Bank of Israel * Research Department

Companies Survey

Fourth quarter of 2002

Jerusalem, January 2003
www.bankisrael.gov.il

Companies Survey – Fourth Quarter of 2002 – Main Results

Reports from companies for the fourth quarter of 2002 indicate that the decline in activity in all the principal industries continued. Most of the main aspects of activity reflected the decline: manufacturing output continued to fall, and there was a drop in sales, mainly to the domestic market but also exports; sales of trading companies went down; in the hotel industry, bed-nights decreased, particularly of foreign tourists; in construction, the downward trends intensified, particularly in the construction of buildings, but also in infrastructure construction; developments in the two-digit transport and communications industries were not uniform; in business services, domestic sales went down, while exports rose. The demand side featured prominently in reports on the severity of constraints on implementing planned activity, with the construction industry reporting 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 dipped in the quarter to 4.6 percent. The share of companies expecting inflation to exceed the upper limit of the target inflation range went down slightly from 75 percent to 72 percent. Companies expected the exchange rate twelve months hence to be about NIS 5.0 to the dollar, on average.

Reports from **manufacturing companies** show that in the fourth quarter of 2002 output fell even faster than it had in the previous three quarters. The picture of contraction emerges from the responses to all the questions in the questionnaire, and in addition to the decline in output, companies reported falls in sales, mainly to the domestic market but in exports too (Table 3 and Figure 1), as well as cutbacks in stocks and in staffing. Nevertheless, reports on constraints on carrying out planned activity did not indicate any further deterioration on the demand side, while on the supply side financing difficulties worsened (Figure 7 and Table 17). The situation is not expected to improve in the near future, as companies report a decline in orders for the next quarter, mainly for the domestic market but to some extent also for export.

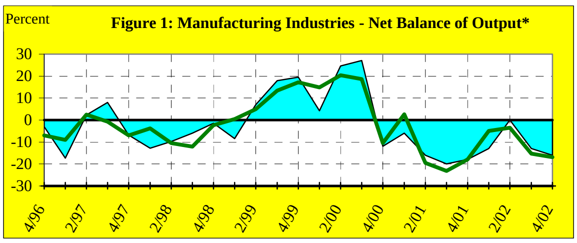


Figure 1: Manufacturing Industries - Net Balance of Output*

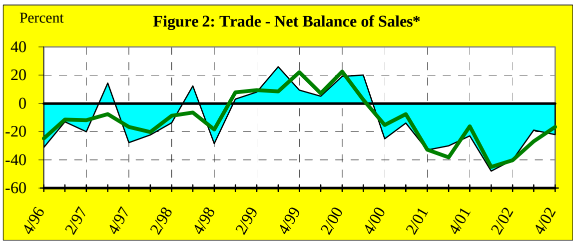


Figure 2: Trade - Net Balance of Sales*

The classification of companies into three types of industry, i.e., traditional, advanced, and mixed,[1] according to their degree of technological innovation indicates that the output and sales of the advanced industries were less severely affected than the others, contrary to what might have been expected given the depreciation of the NIS (Table 1.1 and Figure 8). The mixed companies reported a change in the composition of their sales, with a steep drop in domestic sales and a rise in exports. These companies also reported an increase in export orders for the next quarter, while the traditional and advanced companies reported a continued decline in both domestic and export orders.

Most principal industries reported a drop in output, the most notable being textiles and clothing, mining and quarrying, and paper and printing. In contrast to these, output of the software, electronics, electricity and transport equipment rose. Domestic sales declined in all industries. In chemicals, rubber and plastic there were some reports of a rise in exports, and food and beverages companies reported no change in exports; all these industries reported increases in export orders. All industries indicated a reduction in orders for the domestic market (Table 15).

In small companies—with size classified according to the number of employees—output and sales declined more severely than in large companies, especially in exports (Table 16), and the same picture emerged regarding export orders.

