



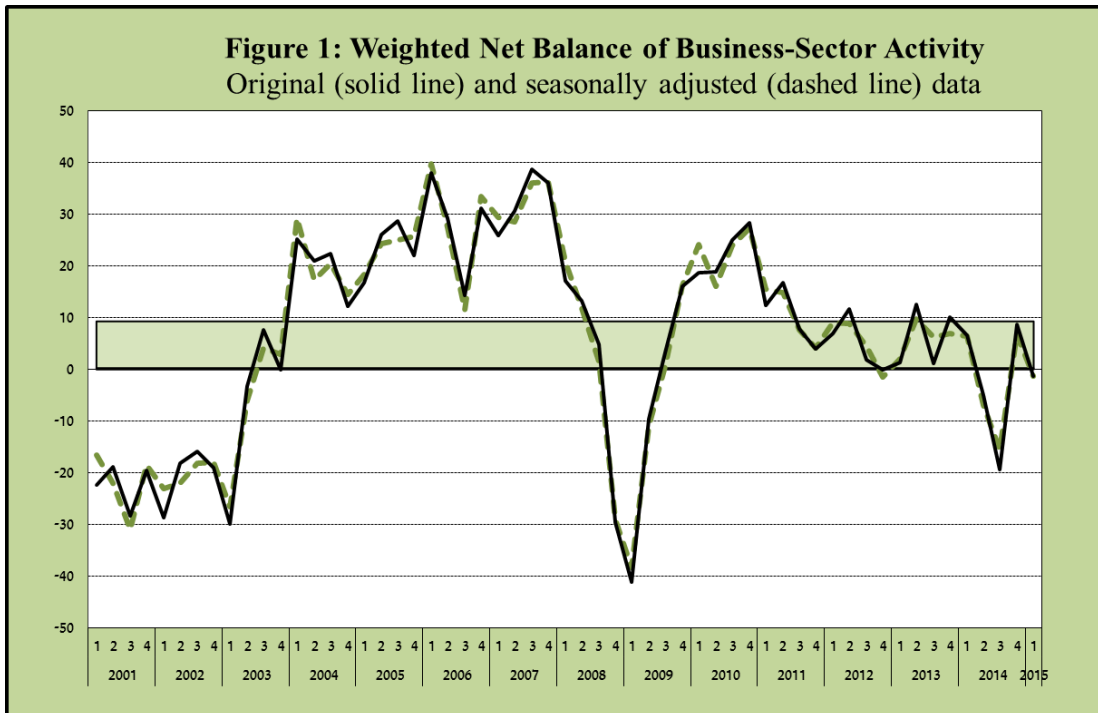
BANK OF ISRAEL
Office of the Spokesperson and Economic Information

April 29, 2015

Press Release

Bank of Israel Companies Survey—Main Findings First quarter of 2015

The Companies Survey for the first quarter of 2015 reflects stability in the rate of expansion of business sector activity, as seen in the weighted net balance¹ which remained virtually unchanged compared with the previous quarter (Figure 1 and Table 1). There are negative net balances in some industries, such as hotels, manufacturing and trade. In contrast, net balances are positive in the transport and communications industry and in the services industry. The stability in activity during the first quarter of 2015 is seen in domestic sales and in exports. The expectations reported by companies in the current survey are for increased activity at a more accelerated pace in the next quarter , particularly in the trade and services industries.



¹ The results are analyzed by means of a “net balance”—defined as the difference between the percentage of companies, out of all the responses, reporting an increase and the percentage reporting a decline. In calculating the net balance, the direction of the change reported by the companies, but not the strength of the change, is taken into account. Thus, a net balance of zero indicates stability in activity; a positive net balance indicates an increase, and a negative net balance indicates a decline. The strength of the change can be inferred from the size of the net balance.

Table 1: Economic activity in the principal industries, based on the net balance of reported activity

(Original and seasonally adjusted data, percent)

