



ISTITUTO DI STUDI E ANALISI ECONOMICA

ISAE Report

*Forecast on the Italian Economy*

Firms' behaviour

Synthesis

*MARCH 2008*

## **CREDITS**

*The present Report is the result of the team work of a wide group of researchers coordinated by Sergio de Nardis. In particular, texts have been written by Maurizio Bovi, Cristina Brandimarte, Giancarlo Bruno, Sandro Calabresi, Mauro Costantini, Lucilla Crosilla, Sergio de Nardis, Roberta De Santis, Marco Fioramanti, Anita Guelfi, Marco Malgarini, Massimo Mancini, Marianna Mantuano, Patrizia Margani, Maria Cristina Mercuri, Daniela Rossi, Franco Sartori, Luisa Sciandra and Claudio Vicarelli.*

*The part “Firms’ behaviour“ has been drawn up by:*

- Sergio de Nardis and Carmine Pappalardo (Chapter 1);*
- Roberto Basile, Sergio de Nardis and Alessandro Girardi (Chapter 2);*
- Sergio de Nardis, Carmine Pappalardo and Claudio Vicarelli (Chapter 3);*
- Anita Guelfi and Massimo Mancini (Chapter 4).*

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*The editing has been ensured by Maurizio Brioni and Fernanda Turella of the ISAE “Editorial and Graphic Services”, directed by Silvia Fanfoni.*

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# Introduction and summary

## *THE FORECAST TO 2009*

The deterioration in the global situation which began last summer has become more marked over the past few months. In a context already burdened by the severe slowdown of the American economy and the associated difficulties of the credit system, in recent weeks waves of turbulence have hit the raw materials markets, the dollar, and almost all stock exchanges. The increase in the number and intensity of external shocks has led to a downscaling of forecasts for Europe and Italy and to increased margins of uncertainty. In the case of Italy, a further element of risk in forecasting is the lack of statistical data for the 'historical' period due to the lack of quarterly accounts consistent with the annual accounts recently issued by ISTAT.

The international scenario envisaged by the ISAE forecast assumes that the second quarter of this year will continue to see high instability in commodities prices, stock markets, and exchange rates. Contributing to this instability will be the speculative pressures that arose following the subprime crisis, fuelled by the climate of uncertainty surrounding bank losses and the expectation of monetary policy manoeuvres on both sides of the Atlantic. But it is not only speculation that has driven these movements. The upward pressure on raw materials and the downward pressure on the dollar stem from real imbalances in the global situation: on the one hand, strong demand for energy products and foodstuffs by rapidly developing countries, on the other, the structural imbalance of the US economy, which, in 2007, induced first the bursting of the real estate bubble and then the credit crunch. In the case of the dollar there is the added possibility of a long-run trend which may see retrenchment, to the advantage of the euro, of its role as reserve currency and means of exchange in trade among

***The  
international  
situation***

countries. The advent of a broad economic area characterised by high stability like Europe is evidently not unrelated to this process.

**Oil**

The forecast concerning oil takes account of the possibility that the imbalance induced by demand from ‘new’ consumers may have produced a shift in market equilibria bound to affect prices for some time to come. Whilst foreseeing attenuation during the second half of the year of the speculative behaviour predominant in recent few weeks, and a gradual normalisation of prices reflecting a weakening world economic trend, the price of Brent crude will continue to be above 90 dollars in 2009 (after an average level of just under 100 dollars in 2008).

**The dollar**

With regard to the dollar, we acknowledge that the tendency towards depreciation will probably continue in the long term, but we expect it to be more gradual than the abrupt oscillations of the recent period might suggest. The reason is that the dollar continues to be the reference currency for important world players, such as China and the oil-producing countries, for which devaluation of the dollar entails greater imported inflation and a loss of value of export revenues. China will sooner or later have to deal with the issue of the appreciation of its currency, in order to curb prices and balance development by basing it more on domestic demand. But it will have to do so in orderly manner, lest it suffer huge losses on its capital account reserves. For the same reasons, diversification of the invoicing currencies used for exports by the oil economies should proceed gradually. In light of these considerations, the cyclical evolution expected in the United States and Europe, and assumptions on their respective monetary policies, it is likely that, after greater volatility during the course of 2008, with further episodes which will drive the dollar down to historically low values, during 2009 the conditions will be in place for the dollar to appreciate against the euro.

