

Global Macro Research

How will the economy recover as we get vaccinated - experiences from Israel

Key takeaways

- Israel has completed mass vaccination and has started the gradual re-opening of the economy. In this piece, we dive into the Israeli data, which we believe give us some insights into what we should expect for other countries as well.
- Consumption swiftly recovered in a number of industries – both in services and goods. The initial rebound held through March, but has since subsided somewhat, indicating that spending patterns return to normal quickly. Unfortunately, Israeli holidays disturb the picture somewhat in April.
- The reopening of the economy has propelled consumer confidence to record-highs, whereas business confidence remains subdued, with notably the tourism industry struggling despite the domestic reopening.

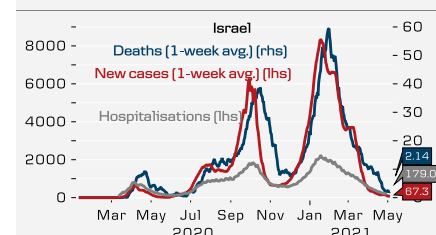
COVID-19: Israel leads the pack on vaccinations and reopening

Israel has more or less completed its mass vaccination program with nearly 60% of the population being fully vaccinated. This may seem low but it is important to recognise that the population is very young (the age group 0-14 constitutes roughly 28% of the total population) and the Pfizer vaccine is not yet approved for children (although it may soon be the case, as the Pfizer vaccine has showed good results in young teenagers, see [press release](#)). Given the US is likely to approve Pfizer for young teenagers next week, Israel is likely to follow suit. Additionally, there is a higher degree of vaccine scepticism among Arab-Israelis and Haredi Jews, see [Times](#), 19 March.

Israel permitted restaurants, cafes, and event halls to reopen on 7 March, as the country was about to hit the half way milestone with 50% of the total population being fully vaccinated against COVID-19. Restrictions have been lifted gradually since then and the gatherings are currently limited to 20 people indoors and 100 outdoors. Despite the reopening and less social distancing, the COVID-19 situation continues to improve with very few new cases, declining hospitalisations and very few deaths. This supports the findings from scientific studies that vaccines not only protect oneself but also others due to lower transmission (positive externalities), see e.g. [Milman et al \(2021\)](#). Despite the re-opening, new cases, hospitalisations and deaths continue to move lower and COVID-19 is under control (see chart 1)

We think Israel's re-opening looks very similar to what many European economies can expect in the coming months with a gradual reopening and a "Green Pass" as a key tool. We have dived into the Israeli macro data, which we think tell us something about what to expect also in the US and in Europe.

Chart 1: Israel has COVID-19 under control amid re-opening



Sources: WHO, Israel Ministry of Health, Macrobond Financial

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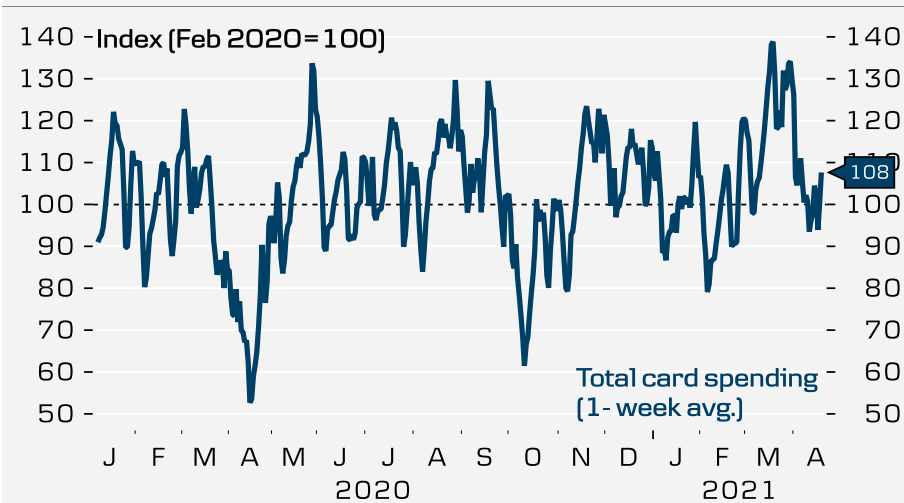
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Consumption: Swift spending rebound, but it might be short-lived

