

## Weekly Macroeconomic Review

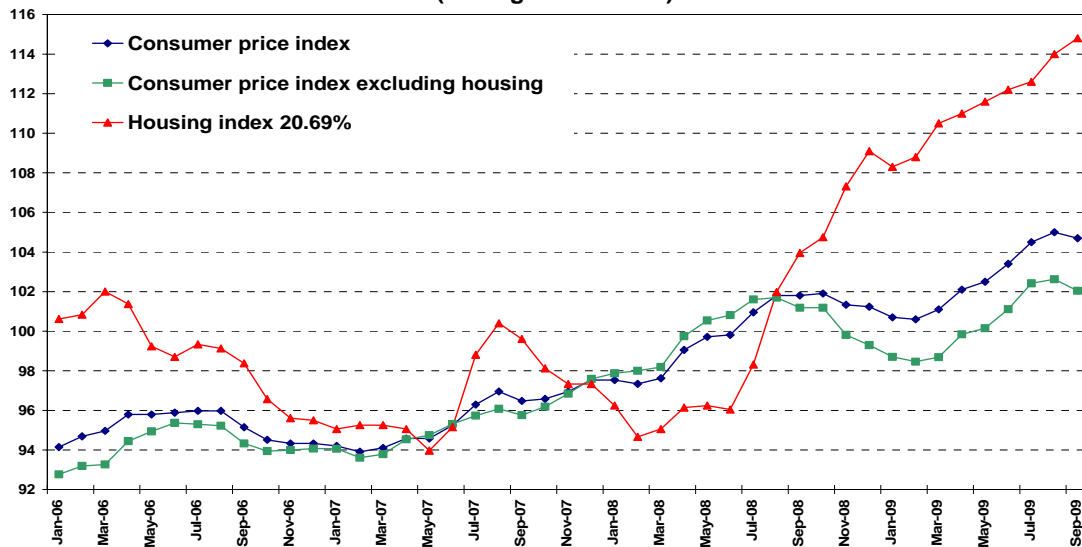
October 20, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.3% in October Minus 0.1% in November
Future cumulative inflation – next 12 CPIs (through September 2010 CPI)		2.4%
Inflation through July 2011 CPI (average annual rate)	2.1%	2.4%
Bank of Israel interest rate, 6 months ahead	1.35% (up 0.60)	1.35%
Fed interest rate, 6 months ahead	0.40% (up 0.15)	0.40%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.21% (up 0.28)	5.30%
Yield on US Treasury 10-Year bond, 6 months ahead	3.60% (up 0.23)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.70 (unchanged)	NIS 3.70 (unchanged)

## Israel

The consumer price index fell by 0.3 percent in September, versus the expectation of no change. Inflation in the twelve months ended in September totaled 2.8 percent, within the inflation target range. **Housing prices** continued to rise in September, in contrast to the trend of the other CPI items, which did not gain in price at all over the last year despite the tax hikes of recent months (which we estimate contributed 1.0 to 1.5 percentage points to inflation). The increase in the housing item, which represents rent prices, is similar to the increase in housing prices – over 10 percent in the course of the last year.

**Consumer price index and the Housing price index**  
(Average 2008 = 100)



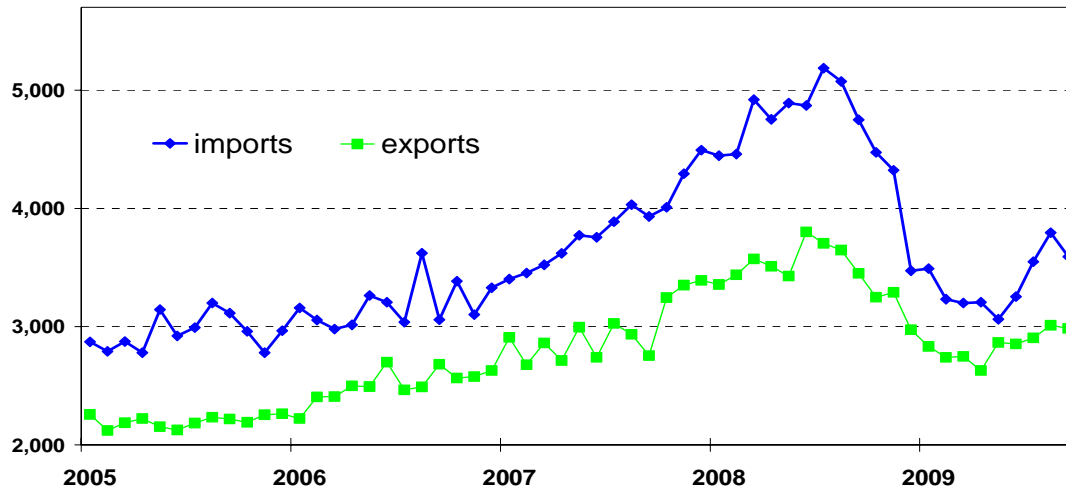
Israel's Central Bureau of Statistics has adjusted **growth figures** for recent quarters downward somewhat. GDP grew at an annualized rate of 0.8 percent in the **second quarter** of 2009, versus 1.0 percent in the previous estimate. Business product rose by only 0.9 percent, versus 1.3 percent in the previous estimate, while exports grew at an annualized rate of 14.5 percent, versus 26.4 percent in the earlier estimate. By contrast, private and public consumption figures were revised upward. GDP in the **first quarter** of 2009 decreased by an annualized 3.3 percent, versus 3.2 percent in the previous estimate.

