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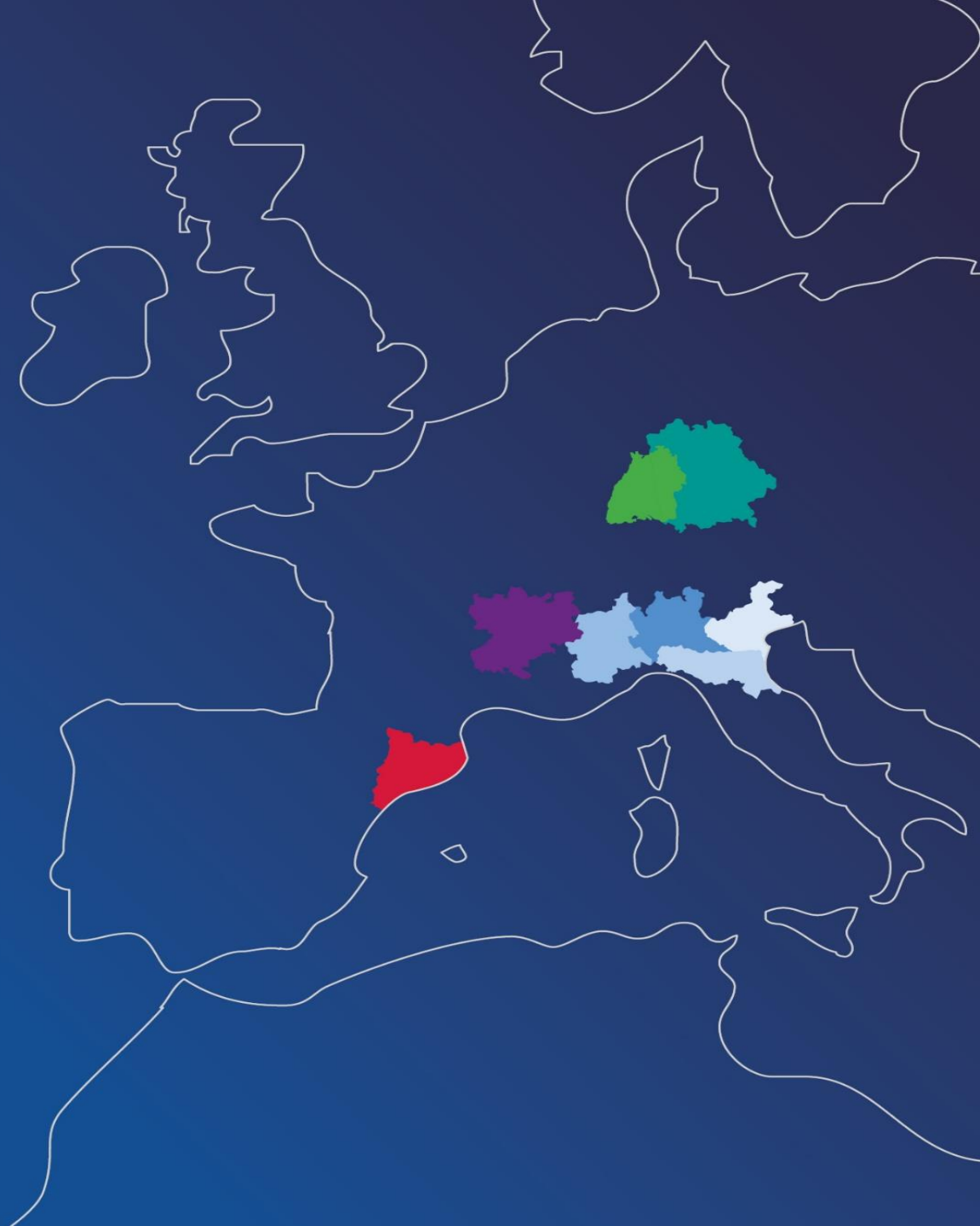
Booklet Economia

Lombardy in comparison with Italian
and European benchmarks

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EXECUTIVE SUMMARY

The economic outlook deteriorates for Lombardia, amid a worse-than-anticipated global and European slowdown. Confidence dips again: in September order book levels shrink and firms and consumers' expectations of 2022 last quarter diminish.

