ASSOLOMBARDA

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Lombardy in comparison with Italian and European benchmarks

SPECIAL EDITION – RUSSIA-UKRAINE WAR

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EXECUTIVE SUMMARY

The war at the door to Europe quickly impacts on Italian macroeconomic perspectives and directly affects business operations, heightening pre-existing supply-chain bottlenecks and upward shocks to energy prices – as commented on in previous editions. Promptly gauging the direct effects triggered by this new crisis on firms is hence of the highest importance.

In order to do so, we analyse the answers of 463 Assolombarda's member firms in the provinces of Milano, Monza Brianza, Lodi and Pavia to the flash survey Confindustria run between March 15 and 24. It is a large number of respondents, mainly manufacturers (71% of total firms; the rest ranges across different services sectors) and exporters (75%), as reasonable given their higher exposure to international headwinds, especially direct exporters to Russia-Ukraine-Belarus (around half of exporters surveyed). It is thus not a representative sample, yet being large it is an interesting pool of firms to analyse.

The war triggered further increases in energy and commodity prices, flagged as 'relevant' issues by 9 every 10 companies (88.3%) and 8 every 10 (82.5%) respectively. Less widely felt, yet still highly significant, are difficulties concerning commodity supplies (72.6% of respondents) as also the price and supply of semi-finished goods (around 50%). Finally, over a third of firms lament barriers to exports and payment issues.

Steel is by far the commodity most affected in terms of price (47.5% of firms) and supply (35.4%). Aside from energy goods, other critical materials include copper, nickel, zinc and iron ores among metals, urea and ammonium phosphate among fertilizers, corn, soy seeds oil, wheat and palm oil among agricultural commodities, cotton.
With regard to raw materials, then, prices are the main concern, but availability issues are also relevant and worrying.

Price increases and supply difficulties directly affect firm operability and almost 60 companies in Milano, Lodi, Monza Brianza e Pavia have already cut production, most of them by up to 20%, some others by up to 40% even. Furthermore, of the dominant share of firms that have not decreased production yet, only a third assumes to continue without interruptions in the longer term, while the other two thirds put a time limit to their ability to wrestle with the ripple effects of the war: 27% presumes to continue producing at current levels only in the short-term, i.e. for the next 1-3 months, and another 32% can hold on no longer than 12 months.

In any case, in the face of this new crisis, as in the post-pandemic rebound, our firms prove fast in their response. Given widespread and relevant supply-chain issues, the rethinking of the geography of supply markets is the practice not only among firms importing from Russia-Ukraine-Belarus, as obvious (85.4% of them is indeed active on this front), but also among those importing from other countries. Excluding companies with a direct exposure to Russia-Ukraine-Belarus indeed, as many as 48.1% is looking for alternative supply markets: this signals an ongoing and challenging reorganization of supply chains, which is not simply a short-term response to the conflict but rather a future-oriented strategy. In this respect, it is interesting to note how, among alternative markets, Europe plays a relevant role, presumably for the supply of semi-finished goods (to a larger extent than raw materials): after China, top ranking as alternative supply market being considered by 23.1% of firms, follow Italy (18.9%), Germany (13.0%), USA (10.9%) and Turkey (10.1%).

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Moreover, firms are looking for alternative destination markets, almost 40% of those exporting to Russia-Ukraine-Belarus and 16% of exporters selling elsewhere.
A relevant share of firms has revised prices (84% of respondents), due to the considerable increase in the costs of inputs.

In line with survey results, business and household confidence climates as of March-end deteriorate as a result of the uncertainty triggered by the war. In Lombardia and in the North-West between February and March the confidence climate plummets from 116.5 to 103.3 among consumers and falls from 111.9 to 110.2 among manufacturers. The decrease momentarily appears contained for firms because current orders remain on high levels, but there is a sizeable deterioration to the lows recorded in the beginning of 2021 in terms of short-term demand and production expectations.

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