Chapter 5

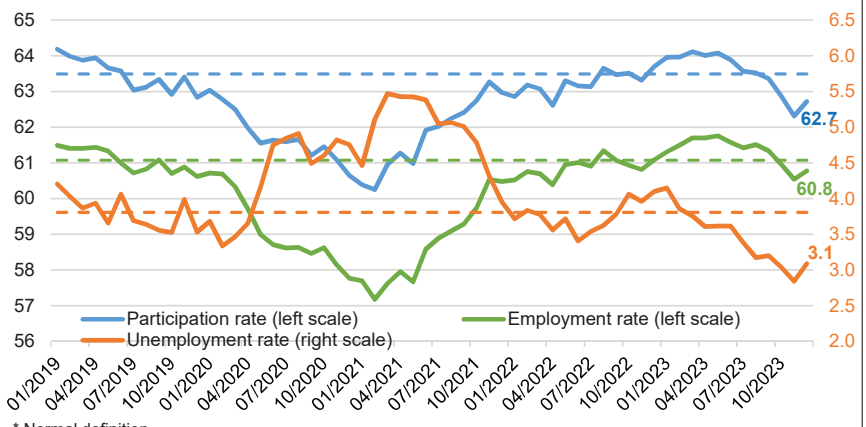
The Labor Market

- The economy was characterized by a tight labor market during the first nine months of 2023, with high participation and employment rates, low unemployment, and high demand for workers. Accordingly, there was growth in nominal wages, which together with a slowdown in inflation, led to higher real wages.
- The outbreak of the Swords of Iron War at the beginning of the fourth quarter led to a significant decline in labor input, due to both a disruption of the labor supply and a decrease in demand for workers. During the fourth quarter, this effect moderated to a large extent, apart from the absence of about 3.5 percent of workers who were called up for reserve duty until at least the end of the quarter.
- With the eruption of the Swords of Iron War, almost all employment of Palestinians in Israel was halted and there was a decrease in the supply of foreign workers. Together, this accounted for about one third of workers in the construction industry and one half in agriculture. The government has been working to bring in new foreign workers, although with limited success so far, and it has so far delayed the return of Palestinian workers.
- With the outbreak of the war, the employment of Arab men decreased by about 27 percent, compared to about 11 percent among Jewish men; however, by the end of the year, it recovered to a level that was only about 5 percent lower than before the war, compared to about 2 percent lower than before the war among Jews. No significant differences were found in the decline in employment between Jewish and Arab women.

1. MAIN DEVELOPMENTS IN THE LABOR MARKET

During the first nine months of the year (until the outbreak of the Swords of Iron War), the labor market remained tight despite a slowdown in growth rates. Participation and employment rates increased, the workforce and employment continued to expand rapidly, and the unemployment rate continued to decline (Figure 5.1, Table 5.1). By the end of the third quarter, the labor market was tighter than prior to the COVID-19 pandemic, with higher participation and employment rates and a lower unemployment rate (3.5 percent).

Figure 5.1
Employment, Unemployment*, and Labor Force Participation Rates, 2019–2023 (percent, age 15+, seasonally adjusted data, dotted lines = 2019 avg.)



* Normal definition.
SOURCE: Based on Central Bureau of Statistics.

There was a tight labor market until the outbreak of the war. The war's impact was reflected in a marked decline in the labor input.

The war, which broke out at the beginning of the fourth quarter of 2023, had a major impact on the labor market, in terms of both labor supply and labor demand. On the supply side, the non-entry of Palestinian workers, the departure of some foreign workers, unprecedented levels of reserve duty, the closure of educational institutions for several weeks and the evacuation of localities were the main reasons for absence from the workplace. Given the remote work possibilities developed during the COVID-19 period, some workers were able to continue working without physically coming to the office;[1] however, the lion's share of workers affected by the war, provided less labor input or did not work at all. Absences due to supply-related factors[2] declined to a significant extent in November and December, with the reopening of the education system and the lower intensity of rocket fire on the home front, but the shortage of non-Israeli workers and absences due to reserve duty remained significant.

[1] The share of employees who worked remotely in October increased significantly, from approximately 16 percent to 20 percent. This was followed by a decline in November and December.
[2] "Absences for other reasons": see the definitions of various employment terms below.

Table 5.1
Main Labor Market Indicators[a]

	Level[b]	Rate of change relative to last year (percent)					Rate of change relative to the same period in 2022 (percent)	
	2023:Q1–Q3	2015-18	2019	2020	2021	2022	2023:Q1–Q3	2023:Q4
Population	9,735	2.0	1.9	1.8	1.7	2.0	2.2	2.0
Working-age population	7,028	2.0	2.1	1.9	1.8	2.1	2.5	2.4
Labor force	4,489	1.9	1.4	-0.8	1.8	4.5	3.6	1.0
Labor force participation rate (level, percent)	64	64	64	62	62	63	64	62.5
Number of employed persons[c,d]	4,645	2.3	1.5	-2.4	1.4	6.3	3.8	-1.3
Israelis	4,332	2.4	1.6	-1.3	1.1	5.8	3.7	2.1
Employed full time	2,865	3.1	0.7	-5.5	6.1	4.9	1.0	4.8
Employed part time	1,161	0.8	2.8	-19.2	16.1	14.7	12.1	-26.9
Temporary absentees	306	2.9	5.7	97.2	-41.2	-12.4	-0.5	113.2
For economic reasons (level, thousand)[c]	14	13.9	13.2	366.4	118.0	16.6	13.7	217.1
Due to reserve military service (level, thousand)[c]	2	1.7	1.7	2.2	1.7	1.9	2.2	147.3
For other reasons (level, thousand)[c]	3	22.1	20.3	7.0	4.8	2.2	2.8	118.1
Employees in the public service industries	1,593	2.9	2.0	1.9	1.6	3.4	3.7	4.3
Employees in the business sector industries[c,d]	3,051	2.0	1.2	-4.6	1.2	7.9	3.8	-4.2
Israelis	2,739	2.2	1.4	-3.2	0.8	7.3	3.6	0.9
Nonresidents[c]	157	-1.8	-5.0	-16.7	-6.8	6.2	8.1	-2.8
Palestinians[c]	155	5.7	8.1	-15.5	22.9	21.7	2.1	-93.5
Weekly labor input in the business sector[c,d]	129,681	2.3	0.7	-10.2	7.1	9.1	2.9	-9.3
Israelis	102,334	2.7	0.4	-10.7	7.7	8.7	2.4	-5.9
Nonresidents[c]	7,251	-2.5	-4.8	-16.1	-6.2	6.2	7.8	-3.8
Palestinians[c]	6,467	5.0	10.4	-16.4	20.7	23.8	1.5	-92.9
Weekly work hours per Israeli employee in the business sector	37	0.5	-1.0	-7.8	6.8	1.4	-1.1	-6.7
Job vacancy rate in the business sector (level, percent)	3.9	3.6	3.5	2.4	4.6	4.8	3.9	3.4
Nominal wage per employee post[d,f]	12,358	2.7	2.9	7.0	2.4	2.4	5.7	9.2
Real wage per employee post (2023 average prices)[d,f]	12,395	2.6	2.0	7.6	0.9	-1.9	1.1	5.6
In the government sector[f]	12,270	1.7	0.8	3.8	-1.1	-3.0	3.5	5.8
In the private sector[f]	14,223	3.2	2.3	8.5	1.6	-0.9	-0.2	3.7
Real minimum wage	5,497	5.1	-0.8	0.6	-1.5	-4.2	-1.1	1.7
Unit labor cost in the business sector[c,f]		1.3	-1.1	-1.3	-3.6	-1.4	-1.8	-4.5
Labor productivity in the business sector[c,f,g]		1.6	4.2	10.0	3.2	-1.9	2.2	
Narrow unemployment rate (level, percent)[h]	3.5	4.6	3.8	4.4	5.0	3.8	3.5	3.2
Broad unemployment rate (level, percent)[e,h]	3.8	4.3	4.1	13.9	7.8	4.1	3.8	8.1

[a] Original data, unless otherwise noted.
[b] Average of the first three quarters of 2023, in thousands or percent.
[c] National Accounts data.
[d] Including foreign workers and Palestinians.
[e] The figure under 2015–2018 is for 2018 only..
[f] Seasonally adjusted data.
[g] Gross domestic product per business sector work hour.
[h] "Narrow" unemployment (the official definition for unemployment) includes unemployed people who actively searched for work and were available to work. Broad unemployment also includes those temporarily absent for economic reasons.
SOURCE: Based on Central Bureau of Statistics.

The security threat, reserve duty, and other factors also led to a significant decline in business activity, which was reflected in lower demand for workers and an increase in worker absence due to economic reasons. (For the definition of "due to economic reasons", see the glossary below.) As a result, the government relaxed the terms of eligibility for receiving unemployment benefits during unpaid leave, in a manner similar to that during the COVID-19 lockdowns. This allowed employers to reduce labor input by placing employees on unpaid leave instead of firing them, which facilitates a more rapid return to work when restrictions are lifted. The government also provided "Business Continuity Grants", which for the first time included a component to compensate for wages paid during a period in which a business experienced a decline in revenue. However, the incentives included in the plan for worker retention, alongside the easing of conditions for unpaid leave, were limited.

2. LABOR SUPPLY

The labor force expanded rapidly during the first nine months of the year.

During the first nine months of 2023, the workforce expanded by 3.6 percent[3], which is above the long-term average. This expansion of the workforce reflects a relatively rapid growth of the working-age population, partly due to immigration to Israel as a result of the war in Ukraine[4], alongside an increase in participation rates which returned to their average level in 2019 (prior to the COVID-19 crisis). Participation rates among non-ultra-Orthodox (not Haredi) Jewish men and women were high and stable. In contrast, there was a noticeable increase this year in the participation of ultra-Orthodox men[5], a moderate but consistent increase in the participation of ultra-Orthodox women, and a significant increase in the participation of Arab men and women. Nonetheless, the participation rates of Arab women and ultra-Orthodox men are still significantly lower than the average for the rest of the population (47.4 percent and 57.3 percent, respectively, during the first nine months of 2023, compared to 87.6 percent among non-ultra-Orthodox Jews) and their full integration is still far off.

The number of foreign workers increased at the beginning of the year and up until the eruption of the war, following its increase in 2022. Nonetheless, the number of foreign workers in September 2023 was still lower than prior to the COVID-19 pandemic. The number of Palestinians employed in Israel also increased. Foreigners and Palestinians constituted about 7 percent of all employees in the economy before the war (Table 5.1).

The war led to a high rate of absence from work.

