

Weekly Macroeconomic Review

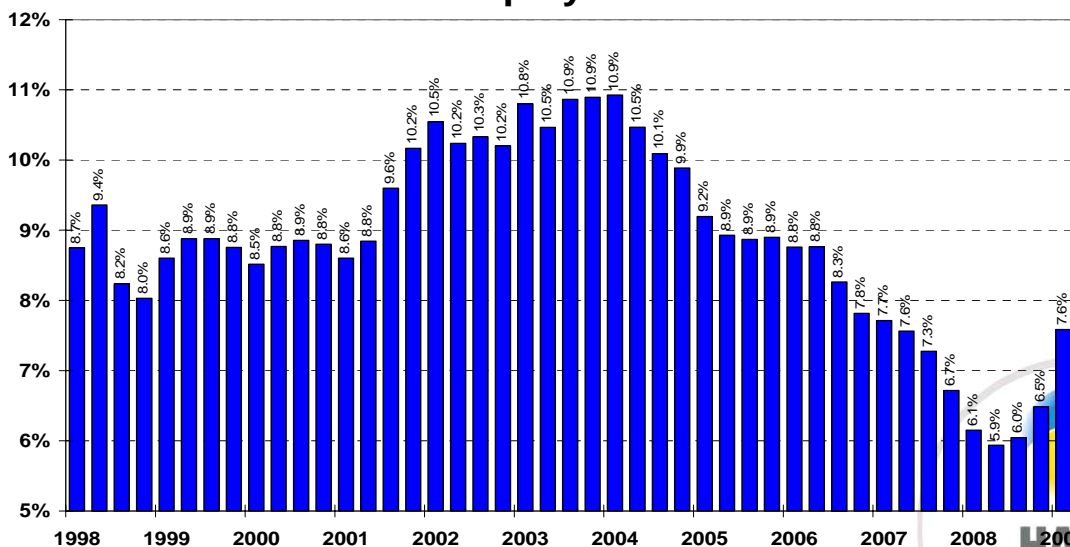
June 2, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.2% in May 0.4% in June
Future cumulative inflation – next 12 CPIs (through April 2010)		2.5%
Inflation through May 2010 CPI (average annual rate)	2.5%	2.7%
Bank of Israel interest rate, 6 months ahead	1.25% (up 0.75)	0.75%
Fed interest rate, 6 months ahead	0.25% (unchanged)	0.25%
Yield on Israeli Government 10-Year bond, 6 months ahead	6.00% (up 0.29)	6.00%
Yield on US Treasury 10-Year bond, 6 months ahead	3.85% (up 0.19)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.92 (unchanged)	NIS 4.04 (up 3.1%)

Israel

Unemployment rose sharply in the first quarter of 2009, to 7.6 percent, from 6.5 percent in the previous quarter. The number of employed persons decreased by 0.3 percent.

