

# Investment choices Northeast Italy

Macroeconomic conditions

**Dominick Salvatore**

Distinguished Professor Fordham University

**Fred Campano**

Former Professor Fordham University

**Alessandro Minello**

Adjunct Professor Ca' Foscari University

NYC

December 2, 2022

## Macroeconomic Outlook

As of September 2022, the world economy is bracing for a recession. Inflation in most of the G20 countries has caused central bankers to raise interest rates and preliminary estimates of growth in these countries indicate there is a good chance that 2023 will be a recessionary year. For investors this means that they must be extra cautious in selecting markets. Table 1 shows that the efficiency of investment in generating growth (ICOR) turned negative in 2009. There are countries that still have not fully recovered from that GDP meltdown. What happened in the period from 2008 to 2009 (table 1) still remains as a reminder of how quickly portfolio investments can shrink in value. All of our countries had negative ICORS during this period, indicating a negative return on GDP from investment. If predictions are correct that 2022 and 2023 are recession years, then our countries will probably have negative returns on GDP again from investments as has always been the case during recessions.

Table 1 Growth Rates, Investment Shares in GDP, & Incremental Capital Output Ratio

	Germany				Spain		
Period	R	I/Y	ICOR	Period	R	I/Y	ICOR
2000-2020	1.23	20.9	17.1	2000 - 2020	1.02	21.7	21.4
2000-2008	1.27	21.6	17.0	2000- 2008	3.25	25.1	7.8
2010-2020	1.37	20.6	15.1	2010 - 2020	0.93	19.2	20.8
2009	-6.04	19.1	-3.2	2009	-3.76	21.4	-5.7
2010	4.01	20.6	5.1	2010	0.16	20.5	125.5
	Canada				USA		
Period	R	I/Y	ICOR	Period	R	I/Y	ICOR
2000-2020	1.79	23.4	13.1	2000-2020	1.80	20.6	11.6
2000- 2008	2.49	22.6	9.1	2000-2008	2.56	21.1	8.4
2010-2020	1.98	24.0	12.1	2010-2020	2.56	20.6	8.1
2009	-2.60	17.0	-6.5	2009	-2.60	17.0	-6.5
2010	2.71	18.3	6.8	2010	2.71	18.3	6.8

	France				Italy		
Period	R	I/Y	ICOR	Period	R	I/Y	ICOR
2000 - 2020	1.04	22.8	21.9	2000 - 2020	-0.17	19.8	-117.9
2000- 2008	1.80	23.0	12.7	2000- 2008	0.93	21.7	23.4
2010 - 2020	0.88	22.8	26.0	2010 - 2020	-0.22	18.2	-83.0
2009	-2.87	21.4	-3.4	2009	-5.28	19.6	-3.7
2010	1.95	21.7	11.1	2010	1.71	20.3	11.9

However, not all investment is the same. Broadly speaking, there are two kinds of investment, i.e., (1) investment in financial assets and (2) direct investments in new capital. Financial investments are vulnerable during sudden upward changes in interest rates, but the return on direct investment is determined over longer periods of time. Foreign direct investment is generally direct investment by the citizens of one country into a business in another country.

From table1, we see that Italy had the worst macroeconomic performance among its major trading partners. It had negative growth (and ICOR) over the entire period from 2000 to 2020. However, the subperiod from 2000 to 2008 showed a positive growth rate of less than 1% annually. During this period it had an average investment share in GDP of 21.7%, which is a respectable ratio for a developed country, but the growth rate is too low. It could have been higher if the ICOR were lower. With some effort, Italy should be able to reduce the ICOR to about 12, as France has done with roughly the same investment share in GDP.

