Bank of Israel * Research Department

Companies Survey

Fourth quarter of 2003

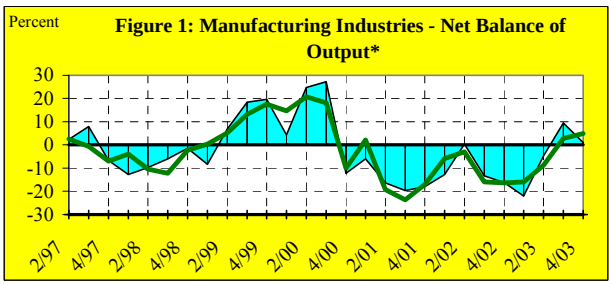
Jerusalem, January 2004
www.bankisrael.gov.il

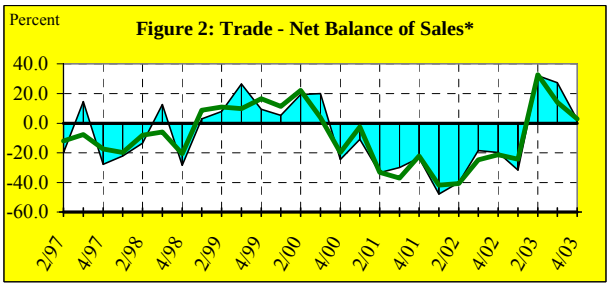
Companies Survey – Fourth Quarter of 2003 – Main Results

Reports from companies for the fourth quarter of 2003 indicate that total economic activity remained steady, after rising in the previous two quarters. The trends in the principle industries differed, but in almost all industries expectations were of a rise in activity in the next quarter. Manufacturing output remained stable, reflecting a decline in domestic sales and orders and continued expansion in exports and export orders. Trading companies' sales were at a standstill, with expectations of a rise in the next quarter. The downward trend in business services revenue halted, with a rise in sales of services abroad. Hotel bed nights of tourists from abroad and of Israelis continued to rise, but were expected to fall in the next quarter. In the transport and communications secondary industries there was a marked decline in air transport, in contrast to a moderate rise in sea transport and a standstill in overland transport and communications. In construction the sharp decline in buildings and infrastructure continued and even intensified. In reports on constraints on implementing activity, the greater severity of demand side than supply side constraints was notable. Among the latter financing difficulties headed the list, and in construction, also the shortage of skilled labor. Average inflation expectations for the next twelve months fell significantly in this quarter, to 2 percent, with a rise to 82 percent in the share of companies expecting inflation to be within the target range. Companies expected, on average, that the exchange rate in twelve months would be NIS 4.7 to the dollar.

An analysis of the responses of companies' participating in the survey, after weighting the net balance in each industry by that industry's weight in GDP, shows that activity remained steady in the fourth quarter of 2003, after rising in the previous two quarters. The domestic market declined, while exports increased for the second successive quarter; in most industries companies expressed expectations of increased activity in the next quarter.

Reports from **manufacturing companies** show that in the fourth quarter of 2003 output was static, after rising in the previous quarter. The standstill reflects a fall in domestic sales and a rise in exports (Table 3 and Figure 1). The downward trend in the number of employees and in raw material stocks and finished goods persisted. Reports on demand side constraints on carrying out planned activity showed some easing of their severity after they had been steady in the previous quarter. Companies continued to report a decline in orders for the next quarter for the domestic market, and a rise in export orders.



