Covid-19 and Italian regions

An interregional value chain approach

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SIE webinar

Covid-19 and the economy

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Work in progress

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Lockdown, dinamiche regionali e settoriali

Tommaso Ferraresi, Leonardo Ghezzi, Fabio Vanni, Mattia Guerini, Francesco Lamperti, Giorgio Fagiolo, Alessandro Caiani, Mauro Napoletano, Andrea Roventini[1]

7 Giugno 2020

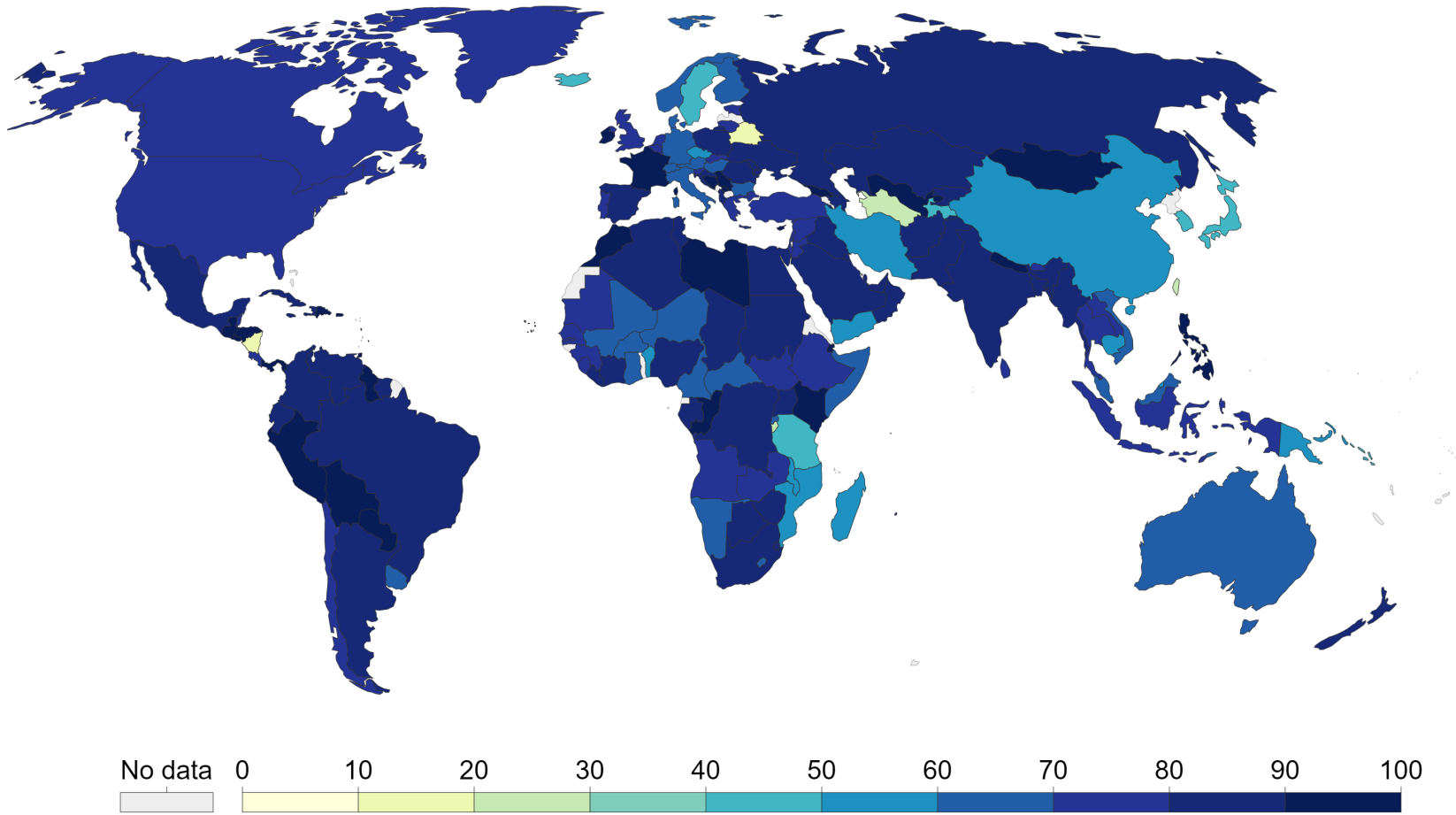
https://github.com/taskforce-covid-19/documenti/blob/master/sgdl_3_Impatto_Economico/sgdl3_lockdown_dinamiche_regionali_e_settoriali.pdf

Zeitgeist economics...

COVID-19: Government Response Stringency Index, May 7, 2020

The Government Response Stringency Index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest response).

Our World in Data



Source: Hale, Webster, Petherick, Phillips, and Kira (2020). Oxford COVID-19 Government Response Tracker – Last Updated 5th June.
Note: This index simply records the number and strictness of government policies, and should not be interpreted as 'scoring' the appropriateness or effectiveness of a country's response.
OurWorldInData.org/coronavirus • CC BY

