



Bank of Israel * Research Department

Companies Survey

Fourth quarter of 2009

Jerusalem, January 2010
www.bankisrael.org.il

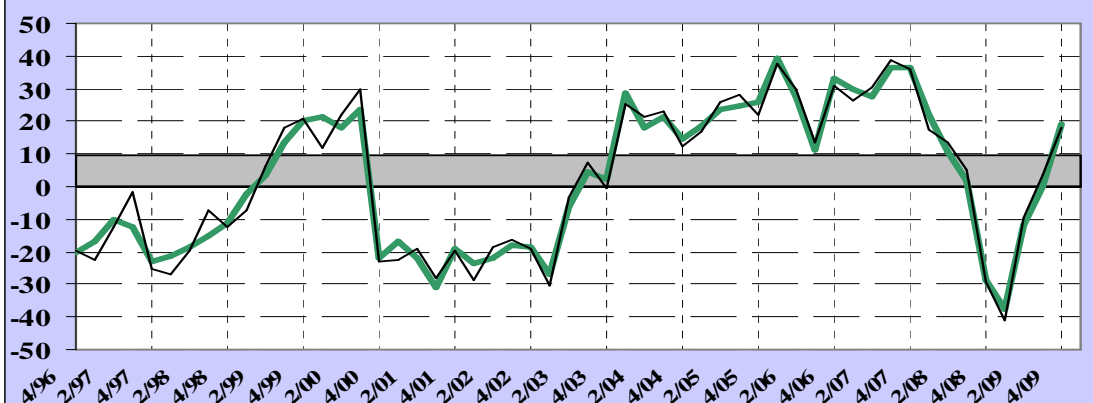


Companies Survey - Fourth Quarter of 2009– Main Results

Reports from companies indicate that in the fourth quarter of 2009 business activity expanded significantly, further to the slight rise in the preceding quarter and after the contraction that had begun in 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 marked increase in the weighted net balance of the business sector, was based on the expansion of both exports and domestic sales. This positive trend in business-sector activity reflects the increase in activity in most of the business sector. There were no indications of expansion in the hotel industry, however. In the labor market, too, there appears to have been a positive upturn in activity; while the number of employed persons has not yet risen, there has been some moderation of the downward trends that characterized this market in previous quarters.

The net balance in **manufacturing** rose due to the increase in domestic and foreign sales. Companies' responses regarding orders for the next quarter show that growth will continue to derive from an increase in export orders, but also from domestic sales. In **commerce** the extent of activity increased, and firms expect an even greater rise in the next quarter. In **business services** companies reported an increase in the level of activity, following stability in the previous quarter and significant declines since the last quarter of 2008. The increase is reflected in domestic sales of services as well as in sales abroad. On the basis of orders in the industry, these increases in domestic and foreign demand will persist in the coming quarter. The **hotel industry** reported a moderate reduction in activity compared with the equivalent quarter last year, due to the decline in the number of bed-nights of both Israelis and foreign tourists. Expectations in this industry continue to be pessimistic. Activity expanded in **transport and communications**, after increasing moderately in the previous quarter and falling sharply in the quarters before that. Domestic sales of services rose, while foreign sales remained stable, after falling in the preceding quarters. In the **construction industry** activity rallied, and expectations for the next quarter are optimistic. **Average inflation expectations** for the next 12 months dipped slightly below the upper limit of the price-stability target, to 3.0 percent from 3.2 percent in the previous survey. Companies expect the **NIS/US\$ exchange rate** in 12 months' time to be NIS 4 to the dollar, similar to the rate forecast in the previous survey.

Figure 1: Weighted Net Balance of Business-Sector Activity*



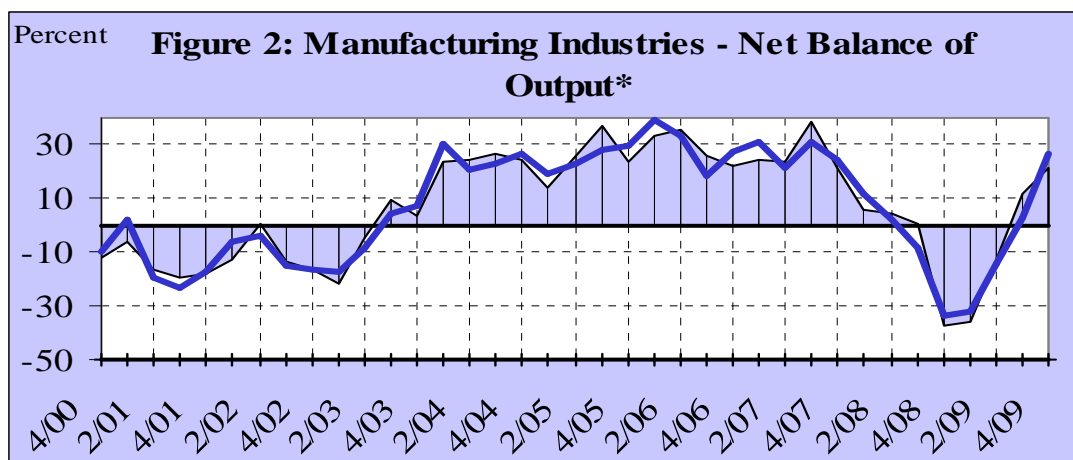
1. Macroeconomic developments

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 fourth quarter of 2009 economic activity rose significantly, continuing the rally evident in the previous quarter (Figure 1). The positive trend in the activity of the business sector reflects particularly the growth of activity in the business services and manufacturing sectors in the fourth quarter. According to the Companies Survey, the expansion of manufacturing was based mainly on the expansion of exports, while that of the services was based on domestic activity. Signs of recovery were evident also in the commerce and transport and communications industries, expressing mainly the recovery of domestic activity. The level of activity in the construction sector remained unchanged in the fourth quarter, and activity in the hotel sector declined sharply relative to the equivalent quarter last year.

The development of the leading index of activity in the business sector expresses the continued recovery of activity for the second consecutive quarter and the very low probability that activity will moderate. The leading index in the transportation and communications industry is exceptional in view of the optimism in the other industries, and this is the only sector in which firms expect activity to moderate in the next quarter.

2. Industry developments

Manufacturing companies report a rise in activity in the fourth quarter of 2009, even exceeding their expectations in the previous quarter (Table 3 and Figure 2). The recovery in activity derived from a rise in both domestic and foreign sales. Companies' responses regarding the expected severity of the constraints in the current quarter bear out the pattern of a rally in manufacturing—a decline in the severity of the effective constraint regarding the extent of orders from Israel and from abroad. The rate of utilization of machinery and equipment has continued to grow, and the net balance of the number of employees also attests to a rise in export orders. From the net balance of companies' responses with regard to activity in the next quarter it transpires that there is a marked rise in both export and domestic orders.