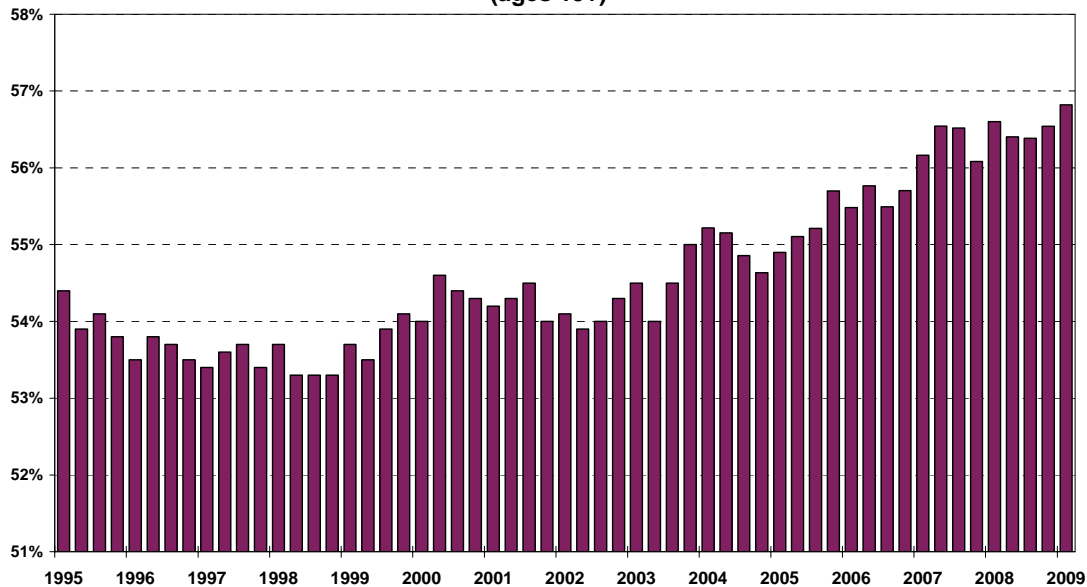
The Unemployment Rate

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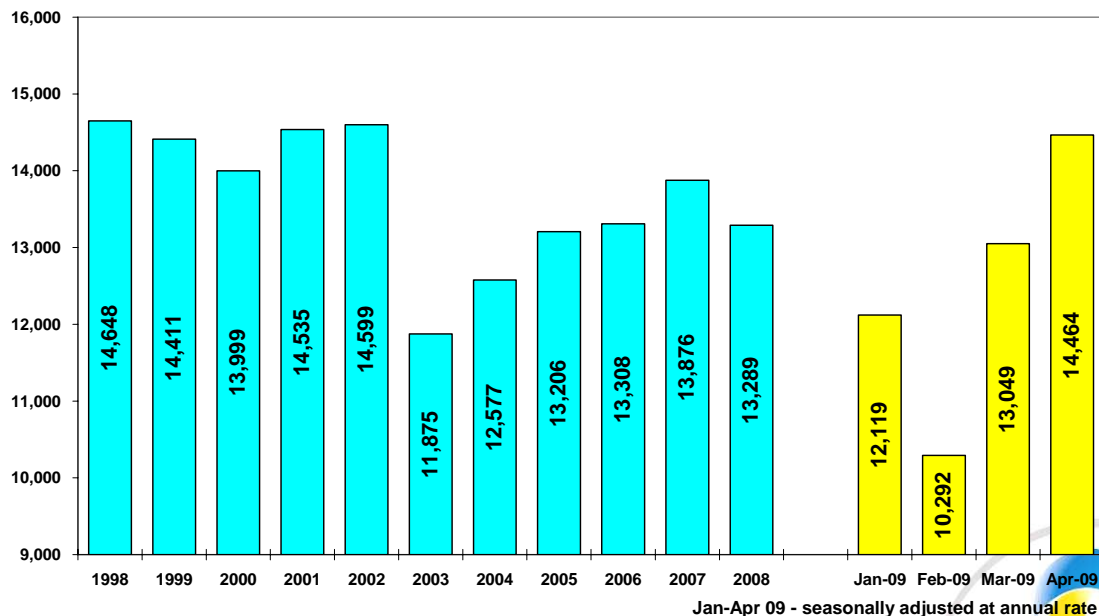
The workforce participation rate rose to 56.8 percent, from 56.5 percent in the preceding quarter. The increase was surprising given the recession, and accounts for a large part of the increase in unemployment.

Labor Participation Rate
(ages 15+)

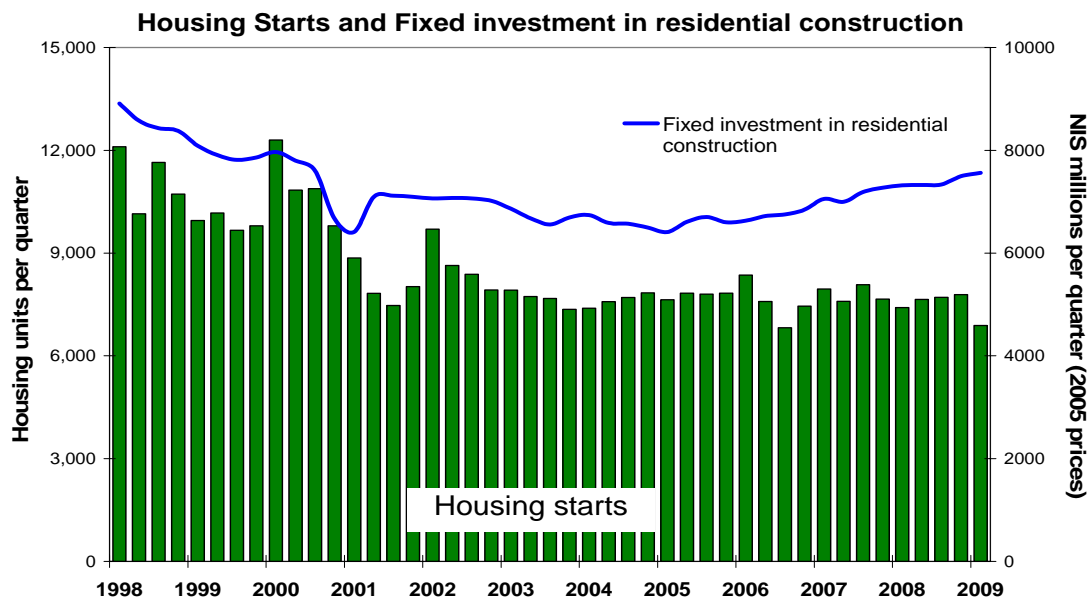


The number of new homes sold grew by 10 percent in April, and by 21 percent in the twelve months ended in April, following an upward adjustment of the previous month's data.

