



Bank of Israel * Research Department

Companies Survey

First quarter of 2007

Jerusalem, April 2007
www.bankisrael.gov.il

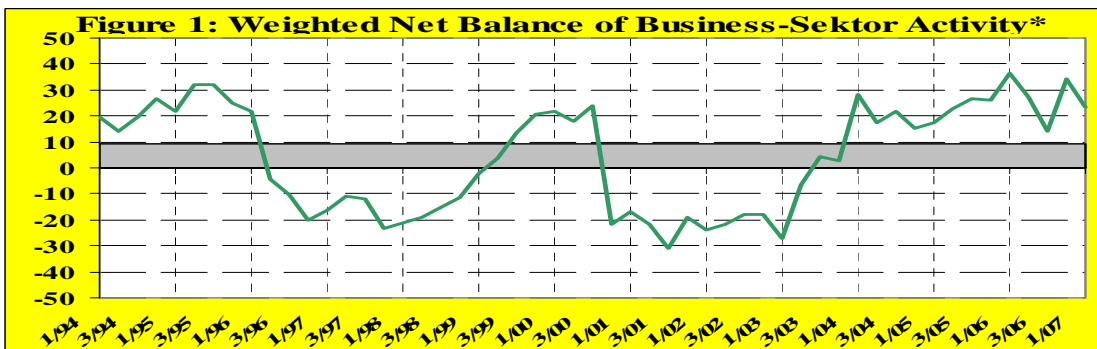


Companies Survey – First Quarter of 2007 – Main Results

Reports from companies for the first quarter of 2007 indicate that the rise in economic activity persisted, and expectations in almost all industries point to further expansion in the next quarter. The rise in economic activity in the quarter encompassed the manufacturing, construction, trade, transport, communications and service industries. The hotel industry showed a sharp decline in activity compared with the first quarter of 2006, and most indicators of activity in the quarter reviewed point to continued recession in the industry, which began as a result of the Second Lebanon War in the summer of 2006. The leading index of the business sector and expectations in all industries apart from the hotel industry point to a continued rise in activity in the next quarter. In **manufacturing**, rises in output were recorded, reflecting increased export and domestic sales. Increases in domestic and in particular export orders for the next quarter continued. It should be noted that the rise in activity and in exports in this quarter mainly reflects the responses of low-tech and medium-tech companies, and to a lesser degree high-tech firms. Responses from **trading** companies showed that the upward sales trend was continuing, and that a further rise in sales was expected for the next quarter. **Business services** companies reported a moderate rise in revenue, reflected both in sales abroad and in Israel, and expectations of increased orders, chiefly domestic, in the next quarter. In the **hotels** industry there was a steep drop in activity compared to the first quarter of 2006; the industry's activities still appear to be in slowing down, reflected principally in the relatively low number of foreign tourists' and Israelis' bed nights. Nonetheless, activity is expected to rise in the next quarter, and the severity of the demand constraint in the industry continued to ease. Activity in **transport and communications** increased: activity in sea transport and in communications rose, while air and overland transport remained steady. Orders for the following quarter indicate a modest rise in activity. In **construction** the level of activity continued its gradual rise, after more moderate increases since the beginning of 2006, and this is expected to continue in the next quarter. Reports on the severity of constraints on activity show that compared with the previous quarter, it was mainly demand constraints that changed. In transport and communications the demand constraint became more severe, while in hotels it eased. Average **inflation expectations** to twelve months ahead dipped to 1.8 percent, with a decline in the share of companies that expect inflation to exceed the target range, from 7 percent in the previous quarter to 5 percent in 2007:Q1. Companies expect, on average, an **exchange rate** of NIS 4.36 to the dollar twelve months hence compared with expectations of NIS 4.42 in the previous quarterly survey.

1. Macroeconomic developments

Analysis of the responses from all the companies and businesses participating in the survey, with each industry's net balance¹ weighted by its share in business-sector product, indicates that in the first quarter of 2007, the upward trend in activity continued, at a slightly slower rate than in the previous quarter, but faster than the slow rate in 2006:Q3, the quarter following the Second Lebanon War (Figure 1). The upward trend of activity was reflected both in exports and in domestic sales. The rise in activity occurred mainly in the manufacturing, construction, sea and overland transport, and the trade and services industries, while activity in the air transport and communication industries remained stable. The hotel industry continued to report a moderate level of activity, and there were steep falls from the levels in 2006:Q1. Nevertheless, activity in the second quarter of 2007 was expected to rise in all industries, including the hotel industry



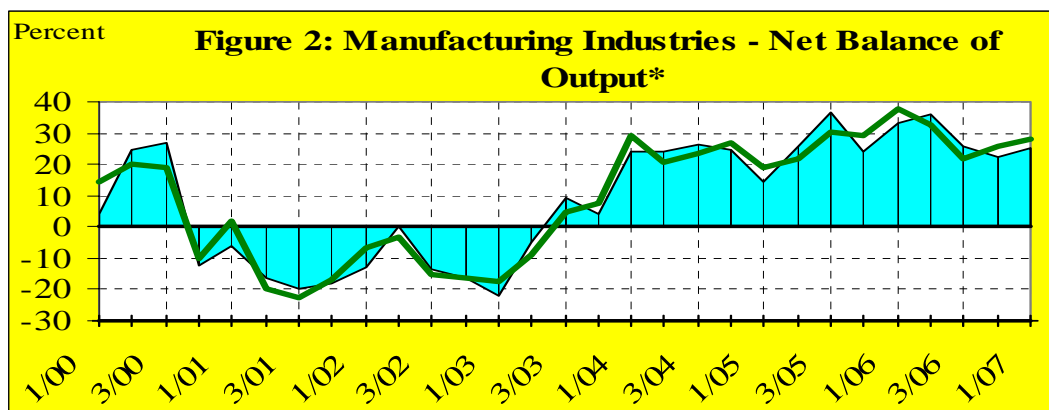
¹ The net balance is the difference between the share of companies reporting an increase and the shares of those reporting a decrease.

In the figure, the thick line plots the development of seasonally-adjusted data; the thin line traces the original data. The overall net balance is calculated according to the seasonally adjusted net balance of each industry, taking into account the industry's weighting in business-sector product.

The economy tends toward expansion when the net balance is above the shaded band and toward contraction when the net balance is below it. When the net balance is within the band, no significant conclusion can be drawn.

2. Industry developments

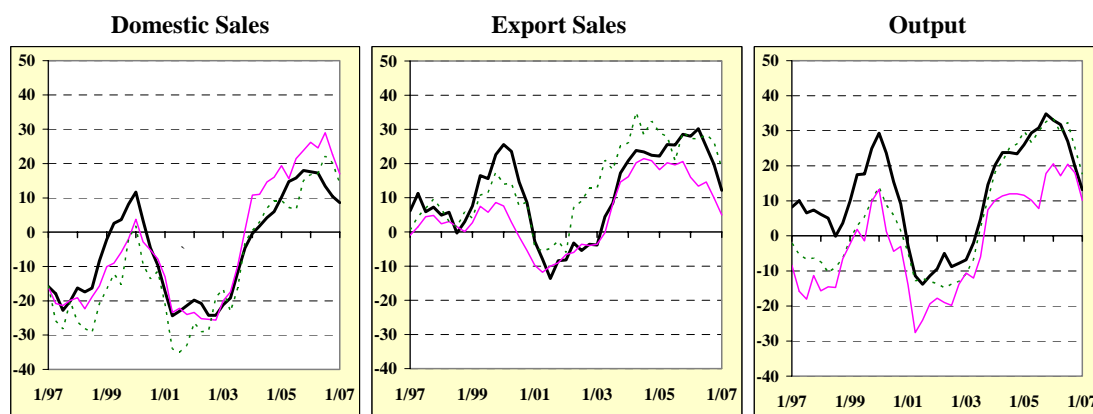
Reports from **manufacturing companies** show continued growth in their output. The growth reflected increases in exports and domestic sales (Table 3 and Figure 2). The companies reported an increase in finished goods inventories, a rise in the number of workers and a continued rise in the utilization rate of machinery and equipment. Reports on constraints on activity show no significant change overall in the severity of demand-side constraints, with a slight rise in the severity of supply-side constraints (Table 17 and Figure 9). Companies expect continued increases in domestic and particularly export orders during the next quarter.



