בנק ישראל
BANK OF ISRAEL

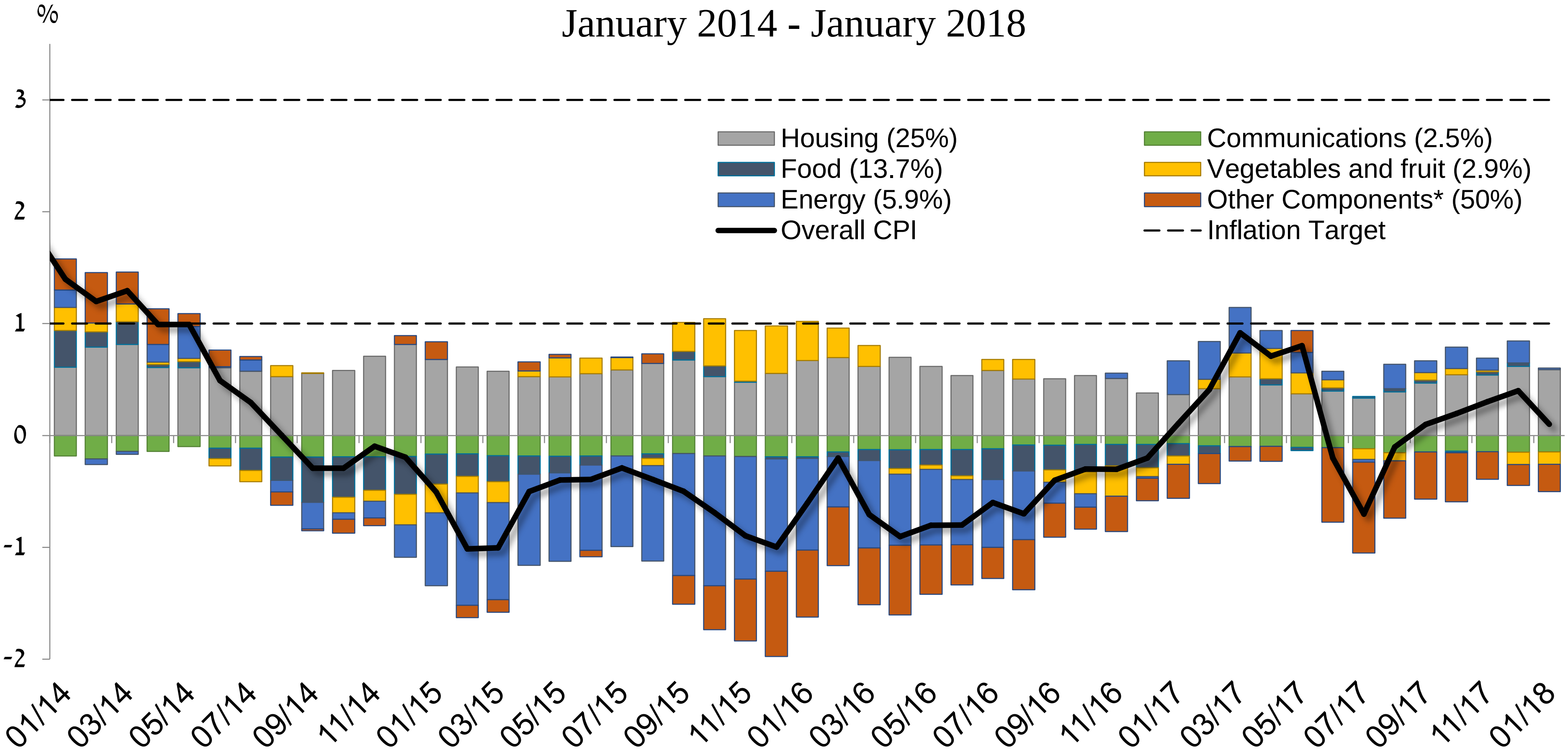
Main economic background data to the Monetary Committee’s Interest Rate decision, February 26, 2018

The Monetary-Financial Environment

Temporary decline in annual inflation is expected in the coming months.

Figure 1: The Contribution of Main CPI Components to Annual Inflation

January 2014 - January 2018



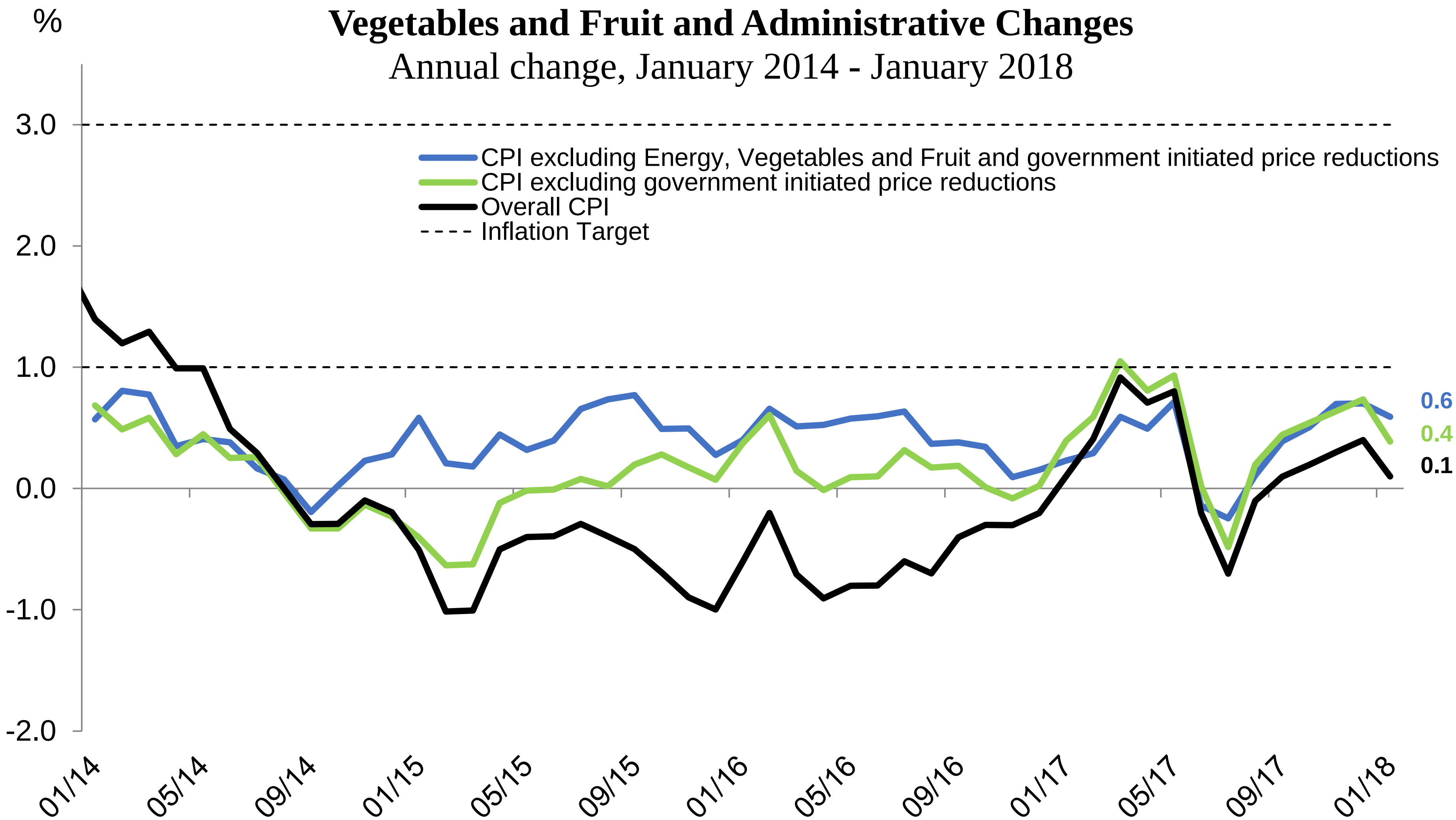
* "Other components" includes Health; Education, Culture and Entertainment; Furniture and Household Equipment; Clothing and Footwear; Miscellaneous; and the Dwellings Maintenance and Transport components minus the sub-components relating to energy prices.

SOURCE: Based on Central Bureau of Statistics.

Inflation is still being affected by the price reductions initiated by the government.

Figure 2: The Consumer Price Index - Overall, and Excluding Energy, Vegetables and Fruit and Administrative Changes

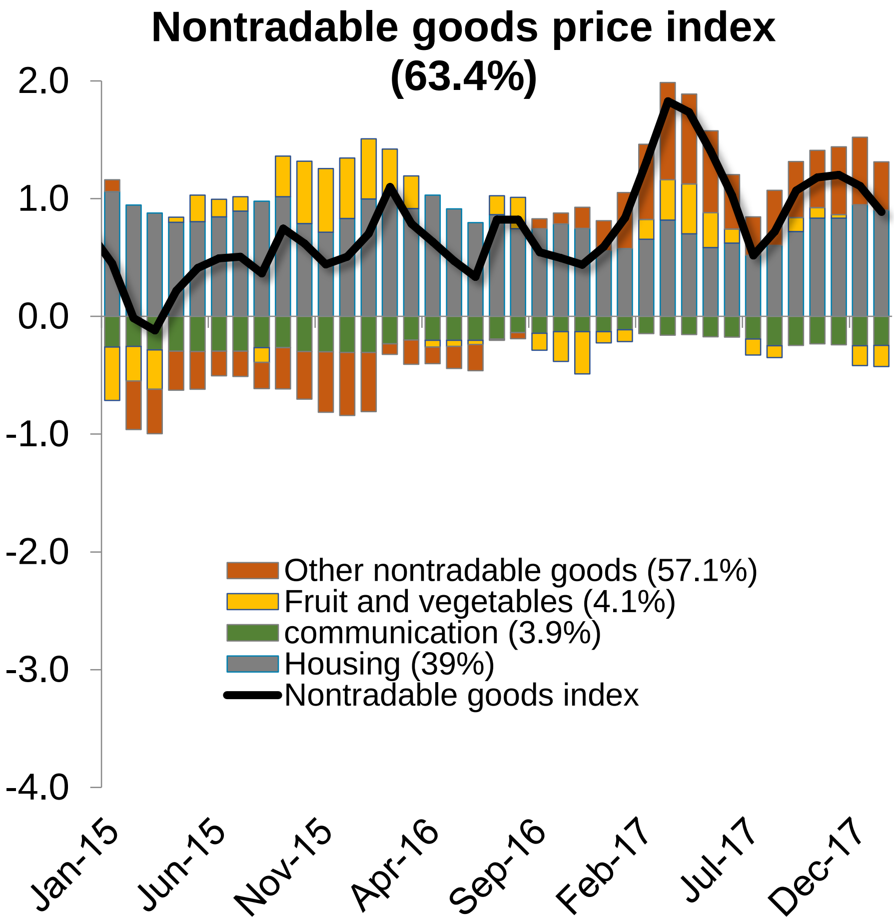
Annual change, January 2014 - January 2018

