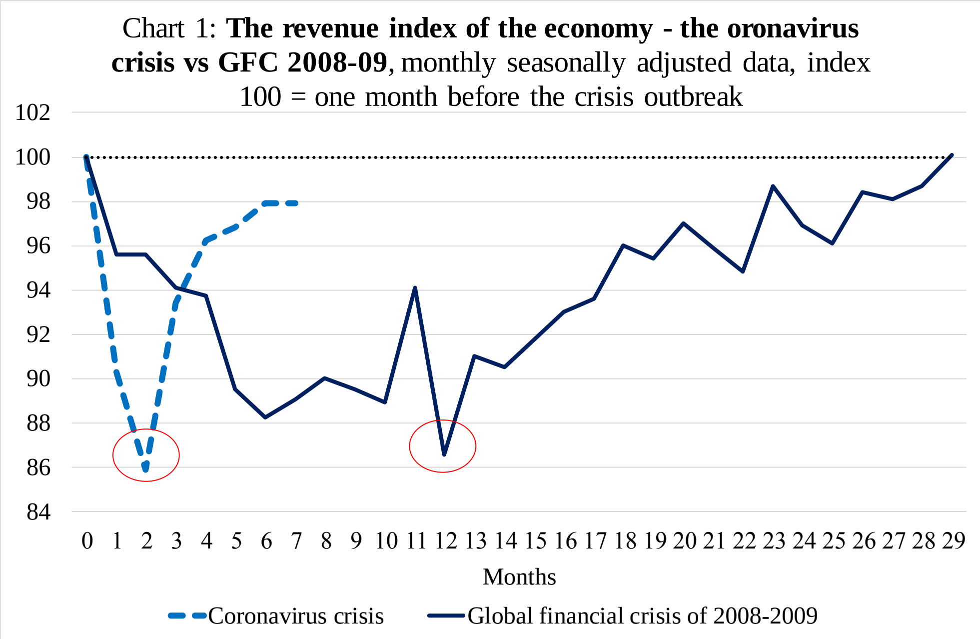
Leumi Economic Weekly

**November 25, 2020**

***The coronavirus crisis is different in its characteristics and in its development compared to the global financial crisis of 2008-2009***

The coronavirus crisis has affected economic activity in a different manner compared to previous crises.




Accompanying Chart 1 shows a comparison of the development of the revenue indices for all the sectors of the economy (excluding diamonds, on a monthly level, and adjusted for seasonality), during the time of the coronavirus crisis and also during the time of the global financial crisis of 2008-2009. As can be seen in the chart, the decline in economic activity with the breakout of the coronavirus crisis was sharp and immediate, compared to the financial crisis, in accordance with the manner of dealing with a widespread health crisis. As evidenced, according to the existing data up to this point, the low point of the coronavirus crisis (decline of 14%) occurred only two months following the crisis outbreak, whereas the low point of the financial crisis (decline of 13.5%) occurred only a full year after the initial crisis outbreak.

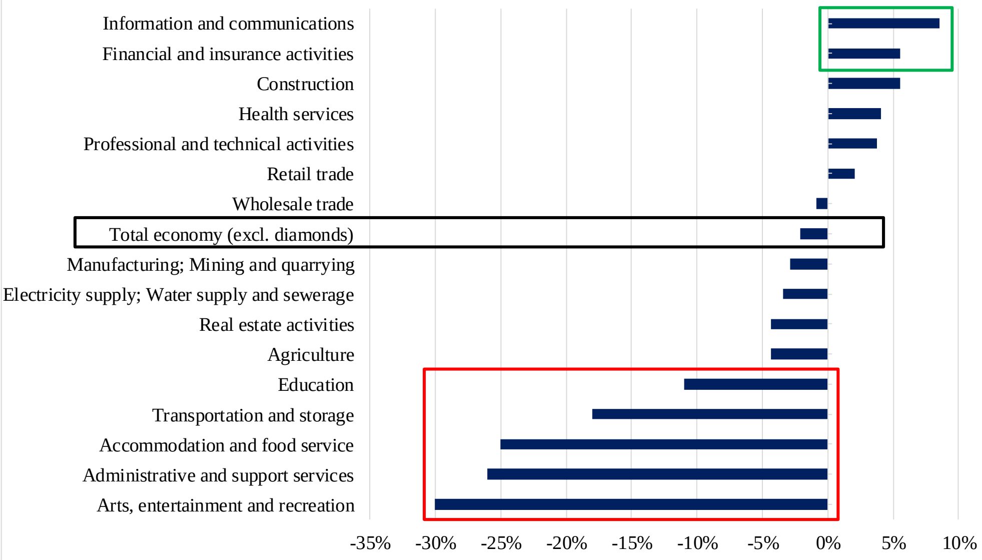
Furthermore, for the time being, the exit from the current low appears sharper and more rapid than the case during the financial crisis. As can be seen, the level of revenues in September 2020 was 2.1% below the level in February this year (the starting point in the chart for the coronavirus crisis). However, at the time of the financial crisis, more than 20 months passed until activity recovered to the pre-crisis level. On this regard, it is important to emphasize that the trend of recovery in activity in the current crisis halted in September, and it is possible the revenues data for October will indicate a decline, apparently by a more moderate degree than the case in the beginning of the crisis. This comes in light of the second economic shutdown that occurred during these months, yet is less pronounced in the mobility indices of the general public and the extent of the use of credit cards.

