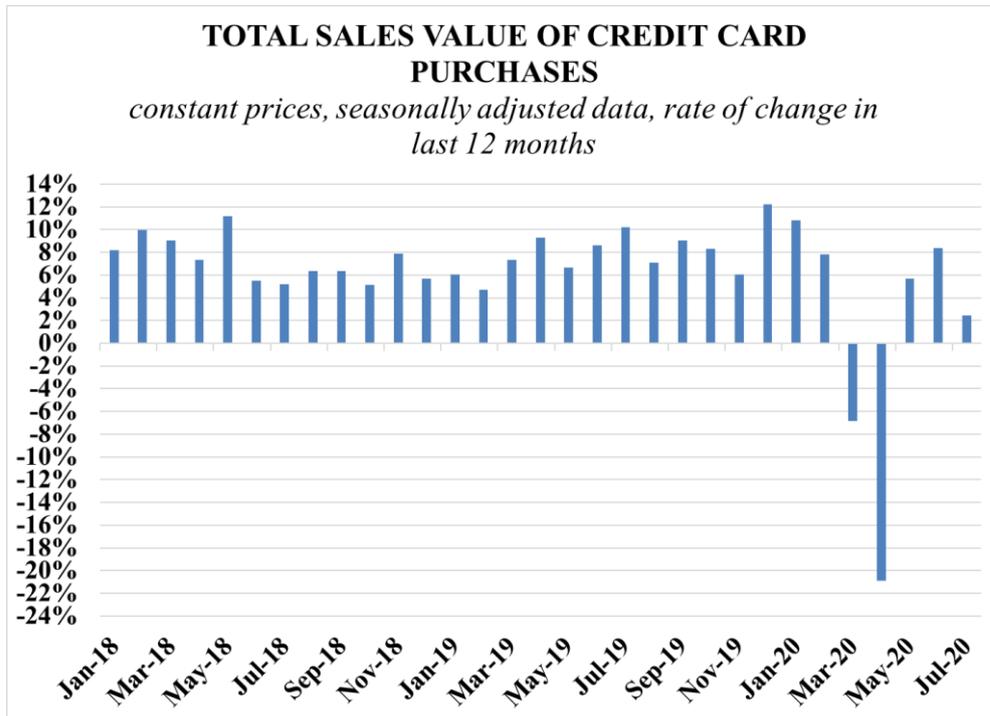


Leumi Economic Weekly

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The volume of credit card purchases fell in July, following increases in May-June

The volume of credit card purchases, based on Central Bureau of Statistics (CBS) data in fixed prices and adjusted for seasonality, declined 3.9% in July compared to June. This follows increases in May and June. When analyzing the annual rate, it turns out to equal 2.5% (see accompanying graph), while over the past two years, prior to the breakout of the coronavirus crisis, purchases increased by a greater degree, equaling 7%-8% per year. Thus, the volume of credit card purchases appears to have partially recovered over recent months, following the declines registered in March and April, reflecting the return of most of the sectors of the economy to activity. However, the current rates of increase are still far below the trend over recent years.