Reports from **trading companies** showed a continuation of the downward sales trend, but the decline was far more moderate than those in the first two quarters of the year

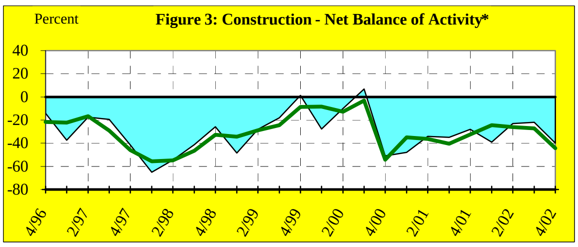


Figure 3: Construction - Net Balance of Activity*

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

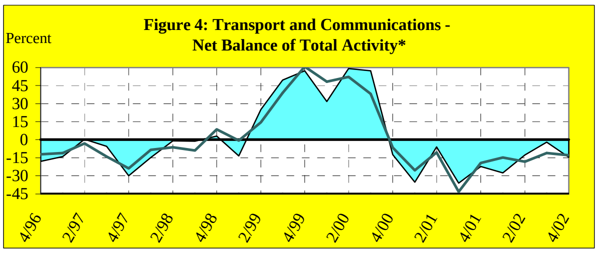


Figure 4: Transport and Communications - Net Balance of Total Activity*

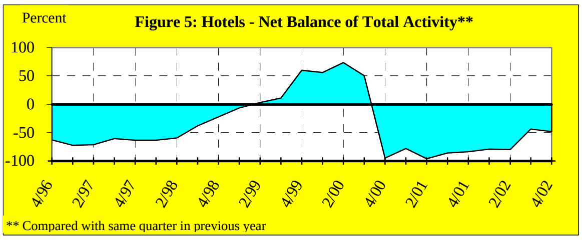


Figure 5: Hotels - Net Balance of Total Activity**

** Compared with same quarter in previous year

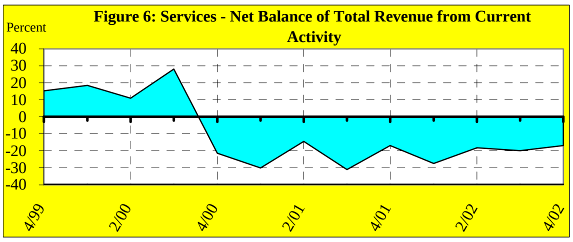


Figure 6: Services - Net Balance of Total Revenue from Current Activity

quarters (Table 5 and Figure 2). The main constraint on activity in the quarter remained that on the demand side—the economic and security situation in Israel—while on the supply side the constraint of financing difficulties worsened (Table 17 and Figure 7). Companies expected sales to fall in the next quarter.

Construction companies' reports indicate that the contraction of activity intensified, after two quarters of more moderate decline. The main fall occurred in the construction of buildings, while the decrease in infrastructure construction was relatively moderate (Table 7 and Figure 3). According to the reports, dollar prices fell faster than before, while the exchange rate remained at a similar level to that in the previous quarter. Companies expect an even more serious decline in activity in the next quarter.

Medium sized companies, whose construction of buildings and infrastructure went down, suffered more than the others (Table 16).

The demand-side constraint became more severe in the fourth quarter, and the shortage of skilled labor remained high, although it eased somewhat compared with the previous quarters (Table 17 and Figure 7).

Reports from **transport and communications companies** showed that the fall in output accelerated (Table 9 and Figure 4). Sales of services to nonresidents and to Israelis dropped, and was reflected in the continued reduction in the rate of utilization of equipment. Different sections of the industry did not change uniformly: overland and air transport and warehousing services declined, with the other sections of the industry showing no change. Companies reported continued severe demand-side constraints on expanding activity— Israel's security situation and economic situation—while on the supply side the constraint of financing difficulties eased slightly.

The **hotel industry** reported a further contraction in activity, compared with the level in the fourth quarter of 2001 (Table 11 and Figure 5). The decline resulted mainly from the fall in bed-nights of tourists from abroad, and companies reported the demand constraint, mainly the extent of tourism from abroad, as restricting their activity, while on the supply side financing difficulties were the main constraint. Reports of the fall in the average revenue per room continued, as did reports of a decrease in bookings for the next quarter.

Reports from companies in the **business services industry** show a continued declined 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)

