

Weekly Macroeconomic Review

February 9, 2010

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		Minus 0.3% in January Minus 0.2% in February
Future cumulative inflation – next 12 CPIs (through November 2010 CPI)		2.0%
Inflation through July 2011 CPI (average annual rate)	2.0%	2.4%
Bank of Israel interest rate, 6 months ahead	1.65% (up 0.40)	2.00%
Fed interest rate, 6 months ahead	0.30% (up 0.05)	0.30%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.20% (up 0.25)	5.25%
Yield on US Treasury 10-Year bond, 6 months ahead	3.84% (up 0.25)	4.25%
Dollar exchange rate, 6 months ahead	NIS 3.73 (unchanged)	NIS 3.73 (unchanged)

Israel

State tax revenues totaled ILS 17.2 billion in January, above our estimates and Ministry of Finance forecasts. If this trend continues in the coming months, the 2010 budget deficit may be far lower than the 5.5 percent of GDP planned in the state budget.

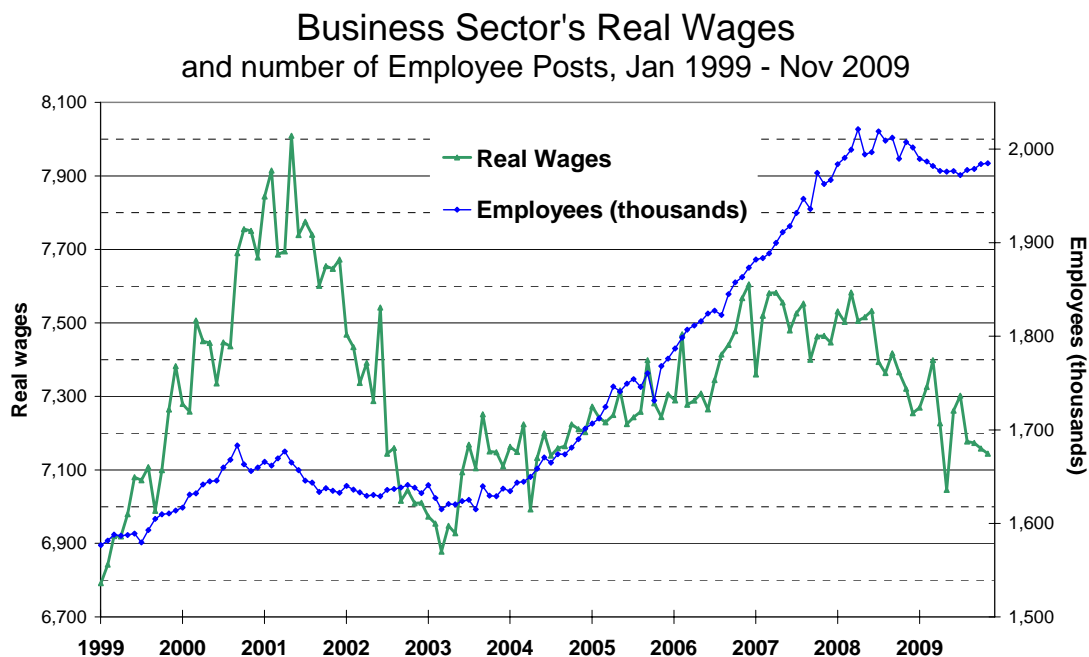
Inflation expectations in the short term (up to three years ahead) implied in the bond market decreased significantly over the last week, without justification in our opinion.

BOI foreign currency purchases: According to an announcement by the Bank of Israel, it bought USD 1.6 billion in January – near the monthly amount during the period of its regular interventions in the FX market in 2008-2009.



The number of employee positions of Israeli workers remained almost unchanged in November and in the twelve months ended in November. Average nominal wages per employee position of Israelis rose by 0.1 percent in November and by 1.4 percent in the twelve months ended in November, a real decrease of 2.4 percent.

