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# Economic Insight

# Italian companies benefit from exports but continue to face high non-payments in the domestic market

November 14th 2013

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## Executive summary

- The global environment will be progressively more conducive to a pick-up in exports and less severe falls in domestic demand, being supportive for a recession exit for most of the eurozone countries in 2014: Italy's GDP is likely to grow by a modest +0.3%.
- However, Italian companies remain exposed to the risk of non-payment, notably in the domestic market where total amounts of non-payments continue to rise (+14% 9M 2013 vs 9M 2012), despite a fall in their total number on the back of business transactions reduction.
- The good news: export-driven non-payments remain on a positive trend, with less frequency and severity within most of the sectors (excluding automotive).
- The textile sector shows some signs of partial recovery, where some districts have been able to position themselves upmarket and grow outside Europe.

## The global environment is set to recover progressively

In the 1st half of 2013, world trade growth remained weak compared to historical performance: +1.4% compared to the 2nd half of 2012, but went up from the +0.4% expansion registered between the 1st and the 2nd halves of 2012. The trend is expected to remain below past levels (+1.9% in 2013 and +4.5% in 2014, compared with a long-term average of +5.1%, see Chart 1) due to a slowdown in activity in Latin America and, notably, in Asia. Global GDP growth is expected to recover progressively in 2014 (+3.0% from +2.3% in 2013, see Table 1) but risks to the global economic recovery remain skewed on the downside given the geopolitical tensions that could trigger a shock in oil prices and risks lingering in the eurozone and in the United States. Despite the slowdown in growth in emerging countries, they remain the biggest contributors to global growth and prospects in the advanced economies (notably in the eurozone) are gradually improving. While the emerging markets would need to restore

**Table 1 : World GDP growth forecasts**

| | Weights* | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| **World GDP growth** | ***100*** | **2.9** | **2.6** | **2.3** | **3.0** |
| **Advanced economies** | ***62*** | **1.6** | **1.4** | **1.1** | **2.1** |
| **Emerging economies** | ***38*** | **5.2** | **4.5** | **4.1** | **4.6** |
| **North America** | 24 | **1.9** | **2.7** | **1.7** | **2.8** |
| United States | *22* | 1.8 | 2.8 | 1.6 | 2.9 |
| Canada | *3* | 2.5 | 1.7 | 1.8 | 2.5 |
| **Latin America** | 8 | **4.2** | **2.6** | **2.7** | **2.9** |
| Brazil | *3* | 2.7 | 0.9 | 2.2 | 2.0 |
| **Western Europe** | 23 | **1.5** | **-0.3** | **-0.1** | **1.1** |
| United Kingdom | *3* | 1.1 | 0.1 | 1.1 | 1.6 |
| ***Eurozone members*** | *17* | ***1.5*** | ***-0.5*** | ***-0.5*** | ***0.9*** |
| Germany | *5* | 3.1 | 0.9 | 0.5 | 1.6 |
| France | *4* | 2.0 | 0.0 | 0.2 | 0.6 |
| Italy | *3* | 0.5 | -2.4 | -1.8 | 0.3 |
| Spain | *2* | 0.4 | -1.6 | -1.4 | 0.5 |
| **Central and Eastern Europe** | 6 | **4.7** | **2.1** | **1.7** | **3.0** |
| Russia | *3* | 4.3 | 3.4 | 2.0 | 3.5 |
| Turkey | *1* | 8.8 | 2.2 | 3.3 | 4.0 |
| **Asia** | 29 | **4.7** | **4.9** | **4.8** | **4.8** |
| China | *11* | 9.3 | 7.7 | 7.6 | 7.5 |
| Japan | *8* | -0.5 | 2.0 | 2.0 | 1.5 |
| India | *3* | 6.3 | 5.0 | 4.7 | 5.5 |
| **Oceania** | 2 | **2.3** | **3.3** | **2.2** | **2.6** |
| Australia | *2* | 2.4 | 3.7 | 2.4 | 2.8 |
| **Middle East** | 4 | **4.6** | **3.6** | **2.4** | **3.7** |
| Saudi Arabia | *1* | 8.5 | 6.8 | 4.0 | 4.5 |
| United Arab Emirates | *1* | 3.9 | 4.4 | 3.5 | 4.0 |
| **Africa** | 2 | **1.1** | **5.7** | **4.1** | **4.9** |
| Morocco | *0* | 5.0 | 2.7 | 4.5 | 4.5 |
| South Africa | *1* | 3.5 | 2.5 | 2.5 | 3.5 |

