

## Weekly Macroeconomic Review

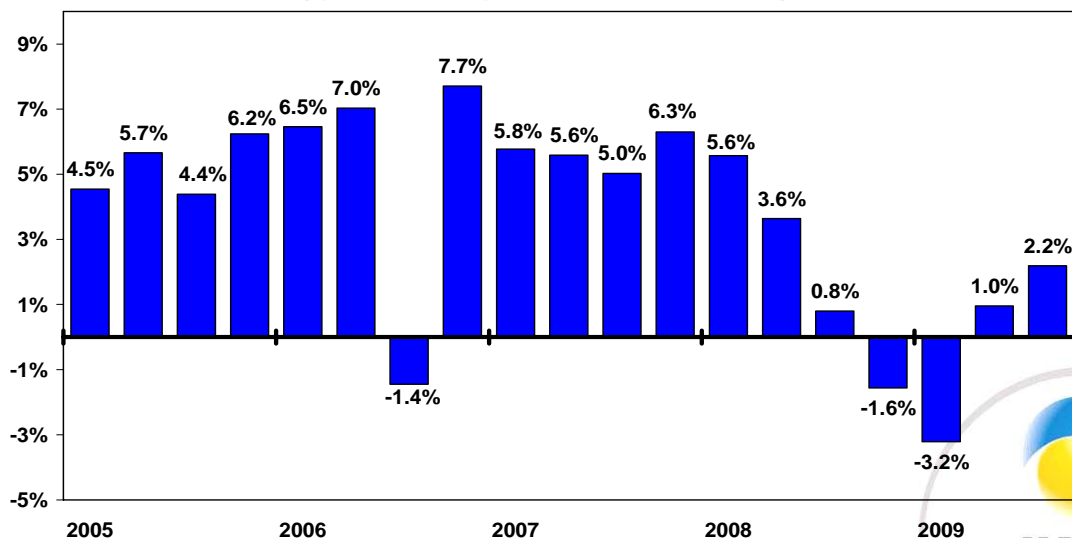
November 17, 2009

	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)		2.8%
Inflation through July 2011 CPI (average annual rate)	2.6%	2.6%
Bank of Israel interest rate, 6 months ahead	1.35% (up 0.60)	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	5.09% (up 0.27)	5.20%
Yield on US Treasury 10-Year bond, 6 months ahead	3.58% (up 0.23)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.76 (unchanged)	NIS 3.72 (down 0.9%)

## Israel

GDP grew at an annualized rate of 2.2 percent in the third quarter, while business product grew at a rate of 1.6 percent.

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



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Notable increases occurred in **private consumption** (up 9 percent), **fixed-asset investments** (up 23 percent), and **exports** (up 15 percent, excluding diamonds and start-up companies). **Imports** grew by an impressive 62 percent, and **public consumption** excluding defense imports decreased by 8 percent (all figures at annual rate).

The data are not surprising overall, but the composition of growth, particularly the considerable growth in investments, is encouraging.

