



Bank of Israel \* Research Department

## Companies Survey

First quarter of 2008

Jerusalem, April 2008  
[www.bankisrael.gov.il](http://www.bankisrael.gov.il)

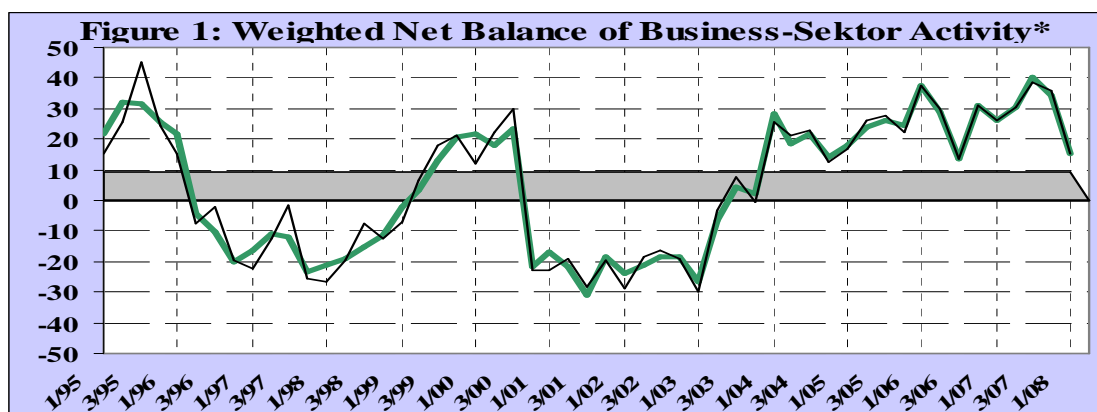


## Companies Survey - First Quarter of 2008 – Main Results

Reports from companies participating in the survey indicate that the rate of expansion slowed down in the first quarter of 2008. The slowdown in growth in this quarter encompassed most of the industries, except for the hotel trade that expanded rapidly, and commerce in which sales grew. The leading index of activity in the business sector does not forecast further slowdown, and reflects a certain improvement in the next quarter. From the survey it also emerges that contrary to the process that characterized activity in past quarters, in this quarter demand constraints became more severe while supply constraints eased in most industries. Despite the easing in supply constraints, the survey indicates that similar to previous quarters, expectations of inflation persist. **Manufacturing** output slowed considerably relative to the previous quarter. The slowdown in manufacturing activity reflects the lack of growth in sales to the domestic market and a significant slowdown in exports. Orders to both the domestic and the export markets for the next quarter have also only grown at a moderate rate. In **commerce**, sales continued their upward trend and companies expect the trend to continue. **Business services** companies reported moderate revenue increases, which reflect a growth in sales of services abroad on the one hand, and a significant slowdown in domestic sales, on the other. **Hotels** reported an upturn in activity relative to the same quarter last year, thanks to an increase in the volume of inbound tourism. The low level of constraints on inbound tourism and the continuing growth in reservations for the next quarter support expectations of continued strong activity. **Transport and communications** companies reported a growth in activity. Orders for the next quarter suggest that activity will continue to move ahead. **Construction** activity continues to be characterized by fluctuations and uncertainty, which also emerges from the expectations for the next quarter. As in the past, reportage about the severity of constraints on construction activity indicates that supply constraints, particularly shortages of skilled workers, are dominant. Average **inflation expectations** for the next twelve months fell slightly in this quarter to 2.69 percent as against 2.77 percent in the previous survey, but with an increase in the proportion of companies that expect inflation to overshoot the target range—30 percent in the review quarter as against 25 percent in the previous quarter. The companies expect, on average, that the **NIS/\$ exchange rate** will stand at NIS 3.93 twelve months hence as against NIS 4.18 in the previous survey. Companies, on average, expect the NIS to depreciate against the dollar in the coming quarter by 5.7%, and to stand at 3.66. The average exchange rate on the date of reportage in the survey was NIS 3.46.

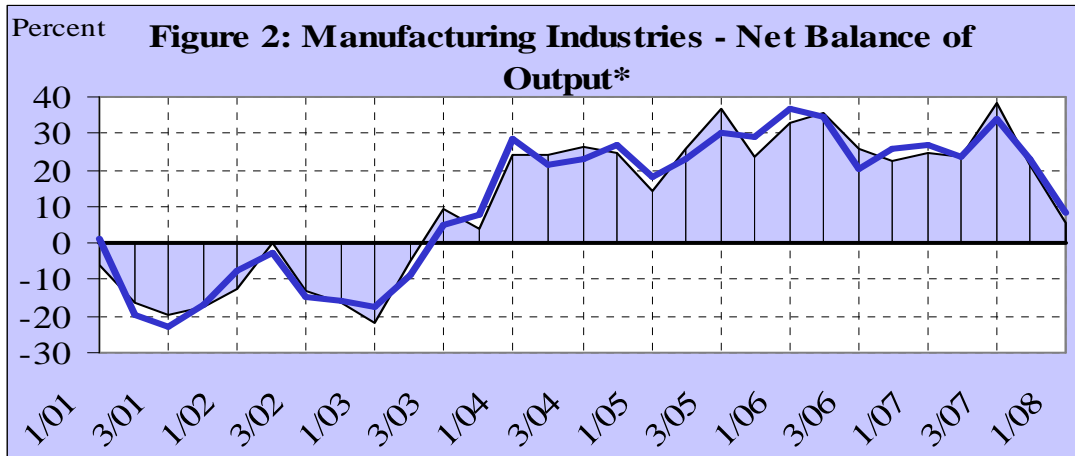
### 1. Macroeconomic developments

An analysis of the responses of all companies participating in the survey, with each industry's net balance weighted by its share in business-sector product, shows that activity slowed down in the first quarter of 2008 (Figure 1). This slowdown encompassed most industries, except for hotels and commerce, and was reflected in the moderation of growth in both domestic and external activity. Expectations for the next quarter point to a partial return to the growth trend that characterized the economy in previous quarters.



## 2. Industry developments

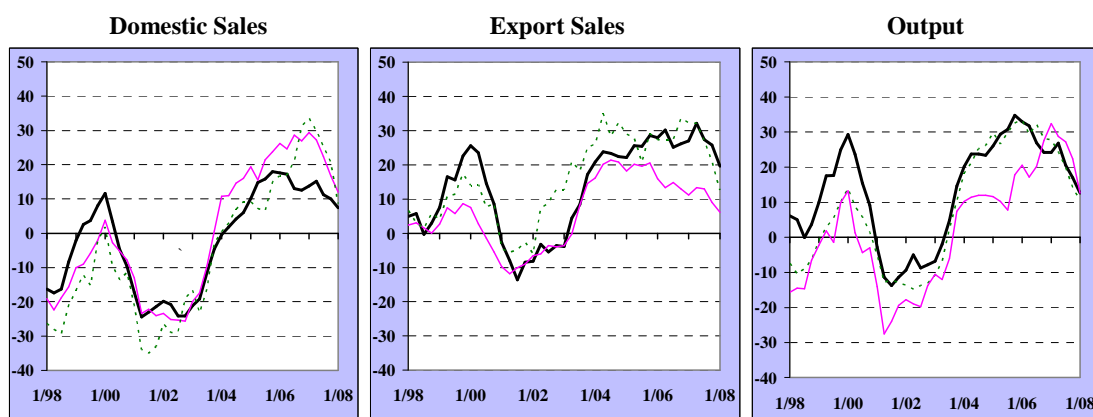
Reports from **manufacturing** companies show that the first quarter of 2008 was characterized by a mixed activity trend, as opposed to the rising trend of the recent surveys (Table 3 and Figure 2). The slowdown is reflected both in the weakness of domestic sales, whose net balance has not grown, and in exports whose net balance is significantly lower than that of previous quarters, and clearly does not exceed zero. Companies reported a brake in the continuing increases in headcount and the utilization rate of machinery and equipment. Reportage about constraints on activity in the review quarter points to an increase in the severity of constraints on the demand side and a decrease in the severity of these on the supply side (Table 17 and Figure 9). For the next quarter, the companies expect a slow pace of growth in activity, albeit characterized by some improvement relative to this quarter.



The classification of companies into three groups of industries by their degree of **technological innovativeness**—low-, medium-, and high-tech—shows that a slowdown took place in the rate of growth of output and sales at all levels of innovativeness and especially among medium companies (Table 1.1 and Figure 3). An examination of industries by subcategories (Table 15) shows that among the low-tech industries, a marked increase took place in output of food and beverages. As opposed to this, in the other industrial subcategories, the picture is similar to the general state of the manufacturing sector, in which it is difficult to point to a clear trend in this quarter.

The classification of manufacturing companies by **size** (number of employees) shows that the size of the company had no clear impact on the intensity of the slowdown. The slowdown was particularly pronounced in medium-sized companies, and less in small and large companies. The size of the company did, however, greatly affect the intensity of the slowdown in exports: the net balance in this category was negative among small companies, around zero in medium companies and positive in large companies.

