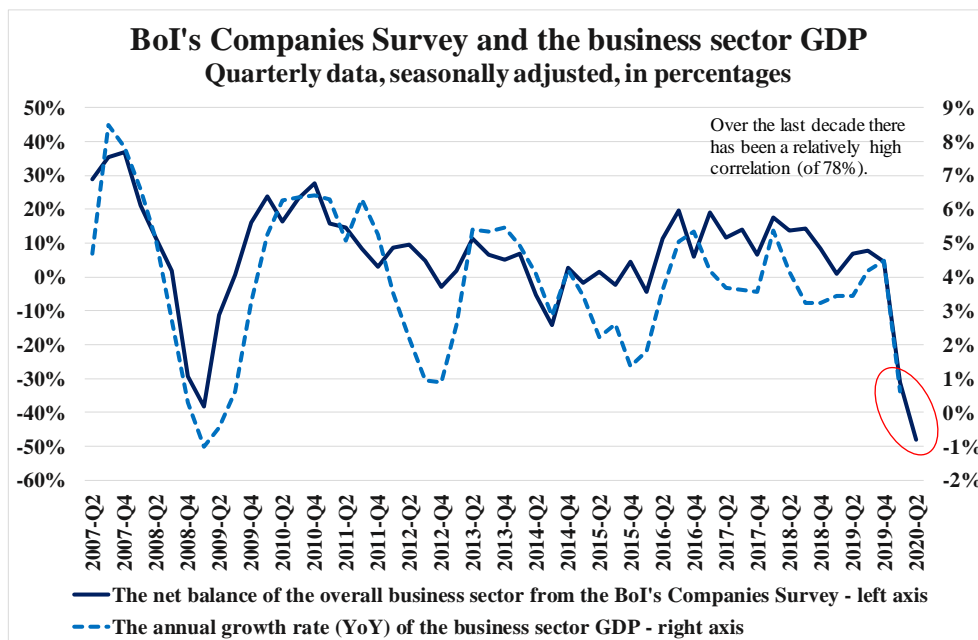


# Leumi Economic Weekly

July 28, 2020

*The Companies Survey of the Bank of Israel indicates a substantial contraction in second quarter activity this year, resulting from the coronavirus crisis*

The Companies Survey of the Bank of Israel (BoI), which is based on qualitative, and not quantitative, reports of companies from chosen sub-sectors within the overall business sector, indicates a more substantial contraction in business sector activity in the second quarter of the year compared to the decline in activity in the first quarter of the year.

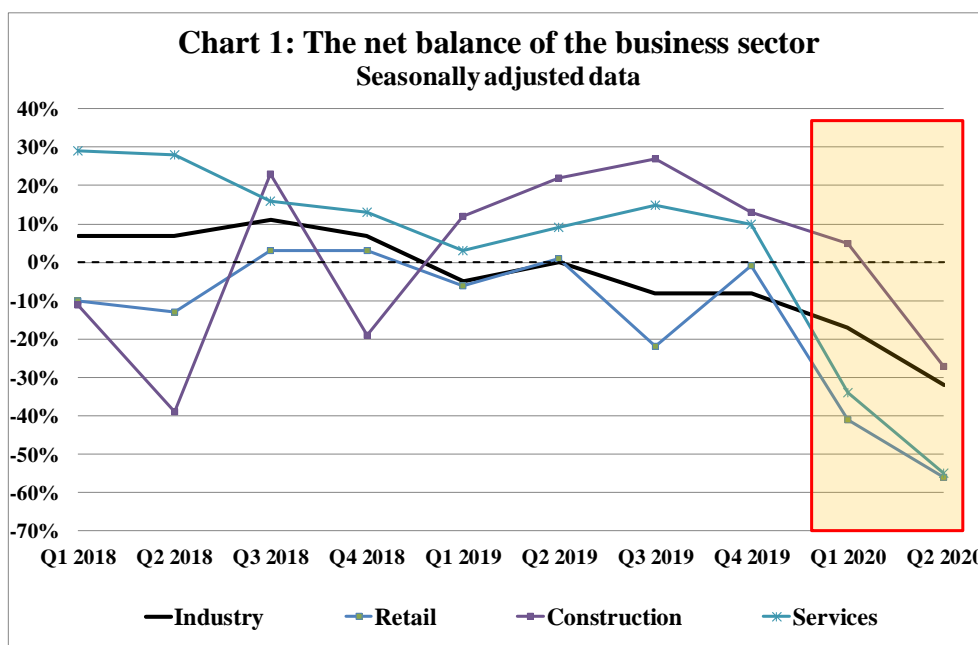


The net balance, which is the percentage of companies reporting a rise in activity minus the percentage of companies reporting a decline, of the overall business sector declined further and currently sits deep within negative territory (minus 48% compared with minus 31%). It is important to note that the current level of the net balance is the lowest recorded since (at least) 2000, including the periods of severe economic crisis: the financial crisis of 2008-2009 and the economic crisis at the start of the millennium (with the breakout of the Second Intifada), which was of longer duration.

