

The Italian Job: Can they pull this one off?

Contact: Richard Ramsey
Chief Economist, Northern Ireland
02890 276354 or 07881 930955

Richard.ramsey@ulsterbankcm.com

www.ulsterbank.com/economics

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If recessions normally only blow the bloody doors off - to use the famous line from the Italian Job film - the period since the credit crunch has done a lot more damage than that as far as Italy is concerned. Indeed, it has been a truly bad job for the Italian economy, setting off a chain of events involving intrigue, corruption, comic appearances, and ongoing efforts to maintain a *'self-preservation society'* culture.

It has been clear for some time that the Italian economy has been finely balanced over a precipice, with one false move potentially plunging it to the fate of other European countries. To date, it has avoided the destiny of Greece and Ireland, not least due to the interventions of Mario Monti, who, for the last 15 months has run an unelected, technocratic government which had secured the confidence of financial markets as he sought to deliver both austerity and much needed reforms.

However, Italy could be back on the edge of a cliff soon as Monti recently bombed at the polls with the electorate rejecting both of these policy goals. To make the plot line even more complicated, the favourite, Pier Luigi Bersani, the leader of the centre left, also polled less well than expected. Whilst Bersani's party secured a narrow victory, it fell short of a majority to govern. Meanwhile one of the leaders of Italy's *'Self Preservation Society'*, one Silvio Berlusconi, had somewhat of a resurgence. This is despite the fact that he has previously presided over economic stagnation and consistently failed to implement reforms. Instead, preserving the status quo has consistently been adopted as the number one priority in Italy by all parties at the expense of the wider economy.

The main election surprise though came from an outsider determined to purge corruption from Italian politics. As with the film, the intervention of a comedian playing a straight role has brought Italian politics to a standstill. Beppe Grillo was one of Italy's leading satirists in the 1970s. Today, the comedian leads the Five Star Movement which secured 25% of the Italian vote. As a result, Grillo can make or break any coalition. However, to date, Grillo's anti-establishment movement has refused to go into partnership with either the political left or right. This adds to the uncertainty over what happens next with Italy.

At this stage the options appear twofold: another election or a *'grand coalition'*. Another election could give rise to the same result (*or even the Five Star Movement securing an even greater share of the vote*) and therefore the same political gridlock. The alternative is a *'grand coalition'* between the political left and right to deliver reforms that they have failed to do for decades. However, with Italy's characteristic confrontational style of politics this again looks unlikely. As a result, there is no obvious escape route through the Turin sewers in Mini Cooper S's from the current political impasse.

Grillo's success is a culmination of an anti-establishment crusade that has been decades in the making. In 1986 he was expelled by the Italian state broadcaster for suggesting the then Prime Minister – Bettino Craxi – was corrupt. In 1994 Grillo was vindicated when Craxi fled Italy for Tunisia to escape corruption charges. In 2002, Grillo, who has a degree in accounting, suggested that the state of a dairy giant's (*Parmalat*) finances were such that in any *'normal country'* the company would have collapsed. It subsequently did.

The Five Star Movement's success is significant for a variety of reasons not least its success could spread to copycat movements (*political contagion*) in Spain, Portugal, France and elsewhere. In turn, these could jeopardise politics and thwart reform in the eurozone. First, it should be noted that Grillo's internet based movement is just that, a movement and not a political party. Indeed, last October Grillo said *'we die if a movement becomes a political party'*. Second, the movement's electoral success has been most evident within

the younger generation with Grillo securing around 45% of the vote in this group. This is significant as the younger generation has borne the brunt of the downturn to date. The Five Star Movement's representatives, who have no experience of government whatsoever, will also drag down the average age of politicians in the Italian parliament from 54 years of age to 45. Incidentally, this compares with 50 and 51 for Westminster and Stormont respectively. This introduces a new generational angle for change. Within this context, Bersani may be replaced by his party colleague, Matteo Renzi, the 38yr old mayor of Florence. The latter has been described as more radical than Tony Blair in the 1990s.

Regardless of who becomes prime minister, dealing with the Italian economy could be viewed as mission impossible. It remains to be seen whether Italy will win the wooden spoon in the RBS 6 Nations. However, as far as economic growth is concerned, it has already secured the equivalent, unwanted accolade for miserable economic growth amongst advanced nations. According to Michael Cembalest, an investment strategist with JP Morgan, last year saw Italy overtake Japan in 2012 as the advanced economy with the weakest economic growth rate since 1991. During the period 1991-2012, Italian GDP growth averaged a paltry 0.79% per annum. Indeed, apart from the two world wars, the last few years of economic growth have represented the weakest period of economic growth since Italian unification in 1861.

Last week highlighted that 2013 is not going to be any better for Italy, with both the services and manufacturing PMIs signalling a sharp contraction in February. There has been a raft of other negative economic news too. Italian car sales have also gone into reverse falling 20% in the last year. Furthermore, Italian brands – Fiat & Alfa Romeo have seen their sales in the EU plummet by 40% since 2007. Meanwhile, the 'Made in Britain' Mini has posted 5% growth in the same market over the same time period. Italian exporters don't have the luxury of a weak currency to boost their competitiveness.

A quick glance at the Italian labour market provides cause for concern. Finding an 'Italian Job' is becoming increasingly difficult with the unemployment rate hitting 11.7% in January – its highest level in at least 21 years. Incidentally, this compares with 7.8% for both Northern Ireland and the UK and 14.1% for the Republic of Ireland. Italy's youth unemployment rate is even more shocking. At 39%, it has overtaken Portugal and is where Greece was two years ago (*Greece currently at 59%*). Spain is the only other Eurozone economy with a higher unemployment rate for those aged under 25 years of age (*55%*). However, after Greece and Ireland, Italy has the highest percentage of its population at risk of poverty. Indeed, last week the central Bank of Italy warned that two-thirds of Italian households have insufficient income to cover their needs.

Northern Ireland will next year host the start of the Giro d'Italia, the world's second biggest cycle race after the Tour de France, which will provide an economic boost to the local economy. Northern Ireland can also derive some economic lessons from experiences in Italy – not least Italy's failure to implement much needed reforms. Not implementing unpopular policies leads to undesirable economic outcomes in the long-run. As Jean-Claude Juncker (*former President of the Euro Group*) famously said "we all know what to do, we just don't know how to get re-elected after we have done it". This is the challenge facing all governments in the UK, eurozone and Northern Ireland.

Richard Ramsey
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