

Tracking activity: Full-blown recession since 2H22

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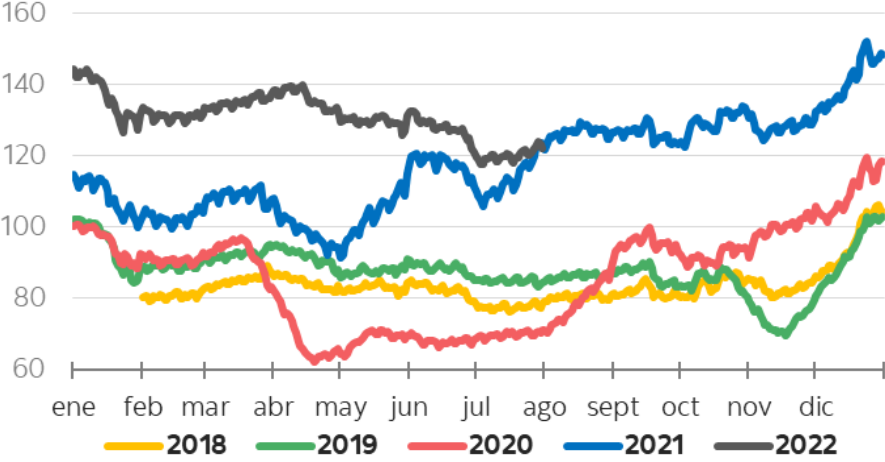
Key messages

- **The economy is beginning to firmly close the output gap.** We forecast a null monthly GDP growth (0% y/y) in July which will be followed by consecutive negative GDP growth prints until 3Q23. **We maintain a GDP growth forecast of 2.1% for 2022 and -0.9% for 2023.** The negative impact of the depreciation of the currency on domestic demand, lack of incentives for private investment, highly contractive monetary policy and a reformist economic environment amid political uncertainty are enough to guarantee a negative output gap since 4Q22. **Despite this, we recognize that a market-friendly result of the plebiscite may trigger a recovery in confidence indicators, appreciation of the currency and more rapid deceleration of inflation allowing a GDP growth closer to 0% in 2023.**
- **Purchases with credit and debit cards showed null annual growth in July.** We forecast Retail Sales decreasing 11% y/y with a significant monthly deceleration. Imports of durable and capital goods are showing sudden drops amid weaker domestic demand. Credit to households and firms fell in July as higher interest rates and a weaker labor market are taking the toll on demand/supply of banking credit.
- **A rollercoaster of the Monetary Policy Rate becomes more likely in case of a market-friendly result of the plebiscite.** In the September meeting, the current conjuncture unequivocally points to upward adjustments in the benchmark rate (+75 bps), pending additional increases of 50 bps, conditional to the absence of new inflationary surprises. After being one of the most aggressive central banks in the recent tightening cycle, the CB will be forced to cut the rate quickly and aggressively after the first signs of disinflation amid a negative output gap and the economy heading towards a full-blown recession. A market-friendly result of the plebiscite is dovish for monetary policy as a more rapid convergence of inflation to target will be weighted more than the recovery in GDP by the CB.

Slowdown in demand for durable goods

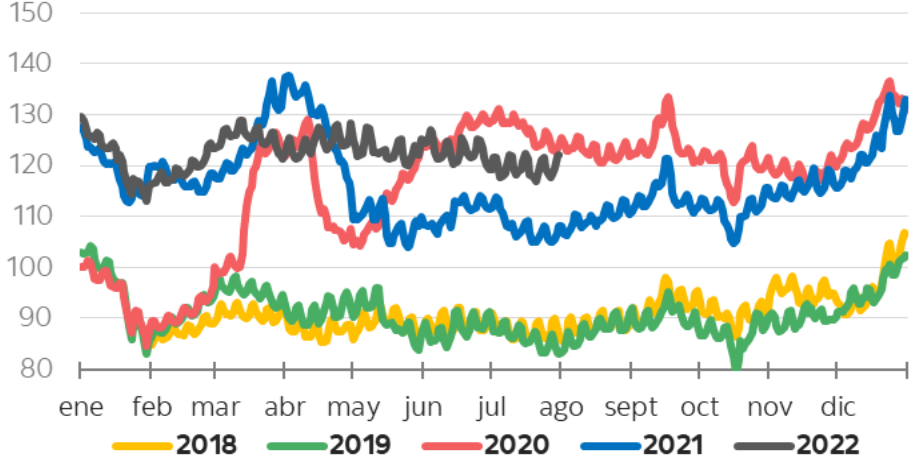
Total purchases*

(level, index 1-Jan-2020=100, 30-day moving sum, up to July 31)



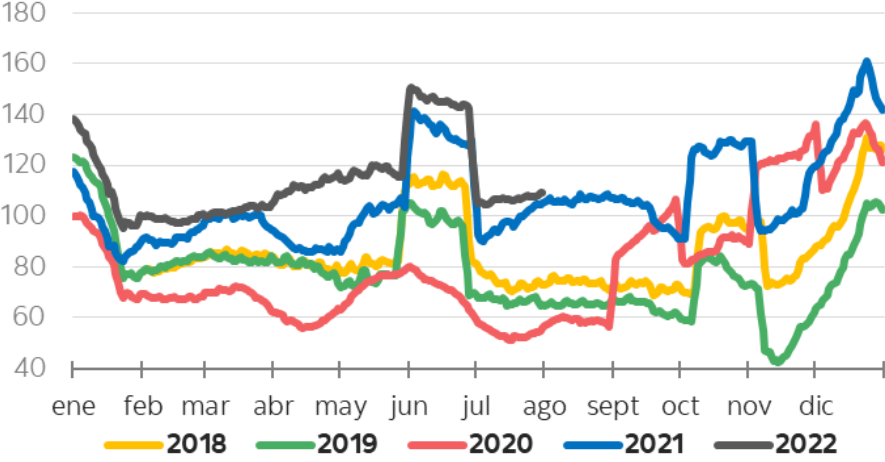
Supermarkets*

(level, index 1-Jan-2020=100, 30-day moving sum, up to July 31)



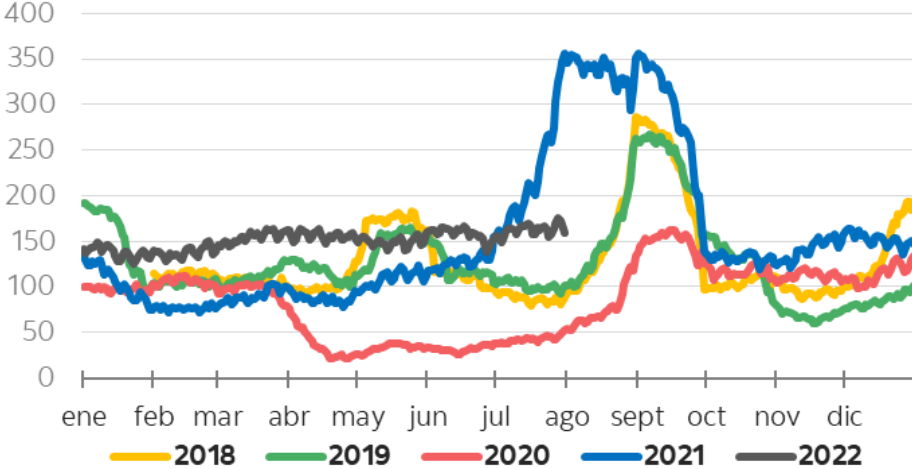
Department stores*

(level, index 1-Jan-2020=100, 30-day moving sum, up to July 31)



Vehicles*

(level, index 1-Jan-2020=100, 30-day moving sum, up to July 31)

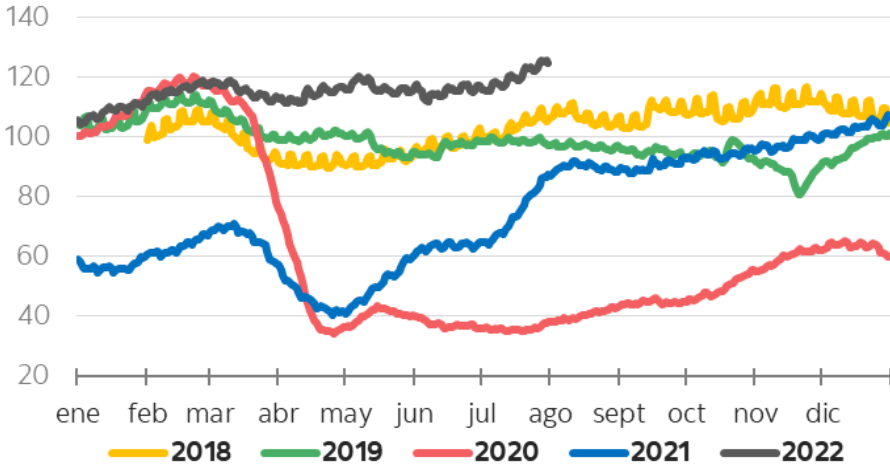


* Data show purchases with Scotiabank's credit and debit cards. The level of purchases is shown as an inflation-adjusted index. Source: Scotiabank Economics

