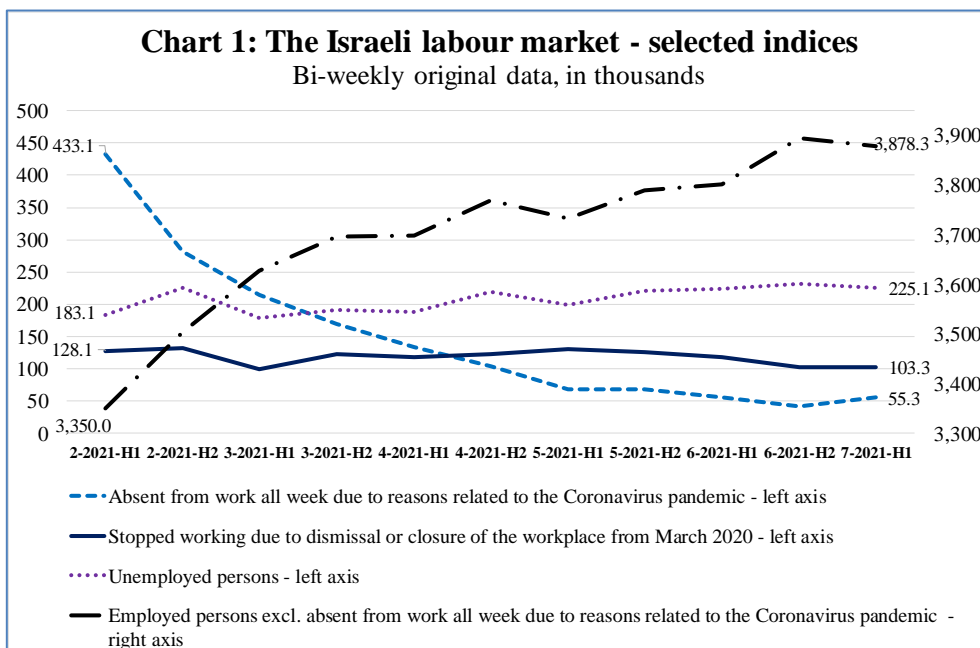


# Leumi Economic Weekly

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## The downtrend in the "broad" unemployment rate halted in the first half of July

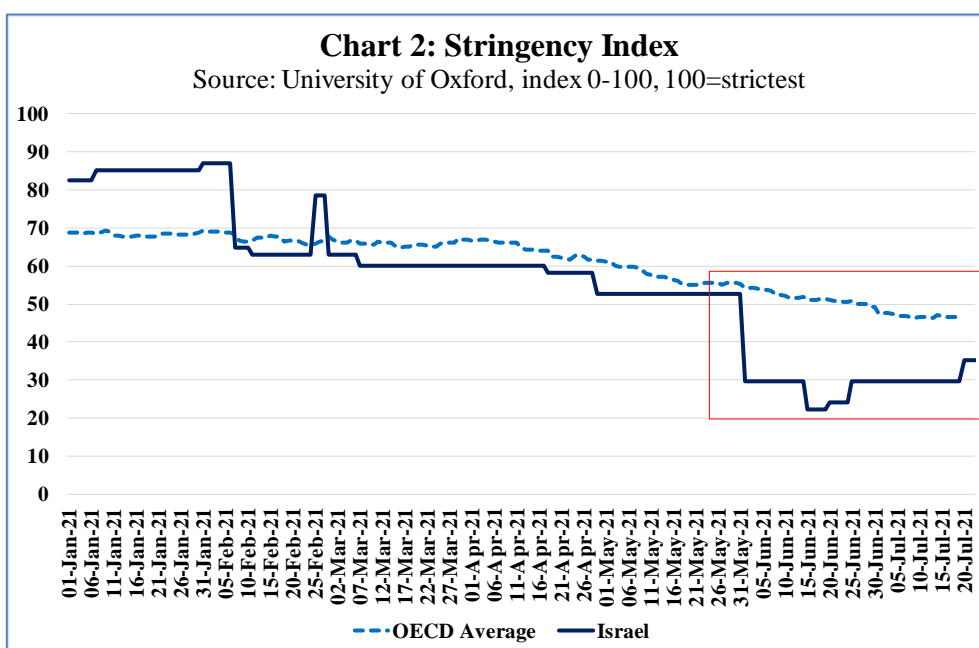
The findings of the workforce survey for the first half of July were released by the Central Bureau of Statistics (CBS). The data indicate a halt in the gradual trend of improvement in the employment data of the economy. The emphasis of the analysis in this section of our survey concentrates on unemployment according to its broad definition, which includes, among other things, unemployed persons, furloughed employees, and employees who have stopped working due to their dismissal or the closure of their place of work since the start of the crisis (March 2020). Furthermore, it is important to note the data are not adjusted for seasonality, and this must be brought into consideration when analyzing the findings.



