

Productivity dynamics over the last decade

Evidence from the universe of Italian firms

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Main messages

- Use data on the **universe** of Italian firms with at least one paid employee (manufacturing and services)
- Decompose productivity growth (2007-2016)
 - allocative efficiency (between)
 - business demographics
 - average firm productivity (within)
- Allocative efficiency gave a **positive** contribution throughout the whole period thanks to:
 - size increases in most productive firms
 - size decreases in least productive firms
- This mechanism has been reinforced by some **cleansing** effect

Results of the Melitz-Polanec's decomposition

Table 1 Melitz-Polanec's decomposition of aggregate productivity growth

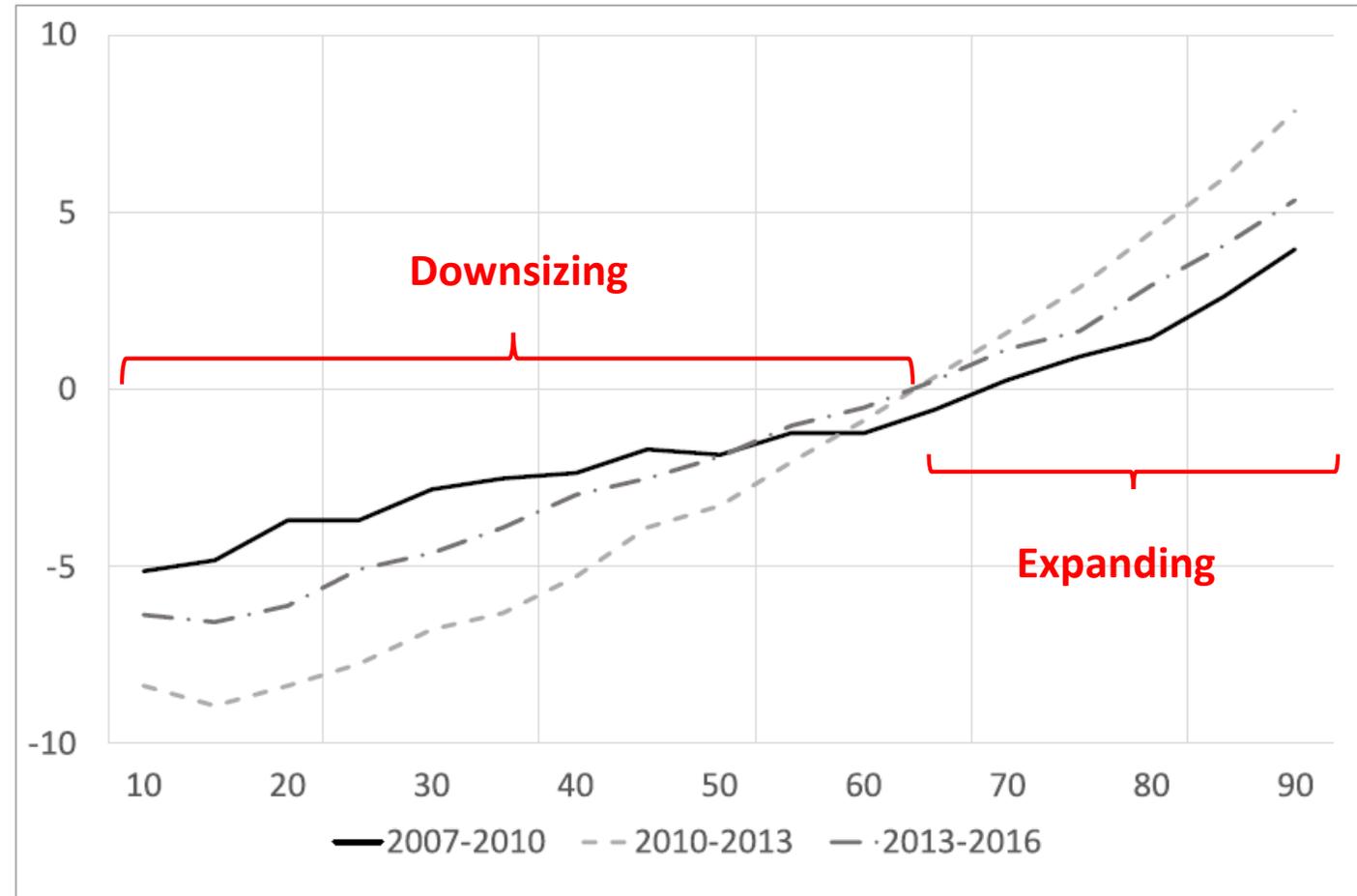
	Average productivity	Reallocation	Net entry
(a) Total economy			
2007/2010	-10.4	10.0	0.3
2010/2013	-7.7	5.4	1.7
2013/2016	-1.9	4.2	3.1
(b) Manufacturing			
2007/2010	-11.0	8.4	1.8
2010/2013	-4.1	5.0	2.6
2013/2016	-2.7	6.6	3.3
(c) Services			
2007/2010	-9.9	11.1	-0.8
2010/2013	-9.9	5.6	1.2
2013/2016	-1.5	2.9	2.9

