

## 2010 in Martinique: a sluggish recovery

After the historic recession of 2009, 2010 was notable for a recovery of the economy in Martinique. The institutional clarification at the beginning of the year and the return to growth recorded at a national and international level have favoured a progressive improvement of the economic environment, particularly perceptible at the end of the year. The business climate, still uncertain in H1, recovered in the second half of the year. Benefitting from contained price rises, household consumption has returned to almost pre-crisis levels, despite continuing concerns with unemployment. Business investment however has not yet returned to 2008 levels.

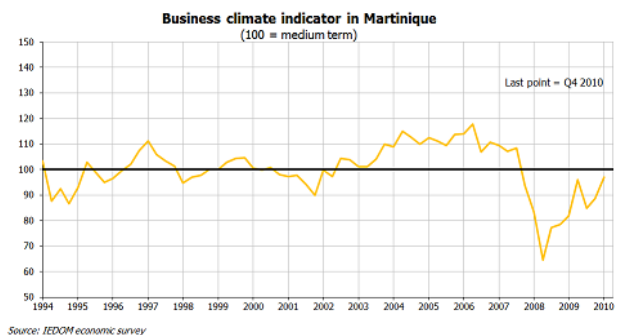
Bank financing recovered with growth, in particular for long term loans, making it possible to support the plans of economic players. The financial situation of the latter nevertheless remains fragile, as is witnessed by the deteriorating indicators showing the financial vulnerability of households and persistent cash flow difficulties experienced by companies. The labour market is still weak.

### RECOVERY STILL LIMITED

#### The business climate recovers

The Business Climate Indicator (ICA) for Martinique recovered in 2010 after a sharp decline in 2009. Activity for trading companies benefitted from a better business environment in H2 (+8.4 points over the last quarter alone), making it possible to return to a level close to the long term level (-3 points).

This improvement may be attributed to the return to confidence of economic players. Household consumption has remained steady and investment is showing the first green shoots of recovery.



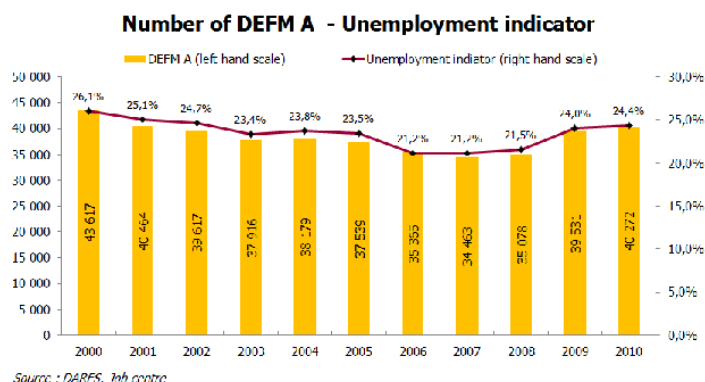
#### Contained prices despite rising energy prices

The consumer price index ended the year at a rate close to that of France overall (+1.7% against +1.8%). Falling food and manufactured products prices (-0.2% and -0.3% respectively) has made it possible to limit rising energy prices (+12.5% over a year), dragged by the hike in global oil prices combined with a fall in the Euro-Dollar exchange rate (+22.6% for Brent in dollars, and +35.2 % in Euros). At year end, the price<sup>1</sup> of lead free super and diesel returned to levels higher, respectively 15.8% and 18.8% higher than the prices in force a year earlier. Service prices are less markedly up (+1.7 % o/w +2.5 % for rental and related services). Excluding energy, price rises were moderated (+0.7%), at a rate close to that of mainland France (0.9%).

<sup>1</sup> After a period of price freezes, the method for calculating oil prices was modified by decree of 8 November 2010.

## Rise in unemployment slows

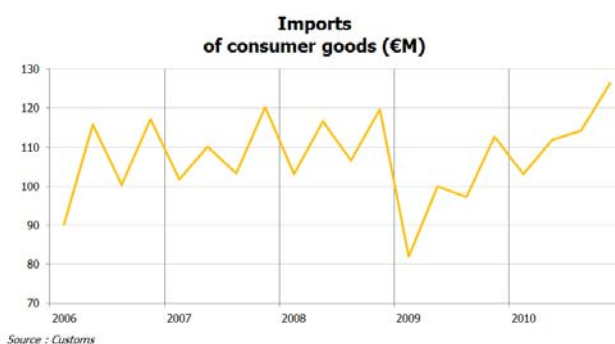
2010 was characterised by an improvement in the labour market. The number of category A jobseekers (DEFMN A) stood at 40,272 in December 2010, that is to say an increase of 1.9% over one year (after +12.7% in 2009), bringing the unemployment indicator to 24.4% (+0.4 point over a year). Despite this slowdown we are still seeing levels not reached for ten years. While the improvement of the economic climate has made it possible to stabilise unemployment, companies remain prudent: the number of job offers collected in 2010 did not rise over a year (-1.0%).