Services (specially, restaurants and travels) show stabilization

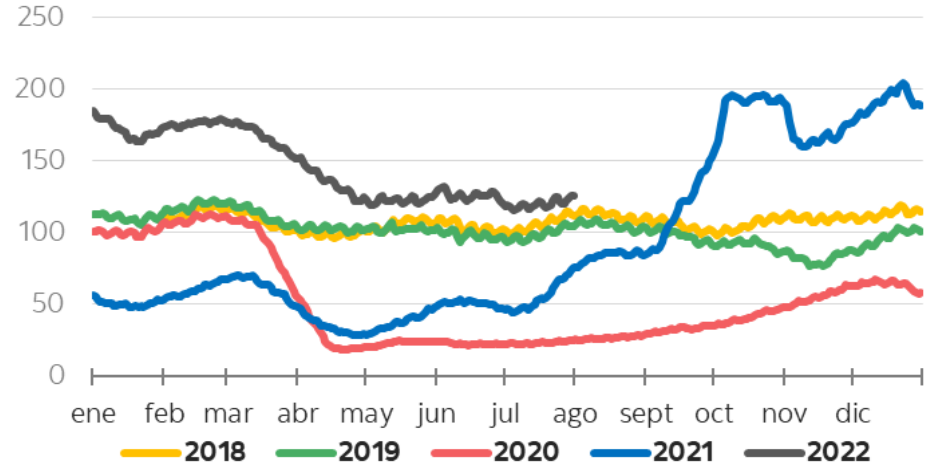
Fuels*

(level, index 1-Jan-2020=100, 30-day moving sum, up to July 31)



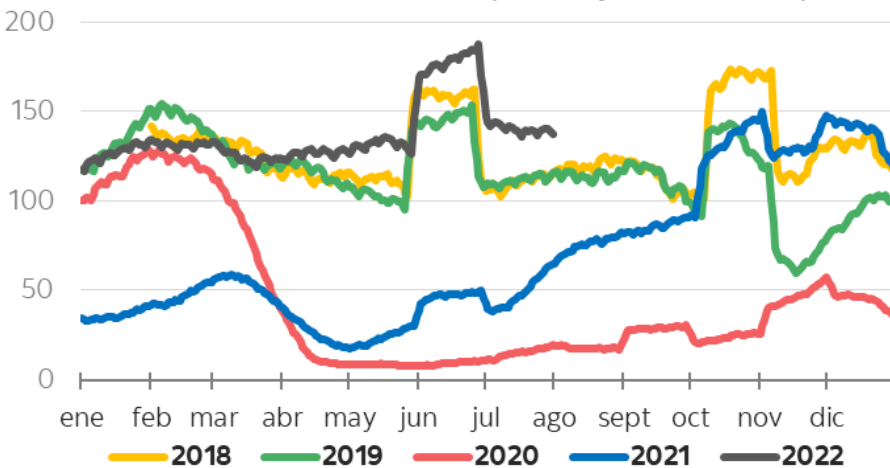
Restaurants*

(level, index 1-Jan-2020=100, 30-day moving sum, up to July 31)



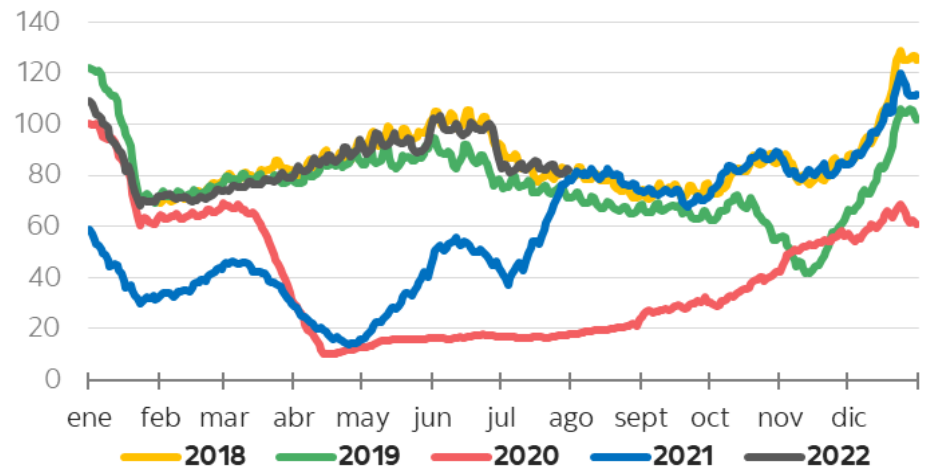
Tourism travel*

(level, index 1-Jan-2020=100, 30-day moving sum, up to July 31)



Clothing and footwear*

(level, index 1-Jan-2020=100, 30-day moving sum, up to July 31)

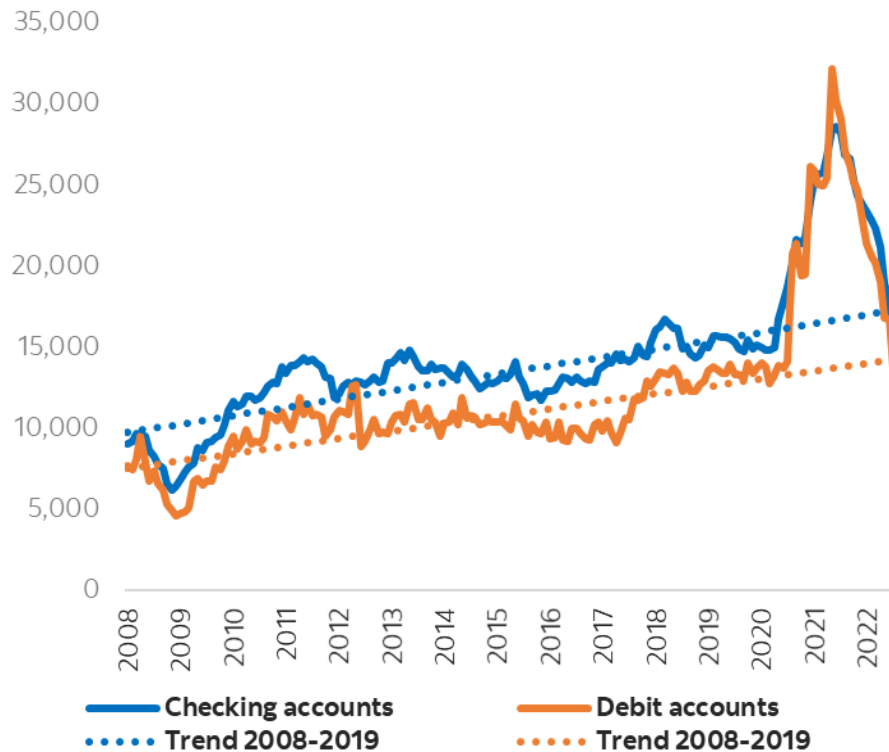


* Data show purchases with Scotiabank's credit and debit cards. The level of purchases is shown as an inflation-adjusted index.
Source: Scotiabank Economics

Excess liquidity has drained completely. Non-remunerated accounts back to normal levels. Universal Pension and Winter Bonus will add USD 1.3 bn to people with high marginal propensity to consume in August, but not enough to compensate political and financial headwinds.

