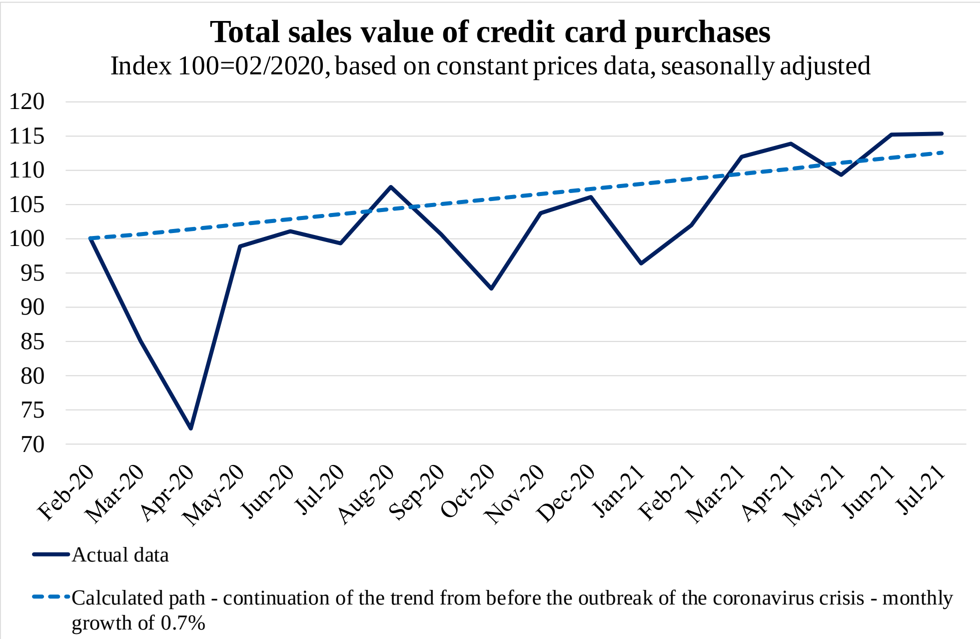
Leumi Economic Weekly

September 1, 2021

The slowdown in the rate of expansion of credit card purchases is continuing
Data from the Central Bureau of Statistics (CBS) show that the value of credit card purchases by private consumers in July remained at a similar level to that in the preceding month. This development was broad across all purchase components.

The data indicate a slowdown in the pace of expansion of credit card purchases over recent months, and it is important to note that a similar picture arises also in an analysis of the revenue data of the retail chain stores. The cumulative rate of increase of purchases in May-July stood at only 1.3% (seasonally adjusted data, at constant prices), which implies an average monthly increase of 0.4%. This contrasts to a cumulative rate of increase of 18.2% (monthly average of 5.7%) in February-April of this year, which coincides with the renewed opening of the economy to activity following the tightened portion of the third COVID lockdown.



However, analysis of the actual data compared to a calculated path of growth that assumes a continuation of the prevailing trend from before the outbreak of the coronavirus crisis, which was characterized by average monthly growth of 0.7% (in the period between 2015-2019), shows that <u>the current level of credit card purchases is above the trend. This finding comes despite the high degree of volatility in the value of purchases since the beginning of the crisis</u> (see accompanying chart). That is to say, it appears the current moderation in the rate of expansion does not necessarily attest to weakness in the demand