The outbreak of the Swords of Iron War at the beginning of the fourth quarter significantly affected the labor supply of both Israelis and non-Israelis (foreigners and Palestinians). An analysis of developments in the employment of non-Israeli workers is presented in Box 5.1. Although the impact on the Israeli labor supply was also reflected in a decrease in participation rate, the main effect was on absence from work, whether partial or full. Approximately 800,000 workers were fully absent (all week) in October (Figure 5.2), including about 140,000 due to reserve duty and about 315,000 for "other" reasons, among them the evacuation of residents from their homes[6] and

[3] Relative to the first nine months of 2022. In this chapter, the rates of change that relate to only part of the year are in comparison with the corresponding period in 2022.

[4] In 2022, approximately 75,000 immigrants arrived in Israel, which is three times the annual average during the previous decade. About 66,000 came from Europe, likely as a result of the war in Ukraine. Approximately 80 percent of the immigrants were of working age and about 50 percent were of prime working age (25–54).

[5] The analysis below is based on the self-definition of the respondents in the Labor Force Survey. A publication by the Chief Economist's Office in the Finance Ministry entitled "On the employment of Haredi men from January-July 2023", published in September 2023, points to an increase in the share among ultra-Orthodox men based solely on self-definition (without a corresponding increase in the share among ultra-Orthodox men according to the conventional definition, i.e., a member of the household is studying in a yeshiva or residency in a Haredi city). According to the publication, a significant part of the increase in employment rates among Haredi men stems from this increase (i.e., workers who changed their self-definition to Haredi) rather than a major change in the employment situation of Haredi men. The rest of the increase is attributed to the rise in employment rates among the oldest age group, i.e., 55+.

[6] This is likely to be an underestimation of the number of absentees, since some of the evacuated settlements were not sampled in the Labor Force Survey in October and November 2023.

Definitions of terms related to employment and workforce characteristics during the war:

Temporarily absent from work: An employed person who was temporarily absent from work for the entire week preceding the survey for reasons including illness, vacation, or army reserve duty. This includes employees who were absent for less than a month and those absent for more than a month but less than a year, only if they are formally affiliated with a workplace, i.e., if it is guaranteed that they will return to the same employer after the period of absence.

The reasons for absence are divided into four groups in this chapter:

1. **Conventional absence**: For one of the following reasons: illness, illness of a child or other family member, accident, maternity leave or other leave, holidays and festivals or weather conditions. Absences for these reasons are not expected to increase during a war or economic crisis.
2. **Economic reasons**: Reduction in workhours, a labor dispute or temporary cessation of work. Employees placed on temporary leave are included in this category.
3. **Reserve duty**
4. **Other reasons**: Reasons for absence that were not assigned to a unique category in the Labor Force Survey. For example, absences during October to care for children when the education system was closed.

Unemployed according to the narrow definition: Individuals who did not work but wanted to, who actively sought employment and who were available to work.

Unemployed according to the broad definition: Unemployed according to the narrow definition plus those absent for economic reasons.

Unemployment rate: The ratio of the number of unemployed (according to the narrow or broad definition) to the number of participants in the workforce.

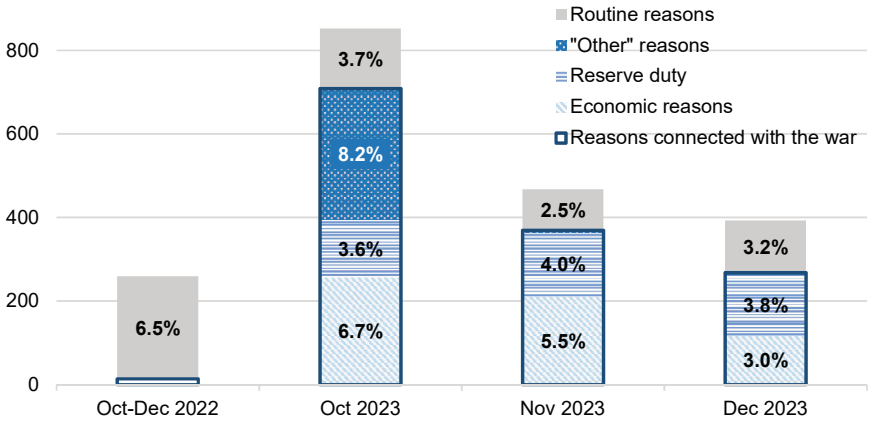
Actually employed: All employed individuals except those absent for economic reasons, other reasons or reserve duty.

the need for parents to supervise their children during a period when schools were closed or partially closed. These two reasons for absence are an indication of the factors that determined the labor supply of Israeli workers. The remaining absentees—about 260,000 who were absent for economic reasons—primarily reflect the war's impact on the demand for workers and only to a lesser extent its impact on supply. It should be noted that these numbers do not represent the full impact on supply since, as mentioned, they only include those who were absent from work for the entire week. According to the Labor Force Survey for October, an additional approximately 415,000 workers reported that they reduced their workhours by 10 percent or more in October for reasons related to the war (Figure 5.3).[7] Furthermore, some of the workers who were put on temporary leave may have chosen to reduce their labor supply during

[7] There are several reasons for reduced workhours, which are similar to the aforementioned reasons for absence from work. We refer to "other reasons" as those reflecting supply side factors and "economic reasons" as reflecting demand side factors. The number of workers who reported reducing their workhours due to reserve duty, as opposed to being completely absent for this reason, was very small.

this period, which coincided with employers' preferences to reduce their level of activity. Therefore, it is possible that part of the increase in layoffs reflects a decrease in labor supply (workers who are not interested in working) rather than a contraction of demand.

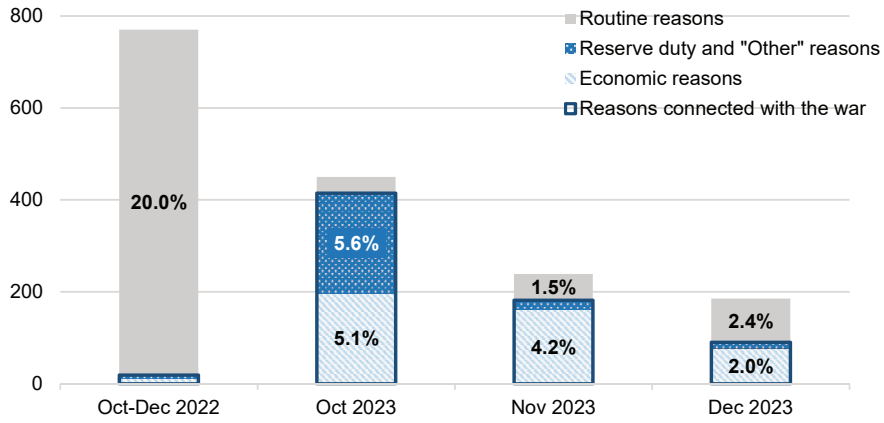
Figure 5.2
Temporary Absenteeism During the War, October–December 2023 Compared with the Same Period in 2022 (thousands and as a percentage of total employees during the period)



Temporary absentees are employees who did not work during the entire previous week. Economic reasons include reduced scope of employment, labor dispute, or temporary halt to work. "Other" reasons include reasons not attributed to a particular category in the Labor Force Survey. Reasons connected with the war include "other", reserve service, and economic reasons. The population included in the analysis are employees aged 18–64 who are not soldiers in regular service.

SOURCE: Based on Central Bureau of Statistics.

Figure 5.3
Employees Who Worked Less Than Normal During the War, October–December 2023 Compared with the Same Period in 2022 (thousands and as a percentage of total employees during the period)



Those who worked less are employees who worked at least 10% fewer work hours than normal. Reduction of work hours due to reserve duty was minimal (most of those mobilized were completely absent from work). Comparison data from 2022 were affected by seasonality and the fact that the High Holidays occurred in October 2022, and mostly in September 2023. The population included in the analysis are employees aged 18–64 who are not soldiers in regular service.

SOURCE: Based on Central Bureau of Statistics.

Worker absences for other reasons, which we attributed to supply factors, declined significantly already in November. In contrast, the level of absences due to reserve duty and economic reasons remained high. The extensive and prolonged mobilization of reservists had significant implications—both direct and indirect—on the labor market in general and on labor supply in particular. We found evidence that the spouses of reservists also reduced their labor input at a higher rate than spouses of other workers. In addition, the number of individuals reporting that they worked fewer hours for non-economic reasons decreased already in November and returned to normal levels, while the number of those who worked fewer hours for economic reasons decreased, but did not return to previous levels.

Box 5.2 analyzes another impact of the war on labor supply and employment: the decline in employment of Israeli Arabs. It presents evidence that part of the excess absence of Arab workers (relative to that of Jewish workers) is explained by fear of interaction with Jews. This effect was significant in October and continued during the subsequent two months; however, by the end of the year, the employment of Arabs had recovered to only slightly less than before the war.

Box 5.1
Employment of non-Israeli workers in light of the Swords of Iron War

Until the Swords of Iron War, about 310,000 non-Israeli workers were employed in the Israeli economy—about half of them Palestinians and the other half foreigners.[1] With the eruption of the war, the vast majority of Palestinian workers were prohibited from working in Israel, while some of the foreigners, especially in the agriculture industry, left the country. This had a major impact on the construction and agriculture industries, where non-Israeli workers accounted for about one-third and one-half, respectively, of the prewar workforce. In response, the government attempted to rapidly increase the number of foreign workers; however, as of the end of February 2024, their numbers have not increased significantly.

This analysis describes the short term changes in the employment of non-Israeli workers during the war and examines the key economic considerations in determining the policy governing their employment in the postwar period. The reduction in Palestinian employment in Israel since the outbreak of the war marks the third cycle of such reductions due to security events during the past few decades. Palestinian employment was reduced following the terrorists attacks in 1993–95 and at the beginning of the Second Intifada (2000–02), while the employment of foreign workers, which was first formally instituted in the early 1990s, expanded to about 6 percent of the workforce in the business sector in 1995 and to about 13 percent in 2001. However, due to the negative social effects of employing foreigners on a large scale, Israeli governments began reducing their numbers and limiting their employment in most sectors of the economy starting from 2002. In contrast, the employment of Palestinians in Israel gradually expanded starting from the end of the Second Intifada (2005), partly due to political-security considerations. The

[1] This does not include illegal immigrants and foreigners who entered the country on tourist visas.

increase in the employment of foreign workers and the reduction in Palestinian employment since October 2023 represents a turning point in the policy of the past two decades.

