

Inflation, Monetary Policy, and Staff Forecasts



Monetary Division
Research Department
Bank of Israel

April 16, 2024

Outline

- Recent developments
 - Inflation and inflation expectations
 - Interest rates
 - Monetary aggregates
- Staff forecast

Recent Developments

Headline Inflation and Major Components

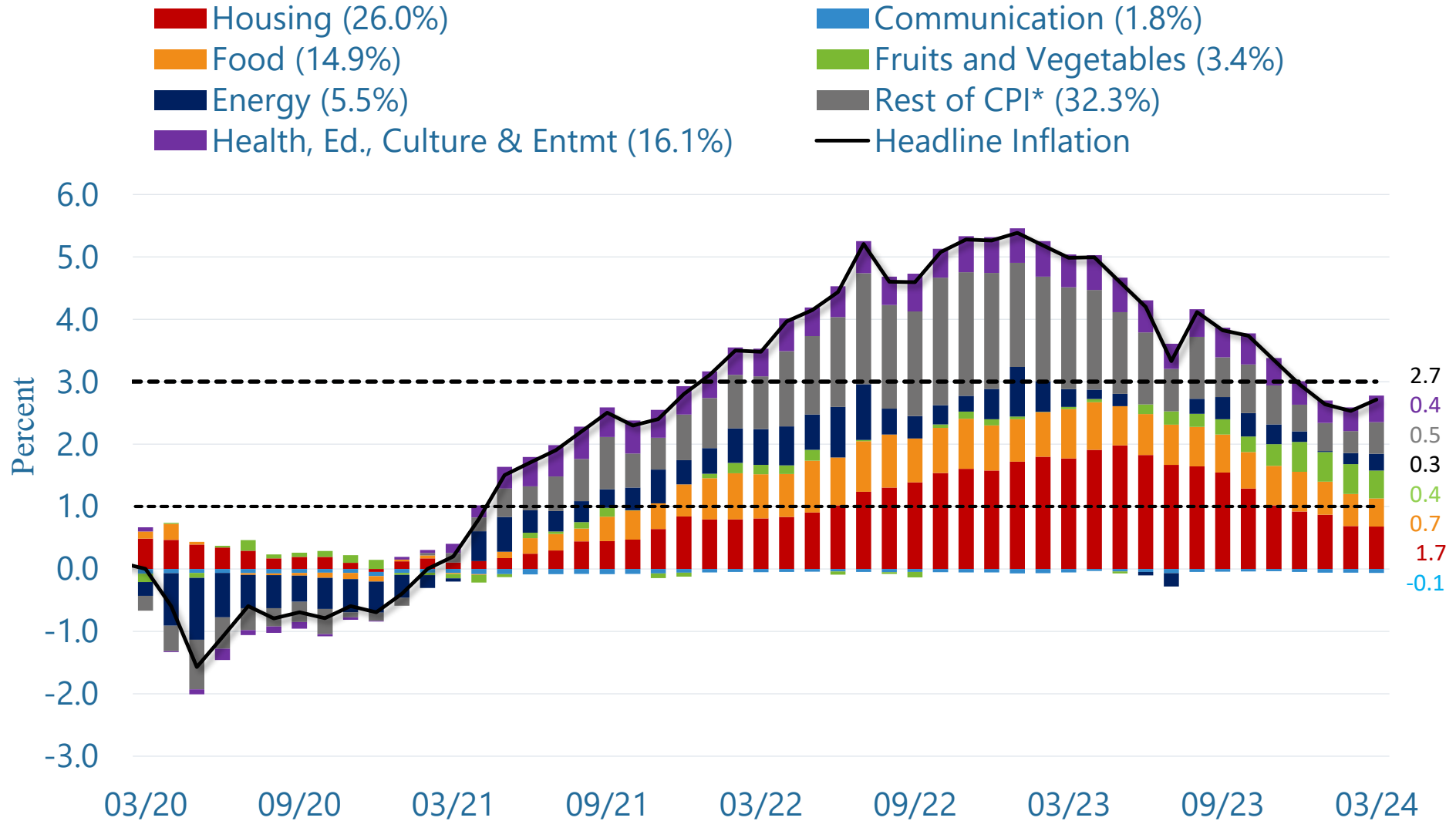
Annual rates

| | CPI (1000)* | Energy (55) | Food (149) | Housing (260) | Excl. Housing (740) |
|---------------|------------------------|------------------------|-------------------|--------------------------|--------------------------------|
| Jul-22 | 5.2 | 17.4 | 5.5 | 5.0 | 5.3 |
| Nov-22 | 5.3 | 4.9 | 5.5 | 6.4 | 4.9 |
| Mar-23 | 5.0 | 5.2 | 5.3 | 6.7 | 4.4 |
| Jul-23 | 3.3 | -3.9 | 4.3 | 6.3 | 2.4 |
| Nov-23 | 3.3 | 5.8 | 4.2 | 3.9 | 3.1 |
| Mar-24 | 2.7 | 4.9 | 3.0 | 2.6 | 2.8 |

* In parenthesis - weight in headline CPI.