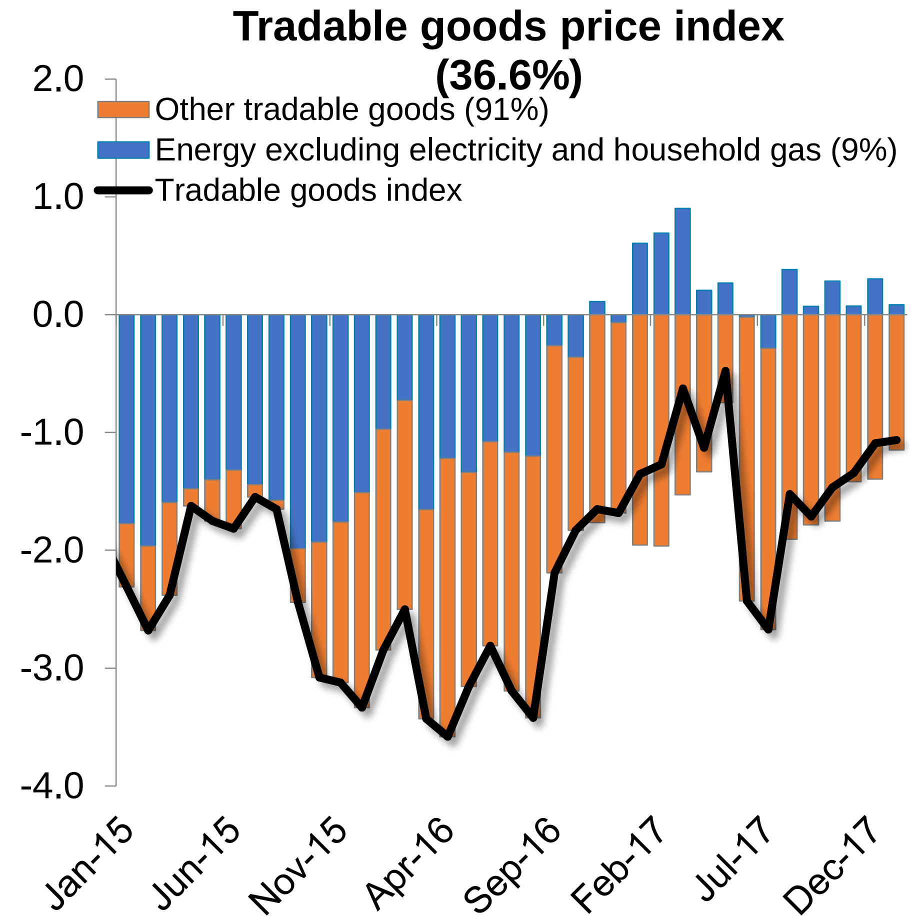


SOURCE: Based on Central Bureau of Statistics and Bank of Israel.

Inflation in the prices of nontradable goods moderated and inflation in the price of tradable goods increased.

Figure 3:
Rate of change over preceding 12 months, January 2015 - January 2018



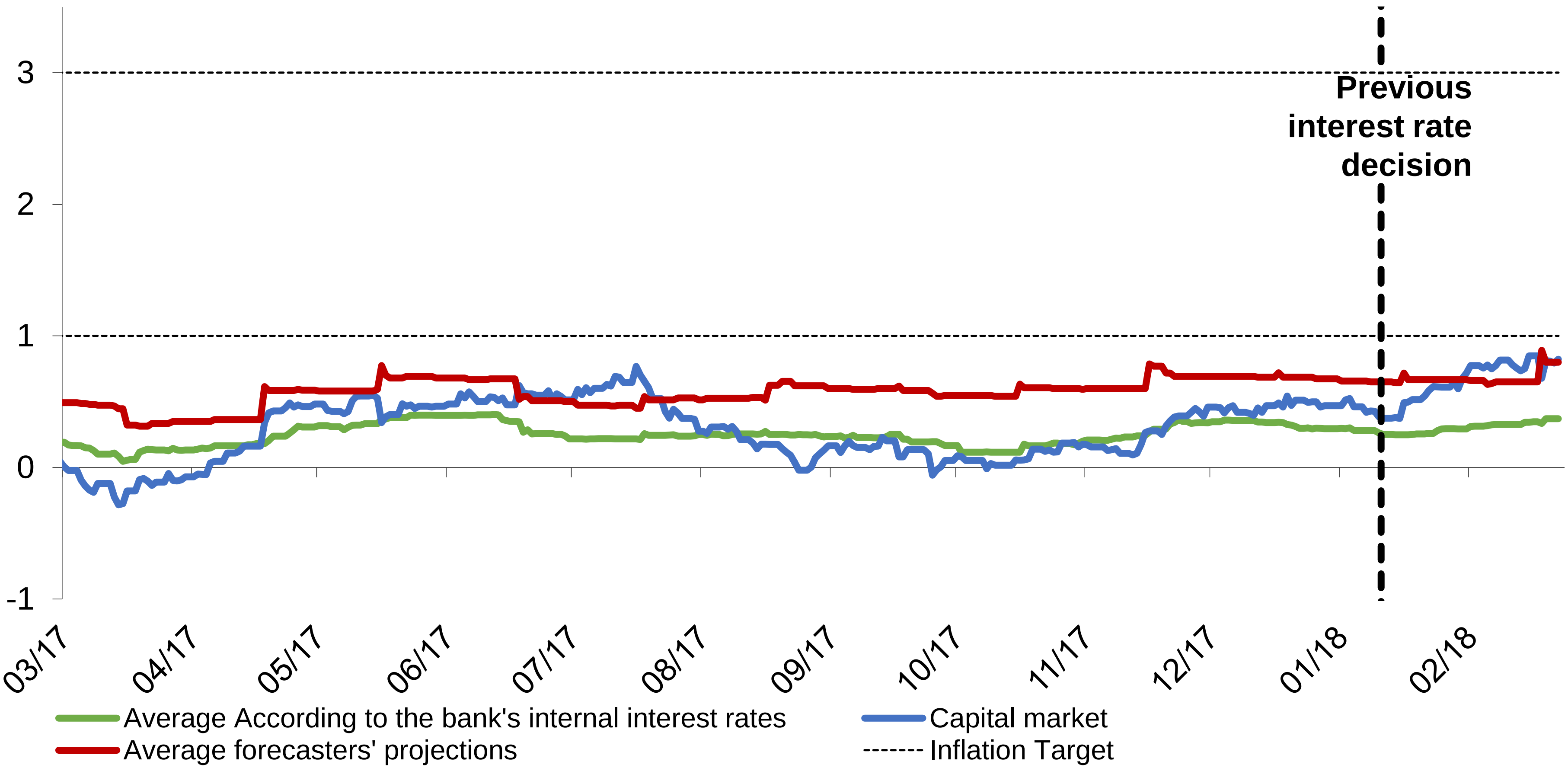


SOURCE: Bank of Israel.

One-year inflation expectations increased, but remain below the target.

Figure 4: One-Year Inflation Expectations from Various Sources*

Daily data, March 2017 - February 2018

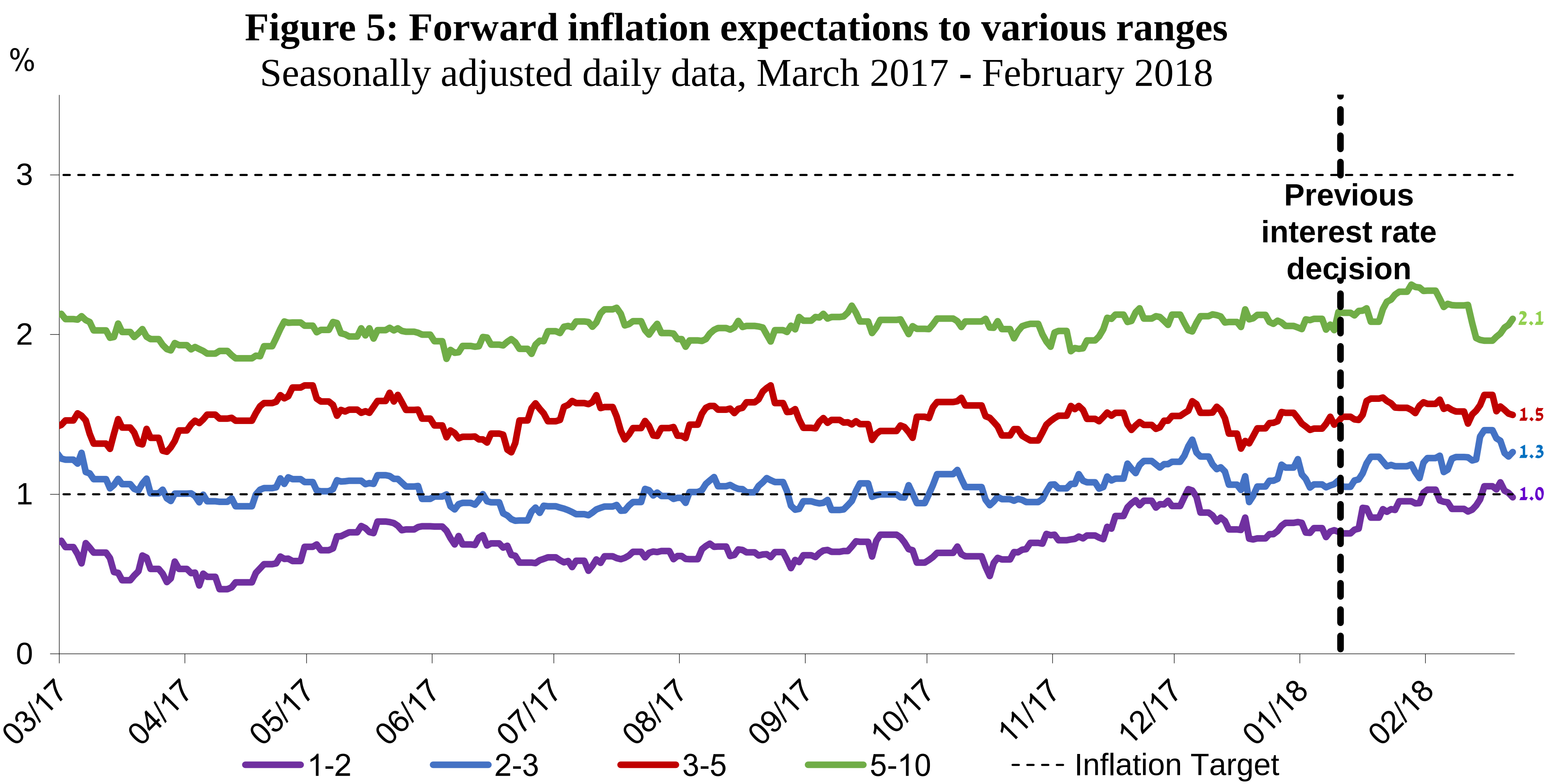


* Up to date as of Jan 23, 2018

** The series is the moving average of the last two weeks , after the 23.01.18 the data is daily data.

SOURCE: Bank of Israel.

Medium-range expectations also increased.

