Chile's Macroeconomic Performance: Q3 2018 GDP and Current Monthly Indicators

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Overview

Chile's GDP grew 2.8% YoY in Q3 2018, the slowest growth registered since Q3 2017. GDP growth was driven by the still robust performance of investment but net exports dragged on real GDP growth during Q3 2018.

Household consumption grew 3.8% YoY in Q3 2018. Despite the fact the rate of increase represented a slowdown in comparison to previous quarter, the growth rate of household consumption was faster than the average growth rate between 2014 and 2017 (2.4% YoY).

Gross Fixed Capital Formation (GFCF) grew 7.1% YoY during Q3 2018. The increase in investment was driven mainly by an increase in machinery and equipment (11.8% YoY).

Real exports grew 1.7% YoY during Q3 2018, a deterioration in comparison to the previous quarter and the weakest increase since Q2 2017. This is partially the result of lower quality mineral output.

The Consumer Price Index (CPI) in November 2018 was 2.8% YoY, down from 2.9% YoY in October.

During its last meeting in December, the Central Bank decided to keep the interest rate unchanged at 2.75% after increasing the interest rate in October (the first increase after 16 consecutive months of keeping the interest rate unchanged).

For 2019, it is expected that GDP will continue to grow at a healthy rate, although a deceleration from 2018 is expected.

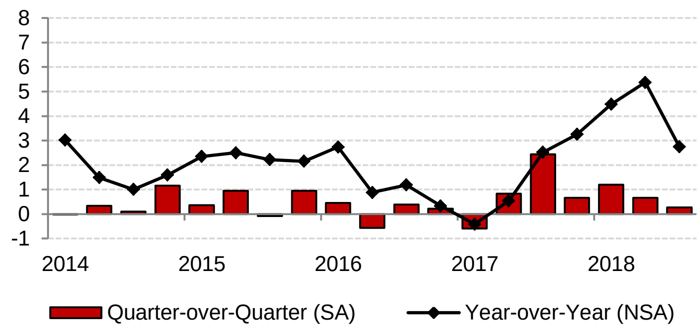
1. GDP

Chile's GDP grew 2.8% YoY in Q3 2018, the slowest growth registered since Q3 2017 (Figure 1). On a quarter-over-quarter basis (compared to Q2 2018), Chile's GDP increased by 0.3%.

Chile's YoY GDP growth was driven by the still robust performance of investment (Figure 2), but net exports dragged on real GDP growth during Q3 2018.

Figure 1: GDP Growth

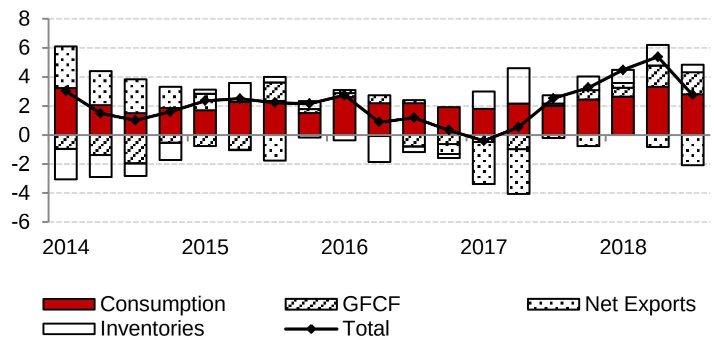
%, real change



Source: Central Bank of Chile, MUFG

Figure 2: GDP by Demand Components

%, real change, YoY (NSA)



Note: GFCF stands for Gross Fixed Capital formation
Source: Central Bank of Chile, DataStream, MUFG

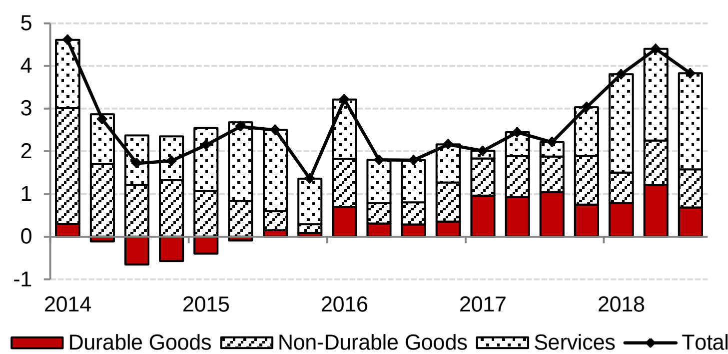
Consumption

Household consumption grew 3.8% YoY in Q3 2018 (Figure 3). Despite the fact the rate of increase represented a slowdown in comparison to previous quarter, the growth rate of household consumption was faster than the average growth rate between 2014 and 2017 (2.4% YoY).

