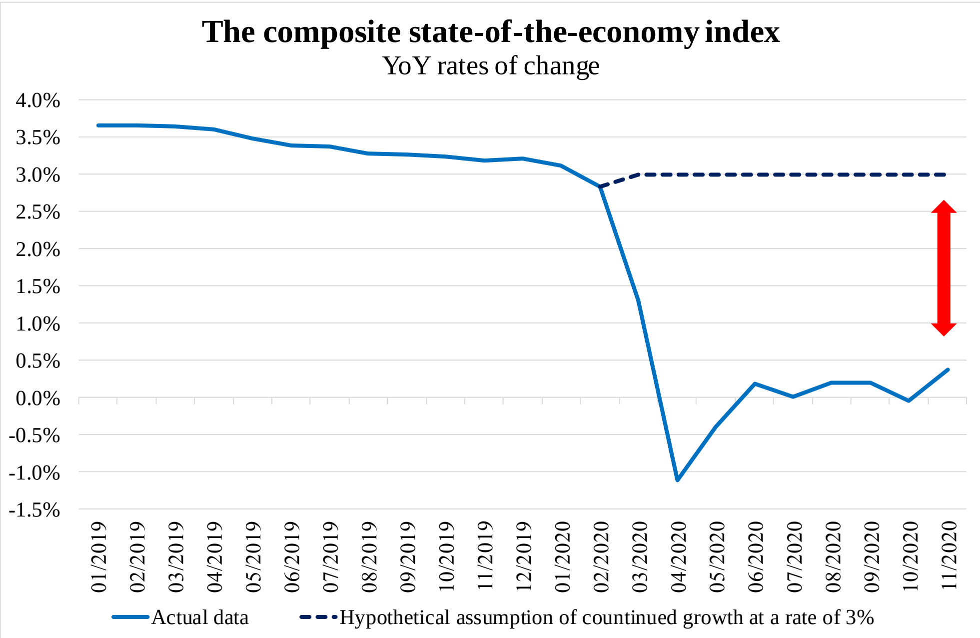
# Leumi Economic Weekly

**December 30, 2020**

***The composite state-of-the-economy index increased in November, but continues to reflect a sharp drop in the economic growth environment since the coronavirus outbreak***

Data from the Bank of Israel (BoI) show that the composite state-of-the-economy index increased 0.67% in November compared to October, in which a standstill was registered. The latest figure represents the sharpest monthly increase since June this year, and reflects the rise in economic activity following the economy's exit from its second shutdown and the easing of restrictions, even if temporary. According to the BoI announcement, since the data that compose the composite index are released with a lag, the index only partially reflects the improvement in economic activity as the economy started to gradually exit from the shutdown on October 18th. Therefore, it is likely the composite index will show an increase also this month, even though on December 27th the economy entered into its third shutdown since the coronavirus outbreak earlier this year.




Despite the increase in November, the composite index data continue to reflect a very low (annual) growth rate compared to the pre-crisis growth environment. As can be seen in the accompanying chart, the annual rate of change of the composite index (each month compared to the same month in the preceding year) is near-zero in most of the recent months, which means negative growth per capita (taking into consideration a population growth rate of close to 2%), and in November the growth stood at just 0.4%. This compares to a growth environment of 3% in the year prior to the coronavirus crisis. This

