



Bank of Israel * Research Department

Companies Survey

First quarter of 2010

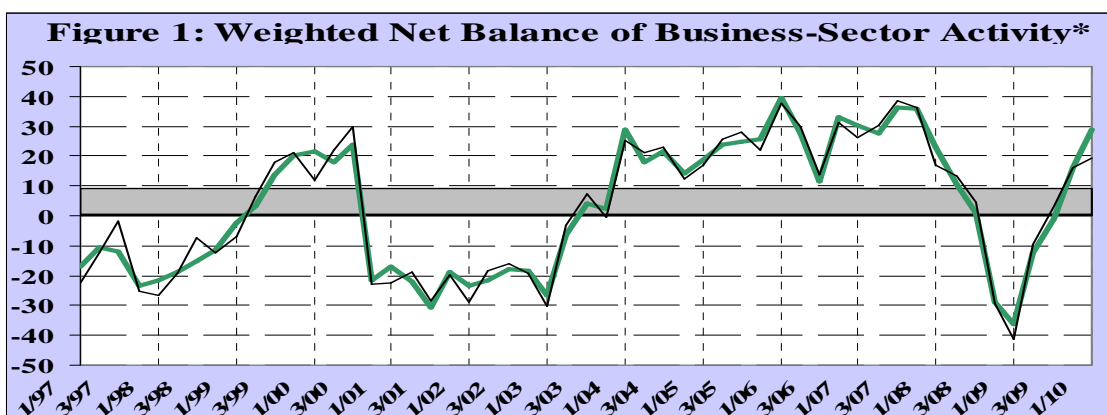
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Bank of Israel Research Department

Companies Survey for the First Quarter of 2010—Major Findings

Reports from companies indicate that business activity continued to expand in the first quarter of 2010, maintaining the trend of the previous quarter. In this quarter the increase in the net balance of overall activity in the business sector even intensified (Figure 1), and the leading index expresses expectations of further expansion of activity in the next quarter. This situation resulted from an easing in the severity of demand constraints, and despite the weakness of exports. As in the past, employment responded with a delay to this expansion of activity, and the number of employees in the various industries grew moderately. Average inflation expectations for the next 12 months fall within the range defined as price stability.

In **manufacturing** the expansion of output continued, maintaining its increase in the previous quarter. The expansion was reflected in the growth of domestic sales and exports. The increase in activity encompassed the low-tech and the hi-tech industries. Orders for the next quarter indicate that the expansion of activity in the industry is expected to continue. Sales rose in **commerce** companies, a continuation of the gradual growth in their net balance during 2009. Companies in this industry expect this trend to continue in the next quarter. **Business services** companies reported a slight rise in revenue, similar to that in the previous quarter. In the next quarter, companies expect a more substantial expansion of domestic activity and of activity abroad. **Hotels** recorded a sharp increase in activity relative to the same quarter last year, thanks to the rise in domestic and overseas tourism. These are the first positive signs of activity to appear since the outbreak of the global crisis that dealt a severe blow to the industry toward the end of 2008. **Transport and communications** recorded a rise in activity, thanks to the growth in sales of services to the Israeli market. Orders for the next quarter have risen significantly. Activity in the **construction** industry expanded slightly, but some of the indices still attest to the weakness of the industry. Some expansion is expected in the industry for the next quarter. Average **inflation expectations** for the next 12 months have already dropped to within the range of price stability, 2.45 percent, as against more than 3 percent in the previous survey. Companies expect, on average, that the **NIS/US\$ exchange rate** in 12 months time will be NIS 3.9 to the dollar, similar to the companies' expectations in the previous quarter.



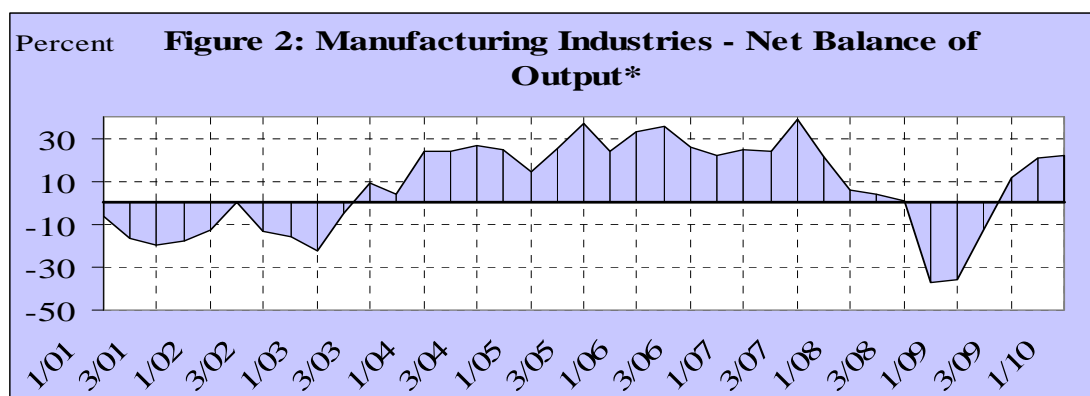
1. Macro developments

An analysis of the responses of all the companies participating in the survey, with each industry's net balance weighted by its share in the business-sector product, shows that in the first quarter of 2010 the expansion in the business sector in Israel consolidated itself (Figure 1), thanks to further easing in demand constraints. Activity in all industries grew—as reflected in their positive net balances; this is particularly evident in the domestic market and less with regard to activity abroad. The expansion in activity was supported by the continuing easing in financing constraints since the first quarter of 2009.

The leading index of activity in the business sector expects a further expansion in the next quarter. An analysis of the leading index by industry shows that these expectations of continuing growth characterize all industries.

2. Industry developments

Reports from **manufacturing** companies show that the expansion of activity continued in the first quarter of 2010, a continuation of the rise in the net balance in the last quarter of 2009, and of the recovery indicated by the survey during that year (Table 3 and Figure 2). The expansion was reflected in a substantial increase in the net balance of domestic sales, and in the net balance of exports. An easing in demand constraints in Israel and abroad was the major factor underlying the growth in activity in the industry. The growth in activity was expressed to a certain extent also by the development of the factors of production in the industry: the companies report an increase in the number of employees, even though this increase is moderate and late relative to the development of activity—similar to the slow reaction of employment to activity growth in the past. The companies report a sharp increase in the rate of exploitation of machinery and equipment. The companies expect the rise in activity in the domestic market to continue into the next quarter—at a similar intensity to that recorded in the review quarter, and that exports will also grow in the next quarter.

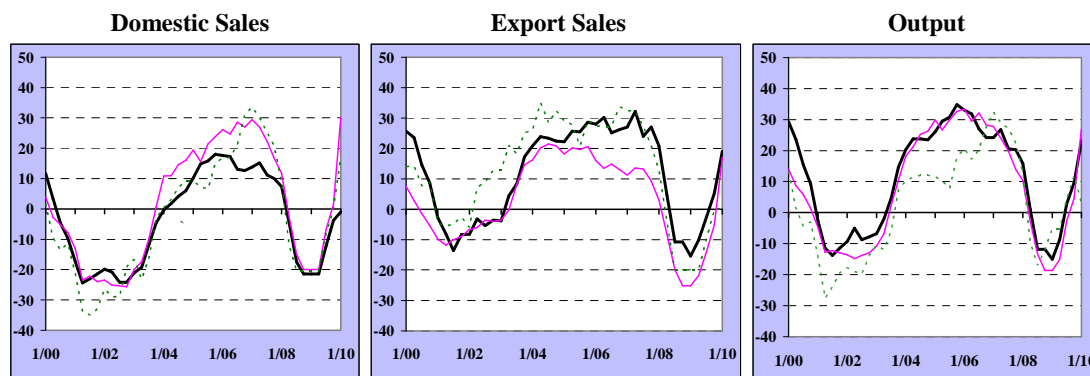


The classification of manufacturing companies into three groups of industries by their degree of technological intensiveness, i.e., low-, medium-, and high-tech, shows that

the rise in the net balance encompassed the low-tech and the high-tech industries. The net balance of the medium-tech industries decreased, which does not match the behavior of the remainder of the manufacturing sector in both this quarter and in previous quarters. In particular, activity in the medium-tech industries (Table 15) of mining, quarrying, and chemicals seemed to be marking time, as against the significant growth of activity in the low-tech industries of food, beverages, paper, and printing, and in the high-tech software and electronics industries. At the same time, reports by medium-tech companies of orders for the next quarter indicate an increase in expectations of activity, similar to the expectations of the other companies in the industry (Table 1.1 and Figure 3).

