

## Chile: Record Q2-2020 GDP Contraction Close to Expectations, Points to -6% y/y or Better for 2020

- Real GDP fell by -14.1% y/y in Q2-2020, in line with -14.0% y/y in the Bloomberg consensus and our forecast of -14.9% y/y, both of which were broadly consistent with the monthly GDP proxy numbers.
- The Q2-2020 GDP data imply that the contraction in Chile's economy for all of 2020 should be no worse than the -6% y/y we have forecast.

### A RECORD DOWNTURN IN Q2

In national accounts numbers released earlier today, real GDP fell by -14.1% y/y in Q2 (chart 1), a record contraction, and in line with -14.0% y/y in the Bloomberg consensus and our forecast of -14.9% y/y, both of which were broadly consistent with the monthly GDP proxy data.

- **On the supply side**, the activities most affected were personal services, commerce, transportation, construction, restaurants and hotels, manufacturing, and business services. Mining was the only activity with positive figures for the quarter, although its momentum slowed from Q1.
- **On the demand side**, the downturn was manifested mainly in lower household consumption and investment (chart 2). Lower import demand and resilient mining exports helped net exports offset other drags on GDP.
- **The seasonally-adjusted GDP contraction was -13.2% q/q or -43% in annualized terms.**

Looking at the details, household consumption decreased by -22.4% y/y, which mainly reflected a pullback in demand for services. Reduced spending on non-durable goods and, to a lesser extent, on durable goods, also contributed to the decline in private consumption.

**Gross capital formation fell by -15.1% y/y.** Construction activity fell due to delays in investment projects. Likewise, investment in machinery and equipment also fell, in line with lower imports of transport equipment and machinery for industrial use. A reduction in inventories also had a negative effect on Q2 growth.

**The total gross savings rate amounted to 22.2% of GDP in nominal terms.** This was made up of a national savings rate of 24.2% of GDP and a surplus in the current account of the balance of payments equivalent to 2.0% of GDP.

### Q2 POINTS TO 2020 CONTRACTION NO MORE THAN -6% Y/Y

The Q2 GDP data confirm our view that the Chilean economy will see a maximum contraction of -6% y/y in 2020 followed by an expansion of around 4.5% y/y in 2021. Although Q2 represented the bottom for GDP in this cycle, June economic activity showed positive seasonally-adjusted growth of 0.8% m/m. For July, we anticipate a seasonally-adjusted expansion of 5% m/m, while for August,

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Chart 1



Sources: Scotiabank Economics, IBGE.

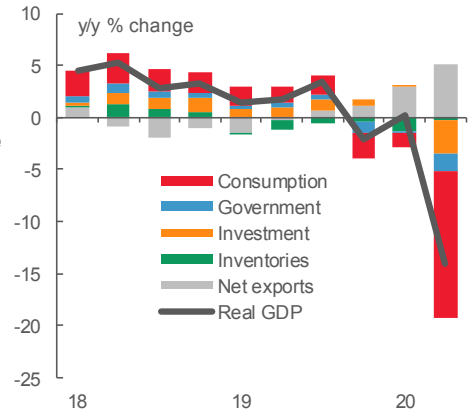
the strong injection of liquidity provided by government aid to the middle class in conjunction with the withdrawal of funds from the AFPs should lead to further seasonally-adjusted sequential growth.

**In this context, we expect to see a contraction of around -9% y/y in Q3-2020 that would ensure a fall in GDP of no more than -6% y/y in 2020.**

—Jorge Selaive

Chart 2

**Chile: Contributions to GDP Growth**



Sources: Scotiabank Economics, BCCh.

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