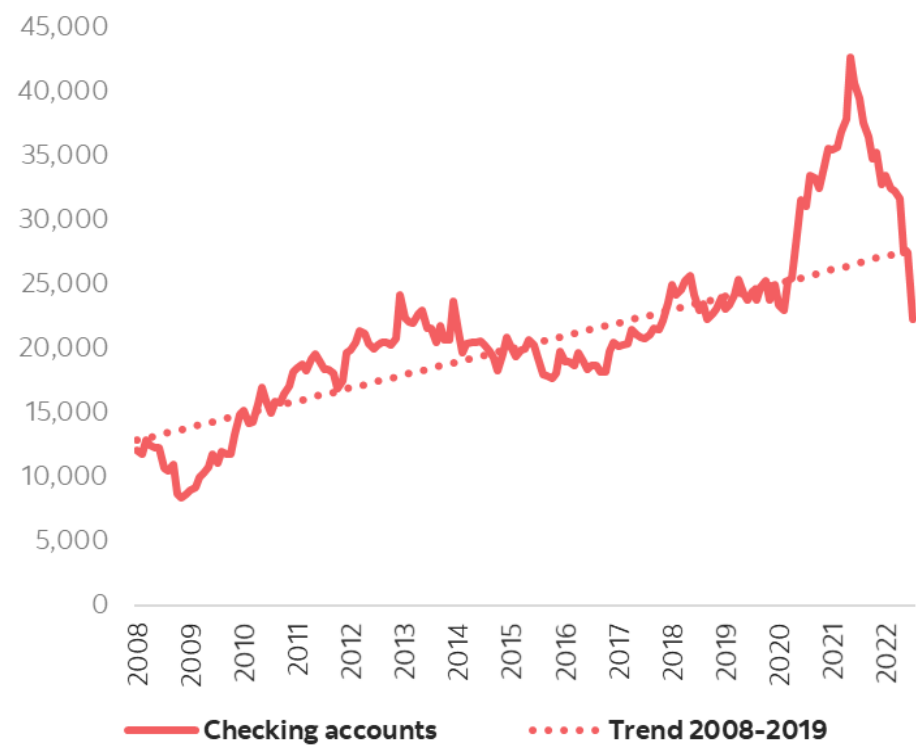
Liquidity in non-remunerated accounts: **people**

(millions of USD, natural persons, as of July 2022)



Liquidity in non-remunerated accounts: **firms**

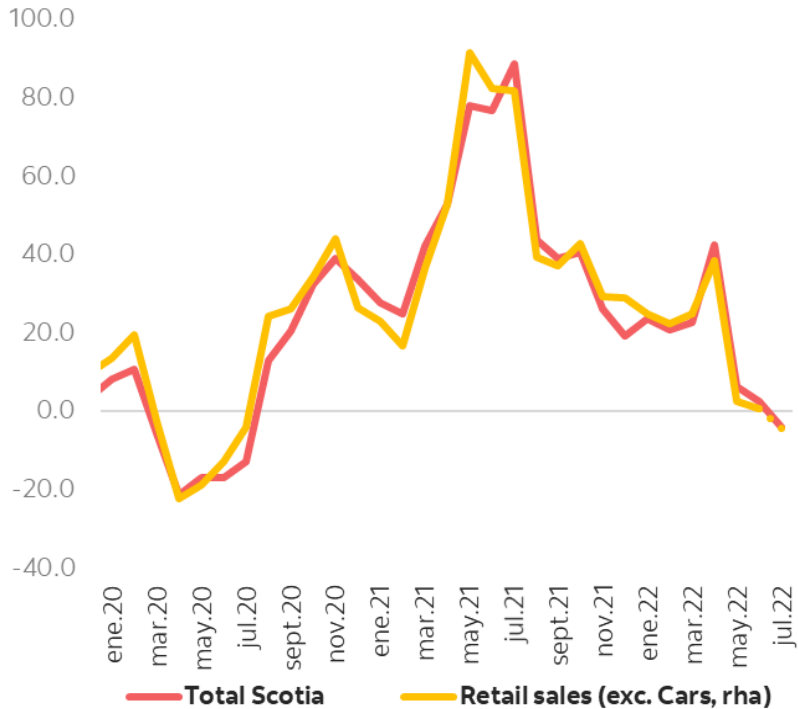
(millions of USD, firms, as of July 2022)



Source: Central Bank, Scotiabank Economics

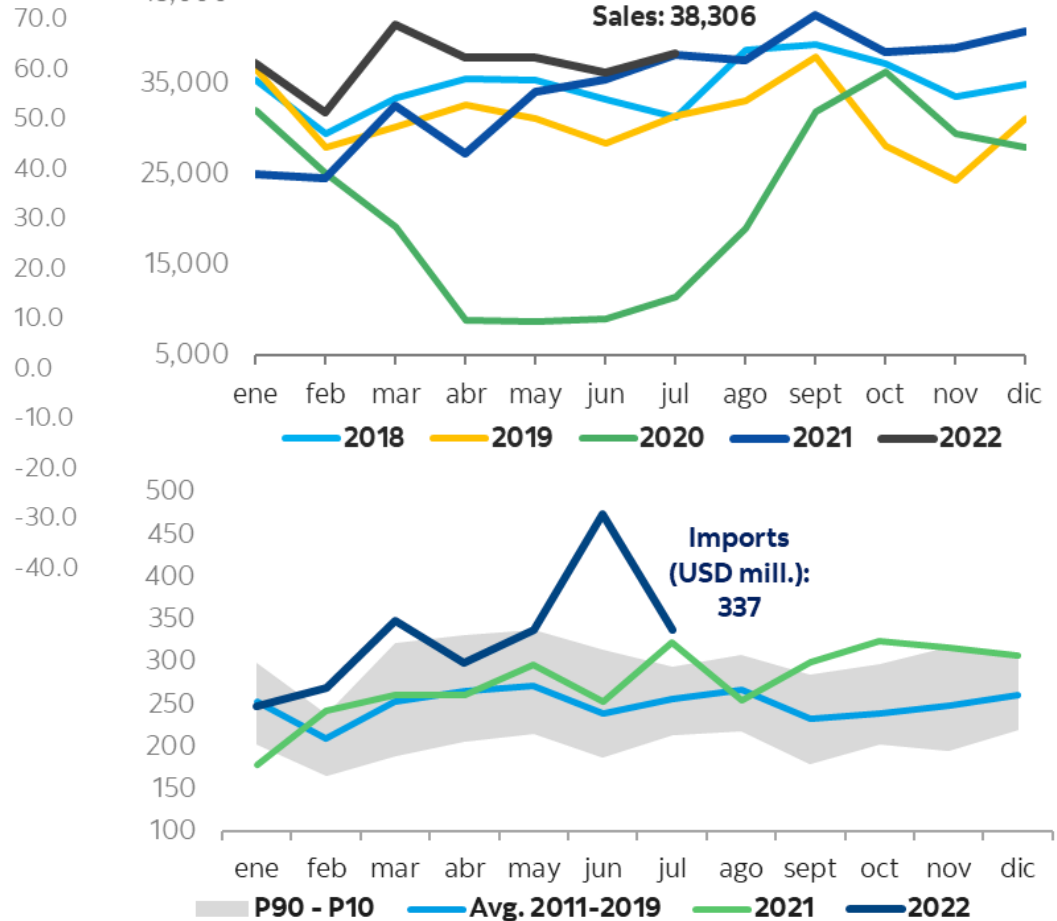
We forecast Retail Sales with a contraction of 11% y/y in July (-2% m/m). Recovery of inventories amid weaker demand will contribute to price stabilization.

Retail sales (INE) vs Transactional data*
(percentage, annual growth)



New cars: sales & imports

(Sales: units per month; Imports: USD millions)

