

## Weekly Macroeconomic Review

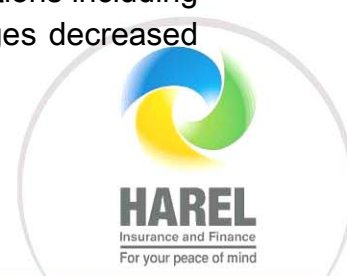
January 13, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		Minus 0.2% in December Minus 0.3% in January
Future cumulative inflation – next 12 CPIs (through november 2009)		1.5%
Inflation through May 2010 CPI (average annual rate)	Minus 0.4%	2.0%
Bank of Israel interest rate, 6 months ahead	1.55% (down 0.20)	1.25%
Fed interest rate, 6 months ahead	0.35% (up 0.10)	0.25%
Dollar exchange rate, 6 months ahead	NIS 3.93 (up 0.4%)	NIS 4.08 (up 4.1%)

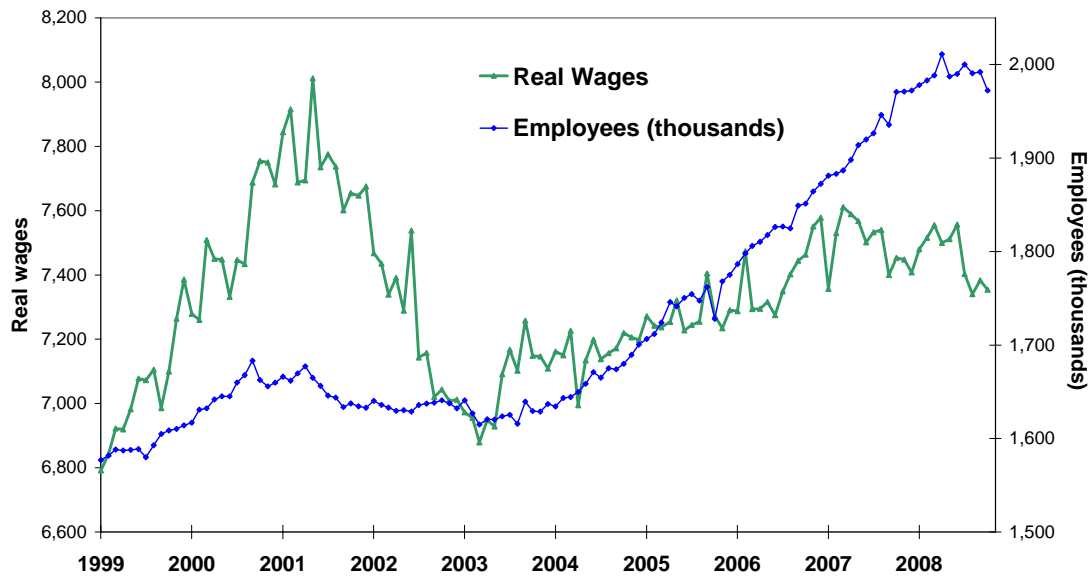
## Israel

The report of the Bank of Israel's December 29<sup>th</sup> monetary discussion, when the decision regarding the 0.75-percentage-point rate cut was made, indicates that three of the five senior executives recommended a reduction of 1 percentage point. Since the interest-rate decision, the **shekel** has maintained stability against the currency basket, losing 2 percent against the dollar but gaining 6 percent against the euro; **oil prices** have fallen sharply; **inflation expectations** for the near term have remained negative; **labor market data** have shown a decline in the number of employed Israelis; and **global growth forecasts** have been substantially lowered. We therefore believe that there is a high probability of an additional interest-rate cut by the BOI on January 26<sup>th</sup>, likely by 0.5 points, unless the shekel depreciates significantly by the date of the decision.

The number of **employee positions** of Israelis decreased by 1.8 percent in October and by 0.2 percent in the last twelve months. **Average wages** for Israelis' employee positions rose by 0.8 percent in October and by 4.5 percent in the last twelve months. In the **business sector**, employee positions including non-Israelis decreased by 1 percent in October, while real wages decreased by 0.4 percent.



