CHAPTER XII

INDUSTRY

1. Main Developments

Gross industrial output expanded in 1968 by 29 percent at constant prices, continuing the rapid upward trend that began in the second half of the previous year. The increase was due to the stronger demand for industrial goods, and it was made possible by the availability of idle factors of production. The rapid growth marking the second half of 1967 carried over until the middle of the year reviewed, but the pace slackened in the second half (the half-yearly growth rates were 17 and 6 percent respectively). This deceleration, however, did not seem to signal a change of trend, but was a natural outcome of the emergence of the sector from the slump that had hit it. In the initial stage of recovery, special nonrecurring factors operated on the demand side, but their effect subsequently diminished. In the second half of 1968 output growth slowed down to its prerecession level (13–15 percent per annum). This can be ascribed primarily to the slower increase in domestic demand, and also to the difficulties encountered in the latter part of the year as a result of the mounting shortage of skilled manpower and the reduction of surplus production capacity.

Analysis of the incremental output by final uses shows a structural change in the year reviewed. Domestic uses—which were responsible for the fall in output in 1967 — expanded in the year reviewed and accounted for about 60 percent of the additional output. The main source of the larger domestic demand was the higher level of investment, whereas consumption (private and public) declined in relative importance. Exports accounted for some 40 percent of the output increment, bringing up its share in total output from 26 percent in 1967 to 30 percent.

Measured industrial productivity was up 16 percent, and it can be credited for more than half the total output growth—a higher proportion than in 1960–65. As in previous years, the increase in productivity apparently stemmed more from a rise in the factor utilization rate than from technological advances or a qualitative improvement in the factors of production.

The average number of man-days worked in industry was about 19 percent higher than in the previous year. In 1966 and 1967 the figure had declined, and even in 1960–65 the annual growth rates were smaller than in 1968. In the course of the year reviewed, the increase of the labor input slowed down, in line with the more sluggish expansion of output.

The capital stock grew by 8 percent during 1968, as contrasted with a mere 1.7 percent in the previous year and about 6 percent in 1966. The more rapid expansion in 1968 contrasts with the declining growth trend noticeable from 1963 onward.

The marked increase in industrial production was not accompanied by a rise in prices or production costs, apart from a few branches, mainly those manufacturing construction inputs (prices here went up for reasons other than the devaluation of November 1967).

Table XII–1

CHANGES IN OUTPUT AND FACTOR INPUTS, 1964–68

	Percent increase or decrease (–) as against preceding year					
	1964	1965	1966	1967	1968	December 1968
Real output	15.0	9.9	1.4	–3.1	28.6	21.3[a]
Number of employees	5.2	1.5	–1.9	–5.4	14.9	14.9[a]
Number of production workers	5.3	0.6	–2.4	–5.5	15.3	15.7[a]
Number of man-days by production workers	7.1	0.6	–2.9	–8.3	18.6	12.5[a]
Real investment	8.2	–8.2	–25.3	–22.4	87.6	—
Real gross capital stock[b]	11.8	9.4	6.2	2.4	1.7	7.8
Output per man-day	7.4	9.3	2.9	4.4	8.2	7.1[a]
Output per unit of capital	2.9	0.5	–5.9	–6.5	26.5	12.5
Change in factor productivity[c]	5.7	6.0	0.6	1.1	15.0	10.6
Daily wages per worker	10.2	14.2	16.1	5.4	3.1	4.9[d]
Exports ($, f.o.b.)	13.3	12.2	18.9	3.1	24.8	11.2
Domestic market prices	1.0	3.9	4.8	1.2	2.3	2.9
Daily wage/output per man-day	3.2	4.5	11.2	–0.3	–4.7	2.0[d]

[a] Seasonally adjusted.
[b] At the beginning of the year, for the purpose of calculating productivity.
[c] The measurement for 1967 and 1968 is heavily biased, as explained in the text.
[d] Last quarter of 1968 compared with the last quarter of 1967.

Wages per unit of output averaged 5 percent lower than in 1967, despite a 3 percent rise in wage rates during the year.[1] The structural change in the labor force, especially the absorption of unemployed workers and of workers from the administered areas, exerted a downward effect on average earnings. The drop in unit labor costs was primarily due to the existence of unemployment, which kept wages from rising more than they actually did, and to the rapid expansion of production. Daily wages per unit of output have moved downward since the first quarter of 1967, after rising steadily throughout 1966 (see Diagram XII–1).

[1] According to the industrial indexes of the Central Bureau of Statistics, wage rates went up to a much smaller extent than in the years 1961–66.

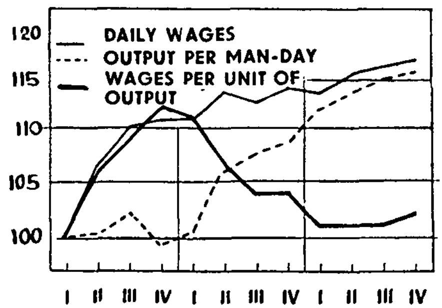
The decline in unit labor costs suggests a higher return to other factors of production.[1] Further, the share of wages in output per man-day did not vary significantly after the first quarter of 1968, and there was even a small rise in the last quarter.

Exports advanced approximately 25 percent to stand at $ 480 million, following a gain of only 3 percent in 1967. This impressive attainment can be ascribed to the existence of idle production capacity, the larger real return on exports after the devaluation, and the reduction of unit production costs on the one hand, and to the recovery of world trade and the elimination of certain specific factors impeding export after the Six Day War on the other.