Figure 3: Net Balances of Manufacturing Companies, by Human Capital and Innovation<sup>a</sup>



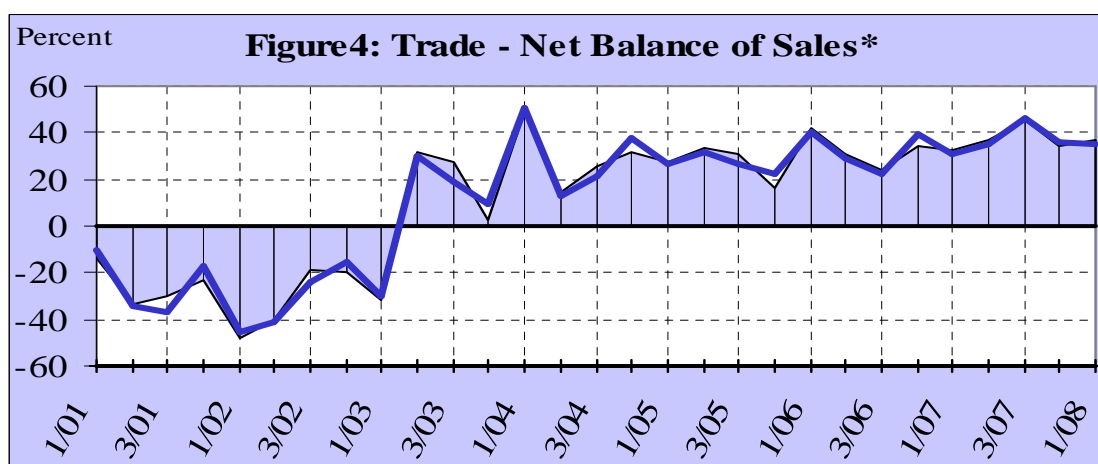
<sup>a</sup> Moving average, outlying observations - unadjusted data

Thick line - advanced industries

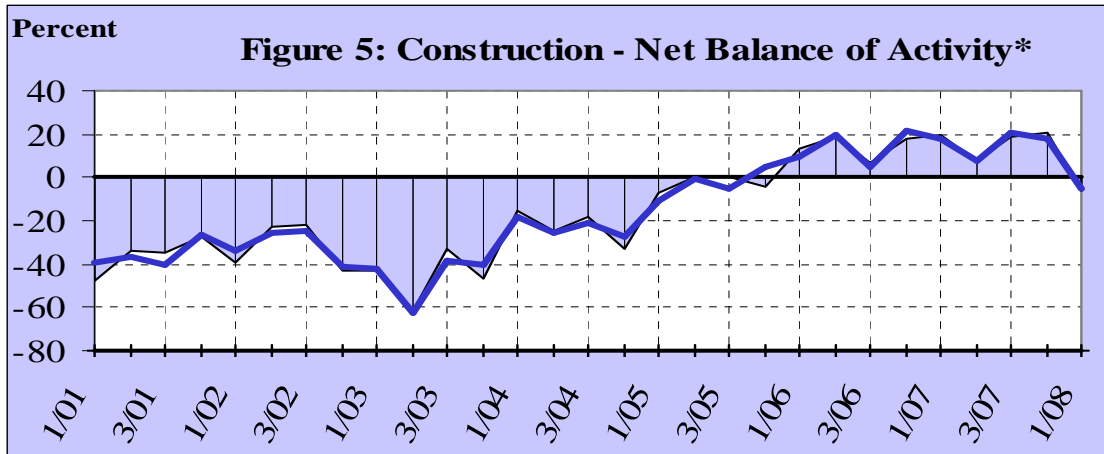
Thin line - traditional industries

Dotted line - mixed industries

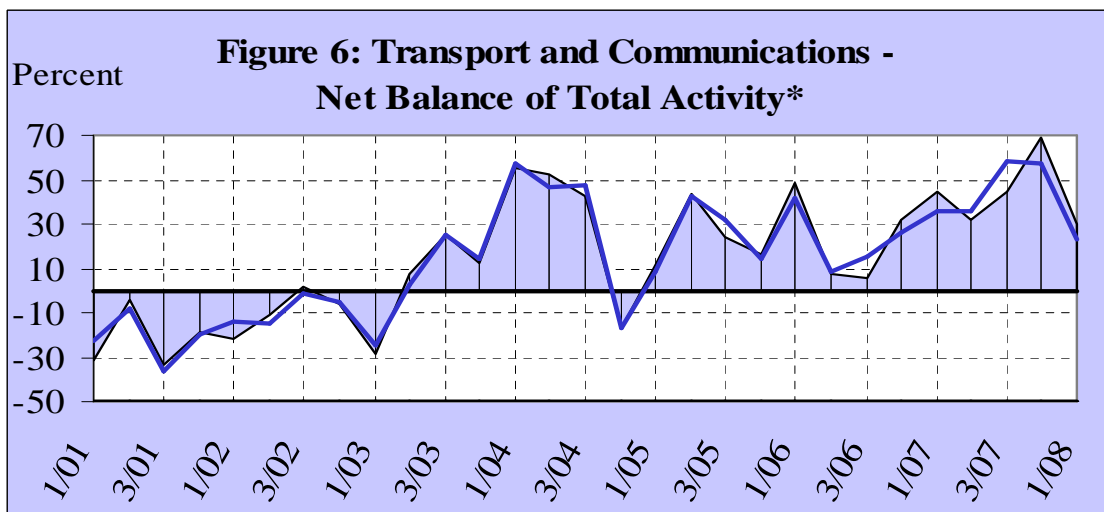
Companies in **commerce** reported continued sales growth in the review quarter, similar to the pace in past quarters, and expect further increases in the following quarter (Table 5 and Figure 4), albeit at a slower pace. They also reported a slight upturn in the severity of demand constraints and an easing in the severity of supply constraints relative to 2007:4 (Table 17 and Figure 9).



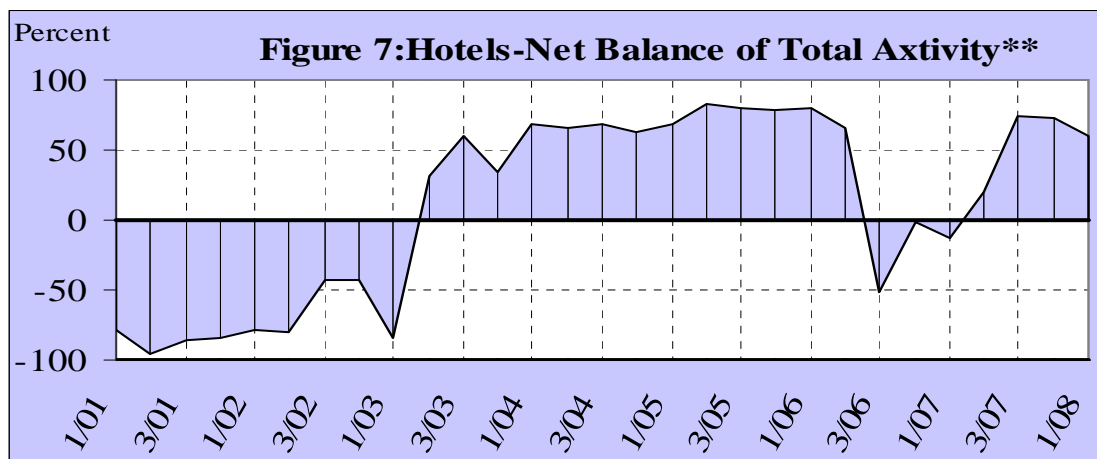
Reports from **construction** companies show that in the review quarter, the mild recovery trend that characterized the activity in this industry since the beginning of 2006 has been checked—the volume of construction declined slightly in this quarter. The decline reflects mainly the leveling off of infrastructure building following the continuous increase over several quarters (Table 7 and Figure 5). Construction starts continued their downward trend while completions showed a slight increase. Expectations of construction works attest to a continuing slowdown in the next quarter as well. The severity of supply constraints in the industry continue to be high in relation to the other industries reviewed (with the exception of transportation and communications). The classification of companies by size (number of employees) shows that the brake in the recovery took place in companies of all sizes (Table 16).



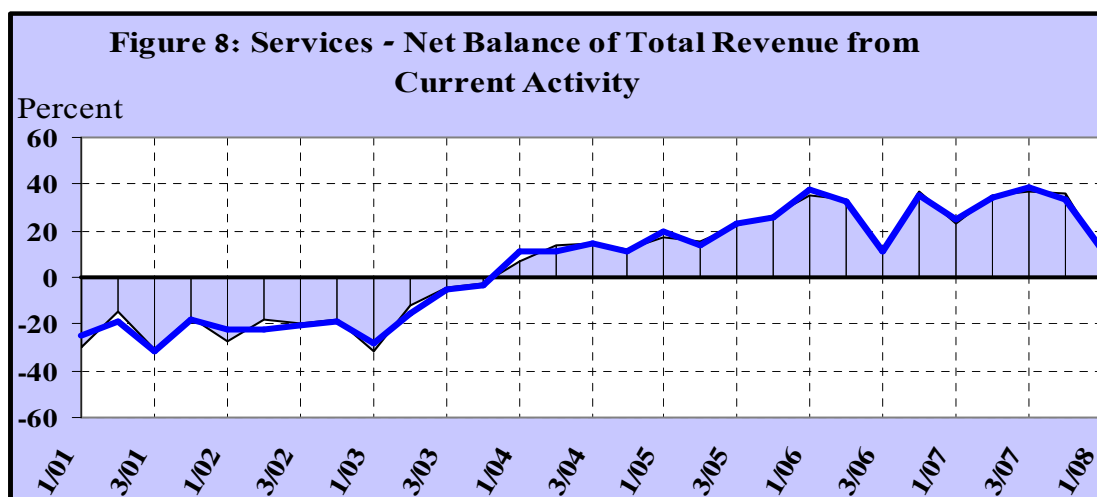
Reports from **transport and communications** companies indicate that activity continued to grow in the review quarter, albeit at a slower rate than in previous quarters (Table 9 and Figure 6). An analysis of the findings shows that no change took place in the activities of overland- and rail-transport companies, and that the growth was concentrated in the air- and marine-transport companies. Communications companies reported an increase in activity this quarter. The net balance of sales of services to Israelis increased, but no change took place in the sale of services to nonresidents. An analysis of the severity of constraints to further growth shows an increase in demand constraints and a decrease in supply constraints (Table 17 and Figure 9). The companies expect an increase in their overall activity in the next quarter.



Companies in the **hotel** industry reported an encouraging growth of activity in the review quarter *relative to the year-earlier quarter* (Table 11 and Figure 7), which is also reflected in increased supply constraints and a low level of demand constraints (Table 17 and Figure 9). The growth in activity continues to be powered by a steep increase in inbound-tourist person-nights, which grew considerably in the review quarter, as opposed to a continuing freeze in Israelis' person-nights. The companies reported continued strong growth in reservations for the next quarter.



**Business-services** companies reported continued revenue growth in the review quarter, but at a more moderate rate than in previous quarters. The increased activity was driven by increases in sales of services abroad (Table 13 and Figure 8), while no substantial change took place in sales of services to Israelis in this quarter. The companies expect a growth in orders next quarter, particularly from abroad. Reportage about the severity of activity constraints points to stability on the demand side and a slight easing on the supply side (Table 17 and Figure 9).



