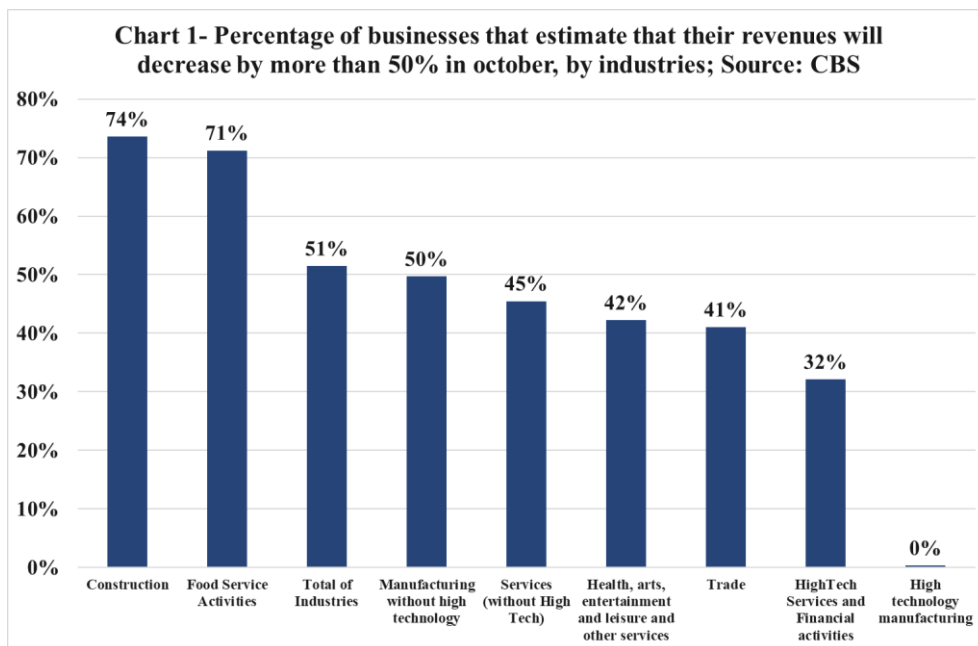


Leumi Economic Weekly

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A flash CBS survey of businesses indicates a severe downturn in revenues, mainly in the north and the south, and in the construction as well as the food and beverages services sectors

The Central Bureau of Statistics (CBS) conducted a flash survey to analyze the condition of local businesses against the backdrop of the ‘Swords of Iron’ War. The survey reflects the reports of company managers in a variety of sectors within the economy, with regard to the state of employment and damage to company activity, during the third week of the war.



The survey findings indicate a substantial downturn in employment in the Southern district. Approximately 60% of the businesses in the south note that the number of active employees in their companies reaches at most 20% of the normal employment level, this compared to 37% of the businesses across the entire country.

A similar analysis, broken down according to sector, shows that the construction sector has experienced the most substantial downturn in employment, as 62% of the businesses in the sector note that the number of workers in their businesses reaches up to at most 20% of their regular employment levels. This compares to 45% of the businesses in the food and beverage services sector, 41% of the businesses in manufacturing (excluding

