

Veneto 2013

Economic report



Unioncamere
Veneto

Centro studi e ricerche economiche e sociali

Now entering its 14th year of publication, this report on the economy of the Veneto region is once again acknowledged as an important event in the regional economic information agenda. The Veneto, like Italy, is living through days of major institutional events that will trace the outline for the coming years: the start of a new legislature, the election of a new President of the Italian Republic, and the appointment of a new Government. At the same time, the Veneto region is facing serious economic difficulties, which are putting a huge strain on enterprises and threatening social cohesion. Individuals, businesses and institutions are called upon to make important decisions and it is therefore important that they have all the information they need about the state and dynamics of economic and social phenomena at a local level, the progress made and the problems to be tackled.

Shadows are still looming over economic performance in 2013: the recession is easing but no end is in sight yet. Economic indicators are showing no clear signs of recovery in both industrialised and emerging countries. Central banks are geared to maintaining expansionary monetary conditions both in Europe and in the United States, while in most countries, restrictive fiscal policies will continue to pursue budgetary consolidation. Growth forecasts for the global economy in 2013 have been revised downwards. Dominated by great uncertainty about how the sovereign debt crisis will unfold, the outlook for the euro zone is moderately negative. GDP is expected to register a slight drop in 2013 (-0.3%), and several factors will continue to weigh on domestic demand: credit conditions are still tight; private consumption is still burdened by high unemployment, sluggish wage growth, inflation and high household debt; private investment is falling.

Overcoming the recession in Italy will be a daunting challenge: in 2013, Italian GDP is estimated to shrink by 0.6 percent. In this context, the economy of the Veneto is expected to have a rather flat performance. According to the latest forecasts, regional GDP will shrink by 0.4 percent and the only driving force will be exports (+3.7%). The contribution of private consumption and investment will be negative, as both will record a further drop. Unemployment will rise slightly, but it is likely that many workers receiving temporary unemployment benefits will lose their jobs: in this case, the number of people seeking a job could reach 12 percent of the labour force in 2013.

There are many obstacles and it is becoming increasingly difficult to lay the foundations for a complete recovery of the regional economy. Companies need to focus on production quality and on new foreign markets as well as to join forces with one another in order to transfer knowledge and innovation. In this context, the Chamber of Commerce system has proven to be a reliable partner in supporting businesses in the dialogue with Public Administration to stimulate growth and overcome the deadlock of economic sluggishness.

Venice, March 2013

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Recovery delayed: the longest crisis ever in the Veneto

How will 2013 be for the Veneto and Italy? Is the worst finally over or is another year of suffering in store for us? No one knows yet, but it will certainly be a difficult and in some ways a crucial year for the regional and national economy.

In 2012, many had once again fuelled the illusion, especially during the summer, that a turnaround in the economic cycle was near and that a recovery in production was just around the corner. Forecasts made by entrepreneurs had led all analysts (including ourselves) to the conclusion that the real economy was poised to start growing again. The year ended instead worse than expected leaving 2013 a heavy burden. What happened?

To be honest, 2012 had not started off well at all. Production, sales and orders had racked up negative results already in the early months of the year. Then, between July and August, some more favourable results and encouraging forecasts had fuelled hopes for an easing of the recession and a strengthening of economic activity in the following months. However, the weakening of the international economy, the faltering of Europe's major economies (France, Germany and the United Kingdom), the lack of beneficial effects from the liberalisation on consumption and investments and the record high reached by the tax burden resulted in a new economic collapse towards the end of 2012, bringing the national and regional economy to below 2009 levels.

In essence, what economists call a double dip recession materialized. It refers to a particular type of recession in which the economy starts to grow again for a time after an initial negative peak and then crashes again. The trend of the recession that started in 2008 indeed seems to follow this pattern especially when looking at the charts illustrating the trends of national and regional GDP.

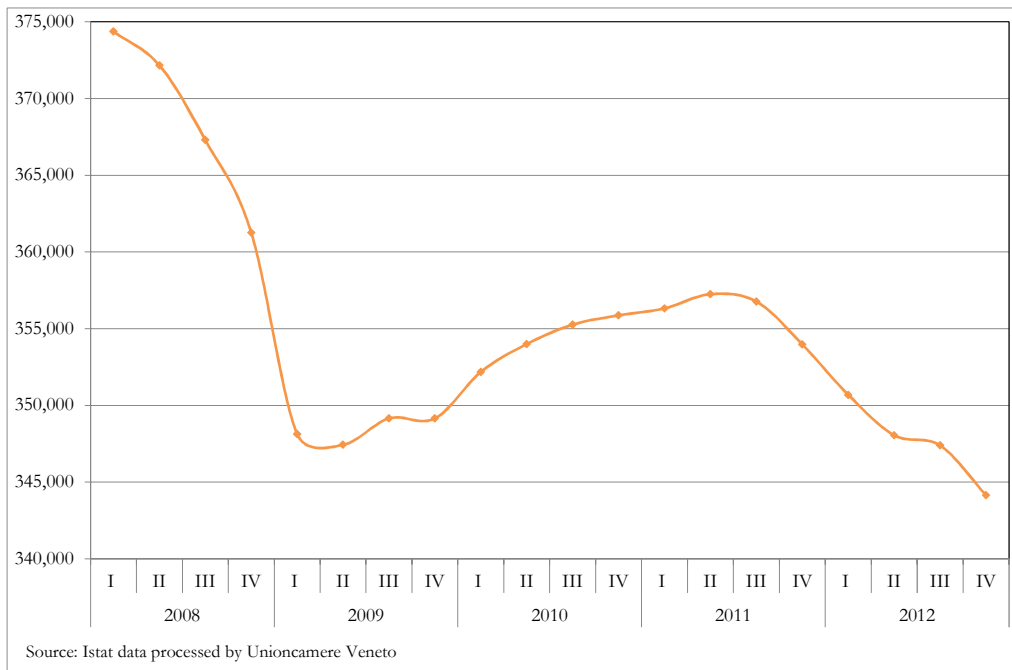


Chart 1 – Italy.
Quarterly GDP trend
(seasonally and calendar
adjusted data in millions of
euro, year of reference: 2005).
Years 2008-2012

However, according to some economic indicators, the beginning of 2013 seems to be characterized by moderately favourable signals from financial markets indicating that the worst phase of the international cycle has been left behind. The subsiding of tensions on financial markets as a result of the measures taken by central banks launched last summer, the progress made in solving the crisis in Europe, the favourable trend of prices on major stock markets and the easing of tensions on commodities markets are important signals, which could boost economic activity, even though the effects will not be immediate. It is rather difficult that these signals will translate into stronger global demand in the short term and it will take some time before Europe can benefit from these in full.

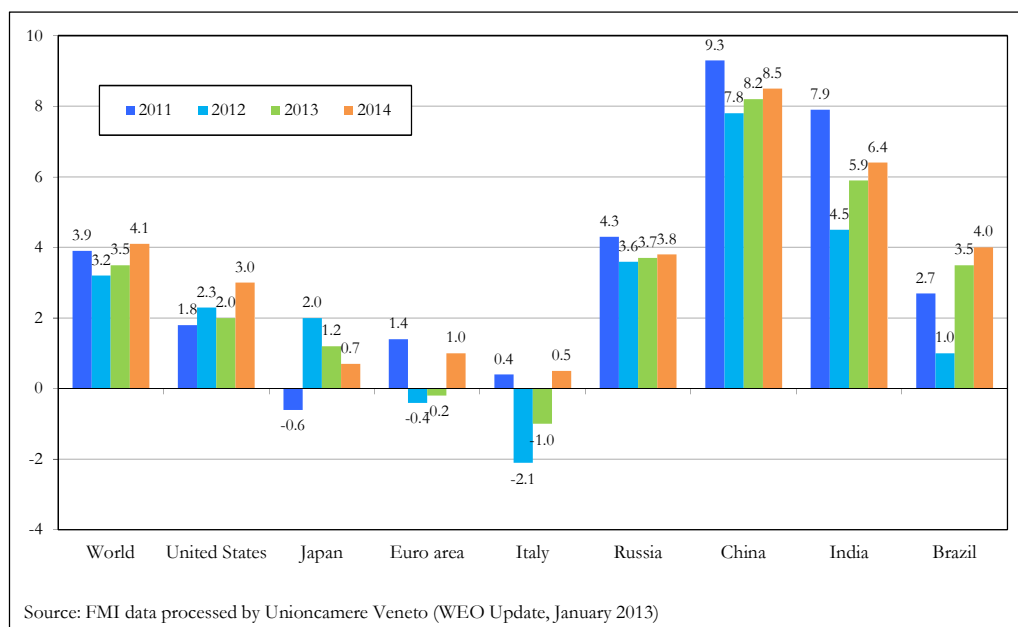
Early in the year, the world macroeconomic scenario is still very uncertain and it is extremely unlikely that forecasts will point to a full economic recovery in 2013, which is shaping up as yet another year without growth.

According to the latest forecasts of the International Monetary Fund released in January, **world GDP** is expected to grow by 3.5 percent. This would be largely due to stable economic activity in advanced countries (+1.4%) and to a slight recovery in emerging markets (+5.5%). It would be coupled by a gradual recovery in **world trade**, which is expected to grow by 3.8 percent in 2013, thanks to more buoyant exchanges at an international level.

In the **United States**, the rate of GDP growth in 2013 is expected to be in line with that of 2012 (+2%), while growth in **Japan** will be well below that of the previous year (+1.2%).

Neither the US nor the European demand (as illustrated further below) will be able to lead the way in driving global growth as will be the case of the major emerging economies instead. In **China**, GDP growth is expected to reach 8.2 percent in 2013, while **India** will grow at a rate of 5.9 percent. In **Brazil**, GDP is expected to increase by 3.5 per cent, while **Russia's** will expand by 3.7 percent.

Chart 2 – Percentage variation of GDP. Years 2011-2014



As a result of the great uncertainty about how the sovereign debt crisis will unfold, the outlook for the euro zone is moderately negative. GDP is expected to register a slight drop in 2013 (-0.2%). Several factors will continue to weigh on domestic demand: credit conditions are still tight; private consumption is still burdened by high unemployment, sluggish wage growth, inflation and high household debt; private investment is falling.

In 2013, however, as the problems posed by the crisis will be successfully addressed, including through the resolute implementation of the agreed policies, there will be space for a stabilization of the economic situation in the first half of the year, with weak growth in the second half, which is absolutely inadequate to offset the negative start.

There will continue to be differences in growth due to the differing needs for structural adjustment, the cost of financing and the sustainability of public spending in each country. In 2013, **Germany** will register a 0.6 percent increase in GDP and **France** a 0.3 percent increase. On the contrary, the major countries of the Mediterranean, i.e., Italy and **Spain**, will still be in recession in 2013.

In line with other economies on the outskirts of Europe, **Italy** too will encounter major challenges in overcoming the 2012 recession. According to ISTAT, the fall in GDP, which started in the third quarter of 2011, is expected to continue to a lesser extent until the second quarter of 2013: the current crisis would hence last more than the one in 2008-09 (5 quarters) and the one in 1992-93 (6 quarters).

	2011	2012	2013	2014
Italy				
ISTAT March 2013	0.4	-2.4	-	-
Government September 2012	-	-2.4	-0.2	1.1
UE Commission November 2012	-	-2.3	-0.5	0.8
Bank of Italy Jenaury 2013	-	-2.0	-1.0	0.7
Ref. Jenaury 2013	-	-2.3	-1.3	0.8
Prometeia February 2013	-	-2.1	-0.6	1.3
Confindustria Dicember 2012	-	-2.1	-1.1	0.6
OECD November 2012	-	-2.2	-1.0	0.6
IMF Jenaury 2013	-	-2.1	-1.0	0.5
Citigroup		-2.5	-2.1	-0.2
Merrill Lynch		-2.5	-1.2	-
Morgan Stanley		-2.5	-1.0	-
Veneto				
Istat November 2012	1.0	-	-	-
Prometeia February 2013	1.0	-1.9	-0.4	1.7

Source: cited source processed by Unioncamere Veneto

Table 1 – Italy and the Veneto. Percentage variation of GDP in real terms: comparison of forecasts. Years 2011-2014

Despite the expected recovery in the second half of the year, the performance of GDP will remain negative in 2013. Forecasts are pointing to a **1 percent contraction on an annual basis**, as estimated by the OECD, IMF and Bank of Italy. Based on the most recent forecasts, the impact of exports (+2.2%) will not

be enough to offset the negative trends in both investment (-2.3%) and household consumption (-1.9%).

The forecast scenario, however, is still pervaded by several elements of uncertainty concerning both the international situation and domestic factors related to the appointment of the new national government after the parliamentary elections of 24-25 February 2013 and the start of the new legislature.

In the face of continued weakness in the domestic demand components, one crucial element for the Italian economy is the performance of world trade, which in turn is strongly dependent on the evolution of the international economic cycle. In addition, the financial difficulties of families and rising unemployment associated with the length of the recession could result in a downward revision of forecasts.

The failure of the business cycle to recover will be reflected in the performance of public finance. The net borrowing of Public Administration (-3% of GDP in 2012) is expected to record a further drop in 2013, reaching -2.5 percent, while the primary surplus (+2.5% in 2012) should reach 3 percent in 2013. The deficit-to-GDP ratio will rise again in 2013 to 129.7 percent due to very limited growth in nominal GDP and begin to shrink in 2014, benefiting from the improvement in the primary balance and economic recovery. Clearly, a sharper slowdown in the Italian economy could frustrate measures already taken to rein in public finances, forcing the next government to pass a new budget law to stay the course of debt reduction.

In this context, the **economy of the Veneto** will very likely register a negative trend in 2013 as well. According to the most recent forecasts (February 2013), **the Veneto will register a 0.4 percent drop in GDP**, in line with that of neighbouring regions of Northeast Italy. The reduction will be the result of the negative trend in investment (-2.3%) and household consumption (-1.2%). The contribution of exports will be positive (+3.7%). The gradual recovery in production will not allow for a turnaround in employment (-0.5%) and unemployment, which also reflects the increase in people looking for a job in 2013, is expected to reach 8.3 percent.

Table 2 – Forecast scenario in 2013: comparison between the Veneto, the North East and Italy

Indicators*	Veneto	North East	Italy
GDP	-0.4	-0.4	-0.6
Household consumption	-1.2	-1.0	-1.5
Gross fixed investment	-2.3	-2.4	-2.6
Imports	1.2	0.4	-0.8
Exports	3.7	2.7	2.1
Labour units	-0.5	-0.6	-0.8
Unemployment rate (%)	8.3	7.8	11.7

* % variation of chain-linked values (year 2005)

Source: Prometeia (February 2013)

1. International economic context

After recovery in 2010 following the “Great Recession” and the slowdown of 2011, the global economy weakened again in 2012.

According to the International Monetary Fund, **world GDP** increased by 3.2 percent compared with 3.9 percent in 2011 and 5.1 percent in 2010 (Chart 3). The global economy was weighed down by several factors of uncertainty associated with the effects of fiscal consolidation in advanced economies and a weak economy, especially in Europe. These are all elements heralding a risk-riddled recovery scenario. Growth is being increasingly driven by emerging economies and developing countries, but among these, the main countries have experienced a slowdown that has reduced the growth differential with advanced economies (Chart 4).

At this stage, world trade has not provided any valuable support: it too has suffered from the negative effects (+2.8%), much lower than the variation in 2011 (+5.9%). International flows already slowed down by mid-year and weakened further in the following months due to the contraction of imports in Europe and in the Asian economies, which were severely impacted not only by weak demand in the advanced economies, but also by cooling domestic demand. In many countries, high and rising unemployment rates further depressed the levels of confidence and spending. Inadequate and ineffective economic policy choices also contributed to reducing levels of confidence.

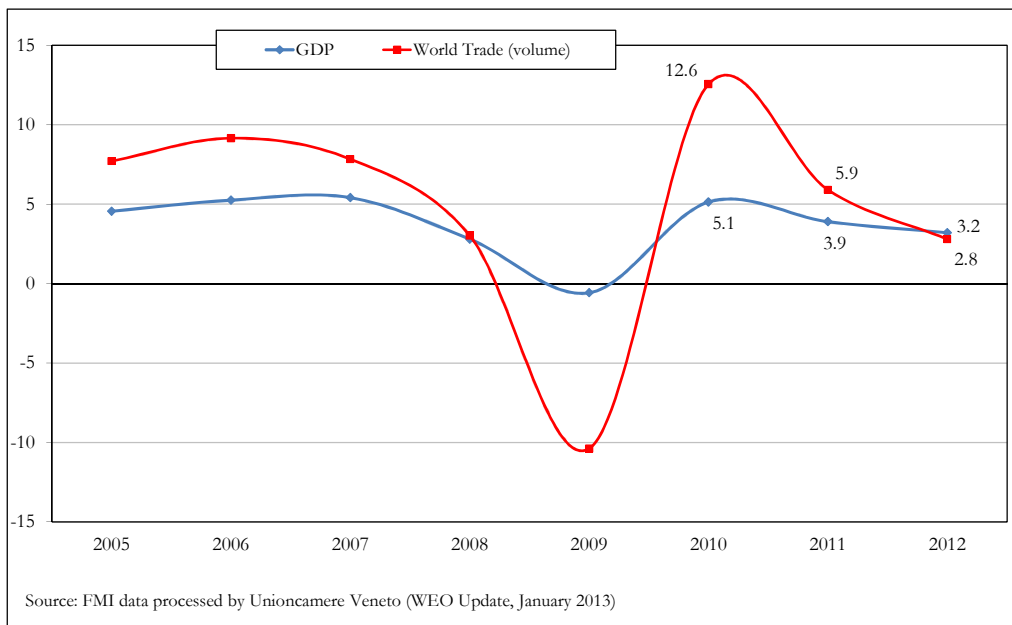


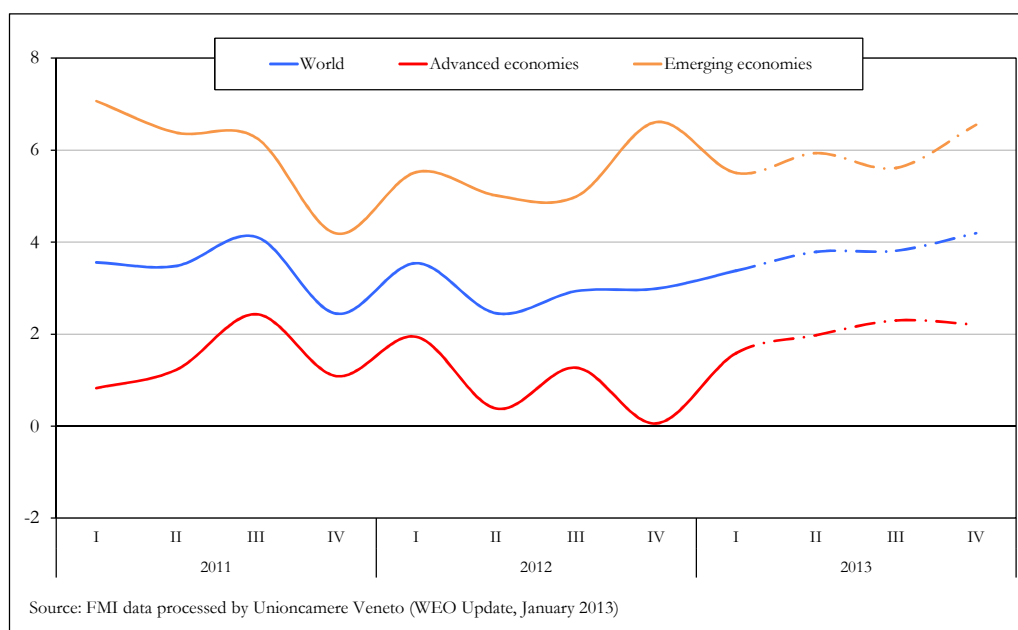
Chart 3 – World GDP trends and world trade volume (% var. over previous year). Years 2005-2012

In 2012, growth in advanced economies remained weak (+1.3%), though with differences. In the **United States**, the expansive monetary policy implemented by the Fed favoured a moderate recovery (+2.3%), which was below expectations though. There were still continued difficulties in domestic demand, burdened by the continued reduction of indebtedness in the private and public sectors. In

Japan, the recovery progressively lost steam (GDP recorded a +2%), due to the stagnation of private and public consumption and to the negative contribution of net exports. In the **United Kingdom**, economic activity remained almost stable (-0.2%), after weak growth in 2011 (+0.9%) (Table 3).

In the European Union, the policy change of the ECB, which anticipated the possibility of “unlimited” purchases of government bonds of countries in difficulty, has eased tensions in financial markets, while fiscal tightening has continued: the decline in demand, associated with the unfavourable economic outlook and the ongoing adjustment in the budgets of households and enterprises, have increasingly contributed to the weak growth in bank loans.

