Leumi Economic Weekly

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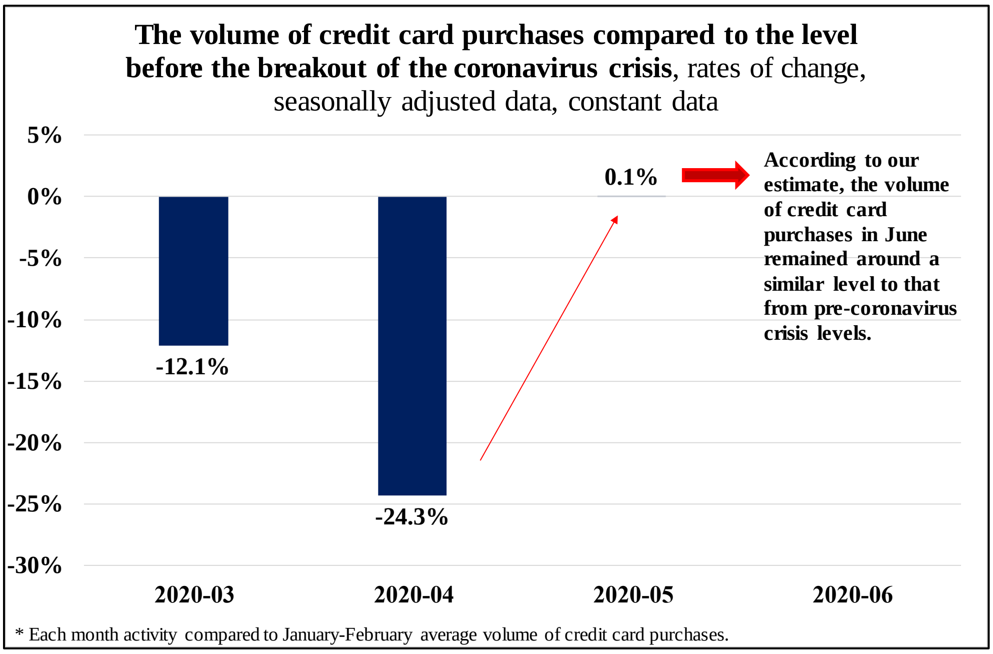
A sharp rise in credit card purchases in May; the volume of purchases in May-June is similar to the pre-coronavirus crisis level

Data from the Central Bureau of Statistics (CBS) show the volume of credit card purchases by private consumers (at domestic businesses only) increased in May by a sharp rate of 32.3% (seasonally adjusted data; in fixed prices), this following a decline of 11.5% and 14.0% in March and April, respectively.



We recall that March and April were partially characterized by an almost complete shutdown of local economic activity due to the coronavirus crisis, which included, among other things, the closure of shopping malls and retail centers, as well as most stores, with the exception of essential goods such as food and pharmaceuticals. In light of this, the volume of credit card purchases in March was approximately 12% below the level from before the breakout of the coronavirus crisis (January – February average), and in April the volume was approximately 24.3% lower (see accompanying chart). Afterwards, as the economic closure began to be lifted, credit card activity started to recover, and as can be seen in the accompanying chart, May activity returned to the pre-coronavirus crisis level.

