

Weekly Macroeconomic Review

November 10, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.2% in October 0.3% in November
Future cumulative inflation – next 12 CPIs (through September 2010 CPI)		2.7%
Inflation through July 2011 CPI (average annual rate)	2.5%	2.5%
Bank of Israel interest rate, 6 months ahead	1.20% (up 0.45)	1.50%
Fed interest rate, 6 months ahead	0.35% (up 0.10)	0.35%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.24% (up 0.28)	5.24%
Yield on US Treasury 10-Year bond, 6 months ahead	3.72% (up 0.24)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.75 (unchanged)	NIS 3.75 (unchanged)

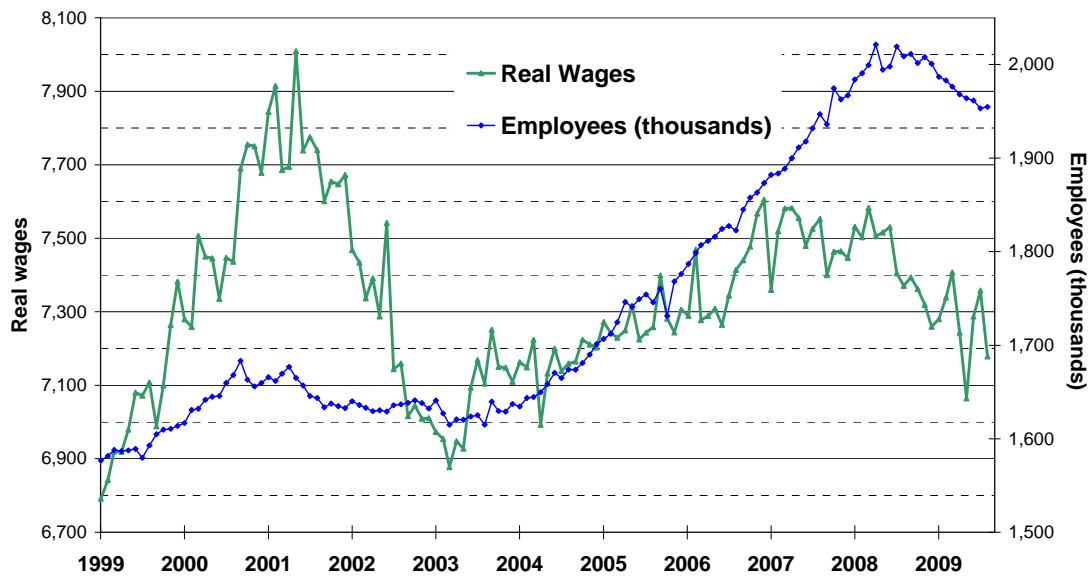
Israel

State tax revenues totaled ILS 14 billion in October, somewhat below the trajectory of the previous months. **We estimate** that tax revenues in 2009 will be slightly higher than planned in the budget (by about 0.5 percent of GDP).

The number of **employee positions of Israeli workers** grew by 0.5 percent in August and fell by 0.6 percent in the twelve months ended in August. **Average nominal wages for employee positions** of Israelis decreased by 1.1 percent in August, and increased by 0.8 percent in the twelve months ended in August (a real decrease of 2.2 percent).

Figures for the **business sector** were weaker, as the **number of positions** fell by 2.7 percent and **real wages** decreased by 2.6 percent in the twelve months ended in August.

Business Sector's Real Wages
and number of Employee Posts, Jan 1999 - Aug 2009



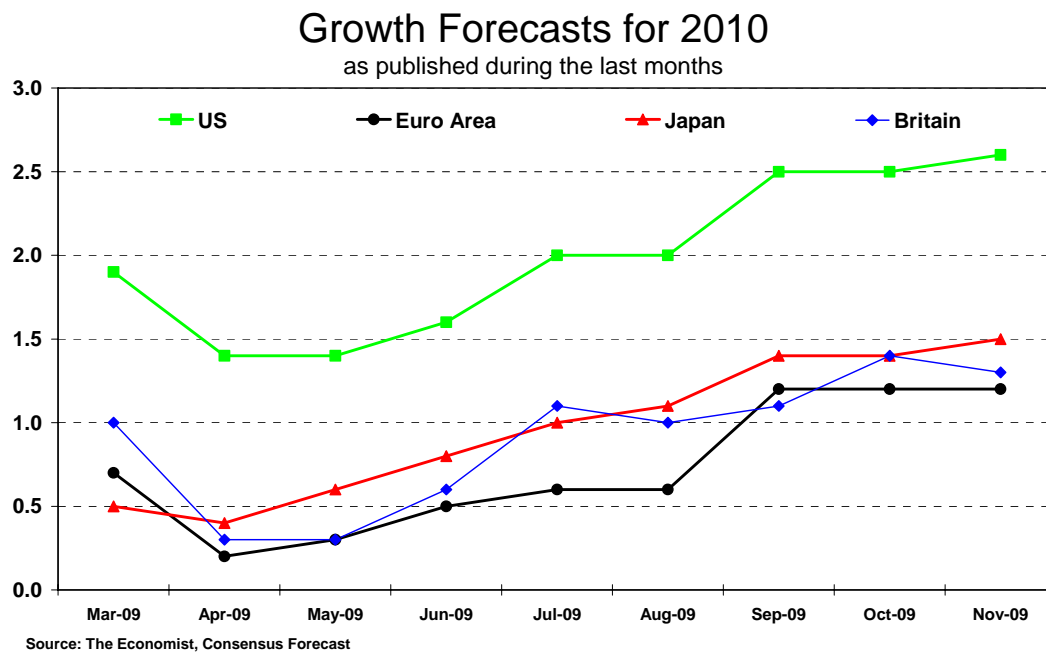
Foreign-currency reserves of the Bank of Israel increased to USD 61 billion. The BOI announced purchases of USD 1.3 billion in October, versus USD 1.6 billion in September, approximately USD 4 billion in August, and about USD 2 billion in each of the preceding months (in fixed daily purchases).

