

Covid-19 and Italian Manufacturing – Impact and Responses

Italy is one of the countries most affected by Covid-19 globally. In fact, It is often referred to as “Ground Zero” for Europe. The virus has had a tremendous impact on the Italian economy in general and on manufacturing, which represents 16.6% of Italy’s GDP in terms of value added, in particular. This article will examine the impact of Covid-19 on the Italian economy and specifically on manufacturing and the latest response efforts undertaken by the Government and by industry to counter the impact of Covid-19

Impact of Covid-19 on the Economy and on Manufacturing

- The EU Commission estimates that, as a result of the Covid-19 pandemic and the lockdown imposed by the Italian Government, the GDP of Italy will contract by 9.5% in 2020. However, the Commission also estimates that the GDP of Italy will bounce back by 6.5% in 2021, because of the reprise in economic activities in the country from May 2020 on and because of the Government’s measures to sustain them.
- Specifically, Italy’s national statistics agency Istat estimates that during the first quarter of 2020 industrial production *quantities* in Italy declined by 8.4% compared to the previous quarter. This was the worst quarterly decline since 1990. In March 2020 industrial production decreased by 28.4% versus February, due to Covid. All manufacturing sectors were hit, and in particular transportation vehicles, textiles and clothing, machinery (-40.1%) and metals and metalworking (-37%). Food and beverage and tobacco manufacturing production did not decline as much.
- The drop in industrial production *revenues* for the month of March 2020 was equally dramatic, decreasing by 25.8% versus February 2020. On average, during Q1 2020 industrial revenues averaged a 6.6% decrease versus Q1 2019. Orders also decreased, by 26.5% on a monthly basis and by 9.5% on a quarterly basis. Sector-wise, March industrial revenues decreased by -20.1% for intermediate goods, by -20.8% for consumer goods, by -32% for energy and -36.2% for capital goods. Machine tools were particularly impacted: in the first quarter of 2020 domestic (Italian) demand for machine tools decreased by -41.3%, again due to the Covid emergency and lockdown. This was in part compensated by a lesser decrease in foreign orders of -4.4%, thereby somewhat containing losses for Italian machine tools producers, whose losses averaged -11% during the quarter.

Latest Response Efforts to Counter the Impact of Covid-19

- On May 13 the Government of Italy announced Law Decree 34, which was then officially published on May 19. containing several measures to relaunch the economy. The decree is 256-articles strong and contains measures for a total of €55 bn. The measures address the needs of companies, autonomous workers, professionals and families. Among the measures most relevant to industry are:
 - Some fiscal deadlines were extended, while others outright canceled
 - Simplifications for, and extensions of, wage guarantees for workers
 - Tax rebates of up to 100% of expenses incurred from 7/1/20 to 12/31/21 for energy renovation and anti-seismic works on buildings

- Measures to sustain green mobility
 - Non-repayable loans to companies that lost at least 1/3 of their revenue based on a comparison between April 2020 and April 2019
 - Lower utility bills for SMEs
 - Incentives for startups and innovative SMEs and facilitations for venture capital investments and for government digitization.
 - Incentives for tech transfer
- More specifically about incentives for startups, SMES and venture capital and tech transfer: €314 million will be made available to innovative SMEs through two instruments. One is the “Smart&Start Italia” fund, whose novel approach includes measures to sustain the growth phase of startups to render their products and services scalable. The other one is a fund to sustain venture capital. There are also measures to ease taxation for individuals who invest in innovative startups or SMEs, provided that they commit their investment for at least three years. Incentives for both individuals and financial institutions to invest in startups and innovative SMEs were much needed in Italy, because of the longstanding reluctance of Italians to undertake such ventures. The so-called “Relaunch” Decree also includes €500 million for tech transfer, to promote the use of research by companies operating on the Italian territory, another area where historically Italy has been weak. Government entities will also be able to take advantage of a €50 million fund for technological innovation and digitization.
 - The above are all important steps forward, although some critics point to the lack of a cohesive approach for technology transfer on Italy’s part, citing the divide in competencies between the Ministries of Economic Development and Innovation. Critics also point to the lack of clarity about the future of incentives for advanced manufacturing, although Minister of Economic Development Patuanelli announced that a revision of the current plan for “Industry 4.0” is forthcoming, with the horizon for tax credits for “Industry 4.0” investments likely to be extended to three years.
 - An optimistic perspective from a “captain of industry” comes from Mr. Alberto Vacchi, CEO of leading packaging group Ima, a leading global player in the packaging sector (<https://ima.it/en/>). Mr. Vacchi stated in a recent interview that his firm has been active throughout the crisis to supply the pharmaceutical and food industries, with clients such as Pfizer, Abbott and J&J (to name a few U.S. based customers). Mr. Vacchi claimed that keeping operations going was possible also thanks to a sensible agreement with trade unions regarding distancing and PPE on the shop floor and smart working options. Mr. Vacchi’s hope is that his firm will be able to supply the machinery necessary to produce the injectable doses of the future anti-Covid vaccine. Mr. Vacchi noted that the crisis proved to be an opportunity to accelerate Ima’s work on surveillance systems and remote maintenance of its machines
 - By May 18 most productive and commercial activities in the country have resumed. At the time of writing, most travel is still restricted; the Government is planning on gradually reopening borders as applicable and in accordance with other countries and allowing unrestricted travels

of Italian citizens throughout Italy (to be confirmed), also in the hope of boosting the economy. The lifting of travel restrictions and the injection of liquidity into Italian companies and consumers' accounts brought by the stimulus package should in the medium term provide opportunities for exports of U.S. companies to Italy across all sectors. For the time being, in general the focus is on emergency recovery and most major trade events and programs have been moved to 2021. The U.S. Commercial Service stands ready to assist U.S. manufacturers with any opportunities in this immediate recovery phase and onwards.