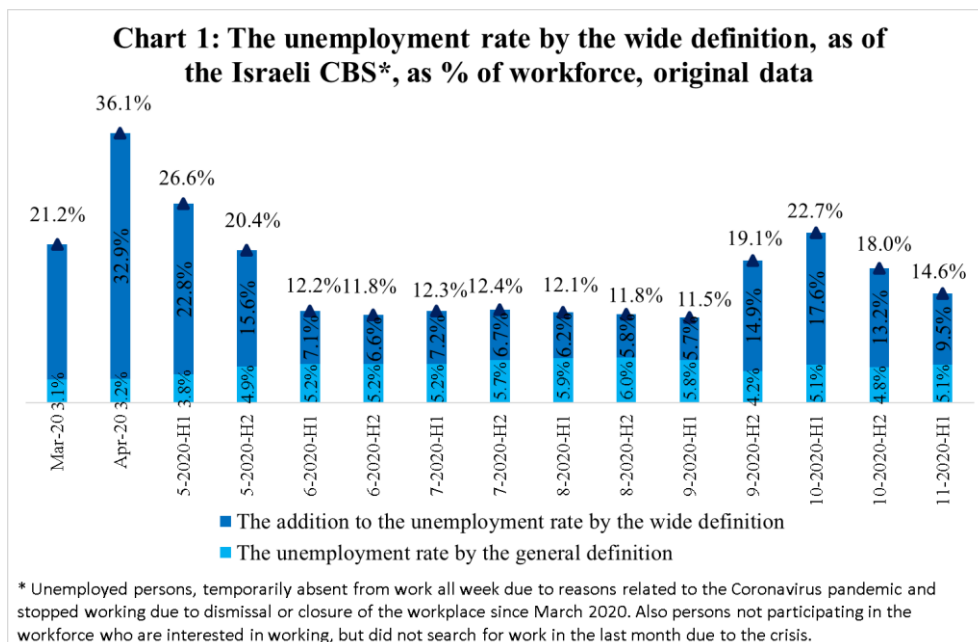


Leumi Economic Weekly

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The "broad" unemployment rate continued to decline also in the first half of November, as the economy gradually exited from its second economic shutdown

The Central Bureau of Statistics (CBS) published the findings from its workforce surveys for the first half of November. These findings include a breakdown of the unemployment rate according to the standard definition (the "regular" unemployment rate) and also according to the more inclusive definition (the "broad" unemployment rate). In addition to the number of unemployed, this more inclusive rate also takes into consideration furloughed workers, employees dismissed due to the coronavirus crisis, as well as individuals not participating in the workforce (those not dismissed due to the crisis or have not worked at all in the past) who are interested in working, but have not sought work over the past month due to the crisis. This section concentrates on analysis of the unemployment data involving the broader definition (original data, unadjusted for seasonality), which better reflects the scale of non-employment in the economy at this time compared to the "regular" unemployment rate.



As can be seen in accompanying Chart 1, the "broad" unemployment rate has been in a downward trend since the economy started a gradual exit from its second government-imposed shutdown, yet remains high compared to the level of unemployment in the period between the two shutdowns. Thus, in the first half of November, the "broad" unemployment rate stood at 14.6%, which is eight percentage points below the unemployment rate in the time of the second shutdown (the first half of October), yet

three percentage points greater compared to the level just prior to the implementation of the second shutdown (the first half of September). The numbers of unemployed in the first half of November stood at 600,000 persons, compared to 500,000 persons in between the two shutdown periods.

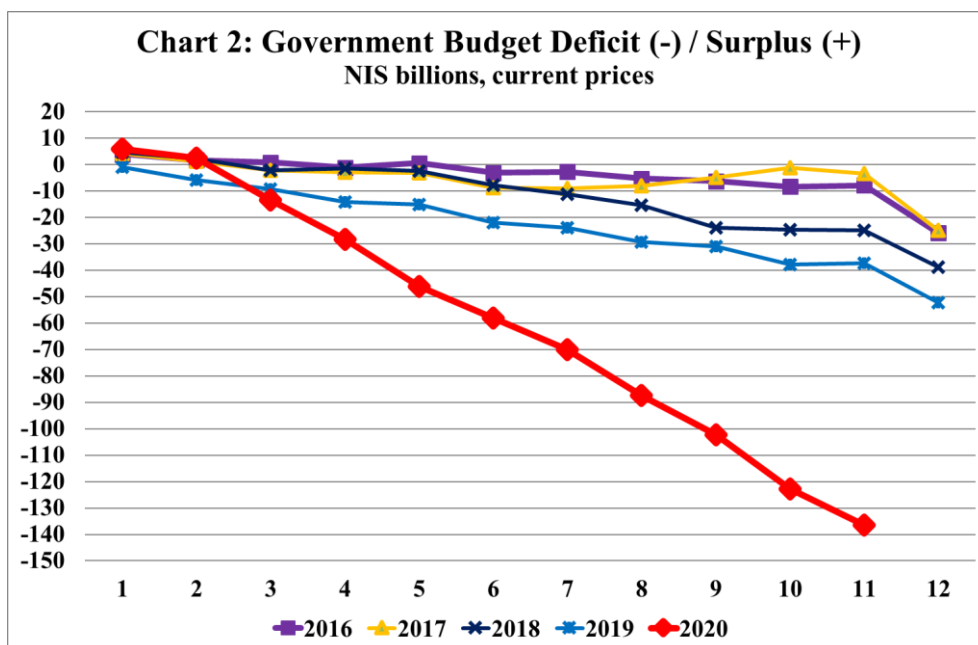
In summary, the bi-weekly data indicate a decline in the "broad" unemployment rate, parallel to the start of a gradual exit process from the country's second economic shutdown. As long as the process of return to regular activity continues, even if this will be slow and gradual, then the unemployment rate is expected to continue to decline. However, it is important to note that recently there has been an uptick in "active morbidity" in Israel; therefore, there is the possibility for the implementation of new restrictive measures, which are likely to weigh on the labor market. On this regard, we note that the news regarding the initiation of vaccination efforts in different parts of the world is indeed encouraging; however, it is important to emphasize this is a logistically complex process that is accompanied by doubts about the degree of public confidence in the vaccine.

