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Statistical Update



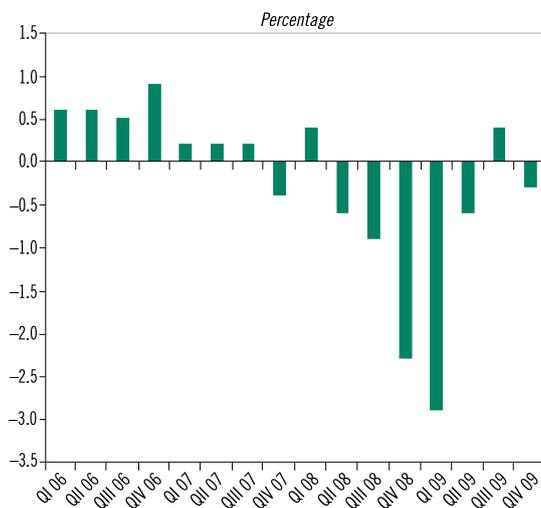
International
Labour
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ITALY: MODERATELY HIGHER UNEMPLOYMENT WITH A STRONG ECONOMIC SHOCK

A weakened Italian economy hit hard by the crisis

- The Italian economy has been severely affected by the financial crisis due to its exposure to the collapse in global trade and the credit crunch. The impact on the economy has been accompanied by falling productivity and profitability, which had dampened growth in the country for some years prior to the onset of the current downturn.
- In 2008, real GDP contracted by 1 per cent and the recession has since deepened, with economic growth contracting by 5.1 per cent in 2009.

Figure 1. Real GDP growth rate by quarter, Q1 2006 – QIV 2009



Source: EUROSTAT. Seasonally adjusted data. Real GDP growth shows quarter-to-quarter change.

Stimulus package targets businesses, infrastructure and labour market and income support

- The overall strategy of the government has been to implement budget-neutral packages by reallocating resources towards the most effective instruments to stimulate the economy.
- The fiscal stimulus package represents spending of €14.1 billion in 2009 (0.7 per cent of GDP

in 2009 and 2010) smaller than most OECD countries.

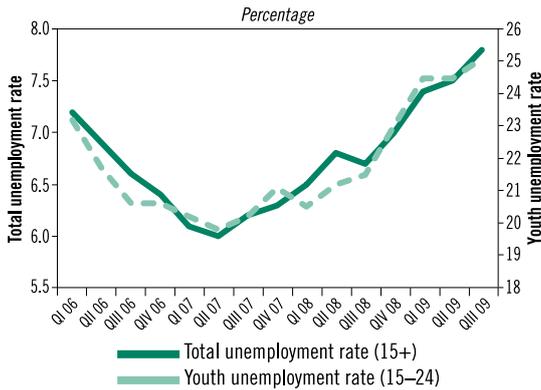
- Altogether, three stimulus packages have been announced since the start of the crisis (in November 2008, February 2009 and March 2009). The key elements of the packages are:
 - support to industry and businesses (€5.3 billion);
 - labour market measures (€2.6 billion);
 - infrastructure and research and development spending (€3.3 billion);
 - income support (€2.9 billion).
- The largest component of the combined package is support for business in the form of increased access to credit and subsidies (38 per cent of 2009 outlay).
- The next largest item is investment measures, which mostly consists of infrastructure projects including €1.3 billion.
- According to government figures, 20 per cent of the resources have been set aside for income support measures, including one-off cash transfers to low-income households. Finally, the remainder of the package (19 per cent) has been allocated to measures that improve the functioning of the labour market including training, job search assistance and subsidized reduction in working hours.

Total unemployment rate has registered small increases, but youth unemployment rose more

- Youth have historically experienced unemployment rates that are considerably higher than the rates among the total unemployed. The ratio was about 3.2 on average during the first three quarters of 2009, about unchanged from the same period a year earlier.
- The total unemployment rate increased from a low of 6.2 per cent in the third quarter 2007 to 7.8 per cent in third quarter 2009.