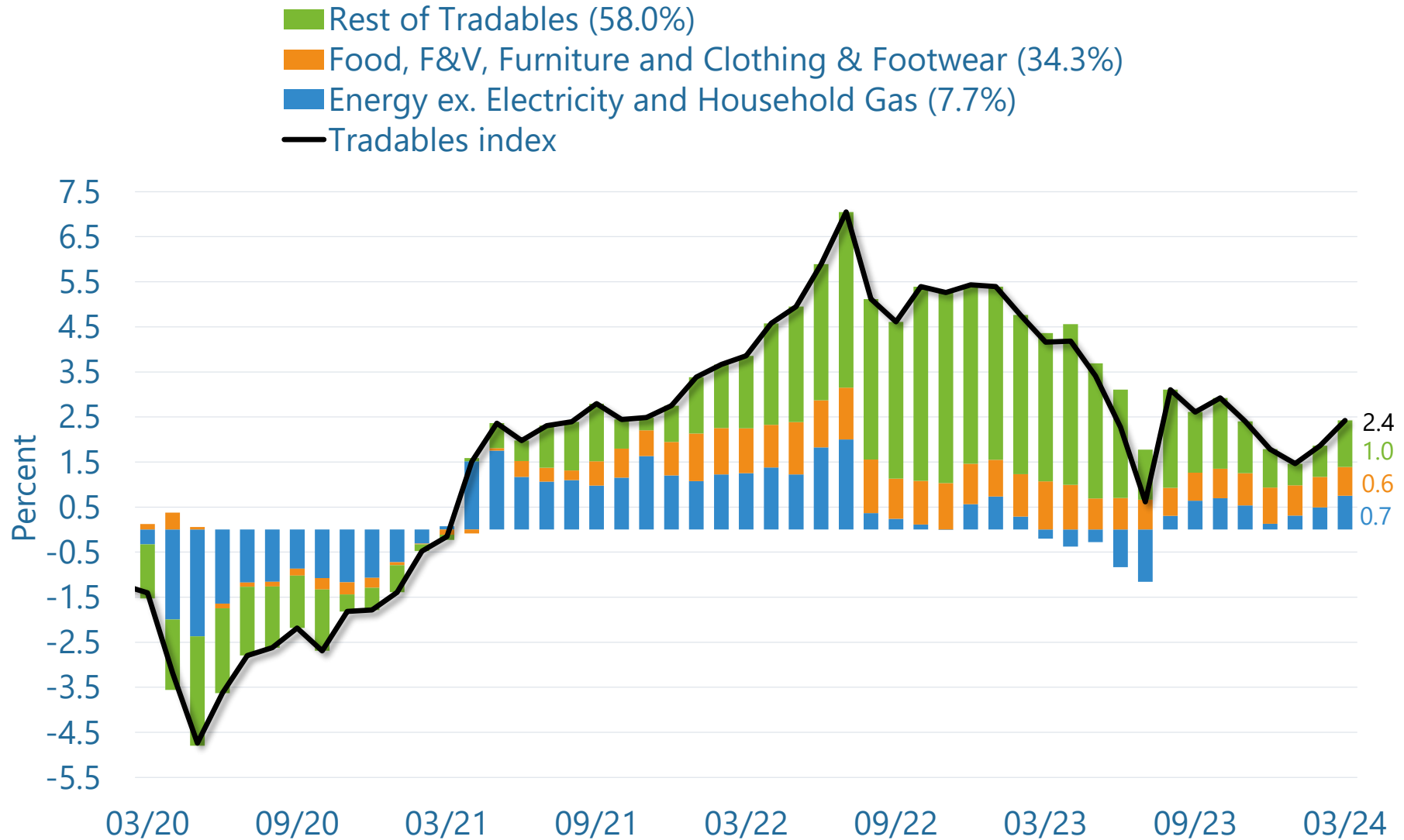
Inflation Rate - Contributions

Annual Rate, March 2020 to March 2024



Tradable Goods Inflation - Contributions*

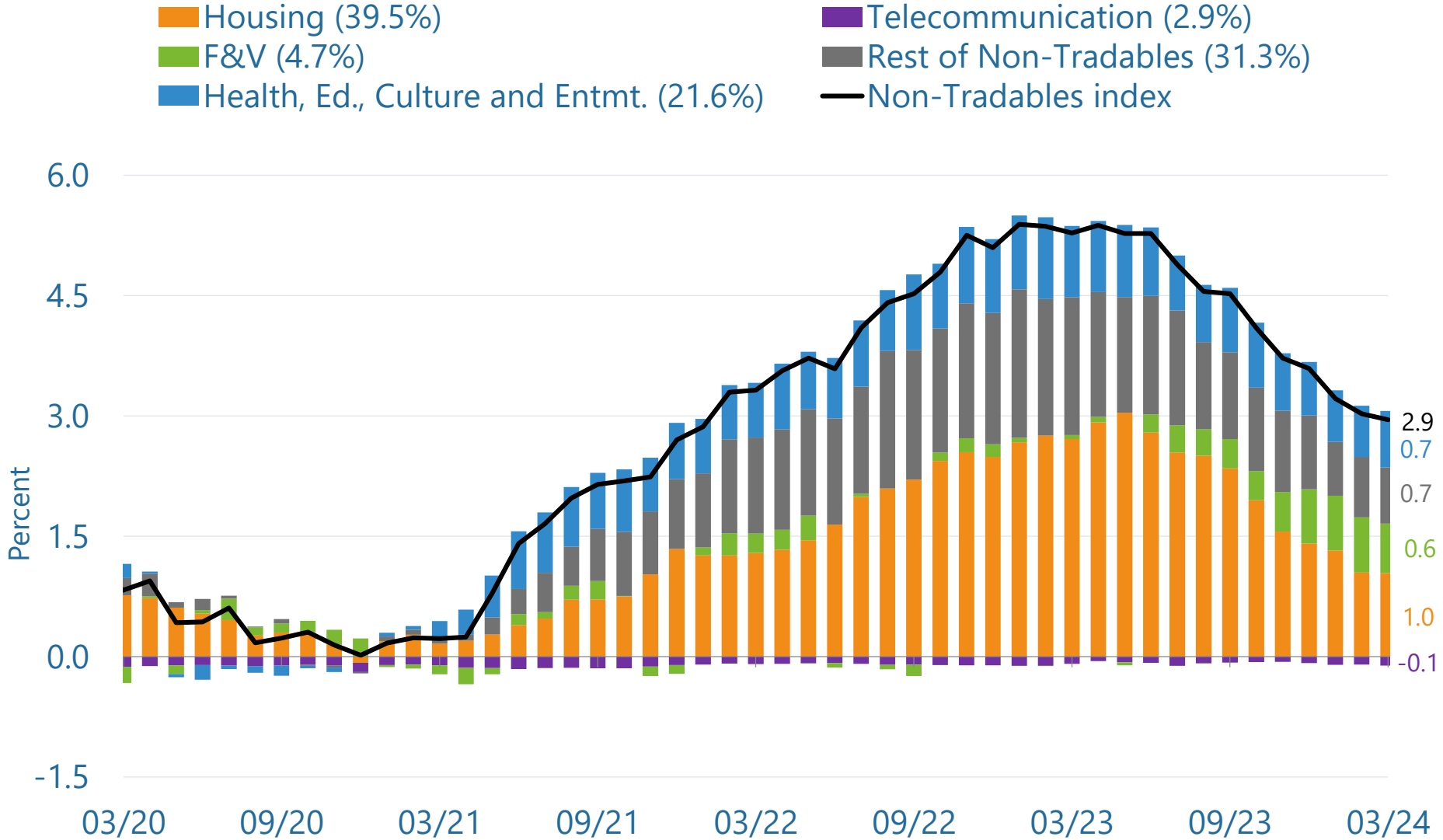
Annual Rate, March 2020 to March 2024



*Tradables are 36% of the total CPI

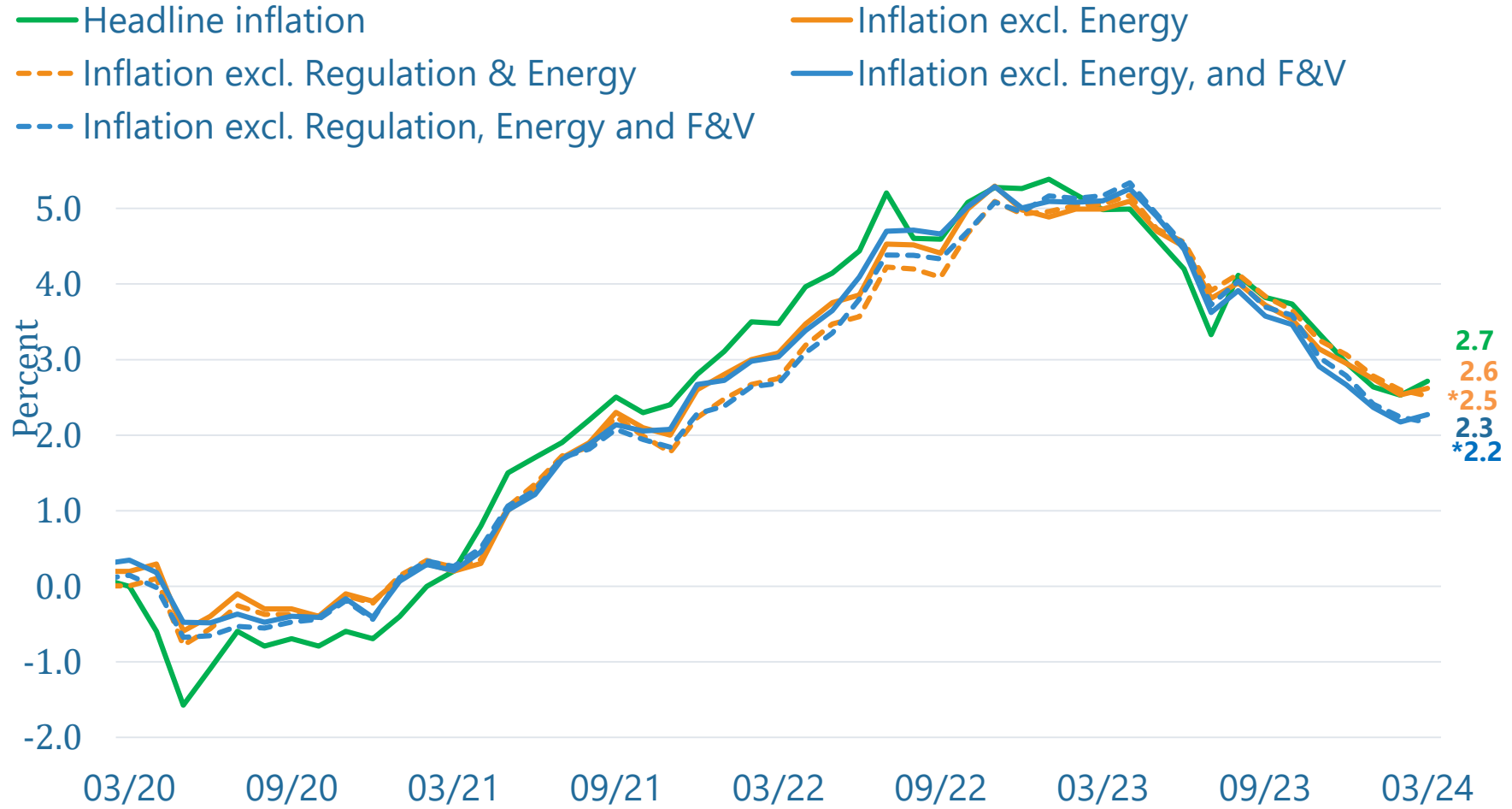
Non-Tradable Goods Inflation - Contributions*