Chart 4 – Trend in global GDP (% var. over the previous quarter). 1st quarter 2011-4th quarter 2013



In 2012, the **euro zone** economy was sluggish. The difficulties of the economically marginal countries were matched by the first signs of weakness in Germany during the year. The restrictive fiscal policies imposed on both Europe’s Mediterranean countries and France and Germany’s opposition to strong measures to stimulate growth have resulted in a slowdown of the German economy, fuelled also by the weakening of the global cycle. According to Eurostat, the euro zone closed 2012 with a 0.6 decrease, down by 0.8 percentage points over the previous year. The four largest economies in the area were all in trouble: Germany, Europe’s locomotive, began to suffer the effects of the crisis and slowed down, recording a slight increase (+0.7%) that many of its European partners envy. France recorded zero growth, while Italy (-2.4%) and Spain (-1.4%) remained in a severe recession. In 2012, Italy had the third worst performance among its 27 European partners; only Portugal (-3.2%) and Greece (-6.4%) did worse. The situation is difficult: suffice it to consider that among the world’s top twenty economies (by GDP value at current prices), Italy (eighth in the ranking) and Spain (thirteenth) will be the only countries to still be in a situation of economic recession (negative outlook for 2013).

Economic activity in key **emerging economies** continued to slow down, reflecting the negative impact of the international economy, which only in some

cases was partially offset by domestic demand. In the last months of 2012, **China's** economy, which in the latter part of 2011 felt the impact of weaker global demand and the slowdown in the real estate sector, recorded a further worsening in the economic situation and GDP growth in 2012 did not exceed 7.8 percent (+9.3% in 2011). The impact was sharper in **India**, where in 2012 GDP grew by 4.5 percent (+7.9% in 2011), and in **Brazil**, where it stopped at the 1 percent, due to restrictive economic policies and weakening foreign demand. The trend in other Asian countries was different from that in the more advanced economies (Korea, Hong Kong, Singapore and Taiwan) and in the newly industrialised countries where growth rates were higher and greater support came from domestic demand. In 2012, the **Russian economy** grew (+3.6%) thanks to growth in consumer spending and investment.

	2010	2011	2012*			% GDP
			IMF	Oecd	Eurostat	
World	5.1	3.9	3.2	-	-	100.0
United States	2.4	1.8	2.3	2.2	2.2	22.0
Euro area	2.0	1.4	-0.4	-0.4	-0.6	16.9
Germany	4.0	3.1	0.9	0.9	0.7	4.7
France	1.7	1.7	0.2	0.2	0.0	3.6
Italy	1.8	0.4	-2.1	-2.2	-2.4	2.8
Spain	-0.3	0.4	-1.4	-1.3	-1.4	1.9
Japan	4.5	-0.6	2.0	1.6	2.0	8.4
United Kingdom	1.8	0.9	-0.2	-0.1	0.2	3.4
China	10.4	9.3	7.8	7.5	-	11.6
India	10.1	7.9	4.5	4.5	-	2.7
Russian	4.3	4.3	3.6	3.4	-	2.7
Brazil	7.5	2.7	1.0	1.5	-	3.4

* estimated data

Source: 2010-2011: IMF data; 2012 estimates: IMF (WEO Update - January 2013), OECD (Economic Outlook - November 2012), Eurostat (March 2013)

Table 3 – Real GDP trend in some countries (var.% over previous year). Years 2010-2012

2. National economic context

In 2012, Italy experienced a new recession, the second in five years, characterised by a collapse of domestic demand. In addition, the uncertainty of economic policies, stringent lending conditions and the impact of fiscal consolidation hit hard consumption and investment. This led to a collapse in imports, while exports boosted demand thanks to sales in countries outside the EU. Therefore, net exports eased the fall in real GDP and the trade balance recorded a deficit (-2.8 billion euro) significantly lower than in previous years.

According to the latest ISTAT estimates, **Italian GDP in 2012** (with values linked to reference year 2005), **shrunk by 2.4 percent** compared with the year before¹, recording a sharp drop compared to the +0.4 percent in 2011 and finally wiping out the recovery registered in 2010 (+1.7%). The contraction in 2012 is comparable to the Great Recession of 2008-2009, especially considering that GDP dropped in volume slightly below the level recorded in 2009.

On a cyclical basis, the last quarter registered -0.9 percent, the worst since the first quarter of 2009. The recession was only briefly mitigated during the summer but then returned in the fall in all its gravity. The sixth consecutive quarter of contraction in economic activity was in fact even worse compared with the previous quarters.

The decline, certified by ISTAT (-2.4%), was much worse than both the euro zone average (-0.6%) and the EU27 average (-0.3%). Slight growth in Germany and zero growth in France left the Italian economy without the driving force of exports to these two major economies. In addition, the economic slowdown of Italy's European partners and Japan, weak growth in the U.S. and the euro's appreciation against the US dollar did not facilitate the sale of Italian products outside the single currency area and dissolved the fragile summer recovery in orders and sales.

Looking at the regional level, Prometeia statistics for 2012 reveal that the recession was less pronounced in the North-West (-1.9%), North-East and Centre (both 2%). It was more severe in the southern regions, which suffered a fall in GDP of 2.5 percent (Table 4).

Broken down by **sector**, the slowdown of national GDP was the result of the sharp decline in the value added in all sectors: particularly marked for construction (-6.3%), agriculture, forestry and fishing (-4.4%) and industry in the strict sense (-3.5%), and less for services (-1.2%).

The weakening of production was mainly due to the sharp decline in **gross fixed capital formation** (-8%), followed by the more moderate drop that had characterized 2011 (-1.8%), as a result of deterioration in the outlook for demand and worsening financing conditions. The reduction was seen in all components, with a decline of 12.2 percent in investment in transportation, 10.6 percent in machinery and equipment and 6.2 percent in construction.

In 2012, employment difficulties and weak real wage trends led to a decline in **household final consumption** equal to -4.3 percent, after being stable in 2011

¹The contraction in Italian GDP is in line with previous forecasts made by leading research institutes in late 2012 and early 2013. After estimating a 1.7 percent contraction in GDP for 2012, the OECD revised its estimate for Italy in December, bringing it down to -2.2 percent. In January 2013, the IMF forecast a slightly less sharp decrease in Italian GDP in 2012 (-2.1%) compared with its estimates in autumn, equal to -2.3 percent. This was also the case of the latest forecasts of the European Commission, which indicate a 2.2 percent contraction in Italy, while it was -2.3 percent in the fall.

(+0.1%). The decline in household consumption was particularly marked for goods (-7%), while spending on services decreased by 1.4 percent. In terms of spending items, the sharpest contractions regarded clothing and footwear (-10.2%) and transportation (-8.5%).

The **spending of Public Administration** and of private social institutions decreased by 2.9 and 1 percent respectively.

According to ISTAT estimates, in 2012, net foreign demand was the only source of support to growth, accounting for 3 percentage points, while domestic demand was negative (excluding inventories), amounting to -4.8 percentage points, as was the case of the variation in inventories with -0.6 percentage points.

In terms of **foreign demand**, 2012 recorded a slowdown in exports, which grew by 3.7 percent, compared with a drop in imports of 5.6 percent, as a result of weak domestic demand. The performance of Italian exports suffered from marked differences between geographic regions: those directed to the EU market stagnated in the second half of 2011 and decreased during 2012, while sales to non-EU markets more than recovered compared with the situation before the Great Recession.

Unemployment in Italy continued to be high. On average, in 2012, the unemployment rate stood at 10.7 percent, 2.3 percentage points higher than in 2011, while the total **labour units** (LU)² decreased by 1.1 percent. The decline was sharper among employees (-1.2%) compared with the self-employed (-0.9%). The decrease in labour units affected all sectors, with drops of 5.4 percent in construction, 3.5 percent in agriculture, forestry and fishing, and 1.9 percent for industry in the strict sense, while employment was stable in services. The much more limited decrease in the latter sector is due to increases recorded in financial and insurance, professional, scientific and technical activities and in the arts and entertainment industry.

As was the case in 2011, in 2012 employment-related problems contributed to the greater recourse to temporary unemployment benefit (*cassa integrazione guadagni* - CIG). In 2012, over 1 billion hours of temporary unemployment benefit (equivalent to 661 thousand workers) were authorised, i.e., an increase of 12.1 percent compared with 2011 (973 million hours). In detail, more than 335 million hours were authorised for ordinary CIG (+46.2%), over 400 million for extraordinary CIG (-5.5%) and almost 355 million for special CIG (+10.9%). Last year, these figures involved over 2 million workers in various capacities (counting also a single day of CIG).

Income from employment and gross wages were stationary in 2012. Per capita wages and salaries registered a 2.1 percent increase in industry in the strict sense and in construction and 0.6 percent in services, while there was no variation in agriculture.

According to the latest ISTAT estimates, **public finances** were improving: in 2012 the net borrowing of Public Administration compared to GDP amounted to -3 percent, an improvement of 0.8 percentage points compared with that recorded in 2011. In absolute terms, net borrowing decreased by about 12,400 million euro, falling to -47,446 million.

² The labour unit is the amount of work done by a full-time employee in a year, or the equivalent amount of work done by part-time workers or persons working two jobs. This concept is no longer linked to a single natural person, but is equal to the number of hours per year corresponding to a full-time job. This number may differ according to the different type of work. The labour units are calculated net of hours of temporary unemployment benefits (*cassa integrazione guadagni* - CIG).

Total **revenue** of Public Administration (equal to 48.1% of GDP) increased by 2.4 percent compared to the previous year. Current revenues recorded a 3.1 percent increase (reaching 47.7% of GDP). In particular, indirect taxes rose by 5.2 per cent, buoyed mainly by the Single Municipal Tax (*imposta municipale unica* - IMU) and by the increase of excise duties on mineral oils. The same growth rate was registered for direct taxes, mainly due to the increase in income tax (IRPEF), regional surtax on income tax and substitute tax on withholding tax, interest and other income from capital, which reflects changes in the taxation of financial income. Actual social security contributions were stable (-0.1%). The overall **tax burden**³ stood at 44 percent, up 1.4 percentage points compared to 2011. The contraction of capital revenue (-44%) is to be ascribed mainly to the reduction of capital taxes (-80.3%), due to the loss of one-off payments of substitute tax for the realignment of book values to international accounting standards (IAS), which had fuelled revenue in 2011.

Table 4 – Main economic indicators in a number of Italian regions (% var. over previous year)*. Year 2012

	GDP	Household Consumption	AA.PP & ISP Consumption	Gross fixed investment	Export **	Import**
Piedmont	-2.1	-4.2	-1.1	-9.0	2.9	-8.6
Lombardy	-1.8	-3.8	-0.9	-8.3	3.7	-8.0
Veneto	-1.9	-4.0	-1.0	-8.5	1.6	-7.8
Emilia Romagna	-2.2	-3.8	-0.7	-8.5	3.1	-5.4
Tuscany	-2.0	-4.0	-1.0	-8.9	6.9	1.0
North-West	-1.9	-3.9	-1.0	-8.6	3.5	-7.8
North-East	-2.0	-3.9	-0.9	-8.6	1.1	-6.7
Centre	-2.0	-3.8	-0.9	-9.2	6.3	-6.7
South and Islands	-2.5	-4.3	-1.2	-9.9	7.8	-4.0
Italy	-2.4	-4.3	-2.9	-8.0	3.7	-5.6

* National data are Istat estimates, data for regions and areas are Prometeia forecasts

** Istat provisional data

Source: Istat (national public accounts and coeweb), Prometeia (scenarios for local economies - February 2013)

³ Amount of direct, indirect, and capital taxes and of social security contributions compared to GDP.

3. Veneto economy

The weakness of the national economic cycle, combined with the recessionary effects of fiscal consolidation measures, made the economy come to a screeching halt. According to the latest estimates released by Prometeia, in 2012, regional GDP recorded a marked contraction of -1.9 percent compared to the previous year, wiping out the growth of 2010 (+1%) and 2011 (+1.7%) and reaching levels slightly above those of 2009 levels (Chart 5).

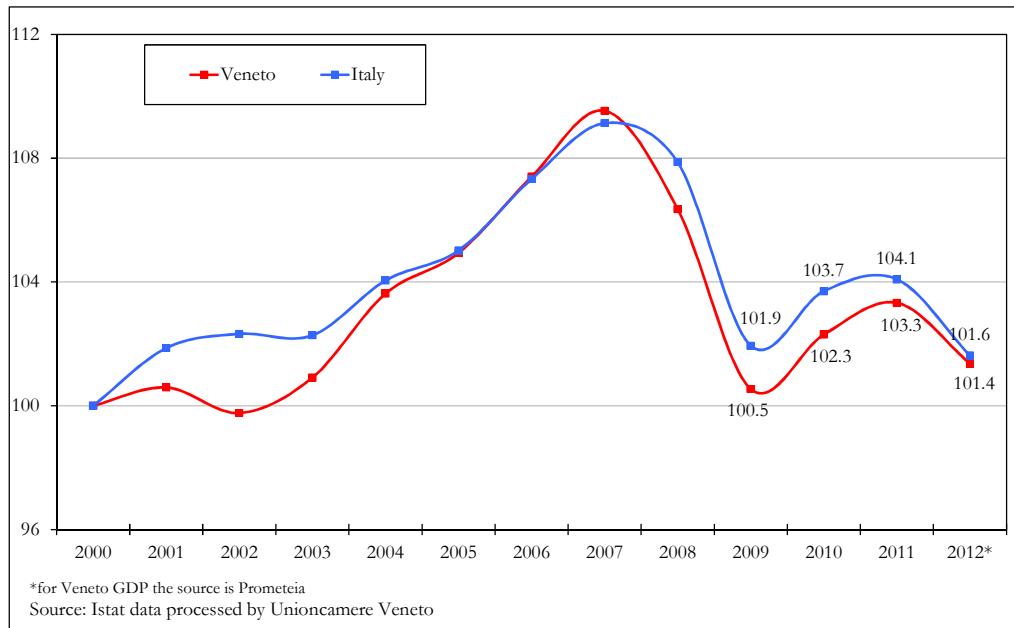


Chart 5 – GDP trend for the Veneto and Italy (index number: base 2000 = 100). Years 2000-2012

The fall of GDP was generalized across the entire country. In comparison with its main competitor regions, the Veneto region showed a slightly better performance than Emilia-Romagna (-2.2%), Piedmont (-2.1%) and Tuscany (-2%), while it was slightly worse compared with Lombardy (-1.8%).

	2000	2008	2009	2010	2011	2012*
absolute value						
GDP (mln of euro)	113,182	145,923	141,852	144,621	147,903	147,069
Labour units (thousand)	2,186	2,357	2,275	2,272	2,290	2,250
Employees unit (thousand)	1,520	1,714	1,657	1,607	1,635	1,608
Income from employment (mln of euro)	43,431	62,258	61,258	61,246	63,206	62,585
Average annual population (thousand)	4,497	4,859	4,899	4,925	4,950	4,962
per capita values						
GDP at market prices per inhabitant (euro)	25,169	30,032	28,955	29,364	29,882	29,636
GDP at market prices per labour units (euro)	51,783	61,908	62,364	63,645	64,601	65,369
Domestic final consumption per inhabitant (euro)	17,971	22,160	21,928	22,347
Income from employment for employees unit (mln of euro)	28,582	36,334	36,962	38,105	38,654	38,929

*source data Prometeia

... data not available yet

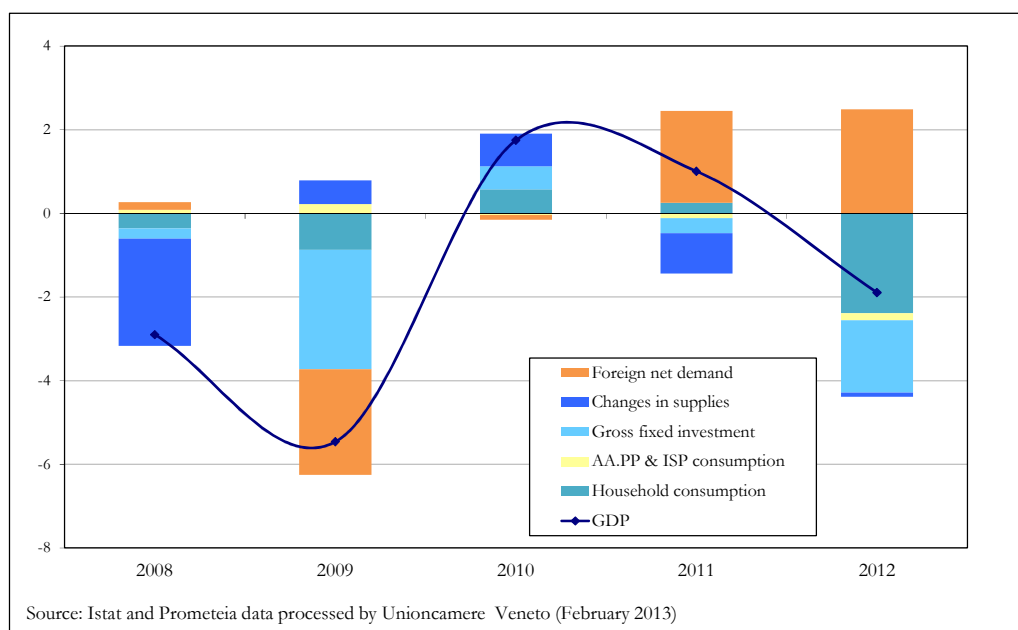
Source: Istat (national public accounts), Prometeia (scenarios for local economies - February 2013) data processed by Unioncamere Veneto

Table 5 – The Veneto. Main aggregate of national public accounts (values in current euro and per capita). Years 2000, 2008-2012

The contraction in regional GDP was the result of the negative impact of domestic demand (-4.5%). **Gross fixed investments** suffered a sharp drop (-8.5%) due to the worsening of lending conditions, to delayed payments by local authorities as a result of the stability pact and to deteriorating demand forecasts. The reduction in spending - attributable to the higher tax burden and difficult labour market conditions - led to a decline in **household final consumption** (-4%), while the budget laws needed for the consolidation of public finances cut the **final consumption of Public Administrations and of private social institutions** (-1%). The downsizing of household consumption was particularly intense in the durable goods sector, but it did not spare either food or services.

At a time of great crisis for the domestic market, **foreign demand** has been an important yet insufficient driver for growth. Looking at the individual items which **contributed to GDP variation**, trade with foreign countries was the only positive component (2.5 percentage points), while the contribution of household consumption (-2.4 percentage points) and investment (-1.7 percentage points) was negative (Chart 6). However, foreign demand has not been a growth factor for the regional economic cycle: the positive contribution to the trade balance was largely the result of the fall in imports rather than increased exports, and was equivalent to the share of the recession that the regional economy “exports” to the rest of the world.

Chart 6 – The Veneto.
Contributing factors for
the growth of GDP
(values in percent and
trend variation).
Years 2008-2012



According to provisional data released by ISTAT⁴, in 2012, the Veneto’s exports were weak, rising by 1.6 percent, against a 7.8 percent drop in imports. In 2012 the Veneto’s **trade balance** was positive, amounting to 13.6 billion euros.

The situations of the production structure and labour market fully reflect the recessive trend of the regional economy. In 2012, the number of **active businesses** decreased by 1.2 percent compared to the previous year⁵. There was also an increase in the number of businesses that filed for bankruptcy, which amounted to over 8,000, i.e., +7.5 percent. The number of businesses that filed

⁴ For further information refer to the paragraph “Foreign trade”.

⁵ For further information refer to the paragraph “Production structure”.

for insolvency proceedings amounted to 1,221 (of which 1,021 bankruptcies), i.e., -8.3 percent compared to 2011.

In 2012, **employment** recorded a further negative balance of more than 15 thousand units because there were less new hires compared to layoffs. The latter were characterized by a negative trend in resignations, which were offset by a significant increase in layoffs in small businesses. In 2012, there was also a greater recourse to temporary unemployment benefits: 103 million authorised hours (about 63 thousand workers involved), compared with 87 million the year before⁶. With regard to income formation, in 2012, it is estimated that the **added value** over basic prices decreased by 1.6 percent over the previous year. The construction sector continued its negative trend (-5.6%) for the sixth year in a row, while, after growing in 2011, the manufacturing industry registered a further drop (-3.3%). Services also declined, though to a lesser degree (-0.6%), while agriculture showed a slight increase (+0.5%). The data thus show a regional system caught in a new serious recession: construction and manufacturing companies are suffering greatly, while the agriculture and services sectors are holding on. Although it is the only positive component, exports may no longer be a decisive factor in the economic cycle. The internal market is at a standstill and, if the situation does not turn around quickly, 2013 will be yet another negative year for the regional economy, with all the consequences at the various levels, first and foremost employment.

The crisis and the difficulties of households

The international economic crisis has had a huge impact on the labour market and on the income and consumption of the Veneto's households. According to ISTAT, in 2011 the **disposable income of households** in the Veneto region amounted to 99,550 million euros, a 3.3 percent increase in nominal terms compared to 2008. According to an estimate of Unioncamere Veneto, however, the indicator, measured at constant 2008 prices, was down by 0.4 percent compared to pre-crisis levels*.

Also in 2011, the **disposable income per capita of households** amounted to 20,113 euros, a 1.4 percent increase at current prices, placing the Veneto in third place in the list of Italian regions. In real terms, i.e., at constant 2008 prices, the same indicator decreased by 2.2 percent during the crisis. The decrease in disposable income has slowed the growth of consumption: in the 2008-2011 period, **average household spending at current prices** decreased by 2.4 percent, while, when measured at constant 2008 prices, it dropped by 5.9 percent. In 2011, with 2,903 euros, the Veneto maintained second place in the ranking of **average monthly expenditure**, after Lombardy and well above the national average of 2,488 euros.