In our opinion, a critical mass of vaccinated persons (most of the population), in the developed world and in Israel, will be achieved only in the final four months of 2021. Before this time, other measures are expected to be implemented that will help to improve economic activity, against the backdrop of all the information and experience accumulated since the pandemic started early this year, and developments in the areas of treatment and quick testing. In light of all this, and mostly due to the current "format" of government support for the unemployed, it appears the "broad" unemployment rate, which is composed of "temporarily" unemployed persons, is expected to remain at a relatively high level in the first half of 2021.

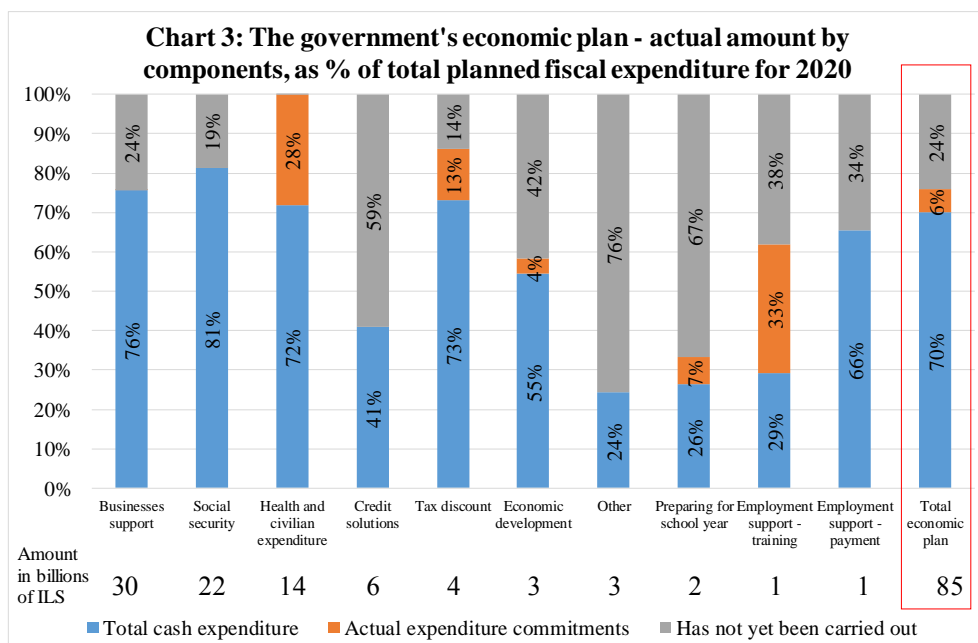
The sharp increase in the government budget deficit continued also in November; the deficit over the trailing 12-month period stands at 11.1% of GDP

Government activity in November amounted to a deficit of NIS 13.7bn, compared to a surplus of NIS 0.5bn in November last year. The cumulative deficit over the first 11 months of 2020 (January-November) stands at a peak level of NIS 136.4bn, substantially greater than the deficit in the parallel period of 2019 (NIS 37.3bn), and also compared to the same period in preceding years (see accompanying Chart 2). Furthermore, the fiscal deficit over the trailing 12-month period (December 2019 – November 2020) increased to 11.1% of GDP compared to 10.1% of GDP in the preceding month, and the figure is even expected to increase further in December, a month that over the years has typically registered high deficits compared to all the other months of the year. This comes against the backdrop of, among other things, end-of-year fiscal adjustments made each year by the Ministry of Finance (MoF).

The sharp increase in the government deficit due to the coronavirus crisis is mostly the result of an increase in government expenditures needed to deal with the crisis, while revenues fell by a moderate rate of 2.5% (in real terms, based on uniform tax rates, compared to the same period in the preceding year), primarily due to a decline in indirect tax revenues and fees. Direct taxes fell by only 0.3%, in light of the fact that most of the unemployed persons in this period are low-income earners, such that the direct tax liabilities for these persons are low.



