



Bank of Israel * Research Department

Companies Survey

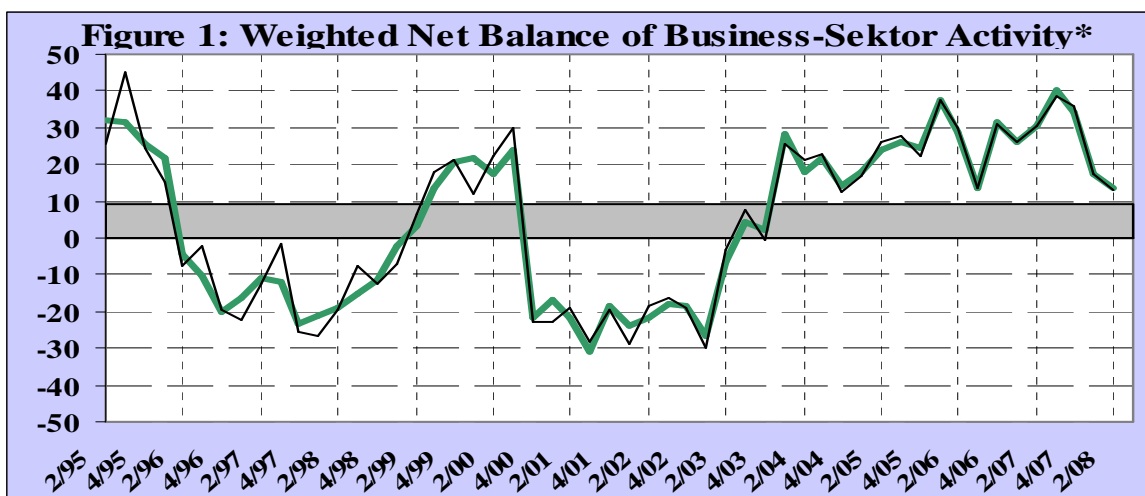
Second quarter of 2008

Jerusalem, July 2008
www.bankisrael.gov.il



Companies Survey - Second Quarter of 2008 – Main Results

Reports from companies and businesses indicate a substantial slowdown in the rate of expansion of business activity in the second quarter of 2008. The slowdown in growth in this quarter encompassed mainly commerce, manufacturing and non-hi-tech services. Against this, activity in the hotel trade, transportation and communications, and hi-tech services continued to expand at a relatively high rate. The leading index of activity in the business sector does not forecast a slowdown, even though in construction and in manufacturing the probability of a slowdown in activity has increased considerably. Expectations of inflation in the coming 12 months have increased sharply and significantly overshoot the upper limit of the price-stability target. Manufacturing output continued the slowdown that began in the first quarter. The slowdown in manufacturing activity reflects a freeze in sales to the domestic market and a moderate growth in exports. Orders to both the domestic and the export markets for the next quarter show a continuing slowing trend in activity. In commerce, a fall in sales was recorded for the first time, but a substantial increase in sales is expected in the next quarter. Business services companies reported a continuation of moderate revenue increases, which reflect a moderate growth in sales of services in Israel and abroad. The companies expect a slowdown in the volume of orders in the next quarter. Hotels reported an upturn in activity relative to the same quarter last year, thanks to an increase in the volume of inbound tourism. Expectations are of continuing accelerated growth. On the other hand the decreasing trend in the number of bed-nights by Israelis continues. Transport and communications companies reported a growth in activity in all area, except for decreases in maritime transportation. Orders for the next quarter suggest that activity will continue to move ahead. Construction activity continues to be characterized by slowdown for companies of all sizes, which also emerges from the lowered expectations for the next quarter. Reportage about the severity of constraints on construction activity indicates that supply constraints have grown as a result of increasing prices of inputs. Average inflation expectations for the next twelve months have increased sharply to 3.7 percent as against 2.69 percent in the previous survey, and with a pronounced increase in the proportion of companies that expect inflation to overshoot the target range—66 percent in the review quarter as against 30 percent in the previous quarter. The companies expect, on average, that the NIS/\$ exchange rate will stand at NIS 3.79 twelve months hence as against NIS 3.93 in the previous survey. Companies, on average, expect the NIS to depreciate against the dollar in the coming quarter by 4.6%, and to stand at 3.5. The average exchange rate on the date of reportage in the survey was NIS 3.35.

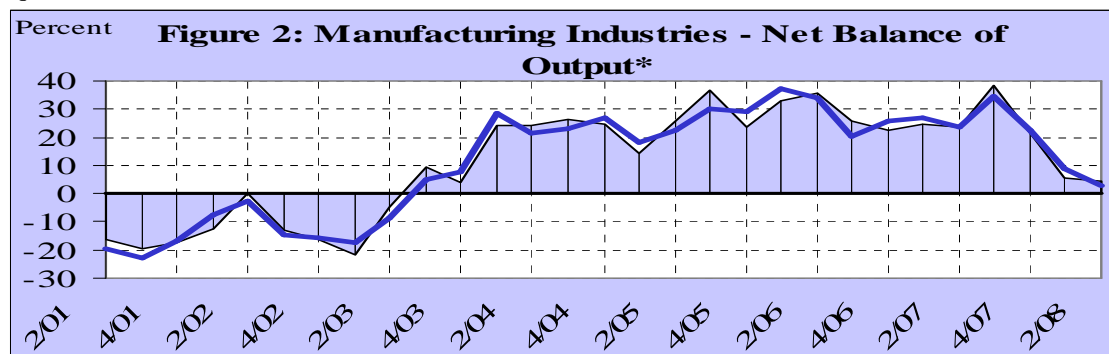


1. Macroeconomic developments

An analysis of the responses of all companies and businesses participating in the survey, with each industry's net balance weighted by its share in business-sector product, shows that activity slowed in the second quarter of 2008 (Figure 1). This slowdown encompassed commerce, manufacturing and non-hi-tech services, as opposed to which the encouraging increases in hotels, transport and communications and hi-tech services continued. The slowdown was reflected in the moderation of growth in domestic activity and a decrease in the rate of external activity. The leading index of activity in the business sector does not forecast a slowdown, but overall expectations for the business sector in the next quarter suggest an increased probability of slowdown in economic activity, particularly in construction and manufacturing.

2. Industry developments

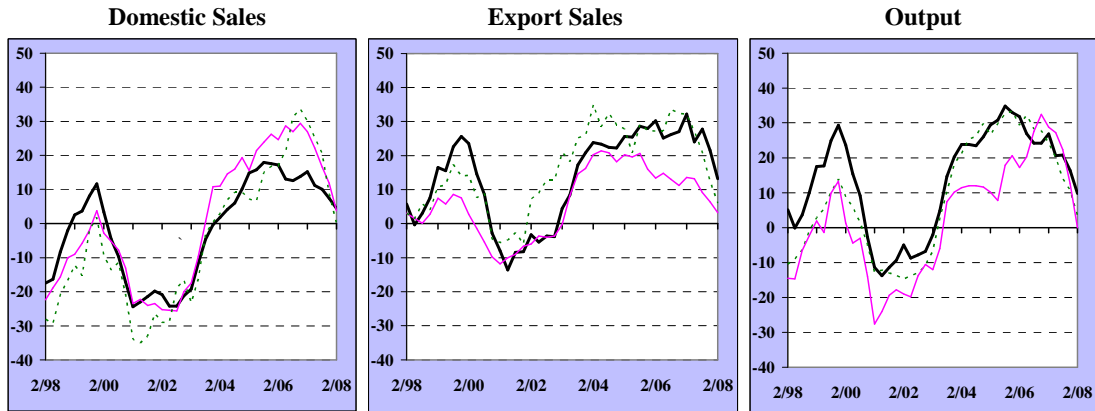
Reports from manufacturing companies show that the slowdown has continued for the second successive quarter in 2008:Q2 (Table 3 and Figure 2). The slowdown is reflected particularly in the weakness of domestic sales, but also in a moderate growth in exports. Companies reported a decrease in headcount and a continuing decreasing trend in the utilization rate of machinery and equipment. For the next quarter, the companies expect a continuing slowdown in the volume of activity, both in the domestic and the export markets.



