



Bank of Israel * Research Department

Companies Survey

Second quarter of 2007

Jerusalem, July 2007
www.bankisrael.gov.il

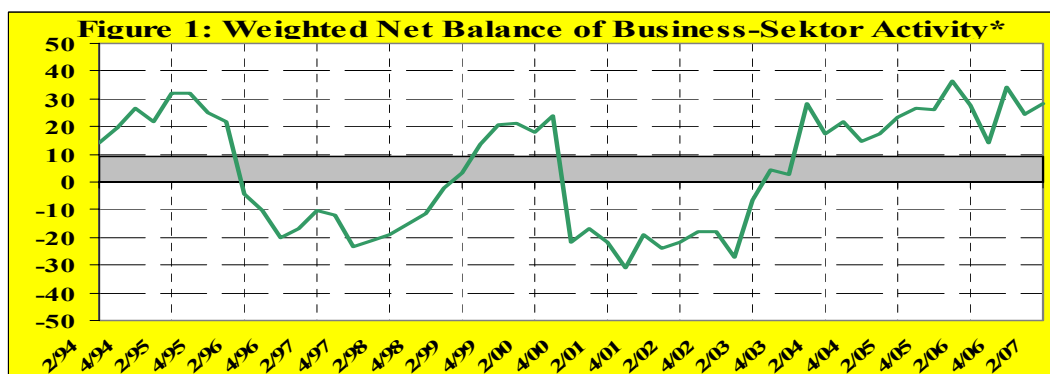


Companies Survey - Second Quarter of 2007 – Main Results

Reports from companies for the second quarter of 2007 indicate that the rise in economic activity persisted, and expectations in all industries point to further expansion in the next quarter. The rise in economic activity in the quarter occurred mainly in the manufacturing, commerce, transport, and service industries. There was a moderate increase in activity in the construction and the hotel industries, and various indicators show that there was no significant rise in either of them. The leading index of the business sector and expectations in industries overall point to a continued rise in activity in the next quarter. In construction, on the other hand, no clear picture emerged: expectations continue to be positive, but the probability of a slowdown in the next quarter rose. In **manufacturing**, rises in output were recorded, reflecting increased export and domestic sales. Increases in domestic and even more so in export orders for the next quarter continued. In **commerce** the upward sales trend continued, and companies expected sales to accelerate in the next quarter. **Business services** companies reported a rise in revenue, reflected mainly sales in Israel, and to a lesser extent sales of services abroad. Orders are expected to increase in the next quarter. In the **hotels** industry there was a rise in activity compared to the second quarter of 2006, the first time an increase has been recorded since the crisis in the industry sparked by the Second Lebanon War in the summer of 2006. Nevertheless, the number of foreign tourists' and Israelis' bed nights was lower than in the second quarter of 2006. Activity is expected to rise in the next quarter, and the severity of the demand constraint continued to ease. Activity in **transport and communications** increased: activity in air and overland transport rose, while in sea transport and communications it fell. Orders for the following quarter indicate a further rise in activity. In **construction** the level of activity showed a modest rise, with infrastructure construction leading the field, and slight falls in the construction of buildings and a decline in the number of building starts. Reports on the severity of constraints on activity showed that on the demand side these had eased compared with the previous quarter, especially in the construction, transport and hotels industries. On the other hand, the severity of the supply constraints in most industries rose slightly. Average **inflation expectations** to twelve months ahead rose to 2 percent, with a very small increase in the share of companies that expect inflation to exceed the target range. Companies expect, on average, an **exchange rate** of NIS 4.44 to the dollar twelve months hence compared with expectations of NIS 4.36 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 second quarter of 2007 the upward trend in activity continued at a faster rate than in the previous quarter (Figure 1). This was reflected both in exports and in domestic sales. The main rise in activity occurred in the manufacturing, transport, commerce and services industries, with the construction and hotels industries showing modest increases. Companies in all industries expected activity to rise in the next quarter. Nevertheless, the leading index in the construction industry suggested a rise in the probability of a slowdown in the next quarter.



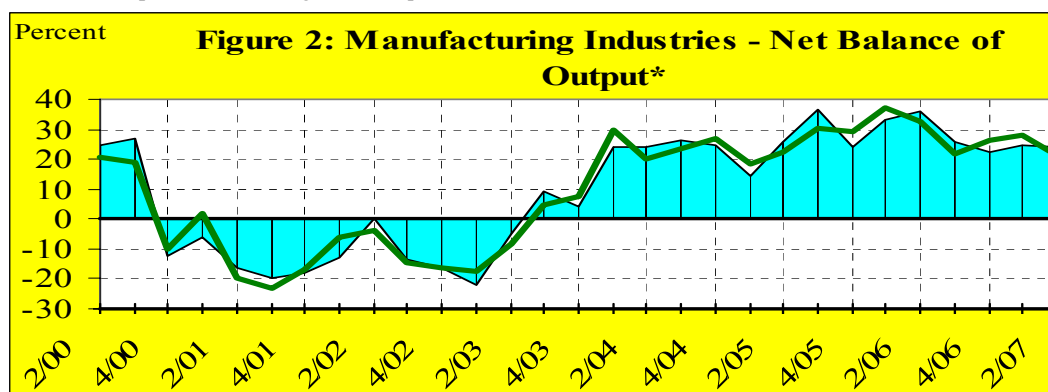
¹ The net balance is the difference between the share of companies reporting an increase and the share of those reporting a decrease.

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.

2. Industry developments

Reports from **manufacturing companies** show continued growth in their output in 2007:Q2. The growth reflected increases in both exports and domestic sales (Table 3 and Figure 2). The companies reported a continued rise in the number of employees and in the utilization rate of machinery and equipment. Reports on constraints on activity show no significant change overall in their severity either on the demand side or on the supply side (Table 17 and Figure 9). Companies expect continued increases in domestic orders and even greater increases in export orders during the next quarter.

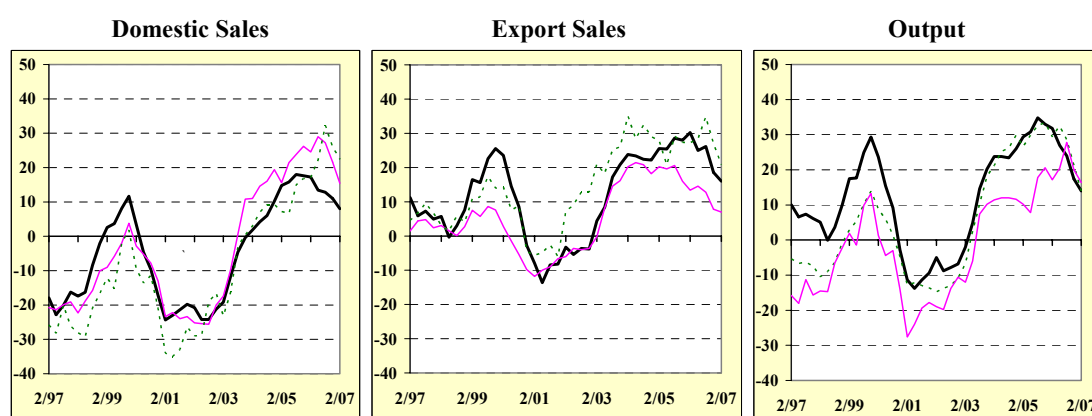


The **classification of companies** into three groups of industries by their degree of **technological innovation**—low-, medium-, and high-tech—shows that output and sales rose in all groups, with the medium-tech companies showing the highest increase. (Table 1.1 and Figure 3). The high- and medium-tech companies reported considerable rises in exports, while low-tech companies reported that their exports increased only moderately. All companies expect increases in export and domestic orders in the next quarter.

