

# The Israeli Labor Market Under the Coronavirus: An Overview

**Noam Zontag, Gil Epstein, and Avi Weiss**

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Translation: Shaul Vardi  
Editing and lay-out: Laura Schreiber

Center address: 15 Ha'ari Street, Jerusalem, Israel  
Telephone: 02 5671818 Fax: 02 5671919  
Email: [info@taubcenter.org.il](mailto:info@taubcenter.org.il) Website: [www.taubcenter.org.il](http://www.taubcenter.org.il)

# The Israeli Labor Market Under the Coronavirus: An Overview

Noam Zontag, Gil Epstein, and Avi Weiss

Labor markets around the world experienced substantial disruption in 2020 with the outbreak of the coronavirus pandemic. Social distancing rules intended to reduce the spread of the pandemic significantly restricted economic activities, and, as a result, cut profitability in businesses and labor markets. Israel, which entered the crisis with a resilient labor market, very low unemployment rates, and high rates of employment and labor force participation, also sustained serious damage due to the employment crisis created by the pandemic. The damage to the labor market appears to have been associated with consumer concern of exposure to the virus; falling domestic demand due to the reduction in household incomes; falling demand for exports; and heightened uncertainty, including uncertainty regarding employment (Achdut, Gera, Zussman & Kamintzky, 2020). Despite the development of vaccines for COVID-19 and the start of inoculations at the end of 2020, the employment crisis is not expected to end anytime soon, and the process of returning to full employment could take a number of years. According to the expectations of the Ministry of Finance, the average broad unemployment rate<sup>1</sup> in 2020 will be slightly over 15 percent<sup>2</sup> and in the fourth quarter of 2021 it will fall to 7.2 percent under the optimistic scenario and 10.2 percent under the pessimistic scenario.<sup>3</sup>

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\* Noam Zontag, Researcher, Taub Center for Social Policy Studies in Israel. Prof. Gil Epstein, Principal Researcher, Taub Center; Department of Economics, Bar-Ilan University. Prof. Avi Weiss, President, Taub Center; Department of Economics, Bar-Ilan University. The authors wish to thank Prof. Benjamin Bental and Prof. Alex Weinreb for their helpful comments.

- 1 The definition of the broad unemployment rate includes workers who were dismissed during the crisis and are not seeking employment.
- 2 See the [Macro-Economic Forecasts](#), Chief Economist Division, Ministry of Finance (in Hebrew).
- 3 See the presentation by the Chief Economist Division, Ministry of Finance, [A Status Report on the Labor Market](#), Eli Hurvitz Conference on Economics and Society, December, 2020 (in Hebrew). For a broad review of the macroeconomic ramifications of the crisis, see Bental and Shami, 2020.

As the crisis erupted, a policy decision was adopted allowing employers to place workers on unpaid leave; during this period, the workers are entitled to unemployment benefits without the need to prove dismissal or the termination of the contractual relationship between the workers and their employers. In light of the uncertainty and fall in economic activity, many employers chose to use this option to place workers on temporary unpaid leave. The extensive use of this tool created a new reality in which the conventional indices used to describe the labor market, and particularly the unemployment rate, became less relevant. This stems from the fact that workers on unpaid leave, albeit sometimes for many months, are not defined as unemployed, since they have not been dismissed from their workplace and still plan on returning to work. Another group of workers whose employment has been affected during the crisis who are not reflected in the unemployment rate are workers who were dismissed during the crisis and are not looking for work. This group is not conventionally included in the unemployment rate, which, by definition, includes only workers who are actively seeking employment. In practice, the main impact of the crisis on the labor market, particularly during periods when strict social distancing rules were imposed, was manifested in the high rate of workers temporarily absent from their work.

Labor market data in Israel are collected by three official bodies: the Central Bureau for Statistics (CBS, in its Labor Force Survey and other surveys); the National Insurance Institute (NII); and the Employment Service. The data files from these three bodies are not identical, but the principal trends they reflect are broadly similar. The differences between the data from the NII, the Employment Service, and the CBS are due mainly to substantive differences in the definitions. While the former two bodies issue administrative files intended primarily for their operational use, the CBS files are based on the official statistical definitions and are intended for research and other purposes. In order to ensure uniformity throughout this overview, we have chosen to base our analysis on the CBS data, which offer diverse variables that allow for analyses of the labor market and estimates of the impacts on Israeli society.<sup>4</sup>

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4 The CBS data from the Labor Force Surveys allow differentiation between three groups of unemployed: a) the “standard” unemployed (those who are labor force participants but are not employed); b) those temporarily absent from their jobs (for at least a week) for reasons related to COVID-19; and c) those who were employed before the crisis but as a result of the crisis are neither employed nor seeking employment. These categories differ from those of the NII for those who receive unemployment benefits (see Bental & Shami, 2020) and from job seekers who register with the Employment Service. Not all those workers who are temporarily absent from their work are on unpaid leave, and not all those on unpaid leave are eligible for unemployment benefits.

At the time of writing, the crisis is still at its height, and accordingly this overview reflects the reality at the time of writing alone. It is important to bear in mind that this reality may change in accordance with the development of the crisis.

## The labor market in Israel in 2020: A status report

Prior to the outbreak of the coronavirus pandemic, the labor market in Israel was tight, resilient, and characterized by full or near-full employment (Fuchs & Weiss, 2018; Fuchs & Epstein, 2019). As of the end of the fourth quarter of 2019 — the last quarter before the outbreak of the crisis — the rate of non-employed in the principal working ages (25–64) was extremely low, at 3.3 percent.<sup>5</sup> The rates of labor market participation and employment were high and stable, at 81 percent and 78 percent, respectively. Real wages were continuing to rise, as in previous years, increasing by about 3 percent over the year preceding the crisis. Although the share of vacant job positions fell slightly, from 3.6 percent at the end of 2018 to 3.4 percent at the end of 2019, it remained high until the outbreak of the crisis.