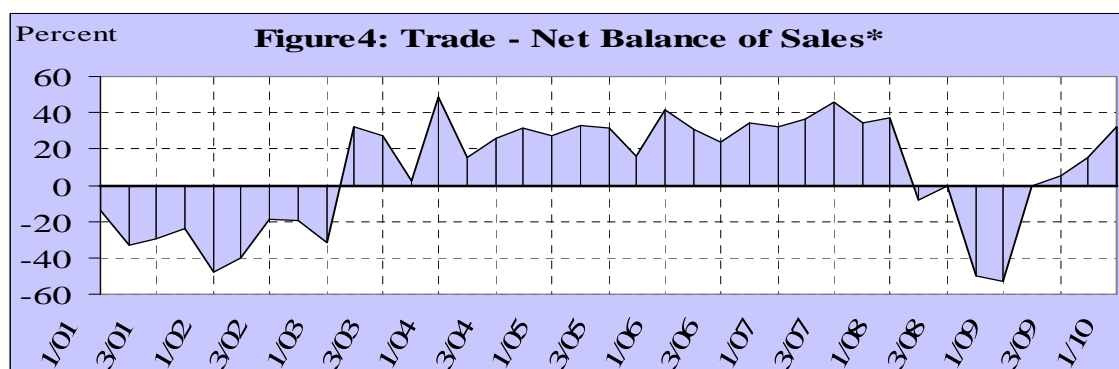
The classification of manufacturing companies by **size** (number of employees) shows that the expansion encompassed all sizes. Among other things, this finding possibly expresses an easing in the severity of financing difficulties, which in previous quarters constrained the activity of the small companies.

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

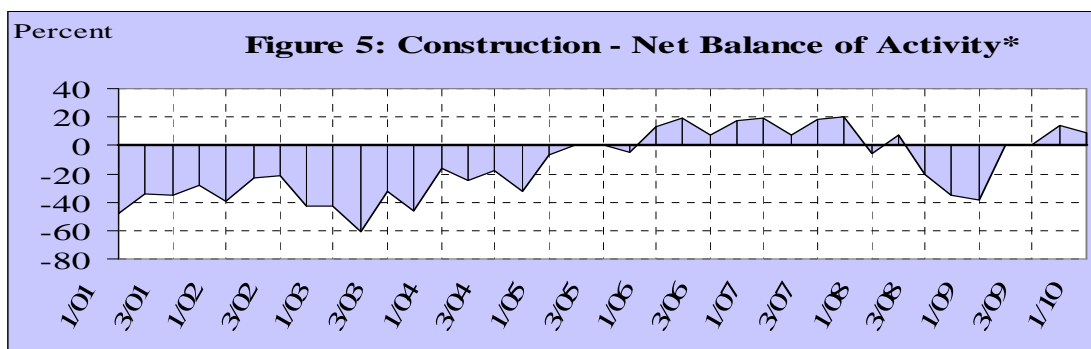


^a Moving average, outlying observations - unadjusted data
 Thick line - advanced industries
 Thin line - traditional industries
 Dotted line - mixed industries

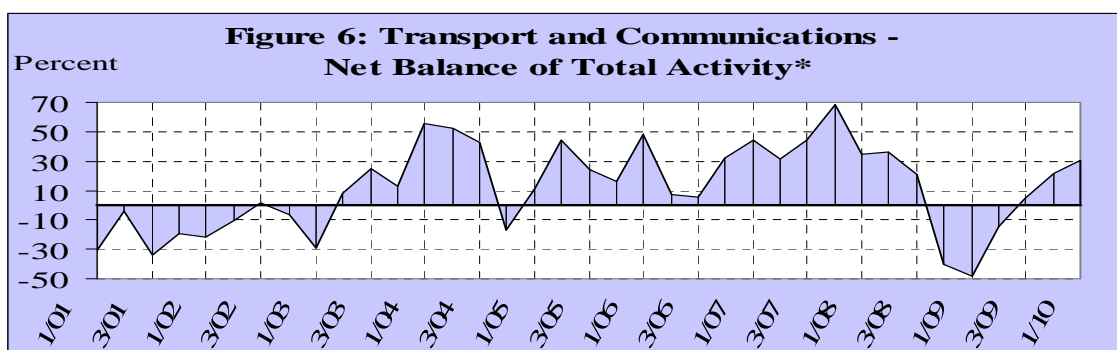
Commerce companies report an increased volume of sales in the review quarter, a continuation of the growth in the previous quarter, and in accord with the companies' forecast for this quarter. Despite the increase in sales in the review quarter and in the previous quarter, the companies do not report an increase in the number of employees in the industry. At the same time, the companies forecast a rapid increase in sales for the next quarter (Table 5 and Figure 4). The major source of the increase in activity is an easing in demand constraints relative to their level last year (Table 17 and Figure 9).



Construction companies reported a slight increase in the volume of construction works in the review quarter (Table 7 and Figure 5), but other data on activity highlights the weakness of the industry: no change in the volume of building starts, a decrease in the volume of building completions, and no change in the net balance of the number of employees. At the same time, a decrease in financing difficulties combined with companies' expectations for the next quarter suggest that construction activity might grow during the year. In this quarter the companies were asked for the first time about the severity of land constraints. The survey shows that this is the most severe of the supply constraints. Against the background of all the above, output prices in the industry rose.

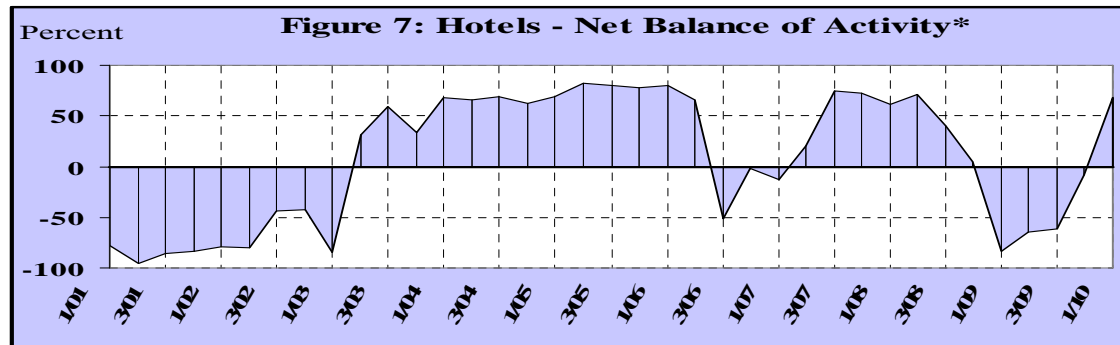


Transport and communications companies report that activity expanded in the review quarter. The source of the expansion lies mainly in the volume of transportation services, particularly airline transportation, apparently due to the growth of overseas tourism (Table 9 and Figure 6). An analysis of the severity of constraints to further growth of activity indicates a substantial easing in demand constraints bound up with the volume of foreign tourism (Table 17 and Figure 9). Thanks to this easing and in conjunction with reports of a growth in the number of reservations, a sharp increase in activity is expected in the next quarter.