## Household consumption returns to its pre-crisis level

Household consumption, the main driver of economic growth, has shown some signs of recovery. Imports of consumer goods have increased 16% (+1.9% compared with 2008). Consumption has benefitted from the full effect of post-crisis social measures (RSTA – Temporary Income Support, in particular), increased competitiveness in the mass distribution sector and the strength of the automobile market at the end of the year before the end of the measure to encourage vehicle scrapping.

Registrations of new private vehicles grew around 0.4% over the year (after -3.9% in 2009). Outstanding consumer bank loans, often intended for the purchase of automobiles or durable goods, stabilised (-0.2% against -6% in 2009).



This increase occurred despite still high unemployment levels and cash flow problems facing households. The number of cancelled bank cards increased 16.2% over one year, and the number of overindebtedness cases filed 26.3%.

## Companies still prudent in terms of investments

Investment performed differently depending on the economic players in question. Household investment remained dynamic: outstanding housing loans grew 5.7 % (against +5.3% at the end of 2009), benefitting from historically low interest rates. On the other hand, despite showing signs of recovery at the end of the year, business investment has barely returned to growth. Equipment imports increased 15.2% over one year, but remain down 14.4% compared with 2008; registrations of utility vehicles continued to fall (-13.9%). While projected investment over twelve months by company heads remained low over the first three quarters of 2010, an improvement was notable at the end of the year. Public investment is showing the first shoots of recovery, with an increase in loans from European funds and the implementation of the first projects which are part of the Regional economic recovery plan: the Regional Council set up, in partnership with the 34 communes of Martinique, a three-year economic recovery plan to stimulate the economic recovery of Martinique, which should involve almost 270 projects for an overall amount of 300 million Euros.

## Imports supported by the recovery of domestic demand

The recovery of domestic demand has driven a significant rise of imports in value terms, growing 25.3% over a year. Rising imports were boosted by restocking<sup>2</sup> and the recovery in consumption. As well as imports of consumer goods (+16%), imports of goods in the automobile industries and intermediate goods grew notably (+20% and +19% respectively). The price of energy products contributed to price increases.

Rising exports (+19.9%) were mainly driven by agricultural products (+129.7%), and the more moderate rise in energy products (+4.2%).

Excluding energy, the trade deficit (-€1.7 billion) fell 14.4%. After a fall of 20.6% in 2009, dock duty revenue grew 10.0% in 2010.

<sup>2</sup> Companies, confronted with cash flow tensions and a general decline in business had carried out stock reductions in 2009.

## PERSISTENT SECTORAL DIFFICULTIES

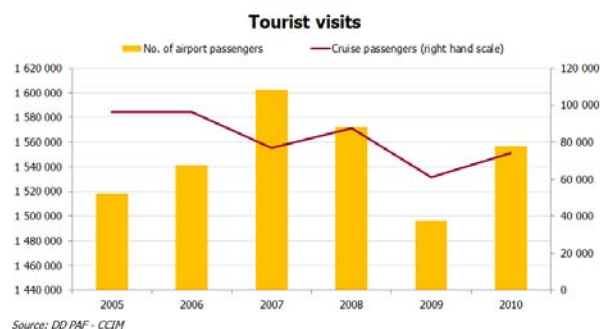
### Trade and business services: business still sluggish

Under the effect of rising consumption, gross turnover for hypermarkets on the island recovered in 2010 (+9.5 %), returning to a level slightly higher than 2008 (+1.7%); the trade sector overall has, however, barely started to recover. The business services sector, often sub contracting other economic sectors, improved compared with 2009, but remains affected by the budgetary restrictions facing order givers.

### Tourism: a year of transition

The tourism sector benefitted from a more favourable economic environment. The number of airport passengers (1.6 million) grew 4.1% over the year (after -4.8% in 2009). This growth was boosted by the different promotional campaigns launched by airlines, but remains below the net recovery in global tourism in 2010, estimated to be 6.7%.

At the same time, around 74,000 cruise ship passengers stopped over in Martinique, that is to say a rise of 21.5% over the year despite a reduction in the number of ships (92 compared with 102 in 2009).



In the hotel sector, business remains sluggish: occupancy rates<sup>3</sup> in effect stood at 47.6 % for the year against 47.8 % in 2009 and 54.6 % in 2008; the financial position of hotels is thus still difficult.

### Building and Public Works: still no tangible signs of recovery

The Building and Public works sector did not see any true recovery in 2010. The housing construction sector showed few signs of dynamism. Cement sales were stable compared with 2009 (-0.3%), but did not return to their pre-crisis levels (-24% compared with 2008). Major projects remain few in number, with the exception of the development of Pointe Simon business park and work on the new Bellefontaine power plant. The construction of social housing is still too limited to represent a true growth relay, and the wait and see attitude of investors, following the setting up of the Scellier scheme, continues to weigh on demand. In the Public works sector, activity benefitted at the end of the year from the first projects of the recovery plan and highways work, but their late scheduling meant this could not reverse the trend.

