

Weekly Macroeconomic Review

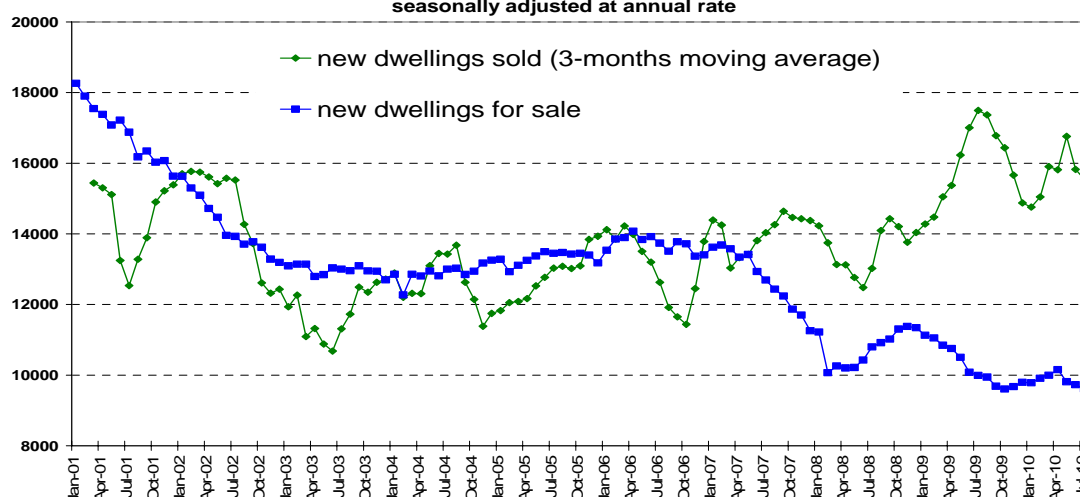
August 31, 2010

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.3% in August Minus 0.2% in September
Future cumulative inflation – next 12 CPIs (through July 2011 CPI)	2.6%	3.2%
Bank of Israel interest rate, 6 months ahead	2.00% (up 0.25)	2.38%
Fed interest rate, 6 months ahead	0.25% (unchanged)	0.25%
Yield on Israeli Government 10-Year bond, 6 months ahead	4.43% (up 0.17)	4.75%
Yield on US Treasury 10-Year bond, 6 months ahead	2.67% (up 0.17)	3.50%
Dollar exchange rate, 6 months ahead	NIS 3.83 (up 0.2%)	NIS 3.79 (down 0.8%)

Israel

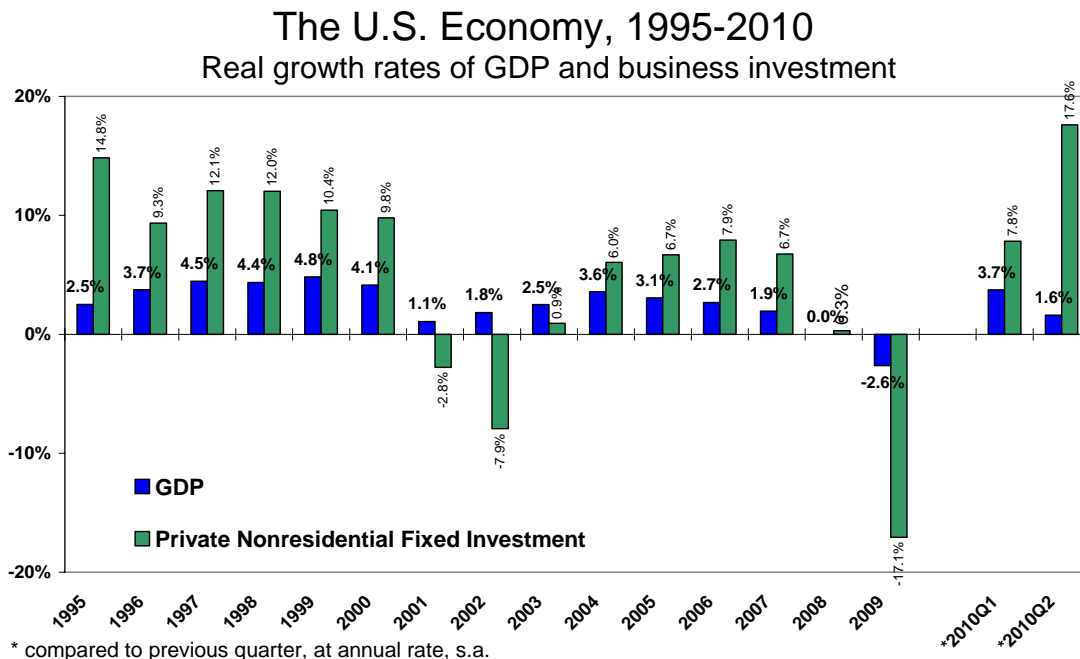
The number of new homes sold increased by 7 percent in July, and decreased by 14 percent in the twelve months ended in July. The supply of new homes for sale continued to contract, falling by 1 percent in July, 4 percent lower than in July 2009.

