

## Weekly Macroeconomic Review

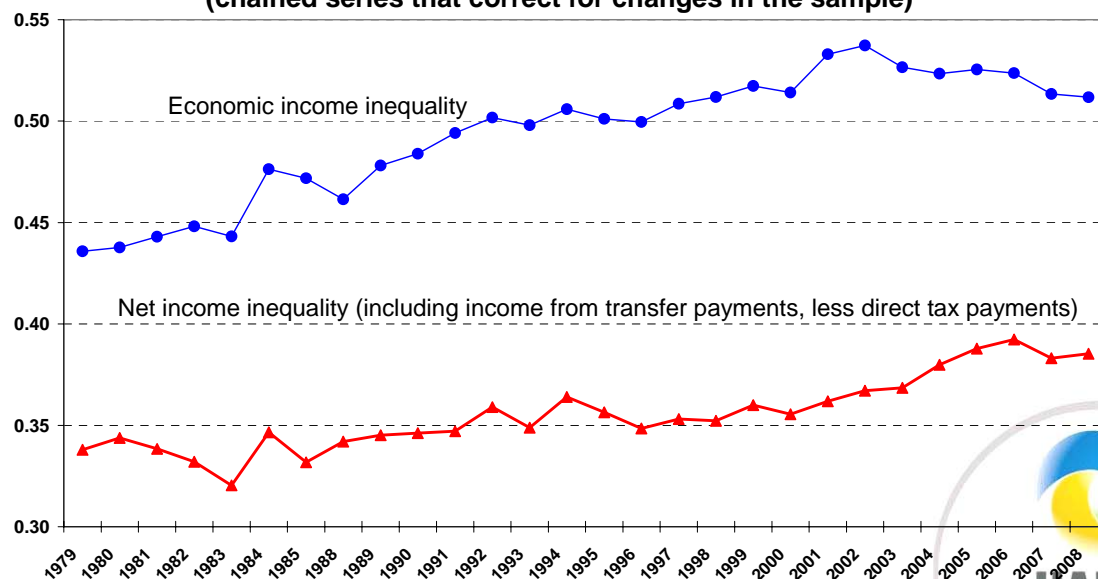
November 3, 2009

|   | Expectations derived from the capital market | Our forecast                        |
|---|--|-------------------------------------|
| Inflation in the coming months  |  | 0.2% in October<br>0.2% in November |
| Future cumulative inflation – next 12 CPIs (through September 2010 CPI) |  | 2.6%                                |
| Inflation through July 2011 CPI (average annual rate)                   | 2.6%   | 2.5%                                |
| Bank of Israel interest rate, 6 months ahead                            | 1.20%<br>(up 0.45)                           | 1.50%                               |
| Fed interest rate, 6 months ahead                                       | 0.45%<br>(up 0.20)                           | 0.45%                               |
| Yield on Israeli Government 10-Year bond, 6 months ahead                | 5.29%<br>(up 0.29)                           | 5.29%                               |
| Yield on US Treasury 10-Year bond, 6 months ahead                       | 3.62%<br>(up 0.23)                           | 4.00%                               |
| Dollar exchange rate, 6 months ahead                                    | NIS 3.78<br>(unchanged)                      | NIS 3.78<br>(unchanged)             |

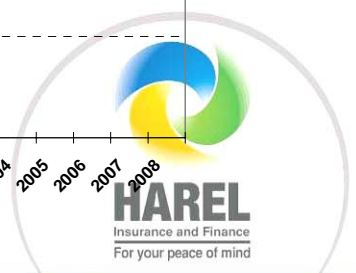
## Israel

Income inequality and the relative rate of poverty remained stable in 2008. Net income inequality grew slightly, while economic income inequality decreased slightly.

