

## The economy in Guadeloupe in 2010: First signs of recovery

*In 2010 Guadeloupe entered happier times, auguring well for a recovery after the end of 2008 and 2009 were scarred by the effects of a major economic crisis aggravated in the West Indies by the social crisis. The IEDOM Business Climate Indicator fell to its lowest historic level during Q1 2009, and then grew hesitantly to stabilise, at the end of December 2010, at a level still below 4% of its long term average.*

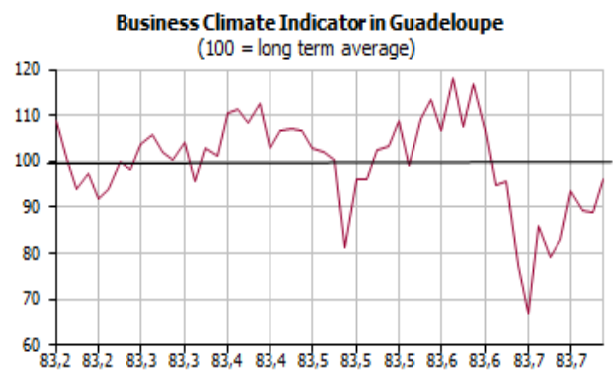
*Price rises in H2, after a relatively contained 2009, did not have a negative impact on household consumption, which appeared to return to its 2008 dynamism at the end of the year. The end of 2010 also saw the outlook for investment improve and business activity moving in the right direction for the first time since Q1 2009. The end of the year was notable in Guadeloupe for the hosting of the 9th "Banque Postale Route du Rhum", which contributed to improving the image of the destination, and whose economic returns can already be measured according to professionals in the tourist sector. Despite a better economic context, unemployment continues to rise, and at the end of the year Guadeloupe saw jobseeker rates not seen over the last decade.*

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### AN UNEVEN RECOVERY FROM THE CRISIS

#### The business climate recovers

Since its lowest level reached in March 2009, the Business Climate Indicator (ICA) in Guadeloupe has undergone a slow and hesitant recovery, confirming the optimistic but prudent mood from company heads questioned as part of IEDOM economic surveys. The recovery in Q1 of 2010, after two consecutive quarterly falls, brings it close to its long term average, falling 4% short of it. The ICA is thus back to levels observed before the crisis, in mid-2008, thanks in particular to a favourable perception by company heads of their business at the end of the year.

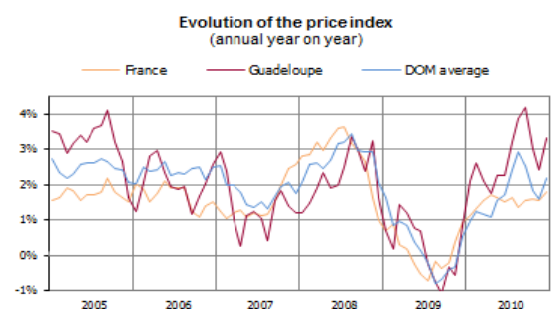


Source: IEDOM economic survey

Source : Enquête de conjoncture de l'IEDOM

#### Strong price hikes in H2

Prices in Guadeloupe, relatively contained in 2009, saw a strong rise in 2010, in particular in H2. At the end of December 2010, the household consumer price index grew 3.3% on a year by year basis, a rate around one point lower than the yearly high recorded at 4.2% in September.



Source: INSEE

The rise is mainly due to the increase in the price of oil products (+15%) and services (+3.3%), which contribute in almost equal shares, respectively 1.53 point and 1.57 point, to the year on year slide in December. Excluding energy, the price index grew 2% over a year.

In 2010, Guadeloupe clearly differentiated itself from the Mainland (+1.8%) and the average for overseas territory (+2.2%) with higher inflation, unlike that observed in 2008.

