



Bank of Israel * Research Department

Companies Survey

Second quarter of 2009

Jerusalem, July 2009
www.bankisrael.org.il

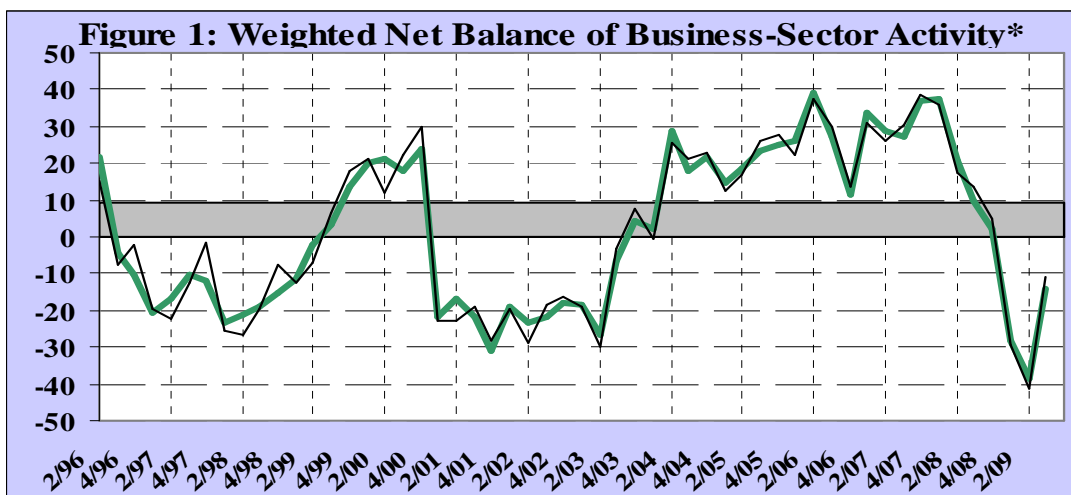


Companies Survey - Second Quarter of 2009– Main Results

Reports from companies and businesses indicate that the rate of contraction of business activity in the second quarter of 2009 has moderated relative to the two previous quarters. In the review quarter the net balance of overall activity in the business sector continued to be negative, but at a more moderate value than that recorded in previous quarters (Figure 1). In all industries, except for construction and communications, the net balance was negative, but at a more moderate value than in the previous quarter. Commerce and construction recorded stability in activity, and communications even recorded an increase in activity. As reported by the companies in the survey, most industries experienced an easing in the severity of demand-side constraints, which still, however, constitute the major constraint for increasing their activity. A slight easing in financing was also recorded in most industries. The leading index of activity reflects expectations of a further decline in activity of the overall business sector, but in some of the industries the expectation is that of an increase. The companies report a substantial increase in the expected level of inflation for the next 12 months, which is already close to the upper limit of the inflation target.

Manufacturing output continued to contract in the second quarter, but at a relatively more moderate rate than in the previous quarter. The continuing contraction at a more moderate rate, is reflected in both domestic sales and in exports. Export orders and those for the domestic market point to a continuing decline in activity in the next quarter as well. In **commerce**, stability in sales was recorded, following declines in the two previous quarters. Expectations are for a significant increase in sales in the next quarter. In **business services**, companies reported a further fall in revenue in the wake of the decrease in activity in Israel, but at a more moderate rate. The companies expect an increase of activity in the industry in the next quarter. In **hotels** the significant downturn in activity has continued, and reflects the sharp decrease in inbound tourism and the more moderate decrease in internal tourism. Expectations are for a continuing decline in activity. **Transport and communications** companies recorded a decrease in activity, particularly in transportation, in which a decrease was recorded in marine and aerial transportation, as opposed to stability in overland transportation. In communications an increase in activity was recorded. Even though the expectation is of an increase in activity in the industry in the next quarter, no easing was recorded in the severity of demand constraints. **Construction** recorded stability following decreases in the previous quarters, as well as an easing in the severity of demand constraints and financing constraints in the industry. Expectations for the next quarter are of increases in activity, but at a moderate rate.

Companies' reports on **employment** indicated a continuing decrease in the number of employees in all industries. Average **expectations of inflation** for the next twelve months have increased substantially, and are approaching the upper limit of the price-stability target— 2.8 percent as opposed to 1.5 percent in the previous survey. The companies expect, on average that the **NIS/\$ exchange rate** will be NIS 4.20 twelve months hence, as against NIS 4.36 in the previous survey. On the other hand, there has been an increase in the percentage of companies that expect inflation in the next twelve months to overshoot the upper limit of the price-stability target (3 percent), from one percent in the previous survey, to 30 percent in the review quarter.



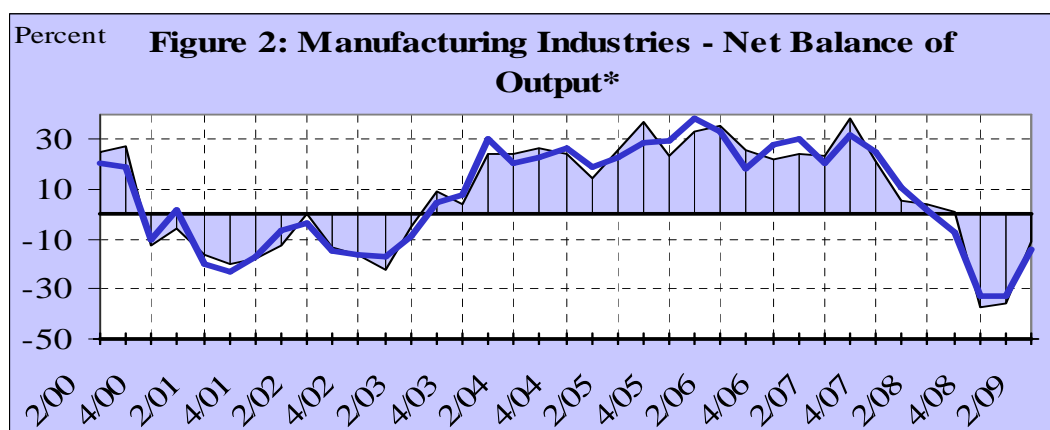
1. Macroeconomic developments

An analysis of the responses of all companies and businesses participating in the survey, with each industry's net balance weighted by its share in business-sector product, shows that in the second quarter of 2009 the decline in activity continued, but at a more moderate intensity and scale over all the industries in Israel's business sector (Figure 1). Activity in most industries contracted—as reflected in their negative net balance. At the same time, however, the construction and commerce industries recorded stability in their activity, and the communications industry even recorded an increase in activity, following declines in the previous quarters.

The leading index of activity in the business sector indicates further moderation in the business sector, even though in the commerce and communications industries, the expectation is of an increase in activity.

2. Industry developments

Reports from manufacturing companies show that the contraction in activity has continued in 2009:Q2, but at a more moderate rate than in the two previous quarters (Table 3 and Figure 2). The moderation in the decline of activity was reflected in the net balance of both domestic sales and exports. The moderation of declines in the industry was also reflected in the development of factors of production: the companies reported slightly more moderate decreases relative to the previous quarter in headcount and a moderation of the decrease in the utilization rate of machinery and equipment. At the same time the companies expect that the decrease in activity in the domestic and the export markets will continue for the next quarter.

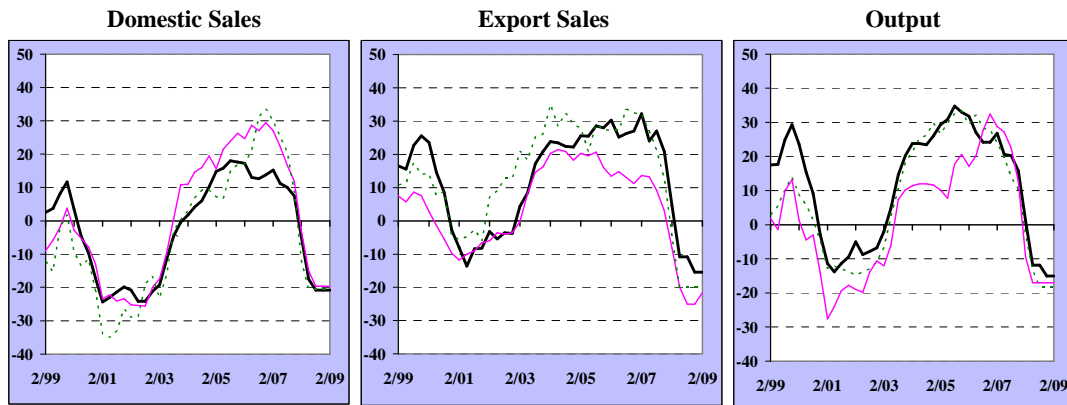


The classification of manufacturing companies into three groups of industries by their degree of technological innovativeness—low-, medium-, and high-tech—shows that the moderation of the decreases in the net balance encompassed mainly the medium-tech group, for which even a moderate increase was recorded, and also hi-tech industries. Overall, the companies expect the decrease in their activity to continue in the next quarter, the most prominent declines being among the low-tech industries (Table 1.1 and Figure 3).