The decline in the purchasing power of households has led to an increase of the **at-risk-of-poverty rate** (ratio of people living with an equivalised disposable income lower than or equal to 60% of the median equivalised income to the total resident population). From 2008 to 2011, in the Veneto, the at-risk-poverty rate increased by two tenths of a percentage point, affecting 10.9 percent of residents (10.7% in 2008, 10.5% in 2010). In Italy, the situation was even worse: about 1 out of every 5 people was at risk of poverty, an increase of about 1 percentage point since 2008.

* The estimate was obtained using 2008 as the base year and applying the deflator of household consumption on a regional basis to the current values.

⁶ For further information refer to the paragraph "Labour market".

Foreign trade

Within the framework of a long and difficult crisis, one of the few reassuring signals has so far been the performance of foreign demand. However, while exports have been - and are still - a key component of regional growth, it is clear that these alone are hardly sufficient to pull the Veneto's economy out of crisis, as evidenced by the decline recorded in 2012.

In 2012, Italy registered a **very weak positive trend in foreign trade** (+3.7% year-on-year), with goods sold totalling 390 billion euros. The slowdown in export flows and the decline in imports (-5.6%) resulted in a positive trade balance of 11 billion euros, reversing the negative trends of previous years (in 2011 the deficit amounted to over 24 billion euros).

Table 6 – Italy. Trade flows in a number of Italian regions (million of euros). Years 2011 and 2012

	Imports			Exports			Balance
	2011 (a)	2012 (b)	var.%	2011 (a)	2012 (b)	var.%	
Lombardy	124,844	114,874	-8.0	104,218	108,080	3.7	-6,793
Veneto	40,737	37,575	-7.8	50,318	51,128	1.6	13,553
Emilia Romagna	29,967	28,337	-5.4	47,961	49,462	3.1	21,125
Piedmont	29,062	26,554	-8.6	38,557	39,686	2.9	13,132
Tuscany	22,135	22,362	1.0	30,271	32,368	6.9	10,006
Lazio	33,686	29,519	-12.4	17,094	17,958	5.1	-11,561
Friuli-Venezia Giulia	7,115	6,810	-4.3	12,575	11,450	-8.9	4,641
North-West	165,837	152,871	-7.8	150,117	155,341	3.5	2,469
North-East	84,404	78,723	-6.7	117,655	118,960	1.1	40,237
Centre	65,947	61,497	-6.7	60,705	64,526	6.3	3,029
South	30,809	25,537	-17.1	27,037	26,972	-0.2	1,435
Islands	28,748	31,650	10.1	16,038	19,454	21.3	-12,196
Other or n.a.	25,683	28,480	10.9	4,352	4,472	2.8	-24,008
Italy	401,428	378,759	-5.6	375,904	389,725	3.7	10,966

(a) definitive data; (b) provisional data

Source: Istat data processed by Unioncamere Veneto

At the **local level**, the positive trend in exports was well above the national average for the major islands (+21.3%) and Central Italy (+6.3%). The regions of the North-West and North-East recorded positive yet weak results (+3.5% and +1.1% respectively), while sales remained stable in Southern Italy (-0.2%). In 2012, the regions that contributed most to the growth of foreign sales (accounting for almost 80% of the increase in Italian exports) were Lombardy (+3.7%), Sicily (+21.2%), Tuscany (+6.9%), Emilia-Romagna (+3.1%) and Sardinia (+21.5%). The growth of the other regions in foreign markets was: Umbria (+7.6%), Puglia (+7.3%), Marche (+6%), Lazio (+5.1%) and Liguria (+4.1%). Significant decreases were recorded by Basilicata (-17.5%) and Friuli-Venezia Giulia (-8.9%). In this context, the Veneto, while representing one of the most export-oriented

regions in Italy⁷ and after two years of strong recovery, recorded markedly sluggish export flows. In 2012, exports of goods - though the only component of GDP that held in this difficult economic situation - recorded **weak growth** (+1.6%)⁸, while domestic demand collapsed. Foreign sales, however, did not contribute to stimulating the regional economic cycle: the positive trade balance (surplus of 13.6 billion euros) was mainly due to a fall in imports (-7.8% compared to 2011, reaching a provisional value of 37.6 billion euros), and it is equivalent - so to speak - to the portion of the region's recession exported to the rest of the world, by buying fewer products abroad.

Even in the face of a limited absorption capacity of the domestic market in the last decade, in recent years, companies have increasingly turned to foreign markets to find opportunities for growth. Indeed, the internationalisation propensity of the Veneto's enterprises in 2012 was almost unchanged compared to the previous year: the **degree of trade openness** (the sum of imports and exports accounted for 60.3% of the regional GDP) and the **propensity to export** (exports accounted for 34.8% of GDP) showed a production system that was dynamic on foreign markets, but no longer in the take-off phase.

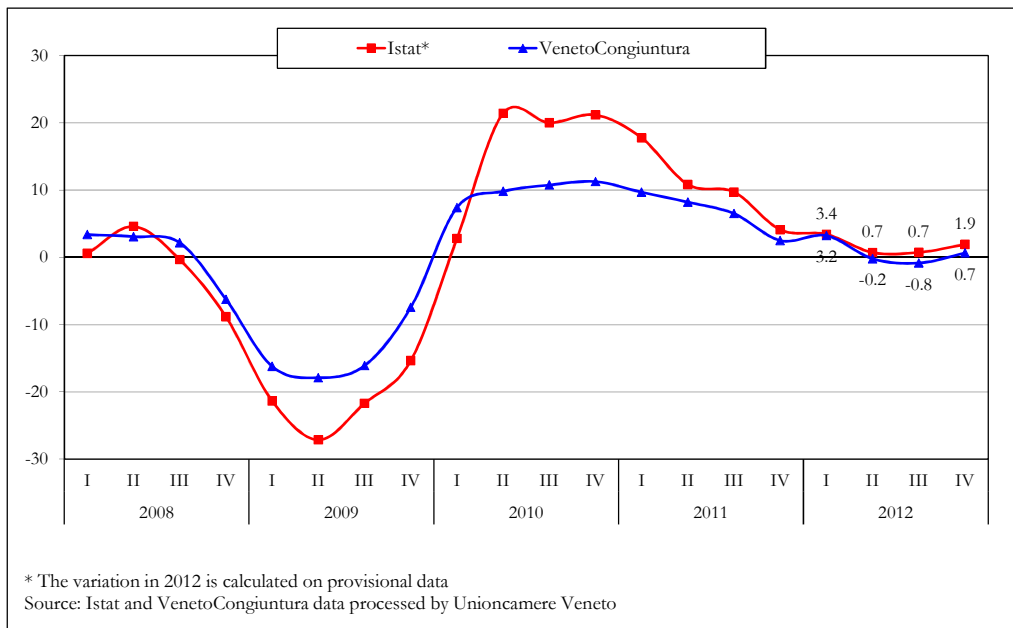


Chart 7 – The Veneto. Export trends (% var. vs. same quarter of previous year). Years 2008-2012

In 2012, the Veneto's exports reached **51.1 billion euros**, an increase of just 809 million euros over 2011 in absolute terms. The dynamics of regional sales abroad gradually weakened during the year (Chart 7). Both ISTAT data and the results of the *VenetoCongiuntura* survey conducted quarterly by Unioncamere Veneto on a sample of 2,000 Veneto manufacturing firms with at least 10 employees showed a slowdown in trade with foreign countries in 2012. Specifically, the export turnover of the Veneto in the first quarter increased by 3.2 percent on an annual basis,

⁷ In 2012, although the weight of the Veneto's foreign trade compared to the national total slightly decreased (13.1%), the region came after Lombardy (27.7%), retaining second place in the list of Italian regions that contribute most to Italian exports, followed by Emilia Romagna (12.7%), Piedmont (10.2%) and Tuscany (8.3%).

⁸ Since the final figures are not available, the 2012/11 variation is calculated by comparing the provisional data with final data consistent with the data published by ISTAT.

before declining slightly (-0.2% in the second quarter and -0.8% in the third) and recorded a weak growth (+0.7%) in the October-December period. A comparison with the provisional data released by ISTAT also shows a weakening of exports during the year. In particular, there was a 3.4 percent rise in the first quarter, followed by weak growth in the following quarters (+0.7% in the second and third quarter, and +1.9% in the last quarter)⁹.

An analysis of the **destination markets** of the Veneto's goods (Table 7) in 2012 shows that the EU27 area received 56.7 percent of regional exports, compared with 43.3 percent of non-EU markets. However, the exports of manufactured goods are proving to be increasingly dynamic towards countries outside the European Union, recording a 6.7 percent increase in value, against a drop in the supply of goods in EU markets (-1.9%).

The decline in sales registered in the countries most heavily affected by austerity plans (Spain and Greece) was compounded by the slowdown in exports towards **Germany** and **France**, that are considered the driving force of the Veneto's sales. While in 2012 these two countries continued to be the Veneto's leading trade partners (with sales of 7 and 5.1 billion euros respectively), the turnover from the export of manufactured goods decreased by 1.7 and 2.1 percent respectively.

In recent years, cross-border business has been increasingly directed towards new markets in the developing world, which have not been spared by the crisis either. Trade flows to the **BRICS countries**¹⁰ decreased in 2012: exports of goods manufactured in the Veneto fell to 4 billion euros (-6.3% compared to 2011). In particular, **China** reduced the purchases of manufactured goods from the Veneto by over one-quarter (down to 1.3 billion euros). In 2012, the Asian giant, also because of the slowdown in global demand, started to purchase less manufactured goods and especially goods related to industrial activity and infrastructure. In particular, there was a drop in the sale of special purpose machinery, leather and tanned hides, machines for general use, pharmaceutical preparations, basic precious and other non-ferrous metals, nuclear fuels, engines, generators and transformers, and equipment for the distribution and control of electricity. By contrast, exports to the Chinese market in some sectors of the fashion industry continued to grow strongly (especially gold jewellery, eyewear and clothing). The weakening of purchases in China undermined the Veneto's exports to Asian economies. The sale of manufactured goods to East Asia fell by 8.3 percent (3.8 billion euros), while exports to Central Asia grew by 7 percent (812 million euros), despite the decrease of exports to **India** (-7% fall to € 420 million euros).

These drops were offset by higher sales to other countries. For example, there was a rise in the export of manufactured goods to **Switzerland** (+24.3%), driven by sales of non-monetary gold, **Russia** (+10.7%), the **United Arab Emirates** (+9.4%), **Japan** (+22.2%), **Saudi Arabia** (+16.6%), and **South Africa** (+32.7%). Sales to North America continued to maintain high rates: the exports of goods manufactured in the Veneto rose by 10.9 percent. In particular, the purchases of the Veneto's goods rose in the **United States** (+11.1%, € 3.3 billion

⁹ The correlation coefficient calculated between the quarterly variation of foreign sales for the years 2009-2012 recorded in the *VenetoCongiuntura* survey and the variation based on the export data released by ISTAT equals 0.97. As a result, the data from the Unioncamere Veneto survey can be considered to be a sound substitute source for export flow trends in the region.

¹⁰ BRICS is an acronym used in international economics to identify five countries (Brazil, Russia, India, China and South Africa) that share some similar features, including the state of developing economies, a large population and abundant strategic natural resources; in the last decade they witnessed a strong growth in GDP and in their share of world trade.

euros) and in **Canada** (+9.9%, 474 million euros). Thanks also to the growth of sales in **Brazil** (+2%), foreign sales to Central and South America continued to grow (+15.2%), reaching 1.7 billion euros.

Countries	2011 (a)	2012 (b)	var.%	comp.%
<i>Import</i>				
1 Germany	9,273	7,399	-20.2	22.5
2 China	4,005	3,506	-12.5	10.6
3 France	1,861	1,894	1.8	5.8
4 Spain	1,892	1,631	-13.8	5.0
5 Netherlands	1,409	1,417	0.6	4.3
6 Austria	1,498	1,381	-7.8	4.2
7 Belgium	1,322	1,262	-4.5	3.8
8 Romania	1,290	1,260	-2.3	3.8
9 Switzerland	705	773	9.6	2.3
10 United Kingdom	803	709	-11.7	2.2
Ue 27	24,027	21,208	-11.7	64.4
Extra Ue 27	12,592	11,717	-7.0	35.6
BRICS	5,691	5,236	-8.0	15.9
Total	36,619	32,925	-10.1	100.0
<i>Export</i>				
1 Germany	6,813	6,699	-1.7	13.5
2 France	5,221	5,113	-2.1	10.3
3 United States	2,938	3,263	11.1	6.6
4 Switzerland	2,053	2,551	24.3	5.1
5 United Kingdom	2,320	2,422	4.4	4.9
6 Spain	2,246	2,044	-9.0	4.1
7 Russia	1,484	1,643	10.7	3.3
8 Austria	1,724	1,642	-4.7	3.3
9 Romania	1,391	1,341	-3.6	2.7
10 China	1,762	1,288	-26.9	2.6
Ue 27	28,701	28,152	-1.9	56.7
Extra Ue 27	20,187	21,542	6.7	43.3
BRICS	4,347	4,073	-6.3	8.2
Total	48,889	49,694	1.6	100.0

Table 7 – The Veneto. Top 10 countries by origin of imports and destination of regional exports* (million of euros). Years 2011 and 2012

*In 2012, 97.2% of Veneto exports and 87.6% of Veneto import consists of manufactured goods.

(a) definitive data; (b) provisional data

Source: Istat data processed by Unioncamere Veneto

Broken down by main **types of product**¹¹, 2012 was characterised by a weak trend in regional exports, which were influenced by the decline in some important sectors. Among the sectors that had an impact on foreign sales are machinery, the top item of the Veneto's exports, which dropped by 2.1 percent compared to 2011. The value of this sector fell below the 10 billion euro mark (19.5% of total sales) (Table 8). Other electrical equipment, which account for 5.3 percent of regional goods sold, marked a 2.1 percent decline in value. Other important products for the regional economy recorded a smaller decrease: footwear (-3.8%,

¹¹ This product classification aggregates the Ateco 2007 codes to highlight the leading sectors and areas of the Veneto's foreign trade.

dropping to 2.1 billion euros), rubber or plastic products (-3.1%), yarns and fabrics (- 9.3%). Some highly specialised sectors of the Veneto's manufacturing industry were able to grow, albeit very little. Among the sectors whose value is above the 2-billion-euro mark are the metallurgical industry, which recorded a 5.1 percent increase to 3.4 billion euros, metalwork (+2.1%, 2.9 billion euros), clothing (+3.9%, 2.7 billion euro) and eyewear (+6.2%, 2.6 billion euro). There were signs of significant increases only for food (+10.1%), chemicals, pharmaceuticals and synthetic fibres (+8.1%), jewellery (+9.7%) and beverages (+9.1%).

Table 8 – The Veneto.
Export by type of
product, classified by
value (million of euros).
Years 2010-2012

Products	2010 (a)	2011 (a)	2012 (b)	var.%	comp. %
1 Machinery	8,608	10,170	9,957	-2.1	19.5
2 Metallurgy	2,441	3,229	3,394	5.1	6.6
3 Metalwork	2,649	2,873	2,934	2.1	5.7
4 Clothing	2,558	2,636	2,739	3.9	5.4
5 Other electrical equipment	2,480	2,789	2,729	-2.1	5.3
6 Eyewear	2,242	2,482	2,636	6.2	5.2
7 Food	1,866	2,157	2,374	10.1	4.6
8 Tanning and leather processing	1,944	2,191	2,242	2.3	4.4
9 Furniture	2,056	2,174	2,230	2.6	4.4
10 Chemical Pharmaceuticals, synthetic fibers	1,855	2,032	2,197	8.1	4.3
11 Footwear	2,047	2,192	2,107	-3.8	4.1
12 Means of transport and parts productions	2,268	1,927	1,992	3.4	3.9
13 Jewelry	1,486	1,557	1,708	9.7	3.3
14 Rubber and plastic products	1,559	1,698	1,646	-3.1	3.2
15 Beverages	1,312	1,491	1,627	9.1	3.2
16 Household appliances	1,185	1,226	1,263	3.0	2.5
17 Yarns and Fabrics	1,199	1,343	1,217	-9.3	2.4
18 Paper and printing	981	999	1,036	3.7	2.0
19 Other manufactured products	912	938	963	2.6	1.9
20 Agriculture and fishing	833	819	820	0.1	1.6
21 Electronic, medical and measuring equipment	795	805	775	-3.7	1.5
22 Other services	481	550	552	0.5	1.1
23 Knitwear	457	495	514	3.8	1.0
24 Cut, shaped and finished stones	409	425	460	8.2	0.9
25 Glass and glass products	406	427	409	-4.1	0.8
26 Refined petroleum products	290	386	298	-22.8	0.6
27 Wood	235	248	246	-0.9	0.5
28 Mining and quarrying products	57	60	61	1.3	0.1
Total	45,613	50,318	51,128	1.6	100.0

(a) definitive data; (b) provisional data

Source: Istat data processed by Unioncamere Veneto

A look at **imports** shows that the decline in value was much sharper in the European Union (-11.7%) compared to non-EU markets (-7%). In 2012, the ranking of the main countries from which manufactured goods were imported continued to be led by Germany (over 7 billion euros), which now accounts for almost one quarter of the Veneto's imports in spite of a severe 20.2% decrease. China remained in second place (3.5 billion euros), a decrease of incoming trade flows of 12.5 percent compared to 2011. There was a generalized decrease in almost all sectors. In particular, means of transport and parts production, the top import from abroad, fell by 7.8 percent, dropping to 37.6 billion euros. A decrease was also recorded by metallurgical products (-7.8%), chemical and pharmaceutical products (-8.5%), food products (-8.2%), and clothing, agriculture and machinery.

Production structure

Year 2012 was so far the worst year of the crisis in terms of the number of businesses closed. According to data provided by Infocamere on the **number of businesses created and closed**, i.e., the demographic changes in registrations and closures (net of closures *ex officio*), **about 90 enterprises a day went out of business** (5,207 more compared to 2011, i.e., a negative variation of almost 20%), totalling a **negative balance of 2,815 businesses** on an annual basis (Chart 8). This result is the worst since the beginning of the decade and among all Italian regions; it is also the result of the trend in new-born businesses. Registrations of new firms decreased by 3.6 percent compared to the year before, standing at less than 30,000, the lowest in recent years. Only year 2009, the worst year since the beginning of the crisis, had recorded a greater loss, which, however, was fully recovered in the following two years.

Based on the variations recorded by the Companies Register during the year, at year-end 2012 the number of **registered companies amounted to 500,011**, down by 5,456 units, i.e., **1.1 percent less** compared to 2011.

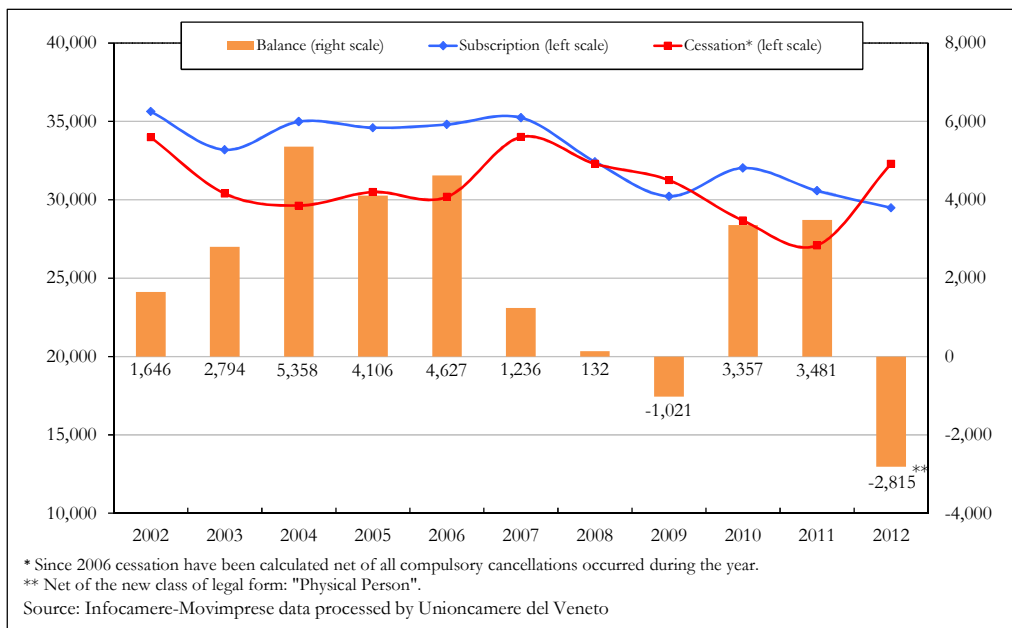


Chart 8 – The Veneto. Company registrations, closures and the balance of companies registered. Years 2002-2012

The downward trend also affected the **active businesses**, which suffered a decline of more than 5,600 units, equal to **-1.2 percent** in relative terms, amounting to slightly more than **450 thousand units**. A look at the changes in the stock reveals the severity of the crisis for industry (-3.1% including construction) and agriculture (-1.8%). This decrease has consolidated a long-term trend, as shown also by the data of the last agricultural census of 2010¹². By contrast, the tertiary sector was able to weather the economic crisis, posting an overall stable business activity.