** Weights in global GDP at market price, 2012*

*Source: Euler Hermes*

investor confidence in the coming quarters, through structural reforms aiming to reduce external imbalances and spur more sustainable growth, the developed countries will still face headwinds from the private and public deleveraging process, limiting the strength of the economic recovery.

## GDP growth in Italy expected to stabilise gradually

In Italy, GDP growth is expected to stabilise gradually in H2 2013 on the back of improving business confidence and to recover progressively in 2014 (+0.3%), thanks to a positive net trade contribution to growth as activity in Italy's main trade partners is expected to pick-up while the domestic demand contraction is likely to moderate (see Table 2). However, the latter is set to remain a drag on the economy due to (1) contracting consumer spending due to high unemployment and deteriorating purchasing power (2) contracting investment on the back of a lack of credit and weak demand. In the short-term, the economy remains vulnerable to changes in investor sentiment due to the excessive stock of debt but also on the back of the fragile governing coalition.

In the medium-term, Italy needs to continue the implementation of structural reforms in order to catch-up with its peers in terms of reducing imbalances. Labour cost adjustment is still missing (notably compared to efforts made by Spain and Portugal) and this is mandatory for gains in competitiveness as Italy is highly specialized in middle-range products.

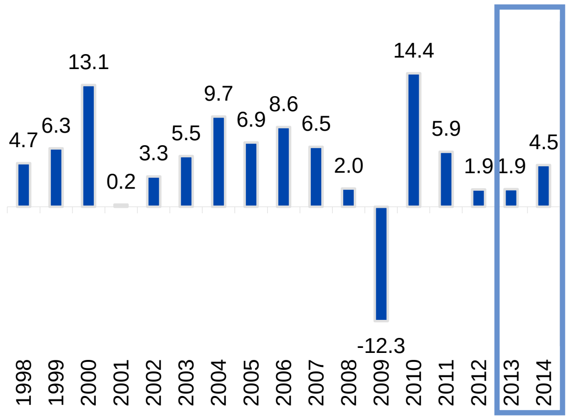
## Italian companies remain exposed to the risk of non-payment, notably in the domestic market

Commercial risk within the domestic market will remain high throughout 2013 in most Italian sectors. Small and medium enterprises (SMEs), already undercapitalized, will continue to face a situation of financial restraint mainly due to the lack of cash caused by the difficulty of access to credit from the banking system and by delays in payments.

In September 2013 (YTD), non-payments endured by Italian companies were less frequent in both domestic and export markets (-13% and -17% respectively, see Table 3). However, the domestic market remains very weak given the contraction in domestic demand (-15% since the pre-crisis peak). Indeed, despite the fall in domestic non-payments frequency, their severity is higher compared to 2012 (total amounts increased by 14% YTD, see Table 3), a worrying trend.

On the positive side, export-driven non-payments are not only less numerous but also less severe (see Table 3). The improvement

