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The Israeli Labor Market 2025: From Strategic Dangers to Technological Ones

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The Israeli Labor Market 2025: From Strategic Dangers to Technological Ones

Michael Debowy, Gil S. Epstein, and Avi Weiss

Introduction

The longest war in Israel's history ended not long ago. The outbreak of the war had far-reaching effects on the Israeli economy and on the labor market. After a brief uptick in unemployment at the beginning of the war, the labor market tightened and unemployment began to decline, alongside two additional developments: a reduction in the number of hours worked and an increase in wages. Over the past year, these trends have slowed: while the unemployment rate continued to fall, the number of hours worked stabilized, and a slight decrease in average wages was recorded — including a decline in wages in the high-productivity high-tech services sector. At the same time, during the prolonged war and its aftermath, residents of border communities and mobilized reservists suffered, and continue to suffer, repeated disruptions to their employment in addition to a host of personal issues that may have long-term effects on their employment prospects. Beyond the war, other factors also affected the Israeli economy, including demographic changes (driven by sectoral gaps in employment and education), international trade shocks, and technological changes.

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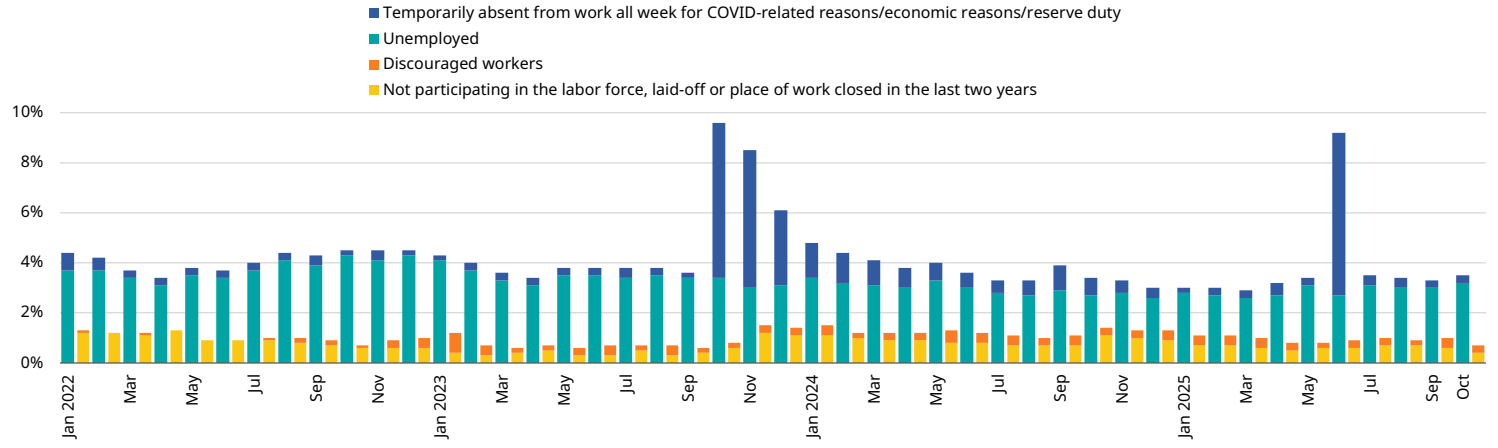
In this chapter, we review the labor market following a war that lasted more than two years, and we discuss the state of the labor market in light of the trends of the past decade and in light of technological changes expected to shape the future. We begin by presenting aggregate unemployment and wage data and their trends relative to previous years and relative to other countries. We also discuss labor productivity in Israel, which is low by international comparison, and the factors influencing it. We then detail trends in employment, hours worked, and wages by economic sector, and describe differences in employment across demographic and geographic groups, including selected reasons for non-employment and for absence from work. Next, we discuss the impact of technological transformations on Israel's labor market, with particular focus on the artificial intelligence revolution. Finally, we consider possible implications of the current labor market situation and present projections regarding its future.

Unemployment, employment, and wages

Figure 1 presents the unemployment rate alongside non-employment for selected reasons since early 2022. During the COVID-19 crisis, the definition of unemployment was expanded to include workers who were placed on unpaid leave (or were absent from work for another COVID-related reason) and individuals who left the labor force due to COVID-19. These categories were adjusted at the end of the crisis, and as of May 2022 included workers absent from work for economic reasons or individuals who had left the labor force due to layoffs or business closures in the previous two years. With the outbreak of the war, the definition was updated again so that workers temporarily absent due to reserve duty would also be included in the broad unemployment rate.

Figure 1. The share of those unemployed



Note: The rates shown relate to two different populations. The blue columns represent the share out of the population that participates in the labor force, while the yellow columns represent the share out of the population that does not participate in the labor force.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

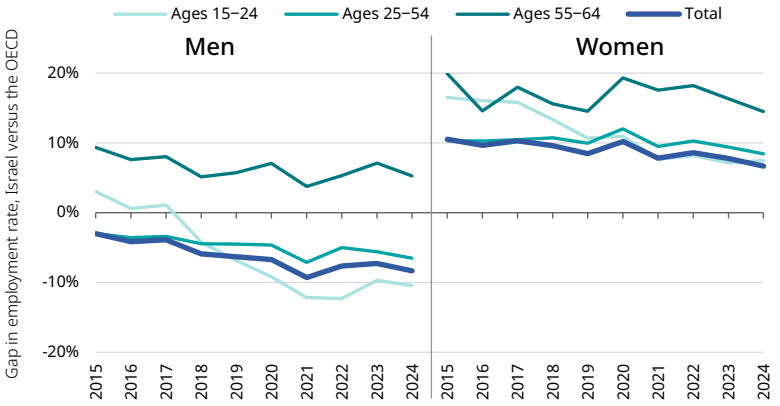
Prior to the outbreak of the war, Israel enjoyed historically low unemployment rates, and since the war began this rate has continued to decline, reaching its lowest level in five decades. Between January and September 2025, the unemployment rate averaged 2.9%, with an additional 0.3% temporarily absent for economic reasons or war-related reasons — a decrease of 0.3 and 0.6 percentage points, respectively, compared with the same period in 2024.[1] The tightening of the labor market during a prolonged, large-scale war is familiar from other examples around the world — such as Russia today or the United States during World War II — and reflects both the decline in available labor (a shock to the supply of workers) and the surge in demand for workers in the public sector and in defense industries.[2]

Despite this wartime tightening, Israel's low unemployment rate does not necessarily translate into a high employment rate when compared to other high-income countries (Figure 2): the employment rate of men aged 15–64 in Israel is about 8% lower than the average in high-income countries, while that of women is about 7% higher. A decade ago, Israeli men lagged by only 3%, but economic, geographic, and demographic factors have pushed the employment rate of Israeli men downward relative to their OECD counterparts. Similarly, a decade ago the employment rate of Israeli women exceeded the OECD average by 11%, yet improvements in women's employment in other high-income countries have narrowed this advantage.

1 The figure for temporary absence from work does not include June 2025, due to a sharp rise in absences in that month following Operation Rising Lion (*Am Kelavi*). If June is included, the temporary absence rate in January–September 2025 is identical to that of the same period in 2024.

2 Unlike the examples mentioned (the US and Russia), Israel's defense industries produce a smaller share of the defense equipment consumed by the state, so the rise in demand for such equipment does not necessarily translate into increased hiring in these industries. Even so, during the war there was an observed increase in employment in public sector industries, suggesting that changes in public expenditure played a role in tightening the labor market.

