Global economic outlook improves despite pandemic resurgence

The vaccination progress and the US fiscal stimulus have led to upward revisions on global growth. In Chile, the new confinement measures will affect the second quarter's GDP, but recovery should begin again in the second half of the year.

Highlights

The world confronts a resurgence of contagion. New Covid cases have accelerated and have reached the late 2020's maximum levels, particularly in continental Europe, Latin America and India

Despite the pandemic's uncertainty, the economic outlooks are revised upwards.
The vaccination progress in developed economies and the US strong fiscal stimulus package has led the IMF to correct its growth projections up to 6% for 2021. In this context, the global markets have shown relevant hikes.

Local activity has reached levels previous to those of the pandemic, but these would retreat in March and April due to the new confinement measures.
The effect of new restrictions will be less severe than those of a year ago, which is why annual growth rates will be high. This, alongside a possible easing of lockdown measures starting the third quarter, leads us to maintain our growth projection in a 6% to 7% range.

Employment creation is stagnating, and unemployment remains above 10% despite the lower work participation. The rebound in vacancies reflects how job demands may have reactivated, but lockdowns will push back the labour market in the short term.

Inflation tends to moderate. After the acceleration of inflation towards late 2020, the last CPI records have surprised downwards, reflecting a lower effect of liquidity injections on demand. Overall, higher inflationary records might be observed mid-year, at around 4%, before converging to 3% by the end of the year.

We assert that our prospect for the MPR will remain at 0.5% during all of this year.
An improved growth outlook for Chile and the world has driven hikes in market rates. Despite this, significant capacity gaps and risks for recovery will drive the Central Bank to begin withdrawing their stimulus only during 2022's first quarter.

The fiscal impulse will persist during the year. Even though the high copper price will contribute additional fiscal incomes this year, recently approved aids will push the deficit up to 4.5% of the GDP.

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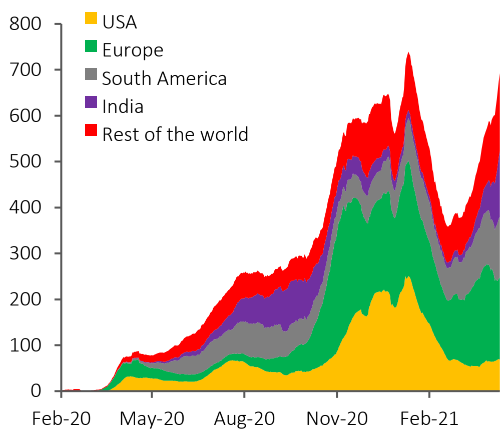
Global economic outlook improves despite pandemic's resurgence.

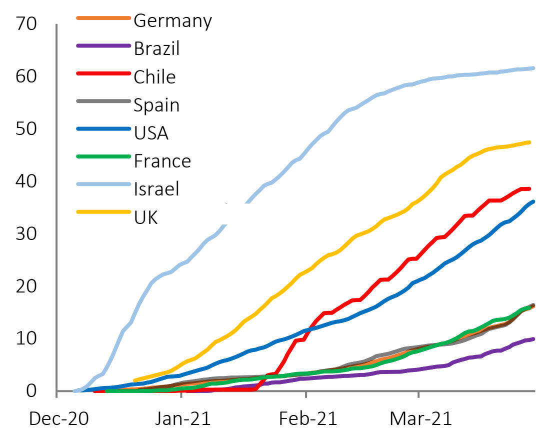
In the last weeks, there has been another pandemic wave at a global level, and the number of cases is reaching the maximum levels of mid-December last year (700 thousand daily cases). The new outbreaks have taken place in Europe, where the vaccination process has been hampered by restrictions to the approved vaccination offer in India and Latin America. In the US, where 36% of the population has received at least one vaccination dose, there has also been a recent increment in cases, but quite below the maximum levels early on the year (200 thousand daily cases).

Cases worldwide have once again increased, led by Europe, India and South America



Source: Our World in Data and Santander

The European vaccination rollout has been very slow, except for the United Kingdom

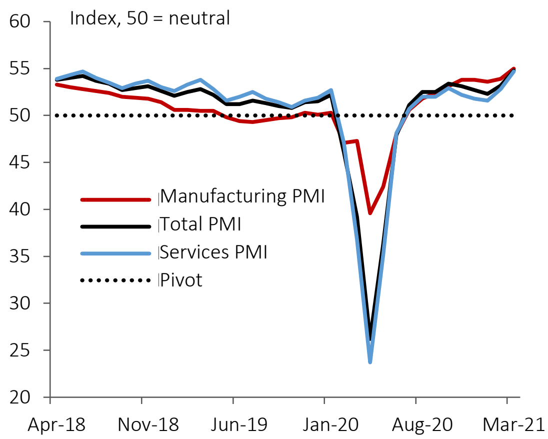


Source: Our World in Data and Santander

Notwithstanding the above, the global economic outlook has improved thanks to the vaccination progress, strong stimulus measures -particularly the US- and better activity figures (March's global PMI: 54.8). This situation has boosted different markets. The global MSCI perceived a 5% increase over the mid-March figures, with relevant hikes in Europe (4%) and Latin America (5%). In the US, the S&P 500 kept setting new records (surpassing the 4,100 points for the first time in history) with a 6% increase. The Chinese stock market differed from the global trend, with a drop close to 1%, though after strongly climbing in previous months. In this context, the VIX volatility index decreased substantially and stands at the levels prior to the pandemic.

