

How is Israel's Middle Class Faring?

Income Trends, Occupational Change and the Rising Cost of Living



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AND THE RISING COST OF LIVING

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Foreword

Thriving middle classes are the backbone of democratic and economically prosperous societies: they drive innovation, underpin economic resilience, and are essential for social cohesion. Yet in many OECD countries, middle-class households continue to face mounting pressures from transforming labour markets, rising living costs, and economic uncertainty. As the OECD report *Under Pressure: The Squeezed Middle Class* documented in 2019, middle incomes grew much more slowly than high incomes for more than three decades in many OECD countries. At the same time, the costs of a middle-class lifestyle have risen substantially. Across the OECD, prices for housing, health, and education have consistently outpaced general inflation, putting particular strain on household budgets in recent years. Labour market trajectories have also become more uncertain, as rapid technological change, shifting global supply chains, and demographic transitions reshape the world of work. Many middle-skilled occupations face displacement through automation and digitalisation, while pathways into the middle class have narrowed, particularly for young people and those without tertiary education. In this context, Israel presents a distinct picture: thanks to robust income growth for middle-income households, the country's middle class has expanded since the global financial crisis, though it remains among the smallest across OECD countries. Middle-income workers have experienced considerable occupational advancement into high-skilled roles, yet persistent inequalities by gender and ethno-religious background endure, particularly in access to managerial positions and wage levels. Rising expenditures on housing, food, and other core necessities have been putting pressure on household budgets, particularly for low-income households and ethno-religious minorities.

This country review builds upon *Under Pressure* and provides a comprehensive assessment of the labour market situation and living conditions of middle-class households and workers in Israel. It provides evidence on changes in the size and composition of the Israeli middle class, presents trends in labour market outcomes for middle-class workers, and analyses consumption expenditures and savings patterns of middle-income households. The review puts Israel's experience in an international context, comparing trends and outcomes with those in other OECD countries.

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Work on this review began prior to the terrorist attacks of 7 October 2023. The analysis presented covers data and developments before that date.

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Executive summary

Israel's middle class has enjoyed robust income growth in the two decades up to 2021, and income inequalities have narrowed – a trend that distinguishes Israel from many other advanced OECD economies. The Israeli median equivalised disposable household income grew by almost 45% between 2001 and 2021 after adjusting for inflation – substantially more than in peer OECD countries such as France, Germany and the United States. The Israeli middle class – proxied here as people living in households with disposable incomes between 75% and 200% of the national median – has expanded since the global financial crisis. Still, it remains among the smallest across OECD countries, at 54% of the population versus an OECD average of 62%.

Substantial disparities persist in access to the middle class. Despite the overall growth in the size of Israel's middle class, the share of young people who reach the middle class has stalled since the early 2000s. There are also substantial ethno-religious disparities in access to the middle class: only 37% of Arab Israelis and 33% of Haredim – the ultra-orthodox Jewish minority – made it into the middle-income group in recent years, compared to 63% of the non-Haredi Jewish majority. The middle class is also increasingly out of reach for people without upper-secondary educational qualifications.

Since earnings from work are the main source of income for most families, access to quality employment is a key determinant of people's chances of making it into the middle class. Yet having a job does not guarantee equal access to the middle class for everyone: only 49% of Haredi Jewish workers and 56% of Arab-Israeli workers belong to the middle-income group, compared to 66% of workers from the non-Haredi Jewish majority. More broadly, since the mid-2000s, Israel's workforce, and middle-income workers in particular, have benefitted from considerable occupational advancement. The share of middle-income workers in high-skilled occupations strongly rose, by over 10 percentage points (p.p.) for professional occupations and 6 p.p. for managerial roles, while the share in middle- and low-skilled occupations declined. This trend distinguishes Israel from many other OECD countries, which have rather experienced occupational polarisation. Persistent inequalities in occupational distribution and wages by gender and ethno-religious background endure: among middle-income workers, the share of men in managerial roles is almost three times that of women (11% vs. 4%), and non-Jewish workers remain strongly underrepresented in high-skilled occupations.

An analysis of consumption expenditures provides an important complementary perspective on middle-class living standards and points to declining inequalities but growing cost pressures on Israeli households. Spending inequalities have slightly narrowed over the last two decades – unlike in most European OECD countries – reflecting declining income inequality. However, housing alone accounts for over one-third of total consumption expenditure, and its budget share increased by 3 p.p. between 2001 and 2018. Prices for housing and food have risen well above the overall inflation rate, and the overall price level in Israel is the second highest across all OECD countries, after Switzerland. Despite rising expenditures, middle-income Israeli households have gradually increased their savings rate, as robust income growth has outpaced growth in spending. Yet the combination of high price levels and rising housing costs weighs disproportionately on low-income households and ethno-religious minorities, pointing to persistent gaps in living standards that mirror the inequalities observed in income and employment.

1 Overview

This chapter provides an overview of the main findings from the review on the middle class in Israel, putting the country's experience in comparison with other OECD countries. It synthesizes key results from the three substantive chapters, covering trends in the size and composition of Israel's middle-income group, the labour market situation of middle-income workers, and consumption expenditures and savings patterns of middle-income households.

1.1. Who is middle class in Israel?

People in the middle of the income distribution – the group that this review focusses on when referring to “the middle class” (see Box 1.1) – have enjoyed robust income growth in Israel over the last two decades, and income inequalities have narrowed.¹ The Israeli median equivalised disposable household income – i.e. household income after taxes and transfers, adjusted for household size, of the person situated exactly in the middle of the income distribution – grew by almost 45% between 2001 and 2021 after adjusting for inflation, or at an annualised rate of 1.8%. This rate substantially is higher than that experienced in countries such as France (10%), Germany (20%) and the United States (35%). As a result, people in the middle parts of the income distribution have partially caught up with top income earners, while simultaneously pulling away from those at the bottom. The trend of narrowing income inequalities distinguishes Israel from some other advanced OECD economies, such as Germany and the United States, where the gap between top income earners and other parts of the income distribution has widened since the early 2000s. People in the bottom of the income distribution are lagging behind in Israel: they experienced a more significant income decline in the wake of the 2001 economic downturn, and failed to close the resulting income gap in the two decades that followed.

Box 1.1. Defining “middle class”

The middle class is a complex social construct and has no unique definition. Indicators used to define, and study, the middle class vary significantly, within and across disciplines. Some measures and indicators are based on occupation and employment status, relating, for example, to certain aspects of job quality; others are based on social, cultural, or economic criteria, such as income level, educational attainment, as well as values and attitudes; yet other definitions are consumption-based, with households being defined as middle class if they are able to buy a home, afford certain type of cars, or holidays (for a more detailed discussion, see OECD (2019^[1]; 2021^[2])).

This review follows earlier OECD work, notably the OECD flagship report *Under Pressure: The Squeezed Middle Class* (OECD, 2019^[1]), in using an *income-based* definition of the middle class. In other words, it focusses on the *middle-income group* as a proxy for the middle class. Indeed, there is a strong rationale for looking at incomes when defining people’s middle-class status for the purpose of comparative statistical analysis. Income is a key determinant of people’s living standards and of many aspects of their well-being. It permits households to consume goods and services, including housing, education and healthcare, and to build up savings as an insurance against shocks. Income also strongly correlates with other determinants of social class, such as occupation, education, and self-perceived class. From an analytical point of view, the benefit of employing an income-based definition of the middle class is that income data are readily available across countries for long periods, unlike information on self-perceived class or other socio-economic outcomes.

Following the definition used in *Under Pressure*, Chapters 2 and 3 of this review define the middle-income group as people living in households with disposable incomes between 75% and 200% of the national median. In 2021, this corresponded to an annual disposable income of around NIS 75 000 to 200 000 (International USD 18 500 to 49 500)¹ for a single person, and NIS 150 000 to 400 000 (International USD 37 000 to 99 000) for a couple with two children. Within the middle-income group, the review further distinguishes the lower middle (75% to 100% of the median), the mid middle (100%-150%) and the upper middle (150%-200%). Disposable household incomes are adjusted for household size using the square-root method to account for within-household sharing of resources. This approach follows the methodology used for inequality and poverty measurement, including in the OECD Income Distribution Database (OECD, 2025^[3]). Chapter 4 of this review, which is largely based on tabulations of consumption data provided by the Israel Central Bureau for Statistics and Eurostat,

employs a different definition of the middle-income group, focussing on the three middle quintiles of the income distribution, i.e. households between the 20th and 80th percentile of the income distribution.

1. International US Dollars are a hypothetical currency unit based on purchasing power parity. They represent the same purchasing power in any country as a U.S. Dollar provides in the United States.

1.1.1. The Israeli middle-income group has expanded since the global financial crisis, but it remains among the smallest across OECD countries

As a result of these income trends, the Israeli middle-income group has expanded over the last decade or so since the global financial crisis, though it remains smaller than it was in the 1980s and early 1990s. The middle-income group, defined here as the share of people living on incomes between 75% to 200% of the national equivalised disposable household income, grew from a low of 48% of the population in 2009 to 54% in 2021. Meanwhile, the share of people in the top-income group (over 200% of the median) and that of poor people (below 50% of the median) both declined since 2009, from 15% to 12% and from 20% to 18%, respectively. Despite its recent growth, the Israeli middle-income group remains among the smallest across OECD countries. Out of the twenty-nine countries for which data are available, only the United States, Chile and Mexico had smaller middle-income groups than Israel in 2021. Israel also lagged the OECD average by a large margin, at 54% versus 62%.

1.1.2. Young people have not equally benefited from the growing size of the middle class, and people with lower educational attainment and ethno-religious minorities remain underrepresented

As a result of the strong income growth, each successive generation in Israel has enjoyed higher real median incomes than the previous one did at a comparable age. In particular, the generation of *Millennials* – i.e. people born in the 1980s and early 1990s – benefited from somewhat steeper income trajectories than earlier generations – unlike in many OECD countries. Nonetheless, young people in Israel saw their income position deteriorate relative to other age groups: despite the overall growth in the size of Israel's middle-income group, the share of 18-29 year-olds who reach this group has stalled since the early 2000s, while the share of young people in the low-income group has risen. Demographic change helps explain this shift: older age groups, who have higher incomes on average, now make up a larger share of the population, pushing up the median income, and making it harder for young people to access the middle-income group. Families with children and seniors experienced an improvement in their relative income position, though both groups remain overrepresented in the low-income group.

People with lower educational attainment and ethno-religious minorities have also been struggling to reach the middle-income group. While in the early 2000s, around one-in-three people in the middle-income group held a tertiary degree, the share had risen to one-in-two 20 years later. This increase reflects the expansion of tertiary education in Israel, as well as a shift in the Israeli labour market away from manufacturing into high-skilled service-oriented activities. In this context, people with low education increasingly struggle to leave the low-income group. This applies particularly for young people, with two-in-three of those without a high school diploma falling into the low-income group. There are also substantial ethno-religious disparities in the access to the middle-income group in Israel. People from ethno-religious minorities, notably Arab-Israeli and Haredi (ultra-orthodox Jewish) people, remain strongly underrepresented in the middle-income group relative to the non-Haredi Jewish majority, even if their situation has improved. In recent years, only 37% and 33% of Arab Israelis and Haredim made it to the middle-income group, compared to 63% of the non-Haredi Jewish majority. The share of people from ethno-religious minorities who make it into the high-income group is practically negligible.

Various factors can explain why among ethno-religious minorities a much smaller share of people reach the middle-income group: educational outcomes in Israel remain closely tied to ethno-religious background, with Arab-Israeli pupils performing substantially less well on the national *Meitzav* exams in primary and lower-secondary education and lagging their Jewish peers in high-school graduation rates, by around 10 percentage points (p.p.). These educational disadvantages translate into a weaker school-to-work transition, with the share of Arab-Israeli youth not in employment, education or training (NEET) being twice as high as for non-Haredi Jewish youth (35% vs. 15%). Arab Israelis – and among them particularly women and young people – also exhibit substantially lower employment rates. Most Haredim obtain a tertiary degree, however their education often takes the form of religious studies, which offer limited relevant and transferable labour market skills. Living arrangements and demographics also differ between ethno-religious groups, with both Arab Israelis and Haredim living, on average, in larger households with a greater number of children.

1.2. Middle-class workers in Israel: trends in occupations and wages, sectoral shifts and persistent inequalities

Since earnings from work are the main source of income for most families, access to quality employment is a key determinant of people's chances of making it into the middle class. Among working-age people in the three middle quintiles of the income distribution – both women and men – around three-in-four were employed, compared to around one-in-three in the bottom income quintile. Put differently, households in which one or more working-age members do *not* participate in the labour market often struggle to earn sufficient income to reach the middle-income group. However, navigating a transforming labour market has become challenging for many workers, as megatrends such as digitalisation and demographic change are changing the skills workers need to remain competitive.

1.2.1. *Not for all groups does having a job provide equal access to the middle class*

While people in employment were overrepresented in both the middle- and the high-income group relative to the overall population, having a job does not provide equal access to these groups for everyone. Substantial disparities in the access to the middle-income group exist again among different ethno-religious groups in Israel. Only 49% of Haredi Jewish workers and 56% of Arab-Israeli workers belong to the middle-income group, compared to 66% of non-Haredi Jewish workers; very few workers from these two minorities reach the high-income group. These gaps reflect the overrepresentation of non-Jewish workers in low-paying occupations and the greater prevalence of single-earner households among ethno-religious minorities. By contrast, immigrant workers were *more* likely than native workers to make it into the middle-income group in Israel (70% versus 63%), partly a reflection of the strong skill base of Israel's immigrant workforce, in particular among those who arrived from the former Soviet Union in the 1990s and early 2000s. Young workers (aged 25-34 years) are equally likely to be part of the middle-income group as prime-age and older workers, but they are overrepresented in the low-income group, mostly due to life cycle effects.

1.2.2. *Israel has experienced strong growth in high-skilled employment, and a comparatively large share of middle-income workers works in high- and middle-skilled occupations*

The large majority of middle-income workers in Israel are employed in high- and middle-skilled occupations. High-skilled professionals, including IT professionals, scientists, engineers and teachers, were the largest occupational group, accounting for nearly 33% of all middle-income workers. A further 17% of middle-income workers were employed as high-skilled technicians and associate professionals, in

roles such as business administration officers, nurses and social and community workers. Middle-skilled crafts and trades workers, clerks, and plant and machine operators accounted for one-fifth of middle-income workers. Still, a significant share of middle-income workers are employed in low-skilled occupations, with 17% working in service and sales jobs, and another 4% in elementary occupations. Given the generally low wages paid in these occupations, workers in these jobs who make it into the middle-income group usually do so by living with a higher-earning partner, or through other sources of income.

Since the mid-2000s, Israel's workforce, and middle-income workers in particular, have benefitted from considerable occupational advancement. The share of middle-income workers in high-skilled occupations strongly rose, by over 10 p.p. for professional occupations and 6 p.p. for managerial roles; the share in middle-skilled occupations substantially declined, by nearly 6 p.p. for clerks and 5 p.p. for machine operators; and the share in low-skilled occupations also declined modestly, by nearly two p.p. each in sales and service and elementary occupations. This trends of occupational advancement is by no means standard across OECD countries, with many countries rather having experienced occupational *polarisation* in recent decades, i.e. employment growth in both *high- and low-skilled* occupations at the expense of middle-skilled employment. Overall, middle-income workers in Israel are more frequently employed in high-skilled occupations than their counterparts across the OECD (59% vs. 48%), while a comparatively low share of them hold middle-skilled (20% vs. 28%) or low-skilled jobs (21% vs. 24%).

1.2.3. Female workers have experienced similar occupational advancement as male workers, but continue to have lower access to managerial roles

These aggregate patterns mask persistent inequalities across different groups of middle-income workers, notably between women and men. The occupational distribution is more polarised for female middle-income workers than for their male counterparts: female middle-income workers are substantially more likely than men to be employed in low-skilled sales and services roles (20% vs. 14%), but a greater share of them also worked in high-skilled professional occupations (38% vs. 28%) and as high-skilled technicians or associate professionals (20% vs. 14%). This pattern may be partly explained by Israel's substantial gender gap in tertiary education attainment, which favours women over men, especially among younger generations. By contrast, women continue to face a glass ceiling when it comes to access to managerial roles with the shares of male vs. female middle-income workers differing by almost a factor of three (11% vs. 4%). Since the early 2000s, female and male middle-income workers have experienced comparable expansions in high-skilled and declines in middle- and low-skilled employment.

1.2.4. Non-Jewish workers struggle to move up the occupational ladder

Occupational divides are very strong also between middle-income workers living in Jewish vs. Arab-Israeli households. Jewish workers are more likely than Arab-Israeli workers to occupy high-skilled managerial positions (7% vs. 4%), as well technician and associate professional roles (18% vs. 8%); meanwhile, Arab-Israeli workers are around twice as likely to be employed in low-skilled elementary occupations (9% vs. 4%), and middle-skilled plant and machine operators (10% vs. 6%) and craft and trades worker roles (15% vs. 8%). Overall, the occupational distribution of Arab-Israeli middle-income workers resembles more that of *low-income* workers than that of Jewish middle-income workers. While the available data on the incomes and labour market outcomes of specific ethno-religious groups do not extend far back in time, non-Jewish workers – 81% of whom are Arab Israeli – appear not to have benefitted from the same type of occupational advancement observed across workers at large.

1.2.5. Middle-income workers have shifted out of manufacturing and into public services

Public services have become the cornerstone of employment in Israel even as middle-income jobs remain broadly diversified across sectors. Over one-in-three middle-income workers are employed in public services, including as civil servants and workers in healthcare and education, whether in the public or in the private sector. Outside of public services, middle-income workers are strongly represented in retail and hospitality, real estate and manufacturing, with shares of around 13%-14% each. As most OECD countries, Israel has seen a relative decline in manufacturing employment, a trend that affected workers across all income groups to similar extents. Among middle-income workers, several sectors have expanded their employment shares, including transport, storage and communications, public services, and real estate and other business activities.

1.2.6. Wages have risen for middle-income workers, while the skill premium has shrunk

Middle-income workers have benefitted from robust wage growth over the last two decades, with their real wage growth (+43%) since 2003 nearly matching that of high-income workers (+46%) and surpassing that of low-income workers (+37%). These trends mirror the corresponding trends in disposable household incomes (see Section 0). The substantial rise in the skill level of the Israeli workforce was associated with a decline in wage disparities across skill levels, i.e. advancing on the occupational ladder pays off less than it did in the past. While in the mid-2000s, professionals on average enjoyed wages that were around 60% higher than the median wage, this gap has fallen to just over 40% in recent years. This trend partly reflects broad occupational advancement: as a larger share of workers moved into high-skilled roles, median wages have mechanically caught up with those of high-skilled occupations. However, gaps in hourly wages have also narrowed relative to low-skilled elementary occupations. Other high-income countries have experienced a similar decline in the skill premia since the global financial crisis, reversing three decades of widening wage disparities across occupations. In Israel, the expansion of tertiary education may have contributed to the decline, and Israel is among the OECD countries with a higher share of over-qualified workers. Still, holding a high-skilled job yields greater relative earnings in Israel than in most OECD countries. Among high-income countries where recent data are available, Israel recorded the highest hourly wage gap between workers employed in professional occupations and the median worker, at 42%. This is broadly in line with other advanced OECD economies such as Ireland, Germany, and the United States, but significantly higher than in most other European countries. The relatively high skill wage premium in Israel overall again coincides with persistent inequalities between women and men, as well as between Arab Israelis and Jews, gaps which are especially large for high-skilled workers.

1.3. Consumption expenditures and savings patterns of the middle class in Israel

An alternative to the income-based (or “resource-based”) approach to measuring the economic well-being of the middle class can be to look at consumption-related indicators, i.e. to take a “standard-of-living” approach. While the two approaches can to some extent be considered two sides of the same coin, they can provide different perspectives of households’ short-term vs. long-term economic well-being. Following the lifecycle hypothesis, individuals and households will attempt to smooth fluctuations in incomes to achieve a stable consumption path over their lives. While income-based measures may reflect transitory changes in economic well-being, consumption-based measures can be more representative of long-term economic well-being. Analysis of household consumption and savings patterns can also help identify trends in what may be considered a “typical” middle-class lifestyle, i.e. access to certain types of goods and services, such as homeownership, the ability to purchase consumer durables of a certain quality, and access to quality education and healthcare.

1.3.1. Consumption inequalities in Israel are relatively modest in international comparison and have declined over the last two decades

Inequalities in consumption expenditure are relatively modest in Israel compared to most OECD countries, with households in the middle parts of the income distribution accounting for a relatively large share of total consumption expenditure. The three middle-income quintiles (Q2, Q3 and Q4), which in this part of the analysis are used as the proxy for the middle class (see Box 1.1), accounted for 57% of total consumption expenditure in 2015 – a little more than the average across European OECD countries (56%).² Households in the top quintile (Q5) accounted for one-third (33%) of total consumption, slightly less than on average across European OECD countries. Overall, inequalities in *consumption* shares across households are smaller than the corresponding inequalities in *income* shares.

Consumption inequalities have slightly narrowed in Israel over the last two decades, unlike in most European OECD countries with available data. Indeed, real growth in consumption expenditures since 2001 was twice as high for middle-income households (+14%) than for high-income households (+7%), and highest for low-income households (+24%). As a result, the share of total consumption expenditure going to the low-income group (Q1) and – to a lesser extent – the middle-income group (Q2, Q3 and Q4) increased, while the consumption share of the high-income group (Q5) declined. The decrease in consumption inequality in Israel coincides with a slight decline in income inequality over the last two decades (see Section 0). It contrasts with the trends observed in most European OECD countries, where consumption inequalities widened and where the middle-class consumption share decreased. The COVID-19 crisis led to a steep drop in consumption spending in 2020, as discretionary travel and leisure activities were heavily restricted, a pattern that was somewhat more pronounced for high-income households.

1.3.2. Households in Israel spend a growing share of their budget on core necessities, notably housing and food, while spending on leisure has plummeted

Israeli households, as households in other OECD countries, allocate most of their consumption budget to core necessities, and spending on housing, food, healthcare and education account for a growing share of overall consumption expenditures in Israel. In particular, the expenditure share dedicated to housing increased between 2001 and 2018, by 3 p.p.; meanwhile, the budget share dedicated to leisure declined by 3 p.p. Nonetheless, spending on core necessities in Israel remains broadly in line with that in other OECD countries: housing, as the largest expense, makes up over one-third (36%) of total consumption expenditure, compared to 35% on average in European OECD countries;³ food accounts for another 14% (16% on average in European OECD countries).

The shift in household consumption expenditures towards core necessities, and away from leisure, reflects increases in relative prices. Indeed, the prices for housing and food have risen well above the overall inflation rate over the last two decades, and also the prices of healthcare and education increased above overall inflation. These price increases remain relatively moderate in international comparison, but the overall price *level* in Israel is the second highest across all OECD countries, after Switzerland. According to the recent *OECD Economic Survey of Israel* (OECD, 2025^[4]), different structural factors contribute to these high prices, including geopolitical and economic uncertainties, limited trade and supply chain integration with neighbouring countries, and the low housing supply because of administrative red tape and planning obstacles.

1.3.3. The savings rate has risen for most households in Israel, but low-income households and ethno-religious minorities struggle to make ends meet

Despite rising expenditures, Israeli households have gradually increased their savings rate over the last two decades as income growth outpaced growth in spending. The rise in the savings rate was particularly

pronounced among middle-income households, while it was weakest for households in the bottom of the income distribution. This likely reflects the slower real income growth for low-income households, as well as their greater exposure to rising prices for core necessities, which make up a large share of their budget. Consumption data suggest that households in the bottom quintile of the income distribution spend around 40% more than their monetary income, though part of this gap may be filled through income from informal economic activity and through in-kind social transfers.⁴

Savings rate differentials across the income distribution have a strong ethno-religious dimension in Israel, reflecting the large disparities in employment outcomes and incomes between different population groups. Both the Arab-Israeli and the Haredi Jewish minority are heavily overrepresented in the lower parts of the income distribution, with 48% and 42% of people falling into the lowest income quintile, compared to just 12% of Non-Haredi Jews. Consequently, their savings rates are much lower than for the Non-Haredi Jewish majority. Accounting for these income differences substantially narrows disparities in savings rates between the Arab Israeli and the Non-Haredi Jewish population, though particularly in the lower parts of the income distribution Arab Israelis tend to save less. A strongly negative average savings rate for Arab Israelis overall suggests that many struggle to make ends meet, let alone to build up wealth.