Figure 2. The gap in the employment rate between Israel and the OECD country average, by gender and age



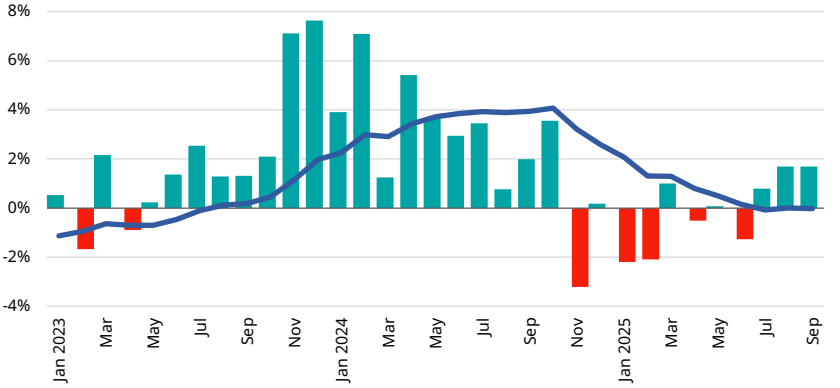
Note: The gap shown is the percentage difference between the employment rates reported in Israel and the OECD average.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: OECD

Despite the low unemployment rate, the past year saw a reversal of the wage increases of the previous two years and a real decline in employee earnings. Figure 3 presents the annual change in average monthly earnings over the past three years (in constant prices). In January–June 2025, the average wage in the economy (about NIS 13,600) was roughly 0.8% lower, on average, than in the same period in 2024. National accounts data indicate, at least for the first half of the year, that the annual decline in wages was driven by a sharper drop in output per hour worked, whose impact on wages was muted by an increase in hours worked.[3] As shown below, the aggregate decline in wages (alongside the rise in hours worked) was echoed across most industries, such that in the first half of 2025 the average Israeli worked more hours than in the first half of 2024, for lower pay.

3 According to national accounts data, real compensation per job fell by about 0.4% between the first half of 2024 and the first half of 2025, while real output per worker per hour declined by about 0.7% and hours worked rose by about 0.3%; the ratio of output to compensation per job remained unchanged.

Figure 3. Annual change in average wages for employed persons
Constant prices



Note: Including paid employees temporarily absent from work.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

Alongside the decline in employee wages, there was a slight increase in the share of self-employed workers in the economy, which stood at about 12%–13% in 2024 — an increase of 2% from the previous year and 5% from 2014. This rise stems almost entirely from the growing share of small independent workers who do not employ salaried workers, whose share is approaching three-quarters of all self-employed individuals. This trend likely reflects, among other factors, the growing ease of starting a business in the information-technology era, changes in individual preferences and entrepreneurial culture, and adjustments to shifts in wage employment opportunities. Still, it is important to note that this is a limited-scale trend; although the long-term change in the share and composition of the self-employed is consistent, it remains modest in magnitude.

In summary, one can say that wartime conditions pushed unemployment to an unprecedented low, though this has not yet manifested in higher employment relative to other high-income countries. At the same time, the decline in wages (alongside the stall in the decline in hours worked) is cause for concern, especially given the previous pattern of year-to-year wage increases

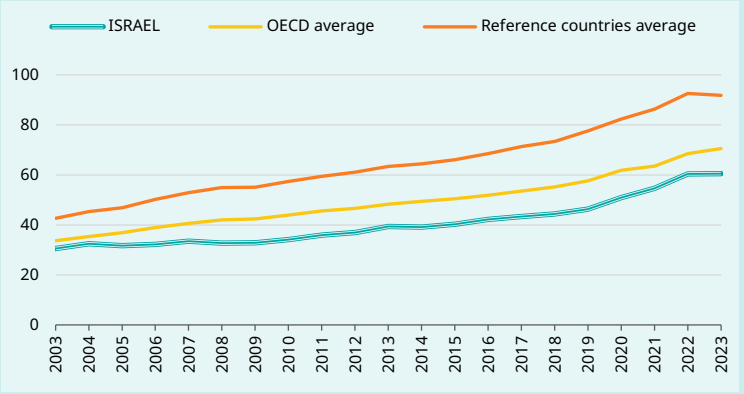
and steadily falling hours. If these developments signal a decline in Israeli productivity — due to the protracted war, global trade shocks, or technological changes — then the future of employment in Israel may challenge workers more than expected. Yet it is too early to determine whether this reflects a structural shift or a temporary shock, and, in any case, the aggregate trends mask substantial variation across industries, population groups, and regions of the country. We now turn to these differences.

SPOTLIGHT

Labor Productivity in Israel in International Comparison

Labor productivity in Israel is not high by international standards, and Israel's relatively high standard of living is largely the result of a high employment rate and long working hours (especially among women). The low productivity of Israeli workers is evident across several indicators, the most prominent of which is output per hour worked, which has been consistently below the OECD average since the beginning of the century, as shown in Figure 4. Particularly notable is the widening gap between Israel and other high-income, similar countries such as Austria, Denmark, Finland, the Netherlands, and Sweden (hereafter "the reference countries"). For example, while Israeli output per hour worked grew by just under 100% between 2003 and 2023, in the reference countries it increased over the same period by an average of 115%.

Figure 4. Productivity per work hour, Israel and reference countries
PPP dollars, current prices



Note: Reference countries are Austria, Denmark, Finland, the Netherlands, and Sweden.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

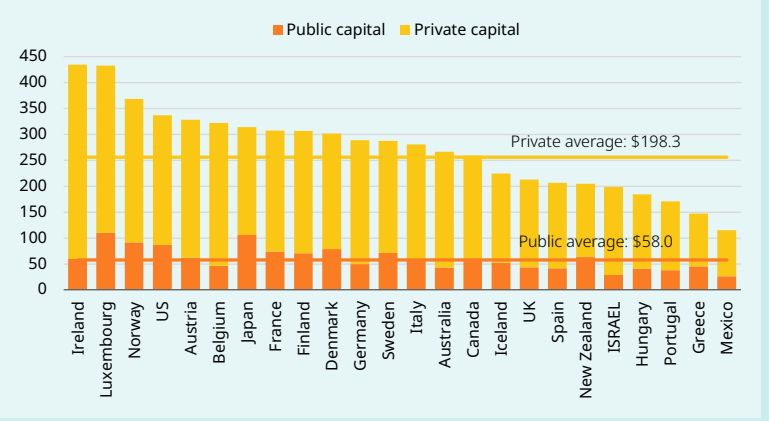
Israel's low labor productivity has many sources, far too many to examine in depth here. For the purposes of this section, we focus on three key factors highlighted by Israeli researchers in recent years: the shortage of private and, more importantly, public capital in Israel; the population's relatively low level of human capital; and the low level of competition in the business sector due to the relative difficulty of doing business in Israel compared

with other high-income countries.[4] We begin with an analysis of Israel's private and public capital stock relative to other countries.

In economics, capital — alongside labor — is typically viewed as one of the main factors of production. Capital includes equipment, machinery, buildings, vehicles, information-technology assets, and other fixed assets used by workers in the production process. Researchers have identified Israel's capital shortage as a factor that negatively affects labor productivity, especially the shortage of public capital such as transportation and energy infrastructure (Bental & Debowy, in preparation; Eckstein et al., 2019; Sarel, 2021). Figure 5 presents the capital stock per worker in selected OECD countries, divided into private capital and public capital. It is evident that Israel's total capital stock is below the average in high-income countries, and its public capital stock is exceptionally low.

4 Beyond these three channels, another possible factor contributing to the gap between Israel and other countries in output per hour worked is the high number of working hours (and, more broadly, Israel's unusually high labor input, consisting of both a high employment rate and a high number of hours per employed person). Due to diminishing marginal returns to labor, there is a negative cross-country correlation between average working hours and average labor productivity (World Economic Forum, 2016). We refrain from delving into this issue because endogeneity makes it difficult to estimate the causal relationship between labor productivity and hours worked.