- The unemployment rate has increased more for youth (aged 15–24), from 20.2 per cent in the third quarter 2007 to 25.1 per cent in the third quarter 2009.
- Rising unemployment has occurred in the context of a declining labour supply. Total labour force participation rates have fallen slightly (0.6 percentage points) between third quarters 2007 and 2009. The youth labour force participation rate fell by 2.7 percentage points over the same period.

Figure 2. Total and youth unemployment rates, by quarter, Q1 2006 – QIII 2009

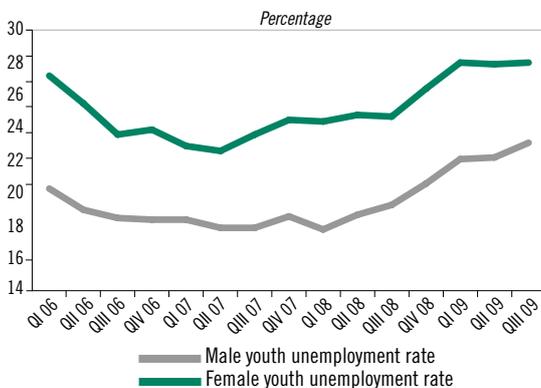


Source: EUROSTAT. Seasonally adjusted data.

Female youth unemployment rate remains higher than the male youth unemployment rate

- The male youth unemployment rate rose 5.3 percentage points from the recent low in the first quarter 2008 to 23.1 per cent in the third quarter 2009. By comparison, the female youth unemployment rate rose 3.6 percentage points to 28 per cent over the same period.
- The difference between the two rates still remains fairly high, 4.9 percentage points in the third quarter of 2009, as young women still experience higher rates of unemployment than their male counterparts.

Figure 3. Female and male youth unemployment rates, by quarter, Q1 2006 – QIII 2009

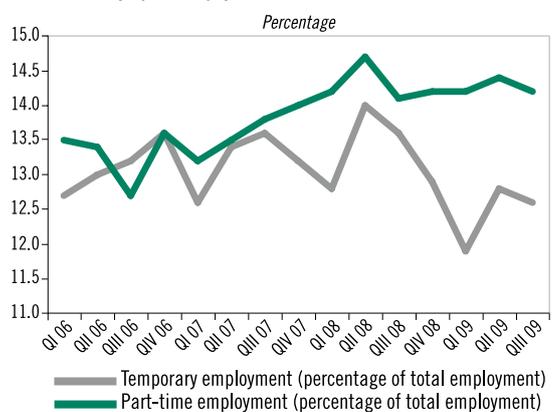


Source: Eurostat.
Youth refers to persons aged 15 to 24. Seasonally adjusted data.

Temporary employment has fallen while part-time employment has increased

- Temporary employment as a share of total employment has fallen slightly over the crisis period from 13.6 per cent in the third quarter 2007 to 12.6 per cent in the third quarter 2009. This decline could be associated with the marked increases in youth unemployment, as youth are more likely to obtain work in temporary jobs.
- Part-time employment as a share of total employment has increased over the crisis period from 13.8 per cent of total employment in the third quarter 2007 to 14.2 per cent in the third quarter 2009.

Figure 4. Share of temporary and part-time employment in total employment, by quarter, Q1 2006 – QIII 2009

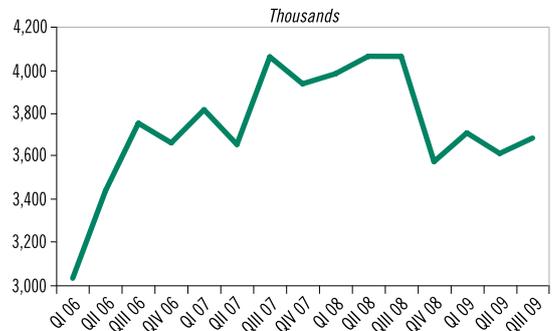


Source: Eurostat. Data are not seasonally adjusted.

