CÁMARA
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Monthly Economic Update

August 28th, 2024

Violent storms in early August with winds of up to 124 kilometres an hour left hundreds of thousands of families in central Chile without electricity for more than a week. The government has begun procedures strip Italian energy firm Enel of its concession cover most of Santiago after the company struggled to restore power.

In August, the government reached agreement with the Senate Labor Commission to complete approval of its flagship pension reform by next January. The bill would then need to return to the Chamber of Deputies which rejected key parts of the legislation, including a new employee contribution to be redistributed to low-income workers.

Workers at the Escondida mine, the world's largest copper operation, held a four-day strike in August over pay and conditions. The strike ended after the operator BHP offered a signing bonus of CLP 33 million (US$36,300) per worker and other benefits. Workers at Lundin Mining's Caserones mine returned to work after 12 days.

Crime levels remain the principal concern among voters following a spate of murders in Santiago this year. Eighteen people have been arrested after CLP 12 billion (US$13.2 million) in cash was stolen from a security company's office in Rancagua although the money has not yet been recovered.

HNH Energy, an Austrian-Danish consortium, has applied for a license to build an US$11 billion green hydrogen complex in southern Magallanes region, including 194 wind turbines, an ammonia plant and a port facility. The project is the largest ever presented to Chile's environmental assessment service.

US mining company Freeport McMoRan will apply later this year for a license for a US$7.5 billion expansion of its El Abra copper mine. With a new concentrator plant, the operation could produce more than 300,000 tonnes annually of copper.

Support for the government has strengthened in recent weeks. Approval of President Boric reached 37% on August 18th in CADEM's weekly poll, its highest rating in more than a year and up from 24% four months earlier.

Support is growing for former president Michelle Bachelet to run as the government candidate in next year's presidential election. The Socialist, who has already two terms as president, would likely face centre-right Mayor of Providence Evelyn Matthei (who Bachelet defeated for the presidency in 2013).

Economic Data

The Chilean economy grew by 1.6% in the second quarter, driven by rising mining, retail and utilities activity. The figure marked a slowdown from growth of 2.3% in the first three months of the year, reflecting a higher base of comparison as well as slowing services sector.

Analysts surveyed by the Central Bank in early August predicted that the economy would grow by 2.3% this year, at the lowest of the Central Bank's latest forecast.

Unemployment averaged 8.3% during the three months to June, down from 8.5% from twelve months earlier. Around 100,000 net jobs have been created so far this year, matching the growth seen at the end of last year. Wages grew by 2.5% in real terms in the year to June, little changed since the start of the year

Inflation has continued to surge amid higher energy prices. In July, the government's Consumer Price Index rose by 0.7%, lifting annual inflation to 4.6%, up from 3.7% in March and its highest rate in eight months. Volatile energy prices rose by 15.8% in the year to July, their fastest rate in eighteen months, while non-volatile goods prices rose by just 1.6%. Inflation for services remain high, reaching 4.8% in July.

The surge in prices has altered inflation expectations, Analysts predicted in August that the index would end the year at 4.5%, up from 3.0% six months earlier.

Faced with rising inflation, the Central Bank has halted the loosening of monetary policy began last year. On July 31st, its board voted unanimously to maintain its benchmark interest rate at 5.75%, the first time it has not reduced the rate in more than a year. Analysts now expect that the rate will reach 5.25% by the end of the year, up from 4.25% predicted six months earlier.

Business confidence remains poor. The Monthly Business Confidence Indicator, produced by the Adolfo Ibáñez University and business association ICARE, reached 41.13 points, up two points from three months earlier. The rise reflects increased optimism in the construction sector although it remains near historic lows (28.41 points).

Consumer confidence has weakened in recent weeks. In July, GfK's Economic Perception Index fell to 28.0 points, down 4 points from June and its lowest level in nine months. The drop reflects increased pessimism about the state of the economy and the medium-term outlook.

Share prices in Chile plummeted in early August in line with a global stock sell-off amid increased concerns of a recession in the US. However, after losing 5.3% of its value in just three days, the IPSA index of the largest companies listed on the Santiago Stock Exchange recovered rapidly to end the month close to previous levels.

The Chilean peso has appreciated against the US dollar, reaching CLP 925/dollar by late August, down from around CLP 950/dollar from a month earlier. The move mirrored the recovery in the price of copper, Chile's principal export.

Copper prices have begun to climb again. After falling below US$4.00/lb in early August (down from a peak of almost US$4.90/lb in late May), the copper price had risen to US$4.15/lb by late August.

Higher copper prices saw Chile's trade surplus during the first eight months of the year grow to US$13.8 billion, up 36.6% from twelve months earlier. While exports grew 4.2% to US$58.3 billion on increased shipments of minerals, imports fell 3.0% to US$47.6 billion as imports of capital goods fell.

Cámara Chileno Británica de Comercio A.G

Av. El Bosque Norte 0125, Las Condes

info@britcham.cl | www.britcham.cl

Editorial Group:

Peter Lynch, Past President's Forum, British Chilean Chamber of Commerce

Claudia de la Huerta, Trade Policy and Market Access Officer, British Embassy

Leslie Hemery, Past President's Forum, British Chilean Chamber of Commerce

Tom Azzopardi, Journalist

Greg Holland, Director, British Chilean Chamber of Commerce

Elle Denton, Executive Director, British Chilean Chamber of Commerce