

Weekly Macroeconomic Review

October 13, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.0% in September 0.3% in October
Future cumulative inflation – next 12 CPIs (through August 2010 CPI)		2.6%
Inflation through July 2011 CPI (average annual rate)	2.2%	2.3%
Bank of Israel interest rate, 6 months ahead	1.20% (up 0.45)	1.50%
Fed interest rate, 6 months ahead	0.40% (up 0.15)	0.40%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.35% (up 0.29)	5.45%
Yield on US Treasury 10-Year bond, 6 months ahead	3.58% (up 0.23)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.72 (unchanged)	NIS 3.72 (unchanged)

Israel

State tax revenues totaled ILS 15.3 billion in September, slightly below the trajectory of the preceding months. However, these revenues are expected to be higher than planned in the state budget in 2009 (ILS 173 billion), and there is a reasonable chance of revenues higher than the planned ILS 183 billion in 2010 as well.

In the labor market, the number of employee positions decreased, along with a moderate increase in average nominal wages. **The number of employee positions of Israelis** decreased by 0.5 percent in July and by 1.6 percent in the twelve months ended in July. **Average nominal wages for an employee position of Israelis** grew by 0.6 percent in July and by 2.3 percent in the twelve months ended in July, with a 1.1 percent decrease in real wages.



The Bank of Israel bought USD 1.6 billion in September, compared with USD 4 billion in August and USD 2 billion (in regular daily purchases) each month until July.

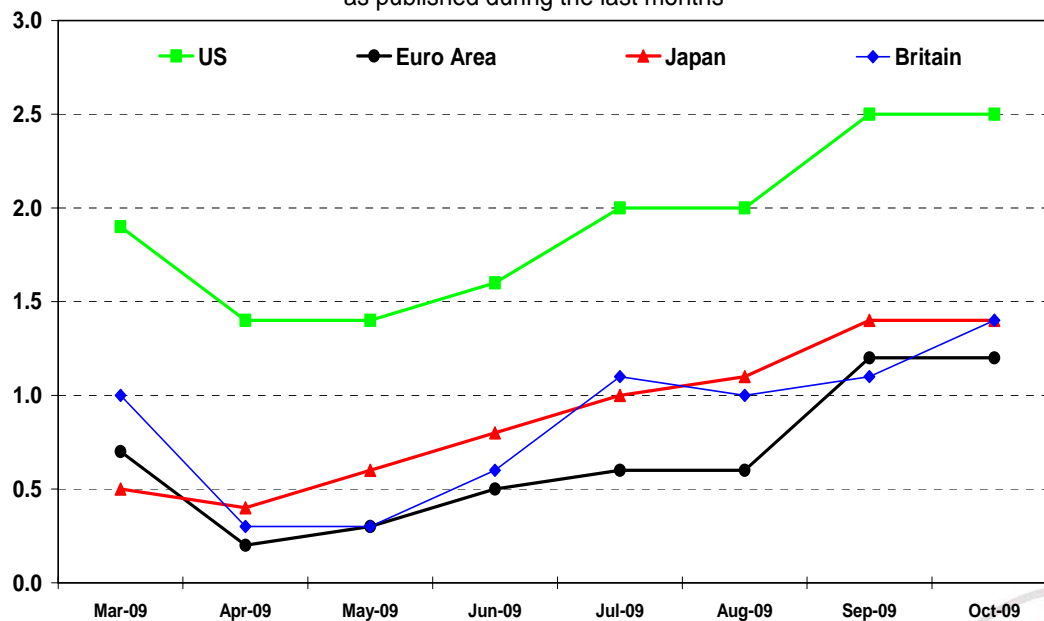
The minutes of the last interest-rate decision meeting, in which the BOI Governor decided to maintain the interest rate at 0.75 percent, indicate that three out of the four board members recommended raising the interest rate by 0.25 percentage points. The minutes also state that according to the two econometric models used by the BOI, the interest rate is expected to reach 1.50 percent (in one model) or 3.00 percent (in the other model) by the end of 2010.

Growth forecasts for advanced economies

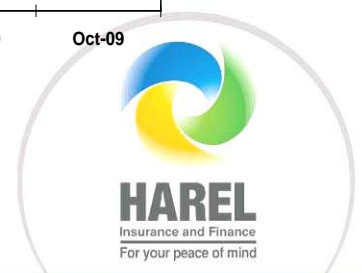
The *Economist* has published its monthly Consensus Forecast of growth rates in the advanced countries. No significant changes in the forecasts emerged, following the increases of the previous month.

