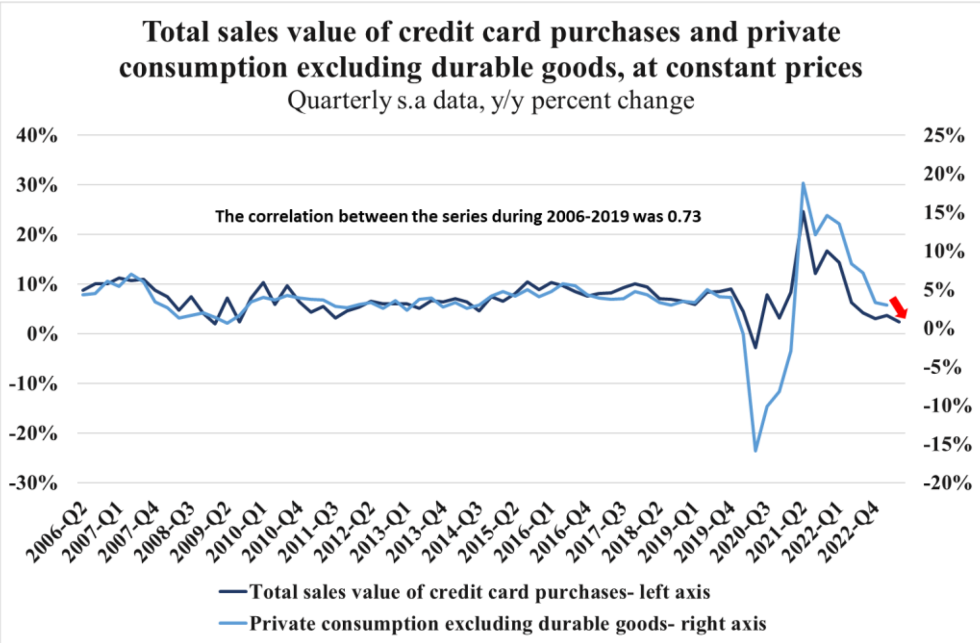
Leumi Economic Weekly

August 1, 2023

The slowdown in the growth rate of credit card purchases in the second quarter likely indicates a moderation in expenditures on private consumption

Data from the Central Bureau of Statistics (CBS) show that credit card purchases by individuals (at domestic businesses only) increased 0.3% in the second quarter of 2023 compared to the preceding quarter (seasonally adjusted data, in real terms), and by 2.4% compared to the parallel quarter last year (see accompanying chart).



The growth rate (compared to the parallel quarter last year) in the second quarter of 2023 is the lowest registered since the first quarter of 2010, except for the second quarter of 2020, during which time the coronavirus pandemic spread throughout the country. The slowdown that has occurred recently in the growth rate of credit card purchases comes against the backdrop of an erosion in the real purchasing power of households, resulting from the sharp rise in local interest rates (which increases the debt payments of households – especially mortgage payments) and from the high inflation in the country. This situation is accompanied by heightened uncertainty regarding local economic activity, under the shadow of the recent socio-political developments in the county, and low consumer confidence levels compared to the past.

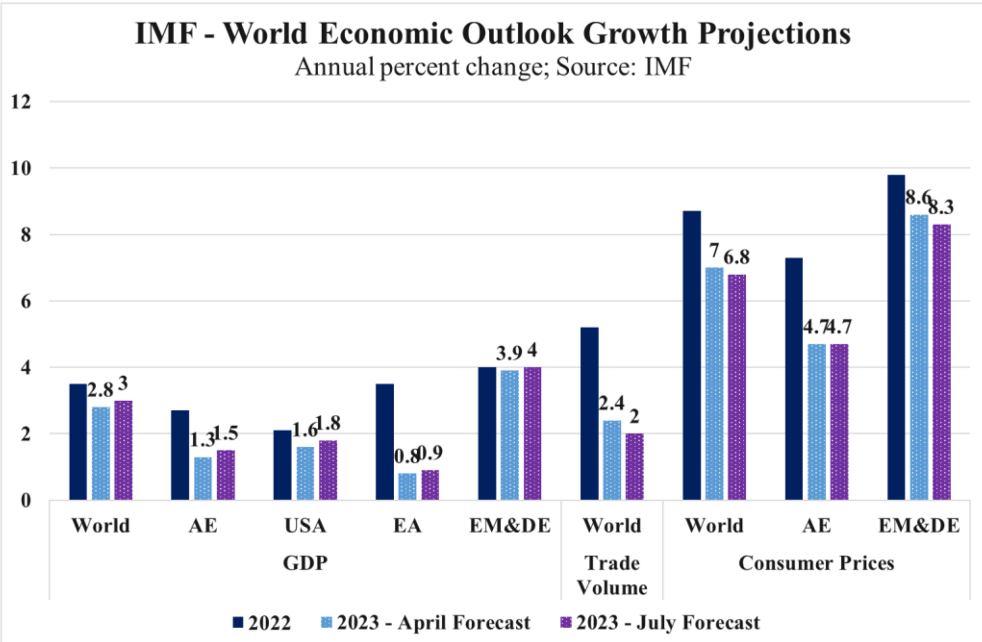
As can be seen in the accompanying chart, the growth rate of credit card purchases (seasonally adjusted data, in real terms) is positively correlated by a high level with the growth rate of expenditures on private consumption, excluding durable goods (that is to

