4. THE DOMESTIC ECONOMY

Latest data for 2013Q2 show that growth in the domestic economy remained constrained by weak economic developments in the main trading-partner countries. However, barring the negative performance of the construction sector, major sectors registered positive growth rates. Growth in exports as well as in final consumption expenditure continued to be subdued however. Investment contracted and declines were recorded in both private and public sector investment. Labour market conditions stayed relatively subdued, with the unemployment rate likely to remain at around current levels in the medium term. The outlook for growth remains broadly positive but it is forecast that the economy will continue to operate below trend in the medium term with downside risks to the already moderate growth outlook remaining real. Some potential for growth has nevertheless emerged in the medium term in the wake of the slightly improving outlook in the Eurozone.

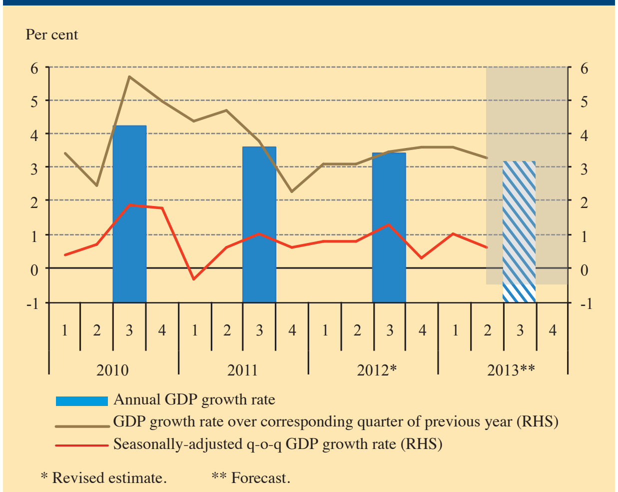
4.1 Economic Activity

The national accounts data released in September 2013 indicated that the momentum in the domestic economy remained subdued. On a seasonally adjusted q-o-q basis, the economy grew in real terms by 0.6 per cent in 2013Q2 compared with 1.0 per cent in 2013Q1. The annual rate of growth fell to 3.3 per cent, from 3.6 per cent in 2013Q1 (Chart 4.1).

Excluding the construction sector's negative performance, growth was broad-based across major sectors, which made positive contributions to y-o-y GDP growth in 2013Q2 (Chart 4.2). 'Manufacturing' expanded by 3.0 per cent, at a somewhat slower pace than in 2013Q1. It was supported by growth of 11.5 per cent in 'other manufacturing'. The 'sugar' and 'textile' sub-sectors grew by 2.3 per cent and 0.7 per cent, respectively, while 'food' contracted by 2.9 per cent. For 2013, growth in 'manufacturing' is estimated to pick up to 2.7 per cent compared to 2.2 per cent in 2012. The sector has benefited from the diversification strategies which have been undertaken to increase the shares of the Southern African and US markets to offset persistent weakness in the Eurozone. Other factors that have helped the sector have been the decreasing trend of price competitiveness in China as a result of rising labour costs as well as a restructuring of internal operations. Looking ahead, risks to diversification remain real particularly from a greater-than-expected slowdown in the Southern African market that could be further affected by tapering of monetary stimulus in the US. Moreover, developments in the Eurozone, which is still the major export market, could have a major bearing on domestic 'manufacturing', particularly in textiles.

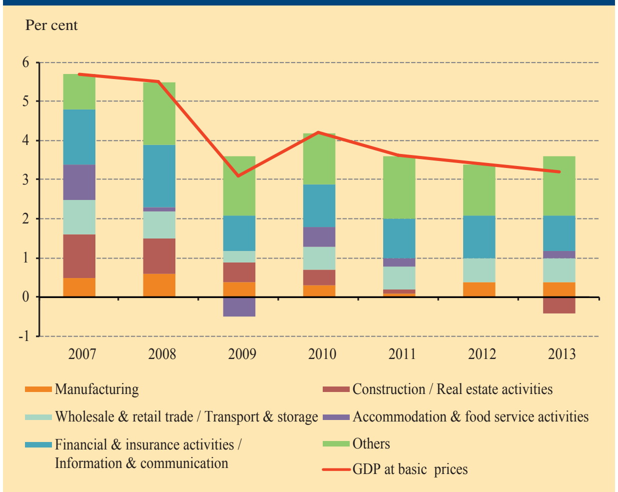
Prospects for emerging sectors, like 'seafood' and 'ICT', appeared to be relatively sustained. With

Chart 4.1: Real GDP Growth Rate



Source: Statistics Mauritius.

Chart 4.2: Contribution of Selected Sectors to GDP Growth



Source: Statistics Mauritius.

various projects underway to expand the range and breadth of activity over the longer-term, growth in the 'seafood' sector is forecast at 6.5 per cent in 2013. In the 'ICT' sector, growth of 7.9 per cent is expected in 2013. This sector is developing new areas of operations such as mobile applications, outsourcing of accounting services and legal procedures, and exploiting niche markets in higher value added services.

Partly reflecting muted tourist arrivals, growth in 'accommodation and food service activities' went up by 0.3 per cent in 2013Q2 compared with 1.5 per cent in 2013Q1. While tourist arrivals increased by 1.0 per cent y-o-y during 2013H1, latest data, especially for August 2013, tended to show a pick-up in momentum. Over the period January to August 2013, tourist arrivals grew by 2.2 per cent compared with the corresponding period of 2012. Arrivals from Europe declined by 2.9 per cent but these were compensated by significant growth of 28.5 per cent in arrivals from Asian countries, including a substantial increase of 93.9 per cent in arrivals from China. The establishment of new direct flights to this country seemed to have had an immediate positive impact on arrivals. Moreover, arrivals from the UK have been consistently rising of late, suggesting a possible turnaround in this market in line with the revival of economic activity there. Arrivals from India appeared relatively unaffected by the depreciation of the Indian rupee over the recent months but the risk remains that this factor might act as a constraint to growth further ahead.