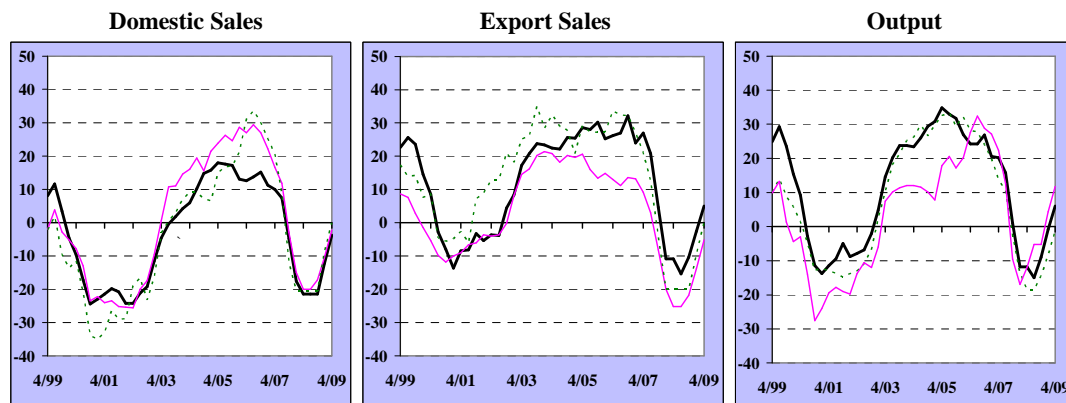
The classification of manufacturing companies into three groups of industries by their degree of technological innovativeness—low-, mixed-, and high-tech—shows that the expansion of output

encompassed mainly high-tech companies, affecting low-tech companies to a lesser extent (Table 1.1 and Figure 3). Particularly notable for the increase in their activity in the fourth quarter, including in exports, were the companies in the electronics, chemicals and the paper and printing industries, while those notable for decreases were the metals, mining and quarrying industries (Table 15). The picture continues to be mixed concerning activity in the next quarter: exports of the electricity, electronics, and the paper and printing industries will continue to expand, with export orders in the other industries remaining unchanged. The high-tech and traditional industries report an increase in export orders as well as in orders for the domestic market, while the mixed-tech industries report a decline in these orders.

The classification of manufacturing companies by **size** (number of employees) shows that the expansion of activity in general, and of exports in particular, was based on the growth of activity of the large companies. The large companies are optimistic about orders for the next quarter, particularly export orders. On the other hand, the remaining companies, especially the small ones, did not experience significant growth, and their expectations for the next quarter are moderate as regards both the domestic market and exports.

Another indication of the acceleration of economic activity may be found in the proportion of firms responding that they have experienced a significant 9 percent expansion. This figure is in line with the proportions reported in significant growth events in Israel in the past.¹

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



^a Moving average, outlying observations - unadjusted data

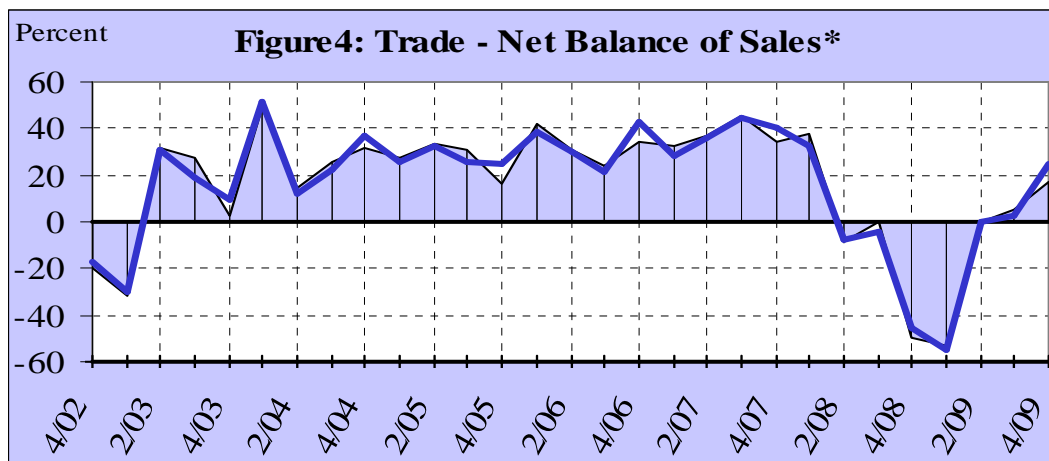
Thick line - advanced industries

Thin line - traditional industries

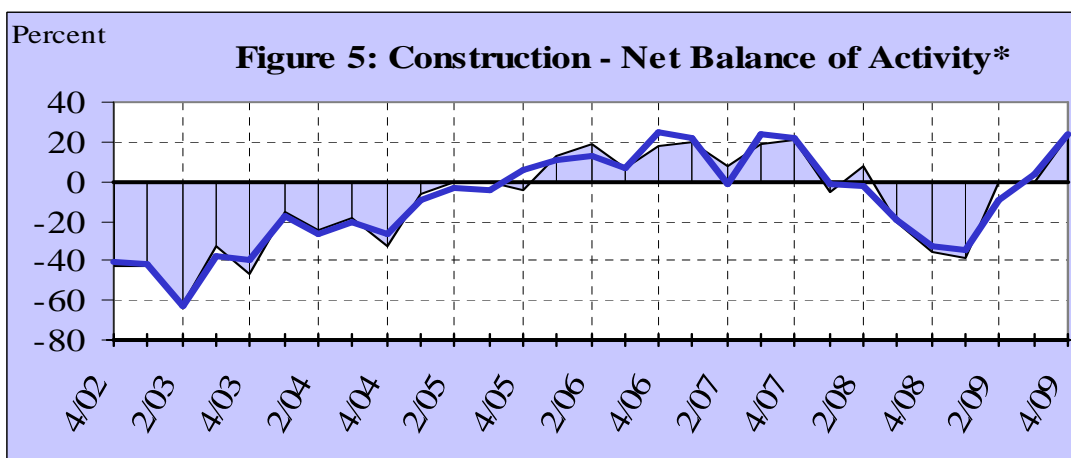
Dotted line - mixed industries

According to the reports of companies in **commerce**, the volume of activity increased to a greater extent than in the previous quarter. Moreover, companies' expectations of a rise in sales in the next quarter are even more optimistic. Concurrent with the rally in economic activity, there has been a slight increase in the number of employees, as was the case in the previous quarter (Table 5 and Figure 4). An examination of the severity of constraints also reveals some easing of the supply and demand limitations relative to the preceding quarter (Table 17 and Figure 9).

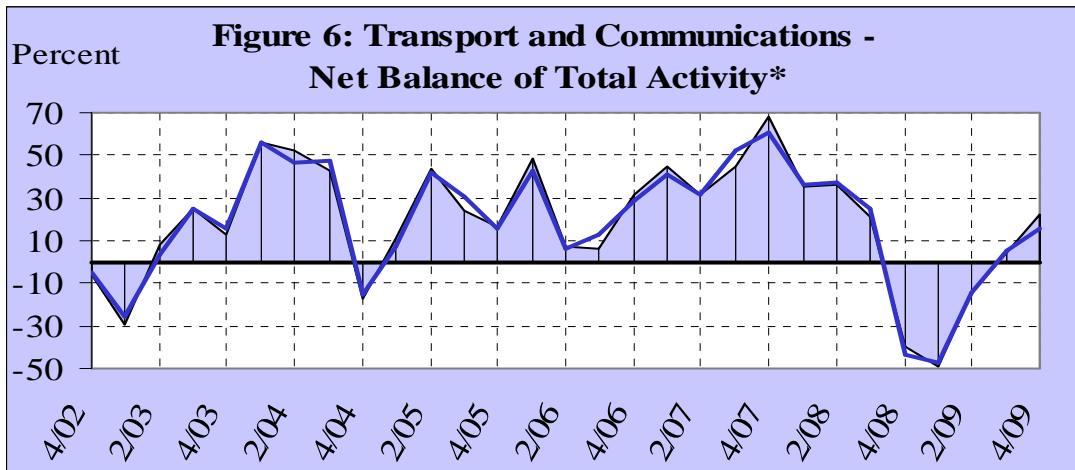
¹ During the influx of immigrants from the former USSR, as well as in the periods of growth in 2000 and from mid-2003 to mid-2008, the proportion of companies reporting a significant growth surge jumped to over 8 percent.



