

Chile's Macroeconomic Performance: Q1 2018 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

Chile's GDP accelerated to 4.2% YoY in Q1 2018, the fastest growth registered since Q1 2014.

Household consumption grew 3.9% YoY in Q1 2018, an acceleration from the previous quarter. This improvement could be explained in part by low inflation and low interest rates, but also by the improvement in the labor market.

Gross Fixed Capital Formation (GFCF) grew 3.7% YoY during Q1 2018, with both components, machinery and equipment and construction, registering positive growth (6.7% YoY and 2.0% YoY, respectively).

The Consumer Price Index (CPI) in April 2018 edged up slightly from 1.8% YoY in March to 1.9% YoY. In general terms, both goods and services prices increased modestly during the first four months of the year. This trend could have been influenced by the appreciation of the Chilean peso.

During its last meeting at the beginning of May and in line with market expectations, the Central Bank decided to keep the interest rate unchanged (2.5%) for the 10th consecutive meeting.

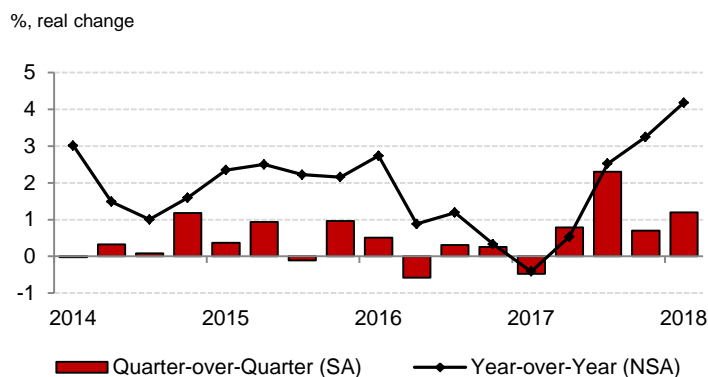
It is expected that Chilean GDP growth will accelerate in 2018. Household consumption will continue to benefit from low inflation and low interest rates as well as an improved labor market. Investment is also likely to improve in 2018 on the back of new investments in the mining sector, as copper prices continue to be high.

1. GDP

Chile's GDP accelerated to 4.2% YoY in Q1 2018, the fastest growth registered since Q1 2014 (Figure 1). On a quarter-over-quarter basis (compared to Q4 2017), Chile's GDP increased by 1.2%.

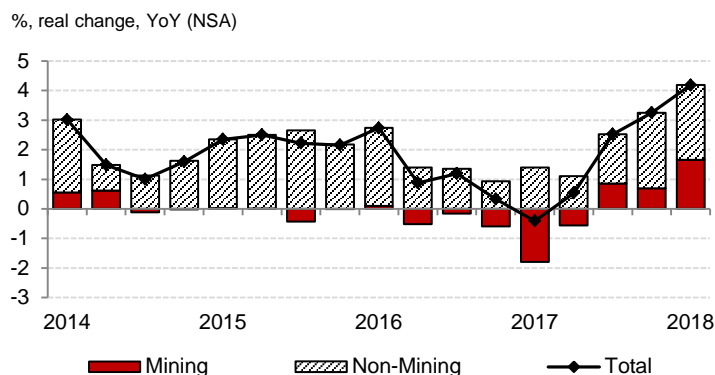
This rapid pace of economic expansion was influenced partly by the low base of comparison as a result of the mining strike during Q1 2017 (Figure 2). This effect will diminish over the course of the year.

Figure 1: GDP Growth



Source: Central Bank of Chile, MUFG

Figure 2: GDP by Sector



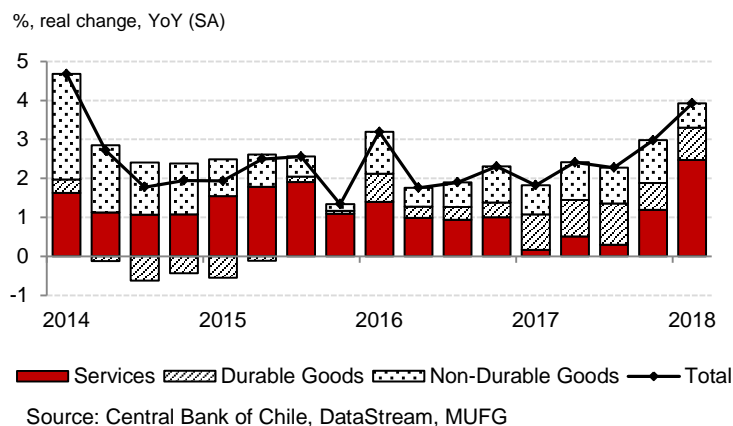
Source: Central Bank of Chile, DataStream, MUFG

Consumption

Household consumption grew 3.9% YoY in Q1 2018, an acceleration from the previous quarter (Figure 3).

