

Guadeloupe's Economy in 2012 Sluggish activity

Guadeloupe's economy continues to be fragile and shows no real impetus. In 2012, it failed to support the catching up process initiated since the 2009 crisis. The recovery has not taken hold and remains too moderate to bring down persistently high unemployment.

Following a good start to the year, the business climate rapidly deteriorated in the second quarter and activity declined in most sectors. Household consumption, a real growth driver, was weak and slowed down at the end of the year, despite moderate inflation. This situation and the lack of visibility have prompted most business leaders to adopt a wait-and-see policy and private investment has yet to pick up.

There are mixed results in agriculture and industry, while the retail sector has seen a fall in its business. The end of the year was disappointing in the tourism industry, despite a marked upturn in cruise tourism. The construction industry, another key sector, is still experiencing a difficult post-crisis situation, despite a slight improvement.

In this context, the trend for the financing of the economy by the banking system remains positive, although at a slower pace, and the credit risk has risen slightly. The collection of deposits and savings has, however, shown real dynamism.

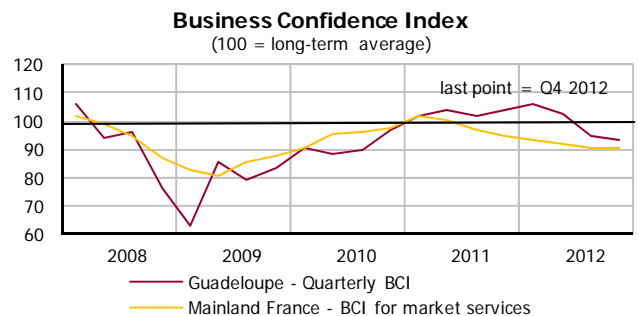
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ECONOMIC CONDITIONS DETERIORATE

Downturn in business climate

The Business Confidence Index (BCI) deteriorated in 2012, despite a good start to the year. At the end of December, it was below its long-term average (-6.5 points) and fell to its lowest level since September 2010. Activity rapidly declined in most sectors in the second quarter, particularly in the manufacturing industry, tourism and the retail sector.

The indicators calculated by the Banque de France in mainland France also fell for the year as a whole.



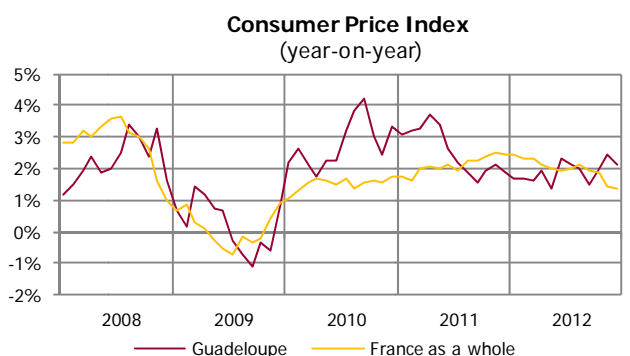
Source: Iedom economic survey, Banque de France.

Moderate inflation

Inflation remained relatively contained in 2012, at an average of +1.9%, and reached +2.1% at the end of the year. This average increase is significantly lower than in 2011 (+2.6%), which had been marked by a sharp rise in energy prices.

However, at the end of the year, the inflation rate diverged from the more modest increase at national level (+1.3% at the end of December).

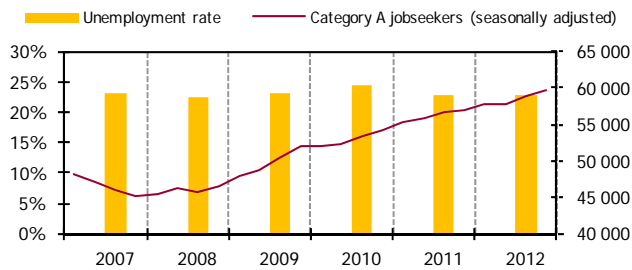
Food prices (+3.3% year-on-year) continued to increase at a steady pace, particularly for fresh products (+3.7%). However, energy prices (+5.4%) rose at a slower rate than in 2011 (+11.8%) and those for manufactured products stagnated (+0.4%). The price for services, the main household expenditure item, rose by 2.0% due to the increase in transport and telecommunications tariffs (+2.9%).



