



Bank of Israel * Research Department

Companies Survey

Second quarter of 2002

Jerusalem, July 2002
www.bankisrael.gov.il

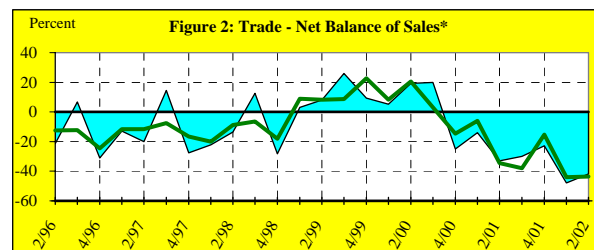
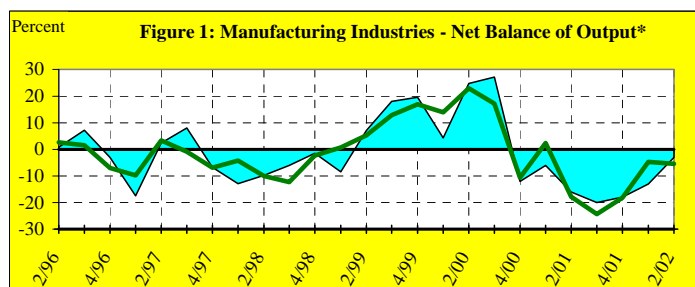


Companies Survey – Second Quarter of 2002 – Main Results

Reports from companies for the second quarter of 2002 indicate that the decline in activity in most of the principal industries continued—in manufacturing, trade, construction, hotels, and business services. The decline, which started with the outbreak of the *intifada* towards the end of 2000, affected all the main aspects of activity: in manufacturing, output continued to fall, but at a lower rate, while the downward trend in domestic sales continued; in the hotel industry, bed-nights fell steeply; in construction, building starts and completions went down; in the two-digit transport industries developments varied, and in communications there were indications that activity had stabilized. Reports on constraints on implementing planned activity rose in most of the principal industries, mainly on the demand side. In construction the rise in constraints on the supply side was notable, particularly the shortage of skilled labor and the rise in prices of inputs. The decline in sales occurred mainly on the domestic side, as did the fall in orders. Cutbacks in stocks and staffing levels also continued. Average inflation expectations for the next twelve months rose significantly in the quarter to 6.2 percent a year, and their variation also increased from its level in the previous quarter. The share of companies expecting inflation to exceed the upper limit of the target inflation range increased to 92 percent. On average, companies expected the exchange rate twelve months hence to be NIS 5.2 to the dollar.

Reports from **manufacturing companies** show that in the second quarter of 2002 output fell for the seventh successive quarter. The reductions in output this quarter, however, were smaller than those in previous quarters. The picture of contraction emerges from the responses to most of the questions in the questionnaire, and in addition to the decline in output, companies reported falls in sales too, particularly to the domestic market (Table 3 and Figure 1), as well as cutbacks in stocks and in staffing. The share of companies reporting constraints on planned activity edged up (Figure 6 and Table 17). There was a general decline in orders for the next quarter, mainly for the domestic market but to some extent also for export.

The classification of companies into three types of industry, i.e., traditional, advanced, and mixed, according to their degree of technological innovation indicates that the mixed industries were the only group in which output did not fall. The traditional industries were affected most severely (Table 1.1 and Figure 7),



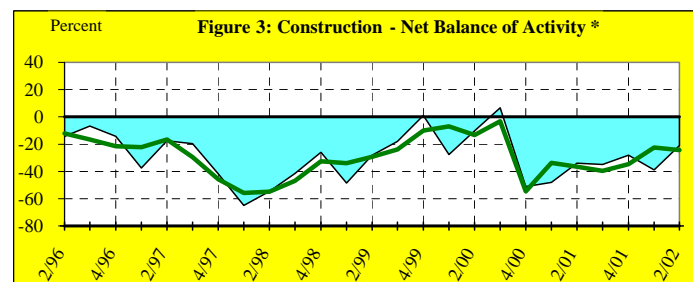
with mainly output and domestic sales suffering, while export sales rose in all three groups. Orders for the next quarter indicate that in total companies expect a drop in both domestic sales and exports.

Activity declined mainly in small companies—with size classified according to the number of employees—while the decline in large companies was less marked (Table 16). In all of them sales to the domestic market fell, whereas small companies were the only ones which also reported a fall in exports. All groups reported a decline in domestic and export orders.

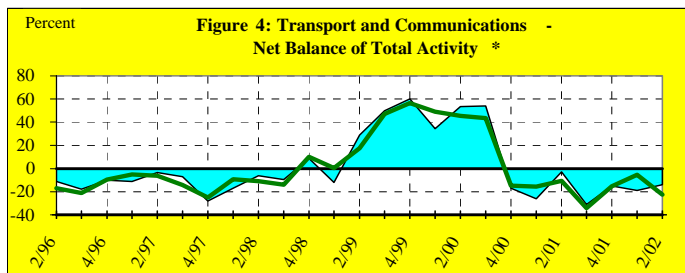
Companies in all principal industries except for the food industry reported a fall in domestic orders, but the position regarding activity was mixed: in mining and quarrying, diamonds, food, metals and machinery increases were reported, whereas in the other industries activity declined. While in most industries companies reported a decline in domestic orders, as stated, actual exports rose. Companies in electronics, chemicals and textiles reported reduced export orders (Table 15).

Reports from **trading companies** show a continuation of the downward sales trend which started towards the end of 2000, with sharp reductions in stocks. Companies also expect sales to continue falling in the next quarter (Table 5 and Figure 2). Reports of demand-side constraints on implementing planned activity increased in this quarter (Table 17 and Figure 6).

