

Weekly Macroeconomic Review

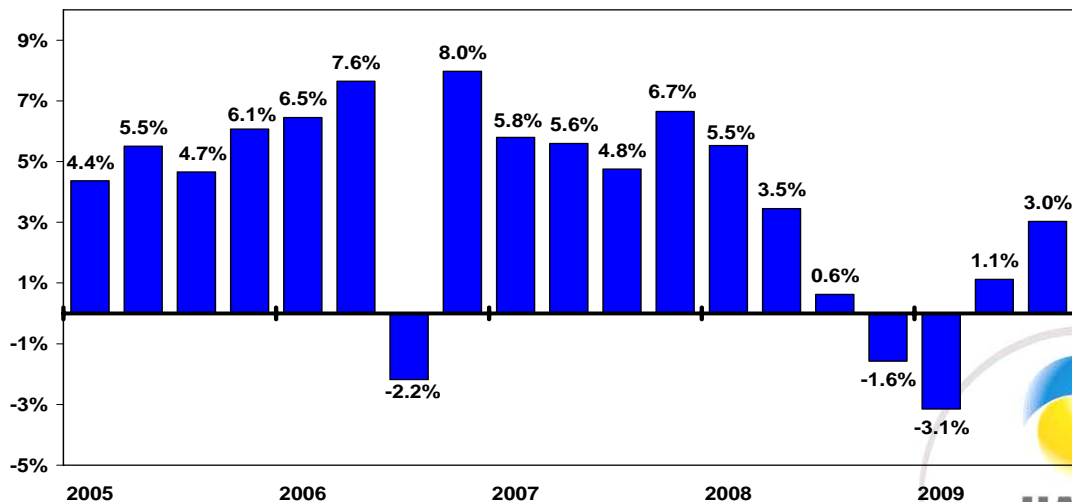
January 5, 2010

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.2% in December Minus 0.1% in January
Future cumulative inflation – next 12 CPIs (through November 2010 CPI)		2.4%
Inflation through July 2011 CPI (average annual rate)	2.7%	2.6%
Bank of Israel interest rate, 6 months ahead	1.90% (up 0.65)	2.00%
Fed interest rate, 6 months ahead	0.50% (up 0.25)	0.50%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.40% (up 0.25)	5.25%
Yield on US Treasury 10-Year bond, 6 months ahead	4.06% (up 0.26)	4.25%
Dollar exchange rate, 6 months ahead	NIS 3.74 (unchanged)	NIS 3.70 (down 1.0%)

Israel

The initial estimate of growth in 2009 by the Central Bureau of Statistics stands at 0.5 percent, slightly higher than advance estimates. Third-quarter growth has been adjusted to 3.0 percent in annualized terms, from 2.2 percent in the previous estimate.

GDP Growth
(quarter-on-quarter at annual rate)



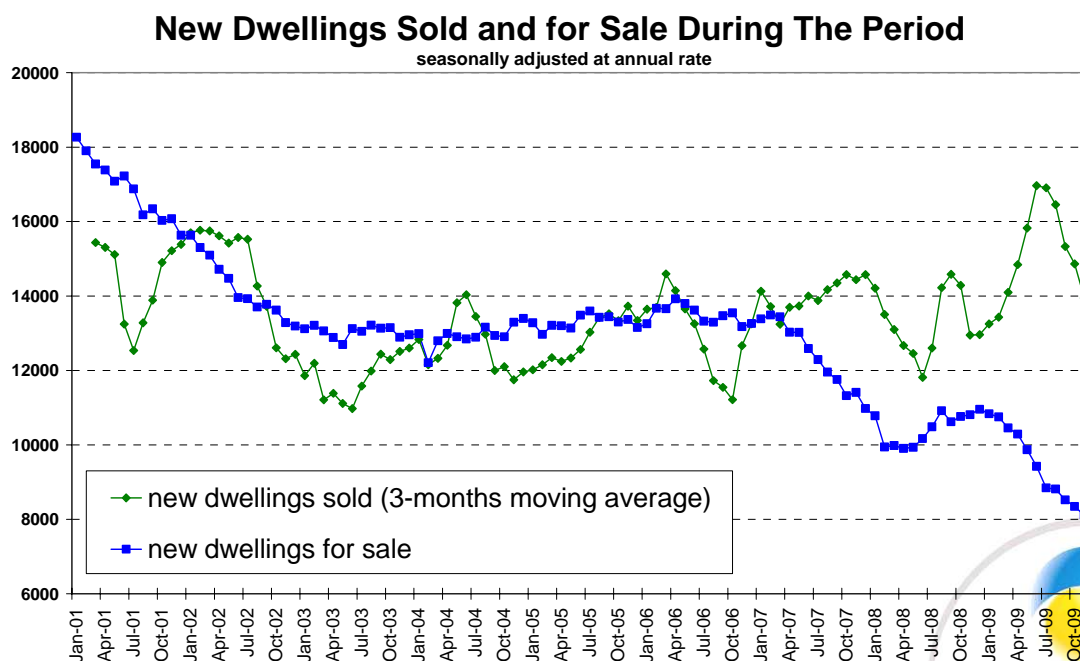
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Due to the improvement in state tax revenues in recent months and the public criticisms of the increase in water prices, the Minister of Finance decided to lower the rate of VAT by 0.5 percentage points.