Source: INSEE.

Labour market still under pressure

Employment demand and unemployment rate



Source: DIECCTE, INSEE.

The number of jobseekers continued to rise in 2012 and stood at 59,660 at the end of the year (+4.6%). This increase was, however, less marked than in 2011 (+6.3%) and half the rate of France as a whole (+9.8%).

At the same time, employment opportunities fell by 8.8%, after -6.4% in 2011, due to a lack of visibility felt by business leaders, who were less inclined to recruit against this gloomy economic backdrop.

The return to employment is often difficult, particularly for long-term job seekers (+5.8%): since 2007, the average unemployment duration has risen from 48 to 52 months.

According to the annual employment survey conducted by Insee in the second quarter of 2012, the unemployment rate in Guadeloupe does, however, remain stable, given the increase in the working population. It stands at 22.9%, a level equivalent to the second quarter of 2007 (23%).

Slowdown in household consumption at the end of the year

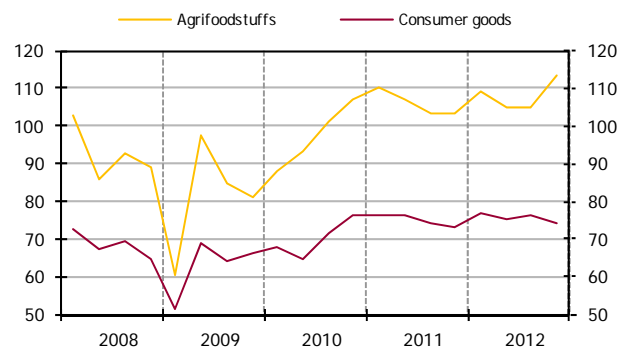
Household consumption, the main factor that supported the recovery in 2011, remained strong in the first quarter, before gradually slowing. Imports of agri-food products rose by 2.6% on a year-to-date basis and imports of consumer goods by 1.2%, against +8.0% and +6.1% in 2011, respectively.

At the same time, the stock of consumer credit stagnated (+0.5%) and traders questioned for the IEDOM economic survey reported a sharp decrease in their business at the end of the year.

The indicators on the financial vulnerability of households generally continued to improve: the number of natural persons banned from holding a bank account fell by 1.4% and the number of files deposited for overindebtedness by 21% (-79 files). Confiscations of bank cards have, however, risen slightly (+2.3%).

Imports of goods for households

(in millions of euros, seasonally adjusted)



Source: Customs.

Uncertainties affect investment

With no medium-term visibility, investment once again showed signs of weakness. Imports of capital goods, which had stagnated in 2011, fell by 13.2% year-on-year, while the total amount of outstanding investment loans allocated to companies had fallen by 2.1% at the end of December.

However, real estate investment remained dynamic over the year, supported, like in mainland France, by the historically low interest rates. The total amount of outstanding home loans rose by 8.2% year-on-year, after +7.9% in 2011.

Yet the projected investments of business leaders questioned by IEDOM improved at the end of the year and became mostly positive for the first time since mid-2008, reflecting their aim of renewing production facilities.

Slight decrease in trade

Trade
(in millions of euros, seasonally adjusted)



Source: Customs.

The weak dynamics of the domestic market had an effect on imports, which fell slightly in 2012 (-0.4% on a year-to-date basis; -1.6%, excluding oil products). This decline is due to mixed trends: the sharp decrease in imports of capital goods for companies (-13.2%) was partly offset by the increase in the acquisition of intermediate goods (+5.8%), household consumer durables (+15.0%), agri-food products (+2.6%) and, to a lesser extent, consumer goods (+1.2%).

Exports were down (-8.7%) due to atypical movements for oil products (+6.6%, excluding oil products). Exports of agricultural products (+18.4%) and agri-food products (+7.2%) increased.

