

Inflation, Monetary Policy, and Staff Forecasts



Monetary Division
Research Department
Bank of Israel

October 24, 2023

Outline

- Recent developments
 - Inflation and inflation expectations
 - Interest rates
 - Monetary aggregates
- Reaction of Markets to present and past conflicts
- Staff forecast

Recent Developments

Headline Inflation and Major Components

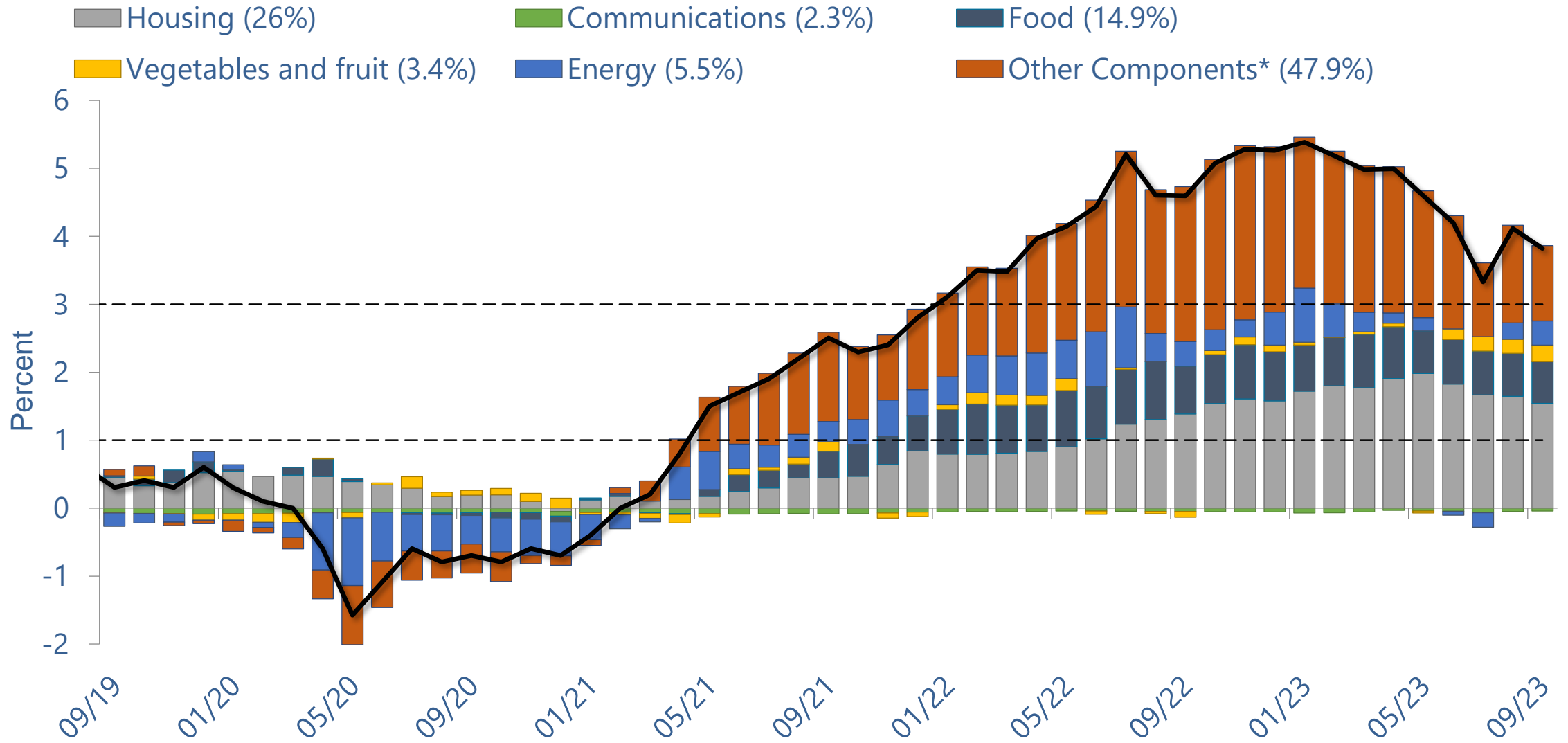
Annual rates

	CPI (1000)*	Energy (55)	Food (149)	Housing (260)	Excl. Housing (740)
Jan-22	3.1	8.0	4.5	3.2	3.0
May-22	4.1	11.0	5.6	3.7	4.3
Sep-22	4.6	7.0	4.8	5.6	4.2
Jan-23	5.4	14.5	4.6	6.6	5.1
May-23	4.6	3.6	4.2	7.5	3.7
Sep-23	3.8	6.6	4.1	5.8	3.3

* In parenthesis - weight in headline CPI.

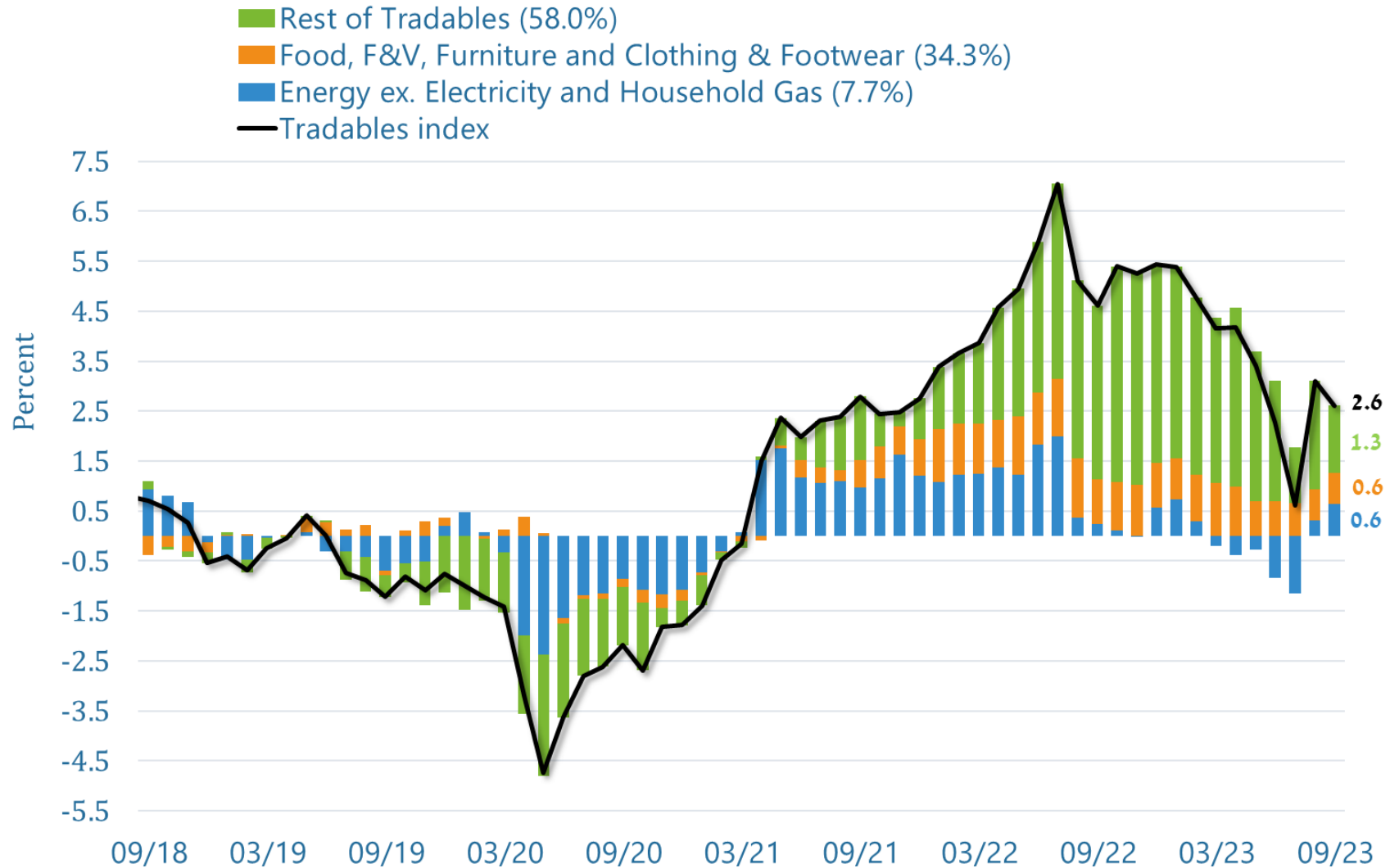
Inflation Rate - Contributions

Annual Rate, September 2019 to September 2023



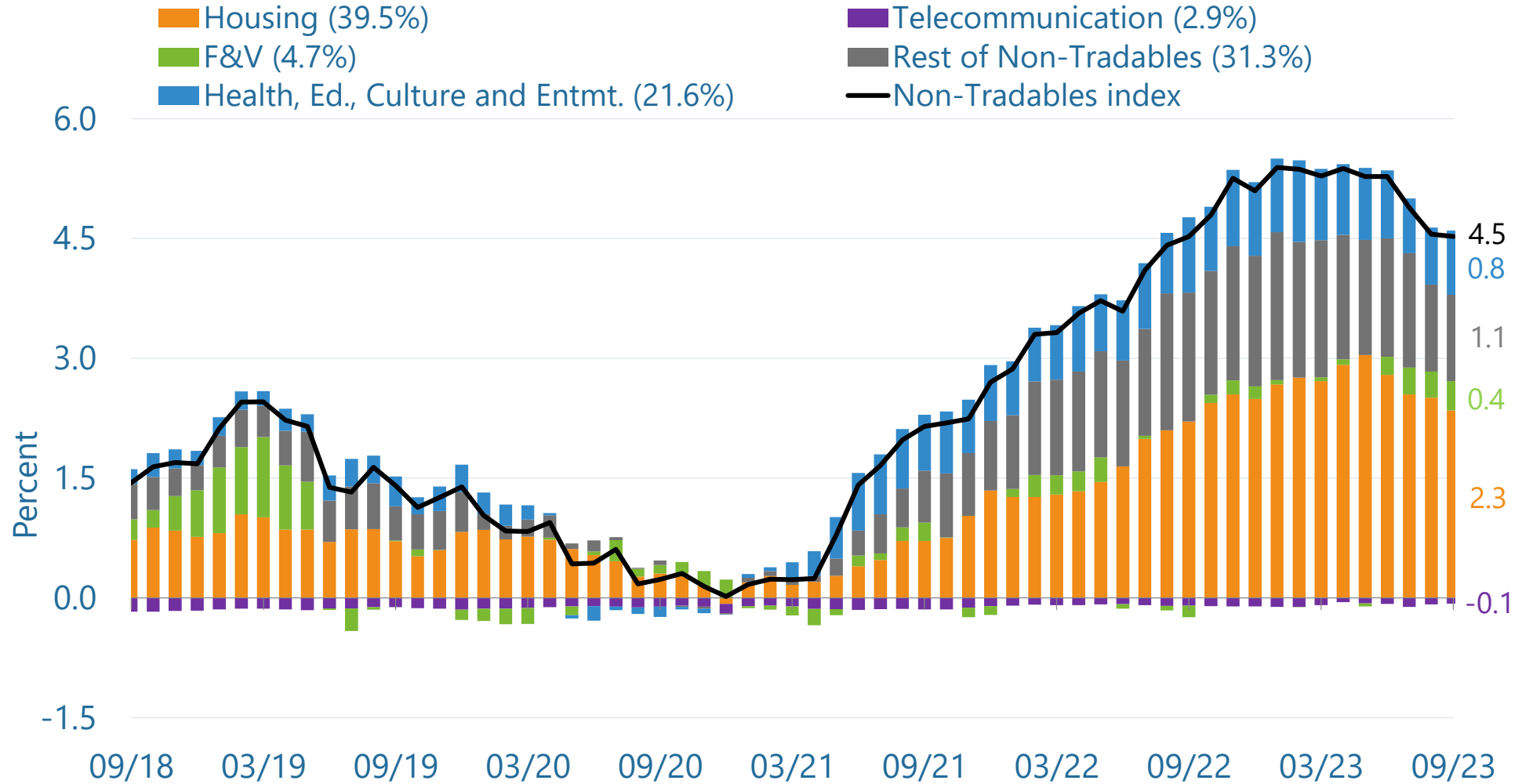
Tradable Goods Inflation - Contributions*

Annual Rate, September 2018 to September 2023



Non-Tradable Goods Inflation - Contributions*

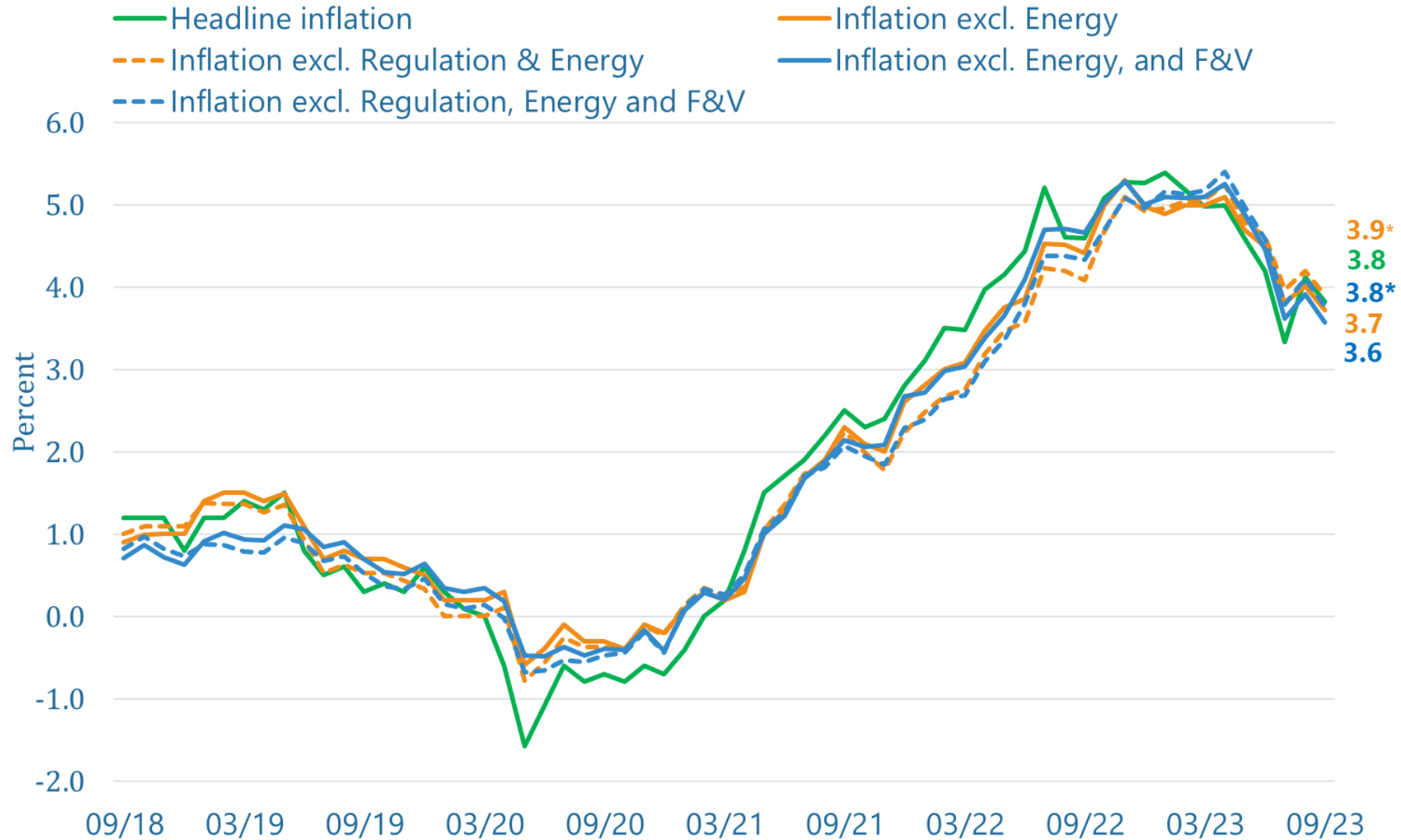
Annual rate, September 2018 to September 2023



*Non-tradables are 64% of the total CPI.