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<https://doi.org/10.1787/689afed1-en>.

Notes

¹ Work on this review began prior to the terrorist attacks of 7 October 2023. The analysis presented covers data and developments before that date.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

² Cross-country comparisons of consumption expenditure patterns in this review focus on the year 2015, because the results of the more recent 2020 wave of Eurostat's Household Budget Survey were distorted by the COVID-19 crisis.

³ These values include imputed rent, i.e. the value that homeowners derive from living in their own dwelling.

⁴ These numbers do not imply that *the same households* systematically spend more than the income they earn. The composition of the low-income group changes from one year to the next, as some households drop into the low-income group, e.g. as a result of job loss or changes in household composition, while others rise out of the low-income group into the middle, e.g. because they take up work or change jobs.

2 Who is middle class in Israel?

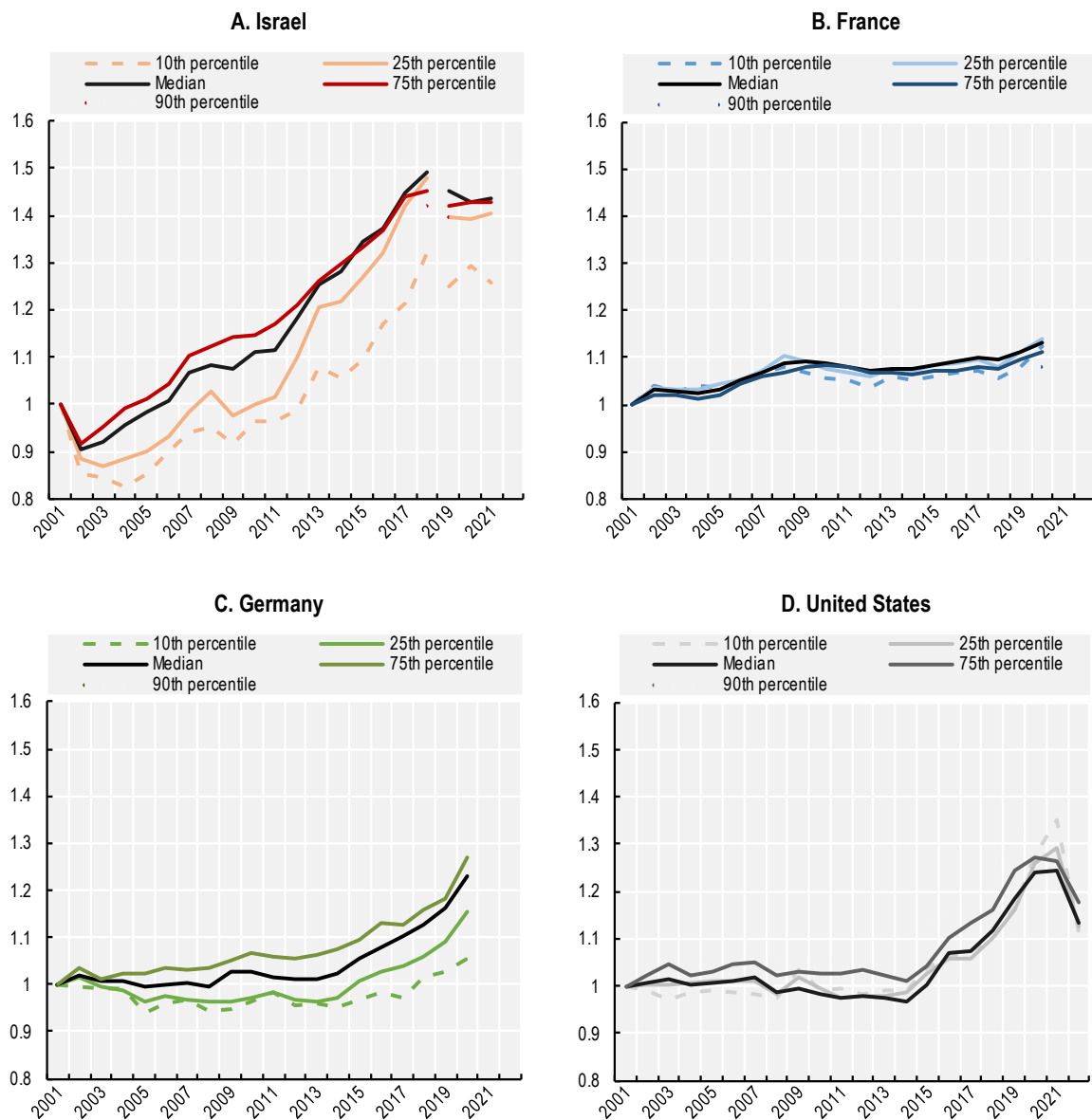
This chapter examines trends in the size and composition of Israel's middle class, proxied by the middle-income group, i.e. people living in households with disposable incomes between 75% and 200% of the national median. It examines the size and evolution of the middle class over the last two decades, putting Israel's experience in international comparison. It then analyses changes in the composition of the middle class along various socio-demographic dimensions, including by age, household type, level of educational attainment, and ethno-religious background.

People in the middle of the income distribution have enjoyed robust income growth in Israel over the last two decades. The Israeli median equivalised disposable household income¹ grew by almost 45% between 2001 and 2021 after adjusting for inflation, or at an annualised rate of 1.8% (Figure 2.1). Most of this growth occurred after a short period of income decline in the wake of the dot-com crisis and the Second Intifada in the early 2000s, which negatively impacted the Israeli economy. This income growth rate was substantially higher than that experienced in some other large OECD economies over the same period, such as France (10%), Germany (20%) and the United States (35%) (Figure 2.1). The COVID-19 crisis put a temporary hold to income growth: Israel successfully cushioned the crisis impact on household incomes through rapid support measures for affected households, including by broadening the eligibility of unemployment benefits, and through one-time payments to families with children (OECD, 2020^[1]; 2023^[2]). However, across the income distribution, household incomes have stagnated between 2019 and 2021 in real terms.

As a result of this robust income growth, people in the middle parts of the income distribution have partially caught up with top income earners, while simultaneously pulling away from those at the bottom. While in the early 2000s, top income earners still benefited from more rapid income growth than households in the middle of the income distribution, this trend reversed around the time of the Global Financial Crisis. From around 2009, people between the 25th and 75th percentile of the income distribution enjoyed rapid income growth, slowly narrowing the gap relative to those in the top 10%. This trend of narrowing income inequalities distinguishes Israel from some other advanced OECD economies, such as Germany and the United States, where the gap between top income earners and other parts of the income distribution has widened since the early 2000s. However, people in the bottom of the income distribution are lagging behind in Israel: they experienced a more significant income decline in the wake of the 2001 economic downturn, a gap that did not close again in the two decades that followed.

Figure 2.1. Middle incomes have grown faster in Israel than in major OECD economies, and have been catching up with top incomes

Real median equivalised disposable household income of people at different points of the income distribution (2001=100), 2001 to most recent years



Note: Equivalised disposable household income assigns post-tax-and-transfer household income, adjusted for household size, to each household member. In 2019, the Israeli Household Expenditure Survey (HES) underwent significant changes: it transitioned to a computer-assisted field survey, revised its weighing system, and expanded its target population. These modifications affected the data series, so caution is needed when comparing income levels before and after these changes.

Source: OECD calculations based on microdata from the Luxembourg Income Study (LIS) database.

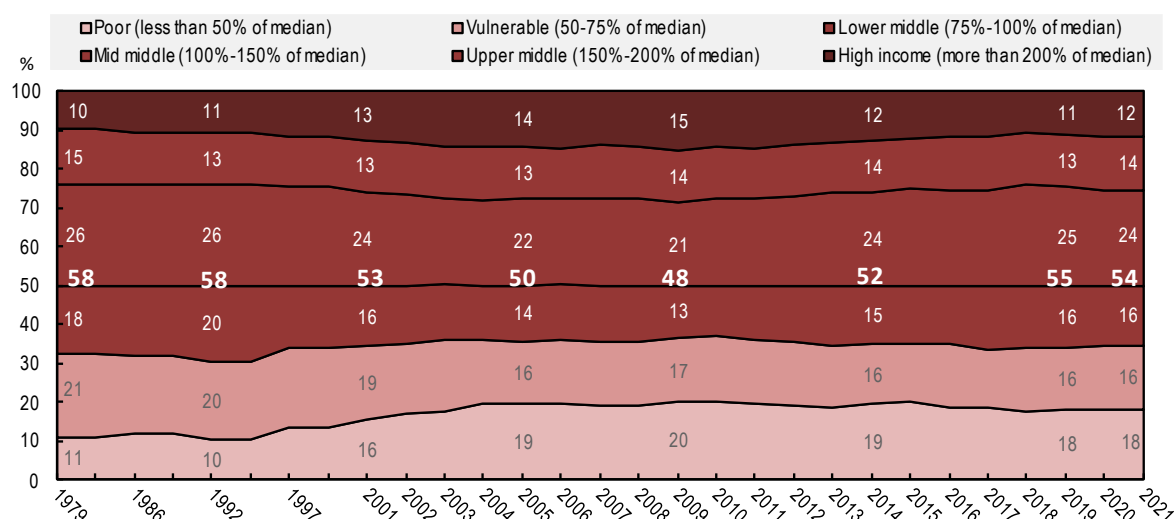
2.1. The middle-income group: evolution and size in a comparative perspective

2.1.1. Israel's middle-income group has grown in the aftermath of the Global Financial Crisis, partially recovering the ground lost in the previous decades

As a result of these income trends,² the Israeli middle-income group has expanded over the last decade or so since the GFC, recovering some of the ground lost since the 1980s and early 1990s. The share of people in the middle-income group, i.e. those living with 75% to 200% of the national equivalised disposable household income (see Chapter 1, Box 1.1), grew from a low of 48% of the population in 2009 to 54% in 2021 (Figure 2.2). The middle part of the distribution (100% to 150% of the median) and the lower-middle-income group (75% to 100% of the median) accounted for most of this expansion, while the upper middle-income group (150% to 200% of the median) remained largely stable. Despite this growth, the size of the middle-income group remains below the historic highs observed in the 1980s and 1990s, when nearly 60% of people in Israel were in the middle-income group.

Figure 2.2. The Israeli middle-income group has grown since the Global Financial Crisis after a long period of decline

Percentage share of the population by income group, Israel, 1979-2021



Note: Income groups based on equivalised disposable household income: post-tax-and-transfer household income, adjusted for household size, attributed to each household member.

Source: OECD calculations based on microdata from the LIS database.

The growth of the middle-income group is reflected in a corresponding shrinking of the groups in the two tails of the distribution. The share of people in the top-income group (over 200% of the median) dropped from 15% to 12% between 2009 and 2021 as middle and top incomes converged – i.e. broadly back to the values observed in the 1990s (Figure 2.1). The share of poor people (below 50% of the median) also decreased, by almost 2 percentage points (p.p.) since 2009, but it still stands well above the values observed in the 1980s and early 1990s (18% vs. just above 10%).

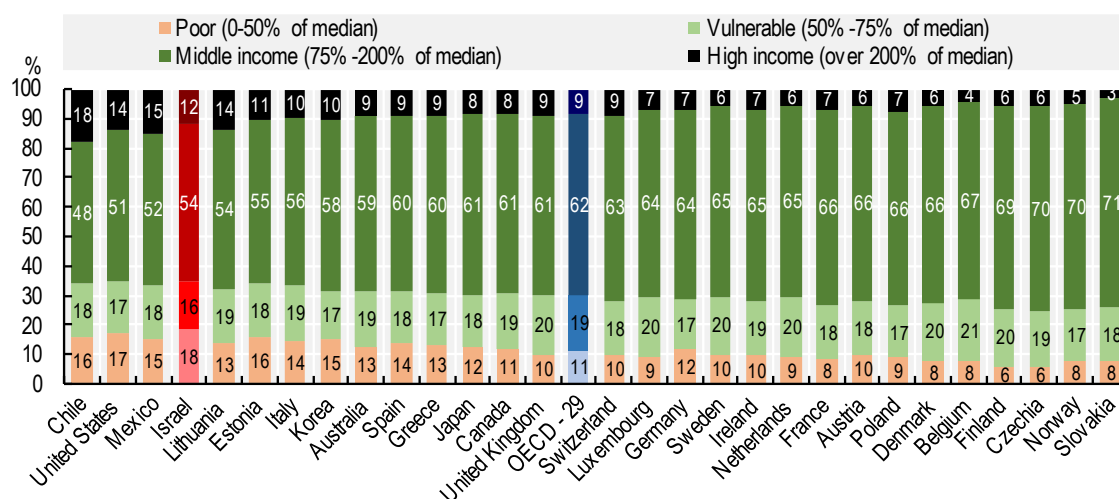
2.1.2. Israel's middle-income group remains among the smallest across the OECD

Despite its recent growth, the Israeli middle-income group remains among the smallest across the OECD. Out of the twenty-nine countries for which data are available, only the United States, Chile and Mexico had

a smaller middle-income group than Israel in 2021. Israel also lagged the OECD average by a large margin, at 54% versus 62% (Figure 2.3). By construction, the size of the middle-income group relates very closely to the level of income inequality (OECD, 2021^[3]). Consequently, the Israeli middle-income group is similar in size to those in other countries where income inequality is high, such as in the United States and in the Baltic countries. The middle-income groups are largest in the Nordic and Central European countries, where income inequality is low. The poverty rate in Israel is also high compared to most OECD countries: the share of poor people in Israel reached 18% in 2021, far above the 11% OECD average (Figure 2.3).

Figure 2.3. The Israeli middle-income group is among the smallest across OECD countries

Percentage share of the population by income group, 2021 for Israel and most recent year for the remaining countries



Note: The most recent year varies across countries, ranging from 2016 to 2022. Data for the year 2020 has not been used to avoid distortions because of the COVID-19 crisis. Income groups are based on equivalised disposable household income: post-tax-and-transfer household income, adjusted for household size, attributed to each household member. OECD-29: unweighted average of the countries shown.

Source: OECD calculations based on microdata from the LIS database.

2.2. The changing composition of the middle-income group in Israel

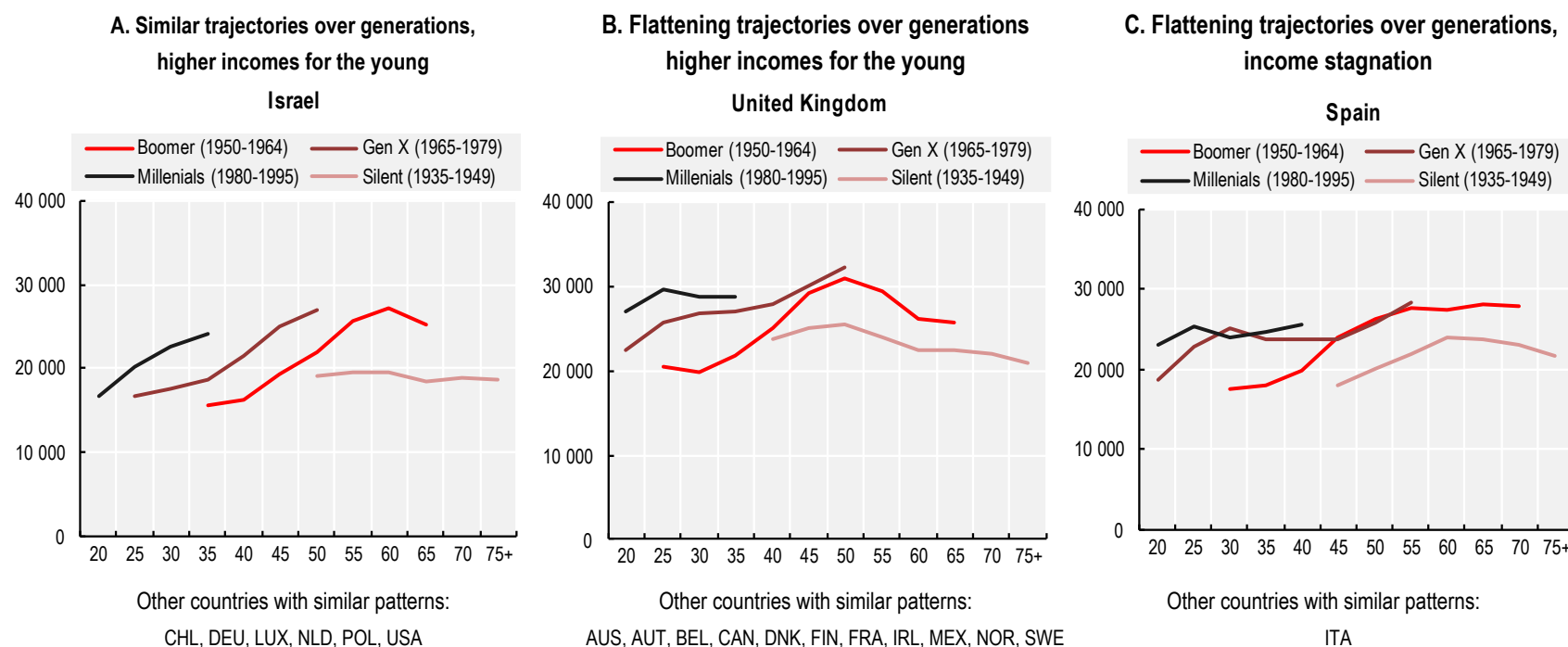
This section presents evidence on the socio-demographic composition of the middle-income group in Israel. It documents the extent to which people of different ages, educational levels and ethno-religious groups are represented in the middle-income group, and how their likelihood of living in a middle-income household evolved over time.

2.2.1. Younger generations have benefited from rising incomes, but still lost ground relative to older generations

As a result of strong income growth in Israel over the last decades, each generation has been enjoying higher real median incomes than the previous one did at a comparable age (Figure 2.4, Panel A).

Figure 2.4. Younger generations have benefited from steep income trajectories in Israel, unlike in many other OECD economies

Age trajectories in real median equivalised disposable household incomes (2017 PPP-adjusted USD), by generation



Note: For each generation-age group, median incomes are computed by averaging across all survey years from the 1990s to the latest available year in which a generation is observed at a given age. To improve robustness, only generation-age groups that appear in at least two survey years are included, and survey years where the generation-age group represents a larger share of the population receive a greater weight. Income groups based on equivalised disposable household income: post-tax-and-transfer household income, adjusted for household size, attributed to each household member. Adapted from Bassanini et al. (2025^[4]). Incomes are expressed in 2017 PPP-adjusted USD. Consumer Price Index data are already available in the LIS database and come from the International Comparison Programme (ICP) at the World Bank.

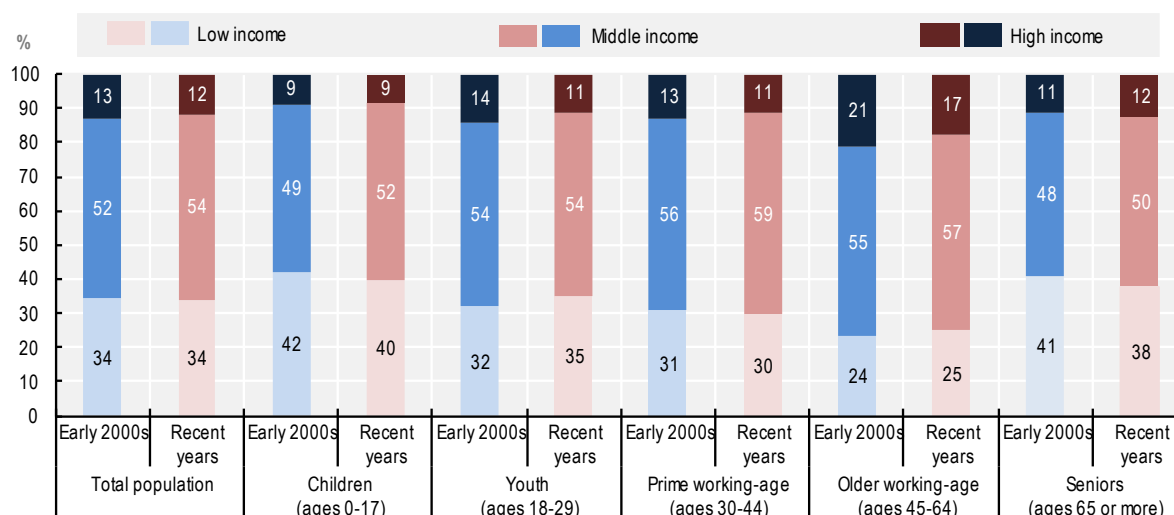
Source: OECD calculations based on microdata from the LIS database.

Moreover, the generation of *Millennials* – i.e. people born in the 1980s and early 1990s – benefited from somewhat steeper income trajectories than earlier generations. This distinguishes young Israelis from their peers in most OECD countries, where young people have experienced flatter income trajectories than earlier generations (Figure 2.4, Panel B) or no income growth at all (Figure 2.4, Panel C; see Bassanini et al. (2025^[4]) for a comprehensive analysis). As a result, when measured in purchasing power parity (PPP), the living standards of younger generations in Israel have been catching up with those of young people in countries where median incomes are higher, such as Spain and the United Kingdom. This reflects robust wage growth and a significant upskilling of the labour force over the past decades (see Chapter 3).

Nonetheless, young people in Israel saw their *relative* income position deteriorate compared to other age groups (Figure 2.5). Despite the growth in the overall size of the middle-income group, the share of 18-29 year-olds who reach the middle class has stalled in Israel since the early 2000s; meanwhile, their share in the low-income group rose by 3 p.p., to 35%. Demographic change helps explain this shift: older age groups, who have higher incomes on average, now make up a larger share of the population. This has pushed up the income threshold necessary for entering the middle-income group, making it harder for young people to access this group.

Figure 2.5. Young people's access to the middle-income group has stagnated

Population share belonging to different income groups by age groups, 2001/02 and 2019/21, Israel



Note: Values are averaged over two years to smooth year-to-year volatility in the data. The year 2020 is excluded to minimise the impact of the COVID-19 pandemic on the analysis. Income groups based on equivalised disposable household income: post-tax-and-transfer household income, adjusted for household size, attributed to each household member.

Source: OECD calculations based on microdata from the LIS database.

