

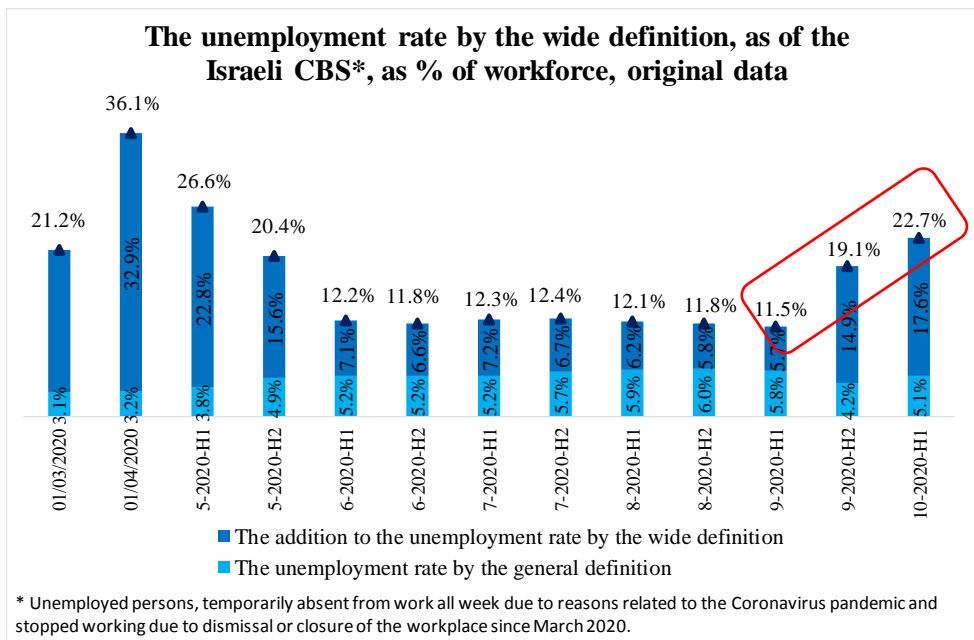
Leumi Economic Weekly

November 4, 2020

A sharp increase in the "broad" unemployment rate during the country's second economic shutdown

The Central Bureau of Statistics (CBS) released the unemployment data for the first half of October. These data are based on workforce surveys.

As we have emphasized in our previous weekly surveys, the analysis presented in this section involves original data that is unadjusted for seasonality, which includes reference to the unemployment rate according to its standard definition (the "regular" unemployment rate) and the unemployment rate according to its broader definition (the "broad" unemployment rate). This is because the "regular" unemployment rate does not fully express the scope of non-employment during the time of the coronavirus crisis, due to technical reasons of its definition, and exclusions.



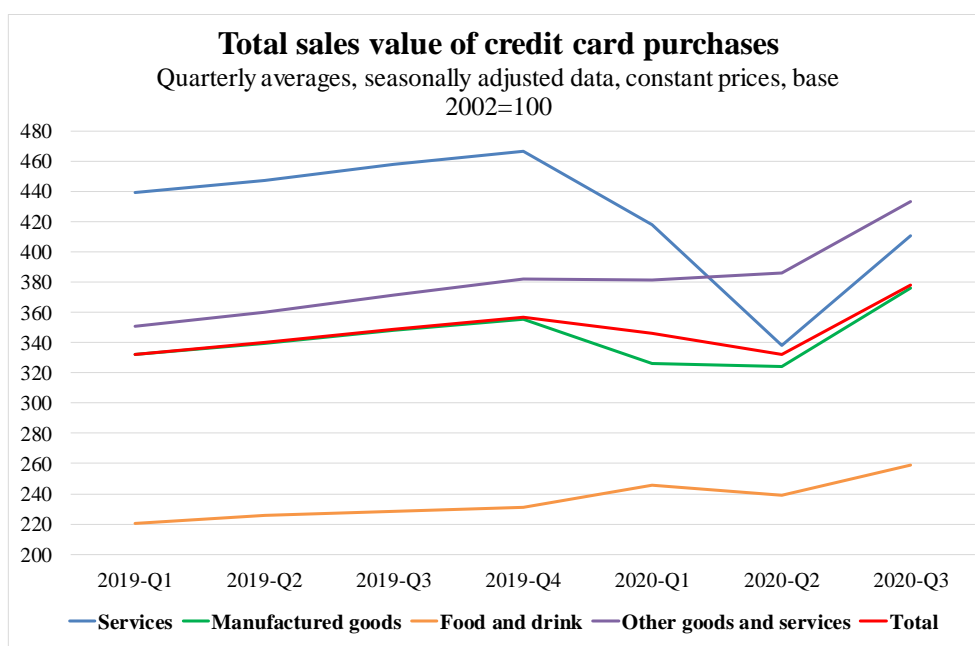
As can be seen in the accompanying chart, the "broad" unemployment rate increased sharply during the period of Israel's second economic shutdown. Thus, in the first half of October the "broad" unemployment rate stood at 22.7%, more than ten percentage points greater than the level from before the shutdown – 11.5% in the first half of September. This situation reflects a sharp increase of 466,000 unemployed persons, to a total figure of 938,000 unemployed persons, similar to the number of unemployed back in May this year, following the exit from the country's first economic shutdown.

