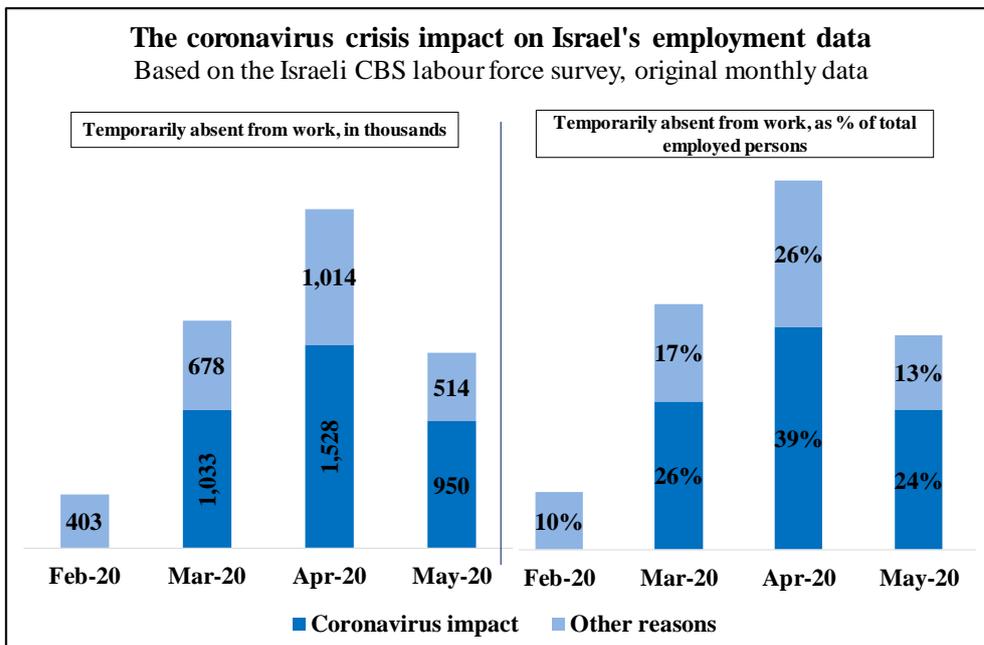


# Leumi Economic Weekly

June 24, 2020

*The number of workers in the economy who do not actively participate in the workforce remains very high, even though their numbers declined in May*

The Central Bureau of Statistics (CBS) released the May employment data (which are based on workforce surveys). Just like in the preceding months, we note that the data presented in this section are based on the original, unadjusted data (without discounting the effects of seasonality) and not on the seasonally adjusted data that we generally use. This is due to disruptions in the data series as a result of the coronavirus crisis. Furthermore, we are reminded that the impact of the coronavirus crisis on the level of employment is reflected primarily in the data on employed persons, this due to the registration of furloughed workers as temporarily absent from the workforce.



In May, there was indeed a substantial decline registered in the number of employed persons who were temporarily absent from their places of work (mostly employed persons released to unpaid vacation) compared to April, this against the backdrop of the opening of the economy to activity during May, with the easing / cancellation of most of the restrictions in many of the sectors of activity. However, the number of employed persons who are not fully and actively participating in the workforce remains very large, with the numbers being substantially higher than the number of unemployed in February (prior to the breakout of the coronavirus crisis).

