Tracking activity:
Coming back to macro balances

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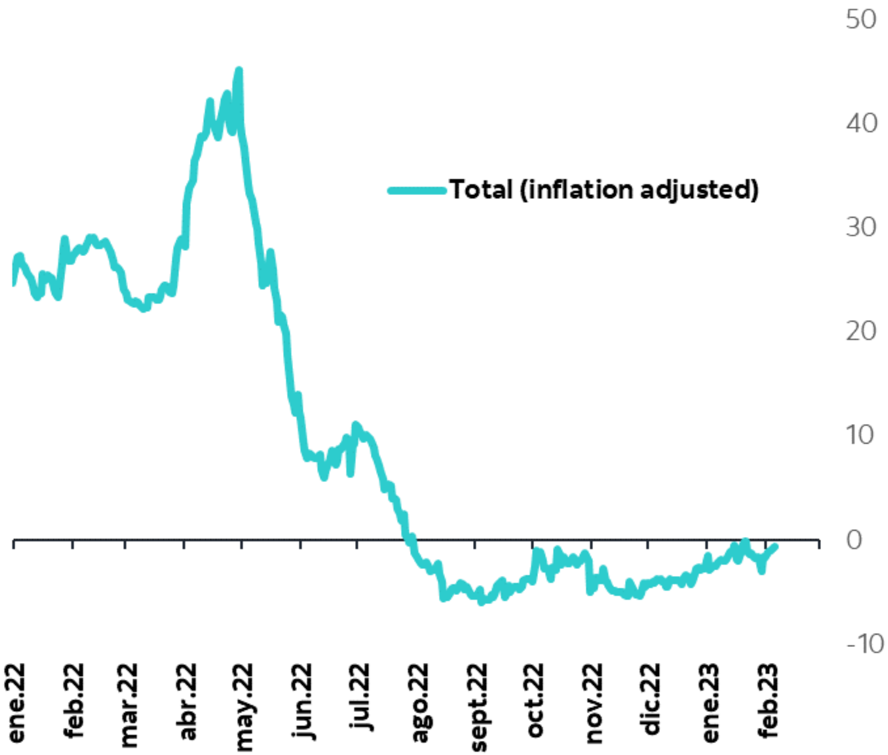
Key messages

- We forecast a recession in 2023 with a **GDP contraction of 1.7%.** However, the January Imacec would have a zero y/y expansion but a monthly contraction (-0.7% m/m). Indicators for January and early February showed that both consumption and economic activity in other sectors continued to decline.
- **We forecast Retail Sales decreasing 13% y/y in January (-1% m/m).** We observe a more intense usage of credit cards in low-income segments amid restrictive credit conditions. In contrast, debit card purchases declined across all sectors in February, mainly reflecting the weak labour market, low liquidity and restrictive financial conditions. In this context, the adjustment in the current account deficit is already underway and is no longer a cause for concern.
- We see more risks of negative than positive surprises in the February CPI. High inventory levels, weak labour market and multilateral peso appreciation will impact tradable goods inflation, food prices and some volatile items. Few pending adjustments linked to past inflation ahead (educational services in March and utilities in 2H-23). A faster inflationary break will lead the Central Bank to modify its monetary policy stance earlier than implicit in its baseline scenario. **We continue to view any rise in swaps nominal rates as an opportunity.**
- **Good news on the political front:** (1) the new constitutional process has enough restrictions that limit chances of extreme proposals; (2) the government will concede much more on the structural reforms (tax and pension funds). Political uncertainty will continue to decline favoring appetite for Chilean assets.

Private consumption landing to a sustainable level. Additionally, the current account deficit is no longer a concern as trade balance registered a surplus on Q4-22 .

Annual growth of purchases with cards*

(%, real annual growth, 30-day mov. avg., up to Feb. 5)



Level of purchases with debit cards

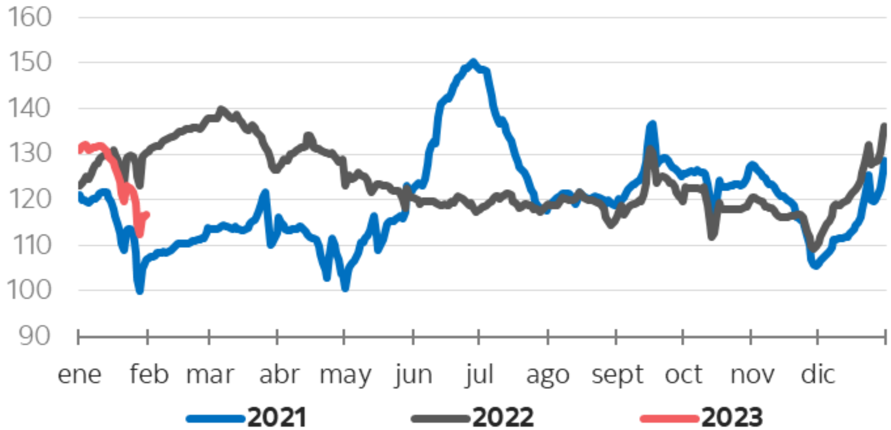
(level*, real, index 1-Jan-2020=100, 30-day moving sum, up to Feb. 5)

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

Slowdown in demand for durable goods

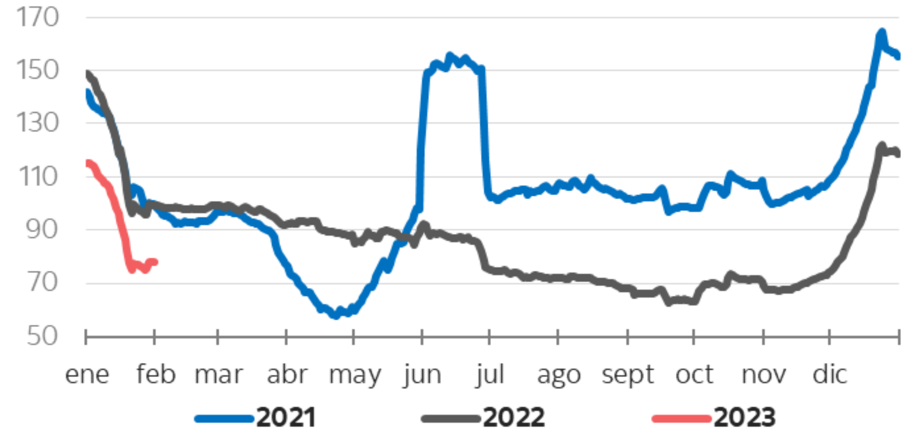
Supermarkets

(level*, index 1-Jan-2020=100, 30-day moving sum, up to Feb. 5)



Department stores

(level*, index 1-Jan-2020=100, 30-day moving sum, up to Feb. 5)



