

Weekly Macroeconomic Review

June 15, 2010

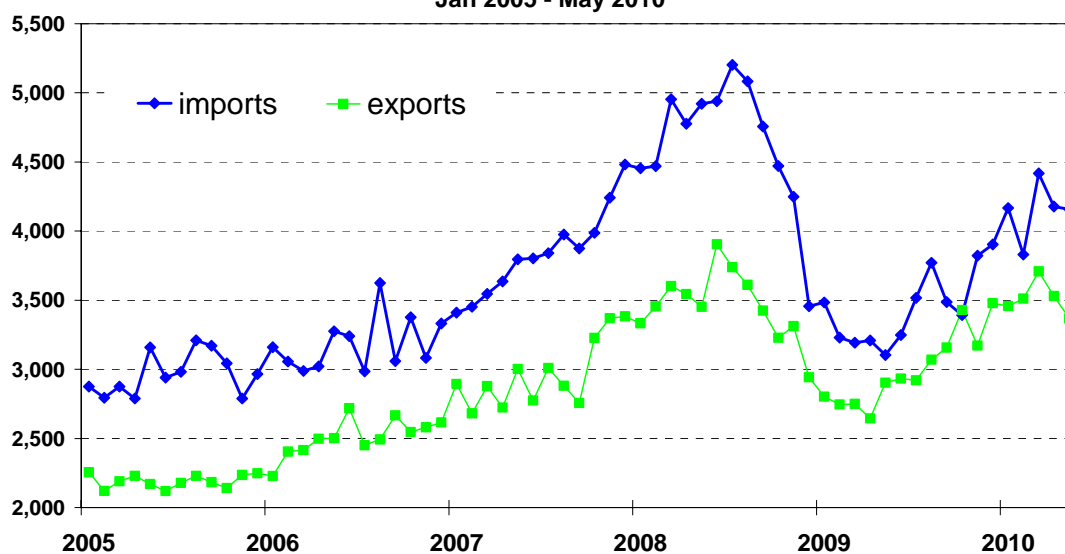
	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.4% in May 0.2% in June
Future cumulative inflation – next 12 CPIs (through April 2011 CPI)		2.6%
Inflation through July 2011 CPI (average annual rate)	3.0%	3.4%
Bank of Israel interest rate, 6 months ahead	2.15% (up 0.65)	2.15%
Fed interest rate, 6 months ahead	0.30% (up 0.05)	0.30%
Yield on Israeli Government 10-Year bond, 6 months ahead	4.97% (up 0.20)	5.10%
Yield on US Treasury 10-Year bond, 6 months ahead	3.47% (up 0.22)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.84 (up 0.3%)	NIS 3.83 (unchanged)

Israel

Foreign-trade data for May were very weak, pointing to a decline in the growth rate. **Exports of goods** (excluding diamonds, ships, and aircraft; in dollar terms) fell by 5 percent in May, following a 5 percent decrease in April, and grew by 16 percent in the twelve months ended in May. **Imports of goods**, based on the same definition, were flat in May following a 5 percent decrease in April, and grew by 34 percent in the twelve months ended in May. The **trade deficit** expanded further in May, to USD 0.79 billion.

Exports and Imports of Goods

(US\$ millions per month, excl. diamonds, ships & airplanes)
Jan 2005 - May 2010



The number of **incoming tourists** arriving in Israel by air rose by 2 percent in May and by 21 percent in the twelve months ended in May.

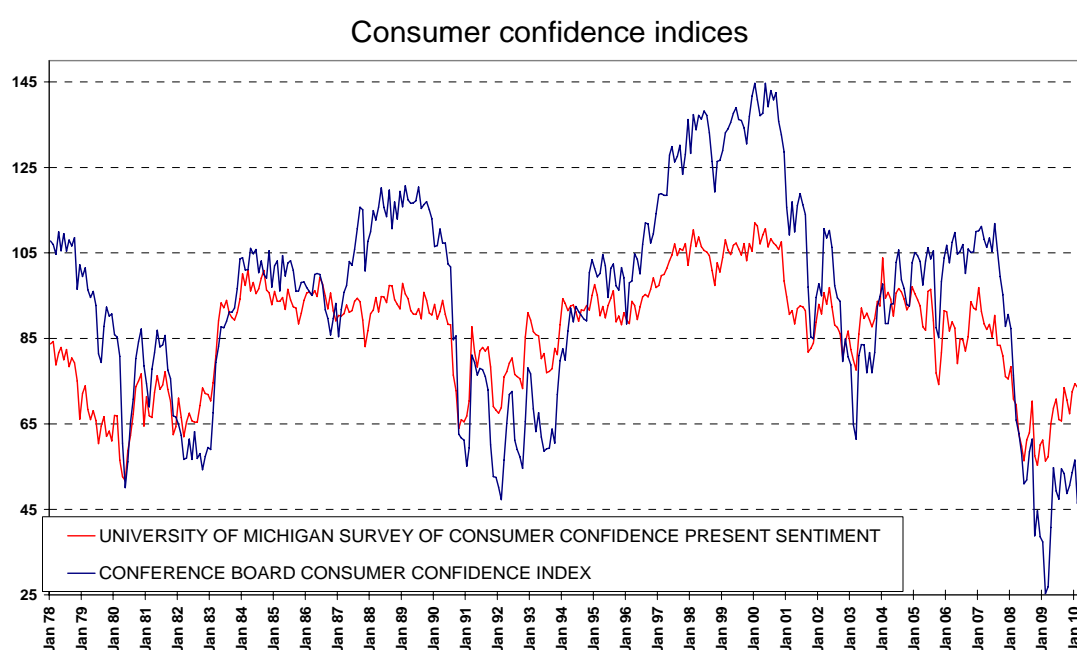
The **current account of the balance of payments** showed a surplus of USD 1.6 billion in the first quarter of 2010, following a surplus of USD 2.8 billion in the preceding quarter. Exports increased by 4.3 percent, in dollar terms, while imports grew by 7.7 percent. The deficit in the account of revenues in respect of investments and wages grew to USD 1.3 billion, following a deficit of USD 0.5 billion in the preceding quarter. Non-residents' investments in Israeli securities increased sharply.

Inflation expectations for the medium term (3-8 years ahead) have risen to 3.0 percent. If there is no decrease in this level over the next week, the Bank of Israel may choose to raise the interest rate at its meeting on June 28, despite the signs of slowing growth.

United States

Retail sales decreased by 1.2 percent in May, a greater decrease than expected, and grew by 7 percent in the twelve months ended in May.

The preliminary **consumer confidence index** of the University of Michigan rose to 75.5 points in June, slightly above expectations. Despite the gains of recent months, the confidence indices are still low in historical terms.



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

Forecast change, April 2010 to July 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)
1.2%	3.1%	4.5%	1.1%	1.3%

Important Announcements in the Coming Week

- Israel's Central Bureau of Statistics (CBS) will publish data on the consumer price index on Tuesday, June 15.
- The CBS will publish updated growth data for the first quarter of 2010 on Wednesday, June 16. The consumer price index will be published in the eurozone, and data on construction starts and permits will be published in the US.
- The CBS will publish the industrial production index and the trade and service sectors revenue index on Thursday, June 17. The consumer price index will be published in the US.

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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