

## Chile: October GDP Growth Slightly Disappoints

- October GDP growth came in at -1.2% y/y, which continued the recovery from September's -4.8% y/y (revised from -5.3% y/y), but undershot expectations as sequential growth retreated from September's 5.1% m/m sa to -0.5% m/m sa.
- October's surprising weakness was driven mainly by a -3.3% m/m sa pullback in services.
- We expect the BCCh to revise its 2020 real GDP growth projection down to -6.0% y/y in its December *Monetary Policy Report*.

### WORRYING SLUGGISHNESS IN SERVICES, INVESTMENT, & CONSTRUCTION CALLS FOR ADDITIONAL MONETARY-POLICY ACTION

Despite favourable level effects from October 2019 and strong growth in retail sales (17.0% y/y) and manufacturing (6.2% y/y), October's IMACEC GDP proxy declined -0.5% m/m sa from September, undershooting the 1.7% m/m expansion expected by the consensus of analysts. This was a major slowdown from September's 5.1% m/m sa advance, and dashed hopes that October would see the first positive year-on-year gain in monthly economic activity since February. The sequential downturn translated into a -1.2% y/y contraction in October's GDP, better than September's -4.8% y/y, but a sizable undershoot on the 0.6% y/y in the consensus forecast and the 2.5% y/y gain we projected (see the November 28 [Latam Weekly](#)). We had expected the combination of a low base for comparison with the economic disruptions stemming from 2019's social unrest and the boost to spending from the withdrawal of pension assets to provide a lift to growth in October. Although commercial activity has been above pre-pandemic levels since August, and manufacturing's strong October also took it back above pre-lockdown numbers, October GDP remained -7.4% below February's print (chart 1).

The details highlight the sources of October's difficulties, which were centred in services. Non-mining activity contracted by -0.5% m/m sa (-1.5% y/y), mainly owing to a slowdown in services linked to investment that had shown some recovery in September. Indeed, services contracted by -3.3% mm sa after robust 8.2% m/m sa gains in September; this resulted in a drag of -2.5 pts on October's -1.2% y/y headline growth (chart 2). Construction also recorded a sizable monthly decline, which provided evidence that health restrictions and the fragility of the labour market are keeping negative output gaps in place.

All in all, October's IMACEC numbers represented a limited, but notable, interruption in the recovery path we've observed since June. Much of this hiccup was concentrated in investment-related services, an area of the economy that remains somewhat opaque and that hasn't gained particular traction from the ample liquidity provided to households and businesses by the combination of pension-fund withdrawals and fiscal support through spending and tax measures.

### CAN WE EXPECT SOMETHING FROM MONETARY POLICY?

Yes—perhaps even more action than what we saw last September from the BCCh. The central bank can take advantage of the fact that the re-opening has

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Chart 1

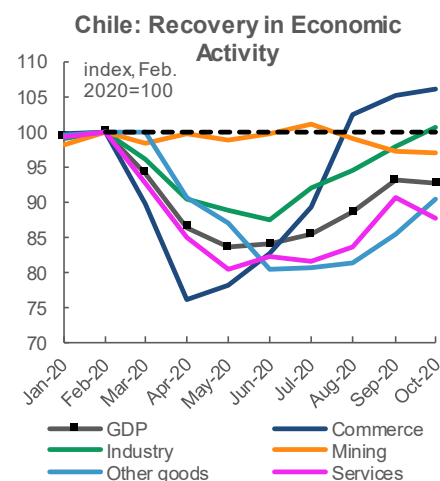
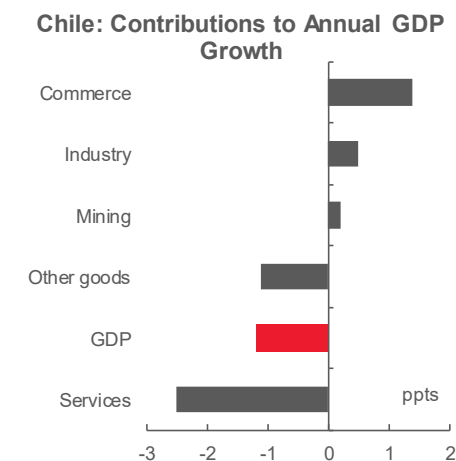


Chart 2



progressed, monetary policy transmission channels are primed, and new measures stand to be more effective than they would have been earlier this year.

**Even though Chile's rebound in GDP has been somewhat faster than we have observed in other parts of Latin America, Chile's employment recovery does not stand out amongst its peers.** In fact, after Peru, Chile has the largest employment gap compared to December 2019 levels in the region—bigger than the gaps in Colombia, Mexico, and even Brazil (n.b., Argentina is not easily comparable because it issues only quarterly labour-market data). In effect, although 600k jobs have been recovered, there are still 1.4 mn posts that remain lost, to which one must also add seasonal agricultural jobs. Full recovery remains a titanic task for the labour market, even more so because of the acceleration in the digitization of work during this year's lockdowns. With investment still subdued, this challenge is made even harder, and we could see the demand for labour become less intense in the coming quarters. We may even see the unemployment rate edge up as returning inflows to the labour market outpace jobs gains. **All of this augurs for more monetary stimulus.**

**Real GDP growth in 2020 could now be heading for a contraction greater than the -5.2% y/y in our baseline forecasts, which the central bank is likely to acknowledge in the last [Monetary Policy Report](#) for 2020, due on Wednesday, December 9.** The BCCh's specific projection could fall to -6.0% y/y, outside the -5.5% y/y to 4.5% y/y range noted by the Bank last September. But for 2021, we expect the BCCh to project an expansion similar to our own 5.1% y/y forecast, within a range of 4.75% y/y to 5.75% y/y, subject to relevant domestic and external risks and uncertainty.

—Jorge Selaive & Waldo Riveras

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