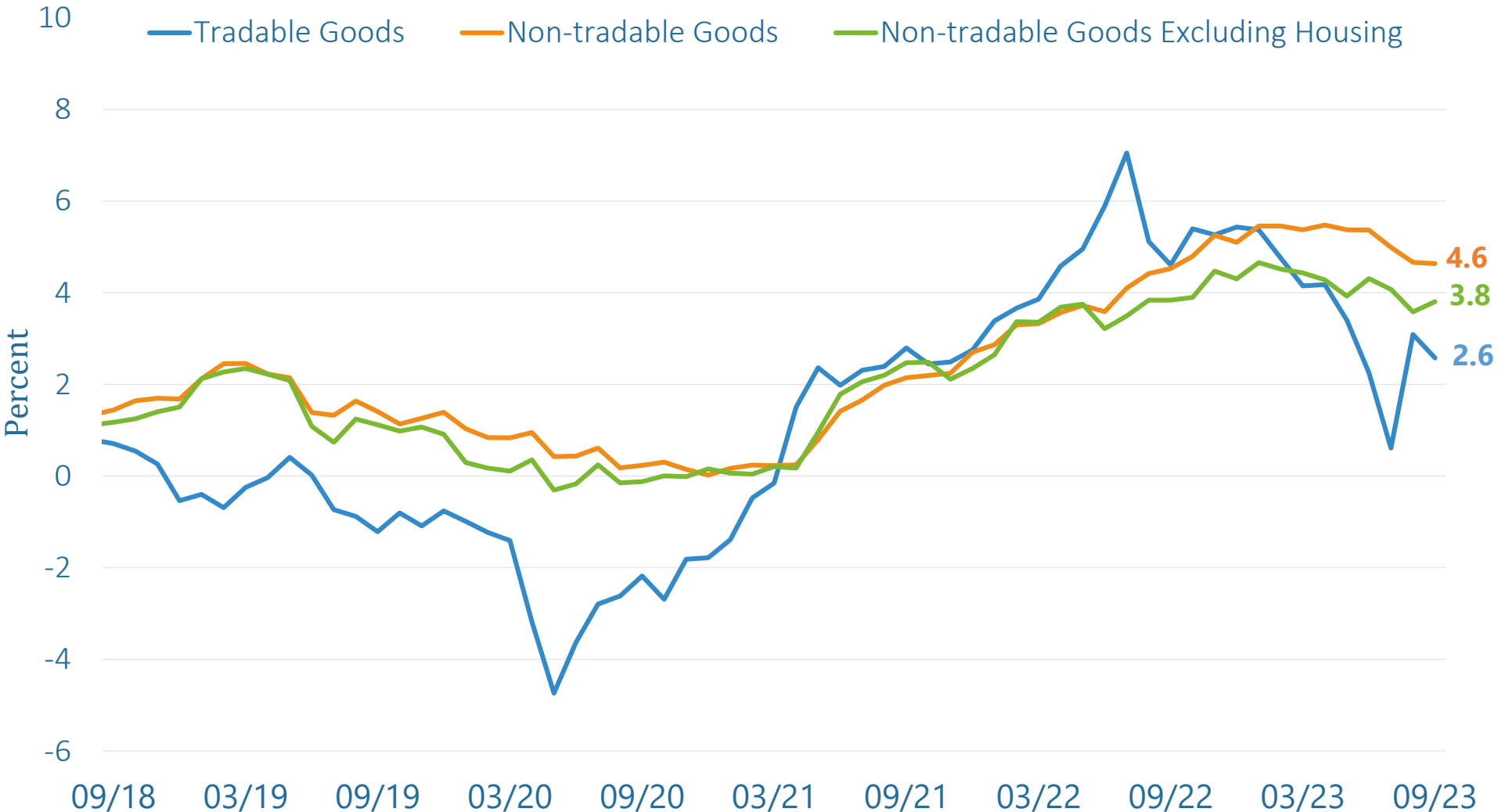
Headline and Core Inflation

September 2018 to September 2023



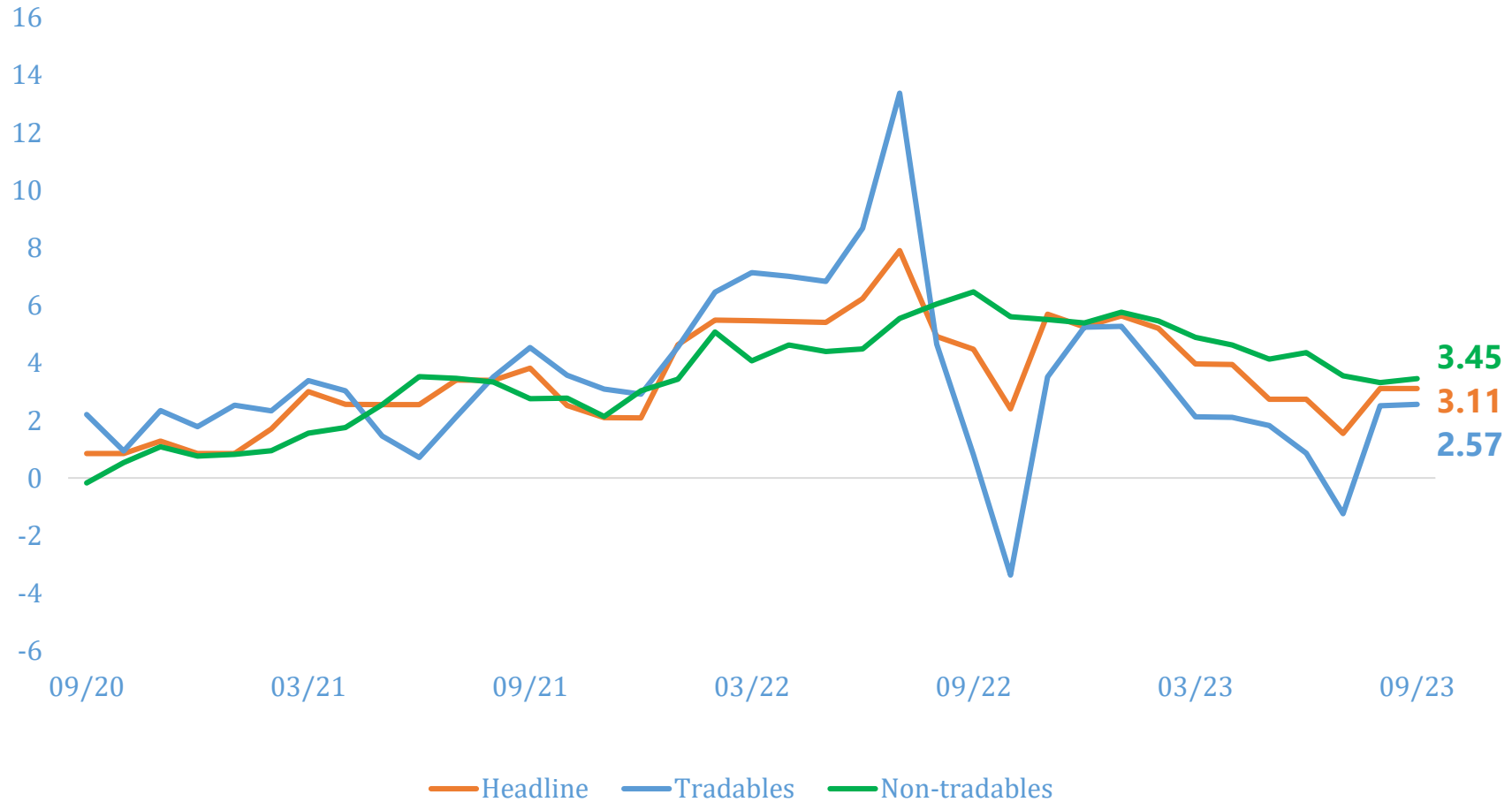
Tradable, Non-Tradable & Non-Tradable Goods Excl. Housing