**Monetary policies**

According to our forecasts, the European economic trend and the temporary nature of the inflationary surge – expected to subside during the second half of the year due to the global slowdown and a downturn in oil prices – will induce the ECB to undertake gradual and moderate action to reduce interest rates, following only partially the policy that the Federal Reserve has vigorously pursued for some time. This prospect is at odds with official statements by the Frankfurt authorities, and it aligns more closely with expectations concerning prevalent

interest rates on the market (adopted, for that matter, as technical hypotheses by the ECB in formulating its macroeconomic scenarios). The reasons for this different view derive from our forecast of a real European situation relatively weaker than that assumed by the monetary authorities, from the expectation of a substantially moderate trend in core inflation, and from monetary conditions made more restrictive by an appreciation of the euro higher than that envisaged by the ECB.

In the United States, the actions of the Federal Reserve will continue – as its recent decisions have demonstrated – to be dictated by the priority of curbing the risks of a bank crisis and by concerns over trends in the real economy. This will lead to further significant cuts in official interest rates during 2008 (up to 2% before the end of the third quarter). Gradual recovery by the economy is expected in the second half of 2008, and the risk of inflation will induce the Federal Reserve to reverse the trend already underway at the end of this year and continue with upward adjustments during 2009. The ECB will follow this policy in more moderate manner and with a certain time lag.

With regard the American economy, the impact of the credit crunch will be concentrated in the first part of 2008, which will see a marked fall in spending by consumers, whose incomes – in a context of decreased net immovable and financial wealth – will be eroded by increased energy prices and unfavourable employment trends. Economic activity in the United States will contract in the first trimester and remain stagnant on average during the first six months. The strong fiscal stimulus which will enter into action at the end of the second quarter, depreciation of the dollar and aggressive monetary policies should help sustain the economy in the second half of 2008, attenuating the annual average slowdown (we forecast that GNP will increase by 1.6%). In 2009, as the effects of tax relief fade, and assuming that the credit sector's difficulties will be slowly resolved, the American economy will expand (+2.2%) at a rate much lower than its potential.

**United States**

Our forecasts for the Eurozone in 2008 assume a significant deceleration of growth compared with last year. After a first quarter which may still be fairly positive due to the good performance of industrial production at the beginning of 2008, higher raw materials prices, only partially off-set by appreciation of the euro exchange rate,

**Eurozone**

will impact on domestic spending by the European countries as the year proceeds. On the other hand, the strengthening of the euro is detrimental to exports outside the Eurozone, which have also slowed down because of a certain diminution in world demand. The growth expected for 2008 (+1.5%) implies a velocity loss of around 1 percentage point with respect to the previous year. In 2009 growth will slightly improve, rising to about 1.7%.

**Emerging areas**

In the phase of intense slowdown which will affect the main industrial economies, the global cycle will continue to receive support from the emerging economies. China will further expand in 2008, and it will do so at the rates achieved in the past few years. But a cooling of the Chinese economy is expected in 2009. The raw materials producing countries, primarily the fuel exporters, will experience an economic boom and spend their higher revenues on foreign purchases, especially of investment and intermediate goods.

**World product and trade**

Thanks to these developments, gross world product will grow by more than 4% in both 2008 and 2009, while international trade will expand by an average of around 6% in the two years, exhibiting a certain loss of velocity in the first part of 2008.