The growth rate of consumption of durable goods decreased from 13.3% YoY in Q2 2018 to 7.3% YoY in Q3 2018 and was the slowest it has been over the last seven quarters. One of the possible causes of the slow growth rate for durable goods consumption is that growth rate of real wages continued to decrease (1.3%

Figure 3: Household Consumption

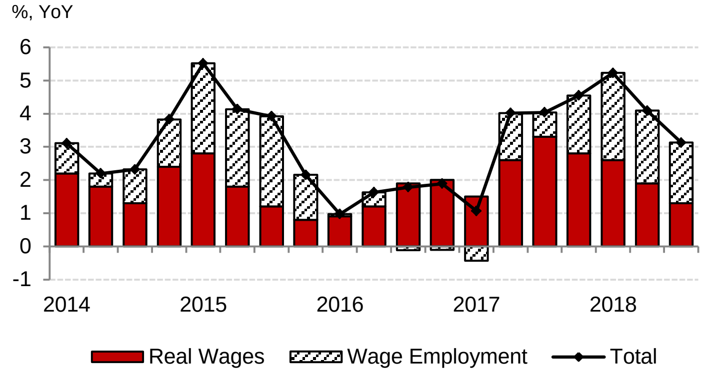
%, real change, YoY (NSA)



Source: Central Bank of Chile, DataStream, MUFG

YoY in Q3 2018 in comparison to 1.9% YoY the previous quarter) (Figure 4). The growth rate of wage employment also decreased (1.8% YoY in Q3 2018 in comparison to 2.2% YoY in the previous quarter); as a result, the growth rate of the real total wage in Q3 2018 decreased to 3.1% YoY from 4.1% the previous quarter.

Figure 4: Real Total Wage



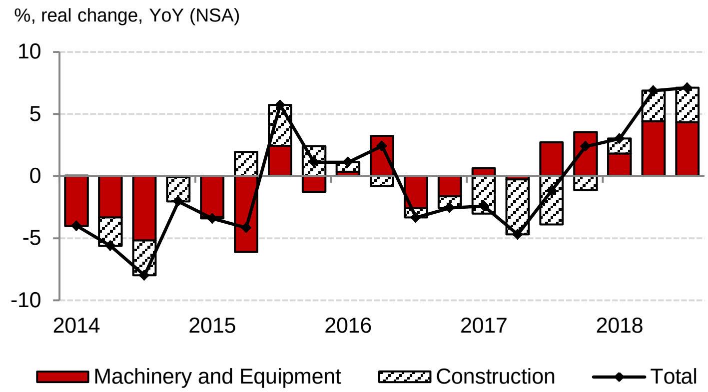
Note: Real total wage is defined as real wages times wage employment.
Source: INE, MUFG

Investment

Gross Fixed Capital Formation (GFCF) grew 7.1% YoY during Q3 2018 (Figure 5). The increase in investment was driven mainly by an increase in machinery and equipment (11.8% YoY). This could be partially explained by the increase in investment in mining[1] that has been positively affected by new investment and the reactivation of paralyzed projects. This can be observed in the increase in capital imports during Q3 2018, principally in mining and construction machinery (Figure 6).

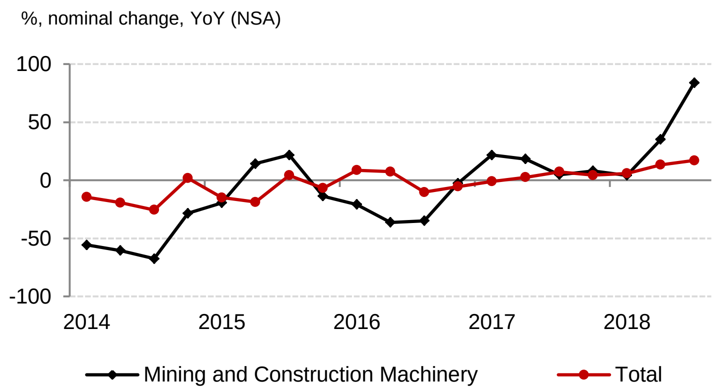
Investment in construction continued to improve (4.4% YoY), showing its strongest growth since Q3 2015; low interest rates could be one of the reasons for the improvement.

