

Weekly Macroeconomic Review

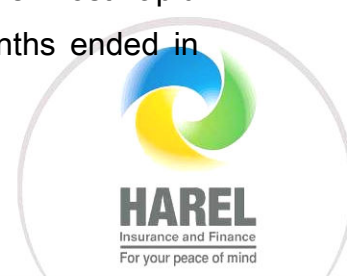
April 13, 2010

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.0% in March 0.9% in April
Future cumulative inflation – next 12 CPIs (through February 2011 CPI)		2.4%
Inflation through July 2011 CPI (average annual rate)	2.9%	3.0%
Bank of Israel interest rate, 6 months ahead	1.95% (up 0.45)	2.25%
Fed interest rate, 6 months ahead	0.35% (up 0.10)	0.35%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.23% (up 0.23)	5.25%
Yield on US Treasury 10-Year bond, 6 months ahead	4.09% (up 0.26)	4.35%
Dollar exchange rate, 6 months ahead	NIS 3.69 (up 0.7%)	NIS 3.68 (unchanged)

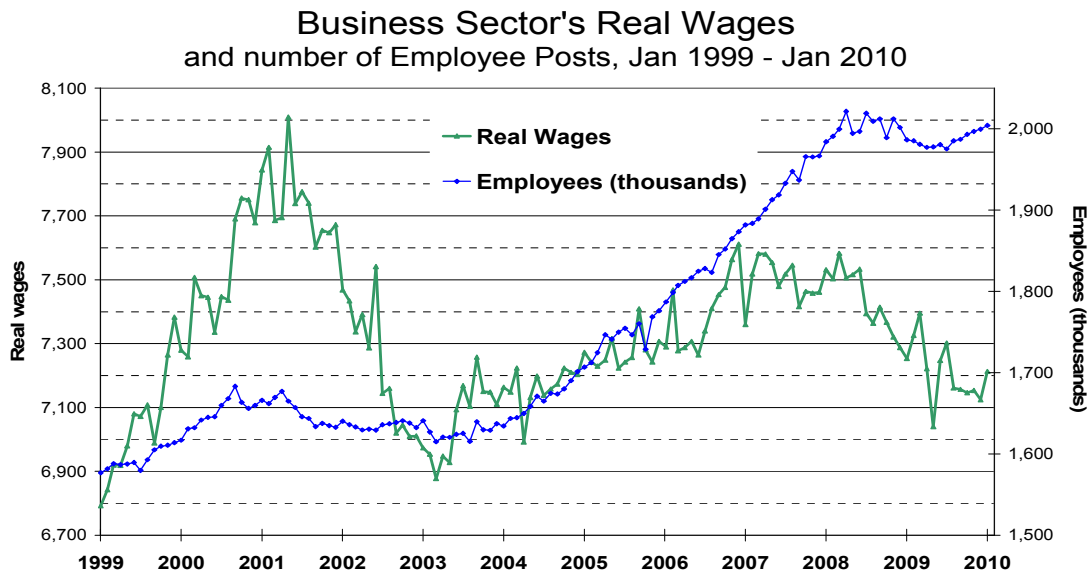
Israel

State tax revenues totaled ILS 16.3 billion in March. This figure conforms with our expectations and strengthens our estimate that tax revenues in 2010 will be significantly higher (by 1-2 percent of GDP) than the forecast in the state budget.

The number of employee positions of Israeli workers rose by 0.5 percent in January, the fastest growth in a long time, and by 1.9 percent in the twelve months ended in January. **Average nominal wages** per employee position of Israeli workers increased by 1.8 percent in January – also the most rapid growth in a long time – and by 2.6 percent in the twelve months ended in January, which still reflects a 2.0 percent decline in real wages.



In the business sector, the number of employee positions grew by 0.2 percent in January and by 0.9 percent in the twelve months ended in January. **Real wages** rose by 1.2 percent in January and decreased by 0.5 percent in the twelve-month period.



The minutes of the interest-rate discussions held at the Bank of Israel in late March note that according to the BOI's econometric models, the interest rate is expected to reach 3.4 percent by the first quarter of 2011 based on the DSGE model, and 2.6 percent based on the EC model. Expectations of the market and of economists (including ours) are in greater agreement with the second model. It was also noted that the recommendation of all four board members to the BOI Governor was to raise the interest rate – slightly surprising, given economists' estimates of a 50 percent probability of an increase in the interest rate.

