



Bank of Israel * Research Department

Companies Survey

Third quarter of 2009

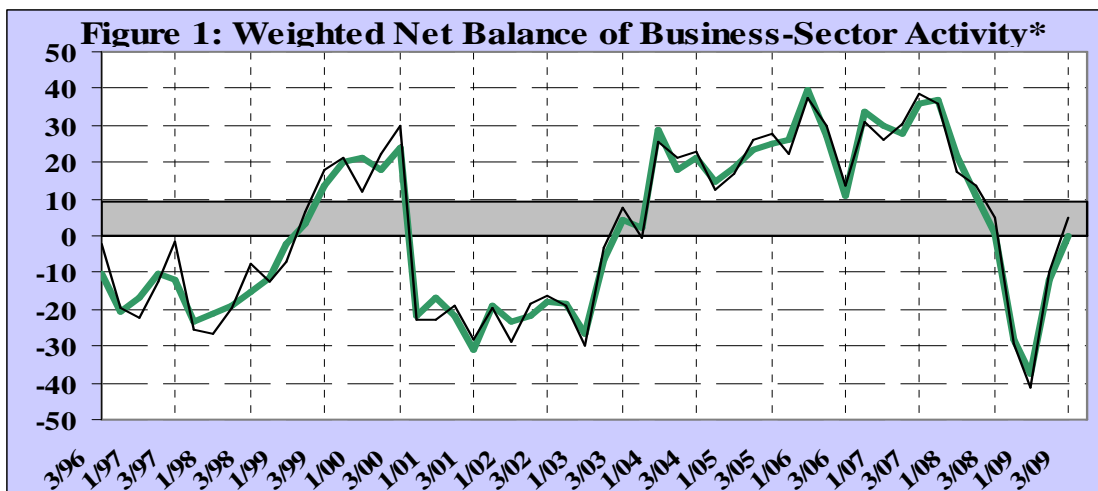
Jerusalem, October 2009
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Companies Survey - Third Quarter of 2009– Main Results

Reports from companies indicate that in the third quarter of 2009 business activity started to recover faster than companies had expected, following contraction since the fourth quarter of 2008 in the wake of the global crisis. This recovery, which was reflected in a sharp drop in the probability of a slowdown, and a small increase in the weighted net balance of the business sector, was based mainly on the moderate growth of domestic activity. Although the increase in the weighted net balance is small (see Footnote 2, Figure 1), it added to the list of encouraging indicators observed in the previous quarter, when its decline moderated. This positive trend in business-sector activity reflected in particular the increase in activity in the manufacturing sector, but signs of recovery were evident also in the trading sector and to a lesser extent in the services sector. As in the past, when the labor market reacted with a lag, there is as yet no perceptible increase in the number of employees, despite the recovery in activity.

The net balance in **industry** rose slightly thanks to the small rise in domestic sales. At the same time, companies' responses regarding orders for the fourth quarter show that growth will continue to be moderate. In **trade**, the volume of activity increased, but the increase in the net balance in this sector was not significant. Companies are more optimistic in their expectations of a rise in sales in the following quarter, and already the net balance in this sector is significant. In **business services**, companies reported no change in the level of activity, following significant declines since the last quarter of 2008. Whereas domestic sales remained steady, the export of services continued to fall in this quarter. The recovery in the level of activity could take place in the following quarter in view of the rise in orders. The **hotel industry** reported a sharp fall in activity compared with the record level a year ago, a reflection of a fall in the number of bed nights for both Israelis and foreign tourists. In **transport and communications** the contraction in activity continued, even though the negative net balance is approaching zero, following the stability in the last quarter which came after sharp falls in the previous quarters. A steep drop in sales of services to foreigners stood out, but sales to Israelis also declined. In the **construction industry** the level of activity continues to be moderate, but expectations for the next quarter are somewhat more optimistic. **Inflation expectations** for the next 12 months increased slightly beyond the price-stability target to 3.2 percent from 2.8 percent in the previous survey. The companies expect that the **NIS/US\$ exchange rate** in 12 months time will be NIS 4 to the dollar, compared with an expected NIS 4.2 in the previous survey.



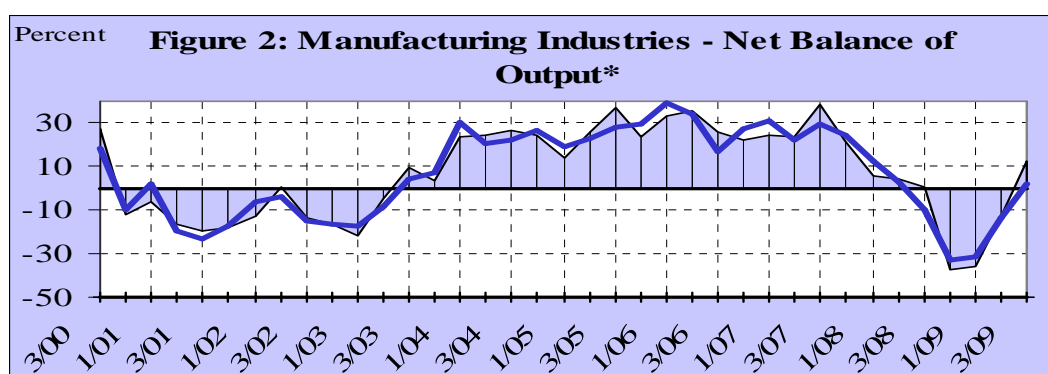
1. Macroeconomic developments

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 in the third quarter of 2009 economic activity started to recover faster than they had expected, and faster than in the crisis that began in 2000. The weighted net balance of the business sector is admittedly in the area in which no clear conclusion can be arrived at regarding the direction of activity, but by virtue of it being positive (a continuation of the moderation in the decline that was already evident in the second quarter), it apparently points to a turnabout in activity in the economy (Figure 1). The positive trend in activity of the business sector reflects particularly the growth of activity in the industrial sector in the third quarter, and according to the Companies Survey, the expansion of this sector was based mainly on the growth in domestic activity. Signs of recovery were evident also in the trading sector and to a lesser extent in the services sector, and the beginning of expansion in these sectors also reflects mainly the recovery in domestic activity. The level of activity in the construction sector remained unchanged in the third quarter, activity in the transportation sector declined slightly relative to the previous quarter, and activity in the hotel sector declined sharply relative to the parallel quarter last year.

The development of the leading index of activity in the business sector reflects well the rapid transition from fears of a deep crisis to expectations of growth in activity. In the first quarter of the year the leading index expected moderated activity in the following quarter with a probability close to 1, while in the review quarter the probability of moderation in the coming quarter stands at only 0.15. The leading index in the transportation and communications sector is anomalous in light of the optimism in the other sectors, and is the only sector in which the companies expect moderation of activity in the following quarter.

2. Industry developments

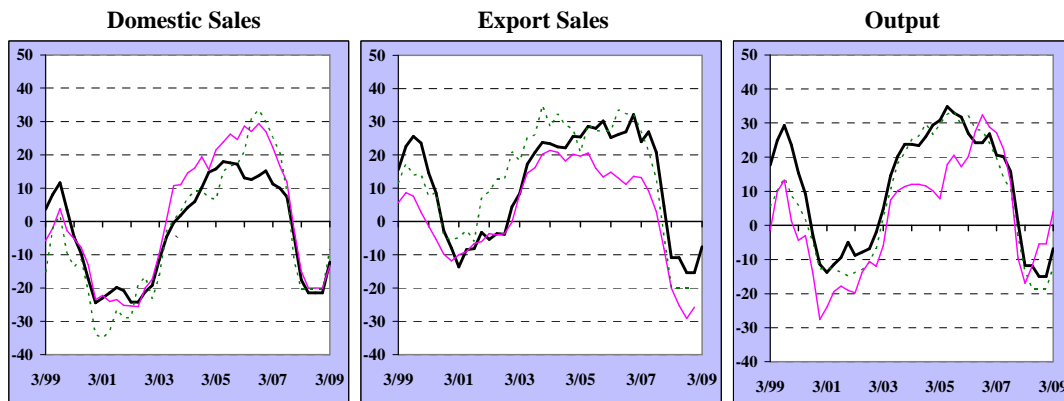
Manufacturing companies report that activity rose slightly in the third quarter of 2009, despite their expectations in the previous quarter (2009:Q2) of reduced orders for the third quarter. The recovery in activity derived from a small rise in domestic sales due to a slight easing in constraints for domestic orders. On the other hand, the net export balance is negative (albeit not significantly). Companies' responses regarding factors of production also hint at a recovery in activity: the decline in the rate of utilization of machinery and equipment halted, and the net balance of the number of employees no longer indicates a sharp fall, in contrast to very negative reports on these two indicators from the beginning of the second half of 2008 to the second quarter of 2009. The picture that emerges with regard to expected activity in the next quarter is equivocal, but suggests that activity will increase only slowly. It should be noted, however, that the pessimistic responses of companies in the previous survey, expressed in the drop in orders, were not realized in this 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 expansion in output encompassed companies at all levels of technological innovativeness, and particularly the medium-tech companies (Table 1.1 and Figure 3). Particularly noticeable in their increase in activity were the companies in the chemicals and the rubber and plastics industries, while those noticeable for decreases were the textile, clothing and leather industries (Table 15). Regarding activity in the next quarter: most of the low-tech and medium-tech companies do not report a substantial growth in orders for the next quarter, with the exception of food and beverage industries, which expect a growth in exports. The high-tech industries report a slight increase in orders for exports and for the domestic market.

