NATIONAL REPORT ITALY
29th October 2024

ECONOMIC SITUATION

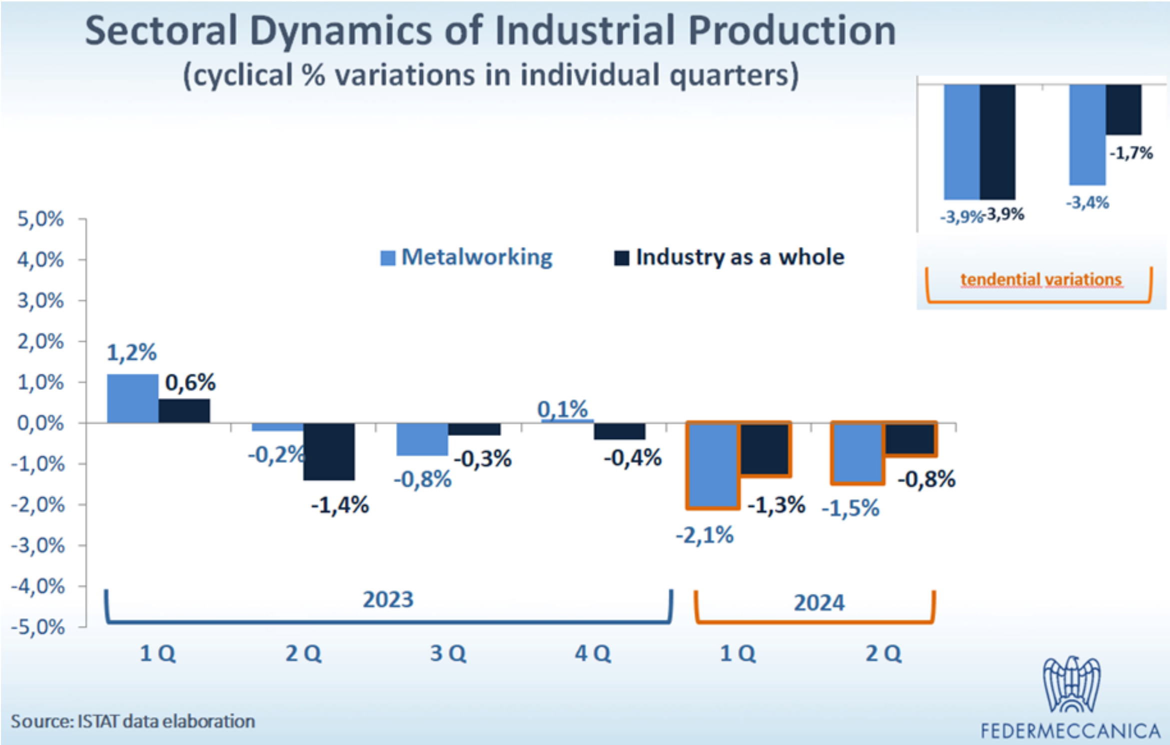
Italy's GDP is expected to grow by 1% in 2024 and by 1.1% in 2025, marking a slight acceleration compared to 2023. The growth in 2024 will be driven by both domestic demand and net foreign demand (each contributing 0.7 percentage points). In 2025, domestic demand will be the main growth driver (contributing 0.9 percentage points).

Private consumption remains strong due to a robust labor market and increasing real wages. Household consumption is projected to grow by 0.4% in 2024 and by 1% in 2025. Employment, measured in full-time equivalents (FTE), is expected to increase in line with GDP (+0.9% in 2024 and +1.0% in 2025), accompanied by a decline in the unemployment rate (7.1% this year and 7.0% in 2025).

In the coming months, inflation is anticipated to return to rates closer to the European Central Bank's (ECB) targets. This will lead to a significant slowdown in the household spending deflator, which is projected to rise by only 1.6% in 2024 (down from 5.2% in 2023), followed by a moderate increase of 2.0% in 2025. However, the outlook remains uncertain due to persistent geopolitical tensions.