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

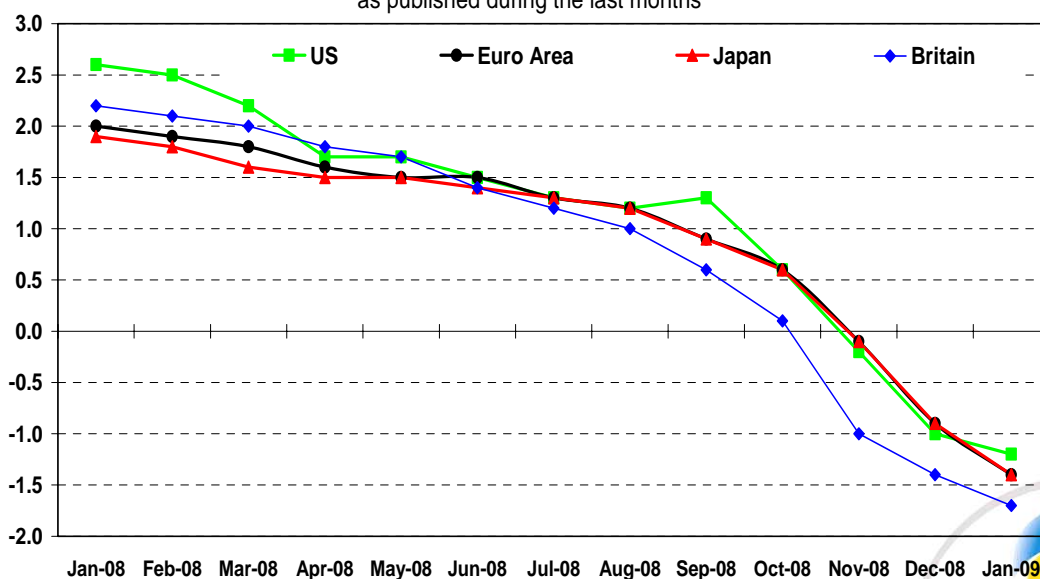


### Growth forecasts for advanced economies

The *Economist* published its monthly Consensus Forecast of growth rates in the advanced countries. Growth forecasts for 2009 were significantly reduced again, as were inflation estimates. Estimates now call for growth of negative 1 percent to negative 2 percent in most of the advanced economies.

### Growth Forecasts for 2009

as published during the last months



Source: The Economist, Consensus Forecast

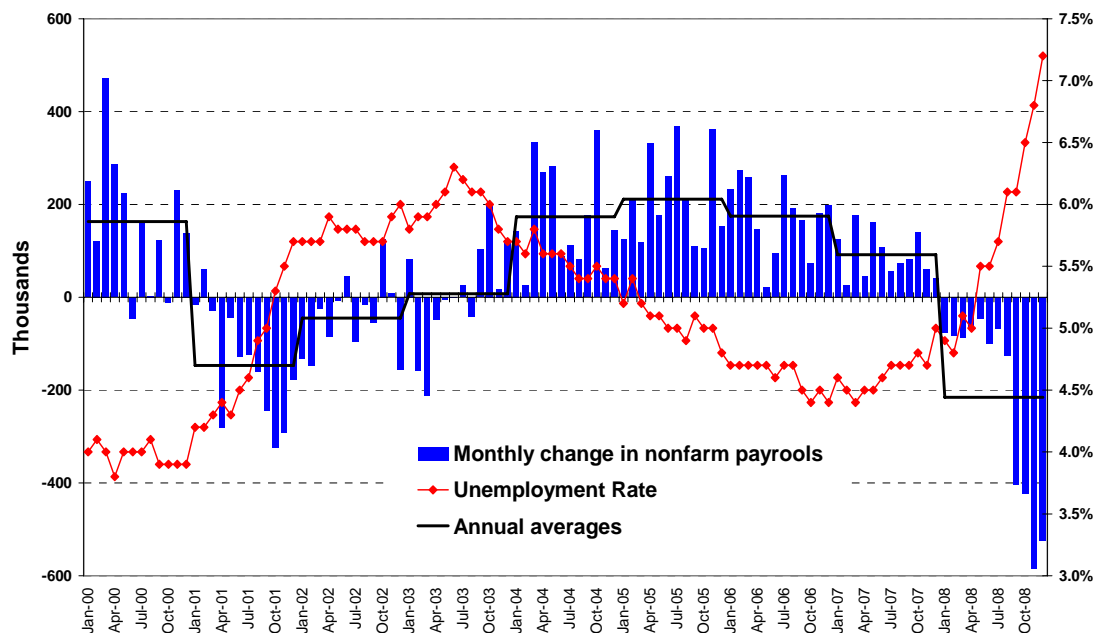
## Oil prices

The price of a WTI oil barrel fell sharply over the last week, by 26 percent in dollar terms and by 24 percent in euro terms. The price of Brent oil decreased at a far more moderate rate.