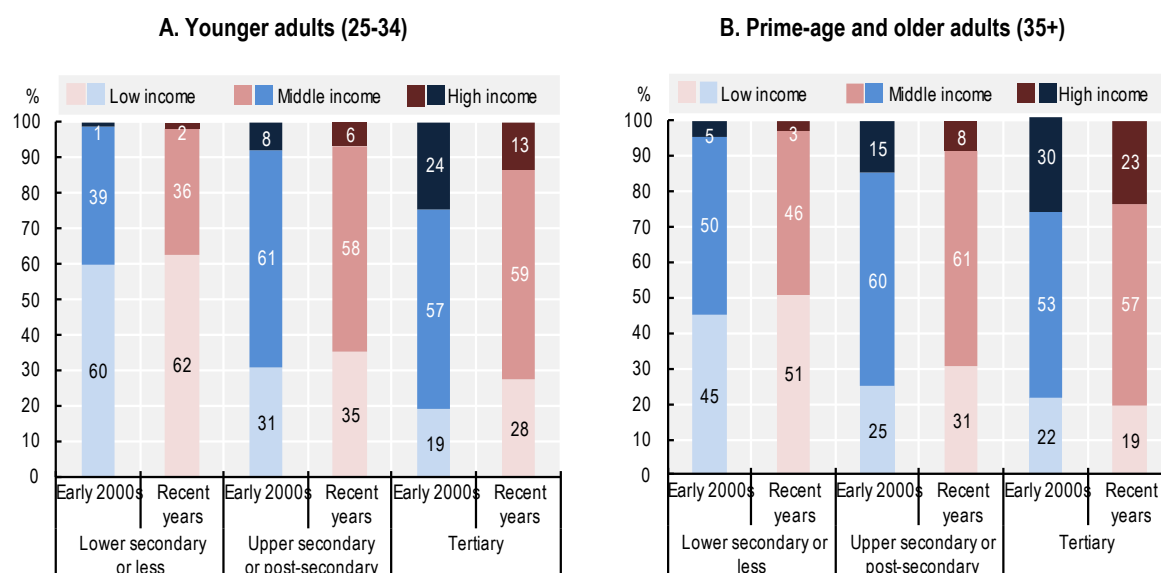
In contrast, families with children and seniors experienced an improvement in their relative income position, even if both groups remain overrepresented in the low-income group. The share of children³ in the middle-income group rose by 3 p.p., that of seniors by 2 p.p., while the risk of falling into the low-income group declined. Still, children and seniors account for 40% and 38% of this group, compared to just 34% in the overall population.

2.2.2. People with lower educational attainment and ethno-religious minorities have struggled to reach the middle-income group

People without tertiary education make up a smaller share of the middle-income group and increasingly struggle to move up the income ladder. In the early 2000s, around one-third of people in the middle-income group held a tertiary degree. Twenty years later, those with tertiary education accounted for half of this group. This increase partly reflects the expansion of tertiary education in Israel. Moreover, over the last 15 years, the Israeli labour market has shifted from manufacturing into service-oriented activities, and most middle-income jobs are now in high-skilled occupations (see Chapter 3). In this context, people with low education increasingly struggle to leave the low-income group: in recent years, 51% of those without an upper-secondary qualification were in the low-income group, compared to still just 45% in the early 2000s (Figure 2.6). Among the young, education has become even more crucial: in recent years, two-in-three of those without a high school diploma were in the low-income group.

Figure 2.6. People without tertiary education have increasingly struggled to reach the middle-income group, especially among the young

Population share belonging to different income groups by education level, 2001/02 and 2019/21, Israel



Note: Values are averaged over two years to smooth potential year-to-year volatility in the data. The year 2020 is excluded to minimise the impact of the COVID-19 pandemic on the analysis. Income groups based on equivalised disposable household income: post-tax-and-transfer household income, adjusted for household size, attributed to each household member.

Source: OECD calculations based on microdata from the LIS database.

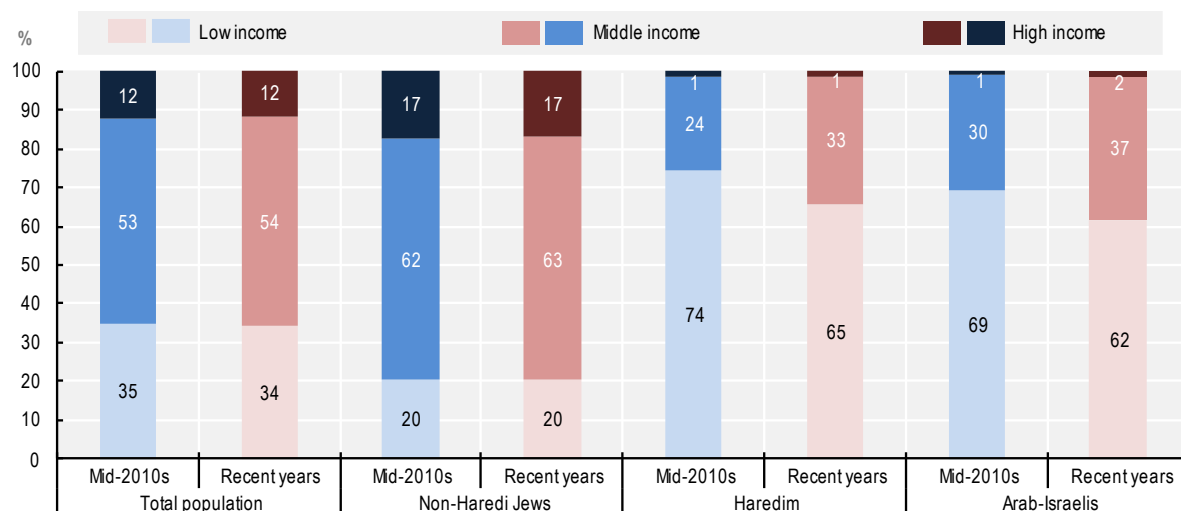
There are also substantial ethno-religious disparities in the access to the middle-income group in Israel. People from ethno-religious minorities, notably Arab-Israelis and Haredi (ultra-orthodox Jewish) people, remain strongly underrepresented in the middle-income group relative to the non-Haredi Jewish majority, even if their situation has improved. In the mid-2010s, the earliest years for which detailed ethno-religious groups are identifiable in the Israel income data, people in households headed by an Arab-Israeli or a Haredi Jew accounted for only 5% of the middle-income group; in more recent years, their share had increased to around 8.5%.⁴ Part of this growth is attributable to improved economic opportunities and participation for these minorities.⁵ Indeed, the share of Haredim that make it to the middle-income group has risen by 9 p.p. since the mid-2010s; that of Arab-Israeli has risen by 7 p.p. (Figure 2.7). The remainder reflects the growing share these minorities make up in the total population.

Still, the incomes of ethno-religious minorities continue to lag well behind those of the non-Haredi Jewish majority.⁶ In 2021, the latest year with available data, the median equivalised disposable household income of both Haredim and Arab-Israelis was slightly over ILS 60 000 (about USD 18 700), around half that of non-Haredi Jews (ILS 124 000, or about USD 38 600). These minorities consequently remain strongly underrepresented in the middle- and high-income groups. In recent years, only 33% and 37% of Haredim and Arab-Israelis made it to the middle-income group, compared to 63% of the non-Haredi Jewish majority (Figure 2.7). The share of people from ethno-religious minorities who make it into the high-income group are practically negligible.

Various factors can explain why among ethno-religious minorities a much smaller share of people reach the middle-income group, including disparities in educational outcomes, employment, and demographics. Indeed, educational outcomes in Israel remain closely tied to ethno-religious background, limiting access to the middle-income group for minorities. Arab-Israeli pupils perform substantially less well on the national *Meitzav* exams (Ayalon et al., 2019^[5]), standardised tests for pupils in grades 5 and 8 of primary and lower-secondary education. They also lag their Jewish peers in high-school graduation rates, by around 10 p.p., despite improvements over the last decades (Taub Center, 2023^[6]). These educational disadvantages translate into a weaker school-to-work transition and poorer labour market outcomes. In 2021, around 35% of Arab-Israelis aged 18 to 24 were not in employment, education or training (NEET), more than twice the share among the non-Haredi Jewish youth (15%) (OECD, 2023^[2]). Arab Israelis also exhibit substantially lower employment rates (see Chapter 3, Box 3.1). These types of disadvantage transmit from one generation to the next and undermine upward mobility (OECD, 2026^[7]): only 7% of Muslim Arab Israelis born to parents in the bottom quartile of the earnings distribution manage to climb to the top earnings quartile, compared to 18% of non-Haredi Jews (Gordon, Flug and Kenneth, 2022^[8]). Closing these educational and employment gaps is therefore essential to provide ethno-religious minorities with equal opportunities to join the middle class. Meanwhile, while most Haredim have obtained a tertiary degree, their education often takes the form of religious studies, which offer limited relevant and transferable labour market skills (see Chapter 3, Box 3.1). Living arrangements and demographics also differ across socio-economic groups, with both Arab Israelis and Haredim living, on average, in larger households with a greater number of children, with implications for their living standards and their access to the middle-income group (see Box 2.1).

Figure 2.7. Arab-Israelis and Haredim remain heavily underrepresented in the middle-income group, even if their relative income position improved

Population share belonging to different income groups by ethno-religious group of the household head, 2014/15 and 2019/21, Israel



Note: Values are averaged over two years to smooth potential year-to-year volatility in the data. The year 2020 is excluded to minimise the impact of the COVID-19 pandemic on the analysis. Income groups based on equivalised disposable household income: post-tax-and-transfer household income, adjusted for household size, attributed to each household member.

Source: OECD calculations based on microdata from the LIS database.

Box 2.1. Living arrangements and age distribution of Israel's main ethno-religious groups

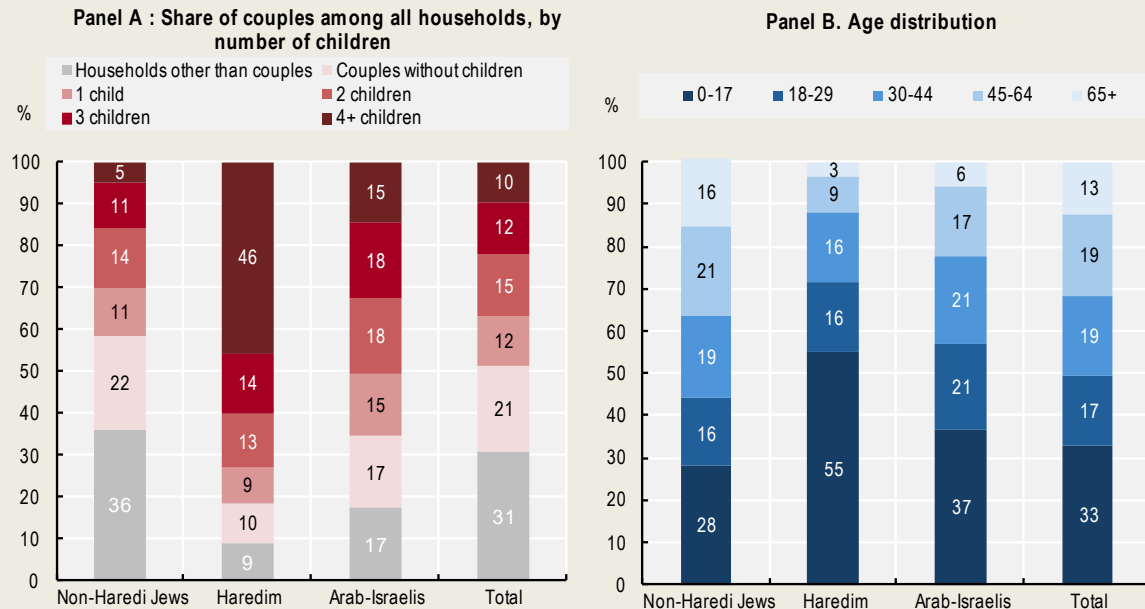
Living arrangements play an important role in shaping people's chances of accessing the middle class. Larger households, including those with many children, need to share the available income among a greater number of household members, which results in a lower *equivalised* disposable income available to each member (see endnote 1). Large families may also find it harder to balance work and caring responsibilities, which can be an obstacle to parents' labour market participation (see Chapter 3, Box 3.1).

People from ethno-religious minorities in Israel are more likely to have children, and they have larger families. Among the non-Haredi Jewish majority, couples with children represent less than half of all working-age households; those with two children or more account for 30% of households. By contrast, among Haredi and Arab-Israeli households, couples with children make up a large majority of working-age households, and those with two or more children account for 73% and 51% of households, respectively (Figure 2.8, Panel A).

As a result, people from ethno-religious minorities are, on average, much younger than the non-Haredi Jewish majority: while around 40% of non-Haredi Jews are under age 30, the share reaches close to 60% among Arab-Israelis and over 70% among Haredim (Figure 2.8, Panel B).

Figure 2.8. Haredi and Arab-Israeli people live in households with a greater number of children, and they are much younger on average

Share of couples among all working-age households by number of dependent children (Panel A) and age distribution of the population (Panel B), by ethno-religious group, Israel, 2021



Note: "Total" includes ethno-religious groups other than the three shown in this figure. Information on ethno-religious group is only available for the household head; in the analysis it is then applied to all household members. In Panel A, only households with at least one working-age individual (25-64) are included. Household types other than couples include one-person households, single-parent households, multigenerational families, and non-relatives living together, among others. A dependent child is defined as a child aged 17 or younger, or a child aged 18 to 24 still enrolled in continuous education.

Source: OECD calculations based on microdata from the LIS database.

2.3. Main conclusions

This chapter has provided analysis of the evolution of the Israeli middle class over the last two decades. The main findings are:

- *The Israeli middle class has grown since the Global Financial Crisis but remains among the smallest across the OECD.* The share of people belonging to the middle-income group has risen from a low of 48% in 2008-2009 to roughly 54% in 2021. Even so, the group is much smaller than it was in the 1980s and 1990s and is far below the OECD average of 62%.
- *Younger people and those without tertiary education have found it increasingly hard to access the middle class over the past two decades.* The disadvantage is sharpest for young people without upper-secondary education: two-thirds of them fall into the low-income group, compared to one-third of the population overall.
- *Ethno-religious minorities remain strongly underrepresented in the middle class, even if they have seen their relative income position improve.* Only 33% of Haredi (ultra-orthodox) Jewish people and 37% of Arab-Israelis make it into the middle-income group, compared to 63% of people from the non-Haredi Jewish majority.

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Notes

¹ Equivalised disposable household income assigns post-tax-and-transfer household income, adjusted for household size, to each household member. Post-tax-and-transfer household income includes wages and salaries, income from self-employment and unincorporated enterprises, pensions and other social benefits, and income from financial investments, minus payments of taxes, social insurance contributions and interest on financial liabilities. This income is adjusted for household size using the square-root method, i.e. by dividing the household income by the square root of the household size, to account for within-household sharing of resources. Median equivalised disposable household income is the income of the person in the middle of the income distribution: half of the people have a *higher* equivalised disposable household income than the median person, half have a *lower* income.

² Since the analysis in this section defines income groups based on thresholds expressed relative to the median income, their size reflects the income patterns shown in Figure 2.1: when income growth is uneven across different parts of the distribution, people cross these thresholds, moving from one income group to another.

³ The income variable used in this report is equivalised disposable household income (see endnote 1). Therefore, the income of children captures the post-tax-and-transfer income of the households where children live, adjusted for household size.

⁴ In LIS data, information on ethno-religious group is only available for the household head. The analysis in this chapter applies the ethno-religious status of the household head to all the household members. In 2021, non-Haredi Jews accounted for roughly 65% of the population, Arab-Israelis for 21%, and Haredim for 11%.

⁵ Arab-Israeli people accounted for roughly 18.5% of the population in 2014 and 21% in 2021; Haredi Jews represented roughly 9% of the population in 2014 and 11% in 2021.

⁶ By contrast, migrant background does not appear to play a key role for access to the middle-income group, at least among Jewish people in Israel for which it can be measured precisely. Among Jewish people, those living in households headed by a person born outside of Israel had similar chances of making it into the middle-income group as those in other Jewish households. However, they were overrepresented in the low-income group and underrepresented among high-income households.

3

Middle-class workers in Israel: trends in occupations and wages, sectoral shifts and persistent inequalities

This chapter examines the labour market situation of middle-income workers in Israel, putting the country's experience in comparison with other OECD countries. It analyses access to the middle-income group for workers from different demographic and ethno-religious backgrounds, and examines the occupational and sectoral distribution of middle-income workers and how it has evolved over time. The chapter also examines wage trends for middle-income workers and changes in the skill premium, with a focus on inequalities by gender and ethno-religious background.

With earnings from work being the main source of income for most people across the income distribution, the type and quality of jobs that people can access is a key determinant of their family's chances of making it into the middle class. However, navigating a transforming labour market has become challenging for many middle-income households. Across OECD countries, megatrends such as digitalisation and demographic change are changing the skills set that workers need to remain competitive. Many traditional middle-class jobs, notably in manufacturing and clerical occupations, have been in retreat over the past decades. More recently, even high-skilled professional occupations, which permitted workers access to middle-class incomes, have gotten under pressure with the spread of Artificial Intelligence (AI), to which white-collar workers have been particularly exposed (Georgieff and Hyee, 2021^[1]). Over 20% of workers responding to the *2022 OECD Risks that Matter Survey* believed their job is likely to be replaced by a robot, computer software, algorithm or AI system (OECD, 2024^[2]).

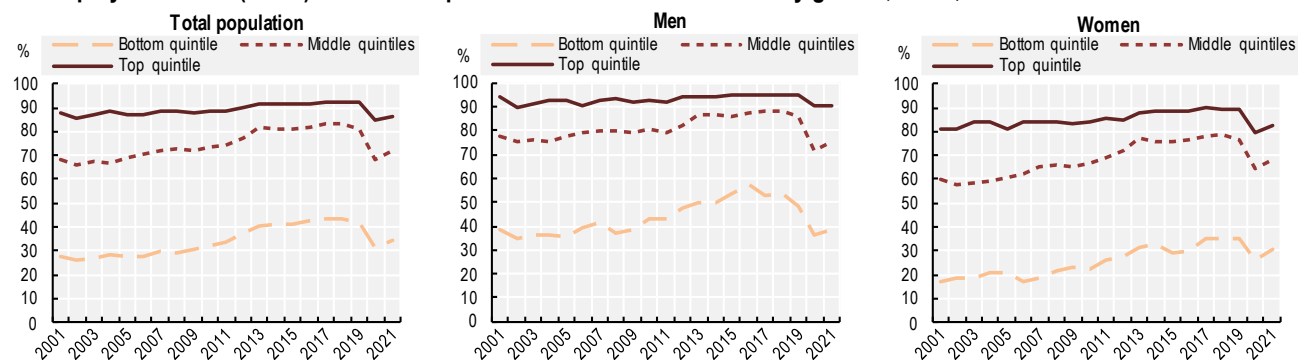
This chapter examines the key labour market developments for middle-class workers in Israel over the last two decades. It shows that economic growth, rising skill levels and a progressive employment shift toward higher-paying service industries have contributed to steady wage growth for middle-income workers in Israel, unlike in many other OECD countries, where middle-class workers have faced stagnating wages and occupational polarisation (OECD, 2019^[3]). However, the chapter documents also significant inequalities in labour market outcomes across socio-demographic groups, which limit employment and career opportunities for many.

Access to employment is perhaps the most critical factor impacting people's opportunities to access the middle class. Households in which one or more working-age member do not participate in the labour market are less likely to earn sufficient income to reach the middle-income group. In Israel, people in the middle and top of the income distribution are much more likely to participate in the labour market than those in the bottom. In 2021, the most recent year for which data are available, virtually all working-age people – both women and men – in the top income quintile were employed, compared to around three-in-four among those in the three middle quintiles, and only over one-in-three in the bottom quintile (Figure 3.1, Panel A). This is despite a sustained increase in female employment at the bottom of the income distribution since 2001.

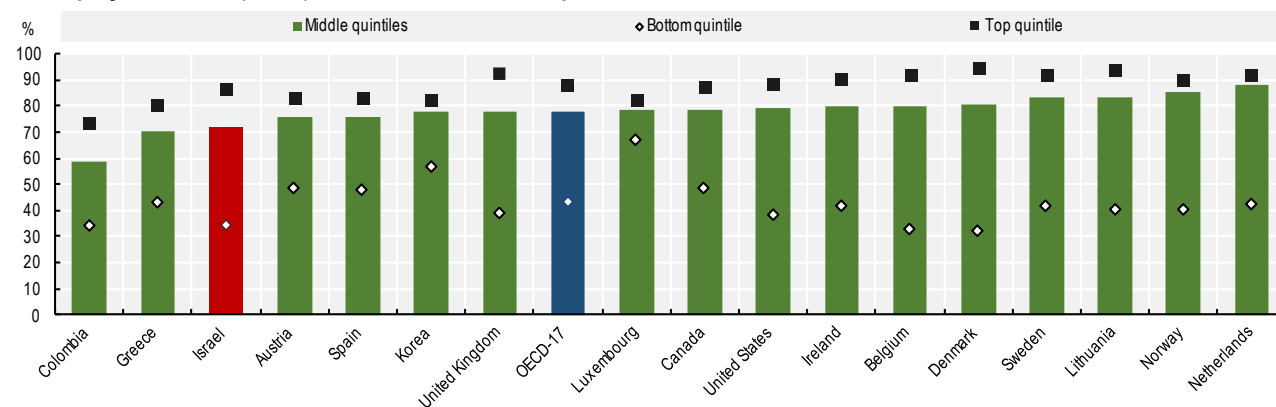
However, Israel has room to raise employment rates among middle- and bottom-income earners, relative to OECD peers. In 2021, just over 70% of working-age people in the middle income quintiles were employed, ranking Israel only above Colombia and Greece among OECD countries with available data, well below the 80% OECD average (Figure 3.1, Panel B). Employment rates in the bottom quintile also trailed the OECD average by almost 10 percentage points (p.p.). In contrast, Israel's employment rate among those in the top quintile was close to the OECD average. Narrowing these gaps would contribute to a stronger, more resilient middle class in Israel.

Figure 3.1. Middle-income people are much more likely to participate in the labour market than those on low incomes, particularly in Israel

A. Employment rates (25-64) for different parts of the income distribution by gender, Israel, 2001 to 2021



B. Employment rates (25-64) for workers in different parts of the income distribution, selected OECD countries, 2021



Note: Panel B includes OECD countries with available data for 2021, the latest year with data for Israel. Data for countries available for other years are excluded to make results comparable, as the COVID-19 crisis impacted employment rates in many OECD countries. Income quintiles based on equivalised disposable household income: post-tax-and-transfer household income, adjusted for household size, attributed to each household member. OECD-17: unweighted average of the countries shown.

Source: OECD calculations based on microdata from the LIS database.

The remainder of this chapter is organised as follows: Section 3.1 illustrates that most workers access the middle-income group. Section 3.2. highlights that middle-income workers have experienced occupational advancement in recent decades, but some socio-demographic groups lag behind. Section 1.2.6 highlights that middle-income workers have enjoyed robust wage growth, while the skill premium has shrunk.

This chapter adopts the same income-based definition of the middle class used in Chapter 2, i.e. people with equivalised disposable household incomes¹ between 75% and 200% of the national median are considered as being part of the middle class. However, unlike Chapter 2, this chapter presents results only for workers, i.e. those whose main activity status is full- or part-time employment, aged 25 to 64. Although the analysis focusses on *middle-income* workers, some sections broaden the scope to include workers across other income groups.

3.1. Workers in different parts of the income distribution

3.1.1. Most workers access the middle- or high-income group, but some groups of workers lag behind

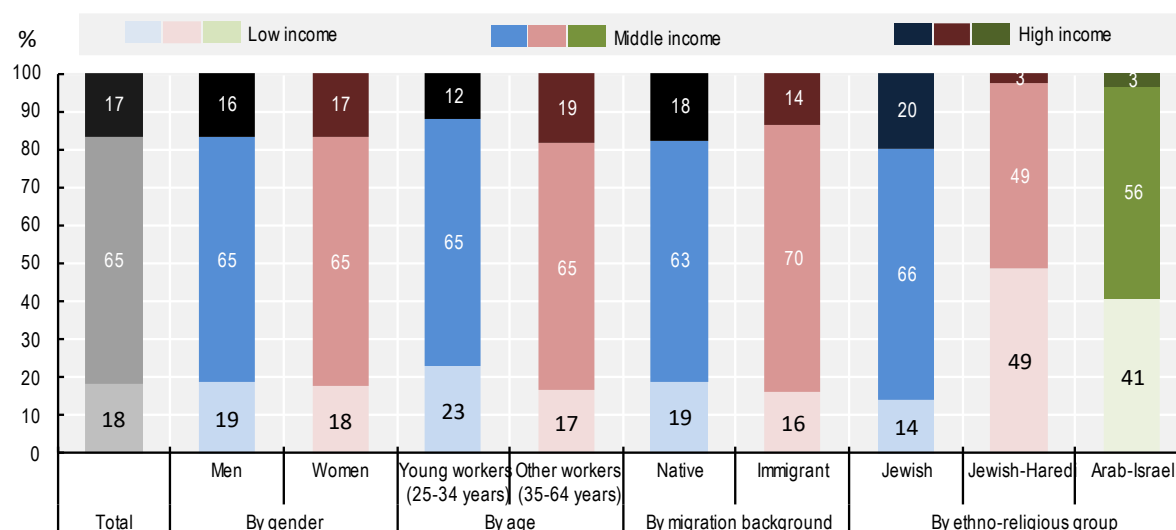
An alternative way of reading the previous analysis is that most people who work reach at least the middle-income group. In the most recent years for which data are available people in employment were overrepresented both in the middle-income group (63% vs. 54% of people) as well as in the high-income group (18% vs. 12%) relative to the overall population; meanwhile, they were underrepresented in the low-income group (19% vs. 35%; Figure 3.2).

