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HIGHLIGHTS

- The resource heavy economies of PNG, The Solomon Islands and Timor-Leste continue to outperform.
- External demand growth is flagging for the Pacific as regional and global economies slow; key export commodity prices are falling as well. Tourist arrivals are softening, although remittances seem to be holding up.
- Inflation is trending down in most economies in the region, reflecting softer growth and falling commodity prices.
- Most Pacific currencies appreciated against AUD and NZD and depreciated against USD as markets move to risk-off mode owing to events in Europe.

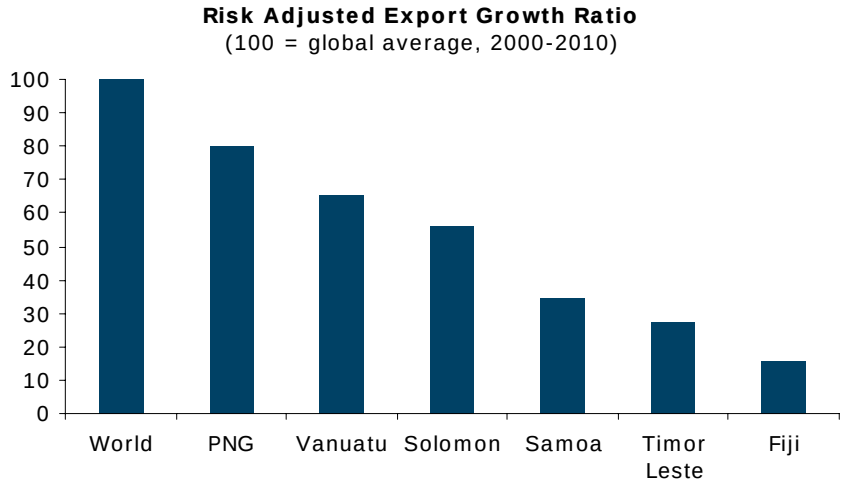
FEATURE NOTE

PACIFIC EXPORTS – LEVERAGING COMPARATIVE ADVANTAGE

In the second of a three-part series on Pacific trade, we look at revealed comparative advantages in exports across the region. We find that though the Pacific has leveraged its advantages in primary goods and energy in a sometimes spectacular fashion, the region's export growth on a risk-adjusted basis has underperformed. Export diversification would therefore be helpful, but this will be a challenge due to constraints on size.

CHART OF THE QUARTER

LACK OF DIVERSIFICATION LOWERS RISK-ADJUSTED EXPORT GROWTH



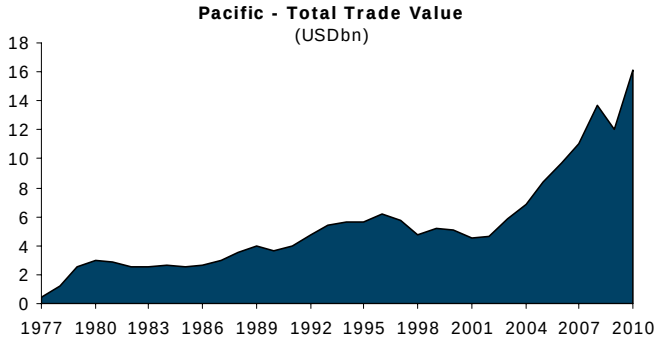
Sources: WITS, CEIC, ANZ

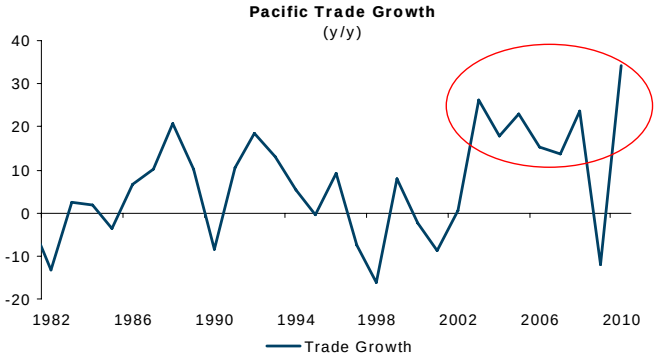
FEATURE NOTE

PACIFIC EXPORTS – COMPARATIVE ADVANTAGE AT A HIGH COST?

In this feature note—the second in a three-part series on Pacific trade—we look at revealed comparative advantages in exports and risk-adjusted export growth levels.[1] We conclude that the Pacific has been able to leverage its advantages in primary goods, but that the region's growth on a risk-adjusted basis has underperformed. This is likely due to scale issues.

As noted in the February issue of the Quarterly (in part one of this year's three-part series on trade), Pacific trade growth in recent decades has been impressive. Starting at just $0.4bn in 1977, the Pacific has averaged an annual total trade expansion of 15.6% y/y to reach $16.2bn in 2010. Over the past decade, trade growth has been consistently in double digits, bar the Global Financial Crisis period. Driven by globalisation, technology gains and pro-trade policies, we think this pace of growth is likely to continue.





Sources: WITS, ANZ Research

A key reason for the Pacific's fast trade growth has been the ability to exploit its *comparative* advantages. In simple terms, a comparative advantage in trade means that countries will benefit from concentrating in the production and export of goods for which they have lower relative (not absolute) costs. As a simple example, suppose that country A can produce six widgets and six coconuts per hour while county B can produce two widgets and four coconuts per hour. Country A has an *absolute* advantage over country B in both widgets and coconuts; however, country B has a *comparative* advantage in coconuts. In country A, to produce one widget, it would have an opportunity cost of one foregone coconut; in country B to produce one widget it would cost two coconuts. If country A specialises in widgets and country B in coconuts, then both will gain from trade.

IN WHAT PRODUCTS HAS THE PACIFIC A REVEALED COMPARATIVE ADVANTAGE?

To investigate this issue we use an index called *Revealed Comparative Advantage* or *RCA* (see appendix for details). The series uses historical trade data to isolate products on which a country has focused its exports. For example, if a country's share of widget exports is 25% of its export basket, and the global average share of widget exports is 5%, then that country has revealed comparative advantage for widgets. The *RCA* quantifies how large the comparative advantage is by dividing these two variables: the country has an *RCA = 5* for widgets.

Our results for the Pacific are shown in Table 1, overleaf. The RCAs show a high concentration of exports across most of our sample. This is not overly surprising given that most Pacific countries lack a broad export base (see February Quarterly). We also note that the highest *RCA* levels are for agricultural commodities, marine products, or natural resources.

[1] Pacific country sample: PNG, Fiji, Samoa, the Solomon Islands, Vanuatu, and Timor-Leste

FEATURE NOTE

TABLE 1. REVEALED COMPARATIVE ADVANTAGE INDEX* (AVERAGE 2008-2010)

Fiji		PNG		Solomon Is.		Timor Leste		Samoa		Vanuatu	
Product	RCA	Product	RCA	Product	RCA	Product	RCA	Product	RCA	Product	RCA
Sugar	124.8	Gold	36.5	Cork & wood	179.1	Coffee & spice	32.0	Electrical	7.1	Marine	54.3
Marine	24.6	Veg. oils & fats	33.5	Veg. oils & fats	26.4	Gas	25.5	Metal working	3.3	Transport	27.3
Beverages	21.4	Cork & wood	20.2	Marine	18.2	Petroleum**	2.8	Fixtures	2.8	Veg. oils & fats	6.0
Cork & wood	13.5	Coffee & spice	14.9	Coffee & spice	6.2	Machinery**	2.2	Marine	2.2	Crude an. & veg.	4.7
Gold	7.2	Marine	4.3	Oil Seeds	5.3	Veg. oil & fat**	1.8	General ind.	1.4	Oil Seeds	3.2

* Product groups are based on STIC Revision2, two-digit classification. ** Only 2010

We will now discuss individual results before comparing these to the historical risk-adjusted performance of the exports in the Pacific.

FIJI – A SWEET, BUT CONCENTRATED STORY

By a large margin, sugar is the Fijian product that has a huge revealed comparative advantage. The *RCA* level of 124.8 shows that Fiji's share of sugar in its export basket is 125 times the average share of sugar in the world's export basket. This suggests that substantial investment has been geared towards sugar production and exports in the country. The extraordinarily high level of sugar exports (particularly given the relatively diversified export base) suggests that Fiji may have allocated too many resources to the sector, or not enough to others. Fiji has also revealed comparative advantages in marine, gold, wood, and cereal products. Interestingly, the only manufacturing good found on the list is clothing.

