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Booklet Economia

Lombardy in comparison with Italian and European benchmarks

Edited by

Research Department

N° 70/November 2022

Issued on November 22, 2022, data as of November 21, 2022.

EXECUTIVE SUMMARY

Lombardia's manufacturing markedly slows down in the Summer and especially in Autumn, yet showing more resilience than Italy, at a standstill. Services buck the downward trend. Uncertainty further undermines expectations, with price tensions especially on the gas market, as in Europe it tumbles to an average of 115 €MW/h, but remains 10 times pricier than before Covid. Lombardia, as well as Italy, is projected to decline in the last part of 2022 and in the beginning of 2023, although modestly and only temporarily. The key variable is demand, with is cooling.

Growth projections for this year and the next factor in all these elements. In 2022 Lombardia is to grow by +3.9%, more than the national average (+3.4%). This allows the region to fully recover the ground lost in 2020, setting at +1.8% in 2022 on 2019 levels. Among sectors, the regional industry falls short of closing its gap with 2019 (-0.2% in value added), due to stronger pressures from surging costs and subdued international demand, as it is the case for agriculture (-2.4%), whereas constructions ostensibly grow (+30.1%) together with services and trade (+1.0%).
Forecasts for 2023 undergo downward revisions. In Lombardia GDP will increase by as little as +0.3%, in Italy by +0.1%. Underneath the gross regional number is the contraction in value added of industry (-1.0%) and agriculture (-0.5%), against the growth both of construction (+1.2%) and services and trade (+0.5%).

That the industrial sector is losing momentum is visible in the final data for the third quarter of 2022. After a first half of the year of robust acceleration, industrial production grows by +0.4% on the second quarter 2022 and by +4.8% on the third quarter 2021, however the pace is slower than in previous periods. Lombardy progresses, while Italy halts (+0.1% the increase in production compared to the same quarter last year).
Anyhow, Lombardia's manufacturing activity is by +11.3% higher than before the pandemic, Italy's by +2.4%, and in both cases there remains a large difference from Germany (-3.7%) and France (-2.7%).

Furthermore, according to the latest surveys, worries grow about insufficient demand, hindering current production in the case of 16% of manufacturing firms in the North-West, a share never been higher over the past 18 months. At the same time, tensions on supply chain start easing. The share of firms not having enough materials and equipment decreases to 12% in the third quarter (after peaking at 23% in the first quarter and 16% in the second).

More recently, in October sentiment confirms the slowdown. Manufacturing confidence in Lombardia and the North-West further decreases for the fourth consecutive month, and reaches January 2021 lows. Order books shrink, stocks of finished goods pile up, yet production expectations improve. As to services, confidence in October picks up, however short-term demand expectations remain subdued. Households suffer the most: consumer confidence plummets to the lowest since May 2020 in the North-West (since May 2013 in Italy), reflecting a worsening personal component (to a larger extent than the economic component) and current climate (more than expectations).

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