

Weekly Macroeconomic Review

February 11, 2009

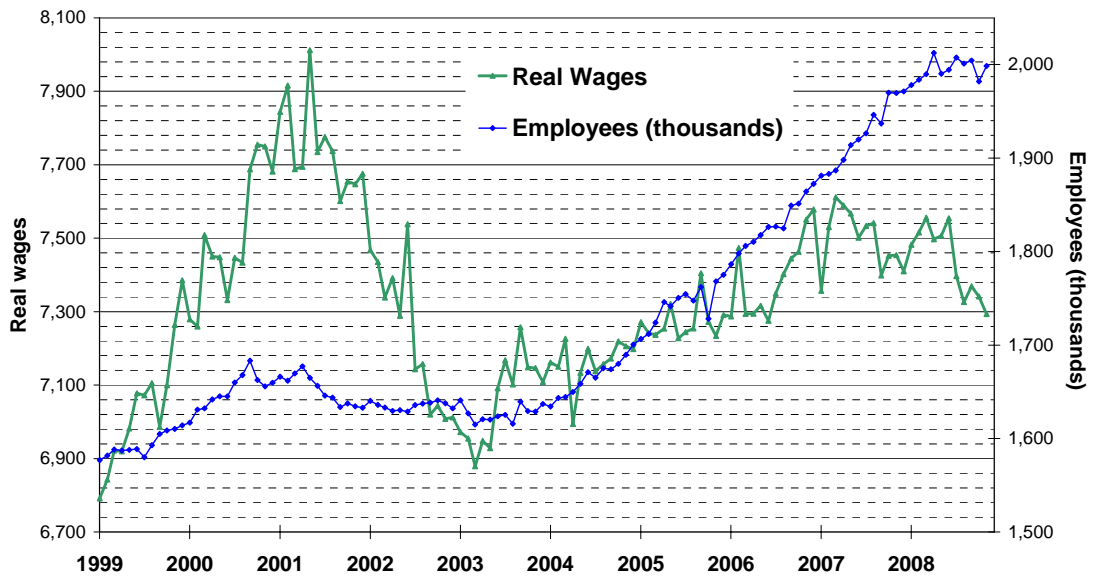
	Expectations derived from the capital market	Our forecast
Inflation in the coming months		Minus 0.4% in January 0.2% in February
Future cumulative inflation – next 12 CPIs (through December 2009)		1.8%
Inflation through May 2010 CPI (average annual rate)	0.2%	2.0%
Bank of Israel interest rate, 6 months ahead	1.15% (up 0.15)	0.75%
Fed interest rate, 6 months ahead	0.35% (up 0.10)	0.25%
Dollar exchange rate, 6 months ahead	NIS 4.06 (unchanged)	NIS 4.17 (up 2.8%)

Israel

State tax revenues totaled ILS 14.3 billion in January. This figure is consistent with our estimate of a shortfall of approximately ILS 35 billion (4.5 percent of GDP) in tax revenues relative to budget planning for 2009.

The number of employee positions of Israelis rose by 0.8 percent in November and by 1.6 percent in the last twelve months. **Average nominal wages** for an employee position of Israelis decreased by 0.7 percent in November and increased by 3.6 percent in the last twelve months. In the **business sector**, the number of employee positions (including non-Israelis) increased by 1 percent in November, while real wages decreased by 0.7 percent.

