Market prices internalized our view rapidly

Over-adjustment can only be avoided with aggressive monetary policy response and public investment execution

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Updated July 17, 2023

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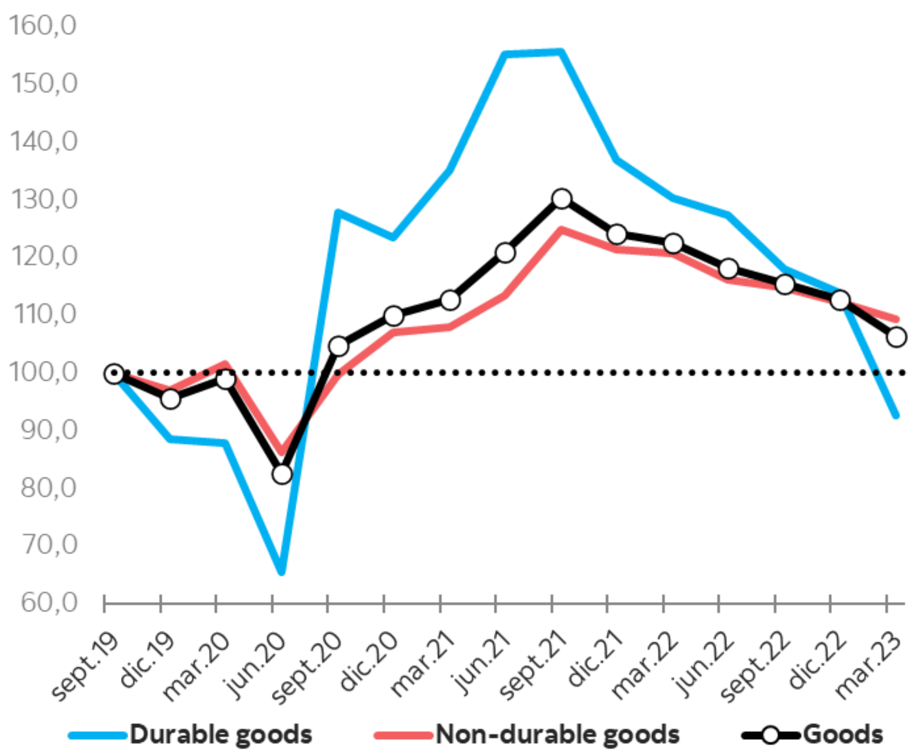
Key messages

- **We forecast a technical recession in Q3-23**. Negative y/y quarterly GDP growth the whole year with a contraction of 0.8% in 2023. In the short-run, we forecast monthly GDP contraction between 2 and 1% y/y in June. Central Bank's baseline GDP growth scenario for 2023 will be adjusted downward again.
- **With 0% m/m GDP growth for the rest of the year, the GDP contraction in 2023 would be above 1%**. What would be the factors that would drive the acceleration of economic activity during the second half of the year? We need not only cuts in the MPR, but also a recovery of public and private investment.
- **Our high-frequency data suggest that the slowdown process has continued in Q2-23, both in goods and services consumption.** However, restaurants and travel sales showed greater dynamism favored by the CyberDay.
- **We forecast Retail Sales decreasing 10% y/y in June. Preliminary data for July confirms that no recovery is observed for now.**
- **Tradable inflation fell sharply in Q2-23 contrary to the asymmetric pass-through estimated by the Central Bank.** Non-tradable inflation (mainly services) continued to slow down.
- **Market prices (inflation and benchmark rate) moved rapidly to Scotiabank's view. We maintain our forecast of inflation at 3.7% and MPR between 6.5 and 7.5% by December 2023**. We do not share the view of inflation decreasing to 3% by the end of this year, but rather during the first quarter of 2024.

Broad adjustment in consumption of goods, in line with the slowdown in tradable inflation.

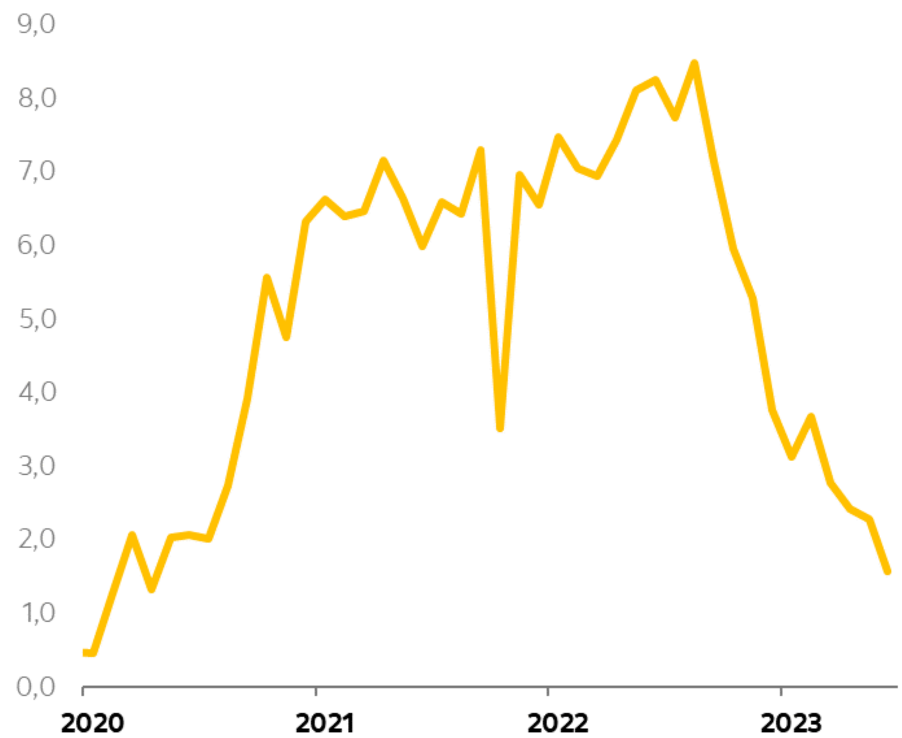
Consumption of goods

(level, real, index Sep.2019=100, seasonally adjusted, quarterly data)



Inflation of durable (mostly tradable) goods

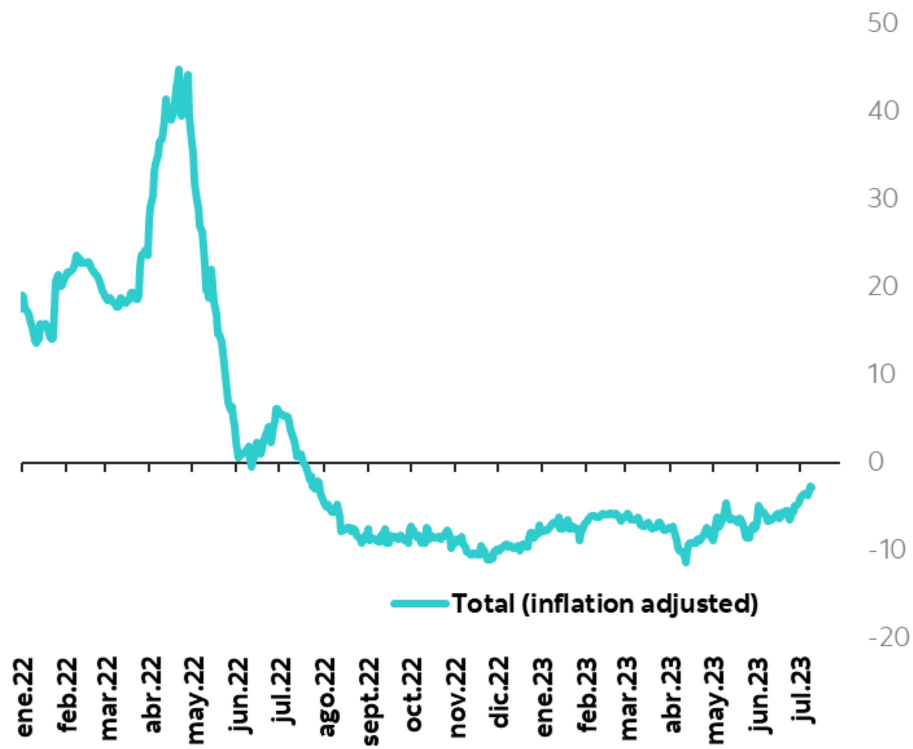
(var. %, a/a)



