

April sector data confirms severe economic impact of the pandemic in Chile

Abstract

Unemployment rate in Greater Santiago (15.6%) is at levels not seen since the Asian crisis in the late 1990s, with a sharp drop in job creation.

Highlights

- Global financial markets ignore tensions between China and the US and they rise driven by a European fiscal stimulus package.
- Local assets presented high volatility and decouple from the international trend.
- Activity and employment data for April show a strong impact of the pandemic in Chile.

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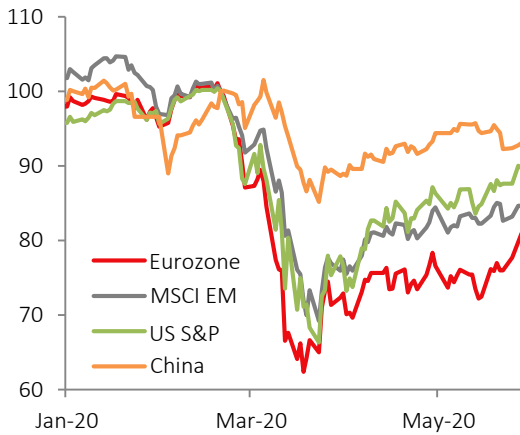
New stimulus package in Europe boosts financial assets

The European Commission (EC) officially announced the Next Generation plan consisting of a substantial fiscal stimulus package (750 billion Euros), greater than that initially outlined by France and Germany. Resources are not only aimed at the economic recovery after the pandemic, but also to invest in the structural transformation of the bloc's economies. Two thirds of the program will go directly to public spending and the rest will be used for loans. The announcement of this program, together with the reopening processes in some countries, continued to boost financial markets, led by European assets. The dollar depreciated globally due to the advance of the Euro, while other emerging currencies presented advances.

Meanwhile, relations between China and the United States have continued to be stressed as a result of the new security law for Hong Kong approved by the Asian giant. Despite this, investors have maintained strong demand for riskier assets given the prospects of a somewhat faster recovery in advanced countries.

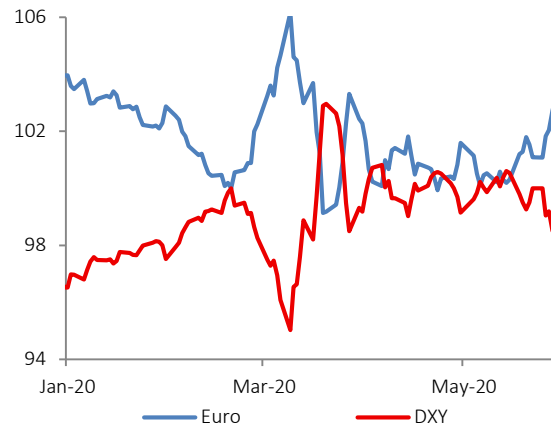
In addition, the Beige Book of the US Federal Reserve was released during the week. –similar to the Economic Perceptions Report of the Central Bank of Chile–, which showed that activity and employment continued to decrease during May. Unemployment subsidy applications in that country reached 2.1 million this week, accumulating more than 41 million since the third week of March. In the coming days, the unemployment rate for May will be published, which is expected to reach around 20%. For its part, the second revision of GDP in 1Q20 showed a contraction of 5% q / q annualized, somewhat greater than 4.8% in the first reading.

