



# Economics Group

**Eugenio J. Alemán, Senior Economist**  
[eugenio.j.aleman@wellsfargo.com](mailto:eugenio.j.aleman@wellsfargo.com) • (704) 410-3273

## Big Jump in Copper Output Drives Chilean Growth in Q1-2018

*Mining output was a very important factor in Chile's first quarter economic growth. However, the non-mining economy was also an important contributor to the country's economic performance during the quarter.*

### Copper Output Is Back, Chilean Economy is Back

The Chilean economy grew a more-than-expected 4.2 percent in Q1-2018, compared to a year earlier, and by a strong 1.2 percent sequentially after an upwardly revised Q4-2017 result, to 0.7 percent from 0.6 percent (top graph). Mining GDP surged 19.3 percent year over year and 0.7 percent sequentially, while non-mining GDP grew 3.1 percent year over year and 1.1 percent sequentially. Mining GDP represents about 9 to 10 percent of the economy and normally delivers strong multiplier effects across the economy. It is also true that the low base of comparison, that is, Q1-2017, was an important factor in the strength of mining output in Q1-2018. Mining output declined 17.4 percent in Q1-2017 versus a year earlier. Thus, the 19.3 percent increase in mining output in Q1-2018 was welcomed news to such an important sector of the economy.

Meanwhile, on the demand side, personal consumption expenditures increased 3.9 percent compared to a year earlier, while government consumption increased 2.7 percent. The even better news during Q1-2018 was that gross fixed capital formation increased by a strong 3.6 percent year over year (middle graph), with the ailing construction industry contributing for the first time in almost two years. Gross fixed capital formation in construction increased 2.0 percent year over year, the first year-earlier increase since Q1-2016.

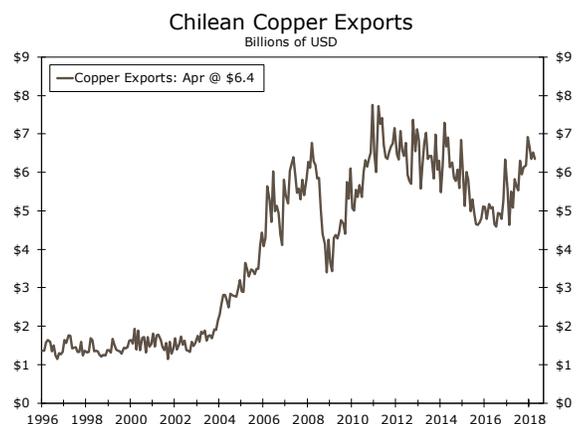
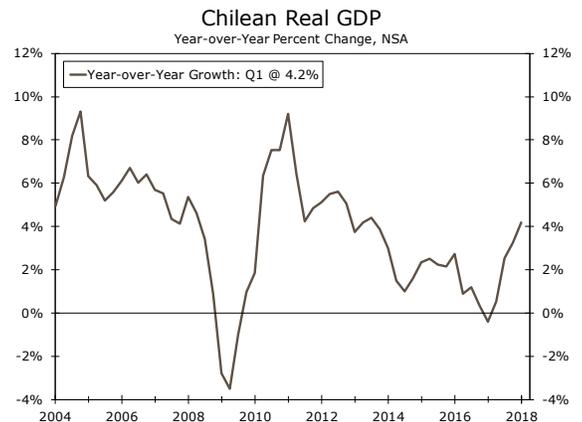
Clearly, higher copper output meant higher exports of goods and services, and this was reflected in the GDP numbers (bottom graph). Exports of goods and services surged 7.2 percent year over year, while imports of goods and services increased 6.1 percent. Chile remains a net importer of consumer as well as of capital goods used in production.

### Brighter Times Ahead on Better Expectations

Perhaps our only question is whether this recovery is sustainable. The short answer is, probably yes, but it will depend on the mining economy remaining strong during the rest of the year. The positive news is that global economic growth continues to push ahead and commodity prices have increased considerably over the past several months.

Furthermore, it is also clear that the presidential elections last year changed expectations on the ability of the country's economy to achieve higher growth rates in the future. That is, after several years of below average expectations, the change in command seems to have helped convince economic actors that higher growth rates are possible. However, it is clear that the Chilean economy depends on a continuation of global growth; thus, the whims of the Chilean economy will depend on the whims of the global economy.

For now, those whims point to better times ahead for the Chilean economy in a global economy trying to discern how to cope with the risks associated with discussions of a potential trade war.



## Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloría@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Harry Pershing	Economic Analyst	(704) 410-3034	harry.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

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