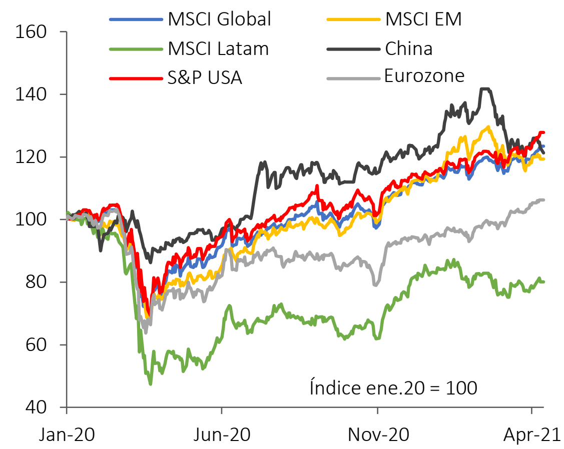
The long-term interest rates continued to climb during March's second half, but they have tended to settle in recent days. In the US, the 10-year bonds' profit reached over 1.7% (over 20bps than a month ago), and even though it has retreated lately, it stands at maximum levels since January 2020. The rates in Europe and the UK have had similar behaviour, though more restricted.

Global PMI anchors on optimist grounds



Source: Bloomberg and Santander

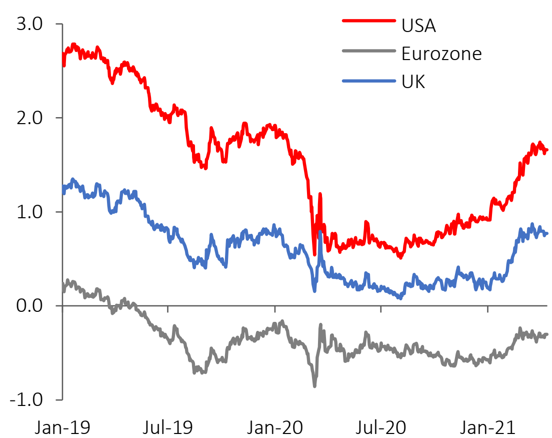
Stock markets worldwide recover except for China.



Source: Bloomberg and Santander

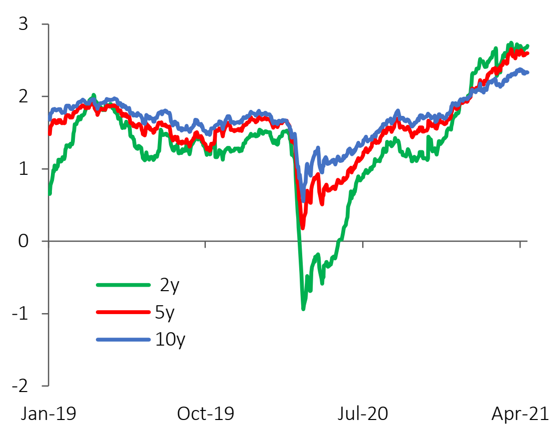
Underlying the curve's steepness are the concerns regarding an inflationary resurgence in answer to the strong stimulus measures and the high global liquidity. Overall, the Fed has insisted that, even though there might be temporary hikes in inflation, it does not foresee risks that could lead to sustained increments in prices over their trends as of yet.

Long rates halt their steep climb in the margin and have tended to flatten.



Source: Bloomberg and Santander

Inflationary compensations in the US remain at high levels.



Source: Bloomberg and Santander

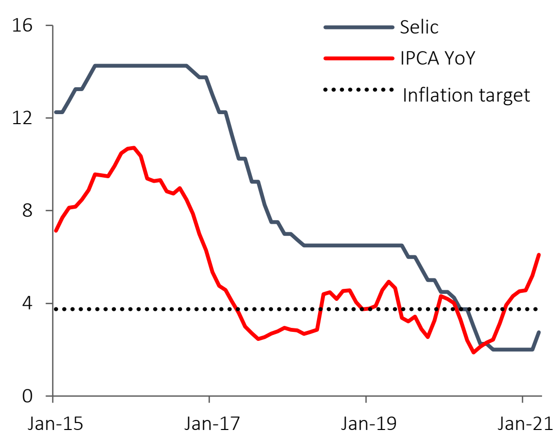
In the US, the activity's data (manufacturing and services) surprised the upside, thus remaining on optimistic grounds (PMI, ISM). Confidence is also recovering, recording its highest level in a year in March (*Conference Board Index:* 109.7). This, added to the substantial fiscal stimulus package approved mid-March (equivalent to 9% of the GDP), led the IMF to firmly correct upwards its growth prospects for the year, from 5.1% to 6.4%, similar to the Federal Open Market Committee's projection (FOMC).

Nevertheless, the job market indicators continue to signal mixed results. Even though the employment creation pace has accelerated (916,000 new posts created in March vs the 660,000 anticipated), initial unemployment claims have also risen (744,000 in April's first week vs the 680,000 anticipated). This reflects a partial recovery of the workforce. As expected, in their monetary policy reunion in March, the FOMC kept the federal funds rate unchanged and reinstated their message that the economy will still need stimulus for a prolonged time.

In Europe, the new wave of contagion ravaging central countries and the difficulties in the vaccination rollout have dented consumer's confidence, which retreated once more during March (-10.8 vs -14.8 in February), and the ZEW financial survey of expectations also shows a drop in April (from 74 in March to 66.3). In turn, new restrictions have deteriorated the job market (the unemployment rate remains at 8.3% in February vs the expected 8.1%). All things considered, the IMF slightly corrected the 2021's Eurozone GDP growth projections upwards, from 4.2% to 4.4%, though still below October's estimate (5.2%). In this context, the European Central Bank (ECB) upheld the reference rate and accelerated the purchasing pace under the Pandemic Emergency Purchase Programme (PEPP) to avert the incipient steepness in the yield curve.

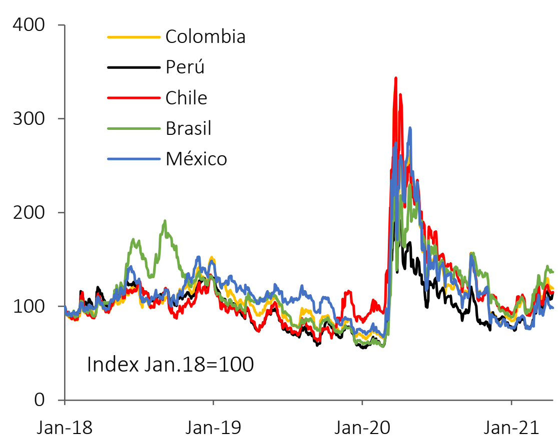
China has continued to present promising activity figures (February's industrial production: 35.2% vs 32.2% anticipated; commerce sales: 33.8% vs 32%; March's services PMI: 56.3 vs 52 expected, the highest figure since November 2020), in a context where the pandemic has remained under control. March's import figures surprised on the upside (38.1% YoY vs 24.4% expected), demonstrating the strength of internal demand. In days to come, the GDP of the first quarter will be known, where the market anticipates 18.5% annual progress (6.5% in 4Q20), manifesting the low comparison bases due to the pandemic's emergence in that country.

