

The economy of Saint-Pierre-et-Miquelon in 2017

Economic activity seeking new dynamics

In 2017, economic activity was supported by household consumption. Certain sectors show some dynamism, but the economy is giving signs of an internal slowdown, particularly in financing.

There continues to be a positive trend in the labour market, while there has been a slowdown in household consumption. Over the period, consumer prices picked up, driven by the increase in energy prices.

Despite the rise in exports, the archipelago's trade deficit increased in 2017, related to the arrival of capital goods, particularly in the fisheries and tourism sectors. Investments were also made in the telecommunications sector this year. Through these investments, the archipelago is opening up to the outside and is laying the foundations for a new economic model.

The financial assets of economic agents are continuing to rise, with a preference for holding liquid assets. The holding of assets by companies and the other agents is increasing, while the assets of households are declining, reflecting a change in the local economy. The financing of the economy is growing, thanks to a significant increase in the outstanding amounts of non-local credit institutions.

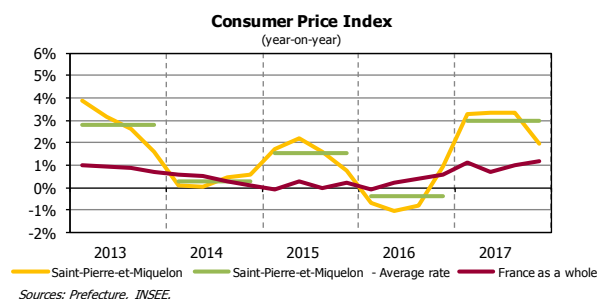
At sectoral level, the tourism industry is continuing its growth. However, there has been a decline in the fisheries sector due to a reduction in industrial fishing, while there has been a slight increase in small-scale fishing. The construction industry is waiting for an upturn in activity following the completion of major works.

MIXED MACROECONOMIC AGGREGATES

Consumer prices rise again

After having been in "negative territory" in 2016 (-0.4% on average), there was a marked increase in the Consumer Price Index in 2017 (+3.0% on average).

The average increase in consumer prices in Saint-Pierre-et-Miquelon is higher than in mainland France (which stands at an annual average of 1.0%). This increase is in particular due to the rise in energy prices (+10.2% on average over the year). This component accounts for a large share of the archipelago's index compared to mainland France.



Furthermore, the prices of manufactured goods and food products rose year-on-year (by +3.5% and +2.7% on average, respectively), thereby contributing to the overall average increase in prices.

Positive trend for the labour market, despite a deterioration at the end of the year

The archipelago's unemployment indicator¹ stands at an annual average of 4.8%, down 0.6 points compared to the previous year. The trend on the archipelago's labour market remains very positive, despite the fact that there was a rise in the number of category A jobseekers in December 2017 (+18.1% year-on-year), which now stands at 189 people. All categories taken together, the number of jobseekers remains relatively stable year-on-year (-0.8%), with 359 people.

In 2017, the monthly average of beneficiaries of the active solidarity income (RSA) allowance and activity benefit declined, from 61 people in 2016 to 57 people in 2017.

Decline in household consumption

¹ The archipelago's unemployment indicator is calculated on the basis of the ratio "registered at the Pôle Emploi employment agency in category A/working population at the last census (2014)".

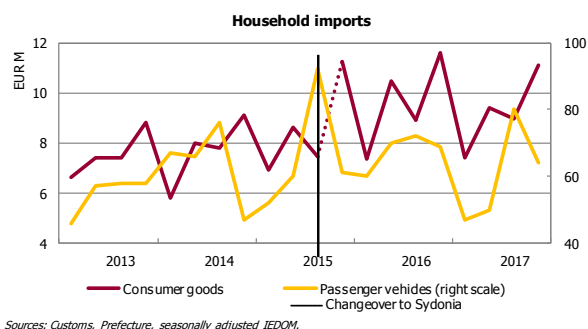
There was a slowdown in household consumption despite the upturn in consumer loans.

Following a marked increase in 2016 (+12.1%), imports for households fell year-on-year (-3.7%) and stood at EUR 36.9m for 2017. This trend is due to the decline in imports of durable goods (-21.7%), while food products, which account for almost half of total imports, rose year-on-year (+1.9%).

There was a decline in registrations of passenger vehicles for the first time in 4 years (-11.1% in 2017). The total number of passenger vehicles registered during the year stands at 241.

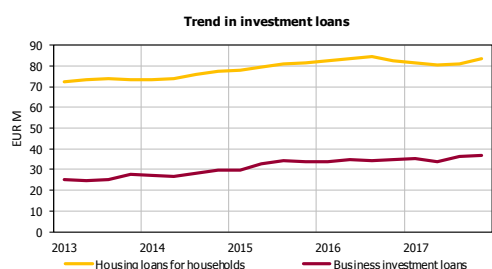
Following a decline in December 2016 (-2.9%), there was a rise in consumer loans in 2017 (+9.1% year-on-year) to EUR 19.8m.

