



Bank of Israel \* Research Department

## Companies Survey

Third quarter of 2002

Jerusalem, October 2002  
[www.bankisrael.gov.il](http://www.bankisrael.gov.il)



Companies Survey – Third Quarter of 2002 – Main Results

Reports from companies for the third quarter of 2002 indicate that the decline in activity in all the principal industries continued. This accompanied a fall in sales, both domestic and export, and the picture relating to orders also remained gloomy. On the other hand, the rate of decline in the output of all the industries apart from manufacturing and business services was less severe. The decline affected all the main aspects of activity: in manufacturing, output continued to fall, while the downward trend in domestic and export sales continued; in the hotel industry, bed-nights, particularly of foreign tourists, fell; in construction, the downward trends continued, especially in the construction of buildings; in the two-digit transport and communications industries developments varied; sales of business services went down. In reports on the severity of constraints on implementing planned activity, the demand side featured prominently, with manufacturing and the hotels industries reporting on an intensification of the constraint. The main supply-side constraint was financing difficulties in all industries except for construction, in which the shortage of skilled labor headed the list. Average inflation expectations for the next twelve months dropped in the quarter to 4.8 percent. The share of companies expecting inflation to exceed the upper limit of the target inflation range fell heavily to 49 percent, and 29 percent expected inflation to be below the lower limit of the target range. On average, companies expected the exchange rate twelve months hence to be NIS 5.0 to the dollar.

Reports from **manufacturing companies** show that in the third quarter of 2002 the fall in output continued, and was in line with the reductions reported since the outbreak of the current *intifada*. 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 domestic and export sales too (Table 3 and Figure 1), as well as cutbacks in stocks and in staffing. Reports on constraints on planned activity indicated a deterioration, both on the demand side (the extent of domestic orders) and on the supply side (financing difficulties; Figure 7 and Table 17). The situation is not expected to improve in the near future, as can be seen from the 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 less severely affected than the others (Table 1.1 and

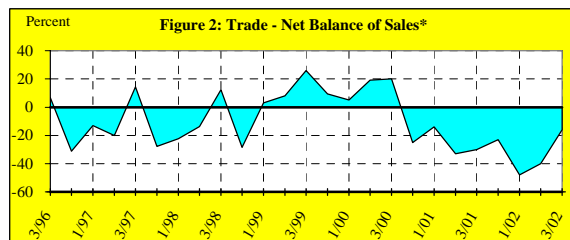
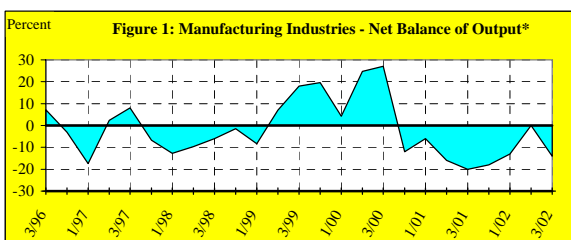


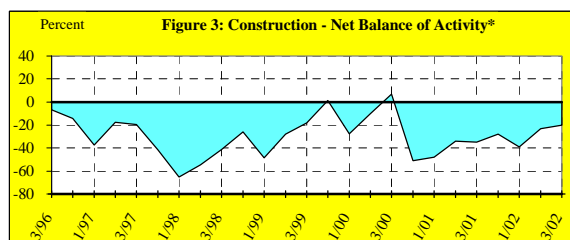
Figure 8). They did not report any significant decline in output and sales, whereas the traditional and the advanced industries reported marked falls, especially in exports of the advanced industries. Orders for the next quarter indicate remained low in all three groups with the exception of an improvement in export orders in the mixed industries. Most principal industries reported a drop in output, except for chemicals and mining and quarrying, which reported a rise, and the diamond industry which reported no change. The increased output of mining and quarrying occurred with a rise in total domestic and export sales. All industries indicated a reduction in orders for the domestic market, and textiles and clothing reported signs of an increase in export orders (Table 15).

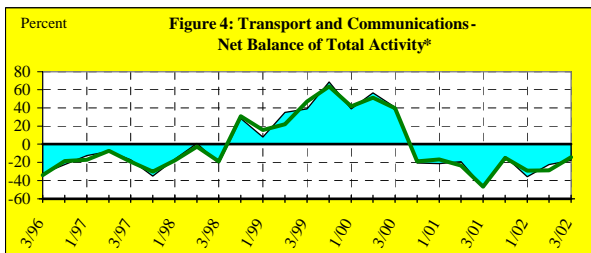
Activity and (domestic and export) sales declined mainly in small companies—with size classified according to the number of employees—while the decline in large and medium companies was less marked (Table 16). The same picture emerged from reports on export orders.

Reports from **trading companies** showed a continuation of the downward sales trend, but the decline was far more moderate than those in previous quarters (Table 5 and Figure 2). The main constraint on activity in the quarter remained that on the demand side—the economic situation in Israel—but the supply-side constraint of financing difficulties also worsened (Table 17 and Figure 7). However, sales are not expected to continue their decline in the next quarter.