Annual rate, March 2020 to March 2024



Headline and Core Inflation

March 2020 to March 2024

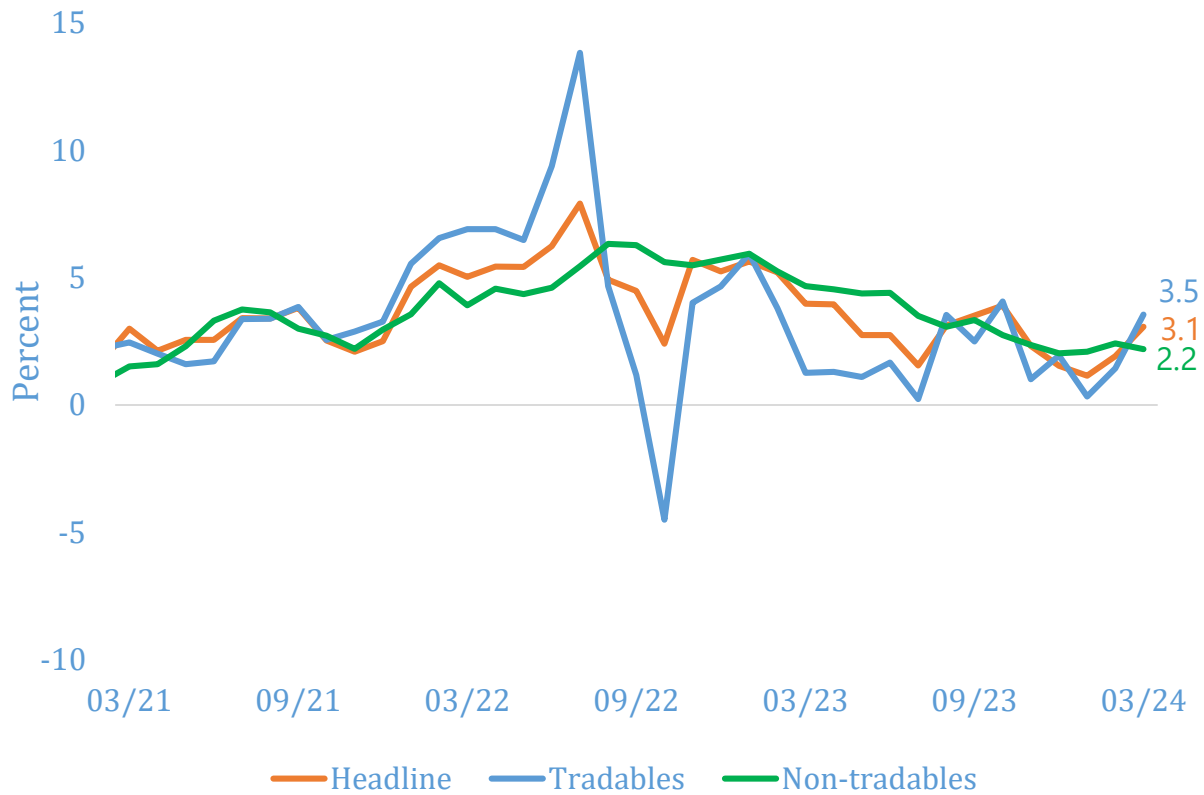




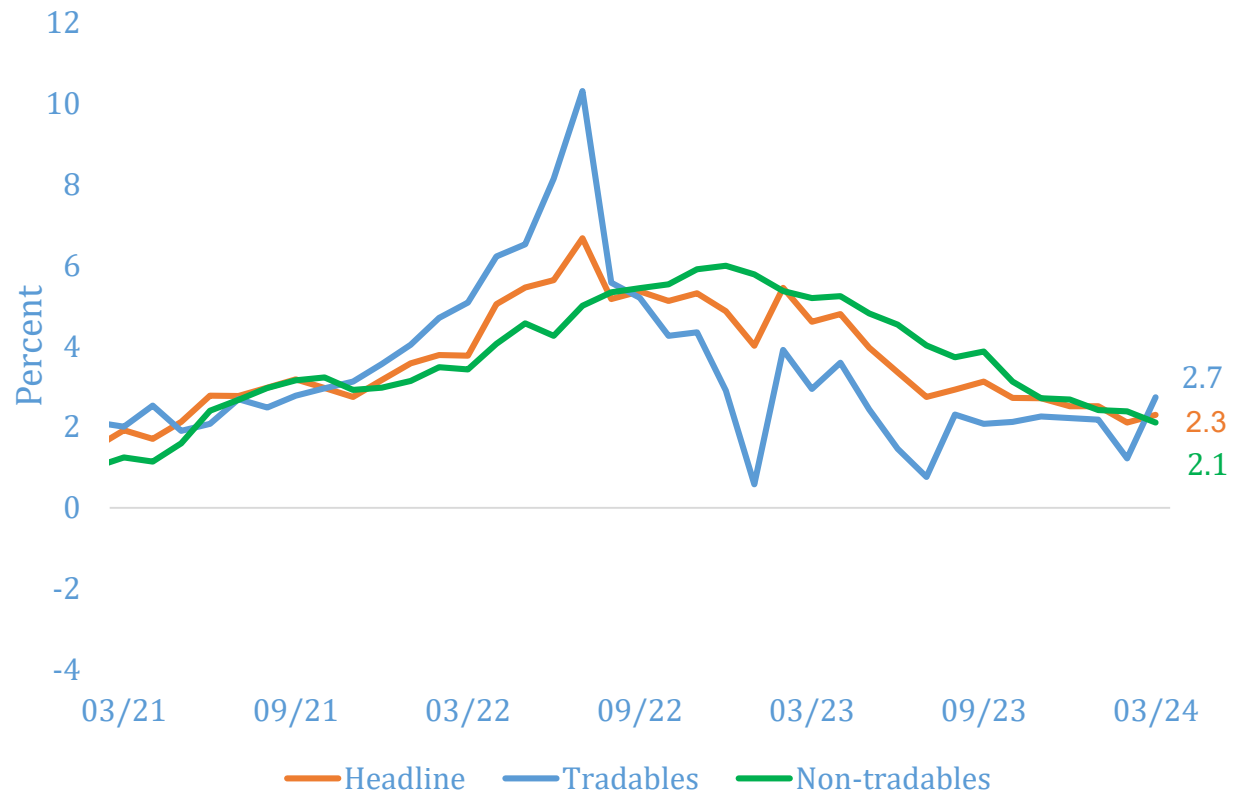
Instantaneous Inflation

March 2021 to March 2024

3-month Annualized Rate

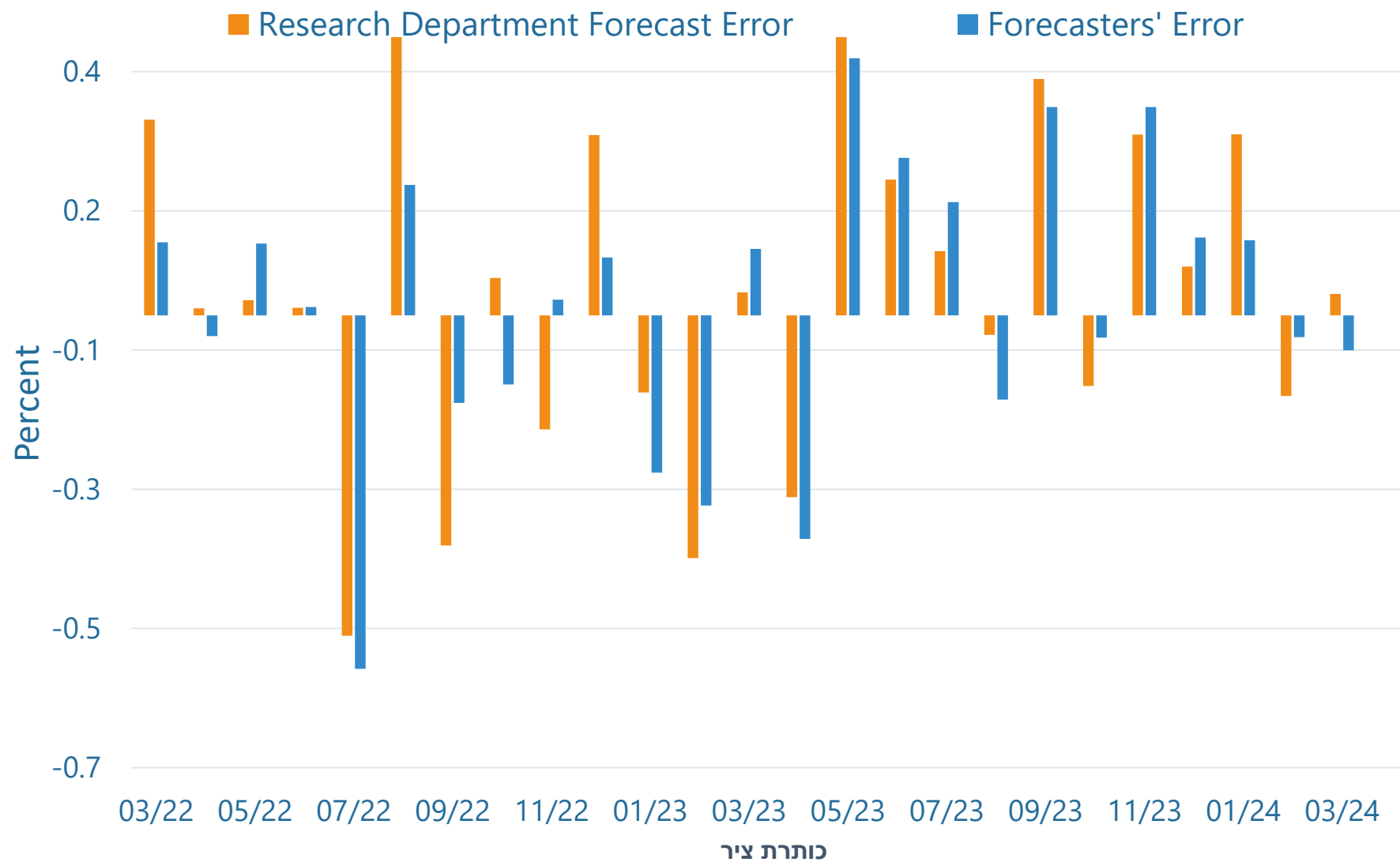


6-month Annualized Rate



Monthly CPI - Actual and Forecasts

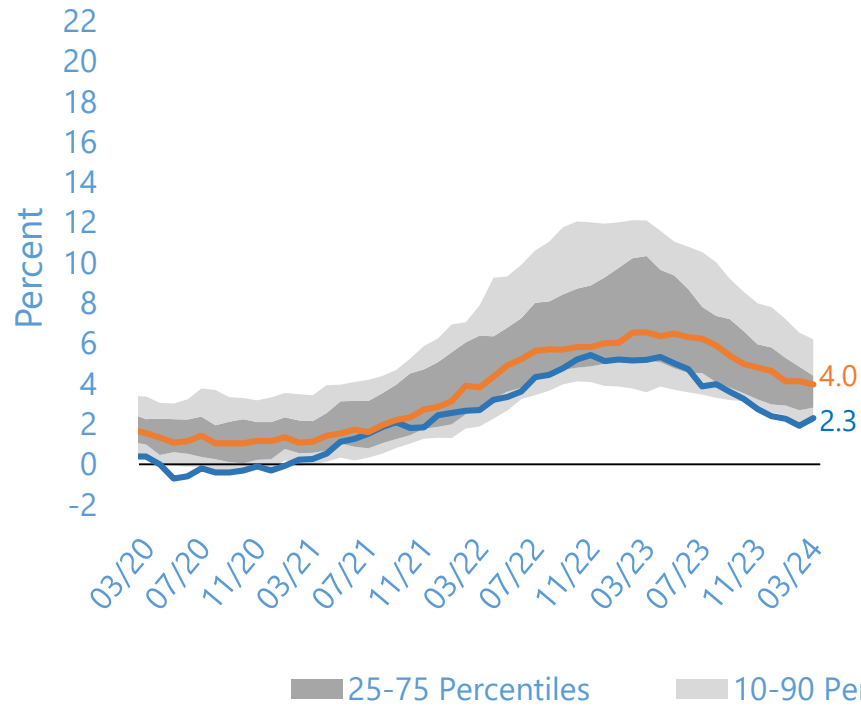
March 2022 to March 2024



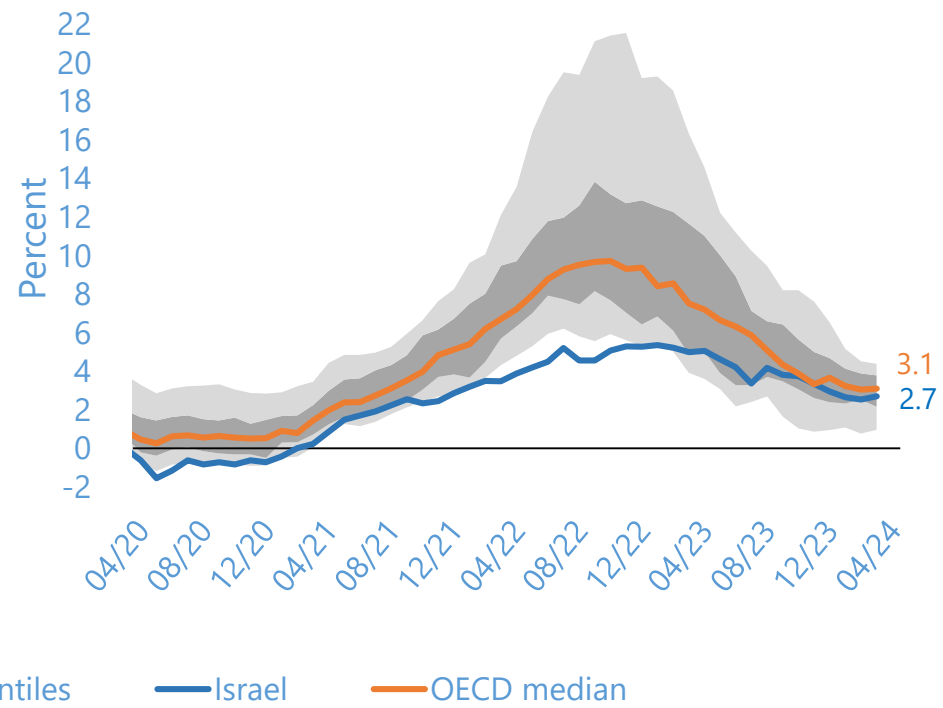