New Dwellings Sold and for Sale During The Period
seasonally adjusted at annual rate



United States

The US economy grew at an annualized rate of 1.6 percent in the second quarter of 2010, versus the previous estimate of 2.4 percent. Private consumption increased by 2.0 percent, and investments by firms grew by an impressive 18 percent. Imports increased sharply, by 32 percent.

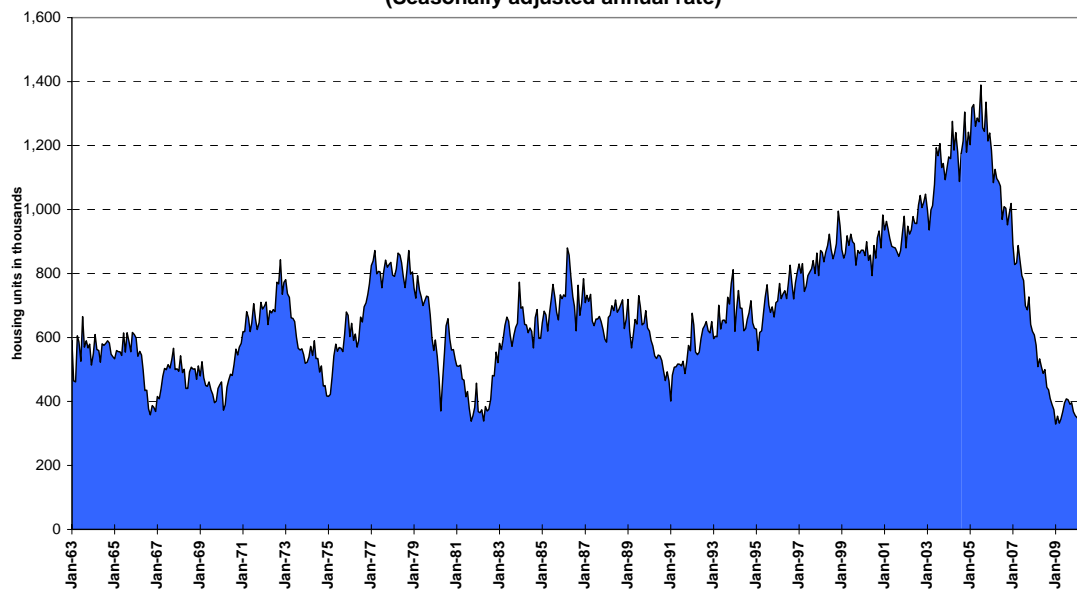


Real private consumption increased by 0.2 percent in July, following average monthly growth of 0.1 percent in the preceding four months. According to data through July, it appears that the increase in private consumption in the third quarter of 2010 will stand at approximately 2 percent, in annualized terms, similar to the previous two quarters. Households' **rate of savings** decreased to 5.9 percent in July, from 6.2 percent in June. **Core private consumption prices** (the core PCE deflator) rose by 0.1 percent in July, indicating low but positive inflation.

Construction industry figures published over the last week were strongly negative. Sales of existing homes dropped by 27 percent in July (from June), versus expectations of only a 12 percent decline. In addition, data for June were adjusted downward. Sales of New homes also reached a new low in July, falling by 12 percent, to the lowest level since the series of data began in the 1960s.

New Family Houses Sold

(Seasonally adjusted annual rate)



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

Forecast change, July 2010 index to October 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)
0.2%	1.7%	1.2%	0.0%	0.6%

Important Announcements in the Coming Week

- On Tuesday, August 31, Israel's Central Bureau of Statistics will publish data on construction starts and completions and the employment report for the second quarter of 2010, including the unemployment rate. The Case-Shiller house price index will be published in the United States.
- The ISM manufacturing sector index will be published in the US on Wednesday, September 1.
- An update of second-quarter growth data and the ECB's interest-rate decision will be published in the eurozone on Thursday, September 2.
- Data on retail sales will be published in the eurozone, and the employment report will be published in the US, on Friday, September 3.

This review is posted online at www.harel-finance.co.il/macro in Hebrew
and at www.harel-group.com/finance.html in English.

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