Yet, not for all socio-demographic groups does having a job provide equal access to the middle-income group. As Figure 3.2 illustrates, there exist differences:

- *Among ethno-religious groups:* only 49% of Haredi (ultra-Orthodox) Jews and 56% of Arab-Israeli workers belonged to the middle-income group, compared to 66% of non-Haredi Jewish workers.² Very few workers from these minorities reached the high-income group. These gaps reflect, in part, the overrepresentation of non-Jewish workers in low-paying occupations (Taub Center, 2023^[4]; Debowy, Epstein and Weiss, 2021^[5]). They are also linked to a greater prevalence of single-earner households among ethno-religious minorities (Chapter 3, Box 3.1). Previous evidence suggests also that attitudes towards ethnic minorities remain quite negative relative to those in most OECD countries, which may create obstacles to their labour market integration (OECD, 2020^[6]).
- *By age:* the share of young workers in the low-income group is 5 p.p. greater than that of other workers. This reflects life cycle effects, with earnings increasing with work experience (Mincer, 1974^[7]). Recent evidence from Israel suggests that, on average, earnings returns to occupational experience do not peak until after around three decades of work experience (Debowy, Epstein and Weiss, 2021^[5]).
- *By migrant status:* immigrant workers were more likely than native workers to make it into the middle-income group (70% versus 63%), but they are underrepresented both in the high- and low- income group. This pattern suggests that Israel has been relatively successful at integrating immigrants into the middle class. A major driver of this success is the strong skill base of the immigrant workforce, especially among those who arrived from the former Soviet Union in the 1990s and early 2000s (Razin, 2017^[8]).

Figure 3.2. Most workers reach the middle- or high-income group, but particularly workers from ethno-religious minorities lag behind

People in employment by income group and demographic characteristics, Israel, 2019/21



Note: Workers are defined as people between 25 and 64 years old whose main activity is employment. The year 2020 is excluded to minimise the impact of the COVID-19 pandemic on the analysis. Income groups are defined based on equivalised disposable household income: post-tax-and-transfer household income, adjusted for household size, attributed to each household member.

Source: OECD calculations based on microdata from the LIS database.

Box 3.1. Disparities in employment outcomes and educational attainment across Israel's main ethno-religious groups

Employment is a key determinant of people's access to the middle class, as households' disposable incomes largely depend on the labour market participation of their working-age members. Among couples, who account for the majority of households (see Chapter 2, Box 2.1), those with two earners typically enjoy higher and more stable incomes than couples in which one or fewer adults work.

And there are large differences in labour market participation and work intensity between ethno-religious groups in Israel. Among Arab-Israeli and Haredi couples, a far greater share are workless and single-earner couples than in the non-Haredi Jewish majority. Meanwhile, two-earner couples accounted for only 29% of Haredi and 36% of Arab-Israeli couples in recent years, compared with nearly 60% of non-Haredi Jewish couples (Figure 3.4, Panel A). Among the Haredim, part-time work is widespread: in almost half of couples, neither partner works full-time, i.e. even for two-earner couples the total work intensity may only correspond to one person when measured in full-time equivalents. When one partner does work full-time, it is often the woman. Among Arab-Israeli couples, single-earner arrangements dominate, with men typically working full- or part-time while women remain outside of the labour force.

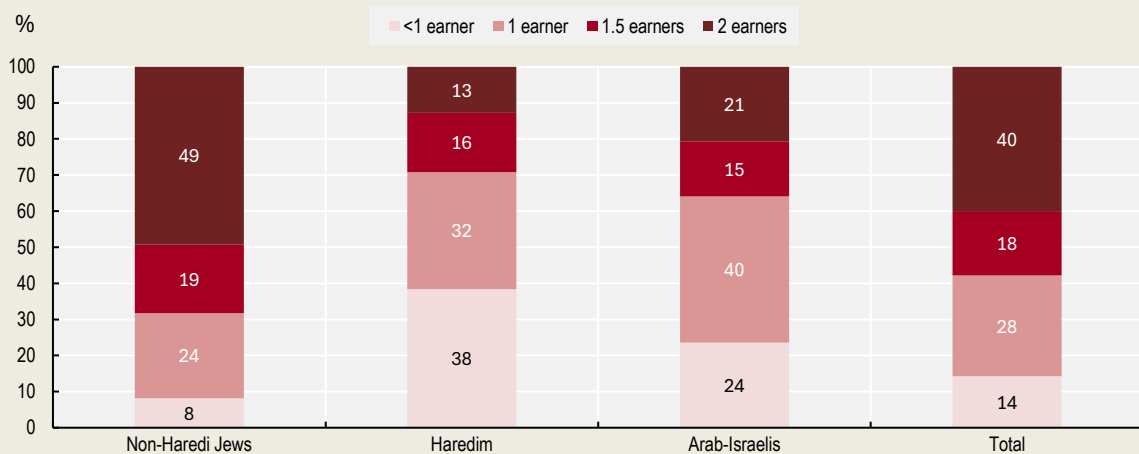
As a result, employment rates are substantially lower for people from ethno-religious minorities. In recent years, about 80% of working-age non-Haredi Jews were employed, compared with less than 60% of Haredim and Arab-Israelis. Gender gaps are also more pronounced among these groups: while among the non-Haredi majority there is virtually no gap in employment rates between men and women, employment rates are around 10 p.p. higher for Haredi women than for men, while the opposite is the case among Arab Israelis (Figure 3.4, Panel B).

Ethno-religious disparities in educational opportunities are one driver of these labour market differences. While 60% of working-age non-Haredi Jews hold a tertiary education qualification, the share among Arab

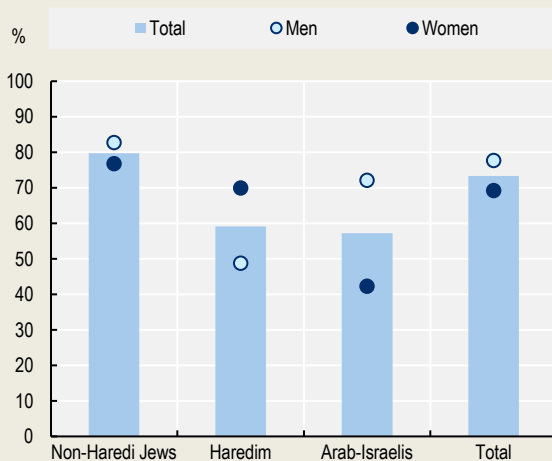
Israelis is only 27% (Figure 3.4, Panel C). One reason is the limited instruction in Hebrew and English in Arab-Israeli schools, which makes it harder for students from these schools to access higher education, where these languages dominate. Resource gaps in Arab-Israeli schools relative to Jewish schools further reinforce these disparities (OECD, 2025^[9]; 2023^[10]). Most Haredim have tertiary education, but in the form of religious studies, which offer limited relevant and transferable labour market skills. Stipends for adults enrolled in advanced religious study institutions (*kollels*) further disincentivise labour market participation.

Figure 3.3. Ethno-religious minorities are less likely to access employment, partly due to educational attainment gaps

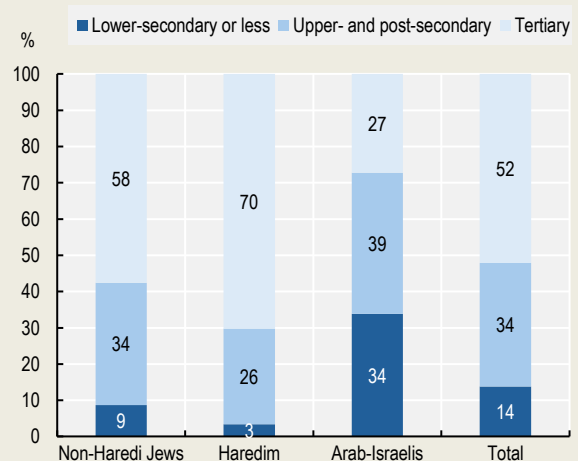
Panel A. Share of working-age couples (25-64) by work intensity (full-time equivalent) and ethno-religious group, Israel, 2019/2021



Panel B. Employment rates (25-64 years) by ethno-religious groups, Israel, 2019/2021



Panel C. Share of working-age people (25-64) by educational attainment and ethno-religious group, Israel, 2019/2021



Note: "Total" includes ethno-religious groups other than the three shown in this figure. Information on ethno-religious group is only available for the household head; in the analysis, it is then applied to all household members. In Panel A, only households consisting of two working-age individuals (25-64) are included. The number of earners is shown in full-time equivalents, i.e. two adults each working part-time are considered as one earner. Values are averaged over two years to smooth potential year-to-year volatility in the data. The year 2020 is excluded to minimise the impact of the COVID-19 pandemic on the analysis.

Source: OECD calculations based on microdata from the LIS database.

3.1.2. Women and young workers from low-income households are overrepresented among those who have joined the labour force

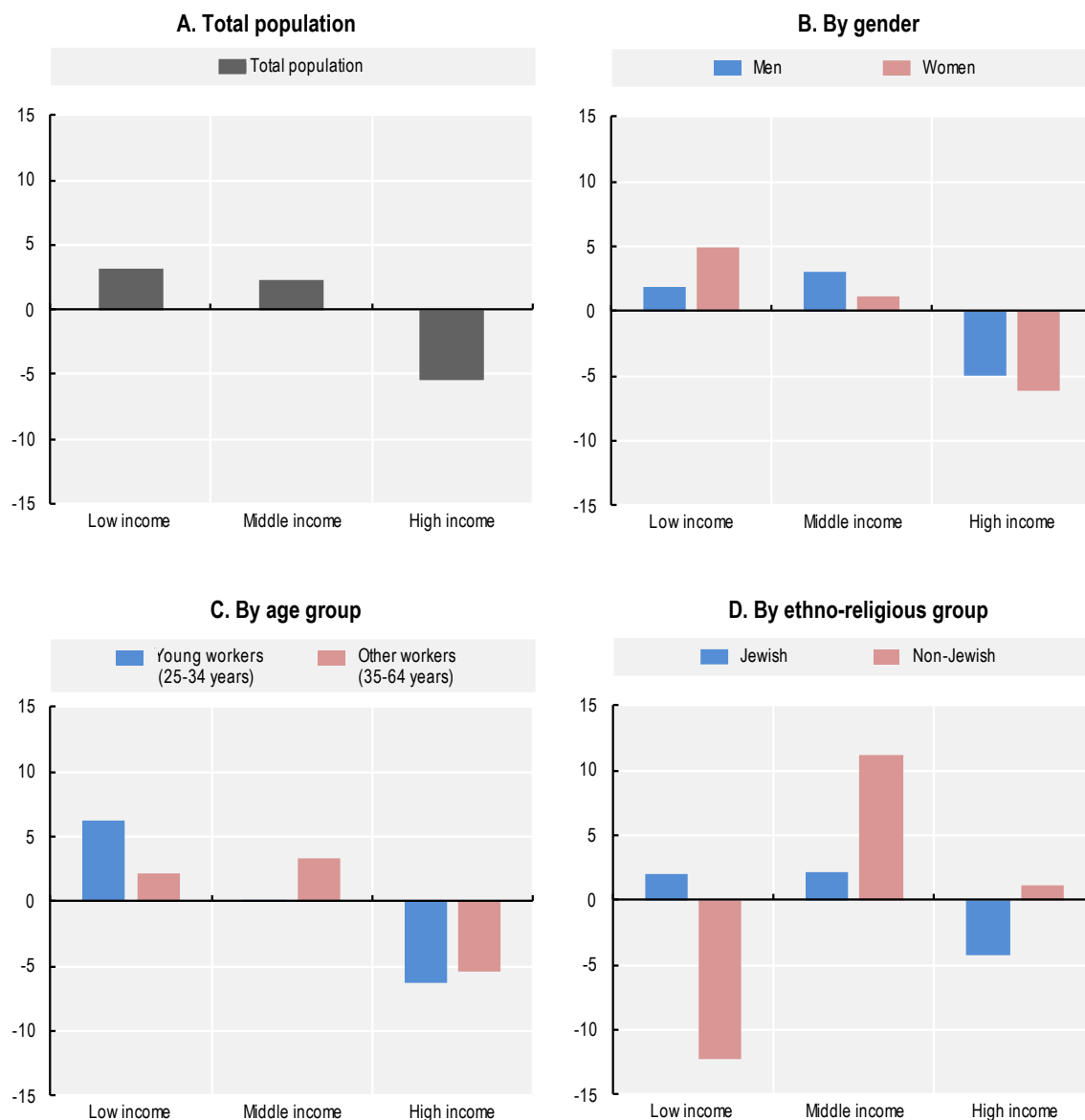
The Israeli workforce has expanded significantly over the last two decades, with the most pronounced *relative* growth having occurred in the low-income group. From the early 2000s to recent years, nearly 750 000 people in middle-income households, 250 000 in low-income households, and 90 000 in high-income households have joined the labour force. This expansion led to a shift in the composition of workers across income groups. Labour market participation has been historically lower at the bottom of the income distribution (Figure 3.1, Panel A), and the low-income group is relatively small (Chapter 2, Figure 2.2). For these reasons, despite a smaller increase in employment among low-income workers in absolute terms, the share of low-income workers in the total workforce increased by over 3 p.p., compared just 2 p.p. for middle-income workers (Figure 3.4, Panel A). These gains mirrored a decline in the share of workers in the high-income group by 5 p.p. This relative decline in the high-income group is not necessarily a negative phenomenon: the vast majority of people at the top of the income distribution were already employed in the early 2000s (Figure 3.1, Panel A); therefore, room for employment growth was much larger among those living in low- and middle- income households.

Again, however, this overall trend masks important differences in the composition of employment growth for different socio-demographic groups:

- *Women in low-income households have disproportionately joined the labour force:* among female workers, the share of those in the middle-income group rose by 1 p.p., but by 5 p.p. in the low-income group, while it contracted by 6 p.p. in the high-income group (Figure 3.4, Panel B). Most of the expansion in female labour force participation was driven by women taking up work as second earners, often part-time, possibly in response to the rising costs of core necessities such as food and housing (Chapter 4, Section 4.2). In contrast, among men, employment expanded most strongly in the middle-income group, by 3 p.p.
- *Younger workers increasingly find themselves in the low-income group:* among workers aged 25 to 34, their share of those in the low-income group has risen by almost 6 p.p. from the early 2000s to recent years (Figure 3.4, Panel C). In contrast, workers aged 35 and older were more likely to reach middle-income status in recent years than in the early 2000s.³ The results mirror the deterioration in the relative income position of younger people in a context of rising incomes overall (see Chapter 2, Figure 2.5).⁴
- *More non-Jewish women have joined the labour market, particularly in middle-income households:* among non-Jewish workers,⁵ the share of those in the middle-income group has risen by over 10 p.p. over the last two decades, a trend mirrored by an equivalent decline in the low-income group (Figure 3.4, Panel D). This shift was driven by the increased employment of non-Jewish women from middle-income households.

Figure 3.4. Employment has grown the most among low-income households, and especially for women and younger workers

Percentage point changes in the composition of employment by income group, Israel, 2001/02 to 2019/21



Note: Decomposition of the group of people between 25 and 64 years whose main activity is employment. Values are averaged over two years to smooth year-to-year volatility in the data. The year 2020 is excluded to minimise the impact of the COVID-19 pandemic on the analysis. Income groups based on equivalised disposable household income: post-tax-and-transfer household income, adjusted for household size, attributed to each household member.

Data on specific ethno-religious groups were not available in the early-2000s, so the broader category "Non-Jewish" is used instead. Over 80% of the non-Jewish population are Arab-Israeli.

Source: OECD calculations based on microdata from the LIS Database.

3.2. An occupational analysis of middle-income employment

3.2.1. Middle-income workers have experienced strong occupational advancement over the last 15 years

The large majority of middle-income workers in Israel are employed in high- and middle-skilled occupations.⁶ In recent years, high-skilled professionals were the largest occupational group, accounting for nearly 33% of middle-income workers (Figure 3.5, Panel A). Occupations dominating this category include IT professionals, scientists, engineers and teachers (Annex 3.A). A further 17% of middle-income workers were employed as high-skilled technicians and associate professionals, in roles such as business administration officers, nurses and social and community workers. Middle-skilled crafts and trades workers, clerks, and plant and machine operators, accounted for another one-fifth of middle-income workers. Among high-income workers, high-skilled occupations even account for over 85% of all workers.

Still, a significant share of middle-income workers were employed in low-skilled, low-wage occupations: 17% worked in service and sales jobs, and another 4% in elementary occupations. These roles are nearly absent among high-income workers, while they account for nearly 40% of low-income workers. Given the low wages generally paid in these occupations, workers in these jobs who make it into the middle-income group usually do so by living with a higher-earning partner or because they have other sources of income.

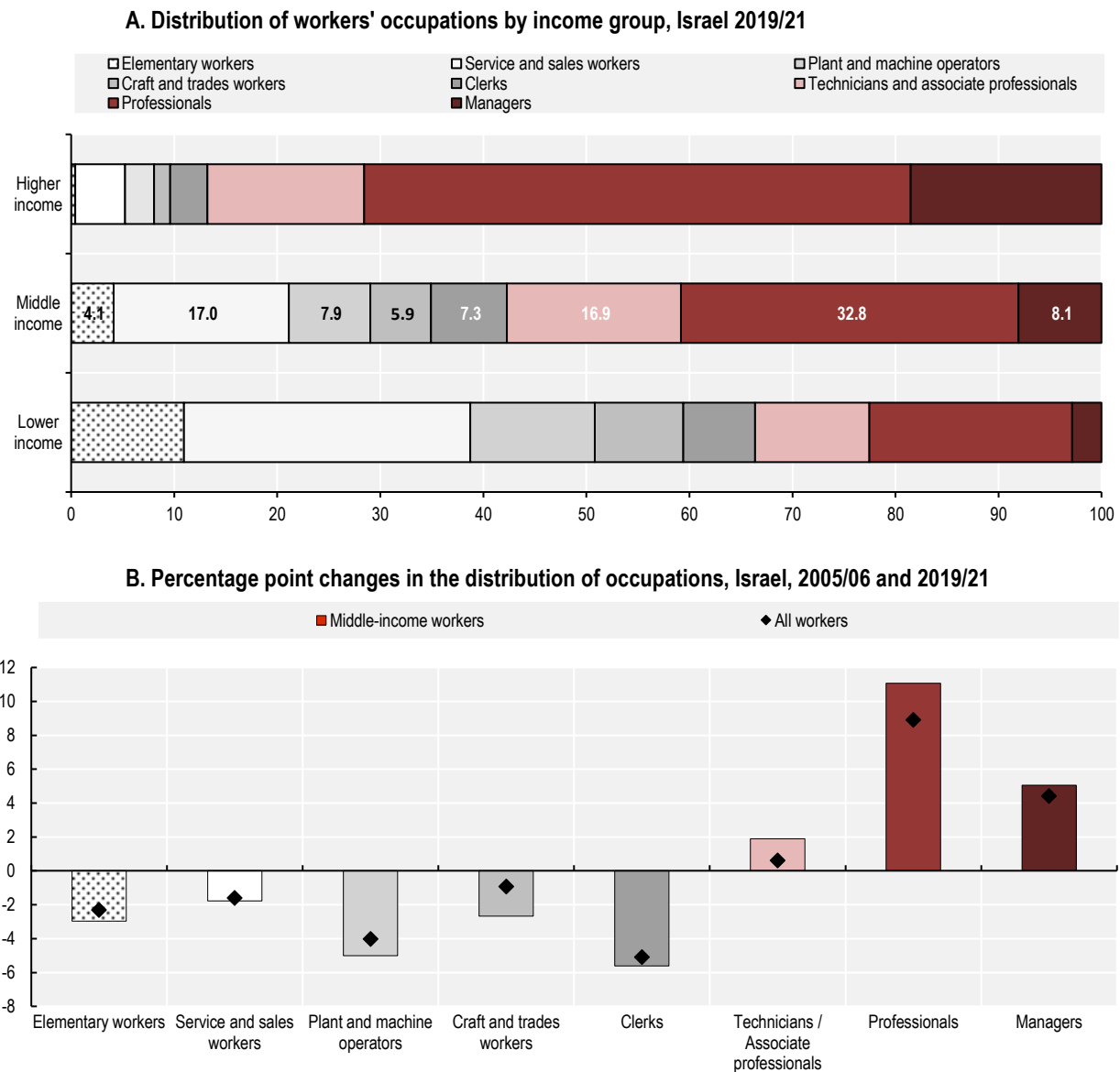
Since the mid-2000s, middle-income workers have benefitted from occupational advancement⁷ (Figure 3.5, Panel B, vertical bars). The share of middle-income workers:

- *In high-skilled occupations rose strongly*, by over 10 p.p. for professional occupations and 6 p.p. for managerial roles. The share of middle-income workers holding technical and associate professional roles also rose modestly.
- *In middle-skilled occupations declined substantially*, by nearly 6 p.p. for clerks and 5 p.p. for machine operators, with a modest decline also for craft and trades workers.
- *In low-skilled sales and service and elementary occupations declined modestly*, by nearly 2 p.p. each.

As middle-income workers make up most of Israel's workers, a similar upskilling pattern is also evident for Israel's total workforce (Figure 3.5, Panel B, black diamonds). However, the rise in high-skilled occupations, and the corresponding decline in middle-skilled roles, has been slightly less pronounced for the entire workforce than for middle-income workers. In other words: middle-income workers have fared better at moving up in the occupational ladder than workers in other income groups.

The broad occupational advancement observed in the Israeli workforce is by no means standard across OECD countries, with many countries having experienced labour market polarisation in recent decades. Previous studies highlight that, in most major OECD economies, employment in both *high- and low-skilled* occupations has expanded, at the expense of middle-skilled employment (OECD, 2019^[3]; Salvatori and Manfredi, 2019^[11]; Goos, Manning and Salomons, 2009^[12]). This shift has been driven partly by the automation of tasks once performed by middle-skilled workers, particularly in clerical and manufacturing roles. In Israel, this relative contraction of middle-skilled jobs is also apparent, but it has been fully offset by an increase in high-skilled employment.