In the first half of July the "broad" unemployment rate increased 0.2 percentage points compared to the second half of June, reaching 9.0% (original data). Despite the rise, this is still a low unemployment rate compared to the level back at the start of the coronavirus crisis. This figure reflects the unemployment of 384,000 persons (according to the broad definition), broken down in the following manner: 225,000 unemployed persons, equivalent to 5.4% of the workforce (representing the unemployment rate according to its accepted definition), compared to 5.6% in the second half of June and less than 4% before the outbreak of the crisis; 55,000 workers who were temporarily absent the entire week due to reasons attributed to the coronavirus (this refers mainly to furloughed employees);

and 103,000 employees who stopped working due to the crisis (and are not part of the workforce).

Accompanying Chart 1 presents the development of the unemployment and employment indices following the end of the tightened portion of the third economic lockdown (that is to say, from the beginning of February 2021). As can be seen, the uptrend in the number of employees, alongside the drop in the scope of surplus unemployment resulting from the crisis (mainly employees who ceased to work and furloughed workers, resulting from the crisis), halted in the first half of July. For the first time since the conclusion of the tightened portion of the economy's third lockdown, the number of furloughed employees (that is to say, workers temporarily absent due to reasons related to the coronavirus) increased from 42,000 to 55,000. This comes despite the cancellation of the unemployment benefit payments to furloughed employees starting from the end of June (with a few exceptions). This finding likely expresses the initial impact of rising morbidity on economic activity and levels of employment, although it is necessary to wait to analyze the data in the coming periods in order to determine if this is indeed a substantial change in the trend.



The recent rise in morbidity is being reflected in a certain increase in the severity of COVID restrictions ("HaTav HaSameach" – referring to restrictions on enclosed places with a capacity of 100 or more persons, including mask mandates). As can be seen in accompanying Chart 2, which presents the development of Israel's Stringency Index<sup>1</sup> compared to the OECD country average since the beginning of 2021, the process of opening the economy continued through mid-June, and stood out positively compared to the developed countries (on average). However, since then, there began an increase in the severity of restrictions, as expressed in an increase in the Stringency Index from 20 to 35, a level that is still below the OECD average, albeit with a lower differential.