Diagram XII-1

INDEX OF OUTPUT PER MAN-DAY, UNIT LABOR COSTS, AND DAILY WAGES, 1966–68

(First quarter 1966=100; original data)



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

Most of the additional export was accounted for by diamonds (38 percent), "other metal products", and branches producing special items, which are not affected in the short run by general economic developments in the country (see Table XII–8 and note to Table XII–9). Textiles and clothing (stockings, cotton yarn, knitwear, etc.) contributed 14 percent to the growth. Gross value added increased from $ 174 million in 1967 to $ 222 million, i.e. by $ 47 million or 27.5 percent.[2]

As in 1967, the group of items produced primarily for the home market posted an outstanding gain (22 percent); this is attributable to the weaking of domestic demand during the period of economic slowdown. The fact that their share in incremental export is small relative to the number of items involved is explained by the small volume of these exports. In the second half of 1968 the uptrend in industrial exports began to taper off, owing in part to seasonal factors and in part to a decline of 14 percent in sales by such branches as "other metal products", fuel and petroleum, and aircraft assembly and repair. But even in branches oriented mainly toward the domestic market, the growth rate began to slow down as the economy approached a state of full employment.

Real gross industrial investment was 88 percent above the 1967 level, and totalled IL 466 million (at 1968 prices). The bulk of the capital outlay (about

[1] The decline in unit labor costs suggests a rise in nonwage incomes, and it may serve as an indicator of the change in industrial profitability, especially as there was no conspicuous increase in 1968 in current nonwage outlays.

[2] Both here and in Table XII–7 estimated value added is cited gross—i.e. the value of exports, less current inputs but not primary inputs (depreciation and interest).

75 percent) was on plant and transport equipment, a development explained by the renewal of plant, the implementation of investments deferred during the recession, and changes in the system of production on the one hand, and by the small investment in buildings due to the relative excess supply from the years 1962–64 on the other.

A large percentage of the industrial investment in 1968 was in big projects in such branches as textiles, metal goods, chemicals, and rubber and plastic products—these accounted for about half of the sector's total capital expenditure in the year reviewed.

2. Output

The value of real gross industrial output (at producer prices) went up by an average of 29 percent during the year reviewed and amounted to nearly IL 8,400 million, at 1967 prices. The real gross product expanded at a similar rate (30 percent).[1]

In the course of the year industrial production rose to about the same extent as in 1967 (21 percent). The much higher output figure in 1968 is ascribable to the steady growth of demand, which was met by the employment of idle factors of production and by a more efficient factor utilization.

The expansion of industrial production and the growth factors on both the supply and demand sides cannot be isolated from developments in the previous year.

It will be recalled that demand for industrial products began to pick up in the second half of 1967. At first the influence of the war and its immediate consequences where the dominant cause, while the expansionary policy of the Government and the prewar increase in liquidity played a secondary role. The growth of Government demand sparked a general revival throughout the economy, but its impact was not fully felt in 1967.[2]

In 1968 there was a change in the factors affecting industrial growth. The outstanding development was a decline in the weight of public sector demand for consumer goods. Public sector consumption demand (mainly purchases by the defense establishment) contributed less than 10 percent to the total increase in industrial output. This was due to the more sluggish growth of defense spending, the tapering-off of civilian purchases of industrial goods, and an accelerated increase in other demand components.

[1] The increase in output and value added were obtained by weighting the production indexes by the weighted value of output and of value added of the subbranches according to preliminary returns from the 1967 census of industry and crafts, after adjusting the value of industrial output, as described in note 2 of the appendix.

[2] It should also be stressed that the countercyclical policy of the Government contributed to the stabilization of production at the beginning of 1967 after a decline in 1966 (see Bank of Israel, *Annual Report 1967*, p. 311).

Table XII-2

GROSS INDUSTRIAL OUTPUT, BY BRANCH, 1966–68

(IL million)

Branch	Value of output in 1968 at factor cost (at 1967 prices)	Percent annual real increase or decrease (–)			Share in total output in 1968 (%)	Share in incremental output in 1968 (%)
		1966	1967	1968		
Mining and quarrying	202,350	5.4	–5.4	18.8	2.4	1.7
Food	1,808,580	6.4	5.5	14.5	21.5	11.9
Textiles	820,513	5.2	–6.0	29.1	9.8	9.9
Clothing	263,445	3.0	–1.5	30.2	3.1	3.2
Wood and carpentry	488,523	2.3	–6.9	41.1	5.8	7.7
Paper and paper products	178,270	6.0	10.6	19.8	2.1	1.5
Printing and publishing	218,451	10.0	17.8	12.3	2.6	1.4
Leather and leather products	137,610	–3.7	–11.5	22.8	1.6	1.4
Rubber and plastics	305,128	3.7	–0.6	44.5	3.6	5.0
Chemical and refined petroleum products	820,030	10.0	4.9	27.2	9.8	9.5
Nonmetallic minerals	407,969	–6.8	–25.4	25.7	4.9	4.6
Diamonds	578,666	11.3	–6.2	21.7	6.9	5.7
Basic metals	219,802	–7.3	–16.5	45.5	2.6	3.7
Metal products	501,417	–4.1	–14.8	38.0	6.0	7.4
Machinery	342,986	–9.3	–11.6	43.9	4.1	5.7
Electrical equipment	398,309	–4.9	–15.5	70.2	4.8	8.8
Transport equipment	606,892	–10.9	–1.0	41.1	7.2	9.5
Miscellaneous	102,499	–7.9	11.2	33.5	1.2	1.4
Total	**8,401,440**	**1.4**	**–3.1**	**28.6**	**100.0**	**100.0**

SOURCE: Based on Central Bureau of Statistics data.

Concurrently with the decline in the relative importance of public sector demand, there was a significant increase in the contribution of investment demand to the growth of industrial output: domestic capital formation soared 44 percent, accounting for nearly 15 percent of the incremental industrial output. In the previous year the decline in capital formation was responsible for the sharp decline in industrial output (see Table XII–3).

Private consumption was up 12 percent in 1968, and accounted for more than 30 percent of the output growth. In 1967 the fall in output attributable to private consumption corresponded to the overall drop in output, so that there was no change in its share in output. The recovery in 1968 also led to a rebound in private demand for consumer goods, especially durables. Production of consumer durables shot up 46 percent in 1968, compared with an 18 percent rise in goods for current consumption. The contribution of private consumption to the output increment was therefore the resultant of a relative decline in the share of current consumption—which had been less affected by the recession—and an increase in the share of consumer durables.