## Low activity levels penalise the labour market

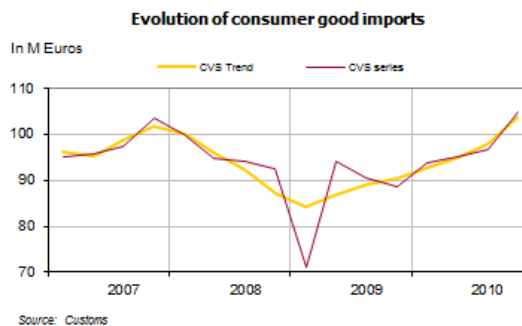
The improvement noted was not sufficient to reverse unemployment trends. The number of job seekers, which appeared to have stabilised in Q1 2010, has again started to rise. At the end of December 2010, with 53 660 category A jobseekers registered with Pôle Emploi, the French job centre, it reached a level unseen in 10 years. The annual growth rate nevertheless slowed +9.2% in March 2010 to +4.3% in December.

At the end of June the unemployment rate totalled 23.8%, up 1.5 point over a year. It is the highest of overseas departments (21% in Guadeloupe and Guyane). The crisis having had a notable impact on male dominated sectors such as Building and Public works and industry, men have accordingly been most affected by the deterioration of the labour market; according to the INSEE, the unemployment rate for men stands at 21.5 %, up 2.2 points over a year. At the same time the unemployment rate for women, higher than that of men, remained stable, at 26%.

In terms of job offers, after the net fall recorded in 2009 (-21%), their number (14 618) grew 14% in 2010, without nevertheless reaching the number of jobs offered in 2008 (16 286 jobs offered).

## Household consumption shows a clear recovery at the end of the year

Household consumption, which suffered in 2009, saw a timid recovery at the beginning of 2010, regaining a certain dynamism in H2. The recovery, which was particularly pronounced in Q4, corroborated by the positive direction of business activity in the commercial sector, has allowed all imports of household goods and products to return almost to their pre-crisis levels.



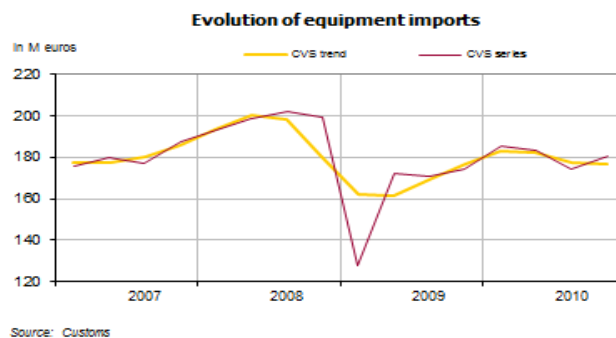
Imports of consumer goods thus grew 2% compared with 2008, those of agricultural products 4%, agri-food products 6% and domestic appliances 15%. Compared with 2009, rises are much more significant, varying from +10% to +20%. At the same time, household consumption credits have shown positive growth rates since the beginning of the year (+5.1% at the end of September) after the fall observed in 2009.

As a consequence of improved activity but also more rigorous management due to recovering from the crisis, the number of physical persons subject to a banking ban, totalling 23 202 in January 2010, stood at 21 357 in December, that is to say the lowest level reached since 1997. The number of overindebtedness cases in 2010 stood at 350 (+19% compared with 2009), a level comparable to that of 2008 (349).

## Business investment remains weak

Business investment remained weak at the beginning of the year, in line with economic activity. It was only in Q4 that investment outlook improved, but it still remains negative, reflecting the prudent approach taken by company heads to the fragile recovery.

The evolution of equipment imports corroborates this trend. Their significant growth, +46% between Q3 and Q4 2010, allowed a recovery to the usual levels observed at the end of the year, reaching an annual total 12% higher than that of 2009. However, compared with 2008, equipment imports are notably down (-9%). Following the same trend, VAT collected and revenue linked to dock duty have grown, +18% and +27% respectively compared with 2009, but -4% and -8% compared with 2008.



The improvement of property investment by households is more notable: the growth of outstanding housing loans has progressively accelerated to approach, at the end of September (+7.9%), the average growth rate observed between 2005 and 2009 (+9.8% each year).