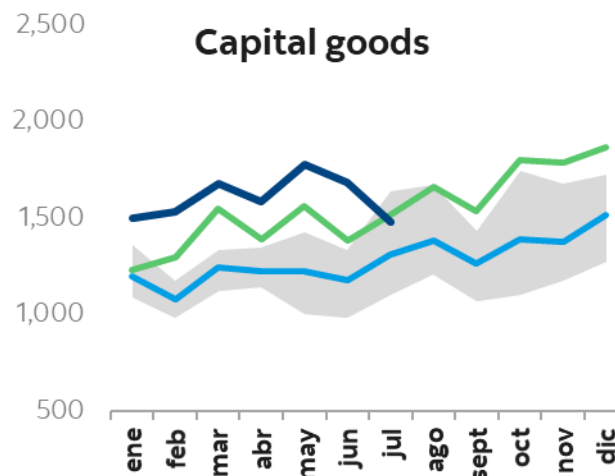
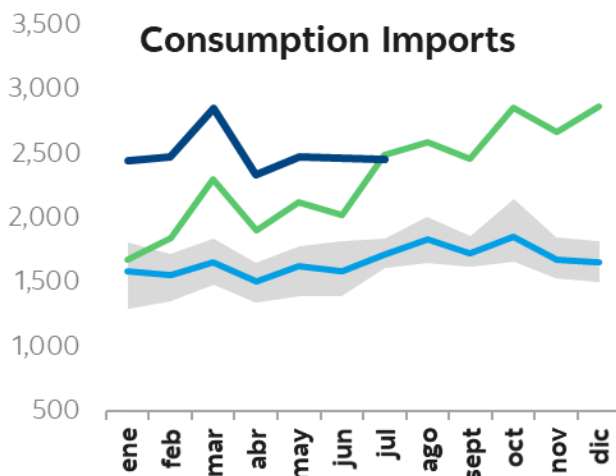
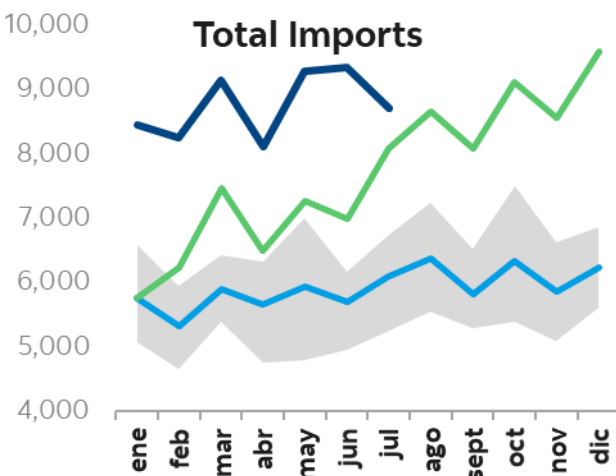
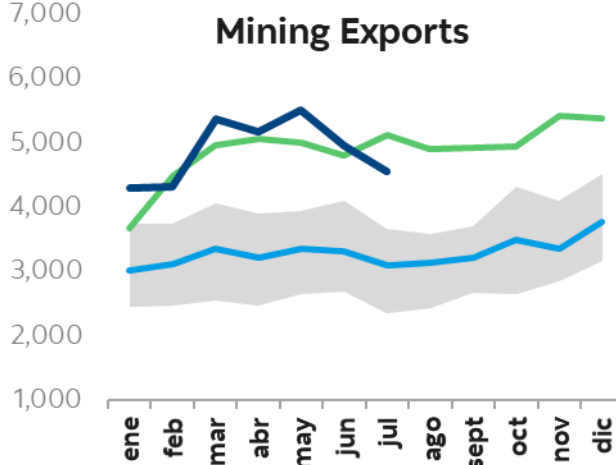
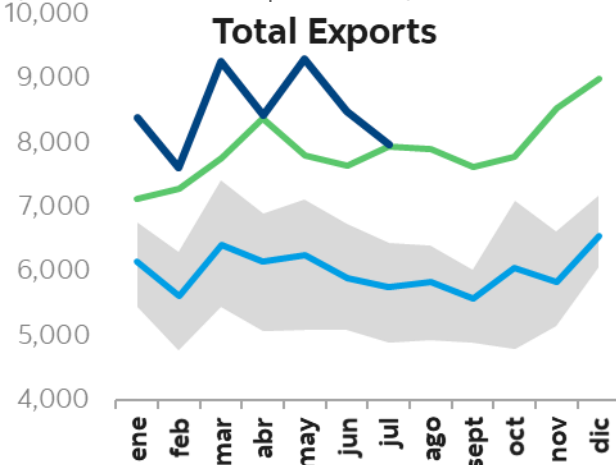


* This figure compares the INE's monthly retail sales indicator with our data on total purchases with credit & debit cards reported in previous slides.
Source: National Bureau of Statistics (INE), ANAC, Central Bank, Scotiabank Economics

Resilient exports. Inventory replenishment continues but imports reveal decline in demand and rapid adjustment of trade balance.

Monthly flow of Exports and Imports

(level, USD millions per month)



P90 - P10
 Avg. 2011-2019
 2021
 2022

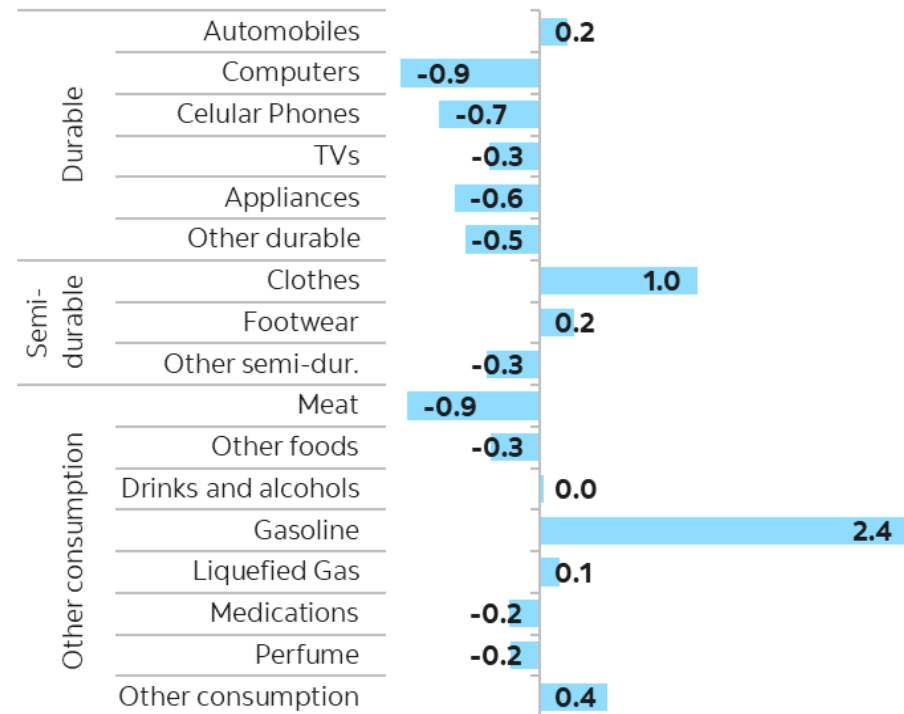
P90 and P10 represent the 90th and 10th percentile.
Source: Central Bank, Scotiabank Economics

As we anticipated, the adjustment of the current account deficit is underway (see report). Consumption and capital goods imports reveal exhaustion in July.

Import of consumption goods in July 2022

(percentage points, contribution to annual growth)

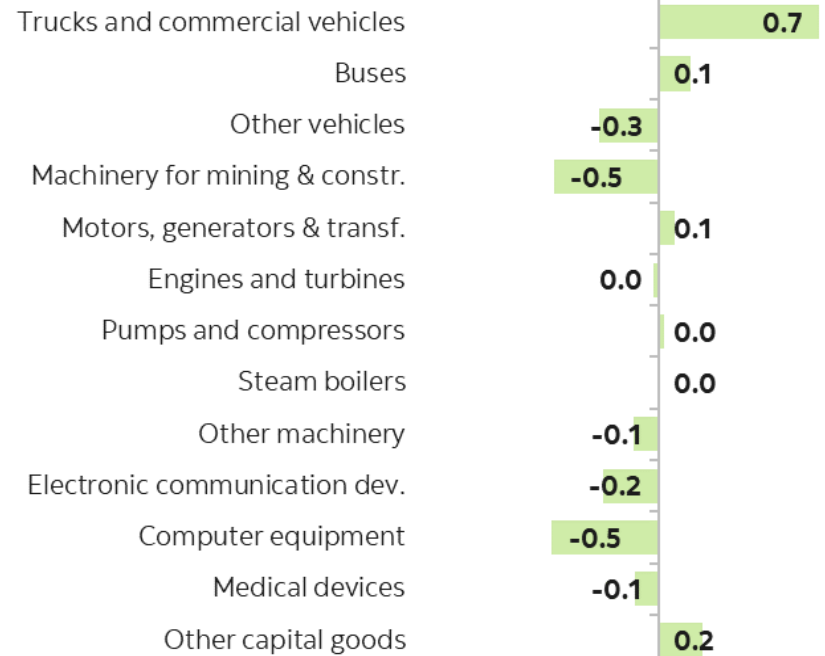
-1.0 -0.5 0.0 0.5 1.0 1.5 2.0 2.5



Import of capital goods in July 2022

(percentage points, contribution to annual growth)

