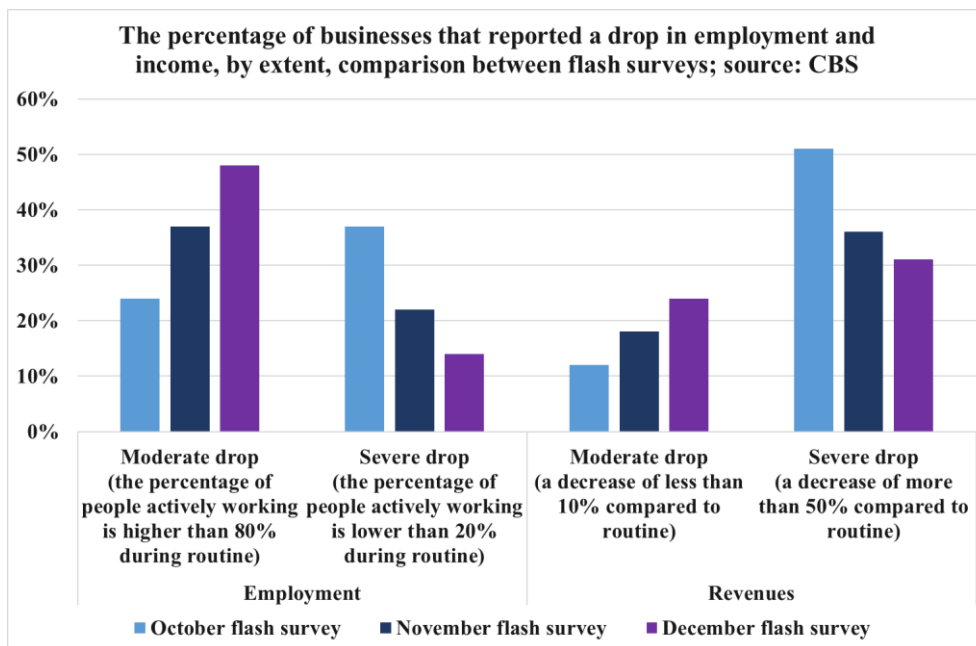


# Leumi Economic Weekly

December 27, 2023

***The third flash survey by the CBS for analyzing the state of businesses: the overall improvement in employment and revenues since the outbreak of the war is continuing***

The flash survey conducted by the Central Bureau of Statistics (CBS) for analyzing the state of businesses under the shadow of the “Swords of Iron” War in December (conducted on 19-20 of December) shows an additional improvement among all businesses, in continuation of that registered in November. This improvement is expressed in a decline in the scope of ‘severe damage’ caused to the employment and revenues of businesses (see accompanying chart).



The total percentage of businesses that reported ‘severe damage’ to employment (less than 20% in the number of active employees compared to regular times) continued to decline in December, and the percentage of businesses that reported more than 80% employment levels compared to regular times continued to climb. The decline in the percentage of businesses that reported on ‘severe damage’ to employment in December encompassed all the districts of the country, with the exception of the Northern district, while the decline in the Southern district especially stood out (only 10% of the businesses in December, compared to 40% in November).

The percentage of businesses that reported ‘severe damage’ to revenues (a drop of more than 50% compared to normal times) fell as well in December, and the percentage of businesses that reported only ‘moderate damage’ to revenues (a decline of less than 10% compared to normal times) increased. However, it is notable that the improvement indicated by businesses in the realm of revenues was more moderate than that registered in the realm of employment. The decline in the percentage of businesses that reported on ‘severe damage’ in revenues in December stood out mainly in the Southern and the Tel Aviv districts, yet was minimal or non-existent in all the other districts.

In a sector breakdown of businesses, much greater differences are noticeable. For example, in sectors such as services (excluding high-tech), food and beverage services, and manufacturing (excluding high-tech), there was a decline in the percentage of businesses that experienced ‘severe damage’ in revenues in December. In contrast, in sectors such as construction, financial and high-tech services, and trade, there was actually an increase in the percentage of businesses that reported ‘severe damage’ to revenues in December, all compared to the preceding month.