During 2010, the financial vulnerability of companies reduced, attesting to more rigorous management against the backdrop of recovering from the crisis. At the end of December, the number of legal entities subject to a banking ban had reached its lowest level over the last 24 months (2 937), while the number of payment incidents involving bills of exchange, likewise affected by the level of activity, fell 13 % compared with 2009.

## Trade up

Supported by the rise in domestic demand, **imports** of goods recovered 12% compared with 2009. They nevertheless remain down compared with 2008 (-13%) and 2007 (-8%), due to the weakness of equipment imports (-9% compared with 2008). These latter mainly concern transport materials (-19%), industrial and agricultural machinery (-10%) and IT, electronic and optical products (-5% compared with 2008). Only electrical and domestic equipment grew 16% compared with 2008.

**Exports** for their part are at their lowest level since 2001, down 9% compared with 2009 (-14% compared with 2008). This fall is linked to the sudden cessation of banana exports in Q1 2010, the harvest having been suspended in March due to the deterioration in production caused by volcanic ash.

In total, the trade deficit totalled 2.1 billion Euros in 2010, up 14% compared with 2009.

## A BETTER PICTURE AT THE END OF THE YEAR IN MOST SECTORS

In most sectors, the second part of 2010 was notable for a stirring of activity, in particular in Q4; despite this, annual results obtained remain below pre-crisis levels.

### A sluggish tourism sector

Results relating to tourist visits in H1 2010 show a net decline compared with the same periods in 2008 and 2007, with a fall in passengers to Pôle Caraïbe airport of 8.9% compared with H1 2008, and a significant drop in hotel stays. The improvement in activity was only noted by professionals in the sector as of the summer of 2010, consolidating in Q4 due to the beginning of the high season and the "Route du Rhum" event which, as well as bringing tourists to the island, helped boost the image of the destination. In the hotel sector, the number of overnight stays grew 17% compared with 2009, with the room occupancy rate standing at 54% on average over the year, up 4 points over a year.

On the other hand, cruise ship activity, particularly sustained over the 2009/2010 season ending in April, declined due to the cancellation of stopovers linked to the events of 2009. In cumulative data, the number of cruise ship passengers fell 5.5% compared with 2009.

### Building and Public works awaiting recovery

The recovery in activity anticipated by professionals at the end of 2009 did not materialise, and the situation remains difficult despite stirrings in Q4. The Pointe-à-Pitre and Abymes urban renovation projects have continued, but were not sufficient to restore confidence to professionals in the sector and allow for recovery in the profession as a whole. Questioned within the framework of economic surveys, businessmen complained about the scarcity of demand and greater competition in a still fragile sector.

In total, the volume of cement sold in the department was slightly up compared with 2009 (+3%) but down compared with 2008 (-10%). The number of building permits issued for new housing were clearly on the right path at the end of the year, growing over the year (+23% compared with 2009) but still down compared with 2008 (-27%).

### Improvement in industry

Companies in the industrial sector have suffered from the sluggish Building and Public works sector, although more of them perceived an improvement in activity in Q4. This recovery may be linked to the influx of orders from collectivities, in particular to carry out work on strengthening and levelling national roads.

### A primary sector affected by weather conditions

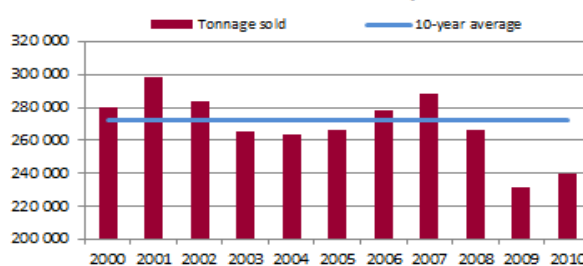
The rains of volcanic ash from the Soufrière Hills in Montserrat in Q1, and poor weather conditions, caused considerable losses for the whole agricultural sector. Banana exports, suspended for two months due to production problems, recovered with vigour, but ended the year notable down compared with 2009 (-22%). Sugar production is below expectations: 677 400 tonnes of cane sugar have been crushed (+7.9 % compared with 2009), that is to say a volume less than the ten yearly average of 682 900 tonnes. Total sugar production is up 8% compared with 2009, but remains less than 6% of that of 2008. After a fall in 2009, exports of industrial rum grew 14.1% in 2010 compared with the previous year. On the other hand, those of agricultural rum fell 7.2% after a relatively stable 2009 (+0.2%).