RCA Level
Average (2008-10)

Fiji	
Product	RCA
Sugar	124.8
Marine	24.6
Beverages	21.4
Cork & wood	13.5
Gold	7.2
Cereals	5.2
Clothing	3.2
Veg. & fruit	3.2

PAPUA NEW GUINEA – A BALANCED PROFILE

The revealed comparative advantage picture in PNG is more balanced than Fiji's. Gold and vegetable oil and fats topped the list with RCAs in the mid-30s. Cork and wood and coffee and spices were next in the 15 to 20 range. The overall distribution of the *RCA* is more uniformly wider at the top and narrows rather quickly at the bottom. We note that all of the products for which PNG has a revealed comparative advantage are agricultural commodities or natural resources – a common theme for Pacific economies.

RCA Level
Average (2008-10)

PNG	
Product	RCA
Gold	36.5
Veg. oils & fats	33.5
Cork & wood	20.2
Coffee & spice	14.9
Marine	4.3
Hides & fur	2.0
Crude rubber	1.3

THE SOLOMON ISLANDS – KEY SIGNALS BEYOND LUMBER

As expected, the figures for cork and wood are 'off the charts' in the Solomon Islands. The country ships a share 180 times the world's average. Like Fiji and its sugar industry, the Solomon's has (a well-known) heavy reliance on the lumber industry for export growth. Looking beyond this headline, we note the economy has comparative advantages in vegetable oils and fats, marine products, and coffee and spices. Given the expected reduction in logging capacity in the coming years, redirecting export sector investment to these other natural resource and agricultural sectors will likely be necessary.

RCA Level
Average (2008-10)

Solomon Is.	
Product	RCA
Cork & wood	179.1
Veg. oils & fats	26.4
Marine	18.2
Coffee & spice	6.2
Oil Seeds	5.3
Animals	3.1
Oil Seeds	5.3

FEATURE NOTE

TIMOR-LESTE – A TALE OF (ONLY) TWO SECTORS

That gas had a high RCA for Timor-Leste was no surprise. But we were surprised to see the coffee and spice category (this also includes cocoa and tea) with an even larger revealed comparative advantage. Both have shares in the export basket of around 25 to 30 times the global average, so the distribution of RCAs is more in line with PNG than Fiji. As we move beyond these two products we note there are very few products which Timor-Leste has revealed an advantage, likely reflecting constraints due to size.

RCA Level
Average (2008-10)

Timor Leste	
Product	RCA
Coffee & spice	32.0
Gas	25.5
Pretroleum	2.8
Machinery	2.2
Veg. oil & fat	1.8

SAMOA – WEAK COMPARATIVE ADVANTAGES; FEW PRIMARY GOODS

Samoa was an outlier in the Pacific. Its RCAs were lower and its product list was surprisingly light on commodities. Electrical products led the pack with an RCA of 7.1. This was the lowest RCA for a lead product in our sample. Moreover, only one of the top five RCA products was a commodity, also very different from the rest of the Pacific. We wonder how close Samoa's export concentration is to its 'correct' level given the RCA levels and, surprisingly, the lack of commodities.

RCA Level
Average (2008-10)

Samoa	
Product	RCA
Electrical	7.1
Metal working	3.3
Fixtures	2.8
Marine	2.2
General ind.	1.4

VANUATU – ADVANTAGES EXIST, DIVERSIFICATION NEEDED

Vanuatu has been endowed with a strong comparative advantage in marine products, particularly fishing, having shipped a share 55 times more than the world's average from 2008-2010. However, we also note they have more recently gained a competitive advantage in the 'other transport' sector. Further comparative advantages were revealed and are predominantly agricultural.

RCA Level
Average (2008-10)

Vanuatu	
Product	RCA
Marine	54.3
Transport	27.3
Veg. oils & fats	6.0
Crude an.&veg.	4.7
Oil Seeds	3.2
Coffee & spice	1.9

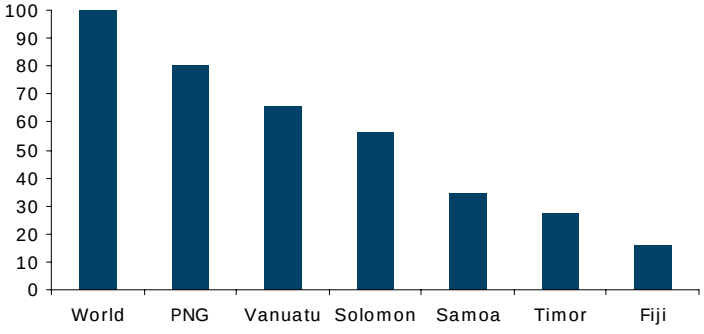
Sources: WITS, ANZ

HOW 'RISKY' IS PACIFIC EXPORT GROWTH?

Our analysis has shown that Pacific export growth is high but that export baskets are relatively concentrated. So it is natural to ask whether the former offsets the latter. To get a sense of how 'risky' the path of export growth has been over the past decade we computed the *risk adjusted export growth ratio* (see appendix). This simple measure is motivated by the Sharp Ratio. This index deflates a country's export growth by the volatility of its exports (our proxy for risk). We normalise the ratio we compute for each country by the world's average export growth to export volatility ratio. A reading of 100 would indicate that a country's risk-adjusted export ratio is on par with the world average, while a rating below 100 would indicate the level of growth was 'riskier.'

The chart shows that the risk-adjusted path of Pacific exports is below the global average. This result has differing drivers across our sample. For Fiji and Samoa the culprit is low average export growth over the past decade. For Vanuatu, the Solomon's and Timor-Leste, the result reflects very high export volatility. PNG's export growth over the decade performed best, and it also happens to be the country with the best *RCA* profile for the region.

Risk Adjusted Export Growth Ratio
(100 = global average, 2000-2010)



Sources: WITS, CEIC, ANZ

FEATURE NOTE

CONCLUSION

Pacific economies show high levels of revealed comparative advantages (with some over 100), which tend to be concentrated in commodities, with the exception of Samoa. But for all Pacific countries the recent high levels of export growth look less positive on a risk-adjusted basis, suggesting that more diversification of export baskets would be helpful in reducing external vulnerabilities. However, it is not clear this can be achieved given the lack of scale, the classic “Small State” challenge.

In part one or our 2012 trade series we developed a greater understanding of export diversification on a product and market basis in the Pacific. In part two we have identified products for which the Pacific has revealed a comparative advantage. In part three (to be published in August) we will focus on the interaction of Pacific exports and Asian markets in search of ‘optimal’ trading partners.

Daniel Wilson
Paul Gruenwald

FEATURE NOTE

APPENDIX

Note: All exercises that required a product breakdown were undertaken using the *Standard International Trade Classification* (SITC) revision 2, using two codes.

Revealed Comparative Advantage Index (RCA): The index compares the share of a particular product in the total exports in a country to the average world share of that same product in the global export basket. If a country exports a higher share than the world average, the RCA will be above unity, suggesting that it has a revealed comparative advantage in that particular product.

$$RCA_{ij} = \frac{\left(\frac{x_{ij}}{X_{iT}}\right)}{\left(\frac{x_{wj}}{X_{wT}}\right)}$$

Where, x_{ij} and x_{wj}, are the export values of product *j* for country *i* and the *w* (world); and X_{iT} and X_{wT} refer to country *i's* total exports and the worlds total exports.

Risk Adjusted Export Growth Ratio: This ratio is motivated by the *Sharp Ratio.* The aim is to gauge whether high export growth in the Pacific offset the relatively high amount of risk, or volatility, of its growth. This measure compares the ratio of export growth to its standard deviation in the Pacific with the world's export growth to its standard deviation ratio. A reading of 100 or higher suggests that Pacific export growth rate is less risky than the global average, and vice versa.

$$RAXG = \frac{\left(\frac{Average\ Export\ Growth_{Pac\ i}}{S\tan dard\ \ deviation_{Pac\ i}}\right)}{\left(\frac{Average\ Export\ Growth_{World}}{S\tan dard\ \ deviation_{World}}\right)} \times 100$$

MACRO FORECASTS

.