The growth in output and sales to the domestic market encompassed most manufacturing industries (Table 15). Particularly notable increases occurred in the mining and quarrying, paper and printing, food and beverages, chemicals, electronics and electricity industries. Companies in the textile, clothing and leather industries, however, reported a decline in output. In exports and export orders, increases were registered mostly in the electronics, electricity, haulage equipment, chemicals, rubber and plastic, metals and machinery. Increases in domestic orders were reported by companies in the mining and quarrying, paper and printing, chemicals, and rubber and plastics industries. In contrast, reductions in domestic orders were reported by companies in the textile, clothing, leather, food and beverages, and diamond industries.

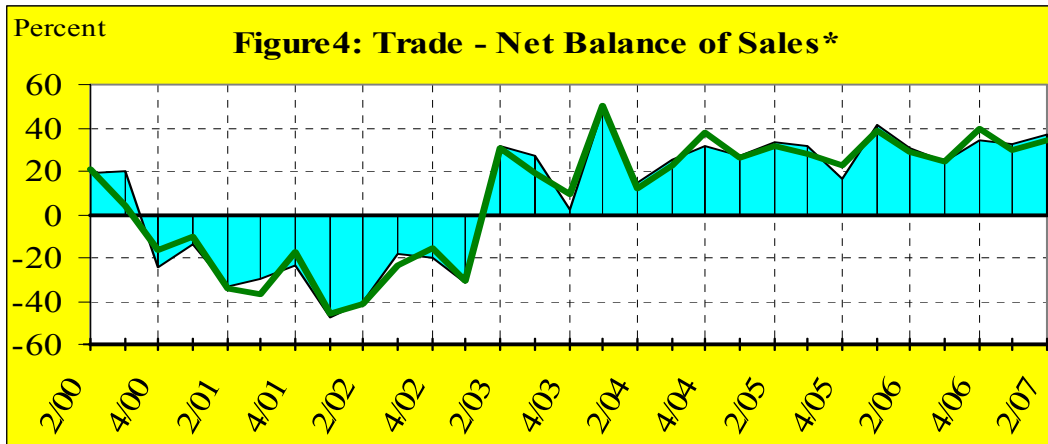
The **classification of company size** by number of employees shows that the growth in output, exports and sales encompassed companies of all sizes, and was most notable in the large and medium-sized companies (Table 16). Medium-sized and large companies reported increased export orders for the next quarter, while small companies reported a decline.

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

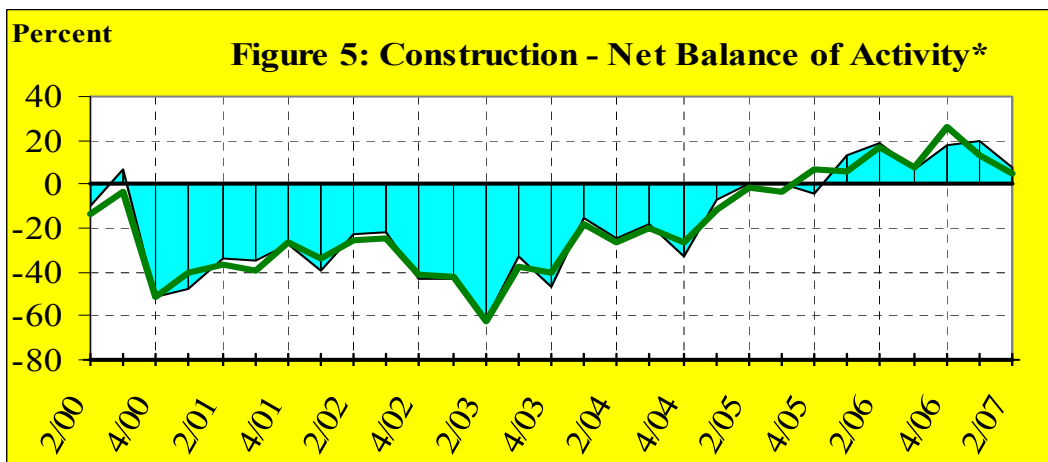


When the net balance is above the shaded band, the economy is showing a tendency towards a boom, and when the net balance is below it, the economy is showing a tendency towards a recession. When the net balance is within the band, no significant conclusion can be drawn.

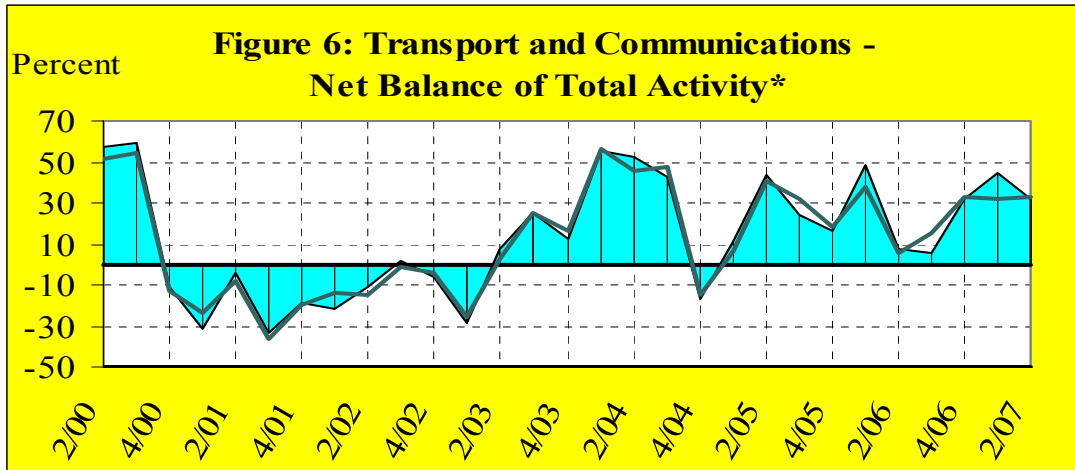
Reports from **trading companies** showed continued increases in sales in the second quarter, and sales were expected to rise faster in the next quarter (Table 5 and Figure 4). Companies reported a slight easing in the severity of the demand-side constraint and a small increase in that on the supply side--the shortage of skilled workers (Table 17 and Figure 9).



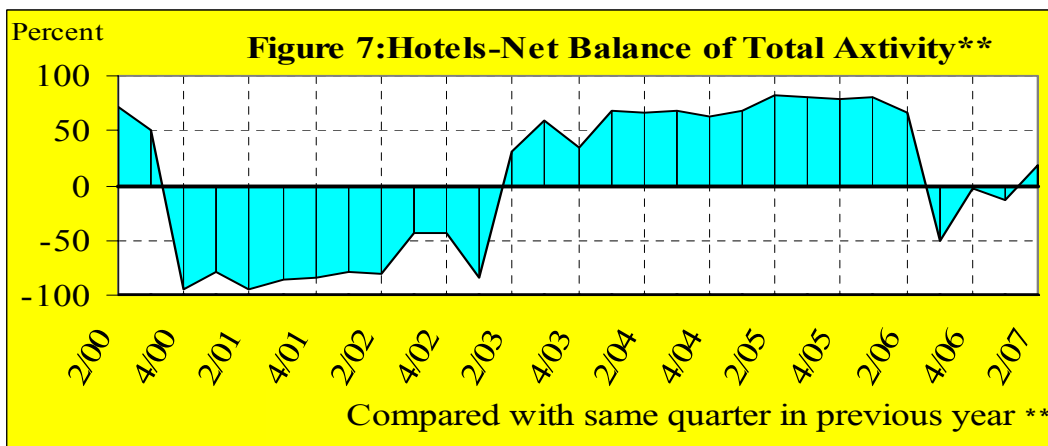
Construction companies reported a modest rise in the level of activity in 2007:Q2 following the faster increases in activity in the previous two quarters. This rise reflects an increase in infrastructure construction and a small decline in the construction of buildings (Table 7 and Figure 5). Construction starts were lower than in the previous quarter. The companies expected their activity to expand during the next quarter. The classification of company size by number of employees shows that activity in infrastructure construction increased in medium-sized and large companies, and declined in small companies (Table 16). Large and medium-sized companies expected their activity to rise again in the next quarter, while small companies expect a further drop in their activity. The supply-side constraint became a bit more severe, and the demand-side constraint eased slightly. It should be noted that the level of severity of the supply-side constraints in this industry is considerably higher than in most of the industries covered by this survey.