BUSINESS SLUGGISH IN MOST SECTORS

Mixed results for agriculture and industry

According to professionals, activity in the primary sector generally declined in 2012. The sugarcane crop year was affected by social conflicts and high rainfall at the end of the harvest and turned out to be disappointing: sugar mills crushed 585,601 tonnes of sugarcane, i.e. a 9.3% decrease year-on-year. Consequently, production returned to the historically low level reached in 2003, when it was affected by an exceptional water shortage. However, the marked recovery in the banana industry was confirmed: production marketed in 2012 was up by almost 9% at 66,923 tonnes and the industry benefited from the increase in sale prices on the European market (average of EUR 581/tonne, against EUR 486/tonne in 2011).

In manufacturing industries, business declined in the second half of 2012, following a good result for the first half, and the main balances deteriorated. The trend was more positive for activity in agri-food industries, which was bolstered by strong household consumption at the beginning of the year: total sugar production rose by 4.3% year-on-year to 53,499 tonnes and exports of agri-food products increased by 2.8%.

Construction industry: difficult post-crisis situation

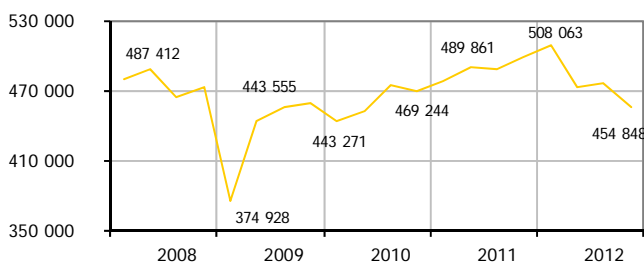
The situation in the construction industry remains difficult, despite a slight upturn at the end of the year. Cement consumption picked up again (+7.1% year-on-year), but remains below the level prior to the 2009 crisis. Many small and medium-sized enterprises are still encountering cash flow problems and have significant social security debts.

In the construction industry, the benefit of the new tax exemption system for social housing is taking time to establish itself: the production of social rental housing financed remains 3.9% below its ten-year average and the new construction start-ups are not sufficient to revitalise the sector. However, there has been a marked increase in the number of building permits issued for new housing, due to dynamic investment in real estate by households, for whom home loans rose by 7.1% in 2012.

In the public works branch, the lack of structural projects can still be felt: while the new Regional University of Crafts and Trades (URMA) and part of the Camp-Jacob campus have been built, the order books are still down and there have been delays with the urban renewal operations in Pointe-à-Pitre and Les Abymes.

Disappointing end of year for tourism industry

Quarterly passenger traffic at airport



Source: Pôle Caraïbe Airport, seasonally adjusted ledom.

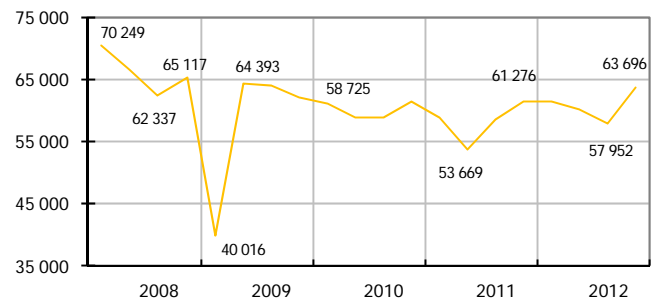
passengers rose by 55% as a result of the arrival of new companies and an increase in the number of stops.

Retail sector sluggish

Companies in the retail sector benefited from the relatively resilient household consumption in the first quarter, but traders report a decline in their business at the end of the year and increased competition.

The automotive market continued to decline sharply: the number of new registered vehicles decreased (-13.5%) compared to 2011, to 15,873 sales.

Quarterly cement sales (in tonnes)



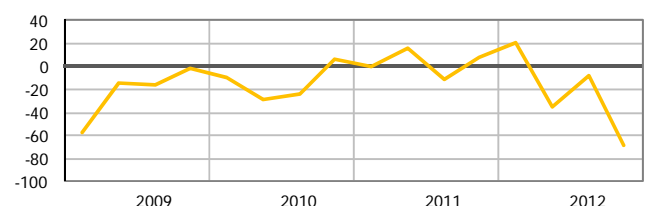
Source: Ciments Antillais, seasonally adjusted ledom.

