

Weekly Macroeconomic Review

December 15, 2009

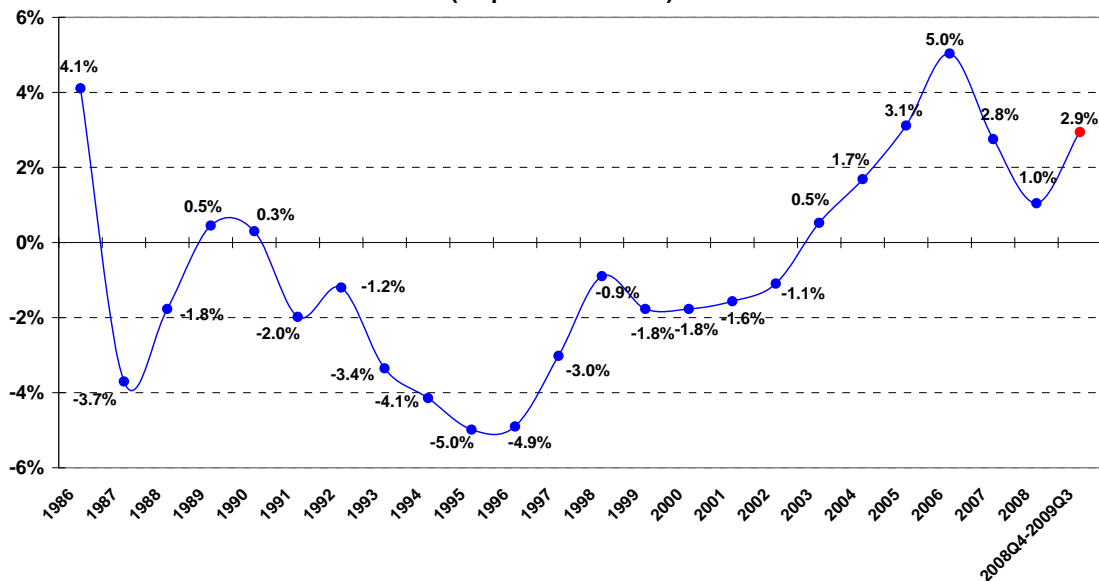
	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.3% in November 0.3% in December
Future cumulative inflation – next 12 CPIs (through October 2010 CPI)		2.7%
Inflation through July 2011 CPI (average annual rate)	2.8%	2.6%
Bank of Israel interest rate, 6 months ahead	1.35% (up 0.35)	1.75%
Fed interest rate, 6 months ahead	0.35% (up 0.10)	0.35%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.46% (up 0.28)	5.30%
Yield on US Treasury 10-Year bond, 6 months ahead	3.78% (up 0.24)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.78 (unchanged)	NIS 3.73 (down 1.2%)

Israel

The current account of the balance of payments reached a surplus of USD 1.3 billion in the third quarter, similar to the surplus in the preceding quarter, following a surplus of USD 2.5 billion in the first quarter. The surplus in the current account in the first three quarters of the year totaled USD 5.0 billion, following a surplus of USD 2.1 billion in the full year of 2008.

