Bank of Israel * Research Department

Companies Survey

Second quarter of 2003

Jerusalem, July 2003
www.bankisrael.gov.il

Bank of Israel Research Department

Companies Survey – Second Quarter of 2003 – Main Results

Reports from companies for the second quarter of 2003 indicate that economic activity stabilized, with different trends evident in different principal industries: the decline in both manufacturing output and sales to the domestic market flattened out, while the standstill in exports continued; in business services, the decline in revenue moderated somewhat, particularly in domestic sales; sales of trading companies rose, and were expected to continue rising in the next quarter; in the hotel industry, bed-nights of foreign tourists were steady after declining for several quarters, and those of Israelis increased, so that the total number of bed-nights rose; Among the two-digit industries, the rise in air transport contrasted with the continued standstill in overland and sea transport and in communications. On the other hand, in construction, the downward trends in the construction of buildings and in infrastructure construction accelerated. The demand side featured prominently in reports on the severity of constraints on implementing activity, but in most industries the constraint eased slightly. 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 steeply in the quarter to 2.6 percent, with a significant rise—from 27 percent in the previous quarter to 74 percent—in the share of companies expecting inflation to be within the target inflation range. Companies expected the exchange rate twelve months hence to be about NIS 4.7 to the dollar, on average.

Reports from **manufacturing companies** show that in the second quarter of 2003 the downward trend in output that started in 2000:IV moderated. The picture of moderation emerges from the responses to all the questions in the questionnaire, and in addition to the leveling of the decline in output, companies also reported a certain easing in sales to the domestic market and a standstill in exports (Table 3 and Figure 1), At the same time, the downward trend in stocks slowed. Reports on demand side constraints on carrying out planned activity indicated that they were less severe, albeit only slightly so. (Figure 7 and Table 17). Companies also reported a slowing of the rate of decline in orders for the domestic market for the next quarter , while export orders remained static.

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 rate of decline in output and sales of all three groups eased in the quarter (Table 1.1 and Figure 8). Advanced companies reported a fall in exports and in export orders, while mixed companies reported a rise in exports. Traditional companies reported that exports were static.

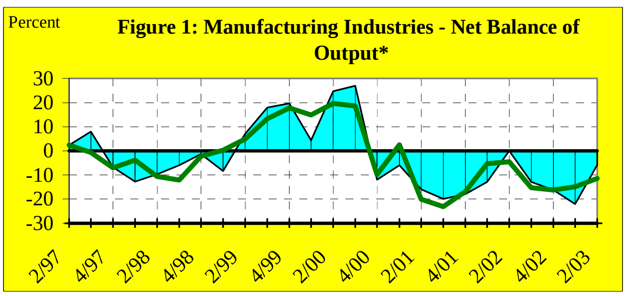


Figure 1: Manufacturing Industries - Net Balance of Output*

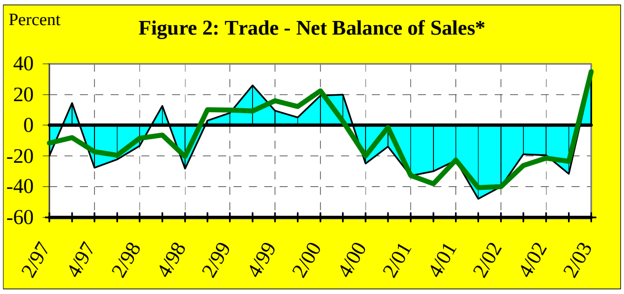


Figure 2: Trade - Net Balance of Sales*

Almost all manufacturing industries, apart from the diamond industry, reported a moderation in the drop in output, the most notable being mining and quarrying, paper and printing, metals, machinery, chemicals and rubber and plastics. Domestic sales declined in all industries except for chemicals and plastics. Exports and export orders for the next quarter were static in most industries, with increases in mining and quarrying and decreases in textiles and clothing. Companies in most industries reported a reduction in orders for the domestic market (Table 15).

With companies classified according to the number of employees, there was a rise in exports of medium companies, contrasting with the drop in exports of large companies. Companies in all three groups reported a fall in output and domestic sales, although less steep than in the previous quarter (Table 16).

Reports from **trading companies** showed that for the first time since the end of 2000, sales and companies' expectations of sales increases in the next quarter rose (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 financing difficulties constituted the main constraint (Table 17 and Figure 7).

Construction companies' reports indicate that the drop in activity became even more severe with regard to buildings as