Figure 5. Capital stock per worker (estimate), Israel and selected countries, 2024
PPP dollars, 2017 prices



Note: The ratio shown between private and public capital refers to 2019 and does not reflect any subsequent changes, if such occurred; this is because the most recent data on the capital stock by private and public ownership are for 2019. The figure shown is based on an estimate of the 2024 capital stock derived from the 2019 capital stock and from each country's gross fixed capital formation data through 2023.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: IMF; OECD

The meaning of the figure is that, in carrying out their work, the equipment and resources available to the Israeli worker are more limited than those available to their counterparts in other high-income countries, and the gap between them is larger than

the gap in output per hour worked.[5] As noted, the disparity is particularly large in public infrastructure (where Israel's relative stock is slightly above half of the OECD average), and it is likely that this relative shortage harms productivity — whether by worker burnout and a less effective use of working time, or by inflating additional production costs that depend on public infrastructure, such as transportation, energy, and communications. Overall, closing the capital gap (private and public) between Israel and other high-income countries may reduce the productivity gap by about half (see Bental & Shami, in this volume), and focusing on public infrastructure is expected to have especially large effects (Eckstein et al., 2022).

In addition to physical capital, both private and public, labor productivity naturally also derives from workers' level of human capital, consisting of their set of skills, knowledge, and competencies.[6] A cross-country comparison shows that the level of human capital in Israel is lower than the average among high-income countries, despite the fact that in formal terms Israel is among the most educated countries in the world.[7] The OECD's Survey of Adult Skills (PIAAC), whose second round (conducted in 2022–2023) was published this year, assesses adults' foundational

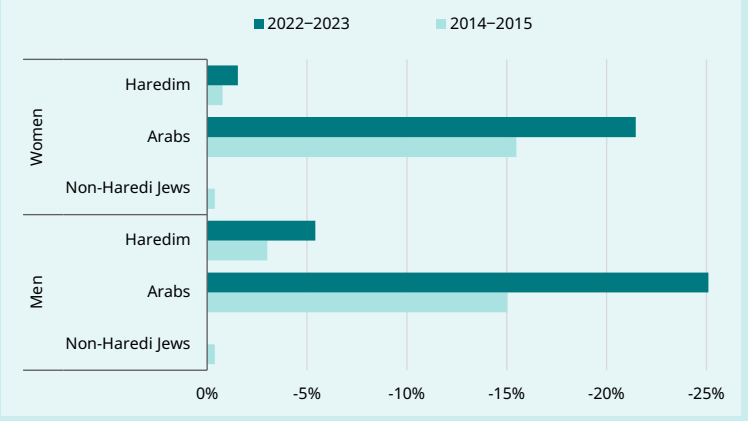
5 In 2023, the gap in productivity per work hour between Israel and the OECD countries was about 14%, while the gap in overall capital stock per worker was about 23%.

6 For a review of the term *human capital* and its definition, see Goldin, 2019. For a review of the various skill components of human capital and their relation to economic returns, see Woessmann, 2024. For a review of the relation between human capital and economic growth, see Osiobe, 2019.

7 The share of men and women between the ages of 25 and 64 in Israel with a tertiary certificate (academic or non-academic) was a little over 50% in 2022, versus only about 40% in the OECD. In addition, the share of 25–64-year-olds in Israel who did not complete high school was about 12% versus an OECD average of about 20%. See the OECD website, Education Attainment.

skills in each country in literacy and numeracy, with adaptive problem-solving added in the latest round. In all three domains, the average Israeli level was roughly 0.3 standard deviations below that of the average OECD counterpart, and among the Arab population the gap was especially pronounced, reaching a full standard deviation. Additional gaps appear between the Haredi population — particularly Haredi men — and other Jews. Figure 6 presents, for example, the level of literacy skills compared to the OECD average by gender and population group in each survey round. One can observe that the gaps between the Arab and Haredi populations and other Jews (and the OECD average) widened between rounds; a similar pattern also appears in numeracy (Appendix Figure 1).

Figure 6. Skill gap of Israeli adults in literacy relative to the OECD average, 2014–2015 versus 2022–2023, by gender and population sector



Note: The gap is calculated for each group relative to the OECD average for each gender group.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

It is reasonable to assume that the low foundational skills observed among the Arab population and Haredi men stem largely from gaps in the quantity and quality of education between these groups and the rest of the population in Israel, arising in part from funding disparities and structural differences across the sector education systems.[8] However, even after excluding Arabs and Haredim, the skill level of other Israelis is similar to the OECD average, despite Israelis being more formally educated than their counterparts in other high-income countries. Workers' skills are also influenced by vocational training — an area in which Israel stands out negatively among high-income countries (State Comptroller, 2021).

In addition to physical and human capital, Israeli labor productivity is also determined by the efficiency of business processes through which human and physical capital are matched to create value. This efficiency is reflected in aggregate in the economy's dynamism and competitiveness, and is influenced by the quality of regulation associated with doing business. In international comparison, Israel's regulatory ease of doing business is similar to the OECD average, although Israel stands out negatively on several key components of the composite index — most notably the difficulty of contract enforcement and the difficulty of registering property (Appendix Figure 2). Improving Israeli regulation through measures such as digitizing and automating bureaucracy, along with reforms in standards and the adoption of foreign (international) standards where possible, is expected to help raise the ease of doing business and, through it, labor productivity (Bank of Israel, 2019).

8 For an analysis of budgeting gaps between the Hebrew and Arab education state systems, see Blass and Bleikh, 2024, 2025. For a review of characteristics of the Haredi education system, see Shahino Kessler, 2024.

To conclude, we note that Israel stands out negatively among high-income countries in its low labor productivity, which results from numerous factors (including some not discussed here). However, public policy has a decisive impact on the productivity drivers enumerated above. In particular, public investment in physical infrastructure, education, and vocational training — together with improved regulation as described here — has real potential to close the productivity gap with wealthier countries and to raise the standard of living in Israel. Beyond their direct impact, public investments in these areas are also likely to have indirect effects through private incentives. For example, public investment in physical infrastructure will increase the return to private investment in physical capital (and, indirectly, possibly also in human capital), thereby encouraging greater private investment. Ultimately, the challenge posed by Israel's low labor productivity is also an opportunity for targeted investments that can raise the country's standard of living.

Employment, work hours, and wages by industry sector

Table 1 presents the change in the number of employed persons in the various industries of the economy up to September 2025, compared with the same quarter in 2022, 2023, and 2024. At the end of each column appears the industry's share (in percent) of total employment in the economy during the first three quarters of 2025. Between the first half of 2024 and the first half of 2025, the number of employed persons in the economy increased by about 79,000 — an improvement compared with the increase of only 33,000 between 2023 and 2024, but modest relative to the rise of more than 165,000 jobs between 2022 and 2023. Most of the growth in employment occurred in public sector industries (about 60,000 more employed persons in the first half of 2025 than in 2024), construction (21,000), and traditional manufacturing (14,000). By contrast, several industries experienced a substantial decline in the number of employed persons, including trade (about 16,000 fewer in the first half of 2025 than in 2024), accommodation and food services (12,000), and information and communications (14,000, excluding high-tech).

