

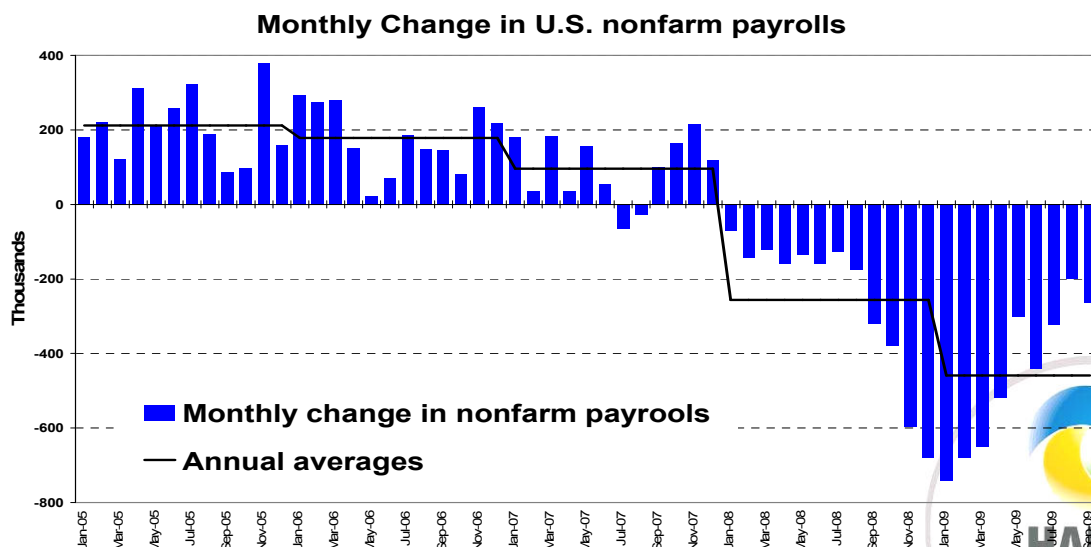
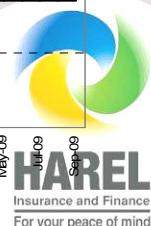
Weekly Macroeconomic Review

October 6, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.0% in September 0.3% in October
Future cumulative inflation – next 12 CPIs (through August 2010 CPI)		2.6%
Inflation through July 2011 CPI (average annual rate)	2.3%	2.3%
Bank of Israel interest rate, 6 months ahead	1.60% (up 0.85)	1.50%
Fed interest rate, 6 months ahead	0.40% (up 0.15)	0.40%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.19% (up 0.27)	5.25%
Yield on US Treasury 10-Year bond, 6 months ahead	3.43% (up 0.22)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.74 (unchanged)	NIS 3.74 (unchanged)

United States

The **Employment Report** for September indicates significant continued weakness in the labor market. The **number of employed persons** decreased by a steeper-than-expected 263,000, while data for previous months were revised downward. The **unemployment rate** was 9.8 percent, a 26-year record.

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Private consumption in August was a positive surprise, with a real increase of 0.9 percent, following gains of 0.2 percent in the preceding two months. Households' rate of savings decreased from 4.0 percent to 3.0 percent. A substantial part of the increase in private consumption stemmed from the government's stimulus plan for purchases of new cars during August. **Core private consumption prices** rose by only 0.1 percent again; in other words, basic inflation remained moderate.

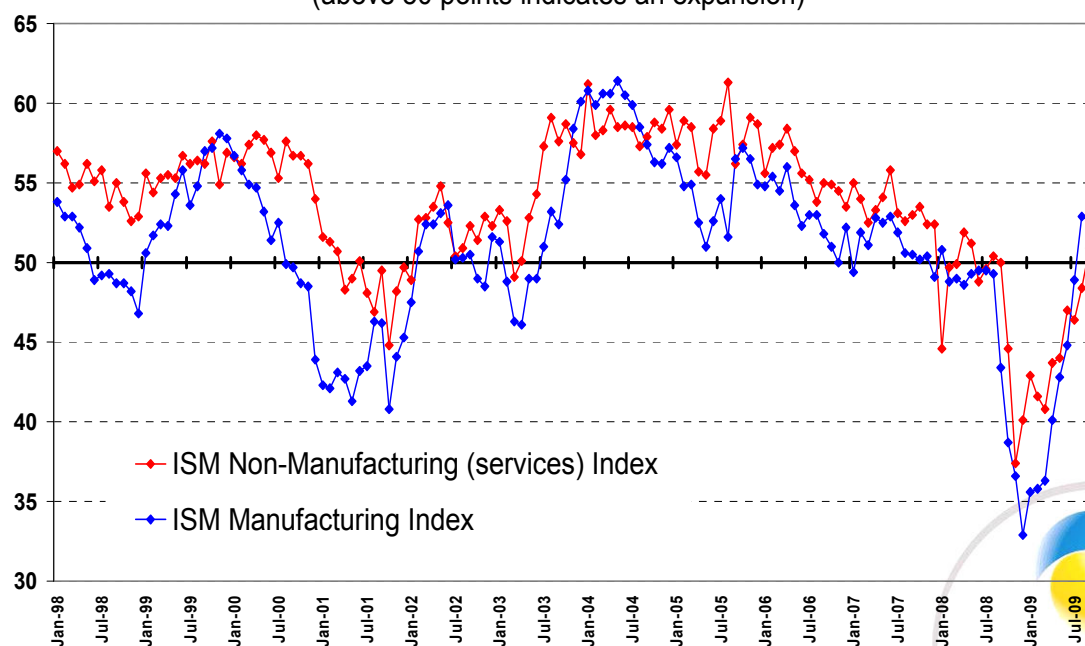
GDP contracted at an annualized rate of just 0.7 percent in the second quarter of 2009, versus an earlier estimate of 1.0 percent, in a smaller-than-expected decrease.