### The agricultural and agrifood industry: an activity affected by climate vagaries

The agricultural sector has again been faced with the vagaries of the climate. The passing of Hurricane Tomas, on 30 and 31 October 2010, caused a loss of around 10,000 tonnes in the banana production sector and affected vegetable harvests. Banana production (200,000 tonnes) nevertheless continued to grow in 2010, thus returning to the level prior to the passing of Cyclone Dean (in 2007); in the mainland market it nevertheless suffers from price pressure due to mass distribution facing an environment of greater competition by producers in the Dollar zone.

In 2010, the sugar cane season was disrupted by poor weather conditions: 202,000 tonnes of sugar cane was crushed (-9.4% compared with 2009), and the performance of the sugar sector remains weaker than in previous years. In terms of agricultural rum, distilleries on the island produced 68 thousand hectolitres of pure alcohol (HAP), down 3.7% over a year, while the export rum market remained on the right track (+26.5% in HAP volume). Also, the cattle breeding sector, which is a key driver of endogenous growth, improved in 2010 (+6.3% for slaughter).

<sup>3</sup> Source: Club des professionnels du séjour en Martinique

# THE BANKING SYSTEM ACCOMPANIES THE ECONOMIC RECOVERY

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*With the change on 30 June 2010 to declaration obligations of credit institutions (switch to SURFI –Unified Financial Reporting System – and the abandonment of the BAFI system), classification criteria for credit institutions in the IEDOM monetary statistics were revised. Thus a Locally Established Credit Institution (ECIL) is deemed to be any establishment having effective local representation, that is to say at least one permanent local agent. Unlike these, Credit Institutions Not Established Locally (ECNIL) are those operating without a local representation. The data published in this not may thus differ from that in series published to date by the IEDOM. Nevertheless, all historical series have been reviewed according to the new methodology.*

With an economy still in convalescence, the monetary and financial context<sup>4</sup> was characterised by the measured growth of outstanding bank liabilities and a stabilisation of the loss ratio. The recovery was driven, in particular, by the growth of the household credit market and, to a lesser extent, credits linked to the financing of business investments.

## Outstanding loans granted by establishments as a whole recover

Outstanding loans granted by credit establishments as a whole reached 8 billion Euros, accentuating its growth (+3.2% against +1.6% in 2009). This change particularly affects households (+3.7%). On the other hand, support for business increased more moderately (+1.9%). Long term support (business investment and housing loans for households) has a better outlook than short term credits (operation of business and household consumption), thus following a trend similar to that in mainland France.

The improvement in banking activity stands at the level of the increase in gross outstanding liabilities for locally established credit institutions (+2.7%) to 7.2 billion Euros. Households, the leading borrowers with 2.9 billion Euros, have had better recourse to housing loans (+6.9% against +4.8% in 2009). Like in mainland France, transactions in the property sector were boosted by a historically low level of property loan rates. At the same time, outstanding consumer credits stabilised after the fall of 2009 (-0.8% against 6.0%), linked to sales of automobiles, which were dynamic at end of year. Companies (2.8 billion Euros of outstanding loans) showed a moderate change in their outstanding liabilities (-0.8% o/w -5.1% for operating credits and +1.6% for investment credits). Outstanding liabilities for ordinary debit accounts fell (-17.4%) after vigorous growth in 2009 (+42%), showing the improvement in the financial position of companies.

## The quality of the portfolio stabilises

The growth in gross bad debts of local credit establishments slowed (+4.7% against +10.9% in 2009). The rate of bad debts thus stabilised, standing at 7.0% (+0.1 point).

## Moderate growth of financial assets

In terms of resources, financial assets (at 6 billion Euros) grew moderately (+3.1%). Outstanding sight deposits (+3.2%) remained on the right track, while outstanding short term and liquid investments are relatively stable (+0.5%), long term savings being more dynamic (+6.0% o/w +11.2% for household investment in life insurance).

The rise in credit should boost net receipts from banking (PNB) of local establishments. At the same time, the evolution of the cost of risk and control of general costs should have a positive impact on their results, unlike 2009.

# THE OUTLOOK FOR 2011

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The improvement to the trend observed at year end should continue in 2011, even if certain indicators are sluggish or still fragile. In the economic survey carried out by the IEDOM in Q4, company heads anticipated a timid improvement in their business and workforce. Projected twelve month investments are looking better, and the last banking and finance economic survey shows that the production of bank credits should improve at the beginning of 2011.

The capacity of the Martinique economy to continue its recovery is linked to the reduction of difficulties facing key sectors of the economy: Building and Public works and tourism. The improved activity in labour intensive sectors is a condition for the continued economic recovery in 2011, prior to the sustainable reversal of the unemployment curve. Against a backdrop of limited budgetary resources, the recovery of Building and Public works linked to public procurement should benefit from the implementation of the recovery plan and increased consumption of European funds, while the construction of social housing should improve. In the tourist sector, the mobilisation of economic players and the opening of a new air route to Roissy for the upcoming 2011-2012 season should allow for a diversification of target markets and support activity.

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<sup>4</sup> Analysis carried out on the basis of data at the end of September 2010.