Stylized fact #1

A positive reallocation term implies that employment growth is **uneven** along the productivity distribution.

We find that less productive firms are **downsizing** in all the three sub-periods, while firms with productivity above the 60th percentile are **expanding**

Figure 2 Employment growth by initial percentile of productivity distribution



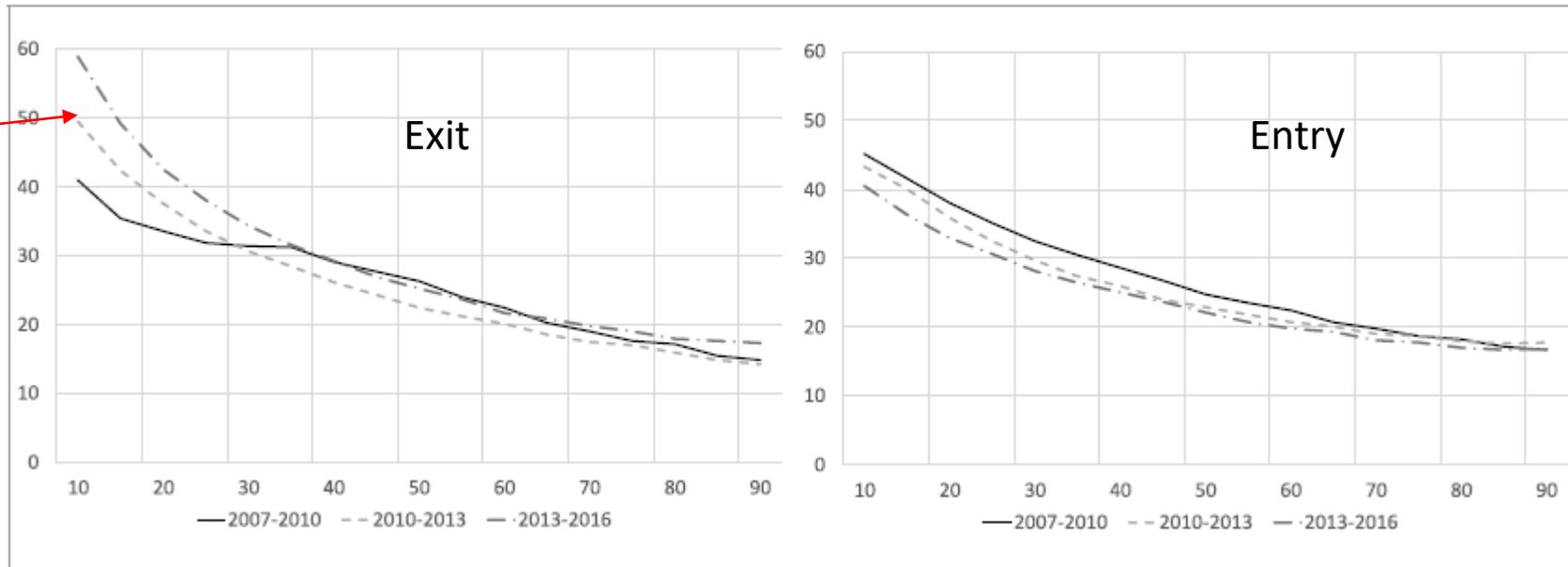
Stylized fact #2

The effect of net entry is always positive.