The **S&P Case-Shiller index** of housing prices in twenty major US cities rose by 1.2 percent in August, above expectations.

The **ISM manufacturing sector index** stood at 52.6 points in September, above the 50-point mark (indicating expansion), but lower than expected. The **ISM service sector index** was at 50.9 points in September, above expectations. This index was higher than 50 points, indicating expansion of activity – though moderate – for the first time since September 2008.

The Institute for Supply Management Index

(above 50 points indicates an expansion)



Euro zone

Inflation stood at a negative 0.3 percent in September according to the initial estimate, below expectations.

Unemployment in the euro zone reached 9.6 percent in August, in line with expectations, versus 7.6 percent in August last year.

There are large differences in unemployment rates among the euro-zone countries. Low rates of 3.5 percent and 4.7 percent were recorded in the Netherlands and Austria, respectively, versus high rates of 18.9 percent and 18.3 percent, respectively, in Spain and Latvia.

Retail sales decreased by 0.2 percent in August, a smaller decline than expected.

The euro zone purchasing managers' index stood at 51.1 points in September, slightly higher than the initial estimate.

Development in the global economy

The International Monetary Fund has updated the global growth forecasts in its World Economic Outlook. **According to IMF economists**, due to the massive, globally coordinated government interventions to support demand and reduce economic uncertainty, positive economic growth is resuming. However, given the slowdown in consumption and the anticipated increase in households' savings, along with a high unemployment rate and a bruised financial system, a slow recovery can be expected. Thus, for example, the US economy is expected to grow by just 1.5 percent in 2010, and the growth rate is then expected to rise at a moderate pace, to no more than 2.1 percent by 2014. **Our estimates** are similar, both for the short term and the medium term.

The global growth forecast for 2009 was raised to negative 1.1 percent, from the previous forecast from July of negative 1.4 percent. The forecast for 2010 was raised to 3.1 percent, from 2.5 percent previously.

IMF economists believe that the key to the continued recovery of the global economy is further rehabilitation and reinforcement of the financial sector, and continued application of growth-supporting macro-economic policies.

IMF estimates predict negative 0.1 percent growth in Israel in 2009 and 2.4 percent growth in 2010, with inflation at 3.6 percent in 2009 and 2.0 percent in 2010 (annual averages), while unemployment will reach 8.2 percent in 2009 and 8.6 percent in 2010.

World Economic Outlook Update Projections (annual percent change)

	2007	2008	2009	2009 previous estimate	2010	2010 previous estimate	2014
World growth	5.2	3.0	-1.1	-1.4	3.1	2.5	3.1
Advanced economies	2.6	0.6	-3.4	-3.8	1.3	0.6	2.4
United states	2.1	0.4	-2.7	-2.6	1.5	0.8	2.1
Euro zone	2.7	0.7	-4.2	-4.8	0.3	-0.3	2.1
Japan	2.3	-0.7	-5.4	-6.0	1.7	1.7	1.8
United kingdom	2.6	0.7	-4.4	-4.2	0.9	0.2	2.9
Canada	2.5	0.4	-2.5	-2.3	2.1	1.6	2.1
Israel	5.2	4.0	-0.1	-1.7	2.4	0.3	4.4
Developing economies and emerging markets	8.3	6.0	1.7	1.5	5.1	4.7	6.6
Africa	6.3	5.2	1.7	1.8	4.0	4.1	5.3
central and eastern Europe	5.5	3.0	-5.0	-5.0	1.8	1.0	4.0
Russia	8.1	5.6	-7.5	-6.5	1.5	1.5	5
Developing Asia economies	10.6	7.6	6.2	5.5	7.3	7.0	8.5
China	13.0	9.0	8.5	7.5	9.0	8.5	9.5
India	9.3	7.3	5.4	5.4	6.4	6.5	8.1
Middle east	6.2	5.4	2.0	2.0	4.2	3.7	4.8
South and central America	5.7	4.2	-2.5	-2.6	2.9	2.3	4.0
Brazil	5.7	5.1	-0.7	-1.3	3.5	2.5	3.7
Mexico	3.3	1.3	-7.3	-7.3	3.3	3.0	4.9

Japan

The Tankan survey of business confidence by Japan's central bank indicated improved business conditions in the third quarter of 2009. However, the index remains negative, meaning that the number of companies expressing pessimism regarding their situation exceeds the number of optimistic companies; as long as the decline in profits continues, cutbacks in investments will deepen.

Important Announcements in the Coming Week

- Interest-rate decisions will be announced in the UK and in the euro zone on Thursday, October 8.
- Israel's Central Bureau of Statistics will publish data on employee positions and average wages on Monday, October 12.

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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