**Construction companies** reports also indicate that the decline in activity eased as a result of the moderation of the reduction in building projects; the decrease in infrastructure construction remained relatively moderate (Table 7 and Figure 3). Reports of falling prices also moderated despite the fall in the dollar exchange rate. Companies expect a more modest decline in activity in the next quarter. Large companies, whose construction of buildings and infrastructure went down, suffered more than the others (Table 16).

Companies did not report on a further deterioration in supply-side constraints on implementing activity, and the

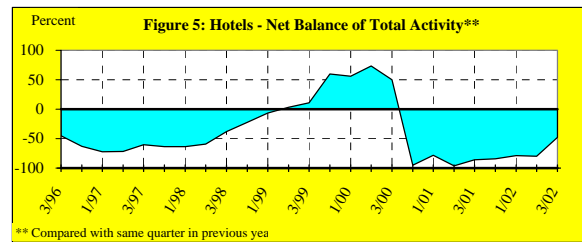




shortage of skilled labor remained at the same high level as in the previous quarter. The demand-side constraint eased a little (Table 17 and Figure 7).

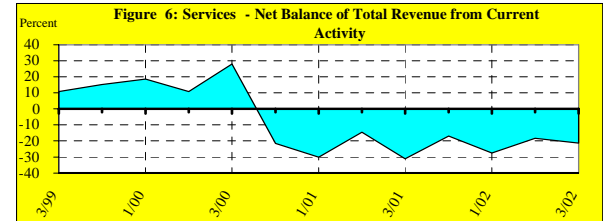
Reports from **transport and communications companies** showed that the fall in output continued (Table 9 and Figure 4). Sales of services to nonresidents showed the greatest decline, while the reduction in sales to Israelis was less pronounced. The picture was reflected in the considerable reduction in the rate of utilization of equipment. Different sections of the industry moved in different directions: the decline in output occurred mainly in overland transport, while there were signs of increased activity in air transport and communications, with sea transport showing no change. Regarding constraints on expanding activity, on the supply side companies reported a deterioration in financing difficulties, but the constraints on the demand side—the security situation and Israel's economic situation—also featured prominently.

The **hotel industry** reported a further contraction in activity, compared with the level in the third quarter of 2001, although the decline was very much less severe than in previous quarters (Table 11 and Figure 5). The moderation in the fall in bed-nights of tourists from abroad was not as marked as that in the



bed-nights of Israelis, and nearly all responding companies reported the extent of tourism from abroad as a millstone around their necks regarding their activity level. Reports of the fall in the average revenue per room continued, and 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 domestic activity, and an even greater fall in exports (Table 13 and Figure 6). There were some indications, however, of an easing in the rate of decline in orders for the next quarter. Slight changes were reported with regard to constraints: the demand constraint eased, while the supply constraint intensified.



**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		
	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	
<b>Industry (output)</b>	20	*4	25	27	-12	*6	-16	-20	-18	-13	*0	-14					
seasonally adjusted	17	14	22	18	-11	*3	-19	-23	-18	*4	*4	-15					
<b>Trade (sales)</b>	*9	*5	19	20	-25	*14	-33	-30	-23	-48	-40	*16					
seasonally adjusted	24	*7	22	*2	*14	*8	-33	-39	*15	-45	-40	-25					
<b>Construction (total activity)</b>	*1	-28	*10	*7	-51	-48	-34	-35	-28	-39	-23	-20					
seasonally adjusted	*9	*7	*13	*1	-56	-34	-37	-39	-35	-22	-26	-24					
<b>Transport and communications (total activity)**</b>	68	39	57	41	-21	-21	-19	-47	-14	-36	-23	-18					
seasonally adjusted	63	42	51	40	-19	-17	-23	-47	-15	-29	-29	-14					
<b>Hotels (total activity)***</b>	60	56	73	50	-95	-78	-96	-86	-84	-79	-80	-48					
<b>Service industries</b>	15	19	*11	28	-21	-30	-15	-31	-17	-27	-18	-21					

\* 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)