The rise in Brazil's reference rate answers to intense inflationary pressures.



Source: Bloomberg and Santander

Risk premiums in the region regain their upward trend.



Source: Bloomberg and Santander

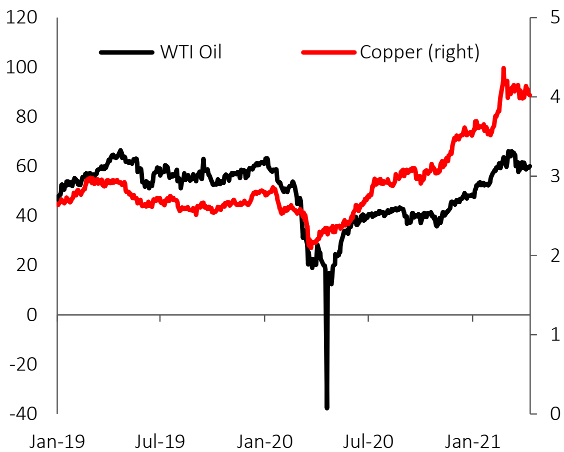
In Latin America, the pandemic has reeled back with a substantial rise in cases in various countries. Notwithstanding that the year's growth prospects have improved at the margin, recovery risks remain very high due to the lagging of the North American economy. In Brazil's case, the Central Bank's concern over the acceleration in inflation drove it to raise the Selic rate to 75 bps in March, over the expected 50 bps. Furthermore, it introduced a hawkish view, pointing towards a possible new withdrawal in equal measure in their next meeting on the 5th of May.

Commodities price tend to settle down at doubts regarding demand.

The prices of fuel and copper have both interrupted their acute rising trend exhibited until February and have tended to stabilize during the last weeks. In both cases, the new waves of infection have generated doubts over the demand's evolution in months to come, manifested in a rebound of inventories in the price of copper. In turn, OPEC agreed to moderately increase their crude oil production, which would have also affected its price.

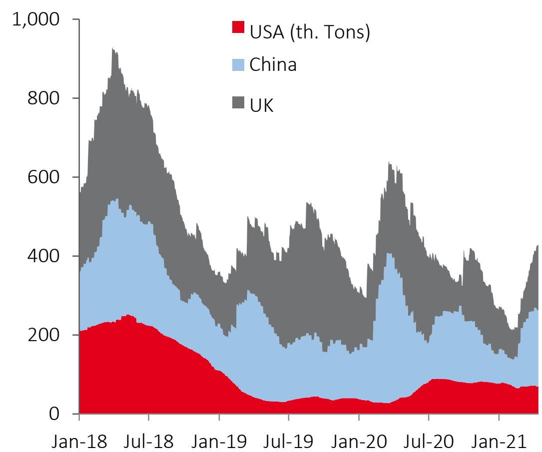
Though we anticipate that the offer of both commodities will remain relatively narrow- which will provide prices with some support-, in the case of copper, a moderate revision into values more consistent with its fundamentals should take place in the medium term. With this, figures would **end the year under US$4 per pound.**

Crude oil and copper prices halt their upwards trend



Source: Bloomberg and Santander

Copper inventories recover



Source: Bloomberg and Santander

The International Monetary Fund is concerned over the pandemic's heterogeneous effects

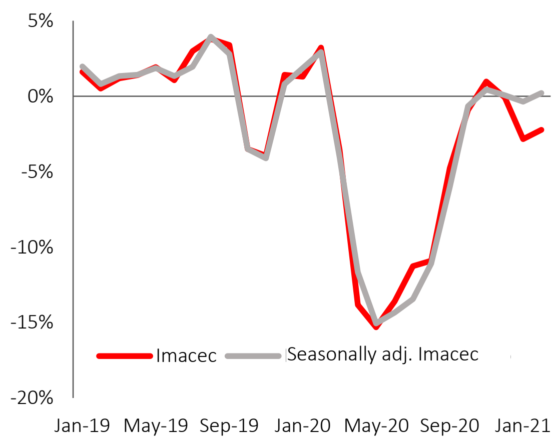
Beyond the upward revision on the year's growth prospects, the IMF, in the different reports presented in the Spring meetings, underlined the dissimilar effects the pandemic has had among countries and within them. According to the international organization, this situation could have implications for the short-term recovery and long-term repercussions. It also highlighted that efforts in public policies must remain, focusing on measures supporting health and fiscal aid to households with immediacy and as long as the sanitary crisis continues. Then, once the pandemic is overcome, they should centre on supporting investment and productivity. In a scenario with high public debt levels already, additional fiscal support should be sustained through higher taxing and efficient expenditure.

Among the recovery risks, they pointed towards a possible tightening of financial conditions once the US initiates its monetary stimulus withdrawal process. The example of 2013's *taper tantrum*, where an abrupt increment in long rates created a substantial impact in economies recovering from the financial crisis, allows sizing the severe effects this could entail. For these reasons, they instructed that an eventual process of raising rates should be gradual and underpinned by adequate communication.

Growth prospects for Chile are revised upwards, but a new wave of contagion sows doubts.