Transport and communications companies reported a further rise in activity in 2007:Q2, following the increases in previous quarters (Table 9 and Figure 6). Sales to Israelis increased substantially, but sales of services to nonresidents showed only a modest rise, supporting the assessment that incoming tourism has not yet recovered fully. Companies reported increased activity in overland and air transport, and reductions in shipping transport and in communications. The companies foresee an increase in their overall activity in the next quarter. There was a slight rise in the severity of the supply-side constraint, and hardly any change in the main demand-side constraint--increased competition (Table 17 and Figure 9).



Companies in the **hotel industry** reported a moderate increase in activity in 2007:Q2 (compared to its level in 2006:Q2; Table 11 and Figure 7). This rise comes after several quarters of continuous decline following the Second Lebanon War in 2006:Q3. Nevertheless, the number of bed nights of tourists from abroad as well as of Israelis were lower than in the second quarter of 2006. Reports on constraints on expanding activity show a further easing in the severity of the major demand-side constraints—the extent of incoming tourism—but its level remains relatively high (Table 17 and Figure 9). It should be noted that companies expect a rise in orders in the next quarter.



Reports from **business services companies** show a further rise in revenue in the second quarter, greater than the increase in the previous quarter. Most of the increase came from sales of services in Israel, with only a small rise in sales abroad (Table 13 and Figure 8). The companies expect both domestic and export orders in the next quarter to expand. The reports generally point to a slight easing of the severity of demand-side constraints while the constraints on the supply side became a little more severe (Table 17 and Figure 9).

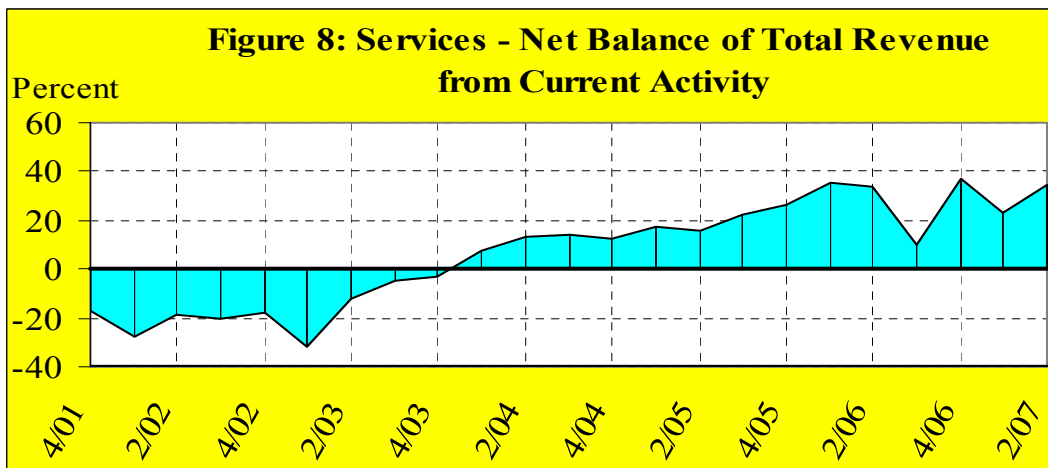


Table 1
Economic activity in the principal industries, based on the net balance of returns from companies
(original and seasonally adjusted data, percent)

	2004		2005				2006				2007	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
Industry (output)	27	24	14	26	37	24	33	36	26	22	24	24
seasonally adjusted	23	27	18	22	31	29	37	33	22	26	28	21
Trade (sales)	26	32	28	33	31	*16	42	31	*24	34	32	37
seasonally adjusted	22	38	26	31	28	*22	39	28	*24	39	30	34
Construction (total activity)	*-18	-33	*-7	*0	*0	*-5	*13	19	*7	18	19	*8
seasonally adjusted	-20	-26	*-12	*-2	*-3	*6	*6	17	*8	26	*13	*5
Transport and communications (total activity)**	43	-17	11	44	24	16	48	7	6	32	44	31
seasonally adjusted	48	-15	6	40	32	18	38	6	16	33	32	33
Hotels (total activity)***	69	63	69	82	80	78	80	66	-51	-2	-13	18
Service industries	14	12	17	15	22	27	35	34	10	37	23	35
Total business sector	23	12	17	26	28	22	37	30	14	31	26	30
seasonally adjusted	22	15	17	23	27	26	36	27	14	34	25	28

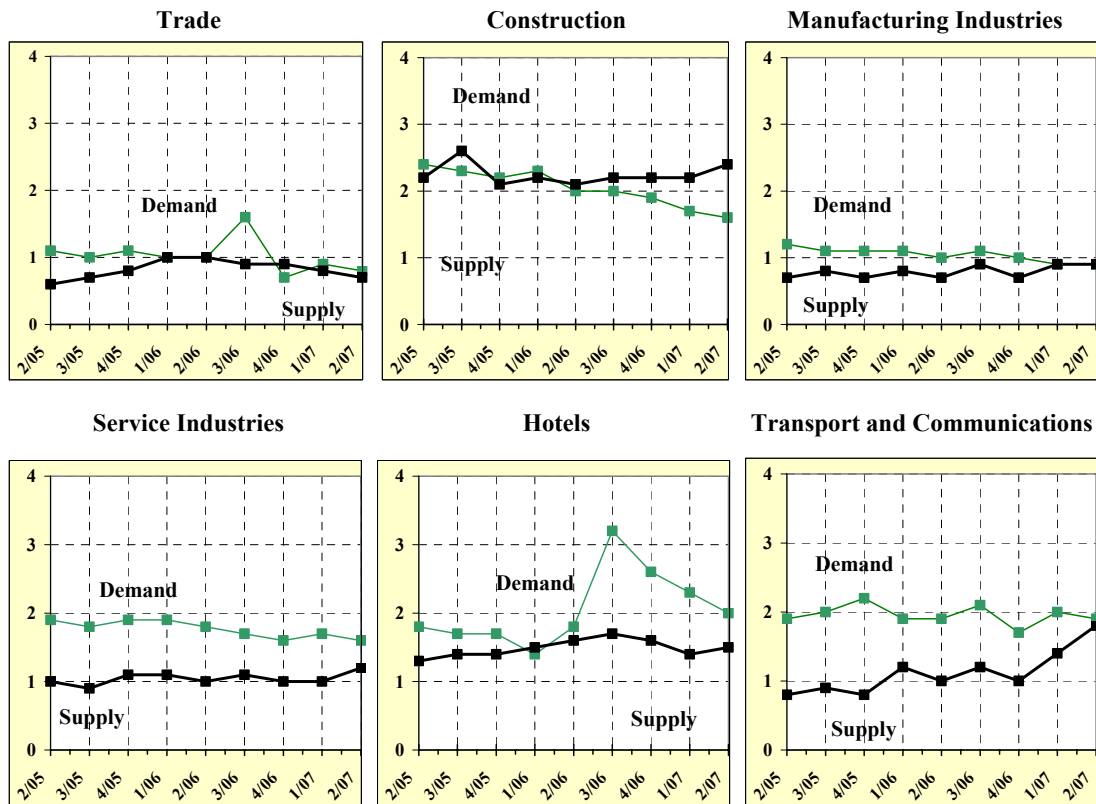
* Not significant (at the 10% level).
 ** The significance test is less effective in this industry due to the small number of firms.
 *** Compared with the same quarter in the previous year.