Entry and exit rates are negatively correlated with the ranking of the productivity distribution, but the curve is steeper for exit rates

Figure 3 Exit and entry rates along the productivity distribution

Cleansing

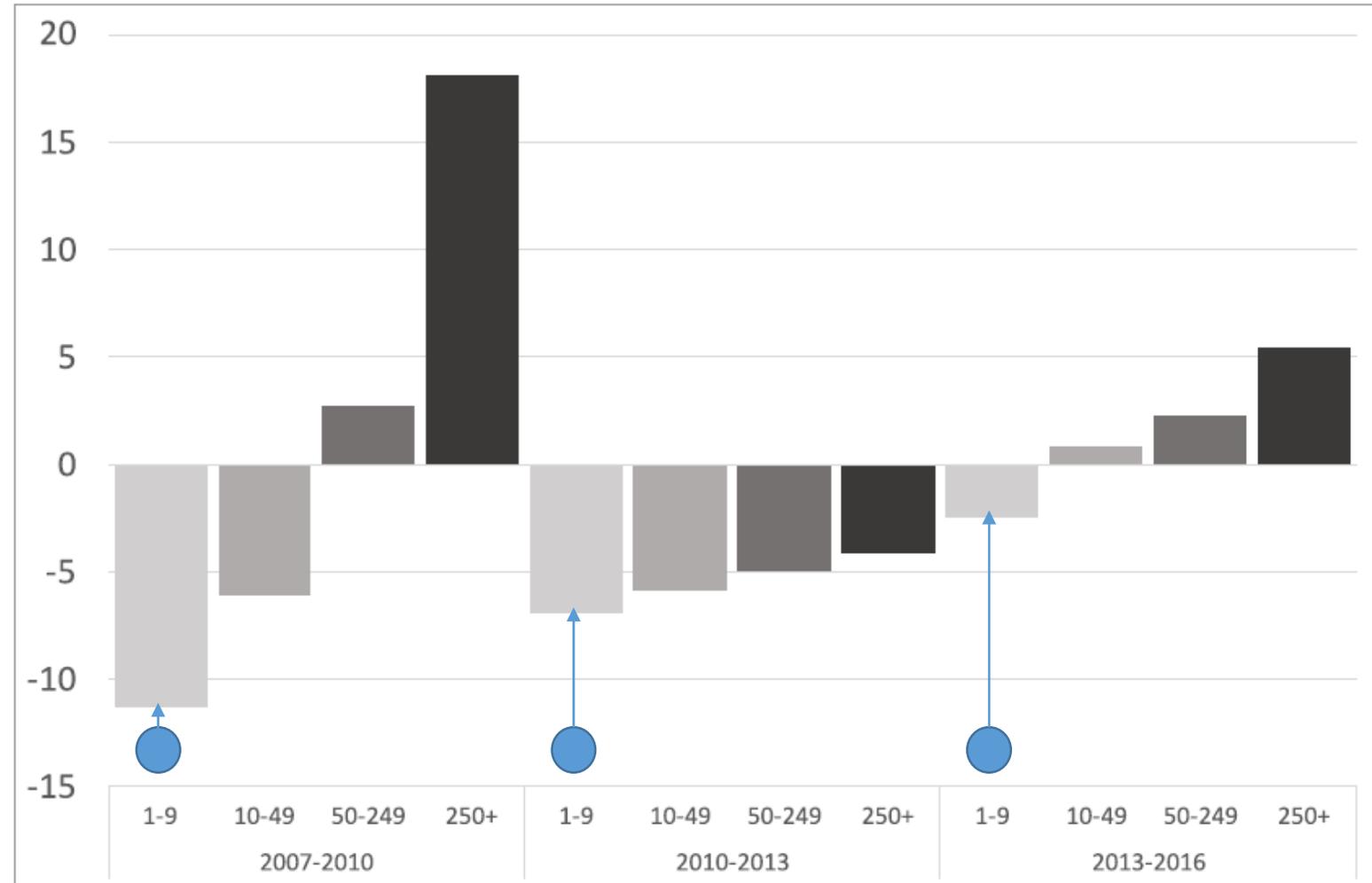


Stylized fact #3

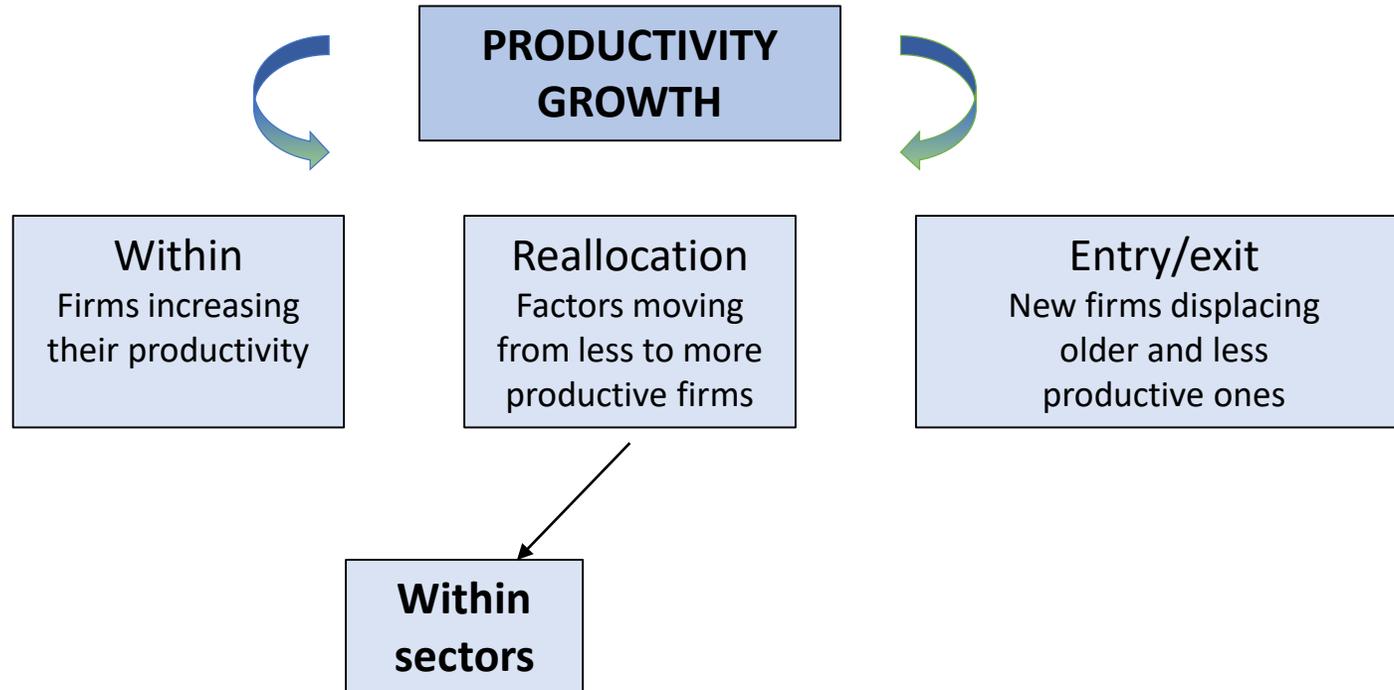
Productivity growth of incumbent firms is, on average, **negative**.

Smaller firms are driving this result: the average productivity growth for firms up to 9 employees is always negative and since the heavy weight of this size class, **average productivity growth** turns out **negative**.

Figure 1 Within component of productivity growth, by firm size



Looking ahead



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