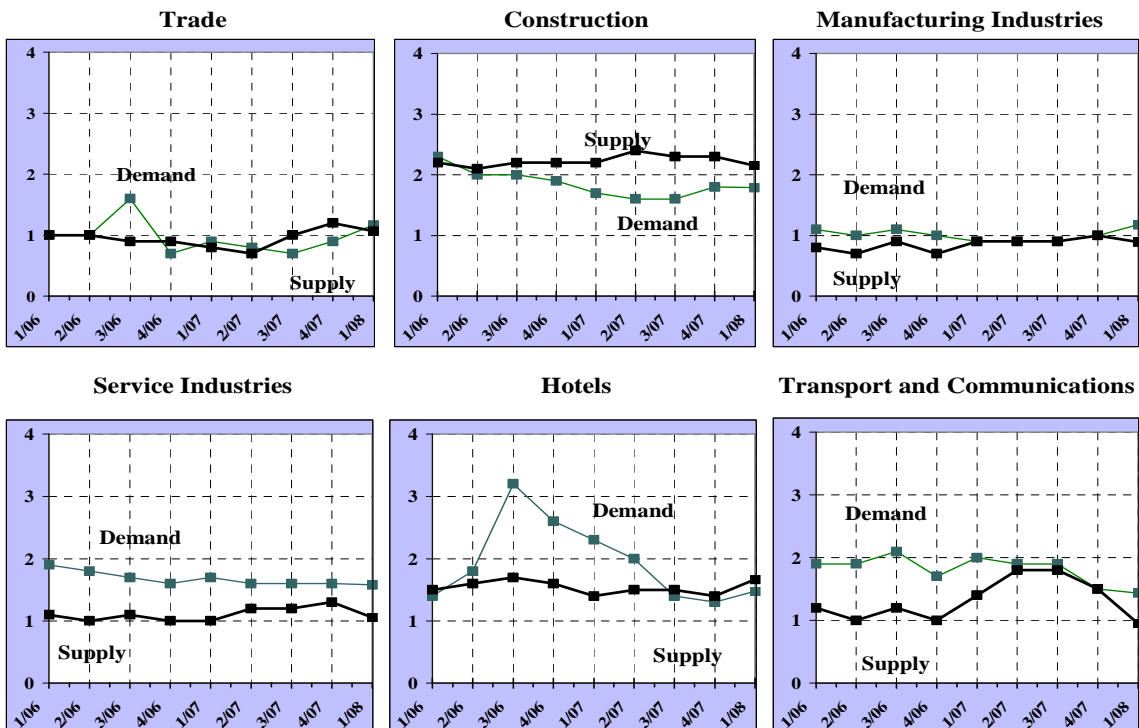
<sup>1</sup>The business-services industry is composed of food, insurance, real-estate, business, and legal services; education and healthcare; and other personal services.

| from companies   |      |     |     |      |    |     |    |      |    |     |    |      |
|--|------|-----|-----|------|----|-----|----|------|----|-----|----|------|
|  | 2005 |     |     | 2006 |    |     |    | 2007 |    |     |    | 2008 |
|  | II   | III | IV  | I    | II | III | IV | I    | II | III | IV | I    |
| <b>Industry (output)</b>                               | 26   | 37  | 24  | 33   | 36 | 26  | 22 | 24   | 24 | 38  | 21 | *5   |
| seasonally adjusted                                    | 23   | 30  | 30  | 36   | 34 | 20  | 27 | 26   | 24 | 34  | 23 | 8    |
| <b>Trade (sales)</b>                                   | 33   | 31  | *16 | 42   | 31 | *24 | 34 | 32   | 37 | 46  | 34 | 37   |
| seasonally adjusted                                    | 32   | 27  | 23  | 40   | 29 | *22 | 40 | 30   | 35 | 46  | 36 | 35   |
| <b>Construction (total activity)</b>                   | *0   | *0  | *-5 | *13  | 19 | *7  | 18 | 19   | *7 | 19  | 20 | *-6  |
| seasonally adjusted                                    | *0   | *-5 | *6  | *7   | 19 | *5  | 25 | *14  | *8 | 21  | 18 | *-5  |
| <b>Transport and communications (total activity)**</b> | 44   | 24  | 16  | 48   | 7  | 6   | 32 | 44   | 31 | 44  | 69 | 30   |
| seasonally adjusted                                    | 42   | 33  | 15  | 39   | 8  | 17  | 27 | 33   | 37 | 62  | 57 | 23   |
| <b>Hotels (total activity)***</b>                      | 82   | 80  | 78  | 80   | 66 | -51 | -2 | -13  | 20 | 75  | 73 | 59   |
| <b>Service industries</b>                              | 15   | 22  | 27  | 35   | 34 | 10  | 37 | 23   | 35 | 37  | 36 | 10   |
| seasonally adjusted                                    | 13   | 22  | 28  | 36   | 31 | 11  | 39 | 23   | 34 | 38  | 34 | 12   |
| <b>Total business sector</b>                           | 26   | 28  | 22  | 37   | 30 | 14  | 31 | 26   | 30 | 39  | 36 | 15   |
| seasonally adjusted                                    | 24   | 26  | 26  | 36   | 28 | 14  | 34 | 24   | 30 | 40  | 34 | 15   |

|                              | 2005 |     |    | 2006 |    |     |    | 2007 |    |     |     | 2008 |
|------------------------------|------|-----|----|------|----|-----|----|------|----|-----|-----|------|
|                              | II   | III | IV | I    | II | III | IV | I    | II | III | IV  | I    |
| <b>Advanced companies</b>    | 26   | 37  | 42 | 36   | 33 | 17  | 31 | 18   | 22 | 33  | 30  | *8   |
| <b>Mixed companies</b>       | *4   | 25  | *9 | *12  | 39 | 18  | *8 | 24   | 49 | 63  | *14 | *-3  |
| <b>Traditional companies</b> | 32   | 41  | 16 | 37   | 37 | 36  | 20 | 30   | 17 | 35  | 17  | *6   |

\* 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.

**Figure 9: The severity of constraints on carrying out planned activity (average)<sup>1</sup>**  
 1-Slight, 2-Moderate, 3-Severe, 4-Very severe



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

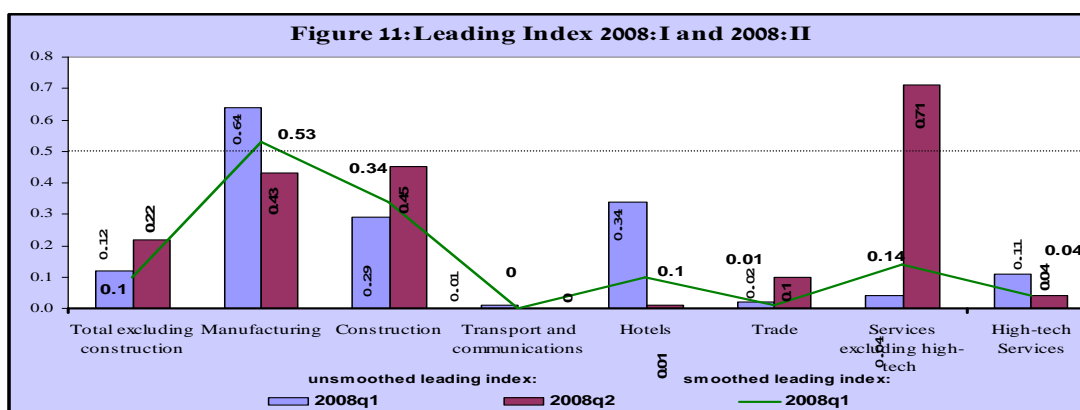
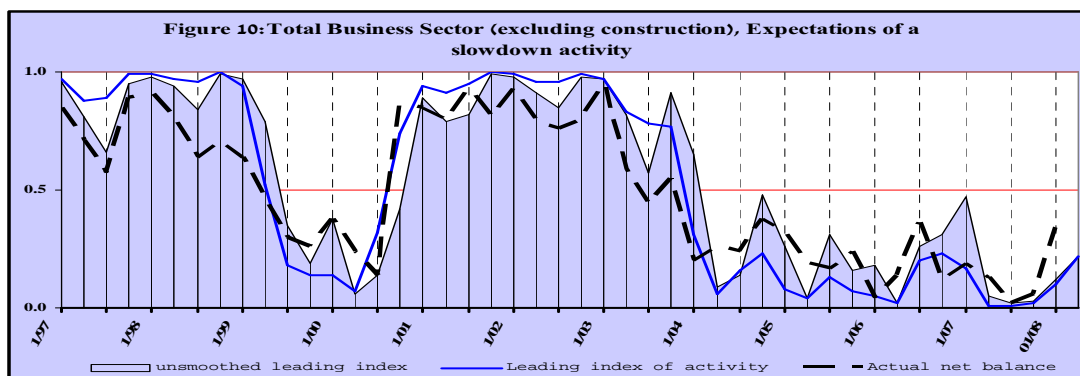
## The leading index

The leading index (excluding construction) in this survey does not foresee a further slowdown in business-sector activity in the second quarter of 2008, beyond that which is already represented by the actual net balance. The value of the leading index, which expresses the probability of a slowdown, rose, but is still below the threshold of 0.5.<sup>1</sup>

This expresses the improvement in orders in most sectors and expectations for the next quarter, compared with the moderate net balances of activity in the current quarter.

The leading index is calculated for the business sector at large (Figure 11), for each of the six industries covered in the survey, and for the high-tech services industry (Figures A–H in the Appendix). The leading indices in this survey suggest that activity will resume its increasing trend in 2008:Q2 except in services (excluding hi-tech services) for which a slowdown is expected in the coming quarter (Figure 10). Even though the threshold value of the leading index of the industrial sector is lower than 0.5, it has grown and is approaching this value.

Several changes in the method of calculating the leading index were introduced in the second quarter of 2007, which enhanced the statistical significance of the findings for the various industries and took account of the asymmetry (the positive bias) in companies' responses to the survey questionnaire.<sup>2</sup> The major improvement is that two leading indices are provided, based on 1) a **smoothed probability** (as was given until now), in which there is inter-quarter dependence so that the index for the current quarter is updated every quarter and relates to the forecast for the next quarter; and 2) an **unsmoothed probability**, with no retroactive adjustment of the leading index. The combined use of the two indices shows whether there has been a significant change (i.e., not a one-off change) in the rate of growth (e.g., from a rapid rate of growth to a moderate one).



<sup>1</sup> As long as the leading index is below the 0.5 threshold, one cannot state with certainty that the growth rate will slow in the next quarter. If the index crosses the threshold, an easing of activity in the next quarter may be inferred.

<sup>2</sup> Companies' responses regarding the state of their activities tend to be optimistic and upwardly biased.

