Weekly Macroeconomic Review April 6, 2010

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.1% in March 0.9% in April
Future cumulative inflation – next 12 CPIs (through February 2011 CPI)		2.4%
Inflation through July 2011 CPI (average annual rate)	2.9%	3.0%
Bank of Israel interest rate, 6 months ahead	2.00% (up 0.50)	2.25%
Fed interest rate, 6 months ahead	0.45% (up 0.20)	0.45%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.25% (up 0.21)	5.25%
Yield on US Treasury 10-Year bond, 6 months ahead	4.22% (up 0.26)	4.35%
Dollar exchange rate, 6 months ahead	NIS 3.70 (up 0.2%)	NIS 3.69 (unchanged)

Israel

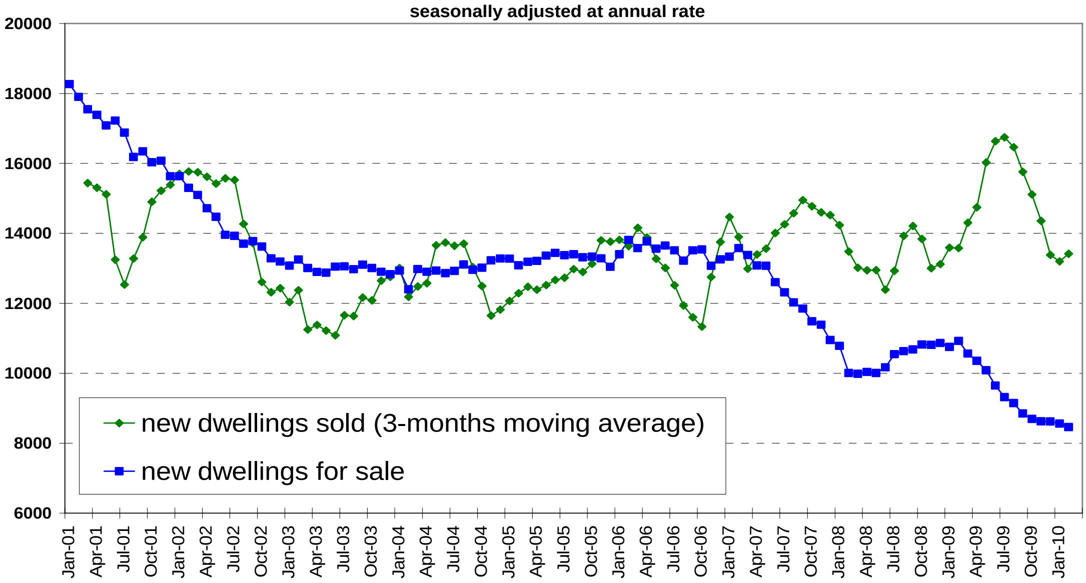
The Bank of Israel interest rate has increased by 0.25 percentage points to 1.5 percent. Among other factors, the BOI noted that initial findings of the **Companies Survey** point to continued expansion of activity in the first quarter and expectations for expansion in the next quarter as well.

Although it is clear that even after this increase monetary policy remains highly expansive, we estimate that the BOI will not raise the interest rate next month; it will wait for developments and additional data from the rest of the world, the real economy, and especially the exchange rate of the shekel, which has appreciated by about 1.5 percent in the nine days since the interest-rate decision.

The number of new homes sold grew by 2 percent in February, and by 11 percent in the twelve months ended in February. The **supply of new homes for sale** decreased by 1 percent, and was 23 percent lower than in February 2009.