The improvement in household consumption could be seen in the substantial increase in the consumption of services during Q1 2018 (5.0% YoY), as well as durable goods (8.7% YoY). This improvement could be explained in part by low inflation and low interest rates, but also by the improvement in the labor market.

Figure 3: Household Consumption



Source: Central Bank of Chile, DataStream, MUFG

Employment increased 2.6% YoY during Q1 2018 (Figure 4)¹. This is explained by the increase in public jobs, however, private jobs also recorded a positive growth rate during Q1 2018 (0.8%YoY) after two consecutive quarters of contraction.

Consumer confidence moved from a pessimistic view to an optimistic one in December 2017 (Figure 5). While some variation has occurred consumer confidence continues to be optimistic and reached 51.2 points in April. This is explained by an improvement in both the current economic situation and improved expectations for the future economic situation of Chile.

Investment

Gross Fixed Capital Formation (GFCF) grew 3.7% YoY during Q1 2018 (Figure 6), with both components, machinery and equipment and construction, registering positive growth (6.7% YoY and 2.0% YoY, respectively). This improvement, especially in construction, could be linked with low interest rates and an increase in mortgage credit. Housing construction permits have expanded (by 22% YoY in Q1 2018), which could also suggest that the activity in the residential sector is likely to begin to improve.

Figure 4: Employment

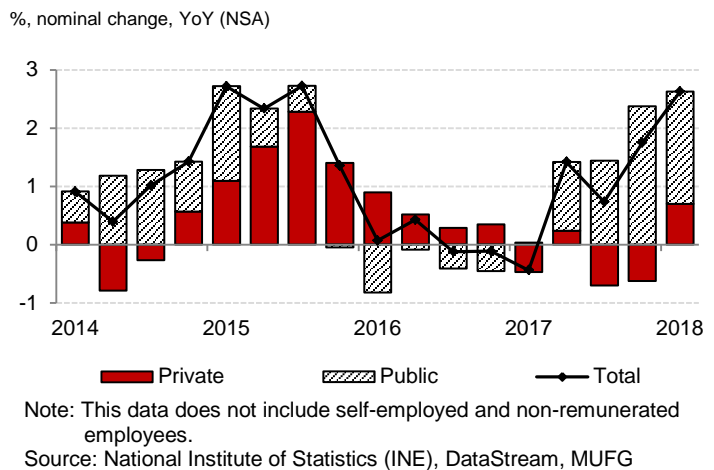


Figure 5: Consumer Confidence

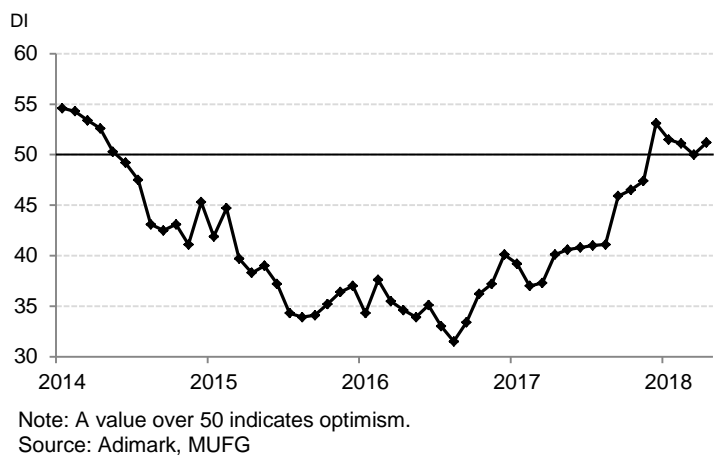
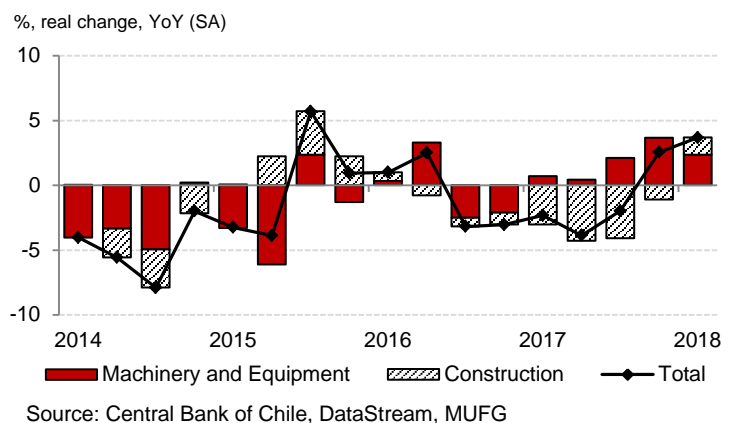