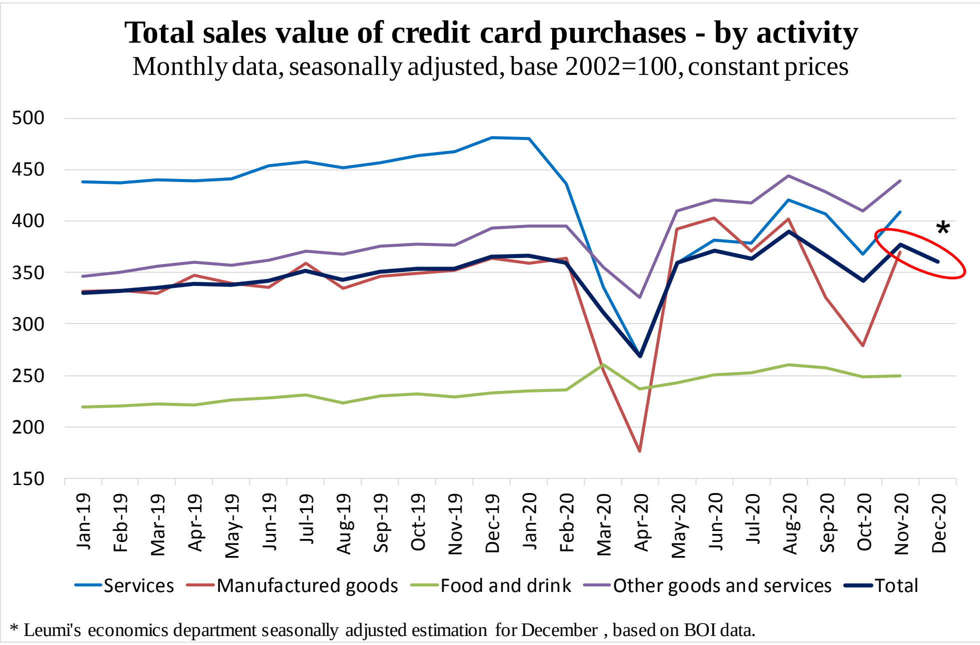

**BANK LEUMI LE-ISRAEL, THE CAPITAL MARKETS DIVISION**
**The Economics Sector, P.O.Box 2, Tel Aviv 61000**
**Ph: 972-76-885-8737, Fax: 972-77-895-8737, e-mail: Gilbu@bll.co.il**
**http://english.leumi.co.il/Home/**

development underscores the substantial gap that has opened up between the forecast growth path prior to the coronavirus crisis and the actual growth rate, as reflected in the BoI data, while it appears the central bank data reflects a growth rate substantially higher than that derived from the GDP data that is published by the Central Bureau of Statistics (CBS).

In summary, we expect the fourth quarter this year is likely to conclude with no change or only a slight decline in economic activity, while for all of 2020 we forecast a decline of 3.5%-4.0% in the GDP. Regarding 2021, we forecast in the baseline scenario the GDP is expected to increase 5.0%. However, the rapid progress achieved in the vaccination process of the population in Israel, which stands out positively compared to the rest of the world, is likely to, if it will be maintained, accelerate the exit process from the crisis, and thus will enable the removal of most of the restrictions on activity already during the second quarter of 2021. In such a scenario, the growth in 2021 is expected to be greater than 5.0%. The increase in GDP in 2021 is likely to be characterized by an increase in productivity, in which output increases but with only a partial increase in inputs, thus contributing to an increase in the profit margins in various industries.

***Credit card purchases increased sharply in November, but changed direction in December against the backdrop of the start of the economy's third shutdown***

The CBS published the data on November credit card purchases by individuals. These data (in fixed prices) are adjusted for seasonality, which allows for comparisons between the months of the year, this in contrast to the data on credit card expenditures that are published each week by the BoI.




The CBS data show that November was characterized by a relatively sharp increase in the volume of purchases, parallel to the exit from the second shutdown that had started back on September 18th at the beginning of a three-week Jewish holiday period. Total purchases in November were 10.4% greater than in October and 5.0% greater than the sum of purchases back in February, prior to the breakout of the coronavirus crisis.

An analysis of the data broken down by sector indicates a very sharp 32% increase in the purchases of manufactured goods (furniture, electrical products and electronics, as well as clothing and shoes), apparently due to the many discounted sale offerings that began in November, and also against the backdrop of the opening of trade with the lifting of restrictions. More moderate increases were registered in the services sectors (tourism, flights, leisure, entertainment, and more) and other goods and services (computers and software, gasoline, communication equipment, and more), whereas the food and beverage sector remained stable. Overall, as can be seen in the accompanying chart, in November the sum of credit card purchases was greater than the pre-crisis level (February) in each of the product categories, except in the area of services in which the sum of purchases was 6% lower. This is because most of the services sectors remain subject to restrictions that do not permit a return to regular activity, with an emphasis on social distancing and restrictions against congregating.

