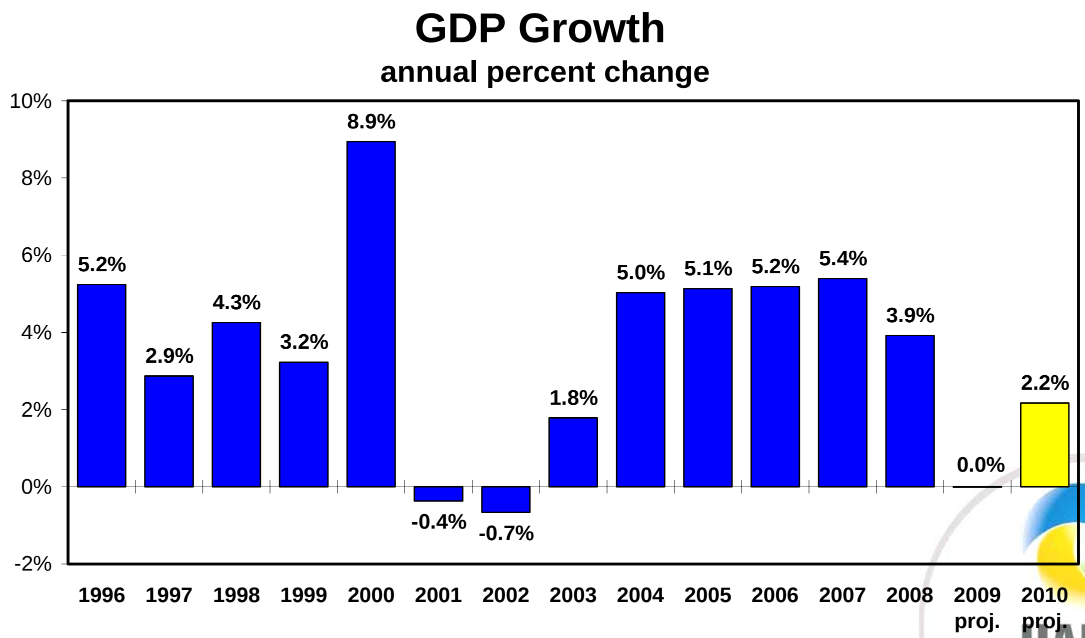
Weekly Macroeconomic Review March 3, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.2% in February 0.3% in March
Future cumulative inflation – next 12 CPIs (through January 2010)		1.8%
Inflation through May 2010 CPI (average annual rate)	0.4%	2.3%
Bank of Israel interest rate, 6 months ahead	0.80% (up 0.05)	0.75%
Fed interest rate, 6 months ahead	0.35% (up 0.10)	0.25%
Dollar exchange rate, 6 months ahead	NIS 4.20 (unchanged)	NIS 4.25 (up 1.3%)

Israel

Our growth forecast for Israel in 2009 as published in our monthly review of March 1st, now stands at zero, down from 1.8 percent three months ago. The sharp revision to our forecast stems from the steep downward adjustment of global growth forecasts and the continued declines in world capital markets.

