

Expo Milano 2015: The end or the beginning?

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Executive summary

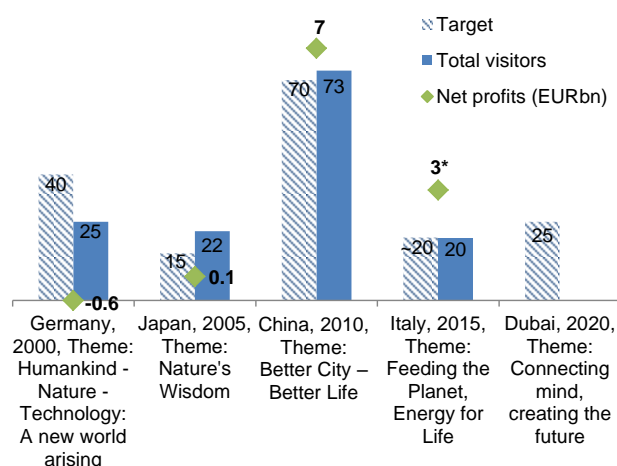
- The targeted number of visitors at the Expo Milano (20mn) has almost been achieved. Additional revenues have contributed significantly to the regain in company turnover in service-related sectors with the highest rebound being registered in wholesale and distribution, hotels and restaurants and transport.
- In Italy, additional export gains in 2015 will almost double compared with 2014 to reach EUR15bn for goods and EUR6bn for services, thanks to the lower euro, improving demand in Italy's main export markets *and* the Expo Milano. More than two-thirds will be concentrated in machinery, chemicals, agri-food, textiles and services.
- What is next? In the short-term, the main downside risk is an increase in business insolvencies in the Expo-dependent sectors with up to 1,000 companies in 2016-18 (1 in 10 of the newly created companies), with a peak in 2017 and a concentration in the construction sector. In the worst case scenario up to 3,000 companies could default.
- In the medium-term, positive effects could come from the strengthening of the *Made in Italy* brand through increased synergies across sectors and countries, increased digitalization and innovation.

Expo: Learning from Germany's fiasco, Italy did not overpromise and some positive results are already visible

Six months after its opening, first results show that Expo Milano almost reached the official target in terms of number of visitors (20mn) and avoided a less happy ending as was the case in 2000 in Hanover (see Chart 1). While 30% of total visitors were expected to be foreigners, the final number stood at 25% - strong presence of American, Chinese, German and French visitors to be noted. In total, we estimate EUR6bn of revenues from tourism flows. This compares with a total EUR3bn cost of infrastructure projects. That being said, other indirect costs need to be confirmed in order to assess the net realized profit.

Several sectors are already benefiting from a positive impact linked to increased activity from the Expo. Revenues have notably increased for tourism-related sectors, with main regional winners being Milano and the Lakes region. The higher revenues did support company turnover growth in services (see Chart 2) with the strongest rebound being registered in wholesale and distribution (+4.2% y/y in Q2 2015), hotels and restaurants (+2.9% y/y), services linked to transport (+2.1% y/y) and business services (+1/3% y/y). The Expo is not the sole driver but an important one as it impacted

Chart 1: Expo Milano: total number of visitors vs. official targets (millions of people) vs net profits (EURbn)



Sources: Official sources, Euler Hermes

*Expo Milano estimated net profit. Note that other indirect costs need to be confirmed in order to assess the net realized profit.

business demography. The Expo has also contributed to stronger inward foreign direct investments (FDIs): the increase between February and April was EUR5.6bn, making it the highest 3-month amount since end-2013. The Government's 2013 initiative aiming at attracting more inward investments, *Destinazione Italia*, if continued, should create momentum in inward investments post-Expo.

The short-term positive booster from the Expo is expected at +0.1pp of GDP growth in 2015 concentrated in Q3. In Italy, GDP growth is forecast at +0.7% in 2015 and +1.1% in 2016. In addition to the rebound in external demand, the resumption in domestic demand growth after several years of decline is a positive signal. Consumer confidence is on an upside trend and spending on durable goods rebounded. The labor market entered a recovery mood with +295K new employed persons since the lowest level in November 2014 and unemployment expected at 12% in 2015 (from 12.7% in 2014) and 11% in 2016.

Additional export gains in 2015 will almost double compared with 2014, thanks to the lower euro, improving demand in Italy's main export markets and the Expo Milano

Demand for Italian products has been boosted by the lower euro. In nominal terms, the strongest rebound in export of goods has been registered by non-Eurozone countries such as the U.S. (+27% between January-July compared with the same period of last year), the UK (+9.5%), Turkey (+10%) and Switzerland (+4%) – all four countries being among the top 5 Italian export markets outside the Eurozone (accounting for 20% of total exports). Demand from intra-EU countries should also rebound and there are already positive signs coming from Germany, Belgium and Spain.

