



Private Banking  
Issue No. 73  
February 2009

# INVESTOR'S REVIEW

ESPECIALLY FOR LEUMI UK PRIVATE BANKING CLIENTS

## Macro Economic

By: **Eyal Raz**, Head of Economics Department, Finance and Economics Division

### What's in "Investor's Review"

- Macro Economic Review
- World Macro Review
- Art and Culture at Leumi

### **Bank of Israel cut its interest rate to 1.0%**

On January 26<sup>th</sup>, the Bank of Israel (BoI) announced a 75bps cut to its February interest rate, bringing it to 1.0%. The BoI mentioned signs of a deepening slowdown in real activity in the economy as well as apparent damage to the local labor market as reasons for the rate cut. Also affecting the decision were the drop in inflation and the low interest rates in several countries around the world. According to global economic data, primarily the assessment that the financial system recovery is further away than originally expected and the continued downward revision of global economic activity forecasts, emerging from recession is forecast to take longer than previously expected. The BoI emphasized the need to strengthen the Israeli economy's ability to overcome the consequences of the global crisis, as the low inflationary environment that is expected to continue throughout the coming year allows, without threatening price stability.

We expect the BoI will continue to cut its interest rate, which could possibly fall to 0.5% in upcoming interest rate decisions. As the interest rate approaches zero, the BoI noted that if necessary, the central bank will use additional tools at its disposal in order to achieve its goals. What this means is the use of "quantitative" tools that will enable an increase in liquidity in the system at a time when the price of money (the interest rate) is close to zero. The expected real interest rate is also in a downward trend. In the event there is no change in the annual inflation forecasts published in January, then the expected real interest rate in the economy will fall to below one percent in February – a level that will support real activity in the economy.

### **The deterioration in the local economy has led to a substantial decline in the BoI's economic growth forecast**

The BoI's economic growth forecast was revised substantially downwards, and thus the central bank currently expects Israel's GDP to decline 0.2% in 2009, compared to the previous forecast of a 1.5% increase in GDP. The unemployment rate is also expected to be higher than the original forecast, with the new figure indicating 7.6% unemployment. Changes in the forecasts were largely based on the assessment that global trade has decreased (compared to an increase in previous forecasts), which reduces demand for Israeli exports. Also there was a substantial decline in the forecast of investment in the economy, due to, among other things, the belief that difficulties in acquiring credit in the business sector will lead to a fall in investments. The continued deterioration in economic data that have been published recently, both in Israel and abroad, together with pessimistic forecasts regarding developments in the near term, have led to a downward revision in the Bank Leumi growth forecasts for the Israeli economy. Thus, in our opinion no change is expected in GDP in the coming year (0% growth), while the business sector is expected to shrink 0.6%. Similar to the BoI, the main factors behind our revised figures are the falloff in exports and the decline in investments. Therefore, we foresee a recession this year in the Israeli economy, especially in the business sector. Regarding future years, the high level of uncertainty makes it very difficult to forecast; however, in the event that during 2009 there is a noticeable improvement in the global economy, then it appears per capita growth in 2010 will reach a positive figure of close to 1.0%.

### Select Indices

|            | Rate  | Return in % January | Return in % 2009 |
|------------|-------|---------------------|------------------|
| TA 100     | 609   | 6.36                | 7.17             |
| TA 25      | 669   | 0.88                | 1.33             |
| DOW JONES  | 8,078 | -8.84               | -7.95            |
| NASDAQ     | 1,516 | -6.38               | -3.85            |
| NIKKEI 225 | 8,039 | -9.77               | -11.67           |

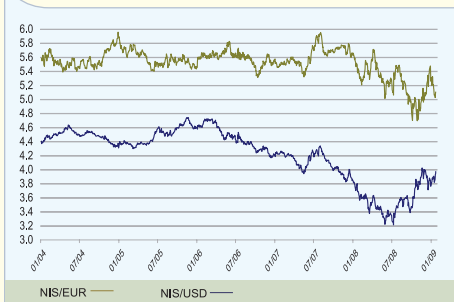
Correct to 03.02.2009

**Editing:** Smadar Ilan, Head of Products Marketing Department  
**Leumi Int'l and Private Banking Division**  
**Tel:** 972-3-5149989  
**fax:** 972-3-5149602  
**Email:** smadari@bll.co.il

# World Macro

By: **Liora Caplan**, Capital Market Research Department, Investment Counseling Division

**Euro and USD vs. NIS**



**TA25**



**Oil Prices per Barrel (USD)**



**Gold Prices (USD)**



January is over and, as expected, most macro news published was either bad or very bad. Company news was no consolation either, as most Q4 financial reports published to date reflected sharp declines in profits in comparison to Q4 2007. The only news that helped lift spirits to some degree was the inauguration of President Obama and the change of the US administration.

Most data continued to reflect deterioration in economic conditions in the US. Even the few indicators which showed some improvement seemed to be only of a temporary nature while the overall picture remained gloomy. Thus, Q4 GDP data was better than expected at -3.8% (annualized), as growing inventories were the source of the unexpected positive news. However, considering the extent of the decline in demand, the growth in inventories probably bodes poorly for future economic growth.

The US trade balance is one of the only indicators showing true improvement. The sharp decline in imports, especially of crude oil, has contributed to a significant slowdown in the growth of the trade deficit. During November, the value of imported petro-products dropped by over 40% compared to October and by approx. 30% in comparison to November 2007. The slowdown in the trade deficit's growth is expected to continue, making a positive contribution to economic growth in the US, while most other factors will continue to negatively affect growth.