The classification of manufacturing companies by **size** (number of employees) shows that the expansion of activity was based on the performance of the large companies, possibly aided by the easing of financing difficulties. The large companies are optimistic about orders for the next quarter, particularly export orders. On the other hand, the remaining companies did not experience significant growth, and expectations for the next quarter are moderated in these companies, both for the domestic market and for exports.

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



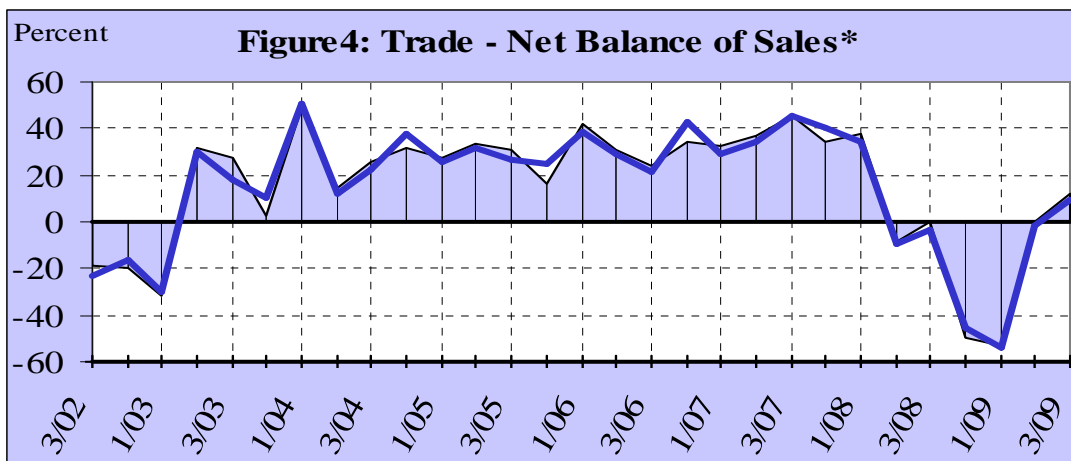
^a Moving average, outlying observations - unadjusted data

Thick line - advanced industries

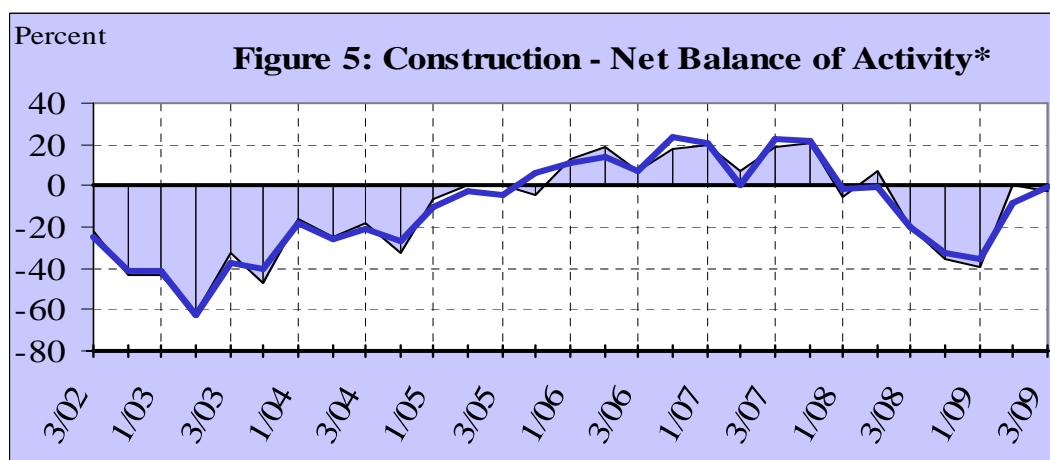
Thin line - traditional industries

Dotted line - mixed industries

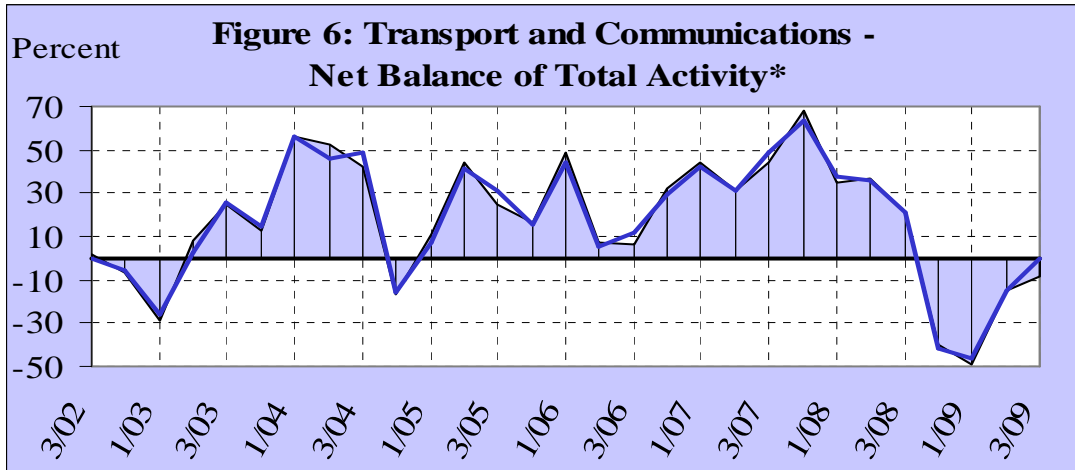
According to the reports of companies in trade, the volume of activity increased, but despite the resulting optimism, the rise in the net balance in this sector was not significant. Companies' expectations of a rise in sales in the next quarter are even more optimistic, and the net balance in this sector is already significant. As in the other principal industries, despite the recovery in activity, companies in the trading sector do not report an increase in the number of employees, but rather stability, which represents an improvement by comparison with the steep declines in the net balance in the previous quarters (Table 5 and Figure 4). Companies reported an easing in financing difficulties for conducting their activities (Table 17 and Figure 9).