Business Sector's Real Wages and number of Employee Posts, Jan 1999 - Nov 2008

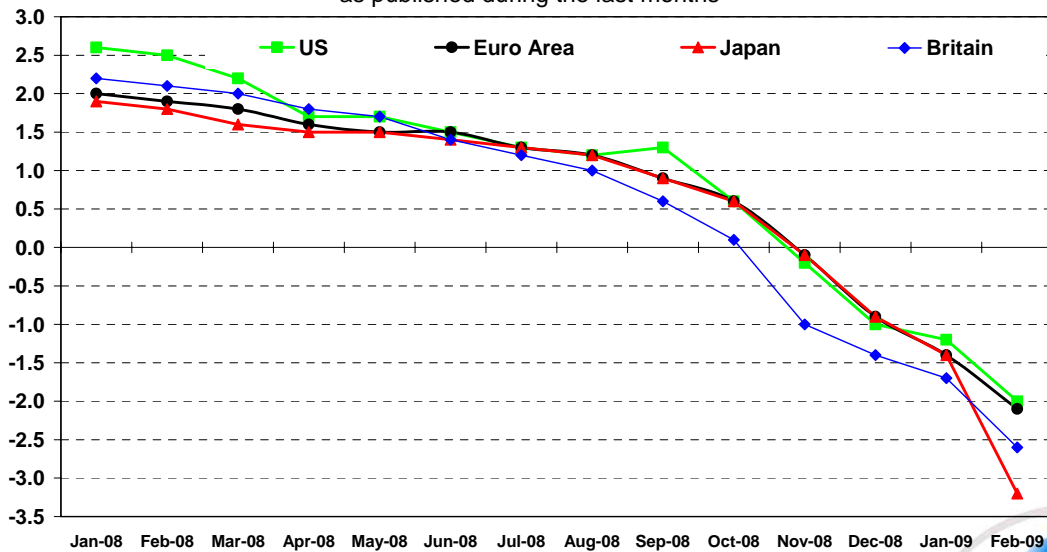


Growth forecasts for advanced economies

The *Economist* has issued its monthly Consensus Forecast of growth rates in the advanced countries. Growth forecasts for 2009 dropped dramatically after the reduction of the global growth forecast by the International Monetary Fund (IMF).

Growth Forecasts for 2009

as published during the last months



Source: The Economist, Consensus Forecast

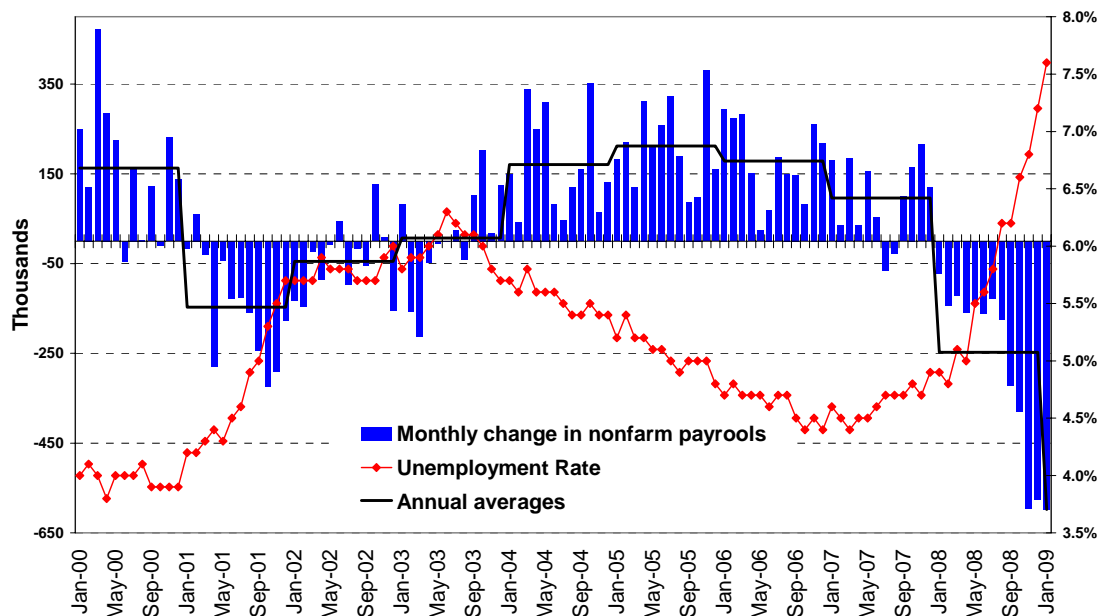


United States

The US Treasury announced a **bailout plan for the financial sector** on Tuesday. The plan is the **largest in US history**, with a massive amount of USD 2.5 trillion to be injected into the financial system. According to the plan, USD 350 billion will be financed by the previous bailout plan, while the remaining funds will be raised from private investors and from the Fed, which will make use of its ability to print money. Although the scope of the plan is significantly larger than originally expected, the markets reacted negatively to the announcement, mainly due to the lack of information regarding the question whether the government plan would include buying high-risk mortgages and toxic assets held in banks' balance sheets.

