

The economy of Guadeloupe in 2011 Recovery despite uncertainties

2011 was characterised by new improvements in the Guadeloupean economic environment following recovery initiated in 2010 and despite the uncertainties noted since the summer. The business climate indicator was stabilised and developed throughout the year above its long term average. Foreign trade increased.

Household consumption remained buoyant taking advantage of constrained price increase and once again supporting recovery despite lingering concerns regarding employment. However, investment was dampened by the lack of confidence of economic stakeholders as companies continued to take a cautious approach and projects are still below their pre-crisis levels.

This improvement varies and is uneven depending on the sectors: companies and the trade and tourism sectors enjoyed the benefits of positive household consumption and increased number of tourists, while the construction sector and to a large extent the farming sector continue to be faced with economic difficulties.

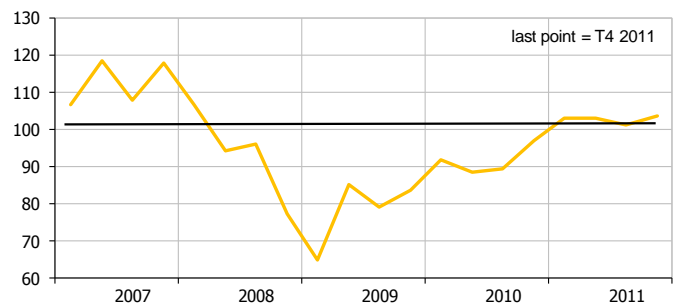
Bank financing provided active support for business as demonstrated by the significant increase in the outstanding financing granted to companies and real estate financing.

AS YET LIMITED RECOVERY

Business climate stabilised

The business climate indicator (BCI) stabilised throughout the year slightly above its long-term average after experiencing sharp increase during the second half of 2010. This stability is a sign of a gradual but moderate return of business confidence which is still below pre-crisis levels.

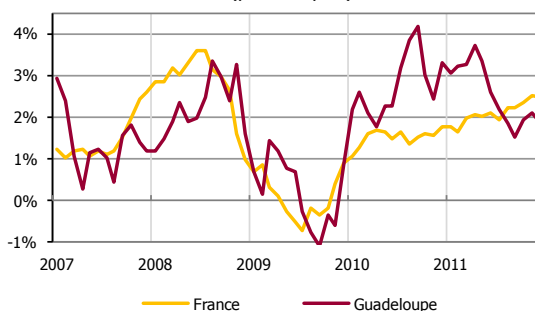
Business climate indicator
(100 = long term average)



Source: IEDOM economic survey

Prices under control

Evolution of the price index
(year-on-year)



Source: INSEE

Price increases were kept under control in 2011 and stood at 1.8% on a year-on-year basis at the end of December which is a more moderate development than the whole of France (+2.5%). The price index saw an upturn of 0.8% over a year except for energy.

This increase is mainly supported by the rise in energy costs (+11.8%) and the price of foodstuffs (+2.5%). Energy accounted for 10% in the household expenditure structure and was the chief contributor to the price increase, ahead of foodstuffs except for tobacco and manufactured goods. There was a slight fall in the price of services (-0.2%) which is the largest household expense (40%).

Persistently unfavourable labour market

The labour market continued to deteriorate in 2011, the number of job seekers (DEFM A) rose by 6.3% on a year-on-year basis at the end of December to total 57,030, up by more than 11,000 since 2008. This rise was even more significant than in 2010 which saw an increase of 3.2% in the number of job seekers. At the same time, there was a downturn of 6.4% in the number of labour demands reported which amounted to a total of 13,664, following the net rebound recorded in 2010 (13.5%).

The unemployment rate stood at 22.6% at the end of June down by 1.6 points over a year in view of the increased labour force.

Business supported by household consumption

Household consumption was strong at the start of the year and continued to increase despite a downturn in the third quarter. On a year-on-year basis, consumer goods imports rose by 3.7% compared with 2010, foodstuff imports by +8.2% (CVS data) and revenue from dock dues rose by +7.6%.

The merchants questioned as part of the IEDOM economic survey reported an overall increase in business. However, end-of-year sales which were less than the expected levels testify to a certain caution on the part of customers.

There was a slight decrease in household consumer credits (+4% at the end of 2011 against +5.3% in 2010).

The household financial situations saw continuing stabilisation: the number of individuals whose access to certain banking facilities was restricted stood at its lowest level since 1997 and there was marked decrease in the number of bank cards confiscated (-8.2%).