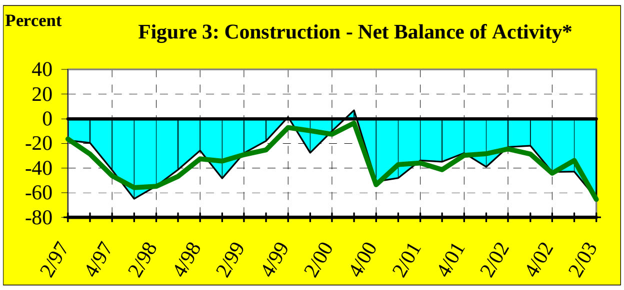


Figure 3: Construction - Net Balance of Activity*

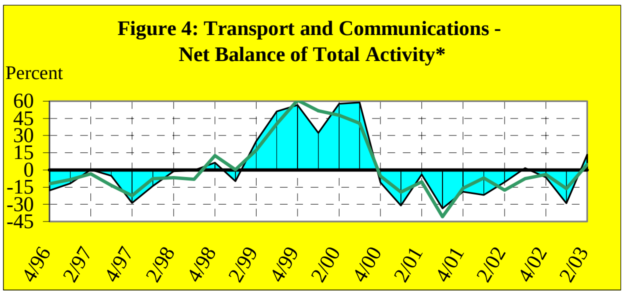


Figure 4: Transport and Communications - Net Balance of Total Activity*

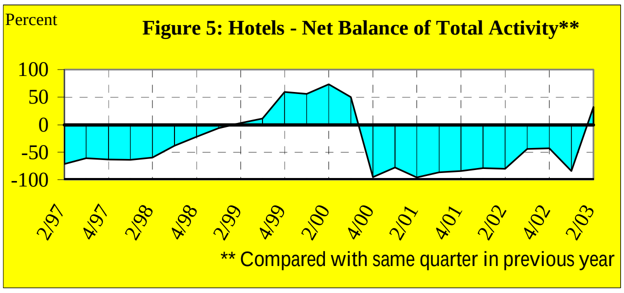


Figure 5: Hotels - Net Balance of Total Activity**

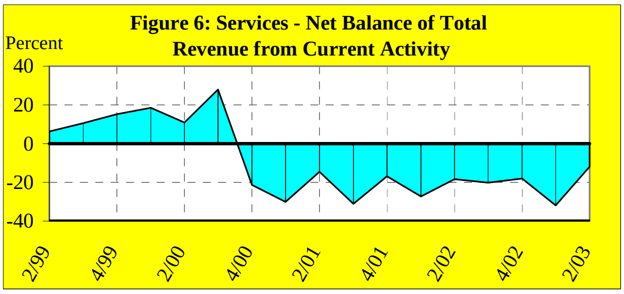


Figure 6: Services - Net Balance of Total Revenue from Current Activity

well as the infrastructure (Table 7 and Figure 3), with a continued fall in the dollar prices of output. Companies expect the decline in activity to continue in the next quarter. It is noteworthy that the sharp decrease in the extent of projects implemented affected large and small companies (Table 16). The main constraints on implementing planned activity in the construction industry were again the demand constraint and the shortage of skilled labor (Table 17 and Figure 7).

Reports from **transport and communications companies** showed that for the first time in a long period, output rose (Table 9 and Figure 4). Sales of services to nonresidents and to Israelis increased, and was reflected in a rise in the rate of utilization of equipment. Different sections of the industry did not change uniformly: air transport increased significantly, while the other sections of the industry showed no significant changes. The standstill in communications activity persisted. Companies reported some easing of the demand-side constraints on expanding activity—the security and economic situation in Israel and the level of internal and incoming tourism—while on the supply side financing difficulties continued to be the main constraint.

The **hotel industry** reported a rise in activity for the first time since the outbreak of the *intifada* (compared with the level in the second quarter of 2002) (Table 11 and Figure 5). The rise resulted from an increase in bed-nights of Israelis and a leveling of bed-nights of tourists from abroad, a reversal of the downward trend that continued for several quarters. Companies reported that the demand constraint—although slightly less severe than in the previous quarter—was the main constraint restricting their activity, while on the supply side financing difficulties were the main constraint. At the same time reports of the fall in the average revenue per room moderated markedly, as did those of a decrease in bookings for the next quarter.

Reports from companies in the **business services industry**[1] show a continued declined in revenue, due mainly to a drop in domestic sales (Table 13 and Figure 6). A faster reduction in orders for the next quarter was due mainly to domestic orders, with orders from abroad expected to stay at their current level. Demand side constraints—the economic and security situation—were reported as becoming slightly more severe.

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				2003	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
Industry (output)	27	-12	*-6	-16	-20	-18	-13	*0	-13	-16	-22	*-6
seasonally adjusted	19	-10	*3	-20	-23	-17	*-5	*-4	-15	-16	-15	-11
Trade (sales)	20	-25	*-14	-33	-30	-23	-48	-40	*-19	-20	-32	32
seasonally adjusted	*3	-20	*-1	-33	-38	-23	-41	-40	-26	-22	-24	35
Construction (total activity)	*7	-51	-48	-34	-35	-28	-39	-23	-22	-43	-43	-65
seasonally adjusted	*-4	-53	-37	-36	-41	-30	-28	-25	-29	-44	-34	-65
Transport and communications (total activity)**	59	-11	-31	-4	-34	-19	-22	-11	2	-6	-29	13
seasonally adjusted	41	-5	-19	-10	-41	-16	-7	-18	-7	-4	-16	5
Hotels (total activity)***	50	-95	-78	-96	-86	-84	-79	-80	-44	-43	-84	32
Service industries	28	-21	-30	-15	-31	-17	-27	-18	-20	-18	-32	-12

* 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[2]

(original and seasonally adjusted data, percent)

