

New Caledonia's economy in 2017 Between hopes and tensions

The economy in 2017 seems to have picked up, particularly in the second half of the year, compared to the sharp slowdown in 2016, and thereby to have come out of the acute nickel crisis period. The business confidence index, which is indeed driven by record levels of mining and metal production, recovered the level of early 2015 at the end of the year.

Business investment, which had until then been generally sluggish, saw a marked upturn at the end of the year as a result of several major credits being released, joining the ever-dynamic situation of household investment in property.

2017 does, however, generally remain a year marked by a slowdown in activity. Business investment only picked up at the end of the year. Household consumption, the main source of growth for a significant part of the economy, stagnated compared to 2016, which was quite an unfavourable year. Unlike services, which are increasing, industry, the construction industry and trade to a lesser extent, continue to lose paid employment, despite the fact that business confidence has picked up in some of these sectors (trade, construction). Finally, in addition to the mining sector, tourism professionals show good results with a record number of tourist visits.

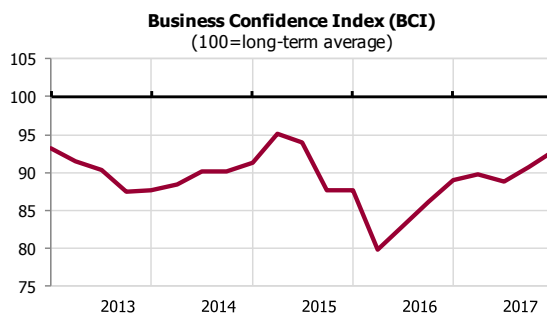
However, business results, some of which are encouraging, should not mask the pressures on New Caledonia's economy, which increased in 2017. Indeed, paid employment generally stagnated faced with a growing working population, although there was a 2.6% increase in public employment. Tax revenues marked an unprecedented return to a downward trend in 2017 (-2.8%), while the cumulated imbalances in corporate accounts deteriorated and the debt of territorial authorities continued to rise at a high rate (+12.3% of outstanding amounts at the end of the year).

The positive outlook to date for nickel prices and the upturn in investment at the end of the year will, in 2018, need to be contrasted with the penalising effects which these pressures could have on the economy.

ECONOMIC SITUATION LESS UNFAVOURABLE

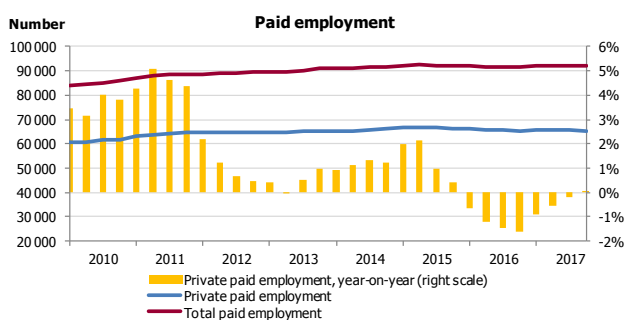
Upturn in confidence confirmed

After having fallen at the start of the year, the Business Confidence Index (BCI) picked up to reach 92.9 points at the end of the year, *i.e.* the level of early 2015 prior to the crisis. However, the BCI does still remain lower than its long-term average, reflecting the slowdown in New Caledonia's economy since 2012. The rise in the BCI is bolstered by the marked increase in investment prospects at the end of the year, as well as less unfavourable expectations over employment, payment deadlines and cash flow.



Labour market under pressure

There was a slight increase in the number of salaried jobs, with 92,160 employees in 2017 (annual average of +0.4%, *i.e.* 409 more employees than in 2016). Only the public sector continues to create jobs (annual average of +2.6%, *i.e.* 680 jobs), thanks to the opening of the Médipôle hospital centre, the creation of new higher education programs and the arrival of security reinforcements (police and gendarmes). This increase offsets the decline in paid employees in the private sector (-0.4%, *i.e.* 272 jobs), which particularly affects the construction sector and manufacturing industry, in relation to efforts to rationalise the costs of metallurgical plants. The private sector jobs lost in 2016 were not recovered in 2017, but private paid employment has stabilised.