The classification of manufacturing companies into three groups of industries by their degree of technological innovativeness—low-, medium-, and high-tech—shows that a slowdown took place in the rate of growth of output and sales in the medium-tech companies and particularly in the low-tech companies. Against this, growth was recorded in hi-tech companies. Regarding orders for the next quarter, the expected slowdown in activity encompasses mainly medium- and low-tech companies (Table 1.1 and Figure 3). An examination of industries by subcategories (Table 15) shows that the slowdown trend and even the decreases in output and in sales for export characterized most categories in the review quarter, except for electronics and particularly for chemicals, rubber and plastics, and food and beverages in which the increases continued. An analysis of manufacturing companies' reports on orders for the domestic market and for exports for the next quarter shows that in most industries the slowdown will continue, accompanied by a fall in orders, again with the exception of the electronics, chemicals, rubber and plastics, and food and beverages industries.

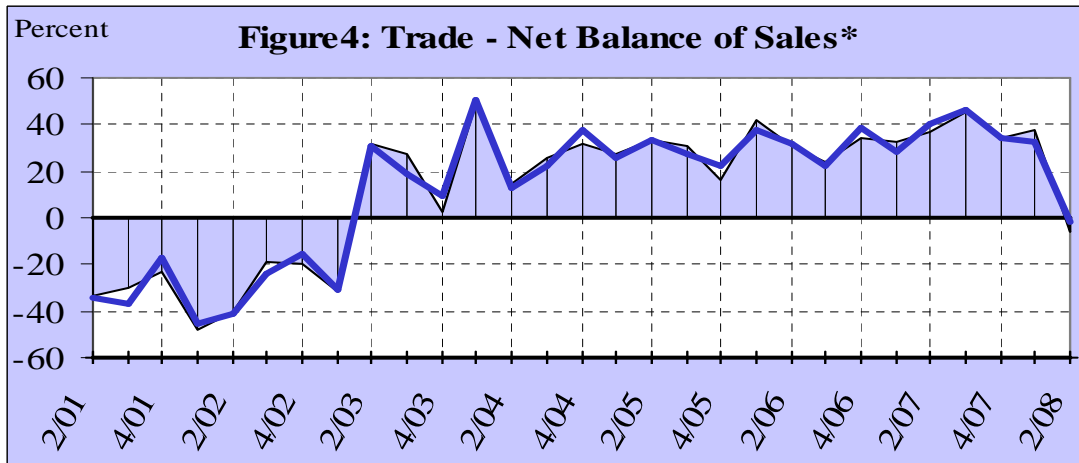
The classification of manufacturing companies by size (number of employees) shows that the size of the company was unrelated to the intensity of the slowdown. The slowdown was particularly pronounced in small (export) and medium-sized companies (selling to the domestic market), and less in large companies. Regarding expectations for the next quarter, the slowdown was particularly pronounced in orders for exports from medium and large-sized companies, as against increases in small companies. Companies of all sizes reported a substantial slowdown in orders for the domestic market.

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

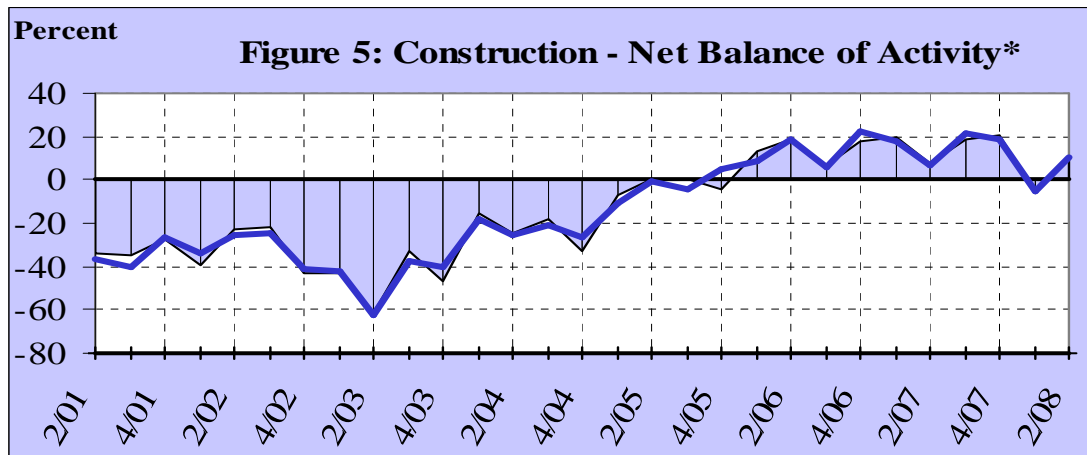


^a Moving average, outlying observations - unadjusted data
 Thick line - advanced industries
 Thin line - traditional industries
 Dotted line - mixed industries

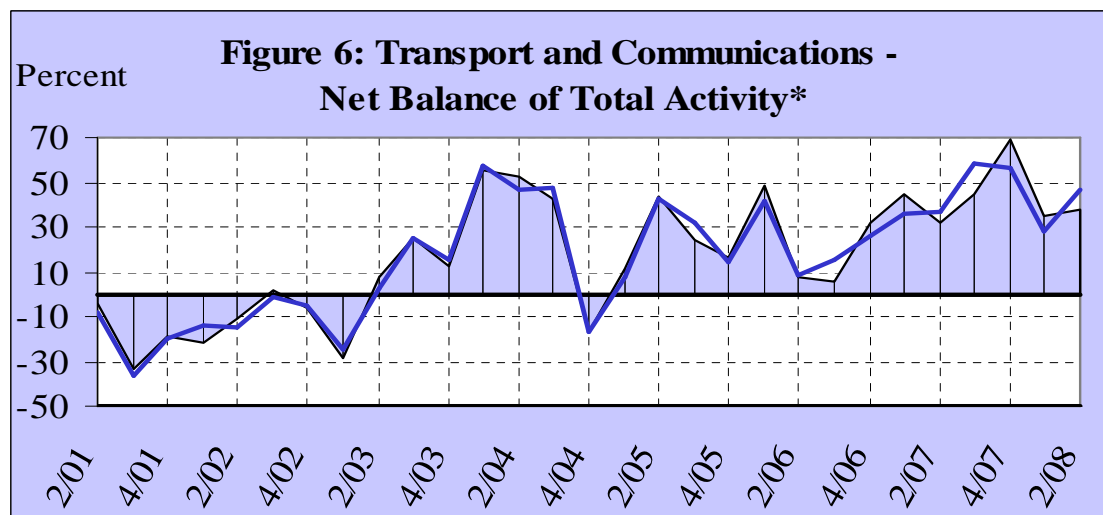
For the first time, companies in commerce reported a decrease in the review quarter, following continuing increases in previous quarters. Companies in commerce expect renewed increases in sales in the next quarter (Table 5 and Figure 4). The companies reported a slight worsening in the severity of demand constraints and an easing in the severity of supply constraints relative to the previous quarter. (Table 17 and Figure 9).