Covid-19 and the economy

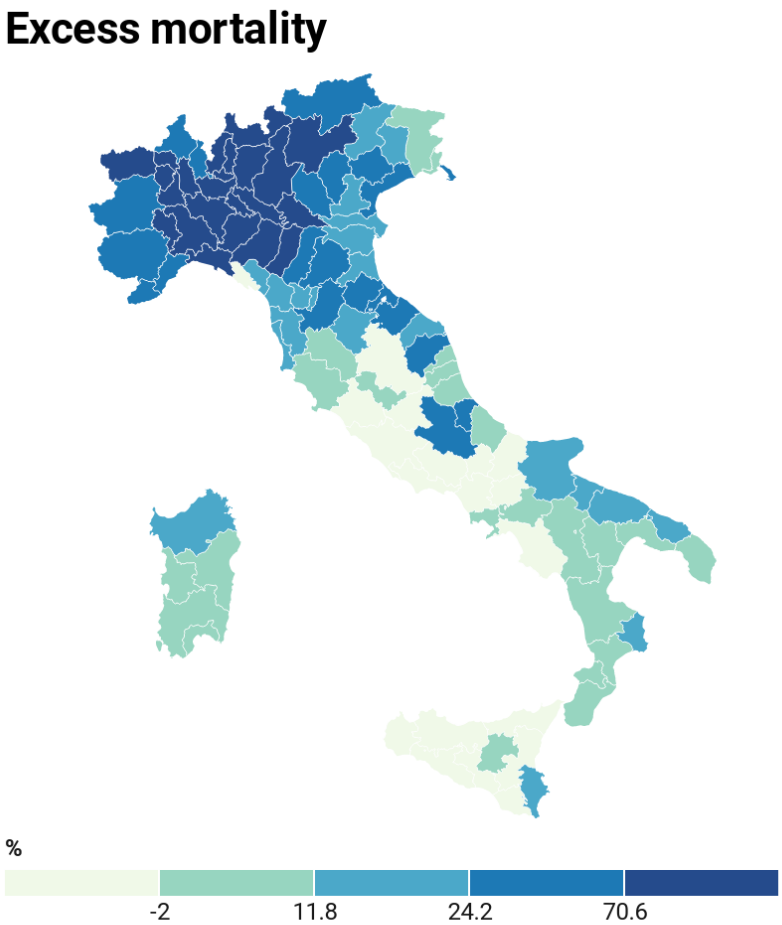
1. A crisis with no antecedents:
   - from an epidemiological perspective (Report 20 Imperial College; Goldstein, Lee NBER)
   - from an economic perspective (IMF, EC); V- vs. U- vs. L-shaped recession (Jordà et al CEPR; Galeotti, Surico VoxEU; Fornaro, Wolff VoxEU)
2. and multidimensional:
   - poverty, optimal lockdown, effects of social distancing, teleworking, gender inequality, social capital, human capital, migration, consumption, sector crises, public debt inheritance, financial instability, fiscal and monetary policy, European Union, international trade and value chains, firms heterogeneity, lockdown and supply chains
3. and a second wave is running in many countries forcing governments to take new actions..

The demand for an intersector approach

- Production is organized in interregional-international value chains: it is not possible to shutdown or reopen sectors without taking into account of upstream and downstream intersector linkages
- The links between consumption and production places: shutting down demand or production in a given place implies cascading effects on different sectors and places

$\rightarrow$ in order for the government to ensure the provision of essential goods and services a value chain approach is required.

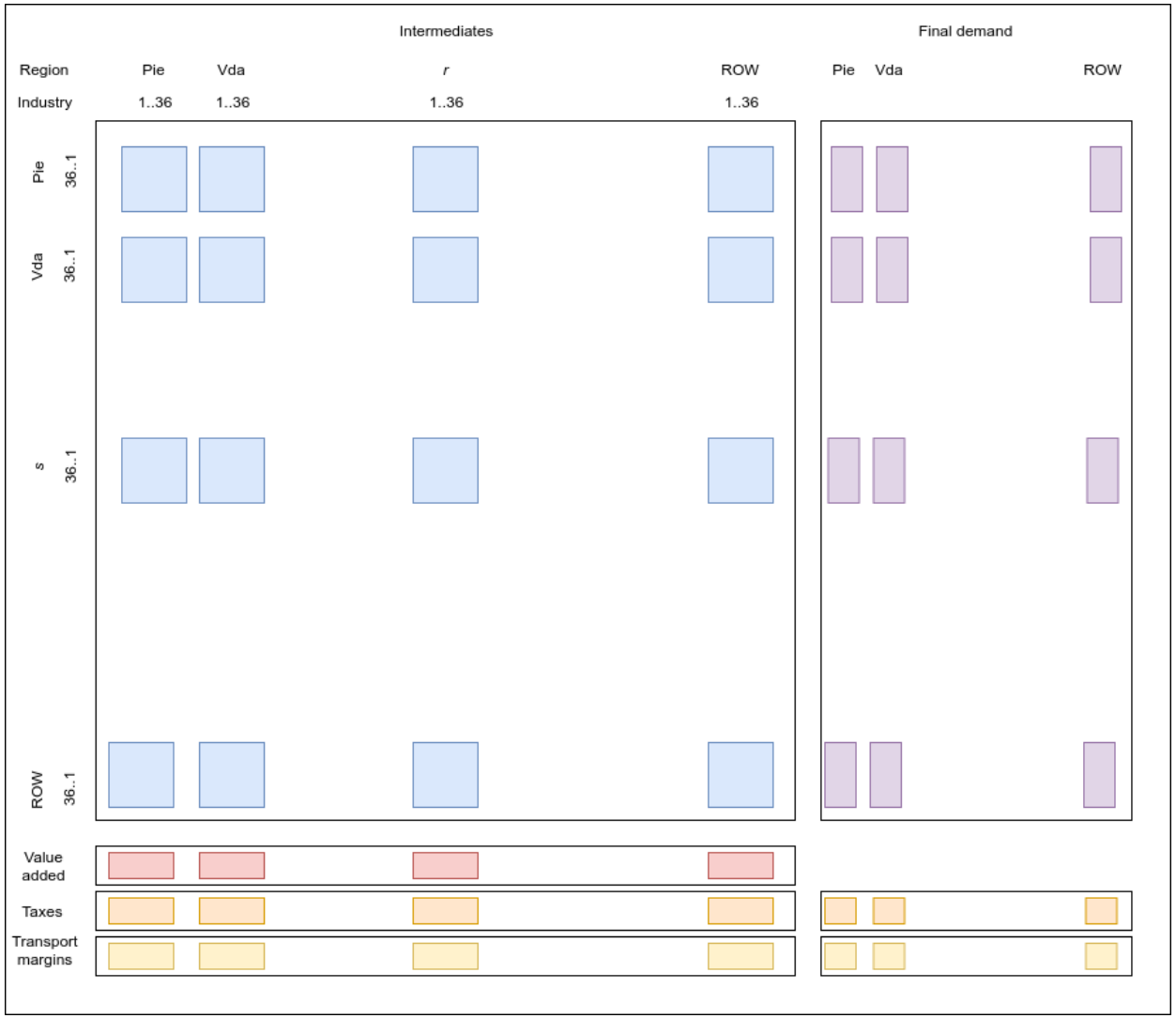
The demand for an interregional approach



