



# What lies ahead in 2018?

## Israel should be ready for unexpected economic developments

**IN THE** Talmud's Ethics of our Fathers, Akavia son of Mahalalel counsels us to "know where you came from and know where you are going." The new civil year 2018 is a good time to try to follow his advice. But knowing what happened last year is hugely easier than predicting 2018.

### 2017

In her wonderful 2000 book, "My Grandfather's Blessings," family physician Rachel Naomi Reman dedicates it to "those who are given more blessings than they receive." This is a subtle way of telling us that we all get blessings but tend to take many of them for granted.

For 2017, Israel's economy did rather well, despite the turmoil on its borders and in the Middle East – a blessing sometimes undervalued.

According to the Bank of Israel's research department, gross domestic product (GDP) grew by an estimated 3.1% – down from 4.0% in 2016 but well above that of the OECD (developed nations) average.

The year 2017 was an economic rollercoaster. GDP grew by a meager 0.9% (annualized) in the first three months, 2.5% in the next three months, and a torrid 4.1% in the third (and possibly fourth) quarters.

The main growth drivers were private and public consumption and exports, in contrast with 2016, when growth was propelled mainly by personal consumption, as optimistic citizens spent and borrowed. Capital investment grew by a healthy 11.2% in 2016, but apparently did not grow at all in 2017.

In 2017, growth in exports (4.5%) outpaced growth in imports (2.5%), unlike

in 2016, when a large increase in imports (8.1%) and very low growth in exports (1.1%) led to a rise in Israel's import surplus. The trade deficit (imports minus exports) for 2017 was about \$15 billion.

Unemployment in 2017 averaged a low 3.5% of the work force, down from 4.1% in 2016, leading the Bank of Israel to note that the labor market is now close to full employment. For 2017 inflation was zero, while in 2016 the consumer price index fell by 0.3%. Bank of Israel's interest rate remains at a low 0.1%.

Business confidence declined in November after reaching an all-time high in August. Consumer confidence also declined somewhat in November but remained close to its all-time high, reached in October.

In financial markets, US stock markets boomed; the Standard & Poor's 500 Index (S&P 500) rose 18% in 2017 and the Dow Jones Industrial Average rose by 25.5%. Many Israelis sent money abroad to share in the gains, even though the Tel Aviv Stock Exchange 100 also rose strongly by 18% in 2017.

After slowing in 2016, the number of high-tech exits in 2017 more than doubled, even excluding two huge exits (the \$15b. sale of Mobileye to Intel and Mitsubishi's \$1.1b. purchase of NeuroDerm). Exits and initial public offerings of shares – the two ways venture capital funds cash in their investments – reached \$7.4b. in 2017, up 110% from last year. The average exit was worth \$106m. Much of the exit activity came in the second half of 2017, suggesting it will continue through 2018. Many Israeli companies chose stock exchanges in Sweden, Singapore, Australia and Britain for their



initial offerings, rather than the traditional choice of NASDAQ.

For the first 9 months of 2017, housing starts fell below an annual pace of 50,000, regarded by the Finance Ministry as minimal to halt the steep rise in housing prices. Perhaps some investors preferred to put their money in the torrid stock market, cooling demand for housing.

The year 2017 saw 29,000 *olim hadashim* (new immigrants) immigrate to Israel, almost half of them from Russia (7,046) and the Ukraine (6,881), up from 27,000 in 2016, but down from 31,000 in 2015.

Globally, the most impactful trend was that of migration. According to UN data, fully one person in every 25 in the world, or 285 million people, are now migrants. Two-thirds of them, or 165 million, live in developed countries. Some 50 million migrants now live in the US. In Israel there are an estimated 150,000 migrants from Africa, most of whom came through Egypt and Sinai.

While Germany initially welcomed migrants – and has the third largest number of them in the world – partly in order to offset a labor shortage driven by low birth rates, this policy has now changed. In general, the European Union has been torn by conflict over its migrant policy. Globally, dealing with migrants will continue to be a hotly controversial issue.



Thousands take part in a protest against alleged government corruption, in Tel Aviv, on December 2, 2017

AMIR COHEN / REUTERS

## 2018

What does 2018 hold in store?

Bank of Israel economists forecast slightly higher growth, 3.3%, in GDP, with growth drivers changing to a very balanced combination of private spending, capital spending and exports. Imports are predicted to climb strongly again, at 8%. Bank of Israel interest rates will rise slightly, to 0.25%, reflecting higher interest rates in the US.

Exports are expected to rise faster than imports, leading to a reduced trade deficit of under \$10 billion.

As a very open economy, Israel depends crucially on world trade and growth. Here, there is good news. Globally, according to investment bank Goldman Sachs's Chief Economist Jan Hatzius, "the global economic environment heading into 2018 is about as good as it gets." He thinks global growth will reach 4% next year, because there will be simultaneous synchronized expansion across both developed and emerging markets. World trade is predicted to grow by 3.9% in 2018, after growing 4.5% in 2017.

Will Israeli hi-tech be ready to take advantage of a rare opportunity? In 2018, according to most experts, both developed and developing economies – the US, Europe and Asia – will be accelerating. This synchronized growth can act as an amplifi-

er, as demand in the West spreads to the East and vice versa. Hopefully Israeli exporters will be ready to leverage this synchronous growth.

Dr. Michel Strawczynski, director of research at the Bank of Israel, notes that despite higher job vacancies and rising wages, inflation has not yet reacted to the tight labor market. Former Bank of Israel Governor Stanley Fischer told Fox Business News that globally, inflation will eventually rise, though it may take some time. Economic processes are inexorable, he observed, though they are sometimes slow.

As always, national security ranks high on the list of 'fog factors' for 2018. Tension in the West Bank and Gaza could lead to violence. According to the global peace rankings (Institute for Economics and Peace), Israel ranks 144 out of 169, slightly above North Korea and Lebanon. Syria is, of course, dead last; Iceland is the world's most peaceful country.

What are the main risks? The unbridled optimism for the world economy stands in stark contrast to the turmoil in international politics. For 25 years, after the Soviet Union collapsed in 1991, the US acted like a Wild West town marshal, whose good intentions for keeping order in the world created some stability, despite highly flawed interventions in Iraq and Afghanistan. Today, under

President Trump, Sheriff Uncle Sam has turned in its badge. China and Russia each vie for primacy and influence, filling the vacuum the US has created. This bodes ill for the world. Entrepreneurs and business leaders will need to spend much more time analyzing turbulent politics as best they can than worrying about markets and economics.

In 2008, facing corruption charges, Prime Minister Ehud Olmert resigned. Now a decade later, Prime Minister Netanyahu, too, will likely be indicted but he will not make Olmert's mistake. Indictment? So what! Netanyahu says. He will remain in power to complete his fourth term, using the leverage and the soap box his position gives him to continue to plead "witch hunt."

Hence for another year or more, perhaps until national elections in 2019, Israel's leader and his cabinet will be preoccupied with Netanyahu's court case, and persistent Rothschild Boulevard protests, leaving vital policy issues neglected or forgotten. I wonder whether the benign neglect of an incompetent cabinet may be preferable to the clumsy anti-democratic interventions that recent government legislation has sponsored.

Voltaire once wrote that doubt is uncomfortable but certainty is absurd. For us workers and managers alike, living in an increasingly doubtful and uncertain world, we will each need resilience and agility to deal with the numerous unpredictable crises that doubtless lie ahead. ■

*The writer is senior research fellow at the S. Neaman Institute, Technion and blogs at [www.timnovate.wordpress.com](http://www.timnovate.wordpress.com)*