

# Strong recovery with some challenges ahead



**Economics & Financial Research**

March 2021



# Highlights

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- Restrictions on mobility have returned, leaving 64% of GDP affected. Based on the current rate of vaccination, we expect a gradual lifting of restrictions by mid-April.
- As we anticipated a few days ago, the government announced a new fiscal package for 2.4 pp of GDP (USD 6 bn.). Positive effect on household's liquidity. With this, it is more likely, but not granted, to prevent a third withdrawal of pension funds.
- We adjust upward our forecast for GDP growth to 7.5% in 2021.
- We anticipate that the right-wing coalition would get “no less” than 40% of the constituent assembly members in the April 10 & 11 election. Positive effect on Chilean risk assets. The main risk is to have a low electoral turnout that might lead to a new social unrest.
- Inflation would remain around or above historical monthly averages until the middle of the year. The Central Bank would begin to telegraph the beginning of the normalization process during the second half of the year. First hike after the runoff of the presidential election. Monetary Policy Report (released on March 31) will revise upward the GDP growth for 2021 to the range 6.0% to 7.0%. Forward guidance will keep the stimulative bias. The lagging recovery of employment will be the main reason to move slowly in the normalization process.
- CLP would stay above \$700 during 2021. Slightly depreciating external forces for the peso would be offset by the Treasury selling dollars. Central Bank's reserve accumulation process will give some support to levels above \$700. Treasury will stop selling dollars by the middle of the year after draining most of the sovereign wealth fund.

# Economic Outlook

Forecast	2018	2019	2020	2021	2022	2023
GDP (% yoy)	3.7	0.9	-5.8	7.5	3.5	3.0
Inflation (% yoy, eop)	2.1	3.0	3.0	3.0	3.0	3.0
Exchange rate (vs. USD, eop)	695	753	711	720	700	680
Monetary policy rate (% eop)	2.75	1.75	0.5	0.5	1.5	3.5
Copper price (US\$/lb, eop)	2.7	2.8	3.5	3.8	3.2	2.8
Total consumption (% yoy)	3.7	0.8	-6.8	10.2	3.7	3.0
Investment (% yoy)	5.1	4.4	-11.5	12.2	4.5	3.0
Fiscal balance (% GDP)	-1.7	-2.8	-7.4	-4.0	-3.5	-3.0
Current account (% GDP)	-4.0	-3.7	1.4	-1.0	-2.0	-2.5

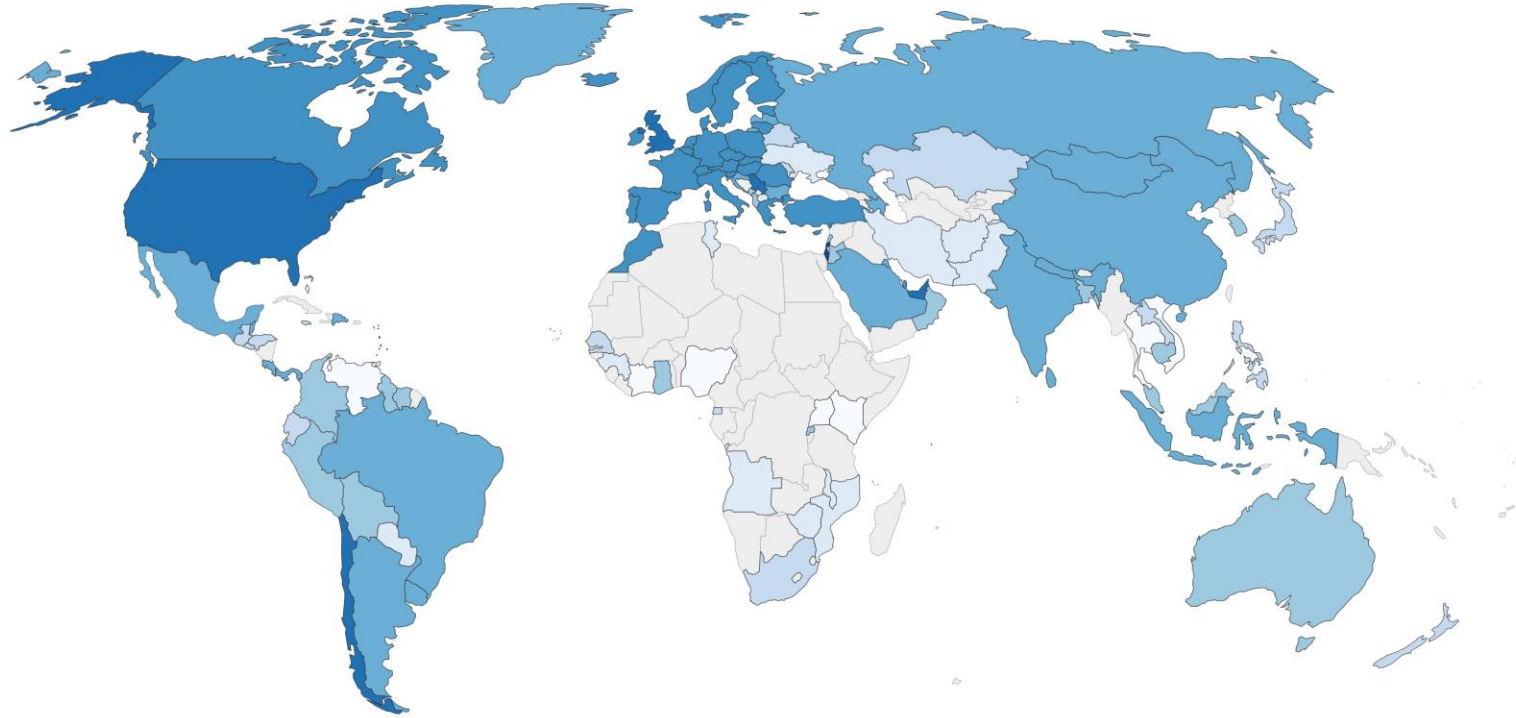
Source: Scotiabank Economics

# World: Vaccination process advancing in many countries

## COVID-19 vaccine doses administered per 100 people, Mar 22, 2021

Total number of vaccination doses administered per 100 people in the total population. This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses).

Our World  
in Data



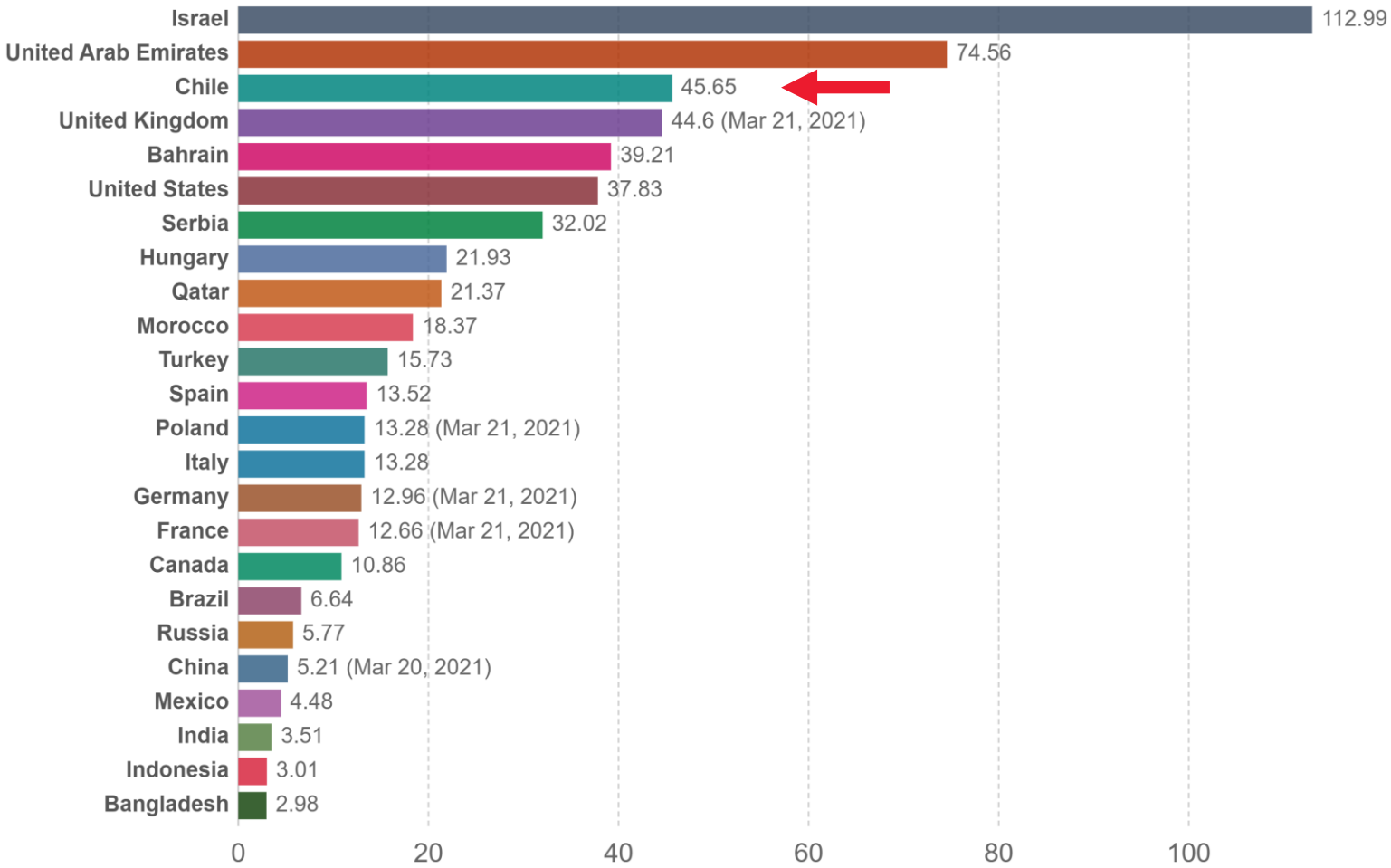
Source: Official data collated by Our World in Data – Last updated 23 March, 08:38 (London time)

OurWorldInData.org/coronavirus • CC BY

# World: 460mn doses have been administered. Chile in the top 3

## COVID-19 vaccine doses administered per 100 people, Mar 22, 2021

Total number of vaccination doses administered per 100 people in the total population. This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses).



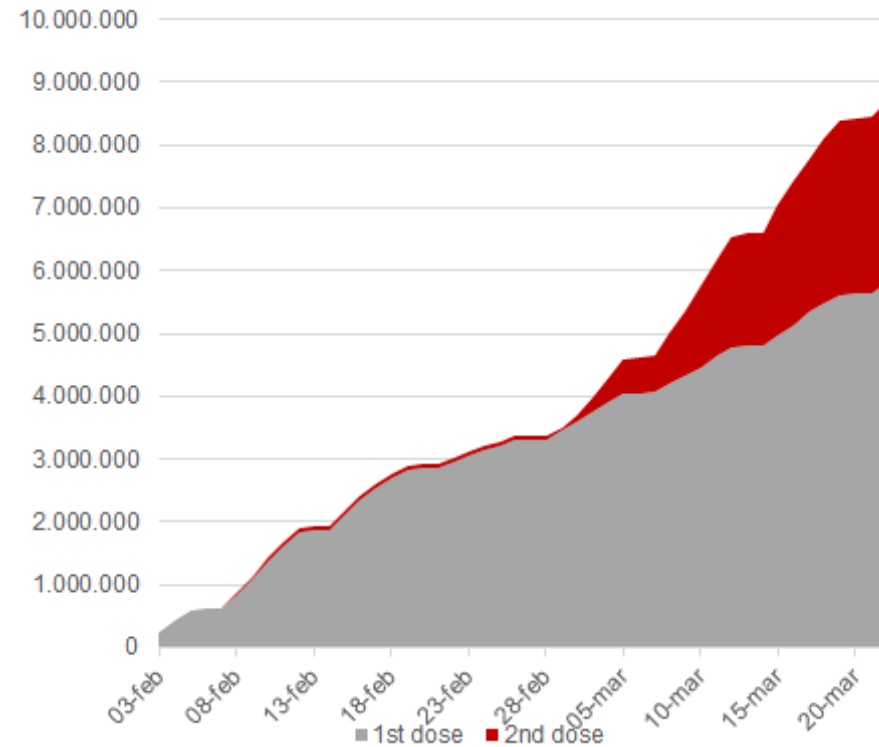
Source: Official data collated by Our World in Data – Last updated 23 March, 08:38 (London time)

OurWorldInData.org/coronavirus • CC BY

# Almost 9 million doses have been administered in Chile (Pfizer & Sinovac). Successful vaccination has come along with a second wave. We should see an improvement in a few weeks

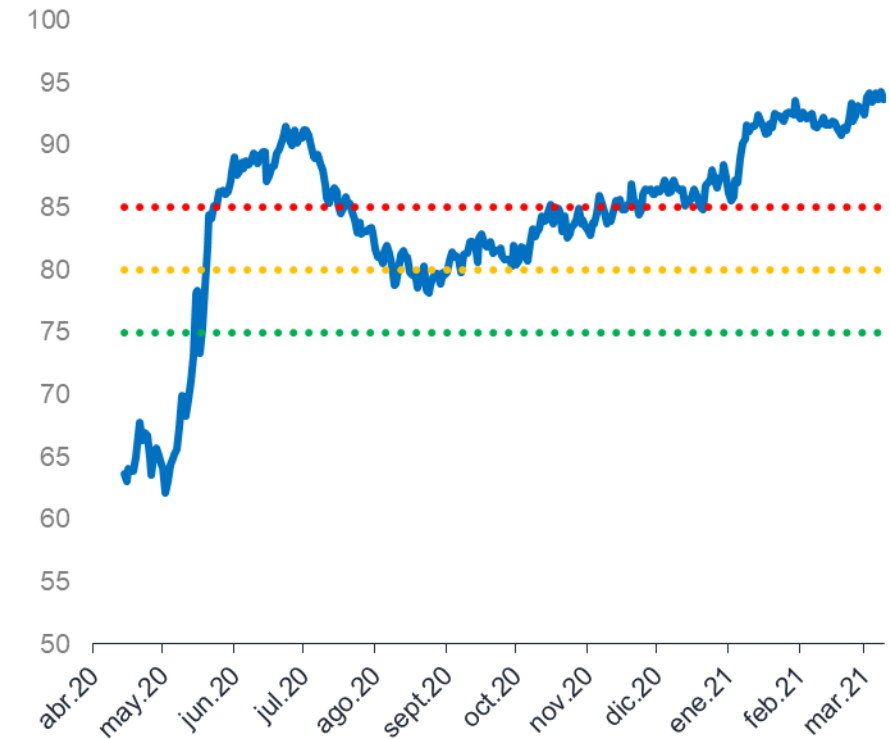
## Chile: confirmed vaccinations administered

(total number of 1<sup>st</sup> and 2<sup>nd</sup> doses administered)



## ICU-bed occupation

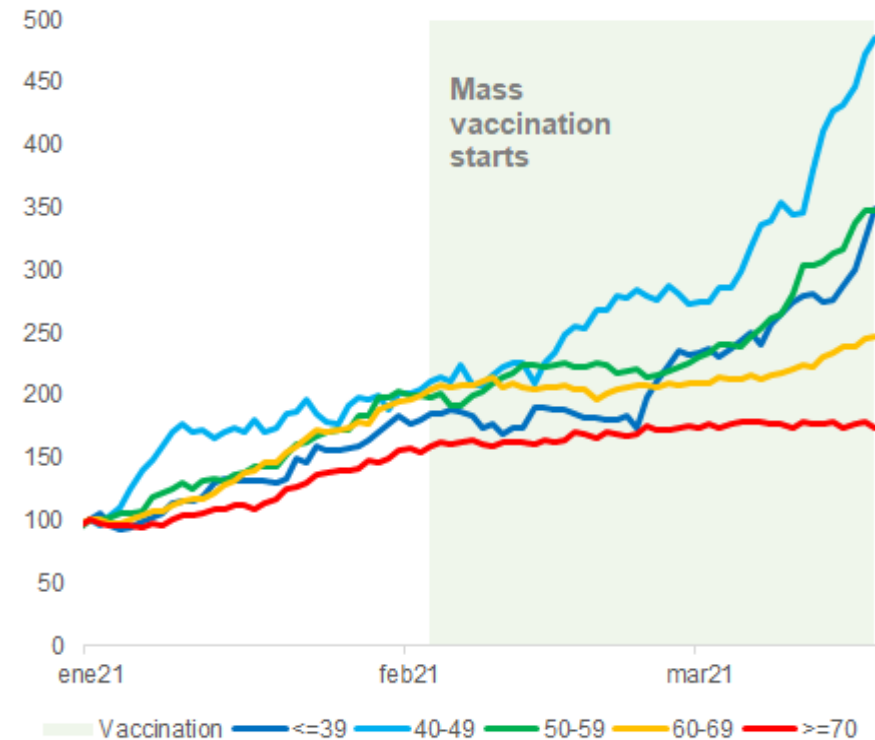
(% of total beds available)