Annual rate, September 2018 to September 2023



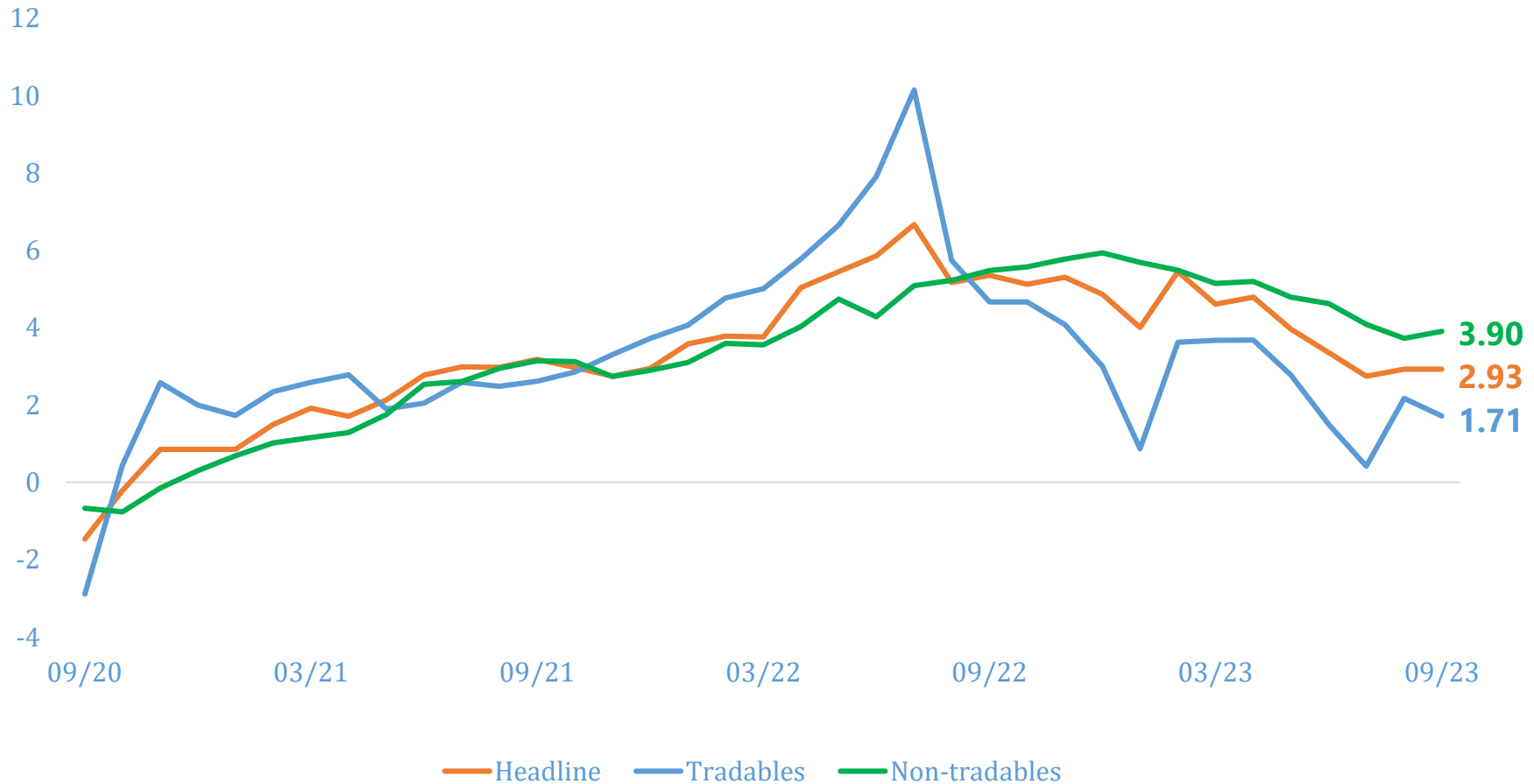
Instantaneous Inflation

3-month Annualized Rate, September 2020 to September 2023



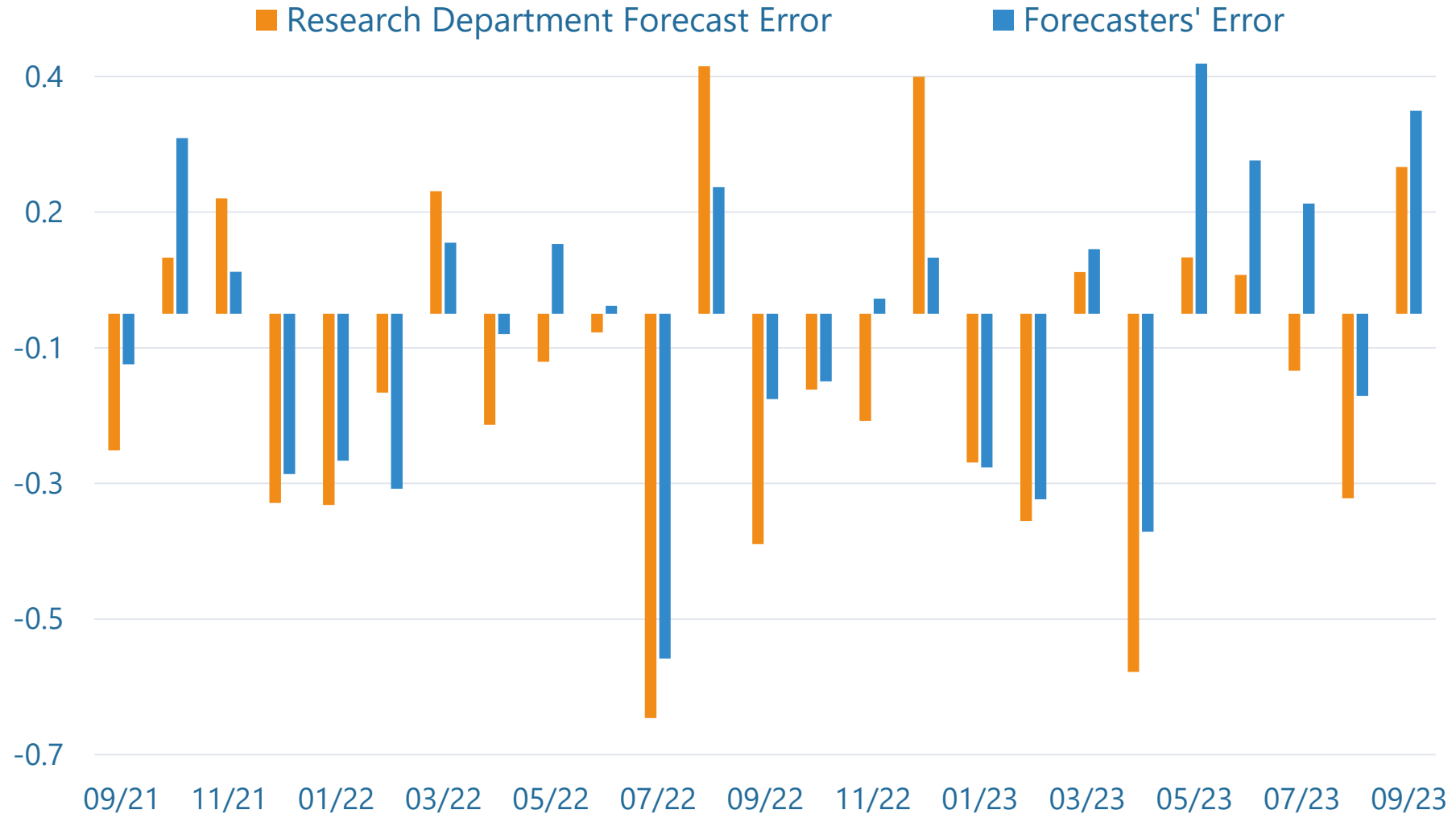
Instantaneous Inflation

6-month Annualized Rate, September 2020 to September 2023



Monthly CPI - Actual and Forecasts

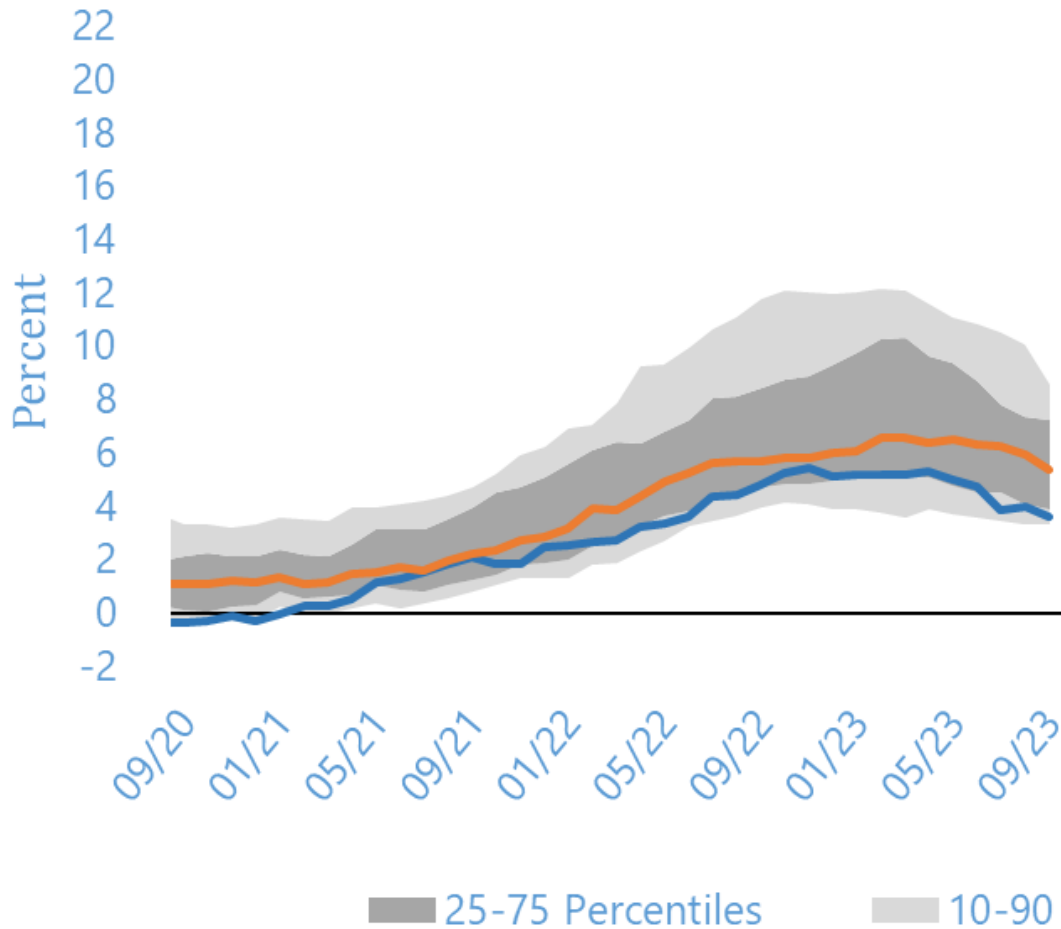
September 2021 to September 2023



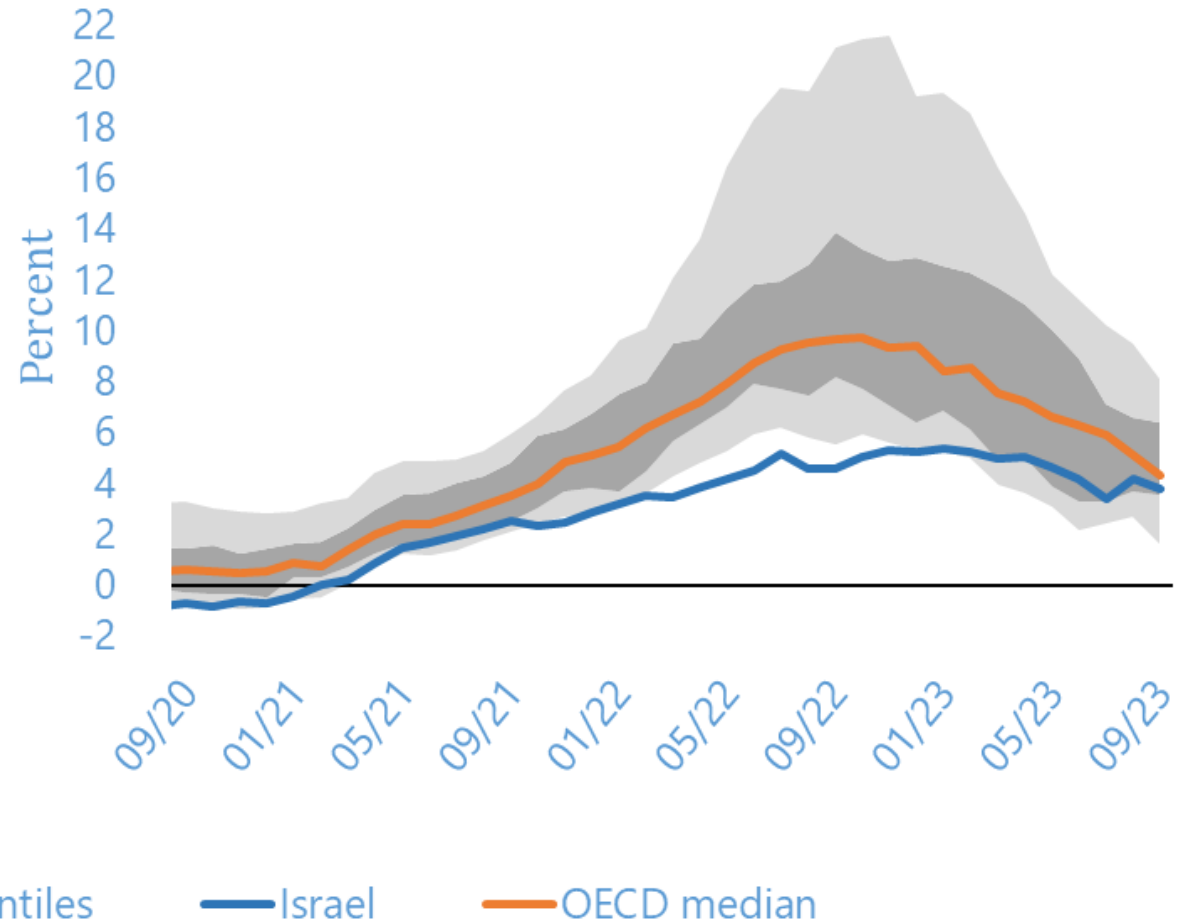
Inflation in Israel and OECD Countries

Annual rate, September 2020 – September 2023

Annual Inflation Non-Food Non-Energy

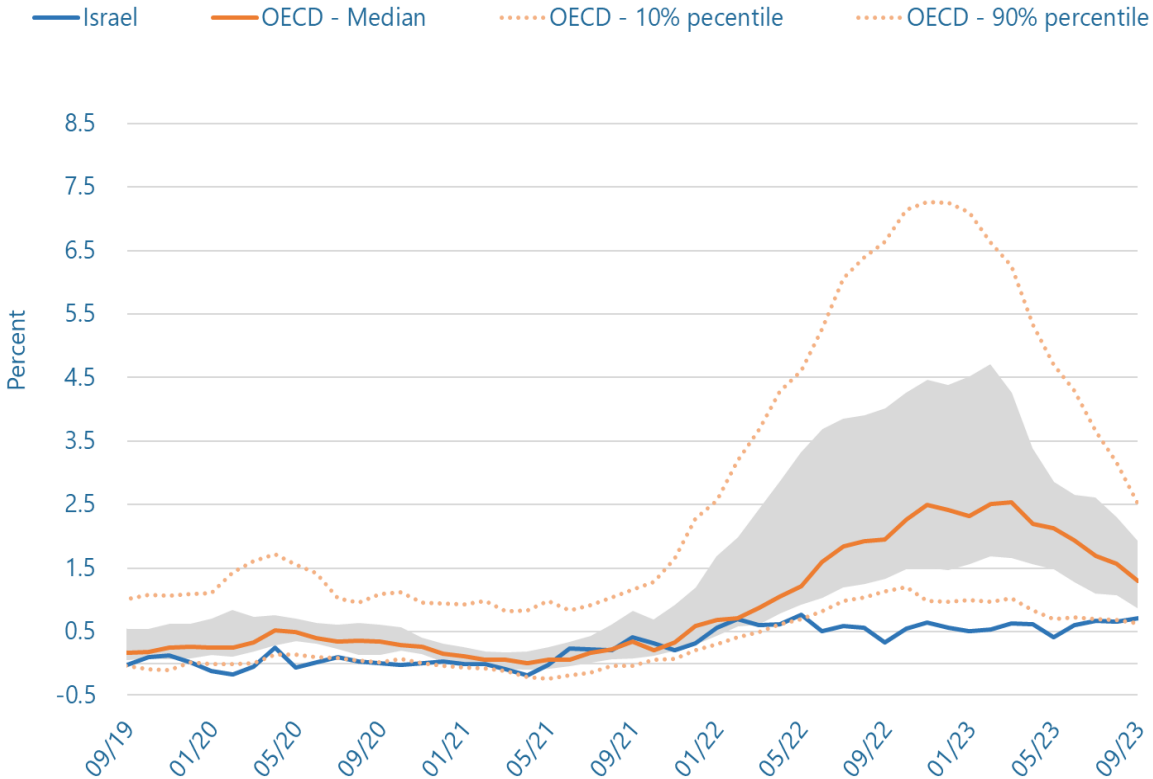


Annual Inflation

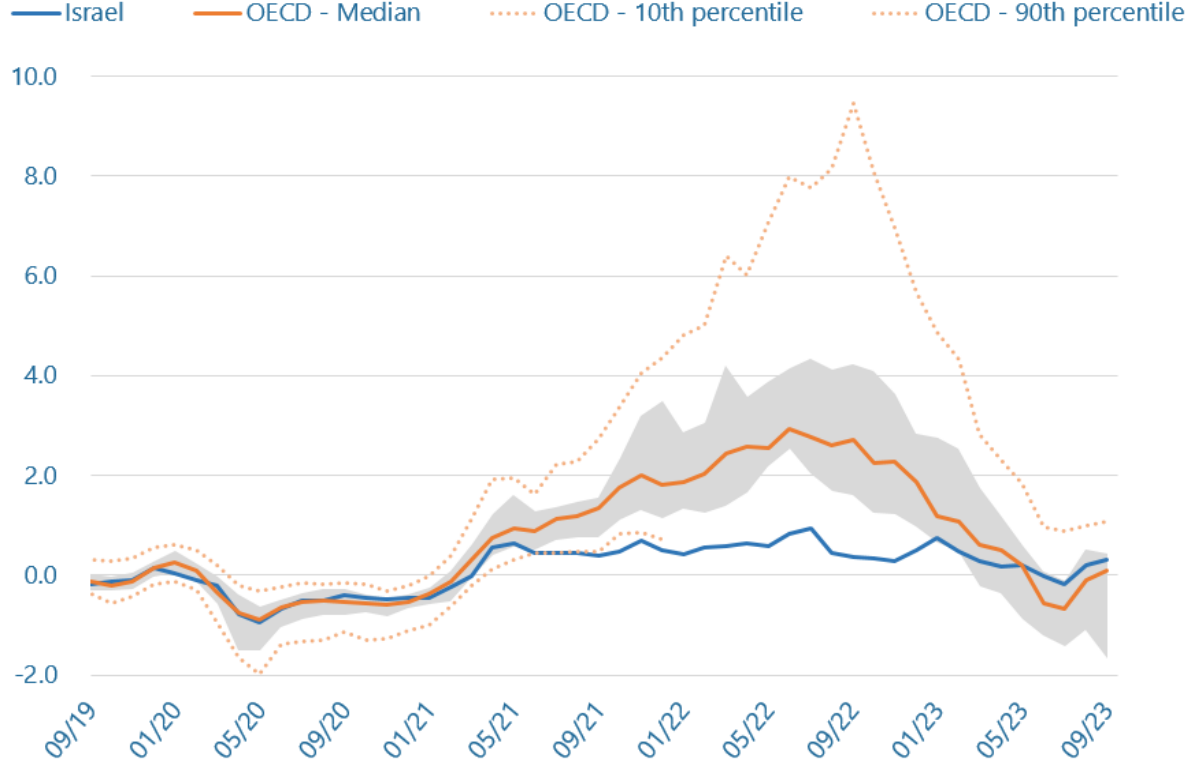


OECD Countries: Contribution of Food and Energy

Contribution of Food Component September 2019 – September 2023



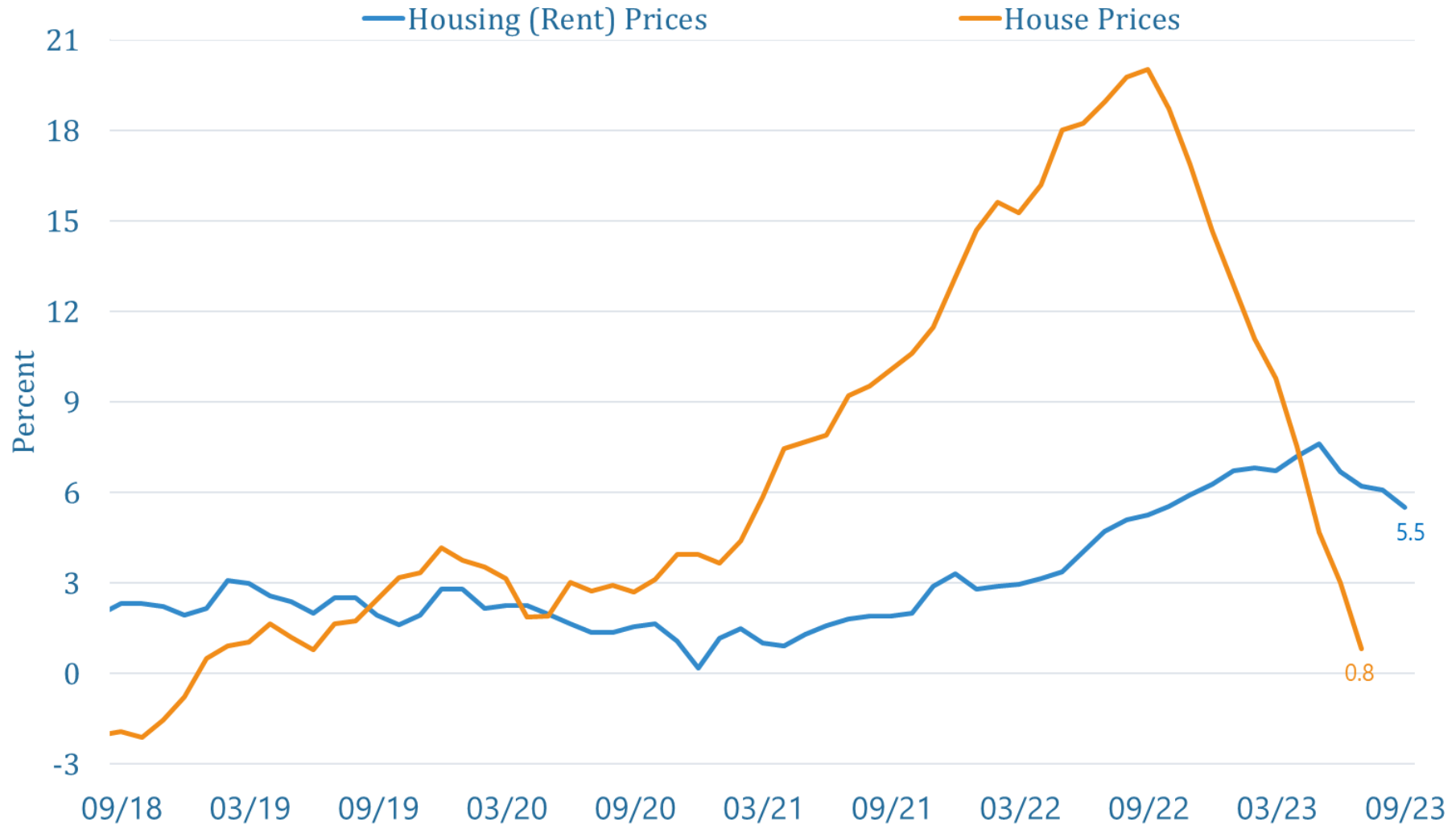
Contribution of Energy Component September 2019 – September 2023



Notes: The contributions are based on COICOP. The weight of the food component in Israel is 149.21 out of 1000. The weight of the Energy component in Israel is 54.63 out of 1000.

