

# Italian Demographics Spotlight

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## ITALY'S DEMOGRAPHICS UNDERPINS ITS GROWTH, DEBT, STABILITY & POLITICS

- Italy's politics and consequent implications for economics and markets have been receiving a lot of attention from investors, leaders and the financial press. However, Italy's unique demographics and linkages to growth, markets and stability have received less attention. This short note highlights the importance of Italian demographics and contrasts it with Germany, France and the UK.
- We consider **demographics to be about more than just ageing or population size**. Demographics encompasses a whole set of "people characteristics," within which we focus on those of people as consumers and workers. Consumer and worker behaviour affects national income (GDP) at a macro level, and corporate profits and individual incomes at a micro level.
- Italy is one of the five oldest countries in the world. Its **life expectancy at birth** is the highest in Europe (83.3 years in 2015). Italy's **population size** (56.4m) was larger than France (54.1 m) and the UK (56.3m) in 1980 but is now smaller. Italy currently has the highest **median age** jointly with Germany (45.9 years in 2015).
- Italy's **80+ aged population** has more than tripled over 1980–2015 and it has the highest proportion of people aged 80+ in Europe (6.7% in 2015), second in the world only to Japan (7.6% in 2015). In contrast the young age share has dropped by 11.7% — reflecting the sharp decline in fertility rates (children per woman of child bearing age).
- **High Italian unemployment rates**, and more specifically **very high youth unemployment** rates, reflect the core reasons for discontent and instability of leadership. Their recent migration flows are unique too in terms of increased emigration and lower immigration.

The above-listed demographic features are affecting Italy's GDP growth, public debt, capital flows, savings and income inequality as well as international competitiveness. Italian demographic dynamics deserve to be considered in a holistic analysis of its prospects — economic, political and social.

## Spotlighting Italian Demographics

Italy is one of the oldest countries and it has a history of great tradition and culture. Its demographics are unique and not unidimensional; they cover an interesting range of features such as life expectancy, age distribution, gender differences, family composition, consumer and worker characteristics. These features influence macro fundamentals such as growth, public debt, inflation and income inequality.

### Report Structure

Section 1 summarizes Italian core demographics in charts with some comparisons/contrasts with Germany, France and UK. We choose not to contrast with other old countries as well as US and Japan for the sake of parsimony and focus.

Section 2 focuses on the labour force characteristics.

Section 3 presents population change components and migration trends.

Section 4 presents the demographic drivers of GDP growth.

Section 5 presents ageing related expenditures and fiscal deficit/public debt trends.

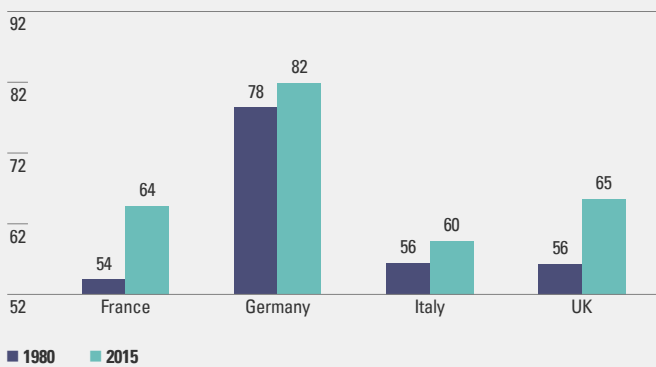
Section 6 discusses structure of GDP, Trade, Savings-Investment Gap and Current Account.

Section 7 concludes.

### 1. Core Demographic Indicators

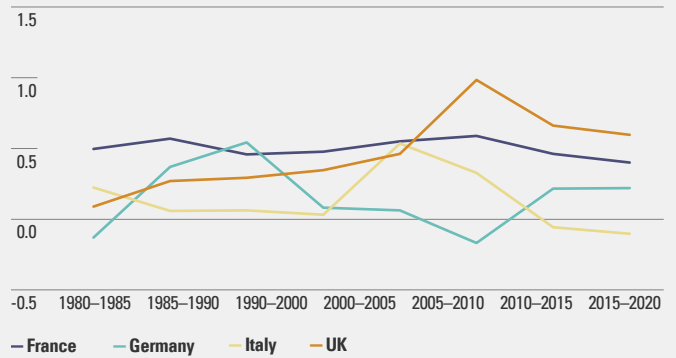
In this section, we compare Italy's demographic profile with other big European<sup>1</sup> countries such as France, Germany and the UK. In terms of 2015 population size, Italy is the smallest country, as shown in Figure 1. It is important to note that compared to France and the UK, it has also had the smallest population increase over 1980–2015, due to a combination of lower fertility rates and higher outward migration relative to the other three countries. Additionally, it is the only country that has experienced negative population growth over the last 5 years as shown in Figure 2, a decreasing population similar to Japan's.

**Figure 1: Population Size (Millions)**



Source: UN, State Street Global Advisors (SSGA) Demographics.