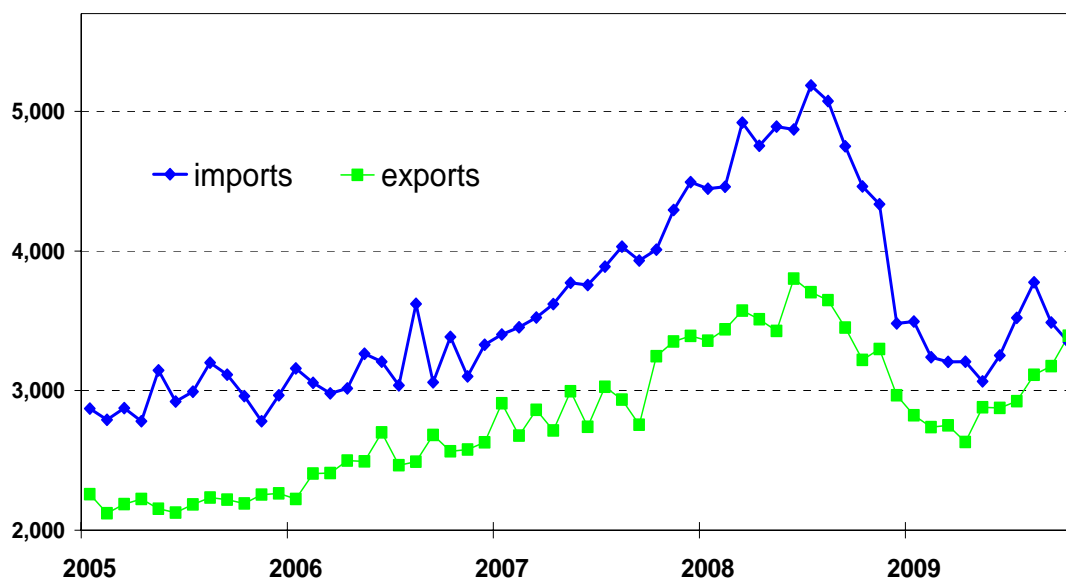
In addition, the growth rate for the second quarter was adjusted upward slightly, to 1.0 percent.

**The consumer price index** rose by 0.2 percent in October, in line with our forecast. The average forecast was at a similar level. Housing prices continued to rise, but the rate of the increase, at 0.3 percent, was the lowest in the last nine months. **Inflation** in the twelve months ended in October stands at 2.9 percent; we estimate that the price gains in recent months resulting from increases in government taxes contributed almost 1.5 percentage points to inflation.

**We estimate** that inflation will rise above 3 percent by next month, and will not return to the target range until July 2010, when the effect of the increase in the VAT in July 2009 and the sharp increase in energy prices in the months following February 2009 no longer have an impact on the calculation of twelve-month inflation.

Foreign-trade data for October, especially export data, were excellent. **Exports of goods** (excluding diamonds, ships, and aircraft) grew by 7 percent in October and 5 percent in the twelve months ended in October, while data for the last two months were adjusted upward. **Imports of goods** decreased by 4 percent in October and 25 percent in the twelve months ended in October. For the first time – or at least, the first time since the beginning of the CBS series in 1988 – the Israeli economy has moved into a surplus in the trade balance excluding diamonds, ships, and aircraft.

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



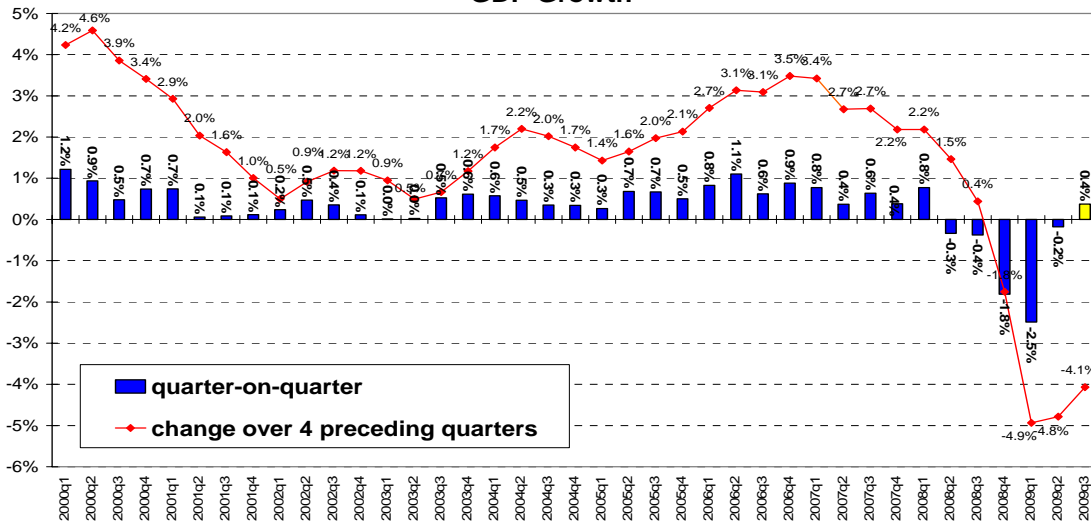
The number of **incoming tourists** by air, based on data net of seasonal effects, grew by 1 percent in October. This figure has risen continuously since July.