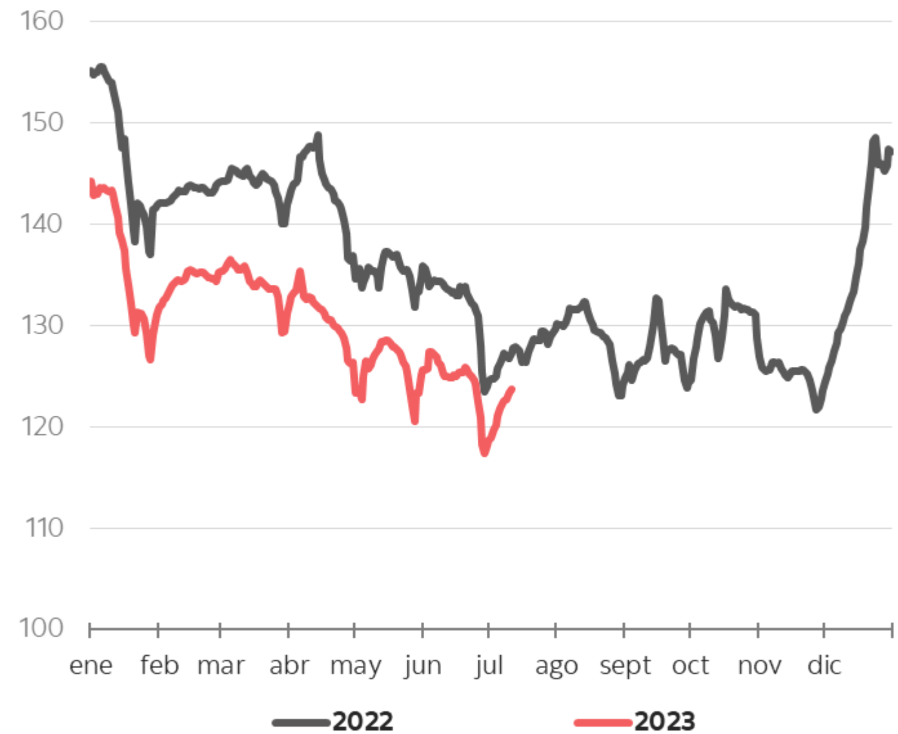
Source: Central Bank, Scotiabank Economics

Without excess liquidity, private consumption now determined by a weak labor market. No strong recovery in sight.

Purchases with debit cards
(%, real annual growth, 28-day mov. avg., up to July 11)



Purchases with debit cards
(level, real, index 1-Jan-2020=100, 28-day moving sum, up to July 11)



Source: Scotiabank Economics

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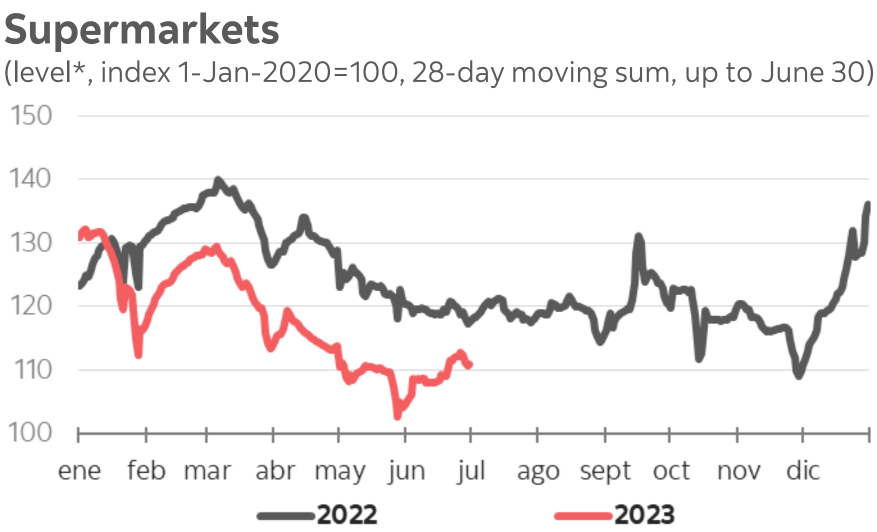
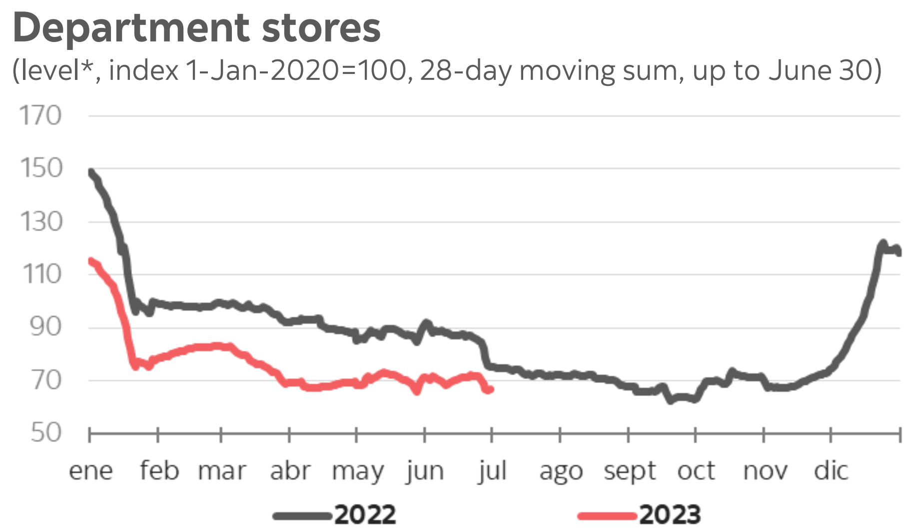
Mild stabilization in private consumption in June



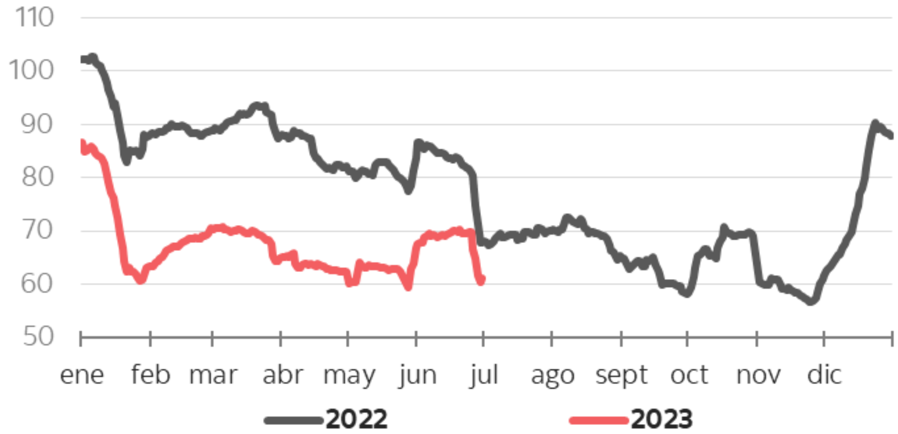


- **Supermarkets sales remain weak but stabilizing.**
- **Department stores also affected by weak demand.**

