March data shows first effects of thepandemia on actual activity

Topics of the week

- The first quarter GDP in the US and in Euro Zone presented strong contractions. Still, markets are bullish on news of a possible treatment for COVID-19.
- The Federal Reserve (Fed) warned that new stimulus measures will be necessary, while the European Central Bank (ECB) announced a new line of credit for the pandemic (PELTRO).
- Data from Chile reflects a strong drop in trade and services during March. Manufacturing and mining, meanwhile, are more resilient. We estimate that Imacec last month would have had no annual variation.
- Unemployment at the local level continues to rise, accounted for not only by the effect of the pandemic, but also for the lagged impact of the social outbreak

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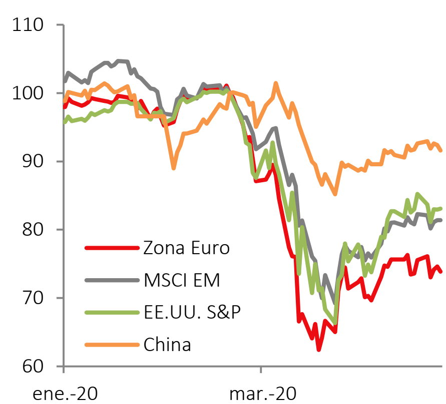
US activity data and Europe show the significant impact of the pandemic, but markets close on the upside due to reopening plans and news of treatments for COVID-19

The first Quarter GDP for the US (-4.8% q /q annualized) and the Euro Zone (-3.3% y / y) showed the strong impact of the pandemic on real activity. However, the stabilization of new cases and plans to reopen the economies of Italy, France and Spain, along with some US states boosted global stock markets. This trend was also reinforced by a new clinical study from Gilead Sciences, which showed that Remdesivir helped patients recover faster. Along these same lines, the Trump administration would be organizing the "Operation Warp Speed" program, which would bring together private pharmaceutical companies and government agencies to try to reduce the development time of a vaccine.

The dollar fell globally, while rates showed mixed movements. For its part, the price of oil continued to be volatile and at the close of this report it was at a level above US $ 17 a barrel, driven by production cuts announced by Norway.

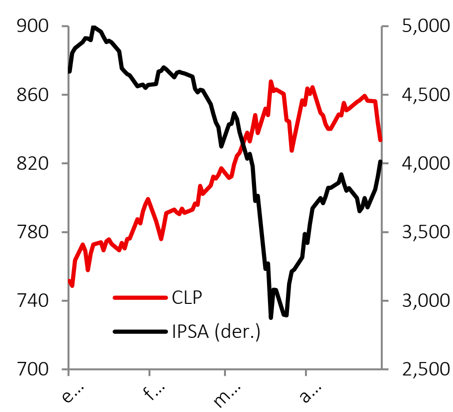
In this context, local assets followed the international trend. The IPSA increased almost 8%, in line with the performance of its peers in the region. Meanwhile, the Peso appreciated more than 2%, in a context where the value of copper recovered.

Graph 1: International exchange (Index 100 = Feb-20)



Source: Bloomberg and Santander

Graph 2: Local financial assets ($/US$, Index)

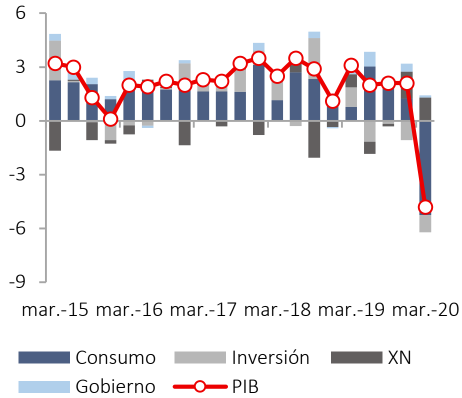
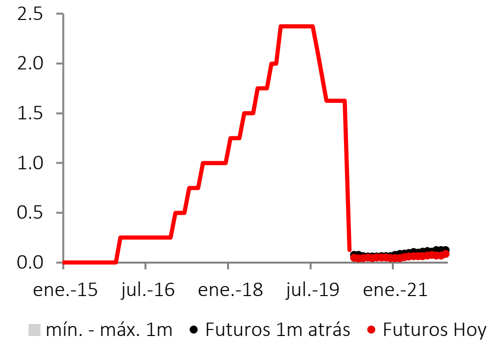


Source: Bloomberg and Santander

The Federal Reserve (Fed), in its meeting in April, kept its reference rate in the range 0% and 0.25% and it announced unconventional monetary policy measures. Committee members noted that the pandemic poses considerable risks in the medium term. In its statement, the Fed maintained its forward guidance from the last meeting and pointed out that the rate will remain at the current level until it ensures that the economy is on track to achieve its price stability and employment objectives.

Fed President Jerome Powell said at the press conference that further monetary and fiscal action will be necessary to ensure a robust recovery. He also pointed out that both consumption, employment and GDP are going to rebound and that it will take time for them to return to pre-pandemic levels.

Graph 3: US GDP (%)	Graph 4: Fed Fund Rate Expectations (%)

	
Source: Bloomberg and Santander	Source: Reuters and Santander

Meanwhile, the European Central Bank maintained its benchmark rates. In addition, it announced new long-term pandemic emergency financing operations (PELTRO) to support the credit channel and reduced the interest rate of TLTRO III by 50bp.

In China, the manufacturing Caixin and Official PMIs in late April fell to 49.4 and 50.8 points, respectively, highlighting the significant contraction in new export orders.