Table 1. Change in the number of employed persons, 2025 versus 2022, 2023, and 2024, by industry sector

Quarter	2025/2022			2025/2023			2025/2024			Share of labor market 2025
	1	2	3	1	2	3	1	2	3	
TOTAL LABOR MARKET	7%	7%	5%	3%	2%	2%	2%	2%	1%	100%
Agriculture, forestry, fishing	0%	-1%	3%	1%	-3%	-4%	7%	-4%	-5%	1%
Manufacturing (excl. paid employees in high-tech); mining, quarrying	-2%	-2%	2%	1%	2%	-2%	-1%	10%	-1%	7%
Electricity supply, gas, steam, air-conditioning	-28%	-12%	-20%	-13%	-2%	-17%	-18%	-25%	-19%	0.3%
Water supply; waste and refuse disposal	8%	-4%	6%	4%	-1%	3%	-11%	11%	18%	0.4%
Construction	18%	17%	24%	12%	9%	22%	13%	5%	11%	6%
Wholesale/retail trade (excl. diamonds); vehicle repair	11%	0%	-4%	3%	-9%	-1%	0%	-7%	-3%	10%
Transportation, storage, postal, and courier services	19%	10%	4%	1%	0%	-4%	-3%	-1%	-3%	4%
Accommodation and food services	0%	-11%	-1%	-17%	-17%	0%	-3%	-11%	11%	4%
Information and communication (excl. paid employees in high-tech)	-37%	-5%	5%	-48%	-27%	-11%	-32%	-19%	6%	1%
Financial and insurance services	14%	2%	-12%	12%	-7%	-6%	4%	1%	-6%	3%
Real estate	38%	23%	16%	13%	31%	48%	6%	14%	20%	1%

Table 1 (continued). Change in the number of employed persons, 2025 versus 2022, 2023, and 2024, by industry sector

Quarter	2025/2022			2025/2023			2025/2024			Share of labor market 2025
	1	2	3	1	2	3	1	2	3	
Professional, scientific, and technical services	-2%	3%	-2%	-3%	0%	-4%	1%	-3%	-6%	6%
Administrative and support services	14%	-1%	-8%	10%	-4%	-12%	4%	0%	-5%	4%
Local, public, security administration; NII	2%	8%	8%	7%	8%	2%	9%	5%	-1%	10%
Education	13%	15%	15%	7%	11%	8%	3%	6%	3%	13%
Health, welfare, social work services	7%	13%	11%	8%	9%	4%	0%	2%	-1%	12%
Arts, entertainment, recreation	7%	14%	6%	0%	20%	14%	3%	14%	11%	2%
Other services	27%	31%	12%	4%	13%	16%	-7%	7%	8%	3%
Household employment	-12%	-15%	-8%	-6%	-6%	-13%	9%	-2%	4%	1%
Extra-territorial organizations	-14%	-2%	40%	-48%	-9%	-10%	-20%	-2%	-3%	0.04%
Unknown industry sector	0%	16%	34%	-2%	22%	10%	14%	14%	15%	3%
High-tech services (paid employees only)	4%	3%	1%	0%	0%	0%	2%	1%	1%	6.5%
High-tech manufacturing (paid employees only)	7%	6%	6%	3%	3%	3%	0%	0%	0%	2.5%

Note: The values in the right column represent the percent of employed persons in the sector out of all employed persons in the labor force in January to June 2025.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

Alongside the change in the number of employed persons, there were also shifts in the number of hours worked by employees across industries. In general, the downward trend in working hours — which accelerated sharply with the outbreak of the war — was temporarily halted in the first half of the year, and the average number of working hours at the beginning of 2025 exceeded its 2024 level (Table 2). However, later in the year, the decline in working hours resumed, such that on average over the first three quarters of 2025, the average Israeli employee worked the same number of weekly hours as in the corresponding period of 2024 — 35 hours per week. Nonetheless, in several industries an increase in working hours was observed over the past year. These include administrative and support services (slightly more than one additional weekly hour in 2025 compared with 2024), accommodation and food services (slightly less than one additional hour), and information and communications (which includes most high-tech services; slightly more than half an additional weekly hour in 2025 compared with 2024). In most other industries, working hours were similar to or lower than in the previous year.

Table 2. Change in average weekly work hours, 2025 versus 2022, 2023, and 2024, by industry sector

Quarter	2025/2022			2025/2023			2025/2024			Share of labor market 2025
	1	2	3	1	2	3	1	2	3	
TOTAL LABOR MARKET	-1%	-6%	-3%	-1%	-3%	-2%	2%	0.3%	-3%	100%
Agriculture, forestry, fishing	-8%	-6%	-1%	-7%	-8%	-2%	-4%	-9%	-5%	1%
Manufacturing (excl. paid employees in high-tech); mining, quarrying	-1%	-6%	-1%	-0.3%	-2%	-3%	1%	2%	-1%	9%
Electricity supply, gas, steam, air-conditioning	2%	-5%	-10%	1%	-7%	-6%	2%	9%	-11%	0.3%
Water supply; waste and refuse disposal	4%	-12%	-4%	6%	-6%	-9%	13%	-5%	-10%	0.4%
Construction	-1%	-10%	-5%	0.3%	-5%	-4%	7%	-2%	-4%	6%
Wholesale/retail trade (excl. diamonds); vehicle repair	0%	-6%	-1%	-0.3%	-3%	-2%	-0.3%	-0.4%	-2%	10%
Transportation, storage, postal, and courier services	-3%	-7%	-9%	-4%	-3%	-7%	4%	1%	-3%	4%
Accommodation and food services	0%	-8%	-2%	-5%	-7%	0%	0.1%	1%	7%	3%
Information and communication (excl. paid employees in high-tech)	-1%	-5%	-4%	-2%	-2%	-4%	3%	4%	-3%	6%
Financial and insurance services	0.1%	-6%	-1%	1%	-4%	-2%	1%	0.4%	-3%	3%
Real estate	-6%	-6%	-6%	-10%	-13%	-4%	-5%	-7%	-2%	1%

Table 2 (continued). Change in average weekly work hours, 2025 versus 2022, 2023, and 2024, by industry sector

Quarter	2025/2022			2025/2023			2025/2024			Share of labor market 2025
	1	2	3	1	2	3	1	2	3	
Professional, scientific, and technical services	-1%	-9%	-6%	-1%	-6%	-5%	3%	2%	-3%	8%
Administrative and support services	4%	-4%	-6%	0.1%	-1%	1%	7%	6%	-2%	4%
Local, public, security administration; NII	0%	-1%	-2%	-1%	-1%	-1%	0.4%	2%	-1%	10%
Education	1%	-4%	-1%	1%	-4%	4%	3%	-3%	-7%	13%
Health, welfare, social work services	4%	-4%	-1%	0.2%	-1%	-1%	2%	-0.2%	-2%	12%
Arts, entertainment, recreation	-10%	-10%	-8%	-13%	-7%	-2%	-8%	-5%	-6%	2%
Other services	-4%	-7%	-1%	-5%	-3%	-3%	-1%	-3%	-3%	3%
Household employment	0%	6%	11%	1%	8%	13%	2%	11%	4%	1%
Extra-territorial organizations	13%	-47%	10%	20%	-48%	11%	41%	-50%	16%	0.03%

Note: The values in the right column represent the percent of employed persons in the sector out of all employed persons in the labor force in January to June 2025.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

Despite the increase in working hours, monthly wages of employees stagnated in the first half of 2025. As noted in the beginning of this chapter, the upward trend in wages that characterized recent years (and intensified at the start of the war) came to an end in the first half of this year, with a decline recorded in the real monthly wage of employees in many industries. The sharpest declines were observed in high-tech services (about NIS 400 less per month on average in the first half of 2025 compared with the first half of 2024); information and communications (about NIS 300, excluding high-tech); and professional, scientific, and technical services (about NIS 250, excluding high-tech). More moderate declines were recorded in trade, real estate, and the public sector, while in a number of industries wages increased, though typically by a marginal amount (these industries together employed roughly 45% of employees in the first half of 2025). The few substantial wage increases observed were in the finance industry (about NIS 1,000) and in transportation, storage, postal, and courier services (about NIS 300). In the third quarter of the year, a significant correction was recorded, and wages resumed an upward trend in most industries. However, even after this correction, the average annual increase in real wages was negligible in most industries (for example, about half a percentage point in the high-tech sector), and in some it was even negative (trade, education, public administration, and security). Overall, the upward trend in wages that had characterized most industries in previous years came to a halt in 2025, with the exception of a limited number of industries.

