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# Chilean GDP Declines on Mining Output, While Unemployment Rate Rises Amid Job Losses

**CHILE: AUGUST GDP AT -1% Y/Y ALL BUT GUARANTEES A 2026 GDP CONTRACTION**

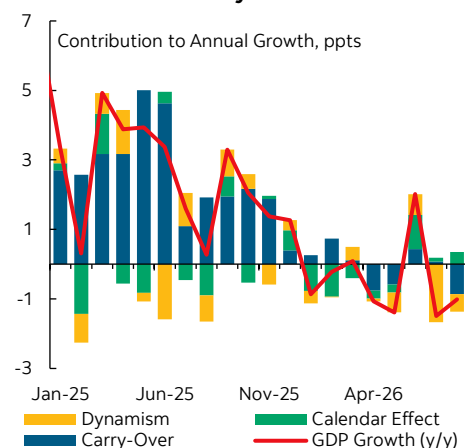
- **Remarkable resilience in non-mining activity despite persistent supply-side shocks**

August GDP fell by 1.0% y/y (chart 1), below both consensus expectations and our forecast, largely driven by the historic decline in mining activity (-17.4% y/y). However, non-mining sectors showed resilience despite the supply-side shocks still affecting the economy, particularly commerce and services, which recovered to the activity levels recorded in April-May of this year. Following this release, while it is now highly likely that Chile will end 2026 with negative GDP growth (between -0.5% and 0.0%), below the Central Bank's latest baseline scenario (0.25%-0.75%), non-mining GDP continues to regain momentum.

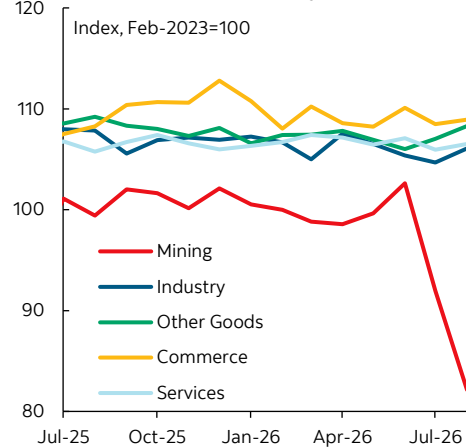
Mining is reducing its value-added output at a time when the economy was already weak (chart 2). This is an unusual situation by historical standards. Over the past 30 years, mining has experienced significant negative shocks on several occasions, but these were largely offset by periods of total GDP growth at or above potential. Unfortunately, in 2026 mining is set to exert a substantial negative impact, leaving overall GDP growth between 0.0% and -0.5%, masking the underlying resilience of non-mining activity, which would still expand between 0.5% and 1.0% y/y.

It is important to note that, despite the modest growth projected for non-mining GDP, this segment of the economy is also being affected by supply-side disruptions. Indeed, the projected 0.5%-1.0% expansion in non-mining activity for 2026 incorporates negative effects linked to the El Niño phenomenon across fishing, manufacturing, and transportation, among other sectors. These factors are compounded by adverse climate-related impacts in southern Chile, with spillovers to manufacturing activity. In this context, it is essential not only to isolate the effect of mining but also to account for other temporary supply-side shocks that have weighed on non-mining activity.

Mining activity has fallen to levels comparable to the 1990s. Climate-related disruptions and the resulting shutdowns at several private mining operations, together with ongoing challenges faced by Codelco at some of its flagship deposits, have pushed mining's contribution to GDP back to levels not substantially different from those observed three decades ago. Rising costs, including sulfuric acid, labor, permitting requirements, and other inputs, have also weighed on the copper mining industry. At the same time, it is difficult to rule out strategic behavior by private mining companies ahead of the reduction in the corporate tax rate scheduled to take effect in 2027.

**Chart 1**
**Chile: Monthly GDP Growth**


Sources: Scotiabank Economics, BCCh.

**Chart 2**
**Chile: Level of GDP by Sector**


Sources: Scotiabank Economics, BCCh.

## UNEMPLOYMENT RATE RISES TO 9.6% (9.4% SA), MOVING FURTHER AWAY FROM THE NAIRU RANGE

### • Job losses intensify in manufacturing and business services

The unemployment rate rose to 9.6% in the rolling quarter ending in August (chart 3), surpassing the consensus expectation of stability at 9.5%. Contrary to consensus, at Scotiabank we had anticipated another increase in the unemployment rate, although the weaker-than-expected growth in the labour force surprised us and helped contain a more significant rise in unemployment.

Relative to the previous rolling quarter, 40k jobs were lost while the labor force declined by 32k, both counter-seasonal decreases. Weather-related factors likely remained present during August, although job losses in manufacturing and investment-related sectors point to growing cyclical weakness in the labour market.

The seasonally adjusted unemployment rate increased again in the Jun–Aug period, reaching 9.4% (previous: 9.3%), moving further away from the new NAIRU (non-accelerating inflation rate of unemployment) range estimated by the Central Bank in its latest September Monetary Policy Report, which stands between 8.2% and 8.8%. Excluding the post-pandemic period, the current deviation from the NAIRU level is comparable only to what was observed in 2009 following the global financial crisis.

Annual employment destruction reached 81k jobs amid a decline in formal employment (chart 4). Compared with the same rolling quarter a year earlier, formal employment fell by 88k jobs, only partially offset by the limited and steadily weakening creation of informal jobs (7k). This weakness in formal employment is comparable only to what was observed in 2021, during the COVID crisis.

Weakness in the manufacturing sector deepens, while investment-related sectors continue to post job losses. Weather-related factors likely explain part of the weakness in some sectors, although manufacturing recorded even greater job destruction than in July, when the El Niño phenomenon had a stronger impact. Meanwhile, employment in Professional Activities, a services sector closely linked to investment dynamics, declined. The slow materialization of investment in recent months likely explains this trend, reflecting weaker confidence indicators, a challenging external environment, and a fiscal spending cut that has been concentrated on public investment.

Chart 3

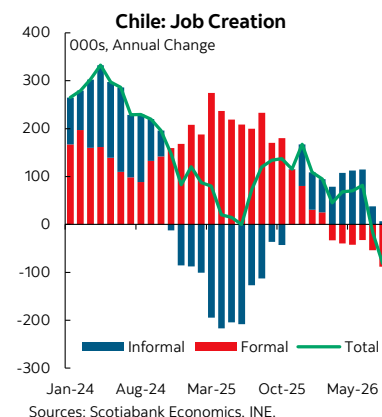
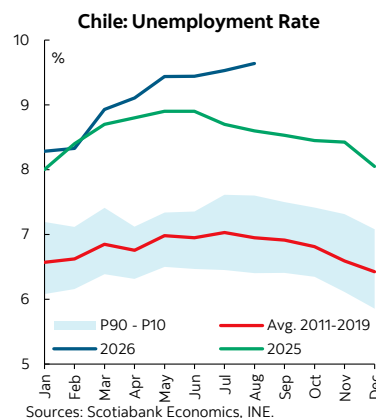


Chart 4



—Aníbal Alarcón

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