

Weekly Macroeconomic Review

April 7, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.3% in March 1.0% in April
Future cumulative inflation – next 12 CPIs (through February 2010)		1.9%
Inflation through May 2010 CPI (average annual rate)	.12%	2.6%
Bank of Israel interest rate, 6 months ahead	.100% (up 0.50)	0.75%
Fed interest rate, 6 months ahead	0.40% (up 0.15)	0.25%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.00% (up 0.30)	5.30%
Yield on US Treasury 10-Year bond, 6 months ahead	3.10% (up 0.20)	3.40%
Dollar exchange rate, 6 months ahead	NIS 4.16 (unchanged)	NIS 4.27 (up 2.6%)

Our next weekly review will be issued on Monday, April 20th. Happy Passover!

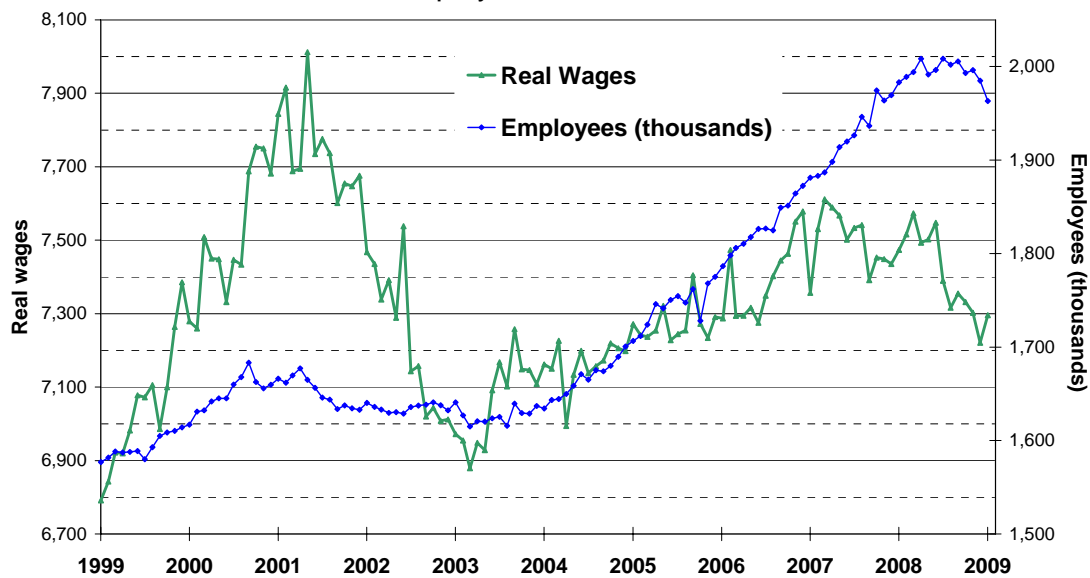
Israel

A sharp decline in employee positions of Israelis in January: **The number of positions of Israeli employees** decreased by 1.1 percent in January and by 0.5 percent in the twelve months ended in January. Average nominal wages for employee positions of Israelis rose by 1.9 percent in January, but by only 1.5 percent in the twelve months ended in January, while real wages decreased by approximately 2 percent (net of the consumer price index). In the **business sector**, the number of employee positions (including non-Israelis) decreased by 1.1 percent in January, while real wages increased by 1 percent.



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Business Sector's Real Wages
and number of Employee Posts, Jan 1999 - Jan 2009



The Bank of Israel's econometric forecast predicts negative inflation during 2009, supporting a continued expansive monetary policy. The minutes of the last interest-rate decision, published on April 6th, contain the following section:

Various scenarios were examined using the BOI's econometric models, under the assumptions of a decrease of approximately 1.5 percent in GDP in 2009, low interest rates globally, stabilization of energy prices at the current low level, and a decline in global trade.