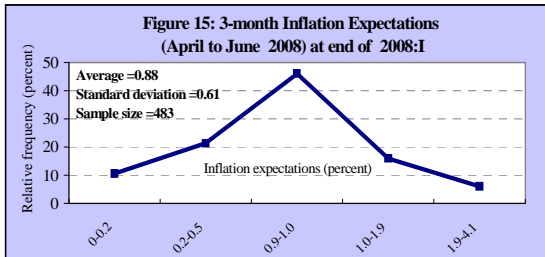
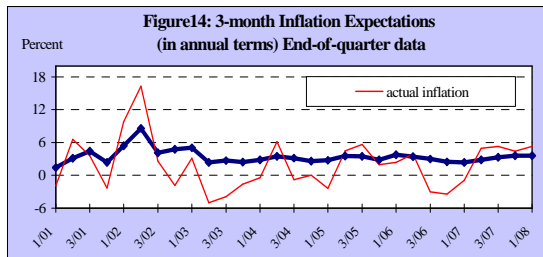
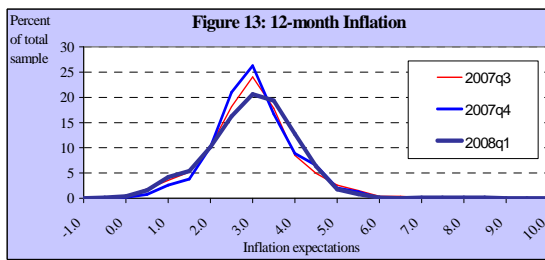
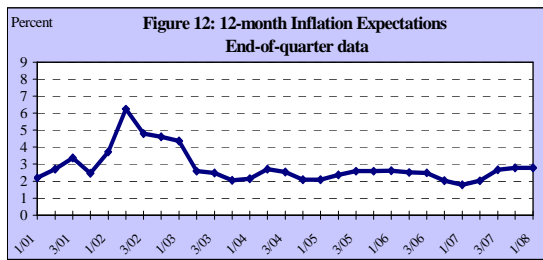
### Survey of inflation expectations

Companies' expectations about the cumulative rate of price increases during the next twelve months (March 2008–March 2009) fell slightly to 2.69 percent on average, as against 2.77 percent in the previous quarter (Figure 12).

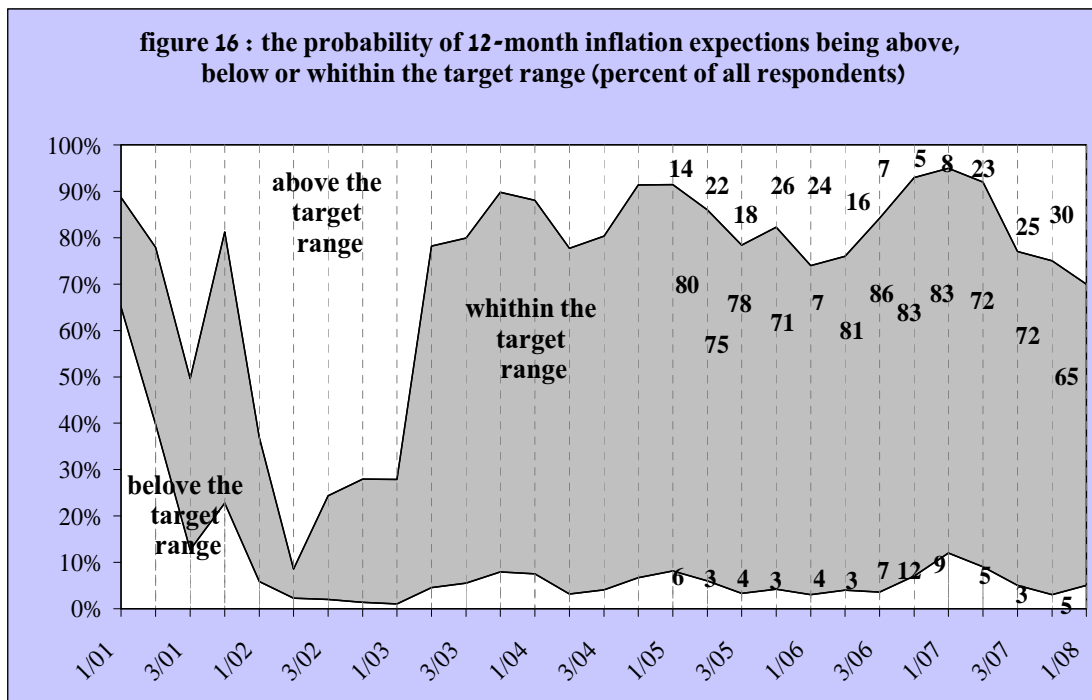
As opposed to the slight decrease in inflation expectations for the next 12 months, the median distribution of expectations in this quarter rose relative to the previous quarter to 2.9 percent as against 2.8 percent. The mode was unchanged at 3 percent for the third quarter in succession, but the variance of expectations increased relative to the previous quarter (Figure 13).

The expected rate of price increases in the next quarter (April–June 2008) rose slightly to 3.6 percent as against 3.5 percent in the previous quarter (both rates annualized) (Figure 14), and the variance of expectations increased relative to the previous quarter.

The inflation-expectations survey also shows that the share of companies that expected the inflation rate to overshoot the upper limit of the price-stability target<sup>3</sup> grew in this quarter to 30 percent as against 25 percent in the previous quarter (the top section of Figure 16). The proportion of companies that expected inflation in the next twelve months to fall within the price-stability target showed a decrease from 72 percent in the previous quarter to 65 percent in this quarter (the middle section in Figure 16). The share of companies expecting inflation in the next twelve months to undershoot the price-stability target rose slightly from 3 percent in the previous quarter to 5 percent in the review quarter (the bottom section of the Figure).



<sup>3</sup> The target range of inflation for the next twelve months is 1–3 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.

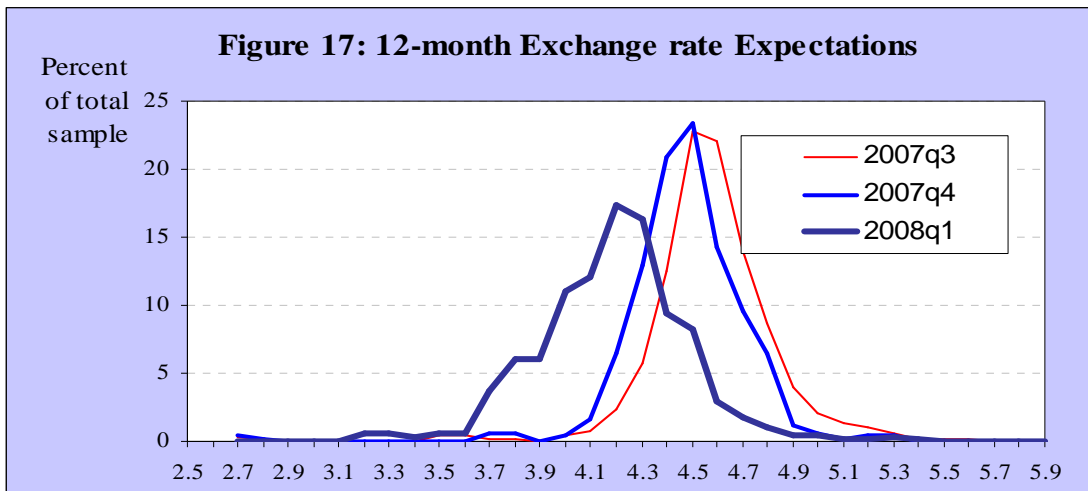
**Table 2: Statistic Analysis of 12-month Inflation Expectations**

|                                | 2005        |             |             | 2006        |             |             |             | 2007        |             |             |             | 2008        |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                | II          | III         | IV          | I           | II          | III         | IV          | I           | II          | III         | IV          | I           |
| 1. Mode                        | 2.00        | 3.00        | 2.00        | 3.00        | 3.00        | 2.00        | 2.00        | 2.00        | 2.00        | 3.00        | 3.00        | 3.00        |
| 2. Median                      | 2.20        | 2.50        | 2.50        | 2.70        | 2.50        | 2.50        | 2.00        | 1.70        | 2.00        | 2.50        | 2.80        | 2.90        |
| <b>3. Average</b>              | <b>2.36</b> | <b>2.59</b> | <b>2.59</b> | <b>2.77</b> | <b>2.65</b> | <b>2.47</b> | <b>2.01</b> | <b>1.78</b> | <b>2.02</b> | <b>2.67</b> | <b>2.77</b> | <b>2.69</b> |
| 4. Standart Deviation          | 1.10        | 1.03        | 1.05        | 1.11        | 1.10        | 1.02        | 0.99        | 0.91        | 0.93        | 1.09        | 0.92        | 1.04        |
| 5. Skewness                    | 0.36        | -0.41       | 0.59        | -0.23       | -0.35       | 0.47        | 0.01        | -0.22       | 0.02        | -0.33       | -0.23       | -0.31       |
| Number of responding companies | 535         | 518         | 553         | 517         | 519         | 469         | 469         | 456         | 487         | 413         | 504         | 483         |

is the difference between average and mode \*

### Expectations regarding changes in the NIS/dollar exchange rate

The companies participating in the survey were asked about their expectations of the level of the NIS/\$ exchange rate at the end of the next quarter (June 30, 2008) and one year from the end of the survey period (March 31, 2009). The latter expectation was NIS 3.93 as against NIS 4.18 in the previous survey. The variance in expectations to twelve months ahead showed a slight increase (Figure 17). The exchange rate that the companies expected (on average) to see at the end of the next quarter was NIS 3.66 as against NIS 4.03 in the previous quarter. Note that the average exchange rate at the time the companies completed the survey questionnaire was NIS 3.46.