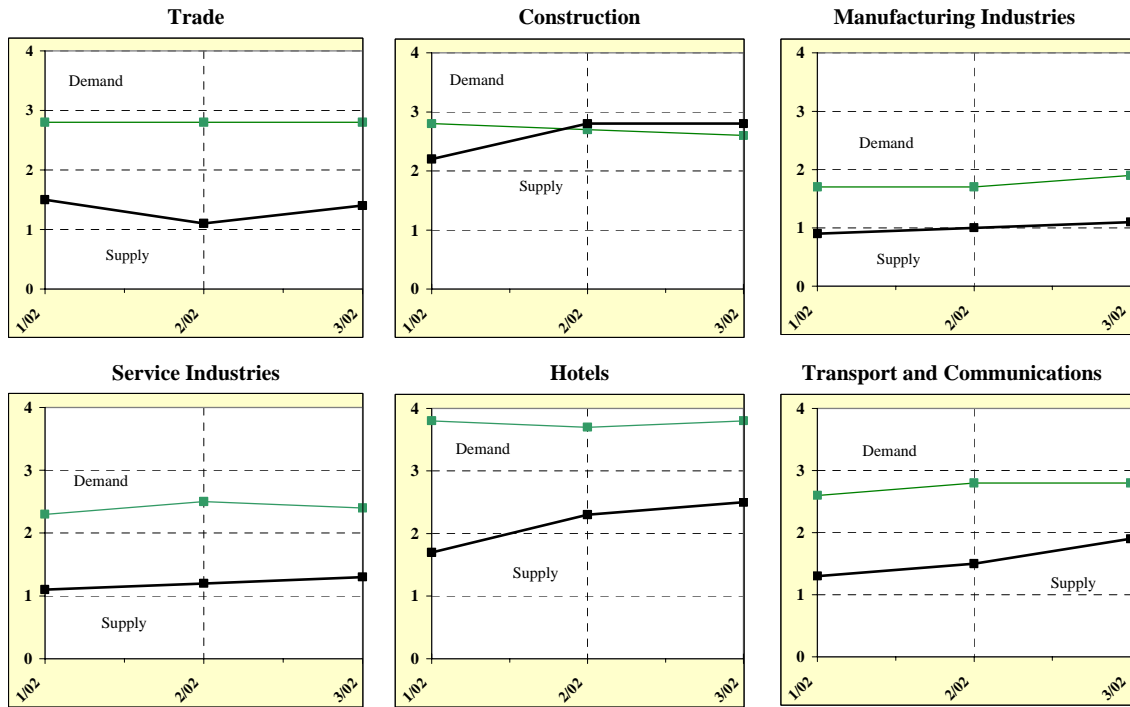
	1999					2000					2001				2002		
	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	
<b>Advanced companies</b>	35	*10	31	37	*4	*6	-21	-28	*6	*8	*6	-15					
<b>Mixed companies</b>	*9	-22	35	32	-46	-21	*15	-20	-36	-28	*2	*2					
<b>Traditional companies</b>	14	*8	17	19	-14	*1	-14	-14	-21	-11	*5	-16					

\* 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

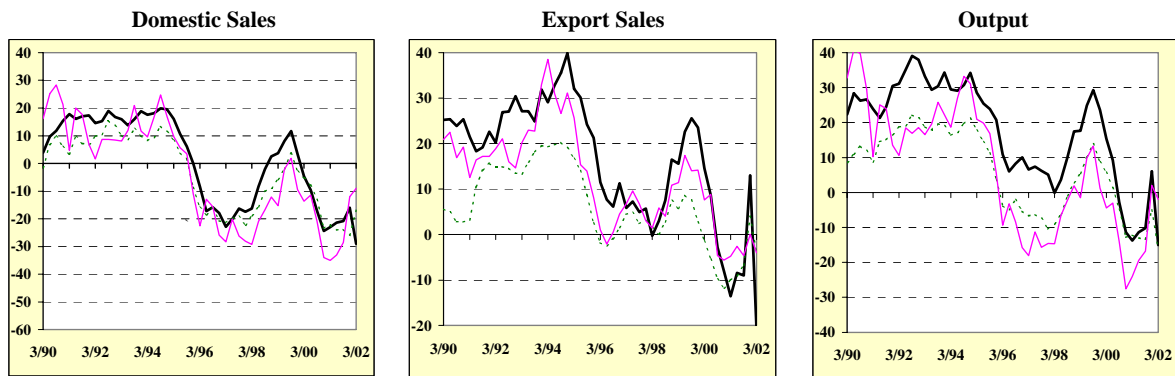
1) Business services include catering, insurance and real estate services, business and legal services, education and health, personal services and garages.  
 2) For the classification of companies into advanced, mixed, and traditional, see Table on p. 53 of the Bank of Israel Annual Report, 1999.

**Figure 7: The severity of constraints on carrying out planned activity (average)<sup>1</sup>**  
 1-Minimal, 2-Moderate, 3-Significant, 4-Very significant



1) For every quarter the most severe constraint on the demand side and on the supply side is chosen.  
 Source: Table 17.

**Figure 8: Net Balances of Manufacturing Companies, by Human Capital and Innovation<sup>a</sup>**



<sup>a</sup> Moving average, outlying observations - unadjusted data  
 Thick line - advanced industries  
 Thin line - traditional industries  
 Dotted line - mixed industries

