

## Weekly Macroeconomic Review

June 8, 2010

	Expectations derived from the capital market	Our forecast
<b>Inflation in the coming months</b>		0.4% in May 0.2% in June
<b>Future cumulative inflation – next 12 CPIs (through April 2011 CPI)</b>		2.6%
<b>Inflation through July 2011 CPI (average annual rate)</b>	2.8%	3.3%
<b>Bank of Israel interest rate, 6 months ahead</b>	1.80% (up 0.30)	2.00%
<b>Fed interest rate, 6 months ahead</b>	0.30% (up 0.05)	0.30%
<b>Yield on Israeli Government 10-Year bond, 6 months ahead</b>	4.97% (up 0.22)	5.10%
<b>Yield on US Treasury 10-Year bond, 6 months ahead</b>	3.40% (up 0.21)	4.00%
<b>Dollar exchange rate, 6 months ahead</b>	NIS 3.88 (up 0.3%)	NIS 3.87 (unchanged)

## Israel

**State tax revenues** totaled ILS 17.7 billion in May, close to our estimate. This figure strengthens our estimate of a surplus of about ILS 8-12 billion in revenues this year (1.0 to 1.5 percent of GDP), relative to the planning in the state budget.

However, a problem in tax revenues may arise in 2011 and 2012. The Ministry of Finance has not released its official revenue forecast yet, but its relatively high growth forecast (3.6 percent in 2010, 3.8 percent in 2011, and 4.0 percent in 2012, as published earlier this week) and the difficulty of reducing the budget deficit for 2011 and 2012, as required by the Knesset's resolutions (3.0 percent of GDP in 2011 and 2.0 percent in 2012), may lead to excessively optimistic forecasts regarding tax revenues.

**The minutes of the interest-rate meetings** held in late May indicate that all four board members recommended not raising the interest rate. The meeting minutes also state that the Bank of Israel's econometric models predict a BOI interest rate of 2.1 percent in the last quarter of 2010 (according to one model) or 2.6 percent (according to another model), rising further during 2011. This means that according to the models, three or four rate hikes will be needed within the next five months. If the interest rate is raised more slowly, the models indicate that inflation in 2011 will be above the midpoint of the target range.

**Labor market data** for March were weak. **The number of employee positions** of Israeli workers decreased by 0.2 percent in March, and increased by 2.0 percent in the twelve months ended in March. **Average wages** per employee position of Israelis rose by 0.1 percent in March and by 3.6 percent in the twelve months ended in March (a real increase of only 0.1 percent).

## The Global Economy

The Economist has issued its monthly **Consensus Forecast of growth rates** in the advanced countries for 2011 and 2012. Growth forecasts for the US and Japan have been raised, while the forecast for the eurozone has been lowered.

## United States

Employment data for May were disappointing. The number of employed persons grew by 431,000, but a large majority of these workers were employed temporarily by the government to work on the national census. The number of private-sector jobs grew by only 41,000, versus an expected increase of 180,000. In addition, data for the preceding two months were adjusted downward. The unemployment rate decreased to 9.7 percent, from 9.9 percent in the preceding month, due to a decrease in the participation rate.

The ISM manufacturing sector purchasing managers' index fell to 59.7 points in May, from 60.4 points in April, a smaller decrease than expected. The service sector index rose to 55.6 points in May, from 55.4 points in April.

## Euro zone

The unemployment rate in the eurozone rose to 10.1 percent in April.

Retail sales in the Euro zone decreased by 1.1 percent in May, a sharper decline than expected.

Hungary's new government has announced that statistics published by the previous government are incorrect, and that the fiscal situation is far worse than previously estimated. This news caused worries over another "Greek" crisis, which also began with an incoming government's declaration that the previous administration had lied about fiscal data.

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

Forecast change, April 2010 to July 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)
1.2%	3.1%	4.5%	1.1%	1.3%

### Important Announcements in the Coming Week

- The Central Bureau of Statistics (CBS) will publish data on incoming tourism to Israel on Wednesday, June 9.
- Interest-rate decisions in the eurozone and in the UK will be announced on Thursday, June 10.
- Data on retail sales will be published in the US on Friday, June 11.
- The CBS will publish data on Israel's foreign trade on Sunday, June 13.
- The CBS will publish data on the balance of payments for the first quarter of 2010 on Monday, June 14.

This review is posted online at [www.harel-finance.co.il/macro](http://www.harel-finance.co.il/macro) in Hebrew

and at <http://www.harel-group.com/finance.html> in English.

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