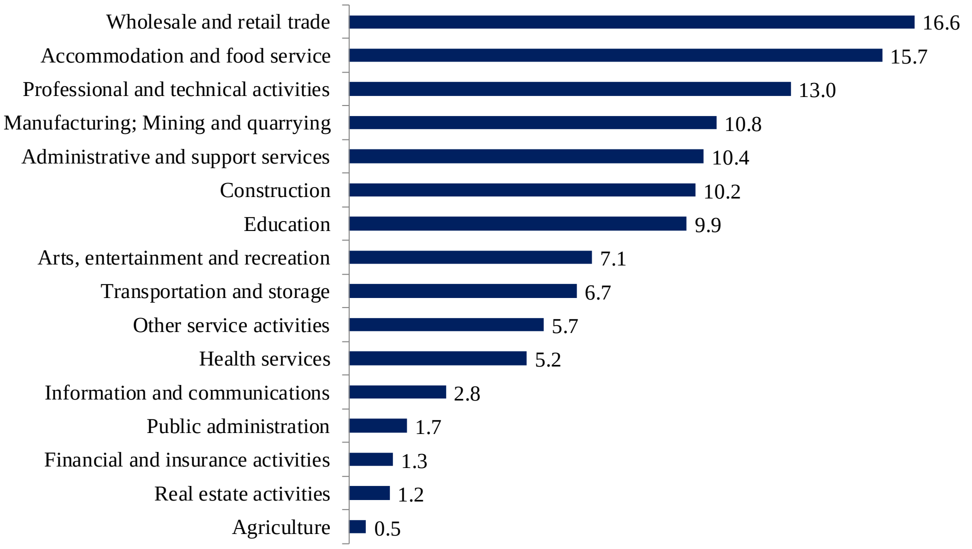
Leumi Economic Weekly

May 25, 2021

Difficulties in recruiting employees at this time are notable mainly in the accommodation and food services sector

Data from the workforce survey of the Central Bureau of Statistics (CBS) show that in April 2021, approximately 14 months from the initial outbreak of the coronavirus crisis, the number of furloughed employees in the economy (employed persons temporarily absent from their places of work the entire week – according to the CBS definition) stands at 118,900 persons. This is the lowest figure since the start of the crisis, during which time the number of furloughed workers averaged more than 400,000 per month, and reached a peak of 1.275m persons (in April 2020).

Chart 1: Employed persons temporarily absent from work the entire week - by activity, as of April 2021, original data, in thousands



As can be seen in accompanying Chart 1, analysis of the CBS data from April 2021 (unadjusted for seasonality) shows that the most notable sectors on this regard include: retail and wholesale trade (approximately 16,600 furloughed workers, equivalent to 4.5% of total employed persons in the sector), as well as food and accommodation services (approximately 15,700 workers, equivalent to 13.4% of total employed persons in the sector). Furthermore, it is important to note that in the art, entertainment, and leisure sector the percentage of furloughed employees stands at 10.4% – a notable rate compared to other sectors (second only to food and accommodation services); however, the absolute number is not so high in this sector, due to its low proportion in the employment market (approximately 2% of all employed persons in the economy).

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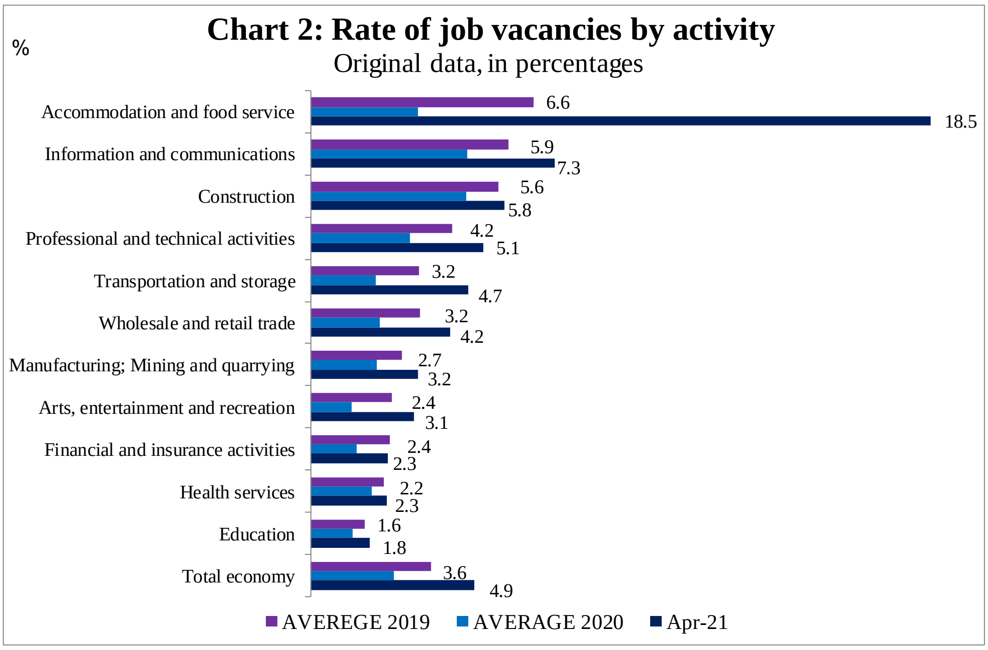
These sectors were the most adversely affected throughout the coronavirus crisis, since they were directly exposed to the pandemic-related restrictions imposed on the economy. Due to the damage to activity, a large percentage of workers were furloughed at the outbreak of the crisis (60% - 70%), and their return to the labor market is progressing slowly and gradually, despite the removal of most of the pandemic-related restrictions. This is due to, among other things, the continued payment of unemployment benefits to furloughed employees, a process that is scheduled to end in the beginning of the second half of the year.

