

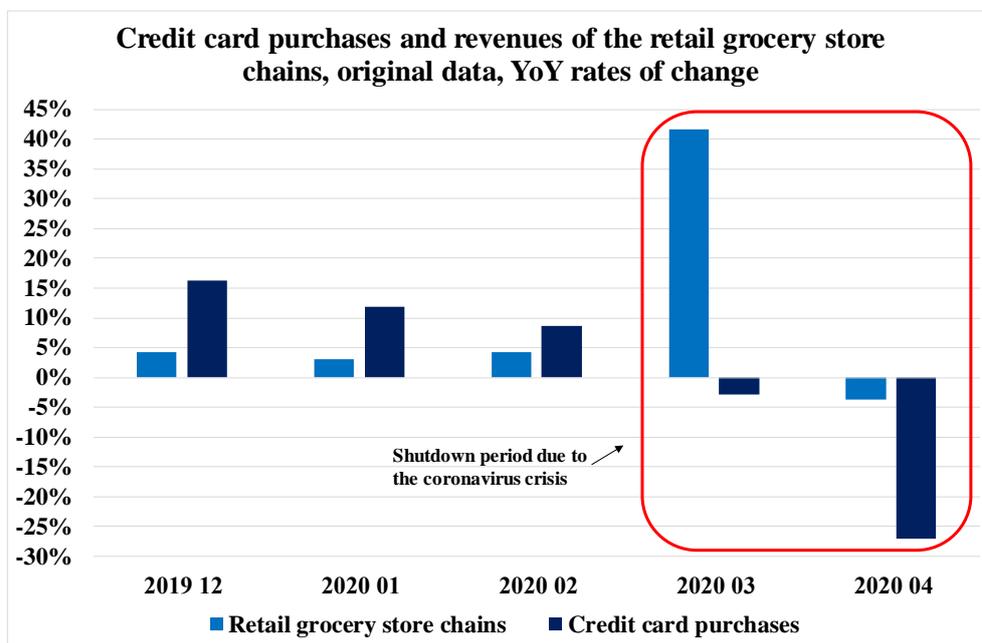
# Leumi Economic Weekly

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## *A sharp drop in credit card purchases in April against the backdrop of the coronavirus crisis*

Data from the Central Bureau of Statistics (CBS) show that the volume of credit card purchases by private consumers (at domestic businesses only) fell sharply in April, against the backdrop of the coronavirus crisis. In light of this, the CBS did not update the data series excluding seasonality, this in contrast to the release of March data. Consequently, the analysis in this section relies on the original data (in fixed prices), which do not exclude seasonality.

As can be seen in the accompanying chart, in April total credit card purchases declined 27% (real rates of change, not excluding seasonality) compared to April 2019, this following a 3% decline in March. The decline in April was broad in each of the categories of goods, with the sharpest declines registered in the following components: manufactured goods (clothing and shoes, electronic goods, and furniture), and services (flights, tourism, accommodation, as well as leisure and entertainment).



These findings are not surprising since during most of April the economy was in almost complete shutdown due to the coronavirus crisis, which included, among other things, the closure of shopping malls and retail centers and also most stores, except for essential stores such as groceries and pharmacies. The decline in March was more moderate since in the first half of the month there was no substantial shutdown in activity, and towards the middle of the month, when restrictions were initiated, activity was supported by the public stocking up on food products and pharmaceuticals as the shutdown approached,

and also in light of the high uncertainty prevailing at that time. Support for this comes from an analysis of the index on revenues of the retail grocery store chains (see accompanying chart). This analysis shows that in March there was a sharp 40% increase (compared to March 2019) in the revenues of the retail grocery store chains. Afterwards, in April, there was a moderate decline in the revenues of the retail grocery store chains.

These data are consistent with the findings of the Bank of Israel (BoI) regarding credit card activity since the beginning of the year broken down by sector. According to these data, the sharp declines continued through the end of April, with an emphasis on the following: electronic goods, clothing and furniture; the fuel and transportation sector; and in the leisure, education, restaurant, and tourism sectors. Meanwhile, on the other hand, there was an increase registered in purchases at the retail grocery store chains.

As restrictions on activity began to be lifted, credit card activity started to recover, and as of the end of May activity is very close to the level from the beginning of the year (prior to the breakout of the coronavirus crisis). It is important to note that the recovery is especially notable in the manufactured goods category (electronics, clothing, and furniture). In light of this, the CBS data on credit card purchases are expected to indicate a recovery in activity in May.