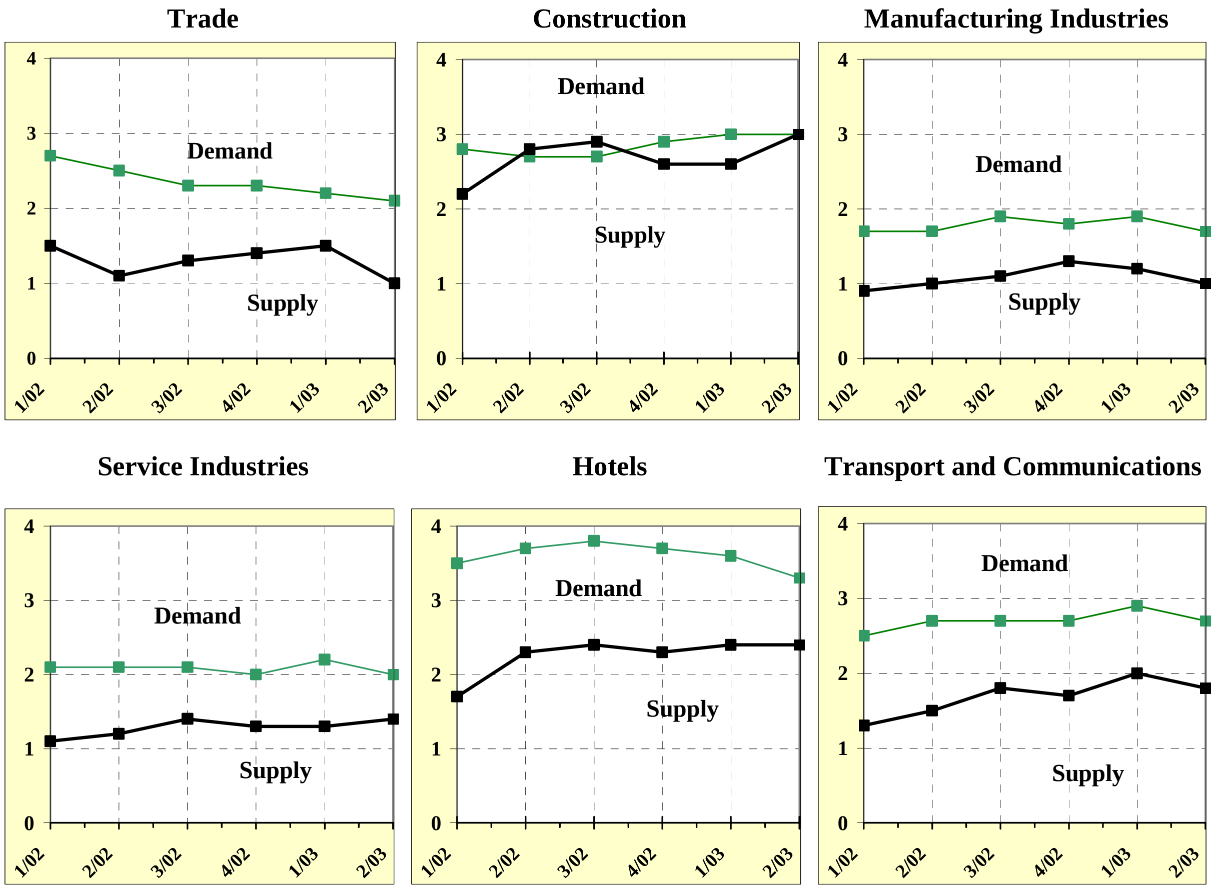
	2000		2001				2002				2003	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
Advanced companies	37	*4	*-6	-21	-28	*-6	*-8	*6	-11	*-6	-25	*-7
Mixed companies	32	-46	-21	*-15	-20	-36	-28	*2	*-7	-28	-41	*-4
Traditional companies	19	-14	*-1	-14	-14	-21	-11	*-5	-17	-20	-16	*-6

* 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.

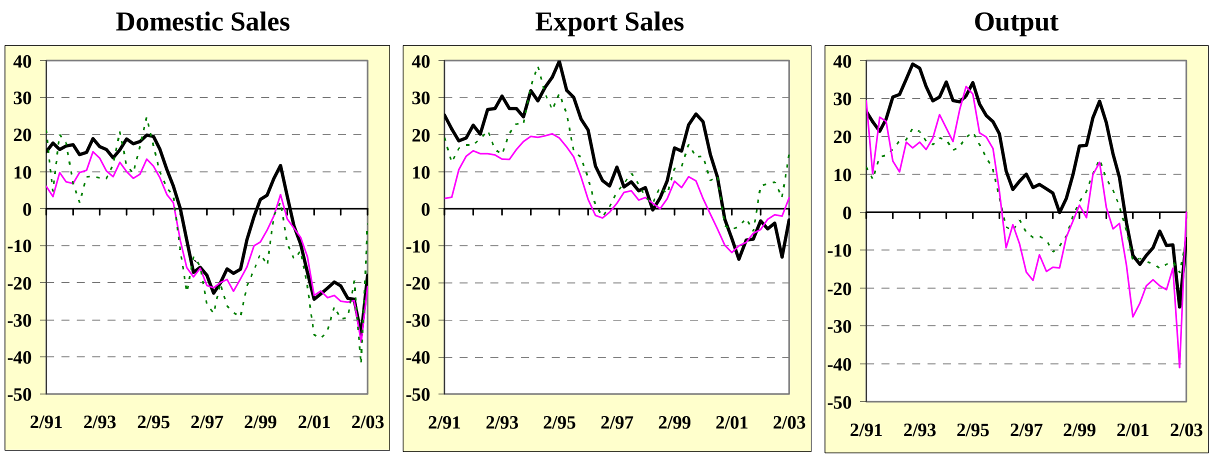
Figure 7: The severity of constraints on carrying out planned activity (average)[1]

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.
Source: Table 17.