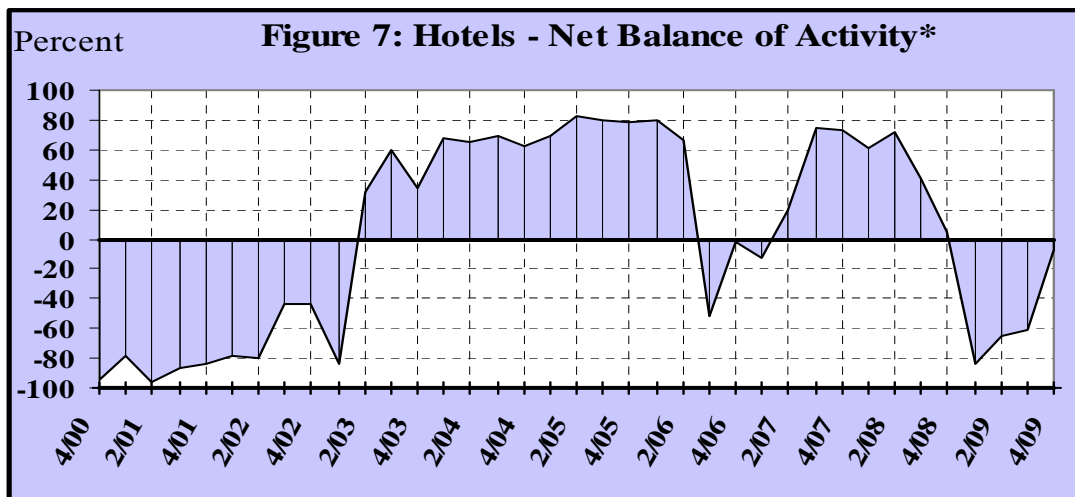
According to reports from **construction** companies, the volume of activity increased in the fourth quarter, after remaining stable in the two preceding quarters and following a decline in activity since the beginning of 2008 (Table 7 and Figure 5). In the fourth quarter there was also a moderate rise in the extent of structures built and a decline in infrastructure construction. The other indices of construction industry activity, such as building starts, also attest to the marked expansion of activity and positive expectations for the next quarter. According to the companies' reports, a rise in the supply constraint, namely, the lack of trained workers, is responsible for the moderation of activity: The other constraints, such as financing difficulties, input prices, and demand constraints, remained stable (Table 17 and Figure 9).



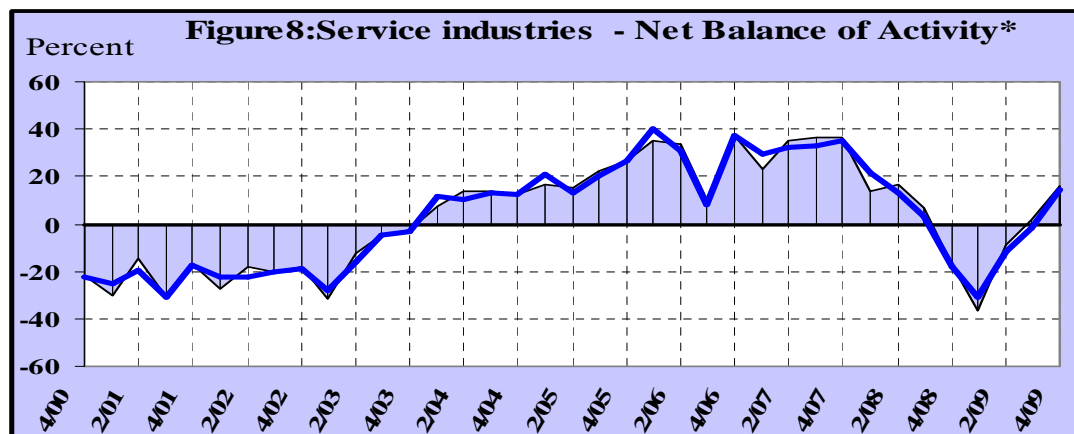
Reports from **transport and communications** companies indicate that activity expanded in the quarter reviewed, after a moderate rise in the third quarter and sharp falls in the previous quarters. The rise in activity encompassed all the spheres of the industry except for air transport, which remained stable. Sales of services to Israelis increased, and sales to nonresidents were unchanged after declining in previous quarters (Table 9 and Figure 6). The companies also report that the severity of the constraint resulting from the low level of domestic tourism abated, but increased competition exacerbated the demand-side constraint. Financing difficulties were also reported to be slightly more severe than in the previous quarter (Table 17 and Figure 9). The net balance of activity for the next quarter is expected to be positive.



Companies in the **hotel industry** reported only a moderate decline in activity (relative to the equivalent quarter in 2008; Table 11 and Figure 7), after the sharp decline since the beginning of the year. Note that the net balance in this industry is a year-on-year comparison, i.e., relative to 2008:Q4, when the crisis in the industry's activity was already in evidence. The contraction of activity resulted mainly from a reduction in foreign tourists' bed-nights, while the number of Israelis' bed-nights even rose slightly. Hotels mentioned the decline in the demand-side constraint related to foreign tourists as constituting the paramount constraint on the expansion of activity. Activity is expected to remain low in the next quarter, too.



Business-services companies reported a rise in the level of activity, following stability in the previous quarter and a significant reduction since the last quarter of 2008 (Table 13 and Figure 8). The expansion of activity in the fourth quarter is reflected in sales of services in Israel and abroad. A marked 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-side constraints this quarter, and the severity of demand-side constraints, such as the global economic situation and competition in the industry, continues to be of considerable consequence.