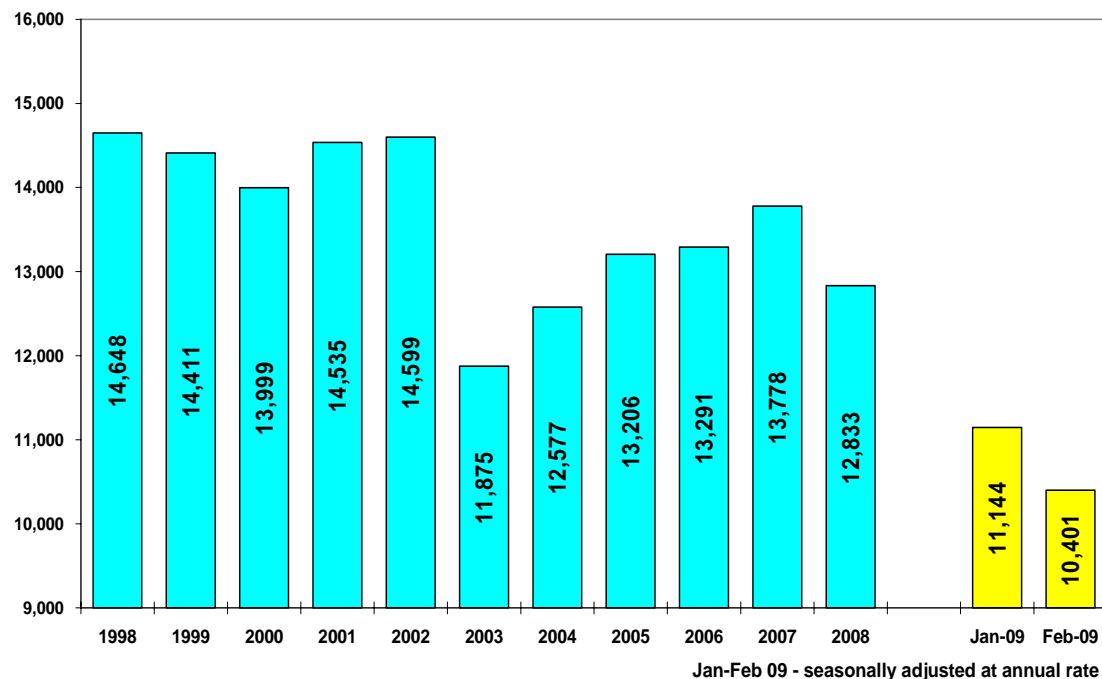
According to the basic scenario in the quarterly model (DSGE), which grants high weight to future expectations and uses the BOI's response rule of smoothing the interest-rate trajectory, the exchange rate in 2009 ranges from ILS 4.08 to ILS 4.20 per USD; a gradual decrease in the BOI interest rate is derived, to around 0 percent during 2009, or lower still, to a negative 0.8 percent in the last quarter of the year. This may be interpreted as reflecting a policy of quantitative monetary expansion through a variety of means. An inflation rate of negative 0.6 percent is obtained for 2009.



According to our estimates – and apparently those of most economists as well – under these conditions, inflation during 2009 will be far higher than negative 0.6 percent. However, if the BOI does in fact believe in this model and use its results to make interest-rate decisions, it seems that no interest-rate increases can be expected in the coming months, even if the shekel depreciates moderately.

The number of new homes sold decreased by 7 percent in February, and by 14 percent in the twelve months ended in February.