Table XII-3

FACTORS AFFECTING THE GROWTH OF INDUSTRIAL PRODUCTION, 1965–68

(percentages)

	1965 as against 1960		1966 as against 1965		1967 as against 1966		1968 as against 1967	
	Average annual increase	Share in incre-ment	Rate of in-crease	Share in incre-ment	Rate of in-crease	Share in incre-ment	Rate of in-crease	Share in incre-ment
				A. Supply factors				
Value of industrial output	16.2	100	1.4	100	-3.1	-100	28.6	100
Increase in inputs		63		57		-137		48
Number of man-days by production workers	*9.2*	*36*	*-2.9*	*-121*	*-8.3*	*-167*	*18.6*	*45*
Capital stock	*10.3*	*27*	*6.2*	*178*	*2.4*	*30*	*1.7*	*3*
Measured productivity[a]	6.0	37	0.6	43	1.1	37	15.0	52
			B. Indicators of contribution to incremental demand[b]					
Private consumption			0.8	29	-3.1	-50	19.6	34
Public consumption			24.4	92	43.1	90	27.2	9
Investment			-13.1	-196	-26.4	-152	31.4	16
Total domestic uses			-1.4	-75	-4.7	-112	22.6	59
Exports			10.7	175	1.5	12	33.9[c]	41[c]
Total uses			**1.4**	**100**	**-3.1**	**-100**	**28.6**	**100**

[a] Calculated according to the method presented by A. L. Gaathon in *Capital Stock, Employment and Output in Israel, 1950–1959,* Bank of Israel, Jerusalem, 1961.
[b] Increase in output stemming from changes in final demands.
[c] Including sales to the administered areas.
SOURCE: Part A—see source to Table XII-1 in the appendix.
B—Bank of Israel input-output calculations (provisional data).

Domestic uses accounted for some 60 percent of incremental industrial output in 1968; this contrasts markedly with the situation in 1967, when they were largely responsible for the drop in output. These structural changes in uses can be ascribed to the emergence of the economy from the slump. Initially public sector demand was the decisive factor, but it diminished in relative importance in the course of 1968, as private demand responded to the acceleration of economic activity.

Production for export, both direct and indirect, was 34 percent higher in 1968. The share of exports in incremental output moved up from 12 percent in 1967 to 40 percent in the year reviewed. The growth of overseas sales has been one of the main factors in the recovery of industrial production since June 1967, and it was of particular importance in the first half of 1968. The share of output going to foreign markets declined in the second half of the year, following the drop in exports of special items and the slower growth of exports by industries mainly supplying the home market. The latter development almost certainly reflects the competition between the domestic and overseas markets for these goods, which gradually reasserted itself in the latter part of the year.

Trade with the administered areas had a greater impact on industry in 1968 than in the previous year, but it was still of minor proportions (except perhaps for a few branches). In the immediate postwar period trade with these areas was severely restricted, and with the lifting of the barriers toward the end of 1967 industrial sales were confined chiefly to foodstuffs. Only at a later stage, when the economy of the areas began to stabilize and prewar stocks were depleted, did they begin to buy other industrial products. The bulk of the purchases consisted of foodstuffs, textiles and wearing apparel, household goods, plastic products, and building materials.

As a result of the general expansion of demand in the year reviewed, the distribution of output by final demand underwent a change, as may be seen from the following table.

DISTRIBUTION OF INDUSTRIAL OUTPUT, BY FINAL DEMAND, 1965–68

(percentages)

	1965	1966	1967	1968
Private consumption	51	50	50	47
Public consumption	5	7	10	9
Investment	21	18	14	14
Total domestic demand	**77**	**75**	**74**	**70**
Exports	23	25	26	30[a]
Grand total	**100**	**100**	**100**	**100**

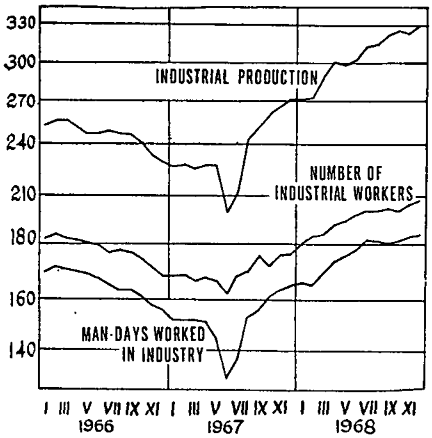
[a] 2 percent went to the administered areas.
SOURCE: Provisional input-output estimates of the Bank of Israel.

The outstanding change revealed by the table is the decline in the weight of domestic uses and the corresponding rise in that of exports. The latter development can be credited to the releasing of resources for export production and the higher return earned per export dollar during the recession, as well as to the policy followed for many years of encouraging investment in export indus-

Diagram XII-2

INDUSTRIAL INDEXES, 1966–68

(Trend: 1958=100)



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

tries. Another significant change is the rise since 1965 in the share of public consumption, mainly because of the heavier defense requirements. The smaller weight of private consumption in 1968 is ascribable to the stronger rises in other domestic uses, which had been affected more by the recession. The stable investment figure in 1968 is explained investment figure in 1968 is exing 1967 and the increase during 1968, as a result of which the average annual weight remained unchanged.

The number of units of combined primary inputs[1] rose 12 percent in 1968, and contributed 46 percent to the output increment. The increase was the outcome of a growth of 19 percent in the number of man-days by production workers and of 1.7 percent in the stock of capital assets. These rates explain only part of the increase in labor and capital services, since there was also a greater utilization of the available supply of these inputs as compared with the two preceding years. The underutilization of resources in 1966–67 applied particularly to the capital stock, finding expression in a drop in output per unit of capital by 6 percent per annum in 1966 and 1967. The underutilization of labor, by contrast, was reflected only by a slower growth of output per man-day (see Table XII–1). The disparity between these two inputs is explained by differences in their adjustability to a cutback in production: in the short run it is easier to adjust employment[2] than the capital stock.

