Chapter 5

The Labor Market

- In 2025, the labor market remained tight, primarily due to significant constraints on the supply of civilian labor, as a result of the continuation of the fighting through most of the year.
- The labor force participation rate remained below its prewar level, with most of the decline concentrated among young people. The extensive mobilization of reservists led to the absence of many workers from their jobs, although on a smaller scale than in the preceding year.
- With the outbreak of the war, the number of non-Israeli workers declined due to the halt in the entry of Palestinian workers. Over the past two years, the number of foreign workers increased gradually. However, the number of non-Israeli workers remained below its prewar level.
- These supply constraints were reflected in the fact that the number of people employed in the business sector was about 1.5 percent lower this year than in the year preceding the war. This decline, together with rising demand, was reflected in a high job vacancy rate in 2025 (4.5 percent), particularly in industries with a high share of male or young workers.
- The unemployment rate was low, averaging about 3.0 percent.
- Real wages in the business sector increased markedly over the course of the year, exceeding even the growth in GDP per worker. In contrast, in the public sector, real wages eroded relative to their prewar level.
- Negative migration from Israel over the past two years explains only a small part of the decline in labor supply since the outbreak of the war.

The labor market was tight and operated under labor supply constraints

The shortage of workers was due to reserves mobilization and the absence of Palestinian workers

Unemployment was low (3.0%), and the **job vacancy rate** was high (4.5%)

Business sector **wages** increased at an annual rate of **4.2%**, while the increase in the **public sector** was **1.4%**

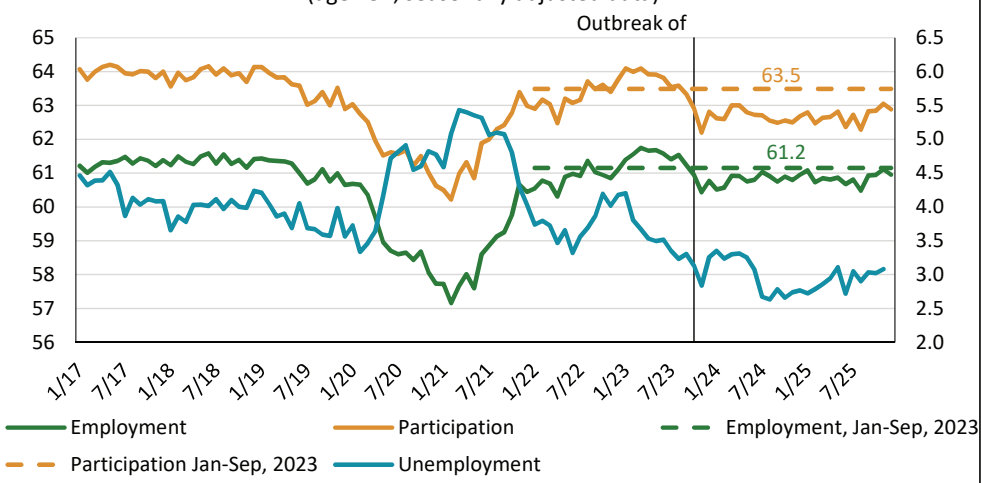
1. MAIN DEVELOPMENTS

The labor market was tight in 2025 due to a shortage of workers as a result of the continued war.

In 2025, Israel's labor market remained tight, with constraints on the supply of labor in view of continued fighting through most of the year. Many workers were absent due to reserve duty, and the labor force participation rate remained below its prewar level (Figure 5.1 and Table 5.1). The number of non-Israeli workers declined markedly due to the prohibition on the entry of Palestinian workers, although over the past year this shortfall was partially reduced by the entry of foreign workers.

Figure 5.1 | Employment, Unemployment*, and Labor Force Participation Rates, 2017–2025

(age 15+, seasonally adjusted data)



* Ordinary definition.

SOURCE: Based on Central Bureau of Statistics.

Table 5.1 | Main Labor Market Indicators

	Level[a]	Annual rate of change (percent)[b,c]					Change relative to 2023 (percent)[c]	Change relative to the prewar period (percent)[d]
	2025	2016-2019	2020-2022	2023-I-III	2023-IV	2024	2025	2025
Population	10,121	2.0	1.8	3.2	2.8	1.4	1.3	1.4
Working-age population	7,300	2.0	1.9	2.5	2.4	2.0	1.5	1.8
Labor force	4,577	1.8	1.8	3.6	1.0	0.7	1.5	1.1
Labor force participation rate, 15+ (level, percent)	62.7	63.9	62.3	63.8	62.6	62.7	62.7	62.7
Number of employed persons[e,f]	4,700	2.0	1.8	3.7	-1.4	-0.3	2.5	0.9
Israelis	4,442	2.1	1.9	3.7	2.1	1.2	1.5	1.4
Employed full time	2,956	2.4	1.8	1.0	4.8	1.2	3.4	2.5
Employed part time	1,144	1.4	3.9	12.1	-26.9	5.2	-2.7	-2.4
Temporary absentees	343	2.8	14.5	-0.5	113.2	-10.7	0.3	5.9
For economic reasons (monthly level, thousand)	37	14	175	14	217	35	37	37
Due to reserve military service (monthly level, thousand)	27	2	2	2	147	52	27	27
Employees in the public service industries	1,680	2.4	2.3	3.7	4.3	3.7	1.5	2.7
Employees in the business sector industries[e,f]	3,019	1.8	1.5	3.7	-4.3	-2.4	3.2	-0.1
Israelis	2,762	2.0	1.6	3.6	0.9	-0.3	1.6	0.7
Nonresidents[e]	209	-2.0	-5.8	6.9	-4.8	11.9	23.2	14.7
Palestinians[e]	48	5.0	9.7	2.1	-93.5	-68.3	26.1	-40.8
Weekly labor input in the business sector[e,f]	125,439	2.0	2.0	2.7	-9.6	-2.6	3.4	-0.7
Israelis	100,063	2.1	1.9	2.4	-5.9	-1.3	2.1	-0.3
Nonresidents[e]	9,742	-2.8	-5.4	6.5	-5.8	12.9	23.0	15.0
Palestinians[e]	2,018	5.9	9.4	1.5	-92.9	-67.7	26.1	-39.9
Weekly work hours per Israeli employee in the business sector	36.2	0.1	0.2	-1.1	-6.7	-1.0	0.6	-0.9
Job vacancy rate in the business sector (level, percent)	4.5	3.7	3.9	3.9	3.4	4.4	4.5	4.5
Nominal wage per employee post[f]	13,918	3.0	4.0	5.7	8.3	4.6	3.4	4.4
Real wage per employee post (2023 average prices)[g]	13,074	2.7	2.3	1.1	4.8	1.5	0.3	1.3
In the government sector[g]	12,480	1.3	-0.1	3.3	5.5	0.1	-1.5	0.0
In the private sector[g]	15,244	3.1	3.1	0.0	3.7	2.2	0.8	1.7
Real minimum wage (2023 average prices)	5,974	3.5	-1.7	-1.1	1.7	2.3	3.0	2.5
GDP labor share in the business sector[e]		0.9	-2.2	-2.1	-2.5	-0.2	1.8	0.4
Real Unit labor cost in the business sector[e]		1.2	0.5	1.4	3.0	5.1	3.8	4.3
Narrow unemployment rate (level, percent)[h]	3.0	4.2	4.4	3.5	3.2	3.0	3.0	3.0
Broad unemployment rate (level, percent)[h,i]	3.8	4.2	8.6	3.8	8.1	3.8	3.8	3.8

[a] 2025 average, in thousands, percent, or NIS.

