

## New Caledonia's Economy in 2012

### A less dynamic year in an uncertain environment

2012 was marked by a slowdown in the global economy, held back by the impacts of budgetary adjustments in advanced countries. There is an increasingly visible gap between the growth paths of emerging countries (which are experiencing a slowdown) and advanced countries (including the eurozone, which has entered into recession). In this volatile environment, the activity in New Caledonia has slowed, whereas it had until now been relatively unaffected by the downturn in the global economy. This sluggishness can be seen with the business climate, which has not shown a clear trend throughout the year and has remained below its long-term average.

The decline in investment is one of the main reasons for the economic slowdown, with the completion of works at the North plant and delays in setting new growth drivers in motion. At the same time, household consumption, which has long been a driving force for growth in the territory, has lost its dynamism, with limited or even lower purchases of durable goods and a downturn in the acquisition of housing. This situation reflects an increasing lack of confidence on the part of economic agents, especially in view of the forthcoming elections (Provincial elections in 2014).

Employment trends are less favourable than in recent years and confirm this downturn.

With an oversupplied world market, the nickel industry has experienced a subdued year, hit by the low level of prices, which are on the borderline of break-even point for certain production plants. The construction industry has lost its vitality, with a fall in housing construction, while tourist numbers are lagging behind the high growth rate in the Asia-Pacific region. Against this gloomy backdrop, the banking profession has nevertheless continued to meet the financing needs of the economy, but at a slower pace compared to previous years. The loss ratio continues to remain very low.

### ECONOMIC AGENTS CAUTIOUS

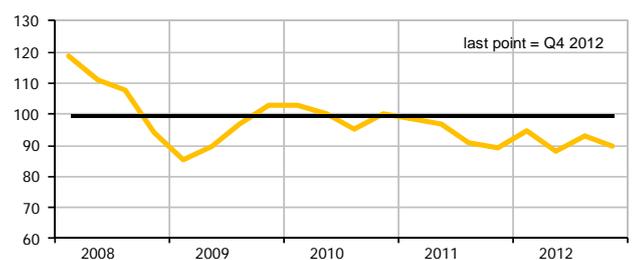
#### Persistently gloomy business climate

The Business Confidence Index (BCI) fluctuated at around 91 points throughout 2012.

It therefore remained well below the long-term average, although it did not fall to the low level it reached during the global financial crisis in 2009.

Business activity generally showed a negative trend in 2012: several economic sectors saw a slowdown in their business, as a result of the unsettled economic environment at the national level and uncertain environment at the local level. This lack of visibility prompted entrepreneurs to adopt a wait-and-see policy in terms of recruitment and investment plans.

**Business Confidence Indicator**  
(100=long term average)



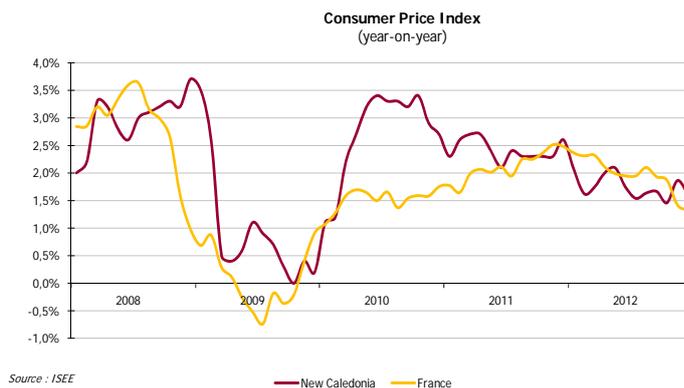
Source : IEOM economic survey

## Inflation subdued

The annual average rise in the consumer price index slowed down, following the high rates of the two previous years (+1.8% in 2012, after +2.4% in 2011 and +2.7% in 2010). It finished the year at +1.6%, *i.e.* slightly higher than the level in mainland France (+1.3%).

This slowdown was due to the moderation in food prices (+1.5%, after +4.4% in 2011) and manufactured goods (+0.3%).

Conversely, the increase in prices for services (+2.4%, including +3.2% for housing and related expenditure: water, electricity...) and energy (+3.4%), due to higher fuel prices, had an adverse effect on the index in 2012.



In the construction industry, the BT 21 index rose again (+5.4% year-on-year, after +4.1% in 2011). This trend led to a further increase in the rent review index (+3.2%).

## Less favourable labour market conditions

In 2012, the number of end-of-month jobseekers fell again (-11.8%), confirming the trend that started in 2010. However, after rising to a record level in 2011, employment opportunities stagnated and fell by 7.8% due to the decrease in demand from the North Province (-25%). Demand in the South Province remained relatively stable (-0.9%). In the first three quarters, paid employment declined by 1% (after +5.3% in 2011), representing almost 900 net job losses, especially in the private sector.

