

Weekly Macroeconomic Review

April 21, 2010

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.9% in April 0.3% in May
Future cumulative inflation – next 12 CPIs (through March 2011 CPI)		2.5%
Inflation through July 2011 CPI (average annual rate)	3.0%	3.3%
Bank of Israel interest rate, 6 months ahead	2.10% (up 0.60)	2.25%
Fed interest rate, 6 months ahead	0.35% (up 0.10)	0.35%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.19% (up 0.22)	5.25%
Yield on US Treasury 10-Year bond, 6 months ahead	4.07% (up 0.26)	4.35%
Dollar exchange rate, 6 months ahead	NIS 3.72 (up 0.3%)	NIS 3.73 (unchanged)

Israel

The consumer price index rose by 0.1 percent in March, in line with expectations. Twelve-month inflation reached 3.2 percent, down from 3.6 percent in the preceding month. Surprises (relative to our estimates) were mainly in the education item (which rose, versus our forecast of no change), and in the housing item (a sharp 0.7 percent increase, versus our forecast of a more moderate gain).

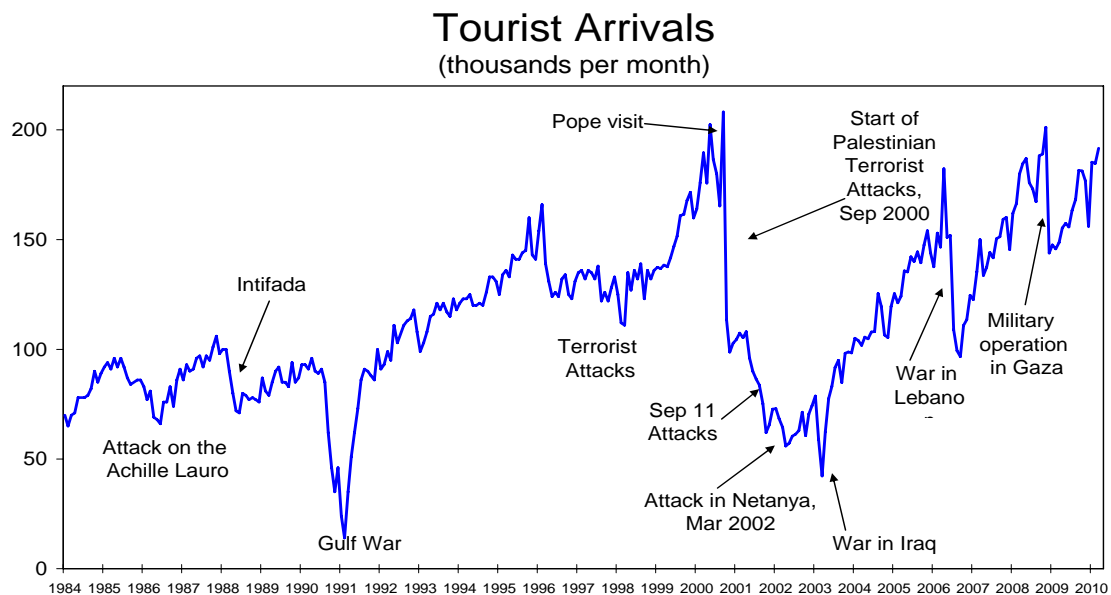
The wholesale price index rose sharply by 1.2 percent, while prices of tenant-owned homes rose by 1.3 percent in the last monthly survey and by 22 percent in the last twelve months.



The Bank of Israel has announced a slight decrease in **inflation expectations**, which stood at an average between mid-March and mid-April of 2.8 percent for the first year, 2.7 percent for the second year, and 2.5 percent from the third year forward.

The **quantity of means of payment** grew by 2 percent in March, but the rate of growth in the twelve months ended in March fell to 25 percent, from the peak of 65 percent last August.

The number of **incoming tourists** by air, according to data net of seasonal effects, increased by 4 percent in March.