	2000				2001				2002			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Industry (output)	***4**	**25**	**27**	**-12**	***-6**	**-16**	**-20**	**-18**	**-13**	***0**	**-13**	**-16**
seasonally adjusted	15	20	19	-11	*3	-20	-23	-18	*-5	*-4	-15	-17
Trade (sales)	***5**	**19**	**20**	**-25**	***-14**	**-33**	**-30**	**-23**	**-48**	**-40**	***-19**	**-22**
seasonally adjusted	*7	23	*3	*-15	*-7	-33	-38	*-16	-45	-40	-27	*-17
Construction (total activity)	**-28**	***-10**	***7**	**-51**	**-48**	**-34**	**-35**	**-28**	**-39**	**-23**	**-22**	**-40**
seasonally adjusted	*-8	*-13	*-3	-54	-35	-36	-41	-32	-24	-26	-27	-44
Transport and communications (total activity)**	**32**	**59**	**57**	**-12**	**-35**	**-6**	**-36**	**-22**	**-28**	**-13**	**-2**	**-15**
seasonally adjusted	48	52	38	-7	-25	-10	-43	-19	-15	-18	-11	-13
Hotels (total activity)***	**56**	**73**	**50**	**-95**	**-78**	**-96**	**-86**	**-84**	**-79**	**-80**	**-44**	**-48**
Service industries	**19**	***11**	**28**	**-21**	**-30**	**-15**	**-31**	**-17**	**-27**	**-18**	**-20**	**-20**

* 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)

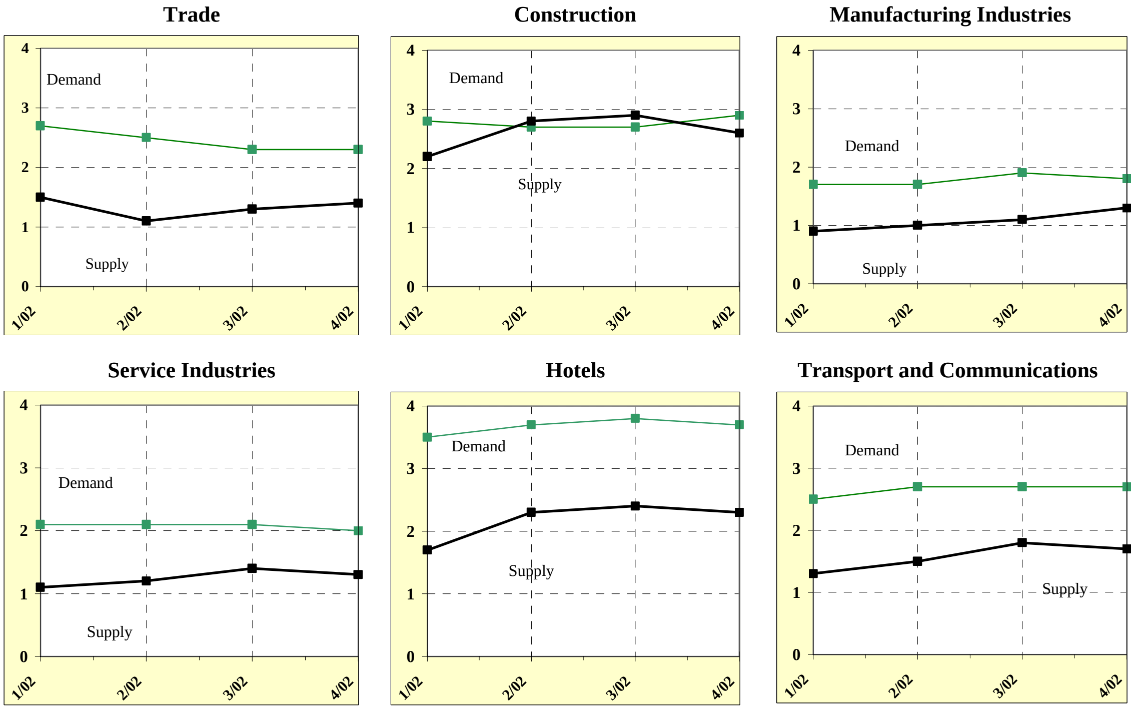
	2000				2001				2002			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Advanced companies	***10**	**31**	**37**	***4**	***-6**	**-21**	**-28**	***-6**	***-8**	***6**	**-11**	***-10**
Mixed companies	**-22**	**35**	**32**	**-46**	**-21**	***-15**	**-20**	**-36**	**-28**	***2**	***-7**	***-19**
Traditional companies	***8**	**17**	**19**	**-14**	***-1**	**-14**	**-14**	**-21**	**-11**	***-5**	**-17**	**-19**

* Not significant (at the 10% level).

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.

