



THE CHANGE IS AFOOT  
The outlook for Italian exports



On the cover:

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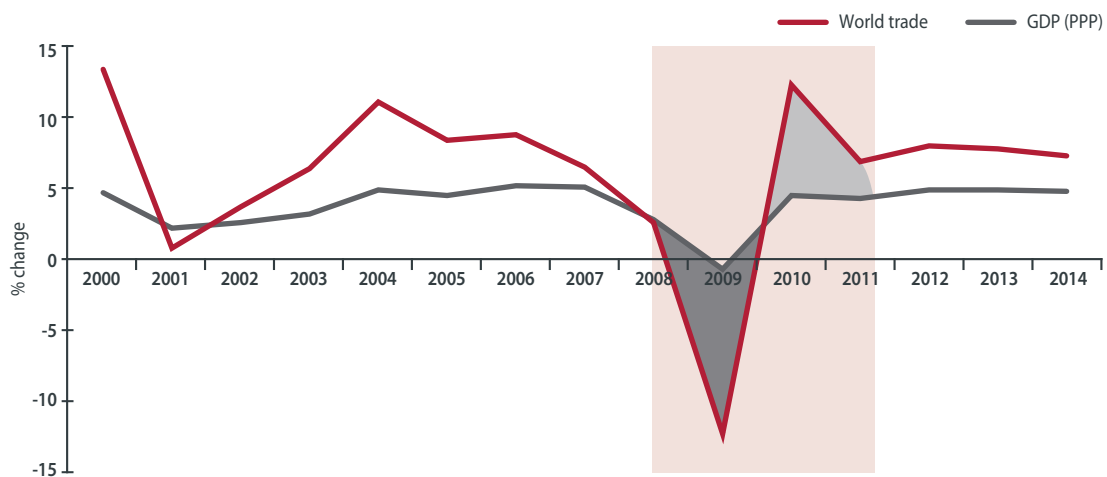
# I . EXECUTIVE SUMMARY

*"The pessimist sees difficulty in every opportunity; the optimist sees the opportunity in every difficulty"*

Winston Churchill

The ratio of world trade to GDP has risen in recent decades and now, after rebounding following a dip connected to the financial crisis, it is set to accelerate. World trade is expected to have advanced 12.5% in 2010, an increase that far out paces the 4.4% growth in world GDP (4.4%).

**Fig. 1 World trade and growth**



Source: Calculations by SACE based on Oxford Economics data.

**States intervened to save the markets, now who's going to save those states?** The EU and IMF have adopted measures to enable Greece and Ireland to avert bankruptcy. The countries of Western European have implemented restrictive fiscal policies to control large government deficits caused by increased spending to save banks and to finance anti-crisis support measures. Companies are still not working at full capacity and consequently unemployment remains high. While credit availability has improved, there is still a shadow of concern over the economic recovery and banks continue to exercise greater selectivity in the face of an increase in non-performing loans. All of these factors contribute to the risk of a slowdown in world growth, which is forecast to stand at 4.4% in 2010 and 4.2% in 2011. Financial markets will also remain in flux due to the tension created by growing public debt.

*Risk of a slowdown in world growth.*

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**More volatile exchange rates also constitute a risk.** There is downward pressure on the dollar, following the Federal Reserve's use of "non-conventional" monetary policies to increase the money supply. These measures, and the Chinese exchange rate management have led to an increase in the value of currencies such as the yen, the Brazilian real and other emerging currencies that float freely. The euro responded quickly to America's monetary policies but also to important weaknesses in the eurozone. The USD/EUR exchange rate is expected to average 1.30 in 2011 and in 2012. Unless there is some form of international coordination some in the foreign exchange market, countries could resort to protectionist measures that would hamper the economic recovery.

*Italian exports of goods: +8.3% in 2010-2011.*

**The full recovery of Italian exports of goods and services will arrive in the first quarter of 2013** when the value returns to the level reached in the first quarter of 2008. Following a 19.5% drop in sales of goods and services in 2009, these are forecast to grow by 7.1% in 2011. Exports of goods will increase by an average of 8.3% in the three-year period, a faster pace than what is expected for services. This growth will not be enough to prevent Italy from gradually losing market shares.