# Mass vaccination started in February 2021. Promising results have been shown in older people regarding ICU-bed occupation. As younger people get their shots, total bed occupation should decline

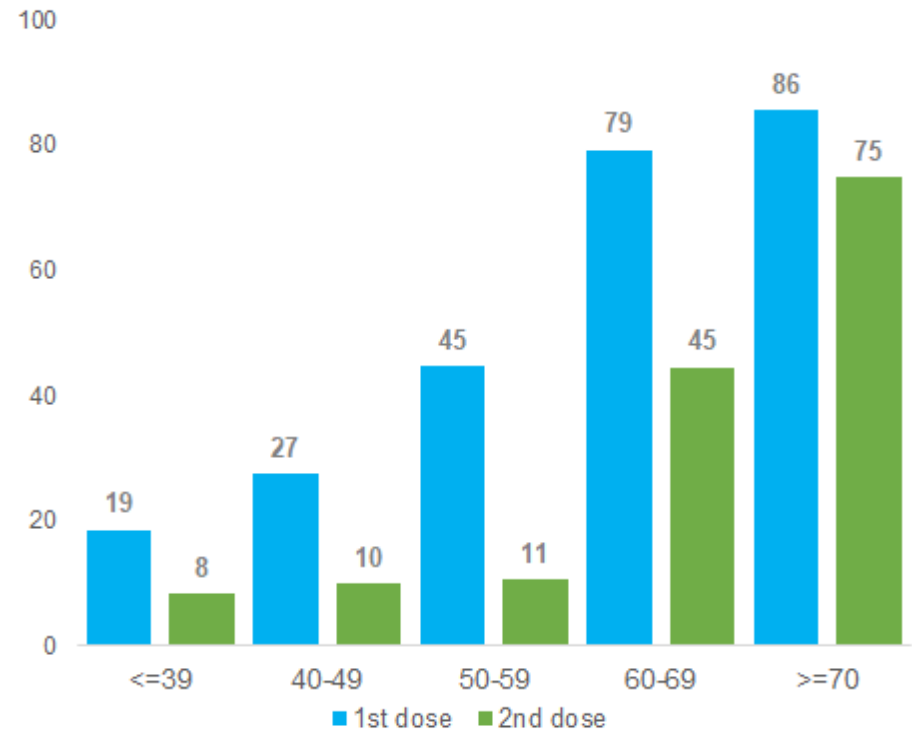
## ICU-bed occupation level

(index Jan 1, 2021 = 100)



## Vaccination by age group

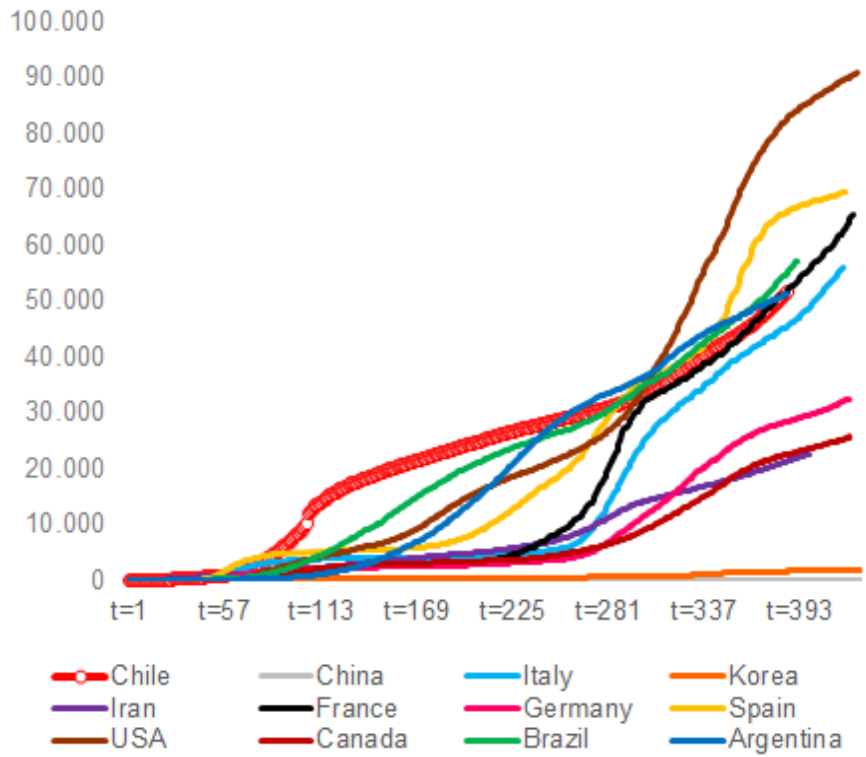
(% of each group's total population)



# Covid-19 outbreak all over the world – Chile is no exception: Cases have surged among young people

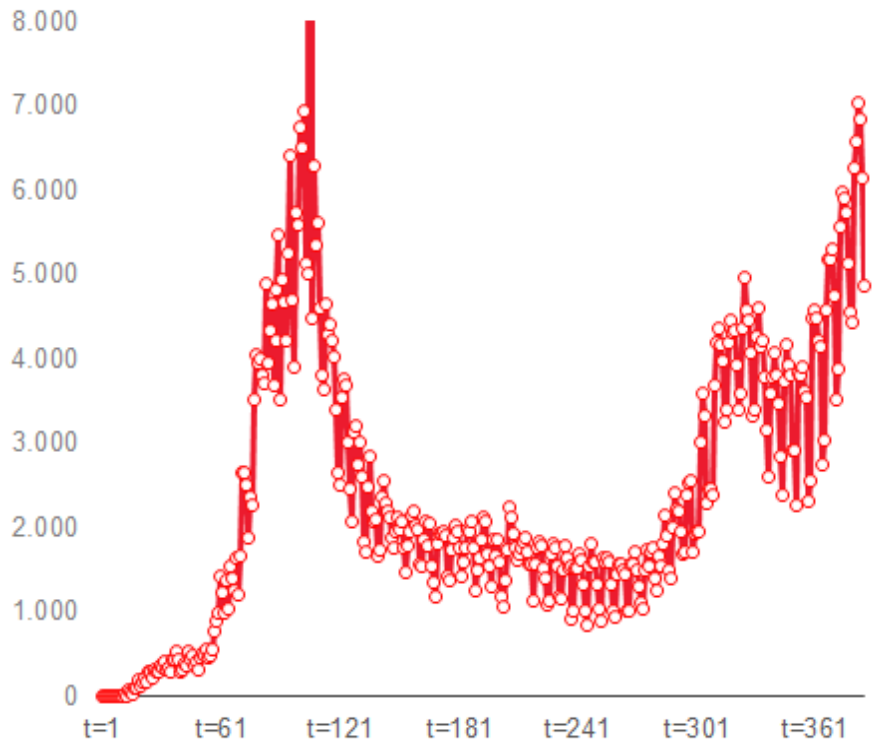
## COVID-19, selected countries

(cases/population x 1.000.000, t=1 first case, up to March 22)



## New cases COVID-19 in Chile

(number of new cases per day, t=1 first case, up to March 22)



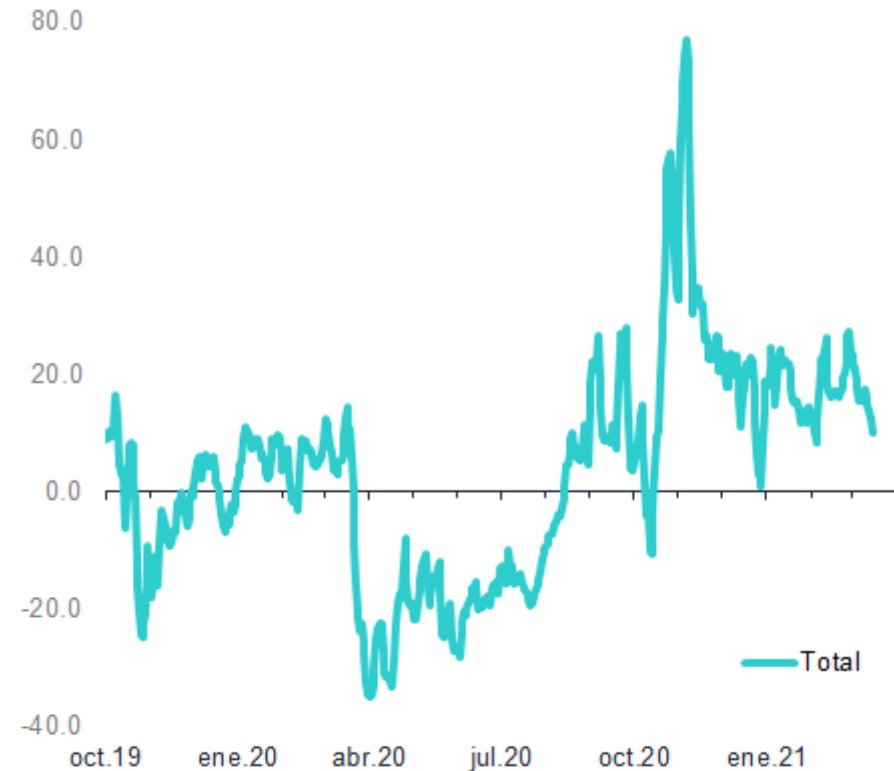
Source: WHO; Ministerio de Salud, Scotiabank Economics



# Strong injections of liquidity from Pension Funds and middle-class bonus continue to support private consumption. The level of purchases remains at highs after the second round of withdrawal of pension funds

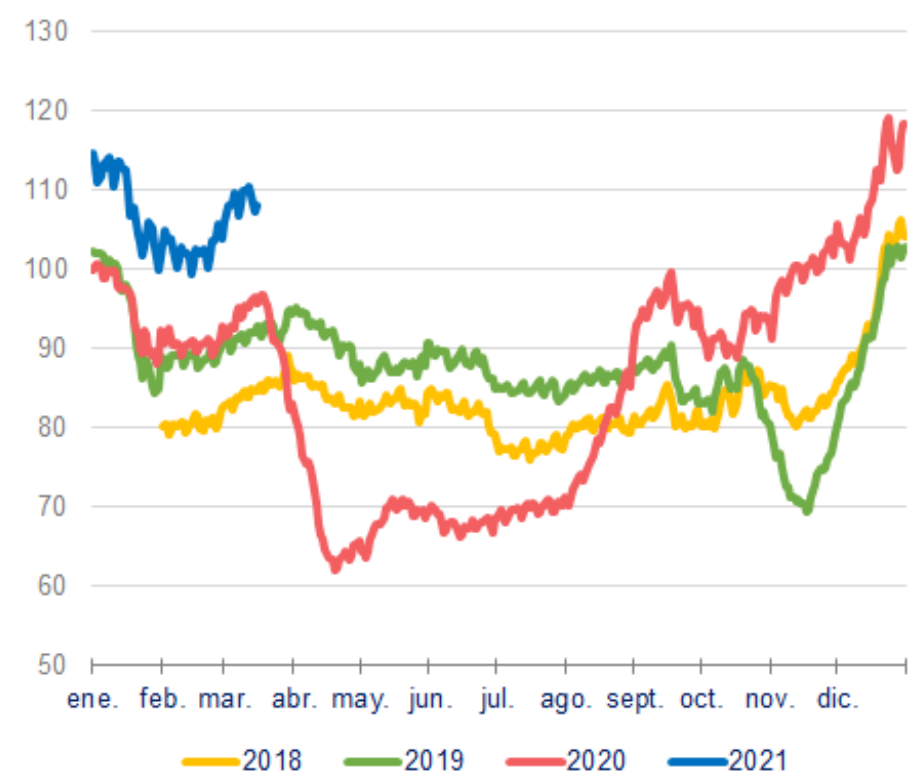
## Annual growth of purchases with credit & debit cards: supported by pension funds\*

(percentage, annual growth, 7-day moving average, up to Mar. 18)



## Level of purchases (debit & credit) increases again\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Mar. 18)

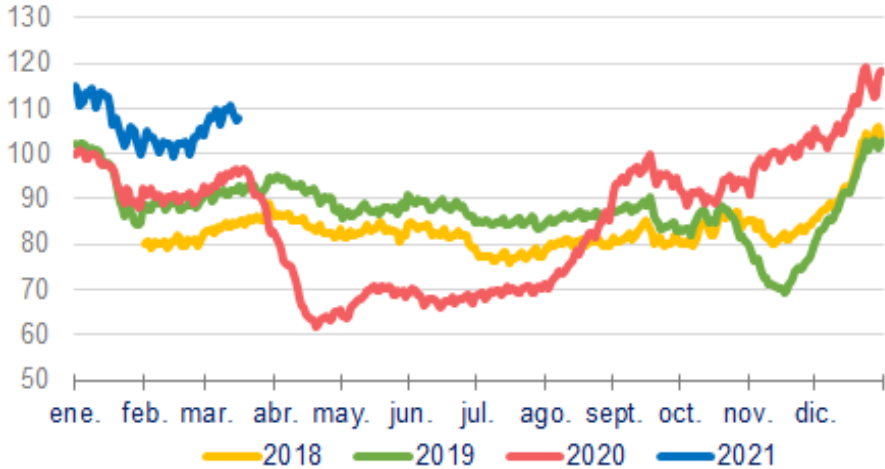


\* Data show purchases with Scotiabank's credit and debit cards. The level of purchases is shown as an inflation-adjusted index. Source: Scotiabank Economics

# Supermarkets and Retailers are the big winners

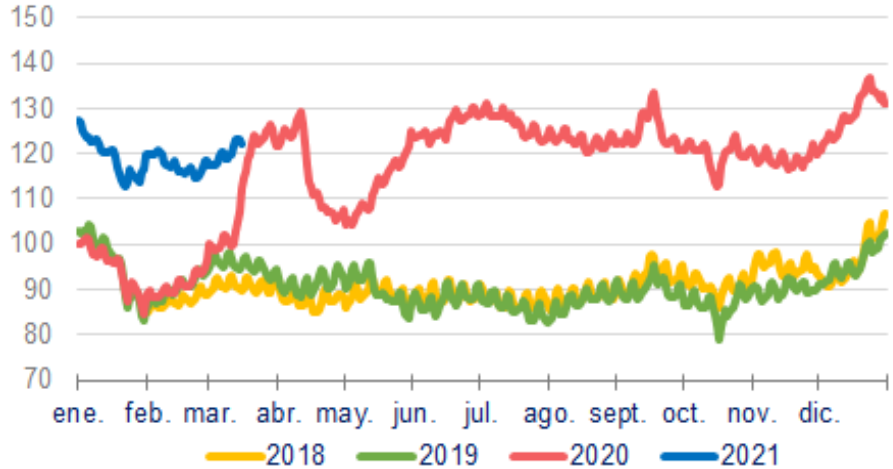
## Total purchases\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Mar. 18)



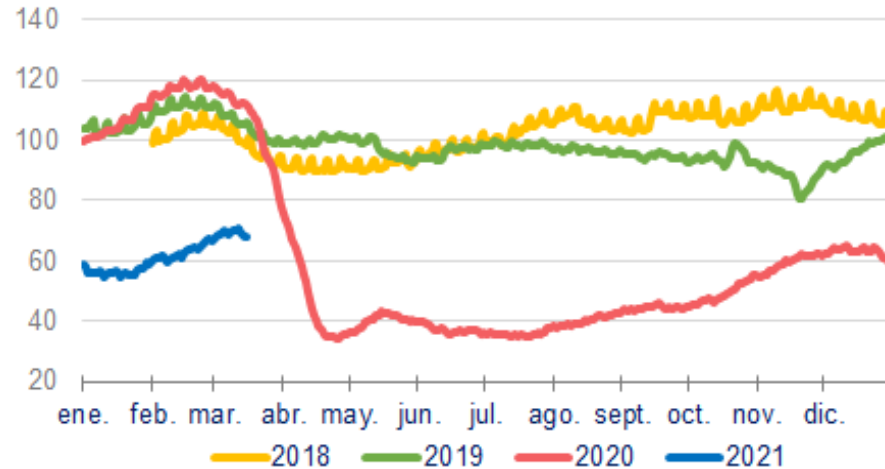
## Supermarkets\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Mar. 18)