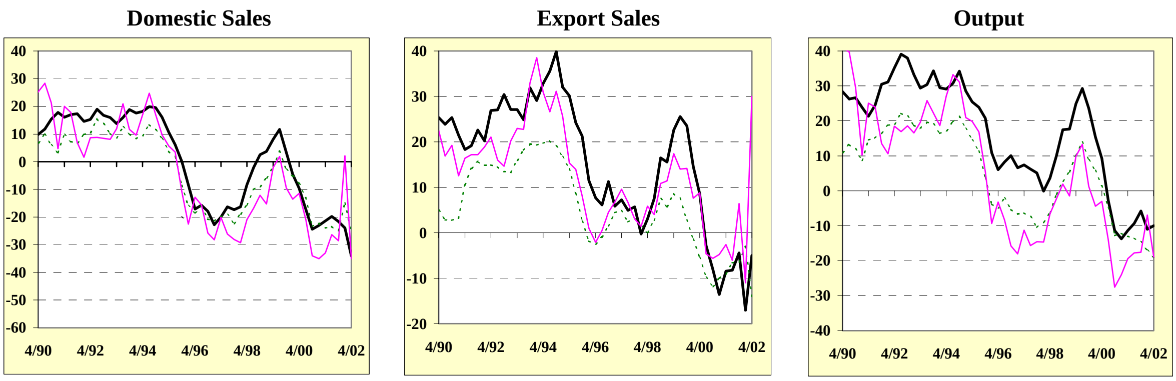
Figure 7: The severity of constraints on carrying out planned activity (average)[1]

1-Minimal, 2-Moderate, 3-Significant, 4-Very significant



1) For every quarter the most severe constraint on the demand side and on the rupply side is chosen.

Figure 8: 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

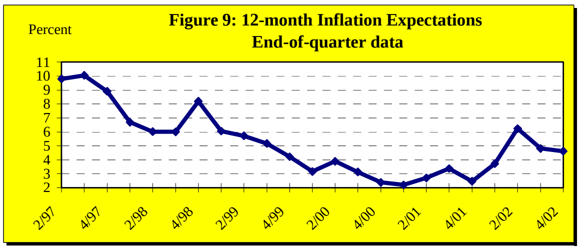
Survey of inflation expectations

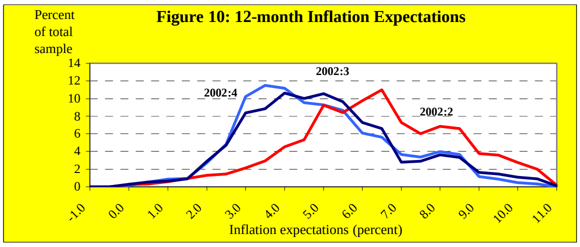
In the fourth quarter the expected rate of price increases for the next twelve months and for the next quarter fell back slightly.

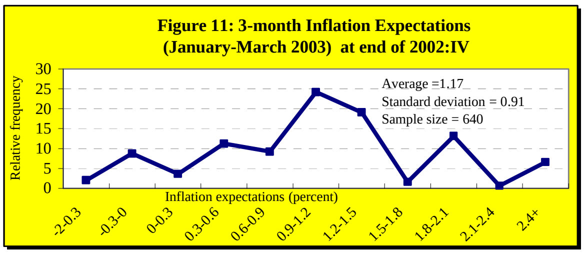
Companies expectations of cumulative price rises for the next twelve months (January to December 2003) eased a little, to 4.6 percent on average, down from 4.8 percent in the previous quarter (Figure 9); the variance of the expectations also dipped (Table 2 and Figure 10).

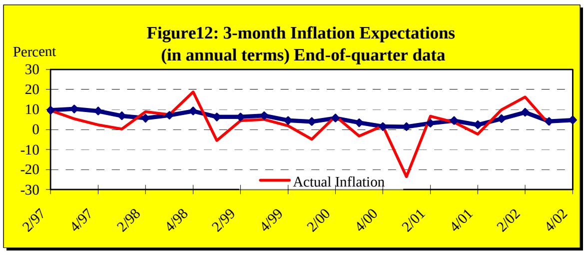
Expectations for the cumulative price increase in the next quarter (January to March 2003, Figure 11) rose to 4.8 percent in annual terms, from 4.1 percent at the end of the previous quarter.