### ***The change is afoot.***

*Although exporters were badly affected by the crisis, there have been signs of reaction, with evidence of a shift in focus towards high-growth markets. This does not apply across the board, but only to enterprises that had restructured prior to the crisis.*

*According to some preliminary findings of surveys conducted by Banca d'Italia, these companies were less exposed to the slump in demand and the drop in profitability. The crisis did not manage to cancel the positive effects of the restructuring.*

**The geographical spread of exports will change**, albeit more slowly than the shift in world trade. The share of exports to advanced countries will continue to fall (from 61% in 2009 to 58% in 2014); the weight of the “advanced” emerging economies, which include the BRIC countries and, among others, Turkey, South Korea and Poland, will increase. Intermediate and capital goods are expected to account for a greater share of total exports (rising from 27.3% to 30% and from 40.7% to 41.5%, respectively), while in the weight of consumer goods will be restrained.

**Credit insurance can help sustain these changes.** Italian exports will look increasingly to emerging markets where it will be important for commercial offerings to include risk coverage and competitive financing packages. Financial and insurance products can make it easier for companies, especially smaller ones, to get access to credit to fund their internationalisation projects.

**The perception of “Made in Italy” is also an issue.** According to a recent study by the ISPO research centre, both importers and Italians alike consider food and wine, fashion and fashion accessories to be the most representative Italian products. This perception gives only partial insight into the strengths of Italian exports, which also perform well in less traditional sectors where growth will speed up in the coming years.

**The “advanced” emerging markets will offer the best prospects for more traditional Italian products (table I).** The expected growth will be well above average in all three of the more traditional sectors: food and beverages (average growth of 6.4% in the five-year period 2010-2014), furniture (+7.3%) and fashion (+6.7%). There will also be some good opportunities in the emerging markets that are just embarking on the early stages of development. The fashion sector shows a varied picture. Demand for luxury goods, especially accessible luxury goods, will grow quickly. At the same time, exports of more standard products will be exposed to harsher local competition. The demand for fashion products will continue to wane in advanced countries, although demand for high-end luxury and accessible luxury goods will be relatively stable.

*The crisis: impact on companies, markets and sectors.*

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**Table 1. Outlook for Italian exports\***

	Advanced	Advanced Emerging	Emerging
<b>Made in Italy</b>			
Food and beverages	↔	↑↑	↑
Furniture	↓↓	↑↑	↔
Fashion	↓↓	↑↑	↑
Luxury	↔	↑	not significant
Accessible luxury	↔	↑↑	not significant
Standard	↓↓	↓↓	↓↓
<b>"New" Made in Italy</b>			
Mech. engineering	↓	↑↑	↓

Extremely positive    Positive    Negative    Extremely negative    Stable

↑↑↑    ↑    ↓    ↓↓    ↔

\*Forecast period 2010-2014. This qualitative data is based on expected growth rates for each area with respect to the world.

Source: SACE.

*Italian exporters will look increasingly to "advanced" emerging markets.*

**The "advanced" emerging economies will also be an important driving force for Italian capital goods**, including mechanical engineering. The development of stronger industrial capabilities by these countries will further boost Italy's leadership in many machinery and equipment building industries. Growth will not be as dynamic in the emerging markets, where the increase in Italian exports will fall slightly short of the world average (+6.3% in the five-year period 2010-2014). Demand in industrialised countries is a more complex picture and will mainly be driven by the need to replace equipment rather than to expand production plants. However, in some individual markets, such as Germany and the U.S., Italian exports will continue to enjoy brisk growth.

**The scenario is somewhat varied for the Italian industrial districts.** Up until now those specialised in food products have enjoyed the fastest recovery, along with some fashion districts, although performance is extremely variable with complete recovery by some and others lagging far behind. Notwithstanding some good results in 2010, the outlook for foreign sales of tiles is uncertain due to difficulties affecting property markets in several key economies. Exports by districts specialising in furniture and mechanics continue to be slack, with the prospects for the latter somewhat brighter.

