CHAPTER XII

INDUSTRY

1. Main Developments

The downward trend in industrial output, which marked 1966, was reversed in mid-1967, reflecting the termination of the slump that hit industry during the period of economic restraint.

The growth of industrial output started to slow down as early as 1965, and beginning in the first quarter of 1966 production was cut back sharply, depressing the level of output by 16 percent between February and December. In the first half of 1967 the decline was checked, output tapering off at its low end-1966 level. The second half of the year saw a resumption of rapid growth, and at year's end the figure was 20 percent higher than at the start of the year and about 2 percent above the peak level of February 1966. Despite the strong recovery, the real value of industrial output was about 3 percent lower, on an annual average, than in 1966, while the real gross industrial product was down 4.3 percent. Approximately half the decrease can be directly attributed to the disruption of production because of the war.

The decline in output in the latter part of 1965 and the beginning of 1966 started in branches producing investment goods and construction materials. Owing to the high rate of capital formation in previous years and the slower growth of demand, the economy's stock of capital assets expanded faster than demand, resulting in idle capital stock—both dwelling and nondwelling. This dampened investment in construction and other sectors of the economy.

In the course of 1966 output also began to fall off in industries manufacturing durable consumer goods, and by the end of the year production was being cut back even in industries turning out goods for current consumption. In other words, by the end of 1966 production was declining in most branches of industry. The picture changed somewhat in 1967. The output of industries producing capital goods and construction materials continued downward until the middle of 1967, but in many of those producing consumer goods the turning point was reached earlier, output remaining stable or even rising slightly during the first four months of 1967.

The Six Day War accentuated the turn in the output trend in two ways. On the one hand, the contraction of output in June because of the war deepened the the slump and may even have shifted its terminal point from the end of 1966 to the middle of 1967. On the other hand, the war greatly increased demand for industrial commodities—both directly and indirectly—and thereby strengthened the upward movement of output in the second half of 1967.

In the second half of the year reviewed almost all branches reported higher output figures. The chief cause of this development was the growth of public sector demand, particularly that of the defense establishment owing to the increased military requirements during and after the war. About half the entire industrial output growth in the second half of 1967 can be ascribed to this factor alone. Another important factor was the larger demand for consumer goods; this was the result of a rise in incomes due to the deficit financing of the Government budget, the large-scale monetary expansion in the course of 1967, and the changed expectations of the public after the war and the emergence of the economy from the recession. Investment in civilian construction expanded slowly in the second half of 1967, so that its influence on output growth was relatively small compared with the two other factors mentioned.

The number of persons employed in industry was 5 percent lower on an annual average than in 1966, but between the beginning and the end of 1967 the figure went up 5 percent. In contrast to output, which tapered off, industrial employment continued to drift downward during the early months of the year

Table XII–1

CHANGES IN OUTPUT AND FACTOR INPUTS, 1961–67

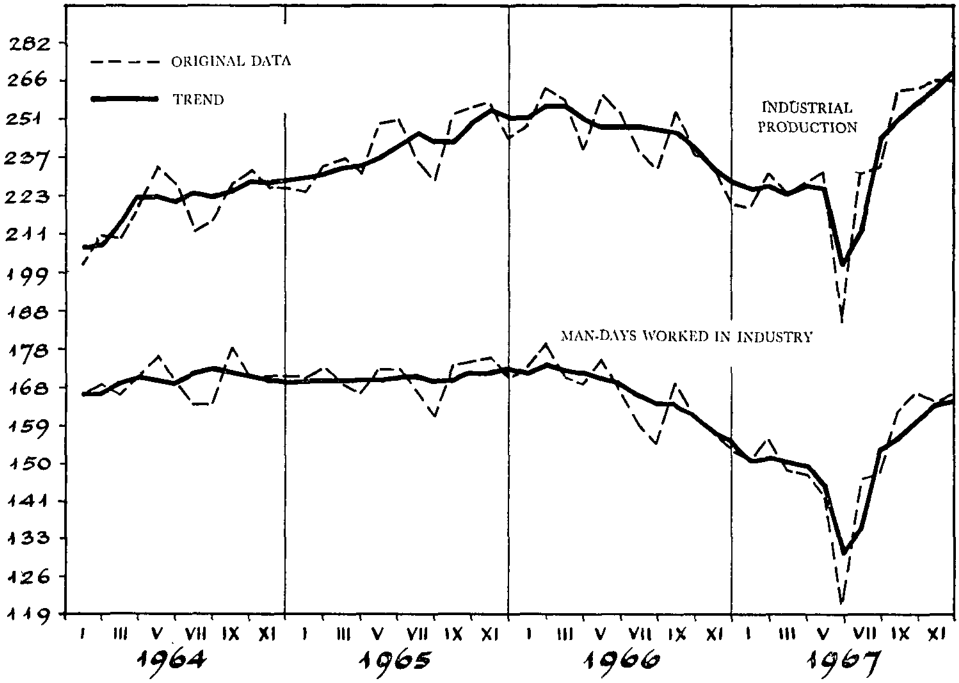
	Percent increase or decrease (–) as against preceding year							
	Annual averages							December 1967
	1961	1962	1963	1964	1965	1966	1967	
Real output	16.7	13.4	15.5	15.0	9.9	1.8	–3.0	20.4
Number of employees	12.5	8.3	7.5	5.2	1.5	–1.9	–5.4	5.4
Number of production workers	12.9	7.8	7.4	5.3	0.6	–2.4	–5.5	6.6
Number of man-days by production workers	13.2	7.6	9.0	7.1	0.6	–2.9	–8.3	7.8
Real investment	20.9	7.9	17.7	12.8	–12.2	–25.5	–22.1	. .
Real gross capital stock[a]	11.0	12.1	14.5	11.8	9.4	6.2	2.4	1.7
Output per man-day	3.1	5.4	6.0	7.4	9.3	2.9	4.4	11.7
Output per unit of capital	5.1	1.2	0.9	2.9	0.5	–5.9	–6.5	18.4
Change in factor productivity	3.7	3.9	4.1	5.7	6.0	–0.7	–0.3	14.2
Daily wages per worker	8.2	11.3	11.1	10.2	14.2	16.1	5.4	2.2[b]
Exports ($, f.o.b.)	19.4	19.6	21.1	13.3	12.7	18.9	3.1	. .
Domestic market prices	5.8	10.5	3.8	0.9	4.0	4.4	1.9	0.6

[a] At the beginning of the year, for the purpose of calculating productivity.
[b] Last quarter of 1967 compared with last quarter of 1966.

Diagram XII–1

INDEXES OF INDUSTRIAL PRODUCTION AND LABOR INPUT, 1964–67

(1958=100)



Semi-logarithmic scale.
SOURCE: Central Bureau of Statistics.

reviewed, although somewhat more slowly than at the end of 1966. As in 1966, the decline was accompanied by a slight decrease in man-days per gainfully employed. Employment fell off precipitately in June owing to the general call-up, but by the following month it had regained its prewar level, and thereafter it edged up by an average of 1 percent per month. The increase in employment was accompanied by a rise in the number of man-days per worker, even though service in the reserves was appreciably extended compared with the prewar period.

Despite the rapid expansion in the second half of 1967, industrial employment failed to regain its peak level of March 1966, being some 4 percent below it at year's end. The existence of a considerable number of unemployed industrial workers, together with the natural increase of the country's labor force, would seem to remove any manpower constraints on the further expansion of industrial output. However, it should be noted that the data on industrial employment do not take into account the skill level of the workers. Industry reabsorbed mainly skilled labor, while most of those still idle are unskilled. This is confirmed by data on the number of unemployed registered at labor exchanges, which show that, together with the fall in unemployment during the second half of 1967, the percentage of skilled industrial workers within total unemployment declined. It should also be noted that in some industries, especially metal products, electrical appliances, and electronics,[1] a shortage of skilled manpower began to appear at the end of 1967, affecting the chances for their rapid expansion.

