BOX III.1
IMPACT OF THE SOCIAL CRISIS ON BUSINESSES

The social crisis that erupted in Chile on 18 October is affecting many aspects of society. In the economy, there are both short- and medium-term impacts deriving from the disruptions in activity and the increased uncertainty regarding the country's future evolution. The ability to predict the magnitude and duration of these effects is limited by the absence of comparable episodes in the past. While the country has suffered sharp economic adjustments and sudden disruptions—such as an earthquake—in the past, the series of events unfolding today is quite different, even considering past episodes of protests or strikes. The international evidence on episodes of social turmoil shows that the economic implications can be limited if the duration is brief. However, the costs increase considerably when the events are more violent or longer-lasting (box V.1).

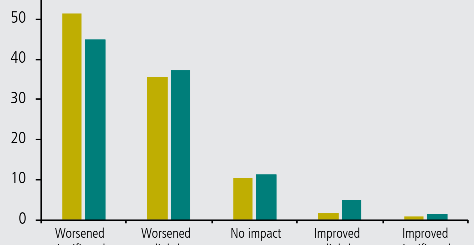
To support the evaluation of the state of the economy, the Central Bank carried out a special economic-financial data collection exercise. First, a survey was sent to the group of companies that are interviewed for the Business Perceptions Report (BPR). This sample includes nearly 1,400 firms and covers all regions and economic sectors in the country, as well as different size categories (small, medium, and large) in terms of sales volume and number of employees. The survey was carried out between 19 and 26 November, generating a total of 343 responses. The sector with the highest participation rate was wholesale and retail trade (21% of responses), while the Metropolitan region had the largest number of responses (24% of the total). The survey was complemented with telephone interviews of nearly 40 firms with a strong national and regional presence, to provide qualitative information for better interpreting the data obtained from the survey. Second, surveys were also sent to the financial institutions that participate in the BPR—mostly regional offices of banks—and the Bank Lending Survey (ECB). This box presents the main results of these surveys[1]/.

[1]/ Because the survey results were obtained from the sample of firms used for the BPR, they are not necessarily representative of the universe of firms in the country. Therefore, the results should be taken as a gauge and cannot be used for statistical inference, but rather provide a basis for analyzing general trends rather than point data.

Short-term effects on output and prices

The collected information confirms that the disruptions produced after 18 October had a negative impact on a large number of firms in October, and the effects lasted into November (figure III.9). Several of the firms contacted—in particular in trade and services—consider that the negative consequences will be worse in November than in October, given that in November performance was low throughout the month. To explain the drop in sales, the people surveyed emphasized factors such as the reduced flow of people, shorter business hours, and a perception that customers have become more cautious, especially in the services and consumer durables sectors. Respondents in other sectors, such as mining, industry, construction, and transport, indicated that the impact of the disruptions on production had eased in November, although they had had to take actions that were raising costs. These included a greater investment in security, the elimination of some work shifts, and the need to provide private transportation for their workers. They also emphasized that the more violent events had had a major impact, especially in terms of the stress it caused among workers. Respondents in construction-related sectors cited the drastic drop in sales in November and the scarce requests for job quotes, whether in person or via the web.

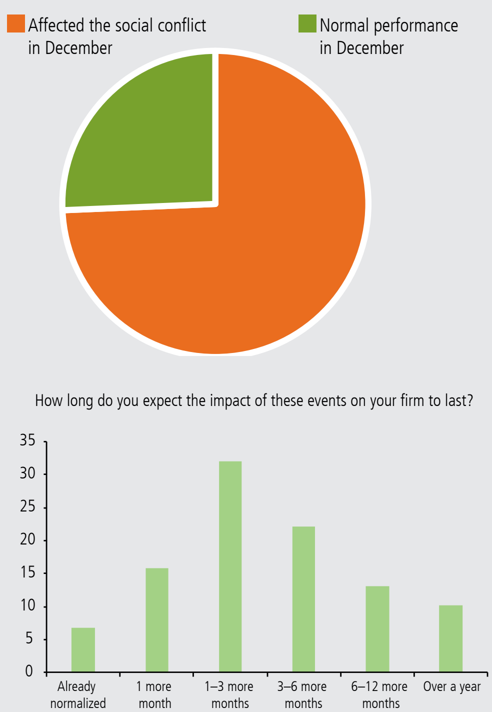
FIGURE III.9
Impact of the social crisis on business performance
(percent)



Source: Central Bank of Chile, business survey.