**Italy, between a negative cycle and structural changes**

Like the European economy, Italy has been hit by the adverse repercussions of the international economic trend. Our estimates show that the slowdown has been significant and of an intensity similar to that expected for the Eurozone. However, it has come about in a situation where the starting-point is already unfavourable to Italy, whose growth gap with respect to the other European economies is still wide, and which the world slowdown will certainly not help to reduce. This is despite the improvements achieved in the sectors most exposed to international competition. Recent export data show that the Italian manufacturing sector has recovered its competitiveness and in recent years has managed to achieve performances on foreign markets not significantly different from those of German companies. Furthermore, the gap that has opened up between the dynamics of the new series of exports in volume and the more moderate progress of industrial production raises several questions. In particular, it may happen that the production rate is revised when it becomes subject – on the occasion of the base change from 2000 to 2005 – to the different commodity listing of Italian output: anecdotal evidence (see, for example, the observations of the industrial associations) suggests that a

certain renewal of products has been carried out by companies in the past few years; the analyses contained in this Report (see the part on Firms' Behaviour) confirm the significance of the phenomenon.

On the other hand, sectors subject to less competitive pressure – and on which a modern economy subject to 'natural' tertiarization should be able to rely – continue to lag behind. At the same time there has been a slowdown in residential and civil construction activities, and these have made the largest contribution to supporting the cycle in recent years.

Because official data regarding the quarterly profile of last year and necessary to evaluate the transition phase from 2007 to 2008 are lacking, forecasts must draw exclusively on estimates based on the evolution of conjunctural indicators. The information available indicates that Italian economic activity may be marginally lower, on average, between the last part of 2007 and the beginning of 2008. The qualitative data from ISAE surveys and predictive indicators also suggest that the weak phase in the cycle will extend into the first half of 2008. Thereafter, the gradual improvement forecast for the global situation, and the attenuation of inflationary pressures on household incomes, should restore buoyancy to the external and internal components of aggregate demand.

***Unfavourable  
economic trend  
indicators***

Our estimate for growth in 2008 (+0.5%) foresees a sizeable retrenchment (of about one percentage point) on the increase achieved in 2007. Italy's growth gap with respect to the Eurozone will continue to oscillate around one percentage point. The result expected for the current year is a strengthening of the economic trend in the second semester. This would impart a positive impulse to the economy in 2009 and accelerate the growth rate (+1.2%): next year, the gap with respect to growth in the Eurozone will stand at around five-tenths of a point.

***Growth in 2008  
and 2009***

The deceleration of 2008 reflects a widespread slowdown in all the components of demand. Household consumption will suffer from the erosion of purchasing power caused by inflation, in a situation where signals of a growing perception of deterioration in personal finances have intensified. According to an indicator constructed on questions in ISAE consumer surveys, household financial hardship rose abruptly in 2007, reaching very high levels at the end of the year, even higher than those of the 1995 crisis. Investments will slow down due to the difficulties of the construction industry and the more severe

conditions for access to credit, and with a substantial reduction in the use of productive capacity. Exports will also slow down, reflecting the less dynamic world context and the repercussions of appreciation in the exchange rate. However, the loss of market shares will be lower than in the years of competitive crisis, thus confirming the recovery achieved in this regard.

The improvement expected in 2009 is conditional on fulfilment of the forecasts concerning a reduction in raw materials prices and strengthening of the 'real' economic trend made for the international situation. A downturn in oil prices from the peaks reached in the first part of 2008 will reinvigorate, through the lowering of inflation, the real incomes of households. Exports will accelerate, driven by the recovery of demand by industrial areas amid less penalising exchange rate conditions. Investments will benefit from the more favourable climate and higher foreign sales, which will grow at increased rates.

**Labour market**

ISAE forecasts that the favourable trends exhibited by the labour market in recent years will continue. Employment growth may slow down this year, as a consequence of lower production activity, and then return to higher rates in 2009. The unemployment rate will fall further, to around 5.5% in 2009, a historically low level, and one not distant from those of the English-speaking countries.

