

May 05, 2025

Attention Returns to Local Developments

- The market attention is rapidly shifting from global to local developments.
- As seen globally, economic activity in Israel is also proving surprisingly resilient, despite challenging local and global conditions.
- We believe that recent global developments have the potential to break the inflation spiral witnessed in recent months.
- The stock of unsold apartments continues to rise, reaching approximately 78,000 units as of February.

The market attention is rapidly shifting from global to local developments. This comes amid growing regional instability, including preparations for an expansion of the conflict in Gaza, attacks in Syria, and a missile landing near the airport, reportedly launched from Yemen. Additionally, wildfires in the Jerusalem area further clouded the atmosphere during Independence Day. Despite these tensions, the country's risk premium remains relatively stable at around 150 basis points for a ten-year term (based on government bonds). Thousands of reservists have been mobilized to meet operational demands. Alongside these security challenges, a slowdown in economic activity is expected- driven by both tax hikes and price increases - which will likely put further pressure on the fiscal budget.

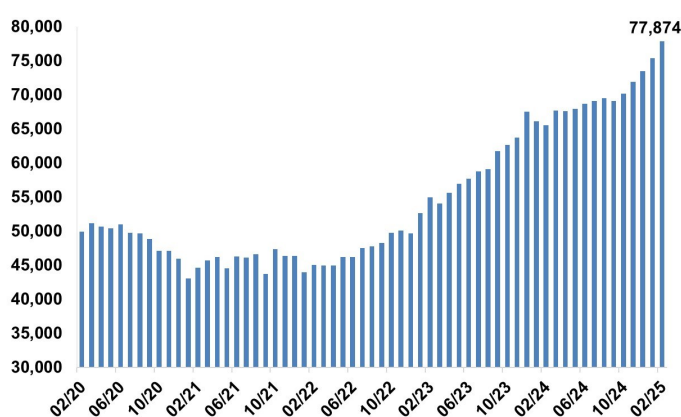
As seen globally, economic activity in Israel is also proving

ing surprisingly resilient, despite challenging local and global conditions. Credit card purchases grew by an average of 1.5% in the first quarter compared to the previous quarter. This is particularly impressive given that some spending was brought forward to December ahead of the VAT increase, and that an increasing number of Israelis are traveling abroad (whose spending is not included in this data). Israeli households are characterized by a high rate of private savings, meaning that consumption could potentially increase to compensate for income erosion. However, this savings cushion is not evenly distributed. Lower-income households have already experienced significant erosion, making it reasonable to expect a negative impact on overall household consumption in the coming months.

In the short term, inflationary momentum continues, with more companies- especially in the food sector- raising prices. The Consumer Price Index (CPI) for April is expected to increase by 0.7%, and we will likely revise the May forecast to a 0.2% increase. **We believe that recent global developments have the potential to break the inflation spiral witnessed in recent months.** The risk of a U.S. recession - heightened by ongoing trade tensions - is weighing on commodity prices. For example, gasoline prices have dropped sharply in Israel, which may reduce CPI figures for May and possibly June. In addition, U.S. tariffs on Chinese goods could indirectly lower the prices of Chinese imports in Israel. The labor market remains robust, though wage growth has slowed: wages in February were just

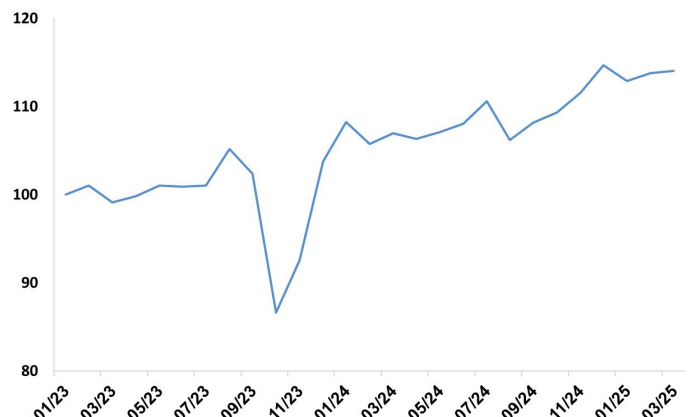
The number of unsold housing units hits record level

Stock of unsold homes , Unit per month, S.A
Source: CBS



Credit card purchases continue to increase

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



2.2% higher than a year earlier. Inflation expectations are now close to the midpoint of the target range, which should also help curb actual inflation. We continue to forecast 2.4% inflation over the next 12 months, but the risks are currently skewed in both directions. A potential U.S. recession could lead to lower-than-expected inflation.

The stock of unsold apartments rose to around 78,000 units in February—an increase of roughly 12,000 units over the past year.

A decline in the number of transactions has pushed the months-of-supply ratio (inventory relative to the number of sales) to 24, meaning the current inventory could satisfy two years of demand at current sales rates. Internationally, this is considered high. However, Israel presents unique circumstances. First, the current sales pace is unusually low and doesn't reflect long-term demographic needs. If the number of sales was to return to the levels seen a year ago, the months of supply ratio would drop to 20. Second, construction duration in Israel is lengthy. Much of the current inventory consists of apartments still in the early stages of construction, and due to labor shortages, many of these units may take three years or more to complete. Buyers may be reluctant to purchase apartments with long delivery timelines. As unsold inventory continues to grow, the likelihood of further price increases diminishes. A more significant effect may be felt in the price of land. Developers holding unsold inventory are less likely to bid aggressively for new land, potentially slowing land price inflation or even reversing it.

BOI Rate and CPI Forecast			
BOI Rate		CPI	
December 2025	4.00%	April 2025	0.7%
12M Forecast	3.75%	May 2025	0.1%
		12M Forecast	2.4%

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