

# Monthly Economic Update

October 30, 2020



Cámara  
Chileno Británica

100  
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## Patrons 2020



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## EVENTS IN CHILE

On October 25th, Chileans voted overwhelmingly in favour of drafting a new constitution, triggering a drafting process which will last at least two years. Although approval was always expected to win, the result -- 78.3% of the 7.6 million votes cast -- defied most forecasts while participation (50.9%) exceeded that of the last two presidential elections. They voted in similar numbers (79.0%) to prevent sitting lawmakers from participating in the Constitutional Convention that will write the new constitution.

Focus now turns to the election of members to the Convention next April and the debate over the contents of the document. While many of its proponents hope that the new constitution will bring radical social change, President Sebastián Piñera said that no constitution could "start from zero" and would have to respect Chile's democratic political traditions.

The run-up to the vote saw a brief return of the violent protests which rocked Chile last year. On October 18th, the anniversary of the unrest, mobs clashed with riot police and set fire to churches and businesses in central Santiago. However, huge celebrations of the referendum result a week later were almost entirely peaceful.

In its budget for 2021, the government has proposed to increase public

spending by 9.5%, largely driven by public investment to bolster economy activity and create jobs. The plan would reduce the public deficit to 4.3% of GDP, down from an estimated 8.2% this year. In October, Fitch Ratings lowered Chile's sovereign debt rating to A- citing the weakening of public finances in the wake of recent social unrest and the pandemic. S&P Global and Moody's have also warned this year of possible downgrades.

Opposition lawmakers, which have a majority in Congress, are pushing a second bill to allow Chileans to withdraw funds from their pension accounts, following the withdrawal of more than US\$15.0 billion during August and September. Debate over government legislation to boost future pensions has stalled over a lack of consensus.

## ECONOMIC DATA

Economic activity began to recover during the third quarter as the government eased quarantine measures amid the fall in the number of new Covid-19 infections. Preliminary data from the Central Bank suggest the economy grew by 2.8% in August compared to July, following increases of 0.8% and 1.7% in the previous two months. The growth was driven largely by non-mining activity (up 2.3%), offset by a decline in mining output (down 1.9%). However, the economy continues to operate significantly below capacity

with the August figure marking a fall of 11.3% from twelve months earlier.

The recovery in economic activity has been driven by retail and services as the easing of quarantine measures, especially in Santiago, allowed thousands of businesses to reopen while the pension withdrawals have encouraged shoppers. As a result, retail sales in Santiago during the third quarter were down 24.7% from a year earlier, compared to a 46.4% drop in the previous quarter. Sales in September fell just 9.3% compared to a year ago, driven by a 11.3% rise in sales of electronic goods and marked improvements in sales of clothing and domestic appliances.

Analysts surveyed by the Central Bank in October predicted that the economy would shrink by 5.5% this year before expanding by 4.5% in 2021, roughly in line with the Bank's latest forecasts. In October, the International Monetary Fund forecast a 6% contraction, down from 7.3% predicted in June.

Consumer and business confidence have continued to recover from the record lows reached earlier this year. GfK's Economic Perceptions Index reached 26.5 points in September, its highest level since the start of the pandemic, driven by improved confidence in the state of the economy and consumers' ability to buy household items, which GfK linked to the pension withdrawals.

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Business confidence, measured by the IMCE index, reached 49.81 points in September, up almost 20 points from the record low reached in April and back to levels not seen since the start of last year's widespread social unrest.

With the reopening of thousands of businesses as quarantine measures are eased, the labour market has begun to stabilize. After falling by almost two million during the first half of the year, the number of people in work averaged 7.2 million in the three months to August, up 119,000 from the previous rolling quarter and the first increase since January. However as more people actively look for work the number of those classed as unemployed rather than active has begun to climb, reaching 12.9%, up from 11.2% three months earlier.

The government's Consumer Price Index rose by 0.6% in September, its fastest rate of increase since January, or by 3.1% over the previous twelve months. The increase was driven by higher food prices which have risen by 8.3% over the past year.

Despite strengthening inflation and the improved economic outlook, the board of the Central Bank voted unanimously to maintain its benchmark interest rate unchanged at 0.50%, marking more than six months at its lower technical limit. The Bank reiterated its intention to maintain the "elevated monetary stimulus" for a significant period and to continue with its asset purchasing program. Private analysts expect no change in the rate before mid-2022 when the Bank would begin withdrawing the stimulus.

Imports have continued to recover, reaching US\$13.8 billion in the third quarter, up 16.0% from the second quarter, driven largely by increased imports of consumer goods (up 35.6%) and fuels (38.4%). However, imports remain 18.5%

below last year's levels. Quarterly exports were little changed at US\$16.8 billion as increased mineral exports, especially copper, offset a fall in farm exports. As a result, Chile's trade surplus narrowed to US\$3.0 billion, down from US\$4.9 billion in the second quarter.

Copper prices have continued to rally through October, trading close to US\$3.20/lb for the first time in more than two years, driven by concerns of global shortages and strikes at Chilean mines. In mid-October, Lundin Mining halted production its Candelaria mine after the majority of unionized employees struck over pay. Negotiations at the much larger Collahuasi and Escondida mine ended without disruption.

Efforts by mining companies to shield workers from the Covid-19 pandemic appear to have slowed output in recent months. Copper production reached 489,461 tons in August, its highest level since last May, but down 5.5% from the same month of last year. Production to date reached 3.82 million tons, little changed from last year.

After depreciating against the US dollar to CLP 800/dollar through most September and October, reflecting investor concerns about the result of the upcoming referendum, the Chilean peso has strengthened in recent days to CLP 781/dollar, driven by the higher copper price.

Share prices in Santiago have risen steadily in recent weeks on the rising copper price and growing confidence in the economic recovery, with the IPSA index reaching 3,800 points for the first time since early September ahead of the referendum. However, the index dropped 100 points (down 2.7%) on October 26th in the wake of the constitutional vote as well as losses in the US and a fall in the copper price.

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