[b] Unless otherwise noted in the specific row.

[c] Relative to the previous year. The range of years reflects the average growth rate in each year. In 2023, each part of the year is compared to the same period in the previous year.

[d] Normalized to annual terms. The comparison period is the year prior to the war: 2022:Q4 to 2023:Q3.

[e] National Accounts data.

[f] Including foreign workers and Palestinians.

[g] Israelis only.

[h] Those absent all week. The figure under 2016–2019 is for 2018–2019 only.

[i] "Narrow" unemployment (the official definition for unemployment) includes unemployed people who actively searched for work and were available to work. Broad unemployment also includes

SOURCE: Based on Central Bureau of Statistics.

Table 5.2 summarizes the main components underlying the decline in labor supply due to the war in 2024 and 2025. Overall, the impact to labor supply in 2025 as a result of the war was about 3.6 percent of the labor force. About 55 percent of this decline is explained by lower labor force participation rates and by absences from civilian employment among reservists and their spouses. A further 35 percent of the decline is explained by the absence of non-Israeli workers. The remainder of the decline is explained by the increase in the number of residents who emigrated from Israel over the past two years.

The shortage of workers was influenced mainly by the absence of non-Israeli workers, the mobilization of reservists, and a decline in the labor force participation rate.

Table 5.2 | Estimated Decline in the Actual Number of Employed Persons in 2024 and 2025 as a Result of the War

Reason	2024			2025		
	Actual number of employees (thousand)	Percentage of labor force	Percentage of total decline in workers	Actual number of employees (thousand)	Percentage of labor force	Percentage of total decline in workers
Absent due to reserve duty[a]	59	1.2	25	33	0.7	19
Decline in the number of non-Israeli workers[b]	111	2.3	46	59	1.2	35
Decline in participation rates[c]	58	1.2	24	58	1.2	34
of which: Wounded in the war[d]	11	0.2	4	13	0.3	7
Resident of evacuated localities[e]	6	0.1	2	5	0.1	3
Absent spouses of reserve soldiers[f]	3	0.1	1	3	0.1	2
Net migration[g]	9	0.2	4	18	0.4	11
Total	**239**	**5.0**	**100**	**171**	**3.6**	**100**

[a] Average number of absentees per months due to reserve duty.

[b] Difference in the number of non-Israeli workers between the first three quarters of the year and the first three quarters of 2023.

[c] Difference between the actual number of workers per year and the forecast number of workers if the participation rates were similar to the January 2022–September 2023 average.

[d] This is calculated by multiplying the total number of disabled IDF veterans and civilian victims of hostilities resulting from the war by the gap in employment rates between disabled IDF veterans and the rest of the non-*Haredi* Jewish population, which is calculated based on a special processing of Central Bureau of Statistics data published in Elmasi and Schwartz (2025). The assumption is that no new civilian victims of hostilities were added in 2025, and that one-third of the IDF casualties were added in 2025, consistent with the decline in the intensity of the fighting during that year.

[e] The difference between the number of employed persons in the year and the expected number of employed persons if the participation rates in the evacuated localities would remain the same as in the year prior to the war.

[f] The difference between the number of spouses of reserve soldiers who were absent from work or who worked less than usual and the number of spouses of all other employees who were absent from work or who worked less than usual.

[g] The difference between the net migration balance in 2023 and 2024 and the net migration balance between 2016 and 2019, multiplied by the employment rate among those agedf 15+, minus the return of immigrants from Ukraine who came to Israel temporarily. For details, see Chapter 1 of this Report.

SOURCE: Based on Central Bureau of Statistics.

The constraint on the supply of workers in the civilian labor market was reflected in a high job vacancy rate (4.5 percent) and a low unemployment rate, averaging about 3.0 percent over the year. This constraint was particularly pronounced in business sector industries characterized by a high share of male and young workers. In contrast, in the civilian public services, where women have relatively high representation, labor shortages were more limited, and employment in these services has even expanded since the war.

The tight labor market led to wage increases this year across all business sector industries. By contrast, real wages in the public services declined, partly due to wage reductions as part of agreements for 2025 and 2026 between the government and the Histadrut.

In June 2025, the intense fighting with Iran during Operation Rising Lion caused a temporary shock to the labor market and a sharp increase in worker absences due to Home Front Command directives. As a result of the disruptions during those two weeks, the impact on annual output was on the order of about 0.3 percent (for further discussion, see Chapter 2 of this Report). Following the end of the operation, employment recovered rapidly and in full.

The ceasefire in Gaza came into effect in October 2025, and employment and participation rates increased in the final quarter, though they did not return to their prewar levels. Reserve mobilization at the end of the year also remained elevated relative to the prewar period, and the number of non-Israeli workers (foreign and Palestinian) did not return to its previous level.

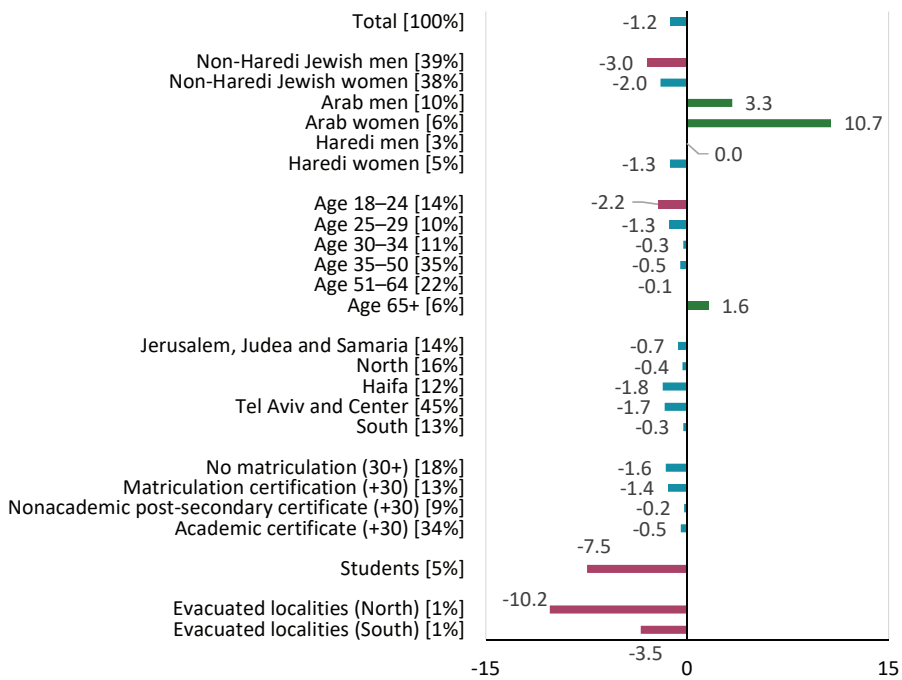
2. THE LABOR SUPPLY

The decline in the participation rates was prominent among non-Haredi Jewish workers and young people.

The labor supply in 2025 remained markedly below its prewar level. The labor force participation rate among Israelis averaged 62.6 percent in 2025, compared with a monthly average of 63.5 percent in the prewar period (January 2022–September 2023). Figure 5.2 presents the relative decline in participation rates across different population groups. A substantial part of the decline originated among the group of young people aged 18–24, apparently reflecting delayed entry into the labor market due to the extensive reserve mobilization. Frequent reserve service may also reduce young people's motivation and ability to seek employment over the longer term, even during periods in which they are not actually called up. The decline in participation was particularly evident among non-Haredi Jews, especially men. The most notable population group in which participation has risen in recent years is Arab women. Over the past five years, their employment rate increased from about 30 percent to about 40 percent (and from 37 percent to 50 percent among those in the prime working ages). This is a positive long-term development in view of the challenges facing the economy. (For further discussion, see Chapter 1 of this Report.)