Figure 5: Gross Fixed Capital Formation



Source: Central Bank of Chile, DataStream, MUFG

Figure 6: Import of Capital Goods



Source: Central Bank of Chile, MUFG

[1] According to The Chilean Copper commission, the estimate of the investment in the mining sector for the period 2017-2026 is 31.8% bigger than the previous estimate for the period 2016-2025. The mining sector is being driven by investment in copper, gold and lithium.

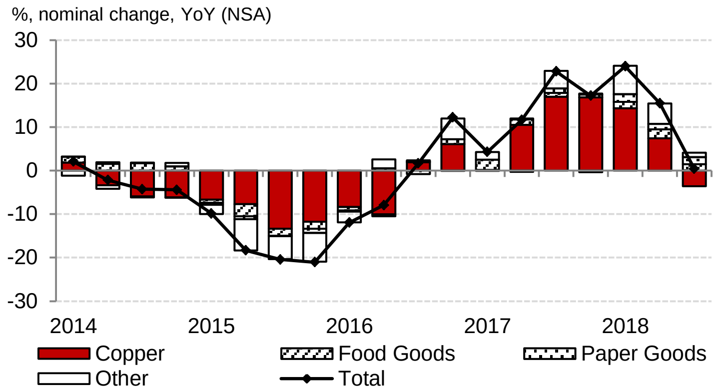
Exports and Imports

Real exports grew 1.7% YoY during Q3 2018, a deterioration in comparison to the previous quarter and the weakest increase since Q2 2017, while real imports continued with a robust growth (8.4% YoY).

The slowdown in exports is also observed in the YoY growth of nominal exports of goods, which only grew 0.4% YoY during Q3 2018 (Figure 7), a deterioration in comparison to the previous quarter and the weakest increase since Q4 2016. The growth in exports of goods has been driven by solid performance in manufacturing, mainly driven by food and paper goods. In contrast, during this period mining exports decreased, driven by the decrease in copper exports (-6.9% YoY during Q3 2018). This is partially the result of lower quality mineral output and a drop in copper prices.

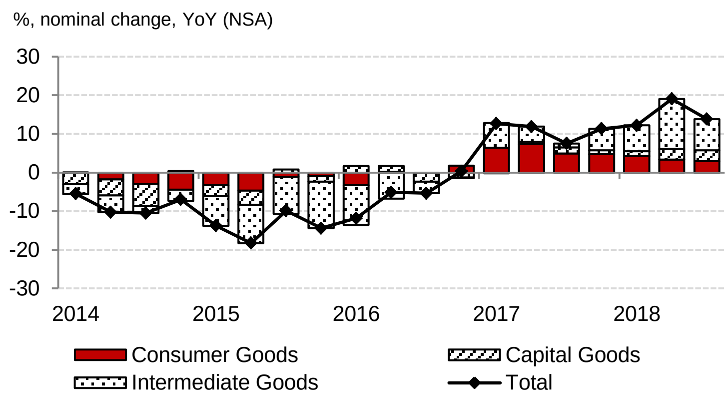
Nominal imports of goods continued to experience robust growth during Q3 2018, growing at 14.6% YoY (Figure 8). While this rate of increase represented a slowdown from Q2, the expansion of imports of goods was faster than the average growth rate in 2017 (11.0% YoY). Imports of consumer goods have been driven by an expansion in vehicle sales. The increase in capital goods is in line with investment, as explained above.

Figure 7: Exports of Goods



Source: Central Bank of Chile, DataStream, MUFG

Figure 8: Import of Goods

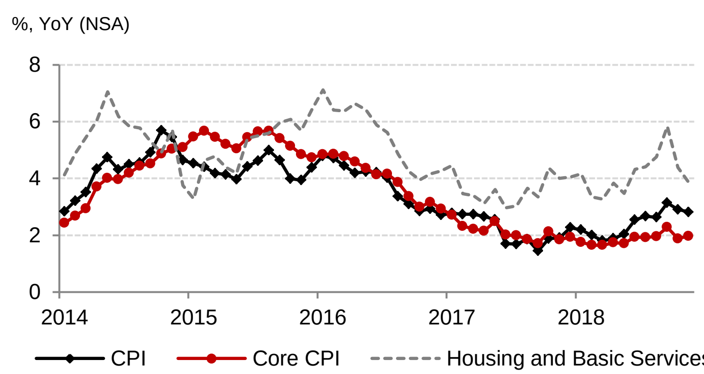


Source: Central Bank of Chile, DataStream, MUFG

2. Inflation and Monetary Policy

The Consumer Price Index (CPI) in November 2018 was 2.8% YoY, down from 2.9% YoY in October (Figure 9), and it is