The **employment report for January** was worse than expected. The **unemployment rate** rose by 0.4 percentage points, to 7.6 percent, the highest rate in the last sixteen years. The labor market lost 598,000 **jobs** in January, versus an expected decrease of 540,000 jobs.

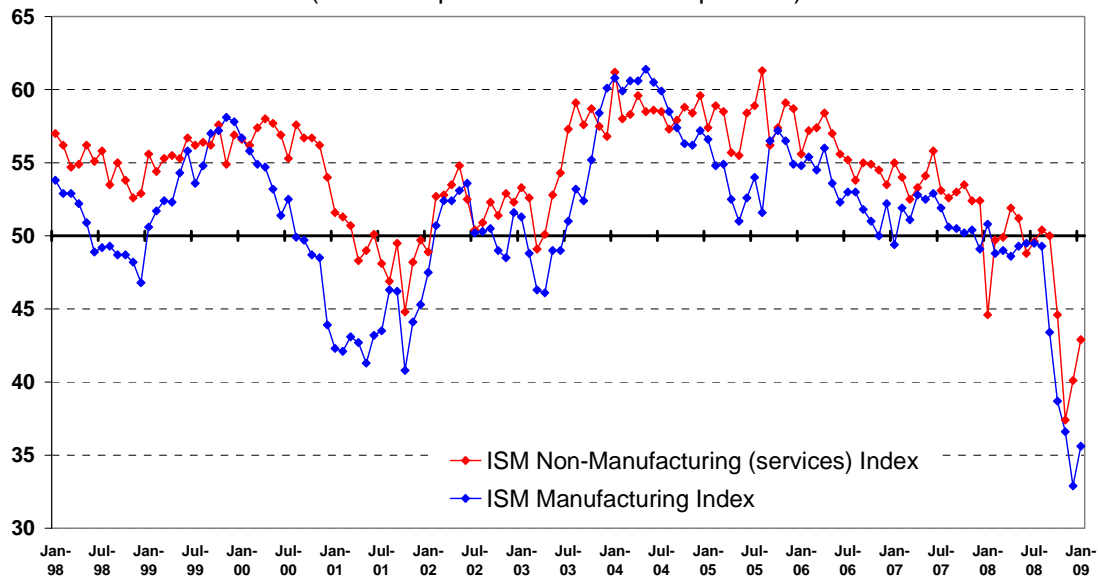
Change in U.S. nonfarm payrolls and Unemployment rate



The **ISM service sector index in the US** rose to 42.9 points in January, from 40.1 points in December, above expectations but still below 50 points (indicating contraction).

The Institute for Supply Management Index

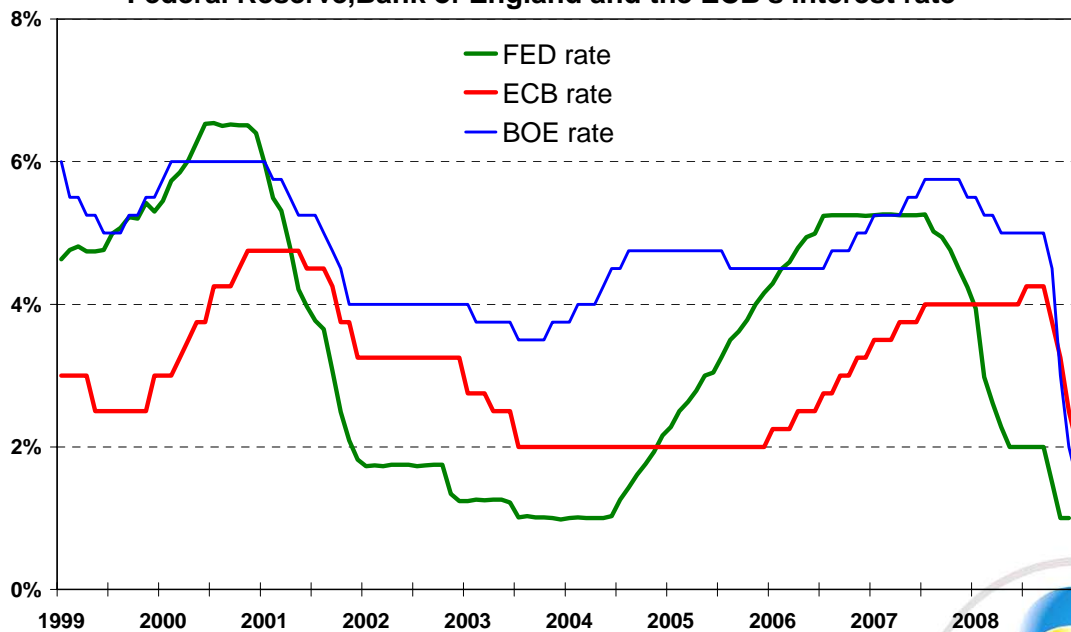
(above 50 points indicates an expansion)



