

Réunion's economy in 2013 Confidence gradually returning, but not yet reflected in the figures

Réunion's economy is showing tentative signs of improvement, although it has still been finding it difficult to recover effective growth drivers since the crisis. Despite the lack of visibility for the local economic outlook, Réunion's entrepreneurs are gradually showing more confidence. They consider that the economic situation is not as bad as it was before. Business leaders do, however, remain cautious, and it is taking time for private investment to recover a long-term positive trend. At the same time, household consumption is holding up and the labour market is tending to stabilise, supported by the increase in the number of State-aided contracts.

The business trend in the different sectors is, nevertheless, mixed. Entrepreneurs in the primary sector and agrifood industries continue to be pessimistic, despite an upturn during the year. The trend for the construction industry is, however, more positive, supported by the good performance of social housing and the signing of the first bid invitations for the New Coastal Road project.

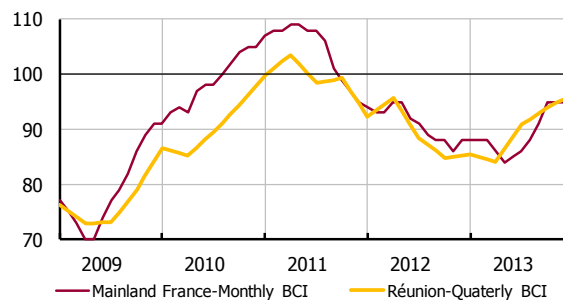
The banking system's activity of financing the economy remains weak, while the net collection of savings continues to increase at a steady rate. The quality of the portfolios of locally established credit institutions is improving, following on from the second half of 2012.

MORE POSITIVE TREND FOR ECONOMIC SITUATION

Business climate gradually improving

Entrepreneurs interviewed during the IEDOM economic survey were more optimistic about the trend for their activities at the end of 2013. Following a depressed first quarter, there was a significant improvement in the Business Climate Indicator (BCI) throughout the year. Consequently, it is close to its long-term average and stood at 96.2 points in the fourth quarter of 2013. The trend for Réunion's BCI continues to follow the trend observed in mainland France. The fact that the past component of the BCI is improving more slowly than its future component is, however, a sign that this renewed optimism is not yet reflected in real terms by an upturn in activity.

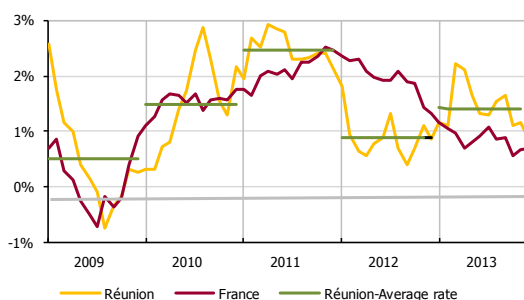
Business Climate Indicator in Réunion
(100 = long-term average)



Sources: IEDOM and INSEE, economic surveys.

Inflation continues to rise

General Consumer Price Index
(year-on-year trend)



Source: INSEE.

The annual average price index rose by 1.4% in 2013, after a more moderate increase in the previous year (+0.9%). The increase in prices was also more marked than for France as a whole (annual average of +0.9%). All the main items in the index contributed to the rise in prices, with the exception of services, for which prices fell by 0.4% year-on-year. There was a significant increase in food prices due to the rise in fresh food prices. There was also a sharp rise in energy prices, as a result of the removal of gas price subsidies at the end of February.

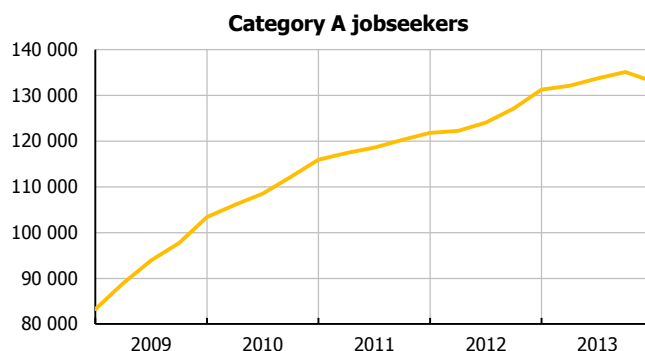
Slowdown in increase of employment demand

The decline in the labour market was less marked in 2013, after a sharp deterioration in the previous year. There was a more significant increase in paid employment in the retail sector (+1.1% in the third quarter of 2013, year-on-year), driven mainly by service sectors and industry.

The increase in the number of end-of-month jobseekers (DEFM A) was moderate compared to the previous periods: +1.3% year-on-year, against +7.8% in 2012 and +5.1% in 2011. It also remains well below the national level (+5.4%). The unemployment rate does, however, remain well above the national rate (28.5% in the second quarter of 2012, against 10.2% at national level).