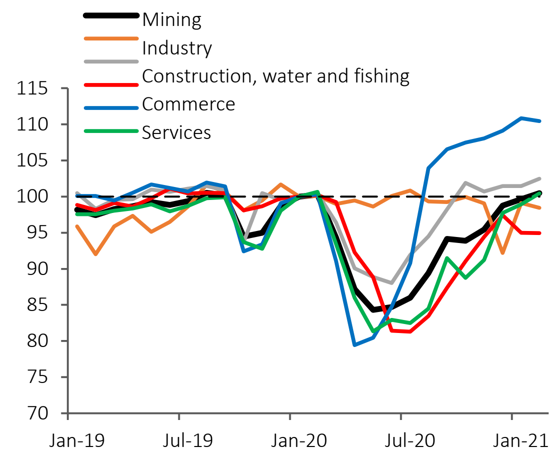
February's Imacec showed that the economy continued to recover during the summer and reached the levels before the pandemic (Imacec: -2.2% YoY; non-seasonal Imacec: 0.2% YoY). The rise in services and manufacturing stands out, alongside commerce that remained high, still favoured by the liquidity injections that household received through the pension fund withdrawals.

The non-seasonal Imacec regained the loss that took place in the pandemic.



Source: BCCh and Santander

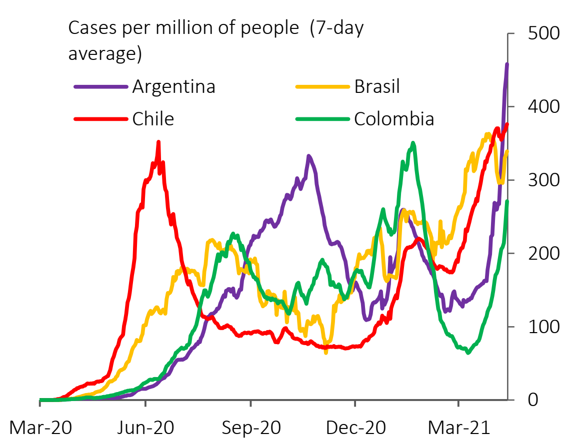
Ample heterogeneity is observed among sectors



Non-seasonal series (Jan.20 = 100)
Source: BCCh and Santander

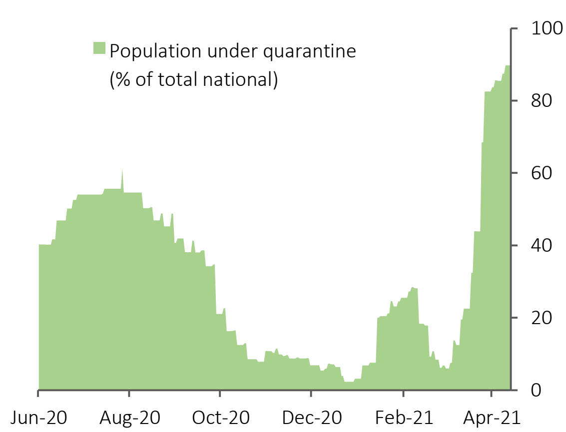
Nevertheless, just like other countries in the region, there has been a significant resurgence of Covid infections since late February, and a new maximum level of 8,000 daily cases was reached at the beginning of April. The vaccination process has continued at a high pace, but there has been a moderation in the rollout speed, particularly in the case of people receiving their first dose. Overall, as of the date this report was issued, close to 7.5 million people had been vaccinated, of which 4.6% had their two doses already.

Chile and other countries in the region face a new contagion wave



Source: Our World in Data and Santander

As of the most recent, communes under lockdown represented 90% of the population



Source: Santander based on the Ministry of Health

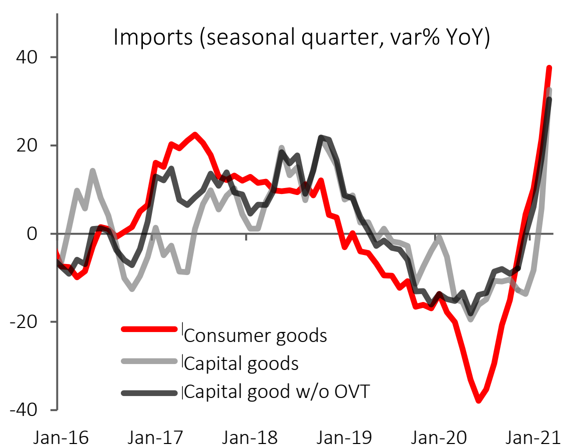
In this context, we estimate that activity in March suffered the first dents of this new wave of contagion, particularly during the month's second half when more than 40% of the population was placed under Phase 1. This situation led to the freezing of activities and reduced mobility, though at significantly lower levels than last year when the pandemic began.

Conversely, several of the month's indicators manifested an important buoyancy: new car sales accelerated (32.7% mOm); business confidence once again climbed (total IMCE: 55.9; IMCE sans mining: 56.8); imports reached their highest figures since 2012 and grew to record levels (56.1% YoY), and exports completed seven months with extensions in the double digits (29.3% YoY). **With this, we estimate that March's Imacec had a drop close to 2% over February, considerably less than the contraction observed in March 2020. In turn, annual growth would have steepened up to a 3% to 4% range.**

On another note, the confinement measures intensifying will be felt with more strength in April's activity. Throughout April so far, mobility has decreased substantially, and electric generation contracted. We estimate that April's Imacec will display a retreat ranging between 4%and 5% over March, while its annual growth will be close to 10% thanks to the low comparison bases.

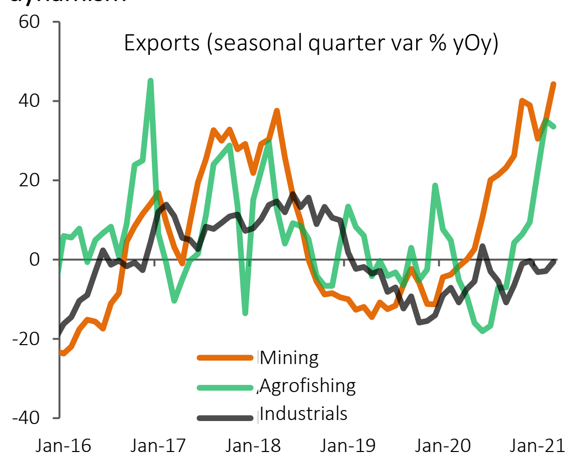
In our main scenario, we assume the economy will keep operating at a low capacity until the third quarter. At this moment, a gradual lockdown easing should start as the pandemic retreats. With this, we project the GDP to have a 6% to 7% expansion in 2021, similar to what we cast on our previous report and in line with recent prospects within the Central Bank's Monetary Policy Report for March.

