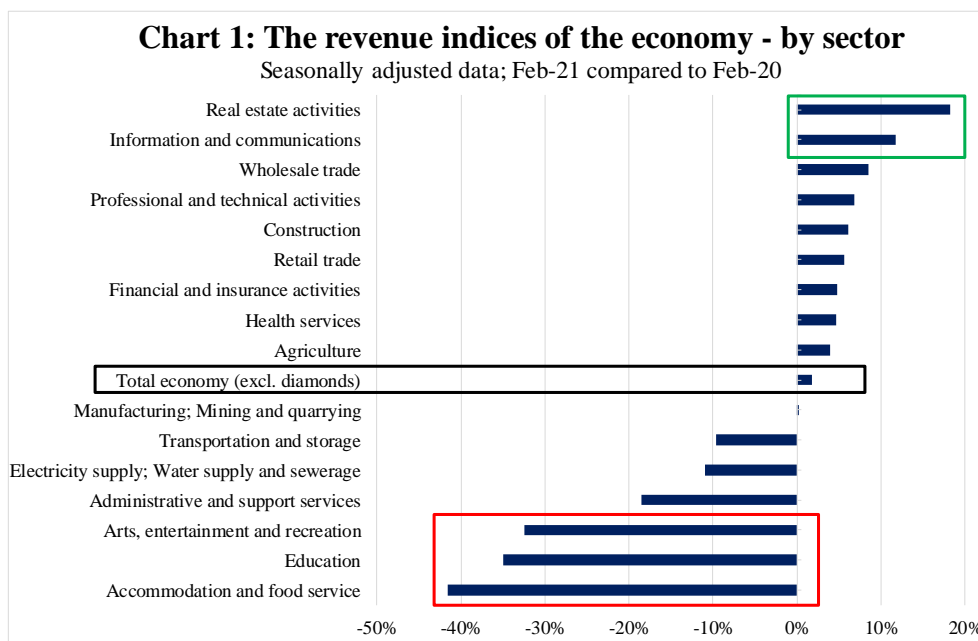


# Leumi Economic Weekly

April 28, 2021

*The removal of the pandemic-related restrictions and the opening of the economy to broad activity led to an increase in the composite state-of-the-economy index in March*

The composite state-of-the-economy index increased 0.50% in March this year, following an increase of 0.45% in February. The Bank of Israel (BoI) emphasized in its announcement that the increase in the composite index reflects the removal of most of the pandemic-related restrictions, against the backdrop of the progress achieved in the inoculation process in Israel (approximately 5.0m persons have received two doses of the vaccination, or 54% of the population – the highest rate in the world). This progress has enabled a substantial broadening of economic activity.



This opening of the economy is being expressed by, among other things, an increase in the number of available employment positions in March (representing the demand for workers by employers) to a peak number, which contributed to the rise in the composite index. On this regard, it is important to note the increase was most notable primarily among job openings related to the hotel and restaurant sectors (waiters, bar staff, chefs, etc.), which were not staffed for the most part due to, among other things, the fact that there is still a high rate of furloughed workers in these sectors (according to data from the workforce survey of the Central Bureau of Statistics). This situation is likely to change later on, with the reduction in the unemployment payments to furloughed workers, and the outright cancellation of such payments, which is expected at the beginning of the second half of the year.

**BANK LEUMI LE-ISRAEL, THE CAPITAL MARKETS DIVISION**

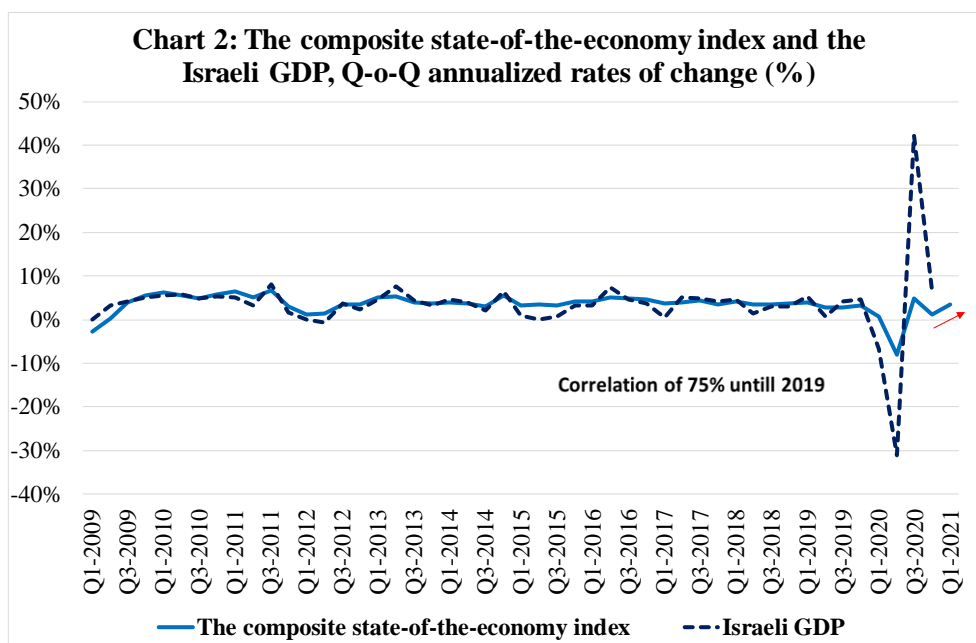
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The components of the composite index that also supported the increase in March include mainly: imports of consumption goods and manufacturing inputs (March), services exports (January), and revenues in the trade and services sectors (February).