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 this quarter the expected rate of price increases for the next twelve months declined steeply, as did the expected rate for the next quarter.

Companies expectations of cumulative price rises for the next twelve months (July 2003 to June 2004) eased very considerably, down from 4.4 percent in the previous quarter to 2.6 percent on average (Figure 9); the variance of the expectations also went down (Table 2 and Figure 10).

Expectations for the cumulative price increase in the next quarter (July to September 2003, Figure 11) fell sharply to 2.4 percent in annual terms, from 5 percent at the end of the previous quarter.

In line with the decline in inflation expectations for the next twelve months, the high share of companies that expected inflation to exceed the upper limit of the inflation target range[1]—defined as price stability—also plunged, from 72 percent in the previous quarter to 22 percent in this one (the top area in Figure 13). Seventy-four percent of companies that participated in the survey expected inflation in the next y ear to be within the target range (the middl e area i n Figure 13).

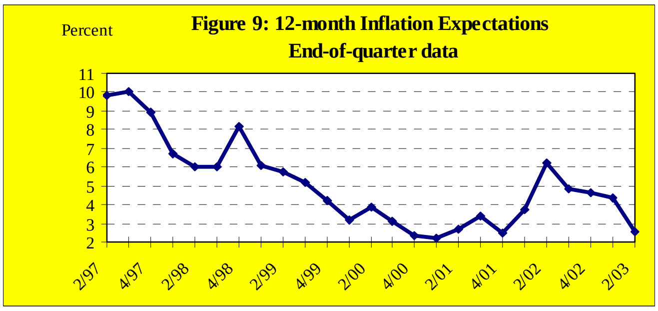


Figure 9: 12-month Inflation Expectations
End-of-quarter data

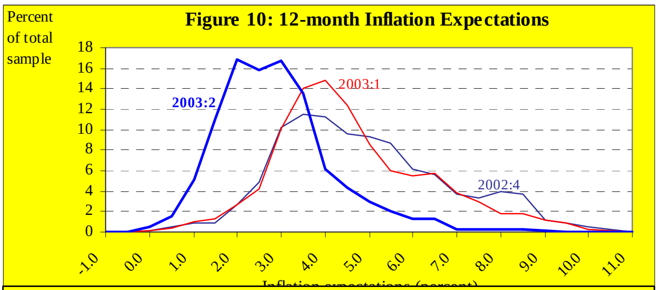


Figure 10: 12-month Inflation Expectations

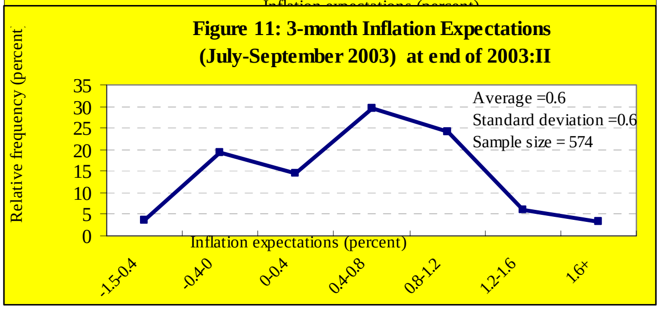


Figure 11: 3-month Inflation Expectations
(July-September 2003) at end of 2003:II

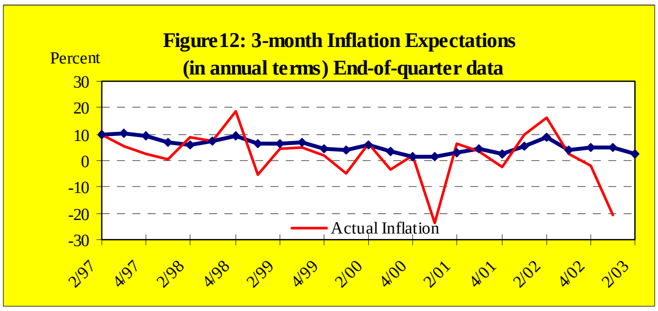


Figure12: 3-month Inflation Expectations
(in annual terms) End-of-quarter data

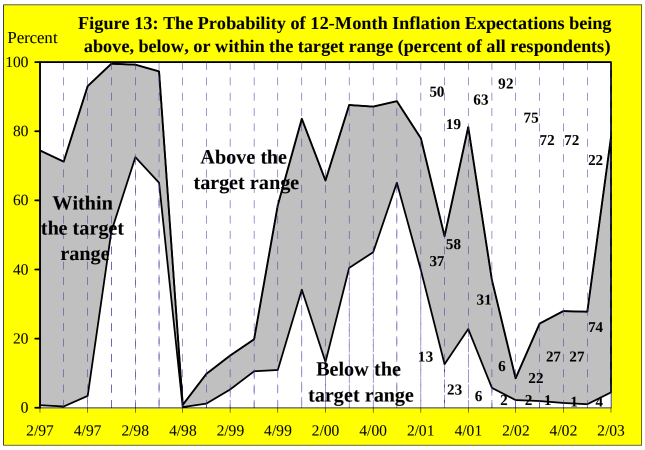


Figure 13: The Probability of 12-Month Inflation Expectations being above, below, or within the target range (percent of all respondents)

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.

