

The economy of Reunion in 2011 Lack of confidence undermines the activity

The economy of Reunion has been struggling since the crisis to recover efficient growth relays. The difficulties experienced in predicting the future of the local economy and the pressure surrounding the debt crisis in Europe significantly affects the confidence of economic players. Following a favourable trend in the first quarter of 2011, the local situation continued to decline for the rest of the year mirroring the situation in France.

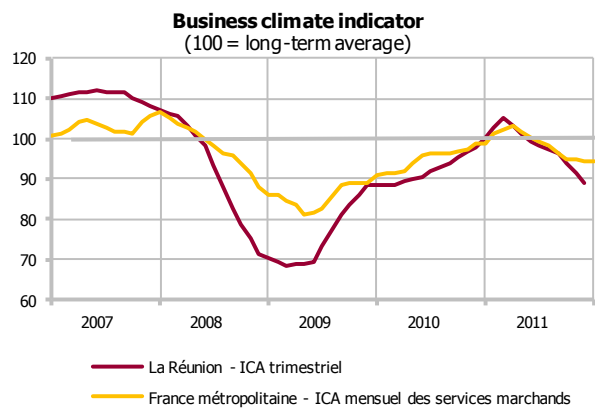
There was no recovery of private investments, however, social housing and public procurement remained buoyant. Household consumption was well-oriented over the year.

There were varied results for the sectors in the economy. The agri-food, agriculture and tourism industries saw a boom in their activities. The picture was more mixed for the manufacturing industries whereas the business flow was poorly oriented in the trade and market services. The construction industry remained weak even if the restart in construction of social housing helped to maintain the activity. The labour market continued to deteriorate nonetheless at a less significant rate than previous years.

Within this context, financing of the economy by the local banking system was sluggish in 2011 in the same way as savings inflows. The credit exposure supported by credit institutions stabilised after surging since 2009.

CONSTRICTED ECONOMIC ACTIVITY IN A DIFFICULT CONTEXT

Business climate deterioration

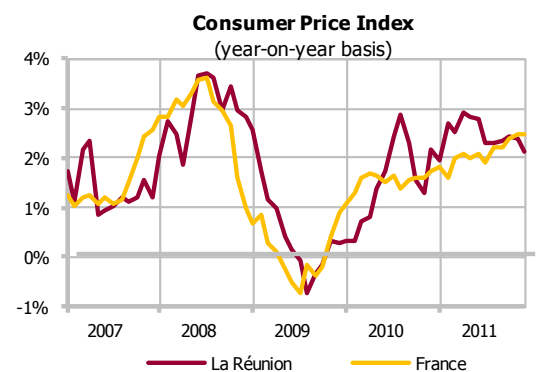


Source: IEDOM, economic survey Banque de France

In line with the gradual recovery observed since mid-2009 the business climate indicator (BCI) increased during the first quarter in 2011 before decreasing over the rest of the year. It stood at 10.8 points below its long-term average at the last quarter. This deterioration of the economic climate followed the same trend as that observed in metropolitan France. Accordingly, the business climate indices calculated by Banque de France have significantly decreased since the end of the second quarter of 2011.

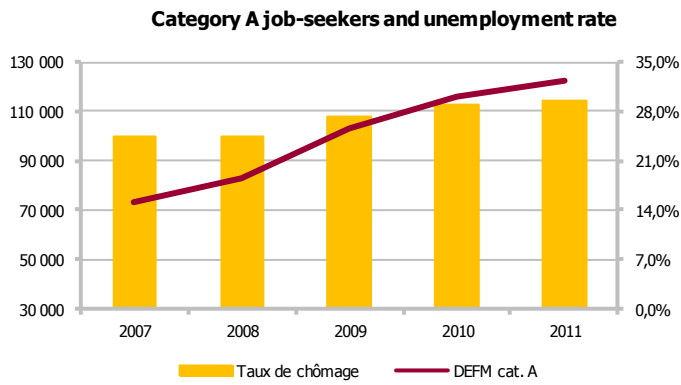
Price increases driven by foodstuffs, energy and services sectors

The consumption price index increased 2.1% over a year at the end of December 2011 against +2.5% in 2010. This increase accelerated at the start of the year and slowed down during the second half of the year. This was due to the rise in the prices of foodstuffs, especially fresh produce (+8.5%) services and energy. These prices upped 11.7% following the pressure recorded on the oil markets.