An examination of industries by subcategories (Table 15) shows that most industries experienced a contraction in activity, particularly food and beverages, metals and machinery, paper and printing, and diamonds. As opposed to these, increases were recorded, particularly in sales to the domestic market, in mining and quarrying, chemicals, rubber and plastics. Overall expectations, with the exception of mining and quarrying, are of a continuing decrease in orders for the export and the domestic market.

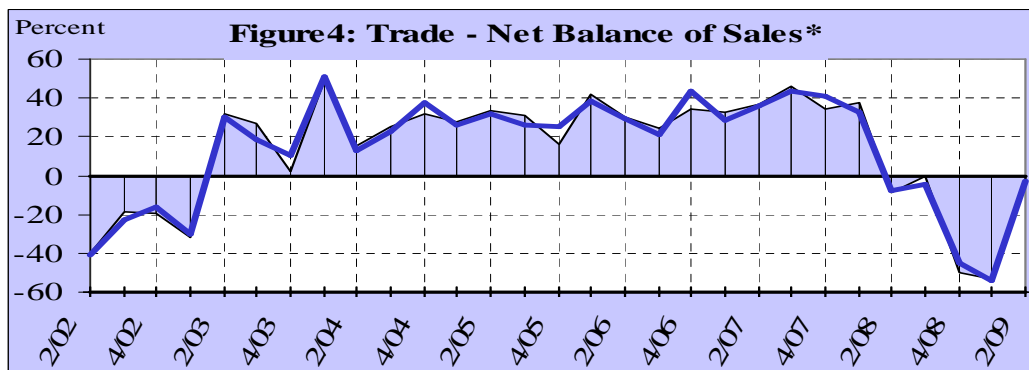
The classification of manufacturing companies by size (number of employees) shows that while the decline in current activity moderated in the large and medium-sized companies, in smaller companies the expectation for the next quarter is that of an intensification of the severity of the decline.

Figure 3: Net Balances of Manufacturing Companies, by Human Capital and Innovation^a

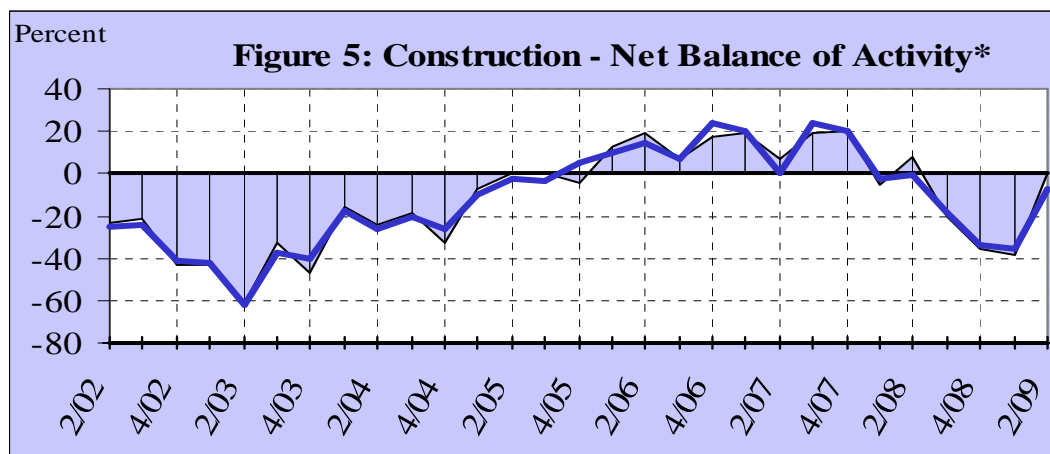


^a Moving average, outlying observations - unadjusted data
 Thick line - advanced industries
 Thin line - traditional industries
 Dotted line - mixed industries

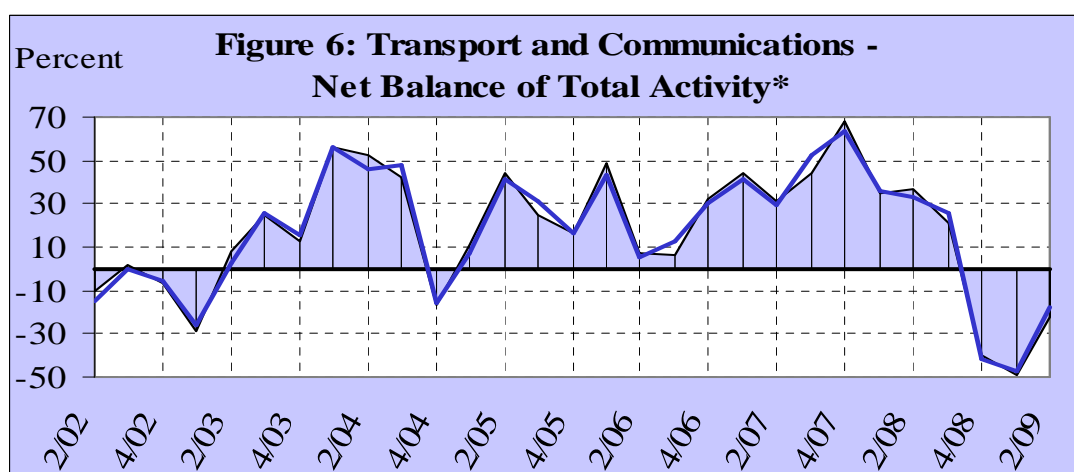
According to the reports of companies in commerce, the volume of sales stabilized in the second quarter, following the fall of the previous quarter. In light of the fall in sales in recent quarters, the companies in commerce expect a further decrease in the number of employees in the industry. The companies do, however, expect a rise in sales in the next quarter (Table 5 and Figure 4). This possible rise in activity is consistent with the easing in the severity of demand-side constraints, relative to their average level in the two previous quarters (Table 17 and Figure 9a).



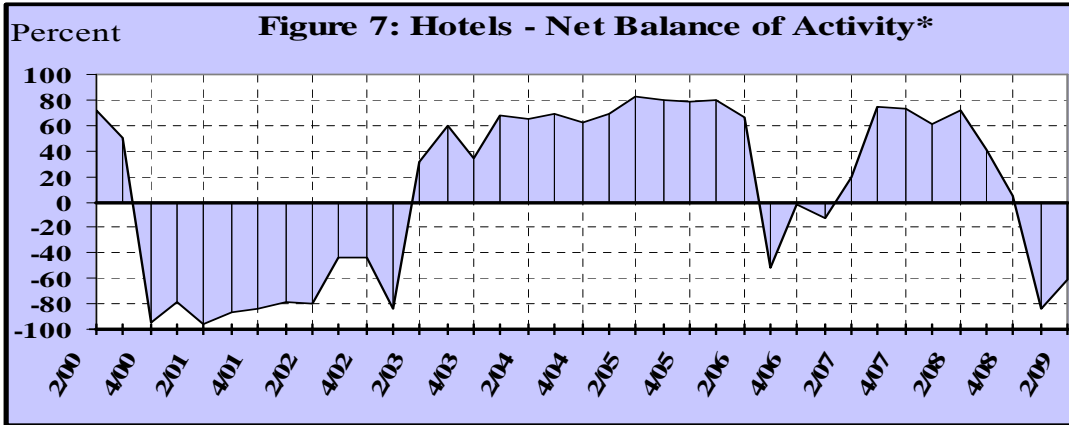
Construction companies reported stability in activity in the review quarter, following a decline in the previous three quarters (Table 7 and Figure 5). The stability in activity is reflected in both building construction and infrastructure construction. According to the companies' reports, the increase in activity has been accompanied by an easing in the severity of both demand-side constraints and financing constraints in the industry. The increase in activity has encompassed the medium-sized companies; the smaller companies have recorded a stable situation, while the large companies have recorded decreases. Expectations are of a moderate increase in activity in the next quarter, especially among medium-sized and small companies.



