

2022 Country Market Profile: Italy

Euromonitor reports that Italy recorded strong economic performance in 2021, driven by robust capital investment, increasing consumer spending and reviving exports. Capital investment projects related to the National Recovery and Resilience Plan and the expected recovery in international tourism are set to support Italy's economic growth over the medium to long term. Budget deficit and public debt to gross domestic product (GDP) ratio are set to decrease, due to the economic recovery and the gradual withdrawal of pandemic-related support.

- Following real growth of 6.3% in 2021, Italy's economy is expected to expand at an average annual real rate of 0.8% over the medium term.
- Inflation in Italy is forecast to increase to 2.3% in 2022 from 1.9% in 2021.
- With commodity exports increasing by 20.2% over 2021, Italy remained a net exporter; machinery and equipment remained the major exports category.
- Foreign direct investment (FDI) inflows into Italy became negative in 2020, reflecting a higher value of disinvestments than the value of inward direct investments in the country.
- The public debt-to-GDP ratio in Italy declined slightly from a peak in 2020, reaching 155% in 2021, yet remained one of the highest globally.

Italy's economy has also seen a decline in its potential economic growth as costs rose and productivity growth stagnated. These problems are largely rooted in country-specific factors. The country is divided into a highly industrialized and developed northern part, where approximately 75% of the nation's wealth is produced; and a less-developed, agriculture-dependent south. Firms in the north specialize in the manufacture of premium finished products and are closely integrated into the German manufacturing system, involving everything from cars to washing machines. In contrast, most industry in the south is controlled and financed by the state. Unemployment in some parts of the south is as high as 40%.

Italy's population totaled 61 million in 2022 (CIA World Factbook Est.). This represented an increase of 4.4 million over the figure for 2000, but population has begun to decline and will reach 59.1 million by 2030. Median age was 46.5 years in 2021 – 6.2 years greater than the figure for 2000 and significantly higher than the regional average. As measured by median age of population, Italy currently has the second oldest population in Europe (behind Germany).

Those aged 65+ are forecast to account for 32.7% of the total population in Italy in 2040, significantly higher than the Western European average of 25.7%. Indeed, the elderly population is expected to exhibit the fastest growth rate of any age cohort over 2022-2040, cementing Italy's position as one of the oldest countries in the world. The old-age dependency ratio is forecast to stand at 58.2% in 2040, the fifth highest globally that year. This is expected to exert considerable pressure on already-stressed public finances, as demand for pensions and healthcare for the elderly will rise unabated. Italy's stance on immigration could, therefore, start to soften, as it seeks to shore up its working-age

population and reverse its shrinking populace to support pensions going forward. Over 2022-2040, Italy's total population is expected to decrease by 5.3% compared to population growth of 2.1% in Western Europe.

USDA's Office of Agricultural Affairs (OAA) in Rome report that Italy is the third-largest economy in the euro-zone, with a gross domestic product (GDP) estimated at US\$2.3 trillion and a per capita GDP of US\$39,000 on a purchasing power parity (PPP) basis. Being a net agricultural importer, most raw materials and ingredients are imported, as Italy's economic strength is in the processing and the manufacturing of goods. Italy exports mainly consumer-oriented products to the United States, while the United States exports mostly bulk commodities to Italy. In 2021, U.S. agricultural exports to Italy were US\$1.1 billion, growth of 7% from 2020, while U.S. imports from Italy were US\$6.5 billion, growth of 18% and placed them as the 4th largest exporter of agricultural products to the U.S.

Market Opportunities and Key Issues in the Italian Food Market

Market Opportunities

- High consumer interest in new products
- The tourism industry increases demand for hotel, restaurant, and institutional products
- U.S. food products are viewed as “trendy, new, and innovative”, especially those with health benefits
- Italians are becoming more aware of foreign cuisines
- Exchange rate fluctuations can affect imports of U.S. products

Key Issues

- Price competition is fierce
- Competition from similar food products produced in other EU countries that enter tariff-free
- Complying with European and Italian regulations
- Competition in the Italian food market is fierce and many consumers still prefer traditional Italian products
- Mandatory customs duties, sanitary inspections, and labeling requirements can be onerous

In 2021 U.S. exports of consumer ready foods to Italy totaled US\$452.3 million, an increase of 2% over the same period in 2020. Italy is the 5th largest market for U.S. consumer food products in Europe and the 27th largest market overall. U.S. exports of processed food products to Italy grew 5% in 2021 to US\$152.8 million. Top processed foods exported to Italy in 2021 included:

- Alcoholic Beverages
- Prepared/Preserved Seafood
- Food Preparations & Ingredients

- Processed Vegetables & Pulses
- Canned, Dried And Frozen Fruit
- Condiments Sauces, Jams & Jellies
- Snack Foods