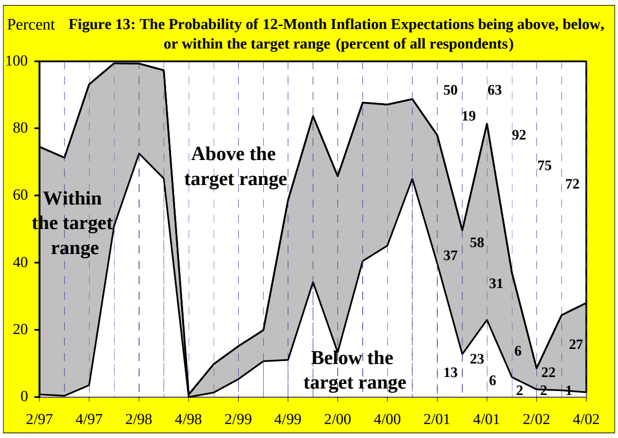
As inflation expectations for a year ahead moderated slightly, the share of companies expecting inflation to exceed the upper limit of the inflation target range for the next twelve months[2]—defined as price stability—also dropped back, from 75 percent to 72 percent (the top area in Figure 13).











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.

[2] The target range for the next twelve months is 1 percent to 3 percent.

Table 2
Statistic Analisys of 12-month Inflation Expectations

	2001				2002			
	I	II	III	IV	I	II	III	IV
1. Mode	2.00	2.00	3.00	2.00	4.00	6.00	5.00	4.00
2. Median	2.00	2.50	3.00	2.50	4.00	6.00	4.70	4.00
3. Average	2.20	2.69	3.30	2.52	3.76	6.17	4.81	4.62
4. Standart Deviation	1.15	1.35	1.27	1.11	1.44	2.37	2.03	1.95
5. Skewness	0.20	0.69	0.30	0.52	-0.24	0.17	-0.19	0.62
Number of responding companies	614	592	674	606	584	639	621	640

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

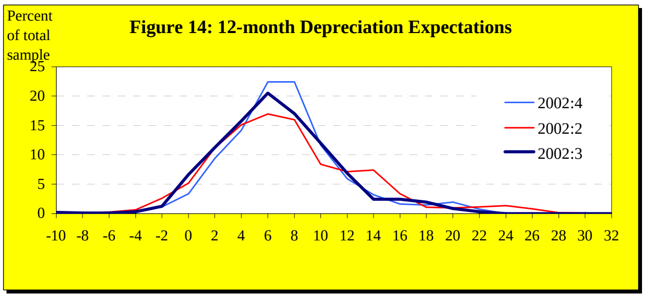
Expectations regarding changes in the NIS/dollar exchange rate

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

Companies assessed, on average, that the exchange rate at the end of the next twelve months would be NIS 4.99 to the dollar, and the expected average depreciation derived from this was 5.37 percent.[3] The variance of depreciation expectations was lower than in previous quarters (Figure 14).

The expected NIS/$ rate at the end of the next quarter was NIS 4.84 to the dollar, giving an expected depreciation of 2.47 percent, up from the expectation of 1.28 percent at the end of the previous quarter.

Figure 14: 12-month Depreciation Expectations



[3] The derived depreciation relates to the change in the exchange rate from the time companies report to the end of the period referred to.

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

	2000				2001				2002			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
1. Output	*4	25	27	-12	*-6	-16	-20	-18	-13	*0	-13	-16
2. Sales	*-4	22	27	-20	-18	-24	-24	-23	-17	*-7	-11	-16
3. Domestic sales	-11	12	18	-30	-20	-25	-21	-30	-26	-21	-15	-30
4. Export	*7	21	*7	*2	*-7	-14	-21	-8	*-5	*7	-10	*-5
5. Stocks of finished goods	*-2	10	*4	*-3	*4	*-4	-15	-14	-10	-10	-9	-19
6. Stocks of raw materials	*0	*4	6	*1	*5	*2	-8	-9	-7	-9	-10	-12
7. Rate of utilization of machinery and equipment	-7	10	10	-23	-14	-23	-26	-28	-18	-13	-16	-26
8. Number of employees	-8	*4	7	-14	-20	-30	-28	-33	-26	-16	-19	-28
9. Domestic orders	*-5	10	*0	-22	-26	-33	-30	-29	-27	-27	-31	-30
10. Export orders	20	20	14	*1	*-5	-12	-13	-20	*-3	*-4	*-7	-11
Number of responding companies	443	451	440	433	424	423	431	427	400	396	391	378

[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:IV
(percent of all responding companies in each category)