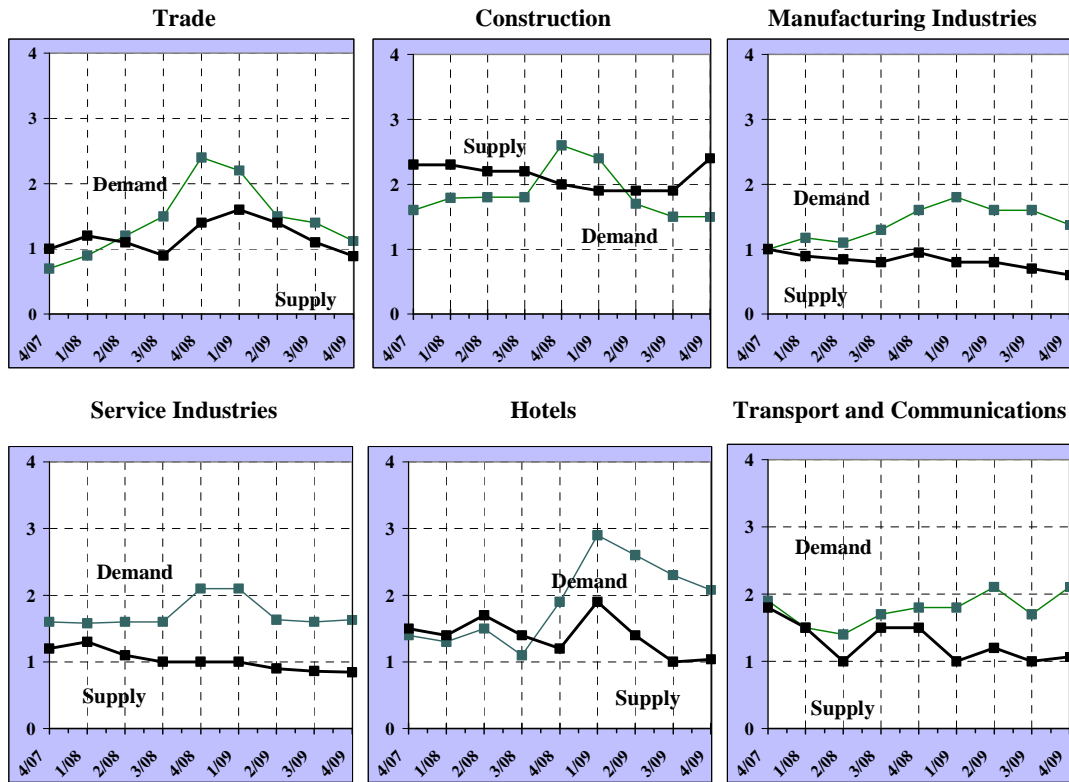


	2007				2008				2009			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Industry (output)	24	24	38	21	*6	*4	*1	-37	-36	-13	12	21
seasonally adjusted	31	21	31	24	12	*2	-8	-33	-32	-14	*3	27
Trade (sales)	32	37	46	34	38	*-8	*0	-50	-53	*0	*5	17
seasonally adjusted	29	36	45	40	32	*-8	*-4	-46	-55	*0	*2	25
Construction (total activity)	19	*7	19	20	*-6	*8	-20	-35	-39	*0	*0	23
seasonally adjusted	22	*-1	24	22	*-1	*-2	*-19	-33	-35	*-9	*3	24
Transport and communications (total activity)**	44	31	44	69	35	37	33	-40	-49	*-22	*5	*22
seasonally adjusted	41	32	52	61	36	37	33	-46	-47	*-14	*5	*15
Hotels (total activity)***	-13	20	75	73	61	72	40	5	-83	-65	-61	*-8
Service industries	23	35	37	36	14	17	6	-17	-36	*-9	*1	16
seasonally adjusted	29	32	33	35	22	13	*3	-18	-31	-12	*-2	15
Total business sector	26	30	39	36	17	13	5	-29	-41	-10	3	18
seasonally adjusted	30	28	37	36	22	11	1	-29	-38	-12	0	19

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

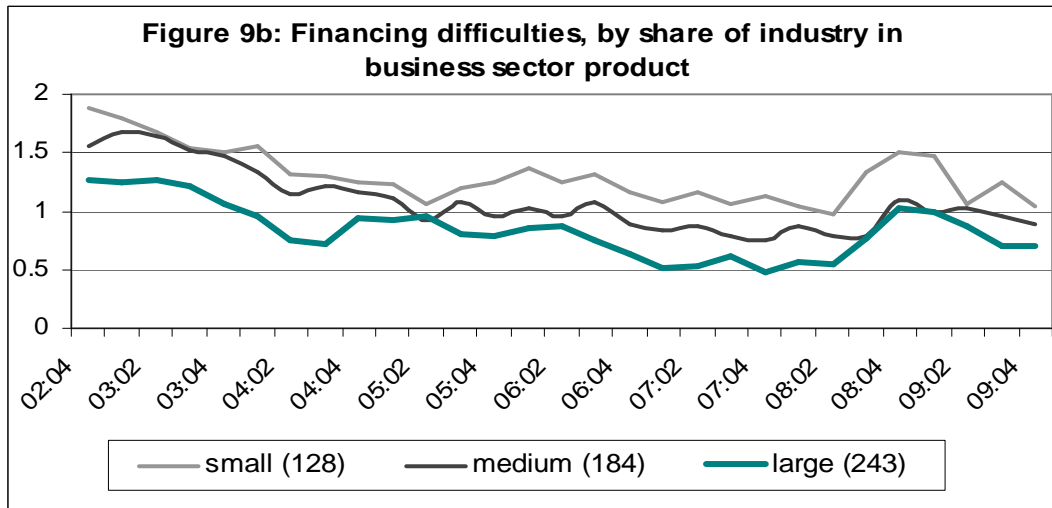
* Not significant (at the 10% level).
 ** The significance test is less effective in this industry due to the small number of firms.
 *** Compared with the same quarter in the previous year.

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.



3. Companies' labor-market responses to the recent crisis

In this survey companies were asked whether as a result of the crisis their employees had agreed to compromise regarding:

1. Wages
2. The extent of their positions

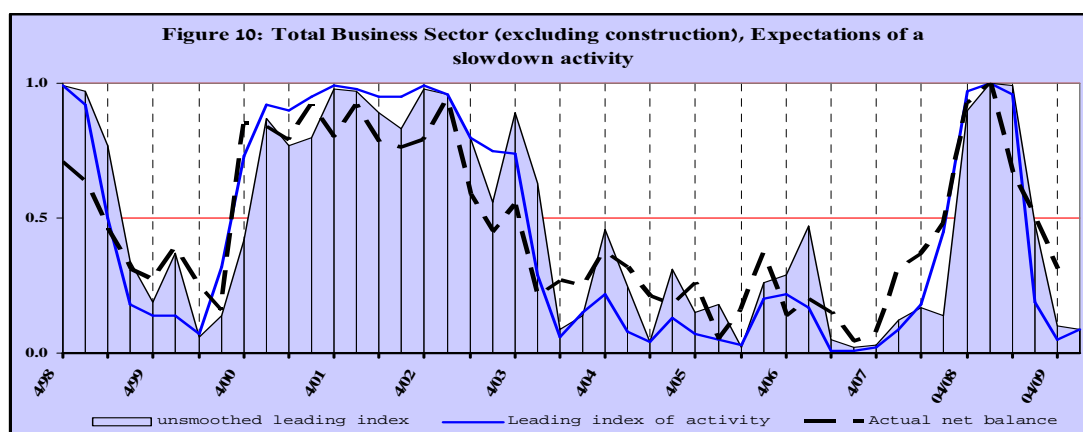
The analysis of the results shows that 44 percent of the companies that replied to the question about wages reported that their employees had compromised on the subject of wages as a result of the crisis, and approximately 36 percent of the companies that answered the question about the extent of positions stated that employees had compromised on this as a result of the crisis. A large proportion, about 64 percent, of all the companies replying that employees had compromised regarding wages stated that they had also compromised regarding the extent of their positions because of the crisis. Note, however, that these data are incomplete because of the small number of firms answering this question and all its constituent parts.

The leading index

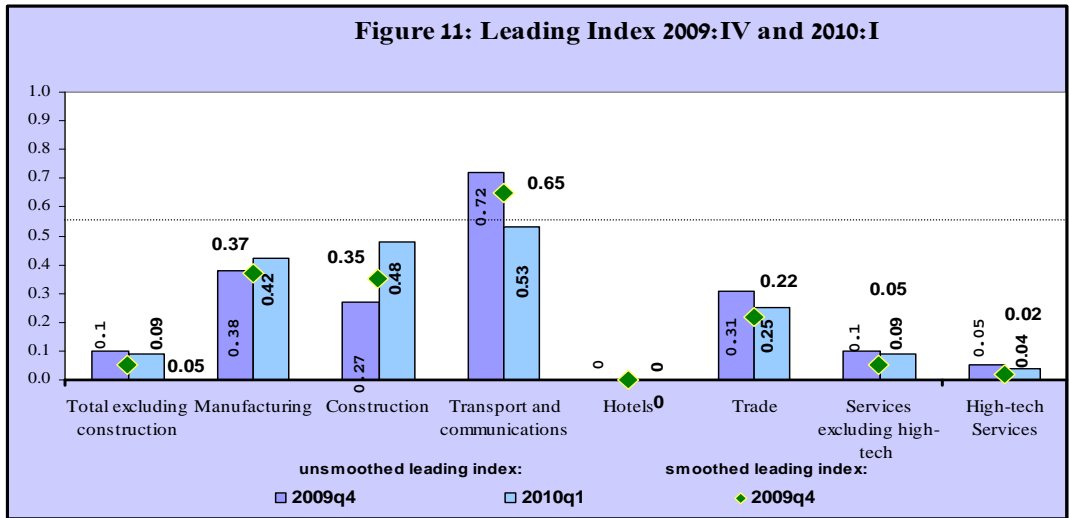
The leading index (excluding construction) in this survey predicts further improvement in business-sector activity in the first quarter of 2010, beyond that which is already represented by the actual net balance. The probability of recession is significantly lower than the 0.5 threshold value,² for the second quarter in succession.

