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CHILENO BRITÁNICA
DE COMERCIO

Monthly Economic Update

June 26th, 2024

The Chilean economy demonstrated moderate recovery through the second quarter of 2024. Growth during this period has been attributed to increased consumption and resurgence in several key sectors, including services, manufacturing, and mining. However, despite the promising trends in economic expansion, the Central Bank of Chile expects this growth rate to decelerate in the latter half of the year, largely due to higher comparison bases.

Chile's economic activity grew by 3.5% in April and 1.1% in May, showcasing a steady upward trend in activity. The services sector, which represents 50% of the GDP, led this growth with a 2.9% increase in April. The manufacturing and retail sectors followed closely. Nevertheless, May saw a slower growth rate driven by the decline in retail activities.

Chile's GDP growth rate is projected between 2.25% and 3.00% for the year 2024, making it the fastest growth Chile has experienced in three years. This growth projection is primarily driven by a resurgence in household consumption, which is expected to increase by 2.5%, and a slower contraction in investment, down from an earlier forecast of a 2% decline to 0.3%. Investments, although showing less of a drag than expected, continue to face challenges in sectors such as construction due to high interest rates and sluggish home sales.

Services Sector: Growth in the services sector has been steady and crucial for overall economic recovery. As mentioned, the services sector accounts for about half of the GDP and experienced a growth of 2.9% in April. The sector's resilience is supported by the recovery in domestic demand and the easing of pandemic restrictions that had previously curtailed activity.

Retail Sector: The retail sector experienced a mixed performance. Although retail sales in Santiago saw an impressive rise of 15.2% year-on-year until May 2024, supported by increased purchases of electronics, clothing, and appliances, other areas of retail, such as vehicle sales, did not follow the same trend. Vehicle sales experienced a 10.2% decline in the first half of the year. The recovery in retail was fueled by improved consumer sentiment, although challenges such as inflation and interest rates continue to weigh on long-term growth potential.

Construction Sector: The construction industry faced ongoing challenges throughout Q2 2024, marked by declines in investment, material sales, and construction authorizations. The IMACON index fell to record lows by March, with a sharp reduction in home sales further exacerbating the situation. This sector continues to face pressure from high interest rates, making mortgage borrowing and investments in real estate less attractive.

Mining Sector: The mining sector, a cornerstone of Chile's economy, saw fluctuating performances across various commodities. Copper prices soared to above US$5.00/lb in May, leading to record high export revenues and narrowing Chile's current account deficit. However, the lithium sector did not fare as well. Despite government efforts to increase lithium production, global lithium prices fell by around 80% since late 2022. This has complicated efforts to attract foreign investment into downstream lithium industries, which had been a key part of President Gabriel Boric's National Lithium Strategy.

Rising inflation has become a central issue for Chilean economic policy. The Chilean peso's depreciation and higher energy prices have contributed to an increase in annual inflation, which rose to 4.2% by the end of Q2. Inflationary pressures have been particularly pronounced in food and energy costs, with petrol prices crossing CLP 1400/litre in May before stabilizing. The Central Bank has adjusted its inflation expectations for 2024 from 3.8% to 4.2% and does not expect inflation to converge with its medium-term target of 3% until 2026.

To address inflationary pressures, the Central Bank has slowed the loosening of monetary policy, cutting its benchmark interest rate by only 25 basis points in June, bringing it to 5.75%. Further cuts are not expected in the immediate future, with analysts predicting that the interest rate will settle around 5.25% by the end of 2024. The Bank's policy shift reflects concerns over the persistence of inflation and the impact of global energy price fluctuations, as well as local factors such as higher electricity prices and labor market tightness.

Chile's unemployment rate in Q2 remained stubbornly high, averaging 8.3% in the three months leading up to May, which is above pre-pandemic levels. While male unemployment fell to its lowest in over a year (7.6%), female unemployment rose to 9.3%. The slight decline in unemployment figures can be attributed to job creation in sectors such as construction, professional services, and public administration. However, significant job losses occurred in manufacturing, agriculture, and hospitality sectors.

Wages grew by 6.0% in nominal terms in May, though real wage growth (adjusted for inflation) was only 2.0%, reflecting the impact of inflation on purchasing power. As of July 1st, the minimum wage was raised to CLP 500,000, a notable increase from CLP 460,000.

Chile's trade balance improved significantly during Q2 2024. The country recorded a trade surplus of US$12.0 billion in the first six months of the year as exports rose and imports fell. Exports increased by 1.4%, driven by higher shipments of agricultural products (notably cherries and grapes) and minerals. The export of copper, Chile's primary export commodity, rose by 14%, fueled by higher copper prices. In contrast, imports dropped by 4.6%, with capital goods imports falling sharply due to declining investment in construction and mining equipment.

Although copper exports surged, lithium exports were hit hard due to a dramatic fall in global lithium prices. This presents a challenge to Chile's broader economic strategy of capitalizing on its vast lithium reserves, particularly as President Boric's administration pushes to increase state involvement in lithium production.

Despite an improvement in economic activity, challenges remain in terms of inflation management and business confidence. While the Chilean peso appreciated to around CLP 910 per US dollar in mid-July, reflecting higher copper prices and shifts in monetary policy, inflation continues to weigh on both consumers and businesses.

Consumer confidence improved marginally but remained historically low, reflecting lingering concerns over the economic outlook. GfK's Economic Perceptions Index, a measure of consumer optimism, reached 32.4 points in June, its highest in over two years. Business confidence showed a slight recovery, particularly in the retail sector, but remains fragile, particularly in the construction sector, where confidence is near historic lows.

Chile's public deficit is forecasted to reach CLP 5.6 trillion (US$6.1 billion) by the end of 2024, equivalent to 1.9% of GDP. The government has increased spending on social programs and infrastructure, while higher copper prices have boosted tax revenues. However, declining lithium prices have partially offset these gains.

The government's fiscal policy is focused on managing its public debt while continuing to support social reforms. In particular, the government has announced initiatives around student debt cancellation and progressive social policies such as the liberalization of abortion laws, which have bolstered public support for President Boric's administration in the run-up to regional elections later this year.

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