



THE ECONOMIC SITUATION OF VENETO REGION ANNUAL REPORT 2016

Abstract

HOME

In 2015 the economy of Veneto region has been scattered. There has been modest economic growth, sustained rather by increasing spending of families and by enterprises' investments than by exports. In prevision of 2016, the economic activity is expected to consolidate, with a significant boost in internal demand and a slight deceleration in exports. However, there are no expectations of a proper expansion phase, able to rapidly take regional economy back to its pre-crisis levels.

The 49th edition of the Annual Report of the Union of the Veneto Chambers of Commerce provides an analysis of 2015; presenting the dynamics that characterized the regional economy and society and displaying previsions for the ongoing year.

The report sheds light on certain factors of development that could possibly reinforce the growth of the economic system during the upcoming years, starting from the critical conditions that restraint the regional economy today.

It focuses on the figures that describe the beginning of a new phase of development and on the economic actors involved in the system of production: enterprises and families; young people and students; workers and unemployed citizens; banks and institutions. The aim of the report is that of gathering critical elements, dynamic factors and needs of intervention to be addressed and suggested to political actors.

ITALIAN ECONOMY GROWS, BUT A MODERATE PEACE

The International Monetary Found estimated that in 2015, **global output** grew by **3,1%**; comprehensive of an increase of 1,9% for the advanced economies and of 4% for the emerging and developing economies. The projections for 2016 do not exceed the **3,2%**, while in 2017 the production growth should reach the **3,5%**.

At the **European level**, the Commission's estimations head towards a rising output of **1,6%** for 2016 and of **1,8%** for the following year. Internal demand will be the leading force behind the progress, triggered by monetary policies to be provisionally implemented by the ECB and sustained by a decrease in commodity prices, by expansionary tendencies of the job market and by cautionary fiscal policies.

2015 has been a turning year for **Italian economy**: for the first time after a three-year recession gap, GDP started to raise again (**+0,8%**): the main incentive has been the 1,5% rise in internal demand, whereas gains from net exports have been negative, especially in relation to major returns' transactions. The Government's Economy and Finance Annual Document traces a moderately favourable trend, predicting Italian GDP to grow by **1,2%** in real terms and to stabilize on this level of growth in the following years. This prediction is again shaped by an expected expansion of internal demand; consisting primarily of families' spending stimulated by higher wages and increasing employment, but favourable tendencies are predicted also for investments.

IS REGIONAL ECONOMY CHANGING ITS COURSE?

The year 2016 closed with a regional GDP growth of **0,8%**, which doubles the percentage registered in 2014 (**+0,4%**) but which scores below the estimations of the main research institutes. Such a modest growth is due to increasing exports, but after a few years also family spending and investments have made a positive contribution. In Veneto, the job market has slightly improved, thanks to a new kind of job contract

“contratto a tutele crescenti” (Increasing Employment Protections) which has been fostered by the government thanks to fiscal advantages; a more precise verification will however be possible only by the time these incentives will entirely stop.

After the seven years of crisis that marked a clear divisionary line between internationalized enterprises with good trending growth and enterprises that operate under heavy problems in the domestic market, in 2015 the paradigm partially shifted; with a restart in retail selling and in investments of enterprises in need of a renewal of their production machinery. The mainly export-oriented model of development has resulted positive for the regional economy, but entails risks and insecurities related to the ongoing international crisis. Therefore, the model needs to be re-balanced, favouring the recovery of internal demand, but at the same time keeping into consideration the risks linked to the problematic generational change of the resident population and the difficulties of some of the main local credit institutes.

According to our estimations, regional GDP should grow by **1,3%** in 2016, significantly supported by internal demand and a reduction of exports, although resulting in an increase only slightly higher than the **1,1%** Italian growth. However, there are no expectations of a proper expansion phase, which would be able to rapidly take back the regional economy close to pre-crisis levels.