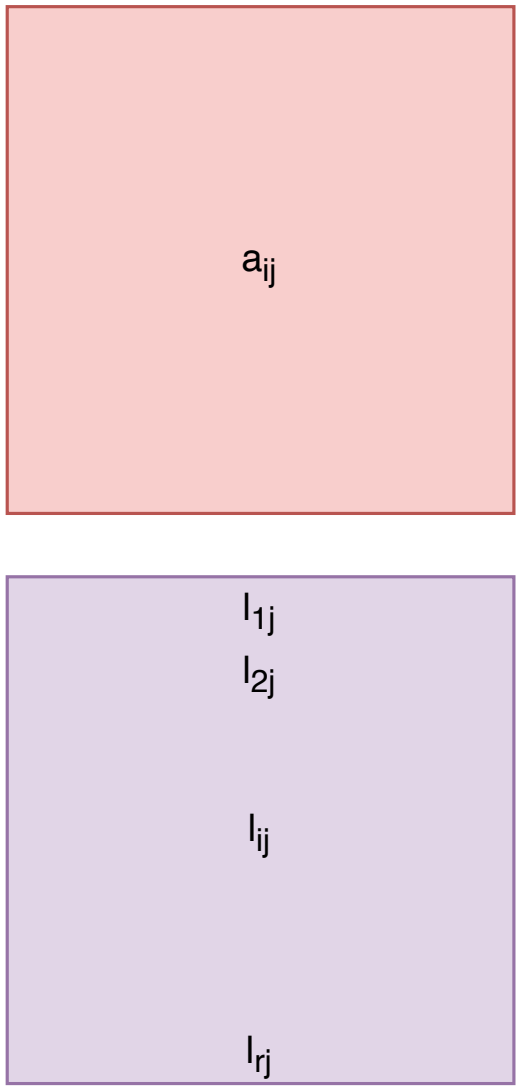
Our work in a nutshell

1. We build up interregional value chains from a final demand perspective and distinguish the places of consumption from those of production
2. For each value chain we estimate – by region and sector – activated production and employment
3. To each occupation we attach a risk of being infected by Covid-19 and a probability for telework
4. We run a policy experiment simulating to impact of non-essential goods and services value chains closures in red regions

The IRPET-ICIO database, 2015



The value chain through the Leontief inverse



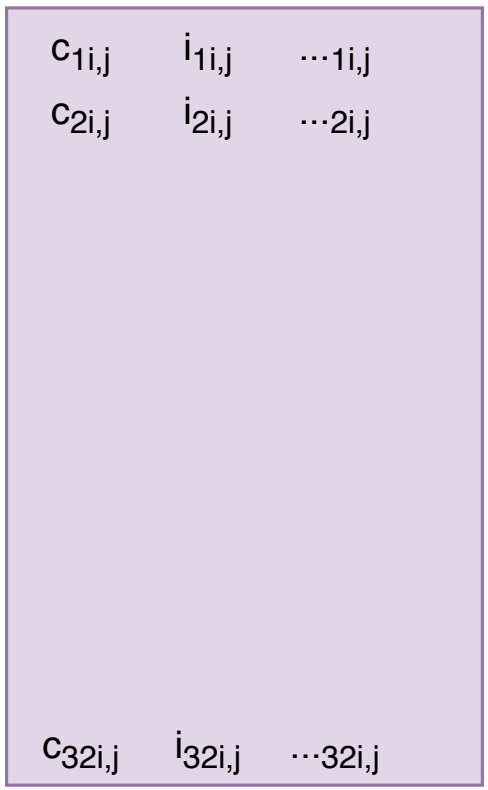
$$df + Adf + A(A^2 df) + ... + A(A^{n-1})df$$

$$(I + A + A^2 + ... + A^n)df$$

The value chain

$\Leftarrow L$

The demand shocks



In Irpet-ICIO:

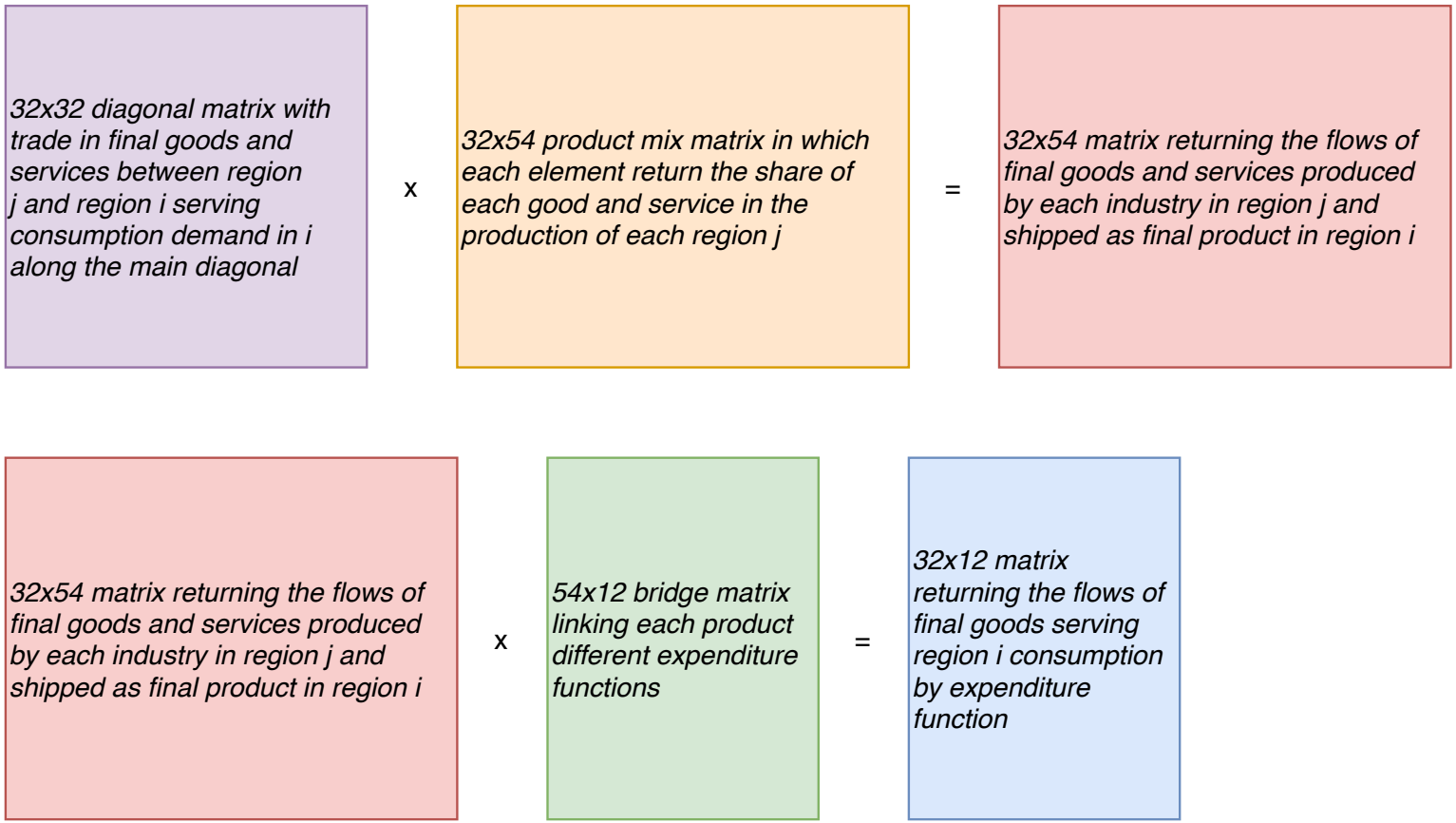
- Aggregate internal consumption
- Investment
- Public expenditures
- Exports: by market destination