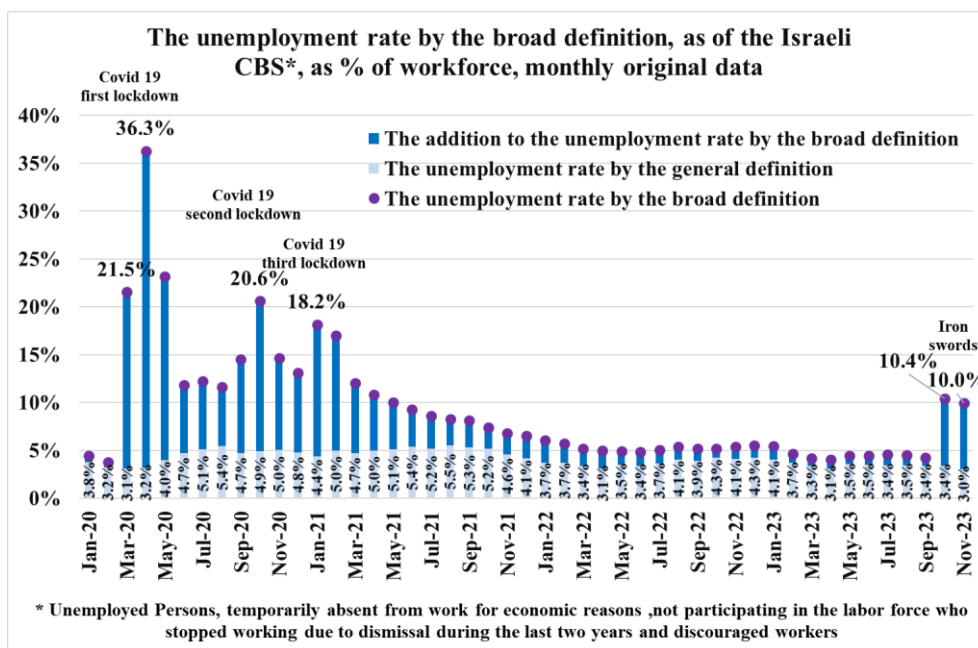
In summary, the third flash survey on the state of businesses under the shadow of the “Swords of Iron” War indicates an additional improvement in the areas of employment and revenues in December among all businesses, in continuation to that registered in November. Yet, there are broad differences among the many districts of the country as well as among the various sectors of the economy.

***The unemployment rate according to its standard, as well as its broad, definition fell in November, yet reflects a number of weak points***

The unemployment rate (for persons aged 15 and above, unadjusted data) according to its standard definition, which includes the number of unemployed only, reached a rate of 3.0% in November, this compared to 4.1% in November 2022, and 3.4% in the preceding month (see accompanying chart), all this according to data released by the CBS. The latest rate is the lowest registered in recent years, against the backdrop of a decline in the number of unemployed. However, it is important to note that this decline occurred in parallel to a decline in the workforce, and an increase in the number of employees who have ceased working due to their dismissal or the closure of their place of work over the last two years (and who do not participate in the workforce). That is to say, the decline in the “standard” unemployment rate does not represent an improvement in the labor market at this time.

The unemployment rate according to its broad definition (“broad” unemployment) fell slightly in November, from 10.4% to 10.0%. This category, as its name implies, is much larger and includes not only unemployed persons, but also all those temporarily absent from their jobs due to economic reasons (including furloughed employees or those absent because work activity at their jobs has declined against the backdrop of the “Swords of Iron” War), and also all those dismissed from their jobs over the last two years and who do not participate in the workforce, as well as those who have given up looking for work. Despite the decline, this figure remains substantially greater than that in the months that preceded the outbreak of the “Swords of Iron” War (4.5% on average in the period January-September 2023).

The latest decline in the “broad” unemployment rate occurred against the backdrop of a fall in the number of those temporarily absent from their jobs due to economic reasons (a decline of 38,000 employees compared to October 2023). This is apparently due to a moderate reduction in the number of furloughed employees, which was almost completely offset by an increase in the number of people dismissed from their jobs in the last two years and do not participate in the workforce (an increase of 29,000), and in the number of those who have given up looking for work (an increase of 7,000).



In addition to this, from the CBS data it can be learned that the number of those temporarily absent from their jobs (for the entire week) fell sharply, from 918,000 in October to 503,000 in November, while the bulk of the decline occurred within the category of employees who were absent due to “other reasons”, in which are included mainly employees who were absent because of the war, in its first weeks, but not due to economic reasons (for example, due to the closure of the school system, or due to fear of going to the place of employment). Among the employees who were absent from their jobs due to military reserve duty, there was an increase in November to 154,100 employees, compared to 139,300 employees in October. The highest absence of employees, from all the possible reasons, was registered in the following sectors: accommodation and food services, construction, real estate and art activity, as well as entertainment and leisure, in which the rate of absence was greater than 30% of the total number of employees. This development likely indicates especially low levels of activity in these sectors.

