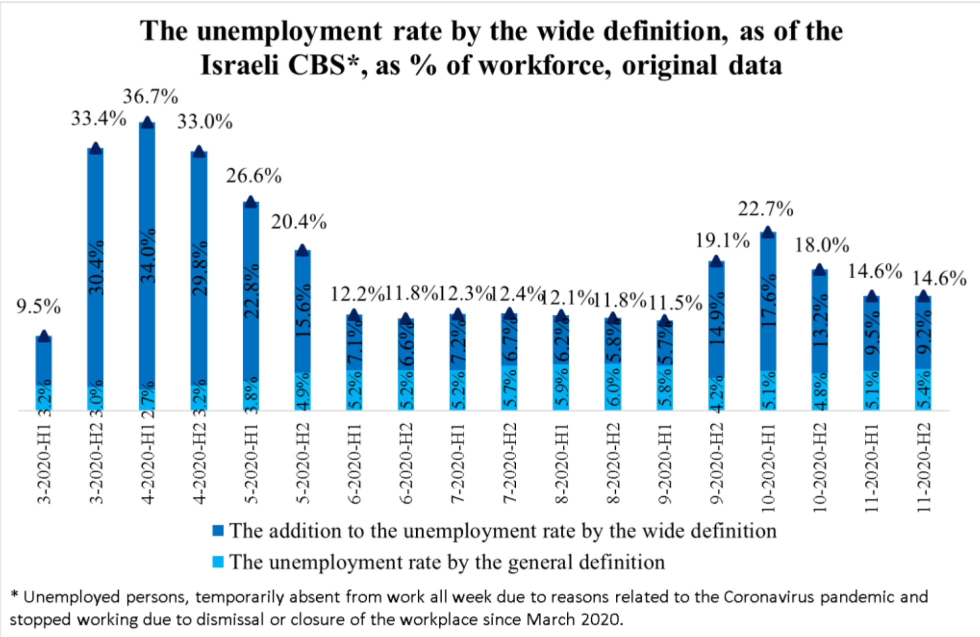
Leumi Economic Weekly

December 23, 2020

The decline in the "broad" unemployment rate halted in the second half of November
The Central Bureau of Statistics (CBS) published the data from its workforce surveys for the month of November (monthly and bi-weekly). The data refer to the unemployment rate according to the standard definition (the "regular" rate) and also according to the more inclusive rate (the "broad" rate). It is important to note that the "broad" rate provides a more comprehensive picture regarding the extent of non-employment in the economy at this time, in contrast to the "regular" unemployment rate, in terms of definitions and inclusions. Therefore, this analysis will concentrate on the unemployment data using the broad definition (original data, unadjusted for seasonality). We note that the "broad" rate includes unemployed persons, as well as furloughed workers, employees dismissed due to the coronavirus crisis, and also those not participating in the workforce (persons not dismissed due to the crisis or who have not worked at all in the past) who are interested in finding employment, but did not seek a job over the past month due to the crisis.



As can be seen in the accompanying chart, <u>the downward trend in the "broad" unemployment rate, evident since the economy started to gradually exit from its second economic shutdown, came to an end in the second half of November</u>. The "broad" unemployment rate remained at 14.6%, which equates to 600,000 unemployed persons, this compared to a "broad" unemployment rate of 12% (or 500,000 unemployed persons) in the period between the two economic shutdowns, and a pre-crisis rate of less than 4%

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/

(150,000 unemployed persons). This development underscores how the labor market is finding it difficult to recover from the effects of the crisis.

This comes against the backdrop of a number of factors, among them being: the fact that the current level of economic activity is low compared to the level of activity in the period between the two shutdowns – 84% in October compared to 95% (according to Bank of Israel estimates); also, the number of available jobs dropped sharply due to the coronavirus crisis (with an emphasis on the restaurant, leisure, and accommodation sectors, which are still subject to strict restrictions on activity), and even though the number of available jobs increased slightly over recent months, the number remains substantially below the pre-crisis level – approximately 60,000 jobs in November compared to 100,000 jobs in February (CBS data, excluding seasonality). This equates to a ratio of approximately ten unemployed persons per available job, compared to a ratio of less than one back in February this year.

This situation has led to an increase in the number of unemployed persons who have been without a job over an extended period, and who are finding it difficult to return to the labor force, with an emphasis on sectors with below average salaries. According to estimates from the Bank of Israel (BoI), the number of persons unemployed for a period of over 16 weeks (using the "broad" definition) stabilized from mid-2020 at approximately 200,000 persons, this compared to only 30,000 persons in March this year. These findings underscore the slow recovery process of the labor market from the negative effects of the coronavirus crisis.