Internal consumption: we want decompose it according to the needs covered by each value chain

Our value chains

Internal consumption	*Essential*	*Medium*	*Others*
	Food	Communication	Clothing
	Beverages	Housing	Furnishing
	Health	Transport	Recr. & culture
		Education	Restaurants & hotels
			Misc.
Internal investment	Construction investment		
	Other investment		
Exports	Australia, Austria, Belgium, Bulgaria, Brazil, Canada, Chile, China, Cyprus, Czech Rep., Germany, Denmark, Spain, Estonia, Finland, France, UK, Greece, Croatia, Hungary, Indonesia, India, Ireland, Japan, South Korea, Lituania, Luxembourg, Latvia, Mexico, Malta, Netherlands, Norway, Poland, Portugal, Romania, Russia, Slovakia, Slovenia, Sweden, Turkey, Taiwan, US, Rest of World		

From industries to consumption expenditure functions



Once the flows are estimated a RAS is applied so as to respect rows (flows by industry) and columns (expenditure function shares) constraints

Investment and exports

1. Investment
   - construction: served by construction industry in each region; trade in final goods excluded
   - other investment: served by all other industries; (plus) trade in final goods provided by construction industry
2. Exports
   - 42 destination countries plus the rest of world
   - trade in final goods and in intermediates

Attaching employment, Covid-19 risk and remote work

1. Once estimated production activated by each demand shock we compute employment by multiplying by regional/sector employment per euro of production.
2. We also distinguish among different categories such as white vs. blue collars.
3. We compute Covid-19 related risk and the teleworkability of each profession by relying upon INAPP (ICP) and ISTAT (Forze di Lavoro) data (years: 2016, 2017, 2018)

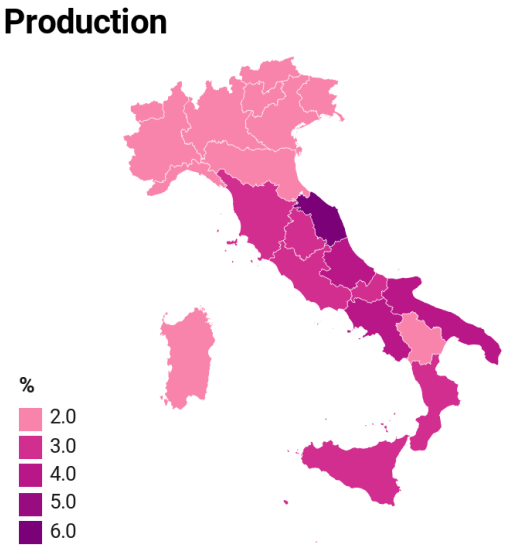
Covid-19 risk

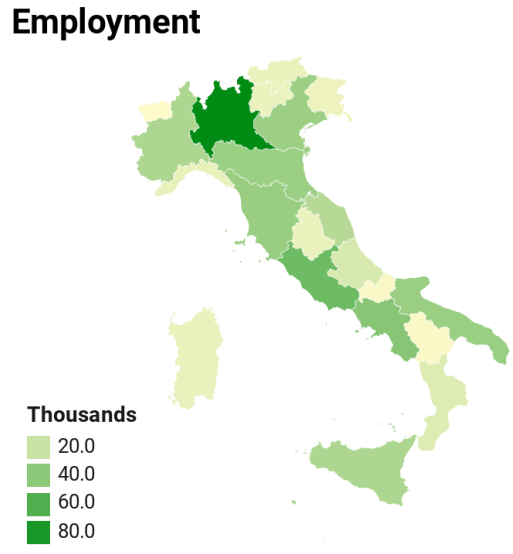
1. INAPP survey: exposure to infections, physical proximity
2. No substitution among dimensions: Covid risk index as a $max(x, y)$; alternative: the two dimensions are kept separated so as to capture two different aspects of Covid related risk
3. Matching with FDL survey in order to get sectors of employment at the regional level