The employment of Palestinian and foreign workers prior to and at the start of the Swords of Iron War

The employment of Palestinians from Judea and Samaria in the Israeli economy gradually expanded during the past two decades as part of Israel's policy to strengthen the Palestinian economy and to meet the demand for low-paid manual laborers. Up until October 2023, approximately 156,000 Palestinians were employed in Israel, with about 34,000 of them working without permits. The vast majority of these workers resided in Judea and Samaria. Prior to the war, there were also a small number of Gazans employed in Israel, but the process of regulating their employment was not yet complete, and therefore they are not included in the employment estimates presented here.[2]

In addition, around 157,000 foreign workers were employed in Israel in January–September 2023. Half were employed as caregivers, while the rest primarily worked in construction and agriculture. Over the past decade, foreign workers in construction and agriculture were primarily obtained by means of bilateral agreements between Israel and Thailand (agriculture), China, Moldova, and Ukraine (construction). Foreign workers in the construction industry are not directly employed by Israeli contractors (for whom the work is done) but rather via manpower agencies or foreign companies in Turkey and China. The bilateral agreements and the employment via manpower agencies were intended to, among other things, improve oversight of their employment conditions and ensure them decent wages, as well as minimizing their impact on the employment and wages of Israelis and preventing worker exploitation.[3]

With the outbreak of the war, the employment of many non-Israeli workers in Israel was suspended. The entry of most Palestinian workers from Judea and Samaria and all workers from Gaza into Israel was prohibited for security reasons, leading to a decrease in the number of Palestinian workers in the economy from about 156,000 in the first three quarters of 2023 to about 10,000 in the final quarter. At the beginning of the war, approximately 13,000 foreign workers in agriculture and construction left the country, although some later returned. The impact was particularly severe in agriculture, where most of the workers are foreigners and Palestinians, and in the construction sector, where Palestinians constituted about one-third of all workers and the majority of those employed as floor layers, plasterers, etc. In response, the government is working to increase the effective supply of labor, primarily in construction and agriculture, by increasing the number of foreign workers in these sectors, encouraging the employment of Israelis, and

[2] Starting from 2014, thousands of entry permits (trader permits and/or for economic needs) were granted to Gazans who essentially worked in Israel unofficially. In March 2022, the government decided to allocate around 20,000 work permits in construction and agriculture (Government Decision 1328). However, in practice, only about 3,000 Gazans received official work permits and about 17,000 entered Israel with entry permits and were employed unofficially.

[3] The government required that the employment of construction workers be mediated by manpower agencies starting from 2005. A study in 2012 showed that the transition from direct employment to employment through manpower agencies led to an overall increase in the costs of employing Chinese workers, which in turn expanded the employment of Israelis. Furthermore, several studies have shown that transitioning to the recruitment of workers by means of bilateral agreements resulted in a decrease in the cost of obtaining a work permit and an improvement in working conditions (Population and Immigration Authority, 2023).

supporting the restructuring and mechanization of the construction industry (Box 8.2).[4] The employment of Palestinians had not resumed as of the end of 2023.

Table 1
Non-Israeli workers in the Israeli economy, thousands and percent, 2023

	Palestinians		Foreign Workers		Total	
Quarters in 2023	I-III	IV	I-III	IV	I-III	IV
Total	156	10	157	147	313	157
% of total employment	3.4%	0.2%	3.4%	3.3%	6.7%	3.5%
of which: in construction	99	6	27	23	125	29
% of employees in construction	28.7%	2.7%	7.0%	9.4%	35.6%	12.1%
In agriculture	10	1	24	22	34	23
% of employees in agriculture	14.4%	1.1%	36.7%	37.5%	51.2%	38.7%
In manufacutring	21	1	4	3	25	5
% of employees in manufacturing	5.0%	0.3%	0.9%	0.8%	5.8%	1.1%
of which: without work permits	34		40	38	79	

Note: Data on Palestinian workers in Q4 are not final and do not include the estimated number of Palestinian workers without a permit.
Source: Central Bureau of Statistics

The immediate steps taken by the government to increase the employment of foreign construction and agriculture workers included the return of foreign workers who had previously worked in Israel and the extension of work permits that had expired for workers already in Israel. Up until the end of 2023, only about 9,000 foreign workers had entered Israel, primarily for the construction and agriculture industries, resulting in a net decrease of 4,000 foreign workers, primarily in agriculture. The government has also worked to increase foreign employment by signing new bilateral agreements with India (construction) and Sri Lanka (construction and agriculture), and it is negotiating agreements with other countries as well; however, these processes are expected to take several months. The government has also approved the entry of around 10,000 construction workers and 5,000 agricultural workers without bilateral agreements, but the decision has not yet been implemented.[5] The result is that in the immediate term, there is no comprehensive solution to the shortage of workers in the construction and agriculture industries apart from Palestinian workers whose entry is not permitted by the government.

[4] Government Decision 1383 (February 4, 2024).

[5] Government decisions: Foreign workers for agriculture—Swords of Iron War, Decision No. 1020; Increasing the quota of foreign workers in the construction sector following the Swords of Iron War and amending Government decision No. 1002; Functional continuity of the construction sector during the period of the Swords of Iron War—Amendment of Government Decision No. 1056.

In addition, the government acted to implement the allocation of 3,000 permits for manufacturing workers that was decided on before the war (Government Decision 860, July 30, 2023).

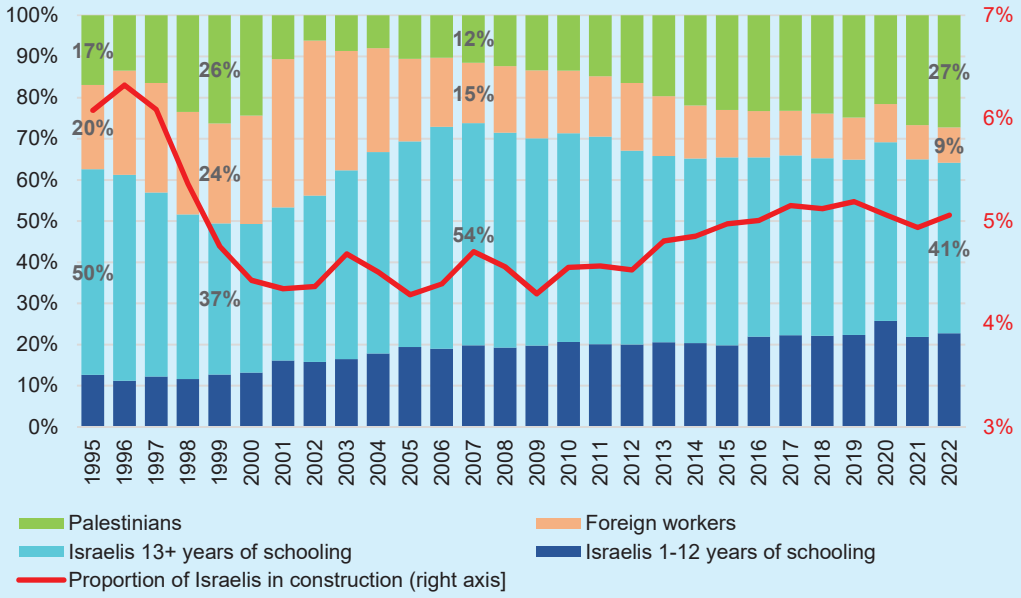
Economic and social considerations in the employment of foreign and Palestinian workers in Israel

1. The effect on the employment of low-educated Israeli workers

The substitution between non-Israeli workers and low-educated Israeli workers was a major consideration in the decision to reduce the employment of non-Israelis at the beginning of the 2000s. At that time, the employment rate of Israelis was quite low (67 percent among 24–65 year olds in 2002). This consideration lost some of its importance with the increase in the employment rate (to about 79 percent in 2023). This substitution was described in the report of the Eckstein Committee (2007) and by Goldner (2019), who also documented the adverse effect of employing foreign workers on the wages of low-educated Israelis during the period 1995–2005.

The substitution between non-Israeli workers and low-educated Israelis can be seen in the construction sector. The period between 1995 and 1999 was characterized by stagnation in the construction sector, and the number and proportion of low-educated Israeli workers declined, when the number and proportion of non-Israeli workers increased. This process may have reflected employers' preferences to retain their less costly non-Israeli workers. In contrast, between 2001 and 2007, the number of low-educated Israelis in the industry increased, as did their share of the workforce. This process reflected a government policy of reducing non-Israeli employment in the economy. Starting in 2007, there was a gradual expansion of

Figure 1
Distribution of Workers in Construction by Citizenship and the Proportion of Israelis Employed in Construction as a Share of Total Israeli Employees, 1995 to 2022 (percent)



SOURCE: Based on Central Bureau of Statistics.

Palestinian employment in the industry alongside a decrease in the proportion of low-educated Israelis. In contrast, the proportion of Israelis with a post-secondary education employed in the industry increased gradually from 1995 to 2007 to about 20% and remained there subsequently. This pattern suggests that non-Israeli workers serve as substitutes for low-educated Israeli workers, but non-Israeli workers and low-educated Israeli workers both complement workers with a post-secondary education.[6]

2. Employment stability and flexibility

The heavy reliance of the construction and agriculture industries on non-Israeli workers exposes these sectors to fluctuations in the availability of workers due to changes in the security situation. Although until the Swords of Iron War, the defense establishment made sure to maintain the continuity of Palestinian employment even in periods of security tension, yet this time the employment of most Palestinians was suspended. In contrast, the employment of foreign workers is less affected by fluctuations in the security situation. Thus, although thousands of foreign workers left Israel with the outbreak of Swords of Iron, the vast majority remained in the country or returned after a short period of time.

The difficulty in employing foreign workers was evident in the challenge of bringing in a significant number of foreign workers during the first months of the war and in the prolonged time (about five quarters) required to bring in 25,000 foreign construction workers following the outbreak of the Second Intifada (2000). In addition, the termination of stay for foreign workers whose work permits had expired sometimes required strong enforcement. In contrast, although the employment of Palestinian workers is characterized by fluctuations due to security events, the flexibility in employing them is a clear advantage relative to the rigidity in employing foreign workers. Palestinian workers can quickly be hired, and the suspension or cessation of their employment is synchronized with the changing needs of the economy, including seasonal employment.

3. The impact on the Palestinian economy

Employment in Israel is critically important for the Palestinian economy in Judea and Samaria. In 2022, it yielded income amounting to about 22 percent of the Gross National Income (GNI) in Judea and Samaria and provided the livelihood of approximately 20 percent of the Palestinian workforce there. A drastic downturn in the Palestinian economy and/or in the employment of Palestinian men can be expected to increase the number of Palestinians employed in Israel without permits, who numbered about 34,000 in the first three quarters of 2023. Preventing their entry will require proactive enforcement. The negative effects on the economy in Judea and Samaria may have adverse implications for security and crime within Israel.

[6] The moderate growth in the number of Israeli Arab workers in construction in December 2023, compared to a decline in other sectors, is a first indication of the replacement of Palestinians by Israeli Arabs in the construction industry during Swords of Iron.