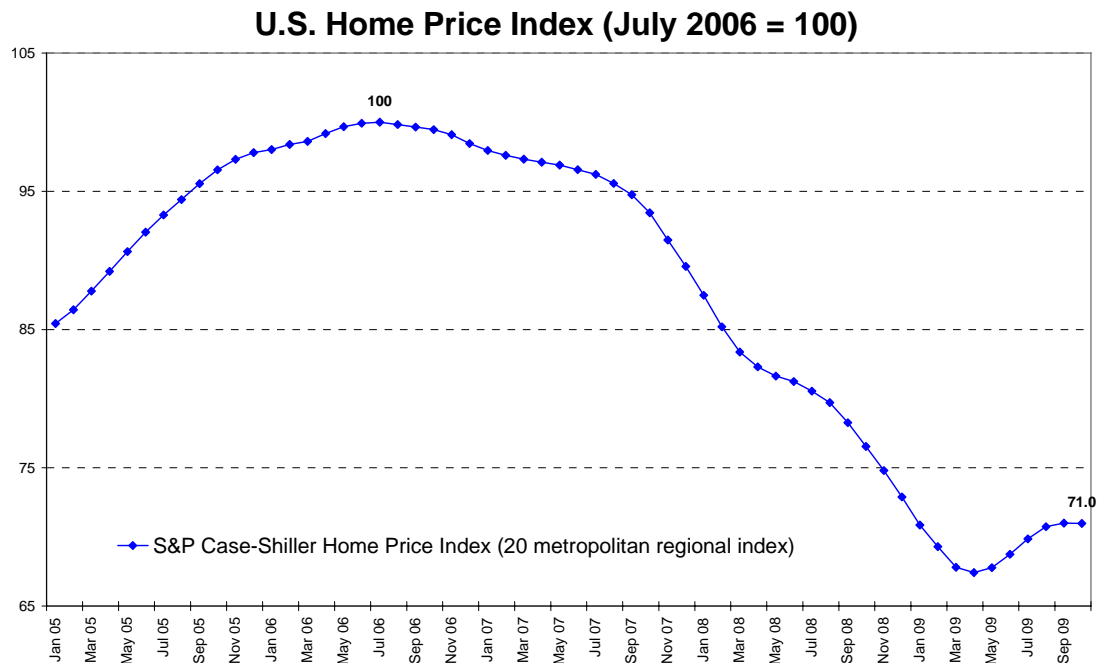
In our opinion, this step will not contribute to strengthening Israel's economy. Although the budget deficit in 2010 is expected to be lower than forecast in the state budget (5.5 percent of GDP), it will nonetheless be very high. Moreover, a substantial effort will be required in order for the government to meet the deficit target for 2011 (3 percent of GDP). Under these circumstances, we think it would have been better to reduce the budget deficit, rather than decreasing VAT revenues. The argument that this move will help disadvantaged population groups and reduce inequalities is also not necessarily correct. If the VAT cut forces the government to make greater reductions (or smaller expansions) of budgetary spending in 2011, the overall impact of both moves could be to increase inequalities.

The number of new homes sold decreased by 18 percent in November and by 5 percent in the twelve months ended in November. The supply of homes for sale decreased by 3 percent, reaching a new low.



United States

The Case-Shiller index of housing prices in twenty major cities remained almost unchanged in October, below expectations, with prices down by 29 percent from the peak level of 2006.



The ISM manufacturing sector index stood at 55.9 points in December, above expectations. This is the fifth consecutive month that the index shows an increase in activity.

Our forecast of cumulative changes in price indices due to be published during the coming three months

Forecast change, November 2009 to February 2010

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)
-0.1%	-0.1%	0.7%	-0.5%	0.0%

Important Announcements in the Coming Week

- Israel's Central Bureau of Statistics will publish data on employee positions and average wages, and the estimated consumer price index in the euro zone will be published on Tuesday, January 5.
- The ISM index for the services sector will be published in the US on Wednesday, January 6.
- The interest rate decision and retail sales data will be published in the United Kingdom on Thursday, January 7.
- The employment report in the US and the unemployment rate in the euro zone will be published on Friday, January 8.

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

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

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