Year	2012			2013				2014				2015
Quarter	II	III	IV	I	II	III	IV	I	II	III	IV	I
Manufacturing (output)	14	*-2	*1	*2	12	*-4	*1	*9	*4	*-6	15	*-1
seasonally adjusted	10	*2	*2	*1	*8	*3	*0	*6	*0	*-2	17	*-3
Trade (sales)	*8	20	*11	*-9	24	*10	*4	*5	-25	*-11	*-6	*-7
seasonally adjusted	*9	*16	*12	*-6	24	*8	*2	*6	-23	*-14	*-5	*-6
Construction (total activity)	26	26	*-18	*7	*19	*0	*21	*24	-26	-35	*0	*-11
seasonally adjusted	*22	29	*-17	*5	*15	*8	*19	*13	-24	-31	*3	*-17
Transport and communications (total activity)**	*-4	*13	*1	*35	*-1	*-7	*-5	*4	*-7	-45	*20	*8
seasonally adjusted	*2	*14	*-1	*28	*7	*-5	*-7	*3	*1	-44	*16	*1
Hotels (total activity)***	29	*23	-30	*25	*-8	*-18	*29	-33	74	-100	*-28	-55
seasonally adjusted		15	14	*-2	*1	*2	12	*-4	*1	*9	*4	*-8
Business services industries	12	-9	*0	*-6	12	*4	18	*6	*-3	-16	11	*2
seasonally adjusted	*7	*-5	*-4	*-3	*7	11	12	*9	*-8	*-9	*5	*5
Total business sector	12	2	0	1	13	1	10	7	-5	-19	9	-1
seasonally adjusted	9	4	-2	2	10	6	7	6	-7	-15	7	-1

* Not significant (at the 10% level).

** The significance test is less indicative in this industry due to the small number of firms.

*** Compared with the same quarter in the previous year.

The net balances of **manufacturing** industry output indicate a slight decline in activity in the first quarter of the year, which derived mainly from a decrease in sales to the domestic market. Likewise, there was a small decrease in the balances of the utilization rate of equipment, following an increase in the previous quarter. The decline in activity reflects decreases at small and medium sized companies, as well as at both medium technology and high technology companies. Expectations in the industry are for a continued decrease in domestic sales and for a moderate increase in exports in the coming quarter.

In the **services** industry, the net balance increased slightly following a larger increase in the previous quarter. There are expectations for a significant increase in overall activity with a marked increase in orders from abroad for the next quarter. The net balance of sales in the **trade** industry remained negative in the first quarter as well, similar to the previous quarter. At the same time, the upward trend in goods inventory continues, though without an additional decline in the number of employees. Expectations for activity the next quarter are for increased sales.

In the **construction** industry, there were declines in the net balance of volume of activity after a virtual standstill in the previous quarter. With that, expectations are for a marked increase in activity in the next quarter. The net balance of output prices continues to increase relative to the past, which is consistent with the continued dominance of supply constraints in the industry: Land price constraints and a shortage of professional workers are the most limiting supply side constraints on activity in the industry. Another phenomenon that continued in the current quarter is the increase in duration of construction of buildings. There was a significant decline in activity in the **hotels** industry in the first quarter, compared with the corresponding quarter of the previous year, but it essentially reflected the sharp decline in overnight stays by tourists from abroad during

Operation Protective Edge in the summer of 2014 and the gradual recovery in that figure since then. Nonetheless, despite the decline in activity in the industry, there was a real easing this quarter in the severity of the demand constraint. Similar to the effects of previous deteriorations in the security situation, which lasted after the end of the security situation as well, hotels expect that in the next quarter there will be a continued decline in reservations by tourists from abroad. Activity in the **transport and communications** industry was lively and positive, in line with company expectations reported in the previous quarter's survey. The increase in activity was focused on services sales to Israelis, while there was a decline in sales to nonresidents. Expectations are for a decline in activity in the coming quarter.

An assessment from the perspective of supply and demand constraints indicates that in the first quarter as well, in most industries (excluding the construction industry), the demand constraint was the main limitation on conducting activity, with some easing noted in the severity on the demand side, mainly in the hotels industry, alongside an increase the severity of this constraint in the construction industry. Compared with the previous quarter, there was an easing in the severity of the financing constraint in the business sector for companies of all sizes, but at the same time as there was an increase in the severity of this constraint for large and medium sized companies in the construction industry (Figure 3). It is important to note that the demand constraints in all industries are not very severe, but past experience teaches that changes in the severity of the constraints may be meaningful even when their level is low.

In the first quarter of 2015, **companies' expectations of the inflation rate over the coming 12 months declined to** around 1.3 percent on average, compared with 1.7 percent in the previous quarter. The median expectation declined to 1.2 percent, compared with 1.5 percent in the previous quarter. About 73 percent of companies participating in the survey this quarter expected that inflation over the coming 12 months will be within the target range (1–3 percent) indicating price stability. **Expectations for the next quarter regarding the exchange rate** increased to NIS 4.02/\$, compared with NIS 3.95/\$ in the previous quarter. A similar picture can be seen in companies expectations for the exchange rate in 12 months' time, which were NIS 4.12/\$, compared with NIS 4.02/\$ in the previous quarter. The standard deviation of the distribution of the exchange rate for the coming 12 months based on the current survey increased compared with the statistic in the previous survey.