The classification of companies into three groups of industries by their degree of **technological innovation**—low-tech, medium, and high-tech—shows that output and sales increased in particular in the first two groups (Table 1.1 and Figure 3). These companies also reported marked rises in exports, while high-tech companies reported only a modest increase. Overall, companies expect increases in export and domestic orders in the next quarter. This quarter the high-tech companies reported a rise in the constraint caused by the shortage of skilled workers.

The growth in output and sales to the domestic market encompassed all manufacturing industries (Table 15). Particularly notable increases occurred in the mining and quarrying, paper and printing, textile, clothing and leather industries. In exports and export orders, increases were registered mostly in the metals and machinery, food and beverages, chemicals, rubber and plastics industries. Increases in domestic orders were reported by the textile, clothing and leather, chemicals, rubber and plastics industries, and mining and quarrying industries. In contrast, reductions in domestic orders were reported by the paper and printing, and food and beverages industries.

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



^a Moving average, outlying observations - unadjusted data

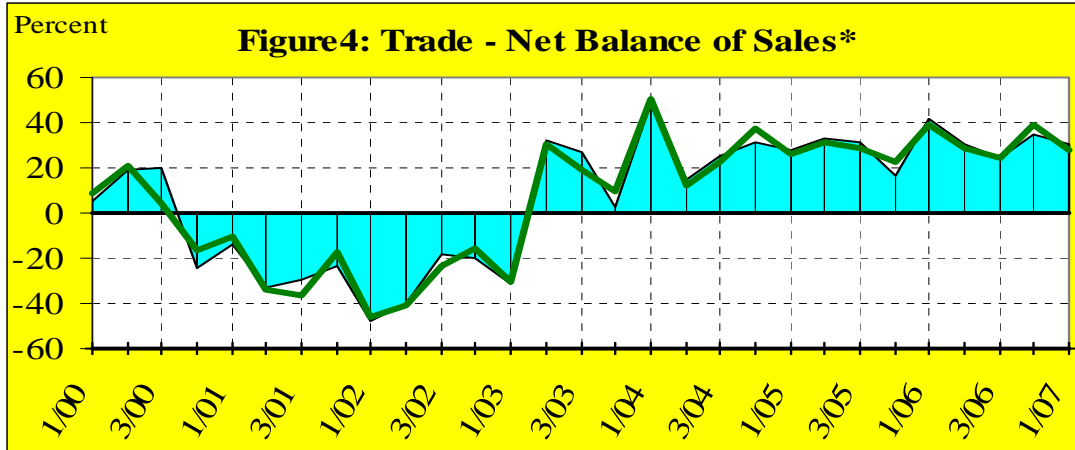
Thick line - advanced industries

Thin line - traditional industries

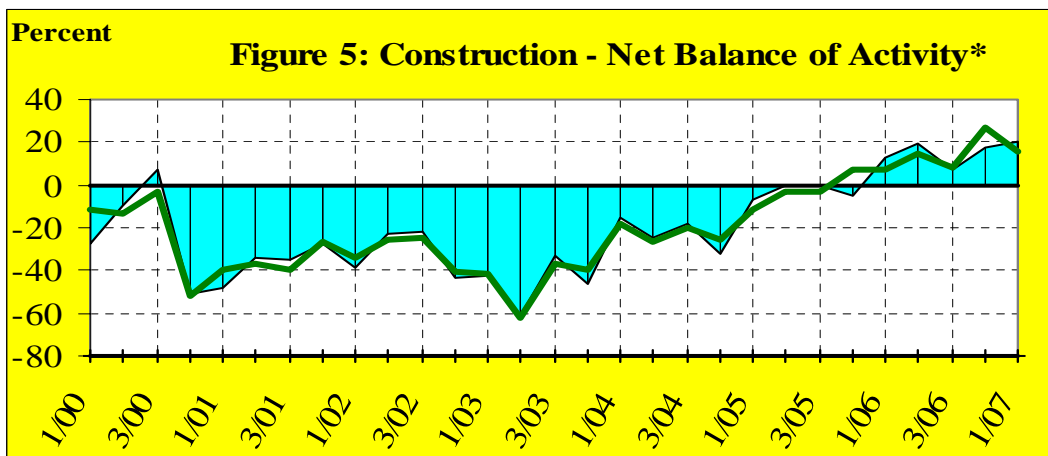
Dotted line - mixed industries

The **classification of company size** by number of employees shows that the growth in output, exports and sales encompassed all types of company, and was most notable in the large companies (Table 16). All companies reported considerable increases in export orders for the second quarter of 2007, and particularly the small companies and the large ones.

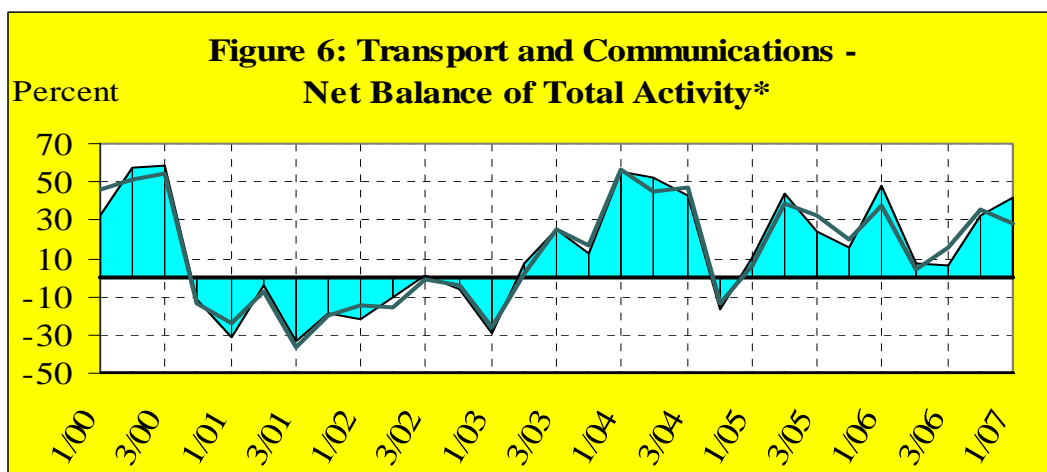
Reports from **trading companies** show continued increases in sales in the quarter reviewed, and sales were expected to rise further in the next quarter (Table 5 and Figure 4). Companies reported no significant change in the severity of the demand-side and supply-side constraints (Table 17 and Figure 9).



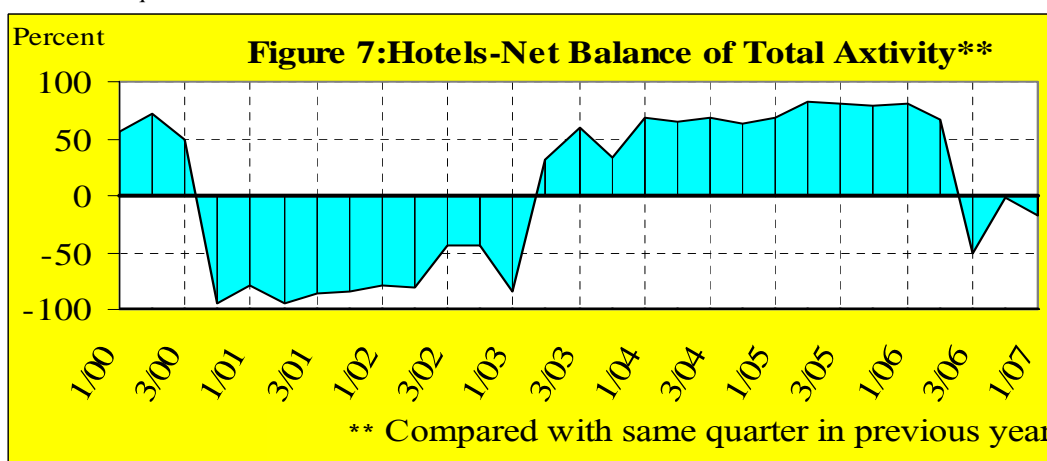
Construction companies reported a gradual rise in the level of activity in 2007:Q1 following the more moderate increases in activity since the beginning of 2006. This rise reflects an increase in both infrastructure construction and the construction of buildings (Table 7 and Figure 5). Construction starts increased from the previous quarter. The companies expect their activity to expand during the next quarter. The classification of company size by number of employees shows that activity in medium-sized and large companies increased, while that in the small companies did not change (Table 16). Large and medium-sized companies expected their activity to increase again in the next quarter, while small companies expect their activity to remain static. The severity of the main supply-side constraint remained steady, and there was a slight easing of the demand-side constraint. It should be stressed that the level of severity of the constraints in this industry is considerably higher than in most of the industries reviewed.