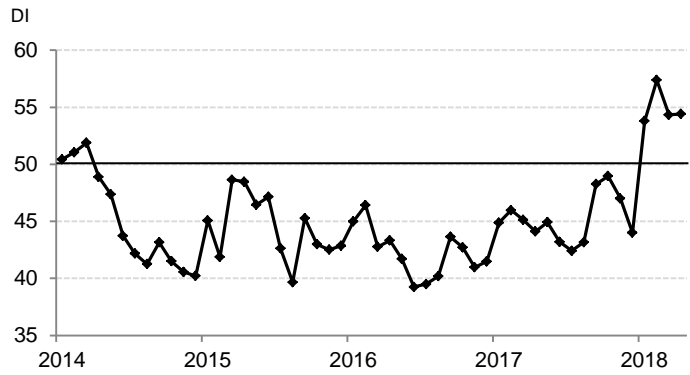
Figure 6: Gross Fixed Capital Formation



¹The unemployment rate increased to 6.7% in Q1 2018 from 6.5% in the previous quarter, this is explained by an increase in the labor force. The unemployment rate continues to be around the same levels as the average of the last 8 years (2010-2017).

Business confidence turned from pessimistic at the end of 2017 to optimistic during the first part of 2018; this improvement could be related to President Piñera winning the election (Figure 7). Business confidence has remained on the optimistic side throughout the first four months of 2018. Business in most sectors recorded an improvement in their expectations, the mining sector showed the biggest improvement, likely on the back of better copper prices and fading fears of a trade war between the US and China. This last point has become more uncertain recently due to renewed trade tensions between the two countries; this could put some downward pressures on business confidence going forward.

Figure 7: Business Confidence



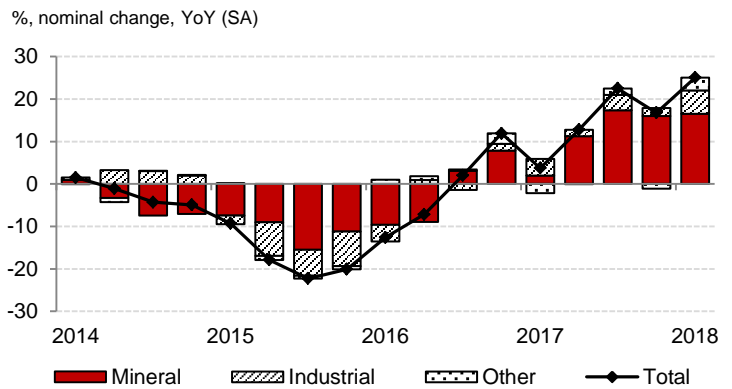
Note: A value over 50 indicates optimism.
 Source: Chilean Institute of Rational Administration of Enterprises (Icare), DataStream, MUFG

Exports and Imports

Exports continued to experience a favorable performance during Q1 2018, increasing by 25.1% YoY (Figure 8). This expansion in exports was driven by the performance in the mining and industrial sectors. This is in line with the improvement of global economic activity and copper prices.