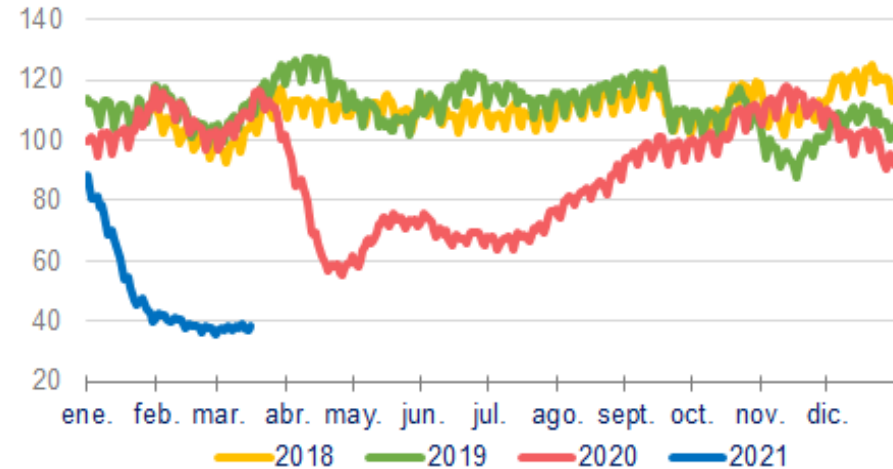
## Fuels\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Mar. 18)



## Drugstores\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Mar. 18)

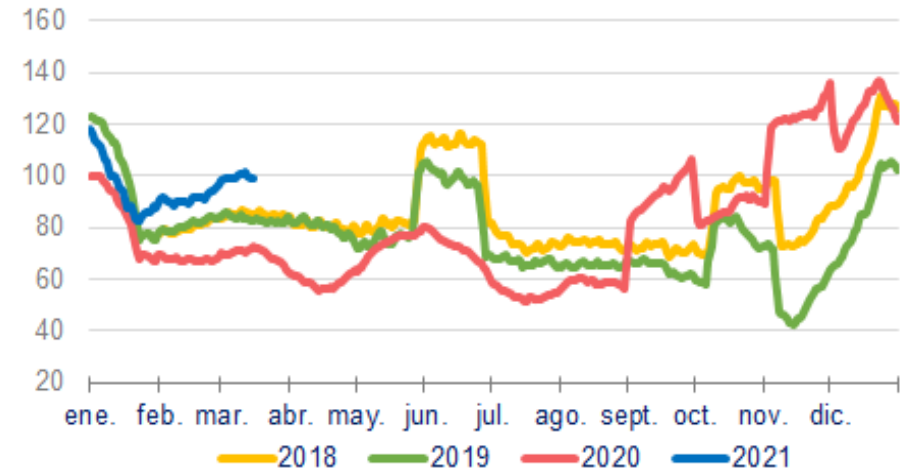


\* Data show purchases with Scotiabank's credit and debit cards. The level of purchases is shown as an inflation-adjusted index. Source: Scotiabank Economics

# Rebound of purchases in Department Stores at the beginning of March

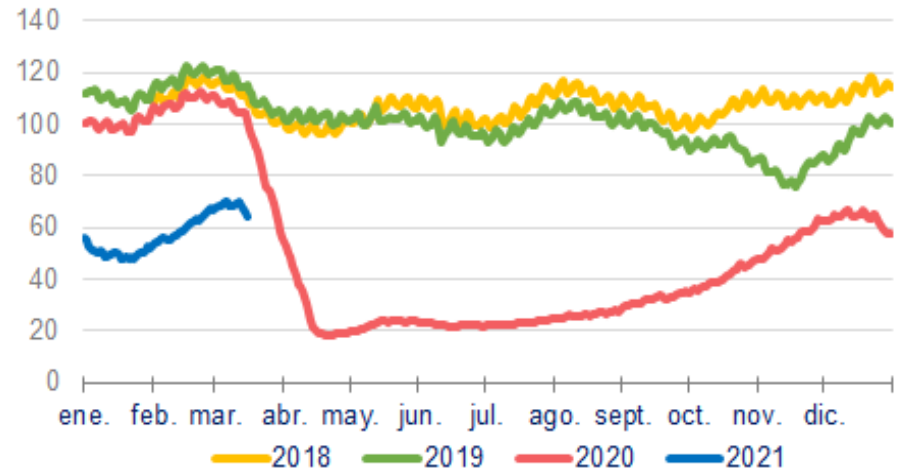
## Department stores\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Mar. 18)



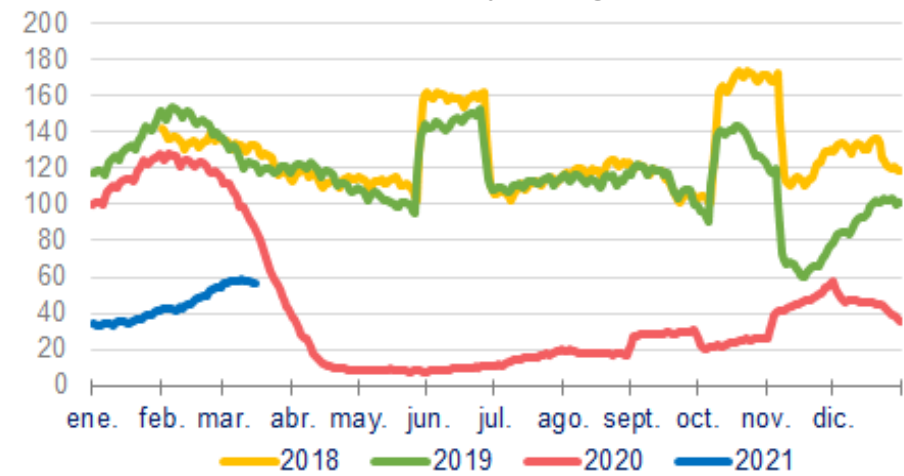
## Restaurants\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Mar. 18)



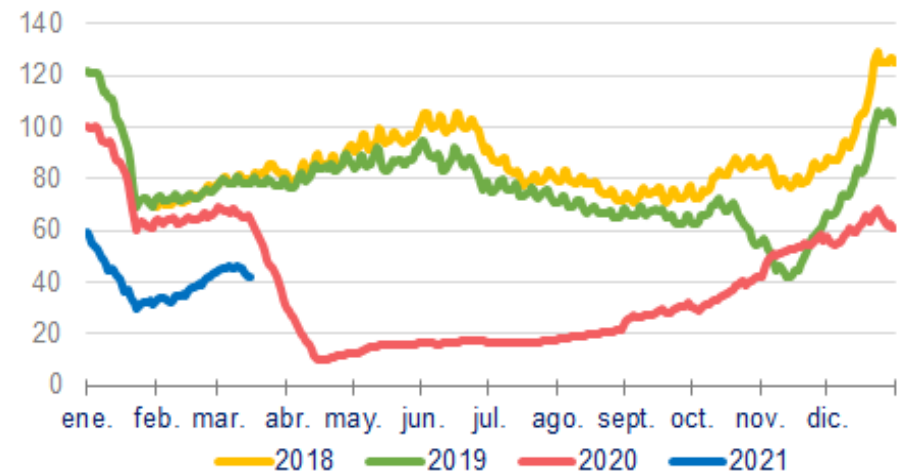
## Tourism travel\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Mar. 18)



## Clothing and footwear\*

(level, index 1-Jan-2020=100, 30-day moving sum, up to Mar. 18)



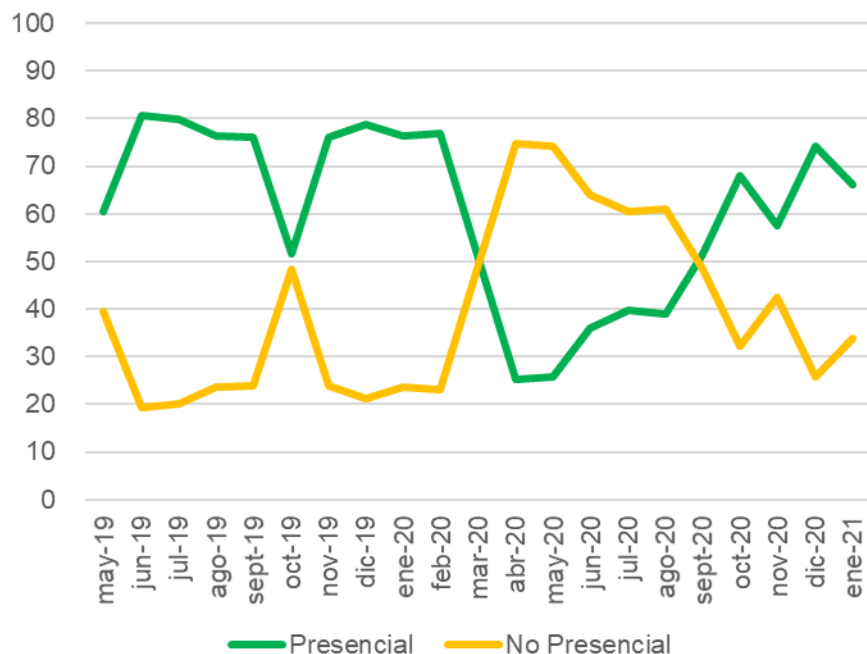
\* Data show purchases with Scotiabank's credit and debit cards. The level of purchases is shown as an inflation-adjusted index. Source: Scotiabank Economics

# Non face-to-face purchases in Department stores begin to decline as restrictions are lifted. Credit card purchases have recovered after falling to lows due to the liquidity shock

## Purchasing channels

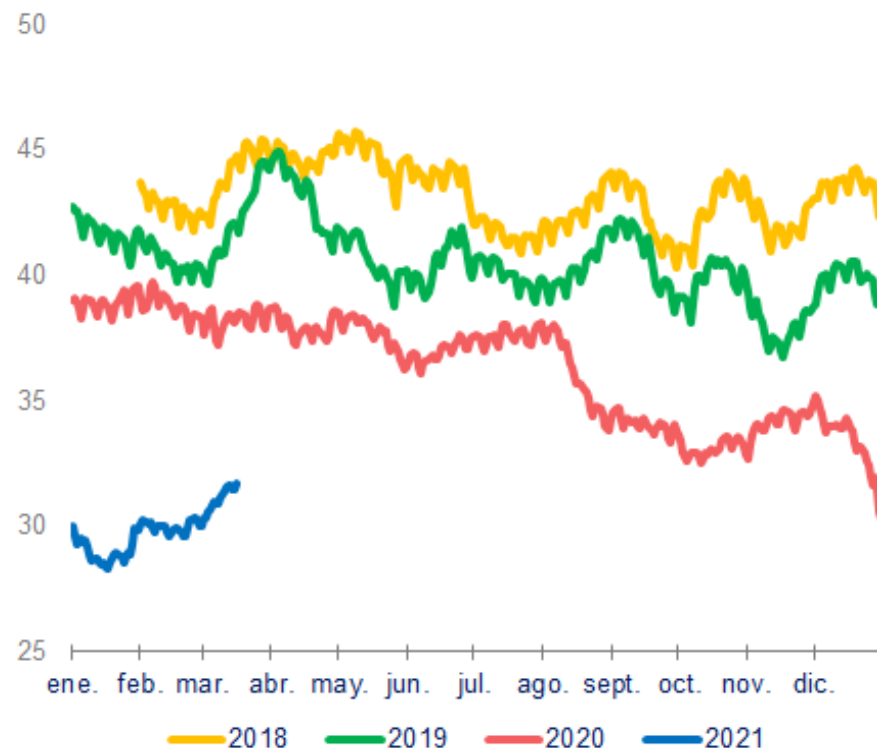
(% of total purchases)

### Department stores



## Use of credit cards

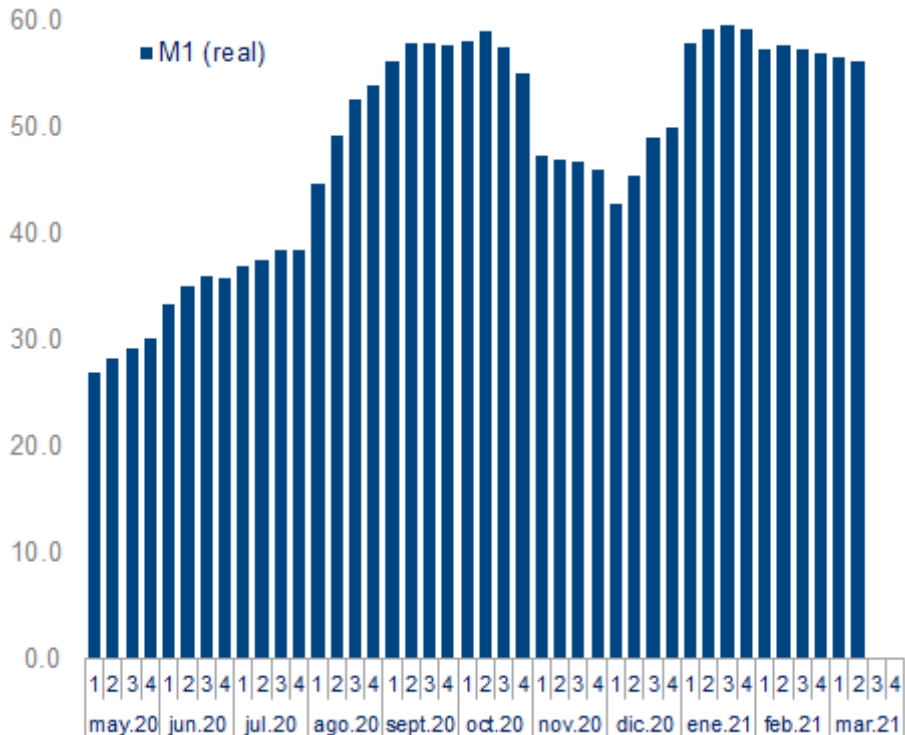
(% of total purchases, up to Mar. 18)



# Liquidity picks up again after the second round of pension fund withdrawal. Some normalization during the last few weeks

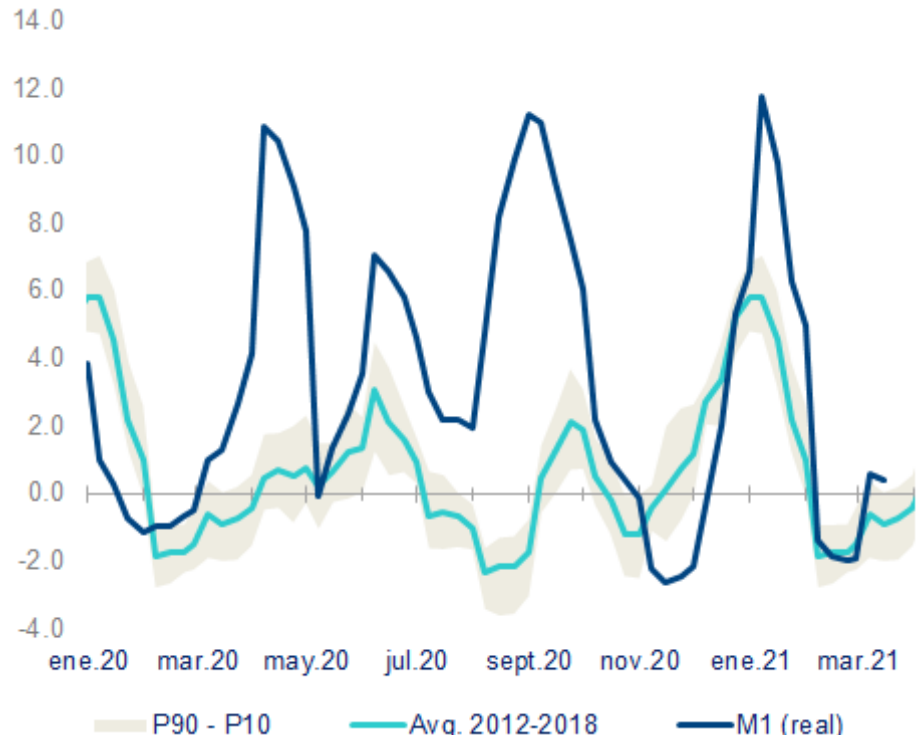
## Money aggregate (M1)

(percentage, real annual growth, weekly data)