- **Supermarket sales worsening.**
- **Department stores affected by weak demand.**

* Data show purchases with debit cards. Inflation-adjusted index.
Source: Scotiabank Economics

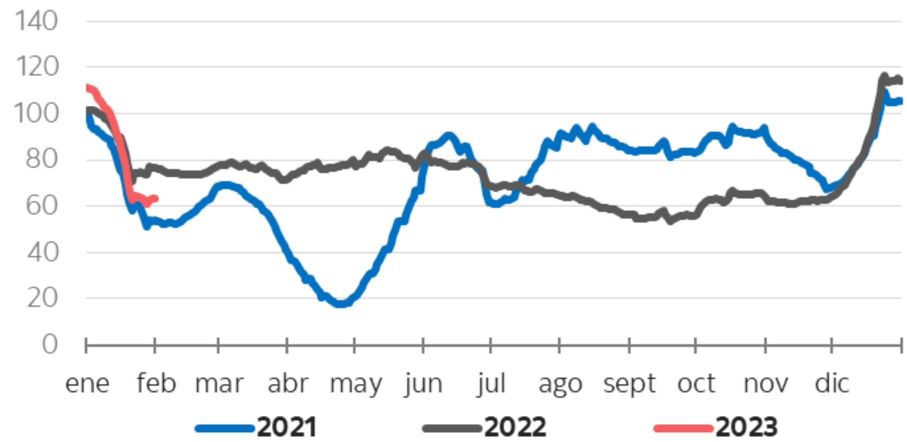
Worsening in purchases of semi-durable goods.

Electronic stores

(level*, index 1-Jan-2020=100, 30-day moving sum, up to Feb. 5)

Clothing and footwear

(level*, index 1-Jan-2020=100, 30-day moving sum, up to Feb. 5)



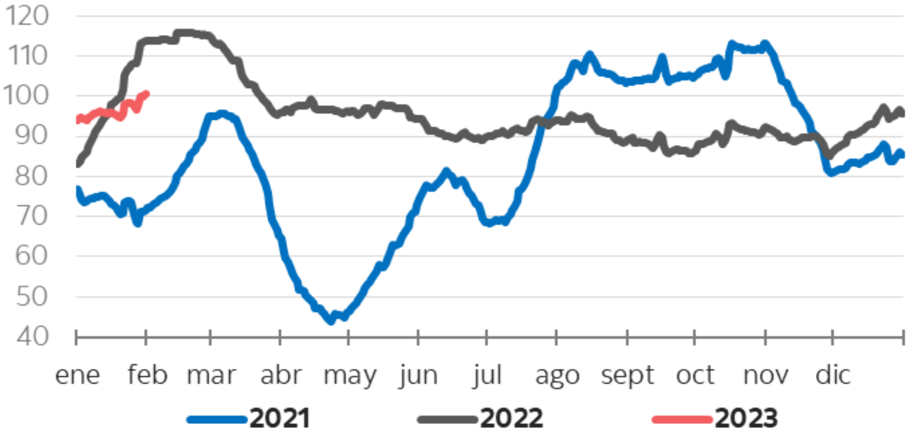
- **Slowdown in demand of durable goods (cars and electronics).**
- **Clothing and footwear purchases decreasing in the margin.**

* Data show purchases with debit cards. Inflation-adjusted index.
Source: Scotiabank Economics

Services show stabilization at low levels.

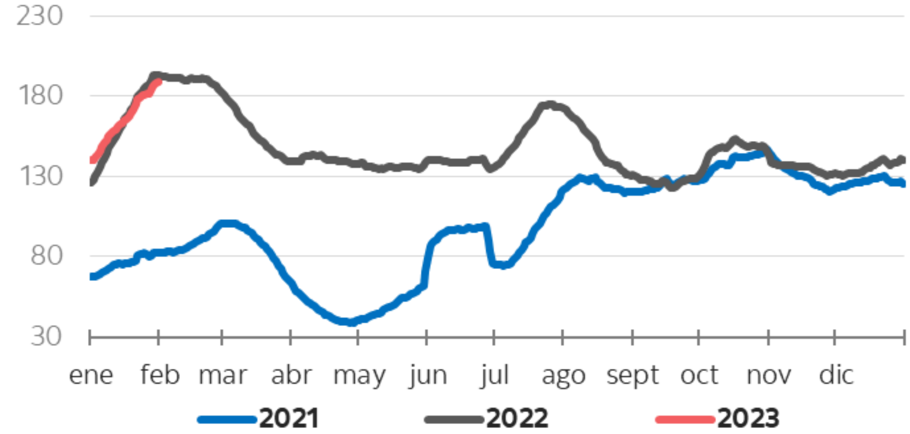
Restaurants

(level*, index 1-Jan-2020=100, 30-day moving sum, up to Feb. 5)



Tourism travel

(level*, index 1-Jan-2020=100, 30-day moving sum, up to Feb. 5)



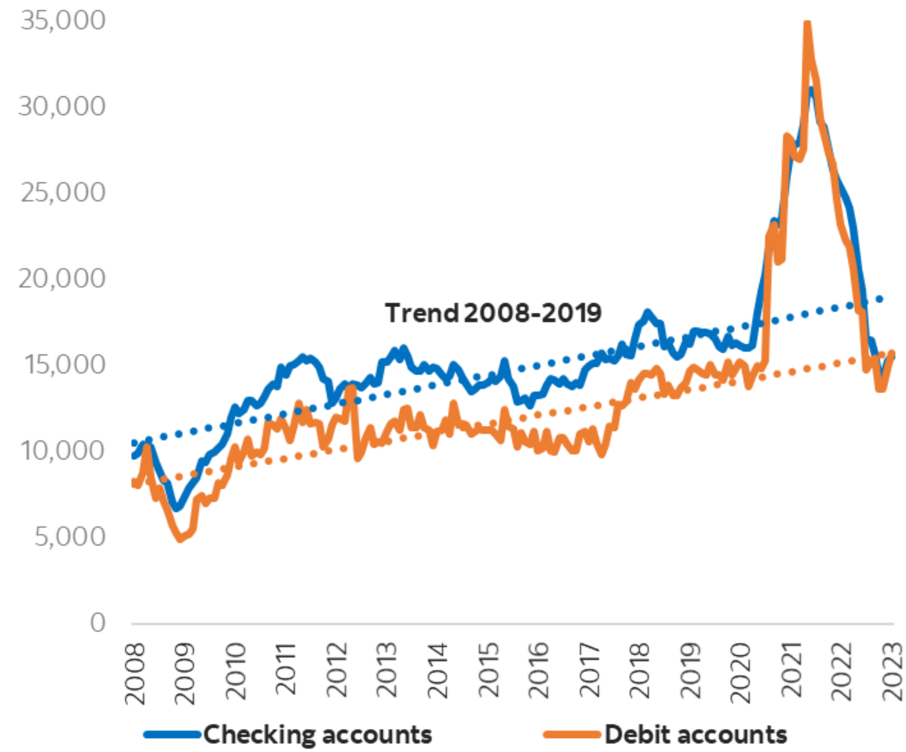
- **Lower dynamism in restaurants.**
- **Stabilization in tourism sector.**

* Data show purchases with debit cards. Inflation-adjusted index.

