

Monthly Economic Update

January 29, 2021



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EVENTS IN CHILE

Mass immunization of the population against the Coronavirus will begin during the first week of February following the arrival of almost 4 million doses of the Sinovac vaccine from China. The campaign will initially focus on the over-80s, healthcare staff and other key personnel, before moving onto people with underlying diseases, the over-65s and the general population. This year Chile expects to receive a total of 35 million doses of the different vaccines against the disease, enough to deliver two doses to more than 90% of the population

Despite the reintroduction of lockdowns in Santiago and other cities in early December, infection rates accelerated to over 4,000 a day by late January, from less than 2,000 a day in November. As the number of cases in the region grows, the government has begun moving critical patients to hospitals in Santiago to manage intensive care capacity.

On January 26th, President Sebastián Piñera named Rodrigo Cerda as his third Finance Minister in as many years, after Ignacio Briones (appointed in October 2019) resigned to participate in this year's presidential elections for the government coalition. He will compete

against former Defence Minister Mario Desbordes, former BancoEstado chairman Sebastian Sichel as well as the Mayor of Las Condes Joaquin Lavín.

Lawmakers warned that Briones' resignation could slow negotiations on the government's proposed reform of the pensions system which were due to conclude before the February legislative recess. The opposition, which has majorities in both houses of Congress, is demanding that a new 6% contribution from employers be used to boost pensions of the lower income workers and retirees.

ECONOMIC STATISTICS

The economy grew by 0.3% in November, its first annualized increase since the start of pandemic last March. Growth was driven by retail sales which grew by more than 15.0% as stores reopened and pensions withdrawals boosted disposable income. However, services declined 2.3%, led by falls in tourism, business services and transport.

Retail sales in Santiago rose by 9.7% during the final three months of the year (compared to twelve months earlier and following a 38.6% fall in the previous quarter) as stores reopened

and the pensions withdrawals boosted spending. By January 25th, savers had withdrawn more than US\$33.9 billion under the legislation approved by lawmakers in July and December.

Private analysts surveyed by the Bank in early January expected the economy to grow by 5.0% this year (below the Bank's latest forecast of 5.5-6.5%) on concern that a second wave of Coronavirus infections could slow the recovery underway.

Newfound optimism among business executives has been shaken by the new round of quarantine measures on activity. The ICARE-UAI Monthly Business Confidence fell to 48.0 points in December, down six points from November and its lowest level since last August. While confidence fell in the construction and manufacturing sectors, retailers remained in positive territory as pension withdrawals boosted sales.

In contrast, consumer confidence stabilized during the final quarter of 2020 at just under 30.0 points, according to GfK's Economic Perceptions Index, up from just 20.0 points six months earlier. Confidence in Chile's current situation and medium-term outlook have improved although confidence in

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long-term stability has fallen. Consumers' confidence in their ability to buy household items has also grown, mirroring the timing of the two pensions withdrawal bills.

Unemployment averaged 10.3% in the final three months of 2020, unchanged from the previous rolling quarter and down from 13.8% in July, as businesses rehired hundreds of thousands of employees let go since the start of the pandemic. However, more than a million people have left the workforce over the last ten months.

Inflation surged again in the final three months of 2020 with the government's Consumer Price Index rising by 0.3% in December, or 3.0% on an annualized basis. Analysts surveyed by the Central Bank now expect the index to end 2021 at 3.0%, compared to the Bank's most recent forecasts of 2.6%.

Despite stronger inflation and growth figures, the board of the Central Bank voted unanimously on January 27th to maintain its benchmark interest rate at 0.5% for the tenth consecutive month. Analysts expect no change in the rate until the second half of 2022 when the Bank would begin withdrawing the monetary stimulus.

Copper prices rallied to over US\$3.60/lb during January, their highest level since the commodity super-cycle a decade ago, amid concern that the new rise in infections could slow mine production in Latin America. The Chilean Copper Commission predicted that prices would average US\$3.30/lb during 2021, their highest level in eight years, as demand recovers sharply in many countries.

Copper production reached 5.8 million tons in 2020, down only 0.7% from 2019, as the mining industry shook off the effects of the pandemic (in comparison, production in

neighbouring Peru fell almost 15%). However, production fell 8.7% in December to 506,891 tons as companies struggled with lower ore grades and a high base of comparison. Production is expected to rise to a record 5.99 million tons in 2021 although some companies have warned that reduced investment in mine development last year could slow output.

Monthly exports reached US\$7.1 billion in December, their highest level in almost eight years and up 6.1% from a year ago, driven by the higher copper price and the start of fruit packing season. Imports reached \$5.7 billion, recovering to levels not seen since before the unrest which rocked Chile in late 2019, driven by imports of consumer goods and energy products. As a result, Chile's annual trade balance reached a 13-year high of US\$12.0 billion.

The US dollar appreciated sharply against the Chilean peso in January after the Central Bank announced a program to replenish foreign currency reserves expended to stabilize the exchange rate over the last 13 months. The Chilean peso ended January at CLP 740/US dollar, up from just CLP 702/US dollar at the start of the month. The Bank will buy a total of US\$12.0 billion over the next 15 months via daily auctions.

Share prices rallied through December and January with the IPSA index of the thirty largest companies on the Santiago Stock Exchange reaching, on January 18th, its highest level since the start of the global pandemic. However, the index has since declined as the numbers of infections continue to rise globally.

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