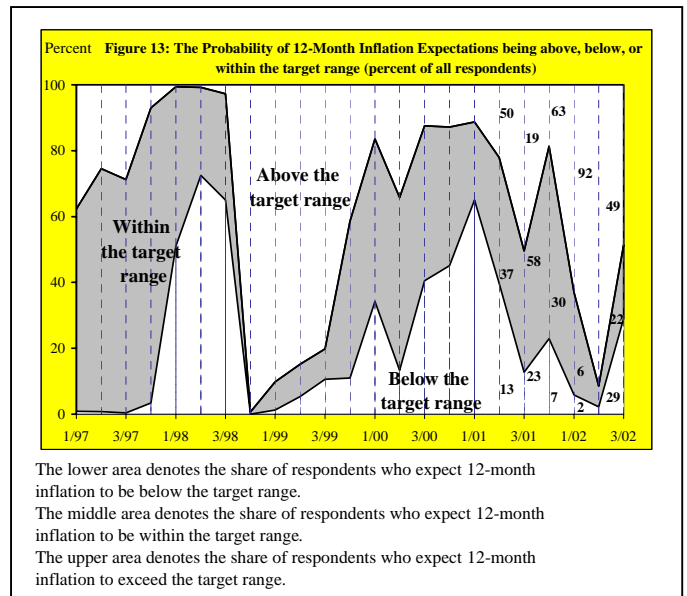
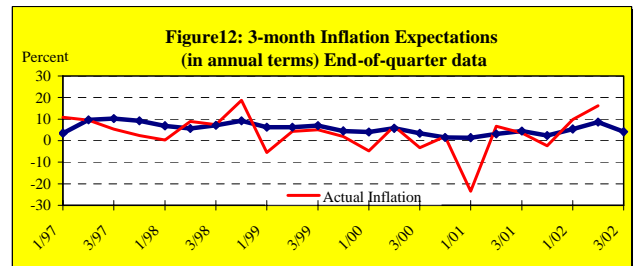
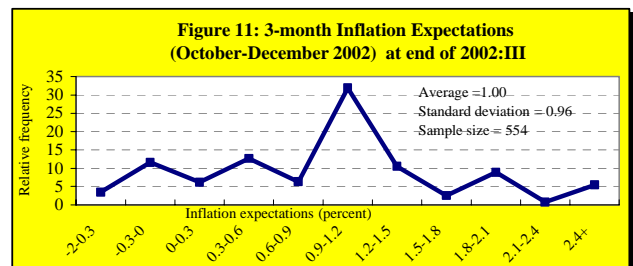
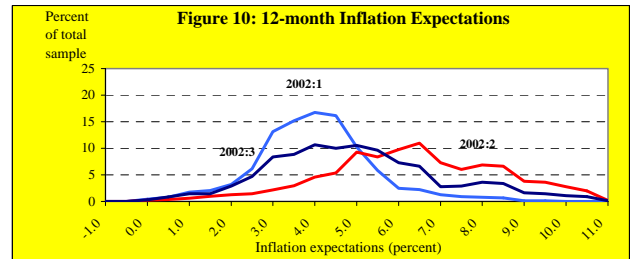
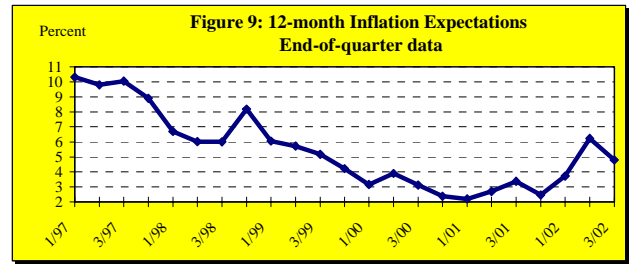
**Survey of inflation expectations**

In the third quarter the expected rate of price increases for the next twelve months and for the next quarter fell back.

Companies expectations of price rises for the next twelve months (October 2002 to September 2003) eased, and reached 4.8 percent on average, compared with average expectations in the previous quarter of 6.2 percent (Figure 9); the variance of the expectations also fell (Figure 10 and Table 2).

Expectations for the cumulative price increase in the next quarter (October to December 2002, Figure 11) also declined, to 4.1 percent in annual terms, from 8.6 percent at the end of the previous quarter.

The drop in inflation expectations was reflected by a decrease to 49 percent in the share of companies expecting inflation to exceed the upper limit of the weighted inflation target range for the next twelve months,<sup>1</sup> defined as price stability. In the previous quarter the share of companies expecting such a deviation was 92 percent (the top area in Figure 13); the share expecting inflation to be below the target range (the lower area in Figure 12) jumped to a significant 29 percent. The share of companies expecting annual inflation to be within the range rose to 22 percent.



The lower area denotes the share of respondents who expect 12-month inflation to be below the target range.  
 The middle area denotes the share of respondents who expect 12-month inflation to be within the target range.  
 The upper area denotes the share of respondents who expect 12-month inflation to exceed the target range.

<sup>1</sup> The target range for the next twelve months is 1.25 percent to 3 percent; this is obtained from the range of 2–3 percent for 2002, and 1–3 percent for 2003.

**Table 2**  
**Statistic Analysis of 12-month Inflation Expectations**

	2001				2002		
	I	II	III	IV	I	II	III
1. Mode	2.00	2.00	3.00	2.00	4.00	6.00	5.00
2. Median	2.00	2.50	3.00	2.50	4.00	6.00	4.60
<b>3. Average</b>	<b>2.20</b>	<b>2.69</b>	<b>3.30</b>	<b>2.52</b>	<b>3.76</b>	<b>6.17</b>	<b>4.80</b>
4. Standart Deviation	1.15	1.35	1.27	1.11	1.44	2.37	2.02
5. Skewness	0.20	0.69	0.30	0.52	-0.24	0.17	-0.20
Number of responding companie	614	592	674	606	584	639	554

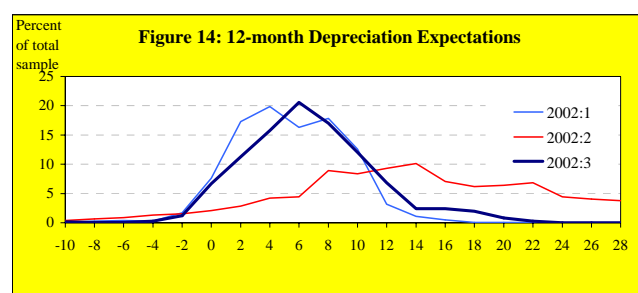
\* Skew is calculated as the difference between average and mode.