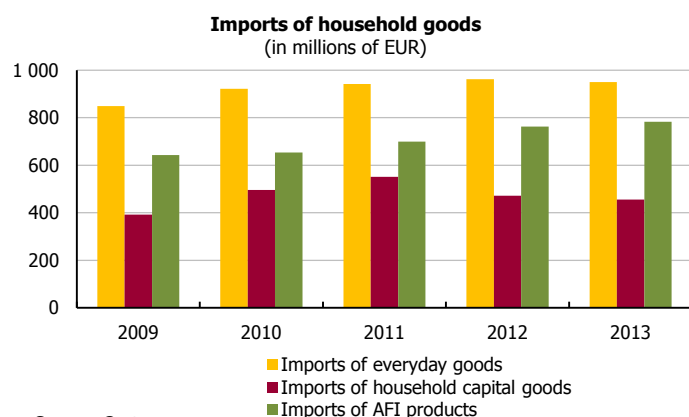
The over 50s continue to be the most affected by the deterioration in the labour market. The number of unemployed older workers rose by 12.7% and continues to be higher than the number of under 25s, whose situation is improving. Indeed, the number of unemployed young people fell by 1.6%, as a result of the increase in the number of State-aided contracts signed. In September 2013, a total of 13,348 contracts had been registered since the beginning of the year.

There was a sharp drop in employment opportunities (-11.6%, against -3.4% in 2012), despite the significant increase in State-aided contracts. Faced with persistent difficulties to return to employment, a number of jobseekers in Réunion have now exhausted their entitlement to benefits. Consequently, the number of people on unemployment benefit fell by 8.1%, while the number of beneficiaries of the active solidarity income (the RSA "base") rose by 9.5% to 36.5% of jobseekers at the end of December.



Source: Pôle Emploi, seasonally adjusted.

Household consumption holds up



Source: Customs.

financial vulnerability. The number of applications lodged with the Excessive Debt Commission rose by 24.5%, after having fallen by 7.0% in 2012. However, this increase does not only reflect a deterioration in the situation of households. It also results from the communication campaigns conducted by the Excessive Debt Commission in 2013 to make people more aware of the scheme. At the same time, the number of natural persons banned from holding a bank account rose by 1.2%, while the number of cheque payment incidents fell by 2.5%.

Difficult for investment to pick up

It is proving difficult for investment plans to permanently recover a positive trend, with a balance of opinion that remains below, but close to, its long-term average. Imports of professional capital goods (excluding planes) and commercial vehicle sales were down by 7.1% and 7.3%, respectively. At the same time, the stock of outstanding business investment loans continued to fall (-3.5% year-on-year). The stock for local authorities did, however, rise by 1.3%.

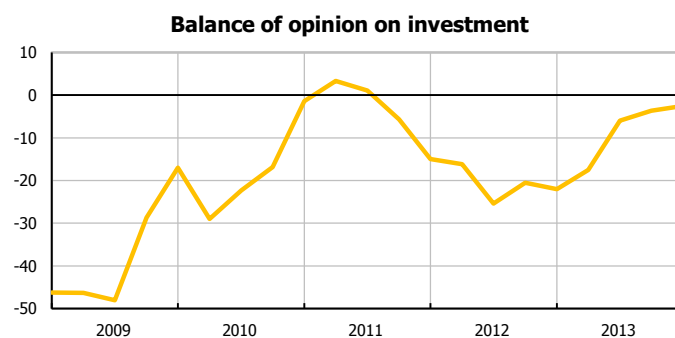
Social housing continued to support the property sector. The stock of outstanding corporate property loans rose by 12.4% year-on-year. It also rose by 2.4% year-on-year for households, but was primarily driven by acquisitions in pre-owned property, as the trend remains negative for private property development.

There was a mixed picture for household consumption of general commodities. Imports of everyday products fell by 1.3%, after a slight increase in 2012. There was also a decline in imports of household capital goods, but at a lower rate than in 2012 (-3.4%, against -15.2% in 2012). Imports of products from agrifood industries, for their part, rose by 2.8%. There was a very gradual recovery in new vehicle sales, but it did not offset the significant decreases of 2012.

The decline in the stock of outstanding consumer loans was more marked in 2013. It fell by 2.8% year-on-year (-1.0% in 2012).

The confidence of retail industry professionals built up throughout the year, which ended with an improvement in activity.

The trend remained negative for the indicators of household



Source: IEDOM economic survey, seasonally adjusted.