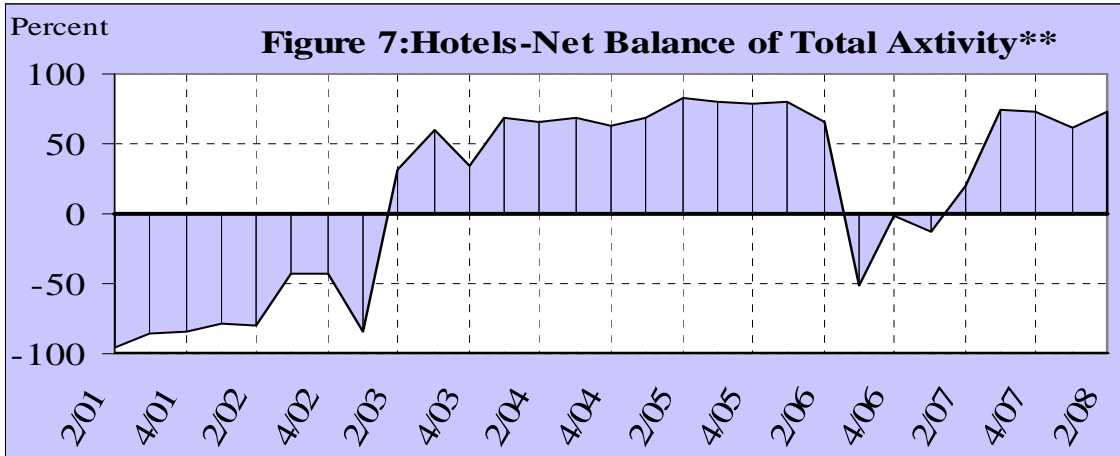
Construction companies reported an increase in the review quarter, following a downturn in the previous quarter. This increase reflects a moderate increase in construction of infrastructures and buildings, but still on a lower scale than in 2007 (Table 7 and Figure 5). A slight decrease was recorded in construction starts, while completions remained stable this quarter. Expectations of decreases in construction works attest to the continuing moderate activity in the next quarter as well. The severity of supply constraints in the industry continues to be high in relation to the other industries reviewed, and in the review quarter the companies reported an increase in the severity of constraints due to the prices of inputs. The classification of companies by size (number of employees) shows that only the medium-sized companies increased their activity, while the other types recorded a freeze in activity. The decreased expectations of activity in the following quarter encompassed construction companies of all sizes (Table 16).



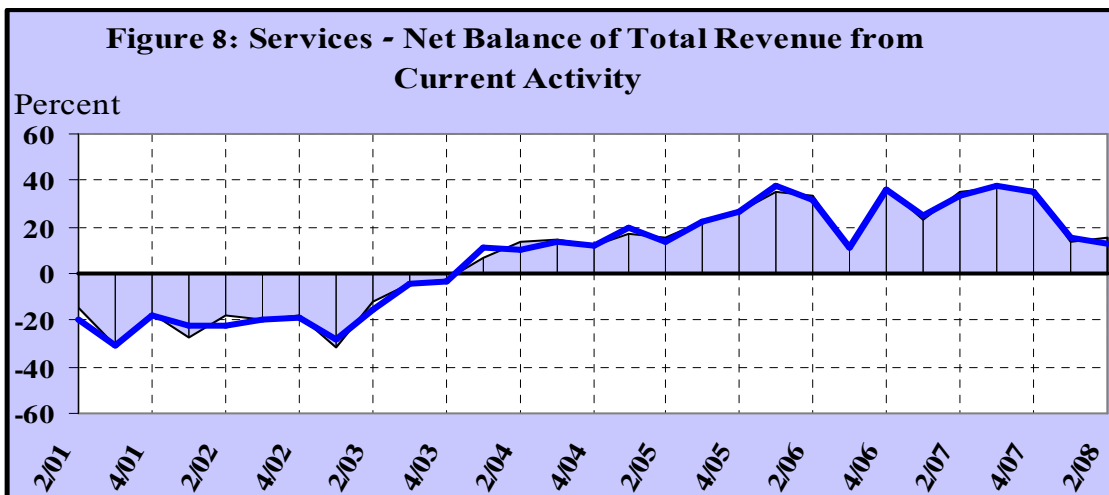
Reports from transport and communications companies indicate that activity continued to grow in the review quarter, with the exception of maritime transportation which showed a decrease (Table 9 and Figure 6). An analysis of the findings shows that the increases were due to the sale of services to nonresidents, while the sale of services to Israelis decreased. An analysis of the severity of constraints to further growth shows an increase in supply constraints, while demand constraints remained stable (Table 17 and Figure 9). The companies expect an increase in their overall activity in the next quarter.



Companies in the hotel industry reported a continuing encouraging growth of activity relative to the year-earlier quarter (Table 11 and Figure 7). The growth in activity continues to be powered by a steep increase in inbound-tourist bed-nights, which grew considerably in the review quarter, as opposed to a decrease in Israelis' bed-nights since the middle of 2006. The companies reported continued strong growth in reservations for the next quarter.



Business-services companies reported continued revenue growth in the review quarter, but at a more moderate rate, similar to the previous quarter. The increased activity was a result of moderate growth in sales of services both in Israel and abroad (Table 13 and Figure 8). The companies expect a continued moderate growth in orders next quarter. Reportage about the severity of activity constraints points to a slight easing on the demand side (Table 17 and Figure 9).



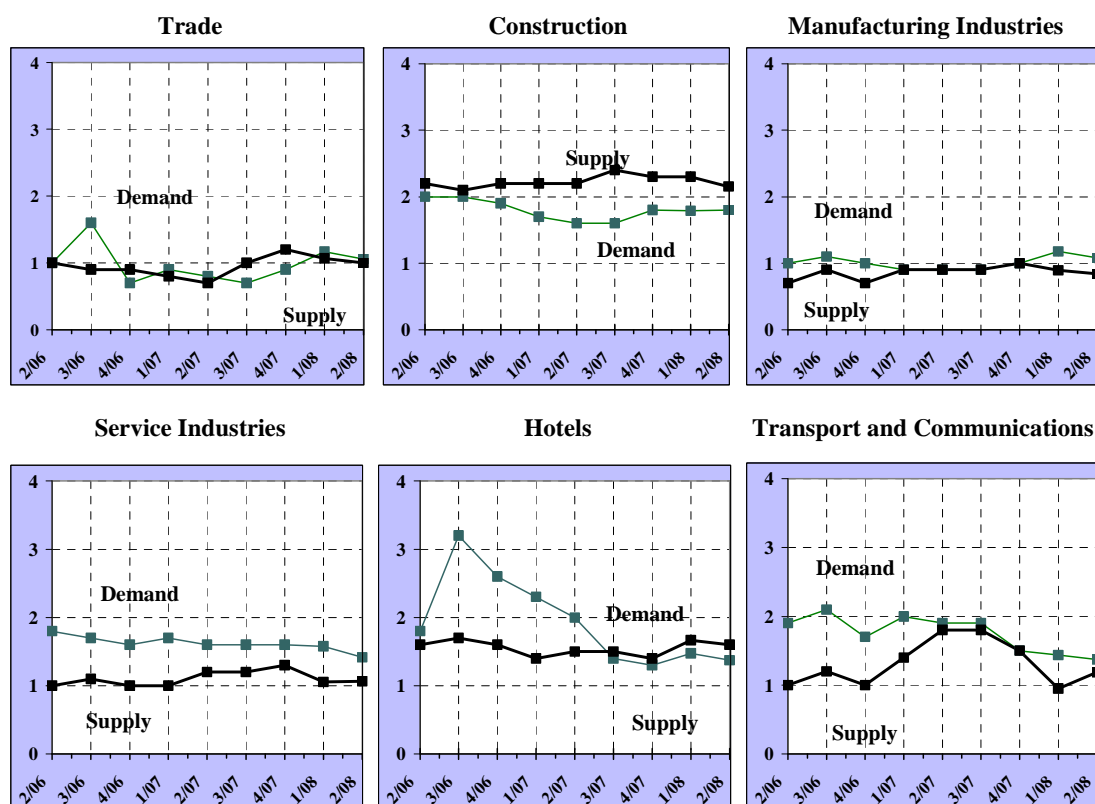
¹The business-services industry is composed of food, insurance, real-estate, business, and legal services; education and healthcare; and other personal services.