## Manufacturing Industries

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

|   | 2005 |     |     | 2006 |     |     |     | 2007 |     |     |     | 2008 |
|---|------|-----|-----|------|-----|-----|-----|------|-----|-----|-----|------|
|   | II   | III | IV  | I    | II  | III | IV  | I    | II  | III | IV  | I    |
| 1. Output   | 26   | 37  | 24  | 33   | 36  | 26  | 22  | 24   | 24  | 38  | 21  | *5   |
| 2. Sales  | 27   | 36  | 21  | 31   | 36  | 27  | 25  | 23   | 26  | 33  | 26  | *-1  |
| 3. Domestic sales                                 | 17   | 27  | 14  | 22   | 21  | 23  | 22  | 19   | 26  | 31  | 17  | *-1  |
| 4. Export   | 24   | 23  | 23  | 22   | 32  | 11  | 22  | 16   | 25  | 29  | 26  | *6   |
| 5. Stocks of finished goods                       | 12   | 8   | 7   | 10   | 16  | 10  | 9   | 12   | 15  | 22  | 18  | 9    |
| 6. Stocks of raw materials                        | 8    | *4  | 11  | 9    | 13  | 12  | *4  | 7    | *6  | 17  | 11  | 7    |
| 7. Rate of utilization of machinery and equipment | 14   | 26  | 13  | 19   | 22  | 13  | 14  | 14   | 17  | 25  | 8   | *-5  |
| 8. Number of employees                            | 9    | 13  | *5  | 18   | 17  | 9   | 11  | 10   | 15  | 15  | 16  | *2   |
| 9. Domestic orders                                | *3   | 8   | *7  | 17   | 13  | 9   | *6  | 12   | 16  | 15  | 10  | *6   |
| 10. Export orders                                 | 11   | 26  | 15  | 26   | 23  | 10  | 17  | 21   | 22  | 28  | 15  | *3   |
| Number of responding companies                    | 301  | 287 | 282 | 283  | 304 | 261 | 250 | 251  | 237 | 220 | 252 | 245  |

<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 2008:I  
(percent of all responding companies in each category)

|  | Net balance |           | Significant Increase | Moderate Increase | No Change | Moderate Decrease | Significant Decrease |
|--|-------------|-----------|----------------------|-------------------|-----------|-------------------|----------------------|
|  | 2007<br>IV  | 2008<br>I |                      |                   |           |                   |                      |
| <b>A. Activity in the quarter</b>                      |             |           |                      |                   |           |                   |                      |
| 1. Output  | 21<br>(5)   | 5<br>(5)  | 5                    | 28                | 39        | 20                | 8                    |
| 2. Sales   | 26<br>(5)   | -1<br>(5) | 6                    | 28                | 31        | 26                | 9                    |
| 3. Domestic sales                                      | 17<br>(5)   | -1<br>(5) | 4                    | 27                | 37        | 22                | 10                   |
| 4. Export  | 26<br>(5)   | 6<br>(6)  | 5                    | 27                | 42        | 17                | 9                    |
| 5. Stocks of raw materials                             | 18<br>(4)   | 9<br>(5)  | 6                    | 23                | 51        | 17                | 3                    |
| 6. Stocks of finished goods                            | 11<br>(4)   | 7<br>(4)  | 3                    | 22                | 57        | 16                | 2                    |
| 7. Rate of utilization of machinery and equipment      | 8<br>(4)    | -5<br>(5) | 2                    | 20                | 51        | 20                | 7                    |
| 8. Number of employees                                 | 16<br>(4)   | 2<br>(4)  | 1                    | 16                | 68        | 15                | 0                    |
| <b>B. Expected activity in the following quarter**</b> |             |           |                      |                   |           |                   |                      |
| 9. Domestic orders                                     | 10<br>(4)   | 6<br>(5)  | 4                    | 27                | 44        | 19                | 6                    |
| 10. Export orders                                      | 15<br>(5)   | 3<br>(6)  | 7                    | 22                | 45        | 17                | 9                    |
| Number of responding companies                         | 252         | 245       |                      |                   |           |                   |                      |

\*\* Orders received in the quarter reviewed.

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

## Trade

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

|  | 2005 |     |     | 2006 |     |     |     | 2007 |    |     |    | 2008 |
|--|------|-----|-----|------|-----|-----|-----|------|----|-----|----|------|
|  | II   | III | IV  | I    | II  | III | IV  | I    | II | III | IV | I    |
| <b>A. Activity in the quarter</b>                    |      |     |     |      |     |     |     |      |    |     |    |      |
| 1. Sales   | 33   | 31  | *16 | 42   | 31  | *24 | 34  | 32   | 37 | 46  | 34 | 37   |
| 2. End-of-quarter stock                              | 24   | *9  | *0  | *11  | 26  | *18 | *17 | 24   | 37 | 30  | 34 | *13  |
| 3. Percent of credit sales                           | 20   | 28  | 17  | 20   | *11 | *-3 | *3  | 21   | 27 | 17  | 22 | 23   |
| 4. Supply period                                     | *-6  | *3  | 21  | *6   | *9  | *4  | 0   | 15   | 15 | 14  | *3 | *10  |
| <b>B. Expected activity in the following quarter</b> |      |     |     |      |     |     |     |      |    |     |    |      |
| 5. Forecast change in number of permanent employees  | *11  | *-9 | 21  | 14   | *0  | *3  | *0  | 9    | *7 | *8  | 16 | *7   |
| 6. Sales expectations                                | 51   | *-3 | 32  | 42   | 50  | *-3 | 39  | 47   | 73 | 57  | 63 | 27   |
| Number of responding companies                       | 36   | 32  | 31  | 36   | 36  | 29  | 29  | 34   | 30 | 24  | 32 | 30   |

<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 2008:I**  
**(percent of all responding companies in each category)**

|  | Net balance |            | Significant Increase | Moderate Increase | No Change | Moderate Decrease | Significant Decrease |
|--|-------------|------------|----------------------|-------------------|-----------|-------------------|----------------------|
|  | 2007<br>IV  | 2008<br>I  |                      |                   |           |                   |                      |
| <b>A. Activity in the quarter</b>                    |             |            |                      |                   |           |                   |                      |
| 1. Sales   | 34<br>(14)  | 37<br>(15) | 10                   | 50                | 17        | 23                | 0                    |
| 2. End-of-quarter stock                              | 34<br>(11)  | 13<br>(14) | 10                   | 26                | 41        | 23                | 0                    |
| 3. Percent of credit sales                           | 22<br>(7)   | 23<br>(12) | 0                    | 36                | 51        | 13                | 0                    |
| 4. Supply period                                     | 3<br>(5)    | 10<br>(9)  | 3                    | 14                | 76        | 7                 | 0                    |
| <b>B. Expected activity in the following quarter</b> |             |            |                      |                   |           |                   |                      |
| 5. Forecast change in number of permanent employees  | 16<br>(8)   | 7<br>(9)   | 3                    | 14                | 73        | 10                | 0                    |
| 6. Sales expectations for following quarter          | 63<br>(11)  | 27<br>(15) | 20                   | 30                | 27        | 23                | 0                    |
| Number of responding companies                       | 32          | 30         |                      |                   |           |                   |                      |

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

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

|  | 2005 |      |      | 2006 |     |      |     | 2007 |     |      |     | 2008 |
|--|------|------|------|------|-----|------|-----|------|-----|------|-----|------|
|  | II   | III  | IV   | I    | II  | III  | IV  | I    | II  | III  | IV  | I    |
| <b>A. Activity in the quarter</b>                      |      |      |      |      |     |      |     |      |     |      |     |      |
| 1. Total activity                                      | *0   | *0   | *-5  | *13  | 19  | *7   | 18  | 19   | *7  | 19   | 20  | *-6  |
| of which 2. Buildings                                  | *-5  | *3   | *-8  | *0   | 21  | *10  | 21  | 23   | *-3 | *13  | 17  | *3   |
| 3. Infrastructure                                      | *3   | *-6  | -23  | *17  | *15 | *-12 | 23  | 33   | 30  | *8   | 24  | *-7  |
| 4. Output prices in dollar terms                       | 21   | 65   | 26   | 43   | 28  | 24   | 21  | 21   | 23  | 30   | 38  | 36   |
| 5. Area of building starts (sq. m.)                    | *-13 | *-10 | *-20 | *2   | *-3 | *-5  | *0  | 26   | *-8 | *-10 | *-3 | *-16 |
| 6. Area of building completions (sq. m.)               | -21  | -30  | *-15 | *-7  | *-8 | *0   | *-8 | *6   | *10 | *-10 | *0  | *9   |
| 7. Building time                                       | *13  | 18   | 28   | 17   | *16 | 33   | 16  | 28   | 21  | 27   | 15  | 19   |
| <b>B. Expected activity in the following quarter**</b> | *7   | *-9  | *5   | 33   | 22  | 23   | 20  | 34   | 23  | *6   | 25  | *3   |
| Number of responding companies                         | 44   | 44   | 44   | 46   | 42  | 43   | 41  | 37   | 42  | 33   | 44  | 34   |

<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 2008:I**  
**(percent of all responding companies in each category)**

|  | Net balance |             | Significant Increase | Moderate Increase | No Change | Moderate Decrease | Significant Decrease |
|--|-------------|-------------|----------------------|-------------------|-----------|-------------------|----------------------|
|  | 2007<br>IV  | 2008<br>I   |                      |                   |           |                   |                      |
| <b>A. Activity in the quarter</b>                    |             |             |                      |                   |           |                   |                      |
| 1. Total activity                                    | 20<br>(10)  | -6<br>(13)  | 6                    | 18                | 46        | 18                | 12                   |
| of which Buildings                                   | 17<br>(10)  | 3<br>(14)   | 6                    | 25                | 41        | 19                | 9                    |
| Infrastructure                                       | 24<br>(11)  | -7<br>(12)  | 4                    | 14                | 57        | 21                | 4                    |
| 2. Output prices in dollar terms                     | 38<br>(12)  | 36<br>(13)  | 28                   | 23                | 34        | 9                 | 6                    |
| 3. Area of building starts (sq. m.)                  | -3<br>(12)  | -16<br>(14) | 3                    | 22                | 34        | 28                | 13                   |
| 4. Area of building completions (sq. m.)             | 0<br>(11)   | 9<br>(13)   | 6                    | 25                | 47        | 16                | 6                    |
| 5. Building time                                     | 15<br>(8)   | 19<br>(8)   | 7                    | 15                | 75        | 3                 | 0                    |
| <b>B. Expected activity in the following quarter</b> | 25<br>(11)  | 3<br>(12)   | 6                    | 21                | 49        | 18                | 6                    |
| Number of responding companies                       | 44          | 34          |                      |                   |           |                   |                      |

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

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

|  | 2005 |     |     | 2006 |     |      |     | 2007 |     |     |     | 2008 |
|--|------|-----|-----|------|-----|------|-----|------|-----|-----|-----|------|
|  | II   | III | IV  | I    | II  | III  | IV  | I    | II  | III | IV  | I    |
| <b>A. Activity in the quarter</b>                        |      |     |     |      |     |      |     |      |     |     |     |      |
| 1. Total activity  | 44   | *24 | *16 | 48   | *7  | *6   | *32 | 44   | *31 | 44  | 69  | *30  |
| 2. Sales of services to residents                        | 49   | *3  | *18 | 37   | *16 | 31   | 48  | 47   | *38 | 44  | 68  | *27  |
| 3. Sales of services to nonresidents                     | 53   | *9  | *-2 | *17  | *12 | 27   | *1  | 42   | *9  | *13 | *20 | *-5  |
| 4. Utilization of equipment (capacity utilization, etc.) | 31   | *13 | *24 | 44   | *21 | *-15 | 38  | *49  | 58  | 41  | 45  | *36  |
| <b>B. Expected activity in the following quarter**</b>   | *21  | *16 | *11 | 43   | *38 | 61   | *45 | *48  | *35 | 46  | 59  | 68   |
| Number of responding companies                           | 21   | 24  | 27  | 23   | 21  | 18   | 22  | 24   | 21  | 21  | 24  | 24   |

