Economica

By Pinchas Landau

Pinchas Landau is a leading economic and financial analyst who advises financial institutions in Israel and abroad on domestic and global developments. He can be contacted at plandau@hamodia.com

So Far So Good

Most readers were too focused on Pesach preparations to notice that last Shabbos, Rosh Chodesh Nisan, marked the halfway point for 5775.

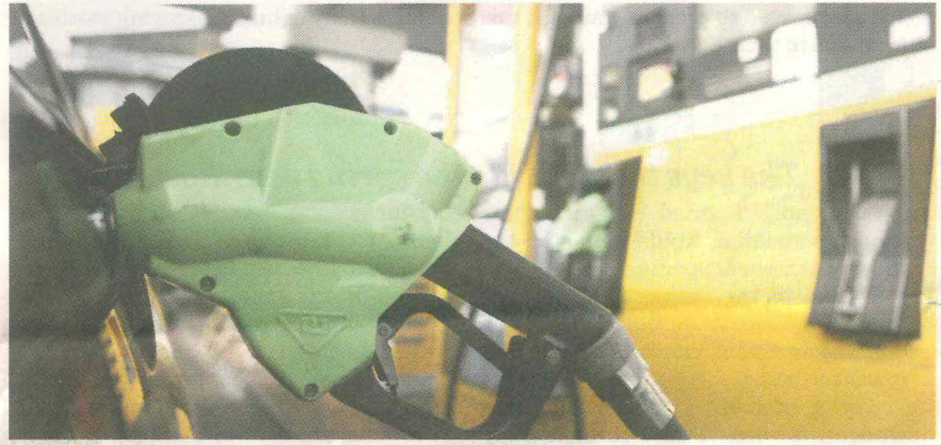
This is certainly not the place for an explanation as to why Jews have two calendars working simultaneously, so that "the first month" is actually in the second half of the year. That's how the system has been working for thousands of years, so learn to live with it. ...

In any event, it is entirely appropriate to highlight the fact that, in almost every respect, the first half of 5775 has been very favorable for the Israeli economy — and certainly far better than had been feared when the year started. In defense of the consensus negative view six months ago, which found full expression in this column last Elul, it is fair to say that this positive outcome has been caused by completely unexpected developments both at home and abroad.

When 5775 began, Israel had just completed a 50-day military campaign against Hamas that had left the country understandably shaken and somewhat depressed. True, the casualties from the fighting and, especially, from the thousands of missiles fired had been far fewer than might have been the case — and thank G-d for that — and the damage to property has also been limited. But this was the longest sustained period of fighting in Israeli history, and it had a direct effect on most of the country, including the whole of the Tel Aviv conurbation. Furthermore, it was not at all obvious then which side had emerged from the fighting with greater "achievements," from its point of view.

The Israeli government, preoccupied with the fighting, had not yet formulated a draft budget for 2015, but all the signs pointed to the coming year being very tight fiscally. The local economy was becoming steadily weaker, with exports falling under the impact of the strong shekel. The war had crushed the tourist sector and hurt domestic demand in general. Meanwhile, in the wider world, although oil prices had come down a bit, they were still around $90 a barrel in the United States and over $100 in Europe.

Six months later, all of these issues have been stood on their heads. The government eventually hammered out a draft budget full of bad ideas, poor compromises and still with a large hole that no one knew how to fill. But the government then collapsed and the budget proposal was canned. Yet the fiscal situation improved, because economic activity bounced back very strongly and tax revenues jumped. For at least the first half of 2015, the absence of an approved budget ensures that there will be no over-spending and hence no large deficit.



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Much more dramatic, and surely much more important, were external developments. Oil prices crashed by 50 percent from their September levels — over 60 percent from their June highs — and the prices of many other raw materials and commodities went the same way, making them much cheaper for Israeli businesses and consumers.

On the markets, the dollar strengthened against almost every other currency — including the shekel, which had been at NIS 3.40 in July, but reached NIS 4 to the dollar in December and moved even further in March. This, as well as other factors, helped Israeli exports to climb out of the doldrums and start growing again.

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As discussed in this column in recent weeks, none of this featured in the recent election campaign. Instead, the public and politicians alike have moaned about how bad their personal situation was and that the country was going in the wrong direction. But if the second half of the year proves to be anything like the first, that will be just fine, thank-you!