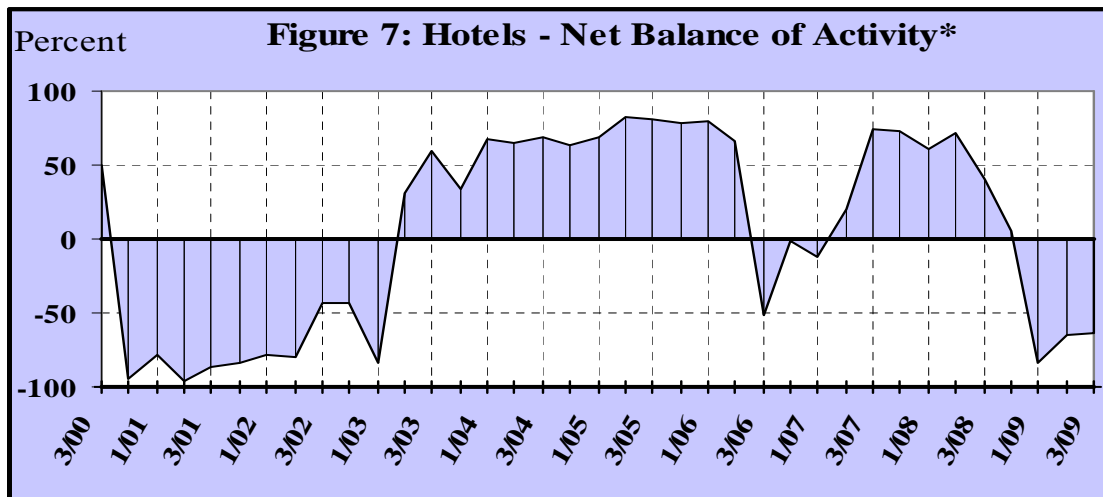
Construction: For the second successive quarter companies reported no change in the level of activity, following falling activity since the beginning of 2008 (Table 7 and Figure 5). The absence of change in activity reflects a sharp decrease in the volume of infrastructure building, and a very slight increase in the construction of buildings. Moderation of activity is also evident in the other indices of activity in the industry, but there is room for some optimism as a result of the slight increase in building starts and positive expectations for the next quarter. According to the companies' reports, demand constraints are responsible for the ongoing freeze in activity. Furthermore, the supply constraint inherent in the financing difficulties continued to be relevant in the review quarter as well, and the situation has still not returned to the pre-crisis level (Table 17 and Figure 9).



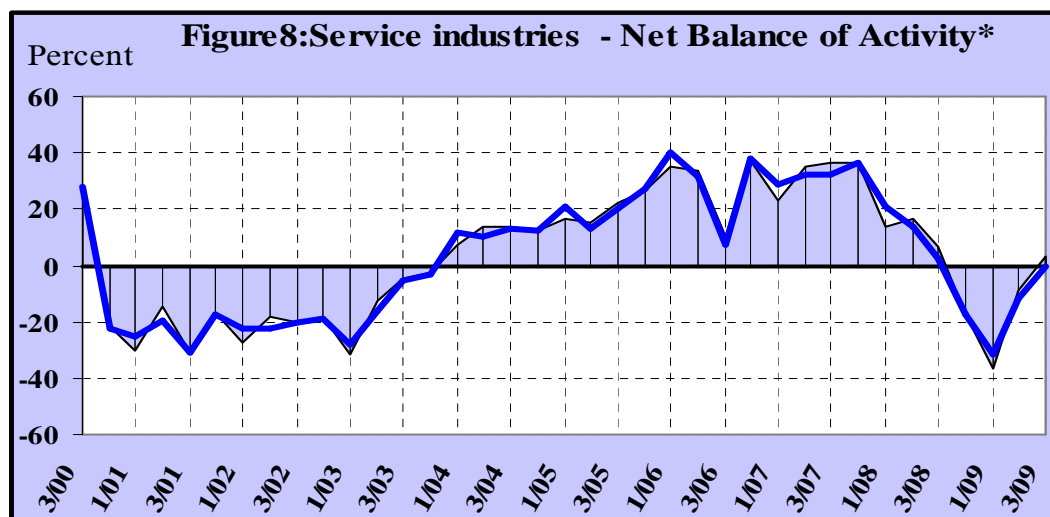
Reports from **transport and communications** companies indicate that activity continued to contract in the review quarter, even though the net balance is approaching zero, following the stability in the last quarter, which came after sharp falls in the previous quarters. The steep drop in sales of services to foreigners stood out, but sales to Israelis also declined (Table 9 and Figure 6). The companies also report that the severity of the constraint resulting from the low level of domestic tourism increased, but they indicate that increased competition constitutes the severest demand-side constraint. Financing difficulties were slightly more severe than in the previous quarter (Table 17 and Figure 9). The net balance of activity for the next quarter is only moderately positive.



Companies in the **hotel industry** reported a sharp decline in activity (relative to the year-earlier quarter; Table 11 and Figure 7), similar to the sharp declines since the beginning of the year. It is important to bear in mind that the net balance in this industry is a year-on-year comparison, i.e., a comparison with 2008:Q3, which was prior to the crisis, when activity was at record level. The drop in activity resulted mainly from a reduction in foreign tourists' bed nights, but the number of Israelis' bed nights also declined. Hotels mentioned the demand constraint related to foreign tourists as the most severe constraint on the expansion of activity. Activity is expected to remain low also in the next quarter.



Business-services companies reported no change in the level of activity, following significant declines since the last quarter of 2008 (Table 13 ad Figure 8). Whereas domestic sales remained steady, services exports continued to fall in this quarter. Further improvement is expected for the next quarter: domestic orders have risen, and orders from abroad are also higher than current sales. No significant change occurred in either demand or supply constraints this quarter, and the severity of demand constraints, such as the world economic situation and the competition in the industry continues to stand out.

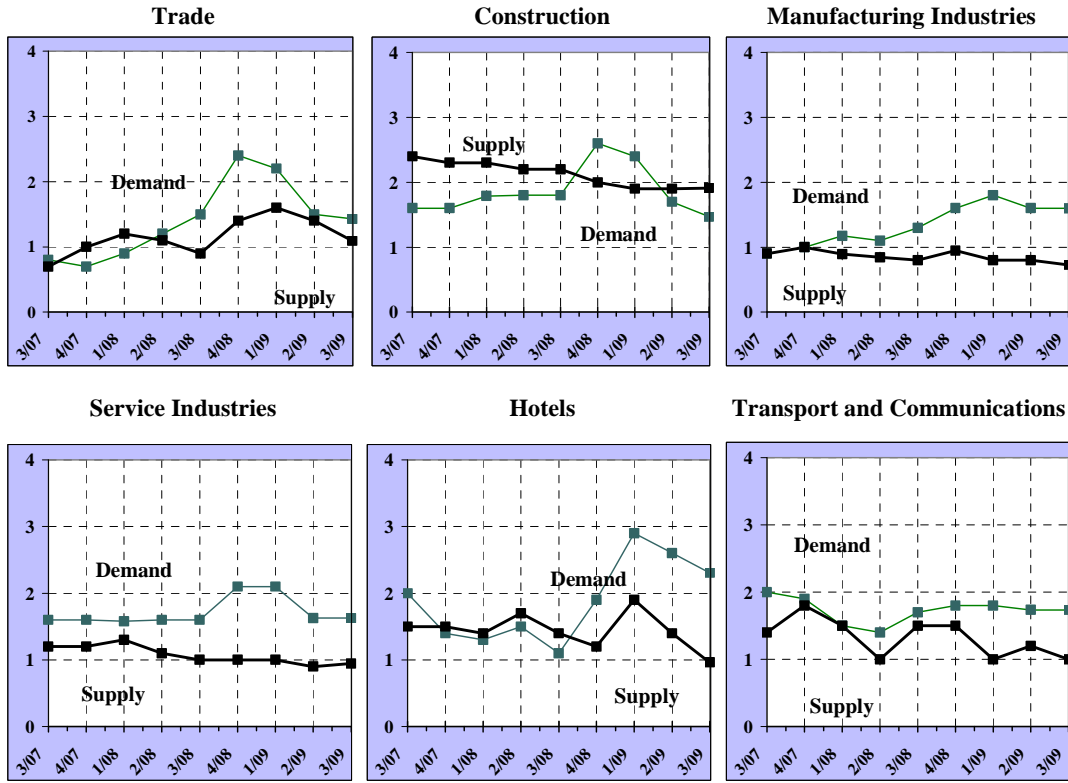


	2006	2007				2008				2009		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
Industry (output)	22	24	24	38	21	*6	*4	*1	-37	-36	-13	12
seasonally adjusted	27	31	22	29	25	12	*3	-10	-33	-31	-14	*2
Trade (sales)	34	32	37	46	34	38	*8	*0	-50	-53	*0	*12
seasonally adjusted	43	29	35	46	40	34	*-10	*-3	-46	-54	*-2	*10
Construction (total activity)	18	19	*7	19	20	*-6	*8	-20	-35	-39	*0	*-3
seasonally adjusted	24	21	*0	23	21	*-2	*-1	-20	-33	-35	*8	*-1
Transport and communications (total activity)**	32	44	31	44	69	35	37	33	-40	-49	*-22	*-8
seasonally adjusted	29	42	31	49	64	37	36	33	-46	-46	*-15	*0
Hotels (total activity)***	-2	-13	20	75	73	61	72	40	5	-83	-65	-63
Service industries	37	23	35	37	36	14	17	6	-17	-36	*-9	*3
seasonally adjusted	38	29	33	33	36	21	14	*3	-17	-32	-12	*-1
Total business sector	31	26	30	39	36	17	13	5	-29	-41	-10	5
seasonally adjusted	34	30	28	36	37	22	11	0	-28	-38	-12	0