ENTERPRISE

Industrial production, according to the data provided by the survey VenetoCongiura, registered an increase of **+1,8%** in 2015, the same as last year (+1,8%). The considerable recovery in the levels of production was confirmed in 2015 also by an index measuring the extent of use of installation systems, which on a one year average comprised 74,2% of the full production capability. Also the industrial sales index highlighted an average growth of **+2,3%**, confirming the change in trends registered the previous year (1,9%) after the negative figures of 2012 and 2013 (respectively -3,9% and -0,3%). In 2015, almost 48% of the manufacture enterprises of Veneto with at least 10 employees performed material and non-material **investments**, investing 25% more resources as compared to 2014. The figures tell that the investment cycle seems to be destined to continue also in 2016: 45,2% of entrepreneurs plan to invest also during the ongoing year; a percentage marginally lower than that of 2015.

Weaker recessionary trends are notable also by increasing investments in the **constructions** sector respectively to 2014 (+1,7) that exceed the 12 million Euros. Positive signs come from the innovation sector, which with a +5,5% in 2015 significantly balanced the fluctuations in new constructions, decreased by 4,3%.

The year 2015 closed for the Veneto region with a positive rate of **retail sales**, following the low amounts registered during the three previous years. The average increase in sales has been +2,9% on a tendency basis, with a trending growth in the course of the year.

In 2015, the **agricultural sector** had to deal again with climate variations, resulted warmer and less rainy as compared to the usual standards. In terms of production, the most important figure regards the overall value of the gross agricultural production of Veneto, which in 2015 was estimated as 5,7 million Euros, scarcely sinking (-1%) from the previous year.

FOREIGN TRANSACTIONS

Exports and foreign tourism continued to sustain the economy of Veneto. Sales of commodities abroad registered a progress rate of **5,3%**, surpassing in nominal terms the 57,5 billions Euros threshold and marking a new historical record. At a somewhat faster speed (+5,9%) imports approximately reached the 42 billions, indicating a recovery generated by spending abroad. The commercial balance surpassed 15,6 billions Euros (+588 millions from 2014). The growth in exports regarded almost the totality of exported merchandise. Particularly, transactions were beneficial for the eyewear industry (+12,7%), for machineries (+6%); the first key product in the manufacture of Veneto, (worth one fourth of total export) and food products (+13,7%). Among the main importing countries, besides Germany (+3,1%) which holds the record, important to mention is the performance of the United States (+16,6%) and the United Kingdom (+17%).

Talking about the never so significant influxes of foreign tourists, arrivals (**+5,8%**) and presences (+2,2%), have been decisive for those working in the tourism sector, rewarding principally artistic cities and lake lands. After several years of depression, in 2015 there has also been a re-growing trend in mountain tourism; due to a particularly pleasing climate, that however at the same time scaled down seaside tourism, especially the

habitually prevalent German public. The decrease in thermal tourism accounts is strongly noticeable for the significant decreasing in overnight stays (-1,5%). The region saw minor presences of Dutch, Russians and Danish tourists, although the major contributions of Germany, China, United Kingdom and United States filled the vacuum, while other extra European presences give the impression of a good outcome for the future.

THE JOB MARKET

After a long negative phase, 2015 was characterized by **decisive discontinuity** in the regional job market dynamics. As detected by diverse administrative sources, employment tendencies have resulted widely positive (+36,600 job positions as compared to 2014): this as an effect of both the more stable economic situation, and the governmental interventions aimed at incentivize the stabilization of workplaces and rises in hiring. The new norm contained in the Jobs Act, namely the introduced exemption from the contribution liability for the instauration and/or transformation of job contracting into no-term contracts, gave a significant boost to the demand, redefining the benefits of resorting to different types of job contracts. The most evident change regards the interruption of the long-time tendency to limit the use of open-ended contacts, both in terms of workflow and of sales in workplaces: this type of employment signalled a decisive outburst, reducing fixed-term contracts and apprenticeships. Further limitations imposed by the new regulatory framework are addressed to forms of on-call work or Para subordinate work; as well as to the persist growth of occasionally accessory work (voucher). An **inevitable slowdown** of the observed volumes of growth is to be expected in 2016. The maintenance of the increased employment registered in the course of the year, assuming stable economic conditions, will depend on the capacity of the entrepreneurial system to retain and consolidate the new entries in a comprehensive way.