Table 3. Change in real wages for paid employees (monthly average), 2025 versus 2022, 2023, and 2024, by industry sector

Quarter	2025/2022			2025/2023			2025/2024			Share of labor market 2025	Average monthly wage 2025, NIS
	1	2	3	1	2	3	1	2	3		
TOTAL LABOR MARKET	2.5%	3.2%	4.4%	1.9%	3.4%	2.5%	-0.7%	0.2%	1.7%	**100%**	13,797
Agriculture, forestry, fishing	8.3%	10.3%	10.9%	10.3%	12.8%	11.1%	3.4%	4.0%	4.6%	**1.1%**	10,002
Mining, quarrying	-0.6%	15.1%	1.5%	-6.3%	15.2%	6.6%	26.7%	-10.0%	0.8%	**0.1%**	36,588
Manufacturing (excl. high-tech)	1.7%	3.7%	4.0%	3.3%	4.9%	2.8%	1.5%	-0.6%	1.2%	**6.0%**	15,827
Electricity supply, gas, steam, air-conditioning; water supply; waste and refuse disposal	3.2%	4.7%	6.8%	1.7%	6.7%	4.1%	0.3%	-0.8%	2.0%	**0.8%**	23,252
Construction	2.0%	3.3%	5.2%	1.9%	2.6%	2.6%	-0.2%	0.9%	2.7%	**5.4%**	12,887
Wholesale/retail trade (excl. diamonds); vehicle repair	-0.8%	0.3%	0.3%	0.2%	1.1%	1.1%	-1.1%	-0.9%	1.5%	**12.6%**	11,235
Transportation, storage, postal, and courier services	9.9%	8.8%	5.8%	2.3%	5.2%	4.5%	2.4%	1.0%	0.8%	**3.7%**	14,973
Accommodation and food services	3.3%	3.3%	3.9%	3.3%	4.3%	4.5%	0.0%	2.8%	2.9%	**5.7%**	6,424
Information and communication (excl. high-tech)	7.4%	-0.7%	-0.1%	9.4%	0.2%	1.6%	2.2%	-2.6%	-0.1%	**0.4%**	14,126
Financial and insurance services	3.2%	-7.1%	2.0%	9.2%	-0.7%	-5.6%	6.6%	0.1%	0.6%	**2.8%**	26,465
Real estate	8.5%	6.8%	10.4%	11.2%	9.8%	9.9%	0.3%	-2.0%	0.5%	**0.9%**	16,542

Table 3 (continued). Change in real wages for paid employees (monthly average), 2025 versus 2022, 2023, and 2024, by industry sector

Quarter	2025/2022			2025/2023			2025/2024			Share of labor market 2025	Average monthly wage 2025, NIS
	1	2	3	1	2	3	1	2	3		
Professional services (excl. high-tech)	4.1%	5.0%	5.8%	3.5%	5.6%	4.9%	2.0%	1.9%	3.9%	**5.5%**	15,312
Administrative and support services	10.1%	12.7%	11.8%	6.3%	6.3%	5.8%	1.1%	2.2%	3.7%	**6.5%**	8,411
Local, public, security administration; NII	2.2%	7.3%	2.8%	-3.0%	6.4%	0.2%	-1.3%	1.2%	-0.4%	**3.8%**	18,800
Education	2.6%	3.8%	3.5%	-2.8%	2.1%	-1.3%	-1.4%	-0.9%	-1.9%	**15.0%**	9,827
Health, welfare, social work services	-3.0%	0.6%	0.8%	-2.3%	2.3%	0.8%	-1.8%	1.4%	1.6%	**14.9%**	9,369
Arts, entertainment, recreation	3.1%	6.0%	5.4%	2.8%	6.5%	4.6%	-1.2%	1.9%	2.0%	**1.8%**	7,796
Other services	2.8%	3.9%	4.6%	2.5%	3.8%	4.0%	1.2%	2.3%	2.2%	**3.5%**	6,926
High-tech services	5.1%	3.1%	8.1%	4.5%	2.8%	5.7%	-1.8%	-1.0%	4.1%	**7.0%**	34,112
High-tech manufacturing	4.7%	12.3%	10.5%	6.1%	8.8%	6.2%	-2.7%	3.9%	0.7%	**2.7%**	30,545

Note: The values in the right column represent the percent of employed persons in the sector out of all employed persons in the labor force and their average nominal wages in the first half of 2025.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

The stagnation in wages in Israel is unusual compared with other countries in which wages have continued to rise consistently over the past two years, such as the US and Denmark, although the lack of data from all OECD countries makes it difficult to determine whether Israel stands out negatively or whether this is a global trend. It should be recalled in this context that in terms of employment and wages, Israel recovered from the COVID-19 pandemic at record speed, such that in 2022–2023 wage growth surged relative to other countries — a pattern that has since reversed after Israel completed its recovery while other countries were still in the midst of theirs.[9] In any event, this trend is not encouraging in itself, and the decline in wages in high-tech services is particularly concerning, both because it directly affects the average wage (through lower high-tech wages) and because of the indirect effect of high-tech wages on wages in other industries (Debowy et al., 2022).

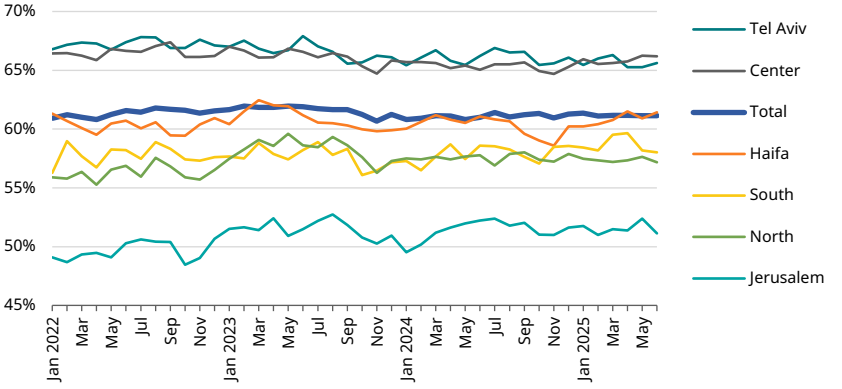
To conclude, it should be noted that most of the employment growth over the past year occurred in public sector industries, construction, and traditional manufacturing, while declines in employment were observed in trade, accommodation and food services, and information and communications (excluding high-tech). At the same time, in most industries there was an increase in working hours and in many of them a slowdown in the increase in the real wage of employees — most notably in high-tech services, the industry with the highest wage levels. It remains to be seen whether this stagnation is merely a temporary setback or rather a structural shift signaling a halt or slowdown in the wage growth trend of previous years.

Employment by geographic and demographic groups

From a geographic perspective (Figure 7), the employment gaps between the periphery and the center of the country — which deepened with the outbreak of the war — narrowed somewhat last year, and the gap between the Jerusalem and Southern Districts and the Central District reached its lowest level since 2019. However, geographic disparities remain substantial. Between January and September 2025, the average employment rate in the Northern, Southern, and Jerusalem Districts was 15% (about 10 percentage points) lower than the average employment rate in the Central and Tel Aviv Districts.

9 For further discussion of the rate of growth in wages in high-income countries over the past few years, see Debowy et al., 2024.