Imports reach historical levels



Source: BCCh and Santander

Mining and Agriculture exports maintain a high dynamism

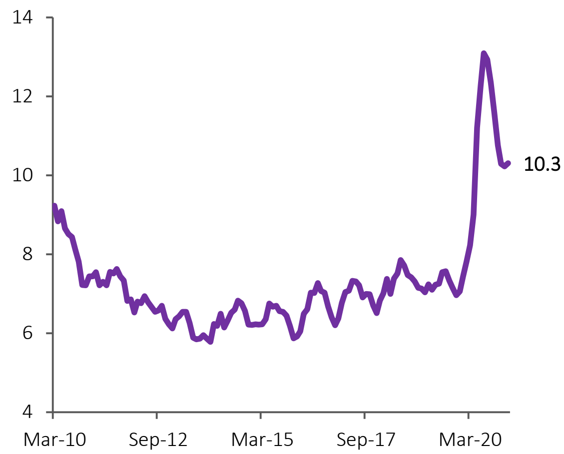


Source: BCCh and Santander

The unemployment rate remains high

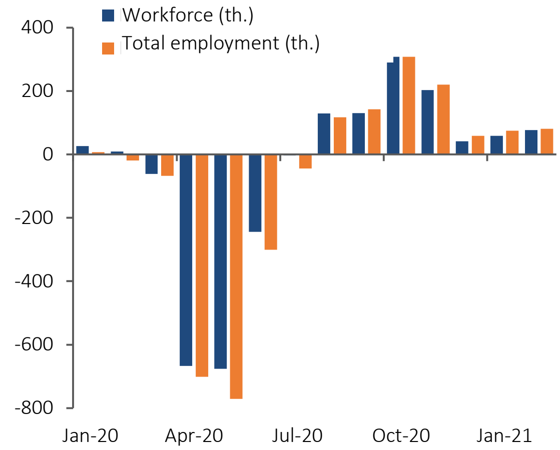
After a significant recovery during 2020's second half, employment creation has tended to stagnate- between August and November, it amounted to 200 thousand people on average, while it dropped to 70 thousand monthly between December and February- and the unemployment rate has remained above 10%. This, regardless of a participation rate quite below its historical averages. With this, during the moving quarter ended in February, there were around 900 thousand less employed than in 2020.

Unemployment rate settles above 10%



Source: INE and Santander

The labour market recovery has slowed down in the last few months

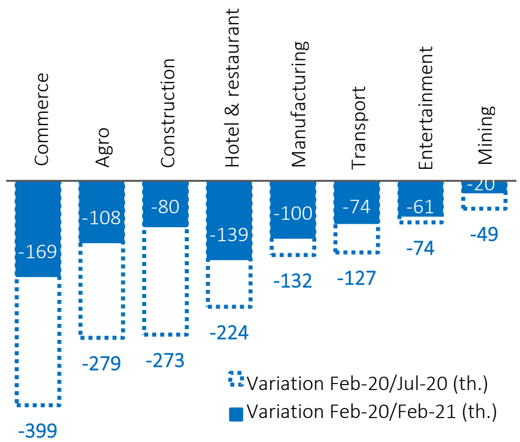


Note: Non-seasonal figures
Source: INE and Santander

Some sectors have had a relevant recovery in job numbers, but they remain well below their reality before the pandemic, as commerce and manufacturing. Others, where social interaction is more necessary, such as hotels and restaurants, entertainment and transports, remain proportionally quite behind.

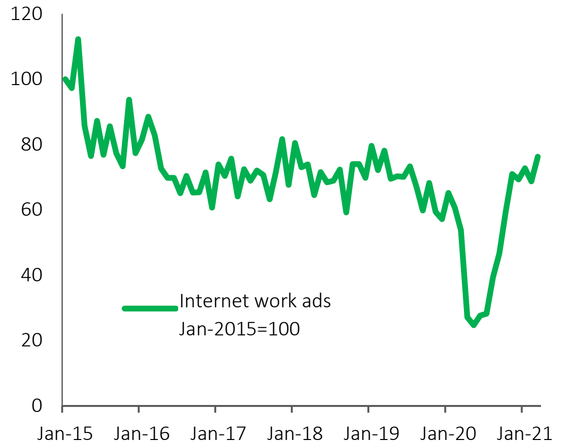
In times to come, some indicators point towards a slightly faster recovery of employment. In particular, job notices have risen quite prominently and have reached their peak in two years, which indicates a more dynamic demand for work. Nevertheless, in the short term, new restrictions to mobility will lead to further job destruction and a rise in the unemployment rate. As long as the social distancing measures last, policies to promote manpower labour hiring will have a scarce effect. These should be vigorously renewed once the sanitary conditions allow further openness.

Sectors hit hardest by the social distancing are the ones with more significant gaps



Source: INE and Santander

Job notices on the Internet reach their maximum level in two years



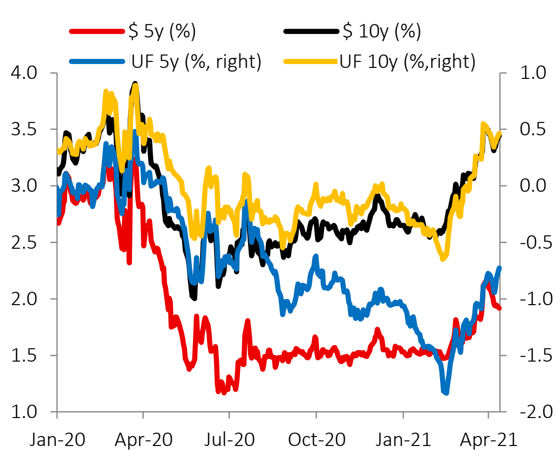
Source: BCCh and Santander

The acceleration of contagion impacts local markets

Since our last report, the price of financial assets has been affected, on the one hand, by greater optimism within international markets and, on the other, by the contagion's acceleration within the country.