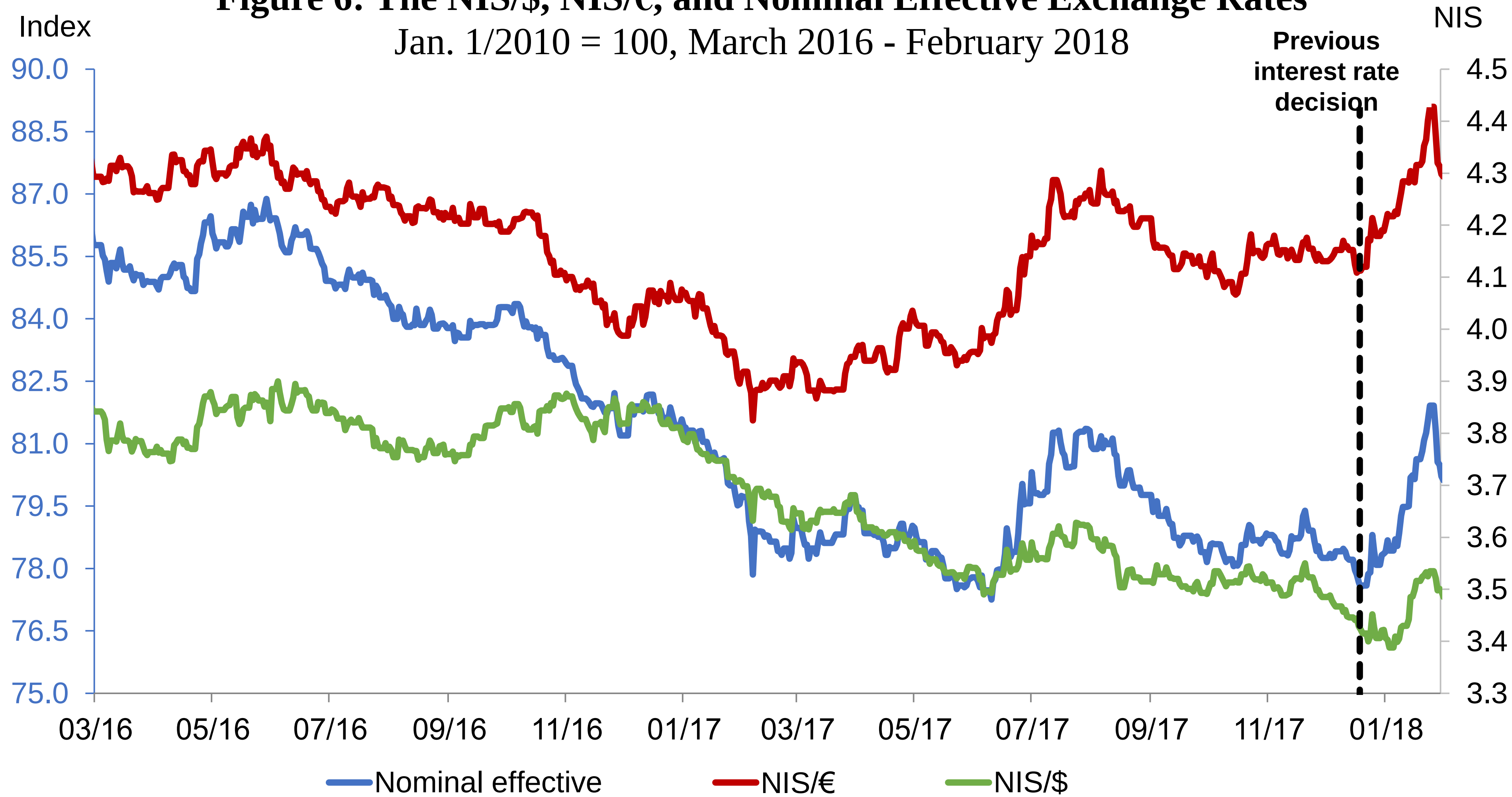


* For instance, 3-5 year expectations are the expected yearly inflation from the end of the 3rd year until the end of the 5th year.

The shekel weakened since the last interest rate decision. In recent days, the depreciation has halted.

Figure 6: The NIS/$, NIS/€, and Nominal Effective Exchange Rates

Jan. 1/2010 = 100, March 2016 - February 2018

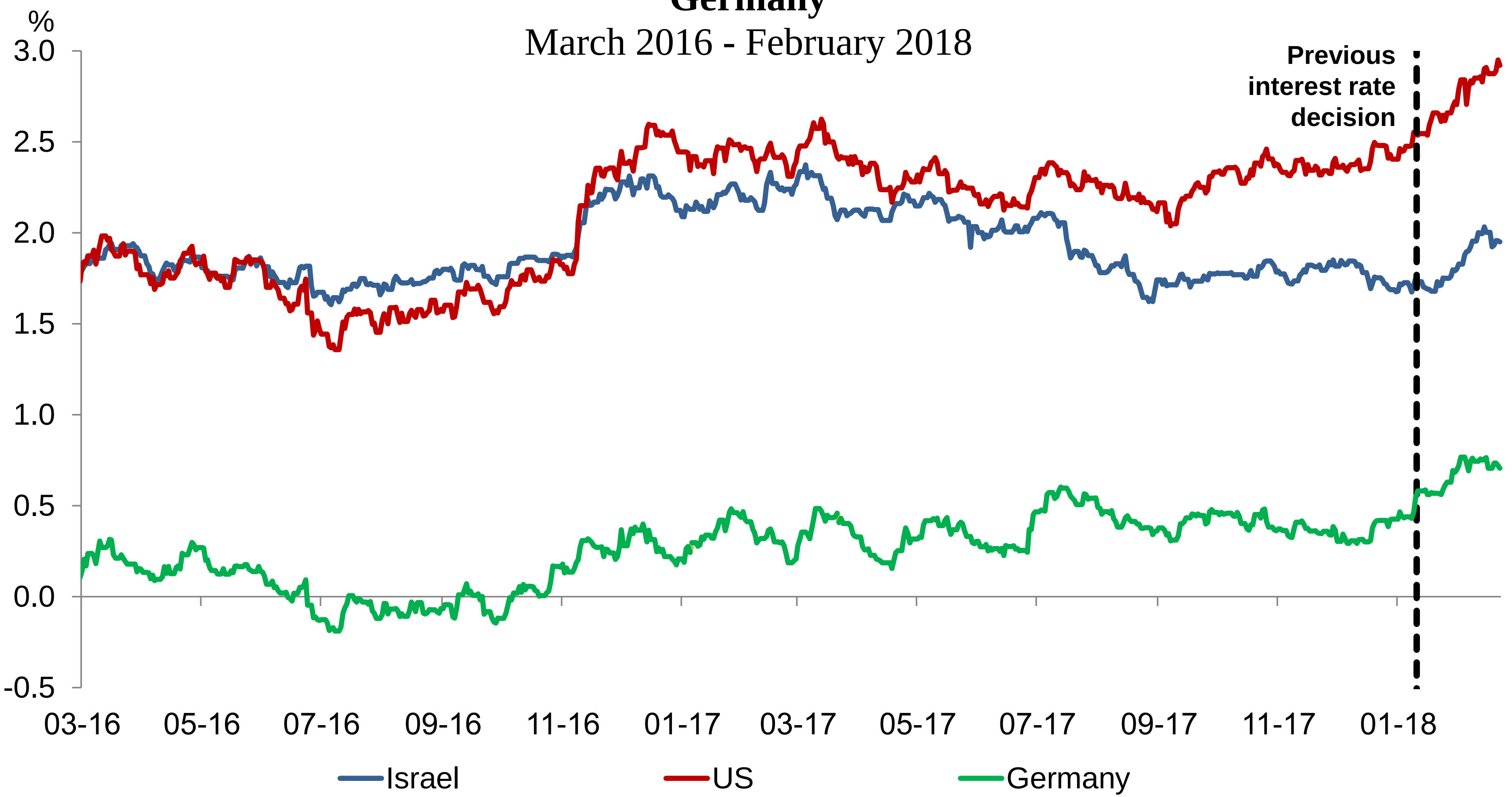


SOURCE: Bank of Israel

Government bond yields in Israel increased less than in the US, and similar to Europe.

Figure 7: Nominal Yields on 10 year Sovereign Bonds in Israel, US, and Germany

March 2016 - February 2018

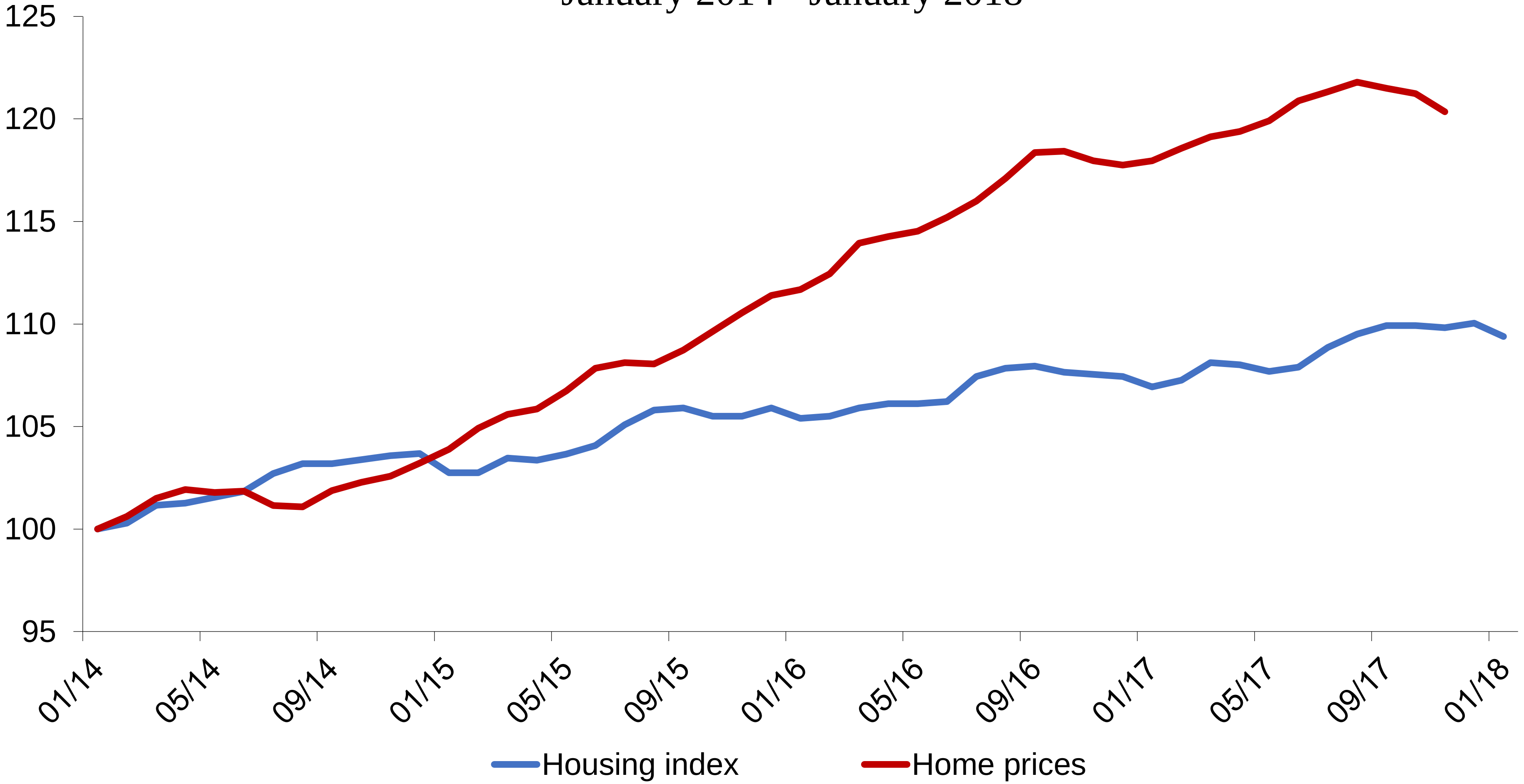


SOURCE: Bloomberg.