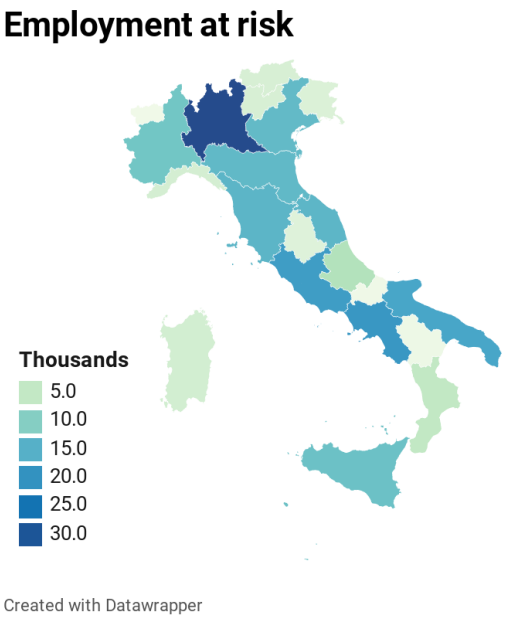
Remote work

1. INAPP survey which captures different aspects of working life at 5 digits level
2. Teleworkable professions at 4 digits as identified in Duranti et al. (2020): `http://www.irpet.it/wp-content/uploads/2020/06/cr-covid-19-n-1-29-05-2020-1.pdf`; alternative: index built as in Barbieri et al. (2020)... however: they allow for substitution among dimensions...
3. Matching with FDL survey in order to get sectors of employment at the regional level

The clothing value chain: Italian demand

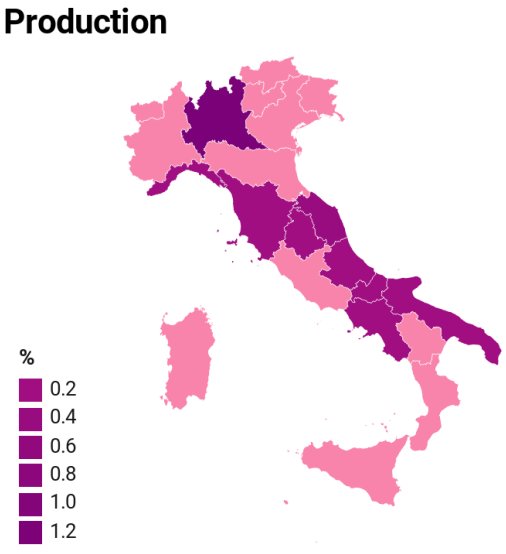


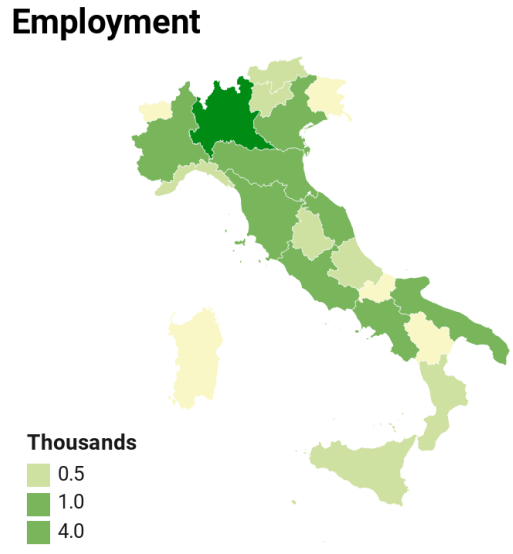


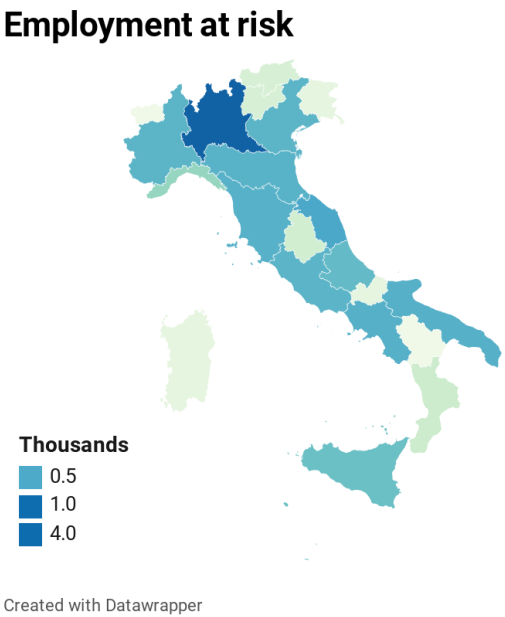


- More than 400 thousands of employees
- Largely employed in manufacturing...
- ... and 41.1% of employees at risk