Figure 7. Employment rate among ages 15 and over, by district

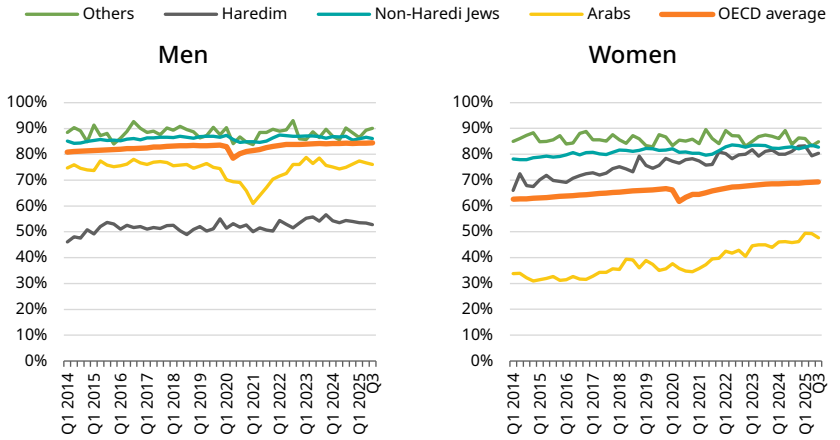


Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

Figure 8 presents the employment rates of men and women ages 25–66 from different population groups in Israeli society in recent years. After a sharp decline in the employment rate of Arab men at the beginning of the war, their employment rate rose again and stabilized at 77% in early 2025 — slightly below the peak of 79% in 2023. Among Haredi men, by contrast, after a slight increase in employment rates at the start of the war, the employment rate fell again in 2025 and is now lower than it was in 2023. Alongside these trends, non-Haredi Jewish men maintained a high employment rate of about 87%.

Among non-Haredi Jewish women, the high employment rate of the past two years was maintained, and among Haredi women the employment rate continued to rise. The gap between the two groups nearly closed over the past year, such that in the first quarter the employment rate of both stood at 83%. The employment rate of Arab women also continued to rise, reaching 49% in the first half of 2025. This impressive outcome implies that if the gender and sectoral trends observed since the outbreak of the war continue, the employment rate of Arab women will surpass that of Haredi men during 2026, and may even reach the government's employment target (53% by 2030) ahead of schedule.

Figure 8. Employment rate among ages 25–66, by population sector



Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

Across the board, employment rates for women in nearly all population groups continued to increase, while the employment of Arab men and Haredi men — who experienced a decline at the start of the war — has recovered somewhat but has not returned to prewar levels. Beyond this, among both female and male workers, sectoral employment patterns remained similar to previous years, with men and women from different population groups concentrated in different industry employment clusters.

Table 4 presents the distribution of employed persons by gender, population group, and industry sector, averaged over the period October 2023 to December 2024. The table shows that one in five non-Haredi Jewish men and "Others" works in high-tech, alongside one in ten non-Haredi Jewish women, one in twenty Haredi men and women, one in fifty Arab men, and one in one hundred Arab women. The table also shows that employment in agriculture, manufacturing, infrastructure, construction, and transportation, storage, postal, and courier services is far more common among men than among women, particularly among Arab men (about half of whom work in these industries). By contrast, employment in education, health, and welfare services is far more common among women, except among Haredi men, who have an

unusually high share of teachers relative to other men — a pattern driven by the demographic and cultural needs of the Haredi sector.[10]

Table 4. Employed persons by industry sector, gender, and population group, ages 25–64, October 2023 to December 2024

	Men			Women			Share of labor market 2025	Average monthly wage 2025 NIS
	Non-Haredi Jews and Others	Arabs	Haredim	Non-Haredi Jews and Others	Arabs	Haredim		
High-tech	20%	2%	5%	10%	1%	5%	10%	33,119
Electricity supply, gas, steam, air-conditioning; water supply; waste and refuse disposal	2%	1%	0.04%	1%	0.2%	0.2%	1%	23,252
Local, public, security administration	7%	4%	3%	6%	3%	3%	4%	18,800
Knowledge-intensive services (excl. high-tech)	13%	5%	8%	14%	6%	11%	10%	18,631
Agriculture, manufacturing, mining, quarrying	10%	12%	7%	5%	5%	2%	7%	15,225
Transportation, storage, postal, and courier services	6%	13%	6%	2%	2%	1%	4%	14,973
Construction	7%	23%	4%	1%	1%	1%	5%	12,887
Trade	11%	15%	11%	8%	9%	5%	13%	11,235
Education	5%	5%	31%	18%	33%	42%	15%	9,827
Health, welfare, social work services	5%	8%	7%	19%	26%	20%	15%	9,369
Administrative and support services	4%	4%	2%	3%	5%	2%	7%	8,411
Arts, entertainment, recreation	2%	1%	4%	2%	1%	1%	2%	7,796
Accommodation and food services	3%	4%	3%	2%	2%	1%	6%	6,424
Other sectors	5%	4%	9%	10%	7%	7%	3%	6,378
Average wage 2022 (NIS 2025)	17,327	10,191	10,605	10,900	5,618	7,409		

Note: Knowledge-intensive services (excluding high-tech) include the following industries: information and communications (excluding high-tech); finance and insurance; real estate activities; and professional, scientific, and technical services (excluding high-tech).

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

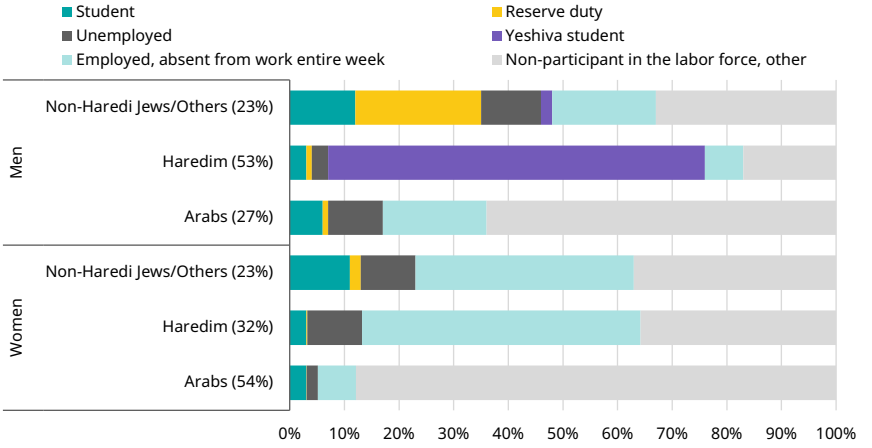
10 In general, employment patterns among Haredi men are more similar to those of non-Haredi Jewish women than to any other group (including Haredi women or non-Haredi Jewish men).

Wage gaps between genders and population groups are driven in part by the employment patterns of workers in each group. If the average wage were identical for all workers within each industry, the wages of non-Haredi Jewish men and "Others" would still be about 25% higher than those of non-Haredi Jewish women and "Others," 33% higher than those of Arab men, and 38% higher than those of Haredi men. In practice, the final wage gaps (given within-industry wage differences) tend to be consistently larger, although the variation in employment distribution across industries accounts for a substantial share of the wage differences between the groups shown, as estimated in recent years.[11]

In addition to employment and wages, it is instructive to examine the reasons why Israelis from different population groups are not actively working (either because they are not employed or because they were completely absent from work for at least an entire week). Figure 9 presents selected reasons for non-employment or full-week absence from work, by gender and population group, averaged from the beginning of the war through the end of 2024 among individuals ages 25–44. The figure shows considerable variation across genders and groups. Nearly one in four non-Haredi Jewish men who did not work was serving in reserve duty during this period, compared with negligible shares in all other groups (note that among the total population aged 25–44, 5.3% of non-Haredi Jewish men were absent due to reserve service, compared with 0.5% among Haredi men and non-Haredi Jewish women). At the same time, yeshiva students constitute roughly 70% of young Haredi men who reported to the CBS surveyors that they were not working. Furthermore, among young non-Haredi Jewish men and women, more than one-tenth of those not actively working were enrolled in academic institutions or vocational training programs, compared with about 6% of Arab men and 3% of Arab women, Haredi men, and Haredi women. Among older adults (Appendix Figure 3), the factors discussed above account for a smaller share of the non-employed and those temporarily absent, although two factors remain prominent even at these ages: reserve duty (6% of non-employed and absent non-Haredi Jewish men) and yeshiva studies (51% of non-employed and absent Haredi men).