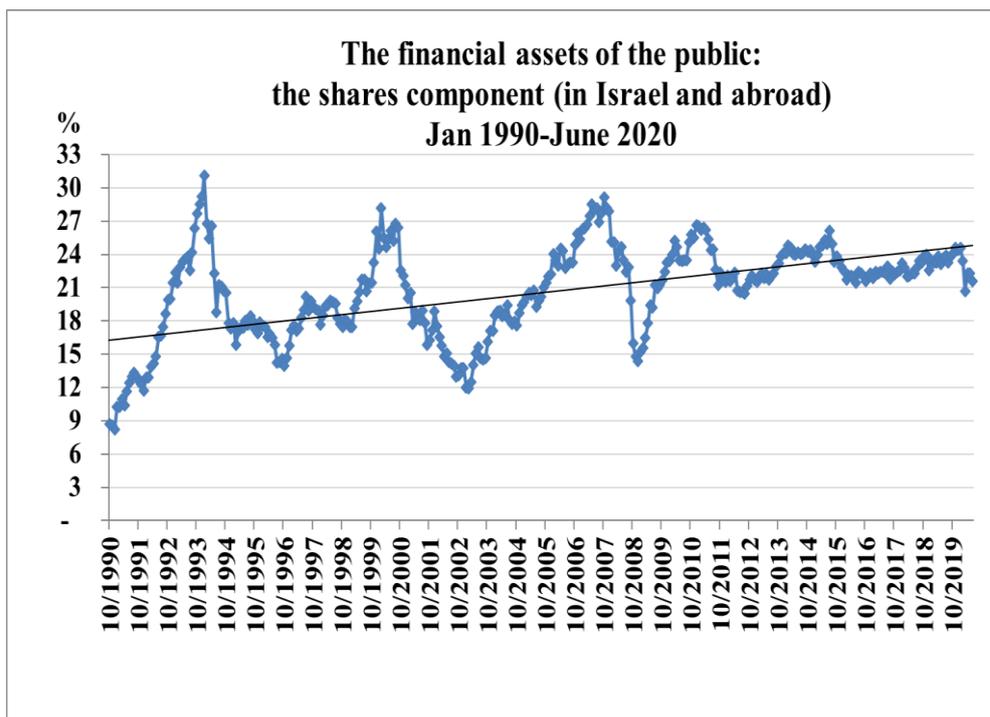


Additional evidence of the weakness in demand in the local economy, which is evident in the beginning of the third quarter, compared to the pre-crisis trends, can be found also in the bi-weekly data on the unemployment rate in the economy, published by the CBS. According to these data, the rate of unemployed in the economy (according to the standard definition) increased through the first half of August, reaching 5.9% of the workforce; however, according to the "broad" definition of the unemployment rate (that is to say, including not only all those who ceased working because of layoffs or the closure of

places of work since March 2020, but also all those employees temporarily absent from their places of work for an entire week due to reasons related to the coronavirus) reached 12.1% in the half of August, a level slightly below that from July. This amounts to more than 500,000 workers whose employment ceased. Consequently, as long as the trend of their return to work will not accelerate, it is hard to see a full return of domestic demand to its pre-crisis level. It will also be difficult for credit card usage to return to the high rates of increase that occurred over recent years.

The portfolio of financial assets held by the public narrowed by a moderate rate in the first half of the year