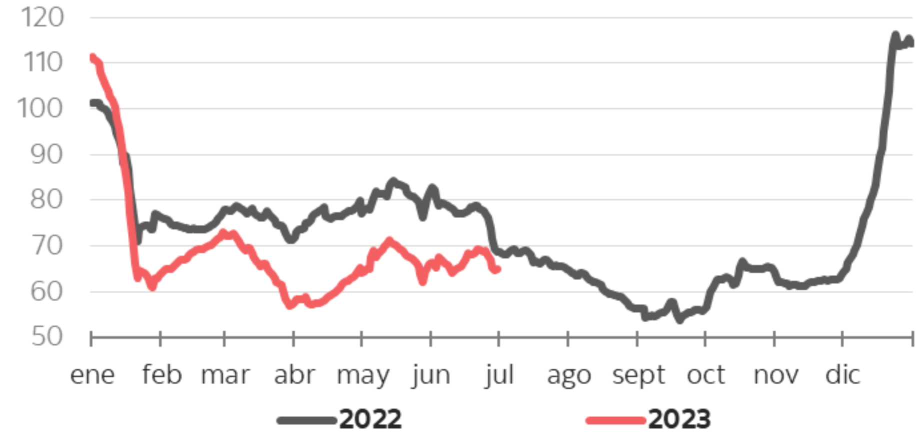
* Data show purchases with debit cards. Inflation-adjusted index.
Source: Scotiabank Economics

Some stabilization in purchases of semi-durable goods

Electronic stores
(level*, index 1-Jan-2020=100, 28-day moving sum, up to June 30)



Clothing and footwear
(level*, index 1-Jan-2020=100, 28-day moving sum, up to June 30)



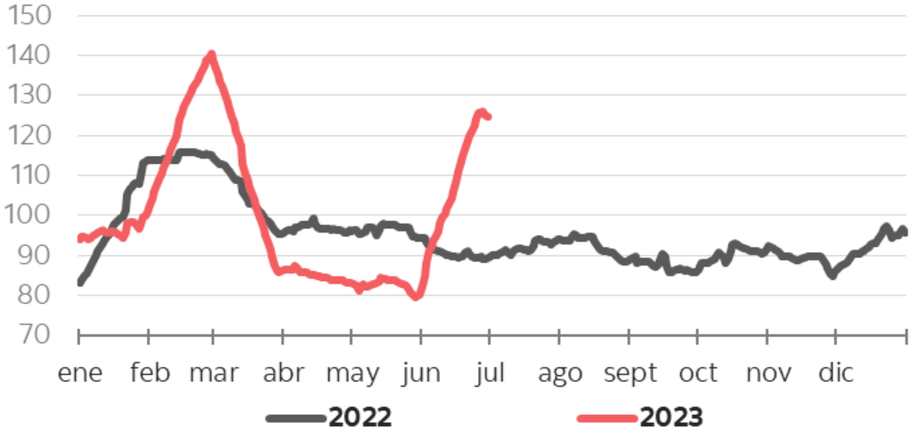
- **Demand for durable goods remain weak (cars and electronics).**
- **Clothing and footwear purchases still decreasing.**

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

Recreation spending experienced a temporary rebound (CyberDay)

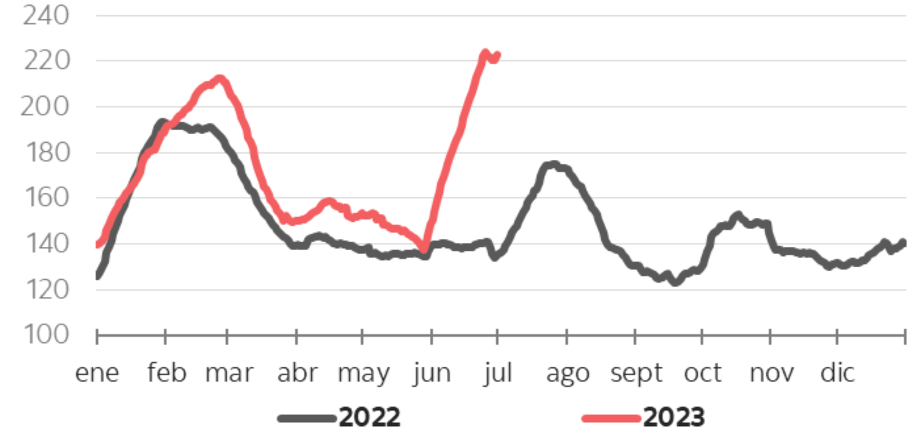
Restaurants

(level*, index 1-Jan-2020=100, 28-day moving sum, up to June 30)



Tourism travel

(level*, index 1-Jan-2020=100, 28-day moving sum, up to June 30)