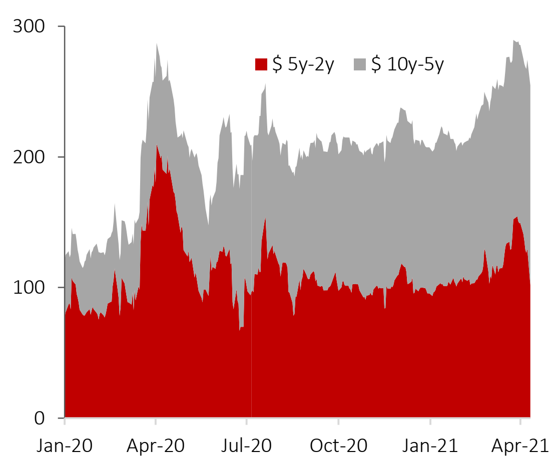
Just like the main markets, the local stock has displayed an increment in April thus far (+1.1%), though more moderate. The positive results from the major companies comprising the IPSA (Selective Price Index Shares) and the higher net purchasing of institutional investors tended to boost it, offset partly by setbacks of those assets sensitive to the new sanitary restrictions.

New contagion wave halts the long-term rates rise



Source: RiskAmerica and Santander

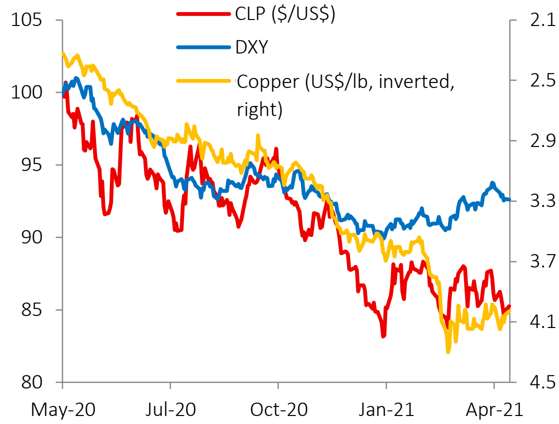
An important steepness is maintained in the yield curve



Source: RiskAmerica and Santander

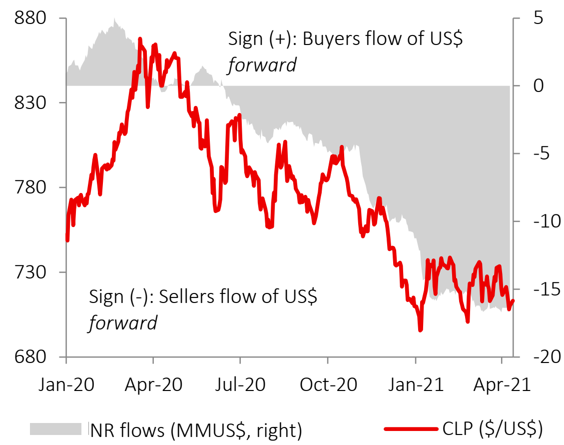
The US dollar behaved with relative stability in the month, fluctuating around $720, in a context where the copper price has remained above US$4 per pound. However, in recent days, the currency has tended to appreciate once again, in line with the global dollar's weakness. The selling pressure both from the Ministry of Finance—which elevated the maximum number of daily auctions from US$ 120 million during March to US$ 150 million in April-, and from the forward position of non-resident counterparts, whose daily flow has continued to amount around the US$ 4,100 million.

The Exchange rate has fluctuated around a stable value



Source: Reuters and Santander

The elevated selling position of dollars by a non-resident is maintained.



Source: Reuters, Banco Central and Santander

We continue to estimate the dollar will have a moderate climbing trend in times to come, closing the year at levels around $750. This is because we expect the price of copper to normalize, thus ending the year below the US$4 per pound, along with a global appreciation of the dollar produced by the improvement of the US economic outlook.

Central Bank will maintain its MPR at 0.5% until early 2022

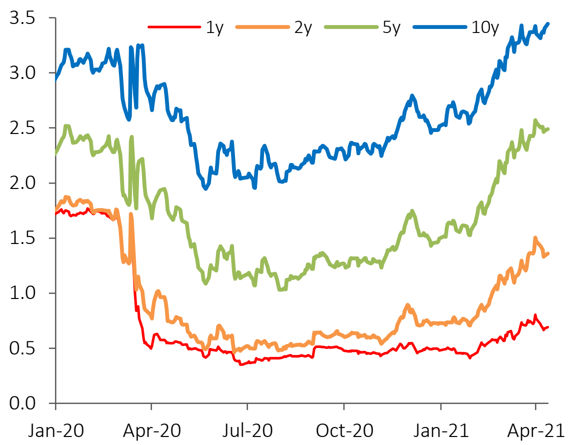
By the end of March, the Central Bank published its first Monetary Policy Report of the year, where it increased the growth projections of the economy to a 6% to 7% range (5.5% to 6.5% in December 2020), and of the total inflation (underlying inflation was revised downwards). This, in tandem with the increase of the highest boundary of the MPR corridor, was interpreted as a validation of the climbing trend that the swap rates had displayed since February, giving rise to additional increments.

The new wave of contagion in the country and the moderation in the international interest rates rising have added a note of caution. Compounded to the statements given by the President of the Central Bank in the tone of seeing unlikely the monetary withdrawal this year, have led to drops of eight to 20 bps in the one to five-year swap rates since early April. Overall, these still point to the possibility of seeing the first increment in the Monetary Policy Rate (MPR) towards the end of the year.

However, just as we noted in our Market Vision Report, we estimate that the MPR will remain at the current levels for the rest of the year, to begin a gradual rise only in early 2022. The latter is due to the elevated capacity gaps still present in the labour market, which will maintain medium-term inflationary pressures at low levels, and the high risks still present in the economy, both concerning the sanitary situation and the balance sheets' state of companies.