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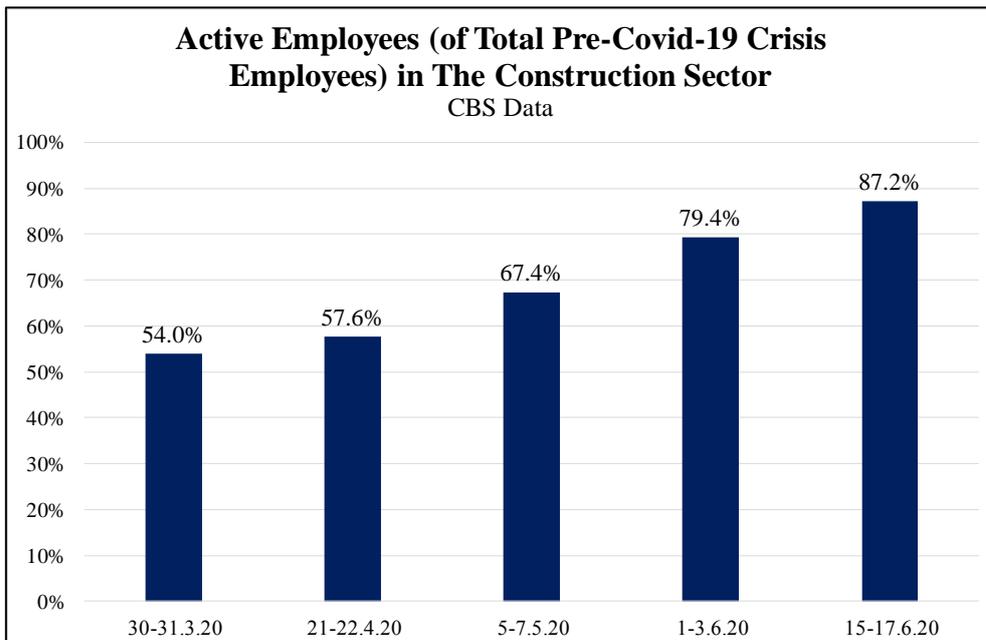
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As can be seen in the accompanying chart, the number of employed persons (salaried and freelance) who were temporarily absent from their places of work (the entire week or less than a week) in May stood at 1.5m employed persons, which is equivalent to 37.6% of all employed persons, this compared to 2.5m employed persons in April, which is equivalent to 64.6% of total employed persons. Of these, 950,000 employed persons (of which 684,000 do not work at all), equivalent to 24% of total employed persons, were absent in May as a result of the coronavirus crisis, this compared to 1.5m employed persons (approximately 39% of total employed persons) in April. Also in May, the sectors in which the percentage of absent employed persons was the highest included: art, entertainment and leisure, food and hospitality services, and other services. In addition, we note that the number of employed persons not participating in the workforce, who are interested in working, yet did not seek employment due to the coronavirus crisis, stood at 81,000 in May, slightly below the number of 97,000 in April.

In summary, the number of workers not actively participating in the workforce declined in May; however, the numbers remain very high. Furthermore, the disruption in the unemployment data is expected to remain a factor also in the coming months. Looking ahead, our forecast for the unemployment rate in the overall economy (ages 15 and up) that matches the CBS definition (annual average) for 2020 stands at 8.0%-8.5%.

***In the near term, a slowdown is expected in the rate of new housing supply entering the market due to the coronavirus crisis***

Recently released CBS data show the number of housing construction starts in the first quarter of 2020 stood at 11,800 units, and the number of construction completions stood at 11,400 units (seasonally adjusted data). These data indicate a decline compared to the fourth quarter of 2019. However, we note that the number of construction starts is likely to turn out to be higher later on, in light of the tendency for these data to be revised upwards.



Residential construction activity in the first quarter of the year was moderate relative to preceding quarters, even though this quarter was only moderately affected by the coronavirus crisis. The most substantial impact from the coronavirus crisis on the residential construction sector is expected to be expressed primarily in the data from the second quarter of this year, and to be reflected in a drop in all the indices on activity (starts and completions), both with respect to activity in the "free market" (total activity in the residential real estate market excluding projects within the framework of the government's "buyer's price" plan), and also within the framework of the government's "buyer's price" plan.

On this regard, we emphasize that at the beginning of the government initiated shutdown declared in mid-March, the construction sector was excluded from restrictions as an essential sector within the economy, and consequently activity within the sector continued almost completely without obstruction. However, at the end of March it was decided to forbid the entrance of foreign workers into the country, a development that created a very substantial disruption to activity within the construction sector, which only in recent weeks has begun to recover, with approval granted for the entrance of foreign workers into the country (primarily residents from the West Bank and Gaza) from the end of May. Throughout the period, the surveys on activity indicated a severe limitation with respect to a shortage of workers in the construction sector.

