



**Monthly Review of the State of the Economy
April 2013**

Principals

Economic developments in the economy were positive, as reflected in the data published in the past month. An improvement was recorded in most areas of activity, most noticeably in the current indexes of real activity, the export of goods and the public's confidence - which was particularly evident in the Procurement Managers Index.

Positive Aspects

- **Real activity: the real economy in January recorded a significant increase in Industrial Manufacturing and Turnover Indexes in all sectors of the economy.** The Industrial Manufacturing Index increased by 6.1% in January following the sharp drop recorded in December. At the same time, the Turnover Index recorded a 1.2% increase for all sectors of the economy. Contrarily, the Retail Chain Sales Index decreased by 0.4% in February following the upward trend recorded in previous months.
- **Tax collection: tax collection rose in comparison to February.** Total tax collection in March (seasonally adjusted and at fixed prices) increased by 4.3% compared to February. The increase stemmed from a 6.6% rise in the collection of direct taxes, while no significant change was recorded in the collection of indirect taxes. Nevertheless, total tax collection in the first quarter of 2013 was low relative to the tax collection in the fourth quarter of 2012.
- **Foreign trade: after declines in the preceding months, February recorded an increase in the export of goods, which resulted in a slight reduction in the trade deficit.** The exports of goods (excluding ships, aircraft and diamonds) recorded a steep increase of 8.1% in February following several months of declines. The increase in the exports of goods was due mainly to the 20.8% rise in the export of high-tech industries, including a strong increase in the exports of pharmaceuticals, at the rate of 53.2%. The exports of traditional and mixed traditional industries decreased by 0.8%. An examination of the trading partners shows a decrease in the exports of commodities to the United States compared to a steep rise in exports to Europe. Contrary to the increase in the exports of goods, the exports of services recorded a decrease of 4.7% in January. At the same time, the imports of goods (excluding ships, aircraft and diamonds) surged by 5.5% in February. The increase in imports of goods was due mainly to the increase in the imports of fuels, whereas a reduction was recorded in the imports of consumption goods and in the imports of raw materials, excluding



diamonds and fuel. Accordingly, the imports of goods, excluding ships, aircraft, diamonds and fuels, recorded a decrease of 3.1%. As a result of these developments, the trade deficit (excluding ships, aircraft and diamonds) diminished by 1.7% in February. Furthermore, the number of incoming tourists grew in February, following four consecutive months of reductions on the backdrop of Operation Pillar of Defense. The real exchange rate of the NIS revalued by 0.9% in February, in line with the ongoing revaluation recorded in recent months.

- **The labor market: the labor market recorded a significant improvement in February, despite a slight increase in the rate of unemployment to 6.7%.** In February, the rate of participation by Israelis increased by a significant 0.7 percentage points, to a high level of 64.2%. The increase in the rate of participation was evident in a steep rise of 34.4 thousand in the number of employed, alongside an increase of 7.6 thousand in the number of unemployed. The increase in the number of employed in February was reflected in the number of full-time employed, which was partly set off by a decrease in the number of part-time employed.

The higher number of unemployed resulted in an increase of 0.2 percentage points in the rate of unemployment. However, this increase occurred due to the rise in the participation rate. The rate of unemployment in the Israeli economy remains among the lowest in the Western world. The number of jobs grew by about 30 thousand in February, following a negligible increase of about 0.3 thousand jobs in January.

- **The capital market: a positive trend was recorded in capital market activities in March.** This included increases in stock indexes similar to developments in the world's leading stock indexes. Additionally, the corporate bond market recorded moderate increases in indexes¹ while February saw a relatively high volume raised. Furthermore, the average yield on marketable corporate bonds (about 600 series) decreased somewhat in March, following a more significant decline in February. Nevertheless, the number of series of corporate bonds continues to drop, as does their aggregate market value.
- **Public's confidence: an improvement was recorded in the public's confidence over the past month.** In February, the Purchasing Managers Index returned to indicate an expansion in industrial activities that amounted to 53.6, after having indicated an anticipated contraction since May 2012. The increase in the index was due to the anticipated expansion of exports, the increase of inventories

¹The indexes relate to 60 series of leading linked corporate bonds and the average yield is calculated for all series of linked marketable bonds (about 500).



and the growth of manufacturing outputs. It should be noted that this is the fourth consecutive month of improvement in the Procurement Managers Index. The Consumer Confidence Index recorded an increase of 1.8% in February. The index remained stable over recent months and its current level is similar to its average level in 2012.