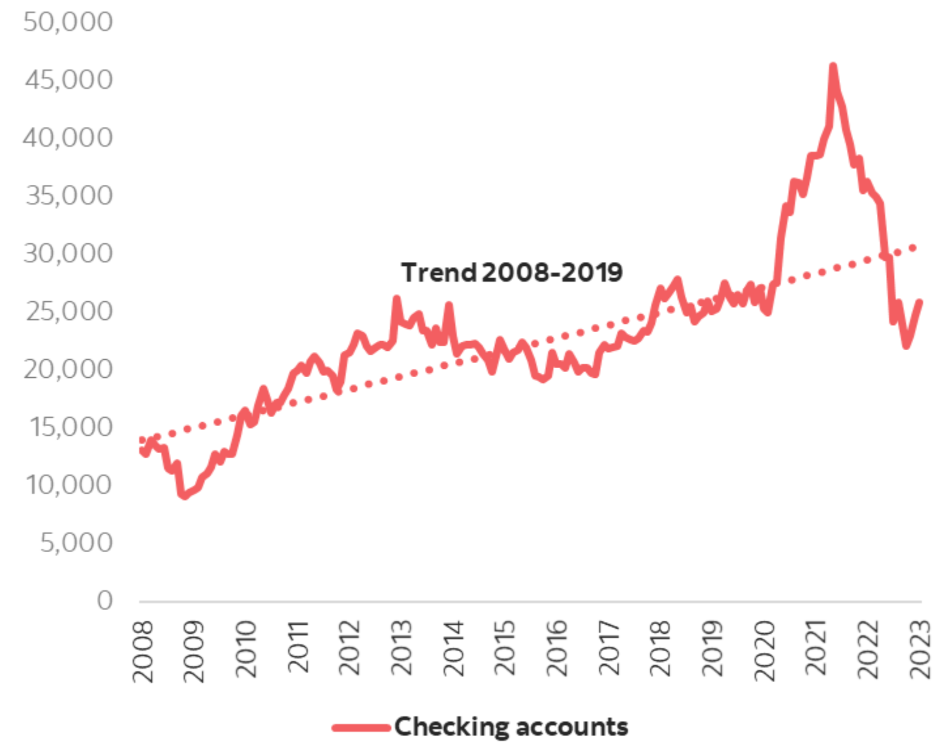
Source: Scotiabank Economics

High short-term interest rates drained liquidity, encouraging greater household saving.

Liquidity in non-remunerated accounts: people
(millions of USD, natural persons, as of January 2023)



Liquidity in non-remunerated accounts: firms
(millions of USD, firms, as of January 2023)

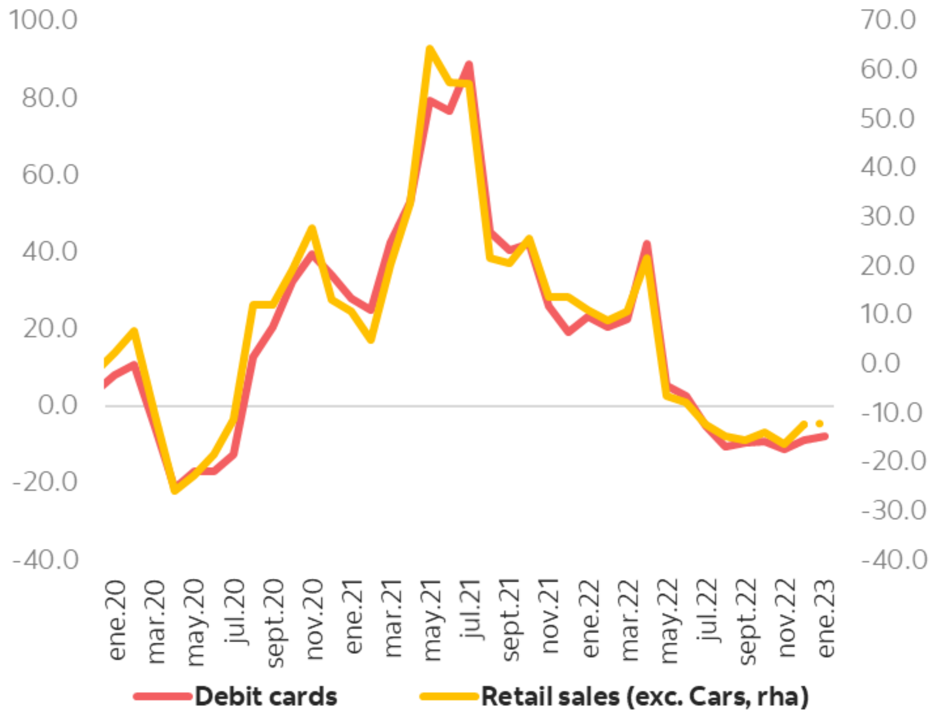


Source: Central Bank, Scotiabank Economics

We forecast Retail Sales with a contraction of 13% y/y in January (-1% m/m). Recovery of inventories amid weaker demand will contribute to price normalization (especially in new cars).

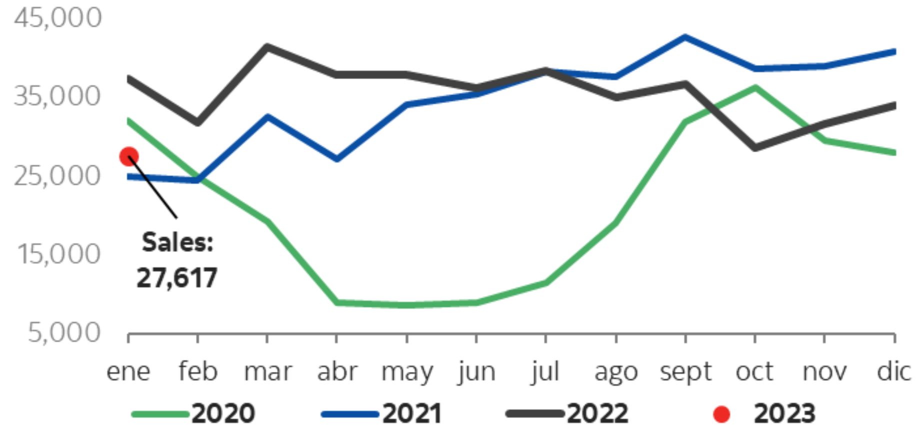
Retail sales (INE) vs Transactional data*

