

VENETO 2015 ECONOMIC REPORT

SUMMARY

After a settling phase, Veneto changes pace. There's a recovery, even if it has not affected all sectors of the regional economy yet. The latest data suggest a very favorable outlook for the 2015 for the Veneto's economic system. The 48th edition of the Annual Report of Unioncamere Veneto retraces 2014, describing the dynamics that characterized the regional economy and society, and highlights the positive results recorded in the first part of 2015. It highlights some development factors that could consolidate the recovery of the economic system in the coming years and develops a reflection on the problems which today hamper the regional economy, to deal with and overcome. It focuses attention on the numbers which describe the new cyclical phase and on moving subjects in the production system, businesses and households, young people and students, workers and unemployed, banks and institutions, in order to capture the critical elements, dynamic factors and needs intervention to suggest to the policy makers.

I. MACROECONOMIC SITUATION

1. INTERNATIONAL AND ITALIAN ECONOMY

According to the latest IMF World Economic Outlook, the **world economy grew by 3.4% in 2014**, characterized by a faster expansion of the developed countries and a slowdown of the emerging and developing economies. Forecasts suggest a slight growth rate increase for the next two years. As leading figures of 2015, the **developed economies** will benefit from the limited price of energy products and the moderate tax policy. **Developing and emerging countries** will face a slowdown due to various factors: the negative impact of the reduced crude oil price on the economies of the exporting countries, China shifting towards a more sustainable growth model, weaker activities in South America due to the drop in the non-oil commodity price.

The **Eurozone's** growth in 2014 was less than foreseen (+0.9%) and private investments remained weak. The IMF previsions for 2015 and 2016 suggest a moderate growth indicating that factors such as low oil prices, low interest rates, the rigid BCE monetary policies and the depreciation of the euro will lead the Eurogroup economies towards expansion.

According to the IMF forecasts, **Italy** will get out of recession with a growth rate of **0.5% in 2015** and 1.1% the following year. Also the Economic and Financial Document supposes the end of the involution phase and the start of a modest expansion: the more reforms will be passed, the greater the impact.

2. REGIONAL ECONOMY

Veneto managed to reach a balanced budget by the end of 2014. Although the regional GDP showed no growth from 2013 the second recession phase (after the one in 2008-2009) has come to an end.

The **industrial production** registered an annual growth of +1.8%, while **exports** increased by +2.7%. The **construction** sector decreased by 5.9% in investments, the **retail** sector by -1% and the domestic demand did not rise. Also for the **tourism** sector the year was not quite brilliant: arrivals increased (+1.5%) while stays did not in any significant way (+0.5%). The number of **companies** kept falling (-0.7%), while the number of those opening bankruptcy proceedings increased by 4%. After a two-year decline, the office for national statistics, ISTAT, suggested a slight rise of the **employment** rate (+1.1%), while the data from the National Social Welfare Institution, INPS, showed a decrease in temporary workers layoffs (-6% of authorized hours). Moreover, as shown by the administrative data, 13 thousand employees were laid off. However, between the end of 2014 and the begin of 2015 the economy showed clear signs of an **upward trend**: the economic indicators suggested first weak then more significant signs of recovery, which kept increasing also in the first months of 2015. The latest forecasts suggest an annual growth of the regional GDP by +1.1%, which will stabilize at an average +1.8 for 2016-2017.

II. REGIONAL ECONOMY AND SOCIETY

1. COMPANIES

Following up the trend of the last quarters of 2013, 2014 was marked by a recovery in the production activity. The **industrial production** registered an annual increase of +1.8%, a sharp difference compared to last year's (+0.8%), with an annual industrial turnover of +1.9%. These figures are entirely winning back the lost ground characterizing 2012 and 2013 (-3.7% and -0.4%, respectively). In 2014 **manufacturing companies** are back to investing: 44.1% stated they already invested in tangible and intangible property, while 40.3% will be doing so by the end of the year. Compared to 2013, in 2014 the **construction sector** lost 5.9% of the investments, with a downturn of -13.7% in new constructions, partially balanced by the growth (+3.3%) in the residential redevelopment market. On a trend basis, the **retail sector** registered an annual loss of -1%, which is anyway more limited compared to the figures in 2013 (-2.2%). The **agricultural sector** has now made its way out of the crisis: the gross production grew by 2% from 2013, reaching €5.6 billion.