<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 2008:I  
(percent of all responding companies in each category)

|  | Net balance |           | Significant Increase | Moderate Increase | No Change | Moderate Decrease | Significant Decrease |
|--|-------------|-----------|----------------------|-------------------|-----------|-------------------|----------------------|
|  | 2007<br>IV  | 2008<br>I |                      |                   |           |                   |                      |
| <b>A. Activity in the quarter</b>                        |             |           |                      |                   |           |                   |                      |
| 1. Total activity  | 69          | 30        | 2                    | 44                | 38        | 16                | 0                    |
| 2. Sales of services to residents                        | 68          | 27        | 0                    | 44                | 38        | 18                | 0                    |
| 3. Sales of services to nonresidents                     | *20         | -5        | 3                    | 11                | 68        | 19                | 0                    |
| 4. Utilization of equipment (capacity utilization, etc.) | 45          | 36        | 4                    | 49                | 29        | 18                | 0                    |
| <b>B. Expected activity in the following quarter</b>     | 59          | 68        | 8                    | 68                | 16        | 8                 | 0                    |
| Number of responding companies                           | 24          | 24        |                      |                   |           |                   |                      |

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

## Hotels

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

|  | 2005 |     |    | 2006 |     |     |      | 2007 |      |     |      | 2008 |
|--|------|-----|----|------|-----|-----|------|------|------|-----|------|------|
|  | II   | III | IV | I    | II  | III | IV   | I    | II   | III | IV   | I    |
| <b>A. Activity in the quarter</b>                      |      |     |    |      |     |     |      |      |      |     |      |      |
| 1. Total activity                                      | 82   | 80  | 78 | 80   | 66  | -51 | *-2  | *-13 | *20  | 75  | 73   | 59   |
| 2. Number of bed-nights: Tourists                      | 80   | 85  | 80 | 78   | 64  | -78 | -44  | -31  | *-4  | 65  | 70   | 67   |
| 3. Number of bed-nights: Israelis                      | 20   | *0  | *8 | 22   | *-2 | -25 | *-12 | *-2  | *-11 | *0  | *-18 | *-19 |
| 4. Average revenue per room                            | 66   | 62  | 69 | 78   | 62  | *-6 | *18  | 36   | 23   | 67  | 49   | *24  |
| <b>B. Expected activity in the following quarter**</b> | 69   | 63  | 63 | 64   | 35  | -57 | -22  | 23   | *21  | 62  | 46   | 76   |
| Number of responding companies                         | 51   | 47  | 51 | 55   | 47  | 49  | 50   | 48   | 45   | 40  | 40   | 33   |

<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 2008:I**  
**(percent of all responding companies in each category)**

|  | Net balance |             | Significant Increase | Moderate Increase | No Change | Moderate Decrease | Significant Decrease |
|--|-------------|-------------|----------------------|-------------------|-----------|-------------------|----------------------|
|  | 2007 IV     | 2008 I      |                      |                   |           |                   |                      |
| <b>A. Activity in the quarter</b>                    |             |             |                      |                   |           |                   |                      |
| 1. Total activity                                    | 73<br>(10)  | 59<br>(12)  | 25                   | 47                | 15        | 10                | 3                    |
| 2. Number of bed-nights: Tourists                    | 70<br>(11)  | 67<br>(12)  | 36                   | 43                | 9         | 9                 | 3                    |
| 3. Number of bed-nights: Israelis                    | -18<br>(13) | -19<br>(14) | 0                    | 25                | 31        | 28                | 16                   |
| 4. Average revenue per room                          | 49<br>(11)  | 24<br>(15)  | 6                    | 45                | 22        | 24                | 3                    |
| <b>B. Expected activity in the following quarter</b> | 46<br>(12)  | 76<br>(9)   | 27                   | 52                | 18        | 3                 | 0                    |
| Number of responding companies                       | 40          | 33          |                      |                   |           |                   |                      |

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

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

|  | 2005 |     |     | 2006 |     |     |     | 2007 |     |     |     | 2008 |
|--|------|-----|-----|------|-----|-----|-----|------|-----|-----|-----|------|
|  | II   | III | IV  | I    | II  | III | IV  | I    | II  | III | IV  | I    |
| <b>A. Activity in the quarter</b>                      |      |     |     |      |     |     |     |      |     |     |     |      |
| 1. Total revenue from current activity                 | 17   | 15  | 22  | 27   | 35  | 34  | *10 | 37   | 23  | 37  | 36  | 10   |
| 2. Sales of services in Israel                         | 15   | 14  | 26  | 33   | 36  | 33  | *8  | 36   | 20  | 27  | 33  | *8   |
| 3. Sales of services abroad                            | 29   | 22  | 41  | 26   | 29  | 21  | *26 | 46   | *0  | 33  | 36  | 25   |
| 4. Number of employees                                 | *5   | *5  | 16  | 17   | 24  | 19  | 10  | 13   | 15  | 22  | 25  | 19   |
| 5. of which: trained                                   | *7   | 11  | 17  | 21   | 27  | 12  | *8  | 17   | 17  | 26  | 29  | 21   |
| 6. Number of Israeli workers abroad                    | *0   | 17  | *9  | 22   | 29  | 12  | *0  | 16   | 15  | *7  | *6  | 11   |
| <b>B. Expected activity in the following quarter**</b> |      |     |     |      |     |     |     |      |     |     |     |      |
| 7. Total orders  | 31   | 29  | 28  | 31   | 46  | 39  | 26  | 27   | 42  | 41  | 40  | 17   |
| 8. Export orders                                       | 35   | 47  | 31  | 30   | 31  | *17 | *6  | *13  | 32  | 52  | 29  | 27   |
| Number of responding companies                         | 187  | 177 | 195 | 163  | 178 | 150 | 155 | 151  | 202 | 163 | 188 | 176  |

<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 2008:I**  
**(percent of all responding companies in each category)**

|  | Net balance |            | Significant Increase | Moderate Increase | No Change | Moderate Decrease | Significant Decrease |
|--|-------------|------------|----------------------|-------------------|-----------|-------------------|----------------------|
|  | 2007 IV     | 2008 I     |                      |                   |           |                   |                      |
| <b>A. Activity in the quarter</b>                      |             |            |                      |                   |           |                   |                      |
| 1. Total revenue from current activity                 | 36<br>(5)   | 10<br>(6)  | 4                    | 32                | 38        | 22                | 4                    |
| 2. Sales of services in Israel                         | 33<br>(5)   | 8<br>(6)   | 2                    | 28                | 48        | 18                | 4                    |
| 3. Sales of services abroad                            | 36<br>(9)   | 25<br>(10) | 8                    | 36                | 37        | 10                | 9                    |
| 4. Number of employees                                 | 25<br>(4)   | 19<br>(4)  | 2                    | 25                | 65        | 7                 | 1                    |
| 5. of which: trained                                   | 29<br>(4)   | 21<br>(4)  | 0                    | 26                | 69        | 4                 | 1                    |
| 6. Number of Israeli workers abroad                    | 6<br>(5)    | 11<br>(5)  | 4                    | 9                 | 85        | 2                 | 0                    |
| <b>B. Expected activity in the following quarter**</b> |             |            |                      |                   |           |                   |                      |
| 7. Total orders  | 40<br>(5)   | 17<br>(6)  | 4                    | 34                | 41        | 18                | 3                    |
| 8. Export orders                                       | 29<br>(10)  | 27<br>(10) | 4                    | 38                | 43        | 11                | 4                    |
| Number of responding companies                         | 188         | 176        |                      |                   |           |                   |                      |

\* 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.

Table 15: Manufacturing Industries in 2007:IV and 2008:I

|   | Year | Quarter | Number of responding companies | Total output | Domestic sales | Domestic orders <sup>1</sup> | Actual exports | Export orders <sup>1</sup> | Finished goods | Number of employees |
|---|------|---------|--------------------------------|--------------|----------------|------------------------------|----------------|----------------------------|----------------|---------------------|
|   |      |         |                                |              |                |                              |                |                            |                |                     |
| Mining, quarrying, construction materials, and wood | 2008 | I       | 22                             | -32          | -33            | *5                           | *-9            | *0                         | *0             | *-9                 |
|   | 2007 | IV      | 24                             | *21          | *9             | *10                          | *17            | *15                        | *-14           | 17                  |
| Food and beverages                                  | 2008 | I       | 35                             | 31           | 32             | 43                           | *20            | *11                        | 26             | *3                  |
|   | 2007 | IV      | 38                             | *5           | *5             | 18                           | *8             | 20                         | *5             | *5                  |
| Textiles, clothing, and leather                     | 2008 | I       | 17                             | *0           | *-13           | *6                           | *-6            | -38                        | *0             | *-6                 |
|   | 2007 | IV      | 17                             | *25          | *6             | *-19                         | *20            | *7                         | *18            | *12                 |
| Chemicals, rubber, and plastic                      | 2008 | I       | 37                             | *14          | *6             | *11                          | *19            | *22                        | *11            | *-11                |
|   | 2007 | IV      | 37                             | *16          | *-5            | *6                           | 24             | *18                        | *14            | *14                 |
| Metals and machinery                                | 2008 | I       | 40                             | *15          | *3             | *-16                         | *-13           | *-3                        | *10            | 18                  |
|   | 2007 | IV      | 40                             | 48           | 39             | 24                           | *10            | 24                         | 18             | 20                  |
| Electronics, electricity, and transport equipment   | 2008 | I       | 56                             | *7           | *-4            | *6                           | *13            | *14                        | *12            | 17                  |
|   | 2007 | IV      | 63                             | 31           | 31             | *12                          | 44             | *9                         | 22             | 27                  |
| Paper, printing, and other                          | 2008 | I       | 30                             | *-3          | *-3            | *10                          | *10            | *0                         | *-14           | *-3                 |
|   | 2007 | IV      | 24                             | *8           | *17            | *5                           | 59             | 31                         | *4             | *13                 |
| Total manufacturing industries excluding diamonds   | 2008 | I       | 237                            | *8           | *1             | *8                           | *7             | *5                         | 8              | *4                  |
|   | 2007 | IV      | 243                            | 24           | 17             | 11                           | 28             | 17                         | 12             | 17                  |
| Diamonds  | 2008 | I       | 8                              | -63          | -71            | -57                          | *-13           | *-25                       | *-25           | -50                 |
|   | 2007 | IV      | 9                              | *-44         | *13            | *-13                         | *0             | *-11                       | *-22           | *-11                |
| Total manufacturing industries                      | 2008 | I       | 245                            | *5           | *-1            | *6                           | *6             | *3                         | 7              | *2                  |
|   | 2007 | IV      | 252                            | 21           | 17             | 10                           | 26             | 15                         | 11             | 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, 2008:I**