In view of these publications, combined with recent macro-economic developments, we are amending our estimates; we now believe that factors supporting **appreciation of the shekel** have gained strength. In addition, **in our opinion** there is now a high probability of an increase of 0.25 percentage points in the **Bank of Israel interest rate** on November 23; the positive foreign-trade data contribute to this estimate.

## Euro zone

GDP in the euro zone has started to grow for the first time since the first quarter of 2008. According to an initial estimate, **GDP** grew by 0.4 percent in the third quarter of 2009 (1.5 percent annualized), slightly less than expected. GDP gains of 0.7 percent in Germany and 0.3 percent in France contributed to the growth in GDP, though both were lower than expected; the slowdown in the euro zone has been more severe than in the United States.

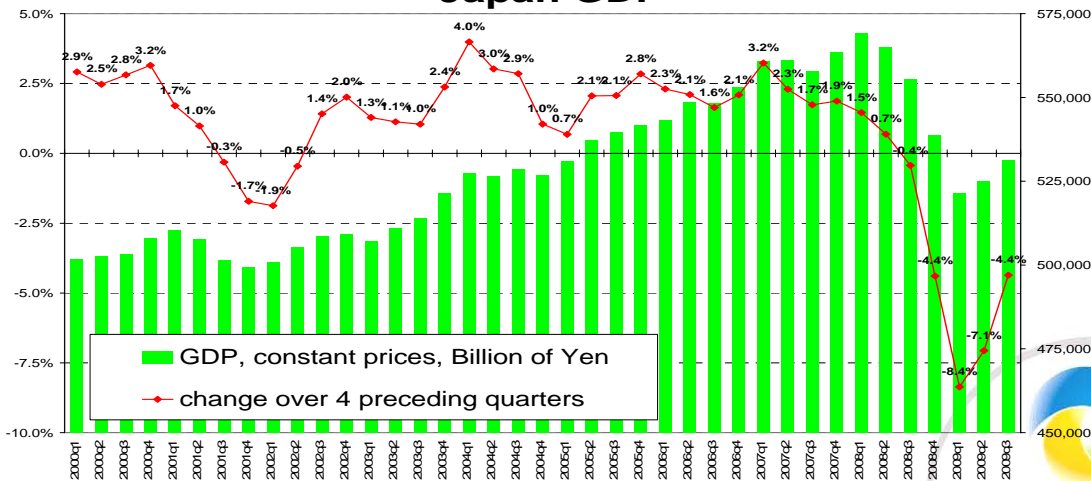
### Euro Zone GDP Growth



## Japan

According to an initial estimate, **GDP** in Japan grew by 1.2 percent in the third quarter of 2009 (4.8 percent annualized), above expectations. Data pointed to an increase in firms' investments for the first time in eighteen months.

### Japan GDP



However, GDP in Japan remains substantially lower than two years ago.

## 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%	-1.2%	-0.6%	-0.2%	-2.0%

### Important Announcements in the Coming Week

- The consumer price index and data on construction starts and permits will be published in the US on Wednesday, November 18.
- Israel's Central Bureau of Statistics will publish the industrial production index and the trade and service sectors revenue index on Thursday, November 19.
- The Bank of Israel will announce its interest-rate decision and data on sales of existing homes will be published in the US on Monday, November 23.

This review is posted online at [www.harel-finance.co.il/macro](http://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](mailto:oferk@harel-finance.co.il)

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