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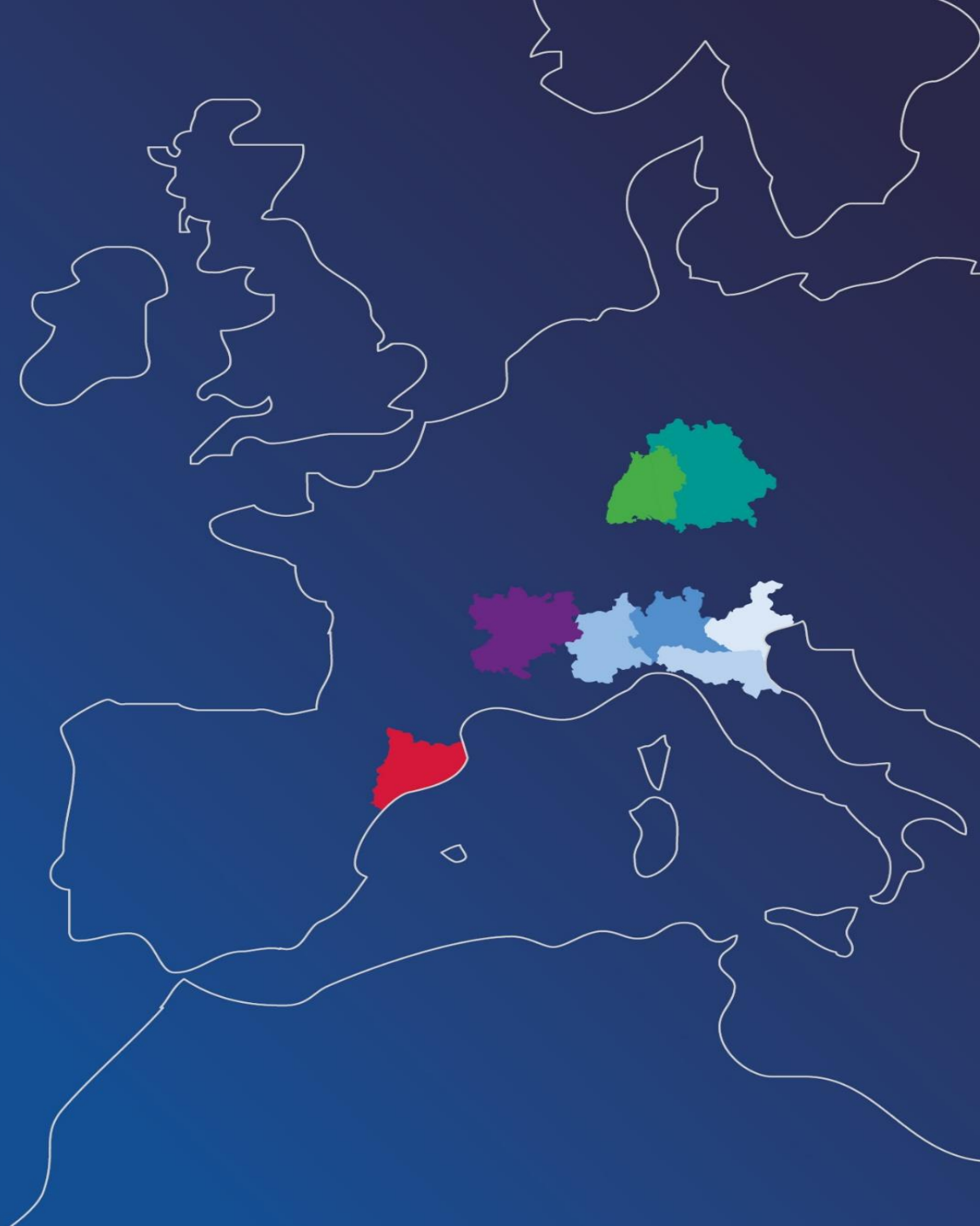
Booklet Economia

