



Macro Economic Forecast for 2013

30 October 2012

Base Scenario – Basic Assumptions and Background Conditions

- ✓ **Slight acceleration is expected in the rate of world growth** – According to forecasts of international economic organizations, a very slight acceleration is expected in world economic growth: world growth of 2.4% is expected, after 2.2% in 2012¹.
- ✓ **Slight recovery is expected in the Eurozone** - The Eurozone, to which about 30% of Israeli exports of goods are directed, is expected to record moderate growth of 0.4% in GDP in 2013, after a decline of 0.4% in 2012.
- ✓ **Acceleration is expected in the rate of growth of developing countries:** China, to which about 5% of Israeli exports are directed, is expected to grow by 8.6% next year, after 7.8% in 2012. At the same time, India, to which about 4% of Israeli exports are directed, is expected to grow by 6.5% in 2013, after 6.1% in 2012.
- ✓ **Acceleration is expected also in the rate of expansion of the world trade in goods:** According to forecasts of international economic organizations, growth of 4.6% is expected in 2013, after 3.5% in 2012.
- ✓ **Stability is expected in the rate of growth in the US economy**, to which about 24% of Israel's exports of goods are directed: growth of 2% is expected, similar to 2012.
- ✓ **A number of factors will also support private consumer demand this year** – Domestic demand will continue to benefit next year from an inflation-adjusted rise in the average wage in the economy, together with the continued recruitment of employees in the business sector. In addition, part of the population will benefit from an increase in disposable income: both families with young children who have begun to benefit from the implementation of the Free Education for Children of Ages 3-4 Law, and the population of those earning minimum wage or close to it, who benefited in October 2012 from a rise of some 5% in their wages. Furthermore, domestic consumers will also benefit this year from a comfortable inflation-adjusted interest rate environment, which will also support domestic demand.
- ✓ **On the other hand, there are a considerable number of factors acting to restrain private consumption growth** – The combination of an increase in income tax for mid-income and high income earners², together with the increase in VAT in September 2012, and the wave of price increases expected in the economy (at this stage mainly in the area of food, electricity and

¹ According to a forecast of the Economist Research Department, September 2012.

² As part of the steps by the Ministry of Finance to meet the deficit target in 2013, income tax will be increased for wages exceeding NIS 14,000 per month, and a surtax will be imposed on high-income earners (above NIS 800 thousand per annum).



water), are expected to impact the willingness of consumers to increase their purchases next year.

- ✓ **Expansion factors on the investment side** – The project setting up the IDF Training Bases “City” in the South, currently under progress, is expected to lead next year to marked growth in infrastructure investments in the area as a whole, and an increase in domestic industrial demand in the relevant areas.
- ✓ **Increase in wage costs** – The bringing forward of the increase in employer contributions to National Insurance on that part of wages exceeding 60% of the average wage, by 0.6%, to January 2013 (instead of January 2014 as planned), will lead to an additional increase in the salary expenses of companies. This increase comes in addition to the update of the minimum wage, and the agreement for the hiring and equalization of employment conditions of outsourced employees, that will drive up salary levels in the entire business sector.
- ✓ **Increases in prices of inputs** - In 2013, a further rise is expected in the prices of inputs controlled by the government, including electricity, property taxes, and water. In addition, in 2013 there will be a dollar increase in the prices of industrial raw materials worldwide³, against the backdrop of the slight acceleration expected in the world economy. These price increases will bring about erosion of the profitability of Israeli companies and impact their competitive capability.
- ✓ **On the other hand, there may be a reduction from mid-2013 in energy prices to local industry** – In the event that the supply of natural gas to factories will commence as planned in mid-2013, this will help at least some of the factories (in the first stage mainly the larger factories) to gradually reduce energy expenses, and to improve their competitive capability over the long term.
- ✓ **During 2013⁴, stability is expected in the rate of the shekel against the dollar** – In 2013, the exchange rate is expected to maintain around NIS 3.8 to the dollar. Since more than 75% of export transactions are denominated in dollars, this stability may help exporters to deal with the continuing erosion in their competitive capability. Despite this forecast, it is quite probable that there will be a renewed trend of appreciation in the rate of the shekel against the dollar already during this year.
- ✓ **During 2013⁴, appreciation is expected in the rate of the shekel against the euro** – Exporters to the Eurozone are expected next year to face a combination of weak demand and an appreciation in the rate of the shekel against the euro, which will impact their profitability. The intensity of the appreciation depends of course, on the extent of the weakening of the euro worldwide, against the backdrop of the intensity of the crisis and the issue of the stability of the Eurozone.
- ✓ **An attractive tax environment for the export industry** – Beginning in 2013, the export industry will benefit from a further cut in the rates of Companies Tax: the rate of tax will decrease to 12.5% for industrial export companies in the center of the country and 7% in peripheral areas.

³ According to “World commodity forecasts: industrial raw materials” by the Economist, April 2012.

⁴ December 2013 compared with December 2012.