Hotels reported a sharp rise in activity (compared with the equivalent quarter last year; Table 11 and Figure 7) following a year of contraction in the industry against the background of the economic crisis in Israel and worldwide. In particular, following the sharp and continuous decline in overseas tourists' bed nights, the number of bed nights grew significantly in this quarter, and the severity of demand constraints

regarding the volume of foreign tourists decreased substantially. It should be emphasized that the growth in activity is relative to the low level of hotel activity in the first quarter of last year, when the global crisis seeped into this industry as well. Companies report a further expansion in the next quarter, as reflected in a sharp increase in the number of reservations.



Business services companies report a slight rise in activity, thanks to growth in domestic sales. The volume of sales of services abroad remained unchanged, and greatly moderated the rise in the volume of overall activity (Table 13 and Figure 8). Despite the moderate growth in activity, the number of employees in the industry increased, as did orders from abroad for the next quarter. For this reason, expectations for overall activity in the next quarter are of accelerated expansion.

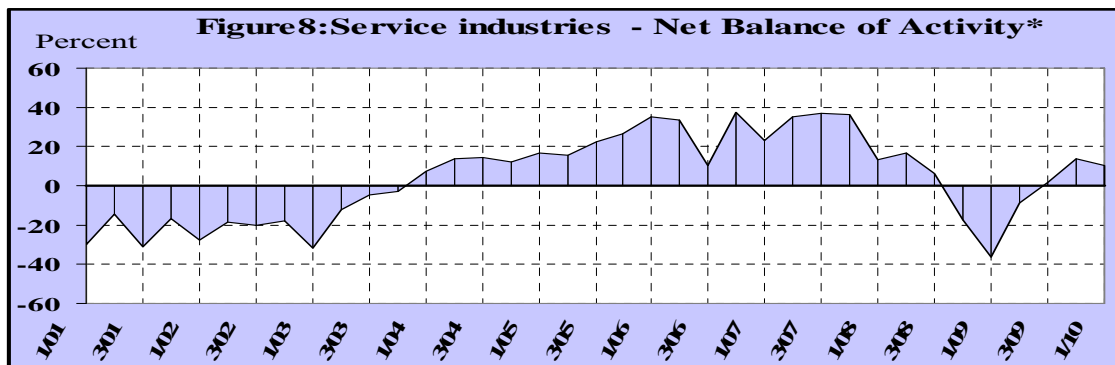


Table 1
Economic activity in the principal industries, based on the net balance of returns from companies

2010	2009				2008				2007			
I	IV	III	II	I	IV	III	II	I	IV	III	II	
22	21	12	-13	-36	-37	*1	*4	*6	21	38	24	Industry (output)
34	24	*3	-14	-30	-34	-8	*2	13	23	31	21	seasonally adjusted
33	*15	*5	*0	-53	-50	*0	*-8	38	34	46	37	Trade (sales)
30	22	*2	*0	-54	-46	*-5	*-8	33	40	44	36	seasonally adjusted
*9	*14	*0	*0	-39	-35	-20	*8	*-6	20	19	*7	Construction (total activity)
22	*15	*2	*-11	-32	-33	-20	*-3	*1	21	23	*-2	seasonally adjusted
*30	*22	*5	*-22	-49	-40	33	37	35	69	44	31	Transport and communications (total activity)**
36	*18	*5	*-15	-48	-46	33	37	34	62	52	31	seasonally adjusted
68	*-8	-61	-65	-83	5	40	72	61	73	75	20	Hotels (total activity)***
10	14	1	-9	-36	-17	6	17	14	36	37	35	Service industries
22	15	2	-11	-32	-33	-20	-3	1	21	23	-2	seasonally adjusted
20	16	3	-10	-41	-29	5	13	17	36	39	30	Total business sector
29	16	-1	-13	-36	-29	1	10	23	36	36	28	seasonally adjusted

table 1.1: The net balance of manufacturing companies, classified by human-capital intensity and innovation

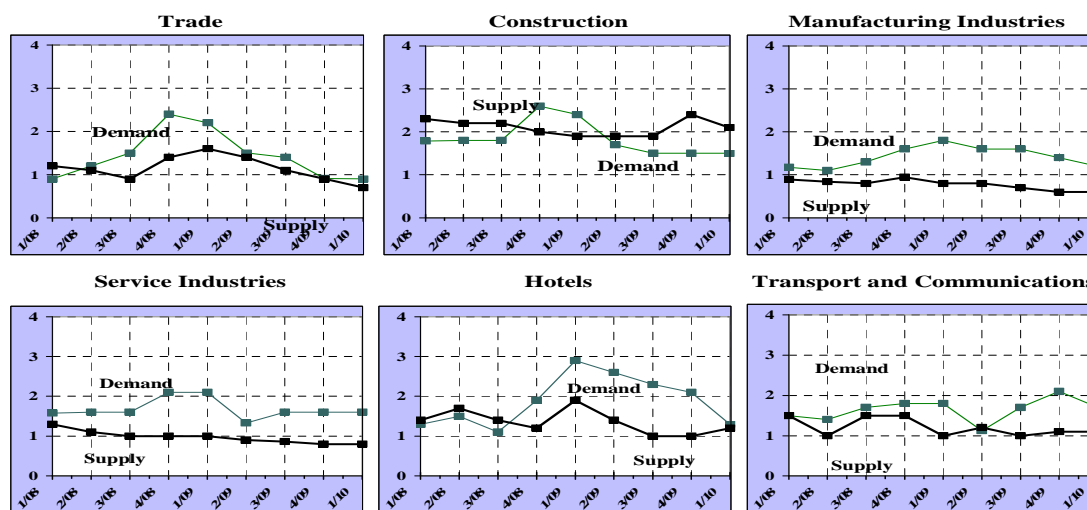
2010	2009				2008				2007			
I	IV	III	II	I	IV	III	II	I	IV	III	II	
23	31	*9	*-10	-34	-41	*2	16	*9	30	33	22	Advanced companies
*3	*10	34	25	-37	-48	*18	*3	*0	*14	63	49	Mixed companies
27	17	*6	-26	-36	-31	*-6	*-5	*5	17	35	17	Traditional companies

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

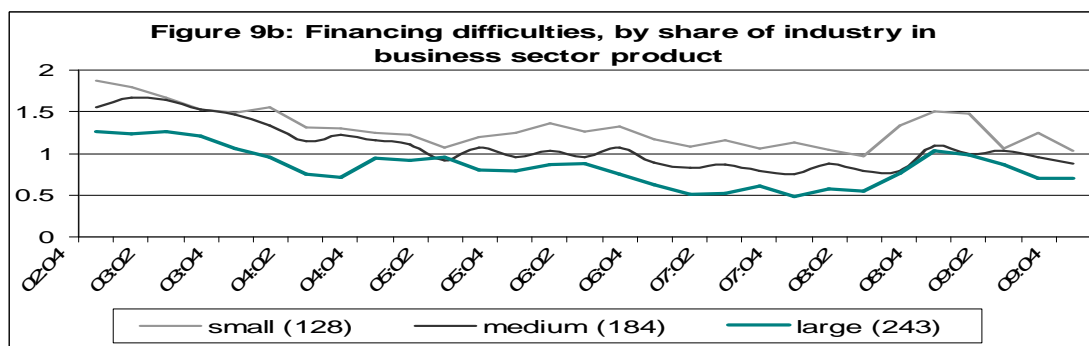
The companies report improved access to credit, a constraint that had affected them to some extent since the end of 2008—against the background of the global crisis. The easing of credit was felt particularly in the commerce and service industries, and was expressed in the companies' responses to the question (asked only in this survey) of whether they had experienced a change in their access to credit during the past six months (Table 1a), but was even evident prior to this in the easing of financing constraints (Figure 9b) against the background of the low interest rate in the economy. Furthermore, based on responses in the present survey, the companies' credit needs grew in the previous six months, with the exception of transport and communications companies, apparently due to activity growth during the period.

