

Monthly Economic Update

December 30th, 2019



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EVENTS IN CHILE

The widespread unrest and protests which began last October continued into December but have declined in number and intensity. According to government data, the number of serious incidents declined from a daily average of over 100 in October to 36 in November and 4 in December.

In December, President Sebastián Piñera signed into law legislation to hold a plebiscite on April 26th 2020, asking voters whether they want a new constitution. Voters will also be asked whether the document should be drawn up by a constitutional convention of specially-elected representatives or a mix of representatives and existing lawmakers. The representatives will be chosen during next October's regional and municipal elections. The convention will then have up to 12 months to agree on the text.

In order to bolster economy activity, the government has unveiled a stimulus package worth US\$5.5 billion, combining a one-off bonus worth an average of CLP100,000 (US\$127) for 1.3 million low-income households, support for small businesses and spending on infrastructure projects. The package will

mean that government spending will rise by 9.8% in 2020, the sharpest rise in five years.

Congress passed legislation to increase monthly welfare payments to the elderly poor by 20% to CLP137,551 (around US\$183), benefitting more than 580,000 individuals. Those aged over 85 will see an immediate 50% increase.

On December 11th, lawmakers approved the impeachment of former Interior Minister Andres Chadwick over his handling of the protests, preventing him from holding public office for five years. Several entities including the United Nations Human Rights Office and Human Rights Watch have accused Chilean security forces of committing serious human rights violations during the unrest. Lawmakers rejected a similar motion against President Piñera.

Support for the government has continued to slide with the latest weekly poll by Cadem finding that just 11% of voters approved of President Piñera's performance, while 80% disapproved. The poll also found that close to 90% of voters supported the idea of a new constitution.

ECONOMIC DATA

The economy contracted by 3.4% in October, its sharpest contraction since the global economic crisis more than a decade ago, according to preliminary data. While mining activity expanded by 2.0%, the rest of the economy shrank by 4.0%, driven by falls in retail, manufacturing and services (particularly education, transport and tourism).

Retail sales in Santiago fell by more than 18% in October and November, reflecting the impact of unrest and looting on the sector. The National Retail Chamber said it expected a difficult start to 2020 as unemployment rises, weighing on consumer confidence.

In December, the Central Bank said that it expects the economy to have expanded by just 1.0% in 2019, including a 2.5% contraction during the final three months of the year. The impact of the unrest will extend into 2020 when growth is expected to reach 0.5-1.5%.

The biggest drag on growth will be investment which the Central Bank expects to decline by 4% in 2020 (after rising by an estimated 2.5% in 2019) as businesses react to the increased political uncertainty, higher borrowing

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costs and the slump in the Chilean Peso, all sparked by the unrest.

The Chilean Peso has plummeted against the US Dollar in recent weeks, reaching record levels of almost CLP830/dollar in early December. However, the currency appreciated to around CLP750/dollar after the Central Bank committed to sell up to US\$20 billion, equivalent to a quarter of its dollar reserves, over the next six months.

Unemployment has soared in recent weeks as businesses lay off workers as they struggle to stay open. Dismissals rose by 13% in November, leading that authorities to predict that unemployment could reach exceed 10.0% by early 2020, up from 7.0% in the August-to-October rolling quarter.

Business confidence slumped in November with the Adolfo Ibáñez University-ICARE index falling almost 15 points to 36.58 points, its lowest level since the survey was launched in 2008. All sectors except mining have now returned to negative territory.

Consumer confidence has also fallen sharply with GfK's Economic Perceptions Index dropping eight points in November to 28.3 points, its lowest level since the poll was launched in 2002.

Inflation rose by just 0.1% in November as lower prices for services and a cut in electricity prices decreed by the government offset rising food prices. However, the annualized increase of 2.7% marked the fastest increase since September 2018. In December, the Central Bank warned that the fall in the peso would lead inflation to rise at above its target rate over the coming months, reaching 3.9% by the end of 2020.

On December 4th, the board of the Central Bank voted to maintain its benchmark interest rate at 1.75% and indicated that it would likely maintain the rate at this level for several months. Although most analysts had predicted a 25-basis point cut at the board's final meeting of the year, in order to boost the monetary stimulus to the economy, the Bank also weighed the impact of a potential cut on the exchange rate.

Shares in Chile have fallen sharply since the start of the protests, with the IPSA index of the thirty largest companies listed on the Santiago Stock Exchange falling to its lowest level in almost three years by late November. However, share prices rallied after the Chinese and US government announced in December a preliminary agreement to end their 18-month old trade dispute.

Copper prices have rallied in recent weeks, reaching US\$2.75/lb by late December, on expectations that the thaw in trade relations could boost demand for the metal. In December, ahead of news of the US-China deal, the Central Bank predicted that prices would average US\$2.70/lb in 2020 and 2021.

Cámara Chileno Británica de Comercio A.G

Av. El Bosque Norte 0125, Las Condes

Teléfono: 2370 4106

info@britcham.cl / www.britcham.cl

Economic Committee:

Peter Lynch, Senior Manager Audit South America, BHP Chile

Tom Azzopardi, Journalist

Gabriel Henríquez, Economic and Trade Policy Officer, British Embassy

Guillermo Tagle, President, Credicorp Capital

Leslie Hemery, Vice President, British Chilean Chamber of Commerce

Luis Óscar Herrera, Macro Research, BTGPactual

Andrew de la Mare, Consultant

Greg Holland, General Manager, British Chilean Chamber of Commerce