ASSOLOMBARDA

Booklet Economia

Lombardy in comparison with Italian and European benchmarks

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N° 79/September 2023

Issued on Septembrer 22, 2023, data as of September 15, 2023.

EXECUTIVE SUMMARY

The gradual deterioration of the 2023 economic outlook is reflected in the indications gathered in early September through the ‘Assolombarda Business Sentiment Flash Survey’. According to half of the respondents (51%), the trend of Lombardy's economy between July and September is in line with that of the second quarter, already in deceleration, and 36% report a worsening picture; only 10% believe the situation is improving. For the fourth quarter, a sentiment of stability (46%) or tightening (36%) of the economic environment compared to the current quarter prevails as well; 15% expect, instead, a positive trend.
Looking ahead, expectations about the performance of the Lombard economy in 2024 remain uncertain, with an even distribution between those who expect a more favourable picture than in 2023 (31%), those who foresee a worse situation (30%) and those who predict stability (29%).

Data on the second quarter of 2023 already show a weakening of Lombardy's manufacturing sector, whose performance stays, albeit slightly, positive: the production level remains close to that of April-June 2022, with a minimal increase of +0.5%. Also in the quarterly comparison, regional manufacturing growth is nearly zero (+0.3%). In contrast, a year-on-year fall is recorded in Italy (-3.3%) and, among European benchmarks, Spain (-1.3%).
In Lombardy, the sectors recording an increase in production are transport equipment (+13.4%), leather-footwear (+8.6%), clothing (+5.8%), food (+2.8%) and mechanics (+1.7%), while textiles experience the sharpest drop (-6.9%).

The spring deceleration is particularly evident in international markets. Indeed, between April and June, Lombardy's and Italian exports decreased by -0.9% and -1.0% compared to the second quarter of 2022; however, the trend changes on a six-month basis remain positive, with Lombard exports between January and June 2023 marking +3.5% YoY (+4.2% for Italy). Compared to benchmark regions, the contraction of regional exports in the second quarter is less marked than in Veneto (-2.1%) and Baden-Württemberg (-9.3%), while the other register positive changes (Emilia-Romagna +2.8%; Piemonte +14.6%; Bayern +9.0%; Catalonia +7.6%; Rhône-Alpes +0.6%).
At the sectoral level, the yearly change in the second quarter is negative for rubber plastics (-5.6%), chemicals (-11.2%), metals (-12.3%) and wood (-14.5%). Among destination countries, trade with European partners declined by -5.7 % in the second quarter compared to the corresponding period in 2022 (the change was +3.3% in the first quarter). In particular, Germany collapsed (-12.0%), and Spain (-4.7%), Poland (-3.6%) and the Netherlands (-3.1%) fell noticeably. In contrast, exports to non-EU markets increased by +4.8% compared to April-June 2022, although slower than the +15.0% marked in the previous quarter. Among non-European destinations, Switzerland (+14.4%) and Turkey (+9.3%) recorded the most relevant expansions.

The ongoing slowdown also emerges from Istat qualitative surveys, which reveal a decline in manufacturing confidence in the Northwest for the fifth consecutive month in August. Backlog orders have sunk, and production expectations have deteriorated, returning to negative levels for the first time since September 2022; finished goods inventories, on the other hand, have remained almost stable. The index also fell in Italy, Germany and France, while Spain bucks the trend.

By contrast, the services confidence index in the Northwest has grown for the second month in a row: firms reported more favorable business trends, and the balance on orders has risen sharply, while demand-side forecasts for the next 3-4 months have slightly decreased. Looking at benchmarks, the index has descended in Italy, Germany, and France while remaining stable in Spain.

In the labour market, between April and June, the number of employed people in Lombardy increased for the ninth consecutive quarter (+36 thousand compared to the corresponding period in 2022), bringing the employment rate to 68.8% (it was 68.3% a year earlier), above Italy (61.6%) and Piedmont (68.0%), but below Emilia-Romagna (70.9%) and Veneto (71.6%).

At the same time, the amount of unemployed (-24,000) and inactive (-22,000) fell, with the unemployment rate thus dropping to 4.5% (from 5.0% in the second quarter of 2022) and remaining above only Veneto's 4.2%. Compared to pre-Covid, the balance of employed people remains positive (+6 thousand compared with the second quarter of 2019), the decline in the unemployed (-30 thousand) is smoothed out, and the differential in the inactive shrinks to +10 thousand.

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