## United States

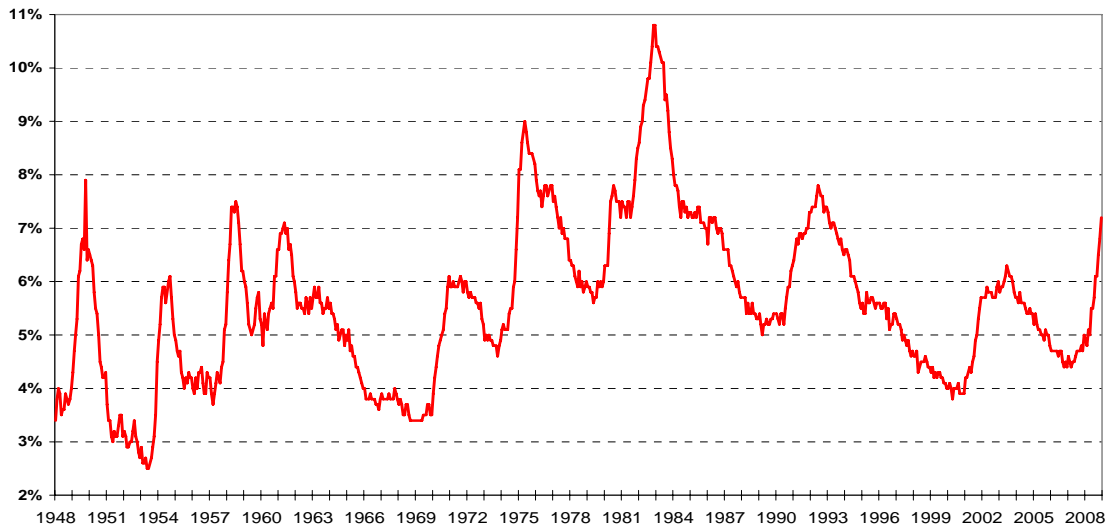
The deterioration in the labor market worsened in December. The number of jobs decreased by 520,000, similar to November, while data for previous months were adjusted downward. In 2008, the American economy lost an average of about 220,000 jobs each month.

Change in U.S. nonfarm payrolls and Unemployment rate



The **unemployment rate** rose by 0.4 percentage points to 7.2 percent, the highest level since 1993, but still much lower than the peak of 10.8 percent in 1982.