However, it is important to note that the number of unemployed persons during the time of the first economic shutdown was substantially higher, amounting to 1.5m persons. This is apparently because the first shutdown was tighter, both in terms of the broad closure of activity in the economy, and also in terms of restrictions on movement (limited to 100 meters from each person's home). It can also be said that the economy was better prepared to deal with a shutdown by the time the second shutdown was actually implemented, as also noted by the research division of the Bank of Israel (BoI). However, it is important to remember that these data are unadjusted for seasonality; therefore, caution is required in comparing the data to those of other months of the year.

In summary, the second economic shutdown led to additional hundreds of thousands of unemployed persons joining the cycle of unemployment, a development that is expected to continue to weigh on local demand for consumption that is not current consumption. It is important to note that as long as the restrictions on activity continue, coupled with the high level of uncertainty with respect to the intensity of these restrictions, parallel to on-going government support for the unemployed, then it appears the broad unemployment rate will remain at a relatively high level. In our opinion, the "broad" unemployment rate in the general economy (persons aged 15 and above) will stand at more than 15% at the conclusion of the year (annual average), and will remain at a double-digit level also throughout 2021. These expectations underscore the importance of formulating a forward-looking government plan, with the goal of creating the infrastructure for a rapid economic recovery in the future, after the spread of morbidity is brought fully under control.

The volume of credit card purchases in the realm of services remains below its pre-coronavirus crisis level

The CBS recently published an update to the data on credit card purchases by private consumers. It is important to note that the CBS data are adjusted for seasonality (and are in fixed prices); therefore, they allow comparison between different months throughout the year, this in contrast to data on credit card expenditures published by the BoI.



The data show that in the first two quarters of the year, the volume of purchases declined 3% and 4%, respectively. It is important to note that the fall in purchases in the first quarter of the year was affected by the restrictions on overseas flights that came into effect already in February, before the broad spread of the coronavirus throughout the country. But the decline in purchases was affected mainly from the first shutdown that started partially in the last two weeks of March, and impacted activity for the entire quarter.

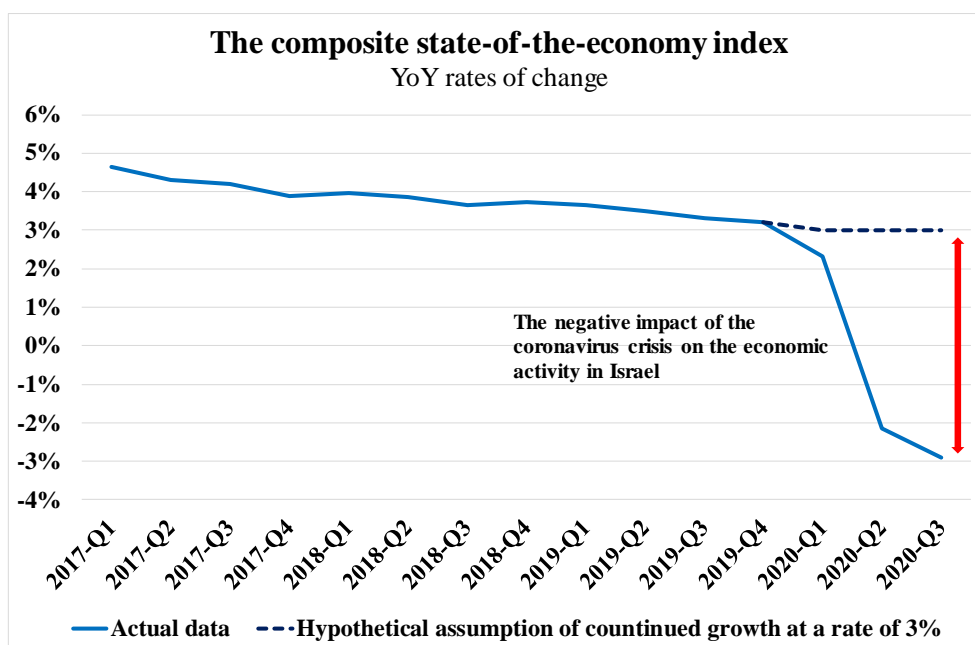
On the other hand, the data show a sharp 14% increase in purchases in the third quarter of 2020 compared to the second quarter of the year, which was characterized by more substantial restrictions on activity. It is important to note that the increase in third quarter activity occurred despite the second economic shutdown implemented during the Jewish holiday period starting in mid-September, and impacted the last two weeks of the quarter. This was, as mentioned, in contrast to the impact of the first shutdown during the first quarter of the year. The difference apparently derives from the fact that the second shutdown was characterized by less-severe restrictions on activity compared to the first shutdown, and also because of the point of comparison (the activity in the second quarter) was lower. This increase, in the third quarter, is expected to be reflected also in an increase in private consumption in the third quarter (a figure that will be released in another two weeks) following the decline in the second quarter.