BANK LEUMI LE-ISRAEL, THE CAPITAL MARKETS DIVISION
The Economics Sector, P.O.Box 2, Tel Aviv 61000
Ph: 972-76-885-8737, Fax: 972-77-895-8737, e-mail: Gilbu@bll.co.il
http://english.leumi.co.il/Home/

say, mainly current consumption and consumption of semi-durable goods, such as clothing and footwear) – between the years 2006-2019 the correlation equaled 73%. Consequently, the drop in the growth rate (vis-à-vis the parallel quarter last year) in credit card purchases compared to the preceding quarter (during which credit card purchases increased 3.7%) reflects a slowdown in the growth rate of private consumption during the second quarter of this year, a figure that is expected to be released by the CBS later this month. In order to complete the full picture, we note that the data on goods imports (seasonally adjusted data, in nominal terms) in the second quarter indicate a slowdown in the growth rate of durable goods consumption. Thus, considering the trends in the two components noted above, there appears to be a slowdown in the growth rate of overall private consumption during the second quarter of 2023.

The 2023 growth forecast for the global economy by the International Monetary Fund (IMF) was revised moderately upward

On July 25th the IMF published its revised macro-economic forecasts with respect to the growth rate of the global economy, international trade, commodities prices, and inflation. The revised forecasts include a 2023 growth rate that is slightly higher than the forecast released back in April, 3.0% compared to 2.8% (see accompanying chart). However, this forecast reflects a growth rate below that from last year (3.5%), and low from an historic perspective (a 3.8% average annual rate between the years 2000 – 2019).



According to the IMF forecast, there will be a substantial slowdown in growth in 2023 within the advanced economies (AE), this against the backdrop of, among other things, weakness in the manufacturing sectors. In contrast, the growth rate for the emerging markets and developing economies (EM&DE) is expected to remain unchanged compared to 2022.

Regarding Israel's main trade partners, according to the forecast, the growth rate in the US will be greater than previously forecast by 0.2 percentage points, this due to, among other reasons, the robust private consumption that was registered during the first quarter of the year. In addition, the growth rate in the euro bloc (EA) was also revised slightly upward compared to April, by 0.1 percentage point, due to expectations for stronger growth in Italy, Spain, and France, against the backdrop of strength demonstrated by the services and tourism sectors in these countries.

According to the IMF, the risks to the global economy growth forecasts have lessened somewhat since April. For example, the rapid and determined solution by the authorities to the difficulties that started to be discovered in the banking systems in the US and in Switzerland prevented these situations from developing into a broader crisis. However, the main risks to the growth forecasts are: high and sustained inflation; a more moderate than expected recovery in China; de-globalization processes; and more. The forecast on the growth rate of global trade in 2023 was revised downward from 2.4% to 2.0%. This forecast reflects a low growth rate compared to the past, against the backdrop of factors such as: declining global demand; a shift in private consumption toward local services, at the expense of imported goods; the delayed effects of the strengthening dollar; and a rise in trade barriers.