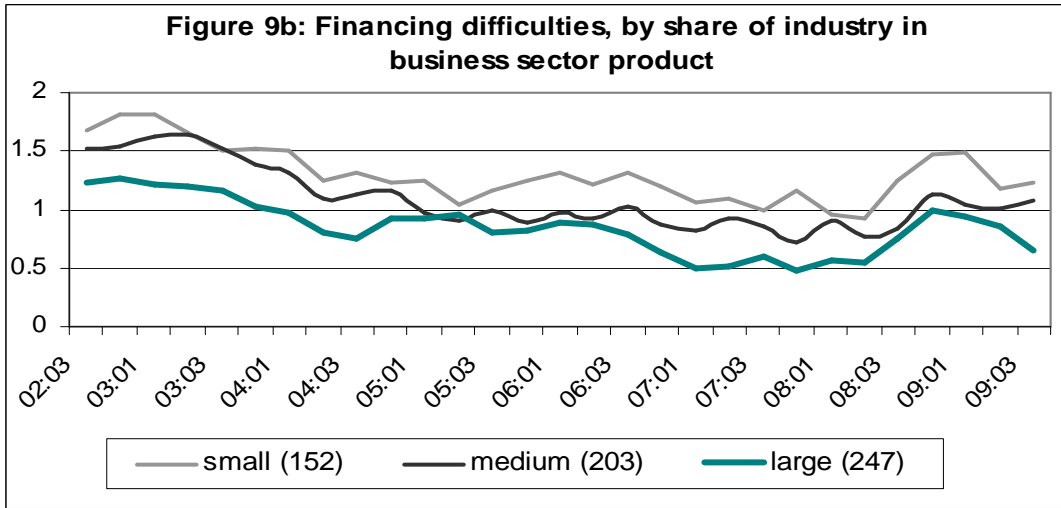
	2006	2007				2008				2009		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
Advanced companies	31	18	22	33	30	*9	16	*2	-41	-34	*-10	*13
Mixed companies	*8	24	49	63	*14	*0	*3	*18	-48	-37	25	33
Traditional companies	20	30	17	35	17	*5	*-5	*-6	-31	-36	-26	*4

* 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.

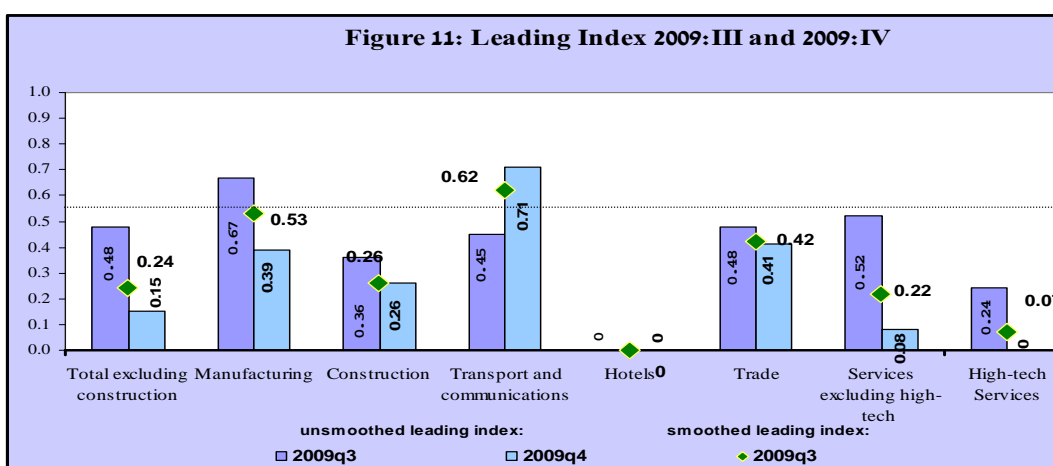
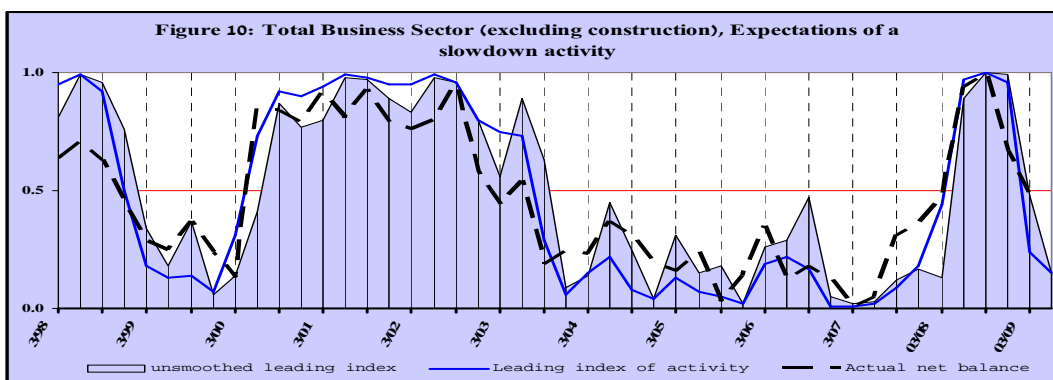


The leading index

The leading index (excluding construction) in this survey foresees further improvement in business-sector activity in the fourth quarter of 2009, beyond that which is already represented by the actual net balance. The probability of recession is significantly lower than the 0.5 threshold,¹ for the first time since the fourth quarter of 2008. This value reflects an improvement in orders and the expectations of activity for the next quarter relative to the 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 are far from the 0.5 threshold in most industries, except for construction, which is closer to the threshold, and the transportation and communications industry for which the balance in activity is expected to moderate further.

Two leading indices are presented, both for the business sector as a whole and for each of the industries: 1) A smoothed probability index, in which there is dependence between the quarters, so that the index for the current quarter is updated each quarter relative to the prediction for the following quarter; 2) An unsmoothed probability index, without retroactive update of the leading index. A comparison of the two indices shows that the companies' expectations in the previous quarter were overly pessimistic and that the recovery was faster than expected: smoothing of the index, which was calculated in the previous quarter in light of the index calculated for this quarter, significantly reduced the probability of a recession, lowering it below the 0.5 threshold.



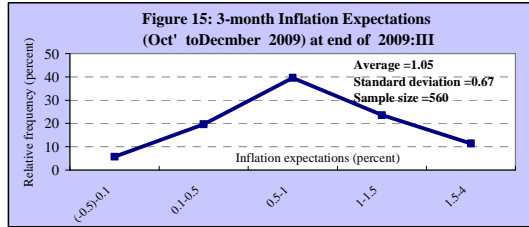
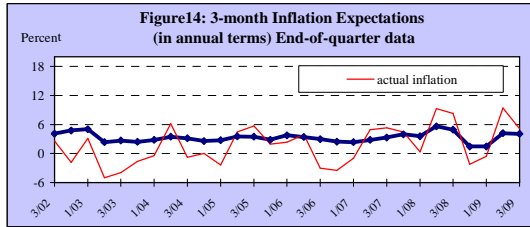
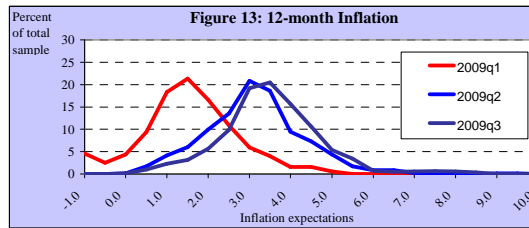
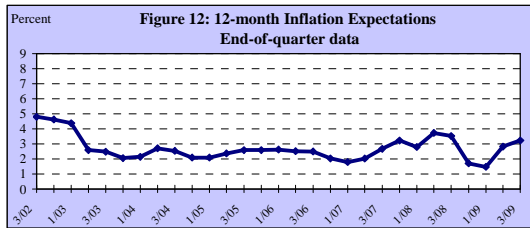
¹ As long as the leading index is below the 0.5 threshold, one cannot state with certainty that the growth rate will slow in the next quarter. If the index crosses the threshold, an easing of activity in the next quarter may be inferred.