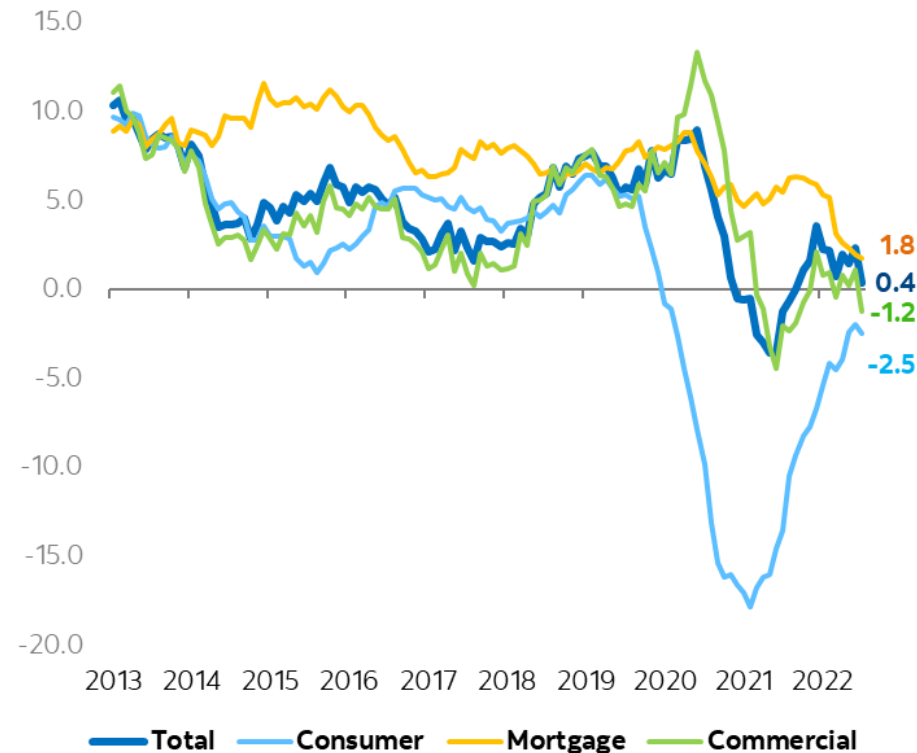
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Sudden drop in banking credit in July. Tighter bank conditions amid high interest rates and a weak labor market have prevented an accelerated counter-cyclical recovery in credit.

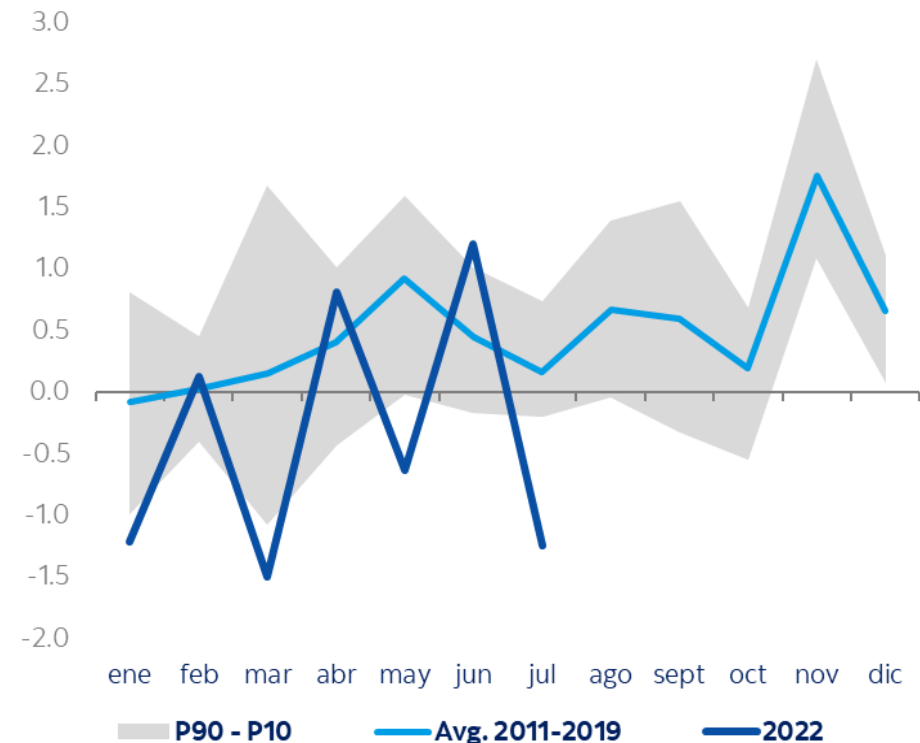
Loans by segment

(percentage, real annual growth)



Monthly dynamism of commercial loans

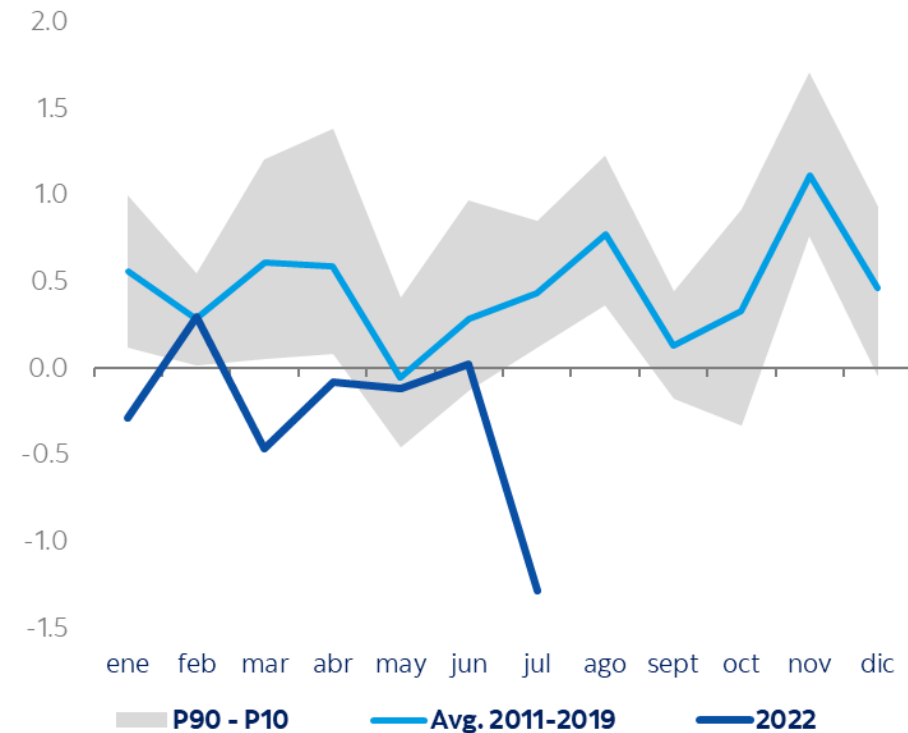
(percentage, real monthly growth)



Also, a drop in consumer and mortgage loans are affected by more restrictive supply of credit.

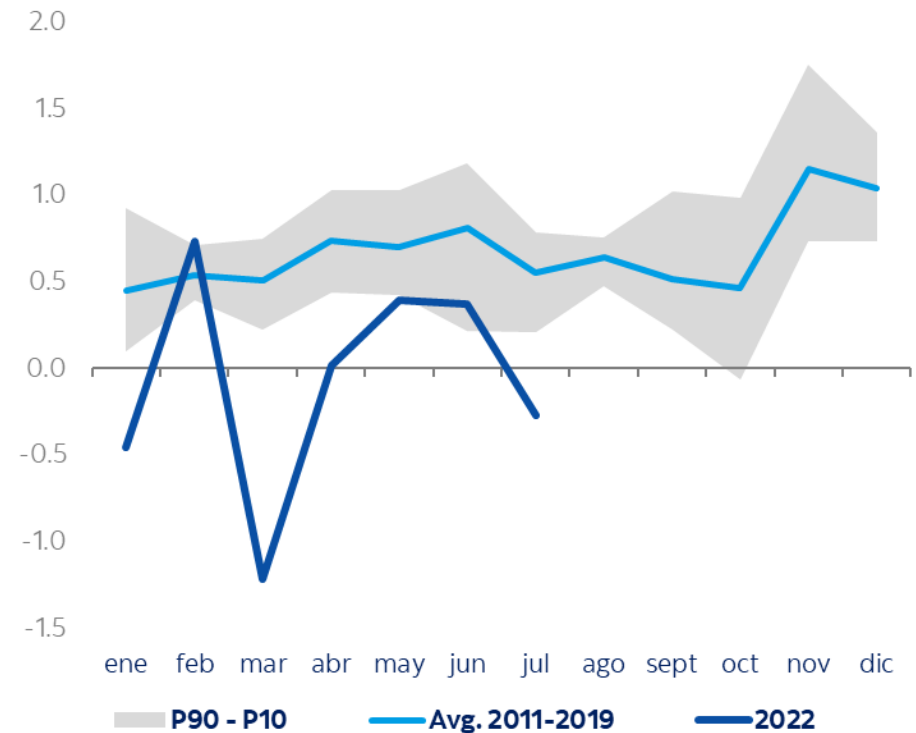
Monthly dynamism of consumer loans

(percentage, real monthly growth)