## Monthly dynamism of M1

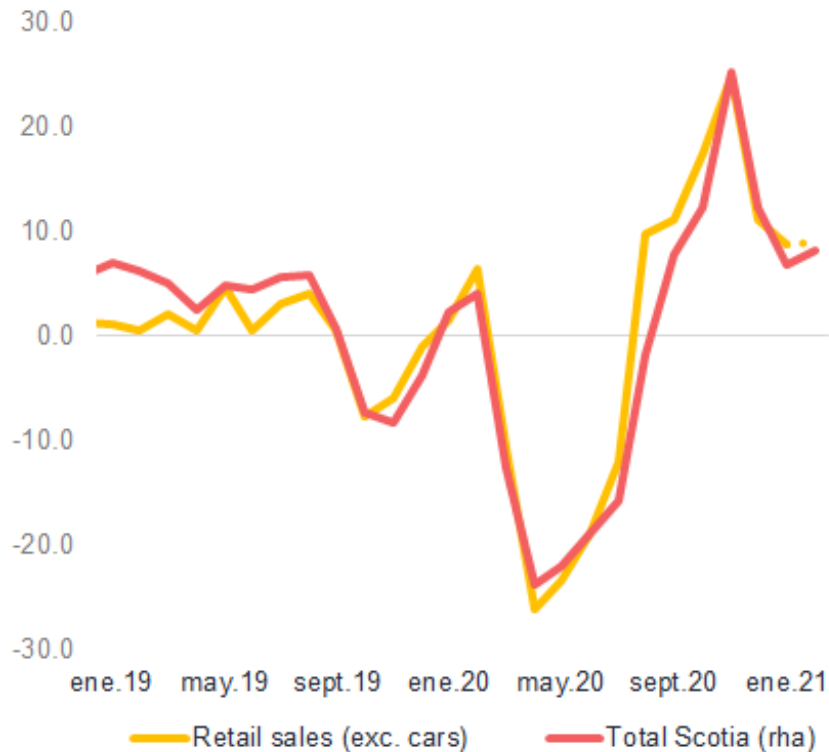
(percentage, real monthly growth, weekly data)



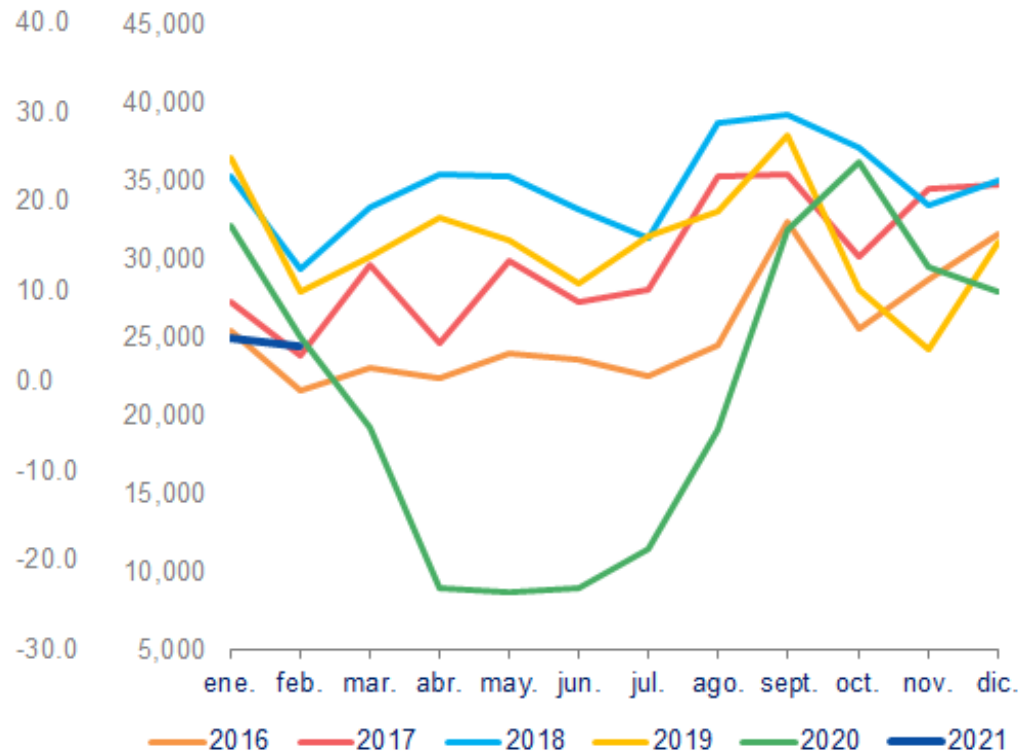
Source: Central Bank, Scotiabank Economics

# Retail sales: we forecast +7.5% y/y in February, due to ample liquidity in households' pockets. New car sales stabilize at low levels (24,492; -2.1% y/y in February)

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



**New car sales**  
(units per month)

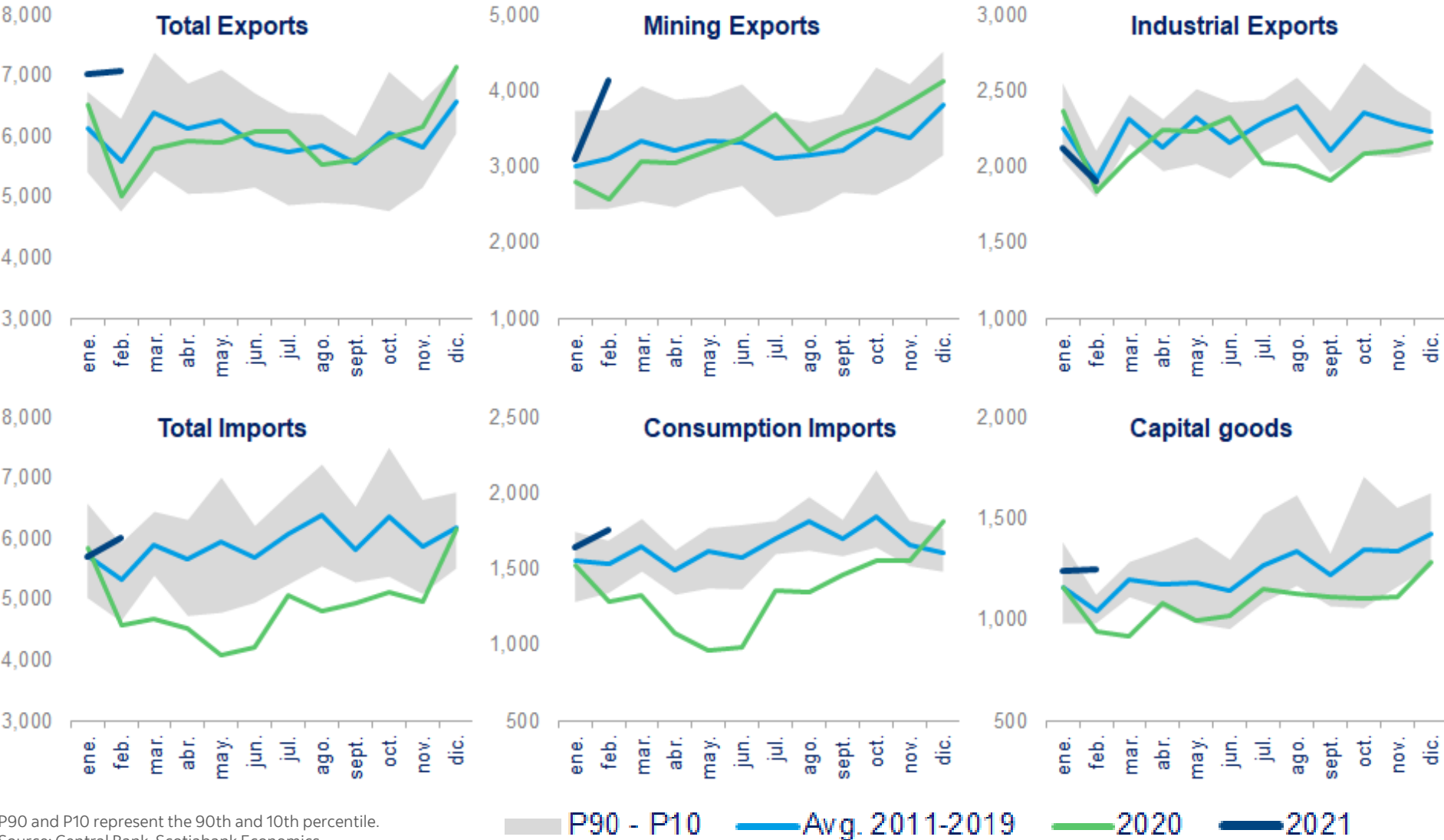


\*\* This figure compares the INE's monthly retail sales indicator with our data on total purchases with credit & debit cards reported in previous slides.  
Source: National Bureau of Statistics (INE), Scotiabank Economics

# Clear signs of recovery in exports and imports

## Monthly flow of Exports and Imports

(level, USD millions per month)

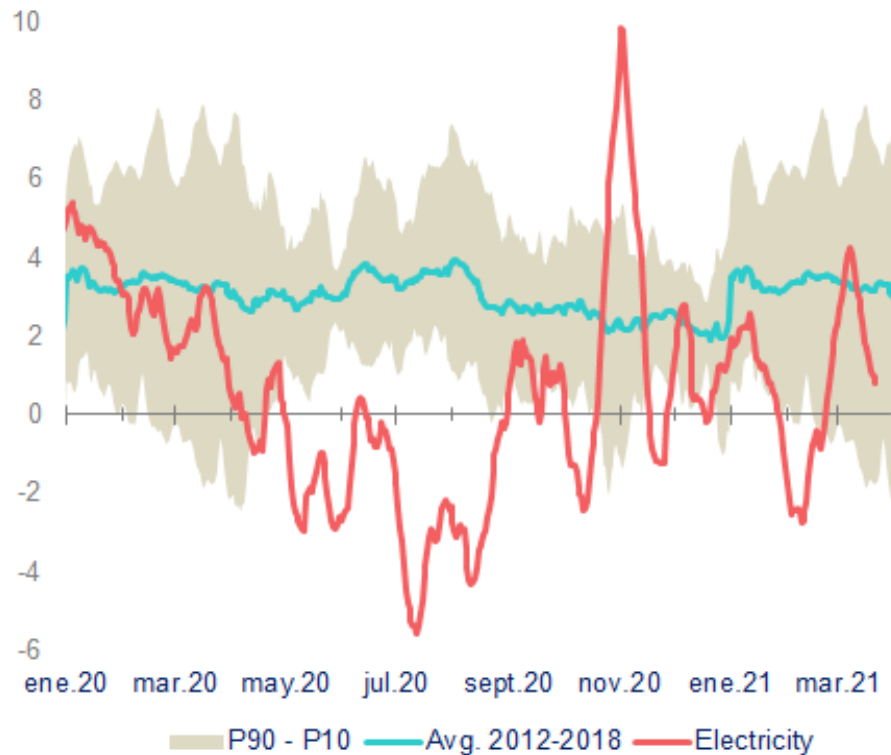


P90 and P10 represent the 90th and 10th percentile.  
Source: Central Bank, Scotiabank Economics

# Higher demand for electricity reveals progress in the reopening of the economy before recent restrictions that will affect 64% of total GDP

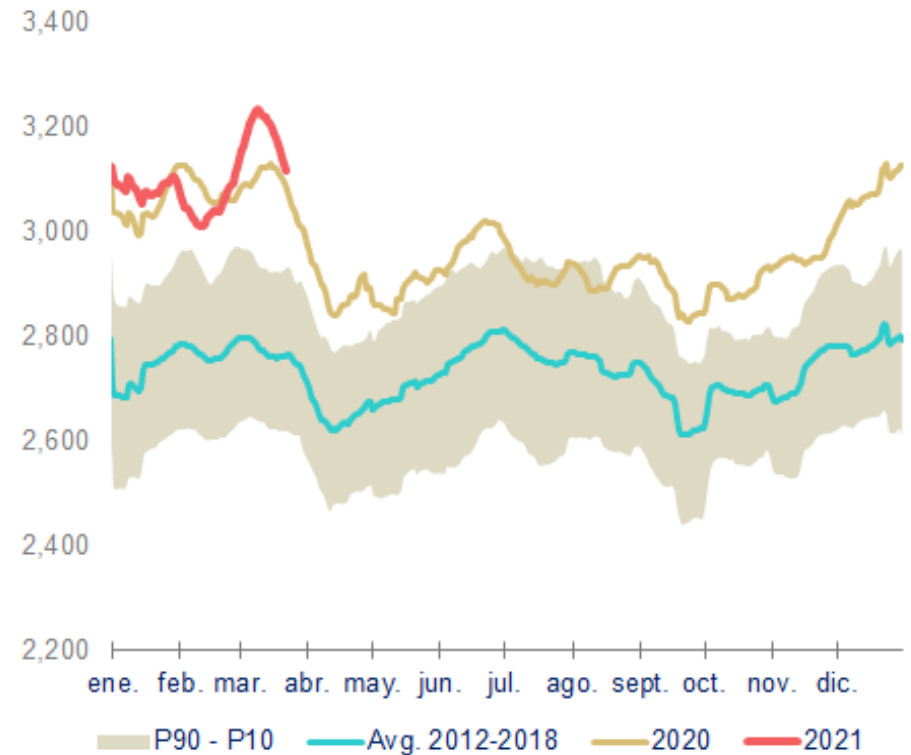
## Annual growth of electricity generation

(percentage, annual growth, 14-day accum., up to March 22)



## Level of electricity generation

(percentage, annual growth, 14-day accum., up to March 22)



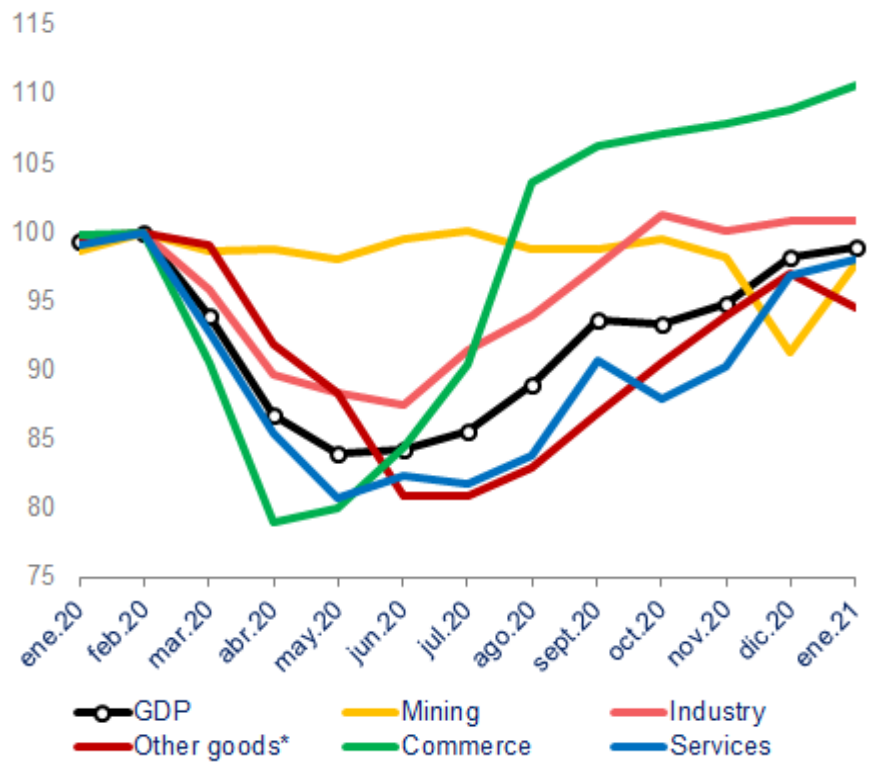
P90 and P10 represent the 90th and 10th percentile.  
Source: *Coordinador Eléctrico*, Scotiabank Economics



# Monthly GDP grows 0.8% m/m, with a fall of 2.8% y/y explained by fewer business days. Economic recovery is still dependent on the dynamics of the services. Recovery in all expenditure components of the demand

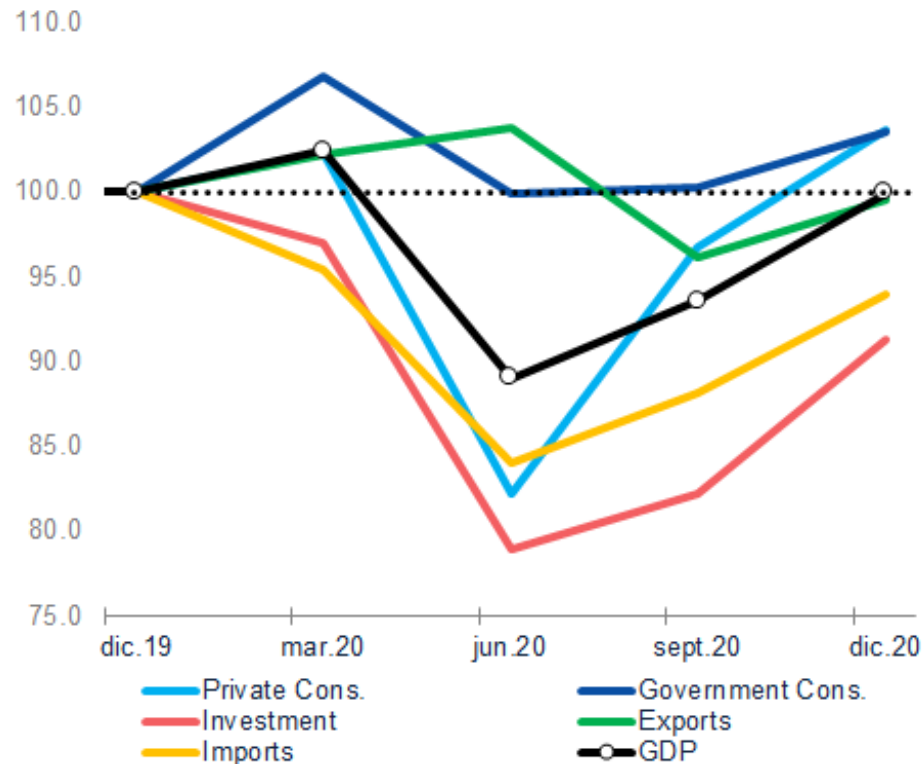
## GDP level by sector

(level, index February 2020=100, monthly data, seasonally adjusted)