This projection assumes stability in the security situation, with a geopolitical situation similar to that at present



2013 Forecast – Base scenario

- ✓ **In 2013, a further slowdown is expected in the rate of growth of the economy: The GDP is expected to grow by 2.7%**, after growth of 3.5% in 2012⁵, and 4.6% in 2011.
- ✓ **This means a moderate increase of 0.9% in GDP per capita in 2013**, after an increase of 1.7% in 2012 and an average rate of growth of nearly 3% in the years 2010-2011.
- ✓ **This slowdown will be derived mainly from the slowdown in the rate of growth of business GDP, which is expected to grow by 2.3%**, after growth of 3.4% in 2012, and rapid growth of 5.1% in 2011.
- ✓ **This forecast assumes continued growth in the export of goods and services (excluding diamonds):** An increase of 5.3% is expected in 2013, after increasing by 5.6% in 2012 and by 4.1% in 2011.
- ✓ **This increase in exports will be derived mainly from an increase in the industrial exports (excluding diamonds)**, which is expected to record inflation-adjusted growth of about 6%, against the backdrop of a combination of a high starting point for exports at the beginning of 2013, together with a tail wind expected from the volumes of the world trade in goods, and the completion of a number of large ongoing export transactions by a small number of large industrial companies.
- ✓ On the other hand, a slowdown is expected in the rate of expansion of the export of services: An increase of 4.1% is expected, after an annual increase of 5.2% in the years 2011 - 2012.
- ✓ **In 2013, a further slight slowdown is expected in the rate of expansion in private consumption:** An increase of 2.1% is expected, after an increase of 2.8% in 2012 and 3.8% in 2011. This increase will derive as a whole from an increase in current private consumption (2.6%), with a continuing decrease in the consumption of durable goods (a decline of about 4.4% is expected).
- ✓ **Private consumption per capita is expected to increase at a moderate rate of 0.3%**, following an increase of 0.9% in 2012, and 1.9% in 2011.
- ✓ **On the other hand, a slight acceleration is expected in the rate of growth of investments in the economy sectors (excluding ships and aircraft):** An increase of 2.4% is expected in these investments, after a moderate increase of 1.4% in 2012, and a two-digit increase in 2011 (18.5%). This acceleration will be affected mainly by the acceleration expected in investment in infrastructure and non-residential construction, against the backdrop of the beginning of construction work on the IDF Training Bases “City” in the South, and other infrastructure projects. **On the other hand, a sharp decline (of about 7%) is expected in investments in residential construction in 2013**, after an increase close to 5% in 2012, and a two-digit increase of 12.5% in 2011.
- ✓ **A slowdown is expected in the rate of growth in local public consumption (excluding defense imports)**, mainly against the backdrop of an anticipated lack of budget approval until mid-2013, with a freeze in growth-generating activities, together with operating with a

⁵ According to preliminary estimates for 2012 published by the Central Bureau of Statistics in mid-October 2012.



restrictive budget (that will be derived from 1/12 of the budget for 2012). In addition, further cuts are expected in our opinion in expense items in the budget for 2013, which will be felt from the middle of the year, after approval of the budget. Accordingly, an increase of 3.6% is expected in 2013 in local public consumption, after accelerated growth of 4.3% in 2012.

- ✓ **A slowdown is expected also in the rate of recruitment of employees in the economy: we estimate that there will be an increase in 2013 of 1.9% in the number of Israelis employed in the economy** (an addition of about 64 thousand people), after growth of 3.2% in 2012. In our opinion, this growth will be derived mainly from an increase in the number of employees in the public sector, together with very moderate recruitment in the business sector.
- ✓ **At the same time, a sharp rise is expected in 2013 in the unemployment rate to 7.7% of the civilian workforce**, which means an addition of about 23 thousand unemployed, and a rise to a total of 286 thousand unemployed, compared with 263 thousand in 2012. This rise in the rate of unemployment will in our opinion be accompanied by a further increase in the rate of participation in the workforce.

Manufacturers Association Forecast for 2013

	2011	CBS estimate 2012	Forecast 2013 Manufacturers Association
GDP	4.6%	3.5%	2.7%
GDP per capita	2.7%	1.7%	0.9%
Business GDP	5.1%	3.4%	2.3%
Private consumption	3.8%	2.8%	2.1%
Of which: Durable goods	10.6%	-5.6%	-4.4%
Current consumption (excluding durable goods)	3.2%	3.6%	2.6%
Private consumption per capita	1.9%	0.9%	0.3%
Local public consumption	2.7%	4.3%	3.6%
Of which: Civilian consumption	3.3%	4.9%	3.7%
Local defense consumption	1.7%	1.9%	3.2%
Gross domestic investment	23.5%	7.7%	-0.8%
Of which: Investment in fixed assets	16.0%	2.6%	-0.8%
Investment in residential construction	12.5%	4.9%	-7.3%
Investments in economy sectors (Excl. ships and aircrafts)	18.5%	1.4%	2.4%
Exports of goods and services (without diamonds)	4.1%	5.6%	5.3%
Of which: Exports of goods (Excl. diamonds)	3.5%	5.9%	6.0%
Of which: Industrial exports	3.6%	5.8%	6.0%
Exports of services	5.2%	5.2%	4.1%
Civilian imports	11.2%	3.2%	3.3%
Of which: Civilian imports of goods	12.2%	2.8%	3.4%
Imports of services	7.9%	4.5%	3.0%
Unemployment rate	7.1%	7.3%	7.7%
No. of unemployed (thousands)	247	263	286
Rate of participation in the workforce	62.6%	63.8%	64.3%
Israelis employed	2.9%	3.2%	1.9%

This forecast was prepared by the Economic Research Department Team:

Dafna Aviram-Nitzan, Department Manager

Tel: 03-5198807