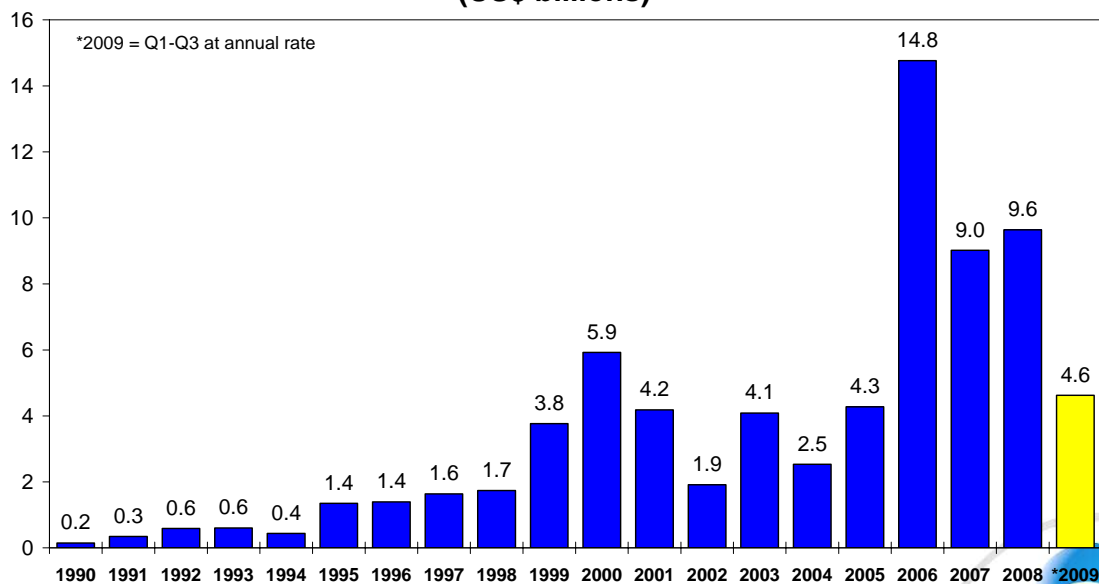
The cumulative surplus in the current account in the last four quarters totaled 2.9 percent of GDP, but we expect the surplus to decrease considerably in 2010, due to an expectation of faster growth of imports than of exports.

The Current Account (as percent of GDP)



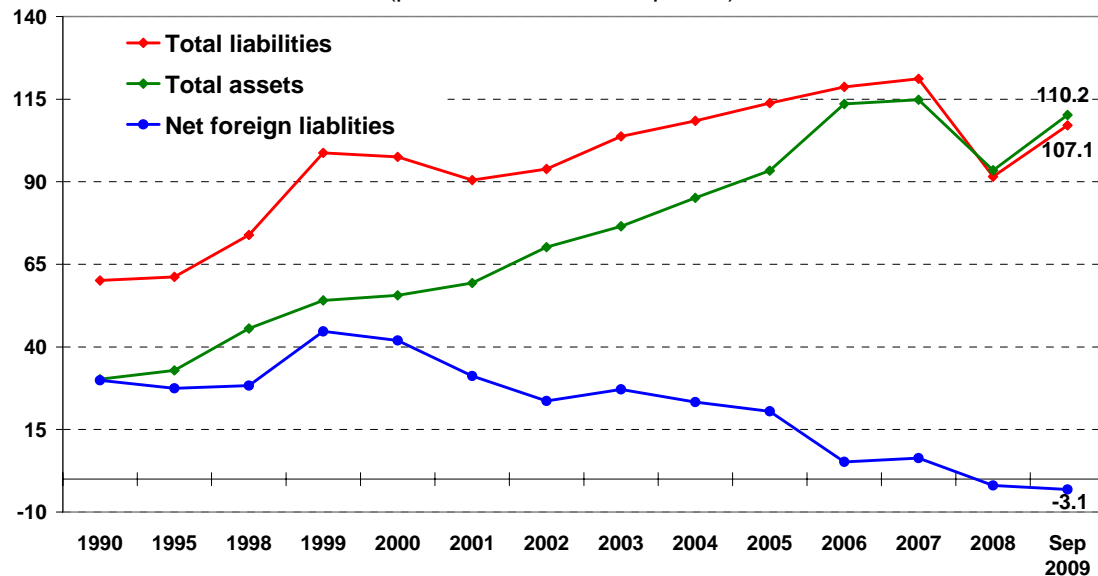
The increase in foreign direct investments in Israel in the third quarter amounted to USD 1.5 billion, following increases of USD 0.7 billion and USD 1.3 billion in the first and second quarters. The decrease in these investments this year was more moderate than the decrease in direct investments overseas by Israelis.

