

## Island of Réunion's Economy in 2012 Activity holds up in an economic environment still considered weak

Since the crisis, Réunion's economy has been struggling to find effective growth drivers. The lack of visibility for the local economic outlook continues to weigh on the confidence of Réunion's entrepreneurs, who report a continuing economic downturn, as is the case at national level. This lack of confidence on the part of entrepreneurs especially affects private investment. Conversely, public procurement has remained strong, even though it did decline in 2012, and household consumption has held up. A further deterioration had an impact on the labour market in 2012 and now affects older workers more.

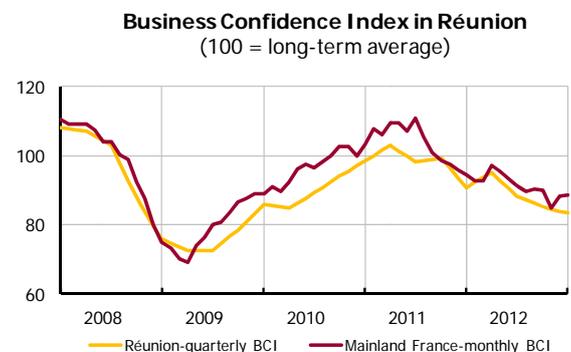
All sectors of the economy are concerned by this negative feeling on the part of entrepreneurs, particularly agriculture and market services. Activity did, however, hold up in most sectors, with the exception of the construction industry.

In this subdued environment, the banking system's activity of financing the economy remained sluggish, while the net collection of savings grew rapidly. The credit risk borne by local credit institutions worsened and the gradual improvement in the rate of losses in the second half of the year did not offset the sharp rise in the first half.

### ECONOMIC CLIMATE REMAINS SLUGGISH

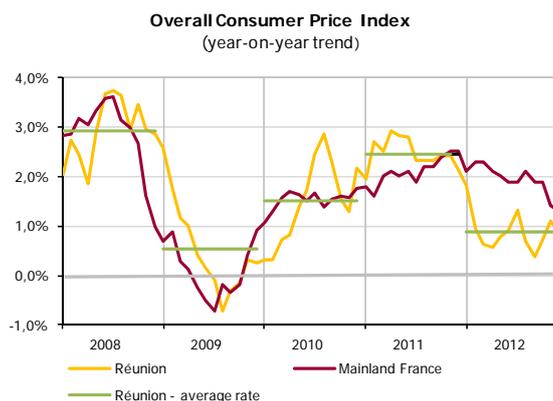
#### Business climate continues to deteriorate

The opinions of entrepreneurs questioned about their business during the IEDOM economic survey were increasingly negative in 2012. With the exception of the first quarter, when it improved slightly, the Business Confidence Index (BCI) declined throughout the year and fell even further below its long-term average (-16.7 points). The trend for the BCI in Réunion once again coincides with the trend for the index in mainland France. Furthermore, future prospects weighed on the trend for the BCI in each quarter, more than entrepreneurs' assessment of business in the past quarter. The pessimism of Réunion's business leaders would therefore appear to partly reflect the concerns at national level.



Sources: IEDOM economic survey, INSEE.

#### Moderate inflation



Source: INSEE.

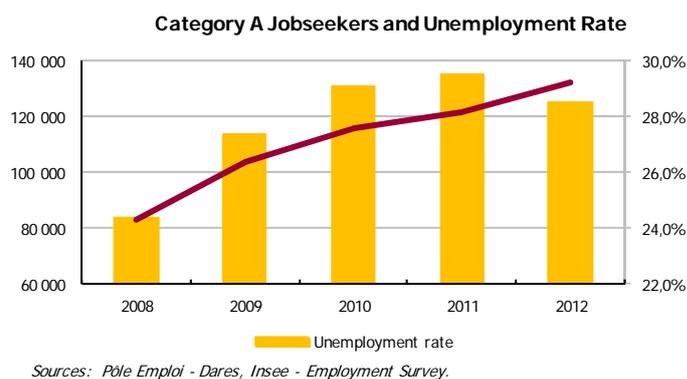
There was a marked slowdown in inflation in 2012: the consumer price index rose by 0.9% as a yearly average, against +2.5% in the previous year. It was also more moderate than in mainland France (+2.0%). Food price inflation, which was mainly due to the increase in the price of food commodities on global markets and inflation for services and tobacco, was partly offset by the decrease in the price of manufactured goods. Energy prices remained stable, mainly thanks to the fuel price freeze in the first half of the year and gas price subsidies.