Hourly wages rose 2 percent in the course of 1967; on an annual average, they were 5.4 percent higher than in 1966, owing to the rise that occurred in 1966. The relative stability of wages in 1967, after several years of rapid and steady increase, was obviously the result of the recession. That they did not fall is ascribable to the fact that they are largely determined by institutional factors, which react slowly to market fluctuations and are resistant to changes in a downward direction.

Table XII–2

CHANGES IN INDUSTRIAL OUTPUT AND LABOR INPUT IN SELECTED PERIODS, 1966–67

(percentages)

Period	Real gross output	Man-days of production workers	Output per man-day	Number of employees	No. of production workers	Man-days per worker
February 1966 to Dec. 1966	–16	–14	–2	–9	–10	–5
December 1966 to April 1967	3	–4	7	–3	–3	–1
April 1967 to December 1967	17	12	4	9	10	2
December 1965 to December 1967	9	–3	12	–4	–4	1

SOURCE: Based on industrial indexes of the Central Bureau of Statistics.

Comparing the 4.3 percent decline in industrial product with that of 8.3 percent in labor input, we find that output per man-day averaged 4.4 percent higher in 1967—a faster rate than in 1966 but slower than in any of the four preceding years (see Table XII–1). The drop in the growth rate was mainly the outcome of the decline in output per worker during the second half of 1966. In 1967 output per man-day moved up by some 12 percent between the beginning and the end of the year—the fastest rate of expansion in the past decade (see Diagram XII–2).

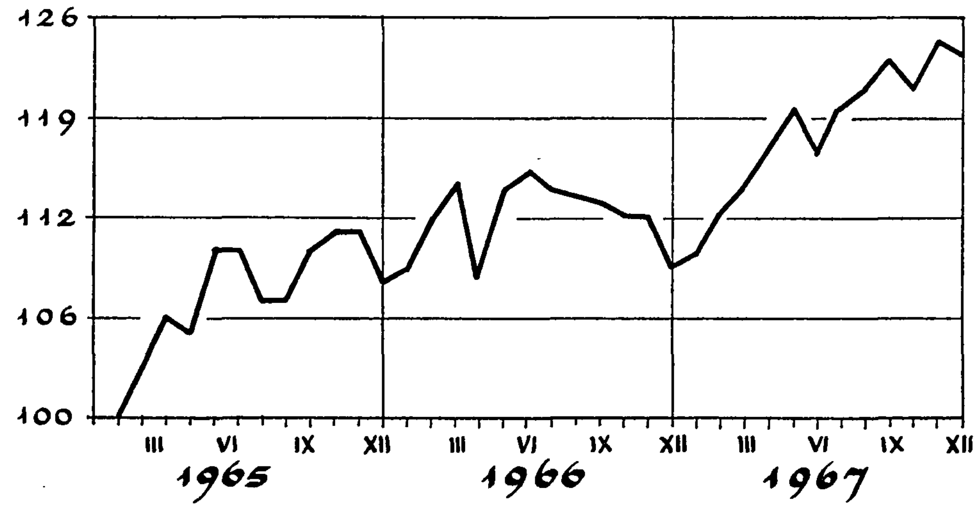
The difference between the change in the average annual level and that in

[1] The defense establishment also absorbed skilled workers of these types in 1967, but they are not included in the data on incremental employment.

Diagram XII-2

INDEX OF INDUSTRIAL OUTPUT PER MAN-DAY, 1965-67

(January 1965=100)



Semi-logarithmic scale.
SOURCE: Based on Central Bureau of Statistics data.

December levels stands out strikingly when measuring factor productivity.[1] On an annual average, it was virtually unchanged (in fact, it fell by an estimated 0.3 percent), but between the beginning and the end of 1967 there was a rise of 14 percent. It should be noted that short-run changes in factor productivity chiefly reflect changes in the rate of factor utilization. Among the causes of the rise in measured factor productivity, we in fact find three important ones connected with changes in the utilization rate:

1. The time-lag before labor input adjusts to a decline in output. This lag, which is due partly to the difficulties involved in dismissing workers, was reflected in 1966 by the fact that labor input contracted more slowly than output, thus reducing productivity. In the first half of 1967 the labor input continued downward while output rose somewhat, so that measured productivity increased.

[1] The reference is to that part of the change in output which cannot be attributed to changes in inputs. To measure the net change in productivity, the change in output is compared with the actual changes in factor utilization. Data on the latter are not available, and the indicators used actually measure changes in input stocks without sufficiently taking into account changes that may have occurred in the rate of utilizing such stocks. (This applies chiefly to the input of capital, but to a certain extent also to the measurement of the labor input.) Consequently, the measured change in productivity includes not only the "net" change in productivity, but also the changes in factor utilization.

2. Increased utilization of the labor force. This factor operated chiefly during the second half of the year, when output resumed its upward movement, and enterprises were able to fully utilize their labor force, after being unwilling or unable to trim it during the recession even though it was partly idle.

3. Increased utilization of capital. The average level of industrial output prices was 1.9 percent higher in 1967 than the year before. However, this rise was almost entirely due to increases in 1966. During 1967 the price level steady, and between December 1966 and September 1967 it even declined by approximately 1 percent. After the devaluation in November prices began to rise again, with the consequence that the level of industrial prices at the end of 1967 was about 0.5 percent higher than at the end of 1966.

No complete and satisfactory explanation can be offered as to why prices hardly fell even in industries whose output contracted sharply. However, there are several partial explanations:

1. The marked rise in production costs, especially labor, which occurred in 1966 would certainly have pushed up prices had it not been for the recession. Thus the slackening of demand did affect prices in that it kept them down.

2. In some industries prices are not competitively determined.

3. Part of the price decline was in the form of better purchasing terms, which apparently are not fully reflected in the index.

The growth of industrial exports slowed down from 19 percent in 1966 to only 3 percent in the year reviewed. Most of the deceleration was due to a 4 percent drop in diamond exports following a 25 percent rise in 1966, a development ascribable to the stagnation of the international diamond market after two years of boom. Industrial exports other than diamonds expanded by 9 percent in 1967, compared with 14 percent the year before.

Export prices edged down 1 percent in 1967. This was the resultant of a 2 percent rise in diamond prices (on an annual average) and a decline in several other industrial products, especially minerals.

Value added grew somewhat faster than gross exports. This was due mainly to the smaller weight of diamonds, which have a low value-added component.

Export developments in 1967 were influenced by several factors operating in different directions. Some tended to enhance the profitability of export: in 1967 production costs, especially wages, were stable, whereas in previous years labor costs had mounted rapidly; the domestic market continued to shrink; the domestic price level remained unchanged, whereas the return on export went up following the substantial increase of export incentives. On the other hand, two factors had a contractionary effect on exports: the Six Day War and the more sluggish expansion of international trade in 1967.

The war shaved some 5 percent off the total volume of industrial exports other than diamonds, as it disrupted production and export in several branches and led to the reduction of trade with Eastern Europe. The slower expansion of international trade was responsible for the contraction of diamond sales, but it also affected other industrial products. It is difficult to quantify its influence, but it was apparently sufficient to offset the factors stimulating export, for if the effect of the war is discounted, nondiamond industrial exports expanded at approximately the same rate as in 1966.

Real gross investment in industry was down 22 percent in 1967. This continued the falling trend noticeable since 1965, following a deceleration in the growth rate in 1964. Though the downward movement began before the decline in economic activity, it became more pronounced during the recession, both because of the increase in unexploited production capacity, and because of the prevailing belief that the slump would continue. The more attractive terms provided by the amended Law for the Encouragement of Capital Investments and the larger volume of Government financing did not succeed in checking the curtailment of investments in 1967. There are no detailed data on the development of industrial investments in the course of 1967, so that it is difficult to establish whether the rise in the second half of the year merely compensated for the decline during the war period or whether it represents a change of trend.