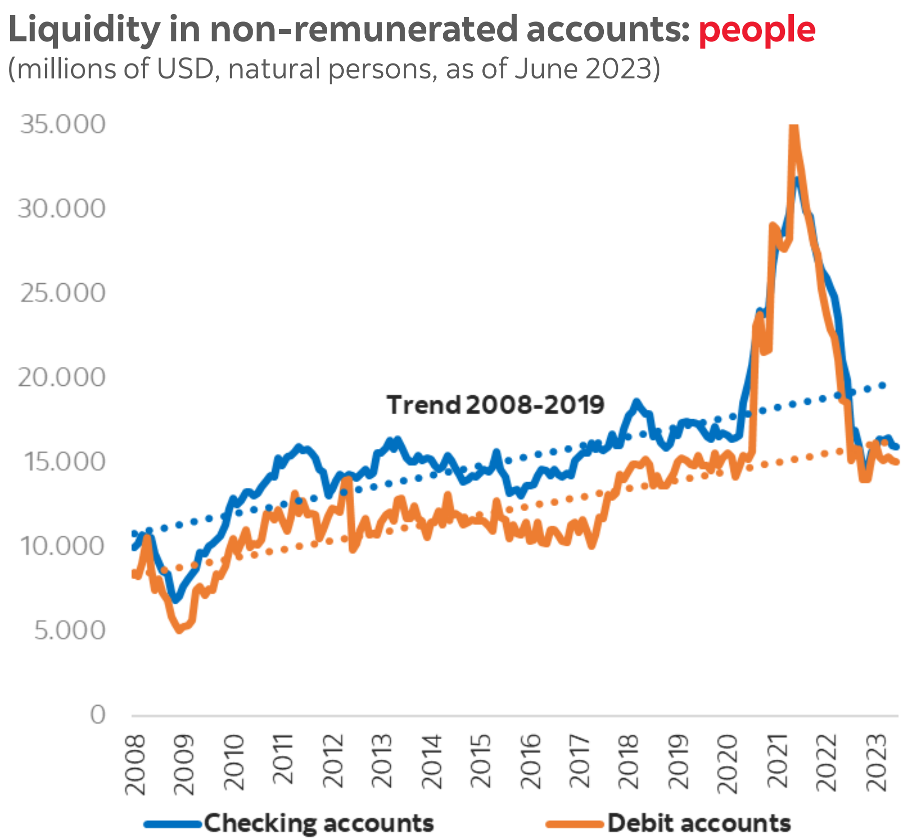


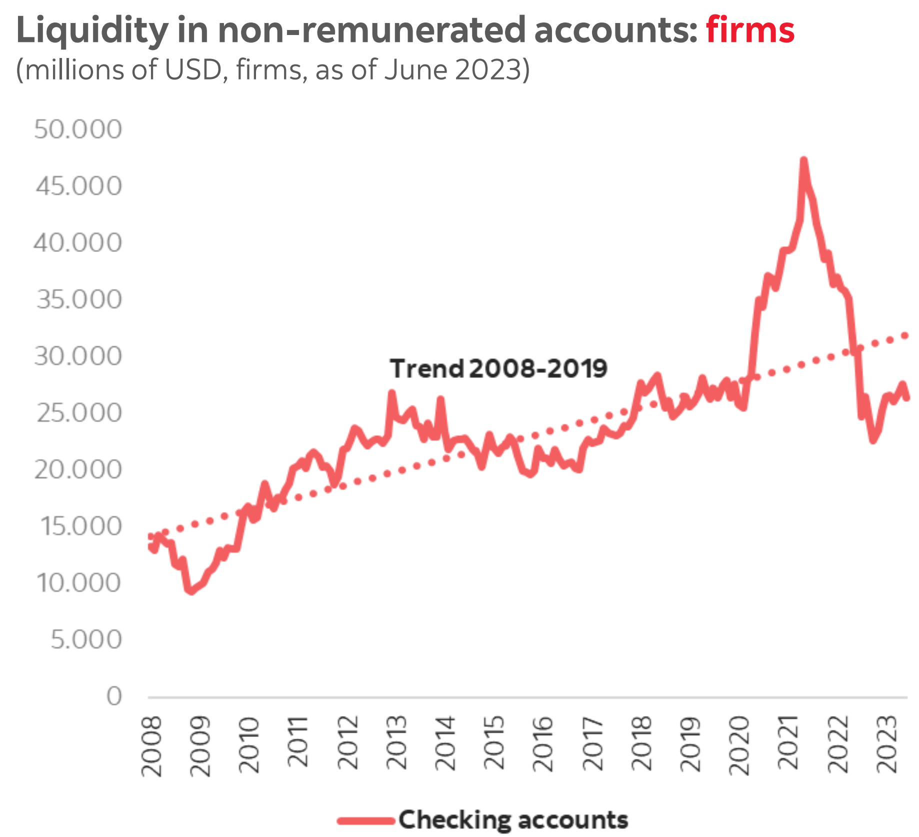
Recreation spending experienced a temporary

- **Restaurant spending recovered strongly.**
- **Tourism remains the most dynamic service sector, favored by CyberDay event at the end of May.**

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

High short-term interest rates drained liquidity, encouraging greater household saving. Term deposits (<90 days) remain high.



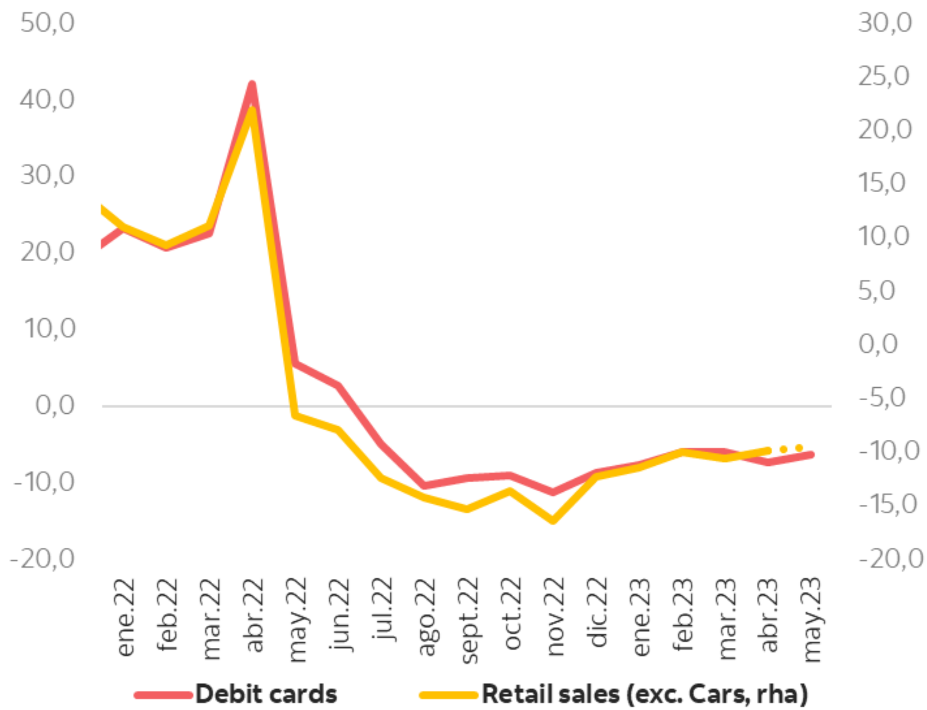


Source: Central Bank, Scotiabank Economics

We forecast a drop of 10% y/y in retail sales in June. Car sales and imports show signs of over-adjustment.

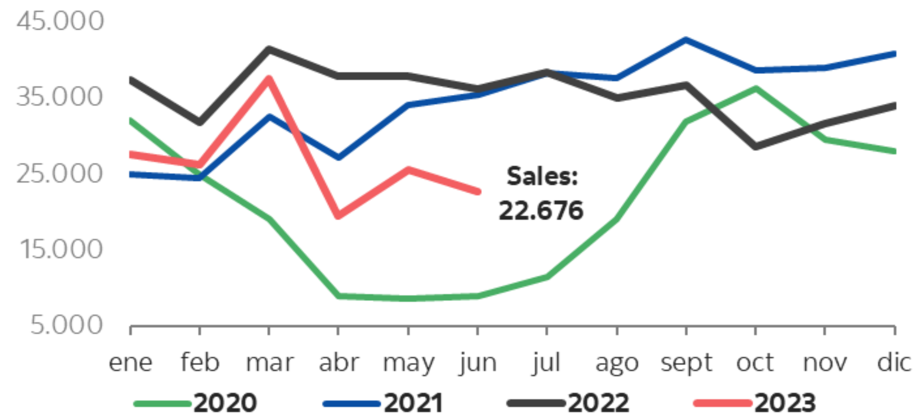
Retail sales (INE) vs Transactional data*

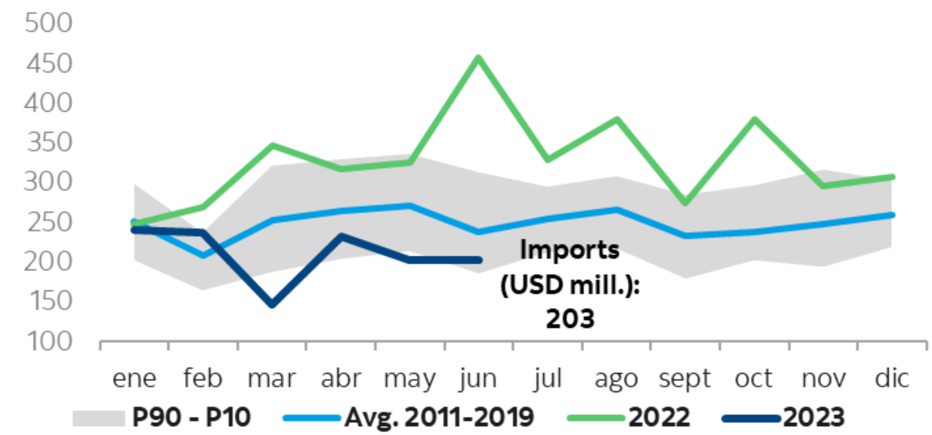
(percentage, annual growth)