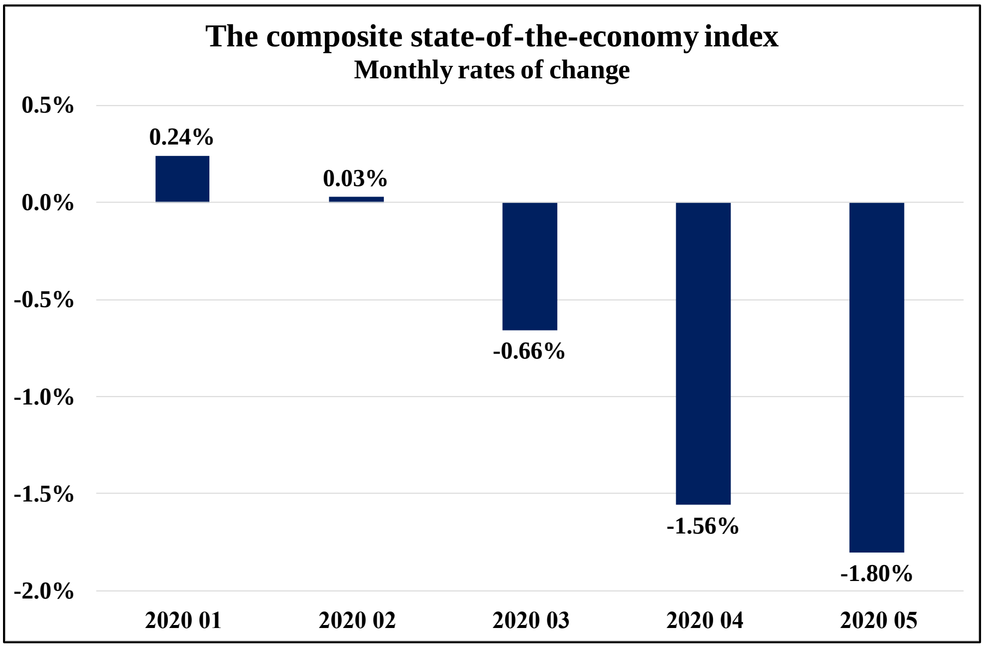
It is important to note the recovery has been especially notable in the manufactured goods category (electronics, clothing, and furniture), while more moderate increases were registered in the following categories: other goods and services (computers and software, communications, gasoline, pharmaceuticals, and more), as well as food and beverage. On the other hand, activity in the services sectors remained low compared to the beginning of the year, this because the category includes, among other things, flight services, tourism and accommodation, and entertainment and leisure – sectors that are still subject to restrictions and thus have still not returned to pre-crisis levels.

In addition, we note that according to our estimate, which is based on, among other things, data from the Bank of Israel (BoI) regarding credit card activity, it appears that in June only a moderate decline was registered in the volume of credit card purchases compared to May (excluding the effects of seasonality factors). This means the volume of credit card purchases in June remained around a similar level to that from pre-coronavirus crisis levels.

Looking ahead, in our opinion private consumption in 2020 is expected to decline 2.5% (in real terms), against the backdrop of the negative effects of the coronavirus crisis on the economic condition of households, and as a consequence of this, a negative impact on the volume of consumption expenditures of households. In terms of consumption per capita, this equates to a very severe decline of 4.5%. It is important to note that private consumption has increased over the years at an average real rate of 4% (since 2000), and by a positive 2% per year in per capita terms. Thus, our forecast calls for an extraordinarily sharp decline. It should be emphasized that in the scenario involving a substantial breakout of a second wave, which will drag the economy back into closure, private consumption will likely shrink more substantially than that noted above.

Expectations for a substantial contraction in the second quarter growth data, against the backdrop of a sharp decline in the composite state-of-the-economy index in April-May

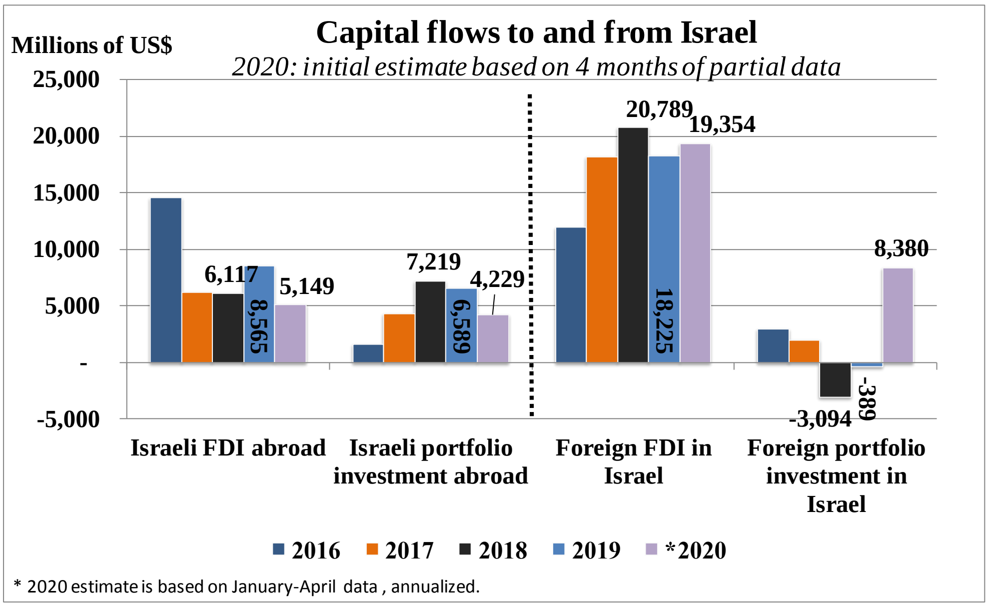
BoI data show that the composite state-of-the-economy index registered in April-May the sharpest drops in the history of the current data series (from 1998). In May the composite index declined 1.80% compared to April, in which a 1.56% decline was registered (see accompanying chart).



