improvement by the sector professionals in 2011 of their business in the second and third quarter after a poor 2010 due to damage caused by Oli in February. This trend was not confirmed in the last quarter.

The pearl farming sector once more saw a decline in value in its unworked pearl exports (-3.3%, against 2% in 2010 and -26% in 2009). This downward trend also extended to exported volumes (-8.5%). The sale price was still at a low level close to XPF 485 per gram on average over the year despite the recovery noted in the fourth quarter.

Fish yields remained high and there was once again a high increase in the quantities of fish exported (+26.2 % against +22 % in 2010) resulting from a significant rise in prices and to a lesser extent tonnage. The new sea cucumber market in Taiwan and Hong Kong experienced positive development this year providing new prospects for revenues for the fish sector.

The production of coconut oil rose throughout the year reaching a total of 23.6% for the period under review.

## Good results for the industrial sector

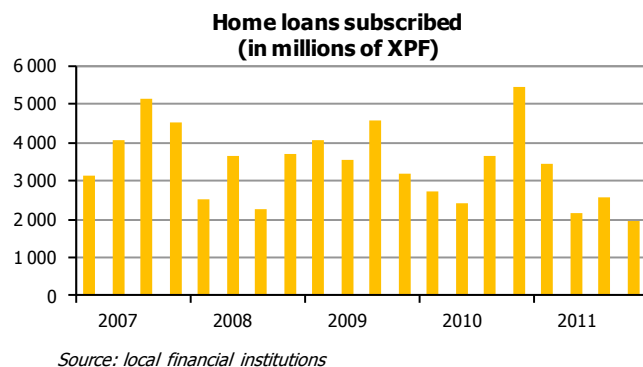
In 2011, the business flow of industrial companies remained at a low level. This downtrend in the activity was demonstrated by the fall in imports of intermediate goods (-5.6 %) and by the sharp decline in low and medium voltage electricity consumption (respectively -7.0% and -4.5%).

However, the value of agri-food products exports continued to rise (+27.3 % in 2011 against +8.2 % in 2010) due to the surge in the sale of noni fruit puree and juice (+5,2 %), coconut oil (+86.1 %) and monoï oil (+26.5 %). Accordingly, coconut oil production returned to a level close to that reached in 2009 after the sharp decline experience in 2010 owing to the shutdown of the plant during the third quarter.

## Persistent difficulties in the construction sector

In similar fashion to 2010, the construction and public works sector did not experience recovery in 2011. Professionals found it increasingly difficult to stay in business with largely empty order logs and no prospects for recovery in the short term. The construction sector thus saw a gradual deterioration in its business flow during 2011.

The public works branch once again recorded a downturn in performance with public procurement largely on the decline in 2011. The building branch also saw a significant decrease in its business with among others the end of the worksite for the new marine terminal and the significant drop in household investments as indicated by the low level of home loans contracted throughout 2011 (XPF 10.1 billion against 14.2 in 2010).



## Low growth in the tourism sector

Driven by a promising first half-year, tourism recovered slightly with a rise in the number of tourists of 5.8% over the year. However, a return to business levels prior to 2008 was made impossible by the fall in this upward trend.

The cruise sector experienced a slight recovery (+6.6%) following the sharp decrease resulting from departure of the Star Flyer ship in 2009. Furthermore, the recovery of land-based tourism was focused on hotels of a higher category with return of the American clients encouraged by a dollar/euro exchange rate effect. Moreover, the average passenger load factor stood at 53.7% against 52.3% in 2010 going in hand with a significant increase in the average income per room (+14 %).

## Sluggish trade activity

Trade suffered once again from the low household demand. Professionals in the sector experienced sluggish business flow over the entire year. Companies in this sector whose trade margins remained stable, suffered from constant pressure on cash resources and an increase in their expenses during the second half of the year connected with minimum wage re-valuation in early September.

## HESITANT RECOVERY OF THE BANKING ACTIVITY

The analysis of the change in the main monetary indicators in French Polynesia shows a few signs of recovery of the banking activity in the fourth quarter in 2011 which remained tainted with weakness. Whereas there has been continued slowdown in the upward trend of gross loans outstanding for a year, its annual growth rate at the end of 2011 stood at +1.9%, that is a level higher than that observed during the two previous quarters (0.7 % à late September and 1.3 % late June). For their part, financial assets of economic agents grew over the last quarter but trended downwards (-0.3%). Despite these favourable trends, the claim costs of the bank portfolio continued to deteriorate, attesting to the persisting difficulties of their customers to refund loans.