The contraction of industrial investment slowed down (for the fifth consecutive year) the growth of the real gross capital stock. Capital assets increased by less than 2 percent in 1967, but this did not impede the rapid expansion of output in the second half of the year reviewed, as surplus production capacity had accumulated during the recession. The rapid upswing in production in 1967 led to the partial absorption of this surplus.

2. Output

The value of real gross industrial output in the year reviewed was about 3.0 percent smaller than in 1966, while the real gross product decreased slightly—by 4.3 percent.[1] As in 1966, the difference between these two rates stemmed from the fact that value added in the few branches recording output gains in 1967 is generally low, whereas among the branches whose output fell are some with a high value added.

A comparison of annual averages does not reflect the actual developments in 1966 and 1967, as production trends displayed extreme changes during these years. In order to obtain a complete picture, it is first necessary to describe developments in 1965.

Beginning in 1965, construction activity fell off while other domestic investments were curtailed. This was due to the accumulation of unutilized capital

[1] The change in industrial product is calculated by weighting the production indexes of the subbranches by their weighted value added, according to preliminary returns from the 1965 census of industry and crafts. The change in output is calculated by weighting the same production indexes by the weighted value of output of the subbranches according to the same source.

stock—chiefly dwelling but also nondwelling—as well as to the slower growth of the population because of a decline in immigration. These developments left their mark on industry, as nearly a fifth of industrial output consists of construction materials and other producer goods. In the first quarter of 1965 output began to be cut back in branches producing construction inputs (see Table XII–4 and Diagram XII–3). The decline was not abrupt, and throughout most of 1966 it proceeded at a moderate pace, becoming steeper toward year's end. This is explained by the relatively long gestation period in construction. Because of this, the area of building starts began to decline much earlier—at the beginning of 1965. Accordingly, demand first began to sag for the output of branches producing inputs for the early stages of construction (quarry products, clay and lime products, cement and cement products); subsequently demand also

Table XII–3

GROSS INDUSTRIAL OUTPUT, BY BRANCH, 1964–67

(IL million, at current prices)

	1966/67[a]	Percent real increase or decrease (–) as against preceding year[b]			
		1964	1965	1966	1967
Mining and quarrying	167	27.5	24.6	2.6	–5.9
Food	1,360	14.6	4.6	6.5	5.3
Textiles	635	24.3	10.2	4.2	–5.2
Clothing	213	18.1	24.5	5.6	–2.3
Wood and carpentry	371	19.8	17.3	1.8	–6.3
Paper, printing, publishing	321	16.9	7.5	8.4	11.2
Leather and leather products	96	11.2	11.3	–2.4	–11.7
Rubber and plastics	112	30.7	10.5	9.8	–3.3
Tires	59	13.3	11.0	–4.5	5.0
Chemical products	325	18.1	17.8	8.9	3.0
Petroleum refining	243	12.7	13.6	16.0	9.0
Nonmetallic minerals	322	4.3	6.2	–7.6	–26.0
Diamonds	525	3.0	7.7	11.2	–6.1
Basic metals	171	12.3	8.1	–7.0	–16.7
Metal products	440	22.6	5.4	–4.6	–16.3
Machinery and electrical equipment	234	12.6	9.6	–1.7	–8.9
Household equipment and misc.	265	2.9	6.1	–13.4	–7.0
Transport equipment	378	1.7	4.6	–12.9	–2.6
Total	6,237	15.0	9.9	1.8	–3.0

[a] Output at factor prices, according to preliminary returns from the census of industry and crafts for 1966/67.

[b] Percentage changes in 1964 were calculated from data of the Central Bureau of Statistics industrial surveys, and those for 1965–67 according to its production indexes.

Table XII-4

RATES OF CHANGE IN INDUSTRIAL OUTPUT, BY BRANCH AND ECONOMIC DESTINATION, HALF-YEARLY, 1965–67

(percentages)

	Weight of branch in industrial output	Real increase or decrease (–)						Increase or decrease (–) in rate of change				
		Jan. 1965 to July 1965	July 1965 to Jan. 1966	Jan. 1966 to July 1966	July 1966 to Jan. 1967	Jan. 1967 to July 1967[a]	July 1967 to Jan. 1968	I 1965 to II 1965 (2)–(1)	II 1965 to I 1966 (3)–(2)	I 1966 to II 1966 (4)–(3)	II 1966 to I 1967 (5)–(4)	I 1967 to II 1967 (6)–(5)
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
A. By branch												
Mining and quarrying	2.7	6	20	–16	12	–11	8	14	–36	28	–23	19
Food	21.6	13	–6	10	–3	9	–5	–19	16	–13	12	–14
Textiles	11.2	5	9	–4	–19	12	30	4	–13	–15	31	18
Clothing	3.4	9	8	17	–18	8	5	–1	9	–35	26	–3
Wood and carpentry	6.2	13	0	0	–12	–5	23	–13	0	–12	7	28
Paper and paper products	2.0	0	5	6	–8	8	17	5	1	–14	16	9
Printing and publishing	3.0	3	1	10	0	4	13	–2	9	–10	4	9
Leather and footwear	1.8	–11	17	–19	–18	14	17	28	–36	1	32	3
Rubber and plastics	3.0	4	7	3	–14	10	30	3	–4	–17	24	20
Chemicals and petroleum	9.0	11	5	2	–12	20	15	–6	–3	–14	32	–5
Nonmetallic minerals	5.0	4	2	–6	–19	–32	45	–2	–8	–13	–13	77
Diamonds	6.4	1	18	14	–3	4	–7	17	–4	–17	7	–11
Basic metals	3.2	13	5	–21	–2	–18	39	–8	–26	19	–16	57
Metal products	6.9	2	4	–6	–14	–12	25	2	–10	–8	2	37
Machinery	3.9	8	–3	–20	–3	–10	39	–11	–17	17	–7	49
Electrical equipment	2.9	10	–1	6	–22	–11	28	–11	7	–28	11	39
Transport equipment	6.7	. .	. .	–17	–15	13	25	. .	. .	2	28	12
Miscellaneous	1.1	. .	. .	–14	5	3	29	. .	. .	19	–2	26
B. By main economic destination												
Investment	14.2	5	5	–18	–3	–7	40	0	–23	15	–4	47
Construction	11.0	9	–1	–5	–19	–19	49	–10	–4	–14	0	68
Durable goods	11.4	0	5	–8	–19	14	34	5	–13	–11	33	20
Current consumption	44.0	7	3	3	–8	13	3	–4	0	–11	21	–10
Total industry	100.0	7	4	–2	–10	2	17	–3	–6	–8	12	15

[a] July 1967=average for May and July 1967.

SOURCE: Production indexes of the Central Bureau of Statistics, with branch classification seasonally adjusted and classification by economic destination unadjusted.

began to subside in branches producing inputs for the final stages of construction (building carpentry, plumbing equipment, sanitary ceramics, glass, electrical installations, etc.).

The decline in industries manufacturing nonconstruction investment goods occurred somewhat later—in the first quarter of 1966—but the decrease was more rapid here.

The weakening of demand became more widespread in the course of 1966, leading to production cutbacks in branches producing consumer goods—the result of growing unemployment and falling incomes which accompanied the slackening of economic activity. Most affected by this were durable consumer goods, output of which began to decline slowly at the end of the first quarter of 1966 and more rapidly in the last quarter of the year. Output of goods for current consumption began to decrease only in the second half of 1966, after continuing upward in the first half. To some extent, this is a normal seasonal pattern.