SCHOOL AND YOUTH

Pre-school represents a point of strength in the education system of Veneto, presenting a participatory rate of 93%. School drop-outs (8,4% of young people) is falling and inferior to the national level (15%). Along with improvements in participation and education levels, results have been positive in terms of **efficiency of education**, measured through the students' competences. On this matter, in 2015 primary schools of Veneto settled on the national average, both in the subjects of Italian and maths. Above Italian averages are also obtained by third graders of primary school, both in Italian and maths, with scores of respectively 212 and 213.

Overall, training levels improve; the gap with the rest of Europe reduces; cultural participation grows and high study titles ratios rise with a protective factor in respect to the difficulties to find a job. The rate of transition from secondary school to university in Veneto settled in 2014 on the value of 50,5%, even though dropping as compared to 2013 (56,8%). In Italy, in 2015, 25,3% of Italians between 30 and 34 achieved a university degree. In Veneto, the percentage has been equal to 26,4% (of which 32,3% women and 20,6% men), still lower than the threshold value settled by the goals of Europe 2020 (40%). Graduates that one year after receiving their degree declare to be working are less than half for the Ca' Foscari university (49,3%) and IUAV university (46,5%) of Venice, whereas Verona presents a percentage of young workers equal to 61% and Padua a 50,6%. In Italy and Veneto, the percentage of Neet youth (not in education, employment or training) continued to raise in 2015, touching respectively the 25,7% and 17%.

THE FAMILY

After a long period in which families of Veneto suffered the effects of the crisis with a net worsening of their principal economic variables and a slow erosion of their richness and savings, the year 2014 saw a first and tiny turning point. A recovery of the wealth lost during these years will not be immediate, and possibly not complete either: what seems to be happening to families is a progressive stabilization towards a **“new normality”**, intended as a new level of living standards, that will result more stable but less structured as compared to the previous year. The crisis had effects hardly reversible in the short term, such as the high

number of unemployed citizens to reabsorb, a public support decreasing over time and a more cautious spending behaviour than in the past.

The first figures of 2015 confirm the **improvement of economic conditions of families** thanks to a more accommodating fiscal economy, lower inflation and positive evolution of the job market: purchasing power started to grow again for the first time after 2007 (available income **+0,9%** as compared to 2014); summed to a moderate recovery in consumptions and stabilization of financial savings. In prediction, the economic conditions of families will continue to advance during the upcoming three years and savings will give a more relevant contribute to the growth of financial activities, although without reaching the levels preceding the financial crisis. The most likely scenario for families consists of a progressive recovery that will set them on a level of wealth probably lower than the previous year, but that will maybe represent the real Italian living standard, given the country's current competitiveness and productivity.

TRANSPORT AND LOGISTICS

In 2015, the comprehensive **vehicular traffic** on the regional highway network increased as compared to the precedent year. The lines with origin or destination in the central area of Veneto particularly stand out: the A27 Mestre-Belluno (+4%), the A4 Brescia-Padua (+3,7%) and the A22 Modena-Brenner (+3,3%), especially in regards to the heavy goods traffic. The **harbour of Venice**, with over 25 million tons, registered an increase in freight traffic of +15,3%, even though during the past five years the freight handled decreased (-4,9%) in relation to other harbours of the Adriatic sea (Trieste +20%; Koper +34,7%). The **Chioggia stopover** transported 1,6 million tons; a 4% increase from the previous year, following years of continue fluctuations (a -19,2% drop between 2010 and 2015).