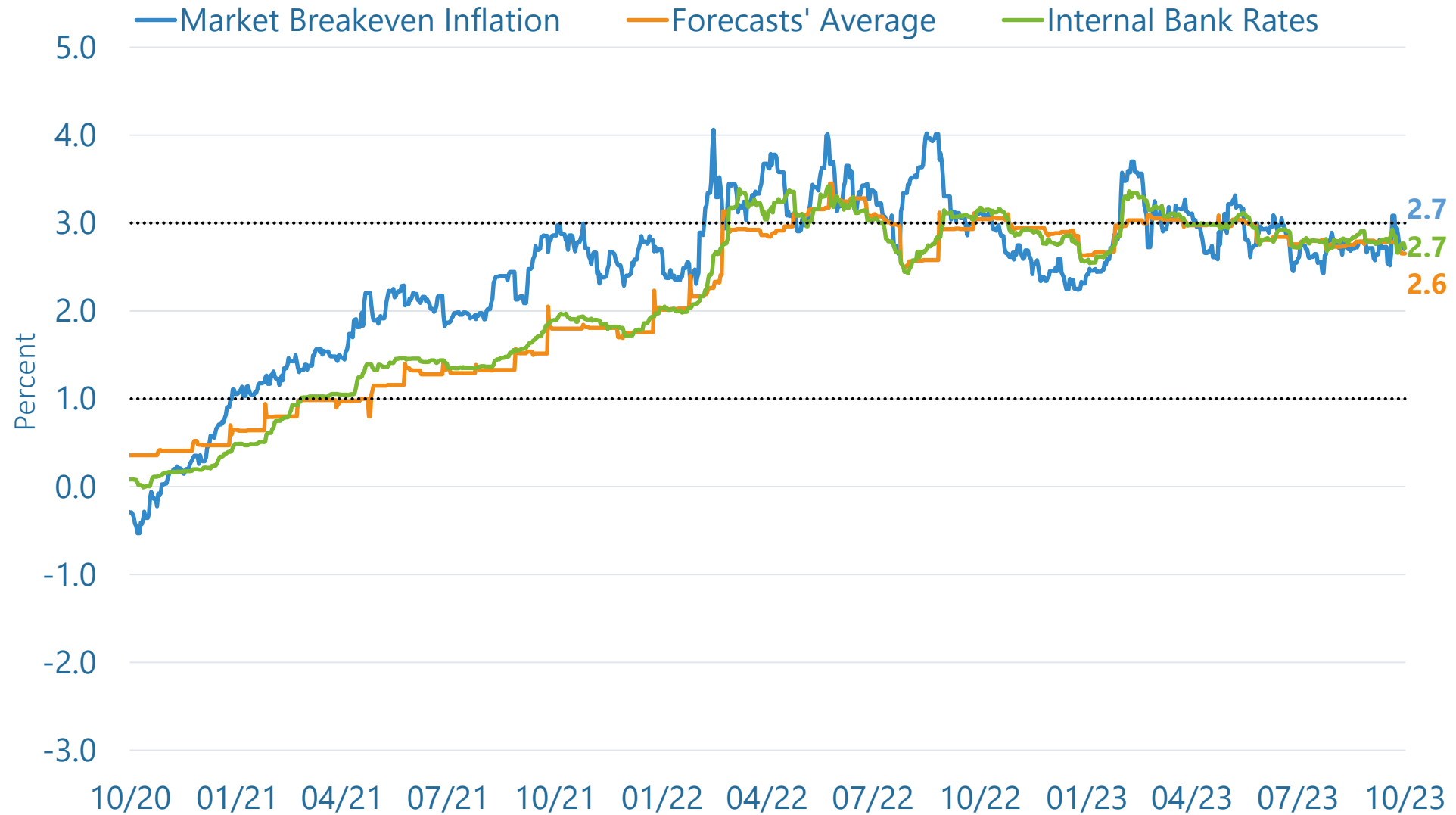
House and Housing Price

Annual Rate, September 2018 to September 2023



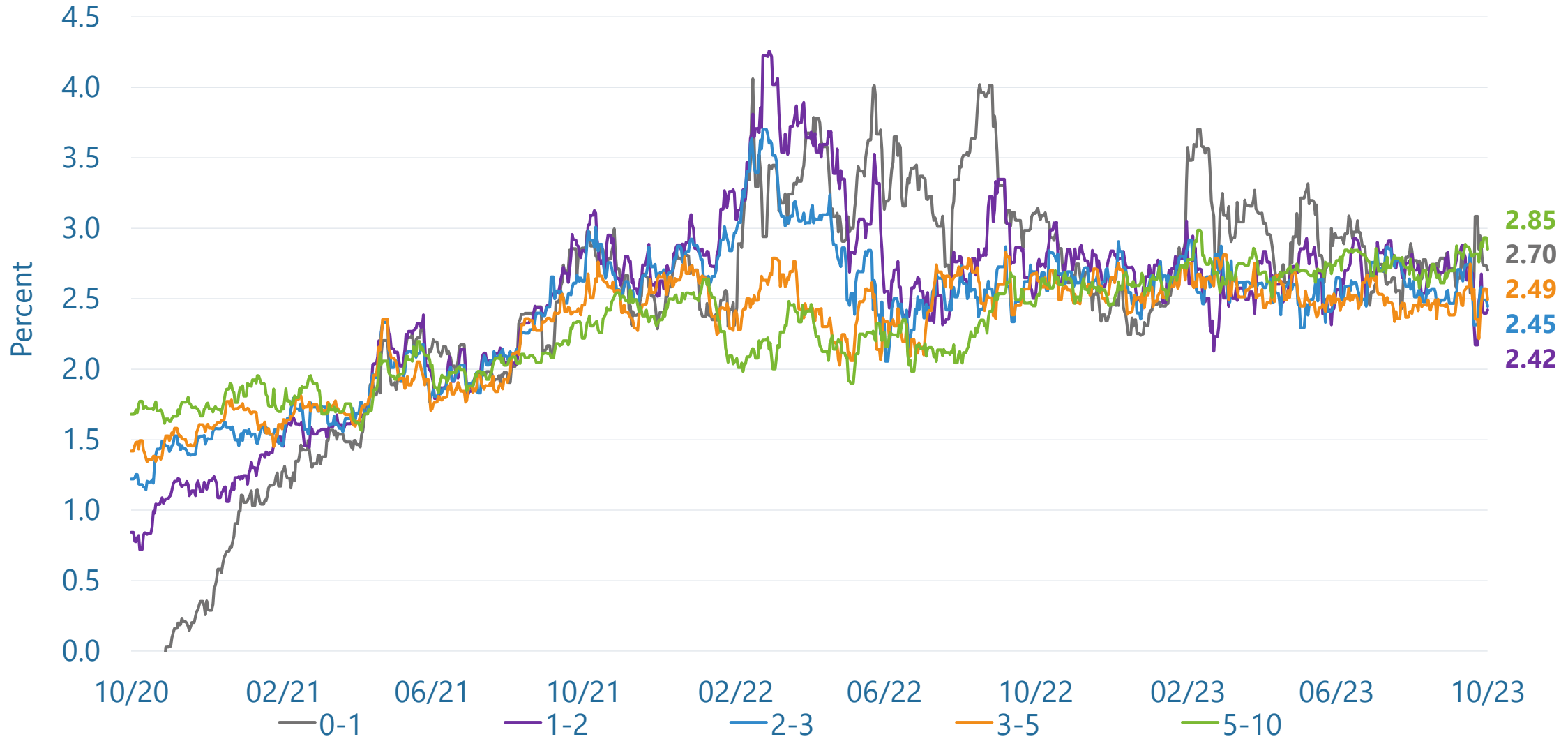
One Year Inflation Expectations

October 2020 to October 2023



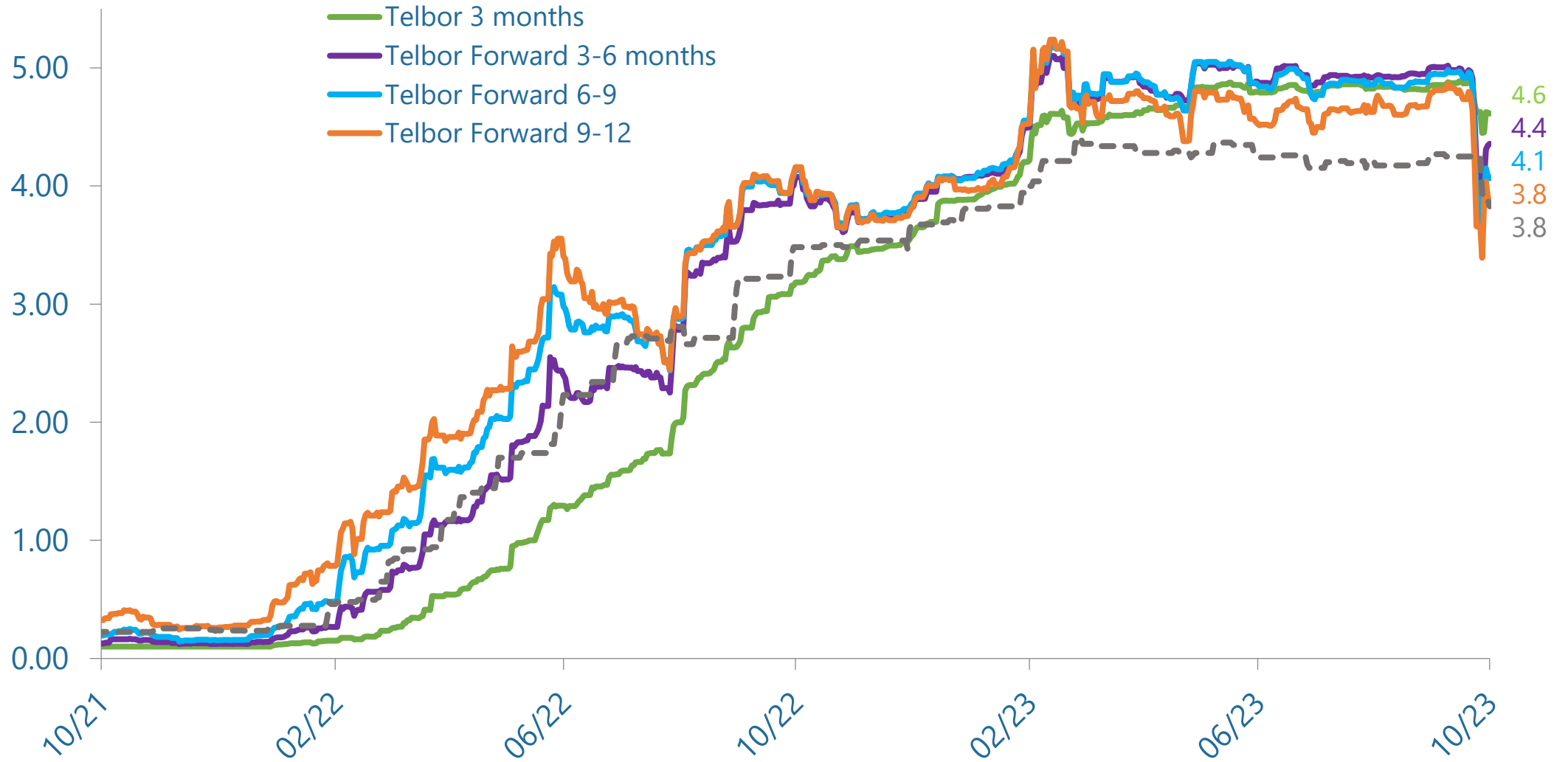
Forward Breakeven Inflation

October 2021 – October 2023



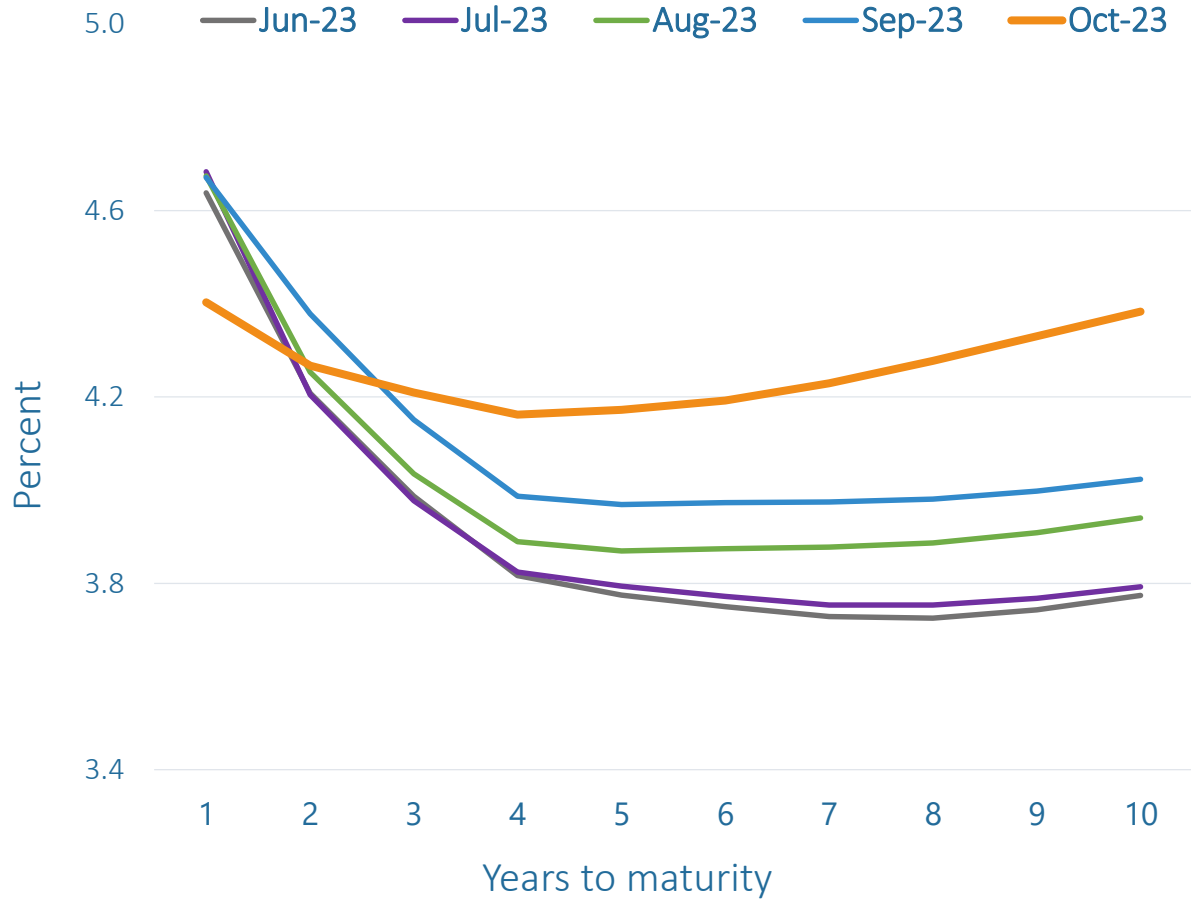
Interest Rate Expectations

October 2021 – October 2023

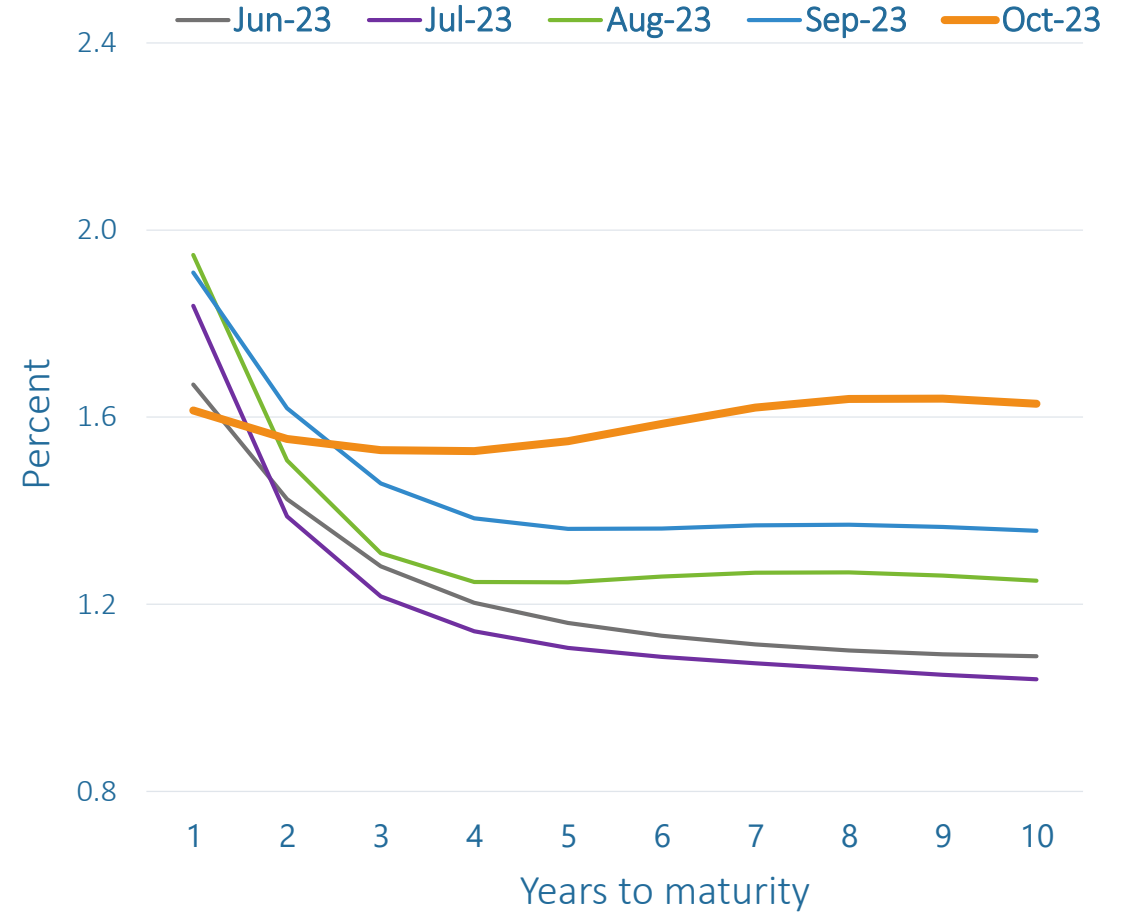


The Yield Curve

Nominal

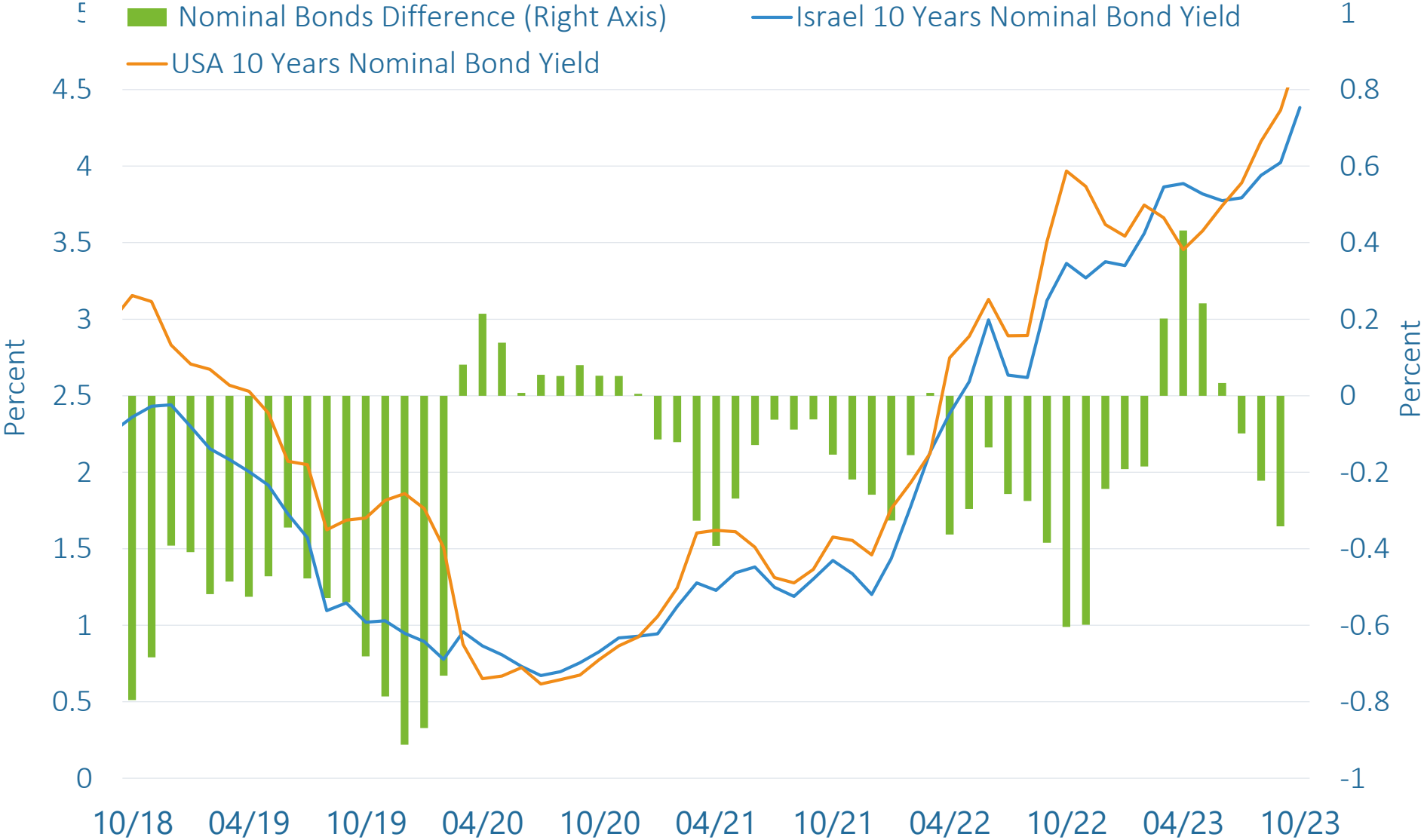