The fall in industrial production was arrested at the beginning of 1967. The stabilization did not encompass all branches: those producing mainly construction inputs and investment goods, such as the metal, wood, machinery and electrical equipment, nonmetallic mineral, and automobile industries, continued downward until June 1967 at approximately the same rate as during the second half of 1966. But the decline was checked in textiles, rubber and plastics, chemicals, and diamonds, while in paper, printing, and publishing and in the garment industry the downward trend was reversed. Though some of the branches contributing to the levelling-off of industrial output stepped up their exports in 1967, this was not the main factor checking the contraction of their output during the first half of 1967. For their incremental export during that period was small relative to both their output volume and the rate of decrease therein during the second half of 1966. The stabilization of the output level was connected with the development of demand for consumer goods. Diagram XII–3 shows that in the first half of 1967, i.e. until the war, the output of consumer goods expanded—both durables and goods for current consumption. However, this should be treated with some reserve, for, as already stated, the output of such items rises seasonally at the beginning of each year. Hence the increase at the beginning of 1967 may have been due to seasonal fluctuations no less than to a change of trend. As regards durables, the period during which their output exceeded the end-1966 level—i.e. from February to April—was too short to permit the drawing of accurate conclusions. It cannot be established whether the decline in May and June was due entirely to the war (i.e. that the upward trend would have continued were it not for the war), or whether the expansion in the months February–April was of a random nature only.

The abruptness of the change in output trends in durables and current consumption goods between the second half of 1966 and the first half of 1967 (see Table XII–4, column 10) strengthens the impression that, despite the

Diagram XII-3

INDEXES OF INDUSTRIAL PRODUCTION, BY MAIN FINAL USES, 1965–67

Semi-logarithmic scale.
SOURCE: Central Bureau of Statistics.

reservations mentioned above, the stabilization of output in the first half of 1967 can be regarded as a change of trend rather than a chance development. However, no proof can be adduced to confirm this. The difficulty in deciding whether the upturn in consumption in the first half of 1967 was fortuitous or whether it reflected a change of trend is also due to the lack of clarity concerning the development of possible explanatory variables. The reference is primarily to incomes: data on changes in this variable during 1967 are not good enough to permit the drawing of conclusions as to the direction of change in the first half of 1967. Hence it is also difficult to establish whether changes in incomes can explain the change in the consumption trend.

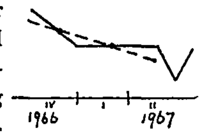
Finally, it should be noted that even if the stabilization of output during the first half of 1967 cannot be taken as definite proof that industry emerged from its slump, the very fact that output held steady during that period is of considerable importance, since careless use of the available data could create the impression that the level continued to fall steadily until the middle of 1967.[1]

The war strongly influenced the development of industrial output. The general call-up and fighting dislocated production, as reflected by a decline of over 20 percent in output in June as compared with previous months. Admittedly, this decline cannot be attributed to the recession, and it should be discounted when analyzing changes in output over time. Consequently, no special importance should be ascribed to the increase in July, which restored the level to that of May. On the other hand, it is of interest to analyze the rapid upswing in almost all branches after July and the reasons therefor.

First and foremost, it should be noted that the rise in the output level was general, extending to all branches of industry except two—food processing, where the decline was of a normal seasonal nature, and diamond polishing, where it was largely due to the end of the boom in the international market. In most of the other branches, growth was very vigorous in the second half of 1967 (see Table XII–4, column 6). The most striking gains were made in nonmetallic minerals, basic metals, machinery, transport equipment, textiles, rubber and plastics, electrical equipment, and metal products. Most of these industries experienced a precipitate fall in output in the first half of 1967, and consequently the sharp reversal of trend stands out all the more. This applies particularly to nonmetallic minerals, basic metals, machinery, electrical equipment, and metal products (see Table XII–4, column 11).

The above-mentioned industries turn out mainly construction materials and other producer goods. The indexes of industrial production by economic destination (Table XII–4, part B) indicate in fact that the change of trend in the

[1] The use of quarterly data, for instance, can be highly misleading under the existing circumstances. The graph shows how the stable trend during the first months of 1967 (unbroken line) is described by quarterly data (broken line) as a downward trend, because of the decline during the last quarter of 1966 and the steep drop due to the war in June 1967.



second half of 1967 was especially pronounced in industries whose output is intended mainly for construction and other investments. This seems to suggest that industrial output expanded chiefly because of the revival of construction and investment activity. But this is not the case. While the volume of civilian construction and other domestic investments did expand somewhat in the second half of 1967, the influence of these increases on industrial output during this period was small relative to other factors.

The most important of these was the huge expansion of public sector demand —especially of the defense establishment—which accounted for approximately half the total growth of industrial output during the last six months of 1967. The larger military demand in this period arose from the need to replace stocks consumed during the war period, the expansion of current requirements, the general strengthening of the country's defenses, and the tendency to substitute local products for a considerable proportion of the security imports so as to reduce the country's dependence on foreign sources.

Numerous branches of the economy benefited from the additional demand of the defense establishment, above all the metal, electrical equipment, transport equipment, and nonmetallic mineral industries. This explains the rapid expansion of their output despite the slow growth of investment in the second half of 1967. It should be pointed out that the reference here is to the total volume of spending on industrial goods for security purposes. Only part of these goods are procured directly from industry, the rest being intermediary products supplied to such sectors as transportation and construction.

A further factor accounting for much of the incremental industrial output in the second half of 1967 was the larger demand for consumer goods. This was due partly to the change in the economic climate and expectations after the war, and partly to the expansionary monetary and fiscal policies followed since the beginning of 1967. The Government began to resort to deficit financing in the early months of 1967, and at the same time bank credit to the public was stepped up appreciably. The Government's deficit financing assumed greater proportions during the war and postwar periods, while bank credit to the public continued to expand. Obviously, the additional purchasing power pumped into the economy stimulated consumption. Indexes of industrial production by economic destination show that both current consumption and durable goods spending rose during the second half of the year reviewed. The same trend is indicated by data on sales of durables. It is impossible to determine how much of the additional conumption can be attributed to the war and its results and how much to the reflationary policy, but it is clear that the latter was a weighty factor.

The establishment of commercial ties between Israel and the administered areas indirectly affected industrial activity. As no systematic records have been kept, it is difficult to quantify the magnitude of this trade and its repercussions on industry in 1967. Only a very rough estimate is available of

Israeli purchases in these areas, and a commodity breakdown is completely lacking. However, most of the industrial goods bought apparently were not manufactured in these areas but came from existing stocks of imported goods. This means that even if such purchases were partly at the expense of Israeli-made products, this was by and large a one-time phenomenon. Production capacity in the administered areas is only about 2 percent of that of Israeli industry, so that there is no real competition between the two.

There are also no accurate data on sales of Israeli industrial commodities to these areas, but such sales (mainly of processed foodstuffs) unquestionably constituted an insignificant share of Israel's industrial output in 1967. This is partly attributable to the low purchasing power and consumption level of the inhabitants. But the main reason is that in the first few months after the war trade with these areas was restricted, so that most of the sales were made in the last months of 1967; by year's end the volume was moving upward.

(a) *Output, by branch*

In most branches of industry the value of gross output in 1967 was lower than in the preceding years, despite the expansion of production in almost all branches in the second half of 1967. The biggest percentage gain was recorded by the paper, printing, and publishing industry. Here output continued to advance throughout the year, the rise becoming steeper toward the end, owing to the printing of war literature as well as textbooks for the administered areas.

There was also a substantial increase—although not as large as in previous years—in petroleum refining. The factor limiting growth here was not demand (as in most other branches of the economy), but the capacity of existing installations.

The chemical industry also stepped up production, but not to the same extent as in previous years. All subbranches contributed to the growth but not equally. Production of pesticides was expanded at a more rapid rate than in 1966, with part of the increment going to export. The output rate slowed down in cosmetics, pharmaceuticals, and basic chemicals.