### 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 December 2002), and one year from the end of the survey period (i.e., 30 September 2003).

Companies assessed, on average, that the exchange rate at the end of the next quarter would be NIS 4.85 to the dollar, and expected depreciation went down to 1.28 percent from 1.52 percent at the end of the previous quarter.

The expected rate at the end of the next twelve months (i.e., end September 2003) was NIS 5.02 to the dollar, and the expected average depreciation derived from this was 4.66 percent. Concurrently the variance of depreciation expectations was lower than in previous quarters (Figure 14).



## Manufacturing Industries

7

**Table 3**  
**Net balance ( percent of all responding industrial companies) <sup>1</sup>**

	1999				2000				2001				2002		
	IV	I	II	III	IV	I	II	III	IV	I	II	III			
1. Output	20	*4	25	27	-12	*-6	-16	-20	-18	-13	*0	-14			
2. Sales	16	*-4	22	27	-20	-18	-24	-24	-23	-17	*-7	-12			
3. Domestic sales	*3	-11	12	18	-30	-20	-25	-21	-30	-26	-21	-20			
4. Export	25	*7	21	*7	*2	*-7	-14	-21	-8	*-5	*7	-11			
5. Stocks of finished goods	10	*-2	10	*4	*-3	*4	*-4	-15	-14	-10	-10	-10			
6. Stocks of raw materials	9	*0	*4	6	*1	*5	*2	-8	-9	-7	-9	-9			
7. Rate of utilization of machinery and equipment	7	-7	10	10	-23	-14	-23	-26	-28	-18	-13	-19			
8. Number of employees	*-3	-8	*4	7	-14	-20	-30	-28	-33	-26	-16	-20			
9. Domestic orders	*-3	*-5	10	*0	-22	-26	-33	-30	-29	-27	-27	-30			
10. Export orders	12	20	20	14	*1	*-5	-12	-13	-20	*-3	*-4	-11			
Number of responding companies	457	443	451	440	433	424	423	431	427	400	396	301			

<sup>1</sup> 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:III**  
**(percent of all responding companies in each category)**

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2002 II	2002 III					
<b>A. Activity in the quarter</b>							
1. Output	0 (4)	-14 (5)	6	18	38	27	11
2. Sales	-7 (4)	-12 (5)	4	23	34	24	15
3. Domestic sales	-21 (4)	-20 (5)	5	17	36	29	13
4. Export	7 (5)	-11 (5)	4	20	41	24	11
5. Stocks of raw materials	-10 (4)	-10 (4)	5	14	52	22	7
6. Stocks of finished goods	-9 (4)	-9 (4)	4	15	53	22	6
7. Rate of utilization of machinery and equipment	-13 (4)	-19 (4)	3	17	41	28	11
8. Number of employees	-16 (3)	-20 (3)	1	8	62	24	5
<b>B. Expected activity in the following quarter**</b>							
9. Domestic orders	-27 (4)	-30 (4)	1	12	44	30	13
10. Export orders	-4 (5)	-11 (5)	2	20	45	23	10
Number of responding companies	396	301					

\*\* 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.

**Table 5**  
**Net balance (percent of all responding trading companies)<sup>1</sup>**

	1999		2000				2001				2002		
	IV	I	II	III	IV	I	II	III	IV	I	II	III	
<b>A. Activity in the quarter</b>													
1. Sales	*9	*5	19	20	-25	*-14	-33	-30	-23	-48	-40	*-16	
2. End-of-quarter stock	*8	16	*5	*-2	*-2	*-2	-20	*-7	-20	-21	*-14	-18	
3. Percent of credit sales	11	18	23	27	17	29	23	25	29	28	26	14	
4. Supply period	*-2	*-4	*0	14	*-6	*-5	-10	*4	-11	*-2	-14	*2	
<b>B. Expected activity in the following quarter</b>													
5. Forecast change in number of permanent employees	*0	*-7	*0	*7	-29	-16	-27	-35	-39	-20	-30	-33	
6. Sales expectations	34	47	45	24	-19	*-11	*-3	-25	*-11	-21	*-11	*4	
Number of responding companies	64	58	57	60	53	57	60	57	64	68	60	51	

<sup>1</sup> The 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:III**  
**(percent of all responding companies in each category)**

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2002 II	2002 III					
<b>A. Activity in the quarter</b>							
1. Sales	-40 (10)	-16 (13)	14	19	18	33	16
2. End-of-quarter stock	-14 (9)	-18 (10)	2	18	42	36	2
3. Percent of credit sales	26 (8)	14 (8)	2	20	70	6	2
4. Supply period	-14 (6)	2 (5)	2	6	86	2	4
<b>B. Expected activity in the following quarter</b>							
5. Forecast change in number of permanent employees	-30 (7)	-33 (7)	0	0	67	27	6
6. Sales expectations for following quarter	-11 (11)	4 (12)	4	31	34	23	8
Number of responding companies	60	51					