Minutes of the last interest-rate decision meeting, in which the BOI Governor decided to leave the interest rate unchanged at 0.75 percent, show that three members of the governing board recommended maintaining the interest rate unchanged, while one member recommended an increase.

The two econometric models used by the BOI generate very different results concerning the required interest-rate trajectory. According to one of the models, the interest rate should remain almost unchanged, reaching just 0.9 percent by the end of 2010. According to the other model, the interest rate should rise quickly, to 2.9 percent at the end of 2010. **Our current estimate** is that the interest rate will stand at approximately 2 percent at the end of 2010, i.e. close to the average of the two models.

Growth forecasts for advanced economies

The *Economist* has published its monthly Consensus Forecast of growth rates in the advanced countries. There were no significant changes in the estimates.



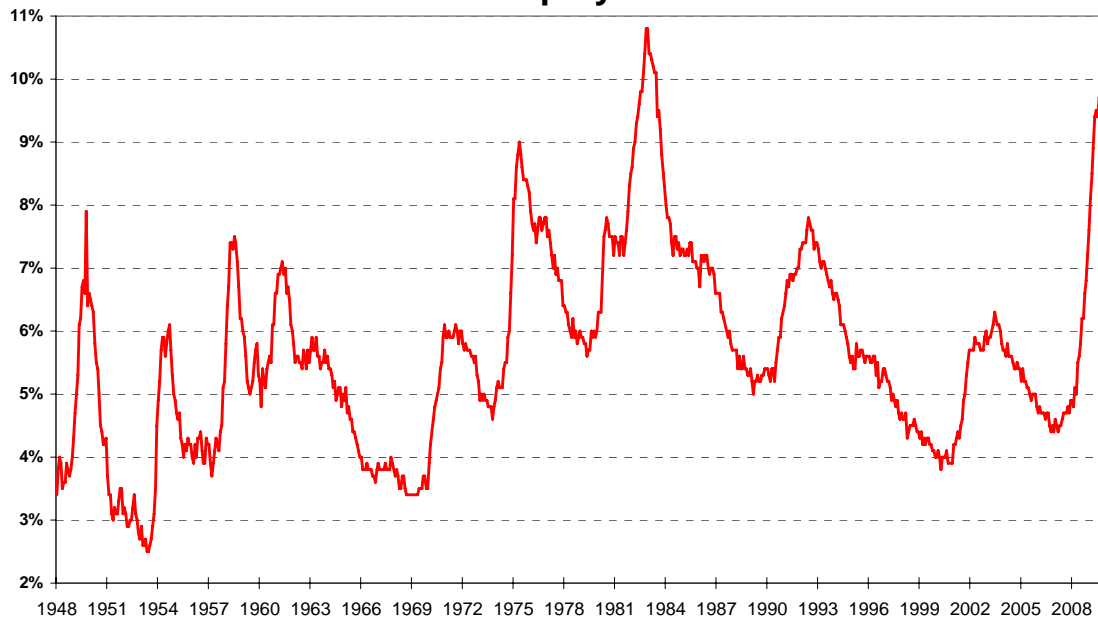
The forecast for the US increased slightly; interestingly, the forecast for 2010, at 2.6 percent, is much higher than the 1.5 percent forecast by the International Monetary Fund.

United States

The employment report for October was weaker than expected. The **unemployment rate** reached a double-digit level of 10.3 percent in October, above expectations. The **number of employed persons** decreased for the 22nd consecutive month, by 190,000, a larger-than-expected decline; however, data for the preceding two months were updated to reflect more moderate decreases.



U.S.A Unemployment rate



As expected, **the Fed left the interest rate unchanged** at 0-0.25 percent. Its press release stated that the interest rate is expected to stay low for a long period, despite the signs that the economy is beginning to recover. It was further noted that the economic downturn is expected to weaken future inflationary pressures.

The **ISM service sector index** stood at 50.6 points in October, similar to September, but lower than expected.

United Kingdom

The **UK central bank** left the interest rate unchanged at 0.5 percent, as expected. The bank also announced an increase of the purchase plan by GBP 25 billion, to GBP 200 billion. This quantitative expansion is designed to boost the stagnating economy, especially in light of recent data indicating contraction of GDP in the UK in the third quarter of 2009.

The **UK's Halifax house price index** rose by 1.2 percent in October, above expectations for the fourth consecutive month.

Our forecast of changes in price indices during the coming three months

Forecast change, September 2009 to December 2009

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)
0.8%	0.2%	0.1%	-1.5%	-1.7%

Important Announcements in the Coming Week

- The Central Bureau of Statistics (CBS) will publish data on Israel's foreign trade on Wednesday, November 11.
- The CBS will publish data on incoming tourists to Israel on Thursday, November 12.
- The consumer price index and the initial estimate of growth in the third quarter of 2009 will be published in the euro zone on Friday, November 13.
- The CBS will publish the consumer price index for October on Sunday, November 15.
- The CBS will publish the initial estimate of growth in the third quarter of 2009, the initial estimate of growth in the third quarter of 2009 will be published in Japan, and retail sales data will be published in the US on Monday, November 16.

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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