The findings of the survey, which was conducted from mid-June through the third week of July, show the substantial damage of the coronavirus crisis to business sector activity, as a result of the shutdown of broad portions of local economic activity. On this regard, the accompanying chart shows that in the last decade there has been a relatively high correlation (of 78%) between the net balance of the overall business sector as derived from the BoI's Companies Survey, and the annual growth rate of the business sector product (each quarter compared with the parallel quarter in the preceding year).

In light of this correlation, it can be estimated that the national accounts data for the second quarter of the year, which are scheduled to be released during the coming month, will indicate a sharper drop in business sector product compared to the rate of decline in the first quarter – minus 8.6%, in annualized terms. Looking ahead at all of 2020, we estimate the business sector product is expected to contract by a double-digit rate, and that the recovery during 2021 is expected to be gradual.

*The decline in the activity of most sectors deepened in the second quarter; however, the severity of the restrictions on the activity of most sectors increased relatively moderately*  
 The sharp contraction in business sector activity in the second quarter of the year, as can be seen in the data from the Companies Survey, was broad across all sectors of activity. The net balances continued to drop deep into negative territory, and indicate a substantial decline in activity (see Chart 1).



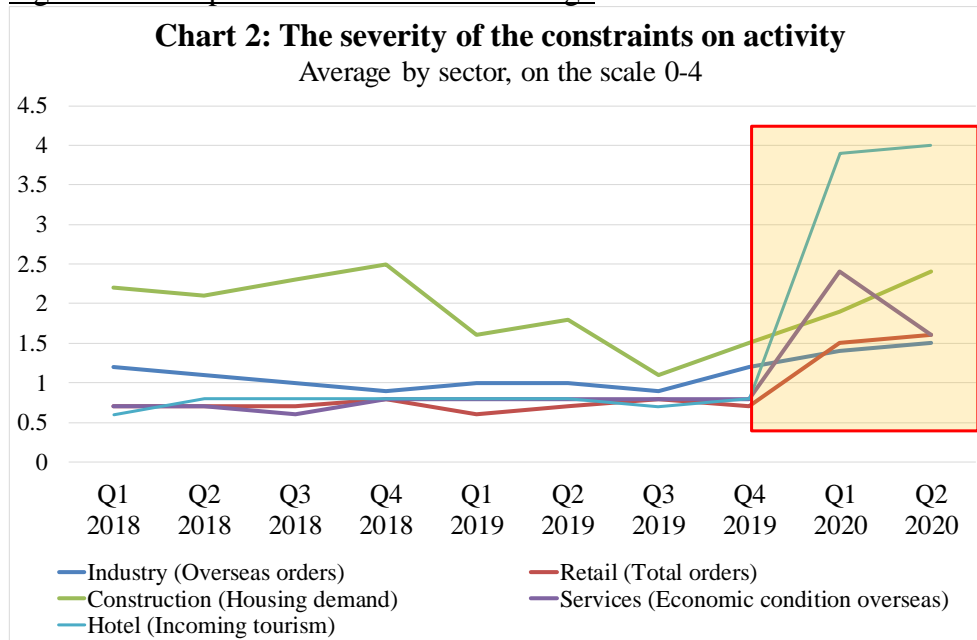
The net balance of the hotel sector continued to show the most substantial decline, this in light of the near standstill in sector activity, primarily from the direction of incoming tourism. Despite the slight rise in domestic tourism recently, the high pessimism in the sector is continuing, and it is expected that the freeze in activity will continue also into the third quarter of 2020.

Sharp declines were registered in the net balances of the trade and services sectors, and the balances are more negative compared to the first quarter. This is due to a sharp decline in the sales of services in Israel and abroad (in the realm of services also with overseas sales), coupled with a decline in the number of employees, due to the coronavirus crisis and the release of many employees to unpaid vacation. The expectations are for a continued contraction in activity also in the coming quarter. In the trade sectors a decline in sales was also registered; however, the expectations are for a slight improvement in the coming quarter.

The net balances of the industrial and construction sectors are also negative and indicate a decline in activity, albeit slightly more moderate compared with the trade and services

sectors. The decline in activity in the industrial sectors occurred against the backdrop of the expectation for a decline in all the parameters of activity, and particularly in the number of workers and in sales. The expectations call for a continued drop in sales, both in the local and the export markets, also in the third quarter of the year.