¹² According to the final data made public by ISTAT, the 2010 census recorded 119,384 businesses as opposed to 191,069 in 2000 census and 224,704 in 1982.

A detailed examination of individual **economic sectors** (Table 9) reveals that the sharpest negative trend was registered by the construction industry (-3.5%), which was heavily hit by the housing crisis and the credit crunch. The data also confirmed that a de-industrialization process is underway in the economic fabric as a result of the sharp slowdown in industrial production, which is mainly due to the collapse in domestic demand. Compared to 2011, manufacturing lost more than 1,600 active units (-2.8%) and more than 13,000 units in 10 years (one-fifth of industries have been lost since 2002).

Table 9 – The Veneto.
Registered and active companies by sector and legal form (absolute value and % var. over previous year). Years 2011 and 2012

	Registered		Active		Registered	Active
	2011	2012	2011	2012	var.% 12/11	
Economic sector						
Agriculture, forestry and fishing	77,817	76,434	77,353	75,972	-1.8	-1.8
Mining	309	300	259	248	-2.9	-4.2
Manufacturing industry	64,575	62,896	57,484	55,872	-2.6	-2.8
Public utilities (energy, gas, water, environment)	1,180	1,353	1,085	1,258	14.7	15.9
Construction	78,194	75,949	74,029	71,405	-2.9	-3.5
Trade and repair of motor vehicles motorcycles	112,306	111,453	104,710	103,767	-0.8	-0.9
Transport services, logistics and storage	15,539	15,328	14,363	14,114	-1.4	-1.7
Accommodation and catering	32,413	32,750	28,394	28,581	1.0	0.7
Media and communication services	9,449	9,520	8,689	8,754	0.8	0.7
Financial Services & Insurance	9,279	9,369	8,908	9,000	1.0	1.0
Real estate	32,004	32,220	29,327	29,469	0.7	0.5
Advanced support services for businesses	17,163	17,334	15,682	15,858	1.0	1.1
Rental business, tourist services and supp. Business	10,389	10,634	9,655	9,857	2.4	2.1
Private education and training services	1,778	1,805	1,680	1,698	1.5	1.1
Health, social care and private health services	1,796	1,898	1,652	1,751	5.7	6.0
Services to the person	4,178	4,227	3,684	3,738	1.2	1.5
Other activities	18,909	18,885	18,481	18,434	-0.1	-0.3
Unclassified Companies	18,189	17,616	492	486	-3.2	-1.2
Legal form						
Corporations	109,222	109,634	83,203	83,608	0.4	0.5
Partnerships	113,163	110,830	95,639	93,880	-2.1	-1.8
Individual firms	273,313	269,646	270,158	265,708	-1.3	-1.6
Cooperatives	5,834	5,846	3,792	3,839	0.2	1.2
Other forms	3,935	4,015	3,135	3,227	2.0	2.9
Total*	505,467	500,011	455,927	450,299	-1.1	-1.2

* From the second quarter of 2012 due to the new Services Directive in the analysis of companies there is a new class of legal form "Physical Person" that has been included only in the total and not by sector and by legal form to allow proper comparability with the 'previous year. The total variation, even though it includes this new class, does not change because of this consistency irrelevant.

Source: Infocamere-Movimprese data processed by Unioncamere Veneto

A further analysis of **manufacturing firms** (Table 10) shows that all sectors recorded more or less marked contractions, except for repairs, maintenance and installation of machinery, which showed a positive trend (+5.1% compared to 2011); this sector belongs to manufacturing according to the new ISTAT classification of economic activities, but in fact it falls under the services sector.

More specifically, the greatest losses occurred in the wood and furniture (-4.2%), electrical and electronic machinery (-4.1%) and marble, glass, and ceramics (-4%) industries. The drop was not as sharp in the following sectors: fashion and metal and metal products (-3.2% respectively), machinery and mechanical equipment (-3%), transport (-2.7%), chemical and pharmaceutical (-2.6%) and rubber and plastic products (-2.4%). Though to a lesser extent, also the variations in the paper and printing (-1.7%) and food, beverages and tobacco (-1.1%) industries were negative.

The sector that showed a stronger positive trend was public utilities: it was driven by the renewable energy segment and recorded a 15.9 percent increase in active

companies. The tertiary sector registered a positive trend with substantial increases in healthcare and social services (+6%), followed by the rental business, tourism services and services to companies (+2.1%), services to persons (+1.5%), advanced services to business and educational services (both +1.1%) and financial and insurance services (+1%). The only negative items in the services sector were transport and logistics, which in 2012 recorded a further decline of 1.7 percent, and trade (-0.9%), which was hit hard by the sharp drop in consumption.

Economic Sector	Registered		Active		Registered	Active
	2011	2012	2011	2012	var.% 12/11	
Food, beverage and tobacco	4,076	4,032	3,689	3,648	-1.1	-1.1
Textile, clothing and footwear	11,913	11,519	10,224	9,899	-3.3	-3.2
Wood and furniture	10,021	9,682	8,971	8,595	-3.4	-4.2
Paper, print and furniture	2,502	2,461	2,235	2,197	-1.6	-1.7
Chemical, pharmaceutical and oil industries	705	687	604	588	-2.6	-2.6
Rubber and plastic	1,646	1,617	1,443	1,408	-1.8	-2.4
Marble, glass, ceramics and non metal products	3,325	3,196	2,942	2,825	-3.9	-4.0
Metal and metal products	13,367	12,967	12,163	11,778	-3.0	-3.2
Electrical and electronics machinery	3,548	3,429	3,105	2,977	-3.4	-4.1
Machine tools	4,851	4,697	4,175	4,050	-3.2	-3.0
Means of transport	1,138	1,107	971	945	-2.7	-2.7
Repair and maintenance machinery and equipment installation	2,588	2,723	2,507	2,635	5.2	5.1
Other manufacturing enterprises	4,895	4,779	4,455	4,327	-2.4	-2.9
TOTAL	64,575	62,896	57,484	55,872	-2.6	-2.8

Source: Infocamere-Movimprese data processed by Unioncamere Veneto

Table 10 – The Veneto. Registered and active companies by manufacturing sector (abs. value and % var. over previous year). Years 2011 and 2012

Looking at the number of enterprises by **legal form**, it can be seen that the transformation of the enterprise base towards more structured forms of companies continued in 2012. The number of joint-stock companies registered an increase of 0.5 percent compared to 2011, while partnerships and sole proprietorships both witnessed a decline of 1.8 percent and 1.6 percent respectively. In sharp contrast to 2011, the number of cooperatives recorded an increase of 1.2 percent.

Enterprises owned by women, young people and foreigners

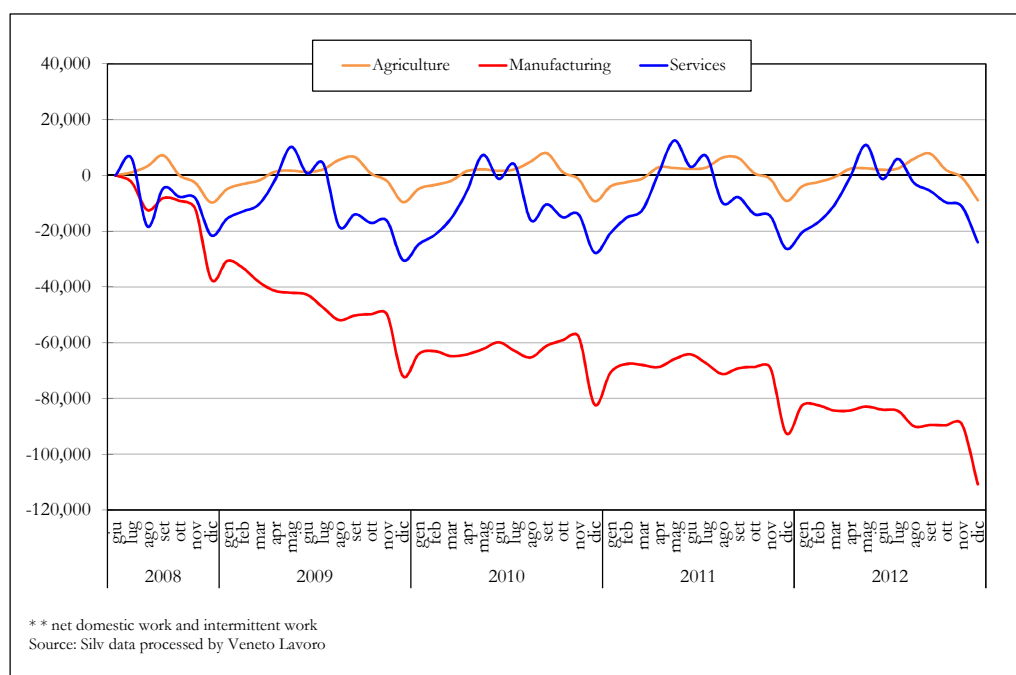
According to data released by Infocamere, in 2012 the number of **businesses owned by women and foreigners** in the Veneto registered a positive balance between registrations and closures of 4,557 and 1,282 businesses respectively. This result, however, failed to make up for the sharp contraction in the enterprise base, since the weight of these business categories was small compared to the total number of enterprises in the Veneto: only 9.2 percent for businesses owned by young people under age 35 and 8.4 percent for businesses owned by foreigners. In contrast to previous years, businesses owned by **women** closed the year with a slight decrease (-103 units). Broken down by sector, women-owned businesses were concentrated mainly in trade (25.3%) and in agriculture and related activities (18.8%). The enterprises owned by young people and foreigners operated mainly in the commercial sector (24.5% and 28.6% respectively) and construction (23.9% and 33.5%).

Labour market

In 2012, the drop in production levels and consumption of households inevitably had pretty severe repercussions on the labour market. According to calculations by Veneto Lavoro based on Silv data¹³, 2012 closed with a **negative employment balance of over 15,000 jobs**, a sharp drop compared to 2011 (-8,700 units) and 2010 (-7,200 units), but far better than in 2009 (-43,400 units). The trend in employment during the year showed cyclical variations, which followed the same pattern of the last four years, characterized by an improvement in the first half and a sharp slowdown in the last of months of the year. The first two quarters of 2012 showed a favourable trend with a positive employment balance (+32.1 and +12.5 thousand units respectively), while the last two quarters registered a decline in jobs (- 60,500 units in total), which was much more marked in the last three months. However, this decrease is physiological considering that the year-end coincides with the administrative closure of contracts, especially those for temporary workers.

The **negative employment balance** is attributable in particular to a marked decline in the volume of new hires (from 660.7 to 615,900 units, accounting for -6.8%), which was not offset by the negative trend in terminations (down from 669.4 to 631.8 thousand units, equal to -5.6%).

Chart 9 – The Veneto.
Position of employees*
by macro sector
(cumulative var.
compared to 26 June
2008, daily data).
June 2008 - Dec. 2012



With regard to labour demand by sector, the trend was positive only for agriculture (+5%). The other sectors showed a decrease in hiring, particularly in construction (-20.1%) and industry (-17.5%), while the service sector registered a 3.1 percent decrease. The same trend was also seen in terminations, resulting in a

¹³ Silv (Sistema informativo lavoro veneto - Veneto Labour Market Information System) enables monitoring labour market trends in the Veneto, with reference to employees and insourced workers for which it is mandatory to notify the beginning of the work contract (so-called *collaborazioni a progetto* - project-based contracts, *collaborazioni coordinate e continuative* - coordinated and continued collaboration, “*mini-cococo*”). For more information, refer to www.venetolavoro.it.

net positive employment balance in services (+2.3 thousand units) and agriculture (+0.2 thousand). In industry and construction, the balances continued to be negative (-11.1 and -7.2 thousand), though lower than in 2011 (Chart 9).

The drop in new hires affected almost equally both the Italian and foreign component, while the decrease in the hiring of men (-10.9%) was worse than that of women (-2.5%). Net balances showed the largest contractions in employment for men (-13.3 thousand, compared to -2.5 thousand units for women).

Broken down by type of contract, both new hires and terminations recorded contractions. The balances were negative, especially for fixed-term contracts (including administration) and apprenticeship (-15.1 thousand units), while that of permanent contracts was more modest (-800 units).

	Recruitment			Closures			Balance	
	2011	2012	var.% 12/11	2011	2012	var.% 12/11	2011	2012
Total	660.7	615.9	-6.8	669.4	631.8	-5.6	-8.7	-15.9
Gender								
Female	321.6	313.7	-2.5	324.3	316.2	-2.5	-2.7	-2.5
Male	339.1	302.3	-10.9	345.1	315.6	-8.5	-6.0	-13.3
Nationality								
Italian	476.5	445.7	-6.5	488.2	459.6	-5.9	-11.7	-13.9
Foreign	184.3	170.3	-7.6	181.3	172.2	-5.0	3.0	-1.9
Sector								
Agriculture	49.9	52.4	5.0	49.8	52.2	4.8	0.1	0.2
Industry	153.3	126.5	-17.5	156.4	137.6	-12.0	-3.1	-11.1
Construction	36.9	29.5	-20.1	44.1	36.7	-16.8	-7.2	-7.2
Services	420.6	407.6	-3.1	419.2	405.3	-3.3	1.4	2.3
Type of contract								
Indefinitely	102.7	90.8	-11.6	98.0	91.6	-6.5	4.7	-0.8
Apprenticeship	41.0	34.3	-16.3	46.3	38.6	-16.6	-5.3	-4.3
Temporary	394.3	385.0	-2.4	400.7	394.4	-1.6	-6.4	-9.4
Administering	122.6	106.0	-13.5	124.3	107.4	-13.6	-1.7	-1.4

* net domestic work and intermittent work

Source: Veneto Lavoro-Silv data processed by Unioncamere Veneto

In 2012, after the sharp slowdown of 2011, the authorised hours of CIG showed a further increase, from 87 to almost 103 million (+18.2%), which was especially evident in the second half of the year. The value was, however, lower than in 2010 (124.5 million hours). The increase in hours of temporary unemployment benefits (CIG) is largely attributable to ordinary CIG (over 28 million compared to 20 in 2011, +40.2%) and to special CIG (39.7 million against 30.2 of 2011, +31.5%). Extraordinary CIG decreased (35.1 million as opposed to 36.8 in 2011, -4.7%). Increased recourse to temporary unemployment benefits was matched by the increase in the number of **company crises**¹⁴, from 1,063 units in 2011 to 1,502 in 2012. At the same time, the number of workers affected by subsequent extraordinary CIG measures and/or layoffs increased (+67.1%, involving more than 34 thousand workers, as opposed to 20.8 thousand in 2011). As to the

¹⁴ This is a formal procedure to announce a company crisis: it is started with a communication from the company to trade union representatives, INPS (Italy's National Social Security Institute) and the Provincial Commission for Labour Issues.

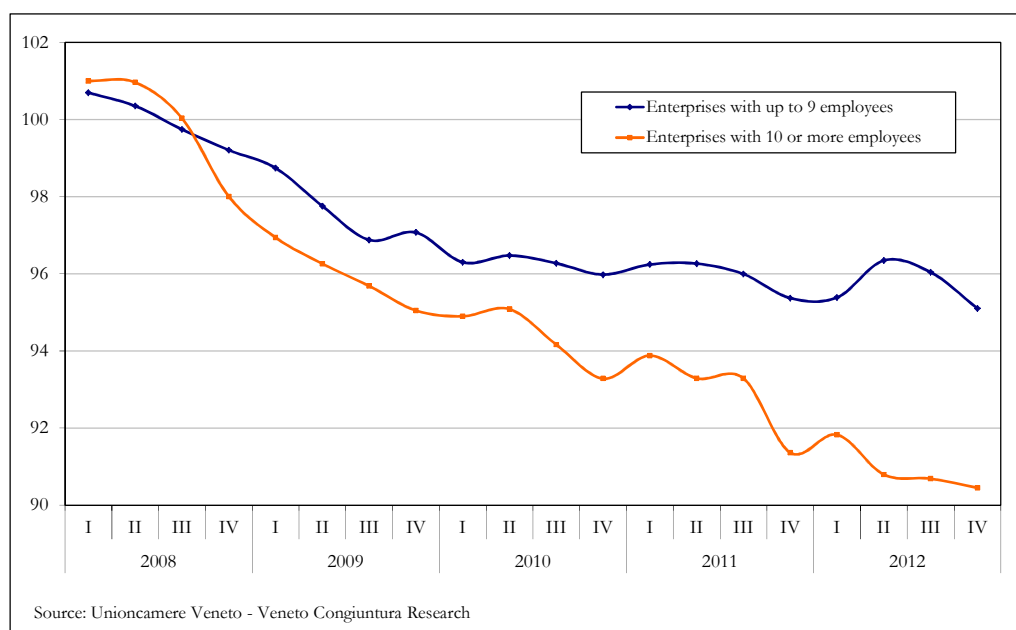
Table 11 – The Veneto. Recruitment, terminations and balance of employees* by gender, citizenship and industry (in thousands). Years 2011 and 2012

number of workers **made redundant**, the figure rose by 4.7 percent. This trend was the result, on the one hand, of a sharp decline in collective redundancies (-25.5%) and, on the other, of a significant increase in individual lay-offs (+20.5%), which confirmed the increased difficulties being experienced by small businesses.

The economic survey of Unioncamere Veneto also confirms the negative employment trend in 2012. As to manufacturing firms, the average annual contraction amounted to 0.9 percent, slightly worse than in 2011 (-0.5%). The decrease affected all business sizes: micro-enterprises (up to 9 employees) registered -0.8 percent and larger enterprises (10 employees or more) -0.9 percent. At a sector level, the wood and furniture (-2.7%), marble, glass and ceramics (-2.3%) and food industries (-1.6%) all had a negative performance. The only sectors to record slightly positive employment trends were the mechanical equipment and metal products sectors (both +0.3%).

The *VenetoCongiuntura*'s economic survey showed a significant decline in employment in construction (-1.7%) and an increase in trade (+0.9%).

Chart 10 – The Veneto.
Employment in manufacturing enterprises by size (index number: 2008 base = 100).
Years 2008-2012



According to ISTAT, in the Veneto region, the **number of employed people amounted to 2.1 million** in 2012, stable¹⁵ compared to 2011, as were the national average and the figure for the North-East. Broken down by sector, the number of employed people grew only in trade (+9.7%) and agriculture (+7.5%). The other sectors registered decreases: construction (-3.2%), services (-2.7%) and industry (-2.4%). The **employment rate**, i.e. persons in employment as a percentage of the population of working age (15- 64 years) amounted to 65 percent, in line with the 2011 figure (64.9%). The **unemployment rate** was equal to 6.6 percent, down by 1.6 percentage points compared to 2011, less alarming than Italy's national figure (+10.7%). However, the marked increase in **people seeking employment** (+33.9%), which reached 150,000 units (compared to 112 thousand units in 2011), is worrying.

¹⁵ Calculations obtained from Infocamere data, integrated with INPS data, showed stable employment in the Veneto's businesses in the private sector, confirming very negative results in the construction and manufacturing sectors.

	Veneto			North-East			Italy		
	2011	2012	var. %	2011	2012	var. %	2011	2012	var. %
Labour force	2,246	2,286	1.8	5,360	5,450	1.7	25,075	25,642	2.3
Total Employees	2,134	2,136	0.1	5,091	5,087	-0.1	22,967	22,899	-0.3
Agriculture	70	75	7.5	179	186	3.9	850	849	-0.2
Industry	617	602	-2.4	1,370	1,334	-2.7	4,692	4,608	-1.8
Construction	173	167	-3.2	378	365	-3.3	1,847	1,754	-5.0
Commerce	413	453	9.7	990	1,032	4.3	4,517	4,651	3.0
Services	862	839	-2.7	2,174	2,170	-0.2	11,061	11,037	-0.2
Looking for employment	112	150	33.9	269	363	34.9	2,108	2,744	30.2

Source: Istat data processed by Unioncamere Veneto

Table 12 – Italy, the North-East and the Veneto. Labour force by industry (in thousands). Years 2011 and 2012

Youth employment is a major emergency at both the national and regional level. According to ISTAT, in the Veneto in 2012, the employment rate for young people under 29 years of age was equal to 42 percent, a steady decline since 2007 (then 52%). By contrast, the number of employed people aged over 55 years registered strong growth, resulting in a 42.8% rate (31% in 2007). These trends are determined by two factors: on the one hand, the ageing of the population in working age due to the low demand for labour and the lower need to replace those in employment; on the other, the phenomenon of temporary work contracts that are creating increasingly unstable working conditions for young people. The result has been a tightening of the economic system which, with the lack of young workers, is wasting the opportunity to introduce new working approaches, technologies and innovations, creating a system that hinders competitiveness.