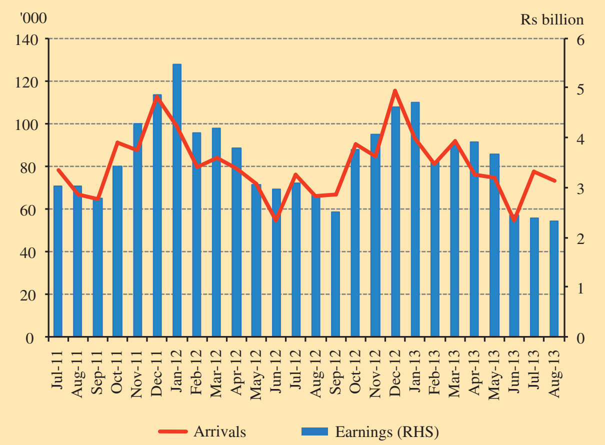
Tourist earnings dropped by 9.1 per cent y-o-y to reach Rs26,760 million over the period January to August 2013 (Chart 4.3). Accounting for exchange rate effects, tourist earnings were near the lows recorded in 2009. The drop in tourist earnings even as arrivals grew slightly underlines the vulnerability of the tourism sector, which continues to be buffeted by financial woes in traditional European markets.

Whilst market diversification coupled with intense marketing campaigns in emerging countries has helped to maintain arrivals at fairly similar levels as in the previous year, it is not occurring fast enough to provide the necessary impetus for a full-fledged recovery of the sector. This has led to a reduction in profits and losses for several hotel groups.

Meanwhile, the attractiveness of Mauritius for traditional tourist markets is ebbing amid increased competition from other countries and in the region itself. Countries in the region performed better than Mauritius in 2013H1 compared with 2012H1, with an increase in tourist arrivals of 17.8 per cent in the Maldives, 14.3 per cent in the Seychelles and 13.1 per cent in Sri Lanka (Table 4.1). Since 2009, tourist arrivals in Mauritius have increased by much less than in those countries.

There are increasing concerns that the challenges faced by the industry have become structural problems that might persist beyond the recovery in main markets. In particular, the growing imbalance between room supply and demand as well as air access limitations that contribute to relatively high travel costs is constraining the industry. According to recent reports conducted by specialised travel and hotel booking websites, Mauritius is ranked as the second most expensive destination for the French and the third most expensive destination for the British. According to the Travel and Tourism Competitiveness Index released by the World Economic Forum, Mauritius is ranked 58th, with moderate rankings in terms of environmental sustainability, air transport infrastructure and price competitiveness, among others.

Chart 4.3: Tourist Arrivals and Earnings



Sources: Statistics Mauritius and Bank of Mauritius .

Statistics Mauritius forecast total tourist arrivals of 990,000 for 2013, with gross tourism receipts projected at around Rs45.1 billion. This represents an increase of 2.5 per cent in tourist arrivals in 2013 compared with 2012 and a growth of 1.6 per cent in tourism receipts. Given the constraining factors in tourism, Statistics Mauritius forecasts growth of 2.5 per cent in 'accommodation and food service activities' in 2013.

'Construction' registered a fourth consecutive quarter of negative growth in 2013Q2, contracting by 3.0 per cent after a decline of 2.1 per cent in 2013Q1. For 2013 as a whole, the sector is forecast to register a deeper contraction of 9.4 per cent, mainly as a result of the completion of major projects such as the airport extension project coupled with delays in some major private construction works. The value added by 'construction' to economic growth is expected to decline to 5.5 per cent in 2013, from 7.1 per cent in 2009.

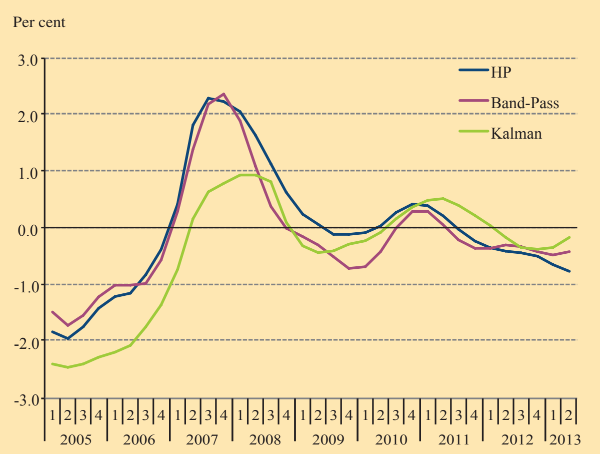
In a number of other sectors, growth was positive, albeit lower in 2013Q2 compared with the previous quarter. 'Information & communication', 'real estate activities' and 'wholesale & retail trade' grew by 6.8 per cent, 2.9 per cent and 3.3 per cent, respectively, compared with 7.1 per cent, 3.0 per cent and 3.4 per cent, respectively, in 2013Q1. 'Financial & insurance activities' registered growth of 5.2 per cent in 2013Q2, same as in the previous quarter. 'Transportation & storage' recorded higher growth of 2.2 per cent compared with 1.2 per cent in 2013Q1.

Growth in 'export-oriented enterprises' registered a decline of 5.1 per cent in 2013Q2 compared with a drop of 2.4 per cent in 2013Q1.

For 2013, Statistics Mauritius has revised down its forecast of economic growth to 3.2 per cent, down from a previous estimate of 3.3 per cent made in June 2013. The lower estimated performance compared with growth of 3.4 per cent in 2012 is mostly the result of lower growth expected in the 'information and communication', 'financial and insurance activities' and 'wholesale and retail trade' sectors as well as a deeper contraction in 'construction'.

Taking into account the latest national accounts data, it is assessed that the output gap remained slightly negative up to 2013Q2 (Chart 4.4). The economy is as such estimated to be operating below trend, with some degree of spare capacity. It is expected that sub-par growth will continue in the near to medium-term.

Chart 4.4: Domestic Output Gap



Source: Statistics Mauritius.

Table 4.1: Tourist Arrivals for Mauritius, Maldives, Sri Lanka and Seychelles

	Mauritius	Y-o-y % Change	Maldives	Y-o-y % Change	Sri Lanka	Y-o-y % Change	Seychelles	Y-o-y % Change
First half of								
2009	413,504		318,723		187,729		74,779	
2010	439,150	6.2	382,632	20.1	278,652	48.4	84,866	13.5
2011	464,604	5.8	447,967	17.1	381,538	36.9	91,960	8.4
2012	467,153	0.5	458,068	2.3	452,867	18.7	98,413	7.0
2013	471,664	1.0	539,667	17.8	512,281	13.1	112,509	14.3

Source: Statistics Mauritius; Maldives Statistics Section - Ministry of Tourism Arts & Culture; Seychelles National Bureau of Statistics; Sri Lanka Tourism Development Authority.