### Moderate decline in the deposits of economic agents

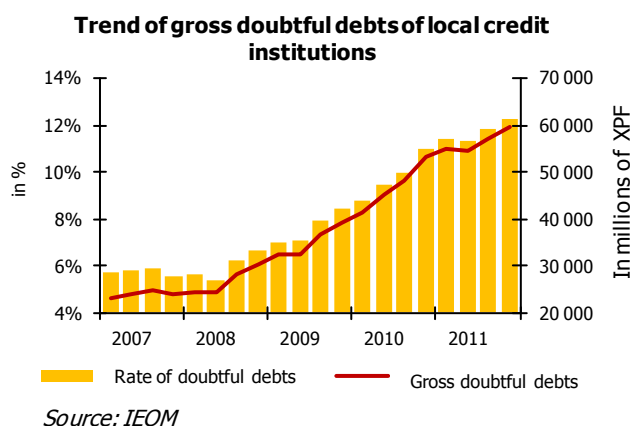
The deposits outstanding of French Polynesian economic agents decreased by an annual rate of 0.3%. Only households recorded an increase on their year-on-year outstandings (+1%) however to a lesser extent than 2010 (+3.2%). There was varied development in the main components of the household financial savings, revealing the arbitrages applied by economic agents on their holdings. In fact, in light of the low remuneration rates of their savings accounts, households prefer to direct their savings to more income generating investments or to keep cash on hand. Accordingly, whereas the household savings accounts recorded a decrease of 7.7% in their outstandings, the deposit accounts increased 14.7% and overnight deposits by 2.2%. Furthermore, Polynesian savers continued to prefer long-term products such as housing savings schemes (+9.6%) and life insurance schemes (+5%), contrary to the trend observed on a national scale. Financial assets of Polynesian companies continued their downward trend (-2.8%) conveying the persistent pressure on cash resources with which these companies are confronted.

### Modest growth of credits outstanding

There was a 0.8% rise in a year in the healthy loans outstanding of the credit institutions supported by local authorities and households. Accordingly, there was a substantial increase in the loans outstanding of local authorities for 2011 of approximately 8.7% due to the request for investment financing and financing of cash requirements for these customers. For its part, the healthy loans outstanding for households recorded a 0.6% growth over the year mainly due to home loans. Against a backdrop of low interest rates, real estate loans outstanding increased 4.2% in a year. There was an opposite effect on consumer credits outstanding which has been on the decline for a year (-6.2%), resulting both from sluggish production and declassification of credits granted to households. With regards to companies, their loans outstanding saw a decrease of 2.7% over a year. Operating credits fell 1.5% over the year, resulting from the combined decreases in cash loans outstanding (61.5%) and that of over-drafts (-1.8%). On the contrary, investment credits increased 5.4%.

### Credit institutions' portfolio continues to deteriorate

The exposure quality of French Polynesian credit institutions continued to deteriorate during 2011. There was a significant increase in the gross outstanding doubtful debts, +12% in a year. They now represent 12.3% of the total gross outstandings of Polynesian Banks (11% in December in 2010). This increase in claim costs affected companies as well as private individuals. These poor results related to all business sectors but especially the construction, hotel and trade sectors. Within a context of economic crisis, both small and large businesses are experiencing difficulties in reimbursing their debts.



## OUTLOOKS 2012

The budgetary difficulties of French Polynesia are not conducive to a recovery of public procurement and accordingly a recovery of economic growth seems to be compromised in 2012. The confidence crisis of Polynesian business leaders has taken root resulting in a generalised wait-and-see policy for all sectors of activity. It now seems that everything lies on effective implementation of the measures recommended by the government to turnaround the Territory's financial situation. This will be accomplished by significantly reducing the burden of real operating expenditures which is the only way of recovering enough financial leeway to re-boost public procurement. 2012 may suffer as a result of the deadlines and conditions for implementing these adjustment measures as well as from the election period which has already started and which will extend to 2013. The first economic trends recorded in the first quarter are poorly oriented overall in particular in the tourism and trade sectors. The temporary solutions forecast by the government as part of the 2008-2013 project contract, with a part of funding re-directed to building educational institutions and shelters, will probably have little effect on 2012 given the forecast implementation schedule.

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