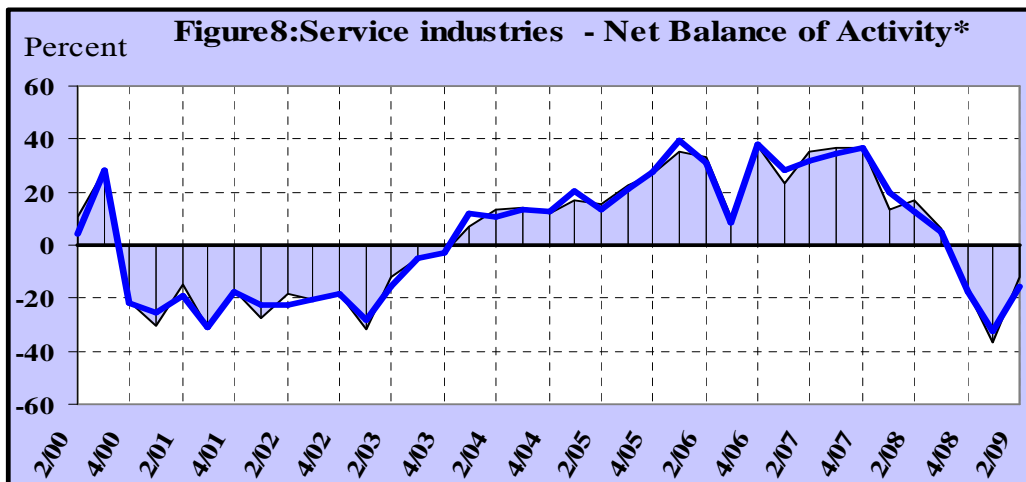
Reports from transport and communications companies indicate that activity contracted in the review quarter, but at a more moderate rate than in previous quarters. The source of the contraction is mainly the decreased volume of aerial and marine transportation, while overland transportation remained stable and communications services recorded an increase in activity (Table 9 and Figure 6). An analysis of the severity of the constraints for further growth points to a worsening in financing possibilities and the absence of positive change in demand-side constraints for transportation (Table 17 and Figure 9a.). Against this, the companies expect their activities to increase in the next quarter.



For the second consecutive quarter, companies in the hotel industry reported a sharp decline in activity (relative to the year-earlier quarter; Table 11 and Figure 7). The number of inbound-tourist bed-nights continued to decrease in the review quarter, and the severity of the demand constraints, which include local and inbound tourists, continued to be high in relation to the past two years. The companies expect a continuing decline in the next quarter, as reflected in the pronounced decrease in the volume of reservations requested.



Reports from business-services companies indicate a further decline in activity, but at a more moderate rate, arising from a fall in sales in Israel and a slight rise in sales of services abroad (Table 13 and Figure 8). This moderation is also evident in a decrease in the severity of demand constraints (Table 17 and Figure 9). On the other hand, the number of employees continued to fall in the review quarter as well. Expectations in this industry are of an increase in orders from abroad, and a fall in domestic sales in the next quarter.

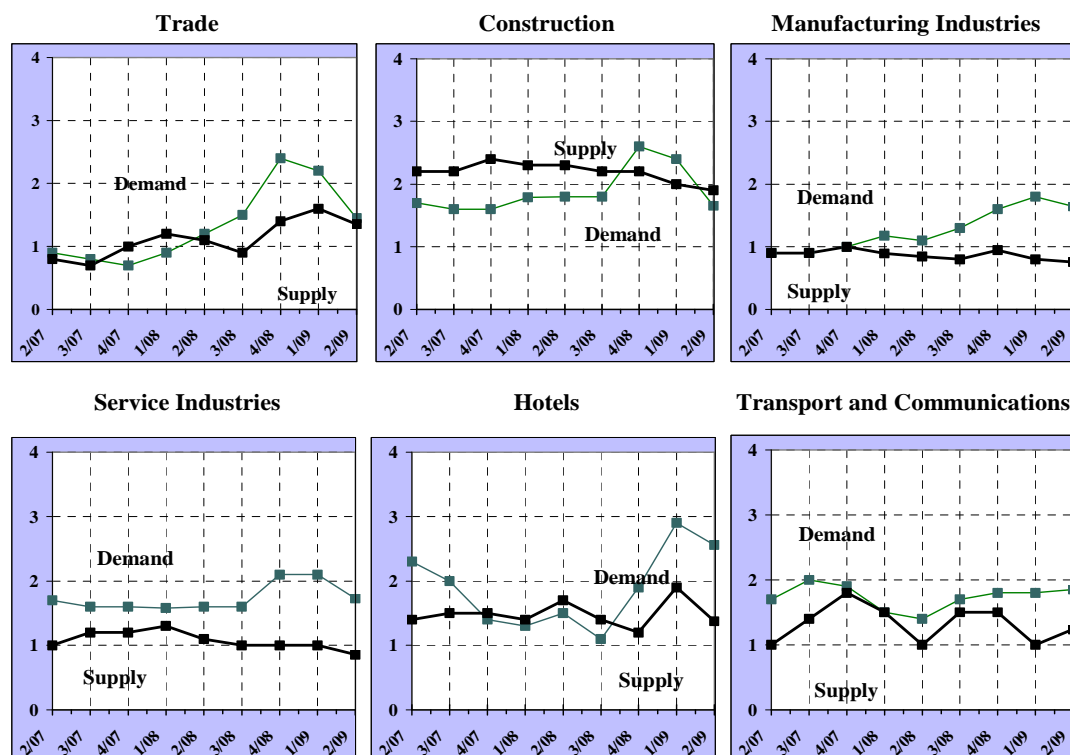


	2006		2007				2008				2009	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
Industry (output)	26	22	24	24	38	21	*6	*4	*1	-37	-36	-11
seasonally adjusted	18	28	30	21	32	25	11	*1	*7	-33	-32	-14
Trade (sales)	*24	34	32	37	46	34	38	*-8	*0	-50	-53	*-3
seasonally adjusted	*21	44	29	36	43	41	33	*8	*5	-45	-55	*3
Construction (total activity)	*7	18	19	*7	19	20	*-6	*8	-20	-35	-39	*0
seasonally adjusted	*7	24	20	*1	24	21	*3	*0	*19	-33	-36	*8
Transport and communications (total activity)**	6	32	44	31	44	69	35	37	33	-40	-49	*-22
seasonally adjusted	13	30	41	30	52	64	36	33	33	-46	-47	*-17
Hotels (total activity)***	-51	-2	-13	20	75	73	61	72	40	5	-83	-61
Service industries	10	37	23	35	37	36	14	17	6	-17	-36	-12
seasonally adjusted	*9	38	28	32	35	37	20	13	*5	-17	-33	-16
Total business sector	14	31	26	30	39	36	17	13	5	-29	-41	-11
seasonally adjusted	12	34	29	27	37	37	21	10	2	-28	-38	-14

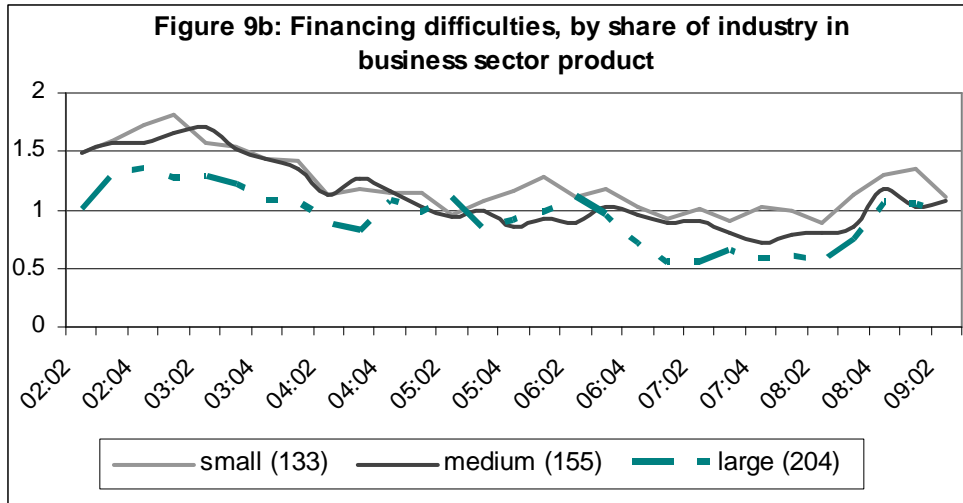
	2006		2007				2008				2009	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
Advanced companies	17	31	18	22	33	30	*9	16	*2	-41	-34	*-5
Mixed companies	*18	*8	24	49	63	*14	*0	*3	*18	-48	-37	*21
Traditional companies	36	20	30	17	35	17	*5	*-5	*-6	-31	-36	-24

* 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 9a: The severity of constraints on carrying out planned activity (average)¹
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.

