

Monthly Economic Update

August 30th, 2022

Polls suggest Chileans will vote to reject to the new constitution at the referendum on September 4th. Although the gap between the two sides has closed in recent weeks, it remains significant. The final poll published by market research firm CADEM before the vote (on August 19th) showed that 46% of those asked planned to vote reject, down from a peak of 53% in mid-July, while support for the constitution reached 37%, up from a record low of 33% in late June.

However, whichever way the referendum goes, Chile's constitutional process will not end there. To bolster support for the new constitution, supporters, including President Gabriel Boric, say that reforms should be made to the text drafted by the Constitutional Convention. On August 11th, government-supporting parties signed an agreement on the changes they would make. These included stronger protection for private property, the continuance of private education and healthcare, limits on indigenous consultations and revising how judges are appointed.

Meanwhile, opponents have said that they would support significant changes to the existing constitution if voters reject the new text in September. To this end, Congress approved on August 10th legislation that would reduce 2/3 or 3/5 to 4/7 the qualified majority required for constitutional reform. However, President Boric has said that if Chileans vote to reject the new constitution, then a second Constitutional Convention should be established to make another attempt at drafting a new constitution.

Chile's mining industry has been alarmed by decisions by regional environmental authorities to reject six mining projects this year, including Anglo American's US\$3.0 billion expansion of its Los Bronces mine, the US\$200

million Fenix gold project and most recently a US\$40 million investment at its El Soldado mine.

Economic Statistics

The Chilean economy has slowed dramatically, with activity barely growing between the first and second quarters of the year. Declines in retail and services, which have driven growth over the last year, was offset by a recovery in mining output. The deterioration has been driven by a 0.9% drop in domestic demand (following a 0.6% drop in the first quarter), reflecting the impact of inflation and the exhaustion of pension withdrawals on private consumption. Annual growth slowed to 5.4% in the quarter, its lowest rate since early 2021.

Driven by the weaker peso and strong domestic demand, inflation has continued to outpace expectations. In July, the government's Consumer Price Index rose 1.4% or by 13.1% on an annualized basis, its highest level in 28 years. The rise was driven by higher food and energy prices, with gasoline price rising 4.6% in July alone and electricity bills rising 3.7%. Analysts surveyed by the Bank in early August predicted that the index would end the year at 12.3%, compared to 10.0% predicted in June.

The unemployment rate averaged 7.8% in the three months to June, little changed from the three preceding rolling quarters. After growing by almost 700,000 last year, the number of people in work has risen by just 160,000 in the first six months of 2022, while the number of unemployed reached its highest level in June since September 2021.

Government spending fell 15.6% during the first six months of the year to CLP 29.0 trillion (US\$31.0 billion) as pandemic-era benefits were withdrawn, while public revenue rose 29.5% to CLP36.5 trillion (US\$39.0 billion). As a result, the Finance Ministry now expects the public deficit to fall to just 0.1% of GDP, down from 1.7% predicted in May.

Following a US\$25 billion intervention launched in late July by the Central Bank, the Chilean Peso recovered from record levels above CLP 1,000/dollar to below CLP 900/dollar by mid-August. However, the currency returned to over CLP940/dollar after Chile's second quarter current account deficit exceeded expectations. Analysts surveyed by the Central Bank in early August predicted it would reach CLP 900/dollar within two months and CLP 870/dollar by mid-2023.

Shares prices have rallied in Chile in line the strengthening US dollar. The IPSA index of the largest companies on the Santiago Stock Exchange gained 6.2% in July and reached almost 5,400 points by mid-August.

Chilean copper production will fall 3.4% this year to 5.43 million tonnes, its lowest level in a decade, as mining companies struggle with lower ore grades, water shortages and other problems, according to the Chilean Copper Commission. In June, production reached 462,172 tonnes in June, down 4.7% from a year ago, as protests over environmental issues forced Antofagasta Minerals to halt its Los Pelambres mine for much of the month. However, production is recovering from the weak start for the year, reaching 1.4 million tonnes in the second quarter, up from 1.3 million tonnes in the first quarter.

After sliding to as low as US\$3.20/lb in July, copper prices have recovered as fears of a recession in the global economy faded, reaching US\$3.65/lb by mid-August. In July, the Chilean Copper Commission forecast that copper prices would average US\$4.00/lb during 2022, down from a previous forecast of US\$4.40/lb published last April.

Chilean exports fell to below US\$8.0 billion in July, down 6.2% from June and their lowest level since last February, reflecting the impact of lower copper prices. Imports fell to US\$7.9 billion. As a result, Chile's trade surplus for the first seven months of the year reached US\$4.1 billion, down 56.4% from a year ago.

The fall in copper prices and the resulting decline in Chile's trade surplus has caused the country's current account deficit to rise significantly, reaching US\$6.5 billion in the second quarter or 8.5% of GDP, its highest level in almost twenty years. However, the situation is expected to improve in the coming quarters as demand for imports slow and exports recover. In July, the Finance Ministry predicted that the current account would reach 6.5% in 2022, compared to 6.6% in 2021.

Amid slowing growth and rising inflation, business and consumer confidence have fallen sharply, returning levels not seen since the start of the pandemic. The Monthly Indicator of Business Confidence, produced by the Adolfo Ibáñez University and ICARE, fell to 39.01 points in July, its lowest level in two years and down almost four points from June as retail and manufacturing executives grew more pessimistic. GfK's Economic Perceptions Index fell to 21.05 points in July, a two-year low, reflecting consumer concern about the state of the economy and Chile's long-term outlook.

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