Retail Food Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Italy have been estimated to reach US\$95.6 billion in 2022. That makes Italy the 8th largest packaged food market in the world. That also represents growth of 10.9% and US\$9.3 billion since 2018. By the year 2026, the retail sales in the packaged food market in Italy is expected to reach US\$109.7 billion, growth of 14.8% or US\$14.1 billion. High growth categories in the forecast include:

- Ready Meals
- Baked Good
- Processed Fruit & Vegetables
- Sweet Biscuits, Snack Bars & Fruit Snacks
- Savory Snacks
- Ice Cream & Frozen Desserts
- Breakfast Cereals

FAS Rome reports that the Italian retail food market is highly diversified. Hypermarkets, supermarkets, convenience, discount, and specialized stores coexist with traditional corner shops and open-air markets. The majority of supermarkets are located in northern Italy (47.1%), followed by the south (28.6%), and then by the central region (24.3%). Convenience stores and small supermarkets are commonly located in central areas of towns and cities. Hypermarkets and supermarkets tend to be positioned within large shopping centers in suburban areas and on the outskirts of cities.

Italy's food retail sales reached US\$175 billion in 2020, 5.6% more than in 2019. While on-line grocery shopping grew by 134.4%, increased sales were also registered in discount stores (+8.7%), supermarkets (+6.8%), and grocery retailers (+5.6%). Conversely, sales in hypermarkets (-3.4%) were penalized by the closure of shopping centers during COVID-19 lockdown. Multi-channel strategies, blending online and in-store sales, are key to success across retailing. Grocery retailers are paving the way towards innovative solutions in this respect, offering e-commerce shopping with deliveries to the consumer's home and in-store lockers for customers to collect online orders.

Food retailers witnessed a major move in 2020, when Conad completed the acquisition of approximately 1,600 points of sale from Auchan Retail Italia, operated under the brand names Auchan, Simply, and Sma. Through this acquisition, Conad became the leading grocery retailer in Italy followed by Coop Italia and Selex Gruppo Commerciale SpA. Domestic and international discounters continued their expansion plans in Italy. In addition to the leader Eurospin Italia, which expanded to 1,100 stores, German discounters Lidl Italia, Aldi, and Penny Market Italia announced major investments for

2019- 2020, and the opening of more than 140 new stores to strengthen their presence in Italy.

Euromonitor reports that supermarkets continued to perform positively in 2021, although retail current value sales grew at a slower rate than over 2020, as the COVID-19 situation normalized and consumers gradually returned to the workplace, schools and foodservice. Nonetheless, supermarkets remains a larger modern grocery format, and like hypermarkets, some consumers moved towards smaller types of retailers as they prioritized price and convenience, while trying to avoid crowded larger outlets to minimise contact with others and the risk of infection. Many consumers found smaller outlets more amenable as it was often easier to find desired products and develop closer relationships with shop staff. This type of service and relationship was possible in smaller supermarkets in or close to residential areas, but was often searched for in convenience stores and traditional grocery retailers.

Price convenience is becoming a key factor for Italian consumers. However, at the same time, they are not willing to accept a decrease in product quality. On the contrary, consumers are showing a growing preference for quality, healthy and sustainable foods. Therefore, supermarkets are widening their offer, including private label products, and they are expected to continue to invest in their private label lines. For example, Conad outlets are seeing a growing focus on both premium and basic offers, in order to respond to different and changing customers' needs. This wider reaching focus is set to become an important competitive asset for the company and category as a whole as the economic situation in the country remains uncertain for many consumers.

Euromonitor reports that convenience stores continued to perform positively in 2021, as the threat of the pandemic lingered and key 2020 retailing trends proved to be robust. In particular, many Italians showed a preference for this format over other types of larger grocery retailers. In fact, smaller grocery stores, based in or close to residential areas or within more central locations continued to be prized as they offered greater contact with shop staff and boosted the potential for developing store-customer relationships. Such relationships and location advantages continued to win the preference of Italian consumers in 2021, and a shift to convenience stores is considered one of the consequences of the pandemic.

CONAD - Consorzio Nazionale Dettaglianti Scrl remained the leader in convenience stores in retail value share terms in 2021. Acquisition activity as other players struggled to adapt to meet consumer needs enhanced its presence and sales potential. Following the acquisition of the majority of Auchan's Italian arm, CONAD added over 1,000 My Auchan, Punto Sma and Punto Simply shops to its already huge store network of Conad City and Margherita convenience stores to enhance its leadership of a fragmented competitive landscape. CONAD continued to grow its retail value share in 2021, as convenience stores benefited from the lingering COVID-19 pandemic preference for closer to home modern grocery retailers.