**Gini Index of Income Inequality, 1979-2008**  
(chained series that correct for changes in the sample)

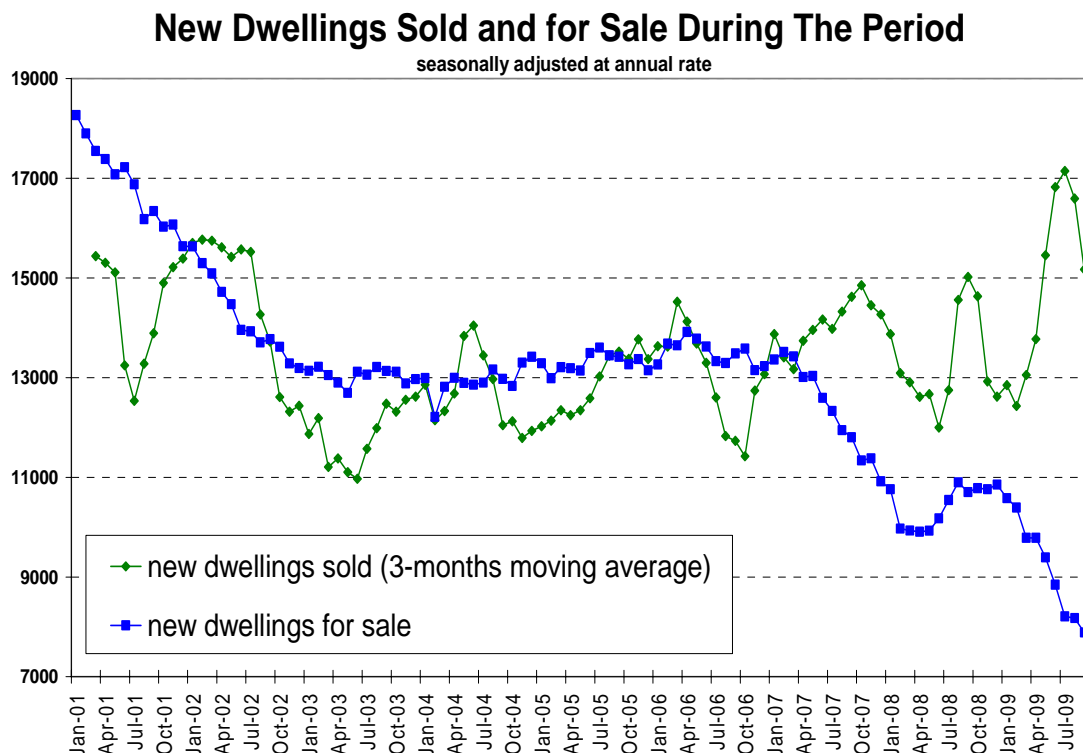


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The **poverty rate** (the percentage of families whose net income is below the poverty line, defined in relative terms in comparison to the general population) remained unchanged at 19.9 percent.

The **number of new homes** decreased by 4 percent in October and increased by 6 percent in the twelve months ended in October. The **supply of homes for sale** decreased by 4 percent as well, reaching a new low.