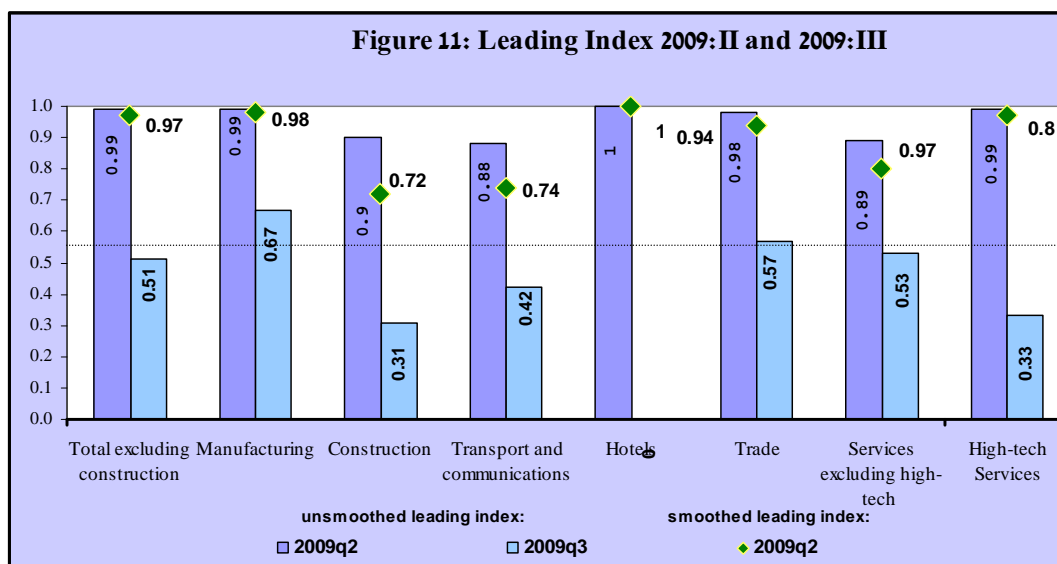
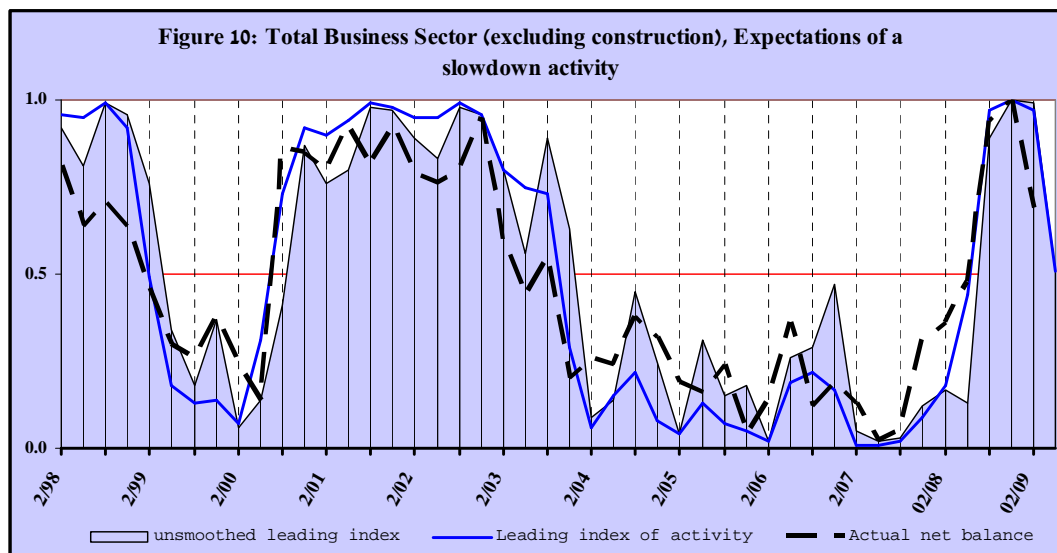


The leading index

The leading index (excluding construction) in this survey foresees a further decline in business-sector activity in the third quarter of 2009. Already in the third quarter of 2008, the leading index expected a decline in activity, which was realized in the following quarter. These expectations later intensified, and in the previous quarter the leading index already approached one, and almost certainly expects a decrease in the volume of activity. In the review quarter the probability of recession decreased substantially, but is still significant and slightly higher than 0.5.¹ This value reflects the moderation in the category of orders and the expectations of activity for the next quarter relative to the very negative net balances of activity in the current quarter.

In addition to the leading index, which is calculated at the level of the business sector (Figure 11), the index is also calculated for each of the six industries covered in the survey and for the high-tech-services industry (Figure 10 and Diagrams A-H in the Appendix). The leading indices in this survey suggest that activity will continue to decline in all industries, except for commerce, communications and high-tech services. At the same time, because of the small number of observations in the industrial-developments analysis, this conclusion should generally be viewed with caution, and especially in relation to the leading index, which is not smoothed.

¹ 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.



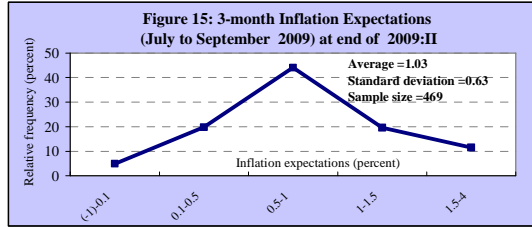
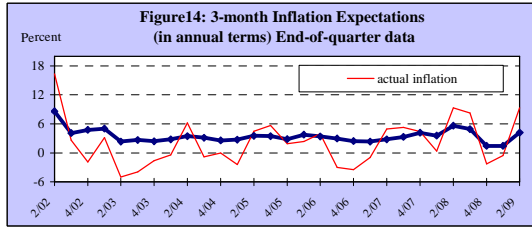
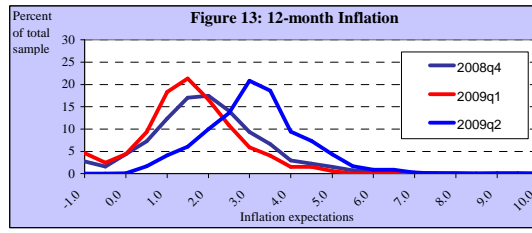
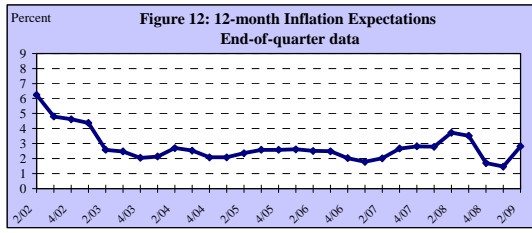
Survey of inflation expectations

Companies' expectations about the cumulative rate of price increases during the next twelve months (July 2009–June 2010) rose sharply to 2.8 percent, as opposed to 1.5 percent in the previous quarter, and are approaching the upper limit of the inflation target. This increase in inflation in the current survey follows a decline in the inflation-expectations environment that was recorded in the previous two quarters (Figure 12 and Table 2).

