

Scenari

Newsletter by SACE Economic Research

special
issue



contents:

The financial crisis has affected the real economy, through a very sharp fall in international trade volumes. Italian exports has suffered such decline in global demand and has experienced an impressive contraction in 2009.

SACE estimates the world economy to start recovering, although slowly, in the last quarter of the current year. The recovery will come from emerging markets first and then advanced economies will follow.

The pick-up in international trade is going to have a positive effect on Italian exports. We forecast the dynamic of our foreign sales to move back into positive ground in the 2010-2011 period in all markets and sectors. The value of the export of goods is expected to increase by 5.7% in average.

Exports of investment and intermediate goods will record the best performances, with average growth in sectors of both groups of almost 7%.

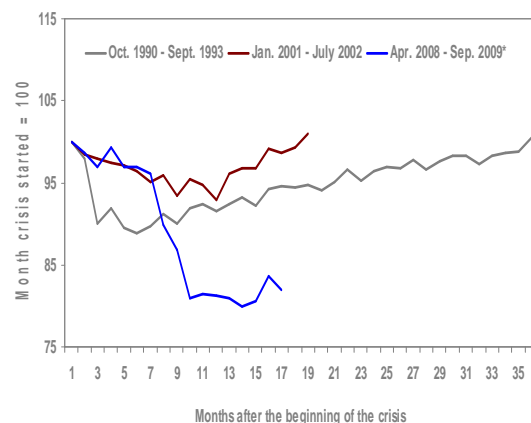
Asia will be the best performing area for the Italian exporters (+8.3%, in average in 2010-2011) but important opportunities will be also in Latin America.

Exploring new sources of demand

The financial crisis has spread to the real economy, affecting all countries worldwide. The advanced economies, where the crisis started, experienced a sharp recession; their GDP will record showing negative growth in 2009. The emerging markets were hit by the repercussions of the recession mainly through the trade channel.

International trade has contracted at historically huge levels. Compared with previous recession, 1990-1993 and 2001-2002, the downturn is even more impressive. After seventeen months since the beginning of the crisis, international trade has experienced a fall 18%, against -5.4% and -1.4% observed respectively in 1990-1993 and in 2001-2002.

Decline in international trade: a comparison (volume)*

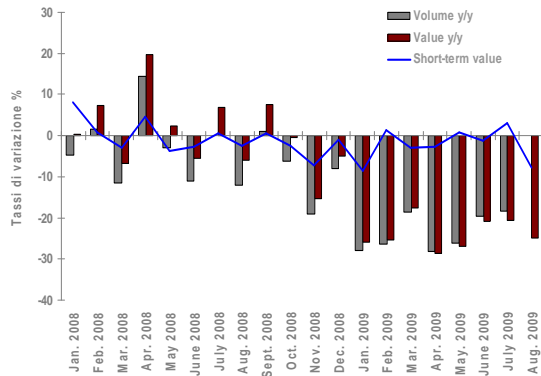


*latest available data
Source: SACE calculations on IMF and Netherlands Bureau for Economic Policy Analysis data

Italian exports have been deeply affected, falling both in volume and value terms. Since April 2008 – when the slump in international trade began – exports started decreasing sharply, yet

the recession effects became completely evident only in January 2009. In the first eight months of 2009 export decreased 23% year over year. In that period the so called "price effect" disappeared, due to two causes: the decline in commodity prices, started in the second half of 2008, and the firms behaviour of reassessing prices to keep their market share, even though losing profitability.

Marked contraction for the Italian exports of goods*



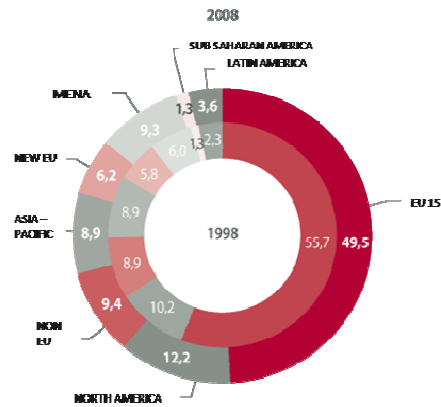
*Data for volumes are available only up to July 2009

Source: Istat (Trade Statistics).

The structure of Italian exports has changed in the last ten years, but not too much. The export-by-destination structure changed more than the export-by-sector one, showing a little but significant variation. The main geographical area remains the EU 15, with 49.5% of total exports in 2008 (55.7% in 1998). By adding up this share to the one of North America (12.2% in 2008), it clearly keeps emerging that advanced economies are our most important markets. The weight of sales to emerging Europe, both "new" EU and non-EU, increased by just 1 percentage point over the last ten years. The importance of this area for Italian goods is however increasing well. Among other emerging economies, the share of export to MENA increased from 6% to 9.3%, mainly due to the demand of oil-

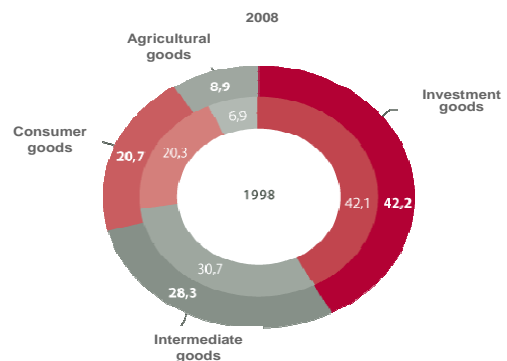
producing countries. It was unchanged in Asia and Pacific (8.9%) and Sub Saharan Africa (1.3%). The share increased instead in Latin America, although remaining low (3.6% in 2008). Sector specialization remained mostly the same, with investment goods representing the first Italian export group of industries (42.2%), followed by intermediate goods (28.3%), consumer goods (20.7%) and agricultural goods (8.9%).