Table 1												
Economic activity in the principal industries, based on the net balance of returns												
from companies												
	2005		2006				2007				2008	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
Industry (output)	37	24	33	36	26	22	24	24	38	21	*6	*4
seasonally adjusted	30	29	37	34	20	26	27	24	34	23	9	*3
Trade (sales)	31	*16	42	31	*24	34	32	37	46	34	38	*-6
seasonally adjusted	27	*22	38	32	*22	38	28	40	46	35	32	*-2
Construction (total activity)	*0	*-5	*13	19	*7	18	19	*7	19	20	*-6	*11
seasonally adjusted	*-5	*5	*9	18	*6	22	17	*7	22	19	*-6	*10
Transport and communications (total activity)**	24	16	48	7	6	32	44	31	44	69	35	38
seasonally adjusted	32	14	42	8	15	26	36	37	58	56	28	46
Hotels (total activity)***	80	78	80	66	-51	-2	-13	20	75	73	61	72
Service industries	22	27	35	34	10	37	23	35	37	36	14	15
seasonally adjusted	22	26	38	32	11	36	25	33	38	35	15	13
Total business sector	28	22	37	30	14	31	26	30	39	36	17	13
seasonally adjusted	26	25	38	29	13	32	26	30	40	34	17	13

table 1.1: The net balance of manufacturing companies, classified by human-capital intensity and innovation²												
	2005		2006				2007				2008	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
Advanced companies	37	42	36	33	17	31	18	22	33	30	*9	19
Mixed companies	25	*9	*12	39	*18	*8	24	49	63	*14	*0	*3
Traditional companies	41	16	37	37	36	20	30	17	35	17	*5	*-5

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

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



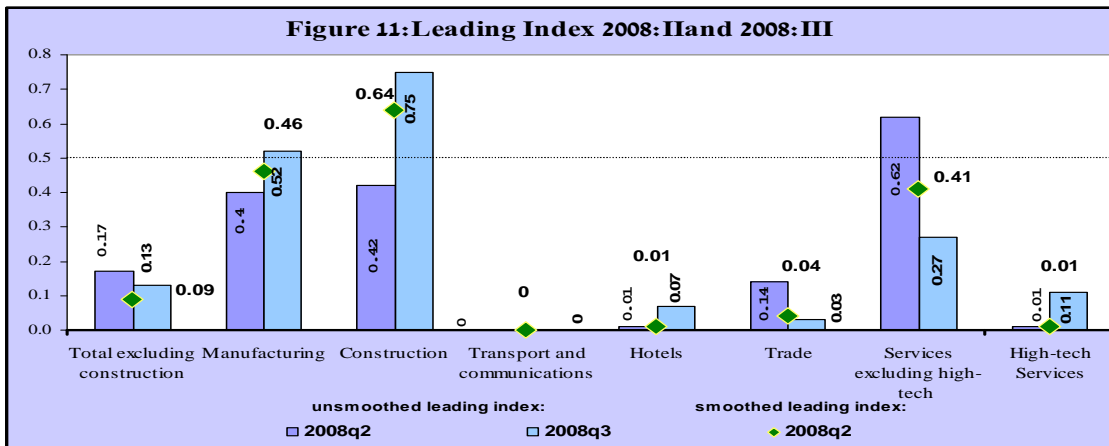
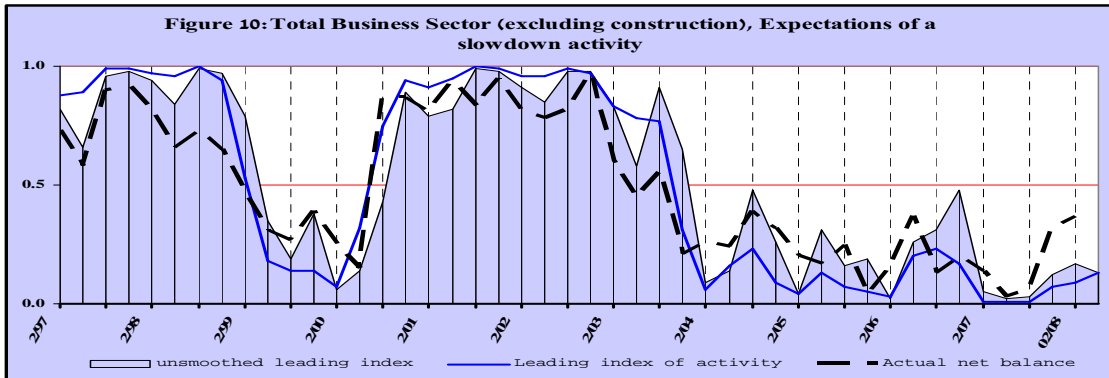
1) For every quarter the most severe constraint on the demand side and on the supply side is chosen.
Source: Table 17.

The leading index

The leading index (excluding construction) in this survey does not foresee a further slowdown in business-sector activity in the third quarter of 2008, beyond that which is already represented by the actual net balance. The value of the leading index is below the threshold of 0.5.1 This value expresses the improvement in expectations for sales in the commercial sector for the next quarter, as well as the absence of falloff and the stability of orders and expectations for the next quarter, compared with the moderate net balances of activity in the current quarter.

The leading index is calculated for the business sector at large (Figure 11), for each of the six industries covered in the survey, and for the high-tech-services industry (Figures A–H in the Appendix). The leading indices in this survey suggest that activity will continue to grow in most industries in 2008:Q3 except in construction and manufacturing for which a slowdown is expected in the coming quarter (Figure 10). As opposed to this, the probability of a slowdown in the non-hi-tech-services industries has substantially decreased.

Several changes in the method of calculating the leading index were introduced in the second quarter of 2007, which enhanced the statistical significance of the findings for the various industries and took account of the asymmetry (the positive bias) in companies' responses to the survey questionnaire.² The major improvement is that two leading indices are provided, based on 1) a smoothed probability (as was given until now), in which there is inter-quarter dependence so that the index for the current quarter is updated every quarter and relates to the forecast for the next quarter; and 2) an unsmoothed probability, with no retroactive adjustment of the leading index. The combined use of the two indices shows whether there has been a significant change (i.e., not a one-off change) in the rate of growth (e.g., from a rapid to a moderate rate of growth).



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.

² Companies' responses regarding the state of their activities tend to be optimistic and upwardly biased.

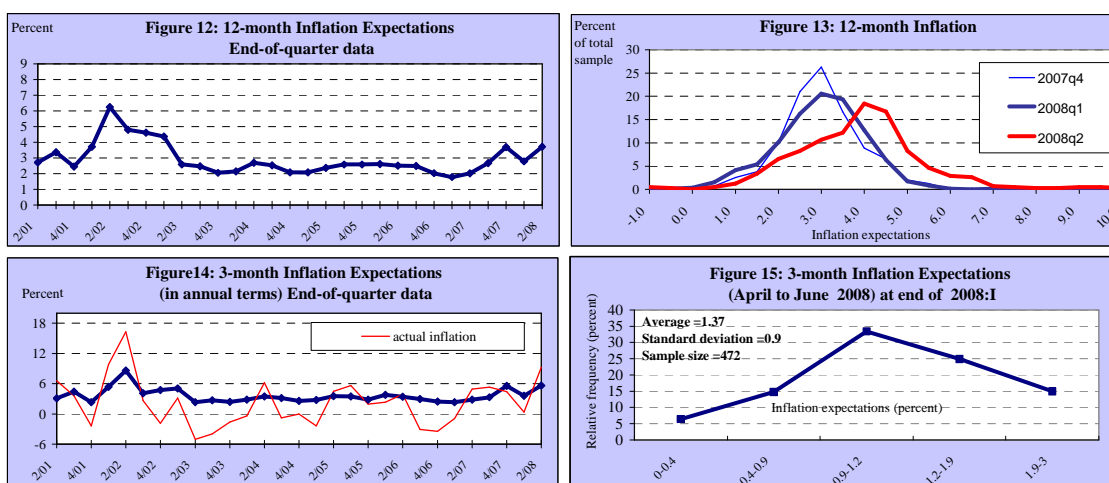
Survey of inflation expectations

Companies' expectations about the cumulative rate of price increases during the next twelve months (July 2008–June 2009) rose considerably to 3.7 percent on average, as against 2.69 percent in the previous quarter (Figure 12).