Construction companies' reports indicate that the extent of building projects continued to go down, but infrastructure construction activity stabilized in the second quarter (Table 7 and Figure 3). Reports of falling prices (in dollar terms) continued—information which is becoming less significant as



* The net balance is defined as the difference between the percentage of companies reporting increases and the percentage of those reporting decreases.

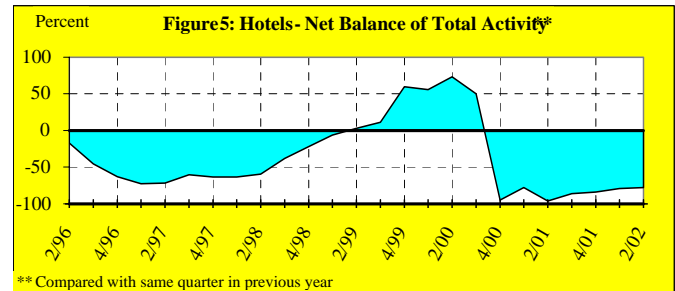


the dollar strengthens—and most companies expect the decline in activity to continue.

Both building starts and completions reflected the general decline; the reduced level of activity and lower expectations of activity in the next quarter occurred mainly in the large and medium companies (Table 16). Small construction companies were the only ones to report a standstill in the level of activity.

The share of companies reporting constraints on carrying out their planned activity rose, with the emphasis on supply constraints, mainly the shortage of skilled labor and the rise in input prices.

Reports from **transport and communications companies** showed a drop in output (Table 9 and Figure 4), continued falling sales of services to Israelis and nonresidents, and a reduction in the rate of utilization of equipment. The decline in output occurred mainly in overland transport, while there were signs of increased activity in sea and air transport.



For the seventh quarter in succession after many quarters of expansion the **hotel industry** reported a further contraction in activity, compared with the level in the second quarter of 2001 (Table 11 and Figure 5). Nearly all responding companies reported a fall in bed-nights of tourists from abroad, and also a reduction in bed-nights of Israelis. Reports of the reduction in demand for hotel services are consistent with those of a fall in the average revenue per room. Almost all hotels reported a decrease in bookings for the next quarter.

Reports from companies in the **business services industry** show a continued decline in their activity, staffing and orders for the next quarter (Table 13). Domestic sales of services fell considerably, whereas exports of services showed an increase. Companies expected a reduction in orders from abroad for the next quarter.

Table 1

Economic activity in the principal industries, based on the net balance of returns from companies

(original and seasonally adjusted data, percent)

	1999		2000				2001				2002	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
Industry (output)	18	20	*4	25	27	-12	*-6	-16	-20	-18	-13	*-3
seasonally adjusted	13	17	14	23	17	-11	*2	-18	-24	-18	*-5	*-5
Trade (sales)	26	*9	*5	19	20	-25	*-14	-33	-30	-23	-48	-42
seasonally adjusted	*9	23	*8	21	*3	*-15	*-6	-35	-38	*-15	-44	-44
Construction (total activity)	-18	*1	-28	*-10	*7	-51	-48	-34	-35	-28	-39	-21
seasonally adjusted	-24	*-10	*-7	-13	*-3	-55	-34	-37	-40	-35	-22	-24
Transport and communications (total activity)**	50	60	34	54	54	*-17	-26	*-3	-31	*-15	*-19	*-14
seasonally adjusted	47	56	49	45	43	*-15	*-16	*-11	-34	*-15	*-5	*-23
Hotels (total activity)***	*11	60	56	73	50	-95	-78	-96	-86	-84	-79	-78
Service industries	*11	15	19	*11	28	-21	-30	-15	-31	-17	-27	-19

* Not significant (at the 10% level).
** The significance test is less effective in this industry due to the small number of firms.
*** Compared with the same quarter in the previous year.

Table 1.1

The net balance of manufacturing companies, classified by human-capital intensity and innovation

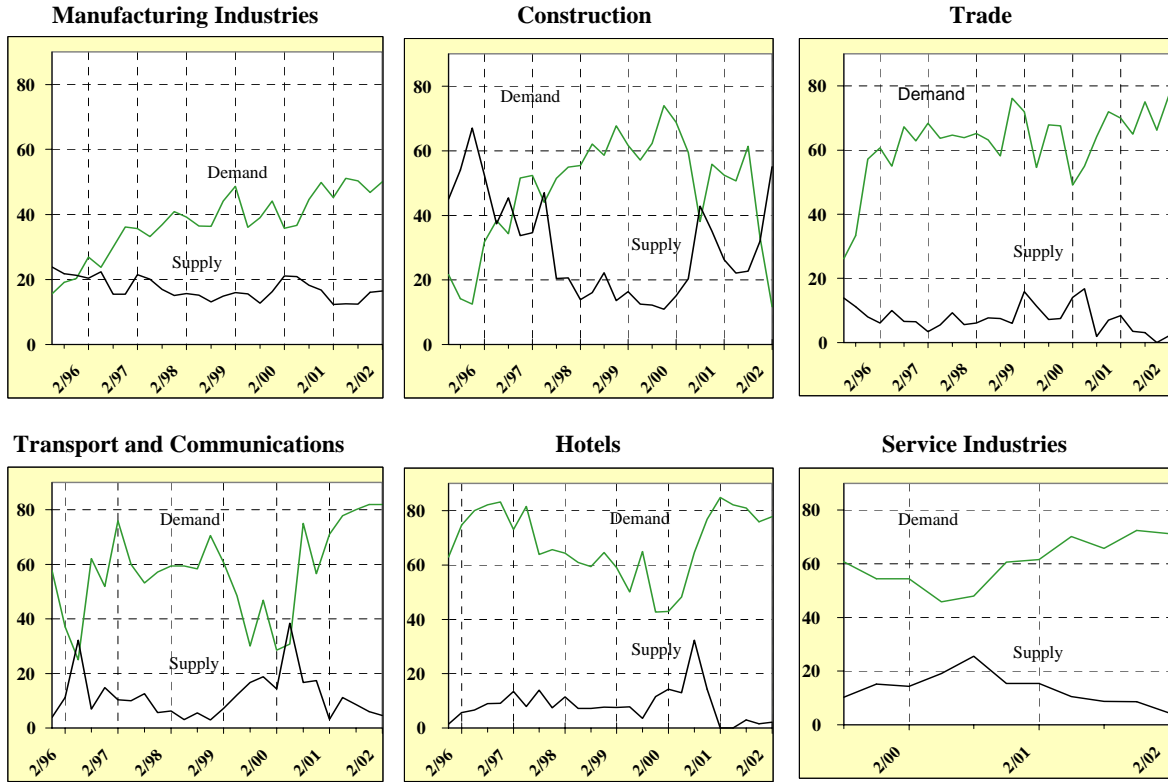
(original and seasonally adjusted data, percent)