Unchanged

- **Price stability: the rate of inflation in the Israeli economy remains below the mid-point of the inflation target. The Bank of Israel has not changed the market interest rate.** The Consumer Price Index remained unchanged in February following the surprising downturn that was recorded since September 2012 (with the exception of the increase in December 2012). Simultaneously, significant reductions were recorded in the housing,² and clothing and footwear items, which opposed a significant increase in the food item. The Consumer Price Index has increased by 1.5% in the past 12 months. On the other hand, the inflation expectations derived from the capital market continued to rise, reaching 2.8% in March, an increase of 0.2 percentage points compared to February, after an expected inflation rate of 2.4% in January. Nevertheless, the Bank of Israel notes that the data of the inflation expectations derived from the capital market are upward biased, and amount to only about 2.0% seasonally adjusted.

The Bank of Israel has maintained the interest rate for April and May (which was determined at the end of March) at the same level of 1.75%. The interest decision was influenced by a variety of factors, including the improvement in the economic activity during January-February, the real revaluation of the NIS, the rate of inflation that remains below the mid-point of the Bank of Israel's inflation target, the developments in the real estate market, the uncertainty surrounding the State Budget for 2013-2014 and the instability of global economy.

The unchanged interest rate, alongside the increase in the inflation expectations, contributed to the ongoing decrease in the real interest rate, which has been recording negative levels over the past few months.

- **Global indicators that are relevant to Israel: the developments in the global economy in recent months were primarily positive; the acute financial crisis in Cyprus and the political instability in Italy did not hinder the upward trend in the global stock markets.**

²It should be noted that, unlike the housing item, the Housing Index of the CBS (which is not included in the Israeli consumer price index) has recorded renewed acceleration in recent months.



Real Estate Sector in February 2013

The number of apartments purchased in February declined by 4.3% compared to preceding month.

Real Activity	+	
Taxation	+	
Foreign Trade	+	
Labor Market	+	
Price Stability	=	
Capital Market	+	
Relevant Indicators	Global =	
Public's confidence	+	

- * Minus/plus indicates the direction of the change in the relevant area as compared to the beginning of the year. = signifies a similar situation, or that positive and negative indicators bearing similar significance were recorded.
- ** The location on the scale is subjective and reflects the present level of activity compared to its level of activity in December 2012.
- *** A thick continuous line signifies the situation at the end of the relevant month and the thin continuous line signifies the end of 2012.



Selected data

Area	Indicator	Change in February ³	Notes
Real Activity	Gross Domestic Product	2.4%	Q4 2012 at an annual rate.
	Business GDP	2.8%	Q4 2012 at an annual rate.
	Industrial Manufacturing Index	6.1%	Data for January.
	Turnover index of all sectors in the economy	1.2%	Data for January.
	Retail Chain Sales Index	-0.4%	Seasonally adjusted, at fixed prices.
Taxation	Total tax collection	4.3%	March 2013 as compared to February 2012 (seasonally and legislation changes adjusted and at fixed prices)
	Direct taxes	6.6%	March 2013 as compared to February 2012 (seasonally and legislation changes adjusted and at fixed prices)
	Indirect taxes	0.2%	March 2013 as compared to February 2012 (seasonally and legislation changes adjusted and at fixed prices)
Foreign Trade	Export of goods	8.1%	In dollar terms, excluding ships, aircraft and diamonds.
	Export of services	-4.7%	Data for January.
	Export of goods and services	-1.6%	Data for January.
	Import of goods	5.5%	In dollar terms, excluding ships, aircraft and diamonds.
Labor Market⁴	Unemployment rate	6.7% (5.7%)	Ages 15+. The data in parentheses relate to ages 25-64.
	Participation rate	64.2% (79.4%)	Ages 15+. The data in parentheses relate to ages 25-64.
Price Stability	Consumer Price Index	100.3	
	Consumer Price Index in the past 12 months	1.5%	
	Inflation expectations	2.6% (2.8% in March)	February, one year forward.
Capital Market	Tel Aviv 100	1.6%	March average as compared to February average.
	Tel Bond 60	0.4%	March average as compared to February average.
	Total issuances	-59.8%	February, at fixed prices.
Leading Global Indicators	S&P 500	2.5%	March average as compared to February average.
	Growth forecast for the United States	2.1%	For 2013, consensus projection in March.
	Growth forecast for the Euro Area	-0.5%	For 2013, consensus projection in March.
public's confidence	Purchasing Managers Index	53.6	An index above 50 reflects anticipation for the expansion of activity in the industry. Seasonally adjusted.
	Consumer Confidence Index	1.8%	Seasonally adjusted. February.

³Unless otherwise indicated in the notes.

⁴Based on the new estimate method of the CBS.