### U.S. Unemployment rate

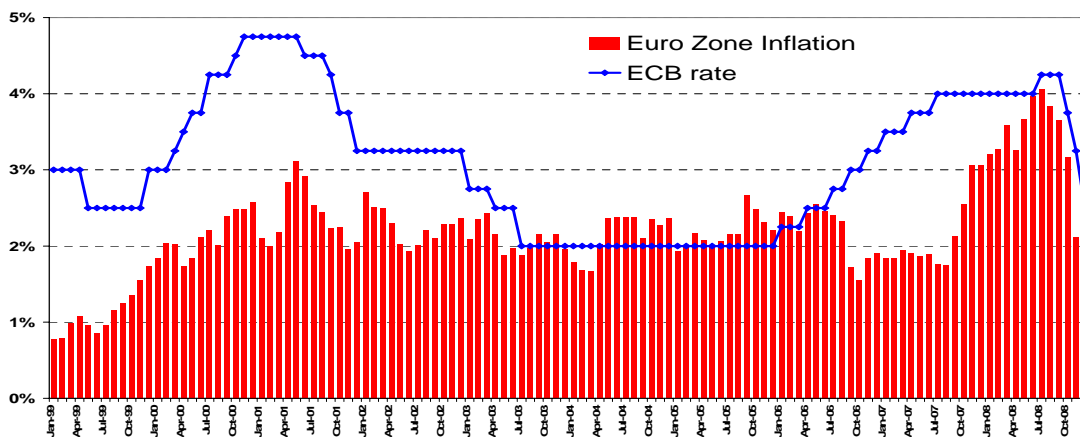


### Europe

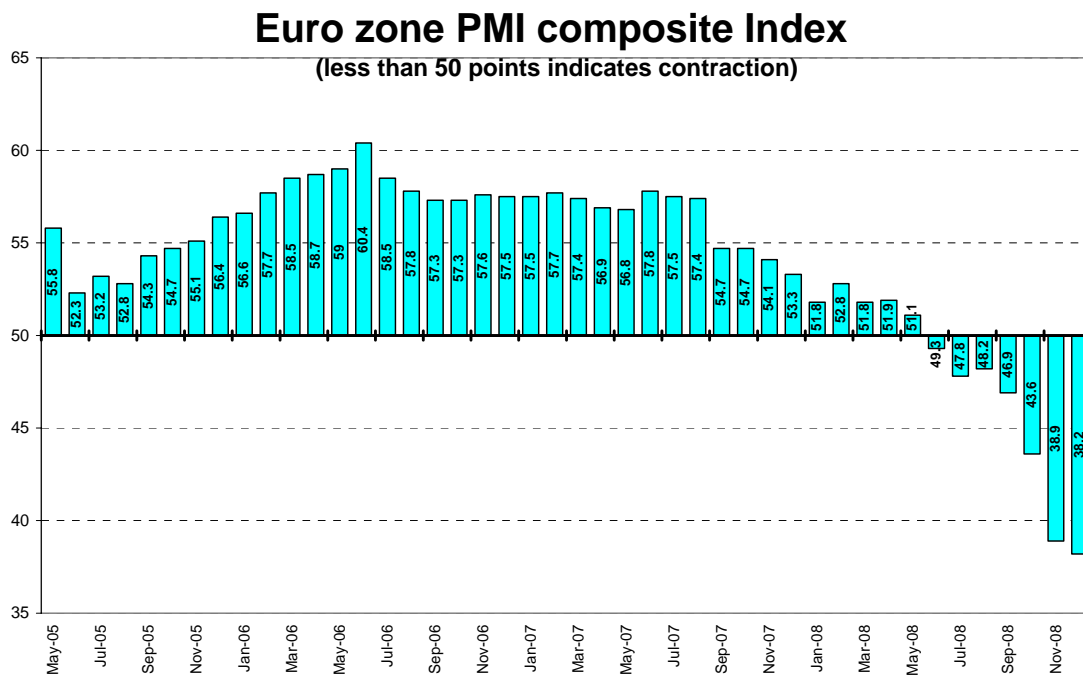
The **UK central bank** lowered the interest rate by 0.5 percentage points, to 1.5 percent, as expected. Nonetheless, the British pound gained strength following the bank's interest-rate announcement, which raised doubts over further rate cuts in the coming months.

According to an initial estimate, **inflation** in the euro zone was 1.6 percent in December, lower than the expected 1.8 percent.

### Euro Zone Inflation and ECB Interest Rate



The **unemployment rate** in the euro zone rose to 7.8 percent in November, compared to 7.2 percent in November 2007. **GDP** in the euro zone contracted by 0.2 percent in the third quarter of 2008, or 0.8 percent in annualized terms, similar to the second quarter and in line with expectations. The **purchasing managers' index** was 38.2 points in December, as expected. In our opinion, these figures support a reduction of the interest rate by the ECB this Thursday.



### Recommended activity on the capital market

- Short and medium-term Israeli government bonds (maturing up to 2016) are preferable to longer-term bonds, in our opinion, in both the linked and the unlinked segments. The slope of the interest-rate curve in the short and medium-term ranges is very steep, whereas in the long-term range the slope is weak and does not reflect the difficult budgetary conditions anticipated in 2009.

### Important Announcements in the Coming Week

- The Central Bureau of Statistics (CBS) will publish data on Israel's foreign trade on Tuesday, January 13th.
- The CBS will publish data on incoming tourism in Israel and the December CPI on Thursday, January 15th.
- The ECB will announce its interest-rate decision on Thursday, January 15th.
- The CPI will be published in the United States on Friday, January 16th.
- The CBS will publish the industrial production index and the trade and service sectors revenue index on Monday, January 19th.



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.

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