Figure 3.5. Most middle-income workers are employed in middle- and high-skilled occupations



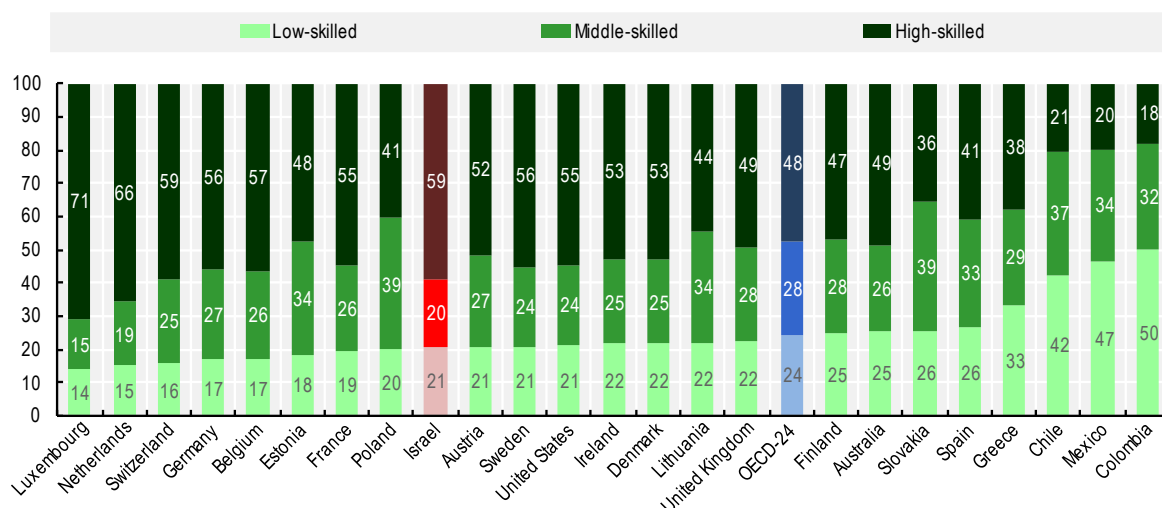
Note: Results are for working-age people (aged 25 to 64) in employment. Occupations are classified by ISCO-08 and sorted by median hourly wages per occupation in 2021. Low-skilled, middle-skilled and high-skilled occupations are shaded in white, grey, and red. Values are averaged over two years to smooth year-to-year volatility in the data. The year 2020 is excluded to minimise the impact of the COVID-19 pandemic on the analysis.

Source: OECD calculations based on microdata from the LIS Database.

As a result of these trends, middle-income workers in Israel are more frequently employed in high-skilled occupations than their counterparts across the OECD. In 2021, 59% of middle-income workers held managerial, professional, technical or associate professional roles – positions that require higher skill levels – compared to just 48% across the OECD (Figure 3.6). This places Israel among the OECD countries with the highest share of high-skilled middle-income workers. Meanwhile, relative to the OECD average, a low share of middle-income workers in Israel held middle-skilled jobs (20% vs. 28%) or low-skilled jobs (21% vs. 24%).

Figure 3.6. Middle-income workers in Israel are more likely to hold high-skilled jobs than their counterparts in other OECD countries

Skill distribution of middle-income workers, 2021 for Israel and most recent year for the remaining countries



Note: Results are for working-age people (aged 25 to 64) in employment. Occupations are classified by ISCO-08. High-skilled occupations include managers, professionals and technicians and associate professionals; middle-skilled capture clerks, craft and trade workers and plant and machine operators; and low-skilled include sales and service workers and elementary occupations. The most recent year varies across countries, ranging from 2016 to 2022, excluding 2020 because of the effect of the COVID-19 crisis on the income distribution. OECD-24: unweighted average of the countries shown.

Source: OECD calculations based on microdata from the LIS Database.

3.2.2. Female middle-income workers experience greater occupational polarisation than men, despite similar upskilling in recent years

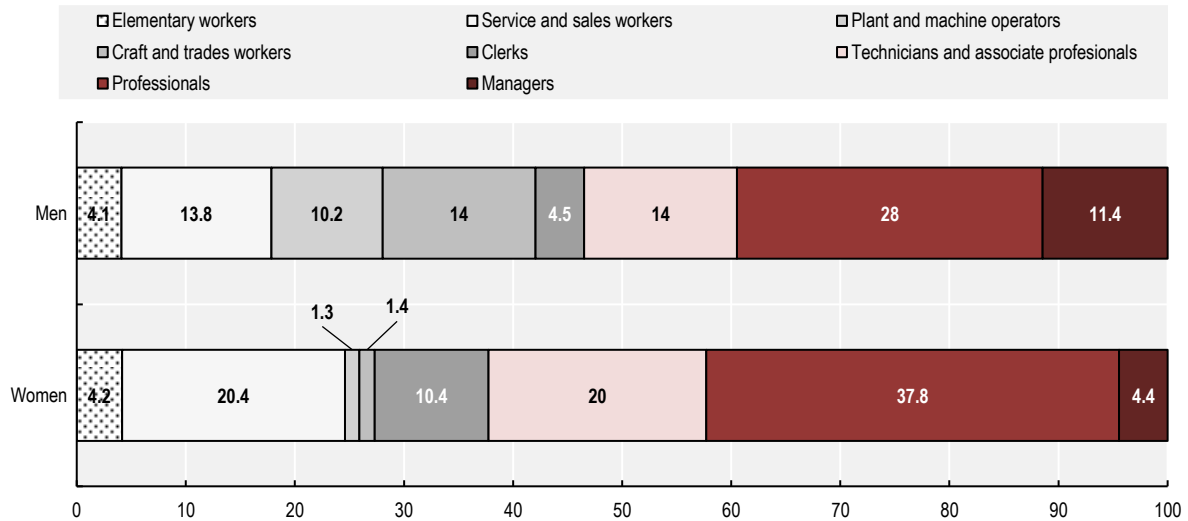
The overall occupational patterns discussed so far mask persistent inequalities across different groups of middle-income workers, particularly between men and women, and Jewish and non-Jewish workers.

The occupational distribution of female middle-income workers is more polarised than among their male counterparts. In the most recent years for which data are available, female middle-income workers were substantially more likely than men to be employed in low-skilled sales and services roles (20% vs. 14%; Figure 3.7, Panel A). At the same time, a greater share of female compared to male middle-income workers worked in high-skilled professional occupations (38% vs. 28%) and as high-skilled technicians or associate professionals (20% vs. 14%). This pattern may be partly explained by Israel's substantial gender gap in tertiary education attainment, especially among younger generations. In 2023, 56% of women aged 25 to 34 had completed a tertiary education degree, compared to just 36% of men – a gap that is 7 p.p. larger than the average across OECD countries (OECD, 2024^[13]).

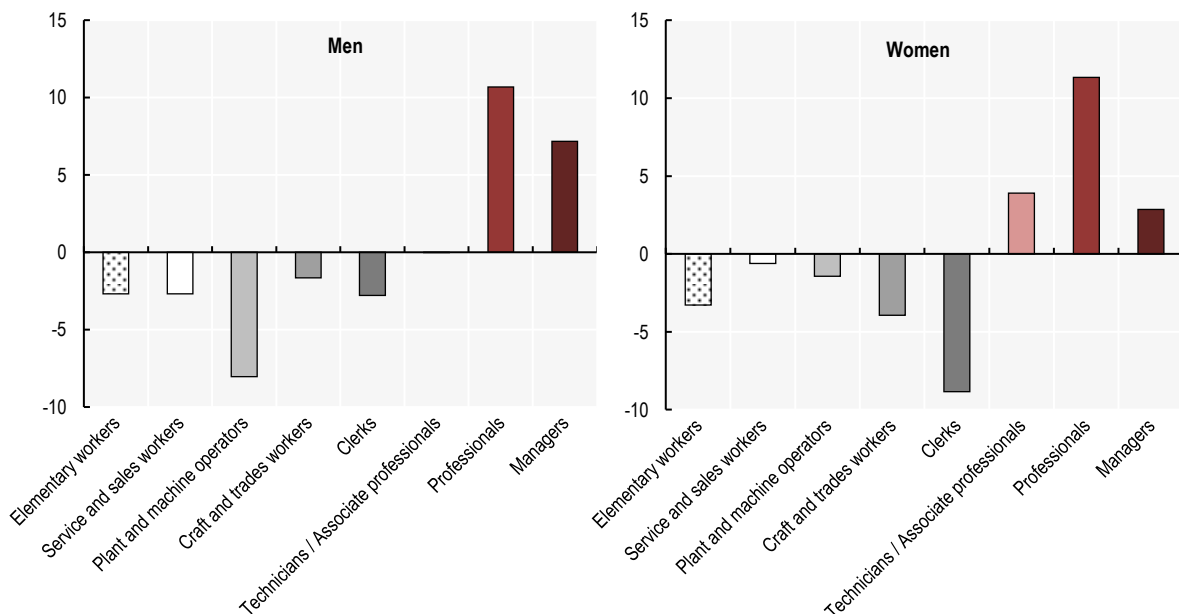
Despite being overrepresented in high-skilled professional roles, women continue to face a glass ceiling. Male middle-income workers were almost three times more likely to hold managerial roles (11% vs. 4%; Figure 3.7, Panel A). Also among high-income workers, most of whom work in high-skilled occupations, a substantial gender gap in the share of workers in managerial roles persist (*not shown*). This phenomenon is observed in most OECD countries and can be attributed to several factors, including the child penalty that women face in career progression, the struggle to balance work and caregiving responsibilities, which fall disproportionately on women, and outright discrimination in hiring and promotion processes for top roles (OECD, 2023^[14]; Bertrand, 2018^[15]).

Figure 3.7. Despite recent upskilling, female middle-income workers remain overrepresented in low-skilled occupations

A. Distribution of middle income workers' occupations by gender, Israel, 2019/21



B. Percentage point changes in middle income workers' occupations by gender, Israel, 2005/06 and 2019/21



Note: Results are for working-age people (aged 25 to 64) in employment. Occupations are classified by ISCO-08 and sorted by median hourly wages per occupation in 2021. Low-skilled, middle-skilled and high-skilled occupations are shaded in white, grey, and red. Values are averaged over two years to smooth year-to-year volatility in the data. The year 2020 is excluded to minimise the impact of the COVID-19 pandemic on the analysis.

Source: OECD calculations based on microdata from the LIS Database.

High-skilled employment has expanded both among male and female middle-income workers since the early 2000s. However, men have seen disproportionate growth in managerial occupations, while women experienced relative strong growth among technician and associate professional roles (Figure 3.7, Panel B). Meanwhile, male middle-income workers have seen the most significant relative decline in plant

and machine operator roles, while for female middle-income workers the largest decline has been in clerical support jobs, reflecting gender differences in the distribution of middle-skilled occupations (Figure 3.7, Panel A).

3.2.3. Non-Jewish workers struggle to move up the occupational ladder

Occupational divides are strong also between middle-income workers living in Jewish and Arab-Israeli households (Figure 3.8, Panel A).⁸ In recent years up to 2021, Jewish workers were more likely than Arab-Israeli workers to occupy high-skilled managerial positions (7% vs. 4%), as well technician and associate professional roles (18% vs. 8%). Meanwhile, Arab-Israeli workers were around twice as likely to be employed in low-skilled elementary occupations (9% vs. 4%), and middle-skilled plant and machine operators (10% vs. 6%) and craft and trades worker roles (15% vs. 8%). Overall, the occupational distribution of Arab-Israeli middle-income workers resembled more that of low-income workers than that of Jewish middle-income workers (see Figure 3.5).

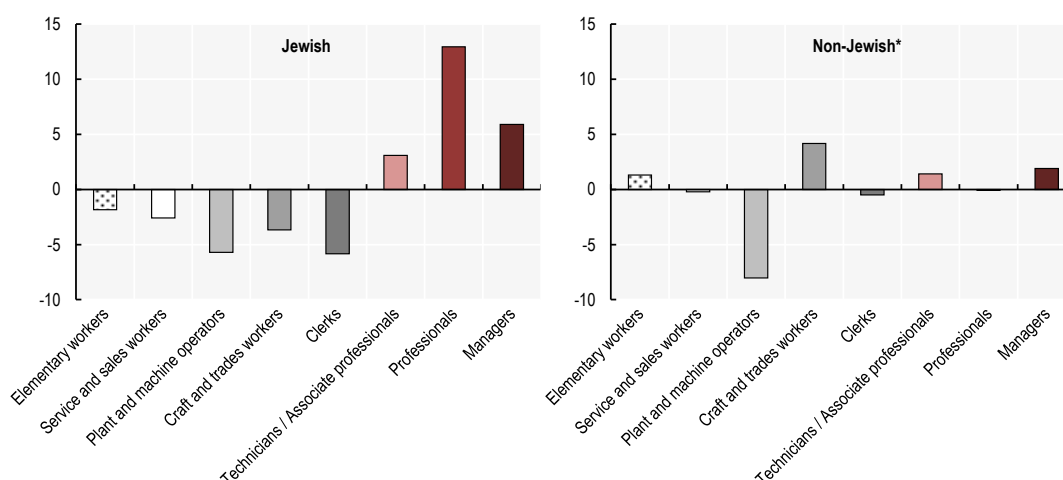
These occupational divides can be partly explained by barriers to occupational progression among non-Jewish workers. Available data on the incomes and labour market outcomes of specific ethno-religious groups do not extend far back in time. However, non-Jewish workers more broadly – 81% of whom are Arab-Israeli – have not benefitted from the same type of occupational advancement observed across workers at large (Figure 3.8, Panel B). Since the mid-2000s, the share of non-Jewish workers in middle-skilled plant and machine operator roles has declined by almost 7 p.p. However, unlike for other groups, this decline does not primarily reflect relative employment growth in high-skilled professions. Instead, there has been substantial employment growth for craft and trades workers, linked to an expansion of the construction industry, as well as modest growth in low- and high-skilled occupations. In contrast, among Jewish middle-income workers, the share of those in low- and middle-skilled occupations has declined sharply over the same period, with a strong shift towards high-skilled roles.

Figure 3.8. Non-Jewish workers are underrepresented in high-skilled occupations, and have exhibited lower occupational progression

A. Distribution of middle income workers' occupations by ethno-religious group, Israel, 2019/21



B. Percentage point changes in middle income workers' occupations by ethno-religious group*, Israel, 2005/06 and 2019/21



Note: Results are for working-age people (aged 25 to 64) in employment. Occupations are classified by ISCO-08 and sorted by median hourly wages per occupation in 2021. Low-skilled, middle-skilled and high-skilled occupations are shaded in white, grey, and red. Values are averaged over two years to smooth year-to-year volatility in the data. The year 2020 is excluded to minimise the impact of the COVID-19 pandemic on the analysis.

*Data on specific ethno-religious groups were not available in the mid-2000s, so the broader category "Non-Jewish" is used instead in Panel B. Over 80% of the non-Jewish population are Arab-Israeli.

Source: OECD calculations based on microdata from the LIS Database.

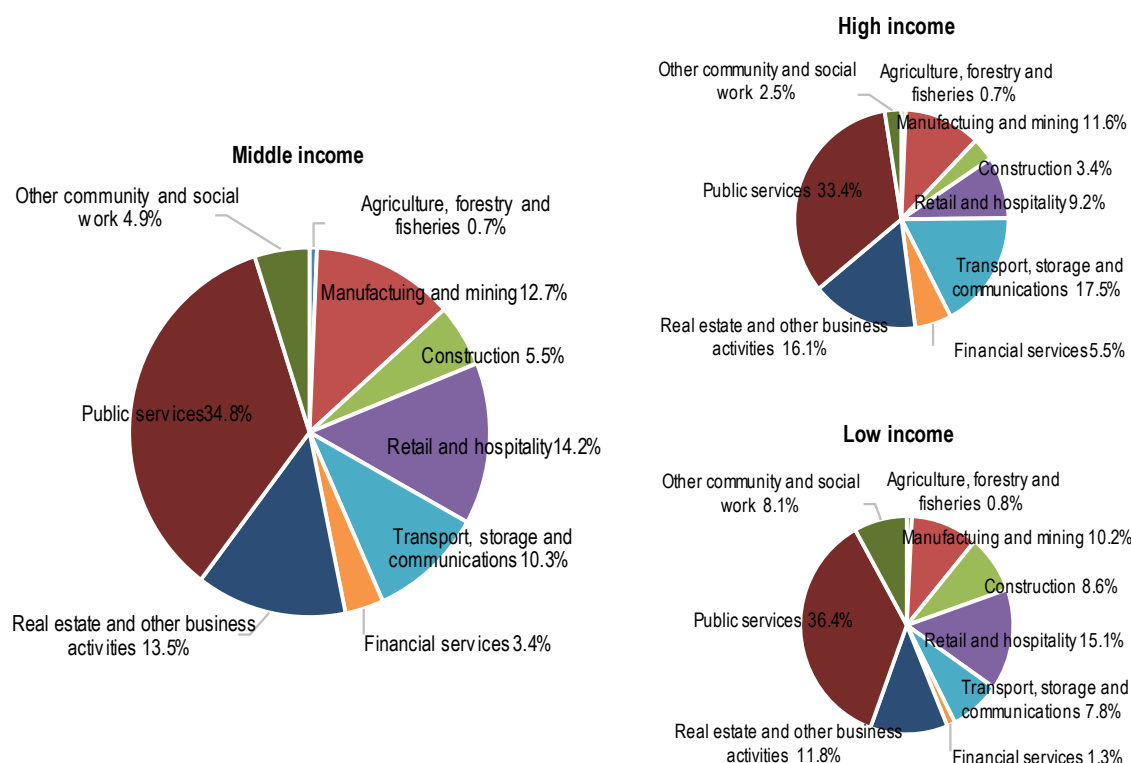
3.2.4. Middle-income workers have shifted out of manufacturing and into public services

Public services have become the cornerstone of employment in Israel even as middle-income jobs remain broadly diversified across sectors. In recent years, over one-in-three middle-income workers were employed in public services (Figure 3.9, Panel A). These include civil servants, but also workers in healthcare and education, even if working in the private sector. Outside of public services, larger shares of middle-income workers are represented in a number of other sectors, including in retail and hospitality (14%), real estate (14%) and manufacturing (13%). The sectoral composition of employment is generally similar across income groups, with some exceptions: middle- and high-income workers are overrepresented in the financial, and transport, storage and communications sectors, while low-income workers are overrepresented in construction and community and social work.

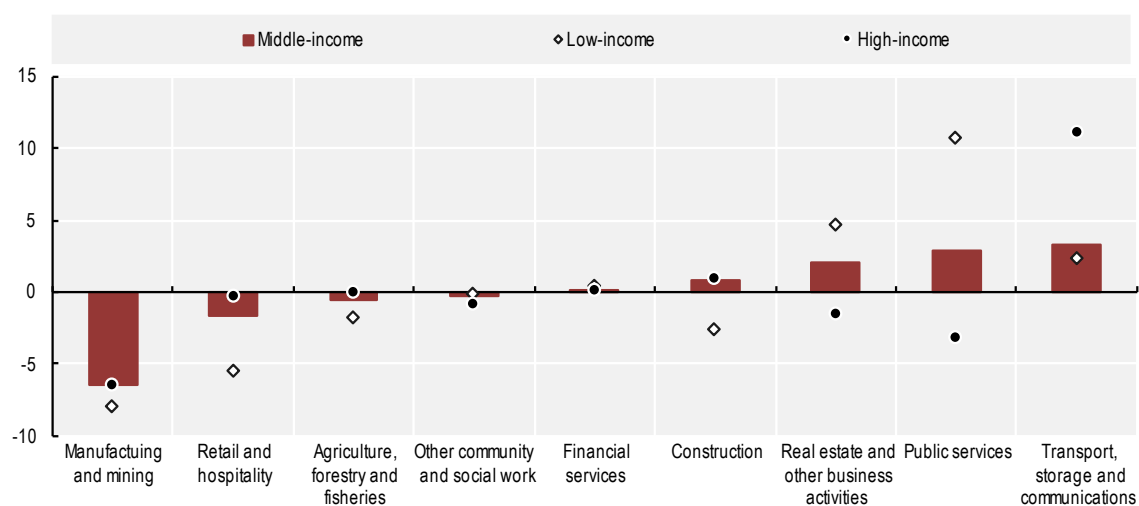
As most OECD countries, Israel has seen a relative decline in manufacturing employment (Pierce and Schott, 2016^[16]; Berger and Frey, 2016^[17]). This contraction has affected workers across all income groups, with declines in employment shares of 7 p.p. for middle- and high-income workers, and 8 p.p. for low-income workers. However, the types of employment that have replaced manufacturing jobs differ by income group. Middle-income workers have dispersed fairly evenly across sectors, moving into real estate and business activities, public services, and transport, storage and communications. In contrast, high-income workers have moved predominantly into transport, storage and communications roles, whereas low-income workers have shifted largely into public service positions.

Figure 3.9. Over one-in-three middle-income workers hold public-service jobs, while manufacturing has been in decline

A. Employment by sector and income group, Israel, 2019/21



B. Percentage point change in the share of workers by sector and income group, Israel, 2001/02 and 2019/21



Note: Results are for working-age people (aged 25 to 64) in employment. Values are averaged over two years to smooth year-to-year volatility in the data. The year 2020 is excluded to minimise the impact of the COVID-19 pandemic on the analysis. See Annex Table 3.A.2 for an overview of industrial classification.

Source: OECD calculations based on microdata from the LIS Database.

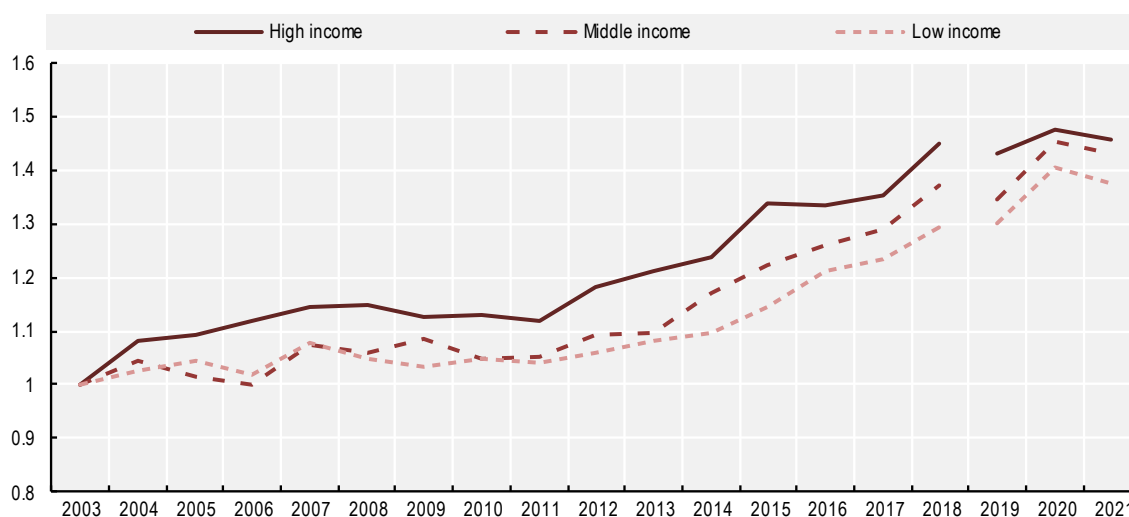
3.3. Wages and skill premia for middle-income workers

3.3.1. Middle-income workers have benefitted from robust wage growth, while the skill premium in wages has shrunk

Middle-income workers have experienced robust wage growth over the last two decades, broadly keeping pace with high-income workers. Between 2003 and 2021, middle-income workers' real median hourly wages rose by 43% (Figure 3.10). Most of this growth took place after 2011, following a period of relative stagnation associated with the Second Intifada and later with the global financial crisis. Since earnings from work are the primary income source for middle-income households, these wage trends closely mirror those observed in equivalised disposable incomes (Chapter 2, Figure 2.1). Real wage growth among middle-income workers has nearly matched that of high-income workers (46%), while workers in low-income households slightly fell behind (37%).

Figure 3.10. Workers across income groups have benefitted from robust wage growth

Panel A. Real median hourly wages, by income groups (2003=1), Israel, 2003 to 2021



Note: In 2019, the Israeli Household Expenditure Survey (HES) underwent significant changes: it transitioned to a computer-assisted field survey, revised its weighing system, and expanded its target population. These modifications affected the data series, so caution is needed when comparing wage levels before and after these changes.

Source: OECD calculations based on microdata from the LIS database.