Reports from **transport and communications** companies show a further rise in activity during the fourth quarter, following the increases in previous quarters (Table 9 and Figure 6). The rise in sales of services to nonresidents was particularly notable, after the standstill in the previous quarter apparently due to the decline in incoming tourism. The upward trend of sales of services to Israelis continued. Activity in sea transport and communications increased, while in air and overland transport it remained steady. The companies foresee an increase in their overall activity in the next quarter. There was a rise in the severity of the major demand-side constraint—more intense competition—and the main supply-side constraint, the shortage of skilled workers, also became more severe (Table 17 and Figure 9).



Companies in the **hotel industry** reported a sharp drop in activity (from its level in the first quarter of 2006; Table 11 and Figure 7). The decline reflects mainly the relatively low number of bed nights of tourists from abroad as well as of Israelis, reflecting the persistent effect of the Second Lebanon War in 2006. Nevertheless, the easing of the severity of the demand-side constraint continued. Reports on constraints show, as mentioned, a fall in the severity of demand-side constraints, though the level remains relatively high. There was also a drop in the severity of the financing constraint (Table 17 and Figure 9). It should be noted that companies expect a rise in orders next quarter.



Reports from **business services** companies show that revenue continued to rise in the quarter reviewed, but slower than in the previous quarter. The rise encompassed an increase in sales of services abroad and in Israel (Table 13 and Figure 8). The companies expect orders, domestic and export, to expand more rapidly in the next quarter. The reports generally point to no change in the severity of demand-side and supply-side constraints (Table 17 and Figure 9).

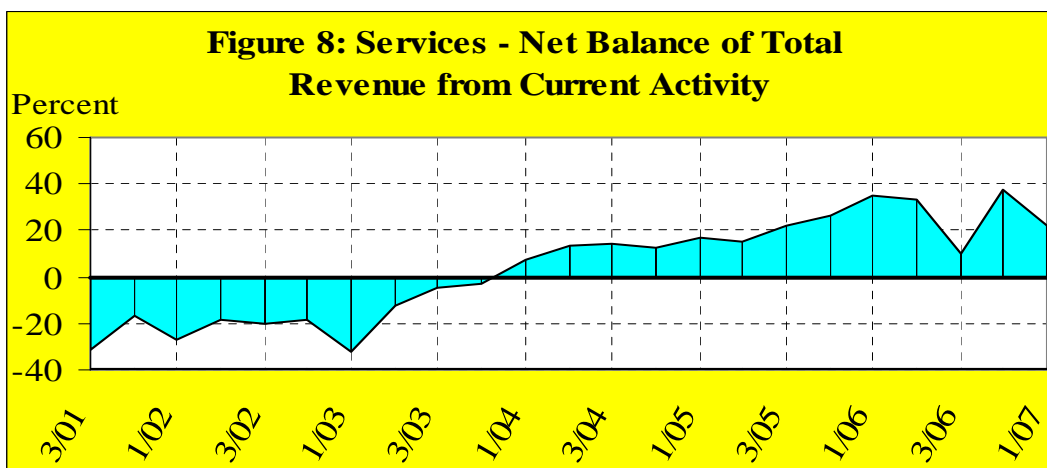


Table 1
Economic activity in the principal industries, based on the net balance of returns from companies
(original and seasonally adjusted data, percent)

	2004			2005				2006				2007
	II	III	IV	I	II	III	IV	I	II	III	IV	I
Industry (output)	24	27	24	14	26	37	24	33	36	26	22	25
seasonally adjusted	20	23	27	19	22	31	29	38	32	22	26	28
Trade (sales)	*15	26	32	28	33	31	*16	42	31	*24	34	30
seasonally adjusted	*12	22	38	26	31	28	*22	39	29	*24	39	28
Construction (total activity)	-24	*-18	-33	*-7	*0	*0	*-5	*13	19	*7	18	21
seasonally adjusted	-27	-20	-26	*-11	*-3	*-3	*7	*7	*15	*8	27	*16
Transport and communications (total activity)**	52	43	-17	11	44	24	16	48	7	6	32	41
seasonally adjusted	45	47	-14	6	39	32	20	38	4	16	36	29
Hotels (total activity)***	66	69	63	69	82	80	78	80	66	-51	-2	-17
Service industries	14	14	12	17	15	22	27	35	34	10	37	22
Total business sector	21	23	12	17	26	28	22	37	30	14	31	25
seasonally adjusted	18	22	15	17	23	27	26	36	27	14	34	23

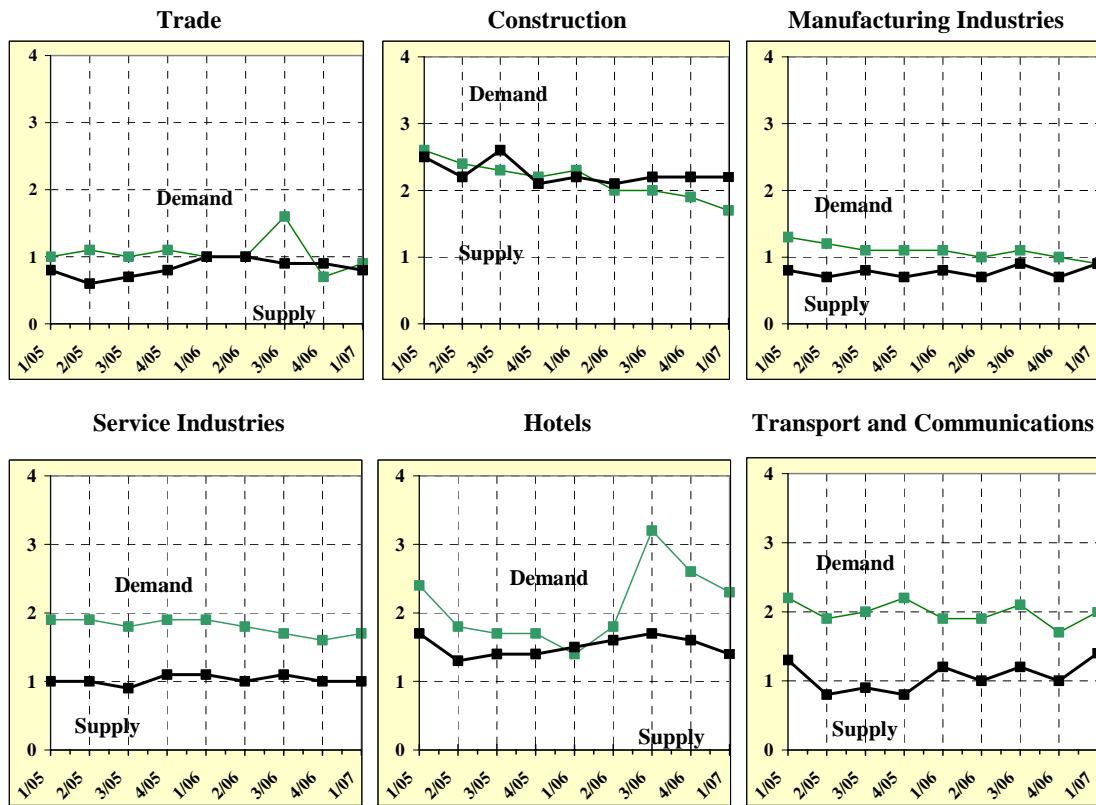
* Not significant (at the 10% level).
** The significance test is less effective in this industry due to the small number of firms.
*** Compared with the same quarter in the previous year.