Figure 5.2 | Change in the Labor Force Participation Rate in 2025 Relative to January 2022–September 2023

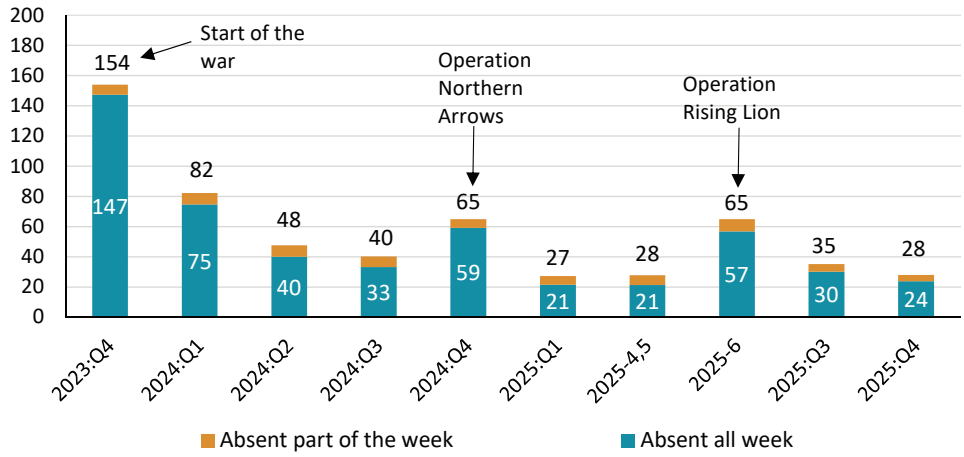
(by population group, age 15+, original data, percent)



Square brackets indicate the group's relative share of the labor force in the year preceding the war. Green bars indicate an increase of 1 percentage point or more relative to the participation rate in January 2022–September 2023. Burgundy bars indicate a decline of more than 2 percentage points in the participation rate. A student is defined as an individual aged 21 or older (among non-*Haredi* Jews) or 18 or older (among Arabs) who reports in the Labor Force Surveys that they were enrolled in studies at the time of the survey.

SOURCE: Based on Central Bureau of Statistics.

Figure 5.3 | Temporary Absentees Due to Reserve Duty, 2023:Q4–2025:Q4
(original data)



The numbers in black represent total absentees. The numbers in white represent those absent the entire week.
SOURCE: Based on Central Bureau of Statistics.

The labor force participation rate declined among residents of evacuated localities in the north and those injured in the war.

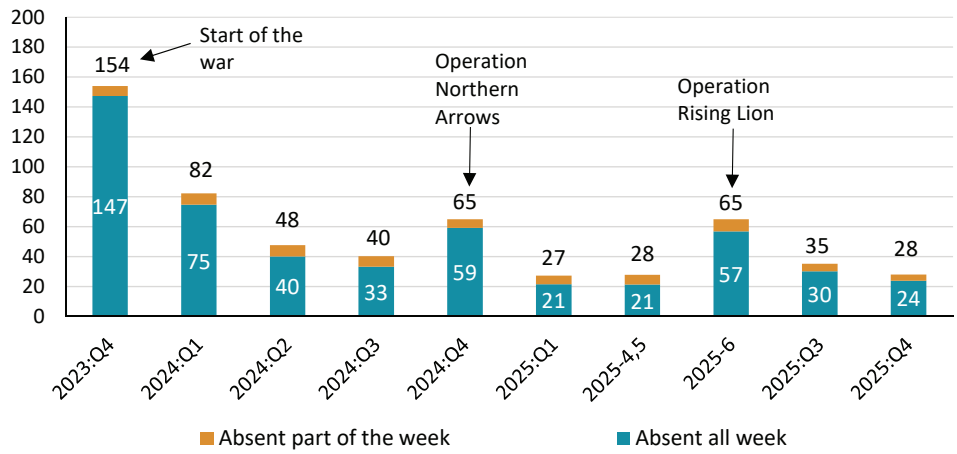
Participation rates were also markedly lower among residents of evacuated localities, particularly in the north, where they were about 10 percent below their prewar level. Whereas most residents of the south returned to their localities during 2024, most residents of the north returned home only during 2025. As of September 2025, about 87 percent had already returned to their places of residence. However, even after returning, the resumption of full employment is not immediate. Since these residents account for a relatively small share of the total population, and based on the decline in their participation rates, the number of missing workers in this group relative to the prewar period is estimated at only about 6,000 workers, or 0.1 percent of the labor force.

Another population group whose participation rates declined is those injured in the war. Since the outbreak of the war, about 22,000 wounded IDF personnel receiving treatment through the Rehabilitation Department and about 24,000 civilians injured in hostile acts have been added to this group. The precise decline in employment among them is unknown. Assuming it is similar to the employment gap observed between disabled IDF veterans and the rest of the non-Haredi Jewish population, the effect is on the order of about 0.3 percent of the labor force.

Mobilization of reservists continued to influence the shortage of workers in the civilian labor force.

Due to reserve mobilization associated with the continuation of the war, an average of about 30,000 workers were absent from their workplaces (excluding June, during Operation Rising Lion; Figure 5.3). This represents a marked decline relative to 2024, when the average was 30,000 workers, but it still amounts to a non-negligible share of about 0.6 percent of the labor force. Although these workers are included in the official statistics as participants in the labor force, in practice they are not available to their civilian employers.

Figure 5.3 | Temporary Absentees Due to Reserve Duty, 2023:Q4–2025:Q4
(original data)



The numbers in black represent total absentees. The numbers in white represent those absent the entire week.
SOURCE: Based on Central Bureau of Statistics.

Figure 5.4 examines the profile of workers absent due to reserve service. Figure 5.4a shows that among young workers, aged 20–34, absences due to reserve duty were substantial. Moreover, these data do not capture an additional group of individuals—particularly young people—who were in reserve service and not employed. Figure 5.4b shows that the prewar monthly wages (in 2022) of those who were reservists during the war were higher on average than the economy-wide average wage, and that over time the composition of those absent from work due to reserve service shifted from higher-wage workers toward lower-wage workers, although their wages still remained above the average wage of workers in the economy (Figure 5.4b).[1] This phenomenon may partly reflect the declining share of reservists from the information and communications industry, most of whose workers are employed in the high-tech sector (Figure 5.4c). This suggests that the adverse effect of reserve mobilization on economy-wide productivity was smaller this year than in the previous year. Another pattern evident in the figure is that the share of reservists is much lower in the public services industries—education, health, and public administration—than in industries belonging to the business sector, due to the relatively low share of men in those industries, as discussed below. Among people aged 25–40 who were absent from work in 2024 or in the final quarter of 2023 due to reserve service, 10 percent were not employed in the following year[2], compared with 7 percent among those who did not serve, and a notable share (16 percent) were again absent from work due to

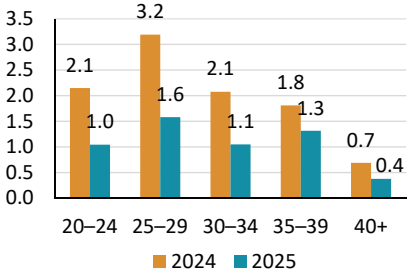
[1] Average wage data are from the Israel Tax Authority for 2022, for all employed individuals sampled in the Labor Force Survey during 2023–2025. These data represent each individual's total wages across all jobs in which he or she was employed.