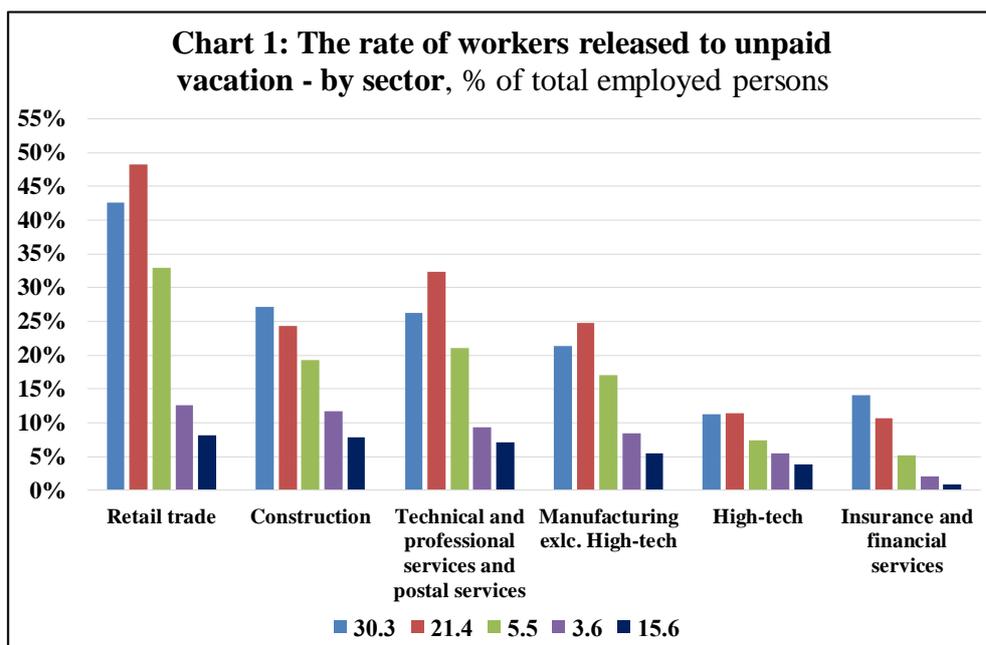
As can be seen in the accompanying chart, the rate of workers active in the construction sector compared to the pre-coronavirus period remained around 55% until almost the end of April. Afterwards, this rate began to climb gradually, up to a level of 87% at the last wave of the CBS survey from mid-June. In light of the fact that the level of activity in the sector was very low during a very large portion of the second quarter, it appears that the data on activity in this quarter will indicate a substantial drop in activity, as mentioned. In subsequent quarters, a recovery in activity is expected, which will be expressed more strongly within the framework of the government's "buyer's price" plan and less in the "free market". This is because the activity within the framework of the "buyer's price" plan is characterized by a greater degree of certainty at the current time, with greater levels of confidence among real estate developers.

Looking ahead, a decline in the residential housing supply is expected in the near-term, in light of the disruptions caused to activity in the construction sector (construction committees, municipal activity, the activities of various planning commissions, and also a possible shortage of workers and materials). Looking over the longer-term, many homebuyers who are currently "sitting on the fence" and hesitating from carrying out transactions are expected to return to the market (depending on the pace of the economy's return to 'normalcy'). On the other hand, the rate of increase in new housing supply entering the market is expected to remain relatively slow, in light of the low rate of construction starts and the increase in the time to completion.

In addition, we forecast the return of investors to the housing market due to the negative impact of the coronavirus crisis on alternative investment instruments. In light of what has been stated, it is possible that the decline in sales due to the coronavirus crisis will lead to a slowdown in the development of prices in the short-term; however, in the medium- to long-terms the rate of increase in prices may accelerate, in light of the developments on the supply side.

