# Chapter 1
# Macroeconomy and society

## The international economic cycle

- Over the course of 2012 the international economy continued to slow down, with a 3.2% GDP growth as against 4% in 2011. Albeit with different intensity and modes, this slowdown involved almost all major areas. Trade in goods and services reflected the world economic trend, although some signals of recovery appeared at the end of the year.
- In the Euro area, the worsening of the financial crisis due to the management of the sovereign debt and concerns about the sustainability of the Monetary union affected the economic trend. Over the course of 2012, recession spread to most countries of the Monetary union and on average in a year the area's GDP registered a fall of 0.6%.
- At the beginning of 2013 there has been a relative improvement in the short-term outlook, with expectations of economic recovery in the second quarter of this year.
- Economic activity slowed down also among the main emerging countries, albeit with different dynamics. In Asia, the slowdown has been driven by the performance of the Chinese economy, which, however, in the latter part of 2012 showed a moderate acceleration.
- There are many factors of uncertainty that influence the development of the international economy. The persistence of high levels of private debt in the major developed economies, along with unfavorable conditions in the labour market are among the most important ones.

## The Italian economy

- In 2012, GDP registered a 2.4% decrease in real terms, mainly due to the fall in domestic demand. The net foreign demand held steady thus, contributing positively to the growth of economic activities
- Domestic demand net of inventories negatively affected GDP growth by 4.8 percentage points, with a negative contribution of 3.2 percentage points for the final national consumption and 1.6 points for gross fixed capital formation. The process of destocking, too, had a negative 0.6 percentage point contribution. The only component that gave a positive impetus was the net foreign demand (three percentage points) thanks to a sharp decline in imports and an increase, albeit limited, in foreign sales.
- The purchasing power of households decreased by 4.8%. It was an exceptionally sharp fall that came after four years of continuous decline. In particular, a significant decrease in entrepreneurial income and the tightening of tax burden contributed to this trend

- To compensate for declining disposable income, households reduced current expenditure on consumption by 1, 6%: this corresponds to a 4.3% decrease of the volume purchased, the sharpest since the early nineties.
- At the same time the propensity to save decreased and now stands at levels significantly lower than German and French households and closer to the UK’s level , traditionally the lowest in Europe
- In the first four months of the year there were signs of continued weakness in in economic activity. The Economic Sentiment Indicator (ESI) remained at historically low levels, orders and demand were still not satisfactory to the majority of entrepreneurs in manufacturing and service sectors, while economic expectations remained depressed.

## Deprivation and economic disadvantage

- In the last quarter of 2012, indicators of material deprivation and economic hardship of households marked a further deterioration after 2011. People in severely deprived households (ie families who show four or more signals of deprivation out of a list of nine) doubled in two years, from 6.9% in 2010 to 14.3% in 2012; those with three or more were 24.8%
- In 2012, the gap between the South and Islands and the rest of the country continued to increase: material deprivation increased by more than three percentage points in a year affecting 40.1% of the population; while severe deprivation grew by more than five percentage points and affected one in four persons(25.1%).
- A trend started in 2011 is confirmed in 2012: the severe material deprivation began to affect not only individuals with lower household incomes, but also those with higher average incomes. About 48% of individuals in condition of severe material deprivation came from the first fifth of equivalent income (the lowest incomes); last year, however, more than a quarter of them stood in the fifth of higher income (from the third onwards).
- Over the past two years, 25.2% of the population experienced a condition of severe material deprivation at least once: 6.2% in both years, 19% in only one of the two years.
- Due to the crisis, aid in cash or in goods received by people in condition of material deprivation from relatives, friends or institutions reduced from 19% in 2011 to 18% in 2012.

## Household expense reduction strategy

- In 2012, the number of households who adopted strategies to reduce the quantity and/or quality of food products purchased rose to 62.3% (almost nine percentage points higher than the previous year).
- Couples with children, single parent households and those with aggregate members (more than 64% of such households) are the types of households who in 2012 strictly reduced their food consumption.

- In 12.3% of cases, households choose to buy food items in hard discounters, especially in the North area.
- In the South and Islands households who reduced the quantity/quality of food purchases in 2012 rose to 73% from 65.2% in 2011. In the North, this strategy involved 55.5% of households (with an increase of nearly 10 percentage points), against 61.8% in the Centre.

## Import-export trade

- Contrary to what happened during the 2008-2009 recession, in 2012 exports contributed positively to growth, albeit at a slower pace during the course of the year. In a context of general slowdown in global demand, Italy was with Spain the leader among the major economies of the Eu in foreign trade (+3.7%). Germany and France showed less significant dynamics (+3%), while in the UK the increase was rather modest (1%).
- In 2012, Italy achieved a positive trade balance of 11 billion euro; net of energy products, the surplus reached 74 billion, a significant expansion over the previous year.
- Foreign sales of non-durable consumer goods and capital goods showed signs of greater resilience; unlike durable consumer goods and especially intermediate goods.
- In 2012, imports of goods and services decreased by 4.9% at current prices and by 7.7% in volume, with a stronger contraction for goods (-8.3% in volume) than for services (-5% by volume).