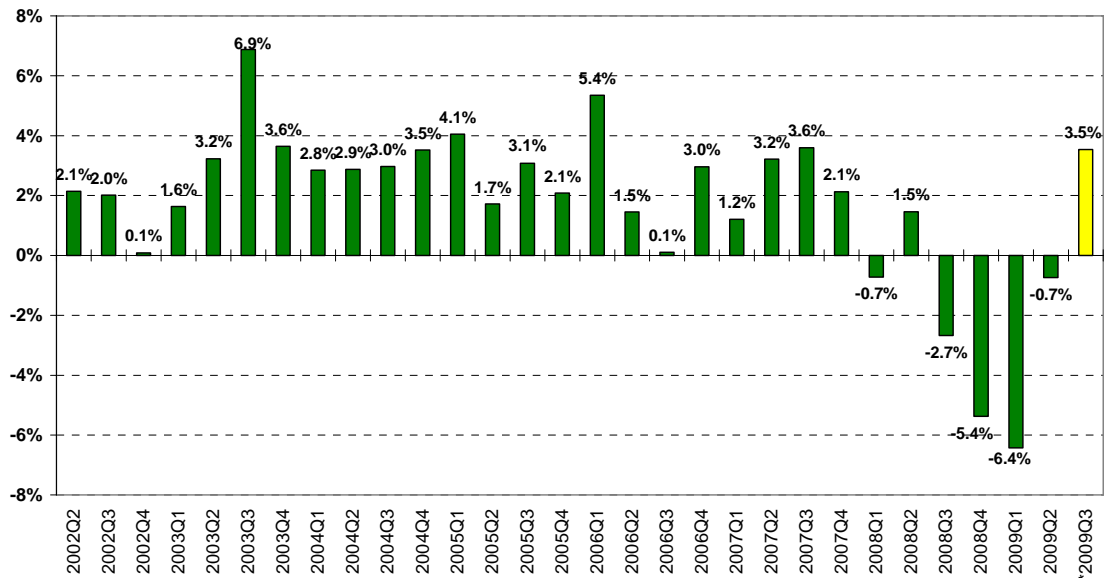
## United States

**GDP** grew at an annualized rate of 3.5 percent in the third quarter of 2009, according to an initial estimate, above the expected 3.2 percent. This positive figure marks the end of the recession that began in late 2007, which was the most severe slump since the Great Depression of the 1930s. **Private consumption** grew by 3.4 percent in the third quarter, more than expected, following a 0.9 percent decline in the second quarter.



## The U.S. Economy

(Real quarterly growth rates, seasonally adjusted at annual rate)



**Real private consumption** fell by 0.6 percent in September, following a sharp 1.0 percent increase in August, due to the end of the stimulus plan for motor vehicle purchases in August. In the last five months, real private consumption increased at a quite reasonable annualized average rate of 1.9 percent; however, during this period the fiscal stimulus plan had a positive effect, and this rate may not be sustainable going forward.

**The rate of savings** rose to 3.3 percent in September, from 2.8 percent in August.

**Core prices of private consumption** rose by 0.1 percent again in September. This means that inflation in the United States has remained low and stable, and there are no signs of high inflation or of deflation at this stage.

**Sales of new homes** were disappointing in September, falling by 4 percent, while data for the preceding months were adjusted downward.

**The ISM manufacturing sector index** stood at 55.7 points in October, above the 50-point mark (indicating expansion), higher than expected. This is the third month in a row that the index indicates an expansion of economic activity.

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## Euro Zone

The **unemployment rate** in the euro zone rose by an additional 0.1 percent in September, to 9.7 percent, in line with expectations, versus 7.7 percent in September last year. There are large differences in unemployment rates among countries within the euro zone: unemployment was low at 3.6 percent and 4.8 percent in the Netherlands and Austria, respectively, but high at 19.3 percent in Spain.

**Inflation** stood at a negative 0.1 percent in October, according to an initial estimate, in line with advance estimates.

## Our forecast of changes in price indices during the coming three months

Forecast change, September 2009 to December 2009

| Consumer Prices Index (CPI) | Housing component in the CPI (mainly rent prices) | Prices of Owner-Occupied Dwellings | Price Index of Inputs in Residential Building | Wholesale Price Index of Manufacturing (excl. Fuel) |
|-----------------------------|---|------------------------------------|---|---|
| 0.8%                        | 0.2%  | 0.1%                               | -1.2%   | -1.7%   |

## Recommended activity in the capital market

- In our opinion, unlinked government bonds are preferable to CPI-linked government bonds in the medium and long range at the moment (especially bonds maturing in 2015 or later). However, at the short end of the curve, CPI-linked Bond 0610 is preferable to Treasury bill (Makam) yields.

## Important Announcements in the Coming Week

- The ISM services sector index and the Fed's interest-rate decision will be published in the United States on Wednesday, November 4.
- The interest-rate decision in the UK and in the euro zone will be announced on Thursday, November 5. The Central Bureau of Statistics will publish data on jobs and average wages in the Israeli economy.
- The employment report will be published in the US on Friday, November 6.

This review is posted online at [www.harel-finance.co.il/macro](http://www.harel-finance.co.il/macro) in Hebrew

and at <http://www.harel-group.com/finance.html> in English.

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