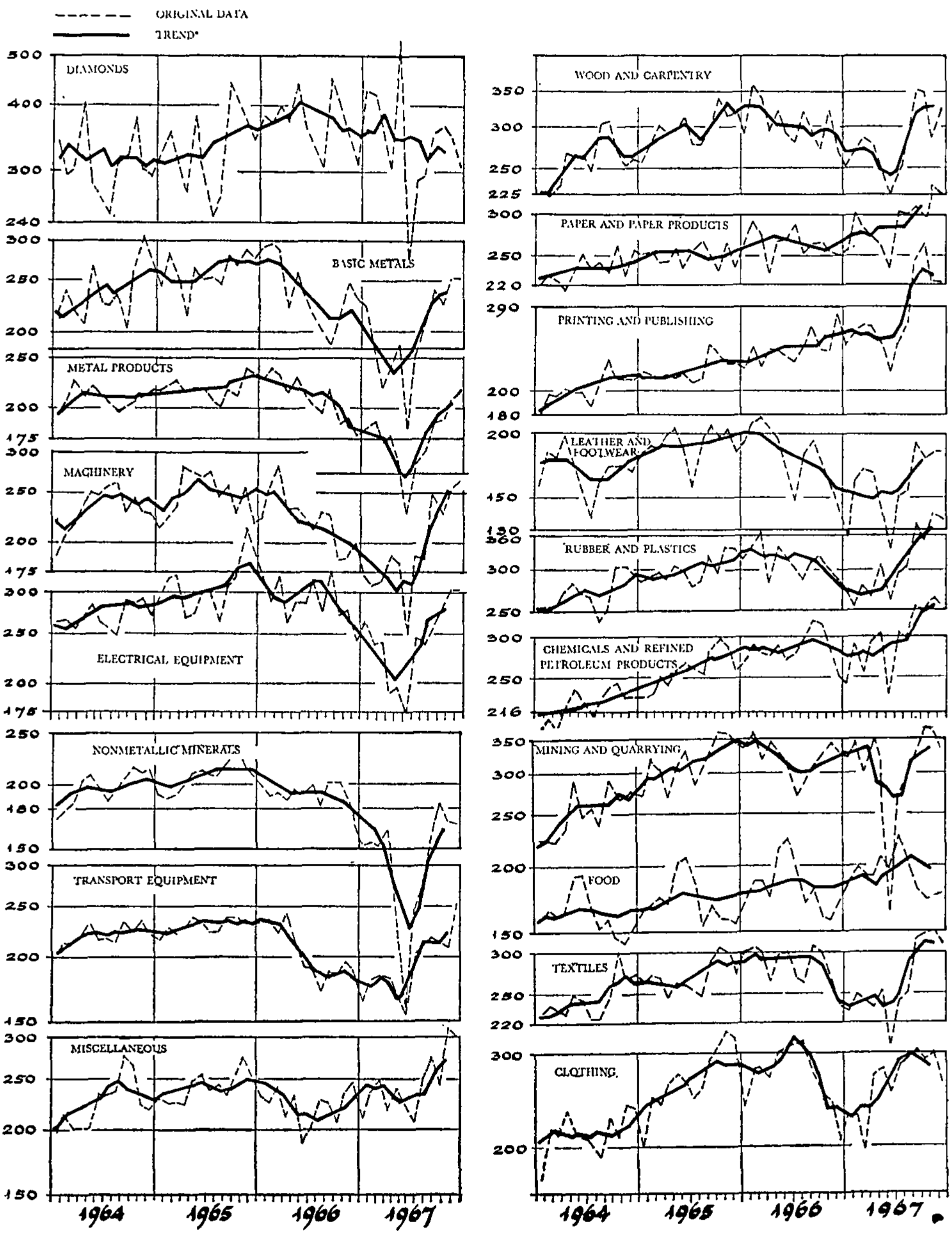
Another industry expanding output was tire manufacture, which had experienced a decline in 1966. The better performance in the year reviewed was due chiefly to the increase in locally assembled transport vehicles and the greater use of vehicles after the war.

The food industry also reported a higher figure, the increase being similar to that of 1966 and 1965, despite the slower growth of the population in 1967. This is explained by the larger quantity of food consumed by the armed forces during the war period and by the marketing of certain food products in the Israel-held areas.

Nonmetallic minerals showed an exceptionally steep drop, following a decline in 1966 as well. This was caused by the sharp cutback in construction activity,

Diagram XII–4

INDEXES OF INDUSTRIAL PRODUCTION, BY BRANCH,[a] 1964–67



[a] The branches are defined according to the Central Bureau of Statistics classification, which differs somewhat from that generally employed by the Bank of Israel.
SOURCE: Central Bureau of Statistics.

which in 1967 mainly affected industries producing materials for the final stages of construction. During the war period, when nearly all construction work was suspended, the output of this branch plummeted. The latter part of the year saw a recovery, especially in the output of cement and cement products, which was partly due to the increased security requirements.

Output also contracted appreciably in basic metals, machinery and electrical equipment, and household appliances—here too after decreases in 1966. In all three branches the figure fell noticeably until the middle of the year, and turned rapidly upward after the war.

The steep drop in metal products does not include the military industry, where production rose owing to the war. If the latter is taken into account, the decline was much more moderate. Besides military production, there was a larger output of cutlery, tools, and cooking utensils, while in other subbranches output was reduced.

Production of transport equipment expanded considerably after the war, because of both the larger volume of orders placed by the Ministry of Defense and the greater use of vehicles by the civilian economy. In the three leading subbranches (automobile production, garages, and the aircraft industry) expansion was rapid. However, automobile production for the year as a whole was slightly smaller than in 1966, despite the rapid upswing in the second half of 1967.

In 1966 the mining and quarrying industry reported a slight gain, the result of a larger output of minerals for the export market, which was partly offset by a decline in quarry products. In 1967 the latter continued downward with the fall in construction activity, but there was also a decrease in minerals, except for phosphates. The smaller output of copper and potash was due to the interruption of production during the war period, while the output of the Heletz oilfield declined owing to the partial depletion of the wells.

The slight decrease in rubber and plastics, which had experienced very rapid growth in previous years, was due to the smaller output of rubber products, production of plastics remaining stable. The output of both subbranches turned upward in the second half of 1967.

The output of textiles and wearing apparel was lower, on an annual average, due to the steep fall in the second half of 1966. Production of clothing started to rise at the beginning of 1967, while that of textiles increased mainly in the second half of the year, after having remained stable in the first half. The most striking output growth was in knitwear, exports of which were considerably stepped up in 1967.