4.2 Domestic Demand

In 2013Q2, domestic demand was the major contributor to y-o-y output growth while external demand made a negative contribution (Chart 4.5).

4.2.1 Consumption

Household consumption expenditure has consistently driven domestic demand, and therefore output growth, though its expansion has moderated after the 2008 crisis (Chart 4.6). In 2013Q2, household consumption expenditure grew by 2.7 per cent compared with 2.8 per cent in 2013Q1. It is forecast that it will expand by 2.7 per cent in 2013, as in 2012. Government consumption expenditure turned negative in 2013Q2, declining by 0.2 per cent as against growth of 3.1 per cent in 2013Q1. It is projected to fall to 1.7 per cent in 2013 compared with 3.0 per cent in 2012.

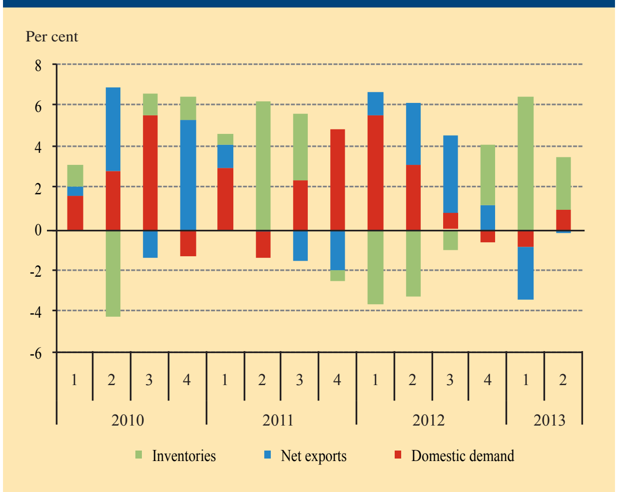
Final consumption expenditure moderated to 2.2 per cent in 2013Q2, from 2.9 per cent in 2013Q1, mainly as a result of the contraction in general government expenditure. These data continue to reflect weak conditions in the economy and fragile consumer confidence. While the public sector pay award and the recent cost of living compensations are likely to support consumption, the relatively high unemployment rate may curtail any significant improvement in consumption expenditure. Statistics Mauritius has forecast that final consumption expenditure will grow by 2.6 per cent in 2013 compared with 2.8 per cent in 2012.

4.2.2 Investment Expenditure

Gross Domestic Fixed Capital Formation (GDFCF) declined for the fourth consecutive quarter in 2013Q2. The pace of contraction was nonetheless lower at 3.5 per cent compared with 13.3 per cent in 2013Q1. By type of capital goods, the fall in GDFCF was driven by contractions in both 'building and construction work' and 'machinery and equipment'. 'Building and construction work' fell to 4.2 per cent compared with 4.4 per cent in 2013Q1, mainly following declines of 26.4 per cent in 'other construction work' and 6.1 per cent in 'non-residential building', which were partly offset by growth of 12.1 per cent in 'residential building'.

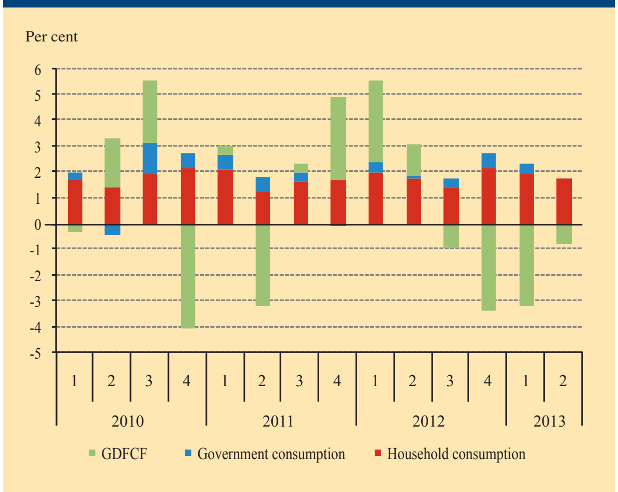
'Machinery and equipment' contracted at a significantly slower pace of 2.0 per cent in 2013Q2, compared with a decline of 28.1 per cent in 2013Q1. This was made possible by positive growth of 2.8 per cent in 'other machinery and equipment' whereas it had declined by 32.3 per cent in the preceding quarter and a lower decline of 16.7 per cent in 'other transport equipment'. In contrast, investment in 'passenger cars' recorded a higher contraction of 14.6 per cent in 2013Q2 (Chart 4.7).

Chart 4.5: Contribution of Domestic and External Demand to Growth



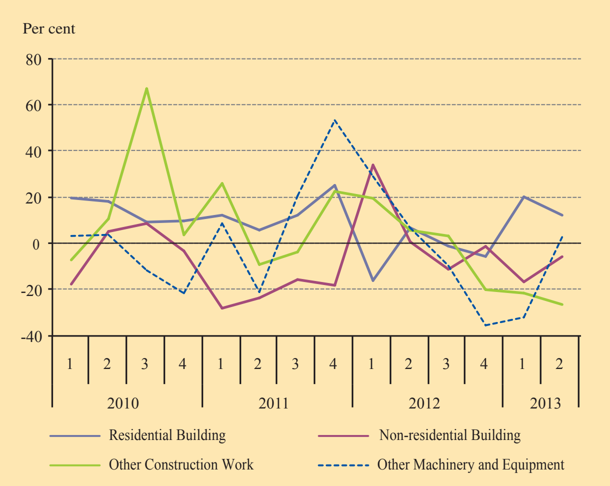
Source: Statistics Mauritius.

Chart 4.6: Contribution of Consumption and Investment to Growth



Source: Statistics Mauritius.

Chart 4.7: Growth Rates of GDFCF by Main Components



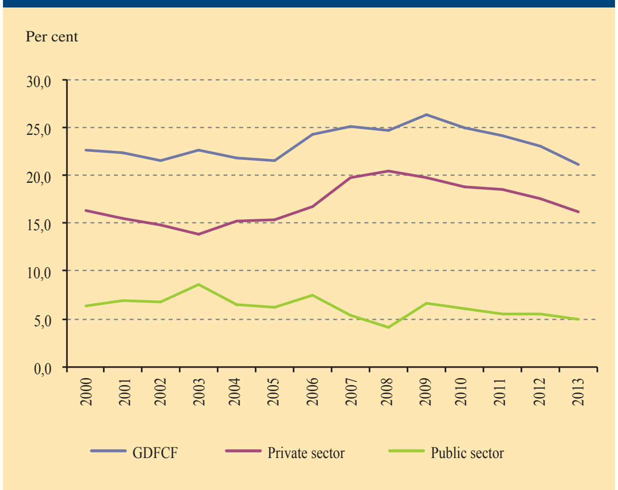
Source: Statistics Mauritius.