With regard to the longer-term effects, a large share of the people surveyed signaled that their business performance would be affected in December, while a little over half believe that the effects will continue for one to six months (figure III.10). Several companies in the trade sector emphasized the importance of Christmas sales and their concern that as of mid-November there were no signs of the seasonal bump in sales—which was the pattern in previous years. In several services—restaurants, hotels, and tourism—the scenario was described as dismal, with low sales and a poor outlook for the high season.

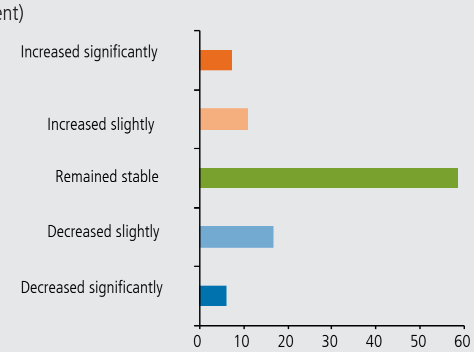
FIGURE III.10
Outlook for business performance
(percent)



Source: Central Bank of Chile, business survey.

In terms of prices, the majority of the respondents stated that their prices had not changed since the start of the social crisis. Among those who indicated that prices had, in fact, been adjusted, the share of increases was very similar to the share of decreases (figure III.11). All the companies interviewed agreed that their prices had not changed significantly, although in some cases—especially services—they mentioned discounts to boost demand. No one described price increases deriving from scarcity or disruptions in the distribution chain.

FIGURE III.11
Evolution of sales prices since the start of the social crisis
(percent)

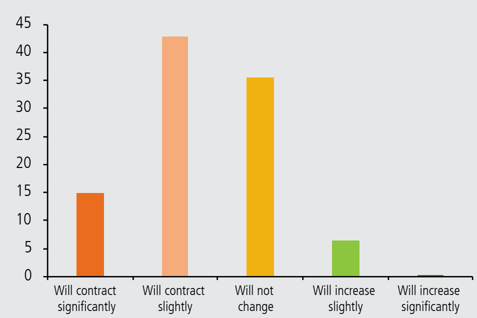


Source: Central Bank of Chile, business survey.

Labor market and investment

The companies interviewed expressed deep concern for the evolution of employment and investment. Several respondents signaled that they had had to laid off employees, that they were evaluating the need to adjust the size of their workforce, and/or that they knew of companies in their sector that have implemented or are going to implement such adjustments. Here again, those contacted in the trade and services sectors presented a particularly negative perspective. The survey results show that more than half of the respondents believe that their staff will be downsized in 2020, although most predict that the adjustment will be small. When asked about the reasons for the workforce adjustment, a large majority cited changes following 18 October (figure III.12).

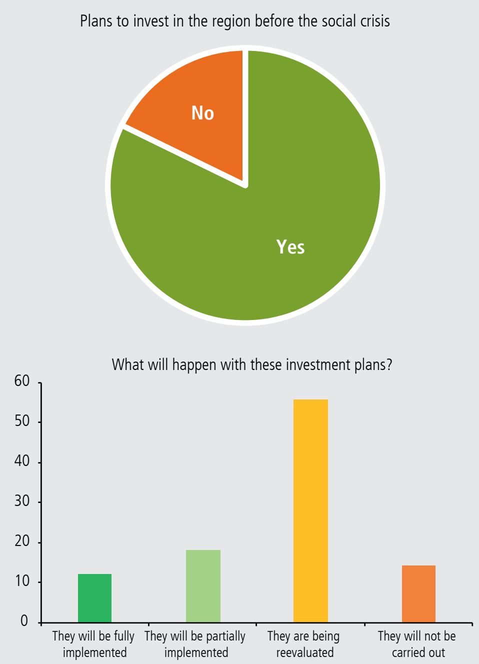
FIGURE III.12
Evolution of the workforce in 2020
(percent)



Source: Central Bank of Chile, business survey.

With regard to investment, all the people surveyed mentioned their concern for the current degree of uncertainty and its effect on investment. Several mentioned that investment projects that were already underway would be finished as planned, but there were doubts about projects that had not yet been started or were in the assessment stage. Respondents with a direct or indirect connection to large mining and industrial projects reported that these continued to be implemented without problems, beyond a disruption in operations in the days immediately following 18 October. In the real estate sector, a large set of projects are being reevaluated—mainly related to unsubsidized housing. Respondents also expressed concern about unemployment and a possible deterioration in debt conditions. Several emphasized the impact of the higher exchange rate on the value of imported machinery in pesos. Thus, a majority of those surveyed indicated that their 2020 investment plans were being revised (figure III.13). With regard to the repair or replacement of damages, the majority of those affected indicated that they would fully replace their damaged property and that it would happen this year.