The developments connected to **airport flows** in Veneto are also positive. In 2015, passenger traffic in the Veneto airports increased, both in the Marco Polo (+3,3%) and in the Canova airport of Venice (+6%), while the Catullo airport of Verona suffered a cutback (-6,6%). Very positive has been freight traffic on the stopovers of Venice (+14,7%) and Verona (+8,2%). The **“interporto” di Verona** has handled 28 million tons of freight cargo in 2015, of which 20 millions by truck and almost 8 million by train. The **railway traffic** has been of almost 399 UTI (corresponding to more than 713,000 TEU); resulted in an increase in respect to the previous year (+1,9%). The **“interporto” of Padua** reached the 275,000 TEU, with a 1,9% increase as compared to 2014 and 9,9% as compared to 2012.

BANKS AND CREDIT

At the end of 2015, **banking lending** in the private; non-financial sector (enterprises and families' consumption) showed a 1,1% decrease rate, same as the 2014 variation. Given the moderate recovery in terms of financing to consumer families (+1,4% from the -0,1% in 2014); sustained by the historically contained level of the interest rates on the mortgages on purchases of houses, the lending addressed to enterprises registered a decline by 2,2% (-1,3% in 2014). What contributed to the overall growth of house mortgages is the decisive increase of new supplies during 2015 (62,6% on the previous year). Further, there has been a 40% increase of the subrogations and substitutions that in 2015 made up 16,8% of the new mortgages. **Funding** derogated from banks and financial societies to enterprises lowered by 3,2% at the end of 2015 (-1,7% in 2014). The shrinkage of loans has been more pronounced in the constructions sector (-8,4%) as compared to the manufacture (-2,3%) and services sector (-2,6%). At the end of 2015, the impact of economic sufferings on the total lending to enterprises had risen by 20,2% (from 17,6% of the end of 2014), while the coherence of other deteriorated credits had reduced by 11,6% (from the 12,3% of the end of 2014).

In 2015, the value at **market prices** of securities held by consuming families reduced by 7,8% (-3,3% in 2014). A decline in shares (-4%) added to the accentuated reduction of investments in government securities (-18,2%), in bank bonds (-26,8%) and by other issuers (-7,9%).

The devaluations on equity securities by the two popular non-quoted banks of Veneto (equal to approximately 23% of the value at the end of 2014) influenced the negative performance of the stock shares value of families of Veneto. The downsizing of the **branch banks network** continued also in 2015: at the end of the year, 3,145 branches resulted operative, with a 4,3% cutback in respect to 2014 (-142 units). The

reduction regarded particularly medium-size (-9,1%) and big banks (-4,8%), whereas it was more contained for smaller intermediates (-1,2%).

PUBLIC FINANCE

In 2015, Italy respected the European parameter of public finance: in fact, the deficit-to-GDP ratio settled around **2,6%**. For the ongoing year, the European Commission predicted an improving deficit-to-GDP ratio (2,4%), while public debt should stabilize on the levels of 2015 (**132,7% to GDP**).

Government spending in Veneto slightly diminished. In 2014, the total of payments performed by the government in the regional territory amounted to 13,009 million Euros (-2,5%); particularly, spending for transfers to local administrations decreased by 4,2%. Veneto distinguished itself from other areas of the country for its lower public administration staff numbers: in 2014, the ratio was 46,3 employees per 1000 inhabitants, as compared to a national average of 53,5.

The balance account of the Veneto region in 2016 highlights a growth in expenditure allocation in respect to the previous year (+7,2%), even though investments decreased by 29,2%. Equal in values to the previous year is also healthcare, by far the first source of spending of the region, absorbing 62,6% of expenditures allocation.

Between 2011 and 2015, the **Veneto municipalities** suffered cuts in resources equal to 642 million Euros: in comparison to the pre-measures phase, municipal administrations of Veneto lost 57,8% of governmental transfers.