Table 1a:		
Changes in the Need For and Accessibility To Credit in the Last Half Year		
(Net balance as percent of reporting companies)		
	Need for credit	Accessibility to credit
Manufacturing	12.1	3.6
Trade	12.8	13.3
Construction	22.6	3.2
Transport and communications	0.0	0.0
Hotels	16.1	0.0
Business services	14.7	8.9
Business sector, total	13.6	6.8

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



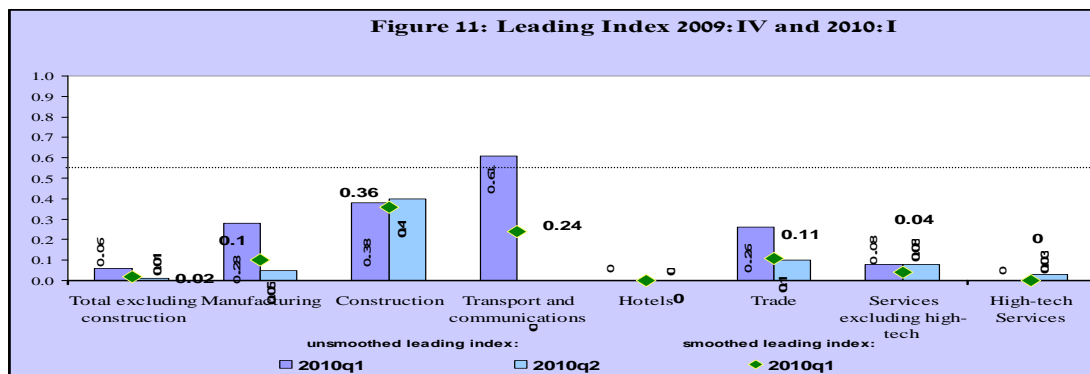
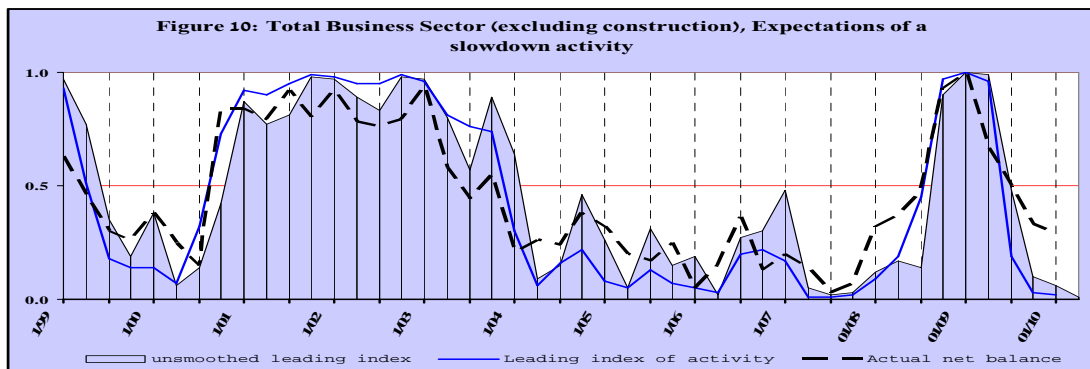
1) For every quarter the most severe constraint on the demand side and on the supply side is chosen.
 Source: Table 17.



The Leading Index

The leading index (excluding construction) in this survey foresees further expansion in business-sector activity for the second quarter of 2010. The value of the leading index is significantly lower than the 0.5 threshold value,¹ and is based on the assessment of a positive direction of activity in the economy, as against the situation during most of 2009 in which the index forecast a deepening of the recession in business activity.

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 of the industries forecast continuing expansion in all of them. In particular, the leading index in the transport and communications industry, which in the previous survey indicated a slowdown with a probability greater than 0.5, indicates in this quarter an expected expansion in the next quarter, similar to the other industry indices.



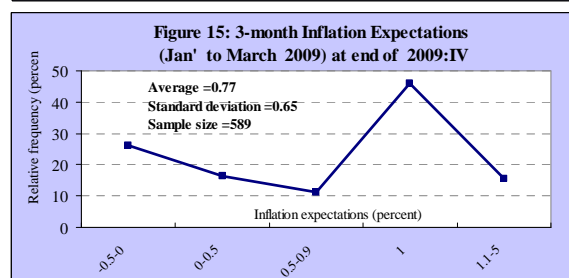
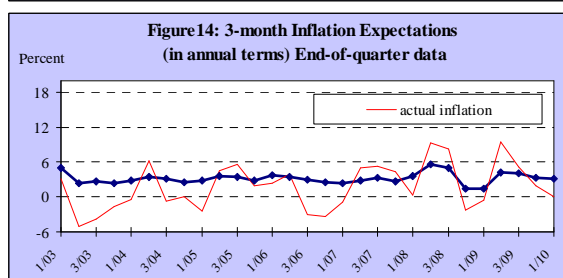
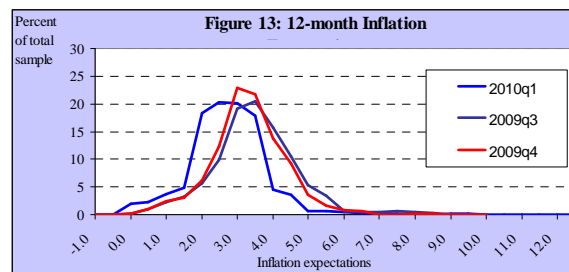
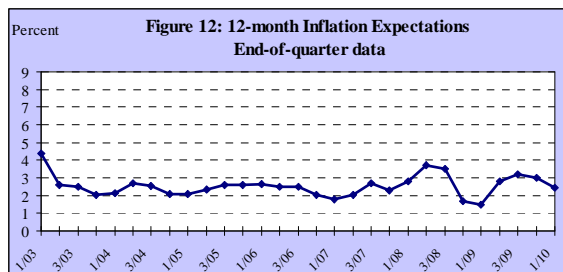
¹ As long as the leading index is below the 0.5 threshold, one cannot state with certainty that the growth rate will slow in the next quarter. If the index crosses the threshold, an easing of activity in the next quarter may be inferred.

Survey of inflation expectations

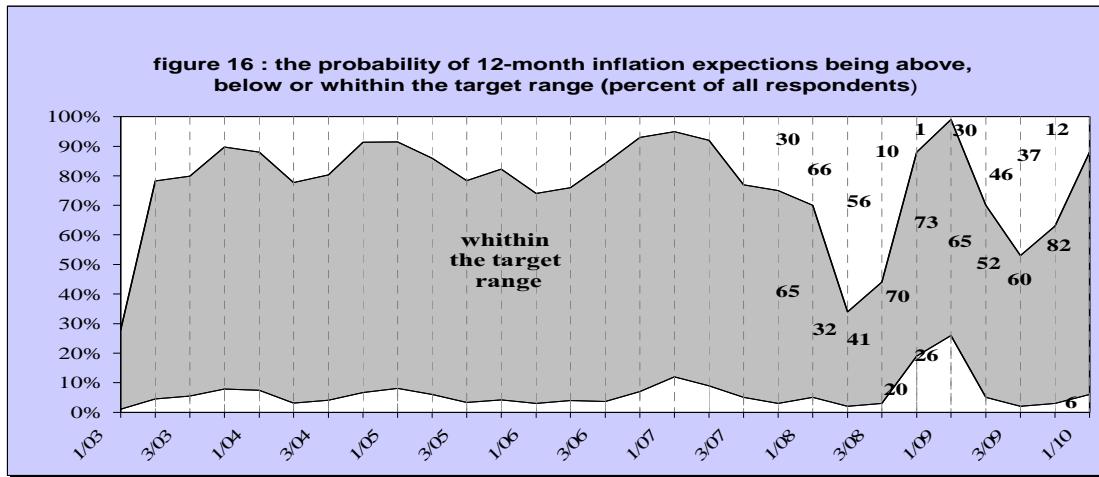
In the first quarter, companies' expectations about the cumulative rate of price increases during the next twelve months (April 2010—March 2011) came into the range of price stability (1 to 3 percent). The average rate, which was slightly higher than 3 percent in the previous quarter, fell to 2.5 percent in the present quarter (Figure 12).