Monthly dynamism of mortgage loans

(percentage, real monthly growth)

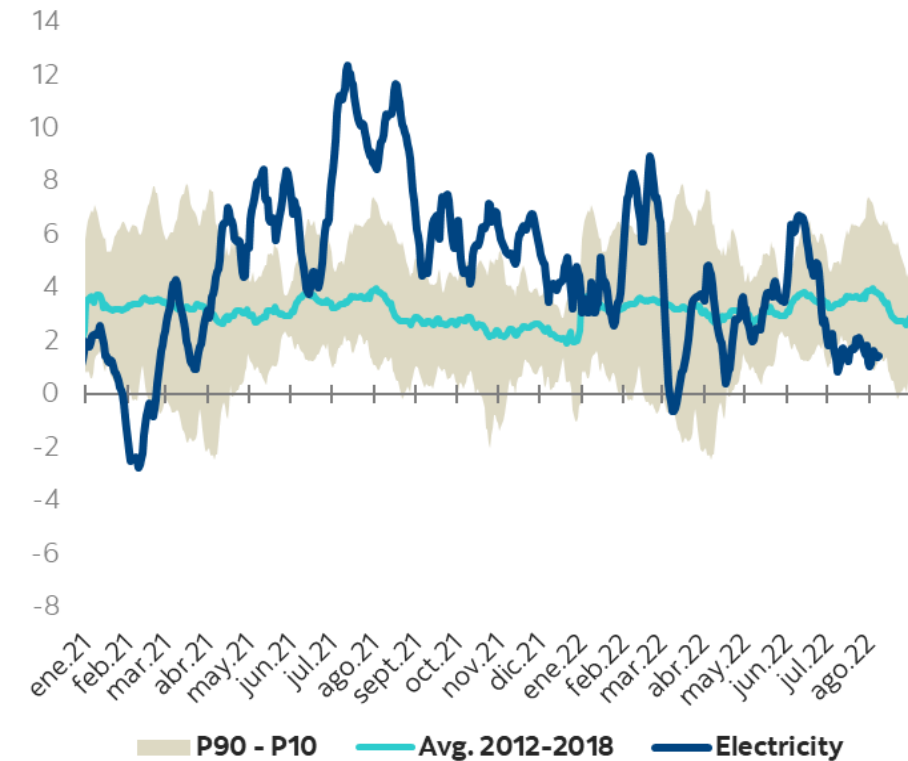


Source: Central Bank, Scotiabank Economics

Demand for electricity shows less dynamism than in previous months

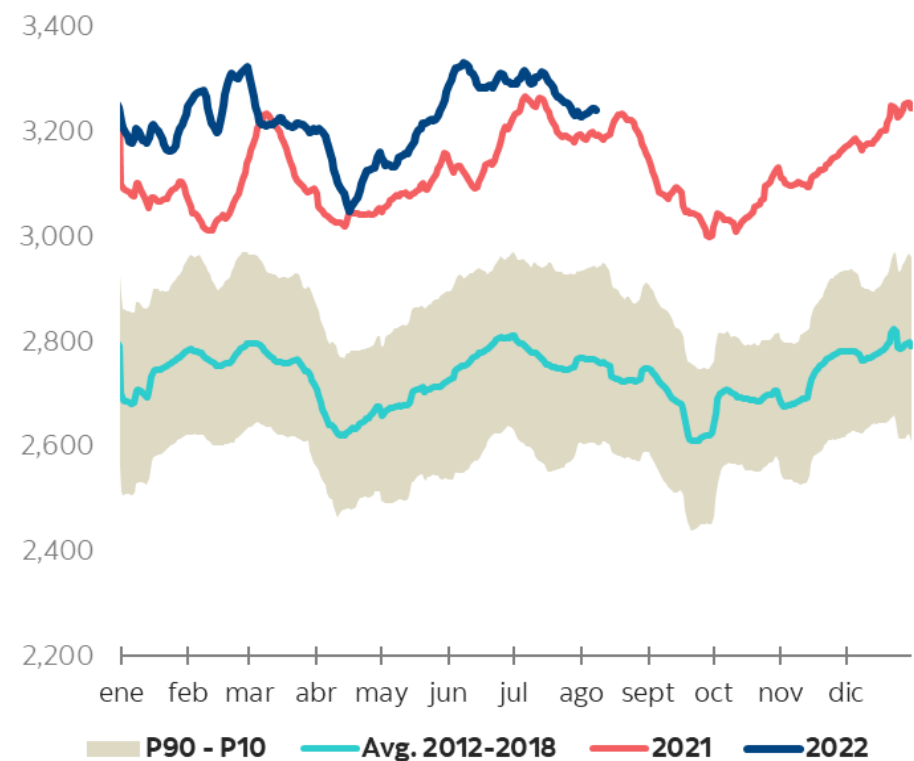
Annual growth of electricity generation

(percentage, annual growth, 28-day accum., up to August 8)



Level of electricity generation

(percentage, annual growth, 14-day accum., up to August 8)

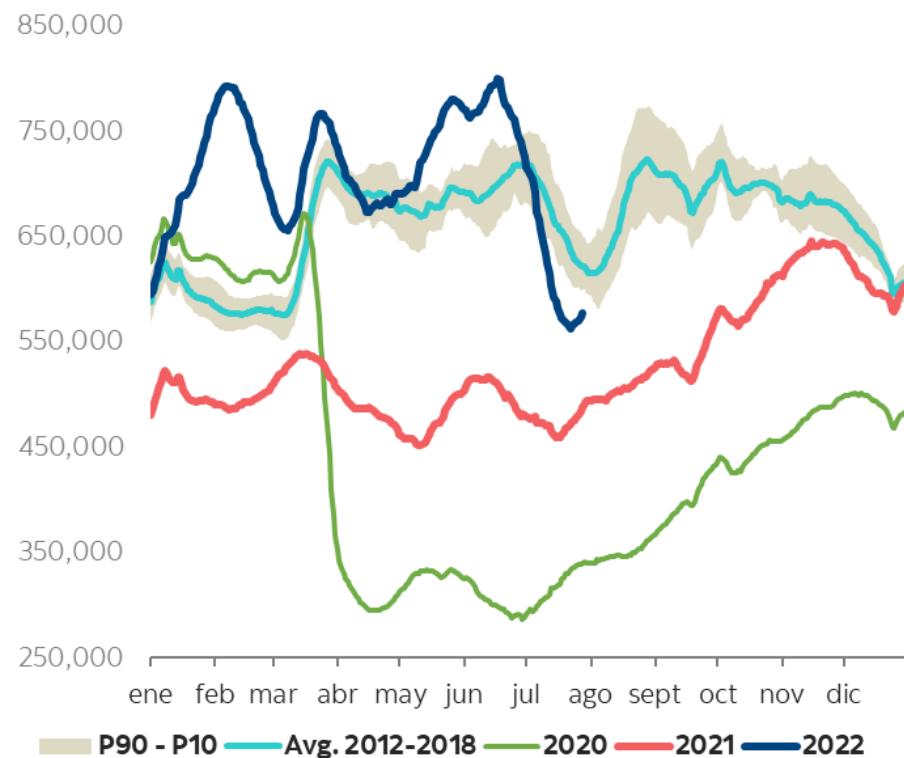


P90 and P10 represent the 90th and 10th percentile.
Source: Coordinador Eléctrico, Scotiabank Economics

Emergency care attentions decreasing rapidly in July. Negative impact on Personal Services.