Inflation in Israel and OECD Countries

Annual rate, March 2020 – March 2024

Annual Inflation Non-Food Non-Energy

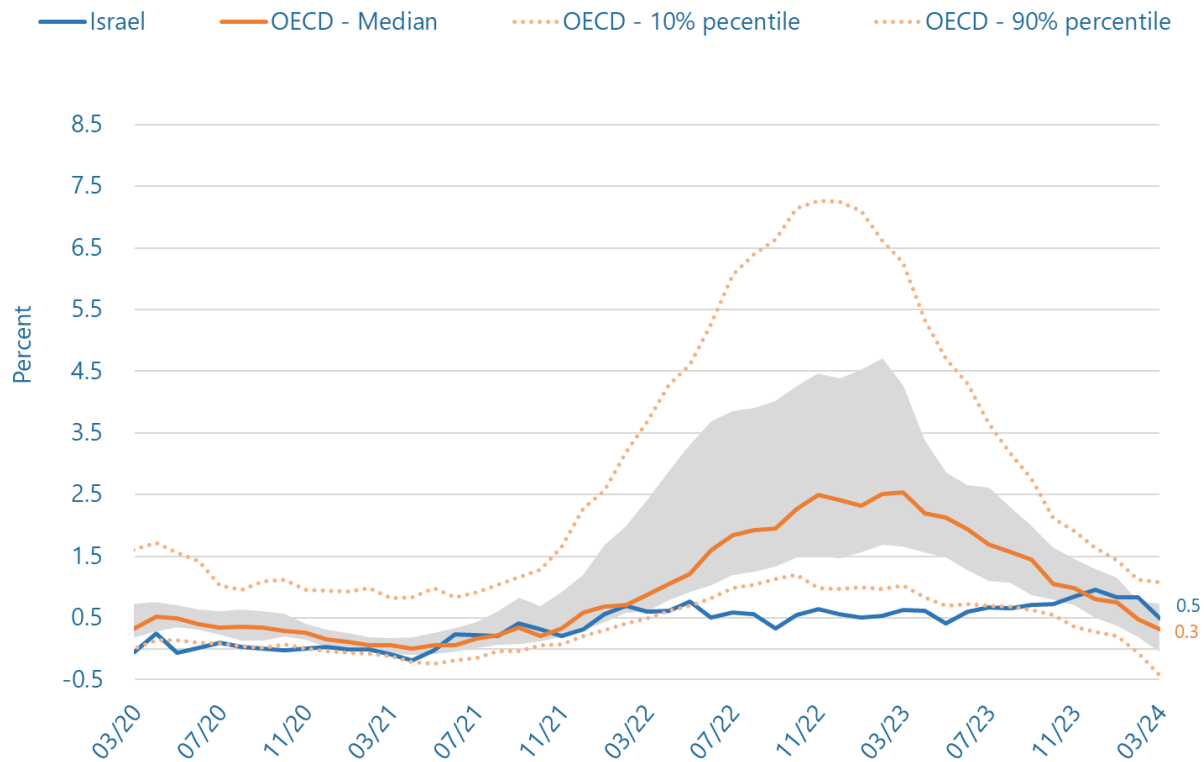


Annual Inflation

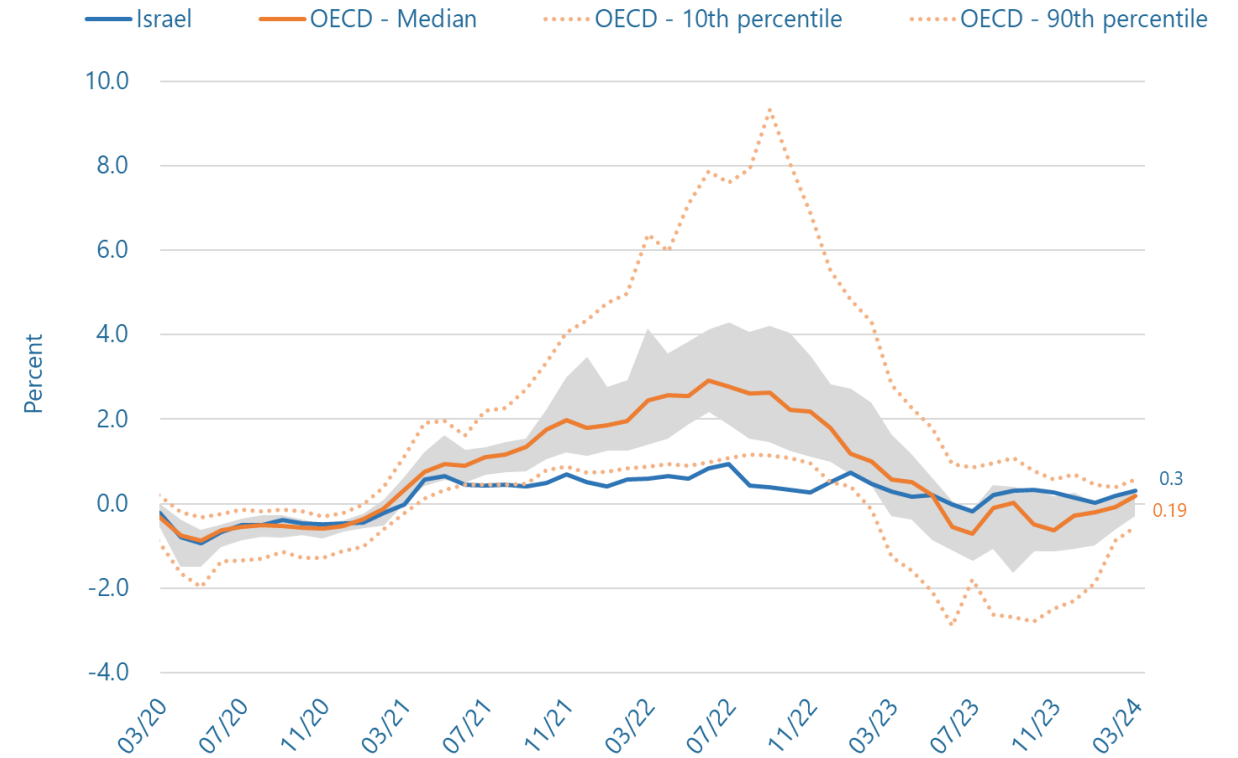


OECD Countries: Contribution of Food and Energy

Contribution of Food Component March 2020 – March 2024



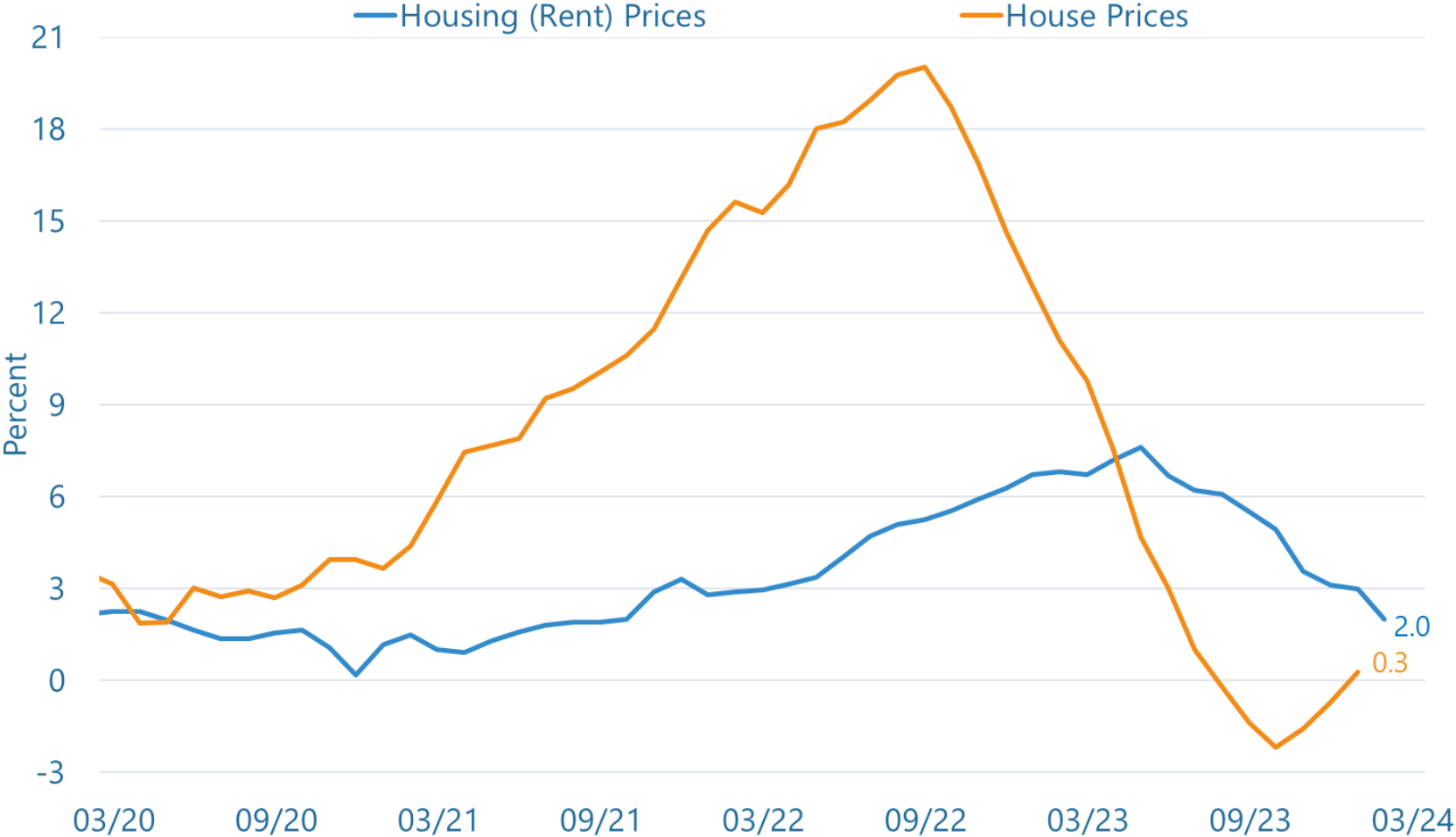
Contribution of Energy Component March 2020 – March 2024



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.