Following the start of the pandemic and the imposition of strict social distancing rules during March, the Israeli labor market sustained a serious shock. At the beginning of the crisis, from mid-March through mid-May, strict social distancing rules were imposed in Israel, significantly restricting economic activity and leading to the closure of large sections of the Israeli economy. Many workers were placed on indefinite unpaid leave, and many public sector workers took mandatory paid vacation. As a result of this situation, in April, which marked the peak of the first part of the crisis (the “first wave”), about 31 percent of workers were absent from their work for reasons connected to the coronavirus crisis, in addition to about 3 percent who were unemployed.<sup>6</sup>

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5 Unless otherwise noted, the employment figures in this chapter relate to the principal working ages, 25–64.

6 According to the CBS, workers who were temporarily absent from their work due to the crisis are workers who were absent throughout the surveyed week due to a reduction in the scope of work, labor disputes, strikes, or closures. This group does not include workers absent from their work for other reasons, such as reserve duty, parental leave, and the like.

From mid-May through mid-September, some restrictions were lifted in the social distancing rules, educational institutions resumed their activities, and substantial sections of the economy returned to full or near-full operations. During this period, many workers who were absent from their place of work returned to work, although during the same period the unemployment rate rose, reaching 4.5 percent in August. However, certain sectors — particularly those that typically involve considerable physical proximity between people (such as the culture and airline industries) — remained closed to a large degree even during this period.

Rising morbidity rates led once again to the imposition of strict distancing rules from mid-September (the Jewish High Holidays) through mid-October, followed by a staged relaxation in the rules. This pattern of rising and falling severity in the required level of social distancing is connected to the fluctuations in the morbidity rates (“waves”) and may be repeated as the crisis continues.

Figure 1 shows the rates of labor force participation and employment according to the groups of workers whose employment was affected during the course of the crisis. As the graph shows, while during the early months of the crisis the impact on the labor market was seen mainly in the rising rate of workers who were temporarily absent from their place of work, as of May, the rate fell substantially, with a parallel rise in the unemployment rate.<sup>7</sup> The rate of labor force participation, which fell by 1 percentage point between February and March, did not change significantly from March through October. During September and October, the period of the second shutdown, the rate of workers temporarily absent from work (unpaid leave) rose again; however, this increase was milder than that during the first shutdown.<sup>8</sup>

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7 The unemployment rate is described in Figure 1 as the differential between the curve representing the employment rate and the curve representing the rate of labor force participation.

8 The figures in this chapter are based on the data from the Labor Force Survey without “permanent samples,” i.e., excluding residents of institutions and the Bedouin geographic dispersion. For details, see the introduction to the CBS Labor Force Survey for 2018 (CBS, 2020).

**Figure 1. Rates of labor force participation and unemployment by categories of workers affected, January to October 2020**

Ages 25–64



Note: The employment rate excluding workers who were temporarily absent from their place of work includes workers who actually worked, excluding workers temporarily absent from their work for reasons connected to the coronavirus. Conversely, this employment rate includes workers absent from their work for other reasons not connected to the coronavirus, such as vacation, reserve duty, and the like.

Source: Zontag, Epstein, and Weiss, Taub Center | Data: CBS, Labor Force Survey

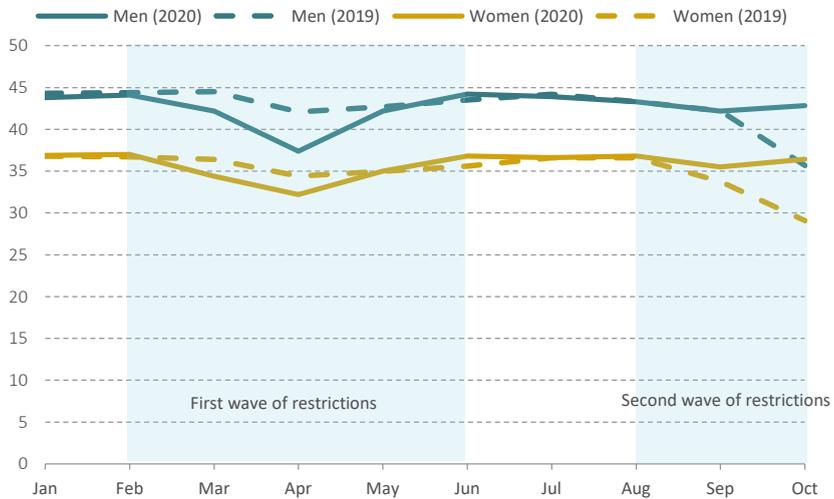
### Changes in the number of weekly work hours during the crisis

The impact of the crisis on the labor market is not confined to the share of workers who stopped working; it also affected the average number of hours worked. During the first shutdown, the average number of work hours fell (Figure 2). The fall peaked in April when the average number of hours worked was about 14 percent lower than in February, prior to the impact of the crisis on the labor market, and about 9 percent lower than in April 2019.<sup>9</sup> The fall in the average number of work hours between April 2019 and April 2020 was greater among men (11 percent) than among women (6 percent).

9 In addition to the reduction in work hours due to the shutdown, April also included Passover and Ramadan, both of which influenced the fall in the average number of work hours.

In March and May, too, the average number of work hours was relatively low.<sup>10</sup> During the second shutdown, and in particular during October, the average number of work hours increased relative to the year before. The number of work hours depends on additional variables unrelated to the crisis, such as holidays and legal vacation days during the month in question, so it is difficult to determine the extent to which the changes between the two shutdowns were the result of the shutdowns and other issues.

**Figure 2. Average number of weekly work hours per employee, January to October 2019 and 2020**



Note: Among employees who worked that week, not including those absent from work temporarily or permanently due to the coronavirus crisis.

Source: Zontag, Epstein, and Weiss, Taub Center | Data: CBS, Labor Force Survey

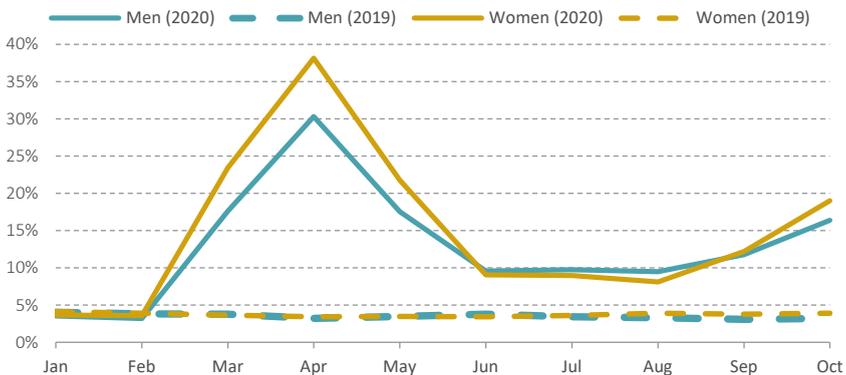
10 Two reasons can be suggested for the high average number of work hours in June 2020 relative to June 2019: 1) The festival of Shavuot fell during June in 2019, but not in 2020; 2) A desire on the part of workers to make-up for lost work hours during the first shutdown, when many of them could only work a limited number of hours.

