

## Weekly Macroeconomic Review

March 31, 2009

	Expectations derived from the capital market	Our forecast
Inflation in the coming months		0.2% in March 1.1% in April
Future cumulative inflation – next 12 CPIs (through February 2010)		1.8%
Inflation through May 2010 CPI (average annual rate)	1.1%	2.6%
Bank of Israel interest rate, 6 months ahead	1.10% (up 0.60)	0.75%
Fed interest rate, 6 months ahead	0.40% (up 0.15)	0.25%
Yield on Israeli Government 10-Year bond, 6 months ahead	4.70% (up 0.30)	5.10%
Yield on US Treasury 10-Year bond, 6 months ahead	2.90% (up 0.20)	3.30%
Dollar exchange rate, 6 months ahead	NIS 4.19 (unchanged)	NIS 4.26 (up 1.8%)

## Israel

The Bank of Israel has announced that it will **expand its activity in the government bond market**, buying nominal and CPI-linked bonds for about ILS 200 million each day, up to a total of ILS 15-20 billion. In addition, the BOI will continue to purchase foreign currency at a rate of USD 100 million per day. The BOI did not specify a new target for its foreign-currency reserves, and appears to prefer to leave this question open in order to retain the ability to change its decision immediately in the event of excessively rapid depreciation. The BOI stressed that at this point it does not intend to increase the amount of money in the economy and that all inflows from the purchases of bonds and foreign currency are to be sterilized.



The goal is twofold: to lower the interest rate across the entire curve, and to bring about depreciation of the shekel. The BOI is thereby attempting to assist economic growth, as low interest rates increase investment and consumption, while a weak shekel supports exports, and to generate positive inflation.

In addition, although not the explicit objective of this move, in our opinion the purchases of government bonds should also greatly reduce the difficulties in financing the government's budget deficit, which is expected to be very high this year. However, the significant risk inherent in this action by the BOI is that it may tempt the government to substantially enlarge the deficit and pressure the BOI to continue to finance this deficit in the future. We therefore find that the BOI's decision to purchase ILS 15-20 billion in government bonds is not prudent at this point in time, when the new government's budget policy for 2008 and 2009 is still unknown.

By contrast, we see the continued foreign-currency purchases as a highly positive move. On the immediate level, the purchases have caused slight

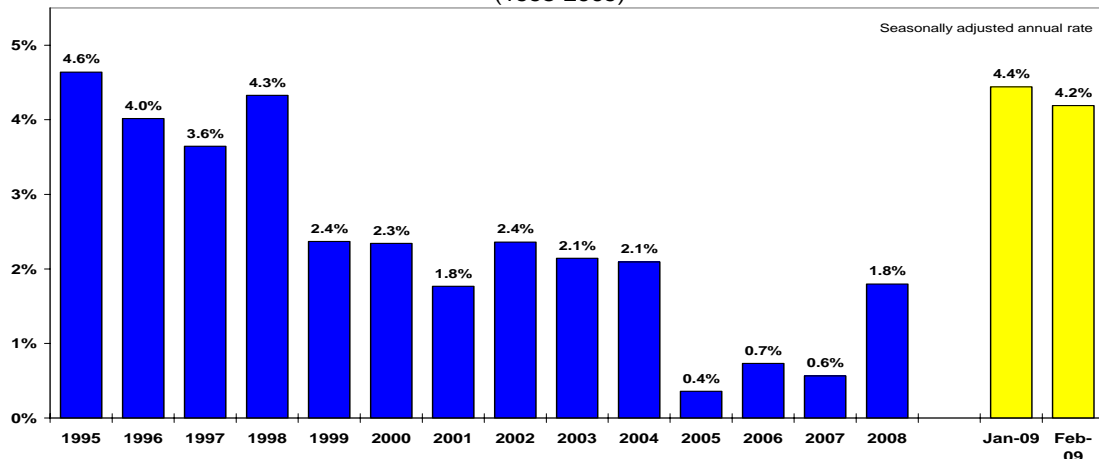
## United States

**Growth in the fourth quarter** has been updated to a negative 6.3 percent, in annualized terms, from negative 6.2 percent in the previous estimate, versus economists' forecast of negative 6.6 percent. Real private consumption decreased by an annualized 4.3 percent in the fourth quarter. Similar contraction is expected in the first quarter of 2009.

Monthly data on **real private consumption** indicate a 0.2 percent decline in February, following a surprising 0.7 percent increase in January. **Households' rate of savings** out of disposable income remained at 4.2 percent in February, similar to the rate in January and far above previous years' average.



US - Personal saving as a percentage of disposable personal income  
(1995-2009)



**Sales of new homes** rose by 5 percent in February, in contrast to estimates of continued declines. In addition, data for the preceding months were adjusted upward. However, sales were still 41 percent lower than in February 2008, and the rate recorded for January is the lowest since records of sales began in the 1960s.

The University of Michigan's consumer confidence index stood at 57.3 points in March, higher than expected.

### Important Announcements in the Coming Week

- The Central Bureau of Statistics will publish data on sales of new homes, and the estimated consumer price index will be published in the euro zone, on Tuesday, March 31<sup>st</sup>.
- The Tankan survey for the first quarter of 2009 will be published in Japan on Wednesday, April 1<sup>st</sup>.
- The interest-rate decision in the euro zone will be announced on Thursday, April 2<sup>nd</sup>.
- The employment report will be published in the United States on Friday, April 3<sup>rd</sup>.
- Data on jobs and average wages in the Israeli economy will be published on Sunday, April 5<sup>th</sup>.

Tel: 1-800-310-330 | [www.harel-finance.co.il](http://www.harel-finance.co.il)



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)

*If you would like to be removed from the Harel Group mailing list,  
please let us know in a reply to this e-mail.*

