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Lombardy in comparison with Italian and European benchmarks

Edited by
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EXECUTIVE SUMMARY

The year 2023 has been strongly affected by international geopolitical tensions and weakening global economic growth, with trade reduced due to a progressive reduction in demand. The global slowdown, particularly in Europe and Germany, inevitably affected the dynamics of Italy and Lombardy, which stood out compared to its main competitors for greater resilience. As a result, at the end of 2023, Italy turns out to have a GDP that is +3.0% higher than before the pandemic, and Lombardy is at +5.5% according to our most recent estimates, thanks to the faster and more robust recovery recorded in the previous two years. Lombardy's pace of growth also clearly distances the benchmark European regions: we estimate Catalonia at +1.1%, Bayern at +0.4%, and Baden-Württemberg still -1.0% below compared to 2019.

The deceleration experienced in 2023 is expected to continue in 2024, with growth prospects of +0.6% for Lombardy's GDP and +0.4% for Italy (Prometeia forecasts), the former in line and the latter slightly below the European average of +0.6%.

On the employment side, estimates for Lombardy report a full recovery in the number of employed in 2023 compared to 2019 (+0.9%), while hours worked had already closed the gap in 2022, and the growth in 2023 over pre-pandemic levels is at +2.8%. The forecast for 2024 is for further expansion, with employment expected to rise by +1.7% and hours worked by +3.3%, again compared to pre-Covid.

The forecast scenario at the macro level is confronted with still quite heterogeneous expectations for 2024 on the part of businesses at the micro level. Of the 400 Assolombarda companies that participated in the January flash survey, 38.9% expect the economic situation to be almost stable between the current year and the just-ended year, 29.7% foresee a worsening, and 26.4% a positive development. Compared to the previous survey, the share of those expecting a picture in line with the recent past has expanded.

The most recent business confidence indicators provided by Istat confirm the loss of tone in manufacturing activity at the end of last year and underline still-reduced demand expectations at the start of 2024 both in industry and, to a lesser extent, in services. Specifically, manufacturing sentiment in the Northwest in December is down again; backlog orders are roughly stable, finished goods inventories decline from the previous month but remain high in historical comparison, while production expectations for the next 3-4 months deteriorate sharply, to the lowest since November 2020.

In contrast, services in the Northwest record an increase in confidence for the second consecutive month: at the end of 2023, the balance on business performance is at its highest since June 2022, and orders are growing markedly; however, the still positive forecasts on orders and demand for the short term are downgraded.

Similarly, in December the composite confidence indicators for manufacturing remain negative at the national level and in leading European benchmarks, such as Germany, France and Spain, while services' confidence is positive and rising, except France, which records a decline and thus remains the only one below zero.

Among the factors that have marked 2023, and that will also be relevant in the future, high inflationary dynamics and the consequent restrictive monetary policies emerge, with apparent effects on business loans: as of September 2023, there is a sharp contraction in credit disbursed to Lombardy businesses (-6.1% per year), the highest in ten years. Breaking down the total trend by size, loans to entities with fewer than 20 employees decreased by -9.0% from a year earlier, and a -5.7% is observed for the others. In detail by sector, loans fell -7.6% in manufacturing, -6.1% in construction, and -5.1% in services.
These figures are consistent with the indications provided by Assolombarda member firms in the January survey: most respondents report less favourable (39.9%) or constant (39.9%) credit access conditions in the second of 2023 compared to the previous six months, during which initial contractions had already been recorded anyway. Among those who indicated a worsened situation, 84.4% believed higher rates were the most significant penalty. Concerning expectations for the semester that has just begun, more than half of the sample, namely the 56.4%, expect conditions to be in line with the previous period, and only 12.7% foresee a further worsening; regarding this second scenario, the obstacle of increased interest rates (indicated by 49.0%) is flanked by fears about the amount of credit disbursed (45.1%) and the guarantees required (37.3%).

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