Output per combined factor unit increased by 15 percent in 1968, a significantly higher rate than in the years 1960–65 (see Table XII–3). This was due not only to a rise in factor productivity in the conventional sense of a qualitative improvement, but also to the fuller utilization of the factors at the disposal of the economy. In former years there had also been surplus production

[1] A unit of combined inputs is defined as the weighted sum of the increase in the capital stock and that in the actual number of man-days. They are weighted by the estimated shares of capital and labor in income deriving from industry. The weights assigned were 40 for capital and 60 for labor.

[2] Owing to the relatively short period of the recession, the labor input could not be expected to adjust completely to the lower level of production. In plants with a skilled labor force, the dismissal of such workers is generally deferred to a later stage, which apparently was not reached during the slump of 1966–67.

capacity in industry, but the recession and recovery have imparted a marked upward bias to the productivity estimate.[1]

In the course of 1968 output per combined factor unit went up about 11 percent, this too a higher rate than that recorded in the prerecession period (see Table XII–1 in the appendix). The deceleration of the growth rate during the year was almost certainly due to the gradual depletion of the reserve of idle factors of production.

(a) *Growth of industrial production during 1968*

Industrial production expanded during 1968 at an average monthly rate of 1.6 percent, or by 21 percent for the year as a whole. Growth did not proceed at a uniform pace (see Diagram XII–1). In the early months production held steady at the level reached at the end of the previous year. Toward the end of the first quarter the figure began to rise, and the monthly rate of increase for the first half of the year came to 2.6 percent. In the second half it slowed down to an average of 1.2 percent.[2]

The relatively rapid growth in the first half of the year can be attributed primarily to the stronger demand (mainly on the part of the private sector) for consumption and investment, as well as to the expansion of exports after the recession. Another contributory factor was the heavier public sector demand (civilian and military) as a result of the inflationary policy pursued by the Government. At any rate, the upswing in private demand and exports spurred the expansion of industrial production, which advanced at a relatively high rate throughout the year.[3]

The moderation of the growth rate toward the end of 1968 was unquestionably due to the waning influence of the special factors operating in the first half of the year, as well as to the depletion of the reserve of idle factors of production as the economy approached a state of full employment. The slowdown in the second half of the year was apparent both in the general level of industrial production and in most of the branches. Exceptions were electrical equipment (apart from

[1] Although the fuller utilization of the factors of production in itself indicates a more efficient use of resources, this is not included in the calculation of factor productivity. See A. L. Gaathon, *Capital Stock, Employment and Output in Israel, 1950–1959*, p. 17.

[2] The slope of the regression curve for industrial production was 2.8 in the first half of the year, as against 1.3 in the second.

[3] The resumption of the rapid growth of industrial production at the beginning of 1968 was apparently due to two developments which operated in the same direction in the previous year. First was the upturn in industrial production after the Six Day War; the second was the Government's antideflationary policy introduced in the latter part of 1966, which almost certainly would have brought about a revival of demand for industrial goods even had there been no war, although perhaps some time after July 1967 and at a less vigorous pace.

household appliances such as radios, phonographs, television sets, and photographic equipment), transport equipment, paper and paper products, printing and publishing, and textiles. Concurrently with the slackening in the growth of production ascribable to the moderation of private consumption, there was a subsiding of public sector demand for industrial goods and a slower expansion of industrial exports.

The more sluggish increase in industrial production in the second half of the year does not signal a reversal of the upward trend, but should be regarded as a return to the growth rate marking the prerecession years.

(b) *Composition of industrial output*

All branches contributed to the expansion of industrial output. Not only did the overall level exceed the previous record high of early 1966, but so too did the level of each industrial branch. The majority of them achieved this by the end of 1967; in the remainder (clothing, leather and leather products, nonmetallic minerals, diamonds, basic metals, and machinery) the new peak was reached in the first half of 1968.

The most noticeable structural change in industrial output compared with the prerecession period was the relatively smaller weight of building materials and investment goods (despite a rapid upturn in their production in 1968). By contrast, the weight of current consumption goods and durables was higher.

Outstanding production gains were posted in the course of 1968 by industries supplying consumer goods, particularly durables such as radio and television sets (a fourteen-fold increase), heaters (45 percent), optical instruments and photographic equipment (60 percent), vehicle repair (28 percent), and works of art (32 percent).

The factors responsible for the vigorous expansion of consumer durables were the introduction of a local television service, devaluation fears, and the reduction of prices in the wake of tax cuts—all at the start of the year. Another factor that was especially significant in this group of items was the buildup of stocks after the slump. The increases in building completions, purchases of new dwellings, and the renovation and repair of old homes also help to explain the accelerated growth of industrial production.[1]

Industries manufacturing mainly goods for current consumption proved less vulnerable to the recession, and in general expanded more slowly in 1968. Outstanding gains here were made by the garment industry (up 30 percent) and a number of minor industries, such as writing utensils, pharmaceuticals, and chemical products.

[1] See the discussion in Chapter IV, "Consumption", and Chapter XIII, "Construction and Housing".

Table XII–4

RATE OF REAL CHANGE IN INDUSTRIAL OUTPUT, BY BRANCH, HALF-YEARLY, 1965–68

(percentages)