**Inflation**

Increases in raw materials prices (energy and foodstuffs) will continue to generate inflation in the first part of 2008. These pressures may attenuate in the spring, reflecting a gradual levelling down of prices at source and the maintenance of the dollar/euro exchange rate at high levels. However, the transfer of the lower international pressure on domestic prices should come about gradually, becoming more concrete during the last part of the year. A small rise in the contribution made by the non-energy and non-food components to inflation is expected this year, reflecting, in the case of industrial goods, the transfer of higher production costs, and, in the case of the services sector, higher unitary labour costs. Overall, the growth in consumer prices in 2008 should be 2.9%, 1.1 percentage points higher than in 2007, and the highest rise since 1996. In 2009 the forecast continues to be conditioned by the hypotheses regarding the cost of foreign components, whilst for those of domestic origin the evolution may be relatively more moderate than in 2008. The ISAE forecasts that in

*Introduction and Summary*

FORECAST FOR THE ITALIAN ECONOMY: SUMMARY  
(percentage variations unless otherwise stated)

	2007	2008*	2009*
<b>Internal situation</b>			
Gross National Product (1)	1.5	0.5	1.2
Import of goods and services	4.4	3.3	4.0
Export of goods and services	5.0	3.4	4.0
Household expenditure	1.4	0.7	1.2
General government and NPISH expenditure	1.3	0.7	0.8
Gross fixed investments	1.2	0.6	1.4
Contribution to GNP growth			
- national consumption	1.1	0.5	0.9
- total investments	0.3	0.1	0.3
- net exports	0.1	0.0	0.0
- changes in inventories and valuables	0.0	-0.1	0.0
Consumer prices	1.8	2.9	2.1
Production costs	3.5	4.6	2.3
Per capita remuneration	2.1	3.3	2.3
Total employment (2)	1.0	0.6	0.8
Unemployment rate	6.0	5.9	5.5
Net government indebtedness (as % of GNP)	-1.9	-2.3	-2.2
Primary government surplus (as % of GNP)	3.1	2.7	2.8
Fiscal pressure on general government	43.3	43.0	43.0
General government debt (as % of GNP)	104.0	103.2	102.2
Interest rate on 12-month state bonds (BOTs) (3)	4.0	3.8	4.6
<i>p.m.</i> Nominal GDP (millions of euro) (1)	1,535,540	1,589,271	1,644,044
<b>International references</b>			
Gross National Product			
- World	5.0	4.3	4.1
- United States	2.2	1.6	2.2
- Eurozone	2.7	1.5	1.7
Dollar/euro exchange rate (level)	1.37	1.49	1.43
World demand	6.0	5.9	6.2
Official interest rates (3)			
- ECB	4.0	3.5	4.0
- Federal Reserve	4.5	2.5	3.5
Raw materials prices in dollars			
- non-energy	19.0	22.9	9.1
- energy	7.2	26.6	-3.5
Of which: Brent crude (\$/barrel)	72.7	97.0	92.8

Source: ISTAT, Banca d'Italia, BCE, Federal Reserve, FMI, HWWA.

\* Forecasts ISAE; 2009 trend values.

(1) Annual GNP, not adjusted for working days.

(2) In standard work units.

(3) End of term annual rates. Gross rate for BOTs.

2009 inflation will slow to 2.1%. The difference with respect to the average of the Eurozone countries will be nil in both 2008 and 2009.

**Public finance**

After the good progress achieved in 2007, general government indebtedness will increase in 2008 to 2.3% of GNP (1.9% last year) due to the economic slowdown, a more expansionary budget policy, and knock-on effects from the previous year. In 2009, the deficit evaluated in trend terms with unchanged policies will reduce to 2.2% of GNP. In the course of the year, the primary surplus will decrease to 2.7% in ratio to GNP (3.1% in 2007), and then rise by one tenth in 2009. The debt/GNP ratio will contract further over the two years, diminishing from the 104% of 2007 to 103% in 2008 and 102.2% in 2009.

**Risks on the  
forecast  
scenario**

The risks in the forecast are mainly downward and derive from international developments. They concern the possibility of a marked reduction of tensions in the financial and raw materials markets, as well as to the eventuality that the American banking crisis may lead to an even stronger credit squeeze. If these trends come about, spending on investments and consumption in the United States will be affected more than expected, and this will have spillover effects on Europe. World growth will slow down further and the Italian situation will worsen as a result.