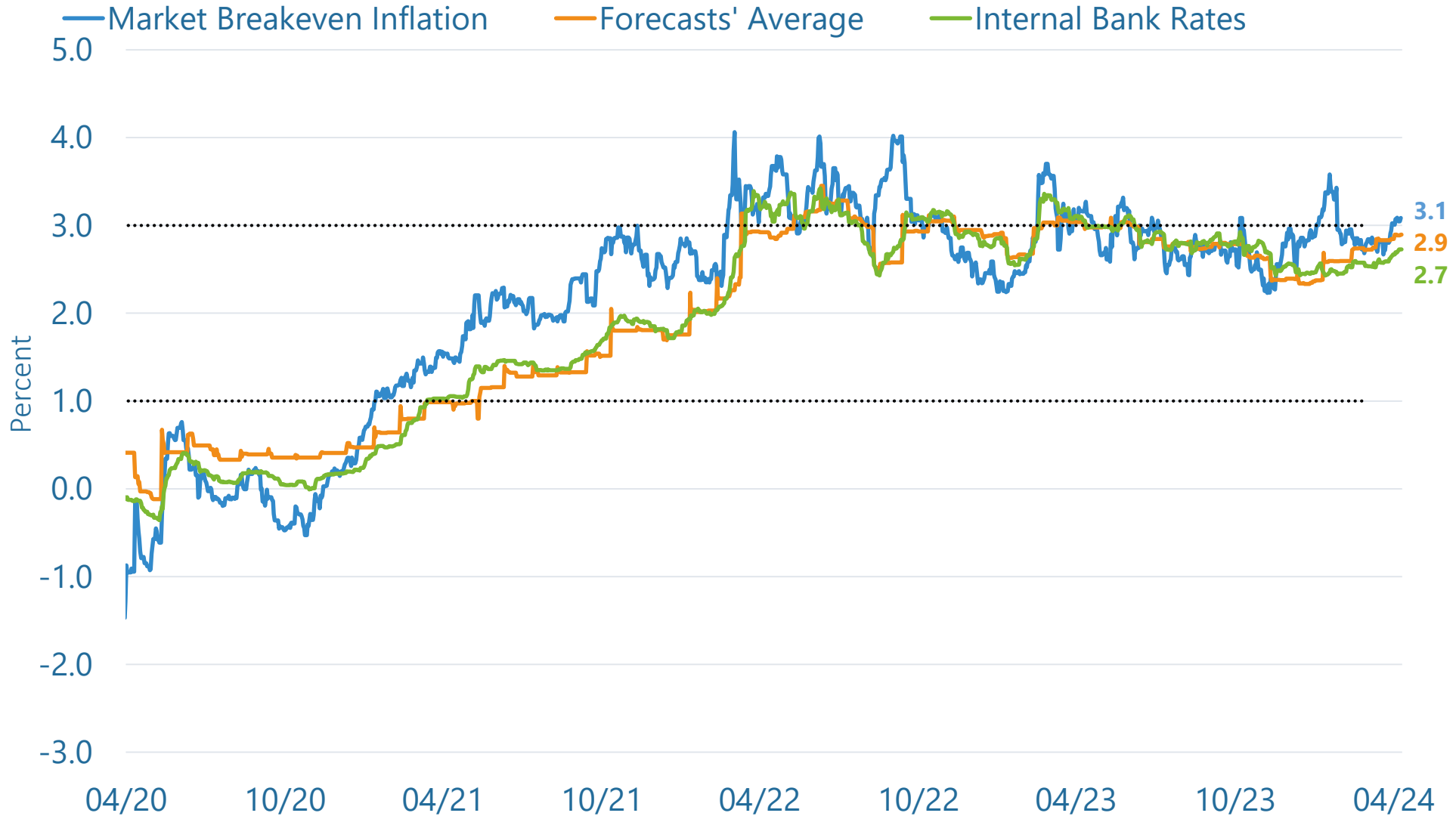
House and Housing Price

Annual Rate, March 2020 to March 2024



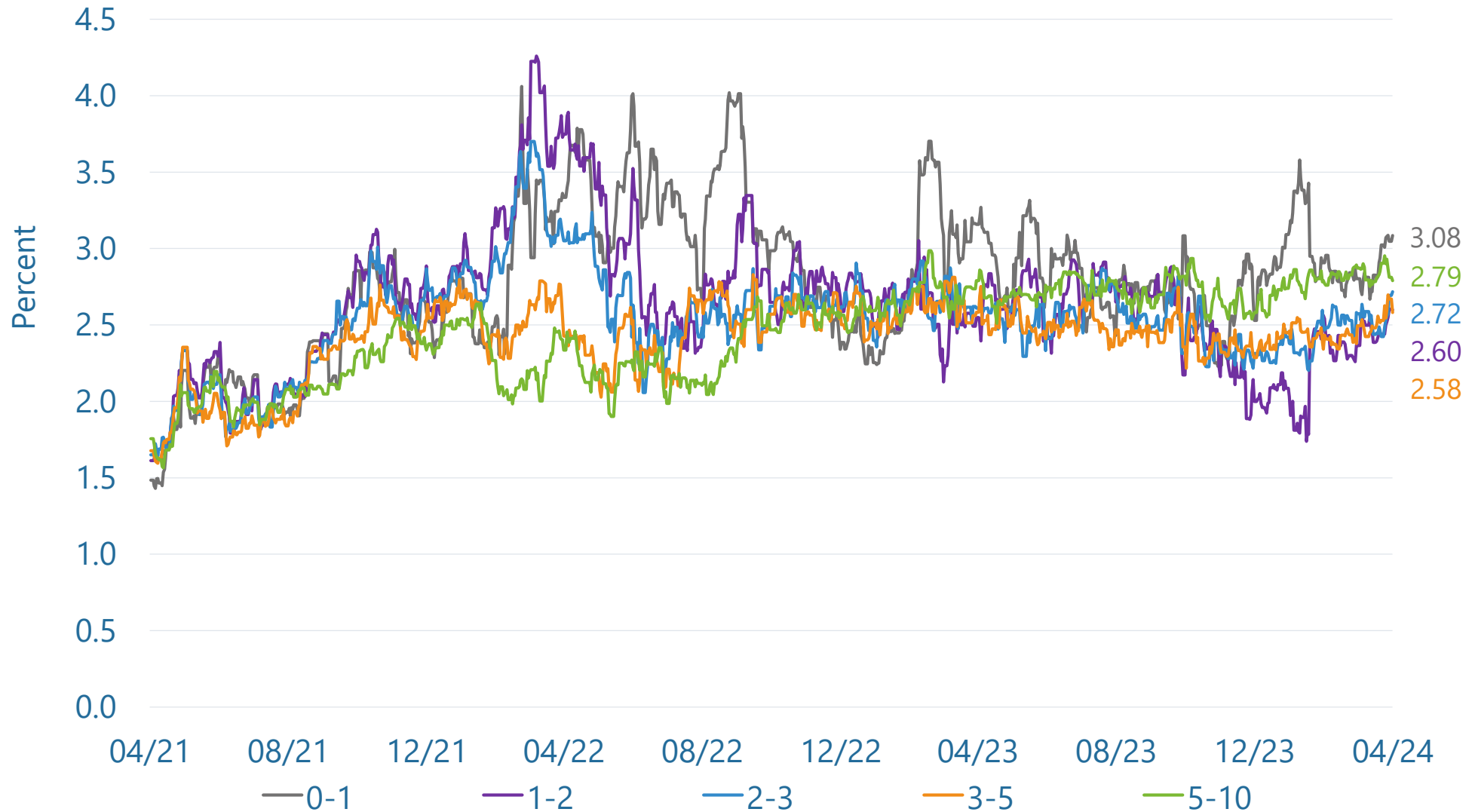
One Year Inflation Expectations

April 2020 to April 2024



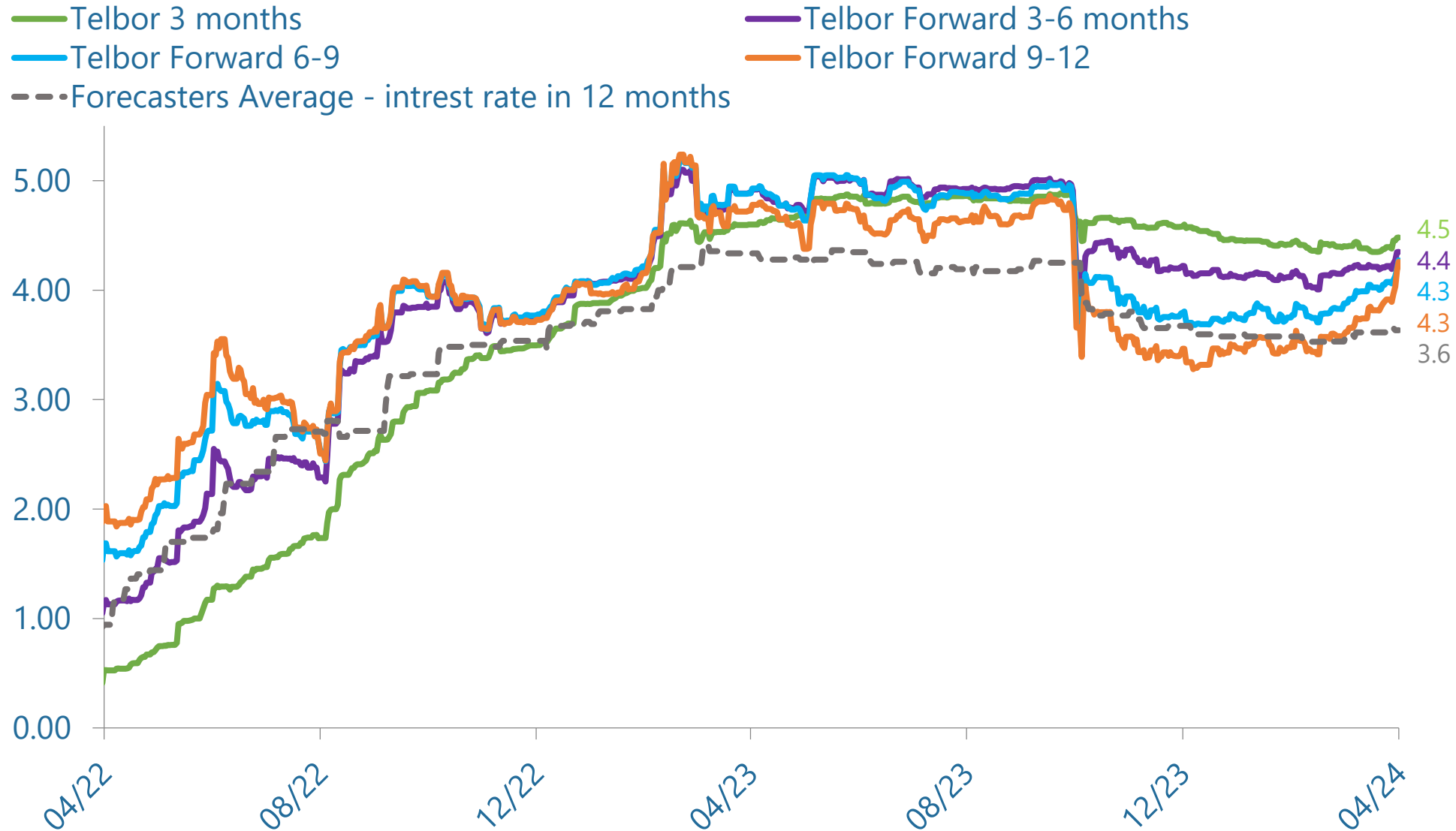
Forward Breakeven Inflation

April 2021 – April 2024



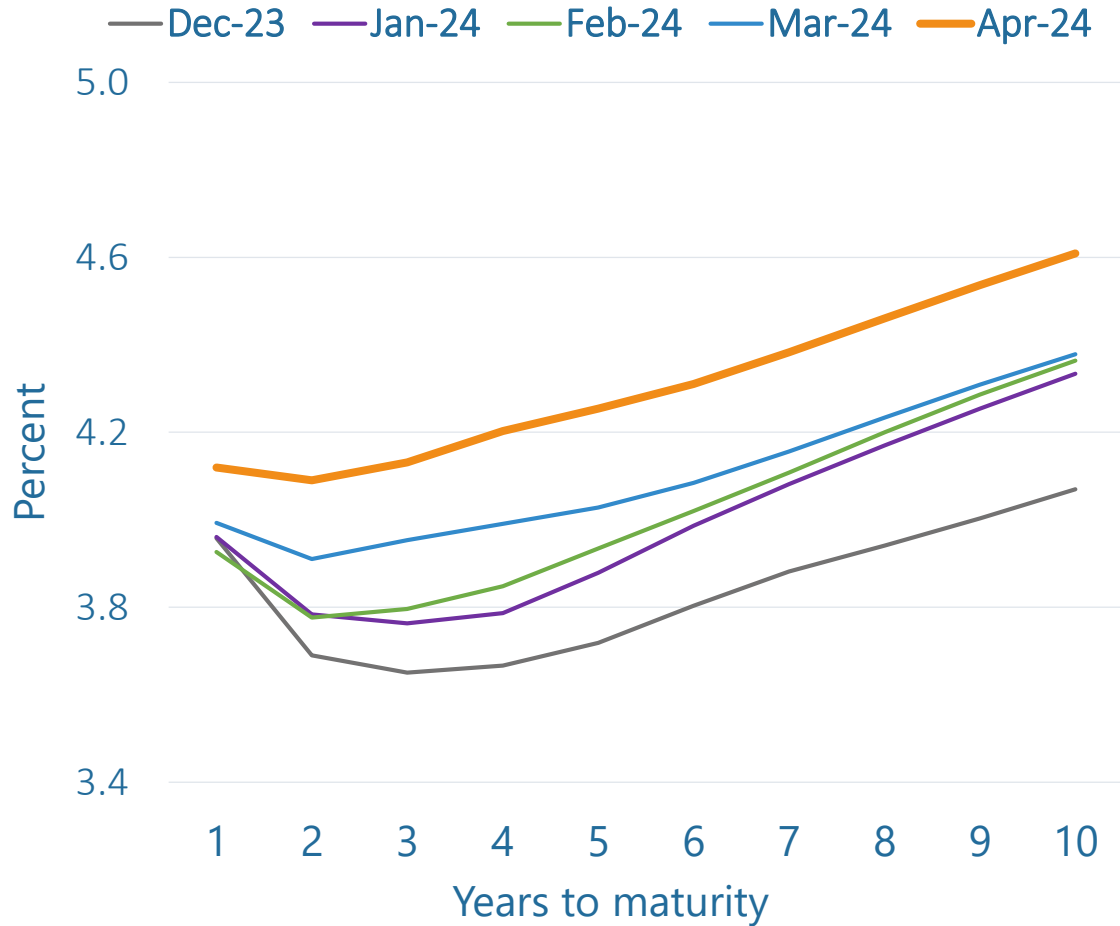
Interest Rate Expectations

April 2022 – April 2024

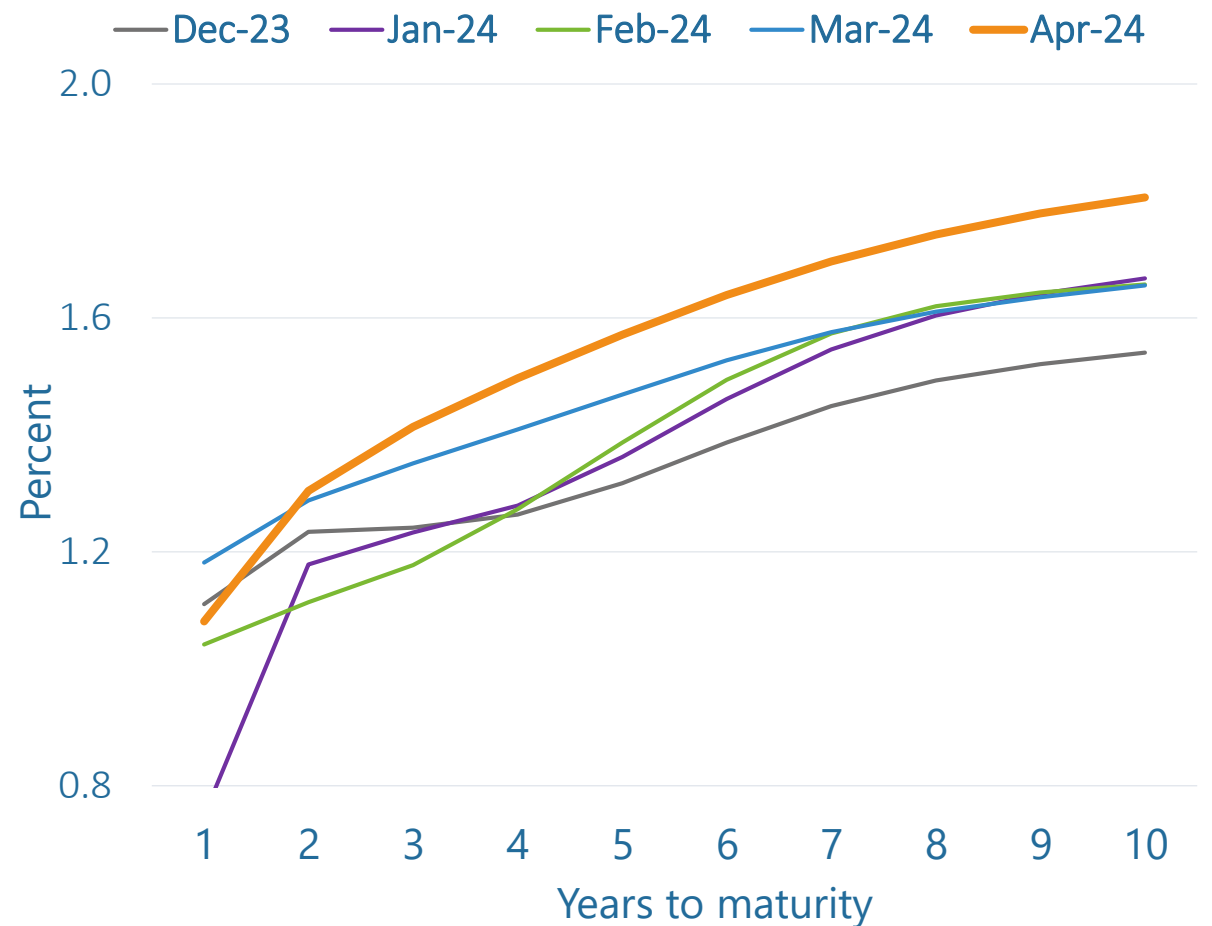


The Yield Curve

Nominal

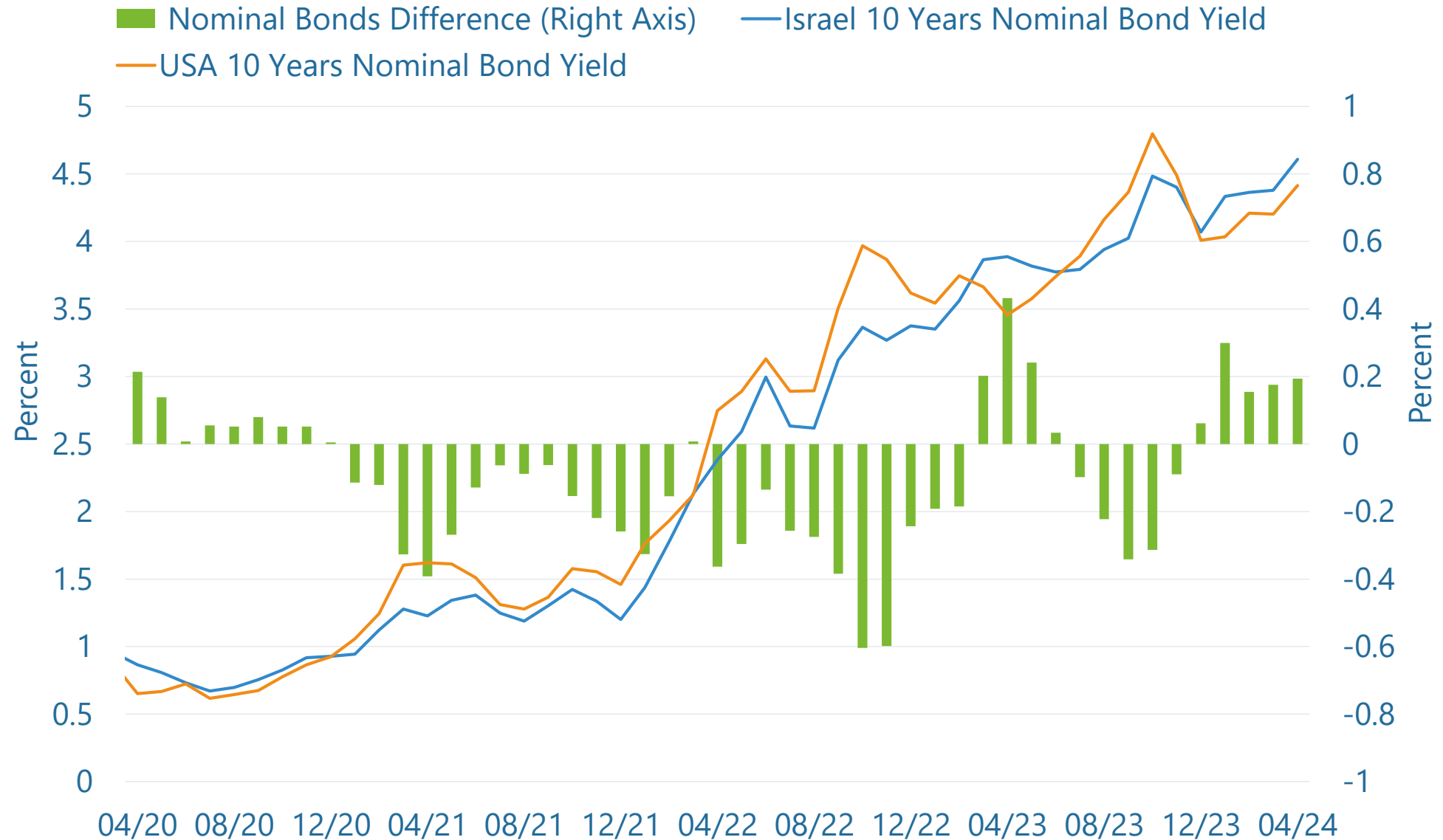


Real



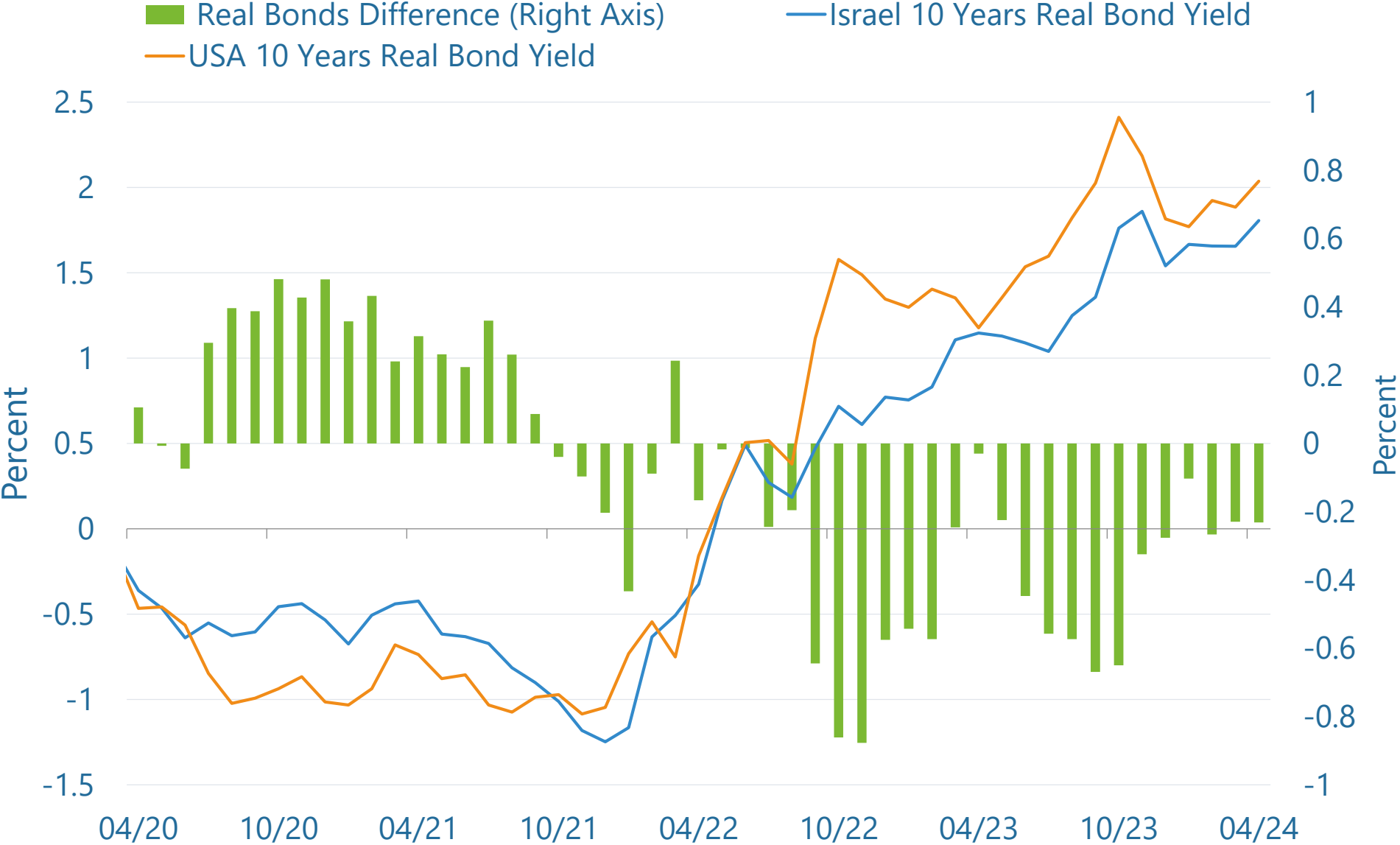
US and Israel 10 Years Nominal Yields

April 2020 to April 2024



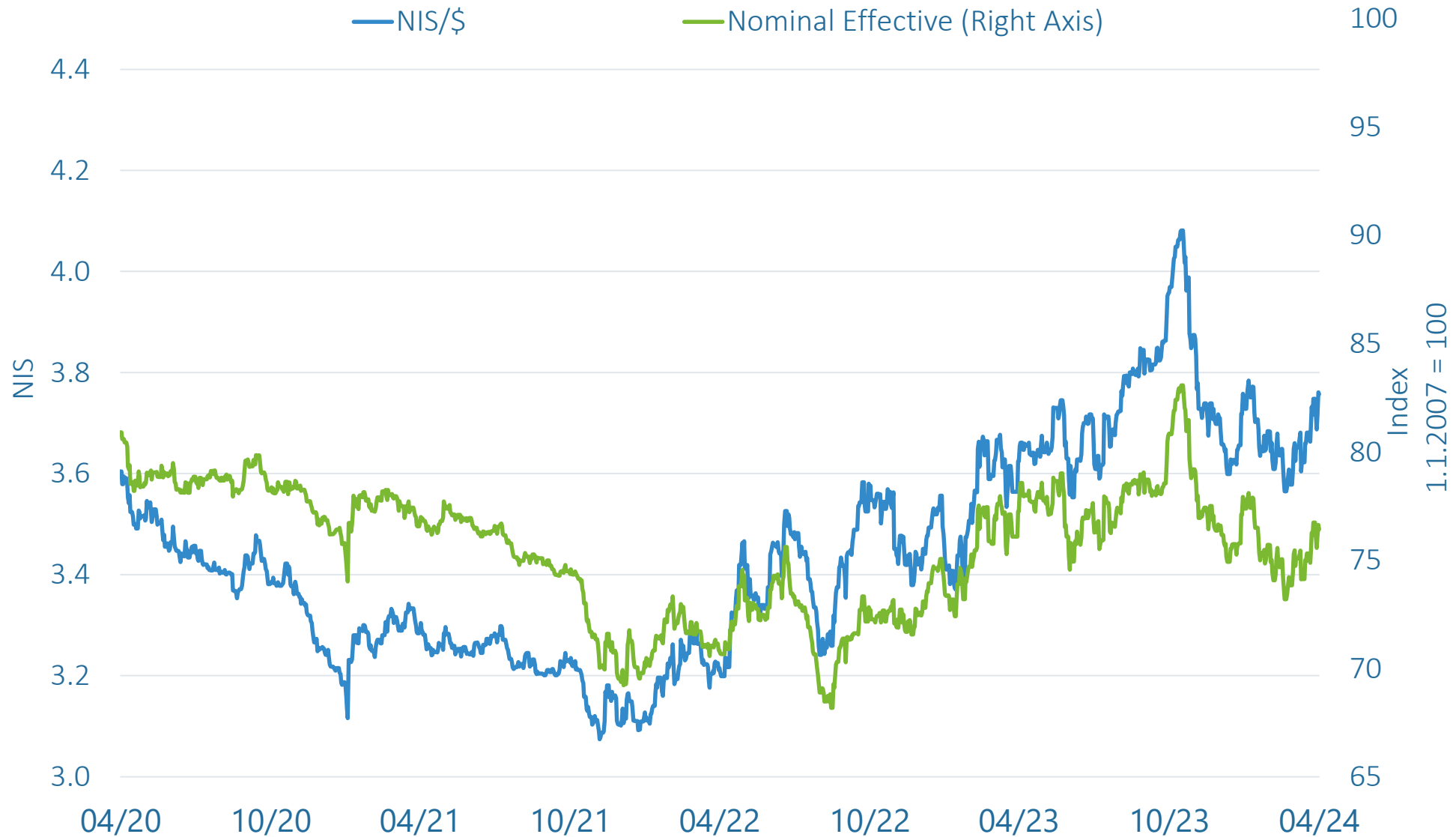
US and Israel 10 Years Real Yields

April 2020 to April 2024



The Nominal Exchange Rate