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

9

**Table 7**  
**Net balance (percent of all responding construction companies)<sup>1</sup>**

	1999		2000				2001				2002		
	IV	I	II	III	IV	I	II	III	IV	I	II	III	
<b>A. Activity in the quarter</b>													
1. Total activity	*1	-28	*-10	*7	-51	-48	-34	-35	-28	-39	-23	-20	
of which 2. Buildings			*-12	*-3	-59	-51	-46	-41	-36	-44	-31	-24	
3. Infrastructure			*-9	*14	-25	-33	-27	-18	*-2	-22	*-13	*-15	
4. Output prices in dollar terms	-13	-27	-16	-22	-21	-37	-35	-34	-34	-32	-21	*-6	
5. Area of building starts (sq. m.)	*4	-22	-19	*-2	-31	-55	-55	-60	-54	-55	-37	-39	
6. Area of building completions (sq. m.)	*-7	*-8	-27	*-3	-26	*-12	-22	-35	-34	-21	-25	-31	
7. Building time	*3	*-3	*1	*0	25	21	21	16	14	*10	20	*8	
<b>B. Expected activity in the following quarter**</b>	<b>32</b>	<b>*13</b>	<b>*9</b>	<b>17</b>	<b>*-10</b>	<b>-29</b>	<b>-41</b>	<b>-56</b>	<b>-34</b>	<b>-38</b>	<b>-36</b>	<b>*-6</b>	
Number of responding companies	86	78	80	74	84	77	80	77	75	69	68	58	

<sup>1</sup> 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:III**  
**(percent of all responding companies in each category)**

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2002 II	2002 III					
<b>A. Activity in the quarter</b>							
1. Total activity	-23 (10)	-20 (10)	0	20	40	24	16
of which Buildings	-31 (10)	-24 (10)	0	16	44	24	16
Infrastructure	-13 (11)	-15 (13)	0	28	29	25	18
2. Output prices in dollar terms	-21 (10)	-6 (10)	0	23	48	23	6
3. Area of building starts (sq. m.)	-37 (10)	-39 (10)	0	12	37	33	18
4. Area of building completions (sq. m.)	-25 (9)	-31 (10)	0	12	45	31	12
5. Building time	20 (10)	8 (10)	4	25	50	13	8
<b>B. Expected activity in the following quarter</b>	<b>-36 (9)</b>	<b>-6 (10)</b>	<b>4</b>	<b>17</b>	<b>52</b>	<b>19</b>	<b>8</b>
Number of responding companies	68	58					

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

Transport and Communications

10

**Table 9**  
Weighted net balance as percentage of all responding transport and communications companies

	1999		2000				2001				2002		
	IV	I	II	III	IV	I	II	III	IV	I	II	III	
<b>A. Activity in the quarter</b>													
1. Total activity	68	39	57	41	-21	-21	-19	-47	-14	-36	-23	-18	
2. Sales of services to residents	61	48	59	8	-24	-30	-32	-40	-15	-33	-20	-19	
3. Sales of services to nonresidents	54	22	20	20	-54	-37	-25	-55	-34	-35	-30	-46	
4. Utilization of equipment (capacity utilization, etc.)	65	28	52	29	-24	-14	-23	-38	-3	-28	-25	-48	
<b>B. Expected activity in the following quarter**</b>	39	50	34	27	-4	1	-9	-17	-21	-22	-36	-25	
Number of responding companies	30	32	28	26	24	23	31	35	34	32	28	32	

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

See Appendix for explanation of the weighting.

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

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2002 II	2002 III					
<b>A. Activity in the quarter</b>							
1. Total activity	-23 (34)	-18 (33)	3	19	38	18	22
2. Sales of services to residents	-20 (36)	-19 (40)	2	20	37	15	26
3. Sales of services to nonresidents	-30 (29)	-46 (27)	1	0	51	2	46
4. Utilization of equipment (capacity utilization, etc.)	-25 (32)	-48 (26)	3	0	45	29	22
<b>B. Expected activity in the following quarter</b>	0 (33)	0 (34)	0	15	45	18	22
Number of responding companies	28	32					

Due to the small number of companies in this field, a high standard deviation does not necessarily indicate non-significance.

## Hotels

11

**Table 11**  
**Net balance (percent of all responding hotel companies)<sup>1</sup>**  
**(compared with equivalent period last year)**

	1999		2000				2001				2002		
	IV	I	II	III	IV	I	II	III	IV	I	II	III	
<b>A. Activity in the quarter</b>													
1. Total activity	60	56	71	50	-95	-78	-96	-86	-84	-79	-80	-48	
2. Number of bed-nights: Tourists	60	60	65	43	-100	-89	-100	-97	-82	-87	-94	-75	
3. Number of bed-nights: Israelis	*-13	*-15	*8	*6	-54	*-16	-27	-23	*-11	-18	-48	*-9	
4. Average revenue per room	*13	38	33	37	-83	-86	-89	-83	-89	-70	-88	-71	
<b>B. Expected activity in the following quarter**</b>	29	58	31	52	-87	-88	-91	-97	-88	-88	-86	-73	
Number of responding companies	57	61	49	54	62	56	46	67	68	62	66	56	