The persistently low levels of investment substantially contributed to the sluggish momentum in domestic demand. In 2013, GDFCF is forecast to contract by 3.1 per cent after a decline of 0.8 per cent in 2012. Excluding 'aircraft and marine vessel', GDFCF is forecast to contract by a higher rate of 5.7 per cent in 2013 maintaining its declining trend as a percentage of GDP at market prices (Chart 4.8)

The projected fall in GDFCF in 2013 can largely be attributed to a decrease of 2.8 per cent in private investment, following a decline of 1.9 per cent in 2012 as major projects were completed. As a ratio to GDP, private investment has declined steadily from around 20 per cent in 2007 to a projected 16 per cent in 2013. The continuing slowdown in the Eurozone and other trading-partner countries impacted negatively on the balance sheets of firms in key sectors of the economy, weighing on their capacity to increase capital expenditure. At the same time, some firms have become over leveraged partly as a result of the low interest rate environment. It is noted that in terms of industrial use, a much larger proportion of GDFCF was directed to the 'real estate activities' sector. In 2013, this share was estimated at 33.1 per cent compared with 8.8 per cent invested in the 'accommodation and food service activities' sector.

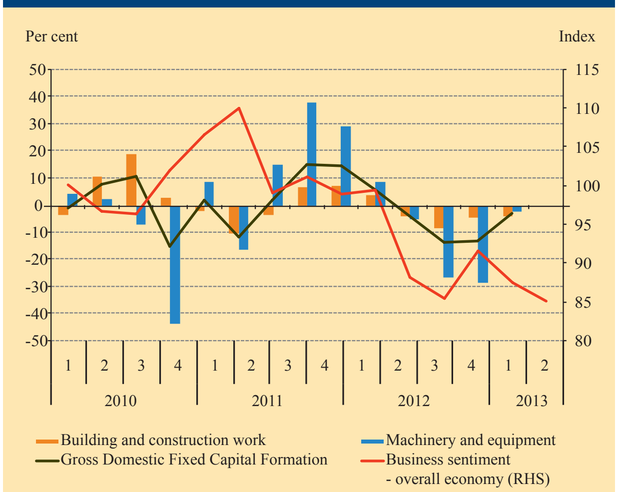
Business confidence remained muted. The latest Mauritius Chamber of Commerce and Industry (MCCI) business confidence survey carried out in September 2013 indicated that business confidence dropped by 2.4 points to 85.1 in 2013Q3, following a decline of 4.1 points in 2013Q2 (Chart 4.9). The main factors that had a negative impact on business performance during 2013Q3 were instability in the global environment and fierce competition in the local market. Whilst this could imply lower private investment in the near term, the survey showed that 12 per cent of respondents were planning to increase their investment level over the next twelve months while 9 per cent claimed that they would reduce investments further.

Chart 4.8: Public and Private Sector Investment as a share of GDP



Source: Statistics Mauritius.

Chart 4.9: Gross Domestic Fixed Capital Formation and Business Sentiment Index



Source: Statistics Mauritius.

Against the backdrop of falling private investment, public investment has also been contracting. In 2013, it was expected to record a negative growth rate of 4.1 per cent, as against an expansion of 2.9 per cent in 2012. This would mainly be attributable to the completion of major projects such as the airport extension and delays, or postponements, in the implementation of new projects.

After first rising in 2009 in the wake of the fiscal stimulus package, the trend of the rate of public investment has been downward to stand at around 5 per cent in 2013. The contraction in public investment in recent years has thus reinforced the decline in total investment in the economy, contributing to the slowdown in real GDP growth. Looking ahead, a pro-cyclical fiscal policy that focusses on the need to meet statutory debt targets as well as implementation delays may lead to sustained cutbacks in public investment. While public sector debt increased by 6.0 per cent at the end of June 2013, it was up only slightly by 0.5 percentage point to 58.1 per cent of GDP at market prices.

4.3 External Demand

The contribution of the net exports of goods and services to GDP growth has remained in negative territory for the first two quarters of 2013, indicating sustained vulnerabilities to adverse conditions in main export markets. Box III provides an indicator of external demand.

Box III
An Indicator of External Demand

To better assess the changes in external demand, this Box shows the computation of an external demand indicator. The indicator is constructed by weighting the real GDP growth of the countries that make up at least 70 per cent of Mauritian goods exports. The index is calculated as follows:

$$Y_t^* = \sum_{i=1}^{n} S_{i,t\text{-}1} \; Y_{i,t}^*$$

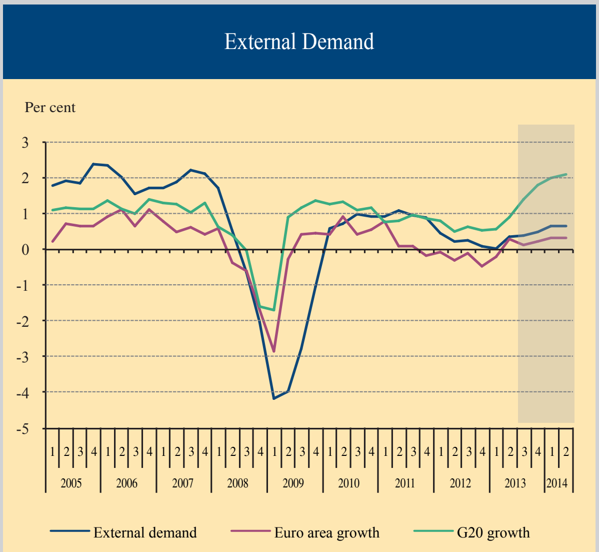
Where,

Y_t^* , is the annual rate of growth of foreign demand in quarter t

$Y_{i,t}^*$, is the annual rate of growth of the importing country *i* in quarter t

$S_{i,t\text{-}1}$, is the share of country *i* in exports in the previous quarter

The starting period for the analysis is 2004Q1. Growth rates for the countries included in the calculation of the index are computed as the q-o-q percentage change in real GDP for any quarter. Weights attributed to each country vary by quarter, depending on their import share. The computation of the indicator includes France, Italy, Spain, Belgium, UK, South Africa and the US as the major importing countries. The chart below illustrates the evolution of the external demand indicator over time.