Graph 1: International markets (Index 100 = Feb.20)



Sourec: Bloomberg and Santander

Graph 2: Evolution of Euro and DXY index (Index 100 = Feb.20)



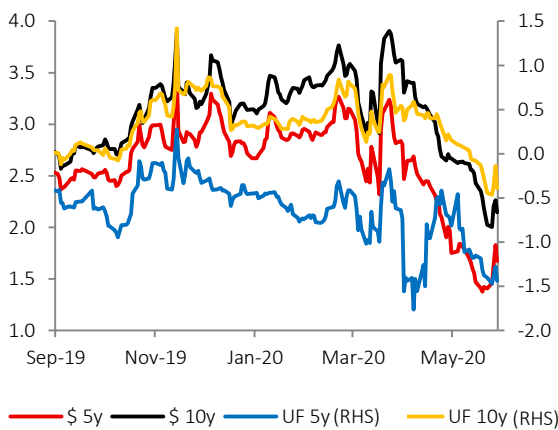
Source: Bloomberg and Santander

In Chile, financial assets showed high volatility during the week. The IPSA closed lower, decoupling from the global trend, influenced by the historic drop in Latam Airlines shares. All in all, at the closing of this report this action showed a significant rebound due to the progress of the reorganization process under Chapter 11 and to signals from the Government to evaluate participation options in this.

In this context, the exchange rate closed at levels similar to those of the previous week, but showed significant fluctuations, reaching levels close to \$ 820 and then falling around \$ 805.

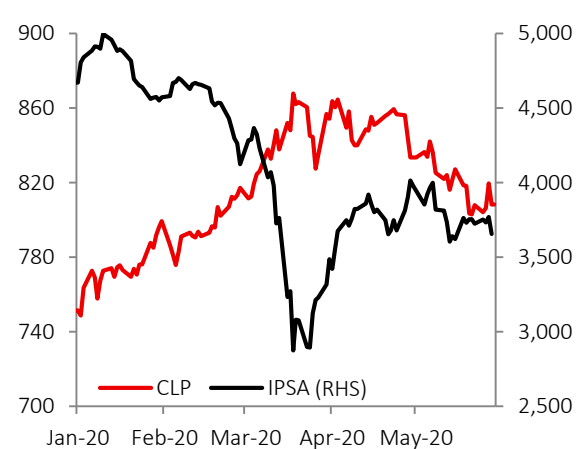
For their part, sovereign bond rates adjusted sharply upward after the situation of Latam Airlines became known, reflecting a change in the perception of risk regarding the economy as a whole. However, at the close, the rates fell again due to movements of the pension funds towards less risky positions.

Graph 3: Nominal benchmark rates (%)



Source: Bloomberg and Santander

Graph 4: Local financial assets (\$/US\$, Index)