The number of discouraged workers has not risen during the crisis

The number of discouraged workers reached almost 4.1 million in the third quarter 2008 but has since fallen to nearly 3.7 million in the third quarter 2009.

Figure 5. Number of discouraged workers, by quarter, Q1 2006 – QIII 2009

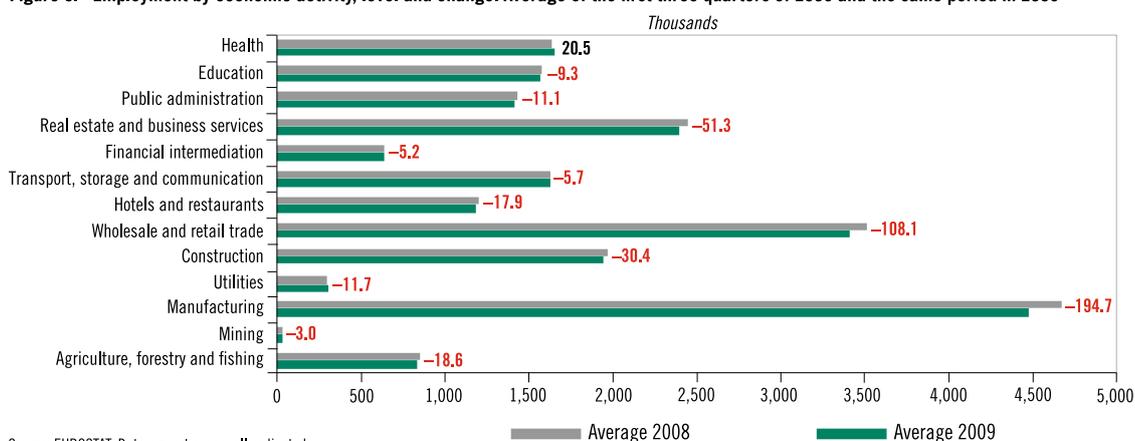


Source: Eurostat.
Discouraged workers are persons who want to work but are not seeking employment because they think no work is available. Data are not seasonally adjusted.

Most of the job losses were in the manufacturing sector, but job protection measures kept workers attached to the firms

- Job losses were most pronounced in manufacturing (194,700 jobs lost), wholesale and retail trade (108,100), and real estate and business services (51,300) on average during the first three quarters of 2009 compared with the same period in 2008.
- Job losses in manufacturing remained high in the third quarter of 2009 and accounted for 60.6 per cent of the total net employment loss in this quarter from a year earlier, despite signs of recovery in industrial production (due to inventory rebuilding) at the end of the second quarter of 2009. Declines in construction investment led to further layoffs in this sector over the same period.
- A mild recovery in private consumption was observed between the second and third quarters of 2009, boosted by government incentives for purchases of motor vehicles and other durable goods. This seems to have contributed to easing layoff pressures in wholesale and retail trade; however, employment in this sector in the third quarter of 2009 remained 1.8 per cent below the level of a year earlier.
- Initiatives such as the Wage Supplementation Fund enabled firms to cut the number of man-hours while keeping workers employed. Official estimates report that half of the industrial firms have applied to use this instrument in 2009. Job losses may have been more significant across sectors in the absence of this type of instrument.
- The Italian government has extended both the ordinary and extraordinary CIG schemes (a scheme that is used to protect workers' income in firms keeping them in jobs). More specifically, the government has broadened the coverage of the programme to (temporarily) include small and medium firms and tertiary sector.
- The impact of these measures is evident from the data provided by the *Istituto Nazionale di Previdenza Sociale* (INPS). In this respect, the number of working hours compensated by the Fund increased by 184.1 per cent in the first quarter of 2009 compared to the same period in 2008.
- Comparing the total number of hours compensated from January to October 2009 to the same period in 2007 reveals an even larger increase of 390.3 per cent. This surge in compensation under the CIG scheme has been mostly caused by its application for workers in the manufacturing sector.

