Monthly Economic Update

May 28th, 2020

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EVENTS IN CHILE

The Chilean government has tightened quarantine measures as the Covid19 pandemic continued to spread. Rolling lockdowns were extended to the whole of Santiago, the epicentre of the outbreak, from May 17th as the number of cases detected daily soared past 3,000 per day, up from less than 1,000 at the start of the month. By May 25th, the number of confirmed cases were approaching 74,000 while 761 people have died of the disease. Despite the arrival of more respirators, the growing number of critically ill patients threaten to overwhelm health services, President Sebastian Piñera has warned. Plans to begin reopening some schools and public services, touted in late April, have been shelved for the foreseeable future.

On May 13th, lawmakers approved government legislation to pay an emergency income of around CLP55,000 (US$68) per month to almost 1.8 million individuals for the next three months as the pandemic and economic slump leaves many families without any kind of income. The government also began distributing 2.5 million boxes of food to vulnerable households in Santiago to encourage people to stay home. On May 18th, people in El Bosque, one of the capital's poorest districts, barricaded roads and clashed with police in protest over the lack of food.

On May 6th, the government issued bonds worth US$2.0 billion (in Euros and US dollars) to help finance its response to the Covid-19 emergency. Although ratings agency S&P has followed Fitch Ratings in downgrading its outlook for the country's credit rating from stable to negative, the issue was heavily oversubscribed and achieved the lowest spread for an emerging economy since the start of the pandemic.

The International Monetary Fund approved Chile's application for a two-year flexible credit line for around US$23.8 billion, increasing the liquid funds available to the Central Bank by 60%.

ECONOMIC DATA

The economic outlook for Chile has worsened significantly since early April when the Central Bank predicted a contraction of 1.5%-2.5% for this year. Analysts surveyed by the Bank in May predicted that the economy will shrink by 3.0% this year, while the International Monetary Fund has forecast a 5.5% drop in activity. Most expect the second quarter to be the worst of the year with analysts predicting a 7.2% contraction although some have warned of a double-digit decline.

The economy narrowly grew in the first quarter of the year, expanding by 0.4%, as a 3.4% decline in activity in March offset growth in the first two months. A rise in mining activity helped to offset declines in services, retail and construction. However, the Central Bank warned that quarantine measures had hindered data collection, meaning that the figures are less reliable than normal.

The retail industry has been particularly badly hit by the rolling lockdowns, the closure of malls and non-essential businesses, and the decision of most Chileans to stay home. Retail sales in the Metropolitan Region fell by an unprecedented 19.9% in March, reflecting just two weeks of the quarantine measures, with the sharpest declines recorded in footwear and clothing. Nationwide car sales fell 72.3% in April to their lowest level in four years.

On May 6th, the board of the Central Bank voted unanimously to maintain its benchmark interest rate at a decade-long low of 0.50%. Amid unprecedented declines in domestic and global activity, the bank reiterated its intent to maintain monetary policy "in this highly expansionary stance for an extended period of time." Traders surveyed by the Bank in late April foresaw no change in the interest rate before late 2021.

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Labour Minister Maria Jose Zaldívar has warned that unemployment is now probably in double-digits (up from 8.2 % in the first quarter) and set to continue rising as companies shed or furlough employees in order to stay afloat. According to government data, almost 540,000 workers (or 5.5% of the workforce) were dismissed in March and April, while companies suspended almost 600,000 employees under the government's job protection legislation.

Amid the bleak outlook, business and consumer confidence has collapsed. The Adolfo University-ICARE monthly business confidence indicator fell to 31.74 points in April, the lowest on record, while executives surveyed by the Central Bank that month universally complained of shrinking demand, operating difficulties, and cashflow problems. A majority expected the health emergency to last at least six months.

According to GfK's Economic Perceptions Index, consumer confidence fell 21.6% points, another record low, down from 33.7% points in January. Optimism in the jobs market dropped to 11.5 points, down 50% from the start of the year. Less than 10% thought it a good time to buy a house or car.

Inflation has continued to slow after surging at the start on the stronger US dollar. In April, the government's Consumer Price Index showed no increase or an increase of 3.4% on an annualized basis, down from 3.9% in February. Private analysts surveyed by the Central Bank in early May predicted that inflation would end the year at 2.7%, below the Bank's own forecast.

Share prices on the Santiago Stock Exchange have stabilized after rallying in early April. The IPSA index of the forty largest companies on the exchange reached 3,715 points on May 25th, an increase of 29.2% from the ten-year low reached in March, but down 23.4% from twelve months earlier.

International copper prices have recovered on increased optimism for the global economy and demand for the metal in the second half of the year. On May 21st, the price reached US$2.44/lb, its highest level in two months.

Efforts by mining companies to protect employees from the pandemic have yet to reflect in mine production data. Copper output rose to 498,083 tons in March, up 4.2% in twelve months, partly reflecting last year's low base of comparison. In late April, Freeport McMoRan said it will reduce production at its El Abra mine by 40% as a result of the low price.

International trade has slowed dramatically, with imports in April falling to US$4.1 billion, down more a fifth from a year ago, as imports of consumer goods fell by a third and fuel imports by more than half. Exports declined 6.3% to US$5.4 billion on lower shipments of agricultural and industrial goods.

Cámara Chileno Británica de Comercio A.G

Av. El Bosque Norte 0125, Las Condes

Teléfono: 2370 4106

info@britcham.cl / www.britcham.cl