Leumi Economic Weekly

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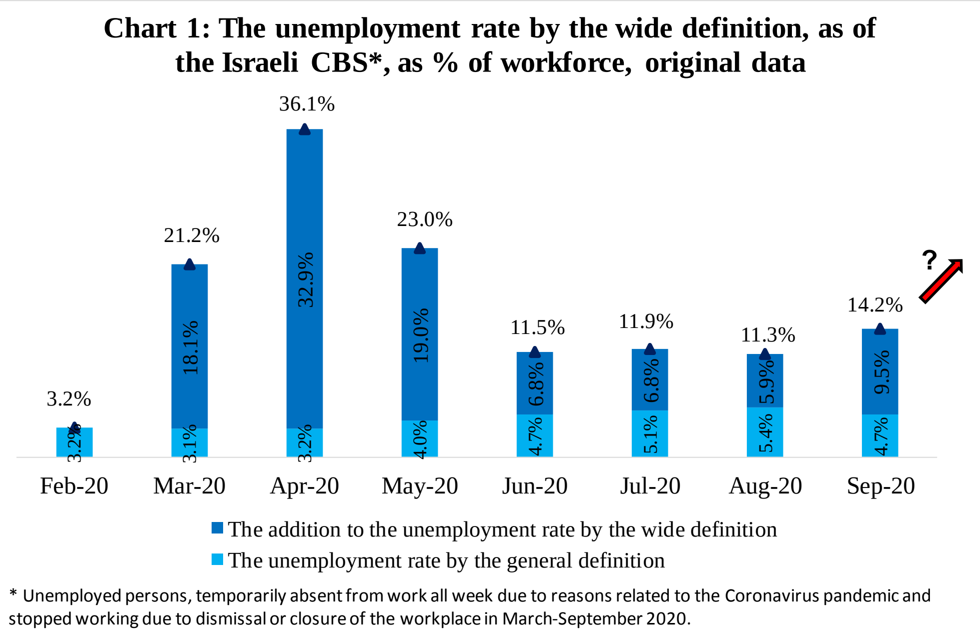
The "broad" unemployment rate increased in September to its highest rate since May, against the backdrop of the economic shutdown during the recent Jewish holiday period

The Central Bureau of Statistics (CBS) published the September employment data, which is based on workforce surveys.



The analysis of the data presented in this section is based on the detailed data of the CBS (original data that are unadjusted for seasonality), which refer to the unemployment rate according its standard definition ("regular") and also the unemployment rate according to its broader definition ("broad"). This is because the "regular" unemployment rate does not reflect the full scale of non-employment in the economy during the period of the coronavirus crisis, due to technical reasons related to its definition and exclusions. In addition to the number of unemployed, the "broad" unemployment rate also includes those employees who are temporarily absent from their places of work due to the coronavirus crisis (mainly workers released to unpaid vacation) and those employees who were laid off in March-September and do not currently participate in the workforce.

The accompanying chart 1 shows an increase in September's "broad" unemployment rate to a level of 14.2%, or approximately 590,000 persons, compared to 11.3% in August. This comes against the backdrop of the government-imposed general shutdown of the economy during the Jewish holiday period, which began on September 18. The current unemployment rate is the highest since May, at which time the economy was starting to return to regular activity following the first economic shutdown that ended during the second half of April. In addition, we note that the implementation of the latest additional economic shutdown led to an expansion in the gap between the "regular" unemployment rate and the "broad" unemployment rate, and this gap is expected to continue to widen also throughout October.

In the CBS announcement it is noted that the "broad" unemployment rate in the second half of September (which was affected by the shutdown) stood at 19.1% (or approximately 767,000 persons) compared to 11.5% in the first two weeks of September. In light of this, it seems the "broad" unemployment rate in October is likely to reach the level it reached back in May this year, and possibly even higher (that is to say, 20% and perhaps higher). However, it is important to remember, these data are not adjusted for seasonality and thus caution is warranted in comparisons between the other months of the year.

In summary, the recent general economic shutdown that lasted one month during the time of the Jewish holiday period led to a rise in the scale of non-employment, which is expected to be reflected also in the October data. This process emphasizes the need to analyze the "broad" unemployment rate at this time and not the "regular" unemployment rate, which will apparently become relevant once again only after the economy's return to full operations and with the conclusion of the unemployment benefits made to furloughed workers. We estimate the "broad" unemployment rate in the general economy (persons aged 15 and above) will reach over 15% for all of 2020 (annual average), and will stay at a double-digit rate also throughout 2021. This development is expected to continue to weigh on local demand for consumption on the part of local households, and to compel the government to formulate forward looking policies, with the goal of maintaining fundamental economic activity and creating an infrastructure for a rapid economic recovery in the future, after morbidity within the country is brought under sustained control.