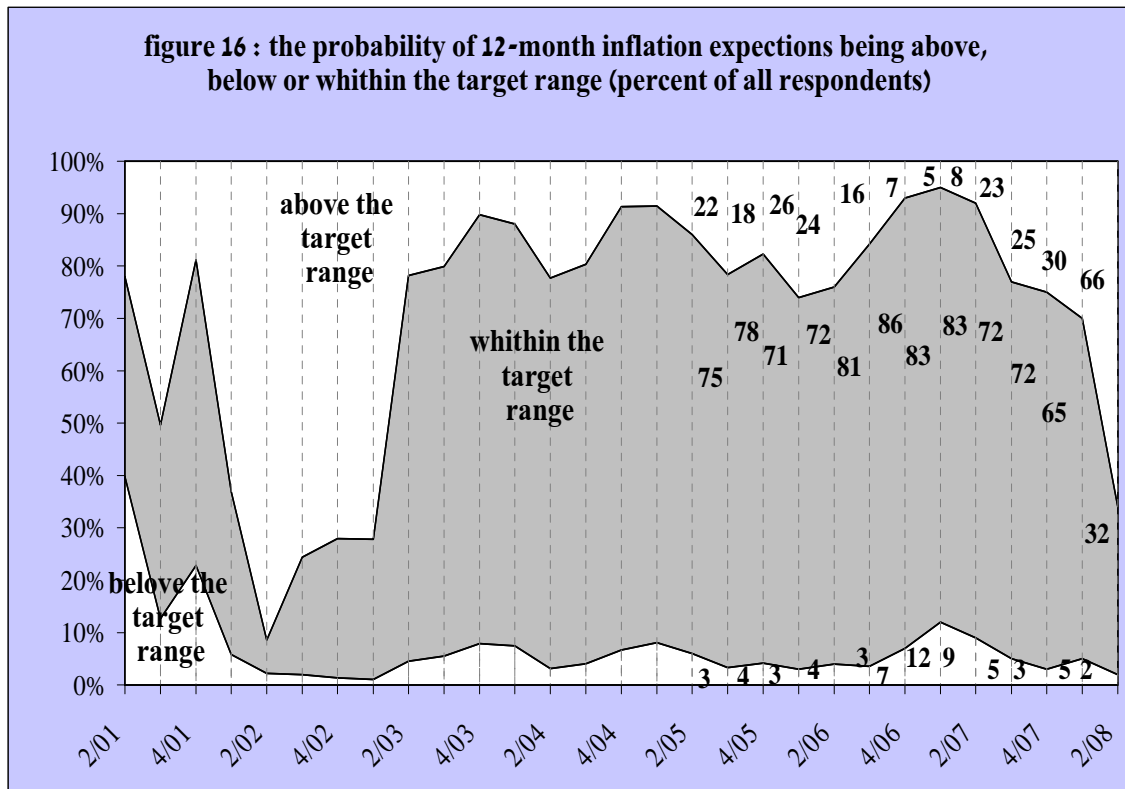
Parallel to the sharp rise in inflation expectations for the next 12 months, the whole inflation-expectations distribution has shifted significantly to the right—the median distribution of expectations in this quarter rose relative to the previous quarter to 3.8 percent as against 2.9 percent. The mode increased to 4 percent as against 3 percent in the previous quarter. The variance of expectations in this quarter increased relative to the previous quarter by about 40 percent (Figure 13).

The expected rate of price increases in the next quarter (July–September 2008) rose sharply to 5.5 percent as against 3.5 percent in the previous quarter (both rates annualized) (Figure 14). The variance of expectations increased substantially relative to the previous quarter.

The inflation-expectations survey also shows that the share of companies that expected the inflation rate to overshoot the upper limit of the price-stability target³ grew in this quarter to 66 percent as against 30 percent in the previous quarter (the top section of Figure 16). The proportion of companies that expected inflation in the next twelve months to fall within the price-stability target showed a decrease from 66 percent in the previous quarter to only 32 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 fell from 4 percent in the previous quarter to 2 percent in the review quarter (the bottom section of the Figure).



³ The target range of inflation for the next twelve months is 1–3 percent.



The lower area denotes the share of respondents who expect 12-month inflation to be below the target range.
 The middle area denotes the share of respondents who expect 12-month inflation to be within the target range.
 The upper area denotes the share of respondents who expect 12-month inflation to exceed the target range.

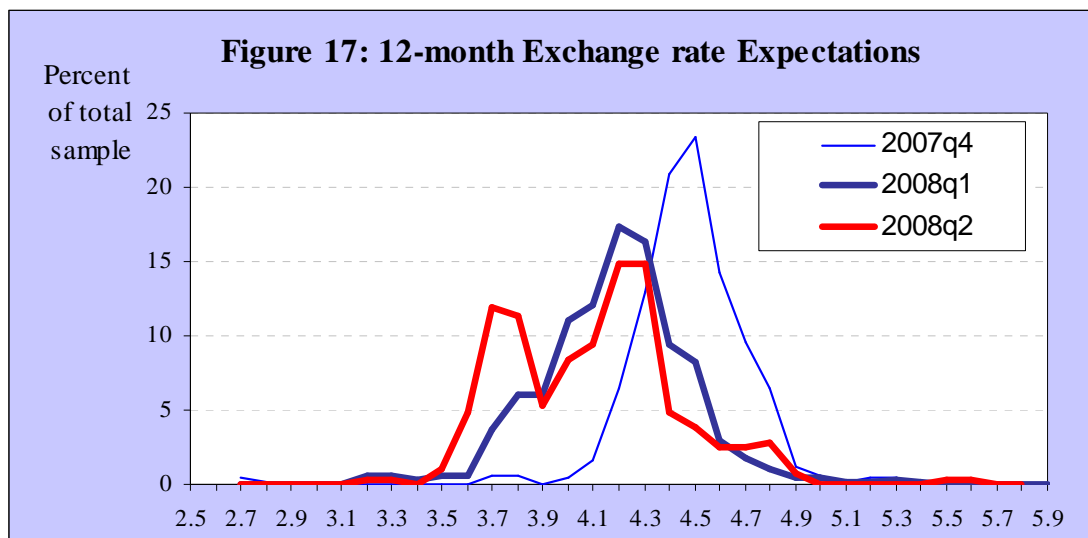
Table 2: Statistic Analysis of 12-month Inflation Expectations

	2005		2006				2007				2008	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
1. Mode	3.00	2.00	3.00	3.00	2.00	2.00	2.00	2.00	3.00	3.00	3.00	4.00
2. Median	2.50	2.50	2.70	2.50	2.50	2.00	1.70	2.00	2.50	2.80	2.90	3.80
3. Average	2.59	2.59	2.77	2.65	2.47	2.01	1.78	2.02	2.67	2.77	2.69	3.70
4. Standart Deviation	1.03	1.05	1.11	1.10	1.02	0.99	0.91	0.93	1.09	0.92	1.04	1.42
5. Skewness	-0.41	0.59	-0.23	-0.35	0.47	0.01	-0.22	0.02	-0.33	-0.23	-0.31	-0.30
Number of responding companies	518	553	517	519	469	469	456	487	413	504	483	472

is the difference between average and mode *

Expectations regarding changes in the NIS/dollar exchange rate

The companies and businesses participating in the survey were asked about their expectations of the level of the NIS/\$ exchange rate at the end of the next quarter (September 30, 2008) and one year from the end of the survey period (June 30, 2009). The latter expectation was NIS 3.79 as against NIS 3.93 in the previous survey. The variance in expectations to twelve months ahead showed a slight increase (Figure 17). The exchange rate that the companies expected (on average) to see at the end of the next quarter was NIS 3.5 as against NIS 3.66 in the previous quarter. Note that the average exchange rate at the time the companies completed the survey questionnaire was NIS 3.35.



