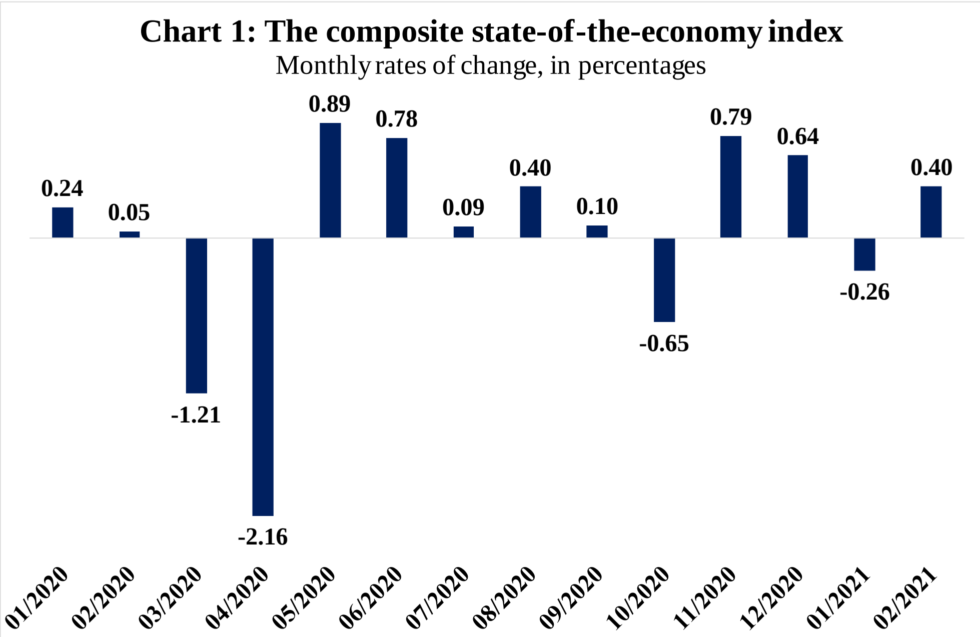
Leumi Economic Weekly

March 24, 2021

The composite state-of-the-economy index increased in February, reflecting the start of a renewed process of opening the economy

The composite state-of-the-economy index increased 0.4% in February this year compared to the preceding month (see Chart 1). The Bank of Israel (BoI) emphasizes in its announcement that the rise in the composite index reflects the start of a process for the removal of restrictions on activity as the economy exits from its third shutdown. In light of the progress achieved thus far in opening the economy, coupled with the continuing increase in the percentage of people who have been vaccinated (approximately 50% of the population have been inoculated with two doses of the vaccine until now), it appears an increase in the composite index can be expected also in March.



The composite index components that supported the increase in February mainly include the following: the rate of available employment positions, revenues in the services sectors (January), salaried employment positions (December 2020), and construction starts (December 2020). On the other hand, the following components offset the rise in the index: imports of consumption goods, goods exports, and imports of manufacturing inputs.

An analysis of activity according to sector continues to indicate substantial differences among the various sectors of the economy. Accompanying Chart 2 shows an analysis of the revenue data in the different sectors of the economy (monthly data, seasonally adjusted) in January 2021 compared to February 2020 (prior to the breakout of the crisis).