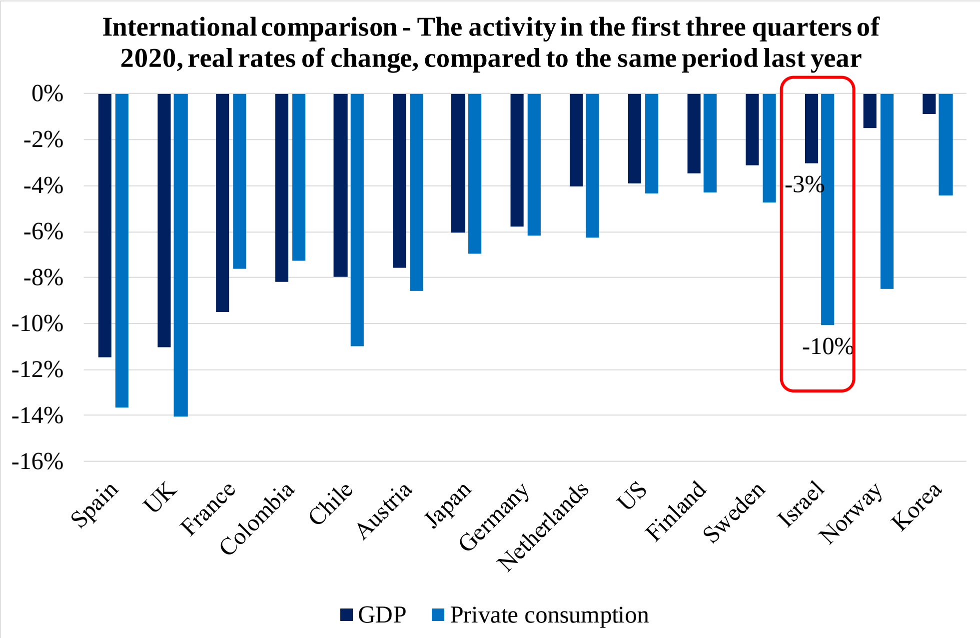
In summary, we estimate the unemployment rate is not expected to return in the coming years to its pre-crisis level. On this regard, we note that recently there has been a relatively substantial increase in the level of "active morbidity" in Israel; therefore, it is quite possible that new restrictive measures may be imposed on the economy, and this is likely to weigh on the labor market. With this in mind, we note the vaccination process that started recently is expected to contribute to the recovery process, but not immediately. In our opinion, a critical mass of vaccinated persons (most of the population), in the developed world and in Israel, will be achieved only during the second half of 2021.

In parallel, economic activity will continue to operate alongside the coronavirus, yet with the advantage of accumulated knowledge and experience from recent months that will assist matters over time. In light of all this, and with the assistance of government support for the unemployed, which is likely to continue beyond the first half of 2021, it appears the "broad" unemployment rate is expected to remain at a relatively high level at least into the initial portion of 2021.

Even though the decline in Israel's GDP was moderate in an international comparison, the damage to private consumption stood out negatively

A CBS report regarding the quality of life in Israel during the coronavirus pandemic (based on surveys) provides an indication of the damage caused by the crisis to the condition of local households. The publication surveys a number of indices assessing the quality of life in a variety of areas, such as: material standard of living, employment, economic status, trust in the government, health, and more. Some of the indices are unique to the period of the crisis, and some of them can be compared to previous years.

Furthermore, some of the indices compare the condition in Israel vis-à-vis chosen countries within the OECD.



The findings show deterioration in public confidence in the government over the course of the crisis; however, public confidence in the operations of the health system (health management organizations and hospitals) is relatively high. At the same time, the findings indicate deterioration in employment security felt by households, which is expressed, in among other ways, an increase in the rate of extended unemployment (persons unemployed for more than six months as a percentage of total unemployed persons) to 26.5% in October compared to 17.4% in 2019. Furthermore, in November, 42.2% of the respondents reported their economic condition had worsened. However, it is important to note that most of the research published so far indicates a more significant impact from the coronavirus crisis on the lower income deciles. In light of all this, consumption per capita fell sharply in the first two quarters of 2020 (to the lowest level in a decade), but recovered in the third quarter, to a level similar to that in the second quarter of 2015.