Table 1.1
The net balance of manufacturing companies, classified by human-capital intensity and innovation²
(original and seasonally adjusted data, percent)

	2004			2005				2006				2007
	II	III	IV	I	II	III	IV	I	II	III	IV	I
Advanced companies	24	25	29	13	26	37	42	36	33	17	31	18
Mixed companies	27	*16	24	*-11	*4	25	*9	*12	39	18	*8	25
Traditional companies	23	32	21	23	32	41	16	37	37	36	20	31

* Not significant (at the 10% level).

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



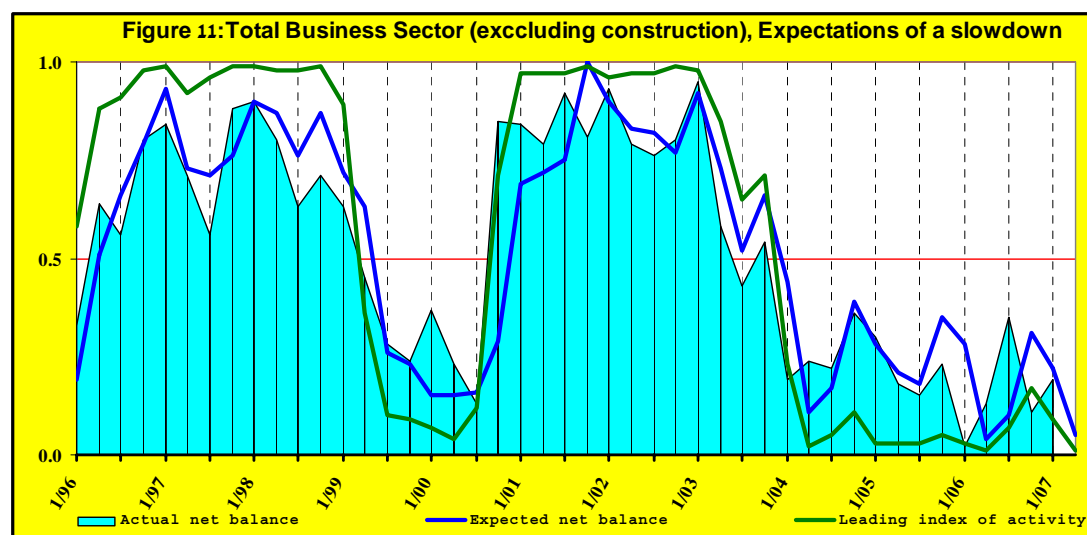
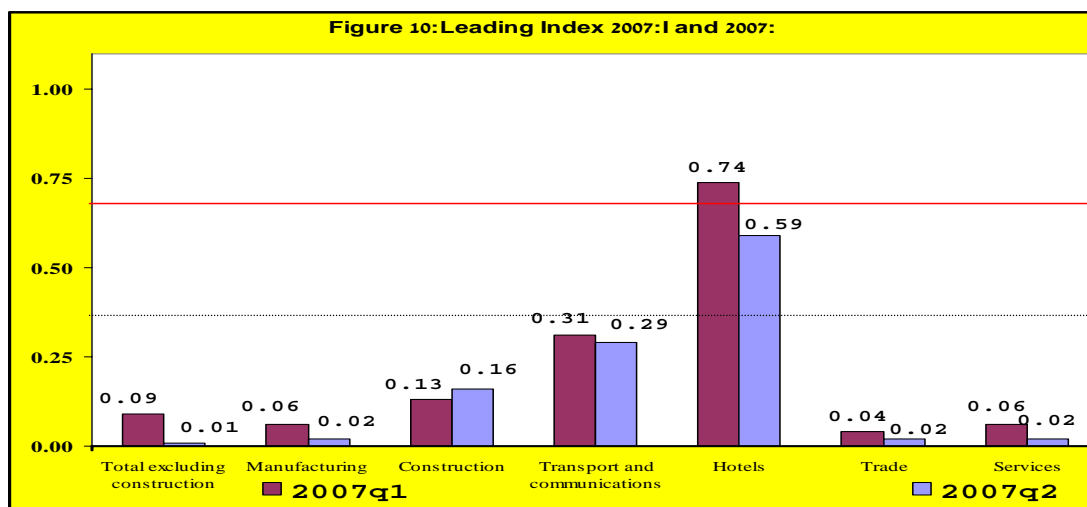
1) For every quarter the most severe constraint on the demand side and on the supply side is chosen.
Source: Table 17.

The leading index

The leading index in this survey foresees a further overall increase in business-sector activity in the second quarter of 2007 (the value of the index is less than the threshold value of 0.5.)²

The leading index is calculated for the business sector at large (Figure 1) and for each of the six industries covered in the survey (Figures A–F in the Appendix). The indices for individual industries in this survey indicate on the one hand further expansion in activity in almost all industries during the second quarter of 2007, with the exception of the hotel industry, although the probability of a further slowdown in this industry is lower than in the previous quarter (Figure 10).

It should be borne in mind that the reliability of the leading index in certain industries is relatively low due to the small number of companies participating in the survey (especially in the hotel and communications industries). Obviously, an increase in the number of participating companies in each industry would help to enhance the reliability of the industry-level leading indices.



² 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 succeeding quarter. If the index crosses the threshold, an easing of activity in the next quarter may be inferred.

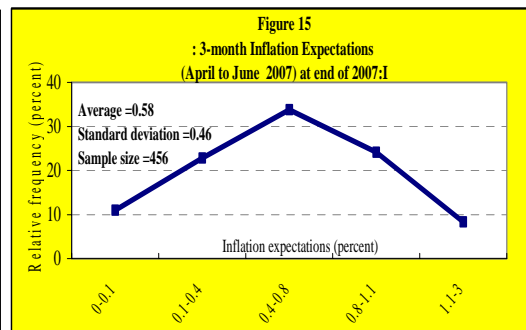
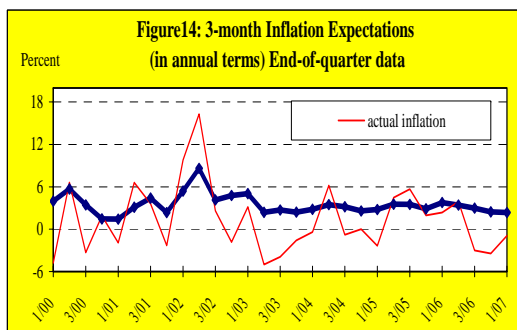
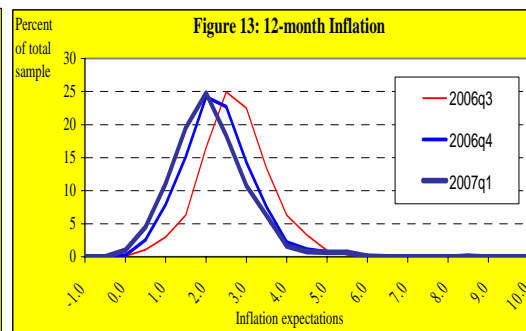
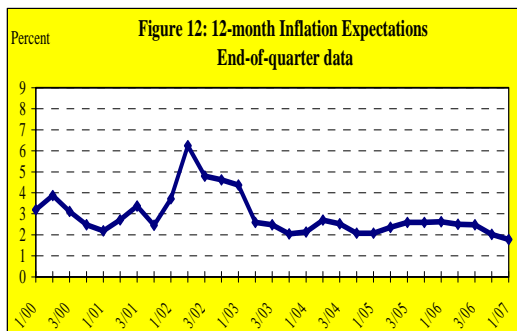
Survey of inflation expectations

In the estimation of the participating companies and businesses, the cumulative rate of price increases during the next twelve months (April 2007–March 2008) fell to 1.78 percent on average, as against about 2 percent reported in the previous quarter (Figure 12).

