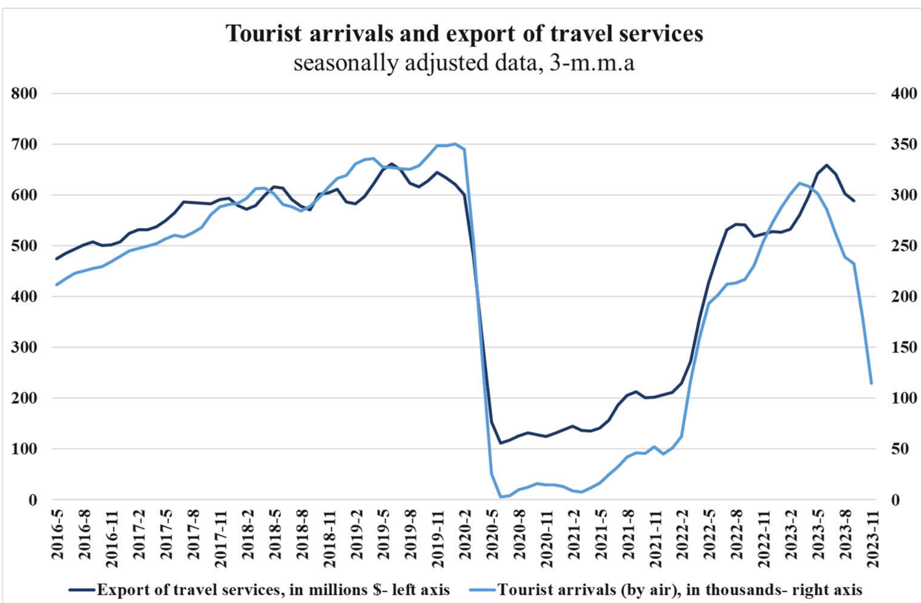
Leumi Economic Weekly

December 6, 2023

Tourist entries into Israel and the departure of Israelis overseas in November were 80% below pre-war levels

Data from the Central Bureau of Statistics (CBS) show that traveler flows to and from Israel continued to decline also in November, following the sharp drop registered in the preceding month. Tourist entries (via air, seasonally adjusted data) in November equaled 38,300 persons, which is 37% below the preceding month's figure, and 84% below the figure in the month that preceded the outbreak of the "Swords of Iron" War (September 2023). The number of overseas departures by Israelis (via air, seasonally adjusted data) in November amounted to 149,000 persons, reflecting a 38% decline compared to the preceding month, and a 79% drop compared to September 2023. The decline in November stemmed mainly from the fact that in October there were an additional six full days of operations at the airport.



In view of the sharp drop in tourist entries into Israel over the last two months, the export of tourism services is expected to also drop precipitously. Assuming the level of tourist entries in December will be similar to November's level, and based on the positive correlation between the number of tourist entries and the value of exports of tourism services (see accompanying chart), it can be estimated, based on a rough calculation, that the export of tourism services will decline approximately 66% in all of the fourth quarter

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of 2023, compared to the preceding quarter. Furthermore, since the export of tourism services accounted for 8% of total services exports in the third quarter of 2023, this estimation reflects a negative contribution of 5.3% to the exports of overall services in the fourth quarter.

The decrease in air traffic to and from Israel has another “by-product” in addition to the impact on tourism and consumption. This development is occurring against the backdrop of the decrease in the number of shipments entering Israel by air (“cargo”). As is known, shipments of this type arrive into Israel in two forms, by means of dedicated cargo flights (such traffic is continuing almost as usual) and by means of passenger planes, so the decrease in the volume of passenger flights to Israel is expected to hamper the arrival of some cargo into Israel, including shipments of production inputs and consumer goods. To illustrate this point, according to data from Ben Gurion International Airport, during October 2023 the volume of cargo arriving via passenger aircraft decreased by approximately 48% compared to the corresponding month last year. We note that cargo transported via air is usually considered to be urgent (for example, medical equipment), or to be of greater monetary value (for example, high-tech goods).

OECD forecasts indicate moderation in the growth rate of Israeli economic activity over the coming two years

The OECD released its updated macro-economic forecasts for member countries of the organization, including Israel, as it has done every six months. According to the forecast, which takes into account the expected negative effects of the “Swords of Iron” War, it is estimated that the (real) growth rate of Israeli GDP will equal 2.3% in 2023, and will decrease next year to 1.5% (see table). This is similar to our forecast at *Bank Leumi* (2.5% in 2023 and 1.0% in 2024). The forecast assumes the bulk of the fighting will be concentrated within the fourth quarter of 2023, while continuing to a lesser extent during the first quarter of 2024 as well, and that economic activity will begin to recover during 2024.

OECD Forecasts on Israel

Quantitative rates of change, unless noted otherwise

	2022	**2023**	**2024**
GDP	6.4%	2.3%	1.5%
Private consumption	7.5%	-0.4%	1.6%
Investment in capital goods	10.4%	4.6%	-2.3%
Exports of goods & services	8.5%	0.5%	3.1%
Imports of goods & services	12.1%	-4.5%	1.9%
Unemployment rate (annual avg.)	3.8%	3.6%	4.4%
Budget deficit (% of GDP)	0.4%	-3.1%	-5.2%
Inflation (annual avg.)	4.4%	4.3%	2.7%

According to the OECD estimates, government consumption (government purchases) will rise due to the war, while in contrast, private consumption and investments will lessen as a result of the impacts of the following factors: high uncertainty, weakening sentiment among businesses and consumers, the temporary closure of businesses (particularly in the

construction, trade, and food services sectors), and a substantial decline in the supply of workers. The notable downturn in incoming tourism will weigh on exports.
The development of inflation will depend on the balance between the shocks to the demand side and those to the supply side. According to the forecasts, disruptions to the supply of goods and services in the economy will lead to inflationary pressures in the short-term. Yet, after this, with the weakening of the impact of the supply side disruptions, while at the same time demand will recover only gradually, inflation is expected to moderate.