We analyse the Israeli economy using daily credit card spending from Bank of Israel (last observation 20 April). The reopening in March immediately had consumers go on a shopping frenzy with the 1-week moving average up 40% compared to February 2020 – making it the week with most consumption since the start of COVID-19 (see chart 2). Where March was characterised by higher than normal credit card spending, we saw a gradual normalisation through April. This was, however, largely due to due to holidays (Passover late March/early April and the National Holiday on 15 April). Consumption recovered after the National Holiday. We will monitor the data closely when new observations are available to see how the economy is performing here in May, where holidays are not affecting consumption.

Chart 2: Re-opening in March led to a big surge in card spending



Sources: Bank of Israel, Macrobond Financial

Unsurprisingly, the reopening led to a significant comeback for restaurant and hotel spending, which increased immediately (see chart 3). The dramatic jump in hotel spending was also fuelled by the Passover (27 March to 4 April). Trough March spending in restaurants jumped to around 20% above pre-pandemic levels, indicating a high level of confidence in the effect of the vaccine. The remaining part of the tourism sector is still trying to catch up, with spending on travel agencies and airlines at 50% of the usual level, however, it remains a strong improvement from almost no activity before the reopening in March. This makes sense, as the rest of the world is not as far as Israel with many countries still struggling with COVID-19. The most recent data suggests that spending in restaurants has come down somewhat from the strong levels in March, indicating that consumers quickly return to normal spending behaviour, although holidays may distort the data.

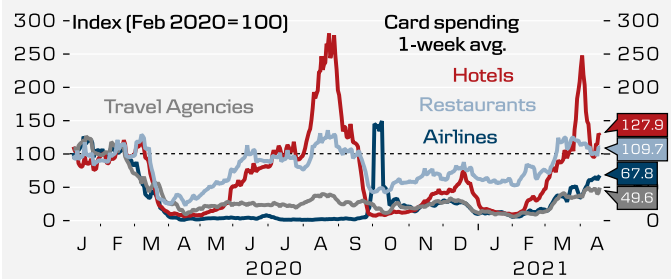
Clothing consumption, which lost close to 2-3 months' sales during each of the three lockdowns, has regained some of the lost sales with the reopening, but also here, spending have already normalised and thus not made up for the lost ground during the lockdowns. Hence, consumers do not appear to have overcompensated for the time at home by buying an entirely new wardrobe (see chart 4).

Similarly to what we have seen in other countries – not least in Denmark – Israeli consumers have focused on improving their homes during the pandemic, with spending on both electronics and home furniture remaining high throughout the past one and a half year,

spiking with each reopening, but maintaining momentum during lockdowns especially for electronics. Spending on both electronics and home furniture has normalised over the past month, but remains above pre-COVID levels, indicating that the focus on the home improvement does not evaporate with the easing of restrictions.

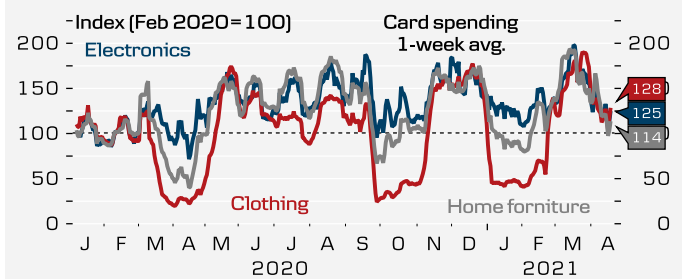
That consumers put more energy into their homes is also reflected in the housing market, where prices on urban real estate is up 3.8% since March 2020 (see chart 6).