	1999		2000				2001				2002	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
Advanced companies	33	35	*10	31	37	*4	*-6	-21	-28	*-6	*-8	*-2
Mixed companies	15	*9	-22	35	32	-46	-21	*-15	-20	-36	-28	*0
Traditional companies	12	14	*8	17	19	-14	*-1	-14	-14	-21	-11	*-6

* Not significant (at the 10% level).

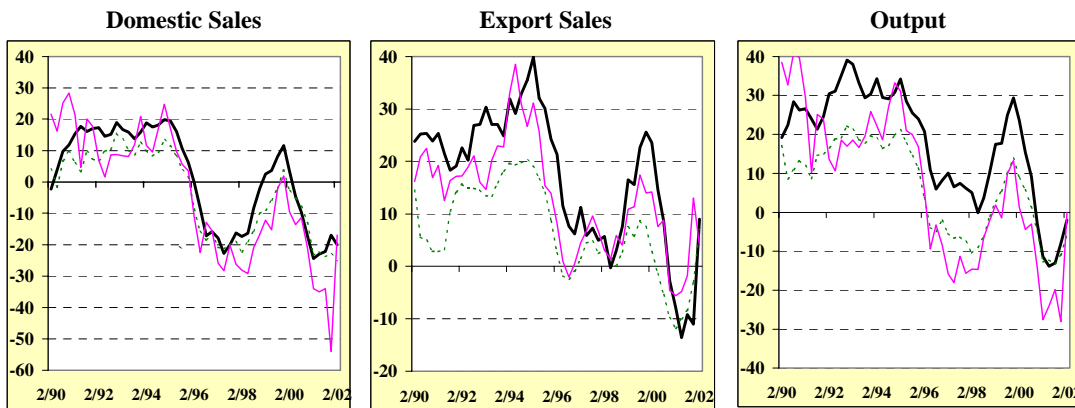
For the classification of companies into advanced, traditional, and mixed, see Table 2.10 on p.53 of the Bank of Israel 1999 Annual Report.

Figure 6: The Main Constraints on Expansion of Activity (percent of all companies)*



*See also Explanatory Notes in the Appendix

Figure 7: Net Balances of Manufacturing Companies, by Human Capital and Innovation^a



^a Moving average, outlying observations - unadjusted data

Thick line - advanced industries
Thin line - traditional industries
Dotted line - mixed industries

Survey of inflation expectations

The expected rate of price increases accelerated in the quarter, following its rise in the previous quarter. Companies expectations of price rises for the next twelve months (July 2002 to June 2003) surged, and reached 6.2 percent on average, compared with average expectations in the previous quarter of 3.7 percent (Figure 8). As expectations rose, their spread relative to the average in the previous quarter also increased very markedly (Figure 9 and Table 3A), and ninety percent of the companies expected price rises of between 2.5 percent and 10.0 percent. Cumulative monthly price rises expected for the next quarter (July to September 2002, Figure 10) rose to 8.6 percent in annual terms.

The rise in inflation expectations was reflected by an increase to 92 percent in the share of companies expecting inflation to exceed the upper limit of the target range, 1.5–3 percent. In the previous quarter the share of companies expecting such a deviation was 63 percent (the top area in Figure 12); the share expecting inflation to be below the target range was only 2 percent (the lower area in Figure 12). The share of companies expecting annual inflation to be within the range defined as price stability slumped from 31 percent at the end of the previous quarter to 6 percent in this one. Note that prior to the Bank of Israel announcement of the two-percentage-point hike in the interest rate for July, twelve-month inflation expectations were 6.4 percent; after the announcement they stood at 6 percent.