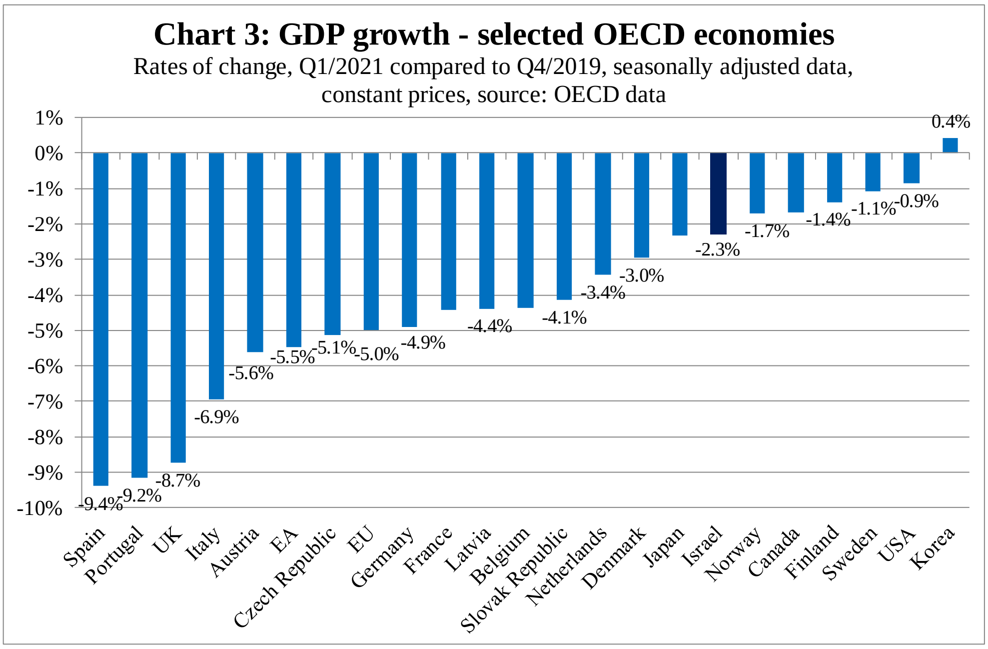


In light of the above, and as can be seen in accompanying Chart 2, analysis of the data on job vacancies in the economy in April 2021 indicates an extraordinarily high rate of job vacancies in the food and accommodation sector, approximately 18.5%, compared to an average of 6.6% in 2019, prior to the outbreak of the coronavirus crisis. This figure reflects the difficulty experienced by employers in recruiting workers in the food and accommodation sector at this time, with the rise in activity due to the lifting of most of the pandemic-related restrictions. This is due to the slow return of furloughed workers who are eligible for payment of unemployment benefits. This development is hampering the recovery of the economy and the return of the labor market to its former strength.

In summary, the number of furloughed workers in the economy is in a gradual downtrend that is expected to accelerate with the cancellation of the payment of unemployment benefits to furloughed employees. However, it is important to note that there is still a substantial number of employees (approximately 124,000) who have ceased working due to dismissals or the closure of their places of work since March 2020 (for which no sector breakdown is available); and therefore they are already not considered part of the workforce. This number is not in a clear downtrend, and is high compared to most of the preceding months. In contrast to furloughed employees, who still maintain a link to their places of work, these workers do not have a place of work to return to; therefore, their return to the labor market is expected to be slower, that is to say, this is a more sustained form of unemployment, which apparently will be expressed later on in a rise in the standard unemployment rate. This phenomenon is known as well by the nickname "the discouraged worker phenomenon," and this will represent a substantial challenge to economic policymakers when a new government will eventually be formed.

The cumulative damage to Israel's GDP since the outbreak of the coronavirus crisis is moderate compared to that in most of the developed countries

The Israeli economy is in relatively good shape compared to most of the developed economies. As can be seen in accompanying Chart 3, there are large differences in the economic development of the developed countries since the outbreak of the coronavirus crisis, with these differences being a function of a number of factors, headed by: the degree of severity of the preventative measures adopted and that adversely affected economic activity, the proportion of the sectors directly affected by the pandemic-related restrictions (mainly tourism, restaurants, and accommodation) out of total economic activity, and also the speed of the progress in the inoculation process of the population and the pace of bringing the pandemic under control.