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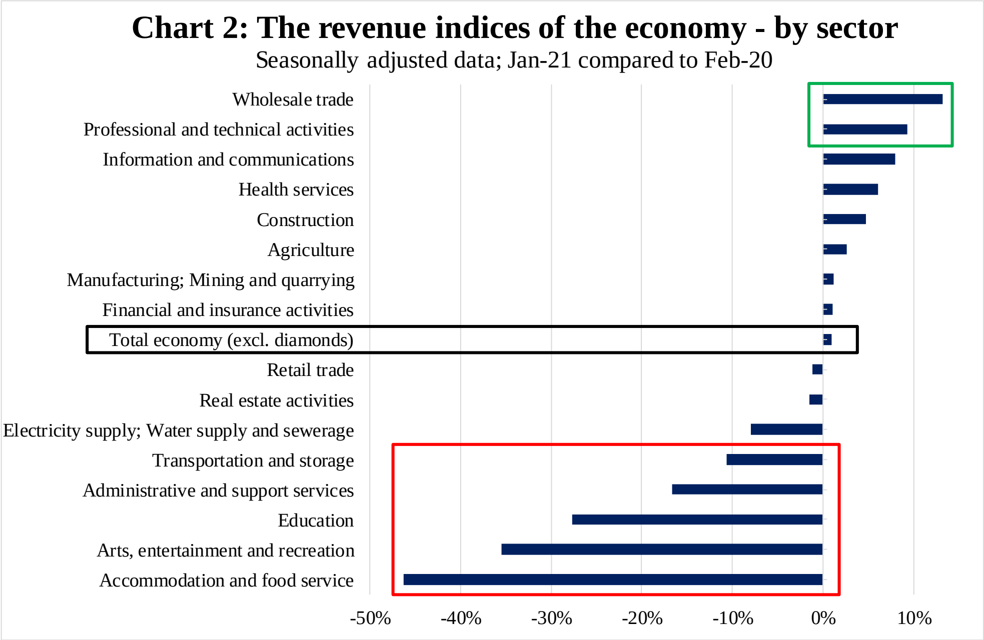
The chart shows that the activity in the sectors highly exposed to the restrictions imposed in response to the coronavirus remained very low during the time of the tightened portion of the latest shutdown. It is important to recall that the third shutdown started in late December 2020, yet tighter restrictions were enacted starting on January 8th. The sectors highly exposed to the restrictions include: food and accommodation services, art and leisure, administrative and support services, education, as well as transportation and storage services. These areas of activity account for 10% of economic activity. On the other hand, the sectors that suffered less damage to their activity resulting from the restrictions registered better performance. These sectors include: wholesale trade, information and communication, and scientific services.

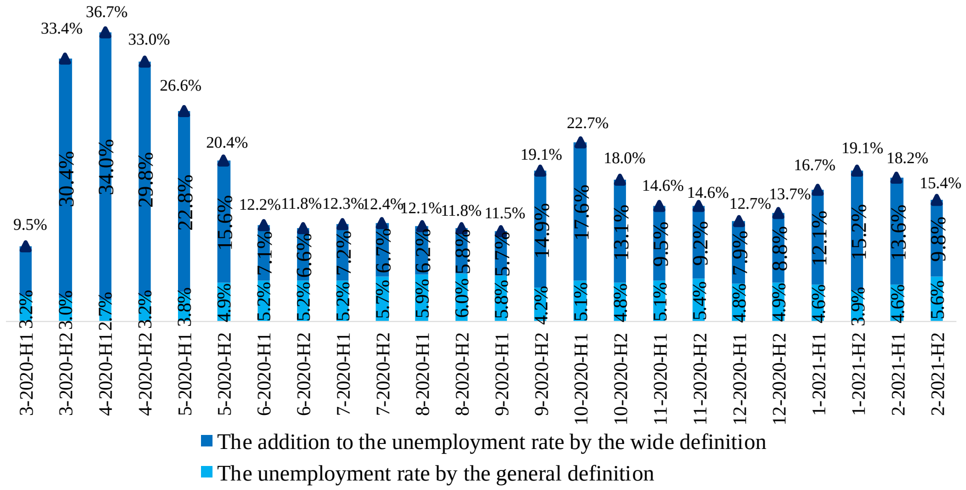


In summary, the indicators on economic activity show a continuing recovery, including within the sectors that were substantially hurt over the course of the crisis, in parallel to the continued removal of restrictions on activity. In light of this, an improvement, even relatively broad, can be expected in the revenue indices in February-March. We estimate that in the baseline scenario, this year is expected to conclude with 5% GDP growth, while in the scenario involving a continued rapid opening of the economy, without any renewed breakout of morbidity, the growth rate will likely be even greater.

The "broad" unemployment rate declined in the second half of February, parallel to an increase in the "regular" unemployment rate

The workforce survey of the Central Bureau of Statistics (CBS) for the second half of February indicates a decline in the level of unemployment, as measured by the unemployment rate according to its broad definition (the "broad" rate). This rate (which is calculated on the basis of data unadjusted for seasonality) takes into consideration the unemployed, furloughed employees, and workers dismissed due to the coronavirus crisis and thus who do not participate in the workforce. That is to say, this figure presents a more reliable picture of the scale of non-employment in the economy during the time of the coronavirus crisis. This is in contrast to the unemployment rate according to its standard definition (the "regular" rate), mainly due to reasons of definitions and inclusions.

Chart 3: The unemployment rate by the wide definition, as of the Israeli CBS*, as % of workforce, original data



* Unemployed persons, temporarily absent from work all week due to reasons related to the Coronavirus pandemic and stopped working due to dismissal or closure of the workplace since March 2020.