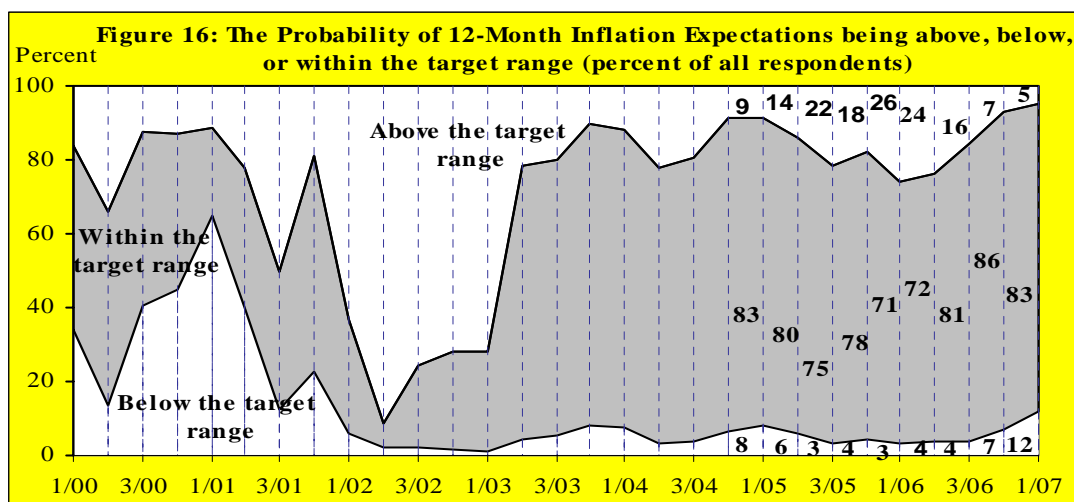
Together with the decrease in inflation expectations to twelve months ahead, the variance of inflation expectations this quarter also fell from its level in the previous quarter (Figure 13). The median of the distribution stood at 1.7 percent, down from 2 percent in the previous quarter. The mode however remained unchanged at 2 percent.

The expected inflation rate in the next quarter (April–June 2007) remained at 2.4 percent in annual terms, the same as in the previous quarter (Figure 14). The variance of the expectations also stayed unchanged.

As inflation expectations for the next year eased, the share of companies expecting inflation to exceed the upper bound of the target range,³ defined as price stability, went down, from 7 percent in the previous survey (the top area in Figure 16) to 5 percent this quarter. The share of companies that expected inflation next year to be within the price-stability range fell, from 86 percent in the previous quarter to 83 percent in this quarter (the middle area in Figure 16). The proportion of companies that expected inflation to twelve months ahead to fall below the target range of price stability rose from 7 percent in 2006:Q4 to 12 percent in this quarter (the lower area in Figure 16).



³ The targeted range to twelve months ahead 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.

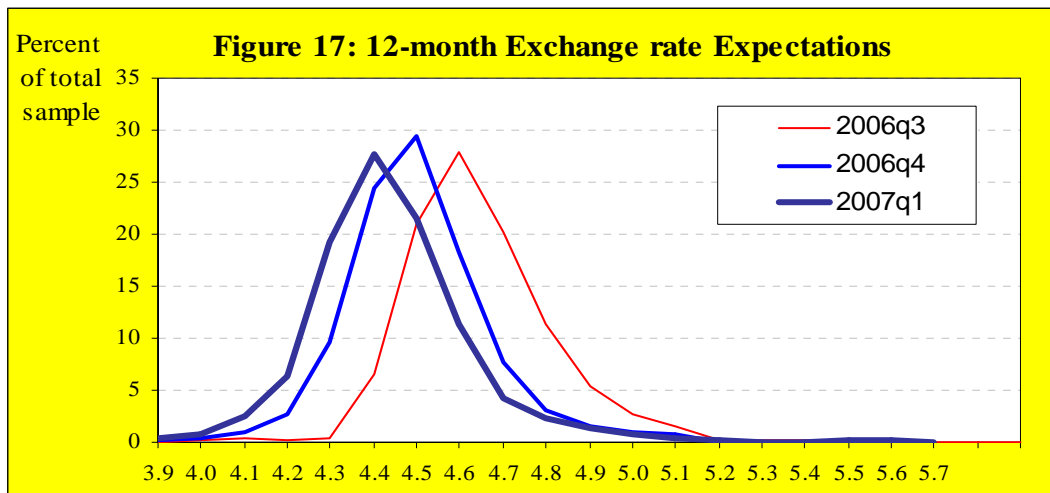
Table 2
Statistic Analysis of 12-month Inflation Expectations

	2004			2005				2006				2007
	II	III	IV	I	II	III	IV	I	II	III	IV	I
1. Mode	3.00	3.00	2.00	2.00	2.00	3.00	2.00	3.00	3.00	2.00	2.00	2.00
2. Median	2.50	2.50	2.00	2.00	2.20	2.50	2.50	2.70	2.50	2.50	2.00	1.70
3. Average	2.70	2.53	2.08	2.08	2.36	2.59	2.59	2.77	2.65	2.47	2.01	1.78
4. Standart Deviation	1.17	1.05	1.05	1.05	1.10	1.03	1.05	1.11	1.10	1.02	0.99	0.91
5. Skewness	-0.30	-0.47	0.08	0.08	0.36	-0.41	0.59	-0.23	-0.35	0.47	0.01	-0.22
Number of responding companies	574	570	567	567	535	518	553	517	519	469	469	456

* Skew is calculated as the difference between average and mode.

Expectations regarding changes in the NIS/dollar exchange rate

Companies participating in the survey were asked about their expectations regarding the NIS/\$ exchange rate at the end of the next quarter (30 June 2007), and one year from the end of the survey period (31 March 2008). The exchange rate expected twelve months ahead was NIS 4.36 to the dollar as against NIS 4.42 in the previous survey. At the same time, the variance of the exchange-rate expectations to twelve months ahead fell relative to the previous quarter (Figure 17). On average, companies expected the NIS/\$ exchange rate at the end of the next quarter to be NIS 4.21 compared with NIS 4.30 in the previous quarter.⁴



⁴ The derived depreciation relates to the change in the exchange rate between the time the companies report and the end of the period in question.

Manufacturing Industries

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

	2004			2005				2006				2007
	II	III	IV	I	II	III	IV	I	II	III	IV	I
1. Output	24	27	24	14	26	37	24	33	36	26	22	25
2. Sales	23	23	23	14	27	36	21	31	36	27	25	24
3. Domestic sales	12	15	*7	*5	17	27	14	22	21	23	22	21
4. Export	31	13	29	17	24	23	23	22	32	11	22	17
5. Stocks of finished goods	18	*6	*4	12	12	8	7	10	16	10	9	11
6. Stocks of raw materials	9	*5	*4	*6	8	*4	11	9	13	12	*4	9
7. Rate of utilization of machinery and equipment	13	16	14	7	14	26	13	19	22	13	14	16
8. Number of employees	10	12	7	*5	9	13	*5	18	17	9	11	10
9. Domestic orders	10	*-2	*4	*1	*3	8	*7	17	13	9	*6	11
10. Export orders	25	*7	16	18	11	26	15	26	23	10	17	23
Number of responding companies	329	340	315	321	301	287	282	283	304	261	250	231