As of the first quarter of this year, Israel's GDP is only 2.3% below its pre-crisis level. This is the case even though the GDP of the first quarter of 2021 registered a negative surprise when it contracted 6.5% (in annualized terms). The relatively positive state of the Israeli economy is the result of the rapid progress in the inoculation of the population, which contributed toward bringing the pandemic under rapid control, relative to other countries. Israel's relatively positive performance is also the result of the fact that local activity experienced only relatively moderate damage from the crisis (contraction of 2.6% in 2020 GDP, compared to a 4.6% average contraction for the OECD), despite the severe restrictions imposed on activity throughout the crisis (including three periods of general shutdown).

Israel's relatively strong performance is the result of, among other things, a relatively high proportion of high-tech sector activity (services and industry), which was less exposed to the pandemic-related restrictions and continued to operate also throughout the crisis, and also in light of the relatively small proportion out of overall GDP of tourism services exports (1.5%). However, it is important to note that the growth differential between

Israel and the OECD countries narrows when analyzing GDP per capita, since the rate of population growth in Israel is substantially higher than the OECD average (2% compared to 0.5%).

The countries within the OECD in which the GDP is close to its pre-crisis level include the North American countries, the US and Canada; some of the Scandinavian countries; and South Korea. On this regard, we note that some of the developed countries of Southeast Asia overcame the crisis in a positive manner and succeeded to return to routine activity already during the second half of 2020. The degree of severity of the pandemic-related restrictions in the Scandinavian countries was not relatively harsh. Regarding the US, which was severely affected by the coronavirus pandemic, it appears the process of recovery is progressing at a relatively rapid pace, in parallel to the progress achieved in vaccinating the population.

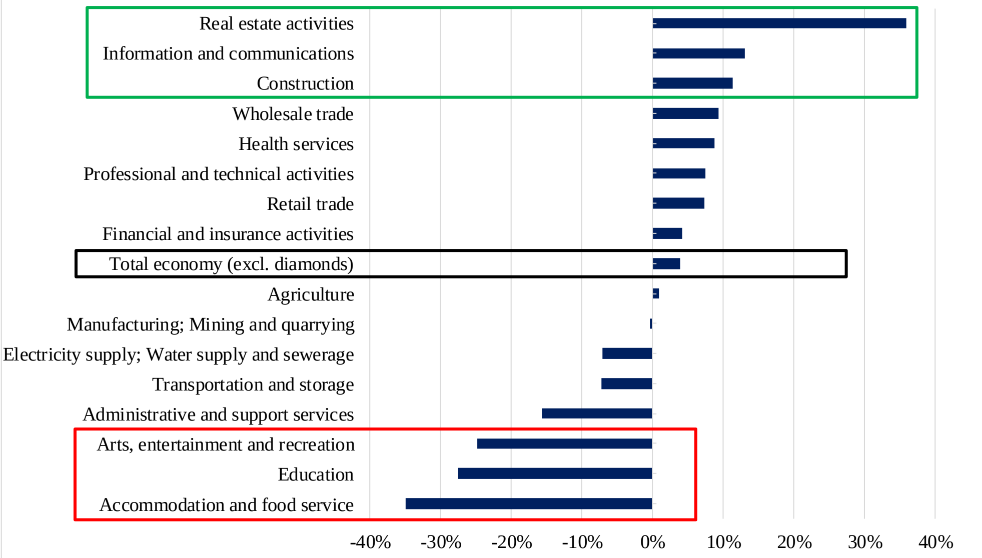
Countries that stand out negatively include the European countries, particularly the larger countries and those in the southwest of the continent, in which the tourism and accommodation sectors represent a large proportion of overall economic activity. In some of the European countries morbidity remains relatively high. This has led some countries to extend the implementation of the pandemic-related restrictions. Meanwhile, until recently these countries have experienced slow progress in the process of inoculating their populations against the coronavirus. As long as this process progresses and will lead to bringing morbidity under control on the continent, then the economic recovery is expected to pick up speed. Looking to 2021, we estimate the performance of the Israeli economy is expected to remain slightly better compared to the OECD average, while our forecast calls for growth of 5.2%, compared to 4.7%.

As of March 2021, revenues in the sectors most adversely affected by the coronavirus crisis have not yet recovered

Analysis of activity according to sector continues to show substantial differences between the various sectors of the economy. Accompanying Chart 4 presents an analysis of the revenue data in the various sectors of the economy (monthly data, adjusted for seasonality) in March 2021 compared to February 2020 (prior to the crisis outbreak).

Chart 4: The revenue indices of the economy - by sector

Seasonally adjusted data; March-21 compared to Feb-20



Activity in the sectors that were the most adversely affected throughout the coronavirus crisis, with an emphasis on food and accommodation services; education; art, entertainment, and leisure; and administration and support services, remains substantially below pre-crisis levels. On the other hand, the following sectors stand out positively: real estate activity (agency services), against the backdrop of the rise in home sales in recent months, information and communication (high-tech), and construction. Looking ahead, we estimate that in the baseline scenario, GDP is expected to register 5% average annual growth in 2021-2022.

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