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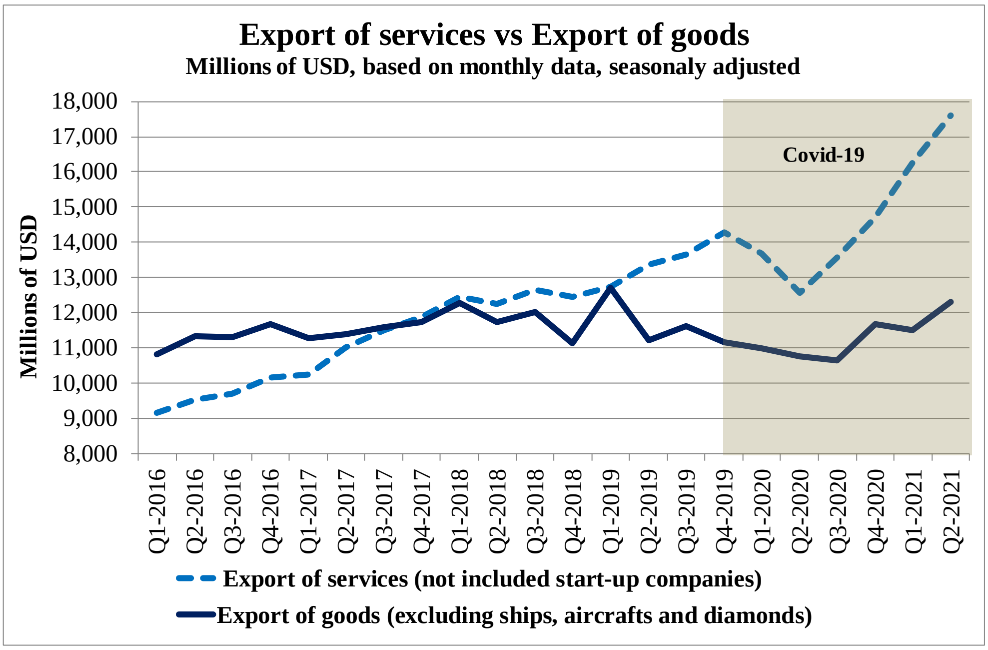
for consumption, but instead it is likely this development is a natural convergence back to the trend line, following the accelerated growth that occurred in the first four months of the year. It is likely the value of purchases will remain above the trend also in the coming months, against the backdrop of the low number of Israelis exiting the country to travel overseas compared to the pre-crisis situation, a development that supports consumption at local businesses.

Data from the Bank of Israel (BoI) on credit card expenditures (daily data, released weekly, in current prices and unadjusted for seasonality) indicate a continued moderation also in August. The moderation was evident even more so in the second half of August, during which time declines were registered in the value of purchases within most sectors, against the backdrop of the intensification of COVID restrictions due to the spread of morbidity throughout the country. Looking ahead, 2021 is expected to conclude with a substantial increase in private consumption, after having fallen sharply in 2020, yet it appears that by year-end this level will still be below the value of potential private consumption (if it were not for the outbreak of the crisis).

Services exports continued to increase by a rapid pace also in the second quarter of 2021

Total services exports (excluding sales of start-up companies) stood at US$17.6bn in the second quarter of 2021, reflecting an 8.2% increase compared to the preceding quarter (in current US dollar terms, excluding seasonality), and 40% growth compared to the second quarter of 2020, which represented the low point of the coronavirus crisis.



Growth was registered in each of the components of services exports, while the current level of high-tech services exports (communication services, computer consulting and software, information storage services, research and development, and more) is 35% greater than the pre-crisis level (the fourth quarter of 2019). However, despite the growth over recent months, the current level of tourism services exports remains 76% below the level from before the outbreak of the crisis.

The continuing growth in services exports led to the situation in which in the beginning of 2018 the total value of services exports excluding start-up companies (in US dollars, according to foreign trade data) surpassed for the first time the value of goods exports (excluding ships, aircraft, and diamonds). Ever since then, as can be seen in the accompanying chart, the gap has only continued to widen, to the benefit of services exports, and in the second quarter of 2021 stood at a peak of US$5.3bn.