Despite robust wage growth, wage disparities across skill levels have declined in recent decades. As discussed earlier, the Israeli workforce – and especially middle-income workers – have experienced a substantial rise in the skill level since the mid-2000s, with increasing shares of workers employed in high-skilled professional and managerial roles, and declining shares in lower- and middle-skilled occupations (Figure 3.5). However, advancing on the occupational ladder pays off less than it did in the past. While in the mid-2000s, professionals on average enjoyed wages around 60% higher than the median wage, this gap has fallen to just over 40% in recent years (Figure 3.11, Panel A). Similarly, in the mid-2000s, technicians and associate professionals earned wages around 30% above the median, while in recent years their hourly wages have moved much closer to the median. This trend partly reflects broad occupational advancement over the last two decades: as a larger share of workers moved into high-skilled roles (Figure 3.5, Panel B), median wages have mechanically caught up with those of high-skilled occupations. However, gaps in hourly wages have also narrowed between workers in high-skilled

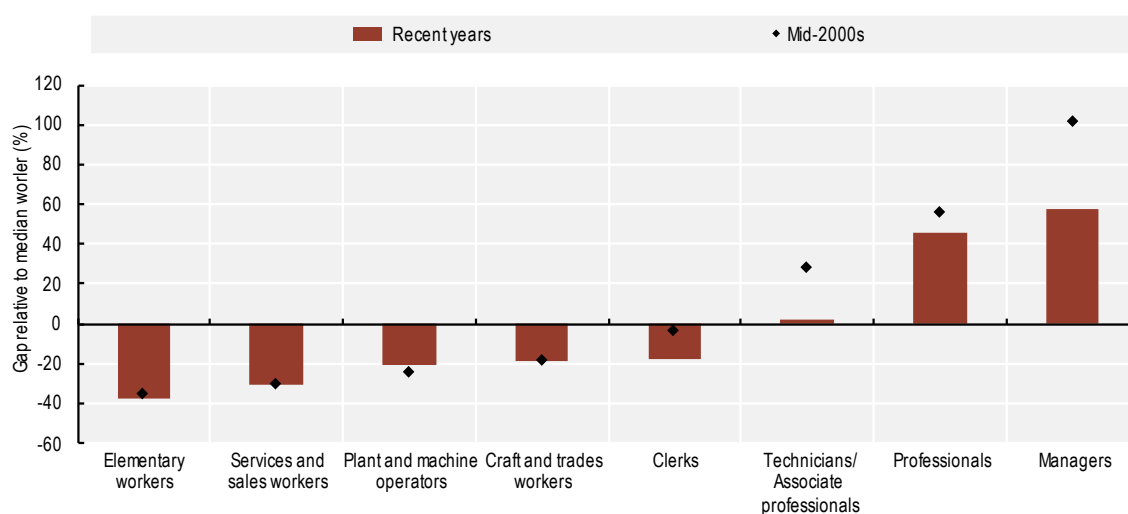
technician, professional and managerial roles and those in low-skilled elementary occupations (Annex Figure 3.B.1).

Other high-income countries have experienced a similar decline in the skill premia since the global financial crisis, reversing three decades of widening wage disparities across occupations (Kunst, Freeman and Oostendorp, 2020^[18]). In Israel, the expansion of tertiary education may have contributed to the decline, as evidence suggests that a growing supply of educated workers can put downward pressure on the wages of high-skilled workers (Kaymak and Cline, 2025^[19]; Boero et al., 2024^[20]). Recent OECD work also highlights that Israel is among the OECD countries with a higher share of over-qualified workers (OECD, 2023^[10]). This has likely contributed to a more even evolution of wages across income groups over the last two decades (Figure 3.10), with less positive implications for middle-income workers, most of whom hold high-skilled jobs (see Figure 3.5).

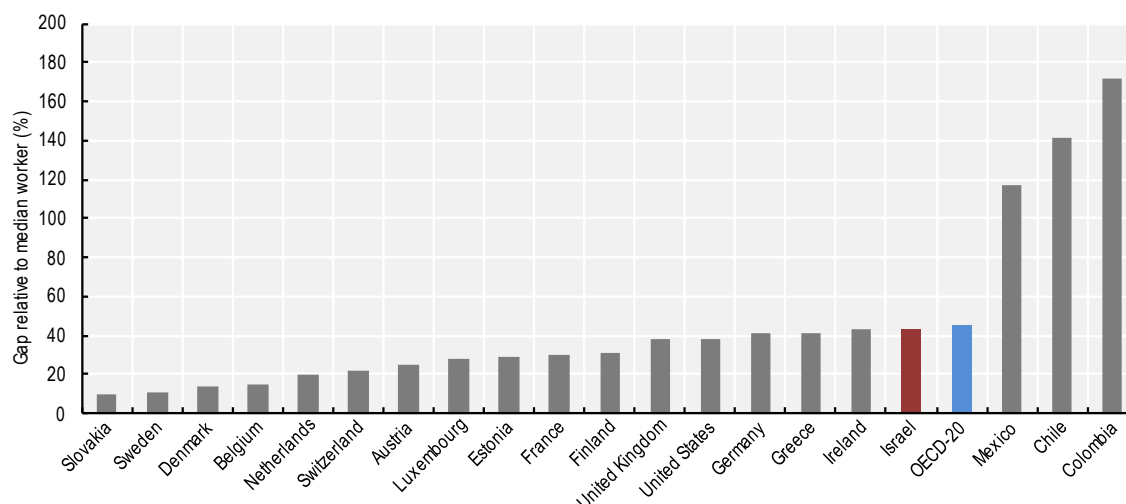
Still, holding a high-skilled job yields greater relative earnings in Israel than in most OECD countries. Among high-income countries where recent data are available, Israel recorded the highest hourly wage gap between workers employed in professional occupations and the median worker, at 42% (Figure 3.11, Panel B). This is in line with other advanced OECD economies such as Ireland, Germany, and the United States, but significantly higher than in most European countries. Only in some upper-middle-income countries, such as Colombia, Chile and Mexico, where the supply of tertiary-educated workers is more limited, the hourly wage of high-skilled professionals is relatively larger.

Figure 3.11. The wage premium for high-skilled occupations has declined in Israel, but it is still larger than in most OECD countries

A. Gap in median hourly wages between each occupational group and the median worker, Israel, 2005/06 and 2019/21



B. Gap in median hourly wages between professional workers and the median worker, 2021 for Israel and most recent year for the remaining countries



Note: Results are for working-age people (aged 25 to 64) in employment. Occupations are classified by ISCO-08 and sorted by median hourly wages per occupation. Panel A: Values are averaged over two years to smooth year-to-year volatility in the data. The year 2020 is excluded to minimise the impact of the COVID-19 pandemic on the analysis.

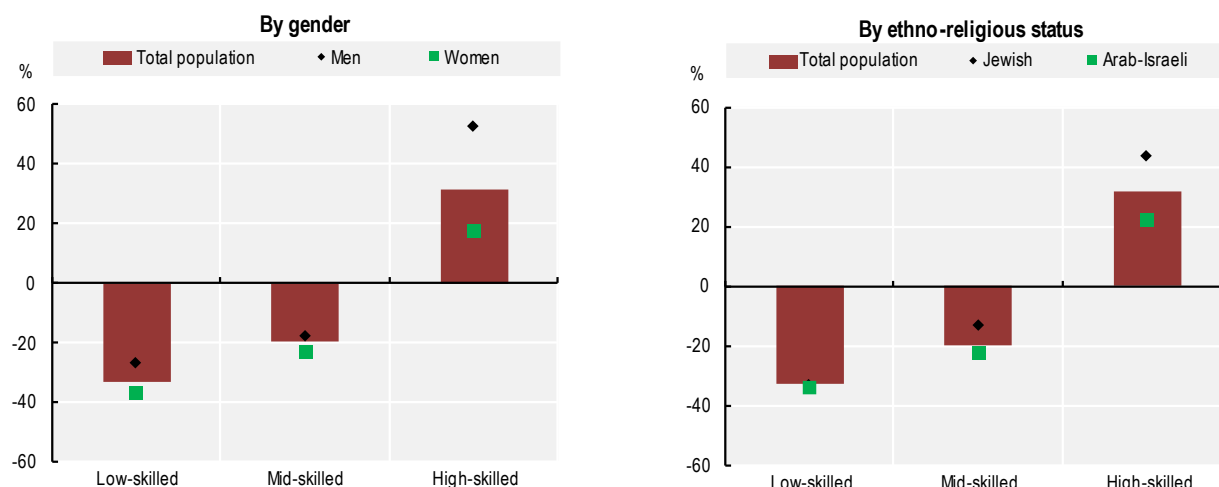
Source: OECD calculations based on microdata from the LIS Database.

3.3.2. Wages of women and Arab Israelis lag behind, especially for high-skilled workers

The relatively high skill wage premium in Israel again coincides with persistent inequalities between men and women, as well as between Jews and Arab Israelis, especially among high-skilled workers. In recent years, women earned lower wages than men across all occupations, with the gap being largest in high-skilled occupations (Figure 3.12). For example, men employed as managers, professionals, and associate professionals earned, on average, 55% more per hour than the median worker; for women employed in similar roles, this gap was only 18%. This represents the bulk of the gender wage gap in Israel, which is among the largest across OECD countries (OECD, 2023_[10]). Differences in wages between men and women are significantly smaller for middle- and low-skilled workers – at around 6 and 10 p.p., respectively. Similar disparities exist between Jewish and Arab-Israeli workers: Jewish workers earn higher hourly wages across all occupations, but the gap is the largest among high-skilled workers. These results likely reflect in part differences the sectoral composition of employment, but they also suggest that women and non-Jewish workers experience lower returns to skills.

Figure 3.12. Women and non-Jewish workers earn less across occupations, but particularly in high-skilled roles

Gap in median hourly wages between occupational groups with different levels of skills and the median worker, by gender and ethno-religious group, Israel, 2019/21



Note: Results are for working-age people (aged 25 to 64) in employment. Occupations are classified by ISCO-08 and sorted by median hourly wages per occupation. Low-skilled occupations include elementary workers and service and sale occupations; middle-skilled occupations include plant and machine operators, craft and trades workers and clerks; high-skilled occupations include managers, professionals, and technicians and associate professionals. Values are averaged over two years to smooth year-to-year volatility in the data. The year 2020 is excluded to minimise the impact of the COVID-19 pandemic on the analysis.

Source: OECD calculations based on microdata from the LIS Database.

3.4. Main conclusions

This chapter discussed the key labour market developments for middle-class workers in Israel over the past two decades. The main findings are:

- *Most workers have access to the middle- or high-income group*, but substantial shares of Arab Israelis (41%) and Haredim (49%) remain in the low-income group despite having a job. Over the last two decades, employment has increased particularly among people in low-income households, and especially among women.
- *Middle-income workers in Israel have experienced occupational advancement, though some groups of workers have remained excluded.* A decline in middle-skilled manufacturing and clerical jobs in Israel has been fully offset by growth in high-skilled roles, unlike in many OECD countries, which experienced occupational polarisation. In recent years, high-skilled occupations have accounted for almost 60% of middle-income jobs in Israel. However, occupational advancement has been uneven among different groups of middle-income workers: women remain underrepresented in managerial roles relative to men; non-Jewish workers have barely advanced in the occupational distribution at all.
- *Middle-income workers have enjoyed robust wage growth since the global financial crisis*, much in line with that of high-income workers. The wage premium for high-skilled roles has decreased over the years, but it remains large compared to most OECD countries. Gender and ethno-religious wage gaps are large, and particularly so in high-skilled occupations.

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Annex 3.A. Further details on occupational categories and sectors

Annex Table 3.A.1. Overview of ISCO-08 occupational categories

Occupational category label used in this chapter	International Standard Classification of Occupations (ISCO-08)	Tasks	Three largest 2-digit occupational categories in Israel	
			Men	Women
Managers	Legislators, senior officials and managers	Determining and formulating policies, planning, directing and co-ordinating	Production and specialised services managers Administrative and commercial managers Legislators, senior officials, chief executives and managing directors	Production and specialised services managers Administrative and commercial managers Hospitality, retail and other service managers
Professionals	Professionals	Increasing knowledge, applying concepts and theories to solve problems, and teaching	Information and communications technologies professionals Science and engineering professionals Teaching professionals	Teacher professionals Health professionals Legal, social and cultural professionals
Technicians and associate professionals	Technicians and associate professionals	Application of concepts and operational methods, and in teaching at certain educational levels	Business and administration associate professionals Science and engineering associate professionals Legal, social, and cultural associate professionals	Business and administration associate professionals Legal, social, and cultural associate professionals Health associate professionals
Clerks	Clerks	Secretarial duties, operating word processors and other office machines, computing data	Numerical and material recording clerks Customer services clerks General and keyboard clerks	General and keyboard clerks Customer services clerks Numerical and material recording clerks
Craft and trades workers	Craft and related trades workers	Understand materials and tools, all stages of production and intended use of final product	Building and related trades workers Metal, machinery and related trades Electrical and electronic trades workers	Food processing, wood working, garment workers Handicraft and printing workers Metal, machinery and related trades workers
Plant and machine operators	Plant and machine operators and assemblers	Operate and monitor large scale, highly automated, industrial machinery and equipment	Drivers and mobile plant operators Stationary plant and machine operators Assemblers	Assemblers Stationary plant and machine operators Drivers and mobile plant operators
Sales and service workers	Service workers and shop and market sales workers	Provide personal and protective services, and to sell goods in shops or at markets	Protective services workers Personal service workers Sales workers	Personal care workers Sales workers Personal service workers

Occupational category label used in this chapter	International Standard Classification of Occupations (ISCO-08)	Tasks	Three largest 2-digit occupational categories in Israel	
			Men	Women
Elementary occupations	Elementary occupations	Routine tasks, involving the use of hand-held tools and limited personal initiative or judgement	Labourers in mining, construction, manufacturing and transport Cleaners and helpers Refuse workers and other elementary workers	Cleaners and helpers Labourers in mining, construction, manufacturing and transport Food preparation assistants

Note: Occupations sorted by workers' hourly wages in Israel in 2021 in descending order.

Source: International Labour Organization (2023^[21]) and OECD calculations based on microdata from the LIS Database.

Annex Table 3.A.2. Overview of ISIC Rev.4 sectors

Sector classification used in this chapter	International Standard Industrial Classification (ISIC) Rev. 4 correspondence
Agriculture, forestry and fishing	Agriculture, forestry and fishing
Manufacturing and mining	Manufacturing; Mining and quarrying; Electricity, gas, steam and air conditioning supply; Water supply; sewage, waste management and remediation activities
Construction	Construction
Retail and hospitality	Wholesale and retail trade; Accommodation and food service activities
Transport, storage and communications	Transportation and storage; Information and communication
Finance	Financial intermediation
Real estate and other business activities	Real estate activities Professional, scientific and technical activities; Administrative and support service activities
Public services	Public administration and defence; compulsory social security; Health and social work activities; Education
Other social and community activities	Arts, entertainment and recreation; Other service activities; Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use

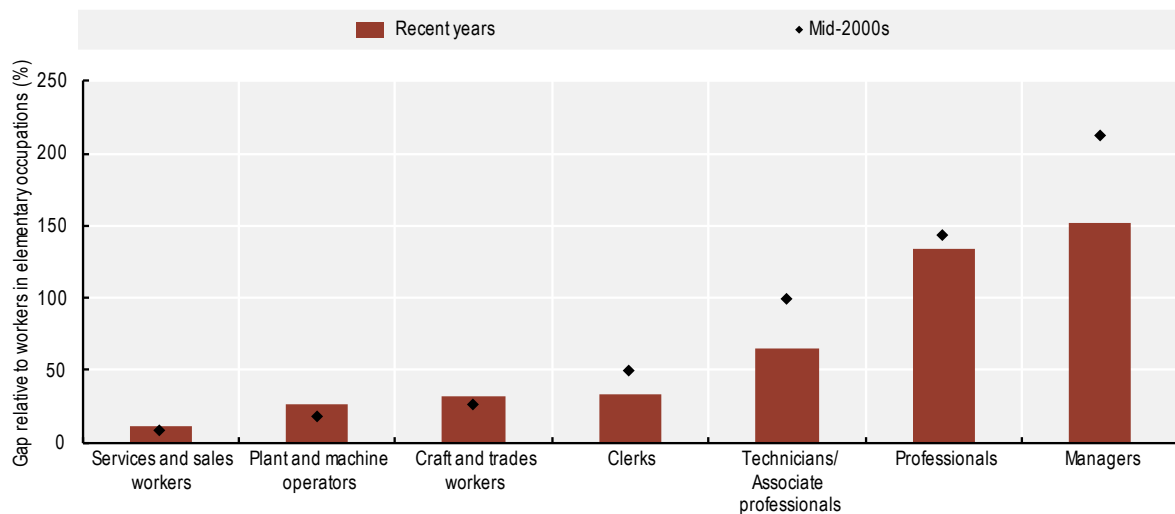
Note: Occupations sorted by workers' hourly wages in Israel in 2021 in descending order.

Source: United Nations (2008^[22]) and OECD calculations based on microdata from the LIS Database.

Annex 3.B. Further results on the skill wage premium

Annex Figure 3.B.1. Wage premium of each occupational group relative to workers in elementary occupations

Gap in median hourly wages between each occupational group and workers in elementary occupations, Israel, 2005/06 and 2019/21



Note: Results are for working-age people (aged 25 to 64) in employment. Occupations are classified by ISCO-08 and sorted by median hourly wages per occupation. Values are averaged over two years to smooth year-to-year volatility in the data. The year 2020 is excluded to minimise the impact of the COVID-19 pandemic on the analysis.

Source: OECD calculations based on microdata from the LIS Database.

Notes

¹ Equivalised disposable household income assigns post-tax-and-transfer household income, adjusted for household size, to each household member. Post-tax-and-transfer household income includes wages and salaries, income from self-employment and unincorporated enterprises, from pensions and other social benefits, and from financial investments, minus payments of taxes, social insurance contributions and interest on financial liabilities.

² In LIS data, information on ethno-religious group is only available for the household head. This analysis applies the ethno-religious status of the household head to all workers living in the household. In 2021, non-Haredi Jews accounted for roughly 73% of workers, Arab-Israeli for 16%, and Haredim for 7%.

³ These results are relatively similar when defining younger workers as those between 25 and 29 years old, or between 18 and 29 years old, highlighting that the results are not driven by longer educational trajectories of younger people relative to the early 2000s.

⁴ They also reflect the demographic patterns discussed in Chapter 2: older age groups, who enjoy higher incomes on average, now account for a larger share of the working population than in the early 2000s. This has raised the income threshold required for entering the middle-income group, making it more difficult for young workers to reach middle-income status.

⁵ Data on incomes for specific ethno-religious groups do not extend far back in time, so the broader category “Non-Jewish” is used instead. Over 80% of the non-Jewish population are Arab-Israeli.

⁶ Workers in the armed forces are excluded from the analysis.

⁷ LIS data are cross-sectional, so workers cannot be followed over time. Therefore, the analysis does not indicate that *individual* workers have moved up the occupational ladder, but rather than, among the middle-income workers’ group, a larger share of them are employed in higher-skilled occupations over time.

⁸ In the LIS database, information on ethno-religious group is only available for the household head. This analysis applies the ethno-religious status of the household head to all workers living in the household.

4

Consumption expenditures and savings patterns of the middle class in Israel

This chapter examines consumption expenditures and savings patterns of middle-income households in Israel, putting the country's experience in comparison with other OECD countries. It analyses inequalities in consumption expenditures across income groups and how these have evolved over time. The chapter examines how households allocate their budgets across different categories of goods and services, with particular attention to rising expenditures on core necessities such as housing, food, healthcare, and education, and assesses the implications for household savings capacity.

An alternative to the income-based (or “resource-based”) approach to measuring the economic well-being of the middle class used in Chapter 2 can be to look at consumption-related indicators, i.e. to take a “standard-of-living” approach. While the two approaches can to some extent be considered two sides of the same coin, they can provide different perspectives of households’ short-term vs. long-term economic well-being. Following the lifecycle hypothesis, individuals and households will attempt to smooth fluctuations in incomes to achieve a stable consumption path over their lives. To the extent that income-based measures reflect transitory changes in economic well-being, consumption-based measures may be more representative of long-term economic well-being. Together, the two approaches can provide a richer picture of households’ economic well-being.

Analysis of household consumption and savings patterns can also help identify trends in what may be considered a “typical” middle-class lifestyle. Indeed, belonging to the middle class is often associated with access to certain types of goods and services, such as homeownership, the ability to purchase consumer durables of a certain quality, and access to quality education and healthcare. Many OECD countries have seen public debates in recent years about whether this middle-class lifestyle is getting under pressure. Earlier OECD analysis has documented how in many OECD countries economic and societal transformations, growing economic uncertainty, and rising prices have put pressure on middle-class living standards and threatened the ability of middle-class households to save, or even make ends meet (OECD, 2019^[1]; OECD, 2021^[2]). And indeed, Israel experienced several episodes of public protests over the last two decades that were driven in part by people’s discontent about the high prices of essential goods and services, notably housing and food (Frohm, 2025^[3]; OECD, 2023^[4]; 2025^[5]; Weiss, 2014^[6]).

This chapter provides empirical evidence on these issues by examining the consumption and savings patterns of households in Israel and discussing how their living standards have evolved over the last two decades (2001-2021). While paying special attention to the middle class, the chapter somewhat widens the analysis to also include other groups, since changes in the consumption patterns of middle-class household often mirror the trends for the population at large. The empirical analysis mainly draws on tabulations from survey microdata, which break down consumption expenditures by quintiles of the income distribution. Middle-class households are being proxied in the analysis as those in the three middle income quintiles of the distribution (see Box 4.1). Consumption is measured as household consumption expenditure, with expenditure categories harmonised to give a common classification for all OECD countries covered (see Box 4.2).

The chapter starts by analysing trends in overall consumption, looking at differences across income groups, with a particular focus on the middle class (Section 4.1). It then examines how households allocate their expenditures across consumption categories, and how spending for these different categories has evolved (Section 1.3.2). It proceeds with an assessment of households’ saving patterns (Section 4.3), and concludes with a summary of key findings (Section 4.4).

Box 4.1. Income groups, data and samples

The analysis in this chapter largely draws on tabulated data broken down by quintiles of the household disposable income distribution, both for Israel and for European OECD countries. As in previous chapters, the middle class is defined using an income-based measure; however, the exact approach used differs from the one used in previous chapters, because tabulations rather than microdata are used (see Box 1.1). The analysis considers five income groups, with each group corresponding to one income quintile: low income (Q1); lower middle income (Q2); middle income (Q3); higher middle income (Q4); and high income (Q5). The middle class is defined as consisting of households belonging to the three middle income quintiles (Q2-Q4).

For Israel, the analysis is mainly based on tabulations from the Household Expenditure Survey that were provided by the Israel Central Bureau of Statistics (CBS). Data are available on both income and consumption spending, which allows for an analysis of consumption and savings patterns of Israeli households. The data cover the period from 2001 to 2021. Two important structural changes to the survey occurred during this period:

1. In 2012: Expansion of the survey sample, and changes in the survey population, questionnaire, and estimates. These changes mostly affected the income data, having a smaller impact on consumption.
2. In 2019: The survey stopped being conducted on paper and became computer-based, which implied significant changes in the survey processes and methods of data imputation. In addition, due to a decline in survey response rates, the method of calculating weights was revised. These changes had a significant impact, introducing a structural break in the series of consumption data.

For other OECD countries, the data used in the analysis come from Eurostat's Household Budget Survey (HBS), which is conducted every five years (Eurostat, 2025^[7]). While the most recent collection wave took place in 2020, this chapter uses data from the 2015 wave to avoid the distortions in the 2020 data brought about by the COVID-19 crisis. The OECD countries covered in data include Austria, Belgium, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, the Netherlands, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Türkiye, and the United Kingdom.