Recent data show a decline in home prices.

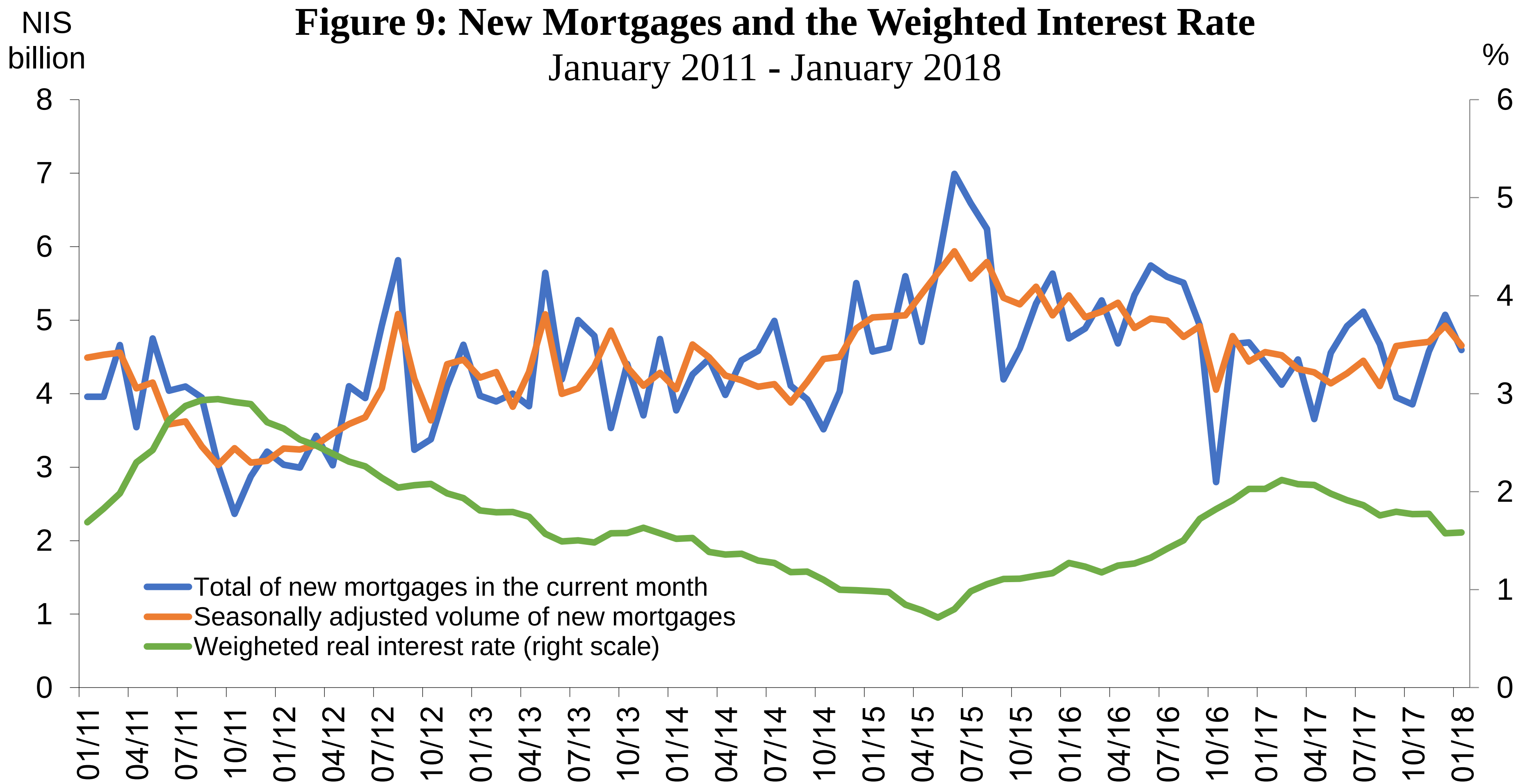
Figure 8: Home Prices vs. the CPI Housing Index (based on residential rents)

January 2014 - January 2018



SOURCE: Central Bureau of Statistics

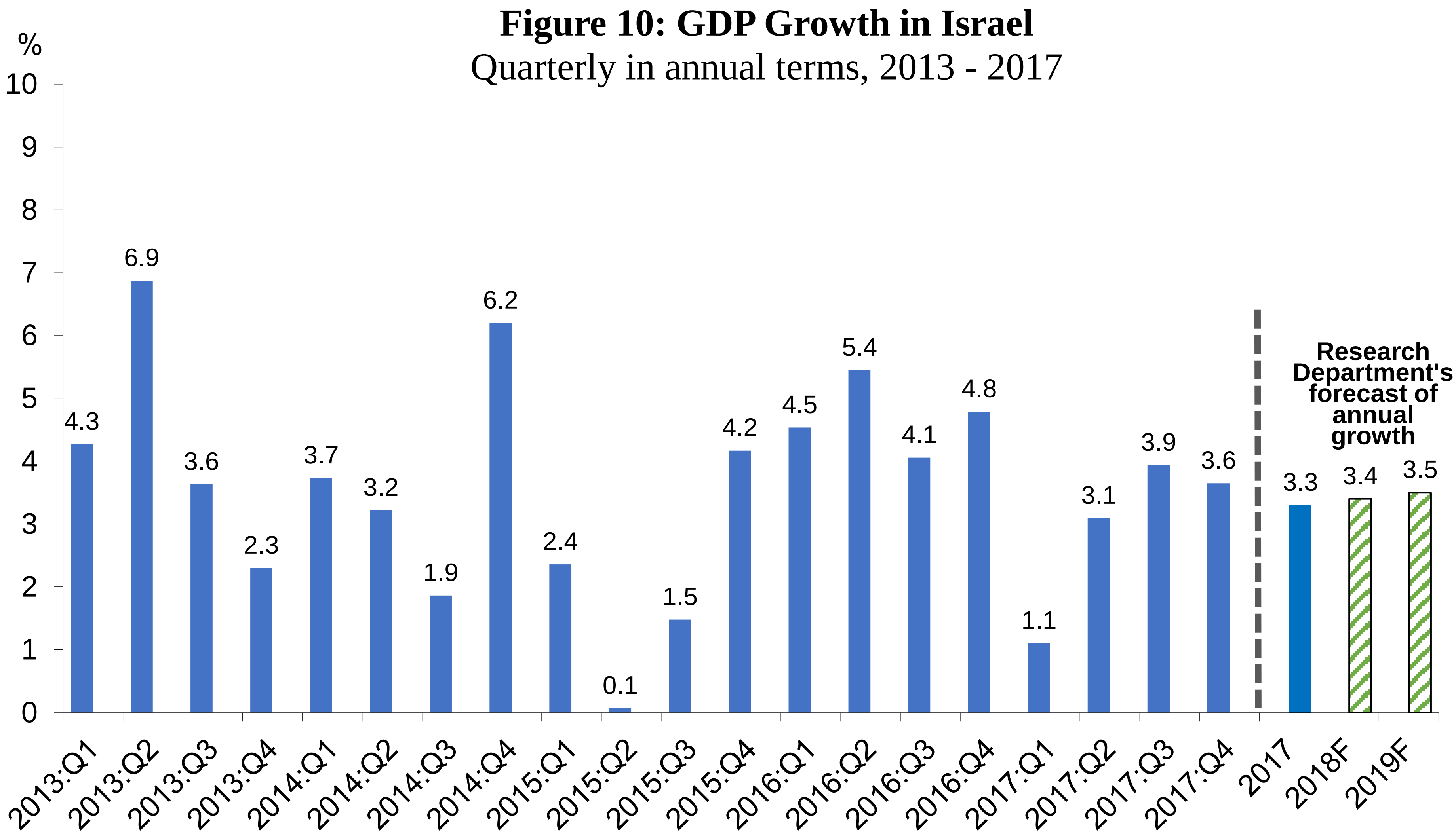
The pace of new mortgages has stabilized.



Note: In order to calculate the real weighted interest rate, inflation of 2 percent is deducted from the unindexed components.

Real economic activity

The first estimate indicates solid GDP growth in the fourth quarter.



SOURCE: Central Bureau of Statistics and bank of Israel.

Growth in 2017 was more balanced, led by private consumption and exports.

Figure 11: Growth Rates of the Components of the National Accounts, 2015–2017

Period	2015	2016	2017		2017:Q1	2017:Q2	2017:Q3	2017:Q4
Gross Domestic Product	2.6	4	3.3		1.1	3.1	3.9	3.6
Business product	2.7	4.2	3.5		0.2	3.4	4.5	3.7
Private consumption	3.9	6.1	3.3		1.1	5.8	6.9	1.3
***of which*: private consumption excluding durable goods**	4.3	4.9	4.4		4.3	4.4	6.7	4
Public consumption (excl. defense imports)	3.8	4	4		7.2	2.9	-3.3	11.5
Fixed capital formation excl. ships and aircraft	-0.9	11.2	2.8		-4.6	7.1	1.3	-5.3
***of which*: Investment in industries excl. ships and aircraft**	-2.1	12.9	3.5		-6.8	11.6	4.7	-4.3
Investment in residential construction	1.5	8.1	1.3		2.8	-2.4	-5.2	-10.2
Exports (excl. diamonds and startup companies)	-0.9	1.1	5.3		4.8	7.7	7.4	9.3
***of which:* Goods exports excl. diamonds**	-3.3	-1.2	2.5		1.8	4.1	4.8	0.9
Services exports excl. startup companies	2.8	4.2	8.7		11.3	14	5.3	19.1
Civilian imports (excl. ships, aircraft and diamonds)	1.6	8.1	6.1		-1.7	8.1	16.3	9

