

Monthly Economic Update

August 26, 2020



Cámara
Chileno Británica

100
años
1917-2017

Patrons 2020



Sponsors 2020



EVENTS IN CHILE

The Covid-19 pandemic has begun to slow in Chile with the number of new infections reported daily falling to less than 2,000 by late August from a peak of over 6,000 in mid-June. The government has responded by easing quarantine measures in much of Santiago outside of weekends, although schools, restaurants and shopping centres remain largely closed. However, quarantine measures are being stepped up in other cities as the disease continues to spread through the country.

More than ten million individuals have applied to withdraw part of their pensions savings under legislation approved by Congress in July. By late August, the private pensions fund administrators (AFPs) had already paid out 90% of the requested withdrawals which have so far totalled more than US\$12.0 billion, or an average of CLP1.1 million (US\$1,435 per person). The government has also begun paying out benefits and soft loans worth up to CLP 1.15 million (US\$1,475) to families affected by the pandemic but not eligible for the emergency family income.

On August 27th, lorry drivers began an indefinite nationwide protest demanding increased security in southern Chile following a spate of violent incidents, including the shooting of a nine-year-old girl. The drivers blocked major roads, including the main north-south highway and the road linking Santiago with the main ports. Despite the pandemic, the number of attacks on farms and forestry companies in southern Araucanía region, linked to indigenous lands claims, has increased this year. In early August, protesters seized and, in some cases, set light to municipal buildings in five cities in the region in support of Mapuche prisoners.

Lawmakers have approved a series of tax breaks designed to bolster the economy in the wake of the pandemic, including instant depreciation on investments in fixed assets and intangibles and lower corporate tax rates and delayed payment of value-added tax for small and medium-sized enterprises.

ECONOMIC DATA

Economic activity fell by 14.1% in the second quarter, the largest fall on record, as efforts to contain the Covid-19 pandemic led to drastic contractions in most sectors. While personal services, retail and construction all fell by more

than 20%, transport fell by more than a third. The only sector to grow in the quarter was mining, which expanded by 1.6%, driven by increased production of copper and iron ore. Internal demand fell by 19.1%, reflecting sharp falls in household consumption and private investment.

However, there are signs that the slump in activity could be stabilizing with initial data for June suggesting an annual decline of 12.9%, compared to a fall of 15.2% in May. Massive pensions withdrawals and the partial easing of quarantine measures in Santiago over the last month are expected to cushion the fall in economic activity over the coming weeks, with private analysts surveyed by the Central Bank in August predicting a 9.0% contraction in the third quarter.

The number of people out of work has continued to soar as companies shed employees to survive. According to the government's jobs survey, the number of people in work fell to less than 7.1 million in the quarter to July 31st, down more than 2.0 million since January and its lowest level in more than a decade. The largest losses have been restaurants and catering where almost half the jobs have disappeared, followed by construction (down 34.8%) and retail (down 24.9%). This figure

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does not include cover workers furloughed without pay under the government's job protection legislation, who numbered 722,000 by mid-August.

Unemployment reached 13.1% in the quarter, up more than 5 percentage points from a year ago. However, given the difficulties looking for work, the vast majority of those dismissed this year have been classified as having left the workforce. More than 8.6 million people or 55% of the working age population were classed as inactive or unemployed, up from 41% at the start of the year.

Most analysts expect the Central Bank to keep its benchmark interest rate at 0.50% until late 2021, maintaining the monetary stimulus introduced last March.

Inflation continues to slow reflecting the slump in economic activity and the fall in oil prices this year. The Consumer Price Index rose by 0.1% in July, or 2.5% on an annualized basis, down from a recent peak of 3.7% last February. Analysts surveyed by the Central Bank in August predicted that the index would reach 2.1% by the end of the year, roughly matching the Bank's own forecast.

Disappointing financial results from leading retailers caused share prices in Santiago to fall. By the end of August, the IPSA index of the largest companies on the Santiago Stock Exchange had moved below 3,900 points for the first time since the government's defeat over pensions withdrawals in late July, and down 17.1% from the start of the year.

Business confidence remains weak amid the slump in activity and massive job losses. The Adolfo Ibáñez University's IMCE index reached 37.81 points in July, down 13 points from twelve months earlier and little changed from June. Improved optimism among executives in the construction, manufacturing and retail sectors was offset by a fall among

mining executives, although this is the only sector to remain in positive territory (above 50 points).

Although still at historically low levels, consumer confidence has improved in recent weeks driven by the pension withdrawals and the easing of quarantine measures. GfK's Economic Perceptions Index reached 25.5 points in August, down 14 points from a year ago, but up 5.2 points from the record low reached in June. The increase was driven by increased optimism about the state of the country, the short-term economic outlook and interviewees' personal situation.

After falling to its lowest level since the start of the pandemic in late July (CLP756/dollar), the exchange rate has move back towards CLP 800/dollar, reflecting concern about the resurgence in Covid-19 infections in Europe and North America and growing tensions between the US and China.

The international copper price moved above US\$3.00/lb for the first time in two years in late August, driven by a strong recovery in demand in China and production cuts caused by the global pandemic. The Chilean Copper Commission has now lifted its price forecast for 2020 to \$2.62/lb, up from US\$2.40/lb predicted in April. Despite increased efforts by mining companies in Chile to protect workers from infection, mine activity has continued apace, with copper production during the second quarter reaching 1.443 million tons, up 0.9% from a year earlier.

Chile's international trade has begun to recover with exports and imports both reaching six-month highs in July. Exports reached US\$5.8 billion, driven by the higher copper price and increased shipments of iron ore, while imports reached US\$5.0 billion following a recovery in imports of consumer goods.

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