

Weekly Macroeconomic Review

September 22, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.0% in September 0.3% in October
Future cumulative inflation – next 12 CPIs (through August 2010 CPI)		2.6%
Inflation through July 2011 CPI (average annual rate)	2.3%	2.3%
Bank of Israel interest rate, 6 months ahead	1.60% (up 0.85)	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	5.38% (up 0.28)	5.38%
Yield on US Treasury 10-Year bond, 6 months ahead	3.72% (up 0.24)	4.00%
Dollar exchange rate, 6 months ahead	NIS 3.74 (unchanged)	NIS 3.74 (unchanged)

Israel

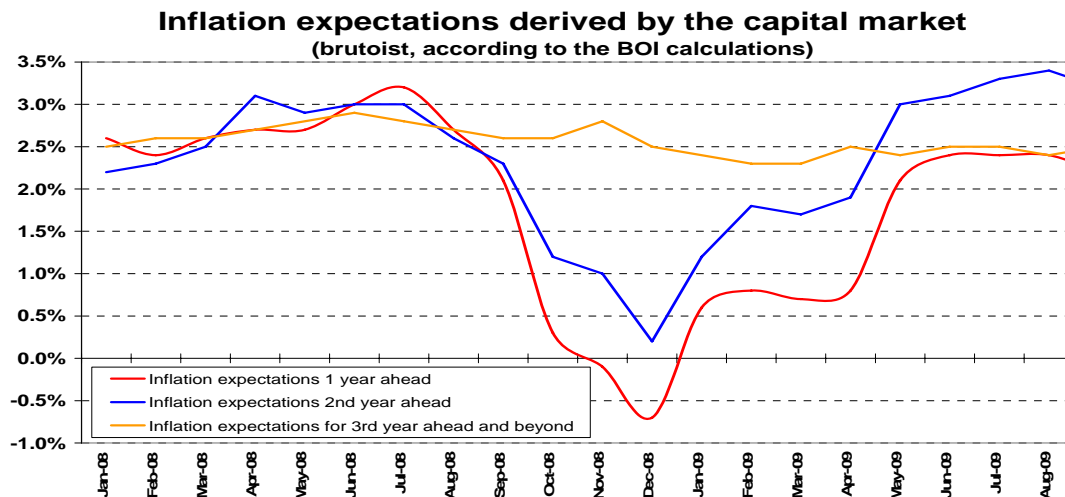
The consumer price index increased by 0.5 percent in August, within the forecast range. The Drought Levy imposed on July 15 should have affected the July and August CPIs equally, but the CBS actually calculated a contribution of 0.26 percent in July and only 0.10 percent in August, likely due to its decision to revise downward the overall impact of the levy on water prices for consumers. No significant surprises appeared in the other items. **Inflation** in the twelve months ended in August totaled 3.1 percent, but included the effect of the increase in indirect taxes in recent months, which we estimate added about 1.3 percent to the general index.

We expect the Bank of Israel to continue to raise the interest rate in the coming months, but at a moderate pace; there is a high probability that this week (on September 24) the BOI will decide to leave the interest rate unchanged.

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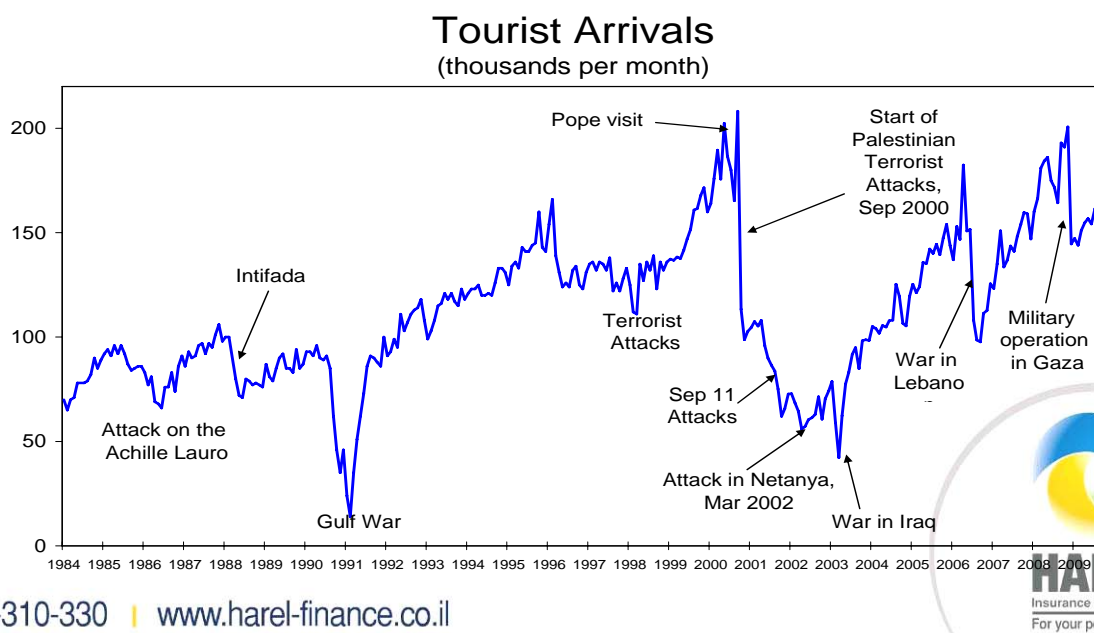


Inflation expectations between mid-August and mid-September, according to calculations by the BOI, stood at 2.2 percent on average for the first year and 3.2 percent for the second year, a slight decrease compared to the preceding months.