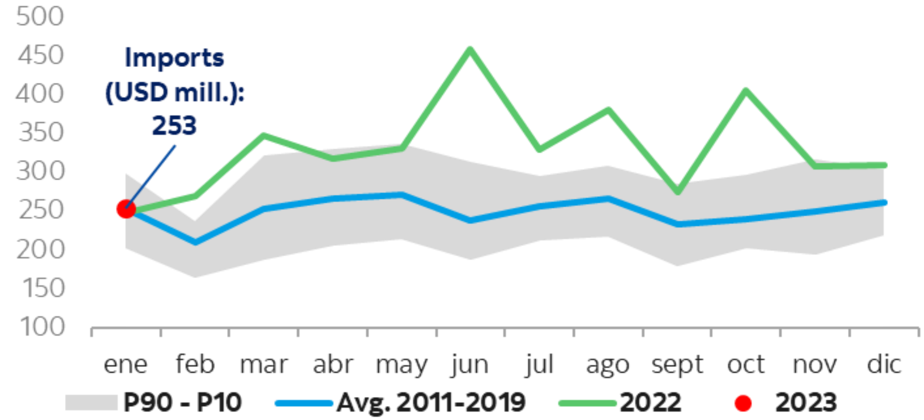
(percentage, annual growth)



New cars: sales & imports

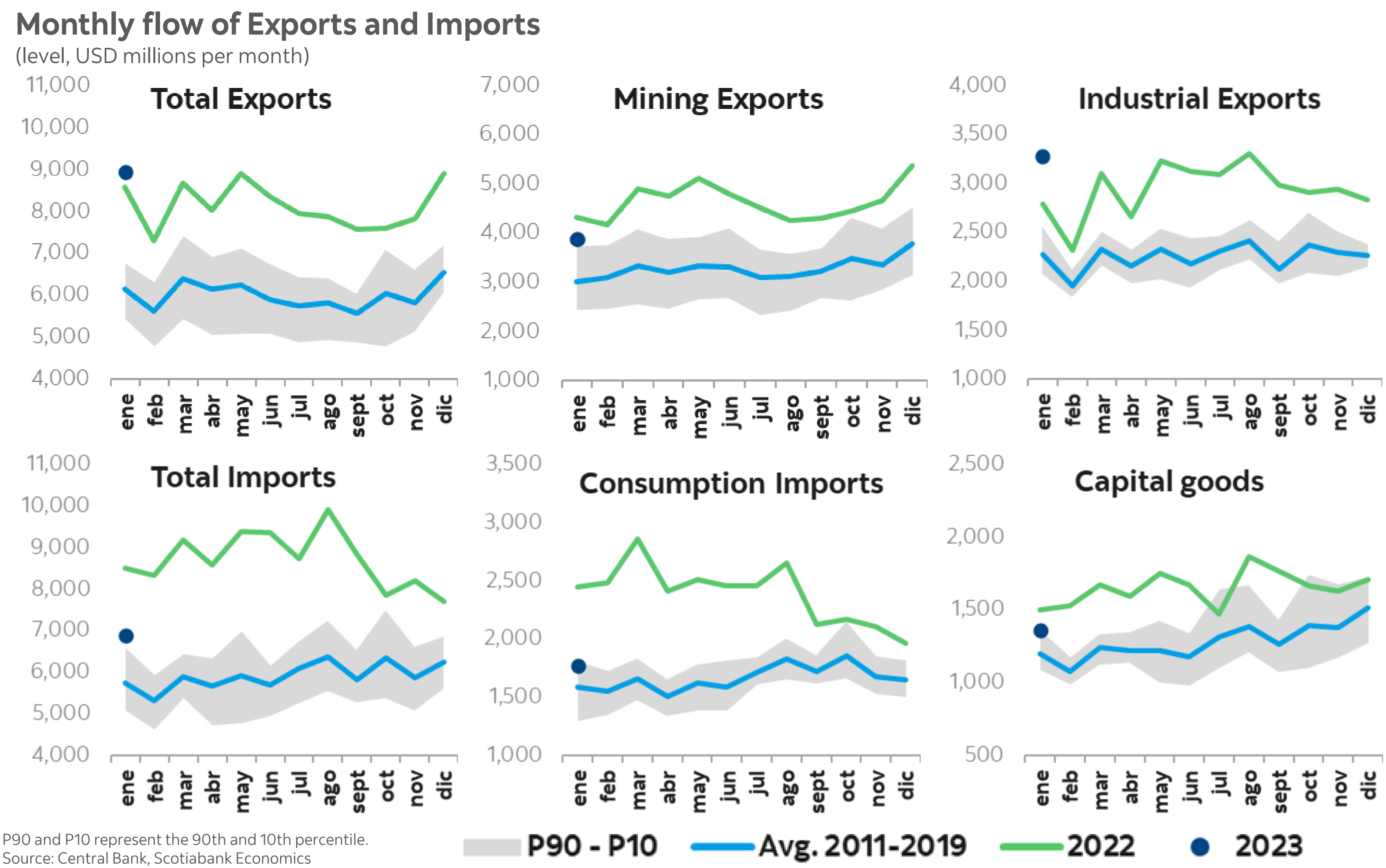
(**Sales**: units per month; **Imports**: USD millions)





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

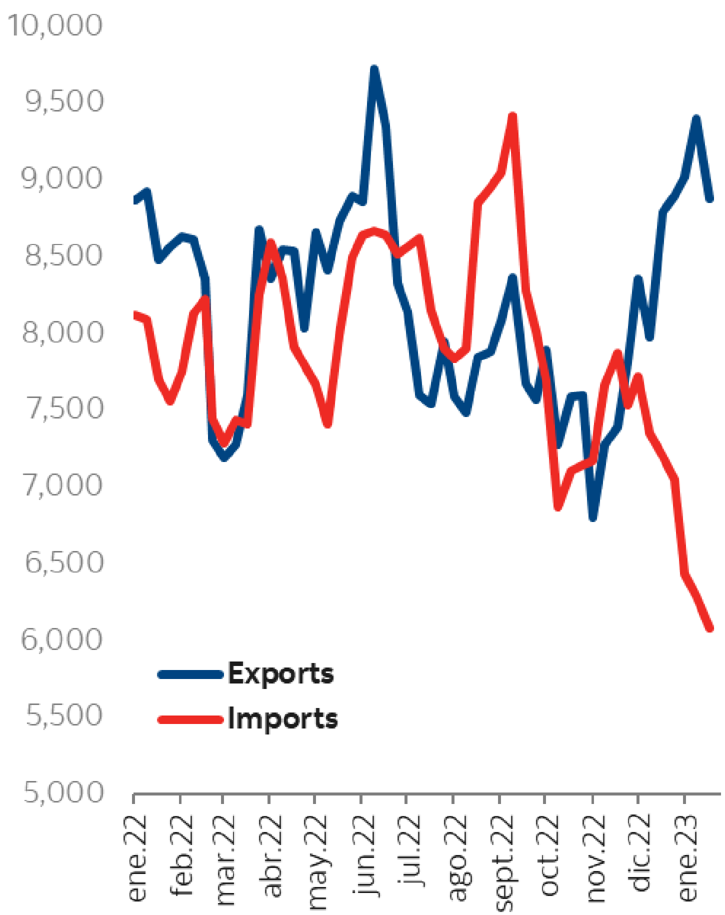
Resilient exports but imports are fading out.