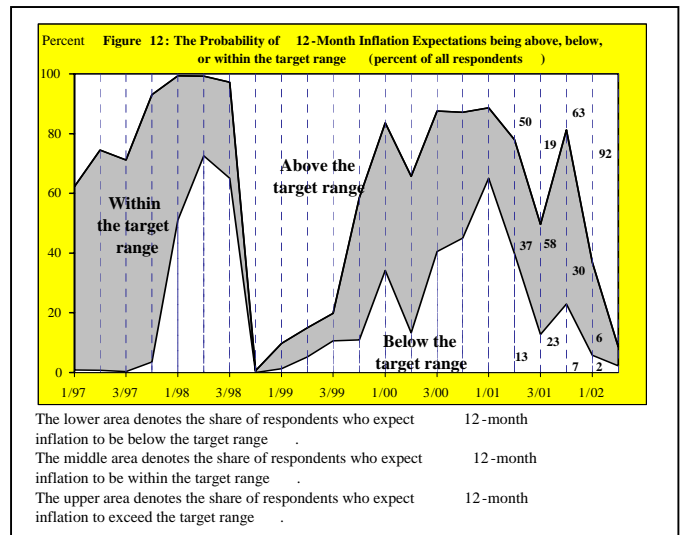
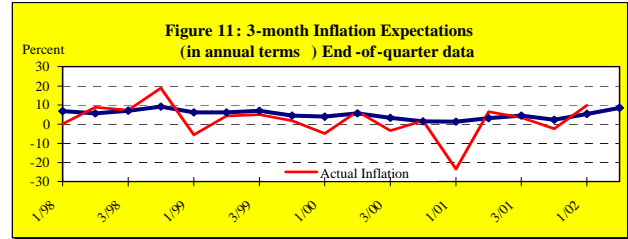
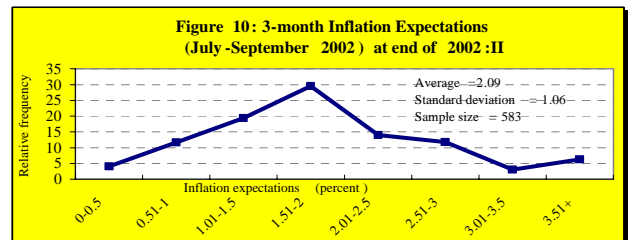
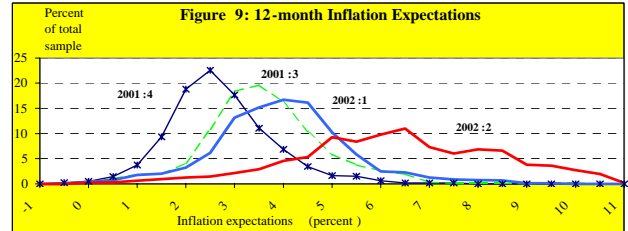
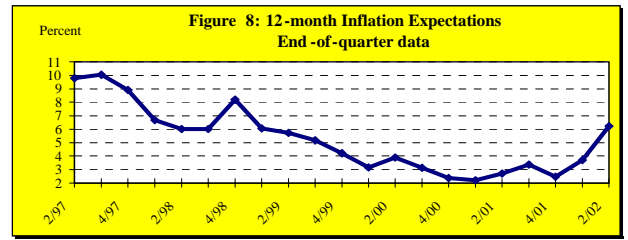


Table 2
Statistic Analysis of 12-month Inflation Expectations

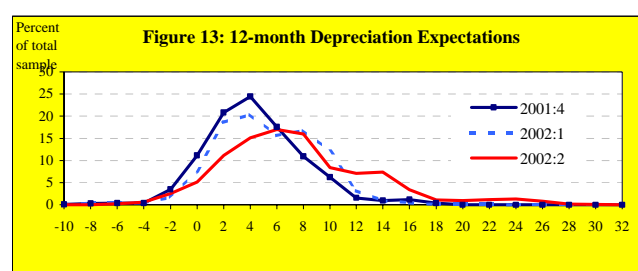
	2001				2002	
	I	II	III	IV	I	II
1. Mode	2.00	2.00	3.00	2.00	4.00	6.00
2. Median	2.00	2.50	3.00	2.50	4.00	6.00
3. Average	2.20	2.69	3.30	2.52	3.76	6.24
4. Standart Deviation	1.15	1.35	1.27	1.11	1.44	2.33
5. Skewness	0.20	0.69	0.30	0.52	-0.24	0.24
Number of responding companies	614	592	674	606	584	583

* Skew is calculated as the difference between average and mode

Expectations regarding changes in the NIS/dollar exchange rate

Companies participating in the survey were asked about their expectations regarding the NIS/\$ exchange rate at the end of the next quarter (30 September 2002), and one year from the end of the survey period (i.e., 31 June 2003).

Companies assessed, on average, that the exchange rate at the end of the next quarter would be NIS 5 to the dollar. Companies that responded prior to the interest-rate announcement expected, on average, that the exchange rate would be NIS 5.2 to the dollar one year from the end of the survey period. The latter shows a rise compared with companies expectations three months ago of a rate of NIS 4.8 to the dollar at the end of March 2003. After the announcement of the interest-rate hike companies expected the rate at the end of June 2003 to be NIS 5.1 to the dollar. Average expected depreciation over the next twelve months derived from companies responses to the survey was 5.3 percent, a rise from the 4 percent expectations in the two previous quarters. The variation of expectations also increased this quarter from its level in the previous two quarters.



Manufacturing Industries

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Table 3
Net balance (percent of all responding industrial companies) ¹

	1999		2000				2001				2002	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
1. Output	18	20	*4	25	27	-12	*-6	-16	-20	-18	-13	*-3
2. Sales	18	16	*-4	22	27	-20	-18	-24	-24	-23	-17	-8
3. Domestic sales	8	*3	-11	12	18	-30	-20	-25	-21	-30	-26	-22
4. Export	17	25	*7	21	*7	*2	*-7	-14	-21	-8	*-5	*8
5. Stocks of finished goods	*-2	10	*-2	10	*4	*-3	*4	*-4	-15	-14	-10	-12
6. Stocks of raw materials	*5	9	*0	*4	6	*1	*5	*2	-8	-9	-7	-11
7. Rate of utilization of machinery and equipment	*4	7	-7	10	10	-23	-14	-23	-26	-28	-18	-14
8. Number of employees	*-4	*-3	-8	*4	7	-14	-20	-30	-28	-33	-26	-15
9. Domestic orders	*1	*-3	*-5	10	*0	-22	-26	-33	-30	-29	-27	-31
10. Export orders	22	12	20	20	14	*1	*-5	-12	-13	-20	*-3	*-5
Number of responding companies	466	457	443	451	440	433	424	423	431	427	400	322

¹ The difference between the percentage of companies reporting an increase and those reporting a decrease.

* Not significant (at the 10% level).