There was a slight decline in tourism in 2012, despite a promising first half of the year. Business leaders report a downturn in their activity and cash flow problems at the end of the year.

At the Pôle Caraïbes Airport, passenger traffic fell by 1.3% year-on-year. The occupancy rate in classified hotels followed this trend: at the end of November, the total number of nights fell by 3.3% compared to the same period in the previous year. There was also a slight decrease in the average occupancy rate to 56%.

However, there was an upturn in the cruise segment, following the significant declines in previous years: the number of cruise

Balance of opinion on retail sector activity



Source: ledom economic survey.

BANKING ACTIVITY CONTINUES POSITIVE TREND

Slower growth for stock of loans

The financing of the economy continued to grow in 2012, but at a slower pace. At EUR 7.9bn, the stock of performing loans allocated rose by 3.7% year-on-year, after +7.1% in 2011.

The corporate lending activity reflected the depressed climate in most sectors. At EUR 3.8bn at the end of 2012, there was a marked slowdown in the growth rate of the stock of loans (+3.8%, after +8% in 2011). This trend does remain above those following the crisis (-1.2% in 2009 and +1.4% in 2010).

While real estate loans continued to experience dynamic growth (+9.3%), the upturn in investment loans seen at the end of 2011 failed to gain momentum: the stock of loans fell by 2.1% year-on-year. Recourse to operating loans continued to fall, but at a slower pace (-3.1%, after -12.6% in 2010).

Financing allocated to households showed signs of slowing down, but the trend did remain positive: the stock of loans rose by 4.9% year-on-year, after an increase of 8.4% in 2010. The growth rate for home loans remained strong (+7.1%), supported, as in mainland France, by the historically low interest rates. The increase in consumer loans was, however, sluggish (+0.5%), due to the slowdown in household consumption seen at the end of the year.

Doubtful loans stable

The credit risks borne by the banking system rose slightly at the end of 2012, after having fallen for four quarters in a row: the stock of gross doubtful loans rose by 1.7% year-on-year to EUR 612m. However, the share of these doubtful loans in the total amount of loans allocated remained stable at 7.2%. The average provisioning rate for these loans by institutions stands at 62%.

Financial assets dynamic

The net collection of savings was dynamic, particularly in the fourth quarter: in 2012, the financial assets of economic agents rose by 4.7% (EUR +371m) to reach EUR 7.1bn at 31st December. This increase was higher than in 2011 (+2.5%) and more marked for households (+4.3%) and local authorities (+16.5%) than for companies (+3.2%).

Overnight deposits (+4%), the main financial assets held by agents (34.4%), saw an upturn year-on-year and long-term saving (+5.6%) returned to dynamic growth, thanks to the performance of life insurance (+8.1%). However, there was a more moderate increase in liquid or short-term investments (+4.5%) than in 2011, due to the fall in investments indexed on market rates (-0.8%). Special savings accounts (+7%) recorded their strongest increase since the end of 2009, driven by households' enthusiasm for the Livret A passbook savings account (+11.4%) and the Sustainable Development Passbooks (+21.2%), for which the limits were raised at the end of the year.

MIXED OUTLOOK FOR 2013

Guadeloupe's economy has been showing signs of a slowdown since the second quarter of 2012. This may continue with the expected stagnation of French growth and persistent tension in the eurozone. Household consumption, a real growth driver, is weak and it is still difficult to tell whether consumers will start spending again in this environment marked by the increase in unemployment.

The hope for 2013 is that the key sectors of tourism and the construction industry will be rapidly consolidated. Tourism should, in particular, benefit from the upturn in cruise tourism, for which the high season looks very promising. Guadeloupe's economy could also benefit from a recovery in the construction industry, as a result of an increase in the production of social housing and private real estate investment, supported by persistently low interest rates.

In addition, the challenges posed by managing the ageing of the population and dependency, or again improving public infrastructure, will require launching large-scale structural projects (accommodation for dependent old persons; public transport; upgrading to anti-earthquake standards; water supply and modernisation of sanitation...), which could allow Guadeloupe to find new engines of sustainable growth.

