Monthly Economic Update

November 29th, 2022

On November 2nd, President Gabriel Boric unveiled the government's pensions reform bill, promising to significantly boost current and future pensions and do away with the private pension fund administrators (AFPs). Under the proposal, the government would:

Lift the Universal Guaranteed Pension to CLP 250,000 (US$276) from CLP 194,000 currently, immediately benefiting more than 2.0 million retirees.

Create a new autonomous body to administrate individual pensions accounts, replacing the role of the AFPs. Savers would be able to choose whether a new state institute or a private entity managed their investments.

Require employers to contribute the equivalent of 6% of a worker's wages into a new social security system. Of this 70% would be paid into the worker's personal pension and the rest would be distributed equally, benefiting the lower paid.

The launch of the pensions reform has bolstered support for the government. After falling to a record low of 25% by early November, approval of President Boric jumped eight points to 33% in the week following the announcement, according to polls by CADEM, although it has since declined.

Almost three months since Chileans voted to reject the new constitution, lawmakers have yet to agree the method for drafting a second version. It now looks impossible that a new constitution could be negotiated and put to a referendum by September next year as proposed by the government. Polls show that almost two-thirds of Chileans still want a new constitution (down from almost 80% in the 2020 referendum) but more than half think lawmakers should focus on more pressing issues.

Lawmakers completed approval of the government's budget for 2023, under which public spending will increase by 4.1%, following this year's 20% fall in expenditure.

In November, President Boric made his first visit since taking office to the southern Araucanía region which has been under a state of emergency since late 2021. Following a rise in violent crime throughout the country, he promised increased surveillance and police presence to halt a spate of terrorist attacks against farms and forestry companies in the region and to clampdown in drugs gangs and violent robberies.

Lorry drivers ended an eight-day blockade of major motorways over high fuel prices and rising crime on November 29th after the government agreed to freeze diesel prices for the next four months and extend the Fuel Stabilization Mechanism and tax breaks for the sector. The protest hampered transport across Chile, causing shortages of some food items in some cities and slowing exports at the start of the fruit-picking season.

Economic Statistics

Inflation has continued to slow with the government's Consumer Price Index rising by just 0.5% in October, its smallest increase in eight months and bringing annual inflation to 12.8%, down from 14.1% in August. While energy and food prices have continued to drive inflation, they have slowed significantly, rising by just 0.5% and 0.4% in October, down from 3.9% and 2.5%, respectively, three months earlier. Core inflation rose by just 0.1%.

Inflation expectations remain high. Analysts surveyed in early November predicted inflation would decline to 5.1% by the end of next year and to 3.3% by the end of 2024, above the Central Bank's two-year policy horizon.

Economic activity has declined but has outperformed expectations. Preliminary data showed that the economy contracted by 0.4% in September, compared with twelve months earlier, its first annual contraction since early 2021, and by 0.2% from the previous month of August, on a seasonally adjusted basis. But the market had expected a 1.0% decline. The drop has been led by retail activity which fell by 10.2% from a year ago, reflecting last year's stimulus-led shopping boom, while services grew by 2.9% driven by education and transport.

Currency markets have remained volatile. After appreciating to CLP 888/dollar by mid-November, its strongest level since early September (on the stronger copper price and increased confidence in the global economy), the Chilean peso fell to CLP 940/dollar as data showed that the current account deficit had widened to a record 9.9% of GDP in the third quarter.

Copper prices rallied strongly in early November, reflecting growing confidence in the health of the Chinese economy following last month's Communist Party conference and a shortage of inventories. The London metal Exchange cash price rose from US$3.50/lb to over US$3.80/lb by mid-November, its highest level in five months.

Amid a dearth of new jobs, unemployment averaged 8.0% in the three months to October, up from 7.2% at the end of last year.

Wages grew by a record 11.2% in the year to September but fell by 2.3% in real terms as inflation swallowed up the gains.

Business confidence remains at historically low levels with the Monthly Indicator of Business Confidence produced by the Adolfo Ibáñez University and ICARE falling to 36.09 points (not counting mining) in October, down two points from September. The fall reflects increased pessimism in the construction sector where the indicator fell to just 24.07 points, its lowest level since July 2020, the height of the pandemic lockdown.

Consumer confidence has also weakened, slipping two points in October to 22.3 points. Confidence fell furthest amongst older consumers to just 17.6 points, reflecting reduced confidence in the country's economic outlook and long-term stability.

Low ore grades and technical problems have continued to hamper copper production which fell to 1.3 million tonnes in the third quarter of the year, down 6.9% from the same period of 2021. State mining company Codelco expects its output to fall below 1.5 million tonnes this year for the first time in 20 years as it deals with metallurgical problems at its largest smelter.

Chile's trade balance swung back into surplus in October, after imports fell sharply. While exports were little changed from the previous month at US$7.6 billion, imports fell 10.9% to US$7.1 billion on lower imports of energy products and intermediate goods, resulting in a US$457 million surplus.

Cámara Chileno Británica de Comercio A.G

Av. El Bosque Norte 0125, Las Condes

info@britcham.cl | www.britcham.cl

Economic Committee:

Peter Lynch, Senior Manager Audit South America, BHP Chile

Jorge Selaive, Chief Economist, Scotiabank Chile

Gareth Taylor, First Secretary – Economics and Trade, British Embassy

Guillermo Tagle, President, Credicorp Capital

Leslie Hemery, Vice President, British Chilean Chamber of Commerce

Tom Azzopardi, Journalist

Greg Holland, General Manager, British Chilean Chamber of Commerce