Branch	Change in half-yearly levels								Average monthly rate of change	
	Jan. 1965– July 1965	July 1965– Jan. 1966	Jan. 1966– July 1966	July 1966– Jan. 1967	Jan. 1967[a]– July 1967	July 1967– Jan. 1968	Jan. 1968– July 1968	July 1968– Jan. 1969[b]	Jan. 1968– July 1968	July 1968– Dec. 1968
Mining and quarrying	6	20	–16	12	–11	8	17	–9	2.6	–0.6
Food	13	–6	10	–3	9	–6	21	–8	3.2	–0.2
Textiles	5	9	–4	–19	13	15	11	17	1.8	2.0
Clothing	9	8	17	–18	8	4	17	—	2.6	1.0
Wood and carpentry	13	0	0	–12	–4	22	42	—	6.0	–1.0
Paper and paper products	0	5	6	–8	8	17	1	12	0.2	1.7
Printing and publishing	3	1	10	0	4	12	5	11	0.8	3.7
Leather and leather products	–11	17	–19	–18	15	18	8	2	1.3	0.4
Rubber and plastics	4	7	3	–14	10	28	17	4	2.6	–1.0
Chemical and refined petroleum products	11	5	2	–12	21	14	8	6	1.3	1.7
Nonmetallic minerals	4	2	–6	–19	–31	46	11	2	1.8	1.4
Diamonds	1	18	14	–3	4	–7	46	13	6.5	–8.0
Basic metals	13	5	–21	–2	–18	37	36	2	5.2	–1.2
Metal products	2	4	–6	–14	–11	29	21	4	3.2	0.4
Machinery	8	–3	–20	–3	–10	39	2	4	0.3	6.8
Electrical equipment	10	–1	6	–22	–11	29	41	51	5.9	7.4
Transport equipment	. .	. .	–17	–15	14	29	17	23	2.6	4.1
Miscellaneous	. .	. .	–14	5	3	28	14	3	2.2	3.2
Total	**7**	**4**	**–2**	**–10**	**2**	**16**	**17**	**6**	**2.6**	**1.2**

[a] Average for May–July, 1967.
[b] Provisional data.
SOURCE: Central Bureau of Statistics indexes of industrial production (seasonally adjusted).

Table XII-5

REAL CHANGE IN INDUSTRIAL OUTPUT, BY BRANCH, 1967–68

(percentages)

Branch	1968 as against 1967		Dec. 1967 as against Dec. 1966		Dec. 1968 as against Dec. 1967	
	Rate of increase	Share in incre-mental output	Rate of increase	Share in incre-mental output	Rate of increase	Share in incre-mental output
Mining and quarrying	18.8	2.6	2.4	0.5	6.2	1.2
Food	14.5	7.9	4.6	3.6	18.0	13.6
Textiles	29.1	11.0	33.6	18.1	19.4	10.2
Clothing	30.2	2.9	37.1	5.0	29.7	3.9
Wood and carpentry	41.1	8.5	26.0	7.6	19.4	5.6
Paper and paper products	19.8	1.7	30.4	3.7	10.3	1.2
Printing and publishing	12.3	1.7	16.8	3.3	8.4	1.6
Leather and leather products	23.5	1.3	28.2	2.2	2.5	0.2
Rubber and plastics	44.8	5.9	30.3	5.7	20.8	3.8
Chemical and refined petroleum products	27.9	7.6	38.6	15.1	12.2	4.6
Nonmetallic minerals	26.4	7.0	–6.4	–2.4	14.2	5.2
Diamonds	21.7	2.2	0.2	0.0	15.0	2.1
Basic metals	45.5	4.4	8.1	1.1	31.0	4.2
Metal products	38.0	8.2	22.3	6.9	21.0	6.3
Machinery	40.9	5.8	30.4	6.2	31.5	6.2
Electrical equipment	70.7	8.5	24.2	4.2	101.3	17.0
Transport equipment	41.1	11.0	45.3	17.3	30.6	11.4
Miscellaneous	34.3	1.8	25.3	1.9	23.3	1.7
Total	**28.6**	**100.0**	**21.2**	**100.0**	**21.3**	**100.0**

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

Production of building materials was up 19 percent owing to the large volume of construction; however, its weight in industrial output was smaller than before the recession. Most of the growth was in materials for the initial stages of building, for earthwork, and the paving of roads, in line with the increased weight of such work in the value of new construction.[1] Outstanding increases

[1] See Chapter XIII, "Construction and Housing".

were recorded in lime and clay products (69 percent), structural steel shapes (48 percent), electrical installations (41 percent), wire and metal products (approximately 30 percent), and glass and glass products (26 percent).

As to machinery and equipment, the most notable gains were in agricultural machinery (60 percent), the production and assembly of vehicles (49 percent), industrial and construction equipment (29 percent), and the production and assembly of ships and aircraft (30 percent). These advances were a result of the accelerated growth of investment, especially in transport and other equipment.

(c) *Output prices*

The domestic market prices of industrial output averaged 2.3 percent higher than in 1967; the rise in the course of the year was about 3.0 percent.

Table XII-6

CHANGES IN INDUSTRIAL OUTPUT PRICES IN THE DOMESTIC MARKET, 1964–68

Branch	Increase or decrease (–) as against preceding year					Dec. 1968 as against Dec. 1967
	1964	1965	1966	1967	1968	
Mining and quarrying	2.7	9.6	1.5	–0.9	3.6	4.1
Food	1.1	5.5	4.6	1.6	2.3	2.9
Textiles	1.3	2.8	6.3	5.2	–0.1	1.0
Clothing	–0.9	0.8	4.6	1.3	2.2	2.8
Wood and carpentry	2.2	5.7	2.0	–0.1	2.7	2.7
Paper and paper products	2.0	2.8	0.6	–1.0	1.0	1.4
Leather and leather products	1.4	6.9	15.4	—	4.0	2.5
Rubber and plastics	–1.9	–2.9	0.8	1.3	0.8	0.6
Chemical and refined petroleum products	0.2	2.6	5.5	3.0	3.9	3.4
Nonmetallic minerals	0.8	4.1	4.2	1.4	1.1	1.7
Basic metals	1.2	4.1	6.2	2.4	7.1	5.9
Metal products	1.4	7.7	5.1	0.8	5.0	5.4
Machinery	1.0	2.5	2.6	–1.8	–1.1	4.0
Electrical equipment	1.1	4.9	3.2	0.6	4.8	2.7
Transport equipment	1.4	11.3	7.8	–0.4	2.2	3.0
Miscellaneous	0.3	5.9	3.9	1.2	7.0	4.9
Total	**1.0**	**4.9**	**4.8**	**1.2**	**2.3**	**2.9**

SOURCE: Price indexes of the Central Bureau of Statistics, weighted by the weights of gross output in 1965 as calculated by the Bank of Israel.