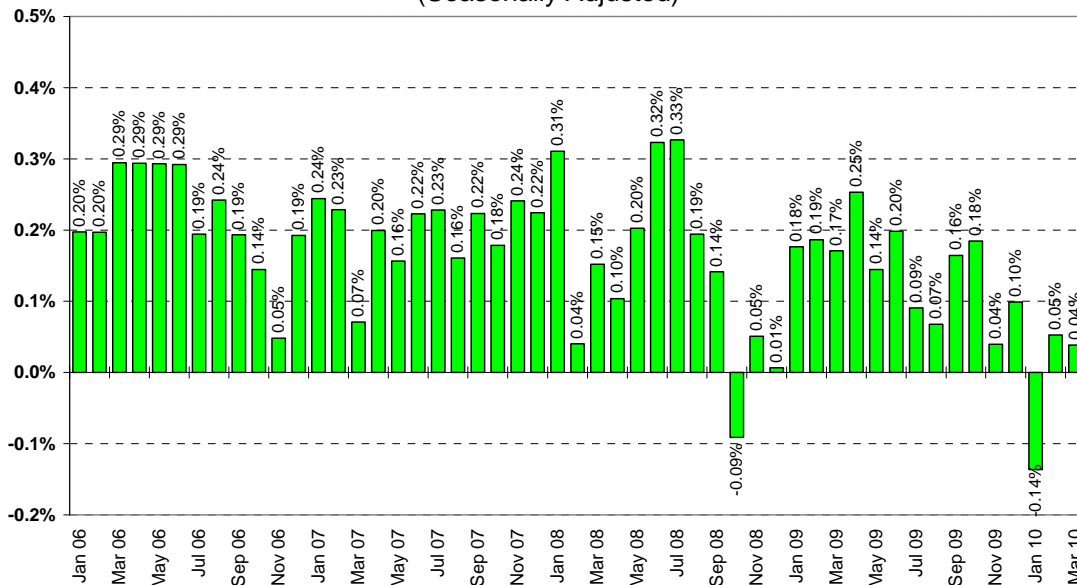


Growth in the last quarter of 2009 was updated by the Central Bureau of Statistics to an annual rate of 4.8 percent, from 4.9 percent in the previous estimate last month.

United States

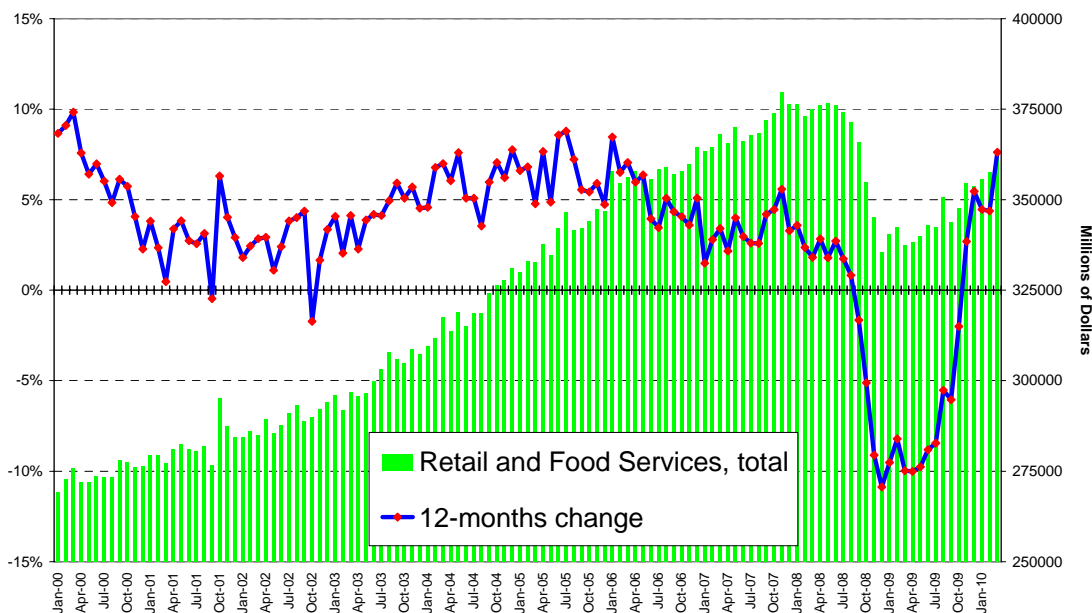
The trend of very low inflation, near zero, continued in March. The **consumer price index** rose by 0.1 percent in March, and twelve-month inflation reached 2.3 percent. The **core index** rose by 0.04 percent, and twelve-month core inflation stood at 1.1 percent.

USA: monthly change in Core CPI (Seasonally Adjusted)



Retail sales grew by 1.5 percent in March and by 7.6 percent in the twelve months ended in March, above expectations.

USA, total retail sales



Data on construction starts and permits for March were surprisingly positive, increasing by 2 percent and 8 percent respectively, while data for the preceding month were adjusted upward.



Europe

The crisis of confidence in the fiscal condition of Greece worsened over the last week, as the yield spread of ten-year Greek government bonds against German government bonds reached a new high of 4.63 percentage points.

Our forecast of cumulative changes in price indices due to be published during the coming three months

Forecast change, March 2010 to June 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)
1.4%	2.3%	5.1%	1.2%	0.9%

Important Announcements in the Coming Week

- The Central Bureau of Statistics (CBS) will publish data on Israel's foreign trade on Wednesday, April 21.
- Data on sales of existing homes will be published in the United States on Thursday, April 22.
- The growth estimate for the first quarter of 2010 will be published in the UK on Friday, April 23.
- The Bank of Israel will announce its interest-rate decision on Monday, April 26, and the CBS will publish the industrial production index and the trade and service sectors revenue index.

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

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