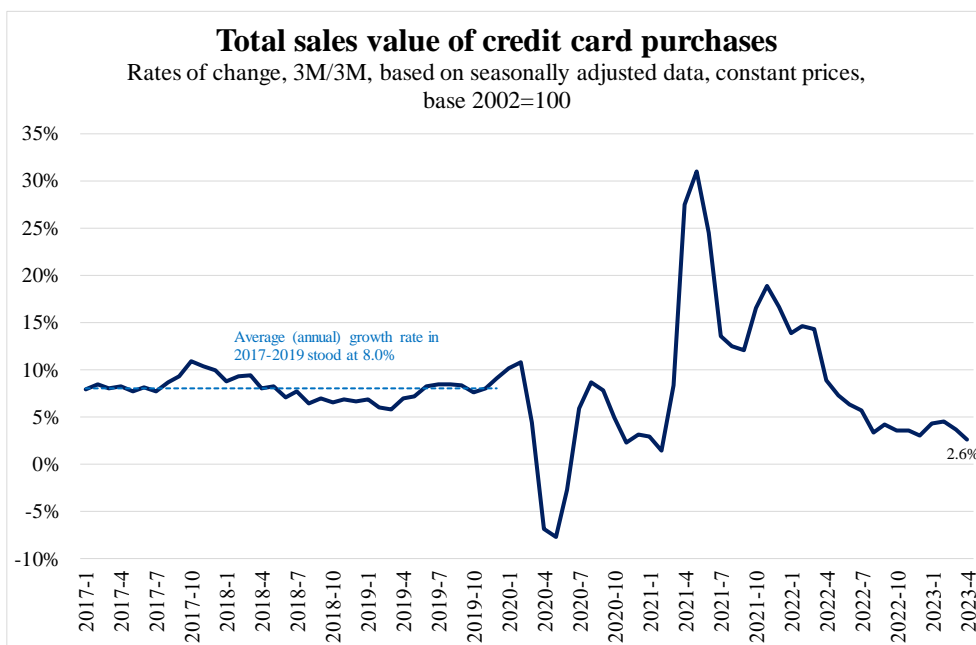


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Credit card purchases are continuing to expand, albeit by a relatively moderate rate compared to the past

Data from the Central Bureau of Statistics (CBS) show the value of credit card purchases by individuals (at domestic businesses only) remained unchanged (in real terms) in April this year compared to March, during which time a real decline of 1.5% was registered (seasonally adjusted data; in constant prices).



In a breakdown according to categories of goods and services, we note that in April a decline was registered in the value of services purchases (leisure and entertainment, flights and accommodation, government services, and more), which concluded three consecutive months of declines, and which also fell in six of the last seven months. A decline was also registered, albeit more moderate, in the value of food and beverages purchases. In contrast, moderate increases were registered in the following categories: manufactured goods (clothing and footwear, electricity and electronics, and furniture), as well as in other goods and services (computers and software; gasoline, electricity, and gas; communication equipment and services; and more).

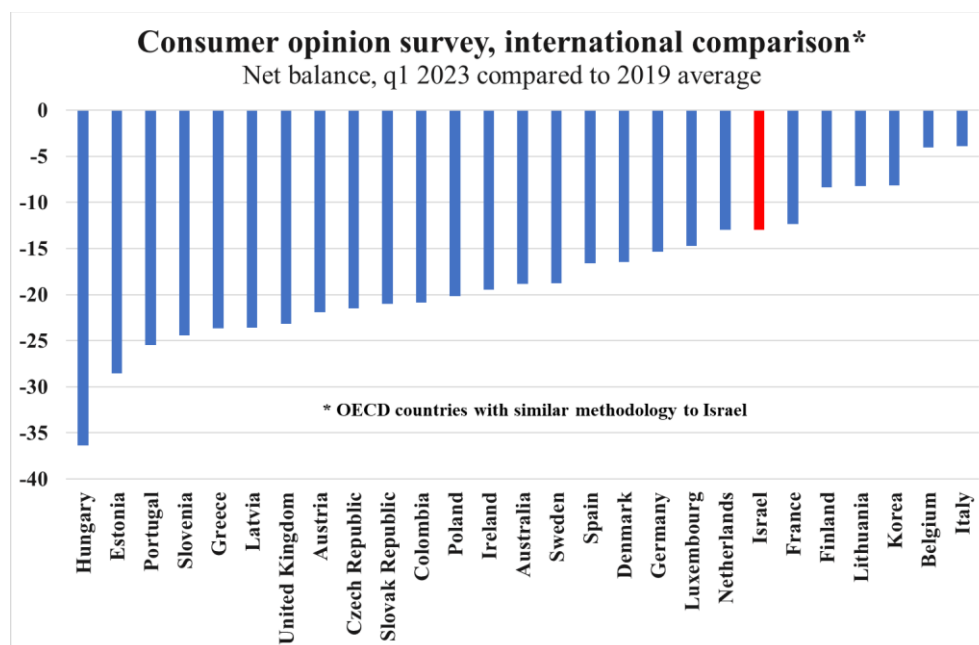
In summary, credit card purchases are continuing to expand in real terms (in annualized terms), albeit by a substantially more moderate rate compared to the average from the years preceding the coronavirus crisis. As can be seen in the accompanying chart, the annual rate of increase in total purchases (which is calculated according to the rate of