REAL GDP GROWTH (%)

	2011E	2012	2013	2014
Fiji	2.1	2.2	2.0	2.0
PNG	8.9	7.5	6.0	5.0
Samoa	1.4	2.0	2.4	2.4
Solomon Is.	9.2	6.7	5.0	4.3
Timor-Leste*	10.6	10.0	10.0	10.0
Tonga	0.8	1.4	1.5	1.8
Vanuatu	3.3	4.0	4.0	4.0

NOMINAL GDP (US$ bn)

	2011E	2012	2013	2014
Fiji	3.4	3.6	3.9	4.1
PNG	13.7	16.0	18.2	20.4
Samoa	0.6	0.6	0.7	0.7
Solomon Is.	0.8	0.9	1.0	1.1
Timor-Leste*	1.1	1.3	1.5	1.8
Tonga	0.4	0.5	0.5	0.5
Vanuatu	0.7	0.8	0.8	0.9

Inflation (%)

	2011E	2012	2013	2014
Fiji	7.0	5.0	5.0	5.0
PNG	6.9	8.0	7.0	7.0
Samoa	11.4	5.0	4.0	4.0
Solomon Is.	10.1	7.0	5.5	4.2
Timor-Leste	13.1	8.0	8.0	8.0
Tonga	5.3	4.5	5.3	5.5
Vanuatu	1.2	2.6	3.0	3.0

Fiscal Balance (% of GDP)

	2011E	2012	2013	2014
Fiji	-2.8	-3.4	-3.2	-3.0
PNG	-0.2	0.0	0.0	0.0
Samoa	-6.5	-6.5	-6.0	-6.0
Solomon Is.	2.2	-0.5	-0.5	-0.5
Timor-Leste	50.2	37.9	31.1	23.0
Tonga	-7.9	-4.2	-4.0	-3.8
Vanuatu	-1.3	-1.5	-0.0	-0.8

CURRENT ACCOUNT BALANCE (% OF GDP)

	2011E	2012	2013	2014
Fiji	-10.3	-9.0	-9.5	-9.2
PNG	-0.5	-30.7	-4.8	1.2
Samoa	-9.3	-10.0	-9.0	-9.0
Solomon Is.	-12.0	-12.0	-15.0	-15.0
Timor-Leste*	225.0	142.0	101.0	66.0
Tonga	-11.0	-11.7	-10.7	-10.7
Vanuatu	-6.3	-7.2	-7.0	-7.0

FOREIGN EXCHANGE RESERVES (US$ MN)

	2011E	2012	2013	2014
Fiji	880	800	750	700
PNG	4,323	5,135	5,551	5,653
Samoa	150	150	141	152
Solomon Is.	417	510	560	600
Timor-Leste	450	475	275	300
Tonga	132	140	150	155
Vanuatu	180	195	210	220

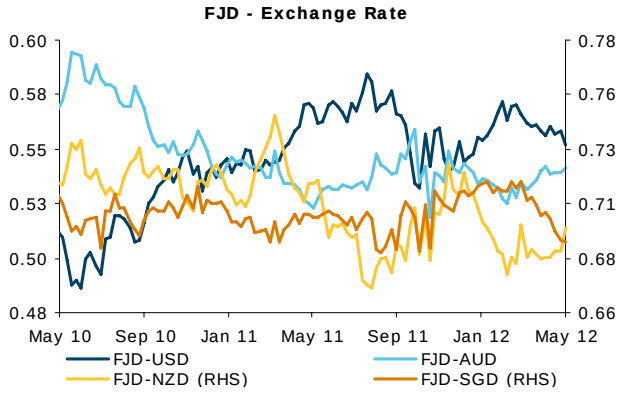
Sources:
PNG: Department of Treasury, Central Bank of PNG, ANZ Research
Timor-Leste: IMF, ANZ Research
Vanuatu: IMF, Reserve Bank of Vanuatu, ANZ Research
Samoa and Tonga: IMF and ADB
Solomon Islands: Central Bank of Solomon Islands, IMF, ANZ Research
Vanuatu: IMF, Research Bank of Vanuatu, ANZ Research

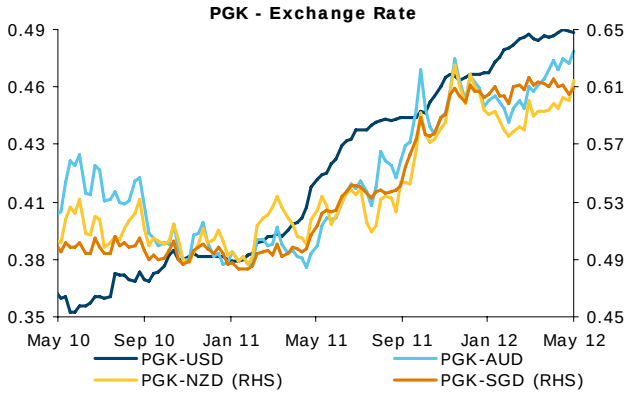
* Real and nominal GDP pertain to non-oil GDP; C/A balance as % of non-oil GDP

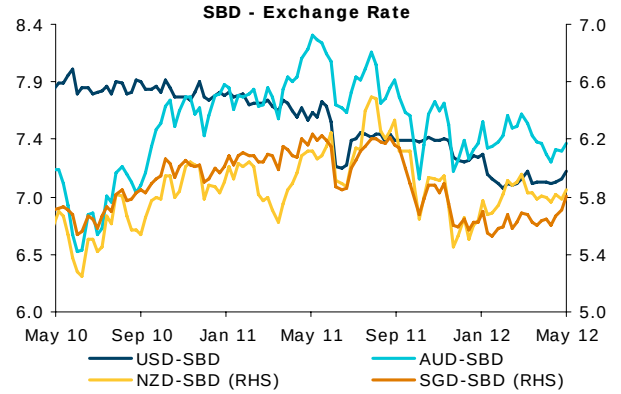
FX AND POLICY INTEREST RATES

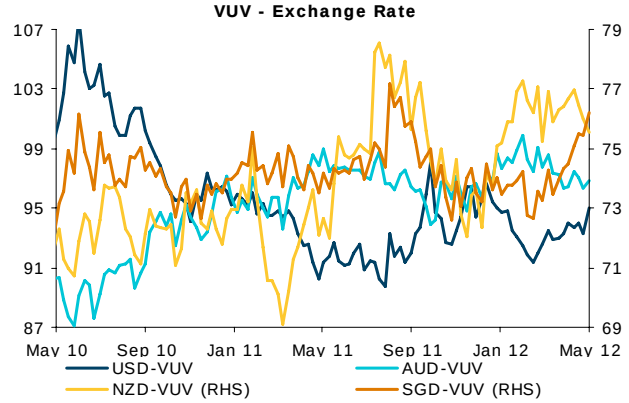
CURRENCIES

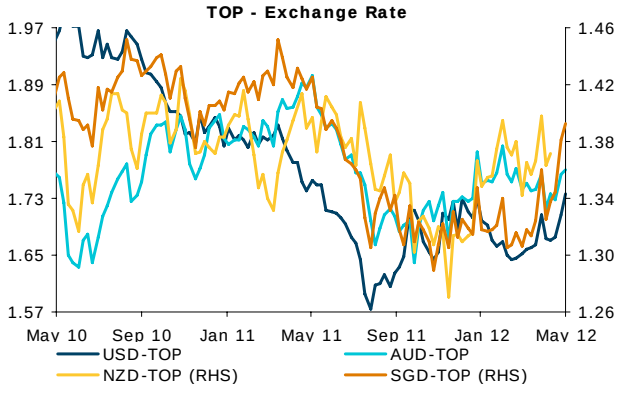
Most Pacific currencies outperformed AUD following Australia's surprisingly large interest rate cut on 1 May. This directional movement was also supported by the market's risk-off reaction to the French and Greek election results. Softer commodity prices, falling equity prices and a risk-off environment in Europe also led Pacific currencies to strengthen against NZD. In Papua New Guinea, the kina continued its appreciation against USD, though at a slower pace than previously as the resource sector, LNG project and FDI inflows continued to supply foreign currency to the local market. Other Pacific currencies declined against USD. Looking ahead, data releases in Europe, the US and China will drive Pacific currency markets in the near term.

