

Monthly Economic Update

November 27, 2020



100 años
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Patrons 2020



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EVENTS IN CHILE

Lawmakers are advancing legislation that would give Chileans a second chance to withdraw funds from their pensions savings. Following its defeat over the first withdrawal in July, the government presented its own bill that would individuals to withdraw up to CLP 2.9 million (US\$3,785) in two quotas. Senators approved the proposal on November 26th and deputies are expected to vote on it in early December. Unlike opposition proposals, the government bill limits the withdrawals to those earning less than CLP2.9 million a month and would require beneficiaries to pay tax on the withdrawn funds.

Victor Perez resigned after just three months as Interior Minister on November 3rd after the deputies voted to impeach over his handling of nationwide protests by hauliers and recent street protests in Santiago. Impeachment was later confirmed by the Senate. President Sebastián Piñera appointed Rodrigo Delgado, a former mayor from Perez's right-wing UDI party, to replace him.

Support for the government has weakened again in recent weeks, with weekly polls by Cadem showing approval of President Piñera averaging just 17% during November, down from

over 20% in October. However, support for the government's handling of the pandemic and the recent easing of quarantine measures is much stronger, with more than 60% approving of the end of lockdown rules in their district.

Lawmakers approved the government's 2021 budget on November 26th. It include a 9.5% spending increase (following this year's 11.4% expansion) and an extension of the Emergency Family Income for vulnerable families in districts which are still living under lockdown.

Following the overwhelming referendum vote in favour of a new constitution, candidates have begun to declare themselves for the new constitutional convention which will draft the document. In November, Communist Party deputies presented legislation to Congress that would allow the Convention to define its own voting rules, ignoring the two-thirds majority agreed by the major parties late last year.

With the number of new confirmed Covid-19 cases holding below 2,000 a day since late September, the government has continued to ease lockdown and social-distancing measures with bars, schools and cinemas allowed to open in many parts. The percentage of the population living in areas where

movement is restricted has fallen from over 50% in August to less than 10% in November.

In response to the announcements of the first successful trials of vaccines against Covid-19, the Chilean government announced that it has signed agreements to buy 40 million vaccine doses from a range of suppliers, including Pfizer-BioNtech, AstraZeneca/ University of Oxford and China's Sinovac. It plans to begin vaccinations in early 2021 starting with at-risk populations.

ECONOMIC STATISTICS

The recovery in economy activity has continued as more areas emerge from strict lockdowns and social distancing rules are eased. Preliminary data showed that the economy grew by 5.1% in September on a month-on-month basis, following increases of 1.6% and 2.9% in July and August, respectively. Growth has been driven by services and retail as thousands of businesses reopen, especially in the capital, offset by a contraction in mining activity.

However, the economy is operating far below capacity with GDP falling by 9.1% in the third quarter compared to a year ago, although that marks an improvement from the 13.2% decline recorded in the previous quarter.

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Driven by the reopening of malls and the pension withdrawals, retail sales have bounced back. Retail sales in Santiago were down 10% in September, compared to the 50.7% decline seen in June with strong improvements in sales of clothing, domestic appliances, and electronic goods. The boost provided by the withdrawal of US\$17.0 billion from pensions funds will be transitory but could be repeated in December and January if lawmakers approve a second withdrawal.

Business confidence has risen significantly since the start of the pandemic in line with improved economic conditions. A survey of businesses by the Central Bank in October found most had seen sales strengthen in recent months with some returning to pre-pandemic levels although some sectors (especially personal services) are expected to take several years to recover. The Monthly Business Confidence Indicator produced by the Adolfo Ibáñez University and ICARE reached 51.68 points, moving back into positive territory for the first time since last year's social unrest.

Inflation has surged in recent weeks, driven by the additional demand triggered by the pension withdrawals and higher food prices. The government's Consumer Price Index rose by 0.7% and 0.6% in September and October, respectively, its fastest increase since last February and lifting annual inflation to the Central Bank's medium-term target of 3.0%. However, this is expected to be a temporary surge which will ease in the coming weeks. Analysts surveyed by the Central Bank in November predicted the index to end the year at 2.8%.

Conditions in the labour market have improved significantly as businesses reopen and take on staff. The number of people in work rose by almost 600,000 between July and October while the unemployment rate fell from 13.1% to 11.6%. In addition,

most of the employees furloughed under the government's job protection law have now returned to work. Nevertheless, there are a million fewer people in work compared to at the start of the pandemic.

Strong demand from China and concerns that labour conflicts in Chile could hit global supply pushed copper prices to over US\$3.30/lb by late November, their highest level since the commodity boom early last decade. In November, the Chilean Copper Commission forecast the copper price will average just US\$2.90/lb next year as mines shut by the pandemic operate normally.

Chilean copper production has held up despite measures taken by mining companies to shield workers from the Covid-19 pandemic. Production in the third quarter reached 1.442 million tons, unchanged from the previous quarter. The figures, however, do not reflect the impact of strikes which halted Lundin Mining's Candelaria copper mine for more than a month in October and November.

Shares in Chilean companies rallied strongly in November in line with share prices around the world following the announcement by Pfizer on the effectiveness of its Covid-19 vaccine. The IPSA index of the 30 largest companies listed on the Santiago Stock Exchange gained almost 20% during November, to mark its best month in 27 years.

After appreciating to its strongest position so far this year against the US dollar in early November, the Chilean Peso weakened to around CLP 767/dollar by the end of the month.

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