New Dwellings Sold During The Period

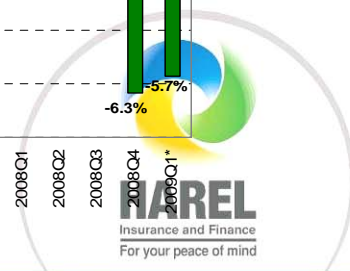
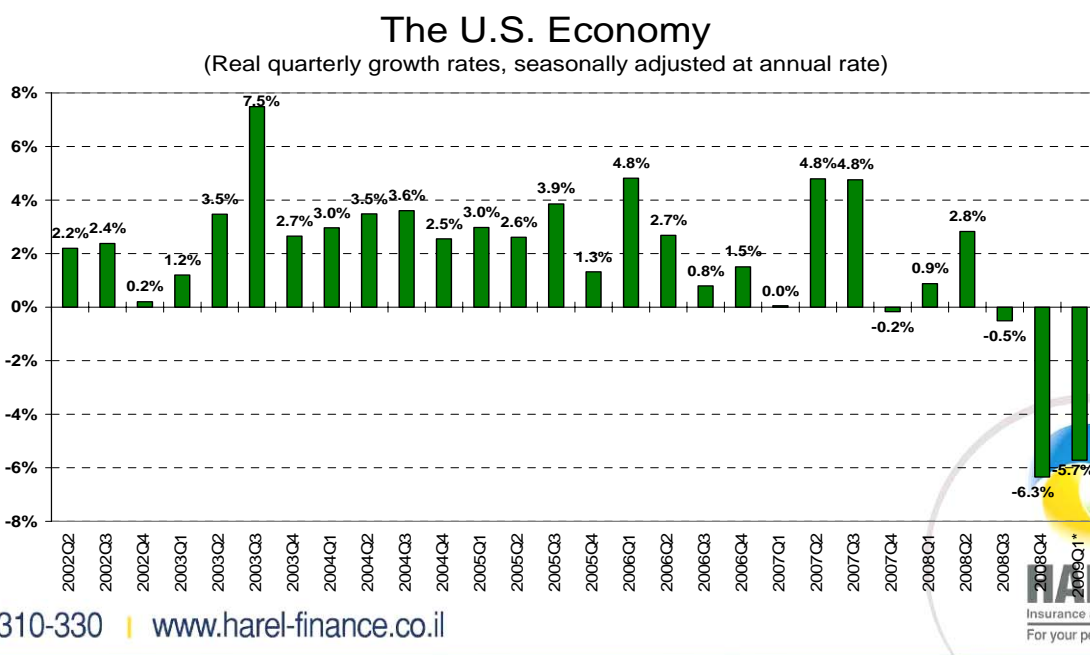


Construction starts fell sharply, by 12 percent, in the first quarter of 2009, and by 7 percent in the last four quarters. This was the steepest decline in construction starts since the third quarter of 2006 (negative 10 percent), which encompassed the war in northern Israel.