|                     | Manufacturing companies |       |        |       | Construction companies |       |        |       |      |
|---------------------|-------------------------|-------|--------|-------|------------------------|-------|--------|-------|------|
|                     | Total                   | Small | Middle | Large | Total                  | Small | Middle | Large |      |
| Output              | *5                      | *11   | *-3    | *11   | Total activity         | *-6   | -50    | *-6   | *9   |
| Total sales         | *-1                     | *-7   | *-10   | *9    | Area of starts         | *-16  | *-50   | *-5   | *-22 |
| Domestic sales      | *-1                     | *0    | *-9    | *4    | Area of completions    | *9    | *-25   | *5    | *33  |
| Export              | *6                      | -20   | *4     | *11   | Output prices in \$    | 36    | 50     | *26   | 50   |
| Number of companies | 245                     | 29    | 99     | 117   | Area of completions    | 34    | 4      | 19    | 11   |

<sup>1</sup> 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                   |      |     |      |     |     |      | Transport and Communications               |      |     |      |     |     |      |
|--|------|-----|------|-----|-----|------|--|------|-----|------|-----|-----|------|
|  | 2006 |     | 2007 |     |     | 2008 |  | 2006 |     | 2007 |     |     | 2008 |
|  | IV   | I   | II   | III | IV  | I    |  | IV   | I   | II   | III | IV  | I    |
| <b>Demand constraints</b>                  |      |     |      |     |     |      | <b>Demand constraints</b>                  |      |     |      |     |     |      |
| Volume of export orders                    | 1.0  | 0.9 | 0.9  | 0.9 | 1.0 | 1.2  | Booking by foreign tourists                | 1.9  | 1.4 | 1.0  | 0.7 | 0.5 | 0.5  |
| Volume of domestic orders                  | 1.0  | 0.9 | 0.9  | 0.8 | 0.9 | 1.1  | Booking by Israelis                        | 1.2  | 0.7 | 0.4  | 0.6 | 0.4 | 0.3  |
| <b>Supply constraints</b>                  |      |     |      |     |     |      | <b>Supply constraints</b>                  |      |     |      |     |     |      |
| Machinery and equipment shortage           | 0.4  | 0.4 | 0.5  | 0.4 | 0.5 | 0.4  | Economic and political situation in Israel | 1.9  | 1.5 | 1.1  | 1.0 | 0.7 | 0.8  |
| Financing difficulties                     | 0.6  | 0.5 | 0.5  | 0.5 | 0.5 | 0.6  | Intensification of competition             | 2.1  | 1.7 | 2.0  | 1.9 | 1.5 | 1.4  |
| Labour shortage                            | 0.7  | 0.9 | 0.9  | 0.9 | 1.0 | 0.9  | <b>Supply constraints</b>                  |      |     |      |     |     |      |
|  |      |     |      |     |     |      | Financing difficulties                     |      |     |      |     |     |      |
|  |      |     |      |     |     |      | Labour shortage                            |      |     |      |     |     |      |
|  |      |     |      |     |     |      |  |      |     |      |     |     |      |
| <b>Construction</b>                        |      |     |      |     |     |      | <b>Hotels</b>                              |      |     |      |     |     |      |
|  | 2006 |     | 2007 |     |     | 2008 |  | 2006 |     | 2007 |     |     | 2008 |
|  | IV   | I   | II   | III | IV  | I    |  | IV   | I   | II   | III | IV  | I    |
| <b>Demand constraints</b>                  |      |     |      |     |     |      | <b>Demand constraints</b>                  |      |     |      |     |     |      |
| Volume of demand                           | 1.9  | 1.7 | 1.6  | 1.6 | 1.8 | 1.8  | Booking by foreign tourists                | 2.6  | 2.3 | 2.0  | 1.4 | 1.3 | 1.5  |
| <b>Supply constraints</b>                  |      |     |      |     |     |      | <b>Supply constraints</b>                  |      |     |      |     |     |      |
| Input prices                               | 1.3  | 1.2 | 1.1  | 1.4 | 1.4 | 1.8  | Booking by Israelis                        | 1.4  | 1.0 | 1.2  | 0.9 | 1.1 | 1.3  |
| Financing difficulties                     | 1.4  | 1.2 | 1.1  | 1.0 | 1.6 | 1.2  | Economic and political situation in Israel | 1.9  | 1.5 | 1.5  | 1.1 | 1.0 | 1.3  |
| Labour shortage                            | 2.2  | 2.2 | 2.4  | 2.3 | 2.3 | 2.2  | <b>Supply constraints</b>                  |      |     |      |     |     |      |
| Machinery and equipment shortage           | 0.4  | 0.3 | 0.4  | 0.2 | 0.4 | 0.5  | Financing difficulties                     | 1.6  | 1.1 | 1.0  | 1.3 | 1.3 | 1.4  |
|  |      |     |      |     |     |      | Labour shortage                            |      |     |      |     |     |      |
|  |      |     |      |     |     |      |  |      |     |      |     |     |      |
| <b>Trade</b>                               |      |     |      |     |     |      | <b>Service Industries</b>                  |      |     |      |     |     |      |
|  | 2006 |     | 2007 |     |     | 2008 |  | 2006 |     | 2007 |     |     | 2008 |
|  | IV   | I   | II   | III | IV  | I    |  | IV   | I   | II   | III | IV  | I    |
| <b>Demand constraints</b>                  |      |     |      |     |     |      | <b>Demand constraints</b>                  |      |     |      |     |     |      |
| Volume of orders                           | 0.5  | 0.4 | 0.8  | 0.6 | 0.6 | 0.9  | Economic and political situation in Israel | 1.0  | 0.9 | 0.7  | 0.7 | 0.7 | 0.9  |
| Economic and political situation in Israel | 0.7  | 0.9 | 0.7  | 0.7 | 0.9 | 1.1  | Global Economic situation                  | 0.6  | 0.5 | 0.5  | 0.8 | 0.8 | 1.3  |
| Economic situation in the world            | 0.5  | 0.5 | 0.4  | 0.6 | 0.9 | 1.2  | Intensification of competition             | 1.6  | 1.7 | 1.6  | 1.6 | 1.6 | 1.6  |
| <b>Supply constraints</b>                  |      |     |      |     |     |      | <b>Supply constraints</b>                  |      |     |      |     |     |      |
| Financing difficulties                     | 0.9  | 0.8 | 0.7  | 0.9 | 0.9 | 0.7  | Financing difficulties                     | 0.8  | 0.8 | 0.9  | 0.7 | 0.6 | 0.8  |
| Labour shortage                            | 0.5  | 0.5 | 0.7  | 1.0 | 1.2 | 1.1  | Labour shortage                            | 1.0  | 1.0 | 1.2  | 1.2 | 1.3 | 1.1  |

## APPENDIX

### Explanatory Notes

#### Net balance

This quarterly survey relates to developments in 2008:1 and includes assessments and expectations regarding 2008:2. The survey's findings are based on responses to questionnaires received from companies in the manufacturing, commerce, construction, hotels, transport and communications, and business services industries. The questions are qualitative, that is, 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 an analytical and updated tool that complements the quantitative data.

In all industries except for the hotel industry, 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.

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

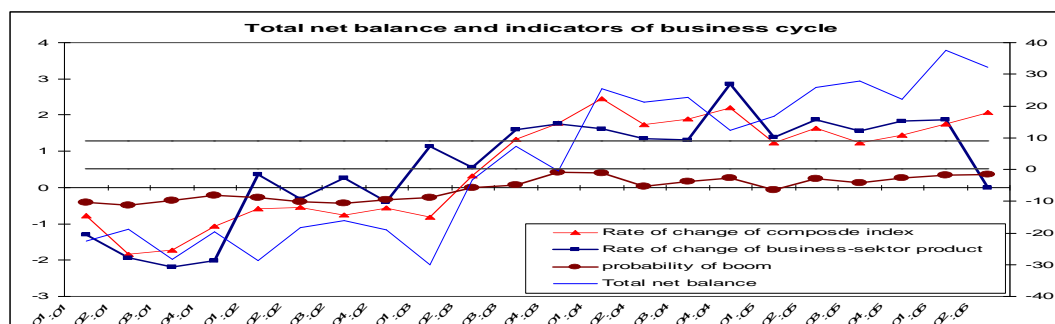
The results are analyzed by means of the net balance, defined as the difference between the percentage of companies reporting an increase and the percentage of those reporting a decrease. A net balance of zero in a particular category shows that there was no change in the level of that category compared with the previous quarter. A negative balance indicates a decrease, and a positive balance, 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 net balances are based on a summary of the answers of all the companies that responded, and not only those that participated in the most recent surveys. The data in all the tables are in terms of percent of the companies that responded.

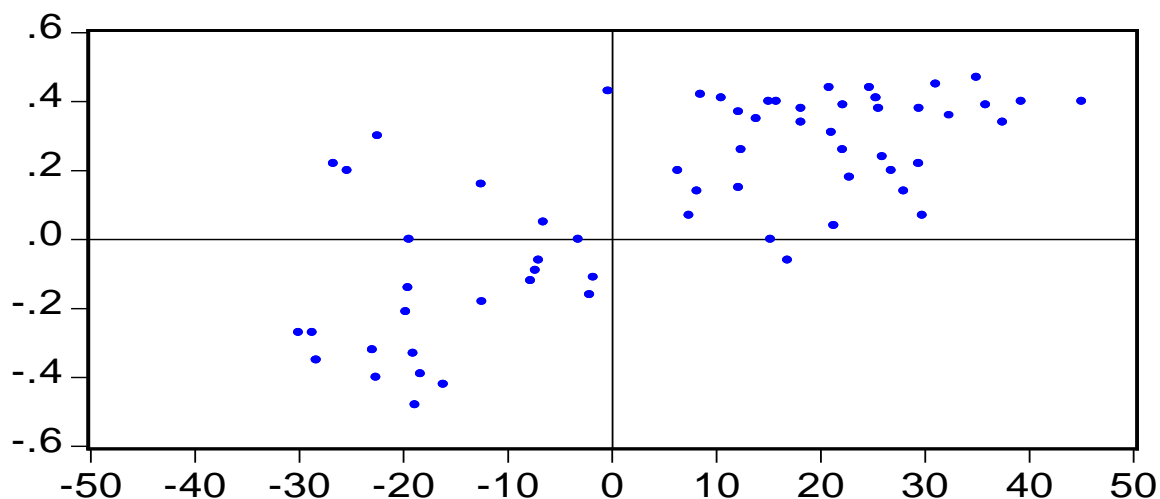
The total net balance is calculated from the seasonally adjusted net balance of the activity in all industries weighted by the share of each industry in total business-sector product. This balance enables the indicators of the business cycle to be predicted successfully. These indicators are classified each quarter into one of three categories: recession, boom, or undefined.