## Breaking down the employment effects of the crisis

In many respects, the impact on employment due to the crisis was not uniform across all employees in the economy. A number of variables influenced the probability that a worker would leave the labor market temporarily or permanently. Regarding gender, the share of women who were temporarily absent from their place of work as a result of the crisis during the early months of the crisis, when strict distancing rules were imposed, was higher than that of men (Bowers, 2020; Ministry of Finance, 2020b). This gap may have been due to the high share of women in the ancillary educational professions (teaching assistants, instructors, and ancillary functions), a large share of whom were placed on unpaid leave. Another possible explanation is that more women than men took unpaid leave in order to stay home with their children following the shutdown of educational frameworks (Israeli Employment Service, 2020). The gender gaps that characterized the early months of the crisis narrowed during the period of relaxations in the social distancing rules, and as of the beginning of June the share of workers who were temporarily absent from their place of work and the unemployment rate were slightly higher among men (Figure 3). As occurred during the first shutdown, from the onset of the second shutdown in September the broad unemployment rate rose more sharply among women than among men, and in October the share of unemployed women was 3 percentage points higher than that of men.

**Figure 3. Broad unemployment rate among labor force participants by gender, January to October 2019 and 2020**

Ages 25–64



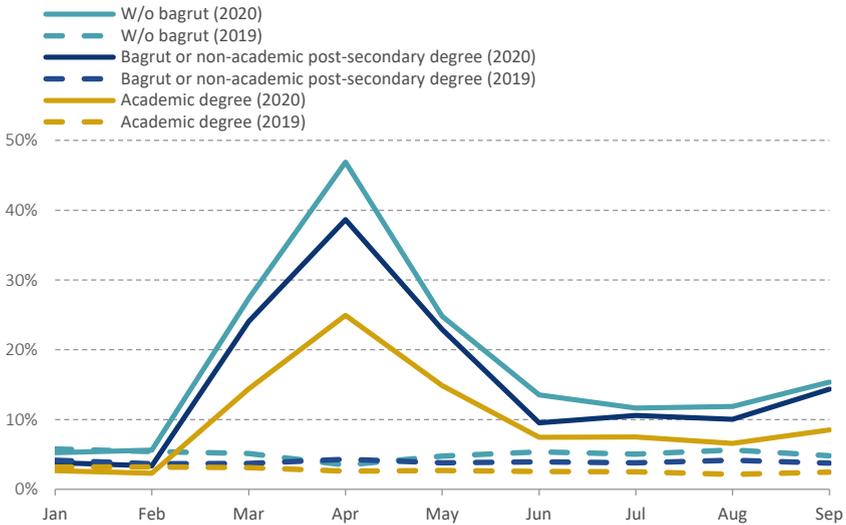
Note: The broad unemployment rate in the figure includes unemployed persons and those temporarily absent from work (unpaid leave) for reasons associated with the crisis, as defined by the CBS.

Source: Zontag, Epstein, and Weiss, Taub Center | Data: CBS, Labor Force Survey

When the changes in the unemployment rates are examined for different education levels, it appears that during the course of the crisis, and particularly at its beginning, the gaps in the employment rates between different income levels widened. From February to April, the crisis had a stronger impact on workers with a low education level; many of these workers were temporarily released from their place of work, and, accordingly, the fall in their employment rate was steeper than that among workers with a higher education level (Achdut et al., 2020;<sup>11</sup> Ministry of Finance, 2020b). In June, as the rules began to be relaxed, unemployment rates among these workers fell and the gap narrowed considerably (Figure 4). Nonetheless, since the second shutdown began in September, the gap has widened again.

**Figure 4. Broad unemployment rate among labor force participants, by education level, January to October 2019 and 2020**

Ages 25–64



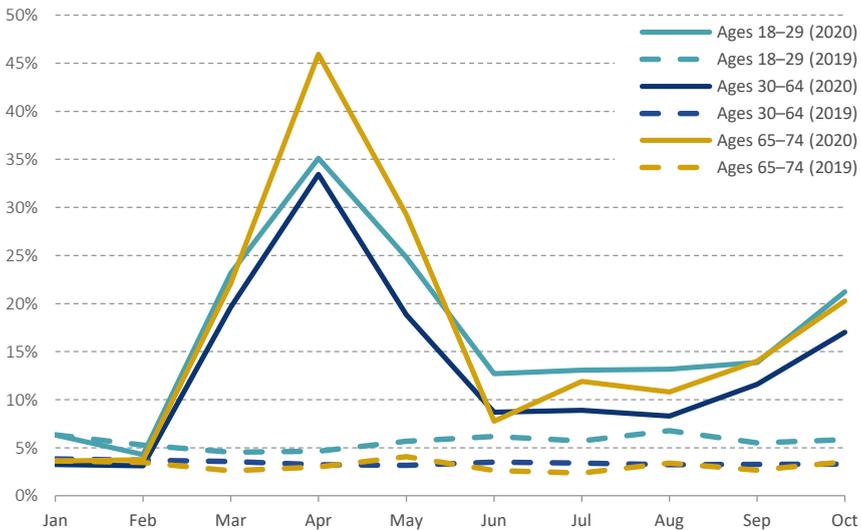
Note: The broad unemployment rate in the figure includes unemployed persons and those temporarily absent from work for reasons associated with the crisis, as defined by the CBS.