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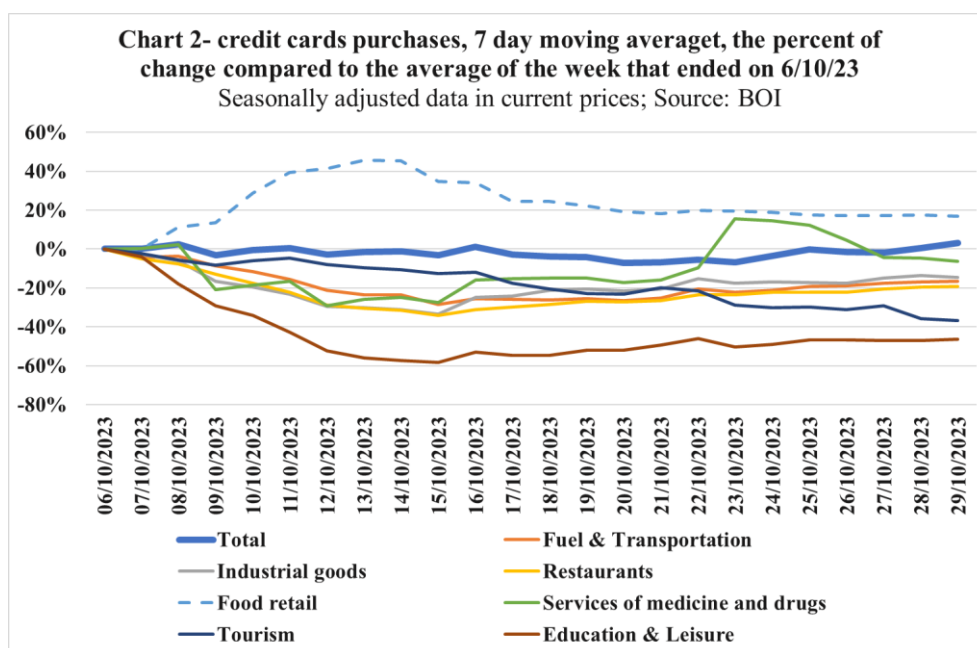
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high-tech), 27% of the businesses in the retail trade sector, and just 4% of the businesses in the high-tech services sector and financial services.

In addition, from the survey data it can be seen that the sectors most affected by the broad recruitment of reserve soldiers include the following: the high-tech services sector and financial services (the percentage of businesses in the sector in which the number of recruited soldiers is greater than 21% stands at 20%), the services sector excluding high-tech (15%), the retail trade sector (13%), and the health services sector (13%).

According to the survey, 51% of the businesses that participated in the survey estimated there will be a severe downturn in their revenues in October (that is to say, a decline of more than 50% in revenues), while in the Southern district (66%) and in the Northern district (64%) a higher percentage of businesses estimated they will experience a severe downturn in revenues. In the construction sector (74% of businesses) and in the food and beverages sector (71%), most of the businesses estimated there will be a severe downturn in revenues in October, whereas in the high-tech industries the percentage of businesses that estimated they will experience a severe downturn in revenues was less than 1%, and also in the high-tech services and the financial services sectors (32%) and retail trade (41%), the percentage of businesses that forecast a severe downturn was relatively low (see Chart 1).

The weekly update of data on credit card purchases (seasonally adjusted data, in current prices, based on a moving 7-day average) that is published by the Bank of Israel (BoI) shows that in the initial days that passed from the start of the war, total credit card purchases weakened by a single-digit rate, compared to the week ending on October 6th (immediately before the outbreak of war). Yet, in the end data a return to the same level of purchases that was registered just before the war can be identified (see Chart 2).



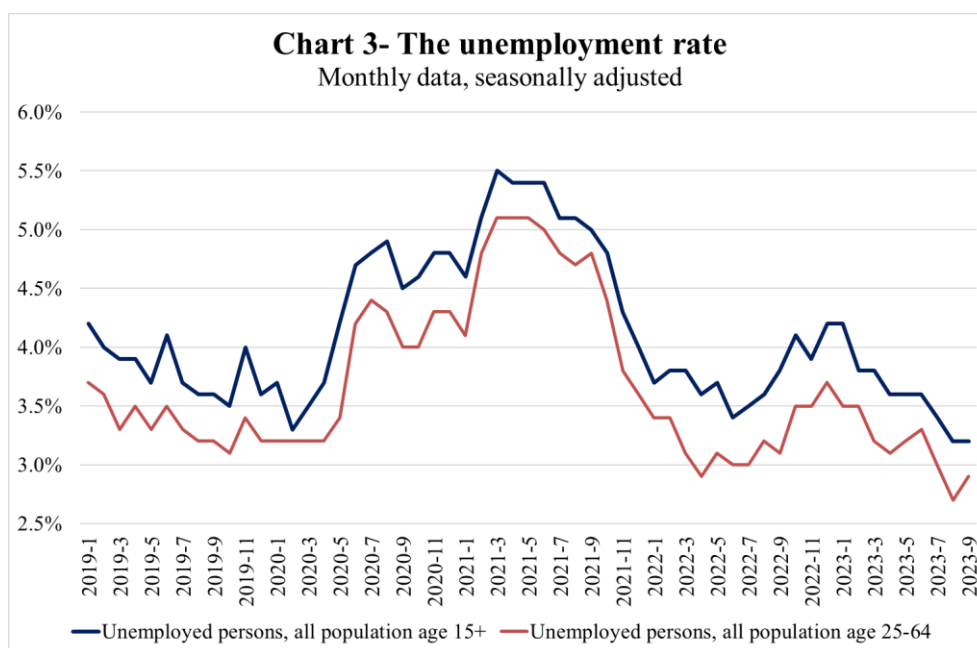
However, the differences between the categories of consumption are high. Thus, while there was a relatively high level of purchases at retail food chains, the credit card

