

Weekly Macroeconomic Review

July 7, 2009

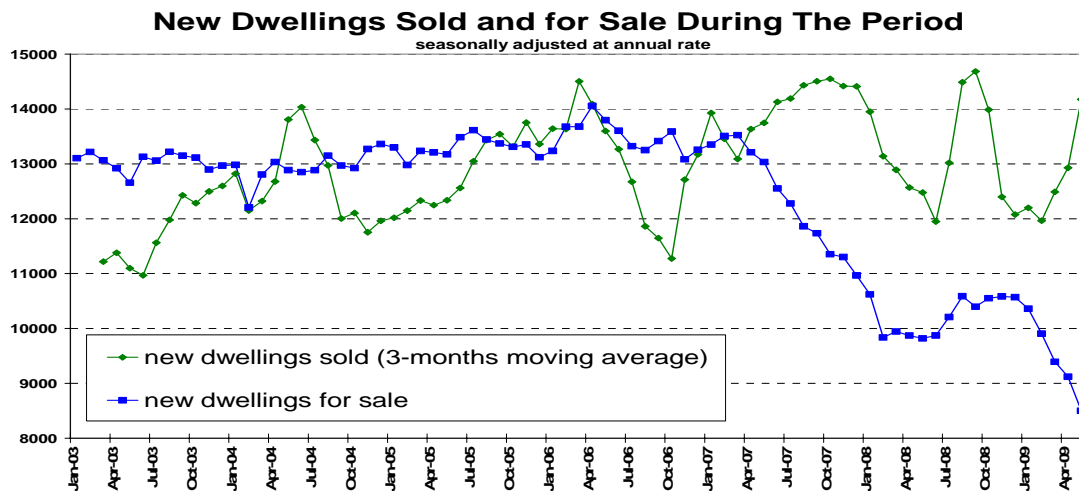
	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.2% in June 1.0% in July
Future cumulative inflation – next 12 CPIs (through May 2010 CPI)	3.0%	3.3%
Inflation through July 2011 CPI (average annual rate)	2.6%	2.8%
Bank of Israel interest rate, 6 months ahead	0.85% (up 0.35)	0.75%
Fed interest rate, 6 months ahead	0.35% (up 0.10)	0.25%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.46% (up 0.29)	5.50%
Yield on US Treasury 10-Year bond, 6 months ahead	3.76% (up 0.23)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.92 (unchanged)	NIS 3.99 (up 1.7%)

Israel

The Prime Minister's reversal of the decision to revoke the VAT exemption on fruits and vegetables sends an additional signal of the current government's inability to get unpopular but economically sound decisions passed in Knesset. It also increases the questions surrounding the expected budget deficit in 2010 and in the subsequent years. **In our opinion**, maintaining the declared deficit target for 2010 (5.5 percent of GDP) and lowering it to the declared target for 2011 (3 percent of GDP) will require further tax hikes and/or cancellation of the planned cuts in income tax for individuals and in corporate tax.