Real



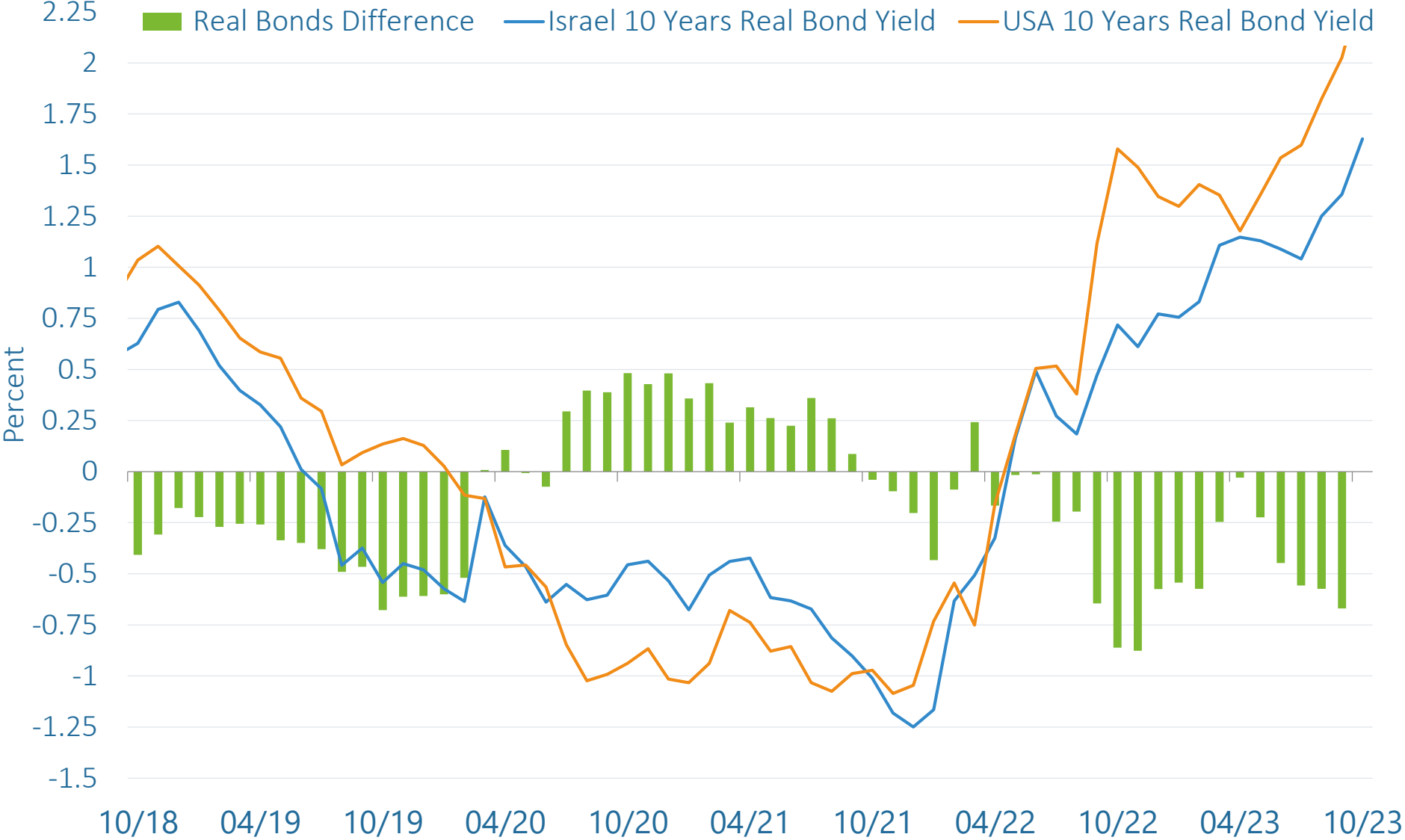
US and Israel 10 Years Nominal Yields

October 2018 to October 2023



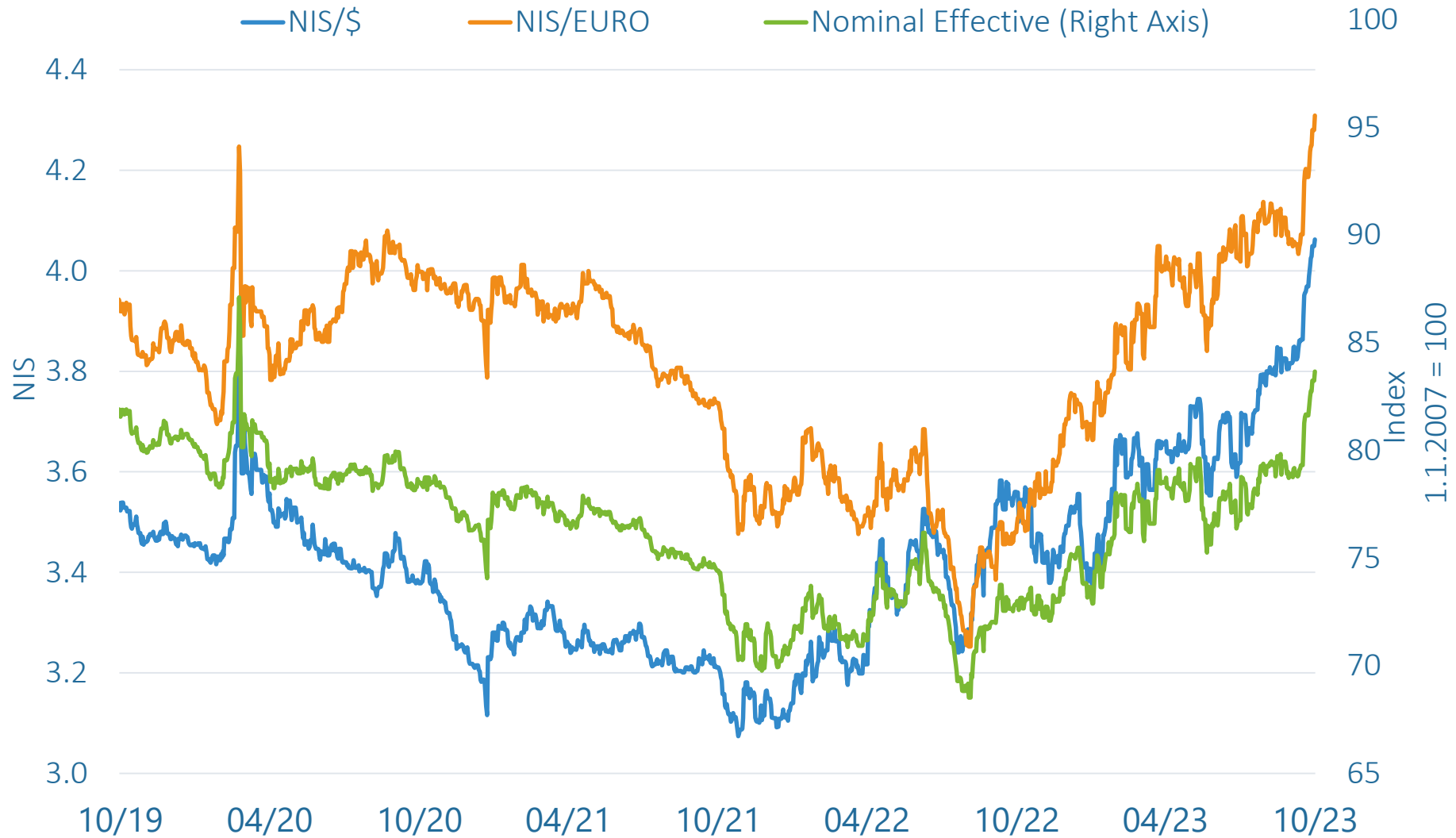
US and Israel 10 Years Real Yields

October 2018 to October 2023



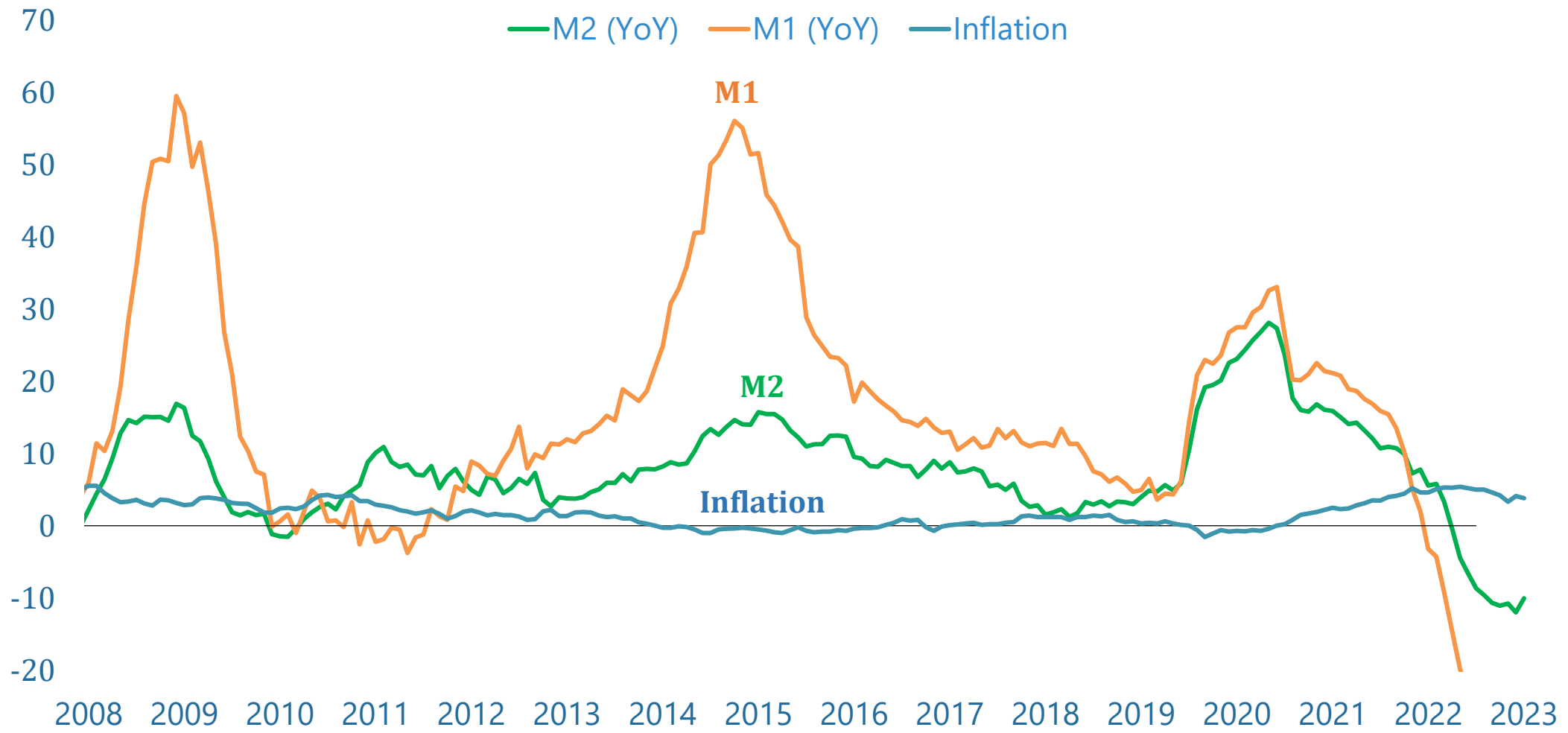
The Nominal Exchange Rate

October 2019 to October 2023



Monetary Aggregates and Inflation

September 2008 to September 2023, Annual Growth Rates

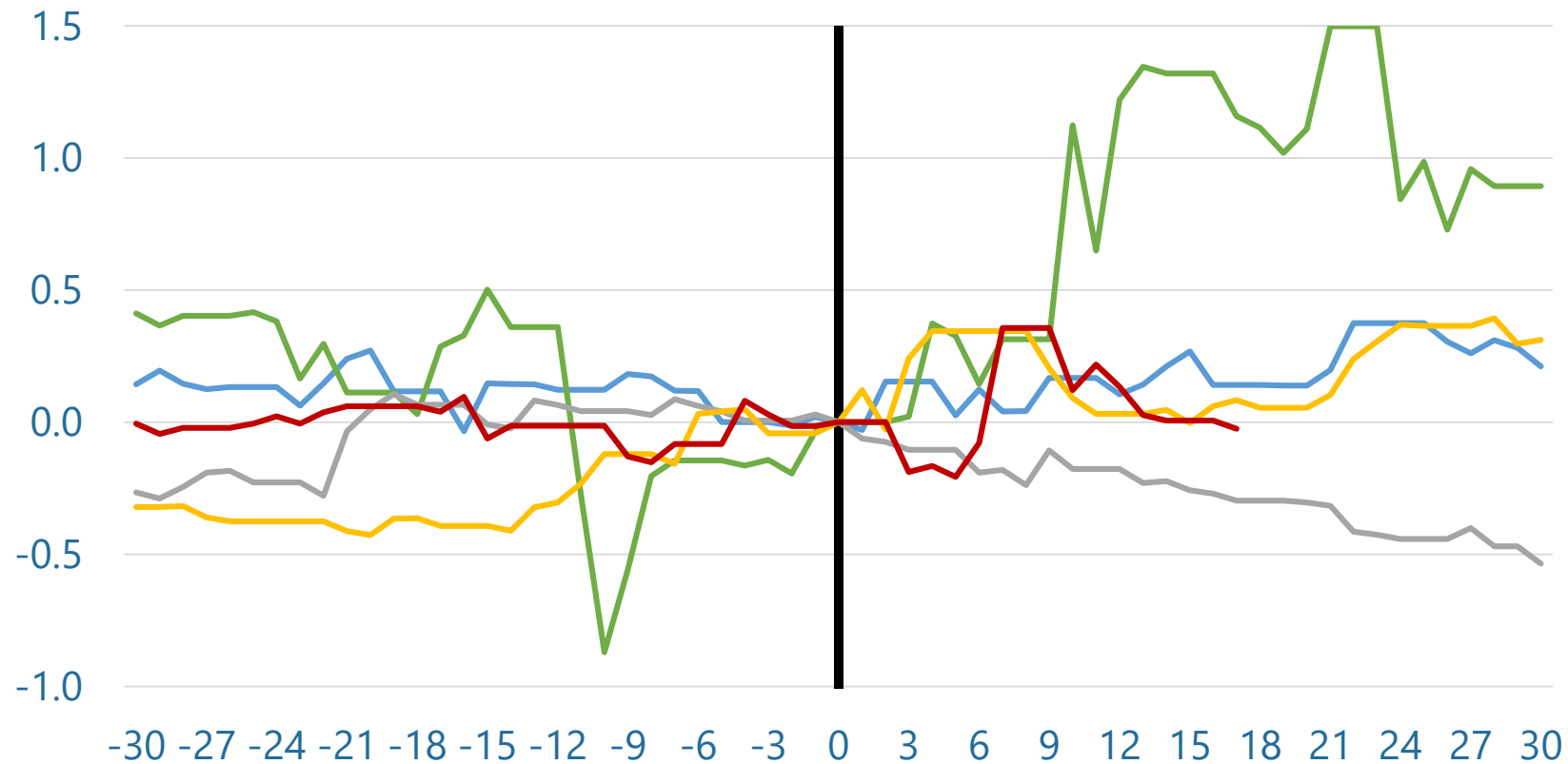


Reaction of markets to present and past conflicts