## GDP level by expenditure

(level, index December 2019=100, quarterly data, seasonally adjusted)

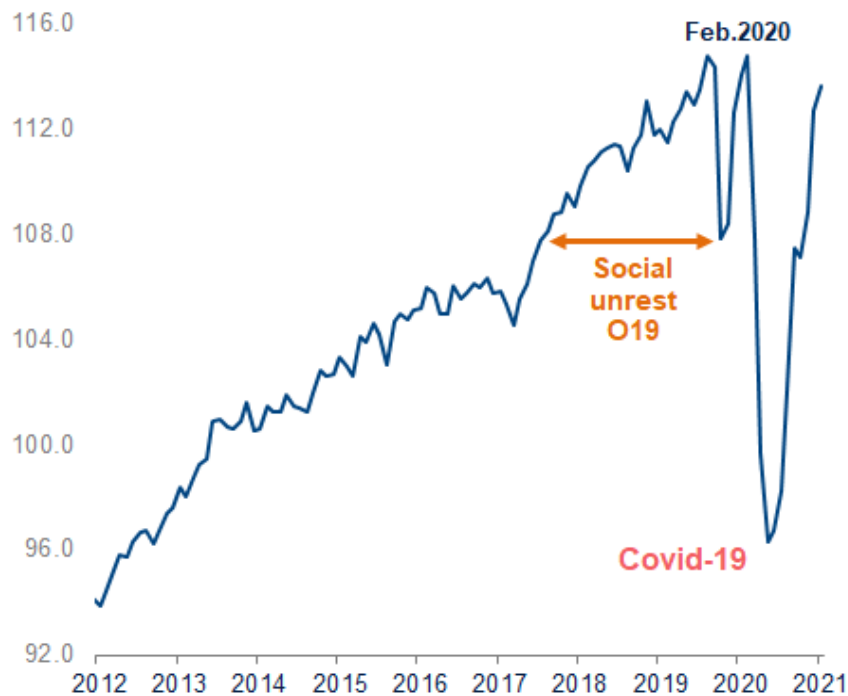


Source: Central Bank, Scotiabank Economics

**Slow and heterogeneous recovery. We forecast GDP growth of 7.5% in 2021.** However, we still see downside risks, especially in private investment, associated to political uncertainty and deep weakness in the labor market. **March and April will show the transitory negative impact of restrictions to mobility**

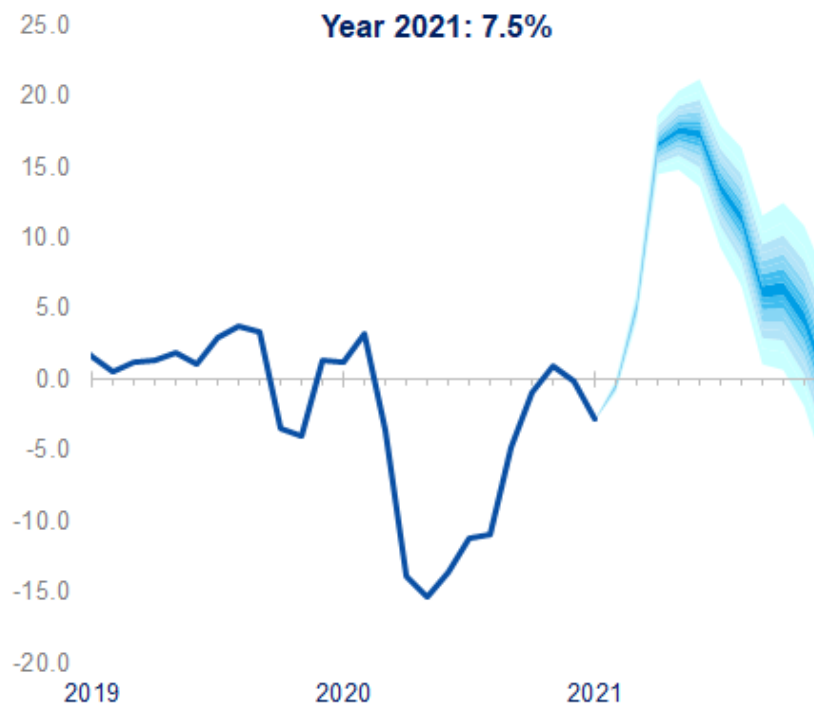
### GDP level

(level, 2013=100, seasonally adjusted, monthly data)



### GDP growth in 2021

(percentage, projected annual growth, monthly data)



**Short run forecasts:  
growth of monthly GDP**

**December-20**

**January-21**

**February-21 (f)**

**Imacec (% , y/y)**

-0.1%

-2.8%

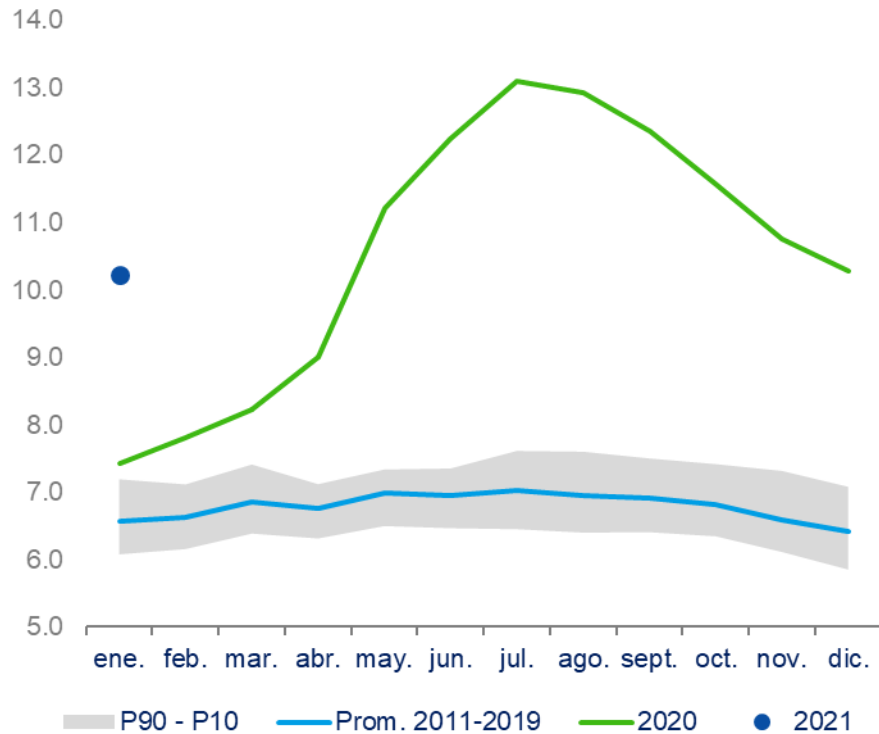
~0%

Source: Central Bank, Scotiabank Economics

# The unemployment rate decreased to 10.2% in January 2021 (not a good labor market thermometer). The workforce was increasing more rapidly than employment

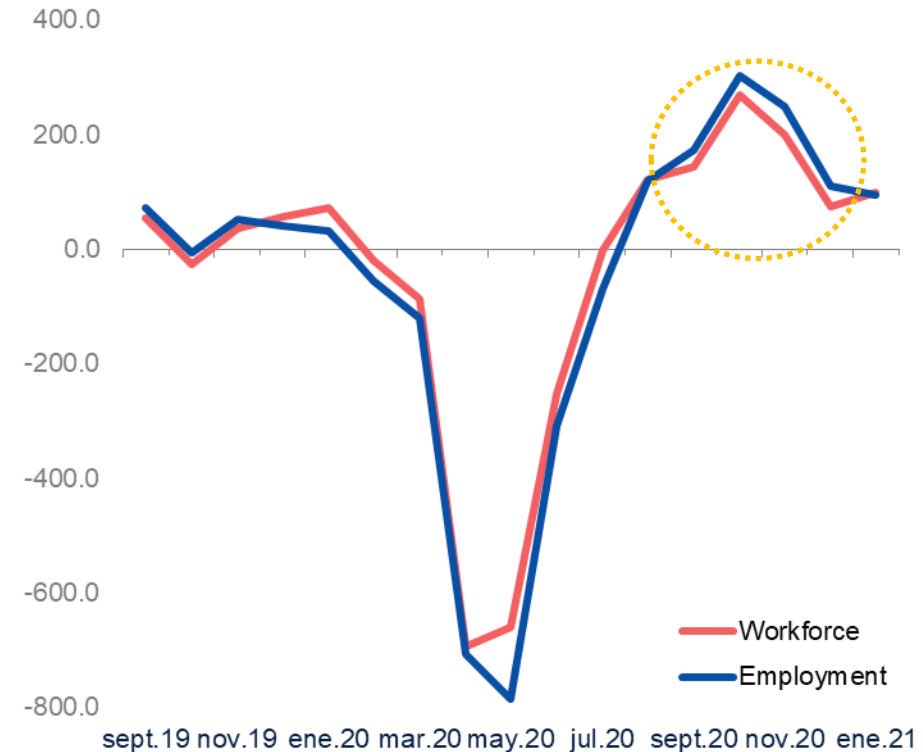
## Unemployment rate

(percentage)



## Monthly dynamism of employment & FT

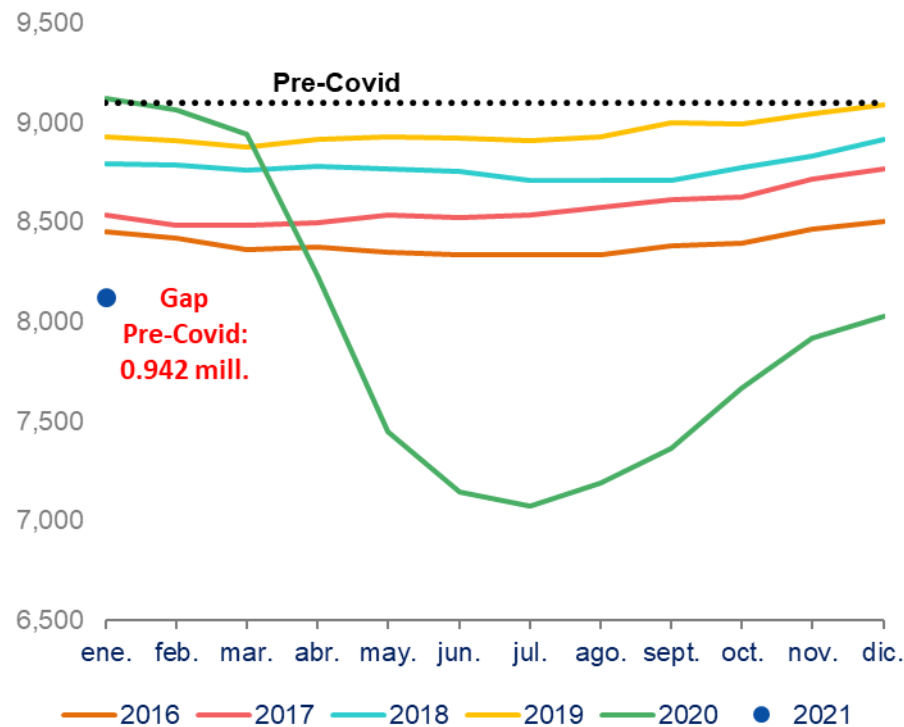
(thousands of people, monthly change)



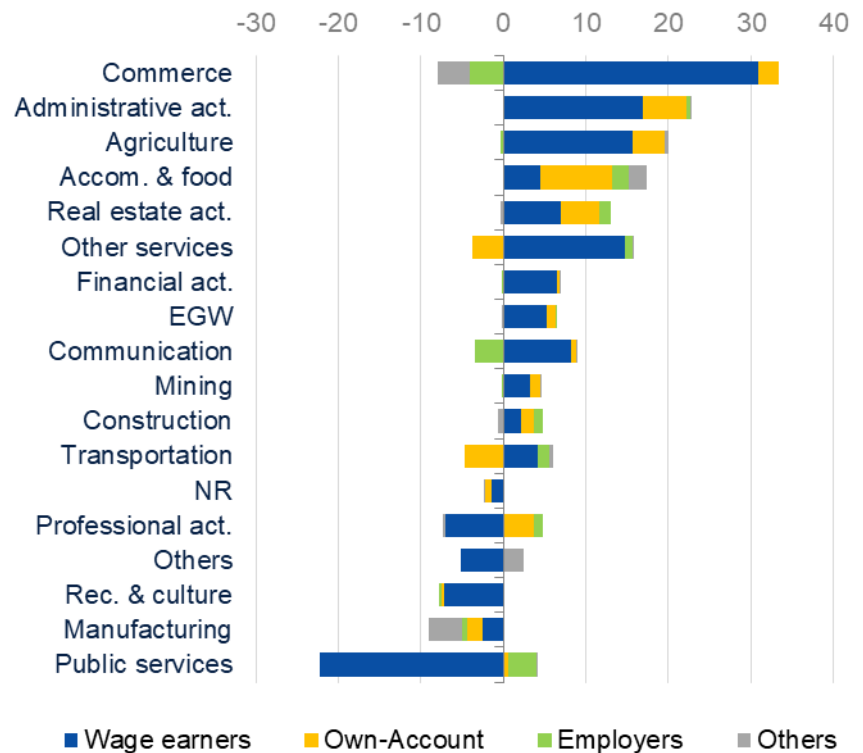
Source: National Bureau of Statistics (INE), Scotiabank Economics

# Job creation continued to slow down in January, increasing by only 95k jobs compared to the previous month. **About 1 million job to recover will be the main reason to move slowly lifting the monetary and fiscal supports**

**Level of employment**  
(thousands of people per month)



**Monthly job creation by sector in January 2021**  
(thousands of people, monthly change, by sector and category)

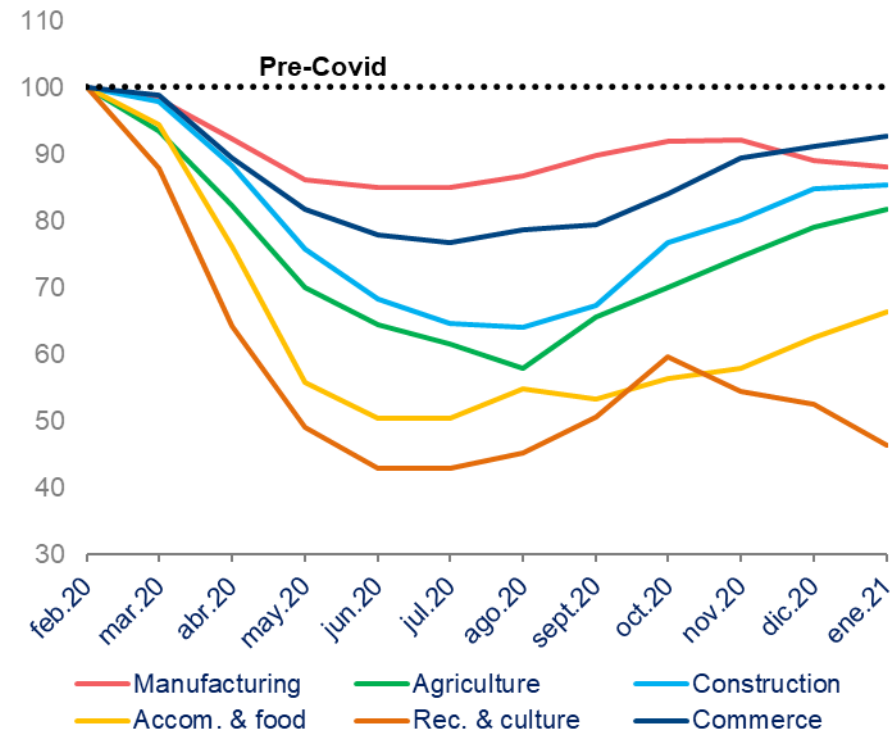


Source: National Bureau of Statistics (INE), Scotiabank Economics

# Service sectors dependent on personal interaction continue to lag in terms of job recovery. **Commerce continues to recover jobs**