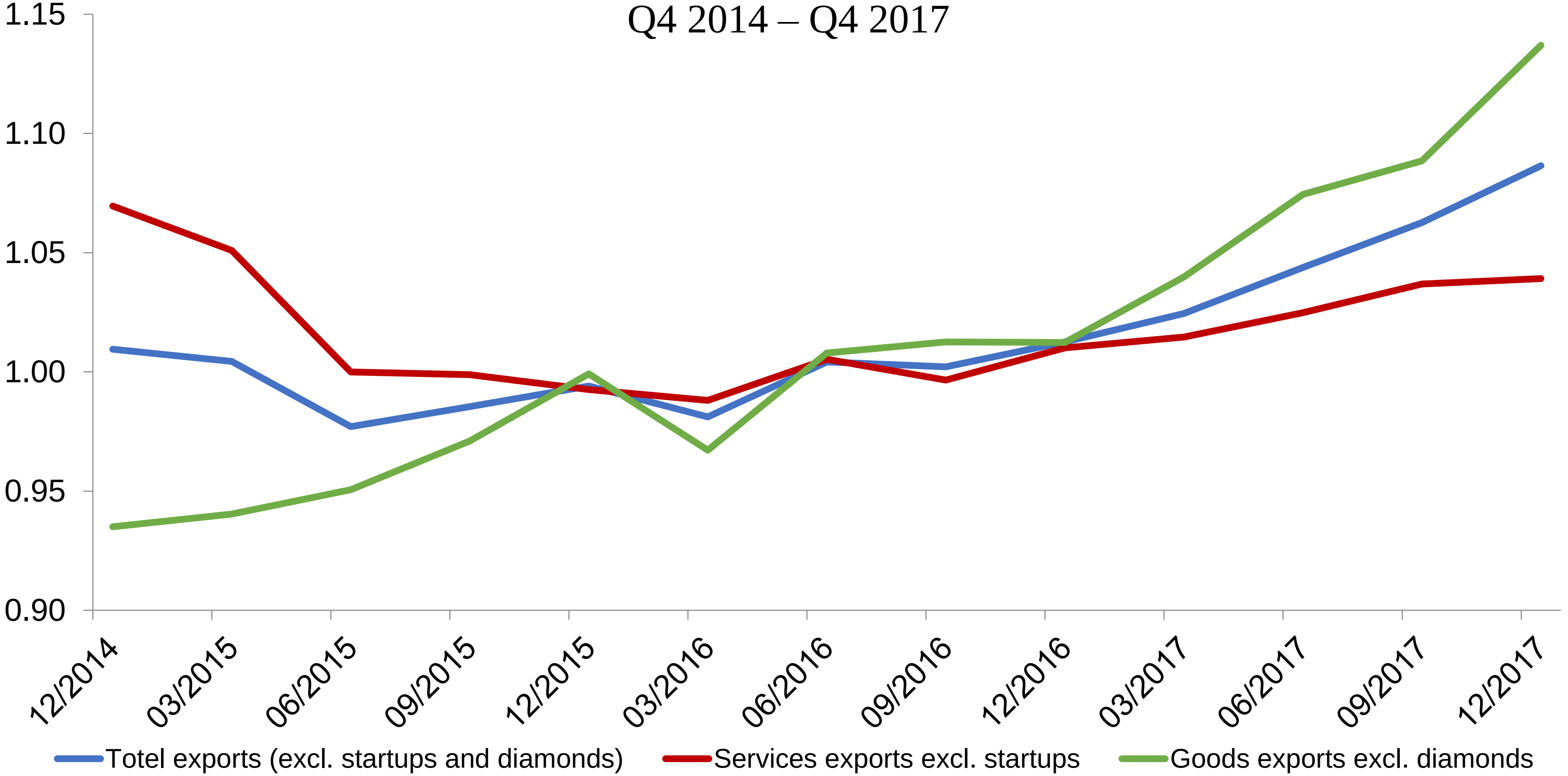
The quarterly rates of change are seasonally adjusted in annual terms.

SOURCE: Central Bureau of Statistics.

Services exports led export growth.

Figure 12: Export Data Taken from the National Accounts

Seasonally adjusted quarterly data, Real index: 2016 average=1.0, Q4 2014 – Q4 2017

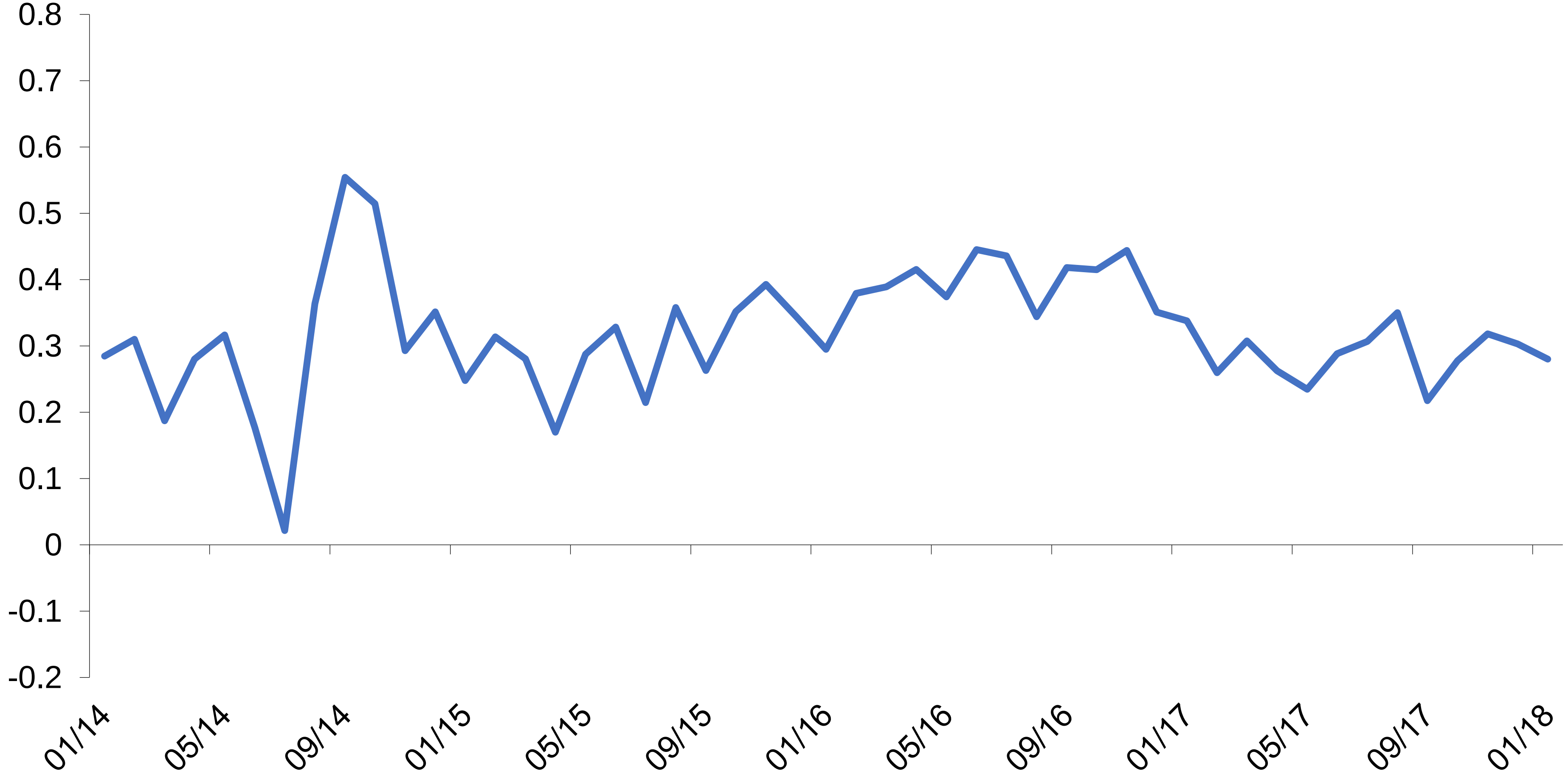


SOURCE: Central Bureau of Statistics.

The Composite State of the Economy Index indicates continued solid growth.

Figure 13: The Composite State of the Economy Index

Seasonally adjusted monthly data, January 2014 - January 2018

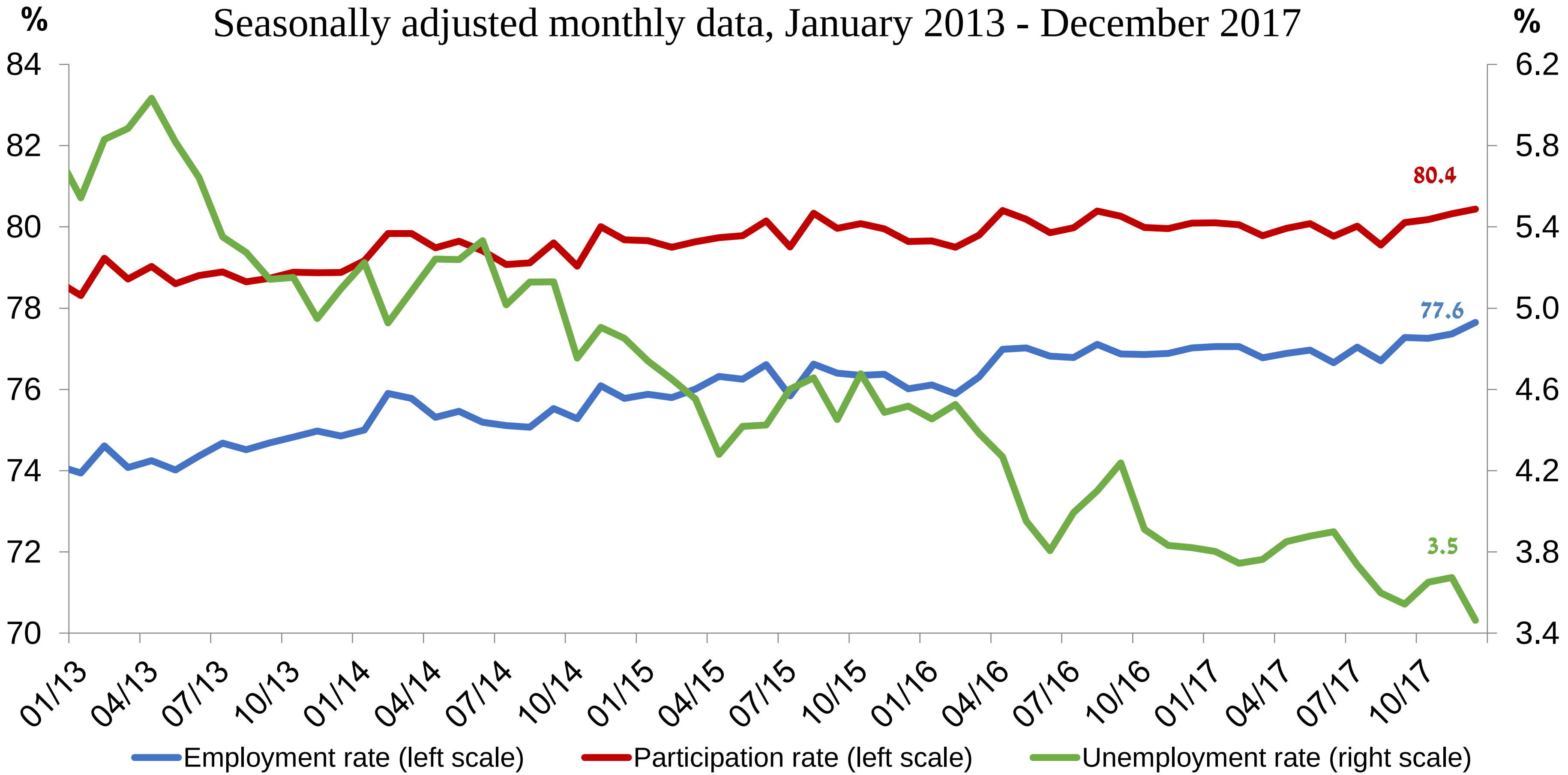


SOURCE: Bank of Israel.