[2] 2025, or the final quarter of 2024.

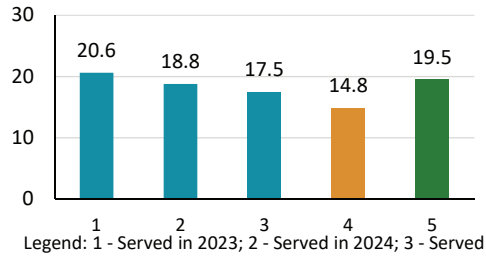
reserve service. Among workers called up at particularly young ages (21–24), civilian non-employment in the following year was especially pronounced—45 percent, compared with 27 percent among other workers.

Figure 5.4 | Reserve Soldiers Among Employed Persons, 2024–2025
(original data)

a. By age group, as a share of total employees in the group (percent)

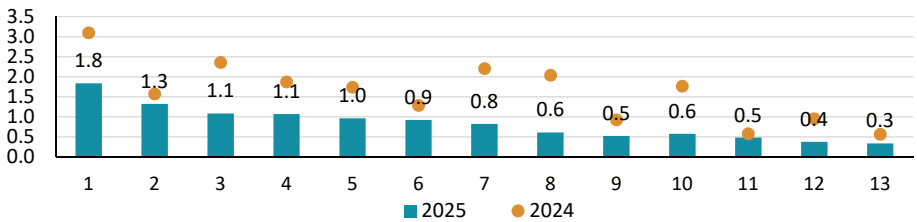


b. Monthly wage in 2022, ages 30–45



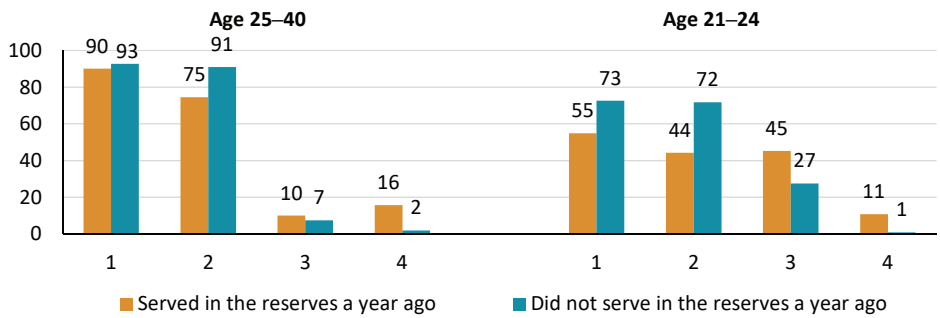
Legend: 1 - Served in 2023; 2 - Served in 2024; 3 - Served in 2025; 4 - All employees; 5 - Non-Haredi Jewish men

c. By employment industry, share of total employees in the industry (percent)



Legend: 1 - Administrative and support services; 2 - Transport and storage; 3 - Information and communications; 4 - Manufacturing; 5 - Professional and scientific services; 6 - Construction and real estate; 7 - Accommodation and food; 8 - Finance; 9 - Trade; 10 - Art, entertainment, and leisure; 11 - Education; 12 - Public administration; 13 - Heatlh, welfare, and long-term care.

d. Current employment status, by service status one year earlier



Legend: 1 - Employment rate; 2 - Actually employed; 3 - Unemployed or nonparticipant; 4 - Reserves.

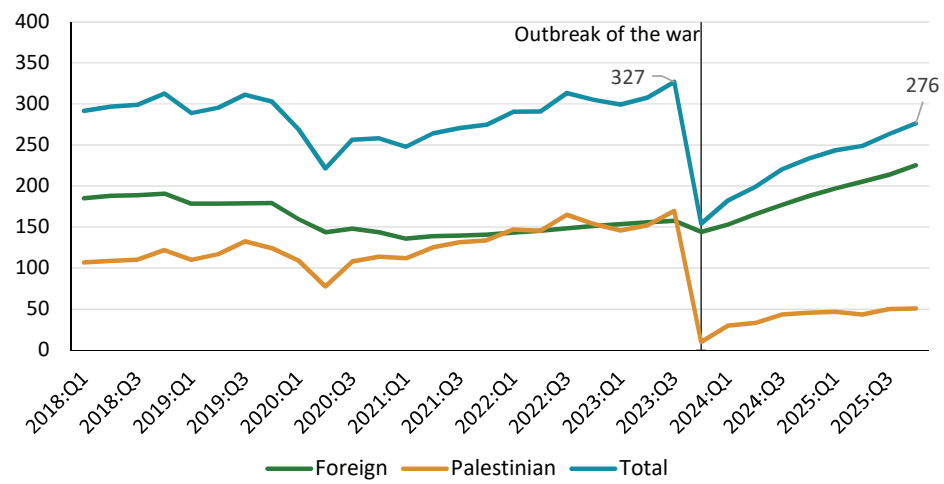
SOURCE: Based on Central Bureau of Statistics.

Some spouses of reservists also reduced their employment. About 20 percent of them (compared with 10 percent among other spouses of employed persons) worked less than usual during 2025, and an average of about 13 percent were temporarily absent from their workplaces, compared with about 8 percent among other spouses of employed persons. The excess decline in employment among spouses of reservists relative to other spouses of employed persons amounts in total to about 0.1 percent of the labor force.

The number of foreign workers increased, but it still does not compensate for the decline in the number of Palestinian workers due to the war.

Another factor contributing to the labor shortage was the decline in the number of non-Israeli workers. This decline occurred immediately upon the outbreak of the war, when the entry of most Palestinian workers was halted, causing the number of non-Israeli workers to fall immediately by about 110,000 relative to the third quarter of 2023 (Figure 5.5). Over the past two years, this decline was partially and gradually offset by an increase of about 70,000 in the number of foreign workers. A substantial share of the foreign workers who arrived were employed in construction, where the immediate shortage was concentrated. At the same time, quotas and permits were also expanded in industries that had previously employed almost no foreign workers, such as services and retail.[3] Overall, the number of foreign workers in industries other than construction, caregiving, and agriculture increased this year by about 8,000 (Figure 5.6).

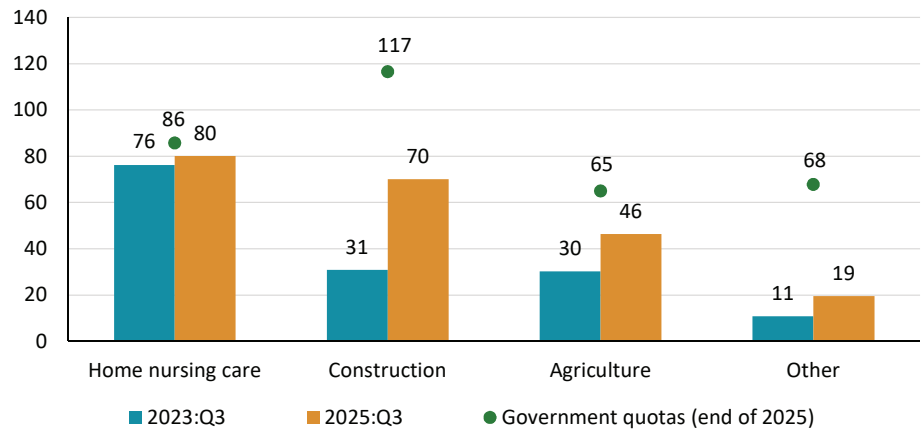
Figure 5.5 | Employment of Non-Israeli Workers, 2018:Q1–2025:Q4
(original data, thousand)



SOURCE: Based on Central Bureau of Statistics National Accounts data.