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 below the 0.5 threshold in most industries, except for the transportation and communications industry, regarding which the probability of a downturn is still far from the 0.5 threshold.

Two leading indices are presented, for both 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 forecast for the following quarter; 2) An unsmoothed probability index, without retroactive update of the leading index. A comparison of the two indices shows that companies' expectations have not changed significantly from the previous quarter so that there is hardly any updating of the leading index as regards either the macroeconomic level or the by-industry analysis.



² As long as the leading index is below the 0.5 threshold, it cannot be stated 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.

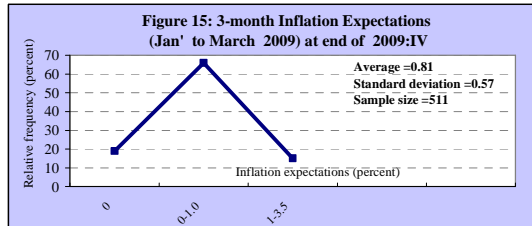
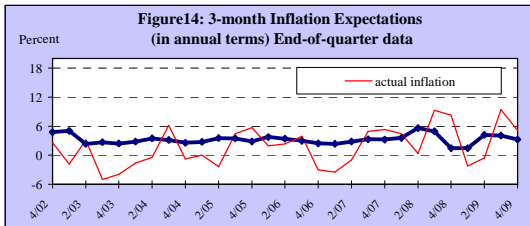
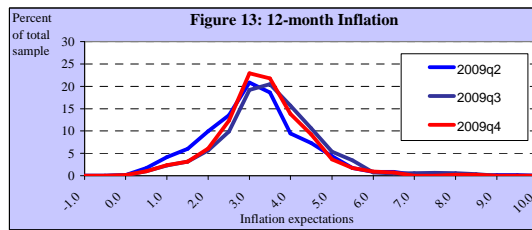
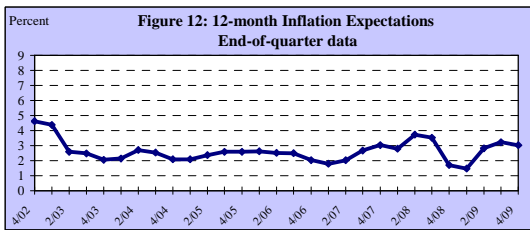


Survey of inflation expectations

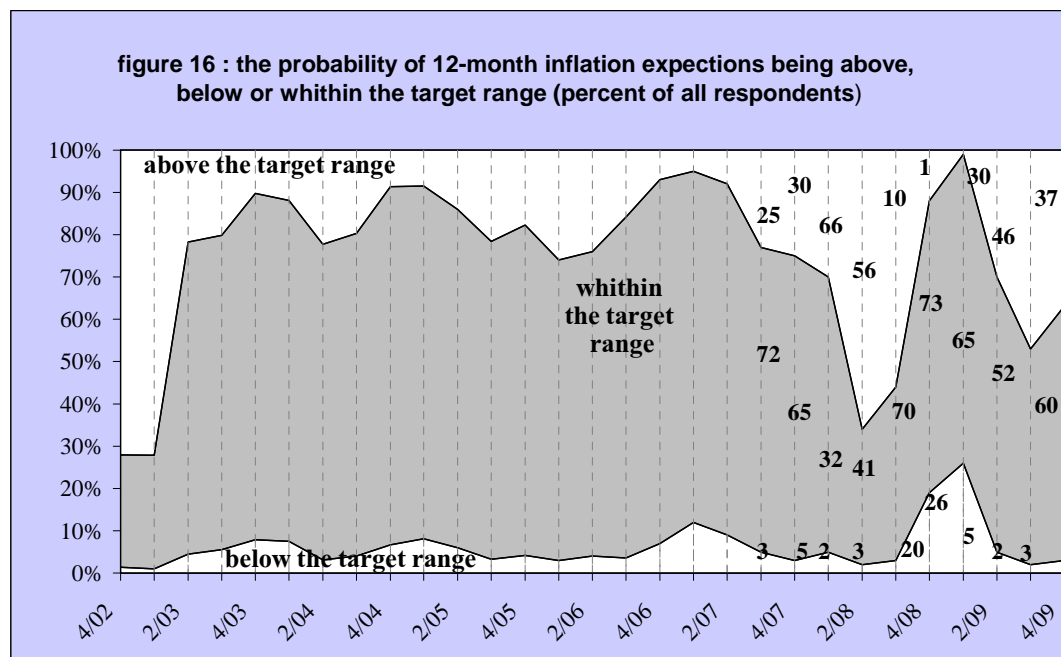
Companies' expectations regarding the cumulative rate of price increases in the next twelve months (January 2010–December 2010) dipped to 3.0 percent on average, as opposed to 3.2 percent in the previous quarter (Figure 12), corresponding to the upper limit of price stability (1 to 3 percent).

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 expectations fell slightly relative to its level in the previous quarter (Figure 13).

The rate of expected price increases in the next quarter (January 2010–March 2010) fell to 3.2 percent in annual terms, compared with 4.2 percent in the previous quarter (Figure 14). The proportion of companies that expected the inflation rate to overshoot the upper limit of the price-stability target³ fell this quarter to 37 percent, as opposed to 46 percent in the previous quarter (the upper section of Figure 16). Concurrently, the proportion of companies that expected inflation in the next twelve months to fall within the price-stability target rose from 52 percent in the previous quarter to 60 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 3 percent (the lower section of the Figure).



³ 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.

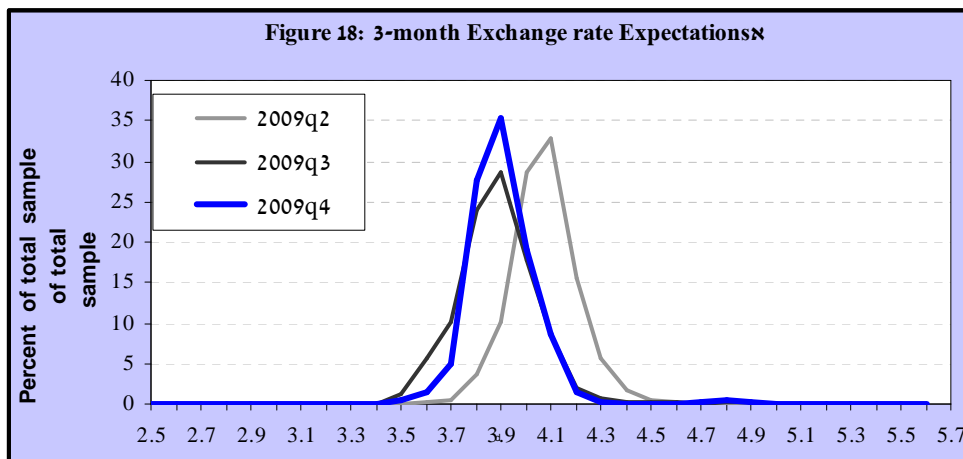
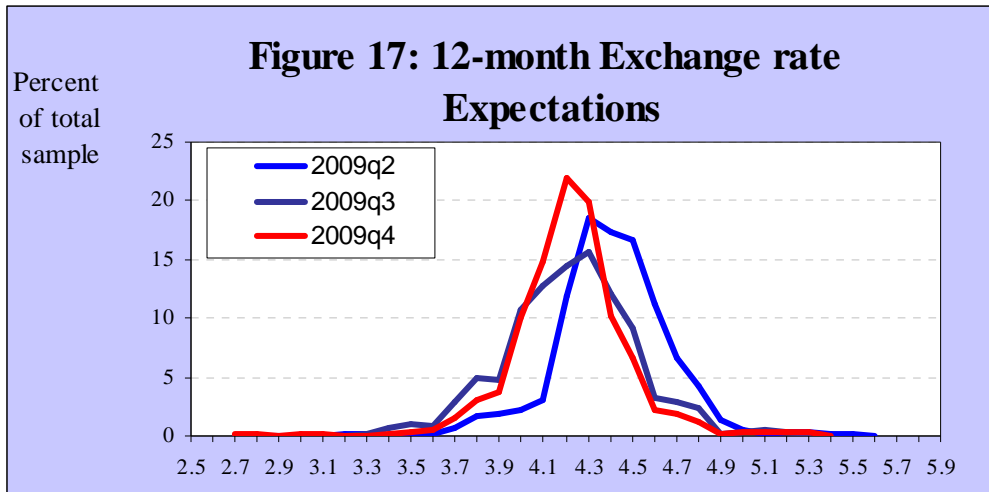
Table 2: Statistic Analysis of 12-month Inflation Expectations