Manufacturing Industries

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

	2005		2006				2007				2008	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
1. Output	37	24	33	36	26	22	24	24	38	21	*6	*4
2. Sales	36	21	31	36	27	25	23	26	33	26	*-1	*8
3. Domestic sales	27	14	22	21	23	22	19	26	31	17	*-1	*0
4. Export	23	23	22	32	11	22	16	25	29	26	*5	10
5. Stocks of finished goods	8	7	10	16	10	9	12	15	22	18	9	8
6. Stocks of raw materials	*4	11	9	13	12	*4	7	*6	17	11	10	*6
7. Rate of utilization of machinery and equipment	26	13	19	22	13	14	14	17	25	8	*-2	*-3
8. Number of employees	13	*5	18	17	9	11	10	15	15	16	*2	*-4
9. Domestic orders	8	*7	17	13	9	*6	12	16	15	10	*5	*-1
10. Export orders	26	15	26	23	10	17	21	22	28	15	*4	*8
Number of responding companies	287	282	283	304	261	250	251	237	220	252	270	238

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 2008:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2008 I	2008 II					
A. Activity in the quarter							
1. Output	6 (5)	4 (5)	4	27	42	22	5
2. Sales	-1 (5)	8 (5)	5	34	30	24	7
3. Domestic sales	-1 (5)	0 (5)	4	28	36	25	7
4. Export	5 (5)	10 (6)	4	31	40	19	6
5. Stocks of raw materials	9 (4)	8 (5)	4	25	50	18	3
6. Stocks of finished goods	10 (4)	6 (4)	2	24	54	18	2
7. Rate of utilization of machinery and equipment	-2 (4)	-3 (5)	2	21	51	22	4
8. Number of employees	2 (3)	-4 (4)	0	13	70	15	2
B. Expected activity in the following quarter**							
9. Domestic orders	5 (5)	-1 (5)	3	19	55	16	7
10. Export orders	4 (5)	8 (5)	3	26	50	16	5
Number of responding companies	270	238					

** 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

	2005		2006				2007				2008	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Sales	31	*16	42	31	*24	34	32	37	46	34	38	*-6
2. End-of-quarter stock	*9	*0	*11	26	*18	*17	24	37	30	34	*16	*9
3. Percent of credit sales	28	17	20	*11	*-3	*3	21	27	17	22	25	15
4. Supply period	*3	21	*6	*9	*4	0	15	15	14	*3	*6	*3
B. Expected activity in the following quarter												
5. Forecast change in number of permanent employees	*-9	21	14	*0	*3	*0	9	*7	*8	16	*9	*12
6. Sales expectations	*-3	32	42	50	*-3	39	47	73	57	63	*22	59
Number of responding companies	32	31	36	36	29	29	34	30	24	32	32	34

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

* Not significant (at the 10% level).

Table 6
Trade in 2008:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2008 I	2008 II					
A. Activity in the quarter							
1. Sales	38 (14)	-6 (16)	18	20	18	32	12
2. End-of-quarter stock	16 (13)	9 (11)	3	23	57	14	3
3. Percent of credit sales	25 (11)	15 (7)	6	12	79	3	0
4. Supply period	6 (8)	3 (7)	0	9	85	3	3
B. Expected activity in the following quarter							
5. Forecast change in number of permanent employees	9 (9)	12 (9)	3	18	70	9	0
6. Sales expectations for following quarter	22 (14)	59 (12)	12	59	17	9	3
Number of responding companies	32	34					

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

	2005		2006				2007				2008	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	*0	*-5	*13	19	*7	18	19	*7	19	20	*-6	*11
of which 2. Buildings	*3	*-8	*0	21	*10	21	23	*-3	*13	17	*3	*6
3. Infrastructure	*-6	-23	*17	*15	*-12	23	33	30	*8	24	*-7	*6
4. Output prices in dollar terms	65	26	43	28	24	21	21	23	30	38	40	47
5. Area of building starts (sq. m.)	*-10	*-20	*2	*-3	*-5	*0	26	*-8	*-10	*-3	*-12	*-3
6. Area of building completions (sq. m.)	-30	*-15	*-7	*-8	*0	*-8	*6	*10	*-10	*0	*9	*0
7. Building time	18	28	17	*16	33	16	28	21	27	15	18	*9
B. Expected activity in the following quarter**	*-9	*5	33	22	23	20	34	23	*6	25	*3	*-6
Number of responding companies	44	44	46	42	43	41	37	42	33	44	36	38

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 2008:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2008 I	2008 II					
A. Activity in the quarter							
1. Total activity	-6 (13)	11 (12)	2	30	47	15	6
of which Buildings	3 (13)	6 (12)	6	22	50	17	5
Infrastructure	-7 (12)	6 (13)	0	29	48	16	7
2. Output prices in dollar terms	40 (12)	47 (12)	22	39	25	11	3
3. Area of building starts (sq. m.)	-12 (14)	-3 (12)	6	20	45	23	6
4. Area of building completions (sq. m.)	9 (12)	0 (11)	3	20	54	17	6
5. Building time	18 (8)	9 (10)	3	18	67	9	3
B. Expected activity in the following quarter	3 (12)	-6 (12)	6	19	44	25	6
Number of responding companies	36	38					

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

	2005		2006				2007				2008	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	*24	*16	48	*7	*6	*32	44	*31	44	69	*35	38
2. Sales of services to residents	*3	*18	37	*16	31	48	47	*38	44	68	*32	53
3. Sales of services to nonresidents	*9	*-2	*17	*12	27	*1	42	*9	*13	*20	*-6	*-14
4. Utilization of equipment (capacity utilization, etc.)	*13	*24	44	*21	*-15	38	*49	58	41	45	*39	38
B. Expected activity in the following quarter**	*16	*11	43	*38	61	*45	*48	*35	46	59	72	38
Number of responding companies	24	27	23	21	18	22	24	21	21	24	28	17

¹The 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 2008:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2008 I	2008 II					
A. Activity in the quarter							
1. Total activity	*35	38	0	48	42	0	10
2. Sales of services to residents	*32	53	0	63	27	0	10
3. Sales of services to nonresidents	*-6	-14	3	12	58	18	10
4. Utilization of equipment (capacity utilization, etc.)	*39	38	0	48	42	0	10
B. Expected activity in the following quarter	72	38	11	47	24	9	10
Number of responding companies	28	17					

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)

	2005		2006				2007				2008	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total activity	80	78	80	66	-51	*-2	*-13	*20	75	73	61	72
2. Number of bed-nights: Tourists	85	80	78	64	-78	-44	-31	*-4	65	70	70	86
3. Number of bed-nights: Israelis	*0	*8	22	*-2	-25	*-12	*-2	*-11	*0	*-18	*-8	*-6
4. Average revenue per room	62	69	78	62	*-6	*18	36	23	67	49	24	*17
B. Expected activity in the following quarter**	63	63	64	35	-57	-22	23	*21	62	46	76	51
Number of responding companies	47	51	55	47	49	50	48	45	40	40	37	36

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 2008:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2008 I	2008 II					
A. Activity in the quarter							
1. Total activity	61 (11)	72 (10)	42	38	12	8	0
2. Number of bed-nights: Tourists	70 (11)	86 (7)	56	33	8	3	0
3. Number of bed-nights: Israelis	-8 (14)	-6 (13)	3	22	44	23	8
4. Average revenue per room	24 (13)	17 (13)	14	28	33	19	6
B. Expected activity in the following quarter	76 (8)	51 (12)	17	48	21	14	0
Number of responding companies	37	36					

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

	2005		2006				2007				2008	
	III	IV	I	II	III	IV	I	II	III	IV	I	II
A. Activity in the quarter												
1. Total revenue from current activity	15	22	27	35	34	*10	37	23	37	36	14	15
2. Sales of services in Israel	14	26	33	36	33	*8	36	20	27	33	10	15
3. Sales of services abroad	22	41	26	29	21	*26	46	*0	33	36	18	*17
4. Number of employees	*5	16	17	24	19	10	13	15	22	25	21	15
5. of which: trained	11	17	21	27	12	*8	17	17	26	29	24	17
6. Number of Israeli workers abroad	17	*9	22	29	12	*0	16	15	*7	*6	9	*0
B. Expected activity in the following quarter**												
7. Total orders	29	28	31	46	39	26	27	42	41	40	23	24
8. Export orders	47	31	30	31	*17	*6	*13	32	52	29	36	22
Number of responding companies	177	195	163	178	150	155	151	202	163	188	197	175

