



ASSOLOMBARDA

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Lombardy in comparison with Italian
and European benchmarks

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EXECUTIVE SUMMARY

The slowdown in Lombardy's manufacturing intensified between July and September, with contracting production levels and foreign sales, bearing the brunt of the further cooling of global (weighed down mainly by weakness in European markets, particularly Germany) and domestic demand. According to indications emerging from the most recent business surveys, the economic situation remains deteriorated in the latter part of the year, but expectations for the start of 2024 are slightly improving in both industry and services. The labor market is holding up, however, with employment continuing to climb and unemployment levels comparable to the most performing German benchmarks.

Specifically, between July and September, Lombardy's manufacturing output dropped by -0.7% compared to the previous quarter, and the contraction is even sharper in the year-on-year comparison, with an annual change of -1.5%, the first negative since early 2021. The regional industry's slowdown is part of a national picture affected by a much sharper setback (-2.6% in a year); among European benchmarks, Germany (-1.9 %) and Spain (-0.5%) are also in the negative. In the detail of regional sectors, on the one hand, electronic apparel (+9.6 %yearly), food (+1.2%), transportation equipment (+0.5%) and chemical-pharmaceuticals (+0.4%) distance themselves from the general dynamic; on the other, the most marked contractions affect textiles (-9.4%), paper-printing (-7.3%) and steel (-6.2%).

The third quarter has also been affected by a sharp slowdown in sales in international markets. Lombardy's exports fell by -2.8% annually, still less than the national -4.6%; among the benchmark regions, Emilia-Romagna and Piemonte (both -1.1%), Veneto (-3.5%), Rhône-Alpes (-3.3%) and Baden-Württemberg (-12.1%) also tracked negative dynamics. The backwardness is spread to most manufacturing sectors, and, in particular, the declines in petroleum products (-80.4%), metals (-10.0%) and chemicals (-9.1%) have most contributed to the negative regional variation; however, the dynamics in these sectors are also influenced by the comparison with robust export data in the third quarter of last year. Looking at destination countries, the decline in sales mainly affects European markets (-5.1%) and, in particular, Germany (-10.9%), Spain (-5.5%) and France (-1.6%). An initial, slight contraction is also registered for the non-EU (-0.3%), among which the most pronounced changes concern Switzerland (-13.5%) and the United States (-3.6%).

Still, the balance of the first nine months of 2023 remains positive: the decisive growth in the first quarter, stagnation in the second and backwardness in the third result in an increase in exports of +1.6% between January and September. Expanding sectors include, in order of contribution, mechanics (+7.4%), fashion (+0.7%), other manufacturing including design (+13.0%), automotive (+9.4%), food (+7,8%), pharmaceuticals (+6,8%), electronic apparel (+4,7%) and electronics (+3,1%).

The slowdown in the economic picture is accompanied by still positive signs from the labour market. In the third quarter of 2023, the number of employed people in Lombardy increased again (+96 thousand compared to a year earlier), the number of unemployed people dropped further (-56 thousand), and the number of inactive people dropped (-39 thousand). As a result, the employment rate rose to 69.3% (from 68.1% in 2022) and the unemployment rate fell to 3.5% (from 4.7% in 2022), thus becoming the lowest among the benchmark Italian regions and on the levels of the German regions for the first time since the 2008 crisis (3.4% Bayern in Q3 2023, 4.0% Baden-Württemberg).

More recently, manufacturing sentiment in the Northwest remains largely negative in November, albeit with a slight uptick; in particular, expectations about orders for the next 3-4 months rise and production expectations turn positive again, while judgments about the current situation remain below zero. Also, inventories of finished goods have risen to the highest levels since August 2020.

A more pronounced climb affects service confidence in the Northwest, which has never turned negative in the past 12 months: more favourable business trends are accompanied by current orders becoming positive again and growth in demand-side prospects.

Consumer confidence in the Northwest also returned to a sustained increase in November, more than in Italy, with an improvement in current and future sentiment, particularly concerning one's family situation.





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