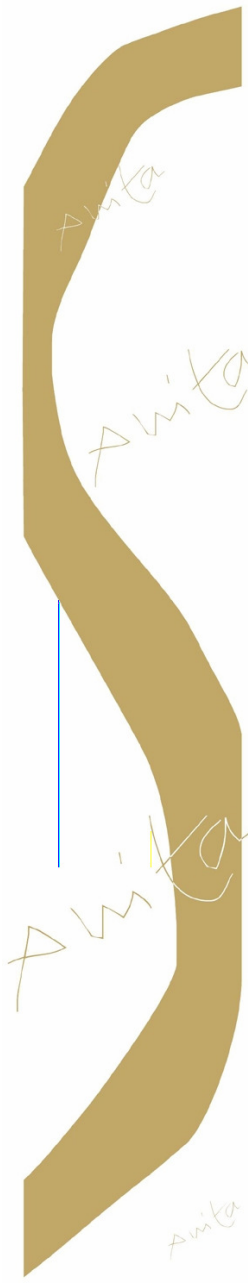


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ITALY****The macroeconomy and the
microeconomy:
a reading model in the long run****The impact of the today crisis and
the partnership policies**

2009 february

**EXTRAORDINARY INTERNATIONAL
EDITION**

Extraordinary international edition

On request of some international Agencies and foreign Associations we decided to publish in English our last Newsletter¹.

For a better understanding of its content we quote even the arguments of the 2 previous ones.

Introduction

The newsletter of September/October 2008 was starting from the first Italian analysis on the long run performance of the goods motortransport, or the book of Chiara Pelizzoni² (Parma University).

The essay published on 2004 was rich of microeconomic data with reference to the period 1989-1998, an useful source for international comparison, but it was even forecasting the limited impact of the coming liberalization implemented on 2005. The last subject was the satisfactory performance of the activity at macro level between 2004 and 2006.

The second newsletter of January 2009 was devoted to the bankruptcy of the motortransport companies and to the premonitory indicators some years before, but even to the comparative demography of enterprises (birth-rate and death-rate) of the main industries and economic activities.

The logic sequel was necessary not only to identify the original features of the goods motortransport but even to estimate the impact of a crisis on the supply's structure.

¹ Newsletter Centro Studi & Ricerche ANITA. "L'autotrasporto merci in Italia. L'economia del settore e l'economia delle aziende: un modello di lettura di lungo periodo. Impatti della crisi recessiva e politiche associative" (III^a parte), febbraio 2009.

² Chiara Pelizzoni, "La liberalizzazione del mercato dell'autotrasporto merci", F. Angeli ed., Milano, 2004.

This essay will conclude our analysis of the goods motortransport's economy as aggregate activity and of the economy of its firms to explain in the same conceptual framework interests, outlooks, supply's components, relations with the firms of other industries, liberalization and minimum prices, impact of the today global crisis and lines of a partnership policy.

The motortransport's demand

The demand of transport, unlike the demand of the majority of goods and services, is slightly affected by the price, acting only as indirect and complementary factor externalizing the transport function in the firms of different industries and branches, or transferring the carried goods from its own organization (its lorries and drivers) to other firms specialized in the motortransport. A company making by itself the needed transports will commit outside this function, if the transaction will be cost-saving.

The transport demand of the goods is linked with 3 interrelated phases of the macroeconomy: the production, the consumption through the distribution and the flows of the foreign trade. So we can identify different factors acting on the transport's demand of a country or of a region in a given phase of its economic development.

We can specify, for instance, the opening of new factories or the closure of existing ones, the opening of new mines, or more exploitation of the existing ones to meet a demand's increase, the delocalization of factories to other countries or, as it happens in the today crisis, an under exploitation of the plants because of the demand's fall. It needs to add the increase or the decrease of the consumption as consequence of the increase or decrease of the family income, or following a demographic increase or decrease, a widening or contracting of the big distribution (supermarkets, etc.) with its storage's need: all factors affecting the quantity of carried goods, but even the transfer's distance on a given territory. Finally there is the foreign trade, or the quantity and the destinations of the imports and of the exports and their changes in the course of time.

The average price of the goods transport

The transport's demand is slightly elastic or enough rigid in rapport to the average price of the transport- as one can see from the circumstance that a price's halving should not redouble the demanded quantity but it needs to identify the beneficiaries of the competition through the price.