The overall **balance** between companies registering (28.113) and closing down (27.452) is positive for a total of +661 companies. This is mainly due to the smaller number of companies closing down (-14.8%), together with a slight slowdown in registrations (-3.1%). The consistency of the **active companies** was a little above 439 thousand units, that is to say three thousand units less compared to December 2013.

2. FOREIGN EXCHANGE

Foreign trade proved to be a **key element of the regional economy** also across 2014, compensating the difficulties of the manufacturing sector in the domestic market, where demand was still weak. Exports significantly expanded (+2.7%), in line with last year's trend but above the national average (+2%). Despite the limited imports, €39.2 billion (+0.9% against the national average of -1.6%), the overall **trade balance** edged €15bn, resulting the second most influencing contribution to the national balance, after Emilia-Romagna. The imports trend was influenced by the fall in energy products sales, while exports benefitted from the greater sales of Veneto's leading products, such as machinery (+4.6%) and its traditional "made in Italy".

According to the temporary balance referring only to the first 10 months of 2014, the **tourism sector** showed a positive trend, especially due to foreign tourism. Tourist accommodations hosted about 10 million foreign guests, originating a total of 39.8 million stays and increasing by 1.2% and 1% from the same periods in 2013.

Before sea and lake destinations, foreign tourism is still drawn by cultural holidays. In fact, cities of art enjoyed the more significant increase in the number of stays (+1.5%). The only destinations not scoring a positive value were mountain destinations (-8.4%), especially due to the unfortunate weather conditions.

3. EMPLOYMENT

As far as employment is concerned, 2014 still had a **negative balance**, although the trend slightly slowed down compared to 2013. The balance between hirings and dismissals caused a reduction in employment positions for a total of **13 thousand units**. **Labour demand grew**: hirings increased by 7.8% and dismissals by 7.4%. Thus, the positive hiring trend was not sufficient to change the overall balance.

The whole loss is concentrated in the **industry sector**, where the construction sector and the made in Italy industry have suffered the most (respectively, -5 thousand, -4 thousand). Thanks to the growing personal services and the flourishing agriculture, the service sector remained stable.

Veneto registered a clearly positive trend in the **first quarter of 2015**. In a narrow sense, the three-month employment balance between hirings and dismissals is positive (+42.000), which greatly improved compared to the same period last year (+35.000). Such an improvement goes along with a significant increase in labour market movements: between January and March 2015 the total hiring volume (188.000) registered a remarkable increase (+13.2%), anyway greater than the increase in dismissals (+11.5%). The positive hiring trend was certainly led by open-ended contracts incentivized by the 2015 Stability Law.

4. EDUCATION AND YOUTH

Between 2010 and 2013, **education-related numbers grew**: schools, classes, teachers and students. However, even though there were more classes available, the number of students per class has risen. The number of students enrolled at a university level fell. In 2013, the percentage of students in Veneto continuing their studies after high school at a university level was 56.8%, registering a remarkable drop from the value in 2008 (68.6%). The **dropout rate** had been going down and under the national average. In 2013, 17.7% of the youth on a national basis did not finish their studies/training after

the middle school. In Veneto this figure dropped to 10%, signifying an important step forward in reducing the number of dropouts compared to the other regions.

Students in Veneto rank the top positions, together with those from the Friuli-Venezia-Giulia and the province of Trento. Veneto's students scored an average score of 523 in the test verifying maths abilities (485 national average, 494 OCSE average).

After **finishing high school**, youths see their chance to find and maintain an employment drastically fall. The objectives fixed by Europe 2020, namely granting an employment to 82% of the youth between 20 and 34 within three years upon obtaining a high school diploma or a degree, are further to be achieved. Such indicator was 75.4% within the EU28 and 48.3% in Italy: a 27-point gap for an indicator that has been worsening since 2008.

5. HOUSEHOLDS

In 2013, Italian households economic situation worsened again. Veneto keeps registering positive figures concerning households indicators, although in the last few years the situation has worsened more rapidly than in other regions.

In 2013 the **ageing of Veneto's population kept increasing**: the ageing index was 150.6, an upward trend compared to 2012 (144.2) and 2013 (146.8). Moreover, fewer are the people coming from outside the region in order to settle in Veneto, which has been a pattern of the last 10 years. In 2013 Veneto was the region the most interested by the **change of residence abroad** by its residents (2.79 every 100 inhabitants), behind only Trentino South Tyrol (3.41) and Friuli (2.87).