Analysis of the data according to the main purchase categories indicates a recovery in the purchases of all the sectors in the third quarter of the year, this despite the fact that in September declines were registered against the backdrop of the shutdown in the second-half of the month, led by purchases of manufactured products, which fell sharply. A comparison of the volume of activity in the third quarter of the year compared to the fourth quarter of 2019 indicates an increase of between 6%-13% in purchases in all sectors, with the exception of the services sector (see accompanying chart).

The volume of credit card purchases in the realm of services remains low compared to the end of 2019, and in actuality has not yet recovered from the effects of the coronavirus. This finding emphasizes the inconsistency in the damage felt in economic activity from the coronavirus crisis, which was more substantial in the services sectors, such as: flight services, tourism, accommodation, leisure, and entertainment. As long as the process of easing the restrictions on activity will be delayed, this is expected to weigh on the volume of purchases, with an emphasis on services. In light of this, it is incumbent upon the economic policy makers to act to reduce the degree of uncertainty facing the business sector, with an emphasis on small businesses and freelancers in the services sectors.

The data on the composite state-of-the-economy index illustrate the substantial damage to GDP

The composite state-of-the-economy index, published by the BoI, increased 0.1% in September, compared to a standstill in August and a 0.1% decline in July. The BoI emphasizes that the increase in September's composite index indicates a slight uptick in economic activity during the third quarter of the year, up until the beginning of the second economic shutdown that started on September 18. Due to the lag in most of the data used in formulating this index, the increase reflects the development of index components in August-September, and does not include the decline in economic activity caused by the start of the second shutdown.



Analysis of the quarterly data indicate a slight decline of 0.1% in the composite index in the third quarter of the year compared to the second quarter, during which time a 4% decline was registered (a figure that is below the growth rate published by the CBS). The annual rate of change of the composite index (compared to the parallel quarter in the preceding year) indicates the deepening contraction in economic activity in the third quarter of the year, to a level of minus 2.9%, compared to minus 2.1% in the second quarter of the year.

This decline is an especially severe figure that expresses the negative impact of the coronavirus crisis on the local economy. This is especially if we take into consideration the 3% economic growth rate from before the outbreak of the coronavirus crisis, which is the potential growth rate of the economy (at least until the outbreak of the crisis). The accompanying chart shows the substantial gap that has opened up between the forecast growth path before the coronavirus crisis, compared to the actual situation, as is reflected in the BoI data, which show, as mentioned above, a more moderate decline in activity compared to the growth data of the CBS up until the second quarter of the year.

The different indicators show an increase in activity in the third quarter of the year, similar to most of the developed world, against the backdrop of a higher rate of economic opening in the largest portion of the quarter. This development is expected to be expressed in the national accounts data for the third quarter of the year, which are scheduled to be published during the month. However, it is expected that the growth in Israel will be slightly more moderate compared to some of the developed countries that have already released their quarterly data – such as the US – since the economic shutdown during the Jewish holiday period started in the final two weeks of the third quarter and apparently slowed the growth rate.

Looking ahead, we estimate 2020 will conclude with a 5.5% decline in Israel's GDP, yet next year, in the baseline scenario, a gradual return to activity is expected, with growth of 5.8% against the backdrop of a recovery in activity. In the event of a slower recovery than expected, if the health situation within the country will require the implementation

of substantial restrictions on activity, including additional economic shutdowns, then the growth in the coming year is expected to be slower, at a scale of approximately 3%.

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