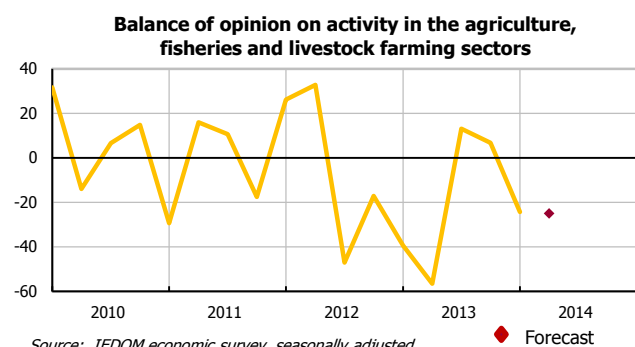
Fall in foreign trade

Imports fell further in 2013, to -5.0%, against -2.7% a year earlier. This was partly due to the contraction in imports of professional capital goods. There was also a decline in oil product imports (-14.7%), mainly due to a fall in prices. Apart from products from agrifood industries, for which imports increased, all the other product groups also contributed to the decline in imports. Dock dues revenue fell by 2.1%.

Exports fell by 3.5% year-on-year, despite the increase in exports of products from agrifood industries, particularly those of sugar products and toothfish, which benefitted from price effects. The fall in exports was especially due to the decline in re-exports of oil products (-3.9%) and of industrial and household waste (-21.5%).

UNCERTAINTY WEIGHS ON MOST SECTORS

Gloom affects primary sector



According to the entrepreneurs interviewed, the trend for business in the "Agriculture, livestock and fishing" industry was positive in the middle of the year, but deteriorated sharply in the fourth quarter of 2013. The meat production activity was depressed, with a decline of 3.4% over the year: beef and poultry production continued to fall, by 6.8% and 1.0%, respectively. There was also a decline in pork production (-4.6%), after it had risen by 3.4% in 2012. The fall in milk collection continued (-6.1%). The sugarcane harvest suffered from drought once again this year, which was considered to be the worst for the past fifty years. The volume of sugarcane processed consequently fell by 6.4%.

Decline in activity of agrifood industries

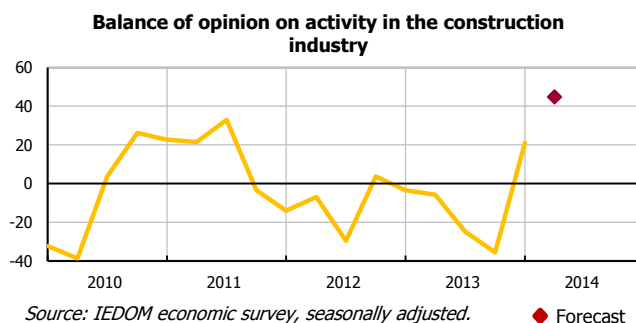
According to the opinion of business leaders, there was a further decline in the activity of the sector of agrifood industries in 2013. The deterioration was, however, less marked at the end of the year. There was a downturn in sugar production (-4.8%), while rum production continued to fall (-11.9%). The trend for household consumption of food products remained positive, driven by the introduction of the "value for money" shield, which supports local production. Exports of fishery products rose by 8.0% in volume.

Construction industry still waiting for new projects

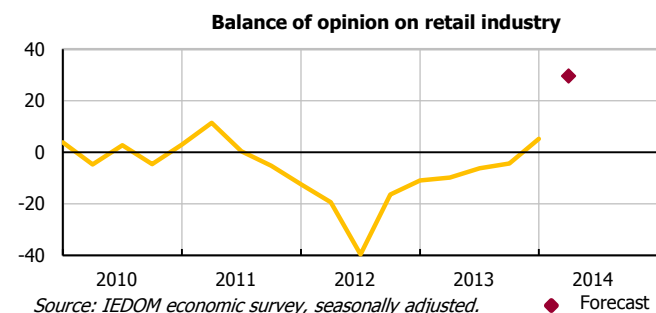
Following a decline during three quarters, activity in the construction industry was considered to have increased at the end of the year. This was partly due to the signing of the first bid invitations for the New Coastal Road project. However, the optimism of the entrepreneurs interviewed is not yet reflected in the trend for the main indicators in the sector.

The number of housing units authorised fell by 5.6%, despite the good performance of social housing.

At the end of the year, the workforce in the construction industry had fallen by 4.9% year-on-year.



More positive trend for service activities at the end of the year



According to the business leaders interviewed, there was a further deterioration in the market services activity, but at a slower pace than in 2012. Employment in market services in the sector did, however, continue to increase over the year (+2.2% in the third quarter, year-on-year).

In the retail sector, however, entrepreneurs are more optimistic and report a slight upturn in activity at the end of the year. Market sector employment in the retail industry was quite stable (+0.6%) year-on-year in the third quarter.