**Global recovery is geographically fragmented, reflecting the diverse impact of the crisis.** The best performance will be achieved by the emerging markets of Asia and Latin America, where GDP will grow at an average rate of 8.7% and 4.6% respectively in 2010-2012. The Middle East and North Africa are enjoying stronger economic growth thanks to increased government spending. With the introduction of economic reforms and robust demand for raw materials, the economic outlook for Sub-Saharan Africa is good, despite the severe shortage of infrastructure. Emerging Europe, one of the areas worst hit by the crisis, is benefitting from a rise in international trade, although domestic demand continues to be weak. Recovery in the advanced countries is slower and more diversified: the U.S. appears more reactive than the eurozone but both are burdened with high fiscal deficits.

**It will be some time before the increase in middle-class consumers in the emerging economies, especially in Asia and Latin America, has any effect on consumption levels.** As incomes rise over the next few years, there will be more people in the middle class, although their incomes will not be high enough to enable them to buy sophisticated consumer goods. In order to benefit from an increase in demand, exporters will have to focus on upper middle class consumers, and adapt their products to their purchasing power and local needs.

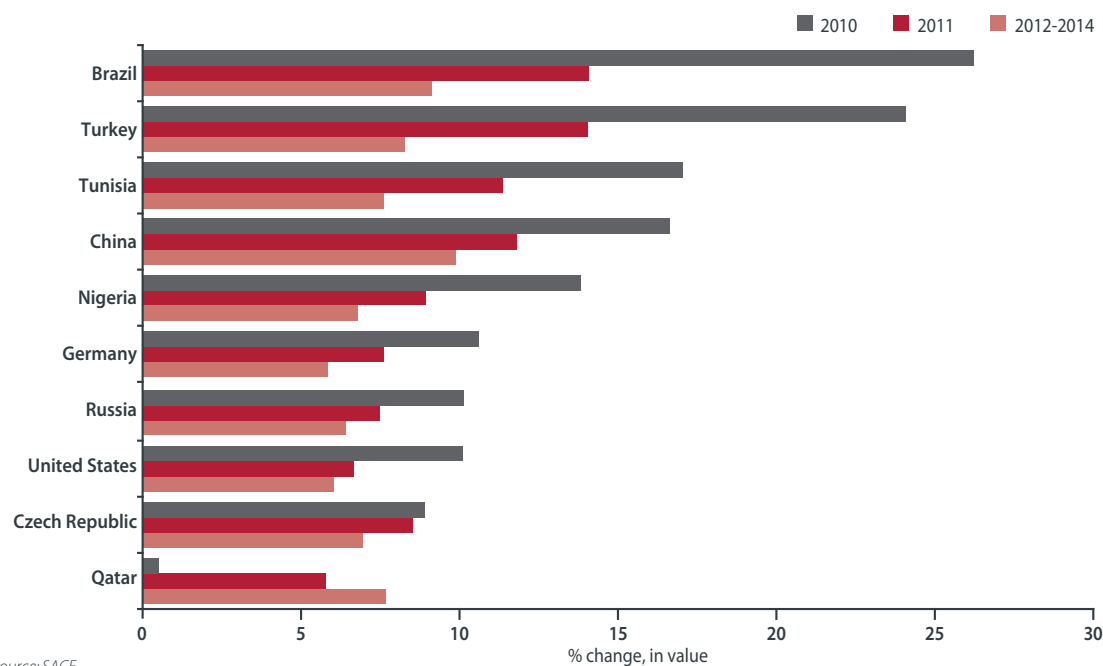
**Emerging Asia and Latin America will also drive growth of Italian exports (average growth of 10% and 14.2% respectively for 2010-2012).** After contracting very slightly in 2009, Asia continues to be Italy's third-biggest export destination thanks to well-established markets such as China and India (average growth of 13.1% and 12% respectively for 2010-2012), as well as developing economies such as Indonesia and Malaysia. In Latin America, where sales recovered at a decidedly positive pace in 2010, exports to Brazil will enjoy substantial growth (average growth of 16.9% for 2010-2012) thanks to the surge in demand for manufactured goods and mechanical engineering. Chile is also a fast growing market worthy of note (11.1%).

*Asia: middle class from 23% to 40% by 2020.*

*Exporters are looking to new markets alongside traditional destinations.*

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Fig. II Top exporters by region



Source: SACE.