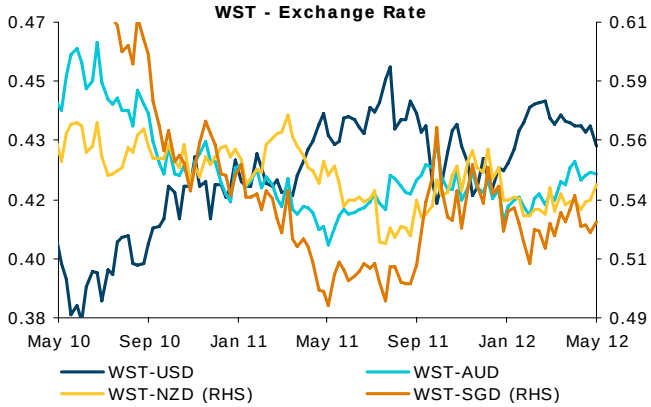












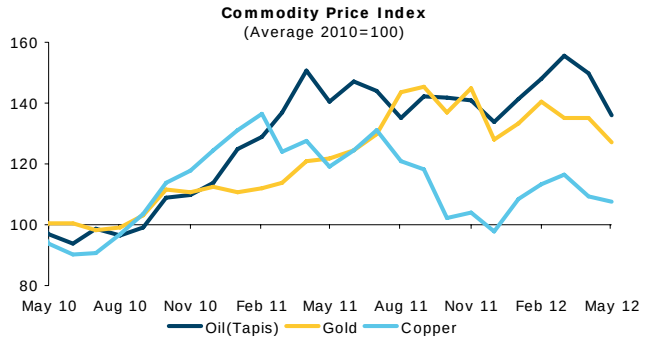
FX AND POLICY INTEREST RATES

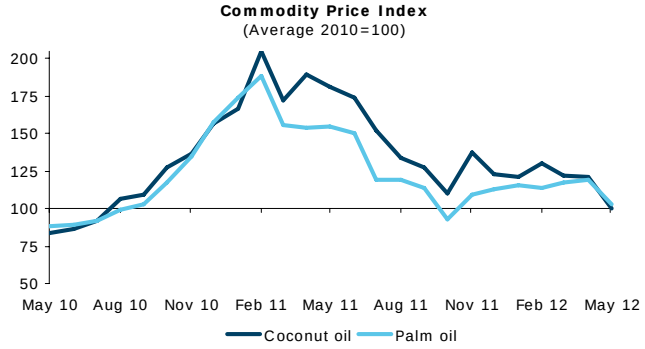
		CURRENT	JUN-12	SEP-12	DEC-12	MAR-13	JUN-13	SEP-13
FIJI	FJDUSD	0.548	0.560	0.566	0.570	0.572	0.573	0.574
	FJDAUD	0.549	0.536	0.534	0.535	0.535	0.536	0.536
	Short term rates*	0.50	0.50	0.50	0.50	1.00	1.00	1.00
PAPUA NEW GUINEA	PGKUSD	0.489	0.490	0.505	0.513	0.524	0.540	0.550
	PGKAUD	0.490	0.469	0.476	0.482	0.490	0.505	0.514
	Short term rates**	7.75	7.75	7.75	7.75	7.75	7.75	7.75
SAMOA	WSTUSD	0.427	0.429	0.444	0.452	0.454	0.454	0.454
	WSTAUD	0.428	0.411	0.419	0.424	0.424	0.424	0.424
SOLOMON ISLANDS	USDSBD	7.431	7.358	7.258	7.208	7.208	7.208	7.208
	AUDSBD	7.423	7.687	7.693	7.677	7.713	7.713	7.713
TONGA	USDTOP	1.747	1.634	1.650	1.667	1.667	1.667	1.667
	AUDTOP	1.745	1.707	1.749	1.775	1.784	1.784	1.784
VANUATU	USDVUV	95.63	93.12	93.12	93.12	93.12	93.12	93.12
	AUDVUV	95.52	97.28	98.71	99.17	99.64	99.64	99.64
	Short term***	6.00	6.00	6.00	6.00	6.00	6.00	6.00

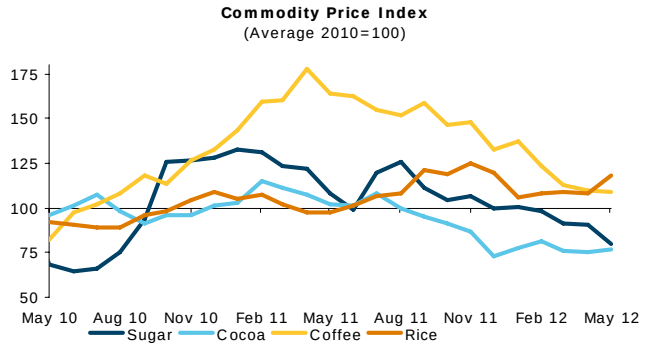
Note: The source of FX data is Bloomberg as at 11.15 am (SGT), 15 May 2012. As the currencies are illiquid with wide bid/offer spreads, the rate published is only indicative. (*) overnight policy rate, (**) Kina Facility Rate, (***) Discount rate.

COMMODITY MARKETS

COMMODITY MARKET DEVELOPMENTS







The general decline in commodity prices over the past month reflects the risk-off sentiment driven mainly by developments in the North Atlantic.

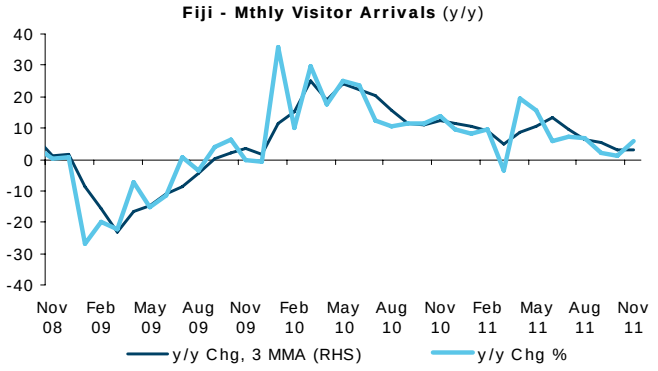
- Oil prices retreated over the month, reversing last month's gains. This was due to: 1/ a weaker-than-expected rise in April's US non-farm payrolls and the US ADP private employment report surprising on the downside; 2/ a decline in the euro zone's PMIs which saw a broad-based contraction in both the manufacturing and services sectors; 3/ European political and fiscal concerns persisting on the threat of a recession in Spain, and the outcomes of the French and Greek elections; and 4/ easing tensions over Iran's nuclear programme alleviating concerns of supply-side risks.
- Gold prices dipped over the month. Softer-than-expected US employment data which could prompt the Fed to adopt further stimulus measures led to gains in gold prices. However, lower expectations of a policy easing in Europe capped gains in prices with ECB president Mario Draghi describing the current policy rate as 'accommodative'.
- Copper prices declined as China's weaker-than-expected growth in Q1 fanned concerns on metal demand. Weakness in US ISM and European manufacturing PMIs, together with soft employment data in both regions, also contributed to the price decline.
- Palm oil prices declined as production in Malaysia, the world's second-largest supplier, rose substantially after recovering from months of seasonally low output.
- Sugar prices experienced the sharpest decline among the soft commodities as the glut in Brazil, the world's biggest producer, drove prices to the lowest level in 21 months.
- Coffee prices extended their slide over the month but may have bottomed out as signalled by a fall in inventories.