The Research Department notes that the findings of the Companies Survey for the first quarter of 2015 are based on the responses of about 400 companies and businesses in various industries.

The survey's questions are qualitative: companies are asked to report the direction of changes in various variables—increase, decline, or stability—and to note the strength of the change—“great” or “slight”.

The Research Department adds that Companies Survey data are generally in line with the trends of the macroeconomic data of the economy, and the findings' advantage is in being readily available and providing information rapidly, relative to other sources of data.

Additional tables and figures:

Table 1.1: The net balance of manufacturing companies classified by human-capital intensity and innovation
(Original data, percent)

Year	2012			2013				2014				2015
Quarter	II	III	IV	I	II	III	IV	I	II	III	IV	I
Advanced companies	16	*-9	*-4	-18	19	*5	21	*7	*4	*-8	*9	*-4
Mixed companies	42	*22	*9	*21	32	*23	*4	*16	25	*9	*5	*-9
Traditional companies	*5	*-3	*2	*12	*3	-17	-15	*8	*-3	*-9	22	*3

Table 2: Statistical analysis of 12-month inflation expectations

* Skew is calculated as the difference between average and mode

Year	2012			2013				2014				2015
Quarter	II	III	IV	I	II	III	IV	I	II	III	IV	I
1. Mode	3.00	3.00	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.00
2. Median	2.60	3.00	2.50	2.20	2.10	2.50	2.00	2.00	2.00	1.80	1.50	1.20
3. Average	2.68	2.97	2.56	2.35	2.30	2.35	2.20	1.93	1.89	1.74	1.69	1.34
4. Standard Deviation	1.01	1.02	0.93	1.47	1.05	0.84	0.79	0.77	0.88	0.97	0.97	0.85
5. Skewness*	-0.32	-0.03	0.06	0.35	0.30	0.35	0.20	-0.07	-0.11	-0.26	-0.31	0.34
Number of responding companies	473	445	440	370	411	393	406	409	388	382	373	357

Table 3: Companies' expectations for the NIS/\$ exchange rate

At the time of the survey, the average exchange rate was NIS 3.98/\$

Year	2012			2013				2014				2015	
Quarter	II	III	IV	I	II	III	IV	I	II	III	IV	I	
One quarter ahead	Number of responding companies	492	463	448	386	429	401	421	427	404	393	387	376
	Average	3.91	3.97	3.89	3.75	3.69	3.65	3.56	3.54	3.51	3.68	3.95	4.0
	Standard Deviation	0.09	0.13	0.13	0.13	0.1	0.13	0.11	0.17	0.13	0.22	0.23	0.2
One year ahead	Number of responding companies	489	460	445	380	426	400	420	420	401	391	381	374
	Average	3.99	4.08	3.98	3.87	3.79	3.76	3.64	3.64	3.6	3.74	4.02	4.12
	Standard Deviation	0.21	0.25	0.35	0.29	0.16	0.26	0.24	0.23	0.2	0.26	0.29	0.34

Figure 2: The probability of 12-month inflation expectations being above, below or within the target range
(percent of all respondents)