## Household consumption holds up well, while the picture is more mixed for business investment

In this less favourable environment, household consumption levelled off in 2012. New private car registrations and imports of consumer goods declined (-3.7% and -1%, respectively), while retail industry professionals report that their business activity deteriorated throughout 2012. Outstanding consumer loans thus rose more moderately than in 2011 (+2.6%, after +3.9%). Food imports, however, continued to rise (+7.5%), in particular due to the increase in the GMW (Guaranteed Minimum Wage) in January 2012. There was a marked decrease in household investment in real estate, with more moderate growth in outstanding home loans (+3.2%, after +8.4% in 2011).

Despite the recent start-up of new projects, the picture for business investment remained mixed. There was a decline in entrepreneurs' medium-term investment intentions and several indicators show contrasting trends: there was an upturn in imports of business capital goods (+10% in 2012, after -23% the previous year), while commercial vehicle registrations fell more sharply (-11%, after -1% in 2011).

## Trade deficit widens with fall in exports

There was a decline in trade in 2012. Import levels slowed in terms of value (-4.8%), after having reached a peak in 2011. However, they are still well above the preceding 10-year average. This trend can mainly be put down to the decline in imports of industrial equipment, due to the completion of the construction of the North plant. At the same time, exports (-13.8%) were impacted by difficulties in the nickel industry: low prices and the temporary stop in production at the South plant. On balance, the trade deficit widened again to some F CFP 179bn, against F CFP 174bn in 2011. The coverage ratio deteriorated and fell to a level close to its record low at 41% (-4 points).

## LESS POSITIVE YEAR IN MOST SECTORS

### Nickel production suffers from declining prices

Nickel prices were close to the low levels reached in late 2011. The market has become oversupplied due to a production surplus and a slowdown in demand from emerging countries. The global rise in production stems from the increase in new metallurgical projects and, especially, from the high level of Chinese “nickel pig iron” production. Consequently, the average nickel price was well below the average 2011 level and fell 23% to USD 8.0/lb. The decline in prices was, however, offset by the strength of the dollar against the euro and, therefore, the CFP franc. World nickel inventories in London Metal Exchange (LME) warehouses rose in 2012, from 90,000 tonnes in January to 140,000 tonnes in December.

In New Caledonia, metal production remained stable in 2012 at 62,300 tonnes of nickel (+0.4% year-on-year). The ferronickel production surplus offset the decline in the production of finished and semi-finished products. For the first time, the South plant produced 2,353 tonnes of finished NiO products (Nickel Oxide), but only 3,378 tonnes of semi-finished NHC (Nickel Hydroxyde Cake) products, after 7,568 tonnes in 2011. The initial objective of 20,000 tonnes of finished and semi-finished products for the year was not reached due to the temporary stoppage at the plant from May 2012 onwards.

Nickel ore mining reached a new record in 2012, with 9,659 thousand tonnes (+4.6% year-on-year), due to demand in South Korea (production scaled up at the Gwangyang plant in particular), with the increase in saprolites (+9.5%) widely offsetting the decrease in laterites (-3.8%).

### Sluggish year for the construction industry

The construction industry lost its vitality following the completion of the construction of the North plant and the slowdown in housing production. The contraction of the activity in the first three quarters of the year had an effect on paid employment (-700 jobs over the period) and temporary employment.

Cement sales fell by 16% in 2012 (after -8% in 2011) to a level below the five-year average (-14%). However, there was an upturn in activity in the 4th quarter, driven by public works and boosted by the start-up of the Médipôle construction site in Kouitio.



Source : HOLLIM

The situation in the housing sector remained fragile, despite the gradual implementation of several measures to support home ownership. The number of housing units authorised in 2012 was well below the average for deliveries between 2007 and 2011 (1,900, against approximately 2,500), and they were mainly concentrated in the Dumbéa area. Furthermore, the fall in the allocation of home loans was combined with a decline in the number of transactions, due to households increasingly adopting a wait-and-see attitude.

### Tourist numbers stabilised

Tourist visits to New Caledonia remained at the record level of 2011, which had been bolstered by the Pacific Games. The number of tourists who visited the archipelago rose slightly (+0.3%, after +14% in 2011). This increase is, however, less positive than in the Asia Pacific region (+7% in 2012, including +4% for Oceania). The French and Australian outbound markets were the main driving forces behind this influx (+12% and +4%, respectively), while the Japanese market continued to decline (-6%). With over 200,000 passengers (including 80% of Australians), cruise tourism benefited from the success of short trips (7 to 10 days) from Australia, as New Caledonia is this country's nearest foreign port of call.