---

[1] 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				2003	
	I	II	III	IV	I	II	III	IV	I	II
1. Mode	2.00	2.00	3.00	2.00	4.00	6.00	5.00	4.00	4.00	3.00
2. Median	2.00	2.50	3.00	2.50	4.00	6.00	4.70	4.00	4.00	2.50
3. Average	2.20	2.69	3.30	2.52	3.76	6.17	4.81	4.62	4.37	2.60
4. Standart Deviation	1.15	1.35	1.27	1.11	1.44	2.37	2.03	1.95	1.80	1.31
5. Skewness	0.20	0.69	0.30	0.52	-0.24	0.17	-0.19	0.62	0.37	-0.40
Number of responding companies	614	592	674	606	584	639	621	640	571	574

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

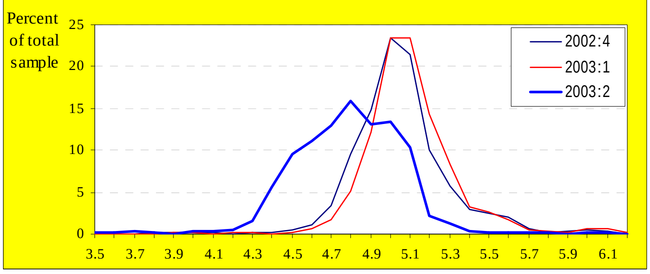
Expectations regarding changes in the NIS/dollar exchange rate

Companies participating in the survey were asked about their expectations regarding the NIS/$ exchange rate at the end of the next quarter (30 September 2003), and one year from the end of the survey period (i.e., 30 June 2004).

Companies assessed, on average, that the exchange rate at the end of the next twelve months would be NIS 4.7 to the dollar, and the variance of depreciation expectations was higher than in previous quarters (Figure 14).

The expected NIS/$ rate at the end of the next quarter was NIS 4.52 to the dollar, giving a derived expected depreciation of 3.5 percent.[2]

Figure 14: 12-month Exchange rate Expectations



[2] The derived depreciation relates to the change in the exchange rate from the time when companies reported until the end of the period.

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

	2000		2001				2002				2003	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
1. Output	27	-12	*-6	-16	-20	-18	-13	*0	-13	-16	-22	*-6
2. Sales	27	-20	-18	-24	-24	-23	-17	*-7	-11	-16	-26	-14
3. Domestic sales	18	-30	-20	-25	-21	-30	-26	-21	-15	-30	-36	-18
4. Export	*7	*2	*-7	-14	-21	-8	*-5	*7	-10	*-1	*-6	*-1
5. Stocks of finished goods	*4	*-3	*4	*-4	-15	-14	-10	-10	-9	-15	-16	-8
6. Stocks of raw materials	6	*1	*5	*2	-8	-9	-7	-9	-10	-9	-12	*-4
7. Rate of utilization of machinery and equipment	10	-23	-14	-23	-26	-28	-18	-13	-16	-27	-25	-14
8. Number of employees	7	-14	-20	-30	-28	-33	-26	-16	-19	-28	-27	-18
9. Domestic orders	*0	-22	-26	-33	-30	-29	-27	-27	-31	-27	-34	-14
10. Export orders	14	*1	*-5	-12	-13	-20	*-3	*-4	*-7	*-6	*-5	*-4
Number of responding companies	440	433	424	423	431	427	400	396	391	422	374	335

[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 2003:II
(percent of all responding companies in each category)

	Net balance						
	2003	2003	Significant	Moderate	No	Moderate	Significan
	I	II	Increase	Increase	Change	Decrease	Decrease
A. Activity in the quarter							
1. Output	-22 (4)	-6 (4)	4	23	40	25	8
2. Sales	-26 (4)	-14 (5)	4	26	26	32	12
3. Domestic sales	-36 (4)	-18 (4)	4	21	32	29	14
4. Export	-6 (5)	-1 (5)	6	25	37	23	9
5. Stocks of raw materials	-16 (4)	-8 (4)	3	17	52	23	5
6. Stocks of finished goods	-12 (4)	-4 (4)	3	17	56	19	5
7. Rate of utilization of machinery and equipment	-25 (4)	-14 (4)	2	20	42	26	10
8. Number of employees	-27 (3)	-18 (3)	1	10	60	25	4
B. Expected activity in the following quarter**							
9. Domestic orders	-34 (4)	-14 (4)	2	17	48	21	12
10. Export orders	-5 (5)	-4 (5)	4	22	44	22	8
Number of responding companies	374	335					

** 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				2003	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Sales	20	-25	*-14	-33	-30	-23	-48	-40	*-19	-20	-32	32
2. End-of-quarter stock	*-2	*-2	*-2	-20	*-7	-20	-21	*-14	*-14	*-13	-17	*0
3. Percent of credit sales	27	17	29	23	25	29	28	26	21	34	27	14
4. Supply period	14	*-6	*-5	-10	*4	-11	*-2	-14	*0	*-6	*-2	*-7
B. Expected activity in the following quarter												
5. Forecast change in number of permanent employees	*7	-29	-16	-27	-35	-39	-20	-30	-37	-30	-20	-12
6. Sales expectations	24	-19	*-11	*-3	-25	*-11	-21	*-11	*2	-20	*16	35
Number of responding companies	60	53	57	60	57	64	68	60	59	56	60	44