The labor market is tight and in a full employment environment.

Figure 14: The Unemployment, Employment and Participation Rates Among the Primary Working Ages (25-64)

Seasonally adjusted monthly data, January 2013 - December 2017

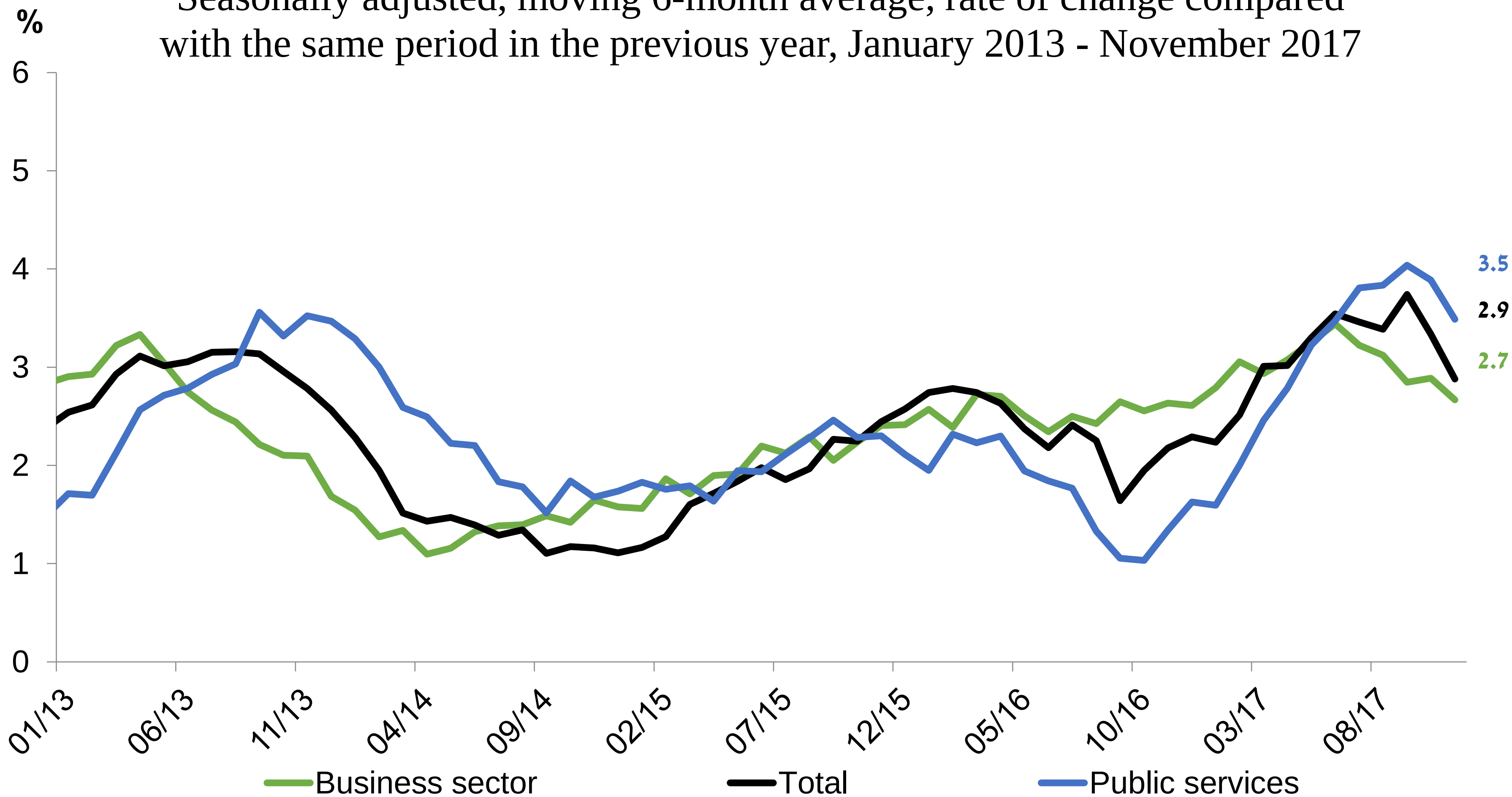


SOURCE: Central Bureau of Statistics.

Following a prolonged increase, the pace of wages increases has moderated.

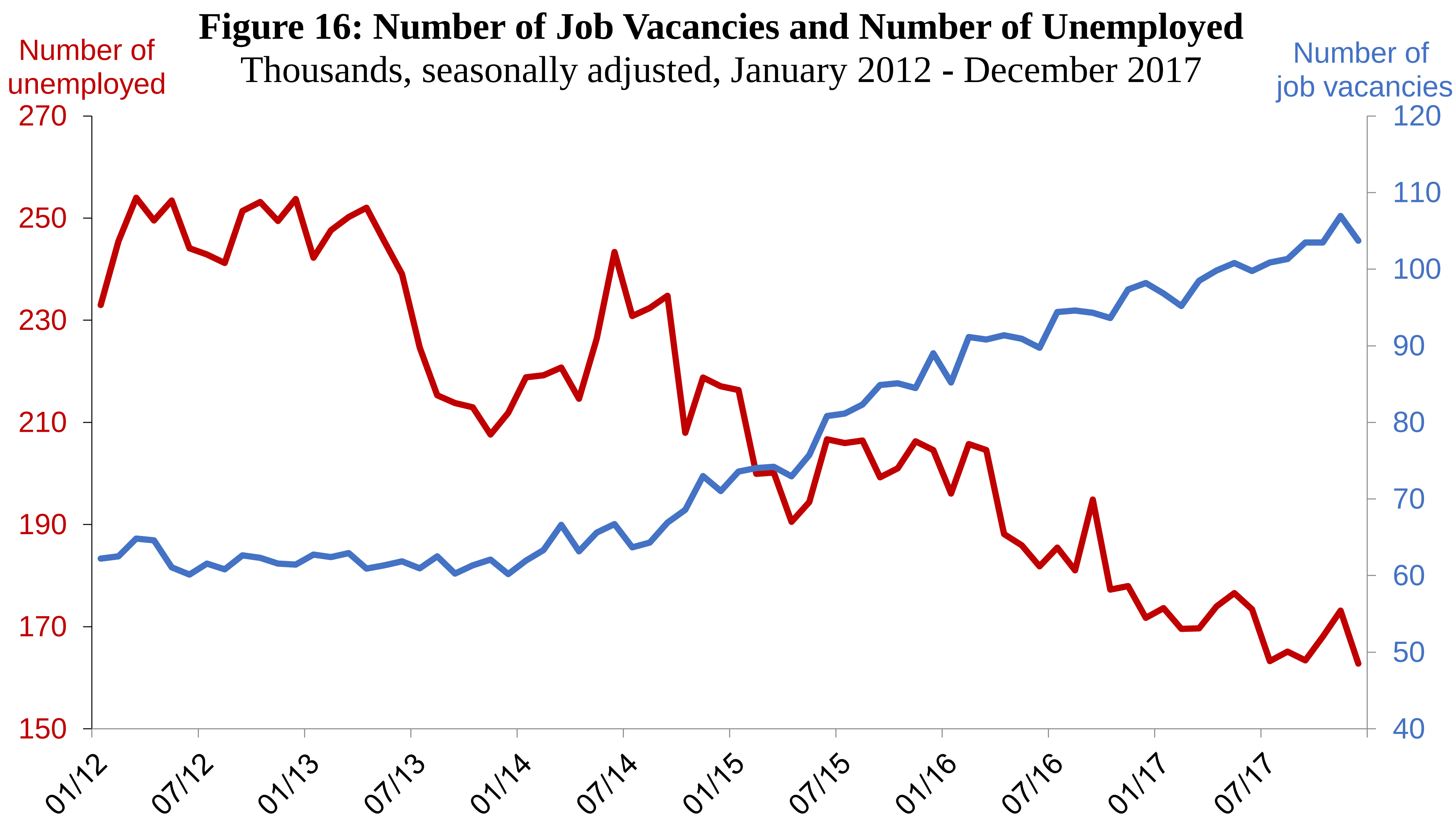
Figure 15: Nominal Wages per Employee Post

Seasonally adjusted, moving 6-month average, rate of change compared with the same period in the previous year, January 2013 - November 2017



SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

Increasing ratio between number of job vacancies and the number of unemployed.