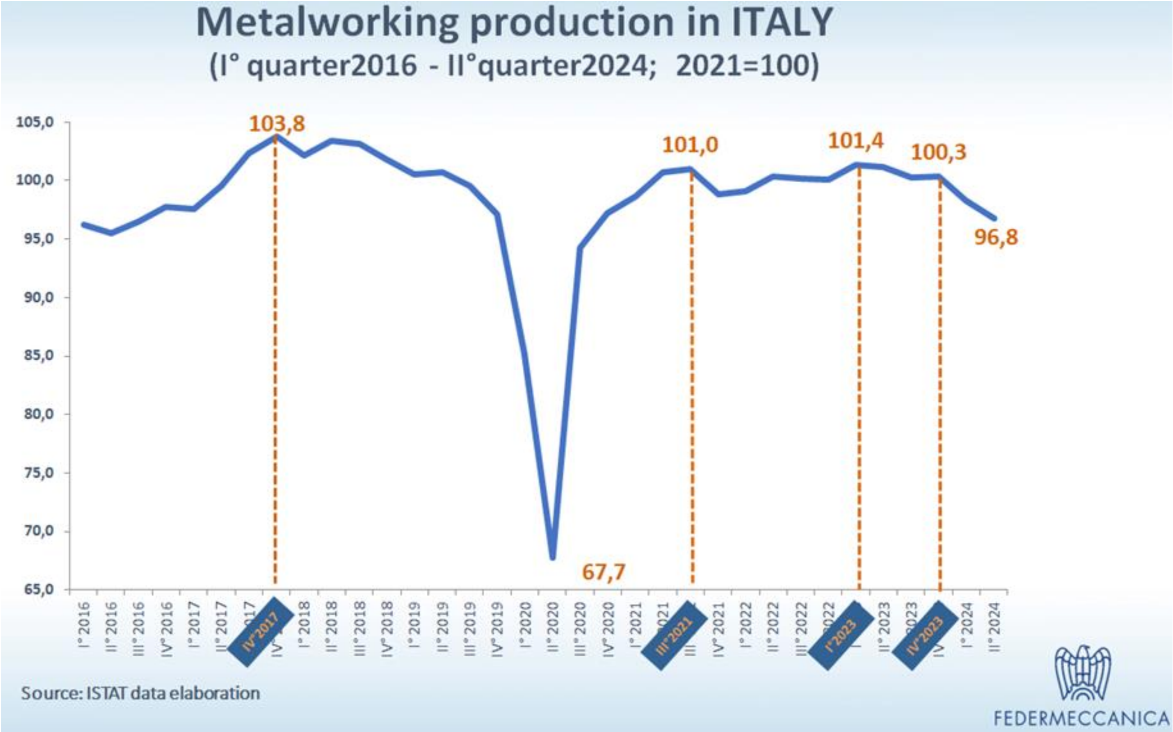
General Industrial and Metalworking Sector

As in the rest of the European economy, Italy is experiencing the effects of ongoing uncertainty. Industrial production, including the metalworking sector, remains in negative territory. In fact, in the second quarter of 2024, industrial output fell by 0.8% compared to the previous quarter and by 1.7% compared to the same period last year.



Metalworking Sector

The situation in the metalworking sector is more critical. In the second quarter, production dropped by 1.5%, following a 2.1% decline in the first quarter. The sector saw a 3.9% contraction in the first quarter, followed by a 3.4% decrease in the second quarter. After positive growth in early 2023, the sector has experienced continued negative results, worsened by production declines in the first half of 2024.



With reference to metalworking production, the economic dynamics not only highlights a trend reversal between the end of 2023 and the beginning of 2024, but also that in the first two quarters of the current year volumes decreased more markedly than in the entire industrial sector. In particular, the production of motor vehicles and trailers suffered, with shrinking volumes each quarter. The metallurgy, metal products, and machinery sectors, which account for 60-70% of the metalworking sector and over 30% of total industrial production, also contributed to this decline, highlighting the impact of the metalworking sector on the broader Italian industry.

Production trends have been inconsistent across the metalworking sector, largely due to its heterogeneous nature, encompassing a wide range of activities and businesses of varying sizes.

Export Trends

In the first half of 2024, Italian exports were weakened by sluggish global trade, still influenced by international uncertainties. Metalworking exports decreased by an average of 3.2%, with a 5.5% decline in flows to EU countries and a 0.5% drop in non-EU markets.