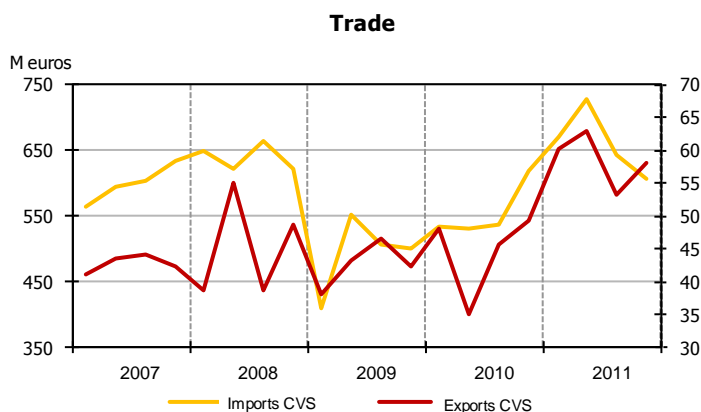
Source: Customs

Investors still lacking confidence

Following a first half-year of gradual recovery, business investment suffered from an economic context deemed more uncertain from summer on: investment forecasts declined attesting to the doubts of economic agents regarding the future. Capital goods imports which had surged to 14.5% in 2010 trended downwards (-0.9%) and remained lower by 8% than their pre-crisis levels. Imports of intermediate goods stagnated at their 2008 level. The investment credits outstanding trended upwards however the investments made especially in the industry, outside of agri-food imports, were dedicated to renewing rather than extending production capacities.

Household real estate investment also slowed down despite the historically low level of interest rates. There was a slight decrease in the gross rate of outstanding home loans even though this rate remains high (+7.9% against +9.8% in 2010).

Rise in trade during the first half year



Source: Customs

Imports were boosted by the buoyancy of household consumption and recovery of economic activity during the last two years. In 2011, they once again attained the peak levels reached in 2008. Apart from oil products, there was a less significant rise in imports than in 2010 (+1.7% against +17.1%).

This rise essentially stemmed from foodstuffs (+8.2%), consumer goods (+3.7%), household capital goods (+3.6%) and to a lesser extent intermediate goods (+1.4%). However, there was a downturn of 0.9% compared with 2010 in business capital goods imports.

In terms of exports, the favourable trend of agricultural products exports (+27%) resulting from the newfound buoyancy of banana exports (+42%) which had been interrupted for a few months in 2010 should be noted.

DISPARITIES BETWEEN SECTORS

Sluggishness in the primary sector

The poor climatic conditions recorded at the start of the year affected the entire agricultural sector. A state of disaster was declared in certain municipalities for vegetable and subsistence crops: melon harvest was once again subject to difficulties. Sugar marketing levels were also below expectations due to a combination of factors: the social conflicts which delayed start of marketing and the heavy rainfall during the harvesting period. 646,300 tons of sugar cane were ground that is a 5% decrease with respect to 2010 and a volume 7% less than the 10-year average. Average sugar content fell to its lowest level in the last decade, 7.48.

Slight improvement in the industry

There was positive development throughout 2011 in the business flow of manufacturing industries even though this level was less buoyant from the third quarter and despite a difficult context for companies whose business is closely connected with construction. The agrifood industry was well-oriented, driven by the positive development of household consumption: this finding is attested to by the 5% increase in agrifood exports.

Persistent difficulties in the construction sector

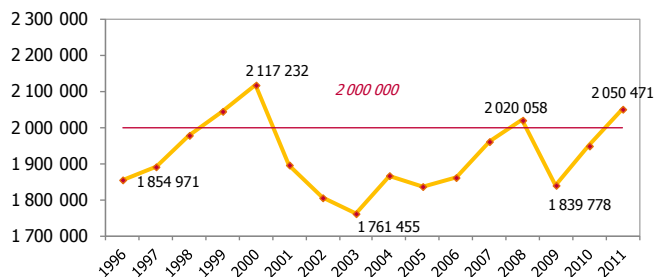
The situation in the construction and public works sector is still a challenging one. Despite a slight improvement in the second half of the year, there was no real recovery after 2 years of recession. The sector was kept afloat by the building of social housing units promoted by tax exemption schemes; however this does not as yet represent a source of growth for major contractors whilst private housing procurement is on the verge of collapse. There were still very few major projects in the public works sector except for that of the new EDF power plant in Jarry and continued urban renovation works in Pointe-à-Pitre and les Abymes.

Cement consumption on the local market which had suffered a decline of 3.3% over a year returned to its 2009 level one of the lowest in the decade and the number of building permits issued for new housing decreased by 16% over a year.

Against this backdrop, many companies especially small-sized ones were faced with cash-flow difficulties and accumulated corporate and tax arrears.

Tourist return continues

Passenger air traffic since 1996



Source: Pointe-à-Pitre Chamber of Commerce and Industry (Guadeloupe Pôle Caraïbes Airport)

The results of the tourism sector confirmed the recovery initiated from the end of 2010, with a rise in indicators compared with previous years especially 2008 which is a benchmark year in terms of results according to professionals.

Industry consensus is that the number of visitors to the island has increased. Passenger traffic at the Pôle Caraïbes airport has returned to levels close to record highs. A little over 2 million passengers were welcomed at the airport, a figure which has increased by 5.2% compared with 2010 and 1.2% higher than that of 2008. The number of overnight stays at hotels has increased for the second consecutive year (+9.1% in 2011 after +17% in 2010) and the occupancy rate of rooms has reached 58% on average, up 5 points over a year.

The cruise ship activity has also regained a certain growth after an especially poor first half-year. The 2011-2012 season which started in November showed very encouraging results due to an increase in the number of departures proposed in Pointe-à-Pitre. The result for the month of December 2011 alone (33,445 passengers) is the best these last five years have seen.