The survey findings show a clear connection between the net balance of activity in the various industries and the change in their activity as published later by the Central Bureau of Statistics. The diagrams shown below illustrate this with regard to the overall balance. When the net balance is positive, the Composite State-of-the-Economy Index and the probability of a recession indicate a boom, and the trend of business-sector product is positive.



The area between 0.25 to 9.05 percent indicates the area in which the balance does not indicate a significant development, above- a boom, below- a recession.

Total net balance of business- sektor product  
and the probability of boom (1991q1 to 2006q2)



The net balances of activities in the transport and communications industry are calculated as the weighted average of the net balances of the separate components of the industry, with each net balance weighted by the share of that component's product in the product of the entire industry. Since the standard deviation of the weighted balance is unobtainable, neither the standard deviation nor the significance of the weighted net balances is shown.

**Rate of success in using total net balance to predict indicators of the business cycle**  
(percent)

| Quarter tending toward | Composite index | Probability of recession | Trend of business-sektor product |
|------------------------|-----------------|--------------------------|----------------------------------|
| Recession              | 72              | 76                       | 64                               |
| Boom                   | 68              | 79                       | 63                               |

Sample period: 1983 III to 2003 IV

The net balances of manufacturing companies, classified by the share of skilled workers in each industry and its degree of innovation (Table 2.10 on page 53 of the Bank of Israel 1999 Annual Report), are shown in Figure 9. The high-tech industries (chemicals, machinery, electrical and electronic equipment) account for 30 percent of the sample. The low-tech industries (food, beverages and tobacco, clothing, textiles and leather, wood, paper and printing, non-metallic minerals, iron, steel and metal products, transport equipment, and diamonds) constitute 55 percent of the sample. The remaining 15 percent consist of medium-tech industries (mining and quarrying, rubber and plastics, and miscellaneous).

## Leading index

The leading index, which is obtained from the Companies Survey, estimates the probability of a slowdown in activity in the following quarter compared with the current quarter, or the probability of a recession in terms of growth cycles. The index is based on a Markov chain statistical model that expresses two situations--a high growth rate or a recession--and four transition possibilities between these situations: from a high rate of growth to a moderate rate, from a moderate to a moderate rate, from a moderate to a high growth rate, and from a high to a high growth rate. The leading index describes the two probabilities of a slowdown in accordance with two possible developments: continued activity at a moderate pace or a switch from rapid growth to a slowdown.

In order to estimate the probability that the pace of growth will moderate, each company's expectations for the following quarter are crossed with their assessment regarding the current quarter, and four dependent modes expressing the change in the existing situation are calculated (Table 1). Accordingly, from the companies that reported an increase in activity for the current quarter, a calculation is made of the percentage of companies expecting the increase to continue in the next quarter and of the percentage of companies expecting their activity to decrease. From the companies reporting a decrease in their activity in the current quarter, a calculation is made of the percentage of companies expecting the decrease to continue in the next quarter and of the percentage of companies expecting their activity to increase. The companies reporting an improvement in their current activity include those that reported an improvement one or two quarters previously and then reported no change. Similarly, the companies reporting a decrease in their current activity include those that reported a decrease one or two quarters previously and then reported no change. This makes it possible to monitor gradual rather than sudden shifts in activity that develop over two to three quarters and not within a single quarter.

The probability of a change in the pace of growth is calculated from the normal probability function based on the parameters in Table 1. In addition, the model assumes dependency between the quarters, so that the forecast for the following quarter is dependent on the estimate that was obtained for the current quarter.

To conclude, the leading index provides an indication of the state of activity in the next quarter.

**Table 1: Averages and Standard Deviations of Dependent Frequencies by Industries in the survey** (sample: 1991-2005)

| Number of companies <sup>b</sup> | Continued slowdown |                    | slowdown-acceleration |                    | Acceleration-slowdown |                    | Continued acceleration |                    | Industry              |
|----------------------------------|--------------------|--------------------|-----------------------|--------------------|-----------------------|--------------------|------------------------|--------------------|-----------------------|
|                                  | average            | standard deviation | average               | standard deviation | average               | standard deviation | average                | standard deviation |                       |
| 257                              | 0.45               | 0.07               | 0.11                  | 0.04               | 0.14                  | 0.04               | 0.30                   | 0.06               | Manufacturing         |
| 33                               | 0.23               | 0.13               | 0.25                  | 0.11               | 0.15                  | 0.08               | 0.37                   | 0.11               | Trade                 |
| 46                               | 0.42               | 0.16               | 0.10                  | 0.10               | 0.12*                 | 0.11               | 0.36                   | 0.14               | Hotels                |
| 20                               | 0.26*              | 0.17               | 0.19*                 | 0.14               | 0.12*                 | 0.10               | 0.43                   | 0.19               | Transport             |
| 41                               | 0.42               | 0.15               | 0.12*                 | 0.09               | 0.06*                 | 0.06               | 0.40                   | 0.13               | Construction          |
| 144                              | 0.35               | 0.10               | 0.15                  | 0.07               | 0.09*                 | 0.06               | 0.41                   | 0.08               | Services <sup>a</sup> |
| 541                              | 0.41               | 0.08               | 0.13                  | 0.05               | 0.13                  | 0.04               | 0.33                   | 0.07               | Total survey          |

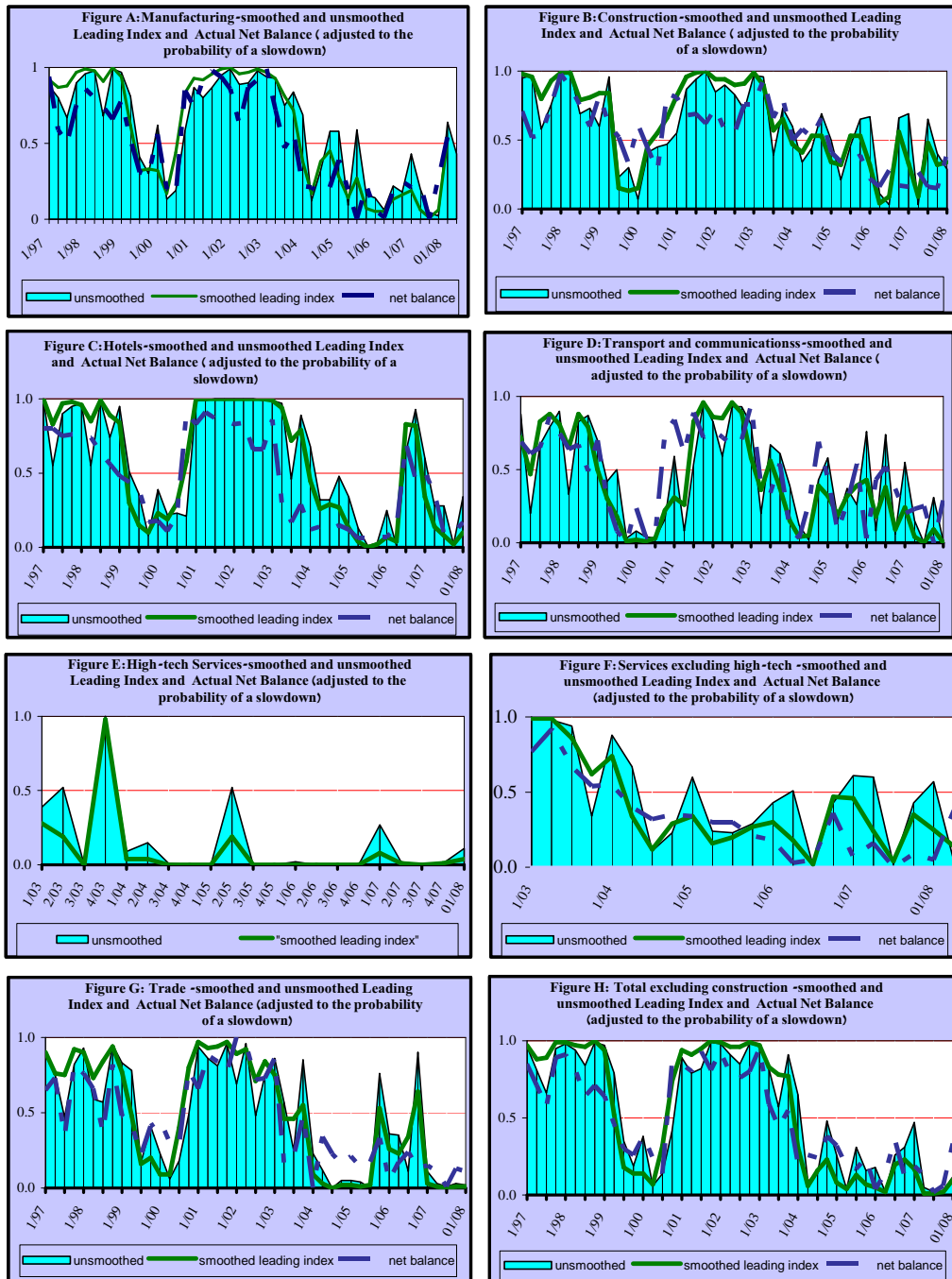
<sup>a</sup> In services the sample is from 1998 only.

The number of companies in this table does not necessarily match that published in the Bank of Israel

<sup>b</sup> Review, as companies that did not report on expectations alongside their report on current activity were excluded.

\* Indicates non-significant result (at 10 percent level).





Actual Net Balance, adjusted to the probability scale, is represented by the hatched line graph and the probability of a slowdown in activity is represented by the line graph and the unsmoothed leading index is represented by the shaded area