Europe

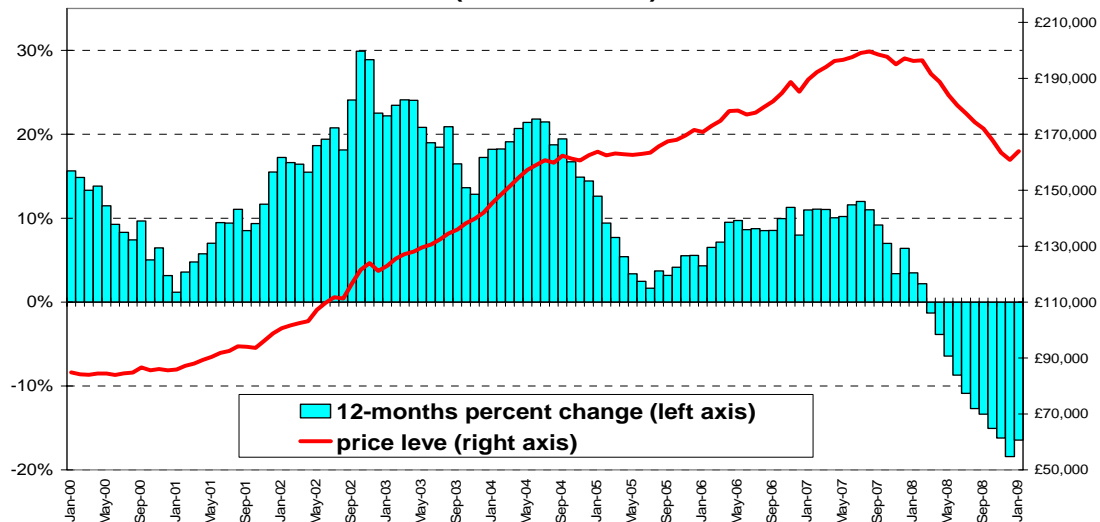
The **European Central Bank (ECB)** left the interest rate unchanged at 2.0 percent, as expected. The President of the ECB hinted at an interest-rate cut at the next meeting in March, following the downward adjustment of the bank's growth and inflation estimates. The **UK central bank** lowered the interest rate by 0.5 percentage points, to 1.0 percent, the lowest level in its history.

Federal Reserve, Bank of England and the ECB's Interest rate



UK housing prices, based on the Halifax house price index, posted a surprising 1.9 percent increase in January. However, these prices are still 18 percent lower than the peak of August 2007.

UK house prices (Halifax index)



Important Announcements in the Coming Week

- The Central Bureau of Statistics (CBS) will publish data on Israel's foreign trade on Thursday, February 12th.
- The fourth-quarter growth estimate will be published in the euro zone on Friday, February 13th.
- The CBS will publish price indices for January on Sunday, February 15th.

This review is posted online at www.harel-finance.co.il/macro in Hebrew

and at www.harel-finance.co.il/macro/ENG in English.

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