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 2007:I
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2006 IV	2007 I					
A. Activity in the quarter							
1. Output	22 (5)	25 (5)	11	31	41	14	3
2. Sales	25 (5)	24 (5)	10	35	34	17	4
3. Domestic sales	22 (5)	21 (5)	8	31	43	14	4
4. Export	22 (5)	17 (6)	6	33	39	17	5
5. Stocks of raw materials	9 (5)	11 (5)	3	26	53	16	2
6. Stocks of finished goods	4 (5)	9 (4)	2	23	59	13	3
7. Rate of utilization of machinery and equipment	14 (5)	16 (5)	5	28	50	15	2
8. Number of employees	11 (4)	10 (4)	2	21	64	11	2
B. Expected activity in the following quarter**							
9. Domestic orders	6 (5)	11 (5)	4	26	51	14	5
10. Export orders	17 (5)	23 (5)	7	31	47	13	2
Number of responding companies	250	231					

** 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

	2004			2005				2006				2007
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Sales	*15	26	32	28	33	31	*16	42	31	*24	34	30
2. End-of-quarter stock	*8	*3	*15	23	24	*9	*0	*11	26	*18	*17	22
3. Percent of credit sales	28	15	20	20	20	28	17	20	*11	*-3	*3	18
4. Supply period	10	*-8	8	*-3	*-6	*3	21	*6	*9	*4	0	16
B. Expected activity in the following quarter												
5. Forecast change in number of permanent employees	*-5	*-3	*3	*8	*11	*-9	21	14	*0	*3	*0	9
6. Sales expectations	53	26	43	42	51	*-3	32	42	50	*-3	39	45
Number of responding companies	40	39	41	40	36	32	31	36	36	29	29	33

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 2007:I
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2006 IV	2007 I					
A. Activity in the quarter							
1. Sales	34 (15)	30 (14)	15	36	28	15	6
2. End-of-quarter stock	17 (13)	22 (11)	3	31	54	12	0
3. Percent of credit sales	3 (8)	18 (10)	6	21	64	9	0
4. Supply period	0 (0)	16 (8)	3	16	78	3	0
B. Expected activity in the following quarter							
5. Forecast change in number of permanent employees	0 (7)	9 (5)	3	6	91	0	0
6. Sales expectations for following quarter	39 (14)	45 (13)	6	54	25	12	3
Number of responding companies	29	33					

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

Construction

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Table 7
Net balance (percent of all responding construction companies)¹

	2004			2005				2006				2007
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total activity	-24	*-18	-33	*-7	*0	*0	*-5	*13	19	*7	18	21
of which 2. Buildings	-24	-34	-38	*-9	*-5	*3	*-8	*0	21	*10	21	27
3. Infrastructure	-28	-27	-24	*-6	*3	*-6	-23	*17	*15	*-12	23	32
4. Output prices in dollar terms	28	*18	*2	*11	21	65	26	43	28	24	21	28
5. Area of building starts (sq. m.)	*-10	-35	-38	*-10	*-13	*-10	*-20	*2	*-3	*-5	*0	27
6. Area of building completions (sq. m.)	-32	-23	-33	*-10	-21	-30	*-15	*-7	*-8	*0	*-8	*6
7. Building time	*7	33	22	*7	*13	18	28	17	*16	33	16	26
B. Expected activity in the following quarter**	*-11	*-17	-21	*18	*7	*-9	*5	33	22	23	20	33
Number of responding companies	45	46	49	47	44	44	44	46	42	43	41	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 2007:I
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2006	2007					
	IV	I					
A. Activity in the quarter							
1. Total activity	18 (11)	21 (10)	0	29	63	5	3
of which Buildings	21 (11)	27 (12)	0	42	43	12	3
Infrastructure	23 (13)	32 (14)	8	36	44	8	4
2. Output prices in dollar terms	21 (12)	28 (13)	9	35	40	13	3
3. Area of building starts (sq. m.)	0 (12)	27 (12)	0	39	49	6	6
4. Area of building completions (sq. m.)	-8 (8)	6 (10)	0	21	64	12	3
5. Building time	16 (8)	26 (9)	9	20	68	0	3
B. Expected activity in the following quarter	20 (12)	33 (12)	0	45	43	6	6
Number of responding companies	41	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

	2004			2005				2006				2007
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total activity	52	*43	*-17	*11	44	*24	*16	48	*7	*6	*32	41
2. Sales of services to residents	56	49	*-18	*1	49	*3	*18	37	*16	31	48	40
3. Sales of services to nonresidents	*22	38	*31	38	53	*9	*-2	*17	*12	27	*1	42
4. Utilization of equipment (capacity utilization, etc.)	61	45	*12	*9	31	*13	*24	44	*21	*-15	38	*45
B. Expected activity in the following quarter**	*38	*17	*28	*24	*21	*16	*11	43	*38	61	*45	49
Number of responding companies	33	26	28	28	21	24	27	23	21	18	22	22

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 2007:I
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2006 IV	2007 I					
A. Activity in the quarter							
1. Total activity	*32	41	3	47	41	9	0
2. Sales of services to residents	48	40	0	55	29	15	0
3. Sales of services to nonresidents	*1	42	0	50	43	4	4
4. Utilization of equipment (capacity utilization, etc.)	38	45	0	66	13	21	0
B. Expected activity in the following quarter	*45	49	6	64	10	15	5
Number of responding companies	22	22					

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

Hotels

16

Table 11
Net balance (percent of all responding hotel companies)¹
(compared with equivalent period last year)

	2004			2005				2006				2007
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total activity	66	69	63	69	82	80	78	80	66	-51	*-2	*-17
2. Number of bed-nights: Tourists	60	54	61	70	80	85	80	78	64	-78	-44	-36
3. Number of bed-nights: Israelis	31	32	22	33	20	*0	*8	22	*-2	-25	*-12	*-2
4. Average revenue per room	31	37	24	44	66	62	69	78	62	*-6	18	35
B. Expected activity in the following quarter**	53	21	41	61	69	63	63	64	35	-57	-22	19
Number of responding companies	58	59	54	54	51	47	51	55	47	49	50	47

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 2007:I
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2006 IV	2007 I					
A. Activity in the quarter							
1. Total activity	-2 (13)	-17 (14)	8	28	11	40	13
2. Number of bed-nights: Tourists	-44 (12)	-36 (13)	4	22	12	32	30
3. Number of bed-nights: Israelis	-12 (11)	-2 (11)	11	19	38	21	11
4. Average revenue per room	18 (11)	35 (12)	4	50	27	19	0
B. Expected activity in the following quarter	-22 (12)	19 (12)	11	31	35	19	4
Number of responding companies	50	47					

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

	2004			2005				2006				2007
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total revenue from current activity	14	14	12	17	15	22	27	35	34	*10	37	22
2. Sales of services in Israel	*9	*9	16	15	14	26	33	36	33	*8	36	20
3. Sales of services abroad	29	29	*18	29	22	41	26	29	21	*26	46	*7
4. Number of employees	*3	*4	*6	*5	*5	16	17	24	19	10	13	13
5. of which: trained	*2	8	*7	*7	11	17	21	27	12	*8	17	16
6. Number of Israeli workers abroad	*7	*11	*0	*0	17	*9	22	29	12	*0	16	16
B. Expected activity in the following quarter**												
7. Total orders	29	23	26	31	29	28	31	46	39	26	27	43
8. Export orders	41	26	*24	35	47	31	30	31	*17	*6	*13	38
Number of responding companies	164	172	166	168	187	177	195	163	178	150	155	145

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 2007:I

(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	באופן	הנכר					
	2006	2007					
A. Activity in the quarter							
1. Total revenue from current activity	37 (6)	22 (6)	4	35	44	14	3
2. Sales of services in Israel	36 (6)	20 (6)	5	33	44	14	4
3. Sales of services abroad	46 (11)	7 (12)	4	21	57	14	4
4. Number of employees	13 (5)	13 (4)	0	21	71	8	0
5. of which: trained	17 (5)	16 (5)	1	20	74	5	0
6. Number of Israeli workers abroad	16 (8)	16 (7)	4	12	84	0	0
B. Expected activity in the following quarter**							
7. Total orders	27 (6)	43 (6)	5	46	41	7	1
8. Export orders	13 (15)	38 (12)	0	42	54	4	0
Number of responding companies	155	145					