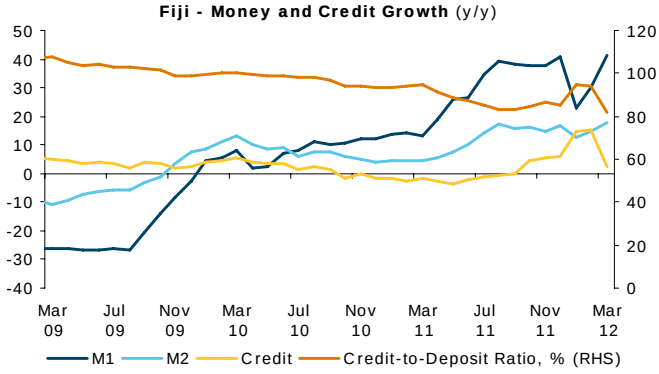
Adeline Yeo

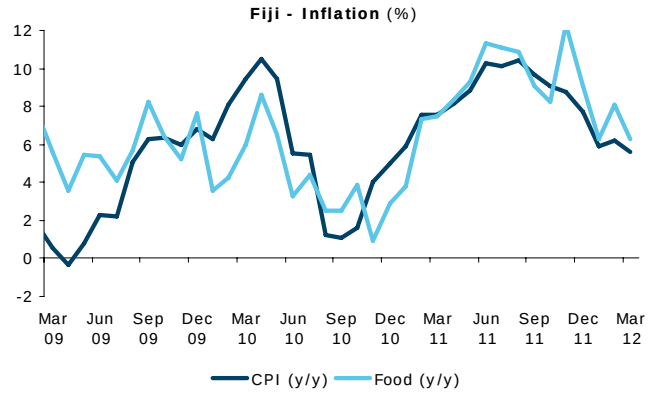
COMMODITY PRICE CHANGES	OIL (TAPIS)	GOLD	COPPER	COC. OIL	PALM OIL	SUGAR	COFFEE	COCOA	RICE
M/M %	-9.2	-5.9	-1.8	-17.6	-13.7	-11.8	-1.3	2.8	9.2
3M Change %	-8.2	-9.8	-5.4	-23.0	-9.7	-19.0	-12.1	-5.4	9.2
Y/Y %	-3.4	4.3	-9.9	-44.9	-33.5	-26.5	-33.9	-24.7	21.8

Source: Bloomberg

COUNTRY UPDATE







Fiji

Weather-related shocks will weigh on the agriculture sector. This is expected to hold back overall growth, and raise food price inflation. However, the momentum of overall economic activity should resume in view of supportive fiscal and monetary policies.

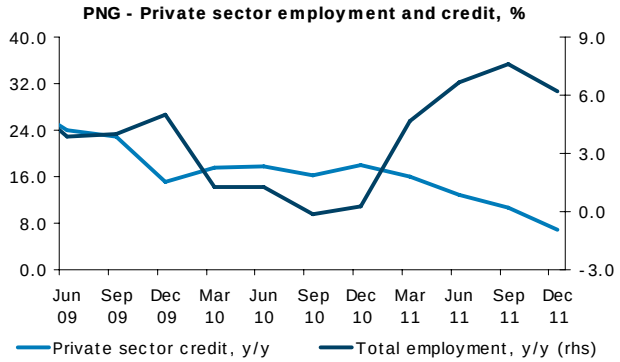
- Stable consumption supported by healthy remittance inflows put a floor to growth risks from an economic slowdown by Fiji's trading partners.
- Business investment remains subdued, but the implementation of public capital projects should support the outlook for the year and create greater job opportunities.
- Visitor arrivals have been slow so far this year as industrialised countries continue to experience growth pressures.
- Inflation continued to soften through Mar to 5.6% y/y from 6.2% previously, driven by lower food inflation. However, the recent floods are likely to cause a temporary increase in prices of fruit, vegetables and crops.
- Official reserves rose to $849m at the end of Mar, up from $821m in Dec 2011, equivalent to an estimated five months of import cover. Meanwhile, the Reserve Bank's operating policy rate has remained at 0.5%.
- Domestic credit slowed sharply in Mar on account of the flood damage. However, the banking system remains liquid, monetary policy remains accommodative, and policy transmission is improving, as evidenced by gradually declining lending and deposit rates.
- The government's recent decision to end emergency measures and introduce constitutional reforms were welcomed by the Commonwealth.
- In view of the recent weather-induced shocks, we have scaled back our GDP growth forecast to 2.2% for 2012, from our earlier projection of 2.4%. However, accommodative monetary policies and greater fiscal spending should limit further downside risks.

Aninda Mitra

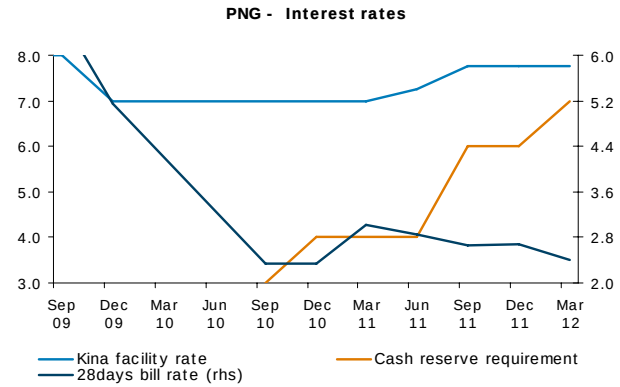
QUARTERLY ECONOMIC DATA	JUN-10	SEP-10	DEC-10	MAR-11	JUN-11	SEP-11	DEC-11	MAR-12
Consumer Price Index, % y/y	5.5	1.1	5.0	7.6	10.3	9.7	7.7	5.6
Domestic Credit, % y/y	2.9	1.6	-0.6	-2.3	-2.4	-0.5	4.3	2.3
Exports, % y/y	49.1	14.5	23.7	6.2	N/A	N/A	N/A	N/A
Imports, % y/y	27.5	62.4	32.7	-0.9	N/A	N/A	N/A	N/A
Trade Balance, US$ m	-242.8	-404.5	-272.0	-249.3	N/A	N/A	N/A	N/A
Foreign Exchange Reserves, US$ m	548	637	716	707	866	899	821	849

Sources: Reserve Bank of Fiji, ADB, IMF

Source: BPNG



Source: BPN



Sources: BPNG, NSO

Papua New Guinea

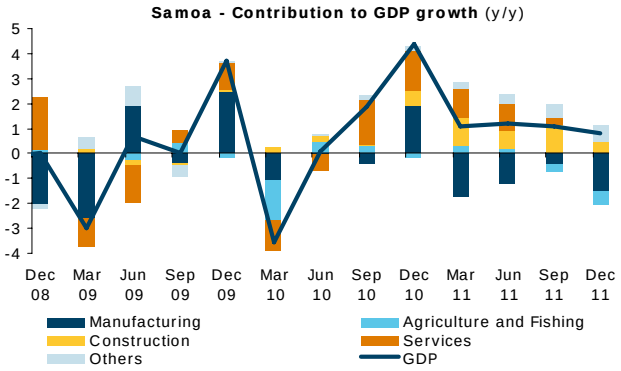
The growth outlook remains strong, supported by government spending, commodity prices and the construction of the LNG project. Political tensions have eased as the national elections approach.

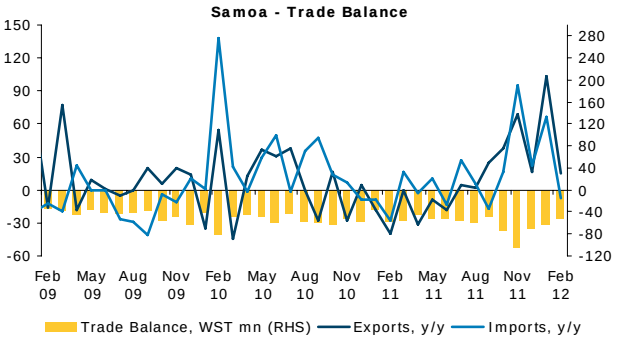
- The construction of the LNG project, government-donor funded projects and strong private sector activity growth saw employment grow 6.2% y/y in Q4 2011.
- Credit growth slowed to 6.8% y/y in Q4 2011 compared to 10.6% previously. Though slowing growth is having a lesser impact on inflation, the central bank is concerned by high levels of liquidity from increased government spending and foreign currency inflows that may potentially threaten price stability.
- High liquidity concerns saw the central bank endeavour to tighten monetary policy in Q1 through new central bank bills and an increase in banks' cash reserve requirements, from 1.0% to 7.0%. However, the tightening approach did little to arrest a decline in interest rates: the 28-day bill rate stood at 2.40% at Mar-end and declined to 2.24% in early May.
- The kina has appreciated 3.9% against USD so far this year. Inflation pressures will ease further if businesses pass on the currency's strengthening to consumers.
- Recent political tensions have eased on the government's commitment to issue writs on the 18 May to be followed by a five week election campaign.
- While the economic outlook for 2012 remains positive, softer commodity prices may result in a budget deficit. Government spending and ongoing construction of the LNG project should continue to support projected growth of 7% in 2012. We anticipate interest rates to remain under downward pressure, unless the central bank imposes further tightening measures.