## Sharp rise in demand for employment

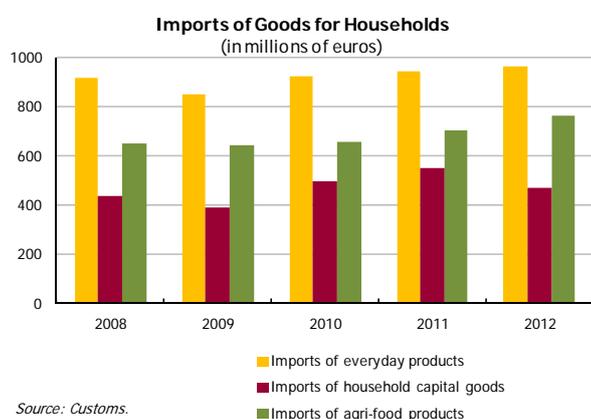
While in 2011 there would have appear to have been a less marked deterioration in the labour market, the situation worsened once again in 2012. Paid employment in the retail sector continued to increase (+0.5% year-on-year in the third quarter of 2012), but was not sufficient to absorb newcomers on the labour market.

The number of jobseekers (end-of-month category A) rose at a faster pace than in 2011: +8.8% year-on-year against +5.1% in 2011. The increase did, however, remain lower than at national level (+9.8%). The deterioration in the labour market particularly affected people over the age of 50. The number of unemployed older people rose by 21.7% and was thus higher than for young people (under 25). The proportion of jobseekers that benefit from the RSA income support benefit continued to increase, due to the lengthening of periods of unemployment and the ageing of the population in question. At the end of December, 40.5% of jobseekers benefited from the RSA. At the same time, according to the statistics of the Pôle Emploi (French employment agency), there was a further decline in job opportunities (-3.2% in 2012, after -0.8% in 2011).

According to Insee, the unemployment rate in Réunion reached 28.5% of the working population in the second quarter of 2012, slightly down compared to 2011 (-0.9 points). This fall was primarily due to the increase in the number of State-aided contracts and the fact that a number of jobseekers left the labour market as they were discouraged by the lack of opportunities.



## Household consumption holds up



The trend for household consumption of staple goods remained relatively positive. Imports of agri-food products and everyday products rose by 9.0% and 2.1%, respectively. However, imports of household goods fell by 15.2%. Similarly, sales of passenger vehicles declined again in 2012 (-6.1%), whereas they had risen in 2011.

Outstanding consumer loans fell by 2.2% as an annual average, but rose in the second half of the year following a long downward trend.

Retail industry professionals do, however, have mixed views over their activity, which they consider had deteriorated less at the end of the year, but without reporting a real improvement in their business at this stage.

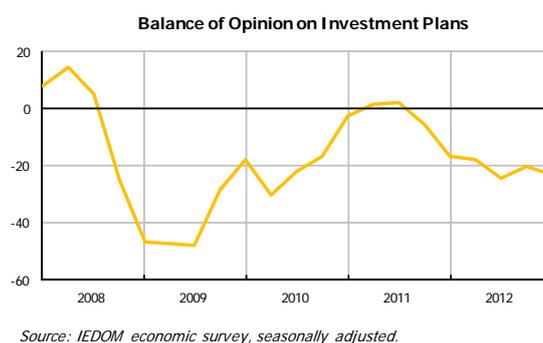
The financial situation of households is stabilising, but remains fragile: the number of natural persons banned from holding a bank account rose by 1.5%, while the number of cheque payment defaults fell by 1.8%. At the same time, the number of overindebtedness files

deposited continued to decline (-6.7%), although it does remain at a high level.

## Mixed picture continues for investment

Business investment is continuing to suffer from an economic climate that entrepreneurs in Réunion consider to be uncertain. However, imports of professional capital goods (excluding planes) and sales of commercial vehicles rose by 3.2% and 0.3%, respectively. This is a sign of a gradual recovery in private investment, which is currently confined to replacement investments. At the same time, there was a slowdown in the decline of outstanding corporate investment loans and the gap was closed at the end of the year. Outstanding investment loans to local authorities, for their part, rose by 1.9%.

The real estate sector is gradually recovering, mainly driven by social housing, despite the temporary suspension of the Department's loan guarantee for social landlords, which delayed the start-up of certain projects at the end of the year. Outstanding real estate loans rose by 5.9% year-on-year for households and by 0.5% for companies.



## Slight improvement in trade balance

Imports fell by 2.8% year-on-year. This occurred following a year in 2011 marked by the acquisition of two long-haul aircraft by Air Austral. There was a sharp decline in imports of capital goods mainly intended for households. Growth in imports of petroleum products was much more moderate than in 2011 (+7.2%, after +30.2%), due to a decline in the volumes imported and a smaller increase in unit prices. Income from dock dues was generally stable (+0.6%).