**Figure 2: Population Growth (%p.a.)**

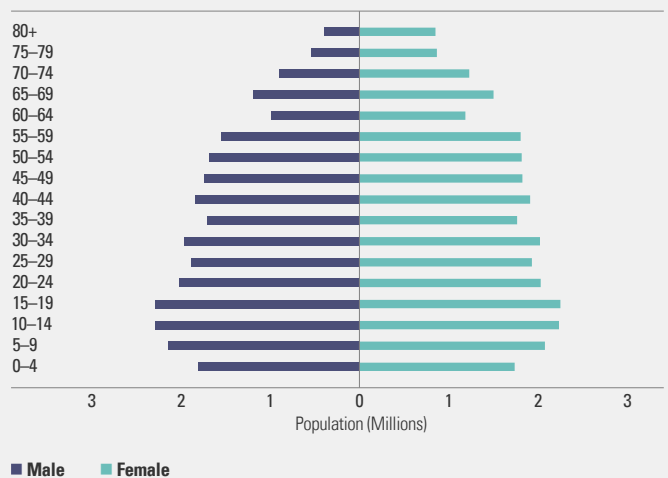


Source: UN, SSGA Demographics.

The most notable trend in Italy is the change in share of the very old 80+ aged people over 1980–2015 as shown in Figures 3 and 4. In 1980, Italy's share of the 80+ age group was only 2.2% of the total population, but now this has more than tripled. At the current level of 6.7%, Italy's share of the 80+ age group is significantly higher than that of France (6.0%), Germany (5.7%) and the UK (4.9%). In contrast, the share of the very young age group (0–19 years) has decreased across all of these countries but most significantly by 11.7% in Italy, reflecting the sharp fertility rate declines over the last two decades. The population pyramids (age distributions) have become more rectangularised reflecting the ageing of the population. Note the larger numbers of females outliving males at the 80+ age ranges, both in 1980 and 2015. Gender parity is needed as we advocated in the Demographic Manifesto (2000)<sup>2</sup> to enable sustainable budgets and adequate living standards for the older advanced countries.

**Figure 3: Italy's Age Distribution: 1980**

Age Group (Years)



Source: UN, SSGA Demographics.

**Figure 4: Italy's Age Distribution: 2015**

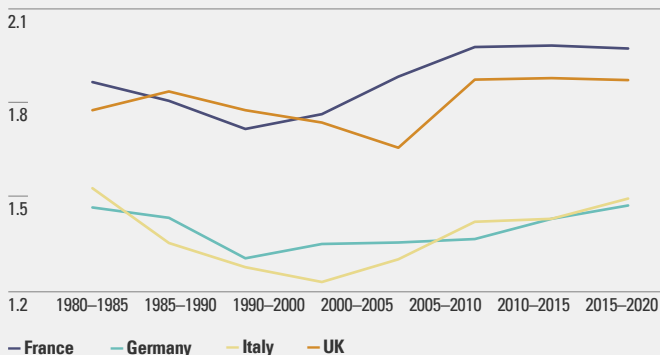


Source: UN, SSGA Demographics.

Figures 5 and 6 present fertility rates (children per woman of child-bearing age) and life expectancy at birth. Both France and the UK have much higher fertility rates than Germany and Italy (Figure 5). However, in terms of life expectancy at birth Italy is the leader with 83.3 years, followed by France, the UK and Germany.

**Figure 5: Fertility Rates**

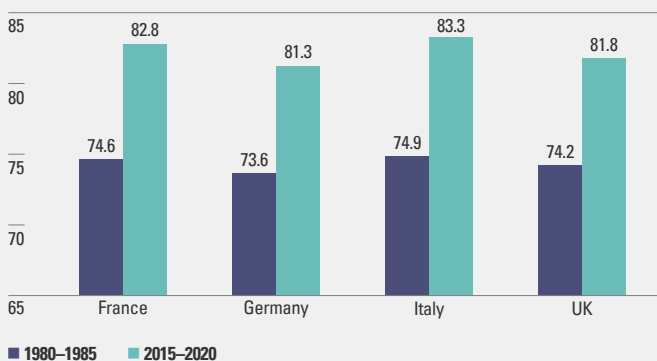
Children Per Woman of Child-bearing Age



Source: UN, SSGA Demographics.

**Figure 6: Life Expectancy at Birth**

Years



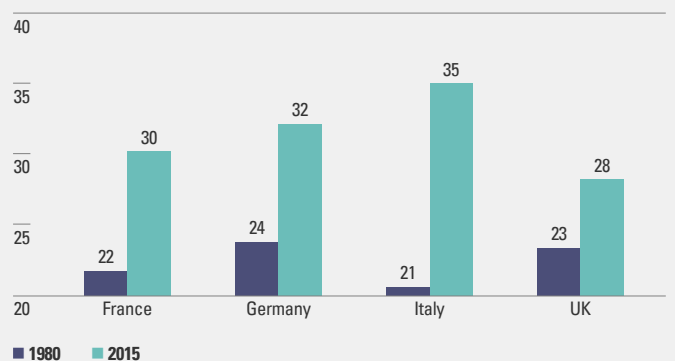
Source: UN, SSGA Demographics.