Parallel to the average decline in inflation expectations for the next 12 months, the distribution of inflation expectations also attests to moderation of expectations of price rises—the median of the distribution in this quarter fell to 2.5 percent, as opposed to 3 percent in the previous quarter, and The mode fell from 3 percent to 2. The expected rate of price increases in the next quarter (April 2010-June 2010) also decreased to an annualized level of 2.9 percent, as opposed to 3.3 percent in the previous quarter, and as opposed to an environment of 4.5 percent throughout most of 2009 (Figure 14).

The proportion of companies that expected the inflation rate to overshoot the upper limit of the price-stability target² fell this quarter to 12 percent, as opposed 37 percent in the previous 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 increased from 60 percent in the previous quarter to 83 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 5 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.

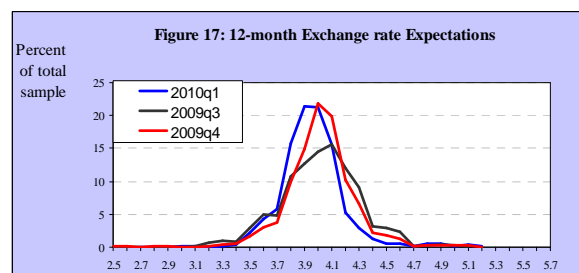
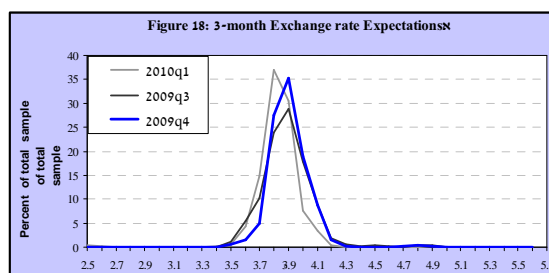
Table 2: Statistic Analysis of 12-month Inflation Expectations

	2007			2008				2009				2010
	II	III	IV	I	II	III	IV	I	II	III	IV	I
1. Mode	2.00	3.00	3.00	3.00	4.00	3.00	2.00	1.00	3.00	3.00	3.00	2.00
2. Median	2.00	2.50	2.80	2.90	3.80	3.50	1.50	1.25	3.00	3.00	3.00	2.50
3. Average	2.02	2.67	2.77	2.69	3.70	3.52	1.70	1.47	2.81	3.22	3.03	2.45
4. Standart Deviation	0.93	1.09	0.92	1.04	1.42	1.44	1.37	1.31	1.19	1.21	1.05	1.05
5. Skewness	0.02	-0.33	-0.23	-0.31	-0.30	-0.30	-0.30	0.47	-0.19	0.22	0.03	0.45
Number of responding companies	487	413	504	483	472	490	470	466	472	552	509	584

*Skew is calculated as the difference between average and mode

Expectations regarding changes in the NIS/dollar exchange rate

The companies participating in the survey were asked about their expectations of the level of the NIS/\$ exchange rate at the end of the next quarter (June 30, 2010) and one year from the end of the survey period (March 31, 2011). The latter expectation (end of March, 2011) was NIS 3.9 to the dollar, similar to the average in the previous quarter. The exchange rate that the companies expected (on average) to see at the end of the next quarter was NIS 3.8, similar to the previous quarter.



Manufacturing Industries

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

	2007			2008				2009				2010
	II	III	IV	I	II	III	IV	I	II	III	IV	I
1. Output	24	38	21	*6	*4	*1	-37	-36	-13	12	21	22
2. Sales	26	33	26	*-1	*7	*-1	-46	-41	-17	9	20	21
3. Domestic sales	26	31	17	*-1	*0	*-5	-42	-42	-17	*6	11	17
4. Export	25	29	26	*5	*8	*-4	-42	-42	-17	*0	11	16
5. Stocks of finished goods	15	22	18	9	9	*4	*-8	-26	-20	*2	*3	9
6. Stocks of raw materials	*6	17	11	10	*6	11	*3	-16	-20	*-6	10	*0
7. Rate of utilization of machinery and equipment	17	25	8	*-2	*-3	-8	-39	-43	-20	*5	9	14
8. Number of employees	15	15	16	*2	*-3	*-5	-36	-43	-25	-10	*-5	*3
9. Domestic orders	16	15	10	*5	*-2	-23	-50	-45	-15	*-4	10	14
10. Export orders	22	28	15	*4	9	-11	-45	-47	-18	*7	11	22
Number of responding companies	237	220	252	270	265	272	271	249	243	262	230	220

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 IV	2010 I					
A. Activity in the quarter							
1. Output	21 (5)	22 (5)	8	36	34	18	4
2. Sales	20 (6)	21 (5)	9	37	29	19	6
3. Domestic sales	11 (5)	17 (5)	7	31	41	17	4
4. Export	11 (6)	16 (6)	6	33	38	14	9
5. Stocks of raw materials	3 (5)	9 (5)	2	26	53	16	3
6. Stocks of finished goods	10 (5)	0 (5)	2	20	56	19	3
7. Rate of utilization of machinery and equipment	9 (5)	14 (5)	6	27	48	16	3
8. Number of employees	-5 (4)	3 (4)	0	19	65	15	1
B. Expected activity in the following quarter**							
9. Domestic orders	10 (5)	14 (5)	3	30	48	14	5
10. Export orders	11 (6)	22 (6)	8	34	38	12	8
Number of responding companies	230	220					

** 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				2010
	II	III	IV	I	II	III	IV	I	II	III	IV	I
1. Sales	37	46	34	38	*-8	*0	-50	-53	*0	*5	*15	33
2. End-of-quarter stock	37	30	34	*16	*17	*9	*-17	*-16	*-12	*-1	*-2	*-1
3. Percent of credit sales	27	17	22	25	19	*12	*11	*3	18	17	21	18
4. Supply period	15	14	*3	*6	*0	*3	-9	-10	*0	*-2	*2	*-3
5. Forecast change in number of permanent employees	*7	*8	16	*9	*6	*-17	-53	-55	-24	*1	*0	*6
6. Sales expectations	73	57	63	*22	53	*-3	-35	-38	24	28	35	52
7. Number of employees											*2	11
Number of responding companies	30	24	32	32	36	36	36	32	33	117	86	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:IV
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 IV	2010 I					
A. Activity in the quarter							
1. Sales	15 (10)	33 (8)	7	46	27	14	6
2. End-of-quarter stock	-2 (8)	-1 (7)	4	20	51	21	4
3. Percent of credit sales	21 (6)	18 (6)	7	19	66	7	1
4. Supply period	2 (2)	-3 (3)	0	1	95	4	0
5. Number of employees	2 (5)	11 (5)	0	18	75	7	0
B. Expected activity in the following quarter							
6. Forecast change in number of permanent employees	0 (5)	6 (5)	0	12	82	6	0
7. Sales expectations for following quarter	35 (9)	52 (7)	6	59	22	13	0
Number of responding companies	86	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

