Italy

Addressing present and future challenges

Italy continues to record a cycle of subdued activity, with the annual growth rate of real GDP slightly above zero, as a result of the feeble growth in services, the modest recovery in construction and the persisting contraction in the industrial sector. From Q1 2018 to Q3 2019, manufacturing production has fallen by more than 3%, with the strongest declines in the sector of means of transport, in that of metal products and in that of textile, clothes and leather items. Together with the short term slow down, Italy is going to face long term challenges due to the ageing population and its impact on the labour force and the pension spending.

Slowing exports, moderate growth

Since the beginning of 2018, Italy has been experiencing a cycle of subdued activity. In Q3 2019, real GDP rose by a mere 0.1% q/q for the fourth quarter running, despite a 0.3% positive contribution of stocks, with the annual growth rate slightly above zero.

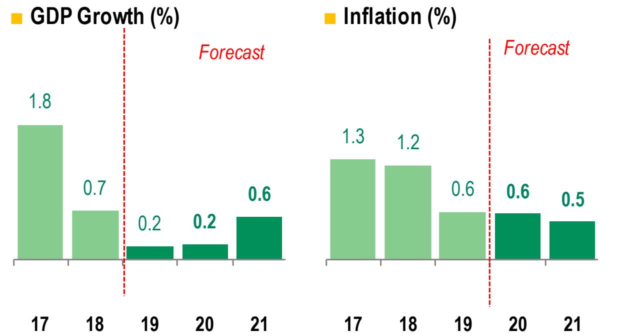
In Q3, net exports subtracted 0.4% from the overall GDP increase, as imports rose by 1.3% q/q, while exports declined by 0.1%. According to trade balance data, Italian exports have significantly slowed, reflecting the still weak international environment. In the first ten months of 2019, Italian sales abroad rose by 2.7% on annual basis, from +3.6% in 2018 and +7.6% in 2017, held back by Euro area slowdown. Exports to Germany, which account for about 13% of total, remained unchanged, suffering from the strong weakening of the manufacturing sector in this country, with sales of Italian metal products declining by more than 3%. On the contrary, the increasing risk of a no-deal Brexit supported exports to the United Kingdom, while those to the United States benefited from the strengthening of industrial activity, with sales of Italian machinery rising by 9%.

Strong consumption, feeble investment

In Q3, domestic demand added 0.2% to the quarterly GDP increase, as the robust dynamic of private spending more than offset the new contraction of investment. From July to September, consumption rose by 0.4% q/q, with the propensity to stay stable at around 9%. Household nominal disposable income continued to increase, benefiting both from the introduction of the “citizenship income” at the beginning of the year and from the further moderate improvement of labour market. In Q3, the number of persons employed rose above 25.5 million, the highest in the last twenty years, and that of hours worked partly recovered, despite remaining well below the pre-crisis level. Besides, the feeble dynamics of prices, with the annual inflation below 0.5%, has further sustained the evolution of the purchasing power of Italian households.

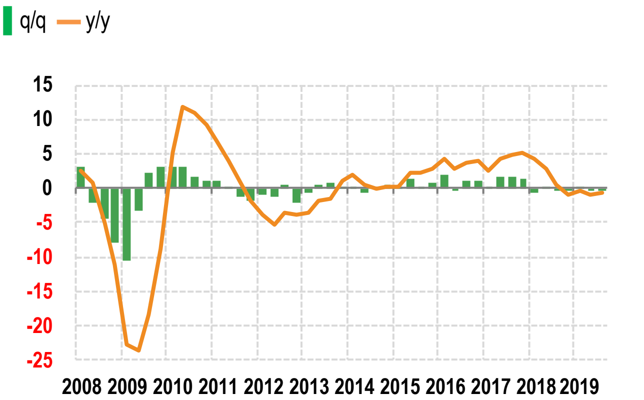
After having increased in the first half of 2019, also benefiting from the renewal of tax incentives, in Q3, investment declined by 0.2%, as those on means of transport strongly contracted and those on construction were virtually unchanged. Capital spending continued to suffer from the challenging evolution of profitability of Italian firms, which remained extremely cautious on their spending decisions. The propensity to invest, measured as the ratio between investment and value added, is still about 2.5 percentage points below the pre-crisis level, with USD 20 billion of lower annual capital expenditure.

1- Growth and inflation



Source: National accounts, BNP Paribas

2- Italy: manufacturing value added
(% change)



Source: BNL calculations on Istat data

Given the persisting uncertainty surrounding the economic and political scenario, Italian firms have further increased their buffer of liquidity, with the value of their bank deposits above USD 370 billion.

Manufacturing holds down economic growth

The still disappointing evolution of the Italian economy reflects the slightly positive growth of value added in services, the modest recovery in construction and the persisting contraction in the industrial sector. In Q3, value added of manufacturing declined by 0.2%, after -0.3% in the previous quarter, with the annual growth rate falling in negative territory (-0.6%), from +5% reached at the end of 2017. From Q1 2018 to Q3 2019, manufacturing production has declined by more than 3%, also as a consequence of the Germany industry slowdown. A strong contraction has been recorded in the automobive sector (-23%), in that of metal products (-7%) and in that of textile, clothes and leather items (-6.9%).