A combination of low fertility rates (fewer babies per woman) combined with high life expectancy at birth leads to a higher old-age dependency ratio (a summary statistic of the ageing burden). As can be seen in Figure 7, the increase for Italy is very noticeable. Higher old-age dependency ratios create high fiscal burdens for countries like Italy, as we discuss later. In a recent research report, we discussed the need for extended flexible working lives reflecting the realities of working and consuming today. Changing working-age boundaries can dramatically lower old age dependency ratios<sup>3</sup> and this is very much needed, along with other complementary policy measures.

Italy also has the largest increase in the number of elderly dependents aged above 65 years per 100 working-age population. In 1980, Italy's old-age dependency ratio was the lowest amongst the four countries but today, it is the highest, followed by Germany (Figure 7). The same feature shows up when we look at median ages in Figure 8, where Italy experienced the largest increase over the last 35 years.

**Figure 7: Old-Age Dependency Ratio**

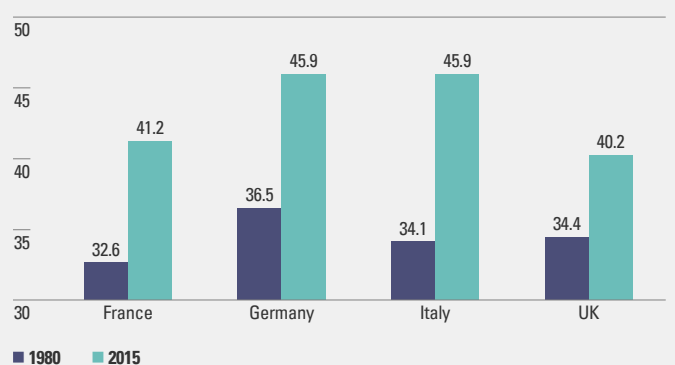
Number of 65+ Years Per 100 Working Age Population



Source: UN, SSGA Demographics.

**Figure 8: Median Age**

Years



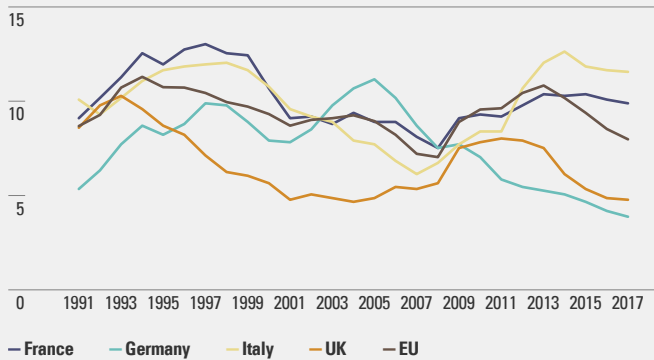
Source: UN, SSGA Demographics.

## 2. Italian Labour Force Trends

Italy's unemployment rate has always been one of the highest in the EU. Figure 9 shows that since 2012, Italy has surpassed France to be the country with highest unemployment rate. Italy has also had the highest youth unemployment rate of the four big European countries over the last 30 years (Figure 10). The recent financial crisis has impacted Italy's youth unemployment rate more significantly than for France, Germany and the UK. At 36.6% (2017), Italy's youth unemployment rate is 17% higher than the EU average — a catalyst for political discontent and instability.

**Figure 9: Total Unemployment**

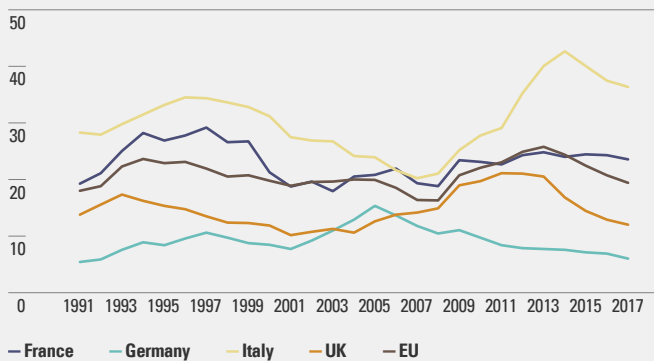
% of Total Labour Force



Source: World Bank, SSGA Demographics.

**Figure 10: Youth Unemployment**

% of Total Labour Force Ages 15–24

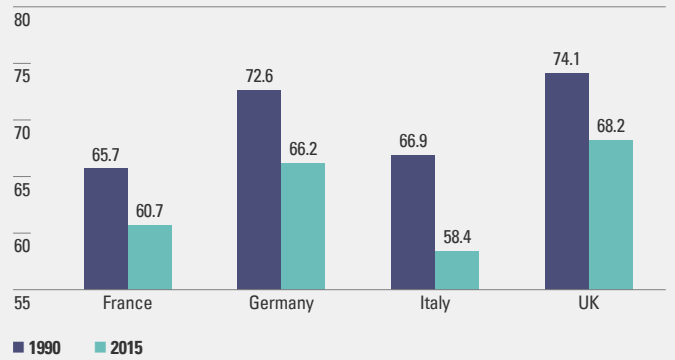


Source: World Bank, SSGA Demographics.