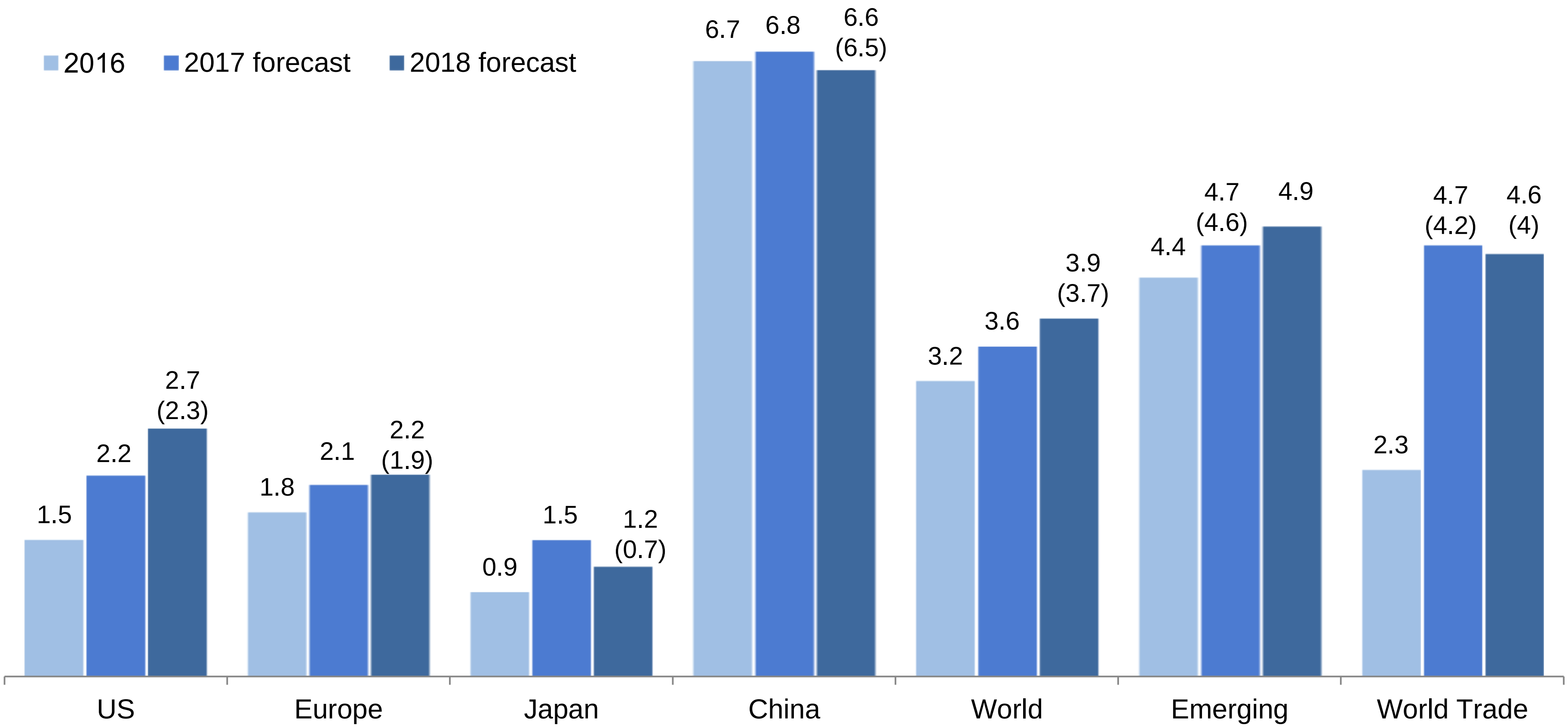


SOURCE: Central Bureau of Statistics.

The global economy

The IMF has revised its growth forecasts upward.

Figure 17: The IMF Growth Forecast
October 2017 - February 2018

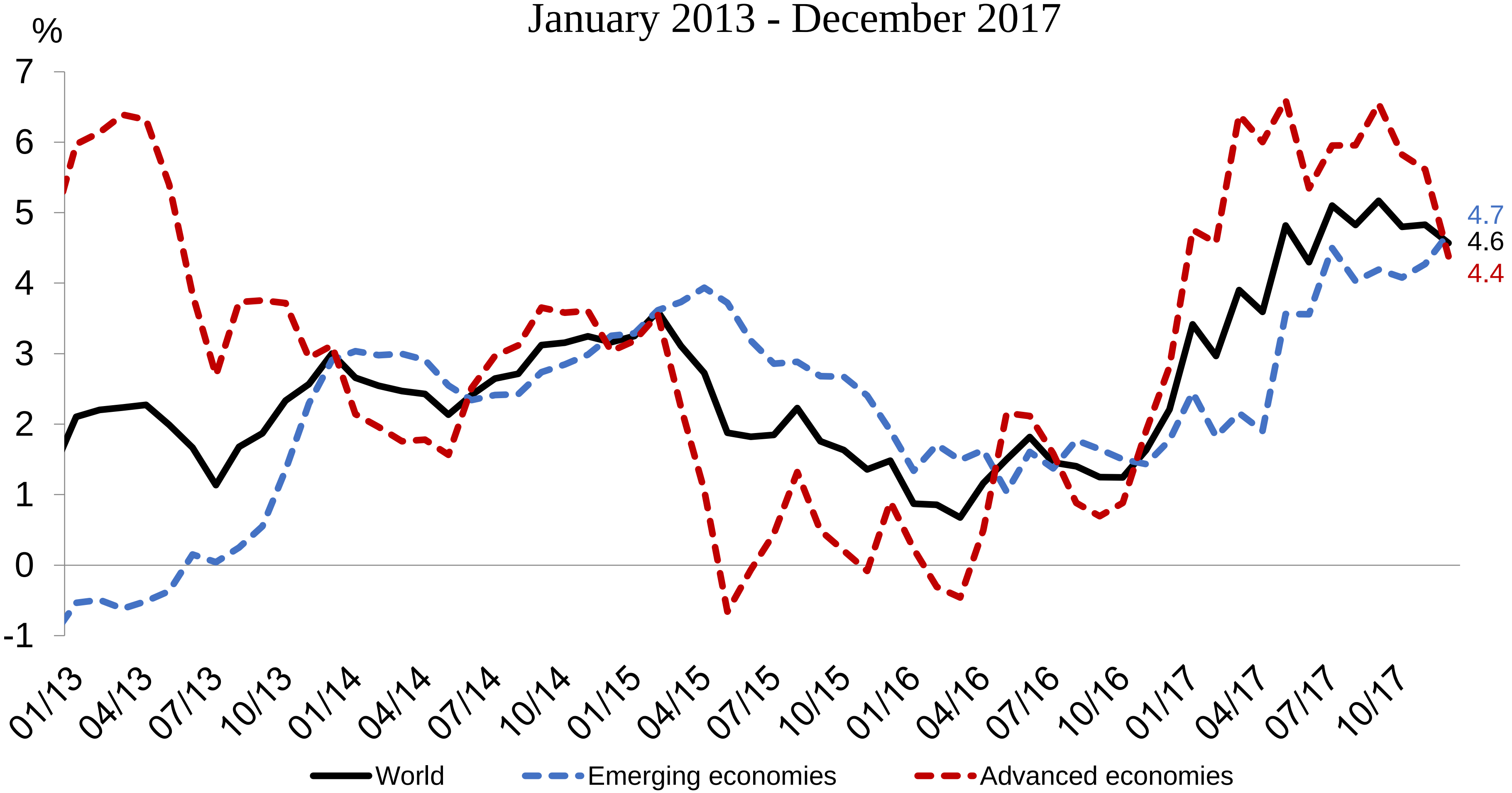


* The numbers in parentheses show the previous forecast.

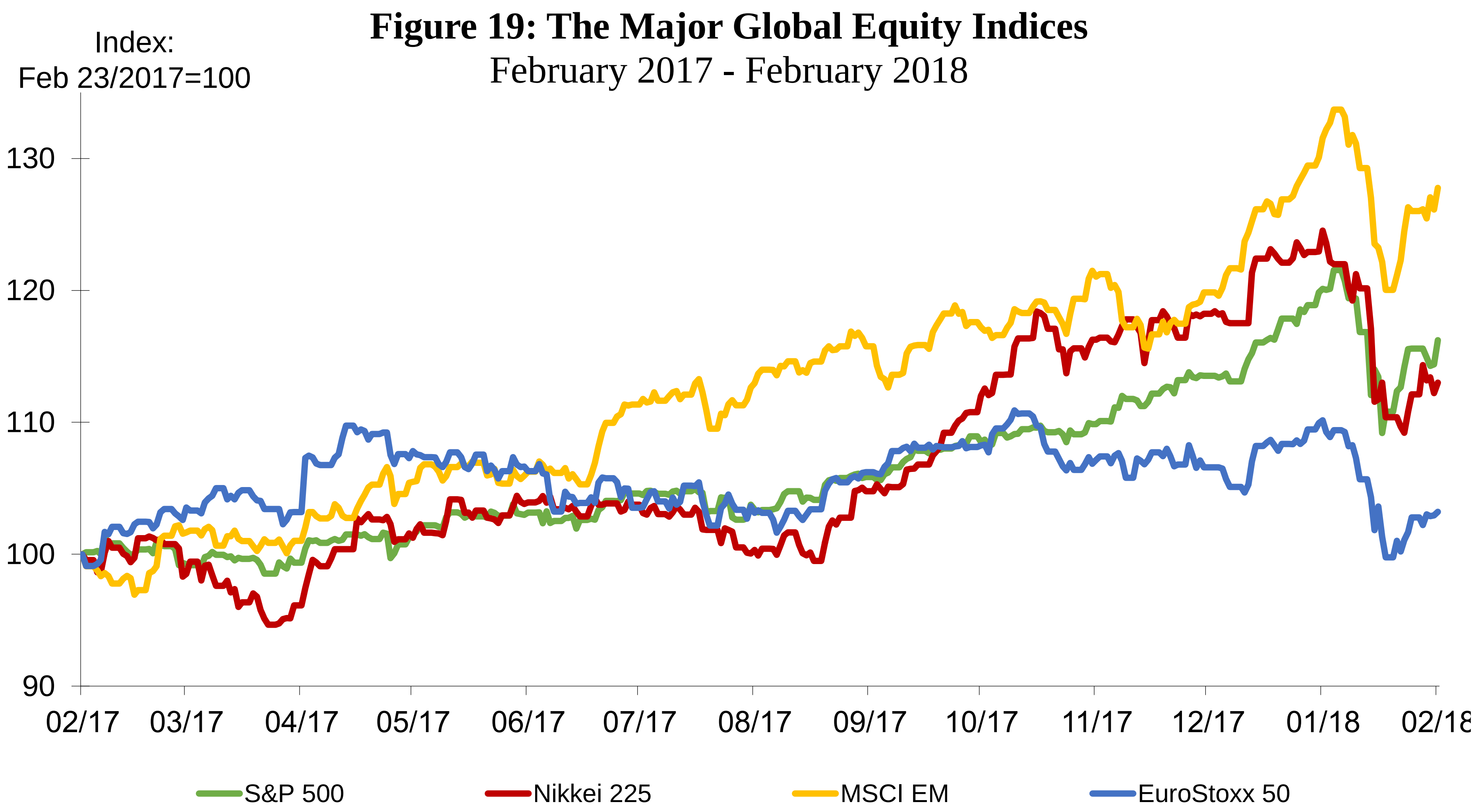
SOURCE: IMF

Momentum in world trade is maintained.