[3] For example, under the July 2024 decision by the Directors General Committee on Foreign Workers, the trade and services industries were allocated a quota of up to 6,400 foreign workers, similar to the number of Palestinian workers in that industry before the war. This quota was later expanded to 12,800 foreign workers in February 2025 and to 25,000 in August 2025.

Figure 5.6 | Foreign Workers by Industry, 2023:Q3 and 2025:Q3
(original data, thousand)



The construction industry also includes renovations and infrastructure. "Other" includes manufacturing, trade, institutional nursing care, experts, hotels, restaurants, and antiquities.

SOURCE: Based on Population and Migration Authority data, and Directors-General Committee on Foreign Workers, headed by the Director General of the Prime Minister's Office.

Assuming that the number of foreign workers continues to increase at a pace similar to that of the past two years, the number of non-Israeli workers is expected to return to its prewar level during 2027. Moreover, if all currently approved foreign worker quotas are fully utilized, the number of non-Israeli workers in the long run will be about 20 percent higher than on the eve of the war.

Expanding the quotas for foreign workers signifies a shift in policy.

This increase in foreign worker quotas reflects a shift in employment policy, which in the past had generally favored maintaining a relatively low number of foreign workers. Expanding the quotas has a clear advantage in alleviating the immediate labor shortage and reducing the Israeli economy's sensitivity to security shocks that impair the supply of Palestinian labor, particularly in construction. In addition, while the previous period in which Israel admitted a large number of foreign workers—at the beginning of the 2000s (Bank of Israel, 2024)—was a period characterized by high unemployment and concern about competition with Israeli workers, especially those less educated, in recent years the labor market has been tight and unemployment low. Accordingly, this consideration is now less central.

Expanding the quotas for foreign workers is easing the shortage, but may come with future costs.

At the same time, increasing the number of foreign workers also entails costs. For example, the entry of foreign workers weakens the labor market's standard adjustment mechanism in times of shortage—namely, rising wages for Israeli workers. Accordingly, such a policy may reduce incentives for efficiency gains, technological adoption, and productivity improvement, and is also likely to diminish the attractiveness of these industries to Israeli workers. These costs are particularly salient when the expansion of foreign labor takes place in industries that did not previously rely extensively on Palestinian labor, such as trade and services, where the

introduction of foreign workers may "lock in" a labor-intensive, low-wage business model, precisely after the productivity gains achieved in these industries at the end of the previous decade (Bank of Israel, 2023). A policy of increasing the cost of employing foreign workers—for example, by raising the levy—could help ensure that the main rationale for employing such workers is a shortage that is difficult to bridge, together with the workers' high value added, rather than the provision of cheap labor that delays improvements in technological productivity. Another potential cost of the entry of foreign workers—who, unlike Palestinians, reside within Israel—is increased demand for local housing services and, consequently, upward pressure on rents.

Negative migration in the past two years has created a further constraint on the supply of labor.

A further constraint on net labor supply was reflected over the past year in slower growth of the working-age population due to negative migration from Israel. Part of this negative migration reflects the unusually large inflow of immigrants in 2022 and 2023 following the Russia–Ukraine war, and the subsequent departure of some of those immigrants to their countries of origin or to other countries. However, even excluding these immigrants, there was excess emigration from Israel over the past two years (relative to the 2016–2019 average), estimated at about 17,000 employed persons, or about 0.4 percent of the labor force (see the extended discussion in Chapter 1).[4] It is still too early to assess whether this phenomenon signals a persistent change that will constrain the economy's labor supply over time.

3. THE DEMAND FOR LABOR

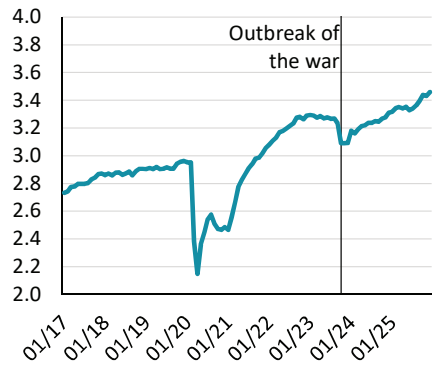
The demand for workers increased this year.

Demand for labor in the business sector, defined as the sum of filled and vacant positions, continued to increase during 2025. In the final quarter of the year, labor demand was 5 percent higher than on the eve of the war (Figure 5.7a). Nevertheless, the number of people employed in the business sector remained about 1 percent below its prewar level. This gap—between labor demand and the supply constraints described in the previous section—was reflected in a historically high job vacancy rate in the business sector, of about 4.5 percent (Figure 5.7b), alongside a low unemployment rate. Accordingly, in the final quarter of 2025, labor market tightness, as reflected in the ratio of vacancies to unemployed persons, declined only moderately relative to the corresponding quarter of the previous year (1.07, compared to 1.13), and remained high by historical standards. This was because the increase in labor demand this year acted as a countervailing force to the increase in labor supply resulting from the arrival of foreign workers and the release of reservists, as discussed above.

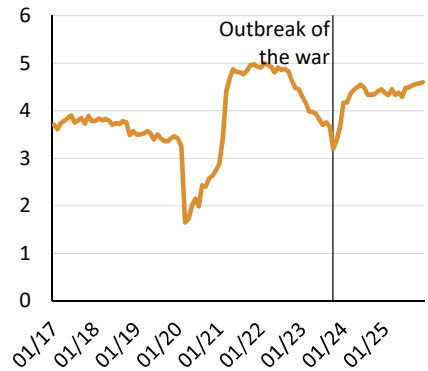
[4] If one also includes immigrants who arrived in Israel in 2022–2023 and left during the past two years, and assumes an employment rate similar to that of the general population, then excess negative migration doubles in volume and is estimated at about 34,000 employed persons. This is an upper bound on the volume of decline in employment, since these immigrants, who stayed in Israel for only a short period, likely worked less than other Israelis.

Figure 5.7 | Demand for Labor in the Business Sector, and Job Vacancy Rate, January 2017–December 2025
(seasonally adjusted data)

a. Total demand for labor in the business sector
(filled and vacant posts, million)



b. Job vacancy rate



Total demand for labor is defined as the sum of job vacancies and filled positions in the Central Bureau of Statistics Job Vacancy Survey.

SOURCE: Based on Central Bureau of Statistics.

Most of the increase in job vacancies was in industries with a high rate of male employees or of young employees.

