

Weekly Macroeconomic Review

March 16, 2010

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.1% in March 1.0% in April
Future cumulative inflation – next 12 CPIs (through February 2011 CPI)		2.6%
Inflation through July 2011 CPI (average annual rate)	2.9%	3.2%
Bank of Israel interest rate, 6 months ahead	2.00% (up 0.75)	2.00%
Fed interest rate, 6 months ahead	0.35% (up 0.10)	0.35%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.10% (up 0.23)	5.15%
Yield on US Treasury 10-Year bond, 6 months ahead	.395% (up 0.25)	4.25%
Dollar exchange rate, 6 months ahead	NIS 3.72 (unchanged)	NIS 3.72 (unchanged)

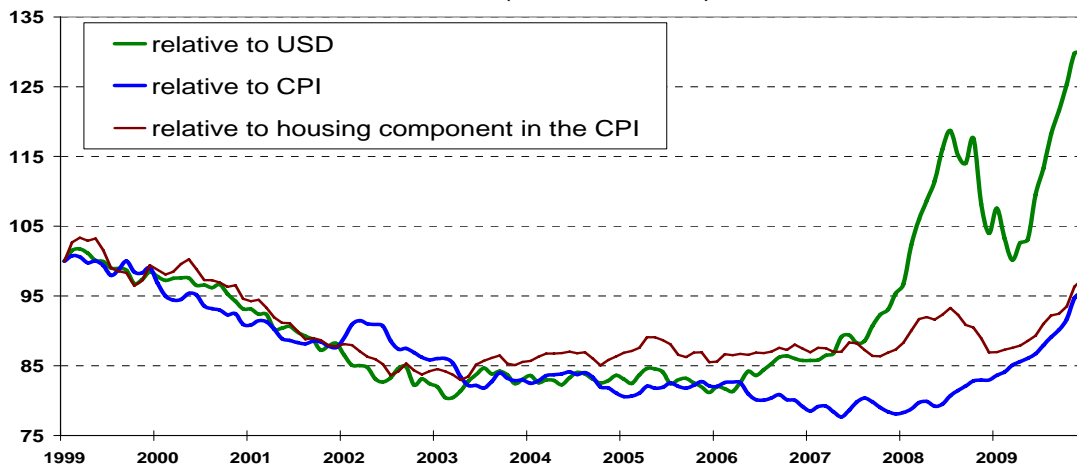
Israel

The consumer price index fell by 0.3 percent in February, close to our estimates and those of most forecasters. Twelve-month inflation reached 3.6 percent, versus 3.8 percent in the preceding month. The surprises, relative to our estimates, were mainly concentrated in the vegetable and fruit item (which rose, versus an expected decrease) and the housing item (which fell slightly versus expectations of a mild increase).

The housing item of the CPI fell for the third consecutive month. However, prices of homes (published with a one-month lag) are still rising rapidly. Home prices have gained 21 percent in the last twelve months.



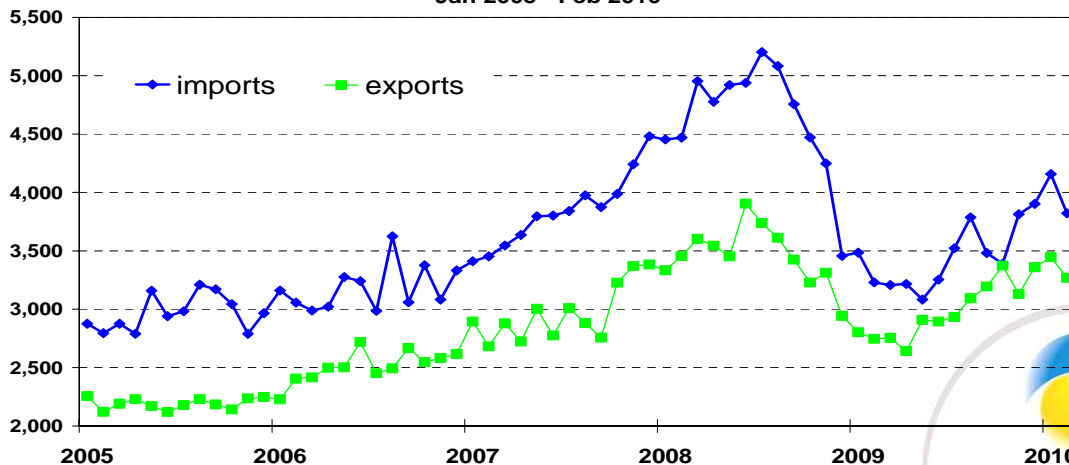
Price of Houses, Jan 1999 - Dec 2009 Index (Jan 1999=100)