Gross domestic product, according to the update, grew at an annualized rate of 1.0 percent in the second quarter of 2009, with a 1.3 percent increase in **business product**. Growth in the second quarter was similar to the initial estimate, but the composition of growth looks far better, with exports and imports adjusted significantly upward.

The number of **incoming tourists** by air grew by 2 percent in August, reaching a similar level to that of August last year.

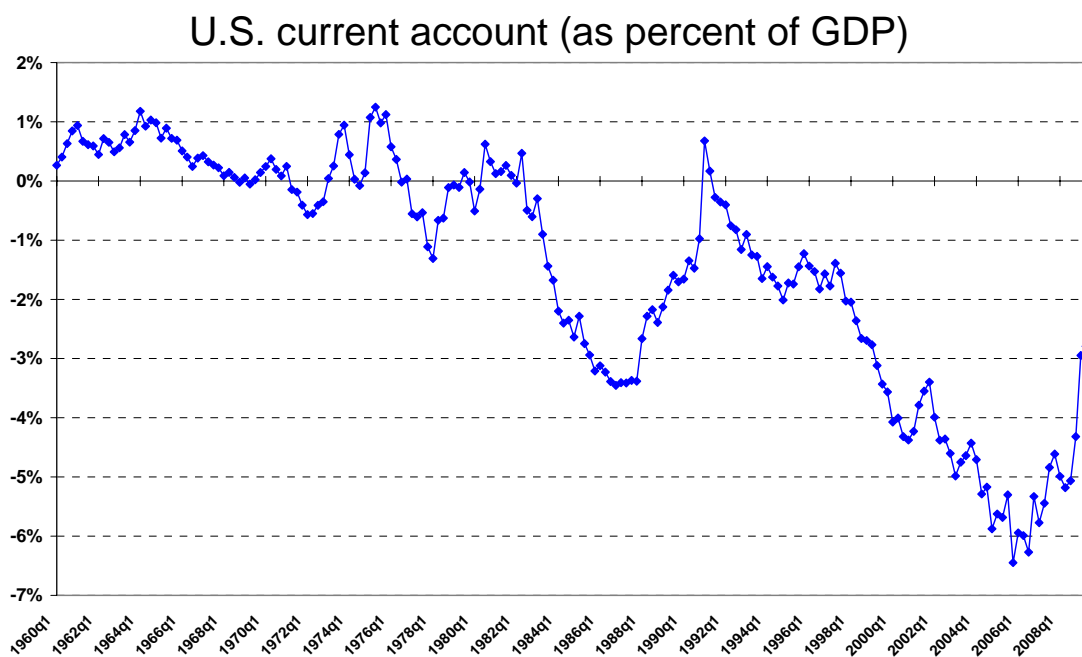


United States

Retail sales figures for August were surprisingly positive, with a 2.9 percent increase, versus expectations of more moderate growth. This figure, combined with the optimistic speech by the Fed Chairman, contributed to stock-market gains and increases in government bond yields.

The consumer price index rose more than expected in August, and **inflation** in the twelve months ended in August stood at a negative 1.5 percent. **Core inflation** was 1.4 percent, as expected, with a 0.1 percent increase in August.

The deficit in **the current account of the balance of payments** contracted to 2.8 percent of GDP in the second quarter of 2009, from 2.9 percent in the preceding quarter and 5.2 percent in the same quarter last year. However, the improvement in the US current account in recent quarters derives from a sharp decrease in domestic investments, rather than an increase in national savings.



Construction starts increased by 2 percent in August, while **construction permits** increased by 3 percent, in line with estimates.

Important Announcements in the Coming Week

- Israel's Central Bureau of Statistics (CBS) will publish the industrial production index and the trade and service sectors revenue index on Tuesday, September 22.
- The interest-rate decision will be announced in the US on Wednesday, September 23.
- The CBS will publish data on sales of new homes and the BOI's interest-rate decision will be announced on Thursday, September 24. Data on sales of existing homes will be published in the US.
- Data on sales of new homes and the University of Michigan's consumer confidence index will be published in the US on Friday, September 25.

This review is posted online at www.harel-finance.co.il/macro in Hebrew

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Please address comments or questions to Mr. Ofer Klein at

oferk@harel-finance.co.il

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