However, there is a more limited likelihood that the Italian economy will perform slightly better than predicted. As already mentioned, the forecast for Italy was made without knowing the quarterly profile of the 'historical' years. This has led in particular to an estimate of the infra-annual economic trend which implies adverse pull effects on 2008; a profile different from the one hypothesised here may have consequences in the order of decimals on GNP for the current year. A better starting-point for 2008 might be the signs of good resilience shown by Italian exports outside the EU at the beginning of the year.

## **FIRMS' BEHAVIOUR**

In the February – March forecast reports of recent years, ISAE has paid constant attention to the changes underway in the country's productive system under the influence of two phenomena deemed of importance in explaining several features of Italian trends: the restructuring pressures applied to the industrial sector by globalisation and membership of the Eurozone; the structural changes in the behaviour of labour market actors, caused, on both the supply and demand sides, by the legislative innovations introduced in recent years. In this edition of the report we continue the same line of inquiry, but shift focus of analysis: we concentrate on the same phenomena, but observe them through the lens of the micro-behaviour of firms. There are two reasons for this change of approach.

The first is theoretical in nature. The most recent approaches in the literature on international trade highlight that it is above all the firm – not the sector – which should be the unit examined in order to understand responses to the competitive pressures raised by producers in other countries. Deriving from these heterogeneous responses, in fact, are the aggregate results in terms of efficiency and competitiveness than apply to the economy as a whole. Thus a macroeconomic tradition based mainly on the type of sector meets the methodologies used by labour market economists for some time, and which is primarily based on the inferences to be drawn from elementary data. The second reason is empirical in nature. ISAE carries out periodic economic surveys on operators and *ad hoc* studies on specific issues. This activity has produced a stock of information on aspects often not covered by official statistics, and which can be used, within an appropriate theoretical framework, for analysis of structural type.

As said, the newly-issued data on foreign trade have highlighted a trend in volume exports which has been particularly positive in recent years, indeed higher than for most other European countries. This information seems to reconcile aggregate trends with the findings of various observers on adjustment by Italian companies to the competitive crisis at the beginning of the decade.

The analysis of micro-behaviours contained in the report show that this process of adaptation has taken various forms. Combining the

**Exports,  
efficiency and  
product change**

individual ISAE data with ISTAT data drawn from its annual survey on industrial production highlights two features in particular. The first is that Italy's improved performance on foreign markets reflects a causality relation which goes from productivity to exporting activity.

In other words, the pressure of international competition has generated a process of self-selection by the best operators. Regardless of the sector, the manufacturing firms able to increase their sales abroad have been those characterised at the outset by higher productive efficiency. This would suggest that there has been a 'thinning out' of Italian exporters in the 2000s, to the advantage of those endowed, *ex-ante*, with higher productivity. Analysis also shows that the dynamic of the propensity to sell abroad grows with an increase in firm's size. At the same time, exports by Italian operators working for third parties have been heavily penalised, presumably because they have been crowded out by the competition of low-cost producers in emerging economies. Also of interest is the fact that the growth of foreign sales has been lower, the wider the range of products sold by a firm. In other words, more 'focused' firms have been those able to increase their presence on international markets.

This finding introduces the second aspect addressed by analysis of the Italian situation. Whilst self-selection suggests a sort of 'passive' adaptation by firms to the pressures of international competition (the successful firms being those better endowed initially), we have also investigated whether exporters also adopt 'active' behaviours, modifying their internal product organisation in order to achieve higher productivity and better performances on international markets. The answer to this question is positive. Selection by international competition has not only promoted the firms that were more efficient at the outset, but it has also induced firms to change their internal allocations of resources, stimulating change in products to find those 'best suited' for export. In particular, 'focusing' (eliminating products) and 'replacing' (introducing new products and eliminating old ones) have been the two product change activities which have yielded the most significant results in terms of increased efficiency. The elimination process has concerned marginal product lines (with lower sales) and with a shorter prior life (a lower accumulation of embodied knowledge). It has also been more intense for firms with wider ranges

of products (confirmed by the “focusing” action) and for those of larger size.