Growth Forecasts for 2010

as published during the last months



Source: The Economist, Consensus Forecast

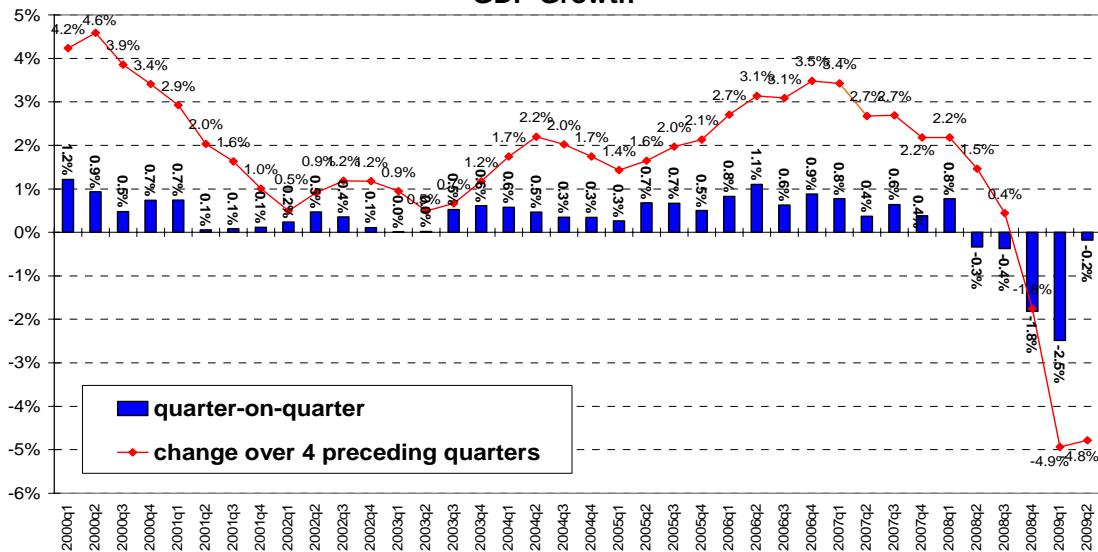


Europe

The ECB left the interest rate unchanged at 1.0 percent, while the UK central bank left the interest rate unchanged at 0.5 percent, both as expected.

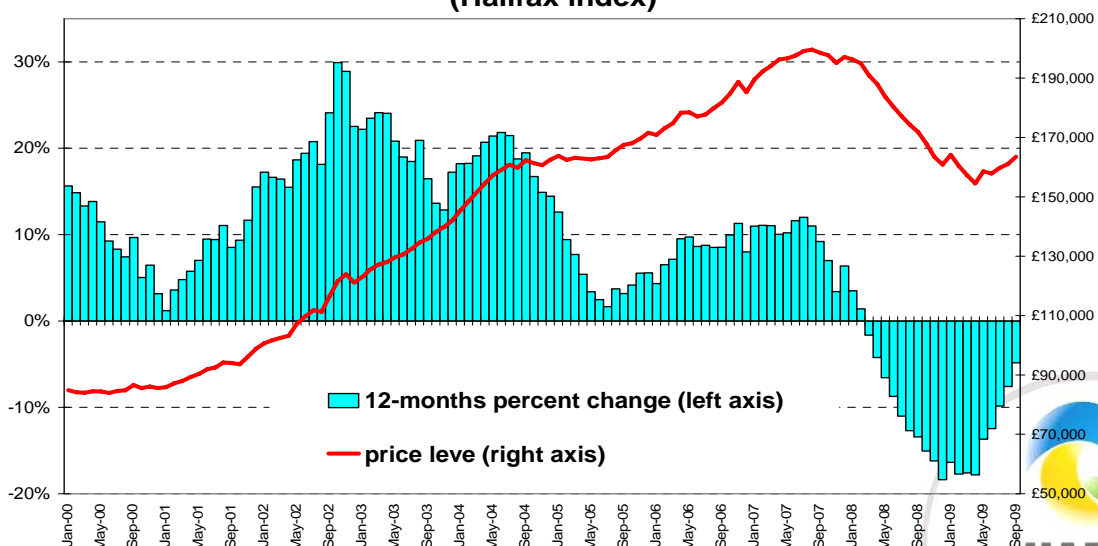
According to updated data, GDP in the euro zone contracted by 0.2 percent in the second quarter of 2009 (0.7 percent in annualized terms), a sharper decline compared to the initial estimate.

Euro Zone GDP Growth



The UK's Halifax house price index rose by 1.6 percent in September, above expectations.

UK house prices (Halifax index)



Important Announcements in the Coming Week

- Data on retail sales in the US will be published on Wednesday, October 14.
- Consumer price indices will be published in Israel, the US, and the euro zone on Thursday, October 15.
- The Central Bureau of Statistics will publish data on Israel's foreign trade and an update of growth data for the second quarter of 2009 on Sunday, October 18.

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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