change over the last three months compared to the parallel period in the preceding year) is in an ongoing trend of moderation, equaling 2.6% in April this year. This is a very low rate compared to the average (annual) rate of increase in the years 2017-2019, prior to the outbreak of the coronavirus crisis, when growth stood at 8.0%.

We estimate this trend is expected to continue also in the coming months, against the backdrop of the increasing burden on the economic situation of Israeli households, this resulting from the sharp rise in interest rates (which raises the debt payments of households – with an emphasis on mortgages) and from the inflation rate that remains above the target range (which erodes the purchasing power of households), coupled with the low consumer confidence levels (details in the section below). Looking ahead, in our baseline scenario we estimate private consumption is expected to grow 3.8% in 2023, following 7.7% growth in 2022. In the event an alternative scenario with less favorable conditions materializes, then there is likely to be near-zero growth per capita in private consumption during the year.

The consumer confidence index in Israel fell moderately compared to that in other developed countries of the world

Since the outbreak of the coronavirus crisis, the consumer confidence index in Israel has been characterized by high volatility. At the start of the pandemic, the index fell to low historic levels, and afterward recovered sharply due to the vaccinations provided to the public. Yet, a couple of months later, in the beginning of 2022, the consumer confidence fell once again to an historic low level, and currently the index is close to this low level. Thus, today the consumer confidence level in Israel is below what it was back in 2019, prior to the pandemic outbreak.



Many developed countries around the world are characterized by a relatively low consumer confidence level compared to the period prior to the coronavirus outbreak, and thus this is not a unique phenomenon to Israel (see accompanying chart). The weaknesses reflected in the consumer confidence indices stem from the transformations that have

occurred in the macro-economic environment. Similar developments have been experienced in many countries, albeit at various intensities, headed by rising inflation, and consequently a tightening in monetary policy. Furthermore, it is reasonable to assume that also the developments in the labor markets, as well as in the political and geo-political realms, explain to some degree the deterioration in the consumer confidence index during this period.

In a comparison with other OECD countries (which use the same methodology for calculating consumer confidence – together with Israel there are the European countries as well as South Korea, Australia, and Columbia), the decline in Israel's consumer confidence index in the first quarter of 2023 (compared to the average in 2019) was relatively moderate. This comes against the backdrop of a number of possible factors, among them being: differences in the rate of price increases, which may arise from, among other reasons, the degree of exposure to the energy crisis, as well as the level of subsidies and government measures for dealing with inflation; the debt levels of households, with higher levels of debt translating to higher sensitivity to interest rate hikes; changes in unemployment levels; and differences in political stability, which may arise from the proximity to the fighting arena in Ukraine; and more.

