

Weekly Macroeconomic Review

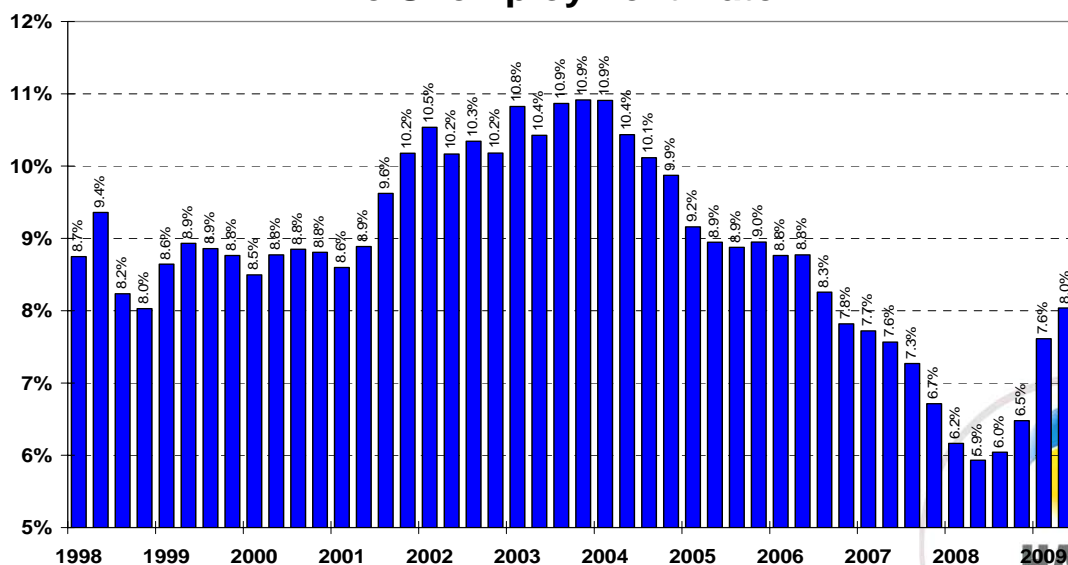
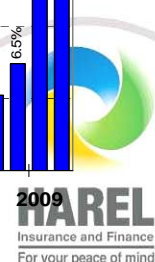
September 1, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.7% in August 0.0% in September
Future cumulative inflation – next 12 CPIs (through July 2010 CPI)		2.7%
Inflation through July 2011 CPI (average annual rate)	2.5%	2.4%
Bank of Israel interest rate, 6 months ahead	1.90% (up 1.15)	1.50%
Fed interest rate, 6 months ahead	0.40% (up 0.15)	0.40%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.46% (up 0.28)	5.46%
Yield on US Treasury 10-Year bond, 6 months ahead	3.63% (up 0.23)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.79 (unchanged)	NIS 3.79 (unchanged)

Israel

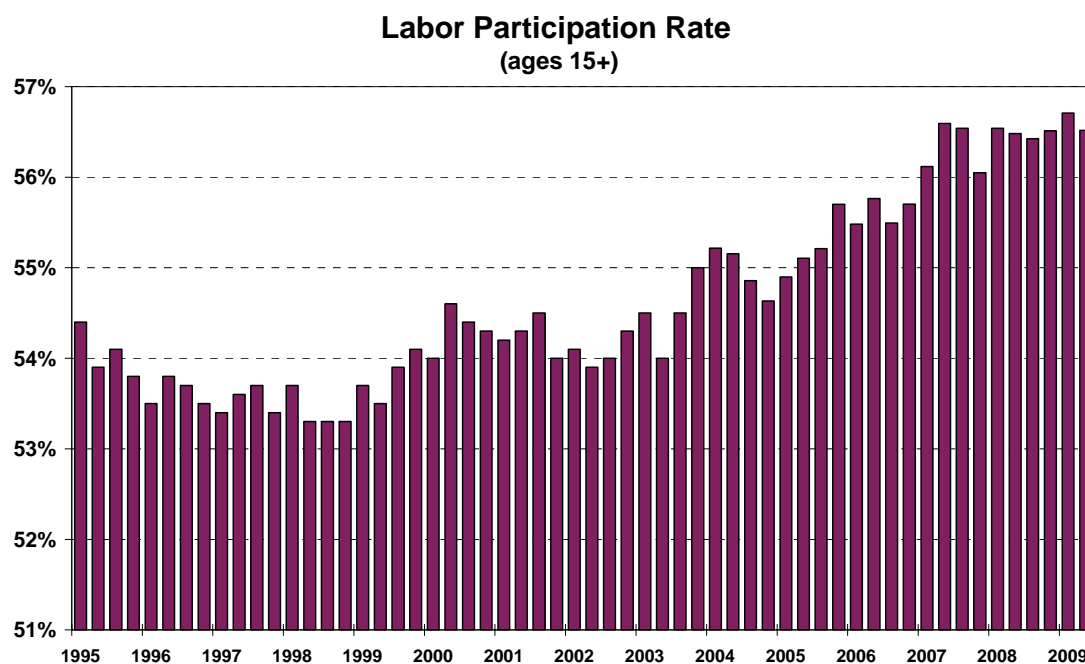
The unemployment rate rose to 8.0 percent in the second quarter of 2009, from 7.6 percent in the preceding quarter and the low of 5.9 percent four quarters ago.