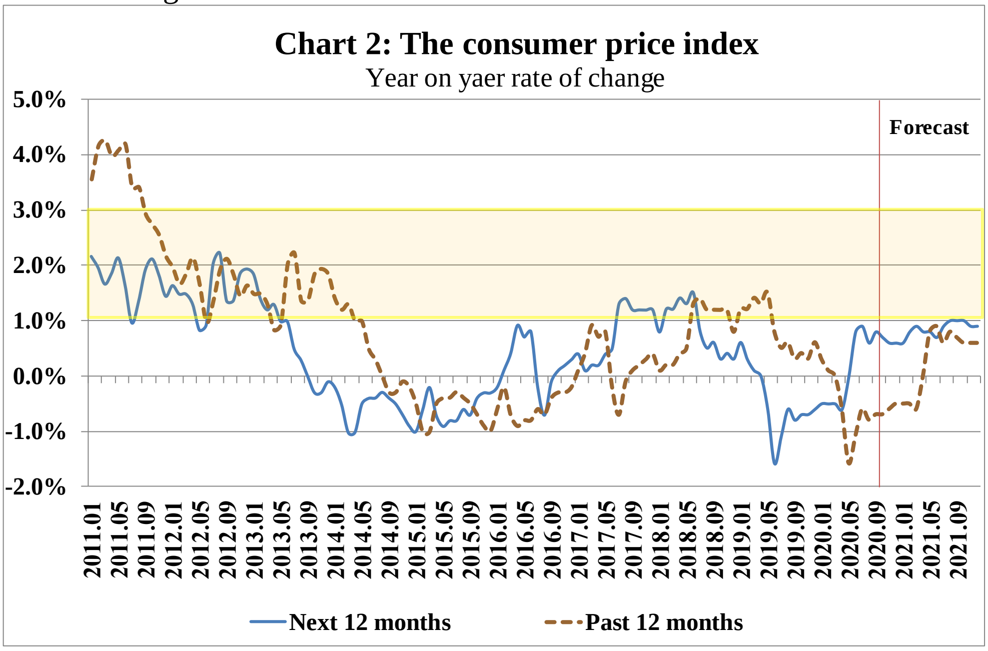
The consumer price index (CPI) declined in September; inflation is expected to remain negative in the coming months

The CPI declined 0.1% in September, which is slightly lower than the consensus forecast that called for no change in the index (0%). We note that price declines were registered in the culture and entertainment, the clothing, and the food components; while on the other hand prices increases were registered in the fresh vegetables, shoes, education services, and the furniture and household equipment components.

The housing component increased 0.3%, resulting from a 0.4% increase in the owned dwellings services sub-component (which reflects housing rental prices in new and renewed contracts). In light of this, the annual rate of increase in housing rental prices increased slightly from 1.4% to 1.6%. In our opinion, the rate of increase in rental prices is likely to change direction later on, against the backdrop of the moderating impact of the recent economic shutdown during September's Jewish holiday period and the continuation of restrictions on economic activity, a development that is expected to weigh on demand for housing rentals.

On the other hand, housing prices (according to the monthly housing survey of the CBS, which is not calculated in the CPI) declined 0.3% in July-August compared to June-July.

In light of this, the annual rate of increase in housing prices slowed to 2.3%, compared to 4.0% in the beginning of 2020. This moderation occurred against the backdrop of, among other things, low consumer sentiment caused by the coronavirus crisis, which declined in September due to the economic closure imposed during the September Jewish holiday period. In light of the above, it seems the moderating trend is expected to continue also in the coming months.



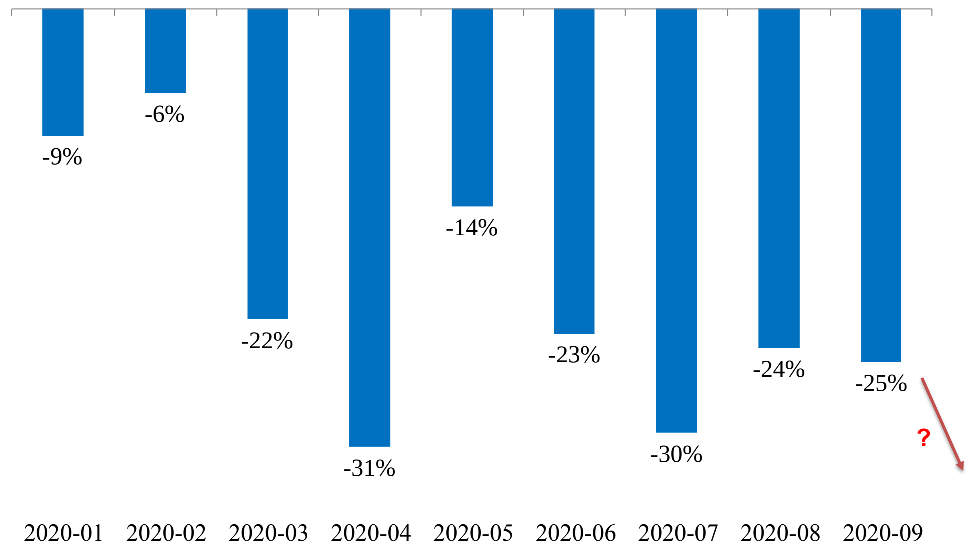
In summary, over the trailing 12-month period (September 2020 compared to September 2019) the CPI declined 0.7%, while the CPI excluding housing fell 1.1%. Looking ahead, we estimate the rate of decline in the CPI for all of 2020 is expected to amount to minus 0.8% to minus 0.4%. Over the coming 12-month period we estimate the rate of increase in the CPI is expected to equal between 0.6% - 1.0% (see chart 2).

