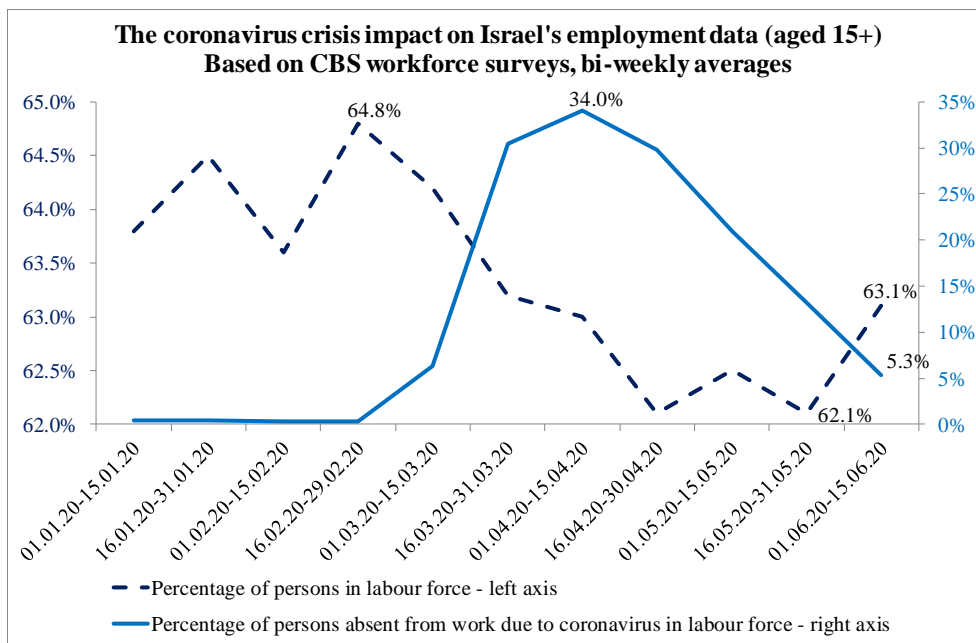


# Leumi Economic Weekly

July 15, 2020

## *A decline in the number of workers not actively participating in the workforce in the first half of June, according to the workforce survey of the Central Bureau of Statistics*

The Central Bureau of Statistics (CBS) published employment data (based on workforce surveys) for the first half of June. In contrast to the publications in preceding months, the June data were calculated based on bi-weekly averages, and the preceding periods were revised accordingly. The analysis presented in this section relies on the original data, unadjusted for seasonality, which we usually rely on, this due to the disruptions in the data series caused by the coronavirus crisis, as we have noted in previous surveys.



Furthermore, we emphasize that the official unemployment rate does not fully reflect the current level of non-employment, against the backdrop of the coronavirus crisis. The impact of the coronavirus on the level of employment is reflected also in the data on employees, this due to the classification of workers placed on unpaid vacation as employed persons temporarily absent from work, and not as unemployed.

As presented in the accompanying chart, the rate of employed persons (salaried employees and freelancers) temporarily absent from the workforce (full week) out of total workforce participants, most of whom were placed on unpaid vacation, reached a peak level of 34% in the first half of April, at the peak of the lockdown period. Since then, this rate has been in a downward trend, this in parallel with the gradual opening of activity in the economy, and the removal of restrictions. The downward trend continued without interruption, such that in the first half of June, in parallel with the cancellation of a large portion of the government imposed restrictions, as well as the return of a large portion of the economic activity and the education system, the rate of employees temporarily absent from the

workforce stood at only 5.3%. At the same time, the rate of workforce participation fell from the beginning of the crisis through the end of April, due to workers who were forced out of the labor market; however, in the first half of June an increase occurred in this rate.

In addition to what is noted above, in order to get a more complete and fuller picture of the level of non-employment as of the middle of June, we must add and take into consideration also the unemployment rate in the economy (equaling 5.2% in the first half of June) and also the same workers who do not participate in the workforce, that is to say, those who stopped working because of dismissal or closure of their workplace since the beginning of the coronavirus crisis (March-June 2020), who are still not actively searching for new work.

The weighting of these three categories leads to a broad unemployment rate of 12.5% (out of the total of workforce participants), or approximately 507,000 workers. This is a substantially low level of non-employment compared to the reports from March-May, yet is still high compared to the level prior to the breakout of the coronavirus crisis (February 2020), when the unemployment rate was below 4%.