Source: Zontag, Epstein, and Weiss, Taub Center | Data: CBS, Labor Force Survey

11 Achdut et al.’s survey relates solely to the unemployment rate in the business sector.

With regard to age groups, the impact of the crisis was particularly severe among young workers and among older workers above retirement age (Achdut et al., 2020). During the early months of the crisis, the growth in the broad unemployment rate was steeper among young people ages 18–29 and among older workers ages 65–74 than among those ages 30–64 (Figure 5). The gaps between the age groups continued to be significant during the period of relatively relaxed social distancing rules in July and August and even during the second shutdown. One possible explanation for the severe impact on the employment of older people is that they may belong to a health risk group, or may be close to belonging to this group in terms of the age-based definitions used by the Ministry of Health. The longer the crisis persists, the greater the probability that many of the workers in this group, some of whom continued to work beyond the official retirement age, will leave the labor market permanently. If this scenario transpires, the labor force in Israel may lose workers who would have continued to work for several more years were it not for the crisis.

**Figure 5. Broad unemployment rate among labor force participants by age groups, January to October 2019 and 2020**



Note: The broad unemployment rate in the figure includes unemployed persons and those temporarily absent from work for reasons associated with the crisis, as defined by the CBS.

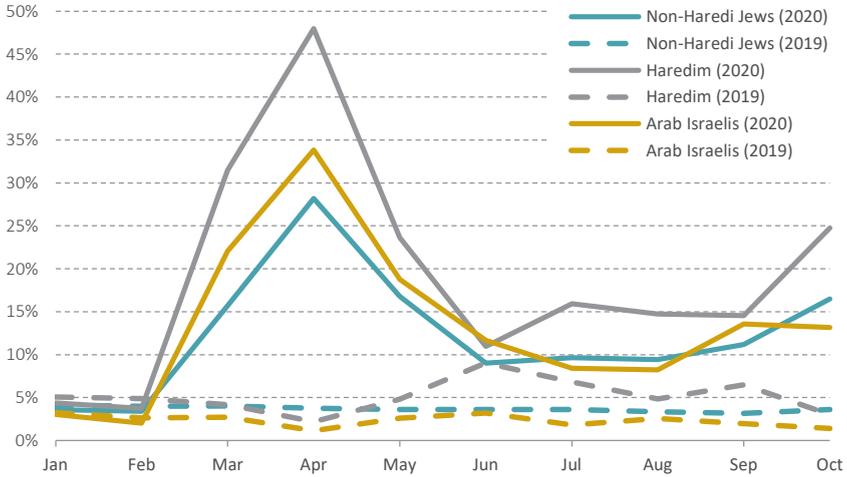
Source: Zontag, Epstein, and Weiss, Taub Center | Data: CBS, Labor Force Survey

## The impact of the crisis on employment in the Haredi and Arab Israeli sectors

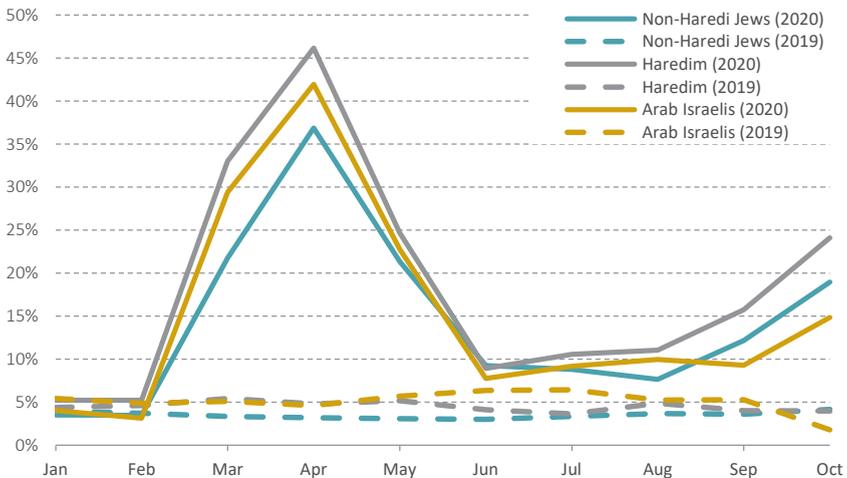
The employment crisis following the outbreak of the coronavirus crisis had a greater impact on workers from the Haredi sector than on non-Haredi Jews (Achdut et al., 2020; Ministry of Finance, 2020b). This finding is particularly true for Haredi men, among whom the broad unemployment rate in April was significantly higher than among non-Haredi Jews (48 percent and 28 percent, respectively); the rate remained relatively high over the following months, after the introduction of the relaxations in the shutdown and during the second shutdown (Figure 6). A study of employment patterns in the Haredi sector suggest that the decision by men to go to work rather than continuing their yeshiva studies is in many cases due to financial constraints (Malach & Gorbat, 2020). Past crises, such as the crisis in 2003 and the cuts in budgets for the sector in 2013, were accompanied by the entry of Haredi men and women into the labor market. Similarly, it may be that following the coronavirus crisis an increase can be anticipated in employment rates or in the number of work hours in this sector (Hermann & Anabi, 2020).

Among workers in the Arab Israeli sector, by contrast, the picture is more complex. During the early months of the crisis, the unemployment rates in this sector were higher than among non-Haredi Jews (Somekh et al., 2020). However, this gap narrowed over the following months, and since June the unemployment rates among Arab Israelis, men and women, were lower than among non-Haredi Jews in some months (Figures 6 and 7).

**Figure 6. Broad unemployment rate among male labor force participants by sector, January to October 2019 and 2020**



**Figure 7. Broad unemployment rate among female labor force participants by sector, January to October 2019 and 2020**



Note for Figure 6 and 7: Data are for the period until October 2020; the Haredi sector is by self-definition. In addition to the unemployed, the unemployment rate in the figure also includes workers who did not work temporarily due to the crisis.

Source for Figure 6 and 7: Zontag, Epstein, and Weiss, Taub Center | Data for Figure 6 and 7: CBS, Labor Force Survey

## Breaking down the impact of the crisis during the period of relaxations in the distancing rules by variables connected to the nature of the employment

As already mentioned, while many workers were absent from their work temporarily during the period of tight restrictions, a smaller group of workers remained without work even after relaxations were introduced in the distancing rules in May. For many members of this group, the impact on employment, which extended beyond a limited period, may be more significant. Figure 8 examines the share of non-employed in June 2019 and June 2020 among those who were employed in June in the preceding year, by the job characteristics in the preceding year. The definition of “non-employed” in the figure includes those who did not work at all in June (neither in a full-time nor a part-time position) and who were defined in this month as unemployed or as workers temporarily absent from their work due to the crisis. The graph is based on data from Labor Force Surveys using their sampling method,<sup>12</sup> which surveys the same respondent in the same month with an interval of one year. June was chosen since it is a representative month for the period of relatively relaxed rules, while it is not influenced by the seasonal fluctuations in the labor market that characterize the summer months.