Comparative evolution of number of hotel nights and air traffic



Source: Guadeloupe Autonomous Port, Pôle Caraïbe airport

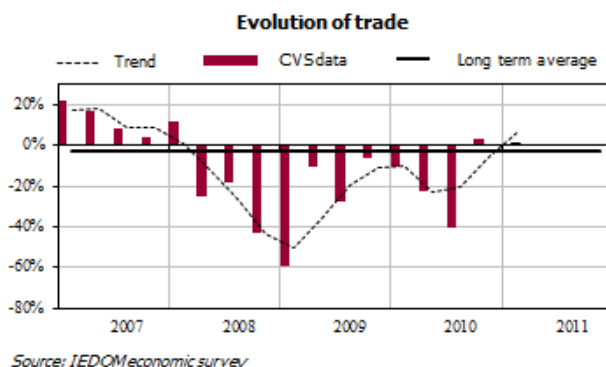
Evolution of cement consumption



Source: CimENTS Antillais, including northern islands

## Trade: a good end of year

The evolution of activity in the trade sector has followed that of household consumption. According to company heads questioned, the beginning of the year was quite slow in terms of activity but, according to their projections business was on the right track in the last quarter of 2010. The automobile market has benefited from this improved picture. The 13.5% fall in the market in H1 2010 compared with the same period of 2009, has been more than offset by good sales performance in Q4. The number of vehicles sold thus stood at 18 050 for 2010, a figure up 7% compared with 2009 (+2.5% compared with 2008).



## CREDIT RECOVERY, DRIVEN BY HOUSEHOLDS

*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.*

In 2010, credit institutions saw contrasting activity due to the economic context.

The **credit business** is showing signs of recovery, healthy liabilities showing their highest growth rate since the end of 2008. At €6.94 billion, these liabilities grew 5.9% over one year at the end of September 2010, compared with +1.2% a year before. The improved picture has nevertheless been driven by households (+0.4%) rather than households. Housing finance for households has accelerated, with growth of 7.9% (+€124.2 million) against an average annual of +9.8% over the previous four financial years, and illustrates the recovery in property transactions. Following the same trend, consumer credit transactions have shown signs of improvement (+5.1%, or +€45.1 million). **Companies** have reduced their use of short term credits, some having used the crisis as a change to reduce their break-even point and improve their cash flow. Conversely, investment credits recorded their strongest annual growth since March 2009, at +6.6% (+€82.3 million). Nevertheless, this rise remains distant from the two figure growth rates, between +10% and +23%, recorded between 2006 and 2008, and largely springs from renovation investment.

The **rate of gross bad debts** stood at 8.6% at the end of September 2010. It fell 0.2 point over three months, and 0.1 point over a year. The rates driven by the local banking market alone (8.5%) saw the same evolution, reflecting the stabilisation of the financial situation of agents.

The **financial assets** of customers (€6.34 billion) increased 3.9% over one year, compared with +4.3% a year earlier. Due to the wait and see attitude of economic players, sight deposits have continued to grow at a sustained rate (+5.6% over one year), whereas the weakness of rates of return on investments indexed to the market rate has brought about a 2.8% reduction in short term savings deposits. Long term savings have also stuttered (+5.7% against +9.3% in 2009), related to the weak performance of the financial markets.

## THE OUTLOOK FOR 2011

In 2010 the economy in Guadeloupe showed signs of recovery: the consolidation of these signals remains conditional on the strengthening of activity, of which there have been signs in certain sectors, and the confirmation of French and international growth. The good performance of household consumption, the traditional driver of growth in Guadeloupe, and the stabilisation of the financial position of agents could lead to a more positive 2011.

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