It is important to note that these data do not include the current wave of morbidity, which has accelerated and led to a re-introduction of some of the restrictions on activity. In light of this, an increase can be expected in the number of unemployed / temporarily absent from work in the upcoming data releases. Looking ahead, we estimate the general unemployment rate in the economy (persons aged 15 and above), which matches the CBS definition (annual average) in 2020, will stand at 8.0-8.5%.

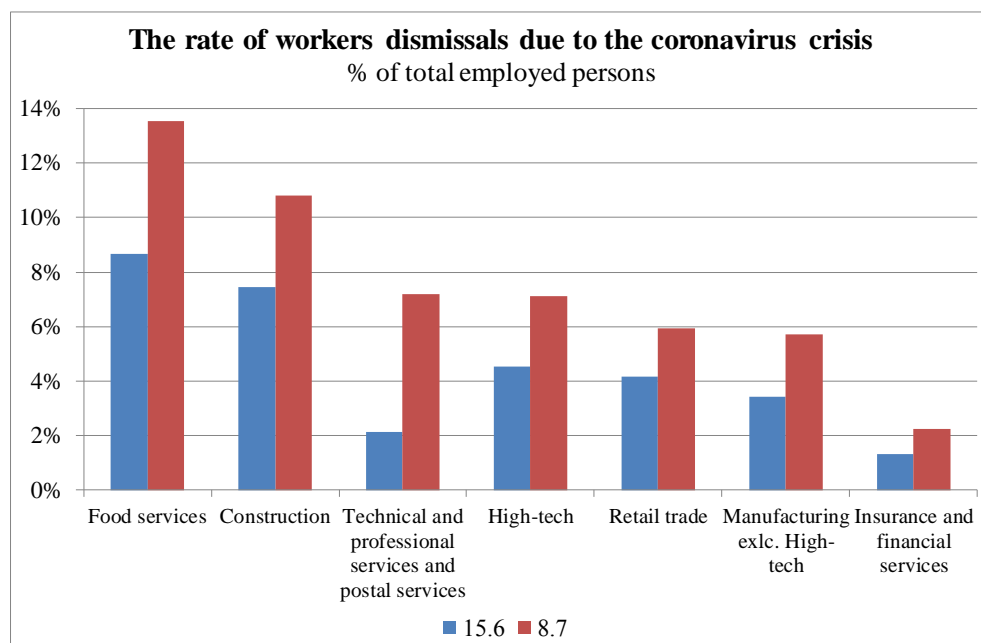
***An increase in the rate of employee dismissals due to the coronavirus crisis in the beginning of July***  
The 7<sup>th</sup> Wave of the Survey of Businesses in Israel during the Coronavirus Crisis was conducted by the CBS during July 5-8. The survey includes businesses with five or more salaried positions, in some of the sectors of activity in the economy: high-tech, traditional and mixed industry, construction, retail trade, finance and insurance services, professional and technical services, mail and transportation services, and the food services sector.

The survey shows the impact of the coronavirus crisis on activity and on the levels of employment in the surveyed sectors, with comparisons between different periods of time. Thus, the survey enables us to analyze developments over the period of the crisis. However, the survey does not reflect a full picture of overall activity, since it does not include sectors that remain closed down, such as: tourism, entertainment and leisure, and more.

The accompanying chart shows that the rate of employee dismissals due to the coronavirus crisis increased broadly in all the surveyed sectors on July 8 compared to June 15. The leading sectors in terms of the rate of employee dismissals are the sectors that suffered badly due to the government imposed restrictions, headed by: food and beverage services, construction, and professional services. In addition, we note that the rate of employee dismissals is especially notable among small and micro businesses.

It appears that at this current point in time, as Israel experiences an additional wave of morbidity, the number of businesses that are being forced to dismiss workers and to shut down business activity, instead of releasing employees to unpaid vacation, is increasing. This development, in parallel with a decline in consumer confidence levels in June, emphasizes the renewed rise in uncertainty surrounding economic activity and the economic condition of households. This trend, involving a decline in local

demand, represents the most substantial factor behind the damage to the activity of companies, as reported in the 7<sup>th</sup> wave of the survey.



The government presented an additional assistance package in recent days, entitled "Economic Safety Net 2020-2021", of which the governor of the Bank of Israel (BoI) voiced his support. This plan is intended to provide an answer to the challenging economic issues facing the country, and to improve the degree of certainty among businesses and households. The plan includes immediate assistance to freelancers; an extension of unemployment benefits through the end of June 2021, or until a decline in the unemployment rate to below 10%; and more.