Table 4
Manufacturing Industries in 2002:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2002 I	2002 II					
A. Activity in the quarter							
1. Output	-13 (4)	-3 (4)	4	26	37	24	9
2. Sales	-17 (4)	-8 (5)	5	27	28	24	16
3. Domestic sales	-26 (4)	-22 (4)	3	17	38	23	19
4. Export	-5 (5)	8 (5)	7	28	38	18	9
5. Stocks of raw materials	-10 (4)	-12 (4)	3	15	52	23	7
6. Stocks of finished goods	-7 (4)	-11 (4)	3	15	53	23	6
7. Rate of utilization of machinery and equipment	-18 (4)	-14 (4)	3	18	44	23	12
8. Number of employees	-26 (3)	-15 (3)	1	10	63	20	6
B. Expected activity in the following quarter**							
9. Domestic orders	-27 (4)	-31 (4)	2	12	41	28	17
10. Export orders	-3 (5)	-5 (5)	3	24	41	21	11
Number of responding companies	400	322					

** Orders received in the quarter reviewed.

Figures in brackets are standard deviations. Values smaller (in absolute terms) than 1.64 standard deviations are not statistically significant at the 10% level.

Trade

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Table 5
Net balance (percent of all responding trading companies)¹

	1999		2000				2001				2002	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Sales	26	*9	*5	19	20	-25	*-14	-33	-30	-23	-48	-42
2. End-of-quarter stock	*12	*8	16	*5	*-2	*-2	*-2	-20	*-7	-20	-21	*-13
3. Percent of credit sales	21	11	18	23	27	17	29	23	25	29	28	23
4. Supply period	*8	*-2	*-4	*0	14	*-6	*-5	-10	*4	-11	*-2	-15
B. Expected activity in the following quarter												
5. Forecast change in number of permanent employees	*-7	*0	*-7	*0	*7	-29	-16	-27	-35	-39	-20	-33
6. Sales expectations	23	34	47	45	24	-19	*-11	*-3	-25	*-11	-21	*-13
Number of responding companies	57	64	58	57	60	53	57	60	57	64	68	48

¹The difference between the percentage of companies reporting an increase and those reporting a decrease.

* Not significant (at the 10% level).

Table 6
Trade in 2002:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2002 I	2002 II					
A. Activity in the quarter							
1. Sales	-48 (9)	-42 (11)	6	10	26	31	27
2. End-of-quarter stock	-21 (9)	-13 (10)	2	18	47	24	9
3. Percent of credit sales	28 (6)	23 (9)	8	26	55	7	4
4. Supply period	-2 (4)	-15 (7)	0	4	77	14	5
B. Expected activity in the following quarter							
5. Forecast change in number of permanent employees	-20 (6)	-33 (7)	0	0	67	25	8
6. Sales expectations for following quarter	-21 (9)	-13 (12)	2	23	37	30	8
Number of responding companies	68	48					

Figures in brackets are standard deviations. Values smaller (in absolute terms) than 1.64 standard deviations are not statistically significant at the 10% level.

Construction

8

Table 7
Net balance (percent of all responding construction companies)¹

	1999		2000				2001				2002	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	-18	*1	-28	*-10	*7	-51	-48	-34	-35	-28	-39	-21
of which 2. Buildings			-30	*-12	*-3	-59	-51	-46	-41	-36	-44	-31
3. Infrastructure			-16	*-9	*14	-25	-33	-27	-18	*-2	-22	*0
4. Output prices in dollar terms	-24	-13	-27	-16	-22	-21	-37	-35	-34	-34	-32	*-16
5. Area of building starts (sq. m.)	*-5	*4	-22	-19	*-2	-31	-55	-55	-60	-54	-55	-35
6. Area of building completions (sq. m.)	*-7	*-7	*-8	-27	*-3	-26	*-12	-22	-35	-34	-21	-23
7. Building time	*3	*3	*-3	*1	*0	25	21	21	16	14	*10	*15
B. Expected activity in the following quarter**	13	32	*13	*9	17	*-10	-29	-41	-56	-34	-38	-29
Number of responding companies	92	86	78	80	74	84	77	80	77	75	69	60

¹ The difference between the percentage of companies reporting an increase and those reporting a decrease.

* Not significant (at the 10% level).

** Orders or expectations of construction in the following quarter.

Table 8
Construction in 2002:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2002 I	2002 II					
A. Activity in the quarter							
1. Total activity	-39 (10)	-21 (11)	2	23	29	30	16
of which Buildings	-44 (10)	-31 (10)	2	17	31	24	26
Infrastructure	-22 (11)	0 (11)	2	24	48	14	12
2. Output prices in dollar terms	-32 (9)	-16 (11)	9	16	34	32	9
3. Area of building starts (sq. m.)	-55 (9)	-35 (11)	4	17	23	27	29
4. Area of building completions (sq. m.)	-21 (8)	-23 (10)	0	15	47	29	9
5. Building time	10 (7)	15 (11)	11	28	37	18	6
B. Expected activity in the following quarter	-38 (9)	-29 (10)	0	21	29	33	17
Number of responding companies	69	60					

Figures in brackets are standard deviations. Values smaller (in absolute terms) than 1.64 standard deviations are not statistically significant at the 10% level.

Table 9
Net balance (percent of all responding transport and communications companies)¹

	1999		2000				2001				2002	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	50	60	34	54	54	*-17	-26	*-3	-31	*-15	*-19	*-14
2. Sales of services to residents	50	54	43	58	*26	*-22	-32	*-13	*-23	*-18	-26	*-10
3. Sales of services to nonresidents	48	45	21	35	29	-53	-44	*-14	-57	-38	*-17	-33
4. Utilization of equipment (capacity utilization, etc.)	56	56	26	52	48	*-22	*-18	*-3	-35	*-13	*-17	*-25
B. Expected activity in the following quarter**	52	38	45	41	27	*-4	*9	*17	-30	*-15	*-7	*-14
Number of responding companies	33	30	32	28	26	24	23	31	36	35	33	22

¹ The difference between the percentage of companies reporting an increase and those reporting a decrease.