Following the CPI data, we expect one 0.25-point increase in the **Bank of Israel interest rate** over the next two months. In our opinion, at this point the probability that the BOI will raise the interest rate on March 28 is about one-third, and the probability of a rate hike at the end of April is about two-thirds.

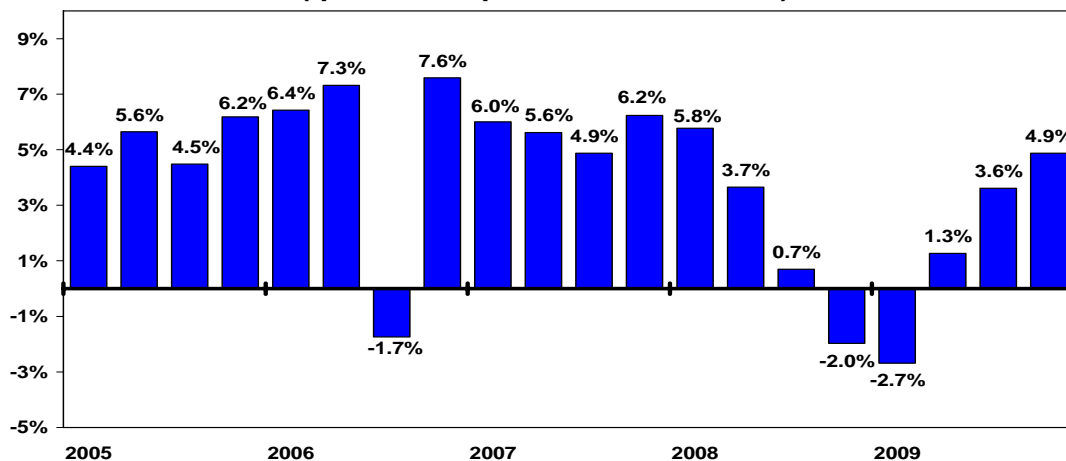
Exports of goods (excluding diamonds, ships, and aircraft; in dollar terms) decreased by 5 percent in February (but data for January were revised upward), and grew by 19 percent in the twelve months ended in February. **Imports of goods** (excluding diamonds, ships, and aircraft; in dollar terms) decreased by 8 percent in February and grew by 18 percent in the twelve months ended in February.

Exports and Imports of Goods (US\$ millions per month, excl. diamonds, ships & airplanes) Jan 2005 - Feb 2010



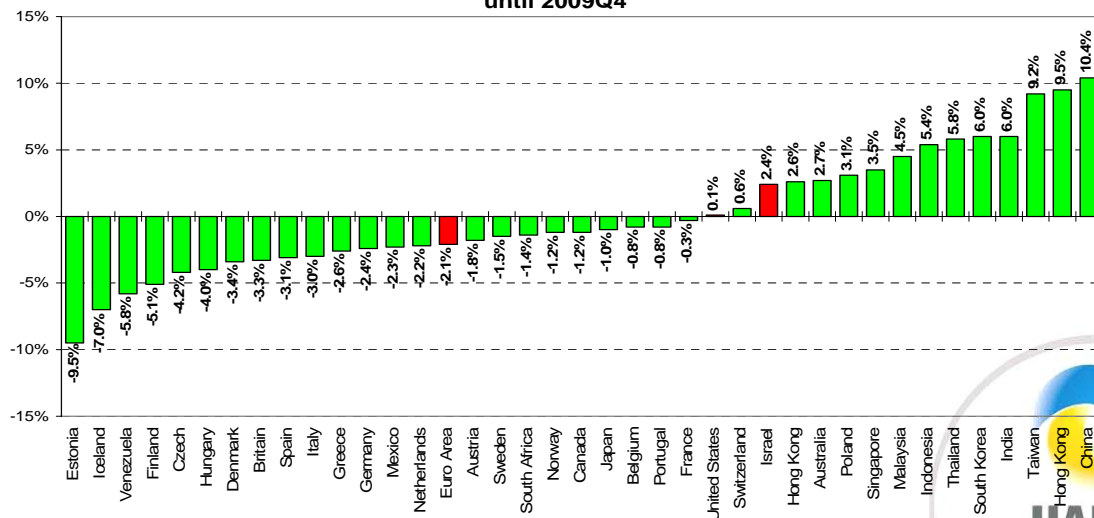
The Central Bureau of Statistics has adjusted its **growth estimate for 2009** upward from 0.5 percent to 0.7 percent. Estimates of the business product, private consumption, and exports all increased. Furthermore, quarterly data were revised upward. Growth in the **third quarter** reached an annualized rate of 3.6 percent (up from 3.0 percent in last month's estimate), while the business product grew by 3.1 percent (up from 2.4 percent). In the **fourth quarter**, the annualized growth rate was 4.9 percent (versus 4.4 percent in last month's estimate) and business product grew by 5.2 percent (up from 4.2 percent).