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 2008:II
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2008 I	2008 II					
A. Activity in the quarter							
1. Total revenue from current activity	14 (6)	15 (5)	3	32	45	16	4
2. Sales of services in Israel	10 (5)	15 (6)	1	33	47	15	4
3. Sales of services abroad	18 (10)	17 (10)	9	30	39	18	4
4. Number of employees	21 (4)	15 (5)	2	26	59	12	1
5. of which: trained	24 (4)	17 (5)	2	25	63	8	2
6. Number of Israeli workers abroad	9 (4)	0 (5)	0	7	86	4	3
B. Expected activity in the following quarter**							
7. Total orders	23 (6)	24 (6)	5	38	38	16	3
8. Export orders	36 (9)	22 (10)	6	31	48	11	4
Number of responding companies	197	175					

* 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 2008:I and 2008:II

			Number of	Total	Domestic	Domestic	Actual	Export	Finished	Number
	2008	II	responding							
	2008	I	companies							employees
Mining, quarrying, construction materials, and wood	2008	II	21	*0	*0	*-5	*-9	*-10	*0	*-14
	2008	I	25	*-16	*-25	*9	*8	*15	*4	*-12
Food and beverages	2008	II	32	28	48	27	*-6	*18	*0	16
	2008	I	38	29	35	39	*9	*10	26	*5
Textiles, clothing, and leather	2008	II	18	*-24	*-18	*-24	*-27	*-21	*6	-28
	2008	I	20	*0	*-11	*5	*0	-33	*5	*-10
Chemicals, rubber, and plastic	2008	II	42	*15	*-5	*10	25	*17	29	*0
	2008	I	41	*15	*10	*10	*17	*17	*10	*-5
Metals and machinery	2008	II	39	*-5	-29	*-11	*0	*-7	*-5	*-5
	2008	I	43	*9	*-8	*-15	*-15	*-6	*14	16
Electronics, electricity, and transport equipment	2008	II	49	20	*4	*9	33	40	*9	*0
	2008	I	65	*6	*-6	*2	*9	*12	15	14
Paper, printing, and other	2008	II	30	-24	*-7	-24	*0	-20	*-4	*-10
	2008	I	30	*-3	*-3	*10	*10	*0	*-14	*-3
Total manufacturing industries excluding diamonds	2008	II	231	*5	*-0	*-0	*9	9	*6	*-3
	2008	I	262	*8	*1	*7	*6	*5	11	*4
Diamonds	2008	II	7	-29	*0	-33	*14	*-14	*0	-29
	2008	I	8	-63	-71	-57	*-13	*-25	*-25	-50
Total manufacturing industries	2008	II	238	*4	*0	*-1	10	*8	*6	*-4
	2008	I	270	*6	*-1	*5	*5	*4	10	*2

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, 2008:II

	Manufacturing companies				Construction companies				
	Total	Small	Middle	Large	Total	Small	Middle	Large	
Output	*4	*8	*-5	*11	Total activity	*11	*0	*24	*0
Total sales	*8	*8	*-4	18	Area of starts	*-3	*25	*6	*-20
Domestic sales	*0	*-4	*-12	*8	Area of completions	*0	*-25	*13	*-7
Export	10	*17	*5	*12	Output prices in \$	47	75	*26	38
Number of companies	238	25	93	120	Area of completions	38	4	18	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							Transport and Communications						
	2007				2008			2007				2008	
	I	II	III	IV	I	II		I	II	III	IV	I	II
Demand constraints							Demand constraints						
Volume of export orders	0.9	0.9	0.9	1.0	1.2	1.1	Booking by foreign tourists	1.4	1.0	0.7	0.5	0.5	0.5
Volume of domestic orders	0.9	0.9	0.8	0.9	1.1	1.0	Booking by Israelis	0.7	0.4	0.6	0.4	0.3	0.4
Supply constraints							Supply constraints						
Machinery and equipment shortage	0.4	0.5	0.4	0.5	0.4	0.4	Economic and political situation in Israel	1.5	1.1	1.0	0.7	0.8	1.0
Financing difficulties	0.5	0.5	0.5	0.5	0.6	0.7	Intensification of competition	1.7	2.0	1.9	1.5	1.4	1.4
Labour shortage	0.9	0.9	0.9	1.0	0.9	0.8	Supply constraints						
							Financing difficulties						
							Labour shortage						
							0.8 0.7 0.8 0.5 0.7 0.8						
							1.0 1.4 1.8 1.5 1.0 1.2						

Construction							Hotels						
	2007				2008			2007				2008	
	I	II	III	IV	I	II		I	II	III	IV	I	II
Demand constraints							Demand constraints						
Volume of demand	1.7	1.6	1.6	1.8	1.8	1.8	Booking by foreign tourists	2.3	2.0	1.4	1.3	1.5	0.8
Supply constraints							Supply constraints						
Input prices	1.2	1.1	1.4	1.4	1.8	2.1	Booking by Israelis	1.0	1.2	0.9	1.1	1.3	1.1
Financing difficulties	1.2	1.1	1.0	1.6	1.2	1.4	Economic and political situation in Israel	1.5	1.5	1.1	1.0	1.3	1.4
Labour shortage	2.2	2.4	2.3	2.3	2.2	2.1	Supply constraints						
Machinery and equipment shortage	0.3	0.4	0.2	0.4	0.5	0.5	Financing difficulties	1.1	1.0	1.3	1.3	1.4	1.1
							Labour shortage						
							1.4 1.5 1.5 1.4 1.7 1.6						

Trade							Service Industries						
	2007				2008			2007				2008	
	I	II	III	IV	I	II		I	II	III	IV	I	II
Demand constraints							Demand constraints						
Volume of orders	0.4	0.8	0.6	0.6	0.9	0.5	Economic and political situation in Israel	0.9	0.7	0.7	0.7	0.9	0.9
Economic and political situation in Israel	0.9	0.7	0.7	0.9	1.1	1.1	Global Economic situation	0.5	0.5	0.8	0.8	1.3	1.2
Economic situation in the world	0.5	0.4	0.6	0.9	1.2	0.9	Intensification of competition	1.7	1.6	1.6	1.6	1.6	1.4
Supply constraints							Supply constraints						
Financing difficulties	0.8	0.7	0.9	0.9	0.7	0.5	Financing difficulties	0.8	0.9	0.7	0.6	0.8	0.6
Labour shortage	0.5	0.7	1.0	1.2	1.1	1.0	Labour shortage	1.0	1.2	1.2	1.3	1.1	1.1

APPENDIX

Explanatory Notes

Net balance

This quarterly survey relates to developments in 2008:2 and includes assessments and expectations regarding 2008:3. 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.