RESOURCES AND OBSTACLES TO INNOVATION: AN ANALYSIS ON THE ENTERPRISES OF VENETO

Among the fundamental factors of development of the Veneto economy, innovation takes the first place. Using knowledge in an efficient way raises productivity and welfare and creates new market opportunities. The present report illustrates a series of recent pieces of evidence on innovation activities, confronting Italy with the other big economies of the EU and Veneto with the main manufacturer regions similar in dimensions. Italy and Veneto keep being considered moderate innovators with a spending in research and development in GDP-ratio a lot lower than European standards. Nevertheless, this figure can hide underestimations: by looking at the number of employees responsible for research and development activities or the innovative enterprises rate, it emerges that the gap of Italy and Veneto is not as deep. This does not detract from the fact that, especially for Veneto, there are wide margins of improvement, particularly on the collaboration, technological transfer and human capital fronts.

BEYOND PROVINCES. VENETO FROM A NEW PROSPECTIVE

Reconsidering the territory, from a logic of rationality and simplification, in light of the highly debated suppression/reform of provinces becomes essential to improve the territorial asset of public administration hit by the consequences of the financial crisis, in order to reduce waste and inefficiencies and to guarantee a balance in public finances, besides safeguarding citizens' wages and enterprises' profits. Nonetheless, the elimination of provinces can be interpreted in different ways. Some observers think that it is a process of revision of local public spending, imposed by the negative economic and financial situation. Others see it as an opportunity to simplify administration. The redefinition of provinces, actuated by law n.56/2014, becomes therefore an occasion to reflect and to experiment unprecedentedly proposed solutions, aimed at specializing territories and reconsidering investments programs on infrastructures. The abolition of provincial bodies and the concentration of certain functions on a superior level could open a new prosperity, that would allow the Veneto region to "change its status" and transform into an integrated metropolitan space; a federation of municipalities able to offer new opportunities to citizens and enterprises.

PROCESSES OF DEVELOPEMENT OF TERRIRTORIAL ECO-SYSTEMS IN VENETO: THE MECHANICS CASE

Promoting processes of development of territorial eco-systems can become an opportunity to make regional economy more competitive on the national and European levels. In the past years, we have been assisting to a growing interest on reducing the impact of production activities on the environment, leading to the adoption of specific national policies resulting in the re-launch of some sectors. It is not only about the more and more commonly changing behaviour of certain enlightened entrepreneurs careful and attentive to the environment, moved by a sensibility that takes distance from the objective application of binding normatives. A slow common awareness seems to be appearing, generalized by the – also economic – importance of reducing consumptions, reflected by lowering costs, the use of certifications as promotion of both the product and the business process, investments in innovation aimed at improving the environmental impact and at the same time sales. Following the example of the woodfurnishing production chain, enterprises in the mechanic-mechatronic sector (one of the manufacture sectors more relevant for the regional economy) are showing an increasing sensibility towards innovative processes for the reduction of environmental impact, which is becoming a strategic driver for competitiveness, new markets accession and development of already consolidated markets.

BIO-ECONOMY: TOWARDS A NEW MODEL OF DEVELOPMENT FOR THE REGIONAL SYSTEM?

For Veneto, to aim at the development of bio-economy, the latter defined the engine of the next wave of global growth, could represent a strategic choice for the regional economy. Bio-economy aims at overcoming the persistent dependence on fossil resources towards a global system more attentive to the conservation of nature and of the ecosystems defining priorities for sustainable biomass production with different goals, from alimentation purposes, to energetic usages, to material and biotechnological ones. From a first semi-analysis, bio-economy in Veneto appears today still as a marginal phenomenon; not in absolute but rather relative terms on the totality of the regional economy. Nonetheless, the growth potentials of this new trend of development are very high: new job opportunities, mitigation of climate change, resources efficiency.

However, the development of bio-economy will not detract from the capacity of structuring balanced policies, together with sustainable business models that keep into account the interests of multiple actors. In fact, the perspectives of “physiological” growth of bio-economy, and the perception itself by many enterprises that already produce goods and services from removable resources, induce reflection on the fact that in order to favour drastic changes on the technological front, the role of the state is essential, both acting as investor in the basic research and as purchaser of products with specific characteristics of sustainability and innovation.