The **household income** kept going down (-0.8% current per capita), and so did consumption (-3.2% steady value). Noteworthy was the growth of the relative poverty indicator (6.0%), which was the second highest in the Northeast. The average household spending fell from €2.903 in 2011 to €2.835 in 2012 and was €2.706 in 2013: a €197-loss a month (-6.8%). **Forecasts** for 2014 and 2015 suggest an increase of the household income, by 0.8% in 2014 and 2.2% in 2015.

6. TRANSPORT AND LOGISTICS

The recent growth of Veneto's main transportation flows is a clear sign of recovery of the **highway transportation**, which, however, still remains far below the values before the crisis. The **maritime sector** saw an increase in the containerized transport, although Venice registered a lower degree of competitiveness compared to other main upper Adriatic ports. Noteworthy was also the drop in the cruise sector, which had always been improving. The Brenner railway experienced a very lively growth, as always, especially concerning the transport of unitised freight. To conclude, **air transport** showed no signals of crisis at the airport of Venice, Marco Polo, and the one in Treviso.

Concerning **road transport**, there would be enough planning to generate a satisfying overall situation, but several are the cases of considerable delays or non-realizations (see the case of the Pedemontana highway, the Nuova Romea or the third highway lane between Venice and Trieste). Significant delays have interested also the railway construction sector, especially in the areas East of Verona throughout the Mediterranean Corridor, while works on the main tunnel of the Brenner railway still proceed. In Venice, the problem of reaching the harbour via railway transport has been compensated by the

enlargement works of the nearby industrial port of Marghera, which was recently given considerable ministerial funding.

7. BANKS

In 2014 the drop of bank lending rate slowed down thanks to better conditions for the **borrowing demand** both to households and companies and a more stable condition of banks' **supply**. Last December loans decreased by 1.4% (-3.6% at the end of 2013). While the industrial sector experienced a greater slowdown due to a slight recovery in investments, the trend did not change concerning loans to the construction sector.

Credit supply conditions to companies improved, especially for non-risky companies, together with a reduction in interest rates and a larger quantity of credit availability, benefitting since last autumn of ECB specific operations for longer-term loans. The **risk of lending** to companies is still high and it increases in the construction and service sectors. Consequently, the conditions of access to credit regarding credit rating and guarantees are still selective.

Household loans remained stable, although the number of **new mortgages** for house purchases has increased since the begin of the crisis, clearly favoured by the recovery of transactions in the real estate and the decrease of interest rates. **Consumer credit** remained stationary.

8. PUBLIC FINANCE

Also in 2014 Italy complied to follow the main parameter of the EU on public finance matters: the **debt-to-GDP ratio** was 3%. This year the European Commission foresees an improved debt-to-GDP ratio (2.6%), while the **national debt** would considerably decrease (133.1% of GDP).

Veneto's public spending has slightly increased. Payments from the State in Veneto totalled €14.061 million (+2.8%) in 2013, however allocations to local authorities fell by 3.7%. Compared to other Italian regions, Veneto is characterized by less staff in the public administration: the ratio in 2013 was 45.5 every thousand inhabitants, against a national average of 53. The region's forecasts for 2015 show a considerable change in allocations (-8.3%). **Healthcare** remains the first regional expenditure, being granted 67.3% of allocations. However, after the growth in 2014, healthcare expenditure will experience a decrease by 6.9%.

In 2014 the expenditure for the region's **municipalities** rose above €503 million: in four years they lost 47% of the allocations from the State.

III. OPPORTUNITIES AND THREATS

1. AGRI-FOOD INDUSTRY

The economic crisis did not have such a major impact on Veneto's agri-food industry, which managed to respond better than the manufacturing sector did. The reduction of the number of **farms** has a structural character (-34% since 2002 and -19.1% after the crisis), and an anti-cyclical trend was registered concerning employment in agricultural

sector and foodstuff foreign trade, led by exports (+47.8% between 2008-2013). The crisis had a negative impact on those in charge of the **food and beverage sector** and on the balance of trade of the **agricultural sector**, because of worse negative balance and increased imports of raw materials. Other anti-cyclical effects were registered in the turnover (€15bn in 2012, +10.2% compared to 2008), added value and gross capital formation on tangible goods of the foodstuff industry.