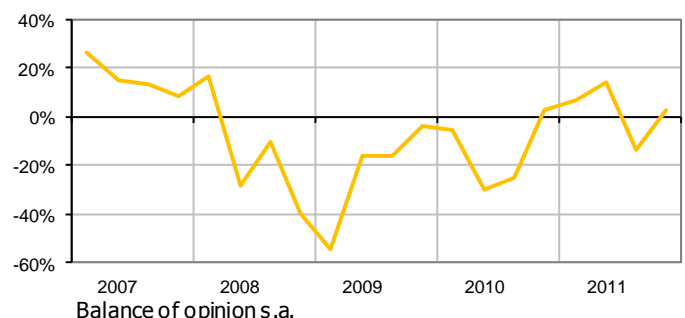
Buoyant first-half year for the trade sector

Companies in the trade sector have benefited from the buoyancy of household consumption in particular in the first half-year and merchants have reported an improvement in their business flow over the year.

However, professionals in the sector remain pessimistic in their forecast for 2012 due to a decline in sales during the second half-year which are below expectations despite a slight boom at the end of the year.

This recovery in the sector has not extended to the automotive market however. The number of registered vehicles (18,814) stagnated (+0.2%) with respect to 2010.

Business activity in the trade sector



Source: IEDOM economic survey

THE BANKING SYSTEM SUPPORTS RECOVERY

The monetary and financial situation was characterised by a buoyant credit activity and improvement of claim costs. The rise in outstandings was in particular supported by investment credits granted to companies and by the sound standing of real estate financing, encouraged as in metropolitan France by the record low interest rate levels.

Dynamic credit activity

The financing of the economy by the banking system continued to be dynamic in 2011: the outstandings of healthy loans granted reached €7.7 million slightly accentuating its rise (+7 % against +6.5 % in 2010).

The increase in loans to companies (€3.6 billion) accelerated (+8% against +1.7% in 2010). There was a significant increase in their use of commercial mortgages (+11.5%) and their investment efforts remained high (+7.7%).

Conversely, companies once again mobilised less operating loans (-7.5%). The decrease in outstandings on ordinary debt accounts (-3.4%) as well as on payment incidents on effects (-2.8% in value) demonstrates a relative consolidation of cash resources.

There was a more moderate increase, +6.5% over a year, in financing granted to households (€2.9 million). The growth rate of home loan outstanding even though still at a high level showed signs of weakening (+7.9% against +9.8% in 2010), as well as that of consumer credits (+4% against 5.3% in 2010).

The gross doubtful debt supported by the banking system were less than € 600 million after culminating at €662 million in 2010 (-9.9% over a year). The rate of gross doubtful debts which saw a slight decrease in 2009 and 2010 fell by 1.2 points to 7.2% reflecting stabilisation of the agents' financial situation.

Stunted growth of financial assets

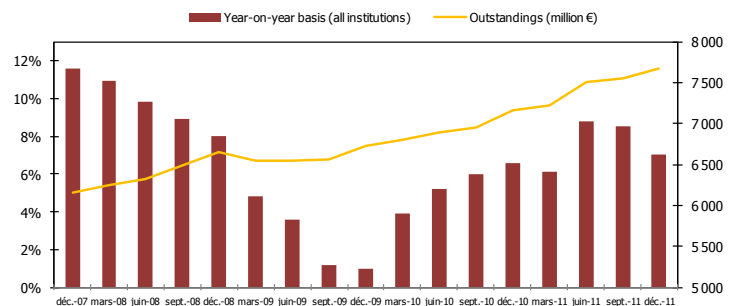
Financing was sluggish in 2011 reflecting the difficulties encountered during the period. There was a low increase in customer financial assets which stood at €6.8 billion (+2.5% against +4.7% a year earlier). Outstandings on overnight deposits (+0.3%), the main financial assets owned by the agents experienced very little development whereas liquid and short-term investments (+7.2% against -2.2% in 2010) recovered due to an increase in their rates of return. However, long-term savings stagnated (+0.1%), owing to the low performance and significant volatility of financial markets in 2011.

OUTLOOK FOR 2012

The improvements noted in the economic situation in 2011 should continue in 2012 even though certain indicators are still weak. The recovery experienced in the key economic sectors (Tourism and Construction) is at the heart of the improvement in the Guadeloupien economy. In the tourism sector, the mobilisation of the stakeholders, sustainability of the services to Roissy and the momentum behind the improved cruise services should be reflected by a durable recovery, the high season is looking highly promising. Recovery is much slower in the construction sector within a context of limited budget resources. The sound standing of the real estate market and increased planning of social housing should promote revived confidence.

Beyond the wait-and-see approach which sometimes prevails due to uncertainties regarding the future, the Guadeloupien economy should benefit from the measures undertaken these last two years by the stakeholders to overcome the crisis. Under these difficult conditions, which require both households and companies alike to exercise the greatest care in their management, the collective trend nevertheless remains the search for stronger growth through improved competitiveness which is a necessary stepping stone to decreasing the persistently high level of unemployment.

Evolution of healthy credit to the Guadeloupien economy



Source: IEDOM

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