	2007			2008				2009				2010
	II	III	IV	I	II	III	IV	I	II	III	IV	I
1. Total activity	19	*7	19	20	*-6	*8	-20	-39	*0	*0	*14	*9
of which 2. Buildings	23	*-3	*13	17	*3	*0	*-6	-48	*-3	*-3	*3	*-3
3. Infrastructure	33	30	*8	24	*-7	*9	-30	-48	*-4	*-17	*-17	*-12
4. Output prices in dollar terms	21	23	30	38	40	49	26	-34	*14	22	*11	*16
5. Area of building starts (sq. m.)	26	*-8	*-10	*-3	*-12	*-5	-40	-43	*-6	*3	*18	*0
6. Area of building completions (sq. m.)	*6	*10	*-10	*0	*9	*5	*-3	-34	*0	*-6	*3	*-9
7. Building time	28	21	27	15	18	*8	26	*0	*3	*9	*6	23
8. Expected activity in the following quarter**	34	23	*6	25	*3	*-5	-22	-30	*6	*10	*17	21
9. Number of employees												*-6
Number of responding companies	37	42	33	44	36	41	36	37	35	39	36	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:IV
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 IV	2010 I					
A. Activity in the quarter							
1. Total activity	14 (13)	9 (12)	3	26	51	8	12
of which Buildings	3 (13)	-3 (12)	3	18	55	12	12
Infrastructure	-17 (12)	-12 (13)	0	15	58	19	8
2. Output prices in dollar terms	11 (11)	16 (11)	0	28	60	6	6
3. Area of building starts (sq. m.)	18 (15)	0 (13)	3	22	50	16	9
4. Area of building completions (sq. m.)	3 (9)	-9 (10)	0	13	65	16	6
5. Building time	6 (10)	23 (9)	0	26	71	0	3
6. Number of employees		-6 (8)	0	6	82	2	10
B. Expected activity in the following quarter	17 (14)	21 (13)	3	36	43	6	12
Number of responding companies	36	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

	2007			2008				2009				2010
	II	III	IV	I	II	III	IV	I	II	III	IV	I
1. Total activity	*31	44	69	*35	37	*21	-40	-49	*-15	*5	*22	*30
2. Sales of services to residents	*38	44	68	*32	*38	*30	-44	-41	*-9	*0	*21	42
3. Sales of services to nonresidents	*9	*13	*20	*-6	*-10	16	-11	-40	*-11	*-12	*4	*-4
4. Utilization of equipment (capacity utilization, etc.)	58	41	45	*39	36	*17	-44	-56	*-6	*2	*11	46
5. Expected activity in the following quarter**	*35	46	59	72	34	*7	*-41	*-10	*15	*5	*21	57
6. Number of employees										*-4	*8	23
Number of responding companies	21	21	24	28	20	25	30	27	32	46	42	43

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 IV	2010 I					
A. Activity in the quarter							
1. Total activity	*22	30	7	36	45	13	0
2. Sales of services to residents	*21	42	3	50	35	11	0
3. Sales of services to nonresidents	*4	-4	3	10	70	16	1
4. Utilization of equipment (capacity utilization, etc.)	*11	46	7	45	43	5	0
5. Number of employees	*8	23	0	23	76	1	0
B. Expected activity in the following quarter							
	*21	57	9	48	43	0	0
Number of responding companies	42	43					

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				2010
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total activity	*20	75	73	61	72	40	*5	-83	-65	-61	*-8	68
2. Number of bed-nights: Tourists	*-4	65	70	70	85	45	*10	-85	-78	-81	-35	65
3. Number of bed-nights: Israelis	*-11	*0	*-18	*-8	*0	*13	-45	-73	-27	*-2	27	59
4. Average revenue per room	23	67	49	24	26	26	43	*0	*-5	24	*5	49
5. Number of employees												49
B. Expected activity in the following quarter**												
Bookings for next quarter	*21	62	46	76	63	*2	-70	-88	-68	-38	-5	52
Bookings for next quarter of foreign tourists									-73	-33	*6	58
Bookings for next quarter of Israelis									-63	-45	*-19	38
Number of responding companies	48	45	40	40	37	39	47	40	41	42	37	37

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

* Not significant (at the 10% level).

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

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009 IV	2010 I					
A. Activity in the quarter							
1. Total activity	-8 (15)	68 (11)	46	32	12	5	5
2. Number of bed-nights: Tourists	-35 (15)	65 (12)	43	35	9	10	3
3. Number of bed-nights: Israelis	27 (14)	59 (11)	32	38	19	3	8
4. Average revenue per room	5 (15)	49 (12)	13	49	25	13	0
5. Number of employees	0 (12)	49 (9)	27	24	47	2	0
B. Expected activity in the following quarter							
Bookings for next quarter of foreign tourists	6 (15)	58 (11)	33	36	20	8	3
Bookings for next quarter of Israelis	-19 (11)	38 (11)	11	31	54	4	0
Number of responding companies	37	37					

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

Service industries

Table 13
Net balance (percent of all responding transport and communications companies)¹

	2007			2008				2009				2010
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total revenue from current activity	23	37	36	14	17	*6	-17	-36	*-9	*1	14	10
2. Sales of services in Israel	20	27	33	10	16	*4	-16	-38	-17	*2	13	13
3. Sales of services abroad	*0	33	36	18	21	*1	*-13	-38	*4	-16	*6	*-1
4. Number of employees	15	22	25	21	12	*7	-16	-29	-15	*-2	7	11
5. of which: trained	17	26	29	24	14	*6	-10	-25	-13	*0	9	14
6. Number of Israeli workers abroad	15	*7	*6	9	*-3	*0	*-1	-16	-12	*-4	*8	*1
B. Expected activity in the following quarter**												
7. Total orders	42	41	40	23	25	*-2	-38	-25	*6	25	37	27
8. Export orders	32	52	29	36	22	*8	-36	-23	23	*11	31	24
Number of responding companies	202	163	188	197	191	188	204	185	183	272	241	248

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2009	2010					
	IV	I					
A. Activity in the quarter							
1. Total revenue from current activity	14 (5)	10 (5)	4	27	48	15	6
2. Sales of services in Israel	13 (5)	13 (4)	3	25	57	13	2
3. Sales of services abroad	6 (9)	-1 (7)	5	17	55	16	7
4. Number of employees	7 (4)	11 (4)	2	21	65	11	1
5. of which: trained	9 (4)	14 (4)	2	22	66	8	2
6. Number of Israeli workers abroad	8 (5)	1 (3)	0	6	89	3	2
B. Expected activity in the following quarter**							
7. Total orders	37 (5)	27 (4)	3	36	49	10	2
8. Export orders	31 (9)	24 (7)	3	32	54	8	3
Number of responding companies	241	248					

* 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 c

			Number of responding companies	Total output	Domestic sales	Domestic orders ¹	Actual exports	Export orders ¹	Finished goods	Number of employees
Mining, quarrying, construction materials, and wood	2010	I	19	*0	*-5	*123	56	50	*-16	*-11
	2009	IV	21	*0	*-5	-24	*-20	*-10	*5	*0
Food and beverages	2010	I	27	41	46	*18	33	*13	*4	*7
	2009	IV	33	*0	*9	21	*-19	*0	*-6	*-6
Textiles, clothing, and leather	2010	I	15	*21	*21	*7	*21	*14	*-13	*-13
	2009	IV	20	37	*21	*26	*17	*11	*0	*0
Chemicals, rubber, and plastic	2010	I	33	27	36	45	*3	48	*6	*9
	2009	IV	41	37	39	*17	*15	*13	37	*-10
Metals and machinery	2010	I	38	*3	*11	*6	*-16	*0	*-3	-21
	2009	IV	35	*-9	*-16	*0	*-4	*-15	*3	-23
Electronics, electricity, and transport equipment	2010	I	63	26	*-4	*5	26	*18	*13	*13
	2009	IV	58	34	*0	*4	31	28	*9	*5
Paper, printing, and other	2010	I	19	*28	33	*6	*8	*8	*-11	26
	2009	IV	17	50	44	*27	*10	50	38	*6
Total manufacturing industries excluding diamonds	2010	I	214	21	17	15	14	21	*1	*3
	2009	IV	225	21	11	10	*10	12	12	*-4
Diamonds	2010	I	6	*50	*20	*-25	67	67	*-17	*17
	2009	IV	5	*20	*25	*25	*40	*0	-60	-40
Total manufacturing industries	2010	I	220	22	17	14	16	22	*0	*3
	2009	IV	230	21	11	10	11	11	10	*-5

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	22	*10	21	25	Total activity	*9	*-17	*8	*40
Total sales	21	*10	21	24	Area of starts	*0	-45	*18	*30
Domestic sales	17	*0	*12	23	Area of completions	*-9	-36	*18	*-10
Export	16	*13	21	14	Output prices in \$	*16	*-18	*18	50
Number of companies	220	31	62	127	Area of completions	35	12	12	11

¹ According to number of employees (small company - 1-19 employees, medium size company - 20-99 employees, large company - 100 employees or more).