The entrepreneurs' employment forecasts for 2012 were confirmed

The actual results confirm the forecasts made by entrepreneurs and recorded by the **Excelsior survey on the employment needs of enterprises** carried out by Unioncamere. The Veneto's entrepreneurs, influenced by the worsening of the economy, predicted a drop in employment of nearly 8,000 jobs (-0.7%) in 2012, which is the balance between the 60,000 new hires (rate of entry of +5.1%), of whom 20,000 seasonal, and 68,000 planned lay-offs (exit rate of +5.8%). This proves the reliability of the Excelsior survey, which at a national level is one of the most important sources of information on the labour market and a useful tool to bring together labour demand and supply. Also broken down by **sector**, the Excelsior forecasts have proven to be reliable: job flows were expected to decline in all sectors and they did, though at differing rates compared to what actually happened. Indeed, while equal employment balances had been forecast for both industry and services, in actual fact, the services sector shrank less than the manufacturing sector. Skilled workers in the trade and services sectors (clerks and waiters) are the **most sought-for job profiles** and account for 29.7 percent of estimated new hires, followed by technical occupations (14.8%) and unskilled occupations (13.3%). These are followed by specialised workers (12.8%), white-collar workers (11.7%), plant operators and semi-skilled workers (10.3%), the intellectual, scientific and highly specialized professions (7.1%) and managers (0.3%). The hiring expectations by level of education showed, instead, high school graduates (39.5%) in first place, followed by staff without specific training (32.5%), qualified staff (14.6%) and graduates (13.3%).

Agriculture

In a year characterised by great concerns about agricultural production due to abnormal weather trends during the summer season, with very high temperatures and a prolonged period of drought, the total turnover of the Veneto's agricultural sector held out nevertheless. The **value of production** in 2012 stood at 5.3 billion euros, a level very similar to, if not slightly higher than the previous year (+0.5%). This result was mainly due to the upward performance of markets: the percentage changes at constant prices were all negative and showed a decrease in the quantity produced of agricultural crops, mainly because of the drought, while animal husbandry registered a drop in production at somewhat lower levels. Taking into account the production values at current prices, it is possible to note the effect of growing market trends, which were registered mainly in the second half of 2012 when it was clear that the main agricultural crops around the world would witness significant drops in quantities produced.

Table 13 – The Veneto.
Trend in gross
agricultural production
(% var. over previous
year).
Year 2012

	current prices	constant prices
Hebaceous crops	-5 ÷ -7%	-12 ÷ -14%
Woody crops	+2 ÷ +4%	-8 ÷ -10%
Farming product	+3 ÷ +5%	-1 ÷ -3%
Gross output	0 ÷ +1%	-5 ÷ -7%

Source: Istat data estimated by Veneto Agricoltura

A detailed analysis of the economic and production results achieved in 2012 by individual crops and livestock shows the effect of the summer drought on **cereals**, whose production grew for autumn-winter cereals (wheat 26%, durum wheat +11% and barley +6%), while it decreased for spring and summer cereals (maize -35%, rice -10%). Maize continued to be the leading crop in the Veneto region with 270,000 hectares (+10%). The area under wheat increased, while there was a drop in the hectares planted with durum wheat (-5%), barley (-9%) and rice (-15%). As a whole, cereals benefited from significant increases in prices in domestic and international markets during the second half of 2012, reversing the disappointing start of the year.

As for **industrial crops**, hectares planted with sugar beet increased (+39%), which led to a rise in production (+23%) despite the decline in yield (-12%). Soy suffered from the summer drought and registered a significant drop in production (-43%), partly due to the contraction in surface planted (-11%), but benefited from rather high market prices especially at the start of the new marketing year. The production of tobacco (-37%), sunflower (-13%) and rape (-16%) decreased as well.

Potatoes and **vegetables** confirmed the surfaces of the previous year, registering a slight increase in production value (+1.2%). The market trends varied during the

year depending on the species and varieties: the average annual price decreased for radicchio (-8%) and potatoes (-15%), but showed increases for lettuce (+18%) and strawberries (+24%). The summer drought also affected the production of the main **fruit crops** (apples -5%, pears -12%, and peaches -13%). However, the lower supply and good quality of the product allowed for more favourable market prices, after the disappointing commercial results of previous years.

The Veneto's **wines grapes and wine** recorded a significant contraction both in terms of grape production (-4.6%) and wine (-7%) due to abnormal weather trends, but the contraction in offer led to a rise in grape prices (+10% on average) for the third consecutive year and to an excellent performance in wine prices.

Mixed but generally positive results were recorded for **animal husbandry**. The price of milk, whose production has been stable for some years now at around 11 million tons, shrank by about 5 percent after increasing the previous year. The commercial performance of beef and pork (+10% and +5% respectively) was positive, while poultry prices were stable and the price of eggs registered a substantial increase. However, the sharp increase in the price of maize and soybeans in the second half of the year significantly reduced the profitability of animal farms. The trend of **sea fishing** in the Veneto region, as recorded at regional fish markets, remained virtually unchanged in quantity compared to the previous year (-0.2%), while turnover witnessed a dramatic decrease (-11.7%). The production crisis that hit the Veneto's Consortia for the Management and Protection of Bivalve Molluscs in the Venice Maritime District (Co.Ge.Vo.) seems to have been weathered and an 83.3 percent increase was registered in the production of bivalve molluscs.

The number of **farms** registered with the Veneto's Chambers of Commerce continued to fall; in 2012 the figure dropped to 72,400 units, a decrease of 1.9 percent compared to 2011, anyhow less than the national average (-2.4%). The Veneto's food sector also recorded a slight decline in the number of active enterprises, which decreased by 1.1 percent in 2012, down to about 3,650 units. This decrease was less significant than that suffered by the manufacturing sector (-2.8%).

There was a significant increase in the number of **people employed in agriculture** (according to ISTAT, +7.5% in 2012), while the food industry showed a loss of jobs, which, according to the Unioncamere Veneto survey, was 1.6 percent higher than the average for the entire industrial sector (-0.9%).

It is worth noting that in 2012 the deficit of the **trade balance** of the Veneto's food products recorded a substantial improvement (751 million euros compared to 1.1 billion in 2011), due to the significant increase in exports (+7.9%, especially attributable to the good performance of food and beverages, i.e., 4.8 billion euros of goods sold) and the stability of imports (stable at about 5.6 billion euros of goods purchased).

Manufacturing

2012 was a bad year for manufacturing, which recorded a significant slowdown in production levels. Overall production volumes dropped sharply compared to those recorded in 2011 and were close to those of 2009.

According to the *VenetoCongiuntura*¹⁶ survey, in 2012, the **regional industrial production index** registered an average annual trend of -4.3 percent. The indicator recorded the greatest difficulties between April and June, reaching the -5.3 percent mark, and closed the year with significant yet less marked negative changes (Table 14).

Table 14 – The Veneto.
Trend in industrial production by activity, field of industry and company size (% var. over the same quarter of previous year). Year 2012

	1/2012	2/2012	3/2012	4/2012
Sector				
Food, beverage and tobacco	0.8	0.2	-0.4	-1.5
Textile, clothing and footwear	-6.8	-10.2	-5.2	-4.8
Wood and furniture	-8.4	-7.7	-6.9	-6.7
Paper, print and furniture	-7.0	-7.1	-4.4	-3.0
Rubber and plastic	-1.0	-4.5	-4.7	-2.0
Marble, glass, ceramics and non-metal products	-8.2	-8.6	-7.0	-6.4
Metal and metal products	-2.7	-6.5	-6.3	-2.1
Machine tools	-0.5	-3.2	-4.9	-3.7
Electrical and electronics machinery	-4.4	-6.9	-4.5	-2.7
Means of transport	-6.3	-3.3	-6.6	-6.1
Other manufacturing enterprises	-0.5	-2.2	-3.5	0.3
Main grouping of Industries				
Capital goods	-2.0	-3.4	-4.8	-4.5
Intermediate goods	-4.1	-7.3	-5.8	-3.0
Consumer goods	-4.0	-4.1	-3.9	-3.3
Class size				
2 - 9 employees	-7.7	-8.2	-7.0	-7.9
10-49 employees	-5.2	-4.8	-5.1	-3.5
50-249 employees	-2.4	-5.4	-4.1	-1.9
250 or more employees	1.2	-3.5	-3.6	-4.5
Total	-3.6	-5.3	-4.9	-3.4

Source: Unioncamere Veneto - Veneto Congiuntura Research

The drop in production levels affected businesses of all sizes, but, once again, small enterprises were the most affected by the downturn. Micro-enterprises (2-9 employees) recorded a sharp drop in production (-7.7% on an annual basis), with significant and constant quarterly contractions during the year. There was a less marked decrease in small and medium-sized enterprises, which in 2012 posted a decrease in production of -4.6 and -3.5 percent respectively. Large enterprises, however, showed a more moderate decrease in production (-2.6%), due to the good performance in the first quarter of the year.

¹⁶ The *VenetoCongiuntura* survey, conducted every quarter on a regional sample of over 2,500 manufacturing firms with at least 2 employees, is the main source of information for the economic analysis of manufacturing firms for both its scope of observation and the rigour of the method adopted (see www.venetocongiuntura.it).

Broken down by sector, the negative trend was mainly due to industries that produce intermediate goods (-5.1%), a decrease of 2.2 percentage points compared to 2011. The decline in production was more modest, but still negative in the fields of consumer and capital goods (-3.8% and -3.7% respectively).

Considering individual sectors, those hit hard by the crisis were marble, glass and ceramics (-7.5%), wood and furniture (-7.4%) and fashion (-6.8%). Instead, the production trends in food, beverages and tobacco industries remained rather stable during the year (-0.2%).

The results of the *VenetoCongiuntura* survey are in line with the data disclosed by the Tuscany and Piedmont regional branches of Unioncamere, which recorded variations in production of -4.3 and -4.7 percent respectively. Lombardy recorded a more moderate decrease (-3.8%).

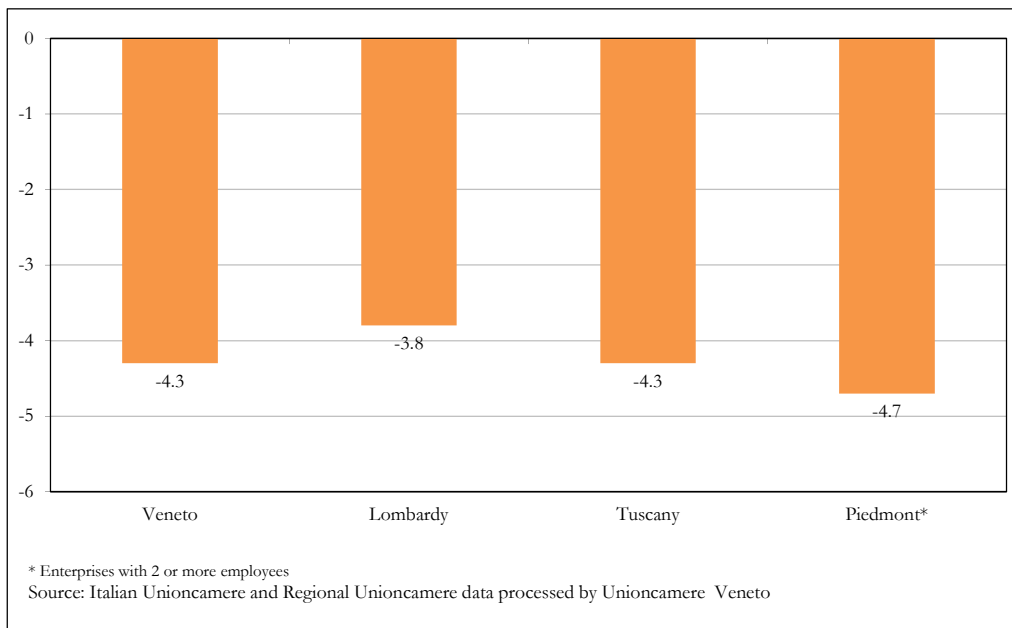


Chart 11 – Italy. Trend of industrial production in a number of Italian regions (% var. over the previous year). Year 2012

The fall in production was also confirmed by the decrease in the **capacity utilization rate** indicator (Chart 12), whose average annual rate was 70.3 percent of full operating capacity, 3.3 percentage points less than in 2011.

In addition to production, the **turnover** of the Veneto’s manufacturing industry suffered from the negative effects of the crisis. According to *VenetoCongiuntura* data, total revenues were down by 3.7 percent on an annual basis, reversing the positive trend recorded in 2011. Unfortunately, also **foreign sales** - the only driving force of the Veneto’s industry - came to a standstill: in 2012 sales abroad grew very little (+0.7%), marking a significant slowdown compared to 2011 when they had returned to pre-crisis levels (+6.7%) (Chart 13).

There was also a slowdown in **orders** (-4.6%), which confirmed that a possible recovery for the Veneto’s manufacturing industry will be further delayed. This trend is mainly due to a sharp decline in domestic orders, which posted a -5.8 percent. The decline in orders from foreign markets was less marked (-0.5%), though significantly worse compared to 2011 (when they were up by 4.4%).

These trends inevitably affected **employment**, which in 2012 recorded a slight yet constant decrease (-0.9%) in each quarter of the year (-0.8% between January and March and -1.3% at year-end).

Chart 12 – The Veneto.
Trend of industrial production (raw and seasonally-adjusted index based on 2005=100) and capacity utilization rate for companies with less than 10 employees. Years 2007-2012

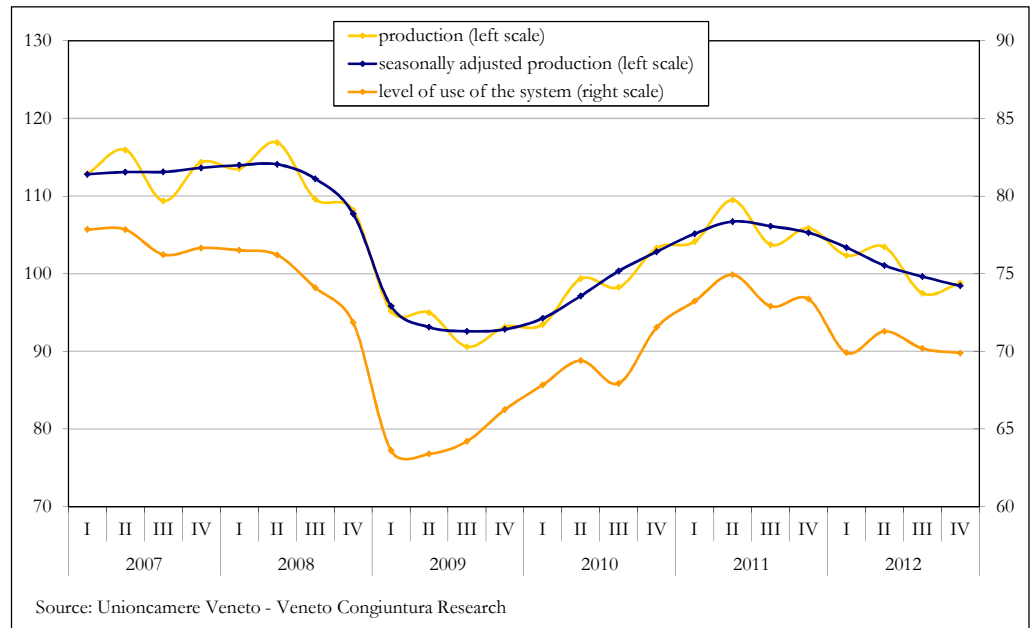
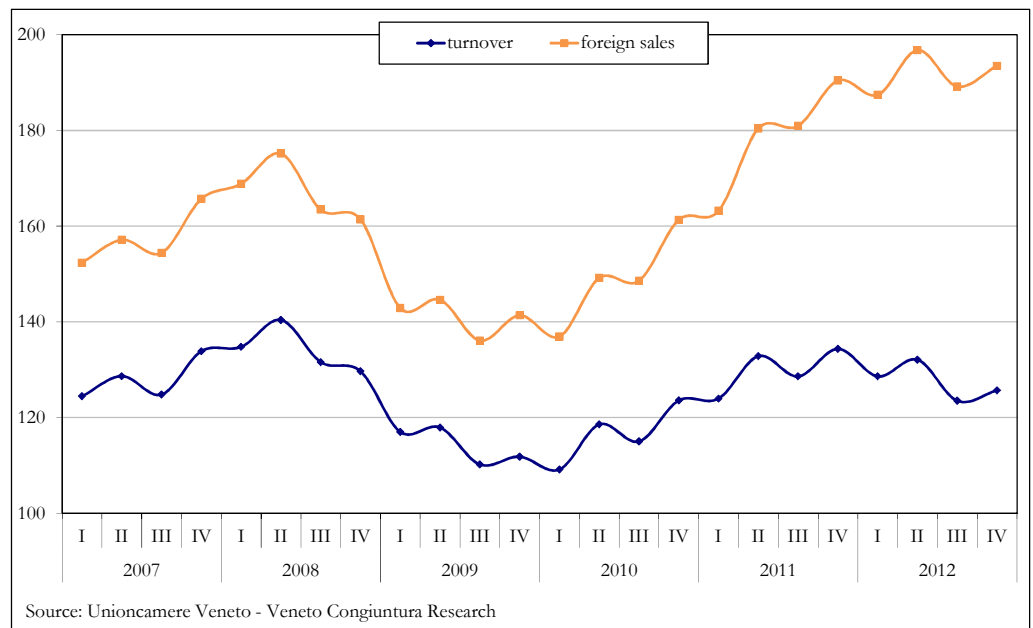


Chart 13 – The Veneto.
Trend in turnover and foreign sales for companies with less than 10 employees (based index: 2005=100). Years 2007-2012



Construction

In 2012, the crisis in construction continued. The sector has been hit by a long and very consistent recession. The final data on the trend in the **construction market**, according to estimates drawn up by Cresme for the CEAV-Unioncamere Veneto observatory on the construction market, showed that the period between 2008 and 2012 was the worst crisis since the Second World War, with a drop of -14.2 percent in real terms and -22.8 percent in constant values (net of inflation). In 2012, the construction sector in the Veneto reaped investment of slightly over 13.7 billion euros, as opposed to 16 billion euros in 2008. In four years, the market lost about 2.3 billion euros in investment.

	2008	2012	var. % 12/08	comp. % 2008	comp. % 2012
New Buildings	8,974	6,299	-29.8	56.0	45.8
residential buildings	4,872	3,469	-28.8	30.4	25.2
non-residential private buildings	2,506	1,243	-50.4	15.6	9.0
non-residential public buildings	361	301	-16.6	2.3	2.2
civil engineering	1,235	1,286	4.1	7.7	9.4
Renovation	7,046	7,454	5.8	44.0	54.2
residential buildings	3,457	3,887	12.4	21.6	28.3
non-residential private buildings	2,204	2,639	19.7	13.8	19.2
non-residential public buildings	447	270	-39.6	2.8	2.0
civil engineering	938	658	-29.9	5.9	4.8
Total investments	16,020	13,753	-14.2	100.0	100.0

Source: data processing and forecasting by CRESME on behalf of the CEAV-Unioncamere Veneto observatory

Evidence of the crisis can be found in the transformation of the market make-up. In 2008, new constructions accounted for 56 percent of investments; in 2012 renovations were the main market. In four years, this market not only declined in terms of investment, but the structure of demand also changed dramatically, with a significant contraction in some traditional segments, such as new non-residential private buildings, which in four years saw its business halved, or new residential buildings, which lost almost 29 percent in investment.

The rise in renovations, a countercyclical phenomenon already experienced in the previous crisis following the ‘*Mani Pulite*’ scandal in the 1990s, can also be associated to the effect of the “*piano case*” - literally, housing plan - which at 31 December 2012 registered nearly 50,000 applications. However, despite the limited yet positive trend in renovations, the continuing crisis has aggravated the employment situation. According to ISTAT data on labour force, in 2012, there was a decrease of 5,400 employees in the building industry, amounting to an annual decrease of 3.2 percent. In the 2008-2012 period, the overall loss of people employed in the sector amounted to over 13,650 employees, a decrease of 7.6 percent. The crisis is first and foremost a crisis that has hit enterprises and over the last year it has been felt most dramatically, although not by all types of enterprises. In fact, looking at the data on the number of artisan and non-artisan **active businesses** by legal form, there was a decrease in the total number of firms (-3.5% compared to 2011), but some forms of business have been growing

Table 15 – The Veneto. Investment in the market of reference (millions of euros in current value). Years 2008 and 2012

strongly, such as joint-stock companies in the artisan sector (+2.3%) and artisan cooperatives and consortia (+8.3%) (Table 16). By contrast, one-man businesses in the non-artisan sector are caught in a serious crisis (-14.8% in the last year). As already seen in previous years, better structured companies and companies joined by forms of cooperation have proven to better tackle the crisis. This element can be useful in defining a strategy for the market in the future.