11 In 2022, for example, the hourly wage of non-Haredi men and others was about 32% higher than that of non-Haredi women and others, about 64% higher than wages of Arab men, and about 39% higher than those of Haredi men.

Figure 9. Non-employed persons and those absent from work the entire week, by selected reasons for absence, gender, and population group, ages 25–44, October 2023 to December 2024



Notes: The percent in parentheses refers to the percent of non-employed persons or those absent from work all week in the group. Those studying and yeshiva students includes only those who report that they do not work or are not seeking employment. Reservists include individuals who were absent from work all week due to military reserve duty as well as unemployed individuals who were unable to look for a job for a week due to military reserve duty. "Employed, absent from work entire week" does not include workers who were absent due to reserve duty.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

To conclude, several trends in the gender and population-group characteristics of employment in Israel can be identified. First, while the employment rates of Arab and Haredi men have remained essentially unchanged, the employment rates of women in all population groups continue to rise. Second, gender and population groups tend to cluster in different industry sectors: non-Haredi Jewish men and women in high-tech and knowledge-intensive services; Arab men in construction and other production and craft industries; and women in all groups (alongside Haredi men) in education, health, and welfare services. These differences in industry employment explain part of the wage gaps between the groups. Third, non-employed individuals in the different groups

spend their time in different ways, and in groups with higher employment rates, a larger share of the non-employed are either actively searching for work (the unemployed) or investing in their human capital (students).

These trends emerge against the backdrop of far-reaching technological changes, and the employment patterns of each group (as well as patterns of non-employment) point to a variety of ways in which these changes affect different groups. We now briefly review some of the effects of the technological changes of recent decades on Israel's labor market and discuss the adoption of artificial intelligence technologies and their current impact on the labor market.

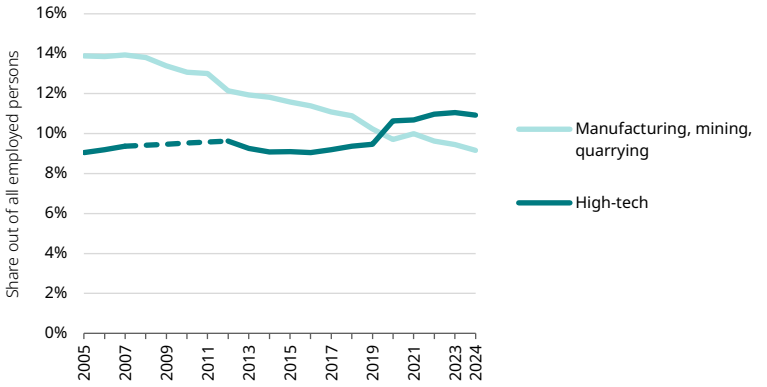
The labor market amid technological change

The effects of technological change on the economy in general, and on the labor market in particular, are extensively discussed in the economics literature. The past several decades have been marked by an increasing trend toward automation and the adoption of information technologies across the world's economies. Economic research indicates that because of these processes, the impact of technological change on employment and wage disparities is substantially larger than its aggregate impact on productivity or wages (Acemoglu & Restrepo, 2022).

Mechanization, robotics, and automation have displaced workers in many industries, who in turn have shifted to compete with similarly skilled workers in industries where technological change has been less pronounced. At the same time, information technologies have increased the productivity of many workers and have even driven greater demand for workers in many fields, creating entirely new types of jobs.[12] Thus, alongside significant declines in employment in certain occupations — such as farmers or various craft occupations (watchmakers, upholsterers, or bookbinders, for example) — technology has also contributed to the growing prevalence of other occupations — such as couriers or content creators — and to the emergence of entirely new ones, such as drone operators or artificial intelligence engineers. Beyond its effect on the occupational mix, technology also affects the industry composition of employment, as can be seen, for example, in the divergent trends of Israel's high-tech sector and manufacturing sector in recent decades (Figure 10).

12 For further discussion of the various mechanisms through which technology affects the economy, see Autor, 2022.

Figure 10. Share of employed persons in manufacturing and high-tech



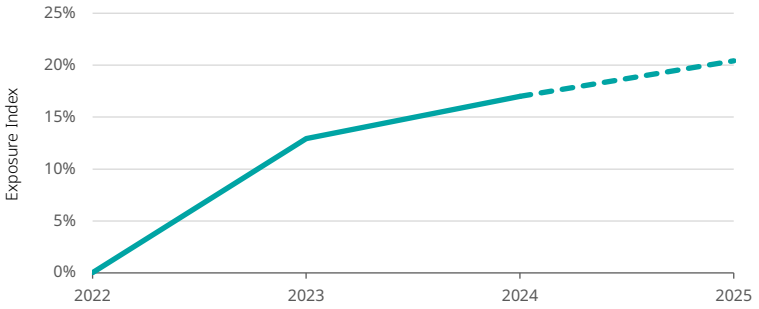
Note: The high-tech rate refers to paid employees only. For 2008–2011, there was no reliable estimate of this rate. It should be emphasized that there is overlap between the share of employed persons in high-tech and the share employed in manufacturing, due to the high-tech manufacturing industries, which have accounted for between one-quarter and one-third of both high-tech and manufacturing in recent years.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

The technological development with the most dramatic impact on the labor market in recent decades has, of course, been the information-technology revolution and the rise of the high-tech sector, whose share of employed persons grew by 21% between 2005 and 2024 (Figure 10). The use of information technologies has also influenced employment in other sectors. Industries in the upper half of IT-intensity growth between 2005 and 2023 increased their employment share by about 13% on average during this period, whereas industries in the lower half reduced their employment share by about 11% on average. Other technological changes have led to direct automation and to workforce reductions in certain industries. For example, the increase in the rate of mechanization in manufacturing (measured as the share of machinery and other equipment, excluding vehicles, in the industry's net capital stock) accounts for roughly 40% of the decline in the industry's employment share — a decline of about 34% of between 2005 and 2024 (Figure 10). It is worth noting that during this period, the relative wage (wage premium compared with the economy-wide average) of workers who remained in the industry rose by 29%.

Focusing on the past two years, the central technological transformation of today is the generative AI revolution. The rapid rollout of new tools and the pace of technological progress are reverberating across the world, and Israel's labor market is slowly adapting to the possibilities opened by this new technology. Conservative estimates suggest that in the coming years generative AI tools will be able to perform about 20% of the tasks of the average Israeli worker better than a human (Figure 11), and this figure exceeds 50% in the occupations in which nearly one-sixth of current workers are employed. As the adoption of generative AI tools deepens, the demand for various types of workers may shift, and many workers in these occupations may cease to work in them.

