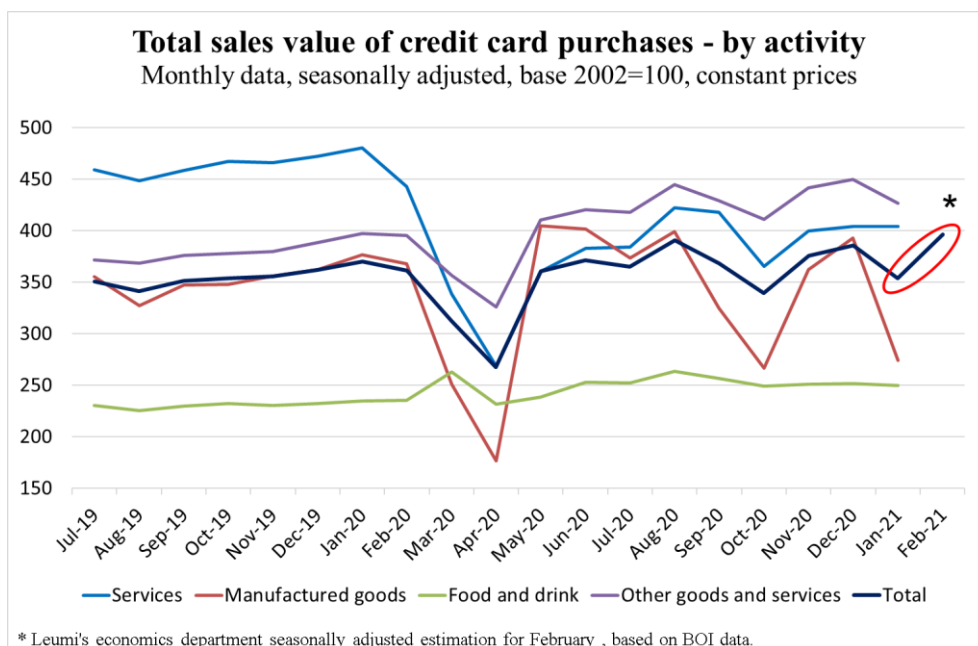


Leumi Economic Weekly

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The tightened portion of the third economic shutdown brought about a drop in credit card purchases in January, led by manufactured goods

The Central Bureau of Statistics (CBS) published data on credit card purchases made in January 2021 by private consumers. Since these data are adjusted for seasonality, and are at constant prices, they may be used in comparisons with other months of the year. This is in contrast to the data on credit card expenditures, published weekly by the Bank of Israel (BoI).



The CBS data indicate a decline in the sum of purchases in January, during which time the country was under a tightened economic shutdown (starting on January 8, 2021), which included substantial restrictions on activity, including the shutdown of trade. The total sum of purchases in January was 8.2% below that in December 2020, and 2.0% less than the sum of purchases in February 2020, prior to the outbreak of the coronavirus crisis.

As can be seen in the accompanying chart, the category of goods most negatively affected by the third shutdown, similar to what occurred in the first two shutdowns, was the manufactured goods category (furniture, electronic goods and electronics, as well as clothing and shoes). The sum of purchases in this category declined 30% in January 2021 compared to the preceding month, to a level 25% below that prior to the coronavirus crisis (February 2020). Analysis of the data from the start of the crisis shows that this area of activity has been the most affected by the development of restrictions on activity.

Furthermore, the activity of this sector has tended to respond rapidly and to decline substantially in parallel to the imposition of restrictions (mainly on trade), and conversely whenever restrictions were lifted. Declines were registered also in all the other areas of activity, albeit more moderate.

In total, the sum of credit card purchases in January remained below the pre-crisis levels in the manufactured goods category, as mentioned, and also in services (tourism, flights, leisure and entertainment, and more). With respect to the latter, most of the included sectors of activity have been subject to restrictions that do not permit a return to regular levels of activity, even before the third shutdown, with an emphasis on social distancing and restrictions on gatherings. In contrast, a high level of activity was registered in comparison to the pre-crisis level in the following categories: other goods and services (computers and software, gasoline, communication equipment, and more), as well as food and beverage.

The data on credit card expenditures, published by the BoI, indicate a moderate increase in the sum of purchases in February, against the backdrop of the gradual exit from the third shutdown. The increase was more substantial in the second half of February, and stood out mainly in the following sectors: tourism, leisure, electricity, clothing, and furniture. On the other hand, declines were registered in the expenditures of food and at pharmacies, this being similar to the exit periods from the two preceding shutdowns. According to our estimates on the sum of purchases seasonally adjusted for the month of February, which are based on the BoI data, it appears an increase is expected in total credit card purchases, led by the noted sectors above.

