

## Weekly Macroeconomic Review

June 9, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.4% in May 0.3% in June
Future cumulative inflation – next 12 CPIs (through April 2010)		2.3%
Inflation through May 2010 CPI (average annual rate)	2.7%	2.5%
Bank of Israel interest rate, 6 months ahead	1.10% (up 0.60)	1.00%
Fed interest rate, 6 months ahead	0.60% (up 0.35)	0.50%
Yield on Israeli Government 10-Year bond, 6 months ahead	6.08% (up 0.33)	6.00%
Yield on US Treasury 10-Year bond, 6 months ahead	4.09% (up 0.24)	4.25%
Dollar exchange rate, 6 months ahead	NIS 3.98 (unchanged)	NIS 4.06 (up 2.0%)

## Israel

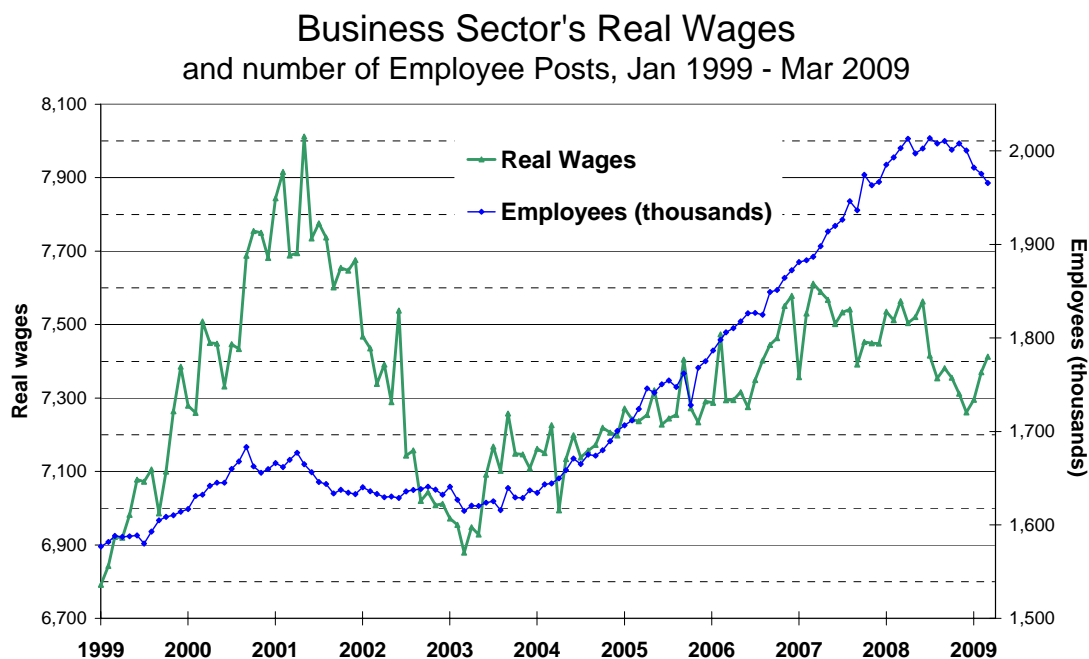
**Government bond yields** continued to rise all across the curve. Yields of long-term unlinked bonds maturing in 2026 reached 6.2 percent, after prices fell by 5 percent over the last three weeks. The increase in yields of **US government bonds** and the increase in implied inflation expectations in these bonds contributed to this process. The **concerns over strained relations between Israel and the US** may also be affecting bond yields in Israel, due to a decrease in investors' confidence that Israel can rely on US aid during an economic or budgetary crisis. In addition, the considerable difficulties encountered by the Ministry of Finance in setting budget targets and tax rates, revealed in the government's budget discussions and in the preparations for approval of the budget by Knesset, have damaged the **credibility of macro-economic policy** and raised the fiscal risk premium. **In our opinion the increase in yields was mostly justified, but the current yield level is beginning to be attractive, especially in the medium-term range.**

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**State tax revenues** totaled ILS 14.9 billion in May. This figure is consistent with our estimate and with the amended annual estimate in the state budget.

The number of employee positions was stable in March, while average wages rose slightly. The **number of jobs of Israeli employees** decreased by 0.1 percent in March and by 0.7 percent in the twelve months ended in March. Average **nominal wages** for an employee position of Israelis rose by 0.8 percent in March and by 1.4 percent in the last twelve months, with 2.1 percent erosion in real wages, net of the CPI.