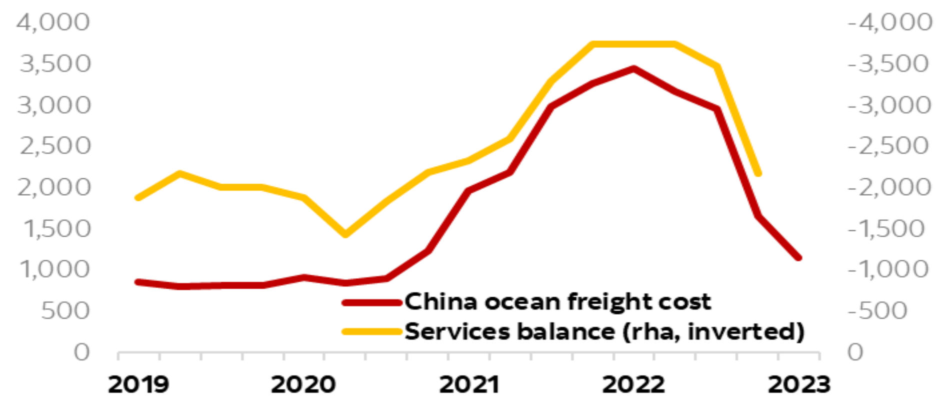
P90 and P10 represent the 90th and 10th percentile.
Source: Central Bank, Scotiabank Economics

Convergence of the current account towards a sustainable level sooner than later, as balance of goods is improving in the margin. Freight cost normalization is favoring a reduction in trade balance of services.

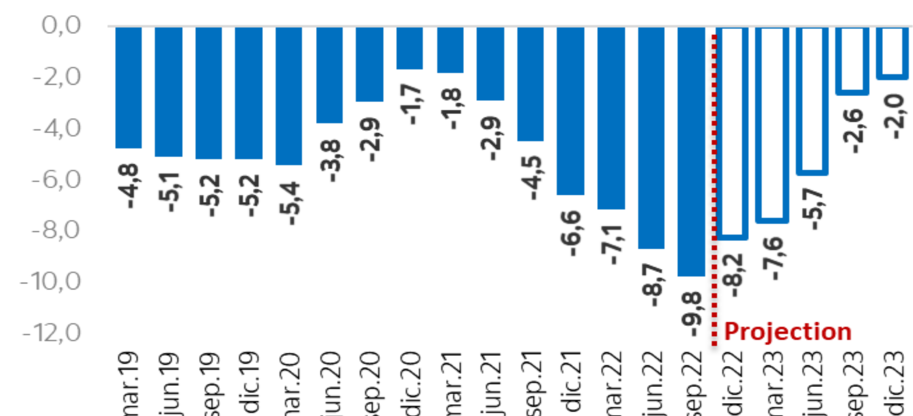
Exports and Imports of goods
(level, USD millions, 1-month accum., weekly data)



Freight cost and Balance of services
(USD million & index in USD)



Current Account deficit
(% of GDP, accum. last 12 months)



Source: Central Bank, Scotiabank Economics

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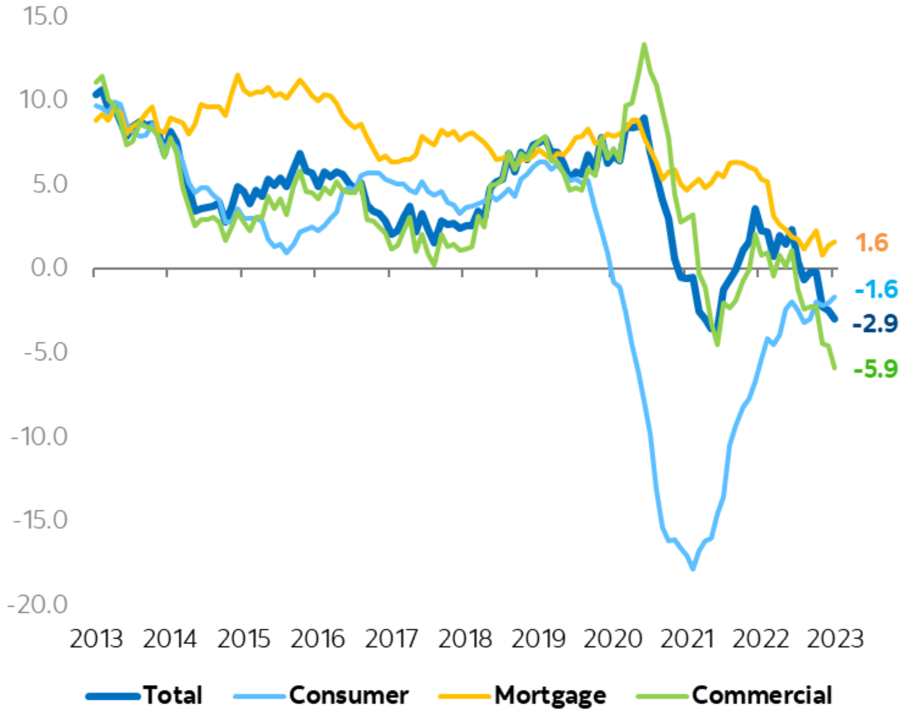
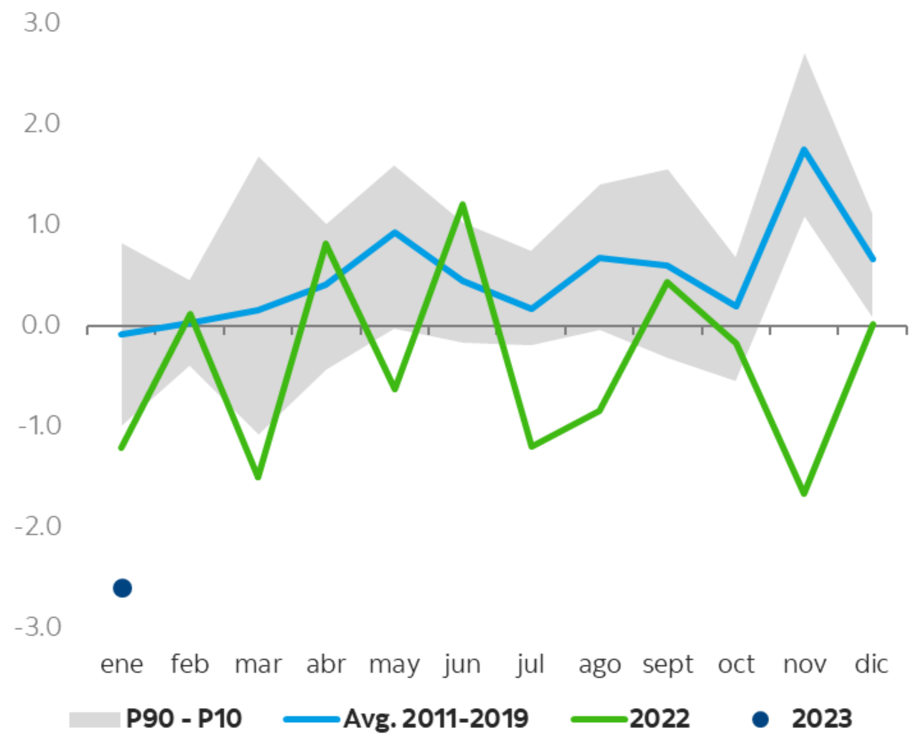
Banking credit worsened in January amid restrictive supply and weak demand. High interest rates and a sluggish labor market have prevented a counter-cyclical credit flow.