Source: Insee

Labour market deterioration slows down



Source: Pôle Emploi - Dares, Insee - Employment Study

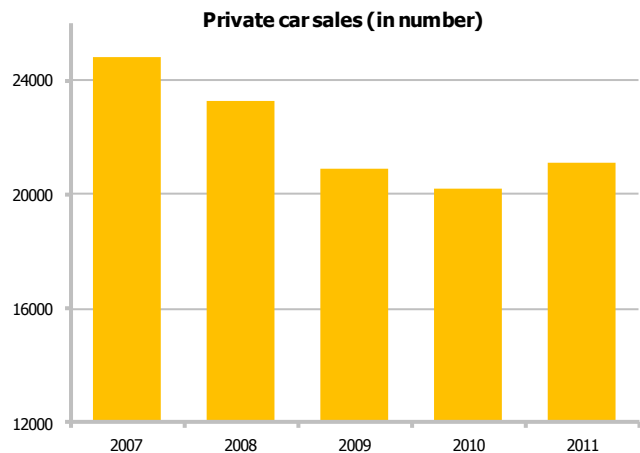
For the fourth year in a row, the number of jobseekers (DEFM A), continued to rise in 2011 up by 5.5% over a year. Nevertheless, this increase slowed down compared with previous years (+12.1% in 2010 and +24.1% in 2009). There were continued difficulties for re-employment and the number of long-term jobseekers significantly increased (+15.5%). A large number of these job-seekers are no longer entitled to unemployment benefits and the number of persons receiving benefits has remained stable since 2009 despite the increase in the number of jobseekers. At the same time, the number of RSA (Earned income supplement) beneficiaries has increased. At the end of December, more than one third of the jobseekers received the supplement. Labour demand remained stable however the share of long-term labour demand declined from 39.2% in 2010 to 36.1% in 2011.

According to the yearly employment survey carried out by INSEE, Reunion's unemployment rate reached 29.5% of the active population during the second quarter of 2011. It remained at a high level with respect to 2010. However, despite this increase in unemployment, the number of active workers rose 0.6%. Likewise, market sector employment increased 3.9% during the third quarter in 2011 on a year-on-year basis.

Consumption well-oriented

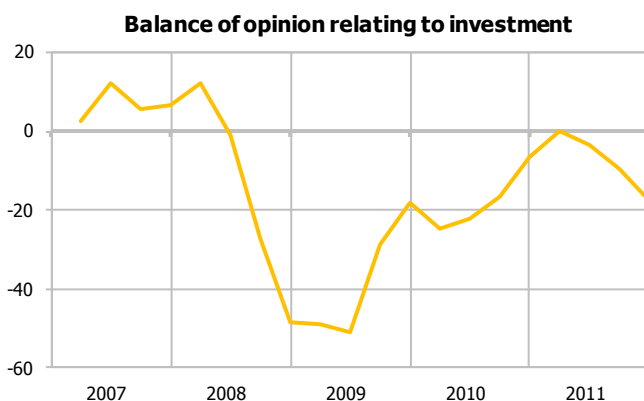
Everyday household consumption continued to increase. There was a continued upturn in the local production of agri-food products over the entire year except for the third quarter according to the IEDOM economic survey. Imports of foodstuff and everyday products increased respectively 10.0% and 3.4%. At the same time, the consumption of household capital goods also rose with imports up by 6.0%. There was also an upturn of private car sales in 2011 (+4.2%), after three consecutive years of decline.

Despite this, the business sector remained poorly-oriented according to reports from professionals. Outstandings on consumer credits decreased 1.7% due to the maturity of many credits contracted especially in pre-crisis years.



Source : Insee, Fichier central des automobiles

Investment affected by uncertainty and caution



Source : Iedom, economic survey

The uncertainties with regard to the economic future have taken a toll on business leaders. Against this backdrop, their investment intentions have deteriorated throughout the entire year. The sales of commercial vehicles and capital goods imports rose despite all this, attesting to a gradual renewal of production tools. The corporate investment credits outstanding confirm this trend as they saw an upturn of 4.2% at the end of December whereas they had been on the decline for two years.

Private real estate investments stayed low, which was reflected by a slowdown in private and professional mortgage loan outstanding amounts. Conversely, public investment was relatively well-oriented. Social housing and public procurement remained buoyant due to the work-sites for the Pôle Sanitaire Est and construction or renovation of new treatment plants.

Foreign trade on the rise

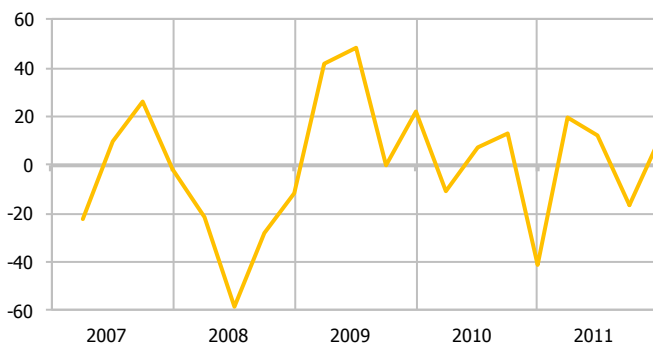
Imports rose 12.0% over a year. The continued renewal of the Air Austral fleet contributed to one third of this increase. The fleet acquired two "long-haul" aircraft. Another major contributor to this increase was oil products under the effect of an increase in world oil prices. Accordingly, they rose 30.2% in value and only 3.3% in volume. Outside of these two sectors, imports rose 4.7% compared with 2010. At the same time, dock dues upped by 8.9%.