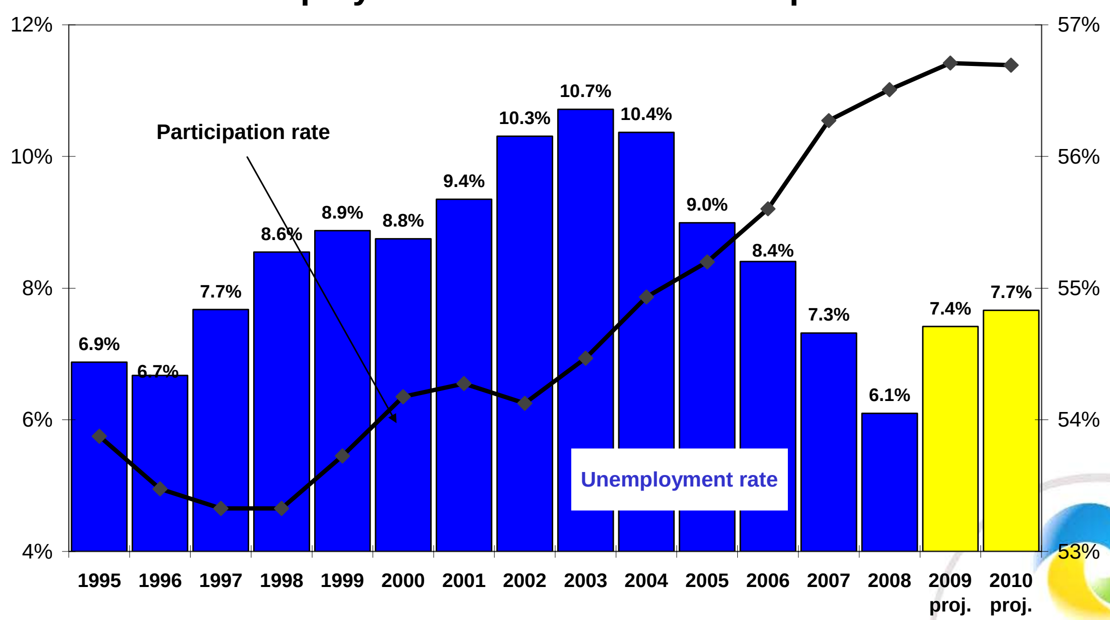


Over the last three months, growth forecasts for 2009 have been lowered from a negative 1.0 percent in December to negative 2.0 percent in the United States, and from negative 0.9 percent to negative 2.1 percent in the euro zone. The MSCI global stock index fell by 8 percent during the same period.

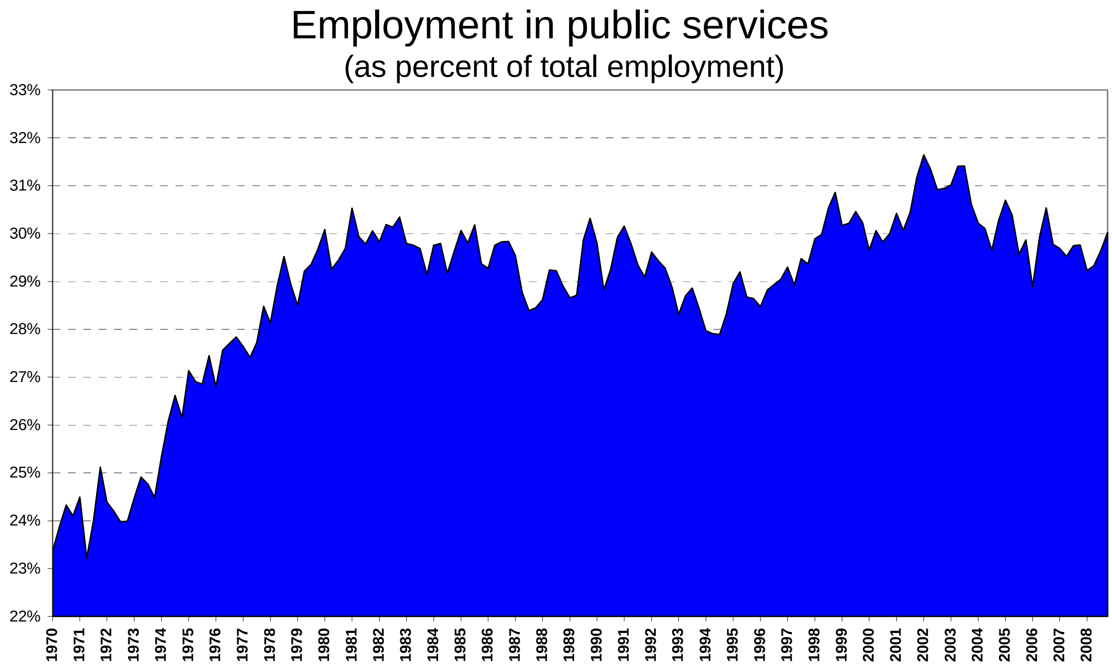
Our forecast for growth in 2010 stands at 2.2 percent. This forecast assumes, among other factors, growth rates of 1.6 percent in the US and 0.2 percent in the euro zone in 2010, in accordance with the current forecasts of the International Monetary Fund.

