

## Chile's Macroeconomic Performance: Q3 2019 GDP and Current Monthly Indicators

**MUFG UNION BANK, N.A.**  
**ECONOMIC RESEARCH (NEW YORK)**  
KAREN MARTINEZ  
Latin America Economist  
+1(212)782-5708  
KMartinez@us.mufg.jp

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### Overview

During Q3 2019, Chile's GDP increased by 3.3% YoY, an acceleration from the previous quarter (1.9% YoY). The quarter-over-quarter growth rate was 0.7%.

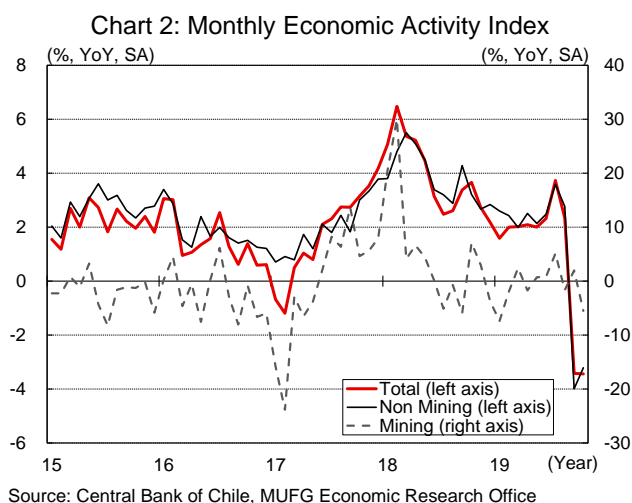
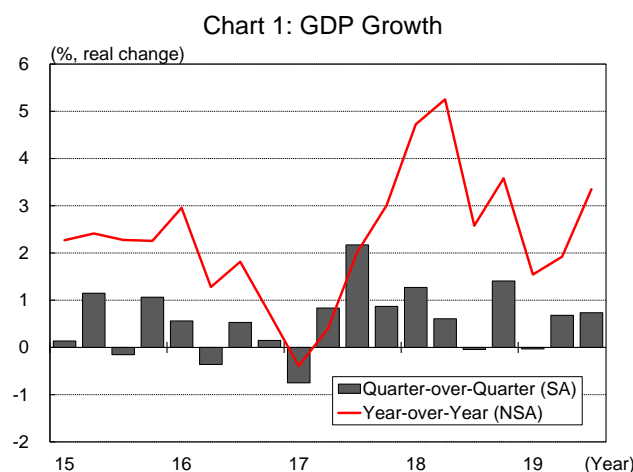
Chile's economic activity deteriorated significantly amid a social crisis that started with protests on October 18, 2019. The monthly economic activity index decreased 3.3% YoY in November, the second consecutive decrease (in October the economic activity index decreased 3.4% YoY, the sharpest decrease recorded since January 2009) probably as a result of a paralyzed transportation system and the overall disruption in business activities. Q4 GDP will be released in March 2020.

Based on current leading indicators, GDP growth is expected to slow in Q4 2019. GDP growth is expected to finish 2019 at around 1.0% YoY and we expect GDP growth rate to accelerate in 2020 as a result of: 1) easing of social disruptions due to political acknowledgment of protester demands; and 2) the fiscal stimulus announced by the government, which could temporarily increase household consumption.

## 1. GDP

During Q3 2019, Chile's GDP increased by 3.3% YoY, an acceleration from the previous quarter (1.9% YoY) (Chart 1). The quarter-over-quarter growth rate was 0.7%.

In Q4, Chile's economic activity deteriorated significantly amid a social crisis that started with protests on October 18, 2019<sup>1</sup>. The monthly economic activity index decreased 3.3% YoY in November (Chart 2), the second consecutive decrease (in October the economic activity index decreased 3.4% YoY, the sharpest decrease recorded since January 2009) probably as a result of a paralyzed transportation system and the overall disruption in business activities. Q4 GDP will be released in March 2020.