In our opinion, as long as progress will continue to be made, which is already noticeable, towards the development of effective ways to continue / renew economic activity under the shadow of the coronavirus, through the process of lessons learned, and also with further progress in the medical field (pharmaceuticals to treat the symptoms and even a vaccination later), then the return to the pre-crisis level of economic activity will be more rapid compared to the case at the time of the financial crisis. On this regard, it should be noted that the strong national accounts data published for the third quarter of this year support this assessment.

The unique characteristics of the coronavirus crisis are expressed also in the fact that its negative effects are very inconsistent and are emphasized more in the sectors that are directly impacted by the restrictions on activity, headed by the restrictions on congregating and social-distancing. This situation is evidenced by large differences between the sectors that have been heavily hurt in this environment, and those that have almost not been hurt at all. Accompanying Chart 2 presents an analysis of the revenues data for the different sectors of the economy (monthly data, seasonally adjusted) in September compared to February 2020 (before the outbreak of the crisis).

**Chart 2: The revenue indices of the economy - by sector**

Seasonally adjusted data; Sep-20 compared to Feb-20




As can be seen in the chart, the sectors that were most negatively affected by the coronavirus crisis, that is to say, experienced the sharpest drops in activity, are from the services fields, headed by: art and leisure, food and hospitality services, transportation and storage services, as well as support and administrative services. On the other hand, the following sectors demonstrated much better performance: information and communication (high-tech), finance and insurance, and also retail trade to a more moderate degree as it was supported by restrictions on overseas flights.

In light of the above, as the return to full operations is delayed, then the risk differentials between the various sectors are likely to broaden. This situation has greatly and unevenly increased the level of risk within certain sectors of the economy, and also with respect to certain socio-economic groups of households, compared to the pre-crisis period. Therefore, an assessment of the current state of the economy must be based on a differential analysis, and not just be all inclusive.

Looking ahead, it is also important to take into consideration the future effects of differential damage such as this, while at the same time creating a situation involving a lack of economic infrastructure for a broad recovery when conditions will allow it – this approach has been dubbed in economic literature as "scarring", in reference to a form of economic scar that remains over time.