<sup>1</sup>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 12**  
**Hotels in 2002:III**  
**(percent of all responding companies in each category)**

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2002 II	2002 III					
<b>A. Activity in the quarter</b>							
1. Total activity	-80 (6)	-48 (10)	2	16	16	36	30
2. Number of bed-nights: Tourists	-94 (4)	-75 (7)	0	5	15	16	64
3. Number of bed-nights: Israelis	-48 (10)	-9 (12)	13	25	15	29	18
4. Average revenue per room	-88 (5)	-71 (8)	5	2	15	47	31
<b>B. Expected activity in the following quarter</b>	-86 (5)	-73 (7)	0	5	17	28	50
Number of responding companies	66	56					

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

12

**Table 13**  
**Net balance (percent of all responding transport and communications companies)<sup>1</sup>**

	1999		2000				2001				2002		
	IV	I	II	III	IV	I	II	III	IV	I	II	III	
<b>A. Activity in the quarter</b>													
1. Total revenue from current activity	15	19	*11	28	-21	-30	-15	-31	-17	-27	-18	-21	
2. Sales of services in Israel	16	23	*12	28	-14	-24	*-12	-30	-25	-30	-21	-20	
3. Sales of services abroad	*-23	*22	53	*17	*-13	*-10	-27	-58	*7	-32	*8	-29	
4. Number of employees	*-5	10	*6	12	*-4	-12	-17	-24	-29	-31	-13	*-6	
5. of which: trained	*-3	10	10	10	*-8	-13	-18	-27	-32	-22	-12	-9	
6. Number of Israeli workers abroad	*5	*14	29	20	*9	*13	*-14	-24	*-13	*-13	*-6	*-5	
<b>B. Expected activity in the following quarter**</b>													
7. Total orders	42	37	33	31	*7	*-4	*-5	-28	*-12	*-7	*-7	*-3	
8. Export orders	64	43	44	*18	*0	-28	*-31	-35	*7	*-31	*-13	*-11	
Number of responding companies	107	125	112	120	98	117	117	124	114	116	186	133	

<sup>1</sup> 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:III**  
**(percent of all responding companies in each category)**

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2002 II	2002 III					
<b>A. Activity in the quarter</b>							
1. Total revenue from current activity	-18 (6)	-21 (7)	3	17	39	30	11
2. Sales of services in Israel	-21 (6)	-20 (7)	3	17	40	27	13
3. Sales of services abroad	8 (11)	-29 (12)	4	4	55	24	13
4. Number of employees	-13 (5)	-6 (6)	1	15	62	17	5
5. of which: trained	-12 (5)	-9 (5)	1	12	65	16	6
6. Number of Israeli workers abroad	-6 (7)	-5 (8)	0	5	85	5	5
<b>B. Expected activity in the following quarter**</b>							
7. Total orders	-7 (6)	-3 (7)	2	26	41	24	7
8. Export orders	-13 (13)	-11 (15)	5	10	59	5	21
Number of responding companies	186	133					

\* 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:II and 2002:III

13

**Table 15**

			Manufacturing industries			Construction			Finished goods	Number of employees
			Number of responding companies	Total output	Domestic sales	Domestic orders <sup>1</sup>	Actual exports	Export orders <sup>1</sup>		
Mining, quarrying, construction materials, and wood	2002	III	32	*6	*13	-25	*20	*0	*-20	*-13
	2002	II	35	*3	*-3	*-14	*-8	*8	*0	-26
Food and beverages	2002	III	38	*5	*3	-23	*-6	*-6	*5	*-3
	2002	II	57	*14	*2	*-13	*13	*3	*5	*-11
Textiles, clothing, and leather	2002	III	31	-48	-34	-48	*-13	*4	*-17	-48
	2002	II	37	-24	-53	-50	*-3	*-16	*9	-35
Chemicals, rubber, and plastic	2002	III	49	*14	*-6	-27	*-11	*-2	*14	-16
	2002	II	60	*5	*-8	-16	*17	*-8	*3	-17
Metals and machinery	2002	III	53	-19	-22	-30	-31	-23	*6	-17
	2002	II	63	*10	-35	-20	*5	*10	*7	*-3
Electronics, electricity, and transport equipment	2002	III	65	-23	-43	-28	*-15	-22	-18	-22
	2002	II	101	*2	-21	-32	*7	*-10	-16	-12
Paper, printing, and other	2002	III	29	-28	-40	-48	*7	*0	-26	-38
	2002	II	36	-37	-40	-53	*7	*0	-34	-29
Total manufacturing industries excluding diamonds	2002	III	297	-14	-20	-31	-12	-11	-9	-21
	2002	II	389	*-1	-21	-27	*8	*-4	-9	-16
Diamonds	2002	III	4	*0	*-33	*25	50	*0	*0	*25
	2002	II	7	43	*-17	*-17	*0	*14	*-29	*0
Total manufacturing industries	2002	III	301	-14	-20	-30	-11	-11	-9	-20
	2002	II	396	*0	-21	-27	*7	*-4	-9	-16