In a context of growth in the working population, the relative stability in paid employment can only lead to tensions on the labour market, although the latter are not directly visible in the available statistics. It is still more difficult to fill job vacancies and the average stock of active end-of-month offers is increasing (+12.8%). At the same time, the number of end-of-month jobseekers has fallen compared to 2016 (annual average of -2.9%), despite the increase in the number of redundancies (+12.3%). Consequently, the fall in the number of jobseekers probably reflects more a gradual discouragement faced with the difficulties encountered on the labour market.

Inflation increases while remaining moderate

Inflation rose in 2017. The price index rose by an annual average of 1.4%, against 0.6% over the past two years, returning to a level comparable to 2013. This rise is slightly higher than in mainland France (1.0%).

This trend is mainly due to the rise in energy prices (+3.8%), due to the international economic situation, while prices for the consumption of services rose by 1.1% and prices for food and manufactured products by 0.8%.

Household consumption still faltering

There was a pick-up in retail confidence in 2017, after it plunged in 2015-2016. Entrepreneurs in the sector report that there was less and less of a downturn in activity throughout 2017 and that their cash flow and payment deadlines deteriorated less at the end of the year.

Household consumption appears to have remained stable in 2017 compared to 2016. The reduction in imports of durable consumer goods (-5.8%) was offset by the increase in imports of non-durable consumer goods (+1.3%), particularly food (+3.4%). There was a rebound in private vehicle registrations in 2017 (+9.3%), following two consecutive years of sharp decline. However, the reduction in the Solidarity Tax on Services (TSS), with 1.7% collected in 2017, signals a lack of dynamism in service consumption. Current household loans (excluding housing) still remain stable.

Households focus on investment and savings

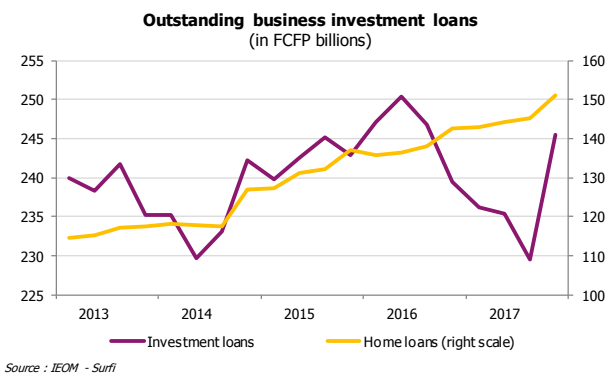
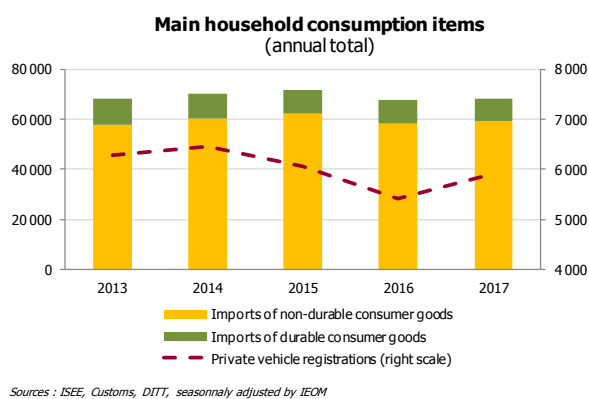
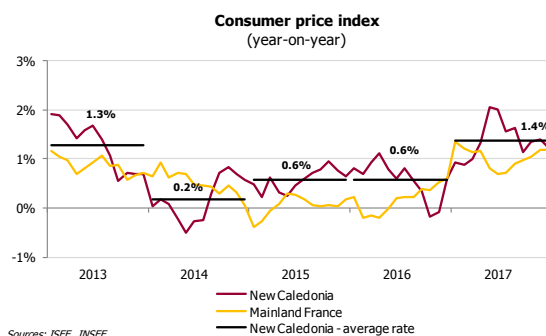
The financial situation of households is generally healthy. The number of people banned from holding a bank account fell in 2017 and concerned some 6,300 people at the end of the year, against 7,000 in early 2016. Total household banking assets are rising slowly (+1.6%), but their long-term savings are increasing at a slightly faster pace (+2.6%).