4. Illegal employment

The disparities in wages between the countries of origin of the foreign workers and Israel create the opportunity for exploitative employment practices. Collection of payment for work permits in Israel has even contributed to Israel's classification in 2006 as a country whose policy against human trafficking is monitored by the US State Department. During the past decade, the recruiting of workers by means of bilateral agreements and employing construction workers through manpower agencies has contributed to mitigating these practices, although these hiring channels reduce flexibility in bringing foreign workers to Israel. The government's decision to allow the entry of around 15,000 construction and agricultural workers by means of manpower agencies, rather than bilateral agreements, is an emergency step taken to alleviate the labor shortage, but it may undermine achievements in this sensitive area.

5. Other social and economic effects

The difference between the social and economic effects of employing foreign workers and those of employing Palestinians is primarily due to the fact that foreign workers reside in Israel, and their needs during the residency period are provided for by the Israeli economy, while Palestinian workers with permits return to their families in Judea and Samaria every day or at least on weekends. Therefore, bringing in a large number of foreign workers requires the provision of housing, health, and policing services, which does not apply in the case of Palestinian workers. Expanding the residential areas for foreign workers may increase social tensions between Israelis and foreigners and between the various populations of foreign workers. At the same time, employing Palestinians requires the operation of an entry system from Judea and Samaria into Israel**.**

Conclusion

The variety of considerations in the employment of non-Israeli workers is evidence of the need to encourage to whatever extent possible the employment of Israelis and the use of technology that will increase the productivity and wages of Israeli workers (Box 8.2). Hiring Israeli workers will reduce the exposure of the Israeli labor market to security and policy uncertainty, which affect the availability of Palestinian workers, and will achieve flexibility in employing workers. If it is decided to employ non-Israeli workers, then it is advisable in the long term to create a mix of workers from different countries, exploiting the advantages of each group. Thus, Palestinian workers are available for long-term and seasonal employment in Israel, but their availability is limited during severe security crises, such as the Swords of Iron War. Therefore, it is important to increase the employment of foreign workers to some extent in specific industries. However, bringing foreign workers into Israel is a slow process and may have long-term adverse effects. Some of them can be partially mitigated by the use of bilateral agreements, employment arrangements such as manpower agencies, and effective enforcement.

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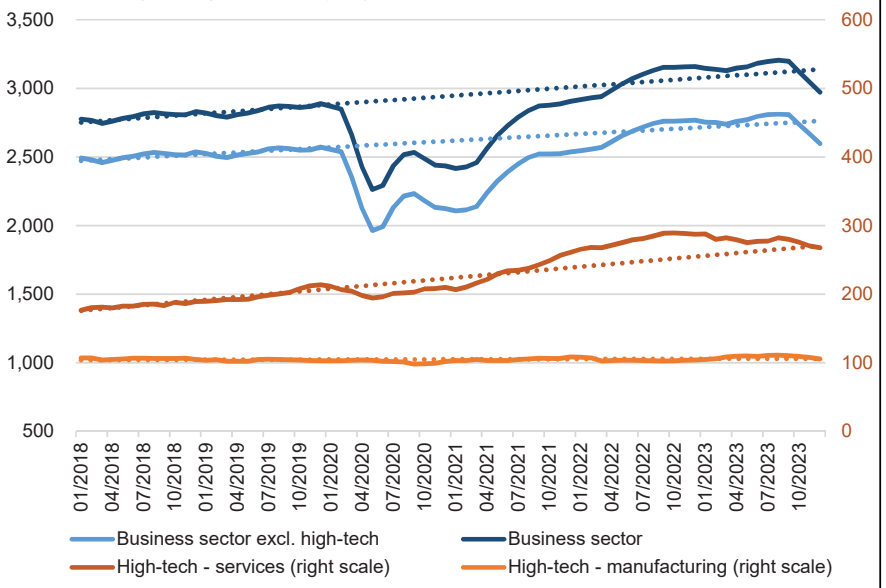
3. THE DEMAND FOR LABOR, JOB VACANCIES, AND EMPLOYEES, BY INDUSTRY

The growth of total demand for labor (jobs plus job vacancies) in the business sector slowed significantly by the end of 2022 (see Figure 5.4). High tech services were among the industries contributing to the slowdown in demand growth. The accelerated growth of that industry drove the recovery of the overall labor market during the post-COVID-19 period. The growth rate of employment in the high tech sector declined, as did its rate of job vacancies, due to the general slowdown—both globally and domestically—in high tech (see Chapter 1).

During the first nine months of 2023, employment across the entire economy expanded at a rapid pace (see Table 5.2), which exceeded the rate of expansion of the workforce. Although employment increased by an even higher rate in 2022, this was primarily due to the stage in the business cycle and the fact that the economy was at full employment and utilizing the entire labor supply. The fact that labor input expanded at a more moderate pace than the number of employees also reflects the entry of part-time workers relative to a more moderate rise in the number of employees in full-time positions.

Until the outbreak of the war, employment expanded rapidly and at a higher rate than the growth in the workforce.

Figure 5.4
Demand for Labor in the Business Sector, 2018–2023 (thousands of positions, 3-month moving average, seasonally adjusted data)



Demand for labor is defined as the total of actual and vacant positions. The dotted line is the trend prior to the COVID-19 crisis (January 2017 to February 2020).
SOURCE: Based on Central Bureau of Statistics.

The construction industry was one of the industries with the highest rate of growth in employment in 2022, and it continued to expand faster than average during the first nine months of 2023. With the outbreak of the war, construction was one of the most severely affected industries. Employment was primarily affected on the supply side, due to the prohibition placed on the entry of Palestinian workers and the departure of foreign workers from the country, though it was also due to restrictions imposed on construction sites. As a result, the employment of Israeli workers in the industry also declined.

Table 5.2

Employees and Labor input by Industry[a]

	Employees							
	Thousands of employees	As a share of total employees (percent)	Rate of change relative to last year (percent)					
	2023:Q1–Q3		2019	2020	2021	2022	2023:Q1–Q3	2023:Q4
Total economy	4,325	100	1.6	-1.3	1.1	5.8	3.7	2.1
Business sector	2,739	63	1.4	-3.2	0.8	7.3	3.6	1.2
High-tech sector	436	10	7.3	3.8	7.4	11.6	4.8	-1.1
Business sector excl. high-tech	2,302	53	0.5	-4.3	-0.3	6.5	3.4	1.6
Public services	1,595	37	2.0	1.9	1.6	3.4	3.8	4.3
Agriculture, forestry and fishing	35	1	-1.1	-2.2	-12.2	3.7	3.2	15.1
Manufacturing, mining and quarrying	404	9	-4.7	-6.3	4.1	1.8	0.5	4.5
Electricity and water supply	32	1	-4.8	9.9	2.9	-0.3	-5.0	11.0
Construction	222	5	3.7	-4.2	-1.4	9.0	4.0	-0.7
Wholesale and retail trade	444	10	0.2	-1.6	-1.6	4.5	4.8	-2.0
Transport, storage, postal, and courier services	191	4	0.6	-2.3	-5.7	11.9	12.6	5.1
Accommodation and food services	177	4	6.3	-19.5	-3.7	22.2	8.1	-3.8
Information and communications	300	7	10.8	4.9	6.1	16.5	5.8	-5.4
Financial and insurance services	141	3	-1.4	-0.9	4.5	3.5	1.3	3.5
Real estate activity	29	1	-0.2	2.9	-18.9	-0.8	-3.4	-18.1
Professional, scientific, and technical services	344	8	3.3	1.2	5.4	6.3	1.9	1.1
Management and support services	160	4	6.8	-5.1	-5.0	5.6	3.5	4.8
Local administraion, public administration, and defense	424	10	0.2	3.2	3.8	-0.9	0.1	2.0
Education	541	13	0.0	-0.7	2.2	2.9	5.4	9.7
Health, social work, and residential care	499	12	3.6	4.7	-0.6	6.6	3.4	1.1
Arts, entertainment, and recreation	79	2	7.4	-4.1	-6.7	8.6	-1.5	-1.8
Other services	116	3	11.8	-1.7	-4.2	5.3	11.5	9.6
Households as employers	70	2	-11.0	7.2	17.6	-5.0	-2.5	-1.6

	Weekly labor input							
	Millions of hours	As a share of total input (percent)	Rate of change relative to last year (percent)					
	2023:Q1–Q3		2019	2020	2021	2022	2023:Q1–Q3	2023:Q4
Total economy	154	100	0.3	-7.8	7.3	6.9	3.0	-4.3
Business sector	102	67	0.4	-10.8	8.0	8.6	2.4	-4.8
High-tech sector	17	11	5.7	4.6	9.2	10.1	5.5	-3.4
Business sector excl. high-tech	85	55	-0.4	-13.2	7.8	8.3	1.8	-5.1
Public services	53	34	1.3	-2.0	6.5	2.6	2.9	4.5
Agriculture, forestry and fishing	1	1	-1.3	1.1	-14.8	2.8	3.9	6.1
Manufacturing, mining and quarrying	16	10	-6.8	-9.0	6.3	2.5	0.1	3.8
Electricity and water supply	1	1	-6.1	8.1	6.5	-2.0	-4.6	18.4
Construction	8	5	1.0	-9.7	3.3	9.7	1.0	-22.2
Wholesale and retail trade	16	11	-0.9	-11.4	5.8	6.3	4.0	-6.6
Transport, storage, postal, and courier services	7	5	-1.1	-15.1	5.1	15.3	11.1	-9.2
Hospitality and food services	6	4	5.8	-42.1	17.8	38.3	8.1	-25.8
Information and communications	12	8	10.5	6.0	7.0	16.7	6.2	-7.1
Financial and insurance services	5	3	-1.6	-0.8	7.0	2.3	1.6	8.2
Real estate activity	1	1	-0.4	-9.7	-10.6	1.7	-0.2	-32.7
Professional, scientific, and technical services	13	8	3.0	-4.8	11.4	6.6	0.9	-5.6
Management and support services	5	4	6.3	-18.6	3.7	10.4	1.0	-8.5
Local administraion, public administration, and defense	19	12	-0.7	3.1	4.0	-0.5	0.3	4.0
Education	14	9	0.0	-6.8	8.5	3.0	3.5	5.2
Health, social work, and residential care	15	10	2.4	-0.7	6.2	6.0	3.7	-0.1
Arts, entertainment, and recreation	2	2	6.2	-30.5	21.2	18.8	-2.9	-22.3
Other services	3	2	10.3	-19.5	8.8	12.3	10.2	-7.2
Households as employers	3	2	-8.8	11.9	25.9	-7.5	-4.2	-1.0

[a] Seasonally adjusted data, for Israelis only. All employees, including temporary absentees.

SOURCE: Based on Central Bureau of Statistics.

4. UNEMPLOYMENT, ABSENCE FROM WORK FOR ECONOMIC REASONS, AND UNPAID LEAVE

The effect of the war was partly reflected in a slowdown in economic activity and a resulting drop in the demand for workers, many of whom were placed on unpaid leave.