While the newly-issued ISTAT data on foreign trade revise average export values (AEV), they confirm divergent trends in respect to the basic prices charged in the domestic market. Between 2003-07, the dynamics of AEV were systematically different from domestic prices, first ‘rounding down’ (2003-04) and then ‘rounding up’ (2005-07). In the traditional *Made in Italy* sectors the difference was even greater and markedly in favour of the AEV.

**Export price  
policies**

Using information on price policies drawn from individual data collected by ISAE surveys, the analysis carried out in the report shows that the differentiation between foreign and domestic markets has affected individual firms horizontally. Firms have adopted price differentiation as part of their strategies to optimise profits. In particular, the practice of differentiating foreign price lists from national ones has responded: 1) negatively to the cost pressures due to currency appreciation and increased competition by emerging countries (behaviour aimed at protecting market volume shares); 2) positively to the amount of demand for goods produced by the firm; 3) positively to the preference for quality of foreign consumers. This evidence allows formulation of various interpretative hypotheses regarding the price policies pursued by exporters. In recent years there has been a drive to reduce export prices in order to curb the erosion of shares due to the strengthening of the currency and the advance of competitors with low labour costs. This behaviour has been in line with the traditional predictions of the pricing-to-market theory. However, adjustments at firm level – mentioned earlier – have probably activated other influences acting contrary to a reduction of export prices.

The more intense competition raised by less advanced countries has fostered a shift of production to segments with higher quality content (less exposed to competition by low-cost goods). At the same time, it has induced product differentiation through investments in activities collateral to manufacturing (branding, design, sales networking, marketing). This has helped exporters position themselves in segments of demand less ‘crowded’ by competitors. Moreover, improved quality has presumably been accompanied by a heightening of taste among consumers in foreign markets for quality and non-price

factors consequent upon changes in the geography of exports and in preferences in rapidly developing economies.

The ‘thinning out’ of competitors through quality upgrading and investments in intangible assets, on the one hand, and the increased taste for quality due to the expansion of consumption characterised by a ‘love for quality’, on the other, have counteracted the pressures imparted by pricing-to-market mechanisms, stimulating an increase in export prices compared to domestic ones.

**Single currency  
and exporters**

During the first years of 2000, Italian industry suffered a severe competitive crisis from which it seems to have gradually emerged by adopting adjustments in part analysed by this Report. Considerable difficulties of adaptation were apparent during the period following Italy’s entry into the single currency ‘club’. The ISAE Report of March 2007 evidenced that the stimulus to exchange rates generated by adoption of the euro had been generally modest for the area as a whole. It also showed that the repercussions of the single currency had been asymmetric, in that they favoured the exports of some economies to the EMU but had no impact on other systems, among them Italy. The evidence indicated that the euro had not stimulate exports by Italy in the single currency area.

This Report returns to the topic and analyses the behaviour of firms. One view recently put forward among analysts reconsiders the type of impact that the euro has exerted on trade integration among the countries belonging to the Eurozone. According to this view, the euro has not led to a lowering of transaction costs in intra-European trade, producing neither the expected beneficial effects on the prices of the products traded, nor the expected surge in intra-area trade. Rather, it has led to a reduction in the fixed costs connected with export activities (more costly than selling on the national market), enabling less competitive firms, which previously sold only within the countries where they operated, to enter the European market with their (relatively costly) products. Hence derives the pro-trade effect of the modest euro, which was rather rapid (due to the one-off fall in fixed costs) and with minor repercussions on prices.

The availability of a dataset on firms – which enables the monitoring over time of their presence or otherwise in the single currency market – makes it possible to verify this possibility (which goes by the name of the “new goods hypothesis”) in the case of Italy.

The analysis set out in the Report shows that the euro has exerted a stimulating effect on exports by Italian firms in the EMU area mainly through the entry of operators which prior to 1999 sold their goods only on the national market; evidence which, in the case of Italy, corroborates the new goods hypothesis. Monetary union has also had a positive impact on sales by firms already present on the euro market before adoption of the single currency. The effect connected to entry by new operators into export markets (commonly termed ‘extensive margin’) has been greater than that deriving from the increase in exports by firms already present on the single currency market (‘intensive margin’).

