

## Weekly Macroeconomic Review

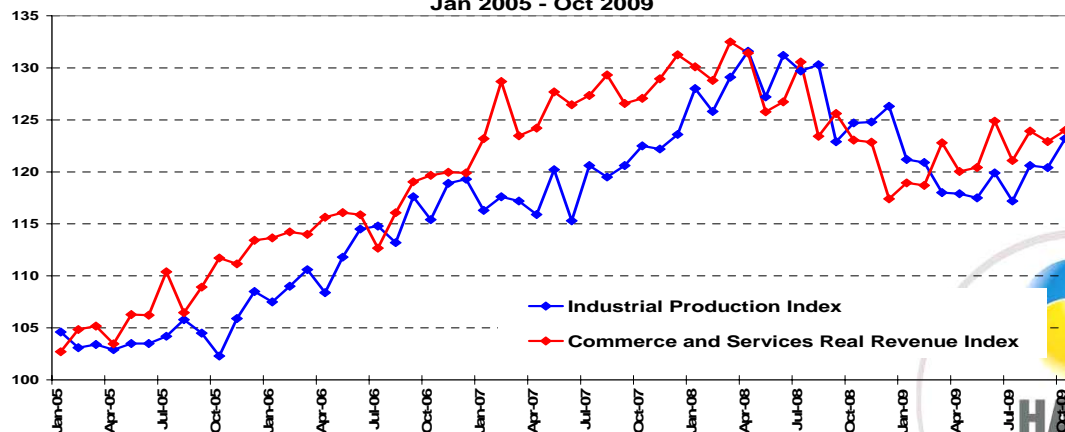
December 22, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.4% in December Minus 0.1% in January
Future cumulative inflation – next 12 CPIs (through November 2010 CPI)		2.4%
Inflation through July 2011 CPI (average annual rate)	2.9%	2.6%
Bank of Israel interest rate, 6 months ahead	1.75% (up 0.75)	1.75%
Fed interest rate, 6 months ahead	0.35% (up 0.10)	0.35%
Yield on Israeli Government 10-Year bond, 6 months ahead	5.50% (up 0.28)	5.30%
Yield on US Treasury 10-Year bond, 6 months ahead	3.97% (up 0.25)	4.10%
Dollar exchange rate, 6 months ahead	NIS 3.80 (unchanged)	NIS 3.76 (down 1.2%)

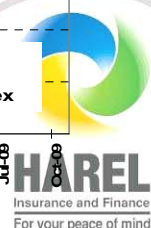
## Israel

The index of trade and service sector revenues rose by 0.9 percent in October and by 1 percent in the twelve months ended in October. The industrial production index rose by 2 percent in October, and fell by 1 percent in the twelve months ended in October. The substantial improvement in both of these indices has increased the growth forecast for the last quarter of 2009 to approximately 4 percent, in annualized terms, the highest rate in six quarters.

**Industrial Production Index  
& Commerce and Services Sectors Revenue Index**  
Jan 2005 - Oct 2009



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The consumer price index rose by 0.3 percent in November, in line with our estimate and slightly higher than the average forecast. Twelve-month inflation now stands at 3.8 percent, far above the government's target. We estimate that the tax hikes of recent months contributed nearly 1.5 percentage points to the inflation. In our opinion, twelve-month inflation will rise to 4.8 percent in January-February, then fall gradually, not converging into the price stability range of 1-3 percent until July 2010.

We estimate that the expected CPI increase supports a continued increase of the Bank of Israel interest rate gradually over the coming months, at an average rate of 0.25 percentage points every two months, unless there are significant changes in the exchange rate or in expected inflation. The expected BOI interest rate in six months' time as derived from the Makam curve has risen to 1.75 percent, the same as our estimate. We estimate the probability of an increase in the interest rate at the forthcoming decision on December 28 at about 30 percent.

Inflation expectations, according to calculations by the BOI, remained stable, reaching an average level between mid-November and mid-December of 2.5 percent for the first year, 3.1 percent for the second year, and 2.6 percent from the third year forward.

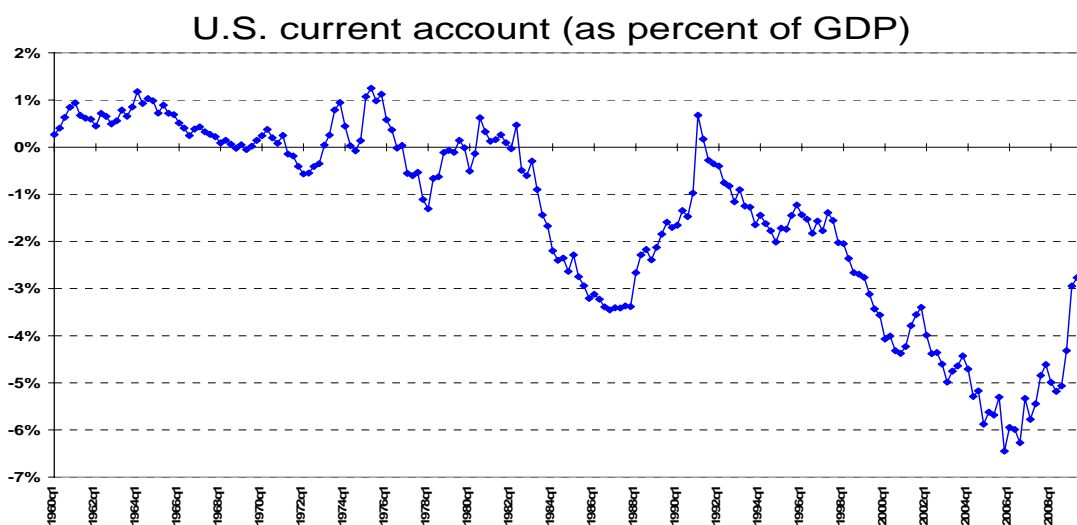


Means of payment (M1) increased by 0.5 percent in November and by 58 percent in the twelve months ended in November.

## United States

The Fed left the interest rate unchanged at 0-0.25 percent, as expected. The press release stated that the Fed believes inflation will remain moderate for some time, and the interest rate is likely to remain low for a long period, despite the signs that the economy is beginning to recover. It was also noted that in light of the improvement in the functioning of the financial system, the Fed has decided to allow most of the aid programs to end as planned (towards the end of the first quarter of 2010).

The deficit in the current account of the balance of payments expanded to 3.0 percent in the third quarter of 2009, versus 2.8 percent in the preceding quarter and 5.1 percent in the same quarter last year. We estimate that the deficit will expand in the coming years, unless the dollar weakens against other major currencies.



The consumer price index rose by 0.4 percent in November and the core index remained unchanged, both in line with expectations. Twelve-month inflation now stands at 1.8 percent. The wholesale price index rose sharply in November, by 1.8 percent, versus an expected increase of only 0.8 percent.

Construction starts and permits increased by 9 percent and 6 percent, respectively, in November, as expected.

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

Forecast change, November 2009 to February 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)
0.2%	0.2%	0.5%	-0.5%	0.1%

### Important Announcements in the Coming Week

- Updates of the growth rate in the third quarter of 2009 will be published in the US and the UK on Tuesday, December 22, and data on sales of existing homes will be published in the US.
- Data on private income and consumption, the University of Michigan's consumer confidence index, and data on sales of new homes will be published in the US on Wednesday, December 23.
- The Bank of Israel's interest-rate decision will be published on Monday, December 28.

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.

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