Figure 18: Annual Rate of Change in Global Trade in Commodities
January 2013 - December 2017



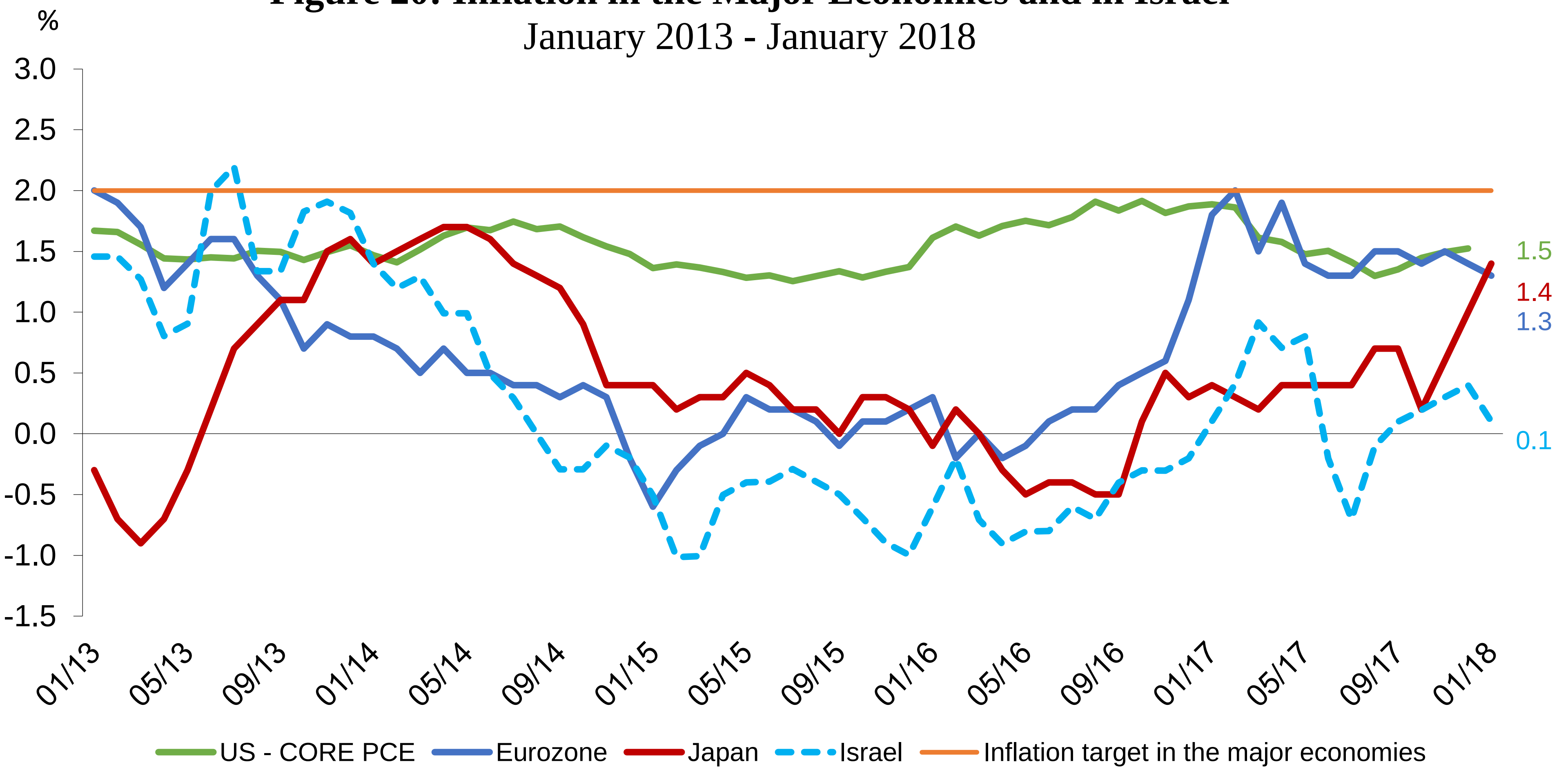
The "correction" in the global stock markets has been halted for now.



SOURCE: Bloomberg.

Inflation remains below the central bank targets. Inflation in Israel is low relative to the major economies.

Figure 20: Inflation in the Major Economies and in Israel
January 2013 - January 2018

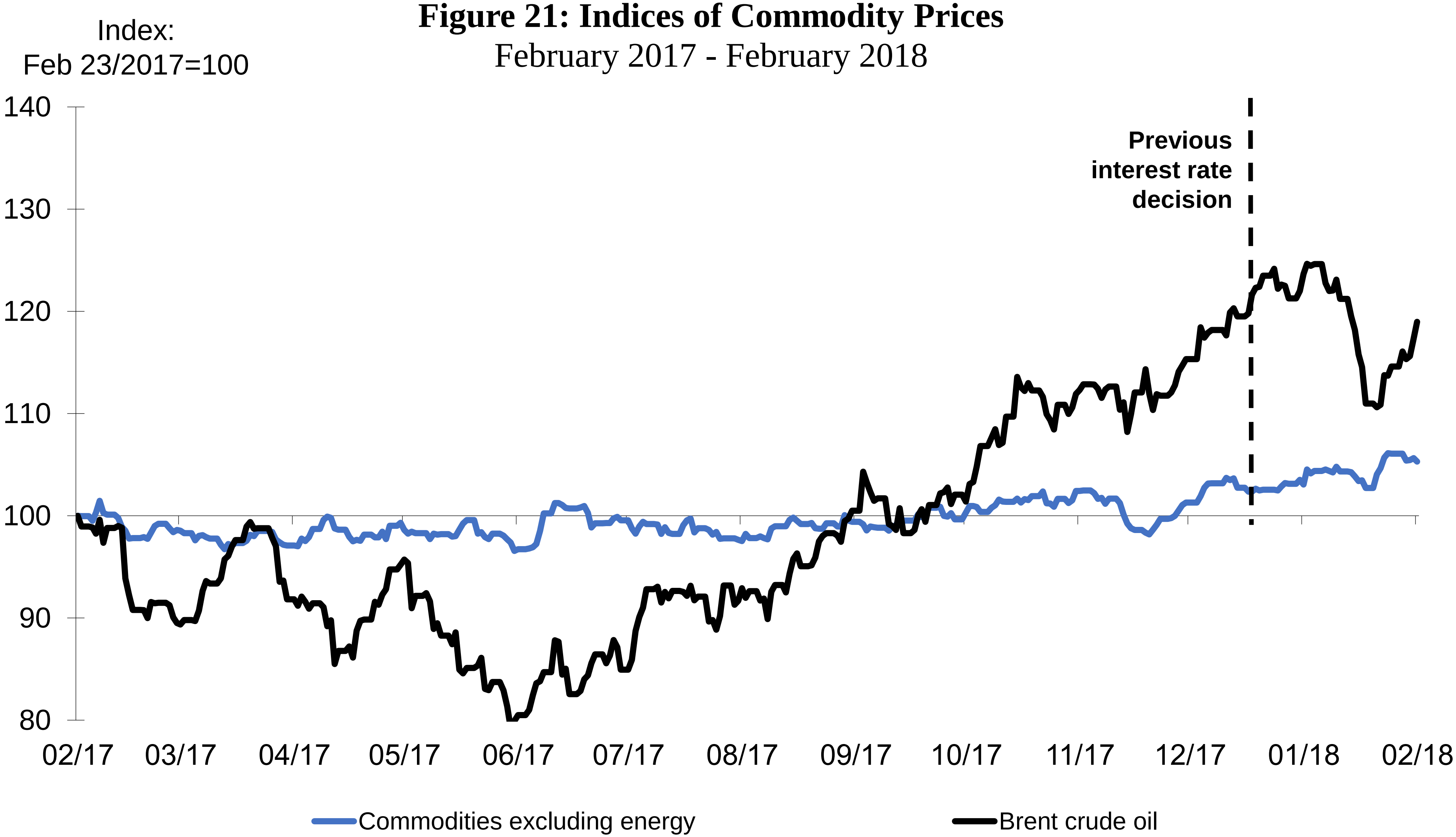


* For Japan, net of the effect of the VAT increase in 2014.
** The target in the US relates to CORE PCE.

SOURCE: Bloomberg.

Oil prices are volatile after a prolonged increase.

Figure 21: Indices of Commodity Prices
February 2017 - February 2018

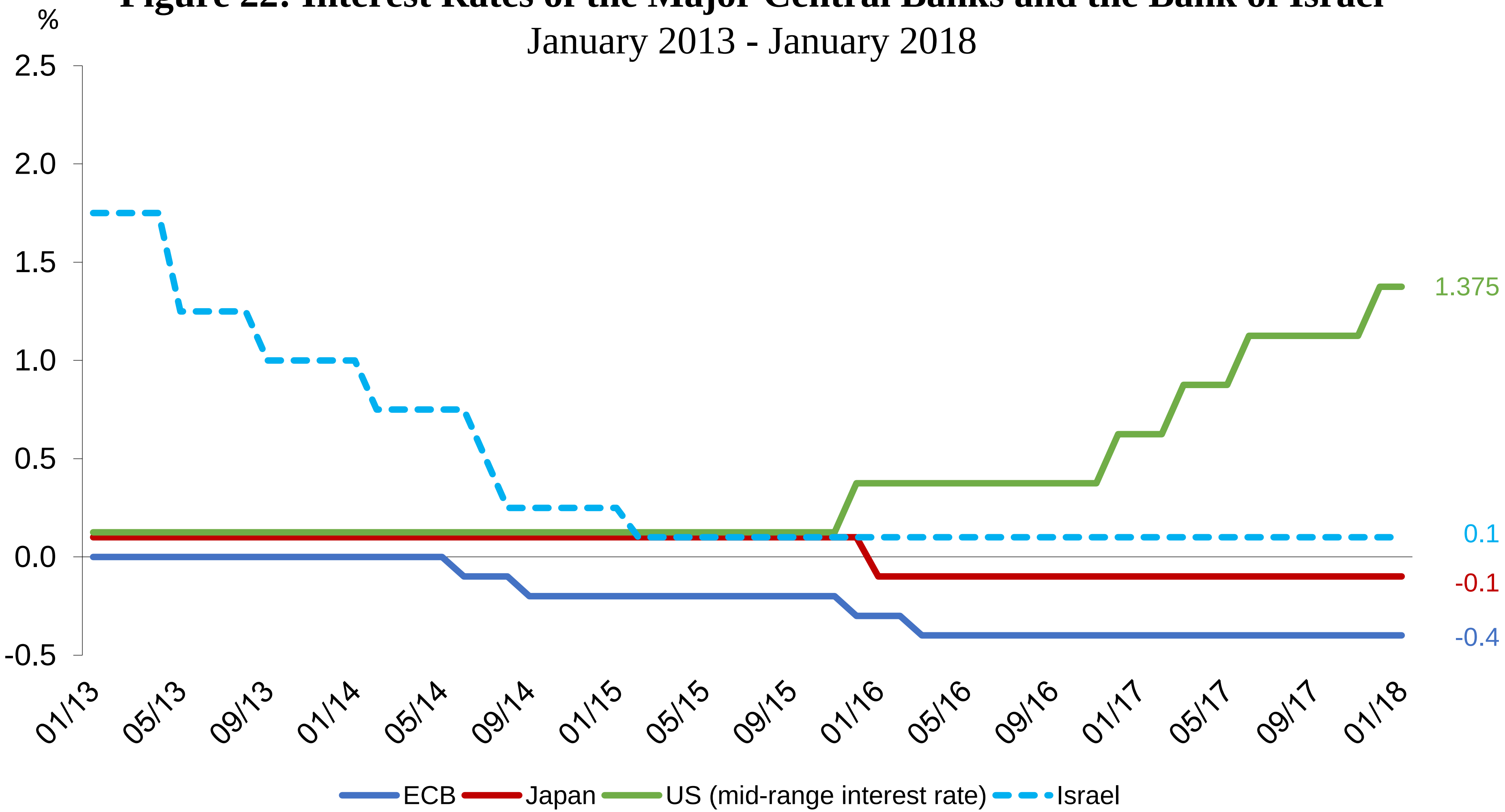


SOURCE: Bloomberg.

The interest rate increases in the US are expected to continue.

Figure 22: Interest Rates of the Major Central Banks and the Bank of Israel

January 2013 - January 2018



SOURCE: Bloomberg.