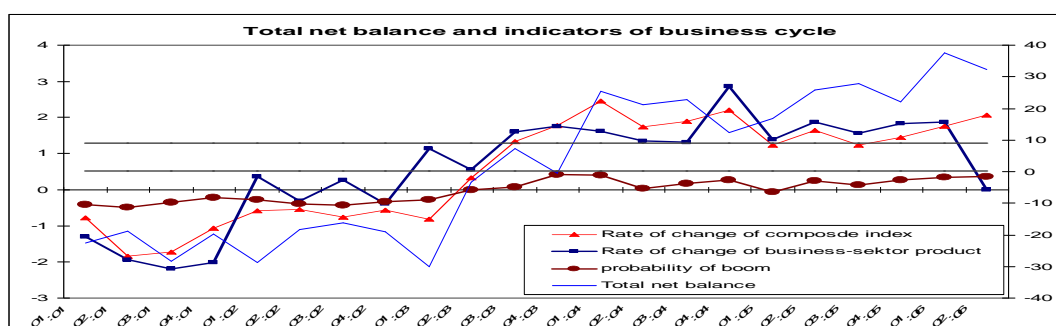
The results are analyzed by means of the net balance, defined as the difference between the percentage of companies reporting an increase and the percentage of those reporting a decrease. A net balance of zero in a particular category shows that there was no change in the level of that category compared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

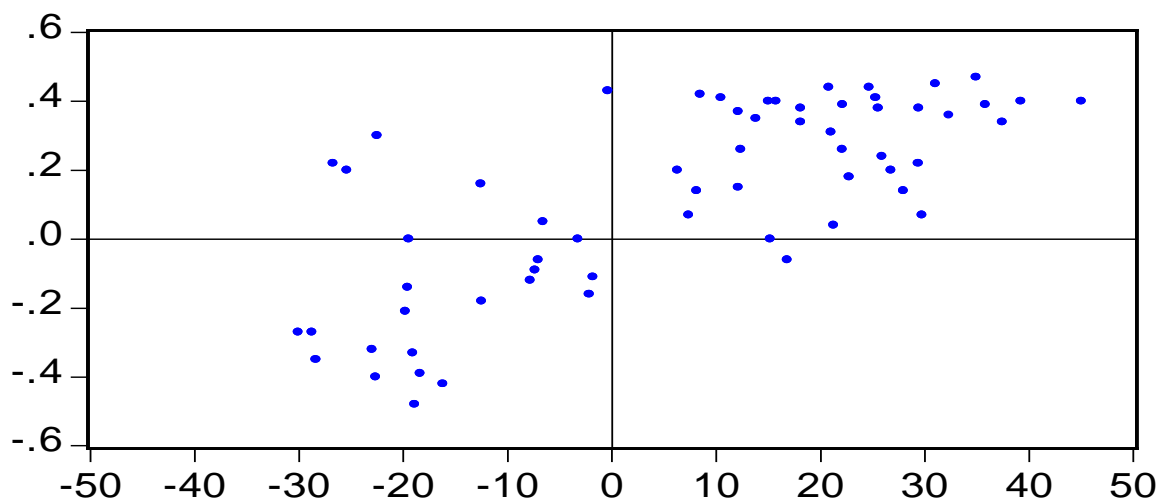
The total net balance is calculated from the seasonally adjusted net balance of the activity in all industries weighted by the share of each industry in total business-sector product. This balance enables the indicators of the business cycle to be predicted successfully. These indicators are classified 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.

Total net balance of business- sektor product
and the probability of boom (1991q1 to 2006q2)



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)

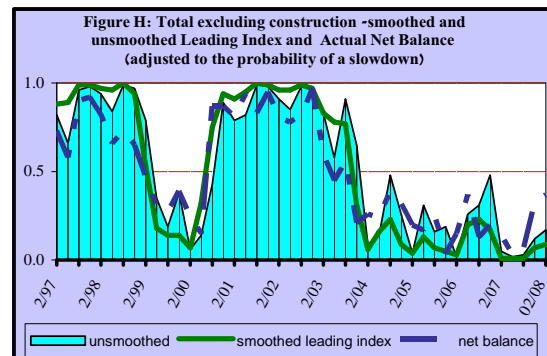
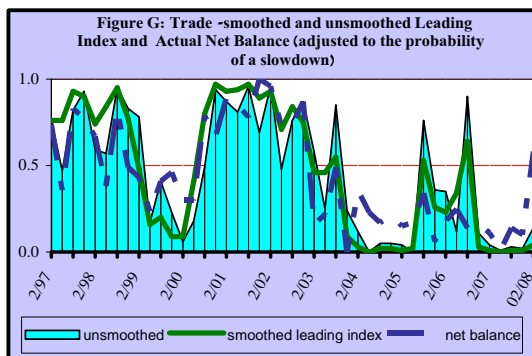
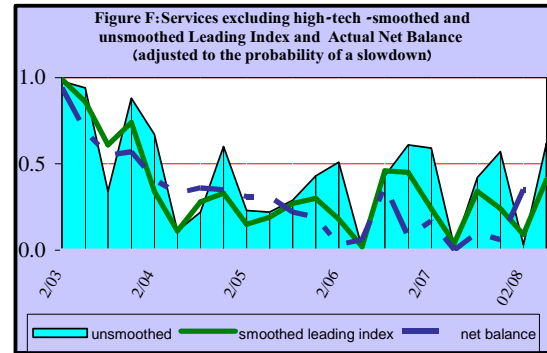
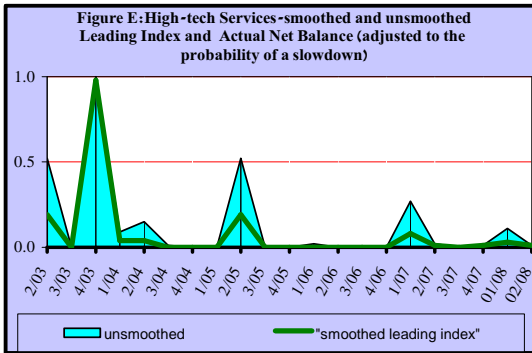
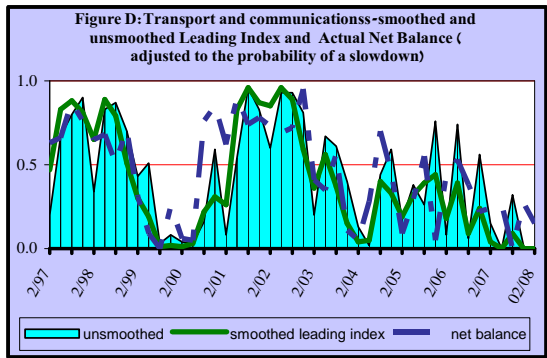
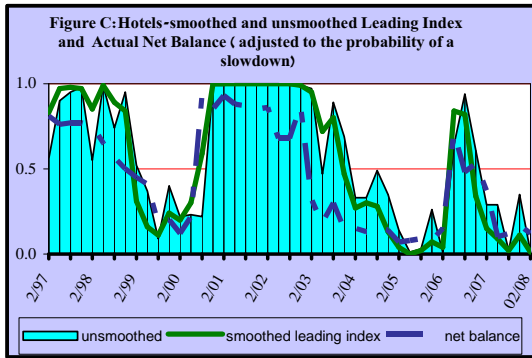
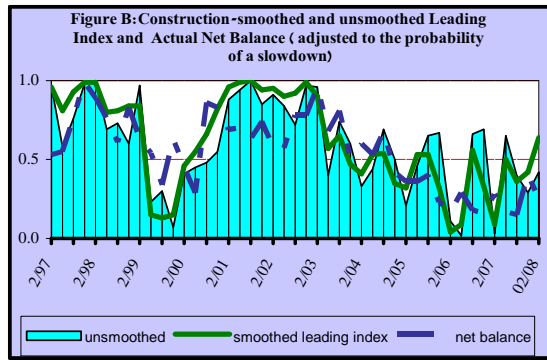
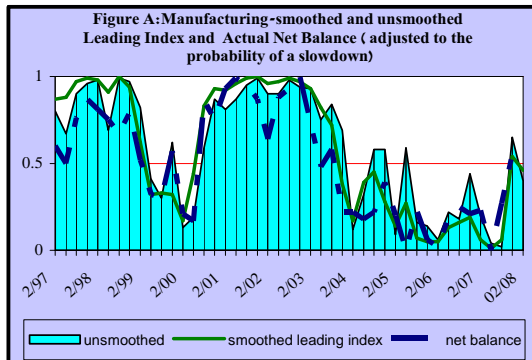
Number of companies ^b	Continued slowdown		slowdown-acceleration		Acceleration-slowdown		Continued acceleration		Industry
	average	standard deviation	average	standard deviation	average	standard deviation	average	standard deviation	
257	0.45	0.07	0.11	0.04	0.14	0.04	0.30	0.06	Manufacturing
33	0.23	0.13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