Mixed picture continues in tourist industry

Entrepreneurs in the tourist industry consider that there was a decline in their business in 2013. The occupancy rate in classified hotels levelled off, as was the case for the number of passengers between Réunion and mainland France. There was, however, a further decline in hotel occupancy (-3.3%).

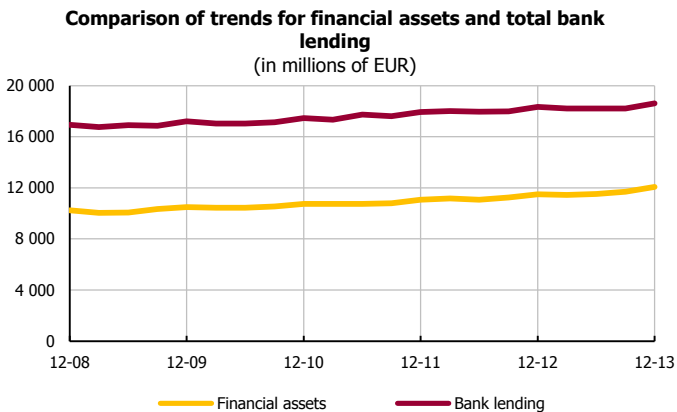
FINANCIAL ACTIVITY REMAINS SLUGGISH

The gradual improvement in the business climate in 2013 has not yet been reflected in real terms by a clear recovery in activity. In this context, monetary indicators show that the financial activity remained relatively moderate.

Savings continue to rise

The financial assets held by economic agents in Réunion rose by 4.9% in 2013 and at the end of the year topped the EUR 12bn mark. The net collection of savings stood at EUR 564m over the year, *i.e.* 33.0% more than a year before. It continues to benefit from the good performance of overnight deposits, all clients included, and from the rapid increase in savings on Livret A accounts (+12.7% year-on-year) and sustainable development accounts (+15.7%). Long-term saving, for its part, rose by 2.0% year-on-year.

Household financing stagnates



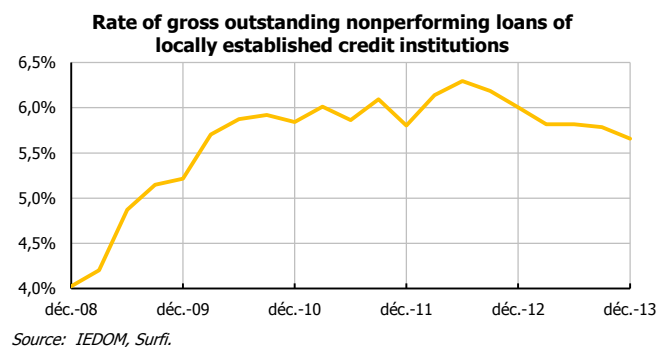
Credit to the economy rose by 1.5% year-on-year, *i.e.* at a lower rate than in 2012 (+2.2%). The total outstanding amount of credit to the economy now exceeds the threshold of EUR 18bn.

Unlike in previous years, corporate financing rose more rapidly than financing allocated to households (+2.7%, against +1.2% year-on-year). The latter is still suffering from the decline in consumer loans, which gathered pace in 2013 (-2.8%) and is only partially offset by the increase in housing loans (+2.4%). Corporate financing benefitted from the sharp increase in property loans (+12.4%). Operating and investment loans were, for their part, down by 4.8% and 3.5%, respectively. They did, however, pick up at the end of the year (+1.3% and +0.7% over the quarter).

Marked decline in nonperforming loans

The credit risk borne by the local banking system has been declining since mid-2012. Over the year, the stock of gross nonperforming loans fell by 4.0% to EUR 1.007bn, against an increase of 6.2% in 2012. They account for 5.7% of the total stock of outstanding loans of local credit institutions, *i.e.* 0.3 points less than in 2012.

The Net Banking Income (NBI) of the four main banks established in Réunion fell by 3.1%, due to the combined decline in intermediation margins and fees. Overheads have remained stable, with the decrease in external services offsetting the increase in staff costs. The cost of risk has once again become negative and allowed net income to return to its pre-crisis level (EUR 81m in 2013).



MORE POSITIVE OUTLOOK FOR 2014

It is taking time for Réunion to return to growth due to remaining uncertainties. The trend is nevertheless more positive for certain indicators. For example, the construction industry is gradually being driven by the start-up of the first development works for the New Coastal Road. The forthcoming elections do, however, give rise to a certain wait-and-see policy on the part of entrepreneurs. Household consumption is expected to continue, supported by the "value for money" shield, which benefits local production. In this context, the optimism expressed by professionals at the end of the year should lead to an upturn in activity in 2014. Réunion will, however, need to continue to draw on the dynamism of its entrepreneurship and further develop its innovation potential, in particular thanks to the community programming for 2014-2020.

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