Chart 1 : Global trade growth, annual variation, %




*Source: Euler Hermes*

Table 2 : Economic forecasts

| Italy | | Weights | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| **GDP** | | 100% | 0.5 | -2.4 | -1.8 | 0.3 |
| **Consumer Spending** | | 60% | 0.1 | -4.3 | -2.6 | -0.7 |
| **Public Spending** | | 21% | -1.2 | -2.9 | 0.0 | 0.0 |
| **Investment** | | 19% | -1.4 | -8.0 | -5.6 | -1.9 |
| ***Stocks*** | * | 0% | -0.5 | -0.6 | -0.3 | -0.1 |
| **Exports** | | 28% | 6.6 | 2.2 | -0.1 | 3.7 |
| **Imports** | | 28% | 1.1 | -7.8 | -3.6 | -0.2 |
| ***Net exports*** | * | 0% | 1.5 | 2.8 | 0.9 | 1.2 |
| **Current account** | ** | | -48 | -8 | 11 | 20 |
| *Current account (% of GDP)* | | | -3.1 | -0.5 | 0.7 | 1.3 |
| **Employment** | | | 0.3 | -0.4 | -1.4 | -1.0 |
| **Unemployment rate** | | | 8.4 | 10.7 | 12.0 | 12.9 |
| **Wages** | | | 1.8 | -0.2 | 0.6 | 0.1 |
| **Inflation** | | | 2.8 | 3.0 | 1.3 | 1.1 |
| **General government balance** | ** | | -58 | -45 | -50 | -43 |
| *General government balance (% of GDP)* | | | -3.7 | -2.9 | -3.2 | -2.7 |
| **Public debt (% of GDP)** | | | 120.8 | 127.0 | 131.7 | 136.5 |
| Nominal GDP | ** | | 1579 | 1566 | 1558 | 1579 |

Change over the period, unless otherwise indicated:
* contribution to GDP growth
** EUR bn

*Source: Euler Hermes*

Table 3: Non payments faced by Italian companies

| | Domestic | | | Export | | |
|---|---|---|---|---|---|---|
| | 2011 * | 2012 * | 2013 ** | 2011 * | 2012 * | 2013 ** |
| **Frequency** | + 42% | +15% | - 13% | 0 | - 3% | - 17% |
| **Severity** | + 17% | -3% | + 14% | + 7% | + 16% | - 11 % |

* Var. y/y -
** Var. 9M 2013 vs 9M 2012

*Source: Euler Hermes*

reflects better global business confidence and a gradual exit from recession in the eurozone countries, Italy's main trade partners. While Italy's main export partners remain Western and Eastern Europe, there is high potential within the Middle-East and North Africa countries, as well as within the BRICS (see Chart 2).

## Business sector overview

Looking at the detailed numbers by sector, there are 3 sectors for which the rate of incidence of domestic-driven non-payments improved over the first 9 months of the year compared to pre-crisis levels: textile, food and automotive. In contrast, the steel industry, the construction sector, commodities and transport remain on a negative trend – see Chart 3.

The steel industry in particular suffers from a situation of oversupply due to contracting domestic demand and falling orders. The weakness of the construction and automotive sectors is weighing on the steel industry. When looking at total amounts of domestic-driven non-payments, the automotive sector and the steel industry remain the most affected (see Chart 4).

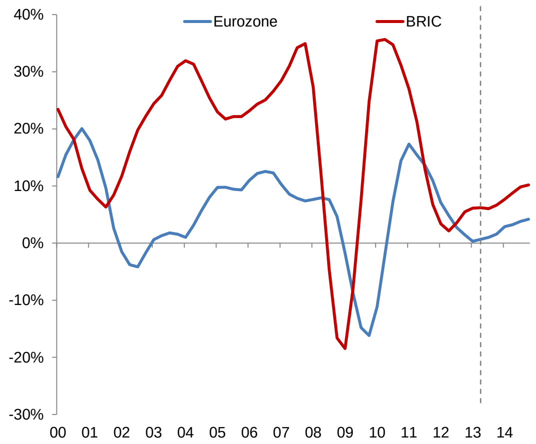
Signs of partial recovery are visible in the textile sector, where some districts have been able to position themselves upmarket and growing outside Europe. Both economic indicators and analysis - with respect to the pre-crisis period – show that the sector is constantly improving. Improvements were recorded in the domestic markets for food, paper and automotives. The food sector, traditionally counter-cyclical, benefits from more efficient cash management on the back of the implementation of Law of 24 March 2012 – article 62 on the timing of payments. Moreover, rationalization of wholesale distribution has boosted the dynamics of payments*.

On the export side, excluding automotives, all sectors register fewer cases of non-payment and those non-payments are generally less severe (see Chart 5). The most encouraging trend is the fact that non-payments are less numerous and less severe in key export sectors (see Table 4) such as commodities, chemicals, transport, household equipment and machinery.