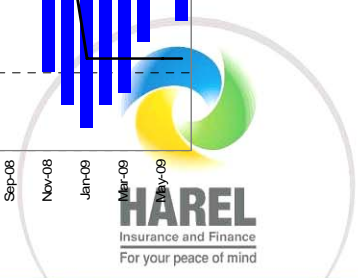
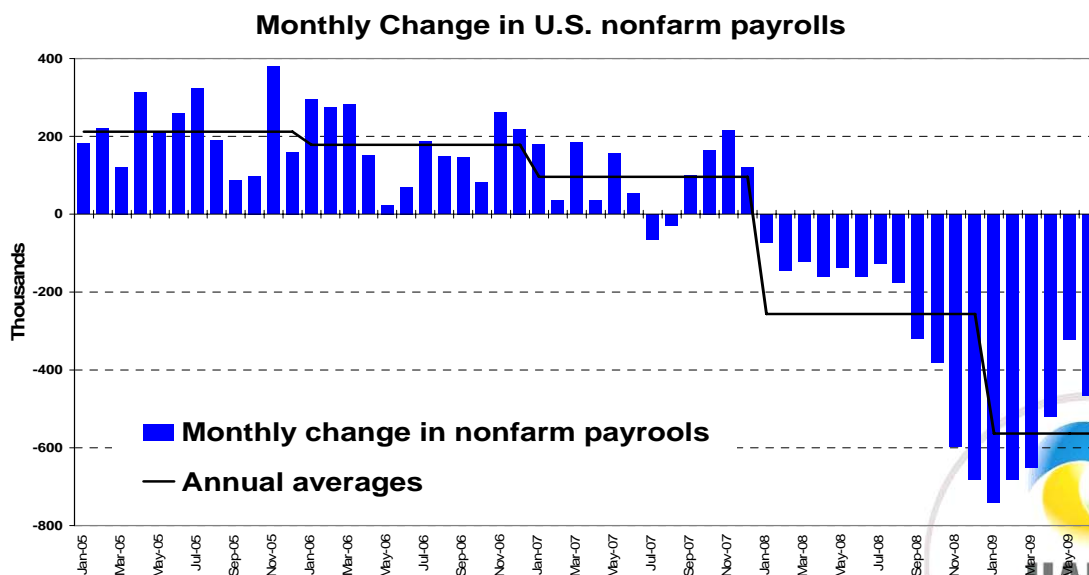
The number of new homes sold remained almost unchanged in May, but rose by 23 percent in the twelve months ended in May. By contrast, the number of homes for sale decreased by 7 percent in May and by 13 percent in the twelve months ended in May. These figures may point to continued upward pressures on prices in the real-estate market.



State tax revenues totaled ILS 13.0 billion in June, slightly below the trajectory consistent with the amended forecast in the state budget.

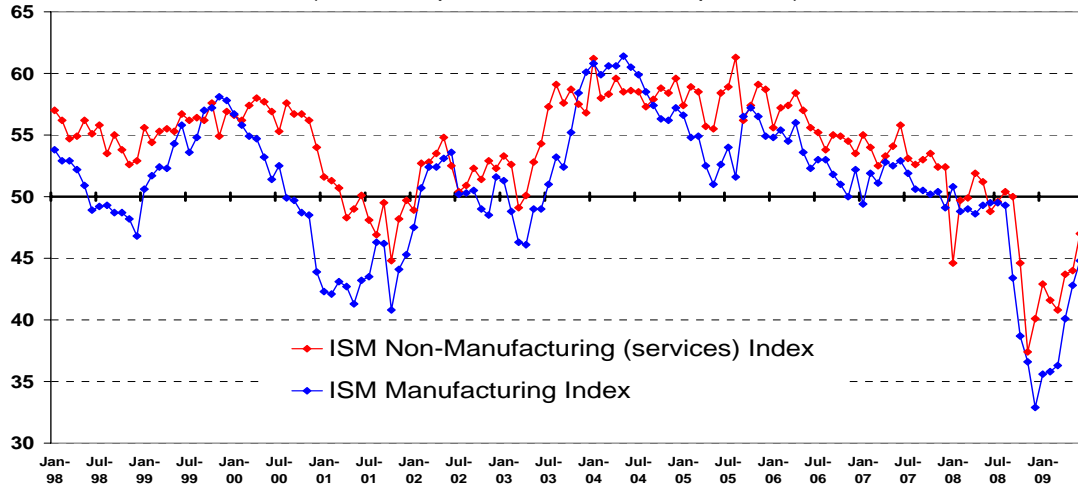
United States

With a decrease of 470,000 jobs, the job loss rate was a negative surprise, contributing to declines in stock indices and a decrease in yields. The unemployment rate rose to 9.5 percent.



The ISM manufacturing sector index stood at 42.8 points in June, close to the expected level. The ISM service sector index was 47 points in June, above expectations.