Export by geographical area (in % of total)



Source: SACE calculation on Istat data (Trade Statistics)

Exports by group of industries (in % of total)



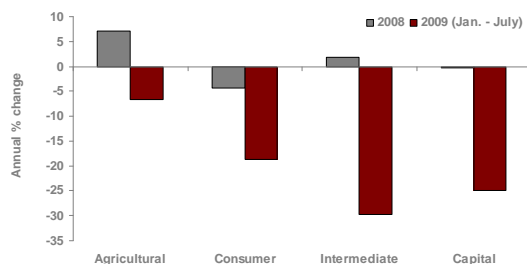
Source: SACE calculation on Istat data (Trade Statistics)

High commodity prices in the first half of 2008 sustained export values, so that performance at the year-end was not overly negative. Consumer

goods reported the worst results, -4.3%, reflecting the contraction in demand from advanced economies; Italian exports to these countries collapsed first, and sales in emerging markets followed.

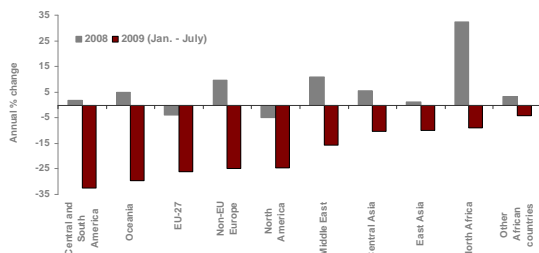
In the first seven months of 2009, intermediate goods suffered the longest (-29.7%), deeply affected by trends in downstream sectors. Investment goods experienced the second worst performance (-24.8%), caused by a reduction in demand by the main destination markets. Agricultural and consumer goods contracted respectively of -6.6% and 18.6%.

The crisis affected consumer goods and advanced economies first...



Source: SACE calculations on Istat data (Trade Statistics)

...expanding then to all markets and sectors

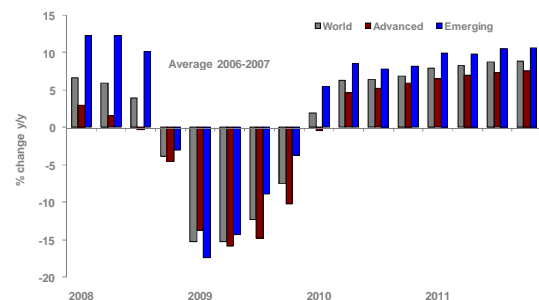


Source: SACE calculations on Istat data (Trade Statistics)

In the last quarter of 2009 we expect world GDP growth to move back into positive ground. International trade will play an important role in the recovery. At a global level, imports will resume faster than world GDP, accelerating further in 2011, when the total

demand pace should exceed the average recorded in 2006-2007 (more than 7%). This trend will be driven by the emerging markets, with imports increasing by 7.5% in 2010 and 10.2% in 2011 in these countries. Imports from advanced countries should instead continue to decline, albeit at a slower rate at the beginning of 2010, before achieving average growth of over 5% in the following three quarters and of around 7% in 2011.

Recovery of global imports, led by emerging markets
(% change, yoy)



Source: SACE calculations on Oxford Economics data

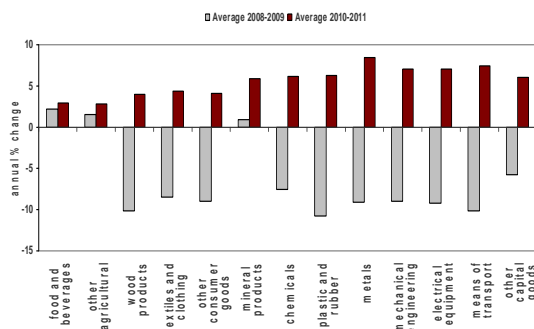
Italian exports of goods and services are forecast to show positive growth in all groups of industries and markets in 2010-2011. The recovery will be slower in 2010, recording 3.4% growth, and achieving a more rapid pace in 2011, when exports will increase by 7.4%. Italian goods will however continue to lose market share of the world market, reflecting the change in the dynamics of competitiveness, especially non-price one, of Italian companies, that could occur as a consequence of the crisis.

Recovery will positively influence most of the sectors, with some differences. Sales of agricultural products, which that in 2008-2009 contracted less among four group of industries due to more resilience to economic cycles, will recover slowest (+2.9% on average in

2010-2011). Consumer goods exports will increase by 4.3%, led by a good performance in textiles and clothing (+4.4%).