(b) *Output prices*

The domestic market prices of industrial output averaged 1.9 percent higher than in 1966. Comparison of the average rates of change in the various branches shows a considerable scatter around the general average. Actually, however,

Table XII-5

CHANGES IN INDUSTRIAL OUTPUT PRICES IN THE DOMESTIC MARKET, 1964–67

(percentages)

Branch	Weight in total output	Average rate of increase 1960–63	Increase or decrease (–) as against preceding year				December 1967 as against December 1966
			1964	1965	1966	1967	
Mining and quarrying	1.9	4.1	2.7	6.9	1.2	–0.8	0.1
Meat, fish, oil, and milk products	8.2	3.9	2.7	13.5	5.2	3.4	1.9
Other foodstuffs	15.4	6.3	0.8	1.2	3.3	1.5	1.9
Textiles	11.5	3.3	1.2	1.4	5.6	4.9	–1.3
Clothing	3.5	3.9	–1.9	1.1	7.7	1.3	0.2
Wood and carpentry	6.9	7.9	2.3	3.3	1.9	–0.1	–1.3
Paper, printing, publishing	5.7	8.0	1.7	0.8	0.7	7.0	0.9
Leather and leather products	2.1	5.6	1.8	6.5	15.9	–0.3	0.5
Rubber and plastics	2.9	2.9	–1.9	–1.2	0.7	1.1	0.7
Chemical products	5.2	3.9	–0.2	2.3	6.8	3.7	1.8
Petroleum refining	4.0	11.4	0.5	0.5	1.8	1.1	4.5
Nonmetallic minerals	5.6	6.9	1.0	3.6	4.7	0.8	–0.7
Basic metals	3.3	8.2	1.3	2.8	6.0	3.0	1.3
Metal products	7.4	6.9	1.3	6.1	3.7	1.1	0.8
Machinery and electrical equipment	4.0	4.6	2.1	4.8	3.7	0.6	1.9
Household equipment and misc.	4.8	4.8	0.1	1.9	2.7	–0.9	–3.1
Transport equipment	7.6	5.6	1.4	10.2	7.5	–0.4	–0.1
Total	100.0	5.7	0.9	4.0	4.4	1.9	0.6

SOURCE: Price indexes of the Central Bureau of Statistics, weighted by the weights of gross output as calculated by the Bank of Israel.

the price rise was due mainly to increases that took place in 1966. During 1967 most prices remained virtually unchanged.

In branches where prices were higher at the end of 1967 than at the beginning of the year, most of the advance occurred in December, a result of the devaluation the month before. This applies to petroleum refining, chemicals, and machinery and electrical equipment. Most of the price rise in processed foodstuffs was accounted for by dairy produce, following the abolition of subsidies in January 1967, and by vegetable fats and oils. The decrease in household equipment and miscellaneous products was caused by the cutting of the purchase tax on household appliances in September 1967.

3. Exports

The f.o.b. value of industrial exports, including diamonds, reached $ 385 million in 1967, as against $ 373 million the year before. This increase of 3.1 percent was far smaller than that of 1966 (18.9 percent) and even the relatively low growth rates of 1964 and 1965 (see Table XII–6).

Most of the deceleration was caused by diamonds, exports of which contracted by 4 percent in 1967 after having expanded by 25 percent in 1966. The decline was due to the stagnation of the international diamond market, following two years of boom. Since Israel supplies a considerable share of the world demand for melées,[1] the slackening of demand was directly responsible for the drop in her diamond exports. The stagnation of the market was accompanied by a fall in prices, but toward the end of 1967 they recovered some ground. Despite the decline in diamond prices in the course of 1967, the average level was approximately 2 percent higher than in the previous year, owing to

Table XII–6

GROWTH OF INDUSTRIAL EXPORTS, AT CURRENT F.O.B. PRICES, 1960–67

(percentages)

	1960	1961	1962	1963	1964	1965	1966	1967
Industrial goods excl. diamonds	23.1	22.2	13.3	19.4	13.1	13.4	14.3	8.8
Diamonds	20.6	15.1	29.9	23.5	13.5	11.5	25.1	–4.1
Total	22.1	19.4	19.6	21.1	13.3	12.7	18.9	3.1

Source: Based on Central Bureau of Statistics data.

[1] Medium-sized diamonds in which Israel specializes.

the steep rise which took place during 1966. The rise in diamond prices between 1965 and 1966 totalled approximately 14 percent.

Industrial exports other than diamonds went up from \$ 208 million in 1966 to \$ 226 million in the year reviewed—i.e. by 8.8 percent, compared with 14.3 percent in 1966. In physical terms, the deceleration was much more moderate, since the prices of industrial exports other than diamonds edged down some 2 percent in 1967, whereas the year before they had risen by about the same rate.

In analyzing the development of exports in 1967, account must be taken of the special conditions prevailing in the economy during the year. Three developments enhanced the profitability of exports: the stabilization of production costs, the contraction of the domestic market, and the big increase in export incentives at a time when output prices in the domestic market remained virtually unchanged. The stabilization of production costs was due first and foremost to the cessation of the steep rise in wages characteristic of previous years. Owing to wage hikes granted in 1966, hourly wages averaged 5 percent higher in 1967; however, output per worker increased to about the same extent, so that wages per unit of output hardly changed, whereas in 1966 they had risen by 13 percent and in 1965 by over 10 percent. Other costs,

Table XII–7

INCREMENTAL EXPORT OF MAIN ITEMS OTHER THAN DIAMONDS, 1967

(at current f.o.b. prices)

	Value ($ '000)		Percentage distribution	
	Total export in 1967	Increase over 1966	Total export	Incremental export
Citrus products	25,106	5,166	11.1	28.2
Knitwear	10,318	4,706	4.6	25.7
Production and repair of aircraft	5,700	3,779	2.5	20.7
Textiles	7,424	2,082	3.3	11.4
Pharmaceuticals	5,316	1,827	2.3	10.0
Basic chemicals	8,893	1,715	3.9	9.4
Pesticides	3,271	1,540	1.4	8.4
Industrial machinery	2,727	1,251	1.2	6.8
Plywood	8,319	1,080	3.7	5.9
Total	77,074	23,146	34.0	126.5[a]
Total industrial exports excl. diamonds	226,280	18,295	100.0	100.0

[a] The incremental export of the items listed here is greater than that of all industrial products other than diamonds, as there are some whose export declined.
SOURCE: Based on Central Bureau of Statistics data.

including local inputs and financing, either did not rise or fell during 1967, whereas in earlier years they had mounted rapidly. The contraction of the domestic market, which might have released resources for export production, continued in many branches of the economy until the middle of 1967. In those branches where the decline in output was checked at the beginning of the year reviewed, the figure tapered off at the low end-1966 level. The doubling of export incentives in November 1966, plus the granting of an additional premium to growth industries in March 1967, brought up the return on gross value added by 8 to 15 percent. Since the incentive is given to the direct exporter, these increments represent a lower limit, for the smaller the share of value added contributed by the exporter relative to the total value added of the product, the larger the percentage increase in his premium.

In contrast to the aforementioned factors, there were others working to reduce exports. One was the Six Day War, and another was the slower growth of world trade. The war affected exports in two ways: First, it disrupted production and transportation during the war period and immediately afterward, with the consequence that overseas sales of certain goods, such as copper-cement and plastic raw materials, fell off. Nevertheless, it is noteworthy that the effect of these disruptions on most export items was negligible. Even during the period of prewar tension, efforts were made to fulfil overseas orders, and those not delivered on time were generally completed after the war. This applies also to exports of military goods, which were suspended during the war period but executed afterward. Another direct repercussion of the war on exports was the shrinkage of trade with Eastern Europe, in the order of 3 to 4 percent of Israel's total industrial exports other than diamonds. The industries most affected by this were mining and quarrying, textiles, pipes, and tires.

As to the second factor hampering exports, the slower growth of international trade in 1967,[1] while Israel's industrial exports (other than diamonds) constitute only a tiny fraction of the total volume of trade and hence are relatively little affected by changes therein, nevertheless the more sluggish expansion of world commerce presumably made it more difficult for producers to penetrate new markets. It is impossible, of course, to quantify this effect.

The contractionary effect of the war on exports is estimated at approximately 5 percent of the total volume of industrial exports other than diamonds. Even if this factor is discounted, such exports expanded in 1967 at only the same rate as in the preceding year. This conclusion is not changed much by a branch analysis of the incremental export. To be sure, such an analysis shows that whereas in the two preceding years most of the export growth was accounted for by industries producing mainly for the export market and hence are not greatly dependent on the domestic market, in 1967 a considerable proportion of the export increment came from industries marketing a high percentage of

[1] See Table III–7 on p. 70.