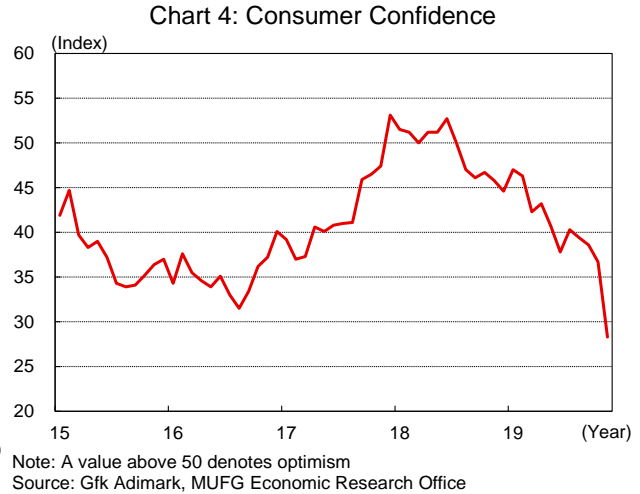
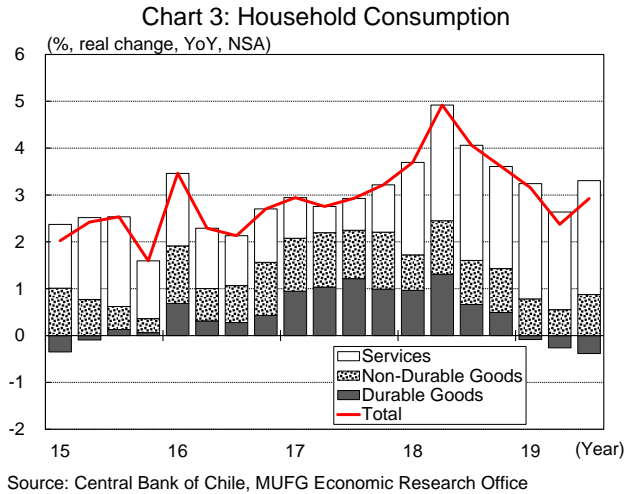
## Consumption and Investment

Household consumption grew 3.0% YoY during Q3 2019, an acceleration from the previous quarter (2.4% YoY) (Chart 3). This was the result of an increase in consumption in services and non-durable goods, partially as a result of low inflation and low interest rates.

More recently, household consumption could have been affected by the social crisis. Consumer confidence, one of the leading indicators for household consumption, declined sharply in November 2019 with the index only registering 28.3 points in November, an 8 point decrease from October and the lowest level in the last 10 years<sup>2</sup> (Chart 4). The components that registered the largest decreases were 'evaluation of the current economic condition' and 'intentions of buying durable goods'. The latter is in line with the observed decrease of light vehicle sales in October (-39.3% YoY).

<sup>1</sup> Protests started as a result of a 3% hike in subway fares, but have since evolved into a social crisis with citizens demanding, among other things, higher pension benefits and wages, and affordable health care and education.