New cars: sales & imports

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



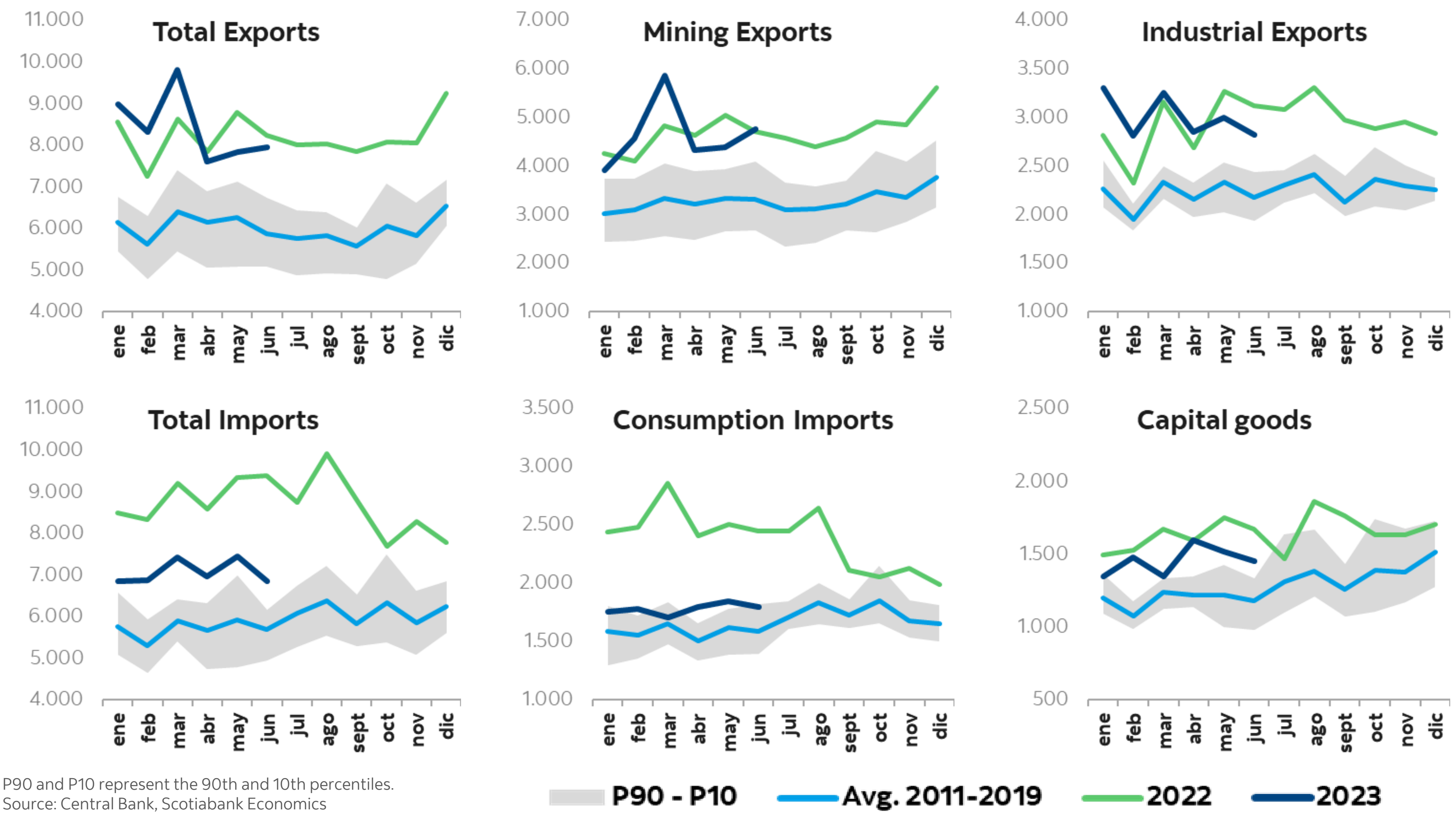


* This figure compares the INE's monthly retail sales indicator with our data on total purchases with debit cards reported in previous slides.
Source: National Bureau of Statistics (INE), ANAC, Central Bank, Scotiabank Economics

Imports are fading out with resilient exports. We forecast CA deficit below 5% of GDP in Q2-23.

Monthly flow of Exports and Imports

(level, USD millions per month)



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

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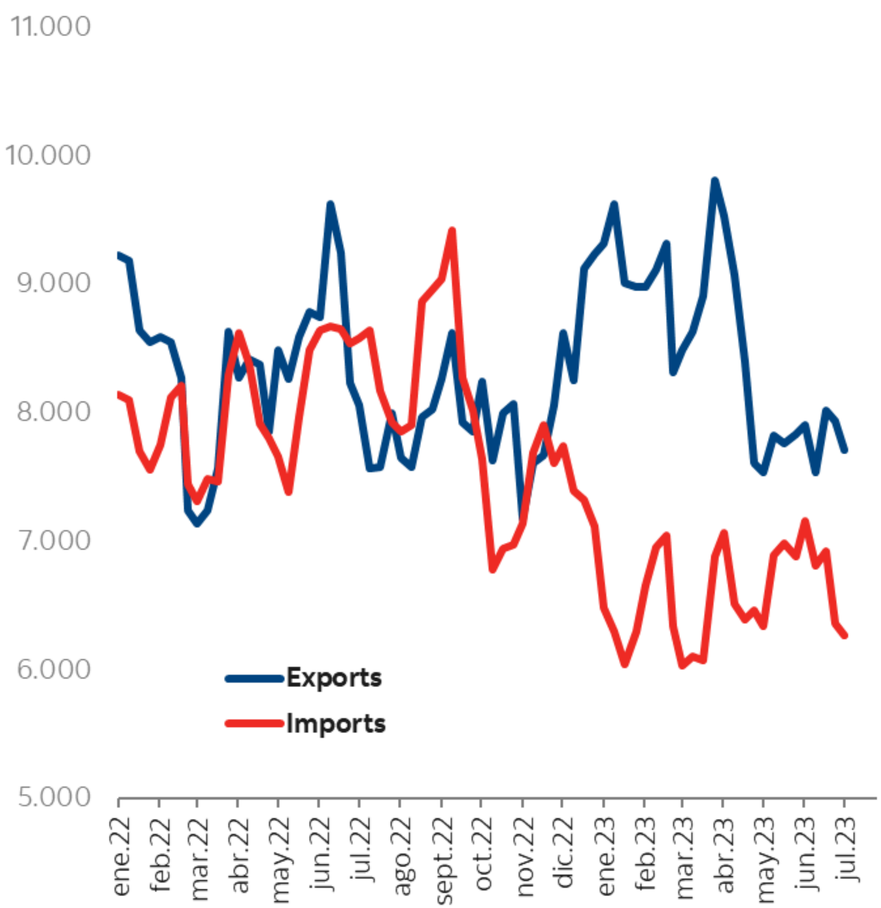
Convergence of the current account towards a sustainable level sooner than later. Freight cost normalization is favoring a reduction in balance of services.

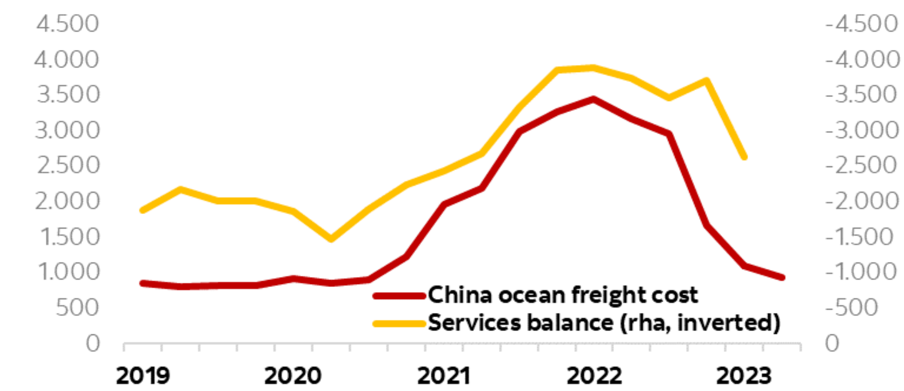
Exports and Imports of goods

(level, USD millions, 1-month accum., weekly data)