The sharpest increase in vacancies following the outbreak of the war was in construction. However, the vacancy rate in that industry declined in 2025, due to partial staffing by Israeli and foreign workers. In addition, the trade, accommodation, and food services industries showed marked increases in vacancies over the past two years relative to the prewar period (Figure 5.8). These industries are characterized by a high share of young and male workers, whose shortage was particularly pronounced against the background of the extensive reserve mobilization. Figure 5.9 presents the positive correlations—of about 0.5—between these characteristics and the increase in the number of vacancies since the outbreak of the war.[5]

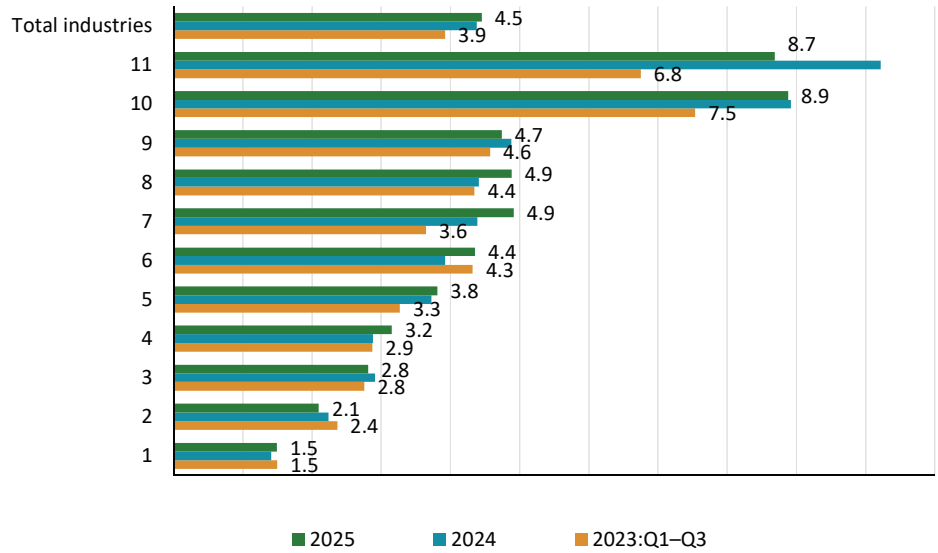
Employment and job vacancies in high tech increased this year, and there is no indication that artificial intelligence has led to a reduction in the number of high-tech workers.

Demand for workers in the high-tech sector recovered, and after two years of continuous decline, the vacancy rate in the sector increased this year. Employment in high-tech rose moderately, by about 1 percent—a change from the stagnation in the number of workers that had prevailed since the end of 2022 against the background of weaker global demand for technology. At present, there is no clear empirical indication that part of this stagnation also reflected job cuts due to the increased use of artificial intelligence. First, the stagnation in high-tech employment is already evident in employee-post data from September 2022, about three months before the public launch of large-scale AI models. Second, in two dedicated surveys of the high-tech sector conducted separately by the Central Bureau of Statistics and the Israel Innovation Authority, fewer than 10 percent of high-tech firms reported

[5] These correlations also reflect the representation of young people and men both among reservists and among foreign workers. To net out the effect of foreign workers, we excluding the construction industry, which reduces the correlation to 0.3 for men and raises it to 0.7 for young people.

employment reductions due to the adoption of AI tools.[6] At this stage, there is still no clear evidence that artificial intelligence is having an effect on the scale of employment in high-tech.

Figure 5.8 | Job Vacancy Rate by Industry, 2023–2025
(seasonally adjusted data, percent)



Legend: 1 - Education; 2 - Health, welfare, and long-term care; 3 - Financial and insurance services; 4 - Art, entertainment, leisure, and other services; 5 - Manufacturing, mining and quarrying, electricity and water; 6 - Transport, storage, postal and courier services; 7 - Wholesale and retail trade, motor vehicle and motorcycle repairs; 8 - Information and communications; 9 - Real estate, professional, scientific, and technical activities, and administrative and support services; 10 - Accommodation and food services; 11- Construction.

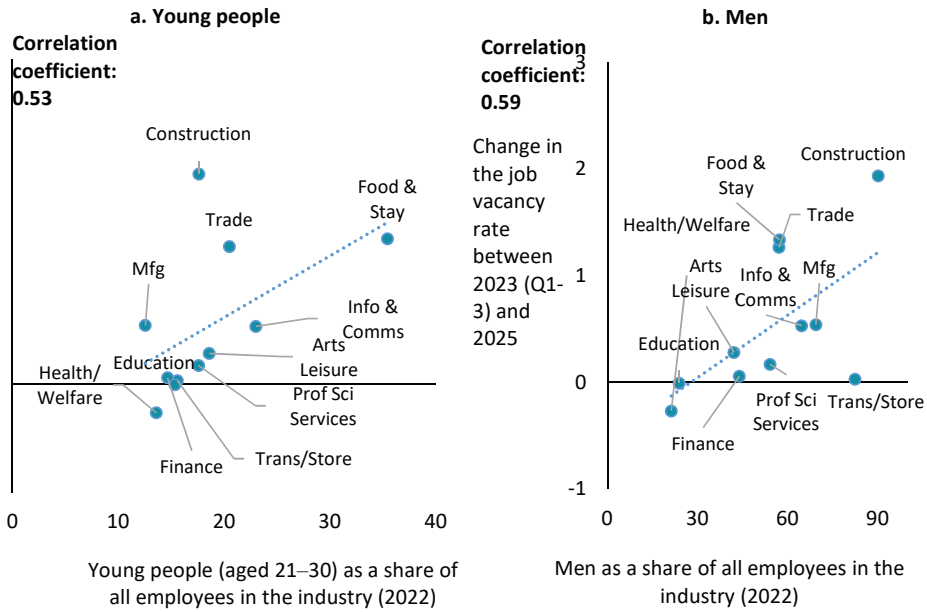
SOURCE: Based on Central Bureau of Statistics.

However, international studies have found that AI is changing the nature of tasks in high-tech toward those requiring less basic programming and more supervision and oversight of code generation through software tools and agents. It therefore requires high-tech workers to adapt to the changing environment and to realign their skills with these new tasks (Humlum and Vestergaard, 2025; Ranganathan and Ye, 2026). More broadly, there are assessments that artificial intelligence is expected to affect employment in various industries in the future, particularly in occupations with a high share of tasks that it can replace, such as customer service, clerical work, and sales, as reviewed in Box 5.1 of the Bank of Israel Annual Report for 2024 (Bank

[6] In the CBS Business Tendency Survey (June 2025), 91 percent of high-tech firms reported that the adoption of artificial intelligence had not, to date, led to a decline in the number of employees, even though most firms in the sector reported increasing use of AI for routine tasks. In an additional survey conducted by the Israel Innovation Authority (2026) in cooperation with Zviran, only 5 percent of firms reported downsizing or closing departments due to the implementation of AI, and only 3 percent reported hiring fewer workers because AI tools had been integrated into work processes.

of Israel, 2025). Artificial intelligence is also expected to contribute positively to labor productivity and economic growth in the coming years, particularly if adequate public resources are invested in appropriate infrastructure and in the creation of suitable regulatory frameworks, as discussed in Box 1.2 in Chapter 1 of this Report.

Figure 5.9 | Correlation between the Job Vacancy Rate and the Rate of Young People and Men Employed in the Industry



Mfg = Manufacturing; Construction = Construction; Trade = Trade; Trans/Store=Transportation & Storage; Food & Stay = Food & Accommodation Services; Info & Comms = Information & Communications; Finance = Finance & Insurance; Prof Sci Services = Professional, Scientific & Technical Services; Arts Leisure = Arts, Entertainment & Leisure; Education = Education; Health/Welfare = Health & Welfare Services.

SOURCE: Based on Central Bureau of Statistics.

