



Economics Group

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Chilean Economy Grows 1.6 Percent in 2016

The Chilean economy grew 1.6 percent in 2016. However, fourth quarter GDP was weak, dropping 0.4 percent on a quarter-over-quarter basis after a relatively strong third quarter, up 0.9 percent, not annualized.

Weak Economic Performance in 2016

The Chilean economy grew only 1.6 percent during 2016, the weakest economic performance since the recession of 2009 when the economy dropped 1.0 percent. Personal consumption expenditures (PCE) remained relatively strong in 2016, increasing 2.4 percent compared to 2015. PCE increased 2.4 percent during Q4 2016, year over year. Meanwhile, government expenditures, which contributed considerably during the first three quarters of the year, slowed down considerably during the last quarter. Government consumption increased only 1.7 percent during Q4 2016, year over year, even though it managed to increase 5.1 percent during the year as a whole.

The biggest culprits of the slowdown in economic activity during 2016 were real exports of goods and services and gross fixed capital formation (i.e., real investment). Real exports of goods and services declined 2.0 percent during Q4 2016, year over year, and by 0.1 percent for the year as a whole. Meanwhile, real gross fixed capital formation plunged 5.0 percent during Q4 2016, year over year, and by 0.8 percent during the year as a whole.

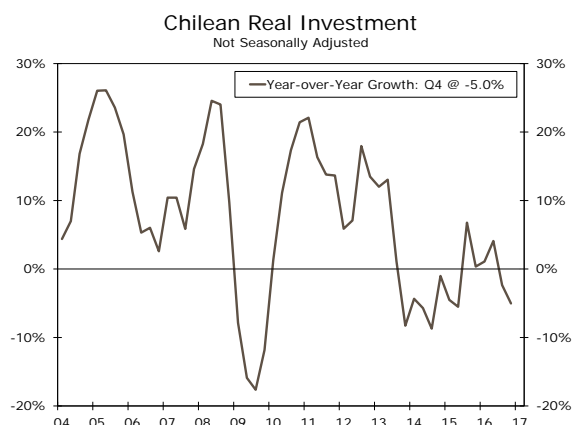
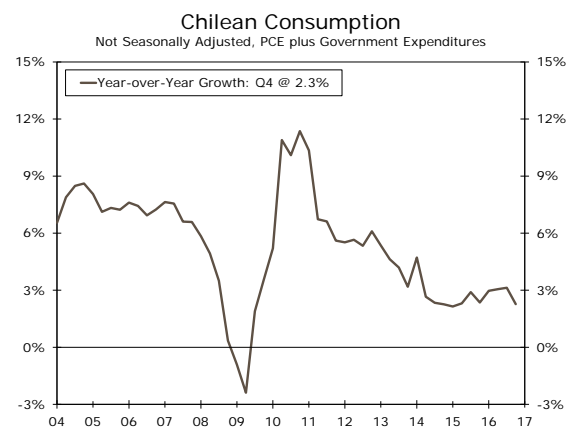
Real imports of goods and services also contributed to GDP growth during the year. Real imports of goods and services were flat during Q4 2016, year over year. However, real imports of goods and services were down 1.6 percent for the year as a whole, contributing to economic growth. Recall that imports of goods and services enter GDP with a negative number so lower imports improve the performance of GDP.

Weak Domestic Demand

What all these numbers show is that domestic demand was weak during the year. Domestic demand increased 1.1 percent during Q4 2016, the same rate for the year as a whole. However, domestic demand declined 1.1 percent during Q4 2016 from Q3 2016 on a quarter-over-quarter, seasonally adjusted basis.

On the external side, the biggest concern for the Chilean economy is the weak performance from exports. Our expectation is that this part of the economy is going to start growing again as the global economy continues to improve.

Our biggest concern for the Chilean economy remains the weak performance by the domestic economy. Although PCE has remained relatively strong, gross fixed capital formation, in construction and in machinery and equipment remained weak. The Chilean economy will remain weak, if the investment sector is not able to reverse its performance during the next several quarters.



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