Exports increased 3.5%. The surge in exports of waste and metal and metallurgical products was compensated by the fall in re-exports of transport material and oil products. Moreover, exports of foodstuffs were stable however this stability masks major disparities depending on the products: exports of sugar products decreased 14.9% (after increasing 10.4% in 2010) whilst there was a significant increase in rum and tooth fish exports.

VARIED SECTORIAL RESULTS

Well-oriented agricultural activity

Balance of opinion relating to the agriculture, fishing and animal husbandry sectors



Source : Iedom, economic survey

There was a favourable trend in the business flow for the "agriculture, animal husbandry and fishing" sector according to reports from business leaders. Slaughtering rose 2.9% especially poultry (+4.4%). Milk collection stabilised after five consecutive years of decline owing to a decrease in the number of dairy farms. Fish product exports increased 13.3% despite a fall of 10.3% in volumes. The sugar market for 2011 remained stable compared with 2010 in spite of the drought period experienced at the start of the year; sugar volumes processed by the two factories increased by 0.5 %.

Favourable development of agri-food industries

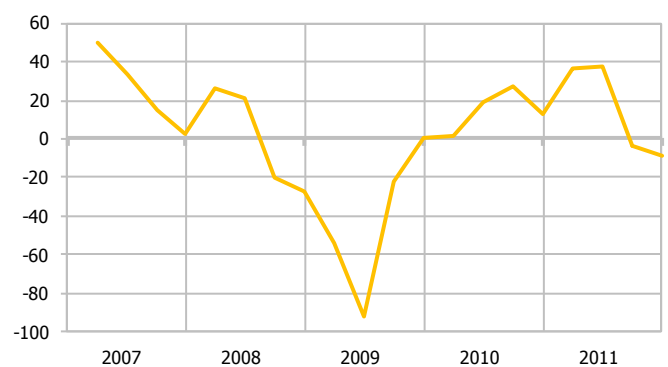
Overall, the agri-food industry was well-oriented despite a sharp decline in the opinion of business leaders from the sector during the second quarter. Sugar production followed an upward trend (+0.6%) and remained higher than the ten-year average. At the same time rum production increased 15.9% after having drastically fallen in 2010.

Continuing stability in the construction industry

According to the economic survey, the construction activity deteriorated during the second part of the year after a first-half along the lines of 2010. Over the entire year, estimates for the sales turnover for this economic unit showed a slight rise in the activity of the construction sector over a year confirmed by the 1.7% rise in workforce.

The construction sector benefited from the social housing tax exemption scheme introduced by Lodeom which is above and beyond the existing financing base. The number of supported housing financed increased 10.3% in 2011. The number of housing delivered rose 24.0%, an extension of the good results observed in 2010 (+16.0%). As a consequence of this increase certificates of electric conformity delivered by the Consuel (National Committee for the Safety of Electricity Users) rose by 3.5% after three consecutive years of decline. However cement and clinker imports fell 9.0% after 2010 in which stocks were re-built.

Balance of opinion relating to the construction sector

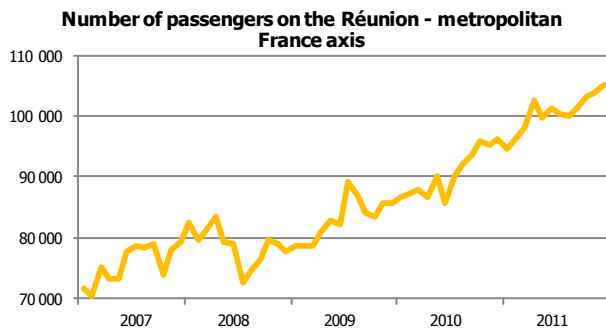


Source: Iedom, economic survey

Slowdown in service activities at the end of the year

After following a favourable trend in the first quarter, the market services sector slowed down before decreasing at the end of the year based on the results of IEDOM's economic survey. However, market sector employment increased 6.0% during the third quarter in 2011 on a year-on-year basis and even 10.7% in the hotel and catering sector.