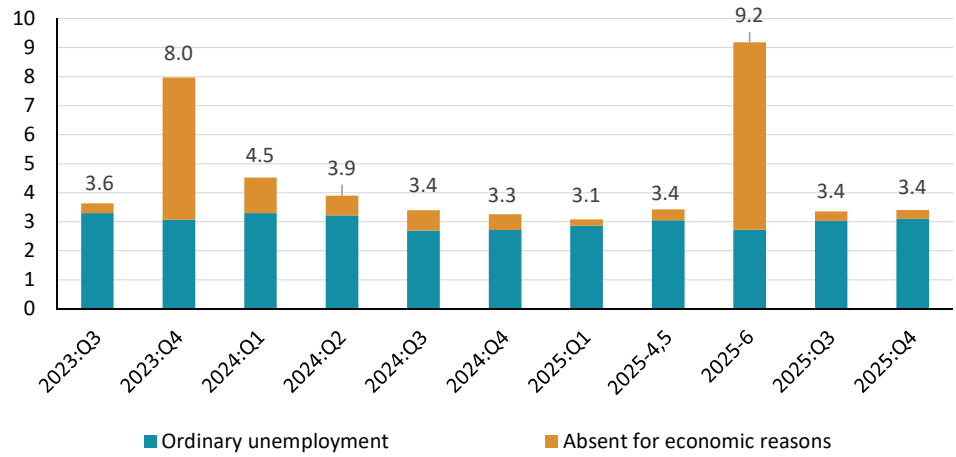
4. UNEMPLOYMENT AND EMPLOYMENT

The unemployment rate this year was low by historical comparison, at about 3 percent.

Excess demand for workers relative to the supply constraints was reflected in a historically low unemployment rate of about 3.0 percent (Figure 5.10). Broad unemployment, which also includes persons absent for economic reasons (on unpaid leave), stood at 3.3 percent this year, apart from a temporary increase to 9.2 percent in June 2025 due to workers being placed on unpaid leave during Operation Rising Lion.

Total employment increased this year by about 3.0 percent, and the number of employee posts increased by about 2.6 percent (annual average). From a two-year perspective, since the outbreak of the war, total employment (in terms of employee posts) has been about 0.5 percent higher than in the prewar period, though with

Figure 5.10 | Broad Unemployment Rate, 2023–2025:Q4
(age 15+, percent)



The ordinary unemployment figure is seasonally adjusted, and the figure for absentees for economic reasons is the original figure (not seasonally adjusted).

SOURCE: Based on Central Bureau of Statistics.

While the public services sector expanded, employment in the business sector did not return to its prewar level.

substantial divergence between the business sector—where the number of posts remained 1 percent below its prewar level—and the public services sector, where employment expanded over the past two years (Figure 5.11a). Employment growth was recorded across all public service industries: public administration, healthcare, and education (Figure 5.11b).

This divergence between the business and public sectors is related to two main factors. First, staffing positions in the business sector has been more difficult due to the extensive reserve mobilization, since the share of reservists in business sector industries is much higher than in public services industries (see Figure 5.3 above). Second, the economy's shortage of 60,000 non-Israeli workers is concentrated in the business sector—particularly in construction and agriculture—and is not a major factor in the public services industries.

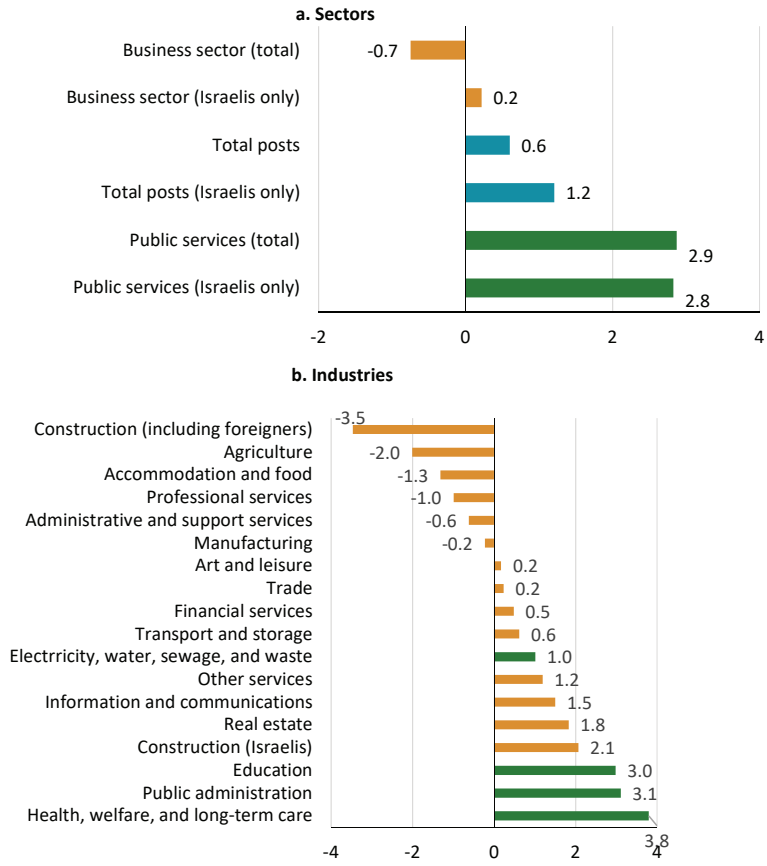
Within the business sector, the industries showing the largest decline in the number of posts relative to the prewar period are construction (due to the shortage of Palestinian workers), agriculture, and accommodation and food services. By contrast, employment in information and communications increased by about 1.3 percent relative to the prewar period, reflecting the recovery in demand in the high-tech sector.

In the past two years, the employment of Israelis in the construction industry has grown.

In addition, there was a marked increase in the employment of Israelis in the construction industry. This development has positive aspects, as it helped address the labor shortage in the industry created by the war and also points to dynamism and adaptability in the labor market. However, quantitative estimates of this increase since 2023 vary widely—from about 10,000, according to administrative data on

employee posts (both mid-year and year-end), to about 30,000 on an annual average basis and 60,000 at the end of 2025, according to Labor Force Survey data.[7]

Figure 5.11 | Change in Employee Posts, by Sector and Industry, Jan–Dec 2023 and Jan–Dec 2025
(annual terms, percent)



The ordinary unemployment figure is seasonally adjusted, and the figure for absentees for economic reasons is the original figure (not seasonally adjusted).

SOURCE: Based on Central Bureau of Statistics.

[7] Part of this gap may reflect an increase in the number of jobs held by workers who were employed in construction before the war but for whom this was not their main job, and who therefore were not previously classified in the Labor Force Survey as construction workers. However, in terms of orders of magnitude, this assumption cannot fully explain an increase of 60,000 salaried workers over such a short period, since according to National Insurance Institute data there were at that time only about 125,000 men in Israel holding more than one job. Another explanation could be that employee posts declined among workers who had previously held multiple jobs, and that this decline masked the increase in the number of employees in construction. In practice, however, the total number of men in Israel holding multiple jobs declined by only about 6,000 between 2023 and 2025. A further possible explanation is that part of the increase reflects unauthorized workers who reported themselves as employed in the Labor Force Survey but do not receive formal pay slips.

5. WAGES AND THE COST OF LABOR

The tightness of the labor market was reflected in an increase in real wages and in the business sector GDP labor share.

Labor supply constraints, alongside rising demand for workers, led to wage increases in the economy and to a rise in GDP labor share. Wage developments in the business sector and in public services are shown in Figure 5.12. In the fourth quarter of the year, nominal wages were about 3.3 percent higher than in the corresponding quarter of the previous year, while in the business sector the increase was 4.2 percent.[8] For business sector employees this amounted to a real wage increase of about 1.7 percent. By contrast, from the employers' perspective, the real wage increase was even larger—3.9 percent—since the business sector output price index rose by only 0.3 percent this year. This trend led to an increase in labor compensation as a share of output (GDP labor share). Figure 5.13 presents the development of wages and of the GDP labor share in recent years. The figure indicates that since the outbreak of the war, the decline in GDP labor share in the business sector that had characterized previous years came to a halt, and over the past year the share even increased—a dynamic consistent with a tight labor market.

