

Chile: August Real GDP Growth Undershot Expectations

- The economy expanded in sequential month-on-month terms for a third print in a row in August.
- But August's growth wasn't sufficient to narrow gaps compared with the same month in 2019, and the better half of the BCCh's forecast range for 2020 looks unlikely to be hit.

A THIRD MONTH OF EXPANSION, BUT SLOWER THAN EXPECTED

In data published this morning from the BCCh, monthly GDP growth came in weaker than expected at 2.8% m/m sa, an acceleration from June's 1.7% m/m, but still well below the consensus expectation of 5.0% m/m. Non-mining GDP saw stronger growth, at 3.4% m/m sa, up from 1.8% m/m in July (chart 1). This marked a third straight month of expansion in both total economic activity and non-mining GDP, but it wasn't strong enough to prevent a slip back in year-on-year terms. After being down -10.7% y/y in July, August saw a further contraction of -11.3% y/y (chart 2), well below the -8.5% y/y consensus projection and our own estimate of -8.2% y/y. There is little doubt that we are in recovery, but the great optimism seen a few weeks ago is stumbling a bit.

The monthly August print puts Q3-2020 growth on track for an annual contraction of about -9% y/y, worse than the -7.7% y/y we forecast in our September 20 [Latam Weekly](#). Sectoral indicators pointed toward stronger growth in August and the monthly GDP print certainly comes as a negative surprise. The August print was influenced by a slow recovery in services, particularly business services linked to investment. The August numbers did receive a boost from the increase in retail sales that followed pension account withdrawals, but it was too limited to offset fully softness elsewhere. We will once again see the effect of the withdrawals from the pension funds in September and October given the dynamism observed in high-frequency indicators that we monitor in our regular [Tracking COVID-19](#) report. The continuous process of re-opening should also sustain growth in the coming months.

For now, the August data should still be consistent with our base scenario of a -5.2% drop in GDP in 2020, which contemplated limited year-on-year expansions in activity during the last months of the year. However, a smaller contraction in line with the better half of the forecast range of the central bank's baseline scenario (i.e., -5.5% y/y to -4.5% y/y) is becoming less likely.

In this context, we don't expect the BCCh to read the contemporaneous data favourably at its next monetary policy meeting on [October 14–15](#). Concern about the lag in services and investment growth is likely to outweigh gains in total economic activity and employment.

—Jorge Selaive

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

Chart 1

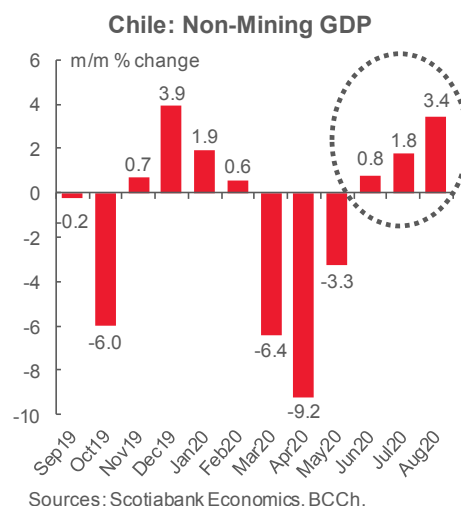
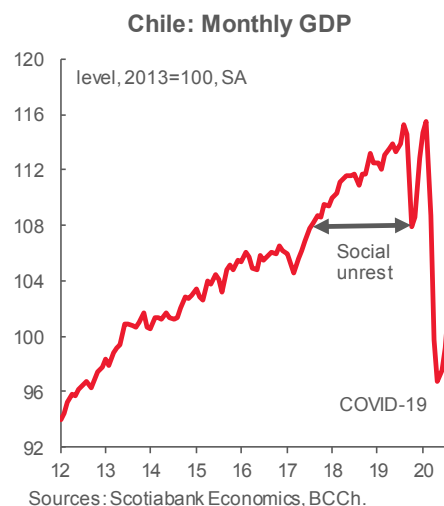


Chart 2



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