Also according to the forecasts, government expenditures (government purchases and transfers) will rise substantially against the backdrop of the aid provided to businesses that have experienced lower revenues as a result of the fighting, the support for displaced households, increased defense expenditures, and the costs to rehabilitate damaged areas. The increase in expenditures will be partially financed by aid the country will receive from the US (for defense needs), substantial cuts in expenditures in other areas, and substantial extra-budgetary funds (the property tax compensation fund for example). Nevertheless, the budget deficit is expected to increase, averaging approximately 4% of GDP per year during 2023-2025.

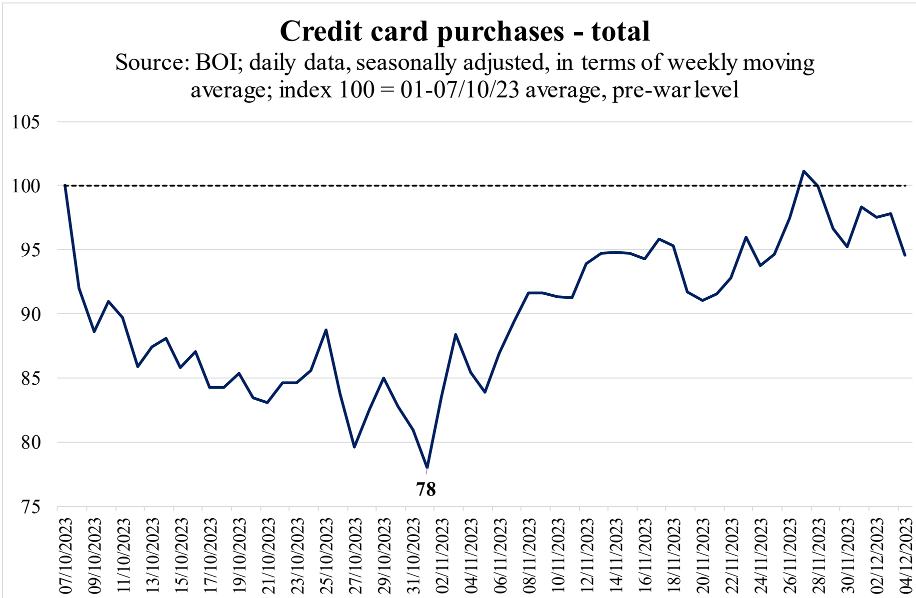
In addition, the OECD stated that due to the expected increase in government spending in the coming years, in the areas mentioned above, the government must re-prioritize its permanent expenses, through an examination of these expenditures. This is in order to mitigate the consequences on public financing, while preserving the expenses in the areas that support future growth. This should include, for example, investment in infrastructure and improvement in the education system.

In summary, the risks to the forecast presented above are high, this in view of the high degree of uncertainty regarding the duration of the fighting, its scope, and intensity. Therefore, an escalation in the war to additional fronts, or a more prolonged war, could lead to more serious supply-side disruptions, to a more substantial downturn in consumer and business sentiment, and could also lead to a higher risk perception for the State of Israel, and as a result manifest itself in a deeper downturn to growth as well as in the fiscal realm.

Total credit card purchases in the beginning of December were 5% below pre-war levels
The weekly update of data on credit card purchases (seasonally adjusted data, in current prices, in terms of the weekly moving average) published by the Bank of Israel (BoI), shows that in recent days, starting from the end of November, the sum of credit card purchases has once again moderated.

The accompanying chart presents the development of total credit card purchases since the outbreak of the "Swords of Iron" War compared to the pre-war level (the average of the data in the first week of October 2023). It can be seen that since the start of the war, total purchases have been trending downward, reaching a low (at the end of October) to a level 22% below the pre-war level.

From the beginning of November, total purchases started to climb, a trend that was maintained through the end of the month. This occurred against the backdrop of, among other things, a slight stabilization in the war, diminished concerns about the opening of an additional front on the northern border, and the process of releasing hostages in Gaza, in parallel to the lull in the fighting. However, since the beginning of December, in parallel to the renewal of fighting and the renewed launch of rockets from Gaza, a slight decline was registered, and the level of total purchases on December 4th was 5% below the pre-war level.



We note that the categories of consumption that have stood out negatively through December 4th include education, leisure, and tourism. This comes against the backdrop of weak consumer sentiment and the sharp drop in tourist entries into Israel (as explained in the first section of this weekly). Gasoline purchases have also stood out negatively to a lesser degree, apparently due to lower-than-usual travel by the local population. The other categories registered more moderate declines, while the level of purchases at retail food chains remained high compared to the pre-war level.

Looking ahead, the development of the war is expected to continue to impact private consumption trends. In our estimation, a standstill in private consumption is expected in 2023, in our baseline scenario, compared to 7.4% growth in 2022. In 2024, a slow and gradual process of rehabilitation is expected to start, together with a re-stocking of goods on the part of households.

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