Italy's labour force participation rates, for both male and female, have been significantly lower than those of Germany, France and the UK. Over the last three decades, there has been a decline in the number of men participating in the labour force in these advanced countries, with the highest decrease in Italy, as illustrated in Figure 11. In contrast, female labour force participation rates have increased a lot, particularly in Germany. Both the Italian male and female labour force participation rates are significantly below those of the other countries, the decrease in male participation rates in Italy is the highest and the increase in the female participation rates is the lowest, suggesting the need for labour market incentives as well as policy reforms.

**Figure 11: Male Labour Force Participation Rate**

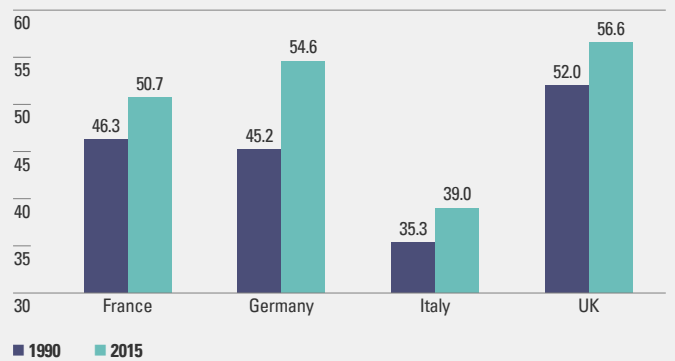
%



Source: ILO, SSGA Demographics.

**Figure 12: Female Labour Force Participation Rate**

%



Source: ILO, SSGA Demographics.

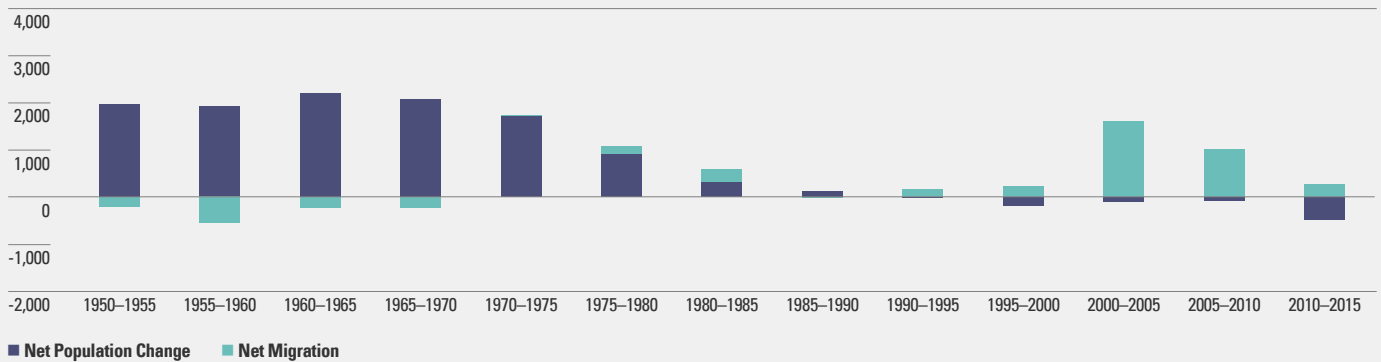
### 3. Components of Population Change & Migration Trends

Population change emanates from two sources: (i) natural population change (births less deaths) and (ii) net migration (immigration less emigration). Figure 13 depicts the changing share of net migration as a component of total population change. Over 2010–2015, the contribution of net migration to Italy’s population change (-226 thousands) was -117%. The role of net immigration is much higher in countries like Germany (219%) and Italy (-117%) than in France (25%) and UK(47%).

Over 2005–2014, the biggest inflows of foreigners in to Italy came from Romania, Morocco, Albania, Ukraine and China (Figure 14). In 2015, Romania, Morocco and China accounted for largest inflows.

**Figure 13: Population Change Decomposed**

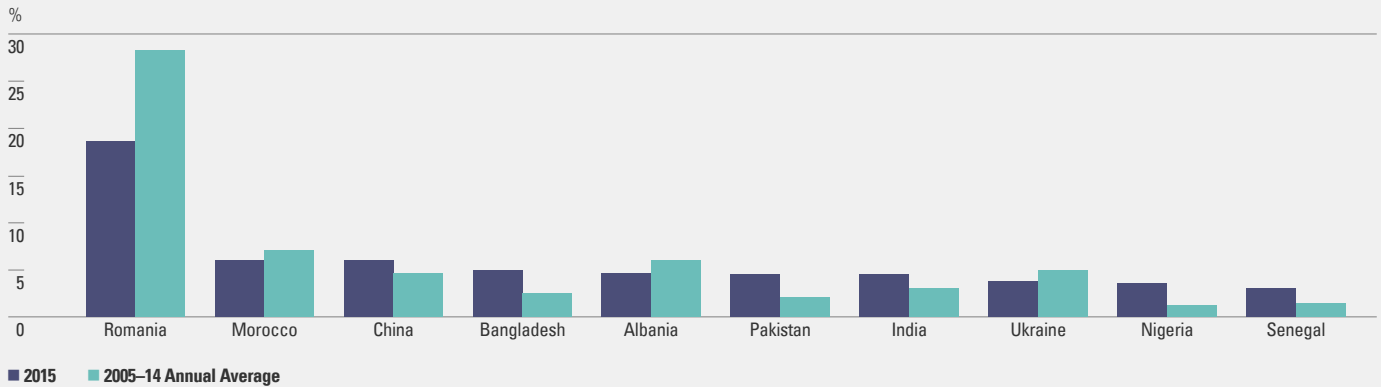
In Thousands



Source: UN, SSGA Demographics.