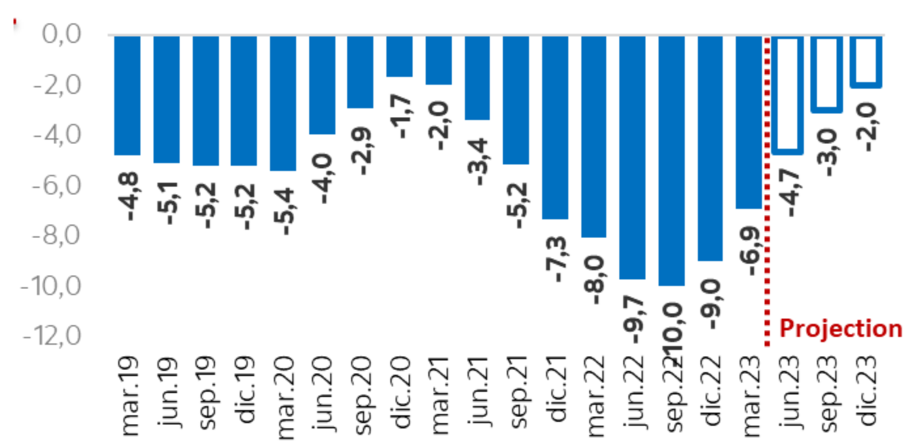
Freight cost and Balance of services

(USD million & index in USD)



Current Account deficit

(% of GDP, accum. last 12 months)



Source: Central Bank, Scotiabank Economics

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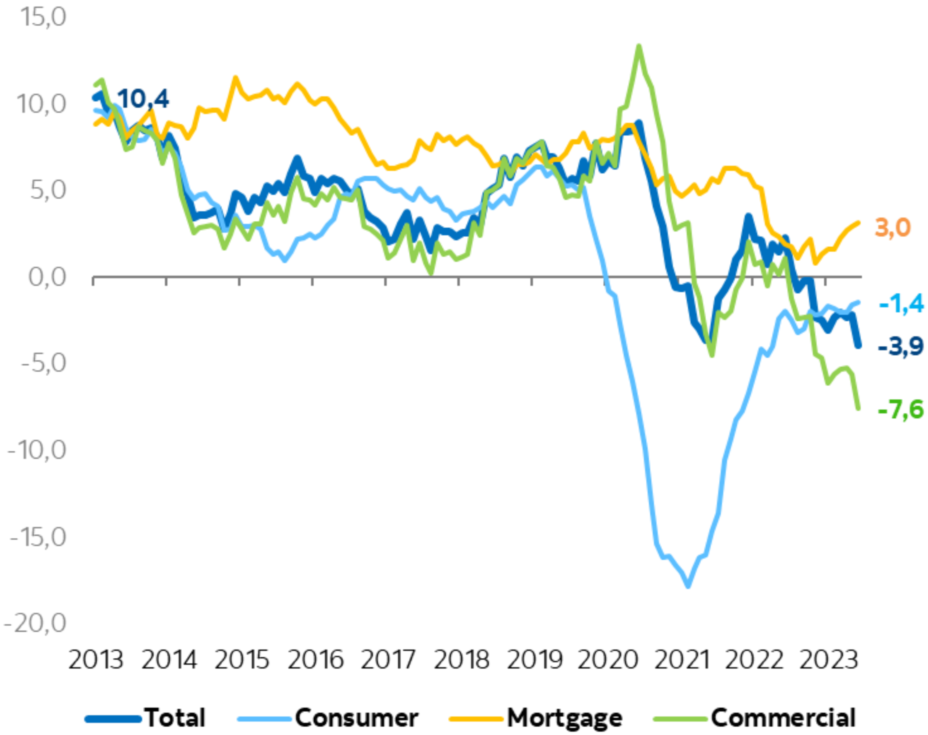
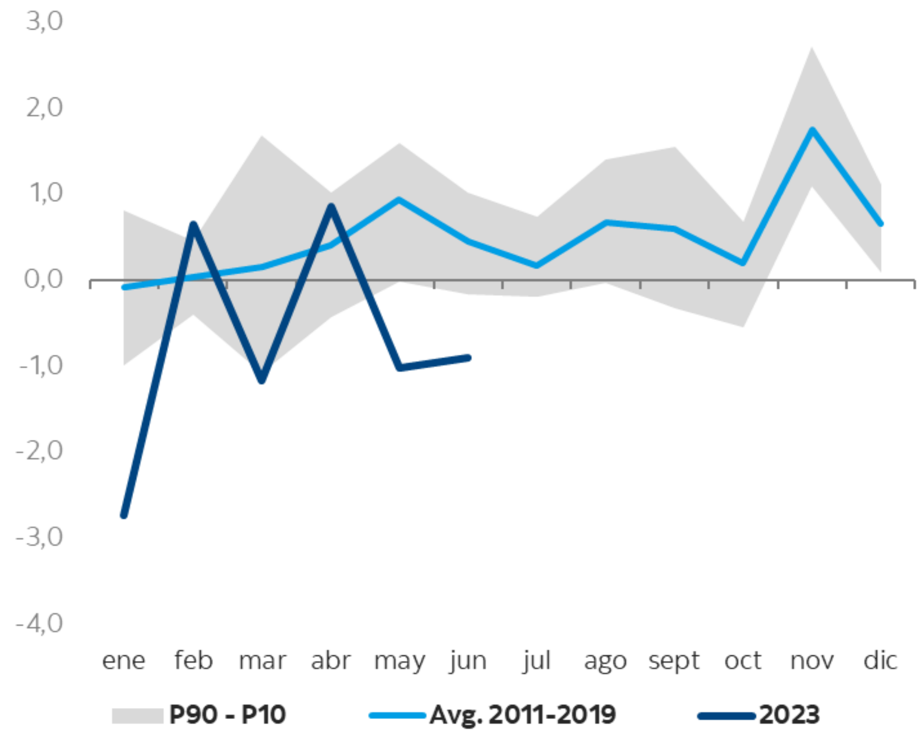
Banking credit worsening since May amid tight supply and weak demand. High interest rates and a sluggish labor market have prevented a counter-cyclical credit flow.

Loans by segment
(percentage, real annual growth)



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



Source: Central Bank, Scotiabank Economics

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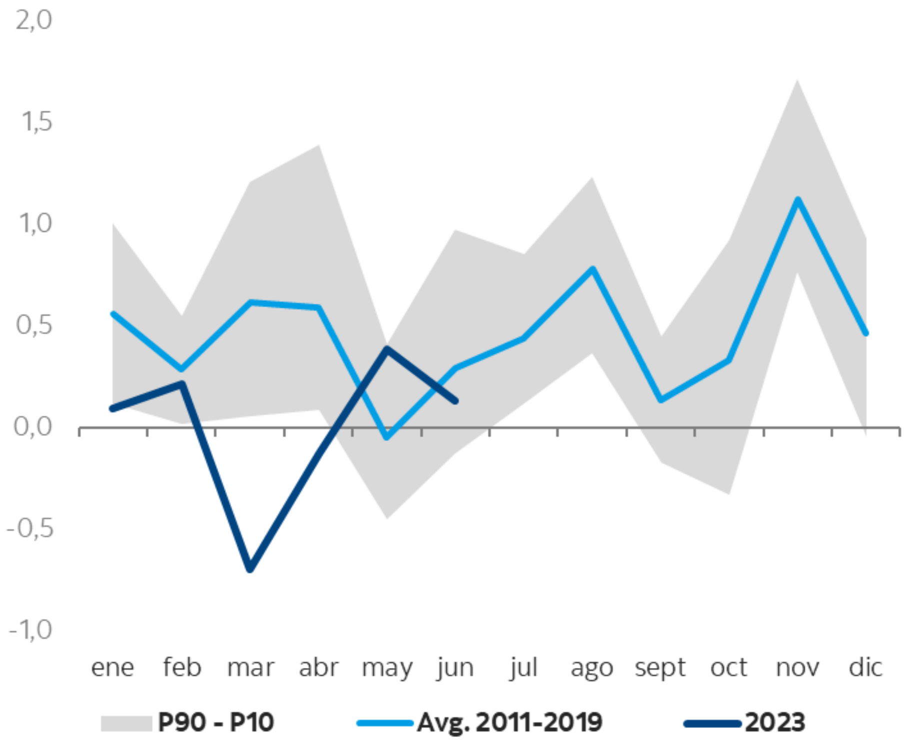
Credit supply conditions remain tight, but mortgage and consumer lending are (slowly) stabilizing.