	Net balance 2002 III	Net balance 2002 IV	Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significan Decrease
A. Activity in the quarter							
1. Output	-13 (4)	-16 (4)	5	21	32	28	14
2. Sales	-11 (4)	-16 (4)	6	25	22	28	19
3. Domestic sales	-15 (4)	-30 (4)	4	16	30	29	21
4. Export	-10 (5)	-5 (5)	6	23	37	22	12
5. Stocks of raw materials	-9 (4)	-19 (4)	3	13	49	28	7
6. Stocks of finished goods	-10 (4)	-12 (4)	4	15	50	24	7
7. Rate of utilization of machinery and equipment	-16 (4)	-26 (4)	4	14	38	30	14
8. Number of employees	-19 (3)	-28 (3)	1	6	58	28	7
B. Expected activity in the following quarter**							
9. Domestic orders	-31 (4)	-30 (4)	3	11	42	26	18
10. Export orders	-7 (5)	-11 (5)	6	18	41	22	13
Number of responding companies	391	378					

** 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)[1]

	2000				2001				2002			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
A. Activity in the quarter												
1. Sales	*5	19	20	-25	*-14	-33	-30	-23	-48	-40	*-19	-22
2. End-of-quarter stock	16	*5	*-2	*-2	*-2	-20	*-7	-20	-21	*-14	*-14	*-12
3. Percent of credit sales	18	23	27	17	29	23	25	29	28	26	21	32
4. Supply period	*-4	*0	14	*-6	*-5	-10	*4	-11	*-2	-14	*0	*-8
B. Expected activity in the following quarter												
5. Forecast change in number of permanent employees	*-7	*0	*7	-29	-16	-27	-35	-39	-20	-30	-37	-30
6. Sales expectations	47	45	24	-19	*-11	*-3	-25	*-11	-21	*-11	*2	-20
Number of responding companies	58	57	60	53	57	60	57	64	68	60	59	50

[1] 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:IV

(percent of all responding companies in each category)

	Net balance						
	2002	2002	Significant	Moderate	No	Moderate	Significan
	III	IV	Increase	Increase	Change	Decrease	Decrease
A. Activity in the quarter							
1. Sales	-19	-22	2	22	30	32	14
	(12)	(11)					
2. End-of-quarter stock	-14	-12	6	20	36	32	6
	(10)	(11)					
3. Percent of credit sales	21	32	8	28	60	4	0
	(7)	(8)					
4. Supply period	0	-8	0	6	80	12	2
	(6)	(6)					
B. Expected activity in the following quarter							
5. Forecast change in number of permanent employees	-37	-30	0	4	62	28	6
	(6)	(8)					
6. Sales expectations for following quarter	2	-20	0	24	32	32	12
	(11)	(12)					
Number of responding companies	59	50					

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 7

Net balance (percent of all responding construction companies)[1]

	2000				2001				2002			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
A. Activity in the quarter												
1. Total activity	-28	*-10	*7	-51	-48	-34	-35	-28	-39	-23	-22	-40
of which 2. Buildings			*-3	-59	-51	-46	-41	-36	-44	-31	-32	-48
3. Infrastructure			*14	-25	-33	-27	-18	*-2	-22	*-13	*-10	*-17
4. Output prices in dollar terms	-27	-16	-22	-21	-37	-35	-34	-34	-32	-21	*-8	-17
5. Area of building starts (sq. m.)	-22	-19	*-2	-31	-55	-55	-60	-54	-55	-37	-39	-61
6. Area of building completions (sq. m.)	*-8	-27	*-3	-26	*-12	-22	-35	-34	-21	-25	-28	-32
7. Building time	*-3	*1	*0	25	21	21	16	14	*10	20	*5	20
B. Expected activity in the following quarter**	*13	*9	17	*-10	-29	-41	-56	-34	-38	-36	-16	-52
Number of responding companies	78	80	74	84	77	80	77	75	69	68	68	64

[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:IV

(percent of all responding companies in each category)

	Net balance						
	2002 III	2002 IV	Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
A. Activity in the quarter							
1. Total activity	-22	-40	2	6	44	27	21
	(9)	(8)					
of which Buildings	-32	-48	2	5	38	27	28
	(9)	(8)					
Infrastructure	-10	-17	4	15	45	15	21
	(12)	(11)					
2. Output prices in dollar terms	-8	-17	2	14	51	22	11
	(10)	(9)					
3. Area of building starts (sq. m.)	-39	-61	0	6	27	33	34
	(9)	(8)					
4. Area of building completions (sq. m.)	-28	-32	0	8	52	28	12
	(9)	(8)					
5. Building time	5	20	5	29	52	9	5
	(9)	(9)					
B. Expected activity in the following quarter	-16	-52	0	7	34	34	25
	(9)	(8)					
Number of responding companies	68	64					