The Unemployment Rate

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The increase in unemployment (by more than 2 percentage points over the last year) has contributed to a decrease in inflationary pressures, both through demand for products and through more moderate wage demands from workers, and has supported the continuation of the Bank of Israel's expansive monetary policy. This is one of the reasons for our estimate that the implied expectations in the bond market of an increase in the BOI interest rate by about 1 percentage point within six months and two percentage points within twelve months are slightly excessive.

The **workforce participation rate** decreased to 56.5 percent, versus 56.7 percent in the preceding quarter. The considerable increase in the participation rate, which began in 2003, seems to have ended in 2007; since that time, this rate has remained stable.

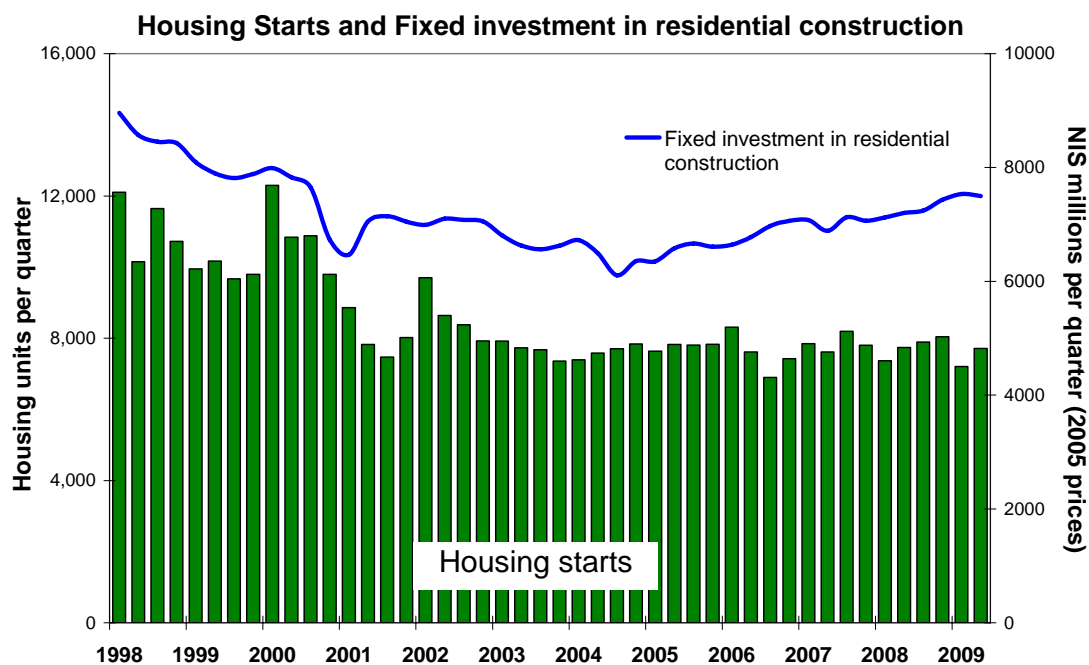


The decline in the number of employed persons in the second quarter stemmed entirely from a 1.4 percent decrease in the number of employees in the **public-service sector**, while the number of employees in the **business sector** remained stable.



The number of new homes sold decreased by 6 percent in July, but increased by 10 percent in the twelve months ended in July; most of the increase occurred in the first half of 2009. The number of homes for sale also decreased, by 6 percent in July and by 25 percent in the twelve months ended in July. This figure may point to further upward pressures on housing prices.

