## THE REBALANCING OF GOODS EXPORTS DURING THE PANDEMIC AND THE SUBSEQUENT RECOVERY PERIOD

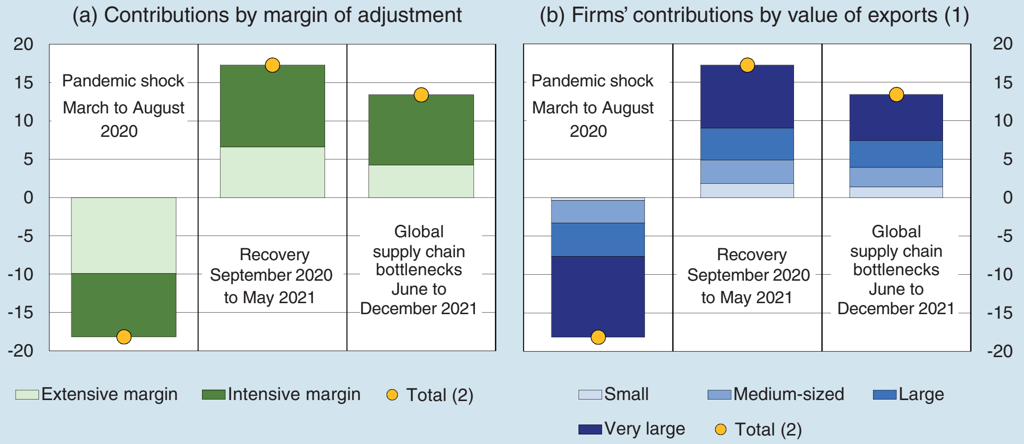
After the exceptional plunge in world trade caused by the health emergency, Italy's exports of goods returned to pre-crisis levels as early as the first months of 2021. Sales were held back by the global supply bottlenecks emerging in some sectors since the second half of the year, though they continued to expand.

According to data on exporting firms for the period 2019-2021,[1] during the pandemic exports were affected both by a decline in sales of certain products in certain foreign markets (intensive margin, which accounted for around 45 per cent), and by firms exiting some of their export markets, withdrawing certain products from them or ceasing exports entirely (extensive margin, resulting from the latter three elements combined, net of reverse movements, which accounted for around 55 per cent; see panel (a) of the figure). From September 2020 to December 2021, the recovery was driven by the intensive margin, for around two thirds.[2]

Mixed performance across firms contributed to aggregate growth. In the decade preceding the health emergency, foreign sales of very large exporting firms (in the top one per cent of the export distribution) had grown at a much faster pace than

**Figure**

**Contributions to growth in aggregate exports of goods in value terms**
*(percentage changes and points)*




Source: Based on data from the Customs and Monopolies Agency.
(1) Firms are classified according to the distribution of export values in 2019: small firms were below the 80th percentile, medium-sized firms between the 80th and 95th percentiles, large firms between the 95th and 99th percentiles, very large firms above the 99th percentile. – (2) Average monthly percentage change in total goods exports over each period.

1 G. Allione and C. Giordano, 'Are the Happy Few Still Happy? Exporter Heterogeneity During the Covid-19 Pandemic in Italy', Banca d'Italia, Questioni di Economia e Finanza (Working Papers), forthcoming. This paper draws on monthly data from the Customs and Monopolies Agency broken down by firm, product and country of destination for the period 2019-2021, as well as on firms' balance sheet data. Export performance is measured based on monthly changes compared with the previous year, in order to smooth out seasonal fluctuations in the raw data.

2 In the second half of 2021, the value of Italian exports was also buoyed by price increases: based on national accounts, there was a more pronounced slowdown in export volumes than in export values compared with the previous period.

those of small firms (below the 80th percentile of the distribution),[3] accounting for over half of total sales in 2019. By contrast, exports of very large firms had a sharper contraction than those of other firms in the spring and summer of 2020, followed by a weaker rebound between September 2020 and May 2021, and a sharper slowdown between June and December 2021 (see panel (b) of the figure). For very large firms, the prevailing margin of adjustment in each of the three periods was the intensive margin, with these firms mainly changing their foreign sales as cyclical conditions changed. Small and medium-sized exporting firms, which account for around one-fifth of total goods exports, provided a significant boost to overall growth especially in the second half of 2021, when their sales, albeit slowing, continued to expand at average rates more than twice those of very large firms.

The higher sensitivity of larger firms to global shocks is arguably due to their higher participation in global value chains (GVCs). In 2019, the share of exporting firms involved in international supply chains was more than three quarters for very large firms and less than one fifth for small and medium-sized ones.[4] The more firms were integrated in GVCs, the worse their foreign trade performance over the three periods. Moreover, the slowdown in the second half of 2021 was more pronounced for firms intensively using just-in-time production systems, which have very low inventories.[5] These firms tend to import inputs from a small number of geographically close partner countries.[6] Their dependence on European suppliers that have been particularly affected by global supply bottlenecks, such as Germany, may have taken a toll.

The pandemic shock and the subsequent difficulties in sourcing inputs have interrupted, most likely only temporarily, the rebalancing of goods exports in favour of very large exporting firms, a trend that had been under way over the past decade.

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3 According to data from the Italian Trade Agency (ICE) and Istat, in 2010-19, the average annual growth rate of exports exceeded 7 per cent for firms with annual exports worth over €50 million (broadly overlapping with firms above the 99th percentile as classified in this box), which is more than 6 percentage points higher than the corresponding rate for smaller firms (i.e. with annual exports worth less than €750,000).

4 Firms integrated in GVCs are those for which both imports as a share of the total costs of purchased goods and exports as a share of sales exceeded 5 per cent in 2019.

5 The measure used for average stock days is the one proposed in S. Giglioli and G. Romanini, 'Does JIT Production Change the Network Structure of GVCs? Evidence from Italian firms', Banca d'Italia, Temi di Discussione (Working Papers), forthcoming. It is calculated only for exporting firms in manufacturing considering the average for the two-year period 2018-19.

6 S. Giglioli and G. Romanini, op. cit., forthcoming.