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

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

	2000				2001				2002			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
A. Activity in the quarter												
1. Total activity	32	59	57	-12	-35	-6	-36	-22	-28	-13	-2	-15
2. Sales of services to residents	42	54	24	-18	-38	-16	-28	-25	-32	-12	1	-20
3. Sales of services to nonresidents	20	39	38	-39	-34	-14	-55	-32	-20	-20	-25	-31
4. Utilization of equipment (capacity utilization, etc.)	27	57	52	-18	-26	-6	-36	-19	-23	-15	-22	-17
B. Expected activity in the following quarter**	41	46	17	-4	19	12	-34	-22	-4	-20	-14	-27
Number of responding companies	32	28	26	24	23	31	36	35	33	29	43	37

[1] 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:IV

(percent of all responding companies in each category)

	Net balance 2002 III	Net balance 2002 IV	Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significan Decrease
A. Activity in the quarter							
1. Total activity	-2	-15	4	16	45	21	14
2. Sales of services to residents	1	-20	2	22	32	32	12
3. Sales of services to nonresidents	-25	-31	5	2	54	27	12
4. Utilization of equipment (capacity utilization, etc.)	-22	-17	4	13	49	21	13
B. Expected activity in the following quarter	-14	-27	0	6	61	21	12
Number of responding companies	43	37					

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

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

	2000				2001				2002			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
A. Activity in the quarter												
1. Total activity	56	71	50	-95	-78	-96	-86	-84	-79	-80	-44	-48
2. Number of bed-nights: Tourists	60	65	43	-100	-89	-100	-97	-82	-87	-94	-74	-57
3. Number of bed-nights: Israelis	*-15	*8	*6	-54	*-16	-27	-23	*-11	-18	-48	*-8	-36
4. Average revenue per room	38	33	37	-83	-86	-89	-83	-89	-70	-88	-73	-81
B. Expected activity in the following quarter**	58	31	52	-87	-88	-91	-97	-88	-88	-86	-69	-64
Number of responding companies	61	49	54	62	56	46	67	68	62	66	62	54

[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 12
Hotels in 2002:IV
(percent of all responding companies in each category)

	Net balance 2002 III	Net balance 2002 IV	Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significan Decrease
A. Activity in the quarter							
1. Total activity	-44	-48	2	15	18	30	35
	(10)	(10)					
2. Number of bed-nights: Tourists	-74	-57	9	8	9	34	40
	(7)	(11)					
3. Number of bed-nights: Israelis	-8	-36	0	13	38	28	21
	(12)	(10)					
4. Average revenue per room	-73	-81	0	6	7	46	41
	(7)	(7)					
B. Expected activity in the following quarter	-69	-64	2	6	20	28	44
	(8)	(8)					
Number of responding companies	62	54					

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 13

Net balance (percent of all responding transport and communications companies)[1]

	2000				2001				2002			
	IV	I	II	III	IV	I	II	III	IV	I	II	III
A. Activity in the quarter												
1. Total revenue from current activity	19	*11	28	-21	-30	-15	-31	-17	-27	-18	-20	-20
2. Sales of services in Israel	23	*12	28	-14	-24	*-12	-30	-25	-30	-21	-19	-27
3. Sales of services abroad	*22	53	*17	*-13	*-10	-27	-58	*7	-32	*8	-21	*18
4. Number of employees	10	*6	12	*-4	-12	-17	-24	-29	-31	-13	-9	-24
5. of which: trained	10	10	10	*-8	-13	-18	-27	-32	-22	-12	-12	-23
6. Number of Israeli workers abroad	*14	29	20	*9	*13	*-14	-24	*-13	*-13	*-6	*-4	*-6
B. Expected activity in the following quarter**												
7. Total orders	37	33	31	*7	*-4	*-5	-28	*-12	*-7	*-7	*-7	-18
8. Export orders	43	44	*18	*0	-28	*-31	-35	*7	*-31	*-13	*5	*-7
Number of responding companies	125	112	120	98	117	117	124	114	116	186	170	142

[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:IV

(percent of all responding companies in each category)