Tourism activity remains buoyant



Source : Gillot and Pierrefonds airports - S.A. Iedom

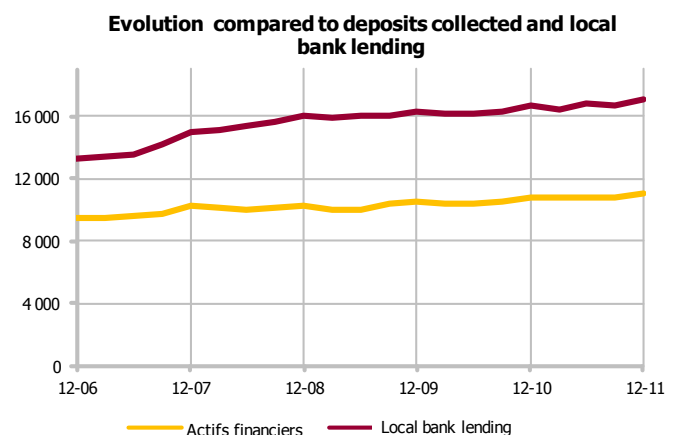
Tourism continued its upward trend. Business leaders reported increased activity since the second quarter of 2010. The number of visitors to hotels confirmed this buoyancy with continued increase since December 2010. At the end of November the number of accumulated overnight stays increased by 10% compared with the same period in the previous year. At the same time, the number of passengers between the Reunion and metropolitan France trended upwards (+11.0%). Market sector employment rose 10.7% during the third quarter over a year.

SLUGGISH FINANCING ACTIVITY

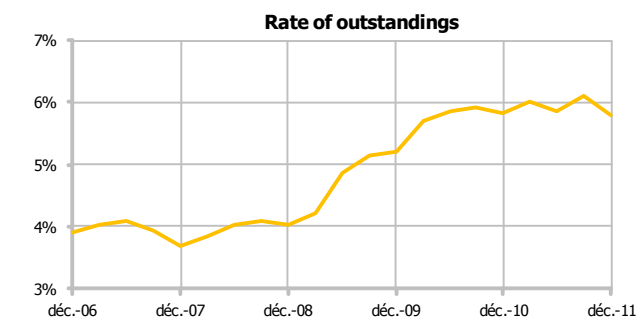
On a European level, 2011 saw a worsening of the economic crisis in relation with the persistent concerns relating to the level of public debt of member states. Even though the successive deterioration in the ratings of certain states and the increase of the borrowing rate which resulted from this did not have a direct impact on the local financial system, these events nevertheless undermined the financial markets and affected development of financial assets owned by inhabitants of Reunion who preferred cash investments. The difficulties encountered by Dexia furthermore disturbed financing of local authorities.

Inflow of savings to the Reunion's banking system remained stable during the first three quarters of the year before rising during the fourth quarter (+3.0% on a year-on-year basis at the end of the year). The net inflow of savings remained relatively stable at approximately 300 million Euros per year that is a rate markedly less than that recorded prior to the 2007 crisis where it attained approximately € 800M on average per year. The relative weight of overnight deposits and cash investments tended to increase since the start of 2011 to the detriment of long-term savings which suffered a slight decrease.

Simultaneously, 2011 saw limited growth of the credits granted, for which the total gross credits outstanding amounted to 17 billion Euros late December (+2.3% over a year). As regards the financing granted to households, there was an increase in investment credits (+4.0% over a year) however consumer credits decreased (-1.7%). There was a low upturn in corporate financing for the year (+1.8%) whether in favour of operation (+ 2.4 %), real estate (+ 2.4 %), or investment (+ 1.0 %).



Source: Iedom, Surfi



Source: Iedom, Surfi

The increase of the credit exposure borne by the local banking system significantly slowed in 2011 after having largely increased in 2009 and to a lesser extent in 2010. The gross doubtful debts borne by credit institutions followed an upward trend of 1.7% over a year in 2011 to reach 988 million Euros. These represent a proportion of 5.8% of the loans granted at the end of December 2011 which remained the same with respect to the previous year.

MIXED OUTLOOK

Reunion's return to economic growth is slow in coming due to uncertainties caused by the pressure surrounding the Euro zone crisis. Against this difficult backdrop, certain indicators however are still well-oriented. Social housing and public procurement helped to maintain the activity of the construction sector which was severely affected over the last two years by the end of major works and a decrease in construction of private housing. The household consumer market is holding up well and supports the activity.

Nevertheless, the island is experiencing difficulty in finding new drivers to establish its growth. Major projects such as the Pôle Ocean and the route du littoral should help to speed up economic recovery of the construction sector and related sectors however not before early 2013. The efforts undertaken towards regional opening and innovation must be maintained even heightened, so that the island is able to deal with post Matignon protocol.

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Publication Director: N. de SEZE – Editor-in-chief: A. BELLAMY-BROWN

Edited and printed by: IEDOM

Printed: 13 March 2012 – Legal Deposit: March 2012 – ISSN 1952-9619