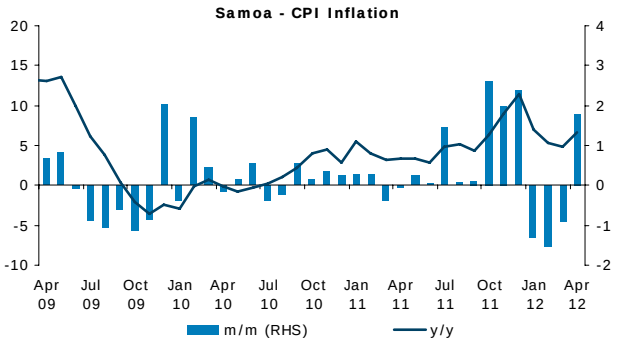
Bora Bedamu Jr

QUARTERLY ECONOMIC DATA	JUN-10	SEP-10	DEC-10	MAR-11	JUN-11	SEP-11	DEC-11	MAR-12
Employment Index, % y/y	1.3	-0.1	0.3	4.7	6.7	7.6	6.2	N/A
Consumer Price Index, % y/y	6.2	5.6	7.2	9.0	9.6	8.4	6.9	N/A
Exports, % y/y	54.0	24.7	20.1	26.1	7.6	-5.4	N/A	N/A
Imports, US $m	30.9	23.8	18	20.1	4.7	-10.8	N/A	N/A
Trade Balance, US$ m	590	575	604	687	780	707	N/A	N/A
Foreign Exchange Reserves, US$ m	2,581	2,912	3,147	3,190	3,697	3,856	4,323	4,283
Total import cover (months)	9.3	10.0	10.4	9.7	9.8	10.6	11.5	N/A

Sources: Bank of Papua New Guinea, ANZ Research







Samoa

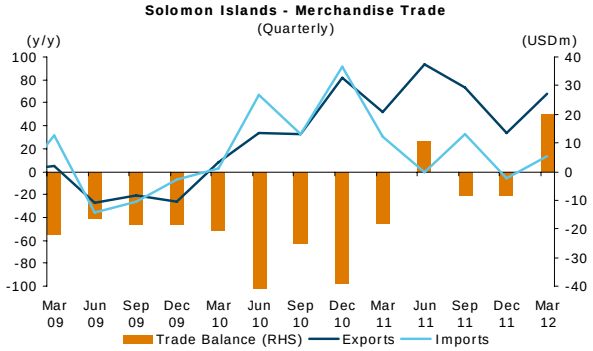
The economy remains on a very modest growth path. Real GDP growth continued to slow in Q4 2011 due to a contraction in the agricultural and manufacturing sectors. Inflation picked up again in Apr 2012. External indicators remained volatile.

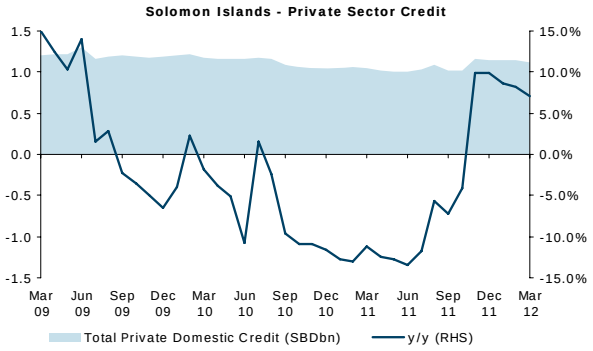
- Real GDP growth fell for the second straight quarter to 0.8% y/y in Q4 from 1.1% previously, as the agriculture and fishing and manufacturing sectors continued to contract sharply. However, GDP expanded 2.8% q/q, up from 1.7% in Q3, on account of strong growth in the transport, commerce and construction sectors.
- CPI inflation rebounded in Apr to 6.7% y/y after having fallen in the previous three months. Food and non-alcoholic beverages contributed to 95% of the price increase and transport costs accounted for the remaining 5%.
- Trade growth tumbled in Feb after surging in Jan. Exports grew 15% y/y, down from a 103% gain in Jan as domestic exports dropped 44% on lower demand for fresh fish, coconut oil, beer and nonu juice. Imports contracted 7%, compared with the previous month's 67% gain on account of lower government imports. The trade deficit narrowed steadily from its peak in Nov 2011 to $54m in Feb.
- Private remittances climbed 7.0% y/y in Feb, down from 13.8% in Jan and well below Feb's trend growth rate of around 16.0%.
- Total visitor arrival growth rebounded to 1.0% y/y in Mar after having fallen on a seasonal basis in the previous three months. Visitor numbers from Australia and the US bounced back.
- Bank credit rebounded strongly by 2.4% m/m to $796m in Feb. Interest rates on deposits remained stable at 2.38%, on average, with the official weighted average interest rate at 0.15%. Meanwhile, lending rates stayed high at 9.69%, on average.
- Growth will likely be modest on sluggish domestic activity. The manufacturing and primary sectors will need to rebound strongly to achieve improved GDP growth this year.

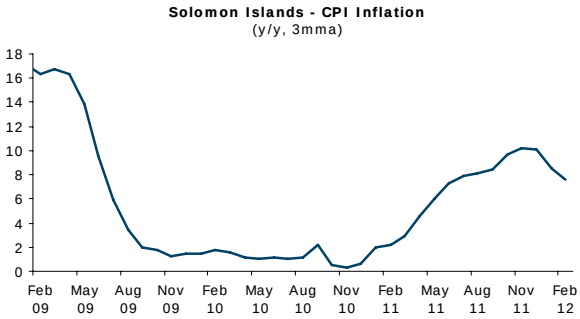
Hai Pham

QUARTERLY ECONOMIC DATA	MAR-10	JUN-10	SEP-10	DEC-10	MAR-11	JUN-11	SEP-11	DEC-11
Consumer Price Index, % y/y	0.7	-0.3	2.2	3.8	3.2	2.9	4.3	11.4
M2, % y/y	9.0	12.2	13.4	7.8	5.5	0.1	-4.8	-5.3
Exports, % y/y	-33.7	35.2	-23.9	2	-22.3	-17.7	25.0	16.2
Imports, % y/y	44.7	55.1	54.5	10.5	-10.8	-2.9	-17.5	22.8
Trade Balance, US$ m	-19.6	-24.0	-25.2	-24.6	-24.1	-23.9	-21.8	-30.7
Foreign Exchange Reserves, US$ m	143.1	163.0	195.7	191.4	162.9	160.9	142.0	150.5
Total import cover (months)	7.1	6.3	8.1	7.7	7.3	6.8	5.4	5.5

Sources: The Central Bank of Samoa, Samoa Bureau of Statistics







Solomon Islands

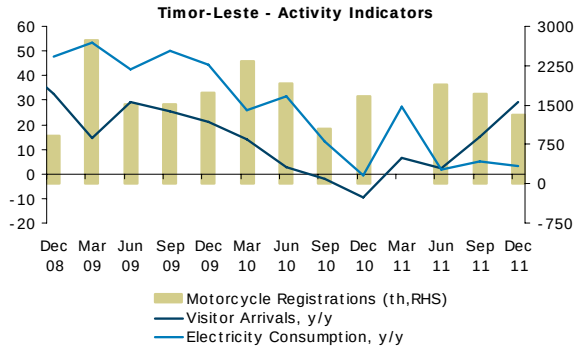
Real growth was strong on the continued aggressive production of logs. Gold production in Q1 alone almost eclipsed 2011's total, though prices have eased. Inflation pressures have dipped and the central bank will pursue a 'moderate monetary policy stance' over the next six months.