This will be the result of a combination of a number of factors, among them being: the exit of the April-May 2020 CPI figures from the window of calculation on inflation, which were extraordinarily low since they were affected by the fall in oil prices with the outbreak of the coronavirus crisis; an increase in global commodities prices, which are expected to impact the increase in the CPI going forward; the forecast for stability in the foreign currency exchange rate following an extended period of appreciation; and the expectation for a recovery in local economic activity during 2021. However, this forecast must be viewed with caution due to the current high level of uncertainty prevailing in the economy, with respect to both the economic developments and also the degree to which the economy will be opened up, and also taking into consideration the manner by which prices are measured.

Pessimism among households increased in September due to the economic shutdown during the Jewish holiday period; the pessimism is expected to increase also in October
CBS data show that consumer confidence declined in September compared to August (see Chart 3). September's level is relatively close to the lows registered back in April and July this year. The rise in the degree of pessimism among households occurred in parallel to the implementation of the general economic shutdown during the recent Jewish holiday

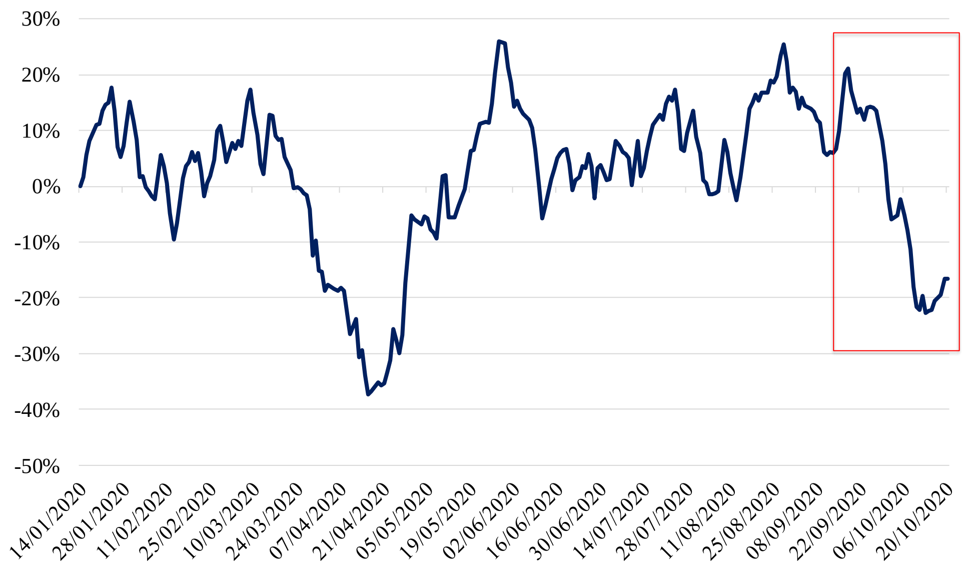
period. Thus, in the CBS announcement it is noted that in the second half of September consumer confidence fell to a level of minus 29%, compared to minus 21% in the first half of September. Looking ahead, it appears consumer confidence is expected to continue to move downward also during October.

Chart 3: Consumer Confidence Survey of the CBS
In percentages



The deterioration in consumer confidence in September reflects, among other things, a decline in the intention among households to carry out large purchases. This component in the index is expected to continue to decline also in October, alongside deterioration in the assessment of households with respect to their economic situation, a development that negatively affects the willingness of households to consume.

Chart 4: Bank of Israel (BoI) analysis of credit card expenditures data compared to the beginning of the year, bi-weekly average, original data



Indeed, from an analysis of credit card expenditures, according to Bank of Israel (BoI) data (analysis of daily data, unadjusted for seasonality), it can be seen that during the shutdown period the sum of purchases (compared to the beginning of January 2020) dropped sharply, and is currently 20% below the pre-coronavirus crisis level (see Chart 4). This decline was broad across all the sectors of activity, and was especially notable in the areas of: tourism, restaurants and leisure, electricity, clothing, and furniture. At the same time the easing in restrictions came into effect in the first stage of the economy's exit from the shutdown, a slight increase was registered in purchases (this even though the restrictions with respect to retail activity remain strict), with an emphasis on expenditures on education, gasoline and transport, as well as electronic goods. This trend is expected to continue as the process of exiting the economic shutdown advances.

In summary, the low inflation environment, the continued strengthening of the shekel, and the continuing substantial restrictions on local economic activity (despite the relief of recent days and the degree of partial obedience to some of the limitations), represent underlying conditions that warrant the expansion and the extension of support by the policy makers for economic activity, both on the business side and on the household side, in a manner that will greatly reduce the degree of uncertainty facing the business sector, with an emphasis on small businesses and freelancers in the areas of services, and also relatively weak households. In light of this, there is a chance the BoI will decide, at the time of the next interest rate decision, to deepen the degree of monetary expansion using the tools at its disposal.

Author: Yaniv Bar