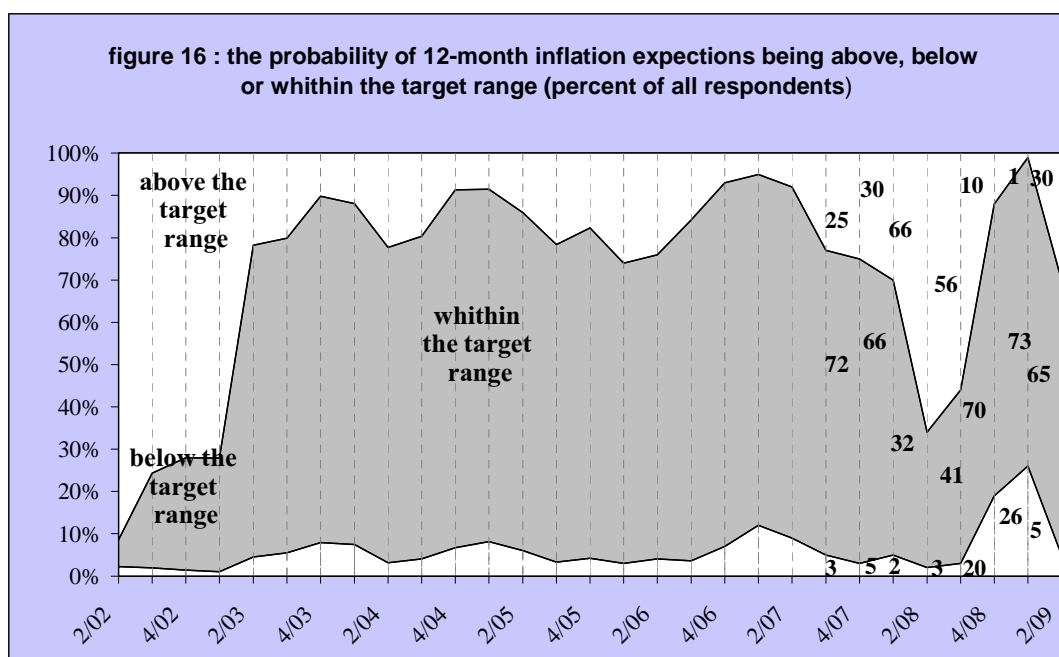
Parallel to the average increase in expectations of inflation for the next 12 months, the inflation-expectations distribution also attests to an assessment in a similar direction of price rises—the median of the distribution in this quarter rose sharply to 3.0 percent, and the mode rose as well to 3.0 percent, the upper limit of the inflation target. The variance of the expectations decreased, and is relatively less than its level in the four previous quarters (Figure 13). The expected rate of price increases in the next quarter (July–September 2009) rose significantly to an annualized level of 4 percent, as opposed to 1.5 percent in the previous survey (Figure 14). It appears that part of the increase in expectations of inflation is connected to government decisions during past two months: a tax on cigarettes and fuel, a water levy in the wake of the drought, and the increase in VAT by one

percentage point, which will lead to price increases, at least in the short term.

The inflation-expectations survey also shows that the share of companies that expected the inflation rate to overshoot the lower limit of the price-stability target² fell significantly this quarter to 5 percent, as opposed 26 percent in the previous quarter (the bottom section of Figure 16). The proportion of companies that expected inflation in the next twelve months to fall within the price-stability target decreased from 73 percent in the previous quarter to 65 percent in this quarter (the middle section in Figure 16). The proportion of companies expecting inflation in the next twelve months to overshoot the price-stability target grew substantially from one percent in the previous survey to 30 percent in the current survey (the upper section of the Figure).



² 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.

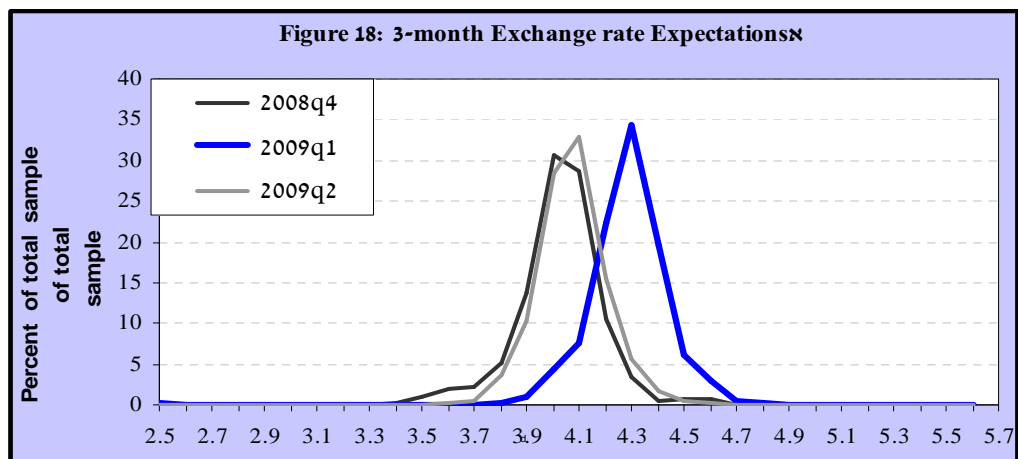
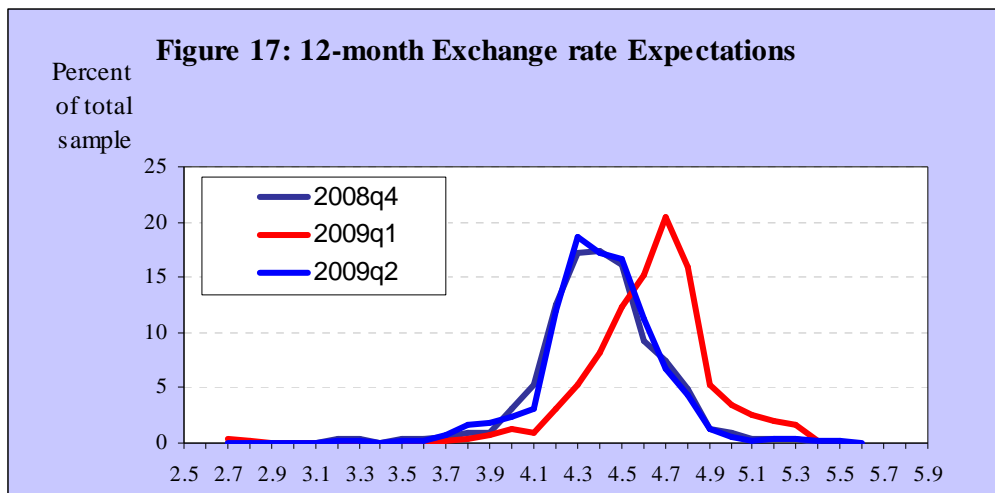
Table 2: Statistic Analysis of 12-month Inflation Expectations

	2006		2007				2008				2009	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
1. Mode	2.00	2.00	2.00	2.00	3.00	3.00	3.00	4.00	3.00	2.00	1.00	3.00
2. Median	2.50	2.00	1.70	2.00	2.50	2.80	2.90	3.80	3.50	1.50	1.25	3.00
3. Average	2.47	2.01	1.78	2.02	2.67	2.77	2.69	3.70	3.52	1.70	1.47	2.81
4. Standard Deviation	1.02	0.99	0.91	0.93	1.09	0.92	1.04	1.42	1.44	1.37	1.31	1.19
5. Skewness	0.47	0.01	-0.22	0.02	-0.33	-0.23	-0.31	-0.30	-0.30	-0.30	0.47	-0.19
Number of responding companies	469	469	456	487	413	504	483	472	490	470	466	472

is the difference between average and mode *

Expectations regarding changes in the NIS/dollar exchange rate

The companies and businesses participating in the survey were asked about their expectations of the level of the NIS/\$ exchange rate at the end of the next quarter (September 30, 2009) and one year from the end of the survey period (June 30, 2010). The latter expectation (end of June, 2010) was NIS 4.20 as against NIS 4.36 in the previous survey. The variance in expectations to twelve months ahead showed a slight decrease (Figure 17). The exchange rate that the companies expected (on average) to see at the end of the next quarter was NIS 4.02 as against NIS 4.22 in the previous quarter. Note that the average exchange rate at the time the companies completed the survey questionnaire was NIS 3.94.