	2007				2008				2009			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
1. Mode	2.00	2.00	3.00	3.00	3.00	4.00	3.00	2.00	1.00	3.00	3.00	3.00
2. Median	1.70	2.00	2.50	2.80	2.90	3.80	3.50	1.50	1.25	3.00	3.00	3.00
3. Average	1.78	2.02	2.67	2.77	2.69	3.70	3.52	1.70	1.47	2.81	3.22	3.03
4. Standard Deviation	0.91	0.93	1.09	0.92	1.04	1.42	1.44	1.37	1.31	1.19	1.21	1.05
5. Skewness	-0.22	0.02	-0.33	-0.23	-0.31	-0.30	-0.30	-0.30	0.47	-0.19	0.22	0.03
Number of responding companies	456	487	413	504	483	472	490	470	466	472	552	509

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 regarding the NIS/\$ exchange rate at the end of the next quarter (March 31, 2010) and one year from the end of the survey period (December 31, 2010). The latter expectation (end of December, 2010) was NIS 4 to the dollar, the same level as in the previous survey. The variance in expectations for twelve months ahead showed a slight increase (Figure 17). The exchange rate against the dollar that the companies expected (on average) to see at the end of the next quarter was NIS 3.86, the same as 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

	2007				2008				2009			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
1. Output	24	24	38	21	*6	*4	*1	-37	-36	-13	12	21
2. Sales	23	26	33	26	*-1	*7	*-1	-46	-41	-17	9	22
3. Domestic sales	19	26	31	17	*-1	*0	*-5	-42	-42	-17	*6	13
4. Export	16	25	29	26	*5	*8	*-4	-42	-42	-17	*0	13
5. Stocks of finished goods	12	15	22	18	9	9	*4	*-8	-26	-20	*2	*4
6. Stocks of raw materials	7	*6	17	11	10	*6	11	*3	-16	-20	*-6	10
7. Rate of utilization of machinery and equipment	14	17	25	8	*-2	*-3	-8	-39	-43	-20	*5	11
8. Number of employees	10	15	15	16	*2	*-3	*-5	-36	-43	-25	-10	*-5
9. Domestic orders	12	16	15	10	*5	*-2	-23	-50	-45	-15	*-4	9
10. Export orders	21	22	28	15	*4	9	-11	-45	-47	-18	*7	12
Number of responding companies	251	237	220	252	270	265	272	271	249	243	262	216

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 III	2009 IV					
A. Activity in the quarter							
1. Output	12 (5)	21 (5)	9	36	31	18	6
2. Sales	9 (5)	22 (6)	9	39	26	19	7
3. Domestic sales	6 (5)	13 (5)	5	32	39	18	6
4. Export	0 (6)	13 (6)	8	34	29	24	5
5. Stocks of raw materials	2 (4)	4 (5)	3	23	52	18	4
6. Stocks of finished goods	-6 (4)	10 (5)	1	30	48	18	3
7. Rate of utilization of machinery and equipment	5 (5)	11 (5)	6	26	47	16	5
8. Number of employees	-10 (4)	-5 (4)	1	14	65	15	5
B. Expected activity in the following quarter**							
9. Domestic orders	-4 (5)	9 (5)	5	25	49	16	5
10. Export orders	7 (5)	12 (6)	5	32	38	18	7
Number of responding companies	262	216					

** 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

	2007				2008				2009			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
1. Sales	32	37	46	34	38	*8	*0	-50	-53	*0	*5	17
2. End-of-quarter stock	24	37	30	34	*16	*17	*9	*-17	*-16	*-12	*-1	*1
3. Percent of credit sales	21	27	17	22	25	19	*12	*11	*3	18	17	21
4. Supply period	15	15	14	*3	*6	*0	*3	-9	-10	*0	*-2	*0
5. Forecast change in number of permanent employees	9	*7	*8	16	*9	*6	*-17	-53	-55	-24	*1	*4
6. Sales expectations	47	73	57	63	*22	53	*-3	-35	-38	24	28	35
7. Number of employees											*3	*7
Number of responding companies	34	30	24	32	32	36	36	36	32	33	117	71

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 III	2009 IV					
A. Activity in the quarter							
1. Sales	5 (8)	17 (10)	11	37	21	27	4
2. End-of-quarter stock	-1 (7)	1 (8)	6	17	55	19	3
3. Percent of credit sales	17 (5)	21 (6)	4	23	67	6	0
4. Supply period	-2 (3)	0 (4)	0	4	92	4	0
5. Number of employees	0 (6)	7 (6)	2	14	75	9	0
B. Expected activity in the following quarter							
6. Forecast change in number of permanent employees	1 (4)	4 (5)	1	10	82	6	1
7. Sales expectations for following quarter	28 (7)	35 (10)	8	48	23	20	1
Number of responding companies	117	71					

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

	2007				2008				2009			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
1. Total activity	18	19	*7	19	20	*-6	*8	-20	-39	*0	*0	23
of which 2. Buildings	21	23	*-3	*13	17	*3	*0	*-6	-48	*-3	*-3	*3
3. Infrastructure	23	33	30	*8	24	*-7	*9	-30	-48	*-4	*-17	*-10
4. Output prices in dollar terms	21	21	23	30	38	40	49	26	-34	*14	22	*13
5. Area of building starts (sq. m.)	*0	26	*-8	*-10	*-3	*-12	*-5	-40	-43	*-6	*3	*24
6. Area of building completions (sq. m.)	*-8	*6	*10	*-10	*0	*9	*5	*-3	-34	*0	*-6	*10
7. Building time	16	28	21	27	15	18	*8	26	*0	*3	*9	*7
8. Expected activity in the following quarter**	20	34	23	*6	25	*3	*-5	-22	-30	*6	*10	*13
9. Number of employees												*0
Number of responding companies	41	37	42	33	44	36	41	36	37	35	39	32

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 III	2009 IV					
A. Activity in the quarter							
1. Total activity	0 (11)	23 (13)	0	39	45	3	13
of which Buildings	-3 (12)	3 (14)	0	30	43	17	10
Infrastructure	-17 (15)	-10 (12)	5	5	70	10	10
2. Output prices in dollar terms	22 (10)	13 (11)	7	19	61	13	0
3. Area of building starts (sq. m.)	3 (14)	24 (15)	3	45	28	21	3
4. Area of building completions (sq. m.)	-6 (11)	10 (10)	4	16	70	7	3
5. Building time	9 (7)	7 (10)	4	14	71	4	7
6. Number of employees	0 (12)		0	22	56	13	9
B. Expected activity in the following quarter	10 (13)	13 (14)	7	32	35	19	7
Number of responding companies	39	32					