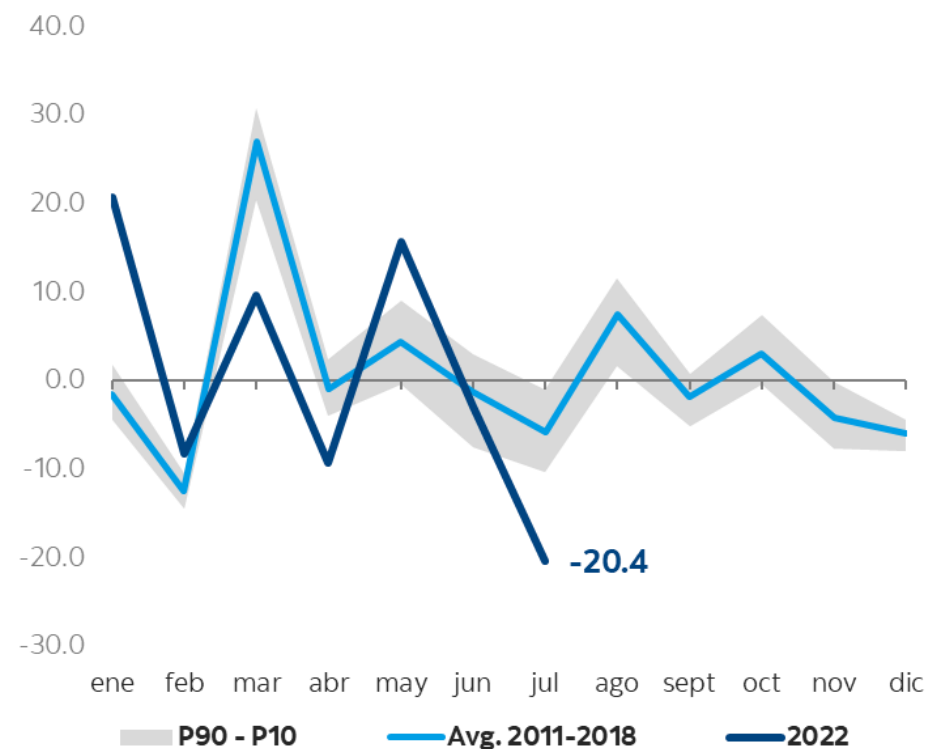
Level of Emergency care attentions

(number of daily attentions, 14-day mov. sum, up to July 31)



Monthly growth in Emergency care attentions

(percentage, monthly growth)

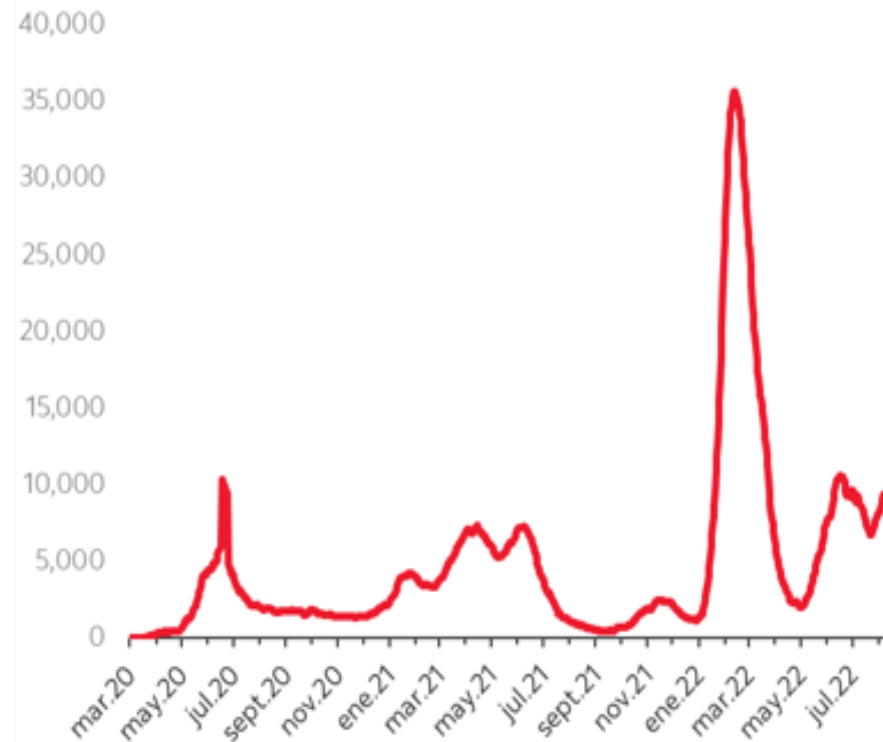


Source: Ministerio de Salud (DEIS), Scotiabank Economics

Rise in COVID cases but not enough to declare quarantine. Fifth shot announced by the Government.

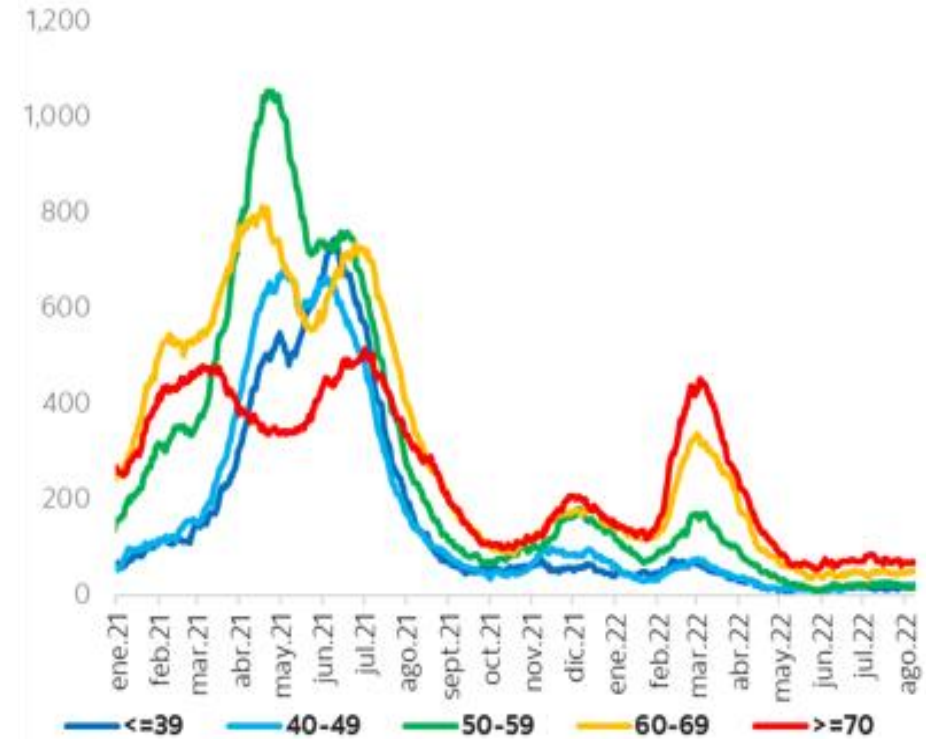
New cases COVID-19 in Chile

(number of new cases per day, 7-day mov. avg., up to August 7)



ICU-bed occupancy by age

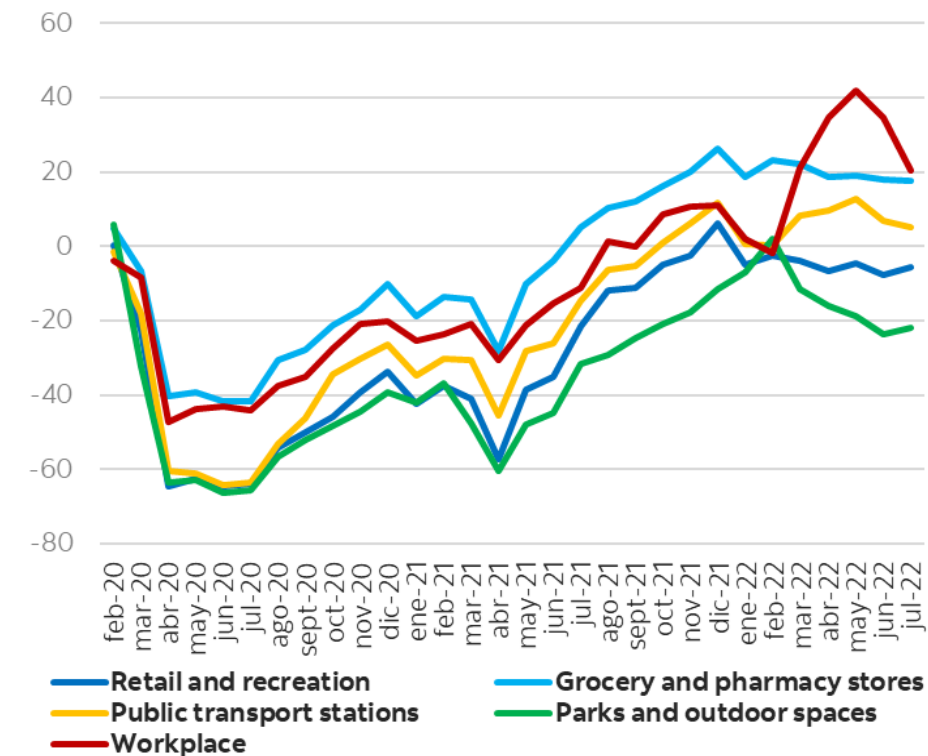
(beds by age group, up to August 7)



No more positive paybacks of higher mobility. Mobility already reached normal levels in Q2-2022.

