

April 20, 2025

What can explain the sharp increases in the real estate price survey?

- **The breakthrough in the negotiations with Hamas has not yet occurred, and markets are now looking for direction from the global economy.**
- **The increase in overseas travel is expected to negatively impact the revenues of local businesses. In our assessment, this will moderate economic growth in the second quarter of the year as well.**
- **Following the publication of the Consumer Price Index (CPI), inflation expectations declined significantly across all ranges and are now close to the midpoint of the inflation target range of 2.0 percent. The decline in expectations likely reflects an assessment that a trade war, which leads to global moderation, is deflationary in Israel's case. We share this assessment, although our inflation forecast for the coming year remains slightly higher- at 2.4 percent.**
- **While the markets are signaling a decline in inflation, it is reasonable to assume that the Bank of Israel will wait for actual data before deciding to reduce the interest rate. We continue to expect an interest rate of 4.0% at the end of the year.**

The breakthrough in the negotiations with Hamas has not yet occurred, and markets are now looking for direction from the global economy. Israel remains, to a large extent, a

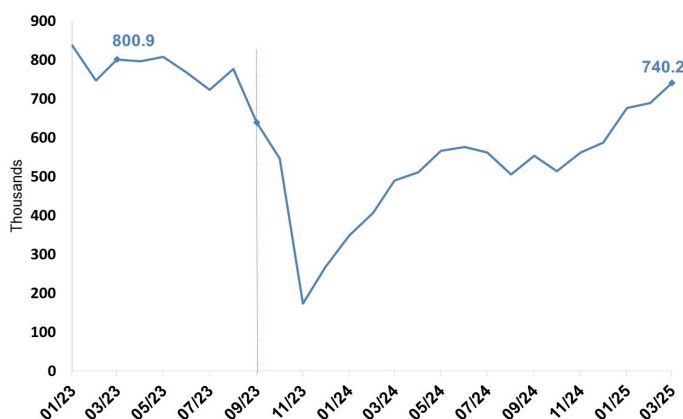
bystander in the unfolding trade war, preparing for the potential fallout without having much influence at this stage. The direction of the effects is not entirely clear. For example, one could argue that a world with tariffs between the United States and its trading partners would be more inflationary, and that inflation would eventually reach Israel as well. Conversely, a global slowdown resulting from tariff policies could lead to a decline in Israel's import prices - particularly since Israel is not directly involved in these tariffs. These conflicting possibilities apply across nearly every financial parameter at this point in time.

In March, the number of Israelis traveling abroad was only 7.5% lower than during the corresponding period two years before the war, and it is reasonable to assume that the gap closed during the Passover holiday. **The increase in overseas travel is expected to reduce the revenues of local businesses, and we believe this will also moderate economic growth in the second quarter.**

The Consumer Price Index (CPI) for March rose by 0.5 percent (compared to our forecast of 0.4 percent), with the annual rate moderating slightly to 3.3 percent. Rental prices in the CPI (OER) recorded a sharp monthly increase of 1.2 percent, amounting to a 3.9 percent rise over the past year. Service prices continued to climb rapidly: home assistance rose by 6.0 percent over the past year, repairs and renovations by 4.7 percent, and restaurants by 5.1 percent. **Following the CPI publication, inflation expectations dropped across all ranges and now align closely with the 2.0 percent midpoint of the**

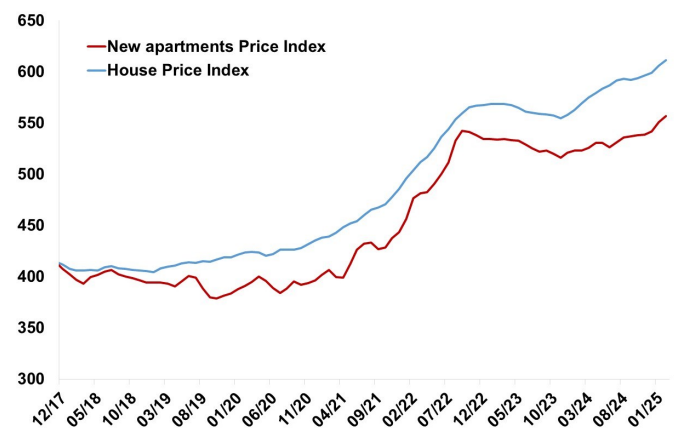
The number of Israelis traveling abroad has increased sharply

Travel abroad, Monthly data, S.A
Source: CBS



What can explain the increase in home prices?

House Price Index
Source: CBS



inflation target range. This likely reflects the view that a trade war, by slowing global activity, is deflationary for Israel. We agree with this view, although we still project inflation at 2.4 percent for the coming year. First, there is still uncertainty as to whether the negative scenario will unfold, and second, we believe the inflationary pressures in the economy are not diminishing quickly—especially while employment remains high (labor market tight) and economic expansion continues.

What explains the sharp price increases in the Central Bureau of Statistics' real estate price survey? Home purchase prices (both new and second-hand) increased by 0.9 percent in January–February compared with the December–January average, and by 7.5 percent over the past year. New home prices also rose significantly - by 6.4 percent year over year. This acceleration in housing prices has been rather astonishing for those who following this sector closely, especially considering the low volume of transactions in recent months and the large inventory of unsold apartments. In the case of new homes, one explanation is that the CBS data is based on sale prices reported to tax authorities and does not take into account financing terms offered by developers. In other words, if most of the apartment's price is paid at the time of delivery - without linkage or interest—in reality, this reflects a considerable discount. While this argument is plausible, it does not explain why second-hand apartment prices have increased even more. In our view, second-hand apartment prices may also have increased due to other factors. The Central Bureau of Statistics assesses apartment prices based on characteristics such as size, loca-

tion, floor, and year of construction. However, it does not factor in the redevelopment potential from urban renewal projects like Pinui-Binui (TAMA projects). A three-room apartment in an old building without an elevator, slated for demolition, is often priced based on the expected value of the upgraded apartment it will be replaced with following eventual renewal. In CBS surveys, however, it is still compared to an equivalent existing apartment. As urban renewal becomes more widespread, it is possible that this leads to an upward bias in the measurement of second-hand apartment prices.

The markets are signaling a decline in inflation, but it is likely that the Bank of Israel will wait for more concrete data before reducing interest rates. Inflation over the past year remains above the target range, and the full impact of the trade war is still uncertain. We believe that, in our central scenario, inflation will approach about 2 percent y/y in the summer months. Given that inflation expectations are already at the midpoint of the target range, we assume this will be sufficient for a rate cut. We still anticipate an interest rate of 4.0% at year -end.

BOI Rate and CPI Forecast			
BOI Rate		CPI	
December 2025	4.00%	April 2025	0.7%
12M Forecast	4.00%	May 2025	0.1%
		12M Forecast	2.4%

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