Loans by segment
(percentage, real annual growth)



Monthly dynamism of commercial loans
(percentage, real monthly growth)

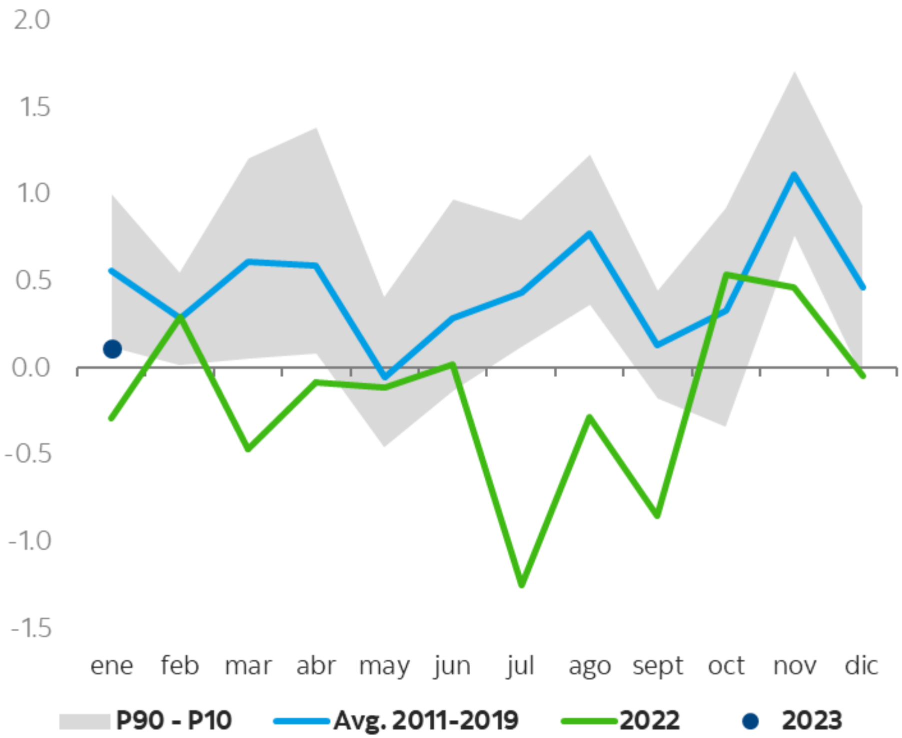


Source: Central Bank, Scotiabank Economics

Credit supply conditions remain restrictive. We detect a greater use of credit cards, especially in lower income segments.

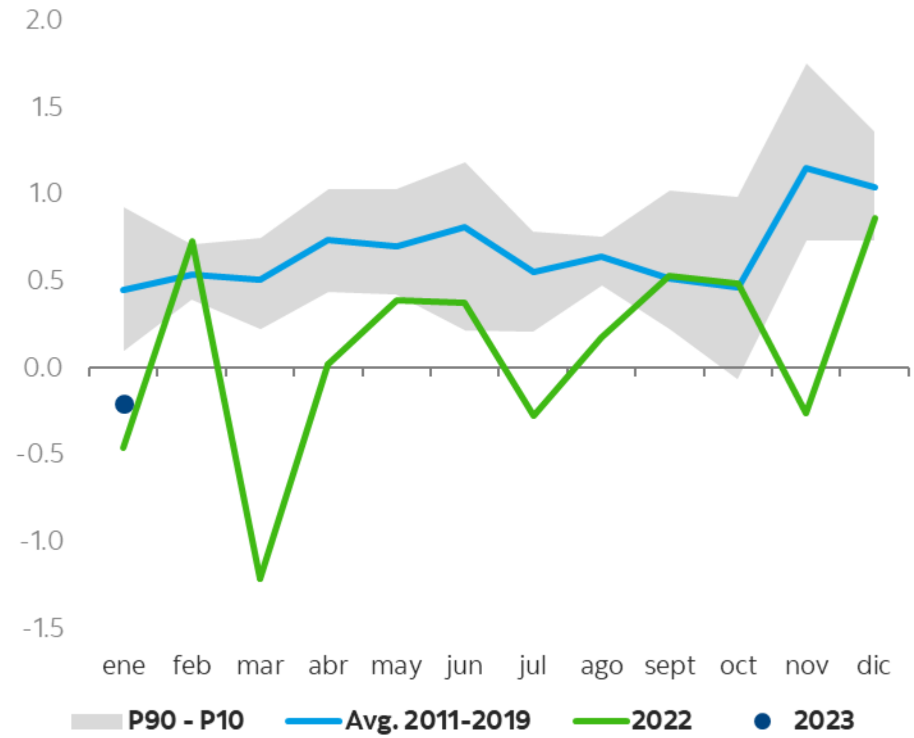
Monthly dynamism of consumer loans

(percentage, real monthly growth)



