

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.9% in July 0.2% in August
Future cumulative inflation – next 12 CPIs (through May 2011 CPI)		3.7%
Inflation through July 2011 CPI (average annual rate)	3.3%	3.9%
Bank of Israel interest rate, 6 months ahead	2.00% (up 0.50)	2.25%
Fed interest rate, 6 months ahead	0.25% (unchanged)	0.25%
Yield on Israeli Government 10-Year bond, 6 months ahead	4.81% (up 0.20)	5.10%
Yield on US Treasury 10-Year bond, 6 months ahead	3.14% (up 0.20)	3.90%
Dollar exchange rate, 6 months ahead	NIS 3.86 (up 0.1%)	NIS 3.82 (down 0.7%)

## Israel

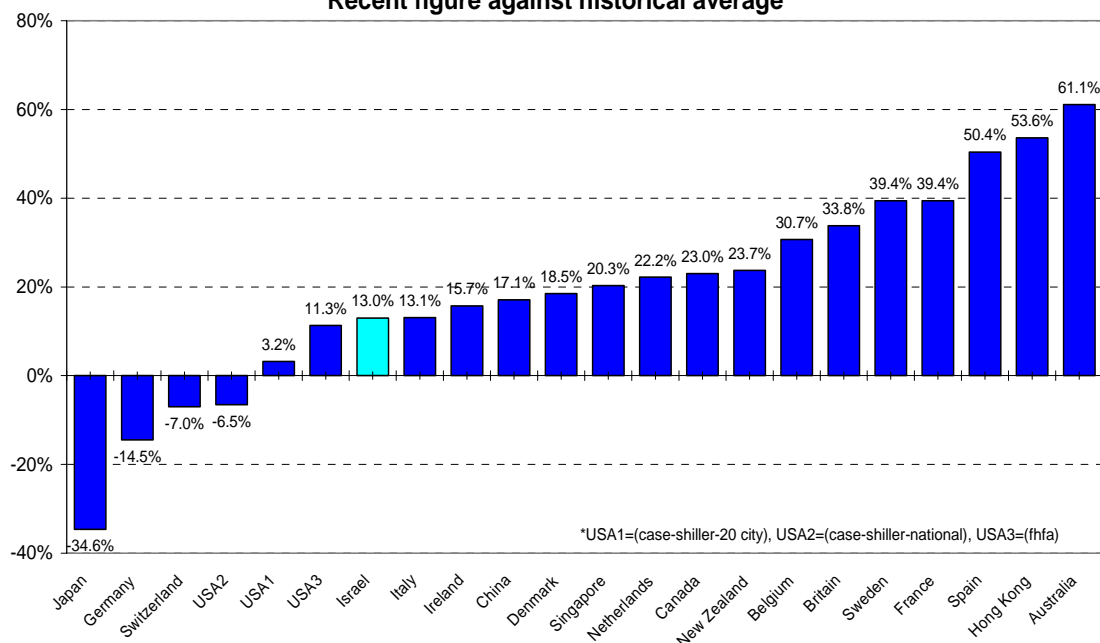
The consumer price index rose by 0.3 percent in June, in line with the average forecast. Inflation in the twelve months ended in June totals 2.4 percent. The housing item (which mainly reflects rent prices) rose by 0.6 percent. Prices of tenant-owned homes rose sharply, by 1.2 percent, according to the last survey, versus an increase of 0.6 percent in the preceding month. Prices of homes increased by 21 percent in the last twelve months.

The *Economist* has proposed an index to examine the level of house prices in different countries: the ratio of current house prices to rent prices, compared to the historical average of this ratio. We have added data for Israel to the data published by the *Economist* for other countries, using data from the Central Bureau of Statistics, starting in January 1999.

The diagram obtained demonstrates that house prices in Israel are 13 percent higher than the historical average; however, this difference is larger in most of the other countries in this sample.

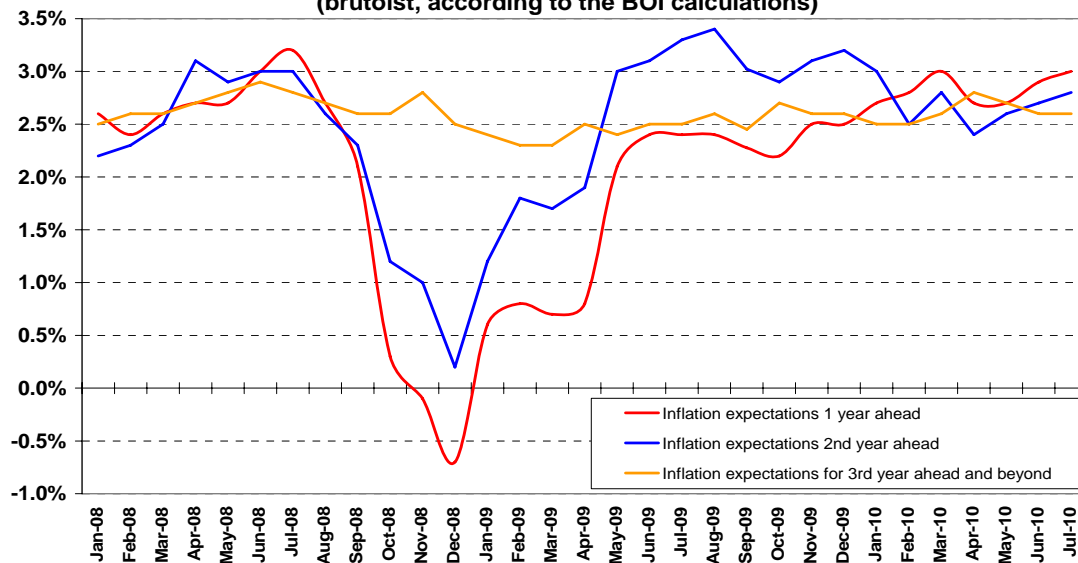
### The change in house prices to rent ratio