Survey of inflation expectations

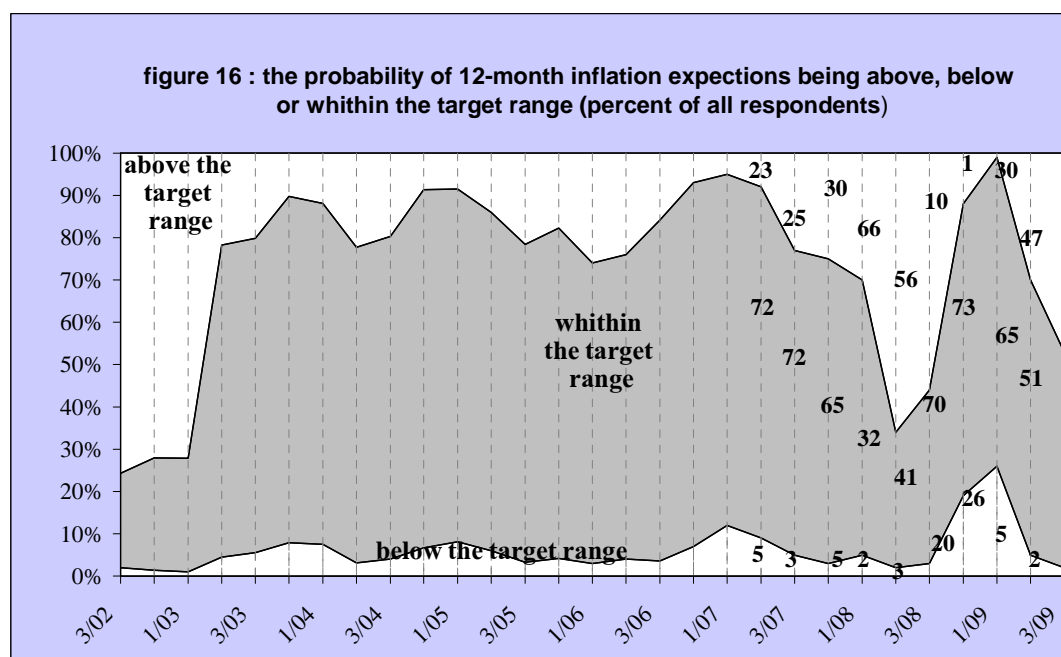
Companies' expectations about the cumulative rate of price increases during the next twelve months (October 2009–September 2010) rose to 3.2 percent on average, as opposed to 2.8 percent in the previous quarter (Figure 12), overshooting the upper limit of price stability (1 to 3 percent).

The inflation-expectations distribution also attests to high expectations of inflation, similar to the previous quarter—the median of the distribution in this quarter remained at 3 percent, as did the mode. The variance of the expectations also remained at the level of the previous quarter (Figure 13). The expected rate of price increases in the next quarter (September 2009–December 2009) rose to an annualized level of 4.3 percent, as opposed to 4.2 percent in the previous survey (Figure 14).

The proportion of companies that expected the inflation rate to overshoot the upper limit of the price-stability target² rose this quarter to 47 percent, as opposed 30 percent in the previous quarter and a negligible proportion in the first quarter (the upper 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 65 percent in the previous quarter to 51 percent in this quarter (the middle section in Figure 16). The proportion of companies expecting inflation in the next twelve months to undershoot the price-stability target is 2 percent (the lower 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.

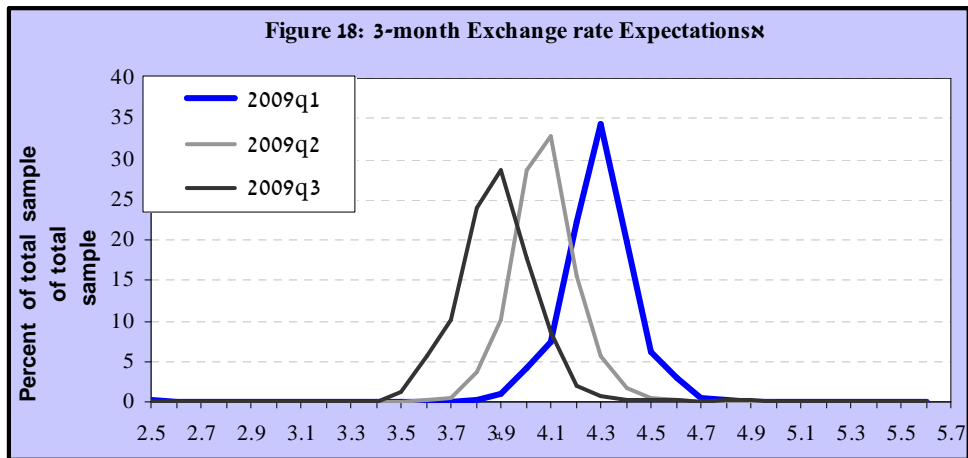
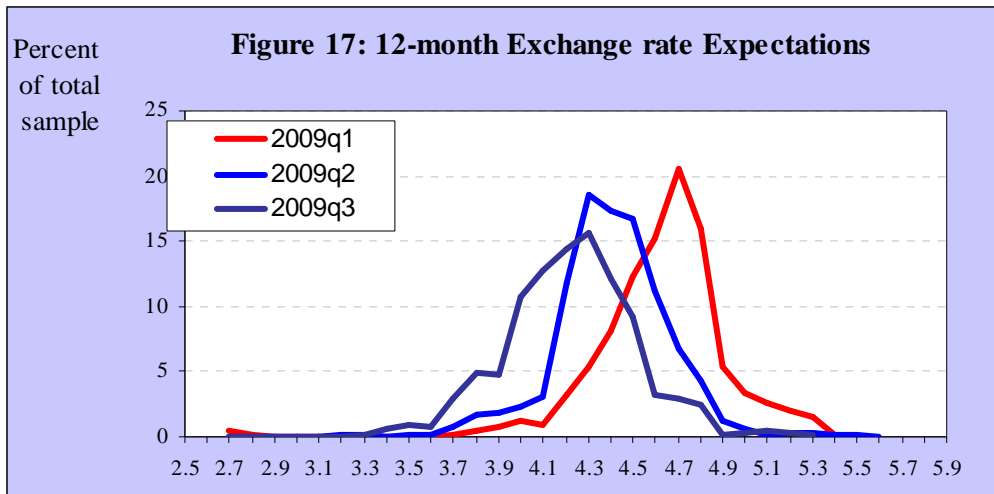
Table 2: Statistic Analysis of 12-month Inflation Expectations

	2006	2007				2008				2009		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
1. Mode	2.00	2.00	2.00	3.00	3.00	3.00	4.00	3.00	2.00	1.00	3.00	3.00
2. Median	2.00	1.70	2.00	2.50	2.80	2.90	3.80	3.50	1.50	1.25	3.00	3.00
3. Average	2.01	1.78	2.02	2.67	2.77	2.69	3.70	3.52	1.70	1.47	2.81	3.22
4. Standart Deviation	0.99	0.91	0.93	1.09	0.92	1.04	1.42	1.44	1.37	1.31	1.19	1.21
5. Skewness	0.01	-0.22	0.02	-0.33	-0.23	-0.31	-0.30	-0.30	-0.30	0.47	-0.19	0.22
Number of responding companies	469	456	487	413	504	483	472	490	470	466	472	552

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 (December 31, 2009) and one year from the end of the survey period (September 30, 2010). The latter expectation (end of September, 2010) was NIS 4 to the dollar as against NIS 4.2 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 3.8 as against NIS 4 in the previous quarter. Note that the average exchange rate at the time the companies completed the survey questionnaire was about NIS 3.78.