Table 16 – The Veneto.
Active artisan and non-artisan building enterprises by legal status. Years 2010-2012

	2010	2011	2012	Var. % 2012/2011	Var. % 2012/2010
Artisan					
Corporations	2,258	2,426	2,482	2.3	9.9
Partnerships	7,956	7,769	7,530	-3.1	-5.4
Individual firms	47,799	46,949	45,409	-3.3	-5.0
Other forms*	61	60	65	8.3	6.6
Total	58,074	57,204	55,486	-3.0	-4.5
Non-artisan					
Corporations	9,675	9,726	9,486	-2.5	-2.0
Partnerships	3,222	3,155	2,973	-5.8	-7.7
Individual firms	2,788	3,158	2,691	-14.8	-3.5
Other forms*	807	786	775	-1.4	-4.0
Total	16,492	16,825	15,925	-5.3	-3.4
Total	74,566	74,029	71,411	-3.5	-4.2

* "Other forms" include cooperatives and consortia

Source: Infocamere-Movimprese data processed by Unioncamere Veneto

Against the backdrop of a major economic slowdown, the CEAV-Unioncamere Regional Observatory underscored that the crisis was felt more intensely especially by non-artisan businesses in the second part of 2011 and at the beginning of 2012, while the trend was less severe - though negative - for artisan businesses. The figures for the last two quarters of 2012 suggest a partial “recovery” and rebalancing of the unfavourable situation, which, if well supported by government incentives for building renovation and renewable energy, could register an easing of the negative phase in the near future and later benefit from a much-awaited recovery in the industry. In this context it should also be noted that the housing plan laid down by Regional Law No. 13/2011 has created opportunities especially for small firms, limiting the crisis that could have had even more severe effects, as in other Italian regions where these measures have not met with the same success. However, an essential role in curbing the crisis and creating positive prospects for the sector has been played by the renewal of measures like the regional housing plan (which expires in November 2013) and the national incentives for renewable energy sources and building renovation, which after June 2013 will return to the previous limits, thus making renovation works less appealing for potentially interested parties.

Trade

In 2012, the impact of austerity policies on family budgets and the fall of household disposable income led to a sharp drop in **retail sales** despite the contraction in savings. At a national level, the free fall in consumption reached - if not exceeded - the negative level recorded in 2009, which was a difficult year.

According to ISTAT data, the decline in retail sales in Italy affected the entire sector, although it was more marked in the sales of non-food products, compared to food products, which is a sign of the widespread difficulties encountered by Italian families who have been forced to cut waste and to just buy basic necessities.

This downward spiral also heavily impacted on the Veneto where, according to the data of the *VenetoCongiuntura* survey, the trend in **retail sales** was very negative. In 2012, sales recorded an average annual contraction of -5.8 percent, higher than the already serious level recorded in 2009 (-5.3%).

The **negative balance of consumption** affected all types of products and, like at the national level, the poor performance of non-food products (-6.8%) was higher than that of food products (-4.7%). Also with regard to the **size variable**, the decrease in sales was widespread and affected all businesses: small and medium-sized retailers recorded a 6.4 percent decrease and supermarkets a 5.5 percent decrease (Chart 14).

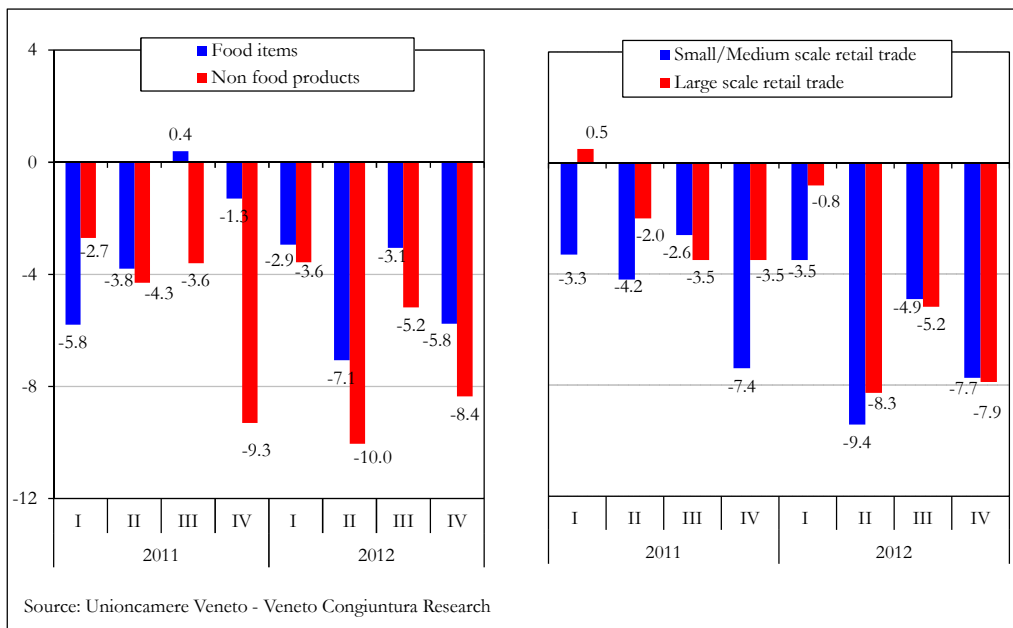


Chart 14 – The Veneto. Trend in retail sales by product and business size (% var. vs. same quarter of previous year). Years 2011 and 2012

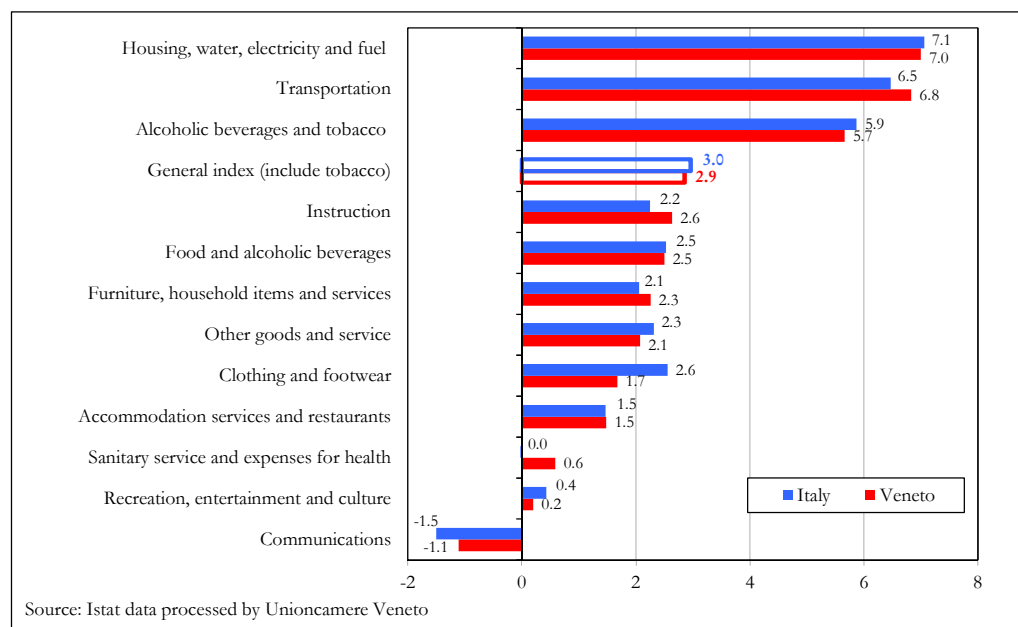
The indicator relating to orders also recorded a sharp slowdown on an annual basis (-5.8%).

In addition to the difficult economic situation, the negative trend in consumption was affected by rising prices. According to ISTAT, the average annual variation of the **NIC index** (national index of consumer prices for the entire community including tobacco) stood at 3 percent nationally and 2.9 percent at the regional level, a slight increase compared to 2011 when these same values were +2.8 and +2.5 percent respectively.

With reference to spending items (Chart 15), in the Veneto the highest rates of

growth in prices were registered in the costs for housing, water, electricity and fuel (+7%), transportation (+6.8%) and alcoholic beverages and tobacco (+5.7%). More moderate increases of less than 3 percent were recorded for the other items. The only spending item, which did not contribute to inflation, remaining stable, was recreation, entertainment and culture, while prices for communications were down by 1.1 percent.

Chart 15 – The Veneto.
National index of consumer prices for the entire community (NIC) (% var. over previous year).
Year 2012



The decline in the **car market** that started in 2008 continued in 2012. According to Unrae (National Union of Foreign Motor Vehicle Dealers) data, in the Veneto, new registrations suffered a -20.3 percent drop, almost 27,266 cars less than in 2011 (Table 17). The industry's crisis involved the entire country, although the change at the national level (-19.8%) was slightly lower compared to the Veneto. Compared to other Italian regions, the regional decrease was less than that of Tuscany (-37.8%) and Lombardy (-23.9%), but higher than that of Emilia Romagna (-20%) and Piedmont (-14.8%).

Table 17 – Italy.
Car registrations by region. Years 2011 and 2012

	2011	2012	var.% 12/11
Lombardy	328,335	249,738	-23.9
Piedmont	174,175	148,356	-14.8
Tuscany	169,374	105,387	-37.8
Emilia Romagna	143,005	114,416	-20.0
Veneto	134,478	107,212	-20.3
Italy	1,748,979	1,402,823	-19.8

Source: Ministry of Transport data processed by UNRAE, last updated: 28 February 2013

Credit

The contraction of **lending** by the banking system that started in the second half of the previous year continued in 2012. As a whole, this activity registered a 2 percent reduction at the regional level and 2.2 percent at the national level.

There are two main reasons for this negative trend: first, the current economic and financial crisis, which is progressively paralysing both production and consumption; second, the behaviour of banks, restricted by strict prudential rules (Basel II and, ultimately, Basel III), and a significant increase in non-performing loans.

By splitting loans by destination, it can be observed that loans to **households**¹⁷ were slightly down (-0.7% in the Veneto and -0.8% at national level) (Chart 16). This means that the decrease in the loans due to repayments was almost entirely offset by the granting of new loans as a result of a general deterioration of the income and wealth of households caused by the crisis. It is likely that the new demand for loans was even higher, but that the prudence of banks in granting loans did not make it possible to meet the entire demand *ex ante*.

By contrast, the reduction of loans to **businesses**¹⁸ was higher by 2.5 percent for companies in the Veneto and 3 percent for Italian companies.

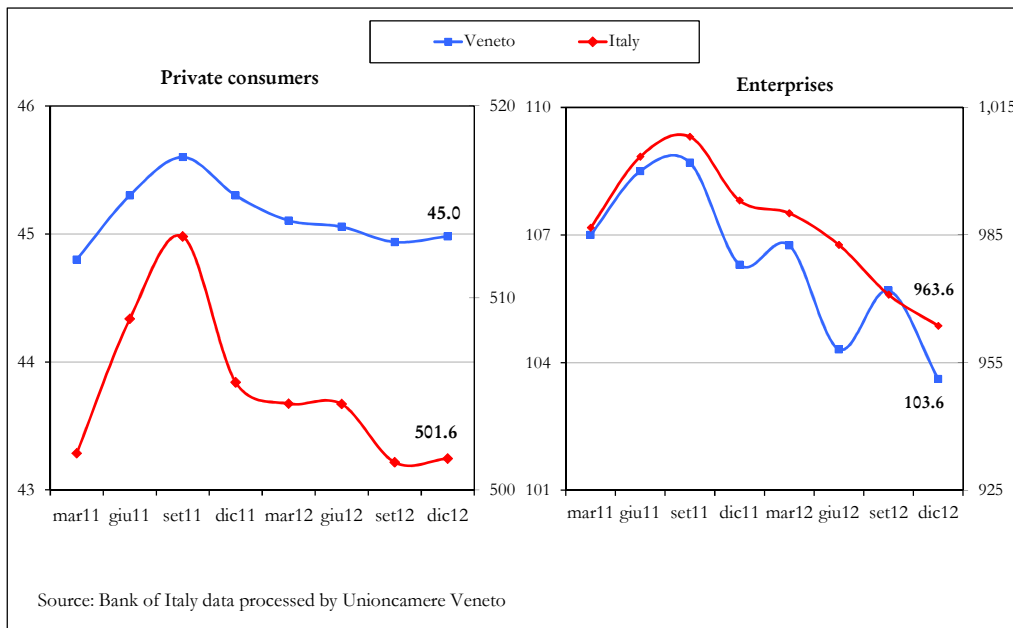


Chart 16 – Italy and the Veneto.
Trend in bank loans to businesses and consumers (values in billions of euros).
March 2011 - Dec. 2012

This situation has exacerbated the current difficulties of the Veneto’s production system, in which regional differences have now become blurred and the disastrous effects of the crisis have not spared even the most economically dynamic areas. The demand for credit for new investments has decreased everywhere and the provision of loans has dropped because of the fear of new insolvencies.

¹⁷ The aggregate refers to private consumers, private social institutions and entities not classifiable by the reporting bodies.

¹⁸ The aggregate refers to the production sector composed of non-financial businesses (joint-stock companies and partnerships) and income-generating families (one-man businesses).

The only exceptions were innovative companies who do business with foreign countries: they were able to respond to the crisis and expand production, placing it mainly on the markets abroad. The economic and financial stability brought about by this strategy has allowed them to obtain the necessary credit on satisfactory terms from both the banking system and other financial sources (including international).

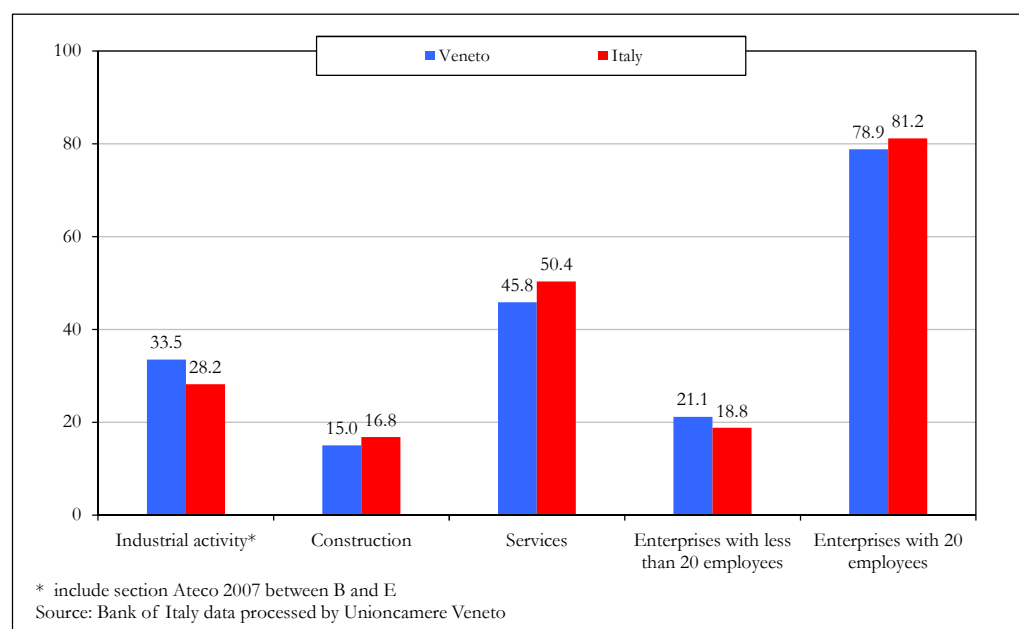
However, the number of such successfully innovative companies is still quite limited, while the great majority of SMEs have suffered the entire brunt of the crisis (including the financial burden). From an economic point of view, it is up to companies to eliminate the obstacles and grasp opportunities that still exist in market niches by offering innovative goods and services at an affordable price, possibly even with public support. The banking system could encourage these trends with a better selection of credit in favour of investments in innovation.

Unfortunately, the evaluation of credit capacity is still based too much on statistical “rating” techniques, which, while effectively detecting the probability of “default” of past performance, are not able to predict future performance of new investment. It must be noted that the **credit crunch** does not eliminate the risk of bad and doubtful debts, but actually increases it.

An analysis of the loans to businesses by **business sector** (Chart 17) shows that in 2012, in a context of overall contraction in lending, the distribution of loans remained almost unchanged. In particular, in the Veneto, the share of loans to the service sector grew slightly (45.8%), while the percentages of industry (33.5%) and construction (15%) decreased.

By size, in the Veneto, there was a further increase in the already large share of companies with at least 20 employees (78.9%), while in Italy the percentage - already higher than in the Veneto - remained unchanged (81.2%).

Chart 17 – Italy and the Veneto.
Trend in loans to production activities broken down by sector and business size (comp.%).
December 2012



While loans from the banking system decreased, **deposits** increased by an overall 5.3 percent in the Veneto and 5.9 percent nationally.

This means that lenders have directed the increased money inflow to other forms of use, probably to government bonds, given the high interest rates offered on public debt and the fact that the risk of these investments has dropped as a result

of the corrective measures in public finances at the end of 2011 and during 2012. However, bank loans to the economy continued to be higher than bank deposits. The greatest increase however was registered by household deposits (+7.3% for the Veneto and +6.1% for Italy) (Chart 18). Clearly, despite the economic difficulties, the preference goes to keeping a larger share of one's own savings in cash in bank deposits for any needs that may arise. By contrast, corporate deposits decreased slightly in the Veneto (-0.7%), while they increased at the national level (+5%).

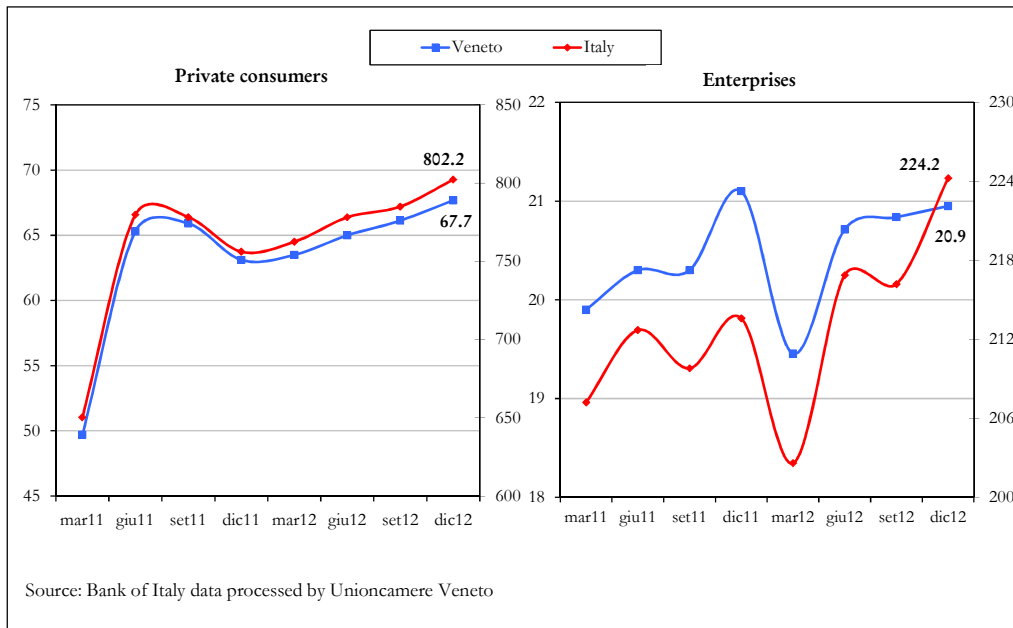


Chart 18 – Italy and the Veneto.
Trend in bank deposits to businesses and consumers (in billions of euros).
March 2011 - Dec. 2012

Small businesses and difficult access to credit

The causes of the drop in investment include the tightened credit supply to small businesses in Northeast Italy. According to Banca d'Italia data processed by Fondazione Impresa, **in the 2011-2012 period, loans to small businesses** (performing loans) **fell by 3.8 billion euros** (-6.7%), from 53.8 billion to 50 billion euros. The credit crunch, however, continued with greater intensity during 2012 and gradually intensified in the last months of the year (albeit with some exceptions) until the peak of -6.3 percent was reached in September 2012. At the territorial level, greater contractions were recorded in the South, but also **in the main regions of the North the decrease in loans was significant, particularly in the Veneto region (-7.7%),** Emilia-Romagna (-7.5%) and Lombardy (-7.3%), with values above the Italian average (-7.1%).

The data was confirmed by surveys of the **Observatory on credit to small businesses** conducted by Fondazione Impresa. In the last six months (October 2012-March 2013), there was a slight decline in the share of firms that applied for loans and a sharp increase in the difficulty to access credit. Compared to the previous six months (April-September 2012), **the share of small business owners who turned to banks fell from 46.2 to 44.8 percent** while **the share of those who encountered difficulties in gaining access to loans went from 44.3 to 49.8 percent.** The excessive demand for guarantees was the main difficulty for access to credit (43.2%), followed by bank charges (27.3%) and interest rates considered too high (15.9%).

Tourism

In 2012, the trend of arrivals and overnight stays in the Veneto region reflected the crisis. In fact, tourism mirrors all the distinctive traits of this historic moment and the analysis of the data shows the behavioural evolution of society and world economic players in these early years of the century. For years now, it is clear that we are at a crossroad, where choosing one path rather than another involves a strategic decision that impacts on the future.

The final numbers of the Veneto's tourist flows showed impressive results, considering that the levels continued to be very high: the 0.3 percent increase in arrivals was equal to over **15.8 million visitors** and represents a further milestone, while the decrease of 1.7 percent recorded in the number of guests, equal to **62.4 million overnight stays**, was second only to the record set last year (Table 18).