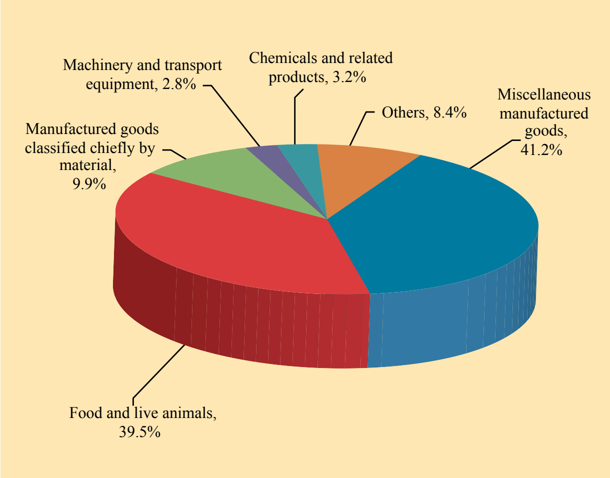


The external demand indicator includes both actual and forecast GDP growth rates up to 2014H1. For comparison, it is plotted against actual and projected euro area growth rate. Looking specifically at main trading partners, the computed indicator shows that foreign demand for domestic exports is likely to outpace euro area growth over the forecasting horizon mainly because the euro area is expected to recover at a very modest pace. However, the foreign demand for domestic exports is likely to fall behind G20 growth due to the higher weight of our exports to countries of the euro area.

4.3.1 Exports

In nominal terms, the total exports of goods, excluding ship's stores and bunkers, rose by 4.4 per cent to Rs34.0 billion in 2013H1. 'Food and live animals' exports, which went up by 17.7 per cent following significant growth in the exports of 'cane sugar' and 'fish and fish preparations', contributed to the increase in total exports. Exports were also influenced by an upswing of 9.9 per cent in 'manufactured goods classified chiefly by material' exports, whilst exports of 'machinery and transport equipment' and 'miscellaneous manufactured goods' fell by 12.0 per cent and 6.1 per cent, respectively (Chart 4.10). The rise in exports partly reflected some of the benefits of a weaker export-weighted nominal rupee effective exchange rate.

Chart 4.11: Exports by Main Commodities

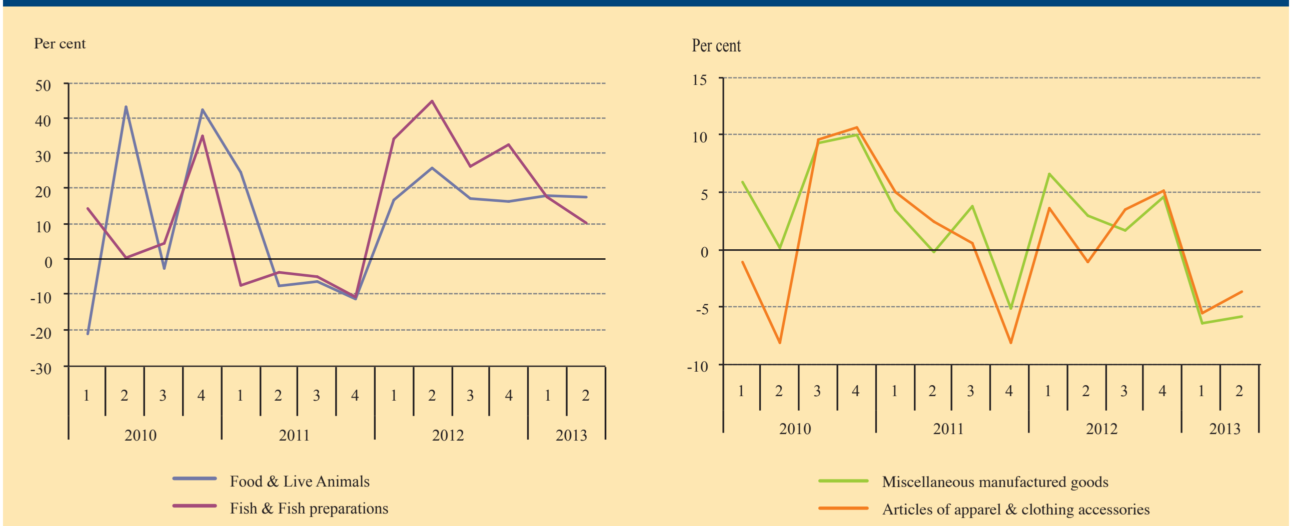


Source: Statistics Mauritius.

Exports of 'fish and fish preparations' grew by 13.6 per cent in 2013H1. Increases in prices led to a rise in export value, though there were delays in production, which reduced the actual export volume from 53,631 tonnes to 47,475 tonnes. The decline in the exports of 'articles of apparel and clothing accessories', which drove the fall in 'miscellaneous manufactured goods' exports, reflected the continued pressures faced by the textile sector as conditions in its main markets remained tight. Despite this, 'miscellaneous manufactured goods' still accounted for the major proportion of goods exports (41.2 per cent) in 2013H1, followed by 'food and live animals' (39.5 per cent) (Chart 4.11).

Europe remained the main export market, with its share in exports of goods increasing slightly to 60.6 per cent in 2013H1 compared with 60.1 per cent in 2012H1. While the share of exports to the UK, France and Spain, declined to 18.4 per cent, 13.0 per cent and 6.1 per cent, respectively, the share of exports to Italy increased to 10.8 per cent. Export shares to the US and South Africa went down to 10.1 per cent and 8.3 per cent, respectively.

