



ASSOLOMBARDA

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Lombardy in comparison with Italian
and European benchmarks

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EXECUTIVE SUMMARY

Russia's invasion of Ukraine drives up tensions and uncertainty, and the economic picture is increasingly mixed, showing criticalities and countertrend - or anyway difficult-to-interpret - elements. Until March confidence indicators largely painted a picture of resilient manufacturing demand in Lombardia and the North-West (a common trait to Istat's estimated contraction of Italian GDP in the first quarter, a weak -0.2%). However, order books' growth slows down, bottoming to its lowest since mid-2021. At the same time, demand and production expectations, which abruptly shrank in March in reaction to the conflict, grow in April but at the slowest pace since February 2021.

Fundamentally, the economy rests on deep instabilities: the enduring pandemic, evident in Shanghai's recent dramatic lockdown, the surge in commodity prices, inflationary pressures, global supply-chain reshuffling challenges. Duration and intensity of supply tensions, together with trends in consumer spending, are the main factors that today and over the next months might dent the recovery.

Even before the conflict firms faced complex challenges. According to the latest survey, in the first quarter of 2022 1 in 2 firms in Lombardia and the North-West declared being hampered by obstacles to production. The headline figure is no news, it has been the tune since the pandemic started, however the issue today is that the main obstacle isn't demand, as in 2020, but input shortages that make it difficult to program production. 1 in 4 industrial businesses laments insufficient materials and equipment (it was 1 in 100 before Covid), a situation so detrimental to stock levels that 1 in 6 firms indicates a below-normal level of raw materials and semi-finished goods (the highest ratio ever in the survey's 30-year-long time series).

Taken together, these figures drag Lombardia's GDP estimates for 2022 markedly down: from +4% foreshadowed in January to +2.6% today (source: Prometeia), as the war and the price shocks together inflict a -1.4 p.p. blow to regional growth this year. Despite such relevant revision, Lombardia shall still close the gap with pre-Covid levels by year-end, earlier than Italy (delayed to 2023).

Consider that in the two years of the pandemic, Lombardia first recessed as much as Italy, with GDP plummeting by 8.9% in 2020 (-9.0% Italy), then recovered more speedily, bouncing up by 7.0% (vs +6.6% Italy). Nevertheless, end of 2021 the gap with 2019 was still -2.5%, though smaller than Italy's -3.0%. An economic gloom common to other European regions, though at different intensities: last year Baden-Württemberg was roughly as below pre-Covid levels as Lombardia (-2.2%), Bayern to a lesser extent (-1.4%) and Cataluña to a much larger one (-6.6%). As to recovery times, assuming regions follow the same growth trajectory over the next two years as their respective countries, Bayern is also expected to close the gap with 2019 GDP levels in 2022 in line with Lombardia, Baden-Württemberg in 2023 and Cataluña even later.

EXECUTIVE SUMMARY

GDP recovery is decoupled from that of employment, expected back to pre-Covid levels no sooner than 2023 (source: Prometeia). With a drop by -3.1% in 2020, a weak +0.4% in 2021 and a forecast of +1.0% in 2022, as of this year-end there will still be 76,000 fewer persons employed in Lombardia than in 2019. Dim is the unemployment outlook, as the unemployment rate hits 5.9% in 2021 in Lombardia (up from 5.2% in 2020), and it looks particularly dire for the young, having the pandemic added percentage points to an already high unemployment rate in the European comparison. The 15-24 year-old unemployment rate is up to 21.2% in 2021 (from 19.4% in 2020, and also 18.3% in 2019), around +15 p.p. higher than Bayern and Baden-Württemberg's 5.7% though largely lower than Cataluña's dramatic 28.9%.





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