**Figure 14: Inflows of Foreign Population by Nationality**

% of Total Foreign Population



Source: OECD, SSGA Demographics.

As shown in Figure 15, migrants seem to come to Italy and France for two main reasons. The first one is to gain the ability for free movement within the European area and the second reason is for family, this is different from UK and Germany where migrants come mainly for free movement within the EU.

**Figure 15: Permanent Migration Inflows by Type, 2015**

% Distribution

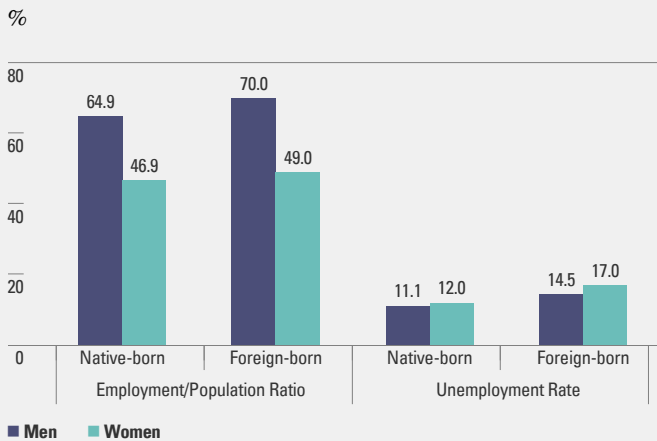
	France	Germany	Italy	UK
Work	10.0	4.0	8.6	15.3
Family (Incl. Accompanying Family)	40.4	12.0	30.2	13.0
Humanitarian	6.5	20.9	18.4	4.8
Free Movement	34.4	62.3	39.6	60.5
Others	8.7	0.9	3.1	6.3

Source: OECD, SSGA Demographics.

Figure 16 shows that the employment/population ratio of foreign-born people was slightly higher than the native-born for both men and women. Also, the unemployment rate of foreign born is higher than that of the natives in Italy for both men and women. The female unemployment rate is also bit higher than male unemployment rates.

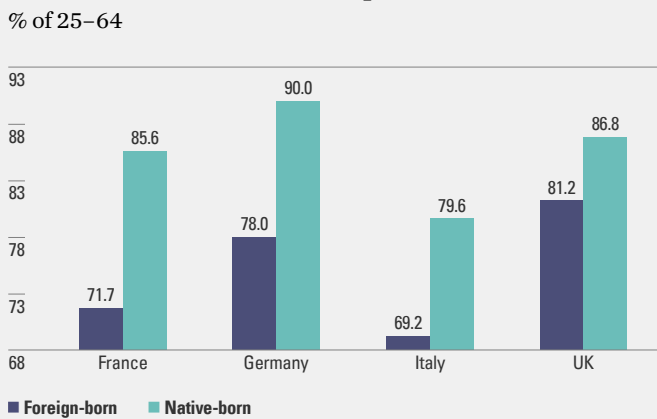
Compared to the other large European countries, Italy's share of highly educated foreign born 25–64 years population is the lowest (69.2%) as illustrated in Figure 17. This might translate to lower-skilled immigrants too.

**Figure 16: Labour Market Outcomes in Italy, 2015**



Source: OECD, SSGA Demographics

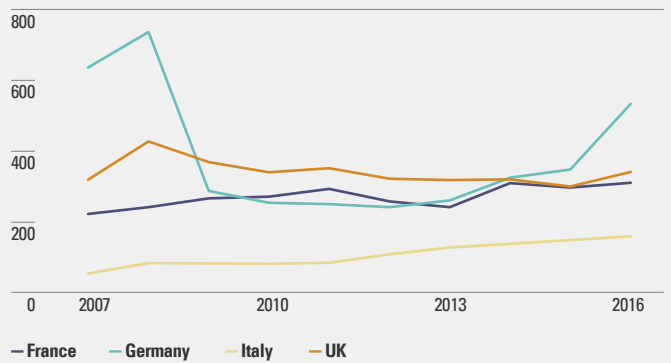
**Figure 17: Share of the Highly Educated Among the Foreign and Native Born 25–64 Years Population, 2015**



Insert Source: OECD, SSGA Demographics

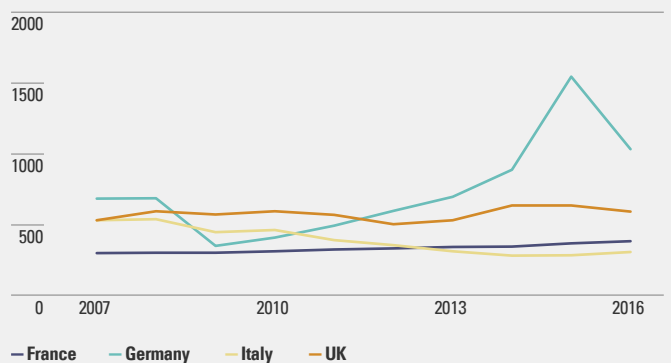
Over the last 10 years, increasing numbers of Italian citizens have left Italy and there have been fewer immigrants too.