New Dwellings Sold and for Sale During The Period

seasonally adjusted at annual rate

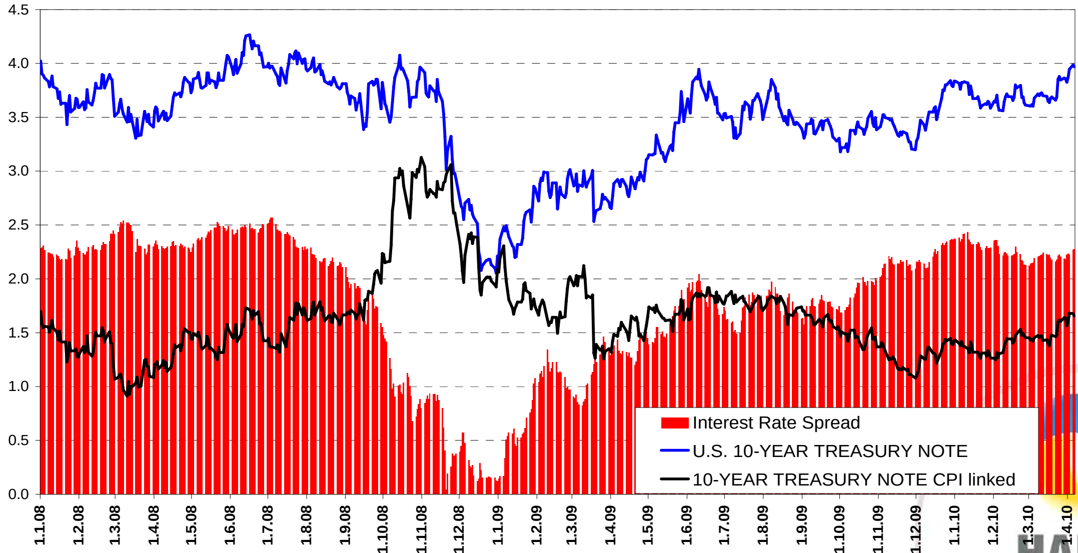


United States

In line with our estimates, **yields of US government ten-year bonds** rose over the last few weeks, reaching 4 percent. In our opinion, concerns over the mounting public debt in the US contributed to the increase in yields.

10-YEAR US BONDS

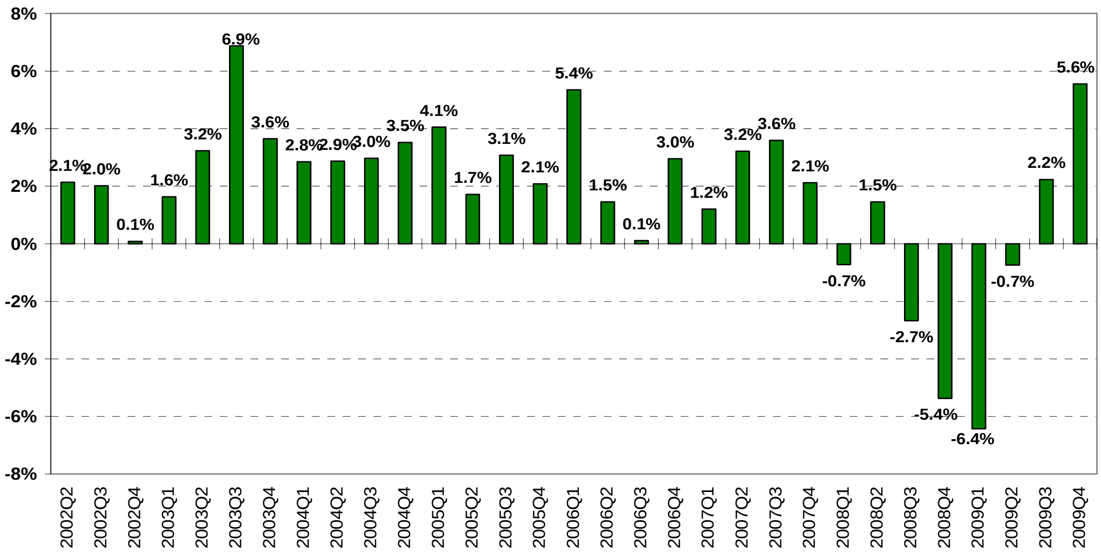
(Yield - percent per annum)



GDP data for the last quarter of 2009 have been adjusted downward. According to the latest estimate, **GDP** grew at an annualized rate of 5.6 percent.

The U.S. Economy

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



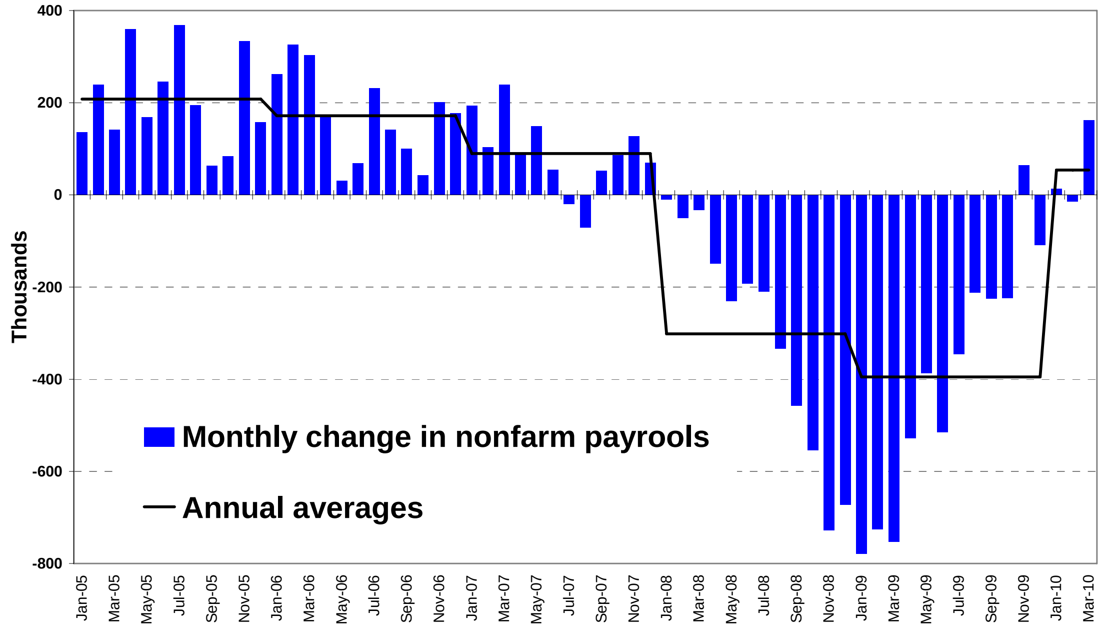
Real consumption grew by 0.3 percent in February, versus a 0.5 percent increase in the preceding four months. The **rate of savings** decreased to 3.1 percent, versus a 4.3 percent average in 2009. **Real income** remained unchanged in February. **Core private consumption prices** (the core PCE deflator) showed no change in February, following an average increase of 0.1 percent in the preceding months.