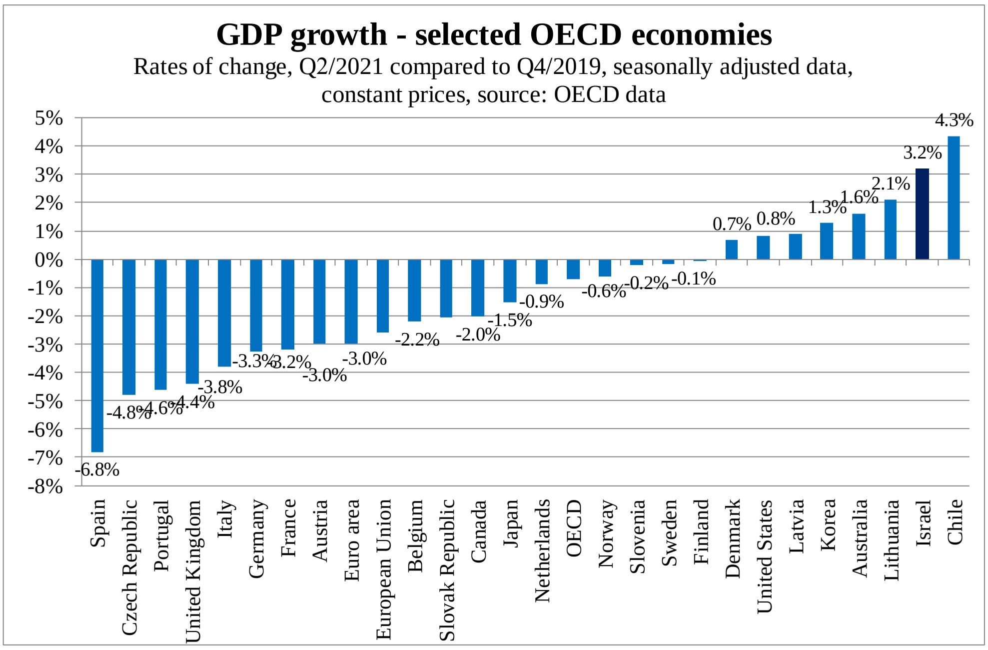
This development is attributed to the fact that services exports (excluding tourism) continued to increase at a faster pace than that of goods exports also throughout the coronavirus crisis, this due to, among other reasons, the lesser degree to which high-tech services exports were affected by the COVID restrictions. However, it is important to note that throughout the coronavirus crisis (from the first quarter of 2020 through the second quarter of 2021) an acceleration was registered in the rate of growth of services exports – an average quarterly growth rate of 3.5% (in current US dollar terms) compared to an average of 3.0% in 2016-2019 – and also in the rate of growth of goods exports – an average quarterly growth rate of 1.6% compared to an average of 0.2% in 2016-2019. The above trends are reflected also in the national accounts data. In the first quarter of 2016 the weighting of services exports (excluding start-up companies) out of total GDP stood at 12.1%, compared to a weighting of 15.3% for goods exports (exports of the industrial sectors). However, in the second quarter of 2021 the weighting of services exports out of total GDP increased substantially and equaled 15.7%, which is greater than the 15.5% weighting of goods exports in the same period.

In summary, the trends described above underscore the structural changes that have occurred in the Israeli economy over recent years, toward an economy that is more technology intensive and characterized by the rapid growth of the high-tech sectors, mainly in the area of services, which are characterized by high labor productivity. In addition to the rapid growth in activity, this area represents a primary target for foreign direct investment into Israel, and as such supports capital inflows into the economy. That is to say, this is a factor that supports the strength of the shekel, from the aspect that it offsets the trade deficit in the current account of the balance of payments, and also from the aspect of the inflow of direct investments. In our estimation, services exports are expected to continue to increase by a rapid pace also in the coming years.

The Israeli economy stands out positively in a comparison with most of the developed countries, in terms of the development of GDP from the start of the crisis

OECD data show that the Israeli economy stands out positively in an international comparison. The rapid growth in the second quarter of the year has led to a situation in which the current level of Israeli GDP is 3.2% <u>greater</u> than its pre-crisis level (Q4/2019). Also in an analysis of the GDP per capita data, Israel stands out positively compared to most other countries.

As can be seen in the accompanying chart, Israel's level stands out positively compared to all the OECD countries, with the exception of Chile. We note that the impact of the coronavirus crisis on the OECD countries, on average, amounted to a contraction of 0.7% in GDP in the represented period. During this period, large European countries including Spain, Italy, Germany, and France all stood out negatively with relatively high rates of contraction, which are reflected in the 3% contraction in GDP in the euro bloc. The GDP of the European Union contracted by a slightly more moderate rate of 2.6%, this against the backdrop of the more moderate damage felt in some of the EU countries that are not members of the euro bloc. It is important to note that also the GDPs of Britain, Canada, and Japan have not returned to their pre-crisis levels. On the other hand, in the US, Australia, and South Korea the GDPs are above their pre-crisis levels.



In summary, it appears the Israeli economy's relatively strong positioning compared to that of other developed countries is the result of a number of factors, among them being a relatively quick and efficient process of vaccinating the population, including the current process of inoculating a large number of people with a third 'booster' shot, making Israel a world leader on this aspect. This development is allowing the economy to operate on a relatively broad scale, despite the recent high levels of morbidity, and this is moderating the damage to the economy. Israel is also benefiting from a relatively high weighting of activity from the high-tech sectors (as explained earlier in this survey), which is affected only to a moderate degree by the COVID restrictions and has continued to operate also throughout the crisis, coupled with a relatively small weighting in the GDP of tourism services exports (1.5% prior to the crisis). Also, the rate of increase of the population is greater compared to the OECD average (2.0% compared to 0.5%). As mentioned above, in the growth per capita data, the gaps are narrowing. Looking over all of 2021, we estimate Israel's GDP is expected to increase by a faster rate compared to the OECD average.

Due to the upcoming holiday season in Israel lasting throughout most of September, our next weekly survey will come out towards the beginning of October.

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