Manufacturing Industries

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

	2006		2007				2008				2009	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
1. Output	26	22	24	24	38	21	*6	*4	*1	-37	-36	-11
2. Sales	27	25	23	26	33	26	*-1	*7	*-1	-46	-41	-14
3. Domestic sales	23	22	19	26	31	17	*-1	*0	*-5	-42	-42	-16
4. Export	11	22	16	25	29	26	*5	*8	*-4	-42	-42	-17
5. Stocks of finished goods	10	9	12	15	22	18	9	9	*4	*-8	-26	-22
6. Stocks of raw materials	12	*4	7	*6	17	11	10	*6	11	*3	-16	-19
7. Rate of utilization of machinery and equipment	13	14	14	17	25	8	*-2	*-3	-8	-39	-43	-21
8. Number of employees	9	11	10	15	15	16	*2	*-3	*-5	-36	-43	-25
9. Domestic orders	9	*6	12	16	15	10	*5	*-2	-23	-50	-45	-16
10. Export orders	10	17	21	22	28	15	*4	9	-11	-45	-47	-20
Number of responding companies	261	250	251	237	220	252	270	265	272	271	249	229

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 2009:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009	2009					
	I	II					
A. Activity in the quarter							
1. Output	-36 (5)	-11 (5)	4	24	33	27	12
2. Sales	-41 (5)	-14 (6)	4	28	22	32	14
3. Domestic sales	-42 (5)	-16 (5)	3	23	32	29	13
4. Export	-42 (6)	-17 (6)	4	20	35	24	17
5. Stocks of raw materials	-26 (5)	-22 (5)	1	15	46	31	7
6. Stocks of finished goods	-16 (5)	-19 (5)	3	13	49	29	6
7. Rate of utilization of machinery and equipment	-43 (5)	-21 (5)	2	17	41	29	11
8. Number of employees	-43 (4)	-25 (4)	0	7	61	28	4
B. Expected activity in the following quarter**							
9. Domestic orders	-45 (5)	-16 (5)	1	19	44	26	10
10. Export orders	-47 (5)	-20 (6)	1	22	34	27	16
Number of responding companies	249	229					

** 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)¹

	2006		2007				2008				2009	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Sales	*24	34	32	37	46	34	38	*-8	*0	-50	-53	*-3
2. End-of-quarter stock	*18	*17	24	37	30	34	*16	*17	*9	*-17	*-16	*-19
3. Percent of credit sales	*-3	*3	21	27	17	22	25	19	*12	*11	*3	*13
4. Supply period	*4	0	15	15	14	*3	*6	*0	*3	-9	-10	*-4
B. Expected activity in the following quarter												
5. Forecast change in number of permanent employees	*3	*0	9	*7	*8	16	*9	*6	*-17	-53	-55	-26
6. Sales expectations	*-3	39	47	73	57	63	*22	53	*-3	-35	-38	*16
Number of responding companies	29	29	34	30	24	32	32	36	36	36	32	31

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 2009:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009	2009					
	I	II					
A. Activity in the quarter							
1. Sales	-53 (13)	-3 (16)	7	32	19	29	13
2. End-of-quarter stock	-16 (14)	-19 (13)	0	19	43	25	13
3. Percent of credit sales	3 (9)	13 (11)	7	19	61	13	0
4. Supply period	-10 (5)	-4 (10)	4	7	74	8	7
B. Expected activity in the following quarter							
5. Forecast change in number of permanent employees	-55 (10)	-26 (9)	0	3	68	29	0
6. Sales expectations for following quarter	-38 (15)	16 (14)	3	36	38	20	3
Number of responding companies	32	31					

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)¹

	2006		2007				2008				2009	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	19	*7	18	19	*7	19	20	*-6	*8	-20	-39	*3
of which 2. Buildings	21	*10	21	23	*-3	*13	17	*3	*0	*-6	-48	*0
3. Infrastructure	*15	*-12	23	33	30	*8	24	*-7	*9	-30	-48	*-4
4. Output prices in dollar terms	28	24	21	21	23	30	38	40	49	26	-34	*18
5. Area of building starts (sq. m.)	*-3	*-5	*0	26	*-8	*-10	*-3	*-12	*-5	-40	-43	*-3
6. Area of building completions (sq. m.)	*-8	*0	*-8	*6	*10	*-10	*0	*9	*5	*-3	-34	*-3
7. Building time	*16	33	16	28	21	27	15	18	*8	26	*0	*3
B. Expected activity in the following quarter**	22	23	20	34	23	*6	25	*3	*-5	-22	-30	*6
Number of responding companies	42	43	41	37	42	33	44	36	41	36	37	34

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 2009:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 I	2009 II					
A. Activity in the quarter							
1. Total activity	-39 (11)	3 (12)	0	26	51	23	0
of which Buildings	-48 (11)	0 (14)	0	30	40	30	0
Infrastructure	-48 (9)	-4 (9)	0	8	80	12	0
2. Output prices in dollar terms	-34 (10)	18 (11)	0	32	54	14	0
3. Area of building starts (sq. m.)	-43 (13)	-3 (14)	0	28	41	12	19
4. Area of building completions (sq. m.)	-34 (9)	-3 (8)	0	9	79	12	0
5. Building time	0 (8)	3 (9)	0	13	77	10	0
B. Expected activity in the following quarter	-30 (12)	6 (15)	0	37	32	25	6
Number of responding companies	37	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

	2006		2007				2008				2009	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	*6	*32	44	*31	44	69	*35	37	*21	-40	-49	*-22
2. Sales of services to residents	31	48	47	*38	44	68	*32	*38	*30	-44	-1	*-18
3. Sales of services to nonresidents	27	*1	42	*9	*13	*20	*-6	*-10	16	-11	-40	*-13
4. Utilization of equipment (capacity utilization, etc.)	*-15	38	*49	58	41	45	*39	36	*17	-44	-56	*-9
B. Expected activity in the following quarter**	61	*45	*48	*35	46	59	72	34	*7	*-41	*-10	*13
Number of responding companies	18	22	24	21	21	24	28	20	25	30	27	27

¹The 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 2009:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009	2009					
	I	II					
A. Activity in the quarter							
1. Total activity	-49	-22	3	23	26	37	12
2. Sales of services to residents	-1	-18	3	27	22	35	12
3. Sales of services to nonresidents	-40	-13	0	18	52	13	18
4. Utilization of equipment (capacity utilization, etc.)	-56	-9	3	20	46	14	17
B. Expected activity in the following quarter	*-10	13	9	23	50	6	12
Number of responding companies	27	27					

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)¹
(compared with equivalent period last year)

	2006			2007				2008				2009
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	-51	*-2	*-13	*20	75	73	61	72	40	*5	-83	-61
2. Number of bed-nights: Tourists	-78	-44	-31	*-4	65	70	70	85	45	*10	-85	-78
3. Number of bed-nights: Israelis	-25	*-12	*-2	*-11	*0	*-18	*-8	*0	*13	-45	-73	*-22
4. Average revenue per room	*-6	*18	36	23	67	49	24	26	26	43	*0	*3
B. Expected activity in the following quarter**	-57	-22	23	*21	62	46	76	63	*2	-70	-88	-70
Bookings for next quarter of foreign tourists												-75
Bookings for next quarter of Israelis												-64
Number of responding companies	49	50	48	45	40	40	37	39	47	40	42	37

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 2009:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	I	II					
	אזרחי	תושבי					
A. Activity in the quarter							
1. Total activity	-83 (7)	-61 (13)	3	14	5	45	33
2. Number of bed-nights: Tourists	-85 (7)	-78 (9)	3	5	6	27	59
3. Number of bed-nights: Israelis	-73 (10)	-22 (14)	8	19	24	43	6
4. Average revenue per room	0 (15)	3 (16)	19	27	11	32	11
B. Expected activity in the following quarter	-88 (6)						
Bookings for next quarter of foreign tourists		-75 (10)	3	5	9	33	50
Bookings for next quarter of Israelis		-64 (9)	3	0	30	31	36
Number of responding companies	42	37					

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)¹

	2006		2007				2008				2009	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total revenue from current activity	34	*10	37	23	37	36	14	17	*6	-17	-36	-11
2. Sales of services in Israel	33	*8	36	20	27	33	10	16	*4	-16	-38	-19
3. Sales of services abroad	21	*26	46	*0	33	36	18	21	*1	*-13	-38	*5
4. Number of employees	19	10	13	15	22	25	21	12	*7	-16	-29	-14
5. of which: trained	12	*8	17	17	26	29	24	14	*6	-10	-25	-12
6. Number of Israeli workers abroad	12	*0	16	15	*7	*6	9	*-3	*0	*-1	-16	-13
B. Expected activity in the following quarter**												
7. Total orders	39	26	27	42	41	40	23	25	*-2	-38	-25	*5
8. Export orders	*17	*6	*13	32	52	29	36	22	*8	-36	-23	23
Number of responding companies	150	155	151	202	163	188	197	191	188	204	185	171

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

* Not significant (at the 10% level).