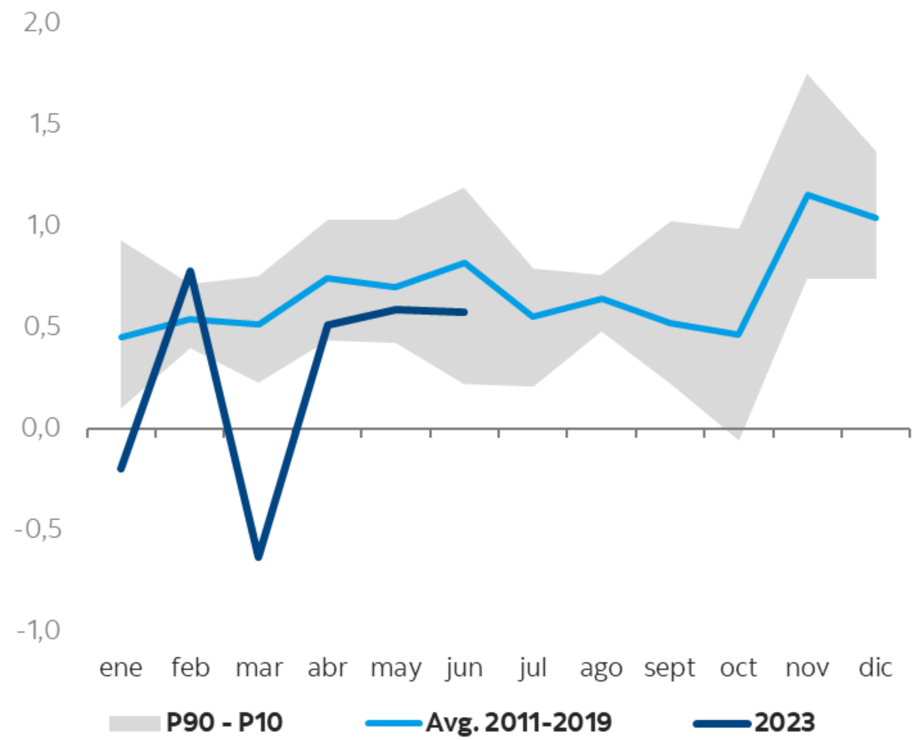
Monthly dynamism of consumer loans

(percentage, real monthly growth)



Monthly dynamism of mortgage loans

(percentage, real monthly growth)

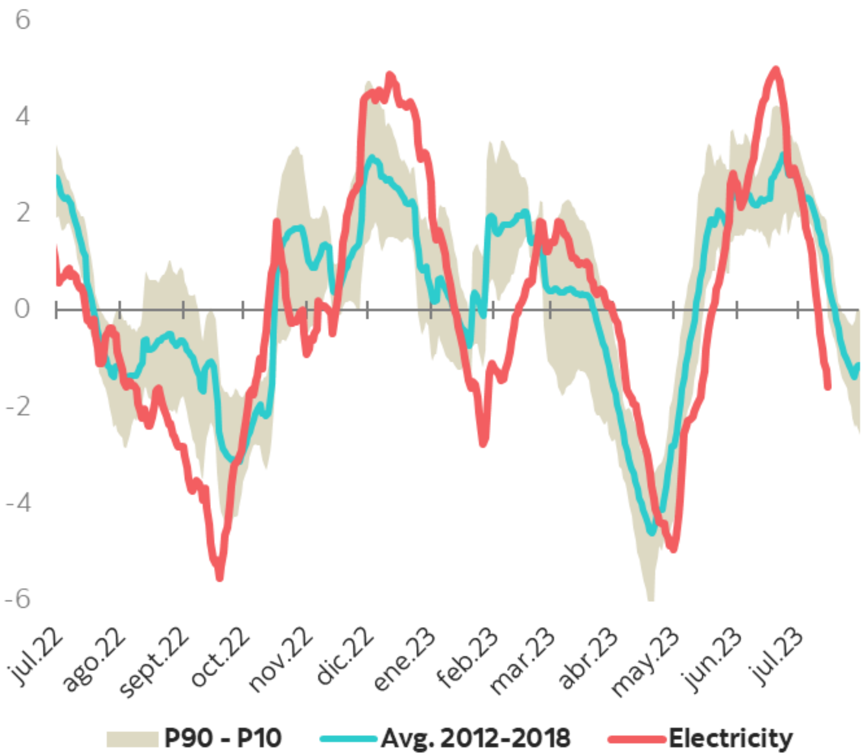


Source: Central Bank, Scotiabank Economics

Electricity demand confirms low dynamism since May. Worsening in the margin.

Monthly growth of electricity generation

(percentage, monthly growth, 28-day accum., up to July 16)



Level of electricity generation

(percentage, annual growth, 28-day accum., up to July 16)