In terms of additional amounts, Italy exported EUR9bn more goods between January and July (compared with the same period of 2014) and almost EUR1bn additional services. Out of these totals, since the start of the Expo, EUR3.5bn in additional goods and EUR0.6bn in additional services have been exported. Most of the exported services are certainly linked to the Expo. Overall, additional exports of goods in 2015 will reach EUR15bn (EUR8bn in 2014) while additional exported services are likely to be EUR6bn (EUR3bn in 2014). External demand will be concentrated (two-thirds) in sectors such as machinery, chemicals, textiles and agri-food – see Chart 4). Out of these, the flow of tourists has mainly supported the agri-food and textile sectors. In the agri-food sector, for example, exports rebounded in March 2015 and remain on a positive trend. In total, agri-food exports increased by +6% between January and July, equivalent to +EUR1bn compared with 2014).

What is next? In the short-term, downside risks relate to an increase in business insolvencies in the Expo-dependent sectors

As explained in our Economic Insight published in April, [Expo Milano: Made in Italy alla grande](#), post-

Chart 2: Turnover in the services sector

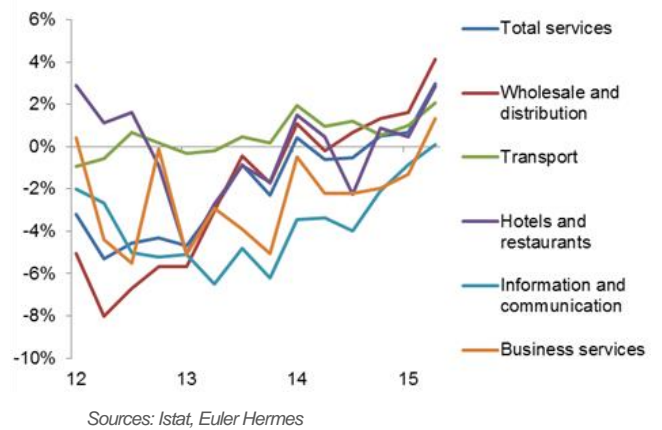


Chart 3: Additional exports – goods and services (EURbn)

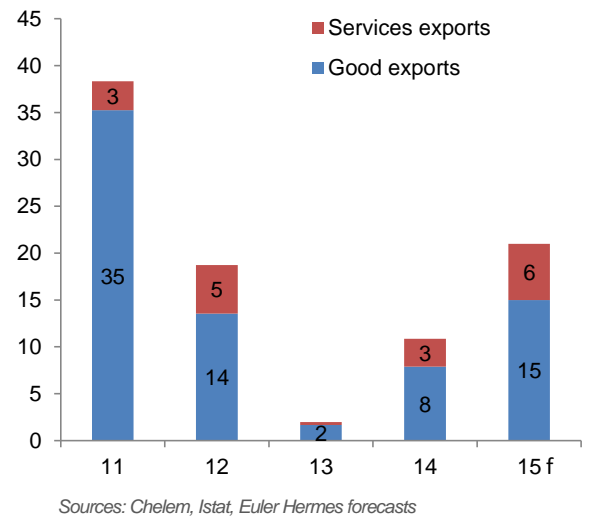
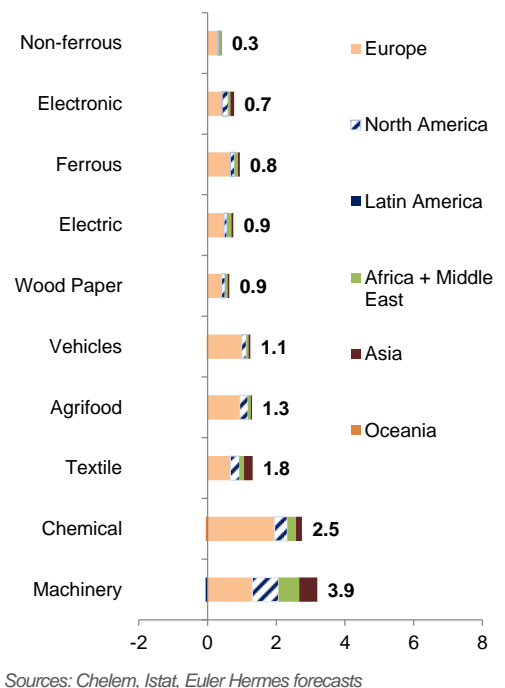


Chart 4: Estimated additional goods exports in 2015



mega event activity is expected to fall especially in those sectors that appeared to be the main winners in the year of the event. We also think that a non negligible share of the ~10,000 companies created for the occasion will suffer from economic difficulties, after the event. In the short-term, voluntary closings should be expected, notably in sectors linked to tourism: food, restaurants and transport, since most are microenterprises. As for legal insolvency proceedings, we expect 1000 insolvencies among newly created companies by 2018 with a peak in 2017 (see Chart 5); these will be mostly concentrated in the construction sector. Overall, business insolvencies will remain on the (long-awaited) downward trend initiated in 2015 with -8% in 2016, -10% in 2017 and -8% in 2018. However, there is a risk that the fall in activity is higher-than-expected. In this downside scenario, up to 3,000 companies could default.