*Exports to Africa will grow by an average of 7.5% in 2010-2012*

**While all of the Africa has reacted positively, the Middle East is paying the consequences of the property bubble.** In North Africa, where the average growth rate for 2010-2012 is 7.6%, Italian exports are driven by demand from Tunisia, particularly for intermediate goods. The outlook for Algeria and Libya is also good. The gradual urbanisation of Sub-Saharan Africa represents an opportunity for Italian exports, which will rise by an average of 7.4% in 2010-2012. However, sales are concentrated in three countries, Angola, Nigeria and, above all, South Africa. Export growth to the Middle East will be shrink again in 2010 (-2%), before starting to recover in 2011-2012 (+5.8%). Saudi Arabia and Qatar will continue to be the most dynamic markets.

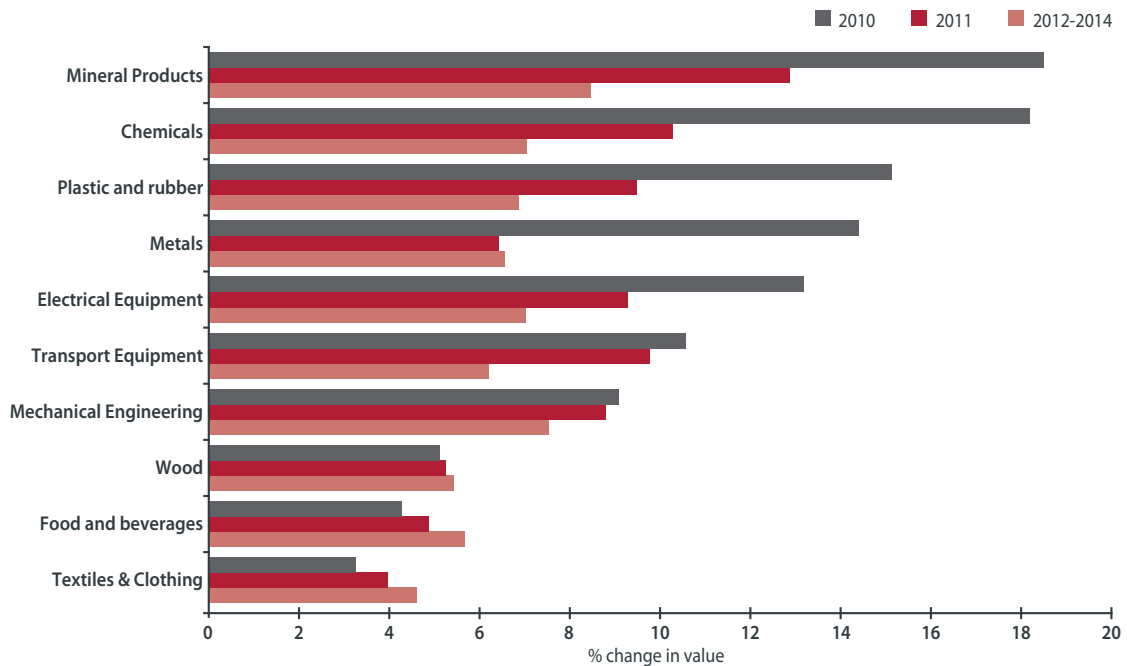
**Exports to the advanced markets and to emerging European countries will recover more slowly, by 7% and 8.4% respectively in 2010-2012.** It will be some time before the advanced markets recover to pre-crisis levels, enjoyed before the sharp fall in demand. The performance of exports to Europe will vary. The recovery of production in Germany will boost Italian exports, especially of intermediate goods. Exports to Belgium, France and Sweden will grow faster than the regional average. Demand in the U.S. has benefitted from

the depreciation of the euro against the dollar at the end of 2009. In emerging Europe, Turkey and Russia continue to be strategic markets, with average exports in excess of € 7 billion. even with a slower dynamic than in previous years (average growth of 7.1% for 2010-2012), the country will still be the main destination market in the region.

**Intermediate and capital goods will drive Italian export growth.** As good predictors of future activity, the former have reacted to signs of recovery of industrial activity. On average, intermediate goods exports will rise significantly (11.3%) during the three-year period 2010-2012, exceeding the overall rate for goods (8.3%). Exports of intermediate goods will be driven by mineral products (13.9%) and chemicals-pharmaceuticals (12.3%). World demand for capital goods will peak in 2012-2013, with the complete recovery of investment activity in the advanced markets. Italian exports in this sector will rise by an average of 8.7% in 2010-2102, in line with last year's forecast. Economic recovery will bring opportunities for electrical equipment and mechanical engineering, which in 2012 will rise above pre-crisis levels.

