Monthly Economic Update

March 30, 2021

Cámara ChilenoBritánica

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NEWS

The government has reimposed strict lockdown measures on approximately 70% of the population following a sharp rise in Covid-19 infections. By late March, the number of new cases reported daily had surpassed 6,000, reaching its highest level since the peak of the first wave in June last year. In response, the government closed down the whole of Santiago with the aim of bringing infection rates under control in time for the constitutional, municipal and gubernatorial elections which take place on April 10-11th. With schools, many workplaces and all non-essential stores closed, the move is expected to have a dampening effect on economic growth during the coming weeks and months.

The return to lockdown comes despite the rapid and successful implementation of the government's mass vaccination program. By March 24th more than 6.0 million, or almost a third of the population, had received at least their first shot, while around 3.0 million have been fully immunized. With millions of more doses of AstraZeneca, Pfizer and Sinovac vaccines due to arrive in the coming months, the government expects 80% of the population to have been vaccinated by June 30th.

To support businesses and households through the new lockdown, President Sebastian Piñera announced a US$6.0 billion package of measures, including an extension of the emergency family income, a new bonus and loan for higher income workers, improved unemployment insurance and subsidies and tax breaks for small businesses. Finance Minister Rodrigo Cerda said that the government would finance the measure from revenues derived from the higher copper price as well as possible drawdowns from Chile's sovereign wealth funds.

However, opposition parties have continued to dominate the legislative agenda, pushing the government to raise more taxes and increase benefits. In March, the Chamber of Deputies approved legislation to introduce a 3% royalty on copper and lithium production to take advantage of the rally in copper prices this year. The government has said it will challenge the proposal on constitutional grounds. Legislation has also been submitted to permit savers to make a third withdrawal from their pensions funds while a bill to impose a one-off tax on millionaires has progressed to the committee stage.

In March, S&P Global Ratings cut its credit rating for Chile from A+ to A, citing higher levels of government debt and increased pressure on public finances over the next two to three years. It is the second major ratings agency to do so since the 2019 social unrest.

ECONOMIC STATISTICS

The recovery in economic activity forecast for 2021 has yet to emerge with economic activity contracting by 3.0% in January, according to preliminary figures from the Central Bank. The drop was driven by a 6.3% contraction in services, reflecting the impact of renewed lockdown measures on hotels, restaurants, and other businesses, offset by an 8.8% rise in retail activity, boosted by the second pensions withdrawal approved late last year.

Despite the weak start, the economy is still expected to bounce back strongly, especially as the vaccination allows lockdown measures to be eased later

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this year. The International Monetary Fund forecast in March that the Chilean economy will expand by 6.0%, matching the Central Bank's own 5.5-6.5% forecast made last December. Private forecasts rose to an average of 5.3% in March, up from 4.7% three months earlier.

Business confidence has continued to recover. In February, the Adolfo Ibáñez University's IMCE index reached 55.76 points, up 13 points in six months and its highest level in almost three years, driven by increased optimism among executives in the construction and manufacturing sectors.

Consumer confidence has also improved although it remains at historically low levels, with GfK's Economic Perceptions Index reaching 32.0 points in February, a twelve-month high. The move principally reflected increased optimism about the outlook for the Chilean economy over the next year.

The recovery in the labour market appears to have slowed in line with the reintroduction of lockdown measures from December onwards. Unemployment averaged 10.3% in the three months to January, little changed from the previous quarter while more than a million people, largely mothers, have left the workforce over the last year.

Copper prices have soared to over US$4.00 a pound since mid-February, reaching their highest level in a decade before settling around US$4.10 a pound. The rally has been driven by expectations that the global vaccination effort will boost economic growth and investment in copper-intensive industries such as renewables and electric vehicles while new lockdown measures could imperil production.

Driven by the higher copper prices, Chile's exports rose to US$14.1 billion in January and February, up 22.3% from a year earlier, while imports totalled US$10.9 billion, up 11.7%, on the back of increased imports of capital and consumer goods. The trade balance so far this year reached US$3.3 billion, up 78.6% from a year earlier.

The surge in inflation since last December appears to have eased with the government's Consumer Price Index rising just 0.2% in February or 2.8% on an annualized basis, down from 3.1% in July, largely due to a slower increase in the prices of services. Private forecasts now suggest the index will end the year at 3.2%, up from the Central Bank's December forecast of 2.6%.

The Central Bank left its benchmark interest rate unchanged at 0.5% at its second meeting of the year on March 30th, marking twelve months at its minimum level. Bank president Mario Marcel said that the Bank expected to maintain the rate unchanged until at least the start of next year.

Share prices in Chile have rallied strongly since the start of the year with the IPSA index of the thirty largest stocks on the Santiago Stock Exchange gaining more than 17% by mid-March. However, the announcement of stricter quarantine measures triggered a sell-off the following week.

After slipping briefly below CLP 700/dollar in early January, the dollar-peso exchange rare has stabilized around CLP720/dollar, down around 13% from the record highs reached a year ago at the height of the Covid-19 market panic. The stability contrasts with the rally in copper prices this year when the two usually move inversely.

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