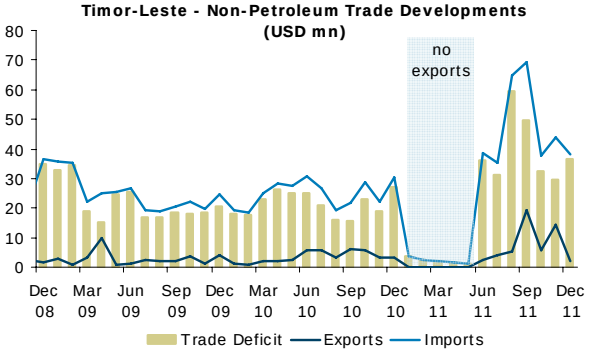
- Export growth doubled to 68.4% y/y in Q1, from Q4 2011. The pickup was largely due to increased shipments of gold and sustained shipments of round logs. Import growth was 13.6% in Q1, from a 5.5% contraction in Q4. Imports of mineral fuels and transport equipment led to the rise. The trade balance was in a strong surplus of $19.8m, from a deficit of $8.3m in Q4.
- Reserves climbed to $448m as at 25 Apr, up 36.0% y/y, sufficient for 10 months of import cover.
- Inflation eased to 7.6% (3mma) in Mar, compared with 10.1% in Dec. The domestic component of inflation eased to 10.1% in Mar from 12.8% in Dec, as housing and utilities price growth eased; the imported component of inflation fell to 4.2% against 6.4% on falling food import costs.
- M3 growth increased 2.5% m/m to SBD2,542m ($345.1m) as at 25 April.
- Total domestic credit outstanding fell to SBD245m as at 25 April, from SBD684m a year ago.
- Log production (proxied through export volumes) remains buoyant: Q1 production growth was at 25.9% y/y. The fish catch has also been strong, up 23.0% from Q1 2011. Soft commodity production (palm, cocoa, and copra) was down in Q1.
- Gold production picked up to 33,400 ounces in Q1, almost reaching 2011's full year production of 39,492 ounces. Gold production is expected to ramp up to 100,000 ounces in 2012, the annual level projected for the next nine years.
- Aggressive shipments of logs will provide a temporary boost to growth; however prices have declined by 12.0% since Dec, mitigating some of the short-term income benefits. Gold production continues to progress smoothly. Inflation has eased lately, but still remains elevated. As such the central bank will peruse a 'moderate monetary policy stance' that maintains price stability.

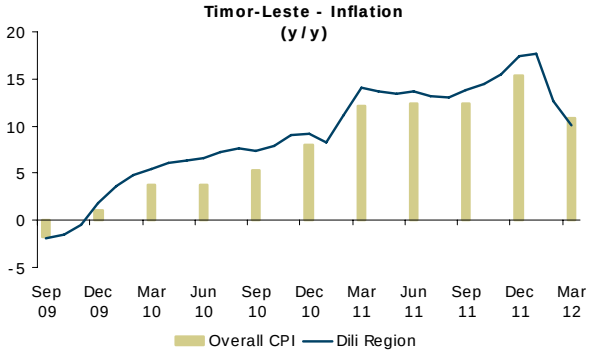
Daniel Wilson

QUARTERLY ECONOMIC DATA	JUN-10	SEP-10	DEC-10	MAR-11	JUN-11	SEP-11	DEC-11	MAR-12
Private Credit, % y/y	-6.57	-3.50	-11.13	-12.35	-12.87	-8.21	5.24	7.95
Consumer Price Index % y/y	1.0	0.7	1.0	2.9	7.2	8.4	10.1	7.6
Exports, % y/y	35.3	29.4	82.1	51.6	93.6	73.7	34.2	68.4
Imports, % y/y	62.8	32.5	90.2	30.9	-0.6	32.6	-5.5	13.6
Trade Balance, US$mn	-40.9	-24.8	-39.1	-18.1	10.3	-8.2	-8.4	19.8
Foreign Exchange Reserves, US$ mn	183.9	211.9	265.0	289.0	353.0	358.0	417.0	450.0

Sources: Central Bank of the Solomon Islands, ANZ







Timor-Leste

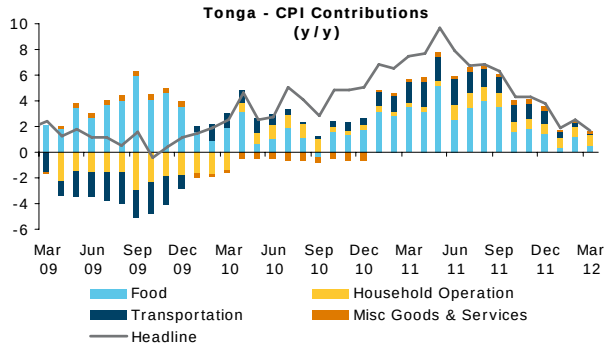
Activity indicators continue to suggest strong domestic demand, while inflation has begun to moderate from 2011's rising trend.

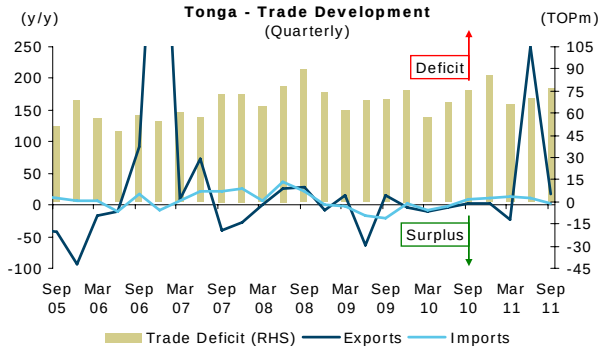
- Activity indicators were mixed. Growth in visitor arrivals nearly doubled to 29.3% y/y in Q4 2011, while growth in electricity consumption stayed in the low single digits at 3.2% y/y, down from 5.2% in the previous quarter. Meanwhile, the number of motorcycle registrations continued the gradual decline that began in Q2 2011.
- Non-oil trade flows began to normalise in Dec from the three-year highs recorded late in Q3. For Q4 as a whole, export growth eased to 80.1% y/y from 89.6% in Q3. Import growth fell to 47.9% from 151.1% prior, but levels remain relatively high. This resulted in an improvement of the trade deficit from $140.7m to $98.1m.
- Inflation in the Dili region moderated to 10.1% y/y in Mar from 17.7% and 12.6% in Jan and Feb, respectively. Nationwide, inflation also moderated to 10.9% in Q1 2012 from 15.4% previously, driven by slower rises in food and health costs.
- Private sector credit rose by 18.5% y/y in Q4 2011 from Q3's 23.1% gain, but accelerated to 2.2% on a q/q basis from 1.9% prior. A credit spike for the construction sector offset the large fall in agricultural lending.
- Broad money growth rose to 19.8% y/y in Mar, from 11.5% and 13.0% in Jan and Feb, respectively. Meanwhile, official foreign reserves as of Mar amounted to $104.8m, or about four months of import cover.
- The value of the Petroleum Fund as of Feb-end reached $9.9bn, up from $9.7bn in Jan. Net gains for the month stood at $6.4m, compared to $69.5m in the previous month.
- Despite mixed signals from its activity indicators, Timor-Leste still appears to be on a solid growth path, with oil revenues growing and concerted investment efforts by the government, as well as continued strong domestic demand. Meanwhile, a stronger USD (Timor's official currency) and steadier food prices have helped to ease overall inflation.