A survey conducted by Federmeccanica in September 2024, among a sample of member companies, confirms the sector’s ongoing struggles. Short-term indicators remain negative, and businesses are particularly concerned about geopolitical tensions, which complicate operations.

The order backlog in the second quarter of 2024 not only remained negative but worsened further. Small and medium-sized companies (with up to 500 employees) reported significantly more negative results compared to the industry average.

Employment and Production Outlook

Businesses are forecasting a contraction in production for the coming months, with potential consequences for employment. In fact, the six-month employment trends, after the improvement observed in the first three months of 2024, showed a significant drop in the following months. Although 71% of companies plan to maintain their workforce levels, 15% (down from 20%) anticipate increasing their workforce, while 14% expect reductions. The net positive balance of +1% represents a sharp decline from the previous survey's +9%.

Raw Materials and Energy Costs

The metalworking sector, a major user of industrial metals, is being significantly affected by rising raw material and energy costs. Geopolitical tensions, particularly those affecting supply chains, are further complicating the operating environment for Italian metalworking companies, undermining their competitiveness.

One emerging issue in this international scenario, is the difficulty related to maritime trade through the Red Sea. In the second quarter of 2024, 42% of companies reported being affected by these issues (up from 40% in the previous quarter). Among these, 46% cited longer lead times, 40% reported increased costs, 9% mentioned lost competitiveness, and 4% faced greater market access challenges.

Key Risks for the Sector

As mentioned, the context described so far is creating serious inconveniences to Italy's national production industry, and the metalworking industry in particular. To this end, Federmeccanica asked its member companies to assess potential future risks.

Regarding raw materials and energy (in terms of shortages, price fluctuations, etc.), 72% considered the risk significant, 24% saw it as minor, and 4% were indifferent. Concerning global macroeconomic changes (market fragmentation, conflicts, tariffs, austerity policies), 67% considered these risks important, while 27% saw them as minor, and 6% were indifferent.

In relation to the possibility of business interruption, the risk is judged important in 38% of the relevant responses, as minor in 41% and indifferent in 21%. With regards to the lack of a qualified workforce, the problem is considered important in 62% of cases, as minor in 32% and indifferent in the remaining 7%.

Skilled Labor Shortages

In this situation, having qualified personnel is therefore a strategic issue for companies to face future challenges and from this perspective, for some years Federmeccanica has been monitoring the difficulties they have in finding the necessary skills.

As of June 2024, 69% of companies reported difficulties in finding essential professional profiles, a problem that has persisted over the past three years. With reference to the type of skills sought, basic technical skills (48%) and advanced technological/digital skills (27%) are becoming harder to find. The search for transversal skills (understood as the ability to solve problems, make decisions, work in a team, communication, autonomy) was arduous for 19% of companies (lowest percentage since 2021), while the remaining 6 % is looking for professionals with other specific characteristics.

COLLECTIVE BARGAINING

After more than 4 months of negotiations, on October 10th, 2024, Federmeccanica presented an alternative proposal to the demands made by the unions.
Our proposal for a National Collective Labor Agreement (NCA through an ESG lens combines two essential needs: economic and social sustainability, and competitiveness. It continues to drive the contractual renewal process that began in 2016 with a reformist spirit.

The contents of the proposal are structured around several key guiding principles:

1. **More wealth distribution, where and after it is produced**

In the event that a performance bonus and/or other collective economic elements are not already in place, starting from June 2026, an amount equal to €700 gross per year will be paid to employees in companies with an EBITDA (earnings before interest, taxes, depreciation, and amortization) with a ratio between gross operating margin and turnover exceeding 10%;

2. **More financial availability by giving what is due to employees in advance and valuing professional continuity**

Transition from the current system of periodic seniority increases to a new economic element called the Professional Continuity Element (ECP), as a worker retention tool. Starting from January 1st, 2026, after two years of service, employees will receive, along with the following month's salary, a sum equal to the total monthly amounts that would have been paid over the next two years by way of periodic seniority increases.