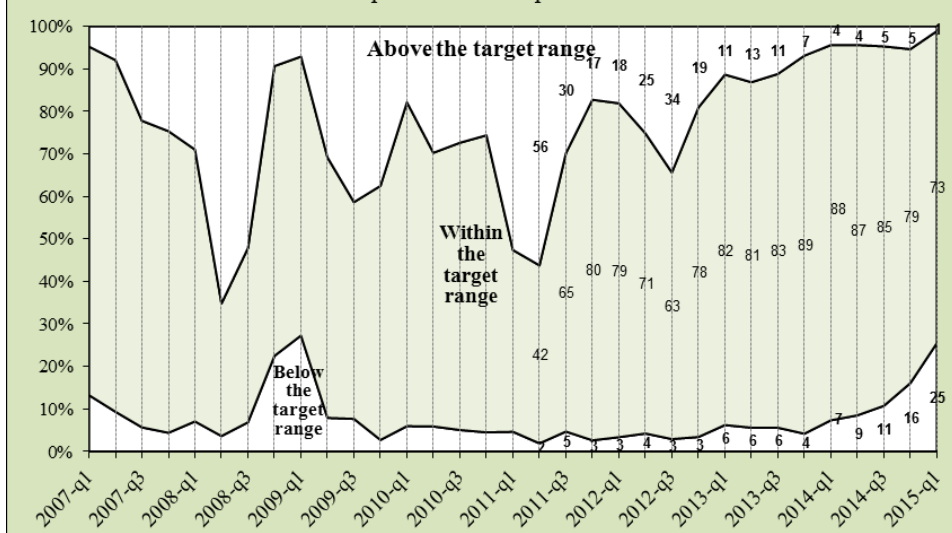


Table 4: Manufacturing – net balances

Manufacturing Industries	2012			2013				2014				2015
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Output	14	*-2	*1	*2	12	*-4	*1	*9	*4	*-6	15	*-1
2. Sales	*10	*-10	*-3	*-5	17	*-8	*6	*1	*3	*-10	*5	-11
3. Domestic sales	*7	*-8	*-3	*-7	12	*-9	*1	*-6	*-8	-11	*0	-13
4. Export	*3	-15	*-8	*-6	*10	*-4	*2	*9	19	*-4	*2	*3
5. Stocks of raw materials	*7	*4	*2	*7	10	*8	*0	*8	15	9	*0	*-1
6. Stocks of finished goods	*8	*1	*3	10	*2	*3	*-3	*5	8	11	*6	*-4
7. Rate of utilization of machinery and equipment	10	*-5	*-7	*-1	*4	*-7	*-8	*-4	*-1	*-6	*3	*-4
8. Number of employees	*1	*-4	*-2	*2	*-5	*-2	*-2	*0	*-4	*-7	*-3	*-1
B. Expected activity in the following quarter												
9. Domestic orders	*-8	-11	-11	*-10	*-7	*-7	*5	*-6	*-7	-10	*6	*-4
10. Export orders	-10	-19	*-3	*5	*2	*1	*-1	*7	*6	-16	*3	*5
Number of responding companies	187	194	185	149	170	166	181	176	156	153	145	144

Table 5: Trade – net balances

Trade	2012			2013				2014				2015
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Sales	*8	20	*11	*-9	24	*10	*4	*5	-25	*-11	*-6	*-7
2. End-of-quarter stock	*12	*-11	*0	-16	*7	*12	*2	*10	*-7	*13	*2	*4
3. Percent of credit sales	*10	23	13	14	24	25	19	*10	*11	20	11	*9
4. Supply period	-8	*4	-7	*2	*2	*6	*-2	*-3	*-4	*2	*0	*0
5. Number of employees	*1	*-7	*-7	*-7	*0	*-8	*4	-12	*-7	*4	*-4	*2
B. Expected activity in the following quarter												
6. Forecast change in number of permanent employees	*0	*-6	*-8	*-4	*4	*-8	*2	*-7	-11	*-2	*-4	*-7
7. Sales expectations	*12	*7	*10	*18	31	*18	24	22	*7	*9	23	*15
Number of responding companies	74	54	62	57	55	51	55	58	57	55	53	55

Table 6: Construction – net balances

Construction	2012			2013				2014				2015
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total activity	26	26	*-18	*7	*19	*0	*21	*24	-26	-35	*0	*-11
<i>of which</i> 2. Buildings	*8	*19	*-20	*6	*19	*-5	*10	29	*-9	-26	*-14	*-12
3. Infrastructure	29	43	*0	*0	*25	29	*7	*6	*-5	*-16	*-13	*-20
4. Output prices in dollar terms	29	42	20	44	45	30	37	48	39	*13	*19	28
5. Area of building starts (sq. m.)	*-13	*9	*-26	41	*5	*0	*5	*-5	*-9	-27	*-10	*6
6. Area of building completions (sq. m.)	*4	19	*-21	*12	*0	*10	*0	*10	*-4	*-4	*0	*-11
7. Building time	*21	36	*11	24	30	*0	*15	*10	35	22	29	22
8. Number of employees	*0	*13	*-10	*0	*-10	*-15	*0	*0	*-4	*4	*14	*11
B. Expected activity in the following quarter												
9. Expected activity in the following quarter	*8	*17	*-24	59	*19	*0	*0	*-5	*9	*-4	*5	*17
Number of responding companies	25	24	22	17	21	20	20	21	23	23	21	18