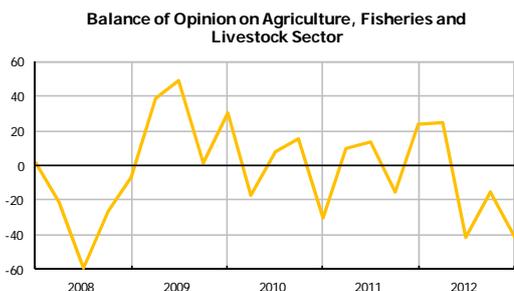
Exports rose by 5.4% year-on-year. This increase was due to the resumption of exports of sugar products, partly related to the sharp rise in sugar prices on the European market. There was also an increase in re-exports of petroleum products and intermediate products, particularly metallurgical and metal products.

## ACTIVITY CONSIDERED SLUGGISH IN MOST SECTORS

### Small signs of progress in primary industry

Business leaders consider that there was a negative trend for business in the "Agriculture, livestock and fisheries" sector from the second quarter onwards. However, there was a slight upturn in meat production (+1.9%): pork production rose (+3.4%), while beef and poultry production fell by 7.0% and 0.6%, respectively. Following a slight upturn in 2011, milk collection fell again (-3.2%). The sugar cane crop year was affected by drought and the volume of sugar cane processed fell by 2.8%.

### Gloomy climate for agri-food industries



Source: IEDOM economic survey, seasonally adjusted.

Exports of fisheries products were stable in volume.

According to the entrepreneurs interviewed, activity deteriorated in the sector of agri-food industries during the year, particularly in the fourth quarter of 2012. Despite the successive stoppages in sugar mills and the decline in the volumes of sugar cane processed, sugar production benefited from a record level of sugar content. It increased by 1.3%, after having fallen for two years and rose to above the ten-year average. The figure for rum was, however, down 10.2%.

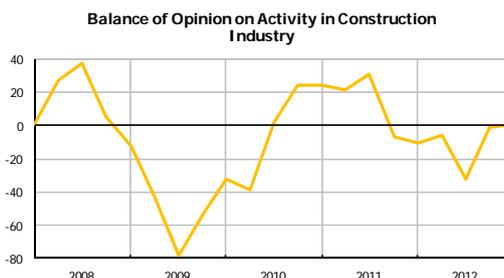
Household consumption of agri-food products would appear to have held its ground and was mainly driven by "solidarity" products from March onwards. It partly benefited local production, where industries are more and more structured.

### Activity remains fragile in construction industry

Activity in the construction industry was considered to be extremely sluggish in the second quarter by the relevant entrepreneurs, but subsequently stabilised. However, this stability masks trends that are mixed depending on the sectors.

The tax exemption system for social housing introduced by the Lodeom Law (Law for the Economic Development of Overseas France) continues to support the construction industry, even though there were delays in start-ups for projects at the end of the year, due to uncertainties over guarantees for loans allocated to social landlords. The number of assisted housing units financed rose by 26.0%. Activity in the intermediate housing sector remained subdued. In total, the number of certificates of conformity issued by Consuel rose by 7.0% year-on-year. Public procurement, excluding social housing, fell in 2012, due to the decline in municipal investments.

Sales estimates made by the construction industry's Economic Unit show a 5.4% decline in activity. The sector's workforce also fell by 2.2%. Cement and clinker imports declined further in 2012 (-10.4%, against -9.0% in 2011).

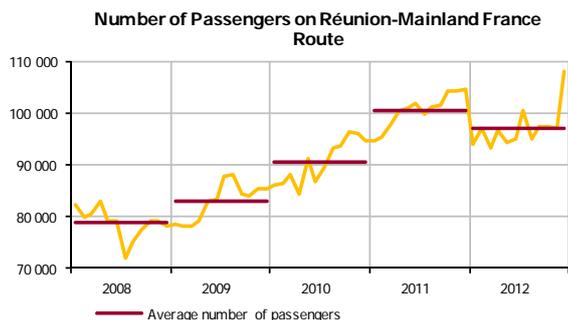


Source: IEDOM economic survey, seasonally adjusted.

### Entrepreneurs pessimistic in retail and service sectors

According to the professionals surveyed, there was a decline in business in the market services sector. However, retail employment continued to grow in the sector year-on-year (+1.8% in the third quarter, year-on-year), although at a slower pace than previously. Business leaders were also pessimistic in the retail sector, particularly in the first quarter of 2012. Retail sector employment fell by 1.0% year-on-year in the third quarter.