These data summarise two opposite tendencies: on the one hand, the increasing appeal of the territory on foreign customers (+2.2% in visitors and +2.7% in guests)¹⁹, in particular from Germany and non-European countries - above all guests from emerging economies; on the other hand the declining performance of Italy's domestic market due to the unfavourable national socio-economic situation, which led to a 2.9 percent fall in arrivals and 8.7 percent fall in guests. The decrease in Italian guests must not to be confused with disaffection or lack of appeal: that is a pattern observed in all regions²⁰ resulting from the loss of purchasing power of households and the decrease in consumption. This is why in these times of crisis the foreign market becomes decisive in bringing respite to a sector, which would otherwise be suffering greatly (the share of foreign visitors increased from 62 to 64.8%)²¹.

According to preliminary estimates of Banca d'Italia, the tourism revenue generated by foreigners in the Veneto in 2012 grew by 5.4 percent, exceeding the 5-billion-euro threshold for the first time. The region remained firmly in third place in the ranking of Italian regions, after Lazio and Lombardy, but the gap is gradually eroding²².

The hotel industry was substantially stable in arrivals (+0.1%), but showed a significant drop in overnight stays (-1.4%), mainly due to less Italian guests (-6.7%, or 743 thousand less guests), at levels that have never been so low. The situation was no better in the non-hotel sector where the slight increase in visitors (+0.8%) was overshadowed by -1.9 percent in the number of guests. Here, too,

¹⁹ Preliminary data from the World Tourism Organization reported 1,035,000 international travellers, an increase of 3.8 percent over 2011. Despite the turbulent global economic and political situation for 2013, further growth, though slower, is expected. Europe remains the most appealing continent (+3%).

²⁰ It is estimated that in the first eight months of 2012, throughout Italy, the decrease regarded as much as 9.6 percent of arrivals and 11.5 percent of guests. National Tourism Observatory, press communiqué of 7 December 2012.

²¹ Tuscany too, a region with a strong international vocation, showed the same trend, bringing its share of the foreign market for the first time to 52.2 percent of the total flow (data on the first nine months of 2012).

²² There are currently no estimates on the 2012 tourism revenue, so we will only provide here the survey data of the International Center of Studies on the Tourist Economy (CISET) of Ca' Foscari for 2011, according to which tourism in the Veneto yielded a turnover of 11 billion euros, accounting for 8.2 percent of the regional GDP, 13 percent of domestic consumption and a half million labour units. The sector employs 15 percent of people in employment, namely 10.5 percent of all those employed in tourism in Italy. The report highlights the versatility of the sector that goes beyond hotels and restaurants (worth 30% of the tourism-related GDP) including trade, which accounts for 17.1 percent, the rental of buildings 15.3 percent, agribusiness 9.5 percent, crafts 7.7 percent, cultural and recreational activities 6.7 percent and transportation 6.5 percent. Veneto Region, Press Release No. 233 of 14 February 2013

the negative sign was due to the drop in Italian visitors and guests at -3.7 and -10.5 percent respectively.

This general scenario showed a positive trend in agritourism lodgings, which closed with ample growth margins (+8.6% in arrivals and +8.5% in guests) and with good results also among Italian visitors (+5%).

The figures reveal also that value for money is an essential prerequisite for foreign tourists. There was an increase in the demand for hotels offering greater comfort (+2.5% in arrivals and +1.9% in overnight stays) and for those of medium quality (+1.9% in arrivals and +2.9 in overnight stays), while lower quality hotels continued to decline, according to a now well-established trend (-3.5% and -4.6%)²³. In addition to agritourism lodgings, there was also great interest for other types of accommodation, which recorded strong growth (+14.6% in overnight stays).

The average stay further contracted due to the “Italian” effect, dropping to 3.9 days (for the first time, the length of stay of domestic and foreign tourists was the same). It was stable in the hotel sector (2.7), while it decreased in the non-hotel sector (6.8).

A look at vacation destinations reveals widespread difficulties, except for lakeside resorts, which showed a certain liveliness, recording increases in arrivals (+0.8%) and above all in overnight stays (+4.9%). Heritage cities were in line with the previous year, while seaside and spa resorts declined (-3.7 and -4.1% in overnight stays respectively). Mountain resorts registered a sharp decrease (-9.3%), as these are unsurprisingly areas that have a low appeal abroad²⁴. Finally, it is interesting to note that against the backdrop of a widespread decrease in the length of holidays, lakeside resorts improved their performance and were popular both with Italians and foreigners.

	2012			var. % presences of 2011		
	arrival	stay	a.s.*	Italian	foreign	total
Accommodation facilities						
hotel	10,980,783	29,564,348	2.7	-6.7	1.7	-1.4
extra hotel	4,837,742	32,787,309	6.8	-10.5	3.6	-1.9
District						
heritage cities	8,184,947	17,848,346	2.2	-3.4	1.7	0.1
lake	2,213,251	11,276,120	5.1	-3.6	6.8	4.9
seaside	3,835,747	25,512,082	6.7	-11.4	1.2	-3.7
mountains	957,678	4,844,405	5.1	-12.3	4.3	-9.3
spa resorts	626,902	2,870,704	4.6	-7.5	0.6	-4.1
Total	15,818,525	62,351,657	3.9	-8.7	2.7	-1.7

*average stay

Source: Regione Veneto (SIRT) data processed by Unioncamere Veneto

Table 18 – The Veneto.
Tourist flow by type of accommodation and destination.
Year 2012

²³ All hotel facilities recorded a minus sign for the overnight stays of Italians, but the greatest drop was registered in 1 and 2-star hotels (-8.5%).

²⁴ In 2012, a positive trend was recorded among foreign tourists (+4.3% in visitors and overnight stays) in the mountains, but the main catchment area, despite increases in recent years, continues to be domestic tourists (over 70%) and therefore was more exposed to the crisis. As to spa resorts, the situation is rather different: the dwindling number of foreigners resulting from competition from other markets led to focus efforts on drawing Italian guests, who now account for the largest share (in 1997 foreigners represented 57.8%, now they fail to reach 35).

Transport sector

Transportation is the activity that links the regional system to the rest of the world and is of strategic importance for the economic internationalization of an area.

The territorial organization of logistics, made of technological hubs of networks and flows, is a necessary complement of logistics at a business level. Roads, railways, ports, airports and freight villages are all crucial actors, which must be engaged in an ongoing dialogue with companies that operate internationally. The fall in production levels recorded by the regional economic system in 2012 inevitably impacted on the transportation sector.

Provisional data released by Aiscat concerning the total number of kilometres travelled by vehicles entering the regional **highway network** in 2012 showed a drop in mobility (-5.7%) compared to the previous year, reaching 12.931 million vehicles/km. The decrease was significant for both heavy vehicles (-5.4%) and light vehicles (-5.8%).

The Veneto's **rail network**, which covers 1,188 km of railway lines (7% of the national network), registered a very high level of mobility in 2012 (152,620 passengers a day and 65,824 travel card holders).

As to **airports**, the fall in industrial production had an impact on cargo traffic. According to Assaeroporti data, in 2012, the Veneto's airports experienced a 4.6 percent drop in tons of freight (Table 19).

On the other hand, despite the difficult scenario, the trend in passenger traffic at the Veneto's airports continued to be dynamic. In particular, the Venice airport system, which includes the Venice and Treviso airports, recorded over 10.5 million total passengers in 2012 (+8.9% over the previous year, movements - 3.3%) , confirming its already well-established position as the third largest Italian airport following Rome and Milan. The new flights opened during the year gave further impetus to connections between Venice and the world.

Venice, with nearly 8.2 million passengers (-4.6% year-on-year), ranks fifth among Italian airports after Rome, Milan's two airports (Malpensa and Linate) and the low-cost airport of Bergamo. Excluding the operations transferred from Treviso airport between June and early December 2011, the adjusted growth in passenger traffic of Venice airport in 2012 was +12.3 percent. The analysis of national and international traffic flows confirmed once again the airport's international relevance, with 78 percent of passengers flying between Venice and European and intercontinental destinations, compared to an average of 58% for the Italian airport system. It should be noted that passengers departing from Venice who continued on flights to final destinations in the world registered an increase of 9 percent in 2012 over the previous year, underscoring the dynamism and the international vocation of the catchment area. In particular, taking into account traffic flows (direct and indirect) between Venice and BRICS countries (Brazil, Russia, India, China, and South Africa) there was a 27 percent increase in 2012 compared to 2011, with over 450 thousand passengers.

Treviso airport closed 2012 with more than 2.3 million passengers, an increase of 116.6 percent compared to 2011 (+101% in movements). In looking at this figure, it should be borne in mind that between June and early December 2011 the airport's operations had been moved to Venice for works: considering the passengers carried by scheduled carriers operating normally in Treviso, traffic recorded a -1.4 percent decrease over the previous year.

Verona airport, which is mainly a passenger airport, also suffered due to the crisis. The airport closed 2012 with 3.2 million passengers, down 5.5 percent on an annual basis. Bucking the trend, international traffic grew by 3.1 percent (over 2 million international passengers). International connections fared well, growing by 3.3 percent and the trend in the charter sector was positive, recording an increase of 2.8 percent in 2012, mainly due to a slow but steady recovery of connections to Egypt and Tunisia. Currently the connections from Verona are about a hundred, including direct and connecting flights, which make it possible to reach the most important cities in North and South America, Asia and Africa. The crisis that Italian airlines are experiencing led Verona to record a 20 percent decrease in domestic traffic, only partly offset by the growth of the international traffic. It was mainly the result of the suspension of WindJet flights and the restructuring of Meridiana fly-Air Italy.

Airport	Goods (tons)		Passengers		Cargo (tons)	
	Absol. value	var.% 12/11	Absol. value	var.% 12/11	Absol. value	var.% 12/11
Venice-Treviso*	104,512	7.5	10,522,213	8.9	40,940	-4.2
Treviso - Antonio Canova	20,279	100.9	2,333,758	116.6	53	-94.0
Venice - Marco Polo	84,233	-3,3	8,188,455	-4.6	40,887	-2.4
Verona - Valerio Catullo	36,015	-4,7	3,198,788	-5,5	4,992	-7,2
Total	140,527	4.1	13,721,001	5.2	45,932	-4.6

* aggregate data of Venezia-Treviso airport system. The airport of Treviso was closed from June 1st to 4th December 2011 and the assets were transferred to the Venice airport.

Source: Assaerporti data processed by Unioncamere Veneto

Table 19 – The Veneto. Traffic data (movements, passengers and freight) in airports. Year 2012

The performance of maritime traffic was also disappointing (Table 20). The final 2012 data for the **port of Venice** showed a slight decrease (-3.6%) in total tonnage - in line with the main domestic and foreign ports - while liquid and dry bulk traffic did well with positive peaks in the handling of crude oil (+4.6 %), coal (+50%) and minerals (+3.1%). The handling of steel products and project cargo (large, heavy cargo) - of which the port of Venice has the exclusive for the North Adriatic - grew by 1.5 percent. There was a decline also in container handling (-6.6% yoy). Despite this decline and a very critical scenario for traffic worldwide, the port of Venice, with nearly 430,000 containers (TEUs) handled in 2012, confirmed its position in second place among the North Adriatic ports, after Koper. The Napa ports (Venice, Trieste, Ravenna, Koper and Rijeka) reached a total of 1.8 million TEUs and 118.7 million tons of cargo. Passenger traffic was also impacted: less ferries landed (-10.8%) and there was also a slight decrease in cruise passengers (-2.1%).

Positive results were recorded by the Veneto's main freight villages. In 2012, the **Quadrante Europa freight village**, in line with the data of the previous year, handled nearly 7 million tons of cargo, divided between containers, semi-trailers, swap bodies and traditional carriages; 13,366 incoming trains were recorded. The **Padua freight village** closed 2012 with a positive result: traffic recorded a 26 percent increase in TEUs compared to 2011 (exceeding 200,000 TEUs handled). Overall, more than 250 thousand containers were handled by the freight village and the greatest increase was recorded by containers for exports: an encouraging

sign for the economy of the North-East and a further confirmation of how strategic the activities and location of this freight village are for the local businesses.

Table 20 – Movement of cargo, containers and passengers through the Port of Venice. Years 2011 and 2012

	2011	2012*	Var.% 12/11
MOVEMENT OF GOODS (tons)	26,301,207	25,356,448	-3.6
liquid bulk cargo	11,212,813	11,110,631	-0.9
dry bulk cargo	6,585,860	6,457,772	-1.9
other break bulk cargo	8,502,533	7,778,063	-8.5
MOVIMENT OF CONTAINERS	458,363	428,126	-6.6
MOVIMENT OF PASSANGERS	2,239,751	1,998,960	-10.8
cruise passangers	1,777,073	1,739,501	-2.1
SHIP ARRIVED	4,147	3,747	-9.6

* Temporary data traffic

Source: Port of Venice data processed by Unioncamere Veneto

Innovative and technological services

In an economic environment characterized by a deterioration and downsizing in the regional production system, the field of **innovative and technological services** is a gradually expanding business segment. Companies operating in this area, for which the acronym KIBS (*knowledge-intensive business services*)²⁵ is used, are specialized in the production of high knowledge content that they co-produce with their customers: they are playing an increasingly important role in support of innovation processes within a given economic fabric.

The main economic activity of these companies is **the creation, accumulation and distribution of knowledge**; these enterprises belong to a group of diverse economic sectors²⁶ and favour the rapid circulation of technological knowledge between different industries. A recent survey conducted by the University of Padua²⁷ revealed some important features of this production segment: companies belonging to KIBS sectors are on average younger, have young human resources

²⁵ The acronym KIBS is used to both indicate the set of services and the organizations that provide them, be they businesses or institutional entities.

²⁶ According to the definition given by the *European Monitoring Centre on Change*, KIBS comprise all IT services, all R&D activities, and a wide selection of activities that the ISTAT classification of economic activities defines as “services to businesses”. Authors concerned with defining the boundaries of the KIBS universe may add one or more sectors or sub-sectors to the list. However, as suggested by one influential scholar in the literature of the service economy, the issue of boundaries cannot be solved simply by adding an entire sector to the list because, in fact, the presence of KIBS can be observed in any industry that offers *business to business* services, such as, for example, the logistics services sector or the financial services industry. However, the contrary is also true: each sector of the “traditional” list includes firms that fully meet the definition of KIBS and others that differ greatly. It must therefore be concluded that the grouping of information technology, research and (other) business services is simply an elective container of services with a high knowledge content.

²⁷ The research study, sponsored by Fondazione Cassa di Risparmio di Padova e Rovigo and carried out at the Department of Economic and Business Sciences, University of Padua, involved 505 companies in the Veneto operating in the business consulting and professional firms, ICT, design and marketing sectors.

with high levels of education, use their customers and suppliers as a source of learning, operate beyond the regional market, cooperate with other KIBS's in the production of services and have created innovation in the last three years.

According to research sponsored by EbicomLAB-Confcommercio Treviso and carried out by the EconLab Research Network using Infocamere data, in the Veneto, almost **28,600 local units operate in KIBS sectors**, employing over **150 thousand employees**, mainly located near major production centres. Padua ranks first in terms of number (7,020 local units), followed by Treviso (5,340 units) and Verona (5,062). Two thirds of these KIBS businesses were established after year 2000 and they can be split evenly between business consulting services (6,925 units), planning and design (8,702) and ICT (8,575). A residual part deals with communication and marketing (4,016), while only 368 units with research and development. The latter figure reveals one of the structural weaknesses of the regional system and, more generally, of the Italian system: there are still few companies that are doing research and development and produce knowledge and innovation. This has detrimental consequences for the competitiveness of the production fabric.

Another estimate of the number of companies operating in KIBS sectors emerges from a study sponsored by Unioncamere Veneto and carried out by the University of Padua on the changes in the regional entrepreneurial system in the 2001-2011 period²⁸. The analysis focused on three of the main production areas of the Veneto: the Riviera del Brenta footwear district, the Belluno eyewear district and the Vicenza gold district. According to the study, based on Infocamere data, **there are about 21 thousand enterprises in the Veneto operating in KIBS sectors** and in the decade their number has grown significantly²⁹. In particular, the study compared the performance of businesses active in specialised districts and that of KIBS enterprises over the past decade. In all three districts examined, given a decrease in the number of manufacturing enterprises, the number of KIBS's registered a sharp increase (Chart 19, Chart 20, Chart 21). Although KIBS's do not generate sales or have a number of employees comparable with those in specialized manufacturing businesses, it is interesting to note that in all the areas analyzed, their number now exceeds that of specialised companies in the production districts. It is easy to surmise that this wide range of services has met - especially in the jewellery and eyewear districts - with a large enough demand from sectors other than those corresponding to the district.

²⁸ For further information, refer to Unioncamere Veneto (2012), *Crisi e trasformazioni dei distretti industriali veneti. Gioielli, occhiali e calzature a confronto (Crisis and transformation of the Veneto's industrial districts. A comparison and contrast of jewellery, eyewear and footwear)*, Research papers No. 16.

²⁹ Since the number is based on the registered offices of the businesses, the data is consistent with that found in the EbicomLAB-Confcommercio Treviso study, which calculated the local units of enterprises (or locations).

Chart 19 – The Veneto.
Number of companies in
the footwear and KIBS
sectors active in the
district.
Years 2002-2011

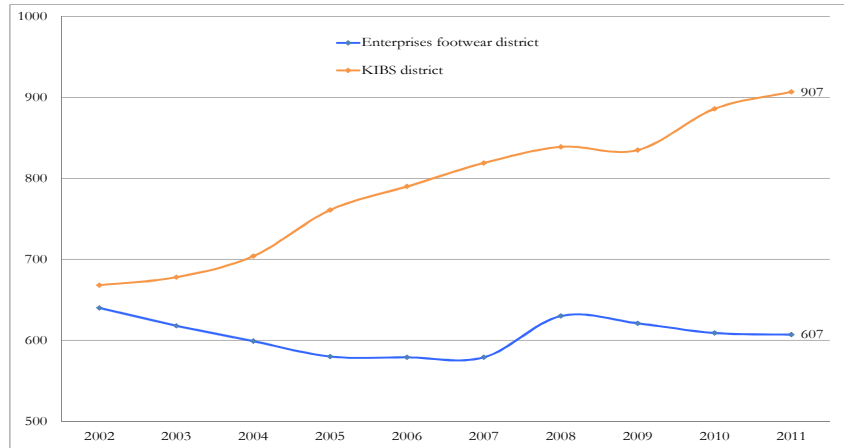


Chart 20 – The Veneto.
Number of companies in
the eyewear and KIBS
sectors active in the
district.
Years 2002-2011

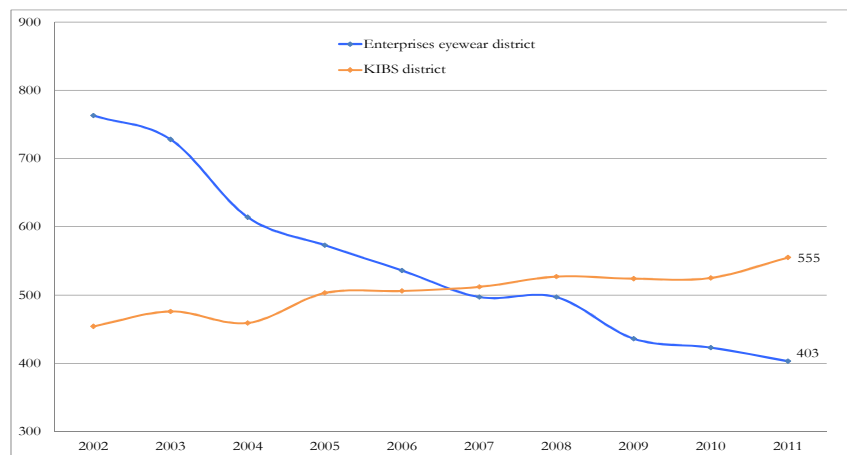
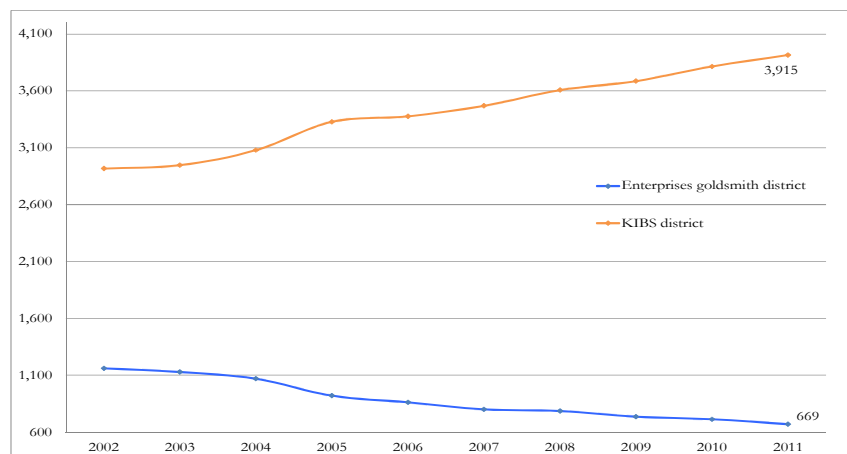


Chart 21 – The Veneto.
Number of companies in
the jewellery and KIBS
sectors active in the
district.
Years 2002-2011



Artisan firms and small enterprises

In 2012, the number of **active artisan enterprises** in the Veneto amounted to 138,484 units. The downward trend of the last four years (-0.5% in 2008, -2.2% in 2009, -0.4% in 2010 and -1.1% in 2011) was further confirmed in 2012 with a reduction in the number of firms by more than 2,700 units (-1.9%).