Intermediate and investment goods will record the best performance, with average growth of 5.8% and 7.2% respectively in the next two years. These aggregates include sectors that are more internationalised and the exports of which are more diversified to words markets that offer better opportunities. This is particularly evident for the exports of mechanical engineering (+7.1%), that accounts for over 20% of Italian foreign turnover, and will benefit from investment in construction in emerging countries, and a gradual stabilisation of the real estate markets in advanced regions. Metals, that due to their “transversal” nature, are more exposed to downturns, will experience the best performance among sectors (+8.5%), thanks to the recovery in construction, public intervention in car industry and the demand pull of mechanical engineering.

Growth above 6% in all sectors...(almost)
(value)



Source: SACE calculations on Oxford Economics data

Exports of goods will also start to rise again in all destination markets in the 2010-2011 period. Following an average contraction of 10% in 2008-2009 period, total foreign sales are ex-

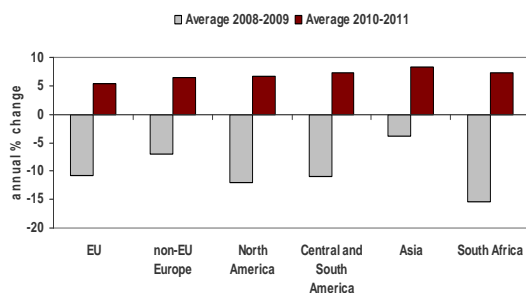
pected to show positive growth in all geographical areas, at rates ranging from 5.3% in the EU to 8.3% in Asia. In the Advanced Europe markets the best performance will be recorded in Germany (+3.2%) and France (+2.9%), that are the main Italian trading partners.

The good performance in Asian and Pacific area confirm how this region reacted better than others to the crisis and is now fuelling the global recovery. Particularly good results are expected for expected to India and China (11.7% and 12.6% respectively in 2011).

Exports to the Americas will also recover at a higher-than-average speed. Sales to North America will be driven by positive trends in demand from the US (8.9% in 2011), which represents one of the most important markets for Italian goods. In Latin America, Brazil and Mexico (10.6% and 9.8% respectively in 2011) play a very important role. While Mexico will benefit from the recovery in the US economy, in Brazil the many infrastructure projects represent good business opportunities.

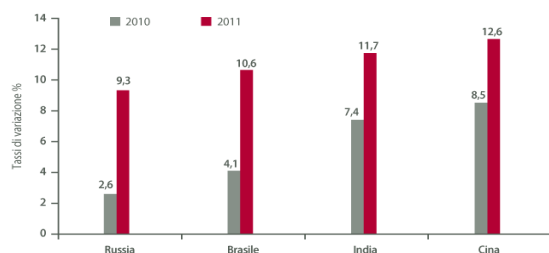
The recovery of demand and economic activity in the emerging European countries is linked to that of advanced European countries. This area has come to play an increasingly important role for exports from Italy. The crisis in the banking sector has weighed heavily on performance by the countries in this area. Following a percentage change of around -20% in 2009, growth is expected to stand at 4% in 2010, and then reach around 9% in 2011. In Russia, one of the emerging countries shaken most badly by the crisis, Italian exports are forecast to resume over the medium-long term, 2.6% in 2010, and 9.3% in 2011.

So far away, so important (% change yoy)



Source: SACE calculations on Oxford Economics data

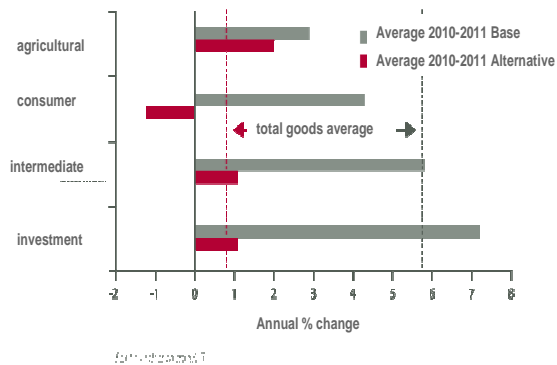
From BRIC to BIC? (% change yoy)



Source: SACE calculations on Oxford Economics data

The chance of and only temporary recovery followed by a sharp contraction in economic activity in 2010 cannot be excluded. This alternative scenario is based on the assumption that recent growth was mainly driven by the re-building of inventories. If will not be adequate demand, firms are likely to cut production level again, which would cause further unemployment. A further fall in world demand would have significant effects on foreign sales of Italian firms, affecting all sectors and markets of destination. Asia would still be the most dynamic market, with Italian sales to this region increasing by 5.3% in 2010-2011 (+8.3% in the baseline scenario).

And if something goes bad..? *Double dip* (% change yoy)



Source: SACE calculation on Oxford Economics data

This issue was prepared by:

Eleonora Padoan
(Country Analyst – Desk Asia and Pacific)

Contacts: ufficio_studi@sace.it

Tel: +39 06 6736569

Fax: +39 06 6789835