Veneto's public policies helped companies face the crisis, investing in competitiveness and generational change, promoting the reorganization of the farms through business aggregation and, supporting smart specialisation, innovation transfer, certification policies and multifunctionality. On their side, companies followed strategic paths pursuing innovation, horizontal integration, diversification, financial consolidation and consolidation of the assets, processes of organizational evolution and internationalization.

2. TOURISM

Tourism is one of the few sectors that in the last 10 years has registered a significant growth on a world basis. The amount **tourists** spend to travel abroad has doubled in size and an additional +50% is expected in the next 10 years. Tourism is now competitive on a global scale, therefore there is the need of a cultural change, both by those in charge of tourism public policies and those in the private sector. Although Veneto ranks the **first position in Italy** for arrivals and stays, its approach to tourism can no longer be oriented towards policies devoted to promoting and commercializing the supply, but will have to follow more complex **destination management strategies**, together with new regulations and economic planning. Also, it should develop more efficient system of monitoring local and global tourism trends of today.

In this view, the region has encouraged some recent initiatives: the **regional law on tourism** (n.11/2013), allowing to operate following the modern destination management, and a **Tourism Observatory**, in collaboration with Unioncamere Veneto and the department for Economics of the University of Venice Ca' Foscari. This facility is meant as a means of support of regional planning and develop strategic choice making within the tourism sector.

3. THE DIGITAL INDUSTRY

Veneto is one of the Italian regions showing discreet digital performances: when measuring the degree of digitalization among its residents, Veneto ranks 10th, among its companies 8th and among local authorities 6th.

However, the region has to face an overall "Italian delay", caused by some choices made in the past. By adopting the **Digital Agenda**, Veneto could fill in the gap regarding the digitalization of its residents and companies.

Regional performance is positive when we look at the number of companies with their own website (74.3%), users looking up information on goods and services (54.3%), and eventually buying them online (25.8%). Several companies allow visualizing (97.5%), downloading forms (92%) and directly placing online the order (30%).

Only if it fully meets this digital revolution, the region will see a granted economic growth and a rise in employment. The web and its several applications (not to forget

“Internet of Things”) can be an advantage and an opportunity for the whole economic system. **Today’s real competition is online.**

4. CULTURE

The Italian cultural production system shows a **model of development** where innovation and value of the territory are closely interconnected and represent the key to richness and employment. This is why it is important to give this sector the right value within the national and regional economy.

According to a recent survey conducted by Unioncamere and Fondazione Symbola on Italy’s cultural and creative sectors, nowadays Veneto’s cultural production system can count more than **38 thousand companies**, 7.7% of the total business fabric. These generate a total of **€8.3bn of added value**, 11.1% on a national scale, and create **160 thousand jobs**.

These numbers suggest how important the cultural production system is for Veneto’s economy, due also to the many features distinguishing the region from the rest of the country. Above all is the attitude Veneto shows towards culture: it is the third Italian region for cultural richness and the second for culture-related employment. Moreover, four of its provinces rank the top twenty positions (Vicenza, Treviso, Verona and Padua) for added value and employment generated by its cultural heritage.

5. CRIMINALITY

The mafia itself is phenomenon that can easily adapt to any situation. Even though there are no shootings, mafia groups have proved to be able to **undermine Veneto’s socio-economic fabric**. As many other Northern regions, Veneto is the perfect place for criminal activities where money can be recycled by hiding illegal profits behind investments in business and entrepreneurial activities. They would rather be silent and invisible, but they can change aspect. They are metamorphic, of variable forms and strategies, yet active. Every day there are new facts and old activities showing the other side of the same token, named **corruption**. As described in the Manifest of the association Contromafie, corruption has been used “to cover up violence, to buy consciences, to undermine the economy and damage the environment, to subjugate politics, to hide information, to cancel rights and cause inequality and loss of dignity of the human being”. Stereotypes need to be overcome, by processing information and experiences. By looking for and interpreting the new signals of this presence and of this metamorphosis. We need to understand, to tell it as it is now happening, with real words, in order to find new cultural strategies. We need to value all those entities fighting every day for new **pathways of co-responsible participation, justice, legality and solidarity**.