Table 7: Transport and Communications – net balances

Transport and Communications	2012			2013				2014				2015
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total activity	*-4	*13	*1	*35	*-1	*-7	*-5	*4	*-7	-45	*20	*8
2. Sales of services to residents	*-11	*4	*-13	*34	*-8	*-1	*-12	*13	*17	*-30	27	*2
3. Sales of services to nonresidents	*-12	*-13	*-7	*-9	*-22	*-14	*3	*0	*-14	-52	*-10	*-15
4. Utilization of equipment (capacity utilization, etc.)	*14	*21	*8	43	*6	*-1	*-13	*14	*2	*-34	22	*-12
5. Number of employees	*-8	*12	*-1	*-5	*4	*14	*-12	*-13	*7	*-14	*-3	*-24
B. Expected activity in the following quarter												
6. Expected activity in the following quarter	*4	*26	*7	*-3	*-20	32	*-21	*6	*15	*15	*9	*-3
Number of responding companies	27	23	20	21	22	15	24	24	25	26	26	25

Table 8: Hotels – net balances

Hotels	2012			2013				2014				2015
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total activity	29	*23	-30	*25	*-8	*-18	*29	-33	74	-100	*-28	-55
2. Number of bed-nights: Tourists	*-11	-32	-50	-32	*-4	-32	35	*-7	50	-100	-64	-77
3. Number of bed-nights: Israelis	*-14	*9	*-18	*-4	*0	*-9	*-24	*-19	*0	*0	*0	*-18
4. Average revenue per room	66	68	*14	36	-44	*18	*-24	-56	57	-64	40	*29
5. Number of employees	*-18	*0	-27	*0	*-12	*14	-24	*-4	32	-86	-50	*-14
B. Expected activity in the following quarter												
6. Bookings for next quarter of foreign tourists	*-18	*-23	-73	-38	*-4	*-23	*0	33	*-13	-68	-52	-55
7. Bookings for next quarter of Israelis	*-11	*-23	-68	*-13	*8	*-5	*-18	*19	*-22	-58	-38	-33
Number of responding companies	29	22	23	25	25	22	17	27	23	22	25	22

Table 9: Service industries – net balances

Service industries	2012			2013				2014				2015
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total revenue from current activity	12	-9	*0	*-6	12	*4	18	*6	*-3	-16	11	*2
2. Sales of services in Israel	14	-12	*0	*-6	*8	*4	10	*-1	*-4	-13	*5	*1
3. Sales of services abroad	*-7	*-12	*-2	*0	*8	*2	*11	*7	*5	*-4	*7	*-2
4. Number of employees	11	*0	*1	*-5	*4	10	*0	*5	*-1	*-3	*0	*0
5. <i>of which</i> : trained	7	*2	*4	*-3	*4	12	*2	*5	*3	*-1	*0	*3
6. Number of Israeli workers abroad	*1	*-1	*3	*-2	-6	*0	*-2	*-1	-12	*-4	-13	*-5
B. Expected activity in the following quarter												
7. Total orders	13	11	12	18	*8	11	13	17	*3	13	11	18
8. Export orders	*4	21	*13	18	*7	17	*13	18	13	*4	*8	18
Number of responding companies	202	179	178	148	173	168	154	149	149	145	141	135

Table 10: Net balance of the principal industries and construction by size of company, 2015:Q1

Manufacturing companies					Construction companies				
	Total	Small	Medium	Large		Total	Small	Medium	Large
Output	*-1	*-25	*-17	*7	Total activity	*-11	-75	*33	*0
Total sales	11	*-28	*-19	*-5	Area of starts	*6	-50	*0	*27
Domestic sales	-13	*-22	*-19	*-8	Area of completions	*-11	*-25	*0	*-9
Exports	*3	0	0	*4	Output prices in \$	28	50	*-33	36
Number of companies	144	18	31	95	Number of companies	18	4	3	11

Table 11: The severity of constraints on carrying out planned activity (average)¹