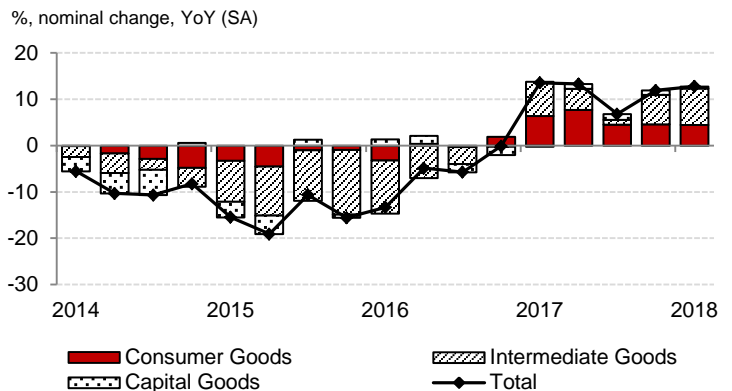
Imports also increased during Q1 2018 (12.0% YoY) (Figure 9). The increase in imports of intermediate goods is consistent with the increase in industrial exports.

Figure 8: Exports of Goods



Source: Central bank of Chile, DataStream, MUFG

Figure 9: Import of Goods



Source: Central Bank of Chile, DataStream, MUFG

2. Inflation and Monetary Policy

The Consumer Price Index (CPI) in April 2018 edged up slightly from 1.8% YoY in March to 1.9% YoY (Figure 10), but continued to be below the lower band of the inflation target rate set by the Central Bank (2.0%).

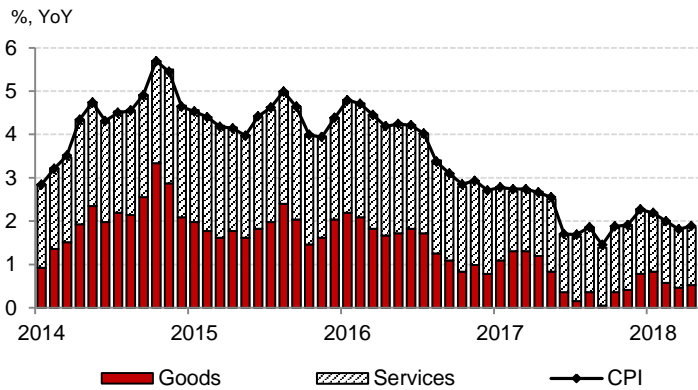
In general terms, both goods and services prices increased modestly during the first four months of the year, but CPI inflation has remained lower than the average of the past three years (2015-2017). This trend could have been influenced by the appreciation of the Chilean peso.

During its last meeting at the beginning of May and in line with market expectations, the Central Bank decided to keep the interest rate unchanged (2.5%) for the 10th consecutive meeting. The Central Bank highlighted low inflation and core inflation (both lower than the lower band of the target rate) and the anchoring of inflation expectations for 2018 as some of the reasons behind the decision. With inflation remaining low since the beginning of the year, it is unlikely that the Central Bank will hike the rate in the coming months.

3. Exchange rate

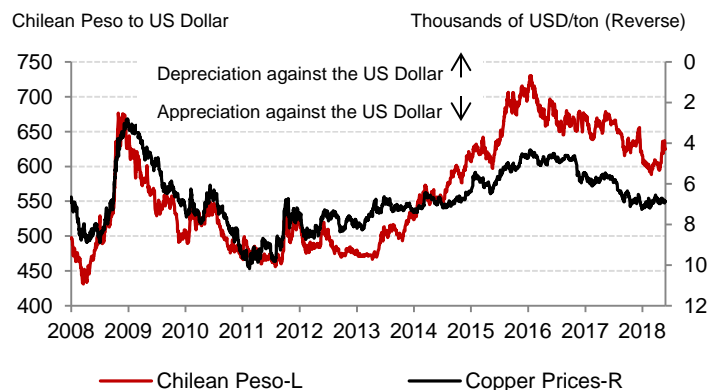
The Chilean Peso tends to track copper prices (Figure 11), but it is also highly vulnerable to external events. After appreciating consistently (although with some volatility) since the beginning of 2016 until it reached its highest level in late April 2018 (594.4 Chilean Pesos to US Dollar), the Chilean Peso depreciated once again during May and it currently stands at 625.3 Chilean Pesos to US Dollar. This latest depreciation is tied to the strengthening of the US economy, which increased the expectations that the Federal Reserve could raise the policy rate more aggressively.

Figure 10: Inflation



Source: INE, MUFG

Figure 11: Exchange Rate and Copper Prices



Source: Central Bank of Chile, DataStream, MUFG

4. Outlook

It is expected that Chilean GDP growth will accelerate in 2018. Household consumption will continue to benefit from low inflation and low interest rates as well as an improved labor market. Investment is also likely to improve in 2018 on the back of new investments in the mining sector, as copper prices continue to be high.

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