**Figure 18: Number of Emigrants by Country**  
In Thousands



Source: Eurostat, SSGA Demographics.

**Figure 19: Number of Immigrants by Country**  
In Thousands

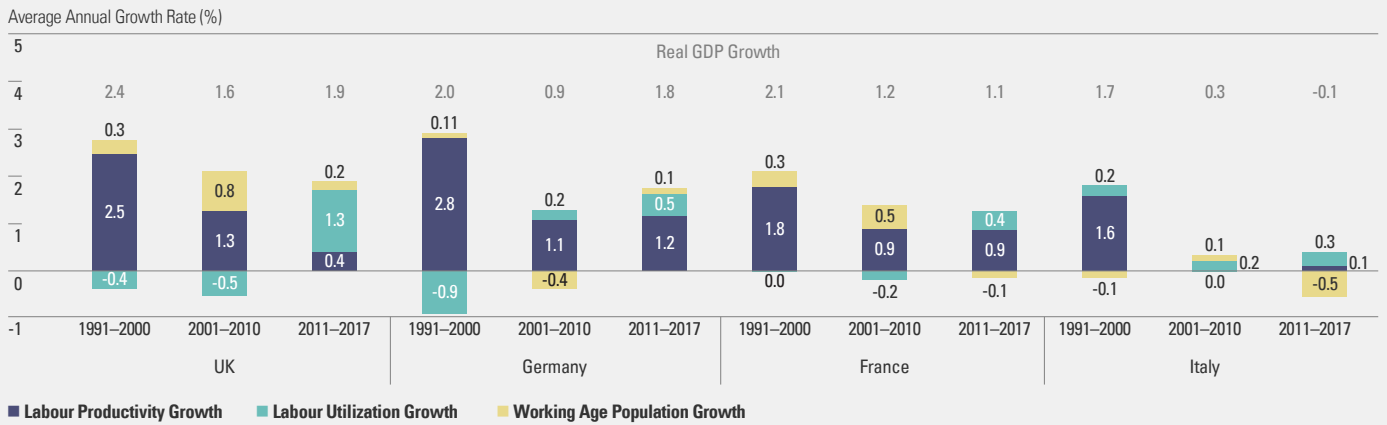


Source: Eurostat, SSGA Demographics.

#### 4. Italian Demographics & GDP Growth

In our previous research (drawing on the ECB framework of growth accounting),<sup>4</sup> we explained that three growth components fully aggregate up to GDP growth: (i) working-age population (ii) labour productivity and (iii) labour utilization. It is important to understand the dynamics behind each of these drivers.

**Figure 20: GDP Growth Decomposition: Italy vs. France, Germany and the UK**



Source: GGDC, UN, SSGA Demographics.

The main driver for lower GDP growth in Italy is the negative working-age population growth as highlighted above, caused by lower fertility rates, more emigration and lower immigration. This is symptomatic of perceptions of poor future growth potential. While in other countries the main reason for lower GDP growth was lower labour productivity growth, in Italy it is a combination of lower labour productivity growth and lower working-age population growth.

As discussed earlier, labour reform to incentivise higher labour force participation, such as creating more jobs to engage both the youth and well-educated skilled Italian women returning from having children with appropriate flexible work/part-time policies, would make for a winning strategy for Italy. This would tackle gender inequality and youth unemployment while creating growth.

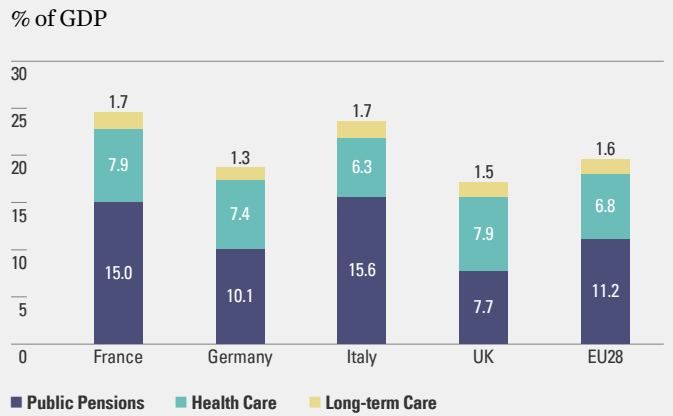
**5. Ageing-Related Expenditures and Public Debt**

Another macroeconomic problem that compounds some of the problems Italy faces is on account of ageing-related public expenditures which create fiscal sustainability strains, a source of concern for investors and other EU member countries trying to be macro-prudential regarding debt and deficit guidelines.