Chart 4.10: Y-o-Y Growth in Exports by Selected Commodity Groups

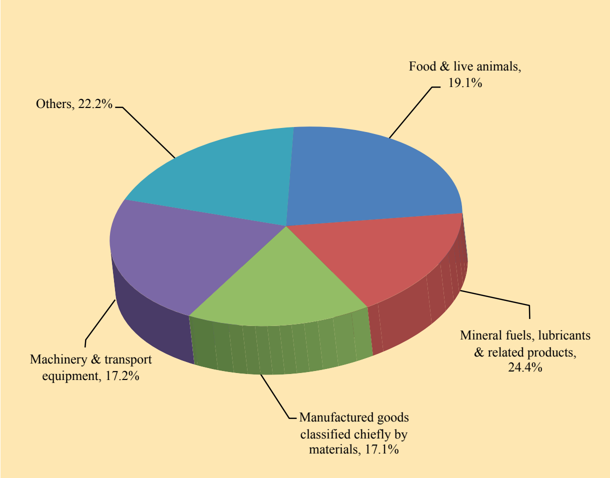


4.3.2 Imports

Imports of goods c.i.f. went down by 1.8 per cent y-o-y to reach Rs75.9 billion in 2013H1. This mainly reflected a decline of 22.4 per cent in 'machinery and transport equipment' whereas increases of 6.7 per cent, 2.4 per cent and 0.9 per cent were noted in 'food and live animals', 'mineral fuels, lubricants and related products' and 'manufactured goods classified chiefly by material', respectively (Chart 4.12).

In 2013H1, 'mineral fuels, lubricants and related products' represented the bulk of imports (24.4 per cent) followed by 'food and live animals' (19.1 per cent) (Chart 4.13). The Asian continent remained the major source of total imports with a share of 55.9 per cent. Within Asia, the share of imports from India increased to 26.4 per cent but the proportion of Chinese imports fell to 14.0 per cent. The share of imports from France also dropped to 7.9 per cent, while import shares from South Africa and Spain went up to 6.5 per cent and 4.2 per cent, respectively.

Chart 4.13: Imports by Main Commodities



Source: Statistics Mauritius.

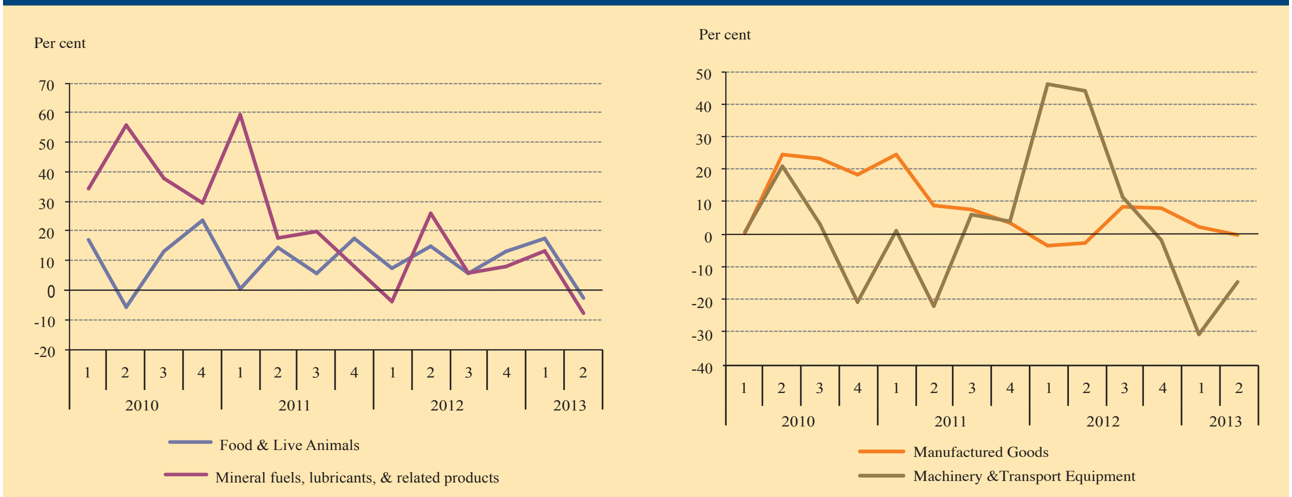
4.4 Balance of Payments Developments

The country's external sector imbalances persisted through 2013H1. As a percentage of GDP at market prices, the current account deficit remained at a persistently high level of 8.3 per cent reinforcing concerns about its sustainability. The country's overall balance of payments for the first two quarters of 2013, as measured by the change in reserve assets excluding valuation change, recorded a surplus of Rs15.7 billion.

The current account deficit widened to Rs14.3 billion in 2013H1, from Rs12.9 billion recorded in the corresponding period of 2012. The deterioration was largely due to a worsening trade balance, which was to some extent offset by the combined surpluses in services and current transfers. The trade balance in the first six months of 2013 fell by 14.6 per cent y-o-y to Rs30.2 billion.

During 2013H1, an improvement in the merchandise trade deficit was noted as it moderated by 14.6 per cent y-o-y, reaching Rs30.2 billion. The trade gap

Chart 4.12: Y-o-Y Growth in Imports by Selected Commodity Groups



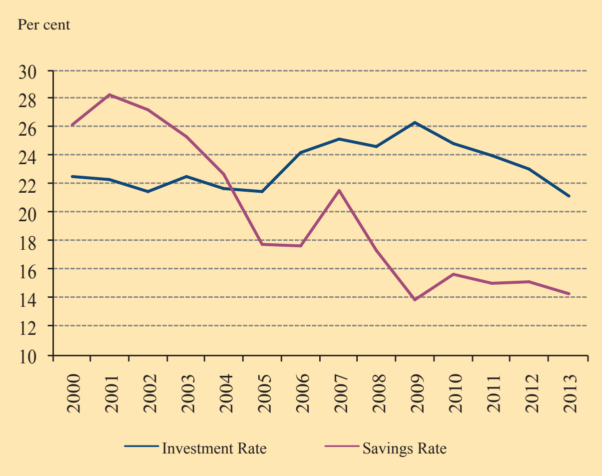
Sources: Statistics Mauritius

narrowed, with exports picking up, while imports of goods, *f.o.b* fell by 2.5 per cent. The services account registered a surplus of Rs12.8 billion in 2013H1, representing a y-o-y fall of 24.9 per cent, from Rs17.1 billion. Net travel receipts registered a fall of 14.1 per cent in 2013H1 to reach Rs15.8 billion, while inbound tourism registered a marginal rise of 1.0 per cent.

The income account, inclusive of GBC1 transactions, posted a surplus of Rs2.3 billion in 2013H1 compared with Rs3.2 billion in the same period the previous year. The lower surplus was largely attributed to a fall in net inflows of direct investment income and other investment income which more than offset the fall in net outflows from other portfolio income. The current transfers account posted a lower surplus of Rs0.7 billion in 2013H1 compared with 2012H1 mainly on account of lower private net inflows.