The unemployment rate rose to 6.3 percent in the fourth quarter of 2008, from 6.0 percent in the preceding quarter. **The workforce participation rate** grew from 56.4 percent to 56.6 percent. We expect a continued increase in the unemployment rate, to 7.4 percent in 2009 and 7.7 percent in 2010.

The Unemployment Rate and the Participation Rate



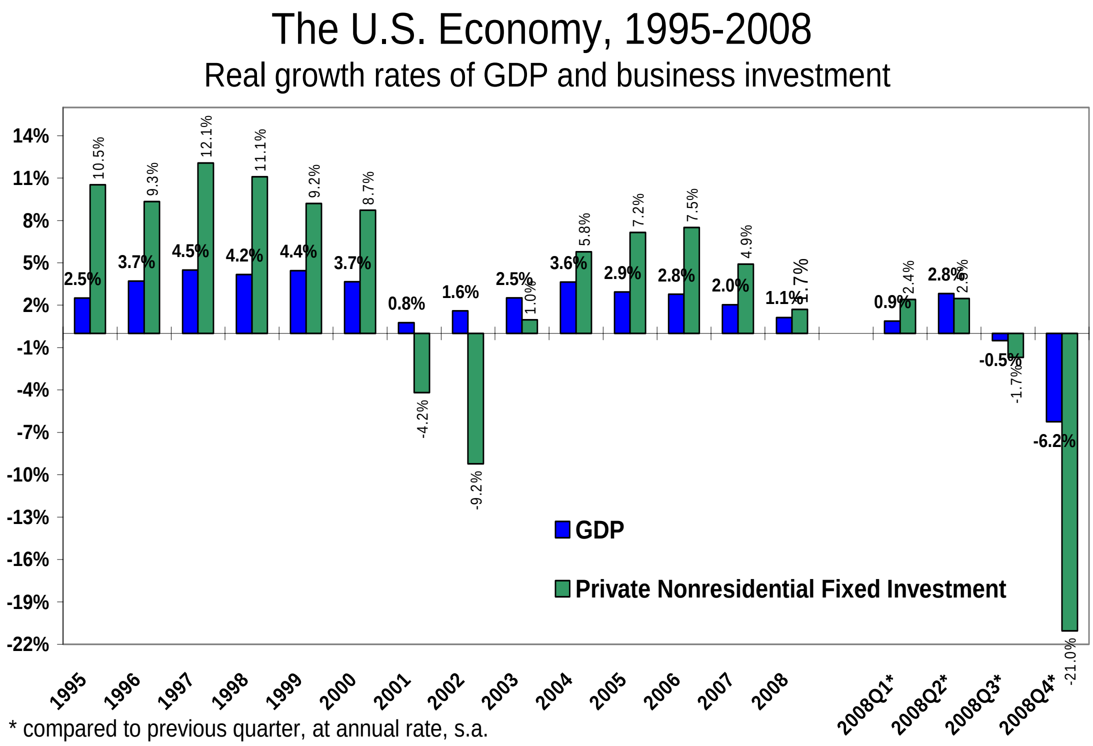
The number of employed persons increased by 0.4 percent in the fourth quarter, near the multi-year trend level. The **number of employed** persons in the **business sector** grew by only 0.5 percent, versus a 2.4 percent increase in the public sector. **Public-sector** employees as a percentage of total employed persons increased to 30 percent for the quarter.



The number of new homes sold increased by 7 percent in January, but decreased by 15 percent in the last twelve months. **The number of supply months** (the number of months needed for the current supply of homes to run out at the current rate of sales, based on trend data) of new homes reached 10.6 months in January, up from 9.3 months in January last year, despite the fact that the supply of new homes has decreased. In other words, the rate of sales of new homes has fallen faster than the decrease in supply.