Italy’s ageing related expenditures on account of public pensions, healthcare and long-term care adds up to 23.6% of GDP (Figure 21) a much higher number than the other EU28 countries against the backdrop of lower growth, lower employment, lower labour participation and increased ageing.

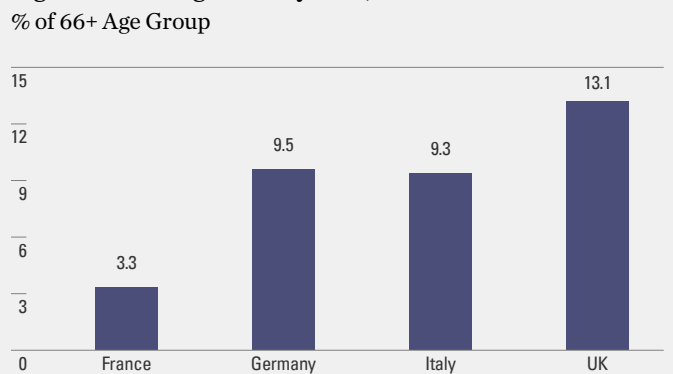
The poverty rate is the ratio of the number of people (in a given age group) whose income falls below the poverty line; taken as half the median household income of the total population. Italy’s old-age poverty rate (Figure 22) is higher than France’s but much lower than that of the UK.

**Figure 21: Ageing-Related Expenditures, 2016**



Source: EC, SSGA Demographics.

**Figure 22: Old-Age Poverty Rate, 2014**

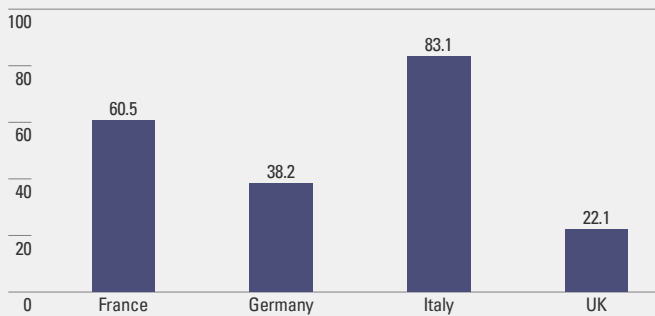


Source: OECD, SSGA Demographics.

The generosity underlying Italy’s public pensions referred to above can be cross-validated by its very high Gross Pension Replacement Rate (Figure 23) and its high Gross Pension Wealth (Figure 24). We believe that there is lot of scope to renegotiate these pensions promises in the future to ensure fairer intergenerational equity and adequate fiscal sustainability.

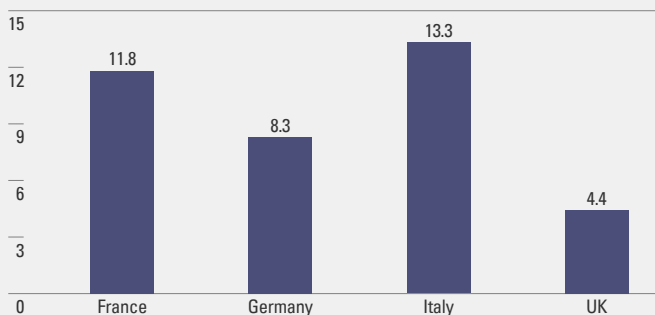
As per OECD data, the effective retirement age (62.1 for men and 61.3 for women) in Italy is lower than the official retirement age (66.6 for men and 65.6 for women), something that is not very good for fiscal sustainability in one of the longest-lived countries of the world. Workers should be discouraged from early retirement in order to ensure that they work longer, save longer and commit to labour productivity for longer.<sup>5</sup>

**Figure 23: Gross Pension Replacement Rate, 2016**  
%, Average Male Earners



Source: OECD, SSGA Demographics.

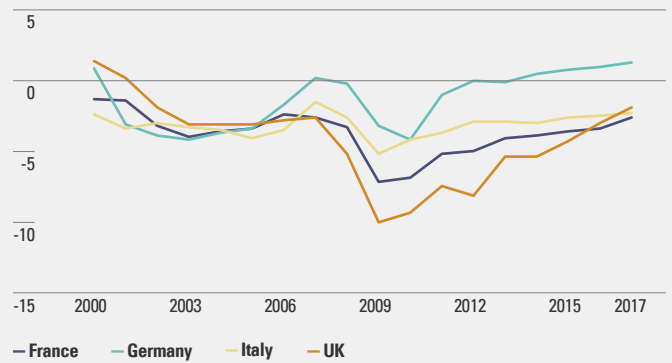
**Figure 24: Gross Pension Wealth, 2016**  
Multiple of Mean Earnings, Average Male Earners



Source: OECD, SSGA Demographics.