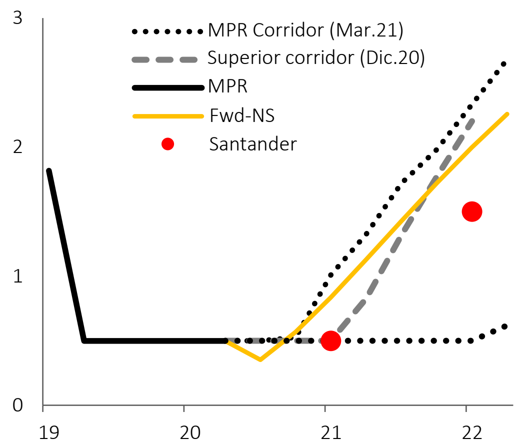
This circumstance justifies the waiting strategy of the monetary authority. If the Council deems conditions to withdraw the stimulus are mature enough in time, there is always the possibility to proceed with more aggressive rate increments. Contrarywise, if the rising process is initiated at the incorrect time, there is a risk of affecting its recovery.

Swap rates under five years halt their climb in April



Source: Reuters and Santander

We estimate the MPR will remain at 0.5% until early 2022

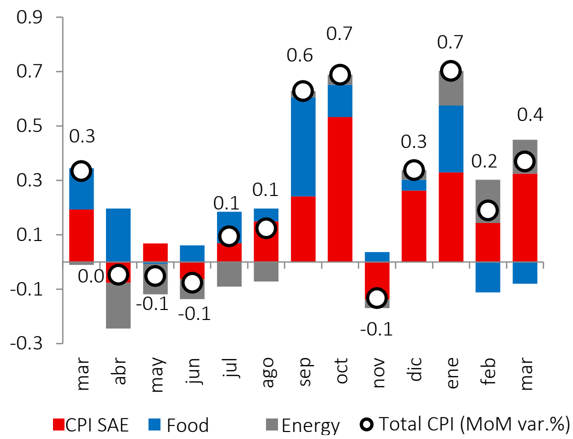


Source: Reuters, BCCh and Santander

The effects of the liquidity shock on prices dissipate

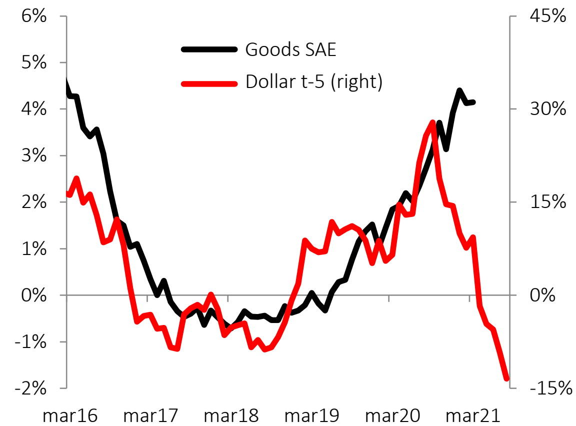
March's CPI (0.4%) was somewhat below market expectations (Santander: 0.5%; Bloomberg: 0.5%) with surprises focusing on the food and beverages division, which retreated 0.4% in the month. Therefore, the index's annual variation remained below the target (2.9%). The underlying inflation- measured in the CPI sans food and energy- had a relevant rise (0.5%) due to seasonal effects, but its annual variation remained around 2.5%, reflecting restricted inflationary pressures.

For the second month in a row, the CPI surprises downwards



Source: INE and Santander
SAE= sans food and energy

Appreciation of the currency in recent months will limit the underlying inflation.



Source: INE and Santander

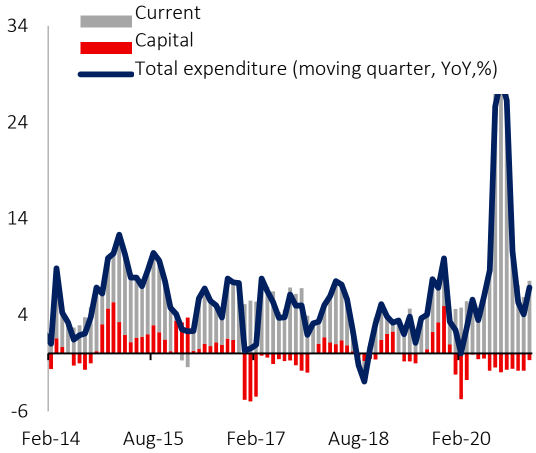
The negative surprise to March's CPI—which is added to the one in February—could be manifesting that the boost in prices due to liquidity injections perceived by households is beginning to diffuse. In the months to come, the new confinement measures will have a negative impact on the income of households. Notwithstanding, just as indicated by the Central Bank in their last Monetary Policy Report, there are still abundant resources pooled in liquid assets that could be channelled into consumption. This consideration is compounded to the new fiscal measures supporting families (Middle-class bond, Emergency Family Income, Solidarity Loan) and a possible third pension-fund withdrawal which will provide significant sustenance to aggregate demand. Regardless, the offer will be restricted by mobility. This could create pressure on the rising trends of some prices, though a higher percentage of assignments in INE calculations should moderate possible increments to the CPI figures.

Therefore, we maintain our vision that the CPI's annual variation will temporarily rebound towards the middle of the year- which could position it above 4% even due to low comparison bases-, but then we would observe a decline, ending 2021 slightly above 3%. In the medium term, the elevated number of capacity gaps still present in the labour market will maintain the low inflationary pressures.