The tight labor market at the beginning of 2023 was reflected in a low unemployment rate, which dropped below its pre-COVID-19 level. Unemployment rates were also relatively low among population groups that usually struggle to integrate into the labor market, such as older workers and those with low education levels[8], providing further evidence of the tight labor market and the high demand for workers.

As the year progressed, the war led to a sharp decline in activity in several industries and the demand for workers subsequently decreased. As a result, the broad unemployment rate increased. Most of these absentees were put on unpaid leave[9], while the unemployment rate according to its formal definition did not increase.

In response, the government decided to implement several alternative compensation tracks for indirectly affected businesses.[10] They can be categorized into three types: the red track, intended for businesses in border areas; the green tracks, intended for businesses in non-border areas that are included in the areas of eligibility; and an eligible expenditure track for other businesses, (provided they meet the conditions specified in the law and regulations) with annual turnover of between NIS 12,000 and NIS 400 million and a significant decline in turnover.

In the eligible expenditure track ("Business Continuity Grants"), the compensation provided to businesses is only indirectly related to employee retention and is provided only to some businesses.[11] This constitutes only a weak incentive to continue employing workers. In the other tracks (the red and green), compensation is provided to businesses located in areas affected by the war, some of which still face security risks and therefore their ability to maintain their workforce is low.

[8] For example, the unemployment rate in the 67–74 age group declined to an average of 2 percent, compared to approximately 3 percent on average during the five years prior to the COVID-19 crisis.

[9] Although we do not have precise information on whether absentees continued to receive a salary, it is reasonable to assume that most of those absent for economic reasons were put on unpaid leave. This assumption is also supported by data from the Israel Employment Service regarding new registrants and the gap between the number of salaried workers according to the Labor Force Survey and the number of positions (a figure based on administrative data taken from employer reports to the National Insurance Institute regarding wage payments), which is close to the number of those absent for economic reasons.

[10] A loss or unrealized profits as a result of the war, such as the inability to use business assets due to directives from the Home Front Command or the absence of workers or owners from the business for the same reason.

[11] Businesses with an annual turnover of between NIS 12,000 and NIS 107,000 are eligible for a fixed compensation amount which increases according to the businesses' annual turnover. Businesses with an annual turnover of between NIS 107,000 and NIS 300,000 are eligible for a fixed compensation amount, which increases according to the annual turnover of the business, multiplied by a coefficient that increases according to the rate of decrease in turnover. Only the compensation for businesses with a turnover of between NIS 300,000 and NIS 400 million includes a component related to salary expenditure, although it does not distinguish between employees who were needed by the business to maintain the existing turnover and "surplus workers" who were kept on the payroll rather than being laid off.

Alongside the compensation tracks for businesses, it was decided to relax eligibility conditions for unemployment benefits during unpaid leave. The minimum furlough period for unemployment benefit eligibility was shortened from 30 days to 14 days, the qualifying period was reduced (6 months of work out of the last 18 instead of 12 months, as previously) and unemployment benefits were paid from the first day of leave, even if the worker has accumulated vacation days. It should be noted that according to the eligibility conditions, those on unpaid leave are not allowed to work, even part-time. This means that unpaid leave requires a complete disconnection between the employee and the employer.

The combination of the unpaid leave compensation framework in its current format with the compensation tracks for employers creates an incentive—for both workers and employers—to place workers unneeded at the time on unpaid leave.[12] Indeed, the proportion of workers on unpaid leave increased significantly following the announcement of the programs for unpaid leave and business compensation. In contrast, experience accumulated during the COVID-19 period shows that, in comparison to mechanisms that allow for partial and flexible unpaid leave (the "German model"), the Israeli program does not hinder the recovery of the labor market following the crisis (for further details, see Chapter 5 in Bank of Israel Annual Report for 2020).

a. Characteristics of those absent from work

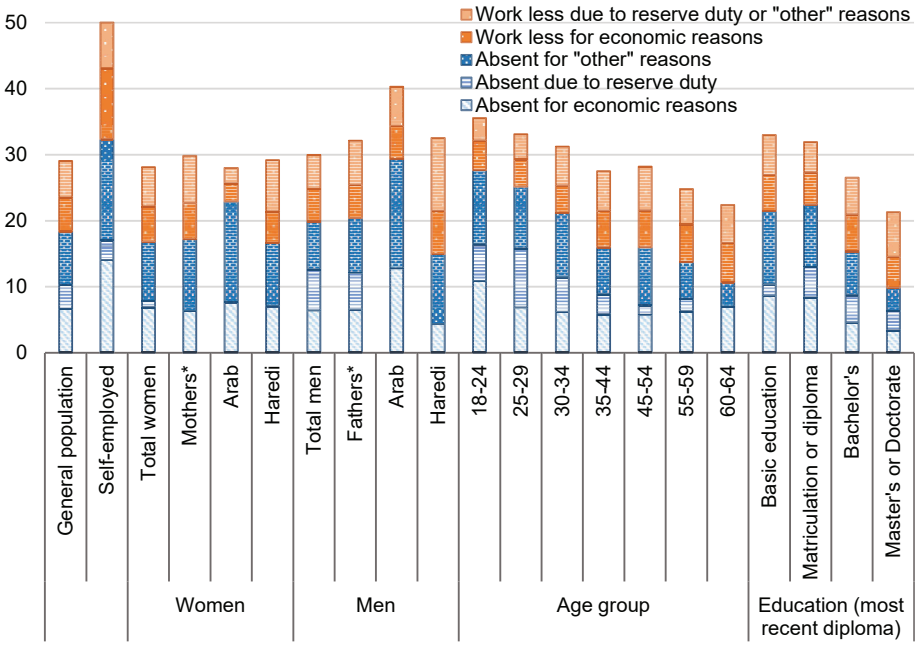
Table 5.3 presents the rate of absence and the proportion of workers who have reduced their workhours, by industry and by occupation. It can be seen that the impact on employment was across the board. However, there are industries that were affected both by demand (economic reasons) and by supply (other reasons and reserve duty), such as Accommodation and Food Service and Construction, while in other industries, such as high tech, the main impact originated from the supply side which was characterized by a high proportion of reservists but a low rate of absence due to economic and other reasons.

We examined the characteristics of those absent from work and of workers who reduced their workhours by reason for absence (economic, reserve duty or other) and gender and by a variety of individual characteristics. Among other things, we examined the effect of marital status (whether there is a spouse, employment status of the spouse and whether there are young children at home), age, industry and place of residence. As expected, we found that living in an evacuated area in the South or North significantly increased the likelihood of absence for any reason. Marital status mainly affected absence from work and reduction of workhours among women, although single parents—both men and women—were absent or reduced their

[12] According to Israel Employment Service data, the number of new registrants for unemployment benefits significantly increased after the start of the program. Prior to that, in the weeks starting on October 15 and October 22, approximately 9,000 and 16,000 job seekers, respectively, registered for the reason of unpaid leave. In the three weeks following the initiation of the unpaid leave program (beginning October 29), approximately 32,000, 27,000 and 20,000 job seekers, respectively, registered for the reason of unpaid leave.

workhours more than others. Age mainly affected the absence from work for men due to reserve duty. As expected, higher education and employment in industries that do not require physical presence at work reduced the likelihood of absence from work, as did the ability to work from home. The self-employed were particularly notable in their high rate of absence from work at the beginning of the war, especially for economic reasons, reflecting a decline in their customers' demand for products and services (Figure 5.5).

Figure 5.5
Those Working Less and Absentees for Reasons Connected With the War, by Various Characteristics, Oct. 2023 (percentage of total employees)



The values on the vertical axis are the percentage of absentees or those working less as a share of total employees included in the same characteristic. The population included in the analysis are employees aged 18–64 who are not soldiers in regular service.
* Mothers and Fathers relate to parents of children up to age 9.
SOURCE: Based on Central Bureau of Statistics.

The mobilization of reservists after the outbreak of the war was extensive and significantly impacted the labor market, both directly and indirectly. Unlike absences from work due to other reasons and economic reasons, which declined starting in November, absences due to reserve duty remained at a high level throughout the fourth quarter of 2023 and even during the first months of 2024 (Table 5.3). The lion's share of those drafted for reserve duty are young and are at the beginning of their careers, and their prolonged absence from work may have implications for their employment in the medium term. Moreover, the long duration of absences imposes a significant burden on employers, due to the need to find suitable replacements. In many cases, the solution is overtime for the remaining workers, which may also increase labor costs.

Table 5.3
Impact to employment during the Swords of Iron War, selected industries and occupations[a]

(percent)

	October 2023					November-December 2023 average[b]		
	Absentee rate			Rate of those who worked less		Absentee rate		Rate of those who worked less
	For economic reasons	Due to military reserve service	For "other" reasons	For economic reasons	Due to military reserve service or for "other" reasons	For economic reasons	Due to military reserve service	For economic reasons
Entire economy	6.7	3.6	8.2	5.7	6.1	4.3	3.9	3.3
Industries[c]								
Manufacturing	5.2	4.1	5.5	3.8	5.8	3.0	4.8	1.8
Construction	14.9	5.5	16.5	8.9	5.6	11.5	4.3	6.5
Wholesale and retail trade	5.9	1.3	9.1	7.4	6.0	4.6	3.0	3.8
Transport, storage, postal, and courier services	12.3	-	13.4	7.7	8.4	6.4	3.2	7.5
Accommodation and food services	12.9	7.2	17.6	5.9	11.7	16.3	7.9	2.7
Information and communications	3.2	7.2	-	2.9	4.7	1.0	7.4	1.3
Financial and insurance services	-	5.9	5.7	-	7.4	-	1.8	-
Professional, scientific, and technical services	7.4	3.4	5.8	7.4	6.7	6.0	5.5	5.4
Management and support services	6.2	5.4	9.2	7.3	0.0	5.1	10.4	6.7
High-tech industries	1.7	7.1	1.4	2.7	4.8	0.7	7.2	0.7
Local administraion, public administration, and defense	-	2.9	2.8	-	3.3	-	2.3	-
Education	6.8	1.7	12.8	9.0	9.2	2.6	1.5	2.9
Health, social work, and residential care	4.8	1.5	5.4	4.1	4.7	1.6	1.3	1.8
Arts, entertainment, and recreation	17.5	-	11.5	-	-	12.0	-	-
Other services	11.1	-	12.0	10.2	11.4	7.9	-	7.7
Occupations[d]								
Managers	4.0	3.1	6.2	3.6	5.0	3.3	3.5	2.4
Academic occupations	3.8	4.3	5.5	5.6	6.7	2.2	4.3	2.7
Practical engineers and technicians	6.3	3.1	7.1	4.7	5.9	4.6	4.0	3.5
General clerks	6.3	3.1	6.9	5.4	5.9	4.1	-	2.0
Sales and service personnel	8.9	3.5	12.7	6.8	7.4	6.0	4.2	3.6
Professional workers in manufacturing	11.1	3.8	12.7	8.4	5.8	7.0	3.9	5.2
Nonprofessional workers	12.1	-	10.1	5.8	4.7	3.6	-	1.5