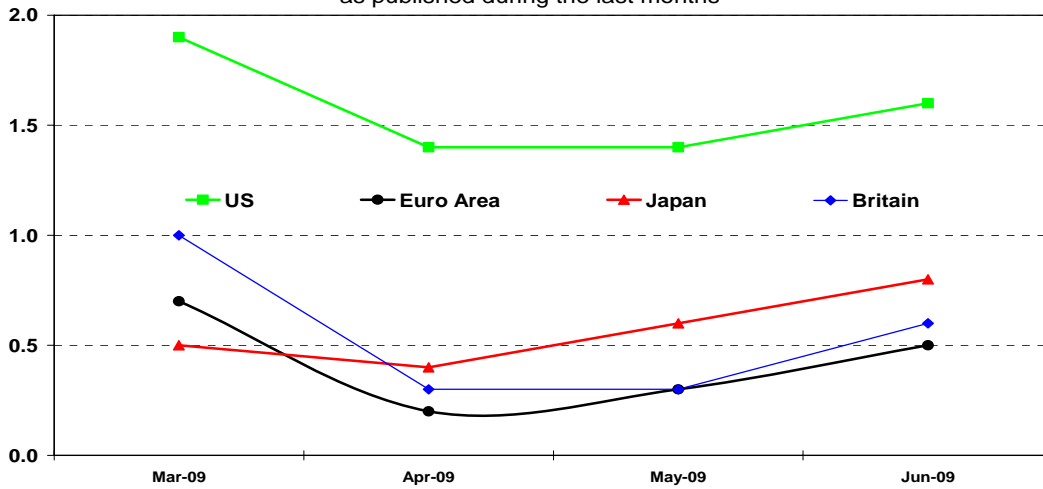
**In the business sector**, the number of employee positions (including non-Israelis) decreased by 0.5 percent in March, while real wages rose by 0.6 percent.



### Growth forecasts for advanced economies

The *Economist* has published its **monthly Consensus Forecast** of growth rates in the advanced countries; forecasts for 2010 rose slightly.