Chart 3: Restaurant spending has come down since March, but remains above pre-pandemic levels



Sources: Bank of Israel, Macrobond Financial

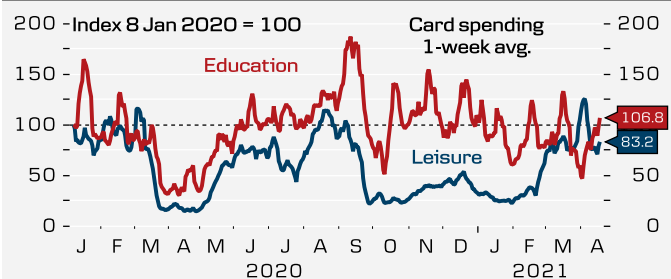
Chart 4: Spending on consumer goods is normalising, but remain above pre-pandemic levels



Sources: Bank of Israel, Macrobond Financial

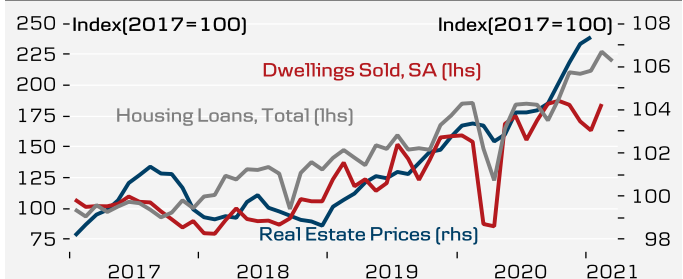
Overall, we expect the adjustment towards the pre-pandemic consumption patterns to continue in the coming months. Notably we will be looking out to see, how well the shift towards home improvement holds up, notably when travel restrictions are lifted – something we are yet to see happen anywhere in the world. Generally, the good news from Israel as well as New Zealand (see *Macro Research: Post-COVID consumption – experiences from New Zealand*) is that consumers quickly return to normal spending patterns as soon as they are allowed to do so. However, so far we do not see a sustained consumption jump to make up for the lost ground.

Chart 5: More money spend on Education compared to before COVID. Leisure has also made a strong comeback in March and April



Sources: Bank of Israel, Macrobond Financial

Chart 6: The housing market is not showing signs of

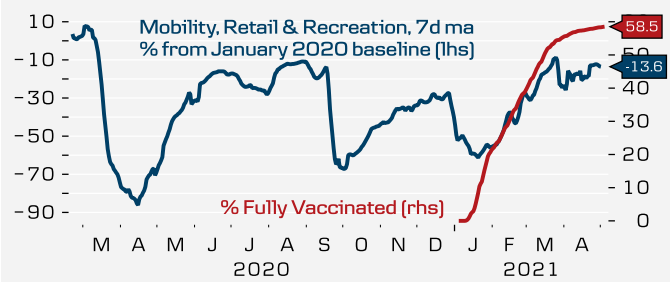


Sources: Statistics Israel and Macrobond Financial

Activity is picking up, but some areas have yet to recover

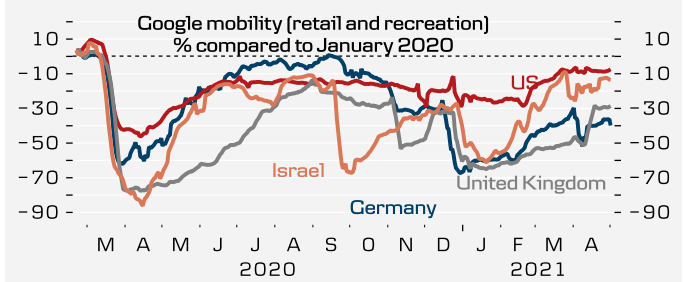
We have other indicators, besides the credit card spending data, to say something about the economic situation. Unfortunately, some of the data are not as frequent as the credit card spending data. For instance, the Google Mobility Index has recovered at a lot although it remains lower than in January 2020 (see chart 7). It is also at a much higher level than in many EU countries, which are still struggling with a high number of new cases and where politicians tightened restrictions (see chart 8).