The meeting minutes also contain the following interesting passage, though without conclusions: *The members of the forum also addressed the developments in asset prices, particularly prices of homes. They discussed the effect of the low interest rate on the development of these prices, the effect of an increase in the interest rate on these prices, and the need to monitor the development of and consider these prices. They also addressed the issuance of corporate bonds with low ratings and unrated bonds, and raised the question whether the spreads in the issues of these bonds appropriately reflect the risk level of the companies.*

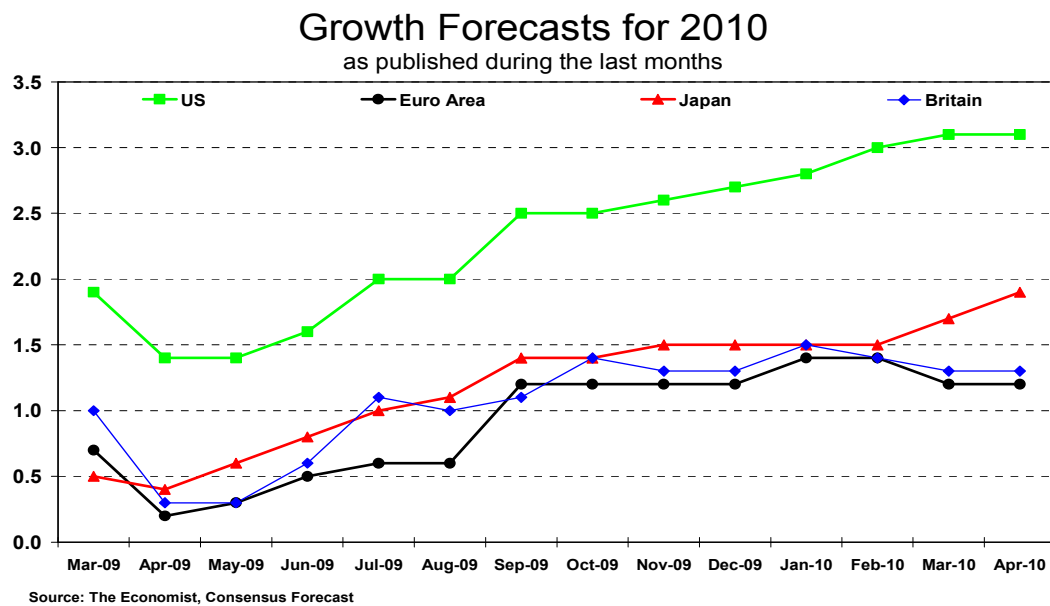
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In view of the statements in the meeting minutes and the positive data from the labor market, the pace of the **increase in the interest rate** in the coming months may be more rapid than expected in the capital market.

Growth forecasts for advanced economies

The *Economist* has published its monthly Consensus Forecast of growth rates in the advanced countries; there are almost no changes in the forecasts.



Euro zone

The **European Central Bank** left the interest rate unchanged, as expected, at 1.0 percent for the eleventh consecutive month. The ECB President reiterated that the data indicate that the economic recovery is proceeding in line with expectations, but with variation among the countries in the EU.

Retail sales fell by 0.6 percent in February and by 0.9 percent in the twelve months ended in February, below expectations.

Yields of ten-year Greek government bonds rose above 7 percent over the last week, as the gap between these bonds and German government bonds expanded to 4 percent. This is the largest gap since Greece joined the eurozone in 2001. Following the recent announcements of possible aid from eurozone countries and the International Monetary Fund, the gap began to contract.

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

Forecast change, February 2010 to May 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)
1.3%	1.9%	4.8%	0.8%	0.3%

Important Announcements in the Coming week

- The Central Bureau of Statistics (CBS) will publish data on incoming tourism to Israel on Tuesday, April 13.
- Data on retail sales and the consumer price index will be published in the United States on Wednesday, April 14.
- The CBS will publish the price indices for March on Thursday, April 15.
- The consumer price index will be published in the eurozone on Friday, April 16, and data on construction starts and permits will be published in the United States.
- The CBS will publish an update on growth in 2009 and the industrial production and trade and service sector revenue indices on Sunday, April 18.

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.

Please address comments or questions to Mr. Ofer Klein at

oferk@harel-finance.co.il

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