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

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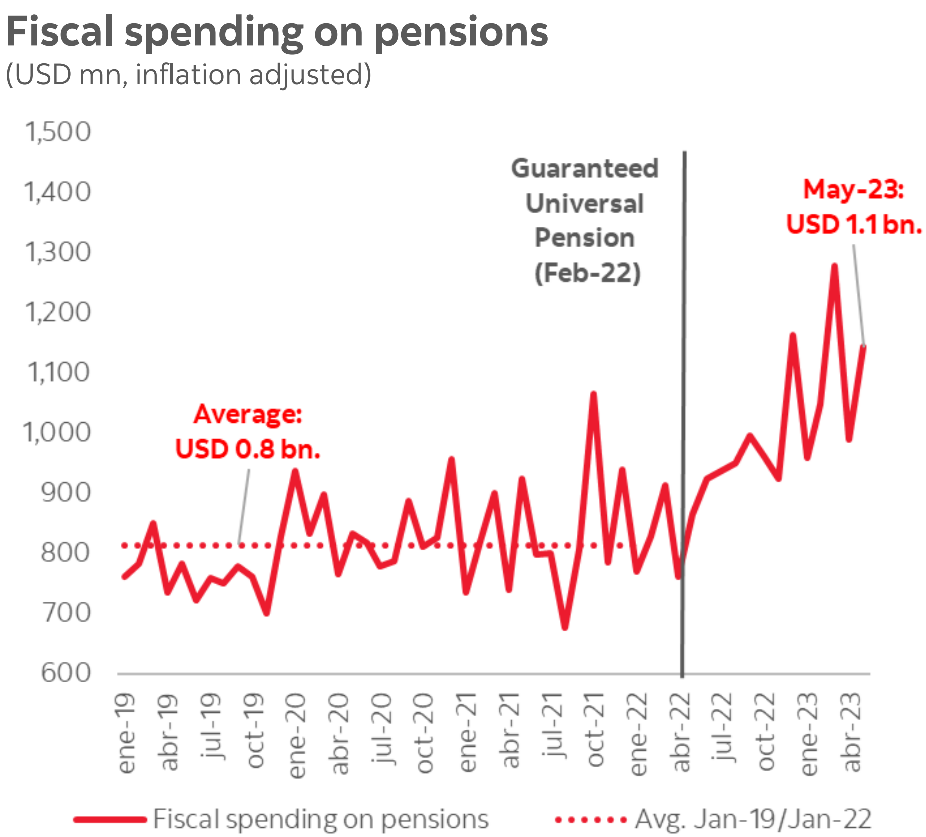
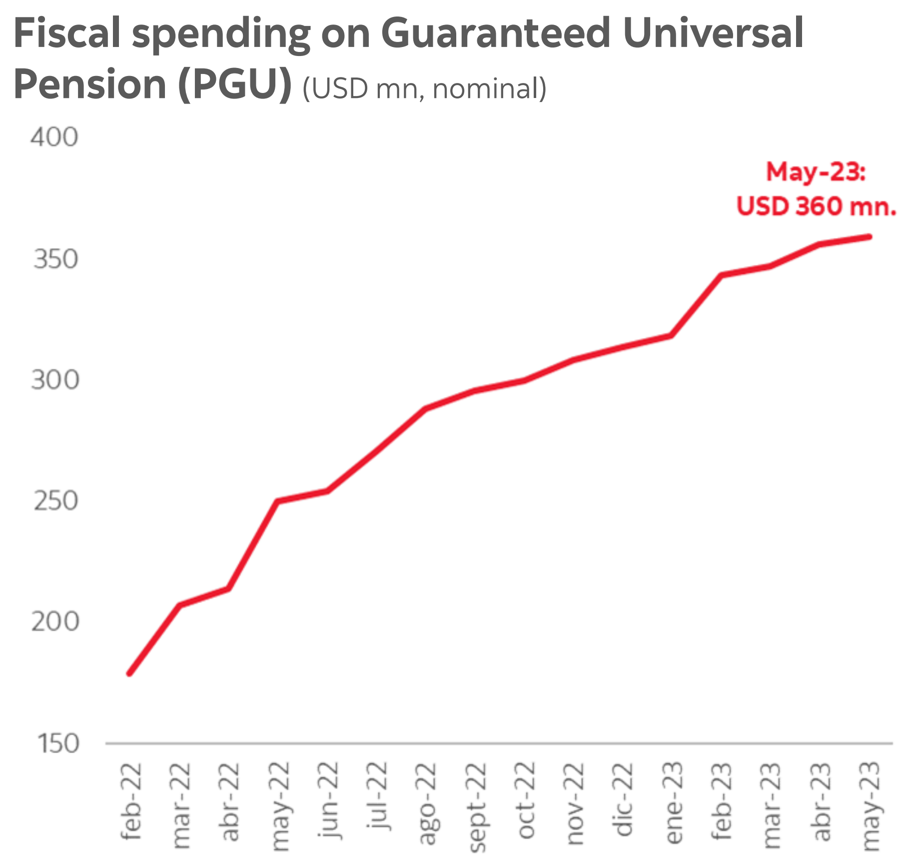
Strong acceleration in fiscal spending (Universal Guarantee Pension) gave support to private consumption. No more month over month support starting in August.

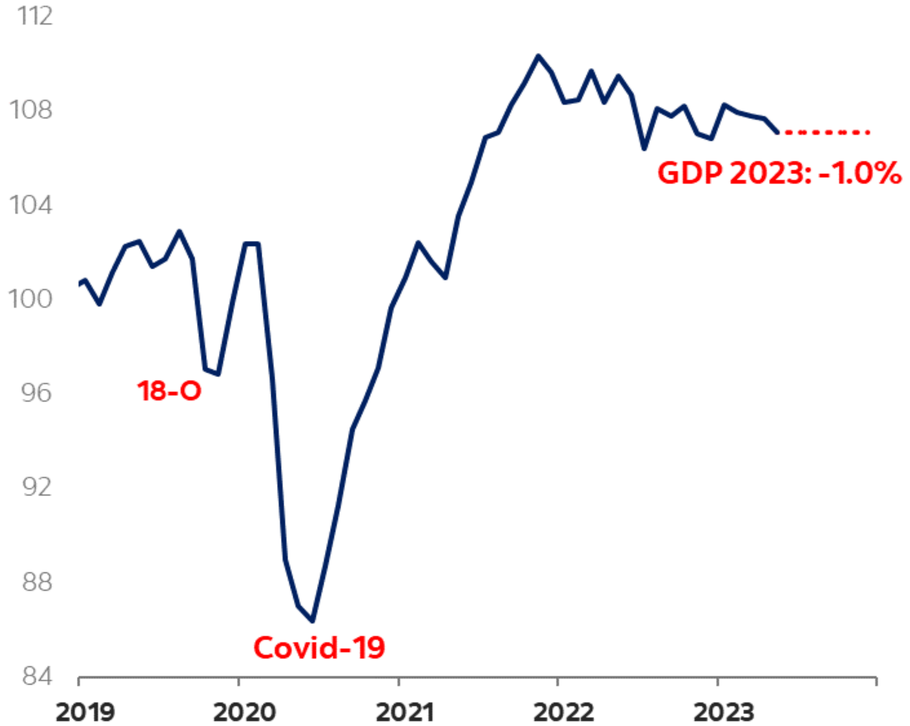




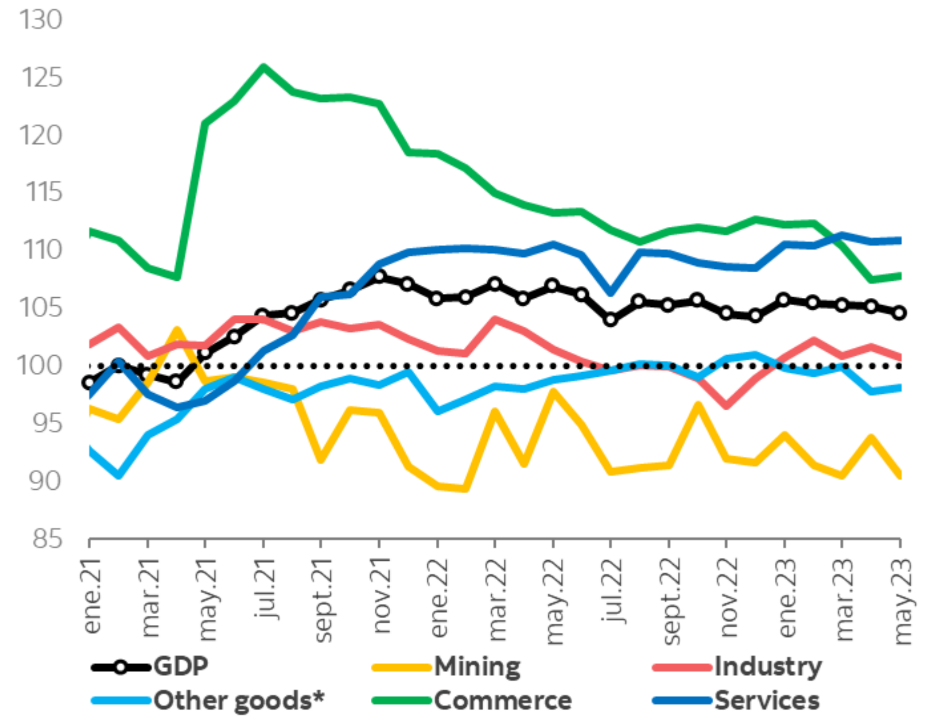
Source: DIPRES, Scotiabank Economics

With 0% m/m GDP growth for the rest of the year, the GDP contraction in 2023 would be above 1%. We forecast June's IMACEC between -2 and -1% y/y.

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	April-23	May-23	June-23 (f)
Imacec (%, y/y)	-1.1%	-2.0%	-2 to -1%

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

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