

Weekly Macroeconomic Review

December 8, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.3% in November 0.3% in December
Future cumulative inflation – next 12 CPIs (through October 2010 CPI)		2.8%
Inflation through July 2011 CPI (average annual rate)	2.8%	2.7%
Bank of Israel interest rate, 6 months ahead	1.55% (up 0.55)	1.75%
Fed interest rate, 6 months ahead	0.30% (up 0.05)	0.35%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.18% (up 0.26)	5.20%
Yield on US Treasury 10-Year bond, 6 months ahead	3.65% (up 0.23)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.81 (unchanged)	NIS 3.76 (down 1.2%)

Israel

State tax revenues totaled ILS 16.3 billion, reinforcing our estimate of surplus tax revenues of approximately 0.5 percent of GDP relative to the planned budget. Our preliminary forecast calls for a similar surplus in 2010.

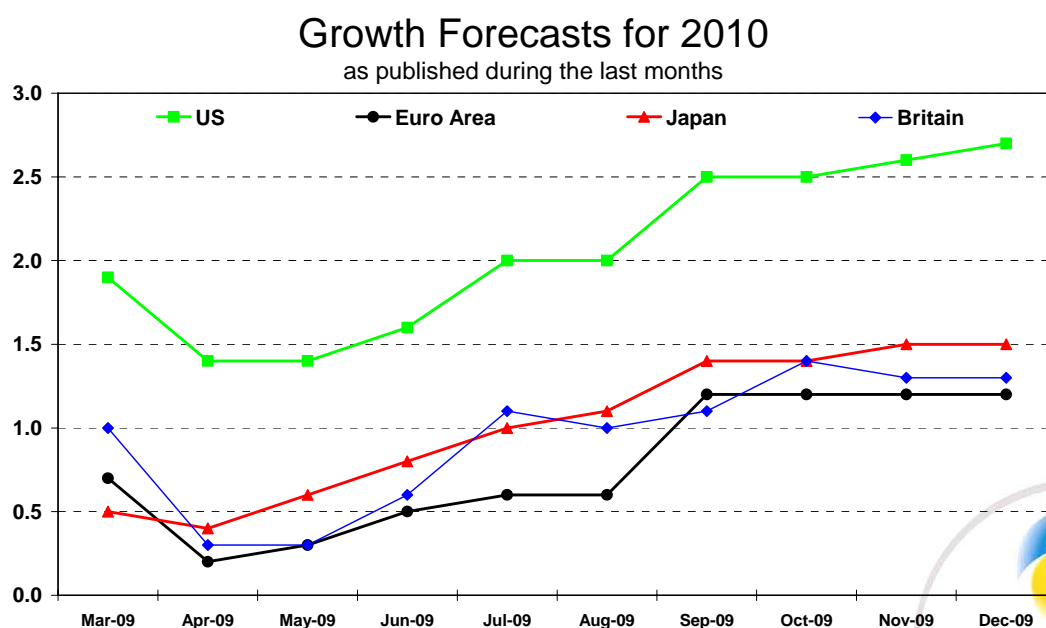
In the labor market, the number of employee positions of Israeli workers increased at a moderate rate of 0.2 percent in September and decreased by 1.2 percent in the twelve months ended in September. **Average nominal wages for employee positions of Israelis** remained almost unchanged in September, and rose by 0.7 percent in the twelve months ended in September (a real decrease of 2.0 percent).

In line with our estimates, the expectation of a future increase in the Bank of Israel interest rate implied in the bond market grew over the last week. The expected interest rate in six months' time now stands at 1.55 percent, versus just 1.25 percent a week ago, nearing our estimate. The yield of ten-year Israeli government bonds also increased to 4.92 percent, from 4.75 percent a week ago, and now matches our estimate.

In the BOI's interest-rate meeting two weeks ago, when the Governor decided to raise the interest rate to 1.0 percent, three members of the governing board recommended raising the interest rate, while one member recommended leaving the rate unchanged. The BOI's two econometric models generate different results. According to one of the models, the interest rate should reach 1.2 percent in the last quarter of 2010, while according to the other model the rate should rise to 2.8 percent. Our estimates are closer to the second model.

Growth forecasts for advanced economies

The *Economist* has issued its monthly Consensus Forecast of growth rates in the advanced countries. As in the last three months, there were no significant changes in the forecasts.