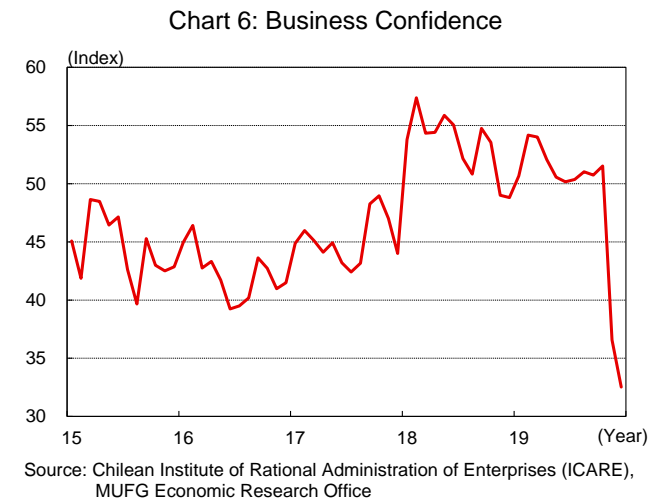
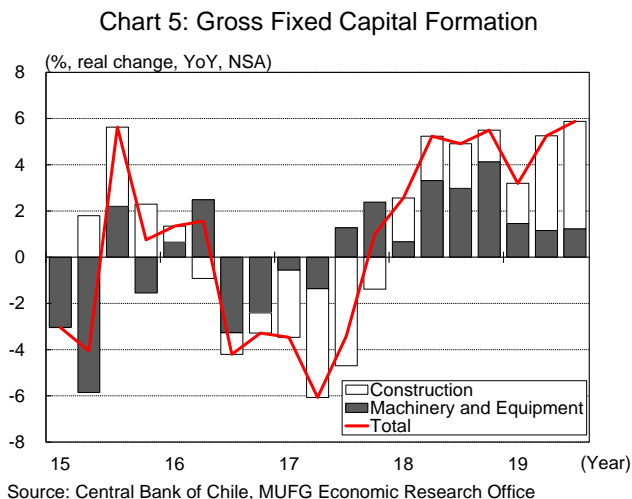
<sup>2</sup> "Index of economic expectations", GfK Adimark (Chile, November 2019).



Regarding investment, gross fixed capital formation (GFCF) grew 5.9% YoY in Q3 2019, an acceleration from the previous quarter (5.3% YoY), partially as a result of an increase in construction activity in the mining sector (Chart 5).

Business confidence, one of the leading indicators of investment, was affected by the social crisis as it decreased to 32.5 points in December 2019, the lowest level ever reached since the introduction of this indicator in November 2003, with commerce businesses being most affected (Chart 6).

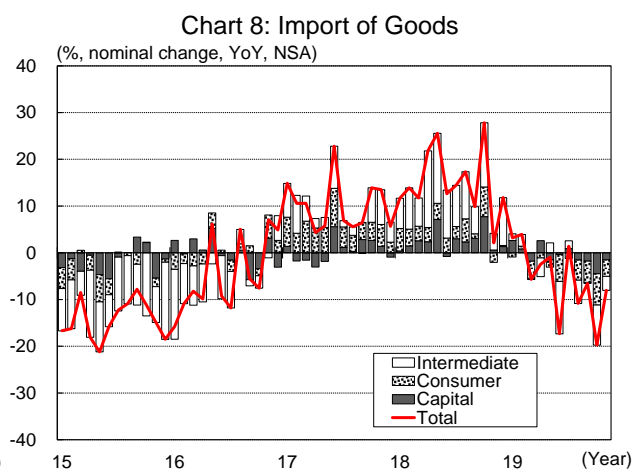
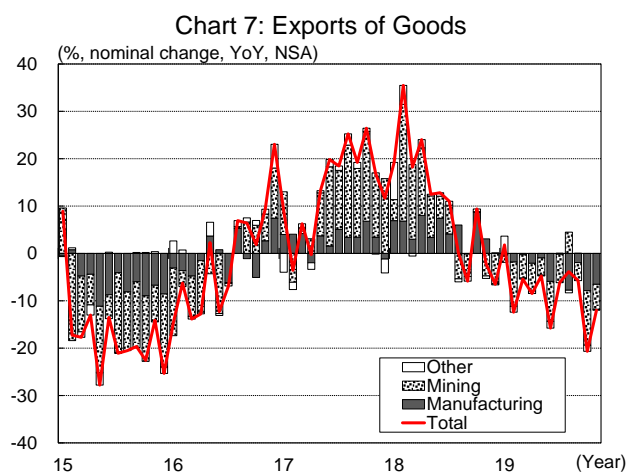
The leading indicators for household consumption and investment suggest that both will likely decrease from previous year in Q4 2019.