Looking ahead, we estimate private consumption in the economy will contract 1.5% (in real terms) for all of 2020 due to the coronavirus crisis, this compared to a 4% long-term average rate of increase (since 2000). It is important to note that in the event the process of returning to regular activity will be stopped, and the wave of infections that have been occurring in recent days will broaden, then there will be a delay in the return to the pre-crisis levels of activity. Such a development will particularly postpone the return of unemployed and furloughed people back into the labor market. In such an event, the damage to private consumption is likely to be more substantial.

***The most significant relative increase in new job seekers due to the coronavirus crisis occurred in the Jerusalem district***

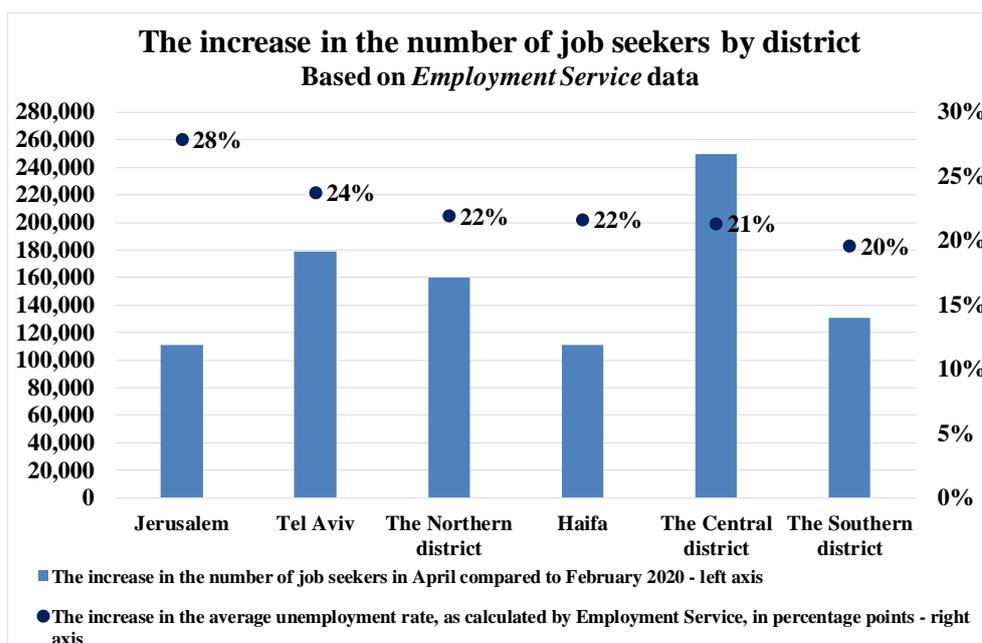
March and April, during which time local economic activity was shut down due to the coronavirus crisis, were characterized by a sharp increase in the number of job seekers that showed up at government employment agencies across the country. Data from the government Employment Services and a survey of the chief economist's office of the Ministry of Finance (MoF) on this matter shed light on the main characteristics of these new job seekers.

From the findings it can be seen that the largest portion of the new job seekers actually involves employees who were furloughed by their employers, against the backdrop of the sharp fall in economic activity due to the restrictions enacted in the economy. The main actions that were implemented, and are still in effect to some degree, involve restrictions on movement and gatherings of people, which caused a complete cessation in activity of sectors such as: tourism services, accommodation, international flights, restaurants, entertainment and leisure, and more. Thus, in these sectors there are high rates of workers who were furloughed, as is also understood from the workforce surveys of the CBS.

Additional characteristics that arise from the data show that the largest portion (89% according to the estimate of the office of the chief economist of the MoF) of new job

seekers do not have an academic education, and their average income is below the average in the economy. That is to say, low skilled workers suffered to a much greater degree in the coronavirus crisis, which has unique characteristics not observed in previous economic crises, such as: a government initiated shutdown of activity, restrictions on public gatherings and movement, and more.

In addition, most of the unemployed workers who have registered at the government employment agencies are young. Approximately 46% of them are between the ages of 15-34, while only 15% are aged 55 and above. This finding likely stems, at least partially, from the fact that some of the sectors that were substantially hurt by the coronavirus crisis (food and accommodation services, entertainment and leisure, and more) employ younger people. Furthermore, it is likely that older employees in the economy have a better employment safety net, such as labor organizations and the like, and therefore they suffered less.