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	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
Advanced companies	25	29	13	26	37	42	36	33	17	31	18	21
Mixed companies	*16	24	*-11	*4	25	*9	*12	39	18	*8	25	49
Traditional companies	32	21	23	32	41	16	37	37	36	20	31	18

* 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.

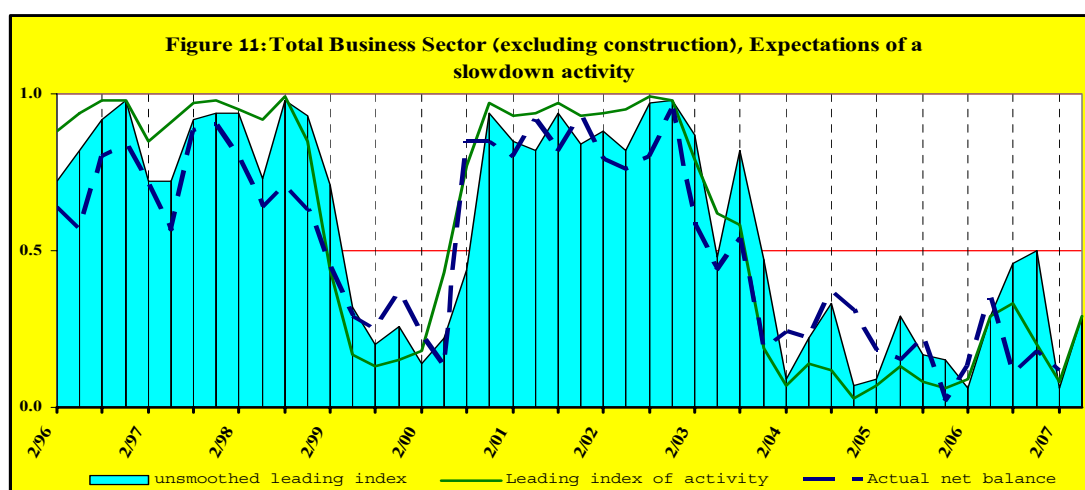
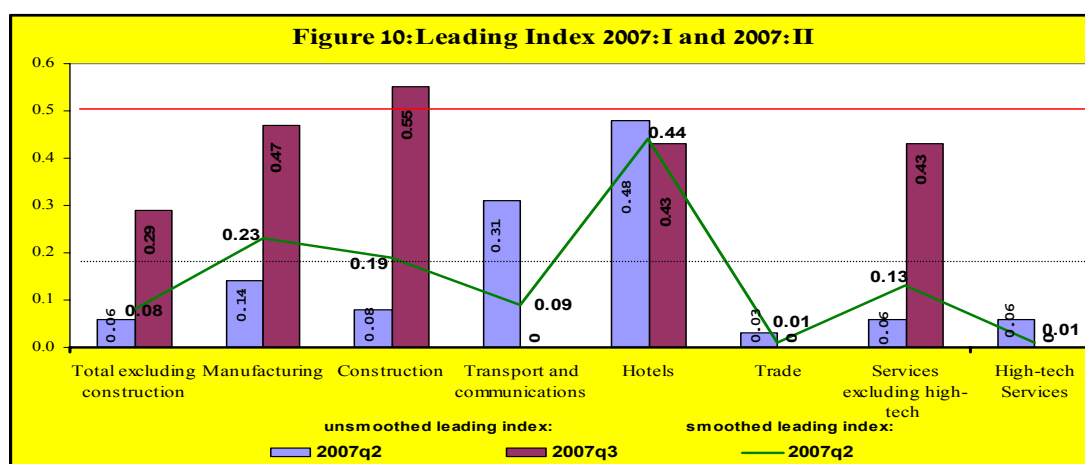
¹The business-services industry is composed of food, insurance, real-estate, business, and legal services; education and healthcare; and other personal services.

The leading index

The leading index in this survey foresees a further overall increase in business-sector activity in the third 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), for each of the six industries covered in the survey, and for the high-tech services industry (Figures A–F in the Appendix). The leading indices for individual industries in this survey point to further expansion in activity in all industries during the third quarter of 2007, with the exception of the construction industry, in which the probability of a slowdown in 2007:Q3 rose significantly, and crossing over the 0.5 threshold (Figure 10).

Several changes were introduced in the second quarter of 2007 in the method of calculating the leading index; these raised the level of significance of the findings in the various industries, and take into consideration the asymmetry (the positive bias) in companies' responses to the survey questionnaire³. The major improvement is that two leading indices are provided, based on 1) a smoothed probability (as was given till now), in which there is inter-quarter dependence, so that the index for the current quarter is updated every quarter, and relate to the forecast for the next quarter 2) An unsmoothed probability, with no retroactive adjustment of the leading index. The combination of these two indices show whether there has been a significant change (i.e., that is not a one-off change) in the rate of growth (e.g., a change from a rapid rate of growth to a moderate one).



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.

³ Companies' responses regarding the level of activity tend to be optimistic, and have an upward bias.

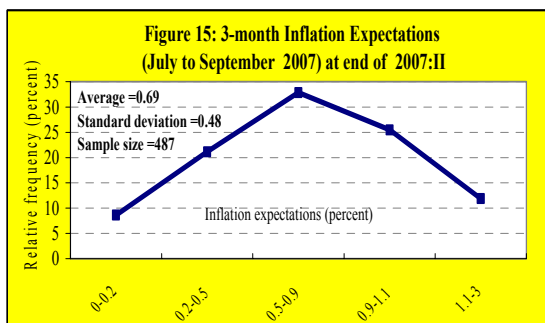
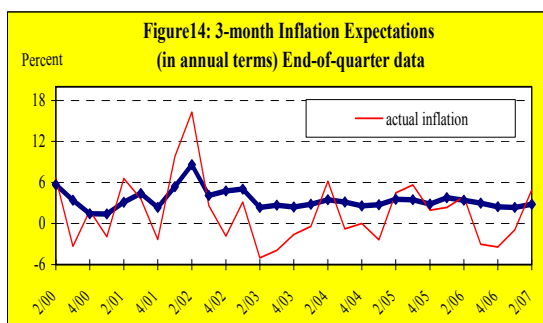
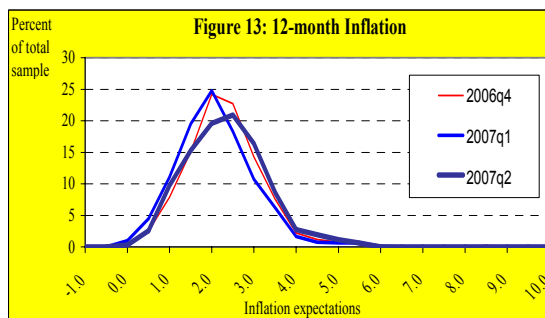
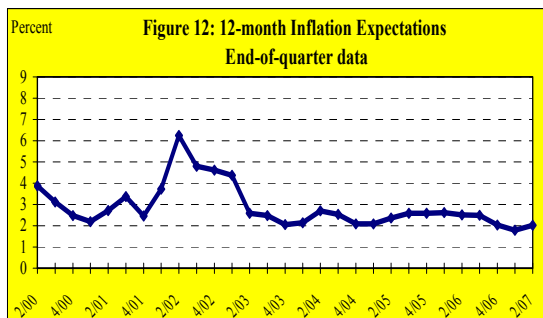
Survey of inflation expectations

Companies' expectations regarding the cumulative rate of price increases during the next twelve months (July 2007–June 2008) rose to 2 percent on average, from about 1.8 percent in the previous quarter (Figure 12).