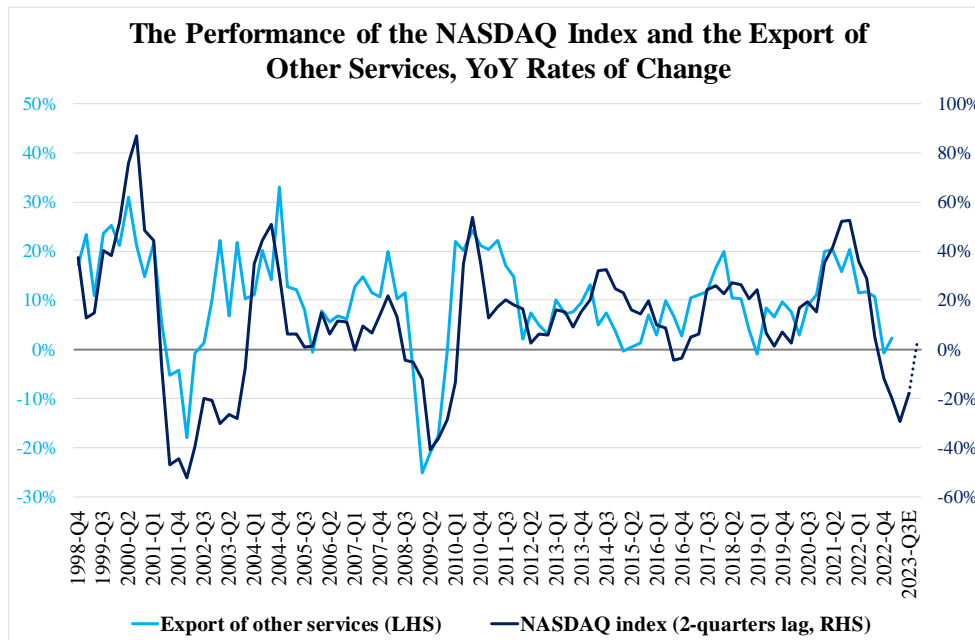
From our analysis it arises that among the factors noted above, the item that most strongly explains the differences involves the changes in the level of inflation among the countries in the period under consideration. In particular, in the countries in which consumer confidence fell sharply, such as Hungary, Estonia, Latvia, the Czech Republic, and Slovakia, inflation increased by more than ten percentage points. This was because, among other reasons, the degree of their exposure to the energy crisis in Europe was high (due to high dependency on energy imports from Russia).

In contrast, in the countries in which inflation increased by a relatively moderate rate, including Israel, South Korea, Belgium, France, Holland, and Luxembourg, consumer confidence weakened only moderately. It is interesting to note that in the Eastern European countries mentioned above, which are considered “transition economies” that are moving away from the “central planning” of a planned economy to a freer economy, the debt of households (in terms of GDP) is very low compared to the other developed countries. This situation attests to the relatively low impact on the decline in consumer confidence resulting from the increasing burden of interest payments.

In summary, over recent months the consumer confidence index in Israel was weaker compared to the pre-coronavirus period; however, in an international comparison it is notable that the negative impact on consumer confidence in Israel has been relatively moderate. This is apparently the result of the relatively moderate rise in domestic inflation. In light of the fact that the consumer confidence index serves as a leading indicator to changes in the level of consumption among households, it appears that the relatively low decline in the Israeli index indicates the possibility for a relatively moderate slowdown in private consumption in Israel compared to the other developed countries of the world.

The current slowdown in the high-tech services sector is expected to continue, against the backdrop of low capital raising in the sector since the beginning of 2023

Most of the data published recently regarding activity in the high-tech services sector (data on exports, employed persons, and job vacancies) are showing a continuing slowdown within the sector, in continuation of the trend that started in the sector since the summer of 2022. This comes against the backdrop of rising interest rates in Israel and around the world, the drop in the risk appetite of investors in the global financial markets, and the slowdown that has occurred in recent quarters in economic activity within the main export destinations of the sector – the US and the European Union.



However, the data on the exports of the high-tech services sector during the first quarter of 2023 were better than expected. As can be seen in the accompanying chart, the trends in the technology-intensive NASDAQ stock index in the US have tended over the years to precede by six months the trends in the exports of other services from Israel (a component of GDP that includes for the most part high-tech services exports, together with the exports of other business sectors). Consequently, in light of the sharp drop that occurred in the NASDAQ during 2022, a substantial decline could have been expected in the level of exports of high-tech services at this time (compared to the parallel period last year); yet in actuality there occurred a slowdown in export growth (a real increase of only 2.3% compared to the first quarter of 2022), and not a decline. The employment data for the sector are also showing at this time merely a slowdown, and not a decline.

Looking ahead, the slowdown in Israel's high-tech services sector is expected, in our estimation, to continue in the coming months, this despite the recovery that has occurred in the NASDAQ since the beginning of 2023, which is expected to be positively reflected in sector activity in Israel only during 2024. On this regard, data presented in recent days by the Governor of the Bank of Israel (BoI), Prof. Amir Yaron, at the Eli Hurvitz Conference in Israel, indicate that the amount of capital raising by Israeli high-tech companies in the January-May 2023 period was substantially below the sums raised in the parallel period in the years 2020-2022. The sums raised were instead more similar to

the average sums in the parallel period in the years 2015-2019, although the high-tech services sector has expanded considerably since then.

Furthermore, according to Prof. Yaron, the recent sums of capital raising in Israel stand out negatively also compared to the global trend in the sector since the beginning of 2023 (a development that reflects a decline in Israel's portion of global high-tech capital raising). This is apparently affected by the heightened degree of economic-political uncertainty in the Israeli economy over recent months. In any case, the sharp drop in the total amount of capital raising by Israeli high-tech companies is likely to negatively affect activity within the high-tech services sector in the coming months.

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