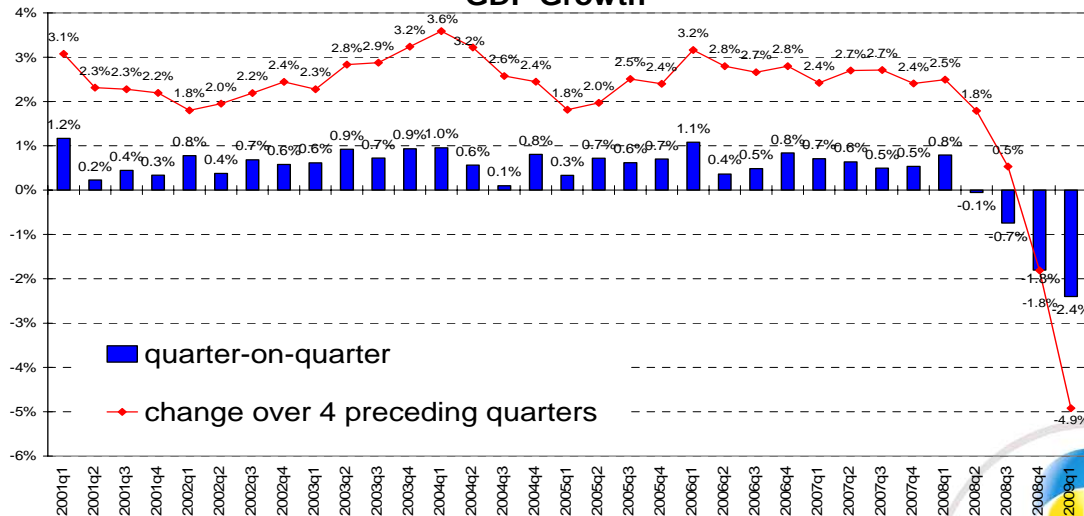
The Institute for Supply Management Index (above 50 points indicates an expansion)



Britain

GDP in the UK contracted by 2.4 percent, or 10 percent in annualized terms, in the first quarter of 2009, in a larger-than-expected decline and the sharpest drop since the late 1960s. The final growth rate was lower than the previous estimate, due to the downward adjustment of data on services and construction.

United Kingdom GDP Growth



These figures supported the weakening of the British pound, in contrast to the currency's gain in strength in recent months.

Euro zone

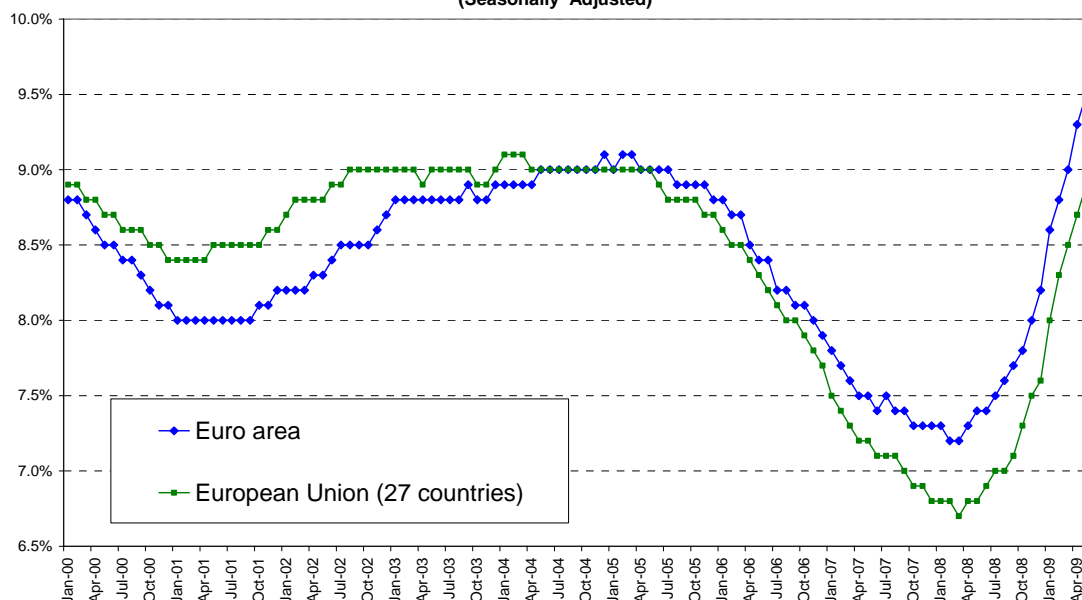
For the first time since the monetary unification, **inflation in the euro zone** turned negative, at -0.1 percent in the twelve months through June.