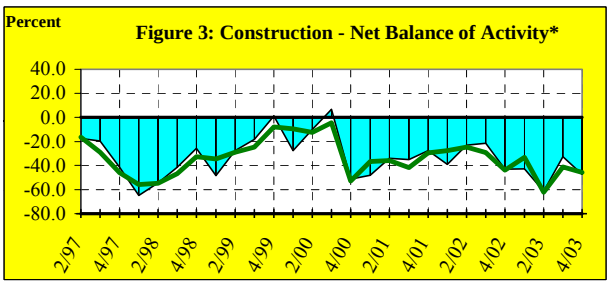


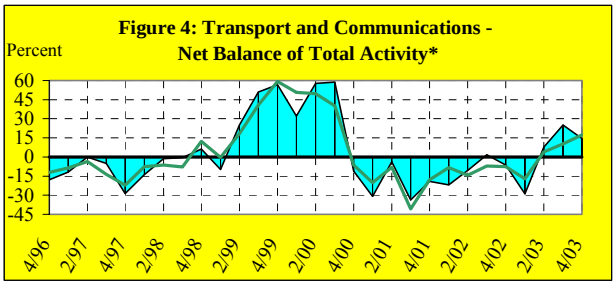
The classification of companies into three types of industry, i.e., traditional, advanced, and mixed,[1] according to their degree of technological innovation indicates that it was mainly in the mixed industries that output and sales declined, whereas in the advanced industries they rose (Table 1.1 and Figure 8). The traditional industries reported a standstill in output. The advanced and traditional companies reported a rise in exports and in export orders, while mixed companies reported a modest increase in exports but a drop in export orders.

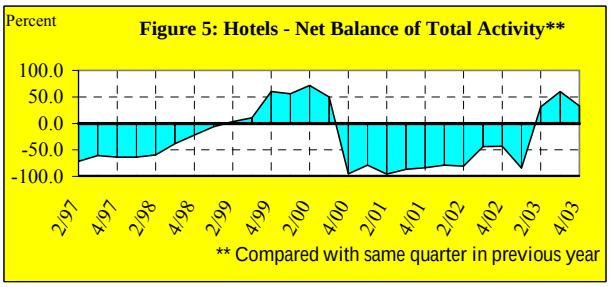
The drop in output was most marked in the mining and quarrying, rubber and plastic, chemicals and food and beverages industries. The diamond, electronics, transport equipment, paper and printing industries, however, reported increases. Domestic sales fell in nearly all industries, excluding paper and printing, in which they rose. Exports and export orders overall increased, especially in diamonds, paper and printing, electronics, chemicals, metals and machinery. Nearly all industries reported a drop in orders for the domestic market (Table 15).

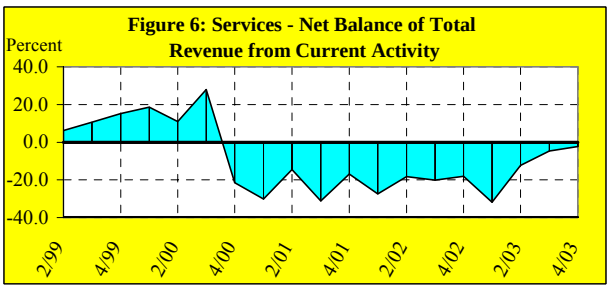
Domestic sales and output rose mainly in small companies—with size classified according to the number of employees. The rise in exports, on the other hand, encompassed companies of all sizes. With regard to export orders, large companies reported a rise, while small and medium companies reported persistent sluggishness (Table 16).

Reports from **trading companies** showed a standstill in sales, after these had risen in the previous two quarters of the year. Companies expected sales to rise in the next quarter (Table 5 and Figure 2). Companies' reports indicated a slight easing of the severity of both the main demand constraint—the economic and security situation in Israel—and the main supply side constraint, i.e., financing difficulties (Table 17 and Figure 7).









Construction companies' reports indicate that the recession in activity continued and even intensified, reflected in a sharp fall in the construction of buildings and infrastructure (Table 7 and Figure 3). Companies expect the decline in activity to persist in the next quarter. On the other hand, for the first time in a long time output prices, in dollar terms, rose.Large, medium sized and small companies all expect activity to decline in the next quarter (Table 16). The demand constraint and the shortage of skilled labor remained the main constraints on implementing planned activity in this quarter too (Table 17 and Figure 7).