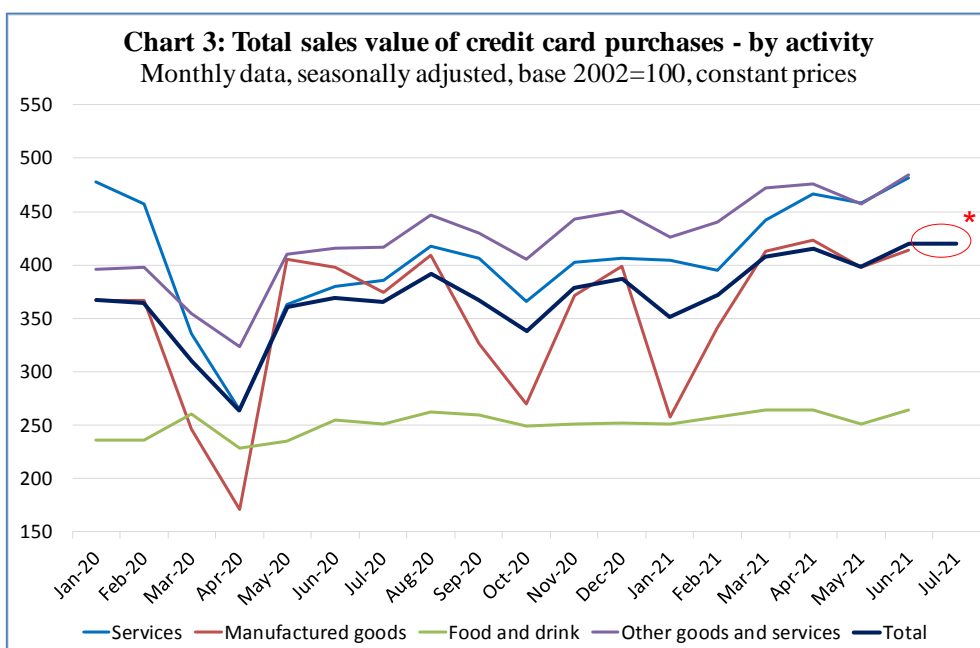
<sup>1</sup> The Stringency Index of Oxford University is a composite measure composed of nine metrics that analyze the reaction of activity to changes in policy in the economy, with respect to school closures, workplace closures, restrictions on internal movements, and international travel controls.

Furthermore, data on credit card expenditures published by the Bank of Israel (BoI) indicate a relatively sharp decline recently in expenditures on education and leisure. At around the end of June 2021, the sum of expenditures on education and leisure was 30% greater than the pre-coronavirus crisis level (the first two weeks of January 2020); however, by the end of July this figure stood at less than 15%. That is to say, it is likely the rise in the number of employees temporarily absent from their places of work (due to reasons related to the coronavirus and also due to other reasons) occurred, at least partially, due to the beginning of the summer holiday period, during which time the employment of many persons in the education sector stopped (lecturers among others). Also, during this time there are parents of small children, students, etc. who prefer not to work.

In summary, the trends described above are likely to continue in the near term, this in the event the rise in morbidity and its degree of severity will not halt. Thus, there are likely to be negative consequences, such as an intensification in the COVID restrictions and a reduction in local economic activity. Consequently, the scope of unemployment is likely to rise, and to delay the process of recovery in the local labor market. Looking ahead, in the baseline scenario, which does not assume any deterioration in the state of the economy, we estimate that 2021 will conclude with an average "broad" unemployment rate of 10%.

***The value of credit card purchases continues to grow, with a slowdown in the rate***

The indicators for private consumption show a continued expansion, with a slowdown in the pace. Data on purchases made using credit cards by private consumers (published recently by the CBS) show the value of purchases increased 5.4% in June (compared to the preceding month) following a 4% decline in May (based on data in constant prices and adjusted for seasonality). Whereas the cumulative rate of increase of purchases in February-April this year stood at 18.2% (meaning an average monthly increase of 5.7%), the cumulative rate of increase in May-June stood at only 1.2% (0.6% per month).



The moderation in the pace of purchases has been broad, encompassing all the categories of goods, with manufactured goods (clothing and footwear, furniture, and electronic goods) standing out. As can be seen in accompanying Chart 3, the volatility in the value of purchases in the industrial sectors, with the changes in the restrictions on activity (mainly the opening/closing of trade), was substantial among the different areas of activity. Thus also at the time of the opening of the economy over recent months, which was accompanied by the release of "pent-up" demand, the value of purchases in the industrial sectors increased by a cumulative rate of 64% in February-April, yet in May-June, in parallel with a stabilization in consumption demand, a decline of 2.3% was registered in the value of purchases.

It appears this trend continued as well in July. Indeed, the data on credit card expenditures released by the BoI (daily data, released on a weekly basis, in current prices that are not adjusted for seasonality) indicate a moderate uptick in purchases in July; however, our estimates on the value of purchases, which are adjusted for seasonality, indicate a standstill. Looking ahead, a continued spread of the coronavirus is expected to lead, as mentioned, to an increase in the degree of severity of the COVID restrictions and to damage economic activity as well as the economic condition of households, and this is likely to weigh on private consumption.

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