The substantial negative impact of the coronavirus crisis on economic activity is expressed in the April-May data, this after the composite index data for the first quarter of the year indicated a moderate increase, in contrast to the sharp drop that was reflected in the national accounts data. A calculation of the average rate of decline of the composite index in April – May compared to the first quarter of the year, in annualized terms, indicates a double-digit drop in the second quarter of the year, which was the peak of the coronavirus crisis until now. In light of this, a sharper decline can be expected in the second quarter GDP compared to the decline registered in the first quarter, when the national accounts data will be released (during August). However, the BoI repeated and emphasized that in light of the uniqueness of the crisis, we should not conclude from the strength of the decline in the index anything with respect to the exact severity of the drop in activity.

In summary, the decline in the composite index was relatively broad and included most of the components of the index, headed by: imports of manufacturing inputs (in May), industrial manufacturing (in April), and revenues in the trade and services sectors (in April). On the other hand, the improvement in the data on available employment positions in May slightly offset the decline in the composite index. Looking ahead, in our opinion, this year is expected to conclude with a very sharp decline of 4.6% (real) in the GDP, in the baseline scenario, which does not assume an additional period of closure with a general shutdown in activity.

Initial estimates on 2020 indicate a continued surplus in (net) capital inflows into the economy
According to BoI data, in January-April 2020 foreign direct investment (FDI) into Israel amounted to US$6.45bn[1]. In light of this, it is expected that, with this being only the initial estimate, FDI into the economy in all of 2020, based on the figure presented above, will reach US$19bn, that is to say with no substantial change compared to 2018-2019. However, it is important to note that in light of the fact that these data are published with a relatively long time delay, it is likely that by the conclusion of the year, the volume of FDI entering the country will turn out to be lower, due to the effects of the coronavirus crisis. At the same time, the initial estimate on the direct investments overseas by Israelis indicates a decline compared to 2019 (see accompanying chart).



Regarding financial investments, the value of the financial investments of non-residents in Israel eroded in the first quarter of 2020 against the backdrop of the drop in prices registered in the financial markets due to the coronavirus crisis. However, a net investment was registered in tradeable bonds in this quarter. In addition, it is important to note that in April, a high volume of incoming financial

[1] The data on the direct investments of non-residents and residents in this paragraph refer also to investments carried out outside of the banking system in January-March 2020, in annualized terms. Furthermore, data for all of 2020 that are presented in the charts are only initial estimates.

investments was registered, which was mostly influenced by an Israeli government bond issue overseas, amounting to US$6bn. Excluding this one incident, the flow of incoming financial investments into Israel was negative – that is to say, there was an exit of capital from Israel by foreign financial investors.

Another incident that occurred in parallel, and likely affected the volume of incoming financial investments in April, was Israel's inclusion into the WGBI index, which likely moderated the level of capital outflow from Israel. On the other hand, in the first quarter of the year Israeli residents sold off foreign bonds. However, in April an increase occurred in outgoing financial investments by Israelis.

In summary, from the capital flows data for January-April 2020, which take into consideration only the beginning of the impact of the coronavirus crisis on the Israeli economy (March-April), it can be cautiously estimated that the total net surplus in capital inflows into Israel (direct and financial) will be maintained also in 2020. This development, together with other factors, will support the strength of the shekel also in the remainder of the year. Among the other supporting factors, it is important to note the continued increase in the surplus in the current account of the balance of payments also in the first quarter of 2020, the continuing relatively rapid increase in Israel's services exports also during the period of the coronavirus crisis, which increased 9% in April (compared to April 2019), and the initiation of natural gas exports in the first quarter of the year, albeit a relatively moderate amount.
Looking at all of 2020, we forecast relative stability in the exchange rate of the shekel compared to 2019 on an annual average basis, together with the possibility for a moderate strengthening of the shekel.

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