The clothing value chain: Lombardy demand

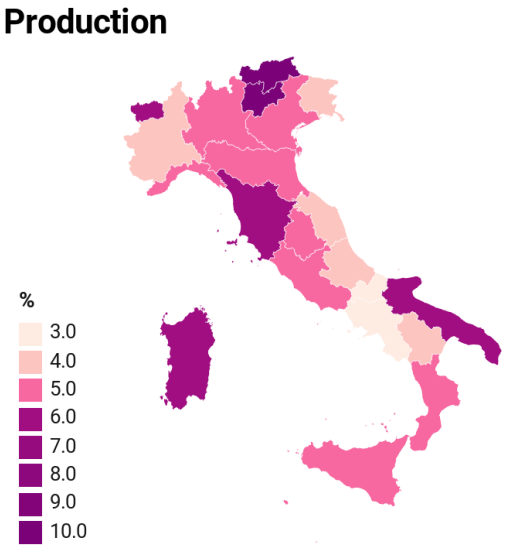


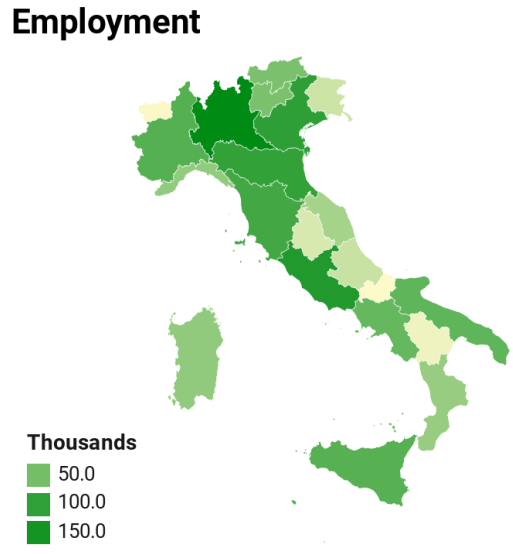


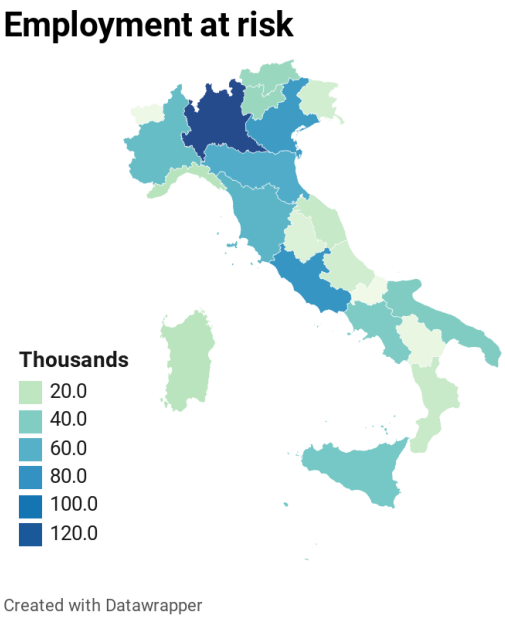


- Opening only one region generates production and employment spillovers...
- ... increasing contagion risk in other regions

The accommodation and restaurant value chain

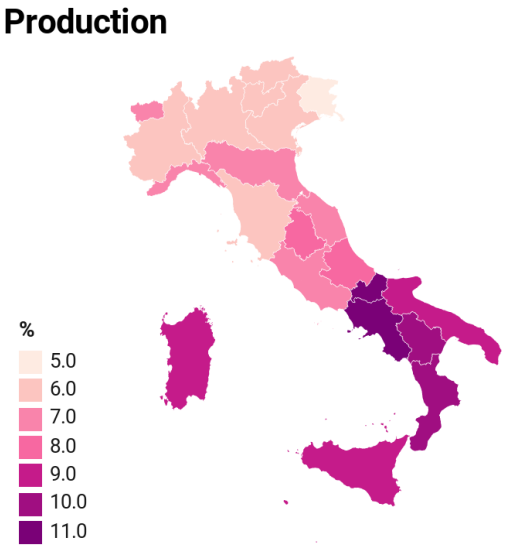


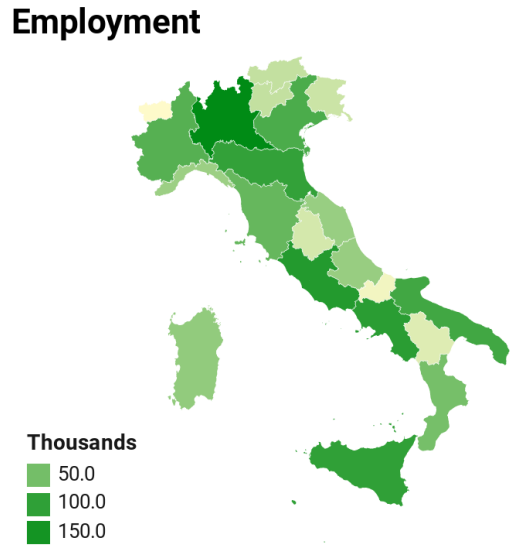


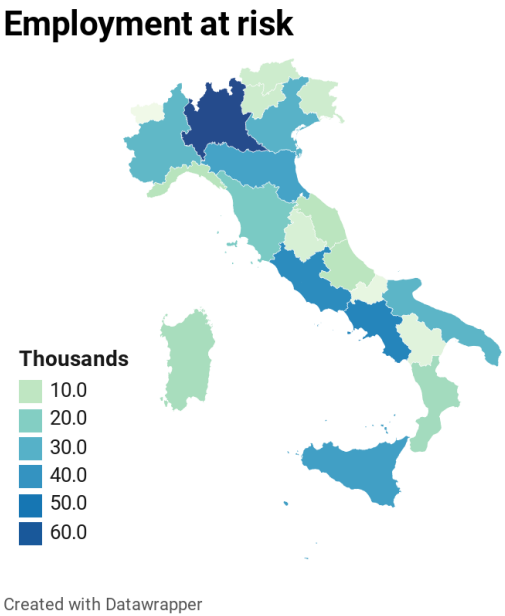


- More than 1 million of employees
- A large share of employment in service sectors...
- ... high Covid risk and low teleworkability (66.9%)