Recent figure against historical average



**Inflation expectations** between mid-June and mid-July, according to calculations by the Bank of Israel, were at an average of 3.0 percent for the first year, 2.8 percent for the second year, and 2.6 percent from the third year forward -- a slight increase compared to the preceding months.

**Inflation expectations derived by the capital market  
(brutoist, according to the BOI calculations)**

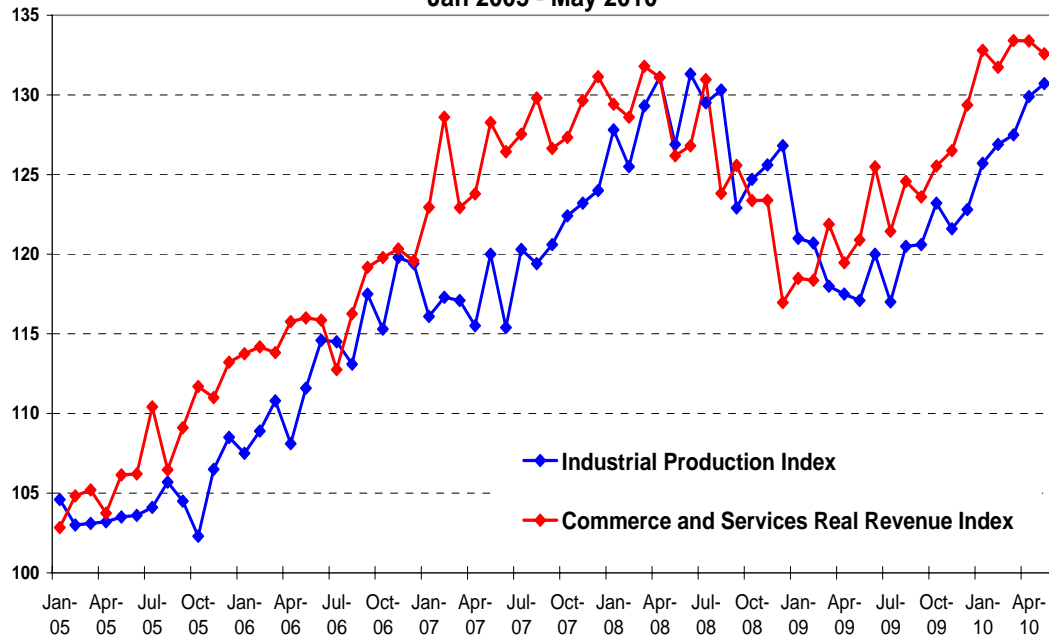


According to monthly trend data, **unemployment** fell sharply over recent months, reaching just 6.5 percent in May, a decrease of almost 1 percentage point within six months. The monthly survey is not always reliable and the data may be revised in the future; however, if this unemployment rate turns out to be accurate, it may lead to a significant increase in wage and inflation pressures, and a more rapid rise of the interest rate.

Israel's Central Bureau of Statistics has updated the **growth rate for the first quarter of 2010**, revising its figure downward to an annualized 3.4 percent, from 3.6 percent in last month's estimate. The growth of the business product was revised more sharply, to 4.4 percent, from the previous estimate of 4.8 percent.

**The industrial production index** rose by 1 percent in May, and by 12 percent in the twelve months ended in May. **The index of trade and service sector revenues** fell by 1 percent in May, and rose by 10 percent in the twelve months ended in May.