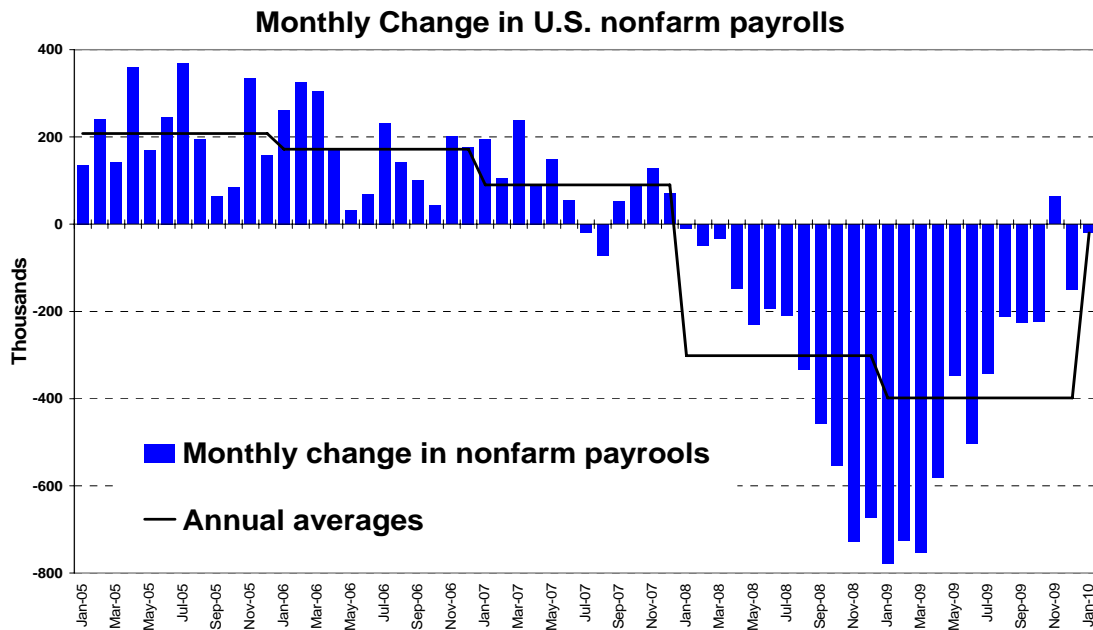
In the business sector, the number of employees remained almost unchanged in November and decreased by 1.3 percent in the twelve months ended in November. Real wages decreased by 0.2 percent in November and by 2.4 percent in the twelve months ended in November.



United States

Employment Report data for January were disappointing. The number of employed persons fell by 20,000, versus expectations of a small increase. In addition, data for previous months were revised, mostly downward (sharper declines). Due to a decrease in the workforce participation rate, the unemployment rate fell from 10.0 percent to 9.7 percent.





The ISM services sector index stood at 50.5 points in January, lower than expected.

Euro zone

The ECB maintained the interest rate unchanged at 1.0 percent, as expected.

Retail sales remained almost flat in December, below expectations.

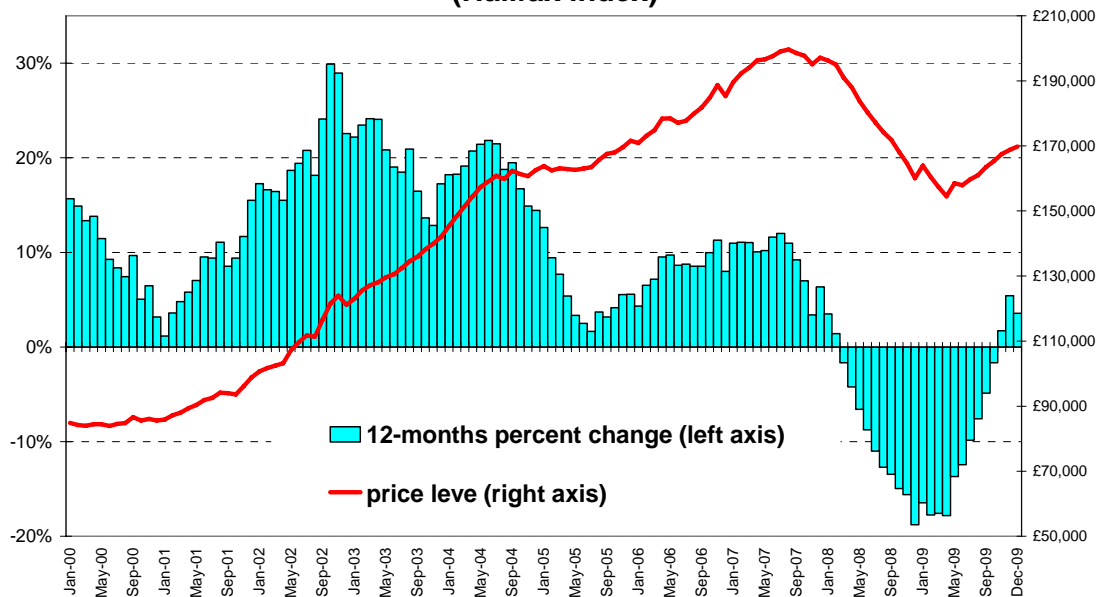
United Kingdom

The UK's central bank left the interest rate unchanged at 0.5 percent, as expected. The bank announced that its GBP 200 billion purchase plan would end and it would not request an extension at this point.

The UK's Halifax house price index rose by 0.6 percent in January and by 3.6 percent in the twelve months ended in January, more than expected.



UK house prices (Halifax index)



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

Forecast change, December 2009 to March 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)
-0.5%	-0.1%	3.2%	0.6%	-2.2%



Important Announcements in the Coming Week

- The Central Bureau of Statistics will publish data on Israel's foreign trade on Wednesday, February 10.
- Retail sales figures will be published in the US on Thursday, February 11.
- The initial estimate of fourth-quarter growth will be published in the euro zone on Friday, February 12.
- The CBS will publish the price index for January on Monday, February 15.

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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