One Year Inflation Expectations

Change from the conflict onset day, in percentage point

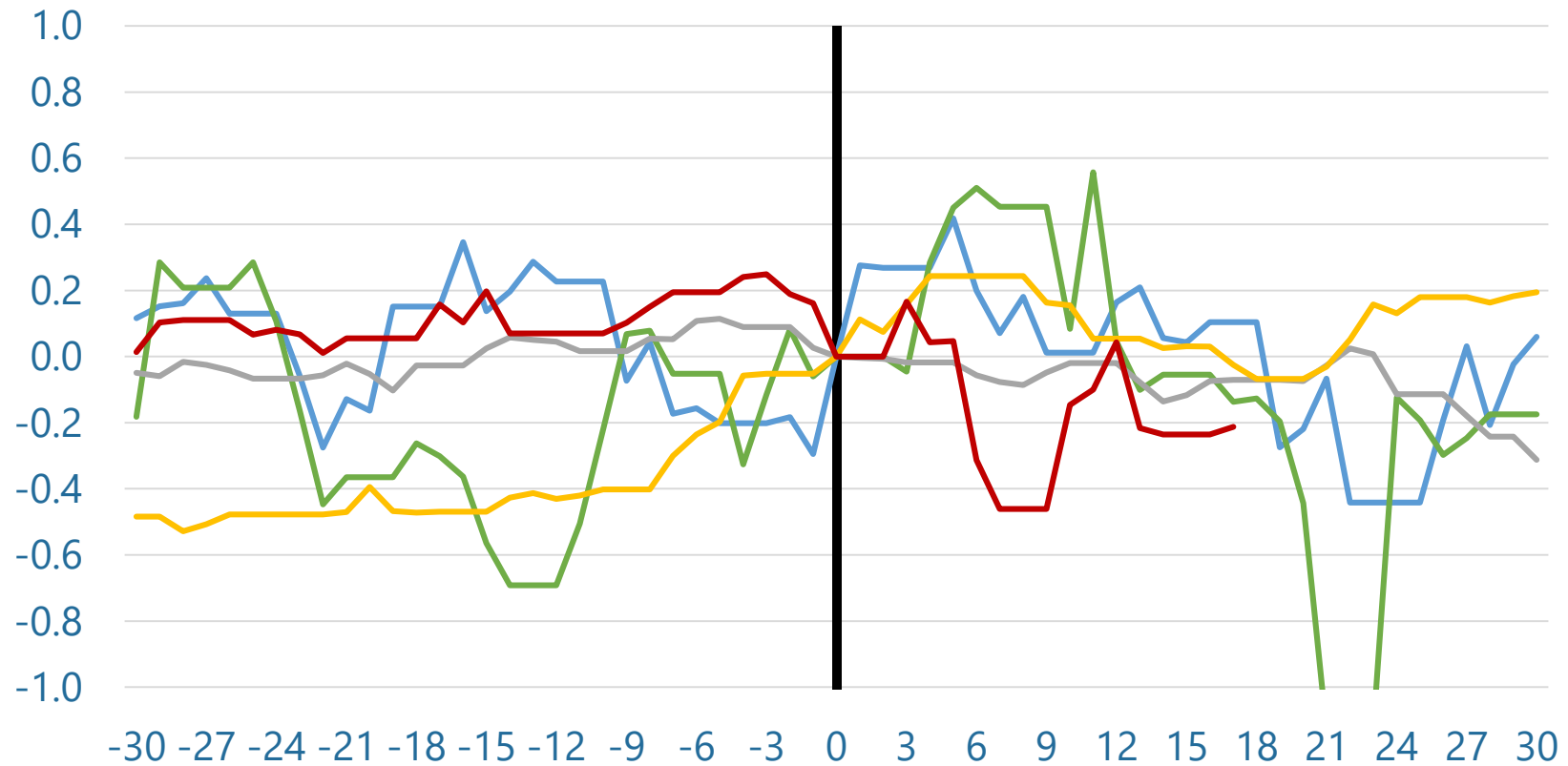


- 2nd Lebanon War (2006)
- Cast Lead (2008-9)
- Protective Edge (2014)
- Wall Guardian (2021)
- Israel-Hamas war (2023)



Forward Breakeven One Year Inflation Expectations

Change from the conflict onset day, in percentage point

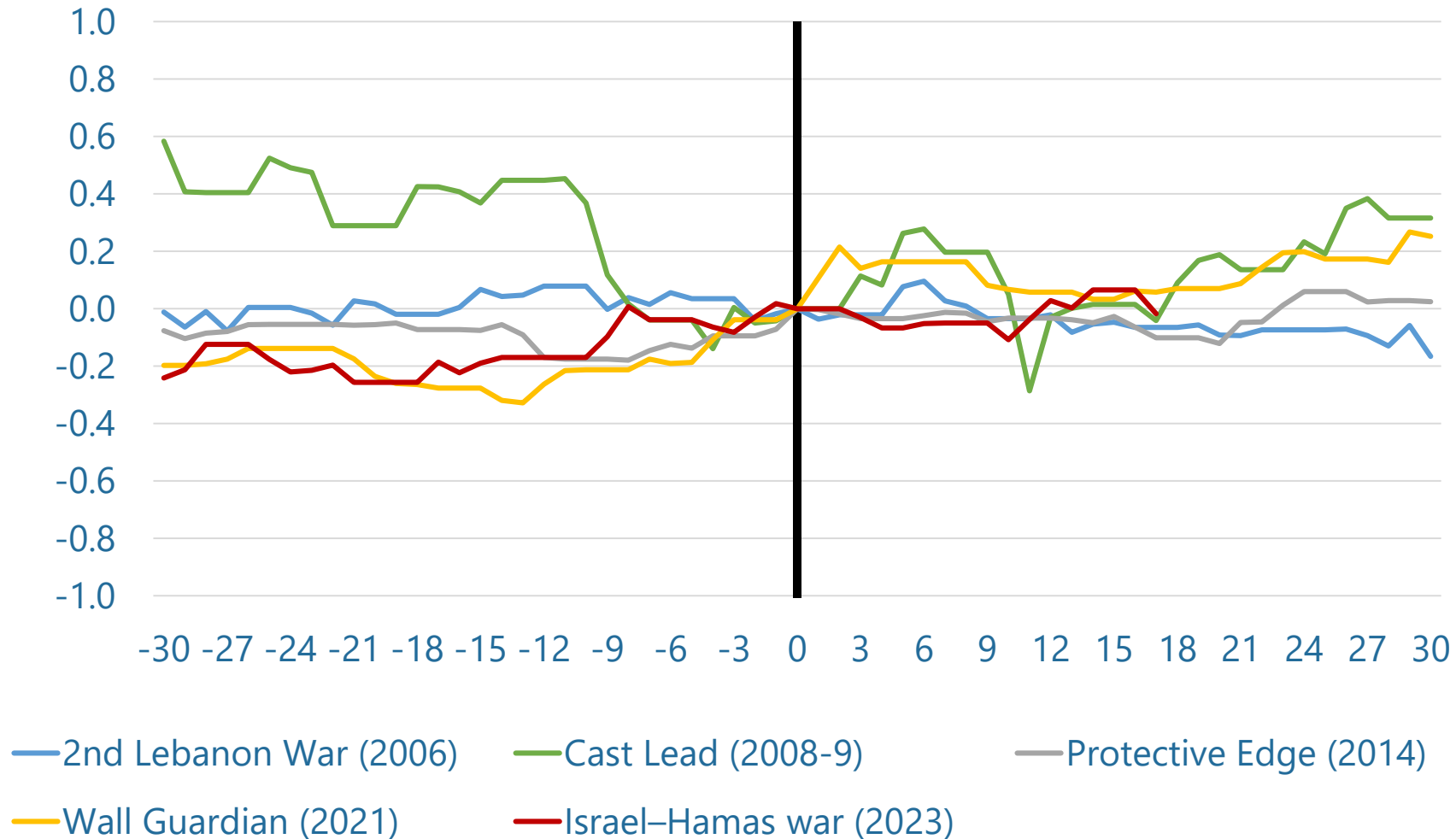


- 2nd Lebanon War (2006)
- Cast Lead (2008-9)
- Protective Edge (2014)
- Wall Guardian (2021)
- Israel-Hamas war (2023)