At the regional level, in September 2013, 15 regions recorded lower rates of non-payments compared with the pre-crisis period (see Chart 6a). Worryingly, however, is the increase in the severity of non-payments compared to September 2012: The rate in Lazio doubled because of the difficulties in the services sector and in construction; in Umbria and Friuli the increase exceeded 50% while in Lombardy, Italy's economic engine, the increase in the first nine months amounted to 19% - see Chart 6b.

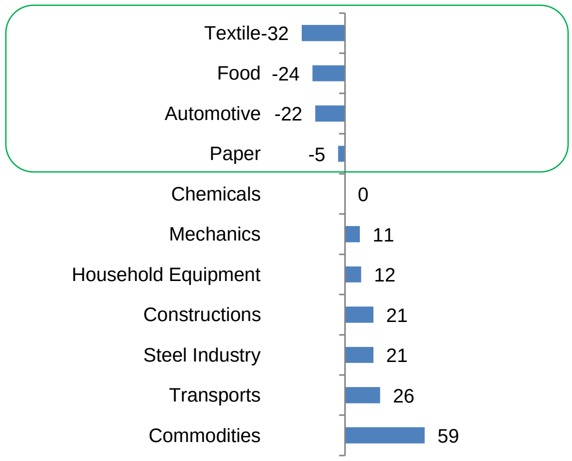
** This law provides for a maximum period of 30 days in payments in relation to the so-called perishable products (pre-packed with the durability established by the manufacturer not exceeding sixty days) and 60 days for all other goods.*

**Chart 2: Italian export market growth by destination**




*Source: Euler Hermes forecasts*

**Chart 3: Non-payment incidence rate in the domestic market (changes Sept 2013 vs Dec 2007, %)**




** The incidence rate of non-payments represents the number of missed payments compared to the number of entities in the sector. The% change in rate compared to pre-crisis 2007 enables you to further understand the dynamics of payment incidents within sectors of Made in Italy.*

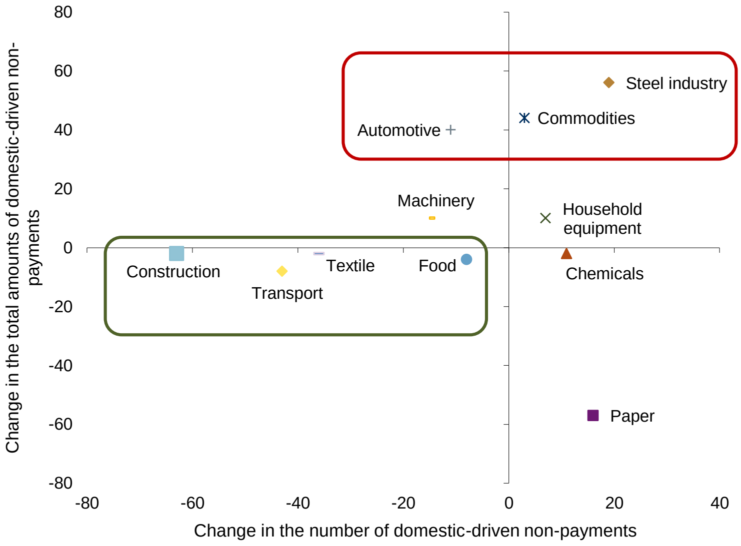
*Source: Euler Hermes*

**Table 4: TOP 10 Italian exported products, % of total exports**

| | 2012 |
|---|---|
| Machinery, nuclear reactors, boilers, etc | 19.7% |
| Vehicles other than railway, tramway | 7.0% |
| Mineral fuels, oils, distillation products, etc | 6.0% |
| Electrical, electronic equipment | 5.7% |
| Pharmaceutical products | 4.0% |
| Plastics and articles thereof | 4.0% |
| Articles of iron or steel | 4.0% |
| Pearls, precious stones, metals, coins, etc | 3.8% |
| Iron and steel | 3.1% |
| Furniture, lighting, signs, prefabricated buildings | 2.6% |