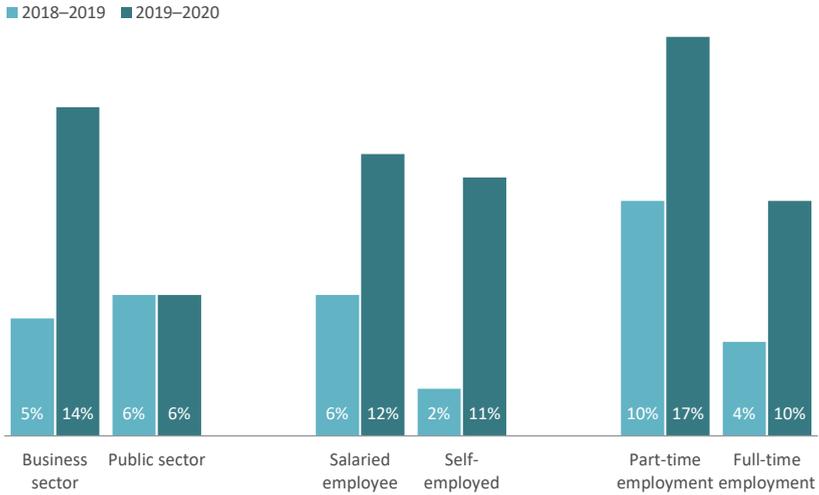
As the figure shows, the impact on public sector workers was less pronounced, and most of the impact was borne by the business sector (see also Achdut et al., 2020). It also emerges that there was a substantial increase in the share of self-employed who stopped working in 2020 relative to 2019; this increase was significantly higher than that among salaried workers.<sup>13</sup> The share of full-time employees who stopped working rose more sharply than the share of those employed on a part-time basis. The share of workers who stopped working in both groups was substantially higher in June 2020 than in June 2019.

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12 The sampling method in the Labor Force Survey is on the household level, including a review of each individual in the household ages 15 and above over eight periods (months). Respondents are sampled for four consecutive months, not sampled for the following eight months, and then sampled again for four consecutive months.

13 The non-employed group, both among salaried workers and the self-employed, includes only those who did not work at all during the relevant month (June 2019 or June 2020), with the exception of salaried workers who became self-employed over this year and self-employed who became salaried workers over this year.

**Figure 8. Share of non-employed in June 2020 (2019) among persons employed as of June 2019 (2018), by pattern of employment in previous year  
Ages 25–64**



Note: A full-time position is defined as 35 weekly work hours or more.

Source: Zontag, Epstein, and Weiss, Taub Center | Data: CBS, Labor Force Survey

# SPOTLIGHT A

## The wage paradox during the coronavirus period

The rise in real wages in Israel that has characterized recent years continued in 2019 and at the beginning of 2020. From February 2019 through February 2020, the last month for which the figures were not significantly influenced by the crisis, average real wages among salaried workers in the Israeli economy rose by about 3 percent.<sup>14</sup> This rise follows the rapid rise in wages since 2014 — wages for all salaried workers rose by about 16 percent between 2014 and 2019.

While average real wages fell in March, the month when the first shutdown was imposed, an unusually sharp rise was recorded in April (Figure 9). In order to understand this paradox — a sharp rise in wages at a time when the Israeli and global economies were affected by a pandemic — it is important to recall that the average wage is calculated for employees who actually worked during the entire month, and does not include those who, for any reason, did not work in that month. Thus, changes in the average wage level are also influenced by changes in the mix of workers, and not only by changes in the wage level of any particular worker. The exceptional rise in April is associated with the fact that many of the workers who were temporarily

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14 The real wage figures are based on Bank of Israel data. The figures are after adjusting for seasonal fluctuations and refer to the average monthly wage for a salaried position, regardless of whether it is full-time or part-time employment.

absent from their place of work during this month earned relatively low wages (Heller, 2020; Ministry of Finance, 2020b). There are various reasons for this, one of which is the relatively low wage levels in the sectors that were worst affected by the crisis; even in sectors characterized by high wages, the wages of those let go or who were temporarily absent from their place of work were lower than the sector average (Ministry of Finance, 2020a). Another possible explanation relates to gaps in the average number of work hours: workers who were temporarily absent from their place of work tended on average to work fewer hours than those workers who continued to work (Ministry of Finance, 2020c).<sup>15</sup> Since April, real wages showed a downward trend, although even in August, several months after the relaxations in the social distancing rules, and in September, when the second shutdown began, real wages were higher than in the months preceding the crisis, particularly in the business sector.

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15 The Ministry of Finance study compared the typical average work hours of workers temporarily absent from work with the typical average work hours of workers who worked during that month, based on the Labor Force Survey data for August.

**Figure 9. Rate of change in real wages of salaried employees in the business and public sectors relative to the same month in the previous year**



Note: The average real wage shown in the figure refers to the average wages of workers who actually worked in the relevant month. Accordingly, in addition to changes in wages themselves, the figure is also influenced by changes in the mix of workers. The figures are after adjusting for seasonal fluctuations, and include workers in full-time and part-time positions.

Source: Zontag, Epstein, and Weiss, Taub Center | Data: Bank of Israel

The exceptional rise in average wages has broad budgetary ramifications, including in terms of the minimum wage and the wages of senior level workers. In order to prevent the ramifications of this artificial rise in average wages, the Legislative Memorandum: Average Wage (Temporary Provision), 5781-2020 was published in November 2020:

In the wake of the coronavirus crisis, a sharp rise is anticipated this year in the level of the average wage in the economy, which is calculated by the National Insurance Institute in January on the basis of data from the Central Bureau of Statistics, due to the fall in the number of active workers, and since those workers placed on unpaid leave or dismissed generally earned wages below the average wage in the market. This is liable to lead to the creation of distortions, budgetary costs, and ramifications that will impede the economy's recovery from the coronavirus crisis. Thus, it is proposed that the substantive updates due to be applied on the publication of the average wage in the market by the National Insurance Institute in January 2021 be frozen [...].