Looking at the **sector** – specific performance (Table 21), one can easily see that the two leading sectors (manufacturing and construction, which together account for nearly 70% of all small businesses active in Veneto) experienced a further decline: -2.7 percent in manufacturing and -3 percent in construction. There was a decline in the number of firms active in other crafts, albeit to a lesser extent. A negative performance was recorded in trade and motor vehicle repairs (-1.4%), transportation services (-2.5%) and services to persons (-3.5%). Contractions were also sharp among the firms active in mining (-4.9%) and financial and insurance services (-10%), which however account for a very small number of firms. The number of businesses in agriculture and services to businesses remained stable.

	Active companies		Var. 2012/2011		Comp. %
	2011	2012	%	v.a.	
Agriculture, forestry and fishing	1,458	1,455	-0.2	-3	1.1
Extraction	81	77	-4.9	-4	0.1
Manufacturing industries	37,832	36,806	-2.7	-1,026	26.6
Public utilities (energy, gas, water, environment)	258	256	-0.8	-2	0.2
Construction	57,204	55,480	-3.0	-1,724	40.1
Trade and repair of motor vehicles and motorcycles	6,933	6,833	-1.4	-100	4.9
Transport services, logistics and storage	10,035	9,787	-2.5	-248	7.1
Accommodation and catering service	3,898	4,020	3.1	122	2.9
Media and communication services	962	1,019	5.9	57	0.7
Financial and insurance services	20	18	-10.0	-2	0.0
Real estate	31	38	22.6	7	0.0
Advanced support services for businesses	2,185	2,183	-0.1	-2	1.6
Rental business, tourist services and business supp.	3,150	3,360	6.7	210	2.4
Private education and training services	182	193	6.0	11	0.1
Health, social care and private health services	108	120	11.1	12	0.1
Services to the person	571	551	-3.5	-20	0.4
Other activities	16,102	16,023	-0.5	-79	11.6
Unclassified companies	206	254	23.3	48	0.2
Legal form					
Corporations	7,854	8,150	3.8	296	5.9
Partnerships	29,500	28,765	-2.5	-735	20.8
Individual firms	103,602	101,307	-2.2	-2,295	73.2
Cooperatives and other forms	260	251	-3.5	-9	0.2
Total*	141,216	138,484	-1.9	-2,732	100.0

* From the second quarter of 2012 due to the new Services Directive in the analysis of companies there is a new class of legal form "Physical Person" that has been included only in the total and not by sector and by legal to allow proper comparability with the previous year. The total variation, even though it includes this new class, does not change because of this consistency irrelevant.

Source: Infocamere-Movimprese data processed by Unioncamere Veneto

Table 21 – The Veneto.
Artisan firms active
by sector and
by legal status.
Years 2011 and 2012

Some categories of the service sector, however, showed a positive performance: the rental business, tourist services and support to businesses grew by 6.7 percent,

media and communication services by 5.9 percent and accommodation services and catering services³⁰ by 3.1 percent.

With regard to the **legal form** of the firms, growth was registered, once again, only among joint-stock companies (+3.8%). Decreases were recorded instead for partnerships (-2.5%), co-operatives and other forms of business (-3.5%), as well as for individual enterprises (-2.2%), which, despite repeated reductions continue to be the most common legal form in regional crafts (73.1% of the total).

According to the survey of Confartigianato del Veneto, **production** recorded a significant decrease (-14.7%) across all sectors – although to different extents. The worst changes were recorded in construction (-18%) and services to business (-14.7%). In line with the decline in production, **turnover** registered a decrease (-16.7%) as well. **Orders** in manufacturing companies dropped by 11.4 percent.

Table 22 – The Veneto.
Leading economic indicators for craft firms and small enterprises (% var. over previous year).
Year 2012

	Production*	Turnover	Orders**
Manufacturing industries	-9.2	-11.4	-11.4
Building Trade/Constructions	-18.0	-21.3	
Services for enterprises	-14.7	-16.5	
Services for people	-11.4	-12.3	
Total - all sector	-14.7	-16.7	-11.4

* for industrial companies (manufacturing and building trade) production data are shown; for services demand-related data are shown

** refers only to manufacturing companies

Source: Osservatorio Congiunturale sull'artigianato Veneto - Confartigianato Imprese Veneto

In terms of **employment**, downward values continued to be recorded, confirming the trend of the past four years. In 2012, the decline in employment amounted to 4.5 percent. The fall affected all sectors, albeit to differing degrees: -3.2 percent in manufacturing, -5.6 in services and -7.2 percent in the construction sectors.

Table 23 – The Veneto.
Employment in artisan firms (% var. over previous year).
Years 2008-2012

Sectors	2008	2009	2010	2011	2012
Foodstuff	-2.1	0.7	4.2	0.3	-3.0
Textiles, clothing, footwear	-4.5	-6.8	-3.3	0.8	-5.6
Wood	-4.7	-5.2	-4.7	-2.1	-5.6
Graphics	-3.5	-3.8	-0.1	-3.5	-5.4
Ceramic, chemical products, glass	-5.4	-5.6	-0.6	1.0	-1.2
Mechanics	-2.8	-8.7	0.5	0.4	-1.9
Other manufactured products	-4.8	-4.3	-5.1	-1.6	-3.5
Total Manufacturing	-3.7	-6.3	-1.0	-0.1	-3.2
Building	-8.6	-6.1	-5.9	-4.4	-9.4
Plant engineering	-1.2	-3.0	0.0	-2.2	-4.7
Total Construction	-5.6	-4.8	-3.3	-3.4	-7.2
Servicing for cars and motorcycles	-3.2	-0.1	0.3	0.7	-4.5
Services for people and other services	-1.3	-3.1	-1.6	0.1	-5.3
Transport	1.8	-2.4	2.9	3.9	-7.0
Total Services	-0.9	-2.1	0.2	1.3	-5.6
Total	-3.7	-5.2	-1.3	-0.6	-4.5

Source: Confartigianato Veneto - Bs consulting

³⁰ Under Law No. 443/1985 which governs crafts, this sector includes primarily businesses active in the “preparation of take-away food, ice cream parlours and pastry shops”.

4. Focus: the crisis of the Veneto production system analyzed through the financial statements of joint stock companies and limited liability companies

Since October 2009, the **Study Centre of Unioncamere Veneto** has operated an **Observatory on corporate financial statements** to monitor the economic and financial performance of companies in the Veneto (for now only joint stock companies and limited liability companies) and the issues concerning them. The analysis of the aggregated financial statements makes it possible to integrate the context-specific information provided by official statistics, so as to obtain an overview of the performance of companies by company size, by sector of economic activity and by territory (regional, provincial and municipal).

After publishing two reports on the issue (Research Papers No. 12/2009 “The Veneto seen through the financial statements of enterprises” and No. 14/2011 “The financial statements of the Veneto’s companies”), the Observatory aims to step up its analysis and monitoring activities through the publication of periodic reports and statistical indicators. The first issue has already been released (available on the Unioncamere Veneto website) and the second report is in the pipeline.

The first report provided an analysis of aggregate corporate financial statements for the 2007-2011 period, i.e., it compared the results disclosed by the Veneto’s companies for the year immediately before the crisis (2007) with those of 2011 (latest data available). However, since the data from the last fiscal year are not yet final, it was decided to provide a brief commentary, with some specific insights concerning the performance of the Veneto’s enterprises in the face of crisis. Now, in the presence of the final data, an effort was made to highlight the main economic and financial indicators with a more analytical review of their consistency, both in cyclical and structural terms.

Both the analyses presented in this section and those contained in the reports use the **“in.balance” database** of Infocamere, which aggregates all financial statements of joint stock companies and limited liability companies and sorts them by size, sector and area. It is worth noting that pursuant to Article 2435 of the Italian Civil Code only limited companies are required to file their financial statements with the Companies Register of the Chamber of Commerce of the province where they are headquartered. This assessment considers only such information. Partnerships and sole proprietorships are therefore excluded: since they are not required to submit any financial statements, they are not easy to investigate and relevant information concerning them can only be gathered through very expensive and specific sample surveys.

However, it can be assumed that the trend registered for all joint stock companies and limited liability companies is also indicative of the situation of the entire business system, because:

- limited companies are generally larger sized than other forms of companies and their total value added is estimated at about half that of all firms;
- ISTAT estimates on national accounts and the performance of the companies are based on all legal forms, but with far smaller samples;
- the legal form of the company is not usually predictive of an enterprise’s economic performance.

Through the analysis of the aggregated financial statements available in the “in.balance” database, it was possible to reconstruct the situation of joint stock companies and limited liability companies in the Veneto and in Italy from 2007 to 2011 and to examine the response of businesses to the crisis.

The aggregate results of the financial statements for the entire system (all economic sectors, with the sole exception of finance and insurance, public administration and family-run businesses) are presented in Tables 24 and 25.

Table 24 - The Veneto and Italy. Aggregate balance sheet of joint stock companies and limited liability companies, except Ateco sections K, O and T (in millions of euros). Years 2007 and 2011

BALANCE SHEET	2007		2011	
	Veneto	Italy	Veneto	Italy
Active				
Fixed assets	90,269	1,903,673	124,536	1,800,036
- Credits after financial year	2,989	64,445	3,800	69,839
- Tangible	47,339	752,429	72,519	893,903
- Intangible assets	7,511	194,341	9,818	222,724
- Financial assets	32,430	892,458	38,399	613,569
Current assets	139,102	1,745,015	158,054	1,761,931
- Stocks	52,637	545,350	61,390	554,107
- Deferred liquidity	75,745	1,043,424	83,221	1,046,167
· Credits within one year	71,576	977,127	77,257	963,251
· Short term financial assets	1,867	39,408	2,959	48,775
· Prepayments and accrued income	2,301	26,885	2,592	30,118
- Immediate liquidity	10,720	156,241	13,444	161,657
TOTAL (Capital)	229,408	3,649,068	282,590	3,562,007
Passive				
Equity	65,127	1,278,659	90,620	1,138,143
Consolidated liabilities	43,756	697,285	53,464	771,657
- TFR	5,681	70,671	6,004	63,270
- Debts after financial year	38,076	626,614	47,459	708,387
Current liabilities	120,525	1,673,057	137,441	1,644,053
- Provisions for risks and charges	2,947	119,694	4,845	83,872
- Debts within one year	114,861	1,510,958	129,183	1,485,422
- Accruals and deferred income	2,717	42,405	3,413	74,759
TOTAL (Capital acquired)	229,408	3,649,068	282,590	3,562,007

Source: Infocamere (in.balance) data processed by Unioncamere Veneto

INCOME	2007		2011	
	Veneto	Italia	Veneto	Italia
VALUE OF PRODUCTION	214,627	2,491,716	228,616	2,480,099
of which: Revenues from sales	204,940	2,350,341	220,475	2,371,858
EXTERNAL COSTS OF PRODUCTION	172,048	1,987,907	183,055	1,986,277
- materials	120,481	1,325,321	126,852	1,333,537
- services	44,380	552,546	47,314	543,498
- Leases and rentals	6,510	68,922	6,994	70,530
- Changes in inventories of materials	-1,750	-14,459	-1,033	-6,126
- Other expenses	2,427	55,577	2,928	44,838
ADDED VALUE	42,579	503,809	45,562	493,822
Personnel costs	25,345	290,059	29,450	303,969
EBITDA (Earnings Before Interest, Taxes, Depreci:	17,233	213,749	16,112	189,853
Depreciation, amortization and write-downs	6,556	99,320	8,269	120,970
EBIT (Earnings Before Interests and Taxest)	10,677	114,429	7,843	68,883
Other income - net financial	-1,328	-7,568	-806	-9,163
Net revaluations - financial write-downs	-821	-7,204	-1,029	-30,298
INCOME FROM ORDINARY ACTIVITIES	8,528	99,657	6,008	29,422
Other income - extraordinary charges	622	15,166	543	4,876
PROFIT BEFORE TAX	9,150	114,823	6,551	34,298
Taxes on corporate income	4,595	52,694	3,843	39,019
NET INCOME FOR THE YEAR	4,555	62,091	2,708	-4,721

Source: Infocamere (in.balance) data processed by Unioncamere Veneto

Table 25 - The Veneto and Italy. Aggregate income statement (profit and loss account) of joint-stock companies and limited liability companies, except Ateco sections K, O and T (in millions of euros). Years 2007 and 2011

The raw data, duly reclassified according to financial and economic criteria, provides the following highlights for the period under review:

- fixed assets grew in the Veneto region by as much as 38 percent, while in Italy they decreased by 5.4 percent. The reasons are twofold: on the one hand, in the Veneto fixed capital is proportionally lower (compared to the total invested capital) than the national average (due to more labour-intensive methods of production in the Veneto's enterprises); on the other hand, the first anti-crisis decree (Italian Law Decree No. 185 of 29 November 2008) gave the chance to adjust the value of existing capital goods and pay a lower tax rate on them;
- current assets increased by a smaller percentage (+3.6%) at the regional level and even less at the national level (+1%). This means that, despite the crisis, the Veneto's enterprises showed a more dynamic performance with greater flows of short-term assets;
- current liabilities, on the other hand, remained unchanged at the regional level (+14%), while they registered a slight decrease at the national level (-1.7%);
- the shareholders' equity of the Veneto's enterprises grew considerably (+39.1%), mainly as a result of the aforementioned value adjustments; at the national level it decreased by 11 percent;
- the value of production was more favourable for the Veneto (+6.5%) than for Italy (-0.5%). Therefore, the Veneto's entrepreneurs have shown greater ability in fuelling their turnover even in times of crisis;
- value added has also grown correspondingly in the Veneto (+7%) and decreased nationally (-2%);

- the above showed that the net result for the year was still positive for the Veneto's companies – albeit eroded by the crisis, while it was negative for Italy as a whole.

When looking at the overall **economic situation**, the main key performance indicators contained in the financial statements showed a crisis-induced downward trend for the Veneto region only in economic terms, while in financial terms there was no contraction (at least at current values); moreover value adjustments were made to fixed assets already present in the enterprises, mostly to write them up. In general, this was not the case for Italy, which, in addition to posting a negative final result for 2011, recorded a decrease in overall activity as well as in the assets previously accumulated.

However, in order to better assess the economic and financial **structural situation** of the enterprises, reference should be made to the main **financial indicators**, which, regardless of the trends of individual items, allow us to determine whether enterprises are performing well or not. Obviously, there are many indicators, but Table 26 shows the ones considered most relevant for a comprehensive assessment of the Veneto's production system.

Table 26 - The Veneto and Italy. Main indicators of the aggregate income statement of joint stock companies and limited liability companies, except Ateco sections K, O and T (percentage values). Years 2007 and 2011

INDEX	2007		2011	
	Veneto	Italy	Veneto	Italy
Capital strength:				
equity / capital acquired	28.4	35.0	32.1	32.0
Balance short-term financial (current ratio):				
current assets / current liabilities	104.3	115.4	107.2	115.0
Return on invested capital:				
ROA = (EBITDA + financial income) / capital invested	6.0	4.6	3.7	3.0
Return on equity:				
ROE = Net income / equity	7.5	5.1	3.1	-0.4
Tax rate:				
taxes on business income / profit before taxes	50.2	45.9	58.7	113.8
Labor productivity:				
added value / cost of staff	168.0	173.7	154.7	162.5
Productivity of capital:				
a) value added / capital invested	18.6	13.8	16.1	13.9
b) (added value - financial expenses) / equity	58.8	34.6	46.7	39.2

Source: Infocamere (in.balance) data processed by Unioncamere Veneto

The first two indicators of the table summarize the **financial position** of Veneto and Italian enterprises taking into account their financial soundness (i.e., the companies' ability to cover future losses) and their short-term financial equilibrium (i.e., the companies' ability to meet their commitments within the next 12 months - also through the elimination of stocks).

This is an important aspect, which is essential also for the assessment of a company's credit standing by banks. It can be observed that the financial situation of the enterprises in the Veneto, though markedly improved compared to the onset of the crisis, has only reached the national average: in fact this is no real improvement, because the Veneto started from a disadvantageous position.

According to these indicators, the financial soundness can be considered satisfactory, as the theoretically ideal value is approximately one-third (33.3%) (i.e., debt double the shareholders' equity). The ratio of current assets to current

liabilities, however, should be a little higher (roughly around 130%) to avoid having to liquidate stocks almost completely.

As to **profitability**, which was hit hard by the crisis, it is clear that the reduction has been bearable for the Veneto's production system, while the same cannot be said for the national system, which started from an already modest situation in 2007 and featured even a slight drop in ROE in 2011. This means that the crisis has eroded the income for all businesses, but those that had been recording better performance levels have been able to limit the impact (probably due to a better ability to react through innovation and internationalization), unlike the others that have suffered most heavily from the market crisis and have seen their margins become narrower and almost vanish, also because of the heavy tax burden, as will be seen shortly.

More specifically, the return on assets (ROA) for the Veneto was good and slightly lower than ROE. This can be considered a favourable condition, which has not occurred at the national level. Without going into complex details that would require a much more comprehensive study, it can be pointed out that the prevalence of ROE over ROA shows a beneficial effect of **financial leverage**, due to the fact that the return on corporate investment is higher than the cost of debt capital acquired. If that fails to happen – like in the rest of Italy – profitability becomes an issue, and in the medium to long term that can undermine the companies' willingness to invest, resulting in the closing of the business. The current tax system further exacerbates this trend.

Directly linked to profitability is the problem of corporate **taxation**, which greatly reduces the companies' gross income (before tax). The latter must be very high to ensure that the providers of own capital (entrepreneurs and shareholders) have some margin. The closer the gross income is to zero, the more the tax rate increases, because many costs are not deductible and the regional tax on production (IRAP) is also applied to a substantial part of the cost of labour.

Indeed, given a nominal rate of 31.4 per cent (corporate income tax- IRES + IRAP provided for by tax laws), the actual tax rate (i.e., the rate of taxation on income earned) was 50.2 percent for the Veneto in 2007 and 58.7 percent in 2011. Nation-wide, the situation was even worse because it went from 45.9 percent in 2007 to as much as 113.8 percent last year. In other words, Italian companies as a whole **have paid more taxes than what they have earned** and, what is more, **even enterprises in the red have paid taxes** - simply because they have had much lower revenues. Although in the Veneto the tax burden was lower because of the proportionally higher incomes of businesses, the fact remains that in previous periods there have been even higher rates (e.g., 61.4% in 2001) and that the highest rates of taxation are borne by smaller businesses, as has been pointed out in previous analyses by UnionCamere Veneto. Moreover, it should be underscored that the relatively more favourable fiscal situation of the Veneto's enterprises should not lead to underestimate the fact that:

- corporate taxation is very high and well above the nominal level, which is already high compared to other European countries;
- IRAP does not exist in the tax systems of other advanced countries;
- the rate measured regards the overall system of enterprises, but SMEs and especially micro-enterprises with lower incomes are subject to much higher actual rates and also in the Veneto enterprises that post losses have to pay IRAP and IRES on costs that are not tax deductible (including most of those relating to bank interest paid).

As already proposed in other studies on financial statements, in addition to a general reduction in rates, measures should be taken to:

- drastically cut charges and expenses that are not deductible for tax purposes (and in particular those relating to debt interest, which increases worsen the cost of borrowed capital, particularly in this period of “credit crunch”);
- reduce the taxable base of IRAP, at least the portion weighing on the cost of labour, which makes no sense, has no counterpart in any other advanced country and also violates Article 53 of the Constitution, which sets forth criteria for the progressivity of taxes.

It is a fact that **eliminating taxes on earnings reinvested in the company and in innovation and the improvement of human capital** would be essential for economic growth. There is a growing number of scholars who advocate taxation only on the distribution of dividends to shareholders, i.e., when the business income is actually received by those entitled to it.

Finally, some comments on **productivity**. Since the Veneto’s production system is labour intensive, labour productivity has continued to be below the national average - even more so because of the crisis. It should also be noted that the indicator used here (value added/labour cost) is different than the one used in macro-economic accounting (value added/number of hours worked or number of units of full-time work). Indeed, the denominator in the former indicator captures also the quality of human resources – higher quality is usually better paid; while the denominator in the latter indicator is based on labour units and expresses an undifferentiated quantity. If, therefore, according to the financial statement indicator, the value is unfavourable for the Veneto, it means that poor labour productivity does not depend on an increased use of unqualified staff, but may be the result of an excess of labour, of a lower efficiency in the production processes, or even of the offering of goods and services at lower prices.

Greater insight into these causes would require investigations that go well beyond the assessment of financial ratios, but it is worth noting that the Veneto’s **productivity of capital** is higher than the Italian average. Therefore, other things being equal, it is obvious that the greater intensity of labour causes a lower productivity of labour and a higher productivity of capital. It follows that it is especially important to inject new capital through investment in innovation and the improvement of human capital, to increase the productivity of labour.