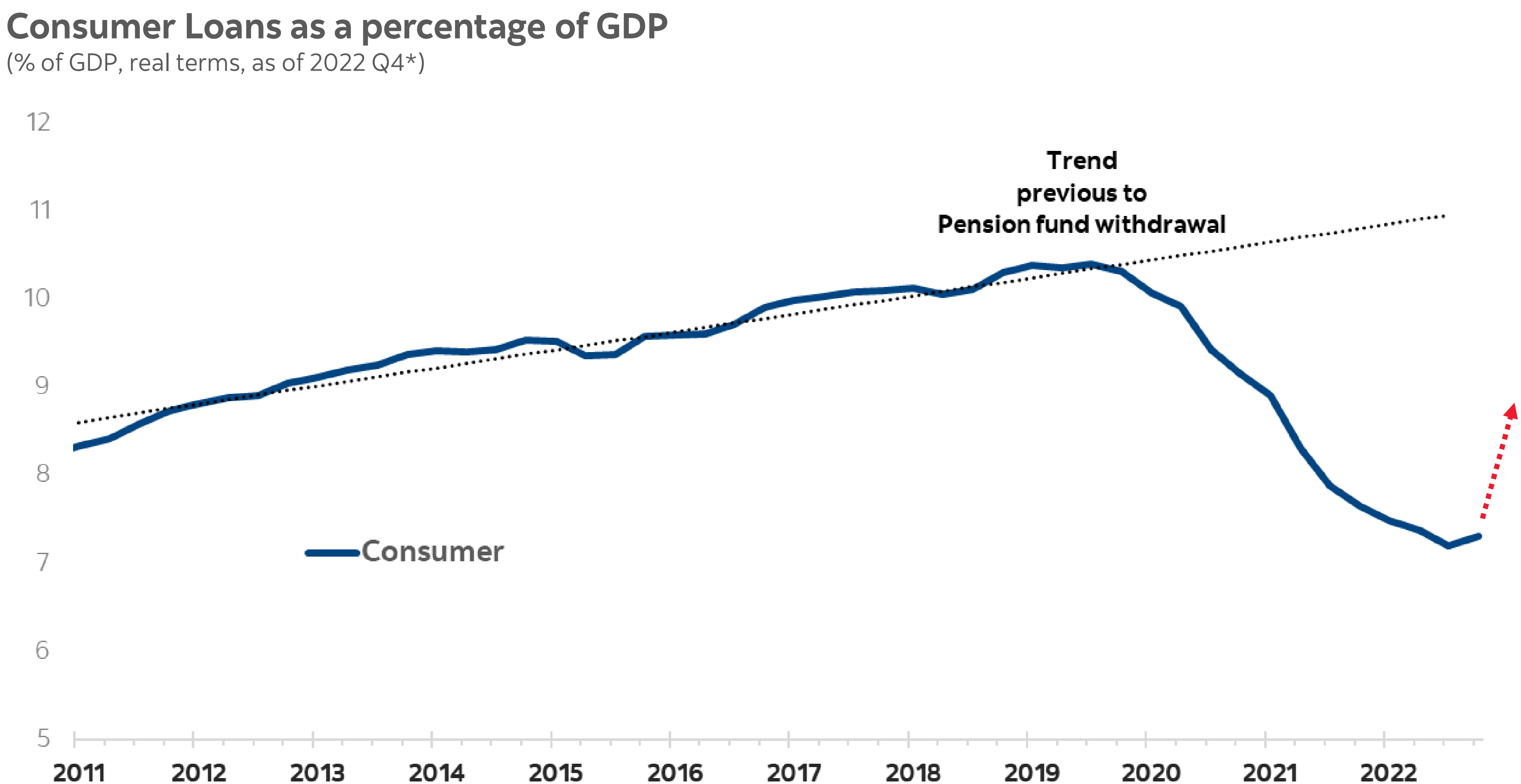
Monthly dynamism of mortgage loans

(percentage, real monthly growth)



Source: Central Bank, Scotiabank Economics

Consumer leverage ratio will normalize in coming quarters as excess of liquidity has ended.



* Data for 2022 Q4 considers a projected GDP for Q4 (-1.6% y/y). The level of GDP represents the moving sum of last 12 months.
Source: Central Bank, Scotiabank Economics

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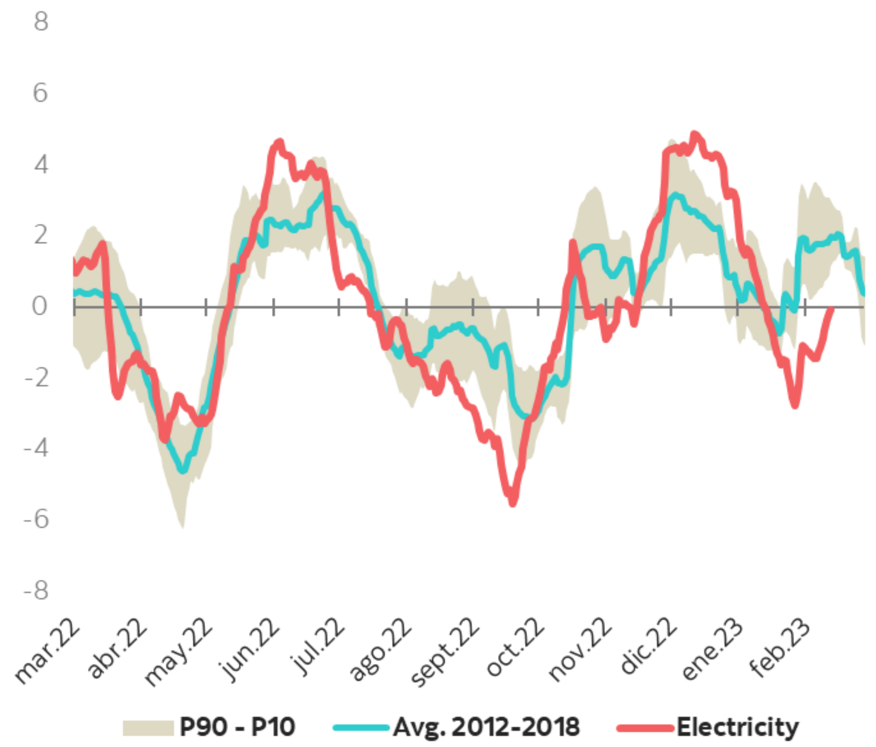
Electricity demand confirms convergence to a sustainable level and low dynamism during last weeks.