***An increase in the "broad" unemployment rate during the second economic shutdown, evident primarily in October***

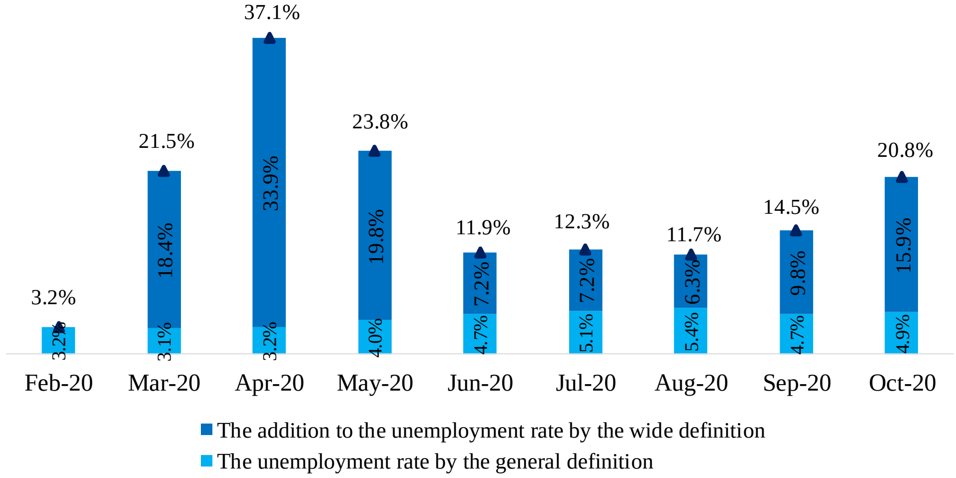
The Central Bureau of Statistics (CBS) released the findings of its workforce surveys for the entire month of October. We present in this section the main points of the analysis of data (original, unadjusted for seasonality), which include reference to the unemployment rate according to its standard definition (the "regular" rate) and the unemployment rate according to its broad definition (the "broad" rate), as noted in our previous surveys. The reason for this is that the current "regular" unemployment rate does not fully express the extent of non-employment, due to technical reasons with respect to the definition and exclusions.

It is worth noting that in addition to the inclusion of furloughed workers, and employees dismissed due to the coronavirus crisis, in the current publication the CBS added to the "broad" unemployment rate also persons not participating in the workforce (persons not dismissed due to the crisis or persons who have not worked at all in the past) who are interested in working, but did not search for work in the last month due to the crisis.

As can be seen in accompanying Chart 3, the "broad" unemployment rate (under its full definition) increased during the second economic shutdown, yet reached a lower level than that during the time of the first shutdown earlier in the year. In October the "broad" unemployment rate equaled 20.8%, which is nine percentage points higher than that prior to the second economic shutdown, 11.7% in August, but still low compared to April (37.1%) and even compared to May (23.8%). The number of unemployed in October equaled 870,000 persons, which is higher than the numbers recorded between the two shutdowns (approximately a half-million unemployed), yet lower than the number of unemployed in April (1.5m unemployed).

In summary, the bi-weekly data indicate a decline in the "broad" unemployment rate in the second half of October, parallel to the beginning of the process of exiting from the second economic shutdown. In light of the progress being made, which is indeed gradual, in the process of returning to regular levels of activity, it appears the unemployment rate is expected to continue to decline. Looking forward, as long as local economic activity will continue to operate under certain restrictions, and at the same time while the government continues to provide support for the unemployed, it appears the "broad" unemployment rate is expected to remain at a high level also throughout most of 2021.

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



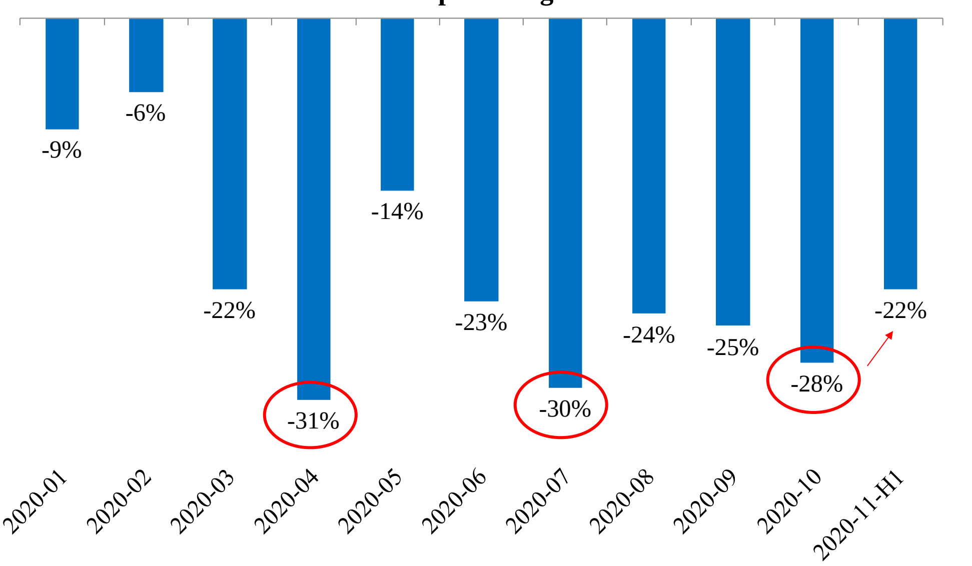

* Unemployed persons, temporarily absent from work all week due to reasons related to the Coronavirus pandemic and stopped working due to dismissal or closure of the workplace since March 2020. Also persons not participating in the workforce who are interested in working, but did not search for work in the last month due to the crisis.