In Lombardia and the North-West manufacturing confidence drops to the minimum since beginning of 2021. Both domestic and, especially, international orders fall worryingly, lower than last year's average, after having been consistent throughout the first half of 2022. Also demand and production expectations for this Winter worsen, dropping to the lows of end-2020.

The share of manufacturers in the North-West noticing obstacles to trade edges higher to over 50%. More in detail, in the third quarter of 2022, difficulties relating to prices and costs peak, being signaled by 30% of firms (the pre-Covid share was 12%), and those lamenting longer delivery times is stable at 15%.

Services plummet compared to manufacturing (after having been more resilient over the Summer thanks to tourism), as demand stumbles and short-term order expectations are revised down.

Consumer confidence in the North-West in September remains in line with its Summer average, an historically-low level. Among the components, there are worsening expectations of the general economic situation and the future climate.

Confidence and economic conditions come under pressure from mounting geopolitical tensions, soaring inflation in Europe and Italy to the highest over the past decades (+8.9% in September year-on-year, up from +8.4% in August), still extraordinary gas prices despite recent dips and persistently high commodity prices. Over the past weeks, indeed, energy prices rapidly softened reflecting a slowing demand from a weakening industrial activity due to price increases, and mild weather this Autumn. Compared to before the pandemic though, gas in Europe is priced 10 times higher, electricity in Italy 4 times higher (as of October 18, 2022). Corn, wheat, and soy oil keep on increasing, and among metal commodities nickel and cobalt prices are strongly pressured, molybdenum also rises being a critical raw material in the energy transition.

If leading indicators all signal a slower economic cycle, the assessment of the current state of the economy is made difficult by high uncertainty, (sometimes) diverging expectations from final data, averages hiding growing asymmetries across firms. To measure such patchy impacts and recoveries, an analysis of Lombardia firms' positioning on international markets might give some pointers. To this end, we explored and compared sectorial export performance (by Istat) with world trade data (by International Trade Committee).

EXECUTIVE SUMMARY

That in 2021 exports from Lombardia bounced by 19.1% on 2020 and exceeded pre-pandemic levels is known. However, the recovery on 2019 is lower than potential trade: +6.6% the final performance, compared to an estimated +8.9% pre-Covid market shares being equal.

First, such gap suggests a modified export structure compared to global demand, in which some sectors towards some countries lost and gained market shares.

Second, the overall result gives the cue for a deeper assessment of sector performance. Among the most dynamic in recovering 2019 levels in 2021 and also in the first half of 2022, perform above potential Food (+13.8% exports vs +8.5% potential trade in 2021-2019) and Electronics (+12.7% vs +4.6%); good is also the result of Electrical appliances (+11.8% vs +10.5%). The opposite, despite the positive trends recorded in 2021 and 2022, Metals (17.7% exports vs +19.3% the potential in 2021-2019) and Chemicals (+12.7% vs +15.5%) perform slightly below potential; Rubber-plastics records a large gap (+9.1% vs +18.5%), as also Wood-furniture (+4.3% vs +10.8%).

Automotive deserves a special comment, as in 2021 its exports hit +2% above 2019 levels, over-performing their potential, estimated negative at -9.1%, at least in part thanks to high flexibility and ability to change the geography of sales, regardless of the structural complexities the sector is facing (which instead highly affected a large exporter like Germany). However, in the first six months of 2022 Lombard automotive under-performs its pre-Covid, due to the comparison with a particularly positive first semester of 2019.

Among less dynamic sectors in terms of export recovery on 2019 levels, Pharmaceuticals perform below potential (+0.7% vs +25.4%), affected by a weak performance in 2021; Fashion performs better (+0.4% vs -1%), influenced by a 'delayed' recovery but an acceleration in 2022 thanks to the uptick in the demand for luxury goods, hence Made in Italy products. Finally, Machinery is the only sector not to close the gap with pre-Covid in 2021, recording a positive balance in the first half of 2022 instead (+4.1% on S1 2019).





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