**Industrial Production Index  
& Commerce and Services Sectors Revenue Index**  
Jan 2005 - May 2010

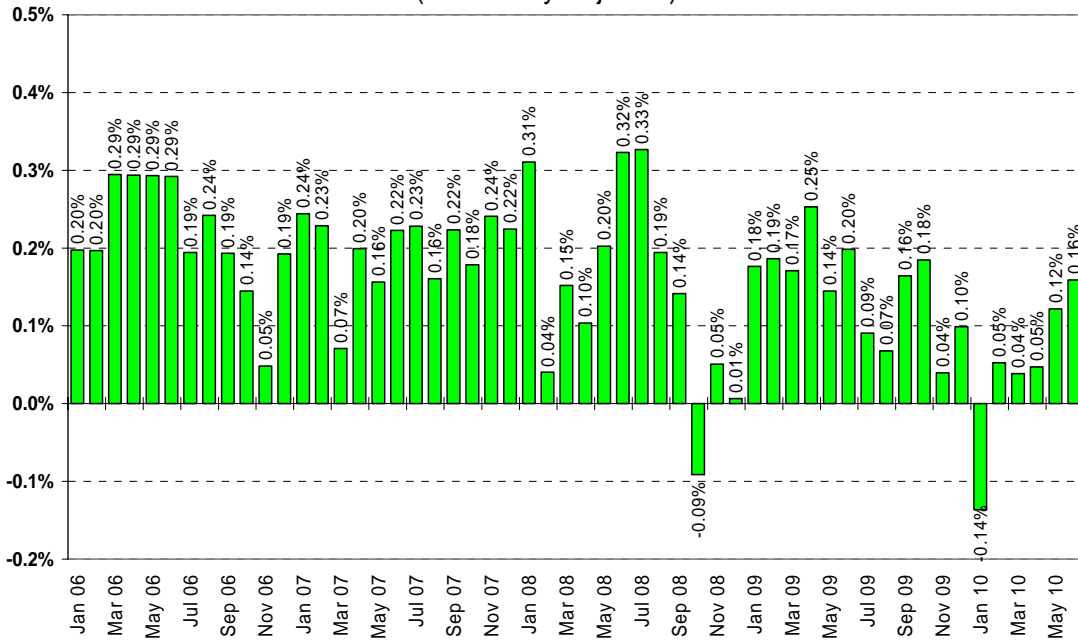


**United States**

The University of Michigan’s **consumer confidence index** was a negative surprise, at 66.5 points in July, according to the initial estimate. This was the lowest reading of this index since August 2009.

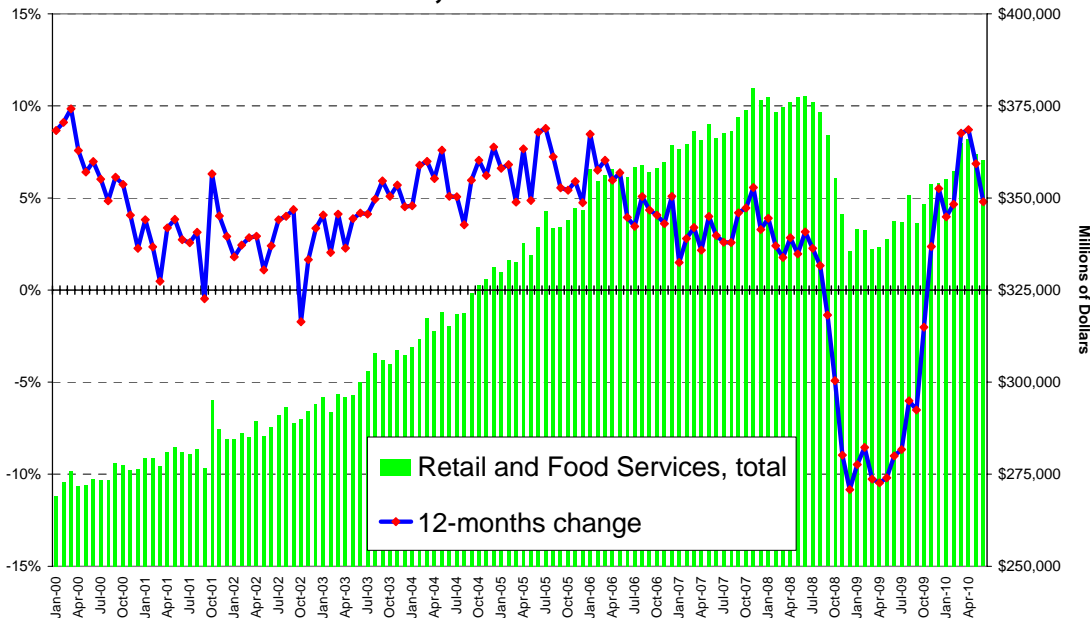
The **consumer price index** fell by 0.1 percent, and twelve-month inflation reached 1.1 percent. The **core index** rose by 0.16 percent, and core inflation for the last twelve months stood at 0.9 percent. Both indices were expected to remain stable. The developments in the core index over the last two months point to a significant decrease in the threat of deflation.

### USA: monthly change in Core CPI (Seasonally Adjusted)



Retail sales fell by 0.5 percent in June, a greater-than-expected decrease. Retail sales increased by 6 percent in the twelve months ended in June.

### USA, total retail sales



## Our forecast of cumulative changes in price indices during the coming three months

Forecast change, June 2010 index to September 2010 index

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)
0.9%	4.6%	1.3%	1.3%	0.5%

## Important Announcements in the Coming Week

- Data on construction starts and permits will be published in the United States on Tuesday, July 20.
- Data on sales of new homes will be published in the US on Thursday, July 22.
- The Bank of Israel will announce its interest-rate decision on Monday, July 26.

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)

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