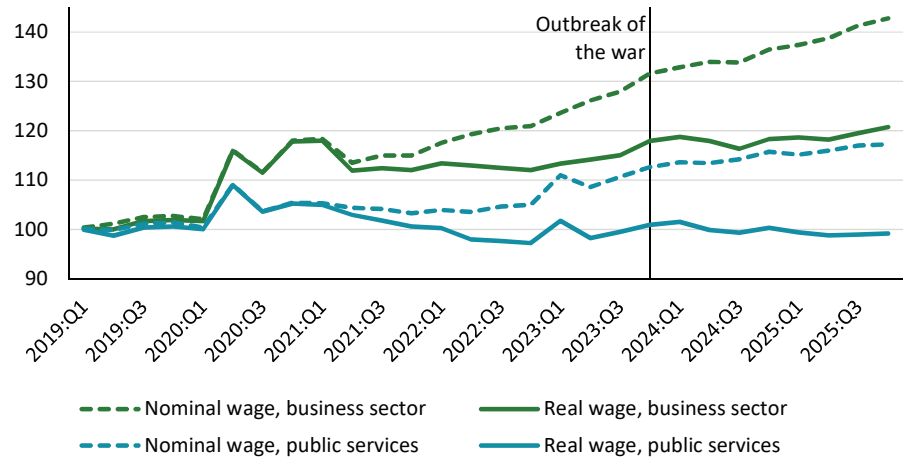
Wage increases in the business sector encompassed all industries, particularly those with large businesses.

There were wage increases across all industries in the economy. However, contrary to the expectation that industries characterized by the most severe labor shortages would exhibit stronger wage growth, there was actually an opposite (negative) correlation between the change in the job vacancy rate at the industry level and wage growth. Particularly in the trade, construction, and accommodation and food services—industries in which vacancies increased markedly during the war—wages rose at a slower pace than the average. Even so, in industries where wage growth was below the average, there was still cumulative nominal wage growth of between 6 and 9 percent over a two-year period—that is, an increase in real wages.

One possible explanation for this variation is that wages increased more markedly in industries in which employment is more concentrated among large employers (Figure 5.14). Such employers have larger financial buffers or greater market power with which to respond to labor shortages through wage increases. By contrast, in industries characterized by a large number of small businesses, such as trade and accommodation services, cash flow constraints and low profit margins may limit the ability to address labor shortages through large or rapid wage increases. These findings are also consistent with the economic literature, which has found more frequent wage adjustments among large firms, whereas wages in small firms tend to be more rigid (Schaefer and Singleton, 2023; Grisby et al., 2021). Wage rigidities in some industries may also help explain the negative correlation between changes in vacancies and changes in wages, since the direction of causality may in fact run the other way: Industries that find it harder to raise wages in line with market conditions may face longer recruitment periods, which are reflected in higher vacancies.

[8] In the third quarter, the increase relative to the corresponding quarter of the previous year was even more pronounced, at 4.8 percent.

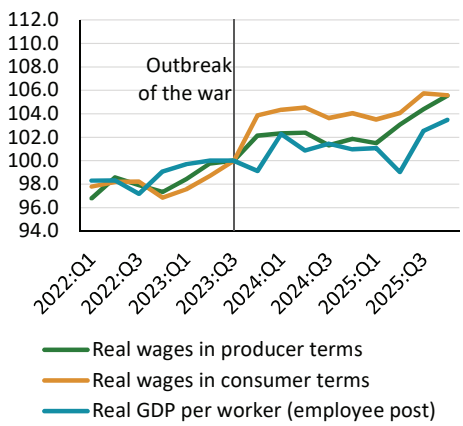
Figure 5.12 | Index of the Average Wage per Employee Post in the Business Sector and the Public Services, Real and Nominal, 2019:Q1–2025:Q4
(seasonally adjusted, Israelis, index: 2019:Q1=100)



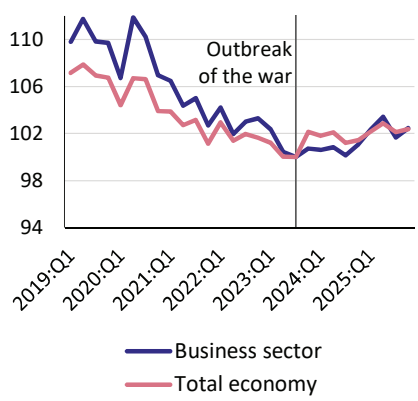
SOURCE: Based on Central Bureau of Statistics.

Figure 5.13 | Real Wages, Real GDP per Worker, and GDP Labor Share
(seasonally adjusted data, index: 2023:Q3=100)

a. Real wage and real GDP per worker, business sector



b. GDP labor share, business sector and total economy



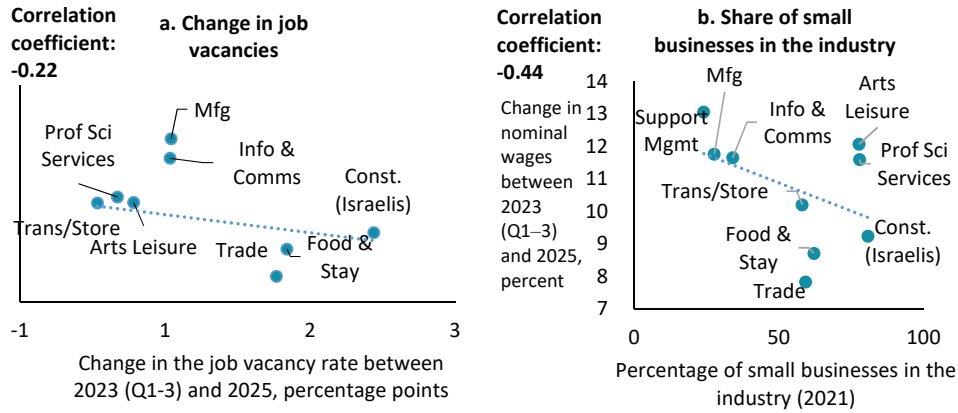
SOURCE: Based on Central Bureau of Statistics.

Real wages in the public services declined this year. This was due in part to a 3.3 percent wage reduction for public sector employees, implemented from April 2025 under an agreement between the Histadrut and the government. In 2026, this reduction will expire and be replaced by a reduction of 1.2 percent. From a longer-term perspective, real wages in the public sector are currently at the same level as in

2019, compared with a parallel increase of 18 percent in the business sector. Such a markedly different trend path between the public and private sectors may, over time, lead to a decline in the quality of human capital in the public sector and, as a result, impair the quality of services provided to the public.[9] It is therefore important that future wage agreements take into account the need to recruit skilled workers to this sector. (For further discussion, see Chapter 6 of this Report.)

Real wages in the public sector did not increase relative to their 2019 level, while wages in the business sector increased by 18 percent.

Figure 5.14 | Correlation between Wages Increases in the Industry and Change in Job Vacancies and in the Rate of Small Businesses



Mfg = Manufacturing; Const. (Israelis) = Construction (Israelis); Trade Trans/Store = Trade, Transportation & Storage; Food & Stay = Food & Accommodation Services; Info & Comms = Information & Communications; Finance = Finance & Insurance; Prof Sci Services = Professional, Scientific & Technical Services; Arts Leisure = Arts, Entertainment & Leisure; Support Mgmt = Support and Management Services.
Small businesses are defined as businesses with up to 50 employees.
SOURCE: Based on Central Bureau of Statistics.

[9] Mazar (2025) found a decline in the level of basic skills among public sector employees over the past decade.

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