Notice that the two American countries had higher growth rates and lower ICORs than the four European countries. So, the question arises: why would investors in Canada and the United States invest in Europe where investment is not as efficient? One answer to this question is that in view of a probable decline of the stock market as interest rates rise in America, direct investment (DI) in Europe may be less risky. The reason for this is because it is an investment decision to acquire some ownership in a particular company. The investors become owners or

partial owners in the business and hence they are actively involved in the management of the company. The risk involved is more dependent on knowledge of the particular business than the general macroeconomic conditions. Even in recessions, there are companies that do well. If the investors are from a different country, for example American investors making direct investment in Mexico and China, we use the term FDI, or foreign direct investment. The return on the investment is longer term and less dependent on financial market fluctuations. FDI can be made by opening a subsidiary or by a joint venture with an Italian company. Another possibility is to acquire controlling interest in an existing Italian company. Because of its traditional industrial experience and high quality management culture, we suggest that the industry zone in northeast Italy in the vicinity of Venice is an ideal area to look for FDI opportunities.

## 2. Value Added Output By Major Sector in Italy

Services (see appendix) are the major contributor to GDP in Italy. These include wholesale and retail trade, tourism, educational and medical services, etc. In the most recent years, services accounted for about 73% of the total output. The next biggest sector is manufacturing which is about 16% of the total output, followed by agriculture (including fishing, husbandry, etc.) which accounts for about 2.5% of the total output. The remaining 8.5% is everything else. In Table 2 we can see from this sample of firms the variety of industrial activity and skills that are present in the Venice Area. It is a magnet for transnational firms. However, the firms included in this list are among the larger firms in the area, altogether there are about 2000 firms situated around Venice. Many are small companies which service the larger firms. A potential investor would have to spend some time there to see where they could be complementary to the existing industry.

Table 2 Sample of Firms in the Venice Area

Firm	Industry	Firm	Industry
Amazon	Internet & Web Services	Decathlon	Sporting Goods
PwC	Accounting & Tax	Generali	Insurance
Deloitte	Accounting & Tax	Google	Internet & Web
KPMG	Business Consulting	Marriott	Hotels & Resorts
McDonald's	Restaurants & Cafes	Zara	Department Store (Apparel)
Capgemini	Software and Network Solutions	Infineon Technologies	Electronics Manufactures
EY	Accounting & Tax	ALDI	Grocery Stores
Lidl	Grocery Stores	Adecco	Staffing & Subcontracting
Accenture	Industry Strategy & Consulting	H&M	Department Store (Apparel)
Luxottica	Consumer Product Manufacturing	Apple	Computer Hardware Development
Manpower	Human Resource Consulting	Schneider Electric	Energy & Utilities
Electrolux	Consumer Product Manufacturing	Randstad	Human Resource Consulting
IKEA	Home Furniture & Houseware	Vodafone	Cable, Internet & Telephone

## Appendix

The source of the data in the following tables is the Statistical  
Department of the United Nations

### Italy National Accounts Expenditure Table

Millions of 2015 Constant U.S. Dollars

	<b>GDP</b>	<b>C</b>	<b>G</b>	<b>I</b>	<b>X</b>	<b>M</b>
2001	1877320	1116968	352177	393191	439277	424292
2002	1882088	1114952	356905	409954	426957	426680
2003	1884697	1121801	361903	409415	421413	429836
2004	1911527	1133538	364205	416033	447244	449493
2005	1927161	1149657	366261	414569	461630	464957
2006	1961669	1164798	364537	434302	499993	501961
2007	1990841	1177958	366391	444852	530979	529339
2008	1971688	1165335	371243	428995	514152	508036
2009	1867565	1149724	370926	365758	422548	441391
2010	1899562	1162502	373474	386434	472247	495095
2011	1912998	1163004	365868	384167	497842	497883
2012	1855973	1121999	359140	324333	507959	457458
2013	1821804	1095168	355030	306842	509860	445097
2014	1821721	1096253	352802	309934	523194	460463
2015	1835899	1115650	350847	314072	545555	490225
2016	1859646	1129562	353183	330645	555733	509477
2017	1890662	1147567	352998	344663	585945	540511
2018	1908166	1158449	353259	357057	598496	559095
2019	1915995	1160981	351493	350986	608006	555472
2020	1744732	1036724	358090	311058	522871	484010