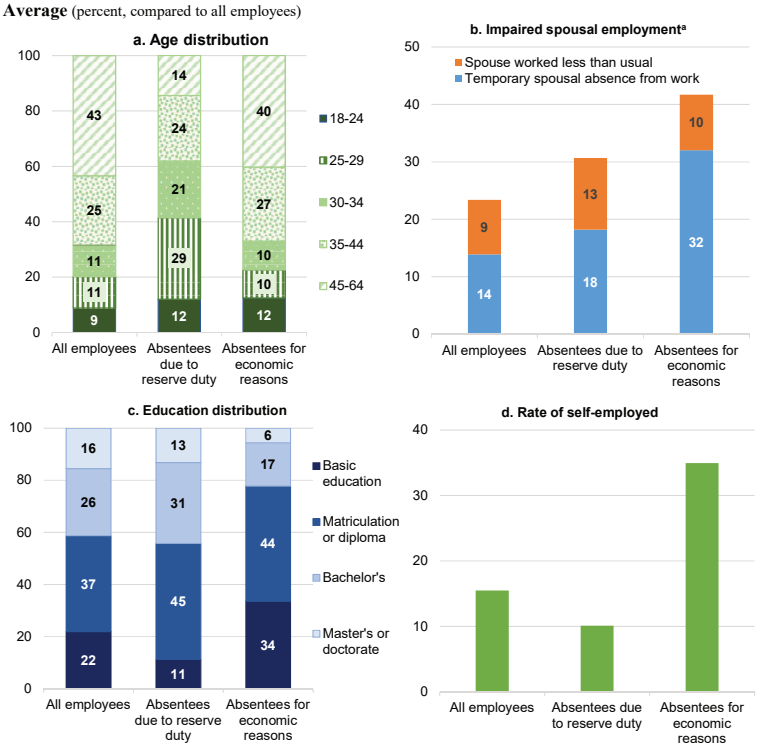
[a] The rate of absentees or those who worked less, as a share of all employees in the industry or occupation. The population included in the analysis is employees aged 18–64 who are not soldiers in compulsory service. A dash indicates too few observations.
[b] In November and December, the amount of absentees and those working less for "other" reasons became negligible.
[c] The Agriculture (A), Minimng and quarrying (B), Electricity and water supply (D-E), Real estate activities (L), and households as employers (T) industries, as well as Foreign organizations and entities (U), were omitted from the analysis due to too few observations.
[d] Professional workers in agriculture were omitted from the analysis due to too few observations.
SOURCE: Based on Central Bureau of Statistics.

Absence from work due to reserve duty was prolonged and occurred on a large scale.

Employee absences due to reserve duty were particularly felt in high tech (about 7 percent of workers) and in Accommodation and Food Service (about 7.5 percent of workers on average over the quarter). Despite the relatively young age of those serving in the reserves, absences were concentrated among those with academic qualifications, and the proportion of university graduates among the draftees was slightly higher than their proportion in the general population (44 percent versus 42 percent). The absence of draftees from among sales and service personnel was also noticeable, likely reflecting the low number of young discharged soldiers employed in temporary and low-paid jobs. Unlike absences for economic reasons, the proportion of the self-employed who were absent from work due to reserve duty was relatively low. This finding apparently reflects other characteristics of the reservists and primarily their young age, since there is a low rate of self-employment in this age group (Figure 5.6).

Most of the reservists who are the head of a household[13] have spouses and in most cases, they are employed. In most households, there are children up to age 17 and in a significant proportion of them these are young children (up to age 9) who require adult supervision. Therefore, and relative to other workers, a larger proportion of the reservists' spouses were absent from work or reduced their workhours. This is one of the unique difficulties created by reserve duty during wartime that is experienced by the households of the reservists.

Figure 5.6
Characteristics of Male Absentees Due to Reserve Duty or Economic Reasons, Oct.–Dec. 2023 Average (percent, compared to all employees)



The population of this analysis includes Jewish non-Haredi males aged 18–64 who are not soldiers in regular service.
[a] Among fathers who have children up to age 17 and a spouse who is employed.
SOURCE: Based on Central Bureau of Statistics.

13 The following analysis is based on data from the Labor Force Survey regarding absence from work due to reserve duty. We do not have data on reservists who were not working or did not miss work, except for a small number of workers who reported that they reduced their workhours due to reserve duty. We estimate that the group of reservists who are not working or did not miss work constitutes no more than a quarter of all reservists and it is likely that their characteristics differ from those who were absent from work (according to a publication by the Chief Economist at the Ministry of Finance, about 10 percent of reservists are not working – Chief Economist's Office at the Ministry of Finance: "Focus: Characteristics of those absent from work as a result of reserve service in December 2023"). Similarly, many women were drafted for reserve duty in the Swords of Iron War, but the few observations of women absent from work due to reserve duty did not make it possible to include them in the analysis. Therefore, the analysis refers only to male reservists. A small group of respondents in the Labor Force Survey reported that they reduced their workhours due to reserve duty, but the small number of observations did not facilitate an analysis of their characteristics. The analysis of the characteristics of the reservists' households and spouses relates to those reservists who are heads of a household (in other words, we ignore those who are not the head of a household or his/her spouse).

Box 5.2
The short-term effects of the Swords of Iron War on the employment of the Arab population in Israel

The Swords of Iron War led to a decrease in employment and significant absenteeism from the workplace. This was due to fewer job opportunities, fear of the security threat, the need to care for children when schools were closed, and reserve duty. Another effect of the war was a decline in the level of personal security and an increase in feelings of fear and alienation between Jewish and Arab citizens in Israel (Geva, 2024). A survey reported findings that a significant number of Jews avoid "places where there is interaction with Arabs," and even boycott Arab businesses (Nassir et al., 2023). At the same time, about half of the Arab workers employed in mixed work environments reported a lower sense of security at work than before the war (Miaari and Barak, 2023). This may lead to reduced interaction between the different population groups, with Arab workers avoiding jobs in places shared with Jews, Jewish customers refusing to use services and products from Arab businesses, and employers preferring not to employ Arabs in positions that involve interaction with Jewish customers. During the Second Intifada (2000–05), Miaari et al. (2012) found that the probability of Arab workers being terminated by Jewish employers increased by about 2.2 percentage points more than the chances of Jewish workers being terminated; in contrast, during episodes of security tension between 2006 and 2018, no such difference was found (Zussman and Zvi, 2023).

Another factor contributing to the unique impact of the war on Arab employment is the high representation of Arab men in the construction industry (22 percent of Arab employees versus 6 percent of Jewish employees in 2022). This industry experienced major disruptions during the last quarter of the year, including closures and shutdowns of construction sites, given that Palestinian workers, making up about 30 percent of those employed in the industry,[1] were prevented from entering Israel, and because some local authorities completely prohibited the opening of construction sites.[2] Since Palestinian and Israeli workers are, to some extent, complementary factors of production in the construction industry due to their differing skill sets, this also impacted Israeli employment in the short term. Another factor affecting Arab employment is the high proportion of Arab workers employed in temporary jobs, which can be more easily terminated during times of crisis.[3]

We therefore sought to examine whether there was a particularly adverse impact on Arab employment and to identify its causes if there was one. To this end, we defined an "effective employment rate", which includes workers who were actually employed and workers who were absent for conventional reasons

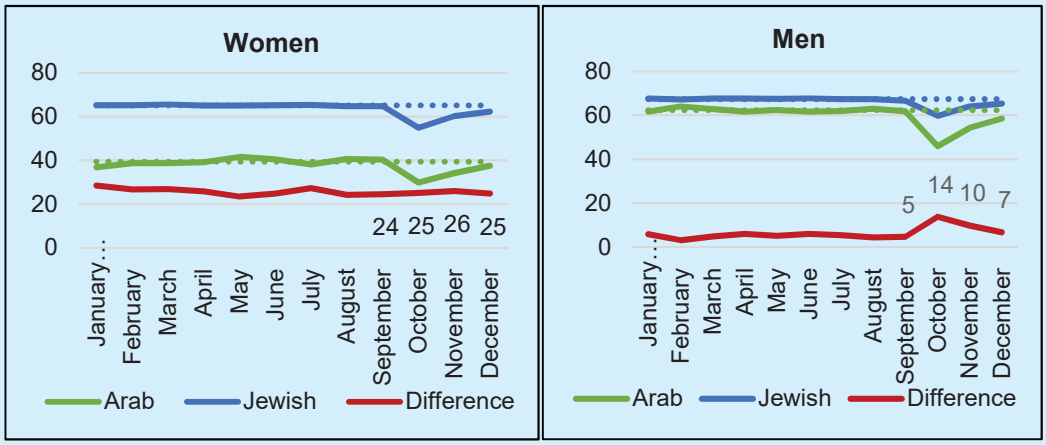
1 For further details on non-Israeli workers, see Box 5.1 in this chapter.

2 Letter from the Minister of Housing to the Minister of the Interior on "Lifting restrictions on the work of contractors during the Swords of Iron War", dated October 17, 2023. The letter was written by the Minister of the Interior to heads of local authorities on October 18, 2023, and stated that local authorities do not have legal authority to close construction sites.

3 According to the 2016 Social Survey—Working Conditions and Worker Organizations: 54 percent of Arab workers reported not having a written contract, compared to 22 percent of Jews. In addition, 9 percent of Arab salaried workers were employed in day work, as compared to only 2 percent of Jewish salaried workers.

or due to reserve duty.[4,5] It served as an indicator that could be used to examine short-term changes in the labor market during the war. (Herein, all references to employment will relate to this indicator.) Figure 1 shows that the employment rate dropped significantly in October for both population groups, but especially among Arab men. Their employment rate plummeted by about 16 percentage points compared to the average during January through September 2023, versus a decline of 8 percentage points among Jewish men. Subsequently, in November and December 2023, there was a noticeable recovery in the employment of Arab men. The employment gap between Arabs and Jews narrowed, but remained 2 percentage points higher than the gap before the war.

Figure 1
Effective Employment Rate (excl. absentees for economic and "other" reasons), by Gender and Population Group, 2023
(ages 15+, the dotted line is the January–September average)



SOURCE: Based on Central Bureau of Statistics.

Employment declined in October by similar rates among both Jewish and Arab women (10 percentage points), leaving the gap between the groups at the level it was at the beginning of the year. A common explanation of the absence of both Jewish and Arab women was the closure of the school system in October, immediately following the outbreak of the war, and its gradual reopening subsequently. However, it should be noted that Jewish women also missed work during this period because their spouses were called up for reserve duty, a phenomenon that did not exist among Arab women. This may imply that

4 The Central Bureau of Statistics official employment rate is not suitable for this type of analysis because it includes workers who were temporarily absent from their jobs. For further details, see the glossary in this chapter.