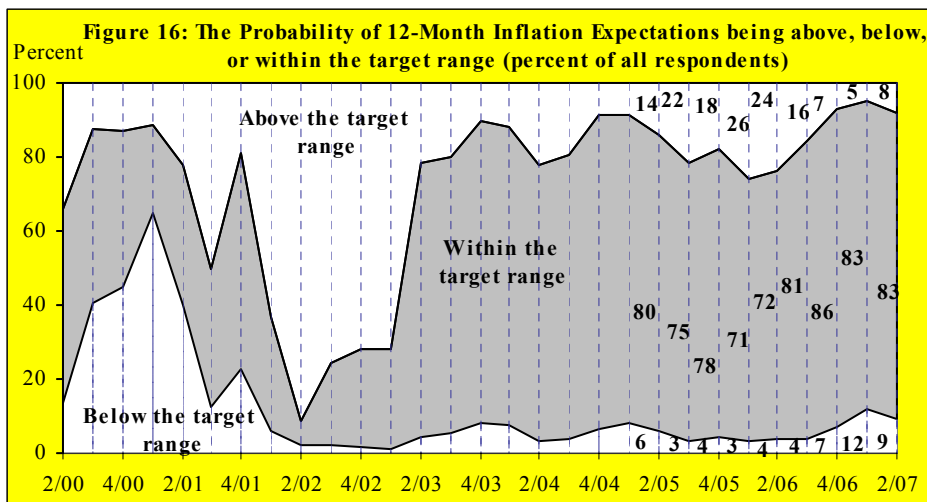
Together with the above rise in inflation expectations, their variation also increased (Figure 13). The median of the distribution in the second quarter was 2 percent, up from 1.7 percent in the first quarter. The mode of the distribution, however, remained unchanged at 2 percent.

The expected rate of price increases in the next quarter (July to September 2007) rose to 2.8 percent, from 2.3 percent in the previous quarter (Figure 14). The variation of the expectations was also a little higher than in the previous quarter.

Together with the above rise in inflation expectations, there was only a small rise, from 5 percent in the previous survey to 8 percent in the current one, in the proportion of companies that expected inflation to exceed the upper limit of the inflation target⁴ (shown by the top section in Figure 16), i.e., to exceed 3 percent (the target is 1–3 percent a year, defined as price stability). The proportion of companies expecting inflation to be within the target range (the shaded area in Figure 16) remained at 83 percent, the same as in the previous quarter. The proportion expecting inflation to be below the lower limit of the range (i.e., less than 1 percent) went down from 12 percent in the previous survey to 9 percent in the current one (the bottom area in the Figure 16).



⁴ 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.

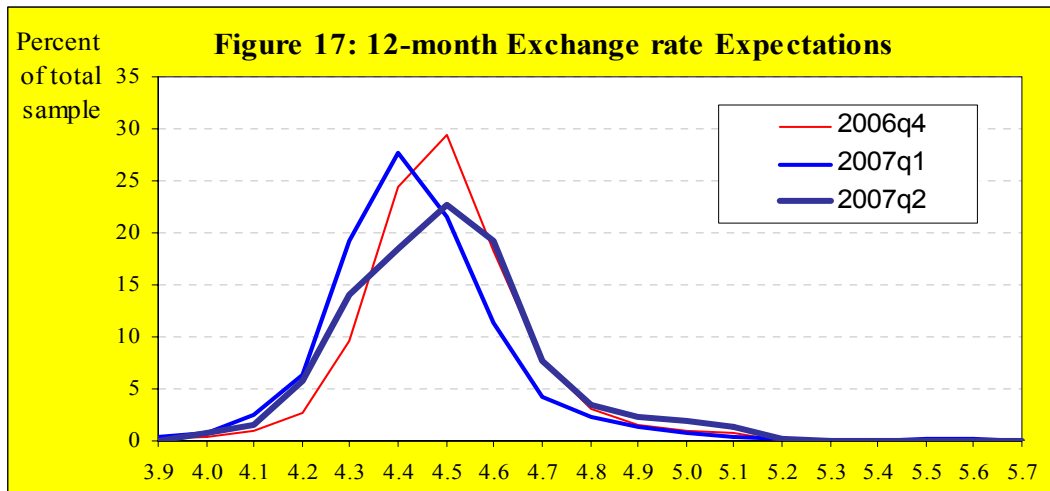
Table 2
Statistic Analysis of 12-month Inflation Expectations

	2004		2005				2006				2007	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
1. Mode	3.00	2.00	2.00	2.00	3.00	2.00	3.00	3.00	2.00	2.00	2.00	2.00
2. Median	2.50	2.00	2.00	2.20	2.50	2.50	2.70	2.50	2.50	2.00	1.70	2.00
3. Average	2.53	2.08	2.08	2.36	2.59	2.59	2.77	2.65	2.47	2.01	1.78	2.02
4. Standart Deviation	1.05	1.05	1.05	1.10	1.03	1.05	1.11	1.10	1.02	0.99	0.91	0.93
5. Skewness	-0.47	0.08	0.08	0.36	-0.41	0.59	-0.23	-0.35	0.47	0.01	-0.22	0.02
Number of responding companies	570	567	567	535	518	553	517	519	469	469	456	487

* 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 September 2007), and one year from the end of the survey period (31 June 2008). The exchange rate expected twelve months ahead, at end-June 2008, was NIS 4.44 to the dollar as against NIS 4.36 in the previous survey. At the same time, the variance of the exchange-rate expectations to twelve months ahead rose from the previous quarter (Figure 17). On average, companies expected the NIS/\$ exchange rate at the end of the next quarter to be NIS 4.27 compared with NIS 4.21 in the previous quarter. The average derived depreciation⁵ at the end of the next quarter was 1.4 percent.