## Remote work

In addition to the impact on employment and wages, the coronavirus crisis is also expected to have significant additional ramifications for the labor market. One of the most significant of these ramifications is the adoption of remote work for employees in positions and industries where this is feasible (Madhala & Bental, 2020). The social distancing rules led many employers to introduce remote work technologies and to expand their use in businesses where they had already been in use prior to the crisis. During the crisis, remote work allowed businesses to continue to function even under conditions that prevented all or some workers from reaching the workplace on a regular basis. In the State of Businesses survey prepared by the CBS following the crisis, 16.5 percent of employers who allowed their workers to work remotely stated that they were interested in increasing the share of home employment substantially or very substantially (CBS, Survey of Businesses During the Coronavirus, 3<sup>rd</sup> Wave).<sup>16</sup>

Work from home reduces the importance of geographical proximity between the place of residence and the workplace, thus facilitating access to high-quality employment among residents of the immediate and distant periphery as well as among people with disabilities and broadening their employment options. Furthermore, remote work reduces pressure on the roads and permits greater flexibility in work hours, potentially helping workers who require such flexibility (such as parents). Conversely, some recently-published studies around the world have noted a negative correlation between remote work and the level of business productivity, particularly for businesses in the financial sector (Xiao, 2020) and for small companies that do not export and are not involved in research and development (Monteiro, Straume, & Valente, 2019). This correlation has not yet been examined in the Israeli context.

Remote work rates throughout the crisis, and particularly during the first shutdown, were high in the high tech and finance sectors, and to a lesser extent in the field of professional and technical services (see Madhala & Bental, 2020, Fig. 3). In high tech companies, a high share of workers continued to work

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16 Following the outbreak of the coronavirus crisis, the CBS began to conduct flash surveys among employers. These surveys sampled businesses employing five or more workers in selected industries. The employers were asked “How many workers worked from home?” without reference to the full-time or part-time status of the employee. Since these surveys were only conducted in 2020, it is not possible to compare the results to data from previous years.

remotely even after the relaxations in the social distancing rules (from May through August) which suggests a relatively high level of openness to this work modality in this sector.

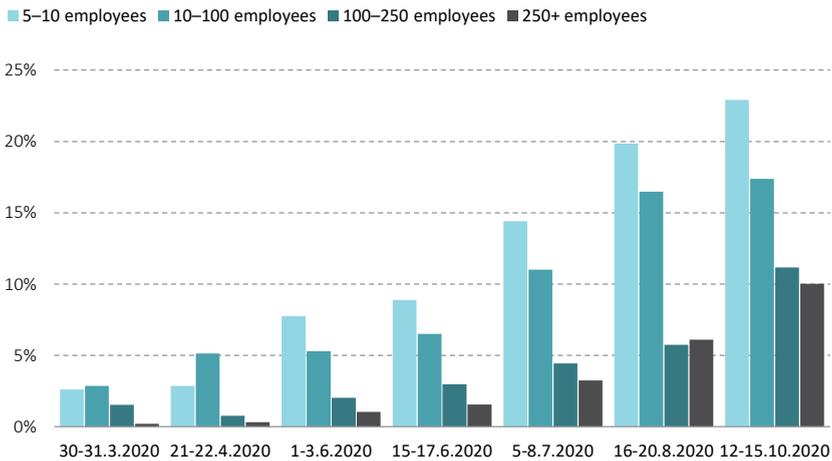
### How did businesses cope with the coronavirus crisis?

Different employers and industries coped with the coronavirus crisis in different ways. Businesses that can operate fully or partially by means of remote work were able to utilize this modality during the crisis, thereby mitigating its negative impact. Companies and industries in which flexible wage contracts are common were able to undertake wage adjustments. It is also possible that some companies took advantage of the crisis in order to implement efficiency measures that do not necessarily relate to the impact of the crisis as such. As Figure 10 shows, small businesses dismissed a higher share of their workers than businesses with a larger number of employees. In the State of Businesses survey conducted in October, small businesses employing 5 to 10 workers reported that since the beginning of the crisis they had dismissed over one-fifth of the workers they had employed prior to the crisis. Naturally, industries that can base their operations on a higher share of remote work, such as the high tech and finance sectors, dismissed a relatively low share of their workers (Figure 11) and a smaller percentage of their workers were temporarily absent from their place of work (Figure 12). In contrast, in the food and beverage industry, the CBS surveys show that around one-fourth of workers were dismissed or resigned (as of October). Despite the large gaps between different industries, the rising rate of dismissals due to the crisis was reflected across the economy, including in industries that were not significantly affected by the social distancing rules. The reasons for this probably include falling demand, the uncertainty created during the crisis, and the difficulty in raising capital — a particularly significant factor for start-up companies or other companies at an early stage that require financing for their operations. It is important to reiterate, however, that the employer surveys were conducted for the first time during the crisis, so that it is not possible to compare their findings to those for previous years to understand the gaps relative to non-crisis years.

Figure 12 compares the share of workers who were temporarily absent from their place of work in the first two weeks of the shutdowns in March and September. As the graph shows, in September employers in many industry sectors were less inclined to use the tool of unpaid leave than they had been