***Small and medium businesses have been hurt to a greater degree by the coronavirus crisis than large businesses***

The *Survey of Businesses in Israel During the Coronavirus Crisis (6<sup>th</sup> Wave)* was conducted by the CBS during June 15-17. This survey includes businesses with five or more salaried positions, in some of the sectors of activity within the economy: high-tech, traditional and mixed industry, construction, retail trade, insurance and financial services, technical and professional services, as well as transportation and postal services. In the last two waves of the survey (5<sup>th</sup> and 6<sup>th</sup>) the food services sector was also included. In light of this, the survey does not represent a full picture of activity in the overall economy, since it does not include sectors that have still not returned to 'normal' activity, such as: tourism, entertainment and leisure, and more.

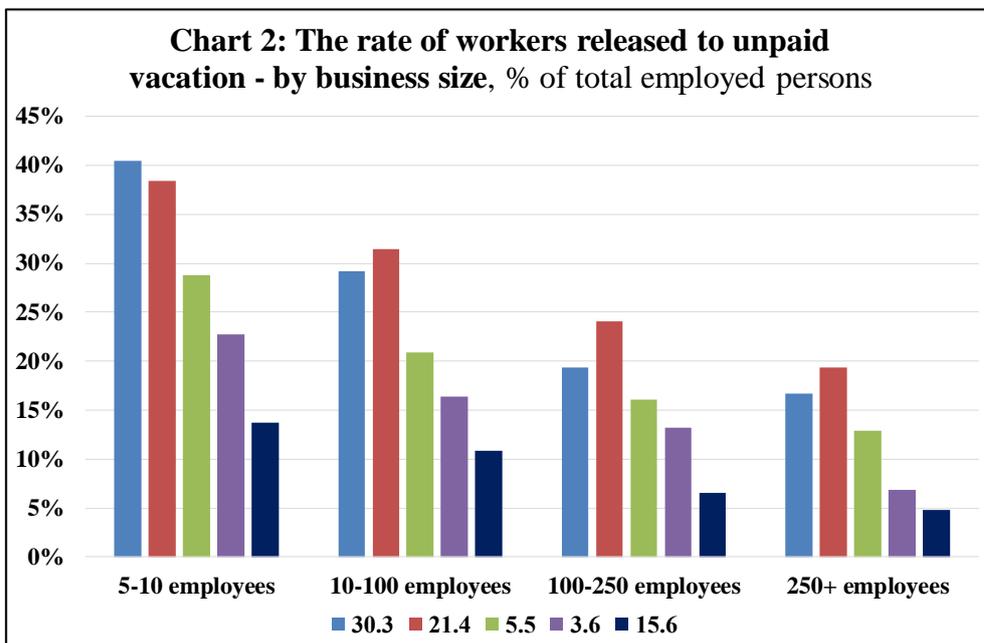


The survey provides information on the impact of the coronavirus crisis on business activity and the levels of employment in the surveyed sectors at different points of time, and in this manner enables the analysis of developments over the course of the crisis.

As can be seen in the accompanying charts, the peak in terms of the rate of workers released to unpaid vacation occurred at the end of March, with a high level registered also on April 21. At subsequent sampling points, the rate of workers released to unpaid vacation, according to the reports of participating companies in the survey, continued to decline, in parallel with the opening of the economy to activity. Thus, the rate of workers released to unpaid vacation in the last survey is substantially below the levels registered during the peak of the coronavirus crisis.

Furthermore, from the accompanying charts it can be seen that in the trade sectors, the rate of employees released to unpaid vacation is the highest throughout the entire period of the crisis, among the surveyed sectors. In addition, it can be seen that the smaller the company, the higher the rate of workers released to unpaid vacation. That is to say, the rate of recovery in the activity of small and medium businesses, also after the opening of

the economy to activity, is moderate compared to the large businesses in the economy, and it is likely to remain moderate also in the coming months, a development that is likely to weigh on the economy's exit from the current economic slowdown. These circumstances strongly emphasize the need for economic policy that will support small and medium businesses, in a manner that is both convenient and easily accessible, since these businesses have an important contribution to economic growth and employment within the country.



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