April 2020 to April 2024



Staff Forecast

Research Department Staff Forecast, April 2024

(Rates of change, percent, unless stated otherwise)

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

| | 2023 Actual | Forecast for 2024 | Change from the January forecast | Forecast for 2025 | Change from the January forecast |
|---|----------------|----------------------|--|----------------------|--|
| GDP | 2.0 | 2.0 | - | 5.0 | - |
| Private consumption | -0.8 | 4.5 | 1.5 | 5.5 | -0.5 |
| Fixed capital formation (excl. ships and aircraft) | -3.1 | -3.5 | -0.5 | 10.5 | 4.0 |
| Public consumption (excl. defense imports) | 7.2 | 4.5 | -2.0 | -2.0 | -2.5 |
| Exports (excl. diamonds and startups) | 0.3 | -1.0 | -1.5 | 4.0 | -1.0 |
| Civilian imports (excl. diamonds, ships, and aircraft) | -7.2 | -4.0 | - | 8.0 | -1.5 |
| Unemployment rate (average for the year, age 25–64) | 4.4 | 3.7 | -1.6 | 3.3 | 0.1 |
| Government deficit (percent of GDP) | 4.1 | 6.6 | 0.9 | 4.6 | 0.8 |
| Debt to GDP ratio (percent) | 62 | 67 | 1 | 67 | 1 |

^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) | 2.8 | 3.0 | 2.8 (2.3-3.2) |
| Interest Rate ^d (Range of Forecasts) | 3.75 | 3.8 | 3.6 (3.30-4.0) |

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.

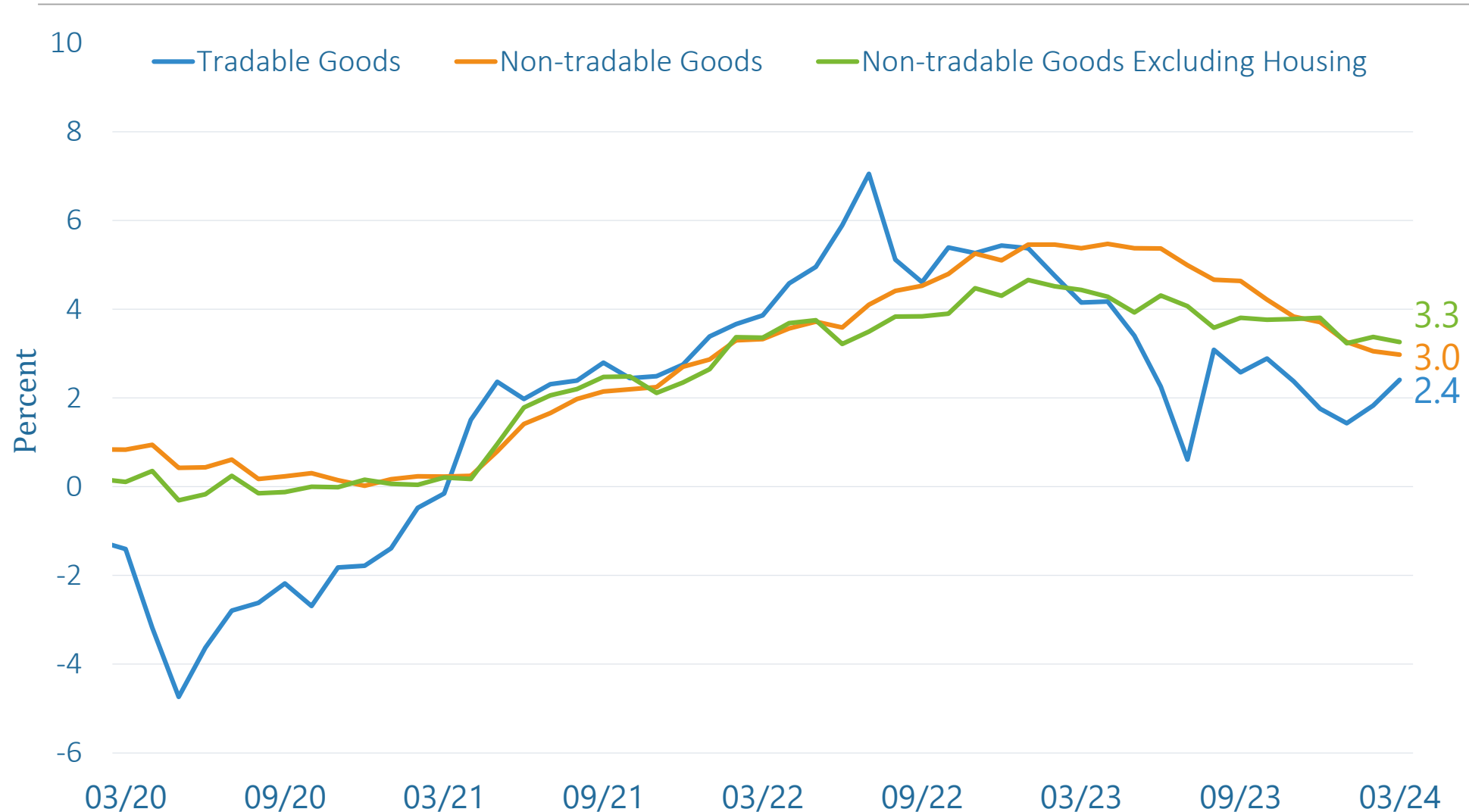
d) The interest rate one year from now. (Research Department: average interest rate in the third quarter of 2024.) Expectations derived from the capital market are based on the Telbor market (as of October 20, 2023).