### Slight downturn in tourism industry



Source: Gillot and Pierrefonds Airports - seasonally adjusted, IEDOM.

The trend in the tourism industry was slightly less positive than in 2011, but remained well above the level in 2010. The entrepreneurs who were surveyed have a negative opinion of their business levels. There was a decline in the hotel occupancy rate and the number of passengers between Réunion and mainland France of 1.4% and 3.4%, respectively. However, these results do follow on from a record year for tourist numbers in 2011. The occupancy rate for classified hotels stood at 62.6%. With the exception of 2011, this was the highest rate since 2002.

## FINANCIAL ACTIVITY REMAINS SLUGGISH

At the European level, 2012 was marked by the worsening economic crisis, which was out of step with the improvement generally observed at the global level. While this subdued economic situation is having a lasting impact on the morale of entrepreneurs and households in Réunion, the monetary and financial indicators confirm that economic activity is generally stable.

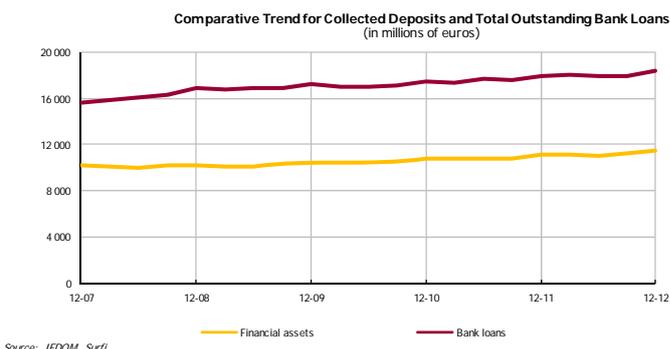
### Increase in savings gathers pace

The stock of financial assets held by Réunion's economic agents had risen by 3.9% year-on-year at the end of 2012. The net collection of savings reached EUR 430m at the end of the year, *i.e.* a 32% increase compared to the previous year. It especially benefited from the good performance of overnight deposits for the entire client base and the rapid increase in savings on the Livret A (+18.0% year-on-year) and sustainable development (+23.1%) passbook accounts, due to the successive increases in the limits of these products. There was a more moderate increase in long-term savings (+2.2% year-on-year).

### Corporate finance remains moderate

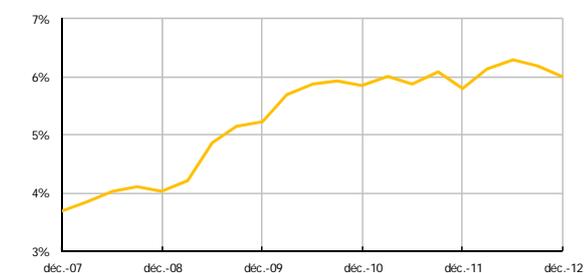
Loans allocated to the economy rose by 2.2% year-on-year, a similar rate to the previous year. The total amount of outstanding loans has now passed the EUR 18bn mark.

Financing allocated to households rose more rapidly than financing for companies (+4.2%, against +0.7%). Loans to households still benefit from the good performance of home loans (+5.9%). Consumer credit continued to decline during the year, but rose (+0.6%) in the last quarter, ending a long period of contraction. Corporate finance also benefited from an increase in housing loans (+0.5%) and operating loans (+5.8%). Investment loans did, however, decline (-0.9%, against +3.0% in 2011), but there was an upturn at the end of the year (+2.4% in the last quarter).



### Loss rate improves in second half of 2012

Rate of Gross Outstanding Loans in Local Credit Institutions



The risk borne by local credit institutions generally increased in 2012, as the improvement observed in the second half of the year was not sufficient to offset the sharp rise that occurred in the first half. The stock of gross doubtful loans borne by local credit institutions rose by 6.4% year-on-year. At the end of December, they accounted for 6.0% of their total stock of outstanding loans, *i.e.* 0.2 points less than its highest level in the second quarter.

## OUTLOOK REMAINS BLEAK FOR 2013

Réunion's economic recovery is struggling to take hold over the long term and, at this stage, there would not appear to be any sufficiently effective growth drivers to sustainably stem the rise in unemployment. In this current economic downturn, which explains the growing social tension, Réunion should continue to mobilise the dynamism of its entrepreneurship and the quality of its facilities. The development of its innovation potential, which would lead to a greater involvement of the territory in its regional environment, would gain from relying on sustainable and concerted governance. This would guarantee an effective implementation of the opportunities on offer, particularly the community programming for the period 2014-2020.

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