Figure 11. Average exposure to artificial intelligence (estimate)



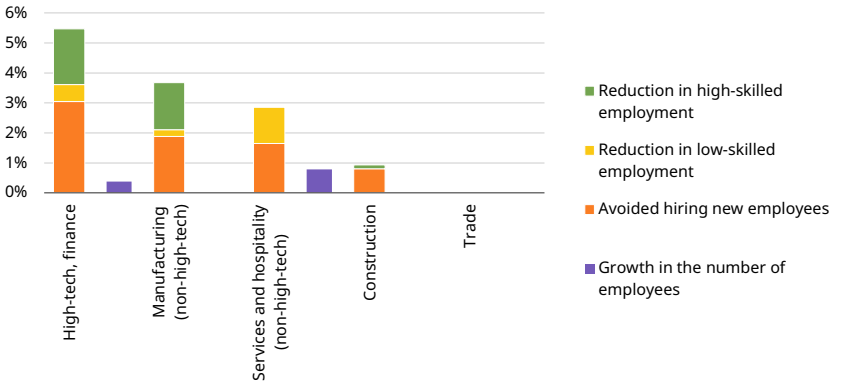
Note: The estimate for 2024 is based on the index (E1) from Debowy et al. (2025), while the estimate for 2025 is calculated as this index plus one-tenth of the gap between it and the higher index from the same study (E2). This follows Acemoglu (2024), who refers to the latter index (E2) as an estimate of the generative AI capabilities expected to be realized by the end of the coming decade.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

The adoption of artificial intelligence in Israel is still in its early stages, according to the CBS Business Trends Assessment Survey (2025). About 28% of businesses have adopted the use of AI as part of their overall business activity, and only 16% use AI to perform tasks previously carried out by human workers — although these figures are much higher in the high-tech and finance industries. Moreover, among employers who have adopted AI,

more than 9% reported that it had reduced their workforce (with about 1% reporting an increase in employee numbers), though this figure varies greatly across industries. Figure 12 presents the share of employees whose employers reported that the number of workers in the business changed due to the use of artificial intelligence, by industry sector. A decline in the number of employees as a result of AI adoption was reported by the employers of 5.5% of workers in high-tech and finance, and nearly one-third of these employers reported reductions specifically among workers with high skills or higher education. In manufacturing and services, employers of roughly 3% of workers reported a decline, while in other industries the share of affected workers was negligible.

Figure 12. Share of employed persons whose workplace staff size changed due to the use of artificial intelligence, by industry sector, June 2025



Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

It is still too early to determine the ultimate implications of the generative AI revolution for the labor market, but these findings and others (such as the correlation between AI exposure and employment documented in Debowy et al., 2024) suggest that we may see far-reaching changes in the composition of employment and wages in the economy as a result of this technological transformation. It is to be hoped that the ongoing public debate on this issue will lead to policies that ease workers' adjustment to the changing reality, as many researchers recommend (OECD, 2023; Sumkin & Sagy, 2020).

Conclusion

In this chapter we presented the main developments in the Israeli labor market over the past year, against the backdrop of previous years and in light of future challenges. We showed that the unemployment rate declined slightly and reached an unusually low level by any historical or international standard, while the decline in working hours and the rise in wages came to a halt — two developments that represent a reversal of recent trends. We also showed, from an industry perspective, that most of the employment growth came from public sector industries, construction, and traditional manufacturing, while wage declines were recorded in high-tech and other knowledge-intensive services, as well as in public sector industries. We pointed as well to a significant increase in employment gaps between the center and the periphery, to the lack of change in the employment of Arab men and Haredi men, and to the continued, steady rise in employment among women across all population groups. In addition, we presented the main differences in the industry composition of employment among men and women from different groups in Israel, alongside differences in selected reasons for non-employment or full-week absence from work. Finally, we reviewed the labor market through the lens of technological change and presented some of the potential — and actual — effects of the generative AI revolution on Israeli workers.

With respect to the future of the labor market, we reviewed short-term forecasts from various institutions. According to the Bank of Israel's forecast from September 2025, the broad unemployment rate will average 3.4% for the year as a whole, and will remain at this level on average during 2026 as well (Bank of Israel, 2025). The forecast of the Ministry of Finance's Chief Economist Division projects a slightly lower unemployment rate, averaging 3.05% in 2025 (Ministry of Finance, 2025). The authors also note that opinions in the forum are divided regarding a possible rise in the labor-force participation rate.

It appears that unemployment will remain low in the foreseeable future, but the slowdown in wage growth — in high-tech and in other industries — is a cause for concern. The government of Israel has undertaken fiscal adjustments to finance the war, which have reduced workers' net incomes and curtailed investments in productivity enhancing areas such as transportation, education, and health systems. It is to be hoped that while such adjustments will continue

to be made as needed to reduce public debt and support renewed security preparedness, the impact on social investment and on workers will be kept to the necessary minimum. Moreover, although the economy and labor market remained resilient in the face of the war's challenges, some of its indirect effects may have been delayed during the war and may now come to the fore. In this context, employment and wages among groups directly affected — such as bereaved families, evacuees, reservists, and their families — should be closely monitored. The rehabilitation and advancement of these groups, and of Israeli workers as a whole, should stand at the forefront of policy makers' considerations as they shape labor market policy for the day after the war.

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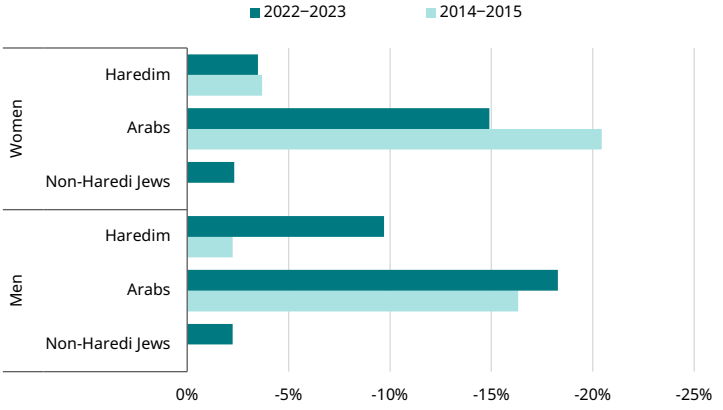
Appendix

Appendix Figure 1. Skill gap of Israeli adults in mathematics relative to the OECD average, 2014–2015 versus 2022–2023, by gender and population sector



Notes: The gap is calculated for each group relative to the OECD average for each gender group. No official data have been published for Arab men and women, and the estimates presented here were calculated based on the gap between the performance of all Israelis and that of Jews, together with the relative size of the populations.

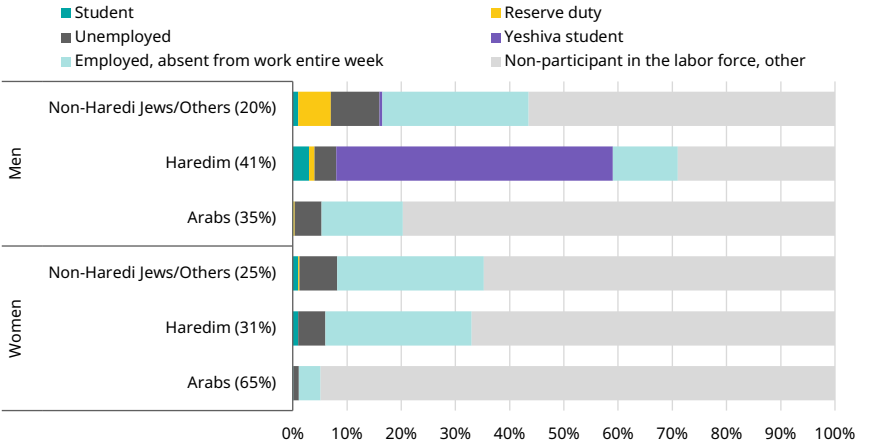
Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

Appendix Figure 2. Ease of Doing Business Index, selected countries, 2020

Note: The horizontal lines represent the average score of all OECD countries for the item marked in the same color.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS

Appendix Figure 3. Non-employed persons and those absent from work for the entire week, by selected reasons for absence, gender and population sector, ages 45–64, October 23 to December 2024



Notes: The percent in parentheses refers to the percent of non-employed persons or those absent from work all week in the group. Those studying and yeshiva students includes only those who report that they do not work or are not seeking employment. Reservists include individuals who were absent from work the entire week due to military reserve duty as well as unemployed individuals who were unable to look for a job for a week due to military reserve duty. "Employed, absent from work entire week" does not include workers who were absent due to reserve duty.

Source: Michael Debowy, Gil S. Epstein, and Avi Weiss, Taub Center | Data: CBS