3. More resources for long-term care throughout life

Starting in 2026, free insurance coverage will be introduced for metalworkers, guaranteeing a monthly net income of €600 in case of long-term care needs.
Additionally, services will be provided to support non-self-sufficient individuals such as:

- Orientation desk
- Agreements with nursing homes (RSA)
- Agreements with family caregivers

4. More supplementary pensions for all workers, and especially for new hires who are young, and women

From June 1st, 2025, for all employees, the company's pension contribution will increase from 2.0% to 2.2% (previously reserved for those under 35).
For new employees under 35, and women, contributions will increase to 2.5% from June 1st, 2025, as a positive measure to balance participation across gender and age.

5. More flexible benefits with social and environmental value

Increase existing flexible benefits to €400 (incrementally: €50 in year 1, €100 in year 2, €150 in year 3, and €200 in year 4), if the current €200 annual amount is allocated to:

- Reimbursement for daycare fees;
- Reimbursement for school textbook purchases, scholarships, etc.;
- Reimbursement for public transport costs for the employee and his/her dependents.

6. More female employment and more women in managerial positions

For new hires, allocate 30% of the positions to women, in line with labor market availability and company technical and organizational needs.
During the contract term, place 30% of the current female workforce in B2 and higher management levels, subject to technical and organizational needs.

7. More training with social value

An additional 4 hours of training over the three-year period – on top of the existing 24 hours – will be provided for:

- Women returning from maternity leave;
- Employees returning from long illness-related absences;
- Women transferred due to protection from harassment in the workplace or at home.

8. More resources and tools for the employability of temporary workers

For all temporary workers not confirmed, the company will provide a training voucher proportional to the contract’s duration, up to a maximum of one month’s pay, along with certification or acknowledgment of the skills acquired during employment.

For all temporary and agency contracts of 6 months or more, training registration in the digital file “MetApprendo” will be mandatory.

9. More workplace safety in all companies, large and small

In companies with more than 200 employees, training updates will be conducted, depending on technical and organizational needs, through brief training sessions.

In companies with fewer than 200 employees, Safety Representatives (RLS) will be involved in the periodic visit by external Prevention and Protection Service Managers (RSPP) at least once a year.

RLS will receive an additional 8 hours of training on top of the legally required 32 hours, with specialized content delivered in the workplace.
Establish dedicated channels for reporting near-misses and risky situations.

The notification evaluated by the RSPP, will be shared with the RLS, who will be involved in any necessary actions to be taken.

In the event of a workplace injury, the RSPP and RLS will meet to assess the most appropriate measures to prevent recurrence, such as updating training or modifying personal protective equipment (PPE).

10. More work-life balance

All existing paid annual leave must be used, and if not taken within the accrual year, must be scheduled within the following 12 months;
Three paid days per year, compensated at 80%, for the illness of a child under four years of age.

11. More participation and involvement

Include in MetApprendo training capsules on various participation methods;

Define examples of enabling organizational models to foster employee engagement;

Create a National ESG Commission and ESG Company Committees in companies with more than 500 employees.

12. More transparency in contracts

The lead company will request uniform governance and safety standards from suppliers;

A qualification system for contractors will be introduced to guarantee minimum social, pay, and gender standards, which could eventually evolve into a sector accreditation system;

Companies with over 500 employees will provide information to Workers' Representatives at the plant level (RSU) twice a year regarding direct contracting agreements used, the NCA applied by the Contractor and number of workers employed in the execution of the contract itself;

In case of a contract change in companies with over 500 employees, the exchange of information between the outgoing and incoming company will be promoted, aimed at verifying opportunities for safeguarding employment, in line with the organizational needs of the companies involved, and combating distortive competition practices;

In light of regulatory developments, the contractual regulations regarding public service contracts will be reviewed/updated;

Thanks to blockchain technology, an architecture could be structured for the companies in the supply chain to allow real-time tracking of the applied NCA, contribution compliance, and, where present, good ESG practices, which the supplier companies will have the possibility to implement, making them systemic.

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Our proposal was rejected by the Trade Unions and probably the confrontation will continue through technical working groups with the aim of examining different aspects in depth. However, all of us are aware that the crucial topic is salary.
The Union wage claim is disproportionate, unsustainable and unjustified. For this reason, Federmeccanica has replied to the Trade Unions with a proposal that includes, alternatively, a number of new elements finalized to workers' well-being.
Until November 15th, peace among the workers is guaranteed by contract. Afterwards, the risk of strikes in our companies could be a very plausible reality.