The food value chain

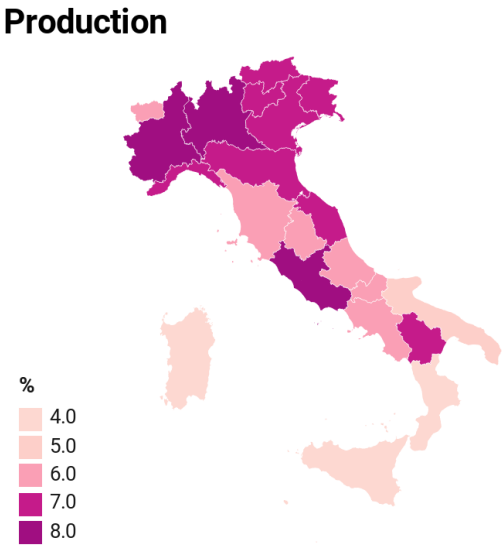


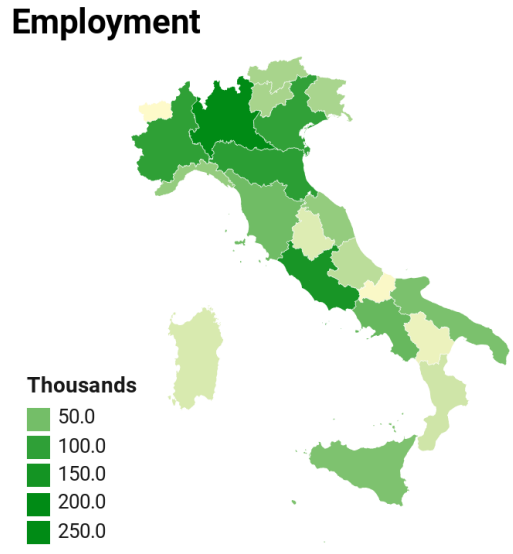


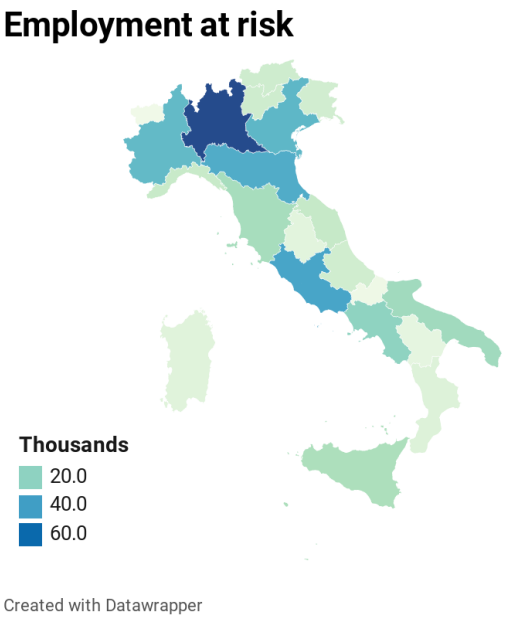


- More than 1 million of employees
- A large share of employment in manufacturing...
- ... and 37.0% of jobs at risk

Non-construction investment

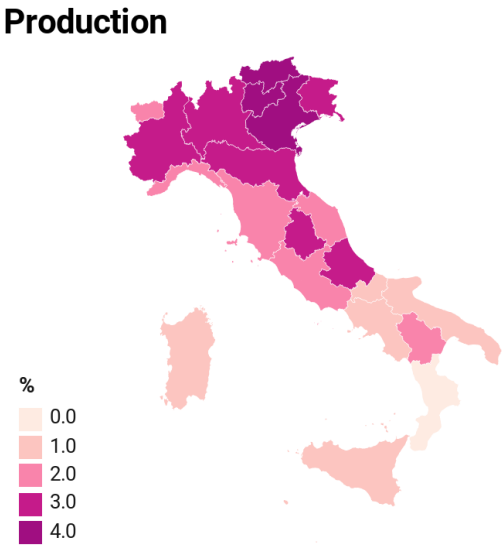


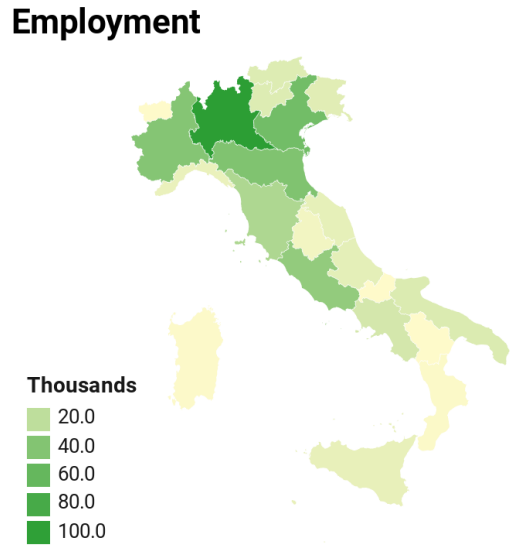


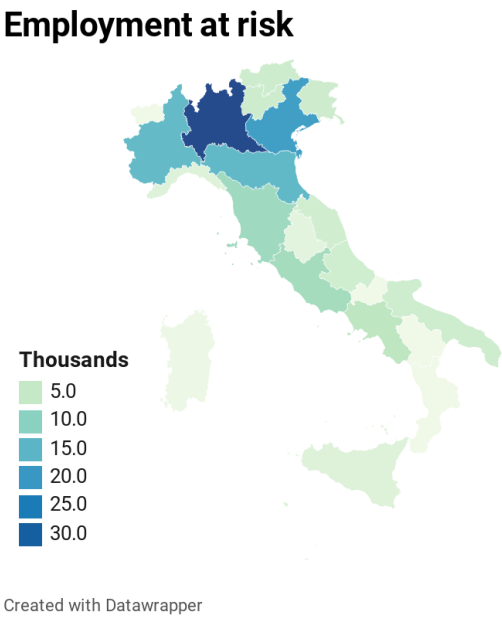


- 1 mil. of employees, mostly in the North
- large share of manufacturing jobs
- less than 1 third of employment at risk