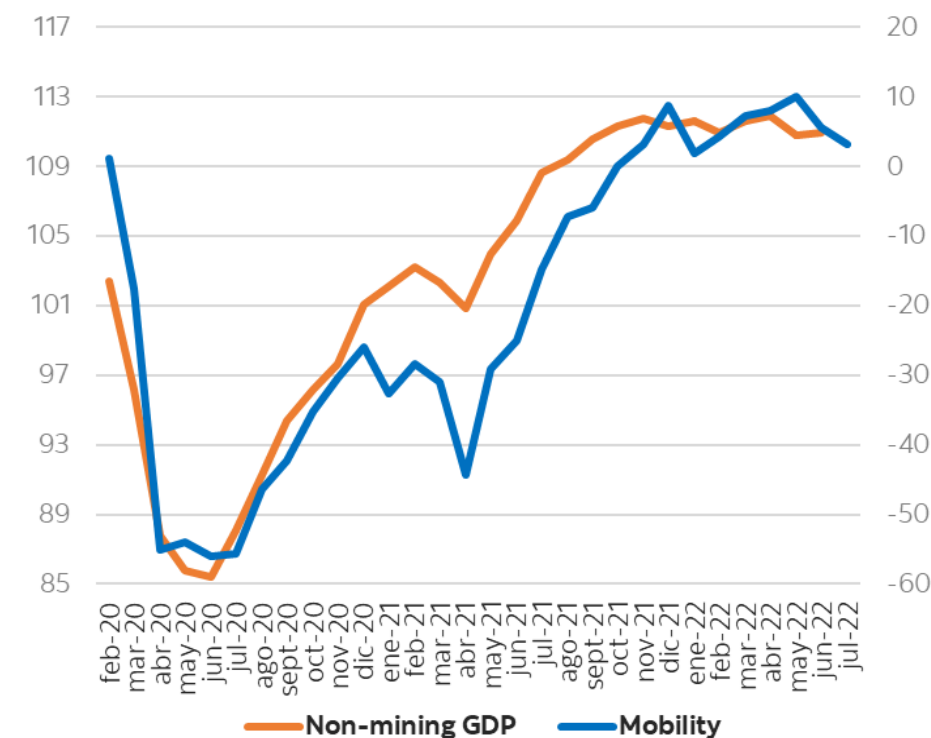
Mobility index (Google)*

(index compared to baseline, up to July 31)



Non mining GDP & mobility index

(index 2018=100 SA and index of mobility compared to baseline)

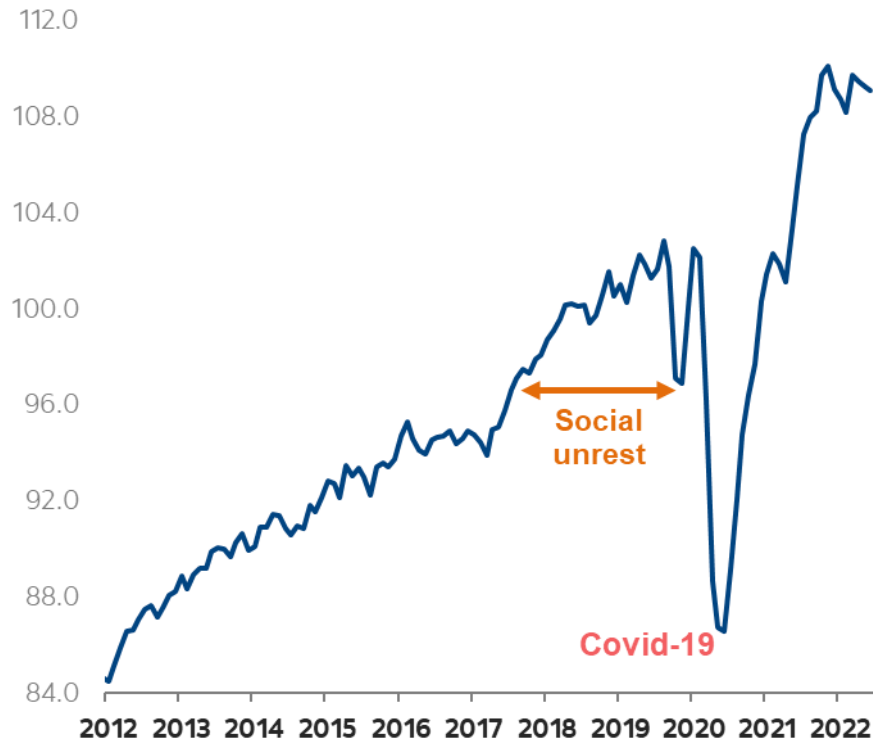


(* **Google mobility index** shows how the number of visitors (or time spent) in categorized places has changed compared to baseline days (the median value for the 5-week period from January 3 to February 6, 2020). This index is smoothed to the rolling 7-day average.
Source: WHO; Ministerio de Salud, Scotiabank Economics

Imacec expanded 3.7% y/y in June (-0,2% m/m). GDP growth around 2.1% in 2022 with GDP contractions in 2H22 and 1H2023.

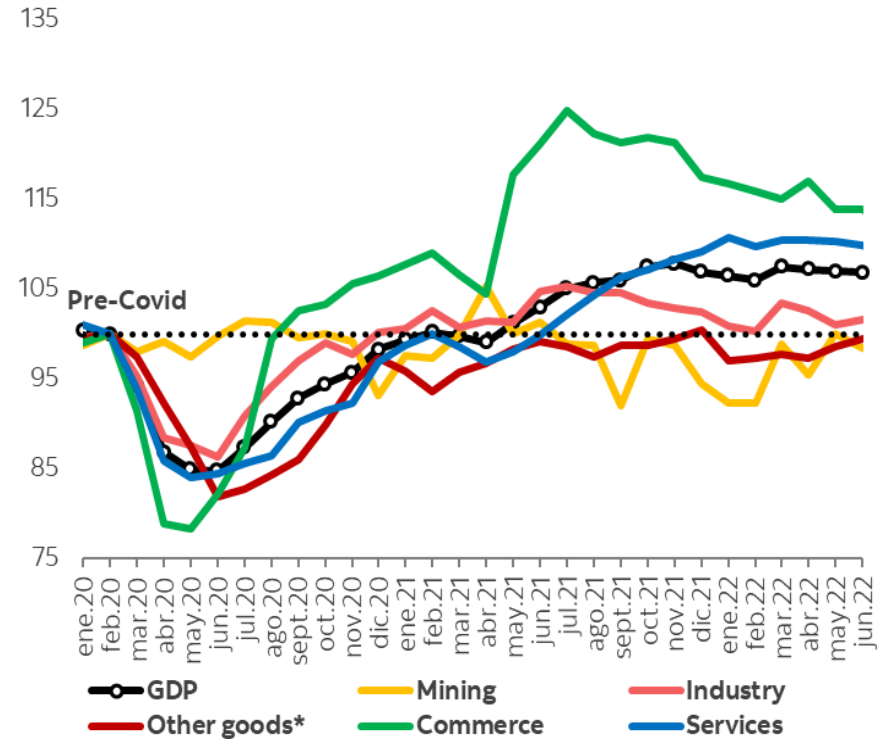
GDP level

(level, 2018=100, seasonally adjusted, monthly data)



GDP level by sector

(index, February 2020=100, monthly data)



Short run forecasts: growth of monthly GDP

Imacec (% y/y)

May-22

6.4%

June-22

3.7%

July-22 (p)

0%

* Includes Construction, Agro-forestry, Fishing and EGW.
Source: Central Bank, Scotiabank Economics

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