<sup>1</sup> 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:III**

	Manufacturing companies				Construction companies				
	Total	Small	Middle	Large	Total	Small	Middle	Large	
Output	-14	-33	-12	-11	Total activity	-20	*0	*-4	-37
Total sales	-12	-52	*-11	*-7	Area of starts	-39	*25	-50	-39
Domestic sales	-20	-54	-19	-15	Area of completions	-31	*-25	-45	*-17
Export	-11	-63	*-5	-11	Output prices in \$	*-6	75	-25	*0
Number of companies	301	25	124	152	Area of completions	58	4	26	28

<sup>1</sup> 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 severity of constraints on carrying out planned activity (average)**  
**1-Minimal, 2-Moderate, 3-Significant, 4-Very significant**

### Manufacturing Industries

	2002		
	I	II	III
<b>Demand constraints</b>			
Volume of export orders	1.5	1.6	1.7
Volume of domestic orders	<b>1.7</b>	<b>1.7</b>	<b>1.9</b>
<b>Supply constraints</b>			
Machinery and equipment shortage	0.2	0.3	0.3
Financing difficulties	<b>0.9</b>	<b>1.0</b>	<b>1.1</b>
Labour shortage	0.4	0.5	0.4

### Construction

	2002		
	I	II	III
<b>Demand constraints</b>			
Volume of demand	<b>2.8</b>	<b>2.7</b>	<b>2.6</b>
<b>Supply constraints</b>			
Input prices	1.0	1.6	1.3
Financing difficulties	1.7	1.9	2.0
Labour shortage	<b>2.2</b>	<b>2.8</b>	<b>2.8</b>
Machinery and equipment shortage	0.2	0.3	0.4

### Trade

	2002		
	I	II	III
<b>Demand constraints</b>			
Volume of orders	1.8	1.7	1.7
Political situation	2.7	2.5	2.1
Economic situation in the world	1.5	1.3	1.5
Economic situation in Israel	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>
<b>Supply constraints</b>			
Financing difficulties	<b>1.5</b>	<b>1.1</b>	<b>1.4</b>
Labour shortage	0.4	0.3	0.3

### Transport and Communications

	2002		
	I	II	III
<b>Demand constraints</b>			
Political situation	<b>2.6</b>	<b>2.8</b>	<b>2.8</b>
Booking by foreign tourists	1.5	1.9	2.7
Booking by Israelis	1.0	1.0	1.7
Economic situation in Israel	2.4	2.6	<b>2.7</b>
Intensification of competition	1.7	2.5	2.4
<b>Supply constraints</b>			
Financing difficulties	<b>1.3</b>	<b>1.5</b>	<b>1.9</b>
Labour shortage	0.3	0.5	0.6

### Hotels

	2002		
	I	II	III
<b>Demand constraints</b>			
Political situation	<b>3.8</b>	3.6	3.5
Booking by foreign tourists	3.5	<b>3.7</b>	<b>3.8</b>
Booking by Israelis	2.3	2.1	2.1
Economic situation	2.7	2.8	2.5
<b>Supply constraints</b>			
Financing difficulties	<b>1.7</b>	<b>2.3</b>	<b>2.5</b>
Labour shortage	0.6	0.4	0.4

### Service Industries

	2002		
	I	II	III
<b>Demand constraints</b>			
Political situation	1.8	1.7	1.6
Economic situation in Israel	<b>2.3</b>	<b>2.5</b>	<b>2.4</b>
Global Economic situation	1.3	1.4	1.6
Intensification of competition	1.6	1.9	1.8
<b>Supply constraints</b>			
Financing difficulties	<b>1.1</b>	<b>1.2</b>	<b>1.3</b>
Labour shortage	0.5	0.5	0.5

**APPENDIX**

**Explanatory Notes**

This quarterly survey, the seventy-seventh (the thirteenth to appear in English) relates to developments in 2002:III, and includes assessments and expectations regarding 2002:IV. 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 which complements 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.

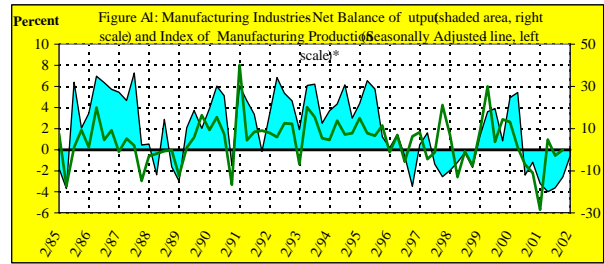
The results are not weighted by the size of the company, but in the analysis of the results in manufacturing industries and construction, the main results are also shown with the companies grouped by size.

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 the 'activity' item for the various industries and the change in their activity as published later by the Central Bureau of Statistics; as far as the index of manufacturing production is concerned, this can be seen in the accompanying figures. In general, when the net balance was positive, manufacturing output increased in the great majority of observations.



The net balance of activity in the transport and communications industry is calculated as the weighted average of the net balances of the separate components of the industry, with every net balance weighted by the share of that component's product in the product of the whole industry. Due to factors related to the calculation of the standard deviations, neither the standard deviations nor the significance of the net balances are shown.

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) make up 55 percent of the sample. The balance, about 15 percent, consists of mixed industries (mines and quarries, rubber and plastic, and miscellaneous).