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

Table 14
Service industries in 2009:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 I	2009 II					
A. Activity in the quarter							
1. Total revenue from current activity	-36 (6)	-11 (6)	5	17	45	17	16
2. Sales of services in Israel	-38 (5)	-19 (5)	2	13	51	20	14
3. Sales of services abroad	-38 (9)	5 (12)	12	23	35	21	9
4. Number of employees	-29 (5)	-14 (5)	0	15	56	26	3
5. of which: trained	-25 (5)	-12 (5)	0	12	64	21	3
6. Number of Israeli workers abroad	-16 (5)	-13 (6)	0	2	83	11	4
B. Expected activity in the following quarter**							
7. Total orders	-25 (6)	5 (6)	3	29	41	25	2
8. Export orders	-23 (11)	23 (12)	10	35	33	17	5
Number of responding companies	185	171					

* 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 2009:I and 2009:II

			Number of	Total	Domestic	Domestic	Actual	Export	Finished	Number
	2009	II	responding							
	2009	I	companies							employees
Mining, quarrying, construction materials, and wood	2009	II	21	*24	*14	*0	*10	*0	*-5	*-10
	2009	I	27	-33	-41	-26	-67	-58	*-15	-44
Food and beverages	2009	II	28	-27	-24	*-16	*-21	*-13	-26	-13
	2009	I	41	*-5	*-3	-24	*-15	-33	*-12	-20
Textiles, clothing, and leather	2009	II	17	*-33	*-19	*-7	*-21	-36	-47	-38
	2009	I	16	-53	-60	-60	-47	-57	*-31	-56
Chemicals, rubber, and plastic	2009	II	40	30	*5	*-13	*0	*-12	*-5	*-8
	2009	I	44	-41	-45	-35	-35	-34	*-12	-36
Metals and machinery	2009	II	38	-39	-39	-37	-52	-55	-29	-50
	2009	I	38	-66	-77	-74	-58	-66	*-11	-55
Electronics, electricity, and transport equipment	2009	II	49	*-10	-17	*-14	*-3	*-3	-23	-29
	2009	I	59	-28	-40	-45	-40	-48	-19	-51
Paper, printing, and other	2009	II	22	-35	*-24	*-15	*-27	*-9	*0	-24
	2009	I	17	-38	-38	-71	-45	-45	-31	-41
Total manufacturing industries excluding diamonds	2009	II	225	-11	-16	-16	-17	-19	-19	-24
	2009	I	242	-35	-41	-45	-41	-47	-16	-43
Diamonds	2009	II	4	*0	*0	*0	*-25	*-25	*0	-50
	2009	I	7	-57	-50	-50	-57	-57	*14	-57
Total manufacturing industries	2009	II	229	-11	-16	-16	-17	-20	-19	-25
	2009	I	249	-36	-42	-45	-42	-47	-16	-43

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, 2009:II

	Manufacturing companies				Construction companies				
	Total	Small	Middle	Large	Total	Small	Middle	Large	
Output	-11	-4.3	*-13	*-4	Total activity	*3	*0	*20	*-13
Total sales	-14	-55	*-13	*-8	Area of starts	*-3	*0	*0	*-7
Domestic sales	-16	-41	-17	*-10	Area of completions	*-3	*25	*-14	*0
Export	-17	-58	-23	*-9	Output prices in \$	*18	50	*0	27
Number of companies	229	22	90	117	Area of completions	34	4	15	15

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						
	2008				2009	
	I	II	III	IV	I	II
Demand constraints						
Volume of export orders	1.2	1.1	1.3	1.6	1.8	1.6
Volume of domestic orders	1.1	1.0	1.3	1.4	1.6	1.5
Supply constraints						
Machinery and equipment shortage	0.4	0.4	0.4	0.2	0.2	0.2
Financing difficulties	0.6	0.7	0.8	0.9	0.8	0.8
Labour shortage	0.9	0.8	0.8	0.4	0.4	0.5

Transport and Communications						
	2008				2009	
	I	II	III	IV	I	II
Demand constraints						
Booking by foreign tourists	0.5	0.5	0.8	0.6	1.0	0.9
Booking by Israelis	0.4	0.3	0.5	0.5	0.4	0.6
Economic and political situation in Israel	0.7	0.8	1.2	1.8	1.4	1.4
Intensification of competition	1.5	1.4	1.7	1.7	1.8	1.9
Supply constraints						
Financing difficulties	0.5	0.7	0.9	1.5	1.0	1.2
Labour shortage	1.5	1.0	1.5	1.0	0.6	0.7

Construction						
	2008				2009	
	I	II	III	IV	I	II
Demand constraints						
Volume of demand	1.8	1.8	1.8	2.6	2.4	1.7
Supply constraints						
Input prices	1.4	1.8	1.7	1.0	0.8	1.2
Financing difficulties	1.6	1.2	1.7	2.0	1.9	1.7
Labour shortage	2.3	2.2	2.2	1.8	1.7	1.9
Machinery and equipment shortage	0.4	0.5	0.5	0.5	0.2	0.3

Hotels						
	2008				2009	
	I	II	III	IV	I	II
Demand constraints						
Booking by foreign tourists	1.3	1.5	1.1	1.9	2.9	2.6
Booking by Israelis	1.1	1.3	1.0	1.7	2.2	1.8
Economic and political situation in Israel	1.0	1.3	1.0	1.9	2.5	2.1
Supply constraints						
Financing difficulties	1.3	1.4	1.0	1.2	1.9	1.4
Labour shortage	1.4	1.7	1.4	1.0	0.7	1.0

Trade						
	2008				2009	
	I	II	III	IV	I	II
Demand constraints						
Volume of orders	0.6	0.9	0.5	0.2	0.6	0.3
Economic and political situation in Israel	0.9	1.1	1.3	2.0	2.2	1.5
Economic situation in the world	0.9	1.2	1.5	2.4	2.2	1.4
Supply constraints						
Financing difficulties	0.9	0.7	0.9	1.4	1.6	1.4
Labour shortage	1.2	1.1	0.8	0.5	0.4	0.6

Service Industries						
	2008				2009	
	I	II	III	IV	I	II
Demand constraints						
Economic and political situation in Israel	0.7	0.9	0.9	1.3	1.3	1.1
Global Economic situation	0.8	1.3	1.6	2.1	2.1	1.7
Intensification of competition	1.6	1.6	1.5	1.6	1.8	1.6
Supply constraints						
Financing difficulties	0.6	0.8	0.8	1.0	1.0	0.9
Labour shortage	1.3	1.1	1.0	0.7	0.5	0.6

APPENDIX

Notes to the Survey

Net balance

This quarterly survey relates to developments in 2009:Q1 and includes assessments and expectations regarding 2009:Q2. Its findings are based on responses to questionnaires completed by companies and businesses in the manufacturing, commerce, construction, hotels, transport and communications, and business services industries. The questions are qualitative, that is, the companies were asked to report on the direction of changes in the different variables (increase, decrease, or no change) and the degree of change (great, slight). The survey is intended to serve decision-makers as an updated analytical tool that complements the quantitative data.