Thank You



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

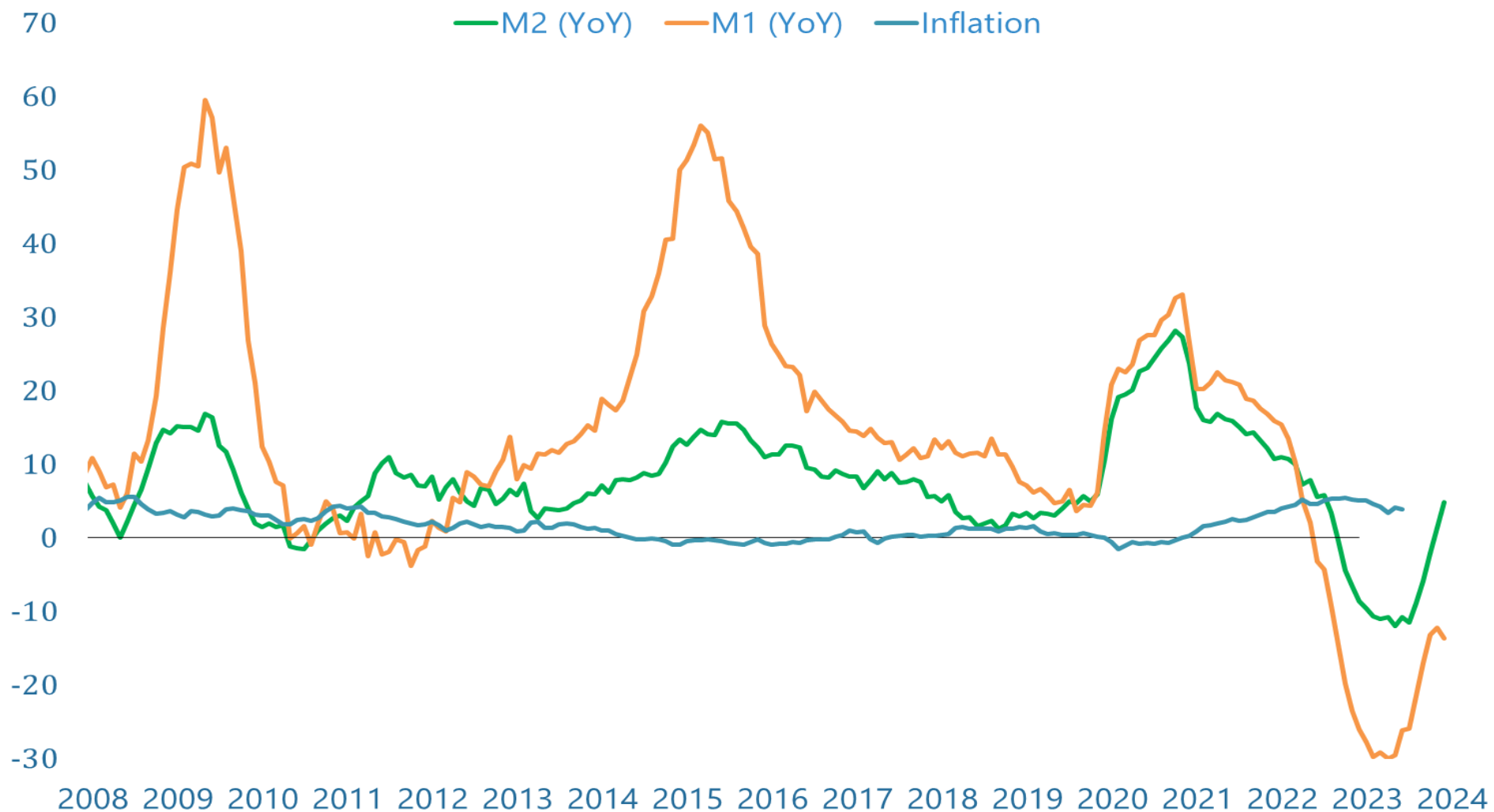
Annual rate, March 2020 to March 2024





Monetary Aggregates and Inflation

April 2008 to April 2024, Annual Growth Rates

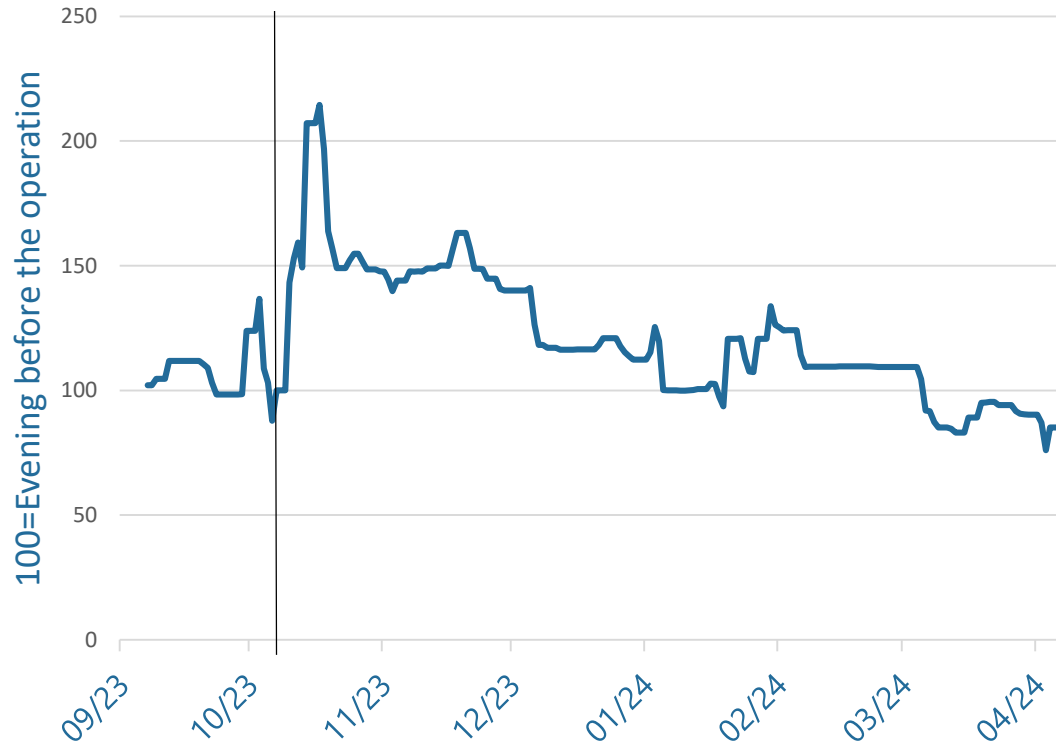




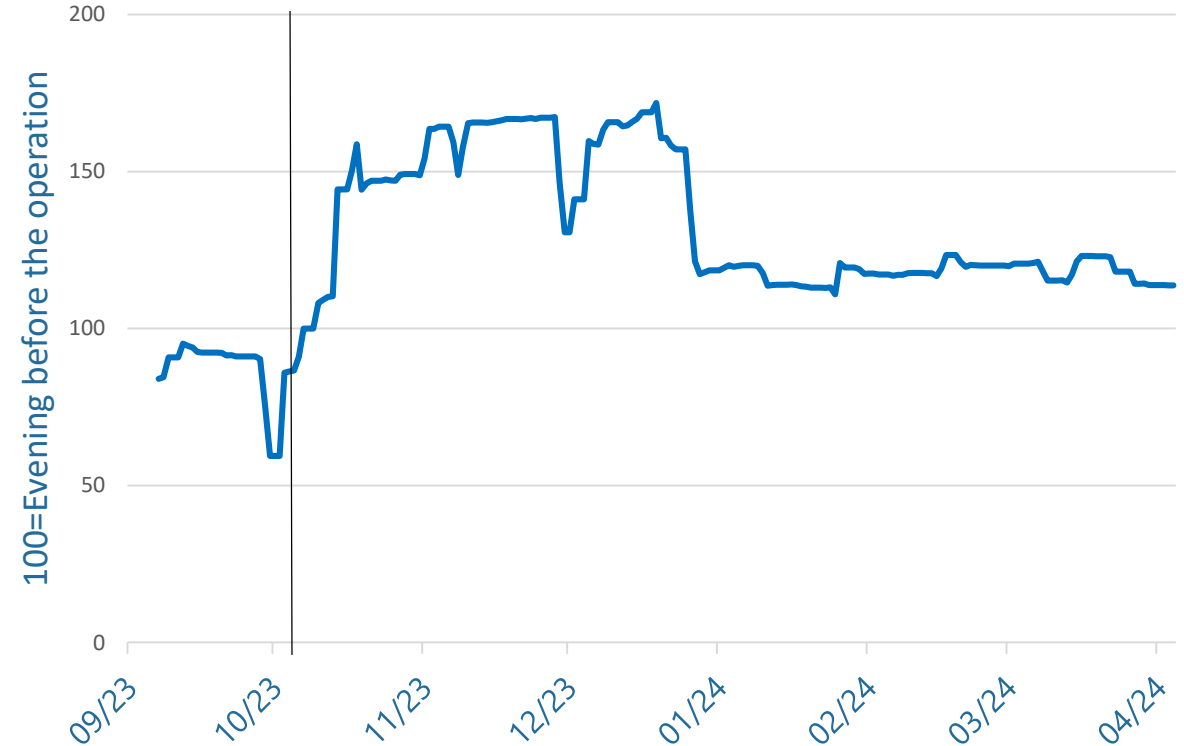
Bid-Ask Spreads Government Bonds Market

Index, conflict onset day=100

Nominal



CPI - Indexed





Bid-Ask Spreads Corporate Bond Market

Index, conflict onset day=100