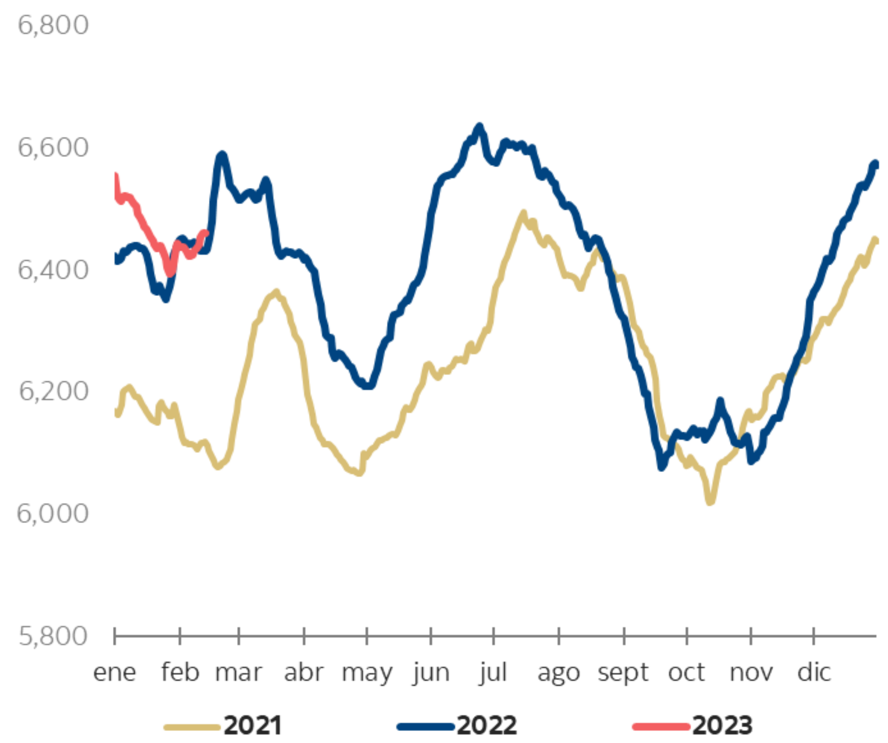
Monthly growth of electricity generation

(percentage, monthly growth, 28-day accum., up to February 13)



Level of electricity generation

(percentage, annual growth, 28-day accum., up to February 13)

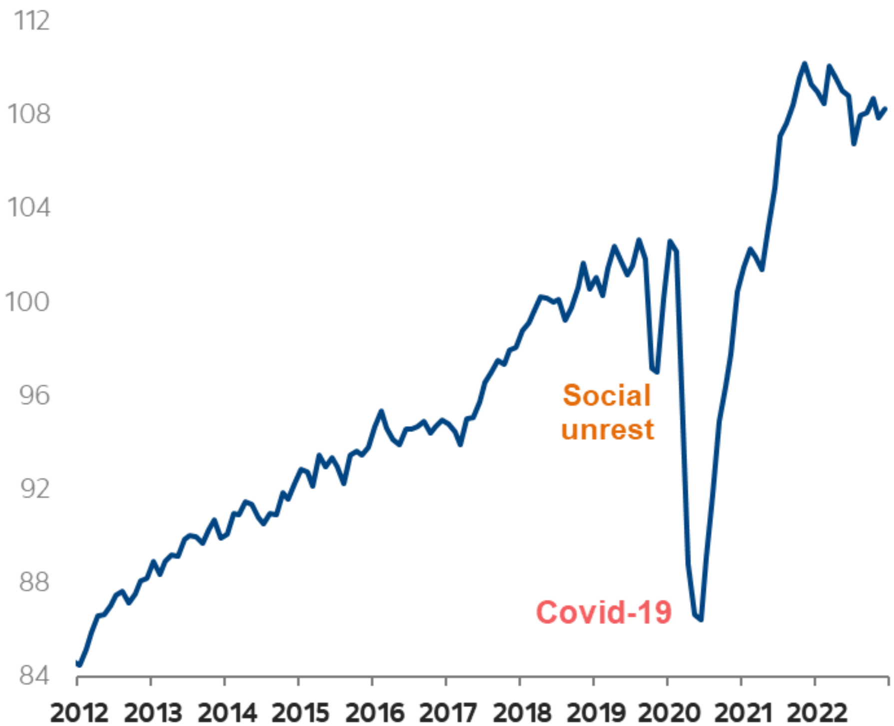


P90 and P10 represent the 90th and 10th percentile.
Source: *Coordinador Eléctrico*, Scotiabank Economics

January Imacec would have a zero y/y expansion but a monthly contraction (-0.7% m/m).

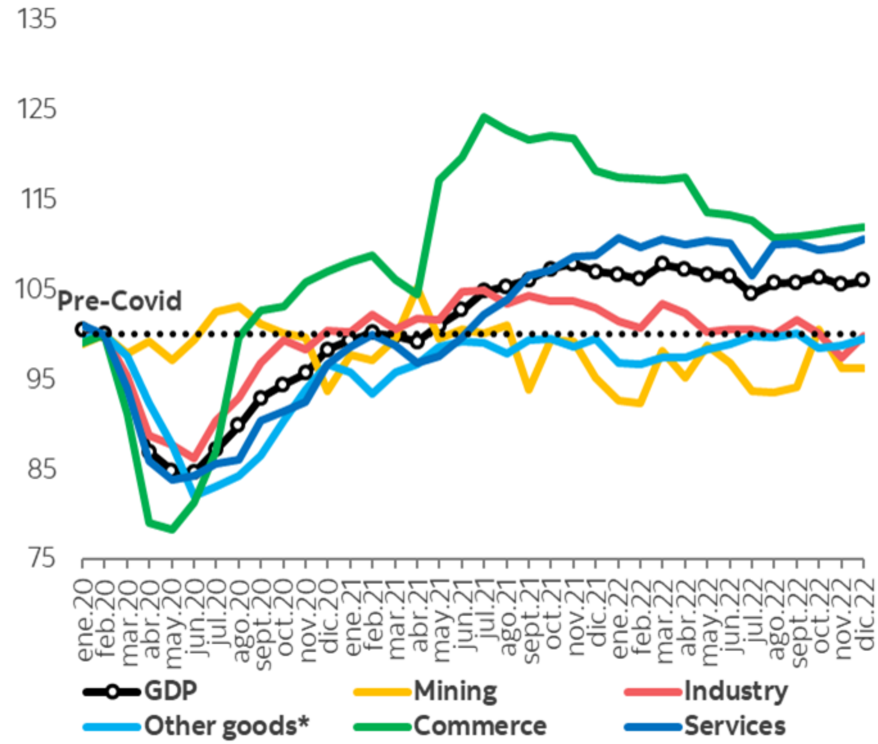
GDP level

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



GDP level by sector

(index, February 2020=100, monthly data)



Short run forecasts: growth of monthly GDP	November-22	December-22	January-23 (f)
Imacec (%, y/y)	-2.5%	-1.0%	~ 0%

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

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