



Economics Group

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Chilean Stagnation Continued in Q1 2017

Stagnant economic growth continued in Chile in Q1 2017 when the economy grew at a 0.1 percent rate, year over year, and by 0.2 percent on a quarter-over-quarter basis.

New Reality Hits Chilean Economy Hard: Stagnation

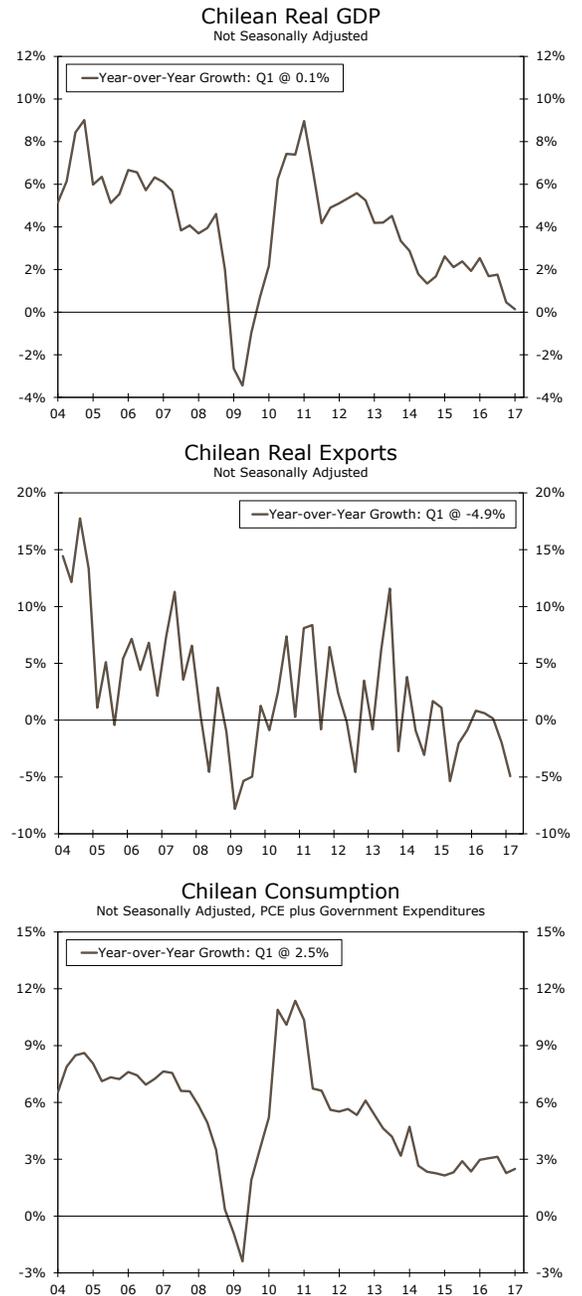
For an economy accustomed to high rates of economic growth, the last several years have disappointed. However, the results for the first quarter of 2017 feel more than a disappointment because as the world economy has been recovering, slowly but surely, the Chilean economy continues to feel the pain of weak economic growth. First quarter GDP barely managed to increase by 0.1 percent on a year-earlier basis, compared to a 0.5 percent increase in the last quarter of 2016. On a positive note, the economy grew 0.2 percent on a quarter-over-quarter basis, seasonally adjusted, compared to an upwardly revised decline of 0.3 percent in Q4 2016. The biggest culprits for the weak performance were real exports of goods and services and real gross fixed investment. The former affected by the unresponsiveness of the export sector to an improving global economy and the latter affected by lack of confidence in the future growth in the economy. Real exports of goods and services declined 4.9 percent year over year, while real gross fixed investment declined 2.4 percent during the same period.

Another positive development during the quarter was an increase of real imports of goods and services, up 4.2 percent on a year-earlier basis. This was the second positive year-over-year rate in real imports of goods and services since the third quarter of 2013. Recall that imports enter GDP with a negative number, which means that growth in imports lowers the rate of GDP growth. That is, GDP growth had been helped by the decline in real imports during the last 3 years or so. The fact that the Chilean productive sector needs to import a lot of its inputs, including capital inputs, means that an increase in real imports points to, tentatively, a potentially improving economy. This is clear from looking at real gross fixed investment for the quarter. Although gross fixed investment declined 2.4 percent during the quarter, investment in machinery and equipment increased 3.9 percent during the period. The culprit for the decline in investment during the quarter was a 6.0 percent drop in real gross fixed investment in construction.

Personal Consumption Weakness Continues

Although personal consumption expenditures (PCE) was one of the strongest sectors of the Chilean economy, consumer demand weakened further on a year-earlier basis. PCE was up 2.0 percent in Q1 compared to a 2.4 percent increase in Q4 2016, year over year. However, consumption also improved a bit on a quarter-over-quarter basis, increasing by 0.75 percent compared to a 0.52 print in the fourth quarter of 2016.

We expect the Chilean economy to grow somewhat this year, but not to, for now, go back to the strong growth rates characteristic of the last several decades.



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