purchases in the realms of education and leisure fell to almost 50% below their pre-war levels, and credit card purchases related to tourism (flights, hotels, etc.) have fallen to 40% below their pre-war levels, and are even continuing to drop as the days pass.

In addition, in recent days there has been a halt to the sharp drop that was registered in the first days of the war in the credit card purchases of the following areas: manufactured goods (furniture, clothing and footwear, electronic goods), gasoline, mail and transportation and restaurants, such that their levels today remain approximately 20% below their pre-war levels. The level of credit card purchases in the sectors noted is expected to remain relatively low, at least through the duration of the war.

The pre-war unemployment rate was very low from an historic perspective

The unemployment rate (for persons aged 15 and above; seasonally adjusted data) based on the standard definition, which includes the number of unemployed only, remained in September at the same level, stabilizing at a rate of 3.2% (see Chart 3). This is the lowest unemployment rate registered since the initiation of the current workforce survey (January 2012), according to CBS data. Similarly, also the unemployment rate for the primary working ages (25-64) is at a low level from an historic perspective, although it increased to 2.9% in September (from 2.7% in August).



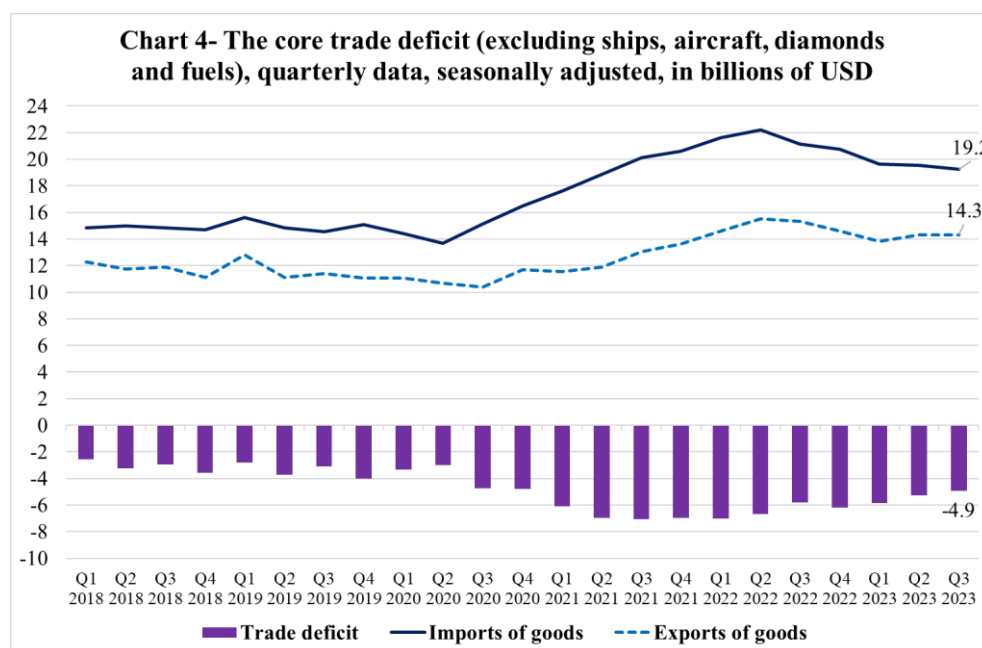
The very low unemployment level represents a positive starting point, in view of the expected negative impact to occur as a result of the ‘Swords of Iron’ War, and gives an indication of the relatively strong ability of households to weather the negative effects of the war. A support plan for businesses proposed by the Ministry of Finance (MoF) has been revised a number of times over the course of the recent weeks and still has not been finally approved. Against this backdrop, and in view of the high level of uncertainty, and the substantial drop in credit card purchases in certain segments of the economy since the start of the war, a number of companies, which happen to employ a large number of workers, announced that a substantial percentage of their workers would be furloughed. In addition, the broad recruitment of reserve soldiers, which according to our estimates