The method used to construct income quintiles for the tabulated expenditure data differs between the CBS and the Eurostat datasets. In the CBS dataset income quintiles are calculated from the household distribution of net income per standard person. The Eurostat dataset uses the household distribution of disposable income, without accounting for household size. The tabulated results by income quintile provided by CBS and Eurostat are therefore not fully comparable. The analysis addresses this issue by relying in all figures that show cross-country comparisons on Israeli microdata from the Luxembourg Income Study (LIS) database (Luxembourg Income Study, 2025^[8]), which are made fully comparable with the Eurostat tabulations. The CBS tabulations are used for all parts of the analysis that focus on Israel only.

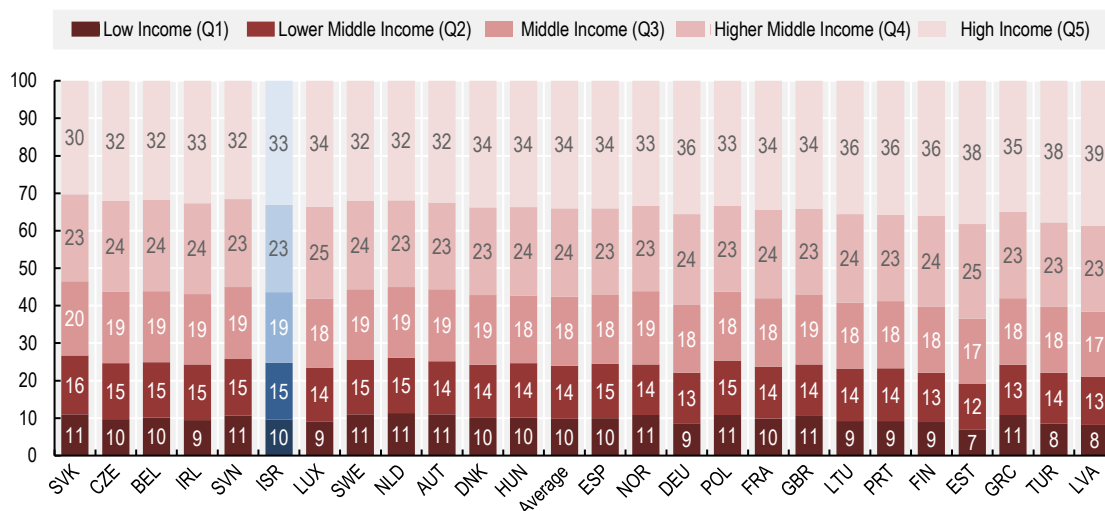
4.1. What are the patterns in overall consumption expenditures?

4.1.1. *Israel has a more even consumption distribution than many OECD countries*

Inequalities in consumption expenditure are relatively modest in Israel compared to most OECD countries, with the middle parts of the income distribution accounting for a relatively large share of overall consumption expenditure. The three middle-income quintiles (Q2, Q3 and Q4), which in this chapter are used as the proxy for the middle class, accounted for 57% of total consumption expenditure in 2015. This was a little higher than the average across OECD countries with available data of 56% (Figure 4.1). This reflects a relatively low consumption share for the high-income group (Q5) in Israel, of 33%, one of the lowest values among the 25 countries included in the analysis. Meanwhile, the low-income group (Q1) accounts for 10% of total consumption expenditure, a value in line with the OECD average. Consumption expenditure is distributed unequally also *within* the middle-income group: the higher middle-income group (Q4) has a consumption share 8 percentage points (p.p.) higher than that of the lower middle-income group (Q2) (23% vs. 15%).

Figure 4.1. The middle class accounts for a relatively large share of consumption expenditures in Israel

Share of consumption expenditure by income group in OECD countries, 2015, percentage



Notes: Income groups correspond to quintiles of the household disposable income distribution without accounting for household size. The figure shows data for 2015 for all countries to avoid potential distortions due to the COVID-19 crisis in the more recent 2020 wave of the Household Budget Survey (see Box 4.1). The average across OECD countries is unweighted.

Source: OECD calculations based on the Luxembourg Income Study (LIS) database for Israel and tabulations from the Eurostat Household Budget Survey for other countries.

These disparities in consumption shares mirror the differences in income shares shown in Chapter 2, though consumption inequality in Israel is less pronounced than income inequality. The 40% top income-earners (Q4 and Q5) account for 62% of overall income, 6 p.p. more than their combined consumption share. This implies that high-income households save a greater share of their income than households in the lower parts of the income distribution.

4.1.2. Consumption inequalities in Israel have slightly narrowed, unlike in most OECD countries

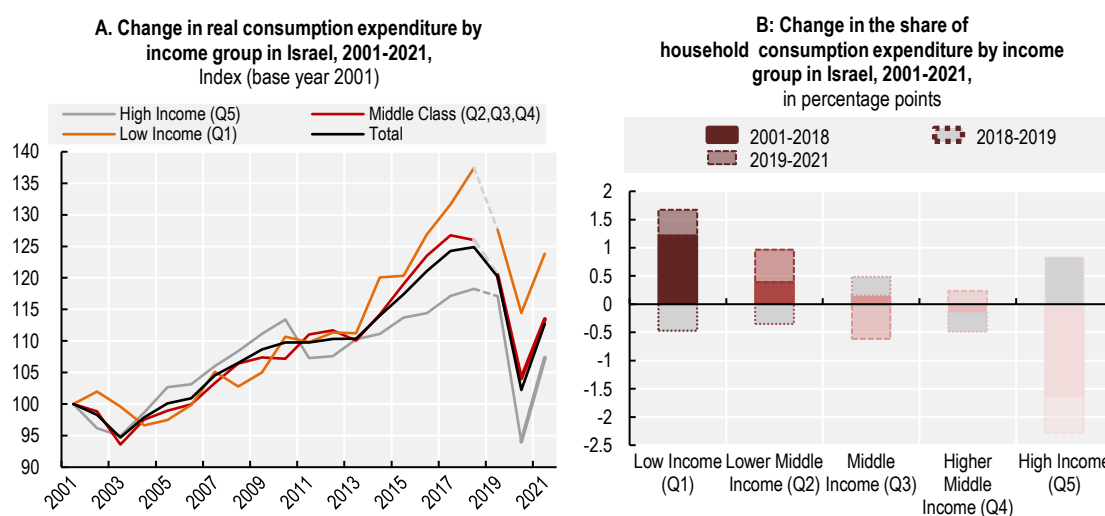
Consumption inequalities have shrunk in Israel over the last 20 years, and particularly so over the last decade. Total consumption expenditure grew for all income groups after adjusting for inflation (by 13% in total; Figure 4.2, Panel A). However, expenditure growth was uneven across income groups: by 2021, cumulative spending growth since 2001 had reached nearly 24% for low-income households, compared to only around 7% for high-income households. Middle-income households were in between, with an increase of 14%, which closely mirrors the growth in overall consumption. The pattern remains intact when focussing only on the period up to 2018, i.e. before larger changes were introduced to the Household Expenditure Survey underlying the analysis (see Box 4.1). The COVID-19 crisis led to a steep drop in consumption spending in 2020 as the scope for many types of discretionary spending, notably on travel and leisure activities, was much restricted. This decline affected all income groups, but it was somewhat more pronounced for high-income households.

This decrease in consumption inequality in Israeli over the last two decades coincides with a slight decrease in *income* inequality over the same period, with incomes in the middle of the income distribution having risen faster than those at the top (see Chapter 2, Figure 2.1). However, it may also reflect rising

spending on core necessities as a result of rising prices, which particularly affect households in the lower parts of the income distribution, see discussion in Section 4.3.

As a result of these trends, the distribution of consumption spending narrowed. The consumption share of the high-income group (Q5) declined by 1.4 p.p. between 2001 and 2021 (or by 1.6 p.p. when considering just the period up to 2018) (Figure 4.2, Panel B). Meanwhile, the consumption share of low-income households (Q1) increased by 1.2%, both when considering the period up to 2018 and up to 2021. The consumption share of the middle-income group also rose, reflecting positive growth for the lower-income group (Q2) offset by slight declines for the mid-middle and upper-middle income groups (Q3 and Q4).

Figure 4.2. Low- and lower middle-income households in Israel experienced a higher growth in consumption expenditures over the last 20 years

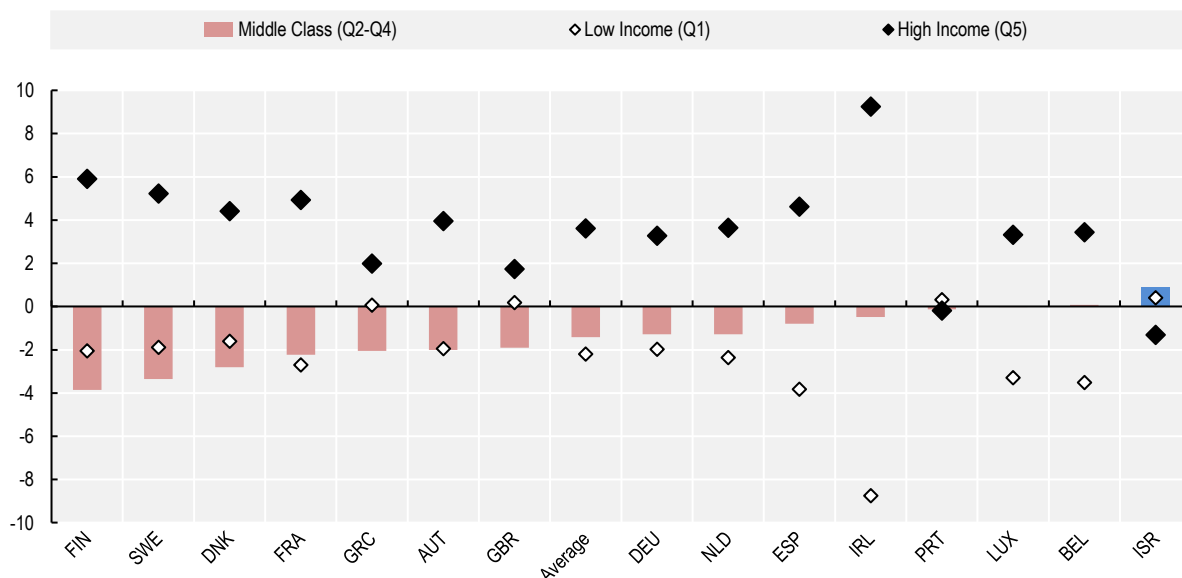


Notes: Income groups are defined as quintiles of the household distribution of net income per standard person. The evolution of consumption spending is affected by a structural break between 2018 and 2019 (see Box 4.1), as indicated by the grey dashed line. Nominal values were deflated using the CPI from the OECD Consumer price indices (CPIs, HICPs), COICOP 1999 database, <https://data-explorer.oecd.org/s/4ch>. Source: OECD calculations based on CBS tabulations from the Israeli Household Expenditure Survey.

The pattern of narrowing inequalities in consumption expenditure observed in Israel stands in contrast to the trends observed in most European OECD countries, where consumption inequalities usually widened over the same period. Indeed, in most countries with available time series data on consumption, the share of consumption accounted for by the middle-income group declined between 2000 and 2015, notably in the Nordic countries (Finland, Sweden, and Denmark) and in France (Figure 4.3). Most of these countries also experienced a decline in consumption expenditures for the low-income group, while the consumption share strongly increased for high-income households.

Figure 4.3. Unlike in Israel, consumption inequalities have grown in most OECD countries

Change in share of consumption expenditure by income group in OECD countries, 1999/2001-2015, p.p.



Notes: Income groups correspond to quintiles of the household disposable income distribution without accounting for household size. The initial observation point is 2001 for Israel and 1999 for all other OECD countries. The figure shows data up to 2015 for all countries to avoid potential distortions due to the COVID-19 crisis in the more recent 2020 wave of the Household Budget Survey (see Box 4.1). The average across OECD countries is unweighted.

Source: OECD calculations based on the Luxembourg Income Study (LIS) database for Israel and tabulations from the Eurostat Household Budget Survey for other countries.

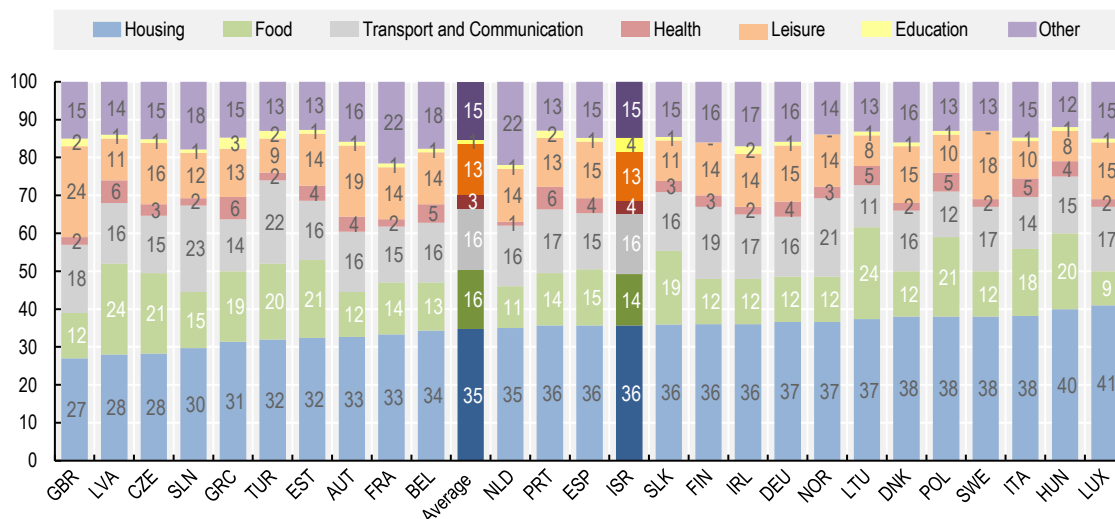
4.2. How do households allocate their consumption expenditures?

4.2.1. Spending on core necessities of Israeli households is broadly in line with that of households in other OECD countries

Israeli households – as households in other OECD countries – allocate most of their consumption budget to core necessities, such as housing and food (for information on the construction of consumption categories, see Box 4.2). Housing is the largest expense, making up over one-third (36%) of total expenditure in Israel in 2015 (Figure 4.4). The value that homeowners derive from living in their own dwelling, i.e. imputed rent, is included in this figure and accounts for more than half of overall housing expenditure. Food accounted for another 14% of total household expenditure.

Figure 4.4. Israeli households spend a smaller share of their consumption budget on core necessities than households in most other OECD countries

Share of each consumption category in total expenditure in OECD countries, 2015, all income groups, percentage



Note: Consumption categories were constructed following a harmonisation process (see Box 4.2). Data for Czechia and the United Kingdom do not include imputed rent for the use of owner-occupied dwellings. The figure shows data for 2015 for all countries to avoid potential distortions due to the COVID-19 crisis in the more recent 2020 wave of the Household Budget Survey (see Box 4.1). The average across OECD countries is unweighted.

Source: OECD calculations based on the Luxembourg Income Study (LIS) database for Israel and tabulations from the Eurostat Household Budget Survey for other countries.

Overall, households' spending on core necessities in Israel is broadly in line with that of other OECD countries. In 2015, the share of expenditures dedicated to housing and food consumption combined ranged from 45% in Austria and Slovenia to 62% in Lithuania.¹ At 49%, the share for Israel is slightly below the OECD average of 51%. Also spending on the two other large consumption expenditure categories, transport and communications² and leisure, are broadly in line with the shares observed in other OECD countries. Combined household spending on education and healthcare in Israel is among the highest across OECD countries, though relatively in small in magnitude overall (7% in Israel, compared to an OECD average of 5%). This may reflect that Israel has a relatively young population (see Chapter 2, Box 2.1). Moreover, public spending on early childhood education and care is relatively low (OECD, 2020^[9]), also public health expenditures are low, and private health insurance is voluntary but widespread (OECD, 2023^[4]; 2025^[10]).

Box 4.2. Measuring consumption and savings and constructing expenditure categories

This chapter focusses on household final consumption expenditure (or spending) as a measure of consumption. This includes: i) monetary expenditure on goods and services consumed; ii) the use value of owner-occupied housing, i.e. imputed rent; and, in a few countries, iii) the value of in-kind consumption of certain limited items. The inclusion of imputed rent is important from a conceptual perspective as it allows allocating the cost of buying a house over the years in which the house is "consumed" instead of registering the expenditure only in the year of purchase.

Consumption expenditure does not include the value of goods and services provided for free by the government and non-profit institutions serving households, such as free healthcare and education. Furthermore, it does generally not include consumption of home-produced goods and services, where no market transaction takes place. This consumption is reflected in consumption expenditure only through the value of the inputs used in the production process, which generally amounts to less than the market value of the final good or service.

In the analysis of households' savings pattern in Israel, the savings rate is computed as the difference between household net money income and money expenditure, as a share of net money income. Since no corresponding tabulations were available for European countries from the Eurostat website, no international comparison of savings patterns is provided.

The classification of consumption expenditures differs between the CBS (Israel) and Eurostat (European OECD countries) datasets. While Eurostat's HBS follows the COICOP classification (United Nations, 2018^[11]), Israel's CBS uses a different classification. For all figures showing cross-country comparisons, the values for Israel therefore rely on microdata from the Luxembourg Income Study (LIS) database (Luxembourg Income Study, 2025^[8]) that have been harmonised with the Eurostat categories. The CBS tabulations are used for all parts of the analysis that focus on Israel only. For an overview of the construction of the harmonised consumption categories for Israel, see Annex Table 4.A.1.

4.2.2. Total household expenditure in Israel has shifted towards core necessities, while spending on leisure has plummeted

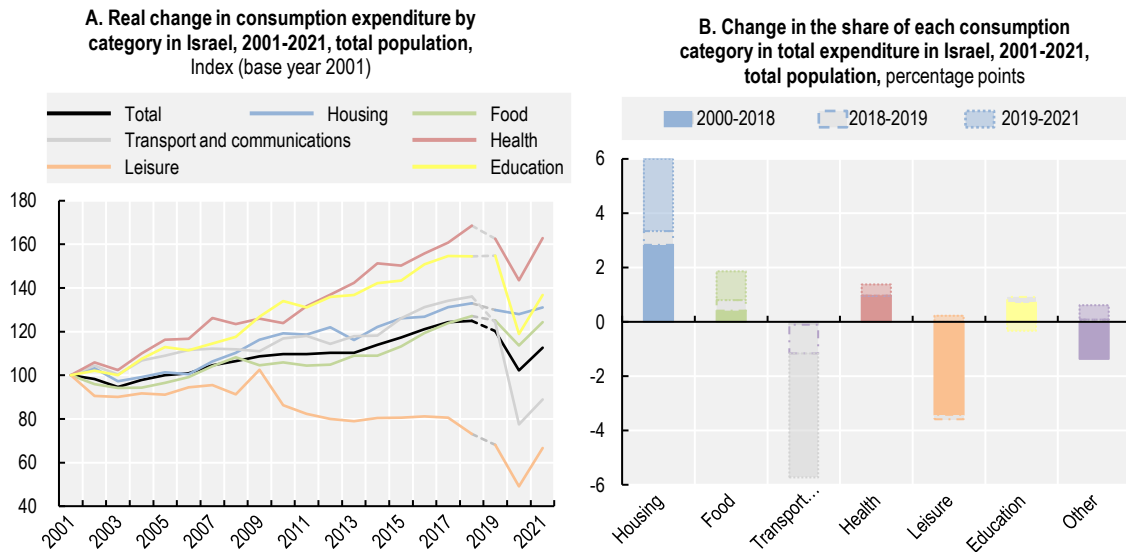
Overall consumption expenditures by Israeli households increased by 13% (in real terms) over the past two decades, as previously shown in Figure 4.2. This growth reflects very different evolutions for different consumption categories (Figure 4.5, Panel A):

- *Expenditures on healthcare and education have strongly increased*, particularly over the past decade, rising by 69% and 54%, respectively, between 2001 and 2018.
- *Expenditures on core necessities have also increased*, albeit to a smaller extent, close to 30% for both housing and food by 2018.
- *Spending on leisure has plummeted*, declining by nearly 30% between 2001 and 2018.

The COVID-19 crisis led to a drop in expenditures across all categories, and by 2021 spending levels had not yet recovered to their pre-crisis levels. This effect was particularly pronounced for transport and communications and education, likely reflecting the impact of lockdown measures, which restricted travel and imposed school closures (in line with the findings in Roll et al. (2022^[12])).

As a result, spending on core necessities, healthcare and education make up a growing share of overall consumption expenditures. Over the period from 2001 to 2018, the consumption share dedicated to housing increased by 3 p.p., while the shares allocated to healthcare and education each increased by 1 p.p. Meanwhile, the share of total consumption expenditure going to leisure declined by 3 p.p. The COVID-19 crisis led to significant shifts in more years, notably a strong relative shift away from transport and communications – reflecting travel restrictions during the pandemic – towards housing – reflecting the high proportion of fixed costs in this category as well as possibly the increase in housing-related costs during lockdown, such as for electricity and gas.

Figure 4.5. Israeli households spend a growing share of their budget on housing, but spending has increased also for healthcare, education and food



Note: Consumption categories were constructed following a harmonisation process (see Box 4.2). The evolution of consumption spending is affected by a structural break between 2018 and 2019 (see Box 4.1), as indicated by the grey dashed line. Nominal values were deflated using the CPI from the OECD Consumer price indices (CPIs, HICPs), COICOP 1999 database, <https://data-explorer.oecd.org/s/4ch>.

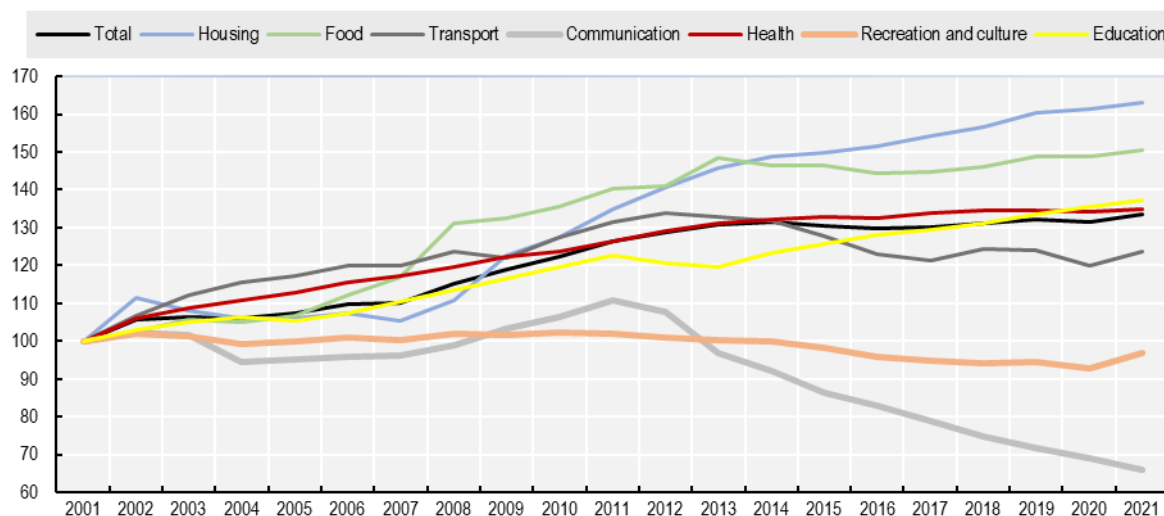
Source: OECD calculations based on CBS tabulations from the Israeli Household Expenditure Survey.

4.2.3. The overall price level is very high in Israel, and prices have risen particularly for core necessities, such as housing and food

The shift in household consumption expenditures towards core necessities, and away from leisure, likely reflects increases in the relative cost of core necessities in Israel. While the cost of the average consumption basket for Israeli households has risen by around 34% in the past 20 years, or about 1.5% per year, core necessities have seen the most significant surge in prices (Figure 4.6). By 2021, housing prices were 65% higher than they had been in 2001, while food prices had climbed by 50%, well above the overall inflation rate. Those price increases may be particularly relevant given Israel's demographic composition, notably the large share of households with many children (see Chapter 2, Box 2.1). The prices of healthcare and education also increased only slightly above the overall inflation rate even as household spending on these items grew substantially (as shown in Figure 4.5). This suggests that the sharp rise in expenditures was driven partly by higher demand for these services. Meanwhile, the prices of recreation and culture remained broadly stable over the time period, suggesting that the decline in spending on leisure previously identified reflects to some extent price effects. The price for communication products strongly declined, by around 35%.