* Not significant (at the 10% level).

Table 17
The severity of constraints on carrying out planned activity (average)
1-Minimal, 2-Moderate, 3-Significant, 4-Very significant

Manufacturing Industries

	2008		2009			2010
	IV	I	II	III	IV	I
Demand constraints						
Volume of export orders	1.6	1.8	1.6	1.6	1.4	1.2
Volume of domestic orders	1.4	1.6	1.5	1.3	1.2	1.1
Supply constraints						
Machinery and equipment shortage	0.2	0.2	0.2	0.3	0.3	0.4
Financing difficulties	0.9	0.8	0.8	0.7	0.6	0.5
Labour shortage	0.4	0.4	0.5	0.6	0.6	0.6

Transport and Communications

	2008		2009			2010
	IV	I	II	III	IV	I
Demand constraints						
Booking by foreign tourists	0.6	1.0	0.9	1.0	0.8	0.7
Booking by Israelis	0.5	0.4	0.6	1.1	0.7	0.7
Economic and political situation in Israel	1.8	1.4	1.4	1.2	1.2	1.2
Intensification of competition	1.7	1.8	1.9	1.7	2.1	1.7
Supply constraints						
Financing difficulties	1.5	1.0	1.2	1.0	1.1	0.7
Labour shortage	1.0	0.6	0.7	1.0	1.0	1.1

Construction

	2008		2009			2010
	IV	I	II	III	IV	I
Demand constraints						
Volume of demand	2.6	2.4	1.7	1.5	1.5	1.5
Supply constraints						
Input prices	1.0	0.8	1.2	1.1	1.1	1.1
Financing difficulties	2.0	1.9	1.7	1.6	1.6	1.0
Labour shortage	1.8	1.7	1.9	1.9	2.4	1.9
Machinery and equipment shortage	0.5	0.2	0.3	0.3	0.3	0.4
Land lot Prices						2.1

Hotels

	2008		2009			2010
	IV	I	II	III	IV	I
Demand constraints						
Booking by foreign tourists	1.9	2.9	2.6	2.3	2.1	1.3
Booking by Israelis	1.7	2.2	1.8	1.5	1.4	1.2
Economic and political situation in Israel	1.9	2.5	2.1	1.7	1.7	1.1
Supply constraints						
Financing difficulties	1.2	1.9	1.4	0.9	1.0	0.7
Labour shortage	1.0	0.7	1.0	1.0	1.0	1.2

Trade

	2008		2009			2010
	IV	I	II	III	IV	I
Demand constraints						
Volume of orders	0.2	0.6	0.3	0.5	0.9	0.6
Economic and political situation in Israel	2.0	2.2	1.5	1.4	0.9	0.7
Economic situation in the world	2.4	2.2	1.4	1.4	0.9	0.9
Supply constraints						
Financing difficulties	1.4	1.6	1.4	1.1	0.9	0.6
Labour shortage	0.5	0.4	0.6	0.5	0.7	0.7

Service Industries

	2008		2009			2010
	IV	I	II	III	IV	I
Demand constraints						
Economic and political situation in Israel	1.3	1.3	1.1	1.0	0.9	0.8
Global Economic situation	2.1	2.1	1.7	1.4	1.3	1.2
Intensification of competition	1.6	1.8	1.6	1.6	1.6	1.6
Supply constraints						
Financing difficulties	1.0	1.0	0.9	0.9	0.8	0.8
Labour shortage	0.7	0.5	0.6	0.6	0.8	0.8

APPENDIX

Notes to the Survey

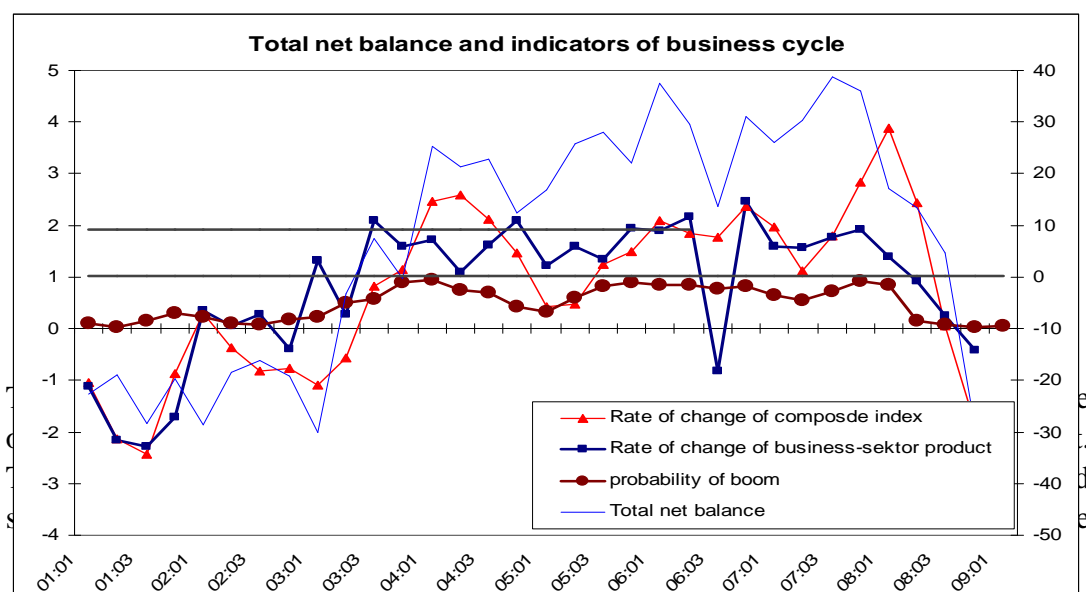
Net balance

This quarterly survey relates to developments in 2010:Q1 and includes assessments and expectations regarding 2010:Q2. Its findings are based on responses to questionnaires completed by companies and businesses in the manufacturing, commerce, construction, hotels, transport and communications, and business services industries. The questions are qualitative, that is, the companies were asked to report on the direction of changes in the different variables (increase, decrease, or no change) and the degree of change (great, slight). The survey is intended to serve decision-makers as an updated analytical tool that complements the quantitative data.

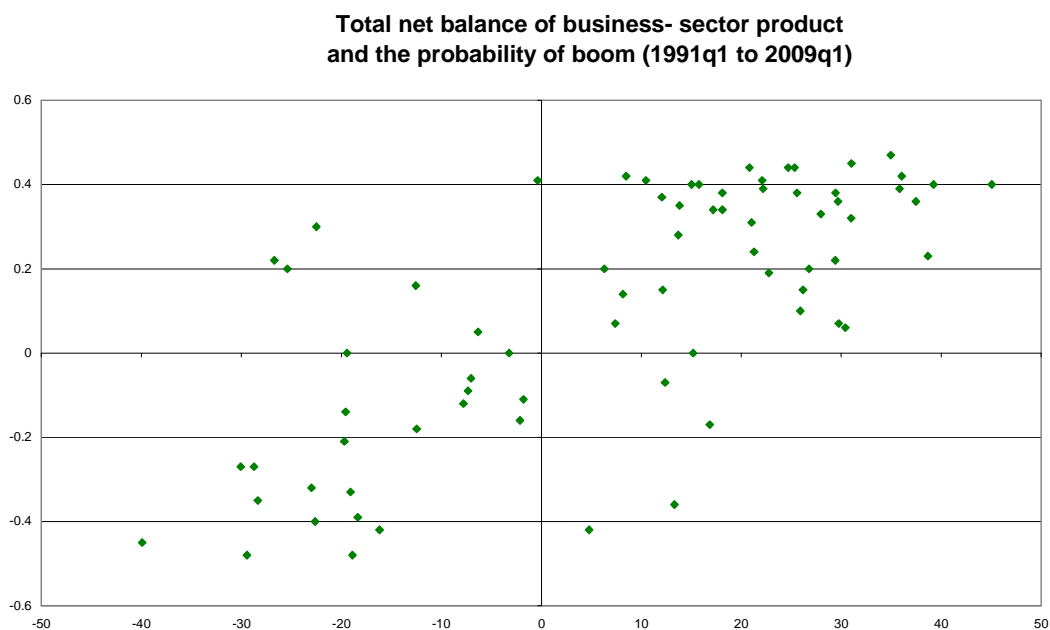
In all industries except for the hotel industry, companies were asked to indicate the actual change compared with the previous quarter, without seasonal or other adjustments. In the hotel industry, companies were asked to report the change from the year-earlier quarter. Although the results are not weighted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

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

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



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 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.