Ageing population poses new challenges

In the recent months the debate over the sustainability of public debt in Italy has gone hand in hand with the concern about the ageing of population and the challenge of maintaining adequate old age benefits while limiting fiscal pressure on current workers. The concern is all the more justified in Italy in the light of the burden of public pension spending, which in % of GDP is twice the OECD average: 16.2% compared to 8%.

According to the most recent OECD data, in Italy the old-age to working-age ratio amounts to 40 (i.e. there are 40 individuals aged 65+ per 100 persons aged 20-64), a value second only to the Japan's one (52). By 2050, that ratio in Italy is expected to reach 75.5, compared to 56 in France, 60 in Germany and 77.7 in Spain.

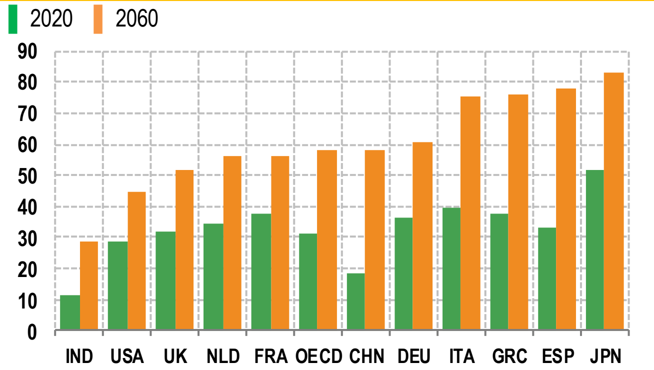
The evolution of such ratio depends, among other things, on the dynamics of the fertility rate, which in Italy has been decreasing for some years now. According to Istat, in 2018, 439,747 babies were born, about 18k less than in 2017 (-4%) and 140k less than in 2008 (-24%). The decrease in the number of new births is 67% due to the decline in the number of fertile women (those aged 15 to 49) that are today one million less that in 2008, and 33% to a decline in the fertility rate, from 1.45 children per woman in her fertile age in 2008 to 1.29 in 2018. Also declining is the contribution of migrant women to total fertility.

The decline in fertility has been accompanied by a decline in mortality, which has led to a significant increase in the life expectancy at birth in the country, from 66.5 years in 1950-55 to 83.3 years in 2015-20, one of the highest values in the world; above the OECD average is also life expectancy at age 65: 20.9 years against 19.7.

The increase in life expectancy has originated a significant increase in the proportion of the elderly people: the over-65 years old that in 1950 accounted for 8.1% of the total Italian population, in 2019 represented up to 22.8%. In the same period, the weight of the 0-14 years old class basically halved from 26.7 to 13.2%. Among the elderly people, 14,456 persons are at least 100 years old: a record value in Europe that Italy shares with France. In the decade between 2009 and 2019 the over 100 years old grew by more than 30%.

Italy has one of the highest future normal retirement age (71) among the OECD countries, along with Denmark (74), Estonia and the Netherlands (71). Like many other countries (e.g. the Netherlands and Spain) Italy has recently introduced measures (such as the so-called "Quota 100" Decree in 2019) which backtrack on previous policies that had been put in force to increase retirement age. "Quota 100" is a temporary measure applying until the end of 2021, which lets workers retire at age 62 provided that they have 38 years

3- Italy: average old-age to working-age ratio
(65+ years old per 100 people 20-64 years old)



Source: BNL calculations on OECD data

of contributions (instead of 67 years statutory required in 2018, with a contribution record of 42.8 years for men and 41.9 for women). The measure has a labour income ceiling aimed at limiting work incentive. According to INPS (the Italian National Welfare Institute) by November 2019 205,208 employed applied to access "Quota 100", mostly in the Southern regions. Among the applicants about 74% are men, 40% are less than 63 years old and 18% are over 65 years old. According to some preliminary analyses most applicants are residents in provinces characterized by high levels of unemployment and lower-than-average per capita value added.

Besides the burden it represents for public spending, the Italian pension system has some important shortfalls that deserve to be corrected: first and foremost, the impact that career breaks have on final pensions benefits. The close relationship between individual contributions and benefits in Italy's notional defined contribution scheme makes any career break particularly painful: according to OECD estimates, a 5 years break in the career of an average worker in Italy leads to a 10% decrease in his/her pension, against about 6% in OECD average. The problem is amplified by the spread that temporary jobs have had in the recent years. According to Istat, the share of temporary employed on total employment steadily increased from 13.5% in Q2 2008 to 16.9% in Q2 2019. Also increasing is involuntarily part time employment, while the number of self-employed workers, although slightly declining from 2008, is still significantly higher than OECD average (20% compared to about 15%). This difference is relevant, as self-employed pay lower contribution rates and receive, on average, lower pension than retired employed. This gap reaches the maximum of 30% in Italy, along with Germany and France.

.

Paolo Ciocca
paolo.ciocca@bnlmail.com

Simona Costagli
simona.costagli@bnlmail.com