The indicators for the financial vulnerability of households, which were already well-oriented, saw a slight improvement in 2017. There were 7 decisions to confiscate credit cards during the year (against 12 in the previous year) and the number of natural persons banned from holding a bank account fell slightly (-3). The number of cheque payment incidents stood at an average of 5.8 per month (against 5.6 in 2016).



Sources: Customs, Prefecture, seasonally adjusted IEDOM.

Slight increase in business investment



Source: IEDOM.

Imports of investment goods rose (+2.0%, after +0.5% in 2016). This increase is due to the upturn in imports of capital goods (+13.5%, after -8.5%). However, there was a decline in imports of intermediate goods year-on-year (-10.3%, after +12.5%).

Outstanding business investment loans have gathered pace (+2.4% in 2016, then +5.5% in 2017), but the growth rate remains lower than the rates recorded in previous years (+8.4% in 2013, +7.6% in 2014 and +14.7% in 2015). With 75 registrations in 2017, the number of commercial vehicles registered rose over the year (+10.3%).

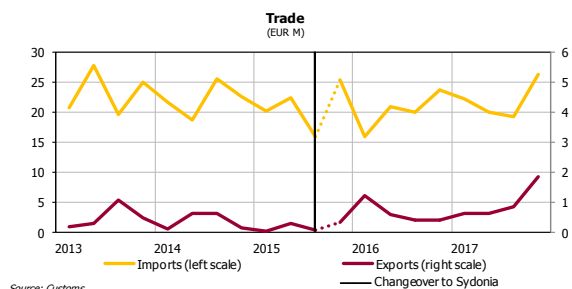
Following two years of marked increases (+5.5% in 2014 and +5.3% in 2015), housing loans to households maintained the same growth rate in 2016 and 2017 (+1.1%) and stood at EUR 83.5m.

Sharp rise in foreign trade

The trade balance of Saint-Pierre-et-Miquelon is structurally in deficit, due to the archipelago's heavy dependence on the outside. Despite the marked rise in exports in 2017, this deficit has risen compared to the previous year (+7.1%) and stands at EUR 83.7m.

Consequently, after three years of decline, the archipelago's imports² rose in 2017 (+9.0%) and stood at EUR 87.7m. This trend is mainly due to fuel imports, which almost doubled over the year, due to a deferral in the imports of December 2016 to January 2017. Total imports excluding fuel fell slightly year-on-year (-1.0%) in connection with the decline in imports of consumer goods (-3.7%) and despite the increase in imports of investment goods (+2.0%).

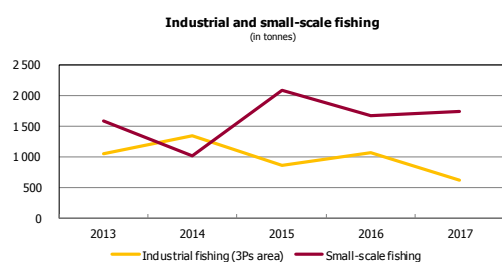
The archipelago's exports saw a marked increase year-on-year (+53.7%), confirming the increase of the previous year, and stood at EUR 4m. This increase is mainly due to exports of seafood products (+67.7%), which accounted for almost 70% of total exports in 2017 (i.e. EUR 2.7m).



Source: Customs.

ECONOMIC ACTIVITY MARKED BY DYNAMISM IN TOURISM

Fishing industry shows mixed results



Source: DTAM.

In 2017, the fishing industry showed mixed results, with a decline in the total volumes harvested (-7.7%) to 2,286 tonnes, against 2,477 in 2016. Following a dynamic season in 2016 (+23.0% of catches), there was a marked decrease in the industrial fishing sector (-42.1%) in 2017 to 616 tonnes, with a very sharp decline in catches of cod (-31.8%) to 551 tonnes. The industrial fishing season was shortened by the renewal of the fleet during the year. Indeed, the *Béothuk* was taken out of service during the summer and the replacement ship, *Cap Marie*, was only commissioned at the end of the year.

Conversely, following a marked decline in 2016 (-21.9%), there was a slight rise in small-scale fishing (+4.0%) to 1,735 tonnes over the year. This trend is mainly driven by the increase in catches of sea cucumbers (+29.1%), while there was a decline in catches of cod (-86.7%).

² The new ferries, which arrived at the end of the year, have been withdrawn from the analysis. They alone would account for 23.2% of total imports in 2017 and would generate an increase of 41.9% year-on-year.