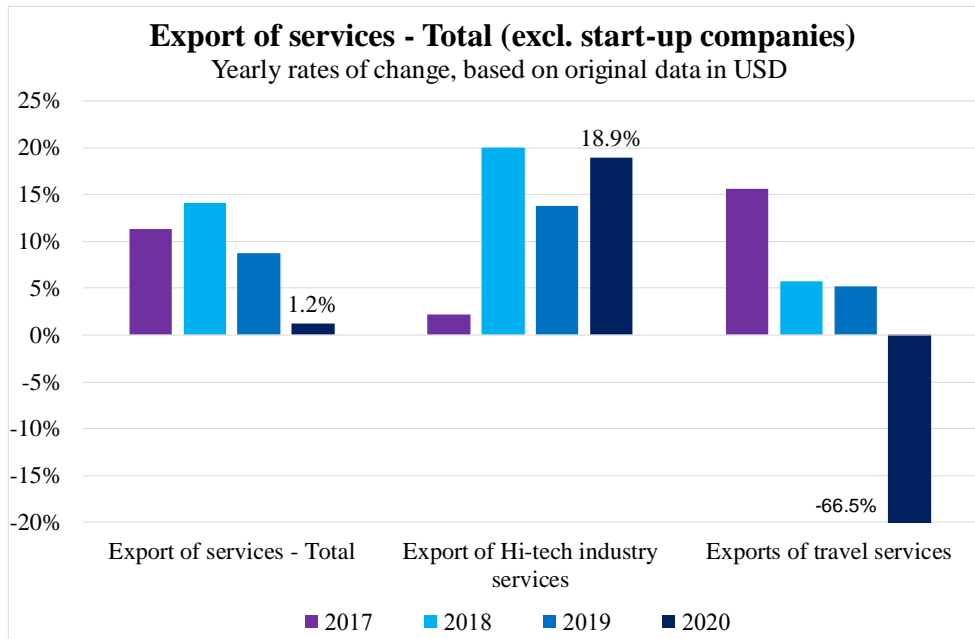
In summary, as long as the exit process from the third economic shutdown will continue as planned, and will lead to, among other things, a return to activity, even if not at full capacity, in the areas of activity that were closed throughout the crisis, with an emphasis on the services sectors, this will support purchases in the coming months. Against this backdrop and looking ahead, we forecast for the baseline scenario, which assumes a continuing process of inoculation of the population in such a manner that will permit a relatively broad opening of the economy soon, private consumption will increase 7% in 2021, led by the sectors that were substantially hurt during the course of the crisis.

Services exports of the high-tech sectors stood out positively in 2020, and these are expected to continue to be an important growth engine for the local economy

CBS data show that services exports from Israel continued to increase also during the period of the coronavirus crisis, with substantial differences among the components. Analysis of the data in US dollar terms shows that total services exports (excluding start-up companies) increased 1.2% in 2020, which is a moderate rate compared to the growth rates registered in previous years (see accompanying chart).

The slowdown in growth in 2020 occurred as a result of a sharp, extraordinary decline of 66.5% in tourist services exports, as tourism activity was unable to carry on over the course of most of the year due to the closure of international travel and the severe restrictions on flights and accommodation services in Israel and around the world. In light of this, the proportion of tourist services exports out of Israel's total services exports fell from 14.5% in 2019 down to only 4.8% in 2020. The export of tourist services is expected to recover gradually with the lifting of restrictions. As long as the process of

lifting the restrictions will include also the opening of flights already in the near-term, and will permit travelers, at least those persons with "green pass" vaccination certificates, to exit Israel without presenting a special request for approval and to stay overseas, also if the approval will be limited initially only to destinations defined as "green" locations, then the recovery is likely to be quicker.



The component that supported the growth of services exports last year was the export of high-tech services, which has served as a substantial and important source of growth to the Israeli economy over recent years, this despite the coronavirus crisis and the substantial appreciation of the shekel. This component includes, among other things, communication services, software and computer consulting, information storage services, research and development, and more.