5 The choice not to exclude reserve duty from this measure of the employment rate is part of the attempt to compare the difference in impact on employment between Jews and Arabs using the same criteria, namely the choice of the worker not to come to work or of the employer to close the place of work. Reserve duty is not common among the Arab population, most of whom are exempt from military service; therefore, it does not represent a choice by the worker or employer.

in the absence of such a reason, one might have expected a smaller decline in employment among Arab women than among Jewish women.[6] The absence of an excessively large decline in the employment of Arab women is not explained by higher representation in public service sectors, which were less affected by the war.[7] This is evidenced by the fact that the effective employment rate for Arab women in non-public service sectors decreased from 19 percent to 12 percent, which is similar to that for Jewish women, whose employment in these sectors dropped from 36 percent to 30 percent. In November and December 2023, the employment of both Jewish and Arab women showed a similar pattern of recovery, increasing to 2–3 percentage points below prewar levels by year-end. Given the lack of a significant difference in the decline of employment between Arab and Jewish women, the focus is now shifted to the differences between Arab and Jewish men.

Table 1 shows that the excess decline in employment among Arab men in October was observed across almost all population segments, with the number of those employed dropping by approximately 27 percent, compared to about 11 percent among Jewish men. The table also indicates that there was a clear trend of employment recovery in November and December. This recovery extended across most industries, and by the end of the year, the number of employed Arab men was only 5 percent less than during the months prior to the war, as compared to about 2 percent less among Jewish men.

A marked decline in employment among Arab men at the onset of the war was observed in the construction industry and in construction-related occupations (41 percent and 36 percent, respectively). However, the employment of Arab construction workers recovered by the end of the year, reaching a level in December similar to that from January to September, i.e., before the war. This is an interesting finding because the industry was still (in December) experiencing a significant slowdown in activity, largely due to a shortage of Palestinian workers; this is evident from the 14 percent decline in the employment of Jews in the industry relative to pre-war levels. This trend may suggest that Israeli Arab workers are starting to substitute for Palestinian workers. A notable recovery was also observed among Arabs in non-professional occupations; however, these occupations continued to have the largest employment gap relative to the pre-war period (28 percent).

In order to better understand the drop in employment among Arab men in October and its rapid recovery by the end of the year, we estimated the excess likelihood of Arabs being absent from work for economic and "other" reasons, while accounting for differences in individual characteristics.[8] We focused on absence from work, rather than employment or unemployment, in order to analyze the factors that are unique to the period of the war. This will differentiate between long-term factors underlying the employment gap between Jews and Arabs, which existed before the war, and given the fact that there has been no significant change in the unemployment gap between Jews and Arabs.[9] Figure 2.A shows that the gap in rates of absence from work between Jewish and Arab men in October was 13 percent, which drops to about 10 percent after accounting for employee characteristics. Figure 2.B completes

6 In the case of the employed, the data allows us to identify workers who were absent due to reserve duty; however, it is challenging to exclude women/men who were absent from work because of their spouses' reserve duty.

7 In the public service sectors, we included the electricity and water sectors (E+D), local administration, public administration and defense (O), education (P) and health, welfare, and social services (Q).

8 These absentees are not counted as employees in the calculation of the "effective employment rate".

9 Ninety-three percent of the excess decline in Arab employment relative to Jews is explained by an increase in absences.

Table 1
Rate of change in the number of employees by selected characteristics, Jewish and Arab men aged 15+

(percent)

		Weight in employment, 2022		Rate of change in employment relative to January–September 2023					
				October		November		December	
		Arab	Jewish	Arab	Jewish	Arab	Jewish	Arab	Jewish
	Total employees	**100**	**100**	**-27**	**-11**	**-12**	**-4**	**-5**	**-2**
Industry	Proximity industries[a]	45	44	-26	-14	-13	-3	-6	-1
	Construction	22	6	-41	-23	-15	-20	2	-14
	Other	34	50	-18	-6	-8	-3	-8	-3
Occupation[b]	Academic	24	54	-3	-8	-10	-3	-4	-3
	Clerks and salespeople	17	18	-32	-17	-13	-12	-9	-6
	Manufacturing, transport, and agriculture professionals	27	13	-28	-9	-9	6	-1	6
	Construction	20	5	-36	-29	-9	-24	2	-17
	Nonprofessional	6	4	-60	-16	-26	-6	-28	-5
Education	Post-secondary education	29	61	-18	-9	-17	-4	-2	-3
	Secondary education or lower	71	39	-30	-14	-10	-4	-6	-1
Age group	15-34	44	33	-33	-11	-10	-6	-4	-2
	35-50	33	34	-24	-13	-13	-8	-7	-7
	50+	23	33	-20	-8	-14	1	-5	2
Residential district[c]	North	59	10	-19	-8	-14	1	-7	-1
	Haifa, Center, and Tel Aviv	31	64	-40	-8	-10	-3	-6	-3
	South	10	15	-31	-27	-7	-15	6	-5
Employment locality[d]	Arab locality	41	-	-26	-	-9	-	-5	-
	Jewish locality	24	54	-35	-13	-18	-6	-4	-4
	Mixed locality	15	26	-3	-1	4	4	16	4

Excluding eastern Jerusalem.

[a] Based on the Central Bureau of Statistics Standard Industrial Classification, 2011. Includes: Transportation and storage, postal and courier services (H); Accommodation and food services (I); Repair of motor vehicles and motorcycles (G); Wholesale and retail trade (G); Professional, Scientific, and Technical Services (M); Education (P); Arts, entertainment, and recreation (R); Other services (S); and Households as employers (T).

[b] Based on the Central Bureau of Statistics Standard Classification of Occupations, 2011. The grouping categories are: Academic professions (1–3); Clerical support, service, and sales workers (4–5); Skilled agricultural workers and tradesmen in manufacturing and transportation (6–8, excluding "71" and workers in the construction industry); Elementary occupations (9); Construction ("71" and professional workers in "7–8" who are employed in the construction industry). The rest of the weight in employment represents those with an occupation that is not in the Classification.

[c] The Jerusalem and Judea and Samaria districts complete the weights to 100% among Jewish men. This category does not exist for Arabs, since Arabs from eastern Jerusalem are not included in the estimation.

[d] "Unknown" locality completes the weights to 100%. In those localities, there is over-representation of workers in the construction and transportation industries (particularly drivers).

SOURCE: Based on Central Bureau of Statistics.

the picture, revealing that observable characteristics (age, region, education, industry and occupation) explain less than a quarter of the gap in absence from work between Arabs and Jews in October.[10] With the recovery in employment in November and December 2023, the gap in rates of absence between Arabs and Jews narrowed significantly. By the end of the year, it had fallen to only about 2 percent, all of which is explained by observable characteristics (Figure 2.B). These are mainly characteristics related to the distribution of Arab employment across industries and the regional distribution of Arab workers who tend to be concentrated in the North. Similar estimates of absence from work and employment gaps following the outbreak of the war were found based on difference-in-differences estimation.[11]

To investigate whether a concern about interaction between Jews and Arabs had an effect on employment, we chose to focus on Arabs working in Jewish cities (24 percent of employed Arabs) and estimated whether the decline in their employment was greater than that among Jews working in those same cities, especially in "proximity industries" (such as retail, transportation, and accommodation) where the likelihood of

[10] We use the Blinder-Oaxaca method, which makes it possible to decompose the unique contribution of each variable to the overall gap. See Oaxaca and Ransom, 1994.

[11] Difference-in-differences estimation compares the trends in employment and absence from work between Arab and Jewish men between the pre-war period and the period of the war and makes use of a larger sample.

Figure 2a
Absentee Rate for Economic and "Other" Reasons, Jews, Arabs, and Gap

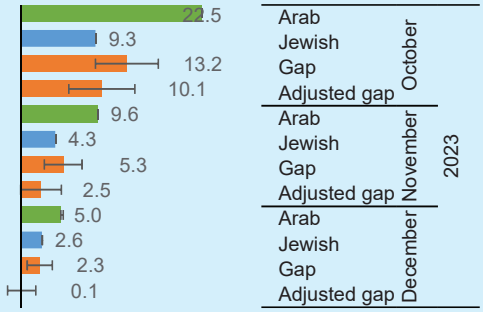
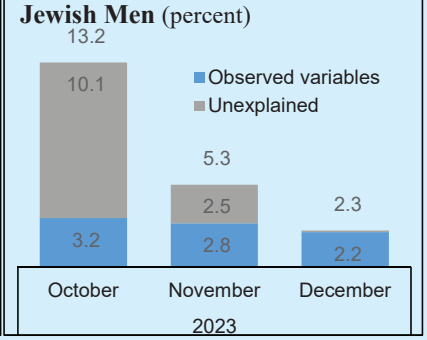


Figure 2b
Decomposition of the Absentee Rate Gaps between Arab and Jewish Men (percent)



Ages 15+, excl. eastern Jerusalem. "Adjusted gap" is the gap after controlling for individual characteristics, estimated by calculating the coefficient of the "Arab" variable (1= Arab, 0=Jewish) in a regression with the dependent variable of absenteeism for economic or other reasons, while controlling in the estimation for the observed variables: education, age, age squared, geographic district, belonging to the construction proximity industries, and academic occupation. The black horizontal lines are the confidence interval at a statistical significance of 95 percent.
SOURCE: Based on Central Bureau of Statistics.

physical interaction with customers is higher than in other sectors (Table 2).[12] The comparison shows that the decline in October in employment among Arabs employed in close-proximity industries in Jewish cities was larger than among Jews (44 percent versus 15 percent), while in other industries, the difference in the decline was much smaller (16 percent versus 10 percent). Underemployment among Arab men in close-proximity industries in Jewish cities continued in November and December, unlike in other industries. This is in contrast to employees as a whole in which there are no significant differences in the decline in excess employment among Arabs relative to Jews between close-proximity industries and other industries (Table 1 above). These findings suggest that concern about interaction between Jews and Arabs may have been a channel through which employment in Arab society was affected with the outbreak of the war. By the end of the year, this impact had diminished, but had not disappeared.

In conclusion, the analysis indicates that the employment of Arab men declined significantly with the outbreak of the war, but had almost fully recovered by the end of the year, settling at a level that is 5 percent lower than before the war. We found evidence suggesting that some of the excess impact at the beginning of the war resulted from reduced interaction between Jews and Arabs, a phenomenon that may have continued to some extent through November and December. Additionally, there was a significant return of Arab men to employment in the construction industry by the end of the year.

[12] The definition of "proximity industries" is based on Chapter 2 of the 2020 Bank of Israel Annual Report. It includes the following industries: transportation, storage, postal and courier services (H), accommodation and food services (I), education (P), art, entertainment and recreation (R), and other services (S). We also added the wholesale and retail industries; repair of motor vehicles and motorcycles (G), professional, scientific and technical services (M) and households as employers (T).