The competitive price, as in any other sale of goods or services, is a benefit to the customers and it rewards, at least theoretically, the most efficient companies who are able to capture the major part of the demand. The situation is obviously different in a market as the Italian one whose main feature is a very limited percentage of medium and big companies showing a tendency to diversify their activities, while they subcontract the basic service of the motortransport to the large majority of microenterprises who try to catch the maximum number of subcontracts cutting the prices proposed to the subcontractors. This type of cuts, especially if exasperated by the superabundance of subcontractors, surely does not help the "small owners ("padroncini" in Italian)", but instead it speeds up the closure of the microenterprises near to the marginal position.

The economic winners should be the big and medium companies able to maximize the difference between the official price paid by the client and the

The impact of the transport cost on the general rate of inflation in Italy is enough limited and specific by added value of goods.

subcontract's amount but even the intermediary firms pushing the selection. Actually the winner is only the last category, the intermediaries, interested to push the joust of the informal tenders, because a high mortality rate of the microenterprises should force the big and the medium ones to a different organization of the basic activity, motor transport, but it should be a more expensive and less profitable organization in the medium run. The best choice of the big and medium companies in the medium run is the creation of a continuous and durable relation with a selected group of microenterprises, even if it should allow small increases of the final price to the client and of the subcontract's amount, while the loss of the intermediaries is an important objective and a priority of a good policy.

To complete the cases, a decrease of the average transport price, if enough protracted, can transfer self managed traffic to traffic for third part.

There is even the problem of the weight of the transport cost on the general rate of a cost pushed inflation, as it can happen in a stagflation. According to the results of a research committed on 2005 by the Spanish IPTS (Institute for Prospective Technological Studies- Sevilla) to TRT³- Trasporti e Territorio - the weight is considerable in the case of raw materials and products with low added value while it is reduced for the finished manufactured products. The weight of the transport's cost on the total final price of the goods is changing from 57% of the corn to 63% of the ferrous minerals to 15.6% of the steel to 10.5% of the oil to 4.4% of the road vehicles to 0.2% of the pharmaceutical products. The detailed analysis by range of products has showed a weight from 5% to 10% in the foodstuffs, from 1% to 3% in the textile products, 4% in the cars and 4% in the coffee.

The range of the different impacts let us say the average impact of the transport costs on the general inflation rate of the Italian economy is enough limited and concentrated.

Competition, dumping, minimum prices and liberalization

The introduction of minimum prices linked to the dynamics of oil prices during the big controversy of the last year with small owners and category associations was indicated by some observers as a coming back to the past or the emptying of the price liberalization, an EU pivot and rule introduced in Italy on 2005 after the previous experience of the forked tariff.

We think it is an ideological polemic on principle, given the minimum prices can mark only the down limit do not pass but they are not fixed prices and they work as a dam to the subcontract's reward. Dumping is called the under-cost sale of a good or service : it can be practised as a marketing tool by big or medium enterprises to strangle the competition, but if used by microenterprises, as in the case of small owners ("padroncini"), it is a suicide to grasp the survival at any cost. None can say the free market must guarantee the suicide's freedom, especially if the users don't have the management knowledge to foresee the effects of the price cuts.

The minimum price of transport is a down limit do not pass, but not a fixed price. It is a dam against the strangling of the subcontractors

³ ECOTRA, Consumi di energia e costi nelle catene di trasporto, in www.trtrasportieterritorio.it

The global economic crisis and the recession

The year 2008 showed a situation different from the past at least because of two orders of factors. The first one was linked with the high speed increase of the oil price inside the US context of financial speculation, but with consequences in all the non oil countries. The second one is linked with a financial crisis, arisen and incubated in the same country beyond Atlantic Ocean but with heavy global recession's effects lasting not less than 2 years according to the optimistic forecasts. The only one positive development is the second factor, or the global crisis, sterilized the first one, or the increase of oil prices, parallel to the price's increase of raw materials and of foodstuffs.

The Federtrasporto's half-yearly cyclical test on June 2008 was monitoring a situation crashed at the end of the first six months, when the firms foreseeing an increase of the national demand were 15.2% of the total respondents vs. 32.5% of the first six months 2007, the firms foreseeing a stable demand the 45.5% against the 57.6% and the firms foreseeing a decrease of the national demand the 39.4% against 15.2%.