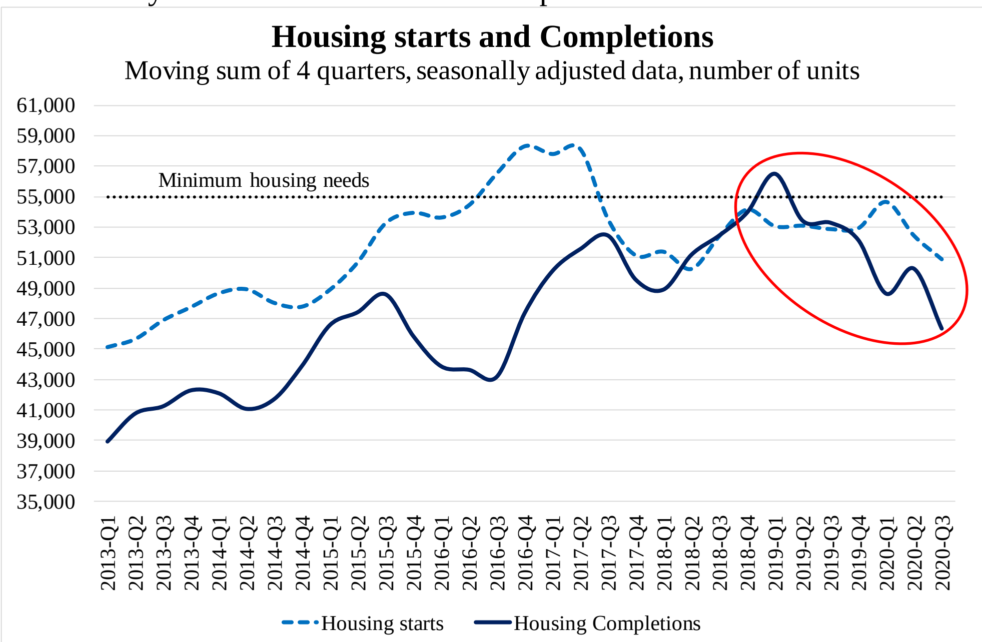
The severe damage caused by the coronavirus crisis to the economic situation of Israeli households is also notable in an international comparison. As can be seen in the accompanying chart, the decline in Israeli GDP in the first three quarters of the year (compared to the same period last year) was low relative to most OECD countries. However, the extent to which the coronavirus crisis has affected private consumption in Israel is conspicuously negative, despite government support for the unemployed and the self-employed.

These findings are the result of, among other things, large-scale technology exports, which continued to expand, along with the growth of other types of exports (from the commodity sector), along with continued development and operation of the natural gas sector, factors that contributed to GDP growth. At the same time, imports to Israel decreased substantially and contributed to the increase in GDP (a greater portion of demand was directed toward domestic products instead of imports). That is to say, while other components of GDP contributed to growth, private consumption (which accounts for approximately 55% of GDP) fell sharply.

Regarding the fourth quarter of 2020, private consumption was negatively affected by the second economic shutdown; however, following the exit from this shutdown, primarily during November, private consumption was in an upward trend, which halted recently. Analysis of credit card expenditures, according to BoI data (analysis of daily data without excluding seasonality; bi-weekly moving average), shows that the volume of purchases (compared to the beginning of January 2020) on December 22 was 14% greater than the level from before the coronavirus crisis. This comes against the backdrop of an increase (compared to the beginning of the year) in the purchase activity of furniture, electrical, and clothing items, as well as purchases at the retail food chains. In all the other sectors the level of activity has remained low compared to the level from before the outbreak of the coronavirus crisis, while the tourism, restaurant, and leisure sectors continue to stand out negatively. Looking ahead, the tightening of the restrictions on activity (and particularly the imposition of a general shutdown) is expected to lead to a decrease in credit card purchases, similar to what occurred in previous shutdown periods.

The damage caused by the coronavirus crisis until now is expressed mainly in the pace of construction and building completions

CBS data show that housing construction starts in the third quarter of 2020 equaled 12,000 units (seasonally adjusted data). Over the last four quarters construction starts equaled 50,900 units, which is low compared to previous periods, and also below the minimum threshold of the economy's requirements, which we estimate to be 55,000 units. However, we note that the number of construction starts is likely to turn out to be higher, in light of the tendency for these data to be revised upward.



The number of construction completions stood at 9,600 units in the third quarter of this year, and amounted to only 46,300 units over the past year. As can be seen in the accompanying chart, this number of construction completions (the lowest since 2016) is substantially below the level in preceding periods, and is also low compared to the needs of the economy. In light of this, it appears that 2020 will be a year in which the shortage of housing units ready for delivery will only worsen.

This development reflects, among other things, the difficulties faced by the construction sector in the shadow of the coronavirus crisis, even though this sector has been singled out and defined as an essential sector of the economy. Since workers need to be physically present at a construction site, a shortage of workers is felt in light of the restrictions on the entrance of foreign workers into the country, restrictions on movement, quarantine requirements, and other similar restrictions.

The disruptions to activity in the construction sector are reflected also in the data on investment in residential construction, which show low sums, this despite the increase in the third quarter. The disruptions in the sector are also reflected in the lengthening in the construction completion time to a peak of 31 months in the first three quarters of 2020, compared to 29.5 months in 2019. The delay in construction processes is reflected also in the active number of units under construction, which reached a peak of 123,700 housing units.

In summary, until now it appears the coronavirus has primarily hurt the pace of construction and housing completions, and less so the number of construction starts and construction approvals. Looking ahead, it appears that in the short-term, the substantial decline in the supply of completed housing units, alongside the recovery in demand, which is rising, is expected to contribute to the creation of demand pressures that are likely to support a rise in prices. The recovery in demand has occurred against the backdrop of the more moderate damage caused by the coronavirus crisis in the segments of the population who happen to be active in the housing market (the higher income deciles) and also due to the return of the investing public to the housing market, due to, among other things, the cut in the purchase tax on housing at the end of July this year. Furthermore, the intention of the BoI to ease the restrictions on mortgages linked to the prime rate is likely to contribute to an increase in housing demand, once this revision will come into effect.

Author: Yaniv Bar