[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 2003:II

(percent of all responding companies in each category)

	Net balance 2003 I	Net balance 2003 II	Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significan Decrease
A. Activity in the quarter							
1. Sales	-32	32	7	45	28	7	13
	(10)	(12)					
2. End-of-quarter stock	-17	0	5	21	48	21	5
	(9)	(11)					
3. Percent of credit sales	27	14	5	16	72	5	2
	(7)	(8)					
4. Supply period	-2	-7	0	2	89	5	4
	(5)	(5)					
B. Expected activity in the following quarter							
5. Forecast change in number of permanent employees	-20	-12	0	5	78	14	3
	(7)	(7)					
6. Sales expectations for following quarter	16	35	7	42	37	7	7
	(11)	(11)					
Number of responding companies	60	44					

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				2003	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	*7	-51	-48	-34	-35	-28	-39	-23	-22	-43	-43	-65
of which 2. Buildings			-51	-46	-41	-36	-44	-31	-32	-51	-58	-77
3. Infrastructure			-33	-27	-18	*-2	-22	*-13	*-10	-20	-23	-56
4. Output prices in dollar terms	-22	-21	-37	-35	-34	-34	-32	-21	*-8	-15	*-15	*-14
5. Area of building starts (sq. m.)	*-2	-31	-55	-55	-60	-54	-55	-37	-39	-59	-59	-62
6. Area of building completions (sq. m.)	*-3	-26	*-12	-22	-35	-34	-21	-25	-28	-32	-37	-53
7. Building time	*0	25	21	21	16	14	*10	20	*5	17	18	30
B. Expected activity in the following quarter**	17	*-10	-29	-41	-56	-34	-38	-36	-16	-46	-30	-32
Number of responding companies	74	84	77	80	77	75	69	68	68	67	72	51

[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 2003:II

(percent of all responding companies in each category)

	Net balance 2003	Net balance 2003	Significant	Moderate	No	Moderate	Significant
	I	II	Increase	Increase	Change	Decrease	Decrease
A. Activity in the quarter							
1. Total activity	-43	-65	0	6	23	38	33
	(8)	(9)					
of which Buildings	-58	-77	0	2	19	41	38
	(7)	(7)					
Infrastructure	-23	-56	3	2	34	28	33
	(10)	(10)					
2. Output prices in dollar terms	-15	-14	0	16	54	20	10
	(9)	(10)					
3. Area of building starts (sq. m.)	-59	-62	0	4	30	28	38
	(8)	(8)					
4. Area of building completions (sq. m.)	-37	-53	0	6	35	33	26
	(7)	(9)					
5. Building time	18	30	9	38	36	4	13
	(9)	(11)					
B. Expected activity in the following quarter	-30	-32	0	20	28	22	30
	(9)	(11)					
Number of responding companies	72	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.

Table 9

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

	2000		2001				2002				2003	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	59	-11	-31	-4	-34	-19	-22	-11	2	-6	-29	13
2. Sales of services to residents	26	-18	-37	-15	-24	-22	-29	-11	3	-6	-27	11
3. Sales of services to nonresidents	38	-40	-33	-16	-51	-31	-17	-20	-26	-21	-51	1
4. Utilization of equipment (capacity utilization, etc.)	55	-16	-19	-4	-33	-13	-17	-12	-20	-11	-19	26
B. Expected activity in the following quarter**	16	-5	17	15	-33	-17	-4	-16	-14	-23	23	13
Number of responding companies	26	24	23	31	36	35	33	29	43	40	36	32

[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 2003:II

(percent of all responding companies in each category)

	Net balance						
	2003	2003	Significant	Moderate	No	Moderate	Significan
	I	II	Increase	Increase	Change	Decrease	Decrease
A. Activity in the quarter							
1. Total activity	-29	13	6	38	26	19	11
2. Sales of services to residents	-27	11	6	35	29	22	8
3. Sales of services to nonresidents	-51	1	5	17	57	12	8
4. Utilization of equipment (capacity utilization, etc.)	-19	26	3	37	47	13	0
B. Expected activity in the following quarter	23	13	12	24	41	19	4
Number of responding companies	36	32					

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				2003	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	50	-95	-78	-96	-86	-84	-79	-80	-44	-43	-84	32
2. Number of bed-nights: Tourists	43	-100	-89	-100	-97	-82	-87	-94	-74	-55	-90	*0
3. Number of bed-nights: Israelis	*6	-54	*-16	-27	-23	*-11	-18	-48	*-8	-27	-68	*17
4. Average revenue per room	37	-83	-86	-89	-83	-89	-70	-88	-73	-83	-74	*-15
B. Expected activity in the following quarter**	52	-87	-88	-91	-97	-88	-88	-86	-69	-67	-62	*7
Number of responding companies	54	62	56	46	67	68	62	66	62	65	63	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 total activity in the following quarter.