***An improvement in the degree of optimism among households in the first half of November***

According to CBS data, in the first half of November there was a slight improvement in consumer confidence, this in continuation of the increase in the second half of October, with the initiation of the exit process from the second economic shutdown. As can be seen in accompanying Chart 4, the current consumer confidence index is at its highest level since May, and reflects the expectations of consumers for a continuation in the process of a return to regular activity. However, the current level is still substantially below that from the beginning of the year (before the outbreak of the crisis).

**Chart 4: Consumer Confidence Survey of the CBS**

**In percentages**



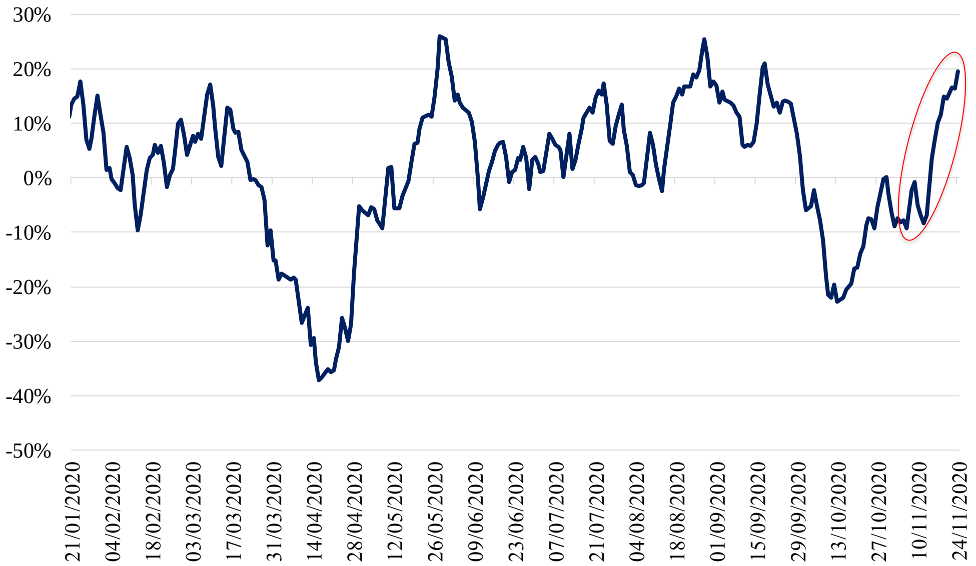
The improvement in the optimism of households was broad across all the components of the consumer confidence index, led by the following components: expectations regarding the economic situation of the country in the coming year, and the intentions to carry out large purchases by households. Following the sharp rise in private consumption in the third quarter of this year, this development supports an increase in private consumption in the fourth quarter of the year following the exit from the economic shutdown.

Indeed, analysis of credit card expenditures, according to Bank of Israel (BoI) data (analysis of daily data without adjustment for seasonality), indicates a relatively sharp increase in purchases (compared to the beginning of January 2020), to a level approximately 20% greater than that prior to the coronavirus crisis (see Chart 5). The increase was broad across most of the sectors of activity; therefore, it can be said it reflects recovery in activity during November. However, it is important to emphasize that the data are not adjusted for seasonality, and November is characterized by a heightened level of purchases of many goods, against the backdrop of the many sales that occur during the month ("Black Friday" sales, "Chinese Singles' Day", and more).

On this regard, we note that the most notable increases occurred in the purchases of electronic goods, clothing and furniture, as well as pharmacy products, such that it is likely that a portion of the increase stems from these reasons. In parallel, we note that the extent of purchases in the tourism, restaurant, and leisure sectors remains very low (within a range of 20%-60%) compared to the pre-coronavirus crisis levels, since the activity in these sectors remains heavily restricted.

The sectoral differences are expected to continue as long as the gradual process of recovery continues under its planned format, that is to say, as long as there is no tangible expectation for a vaccination of the population and a halt to the virus.

**Chart 5: Bank of Israel (BoI) analysis of credit card expenditures data compared to the beginning of the year, bi-weekly average, original data**




**Authors:** Dr. Gil Michael Bufman and Yaniv Bar