

March 09, 2025

Trump's Tariff Pendulum

- **Markets in Israel, which have already experienced more difficult and complex events in the past year, are now more affected by global economic developments.**
- **A decline in household consumption at the beginning of the year followed the wave of purchases in the fourth quarter before the tax increases. At the same time, the level of consumption remains rather high.**
- **The labor market remains tight, with a shortage of workers in the services and manufacturing sectors; while higher wages are a factor that is delaying the decline in inflation.**
- **In Israel, the markets are still factoring in two interest rate cuts to 4 percent by the end of the year, which would bring rates 0.25% higher than expectations for Fed rates – a situation we have not seen in the past ten years.**

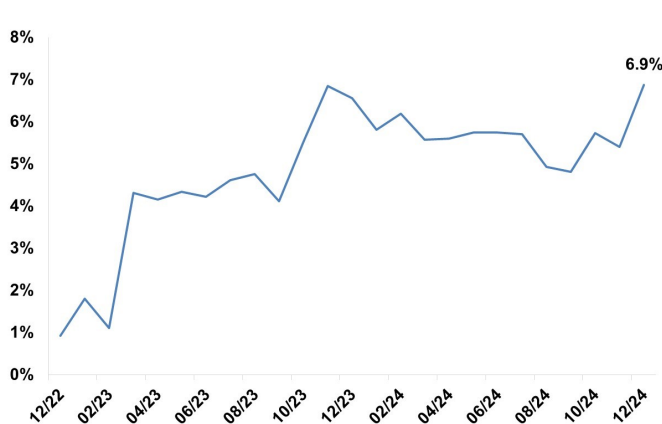
We have many critical political decisions in the coming weeks, including whether there will be a transition to the second stage of the agreement with Hamas; the fiscal budget must be approved by the Knesset by the end of

the month; and there is a renewed attempt to oust the attorney general. **Markets in Israel, which have already experienced more difficult and complex events in the past year, are now more affected by global economic developments.** Trump delivers news on a daily basis, and even events in Germany are no longer “boring”, with a decision to break the long-standing tradition of maintaining a zero budget deficit.

A decline in household consumption at the beginning of the year followed the wave of purchases in the fourth quarter before the tax increases. At the same time, the level of consumption remains rather high. In February, the Consumer Confidence Index reached its highest level in about two and a half years. In our assessment, the increase in consumer confidence was affected, among other factors, by the improvement in the security situation due to the implementation of the first phase of the agreement with Hamas and the return of the hostages. This positive development offset the impact from the negative trend in financial markets, as well as on the acceleration in inflation, which has eroded household purchasing power. Credit card purchases declined by 1.4 percent in January compared to December, which had been characterized by a large advance in purchases before the VAT increase. Nevertheless, the fig-

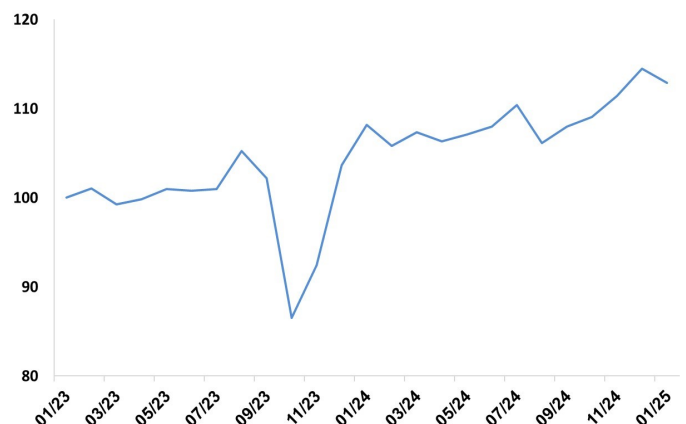
Wage growth remains rapid

Average Wage, 24 month rate of change annualized
Source: CBS



Private consumption has moderated but remains elevated

Credit card purchases index, S.A, Jan 2023=100,
Source: CBS



ure for January is still high, indicating strong consumption.

Wage data for December 2024 still reflect a rapid rate of expansion in wages in the economy. In the past two years, the average wage has increased by an annual average of 6.9 percent. A preliminary estimate for wages in January indicates a significant slowdown in wages, but in our assessment, there is a lot of background noise, and it is difficult to rely on this figure. **In our assessment, the labor market remains tight, with a shortage of workers in the services and manufacturing sectors; while higher wages are a factor that is delaying the decline in inflation.**

The shekel weakened by 2.2 percent against the basket of currencies last week. The weakening of the shekel is explained by the decline in the US stock markets, but in the long run, domestic factors such as the state of war and the fiscal budget will have a greater impact on the direction of the exchange rate.

The economic environment in Israel has become different from that of the United States and Europe, and the question is whether monetary policy will decouple as well. Growth in the United States is beginning to moderate, and in Europe, it is already depressed. It is possible, and perhaps even likely, that this trend will impact Israel as well, but in the meantime, the consumption data is

positive and the labor market remains tight. Inflation in Israel is already higher than in the United States and Europe – but this is due to higher taxation in January. Nevertheless, tax increases are not something that can be ignored in the calculation as they are part of the effects of the war. The markets began to factor in three interest rate cuts this year in the US – in other words, policy rates of 3.75% at the end of the year. In Europe, rates have declined to 2.5%, and markets are factoring in between two and three more cuts by the end of the year. **In Israel, the markets are still factoring in two interest rate cuts to 4 percent by the end of the year, which would bring rates 0.25% higher than expectations for Fed rates – a situation we have not seen in the past ten years.**

BOI Rate and CPI Forecast			
BOI Rate		CPI	
December 2025	4.00%	Feb 2025	0.3%
12M Forecast	3.75%	Mar 2025	0.4%
		12M Forecast	2.3%

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