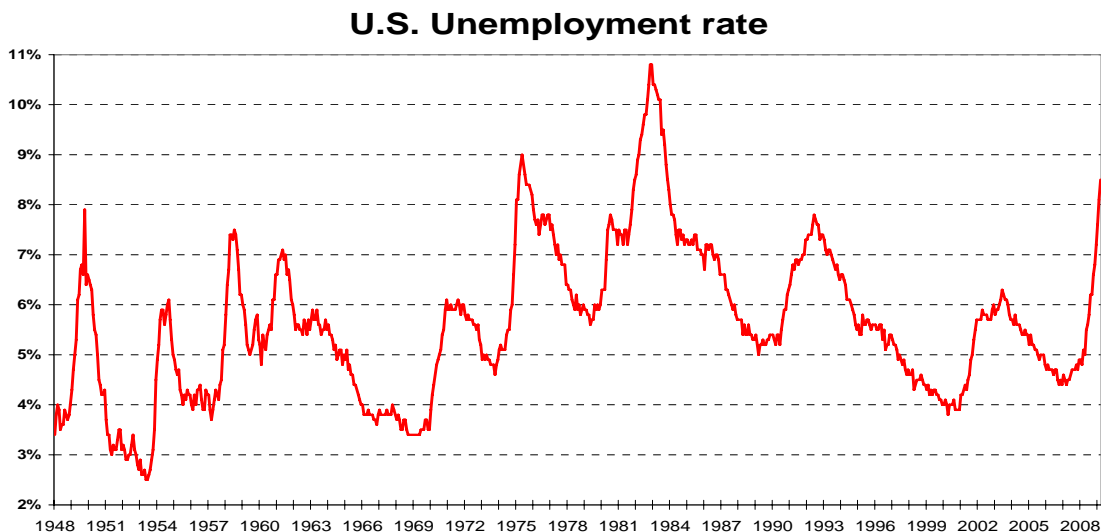
New Dwellings Sold During The Period



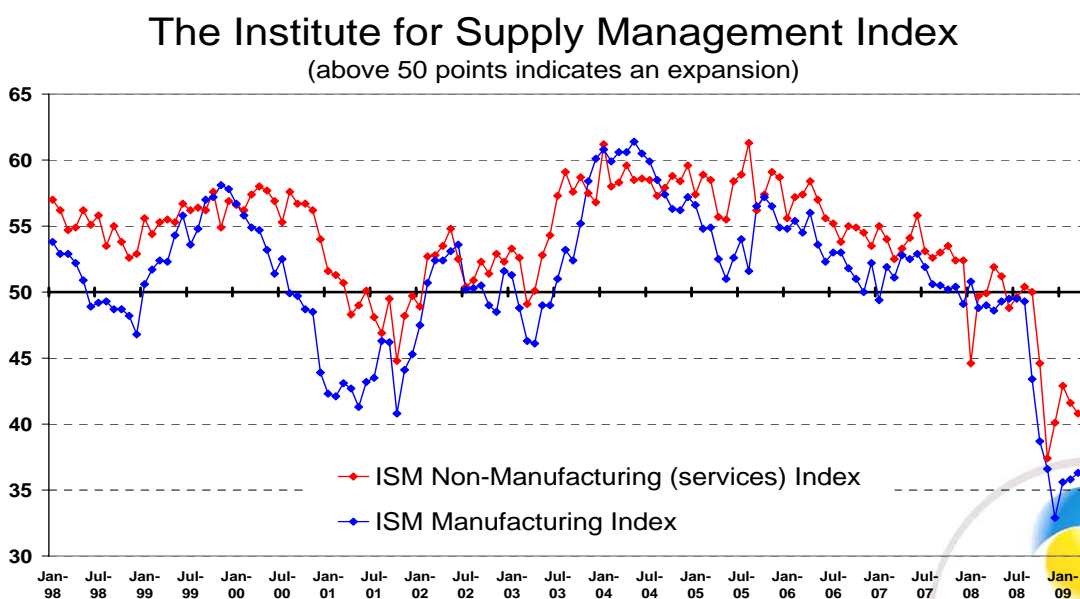
The number of months of supply (the number of months for which the current supply of homes would suffice at the current pace of sales, based on trend data) grew to 11.0 months in February, from 9.3 months in February 2008. This development greatly decreases the probability of an increase in housing prices in the coming months.

United States

The employment report for March was poor, but in line with expectations. The economy lost approximately 660,000 jobs in March, and the unemployment rate rose to 8.5 percent, a 25-year record, from 8.1 percent in February and 5.3 percent in March 2008.



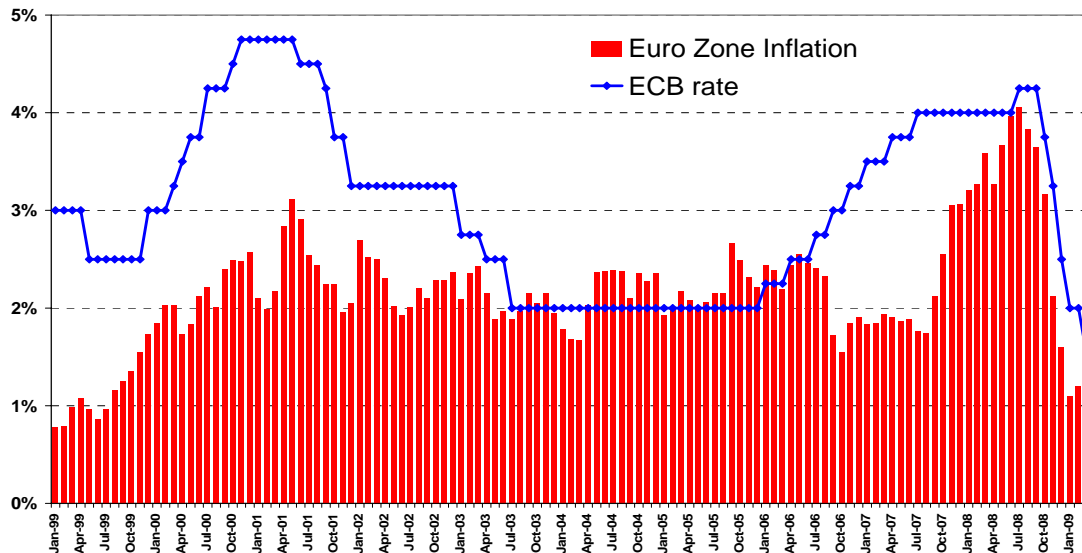
The ISM service sector index reached 40.8 points in March, down from 41.6 points in February, lower than expected. According to the ISM indices, activity in the US economy continued to contract in January, February, and March, but at a more moderate rate than in December.