Table 12
Hotels in 2003:II
(percent of all responding companies in each category)

	Net balance						
	2003 I	2003 II	Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significan Decrease
A. Activity in the quarter							
1. Total activity	-84 (6)	32 (11)	15	44	14	8	19
2. Number of bed-nights: Tourists	-90 (4)	0 (11)	10	28	24	10	28
3. Number of bed-nights: Israelis	-68 (7)	17 (10)	17	25	33	8	17
4. Average revenue per room	-74 (7)	-15 (10)	3	22	35	22	18
B. Expected activity in the following quarter	-62 (9)	7 (10)	8	24	43	12	13
Number of responding companies	63	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 13

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

	2000		2001				2002				2003	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total revenue from current activity	28	-21	-30	-15	-31	-17	-27	-18	-20	-18	-32	-12
2. Sales of services in Israel	28	-14	-24	*-12	-30	-25	-30	-21	-19	-27	-32	*-9
3. Sales of services abroad	*17	*-13	*-10	-27	-58	*7	-32	*8	-21	*11	*-5	*-24
4. Number of employees	12	*-4	-12	-17	-24	-29	-31	-13	-9	-23	-20	-18
5. of which: trained	10	*-8	-13	-18	-27	-32	-22	-12	-12	-22	-19	-17
6. Number of Israeli workers abroad	20	*9	*13	*-14	-24	*-13	*-13	*-6	*-4	*-5	*0	*4
B. Expected activity in the following quarter**												
7. Total orders	31	*7	*-4	*-5	-28	*-12	*-7	*-7	*-7	-20	-18	*11
8. Export orders	*18	*0	-28	*-31	-35	*7	*-31	*-13	*5	*-6	30	*5
Number of responding companies	120	98	117	117	124	114	116	186	170	159	164	136

[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 2003:II

(percent of all responding companies in each category)

	Net balance						
	2003	2003	Significant	Moderate	No	Moderate	Significant
	I	II	Increase	Increase	Change	Decrease	Decrease
A. Activity in the quarter							
1. Total revenue from current activity	-32 (6)	-12 (7)	2	26	32	23	17
2. Sales of services in Israel	-32 (6)	-9 (7)	3	24	37	20	16
3. Sales of services abroad	-5 (16)	-24 (15)	0	20	36	12	32
4. Number of employees	-20 (5)	-18 (6)	0	12	58	23	7
5. of which: trained	-19 (5)	-17 (6)	0	11	61	20	8
6. Number of Israeli workers abroad	0 (11)	4 (12)	0	19	66	4	11
B. Expected activity in the following quarter**							
7. Total orders	-18 (6)	11 (7)	3	31	43	11	12
8. Export orders	30 (16)	5 (14)	0	21	63	11	5
Number of responding companies	164	136					

* 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 2003:I and 2003:II

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	**2003**	**II**	**37**	*-11	*-11	-24	*36	*9	*-12	-38
	2003	**I**	**34**	-61	-76	-71	-46	-42	-21	-47
Food and beverages	**2003**	**II**	**41**	*0	*-18	*6	*8	*12	*3	*-10
	2003	**I**	**49**	*-4	*-12	-20	*17	31	*-4	-20
Textiles, clothing, and leather	**2003**	**II**	**33**	*-13	-29	*-18	*-16	-29	-31	*-3
	2003	**I**	**40**	-24	-49	-56	*-21	*-9	-36	-23
Chemicals, rubber, and plastic	**2003**	**II**	**53**	*-2	*4	*-10	*2	*-4	*8	-25
	2003	**I**	**53**	-19	-21	-27	*6	*6	*-4	-28
Metals and machinery	**2003**	**II**	**55**	*0	*-19	*-8	*-3	*0	*-8	*-13
	2003	**I**	**64**	-16	-45	-21	*2	*-2	*-10	-20
Electronics, electricity, and transport equipment	**2003**	**II**	**77**	*-8	-25	-26	*2	*-6	*-3	-20
	2003	**I**	**90**	-23	-33	-33	-18	-18	*-3	-29
Paper, printing, and other	**2003**	**II**	**32**	*-3	-32	*-12	*-7	*0	*10	*-13
	2003	**I**	**36**	-26	-35	-30	*15	*5	-34	-26
Total manufacturing industries excluding diamonds	**2003**	**II**	**328**	*-5	-18	-14	*1	*-4	*-5	-18
	2003	**I**	**366**	-22	-36	-34	*-6	*-4	-13	-27
Diamonds	**2003**	**II**	**7**	-43	*-33	*-17	-57	*0	*14	*-14
	2003	**I**	**8**	*-13	-43	-43	*-13	*-25	*38	*-25
Total manufacturing industries	**2003**	**II**	**335**	*-6	-18	-14	*-1	*-4	*-4	-18
	2003	**I**	**374**	-22	-36	-34	*-6	*-5	-12	-27

[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, 2003:II

	Manufacturing companies				Construction companies				
	Total	Small	Middle	Large		Total	Small	Middle	Large
Output	*-6	*-3	*-8	*-4	Total activity	-65	-57	-59	-74
Total sales	-14	*-8	-19	*-11	Area of starts	-62	-80	-48	-71
Domestic sales	-18	*-17	-24	-13	Area of completions	-53	-80	-48	-52
Export	*-1	*0	*4	*-4	Output prices in $	*-14	*-33	*-9	*-14
Number of companies	335	37	139	159	Area of completions	51	7	22	22

