

## Weekly Macroeconomic Review

March 17, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.2% in March 1.0% in April
Future cumulative inflation – next 12 CPIs (through February 2010)		1.7%
Inflation through May 2010 CPI (average annual rate)	0.8%	2.5%
Bank of Israel interest rate, 6 months ahead	0.95% (up 0.20)	0.75%
Fed interest rate, 6 months ahead	0.40% (up 0.15)	0.25%
Dollar exchange rate, 6 months ahead	NIS 4.15 (unchanged)	NIS 4.24 (up 2.2%)

## Israel

The consumer price index decreased by 0.1 percent in February, and inflation now stands at 3.3 percent. The CPI was low compared to both our forecast and the average forecast. For us, the main surprises were the **transportation and communications** item, which increased by just 0.1 percent, and the **housing** item, which rose by only 0.5 percent, despite the more than 4 percent depreciation of the dollar during the relevant period.

We estimate that due to the low CPI, **the Bank of Israel will be able to continue the monetary expansion**, including an increase of the amount of money and support for the depreciation of the shekel.

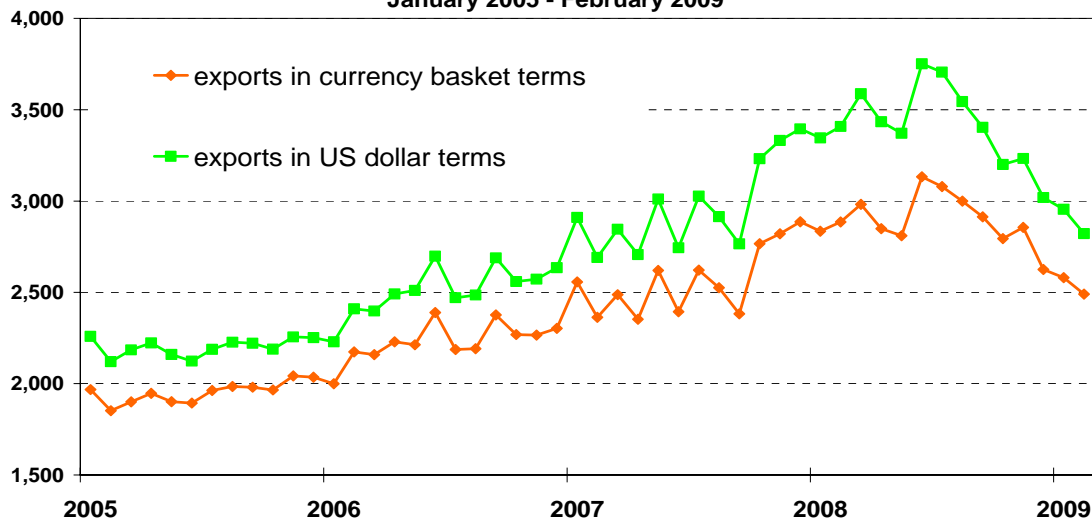
If there is no significant depreciation of the shekel within the next few weeks, given the highly disappointing export data published recently, it is quite possible that the BOI will decide to **continue purchasing foreign currency** even after the amount of reserves crosses the USD 44 billion mark.



Foreign-trade figures for February were weak. Exports of goods (excluding aircraft, ships, and diamonds; in dollar terms) decreased by 4 percent in February and by 17 percent in the last twelve months. Imports of goods fell by 7 percent in February and by 27 percent in the last twelve months.

## Exports of Goods

(millions per month, excl. diamonds, ships & airplanes)  
January 2005 - February 2009



Incoming tourism by air decreased by 5 percent in February and by 15 percent in the last twelve months.

## Tourist Arrivals

(thousands per month)



The sharp decline in exports and imports of goods and in incoming tourism in recent months heralds a **substantial contraction of GDP** in the first quarter of 2009, in our opinion.

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## Euro zone

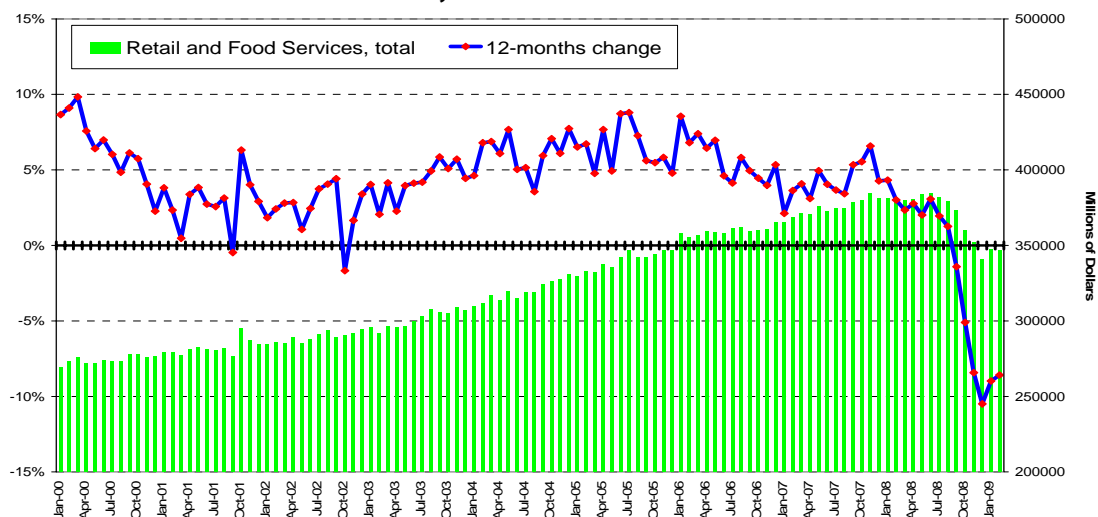
**Inflation** in February was 1.2 percent, in line with advance estimates.

**Retail sales** grew at a minuscule rate of 0.1 percent in January, and decreased by 2.2 percent in the preceding twelve months.

## United States

In February, **retail sales** decreased by a minute 0.1 percent, less than expected, but fell by 9 percent in the preceding twelve months.

### USA, total retail sales



### Important Announcements in the Coming Week

- Data on construction starts and permits will be published in the United States on Tuesday, March 17<sup>th</sup>.
- The consumer price index and the Fed's interest-rate decision will be published in the United States on Wednesday, March 18<sup>th</sup>.
- The Central Bureau of Statistics will publish the industrial production index and the trade and service sectors revenue index on Thursday, March 19<sup>th</sup>.
- The Bank of Israel's interest-rate decision and sales data on existing homes in the United States will be published on Monday, March 23<sup>rd</sup>.

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