ASSOLOMBARDA

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Lombardy in comparison with Italian and European benchmarks

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EXECUTIVE SUMMARY

Based on available data, fallout from the war in Ukraine does not grip Lombardia's production and exports until March 2022, albeit in the context of a business cycle that has been weakening since end of last year due to continuing supply chain chokeholds and high energy prices.
Between April and May, instead, the war starts taking its toll, primarily on both demand and production expectations, but also on order books. Moreover, commodity prices have been recently diminishing after leaping to new peaks following the conflict, but they are lingering on historically high levels and are extremely volatile, amplifying firms' risk management issues – together with the significant appreciation of the dollar against the euro.

According to statistics, in Lombardia industrial production's growth slows down in the first quarter of 2022, however it is still robust and +10.7% higher than a year ago. Lombardia's industry thus continues to stand out in Europe, hitting +9.5% on pre-Covid levels (Italy records +1.0%), whereas Spain (-1.2%), France (-3.9%) and Germany (-4.0%) lag. Furthermore, in Lombardia between January and March 2022 all sectors grow, some substantially, and particularly noticeable is the recovery in Fashion, that had been languishing so far: +29.0% leather and footwear in the first quarter of the year compared to 2021, +27.6% wearing apparel, +22.8% textiles.

Between January and March 2022 Lombardia's exports hit 38.4 billion euros, a new high that marks +23.6% on the same period in 2021 and that alone contributes 6.2 percentage points to Italian exports' year-on-year growth (+22.9%). Lombardia's foreign sales in value are 22.6% higher than in 2019 and, while seeing their exports gradually growing back to pre-pandemic levels, no benchmark region can match (+18.3% Cataluña, +17.5% Baden-Württemberg, +8.9% Auvergne Rhône Alpes, as little as +3.6% Bayern).
More in detail, in the first quarter of the year in Lombardia all manufacturing sectors expand relative to 2021 levels. Many sectors record a further increase in exports, thus continuing along the growth trajectory taken up last year, and especially dynamic are metals (+39.2% in January-March 2022 on 2021), fashion (+35.7%) and chemicals (+26.6%). Other sectors still below pre-pandemic levels last year have now caught up. Machinery is one example, at -1.4% on 2019 levels in 2021 and achieving +1.7% in the first quarter of 2022 on the same period in 2019; another is petroleum products, standing at -7.6% in 2021 and now leaping to +23.9% (in the latter case, a performance driven also by the spike in commodity prices).

The latest business surveys suggest the economy is losing momentum. Manufacturing confidence in Lombardia and the North-West drops for the sixth consecutive month in May (most markedly from March onwards): assessments on order books dwindle, though remaining on historically high levels at the moment, and most noticeably short-term production and demand expectations deteriorate. In May, order books diminish in France, Spain and Germany as well.
The war is hitting households and consumers too, as confidence decreases in March and April and only partially recovers in May, burdened by strong concerns about the general context (while the personal component stays put all in all). Services confidence in the North-West improves instead, boosted by demand (at its highest since last November).

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Finally, in 2022, the recovery in employment strengthens for the fourth consecutive quarter, with +133,000 persons employed in the first quarter compared to 2021. At the same time, the unemployed (-54,000) and especially the inactive (-96,000) decrease, highlighting the gradual improvement in labor market conditions. The unemployment rate thus drops to 5.9% in Lombardia (from 6.9% in the first quarter of 2021), similarly to what recorded in the European benchmark regions. Compared to the first quarter of 2019, Lombardia however still records a wide gap of -82,000 in the number of the employed, against -45,000 persons unemployed and +131,000 persons outside the labor force. Most recent evidence from CIG (the redundancy fund) take-up rates shows similar tendencies, falling to 7 million authorized hours in April, the lowest since the outburst of the pandemic, but still 3 times the amount in January 2020 before Covid.

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