## Exports and Imports<sup>3</sup>

Exports of goods decreased 12.0% YoY in November 2019 (Chart 7). Exports have been decreasing throughout 2019, mainly as a result of the decrease in exports of mining goods, partially due to lower copper prices.

Imports of goods decreased 8.0% YoY in November 2019 (Chart 8), although this reflects an improvement from the previous month (-19.7% YoY), it is still concerning. The social crisis could be limiting imports as a result of: 1) lower domestic demand as households and business are more reluctant to spend in times of great uncertainty; and 2) the depreciation of the Chilean peso, making imported goods more expensive.



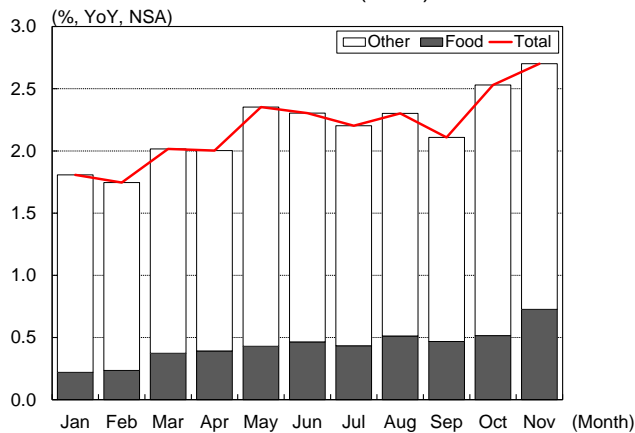
## 2. Inflation and Monetary Policy

In November 2019, CPI grew by 2.8% YoY, an acceleration from the previous month (2.7% YoY) (Chart 9). An acceleration in food prices as a result of an increase in meat prices is what drove the increase in CPI in November. The social crisis impact on prices was limited as CPI in November remained below the target rate of 3.0%.

During its most recent meeting in December, the Central Bank decided to keep the policy rate unchanged at 1.75%, after cutting interest rates during the previous meeting in October (Chart 10). The Central Bank's decision to keep the policy rate unchanged could have been driven by the currency depreciation.

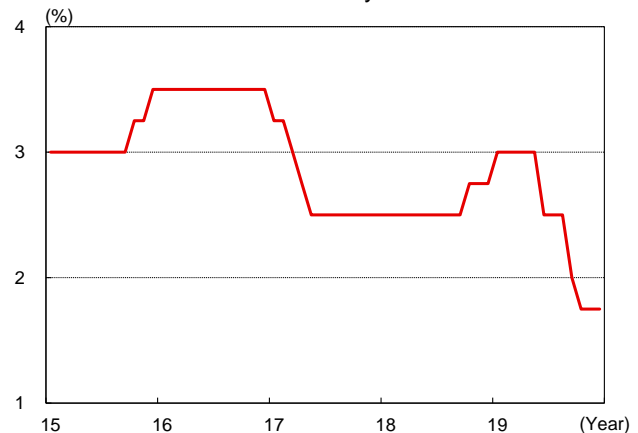
<sup>3</sup> This section is reporting nominal values.

Chart 9: CPI (2019)



Source: Central Bank of Chile, MUFG Economic Research Office

Chart 10: Policy Rate



Source: Central Bank of Chile, MUFG Economic Research Office

### 3. Outlook

Based on current leading indicators, GDP growth is expected to slow in Q4 2019. GDP growth is expected to finish 2019 at around 1.0% YoY<sup>4</sup> and we expect GDP growth rate to accelerate in 2020 as a result of: 1) easing of social disruptions due to political acknowledgment of protester demands<sup>5</sup>; and 2) the fiscal stimulus announced by the government, which could temporarily increase household consumption.

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<sup>4</sup> Based on Central Bank projections from December 2019.

<sup>5</sup> In order to respond to protesters demands such as higher pension benefits, and affordable health care and education, a constitutional revision is being considered. A national referendum to ask Chileans if they want a new constitution is scheduled to be held on April 2020.