

Monthly Economic Update

May 26, 2021



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NEWS

Far-left, independent and indigenous candidates won the majority of seats in the elections to the constituent assembly (held on May 15th-16th), which will draw up Chile's new constitution. The surprise result represents a major defeat for the government and moderate opposition parties. With pro-government Chile Vamos coalition winning just 37% of the 155 seats, it will lack the third of votes necessary to veto any measures that the majority might wish to include in the new charter. The new assembly is expected to meet for the first time in the coming weeks.

The government has begun easing lockdown measures following a decline in the number of new Covid-19 cases reported daily. By late May, 9.6 million people, or almost half the population, had received at least one dose of a Covid-19 vaccine, including 7.7 million who had received both. Despite a slowdown in the vaccination rate, Health Minister Enrique Paris is confident the whole of the target population will be covered by the end of June. On May 23rd, the government announced that individuals who had received both

doses will be allowed to move freely in districts under lockdown and between regions.

Following the government's defeat over the third pensions withdrawal bill (after the Constitutional Court refused to hear its challenge against the legislation), President Sebastián Piñera opened talks with moderate opposition politicians to agree a legislative agenda for his remaining ten months in office. The deal is expected to include increased support for vulnerable households and small businesses during the pandemic as well as new taxes to pay for it. In April, deputies approved a royalty of up to 75% on mineral exports, which must now be debated in the Senate, but rejected a one-off 2.5% wealth tax on millionaires.

The race to become Chile's new president has begun to thin with several candidates dropping out following the constituent and municipal elections. Las Condes mayor Joaquín Lavín will face former ministers Ignacio Briones, Mario Desbordes and Sebastián Sichel in next July's primary to represent Chile Vamos, while the far-left Apruebo Dignidad pact will choose between Communist mayor

Daniel Jadue and deputy Gabriel Boric. The moderate opposition parties, which failed to register for an official primary by the May 19th deadline, are expected to choose between Radical Carlos Maldonado, Socialist Paula Narváz and Senate chairwoman Yasna Provoste, who has emerged as a late favourite after leading negotiations with the government.

ECONOMIC STATISTICS

The Chilean economy grew by 0.3% in the first three months of 2021, its fastest rate of quarterly growth since the 2019 social unrest. The expansion was heavily influenced by the low base of comparison. After contracting by 2.9% and 2.1% in January and February, respectively, the economy grew by 5.8% in March reflecting the introduction of lockdown measures from mid-March 2020. Quarterly growth was driven by internal consumption as households spent pensions withdrawals and other benefits. Retail activity grew by 12.3% but this was largely offset by falls in services and construction (down 11.7%), sectors still affected by social distancing.

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Business confidence has been knocked by the reintroduction of strict lockdown measures in much of the country as well as the deepening political crisis. In April, the Monthly Business Confidence Indicator, produced by the Adolfo Ibañez University and ICARE business organization, fell more than five points to 56.53, its lowest point this year with significant falls recorded in all economic sectors. A survey by the Central Bank found most firms had delayed or cancelled hiring plans due to uncertainty over the duration of the pandemic.

Consumer confidence has also slipped. The Economic Perceptions Index, produced by GfK, fell to 24.9 points in April, an eight-month low and down from 32 points in February, as consumers worried about their personal economic situation and the short-term look for the economy. Confidence in the labour market fell to 38.9 points, its lowest level since last June.

Concern about inflation is building as higher oil prices and improving demand feed into domestic prices. The government's Consumer Price Index rose by 0.4% in April, matching March's increase and lifting annual inflation to 3.3%. The rise was driven by higher food prices with underlying inflation rising by just 2.8%. Analysts surveyed by the Central Bank in May forecast that the index would end the year at 3.3%, up from 3.0% predicted in January. More than 60% of consumers surveyed by GfK in April believed that prices will rise significantly over the next year, up from less than half nine months ago.

On May 13th, the board of the Central Bank voted to maintain its benchmark interest rate at 0.5%, marking fourteen months

at this level. In a change of language from previous decisions, the Bank said it will maintain the monetary stimulus until "the recovery of the economy begins to take hold", rather than the two-year horizon indicated previously. Traders surveyed after the meeting predicted that the Bank would raise the rate by 25 basis points before the end of 2021.

The results of the elections to the constitutional assembly delivered a jolt to financial markets, with the value of both share prices and the Chilean peso tumbling in the following days. After reaching its highest level since the 2019 social unrest, the IPSA index of the largest companies listed on the Santiago Stock Exchange had lost almost a fifth of its value by May 24th. Shares in Chilean companies listed abroad, including miners Antofagasta plc and SQM, fell by a similar amount. Meanwhile the Chilean Peso depreciated to CLP716/dollar, its lowest level in almost two months.

International copper prices soared to record levels above US\$4.80/lb in May, reflecting the recovery in the global economy, the weakness of the US dollar and concern over dwindling stocks and threats to supply. Although prices have not stayed at those levels, analysts have adjusted price forecasts upwards, with the Chilean Copper Commission predicting that prices will average US\$4.30/lb this year and US\$3.95/lb in 2022.

Higher copper prices have sent the value Chile's exports soaring, reaching a record US\$30.0 billion in the first four months of the year, up 30.2% from a year earlier. Imports rose by a similar amount to US\$24.0 billion, creating a trade surplus of US\$6.3 billion for the period.

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