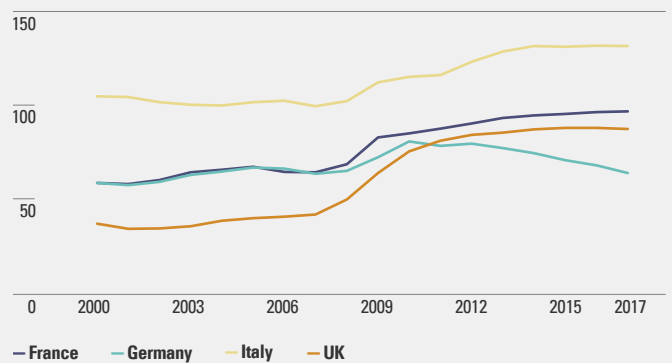
Italy’s public deficit and public debt as a ratio of GDP (Figure 25 and 26) have been increasing but, while a cause for concern, are yet not in the alarm zone. There needs to be policy reform to generate growth and renegotiate long-term ageing related promises over the near future.

**Figure 25: Government Deficit/Surplus**  
% of GDP



Source: Eurostat, SSGA Demographics.

**Figure 26: General Government Gross Debt**  
% of GDP



Source: Eurostat, SSGA Demographics.

**6. Italy: Trade, Capital Flows & Current Account**

Trade interactions between the Italy and Europe are significant. Of Italy’s top five export and import markets, representing more than 42% of Italy’s trades, roughly 80% come from Europe (Figure 27).

**Figure 27: Italy’s Top 5 Export and Import Markets, 2016**

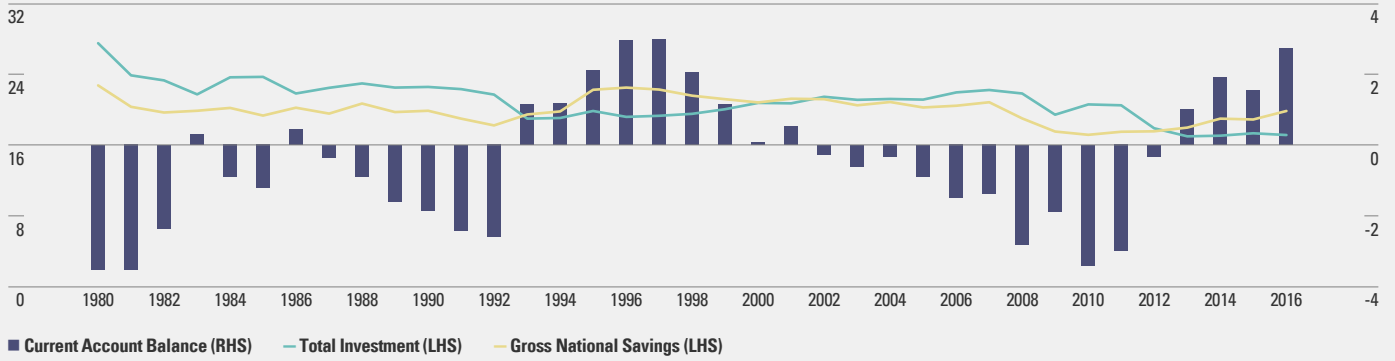
Partner Name	Export Partner Share (%)	Partner Name	Import Partner Share (%)
Germany	12.6	Germany	16.3
France	10.5	France	8.9
US	8.9	China	7.5
UK	5.4	Netherlands	5.5
Spain	5.0	Spain	5.3

Source: World Bank, SSGA Demographics.



In earlier research by us and others,<sup>6</sup> demographics are shown to influence capital flows and current accounts via the savings – investment gap. We remind the reader of these linkages below (Figure 28).

**Figure 28: Italy's Savings and Current Account**  
% of GDP



Source: IMF, SSGA Demographics.

## 7. Conclusions

Italy's unique demographics as the longest-lived country in Europe, low fertility rates, net migration dynamics has immediate, short-term as well as longer-term implications for economic growth, public debt, inequality as well as flows of capital. These macroeconomic concerns emanating from demographic linkages create fragilities in terms of political stability and unrest.

We advocate strong reforms targeted at the labour market to promote greater participation, greater gender equality and higher labour productivity. Intergenerational equity is another concern being faced in Italy, Japan, Netherlands etc. leading to debates over pensions and health reform.

The challenges in balancing fiscal sustainability with youth unemployment, income inequality and gender inequality are tough but collective sharing of actions and responsibility is needed to stave off the current strains and avoid future political, economic and market crises.

## Market Commentary | Italian Demographics Spotlight

- <sup>1</sup> See UN Population Prospects (2017) and Credit Suisse Demographics Research 2015 “EU’s evolving demographics & pensions need attention.”
- <sup>2</sup> Credit Suisse (2000), “The Demographic Manifesto: New Jobs, New People” and State Street Global Advisors (2017), “Why Demographics Matter?”
- <sup>3</sup> State Street Global Advisors (2018), “Global Demographics & Retirement Implications.”
- <sup>4</sup> Credit Suisse Demographics Research (2009), “A demographic perspective of economic growth.”
- <sup>5</sup> Credit Suisse Demographics Research (2011), “How Increasing Longevity Affects Us All?”
- <sup>6</sup> Credit Suisse Demographics Research (2007), “Demographics, Capital Flows and Exchange Rates.”

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Unless otherwise stated, all data sourced to “UN” is the most current data attributable to the United Nations Population Division. Data shown beyond 2015 is a UN projection.

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