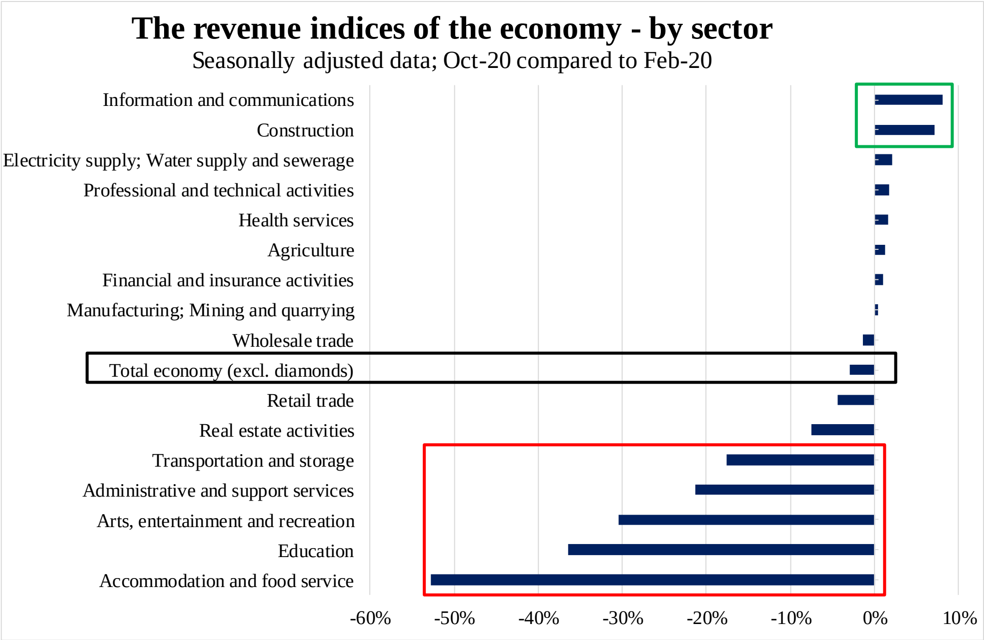
The data on credit card expenditures released by the BoI indicate a moderate decline in the volume of purchases in December, against the backdrop of an increase in the degree of severity of restrictions, leading up to the economy's entrance into its third shutdown this year at the end of December, even though this shutdown is less restrictive than the two preceding shutdowns. According to our estimates on the volume of purchases seasonally adjusted in December, which are based on the BoI data, it appears that a moderate decline is expected in total credit card purchases (see accompanying chart). Furthermore, it appears the declines are broad across all the sectors of activity.

In summary, the start of the economy's third shutdown, accompanied by, among other things, a partial closure in trade, is expected to continue to weigh on household consumption, as expressed in the data on credit card purchases. The accompanying chart shows that the area of activity most affected by this situation is manufactured goods for the local market. The activity in this sector tends to react rapidly to restrictions on activity, climbing substantially as restrictions are lifted, but declining sharply when restrictions are imposed.

***The revenue indices of the sectors of the economy underscore the inconsistencies in the negative effects of the coronavirus crisis on activity***

Analysis of the data on the revenue indices in all the sectors in October (excluding diamonds, monthly data and adjusted for seasonality) indicates stability compared to September. Overall, activity in September and October (during which time the second economic shutdown occurred) reflected a low level of revenues compared to pre-crisis levels, with notable differences among the sectors.

Revenue levels in October were 3% below those from February this year (prior to the breakout of the coronavirus crisis). The October data were affected by the second economic shutdown, which occurred in this period, although declines were expressed by a less severe degree in the mobility indices of the general public and the scale of credit card usage. Furthermore, drawing lessons from previous months assisted in the development of effective ways to continue activity alongside the coronavirus, in parallel with the positive developments in the medical field. Against this backdrop, among other things, the October data did not indicate a sharp decline in activity.




However, the inconsistent damage caused by the coronavirus crisis to economic activity, which is unique to this crisis, has been more strongly felt in the sectors directly affected by the restrictions on activity, with an emphasis on the restrictions against congregating and the requirements with respect to social-distancing. This development has led to large differences between the sectors that were heavily damaged to an extreme degree and the sectors that were almost not hurt at all.

The accompanying chart shows the revenue data in the different sectors of the economy (monthly data, adjusted for seasonality) in October compared to February 2020 (prior to the crisis outbreak). According to these data, the sectors most severely hurt by the coronavirus crisis and which absorbed the sharpest decline in activity have been the services sectors, among them being: food and accommodation services, education, art and leisure, transportation and storage services, as well as administration and support services. Also the retail trade sector registered a drop in activity, against the backdrop of the many store closures during October. On the other hand, the sectors that were less affected by the restrictions and showed better performance include the information and communication (high-tech) and the construction sectors. Furthermore, it also appears that most of the industrial sectors were unhurt in this period, as they remained stable at the aggregate level of activity. These trends are expected to continue as long as activity in the local economy will remain limited by one degree or another due to restrictions.

**Author:** Yaniv Bar