Table XII–8

INDUSTRIAL EXPORTS, 1967

(at current f.o.b. prices)

	1967 ($ '000)	Percent increase or decrease (–) as against preceding year		
		1965	1966	1967
Transport equipment	7,838[a]	–26.6	47.9	75.3
Household equipment and misc.	7,745	–0.9	11.7	47.0
Machinery and electrical equipment	4,358[b]	78.5	32.5	46.3
Chemical products	19,600	26.7	2.0	35.9
Leather and leather products	1,515	1.0	46.4	32.7
Citrus products	25,106	5.8	3.1	25.9
Rubber and plastics	3,183	2.1	28.0	22.0
Paper, printing, publishing	5,552	–7.7	–0.7	19.7
Textiles (excluding clothing)	40,642	0.1	14.7	16.9
Plywood	8,319	13.2	–10.1	14.9
Petroleum refining	16,567	6.5	55.3	4.7
Clothing	11,100	8.9	5.6	2.9
Building carpentry and furniture	234	361.1[c]	175.9[c]	2.2
Mining and quarrying	29,372	31.3	21.5	–1.6
Tires	9,409	4.9	9.1	–2.2
Nonmetallic minerals	4,939	34.7	–0.3	–7.1
Metal products	13,371	30.2	16.9	–14.9
Basic metals	6,206	102.7	13.4	–21.8
Foodstuffs excl. citrus products	11,224	10.3	18.0	–26.3
Industrial exports other than diamonds	226,280	13.4	14.3	8.8
Diamonds	158,293	11.5	25.1	–4.1
Total industrial exports	384,573	12.7	18.9	3.1

[a] Excluding the sale of old ships and aircraft, which totalled $ 18.8 million.
[b] Excluding the sale of $ 1 million worth of used construction machinery by Israeli contracting firms carrying out jobs abroad.
[c] These percentage changes lack significance, as the absolute amounts involved are very small.
SOURCE: Based on Central Bureau of Statistics data.

their output locally (see Table XII–7). However, examination of Tables XII–9 and XII–10 makes it clear that the increased weight of the latter group of industries was due less to an acceleration of their growth rates than to a decline in the export-oriented industries. Several industries experienced a much faster increase in 1967,[1] but the rise in the growth rate of industrial exports other than diamonds and special items from 12 percent in 1966 to 16 percent (see Table XII–9) can hardly be regarded as striking, owing to both the small-

[1] See Table III–22 on p. 77.

Table XII-9

GROWTH OF INDUSTRIAL EXPORTS, 1964–67

(at current prices)

	Total industrial exports	Industrial exports excl. diamonds	Industrial exports excl. diamonds and minerals	Industrial exports excl. diamonds and special items[a]
		$ million		
1964	278.5	160.1	141.6	96.9
1965	313.9	181.9	157.3	106.0
1966	373.1	208.0	178.2	118.3
1967	384.6	226.3	196.9	137.5
		Percent increase over preceding year		
1965	13	13	11	9
1966	19	14	13	12
1967	3	9	11	16

[a] Including minerals, citrus products, vegetable fats and oils, refined petroleum products, other metal products, production and repair of aircraft, and scrap. The export of these items is strongly affected by specific factors unrelated to general econonmic developments in the country.

SOURCE: Based on Central Bureau of Statistics data.

ness of the change in absolute terms and the lack of an objective criterion for selecting the "special items".

The numerous factors influencing exports in 1967, and the opposite directions in which they operated, make it difficult to measure the intensity of each one separately. Since the effects of the war can be quantified, and net thereof industrial exports other than diamonds expanded in 1967 at about the same rate as in the previous year, it can be concluded that the economic recession and the increasing of export incentives counterbalanced the decelerated growth of international trade. The analysis does not reveal whether the offsetting influences were strong or weak. Consequently, it is also difficult to draw conclusions as to the effectiveness of the Government's export encouragement policy. It should nevertheless be noted that, even if in the short run exports are relatively inelastic as regards incentives (this cannot be proved or disproved) owing to constraints on production, marketing, and the adaptation of products to the world market, in the long run the increasing of the incentives helps to expand the exports of concerns which require a long period of adjustment, while preventing a decline in concerns where the returns cover only the variable costs and which eventually will have to reduce exports unless the returns are enlarged.

(a) *Exports, by branch*

As in previous years, industrial export growth rates varied considerably. But in contrast to most earlier years, sales even fell off in some branches in 1967.

Transport equipment showed an exceptionally big growth, due entirely to the tripling of exports by the aircraft industry (including repair services for foreign aviation firms). Motor vehicle sales, which had advanced strongly in 1966, dipped approximately 20 percent in 1967.

There was a much larger export of household equipment and miscellaneous products, as well as of machinery and electrical equipment. The list of commodities contributing to the growth is quite long and includes *inter alia* agricultural machinery, machinery for the food and chemical industries, electric cables, telephone and other communication equipment, and electronic components.

Exports of chemicals accelerated greatly in 1967, after a very sluggish increase the year before. This faster rise renewed the trend of recent years. Most of the subbranches showed high growth rates, in particular pharmaceuticals, plastic raw materials, and other basic chemicals.

After two years of moderate rise, sales of citrus products again expanded appreciably in 1967, at about the same rate as in 1962–64. This was made possible by the larger quantities of citrus supplied the canneries following bumper yields. The much larger volume of citrus products shipped to Europe was absorbed almost without any decrease in price, as competition on the part of American producers diminished due to lower yields in that country. In 1967 the U.S. was in fact added to Israel's traditional European markets, with canned grapefruit slices being dispatched there.

Sales of rubber and plastic goods increased to about the same extent as in 1966. The leading growth item was again decorated laminated plastic sheets, which gained 45 percent to reach $ 1.6 million.

The paper, printing, and publishing industry recorded a 20 percent rise, following two years of decline. The biggest contributions to the increment were made by wood-free paper—which Israel began to manufacture only in 1967 and exports of which totalled $ 500,000 approximately—and books and newspapers, which increased by about $ 700,000. On the other hand, corrugated cardboard fell by a third to approximately $ 1.0 million.

Plywood sales moved upward in 1967, after having contracted the year before. The higher figure can be partly attributed to the reduction, at the end of 1966, of the customs duty levied on this commodity by the U.K., Israel's main market.

The textile industry showed a somewhat stronger advance compared with 1966. There was a pronounced shift from yarns to fabrics: the export of cotton and wool yarns declined, that of synthetic yarns held steady, while exports of materials made from these three yarns rose steeply. Knitwear sales also advanced noticeably, and approximately $ 1 million worth of stocking pantaloons

Table XII–10

INDUSTRIAL BRANCHES, BY WEIGHT OF EXPORTS IN TOTAL OUTPUT, 1965–67

(percentages)

Percentage of output exported	Branches	Weight in industrial exports ($, f.o.b.)			Increase or decrease (–) as against previous year	
		1965	1966	1967	1966	1967
Over 70	Diamonds, copper-cement, potash, phosphates, citrus products, leather garments and furs	56.8	58.7	56.5	22.6	–0.6
10–70	Textiles and clothing (except leather garments), plywood, tires, chemicals, petroleum refining, basic metals, and metal products					
Under 10	Food (except citrus products), wood and carpentry (except plywood), rubber and plastics (except tires), nonmetallic minerals, machinery and electrical equipment, household equipment and miscellaneous, transport equipment, and paper, printing, and publishing	31.7	30.2	31.4	13.0	7.2
		11.5	11.1	12.1	14.9	11.1
	Total	100.0	100.0	100.0	18.9	3.1

SOURCE: Based on Central Bureau of Statistics data.

were aded to the export list in 1967, following the opening of a mill for their manufacture.

Exports of wearing apparel showed only a moderate rise in 1967. The main items sold in larger quantities were leather garments, furs, and bathing suits. Sales of raincoats contracted.