Figure 6. Employment by economic activity, level and change. Average of the first three quarters of 2009 and the same period in 2008



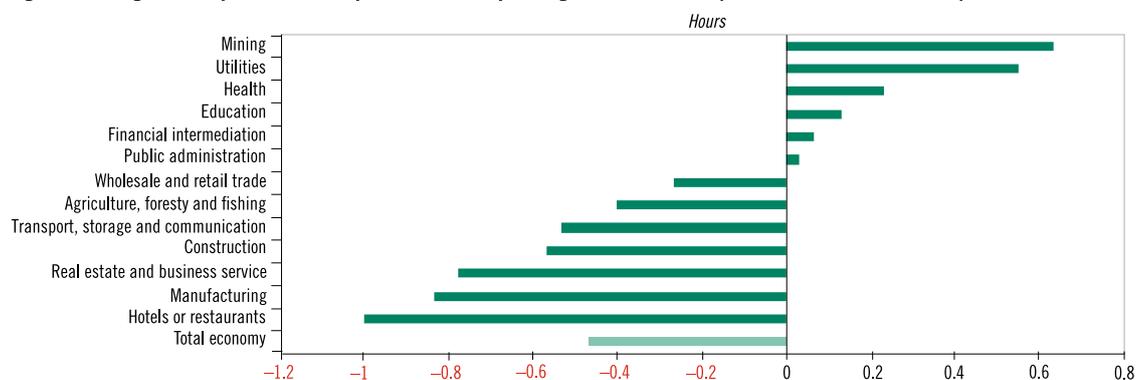
Source: EUROSTAT. Data are not seasonally adjusted.
 Figures next to the bars reflect changes in employment between the two periods.

Hours of work declined at the total economy level and across many sectors

- Weekly hours of work declined 0.5 hours on average at the total economy level during the first three quarters of 2009 compared with the same period of 2008.

- Declines in weekly hours of work were steeper than the average reduction at the total economy level in most economic activities, notably in hotels and restaurants (-1.0 hour) and manufacturing (-0.83) over the same period.
- Between the third quarters of 2008 and 2009, average actual weekly hours worked in Italy have fallen from 38.5 to 38.0 hours per week.

Figure 7. Change in weekly hours of work by economic activity. Average of the first three quarters of 2009 and the same period in 2008



Source: EUROSTAT. Data are not seasonally adjusted.

The outlook suggests that economic growth will remain weak in 2010 and unemployment will rise

- The anticipated recovery in Italy will be far from robust with economy projected to grow by only 1.1 per cent in 2010 (Ministero dell'Economia e delle Finanze, 2010).
- Of greater concern is the level of public debt, which is projected to increase to nearly 117 per cent of GDP by the end of 2010 (Ministero dell'Economia e delle Finanze, 2010). This will continue to be a major challenge for the government, which has been committed in recent years to tackling the high deficit and growing public debt.
- Government projections indicate that employment levels are likely to remain relatively stable in 2010, followed by a slow improvement in the

years to follow, while the unemployment rate would reach 8.4 per cent in 2010 and 8.3 per cent in 2011 (Ministero dell'Economia e delle Finanze, 2010). The United Nations nonetheless forecasts the unemployment rate to increase 1.4 percentage points in 2010.

- Despite the relatively mild impact of the crisis on the labour market to date, long-term challenges remain such as the low level of labour force participation and the segmentation of the labour market by sex. In addition, long-term unemployment could be a major problem in Italy. As of the third quarter of 2009, 45.2 per cent of the unemployed had been without a job for more than 12 months.
- Overall, the main challenge for the Italian government in the post-crisis period is to raise economic growth through improvements in productivity and labour participation, along with tackling debt and long-term structural problems in its labour market.