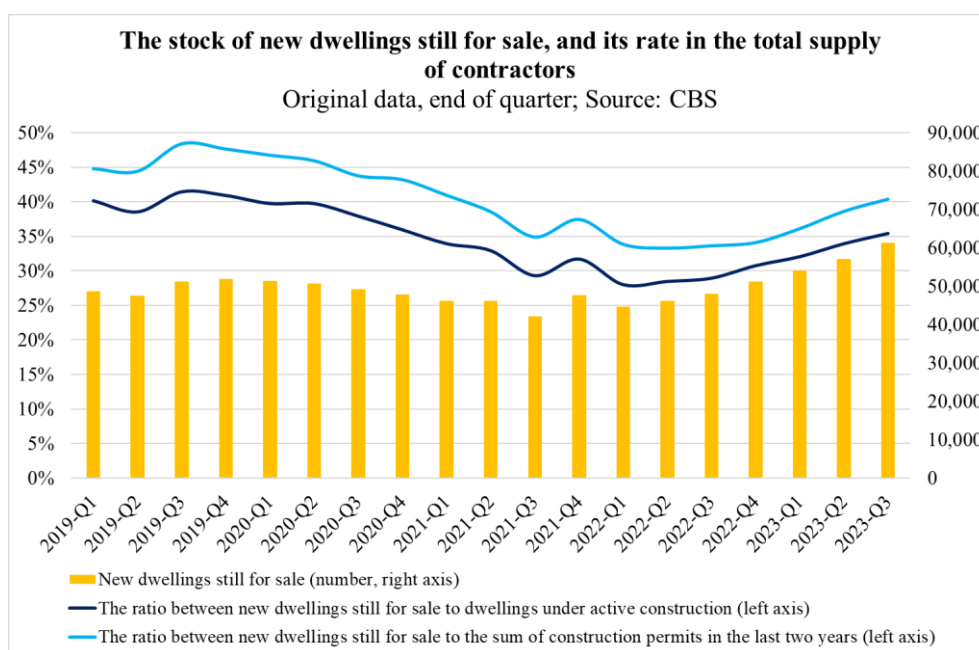
In summary, the “broad” unemployment rate, which more fully reflects the current state of the labor market, declined somewhat in November, yet remains high, and underscores the negative effects of the war. In addition, alongside developments such as the moderate decline in the number of those absent from their jobs due to economic reasons, and the decline in the number of those absent from their jobs due to other reasons against the backdrop of the war, there are developments that stand out negatively. These negative points include the increase in the number of those who were dismissed from their jobs

recently and are not looking for new work, as well as the very high level of those temporarily absent from their jobs due to economic reasons, despite their decline in numbers. These developments, coupled with the high uncertainty and low consumer confidence levels, are expected to weigh on consumption demand by households in the near-term.

Looking ahead, in our estimation, as long as the war continues, and as the negative consequences of the fighting continues to affect overall demand, it appears that this situation will lead to reduced business activity. In this environment, businesses will be compelled to lower expenditures in order to survive, and this includes expenditures on salaries, such that the “standard” unemployment rate (for persons aged 15 and above) is expected to rise in the coming year, reaching a level of 4.6% (averaged).

***Prior to the war, housing construction starts accelerated, while construction completions wavered; the rate of unsold homes held by developers increased by a limited degree***

Data released by the CBS regarding home construction in the economy in the third quarter of 2023, prior to the outbreak of the “Swords of Iron” War, indicate mixed trends. Total construction completions reached during the quarter only 51,000 units on an annualized basis (seasonally adjusted data). This number is low compared to the preceding quarter and also compared to the annual housing needs of the economy, which the government estimates to be 60,000 completed units per year. The data on construction completions reflect various obstacles that had existed up until just before the war in the residential construction sector, which hampered construction completions and were reflected in an increase in the average time to completion on home constructions in the last two years (2022-2023) to 33 months.



On the other hand, construction starts registered in the third quarter of 2023 an 11% increase compared to the preceding quarter, equaling 71,000 units on an annualized basis (seasonally adjusted data), the highest rate of construction starts in more than a year. This

increase in construction starts reflects a partial “closing of the gap” vis-à-vis the data on construction permits, which have been substantially greater than the data on construction starts already for a number of quarters, and that amounted in the third quarter of the year to an annual rate of 78,000 units.

A strong inflow in the supply of new homes offered for sale (in the form of building permits) serves as the backdrop to an on-going increase over recent quarters in the inventory of unsold units held by contractors (defined as homes that have received building permission but have not yet been sold), which recently reached more than 60,000 units. The increase in the unsold inventory is expected to continue in the near future, especially in light of the sharp slowdown in home sales in the economy since the outbreak of the war (according to the CBS, in October only 1,200 new units were sold, a low level not seen since the beginning of the coronavirus crisis; and it seems that in November demand recovered by only a limited degree). This is to say, it is a situation in which developers continue to receive permits to build homes, but have difficulty selling the units, and as a result the unsold inventory in their possession increases.

Under these circumstances of a continuing increase in the inventory of unsold homes and declining demand due to the war, we estimate that in the coming quarters there will be a decline in home prices. However, at the national level, this decline is expected to be of a moderate single-digit rate. The main factor that enables contractors, also under the current market conditions, to offer only moderate price declines is the fact that most of the supply of homes in their possession have already been sold. As can be seen in the accompanying chart, even though in absolute terms the inventory of unsold new homes is currently at a peak level, it turns out that compared to the overall supply held by the contractors (which is reflected in the total under active construction or in the total number of construction permits granted in the last two years), its rate is still relatively limited, as it represents only 35%-40% of the total supply of the contractors.

In our estimation, at a later period of time, toward year-end 2024 or in the beginning of 2025, housing prices are expected to change direction and transition to moving upward. This is in light of expectations for a gradual recovery in the demand for home purchases, in parallel to a slower recovery in residential construction, particularly as the problem involving a shortage of workers in the sector will remain substantial also in the coming quarters.

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