equates in numbers to at least 7% of the workforce, even if this will not be expressed in the unemployment rate, is expected to weigh on the activity of many segments of the economy, as well as on overall demand.

In our estimation, the average unemployment rate (for persons aged 15 and above) in the fourth quarter of this year is expected to increase by 0.3 percentage points compared to the third quarter, but this trend is expected to accelerate during 2024, such that the unemployment rate will average 4.6% next year (higher by one percentage point from the 2023 average, according to our *Leumi* forecast). It should be noted, for the sake of comparison, that according to the BoI forecast, which appears to be relatively moderate in its severity, the average unemployment rate (for the primary working ages, 25-64) is expected to increase by 0.4 percentage points in the fourth quarter, compared to the preceding quarter, that is to say, an increase of a similar magnitude to our *Leumi* forecast. However, on the other hand, according to the BoI forecast, the unemployment rate is expected to increase only moderately during 2024, by approximately 0.4 percentage points compared to the 2023 average.

The core trade account deficit in the third quarter of this year continued to contract; the import and export of goods are expected to decline in view of the war

CBS data show that in the third quarter this year goods exports from Israel amounted to US\$14.3bn (seasonally adjusted data; excluding ships, aircraft, and diamonds). This sum reflects a decline of 0.1% compared to the preceding quarter (in nominal US dollar terms), and a 6.7% decline compared to the parallel quarter in 2022. This decline comes against the backdrop of the slowdown in global trade and in external demand. Looking ahead, a positive change is not expected, in view of the expected slowdown in the global economy. This assessment is further supported by the global purchasing managers survey, which indicates a long period of contraction in new export orders.



Goods imports in the third quarter amounted to US\$19.2bn (excluding ships, aircraft, diamonds, and energy materials). This figure reflects a decline of 1.7% compared to the preceding quarter, and a 9.0% decline compared to the parallel quarter in 2022.

In light of the information listed above, the deficit in Israel's core trade account (excluding ships, aircraft, diamonds, and fuel; quarterly data) in nominal US dollar terms continued the downward trend that has characterized this figure over recent quarters. Nonetheless, this deficit remains high compared to the pre-coronavirus period (see Chart 4). This decline is expected to support the GDP growth rate, and also the surplus in the current account of Israel's balance of payments, through the decline in the goods account deficit, in the third quarter of 2023.

Looking ahead, goods imports and exports are expected to moderate in the current quarter, against the backdrop of the effects of the 'Swords of Iron' War. Goods exports are expected to weaken against the backdrop of factors such as: the cessation of operations at non-essential factories and at factories near areas where fighting is occurring (for example, the "Tamar" natural gas field, which is relatively close to the Gaza Strip); the shifting of resources to the benefit of assisting the war efforts, at the expense of production intended for exports (for example, in the defense industries); and the decline in the number of workers at exporting factories, in light of, among other reasons, the broad recruitment of soldiers, the closure of the education system, and the absence of workers for other reasons. At the same time, the rise in uncertainty, the damage to consumer sentiment, and the decline in private consumption, are all expected to weigh on goods imports.

Past experience from prior large military actions, for example the Second Lebanon War and Operation 'Protective Edge', show that these events did not have a clear and distinct impact on the trade deficit. With that said, it seems that the 'Swords of Iron' War is different and more serious in nature than the two previously mentioned conflicts, so it is not at all certain that we can learn from them about what may occur in the current military conflict. In our estimation, throughout the duration of fighting the negative impact on imports is expected to be greater, and thus the core trade account deficit (excluding ships, aircraft, diamonds, and fuel) is expected to contract.

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