Manufacturing Industries

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

	2006	2007				2008				2009		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
1. Output	22	24	24	38	21	*6	*4	*1	-37	-36	-13	12
2. Sales	25	23	26	33	26	*-1	+7	*-1	-46	-41	-17	*9
3. Domestic sales	22	19	26	31	17	*-1	*0	*-5	-42	-42	-17	*5
4. Export	22	16	25	29	26	*5	*8	*-4	-42	-42	-17	*-4
5. Stocks of finished goods	9	12	15	22	18	9	9	*4	*-8	-26	-20	*3
6. Stocks of raw materials	*4	7	*6	17	11	10	*6	11	*3	-16	-20	*-7
7. Rate of utilization of machinery and equipment	14	14	17	25	8	*-2	*-3	-8	-39	-43	-20	*4
8. Number of employees	11	10	15	15	16	*2	*-3	*-5	-36	-43	-25	-10
9. Domestic orders	*6	12	16	15	10	*5	*-2	-23	-50	-45	-15	*-6
10. Export orders	17	21	22	28	15	*4	9	-11	-45	-47	-18	*4
Number of responding companies	250	251	237	220	252	270	265	272	271	249	243	236

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:III
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 II	2009 III					
A. Activity in the quarter							
1. Output	-13 (5)	12 (5)	7	33	32	19	9
2. Sales	-17 (6)	9 (6)	6	37	23	23	11
3. Domestic sales	-17 (5)	5 (5)	4	31	35	22	8
4. Export	-17 (6)	-4 (6)	5	26	34	22	13
5. Stocks of raw materials	-20 (5)	3 (5)	4	22	51	20	3
6. Stocks of finished goods	-20 (4)	-7 (4)	3	16	55	23	3
7. Rate of utilization of machinery and equipment	-20 (5)	4 (5)	5	24	46	20	5
8. Number of employees	-25 (4)	-10 (4)	1	12	64	21	2
B. Expected activity in the following quarter**							
9. Domestic orders	-15 (5)	-6 (5)	3	21	46	22	8
10. Export orders	-18 (6)	4 (6)	4	30	36	17	13
Number of responding companies	243	236					

** 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		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
1. Sales	34	32	37	46	34	38	*8	*0	-50	-53	*0	*12
2. End-of-quarter stock	*17	24	37	30	34	*16	*17	*9	*-17	*-16	*-12	*2
3. Percent of credit sales	*3	21	27	17	22	25	19	*12	*11	*3	18	17
4. Supply period	0	15	15	14	*3	*6	*0	*3	-9	-10	*0	*1
5. Forecast change in number of permanent employees	*0	9	*7	*8	16	*9	*6	*-17	-53	-55	-24	*2
6. Sales expectations	39	47	73	57	63	*22	53	*-3	-35	-38	24	27
7. Number of employees												*2
Number of responding companies	29	34	30	24	32	32	36	36	36	32	33	93

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:III
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 II	2009 III					
A. Activity in the quarter							
1. Sales	0 (15)	12 (9)	4	39	26	27	4
2. End-of-quarter stock	-12 (13)	2 (8)	1	27	46	23	3
3. Percent of credit sales	18 (10)	17 (6)	7	18	67	7	1
4. Supply period	0 (8)	1 (3)	0	3	95	2	0
5. Number of employees		2 (5)	0	10	82	8	0
B. Expected activity in the following quarter							
6. Forecast change in number of permanent employees	-24 (9)	2 (4)	0	10	82	7	1
7. Sales expectations for following quarter	24 (14)	27 (8)	7	39	35	17	2
Number of responding companies	33	93					

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		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
1. Total activity	*7	18	19	*7	19	20	*-6	*8	-20	-39	*0	*-3
of which 2. Buildings	*10	21	23	*-3	*13	17	*3	*0	*-6	-48	*-3	*-3
3. Infrastructure	*-12	23	33	30	*8	24	*-7	*9	-30	-48	*-4	*-17
4. Output prices in dollar terms	24	21	21	23	30	38	40	49	26	-34	*14	33
5. Area of building starts (sq. m.)	*-5	*0	26	*-8	*-10	*-3	*-12	*-5	-40	-43	*-6	*3
6. Area of building completions (sq. m.)	*0	*-8	*6	*10	*-10	*0	*9	*5	*-3	-34	*0	*0
7. Building time	33	16	28	21	27	15	18	*8	26	*0	*3	*6
8. Expected activity in the following quarter**	23	20	34	23	*6	25	*3	*-5	-22	-30	*6	*11
9. Number of employees												*-6
Number of responding companies	43	41	37	42	33	44	36	41	36	37	35	35

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:III
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 II	2009 III					
A. Activity in the quarter							
1. Total activity	0	-3	0	23	51	12	14
of which Buildings	(12)	(12)	0	27	43	15	15
Infrastructure	(14)	(13)	4	21	33	21	21
2. Output prices in dollar terms	-4	-17	6	36	49	6	3
3. Area of building starts (sq. m.)	(10)	(16)	3	31	35	9	22
4. Area of building completions (sq. m.)	(14)	(14)	3	19	56	13	9
5. Building time	0	0	6	9	76	6	3
6. Number of employees	(9)	(9)	0	23	48	23	6
		(12)					
B. Expected activity in the following quarter	6	11	0	40	31	9	20
	(14)	(14)					
Number of responding companies	35	35					

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		
	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV		
1. Total activity	*32	44	*31	44	69	*35	37	*21	-40	-49	*-15	*-8			
2. Sales of services to residents	48	47	*38	44	68	*32	*38	*30	-44	-41	*-9	10			
3. Sales of services to nonresidents	*1	42	*9	*13	*20	*-6	*-10	16	-11	-40	*-11	6			
4. Utilization of equipment (capacity utilization, etc.)	38	*49	58	41	45	*39	36	*17	-44	-56	*-6	8			
5. Expected activity in the following quarter**	*45	*48	*35	46	59	72	34	*7	*-41	*-10	*15	0			
6. Number of employees													-5		
Number of responding companies	22	24	21	21	24	28	20	25	30	27	32	36			

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

See Appendix for explanation of the weighting.

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

Table 10
Transport and Communications in 2009:III
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 II	2009 III					
A. Activity in the quarter							
1. Total activity	*-15	-8	0	22	47	21	9
2. Sales of services to residents	*-9	10	0	29	52	17	2
3. Sales of services to nonresidents	*-11	6	2	21	59	16	2
4. Utilization of equipment (capacity utilization, etc.)	*-6	8	2	21	63	12	2
5. Number of employees		-5					
B. Expected activity in the following quarter							
	*15	0	2	31	34	31	2
Number of responding companies	32	36					

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		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
A. Activity in the quarter												
1. Total activity	*-2	*-13	*20	75	73	61	72	40	*5	-83	-65	-63
2. Number of bed-nights: Tourists	-44	-31	*-4	65	70	70	85	45	*10	-85	-78	-81
3. Number of bed-nights: Israelis	*-12	*-2	*-11	*0	*-18	*-8	*0	*13	-45	-73	-27	-31
4. Average revenue per room	*18	36	23	67	49	24	26	26	43	*0	*-5	*7
5. Number of employees												-46
B. Expected activity in the following quarter**												
Bookings for next quarter												-68
Bookings for next quarter of foreign tourists												-73
Bookings for next quarter of Israelis												-63
Number of responding companies	49	50	48	45	40	40	37	39	47	40	41	27

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 12
Hotels in 2009:III
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 II	2009 III					
A. Activity in the quarter							
1. Total activity	-65 (11)	-63 (13)	4	7	15	48	26
2. Number of bed-nights: Tourists	-78 (9)	-81 (9)	0	4	11	37	48
3. Number of bed-nights: Israelis	-27 (13)	-31 (16)	8	15	23	39	15
4. Average revenue per room	-5 (15)	7 (17)	11	33	19	33	4
5. Number of employees		-46 (10)	0	0	54	38	8
B. Expected activity in the following quarter							
Bookings for next quarter of foreign tourists	-73 (10)	-44 (14)	0	12	32	44	12
Bookings for next quarter of Israelis	-63 (14)	-40 (14)	0	12	36	32	20
Number of responding companies	41	27					

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		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
A. Activity in the quarter												
1. Total revenue from current activity	*10	37	23	37	36	14	17	*6	-17	-36	*-9	*3
2. Sales of services in Israel	*8	36	20	27	33	10	16	*4	-16	-38	-17	*2
3. Sales of services abroad	*26	46	*0	33	36	18	21	*1	*-13	-38	*4	-17
4. Number of employees	10	13	15	22	25	21	12	*7	-16	-29	-15	*-5
5. of which: trained	*8	17	17	26	29	24	14	*6	-10	-25	-13	*-3
6. Number of Israeli workers abroad	*0	16	15	*7	*6	9	*-3	*0	*-1	-16	-12	*-4
B. Expected activity in the following quarter**												
7. Total orders	26	27	42	41	40	23	25	*-2	-38	-25	*6	27
8. Export orders	*6	*13	32	52	29	36	22	*8	-36	-23	23	*10
Number of responding companies	155	151	202	163	188	197	191	188	204	185	183	208

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

* Not significant (at the 10% level).