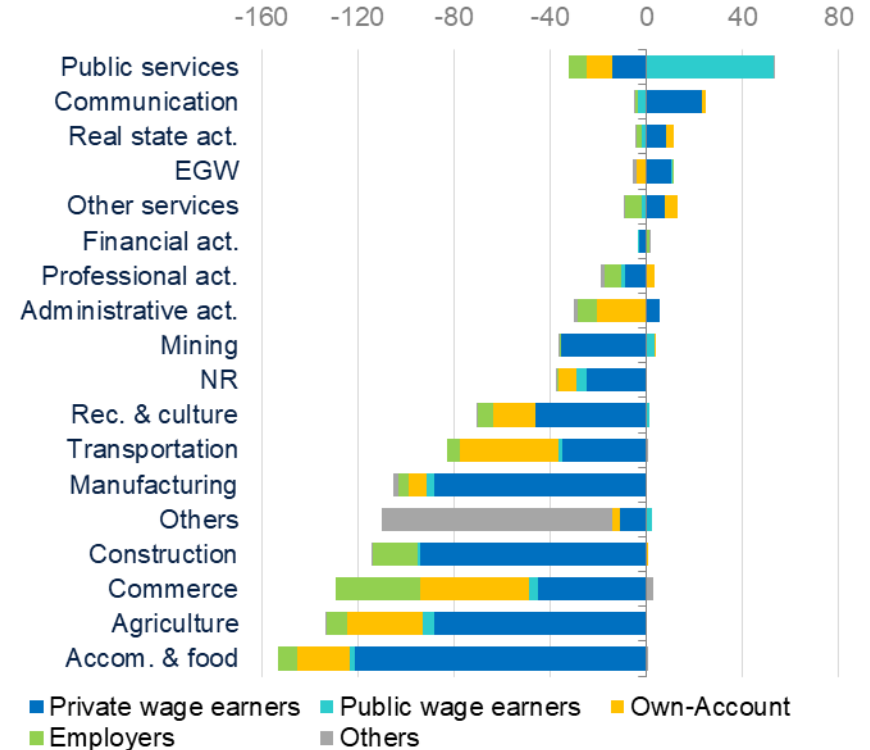
## Level of employment in selected sectors

(index, level pre-Covid of Feb.2020=100)



## Employment gap by sector up to Jan.21

(thousands of people, difference wrt level pre-Covid of Feb.2020)

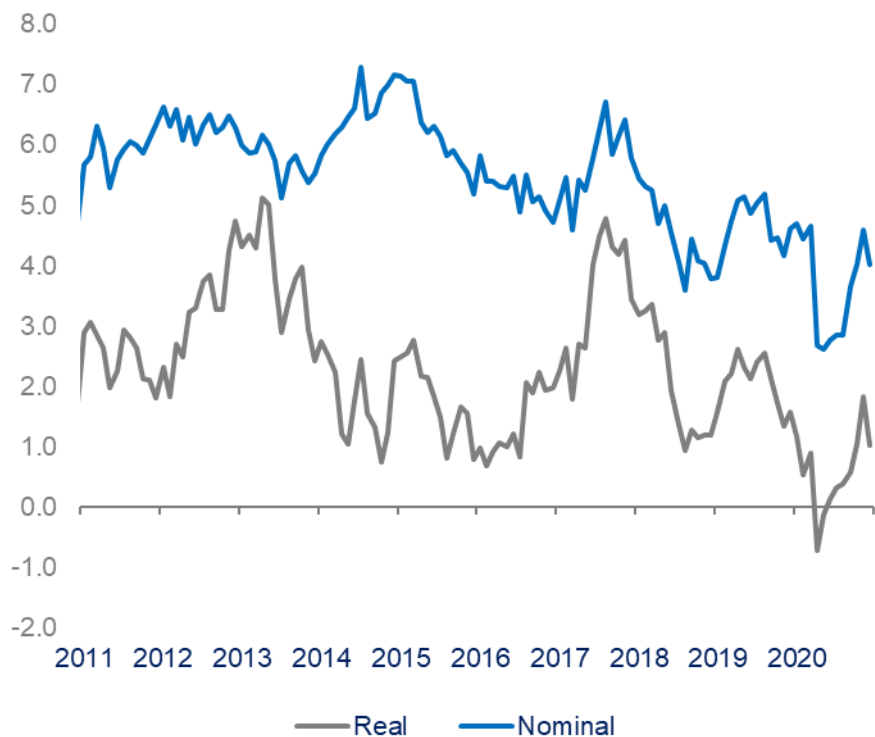


Source: National Bureau of Statistics (INE), Scotiabank Economics

# Sharp slowdown in wages after the social unrest and deepened by the pandemic. **Mild recovery of wages, and labor income shows a drop of 10.1% in January**

## Wages

(percentage, annual change)



## Labor income

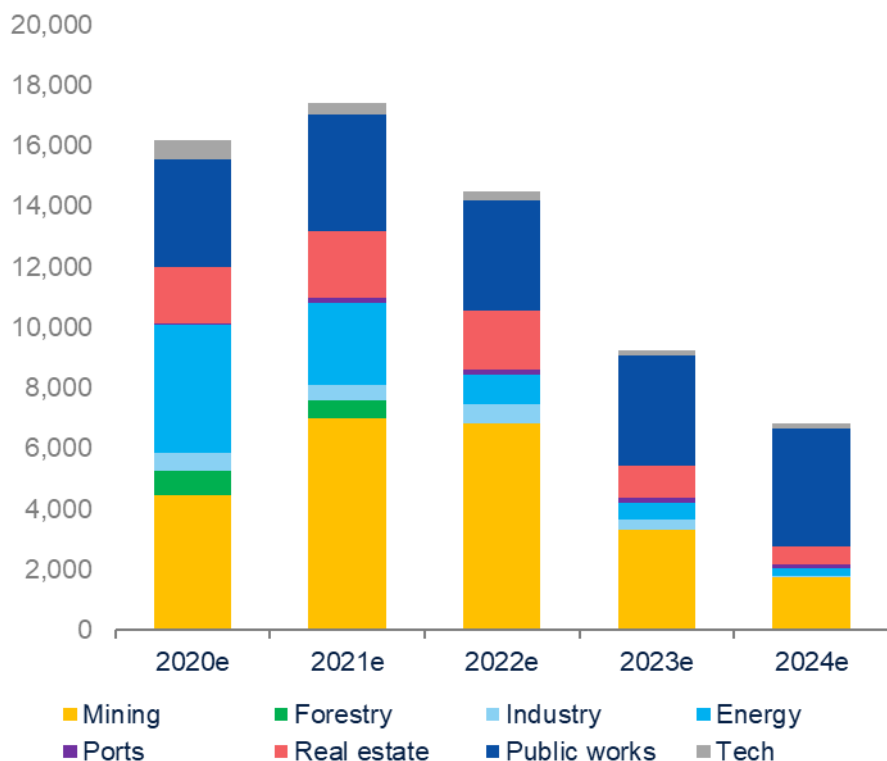
(percentage, real annual change)



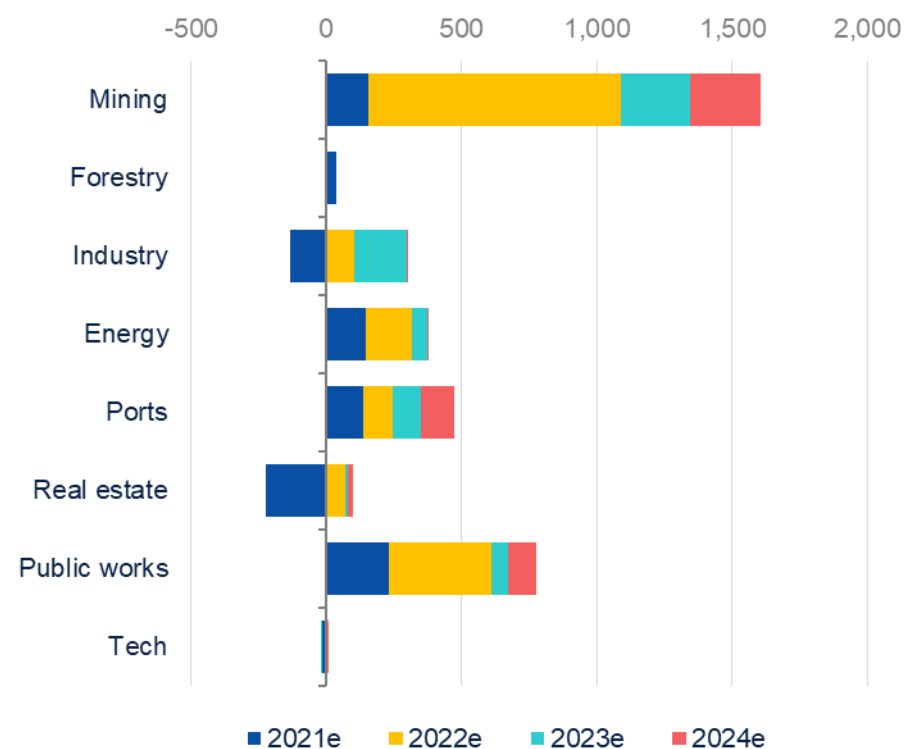
Source: INE, Scotiabank Economics

# As of December, the investment projects in the pipeline for the period 2020-2024 reached USD 64,172 million. Investment was adjusted upward by USD 3,300 million (7.4%) for 2021-24, mainly in mining and public works

**Total investments to materialize by sector**  
(millions of dollars, projects in pipeline as of Dec-20)



**Adjustment in investments in 2021-2024**  
(millions of dollars, projects added between Dec-20 and Sep-20)



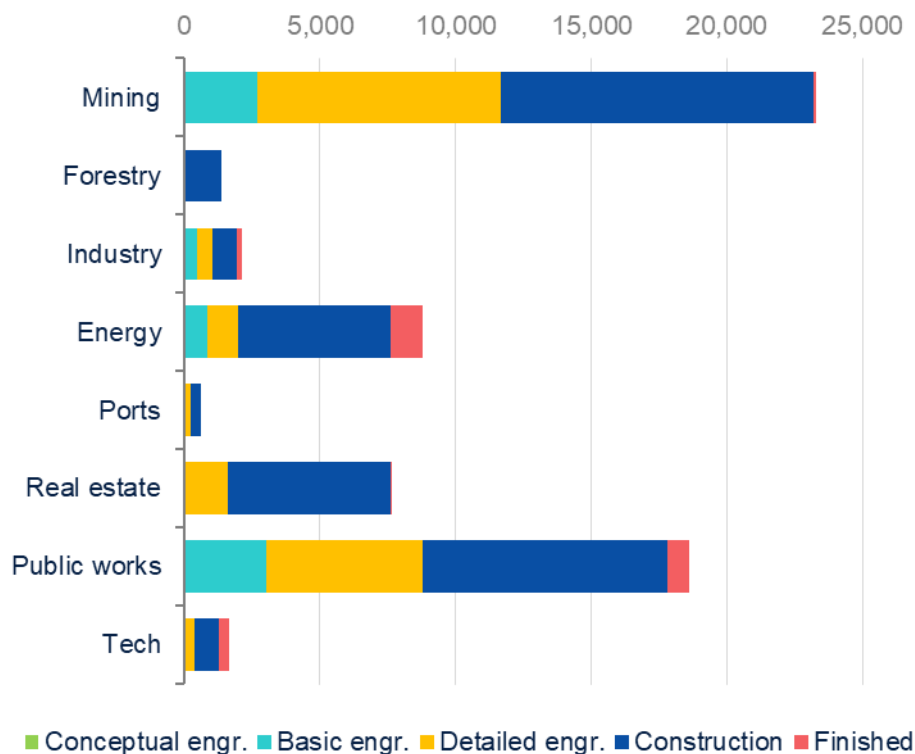
Source: CBC, Scotiabank Economics

# About 56% of the projects are in the construction stage.

## Investment dynamics depending on the materialization of large projects (public and private) in mining and energy

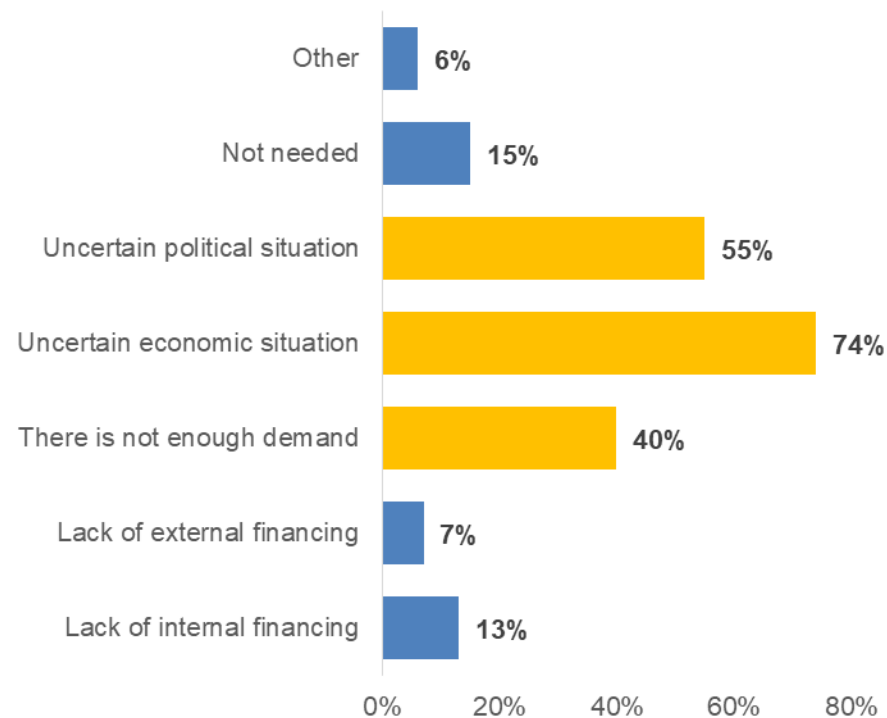
### Total investments to materialize by stage

(millions of dollars, projects in pipeline as of Dec-20)



### Business perception report Nov. 2020: Why will your company not invest in 2021?

(percentage, Nov.20, more than one alternative can be marked)



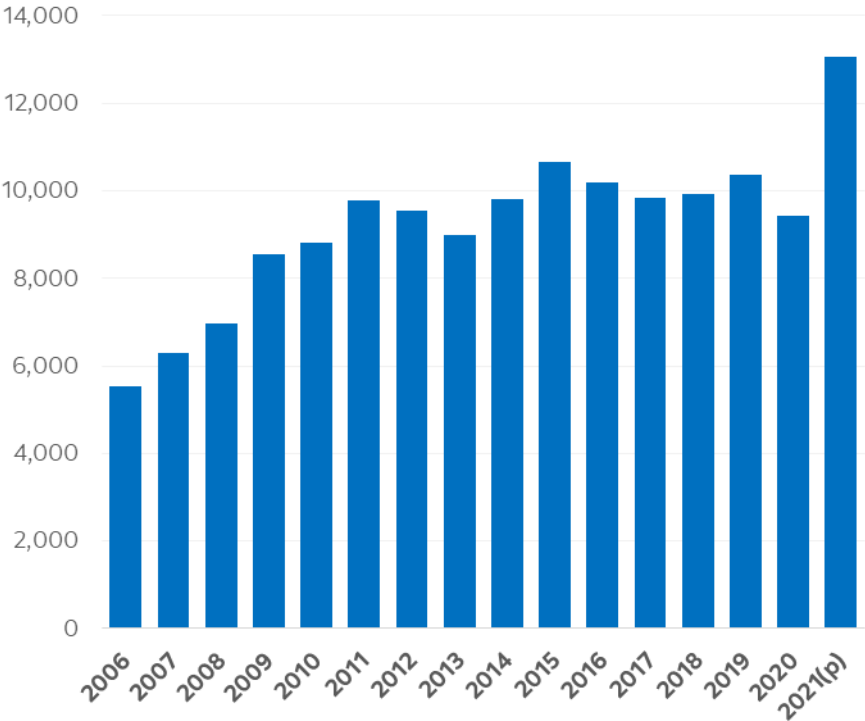
Source: CBC, Central Bank, Scotiabank Economics