Figure 9: Inflation

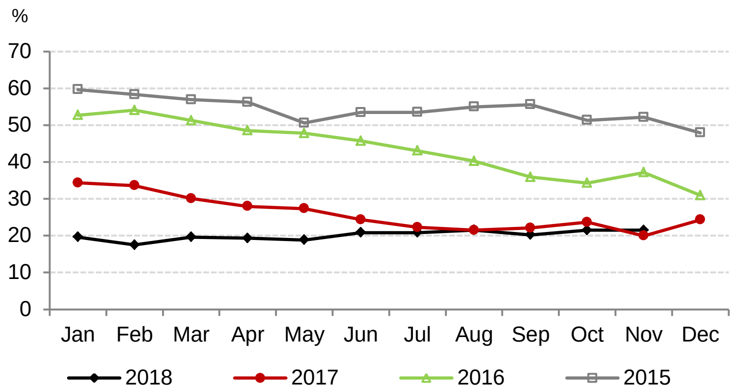


Note: Housing and basic services includes water, electricity and gas prices.
Source: INE, MUFG

currently below the inflation target rate of 3.0%. The slower growth in prices for housing and basic services, principally a decrease in electricity[2] prices (-2.5% YoY), contributed to the slower growth of CPI in November.

Core CPI, at 2.0% YoY in November 2018, remained low and it is currently at the lower bound of the inflation target range, and the diffusion index, which measures the proportion of inflation components with positive price variations, registered an average of 21.5% in November (Figure 10). Core inflation and the diffusion index indicate an absence of upward pressure on prices.

Figure 10: Diffusion Index



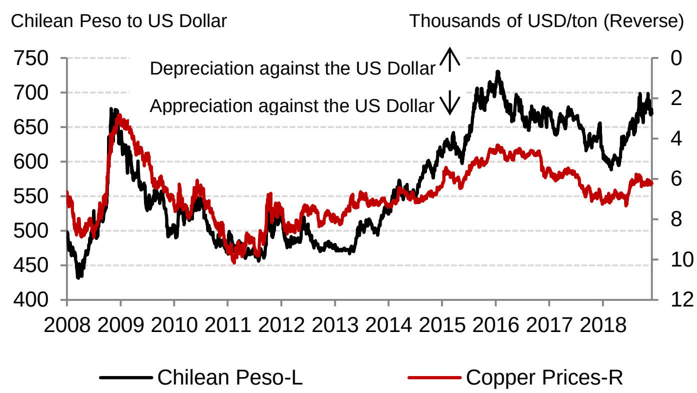
Note: The diffusion index was calculated assigning a value of 1 for components where prices rose more than 5% YoY, components that increased less or equal to 5% YoY were given a value of 0.5 and components where price changes were 0% YoY or less were given a value of 0. The component values were summed and divided by the number of total components. Finally that number was multiplied by 100. CPI data divided by subclass was used for this calculation.
Source: INE, MUFG

During its last meeting in December, the Central Bank decided to keep the interest rate unchanged at 2.75% after increasing the interest rate in October (the first increase after 16 consecutive months of keeping the interest rate unchanged). The reasons the Central Bank highlighted for keeping the interest rate unchanged were that the economy continued growing at a good pace, inflation was nearing the 3.0% target and inflation expectations decreased in line with lower international oil prices. The Central Bank emphasized that increasing the policy rate in October allows for a gradual convergence path to neutral, highlighting the likelihood of pauses along the way and flexibility to respond to adverse outcomes.

3. Exchange rate

Since the beginning of this year the Chilean peso depreciated 8.8% (as of November 30th) (Figure 11). This was the result of both the normalization of US monetary policy and the decrease in copper prices as a result of the intensification of the US-China trade conflict.

Figure 11: Exchange Rate and Copper Prices



Source: DataStream, MUFG

[2] The National Commission of Energy said that electricity prices are falling due to a price adjustment as a result of lower costs for generation, transmission and distribution associated with more efficient operations.

4. Outlook

For 2019, it is expected that GDP will continue to grow at a healthy rate, although a deceleration from 2018 is expected. If the trade conflict between the US and China worsens, this could weigh on the Chilean economy going forward.