Reports from **transport and communications companies** showed a certain rise in output, after greater increases in the previous quarter (Table 9 and Figure 4). Sales of services to Israelis dropped, while sales to nonresidents rose.

Transport and communications companies expected overall activity in the next quarter to rise. The different sectors of the industry did not develop uniformly: air transport declined, sea transport companies reported moderate increases, and overland transport was steady, possibly affected by the industrial action in sea and land ports. The sluggishness in communications activity continued. Companies reported a serious worsening of overall demand side constraints compared to the previous quarter. On the supply side financing difficulties remained the most serious constraint.

Table 1

Economic activity in the principal industries, based on the net balance of returns from companies

(original and seasonally adjusted data, percent)

	2001				2002				2003			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Industry (output)	*-6	-16	-20	-18	-13	*0	-13	-16	-22	*-5	9	*1
seasonally adjusted	*2	-19	-24	-17	*-6	*-3	-16	-16	-16	-9	*3	*5
Trade (sales)	*-11	-33	-30	-23	-48	-40	*-19	-20	-32	32	27	*2
seasonally adjusted	*-3	-33	-37	-22	-42	-41	-25	-21	-24	33	*14	*3
Construction (total activity)	-48	-34	-35	-28	-39	-23	-22	-43	-43	-61	-33	-47
seasonally adjusted	-37	-36	-42	-29	-28	-25	-29	-44	-33	-62	-41	-46
Transport and communications (total activity)**	-31	-4	-34	-19	-22	-11	2	-6	-29	8	25	15
seasonally adjusted	-20	-8	-41	-18	-8	-14	-7	-7	-17	4	10	17
Hotels (total activity)***	-78	-96	-86	-84	-79	-80	-44	-43	-84	31	60	33
Service industries	-30	-15	-31	-17	-27	-18	-20	-18	-32	-12	-5	-2

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

Table 1.1

The net balance of manufacturing companies, classified by human-capital intensity and innovation[2]

(original and seasonally adjusted data, percent)

