ISRAELI ECONOMY CONTINUES TO EXPAND

By Sherwin Pomerantz, August 21, 2018

Since its founding in 1948, Israel's population has surged from 806,000 to 8.84 million, and the state has absorbed some 3.2 million immigrants over those years as well.

Economically, over the past 20 years, Israel's governments have adhered to a policy of fiscal restraint that gives the nation credibility with foreign investors and lowers financial costs. Moody's and S&P recently raised long range economic forecasts to "positive" with annual economic growth expected to surpass 3% for the foreseeable future.

Coupled with its responsible fiscal approach, the country has also become a world high tech power. In the 20-year period 1997-2017, 16,000 high-tech companies were set up, of which 8,000 are currently active. The nation has 505 cybersecurity companies, which have raised some $5.6 billion (by some accounts this represents 2/3 of worldwide investment into cybertech R&D over the last few years making Israel a major center of such development). In addition, there are 1,487 life sciences companies operating here that have raised $13.5 billion.

According to data recently released by the IVC Research Center, over the course of its history, Israel has had $143 billion worth of exits, of which $132 billion were mergers and acquisitions and $11 billion were initial public offerings. Just this week Pepsico agreed to purchase Israel's SodaStream for $3.2 billion in cash, among the largest buyouts in Israeli history. So the saga continues.

Israeli venture capital funds raised some $20 billion in 1997-2017 and the industry has some 1,800 female high-tech entrepreneurs, of which 490 are active CEOs and entrepreneurs. Add to that the 365 currently active foreign R&D centers in Israel as well as the 356 currently active Israeli incubators and accelerators and it becomes clear why the country is known far-and-wide as the Start-up Nation.

Israel had a gross domestic product (GDP) per capita of some $5,000 when the state was established in May 1948. The Gross Domestic Product per capita in Israel was US$38,427 in 2017, when adjusted for purchasing power parity (PPP). The GDP per Capita, in Israel, when adjusted for Purchasing Power Parity is equivalent to 187 percent of the world's average. GDP per capita PPP in Israel averaged US$26,787 from 1990 until 2017, reaching an all-time high in 2017 against a record low of US$19,760 in 1990. Today's GDP per capita today is, therefore, close to the median of other developed OECD countries, according to data compiled by the Bank of Israel.

Israel's economy grew 3.4% in 2017, and has averaged 3.3% annual growth since 2000, higher than in many OECD countries, partly driven by strong population growth as well (Israel is one of the few countries in the West whose birth rate is well above replacement levels). The economies of OECD countries, by contrast, grew at an average rate of 2.4% in 2017, while growth in the US was 2.3% for the same period.

Israeli tech companies raised a record $5.2 billion in 2017 and there were $23 billion worth of company exits, defined as merger and acquisition deals and initial public offering of shares. As well, some 94 Israeli companies are listed on the NASDAQ exchange.

In spite of its smallness, (the country is about the size of the State of New Jersey) Israel has emerged as a regional economic power, and remains an attractive destination for exports from foreign countries

In 2017 Israel imported approximately US$55 billion worth of products.

-Consumer goods imports were US$13.7 billion (24% furniture & electronic equipment, 19% food and beverages, 16% clothing and footwear, and 14% transportation equipment).

-Raw Material imports were US$28.5 billion (36% for machines and the electronics industry with 17% for the chemical industry).

-Investment Goods imports were US$12.1 billion (70% machinery and equipment, 16% passenger cars and 13% trucks, pickups and buses).

Regarding current market potential, as consumers, Israelis respond to advertising and branding. Shopping is a popular pastime and Israelis are interested in purchasing quality items, even if that means paying a higher, albeit reasonable, price. After-sales services and warranties are also mandatory, as Israeli consumers consider warranties to be a guarantee of the quality of the product. Israelis have a high purchasing power that is partly limited by soaring housing prices in the country. Nonetheless, consumer price inflation remains below official targets (0.2% in 2017 while the official target was between 1-3%), as part of the Israeli government measures to cut costs of living, which in return favor internal market dynamics.

Israeli consumers also like new products. Israeli legislation promotes national products but Israeli consumers are also quite interested in online shopping. According to the Israel Internet Association, 75% of Israelis (95% of total Internet users) shop online, making them the most connected shoppers in the world. Furthermore, 79% of online Israeli shoppers have made purchases from foreign websites, according to a study conducted by PayPal and Ipsos.

In short, Israel remains an interesting and exciting market for continued development and it is in the interests of foreign exporters to be open minded about opportunities here.