By contrast, **construction starts** increased by 7 percent in the second quarter of 2009, following a 10 percent decrease in the preceding quarter. The increase in housing prices may have begun to affect construction starts, contributing to the growth.



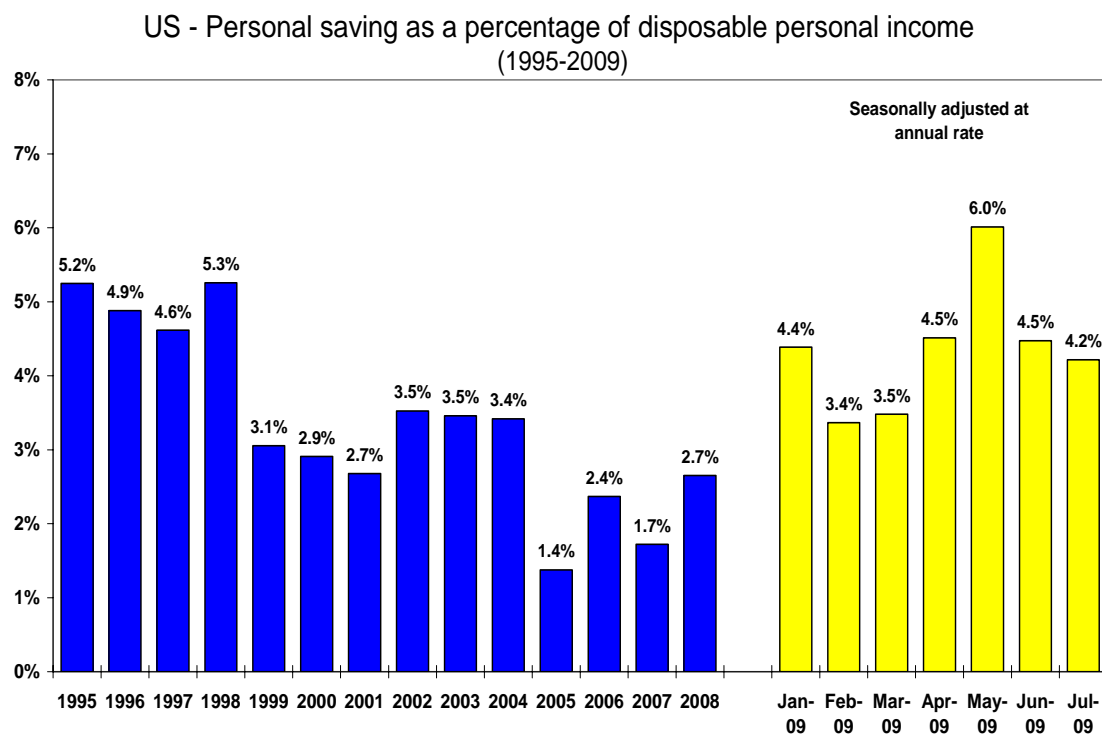
United States

The publication of positive figures in the housing market continued over the last week. **Sales of new homes** grew by an impressive 9.6 percent, while data for previous months were adjusted upward. The **S&P Case-Shiller index** of housing prices in twenty major US cities rose by 1.4 percent in July, following a 0.5 percent gain in June.



Real private consumption increased by 0.2 percent in July, following increases of 0.1 percent in May and June and decreases of 0.2 percent in March and April. The **core PCE deflator** rose by 0.1 percent in July, slightly less than the average of the preceding months, and by 1.4 percent in the twelve months ended in July.

Households' rate of savings decreased slightly in July, to 4.2 percent.



The University of Michigan's **consumer confidence index** stood at 65.7 points in August, above the initial estimate, but lower than in June and July.

Important Announcements in the Coming Week

- Unemployment data in the euro zone and the ISM manufacturing sector index in the US will be published on Tuesday, September 1.
- An update of growth data will be published in the euro zone on Wednesday, September 2.
- The purchasing managers' index, data on retail sales, and the ECB's interest-rate decision will be published in the euro zone on Thursday, September 3. The ISM service sector index will be published in the US.
- The employment report will be published in the US on Friday, September 4.
- The Central Bureau of Statistics will publish data on jobs and average wages in the Israeli economy on Monday, September 7.

This review is posted online at www.harel-finance.co.il/macro in Hebrew
and at www.harel-finance.co.il/macro/ENG in English.

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