Europe

Inflation in the twelve months ended in March was 0.6 percent, according to an initial estimate, lower than expected.

Euro Zone Inflation and ECB Interest Rate



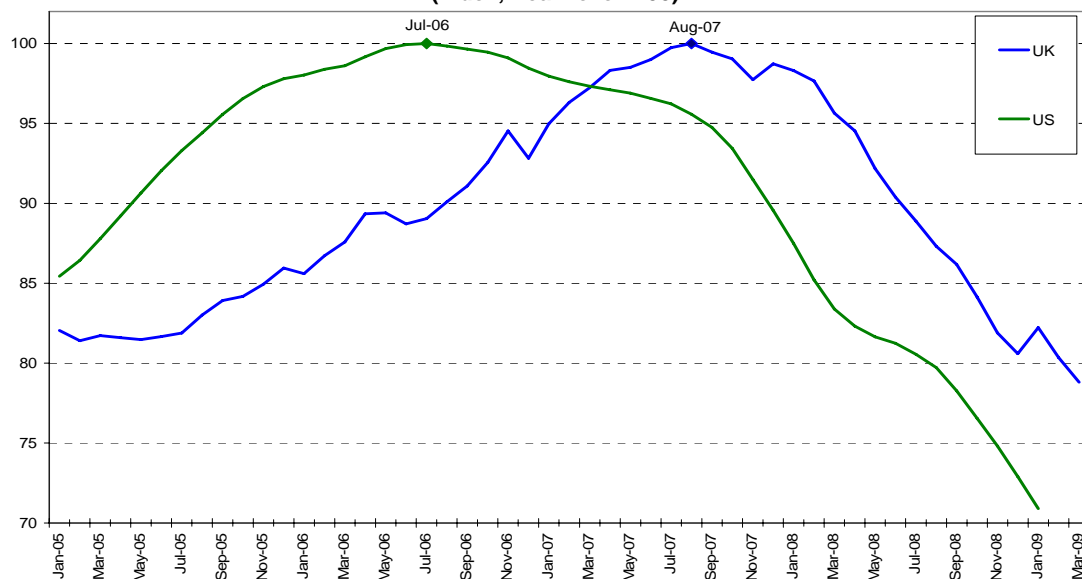
The **European Central Bank (ECB)** lowered the interest rate by 0.25 percentage point to 1.25 percent, while estimates predicted a 0.5-point cut. The ECB's President hinted in a press conference that the interest-rate reduction process has not yet ended.

Unemployment in the euro zone increased to 8.5 percent in February, from 8.3 percent in January and 7.2 percent last year.

Retail sales decreased by 0.6 percent in February, versus expectations of a more moderate decrease. Sales decreased by 4 percent in the twelve months ended in February.

The **UK's Halifax house price index** fell by 1.9 percent in March, and was 21 percent below the peak of August 2007. The rate of decline in housing prices in the UK is similar to the rate in the US, but occurring about one year later.

Development of housing prices in the United States and the United Kingdom
(index, Peak level=100)



Japan

The Tankan survey of business confidence in Japan indicated a decline to the lowest level since the survey began in the mid-1970s. Japan's economy has been the hardest hit by the global crisis among the advanced economies; estimates currently indicate negative 6 percent growth in 2009. Japan did not suffer from a real-estate bubble or credit problems like the US and some European countries, but its exports, which flourished in recent years thanks to a cheap local currency and the US consumption bubble, were severely damaged by the sharp decline in global demand in general, and in the demand for cars and electronics in particular.

G20 summit

Leaders of the world's twenty largest economies met in London last week to discuss various measures related to the global crisis. The G-20 decided on the need to increase supervision and regulation of the capital markets.



In addition, a decision was made to increase the budget of the International Monetary Fund (IMF) by USD 1 trillion, mainly in order to provide aid to developing countries at risk of collapse as a result of the global crisis, particularly in Eastern Europe. The US did not succeed in persuading the European countries to significantly increase fiscal incentives, similarly to the incentive programs in the US.

Important Announcements in the Coming Weeks

- The interest-rate decision in the UK will be announced on Thursday, April 9th.
- The consumer price index for March will be published in Israel, and retail sales figures will be published in the US, on Tuesday, April 14th.
- The consumer price index will be published in the United States on Wednesday, April 15th.
- The consumer price index will be published in the euro zone, and the number of construction starts and permits will be published in the US, on Thursday, April 16th.

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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