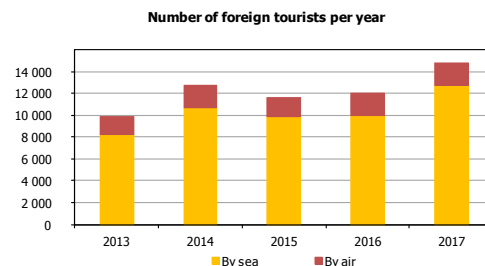
Furthermore, in 2017, an assessment of cod stocks³ showed results which give the sector cause for concern: the stock is on a downward trend and a continuous decline is forecast until 2020 (reduction in the biomass of the spawning stock ranging between 23% and 58%). The report states that the structural changes occurring in the ecosystem could have an impact on cod productivity.⁴

Dynamic tourism, driven by cruise passengers

The number of tourist visits continued to rise in 2017 (+23.0%, after +3.4% in 2016), driven by the combined increase in the number of pleasure tourists (+23.5%) and business tourists (+1.2%). The number of foreign tourists reached 14,774 visitors over the year – the highest level since 2008. The latter mainly travel by sea to come to the archipelago (86.0% of arrivals).

This marked increase in the number of tourist visits is mainly due to the number of cruise ship calls being doubled (18 calls in 2017, against 9 in 2016), which led to a sharp rise in the number of cruise passengers year-on-year (+133.3%). The latter accounted for 40.7% of foreign visitors in 2017 (against 21.5% in 2016). Excluding cruise passengers, there was a decline in the number of foreign tourists year-on-year (-7.3%).

There was a change in the breakdown of foreign tourists by nationality this year. The territory remains attractive for the Canadian market (57.2% of arrivals in 2017), despite a marked decline year-on-year (-16.7 points). Conversely, American tourists are showing increasing interest in the archipelago, with an increase in the number of their visits compared to 2016 (+8.8 points for 17.0% of arrivals), as was the case for foreign tourists of other nationalities (25.8% of arrivals, up 7.8 points).

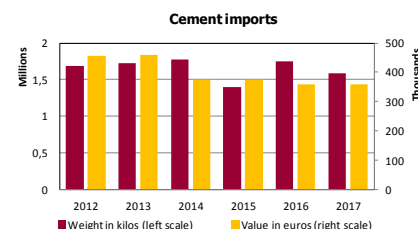


Source: Border police.

After the completion of major projects, the construction industry is waiting for an upturn

As the usual data was not available when the note was prepared, the analysis of the construction industry has been based on other indicators.

The archipelago's cement imports declined in volume in 2017 (-9.2%). Despite major investments in the airport runway, the urban heating network and the new IEDOM agency, there was less activity in the construction industry in 2017 compared to previous years, marked by the construction of the new EDF power plant and the new hospital. However, the outlook for the sector could improve thanks to new port and hotel projects.



Source: Customs.

SLUGGISH LOCAL FINANCING AND A LOT OF LIQUIDITY

In 2016, the archipelago's banking landscape was marked by a major change: the merger⁵ between BDSPM and CEPAC. The banking sector shows mixed results, marked by a significant rise in external financing. Furthermore, there was a decline in the financial assets held.

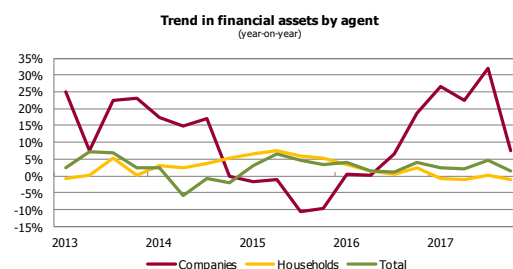
Smaller increase in financial assets

Total financial assets held by the archipelago's economic agents rose compared to the previous year (+1.4%, after +3.9% in 2016), driven by overnight deposits and despite a slowdown, and stood at EUR 229.6m.

Despite weakening, growth in the financial assets of companies continued in 2017 (+7.4%, against +18.6% in 2016). The financial assets of households fell for the first time in 2017 (-1.2%), after two years of strong growth in 2014 and 2015 (+5.3% each year) and an initial slowdown in 2016 (+2.4%). Conversely, the investments of other agents (local and central public administrations, social security administrations, non-profit institutions for households) saw a marked increase (+21.8% in 2017, after -3.0% in 2016), to their highest level since March 2014.

Overnight deposits maintained a very dynamic growth rate (+11.4% in 2017, after +13.2% in 2016), to the detriment of the other short-term investments (-3.9% in 2017 and -7.0% in 2016). There was a decline in long-term saving in December 2017 (-4.6%), following a rise in 2016 (+16.0%). The distribution of financial assets highlights the preference of economic agents for liquidity, reflecting an aversion to risk. Indeed, the share of overnight deposits (38.7% in December 2017, against 35.3% in 2016) and other short-term investments (41.2% in 2017) accounts for over three-quarters of financial assets and the share of long-term investments accounts for less than a quarter of assets (20.1% of assets in 2017, against 21.3% in 2016).