Significant fiscal impulse continues

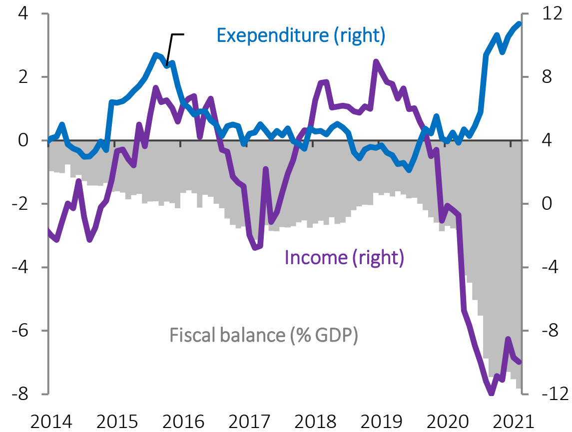
Though moderating slightly, fiscal expenditure's strong drive has continued during the year's first two months due to the Emergency Family Income and the Employment Subsidy (Total expenditure: 10.7% YoY; Subsidies and donations: 27.5% YoY). Incomes, in turn, continue to lag despite the elevated price of copper (-3.7% YoY), with drops to the social security contributions (-18%YoY) and lower taxing incomes (-1.1 YoY). With this, the fiscal deficit has continued to grow, reaching 7.9% of the GDP in the last twelve months.

Expenditure maintains high growth rates



Source: Dipres and Santander

In the last twelve months, the fiscal deficit has reached 7.9% of the GDP



Source: Dipres and Santander

Last week Congress approved the Emergency Family Income's extension—with payments in April, May and June, which would encompass up to 80% of lower incomes—and a new Middle-class bond, with similar conditions to those granted in 2020. The additional expense of these measures accrues US$ 5,400 million (1.8% of the GDP), which is an additional amount to the Covid Fund already included in the Budget Law.

As announced, the funding of the new measures will partly be covered by the higher copper incomes. According to our estimates, considering an average price of US$ 3.8 per pound for the year, the additional revenue over previous projections of the Public Finances Report (which considered an average price of US$3.5) would amount to US$1,500 million. In this light, we project the fiscal deficit to settle at around 4.5% of the GDP by the end of the year (vs the 3.3% estimate in the last PFR). Even though this implies a significant reduction to the 7.4% of the GDP deficit in 2020, the fiscal drive will remain high. Likewise, the Government's net debt will continue to escalate, ending the year at around 36% of the GDP.

Macroeconomic Projections

National Accounts	2014	2015	2016	2017	2018	2019	2020	2021 P	2022 P
GDP (real var. % YoY)	1.8	2.3	1.7	1.2	3.7	0.9	-5.8	6.0/7.0	3.0/4.0
Internal demand (real var. % YoY)	-0.5	2.5	1.8	2.9	4.5	1.0	-9.1	9.3	5.2
Total consumption (real var. % YoY)	2.9	2.6	3.5	3.6	3.7	0.8	-6.9	7.5	4.2
Private consumption (real var. % YoY)	2.7	2.1	2.7	3.4	3.8	1.0	-7.5	8.2	4.4
Public consumption (real var. % YoY)	3.8	4.8	7.2	4.6	3.3	-0.2	-3.9	5.1	2.9
Gross fixed capital formation. (real var. % YoY)	-4.8	-0.3	-1.3	-3.1	5.1	4.4	-11.5	12.5	3.0
Exports (real var. % YoY)	0.3	-1.7	0.5	-1.5	5.3	-2.6	-1.0	2.9	0.5
Imports (real var. % YoY)	-6.5	-1.1	0.9	4.6	8.1	-2.4	-12.7	12.0	7.2
GDP (US$ billions)	260.6	244.3	250.6	277.1	298.9	282.7	255	300	307
GDP per capita (US$ thousands)	14.6	13.6	13.8	15.0	15.9	14.8	13.0	15.3	15.5
Population (millions)	17.8	18.0	18.2	18.4	18.8	19.1	19.5	19.7	19.7

Payment Balance	2014	2015	2016	2017	2018	2019	2020	2021 P	2022 P
Trade balance (US$ billions)	6.5	3.4	4.9	7.4	4.6	4.2	16.8	14.5	8.5
Exports (US$ billions)	75.1	62.0	60.7	68.8	75.2	69.9	71.7	82.5	78.5
Imports (US$ billions)	68.6	58.6	55.9	61.4	70.6	65.7	54.9	68.0	70.0
Current account (US$ billions)	-5.2	-5.7	-5.0	-6.4	-9.2	-10.5	3.4	-8.6	-9.1
Current account (GDP%)	-2.0	-2.4	-2.0	-2.3	-3.1	-3.7	1.3	-2.8	-3.0
Price of copper (annual average, US$/lbs.)	3.11	2.50	2.21	2.80	2.96	2.72	2.80	3.8	3.6
WTI oil price (annual average US$/bbl.)	93.1	48.7	43.2	50.9	64.8	57.0	39.0	57	60

Money and Exchange Market	2014	2015	2016	2017	2018	2019	2020	2021 P	2022 P
CPI Inflation (var. YoY, % by December)	4.6	4.4	2.7	2.3	2.6	3.0	3.0	3.3	3.0
CPI Inflation (var. YoY, average %)	4.7	4.3	3.8	2.2	2.4	2.3	3.0	3.5	2.9
CPI sans food and fuel inflation (IPC-SAE) (var. YoY, % by December)	4.3	4.7	2.8	1.9	2.3	2.5	2.6	2.5	2.7
CLP/US$ exchange rate (year's exercise)	607	707	667	615	696	745	711	750	760
CLP/US$ exchange rate (year average)	570	654	677	649	640	703	792	730	755
Monetary policy rate (year's exercise, %)	3.00	3.50	3.50	2.50	2.75	1.75	0.5	0.5	1.5
Monetary policy rate (%, year average)	3.75	3.06	3.5	2.7	2.52	2.48	0.8	0.5	0.8

Fiscal Policy	2014	2015	2016	2017	2018	2019	2020	2021 P	2022 P
Public expenditure (real var. % YoY)	6.4	7.4	3.8	4.8	3.5	4.1	11.0	5.0	2.5
Central Government balance (% GDP)	-1.6	-2.2	-2.7	-2.8	-1.6	-2.8	-7.4	-4.5	-3.5
Central Gov. gross debt (US$ billions)	36.6	39.0	53.4	68.9	70.2	74.4	91.6	98.0	110.0

Source: BCCh, INE and Santander.

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