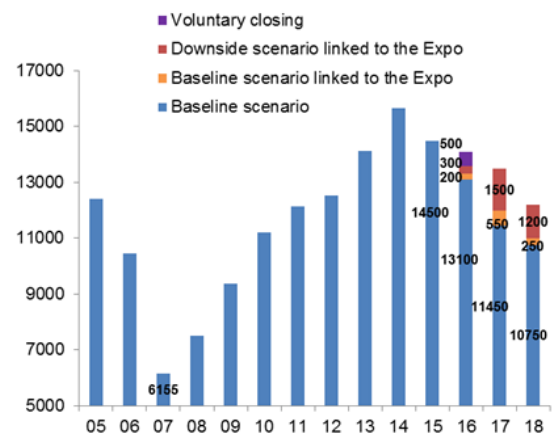
Strengthening the Made in Italy brand through increased synergies across sectors and countries, increased digitalization and innovation

The Expo should foster synergies between foreign companies and Italian ones. Italian SMEs are better positioned to export compared with peers (see Chart 6). However, more emphasis is needed on innovation, digitalization (as very few Italian companies are selling online within and outside the EU compared with peers) and a hunting model for firms: bringing clients or suppliers with them along their internationalization. Recent industrial policy attempts such as Industry 4.0 in Germany and the Top Sector Policy Approach in the Netherlands are good example to follow for stronger external development.

The Government announced that part of the Expo site will be dedicated to R&D activity through the creation of a scientific center, which embodies the role the Expo might play in terms of innovation spillovers, notably for the manufacturing sector. Agri-food, textiles, energy and machinery could benefit the most from innovation. In agri-food innovation programs target higher productivity and higher energy efficiency, development of new products such as nutritious foodstuffs and cutting-edge packaging that can better preserve food nutritional qualities.

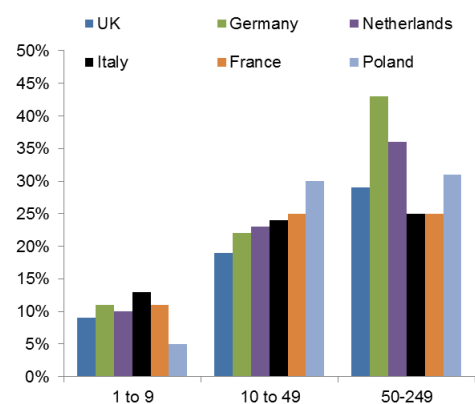
The Expo also enabled Italian companies to rediscover their export culture and should push them to explore further non-traditional export markets. Indeed, only 13% of Italian exports go to countries where import growth (local demand) is high (Chart 7). Headwinds in the emerging world mean getting ready and hedged for a rewarding outcome. One last word of caution: seeking efficiency will continue being to be key as a weaker euro will not suffice.

Chart 5: Insolvencies in number



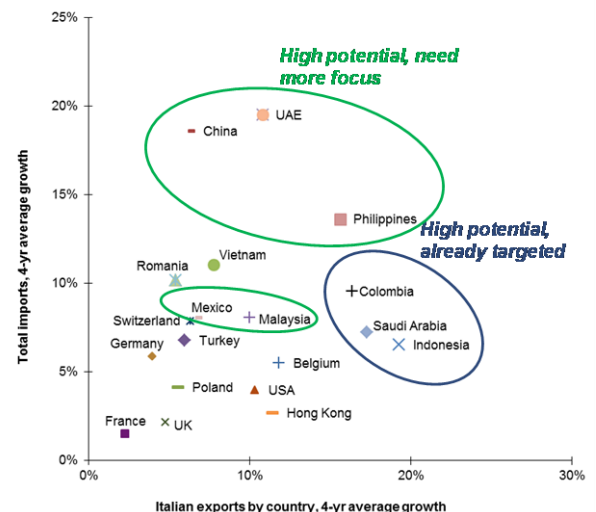
Sources: National sources, Euler Hermes

Chart 6: Percentage of SMEs that export by company size (measured by the number of employees)



Sources: UPS, Euler Hermes

Chart 7: Italian exports by destination vs. import growth



Sources: ITC, Euler Hermes

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