Regarding the degree of severity of the constraints on activity (see Chart 2), it is important to note that except for the hotel sector, in which the constraint involving the number of overseas tourists increased to the maximum level of severity, the constraints on the activity of the other sectors increased to relatively moderate levels of severity, albeit higher than the pre-coronavirus crisis average.

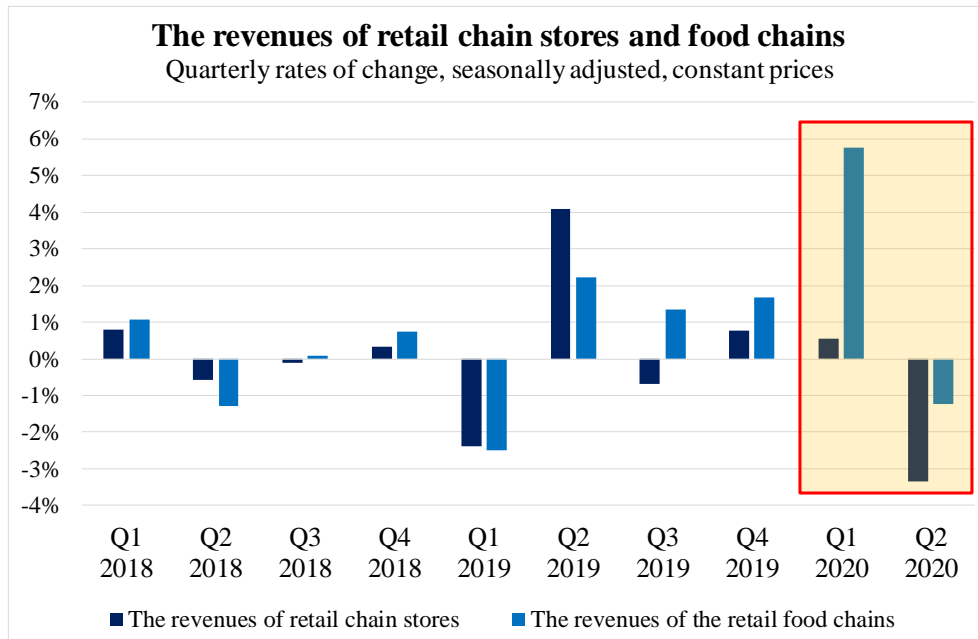


The demand constraints on the activity of most sectors were below 2 (on the scale 0-4), and indicate a moderate-light restraint on activity. In the construction sector, the demand constraint increased to a level of 2.4, that is to say moderate-severe. In addition, we note that after it had jumped sharply in the first quarter of the year, the constraint involving financing difficulties among the smaller companies in the business sector fell substantially to near the level it was at until 2016. This finding likely indicates an improvement in the accessibility of financing in the second quarter against the backdrop of assistance measures of economic policymakers, the BoI, and the Ministry of Finance (MoF).

In summary, the findings of the Companies Survey underscore the severe damage of the coronavirus crisis on business sector activity throughout the second quarter of the year. In most sectors the degree of pessimism regarding economic activity in the third quarter of the year remains high, and reflects, among other things, uncertainty surrounding the recent renewed breakout of the coronavirus, as well as the scope of the shutdown measures that will likely be required later on, which are likely to negatively impact activity. In light of this, the process of recovery in activity will likely be delayed to a later stage this year, and possibly even to next year.

***The indicators on private consumption indicate a contraction in activity in the second quarter of the year, against the backdrop of the coronavirus crisis***

Data from the Central Bureau of Statistics (CBS) show that the revenues of retail chain stores declined 3.3% in the second quarter of the year compared to the first quarter, in which a moderate 0.5% uptick was registered (seasonally adjusted data, in fixed prices).



At the same time, the revenues of the retail food chains declined 1.2% in the second quarter of the year (see accompanying chart), this following a sharp increase of 5.8% in the first quarter of the year, against the backdrop of, among other things, the preparations of households for the shutdown period.

Furthermore, we note that our estimates of the level of seasonally adjusted credit card expenditures, based on BoI data, indicate a sharp 10% drop in the second quarter of the year compared to the first quarter. On this regard, we note that the seasonally adjusted estimate for the first three weeks of July indicate a continued decline in credit card expenditures compared to June. Thus it is likely the trend is continuing, with the exception of the food and pharmaceutical sectors, also in the beginning of the third quarter of this year, against the backdrop of the additional wave of morbidity that is currently prevailing across Israel.

In summary, the initial indicators on private consumption for the second quarter of the year indicate a relatively sharp contraction in household consumption, against the backdrop of the restrictions on the activity of chain stores during the quarter. In light of this, it appears the main damage to private consumption due to the coronavirus crisis occurred in the second quarter of this year, a development that is expected to be reflected in the national accounts data with a sharper drop in private consumption compared to the first quarter.

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