GDP Growth
(quarter-on-quarter at annual rate)



Growth in Israel over the last four quarters was 2.4 percent. This is lower than the growth rate in the Eastern Asian countries, but far higher than in most other countries.

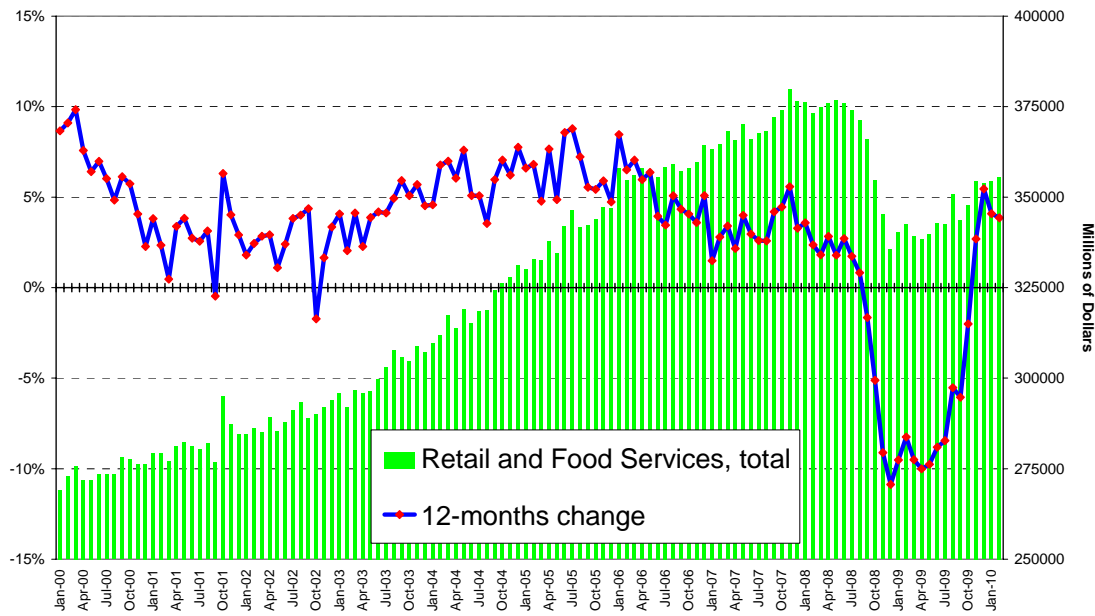
GDP change over four preceding quarters
until 2009Q4



United States

Retail sales grew by 0.3 percent in February, more than expected, while data for the preceding months were revised downward. In the twelve months ended in February, sales grew by 3.9 percent.

USA, total retail sales



Our forecast of cumulative changes in price indices due to be publish 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%	5.0%	0.6%	0.3%



Important Announcements in the Coming Week

- The consumer price index will be published in the euro zone on Tuesday, March 16; in the United States, data on construction starts and permits will be published and the Fed's interest-rate decision will be announced.
- Israel's Central Bureau of Statistics will publish the industrial production index and the trade and service sectors revenue index on Thursday, March 18; the consumer price index will be published in the United States.

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

*If you would like to be removed from the Harel Group mailing list,
please let us know in a reply to this e-mail.*