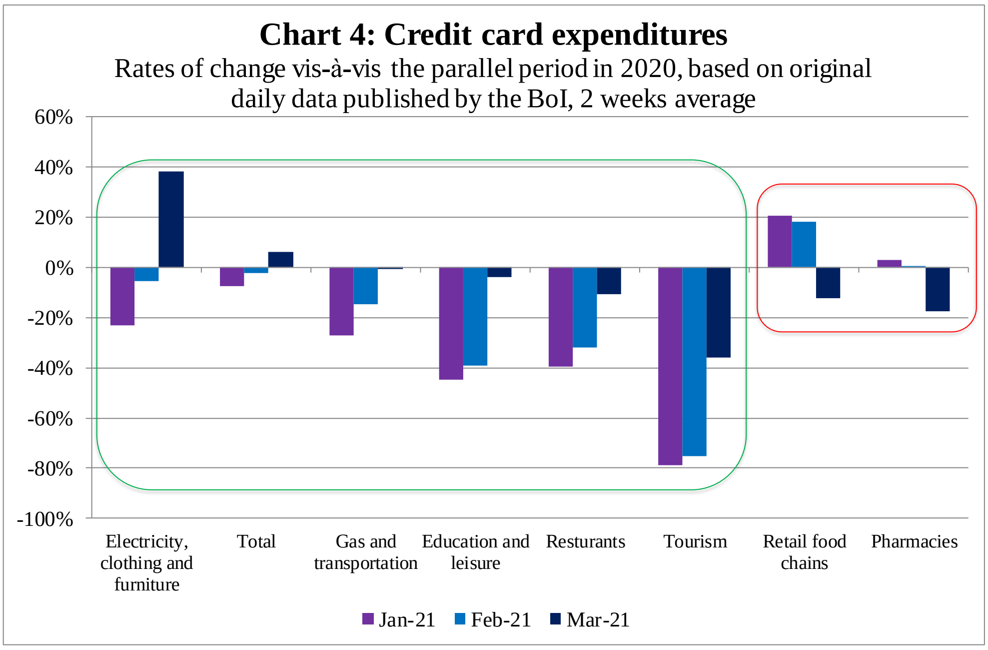
In the second half of February, the "broad" unemployment rate declined relatively substantially to 15.4%, compared to 18.2% in the first half of the month, while at the same time the "regular" unemployment rate increased by one percentage point to 5.6% (see accompanying Chart 3). This is the lowest level registered in the "broad" unemployment rate since the second half of 2020, and translates into 640,000 unemployed persons. This drop in the scope of unemployment comes at the same time as the start of the removal of the restrictions imposed in response to the coronavirus. The easing in restrictions permitted a return to a broader level of economic activity; therefore, it was accompanied by a return of workers to the labor market, mostly involving furloughed employees.

In summary, as long as the process of opening up the economy will continue to progress, then we expect the "broad" unemployment rate will continue to decline (fewer furloughed workers), in parallel to a continued increase in the "regular" unemployment rate (prolonged). This development reflects the structural changes created in the labor market resulting from the coronavirus crisis. This involves a situation in which certain professions, skills, employment experience, and abilities are no longer in demand to the same degree they were prior to the coronavirus crisis, this with an emphasis on the same workers who have not gone through a suitable professional transition into something that is currently demanded in the labor market.

The upward trend in credit card expenditures is continuing

Data on credit card expenditures, published by the BoI, indicate a relatively broad upward trend in the level of purchases from mid-February, with the gradual exit from the third economic shutdown.

Chart 4 presents an analysis of the development of credit card expenditures from the start of 2021 according to the area of activity. The chart shows the rates of change vis-à-vis the parallel period in 2020, this with the purpose of neutralizing the effects of seasonality on the data. The chart indicates a continuing improvement in purchases in most sectors, except for the retail food chains and pharmacies, which stood out positively throughout the crisis against the backdrop of their classification as essential sectors of the economy, the prolonged periods of staying at home, and the rise in the scope of employee work from home arrangements. With the gradual exit from the economic shutdown, these trends moderated, as did the scale of purchases in these sectors.



The most substantial improvements were registered in the following sectors: electricity, clothing and furniture; tourism; and education and leisure. These sectors benefited from the start of the process of easing the coronavirus restrictions and the return to a broader scale of economic activity, especially in March. However, it is important to note that the comparison period, March 2020, includes in part the first general shutdown of the economy, in which the level of activity was extraordinarily low. Looking ahead, as long as the process of a return to regular activity will continue as planned, and will continue to also include the sectors that were shutdown throughout the crisis, with an emphasis on the services sectors, then the level of credit card expenditures is expected to continue to climb also in the coming months.

Due to the upcoming Passover holiday in Israel, there will be no Leumi Economic Weekly next week.

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