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

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 II	2009 III					
A. Activity in the quarter							
1. Total revenue from current activity	-9 (5)	3 (5)	3	26	45	18	8
2. Sales of services in Israel	-17 (5)	2 (5)	3	24	48	17	8
3. Sales of services abroad	4 (12)	-17 (9)	2	11	57	22	8
4. Number of employees	-15 (5)	-5 (4)	0	17	61	20	2
5. of which: trained	-13 (5)	-3 (4)	0	15	67	16	2
6. Number of Israeli workers abroad	-12 (5)	-4 (5)	0	6	84	6	4
B. Expected activity in the following quarter**							
7. Total orders	6 (6)	27 (5)	4	39	41	14	2
8. Export orders	23 (12)	10 (9)	8	19	56	13	4
Number of responding companies	183	208					

* 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:II and 2009:III

	Number of responding companies			Total output	Domestic sales	Domestic orders ¹	Actual exports	Export orders ¹	Finished goods	Number of employees
	2009	III	2009							
Mining, quarrying, construction materials, and wood	2009	III	25	36	29	*24	*15	*14	*0	*0
	2009	II	22	*27	*18	*5	*10	*0	*-5	*-9
Food and beverages	2009	III	30	*0	*-3	*-8	-30	*-16	-30	*-7
	2009	II	40	-28	-26	*-18	*-19	*-8	-28	-13
Textiles, clothing, and leather	2009	III	17	*0	*-13	*-25	*-25	*7	-41	-35
	2009	II	18	-38	*-29	*13	*-27	-47	-50	-35
Chemicals, rubber, and plastic	2009	III	41	29	*2	*-10	22	*14	*17	*2
	2009	II	44	32	*5	*-12	*5	*-5	*-7	*-5
Metals and machinery	2009	III	39	-26	*0	*-14	-44	-39	*-3	-18
	2009	II	39	-38	-37	-37	-53	-56	-31	-51
Electronics, electricity, and transport equipment	2009	III	59	*14	*-4	*2	*9	*15	*-10	-16
	2009	II	54	-21	-22	*-10	*-9	*-2	-21	-35
Paper, printing, and other	2009	III	19	37	33	29	*18	*27	*11	*5
	2009	II	22	-35	*-24	*-15	*-27	*-9	*0	-24
Total manufacturing industries excluding diamonds	2009	III	230	11	*4	*-7	*-7	*2	*-6	-10
	2009	II	239	-13	-17	-16	-17	-18	-20	-25
Diamonds	2009	III	2	*50	*40	*40	67	67	*-50	`
	2009	II	4	*0	*0	*0	*-25	*-25	*0	-50
Total manufacturing industries	2009	III	232	12	*5	*-6	*-4	*4	*-7	-10
	2009	II	243	-13	-17	-15	-17	-18	-20	-25

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:III

	Manufacturing companies				Construction companies				
	Total	Small	Middle	Large	Total	Small	Middle	Large	
Output	24	*6	*4	20	Total activity	*0	-38	*0	*22
Total sales	17	*-3	*4	16	Area of starts	*11	-50	*19	*25
Domestic sales	15	*-8	*-1	13	Area of completions	*11	*-13	*0	*13
Export	*5	*-19	*-18	*6	Output prices in \$	30	*14	47	*22
Number of companies	236	37	81	118	Area of completions	35	8	18	9

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							Transport and Communications						
	2008			2009				2008			2009		
	II	III	IV	I	II	III		II	III	IV	I	II	III
Demand constraints							Demand constraints						
Volume of export orders	1.1	1.3	1.6	1.8	1.6	1.6	Booking by foreign tourists	0.5	0.8	0.6	1.0	0.9	1.0
Volume of domestic orders	1.0	1.3	1.4	1.6	1.5	1.3	Booking by Israelis	0.3	0.5	0.5	0.4	0.6	1.1
Supply constraints							Supply constraints						
Machinery and equipment shortage	0.4	0.4	0.2	0.2	0.2	0.3	Economic and political situation in Israel	0.8	1.2	1.8	1.4	1.4	1.2
Financing difficulties	0.7	0.8	0.9	0.8	0.8	0.7	Intensification of competition	1.4	1.7	1.7	1.8	1.9	1.7
Labour shortage	0.8	0.8	0.4	0.4	0.5	0.6	Financing difficulties	0.7	0.9	1.5	1.0	1.2	1.0
							Labour shortage						
							1.0 1.5 1.0 0.6 0.7 1.0						
Construction							Hotels						
	2008			2009				2008			2009		
	II	III	IV	I	II	III		II	III	IV	I	II	III
Demand constraints							Demand constraints						
Volume of demand	1.8	1.8	2.6	2.4	1.7	1.5	Booking by foreign tourists	1.5	1.1	1.9	2.9	2.6	2.3
Supply constraints							Supply constraints						
Input prices	1.8	1.7	1.0	0.8	1.2	1.1	Booking by Israelis	1.3	1.0	1.7	2.2	1.8	1.5
Financing difficulties	1.2	1.7	2.0	1.9	1.7	1.6	Economic and political situation in Israel	1.3	1.0	1.9	2.5	2.1	1.7
Labour shortage	2.2	2.2	1.8	1.7	1.9	1.9	Financing difficulties	1.4	1.0	1.2	1.9	1.4	0.9
Machinery and equipment shortage	0.5	0.5	0.5	0.2	0.3	0.3	Labour shortage	1.7	1.4	1.0	0.7	1.0	1.0
Trade							Service Industries						
	2008			2009				2008			2009		
	II	III	IV	I	II	III		II	III	IV	I	II	III
Demand constraints							Demand constraints						
Volume of orders	0.9	0.5	0.2	0.6	0.3	0.5	Economic and political situation in Israel	0.9	0.9	1.3	1.3	1.1	1.0
Economic and political situation in Israel	1.1	1.3	2.0	2.2	1.5	1.4	Global Economic situation	1.3	1.6	2.1	2.1	1.7	1.4
Economic situation in the world	1.2	1.5	2.4	2.2	1.4	1.4	Intensification of competition	1.6	1.5	1.6	1.8	1.6	1.6
Supply constraints							Supply constraints						
Financing difficulties	0.7	0.9	1.4	1.6	1.4	1.1	Financing difficulties	0.8	0.8	1.0	1.0	0.9	0.9
Labour shortage	1.1	0.8	0.5	0.4	0.6	0.5	Labour shortage	1.1	1.0	0.7	0.5	0.6	0.6

APPENDIX

Notes to the Survey

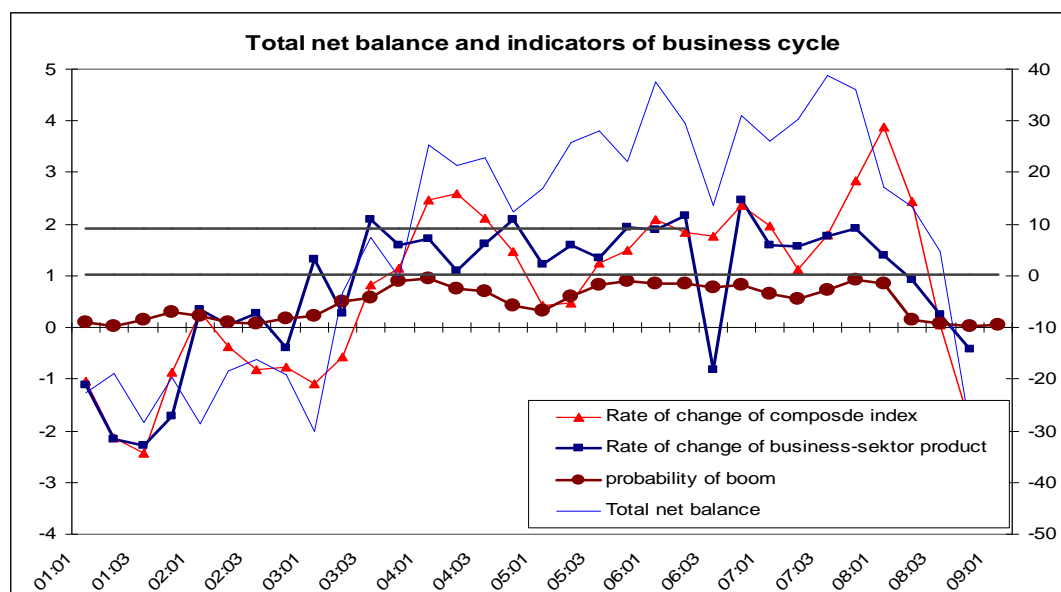
Net balance

This quarterly survey relates to developments in 2009:Q3 and includes assessments and expectations regarding 2009:Q4. Its findings are based on responses to questionnaires completed by companies and businesses in the manufacturing, trading, 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.