Most of the price increases took place at the beginning of the year—in some cases as a direct consequence of the devaluation in November 1967. However, in some industries the rises cannot be ascribed solely to the devaluation, nor did they take place at a given point of time. In mineral extraction (up 4.1 percent during the year), chemicals and petroleum (3.4 percent), basic metals (5.9 percent), metal products (5.4 percent), and machinery (4.0 percent), growth was above the average for the sector as a whole and greater than what could have been expected as a result of the devaluation. The increases apparently reflect the existence of demand pressure in certain industries—a supposition supported by the fact that it was mostly items constituting inputs to construction that became dearer (e.g. quarry products, paint, iron and steel, pipes, metal building materials, and household goods).

On the other hand, in some branches, such as nonferrous metals, cosmetics, plumbing fixtures, tinware, and paper and carton products, part of the increased costs due to the devaluation was absorbed by the manufacturers and not passed on to the customer.

The fact that despite the soaring demand for industrial products in 1968 there were no significant price increases was due primarily to the existence of substantial reserves of idle factors of production. Other reasons were the relative stability of production costs, especially the drop in unit labor costs, and the larger import, which helped to satisfy demand.

3. Industrial Exports

The f.o.b. value of industrial exports, including diamonds, amounted to $ 480 million in 1968, as against $ 385 million the year before—an increase of 25 percent. Excluding diamonds, the figure came to $ 287 million, a rise of $ 60 million or 26 percent.

The gross value-added component of industrial exports amounted to $ 222 million,[1] compared with $ 174 million in 1967—a rise of $ 47 million or 27.5 percent. This is the highest growth rate since 1964, and it reflects both the increase in total industrial exports and the larger weight of branches with a relatively high value added.

The expansion of industrial exports in 1968 was the combined result of a number of factors. The most important were the existence of unemployment and the higher return per export dollar. The acceleration of world trade following a slowdown in the previous year and the adaptation of the economy to the changed conditions after the Six Day War left their greatest impress on certain special items[2] (see note to Table XII–9).

[1] See detailed discussion in Chapter III, "The Balance of Payments".

[2] See Bank of Israel, *Annual Report 1967*, Chapters III and XII.

The stock of unemployed factors of production permitted the diversion of resources to export despite the expansion of domestic demand. Competition between the export and the home market, characteristic of the years of buoyant demand and full employment, hardly existed in 1967 and the first half of 1968. In the second half of 1968, signs that the economy was nearing a state of full employment began to appear, and overseas sales by industries which during the boom years had produced mainly for the home market began to slacken.

Table XII–7

INDUSTRIAL EXPORTS AND VALUE ADDED, 1964–68

(at current f.o.b. prices)

	Percent increase or decrease (–) as against previous year					Total exports, 1968
	1964	1965	1966	1967	1968	($ million)
	A. Exports					
Industrial exports, excl. diamonds	13.1	12.7	14.3	9.1	26.1	286
Diamonds, net	13.7	11.6	25.1	–4.4	22.9	194
Total industrial exports	**13.3**	**12.2**	**18.9**	**3.2**	**24.9**	**480**
	B. Value added					
Industrial exports, excl. diamonds	11.8	13.6	14.2	9.1	29.2	171
Diamonds, net	28.4	17.8	50.0	–7.0	19.5	51
Total industrial exports	**15.0**	**14.5**	**22.2**	**4.7**	**26.9**	**222**

SOURCE: A—Central Bureau of Statistics.
B—Bank of Israel estimates based on provisional input-output data.

Concurrently with the availability of idle factors of production throughout most of the year, exporters earned a larger return per dollar of sales. The main reason was the devaluation of November 1967. Most industrial exports in 1968 went to countries which did not change the dollar parity of their currency in line with sterling, so that there was an increase in the effective return per dollar.

The direct export incentives introduced in 1966 were not altered after the devaluation, except for the abolition of the special subsidy of 20 agorot per export dollar for a group of growth industries, as a consequence of which the total subsidy which they received was cut by 10 agorot per dollar. Most of these industries have a relatively high value added, but their total export is not large. Another type of subsidy that has helped to boost overseas sales of textiles and garments is that granted through equalization funds, which equalize the producer

Table XII–8

MAIN INDUSTRIAL EXPORTS,[a] 1966–68

(at current f.o.b. prices)

	Value ($ million)			Percent increase or decrease (–) as against previous year			Percentage distribution of incremental exports		
	1966	1967	1968	1966	1967	1968	1966	1967	1968
Citrus products	19.0	24.0	25.4	2.2	26.3	5.8	1.7	31.6	2.3
Other metal products	10.8	8.0	26.3	8.6	–26.2	229.0	3.7	–14.8	31.0
Refined petroleum products	15.8	16.3	18.1	53.0	3.2	11.4	21.0	2.6	3.1
Potash	12.7	13.6	13.5	–6.1	6.7	–0.5	–3.6	4.5	–0.1
Copper-cement	12.1	10.4	11.6	42.3	–14.2	11.3	13.8	–9.0	2.0
Synthetic yarns	9.3	9.2	11.5	–4.8	–0.9	25.1	–1.8	–0.5	3.8
Tires and tubes	9.6	9.4	10.6	9.1	–2.2	13.0	3.1	–1.1	2.1
Cotton yarn	9.1	8.2	9.6	–6.9	–9.8	16.2	–2.6	–4.7	2.2
Knitwear	6.4	8.6	9.5	29.2	35.0	10.8	5.5	11.6	1.6
Phosphates	4.4	4.6	6.9	53.3	4.3	49.3	5.8	1.0	3.8
Plywood	8.8	7.9	6.8	14.8	–10.2	–14.1	4.4	–4.6	–1.9
Stockings	0.3	1.4	5.7	–7.2	355.2	302.8	–0.1	5.7	7.3
Pharmaceuticals	3.5	5.0	5.5	13.0	42.6	10.6	1.5	7.7	0.9
Clothing	3.5	4.5	5.5	–18.6	28.2	22.0	3.1	5.2	1.7
Vegetable fats and oils	5.4	2.3	5.4	–22.5	–57.9	137.7	–6.0	–25.5	5.3
Pesticides	1.1	4.0	4.8	31.2	257.6	20.5	1.0	14.9	1.4
Cotton fabrics	4.1	5.9	4.5	82.6	46.1	–23.7	7.0	9.7	–2.4
Plastic raw materials	1.9	2.3	4.4	17.7	22.3	88.9	1.1	2.2	3.6
Leather garments	2.1	2.4	3.5	36.0	15.7	45.9	2.5	1.7	1.9
Woolen fabrics	1.2	1.7	3.3	–21.6	40.4	89.4	–1.3	2.6	2.6
Total	**141.5**	**149.7**	**192.4**	**10.9**	**6.8**	**28.4**	**59.8**	**40.8**	**72.2**
Total industrial exports excl. diamonds	**208.0**	**227.0**	**286.1**	**14.3**	**9.1**	**26.3**	**100.0**	**100.0**	**100.0**
Total industrial exports incl. diamonds	**373.1**	**384.9**	**480.2**	**18.9**	**3.2**	**24.8**			