*Capital goods will pick up from 2012.*

**Fig. III Growth of Italian exports by sector**



Source: SACE.

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*Machine tools and machinery for the food industry are the top performers in mechanical engineering.*

**Agricultural and consumer goods will show more moderate growth,** increasing by 5.7% and 4.9% respectively over the 2010-2012 forecast period. The agri-food sector approached pre-crisis growth already in 2010. Consumer goods will grow more slowly due to increased competition from Asia. Exports of textiles and clothing will grow no more than 5%, but the recovery will award those companies which implemented restructuring projects prior to the crisis and those exporters operating in accessible luxury goods.

**Mechanical engineering will continue to be one of the pillar of Italian exports.** Despite a significant drop in sales, Italy remains a key player in this field. As the world fourth-biggest exporter of mechanical engineering with a 9% market share, Italy's success in this sector is based on its ability to integrate traditional aspects of machinery production (good quality and high-level specialisation and customisation) with marketing strategies that have proved crucial. In addition to the traditional import markets of France, Germany and China, Italian mechanical engineering exporters are looking increasingly towards new markets such as Russia, Poland and Turkey, where demand is dynamic even in difficult times. According to Prometeia, this sector will experience average growth of 7% in 2011, with machine tools (+6% in 2010 and +7% in 2011) and machinery for the food industry (+4.6% in 2010 and +4.5% in 2011) attaining the best results.

**The forecasts for Italian exports have highlighted promising opportunities for certain sectors in some geographical areas (Table II).** Average growth rates for these combinations over the three-year period 2010-2012 are: 19.4% for rubber and plastic in Turkey; 15.6% for mechanical engineering in Brazil; 14% for electrical equipment in China; 12.3% for chemicals in Germany; 7.5% for wood in Russia. Other markets are potential sources of opportunity, with sales in specific sectors currently fairly low but growing fast. Average growth rates for these combinations over the three-year period 2010-2012 are: 13.7% for electrical equipment in Malaysia; 11.4% for mechanical engineering in Chile; 11% for means of transport in South Africa; 5.9% for textiles and clothing in Egypt.

*Table II Opportunities by geographical area and sector*

Country - Sector	Rating	2010	2010	2011-12	Opportunities
	SACE	€ bn	% change	% change	
Russia - Wood	M2	890.4	9.3	6.6	Furniture for the tourist sector
Egypt - Textiles and clothing	M2	97.0	5.4	6.2	Yarns and textiles
Germany - Organic chemicals	L1	3,777.6	18.9	9.1	Pharmaceuticals and organic chemicals
Turkey - Plastic and rubber	M2	524.5	29.7	14.3	Motor vehicles and manufactured goods
Tunisia - Metals	M1	388.3	30.0	11.9	Copper products
Brazil - Mechanical engineering	L3	1,297.8	23.9	11.5	Machinery for industry
Chile - Mechanical engineering	L3	281.8	19.5	7.4	Machinery for building infrastructure
China - Electrical equipment	L3	629.1	20.0	11.1	Expansion of the power sector
Malaysia - Electrical equipment	M1	122.9	24.2	8.5	Input for component production
South Africa - Means of transport	L3	133.9	14.5	9.3	Motor vehicles and components

Source: SACE.

**We cannot rule out the possibility of a stronger euro, although this is less likely than the baseline scenario** despite the increased volatility of exchange rates linked to uncertainty about public finances in some of the region's weakest markets. A 10% appreciation of the euro against the dollar in 2011, with a relatively stable exchange rate the following year would produce a two percentage point fall in the growth of the value of goods exported for the two-year period 2011-2012 (which would decrease from +7.4% in the baseline scenario to +5.1%). Should China decide to speed up the revaluation of the yuan, this impact of the weak dollar would be mitigated and the reduction in the value of exports would be only 1.6 percentage points. Exports of consumer goods would be most negatively impacted, especially in the fashion sector, as well as sales of goods to North America and the Middle East.

*A strong euro would put consumer goods at risk.*