In the forecast period (2026), convenience stores are expected to widen their private label offerings. While lower prices remain a key selling point for private label, companies are predicted to focus predominantly on products, branded and private label, that offer higher added value, such as organic products or products with health and wellness claims or premiumization. Convenience remains a key focus for new product development and innovation, with ready-to-serve products or meal options to the fore. These products respond to the increased demand for convenience and time-saving products in Italy, especially as consumers return to more on-the-go lifestyles as the pandemic eases. Convenience stores in Italy are also expected to offer a larger array of local products over the forecast period, as many Italians perceive domestic options to be fresher and of superior quality.

Best Prospects:

FAS Rome reports that U.S. products with high potential for continued success include tree nuts, food preparations and ingredients, snack foods and condiments and sauces. Products not present in significant quantities but which have good sales potential include functional and health food, free-from products (lactose-free, gluten-free), specialty foods and organic products.

Food Service Sector Highlights:

FAS Rome reports that Italy's consumer food service was severely impacted by Covid-19 lockdown and restrictions in 2020, causing a 33% decline in sales value compared to 2019. Additionally, the strong rise of teleworking, especially in large cities, impacted food service, with a general decline of consumption during lunchtime, as people ate lunch at home. The worse performances were suffered by independent outlets more so than chain stores. Specifically, family-owned outlets faced difficulties due to the lower income received and ongoing costs, such as rent and salaries. However, to earn revenue during the crisis and to maintain market share, many food service players offered delivery service (mainly pizza, gelato, and Asian restaurants), leading to a food delivery boom and a rise in partnerships with third-party delivery companies.

Health and wellness remain a focus for a growing number of consumers when choosing food service establishments and meals, with food service operators responding by providing a wider offer. In addition, greater attention is being paid by food service operators to food intolerances and allergies, as they began offering menus dedicated to consumers with specific health and dietary needs (e.g. celiac, vegan, and vegetarian).

American-style fast food chains, buffets, and salad bars are gaining popularity in the Italian market. This move towards more convenient dining has led Italian importers to seek out U.S. food products adapted to self-service eateries. Many bars, restaurants and food service companies also are seeking foods that microwave easily. Italians are consuming increasing quantities of breakfast cereals, organic and snack foods. The Italian youth market is especially interested in lifestyle foods such as American craft beers and salted snacks.

The Italian HRI sector is expected to face stronger competition as there will be an overwhelming offer of various consumer food service outlets. To succeed in such a competitive environment, companies must provide innovative offers, based primarily on quality ingredients, as well as increased specialization. Players will look to offer not only food/wine pairings, but also food/cocktails or food/beer combinations to increase consumer interest and appeal. In what is a very competitive environment, companies are trying to diversify their offer via innovation to stand out from the crowd.

Companies are taking into account the growing preference among Italians for gluten-free, vegetarian, and vegan alternatives. Moreover, there is a rising trend towards butcher or fishmonger stores integrated with restaurants, thus boosting overall competition. Such restaurants only use fresh meat or fish, with consumers increasingly demanding high quality and visually appealing cuisine made from local ingredients. At the same time, restaurants with visible kitchens and chefs are expected to continue to gain popularity, as clients feel more involved and see the whole meal as an experience in itself

Best Product Prospects:

FAS Rome reports that U.S. products present in the market which have good potential include tree nuts, food preparations, snack foods and sauces, dressings and condiments.

Food Processing Sector Highlights:

FAS Rome reports that the Italian food-processing industry continues to be highly fragmented, characterized by a growing consolidation of smaller companies. The leading players tend to employ multichannel strategies, which have helped them to offset food service losses with higher sales in the retail channel during the COVID19 pandemic. In 2021, a gradual return to in-person work, study, and activities left consumers with less time or inclination for home-cooking and home-baking. On the other hand, confectionery, snack bars, ice cream, and pastries benefitted from a gradual return to normality.

Artisanal products are at the forefront of the packaged food market. Local consumers continue to prefer fresh products rather than canned products. However, the most popular canned food products are seafood (tuna in particular), meat and meat products, tomatoes, and beans. Additionally, Covid-19 accelerated Italy's healthy eating trend, with vegan, vegetarian, and flexitarian alternatives, "free-from" products (e.g. gluten, lactose, or sugar-free), and superfoods attracting more and more local consumers.

The pandemic also strengthened the locally sourced food trend as a gesture of solidarity to local producers. Progress in food technology, marketing innovations, "Made in Italy" products, and exports of finished food products have all contributed to Italy's increasing demand for food ingredients. Italy depends almost entirely on raw material imports, most of which come from other EU countries.

Best Product Prospects:

FAS Rome reports that products present in the market which have good sales potential include tree nuts, distilled spirits, food preparations and ingredients, beer, and sauces, dressings and condiments.