**Exports of goods** (excluding diamonds, ships, and aircraft; in dollar terms) decreased by 1 percent in September and by 9 percent in the twelve months ended in September. **Imports of goods** decreased by 5 percent in September and by 17 percent in the twelve months ended in September. The monthly **trade deficit** decreased to USD 0.6 billion.



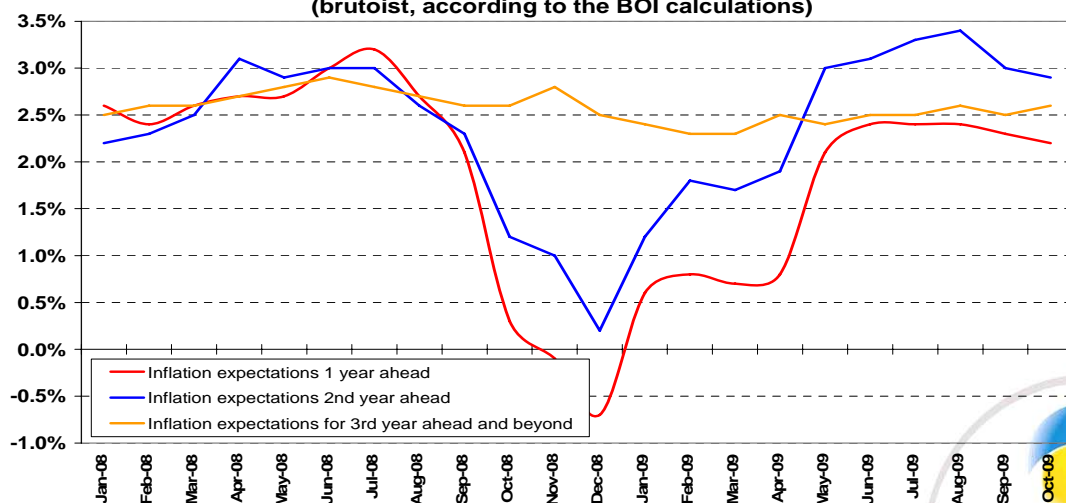
## Exports and Imports of Goods

(US\$ millions per month, excl. diamonds, ships & airplanes)  
Jan 2005 - Sep 2009



**Inflation expectations**, according to calculations by the Bank of Israel, on average between mid-September and mid-October stood at 2.2 percent for the first year, 2.9 percent for the second year, and 2.6 percent from the third year forward. This is another slight decrease compared to the preceding months.

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



The amount of **means of payment** decreased by 1 percent in September, following many months of gains. This figure grew by 60 percent in the twelve months ended in September, a very high rate in an international comparison, but slightly less than in the preceding month.

**In our opinion**, the downward revision of growth data, along with the decrease in exports of goods, the decrease in the CPI in September, the stable inflation expectations, the decline in the amount of means of payment, and the pressures towards appreciation of the shekel against the currency basket (which lead to continued intervention by the BOI in the foreign-currency market, in order to prevent actual appreciation of the shekel) have greatly reduced the **probability of an increase in the BOI interest rate next week**.

The number of **incoming tourists** by air grew by 6 percent in September.

## Tourist Arrivals (thousands per month)



## United States

The consumer price index rose by 0.2 percent in September, as expected, but the core index rose by 0.2 percent, versus the expected 0.1 percent and the gains of 0.1 percent in the preceding months. At this stage at least, the United States does not appear to be approaching deflation.

Retail sales declined by 1.5 percent in September, better than expected, following a sharp increase in the previous month.

## Important Announcements in the Coming Week

- Data on construction starts and permits will be published in the US on Tuesday, October 20.
- The CBS will publish the industrial production index and the trade and service sectors revenue index on Thursday, October 22.
- Data on sales of existing homes will be published in the US on Friday, October 23.
- The Bank of Israel will announce its interest-rate decision on Monday, October 26.

This review is posted online at [www.harel-finance.co.il/macro](http://www.harel-finance.co.il/macro) in Hebrew  
and at [www.harel-finance.co.il/macro/ENG](http://www.harel-finance.co.il/macro/ENG) 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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