



ASSOLOMBARDA

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Lombardy in comparison with Italian
and European benchmarks

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EXECUTIVE SUMMARY

Lombardia's economy in comparison with European and Italian benchmark regions

The Russian-Ukraine conflict cripples European and global economic recovery. The situation remains highly fluid and quantifying spillovers to Italy and Lombardia difficult: length and outcome of the war are subject to uncertainty, the impact of ever-broadening economic and financial sanctions is too early to assess, energy and commodity prices are highly volatile, new logistics constraints add to supply chain bottlenecks.

The one certainty is that Lombardia's economic performance is in jeopardy, after impressive 2021 numbers (+6.6% GDP) and extraordinary firm competitiveness, especially in the industry sector, as exports last year hit an all-time high at 136 billion euros despite the pandemic.

Our pre-conflict January estimates projected regional GDP to grow by 4.0% in 2022, allowing for a full return to 2019 levels, i.e. filling the gap of 2.9% on pre-Covid still open in 2021 year-end. Most likely these estimates will be cut, consequently delaying and depressing the recovery.

War-propagation channels to the real economy are essentially four: trade links with countries involved in the conflict, energy and commodities price shocks, uncertainty to households and businesses decisions, financial interlinkages.

First, direct trade links. The impact is overall limited on the export front: Russia absorbs 1.6% of regional annual foreign sales and Ukraine another 0.4%. However, there is variability across sectors, with Lombardia's key exporting sectors most exposed: machinery (2.7% the weight of Russia on total regional exports), fashion (2.4%) and chemicals (2.1%). Similarly, there are differences across provinces, reflecting local specializations. At the extremes are Milano (2.1% exports to Russia on the city total) and Lodi (0.4%). It has however to be noted that aggregate averages might hide more significant single-firm exposures and that there are many Italian multinational firms in Russia (660) and Ukraine (80).

Second, still considering trade linkages, there are also indirect consequences on supplies, both in terms of availability (as delivery times increase) and in terms of raw-materials prices, adding to pressures from the rebound from Covid-19.

Third, there is uncertainty, a variable as much difficult to forecast and quantify as detrimental to firms' investment plans (among the most dynamic GDP components last year) and household consumption decisions.

Last but not least, there is the financial transmission channel: from the ruble sinking to Russian banks and their impact on the international banking system...

The current complexity is the new background of a still weak labor market. Pandemic trends reversed in 2021, as the number of the employed increased (+17,000 persons, a growth mostly due to the female component) and the inactive decreased (-65,000), yet the gap with pre-Covid levels remains large. There are still 19,000 fewer persons employed in 2021 compared to 2019, 6,000 more persons unemployed and the inactive increased by 15,000. Considering macro-sectors, construction is above pre-Covid levels (+25,000 persons employed) as also agriculture (+11,000), however other services (-84,000), industry (-42,000), trade, accommodation and food services (-30,000) are still well below. Besides, the employment gap in 2021 on 2019 in -2.7% in Lombardia, much larger than in Emilia-Romagna (-2.3%) and Piemonte (-2.5%), though smaller than in Veneto (-3.4%).





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