Chart 7: The Google Mobility Index has recovered significantly



Sources: Google, Our World In Data, Macrobond Financial

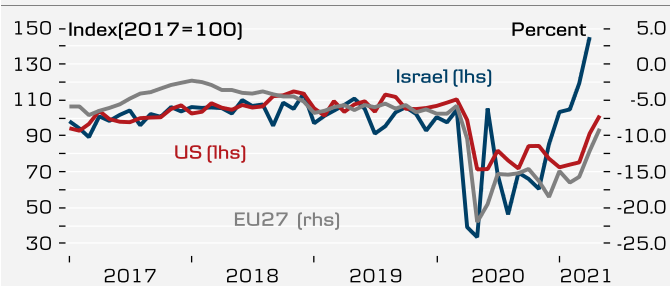
Chart 8: The Google Mobility index is much higher than in e.g. Germany



Sources: Google, Macrobond Financial

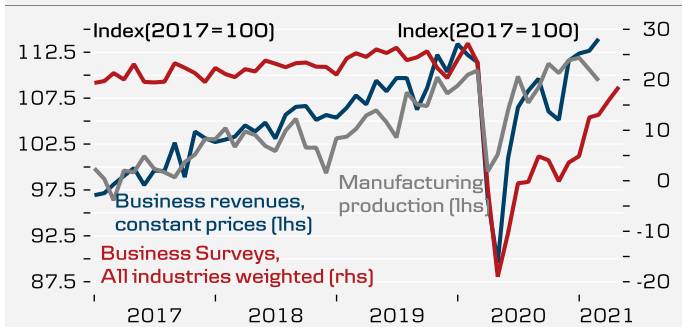
Consumers have regained confidence in the economy and they are much more optimistic than consumers in the US and in the EU, where consumer confidence has also risen lately. In Israel, consumer confidence is at its highest level ever on record (see chart 9). The high consumer confidence also explains the sharp spending recovery we discussed in the previous section. Meanwhile, businesses are still more downbeat compared to the time before the pandemic hit, even with strong manufacturing and business revenue numbers (see chart 10), although the index has recovered a lot and is now back in positive territory. One explanation may be that some sectors are still hard hit with very little tourism.

Chart 9: Big jump in consumer confidence



Sources: Macrobond Financial

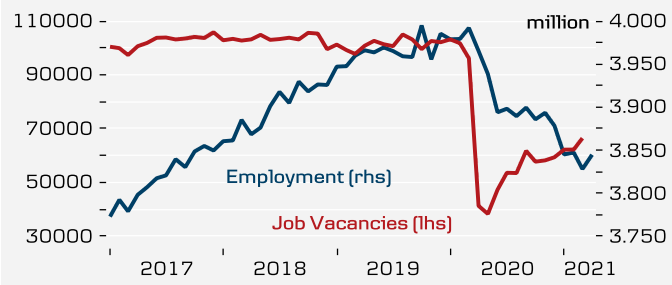
Chart 10: Business confidence has not fully recovered despite increasing manufacturing production and business revenues



Sources: Israel Central Bureau of Statistics, Macrobond Financial

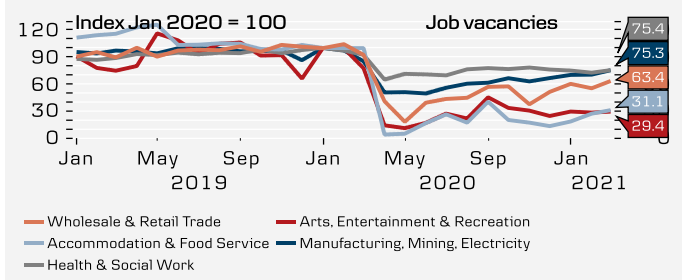
Nevertheless, the weak business survey numbers may reduce how quick employment returns back to normal. In Israel, employment has been falling steadily since the outbreak in 2020. The hit to the labour market is also visible looking at vacancies, which remain subdued (see chart 11). We only have data until February but we will monitor the labour market closely, as we would expect a strong recovery supported by the normalisation. The industries most heavily affected by the vacancy drought is Entertainment, Food & Accommodation and Wholesale, where job vacancies remain very subdued. Manufacturing has performed better but remains below pre-pandemic levels as well (see chart 12).

Chart 11: The labour market is still hungover



Sources: Israel Central Bureau of Statistics, Macrobond Financial

Chart 12: Service sector hardest hit



Sources: Israel Central Bureau of Statistics, Macrobond Financial

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