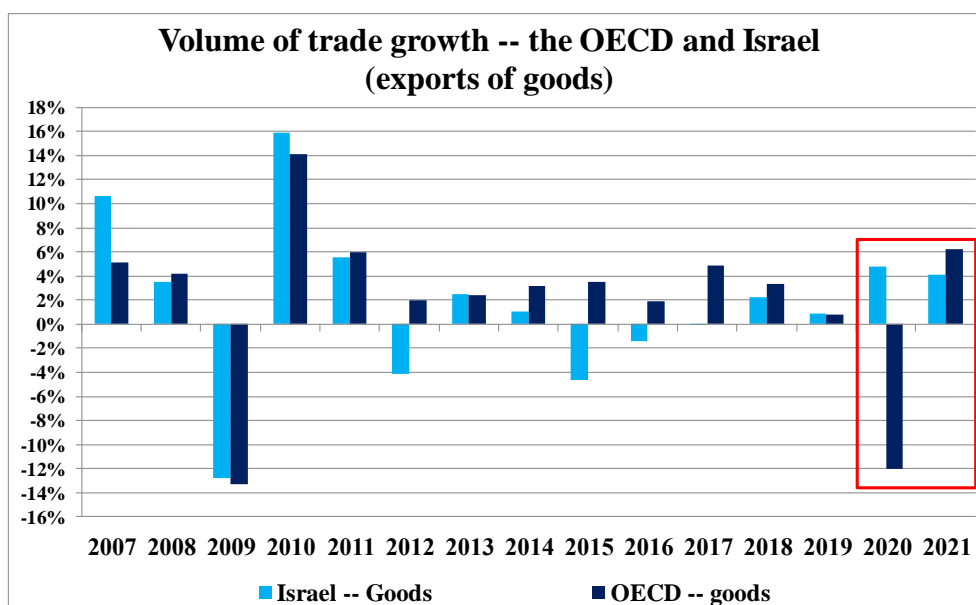
These areas of activity are supported by a number of factors: the relative advantage of the Israeli economy with its high quality, professional workforce, with an emphasis on the high-tech realm (Israel is ranked among 20 countries with the highest level of human development in the world according to the human development index of the UN); a tendency for technological innovation (Israel is ranked seventh in the world in the 2021 Bloomberg innovation index); global demand that has not suffered terribly also during times of economic recession (except for crises related to the realm of high-tech, such as the dot-com crisis at the beginning of the millennium); and also the fact that Israeli high-tech services exports are less sensitive to changes in the exchange rate compared to the industrial sectors (mainly traditional industry).

The services exports of the high-tech sectors increased 18.9% last year, and registered an acceleration in the rate of growth compared to 2019, against the backdrop of, among other things, the factors noted above, and also in light of the fact that this activity can carry on to exist relatively easily also under the coronavirus crisis restrictions. In light of the above, the weighting of high-tech services exports out of total services exports increased from 57.2% in 2019 to 67.2% in 2020.

In summary, the exports of services from Israel, with an emphasis on the high-tech area, is expected to continue to be a leading growth component of the Israeli economy also in the coming years. Furthermore, the growth of services exports is expected to support also the continuing surplus in the current account of Israel's balance of payments, which represents an underlying macro-economic factor that supports the strength of the shekel. In our estimation, in the baseline scenario, Israel's services exports are expected to increase 7% in real terms in 2021.

The performance of Israel's goods exports in 2020 stands out positively in a comparison with OECD countries

A comparison of growth data in the trade of goods among OECD countries to that of Israel shows that while the volume of the trade of goods of OECD countries contracted 12%, such a downturn was not reflected in Israeli exports. Instead, Israel actually registered an increase in 2020, by a relatively high real rate (particularly during the time of the coronavirus crisis) of 4.8%, in contrast to the decline in OECD countries (see accompanying chart). In the past, there was a relatively high correlation between the data series on the trade of OECD countries and that of Israeli exports, although this relationship has weakened in recent years, possibly due to specific events at companies with a large weight in exports (such as Intel Corporation and Teva Pharmaceuticals).



The factors that supported the fact that Israeli exports increased over the past year in contrast to the decline in trade of the OECD countries, of which Israel is a member, include, among other things, the continued development and operations of Israel's natural gas sector also for export purposes, together with the expansion of other types of exports that continued to expand, with an emphasis on Israeli goods exports with a relatively high level of technology (medium and higher). Israeli goods exports have also benefitted from a wide geographic dispersion of markets, with an emphasis on growth in exports to Southeast Asian countries.

It is important to note that a comparison of the trade in goods and services of the OECD countries to that of Israel would likely reflect an even more substantial difference, since Israel has a large component of technology exports in the realm of services that continued

to expand rapidly also in 2020, coupled with a relatively small weighting of tourist services exports in the GDP compared to other OECD countries. The relatively low weighting of Israel's export of tourist services, in comparison to other OECD countries (such as Spain and Italy), led to the fact that the decline in activity in this realm subtracted only a relatively small degree from Israel's GDP during the crisis, this relative to the tourism-intensive countries that experienced substantial damage to GDP as tourism dropped. Looking ahead, we forecast Israel's goods exports will increase in 2021 by a slightly more moderate rate than that of the OECD countries.

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