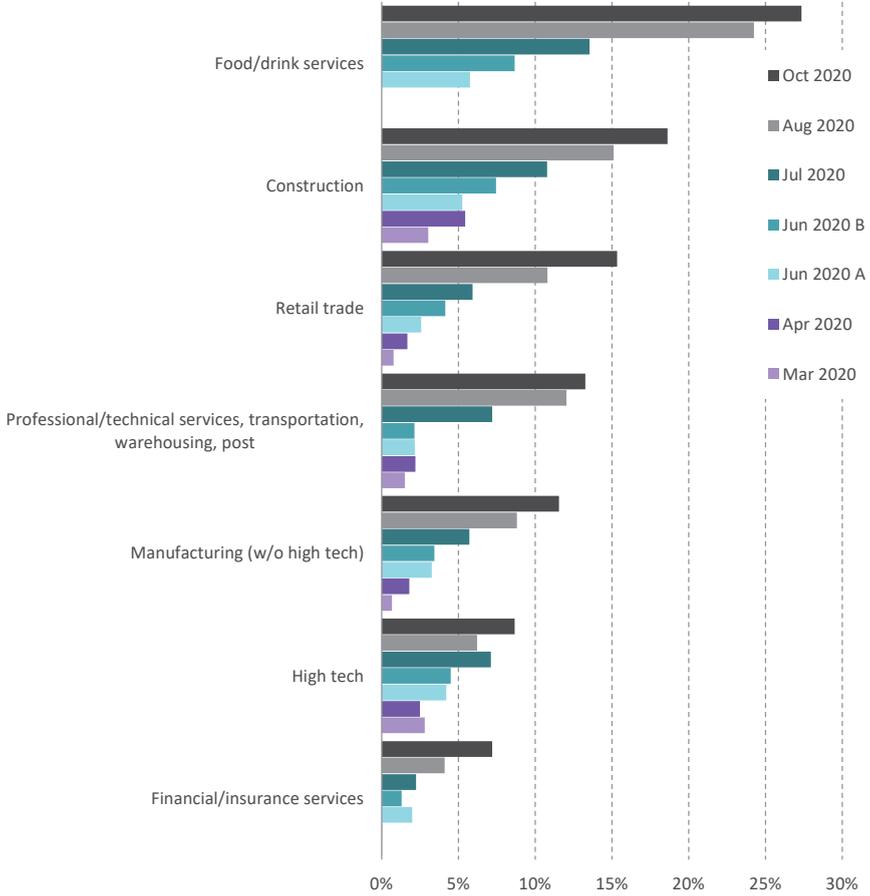
in March, by a substantial margin. Since the rise in the narrow unemployment rate (excluding those temporarily absent from their place of work) between March and September was just over 1 percentage point, while the rate of labor force participation did not change substantially, it can be concluded that the employment impact of the second shutdown, at least in its initial stage, was weaker than that during the initial stage of the first shutdown in March. This difference may be due to a moderate decline in the level of uncertainty regarding the coronavirus crisis or to the fact that businesses had become accustomed to functioning in the new circumstances. However, other reasons can also be suggested for this difference, including factors concerning seasonal fluctuations and the Jewish High Holidays. October's data also show that the detrimental effect on employment during the second wave was not as extreme as during the first wave.

**Figure 10. Share of employees dismissed since the beginning of the crisis, by number of workers in the business and survey date**



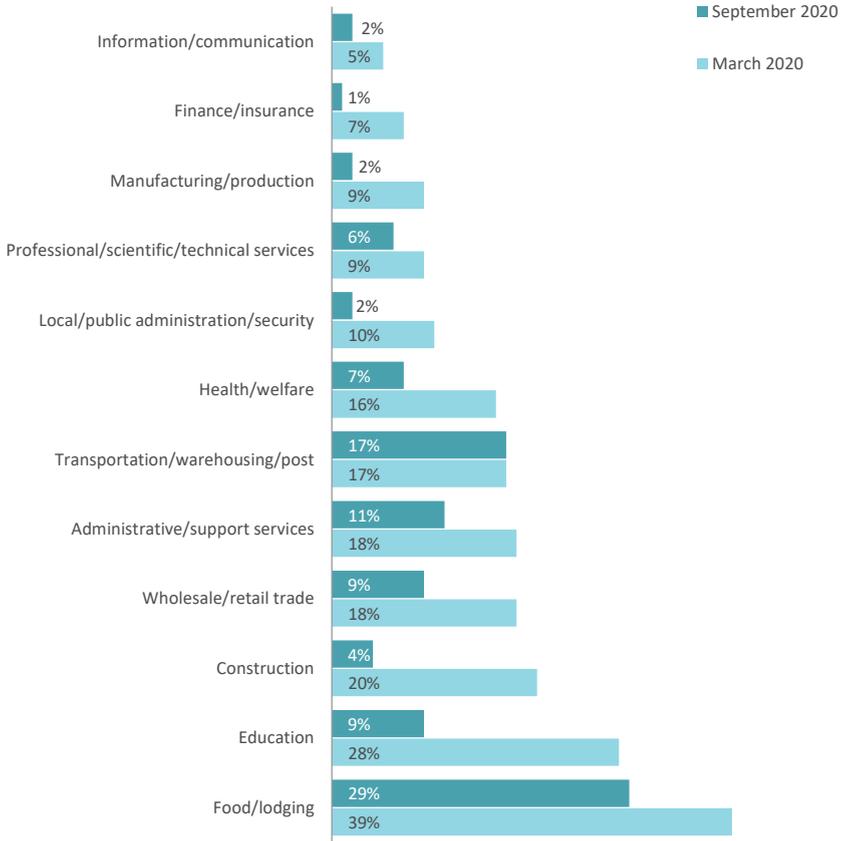
Source: Zontag, Epstein, and Weiss, Taub Center | Data: CBS, Survey of Businesses During the Coronavirus, Waves 2-3, 5-9

**Figure 11. Share of workers dismissed since the beginning of the crisis**  
By industry and survey date



Source: Zontag, Epstein, and Weiss, Taub Center | Data: CBS, Survey of Businesses During the Coronavirus, Waves 2–3, 5–9

**Figure 12. Share of workers who were temporarily absent from their place of work during the first two weeks of the shutdowns in March and September 2020**  
By industry, ages 25–64



Source: Zontag, Epstein, and Weiss, Taub Center | Data: CBS, Labor Force Survey

# SPOTLIGHT B

## The Beveridge Curve: The relationship between unemployment and job vacancies

The Beveridge Curve describes the relationship over time between the share of job vacancies in the economy and the unemployment rate, and it should generally have a negative slope. Intuitively, a tight labor market is characterized by low unemployment and a high number of job vacancies; that is, workers can easily find a job, but it is difficult for employers to find workers. In a loose labor market, the situation is reversed: a large number of workers compete for a small number of vacant jobs. Accordingly, movements along the curve are conventionally regarded as indications of changes in the condition of the economy relative to the business cycle. In contrast, movements of the curve (i.e., a shift closer to or further from the origin) are usually indications of structural changes relating to changes in the extent of the correlation between the skills required to meet the vacant jobs and the skills of jobseekers, or indications of changes in the efficiency of the search process.<sup>17</sup> For example, a move towards the origin means that for a given share of job vacancies the unemployment rate fell. Intuitively, this change means that the matching of workers to employers is more efficient.

