

# Monthly Economic Update

July 29, 2021



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## NEWS IN CHILE

Two of the frontrunners become Chile's next president were knocked out during primary elections held on July 18<sup>th</sup>. Former student leader Deputy Gabriel Boric easily beat Communist mayor Daniel Jadue in the contest to represent the left-wing *Apruebo Dignidad*. In the government's *ChileVamos* alliance, former minister Sebastián Sichel won 200,000 more votes than veteran contender Joaquín Lavín.

### Apruebo Dignidad

<b>Gabriel Boric</b> 968,951	<i>Convergencia Social</i> 60.2%
<b>Daniel Jadue</b> 639,596	<i>Partido Comunista</i> 39.8%
Total	1,608,547

### Chile Vamos

<b>Sebastián Sichel</b> 609,097	Independent 49.0%
<b>Joaquín Lavín</b> 391,700	<i>Unión Demócrata Ind.</i> 31.5%
<b>Mario Desbordes</b> 123,504	<i>Renovación Nacional</i> 9.9%
<b>Ignacio Briones</b> 119,667	<i>Evópoli</i> 9.6%
Total	1,243,968

With two of the three favourites now of the race, the results mean that this year's president election will be the most uncertain since Chile's return to democracy three decades ago. The centre left *Unidad Constituyente* bloc (from the once-dominant *Concertación* alliance) will hold an unofficial primary on August 21<sup>st</sup>. The remaining frontrunner, Senator Yasna Provoste from the Christian Democrats, will compete against Socialist Paula Narvaez and Radical Carlos Maldonado.

The Constitutional Convention, which will draft Chile's new constitution, formally took office on July 4<sup>th</sup>, electing Veronica Loncón, an academic and indigenous activist, as its president. In its first move, the Convention voted by 105 to 34 to call on the government to release all prisoners related to the 2019 social protests and unrest in the southern Araucanía region.

Following a drop in Covid-19 infection rates, the government has dramatically reduced social-distancing measures across most of Chile. People who have received both doses of the vaccine (now representing more than 75% of the population) can now dine indoors, go to the cinema, and travel abroad, boding well for economic activity over the coming months. Following

the appearance of the more virulent Delta variant in Chile, the government has reassured the public that it has sufficient vaccines to administer a third dose if necessary.

## ECONOMIC INDICATORS

Economic activity has recovered to pre-pandemic levels, according to preliminary data. The Central Bank's IMACEC index rose by 18.1% in May on an annualized basis, and by 2.8% from the previous month of April. The increase was largely driven by retail activity which expanded by 51.3% over the previous twelve months (thanks to pensions withdrawals and increased fiscal transfers to households), as well as rises in services and manufacturing.

Public spending is expected to rise by 27.3% this year to US\$101.1 billion, compared to the 9.6% agreed in last November's budget legislation, after the government massively expanded support for households and businesses during the pandemic. Although tax revenues have recovered, the government expects to end the year with a public deficit worth 7.1% of GDP, almost matching last year's record deficit, while government debt is expected to reach 34.0% of GDP, up

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from 23.6% at the end of 2017. Given the duration of the pandemic and the proposals of main presidential candidates, analysts have warned that Chile's public debt could exceed 50% of GDP in the medium term.

Despite the recovery in economic activity, the labour market conditions have deteriorated in recent months following the second lockdown. The number of people in work fell by 125,000 between February and May to 8.9 million, mirroring a similar increase in the number classed as inactive. As a result, the unemployment rate has held around 10.0% over the last six months.

On July 14<sup>th</sup>, the board of the Central Bank voted unanimously to lift its benchmark interest rate by 25 basis points to 0.75%, the first increase in more than two years and after 15 months at its lower limit of 0.50%. This year's large increase in fiscal spending, strong household consumption and the rapid closing of the output gap made it necessary to begin withdrawing the monetary stimulus, the Bank said. Traders surveyed by the Bank ahead of the meeting expected the rate to reach 1.50% by the end of the year.

Inflation has continued to build. The government's Consumer Price Index rose by 0.1% in June, bringing annual inflation to 3.8%, its highest level since the start of the pandemic. The increase was driven by rising energy prices following the surge in oil prices over the last year. Surveyed in July, analysts predicted that the index would reach 3.5% by December, below the Central Bank's 4.4% forecast.

Copper prices have stabilized around US\$4.20/lb in recent weeks, down sharply from the record levels reached in May but up significantly the start of the year. Production of the metal has declined as mining companies struggle with falling ore grades and pandemic-related restrictions. Mine output reached 2.35 million tons during the first five months of the year, down 1.7% from the same period of last year, and is no

longer expected to hit the record 6.0 million tons predicted earlier this year.

Exports reached a record US\$23.5 billion in the second quarter, up 31.6% from a year ago, driven by high copper prices as well as strong exports of other minerals and industrial and forestry goods. Imports rose 60.0% in the quarter to US\$19.0 billion on increased imports of consumer and capital goods, while the quarterly trade surplus reached US\$4.4 billion, up from US\$4.0 billion in the first three months of the year.

Business confidence has stabilized in positive territory with the Monthly Business Confidence Indicator produced by the ICARE and the Adolfo Ibáñez University reaching 54.33 points in June, little changed from the start of the month. Only executives in the construction industry remain gloomy about the economic outlook for their sector.

Consumer confidence has improved but remains at historically low levels. The IPSOS Consumer Confidence Index reached 37.8 points in June, up more than ten points from a year ago but down from a peak 40.0 points in March.

Share prices have declined in recent weeks with the IPSA index of the thirty largest companies listed on the Santiago Stock Exchange falling to 4,153 points by mid-July, a two-month low. However, the index jumped almost 2.0% on July 19<sup>th</sup> following the primary defeat of Daniel Jadue, whose tax and interventionist proposals had worried investors.

The Chilean peso has continued to depreciate against the US dollar, mirroring the decline in copper prices since mid-May and concerns over Chile's political situation. By July 26<sup>th</sup>, the peso was trading at CLP764/dollar, up almost 10% from May and its highest level since the start of the year.

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