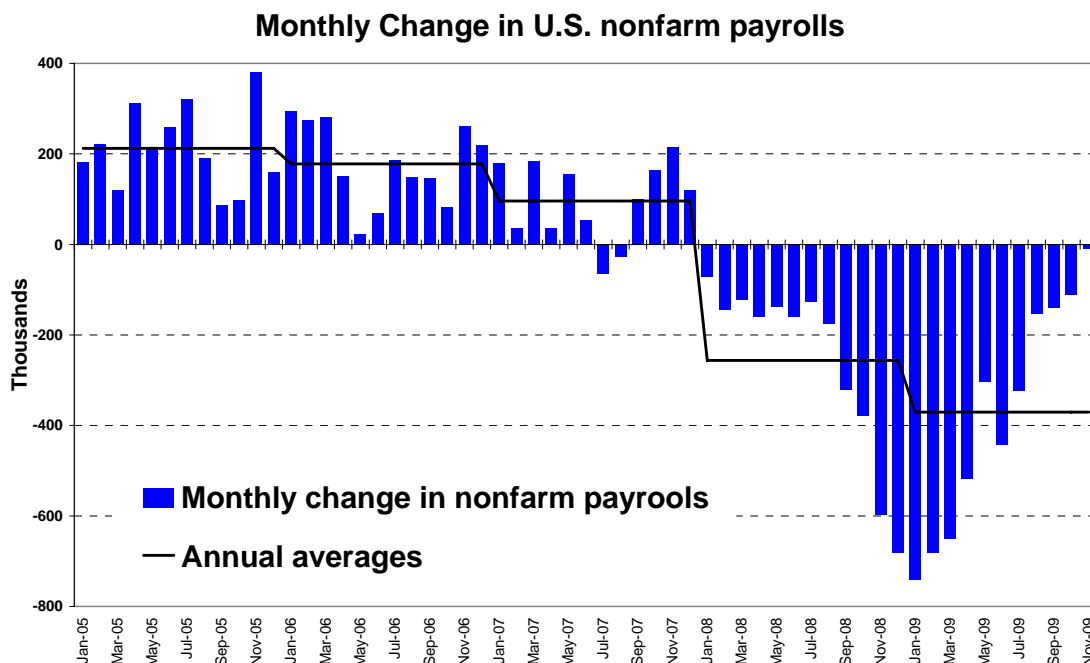
Source: The Economist, Consensus Forecast

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United States

The employment report for November was surprisingly positive. The decrease in the number of employed persons was very moderate (a decrease of 11,000 employed persons, versus an expected decrease of 120,000), with data for the preceding months adjusted upward. The unemployment rate surprisingly decreased by 0.2 percentage points to 10.0 percent, with a decrease in the participation rate.



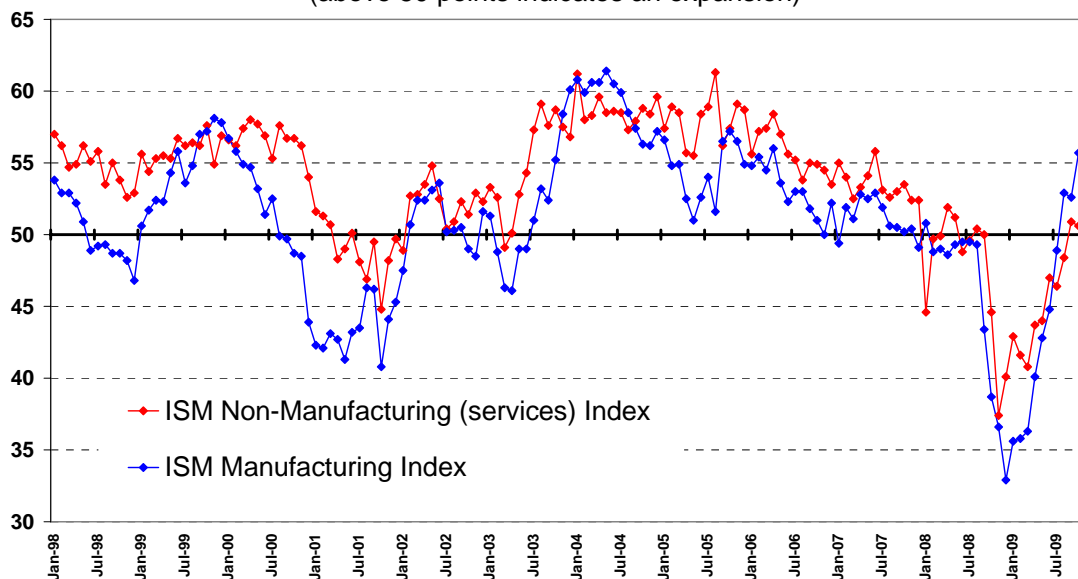
Due to the positive employment data, forecasts indicate that the Fed interest rate will begin to rise as early as this summer, with a sharper slope than in the past. As a result, government bond yields have increased.

The ISM manufacturing sector index stood at 53.6 points in November, above 50 points but lower than expected. The ISM services sector index reached 48.7 points in November, also below expectations.



The Institute for Supply Management Index

(above 50 points indicates an expansion)



Euro zone

The ECB maintained the interest rate unchanged at 1.0 percent, as expected. The President of the ECB also announced that the ECB's last round of loans to banks would take place in mid-December. Like other central banks worldwide, the ECB flooded the market with liquidity by providing extensive credit to banks in the euro zone. The banks took loans from the central bank and used the liquidity to purchase government bonds and other safe assets, thereby strengthening their balance sheets, continuing to offer credit to firms and households, and avoiding insolvency. With the economic recovery, the central bank has decided to curb the expansion of liquidity.

The unemployment rate in the euro zone remained unchanged at 9.8 percent in October, in line with expectations, versus 7.9 percent in October 2008.

Retail sales remained unchanged in October, below expectations.



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

Forecast change, October 2009 to January 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)
0.4%	-1.0%	-0.5%	-0.1%	-1.4%

Important Announcements in the Coming Week

- Data on Israel's foreign trade will be published on Sunday, December 13.
- Data on Israel's balance of payments will be published on Monday, December 14.

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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