Figure 4.6. The prices of housing and food have soared

Change in overall prices and prices for selected categories in Israel, 2001-2021, index (base year 2001)

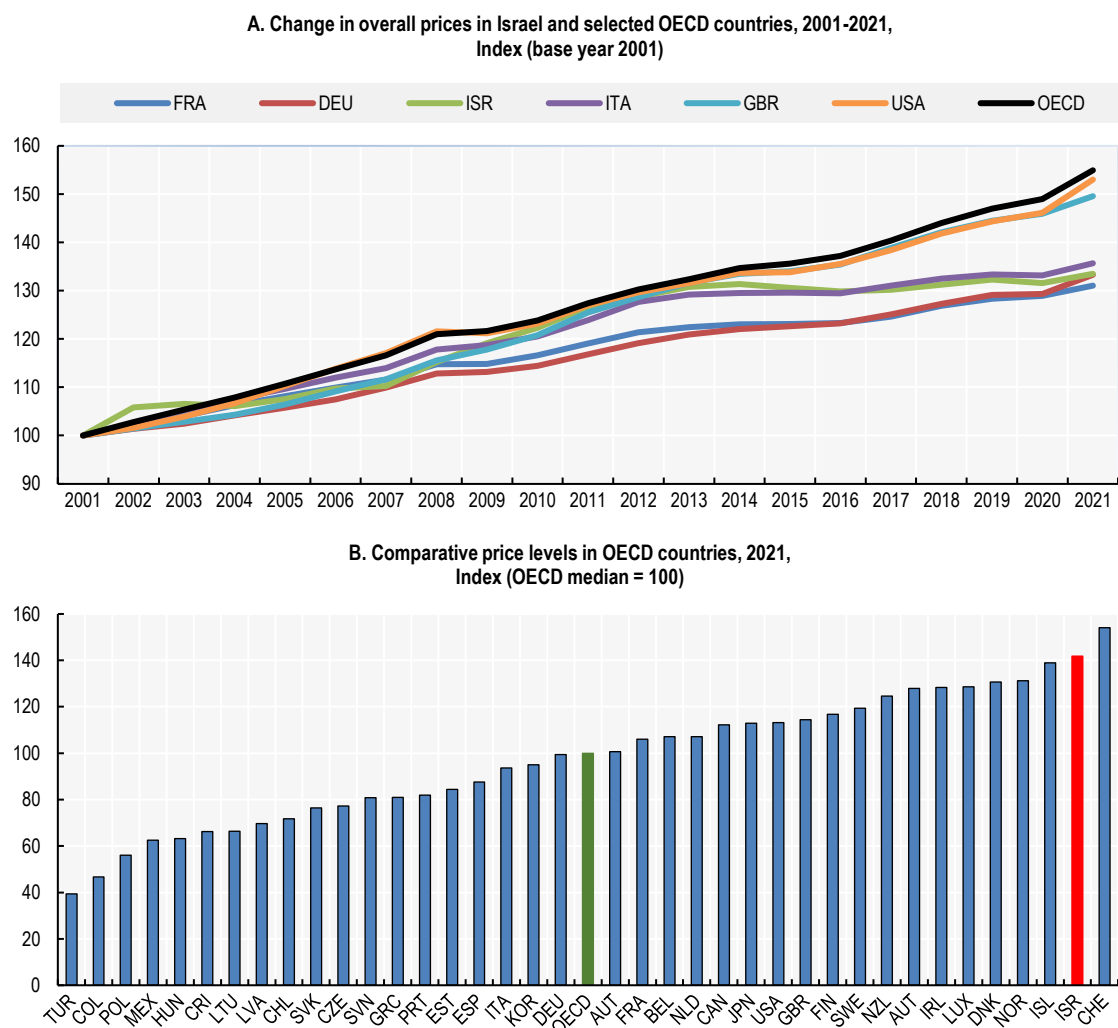


Note: Consumption categories in this figure do not correspond to those in previous figures, as they are defined according to the CPI classification. Source: OECD Consumer Price Indices database OECD Data Explorer • Consumer price indices (CPIs, HICPs), COICOP 1999, <https://data-explorer.oecd.org/s/4ci>.

Notwithstanding the burden that rising prices in housing, food, and other consumption categories have placed on the living standards of Israeli households, these increases remain relatively moderate in international comparison.³ Indeed, the overall price level increase in Israel is below that across OECD countries on average (55%) and those experienced in peer countries, such as the United States (53%) and the United Kingdom (50%; Figure 4.7, Panel A).

However, the price level in Israel is very high in international comparison. After adjusting for purchasing power, the overall price level in Israel is 40% higher than in the OECD on average, with prices in Israel being second only to those in Switzerland in 2021 (Figure 4.7, Panel B). As discussed in the recent *OECD Economic Survey of Israel* (OECD, 2025^[5]), several structural factors contribute to these high prices, including geopolitical and economic uncertainties, limited trade and supply chain integration with neighbouring countries, and the low housing supply because of administrative red tape and planning obstacles.

Figure 4.7. Israel has one of the highest price levels in the OECD, but price increases in the last two decades have been comparatively moderate



Notes: Comparative price levels are computed as the ratios of PPPs for private final consumption expenditure to USD exchange rates. They provide measures of differences in price levels among countries.

Source: OECD Consumer Price Indices database OECD Data Explorer • Consumer price indices (CPIs, HICPs), COICOP 1999, <https://data-explorer.oecd.org/s/4ci> for Panel A; replication from (OECD, 2025^[5]) for 2021 using data from OECD Annual Purchasing Power Parities and exchange rates database OECD Data Explorer • Annual Purchasing Power Parities and exchange rates, <https://data-explorer.oecd.org/s/4cj> for Panel B.

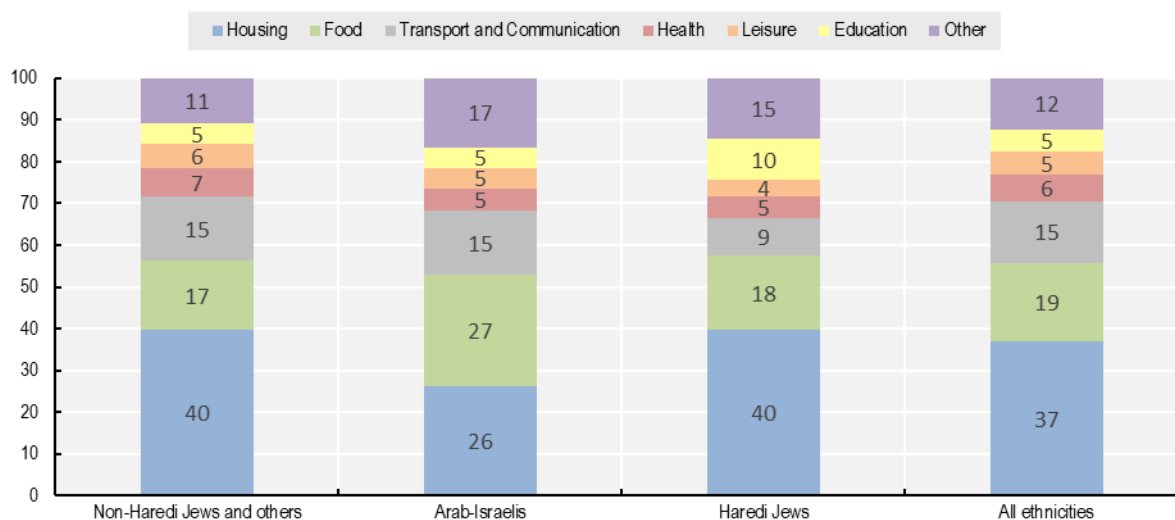
4.2.4. The allocation of consumption expenditures varies across ethno-religious groups

While the available CBS tabulations are not detailed enough to allow for comprehensive analysis of spending patterns across different socio-economic groups, household consumption expenditures can be disaggregated across Israel's ethno-religious groups. Expenditures on core necessities are relatively similar across groups, with spending on housing and food ranging from 53% of the total budget for Arab-Israelis to 57% for Haredi (ultra-orthodox) Jews (Figure 4.8). However, Arab-Israeli households devote a much smaller share to housing and a significantly higher share to food than other groups. This may partly reflect the method used for calculating imputed rent; while homeownership is relatively widespread among Arab Israelis, house and rent prices in majority-Arab-Israeli communities are much

lower than in majority-Jewish communities. Meanwhile, Haredi households spend twice as much on education as other groups (10% vs. 5%), likely a reflection of the large share of Haredi households with many children (Chapter 2, Box 2.1) and overall high levels of educational attainment (Chapter 3, Box 3.3).

Figure 4.8. Arab-Israeli households spend relatively less on housing, while the Haredim spend more on education

Share of each consumption category in total expenditure by ethnic group in Israel, 2021, percentage



Note: Consumption categories were constructed following a harmonisation process, as described in Box 4.2.

Source: OECD calculations based on CBS tabulations from the Israeli Household Expenditure Survey.

4.3. How have savings evolved?

4.3.1. The savings rate increased for most Israeli households, except for those with lowest incomes

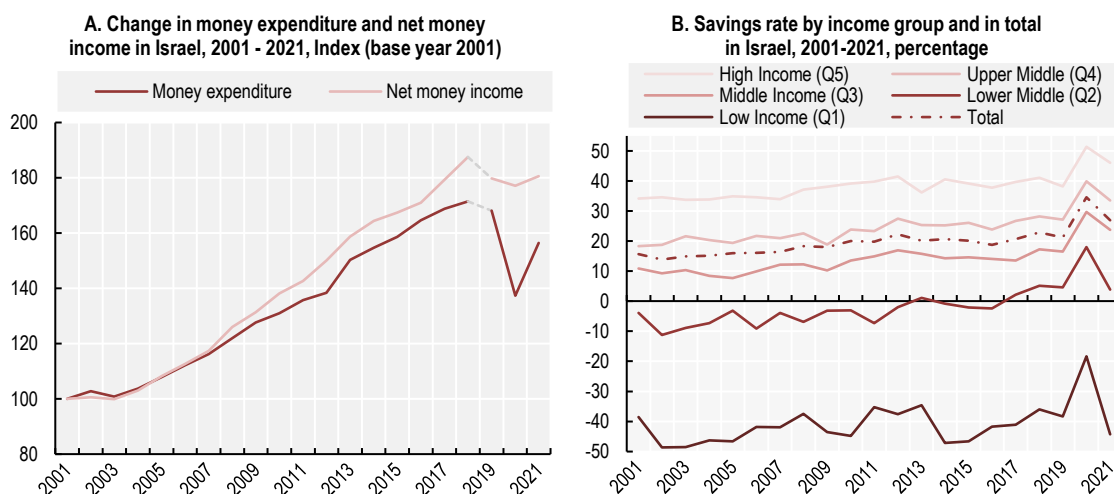
Despite rising expenditures, Israeli households have gradually increased their savings rate over the last two decades, reflecting a higher cumulative growth in incomes (+88% up to 2018) than in spending (+72%) (Figure 4.9, Panel A). Using a simple definition of the savings rate as the difference between household net money income and money expenditure as a share of net money income, the total annual savings rate increased from 16% to 23% between 2001 and 2018 (Figure 4.9, Panel B).⁴ In 2020, the savings rate temporarily surged as consumption plummeted during the COVID-19 pandemic, but it still remained somewhat elevated also in 2021.

The rise in the savings rate was particularly pronounced among middle-class households. Households in the middle three quintiles of the income distribution experienced an increase in the savings rate by 8 p.p. between 2001 and 2018, slightly more than the increase for the overall population (+7 p.p.). As a result, lower-middle income households saw their savings rate turn positive after 2017.

The rise in the savings rate was weakest for households in the bottom of the income distribution (at only 2 p.p. between 2001 and 2018), who moreover strongly dissaved over the entire period. One explanation is that these households experienced much slower real income growth over the last two decades than households further up in the income distribution (see Chapter 2, Figure 2.1). At the same time, low-income households are disproportionately affected by rising prices for core necessities, which make up a large

share of their budget (Causa et al., 2022^[13]; Caisl et al., 2023^[14]). For low-income households, the modest rise in incomes was therefore largely eaten up by rising expenditures. Indeed, households in the bottom quintile of the income distribution spend around 40% more than their monetary income.⁵ Part of this gap may be filled through income from informal economic activity or through in-kind social transfers; the remainder needs to be covered by running down savings or taking credit.

Figure 4.9. Middle- and high-income households in Israel have been able to save a growing share of their income, while those in the bottom of the income distribution strongly dissave

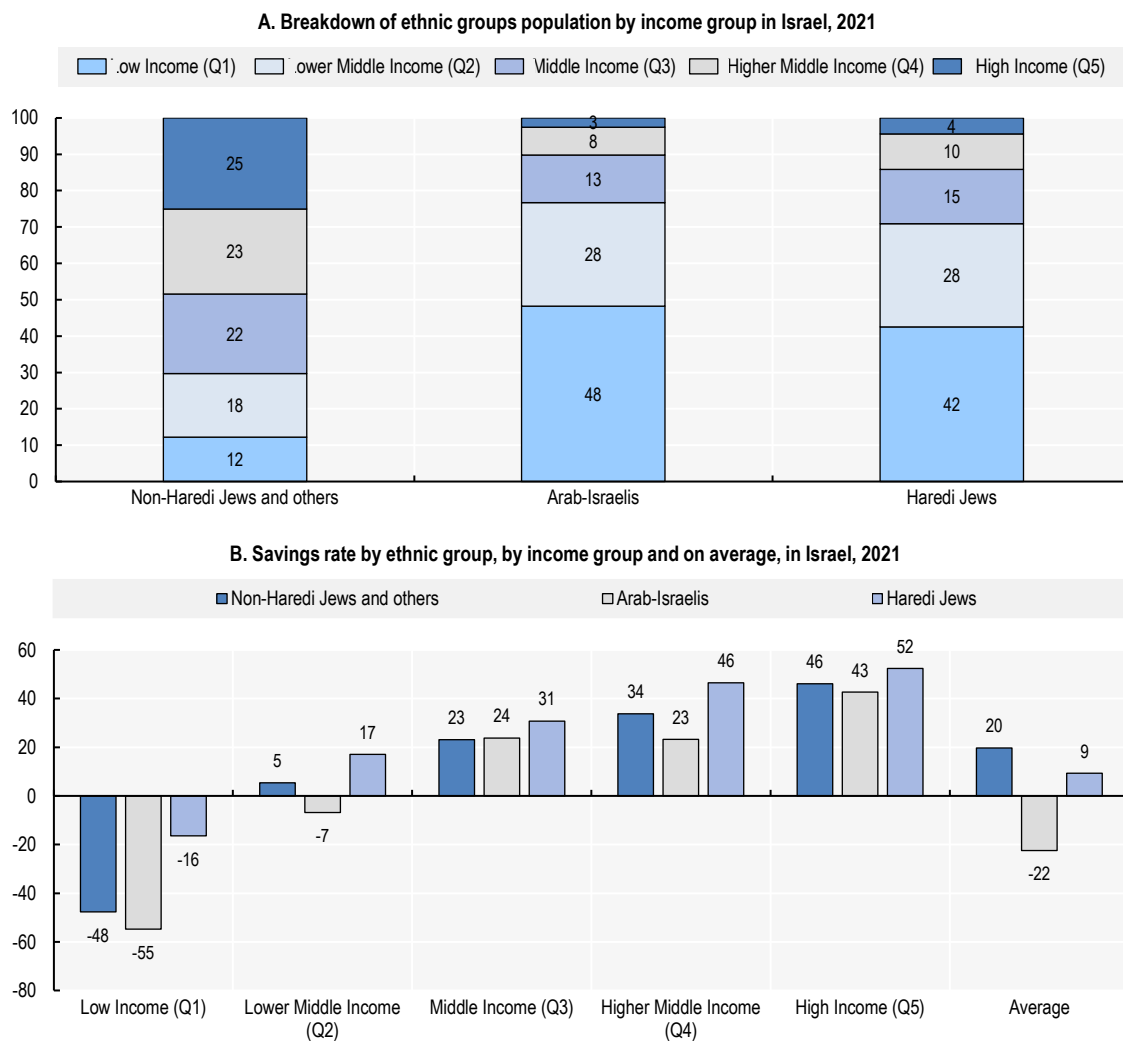


Note: Income groups are defined as quintiles of the household distribution of net income per standard person. The savings rate is computed as the difference between net money income per household and money expenditure per household, as a share of net money income per household. Source: OECD calculations based on CBS tabulations from the Israeli Household Expenditure Survey.

4.3.2. Savings rate differentials in Israel have a strong ethno-religious dimension

The savings rate differentials across the income distribution have a strong ethno-religious dimension in Israel, which largely reflect the large disparities in employment outcomes and income levels between different population groups (see also discussion in Chapter 2). Both the Arab-Israeli and the Haredi Jewish minorities are heavily overrepresented in the lower parts of the income distribution, with 48% and 42% of them falling into the lowest income quintile, compared to 12% of Non-Haredi Jews (Figure 4.10, Panel A). Consequently, their savings rates are lower than for the Non-Haredi Jewish majority (Figure 4.10, Panel B). Once income differences are accounted for, disparities in savings rates between Arab-Israelis and the Non-Haredi Jewish population substantially narrow, though Arab-Israelis tend to save a bit less, particularly in the lower parts of the income distribution.⁶ Meanwhile, the Haredi-Jews have systematically higher savings rates in all income groups – likely a reflection of their frugal lifestyle. Overall, the strongly negative savings rate of Arab-Israelis on average suggests that many Arab-Israelis struggle to make ends meet, let alone to build up wealth.

Figure 4.10. Arab-Israelis are heavily overrepresented among low-income households and strongly dissave on average



Note: Income groups are defined as quintiles of the household distribution of net income per standard person. The savings rate is computed as the difference between money expenditure per household and net money income per household, as a share of net money income per household. Source: OECD calculations based on tabulations from the Israeli Household Expenditure Survey.

4.4. Main conclusions

This chapter discussed key trends in consumption expenditures and saving patterns in Israel over the past two decades, with a particular focus on middle-class households. The following key findings emerge from the analysis:

- *Consumption inequalities in Israel are comparatively narrow in international comparison.* The share of consumption expenditures that is accounted for by households the three middle quintiles of the income distribution in Israel is well in line with that observed in most European OECD countries. One-third of total consumption goes to households in the top quintile, slightly less than on average across other OECD countries.

- Israel has experienced a decline in consumption inequalities over the past two decades, unlike most European OECD countries. Total household consumption increased more quickly in real terms for low- and middle-income households (24% and 14%, respectively) than for those at the top (7%). This evolution mirrors a slight decline in income inequalities over the same period. It stands in contrast with the trends observed in most European OECD countries, where the consumption shares of low- and middle-income households declined.
- *Consumption expenditures of Israeli households have shifted toward core necessities, while spending on leisure has plummeted.* Growing shares of overall consumption expenditures of Israeli households go to housing (+3 p.p. from 2001 to 2018), healthcare and education (both +1 p.p.), while the share going to leisure has plummeted (-3 p.p.). However, in international comparison, household spending on core necessities remains broadly in line with that of households in European OECD countries.
- *The overall price level is very high in Israel, and prices have risen particularly for housing and food.* Over the period from 2001 to 2021, the prices of housing and food in Israel climbed by 65% and 50%, well above the overall inflation rate of 34% over the same period. Also the prices of healthcare and education increased above overall inflation. While these increases remain quite moderate by international standards, the overall price level in Israel was the second highest among OECD countries in 2021, putting pressure on the living standards of Israeli households and challenging their capacity to afford a “middle-class lifestyle”.
- *Despite rising expenditures, the savings rate of Israeli households gradually increased over the last two decades, reflecting positive income growth.* This rise in savings rates was slightly more pronounced among middle-class households than in the general population; it was weakest for households in the bottom of the income distribution, who moreover strongly dissaved over the entire period. These savings rate differentials have an ethno-religious dimension in Israel: both the Arab-Israeli and the Haredi Jewish minorities are heavily overrepresented in the lower parts of the income distribution, such that their savings rates are much lower than for the Non-Haredi Jewish population. Even once income differences are accounted for, Arab-Israelis tend to save less than Non-Haredi Jews, while the Haredim have systematically higher savings rates.

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Annex 4.A. Further details on consumption expenditure categories

Annex Table 4.A.1. Consumption expenditure categories in the Israeli data

Harmonised classification	CBS tabulations	LIS microdata
01 Food	01 Food + 02 Vegetables and fruit	01 Food and non-alcoholic beverages
02 Housing	03 Housing + 04 Dwelling and housing maintenance	04 Housing, water, gas, electricity and other fuels + 05 Furnishings, household equipment and routine maintenance of the house + imputed rent
03 Health	07 Health	06 Health
04 Education	Education services from 08 Education, culture and entertainment	10 Education
05 Leisure	Culture and entertainment from 08 Education, culture and entertainment	09 Recreation and culture + 11 Restaurants and hotels
06 Transport and communications	09 Transport and communications	07 Transport + 08 Communications
07 Other	05 Furniture and household equipment + 06 Clothing and footwear + 10 Miscellaneous goods and services	02 Alcoholic beverages and tobacco + 03 Clothing and footwear + 12 Miscellaneous goods and services

Notes

¹ In the United Kingdom, combined consumption expenditure for housing and food was lower than that but this figure does not include imputed rent.

² Transport and communications includes transport-related expenditures, such as for public transport, travel abroad and vehicles, as well as communications-related expenditures, such as on postal services, mobile phone use and the internet.

³ This finding is in line with the discussion in Flug, Hirsch and Portal (2022_[15]).

⁴ These figures broadly align with the savings rate reported by the Bank of Israel in its table on “[Private Disposable Income, Consumption, And Saving](https://www.boi.org.il/en/economic-roles/statistics/real-economic-activity/national-accounts/)”, from the National Accounts statistics in <https://www.boi.org.il/en/economic-roles/statistics/real-economic-activity/national-accounts/>.

⁵ These numbers do not imply that *the same households* systematically spend more than the income they earn. The composition of the low-income group changes from one year to the next, as some households drop into the low-income group, e.g. as a result of job loss or changes in household composition, while others rise out of the low-income group into the middle, e.g. because they take up work or change jobs.

⁶ This may be a consequence of remaining ethno-religious disparities *within* income groups, with Arab-Israelis having lower incomes and hence lower savings rates than Non-Haredi Jews within each income quintile.

How is Israel's Middle Class Faring?

Income Trends, Occupational Change and the Rising Cost of Living

Thriving middle classes are the backbone of democratic and economically prosperous societies: they drive innovation, underpin economic resilience, and are essential for social cohesion. However, transforming labour markets and rising living costs have put pressure on middle-class households across many OECD countries. This review analyses trends in incomes, labour market outcomes, and consumption patterns of the middle class in Israel, putting the results in a cross-country context. It shows that Israel's middle class has enjoyed robust income growth over the last two decades, and that income inequalities have narrowed – distinguishing Israel from many other advanced economies. Despite this progress, Israel's middle class remains among the smallest across OECD countries. Substantial disparities persist in access to the middle class: young people have struggled to benefit equally from the expansion of the Israeli middle class, while ethno-religious minorities remain strongly underrepresented. Middle-income workers have experienced considerable occupational advancement into high-skilled roles, but persistent inequalities by gender and ethno-religious background endure, particularly in access to managerial roles and in wage levels. Meanwhile, rising expenditures on housing, food, and other core necessities have been putting pressure on household budgets, particularly for low-income households and ethno-religious minorities.



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