United States

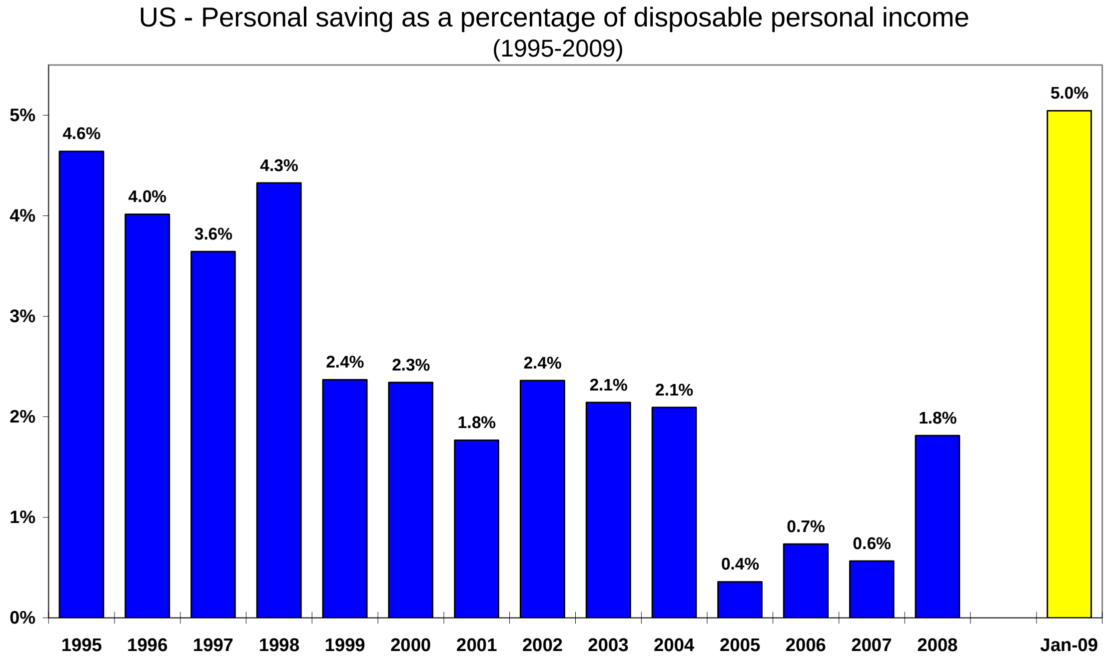
GDP decreased at an annualized rate of 6.2 percent in the fourth quarter of 2008, following a 0.5 percent decrease in the third quarter, in a sharper-than-expected decline. This was the sharpest drop in GDP since the early 1980s. The downward adjustment of 2.4 percentage points in growth for the quarter included declines in most GDP components; the major downward adjustments were in inventories, exports, and spending on consumer products. In addition, a sharp decline was notable in firms' investments in the fourth quarter, at an annualized 21 percent.



* compared to previous quarter, at annual rate, s.a.

Sales of new homes decreased by 10 percent, to the level of the early 1980s.

Private income and consumption figures for January were higher than expected. **Real disposable income** rose sharply, by 1.7 percent, although a substantial part of this gain in income derived from a wage increase in the public and military sectors; excluding this growth, disposable income rose by just 0.2 percent. **Real private consumption** grew by 0.4 percent. **Households' rate of savings out of disposable income** continued to rise, reaching 5.0 percent in January, versus an average of only 0.5 percent in 2005-2007. Private savings have increased continuously in recent months.



The ISM purchasing managers' index for the manufacturing sector was 35.8 points in February, higher than expected, but still below 50 points.

Euro zone

Inflation in the euro zone stood at 1.2 percent in February, according to an initial estimate, versus the expected 1.0 percent.

Unemployment in the euro zone increased to 8.2 percent in January, from 8.1 percent in December and 7.3 percent last year.

Important Announcements in the Coming Week

- The ISM index for the service sector will be published in the United States on Wednesday, March 4th.
- The Central Bureau of Statistics (CBS) will publish data on construction starts and completions for the fourth quarter of 2008 on Thursday, March 5th.
- The employment report will be published in the United States on Friday, March 6th.
- The CBS will publish data on average wages on Sunday, March 8th.

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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