* 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 2006:IV and 2007:I

			Number of		Total	Domestic	Domestic	Actual	Export	Finished	Number
			responding	companies							
Mining, quarrying, construction materials, and wood	2007	I	23		35	30	*18	*11	29	*0	*0
	2006	IV	25		*8	*25	*9	*0	*9	*-12	*0
Food and beverages	2007	I	31		26	23	*-4	29	39	*13	*10
	2006	IV	37		*8	*-3	*19	*-4	*17	*-16	*-8
Textiles, clothing, and leather	2007	I	14		*31	46	46	*17	*-9	*21	*14
	2006	IV	17		*6	*13	*29	*7	*21	*19	*18
Chemicals, rubber, and plastic	2007	I	37		24	30	31	*16	35	*14	22
	2006	IV	46		24	22	*7	32	27	*0	15
Metals and machinery	2007	I	41		29	*15	*3	26	33	*-7	*10
	2006	IV	37		*16	31	*6	*11	*4	*-5	*11
Electronics, electricity, and transport equipment	2007	I	59		*9	*-3	*7	*11	20	*7	15
	2006	IV	61		40	27	*2	49	22	25	23
Paper, printing, and other	2007	I	22		52	57	*-6	*13	*-8	*19	*0
	2006	IV	23		36	41	*-5	*13	*21	*14	13
Total manufacturing industries excluding diamonds	2007	I	227		26	21	11	18	24	8	11
	2006	IV	246		23	22	*8	23	19	*3	11
Diamonds	2007	I	4		*0	0	0	*-25	*0	50	-50
	2006	IV	4		*0	*0	-100	*-25	-50	*25	*-25
Total manufacturing industries	2007	I	231		25	21	11	17	23	9	10
	2006	IV	250		22	22	*6	22	17	*4	11

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, 2007:I**

	Manufacturing companies				Construction companies				
	Total	Small	Middle	Large	Total	Small	Middle	Large	
Output	25	*12	24	30	Total activity	21	0	*20	25
Total sales	24	*19	22	26	Area of starts	27	*33	38	*14
Domestic sales	21	*19	19	23	Area of completions	*6	*-33	*13	*7
Export	17	31	*9	19	Output prices in \$	28	0	*20	43
Number of companies	231	27	94	110	Area of completions	35	3	16	16

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

	2005		2006			2007
	IV	I	II	III	IV	I
Demand constraints						
Volume of export orders	1.1	1.1	1.0	1.1	1.0	0.9
Volume of domestic orders	1.1	1.1	1.0	1.0	1.0	0.9
Supply constraints						
Machinery and equipment shortage	0.4	0.4	0.4	0.3	0.4	0.4
Financing difficulties	0.7	0.7	0.6	0.7	0.6	0.5
Labour shortage	0.7	0.8	0.7	0.9	0.7	0.9

Transport and Communications

	2005		2006			2007
	IV	I	II	III	IV	I
Demand constraints						
Booking by foreign tourists	0.6	0.9	1.1	1.9	1.4	1.0
Booking by Israelis	0.6	0.9	0.7	1.2	0.7	0.4
Economic and political situation in Israel	1.1	1.1	1.3	1.9	1.5	1.1
Intensification of competition	2.2	1.9	1.9	2.1	1.7	2.0
Supply constraints						
Financing difficulties	0.8	1.2	0.9	1.2	0.8	0.7
Labour shortage	1.0	1.2	1.0	0.9	1.0	1.4

Construction

	2005		2006			2007
	IV	I	II	III	IV	I
Demand constraints						
Volume of demand	2.2	2.3	2.0	2.0	1.9	1.7
Supply constraints						
Input prices	1.3	1.3	1.5	1.3	1.3	1.2
Financing difficulties	1.7	1.4	1.6	1.5	1.4	1.2
Labour shortage	2.1	2.2	2.1	2.2	2.2	2.2
Machinery and equipment shortage	0.2	0.3	0.5	0.2	0.4	0.3

Hotels

	2005		2006			2007
	IV	I	II	III	IV	I
Demand constraints						
Booking by foreign tourists	1.7	1.3	1.8	3.2	2.6	2.3
Booking by Israelis	1.4	1.3	1.4	1.9	1.4	1.0
Economic and political situation in Israel	1.4	1.4	1.4	2.6	1.9	1.5
Supply constraints						
Financing difficulties	1.4	1.5	1.6	1.7	1.6	1.1
Labour shortage	0.9	1.2	1.6	1.1	1.3	1.4

Trade

	2005		2006			2007
	IV	I	II	III	IV	I
Demand constraints						
Volume of orders	0.5	0.6	0.9	1.6	0.5	0.4
Economic and political situation in Israel	1.1	1.0	1.0	1.0	0.7	0.9
Economic situation in the world	0.5	0.5	0.6	0.3	0.5	0.5
Supply constraints						
Financing difficulties	0.8	1.0	1.0	0.9	0.9	0.8
Labour shortage	0.5	0.4	0.5	0.5	0.5	0.5

Service Industries

	2005		2006			2007
	IV	I	II	III	IV	I
Demand constraints						
Economic and political situation in Israel	1.1	1.0	1.0	1.4	1.0	0.9
Global Economic situation	0.7	0.7	0.7	0.7	0.6	0.5
Intensification of competition	1.9	1.9	1.8	1.7	1.6	1.7
Supply constraints						
Financing difficulties	1.1	1.1	1.0	1.1	0.8	0.8
Labour shortage	0.8	0.9	0.9	0.9	1.0	1.0

APPENDIX

Explanatory Notes

Net balance

This quarterly survey relates to developments in 2007:Q1, and includes assessments and expectations regarding 2007:Q2. The survey's findings are based on responses to questionnaires received from companies in the manufacturing, trade, construction, hotels, transport and communications, and business services industries. The questions are qualitative, that is, the companies are asked to report on the direction of changes in the different variables (increase, decrease, or no change), and on the degree of change (great, slight). The survey is intended to serve decision-makers as an analytical and updated tool that complements the quantitative data.

In all industries except for hotels, companies are asked to indicate the actual change compared with the previous quarter, without seasonal or other adjustments. In the hotel industry, companies are asked to report the change from the equivalent quarter in the previous year.

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

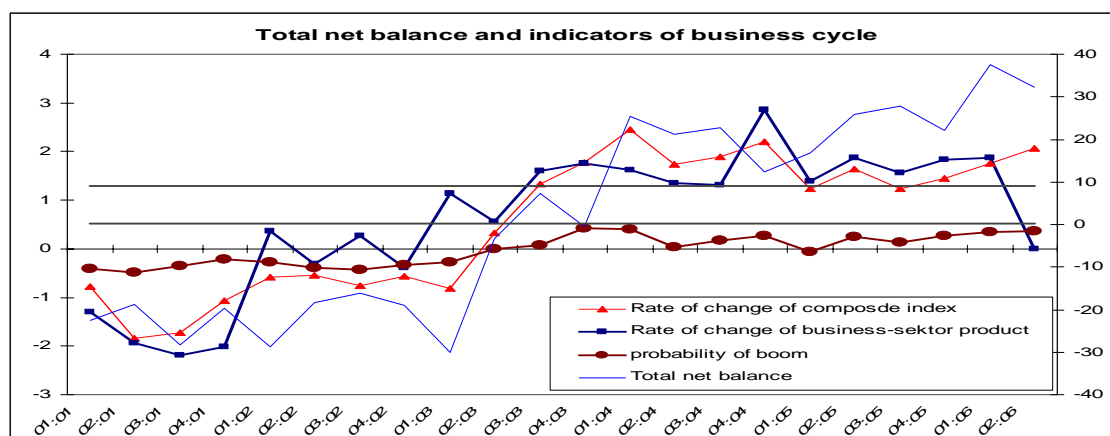
The results are analyzed by means of the net balance, defined as the difference between the percentage of companies reporting an increase and the percentage of those reporting a decrease. A net balance of zero in a particular category shows that there was no change in the level of that category compared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

The standard deviation is affected inter alia by the number of observations in the sample, and by the distribution of the responses in each category. The smaller the number of observations, the greater the standard deviation.