### More positive trend for aquaculture and stabilisation in livestock farming

The trend for shrimp farming was more positive than in previous years with a recovery in exports, which rose by 15% in volume (and 13% in value). The fisheries sector, for its part, continued to face difficulties with a 3% decrease in the volume of high-seas production. However, fish exports did rise by 3.4% in 2012 (after -15% in the previous year). Following a positive year in 2011, pork production continued to increase in 2012 (+3%), while beef production fell (-2%).

## FINANCING OF THE ECONOMY

Despite a less buoyant economic climate, banking activity remained dynamic in 2012. Deposit collections resumed a positive trend, while the stock of loans continued to increase at a rapid pace, although there was a slowdown compared to 2011.

Deposits by economic agents rose by 10.5% in 2012, after +2.5% in 2011. They benefited from the dynamism of savings accounts (+6.7%), with the sharp rise in deposits on Livret A passbook accounts (+16.8%) and term deposits (+26.2%). The upward trend for these more profitable assets was to the detriment of overnight deposits, which rose more modestly (+3.7%).

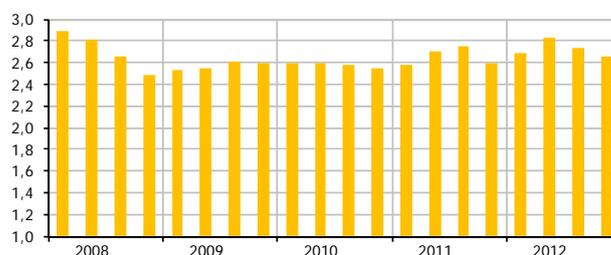
### Slowdown in growth of outstanding loans, especially for households

Banking activity remained strong, despite a further decline in the growth rate for credit institutions' total stock of loans in 2012: it rose by 5.3%, after +7.4% in 2011 and +9.5% in 2010. Local credit institutions, in particular, saw weaker growth in their stock of loans, at +4.7% against +6.8% a year earlier. It did, however, remain much higher than in mainland France (+1.7%). Household finance was on a downward trend (+3.3%, against +7.7% in 2011), with a marked decrease in home loans. The trend for household investment in real estate was less positive than in previous years. The local production of new loans thus fell to F CFP 40bn, against F CFP 50bn in 2011. There was a fall in demand due to the wait-and-see attitude increasingly adopted by households, while the supply suffered from the decline in the tax exemption market. Corporate finance continued to be dynamic (+7.2%, against +5.7% in 2011). Operating loans rose by 10.7%, with the increase in customer overdrafts (+22.2%), and investment loans maintained a high growth rate (+7.1%, after +6.4%).

The quality of the portfolio of local credit institutions remained stable, with a rate of doubtful loans that continued to be moderate at 2.7% (+0.1 point), while the provisioning rate fell slightly to 65% (-1 point).

On balance, as the increase in collection was more dynamic than the finance activity, the local banking system saw an improvement in both its balance of client sources and uses (which rose by 21%) and its net external position (difference between the assets and commitments located outside the issuing area): its balance, structurally negative in New Caledonia, fell by 12%, to F CFP -71bn at 31<sup>st</sup> December 2012, against F CFP -80bn a year before.

Rate of gross doubtful loan (%)



Source : IEOM

## OUTLOOK FOR 2013

It is likely that there will only be a slight acceleration of global growth in 2013. The recovery will be slower than forecast and the risks of a downturn in activity remain high. While negative growth in the eurozone will continue (-0.2%, after -0.4% in 2012), GDP growth in the group of emerging and developing countries is expected to remain high and reach +5.5% (against +5.1% in 2012).

In New Caledonia, the year began with a wait-and-see policy, with the prospect of the Provincial elections in 2014. This situation is expected to continue to have an impact on both investment and consumption. In the nickel industry, the scaling up of activity at the North plant and the resumption of production at the South plant should ensure significant growth in export volumes. The global market will, however, be oversupplied, meaning it will not be possible to fully exploit these exports. At the same time, the construction industry will be bolstered by the Médipôle construction site and public works projects, but will suffer from a further slowdown in housing construction. Residential tourism is expected to stagnate due to continued economic difficulties on the outbound markets.

These trends demonstrate the need for New Caledonia's economy to diversify its exports more, so that it does not rely exclusively on the cycle of a single product – nickel –, which alternates between upturns and downturns. This requires seeking comparative advantages in sectors such as tourism and the exploitation of the territory's natural resources and of its exclusive economic zone. Diversification should make it possible to optimise sources of supply, in this case for its imports, through greater regional integration, and thus to seek the lowest possible price for the final consumer. The price difference with mainland France (the highest in the Overseas Territories according to the CEROM survey released in 2012) poses a further challenge for New Caledonia, which gives reason to continue efforts to combat the high cost of living, by focusing on the items that affect the most disadvantaged publics the most: food and housing.

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