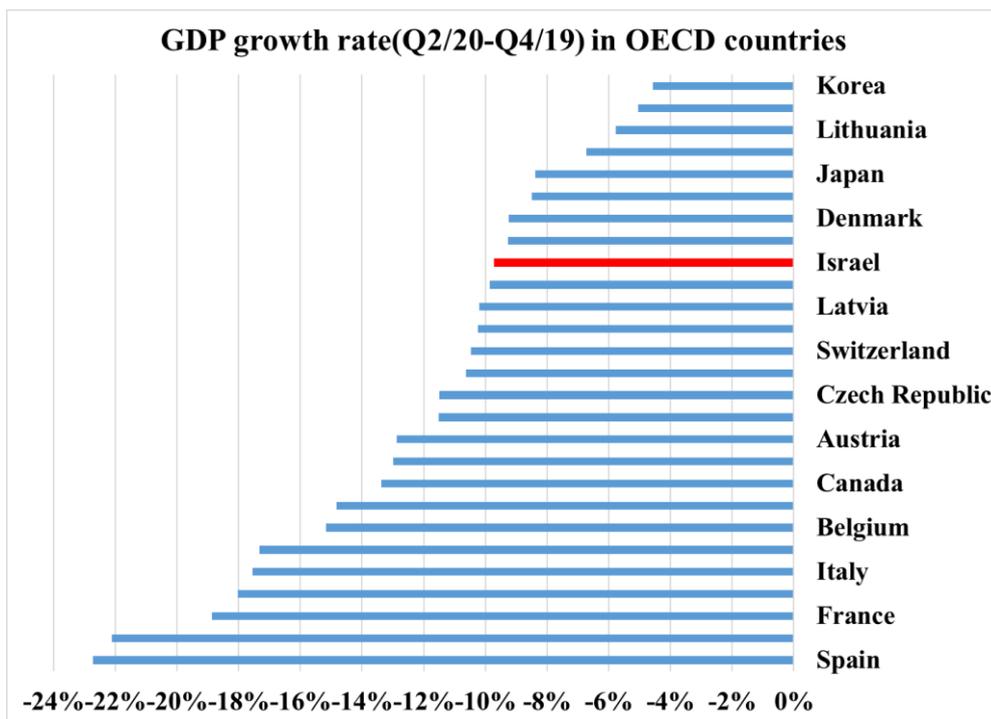
The portfolio of financial assets held by the public amounted to NIS 4,013bn at the end of June 2020, representing a 1.7% decline compared to December 2019. The bulk of the decline (6.2%) occurred in the first quarter of the year, especially in March, with the breakout of the pandemic and the consequences felt in the financial markets at the same time. In the second quarter of the year, there was a recovery that moderated the deterioration in the portfolio of financial assets. However, when analyzing the portfolio distribution and particularly its development over the course of time, the change in the component related to stock holdings held by the public stands out. The weighting of this component (which includes the value of shares held in Israel and overseas) declined from 24.4% of the portfolio in December 2019, down to 21.6% at the end of June 2020. This development reflects the fall in the value of shares in Israel during the mentioned period. On this regard, it is worthwhile to note that despite the recent decline in the weighting of shares in the portfolio, when looking over the long-term (as can be seen in the accompanying graph), it is not extraordinary (in terms of the differential from the long-term trend) and the weighting is even moderate compared to the declines that occurred in previous crises, particularly in 2008 and in 2000-2003.



As long as these data reflect the choice of the desired distribution of risk in the portfolio of assets held by the public, then the relatively moderate decline (until now, it should be said) does not reflect a high perception of risk compared to the past, this despite the severity of the crisis. Given that a decline in the value of the portfolio of assets is supposed to have an impact on private consumption, via a "wealth effect" and since in this case the decline is after all quite moderate, it is preventing an even sharper decline in private consumption, which is the component with the largest weighting in the GDP and in economic uses within the economy.

Israeli per capita economic growth in an international comparison – ranked at a good place in the middle

As is well-known, the coronavirus pandemic has led to a sharp drop in economic activity within the Israeli economy, as well as in most of the economies of the world. In some countries, the start of the waves of morbidity and the cessation in economic activity were at different times, and thus the data on the cumulative decline in activity in the first half of 2020 represent a good index for analyzing the degree of the damage to the different economies. Until recently, 27 of the 37 countries in the OECD have published data on economic growth in the first two quarters of 2020. In the Israeli economy the growth rates in the first two quarters (each quarter compared to its preceding quarter) amounted to a cumulative decline in the GDP of 9.7%. This places Israel among the upper third of the countries (meaning that two thirds of the countries experienced more severe damage). However, if we exclude the rapid rate of increase in the population in Israel relative to most of the OECD countries (that is to say, analysis in terms of growth per capita) then Israel's place in the comparison is close to the median. In other words, Israel is ranked at a "good place in the middle", in an analysis of this index on economic activity in the first half of the year.



Regarding third quarter economic activity, partial data indicate different trends – the Survey of Businesses in Israel during the Coronavirus Crisis (8th Wave), conducted by the CBS during middle of August, indicates an improvement in activity, with respect to damage to the revenues of businesses, compared to the beginning of July. In contrast, as we have seen in the beginning of this survey, the data on July credit card activity indicate a slight decline compared to June. Thus, additional data is required in order to estimate the economic activity of the third quarter; however, it appears it will reflect a recovery compared to the second quarter.

Author: Eyal Raz

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