### Growth Forecasts for 2010 as published during the last months

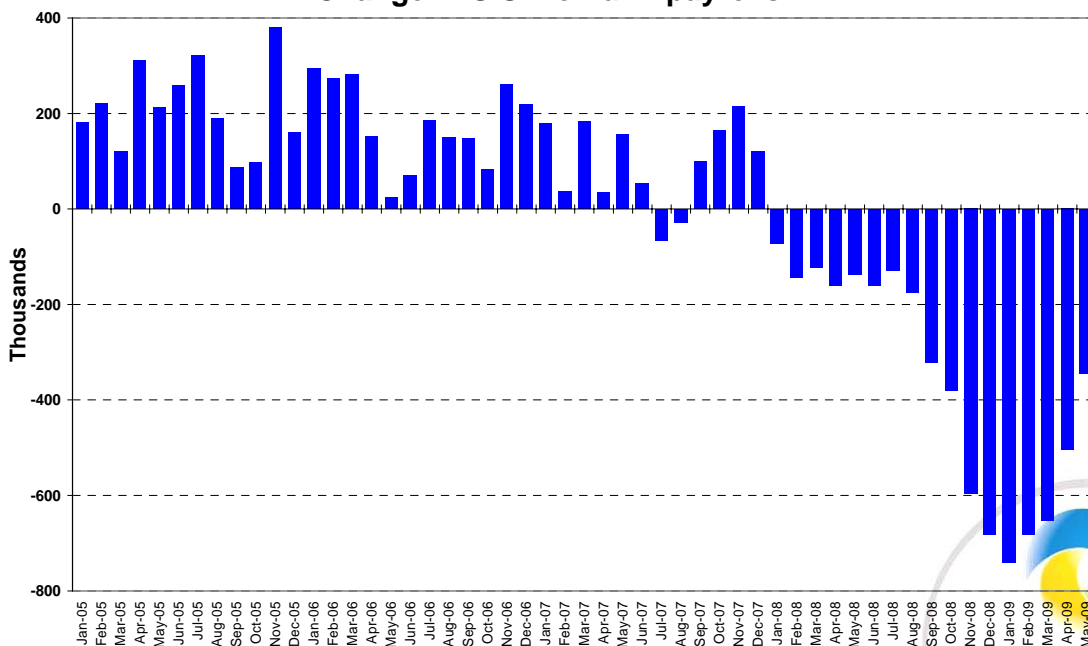


Source: The Economist, Consensus Forecast

### United States

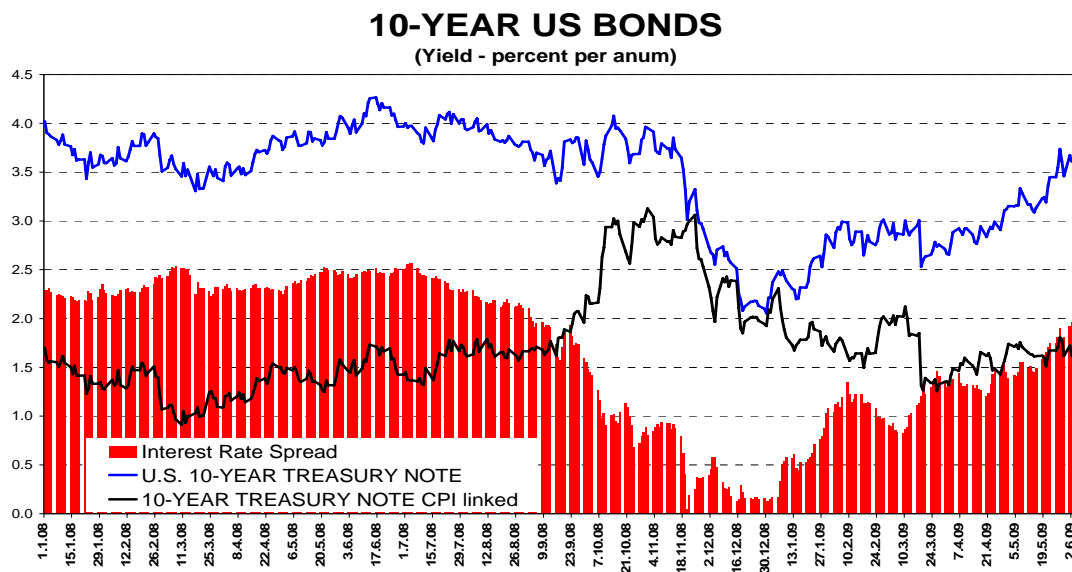
The unemployment rate rose sharply to 9.4 percent, higher than expected. However, at a decrease of 345,000 jobs, the job loss rate was a positive surprise, indicating continued weakening of the global crisis. The **expected Fed interest rate** rose sharply following the publication of the employment figures; investors now believe that this rate will rise to 0.50 to 0.75 percent within six months, an increase of about half a percentage point.

### Change in U.S. nonfarm payrolls



The ISM service sector index reached 44 points in May, below expectations, but an improvement relative to April.

The increase in US government bond yields continued. Inflation expectations have also increased, to 1.7 percent for five years and 2.0 percent for ten years, as well as expectations regarding the real interest rate.