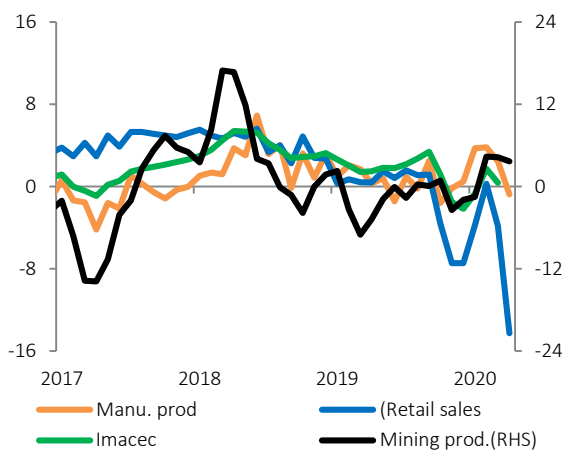


Source: Bloomberg and Santander

April economic activity severely affected by the pandemic

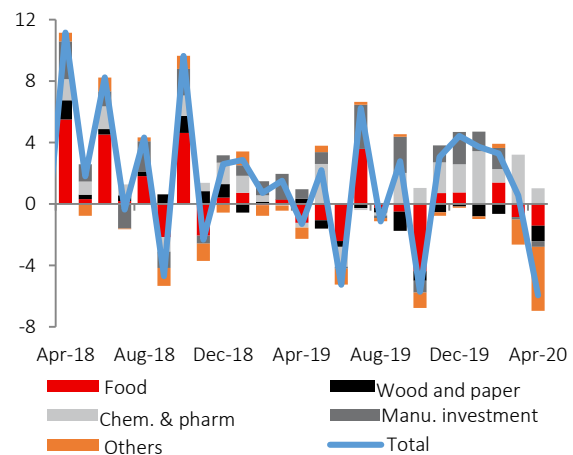
April sector data began to show more clearly the strong economic impacts of the pandemic. As expected, retail sales had a strong annual contraction (-31.3%), almost double what was registered in March, although in line with our estimate. The strongest falls were seen in durable and semi-durable goods, such as clothing. The manufacturing industry also experienced a significant annual contraction (-5.9%), driven by sharp falls in furniture manufacturing (-52.9%) and clothing manufacturing (-61.9%). The food sectors also suffered losses, although considerably lower (-2.7%). On the other hand, there was a substantial increase in the production of pharmaceutical products (11%). Mining, meanwhile, had only a small annual fall (0.5%), accounting for the resilience the sector has shown to the health crisis. Against this background, **we estimate that the April Imacec, which will be released on Monday, would have contracted somewhat more than 10%.**

Graph 5: Sectorial indicators (annual var., % - Moving quarter)



Source: BCCh, INE and Santander

Graph 6: Manufacturing production (annual var., %)



Source: INE and Santander

Labor market suffers social distancing

The University of Chile's Occupation and Unemployment survey for the first quarter (whose reference week was from March 29 to April 4) showed an unprecedented drop of more than 15% in employment in Greater Santiago. With this, the unemployment rate reached 15.6%, the highest figure in 20 years and equivalent to the record observed during the Asian crisis.

The INE data also corroborated a strong deterioration in the labor situation, although not as intense due to the national nature of the survey (in some regions the impact of the pandemic has been considerably less than in Santiago) and the fact that it was carried out in a moving quarter with information prior to the pandemic. Even so, the figures showed a historical contraction in employment (-7.6% y / y), which represents around 700 thousand fewer jobs than in the previous year. The main falls were in commerce (-10% y / y), agriculture and fishing (-16%) and in manufacturing (-12%).

The greater difficulties in looking for work affected a significant contraction in the workforce (-5.7% y / y), which mitigated the impact of lower employment on the unemployment rate. All in all, this increased significantly and reached 9%. It must be considered that, as it is a moving quarter, this figure does not fully capture the impact of the pandemic. It is likely that in the next registry, where May is incorporated, the month in which the total quarantine began in Greater Santiago, the unemployment rate will exceed double digits.

The data from the Superintendency of Pensions indicates that until the week of May 22, just over 500 thousand people would have benefited from the employment protection program. Of these, almost 375 thousand would correspond to the

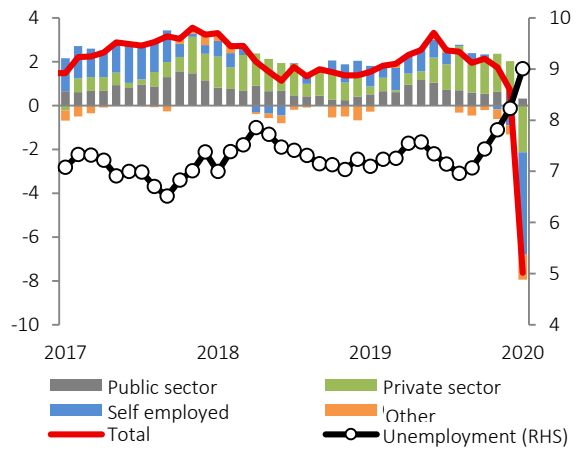
Metropolitan Region. According to these figures, half would have done so due to restrictions imposed by quarantines and the other by voluntary agreements with their employers. These people, in the INE employment survey, appear as busy, but in temporary absence from their jobs. It is possible that if this program had not existed, a very large fraction of them would have been unemployed, with which the unemployment rate would have been substantially higher.

Graph 7: Employment and workforce (annual var. %)



Source: INE and Santander

Graph 8: Unemployment rate and employment by category (annual var. %)



Source: INE and Santander