	Net balance 2002 III	Net balance 2002 IV	Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
A. Activity in the quarter							
1. Total revenue from current activity	-20 (6)	-20 (7)	5	18	34	30	13
2. Sales of services in Israel	-19 (6)	-27 (7)	4	17	31	35	13
3. Sales of services abroad	-21 (12)	18 (17)	6	29	48	17	0
4. Number of employees	-9 (5)	-24 (5)	2	8	56	28	6
5. of which: trained	-12 (5)	-23 (5)	1	6	63	26	4
6. Number of Israeli workers abroad	-4 (7)	-6 (10)	0	5	84	11	0
B. Expected activity in the following quarter**							
7. Total orders	-7 (6)	-18 (7)	2	22	34	33	9
8. Export orders	5 (14)	-7 (24)	7	29	21	43	0
Number of responding companies	170	142					

* 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:III and 2002:IV

Table 15

			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**	**IV**	**33**	-30	-45	-66	*-10	*-10	*-3	-27
	2002	**III**	**39**	*3	*15	-34	*7	*-7	-27	-18
Food and beverages	**2002**	**IV**	**47**	*-9	*-20	*-8	*0	*20	-15	-34
	2002	**III**	**47**	*-4	*7	*-19	*5	*5	*-9	*-4
Textiles, clothing, and leather	**2002**	**IV**	**38**	-41	-56	-54	-43	-37	-21	-50
	2002	**III**	**43**	-52	-44	-51	*-14	*4	*-13	-50
Chemicals, rubber, and plastic	**2002**	**IV**	**60**	*-13	-37	-16	*13	*10	*8	*-8
	2002	**III**	**57**	*16	*-4	-25	*-8	*2	*9	-13
Metals and machinery	**2002**	**IV**	**64**	*-9	*-13	-25	*-8	-42	*-10	-22
	2002	**III**	**70**	*-14	-17	-29	-20	*-14	*-3	-14
Electronics, electricity, and transport equipment	**2002**	**IV**	**87**	*5	-18	-26	*-5	*-12	-17	-29
	2002	**III**	**93**	-16	-29	-27	*-14	*-13	-13	-16
Paper, printing, and other	**2002**	**IV**	**41**	-38	-44	-33	*10	*19	-22	-38
	2002	**III**	**35**	-35	-35	-52	*-17	*-11	-28	-37
Total manufacturing industries excluding diamonds	**2002**	**IV**	**370**	-15	-29	-29	*-5	-9	-11	-28
	2002	**III**	**384**	-13	-16	-32	-11	*-6	-10	-20
Diamonds	**2002**	**IV**	**8**	-50	-57	-43	*0	-57	-50	*-25
	2002	**III**	**7**	*-14	*0	*17	*33	*-17	*17	*0
Total manufacturing industries	**2002**	**IV**	**378**	-16	-30	-30	*-5	-11	-12	-28
	2002	**III**	**391**	-13	-15	-31	-10	*-7	-10	-19

[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:IV

	Manufacturing companies					Construction companies			
	Total	Small	Middle	Large		Total	Small	Middle	Large
Output	-16	-29	-23	*-7	Total activity	-40	*-17	-48	-37
Total sales	-16	-31	-23	*-8	Area of starts	-61	-83	-54	-63
Domestic sales	-30	-32	-32	-27	Area of completions	-32	-50	-44	*-15
Export	*-5	*-19	*-10	*-0	Output prices in $	-17	-50	-25	*-3
Number of companies	378	36	158	184	Area of completions	64	6	29	29

[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 severity of constraints on carrying out planned activity (average)

1-Minimal, 2-Moderate, 3-Significant, 4-Very significant

Manufacturing Industries

	2002

Transport and Communications

	2002

Construction

	2002

Hotels

	2002

Trade

	2002

Service Industries

	2002

APPENDIX

Explanatory Notes

This quarterly survey, the seventy-eighth (the fourteenth to appear in English) relates to developments in 2002:IV, and includes assessments and expectations regarding 2003:I. 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.

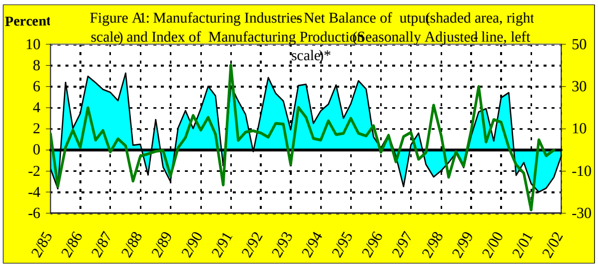
The results are not weighted by the size of the company, but in the analysis of the results in manufacturing industries and construction, the main results are also shown with the companies grouped by size.

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).

The Change in the Index of Manufacturing Production (seasonally adjusted) and the Net Balance of Output in Manufacturing Industries, 1985:I-2002:I