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

	2007				2008				2009			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
1. Total activity	44	*31	44	69	*35	37	*21	-40	-49	*-15	*5	*22
2. Sales of services to residents	47	*38	44	68	*32	*38	*30	-44	-41	*-9	*0	*21
3. Sales of services to nonresidents	42	*9	*13	*20	*-6	*-10	16	-11	-40	*-11	*-12	*1
4. Utilization of equipment (capacity utilization, etc.)	*49	58	41	45	*39	36	*17	-44	-56	*-6	*2	*13
5. Expected activity in the following quarter**	*48	*35	46	59	72	34	*7	*-41	*-10	*15	*5	*31
6. Number of employees												*7
Number of responding companies	24	21	21	24	28	20	25	30	27	32	46	39

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 III	2009 IV					
A. Activity in the quarter							
1. Total activity	*5	22	1	47	25	21	6
2. Sales of services to residents	*0	21	0	40	41	16	3
3. Sales of services to nonresidents	*-12	1	0	17	67	8	7
4. Utilization of equipment (capacity utilization, etc.)	*2	13	0	32	49	14	5
5. Number of employees		-5					
B. Expected activity in the following quarter							
	*5	31	7	28	60	2	3
Number of responding companies	46	39					

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)

	2007				2008				2009			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
A. Activity in the quarter												
1. Total activity	*-13	*20	75	73	61	72	40	*5	-83	-65	-61	*-8
2. Number of bed-nights: Tourists	-31	*-4	65	70	70	85	45	*10	-85	-78	-81	*-28
3. Number of bed-nights: Israelis	*-2	*-11	*0	*-18	*-8	*0	*13	-45	-73	-27	*-2	*8
4. Average revenue per room	36	23	67	49	24	26	26	43	*0	*-5	24	*16
5. Number of employees												-32
B. Expected activity in the following quarter**												
Bookings for next quarter											-68	-42
Bookings for next quarter of foreign tourists											-73	-44
Bookings for next quarter of Israelis											-45	-25
Number of responding companies	50	48	45	40	40	37	39	47	40	41	42	25

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 III	2009 IV					
A. Activity in the quarter							
1. Total activity	-61 (11)	-8 (18)	8	28	20	28	16
2. Number of bed-nights: Tourists	-81 (8)	-28 (18)	12	20	8	36	24
3. Number of bed-nights: Israelis	-2 (14)	8 (16)	0	36	36	24	4
4. Average revenue per room	24 (13)	16 (18)	0	48	20	24	8
5. Number of employees		-32 (14)	0	12	44	32	12
B. Expected activity in the following quarter							
Bookings for next quarter of foreign tourists	-33 (12)	-21 (17)	4	21	29	21	25
Bookings for next quarter of Israelis	-45 (15)	-25 (15)	0	17	41	29	13
Number of responding companies	42	25					

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

	2007				2008				2009			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
A. Activity in the quarter												
1. Total revenue from current activity	37	23	37	36	14	17	*6	-17	-36	*-9	*1	16
2. Sales of services in Israel	36	20	27	33	10	16	*4	-16	-38	-17	*2	13
3. Sales of services abroad	46	*0	33	36	18	21	*1	*-13	-38	*4	-16	*11
4. Number of employees	13	15	22	25	21	12	*7	-16	-29	-15	*-2	*6
5. of which: trained	17	17	26	29	24	14	*6	-10	-25	-13	*0	9
6. Number of Israeli workers abroad	16	15	*7	*6	9	*-3	*0	*-1	-16	-12	*-4	*5
B. Expected activity in the following quarter**												
7. Total orders	27	42	41	40	23	25	*-2	-38	-25	*6	25	34
8. Export orders	*13	32	52	29	36	22	*8	-36	-23	23	*11	25
Number of responding companies	151	202	163	188	197	191	188	204	185	183	272	201

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 III	2009 IV					
A. Activity in the quarter							
1. Total revenue from current activity	1 (5)	16 (5)	6	31	42	15	6
2. Sales of services in Israel	2 (4)	13 (5)	3	29	49	13	6
3. Sales of services abroad	-16 (8)	11 (10)	11	21	47	14	7
4. Number of employees	-2 (4)	6 (4)	1	19	66	14	0
5. of which: trained	0 (4)	9 (4)	3	18	67	12	0
6. Number of Israeli workers abroad	-4 (4)	5 (5)	0	9	87	2	2
B. Expected activity in the following quarter**							
7. Total orders	25 (5)	34 (5)	4	43	40	10	3
8. Export orders	11 (8)	25 (10)	6	37	39	10	8
Number of responding companies	272	201					

* 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:III and 2009:IV

	Number of responding companies			Total output	Domestic sales	Domestic orders ¹	Actual exports	Export orders ¹	Finished goods	Number of employees
	2009	IV	2009							
Mining, quarrying, construction materials, and wood	2009	IV	20	*0	*-5	*-19	*-20	*-10	*5	*0
	2009	III	26	38	32	*-23	*-15	*14	*0	*-4
Food and beverages	2009	IV	30	*7	*17	*15	*-17	*-6	*-13	*-7
	2009	III	34	*6	*3	*-7	*-23	*-10	-21	*-9
Textiles, clothing, and leather	2009	IV	19	33	*22	*28	*12	*6	*0	*-5
	2009	III	17	*0	*-13	*-13	*-13	*25	-29	-29
Chemicals, rubber, and plastic	2009	IV	39	33	36	*10	*16	*11	33	*-8
	2009	III	43	28	*5	*-9	21	*13	19	*2
Metals and machinery	2009	IV	31	*-6	*-11	*7	*4	*-13	*7	*-19
	2009	III	42	-24	*-3	*-16	-34	-29	*0	*-14
Electronics, electricity, and transport equipment	2009	IV	55	32	*-2	*2	30	27	*12	*4
	2009	III	73	*10	*-1	*3	*10	*10	-13	-15
Paper, printing, and other	2009	IV	17	50	44	*27	*10	50	38	*6
	2009	III	20	35	32	33	*18	*27	*11	*0
Total manufacturing industries excluding diamonds	2009	IV	211	21	12	9	12	11	12	*-4
	2009	III	255	11	*5	*-5	*-3	*4	*-4	-10
Diamonds	2009	IV	5	*20	*25	*25	60	*40	-60	-40
	2009	III	7	*29	*33	*40	57	71	-57	-29
Total manufacturing industries	2009	IV	216	21	13	9	13	12	10	*-5
	2009	III	262	12	*6	*-4	*0	*7	*-6	-10

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:IV

	Manufacturing companies				Construction companies				
	Total	Small	Middle	Large	Total	Small	Middle	Large	
Output	21	*8	17	26	Total activity	23	*27	*13	*40
Total sales	22	*8	20	26	Area of starts	*24	*-9	46	*40
Domestic sales	13	*8	*13	13	Area of completions	*10	*9	*8	*20
Export	13	*-14	*11	17	Output prices in \$	*13	*18	*7	*20
Number of companies	216	26	66	124	Area of completions	32	11	15	6