Despite the favourable effects on exports to the Eurozone deriving from the new ‘entrants’ and the ‘pre-existing’ operators, the Report’s analysis nevertheless confirms that the common currency has not, overall, stimulated the propensity to export to the EMU among Italian manufacturing firms. This apparent incongruity is explained by the fact that a large number of the firms which did not export to the Eurozone before 1999 continued to remain inactive after the adoption of the euro; a ‘lack of reaction’ which more than off-set the positive effects deriving from the extensive and intensive margins.

Over the past fifteen years the law regulating the Italian labour market has been radically modified. The reforms introduced have been concerned mainly to introduce greater flexibility ‘on entry’, achieved by extending the range of contractual forms available to firms.

In this regard, since 2004 the ISAE has conducted an annual survey on the extent to which firms (in the industrial and services sectors) make use of the normative instruments available. The evidence gathered covers various aspects, of which the most interesting concern three main areas: decisions by firms whether or not to hire new workers; the actual use of the various types of contract; and the choice of using formal recruitment channels to hire new personnel.

The results show firstly that between 2004 and 2007 it was mainly firms in the North (in particular the North-East) and in Central Italy which increased their workforces, whilst the propensity among companies located in the South to hire workers was generally below the national average. In Central and Southern Italy, however, firms that hired workers displayed relatively high increases in employment.

***Hiring behaviour  
of firms***

Moreover, the analysis evidences the high frequency of fixed-term work contracts, the use of which was considerably facilitated by decree law 368/2001 (which transposed the EU directive on the matter). Seemingly widespread in the manufacturing sector is the use of leased labour (formerly temporary agency labour), which was significantly liberalised by law 30/2003 (like the principles adopted for fixed term contracts) with respect to the previous law.

The analysis also shows the quite common use by services firms of apprenticeship contracts, which contrasts with their surprising infrequency in the manufacturing sector. There has also been a total failure, at least to date, of work-entry contracts, which appear to be little used by firms (and never in the case of older workers).

As regards project-based contracts, between 2004 and 2006 the hiring of freelance workers often appeared to be in inverse relation to the hiring of dependent employees, therefore suggesting the existence of a certain degree of substitutability between these types of contract.

The behaviour of firms in regard to their choice of types of contract also seems polarised. For example, the data show a rather clear division between production units which, after having hired personnel on atypical contracts, normally convert them into open-ended ones after a certain period of time (this mainly happens in manufacturing companies), and those (mainly in the services sector) which on the contrary show scant propensity for such conversion. Such behaviour may prefigure a different approach to the use of the flexible contract, which in some cases serves as a device to screen the suitability of a worker for permanent employment, or is used to hire labour during peaks in demand, or to reduce labour costs. The percentage of 'converted' contracts appears to be greatly influenced by the characteristics of the firm (size, location etc.).

Another aspect that emerges with reference to the different forms of contract is a certain concentration in the use of part-time contracts. These appear to be used by a relatively small number of manufacturing companies but are more widespread in the service sector. The firms which resort this form of contract also tend to use them to hire relatively large proportions of their workforces.

The analysis also highlights the relatively low levels of work entry by graduates and people aged over 50. However, these are two very different situations. In the former case, the percentage of graduates

among new entrants depends greatly on the size of the firm and the sector in which it operates. In the latter case, the number of companies hiring people aged over 50 appears to be stable and does not change significantly among the different types of firm, which is indicative of the difficulties faced by labour policies aimed at favouring this particular category of worker.

With regard to the recruitment channels preferred by companies, the analysis confirms a continuing strong preference for informal recruitment, which, in the services sector, assumes large proportions. Also evident is the importance acquired in recent years by private employment agencies among the various job placement services. This is particularly true for fixed-term labour leasing agencies (formerly temporary work agencies) especially in the manufacturing sector and South Italy. The use of public job placement services seems to have remained relatively limited, as have the new bodies introduced by law 30.