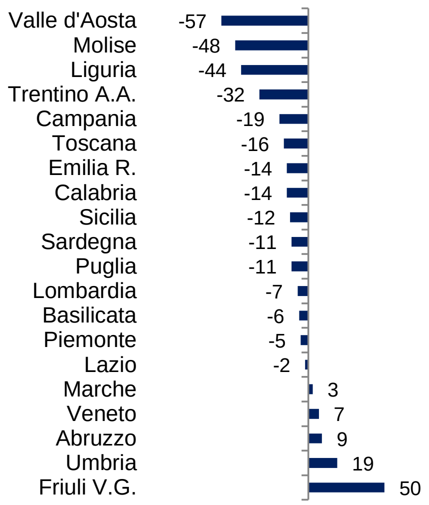
*Source: International Trade Center*

## Chart 4: Domestic-driven non-payments – number and total average amounts (changes Sept 2013 vs Sept 2012, %)




*Source: Euler Hermes*

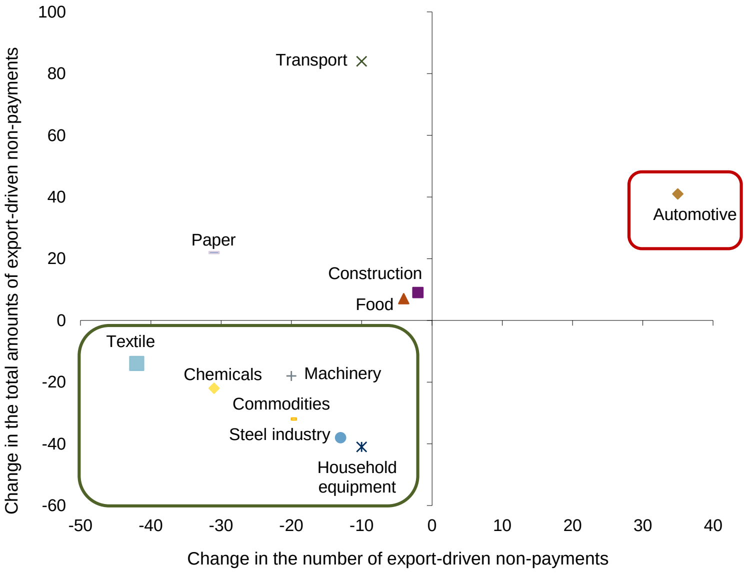
## Chart 6a: Non payment incidence rate* by region (changes Sept 2013 vs Dec 2007, %)




** The incidence rate of non-payments represents the number of missed payments compared to the number of entities in the sector. The% change in rate compared to pre-crisis 2007 enables you to further understand the dynamics of payment incidents within sectors of Made in Italy.*

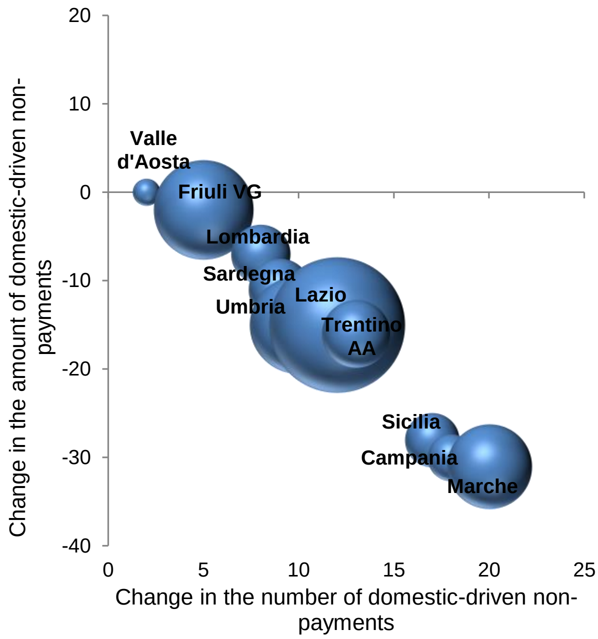
*Source: Euler Hermes*

## Chart 5: Export-driven non-payments – number and total average amounts (changes Sept 2013 vs Sept 2012, %)




*Source: Euler Hermes*

## Chart 6b: Non payments by region (changes Sept 2013 vs Sept 2012, %)




*Source: Euler Hermes*





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