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

APPENDIX

Notes to the Survey

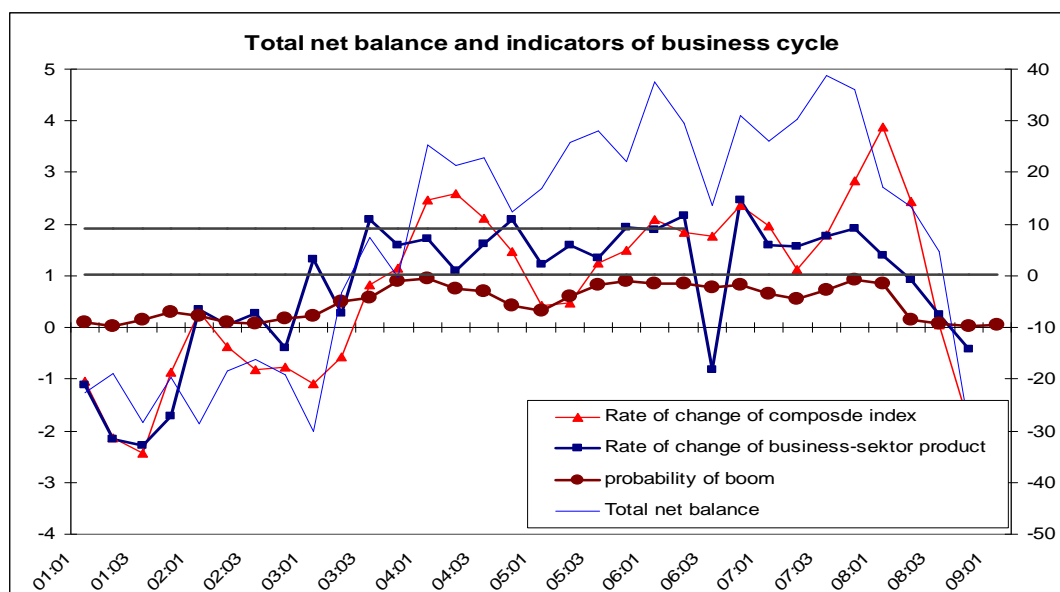
Net balance

This quarterly survey relates to developments in 2009:Q4 and includes assessments and expectations regarding 2010:Q1. 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.

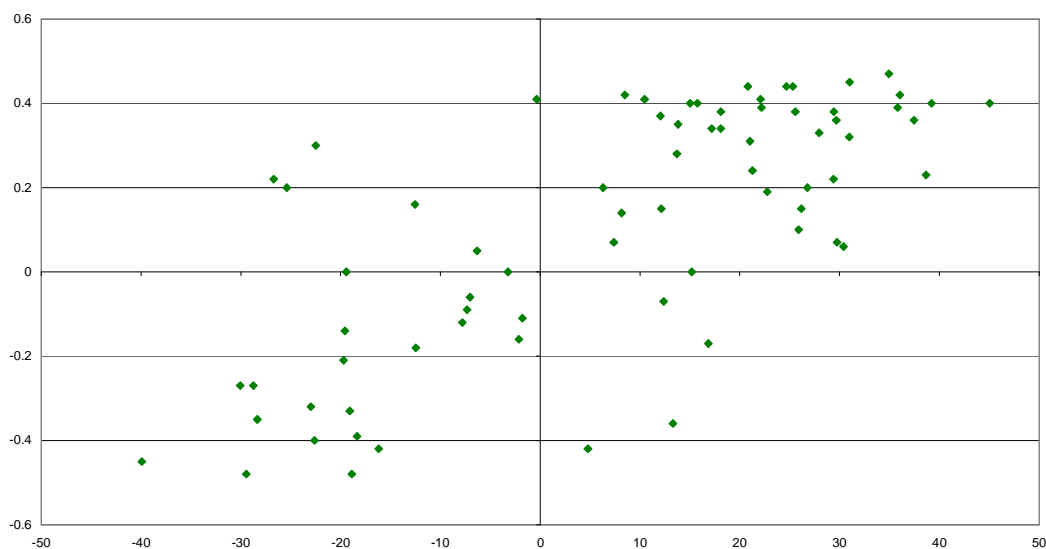
The results are analyzed by means of the net balance, defined as the difference between the percentage of companies reporting an increase and the percentage of those reporting a decrease. A net balance of zero in a particular category shows that there was no change in the level of that category compared 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:

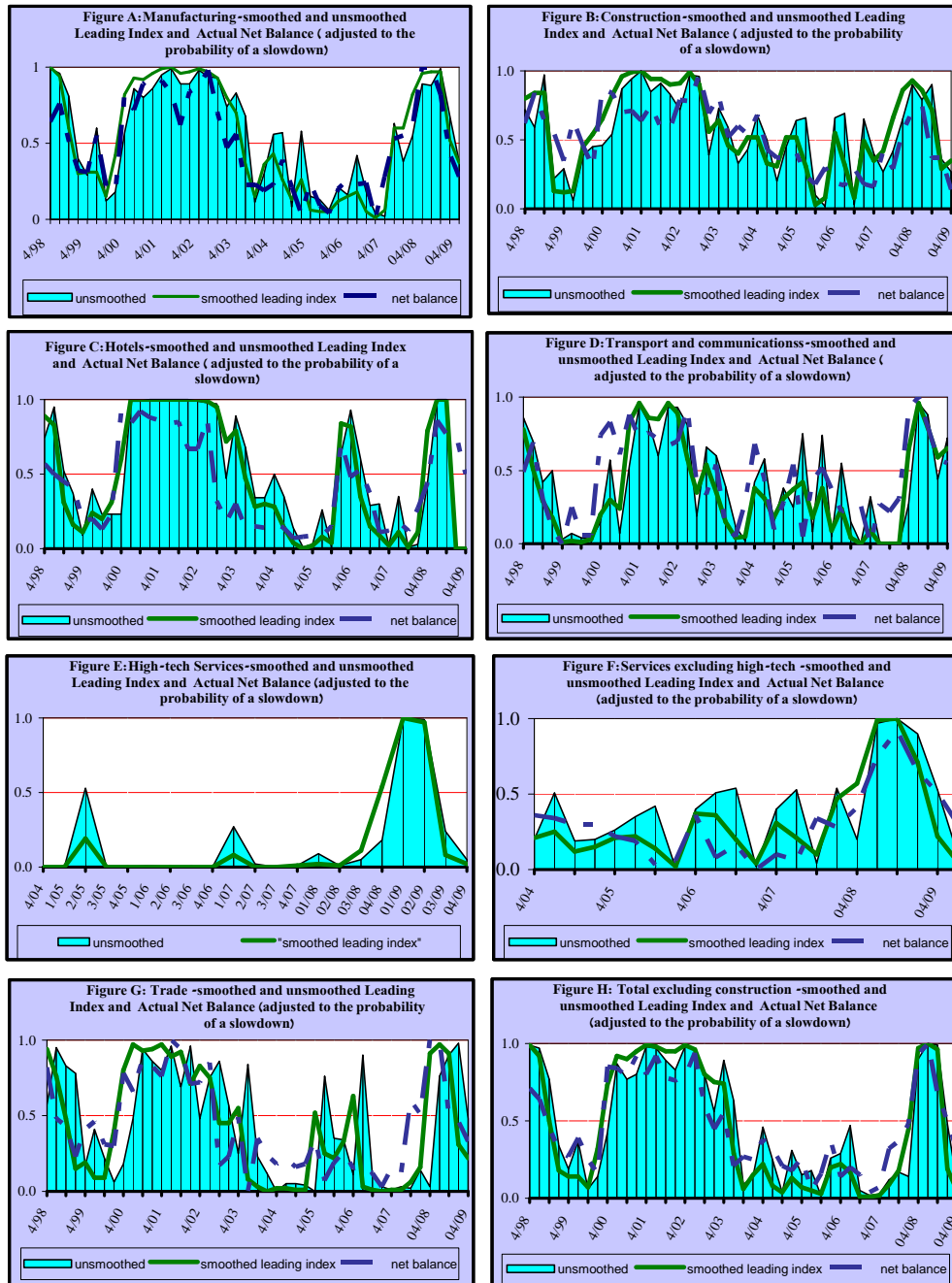
Industry	Continued acceleration		Acceleration-slowdown		slowdown-acceleration		Continued slowdown		Number of companies ^b
	standard deviation	average	standard deviation	average	standard deviation	average	standard deviation	average	
Manufacturing	0.06	0.30	0.04	0.14	0.04	0.11	0.07	0.45	257
Trade	0.11	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