Exports: Germany

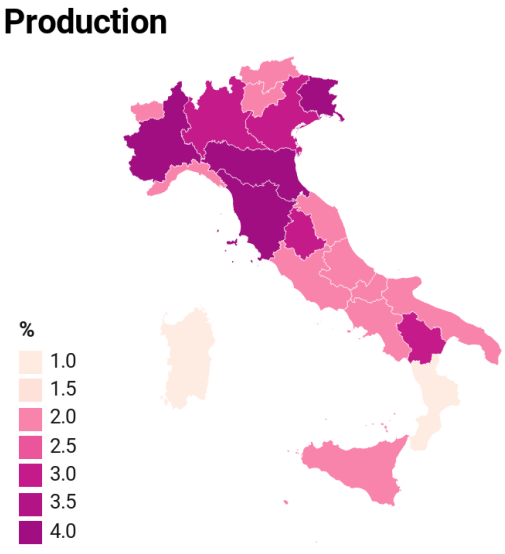


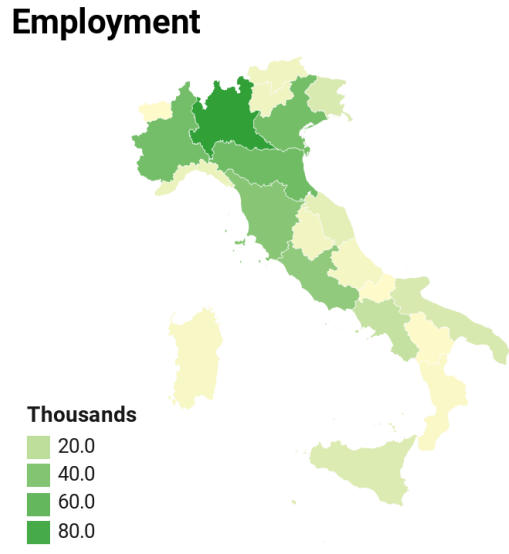


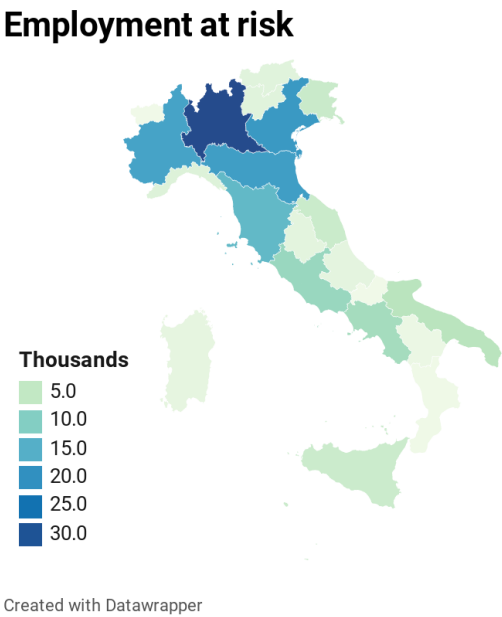


- 400 thousands employees, mostly in the North
- large share of manufacturing jobs..
- 1 third of employment at risk

Exports: US







- 400 thousands employees, mostly in the North
- large share of manufacturing jobs..
- 1 third of employment at risk

Employment at risk and remote work potential

Region	*Food & beverages*			*Restaurants & hotels*		
	Employees	at risk	but can telework	Employees	at risk	but can telework
Piedmont	70	48%	19%	72	78%	9%
Aosta Valley	2	53%	15%	4	84%	12%
Lombardy	187	45%	24%	198	74%	12%
Trentino Südtirol	19	48%	19%	45	78%	9%
Veneto	77	48%	20%	103	81%	12%
Friuli Venezia Giulia	18	49%	18%	18	77%	9%
Liguria	25	52%	15%	31	82%	11%
Emilia-Romagna	94	47%	21%	96	75%	13%
Tuscany	60	46%	22%	83	78%	13%
Umbria	15	46%	20%	14	77%	13%
Marche	26	49%	16%	24	78%	8%
Lazio	123	45%	23%	127	72%	14%
Abruzzo	26	50%	18%	19	79%	8%
Molise	6	51%	13%	3	79%	12%
Campania	109	48%	14%	59	78%	10%
Apulia	84	40%	15%	64	72%	11%
Basilicata	12	38%	14%	7	72%	10%
Calabria	49	35%	14%	26	66%	7%
Sicily	100	42%	14%	69	72%	11%
Sardinia	30	53%	13%	31	80%	12%

Policy experiment: red zones and second wave

- We simulate the impact of shutting down non-essential goods and services value chains in red regions
- We also push remote work up to full potential in all Italian regions
- We evaluate the economic loss associated to value chains closures
- We estimate the numer of employees preserved from contagion in red regions by value chains closures, remote work, and the by the two policies combined

Policy experiment (1)

Table: Value added loss and employment involvement of closing down non essential consumption value chains in Piedmont, Aosta Valley, Lombardy, Trentino Südtirol, Tuscany, Campania and Calabria for 4 weeks

Region	Value added loss (%)	Employment (thousands)
Piedmont	1,2%	202
Aosta Valley	1,3%	7
Lombardy	1,3%	547
Trentino Südtirol	1,6%	73
Veneto	0,2%	30
Liguria	0,2%	7
Friuli Venezia Giulia	0,3%	13
Emilia-Romagna	0,2%	49
Tuscany	1,3%	173
Umbria	0,2%	6
Marche	0,2%	19
Lazio	0,3%	81
Abruzzo	0,1%	12
Molise	0,1%	2
Campania	1,2%	159
Apulia	0,1%	29
Basilicata	0,2%	4
Calabria	1,2%	62
Sicily	0,1%	28
Sardinia	0,1%	4

Policy experiment (2)

Table: Contributions of remote work and value chain closures to COVID-19 risk reduction

Region	*Employees* at risk	*Preserved employees* by remote work	by value chain closures	by both
Piedmont	719	204	115	297
Aosta Valley	26	7	5	11
Lombardy	1.745	543	300	776
Trentino Südtirol	217	59	49	101
Tuscany	632	179	108	265
Campania	724	225	95	303
Calabria	232	76	36	105

Preliminary discussion

Our method can be interpreted as a toolkit:

1. for **reopening the economy**. We can monitor the number of workers involved in the activities involved in specific supply chains with respect to information on the spread of the virus
2. for **shutting down the economy**. Given a certain production that we want to be able to maintain, we can minimize the level of people at risk COVID-19 put into circulation to reach that level, appropriately choosing which supply chains to close; and which ones to keep open
3. for **measuring the potential loss**. The work returns the image of a fabric of intense relationships between various territories and this allows to evaluate to what extent the various places are exposed to asymmetric shocks, expressing what could be a potential damage deriving from a change in the final demand, internal and external.

Current and future work

1. Going toward an inter-labor market area approach (Ferraresi et al., 2020)
2. Simulating the shutdown of Tourism-related consumption
3. Improvement of Covid-related risk and teleworkability indices
4. Covid-19 and inequality: e.g., gender inequality
5. Extension to international value chains, both backward and forward; bottlenecks analysis (for the impact of the Chinese lockdown on Italian regions industrial production see Ferraresi and Ghezzi, 2020)
6. Geographical labor mobility: pressures on public transports; contagion spread
7. Adding contagion data and epidemiological models: the timing of intervention