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: 1991-2005)

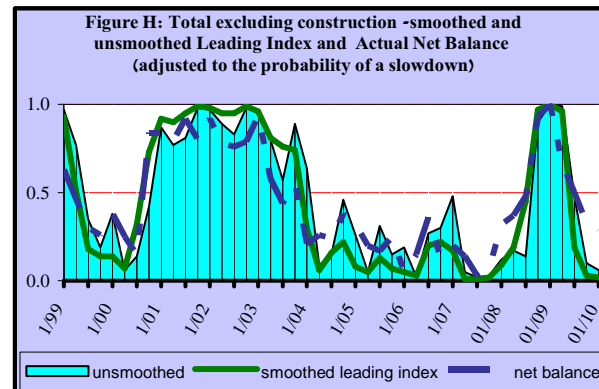
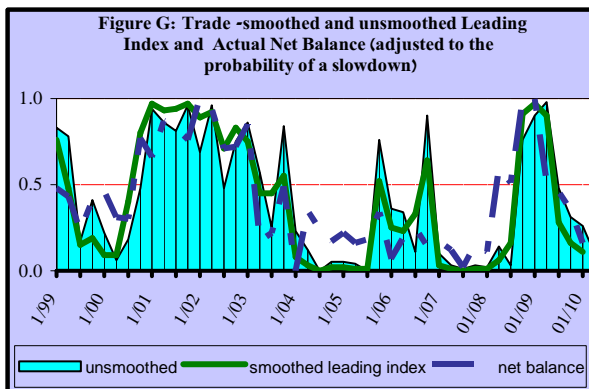
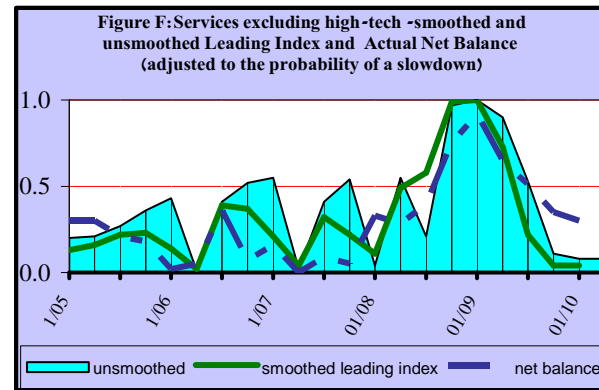
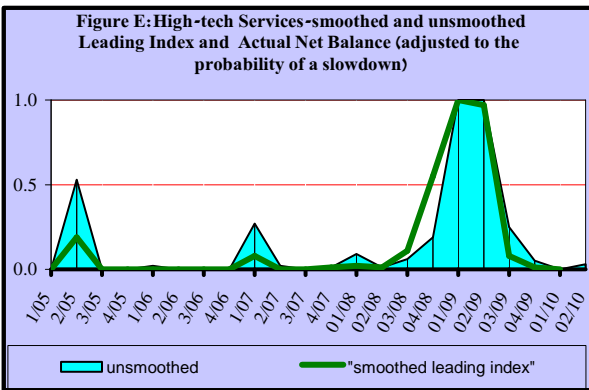
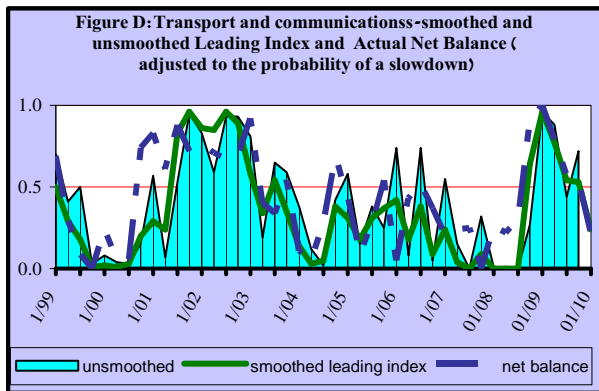
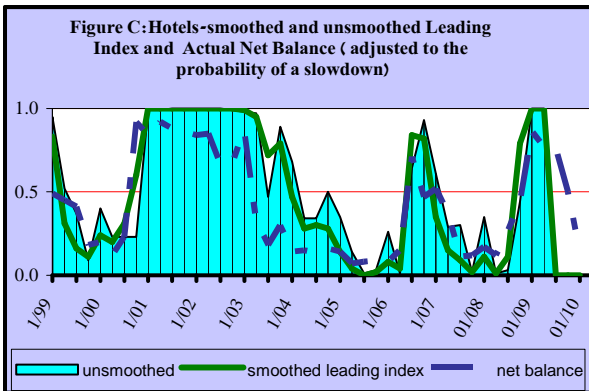
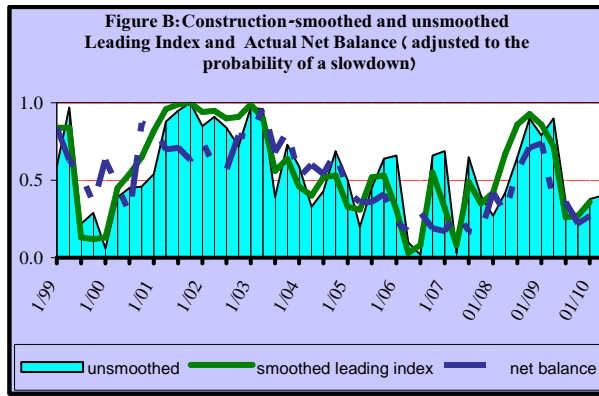
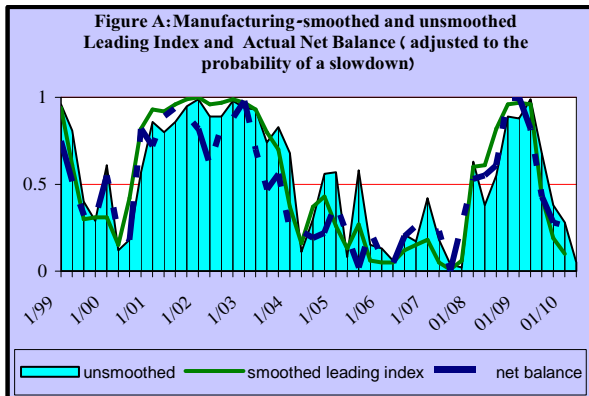
Number of companies ^b	Continued slowdown		slowdown-acceleration		Acceleration-slowdown		Continued acceleration		Industry
	average	standard deviation	average	standard deviation	average	standard deviation	average	standard deviation	
257	0.45	0.07	0.11	0.04	0.14	0.04	0.30	0.06	Manufacturing
33	0.23	0.13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

a In services the sample is from 1998 only.

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

^b Review, as companies that did not report on expectations alongside their report on current activity were excluded.

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



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