

# Monthly Economic Update

November 30th, 2017

Nº 6



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## NEWS IN CHILE

Former president Sebastian Piñera easily won the first round of voting in the presidential election on November 19<sup>th</sup>, and will now face Senator Alejandro Guillier, the main government candidate, in the run-off vote on December 17<sup>th</sup>.

But it was not the incontestable victory predicted by pollsters who had forecast a lead of more than 20 points. Instead, the Chile Vamos candidate lost significant numbers of vote to the right-wing independent Jose Antonio Kast.

Meanwhile, the battle for second place was much closer than many expected after Beatriz Sanchez of the left-wing Frente Amplio coalition took more than 20% of the vote, more than the double assigned to her in the latest polls.

To win the second round, both candidates will need to ensure their own supporters turn out (participation fell to a record low of 46.7%, down from 49.3% in 2013) and attract voters who initially favoured other candidates.

While attracting endorsements from Kast and Manuel Jose Ossandón, his closest rival in the primaries, Piñera is seeking to attract voters from the political centre, proposing to expand free higher education to students who want to follow courses at technical colleges.

Meanwhile, Guillier's main challenge is to convince those who voted for Sanchez to join his cause. To do so, he has adopted some of her policies, including the forgiveness of student debt.

Whoever wins in December will face a deeply divided Congress, the first to be elected under the new proportional representation system.

Although Chile Vamos will be the largest bloc in the Chamber of Deputies, its 73 seats is less than even a simple majority, meaning a Piñera government would have to reach agreements with lawmakers from other blocs to pass any legislation. A Guillier administration (with just 43 seats) would be even more reliant on support from either Chile Vamos or Frente Amplio's 20 deputies.

In November, President Bachelet signed into law legislation taking control of public schools away from municipalities, a central part of the government's education program. Together with the restrictions placed on subsidized

## RESULTS OF THE FIRST ROUND OF VOTING IN PRESIDENTIAL ELECTION

CANDIDATE	REPRESENTING	NUMBER OF VOTES	PERCENTAGE
SEBASTIAN PIÑERA	CHILE VAMOS	2,416,052	36.64%
ALEJANDRO GUILLIER	FUERZA DE LA MAYORÍA	1,496,560	22.70%
BEATRIZ SANCHEZ	FRENTE AMPLIO	1,336,621	20.27%
JOSE ANTONIO KAST	INDEPENDENT	522,946	7.93%
CAROLINA GOIC	CHRISTIAN DEMOCRATS	387,664	5.88%
MARCO E.-OMINAMI	PROGRESSIVE PARTY	376,406	5.71%
EDUARDO ARTES	UNION PATRIÓTICA	33,755	0.51%
ALEJANDRO NAVARRO	MOV. AMPLIO SOCIAL	24,015	0.36%

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schools and the increase in teachers' pay, the government hopes the measure will secure a significant improvement in the quality of public education in Chile.

The annual auction to supply electricity to regulated clients awarded contracts at an average price of US\$32.50/MWh, a fall of 32% from the prices set at last year's tender and down from almost US\$130/MWh four years ago. The dramatic fall is the result of the growing participation in Chile's power market of renewable energy projects (especially solar and wind), which won all of the contracts on offer at the contest.

## FINANCIAL INDICATORS

- Economic activity has recovered since the middle of the year, growing by 2.2% in the third quarter, compared to just 0.5% in the first six months of the year. However, after growing by 2.8% in July and 2.4% in August, the economy grew by just 1.3% in September, largely due to weak construction figures. The recovery has been spurred by mining activity which grew 7.6% in the quarter, after contracting by 8.6% in the first half, while non-mining activity grew by just 1.7%.
- Prices rose by 0.6% in October, or 1.9% on an annualized basis, according to the Consumer Price Index, principally due to higher electricity prices. Although it marks the fifth month below the Central Bank's 2%-4% target range, the figure was significantly above market forecasts. Analysts expect inflation to end the year at 1.8%.
- On November 14<sup>th</sup>, the board of the Central Bank voted unanimously to maintain its benchmark interest rate at 2.50% for the sixth consecutive month. Despite the slowing of inflation since the middle of the year, no further moves, up or down, are expected until the middle of 2019. But the Central Bank said that it could act if it sees that convergence towards its target of 3.0% is going to take longer than two years.
- Unemployment averaged 6.7% in the three months to September, down from 7.0% three months earlier, but up from 6.6% in the previous quarter. The fall in unemployment in recent months reflects an increase in jobs creation. However, this appears to be the result of increased government expenditure, rather than the improved economic climate, as the bulk of new positions were in sectors dominated by the public sector, such as education, public administration and healthcare.
- The price of copper has averaged US\$3.10/lb during November, up from US\$3.09/lb in October and US\$2.99/lb in September, on the back of stronger Chinese growth. However, the price has beaten to the four-year high of US\$3.20/lb reached in late October. Experts surveyed by the Chilean Copper Commission in November predicted that the price would average US\$2.92/lb during 2018, up from US\$2.75/lb forecast by the Central Bank in September.
- Piñera's disappointing performance in the first round of the presidential election had a chilling effect on Chile's stock market rally. After hitting a record high of 5,603 points on October 31<sup>st</sup>, the IPSA index of the most-traded stocks on the Santiago Stock Exchange lost more than 10% of its value in November as doubts grew about the outcome of the contest.
- Business confidence improved sharply in October on expectations that Piñera would prevail in the presidential elections. The Monthly Business Confidence Index produced by the Adolfo Ibanez University and business association ICARE reached 48.96 points, its highest level since the current government took office in March 2014. However the index is expected to fall in November following the results of the Congressional and Presidential elections.

## Cámara Chileno Británica de Comercio A.G

Av. El Bosque Norte 0125, Las Condes  
Teléfono: 2370 4106 / Fax: 2370 4164  
info@britcham.cl / [www.britcham.cl](http://www.britcham.cl)

### Economic Committee:

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