1-Minimal, 2-Moderate, 3-Significant, 4-Very significant

Industry	Constraint	2012			2013				2014				2015
		II	III	IV	I	II	III	IV	I	II	III	IV	I
Manufacturing Industries	Demand constraints												
	Volume of export orders	1.4	1.4	1.3	1.4	1.4	1.5	1.3	1.2	1.2	1.2	1.2	1.3
	Volume of domestic orders	1.1	1.2	1.1	1.2	1.2	1.2	1.1	1.1	1.2	1.2	1.2	1.1
	Supply constraints												
	Machinery and equipment shortage	0.4	0.3	0.3	0.3	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
	Financing difficulties	0.7	0.6	0.6	0.6	0.6	0.7	0.5	0.6	0.5	0.5	0.6	0.5
	Labor shortage	0.9	0.8	0.9	0.9	0.9	1.1	0.9	0.9	0.9	0.8	1.0	0.9
Construction	Demand constraints												
	Volume of demand	1.6	1.6	2.1	1.4	1.6	1.7	1.4	1.5	1.6	1.9	1.2	1.6
	Supply constraints												
	Input prices	1.5	1.3	1.5	1.5	1.6	1.5	1.6	1.5	1.4	1.7	1.4	1.7
	Financing difficulties	2.2	2.0	1.9	1.7	1.9	1.7	1.8	1.9	1.3	1.7	1.4	1.7
	Labor shortage	2.6	2.7	2.3	2.4	2.3	2.4	2.7	2.1	2.3	2.3	2.5	2.6
	Machinery and equipment shortage	0.5	0.3	0.4	0.2	0.6	0.7	0.4	0.5	0.6	0.9	0.7	0.9
	Land lot Prices	2.3	2.1	2.5	2.1	2.5	2.4	2.7	2.5	2.7	2.8	2.8	2.8
Trade	Demand constraints												
	Volume of orders	0.6	0.6	0.9	0.9	0.5	0.6	0.7	0.8	0.7	1.0	0.7	0.9
	Economic & political situation in Israel	0.9	1.0	1.4	0.9	0.8	0.8	0.9	0.8	1.0	1.5	0.9	0.9
	Economic situation in the world	1.1	1.1	1.0	1.0	0.9	0.7	0.7	0.8	0.8	0.9	1.1	0.8
	Supply constraints												
	Financing difficulties	0.9	1.0	1.2	0.9	0.7	0.6	0.7	0.6	0.6	0.5	0.6	0.5
	Labor shortage	0.9	0.9	0.8	0.9	0.9	0.9	1.0	0.9	0.7	0.8	0.8	0.9
Transport and Communications	Demand constraints												
	Booking by foreign tourists	0.5	1.0	1.2	0.6	0.8	0.6	0.9	0.8	0.8	1.6	1.3	1.2
	Booking by Israelis	0.3	0.6	0.9	0.4	0.9	0.4	0.9	0.6	0.6	1.2	1.0	1.0
	Economic & political situation in Israel	1.3	1.4	1.5	1.4	1.4	1.3	1.3	1.4	1.2	1.9	1.4	1.5
	Intensification of competition	2.2	2.2	2.4	2.5	2.2	1.9	2.2	2.1	2.4	2.3	2.1	2.3
	Supply constraints												
	Financing difficulties	1.3	1.1	0.9	1.3	1.3	0.9	1.1	1.1	1.1	1.3	1.2	1.3
	Labor shortage	1.5	1.2	1.2	1.2	1.7	1.2	1.1	1.3	1.3	1.4	1.4	1.3
Hotels	Demand constraints												
	Booking by foreign tourists	1.7	1.9	2.1	2.3	1.4	2.0	1.6	1.4	1.6	3.4	3.4	2.4
	Booking by Israelis	1.5	1.5	1.4	1.4	1.2	1.2	1.3	1.6	1.4	1.9	1.6	1.5
	Economic & political situation in Israel	1.4	1.7	1.8	1.6	1.2	1.4	1.2	1.5	1.5	2.5	2.4	2.0
	Supply constraints												
	Financing difficulties	1.1	1.2	0.8	0.6	0.7	0.9	0.9	1.0	0.9	0.2	0.6	0.5
	Labor shortage	1.2	1.0	0.6	1.2	1.2	1.4	1.2	1.7	1.8	1.3	1.1	1.5
Service Industries	Demand constraints												
	Economic & political situation in Israel	0.9	1.1	1.2	1.0	1.0	1.0	0.9	0.9	1.0	1.5	1.2	0.9
	Global economic situation	1.3	1.3	1.4	1.2	1.1	1.2	1.1	1.0	1.1	1.1	1.1	1.0
	Intensification of competition	1.6	1.6	1.8	1.7	1.7	1.7	1.7	1.7	1.8	1.7	1.7	1.6
	Supply constraints												
	Financing difficulties	0.8	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7
	Labor shortage	0.9	0.9	0.9	0.9	1.0	0.9	1.0	0.9	0.9	0.9	1.0	0.9

¹For each quarter, the most severe supply constraint and the most severe demand constraint are in bold.

Figure 3: Financing difficulties, by company size

Weighted by share of industry in business sector product

