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Latam Daily: Chile's Activity Indicator Points to Recession Risks

- **Chile: From soft to hard landing since July**

CHILE: FROM SOFT TO HARD LANDING SINCE JULY

On Wednesday, August 31, the statistical agency (INE) released the economic activity by sector, which showed m/m and y/y decreases in manufacturing production, mining and retail sales, as we expected and contrary to the consensus view. With this, we reiterate our forecast of zero monthly GDP growth (0% y/y) in July, which is well below market expectations, of between 1.6% y/y (Bloomberg) and 1.8% y/y (Economic Expectations Survey). We anticipate consecutive negative monthly GDP growth prints in the coming months until the third quarter of 2023, reaffirming our GDP growth forecast of -0.9% for 2023.

With respect to monetary policy, we expect an additional increase in the monetary policy rate (MPR) next week (September 6), from 9.75% to 10.25% (+50 bps), below market expectations (+75 bps according to the Economic Expectations Survey). We think the central bank (BCCh) will recognize the deterioration in economic activity and labour market conditions, signaling a corridor of the MPR of between 10.5 and 11%.

A pronounced rollercoaster of the MPR becomes more likely in the event of a market-friendly result in the Sunday, September 4 constitutional plebiscite. After being one of the most aggressive central banks in the recent tightening cycle, the BCCh could be forced to cut the MPR quickly and aggressively in response to signs of disinflation amid a negative output gap and the economy heading towards a full-blown recession. On top of that, a market friendly result in the plebiscite might trigger increased appetite for Chilean assets. Recent surveys indicate that the new Constitution will be rejected in the plebiscite. If that is the case, we consider that the call for a new constituent assembly with limited participation of independents and indigenous people, as well as alternative form in which groups of representative parliamentarians supported by constitutional experts would be valued by the market, reducing political uncertainty.

—Jorge Selaive, Anibal Alarcón, & Waldo Riveras

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