Forward Breakeven 5-10 Year Inflation Expectations

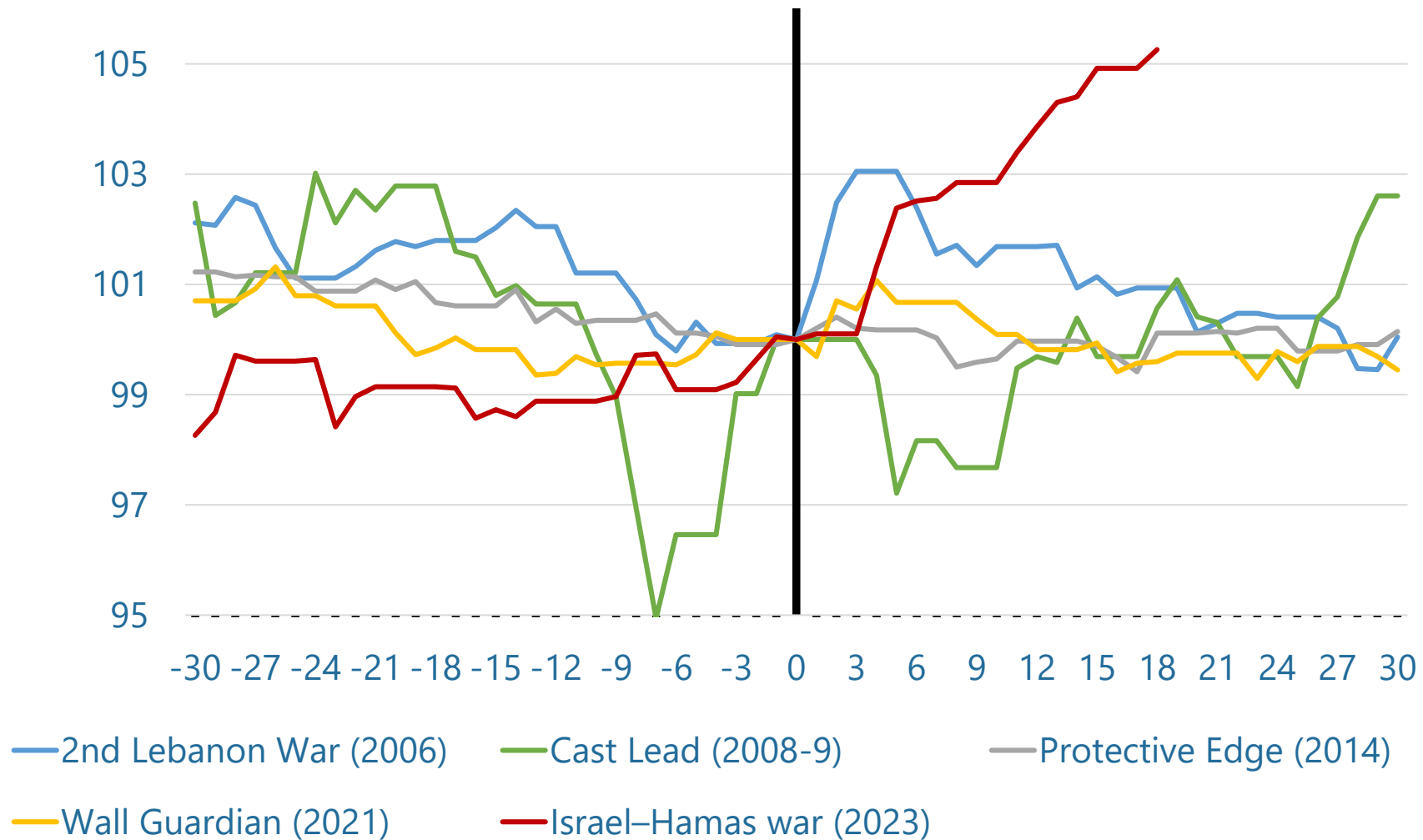
Change from the conflict onset day, in percentage point





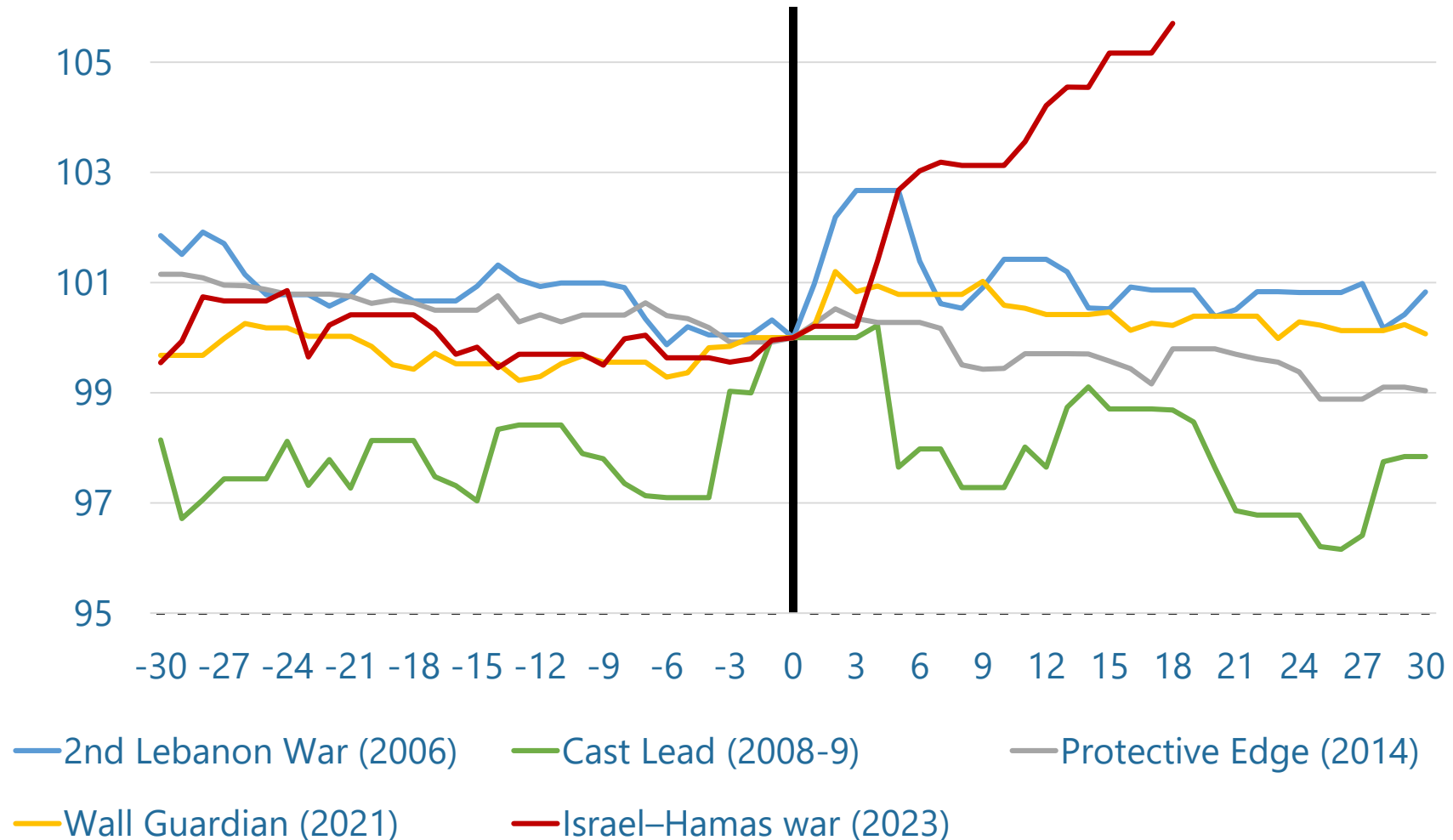
The Nominal Exchange Rate – USD-ILS

Index, conflict onset day=100





The Nominal Exchange Rate – Nominal Effective Index, conflict onset day=100

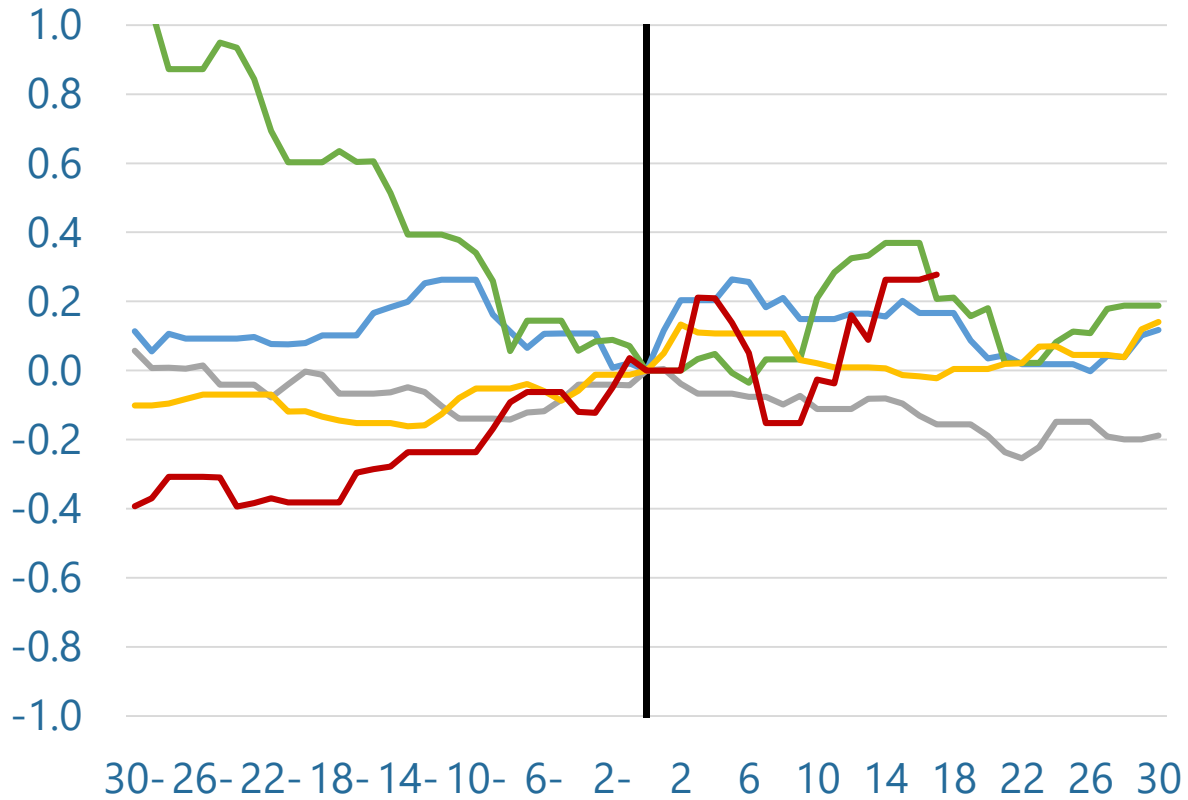




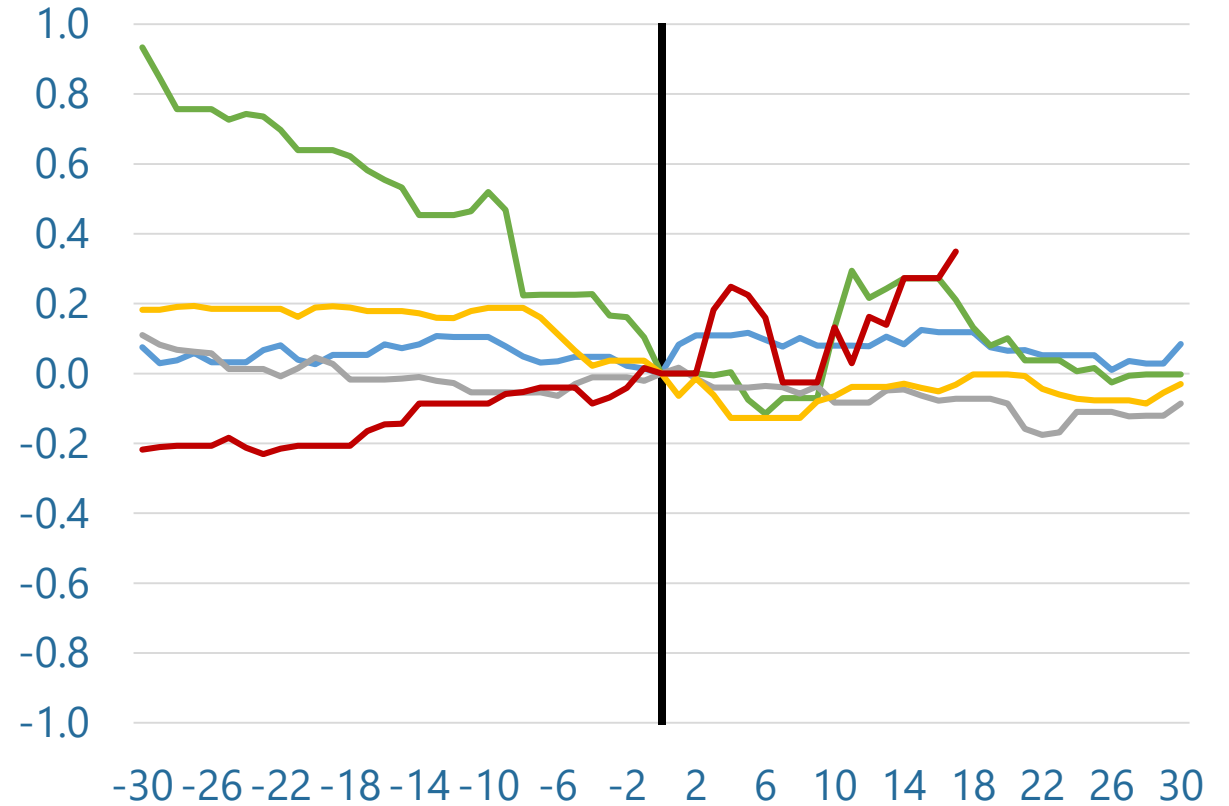
The 10 years Yield (Zero-Coupon Curve)

Change from the conflict onset day, in percentage point

Nominal



Real



- 2nd Lebanon War (2006)
- Protective Edge (2014)
- Israel-Hamas war (2023)

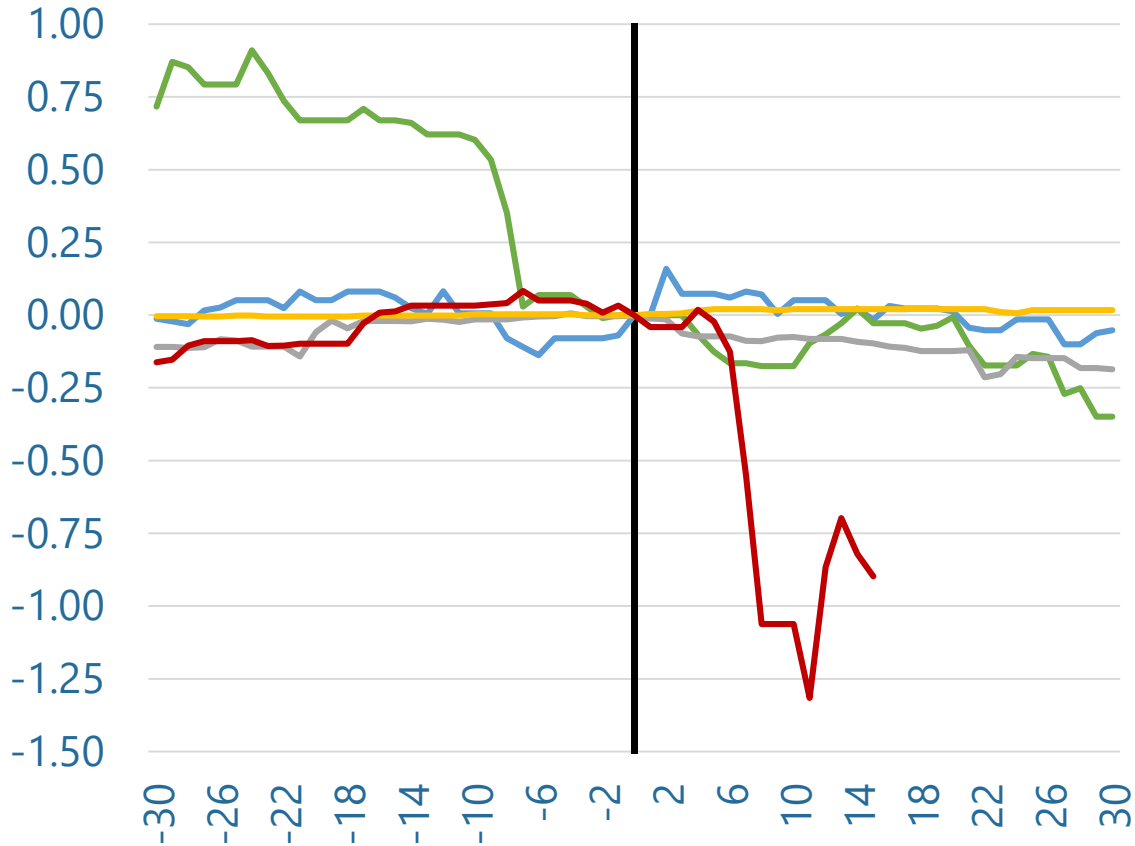
- Cast Lead (2008-9)
- Wall Guardian (2021)