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17 The extent of the correlation is influenced by both the extent of the correlation between the workers' skills and the requirements of the vacant jobs and by the extent of the geographical correlation between the place of residence of the workers and the location of the suitable workplaces.

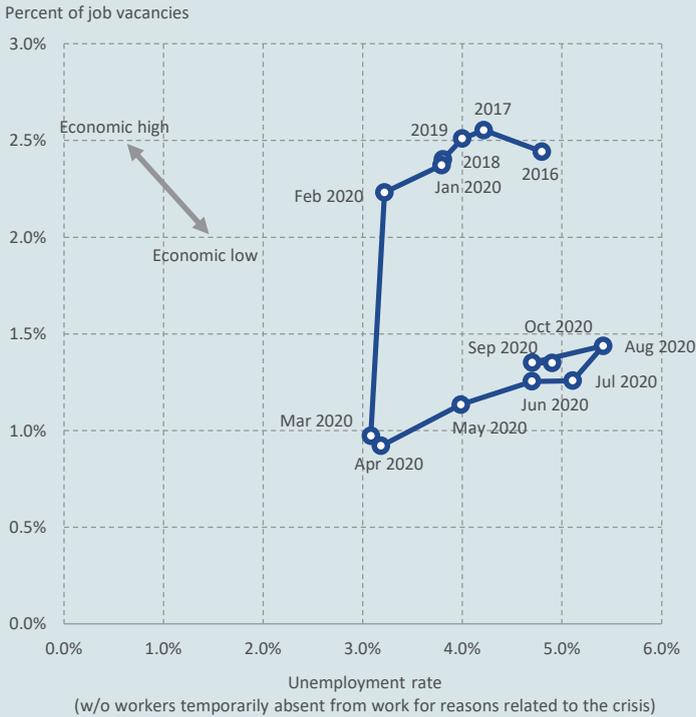
This improvement may be due to a better correlation between the workers' skills and the employers' requirements, or to a more efficient search process that accelerates the matching of workers to employers.

Figure 13 presents the curve for the Israeli economy between 2016 and 2020. As the figure shows, between 2017 and 2019, the fall in the unemployment rate was accompanied by a moderate fall in the job vacancy rate. This may reflect enhanced efficiency in the search process or an improvement in the extent of the correlation between jobseekers and jobs. Between February and March 2020 a significant fall occurred in the share of vacant jobs — from 2.2 percent to 1 percent. This fall was not immediately accompanied by a rise in the unemployment rate (according to its narrow definition). From this point through August, the unemployment rate began to rise, with a parallel rise in the share of vacant jobs. A simultaneous rise in both dimensions indicates a weakening of the correlation between workers and job vacancies. A possible explanation for this weakening is a gap between the vacant jobs and the occupations of workers exiting employment, particularly in the service sectors, and the skills sought by employers in less-affected sectors, such as the ability to work from home (Madhala & Bental, 2020).

In September and October, the period of the second shutdown, a fall occurred in the unemployment rate, as well as a more moderate fall in the share of vacant jobs. The fall in the unemployment rate during the second shutdown, and to some extent also during the first shutdown, may have resulted, among other things, from delaying firing workers, and, instead, putting them on unpaid leave.

**Figure 13. Percentage of job vacancies and unemployment rate, 2016–2020, Beveridge Curve**

Ages 15 and over



Note: The percentage of job vacancies is the number of vacant jobs divided by the number of labor force participants.

Source: Zontag, Epstein, and Weiss, Taub Center | Data: CBS, Labor Force Survey and Survey of Vacant Jobs

## Discussion and conclusions

In terms of employment, the coronavirus crisis affected different groups of workers in different ways. The share of workers who stopped working, particularly during the early months of the crisis, was high among low-wage workers, and among workers with relatively low levels of education. Two additional groups that were severely affected by the crisis were older workers, close to or beyond retirement age, and young workers. In addition, particularly during periods of strict restrictions, women were worse affected in terms of employment and gender gaps in employment widened. In the Haredi sector, the crisis appears to have had a relatively severe impact on the employment of men, a group whose employment rates were already low. During the early stages of the crisis, the Arab Israeli sector also sustained a relatively severe impact. An examination of the groups of affected workers by employment characteristics prior to the crisis also yields an unequal picture: the principal impact was clearly sustained by the business sector, rather than the public sector, and there are also indications of a severe impact on the self-employed.

It is important that these gaps, in terms of the impact sustained by workers, be reflected in the formulation of appropriate policies for addressing each group. There is room for concern that workers who stopped working for an extended period may lose hope and not attempt to re-enter the market. As a result, the Israeli economy will lose workers who, were it not for the crisis, would have continued to work. This point is particularly important in the case of older workers. Furthermore, given the rise in the unemployment rate and the reduced ability of businesses to maintain full operations, there is a growing risk of an expansion in unreported economic activity (Shami, 2020). It is important that this factor be addressed when formulating policy and defining criteria for assistance.

Nevertheless, this crisis — like others — presents opportunities as well as difficulties. Wide-ranging dismissals among workers earning low wages may offer a chance to improve the level of training and wages among these workers. A first sign of the utilization of this opportunity is the enormous increase (20 percent) in the number of candidates for higher education ahead of

the 2020–2021 academic year.<sup>18</sup> The adoption of appropriate policies for addressing the employment crisis, including the utilization of periods of unemployment and unpaid leave for relevant vocational training, upgrading of infrastructures, and policies to support employment, could contribute to an improvement in the rates and quality of employment and a rise in productivity. In addition, expanding the use of technologies allowing full or part-time work from home could not only secure potential financial savings, but also enhance access to high-quality employment among diverse workers.

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18 One possible reason for the significant growth in the number of candidates for higher education is a growth in the number of young applicants who, due to the crisis, cannot take the customary overseas trip after completing military service, and who accordingly prefer to start their academic studies. If this is indeed one of the explanations, we can expect to see a concomitant offsetting of these students in the registration for academic institutions over the next few years.

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