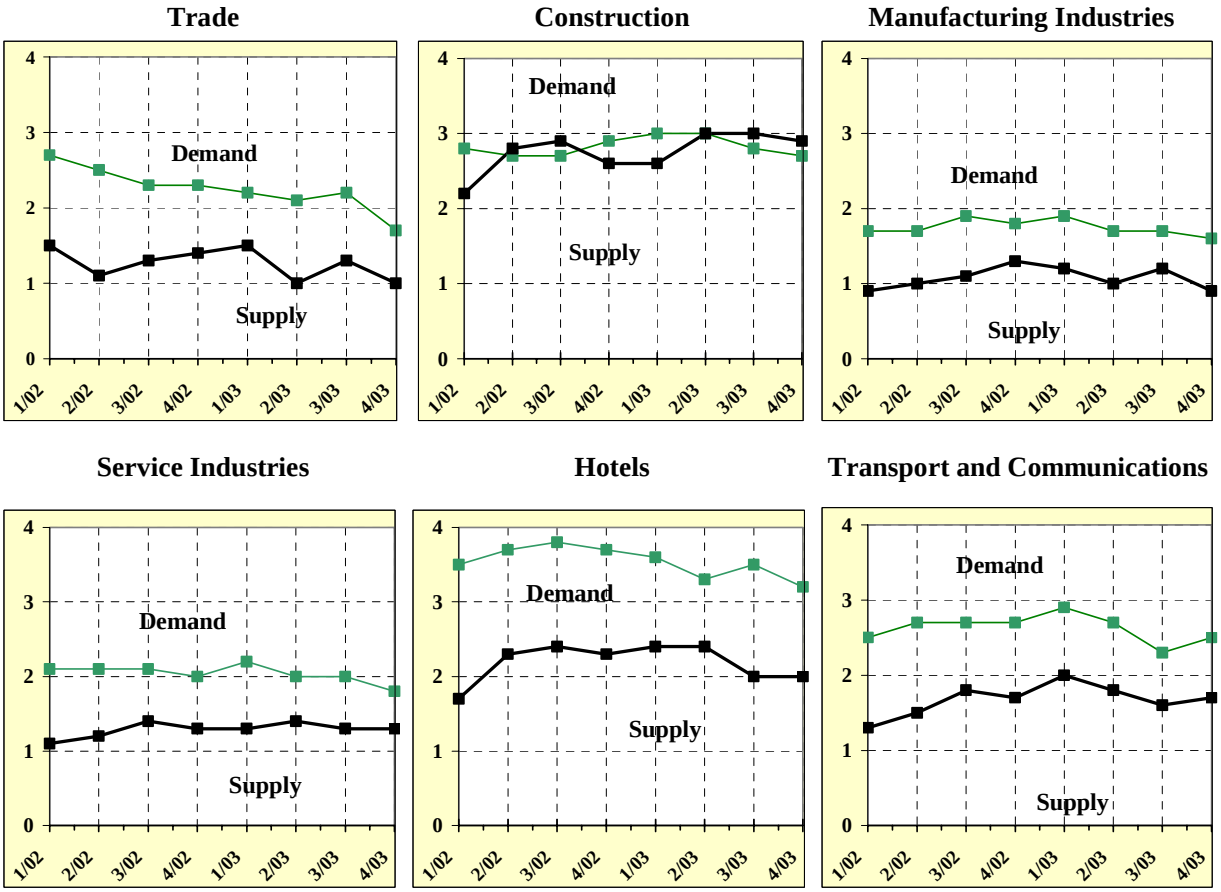
	2001				2002				2003			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Advanced companies	*-6	-21	-28	*-6	*-8	*6	-11	*-6	-25	*-3	*11	*8
Mixed companies	-21	*-15	-20	-36	-28	*2	*-7	-28	-41	*-4	*15	*-13
Traditional companies	*-1	-14	-14	-21	-11	*-5	-17	-20	-16	*-8	*7	*-1

* Not significant (at the 10% level).

1) Business services include catering, insurance and real estate services, business and legal services, education and health, personal services and garages.
2) For the classification of companies into advanced, mixed, and traditional, see Table on p. 53 of the Bank of Israel Annual Report, 1999.

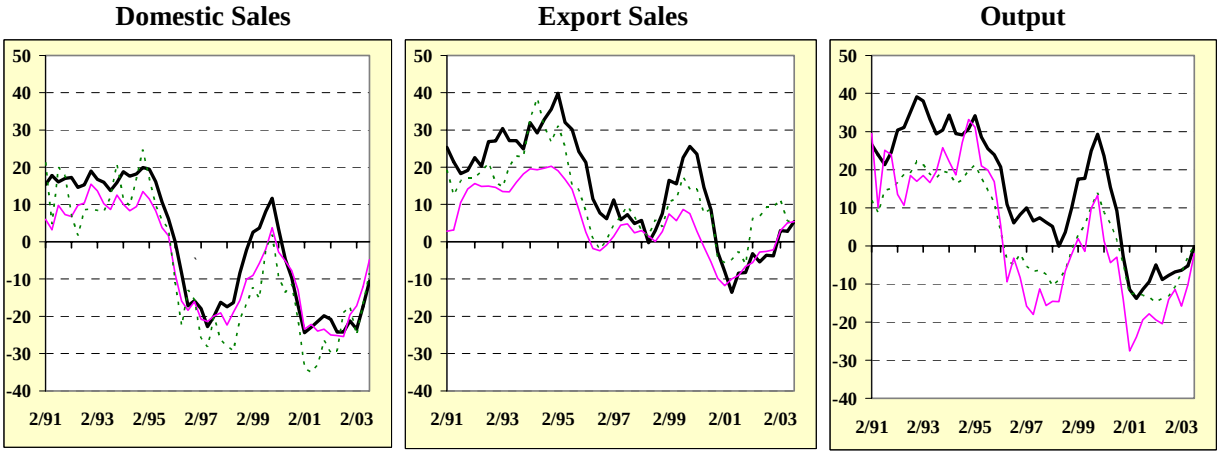
Figure 7: The severity of constraints on carrying out planned activity (average)[1]