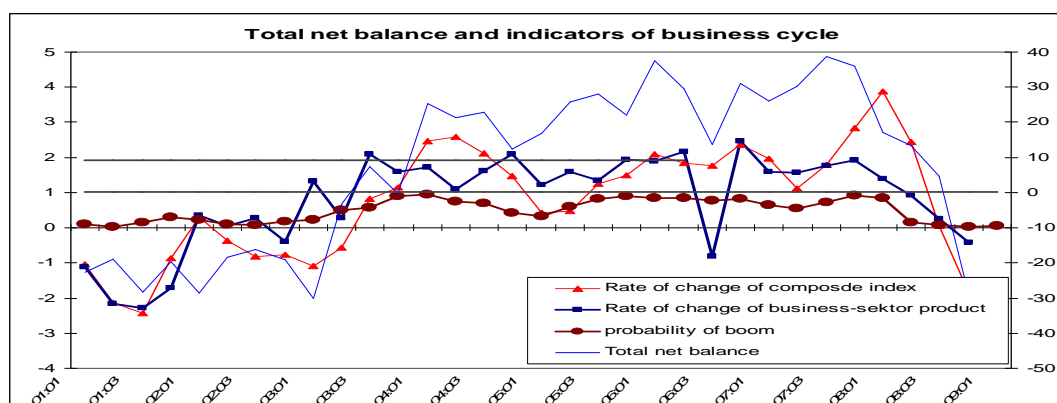
In all industries except for the hotel industry, companies were asked to indicate the actual change compared with the previous quarter, without seasonal or other adjustments. In the hotel industry, companies were asked to report the change from the year-earlier quarter. Although the results are not weighted by company size, in the analysis of the results in manufacturing 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.

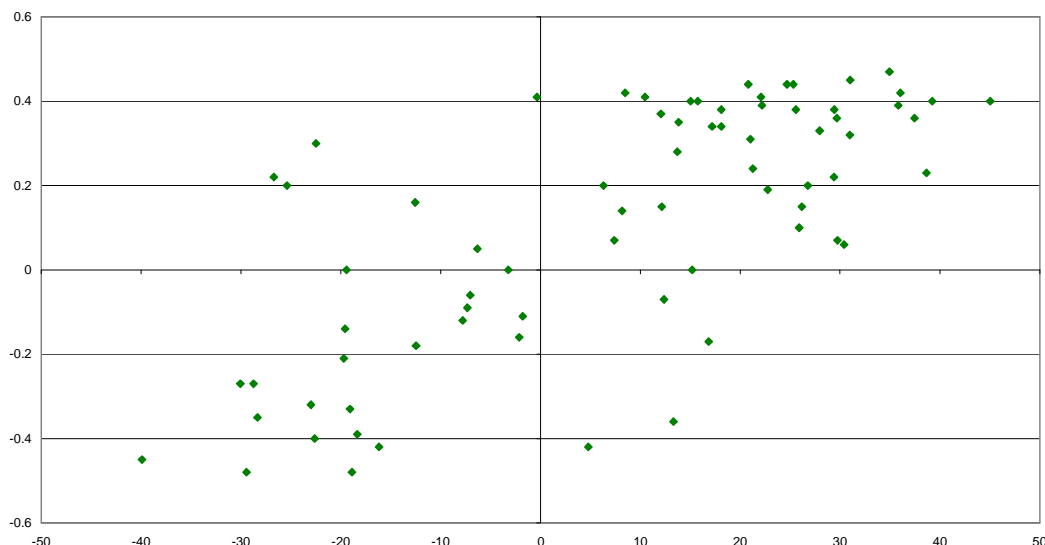
The standard deviation is affected, among other things, by the number of observations in the sample and the distribution of the responses in each category. The fewer the observations, the greater the standard deviation. The data on net balances are based on tallying the answers of all the companies that responded, and not only those that participated in the most recent surveys. The data in all tables are in terms of percent of the companies that responded.

The total net balance is calculated by weighting the seasonally adjusted net balance of activity in all industries by each industry's share in total business-sector product. The 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.



**Total net balance of business- sector product
and the probability of boom (1991q1 to 2009q1)**



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, the significance of the weighted net balances is not shown either.

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 technological innovativeness (the classification is described on pages 51-52 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 about 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 about 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 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 rate to a moderate rate, from a moderate rate to a high rate, and from a high rate to high 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.

To estimate the probability that the pace of growth will moderate, each company's expectations for the following quarter are crossed with its 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 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 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 probabilities of a change in the pace of growth are calculated from the normal probability function based on the parameters in Table 1 below. In addition, the model assumes dependency between the quarters, so that the forecast for the following quarter is dependent on the estimate obtained for the current quarter.

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

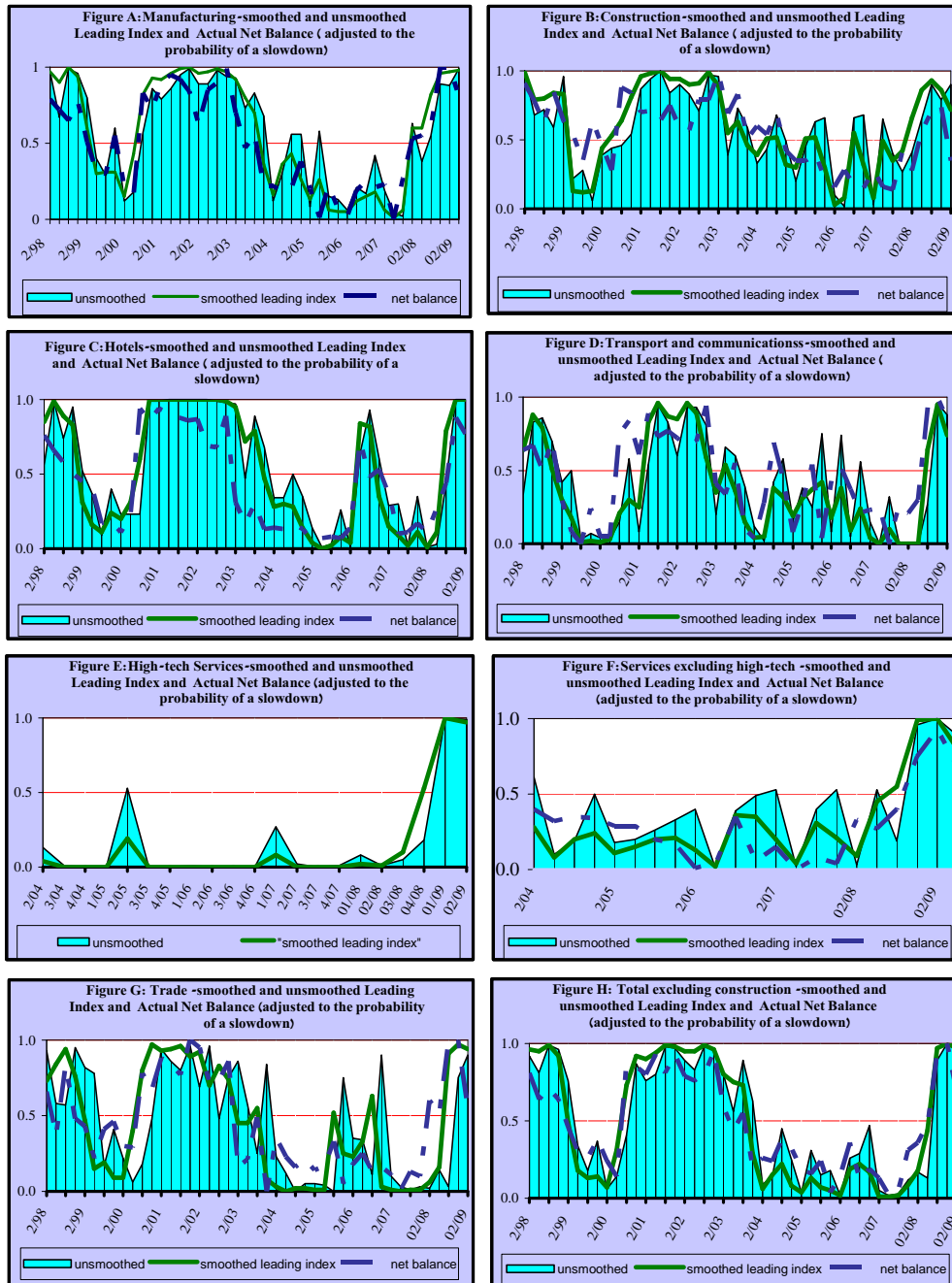
Table 1: Averages and Standard Deviations of Dependent Frequencies by Industries in the survey (sample: 1991-2005)

Number of companies ^b	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 ^a
541	0.41	0.08	0.13	0.05	0.13	0.04	0.33	0.07	Total survey

^a In services the sample is from 1998 only.

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