



# Economics Group

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## Chilean Economic Activity Improves in November 2017

*The monthly index of economic activity in Chile shot up a strong 0.7 percent sequentially and not annualized, up from a 0.2 percent drop in October while the year-earlier index rose 3.2 percent.*

### Chilean Economy Continues to Improve at the End of 2017

The Chilean economy recovered strength in November, according to the index of economic activity. The index, called IMACEC for its Spanish acronym, increased 0.7 percent after declining 0.2 percent sequentially in October. On a year-earlier basis, the index was up 3.2 percent after a 2.9 percent increase in the previous month. Probably the most positive information from this release was that the non-mining economic activity index surged 0.9 percent after declining 0.2 percent sequentially in October, not annualized. This was the strongest print for the non-mining economy since a similar month-over-month increase in August 2016. For the overall economy, the 3.2 percent year-earlier increase is the fastest print since February 2016.

Meanwhile, the mining economy continued to disappoint as it dropped 0.8 percent in the month after a 1.0 percent decline in October, sequentially and not annualized. This was the third consecutive month-over-month decline in the mining sector, which continues to be one of the most important sectors of the economy.

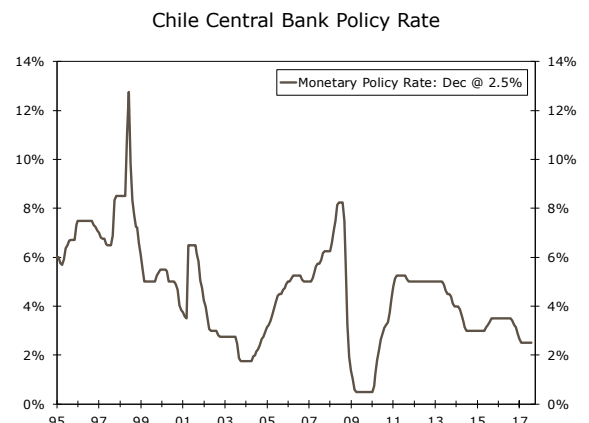
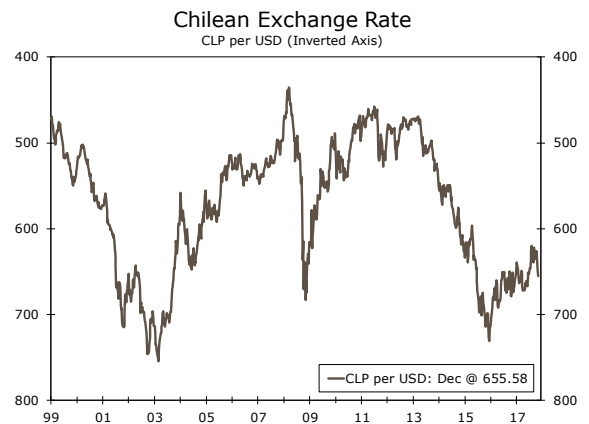
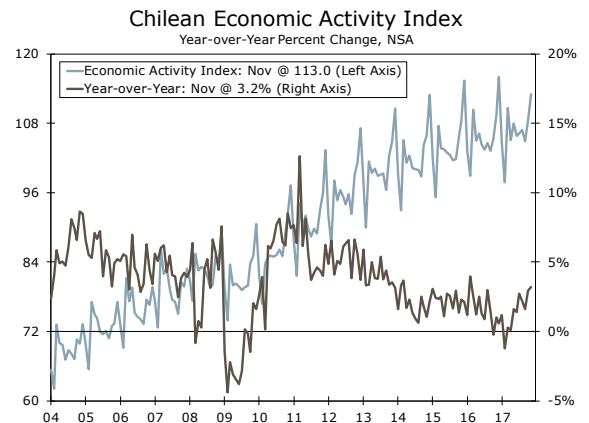
The non-mining economic activity index also increased 3.2 percent over a year earlier in November, while the mining activity index did so by 2.9 percent.

### Economy Poised to Continue to Expand

The Chilean economy is poised to continue to expand, albeit at a relatively slower rate than in the recent past. Copper production has continued to grow but the sector remains weak compared to the good old days when China was driving commodity prices and Chilean copper exports.

Furthermore, the surge in inflation that started in 2014 has abated and inflation was hovering at around 1.9 percent by November of last year after a high of 5.7 percent in October 2014. Thus, the Chilean central bank probably will stay on hold in terms of its policy rate, which it lowered to 2.5 percent in June 2017.

Meanwhile, the Chilean peso has weakened somewhat lately after appreciating since early 2016, something that will be carrying important weight in the minds of central bank members as they look at whether they need to lower interest rates further going forward. For now, we think the central bank will keep the benchmark interest rate at 2.5 percent, so it can figure out if the recent increase in inflation is something temporary or more permanent. Also, the fact that oil prices have increased during the past several months will likely add some time prior to another interest rate move. Furthermore, one could argue that the economy is on a strengthening path so monetary policymakers could take a break and wait for more certainty, specifically on the path of inflation.



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