Table 2
Share of employment and change in the number of employed men in Jewish localities, ages 15+

(percent)

Industry	Population group	Share of employment in 2022	October	November	December
Proximity industries[a]	Arab	9	-44	-29	-16
	Jewish	26	-15	-6	-4
Other industries excl. construction	Arab	12	-16	3	6
	Jewish	25	-10	-5	-4

Excluding eastern Jerusalem.
[a] Based on the Central Bureau of Statistics Standard Industrial Classification, 2011. Includes: Transportation and storage, postal and courier services (H); Accommodation and food services (I); Repair of motor vehicles and motorcycles (G); Wholesale and retail trade (G); Professional, Scientific, and Technical Services (M); Education (P); Arts, entertainment, and recreation (R); Other services (S); and Households as employers (T).
SOURCE: Based on 2023 Labor Force Survey.

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5. WAGES AND LABOR COST

Due to the tight labor market at the beginning of the year, the rate of nominal wage growth remained high, a continuation of its upward trend in 2022. Given the slowdown in the inflation rate this year, real wages also increased, after declining in 2022 (see Figure 5.7). Wages in the private sector rose by a relatively moderate rate (see Table 5.4). Despite a decrease in workhours per employee, productivity grew at a faster rate than hourly wages, and the unit labor cost continued to decline (by 1.8 percent during the first three quarters of the year). These developments suggest that, as in previous years, the labor market is not among the factors contributing to rising inflation.

The minimum wage was increased in early April by about 5 percent, to NIS 5,572. This follows approximately five years (since December 2017) in which it remained at NIS 5,300 per month. The minimum wage is revised according to the Minimum Wage Law, which specifies that the minimum wage will be updated in April of every year to 47.5 percent of the average wage in the economy.[14,15] Therefore, the minimum wage is expected to increase in April 2024 by about 11 percent to NIS 5,880, which is 47.5 percent of the average wage in the economy for October to December 2023. The increase is significant for those earning the minimum wage who account for about 17 percent of salaried workers; however, it had only a small contribution to the rise in the average wage in the economy.

The wage agreements signed in the public sector this year are considered to be relatively restrictive.

In July, wage agreements were signed in the public sector after a long period of wage stagnation[16], contributing to the rise in salaries in public services and closing part of the gap—which had widened—between the public sector and the business sector (see Figure 5.8). Some components of the agreement were implemented even before signing, and advances were paid in some workplaces. The framework agreement included a gradual wage increase of about 11 percent on average by means of nominal wage increases (totaling NIS 500) and percentage increases (6 percent). The agreement also included shortening the workweek by two hours (thus increasing

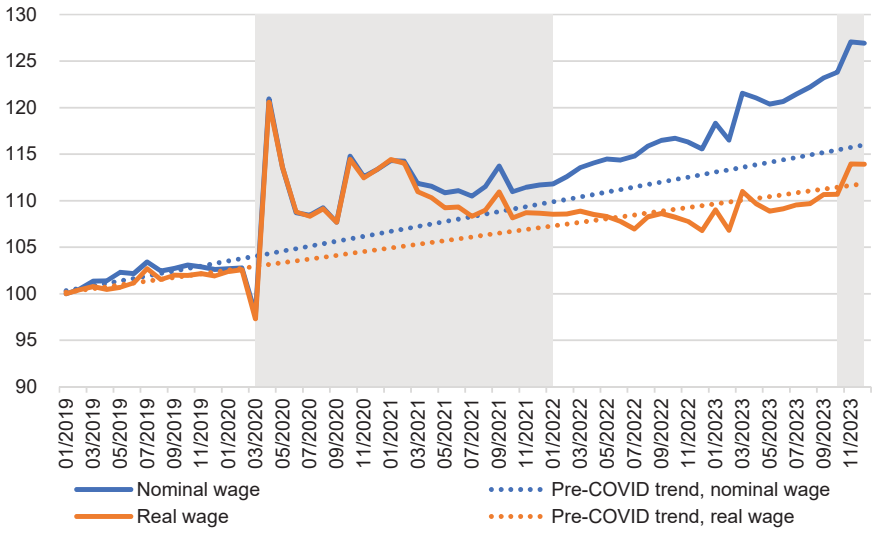
[14] The minimum wage is updated based on the average wage for employee posts, as calculated by the Central Bureau of Statistics and based on data from the National Insurance Institute. This calculation does not take into consideration the number of workhours per position. Because there are also part-time positions and people who have more than one job, the minimum wage for a full-time position is effectively set in relation to the average wage per position, where the average number of hours is less than in a full-time position. (The data for salaries and salaried positions do not include workhours. However, data from the Labor Force Survey show that the average workhours per employee is about 37—less than the full-time standard according to the Minimum Wage Law, which is 182 hours per month. Since the number of hours per position is less than workhours per employee, it can be inferred that the average workhours per position is less than that of a fulltime position.) The wage taken into account in calculating the increase is the average wage for the months of October to December 2022.

[15] Due to a series of adjustments (such as freezing the average wage or suspending the linkage to it or changing the minimum wage by means of a temporary directive), the minimum wage has hardly been updated according to the automatic adjustment mechanism since 2002. In the last two years, the minimum wage's linkage to the average wage was suspended due to the impact of the COVID-19 crisis on the labor market. (See Chapter 5 of the 2021 Bank of Israel Annual Report).

[16] The previous wage agreements were signed in 2016 and covered the years 2013–17. Negotiations for an additional agreement were frozen during the COVID-19 period.

hourly wages by approximately 4.5 percent[17]). In addition, employees received a one-time bonus of NIS 6,000 in April (the payment of which affected the rate of increase in the average wage this year; however, the effect was transitory, since as mentioned it was a one-time payment). The agreement was extended to other public entities, and its budgetary cost depends on assumptions about its indirect effects. Specific wage agreements were also signed this year with assistant kindergarten teachers, who were awarded a significant salary increase, as well as with teachers, doctors, nurses and other occupations. Most of these wage agreements are considered to be restrained. Even after implementing the agreements, real wages in public services are not expected to rise much, if at all. This means that the gap between the sectors is not expected to narrow significantly. This may have implications for the public sector's ability to attract high-quality human capital.

Figure 5.7
Index of Average Wage per Employee Post, 2019–2023 (index: January 2019=100, seasonally adjusted monthly data, Israeli employees only)

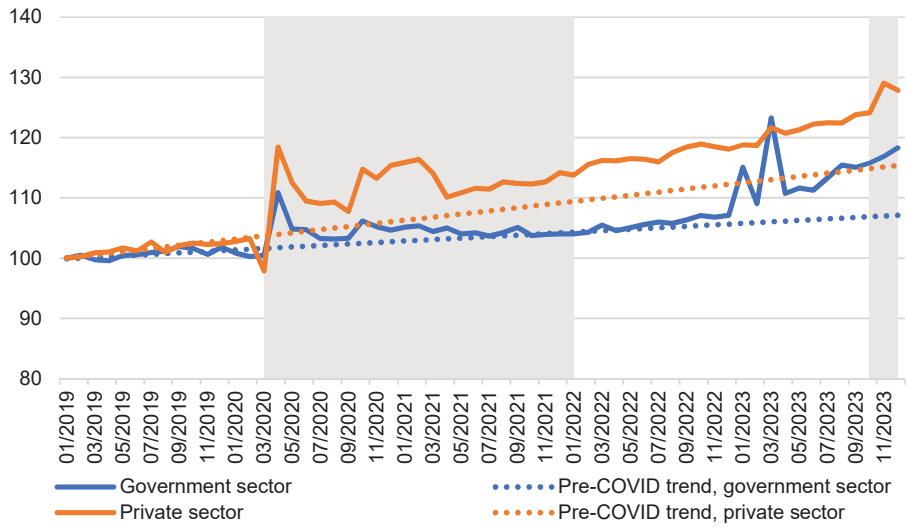


The trend lines relate to the trend prior to COVID-19 (January 2018–February 2020). The data during the COVID-19 period (March 2020–January 2022) and during the war (October–December 2023) were significantly affected by the change in the composition of positions.

SOURCE: Based on Central Bureau of Statistics.

[17] Fulltime employees worked about 42 hours per week before the reduction. Employees who are paid on an hourly basis will receive a similar increase of approximately 5 percent in their hourly wage upon full implementation of the agreement.

Figure 5.8
Index of Nominal Wage per Employee Post in the Private and Government Sectors, 2019–2023 (index: January 2019=100, seasonally adjusted monthly data, Israeli employees only)



The trend lines relate to the trend prior to COVID-19 (January 2018–February 2020). The data during the COVID-19 period (March 2020–January 2022) and during the war (October–December 2023) were significantly affected by the change in the composition of positions.

SOURCE: Based on Central Bureau of Statistics.

Table 5.4

Rate of change in wages and employee posts, 2023 relative to 2022[a]

(percent)

Industry	Nominal wage	Real wage	Total positions	
			2023:Q1–Q3	2023:Q4
Total economy[b]	6.6	2.3	2.6	-4.9
Israelis	6.3	2.0	2.4	-3.1
Government sector	8.5	4.1	3.1	1.8
Private sector	5.1	0.8	3.8	-2.1
Agriculture, forestry and fishing[b,c]	7.7	3.3	-1.1	-15.2
Israelis	5.8	1.5	-1.3	-1.4
Mining and quarrying	5.9	1.7	0.7	-0.7
Manufacturing	7.4	3.1	0.2	-2.0
Electricity and water supply	6.9	2.5	0.6	0.3
Construction[b,c]	7.7	3.3	4.7	-23.9
Israelis	5.6	1.3	2.9	-4.8
Wholesale and retail trade	3.9	-0.3	0.3	-6.4
Transport, storage, postal, and courier services	8.3	4.0	2.0	-4.8
Accommodation and food services	5.9	1.7	5.0	-19.2
Information and communications	6.2	1.9	2.0	-1.3
Financial and insurance services	3.8	-0.5	2.7	-0.5
Real estate activity	4.5	0.3	1.7	-3.6
Professional, scientific, and technical services	5.9	1.6	2.2	-4.3
Management and support services	9.0	4.6	0.1	-7.2
Local administraion, public administration, and defense	8.4	4.0	0.8	2.0
Education	9.3	4.8	4.0	1.8
Health, social work, and residential care	4.2	-0.0	4.3	3.5
Arts, entertainment, and recreation	8.1	3.7	4.2	-14.1
Other services	5.0	0.8	5.1	-3.4

[a] Seasonally adjusted data, Israelis only unless otherwise stated.

[b] Including foreign workers and Palestinians

[3] Original data

SOURCE: Based on Central Bureau of Statistics.