The University of Michigan's consumer confidence index stood at 73.6 points in March, slightly higher than expected.

Housing-market figures published were not encouraging; at the moment, there are no early signs of a future recovery in this sector. In February, **sales of new homes** fell by 2 percent, and **sales of existing homes** remained unchanged, while their prices dropped by 2 percent in the last twelve months. The **Case-Shiller index of house prices** in twenty major cities fell slightly in January, and decreased by 0.7 percent in the twelve months ended in January.

The Employment Report for March was favorable, with an increase of about 160,000 jobs (more than expected), as the unemployment rate remained at 9.7 percent, in line with expectations.

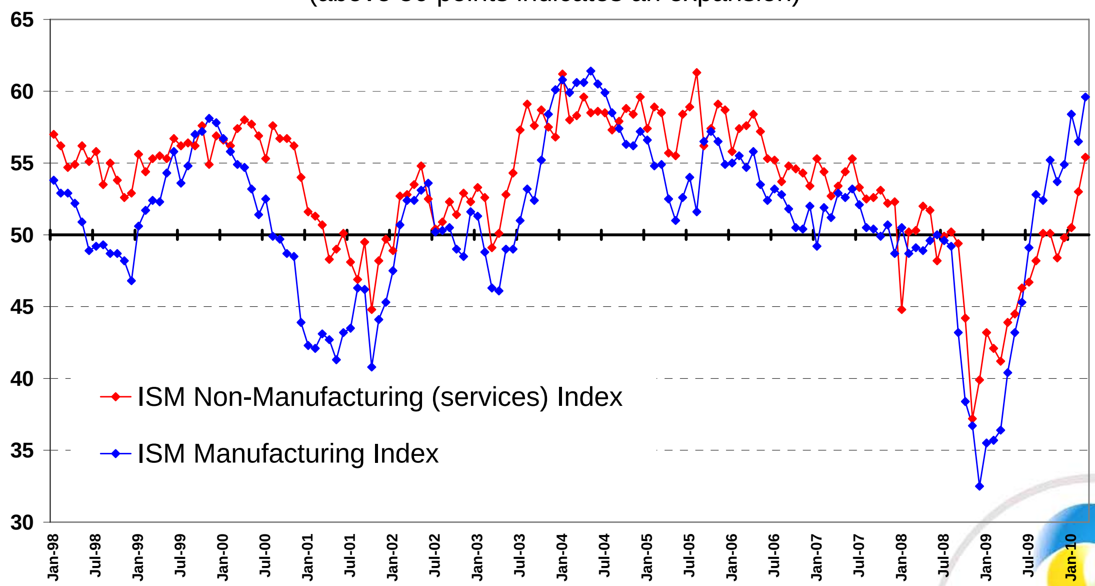
Monthly Change in U.S. nonfarm payrolls



The ISM purchasing managers' indices for March were higher than expected. The **manufacturing index** rose to 59.6 points, while the **services index** rose to 55.4 points.

The Institute for Supply Management Index

(above 50 points indicates an expansion)



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Euro zone

Inflation in the twelve months through March was 1.5 percent, according to an initial estimate, in line with expectations.

The unemployment rate in the euro zone was 10.0 percent in February, versus 8.8 percent in February 2009.

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

Forecast change, February 2010 to May 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)
1.4%	1.6%	4.9%	0.9%	0.2%

Important Announcements in the Coming week

- On Thursday, April 8, Israel's Central Bureau of Statistics will publish data on employee positions and average wages; 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.

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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