⁵ 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	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
1. Output	27	24	14	26	37	24	33	36	26	22	24	24
2. Sales	23	23	14	27	36	21	31	36	27	25	23	26
3. Domestic sales	15	*7	*5	17	27	14	22	21	23	22	19	25
4. Export	13	29	17	24	23	23	22	32	11	22	16	25
5. Stocks of finished goods	*6	*4	12	12	8	7	10	16	10	9	12	14
6. Stocks of raw materials	*5	*4	*6	8	*4	11	9	13	12	*4	7	*6
7. Rate of utilization of machinery and equipment	16	14	7	14	26	13	19	22	13	14	14	17
8. Number of employees	12	7	*5	9	13	*5	18	17	9	11	10	15
9. Domestic orders	*-2	*4	*1	*3	8	*7	17	13	9	*6	12	15
10. Export orders	*7	16	18	11	26	15	26	23	10	17	21	20
Number of responding companies	340	315	321	301	287	282	283	304	261	250	251	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:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2007 I	2007 II					
A. Activity in the quarter							
1. Output	24 (5)	24 (5)	8	34	40	14	4
2. Sales	23 (5)	26 (5)	8	39	32	16	5
3. Domestic sales	19 (5)	25 (5)	6	37	39	13	5
4. Export	16 (6)	25 (6)	6	37	39	16	2
5. Stocks of raw materials	12 (4)	14 (5)	6	25	52	14	3
6. Stocks of finished goods	7 (4)	6 (4)	2	22	58	16	2
7. Rate of utilization of machinery and equipment	14 (4)	17 (5)	6	30	45	14	5
8. Number of employees	10 (4)	15 (4)	1	22	69	7	1
B. Expected activity in the following quarter**							
9. Domestic orders	12 (4)	15 (5)	5	25	55	13	2
10. Export orders	21 (5)	20 (5)	7	30	46	14	3
Number of responding companies	251	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	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Sales	26	32	28	33	31	*16	42	31	*24	34	32	37
2. End-of-quarter stock	*3	*15	23	24	*9	*0	*11	26	*18	*17	24	37
3. Percent of credit sales	15	20	20	20	28	17	20	*11	*-3	*3	21	27
4. Supply period	*-8	8	*-3	*-6	*3	21	*6	*9	*4	0	15	15
B. Expected activity in the following quarter												
5. Forecast change in number of permanent employees	*-3	*3	*8	*11	*-9	21	14	*0	*3	*0	9	*7
6. Sales expectations	26	43	42	51	*-3	32	42	50	*-3	39	47	73
Number of responding companies	39	41	40	36	32	31	36	36	29	29	34	30

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2007 I	2007 II					
A. Activity in the quarter							
1. Sales	32 (14)	37 (14)	10	43	31	16	0
2. End-of-quarter stock	24 (11)	37 (10)	13	27	57	3	0
3. Percent of credit sales	21 (10)	27 (8)	0	27	73	0	0
4. Supply period	15 (8)	15 (7)	15	0	85	0	0
B. Expected activity in the following quarter							
5. Forecast change in number of permanent employees	9 (5)	7 (8)	4	10	79	7	0
6. Sales expectations for following quarter	47 (13)	73 (8)	13	60	27	0	0
Number of responding companies	34	30					

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	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	*-18	-33	*-7	*0	*0	*-5	*13	19	*7	18	19	*8
of which 2. Buildings	-34	-38	*-9	*-5	*3	*-8	*0	21	*10	21	23	*-3
3. Infrastructure	-27	-24	*-6	*3	*-6	-23	*17	*15	*-12	23	33	30
4. Output prices in dollar terms	*18	*2	*11	21	65	26	43	28	24	21	21	21
5. Area of building starts (sq. m.)	-35	-38	*-10	*-13	*-10	*-20	*2	*-3	*-5	*0	26	*-8
6. Area of building completions (sq. m.)	-23	-33	*-10	-21	-30	*-15	*-7	*-8	*0	*-8	*6	*11
7. Building time	33	22	*7	*13	18	28	17	*16	33	16	28	18
B. Expected activity in the following quarter**	*-17	-21	*18	*7	*-9	*5	33	22	23	20	34	21
Number of responding companies	46	49	47	44	44	44	46	42	43	41	37	41

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2007 I	2007 II					
A. Activity in the quarter							
1. Total activity	19 (9)	8 (10)	0	23	62	5	10
of which Buildings	23 (11)	-3 (10)	0	18	61	13	8
Infrastructure	33 (13)	30 (11)	7	30	56	4	3
2. Output prices in dollar terms	21 (12)	21 (10)	8	25	55	9	3
3. Area of building starts (sq. m.)	26 (11)	-8 (10)	0	16	60	19	5
4. Area of building completions (sq. m.)	6 (10)	11 (9)	0	21	69	7	3
5. Building time	28 (8)	18 (8)	5	18	72	5	0
B. Expected activity in the following quarter	34 (11)	21 (11)	0	34	53	10	3
Number of responding companies	37	41					

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	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	*43	*-17	*11	44	*24	*16	48	*7	*6	*32	44	*31
2. Sales of services to residents	49	*-18	*1	49	*3	*18	37	*16	31	48	47	*38
3. Sales of services to nonresidents	38	*31	38	53	*9	*-2	*17	*12	27	*1	42	*9
4. Utilization of equipment (capacity utilization, etc.)	45	*12	*9	31	*13	*24	44	*21	*-15	38	*49	58
B. Expected activity in the following quarter**	*17	*28	*24	*21	*16	*11	43	*38	61	*45	*48	35
Number of responding companies	26	28	28	21	24	27	23	21	18	22	24	21

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2007 I	2007 II					
A. Activity in the quarter							
1. Total activity	44	31	1	44	41	0	14
2. Sales of services to residents	47	38	1	54	28	0	17
3. Sales of services to nonresidents	42	9	5	9	81	0	5
4. Utilization of equipment (capacity utilization, etc.)	*49	58	0	63	32	0	5
B. Expected activity in the following quarter	*48	35	8	39	41	12	0
Number of responding companies	24	21					

Due to the small number of companies in this field, a high standard 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	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	69	63	69	82	80	78	80	66	-51	*-2	*-13	*18
2. Number of bed-nights: Tourists	54	61	70	80	85	80	78	64	-78	-44	-31	*-7
3. Number of bed-nights: Israelis	32	22	33	20	*0	*8	22	*-2	-25	*-12	*-2	*-9
4. Average revenue per room	37	24	44	66	62	69	78	62	*-6	*18	36	26
B. Expected activity in the following quarter**	21	41	61	69	63	63	64	35	-57	-22	23	24
Number of responding companies	59	54	54	51	47	51	55	47	49	50	48	44

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

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2007 I	2007 II					
A. Activity in the quarter							
1. Total activity	-13 (13)	18 (13)	7	41	22	21	9
2. Number of bed-nights: Tourists	-31 (13)	-7 (15)	7	36	7	36	14
3. Number of bed-nights: Israelis	-2 (11)	-9 (12)	0	27	37	32	4
4. Average revenue per room	36 (11)	26 (13)	5	46	24	22	3
B. Expected activity in the following quarter	23 (12)	24 (13)	17	34	22	24	3
Number of responding companies	48	44					

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	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total revenue from current activity	14	12	17	15	22	27	35	34	*10	37	23	35
2. Sales of services in Israel	*9	16	15	14	26	33	36	33	*8	36	20	33
3. Sales of services abroad	29	*18	29	22	41	26	29	21	*26	46	*0	20
4. Number of employees	*4	*6	*5	*5	16	17	24	19	10	13	15	31
5. of which: trained	8	*7	*7	11	17	21	27	12	*8	17	17	32
6. Number of Israeli workers abroad	*11	*0	*0	17	*9	22	29	12	*0	16	15	9
B. Expected activity in the following quarter**												
7. Total orders	23	26	31	29	28	31	46	39	26	27	42	47
8. Export orders	26	*24	35	47	31	30	31	*17	*6	*13	32	39
Number of responding companies	172	166	168	187	177	195	163	178	150	155	151	192

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:II

(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2007 I	2007 II					
A. Activity in the quarter							
1. Total revenue from current activity	23 (6)	35 (5)	5	41	43	9	2
2. Sales of services in Israel	20 (6)	33 (5)	5	39	45	10	1
3. Sales of services abroad	0 (13)	20 (9)	2	29	58	7	4
4. Number of employees	15 (4)	31 (4)	3	34	57	4	2
5. of which: trained	17 (4)	32 (4)	3	33	60	3	1
6. Number of Israeli workers abroad	15 (7)	9 (5)	0	11	87	2	0
B. Expected activity in the following quarter**							
7. Total orders	42 (6)	47 (5)	6	48	39	6	1
8. Export orders	32 (12)	39 (9)	4	41	49	6	0
Number of responding companies	151	192					