[1] According to number of employees (small company - 1-19 employees, medium size company - 20-99 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				2003	
	I	II	III	IV	I	II
Demand constraints						
Volume of export orders	1.5	1.6	1.6	1.7	1.8	1.5
Volume of domestic orders	**1.7**	**1.7**	**1.9**	**1.8**	**1.9**	**1.7**
Supply constraints						
Machinery and equipment shortage	0.2	0.3	0.3	0.2	0.4	0.2
Financing difficulties	**0.9**	**1.0**	**1.1**	**1.3**	**1.2**	**1.0**
Labour shortage	0.4	0.5	0.5	0.5	0.4	0.4

Transport and Communications

	2002				2003	
	I	II	III	IV	I	II
Demand constraints						
Booking by foreign tourists	1.5	1.9	2.5	2.2	**3.0**	**2.7**
Booking by Israelis	1.0	1.0	1.4	1.2	1.9	1.6
Economic and political situation in Israel	**2.5**	**2.7**	**2.7**	**2.7**	2.9	2.5
Intensification of competition	1.7	2.5	2.3	2.3	2.6	2.4
Supply constraints						
Financing difficulties	**1.3**	**1.5**	**1.8**	**1.7**	**2.0**	**1.8**
Labour shortage	0.3	0.5	0.5	0.4	0.8	0.6

Construction

	2002				2003	
	I	II	III	IV	I	II
Demand constraints						
Volume of demand	**2.8**	**2.7**	**2.7**	**2.9**	**3.0**	**3.0**
Supply constraints						
Input prices	1.0	1.6	1.3	1.2	1.3	1.3
Financing difficulties	1.7	1.9	2.0	2.3	2.4	2.6
Labour shortage	**2.2**	**2.8**	**2.9**	**2.6**	**2.6**	**3.0**
Machinery and equipment shortage	0.2	0.3	0.4	0.3	0.3	0.4

Hotels

	2002				2003	
	I	II	III	IV	I	II
Demand constraints						
Booking by foreign tourists	**3.5**	**3.7**	**3.8**	**3.7**	**3.6**	**3.3**
Booking by Israelis	2.3	2.1	2.0	2.5	2.8	1.9
Economic and political situation in Israel	3.2	3.2	3.0	3.2	3.3	2.7
Supply constraints						
Financing difficulties	**1.7**	**2.3**	**2.4**	**2.3**	**2.4**	**2.4**
Labour shortage	0.6	0.4	0.4	0.5	0.4	0.6

Trade

	2002				2003	
	I	II	III	IV	I	II
Demand constraints						
Volume of orders	**2.7**	**2.5**	2.1	2.1	**2.2**	1.8
Economic and political situation in Israel	2.3	2.2	**2.3**	**2.3**	**2.2**	**2.1**
Economic situation in the world	1.5	1.3	1.6	1.3	1.5	1.3
Supply constraints						
Financing difficulties	**1.5**	**1.1**	**1.3**	**1.4**	**1.5**	**1.0**
Labour shortage	0.4	0.3	0.3	0.4	0.3	0.4

Service Industries

	2002				2003	
	I	II	III	IV	I	II
Demand constraints						
Economic and political situation in Israel	**2.1**	**2.1**	**2.1**	**2.0**	**2.2**	**2.0**
Global Economic situation	1.3	1.4	1.7	1.5	1.5	1.3
Intensification of competition	1.6	1.9	1.8	1.8	1.8	1.9
Supply constraints						
Financing difficulties	**1.1**	**1.2**	**1.4**	**1.3**	**1.3**	**1.4**
Labour shortage	0.5	0.5	0.5	0.5	0.5	0.5

APPENDIX

Explanatory Notes

This quarterly survey, the eightieth (the sixteenth to appear in English) relates to developments in 2003:II, and includes assessments and expectations regarding 2003: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 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.

Figure A2: The Change in the Index of Manufacturing Production (seasonally adjusted) and the Net Balance of Output in Manufacturing Industries, 1990 I - 2003 I

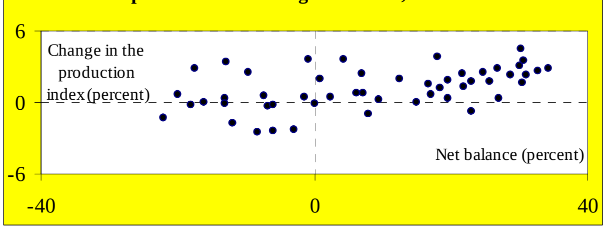
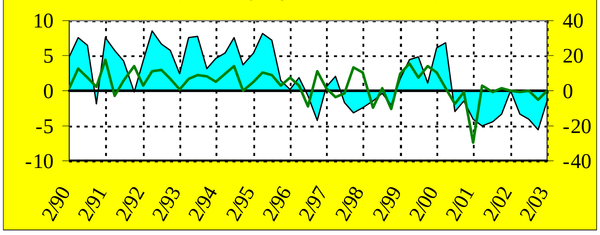


Figure A1: Manufacturing Industries - Net Balance of utput (shaded area, right scale) and Index of Manufacturing Production (Seasonally Adjusted - line, left scale)*



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).