Net Inflows of Foreign Direct Investment in Israel (US\$ billions)



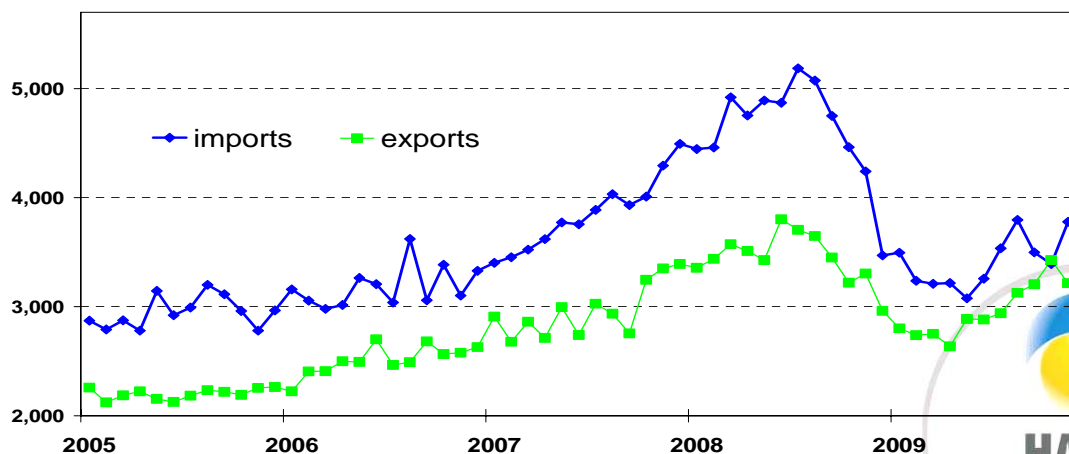
The balance of assets and liabilities of the Israeli economy (the international investment position) reached a surplus of assets over liabilities of USD 4.9 billion (3.1 percent of GDP) at the end of September 2009. This amount is based on overseas assets in the amount of USD 210.7 billion, offset by overseas liabilities of the Israeli economy in the amount of USD 205.8 billion.

Foreign Liabilities, Gross and Net (percent of GDP, end-period)



Exports of goods (excluding diamonds, ships, and aircraft, in dollar terms) decreased by 6 percent in November, following a steep increase at a similar rate in October. Exports contracted by 3 percent over the twelve months ended in November. By contrast, imports of goods grew by 11 percent in November and decreased by 11 percent in the twelve months ended in November. As a result, a significant trade deficit formed again in November.

Exports and Imports of Goods (US\$ millions per month, excl. diamonds, ships & airplanes) Jan 2005 - Nov 2009



The International Monetary Fund (IMF) delegation published its interim report following the completion of its visit to Israel.¹ The report contains several recommendations, including the following:

- The delegation called upon the Bank of Israel to return to a mobile exchange-rate regime without intervention in the foreign-currency market by the BOI, with the monetary interest rate to rise significantly above the effective floor level (within several months, according to our understanding).
- The delegation recommends that the government aim for lower than planned budgetary deficits in 2010 and 2011, in the event that growth globally and in Israel is better than expected; it emphasized that the expansion of the deficits and the public debt does not contribute to growth and may actually harm it. The delegation therefore also recommends making further reduction of income-tax rates contingent upon a decrease in the deficit, rather than allowing it to precede such a decrease.
- The delegation recommends forming a macro-financial stability unit within the Bank of Israel and strengthening the Israel Securities Authority and the Capital Market, Insurance, and Savings Division of the Ministry of Finance, including by granting the division full autonomy.

United States

Retail sales figures for November were surprisingly positive with an increase of 1.3 percent.

United Kingdom

In line with expectations, the central bank left the interest rate unchanged at 0.5 percent and made no change to the quantitative expansion plan.

The UK's Halifax house price index rose by 1.4 percent in November, more than expected, for the fifth consecutive month.

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

Forecast change, October 2009 to January 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)
0.3%	-0.9%	-0.5%	-0.2%	-1.5%

Important Announcements in the Coming Week

- The consumer price index for November will be published on Tuesday, December 15.
- The consumer price index will be published in the euro zone, and the consumer price index, the balance of payments, data on construction starts and permits, and the Fed's interest-rate decision will be published in the United States, on Wednesday, December 16.
- Israel's Central Bureau of Statistics will publish the industrial production index and the trade and service sectors revenue index on Sunday, December 20.

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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