New Year Forecasts for Italy Begin with the Economy

Judith Harris (January 02, 2019)

New Year forecasts for Italy begin with the economy, which showed lively growth in 2018. However, a GDP slump during the third quarter of 2018 appears a warning signal. Further risks may be aggravated by tax hikes.

ROME -- New Year forecasts for Italy begin with the economy, which experts say is not as healthy as they would like. Despite lively growth in 2018, the slow-down of the GDP during the third quarter that year is seen as a warning signal, consequent to the international economic picture as well as to local political factors. Goldman Sachs and Oxford Economics predict a growth rate for the entire Italian economy of under 0.1%, or about one-third of official government forecasts. Industrial production is expected to rise in the coming year by no more than that. In addition, the EU reduced growth prospects for Germany, which, like Italy, relies upon exports.

In a New Year's Eve tweet financial journalist Michael Pontrelli wrote that the government's budget program, called "the Maneuver," was a step backward on the part of the government, which, "In the end, caved in to Europe so as not to ignite infringement procedures." For ordinary Italians, this risks coming at a high price, for, to avoid punishment from Brussels, the government is "putting its hands into citizens' pockets.... Brussels imposed a stop in financing measures which the government had deemed essential, like citizens' income and pensions at quota 100, but this will make the deficit explode," according to Pontrelli.

As of Jan. 1, under the Maneuver, regions and townships are allowed to raise taxes upon citizens. This helps make the array of taxes expected to be levied upon citizens higher than ever, not to mention controversial, like the taxes the government had tried to impose upon voluntary organizations. All told, fiscal pressure may rise from the 42% of 2018 to 42.4% in 2019, and on to 42.5% by 2021. And the Bank of Italy has raised the cost of borrowing significantly, with effects upon businesses and families too.. (See: >> [2]) "We have passed from quantitative easing to Quantitative Tightening," according to Alessandra Caparello of Wall Street Italy (See >> [3])

On the other hand, predictions are that the spread -- that is, the amount the government must pay to refinance the public debt -- will remain beneath 300 points; at its worst in 2018 it had spiked up to 330. As Pontrelli points out, Italian relations with the European Union, which were testy at best in the past half year, showed improvement at year end.

Also on the positive side, although some here have suggested that political uncertainty has been a factor in the glooming warnings, the latest view is that a plunge into early elections appears s less likely than even a month ago. Although the Movimento Cinque Stelle (M5S) headed by Luigi Di Maio still is at loggerheads with their governing partner, the Lega headed by Matteo Salvini, the political situation suddenly appears fairly stable.

A factor here is the literally unexpected political cool-headedness of Prime Minister Giuseppe Conte, the professor who was called into government to arbitrate between the two parties (and deputy premiers) who are both partners and rivals. Suddenly the formerly fairly drab Conte, calling himself "a guarantor" of the government, is quietly appealing to Catholic organizations that had been entirely overlooked by the M5S and the Lega. In so doing, he has moved closer to the Italian President Sergio Mattarella and is gaining in authority and respect.

Once in government, Salvini's Lega quickly upstaged, outfoxed and out-social-media-ed Di Maio's M5S, to the point that six pollsters have just averaged his party's strength under 32% in a potential election. By comparison, Di Maio, who had started out far ahead of the Lega, may now claim only 27% or so. This reversal of strength had generated fears that Salvini, basing some of his support on anti-immigrant rhetoric and actions like blocking shiploads of rescuedmigrants from docking in Italy, would provoke new elections. However, most recent statistics show that the Lega has actually dropped several percentage points. And Prime Minister Conte is on record insisting, as does President Mattarella, that the present legislature will continue through its natural end in another 4-1/2 years. This prospect for stability is an important consideration for the health of the economy.

Taking the long view, Italy's factory system is under attack by, guess what, robots. Those factories that already rely on robots to fulfill the tasks formerly performed by men and women require workers described here as "badanti" (caregivers) to make sure that all is working: that a robot is not broken down, that assembly line functions correctly. However, to become a caregiver of robots requires special training including in informatics so as to be able to communicate with the robot. If, as some here foresee, within the next decade fully one-quarter of Italian factory workers will be replaced by robots, those jobless because kicked off the assembly line will, if they want to go on working, require special intensive training (McKinsey Report cited in L'Espresso magazine, Dec. 30). Will they be given that training? Some will -- but it will be a challenge.

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