* Not significant (at the 10% level)

** Orders or expectations of total activity in the following quarter.

Table 10
Transport and Communications in 2002:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2002 I	2002 II					
A. Activity in the quarter							
1. Total activity	-19 (14)	-14 (17)	5	19	38	24	14
2. Sales of services to residents	-26 (12)	-10 (19)	0	30	30	20	20
3. Sales of services to nonresidents	-17 (15)	-33 (15)	7	0	53	13	27
4. Utilization of equipment (capacity utilization, etc.)	-17 (14)	-25 (16)	5	10	45	25	15
B. Expected activity in the following quarter	-7 (13)	-14 (17)	10	14	38	19	19
Number of responding companies	33	22					

Figures in brackets are standard deviations. Values smaller (in absolute terms) than 1.64 standard deviations are not statistically significant at the 10% level.

Hotels

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Table 11
Net balance (percent of all responding hotel companies)¹
(compared with equivalent period last year)

	1999		2000				2001				2002	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	*11	60	56	71	50	-95	-78	-96	-86	-84	-79	-78
2. Number of bed-nights: Tourists	*11	60	60	65	43	-100	-89	-100	-97	-82	-87	-91
3. Number of bed-nights: Israelis	19	*-13	*-15	*8	*6	-54	*-16	-27	-23	*-11	-18	-39
4. Average revenue per room	*-6	*13	38	33	37	-83	-86	-89	-83	-89	-70	-84
B. Expected activity in the following quarter**	44	29	58	31	52	-87	-88	-91	-97	-88	-88	-86
Number of responding companies	64	57	61	49	54	62	56	46	67	68	62	45

¹The difference between the percentage of companies reporting an increase and those reporting a decrease.

* Not significant (at the 10% level).

** Orders or expectations of total activity in the following quarter.

Table 12
Hotels in 2002:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2002 I	2002 II					
A. Activity in the quarter							
1. Total activity	-79 (7)	-78 (8)	0	4	14	22	60
2. Number of bed-nights: Tourists	-87 (4)	-91 (5)	0	2	5	20	73
3. Number of bed-nights: Israelis	-18 (11)	-39 (12)	2	18	21	34	25
4. Average revenue per room	-70 (8)	-84 (6)	0	2	12	27	59
B. Expected activity in the following quarter	-88 (5)	-86 (6)	0	2	10	31	57
Number of responding companies	62	45					

Figures in brackets are standard deviations. Values smaller (in absolute terms) than 1.64 standard deviations are not statistically significant at the 10% level.

Service industries

11

Table 13
Net balance (percent of all responding transport and communications companies)¹

	1999		2000				2001				2002	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total revenue from current activity	*11	15	19	*11	28	-21	-30	-15	-31	-17	-27	-22
2. Sales of services in Israel	*12	16	23	*12	28	-14	-24	*-12	-30	-25	-30	-25
3. Sales of services abroad	40	*-23	*22	53	*17	*-13	*-10	-27	-58	*7	-32	*9
4. Number of employees	10	*-5	10	*6	12	*-4	-12	-17	-24	-29	-31	-15
5. of which: trained	*0	*-3	10	10	10	*-8	-13	-18	-27	-32	-22	-12
6. Number of Israeli workers abroad	*-5	*5	*14	29	20	*9	*13	*-14	-24	*-13	*-13	*-7
B. Expected activity in the following quarter**												
7. Total orders	29	42	37	33	31	*7	*-4	*-5	-28	*-12	*-7	*-6
8. Export orders	44	64	43	44	*18	*0	-28	*-31	-35	*7	*-31	*-8
Number of responding companies	103	107	125	112	120	98	117	117	124	114	116	160

¹ The difference between the percentage of companies reporting an increase and those reporting a decrease.

* Not significant (at the 10% level).

** Orders or expectations of total activity in the following quarter.

Table 14
Service industries in 2002:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2002 I	2002 II					
A. Activity in the quarter							
1. Total revenue from current activity	-27 (7)	-22 (6)	3	19	34	27	17
2. Sales of services in Israel	-30 (7)	-25 (6)	2	17	37	28	16
3. Sales of services abroad	-32 (18)	9 (12)	0	27	55	6	12
4. Number of employees	-31 (6)	-15 (5)	1	15	53	24	7
5. of which: trained	-22 (7)	-12 (5)	2	11	62	21	4
6. Number of Israeli workers abroad	-13 (13)	-7 (8)	3	4	79	10	4
B. Expected activity in the following quarter**							
7. Total orders	-7 (8)	-6 (7)	3	27	34	25	11
8. Export orders	-31 (21)	-8 (15)	0	24	44	20	12
Number of responding companies	116	160					

* Not significant (at the 10% level)

** Orders received in the quarter reviewed.

Figures in brackets are standard deviations. Values smaller (in absolute terms) than 1.64 standard deviations are not statistically significant at the 10% level.