## The production sector

- The contraction of domestic demand affected all the main economic sectors, causing a deep and generalized fall in value added. At the end of 2012 production levels are only slightly higher than those recorded during the 2008-2009 recession.
- The crisis has particularly affected the construction sector followed by agriculture and industry. The only growing sectors were arts and entertainment activities and repair of household goods, while financial and insurance activities were steady.
- Over the last two years, the manufacturing sector showed a wide gap between the negative trends in domestic market sales and the expansion of foreign ones.
- The recession also involved the services sector, though with less intensity than that recorded for the manufacturing sector. It is worth noting the significant reduction in holiday trips, especially to domestic destinations, against an increase in foreign tourists.
- Between 2008 and 2012, residents made 36% trips less and reduced by 29.1% the nights spent travelling, mainly for economic reasons.
- Compared to 2008, in 2012 leisure trips and short holidays (-42.2%) dropped.
Domestic destinations registered a 39.4% decrease, while the international ones only 18.2%.

In order to contain costs, those who travel prefer direct booking to travel agency intermediation, which in fact recorded a 46% decline of travel booked.

- The sharp decline in household spending had a negative effect on retail sales (-1.7% in 2012). In particular, the food sales drop (-1.7% only in the last quarter of 2012) is a clear sign of the severity of the crisis.
- In the construction sector, contraction of production continued for the fifth consecutive year. The recession has further worsened during 2012, resulting in a sharp reduction in employment levels in the sector.
- The crisis in the sector is well evident from the sales volumes, which indicate the sharpest y-o-y reduction of trade in all market segments since 2004. Overall in 2012, transfers of ownership of real estate units dropped by 22.6%
- A downward trend was also reported for prices of residential properties purchased by households for housing and investment purposes; in the last quarter of the year they decreased by 4.6% compared to the same period last year.

## The labour market

- The performance of the labour market in 2012 was influenced by the continuing decline in economic activity. The relatively small fall in employment (-0.3%, equal to 69,000 units) resulted in a decisive reduction in hours worked and a consistent use of the Cassa Integrazione Guadagni (Cig, temporary state layoff funds).
- The employment reduction was particularly high in the construction sector (-5%) and less pronounced in the agricultural sector (-0.2%).
- In this context, only fixed-term employees (+3.1%) and part-time workers (+4.1%) increased, while the increase in female employment (+1.2%) was mainly due to longer working lives following pension reforms.
- The unemployment rate, at 9.6% in January 2012, reached 11, 5% in March 2013, also following the significant reduction in the inactivity rate. The youth unemployment rate rose to 35.3% from 29.3% in 2011, while the long-term unemployment rate (ie the share of people seeking work for over one year) reached 5.6% (+1.3 percentage points compared to 2011).
- The ratio of layoffs hours to actual hours worked in 2012 increased and in the last quarter reached 82.7 per thousand hours in companies with at least 500 employees, and 69.4 hours in firms with 10-499 employees. In the services sector, the use of Cig rose less than in the industry one: enterprises with 10-499 employees (21.1 hours Cig per thousand hours worked) recorded the highest share.
- Entrepreneurs’ short-term expectations on employment, recorded during the trust survey in March 2013, show signs of stabilization and do not forecast any further deterioration in employment in the coming months.

## Inflation

- On average in 2012 inflation stood at 3%, two tenths of a point more than in 2011.
- The growth of consumer prices in Italy was was among the sharpest within the Emu, second only to that of Slovakia and Estonia. The differential with the euro area average stood at 0.8 percentage points, compared with two-tenths of 2011, mainly due to the energy component and increases in indirect taxes and excise duties.
- Throughout most of 2012, prices of most frequently purchased consumer goods increased at a rate of over 4%. Since autumn there has been a reversal of the trend that reinforced at the beginning of 2013.
- In early 2013, the inflation reduction process intensified and the gap with the euro area average inflation is filled in.

## Public finance in Europe and Italy

- Italy continued the process of fiscal consolidation; the net borrowing to GDP ratio fell back below the threshold of 3% from 3.8% in 2011.
- The improvement in the deficit/GDP ratio was achieved thanks to an increase in revenue (+2.5%), which has more than offset the increase in expenses (+0.7%). In relation to GDP, revenue grew by a percentage point and a half, the expenses by 0.8 percentage points, mainly due to the increase in interest expenditure (+10.8%).
- The progress made, however, were not sufficient to stop the growth of the ratio of government debt to GDP, which reached 127% (+6.2 percentage points compared to 2011), a value well above the Emu average. The debt/GDP ratio increased in all major European countries, especially in those that contributed most to the financial support of EMU countries through the European Stability Mechanism and the European Financial Stability Facility.
- In Italy and France, there was the greatest increase in the tax burden, which amounted to 44% and 46.9%, respectively, values which were higher than the euro area average and among the highest in the European Union.