* 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 2007:I and 2007:II

			Number of	Total	Domestic	Domestic	Actual	Export	Finished	Number
	2007		responding	output	sales	orders ¹	exports	orders ¹	goods	of
			companies							employees
Mining, quarrying, construction materials, and wood	2007	II	21	33	57	38	*0	*13	*25	19
	2007	I	23	35	30	*18	*22	43	*0	*0
Food and beverages	2007	II	36	*19	23	*-7	*13	27	*6	*8
	2007	I	35	26	29	*3	25	29	*11	*6
Textiles, clothing, and leather	2007	II	15	*-21	*0	*-18	*0	*-9	-27	*7
	2007	I	14	*23	*31	38	*17	*-9	*21	*21
Chemicals, rubber, and plastic	2007	II	38	39	50	32	33	18	30	21
	2007	I	40	26	28	28	*15	36	*15	20
Metals and machinery	2007	II	33	24	*10	*14	33	29	*-15	*12
	2007	I	45	27	*14	*5	26	29	*-7	*4
Electronics, electricity, and transport equipment	2007	II	58	27	15	*13	37	31	*2	26
	2007	I	66	*11	*-5	*9	*10	*16	*3	18
Paper, printing, and other	2007	II	24	30	26	36	*27	*20	*18	*8
	2007	I	24	48	48	*-10	*13	*-8	*17	*0
Total manufacturing industries excluding diamonds	2007	II	225	25	26	17	26	23	*7	16
	2007	I	247	25	19	12	17	22	7	11
Diamonds	2007	II	6	-33	*-20	-50	*-17	-60	*0	-33
	2007	I	4	*0	0	0	*-25	*0	50	-50
Total manufacturing industries	2007	II	231	24	25	15	25	20	*6	15
	2007	I	251	24	19	12	16	21	7	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, 2007:II**

	Manufacturing companies				Construction companies				
	Total	Small	Middle	Large	Total	Small	Middle	Large	
Output	24	20	21	27	Total activity	*8	-67	*18	*10
Total sales	26	*10	26	30	Area of starts	*-8	-67	*0	*-6
Domestic sales	25	*13	24	29	Area of completions	*11	0	*18	*6
Export	25	*13	26	26	Output prices in \$	21	*33	*17	*22
Number of companies	231	31	85	115	Area of completions	41	3	18	20

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

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

Transport and Communications

	2006				2007	
	I	II	III	IV	I	II
Demand constraints						
Booking by foreign tourists	0.9	1.1	1.9	1.4	1.0	0.7
Booking by Israelis	0.9	0.7	1.2	0.7	0.4	0.6
Economic and political situation in Israel	1.1	1.3	1.9	1.5	1.1	1.0
Intensification of competition	1.9	1.9	2.1	1.7	2.0	1.9
Supply constraints						
Financing difficulties	1.2	0.9	1.2	0.8	0.7	0.8
Labour shortage	1.2	1.0	0.9	1.0	1.4	1.8

Construction

	2006				2007	
	I	II	III	IV	I	II
Demand constraints						
Volume of demand	2.3	2.0	2.0	1.9	1.7	1.6
Supply constraints						
Input prices	1.3	1.5	1.3	1.3	1.2	1.1
Financing difficulties	1.4	1.6	1.5	1.4	1.2	1.1
Labour shortage	2.2	2.1	2.2	2.2	2.2	2.4
Machinery and equipment shortage	0.3	0.5	0.2	0.4	0.3	0.4

Hotels

	2006				2007	
	I	II	III	IV	I	II
Demand constraints						
Booking by foreign tourists	1.3	1.8	3.2	2.6	2.3	2.0
Booking by Israelis	1.3	1.4	1.9	1.4	1.0	1.2
Economic and political situation in Israel	1.4	1.4	2.6	1.9	1.5	1.5
Supply constraints						
Financing difficulties	1.5	1.6	1.7	1.6	1.1	1.0
Labour shortage	1.2	1.6	1.1	1.3	1.4	1.5

Trade

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

Service Industries

	2006				2007	
	I	II	III	IV	I	II
Demand constraints						
Economic and political situation in Israel	1.0	1.0	1.4	1.0	0.9	0.7
Global Economic situation	0.7	0.7	0.7	0.6	0.5	0.5
Intensification of competition	1.9	1.8	1.7	1.6	1.7	1.6
Supply constraints						
Financing difficulties	1.1	1.0	1.1	0.8	0.8	0.9
Labour shortage	0.9	0.9	0.9	1.0	1.0	1.2

APPENDIX

Explanatory Notes

Net balance

This quarterly survey relates to developments in 2007:Q2, and includes assessments and expectations regarding 2007:Q3. The survey's findings are based on responses to questionnaires received from companies in the manufacturing, commerce, 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 the hotel industry, 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.

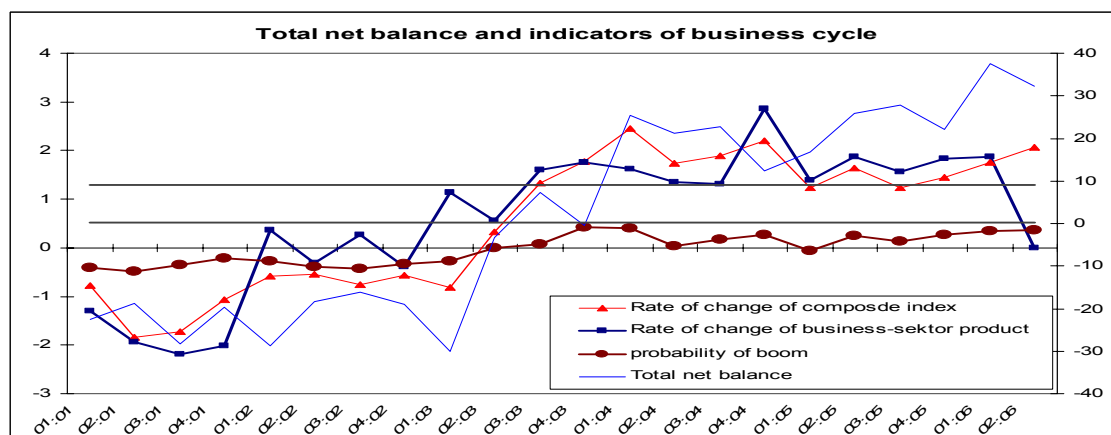
The results are analyzed by means of the net balance, defined as the difference between the percentage of companies reporting an increase and the percentage of those reporting a decrease. A net balance of zero in a particular category shows that there was no change in the level of that category compared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