Manufacturing Industries in 2002:I and 2002:II

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Table 15

	2002		Number of responding companies	Total output	Domestic sales	Domestic orders ¹	Actual exports	Export orders ¹	Finished goods	Number of employees
Mining, quarrying, construction materials, and wood	2002	II	28	*4	*-4	*-17	*0	*18	*8	*-14
	2002	I	38	-34	-49	-63	*-11	*0	*-6	-38
Food and beverages	2002	II	43	*14	*9	*-17	*14	*5	*7	*-2
	2002	I	57	*7	*-9	*-11	*0	*4	*13	*-4
Textiles, clothing, and leather	2002	II	31	*-26	-55	-52	*0	*-15	*-10	-32
	2002	I	34	-26	-45	-50	*-8	*-23	*-19	-48
Chemicals, rubber, and plastic	2002	II	51	*-2	*-14	*-15	20	*-11	*-14	-27
	2002	I	64	*2	*-13	*-7	21	*13	*3	-14
Metals and machinery	2002	II	54	*2	-37	-28	*3	*3	*-12	*-8
	2002	I	69	-29	-38	-24	-26	-26	*2	-38
Electronics, electricity, and transport equipment	2002	II	81	*-5	-26	-37	*3	*-12	-15	-15
	2002	I	94	*-13	-24	-25	-18	*-8	-25	-29
Paper, printing, and other	2002	II	29	-29	-29	-58	*8	*17	-36	-18
	2002	I	37	*-6	*-14	-42	*6	35	-20	-17
Total manufacturing industries excluding diamonds	2002	II	317	*-4	-22	-31	*7	*-5	-11	-16
	2002	I	393	-13	-26	-27	*-5	*-3	-7	-26
Diamonds	2002	II	5	40	-50	*-25	*20	*20	*-20	*20
	2002	I	7	*14	*-17	*-17	*14	*0	*-29	*-14
Total manufacturing industries	2002	II	322	*-3	-22	-31	*8	*-5	-11	-15
	2002	I	400	-13	-26	-27	*-5	*-3	-7	-26

¹ Orders received in quarter reviewed.

* Not significant (at the 10% level).

Table 16

Net balance of the principal industries and construction by size of company, 2002:II

	Manufacturing companies				Construction companies				
	Total	Small	Middle	Large	Total	Small	Middle	Large	
Output	*-3	*-21	*-5	*1	Total activity	-21	*25	*-4	-44
Total sales	-8	*-23	*-12	*-3	Area of starts	-35	*-25	*-4	-61
Domestic sales	-22	-37	-19	-22	Area of completions	-23	*-25	*-18	-27
Export	*8	*-9	*4	11	Output prices in \$	*-16	*33	*-24	*-15
Number of companies	322	30	130	162	Area of completions	60	4	26	30

¹ According to number of employees (small company - 1-20 employees, medium size company - 21-99 employees, large company - 100 employees or more).

* Not significant (at the 10% level).

Table 17

**The main constraints on activity
(as percent of total responding companies)**

Manufacturing Industries													
	1999		2000				2001				2002		
	III	IV	I	II	III	IV	I	II	III	IV	I	II	
1. Reported no constraints											18	12	7
2. Reported more than one constraint											3	15	26
3. Did not respond to the question											16	11	0
4. Reported major constraints	52	52	60	57	58	63	67	57	64	63	63	63	66
Of which:													
Demand constraints	36	39	44	36	37	45	50	45	51	50	47	50	
Volume of export orders											21	20	21
Volume of domestic orders											30	27	29
Supply constraints	16	13	16	21	21	18	17	12	13	12	16	16	
Labour shortage	5	1	2	6	7	6	5	2	3	2	4	5	
Raw material shortage	3	4	4	5	5	2	2	1	1	0			
Machinery and equipment shortage	2	3	2	2	1	2	2	2	1	1	2	3	
Financing difficulties	2	3	2	6	5	5	5	5	5	5	10	9	
Other	4	2	5	2	3	3	3	2	3	4			

Construction													
	1999		2000				2001				2002		
	III	IV	I	II	III	IV	I	II	III	IV	I	II	
1. Reported no constraints											4	0	0
2. Reported more than one constraint											3	29	33
3. Did not respond to the question											9	6	0
4. Reported major constraints	70	74	85	84	80	81	91	79	73	84	65	67	
Of which:													
Demand constraints													
Volume of demand	57	62	74	69	59	38	56	53	51	61	33	12	
Supply constraints	13	12	11	15	20	43	35	26	22	23	32	55	
Input prices	0	5	0	4	3	0	3	1	1	1	0	10	
Financing difficulties	7	5	9	8	7	10	4	8	6	11	9	6	
Labour shortage	5	2	2	4	5	33	25	18	10	8	23	39	
Machinery and equipment shortage	0	0	0	0	3	0	0	0	0	1	0	0	
Raw material shortage	0	0	0	0	0	0	3	0	3	1			
Other	0	0	0	0	3	0	1	0	1	0			

Trade													
	1999		2000				2001				2002		
	III	IV	I	II	III	IV	I	II	III	IV	I	II	
1. Reported no constraints											6	0	0
2. Reported more than one constraint											3	26	21
3. Did not respond to the question											13	7	0
4. Reported major constraints	66	75	75	63	72	66	79	78	68	78	66	79	
Of which:													
Demand constraints	55	68	68	49	55	64	72	70	65	75	66	77	
Volume of demand												7	
Political situation	0	0	0	2	5	26	26	20	12	14	33	24	
Output prices	2	2	8	5	3	2	2	0	0	0			
Economic situation in the world	5	0	0	5	8	0	4	5	11	9	4	4	
Economic situation in Israel	48	66	60	37	38	36	40	45	42	48	24	42	
Supply constraints	11	7	8	14	17	2	7	8	4	3	0	2	
Financing difficulties											0	0	2
Labour shortage	5	0	5	2	3	0	0	0	0	0	0	0	
Other	7	7	3	12	13	2	7	8	4	3			

Table 17b

**The main constraints on activity
(as percent of total responding companies)**

Transport and Communications													
	1999		2000				2001				2002		
	III	IV	I	II	III	IV	I	II	III	IV	I	II	
1. Reported no constraints											3	0	0
2. Reported more than one constraint											0	9	14
3. Did not respond to the question											9	3	0
4. Reported major constraints	61	47	66	43	69	92	74	74	89	89	88	86	
Of which:													
Demand constraints	48	30	47	29	31	75	57	71	78	80	82	82	
Political situation	0	0	3	4	0	46	39	26	28	17	28	28	
Input prices	21	3	6	11	8	4	0	0	6	0			
Number of tourists from abroad	3	3	13	7	4	13	9	10	8	9	16	12	
Level of internal tourism										3	0	2	
Economic situation	24	23	25	7	19	13	9	35	36	29	28	22	
Increased competition										23	10	18	
Supply constraints	12	17	19	14	38	17	17	3	11	9	6	5	
Financing difficulties										3	6	5	
Labour shortage	3	10	9	7	8	4	0	3	3	3	0	0	
Other	9	7	9	7	31	13	17	0	8	3			