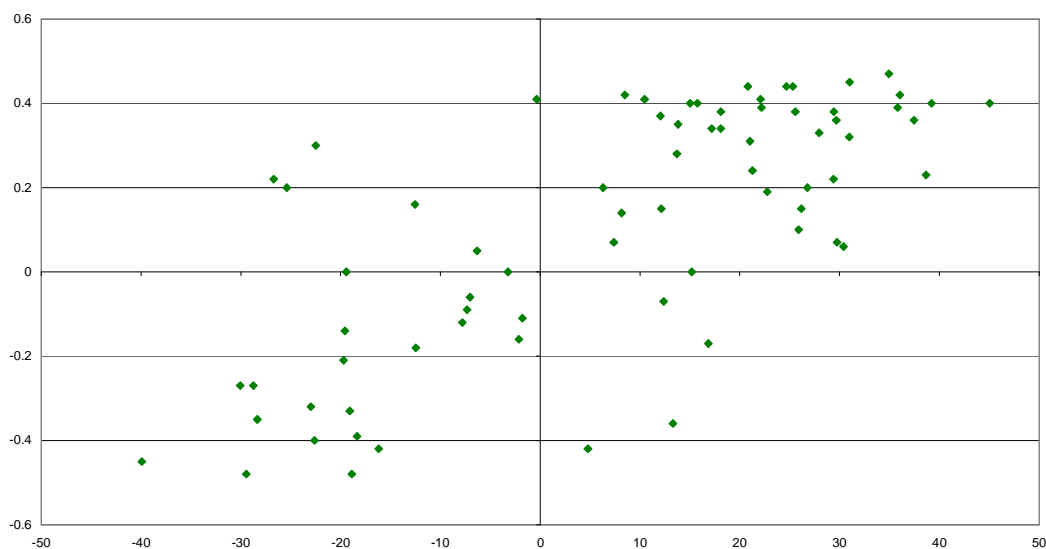
The results are analyzed by means of the net balance, defined as the difference between the percentage of companies reporting an increase and the percentage of those reporting a decrease. A net balance of zero in a particular category shows that there was no change in the level of that category compared 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. One of the indicators of the business cycle is the trend of the business-sector product. Another indicator used to identify the business cycle is the Composite State-of-the-Economy Index and the probability of a recession: a period will be defined as a recession if the Composite State-of-the-Economy Index indicates a greater-than-0.5 probability of recession in at least two of the three quarters examined. If this situation does not exist, nor the opposite situation in which the probability of a recession is less than 0.5 in at least two of the three quarters examined, the period will be considered as undefined regarding the trend of activity. Research indicates that the net balance of the business sector matches the business cycle according to the above definitions: when the net balance is positive and greater than 9, 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. When the net balance is negative the trend is toward a recession, and when the net balance is between 0 and 9, the period is undefined.

**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.

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:

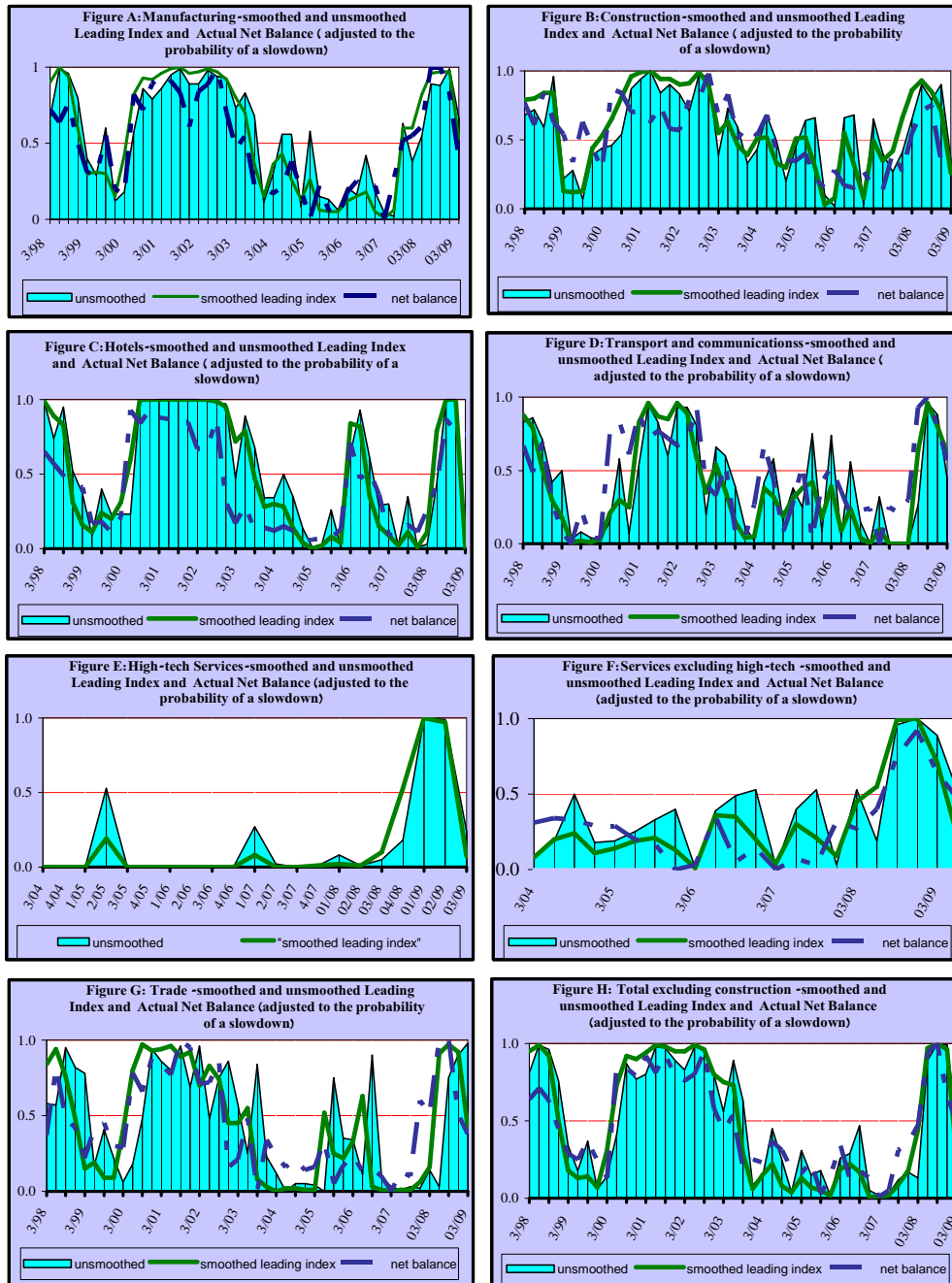
Industry	Continued acceleration		Acceleration-slowdown		slowdown-acceleration		Continued slowdown		Number of companies ^b
	standard deviation	average	standard deviation	average	standard deviation	average	standard deviation	average	
Manufacturing	0.06	0.30	0.04	0.14	0.04	0.11	0.07	0.45	257
Trade	0.11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

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

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

a
b
*



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