2017 was another favourable year for the situation of household investment. Outstanding home loans have been particularly dynamic since 2015 and continued to rise by 5.1% in 2017, still bolstered by the local tax exemption mechanism for intermediate housing and increasingly lower rates (close to 2% at the end of the year). The pace picked up in the fourth quarter of 2017, with a record increase in the amount of outstanding home loans of households from the local banking system of FCFP 10bn.

Upturn in business investment at the end of the year

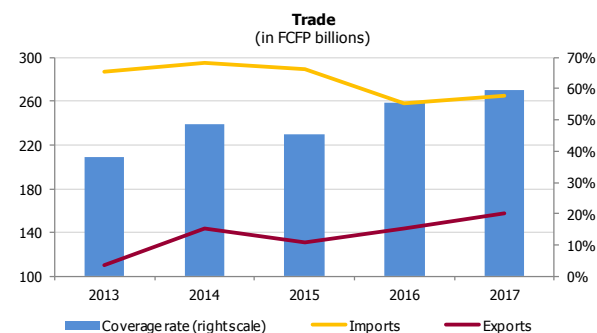
Imports of capital goods, down 4.5% in 2017, have never been so low since the start of the construction of the new plants, despite an upturn in commercial vehicle registrations, which rose for the first time since 2010 (+5.6%). There was a slight increase in total outstanding investment loans in 2017 year-on-year (+2.6%), despite a decline during the first three quarters of 2017, which was offset by a sharp rise in the last quarter. Indeed, major credits were released at the end of the year in various sectors (air transport, urban transport, hypermarket, health facilities).

Indeed, business investment intentions, which were on a downward trend during the first half of the year, subsequently saw a marked upturn, exceeding their long-term average at the end of the year for the first time since 2015. Business construction loans remained dynamic in 2017 (+5.8%), driven by property development, in particular with the start of large-scale operations in the Nouville district.



Trade deficit narrows

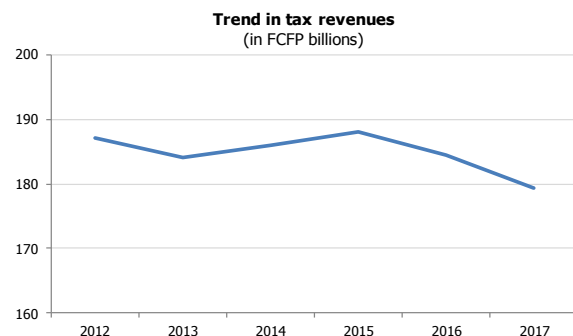
There was a rise in foreign trade in 2017. Imports rose by 2.5% (FCFP +6.4bn), following a sharp decline in 2016. This rise is driven by the increase in the value of imports of mineral and chemical products related to the rise in the prices of raw materials (+16.5% and +5.2% in value). At the same time, exports rose by 8.5% in value (FCFP +12bn), reflecting the strong dynamism of the nickel sector, bolstered by the increase in the value of the ore delivered. 2017 was another record year for metal and nickel ore exports (+8.2% in value and +3.9% in volume for metal products, including cobalt, +16.2% in value and +11.4% in volume for ore). In this context, New Caledonia's import-export ratio stands at 59.6% (+4.0 points).



Source : Customs

Public finance pressures

There was an unprecedented decline of 2.8% in tax revenues in 2017 (-5.4% for the revenues of the distribution budget which determines allocations to local authorities). This reduction is in particular due to an increasingly high level of tax expenditure (FCFP 36bn), with the increases in tax reductions and exonerations generating fewer tax revenues. At the same time, the growth rate for local authority debt remained high in 2017 (+13% year-on-year). Furthermore, the financing situation of welfare systems increases these cumulative imbalances, with a deficit of the RUAMM sickness insurance fund in 2017 estimated at FCFP 4.5bn, although it has declined compared to 2016.



