

Latam Daily: Chile Saw Best Growth in February Since 2010

- **Chile: Best monthly growth for any February since 2010 leads us to reaffirm our forecast of 7.5% y/y real GDP gains in 2021**

CHILE: BEST MONTHLY GROWTH FOR ANY FEBRUARY SINCE 2010 LEADS US TO REAFFIRM OUR FORECAST OF 7.5% Y/Y REAL GDP GAINS IN 2021

Chile's IMACEC monthly real GDP proxy, in its latest [release](#) on Thursday, April 1, showed the best sequential growth for any month of February since 2010 at 0.9% m/m sa. This was well above the 0.0% m/m sa expected in the Bloomberg consensus, but represented a slowing from 1.3% m/m sa in January.

The monthly print resulted in February's annual growth rate coming in at -2.2% y/y, which was well below expectations owing to level effects stemming from 2020's leap year. This was the second month in a row in which seasonal/calendar effects had an important influence on the IMACEC activity numbers. We had expected a print of -0.5% y/y, while the BCCh's own survey (i.e., the *Encuesta de Expectativas Económicas*, EEE) foresaw 1.5% y/y, and the Bloomberg consensus anticipated 1.6% y/y. Nevertheless, high monthly rates of growth have returned economic activity to levels comparable to a year ago (chart 1), making Chile one of the world's first countries to attain pre-COVID-19 levels of monthly GDP.

The non-mining component of GDP grew sequentially even faster in February, hitting a rate of 1.1% m/m sa. The recovery of services, with growth of 1.5% m/m sa, stood out as it is one of the drivers of Chile's rebound: the print highlighted further re-opening of the economy and rising numbers of people who travelled domestically for their summer vacations. February's real level of services activity was on par with a year ago in February 2020. Commerce (i.e., retail) also continued to show solid dynamism in February owing to the availability of monies from the second round of pension withdrawals at the end of December 2020 (chart 2).

Recent quarantine measures are likely, however, to lead to new setbacks to GDP in March. We would not rule out the possibility that these effects could continue into April if restrictive measures remain in place beyond the middle of this month.

This note of caution is focused at the sectoral level on mining, which saw a significant annual decline in February (-4.9% y/y). This resulted from a fall in the volume of copper extracted and processed as average mineral grades came down. Additionally, the leap-year effect, where February 2020 had one more day than its 2021 counterpart, had a more pronounced impact in mining than in other major productive sectors.

The seasonal factor surprised us negatively: it was markedly smaller than that observed for any February in recent years (chart 3). We believe that this was due to more pronounced seasonal effects related to last year's extra day in February than we had anticipated in our models. Still, the strong month-on-month gains in February provided a good hand-off to the rest of the year.

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Chart 1

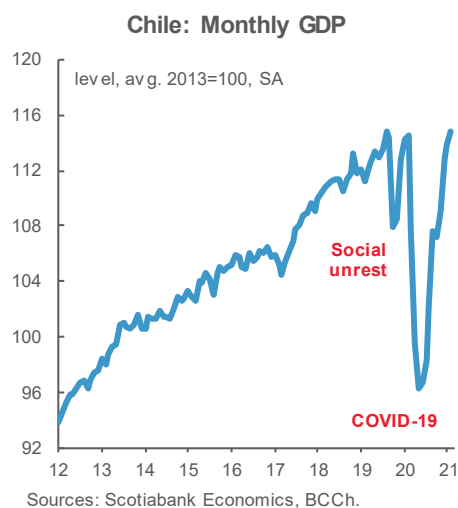


Chart 2

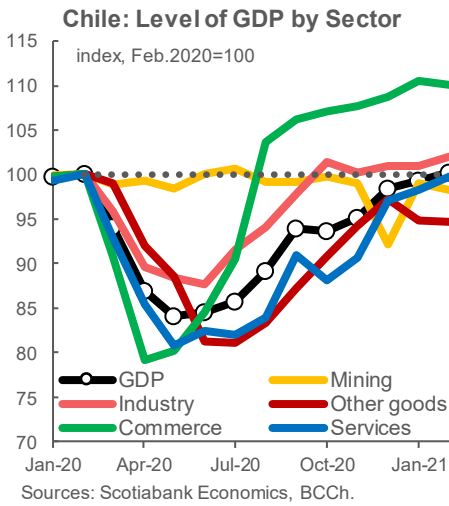


Chart 3

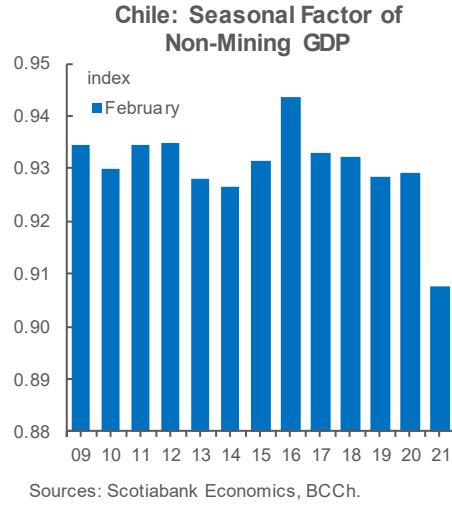
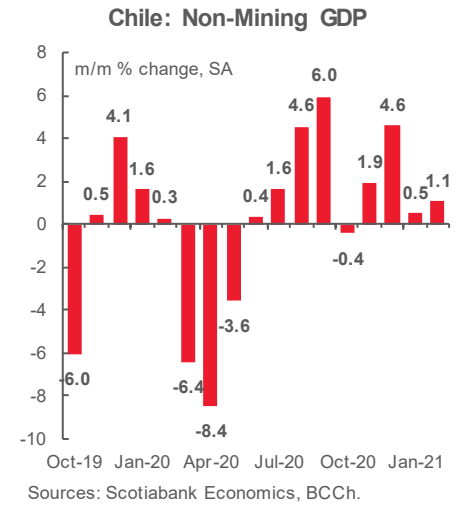


Chart 4



February marked the fourth consecutive month in which there has been positive sequential growth in non-mining GDP (chart 4). In fact, aside from October 2020, non-mining GDP has seen month-on-month gains since June last year. It appears that the economy has adapted to the “new normal” of greater social distancing and mobility restrictions.

Our baseline forecast of a 7.5% y/y expansion of Chile’s real GDP in all of 2021 remains solid. It takes account of an estimated -3% m/m sa sequential contraction in March owing to new public-health measures, which would still leave activity up 4% y/y in the month. Even if we see another seasonally-adjusted, month-on-month pullback in April, it would still be consistent with our 7.5% y/y projection for 2021 as a whole.

—Jorge Selaive, Carlos Muñoz, & Waldo Riveras

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