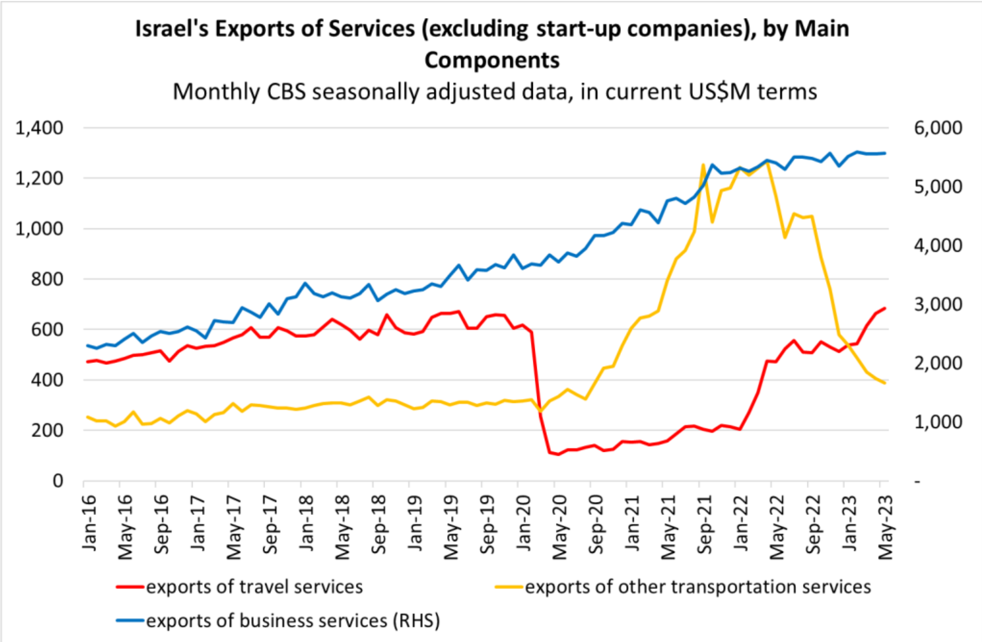
In summary, the revised IMF forecasts are positive relative to the previous forecasts, indicating higher growth and lower inflation compared to the April forecasts. In addition, the risks to the growth forecasts have lessened somewhat. The slight upward revision to the 2023 growth forecasts of Israel's main trade partners is a positive sign for the export of goods and services from Israel.

The standstill in services exports is continuing, a trend that is weighing on growth and weakens the pressures for shekel appreciation

According to CBS data, services exports from Israel in May this year amounted to US$6.7bn (in current US dollar terms; seasonally adjusted data; excluding services exports of start-up companies). This is similar to the total services exports registered in preceding months, yet about 5% below the services exports registered in the parallel month in 2022. That is to say, the data indicate a standstill over recent months in total services exports, following a downtrend that occurred in this activity in the second half of 2022.

The standstill over recent months stems mainly from the trend in business services exports, a component currently representing more than 80% of total services exports from the economy. This component includes the export of high-tech services, together with accompanying business services. As can be seen in the accompanying chart, exports of business services have been "treading water" over recent months, following a trend of substantial slowdown that occurred in this activity during 2022. This comes against the backdrop of the impact that rising interest rates in Israel and around the world has had on capital raising in the high-tech services sector, together with the slowdown in the Israeli economy as well as in the global economy. Furthermore, the heightened economic-political uncertainty within Israel has also had a detrimental effect.

A secondary factor that is currently weighing on the growth of services exports from Israel is the sharp decline that has occurred for more than a year in the export of other transportation services (a component that includes, among other things, international freight services, leasing fees for ships and aircraft, as well as port services, such as the processing of goods and accompanying services). The export of other transportation services returned recently to its pre-coronavirus crisis trend, or even slightly below this level, following a substantial spike that was seen in this activity during the period of the coronavirus crisis. This development reflects, in our estimation, the impact of the sharp drop that was registered in the past year in international freight prices, against the backdrop of diminishing disruptions to the global supply chains with the global economy's exit from the coronavirus crisis.



In contrast to exports of business services and other transportation services, recently the performance of travel services exports has stood out positively, with this activity reflecting expenditures in Israel by tourists from overseas. Travel services exports have been growing at a relatively rapid pace in recent months, following a more gradual rise throughout 2022, and recently this activity has returned to its pre-coronavirus crisis level. In light of the fact that the number of tourists arriving into Israel and the number of tourist person nights at hotels in Israel are still slightly below their pre-coronavirus levels, it appears that the more rapid recovery of travel services exports derives from the rise in prices of tourism services in Israel.

The recovery in incoming tourism to Israel still reflects, apparently, the effects of "pent-up" demand, which is continuing to be released following the restrictions that were imposed on international tourism during the period of the coronavirus crisis. It is also possible that the shekel depreciation over recent months vis-à-vis the currencies of the countries from which most of the tourists arrive into Israel (dollar, euro) is contributing as well to the increase in incoming tourism, since this lowers prices for the tourists, in terms of their local currencies, on the expenditures paid by them in Israel.

In summary, services exports from Israel have been in a standstill over recent months, mainly against the backdrop of little movement in the export of business services (including high-tech services exports), and also against the backdrop of the decline in the export of other transportation services. After a number of years in which services exports represented a main growth engine of the Israeli economy, the standstill currently occurring in this activity represents a factor that is hampering growth, and this is also reining in the surplus in the services account of Israel's balance of payments, a development that is weakening at this time the pressures for shekel appreciation.

Authors: Alon Kol Kreis and Gili Ben Avraham