Among the branches with smaller exports, the most striking decrease occurred in the food industry (exclusive of citrus products). The decline here was chiefly due to the smaller export of vegetable fats and oils and residues thereof, which amounted to \$ 2.3 million as compared with \$ 7.1 million in 1966. Instant coffee was also down by about a third, standing at only some \$ 750,000.

Exports of basic metals, which fluctuate appreciably from year to year, likewise contracted sharply in 1967, owing mainly to smaller shipments of copper scrap and irrigation pipes.

Metal products are also subject to annual fluctuations. The decline in "other metal products" was responsible for the smaller export of this branch in 1967. Part of the drop was offset by an increase of \$ 600,000 in tools (largely cutting implements) and of \$ 300,000 in heating equipment.

Sales of nonmetallic minerals continued downward in 1967, following a slight decline the year before. Most of the decrease was in asbestos products, which fell by about one-quarter to \$ 1.4 million. Cement exports continued upward for the third consecutive year, reaching approximately \$ 2.0 million, or \$ 300,000 more than in 1966.

Tires recorded a slight decline; this was actually due to the lower prices fetched, as the quantity exported was a little larger than in 1966.

Shipments of minerals and quarry products were also down slightly, in sharp contrast to the high growth rates achieved in previous years. The only item to actually fall off was copper-cement, which, at \$ 10.4 million, was about 15 percent less than in 1966 (the average price in the world market remained virtually unchanged in the year reviewed). The lower figure was partly due to the effect of the war on production. Exports of potash rose by 7 percent to reach \$ 13.6 million. The physical increase was far greater—about 19 percent—but prices dipped 11 percent, mainly because of competition by the rich Canadian mines. Exports of this item would have been higher still were it not for the severance of commercial ties with Eastern Europe, which prior to the war took a large percentage of Israel's output. Shipments of phosphates continued to increase, although at a somewhat slower pace than during the two preceding years, and totalled \$ 5 million.

4. Investment

Gross industrial investment was down 22 percent in 1967 in real terms. This was the third consecutive year in which the figure fell, following a slowdown in the growth rate in 1964 (see Table XII-11). The decline set in before the

Table XII–11

ANNUAL CHANGES IN REAL INDUSTRIAL INVESTMENT,[a] 1961–67

(percentages)

	1961	1962	1963	1964	1965	1966	1967
Total investment	21	8	14	10	–7	–33	–24
Total investment, excl. construction equipment[b]	..	..	18	13	–12	–26	–22
Investment in buildings	23	17	17	20	–15	–41	–18
Investment in total equipment	20	4	13	5	–2	–29	–27
Investment in nonconstruction equipment[b]	..	..	18	8	–10	–15	–23
Gross capital stock[c]	12	14	12	9	6	2	2

[a] Including investment in mines and quarries and in construction equipment.
[b] In the absence of reliable data, investment in construction equipment has been derived by estimation.
[c] Increase between the beginning and the end of the year.
SOURCE: Central Bureau of Statistics and Bank of Israel.

recession but was intensified by it, because of the accumulation of unutilized production capacity and expectations that the slump would continue.

The annual rates of change in total industrial investment show that the most acute decline occurred in 1966 and that in 1967 the contraction was more moderate. On the other hand, the data on equipment outlay (excluding construction equipment) show a steeper drop in 1967. The changes in the latter item are apparently more indicative of the behavior of industrialists than the changes in total industrial investment, and this because total investment includes, in addition to equipment, buildings and construction equipment. Both these items declined appreciably in 1966, reflecting in the main influences exogenous to industry. The smaller investment in buildings was due primarily to the slower pace of erecting industrial centers,[1] which are generally initiated by the Government and local authorities and not by industrialists. Moreover, some of the premises remained vacant and did not serve industry at all. As to construction equipment, this item really does not belong to the industrial sector, and is included only because of the statistical difficulty of segregating it from industrial equipment. The steeper decline of investment in 1967 is also borne out by data on total investment obtained from a survey of industrial

[1] The area of industrial premises built for sale or rental purposes, according to data compiled by the Bank of Israel, was as follows (in thousands of m²): 1963—50.5; 1964–95.2; 1965—90.2; 1966—33.2. No data were compiled for 1967. The area of construction unquestionably was further curtailed, but even if it fell to zero, the absolute decrease between 1966 and 1967 was smaller than that between 1965 and 1966.

enterprises.[1] There is a striking contrast between the moderate decrease in investment in buildings from 1965 to 1966 as indicated by the survey data and the sharp fall in this item as shown by Table XII–11. This reflects the aforementioned fact that the smaller investment in buildings in 1966 was mainly due to the decline in the area of industrial premises erected other than by industrialists.

No detailed data are available on changes in industrial investments in 1967. They are known to have declined during the war period, and to have risen subsequently, but it is not clear whether the growth in the second half of the year merely compensated for the drop during the war period or whether it signified a change of trend. Indirect indicators, such as the increase in the number of investment projects approved by the Investment Center, suggest that there was a renewal of the upward trend in investments. However, it should be stressed that the connection between the approval of an investment project and its execution is very tenuous, and a rise in the number of approved

Table XII–12

DISTRIBUTION OF FIXED INDUSTRIAL INVESTMENT,[a] 1964–67

(percentages)

Branch	1964	1965	1966	1967
Mining and quarrying	22	15	13	14
Food and tobacco products	15	18	15	14
Textiles, clothing, leather	12	14	15	14
Paper and printing	3	6	9	6
Wood and carpentry	3	4	5	3
Nonmetallic minerals	10	7	9	6
Chemicals and petroleum refining	13	9	6	5
Rubber and plastics	4	4	4	5
Metal	8	11	12	10
Machinery, electrical equip., misc.	6	5	6	12
Transport equipment	4	7	6	11
Total	100	100	100	100

[a] The data are based on the census of industry and crafts and industrial investment surveys of the Central Bureau of Statistics. Total industrial investment according to these sources differs from that according to the national accounts (this is explained in the appendix to this chapter—in Hebrew only).

It should be remembered that total investment declined between 1964 and 1967, so that a rise in the weight of a given branch does not necessarily indicate a rise in the absolute level of investment therein.

[1] The above discussion and Table XII–11 are based on national accounting data, which differ from industrial investment survey data (as explained in the appendix—in Hebrew only).

projects is no guarantee that investments will actually be expanded to a similar extent within the near future.

In this context it should be noted that investment terms were made more attractive in 1967 through the amended Law for the Encouragement of Capital Investments. The steeper decline of industrial investments in the year reviewed does not necessarily prove that the law is ineffective. It should be borne in mind that a fairly long period may elapse between the decision to invest and implementation of the investment. Consequently, the influence of the law should probably be examined by reference to the number of projects approved—which, as already mentioned, increased in 1967—rather than to the volume of investments implemented during the year in question.

The real gross capital stock increased by only 1.7 percent in 1967. This was the fifth straight year in which the growth rate slowed down. Despite this, an unutilized stock of fixed industrial assets accumulated in 1965–67 owing to the contraction of output during this period. The existence of this unutilized capital stock was one of the factors permitting the rapid expansion of production in the second half of 1967. However, a further strong rise in the demand for industrial products may have to contend with a shortage of capital. This is suggested by data on changes in output per unit of capital in recent years (see Table XII–1): between 1959 and 1965 output per unit of capital rose by an average of 2 percent per annum, while in 1966 and 1967 the figure fell; in the course of 1967, however, it rose more rapidly than it had declined during the recession years.

The branch distribution of industrial investment is set forth in Table XII–12. The outstanding development in 1967 was the rise in the weights of the "machinery, electrical equipment, and miscellaneous" group and of transport equipment. In the former group the increase was due to larger investment in plants producing electronic and telecommunication equipment. The growth in transport equipment was connected *inter alia* with the bigger sum invested in the aircraft industry.