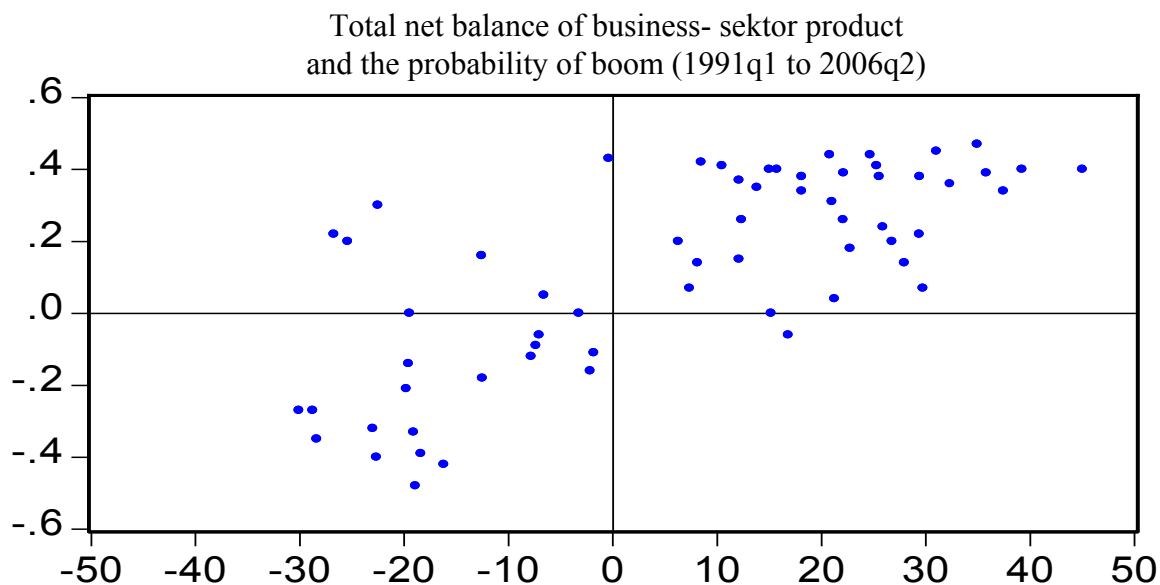
The data on net balances are based on a summary of the answers of all the companies that responded, and not only those that participated in the most recent surveys. The data in all the tables are in terms of percent of the companies that responded.

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



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 high-tech industries (chemicals, machinery, electrical and electronic equipment) account for 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 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, which is 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 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, so that the forecast for the following quarter is dependent on the estimate that was 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)

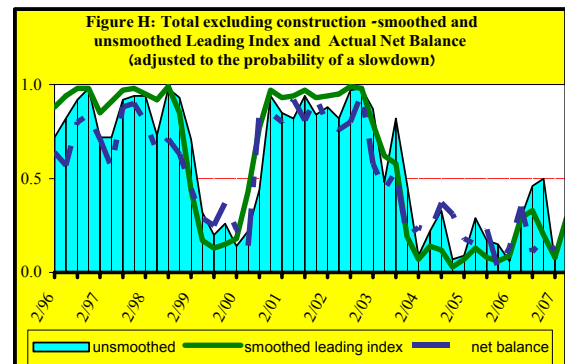
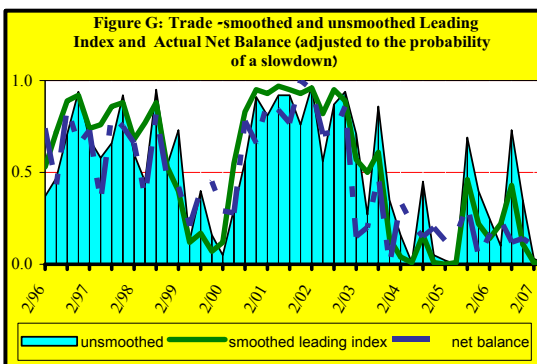
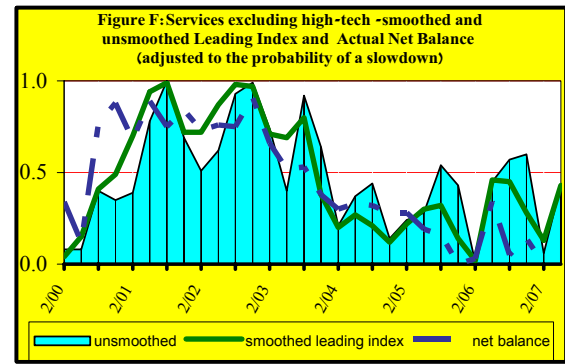
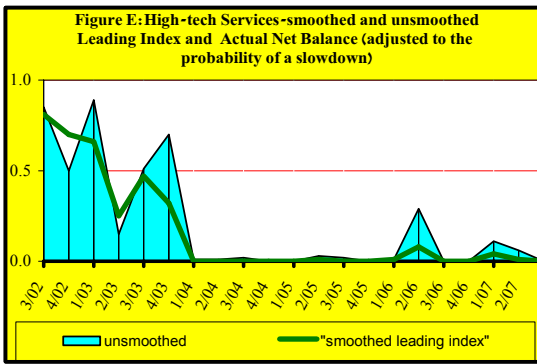
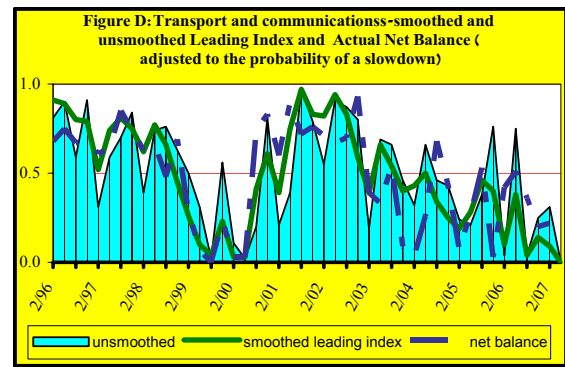
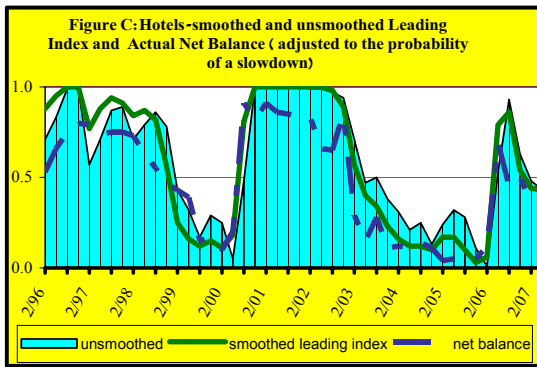
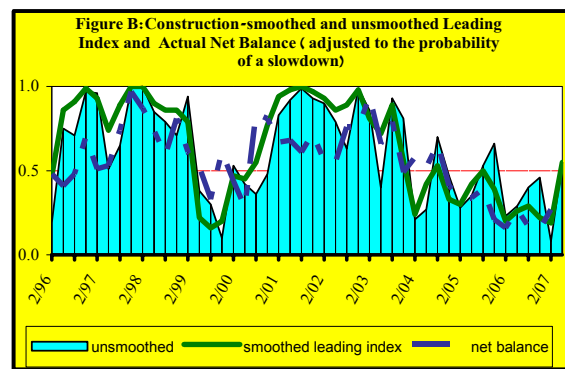
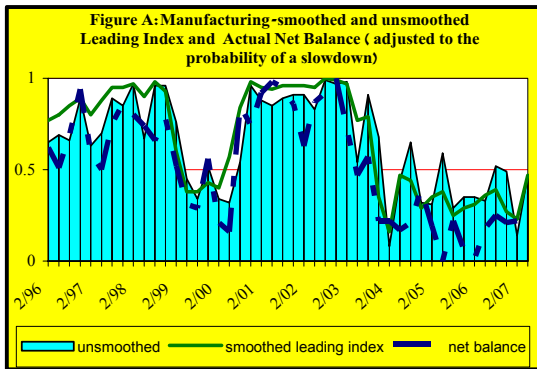
Number of companies ^b	Continued slowdown		slowdown-acceleration		Acceleration-slowdown		Continued acceleration		Industry
	average	standard deviation	average	standard deviation	average	standard deviation	average	standard deviation	
257	0.45	0.07	0.11	0.04	0.14	0.04	0.30	0.06	Manufacturing
33	0.23	0.13	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