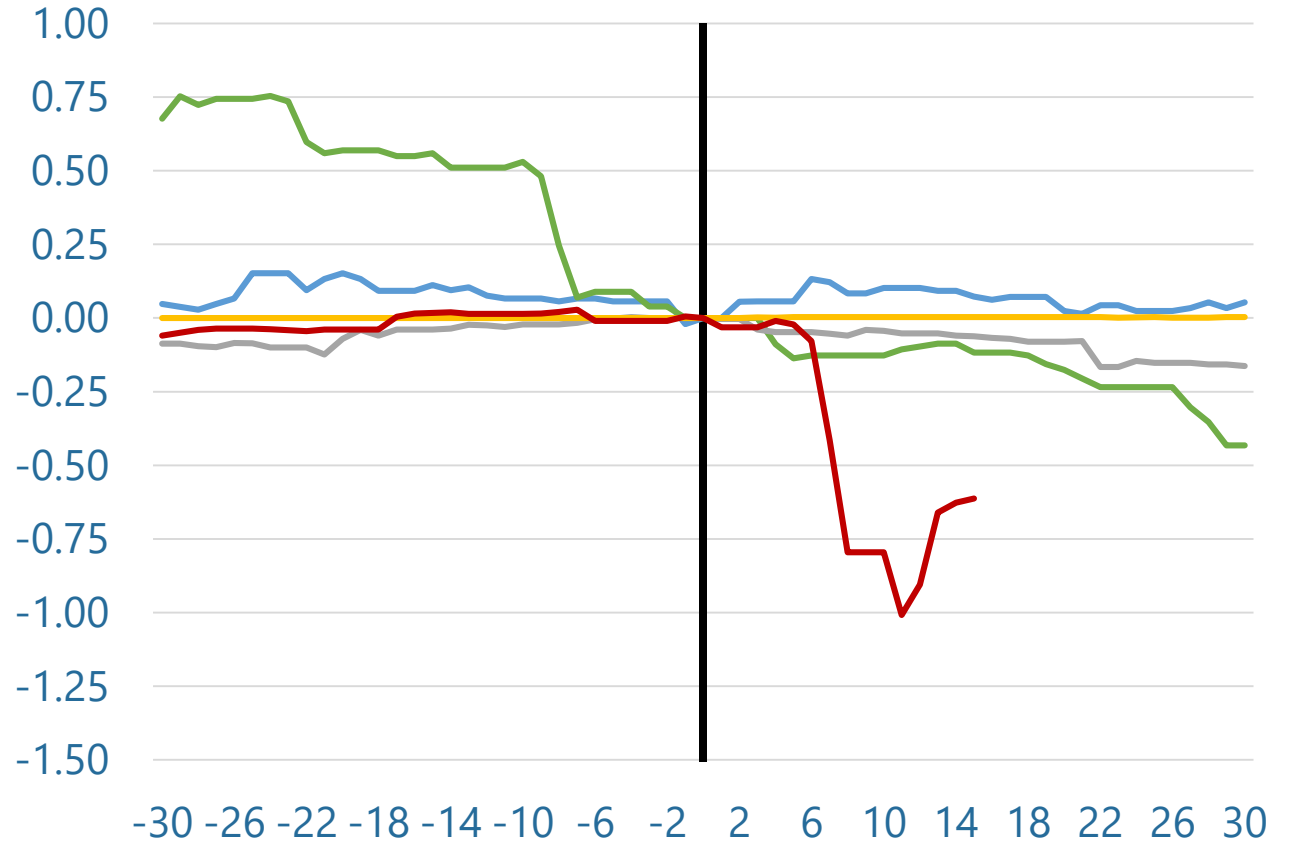
Interest Rate Expectations

Change from the conflict onset day, in percentage point

Telbor forward 9-12



Telbor forward 3-6



- 2nd Lebanon War (2006)
- Protective Edge (2014)
- Israel-Hamas war (2023)

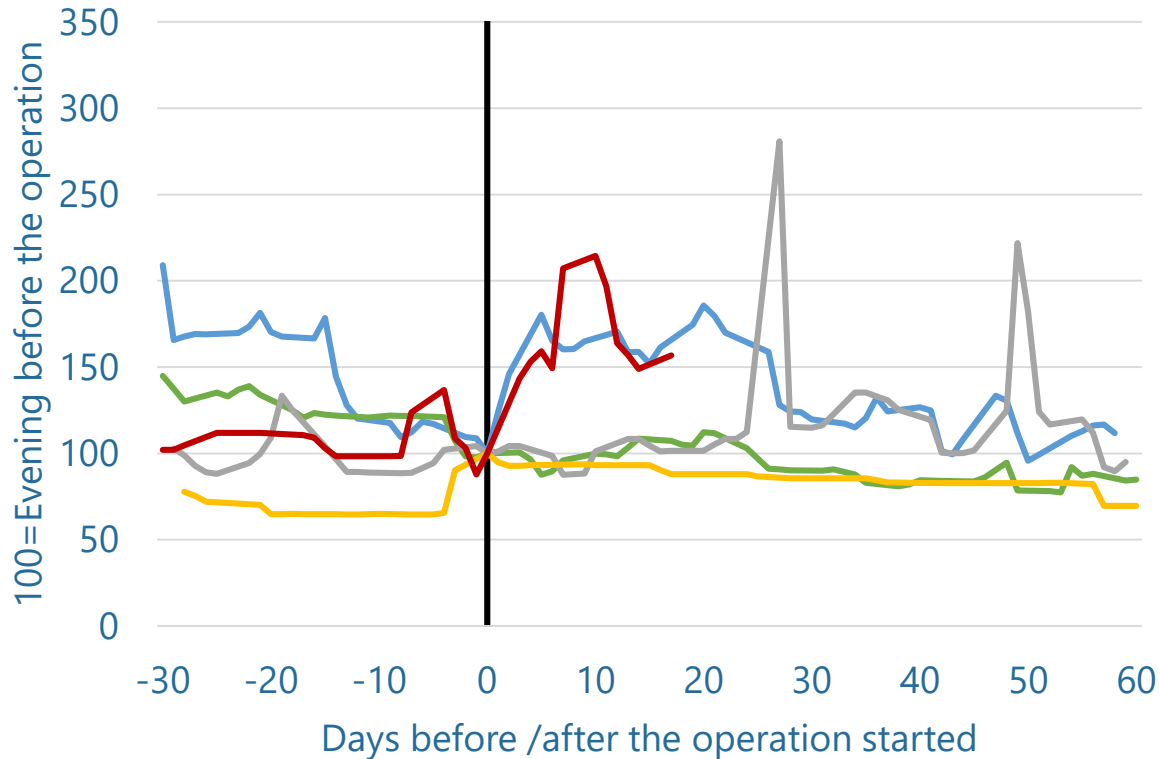
- Cast Lead (2008-9)
- Wall Guardian (2021)



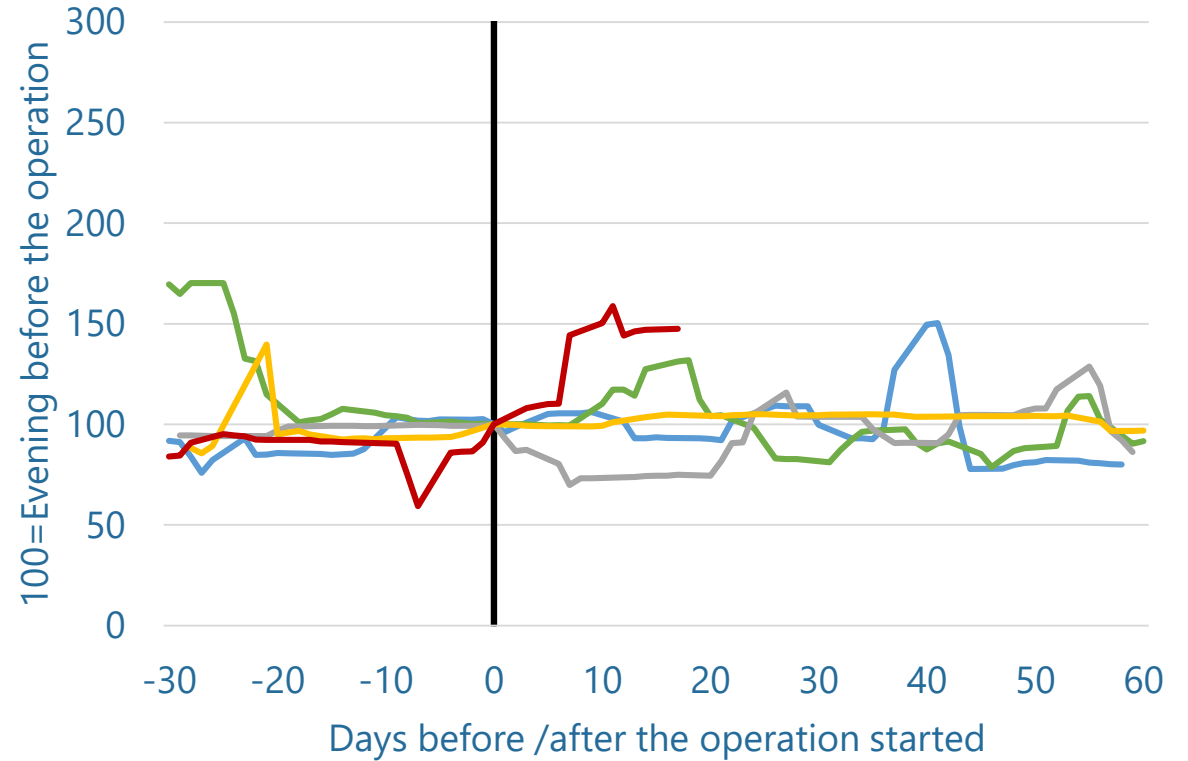
Bid-Ask Spreads Government Bonds Market

Index, conflict onset day=100

Nominal



CPI - Indexed



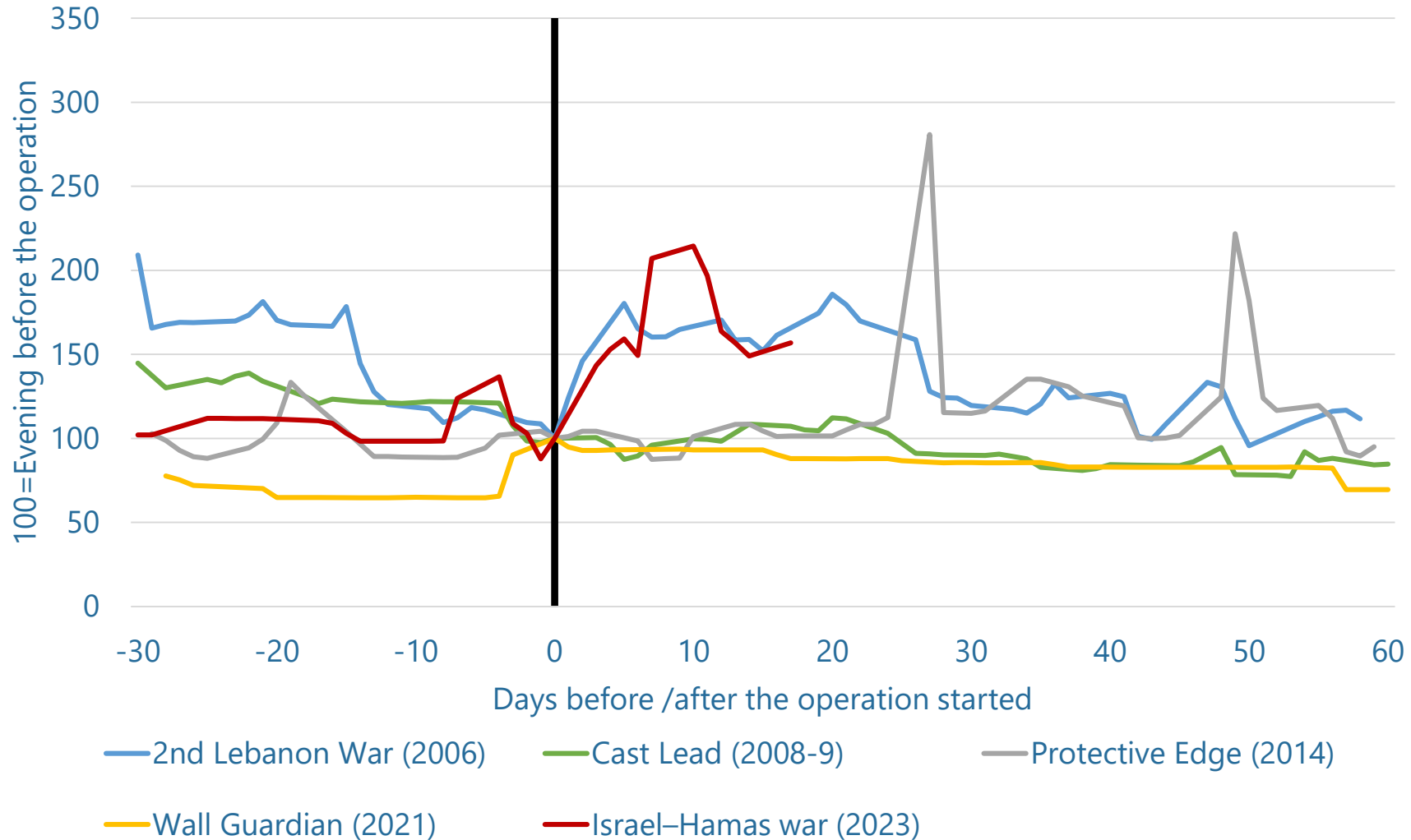
- 2nd Lebanon War (2006)
- Protective Edge (2014)
- Israel-Hamas war (2023)

- Cast Lead (2008-9)
- Wall Guardian (2021)



Bid-Ask Spreads Corporate Bond Market

Index, conflict onset day=100



Staff Forecast

Research Department Staff Forecast, October 2023

(Rates of change, percent, unless stated otherwise)

(rates of change, percent^a, unless stated otherwise)

	2022 Actual	Forecast for 2023	Change from the July forecast	Forecast for 2024	Change from the July forecast
GDP	6.5	2.3	-0.7	2.8	-0.2
Private consumption	7.7	0.5	-2.5	1.5	-2.0
Fixed capital formation (excl. ships and aircraft)	10.7	4.0	-0.5	0.0	-3.0
Public consumption (excl. defense imports)	1.0	2.5	0.5	6.5	3.5
Exports (excl. diamonds and startups)	9.7	-0.5	-2.0	4.0	1.5
Civilian imports (excl. diamonds, ships, and aircraft)	12.4	-6.0	-7.5	2.0	-2.0
Unemployment rate (average for the year, age 25–64)	3.3	3.2	-0.5	3.6	-0.5
Government deficit (percent of GDP)	-0.6	2.3	1.0	3.5	2.0
Debt to GDP ratio (percent)	60.5	62.0	2.0	65.0	6.0

^a In the forecast of National Accounts components, the rate of change is rounded to the nearest half percentage point.



Staff Forecast - Forecasts Comparison

Inflation and Interest Rate Forecasts for the Coming Year (Percent)

	Bank of Israel Research Department	Capital Markets^a	Private Forecasters^b
Inflation Rate ^c (Range of Forecasts)	2.9	2.7	2.7 (2.0-3.3)
Interest Rate ^d (Range of Forecasts)	4.0/4.25	3.7	3.7 (3.25-4.0)

a) Inflation expectations are seasonally adjusted (As of October 22, 2023).

b) The average of forecasts published following the publication of the consumer price index for September 2023.

c) Inflation rate in the coming year. Research Department: in the four quarters ending in the third quarter of 2024.

d) The interest rate one year from now. (Research Department: average interest rate in the third quarter of 2024.) Expectations derived from the capital market are based on the Telbor market (as of October 20, 2023).

Thank You