Until now, it appears the plan has not yet provided the required response, since social unrest has increased in the days following the launch of the plan. In addition to the assistance mentioned, and in order to enable at some future point the economy's exit from the current economic slowdown, clear and efficient support is required for the activity of small and medium businesses, both of which have an important contribution to overall economic growth and employment in Israel, and the implementation of targeted growth engines.

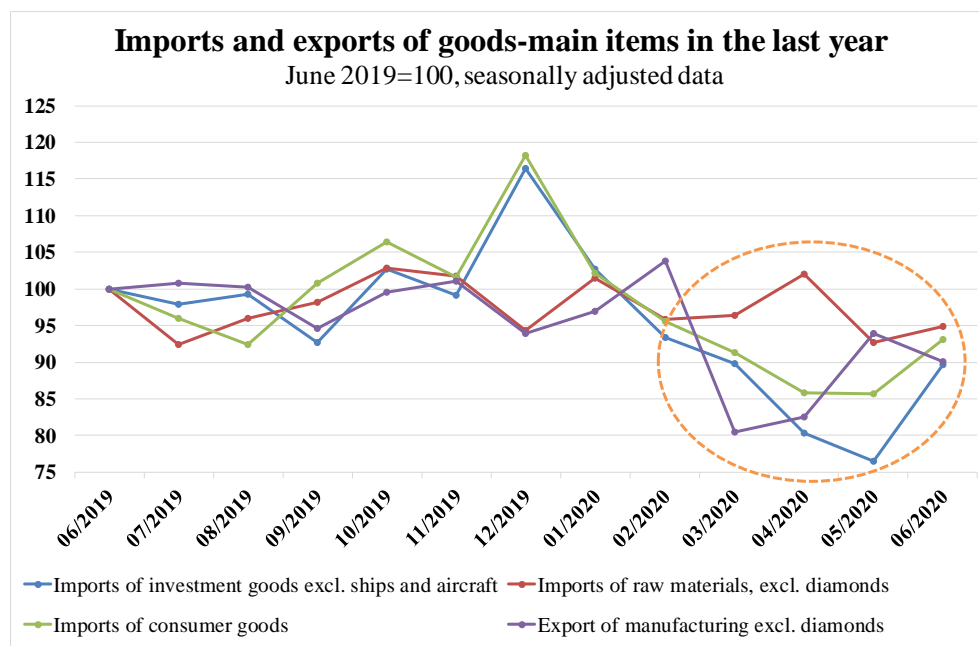
***The foreign trade indices indicate a low level of activity compared to the parallel period in 2019***

Goods exports from Israel stood at US\$3.5bn in June this year (excluding ships, aircraft, and diamonds; seasonally adjusted data). This represents a 4.2% decline compared to the preceding month, and a 10.0% drop compared to June 2019 (in current US dollar terms). The decline was broad across most export sectors, excluding pharmaceuticals and electronic components, which increased in June compared to May 2020.

Goods imports (excluding ships, aircraft, diamonds, and energy materials) stood at US\$4.6bn in June, representing a 6.5% increase compared to May this year, but 6% below the level in June 2019. All the import components – raw materials, consumption goods, and investment products – increased in June compared to May, but their levels remained low compared to June 2019.

As can be seen in the accompanying chart, following a relatively substantial decline in April-May, it appears a slight recovery in the import components occurred in June, although the data still reflect

substantially lower activity compared to the pre-crisis level. The most substantial decline occurred in the import of investment goods, in which the rate of recovery is slower than that of consumption goods. This development likely reflects the notable impact of the high degree of uncertainty currently prevailing in the economy, and is hindering investment activity.



Industrial export, which fell sharply in March, recovered in April-May; however, as mentioned, declined once again in June. The core trade deficit (excluding ships, aircraft, diamonds, and energy materials) in the first half of the year was similar to that from that in the first half of 2019. However, it appears that in the second quarter there was an improvement in the deficit compared to the first quarter.

Looking ahead, we estimate a sharp drop (double-digit) is expected this year in both imports and exports of goods and services. As the current wave of morbidity continues, and a re-introduction of restrictions on local economic activity will be required, the declines in imports and exports will likely become more substantial. At the same time, the estimates for sharp declines, even more severe than forecast for the Israeli economy, among most of Israel's main trade partners, are expected to notably moderate the global demand for Israeli output, a development that weighs on local exports, primarily with respect to goods exports.

**Author: Yaniv Bar**

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