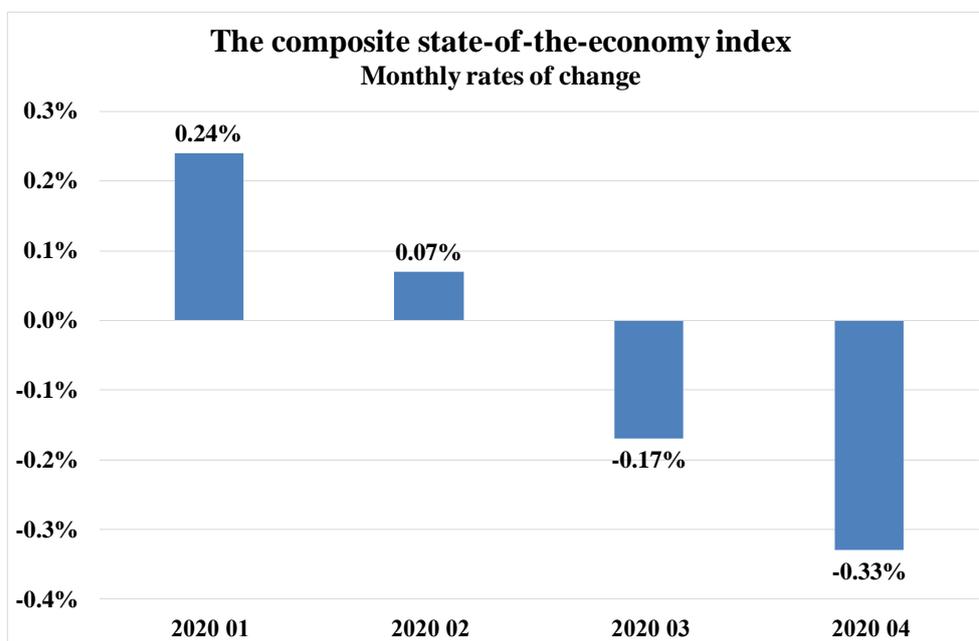
An additional breakdown appearing in the data is according to area of residence. The data indicate a sharp increase in the number of job seekers in all the districts of the country. The accompanying chart shows the increase in the number of job seekers in April compared to February this year, in both absolute and in relative terms (according to the average unemployment rate, as calculated by Employment Services). The leading districts in terms of the number of job seekers (absolute terms) are the large districts – the center and Tel Aviv – followed by the northern district. However, analysis of the increase in the unemployment rate (according to the definition of Employment Services) shows that the leading district in terms of new job seekers is the Jerusalem district. This is apparently in light of the high concentration of employees who have the characteristics of new job seekers in the corona period.

In summary, the coronavirus crisis hurt, to a notable degree, low-skilled workers and those without an academic education, who from the beginning, prior to the breakout of the crisis, earned below-average salaries. The number of job seekers was high in the cities and districts with a high concentration of this population segment. Furthermore, the

number of job seekers is high in the sectors that have been substantially hurt by the restrictions in movement and public gatherings, headed by: tourism, restaurants, leisure and entertainment, and other services sectors. As the process of the return of these sectors to normal activity drags on, then the return of these workers to the labor market will be delayed. It is possible that professional training programs targeted to these workers will assist in their quicker return to the labor market.

***The composite state-of-the-economy index indicates a continued decline in April***

Bank of Israel (BoI) data show that the composite state-of-the-economy index declined 0.33% in April compared to March, which registered a 0.17% decline.



The rates of decline of the composite index appear to be moderate compared to other indicators published over recent weeks, and also compared to the severity of the decline in the growth rate in the first quarter of the year. On this regard, we note that the BoI's release states *"The decline of the Index in two consecutive months reflects the sharp decline in economic activity, but in view of the uniqueness of the crisis, the magnitude of the decline in the Index does not provide conclusions regarding the precise strength of the decline in activity in the past two months."*

The decline in the composite index was relatively broad and included most of the components, with an emphasis on a drop in imports of consumption goods in April, and a sharp decline in revenues of the services sectors and industrial manufacturing in March. Goods exports, which declined by a moderate rate compared to the other components, and the imports of manufacturing inputs, in which an increase occurred, offset the decline in the composite index. Looking ahead, we forecast a decline of 3% (real) in Israel's GDP for all of 2020.

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