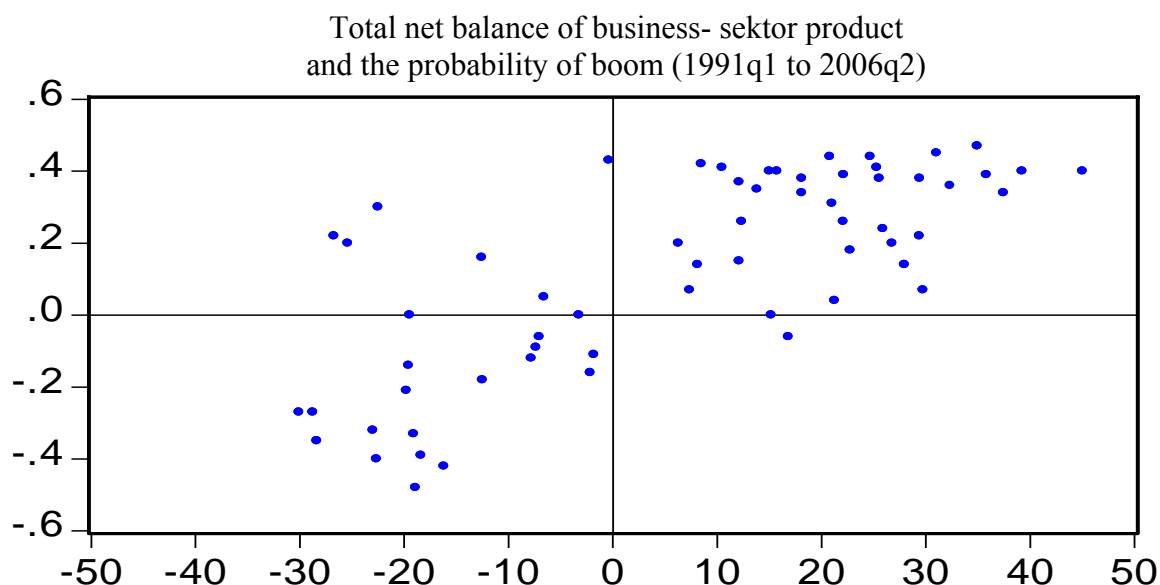
The data on net balances are based on a summary of the answers of all the companies that responded, and not only those that participated in the most recent surveys. The data in all the tables are in terms of percent of the companies that responded.

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

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



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



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

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

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

Sample period: 1983 III to 2003 IV

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

Leading index

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

In order to estimate the probability that the pace of growth will moderate, each company's expectations for the following quarter are crossed with their assessment regarding the current quarter, and four dependent modes expressing the change in the existing situation are calculated (Table 1). Accordingly, from the companies that reported an increase in activity for the current quarter, a

calculation is made of the percentage of companies expecting the increase to continue in the next quarter and of the percentage of companies expecting their activity to decrease. From the companies reporting a decrease in their activity in the current quarter, a calculation is made of the percentage of companies expecting the decrease to continue in the next quarter and of the percentage of companies expecting their activity to increase. The companies reporting an improvement in their current activity include those that reported an improvement one or two quarters previously and then reported no change. Similarly, the companies reporting a decrease in their current activity include those that reported a decrease one or two quarters previously and then reported no change. This makes it possible to monitor gradual rather than sudden shifts in activity that develop over two to three quarters and not within a single quarter.

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

A probability of 0.5 in the leading index matches a situation in which the modes estimated are found within the parameters typical of the long term. For as long as the leading index is below the threshold of 0.5, a slowdown in the pace of growth in the following quarter cannot be conclusively determined.

If the index exceeds that threshold, activity can be expected to moderate in the next 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)

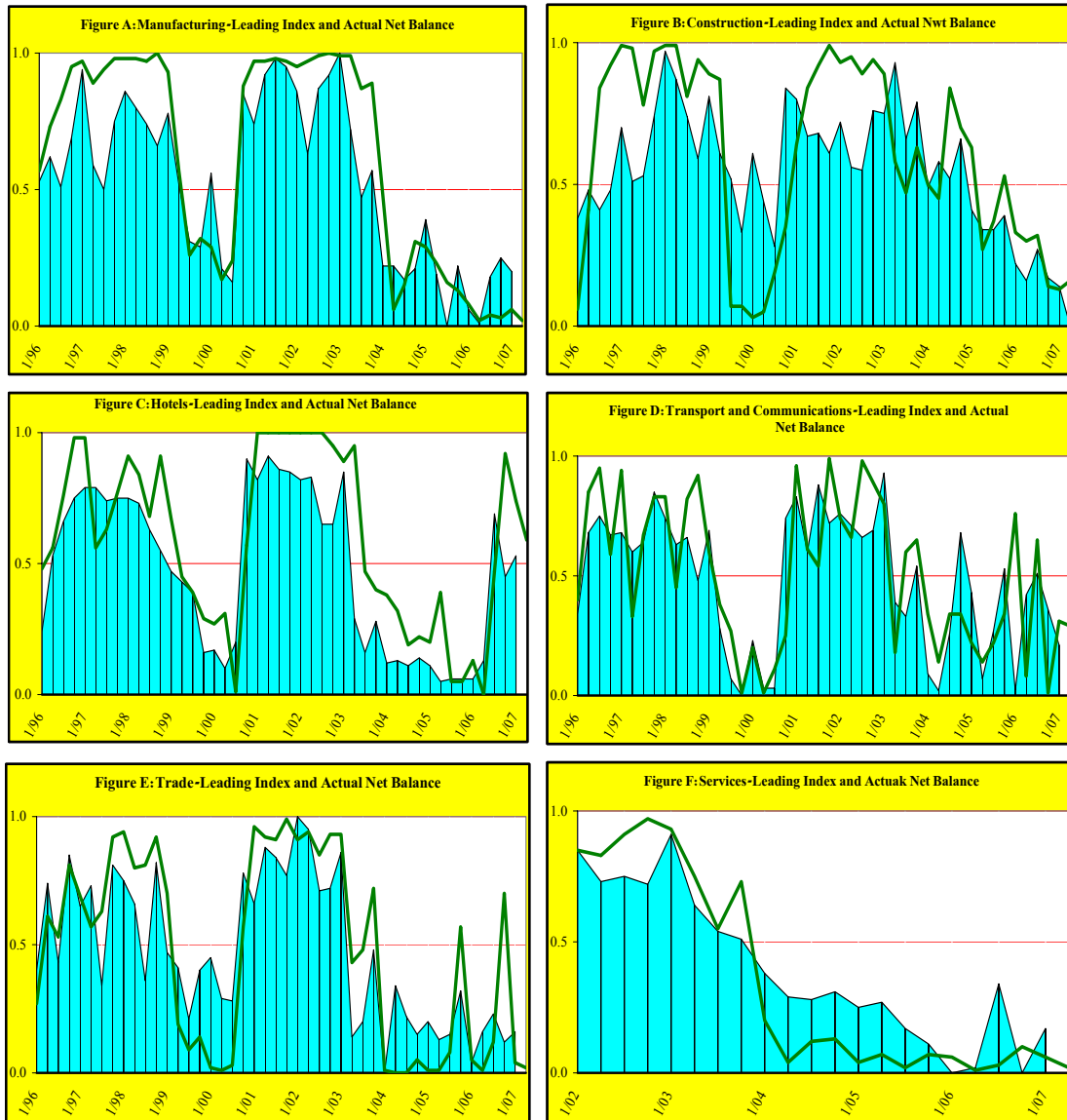
Number of companies ^b	Continued slowdown		slowdown-acceleration		Acceleration-slowdown		Continued acceleration		Industry
	average	standard deviation	average	standard deviation	average	standard deviation	average	standard deviation	
257	0.45	0.07	0.11	0.04	0.14	0.04	0.30	0.06	Manufacturing
33	0.23	0.13	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 (represented by the shaded area) and the probability of a slowdown in activity (represented by the line graph)