The European Central Bank left the interest rate unchanged at 1.0 percent, as expected. Other actions taken by the ECB recently, mainly loans to banks, have caused the effective short-term interest rate to be lower than the official rate. In any case, an increase in the interest rate does not appear likely in the next year in the euro zone.

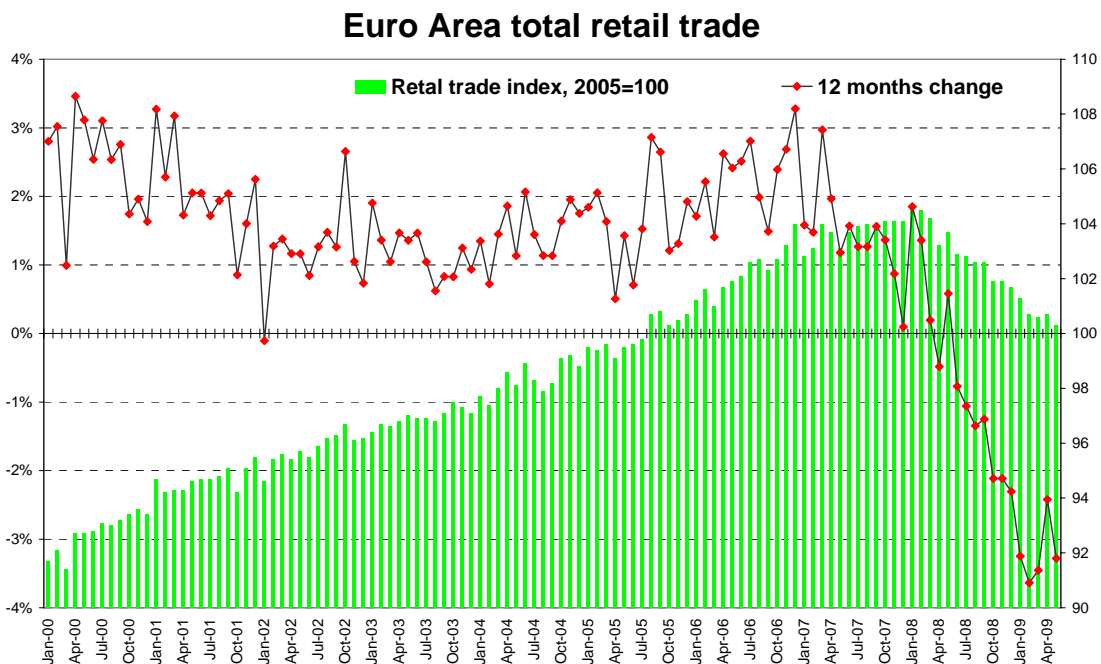
Unemployment in the euro zone continued to rise rapidly, reaching 9.5 percent in May, above expectations, up from 9.3 percent in April and 7.4 percent in May 2008. The unemployment rate for the entire European Union was 8.9 percent in May.

Euro area and Eu27 Unemployment rates

(Seasonally Adjusted)



Retail sales in the euro zone decreased by 0.4 percent in May, lower than expected. Sales decreased by 3.3 percent in the twelve months ended in May.



Japan

The Bank of Japan's **Tankan** survey for the second quarter of 2009 indicates that Japanese companies are less pessimistic. Following continuous deterioration in the index of companies' business confidence since late 2006, the index rose for the first time, although the improvement was smaller than expected. Nonetheless, the index remains negative, meaning that the number of companies that are pessimistic about their condition exceeds the number of optimistic companies.

Important Announcements in the Coming Week

- The Central Bureau of Statistics will publish the average wages in the Israeli economy on Tuesday, July 7.
- The interest-rate decision in the UK will be announced on Thursday, July 9.
- Israel's foreign-trade data will be published on Monday, July 13.

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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