The dynamics of the other indicators, as earnings, productivity of vehicles and amount of investments, was in line with that one of the demand. An increase of earnings was foreseen by 27.7% of the respondent (firms) vs. 51.9%, stable earnings by 29.8% vs. 34.6%, decreasing earnings by 42.6% vs. 13.5%, a decrease of the vehicles productivity was foreseen by 44.2% vs. 18.4%, while the investments showed a different pattern, or an increase of the respondents reducing them, 21.4% vs. 12.5% but even of the respondents raising them, 38.1% vs. 27.1%.

The progressive and accelerated making worse of this situation is recognized from more recent documents, as an article published by the economic newspaper *Il Sole 24 Ore Trasporti*⁴ declaring the demand of goods transport by road is 30% less, while the enterprises demography should point out during the year between September 2008 - September 2007 the closure of about 6000 microenterprises, what means three times the average yearly closures of the five years 2001-2006.

No doubt the cumulative effects of 2 negative factors, as the dynamics of the oil price and the global economic crisis, can be devastating, but, at the moment, they don't justify the forecast of closure for 25% of the total firms in the short term.

To find out the truth, the majority of the motortransport firms perceived a branch crisis with microeconomic consequences only on half year (2008), as one can see from tests provided in the first months of the same year (for instance the EXCELSIOR inquiry) and showing the majority of the motortransport firms were foreseeing a good course of the earnings and even a small increase of employment during the year. It is obvious the increase of oil price during the year 2007 was not enough important to modify the general estimates not only of the big and medium enterprises but even of many subcontracting small and micro enterprises perceiving stable their market's share.

⁴ Deborah Apolloni, "La recessione colpisce i TIR", *Sole 24Ore*, 17 novembre, 2008

All the most authoritative sources agree upon the difficulty of forecasting the duration of a crisis similar to that one of 1929. According to the Nobel Prize Paul Krugman⁵ the today illness is totally different from the ups and downs of the cyclical fluctuations “when the head of the Federal Reserve cuts interest rates, the recession ends and things come back. Depression economics is a situation in which normal anti-recession medicine no longer works. That was true in 1930s, it was true of Japan in the 1990s, it was true in a lot of developing countries and now it’s true for us”.(2). We don’t agree about the similarity of our crisis, an illness of a rich, sophisticated, abnormally developed until to the virtual limit and at the same time unregulated financial market as Wall Street (the same Krugman in his last book, *The Return of Depression Economics and the Crisis of 2008*, W.W. Norton New York 2008 had written about the prevailing shadow financial system out of the banks, about half of the total credit market exempt from the FED rules), where it raises, to the autonomous diseases of the developing countries. However Krugman acknowledges his surprise when he admits to have understood the true nature of the phenomenon only after the Lehman Brothers’s insolvency: he never should have imagined, nor three months before, the US economy should lose jobs at a rate of 350.000 to 400.000 a month. One can even find an indirect forecast about the duration, where Krugman recalls how a Keynesian tool, the public works, is so slow to shift after the system's recovery, but it will not be the case of the public works beginning on 2010. It means the slope will not be rising at that time.

To be fair we should even say the crisis was not a sudden shock but a forecasted risk of the financial development for an economist, Raghuram G.Rajan, Director of Research at IMF Fund and Professor of Finance at Chicago Booth Faculty. The trouble was well described, even if not equipped with a probability measure on 2005, 3 years before it will happen, in the essay *Has Financial Development Made the World Riskier?* in: Proceedings Federal Reserve Bank of Kansas City August 2005 pag. 313-369.

Other economists underline the acceleration of the crisis’s widening speed, from 3 years on 1929 to 3 months now, but even the recession’s duration will depend upon the size and the speed of the public intervention (Governments and Parliaments), from the capacity of concerted and convergent actions, from the distance between the broken balance and the new one wanted after crisis. The new US President should will huge this distance, what can explain some falls of the Wall Street’s indexes.

The main international Agencies had made their forecasts adopting everywhere an optimistic model of GDP’s decrease on 2008 and (more decrease) on 2009 with a fair recovery on 2010: IMF does so, but even the EU for its members and even for the external important States, as USA, China and Russia. There are even different views about the continuation of the negative wave on 2010: for instance Klaus Schmidt Hebbel, Chief economist OCDE, was writing⁶: “For 2010, widespread risks remain, but these are more equally distributed, reflecting the possibility of an earlier economic recovery.”

⁵ (Interview with) Daniel Gross, “Depression Economics” Newsweek Web Exclusive, 3 December 2008

⁶ Klaus Schmidt Hebbel, “A long recession Managing the global financial crisis and economic downturn”, in OECD Observer, no.270, December 2008

About the labour market UCLA Anderson⁷, a leading independent forecast institute of California is foreseeing a big increase of the unemployment rate in the US, from 6.5% on 2008 to 8.5% on 2010, and modest positive steps when they will appear.