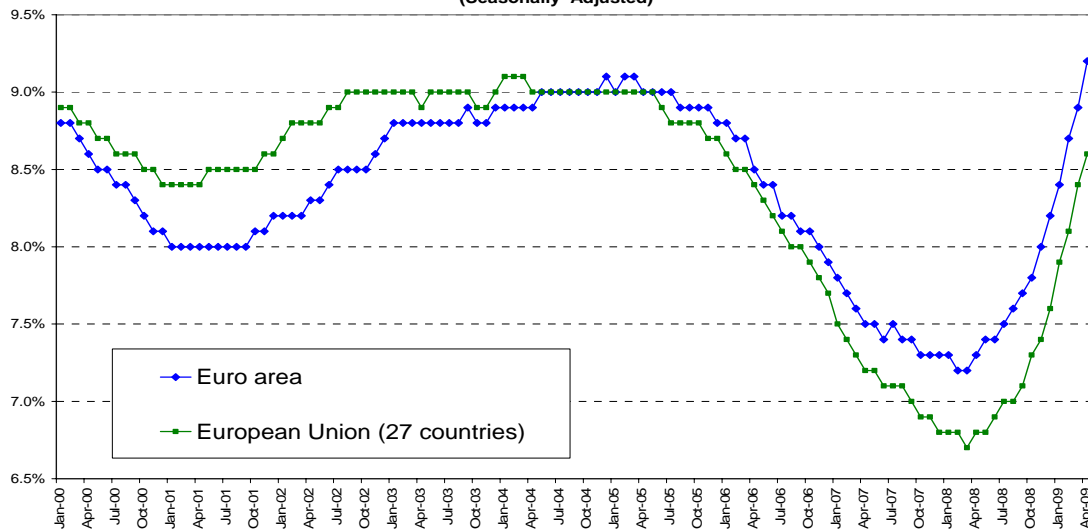


## Europe

As expected, the interest rate in the euro zone remained unchanged at 1.0 percent, and the interest rate in the UK remained at 0.5 percent.

Unemployment in the euro zone continued to rise sharply, reaching 9.2 percent in April, above expectations, versus 8.9 percent in March and 7.3 percent in April 2008. The overall unemployment rate for the European Union reached 8.6 percent in April, lower than the rate in the euro zone.

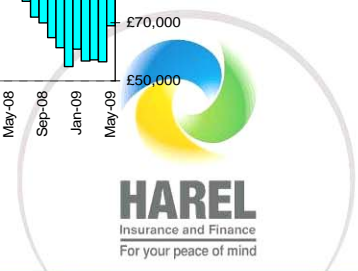
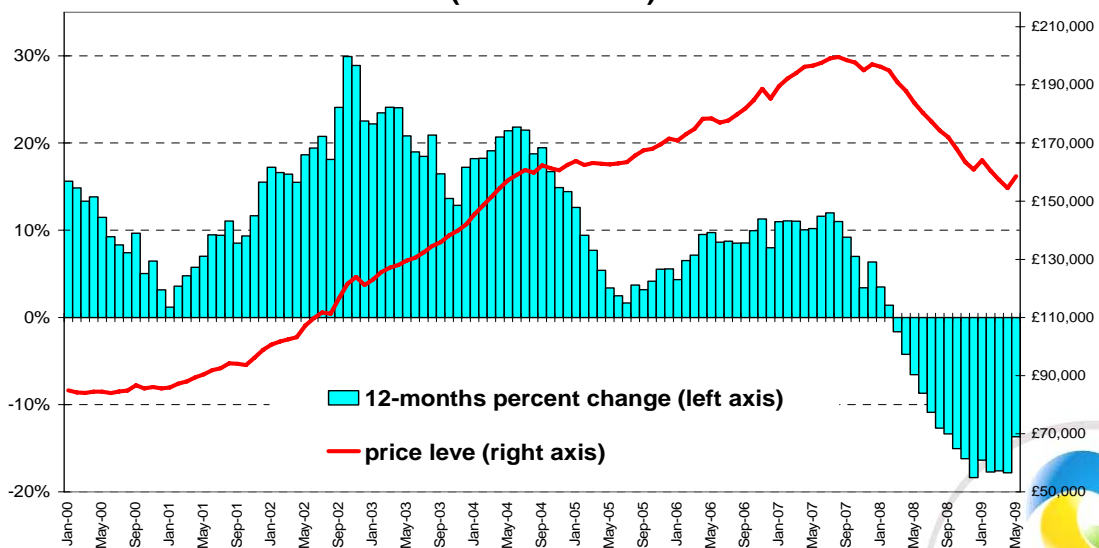
### Euro area and Eu27 Unemployment rates (Seasonally Adjusted)



Retail sales in the euro zone rose by 0.2 percent in April, in line with expectations, while the previous month's data were adjusted upward. Sales have decreased by 2.3 percent in the last twelve months.

The UK's Halifax house price index rose, surprisingly, by 2.3 percent in May, but remains 21 percent lower than the record level of August 2007.

### UK house prices (Halifax index)



## Important Announcements in the Coming Week

- The Central Bureau of Statistics will publish data on Israel's foreign trade, and retail sales figures will be published in the US, on Thursday, June 11.
- Data on the balance of payments for the first quarter of 2009 and the consumer price index will be published on Monday, June 15.

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

and at [www.harel-finance.co.il/macro/ENG](http://www.harel-finance.co.il/macro/ENG) in English.

Please address comments or questions to Mr. Ofer Klein at

[oferk@harel-finance.co.il](mailto:oferk@harel-finance.co.il)

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