# Strong fiscal impulse in public investment

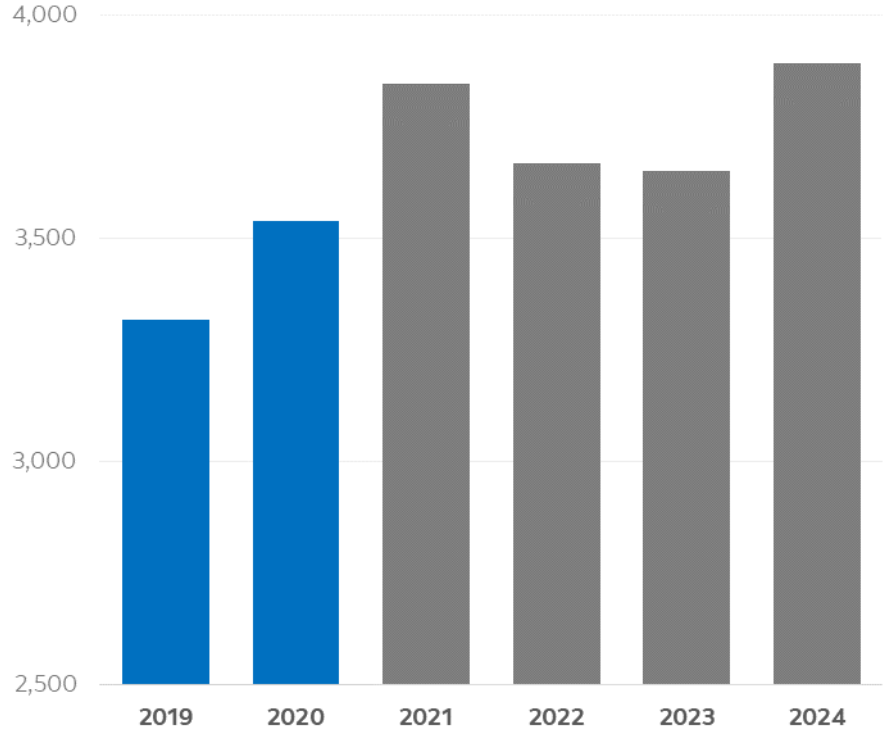
## Public investment

(millions of dollars)



## Investment to materialize in Public works

(millions of dollars, , projects in pipeline as of Dec-20)

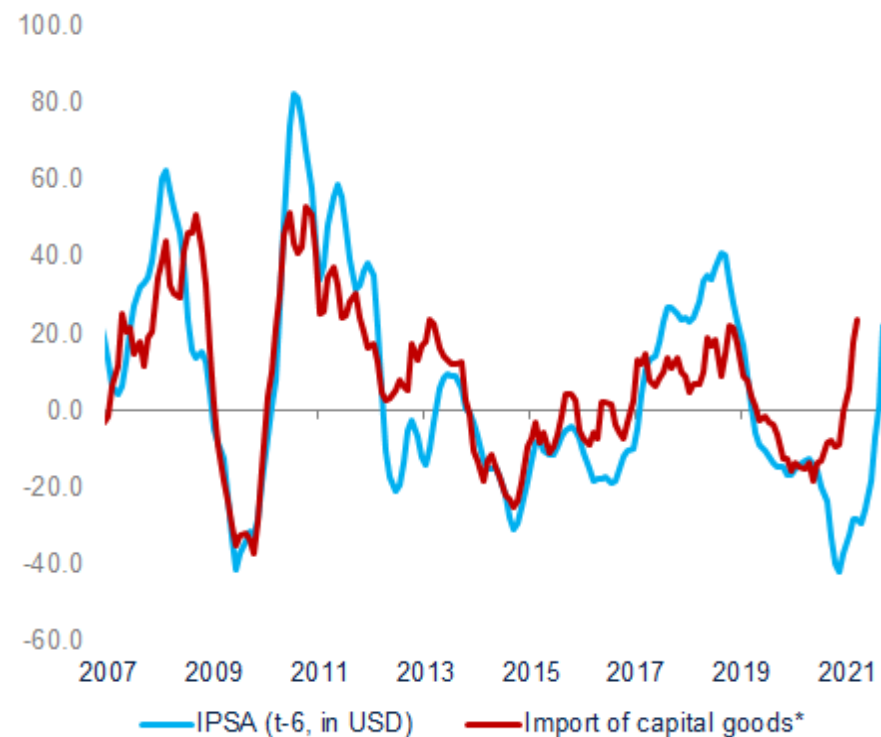


Source: DIPRES, CBC, Scotiabank Economics

# Recovery of the stock market anticipates higher demand for capital goods, signaling a strong increase in investment in machinery and equipment in the coming quarters

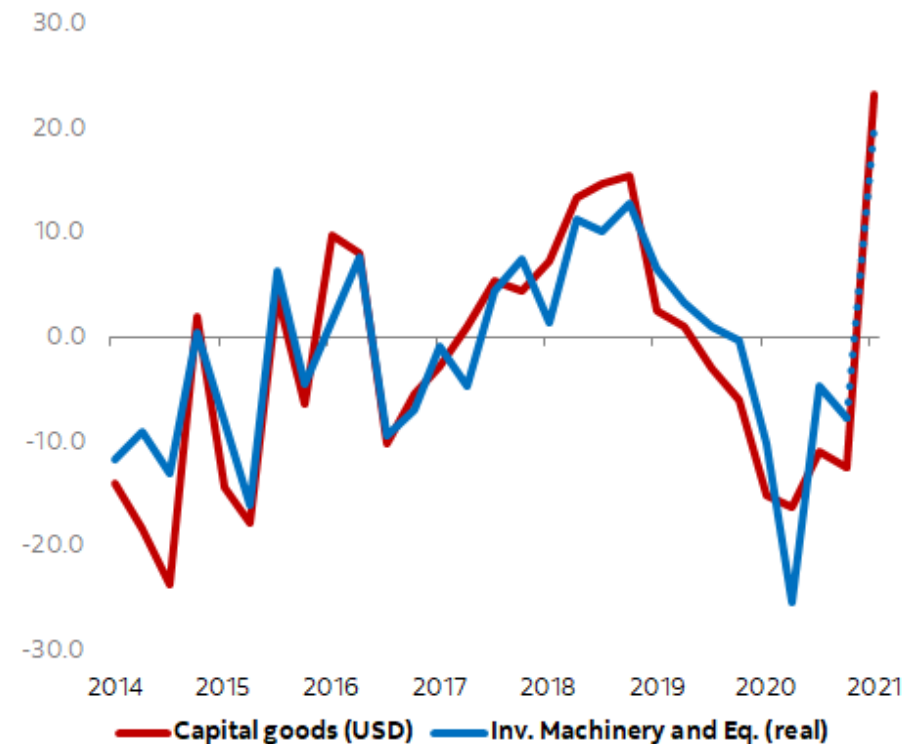
## Import of Capital goods vs IPSA

(percentage, annual growth, moving quarter)



## Investment in M&E vs Capital good imports

(percentage, annual growth)

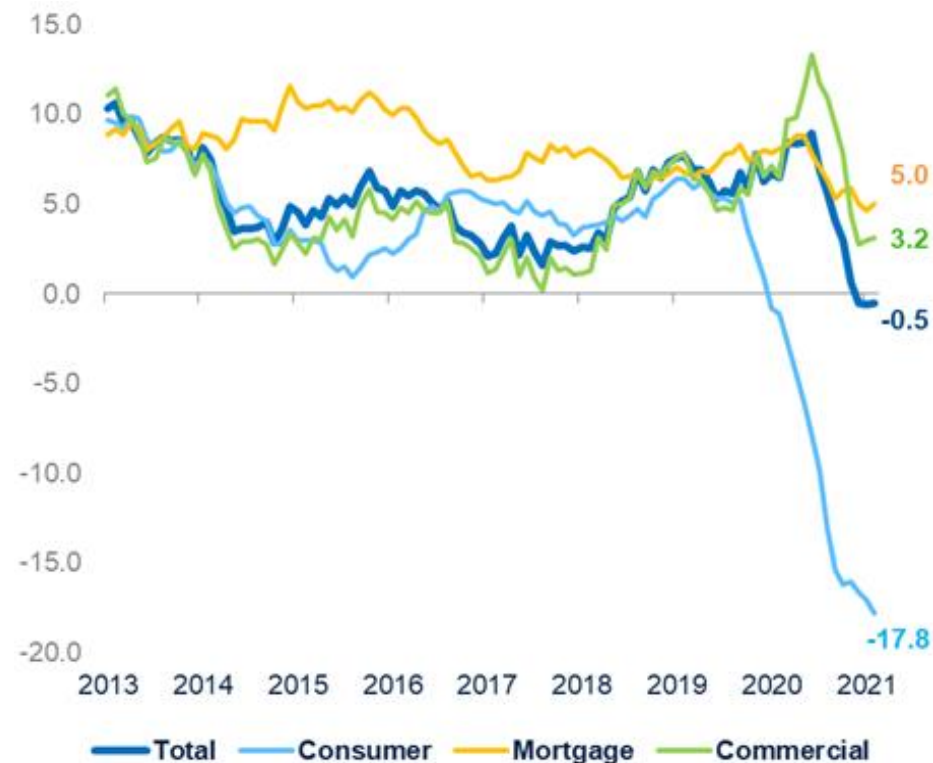


\* Excludes non-regular transportation  
Source: Central Bank, Bloomberg, Scotiabank Economics

**Total loans begins to contract led by slowdown in commercial loans.** Credit flowed counter-cyclically to firms for much of 2020, but at the end of February, the slowdown in commercial loans continued, and the decline in consumer loans deepened. Stable mortgage loans

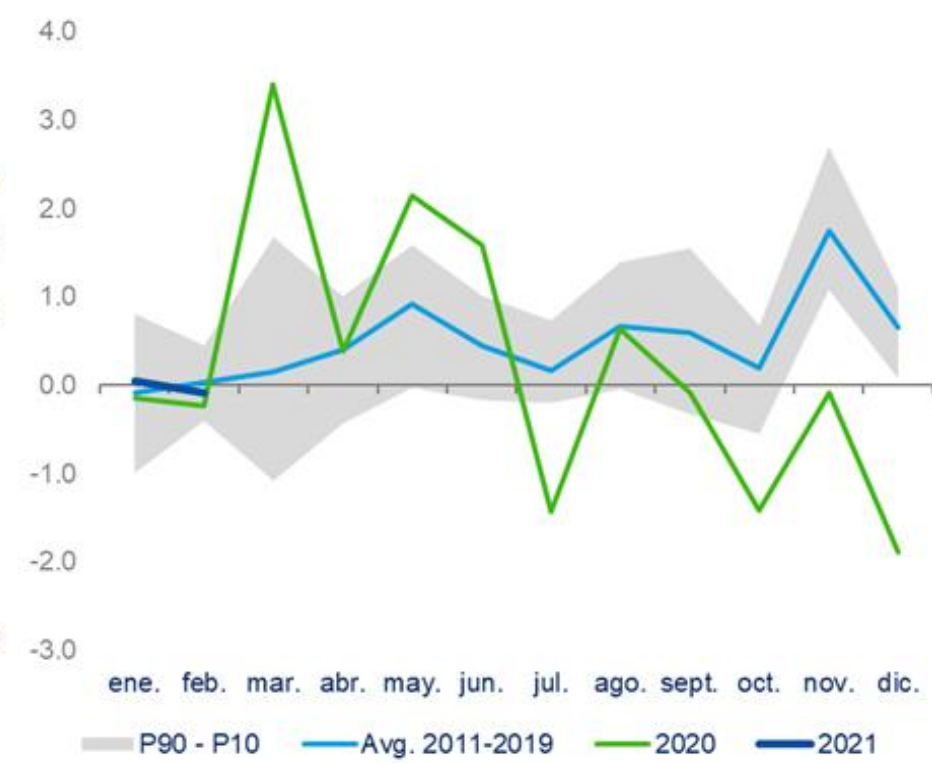
### Loans by segment

(percentage, real annual growth)



### Monthly dynamism of commercial loans

(percentage, real monthly growth)

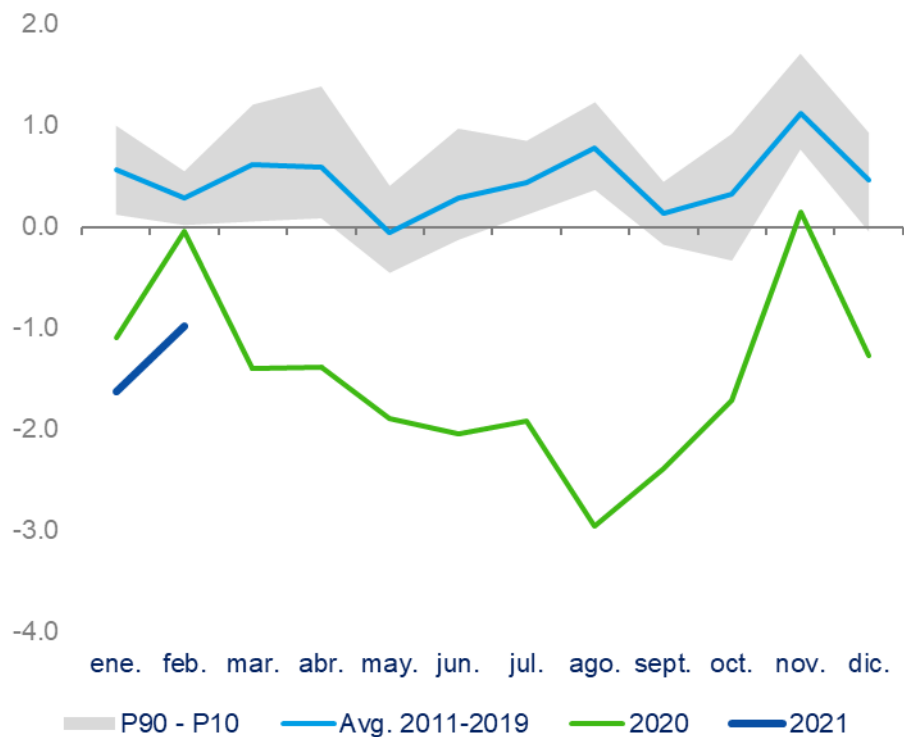


Source: Central Bank, Scotiabank Economics

# Consumer loans remain weak, but mortgage loans show signs of stabilization in last months

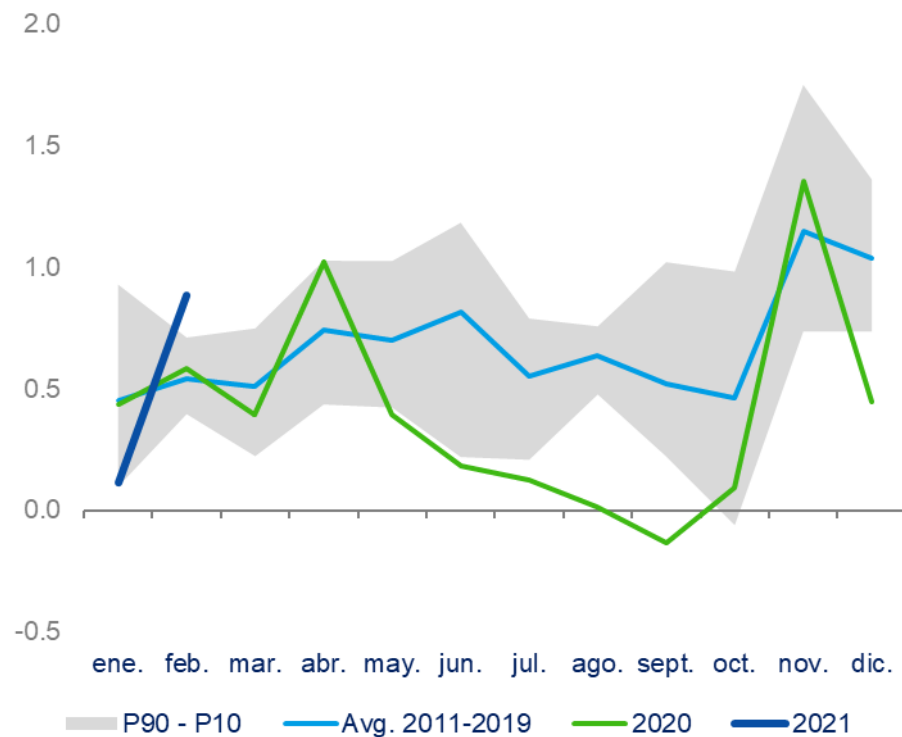
## Monthly dynamism of consumer loans

(percentage, real annual growth)



## Monthly dynamism of mortgage loans

(percentage, real monthly growth)