About the main indicators of the Italian economy in the past we agreed with the French observation about a positive performance of the Italian motortrasport notwithstanding a stagnating GNP during the period 2004-2007, but now the general blow (where general means anywhere and affecting all the economic activities) of the today illness does not let a positive divergence. However on December 2008 the EU forecasted no increase of the Italian GDP on 2008 and on 2009 but an increase of 0.8% on 2010, but at the end of the year the Confindustria abated the anticipation⁸: a 0.5% decrease on 2008, a 1.3% decrease on 2009 and a 0.8% increase on 2010. After the official yearly statistics on February Confindustria (Centro Studi Confindustria, Indagine rapida 10 febbraio 2009) acknowledges the yearly decrease on 2008 was 0.9% and it is foreseeing the reduction on 2009 can be more than 2.5%, or the double of the previous forecast. The only positive factor seems the enduring of the home consumption and of the big distribution (supermarkets and so) until to the end of the year 2008, probably a positive consequence of the falling price of the oil.

Our estimate of the motortransport as combined measure of weight and distance (Tons/km.) is a decrease of 5% on 2008, a decrease of 10% on 2009 and a double alternative scenario on 2010, a decrease of 3% if the recession will last or an increase of 4% if a recovery will appear at the end of 2009.

Different unofficial specialized sources were estimating a 5% decrease of the goods motortraffic on 2008; if confirmed it let us foresee a 10% decrease on 2009. The year 2010 needs of 2 alternative scenarios, a positive one with an increase of 4% but even a negative one with a decrease of 3%.

What the consequences on the supply collecting about 120.000 firms (exactly 124.887 at the last Unioncamere census)? We remind on 1999 according to Confetra the firms were 145.000, whose 76,1% with one employee, 11,1% with 2 employees, 7,5% with a number of employees between 3 and 5 and 2,9% with a number of employees between 6 and 9. The medium enterprises were 265, the big enterprises 22, whose only one had more than 1000 employees, while from the financial viewpoint 1500 firms were producing more than 50% of the total earnings of the goods motortransport for third part.

According to the Unioncamere demographic analysis (we examined in a previous newsletter⁹ the period 2000-2006 registered an average yearly negative rate of survival, about -2% (as difference between the mortality rate of 8% and the birth rate of 6%). If we apply the rate to a stock of 140.000 firms we will obtain the yearly birth of 8500 firms against the closure of 11.000, what means in a period of 8 years 20.000 firms disappeared and the stock was reduced from 145.000 to 124.000 firms.

More on the last year of the period, on 2006, the birth rate was reduced to 4.4%, what, should mean, others equal, an yearly increase of the haemorrhage to 5500 firms, exactly the number of the firms lost by the stock in the period September 2007- September 2008 (5436 firms).

⁷ UCLA Anderson, "FOURTH QUATERLY REPORT of 2008", Los Angeles 2008

⁸ Centro Studi Confindustria, "Scenari economici" n. 4, dicembre 2008

⁹ L'autotrasporto merci in Italia. L'economia del settore e l'economia delle aziende: un modello di lettura di lungo periodo (II^a parte), Newsletter CSR Anita, gennaio 2009

Our estimate is a loss of 25.000-30.000 microenterprises during all the recession (2 or 3 years). The firms at risk are a group of submarginal firms with a long and swinging financial imbalance Only structural actions can save some of them.

We had seen the majority of firms estimated good the activity's performance notwithstanding the stock's reduction until to the beginning of 2008 and the distribution by size of the supply was implying a relevant number of micro and small enterprises inside this majority. It was difficult to agree with the preoccupation of Trasporto Unito as published by Il Sole-24 Ore Trasporti ¹⁰ one quarter of the stock, what means 30.000 firms, should risk the closure before the end of 2008.

One can think reasonable the doubling of the yearly loss, what means a total loss of 20.000-25.000 microenterprises during all recession (2 or 3 years). We speak of a group of submarginal firms registering from years a financial imbalance and to whom the relative shortage of credit can block the agony. Some of them can be saved only by a right partnership policy, amalgamation with other microenterprises or stable economic integration with big or medium companies.

¹⁰ Il Sole24Ore, "La recessione colpisce i Tir. "Autotrasporto in panne", 17 novembre 2008