Hotels													
	1999		2000				2001				2002		
	III	IV	I	II	III	IV	I	II	III	IV	I	II	
1. Reported no constraints											1	0	0
2. Reported more than one constraint											7	18	20
3. Did not respond to the question											7	5	0
4. Reported major constraints	58	68	54	57	61	97	91	85	82	84	77	80	
Of which:													
Demand constraints	50	65	43	43	48	65	77	85	82	81	76	78	
Political situation	6	9	16	12	20	52	64	74	66	46	38	33	
Input prices	16	0	5	6	4	0	0	0	0	0			
Number of tourists from abroad	17	49	13	20	15	8	9	11	10	24	30	37	
Level of internal tourism										1	5	1	
Economic situation	11	7	8	4	9	5	4	0	6	10	3	7	
Supply constraints	8	4	11	14	13	32	14	0	0	3	2	2	
Financing difficulties										1	0	2	
Labour shortage	3	0	0	0	4	32	13	0	0	0	2	0	
Other	5	4	11	14	9	0	2	0	0	1			

Service Industries													
	1999		2000				2001				2002		
	III	IV	I	II	III	IV	I	II	III	IV	I	II	
1. Reported no constraints											12	3	2
2. Reported more than one constraint											4	13	23
3. Did not respond to the question											25	19	24
4. Reported major constraints		71	70	69	65	73	76	77	81	75	81	76	
Of which:													
Demand constraints		61	54	54	46	48	61	62	70	66	72	71	
Political situation										7	19	13	
Economic situation in Israel		32	26	22	17	37	44	53	52	49	26	32	
Economic situation in the world		1	3	2	4	2	7	3	9	4	3	5	
Increased competition		28	26	30	25	9	9	6	10	6	24	21	
Supply constraints		10	15	14	19	26	15	15	10	9	9	4	
Labour shortage		5	3	7	8	6	4	3	1	2	3	2	
Financing difficulties		4	10	4	5	4	3	9	5	4	5	3	
Other		2	2	4	7	15	8	4	5	3			

APPENDIX

Explanatory Notes

This quarterly survey, the seventy-fifth (the eleventh to appear in English) relates to developments in 2002:II, and to assessments and expectations regarding 2002:III. The survey's findings are based on responses to the questionnaire received from companies in the manufacturing industries, trade, construction, hotels, transport and communications, and business services. All the questions are qualitative, i.e., the companies are asked to report on the direction of changes in the different variables (increase, decrease, or no change), and on the degree of change (great, slight). The survey is intended to serve decision-makers as a tool complementing the quantitative data.

In all industries except for hotels, companies are asked to indicate the actual change compared with the previous quarter, without seasonal or other adjustments. In the hotel industry, companies are asked to report the change from the equivalent quarter in the previous year.

The results are not weighted by the size of the company, but in the analysis of the results in manufacturing industries and construction, the main results are also shown with the companies grouped by size.

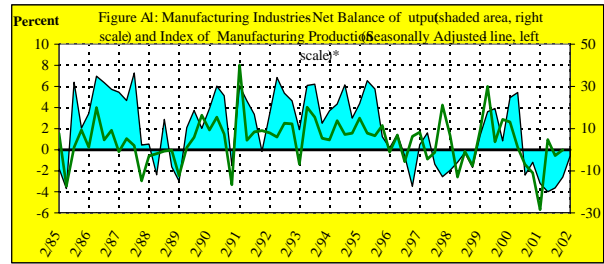
The results are analyzed by means of the net balance, defined as the difference between the percentage of companies reporting increases and the percentage of those reporting decreases. A net balance of zero in a category shows that there was no change in the level of that category compared with the previous quarter. A negative balance indicates a decrease, and a positive one, an increase.

The standard deviation is affected *inter alia* by the number of observations in the sample, and by the distribution of the responses in each category. The smaller the number of observations, the greater the standard deviation.

The data on the net balance for the quarter reviewed and the previous one are based on a summary of the responses of all the companies which responded, and not only those which participated in both surveys. The data in all the tables are in terms of percent of the companies which responded.

It can be seen from the conclusions of the survey that there is a clear connection between the net balance of output and the rate of increase in the index of manufacturing production; this is also seen in the accompanying figures. In general, when the net balance was positive, manufacturing output increased.

The division of the constraints shown in Figure 6 into demand and supply constraints follows the division in Table 17. For a company which reported more than one constraint on its activity, there are two possibilities: if the constraints fitted into



the same category, i.e., they were all either demand constraints or supply constraints, they were included in that category; otherwise, the company was excluded from the number of those indicating constraints on their expansion. This procedure ensures the correct classification of companies reporting (supply or demand) constraints, but allows a downward bias in the total share of companies reporting constraints.

The net balances of manufacturing companies, classified by the number of skilled workers in that industry and its degree of innovation (see Table 2.10 on p.53 of the Bank of Israel 1999 Annual Report), are shown in Figure 7. The advanced industries (chemicals, machinery, electrical and electronic equipment, etc.) account for 30 percent of the sample, the traditional industries (food, drink, and tobacco, clothing, textiles, and leather, wood, paper, and printing, non-metallic mineral products, iron, steel, and metal products, and diamonds, etc.) make up 55 percent of the sample. The balance, about 15 percent, consists of mixed industries (mines and quarries, rubber and plastic, and miscellaneous).