[a] Products whose export in 1968 exceeded 1 percent of total industrial exports other than diamonds.

SOURCE: Based on Central Bureau of Statistics data.

prices of exports with those obtainable in the domestic market. The relatively larger growth of domestic sales thus helped to augment proceeds from exports.

There was also an increase in other forms of export subsidies, the majority of which are designed to lower production costs (such as the refund of property tax on equipment and inventories, exemption from the travel tax, credits from the Industrial Working Capital Fund, and various budgetary aid measures, which were 37 percent higher in the 1968/69 fiscal year).

Table XII-9

GROWTH OF INDUSTRIAL EXPORTS, 1964-68

(at current prices)

	Total industrial exports	Industrial exports excl. diamonds	Exports of special items[a]	Industrial exports excl. diamonds and special items[a]
		$ million		
1964	279.5	161.3	163.4	97.9
1965	313.9	181.9	75.9	106.0
1966	373.1	208.0	94.7	113.3
1967	384.9	227.0	90.3	136.7
1968	480.2	286.1	119.7	166.4
		Percent increase over preceding year		
1965	13	13	20	9
1966	19	14	25	12
1967	3	9	-5	21
1968	25	26	33	22

[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 economic developments in the country.

SOURCE: Based on Central Bureau of Statistics data.

In addition to the heavier subsidization, the stabilization of unit labor costs and the moderate or negligible rise of other costs as compared with those abroad tended to enhance the profitability of exports.

The higher return per export dollar at a time when there was not full employment mainly influenced industries geared primarily to the home market[1]—

[1] Partial indicators for the different groups are presented in Table XII-9, which lists the "special" export industries separately, and also in Table XII-10, which shows the percentage of output sold abroad.

the rate of increase here was 22 percent (the same as 1967). That this did not have a greater effect on the overall export growth was due to the small volume of such exports, in both relative and absolute terms, in previous years.

Total industrial exports were $ 96 million higher in 1968. Of this sum, nearly $ 66 million was accounted for by products whose export is partly affected, at least in the short term, by factors exogenous to the economy (see Table XII–9). Among these items are diamonds (up $ 36 million) and "other metal products" ($ 18 million).

Exports of special items advanced 33 percent in 1968, as contrasted with a 5 percent drop in the previous year. The 1967 decline in these products (as well as in diamonds) can be mainly attributed to factors external to the economy, such as the slower growth of world trade, the crisis in the diamond market, the closing of East European markets to Israel's exports, and delays caused by the Six Day War. The elimination of most of these impediments accounts for the resumption of the upward trend in 1968.

The composition of industrial exports, as described above, explains the seemingly surprising phenomenon of their deceleration during the recession and renewed acceleration with the upsurge of domestic demand. Industries primarily serving the home market at a time of full employment experienced an expansion of exports during the recession, but this was offset by a drop in the group of special industries.

Industrial export prices hardly changed in the course of the year.[1] For the sector as a whole, prices edged down 1 percent. Some products showed steeper declines, particularly potash (18 percent), citrus products (15), tires (10), and leather garments and other wearing apparel (by varying rates).

(a) *Exports, by branch*

Industrial exports went up at disparate rates in 1968. Two industries recorded lower figures than in 1967—wood and nonmetallic minerals. The drop in the former was mainly due to the reduced profitability of plywood sales after the devaluation of sterling in November 1967, since the logs are obtained mainly from countries which did not devalue. In nonmetallic minerals, there was a fall in cement sales after a steady rise in recent years, and in asbestos pipes—apparently because of the stronger domestic demand.

Metal products made a particularly outstanding gain (150 percent), with "other metal products" leading the way.

Exports of electrical and electronic equipment also increased notably, nearly doubling in volume. This industry has advanced at a fairly rapid pace for the past several years. The principal growth items here are transmission and reception apparatus, electronic components, and other electronic equipment.

[1] The change in prices is measured according to the change in the unit value, i.e. the change in the dollar value of exports divided by the quantitative change in physical units.

Exports of transport equipment slowed down in 1968, but the growth rate was similar to that before 1967. The aircraft industry was mainly responsible for the slackening of the growth rate, a threefold increase in 1967 being followed by one of approximately 50 percent.

There was also a substantial increase in miscellaneous exports—in the main electrical measuring apparatus and works of art. These two items had slowed down in 1967 and accounted for the more moderate expansion of the group that year.

