



# Economics Group

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## Chilean Economy Improves Slightly in Q2

*The Chilean economy grew 0.9 percent in Q2 compared to a year-earlier, while improving 0.7 percent compared to Q1. The construction sector continues to prevent the economy from growing faster.*

### Construction Sector to Blame

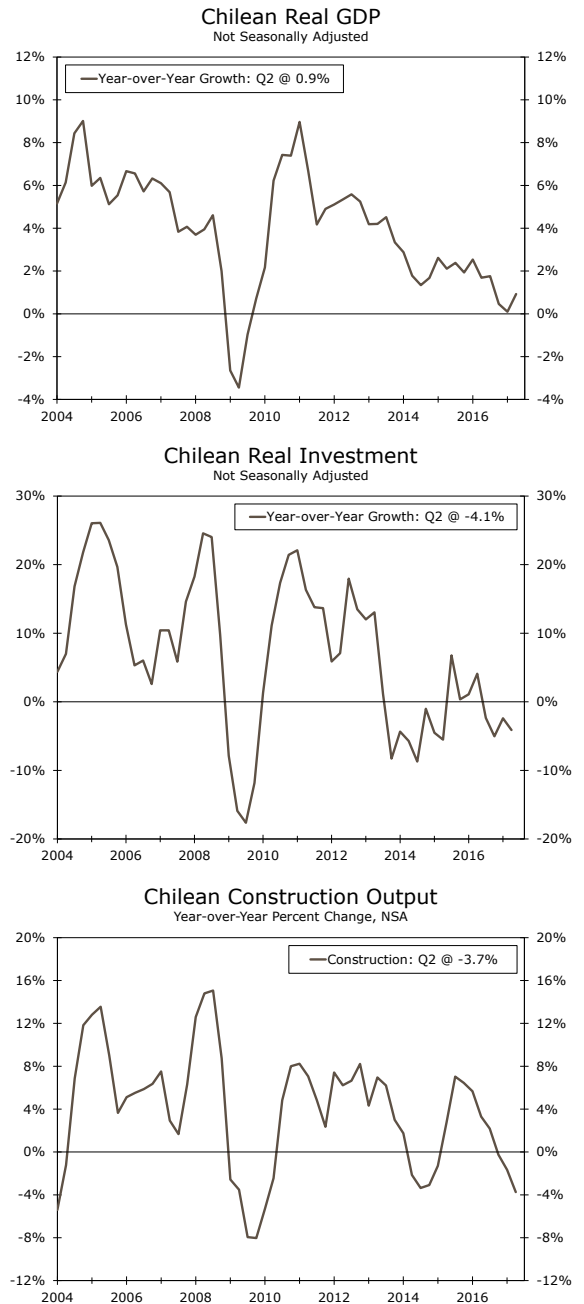
The Chilean economy posted another lackluster performance in Q2-2017 with economic growth improving slightly but printing a rate of only 0.9 percent versus the second quarter of last year. On a quarter-earlier basis the economy improved at a 0.7 percent pace (not annualized). Again, the construction sector, the darling of the Chilean economy during the past several decades, kept the economy from growing at a stronger rate. Construction output declined 3.7 percent on a year-earlier basis and by 1.3 percent compared to the first quarter of the year.

The Q2 result shows an economy that has continued to suffer from its linkages to the rest of the world and, perhaps, is one of the few economies that has not benefited from the improvements in global economic activity. Furthermore, the ailments of the Chilean economy show how difficult it is to grow in the current global economic environment if the economy is not diversified in production. Although mining output improved compared to the first quarter of the year when it dropped 13.8 percent, year-over-year, it still declined 3.0 percent during Q2. The good news for this important sector of the Chilean economy is that it improved 5.3 percent in Q2 compared to Q1 when it declined 7.2 percent.

### Domestic Demand Remains Relatively Strong

Although the economy disappointed in Q2, the consumption numbers were not as bad as the overall performance shows. Personal consumption expenditures (PCE) increased a relatively strong 2.6 percent on a year-earlier basis while imports of goods and services surged 7.0 percent. This performance meant that domestic demand increased 3.9 percent on a year-earlier basis. However, the good news ends here as gross fixed capital formation continued to decline, this time by 4.1 percent on a year-earlier basis. This will continue to limit the ability of the Chilean economy to grow at stronger rates in the near term. Again, the culprit for this decline was a 6.5 percent reduction in investment in the construction industry, while investment in machinery and equipment managed to print a slight increase of 0.1 percent, year-over-year. Meanwhile, exports of goods and services continued to show weakness with a drop of 3.5 percent on a year-earlier basis. Every export sector in the country was very weak, from agricultural exports to mining exports. This means that Chile hasn't been able to take advantage of the improvement in global economic activity, which has helped other small and open economies like Chile across the globe.

It will be interesting to see how the Chilean political system handles this new economic environment, which is not something they have had to deal with in several decades.



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