Analysis of economic activity according to sector continues to indicate substantial differences among the various sectors. Accompanying Chart 1 shows an analysis of the revenue data in the different sectors of the economy (monthly data, adjusted for seasonality), comparing February 2021 to February 2020 (pre-pandemic). Activity in the sectors that were the most strongly impacted in a negative manner over the course of the coronavirus crisis remained substantially below the pre-crisis levels. This aspect is the most pronounced in the food and hospitality services; education; and art, entertainment, and leisure. On the other hand, the following sectors stood out positively: real estate activity (brokerage services and the like), information and communication (high-tech), and wholesale trade.



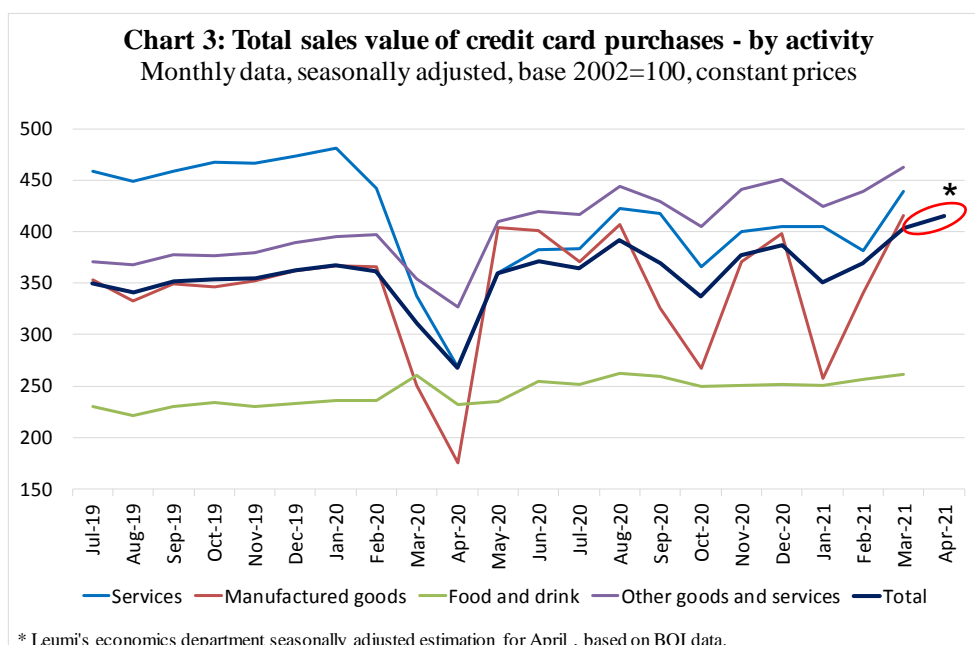
In summary, the composite index data indicate 3.4% growth (in annualized terms) in the first quarter of the year, compared to the preceding quarter, and thus likely reflect expectations for positive growth at a moderate single-digit rate also in the GDP in the first quarter of this year. This data is expected to be published next month (see Chart 2). We note that until the end of 2019 there was a relatively high correlation (approximately 75%) between the composite index data and the GDP data. This correlation weakened during the time of the crisis, mainly because the quarterly rates of change in the national accounts data were more volatile.

Thus, it appears the composite index likely gives an indication regarding the direction of change in the GDP, but provides less information regarding the intensity of any such change. We estimate, in the baseline scenario, that 2021 is expected to conclude with 5.2% growth, and in a scenario involving a continued rapid opening of the economy, without any renewed breakout of morbidity, the growth rate is likely to be even greater.

### ***Credit card purchasing activity increased sharply in March***

The Central Bureau of Statistics (CBS) released data on credit card purchases by private consumers. These data are adjusted for seasonality and are in constant prices; therefore, comparisons can be made between the months of the year using these data.

The data show that purchases increased 9.3% in March (compared to the preceding month), following a 5.2% increase in February, this against the backdrop of the acceleration in the process of opening the economy and the removal of the pandemic-related restrictions, as mentioned in the section above. It is important to note the increase was broad across all the categories of goods. As can be seen in accompanying Chart 3, the sum of purchases in each of the categories, with the exception of services, is substantially higher than the level prior to the breakout of the crisis. With respect to services, the current level is similar to that from before the crisis; however, the sum of purchases in the flight services, tourism, and accommodation component, even though it increased in March, remains substantially below (by 43%) the pre-crisis level (February 2020).