Data from Chile reflects a strong drop in trade and services during March. Manufacturing and mining are more resilient

Sectoral indicators showed a drop in retail sales of 14.9% YoY, higher than expected (Santander: -11%; Bloomberg: -6.8%) and as observed last October. Services also experienced substantial setbacks, particularly activities related to leisure and hospitality. In contrast, supermarket sales expanded 7.1% YoY, due to the supply needs of people during the quarantine. Meanwhile, although industrial production expanded 0.8% y / y and was above the projected (Santander: -0.6%; Bloomberg: -3.6%), it lost momentum (-1% seasonally adjusted m / m). In any case, the industrial slowdown is moderate.

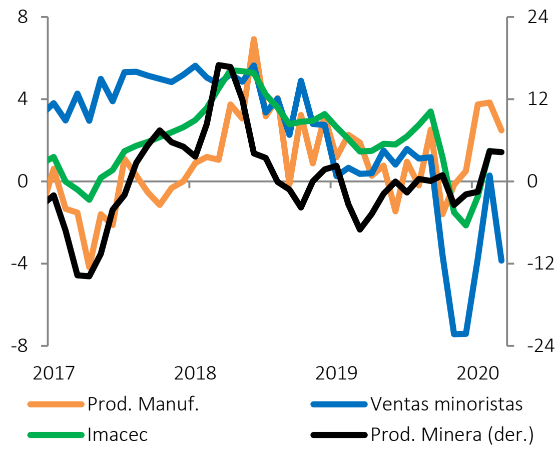
Manufacturing grew 0.6% y / y, above expectations (Santander: -2%; Bloomberg: -3%), highlighting the production of methanol, due to a level effect that will continue for a few more months-, a sharp rise in pharmaceuticals and papermaking. Mining also performed well and increased 2.3% YoY, showing its resilience, also favored by a low comparison base. On the contrary, the food division contracted due to lower domestic demand.

Con estos resultados sectoriales, **esperamos que el Imacec tenga una variación anual nula en marzo.** Con ello, el PIB del primer trimestre tendría una expansión en torno a 1,2%. En abril se observará una contracción interanual significativa.

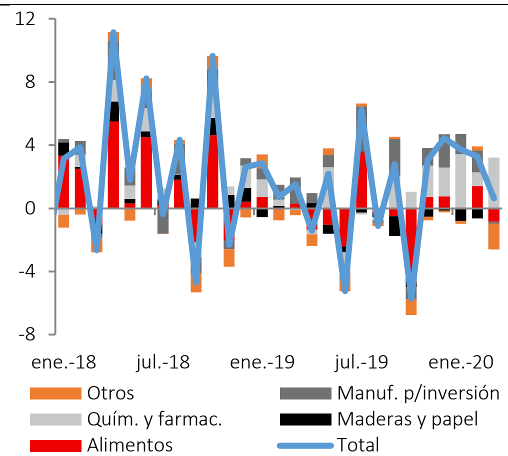
With these sectoral results, **we expect the Imacec to have no annual variation in March**. With this, the GDP for the first quarter would have an expansion of around 1.2%. A significant year-on-year contraction will be observed in April.

Graph 5: Imacec and sector indicators (annual var %, moving quarter)

Graph 6: Manufacturing production (anual var. %)



Source: Bloomberg and Santander



Source: Santander base don ENAP and Ministry of FInance

Local unemployment rate reaches its highest level since mid-2010

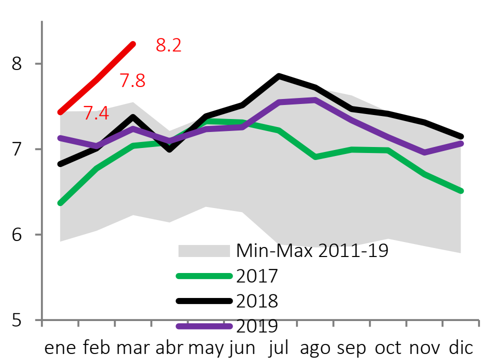
The unemployment rate for the quarter ended in March (8.2%) was 1 pp above the rate for the same period in 2019, reaching its highest level since August 2010. Employment slowed, with growth of 0.7% y / y (1.7% the previous month), while the workforce expanded 1.8%.

Although in part these figures can be explained by the impact that containment measures have had on productive activities, it is also relevant to consider that this publication captures the entire first quarter of the year, with the effects of the social outbreak in the labor market.

By categories, salaried employment grew 2.9%, driven by both the public sector (6.1% y / y) and the private sector (2.2% y / y). Meanwhile, the categories of self-employed and employer contracted, with a joint variation of -3.7%.

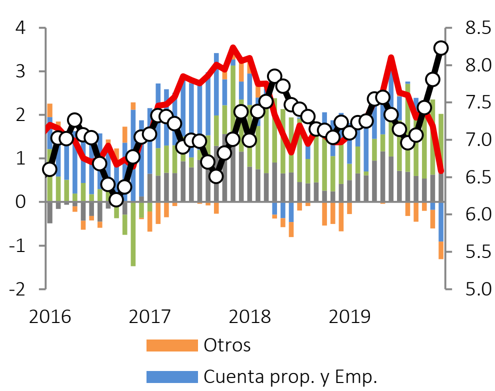
The INE published a technical report where they give an account of the measures they have taken to apply the survey in the context of the health crisis. Although the response rate fell in March, it concludes that this would not have contributed a significant bias to the figures released today. The document also clarifies that those workers who are suspended from the employment relationship, under the Employment Protection Law, will be counted as absent employees, treatment similar to that received by people on medical leave or on vacation.

Unemployment rate (%)



Fuente: INE y Santander

Unemployment rate and emloyment by category (annual var. %)



Fuente: INE y Santander

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