Reflecting the difference between domestic savings and investment, the current account deficit over the recent years can be explained by the significant fall in national savings from over 25 per cent of GDP in the early 2000s. For 2013, Statistics Mauritius has revised down the projected savings rate to 14.2 per cent from an earlier projection of 14.8 per cent, compared with 15.1 per cent in 2012 (Chart 4.14).

Chart 4.14: Investment and Savings Rates

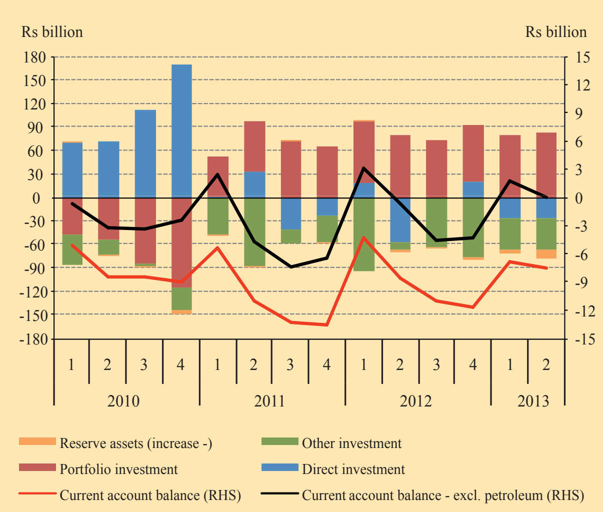


Source: Statistics Mauritius.

4.4.1 Capital and Financial Account

The capital and financial flows which were lower in 2013H1 relative to the corresponding period in 2012 remained adequate to finance the current account deficit. Inclusive of cross-border transactions of GBC1s, the capital and financial account posted a surplus of Rs13.2 billion in 2013H1 (Chart 4.15).

Chart 4.15: Financing of the Current Account Deficit



Direct investment, inclusive of cross-border transactions of GBC1s, posted net outflows of Rs53.0 billion in 2013H1 compared with Rs37.9 billion recorded in the corresponding period of the previous year. Excluding the cross-border transactions of GBC1s, foreign direct investment in Mauritius, net of repatriation, reached Rs3.9 billion in 2013H1 compared with Rs3.4 billion in the corresponding period of 2012. Residents' direct investment abroad, excluding cross-border transactions of GBC1s, increased to Rs1.7 billion in 2013H1 compared with Rs1.3 billion registered in the corresponding period of 2012.

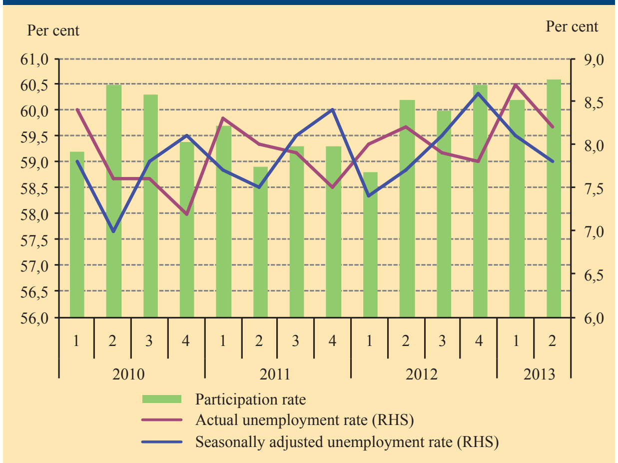
Portfolio investment, inclusive of GBC1s, recorded higher net inflows of Rs163.1 billion for the first six months of 2013 compared with Rs160.1 billion a year earlier. Excluding the cross-border transactions of GBC1s, portfolio investment posted higher net inflows of Rs4.0 billion compared with Rs3.3 billion in the previous corresponding period. Substantial repatriation of residents' portfolio assets from abroad largely drove the overall expansion in the net portfolio inflows. On the liabilities side, non-residents carried out net purchases of Rs0.8 billion on the Stock Exchange of Mauritius, including the Development Enterprise Market, in 2013H1 as against net sales of Rs0.1 billion in the same period of 2012.

Other investment, inclusive of GBC1s' cross-border transactions, posted lower net outflows of Rs81.2 billion during 2013H1, down from the net outflows of Rs105.1 billion in the corresponding period of 2012. The smaller deficit was largely attributable to banks' higher fall in foreign assets relative to their drawdown in foreign liabilities.

4.5 Labour Market Developments

The unemployment rate stood at 8.2 per cent in 2013Q2, down from 8.7 per cent in 2013Q1 but unchanged from 2012Q2. On a seasonally-adjusted basis, the unemployment rate was 7.8 per cent in 2013Q2, down from 8.1 per cent in 2013Q1 but slightly up from 7.7 per cent in 2012Q2 (Chart 4.16).

Chart 4.16: Unemployment Rate and Participation Rate

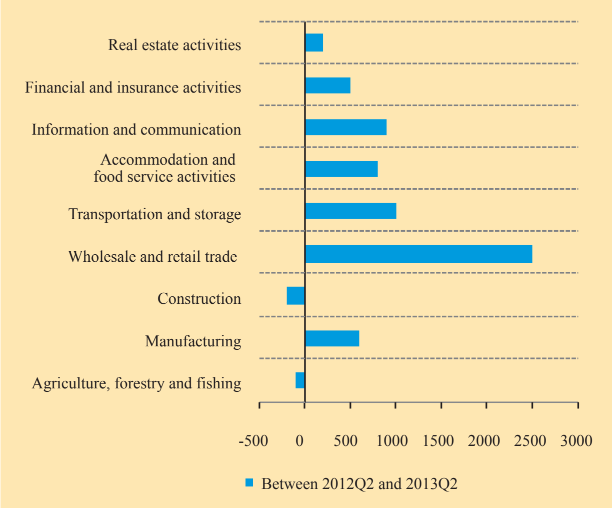


Source: Statistics Mauritius.

Gender imbalances continued to prevail in the labour market in 2013Q2, with the female unemployment rate (13.3 per cent) outpacing the male unemployment rate (4.9 per cent). However, while the male unemployment rate has remained almost unchanged since 2005, the female unemployment rate has declined. Further, among the 49,700 unemployed, 42 per cent were below the age of 25 years. Within the unemployed, 35.5 per cent had not obtained the 'School Certificate', while 20.3 per cent had reached tertiary level.