FIGURE III.13
Investment expectations in 2020
(percent)



Source: Central Bank of Chile, business survey.

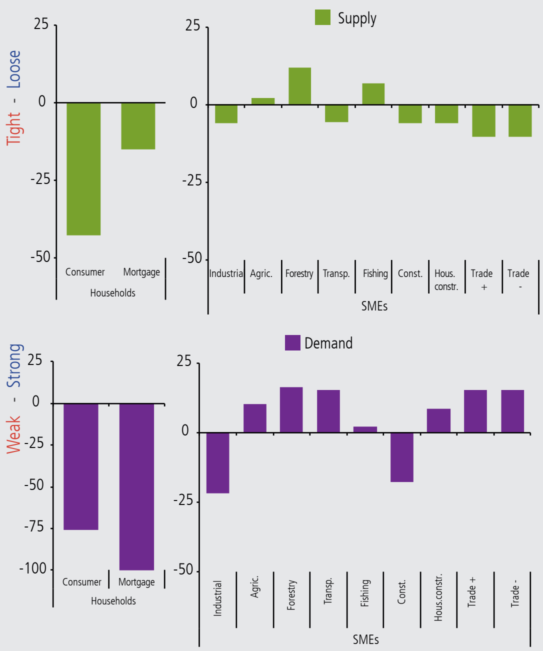
Financial conditions

With regard to financial conditions, the bank surveys indicated that credit demand has been significantly less dynamic since the start of the social crisis. The survey of regional offices showed a considerable deterioration in consumer and commercial loans and in leasing, in all cases with a majority of the responses indicating minor or major reductions in demand. The special survey of the institutions that participate in the Bank Lending Survey (BLS) revealed a perception of lower demand for mortgage loans. This is in line with interviews of companies in the housing sector, which reported a strong drop in sales and job quotes since mid-October.

In terms of payment conditions, a large share of the regional offices indicated that requests for renegotiation had increased either a little or a lot and that default had also risen. Those that participate in the BLS are expecting default to increase on consumer loans and on loans to smaller firms in the trade sector.

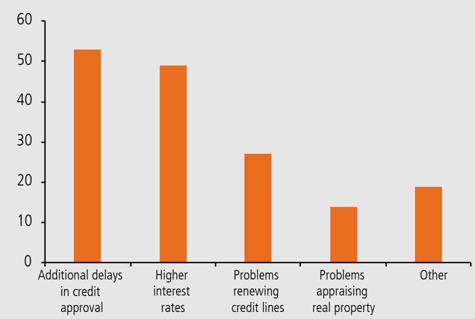
With regard to lending conditions, the special survey of the BLS sample pointed to tighter conditions for all types of credit, especially consumer and mortgage loans (figure III.14). By economic sector, the credit supply has tightened across the board, in particular in industry, construction, and trade. In the business survey, however, less than half of respondents reported less favorable financial conditions, citing delays in credit approval and an increase in interest rates as the main factors underlying this assessment (figure III.15).

FIGURE III.14
Perceptions of the credit market for the next 3 months
(percent)



Source: Central Bank of Chile, special round of the Bank Lending Survey.

FIGURE III.15
Reasons that financial conditions have become less favorable
(percent)



Source: Central Bank of Chile, business survey.

Conclusions

The information collected indicates that the effect of the social crisis on economic activity could be substantial in November—in some sectors greater than in October. Going forward, it is relatively certain that the crisis will also affect unemployment in December, and a large share of firms believe that the effects will last for six months or more. The surveys revealed immediate effects on employment, and a majority of firms project that the workforce will be reduced in 2020. There is also a large degree of uncertainty regarding investment plans for next year. With regard to financial conditions, respondents report a decline in the demand for credit, in particular for consumer, mortgage, and commercial loans. On the supply side, the adjustments are smaller in magnitude, including a longer credit approval process and higher interest rates. In any case, the lack of precedents for this phenomenon makes it difficult to predict the direction and magnitude of the effects on the economy's performance. The information that becomes known over the coming weeks will be especially important for determining the significance of the changes in the macroeconomic scenario and their effects on the evolution of inflation in the medium term.