Sources : New Caledonia Public Sector Accounts, DBAF

MIXED PICTURE FOR SECTORAL TRENDS

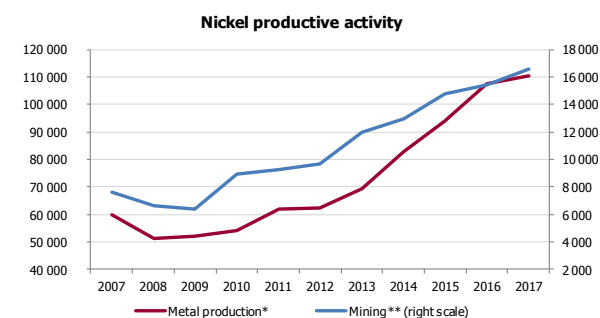
New record year for nickel industry

In a context of prices still remaining relatively low, nickel prices have gradually been rising since the second half of 2017 and reached \$5.3/lb at the end of December 2017 (+8.5% on average over the year compared to 2016). The outlook seems to be brightening, in particular as a result of stable stocks and the anticipation of better medium-term opportunities from Chinese demand and growth in the electric vehicle market.

Nickel ore mining continued to increase in 2017 (+7.3% in volume). Nickel ore is mainly destined for local plants (60.8%) and the rest for exports (39.2%), which are increasing in volume (+11.4%) and value (+16.4%).

Metal production, driven by the continued ramp-up of the new plants with the first casting from furnace n° 2 at the KNS plant in December, is continuing to grow, but at a slower rate than over the past two years (+2.9%, after +14.4% in 2016).

However, the cost control programmes mean that these good results are combined with knock-on effects, at best limited, and in particular the continued reduction in jobs in the metal industry.

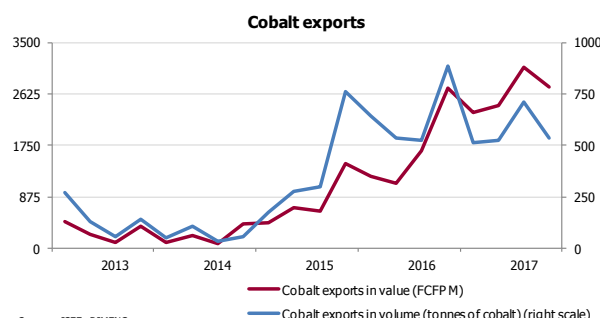


Sources : ISEE, Department of Industry, Mines and Energy

Units: * tonnes of nickel contained
** thousands of wet tonnes

Soaring cobalt prices

Cobalt production, a co-product of the South plant, saw a marked decline in 2017 (-9.0%), following a sharp increase in 2015 and 2016. Similarly, exports, which accounted for 7% of New Caledonia's exports in 2017, declined in volume (-12.0%), but rose sharply in value (+62.7%), reflecting the significant increase in the price of cobalt, which more than doubled in a year. This increase in the price of cobalt is due to the anticipation of rapid growth in the vehicle battery market in a few years' time.



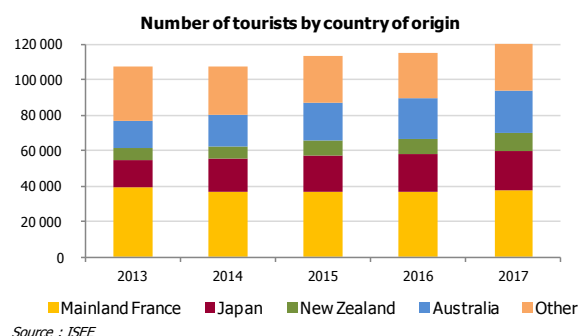
Sources : ISEE, DIMENC

Construction sector less concerned

The construction sector continues to lose paid employment (-133 employees on average between 2016 and 2017). However, entrepreneurs in the construction sector interviewed by IEOM report a more positive trend for business volumes than in 2016, with a return to its long-term average at the end of the year. The investments launched at the end of the year have certainly contributed to this renewed confidence.