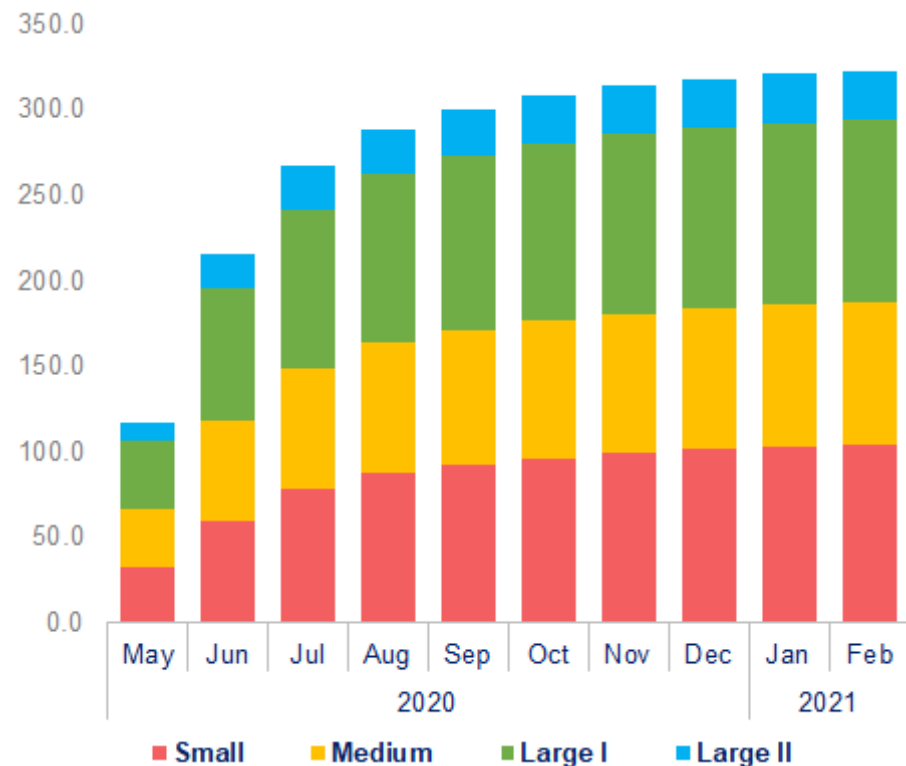


Source: Central Bank, Scotiabank Economics

# State guaranteed credits (Fogape 1.0): new (mild) boost in credit to small firms in February due to Fogape 2.0

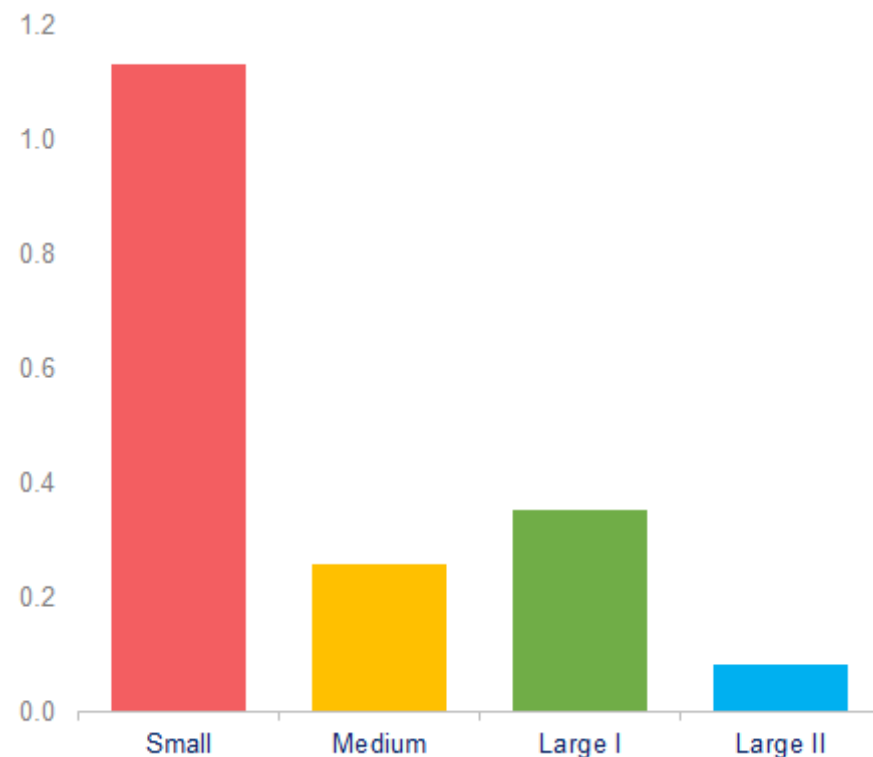
## Amount of credits by firm size

(millions of UF, up to February 28)



## Credit increase during February

(millions of UF)



## FOGAPE loans

% of total commercial loans

May.20

Jun.20

Sep.20

Dec.20

Jan.21

Feb.21

3.8%

6.9%

9.4%

9.6%

9.7%

9.8%

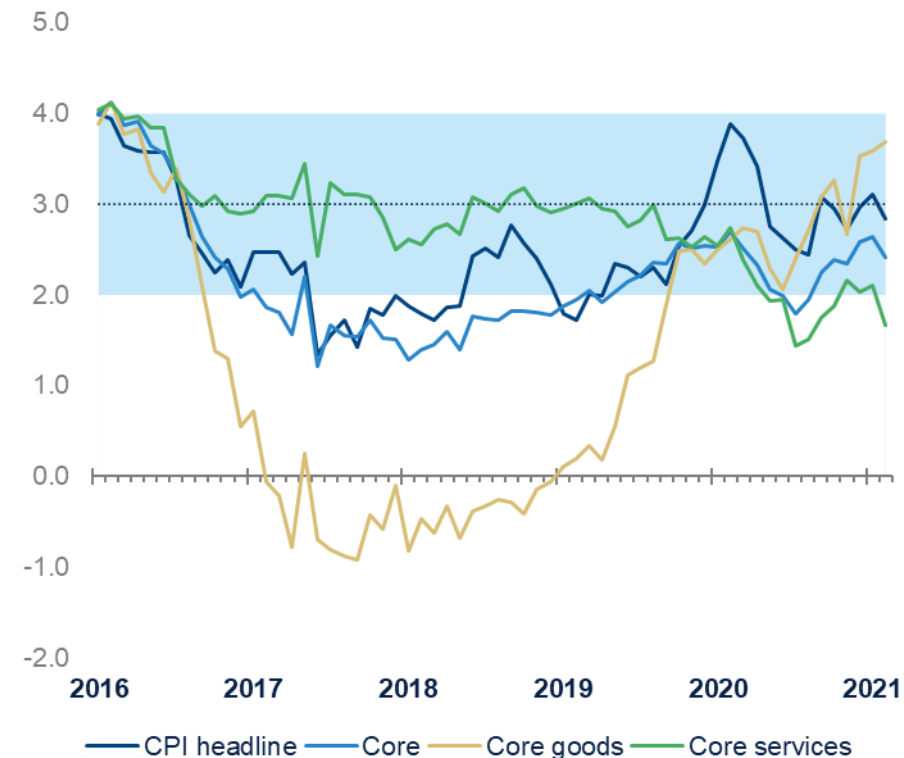
[See the complete report](#)

Source: Ministry of Finance, CMF, Scotiabank Economics

**February CPI stands at 0.2% m/m (2.8% y/y), slightly below expectations (0.3-0.4%).** Withdrawal of pension funds was felt strongly in goods again and fuel prices contributed strongly (gasoline). **For March, we estimate a CPI of 0.4% m/m (3% y/y)**

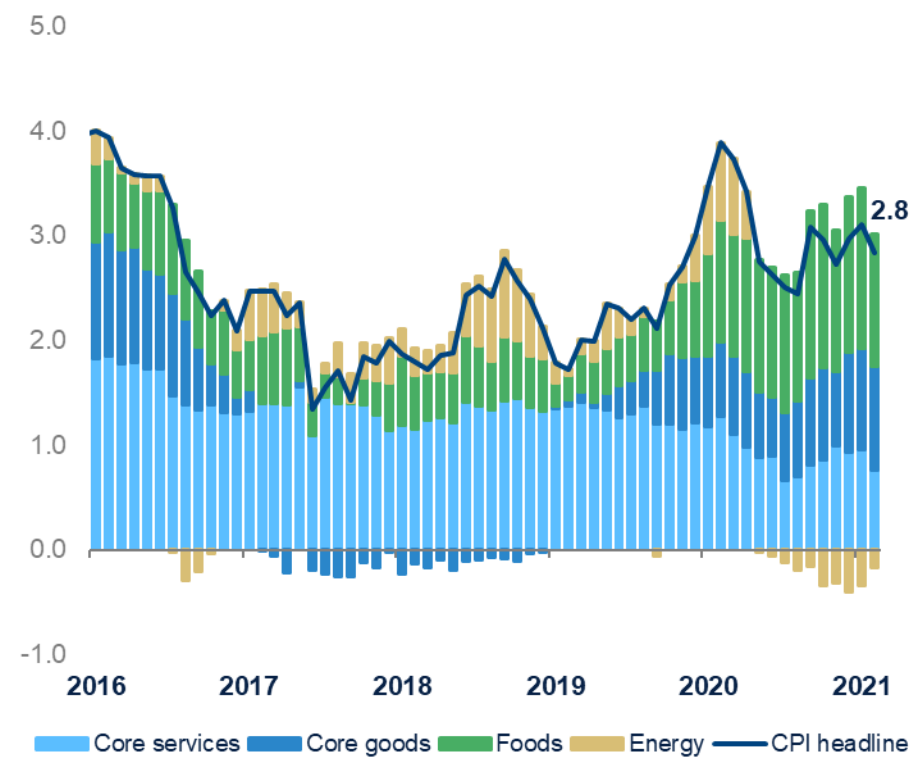
### Headline and core CPI inflation\*

(percentage, YoY)



### Contributions on annual inflation

(percentage points, annual contributions)



\* Core CPI: excludes food and energy.  
Source: INE, Central Bank, Scotiabank Economics

**We estimate CPI of 0.4% m/m (2.9% y/y) in March.** MEPCO signals a hike in fuels, while educational services should adjust fees this month. The effect of the pension fund withdrawal should start to fade in April/May. NIE still imputing some prices but travel related items will no longer be imputed in April

### Explained by increases in:

- Educational services
- Fuels

### Offset by declines in:

- Co-ownership expenses
- Pork meat

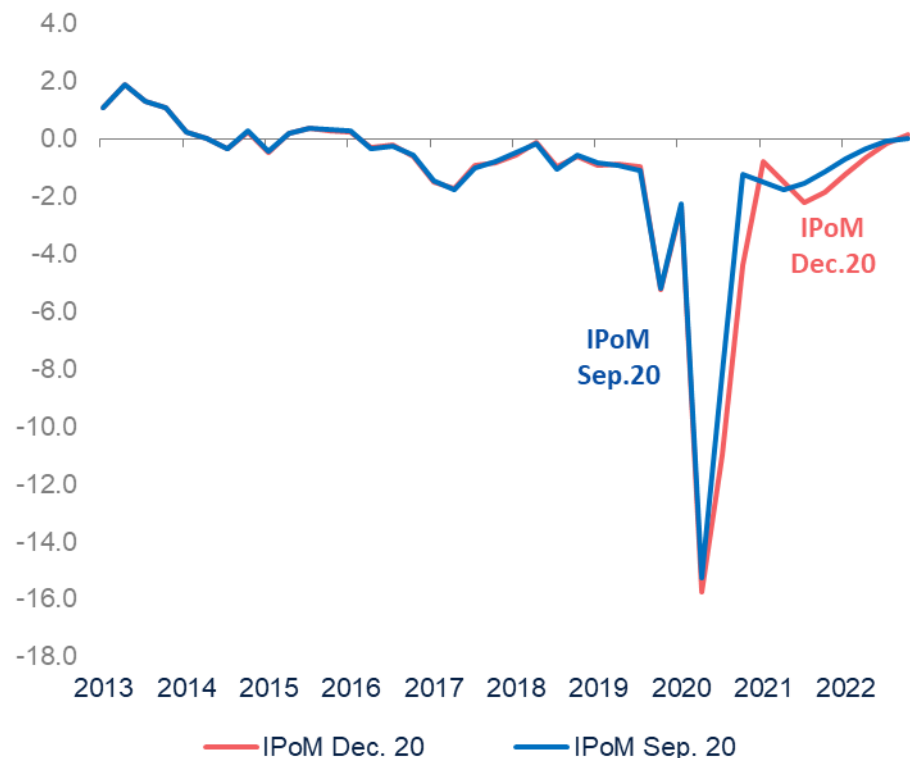
### CPI inflation: March 2021

Divisions	Contribution (%)
Food and non-alcoholic beverages	0,01
Alcoholic beverages and tobacco	-0,01
Clothing and footwear	0,02
Housing, water, electricity, gas and others	0,09
Household equipment and maintenance	0,01
Health	0,02
Transport	0,03
Communication	-0,01
Recreation and culture	0,00
Education	0,19
Restaurants and hotels	0,02
Miscellaneous goods and services	0,02
<b>CPI</b>	<b>0,38</b>
<b>CPI (rounded)</b>	<b>0,4</b>

**The benchmark rate will remain at its technical minimum (0.5%) “for a large part” of the monetary-policy horizon (CB statement last January). Market rates are pricing hikes in 2021. We expect the first hike, in a slow-motion normalization process, after the runoff of the presidential election**

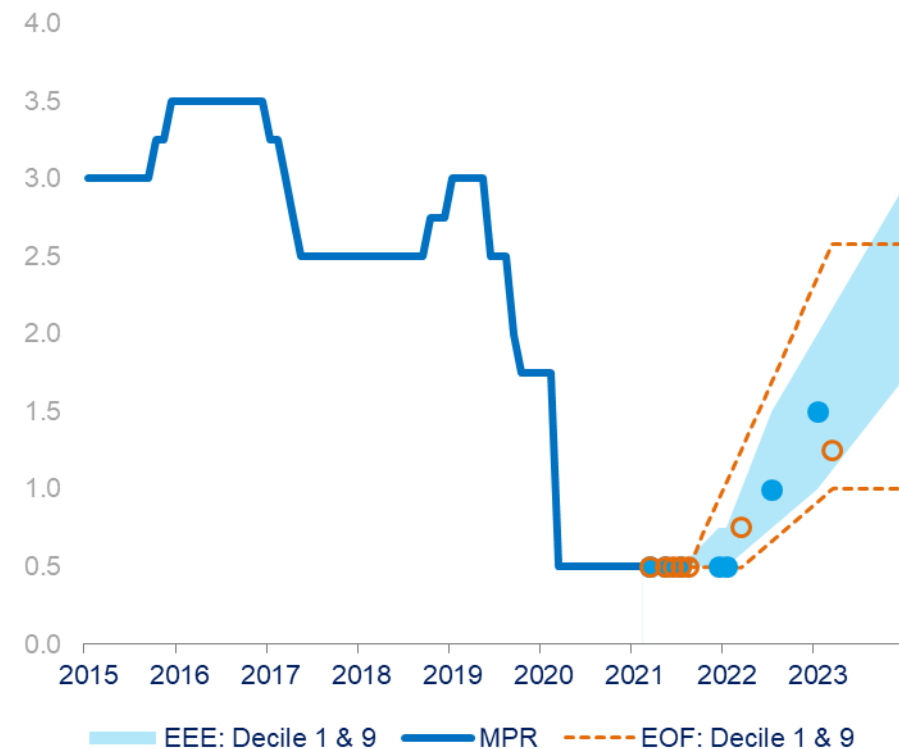
### Output gap

(%, Central Bank estimation)



### MPR expectations

(percentage, nominal)



Source: Central Bank, Scotiabank Economics



# Electoral timeline

Election name	What's in the ballots?	Number of ballots	Date
<b>General Election I</b>	Governors   Mayors   Councillors   Constituents	4	April 11, 2021
<b>Local second round</b>	Governors	1	May 9, 2021
<b>National primaries</b>	President   Senators   Deputies	3	July 4, 2021
<b>General Election II</b>	President   Senators   Deputies   Regional mayors	4	November 21, 2021
<b>National second round</b>	Second round for president	1	December 19, 2021
<b>Exit Referendum</b>	Referendum to ratify the new constitution	1	1st Semester 2022

# Constitutional Process starting 2021

## Main issues to be discussed in the constitutional process:

1. Guarantee of some social rights such as health and education. Some constitutional space should be given for a greater role of the State in the provision of these services. **High probability.**
2. Regarding pensions, the discussion should focus on the role of the State, and the eventual creation of a pay-as-you-go system. The intensity of this discussion will depend on whether a pension reform occurs before the constitutional process begins in May 2011 (after the election of the constitutional assembly members in April 2011). **Medium probability.**
3. Independence and autonomy of the Central Bank would not be at stake, although it could be argued to include an article to constitutionally accuse members of the Central Bank's council in case of breach of duties. **Low probability.**
4. Property rights would be discussed, but with a focus on activities that are considered of impact or a social right. Water rights will most likely be discussed. **High probability.**
5. Minority issues. Issues of indigenous minorities would be discussed in the dimensions of parliamentary seats and recovery of their lands. **High probability.**
6. System of government: Presidential versus Parliamentary? Prime Minister versus President? This issue has already been announced in the discussion, but beyond being discussed, there is little probability that the current system will be modified, although some powers could be handed over (removed) to the Congress (Executive) to execute public spending. **Medium probability.**
7. Free trade agreements have not been directly mentioned in the discussion for the constituent, although they could arise if they affect some social right or some minority. **Low probability.**

# Strong recovery with some challenges ahead



**Economics & Financial Research**

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