# Monthly Economic Update

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## NEWS IN CHILE

Gabriel Boric was sworn into office on March 11th to become Chile's youngest-ever president, warning that that the uncertain state of the global economy and meant that it would take time to implement his ambitious social and economic policies. The government's top priorities will be major tax and pensions reforms. Finance Minister Mario Marcel has said that the tax reform, which will aim to increase government revenues by around 4.0% of GDP by raising personal taxes, will be presented to Congress by the end of June.

The government has run into some difficulties taking office. A visit by Interior Minister Izkia Siches to visit indigenous communities in southern Chile, where the administration has promised to end a state of emergency, was met with roadblocks and gunshots. On March 21st, government-supporting deputies voted in favour of hearing another bill to allow workers to withdraw pensions savings, something the new administration opposes as it would stoke inflation.

The Constitutional Convention has begun voting on the articles that will make up the country's draft constitution. However, the radical nature of some proposals up for debate, including the elimination of the Senate, greater autonomy for regions, and the nationalization of large mining operations, is raising the possibility that the document may struggle to attract a convincing majority when it is put to a referendum later this year.

Despite a surge in the number of Covid-19 cases to record levels in February (following the arrival of the Omicron variant and increased testing), the government has not reintroduced lockdown measures in much of the country.

## ECONOMIC DATA

After growing by almost 12.0% in 2021 as the economy bounced back from the pandemic, activity is set to slow sharply over the coming quarters, reflecting weak investment, the end of government transfers and pension withdrawals as well as a higher base of comparison. Preliminary data showed activity grew fell 1.0% in January compared to December (on a seasonally-adjusted basis), the second consecutive monthly decline, on weak retail and mining activity (down 3.2% and 0.8% respectively) while services grew by 1.3%.

Analysts surveyed by the Central Bank in March predicted that the economy would grow by 2.0% this year, matching the Bank's most recent forecast, with several predicting a contraction in activity in the second half of the year or early 2023.

Inflation continues to soar with government's Consumer Price Index rising 7.8% in February on an annualized basis, its highest level in 13 years. Although the monthly increase of 0.3% was below market expectations (attributed to the impact of the Omicron wave of infections on the price of some services), inflation is expected to continue rising over the coming months. As well as higher food and energy prices (which have spiked on the Russian invasion of Ukraine), core inflation has accelerated, rising from 3.8% six months ago to 6.2% in February. Analysts now expect inflation to reach almost 9.0% in the coming months before declining to end the year at 5.8%.

To contain soaring inflation, the Central Bank is expected to continue raising interest rates. After a record-150 basis point hike in January (lifting the rate to 5.50%), analysts expect the rate to be raised to 7.00% in the following meeting on March 31st and to 7.75% later this year before declining to 7.50% by December.

The recovery in the labour market has slowed with the number of people in work growing by less than 35,000 in the three months to January, compared to a monthly average of over 100,000 during the second half of 2022, which analysts attributed to weak investment as executives assess the uncertain political situation. Workforce participation, however, is rising with the number of people classed as inactive falling to 6.6 million, its lowest level since April 2020. As a result, unemployment rose to 7.3% in January (up from 7.2% in December), its first increase in almost a year.

While wages have continued to rise rapidly, growing 7.5% in the year to January, most of these gains have been wiped out by high inflation, so that real incomes fell by 0.2% over the same period. Combined with the end of government support to households and pension withdrawals, household incomes are expected to come under significant pressure over the coming quarters.

Business confidence has improved in the weeks following Boric's elections, with the Monthly Business Confidence reaching 51.19 points in February, up almost five points from December, but down from over 60 points six months earlier. Consumer confidence has continued to weaken, with GfK's Economic Perceptions Index slipping to 34.9 points in February, down seven points since August, reflecting concern about the state of the economy and Chile's medium-term outlook.

The price of copper, Chile's principal export, has rallied to record levels on fears that the war could affect supplies from Russia, the world's eighth largest producer. Prices on the London Metals Exchange traded at close to US$4.87/lb on March 7th, compared to an average of US$4.47/lb in January and February. Before the rally, analysts had expected prices to decline this year, with the Chilean Copper Commission predicting an average price of US$3.95/lb in 2022.

Mine activity has slipped this year as mining companies contend with increasingly arid conditions and technical problems. Copper production fell to 429,923 metric tons in January, down 7.5% from twelve months earlier. The Chilean Copper Commission has predicted output will rise 2.6% to 5.8 million metric tons, boosted in the second half of the year by the launch of the US$5.3 billion Quebrada Blanca 2 project.

The Chilean Peso has appreciated sharply against the US dollar since the start of the year as investors reacted to the moderate tone adopted by president-elect Gabriel Boric and higher copper prices. After trading at a record CLP 870/dollar immediately after the election, the peso has traded an average of CLP 811/dollar during the first quarter. However, given the improvement in Chile's terms of exchange, especially the high copper price, the peso remains undervalued, reflecting investor concern over the political situation.


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