Lombardy in comparison with Italian
and European benchmarks

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EXECUTIVE SUMMARY

An accurate sectorial analysis is called for in the current economic outlook, given the extent to which trends and perspectives differ and depend on exogenous factors. First, manufacturing. Until March 2022, industrial firms in Lombardia seem largely untouched by the geopolitical instability caused by the war in Ukraine. In the first quarter of 2022, manufacturing production grows by 10.7% year-on-year, an increase still widespread across all sectors, though smaller than in previous quarters. Based on the latest business surveys instead, between April and June the 'war shock' shows. In the North-West and Lombardia demand and production expectations shrink together with order books. More in detail, demand drops to its lowest reading since June last year, though remaining high by historical standards (last 12 months excluded), order books in June 2022 are the highest on record since mid-2007.

Lombard and Italian manufacturers still suffer first and foremost from high raw materials and semi-finished goods prices despite recent downward trends (reflecting in part a shrinking international demand) and spikes in energy prices. Russian supply plummeting in the past few days reignited tensions on the gas market, which trades at 160 €/MWh (as of 15 July 2022), a noticeable increase from 11.2 €/MWh in January 2020. Such boost feeds into the surging electric energy National Single Price, which soars to 463 €/MWh (as of 18 July 2022), 10 times the level at the beginning of 2020. Brent oil instead seems to be cooling after having grown since mid-2020 but remains volatile (101\$ the barrel as of 15 July 2022, +59% compared to January 2020).

Other commodities instead fall to pre-war levels (January-February 2022): it's the case for nickel, sunflower oil, and soy oil. Others markedly retreat: trading at its minimum since December 2021 is aluminum, since October 2021 urea for fertilizers, since February 2021 copper and since January 2021 steel. Anyway, all cost more than before the pandemic: +265% urea for fertilizers, +101% soy oil, +82% sunflower oil, +82% wood, +58% steel, +56% nickel, +45% aluminum, +37% zinc, +28% copper.

Cereals are another story: corn prices rise to +100% on pre-Covid levels (as of 14 July 2022), whereas wheat, which retreated between June and mid-July, is still above pre-conflict levels and +56% pricier than pre-Covid.

In the case of Lombard and Italian firms, these developments partly depend also on the strong appreciation of the dollar to the euro, considering that most commodities trade in that currency and the euro fell below dollar parity (tanking to its lowest level since December 2002). Still, it has to be mentioned that a weak euro supports firms exporting to the United States.

Finally, supply chain (logistics) chokeholds endure. Between April and June 27% of manufacturing firms in the North-West have difficulties in exporting due to 'prices and costs' (a percentage double compared to before the pandemic) and 17% due to longer delivery times (five times more than pre-Covid). Container and dry bulk sea freight costs, although below mid-March and May peaks respectively, are still well above beginning of 2020 levels: +312% and +213% respectively.

All these factors cast a shadow on the manufacturing outlook for the upcoming Autumn and Winter months.

EXECUTIVE SUMMARY

Coming now to services. In the North-West and Lombardia the confidence climate sensibly improves in June thanks to containment measures easing, demand peaking at its highest reading since November 2021 and rising expectations for the Summer months. Google mobility data concerning shopping and retail suggest caution though: from mid-June until the first week of July mobility in Lombardia fell as much as 13% below 2020 levels, as much as 20% in Milano. Certainly summer holidays have their impact, however it goes to show some sub-sectors are not back to normal and, most likely, recent Covid upticks are taking their toll.

Adding to uncertainty and risks hindering the short-term economic outlook, household and consumer confidence drops in June to its lowest reading since beginning of 2021. In the North-West all variables deteriorate, especially the economic and current components. Households worry about surging inflation, which in June stands at +8% on annual basis (Italian consumer price index for the whole nation – NIC). Inflationary pressures are even higher in Milano, where the rate of change is +9% on an annual basis in June, an extraordinary high increase even when excluding energy and unprocessed food (+5% core inflation).





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