Good year for tourism

The number of tourist visits reached a new record with 120,700 tourists (+4.3%, *i.e.* 5,021 additional tourists), bolstered by the increase in visits by tourists from New Zealand (+12.2%) and Australia (+3.9%), while the territory is gearing up to open to Chinese tourists, in line with its tourism development strategy. At the same time, there has been a slight decline in cruise tourism with 493,300 cruise passengers (-3.2% in 2017, after +14.7%), after having reached a record level in the previous year.



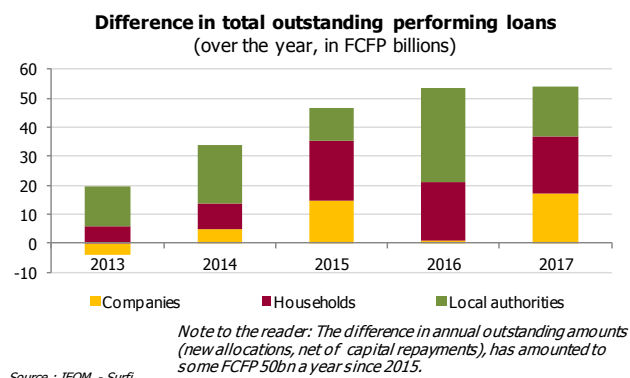
POSITIVE TEND FOR FINANCIAL ACTIVITY

Slowdown in savings collection

The outstanding amount of financial assets held by New Caledonian economic agents rose by 0.8% in 2017, for a total outstanding amount of FCFP 795bn. Net savings collections stood at FCFP 6bn over the year, half in the form of local investments. Outstanding amounts for investments outside the issuing area (mainly life insurance contracts, but also Livret A booklets) rose to FCFP 158bn (*i.e.* 20% of the outstanding amount collected locally). Locally collected deposits do not structurally cover the allocation of loans, and the balance between uses-resources fell by FCFP 21bn (+12.8%).

Outstanding loans driven by home and local authority loans

Since the end of 2014, the total gross amount of loans allocated to New Caledonia's economy has topped the FCFP 1,000bn mark. It rose by 4.5% in 2017, *i.e.* an FCFP 54bn difference in the outstanding amount compared to the end of 2016. Local credit institutions accounted for two-thirds. Outstanding performing business loans rose at a faster pace (+3.6%, after +0.2% in the previous year), while the amount for household loans remained stable (+4.3%, after +4.6%). Financing for local authorities continued to increase (the outstanding performing amount rose by 12.3% in 2017, after +30.7% in 2016). In four years, the outstanding amount of loans to local authorities has doubled, with the latter now having more recourse to borrowing to finance their investments.



By type of financing, home and construction loans rose by +5.3% (after +5.5% in 2016), with demand still driven by the tax exemption mechanism for intermediate housing set up locally. The outstanding amount of business investment loans increased (+2.6%), as did loans for local authority investments (+11.0%, after +30.9% in 2016), mainly driven by institutions established outside the territory.

Loss rate remains relatively stable

There was a slight deterioration in the quality of the portfolios of credit institutions, with an increase in gross outstanding non-performing loans (+3.6% over the year). This increase, which was less rapid than for total gross outstanding loans (+4.8%), does not have an impact on the rate of non-performing loans, which stood at 2.8% at the end of December 2017. The rate for local institutions alone rose slightly, at 3.2% (+0.1 points over the year).

There was only a slight increase in total net banking income for the four local banks (+0.2%), with the rise in fees (+4.6%) cushioning the decline in the net interest received (-2.8%). There was a rise in overheads (+2.9%), for both staff and external service costs. At 51.8% (+1.5 points), the operating ratio does, however, remain under control. The consolidated net income of the four local banks rose by 5.1%, once again topping the FCFP 8bn mark. The marked decline in the cost of risk is dampened by the increase in corporate income tax, which is partly related to the cap on expenses at headquarters.