In proportion, there was a decline in the assets held by households (78.7% in December 2017, against 80.7% in December 2016), to the benefit of companies (14.0%, against 13.2%) and other economic agents (7.3%, against 6.1%).



Source: IEDOM.

³ Canadian Science Advisory Secretariat: <http://publications.gc.ca/site/eng/9.850442/publication.html>

⁴ In the ecological sense: productivity is the mass of the living substance produced, in a given time, on a given land surface or in a given volume of marine or lake water.

⁵ This change had an impact on the distribution of housing loans between economic agents, which is likely to alter the quality of the data for outstanding loans between December 2016 and December 2017.

Financing grows and turns to the outside

The total amount of outstanding loans allocated to the economy saw dynamic growth in December 2017 (+5.4%, against +3.4% in December 2016), but remained below the level of growth in 2015 (+7.2%). The financing of the economy is increasingly turning towards non-local credit institutions. Consequently, between 2015 and 2017, the outstanding amount of credit institutions not established locally (CINELs) saw a tenfold increase, from EUR 1.7m to EUR 16m. At the same time, there was sluggish growth in the outstanding amounts of locally established credit institutions (LECI) (+0.7% in December 2017, after -0.3% in December 2016) compared to 2015 (+7.1%).

The overall increase is mainly due to the rise in financing allocated to local authorities, which saw sharp growth (+24.3% in December 2017), confirming the increase seen in December 2016 (+20.9%). It reached EUR 22.2m, against EUR 17.9m in December 2016. There has been an increase in the relative weight of local authorities in the total outstanding amount, from 10.3% in December 2016 to 12.1% in December 2017. This year, for the first time, the weight of CINELs is higher than LECIs in the financing of local authorities (59.1% for CINELs, against 40.9% for LECIs in December 2017).

Following an easing in 2016 (+0.3%), total outstanding performing loans to households rose (+2.5%), but in a more contained manner than in 2014 (+5.7%) and 2015 (+5.6%). This increase in the outstanding amount is mainly due to a rise in consumer loans (+9.1%). There was a slight increase in housing loans (+1.1%). The total outstanding amount stood at EUR 103.3m (56.5% of the total outstanding amount of local banks) in December 2017.

Following a marked rise in 2016 (+8.0%), there was a slowdown in the increase in outstanding loans to companies in December 2017 (+6.5%). This increase is due to growth in both operating loans (+18.8%) and investment loans (+5.5%). Housing loans to companies fell (-1.5%). The financing of business investment is turning increasingly towards CINELs, whose financing has seen more than a threefold increase (*i.e.* EUR +1.6m), while LECIs have been showing slow growth for 2 years (+0.9% in 2017 and +1.0% in 2016, against +14.9% in 2015). The external financing of companies has been multiplied by a factor of 15 in two years and stood at EUR 2.2m in 2017, against EUR 0.1m in 2015. The total outstanding amount of loans to companies stood at EUR 48.6m, most of which (75.6%) is made up of investment loans.

There had been a rise (+0.7 points to 3.1%) in the rate of the outstanding non-performing loans of local institutions in December 2017. At the same time, there was a marked decline in the provisioning rate of local banks (-15.4 points) in December 2017, to 59.7%.

2018, A YEAR TO CONFIRM THE OPENING UP OF THE ARCHIPELAGO?

In 2017, the regional macroeconomic environment remained positive, characterised by moderate inflation and an accommodative monetary policy. However, inflation began rising again in Saint-Pierre-et-Miquelon, limiting household consumption. The latter remains a strong pillar which drives the territory's activity, but its capacity to increase will come up against the limited size of the market. Furthermore, the economy is characterised by low unemployment, difficulties to find adequate labour and a declining trend in the size of the population. Finally, economic agents would appear to prefer liquidity and experience difficulties in obtaining financing locally, meaning they have to seek it outside the territory.

To overcome these local constraints and strengthen the private sector's share in wealth creation, the archipelago is seeking a new economic development model which aims to establish sustainable growth prospects. Opening to external flows of wealth, which were behind the previous periods of prosperity for the archipelago, once again holds strong potential for the territory, strengthened by regional dynamics.

The investments made in the tourism and fishing sectors illustrate this will to open up. Consequently, the commissioning of the new ferries of the territorial authorities in 2018 and the creation of a direct line with Paris during the summer season should act as drivers for dynamism in the archipelago's tourism sector and facilitate transport for residents between the islands of the archipelago, Newfoundland and Magdalen Islands. In addition to this improved access, the private sector will initiate major investment dynamics which will support the opening up of the archipelago: the Pôles Pêche de Miquelon shipowner has announced it will buy a second trawler, the *Stormhav*, with the aim of increasing industrial fishing, which has until now been below quotas, and the installation of a submarine cable could have cross-cutting benefits for the economy.