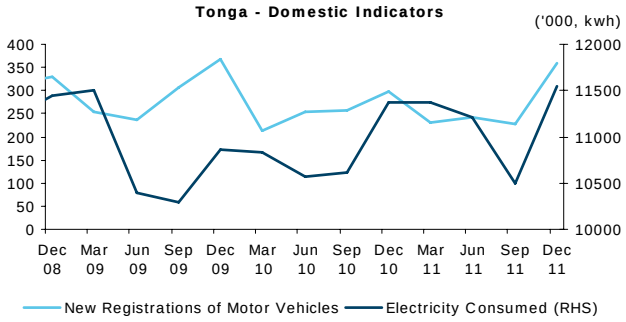
Vincent Conti

QUARTERLY ECONOMIC DATA	JUN-10	SEP-10	DEC-10	MAR-11	JUN-11	SEP-11	DEC-11	MAR-12
Mobile Subscribers, % y/y	145.5	85.1	34.8	33.8	N/A	N/A	N/A	N/A
Visitor Arrivals, % y/y	2.8	-1.9	-9.7	6.5	2.2	15.0	29.3	N/A
Consumer Price Index, % y/y	3.8	5.3	8.0	12.1	12.4	12.4	15.4	10.9
Exports, US$mn	10.4	15.2	12.2	0.1	2.4	28.8	22	N/A
Imports, US$mn	86.5	67.5	81.2	8.4	41.5	169.6	120.1	N/A
Trade Balance, US$ mn	-76.1	-52.3	-69.0	-8.3	-39.1	-140.7	-98.1	N/A

Sources: Timor-Leste National Directorate of Statistics, Banking and Payments Authority of Timor-Leste, ANZ Research







Tonga

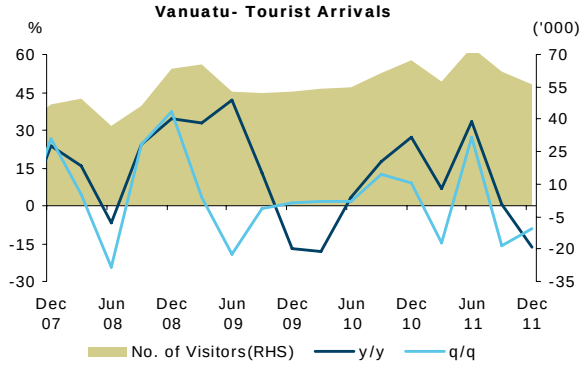
External indicators signal a less favourable growth outlook in the near term. A continued fall in private remittances and tourist receipts are among the main causes of the slowdown.

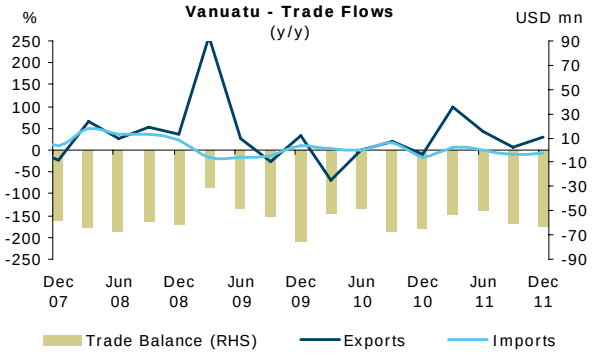
- Tourist receipts fell for the second consecutive quarter, declining 16.0% y/y in Q4 2011, down from a 12.4% fall in the previous quarter. Total receipts stood at TOP 13.7m in Q4, down from TOP 16.1m in the previous quarter.
- Private remittances, largely from the US, fell by 13.8% y/y in Dec following a 53.2% rise in the previous month. Dec's remittances totalled TOP 14.4m.
- Domestic indicators are on an uptrend with rising motor vehicles registrations and electricity consumption.
- Export growth in Q3 2011 rose 16.7% y/y after seeing a spike in the previous quarter. The slower rise in import growth of 2.4% y/y in Q3 was due to base effects. Despite the strong export growth, the trade deficit in Q3 widened to TOP 76.9m.
- Inflation trended lower in Mar, rising 1.7% y/y from 2.6% in the previous month. This came on the back of easing food and transportation prices. Mar imported inflation fell by 0.9ppt to 2.8% while domestic inflation fell by 0.7ppt to 0.3%.
- Official foreign reserves rose to TOP 226.0m in Dec, up from TOP 212.9m in the previous month. This is equivalent to 8.8 months of import cover. High levels of foreign exchange reserves were mainly due to the receipt of foreign aid.
- Bank lending to the private sector contracted by 10.8% y/y in Q4 and has been on the decline since early 2009. Private loans to the agricultural and industrial sectors declined by 35.5% and 13.9%, respectively.
- External headwinds continue to weigh on the economy given the slow recovery in the US and New Zealand. A continued fall in remittances, which is a significant source of household income, is likely to leave consumption subdued.

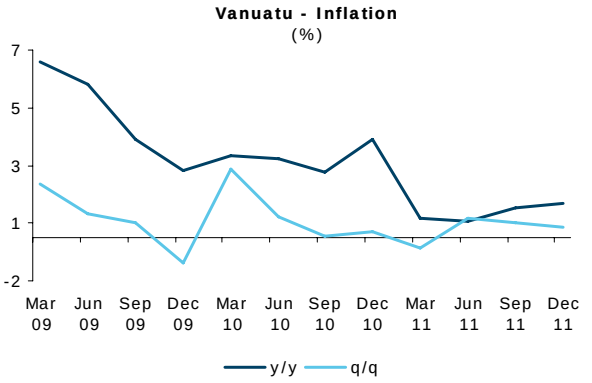
Adeline Yeo

QUARTERLY ECONOMIC DATA	MAR-10	JUN-10	SEP-10	DEC-10	MAR-11	JUN-11	SEP-11	DEC-11
Consumer Price Index, % y/y	2.5	2.7	2.9	5.1	7.5	7.9	6.4	3.8
Private Sector Credit, % y/y	-10.9	-14.6	-13.2	-12.2	-11.2	-9.0	-10.1	-10.8
Exports, % y/y	-10.0	-4.8	2.1	3.4	-22.2	250.0	16.7	N/A
Imports, % y/y	-7.2	-2.1	8.3	12.0	12.4	12.0	2.4	N/A
Trade Balance, US$ mn	-57.7	-67.1	-75.8	-85.7	-65.8	-70.4	-76.9	N/A
Foreign Exchange Reserves, US$ mn	68.1	74.3	76.0	83.1	72.8	103.4	113.0	119.8

Sources: National Reserve Bank of Tonga, Tonga Department of Statistics, ANZ Research







Vanuatu

Softening external demand continues to weigh on the economy with weak exports and declining tourist arrivals. Inflation is well contained but is on the uptrend as domestic growth gains momentum.

- Tourist arrivals declined 16.5% y/y in Q4 2011, compared to a 0.3% rise in the previous quarter. On a sequential basis, Feb visitor arrivals fell 27.3% m/m compared to a strong rise of 67.9% in Jan. This is unsurprising as Feb is typically a low season for visitor arrivals by air.
- Exports rose 5.1% y/y in Feb, up from an 18.1% decline in Jan. However, on a sequential basis, exports in Feb contracted by 25.3% m/m after a decline of 22.5% in Jan. A fall in copra and coconut product exports was the main cause of the decline.
- Imports fell 7.6% y/y in Feb, down from a 20.5% rise in the previous month. As weak external demand weighed on exports, the trade deficit in Feb widened to VUV 2.1bn from VUV 1.4bn in Jan.
- Inflation rose 1.2% y/y in Q4 2011, up from 1.0% in the previous quarter. Sequentially, inflation rose 0.4% q/q as compared to a 0.5% rise in Q3. Price gains in the miscellaneous category, household supplies and transport were the main drivers of inflation in Q4.
- Domestic credit increased by 11.2% y/y in Dec. Loans to businesses and households rose 9.5% and 7.0%, respectively. On a month-on-month basis, domestic credit increased 1.5% in Dec, up from a 1.3% increase in the previous month. Broad money growth, as measured by M2, rose 1.3% y/y in Dec.
- Recent data reveal signs of weakness in the external environment weighing on the economy as seen in the fall in tourist arrivals and weak exports. Going forward, a pickup in construction activity and a recovery in tourism in the aftermath of floods in the Pacific region are likely to drive growth momentum.

Adeline Yeo

QUARTERLY ECONOMIC DATA	MAR-10	JUN-10	SEP-10	DEC-10	MAR-11	JUN-11	SEP-11	DEC-11
Consumer Price Index, % y/y	2.8	2.7	2.3	3.4	0.7	0.6	1.0	1.2
Tourist (thousands)	53.9	54.8	61.7	67.3	57.6	73.3	61.9	56.1
Exports, % y/y	-68.0	0.3	18.6	-10.6	101.0	45.5	5.1	2.8
Imports, % y/y	2.8	-0.9	17.1	-15.9	9.7	-1.2	-7.9	-1.7
Trade Balance, US$ m	-52.6	-56.3	-68.3	-65.1	-55.1	-50.0	-60.9	-62.7
Foreign Exchange Reserves, US$ m	146.5	144.5	154.2	155.2	155.5	165.5	N/A	N/A

Sources: Reserve Bank of Vanuatu, ANZ Research

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