Y = Gross Domestic Product, C= Household Consumption, G= Government Expenditure

I = Gross Capital Formation, X = Total Exports, M = Total Imports

Source: United Nations Statistical Department

## Value Added by Industry

Year	Agriculture, Forestry & Fishing	Mining & Manufacturing.+ Quarrying	Manufacturing alone	Construction	Wholesale & Retail Trade	Transportation & Communication	Other Activities	Total Value added
2000	38295	355604	287857	98549	226152	137745	786536	1642881
2001	36997	353033	286875	103519	229526	148091	800994	1672160
2002	35347	354283	286725	106686	223110	153372	807166	1679964
2003	34046	346802	280910	110108	221532	153747	817028	1683262
2004	38065	354513	285581	112935	226411	155322	821251	1708496
2005	36211	355528	287487	115150	230836	159992	823475	1721193
2006	35989	364153	300284	117423	234375	162283	837847	1752070
2007	36163	370974	309617	117584	240330	166305	845366	1776723
2008	36828	362877	299537	114272	239881	165496	844912	1764267
2009	36271	304865	244190	104064	226685	161433	835520	1668839
2010	36540	324801	267198	98082	232792	164002	841025	1697242
2011	37383	327856	271505	94531	240134	162287	846165	1708355
2012	36673	316235	260651	85620	237698	155484	830800	1662510
2013	37039	309803	257165	79577	235593	152220	821579	1635811
2014	36199	307358	257736	73464	242299	151154	825609	1636082
2015	37916	311231	264285	71671	251364	150135	828030	1650346
2016	37894	321089	272143	72130	258151	155452	828042	1672758
2017	36468	332140	281601	72733	264378	161036	832727	1699482
2018	37144	338788	286455	73626	266514	159852	839234	1715159
2019	36546	337581	284895	75917	271411	162414	838316	1722185
2020	34236	300720	252170	71096	227928	145756	793341	1573077

Per cent share in total value added								
Year	Agriculture, Forestry & Fishing	Mining & Manufacturing + Quarrying	Manufacturing alone	Construction	Wholesale & Retail Trade	Transportation & Communication	Other Activities	Total Value added
2000	2.3	21.6	17.5	6.0	13.8	8.4	47.9	100
2001	2.2	21.1	17.2	6.2	14.0	8.9	47.9	100
2002	2.1	21.1	17.1	6.4	13.3	9.1	48.0	100
2003	2.0	20.6	16.7	6.5	13.2	9.1	48.5	100
2004	2.2	20.8	16.7	6.6	13.5	9.1	48.1	100
2005	2.1	20.7	16.7	6.7	13.5	9.3	47.8	100
2006	2.1	20.8	17.1	6.7	13.6	9.3	47.8	100
2007	2.0	20.9	17.4	6.6	13.7	9.4	47.6	100
2008	2.1	20.6	17.0	6.5	13.5	9.4	47.9	100
2009	2.2	18.3	14.6	6.2	12.8	9.7	50.1	100
2010	2.2	19.1	15.7	5.8	13.9	9.7	49.6	100
2011	2.2	19.2	15.9	5.5	14.1	9.5	49.5	100
2012	2.2	19.0	15.7	5.2	13.9	9.4	50.0	100
2013	2.3	18.9	15.7	4.9	14.2	9.3	50.2	100
2014	2.2	18.8	15.8	4.5	14.8	9.2	50.5	100
2015	2.3	18.9	16.0	4.3	15.4	9.1	50.2	100
2016	2.3	19.2	16.3	4.3	15.6	9.3	49.5	100
2017	2.1	19.5	16.6	4.3	15.8	9.5	49.0	100
2018	2.2	19.8	16.7	4.3	15.7	9.3	48.9	100
2019	2.1	19.6	16.5	4.4	15.8	9.4	48.7	100
2020	2.2	19.1	16.0	4.5	13.2	9.3	50.4	100