The deteriorating employment reality in the US reflects the weakness in the economy and does not seem as if it will improve soon. December's jobs report revealed an unemployment rate of over 7% and the loss of more than half a million jobs during the month. Overall job cuts during 2008 stands at 2.6 million, of which 1.1 million occurred during the last two of months of the year. We expect this data to be revised upwards. This report did not come as a great surprise but it certainly added to the despair, which grew daily as companies declared their plans to reduce payroll. Among prominent headlines were those mentioning the bankruptcy of Circuit City and the prospect that its 30,000 workers would lose their jobs; Caterpillar's plans to reduce manpower by 20,000 employees; Alcoa's decision to lay off 13,500 workers; GE Capital's announcement to let go of between 7,500 and 11,000 employees; Boeing's plan for 10,000 job cuts; and Sprint-Nextel, Home Depot, Starbucks, Yahoo and others, each with announcements to cut thousands of jobs. Even Pfizer, which announced a huge takeover of Wyeth in a deal estimated at over \$68 billion, is planning to lay off 20,000 of the combined company's workforce.

In Europe, things do not look much better as quite a few EU companies have announced plans to reduce their workforce. Among them were German retailer Metro AG that announced plans to lay off 15,000 people, Siemens with 17,000 job cuts, ING with 7,000, and Philips with 3,000 on top of the 6,000 employees laid off during the past quarter. The European Commission is now expecting a loss of about 3.5 million jobs in the European Union during 2009.

Interest rates in the US remained at 0%-0.25% and are expected to stay this low for the foreseeable future. From now on, the central bank will likely concentrate on supporting the economy using other means, including providing more money to Fannie Mae and Freddie Mac, giving full support to the government's fiscal stimulus plan and possibly even buying long term bonds in the secondary market. Interest rates in the Euro Zone were cut to 2% from 2.5%, and considering the difficulties of the European economies, there is still room for further cuts.

Steps taken by the new administration in the US will have a crucial effect on the path towards global economic recovery. We believe that if the new economic plan does not include some sort of solution to the "troubled assets" problem, it will be met with considerable disappointment.

# Art and Culture at Leumi

## The "Future Repertoire" Exhibition

The "Future Repertoire" exhibition, an exhibition of young Israeli artists, presents new and trendy creations from contemporary Israel. These works are the creative efforts of the artists who participated in the recent 2008 "Secret Art" exhibition. However, in the current exhibition, the artists' names were revealed and all the new works in the exhibition were signed. This is one of Leumi's ongoing projects aimed at supporting and encouraging young artists and providing an opportunity for the general public to view fresh efforts in the creative arts in Israel.

This exhibition presents a range of paintings, photographs, videos and sculptures. These creative works provide a look into the current Israeli reality, a look that alludes to the future Israeli artistic repertoire.

The common denominator amongst the exhibition's creations is the range and manifold differences in the approaches relating to life, local reality and the natural environment in which the young creators live and work. In "Real Time in Israeli Art" – the Israel Museum's exhibition for the Sixties – the curators, Amitai Mendelssohn and Efrat Nathan, write, "For the most part, the immediate local reality is absent in the creations and those in which local context is present either look at Israeli reality with a sort of superior observation that exchanges the modern, direct political time with real time, or exposes the gloomy underground currents that are rustling beneath the surface..."

### Is it possible to choose a future repertoire?

In artistic reality, there is a dimension that cannot be measured and assessed using exact tools. Subjective aspects, such as the degree of the artist's professionalism, originality, artistic content, artistic experience and the selector's personal taste, are included in the judgment process in selecting works for exhibitions in general and, in particular, for an exhibition with a look to the future.

In this exhibition, in the art hall at Mannie House, Leumi has provided a platform for a group of young artists who present a fresh, vibrant, refreshing and professional art repertoire, thus enabling them to realize their artistic vision, with the hope that their works will form a part of the future repertoire of Israeli art.

Exhibition curators: Esti Drory and Doron Pollack

### History and Art at "Mannie House"

Constructed in 1910, Mannie House was one of the first buildings in the Ahuzat Bayit neighborhood, which later became Tel Aviv. In 1986, Leumi purchased this special building, which was the Honorable Justice Malkiel Mannie's family residence.

This building, located adjacent to Leumi's head office building, was restored in 1986 and became a visitors and arts center that serves as an open house for Israeli art.

The center combines a permanent exhibition, which, through a variety of mediums, unfolds Leumi's saga in the State of Israel's history from its establishment to the present, with a gallery in which rotating exhibitions are displayed.

This building contains two rooms, which have been restored according to the architecture and design of the beginning of the Twentieth Century. The first room is a restoration of the Jaffa Branch, in which relics from the period are exhibited. The second is a restoration of the committee room, which offers a multimedia experience that affords visitors with the Tel Aviv street atmosphere at the beginning of the last century. The gallery hosts changing exhibitions on a range of subjects and serves as an exhibition platform for Israeli art.

This exhibition, which will continue until the end of February 2009, is being exhibited at Mannie House – Leumi's Visitors and Arts Center, 34 Yehuda Halevy St., Tel Aviv.

**The center is open to the general public, free of charge:**  
Sunday through Thursday -- 10:00 AM to 8:00 PM  
Friday -- 10:00 AM to 1:00 PM



For further details about culture and art at Leumi, please visit the bank's website: [www.bankleumi.com](http://www.bankleumi.com)

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info@leumijersey.com

www.bankleumi.co.uk

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