Over the year to 2013Q2, 9,700 jobs were created in the domestic economy. Among the main sectors, the highest number of jobs was created in 'wholesale and retail trade' (+2,500) followed by 'transportation and storage' (+1,000), 'information and communication' (+900), 'accommodation and food service activities' (+800), 'manufacturing' (+600) and 'financial and insurance activities' (+500) (Chart 4.17).

Chart 4.17: Change in Employment by Main Sectors



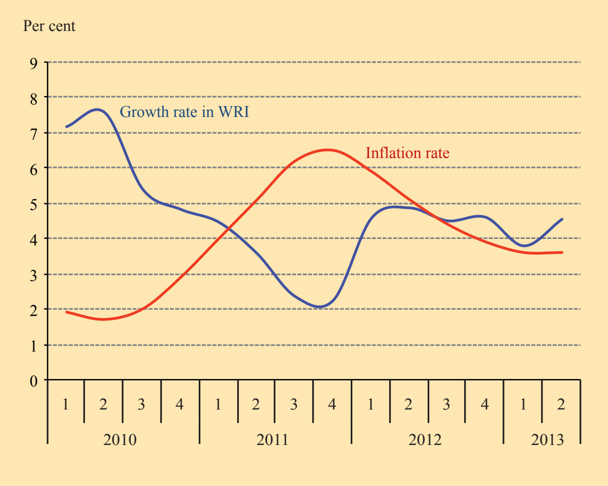
Source: Statistics Mauritius.

The labour market outlook has remained mostly unchanged since the last Inflation Report. The domestic economy is still characterised by labour market rigidities, namely the structural mismatch between available jobs and skills of the labour force. The unemployment rate is likely to remain at around current levels in the short to medium term as firms continue to be cautious of expanding capacity and employing more people in the present challenging economic environment. Additional cost pressures from higher transport prices coupled with potential demand for higher wages and actual wage compensations for the cost of living may also play a role in keeping employment down. The September 2013 MCCI business confidence survey showed that 11 per cent of entrepreneurs were planning to recruit in the coming months while 13 per cent were contemplating to lay off workers. Statistics Mauritius projects that the unemployment rate will increase to 8.3 per cent in 2013, from 8.1 per cent in 2012.

Wage Rate Index

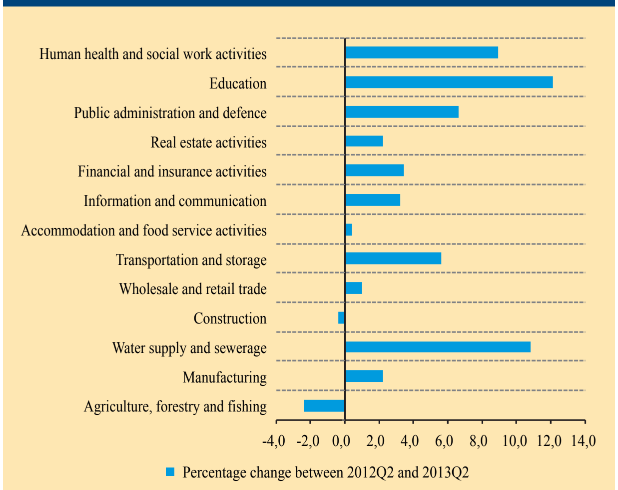
The Wage Rate Index (WRI) increased by 4.5 per cent y-o-y to reach 108.1 in 2013Q2. The increase in the WRI was higher than the y-o-y inflation rate of 3.6 per cent during the same period (Chart 4.18). The highest wage increases were recorded in 'education' (12.1 per cent), 'water supply, sewerage, waste management and remediation activities' (10.8 per cent), 'human health and social work activities' (8.9 per cent) and 'public administration and defence; compulsory social security' (6.6 per cent). Main decreases in wages were noted in 'agriculture, forestry and fishing' (-2.4 per cent) and 'construction' (-0.4 per cent) (Chart 4.19). On a q-o-q basis, the WRI rose by 1.2 per cent in 2013Q2.

Chart 4.18: Growth in Wage Rate Index and Inflation Rate



Source: Statistics Mauritius.

Chart 4.19: Change in Wage Rate Index

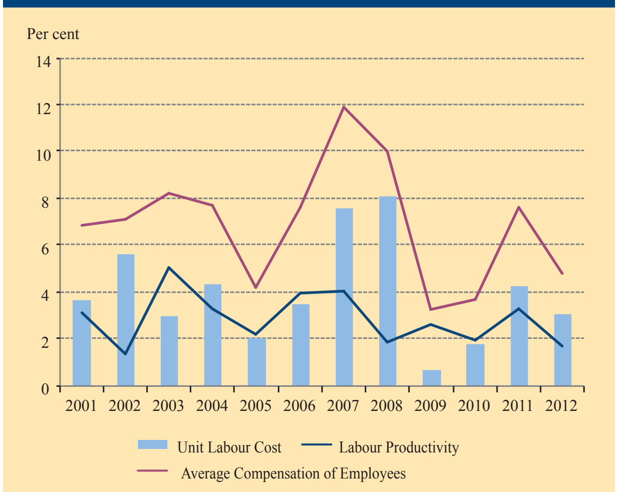


Source: Statistics Mauritius.

Productivity and Compensation

Wage developments in excess of inflation and productivity gains continued to pose the main upside risk to inflation in the medium term. Latest available data on productivity and compensation show that labour productivity grew at a lower rate of 1.6 per cent in 2012 compared with the 3.2 per cent recorded in 2011 while average compensation went up by 4.8 per cent relative to 7.6 per cent in 2011. The drop in productivity in 2012 was the result of a lower GDP growth of 3.4 per cent, coupled with a growth of 1.6 per cent in labour input. Unit labour cost increased by 3.1 per cent in 2012 compared with 4.3 per cent in 2011. In 2012, capital productivity declined by 0.9 per cent compared with a drop of 1.3 per cent in 2011. Multifactor productivity stagnated in 2012 compared with a marginal growth of 0.3 per cent in 2011. Both labour and capital productivity in export-oriented enterprises went up by lower rates of 4.3 per cent and 9.7 per cent, respectively, in 2012 compared with 2011 while unit labour cost increased by a higher rate of 1.7 per cent (Chart 4.20).

Chart 4.20: Average Compensation of Employees, Labour Productivity and Unit Labour Cost



Source: Statistics Mauritius.