

Euler Hermes study: Expo Milan 2015 - the end or a fresh start?

MILAN - 27 OCTOBER 2015 - Six months after its inauguration, EXPO Milan achieved its official goal in terms of visitor numbers (20 million), and avoided the financial deficit that affected some previous World's Fairs, according to a study by Euler Hermes, the world's leading credit insurer. The final tally of 25% foreign visitors was just 5% shy of the 30% target. The number of guests from China, Europe (particularly France and Germany) and the USA was substantial. Estimated profits from tourism total six billion euro, offsetting the three billion spent in infrastructure associated with the exhibition venue. The Euler Hermes study, "Expo Milan 2015: the end or a fresh start?" further analyzes the economic impact of this major event on Italy.

"Mission accomplished," said Michele Pignotti, head of the Mediterranean Countries, Africa and Middle East region at Euler Hermes. "This is a very suitable assessment on the imminent finale of Expo 2015. Its organizational structure optimally managed numerous initiatives and events, as well as international delegations and the continuous visitor flow to the pavilions of 130-plus countries. The difficult part, however, still lies ahead: how to make the most of the valuable Expo 2015 legacy and turn it into a driver of future development for the country."

The Expo impact on Italy's economic recovery

"In the short term, the positive momentum from Expo is expected to produce a value equal to +0.1% of the Italian GDP in 2015, concentrated in the third quarter," said Ana Boata, European economist at Euler Hermes. "The expectation is a total GDP increase amounting to 0.7% in 2015 and to 1.1% in 2016, with the economic recovery speed remaining moderate".

Apart from the positive effect on demand from abroad, the boost in domestic demand - after years of decline - is a positive sign. Consumer confidence levels are rising and durable goods purchases are again increasing. The labor market is on the rise - with 295,000 new jobs- following an all-time-low in November 2014; the unemployment rate is expected to drop from 12.7% in 2014 to 12% in 2015, and further to 11% in 2016.

Many industries are benefiting from a positive Expo impact. Specifically, revenues from tourism-related sectors have increased, especially in Milan and the Lakes region. These higher revenues helped increase the turnover of companies in the service industry, with the highest peaks being registered by the wholesale and distribution sector (+4.2% YoY in the second quarter of 2015), hotels and catering (+2.9% YoY), transport-related sectors (+2.1% YoY) and commercial services (+1.3% YoY). Moreover, Expo encouraged the inflow of foreign direct investment (FDI) to a level of 6 billion euro between February and April, the highest quarterly figure achieved since the end of 2013.

Support from Expo to "Made in Italy" exports

Italy exported an additional 9 billion euros of goods between January and July (against the same period in 2014) and almost one billion more in services. Since the Expo's inauguration, an additional 3.5 billion euros of goods and 0.6 billion in services have been exported. In total, 2015 goods export is expected to reach 15 billion euros (vs. 8 billion in 2014); service exports are expected to reach 6 billion euro (vs.3 billion in 2014). Foreign demand is expected to focus 66% on sectors including chemistry, food, mechanical products and textiles. Food sector exports have increased again since March 2015 and the trend remains positive. The total figure for agricultural and food exports increased by 6% between January and July (one billion more compared to 2014).

"Even though Italian companies already have a strongly export-driven approach, they will have to focus more on 'non-traditional' markets, considering that only 13% of Italian exports go to countries where imports are growing markedly," says Boata. "It will also be essential to regain competitiveness in terms of costs, with a view to increasing profits, because a weak euro will not be enough".

What next? A risk of increasing company defaults in Expo-related sectors

After the close of Expo, a decline in business levels is expected, especially for sectors that have been most successful during the year of the event. Euler Hermes estimates that at least a portion of the 10,000 companies incorporated in relation to Expo risk economic difficulties once the event has ended. In the short term, the forecast is a trend towards voluntary winding up of companies, especially in tourism-related sectors: catering, food and transport. As most of these enterprises are very small, they are expected to close in an amicable manner.

Euler Hermes expects that one company in 10 will go bankrupt before 2018 with a peak in 2017, most of them in the construction sector. However, the declining trend in corporate defaults in Italy overall, which began in 2015 for the first time in seven years, is expected to continue with -8% in 2016, -10% in 2017 and - 8% in 2018. Nevertheless, the risk remains that post-Expo business could dwindle more than expected: in the worst-case scenario, up to 3,000 companies could go bankrupt.

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