The scale of actual cash performance (fiscal expenditure) of the economic plan for assisting in dealing with the coronavirus crisis as of the end of November stands at NIS 59.4bn, which is equivalent to 4.3% of GDP. This is a very low percentage compared to most of the other developed countries of the world. This figure represents a 70% performance rate out of a total planned expenditure of NIS 85bn from the state budget. Approximately one-quarter of the originally planned sum remains unspent, and it appears this year will conclude with an underperformance of the government assistance plan, since only less than one month remains until the end of the year.



As can be seen in accompanying Chart 3, the rates of performance of the plan's components that relate to direct support to local households and businesses, which are

also the largest components of the assistance plan, are greater than the rates of performance for all the other components. On the other hand, the rates of performance of the components related to credit solutions, an exit plan from the crisis, and encouragement for employment, are notably negative. These developments are likely to burden the economy's exit process from the coronavirus crisis and the return to a path of growth.

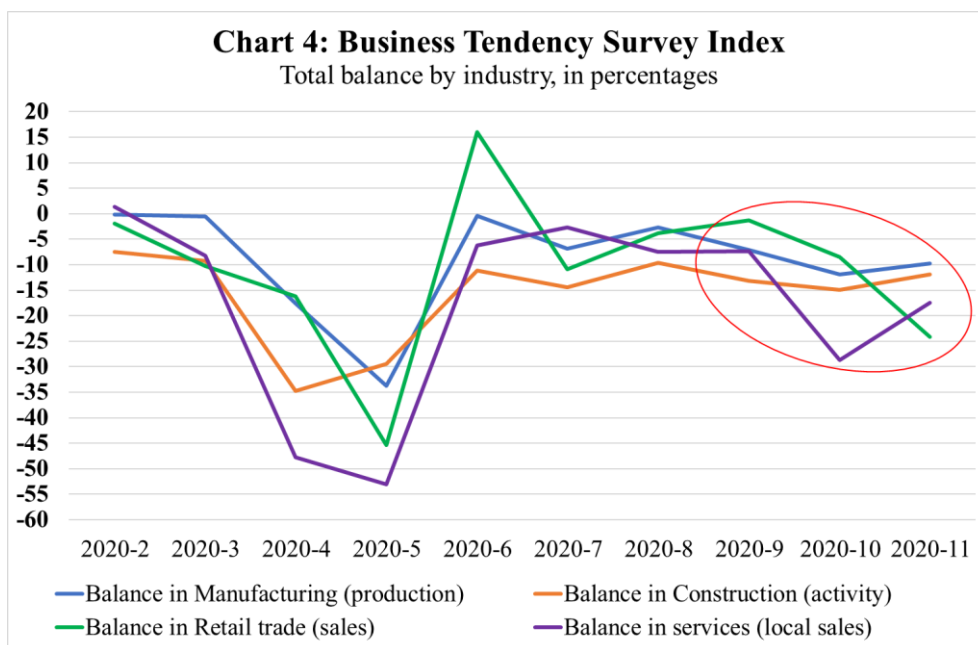
We note that the Bank of Israel (BoI) continues to support government activity through the purchase of government bonds. Thus, in November the BoI purchased NIS 4.6bn in government bonds, and year-to-date the central bank purchased a cumulative sum of NIS 41.6bn in government bonds. The BoI is expected to continue this purchasing program also in the coming months.

In summary, we estimate 2020 will conclude with a government deficit equal to 12% of GDP. Regarding 2021, we forecast a high single-digit deficit, but this is dependent on the pace at which the economy returns to regular activity. As the rate of return to regular activity becomes quicker, then this will support an increase in tax revenues and a reduction in the need for government support of the economy. At this time, the 2021 forecast is based on a "continuation budget" policy and a point-by-point implementation of earmarked fiscal "boxes", without any measures by the government to accelerate growth. Approval of a budget during 2021, possibly with a delay due to the apparent possibility for general elections early next year, and the initiation of the implementation of growth accelerators, is expected to have actual substantial results only over the more distant future, meaning 2022-2023 and beyond.

Business sector reports indicate relatively moderate activity following the latest shutdown, but there is an improvement in forward expectations

The Business Tendency Survey of the CBS indicates continued moderate activity also following the exit from the second economic shutdown. The net balances (the weighted difference between the percentage of company managers reporting an improvement in their condition and the percentage of those reporting a deterioration in their condition) in the leading indices of all the sectors remained in negative territory in November (see accompanying Chart 4). This comes apparently against the backdrop of the fact that the economy is still performing under government restrictions, this in light of the slow and gradual exit from the second economic shutdown.

A sectoral analysis of the data shows a slight improvement in the assessments in most sectors, except the trade sectors, although the current level remains low compared to the pre-crisis level (February 2020). However, all the sectors report expectations for an increase in activity in December, meaning there is an increase in optimism within the business sector. In the industrial and services sectors there are expectations for an expansion in activity, in both the local and the export markets. There is also a slight improvement evident in the forward expectations in the trade sectors; however, the construction sector is expecting activity to continue at a moderate level. As long as the restrictions on activity continue to be eased, such moves will support business sector activity.



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