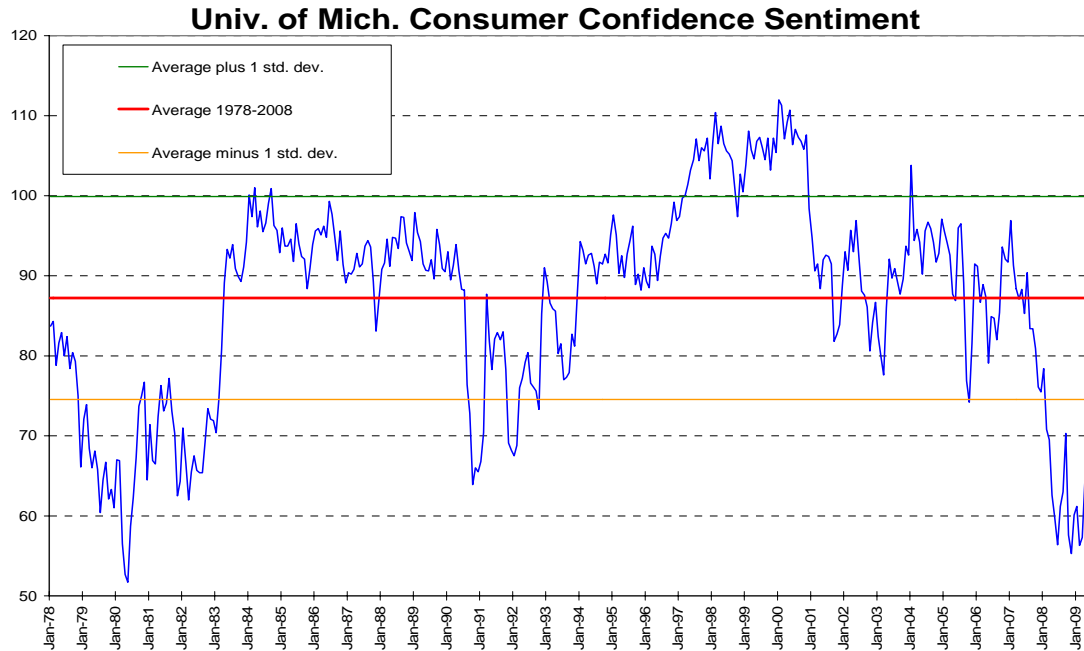


United States

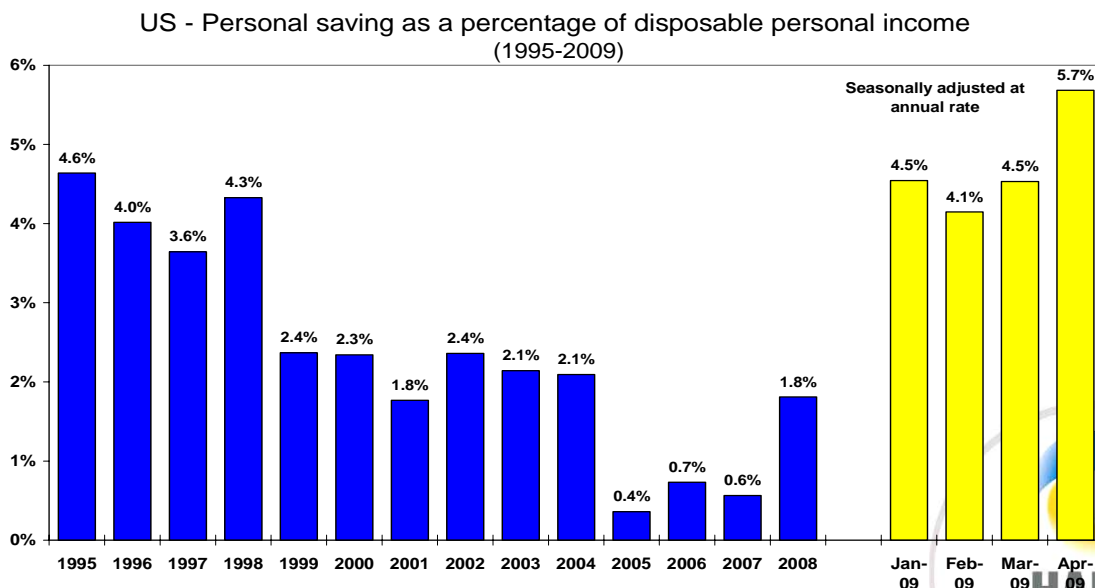
The US economy contracted by 5.7 percent, in annualized terms, in the first quarter of 2009, a slightly more moderate decline than the initial estimate and in comparison to the preceding quarter. Firms' investments and exports fell sharply, while private consumption increased at a moderate rate of 1.5 percent.



The University of Michigan's consumer confidence index rose sharply to 68.7 points in May, above expectations. The increase contributed to a leap in equity markets and oil prices.



Households' real income grew by an impressive 1.1 percent in April. By contrast, real private consumption decreased by 0.1 percent, following a 0.3 percent decrease in March. Consequently, the rate of households' savings out of disposable income rose further, to 5.7 percent in April – the highest rate of savings since 1995.



Most of the housing-market data published over the last week were weaker than expected. **Sales of new homes** remained almost unchanged in April, versus expectations of improvement. The **S&P Case Shiller index** of housing prices in twenty major US cities decreased by 2 percent in March, and was 32 percent lower than the peak of July 2006. **Sales of existing homes** increased in April, while prices continued to rise, for the fourth consecutive month, according to Realtors data.

The **ISM manufacturing sector index** reached 42.8 points in May, slightly above expectations. ISM purchasing managers' surveys have gradually improved in recent months, but the index is still below 50 points, indicating contraction.

Euro zone

Inflation stood at zero in the twelve months ended in May, according to an initial indicator, lower than expected.

Important Announcements in the Coming Week

- Unemployment rates will be published in the euro zone on Tuesday, June 2.
- Growth data in the euro zone and the ISM service sector index in the US will be published on Wednesday, June 3.
- Data on retail sales and the interest-rate decision will be published in the euro zone, and the interest-rate decision will be announced in the UK, on Thursday, June 4.
- The employment report will be published in the US on Friday, June 5.
- The Central Bureau of Statistics will publish data on average wages in the Israeli economy on Monday, June 8.



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.

Please address comments or questions to Mr. Ofer Klein at

oferk@harel-finance.co.il

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