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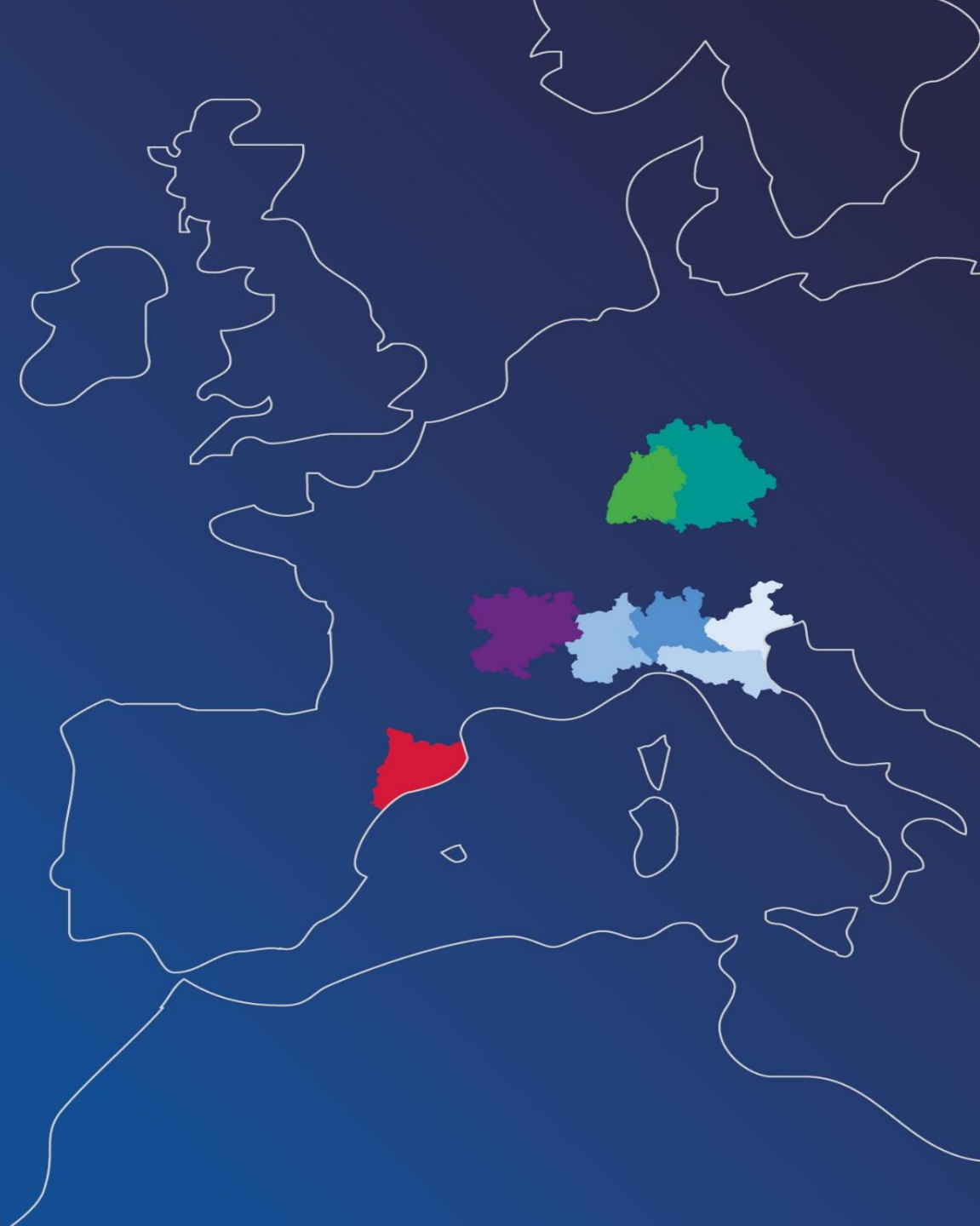
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Lombardy in comparison with Italian
and European benchmarks

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EXECUTIVE SUMMARY

Lombardy's better-than-expected growth until September comes also due to exports' year-on-year increase in the third quarter, still solid though losing momentum compared to previous periods. In the same quarter, labor market figures further improve, although not enough to close the employment gap with pre-Covid.

Readings for the current quarter meet a sustained weakening of the economic cycle, as manufacturers' order books decline for the fifth consecutive month in November. Nevertheless, over the last month short-term expectations rebound, but set at lower average levels than in the first half of the year. Services record similar demand-side trends, with a worsening current climate while at the same time improving expectations. Uncertainty is the only certainty, especially in the industrial sector.

More in detail, according to sentiment surveys run in Lombardy and the North-West in November, demand assessments further worsen among manufacturers, since summer flickering around early-2021 lows, with domestic and especially foreign components declining. Furthermore, stocks of finished goods rise above normal levels. The opposite, there is a first uptick in production expectations in 3 months, with a subsequent improvement in the overall climate index. Nevertheless, in the North-West and in Italy, as well as in the main European benchmarks, the confidence climate has never been lower since end-2020/start-2021.

Moreover, to an even larger extent among industrial operators than among business services and ICT providers, there is a widespread and dire difficulty in forecasting their own business prospects, with Istat's uncertainty index readings in November settling just below the historic peaks reached at the onset of the Ukraine war.

Among the main volatility drivers and risk factors is the current rebound in gas prices: after a mild Autumn and prices plummeting between beginning of September and mid-November, in the past few weeks European gas prices have bounced back up to levels 40% higher than last-month lows (97.9 €/MWh on November 11, 2022) and 12 times the pre-Covid (137.5 €/MWh on December 13, 2022, compared to the average of 11.2 €/MWh in January 2020).

As to exports, in Lombardy annual growth to the third quarter dims compared to the first half of the year, but remains solid (+18.5% year-on-year), reflecting the competitiveness on international markets and the increase in prices needed to face the unprecedented and widespread spikes in industrial inputs and commodity prices. In the first 9 months of 2022, according to preliminary data Lombardy exported a record 120 billion euro, +20.5% on 2021 (+27% on 2019): a performance in line with Italy (+21.2%), but better than the main national benchmarks (+16.9% Emilia-Romagna, +17.5% Veneto, +18.1% Piemonte) and European peers (+12.5% Bayern, +15% Auvergne Rhône-Alpes, +17.3% Cataluña).

In Lombardy, top contributors to the results achieved in January-September are electronics (+28.8% year-on-year), metals (+27.7%), chemicals (+22.6%) and fashion (+26%). Automotive is the only sector in red (-1.5%). Growth is widespread across destination markets: +21.3% exports to the EU (especially, +28.4% Spain, +24.1% Germany) and +19.6% to non-EU countries (especially, +37.5% the United States, +33.2% Switzerland).

Finally, Lombardy counts 52,000 persons employed more in the third quarter than in 2021 and, at the same time, the unemployed and the inactive further decrease (-33,000 and -25,000 respectively). The other side of the labor market recovery is a persistent gap with pre-Covid levels: relative to the third quarter of 2019, still are missing 20,000 persons employed and, while there are fewer persons unemployed (-19,000), the inactive are still 27,000 more. In addition, more recently, CIG hours have started to increase again, up to 8 million authorized hours in October, 28% more than in September.





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