

Israel's Employment Market—Less Glittery Than It Looks

January 22, 2012

Main Remarks

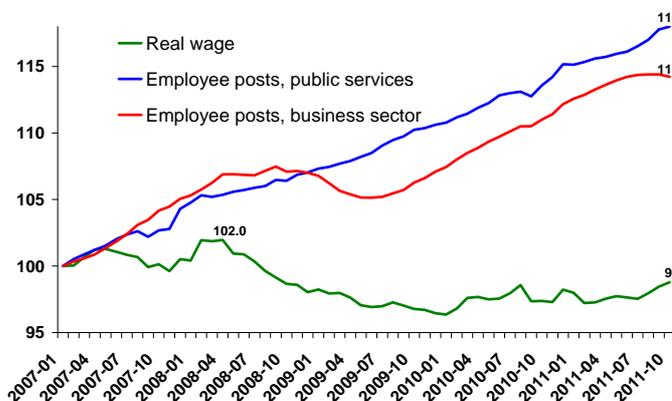
- **Israel's employment market is booming by Western standards.**
- **However, business hiring has halted and real wages are 3% lower than before the crisis.**
- **Joblessness is poised to rise in 2012.**

Trends in Employment and Wages

Israel's employment market is immeasurably better off than its counterparts in Europe, the U.S., and elsewhere. The economy is approaching full employment, the unemployment rate¹ in October fell to its lowest ever (5%), employee posts have never been higher, and wages (nominal) in recent months are 5% over the 2010 average. A more thorough look at the data, however, shows a less optimistic picture.

First, in recent few months, given the economic slowdown and the upturn in uncertainty, the growth of business job creation has stopped (see graph), as happened the beginning of the previous crisis (2008). Conversely, jobs in the public services have been increasing steadily—also much as in the previous crisis. To attain sustainable growth, of course, job creation should be led by the business sector and not by the public services.

Employee Post and Real Wage Indices (1/2007 = 100)



Second, real wages have been eroding in recent years (see graph) and are now 3% under their pre-crisis level. We should bear in mind that the real wage erosion and the resulting decrease in consumers' purchasing power were among the triggers of the social protests last summer.² Admittedly, real wages have been rising in the past few months due to the decrease in inflation, an

¹ On the basis of trend data.

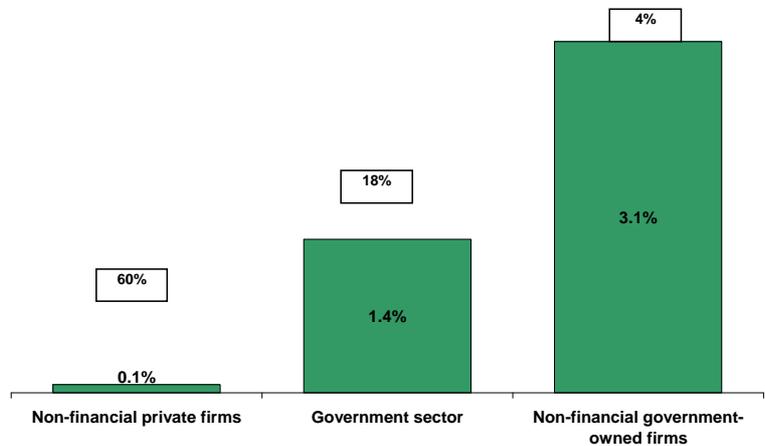
² Notably, some of the erosion of gross real wages was offset by a decrease in taxation of labor income.

However, the tax reform had a particularly strong upward effect on the wages of those earning high wages to begin with.

adjustment of the minimum wage, and general-government wage accords, but were basically unchanged in the first ten months of 2011 as against the 2010 average (up only 0.3%).

Furthermore, as the second graph shows, almost all of the negligible increase in wages traces to wage growth in the government sector, including government-owned companies (which account for only 22% of employment nationwide). Conversely, in non-financial private firms (those that manufacture goods and/or services), which account for 60% of total employment countrywide, wages were stagnant during that time.

Change in Real Wage, Selected Sectors, Jan.–Oct. 2011 vs. 2010 Average (Numbers above Columns = Share of Sector in Employee Posts)



Presumably, several factors converge to explain the standstill in wages at private firms. Chiefly, these companies, motivated above all by profit considerations (as is not necessarily the case in the government sector), have not yet rebounded from the latest crisis and therefore are refraining from wage hikes; much hiring is in relatively poorly paying and part-time jobs; and wage-earners in this sector have little bargaining power (in contrast to the strong works committees that pervade the government sector). Notably, average wages in the government sector—at government-owned companies in particular—are perceptibly higher than those paid by private firms; therefore, an unbalanced increase in wage widens the national wage gap.

As for unemployment, all we have are provisional and incomplete data. (The decrease in joblessness may trace to a decline in the participation rate.) We will get a clearer picture when the CBS Human Resources Survey for the fourth quarter of 2011 is released (in late February). In our estimation, with activity expected to continue slowing in the coming year, the jobless rate will rise to 6% on annual average and the participation rate will decrease slightly. (Importantly, if the participation rate goes up, the increase in unemployment will be even larger.)

At the Portal of 2012

In sum, the domestic economy, including the employment market, is well positioned to tackle the foreseen challenges in 2012. Furthermore, unemployment is not expected to balloon and real wages may go up, given the factors mentioned above and the low jobless rate. However, it is worth shedding light on several problems that may have eluded the center of the economic discourse.

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