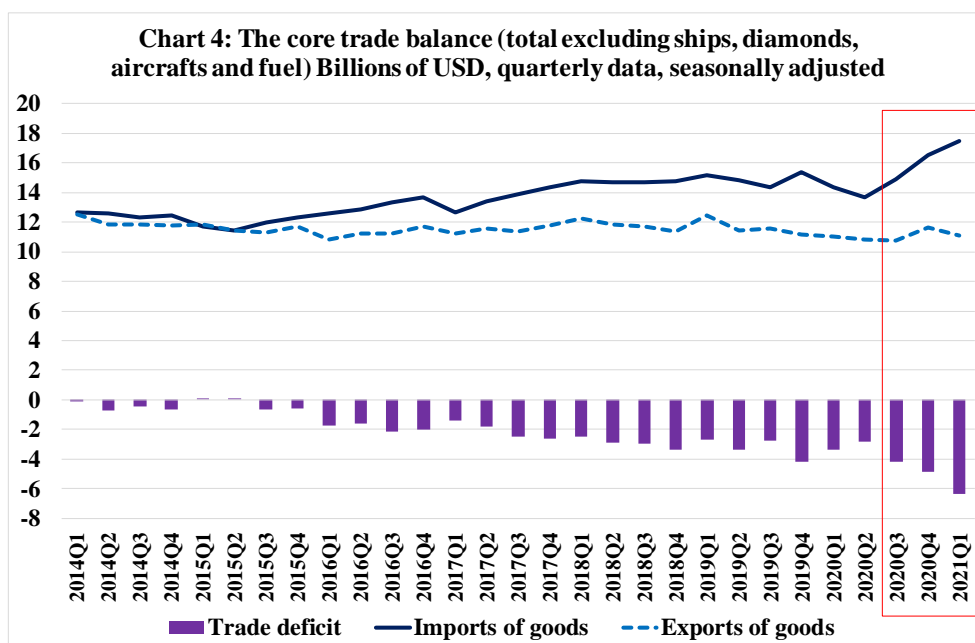
Data on credit card expenditures, published by the BoI, indicate a broad decline in the sum of purchases in April. This is due to, among other things, reasons of seasonality, as a "correction" to the sum of expenditures compared to March, during which time the weeklong Passover holiday occurred, and thus was characterized by a sharp increase in purchases, especially as international travel was mostly closed off. In light of the above, according to our estimates on the sum of seasonally adjusted purchases in April, which is based on the BoI data, it appears that only a moderate uptick is expected in total credit card purchases.

In summary, the removal of the pandemic-related restrictions and the return to broad economic activity supports private consumption activity. This development is reflected also in the consumer confidence index data, which increased in the first half of April to its highest level since just before the crisis, a development that supports a continued

expansion in private consumption also in the coming months, as long as the coronavirus pandemic will remain under control. In our estimation, in the baseline scenario, private consumption is expected to increase 9% in 2021, while the sectors that were the most substantially hurt during the crisis (mainly the current consumption of services) are expected to lead the growth.

***The "core" trade deficit reached a peak level in the first quarter of 2021***

Goods exports from Israel (excluding ships, aircraft, and diamonds) amounted to US\$11.1bn in the first quarter of the year (seasonally adjusted data). This represents a decline of 4.8% (in nominal US dollar terms) compared to the preceding quarter, but a moderate increase of 0.7% compared to the first quarter of 2020, during which time the coronavirus crisis started.



Industrial exports fell mainly due to a sharp 29% drop (compared to the preceding quarter) in chemicals exports and a 10.4% decline in exports from the electronic components sector. Excluding these sectors, which account for 35% of total exports, exports registered an increase of 7.5%. The most notable increases occurred in the following export sectors: pharmaceuticals, metal products, and rubber and plastics.

Goods imports (excluding ships, aircraft, diamonds, and energy materials) reached in the first quarter of 2021 a peak sum of US\$17.5bn, representing a 5.6% increase compared to the preceding quarter and a sharp 21.4% increase compared to the parallel quarter last year. It is important to note the increase was broad across all the categories of goods (consumption, investment, and raw materials), and occurred in parallel to the removal of the pandemic-related restrictions and the expansion in economic activity. Although the increase was broad, the imports of investment goods and raw materials stood out the most positively. Furthermore, we note the import of consumption goods for current consumption increased, whereas the import of durable goods fell in the first quarter of 2021, due to a decline in the import of transport vehicles following the heightened import that was registered in the fourth quarter of 2020, prior to the revision in the green tax calculation.

In summary, the trends described above led to an expansion in the "core" trade deficit (excluding ships, aircraft, diamonds, and energy materials) in the first quarter of the year to a peak sum of US\$6.3bn, this in continuation of the trend from recent quarters (see Chart 4). This development acted to slow the GDP growth rate in the first quarter of the year, and is also expected to moderate the surplus in the current account of the balance of payments. However, it is important to note that the surplus in the services account is expected to stay at a high level in light of a continued rapid growth of high-tech services exports also in the beginning of the first quarter of the year.

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