Table XII-10

INDUSTRIAL EXPORTS, BY MAIN BRANCH AND SHARE IN OUTPUT, 1965–68

	Total exports in 1968 ($ '000)	Percent annual increase or decrease (–)				Share of output exported directly[a] in 1968 (%)
		1965	1966	1967	1968	
Mining and quarrying	33,745	31.2	21.5	3.3	9.5	41.3
Food	43,583	7.2	5.5	7.1	21.7	7.1
Textiles	50,136	0.1	14.6	18.7	21.5	18.1
Clothing	13,531	8.9	5.6	2.2	22.8	15.3
Wood and carpentry	8.128	14.1	–8.3	14.5	–5.0	5.0
Paper and paper products	2,198	–1.3	–24.1	160.0	8.4	3.7
Printing and publishing	3,902	–13.4	22.9	29.5	5.3	5.0
Leather and leather products	1,907	1.0	46.4	29.6	28.9	3.9
Rubber and plastics	12,720	4.3	12.6	–9.5	14.9	12.1
Chemical and refined petroleum products	44,702	17.6	28.4	17.4	19.1	15.8
Nonmetallic minerals	3,817	34.6	–0.3	–11.0	–19.4	2.4
Diamonds (net)	194,108	11.6	25.1	–4.4	22.9	100.0
Basic metals	5,263	102.6	13.4	–42.3	15.0	6.9
Metal products	32,966	30.2	16.8	–15.8	149.0	4.1
Machinery	5,244	149.2	30.5	86.3	6.2	4.5
Electrical and electronic equipment	5,477	87.1	4.2	87.0	97.0	4.0
Transport equipment	10,953	–26.6	47.9	77.9	37.6	5.3
Miscellaneous	7,964	–21.1	17.1	32.7	46.0	23.5
Total industrial exports	480,217[b]	21.6	18.8	3.1	24.8	15.8
Total, excl. diamonds	286,236	13.4	14.3	9.1	26.3	10.5

[a] At 1967 producer prices.
[b] Excluding $ 0.1 million worth of goods shipped to Israeli firms overseas.
SOURCE: Based on Central Bureau of Statistics data.

Diamond sales, which had fallen off in 1967 because of the crisis in the world diamond market, rose by about 23 percent in 1968 following the recovery of international trade. The physical increase came to 18 percent, while prices went up 4 percent.

Mine and quarry products increased at below-average rates. Copper-cement and phosphates made gains but potash declined. The value of exports in this branch lagged behind the physical increase owing to a drop in potash prices (prices of the other two items held steady). Potash prices in the world market have been slipping since 1965, mainly because of competition by the rich Canadian deposits. Proceeds from potash sales fell off despite a 20 percent quantitative growth.

Processed foodstuffs and textiles and clothing rose at rates somewhat below the average for the sector, but considerably faster than in the two preceding years. Among foodstuffs, sales of edible oils and fats nearly doubled after a three-year downward trend. Citrus products were up only 7.5 percent, the resultant of a large increase in the quantity marketed and a drop of nearly 15 percent in the prices fetched.

As to textiles, cotton and synthetic yarns advanced following a drop in 1967, but cotton fabrics lost ground after a steady increase in earlier years. Exports of other fabrics (wool and synthetic) were higher, although synthetic fabrics increased by less than in 1966–67. The shift from yarns to fabrics, discernible in the previous year, continued in 1968. Ready-made and leather garments advanced strongly, while raincoats also went up, in contrast to the steady decline of previous years. Stocking pantaloons rose by a striking $ 4 million despite a fairly steep decline in price.

The upward trend in chemicals and leather products carried over through the year reviewed. Leather and furs both showed higher figures; in chemicals the most prominent increases were in refined petroleum products, plastic raw materials, and pharmaceuticals, while pesticides showed a slower growth compared with the previous year.

Exports of rubber and plastic goods rose at a below-average rate but faster than in previous years. Most of the increase was in tires, which were up 14 percent despite a 10 percent price drop. The decline of prices, which has persisted for a number of years, was confined to the European market, while elsewhere prices were stable or even rose.

4. Investment

Industrial investment soared 88 percent in 1968, after a declining growth trend as from 1963 and an absolute decrease in 1965. The deceleration of investment, particularly that by the public sector, was a prime cause of the recession; this in turn depressed private investment. The revival of investment activity in 1968 stemmed both from the Government's policy of promoting investments directly and indirectly, and from the change in investors' expectations with the passing of the slump.[1]

In recent years the share of investment in buildings has contracted, while that in plant and transport equipment has risen. In 1968 outlay on equipment was triple the amount invested in buildings. The share of equipment rose noticeably, from 60 percent in 1964 to 75 percent in 1968.

Table XII–11

INDUSTRIAL INVESTMENT IN 1968 AND REAL ANNUAL CHANGES IN 1963–68

	Percent increase or decrease (–) as against previous year						Investment in 1968 ($ million)
	1963	1964	1965	1966	1967	1968	
A. Total industrial investment							
Plant, industrial equipment, and transport equipment	22.1	2.7	–3.1	–15.3	–24.6	110.9	351.3
Buildings	15.8	17.0	–15.2	–40.0	–17.7	41.0	115.2
Total	**19.6**	**8.2**	**–8.2**	**–25.3**	**–22.4**	**87.6**	**466.5**
B. Investment in imported and local equipment							
Imported	25.1	0.6	–5.7	–15.0	–31.7	155.1	265.3
Locally produced	13.0	8.4	2.6	–16.0	–10.1	40.8	86.0

SOURCE: Central Bureau of Statistics.

The smaller investment in buildings was due partly to overbuilding in 1962–64, which were years of feverish construction activity, and partly—from mid-1967 and particularly in 1968—to the much heavier spending on equipment. The latter development resulted to some extent from the launching of large-scale public projects (for civilian and defense purposes), which required considerable equipment, and also from the implementation by the private sector of equipment spending plans which had been shelved during the economic slowdown, as well as from technological changes which necessitated new equipment but little additional premises.

Nearly half the industrial capital expenditure was in textiles, metal products, chemicals, and rubber and plastic goods. In each of these industries there were a few big investments together with a large number of relatively small ones.

[1] See the discussion in Chapter V.

The share of locally produced equipment in total capital outlay in 1968 came to 18 percent, as contrasted with 57 percent for imported equipment. The large rise in the latter was only partly due to competition between local and foreign equipment; in the main, the imports were designed to complement items manufactured in the country.

The real gross stock of capital assets was enlarged by nearly 8 percent in 1968, ending the declining growth trend which began in 1963. Despite the slackening of the growth rate during these years, a reserve of unutilized capital assets had accumulated, and this has permitted the expansion of output since mid-1967.