

Monthly Economic Update

November 30, 2021



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CHILE NEWS

Left-wing deputy Gabriel Boric and right-winger José Antonio Kast will compete to become Chile's next president in a run-off vote on December 19th after attracting the most votes in the first round of voting on November 21st. In a major surprise, economist Franco Parisi beat government candidate Sebastian Sichel and Yasna Provoste from the once dominant centre-left parties into fourth and fifth place respectively without once stepping foot in Chile during the campaign.

Whoever wins the run-off in December will have to work with a divided Congress. While left-of-centre parties

won a slight majority (78 seats) in the lower Chamber of Deputies, right-wing parties control half (25) the seats in the Senate, giving them an effective veto on any legislative initiatives.

On November 17th, an opposition attempt to remove President Sebastian Piñera from office failed after the impeachment motion failed to attract the necessary 29 votes in the Senate. One week earlier, deputies had approved the impeachment, arguing that the president had used his office to favour a controversial mining project in which his family owned a stake. The deal was mentioned in the Paradise Papers leak of confidential documents showing how politicians and celebrities had used tax havens to hide their wealth.

A constitutional reform allowing savers to make a fourth withdrawal from their pension funds failed to achieve the necessary three-fifths majority in the Senate. The bill, which the Central Bank and economists have warned would increase inflation and harm financial markets, has now been sent to a mixed committee of deputies and senators who will discuss possible amendments to secure its approval.

On November 9th, lawmakers voted to extend by another fifteen days a state of emergency in four southern provinces. The legislation allows the government to deploy the military to support the police in a crackdown in organized crime and arson attacks linked to the conflict over indigenous lands.

CANDIDATE	ACT	VOTES	% VOTE
José Antonio Kast	Frente Social Cristiano	1,961,122	27.91%
Gabriel Boric	Apruebo Dignidad	1,814,809	25.83%
Franco Parisi	Partido de la Gente	899,403	12.80%
Sebastián Sichel	Chile Podemos +	898,510	12.79%
Yasna Provoste	Nuevo Pacto Social	815,558	11.61%
Marco Enríquez-Ominami	Partido del Pueblo	534,485	7.61%
Eduardo Artés	Frente Patriótico	103,181	1.47%

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ECONOMIC DATA

The Chilean economy grew by 17.2% in the third quarter, compared to twelve months ago, reflecting the reopening of the economy, government support to households and businesses, the pensions withdrawals and last year's low base of comparison. The figure also marked a 4.9% expansion from the previous quarter. Growth was driven by services, construction and retail which have all benefited from the relaxation of social-distancing measures.

In contrast, mining activity contracted by 4.0% in the quarter, reflecting the impact of lower ore grades, pandemic-related restrictions, technical problems as well as a crippling strike at the state-owned Andina mine. Copper production reached 1.4 million tons in the quarter, down 3.7% from twelve months earlier.

The unemployment rate fell to 8.4% in the three months to September, down from 10.4% six months earlier, as the number of people in work reached its highest level (8.3 million) since March 2020. However, there are still one million less people participating in the workforce than before the start of the pandemic.

Inflation has continued to strengthen on higher energy prices, strong private demand, and the weaker peso. The Consumer Price Index rose by 1.3% in October alone, bringing annual inflation to 6.0%, its highest rate in over a decade. Analysts surveyed by the Central Bank in early November now expect the index to reach almost 7.0% by the end of the year before declining to 4.5% by December 2022.

The surge in inflation has raised expectations that the Central Bank will speed up its withdrawal of the monetary stimulus in the coming meetings. Following the 125-basis point hike in October (to 2.75%), analysts now expect the rate to rise another 100 basis points (to 3.75%) in the final meeting of the year in December. The Central Bank had previously said that it expected the rate to reach a neutral level around 3.5% by the middle of the first half of 2022.

Share prices in Santiago rallied strongly as the results of the legislative elections suggested that the new government would struggle to implement radical changes. The IPSA index of the thirty largest companies listed in Santiago gained 7.7% in the first day of trading after the vote, reaching its highest since April this year.

The Chilean peso also gained against the US dollar in the wake of Kast's victory, trading around CLP 812/dollar, down from over CLP 830/dollar (its highest level since the start of the pandemic) in the week before the election.

Business confidence weakened ahead of the elections and the prospects of fourth pensions withdrawal. The Monthly Business Confidence Indicator, produced by the ICARE business organization and the Adolfo Ibáñez University, slipped two points in October to 58.20 points, driven by a fall in confidence among construction industry executives which moved backed into negative territory for the first time in three months.

Consumer confidence continued to slide amid rising inflation and increased political certainty. After reaching its highest level since the 2019 unrest in August (39.3 points), GfK's Economic Perceptions Index fell to 34.2 points in October. Concern about rising prices reached 73.6 points, its highest level since 2008.

After hitting near record highs above US\$4.80/lb in mid-October amid a squeeze in global inventories, copper prices have declined to around US\$4.40/lb in November, still significantly above the average of US\$4.25/lb recorded in the third quarter.

Imports rose to a record US\$8.1 billion in October, up 68% from the same month of last year, driven by sharp increases in imports of consumer goods, fuels and capital goods. The increase pushed Chile's trade balance into its first monthly deficit in almost two years.

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