1-Slight, 2-Moderate, 3-Severe, 4-Very severe



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

Figure 8: Net Balances of Manufacturing Companies, by Human Capital and Innovation[a]



[a] Moving average, outlying observations - unadjusted data

Thick line - advanced industries
Thin line - traditional industries
Dotted line - mixed industries

The **hotel industry** reported a continued rise in activity compared with the level in the fourth quarter of 2002 (Table 11 and Figure 4). The increase reflects mainly the rise in bed nights of tourists from abroad, with a more modest rise of bed nights of Israelis . The demand constraint was the main one restricting hotel activity, while on the supply side financing difficulties were the main constraint. The fall in the average revenue per room became even steeper, and companies expected a drop in bookings in the next quarter.

Reports from companies in the **business services industry**[2] show a standstill in revenue, for the first time, particularly in sales of services abroad, following a continued decline in activity in the previous quarters (Table 13 and Figure 6). Sales of services abroad rose for the second quarter in succession. Companies expected a rise in total orders in the next quarter, with orders from abroad increasing even faster. The demand constraint, resulting from the economic and security-related situation, continued to be the major constraint preventing the implementation of planned activity.

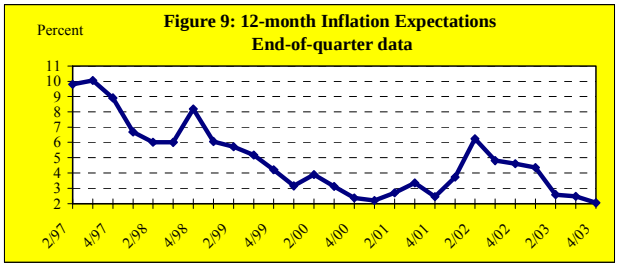
Survey of inflation expectations

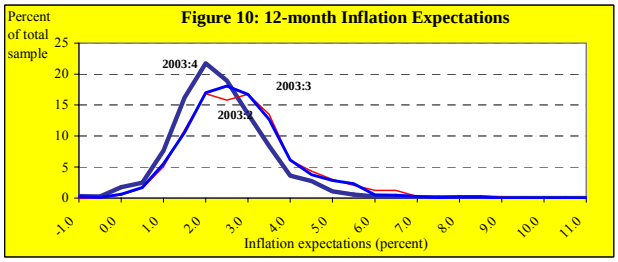
In the fourth quarter of 2003 the expected rate of price increases for the next twelve months and for the next quarter fell significantly.

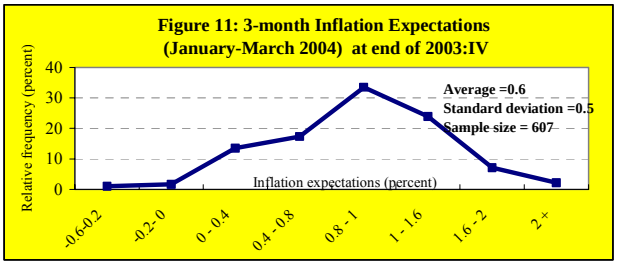
Companies expectations of cumulative price rises for the next twelve months (January to December 2004) declined to 2 percent on average from 2.5 percent in the previous quarter (Figure 9); the variance of the expectations also fell, as did the mode and the median of the distribution, so that in fact the whole distribution curve of inflation expectations moved to the left. It is noteworthy that for the first time the mode and the mean of the distribution are the same, and equal to the midpoint of the inflation target range (i.e., 2 percent), so that the distribution has minimal skewness (Table 2 and Figure 10).

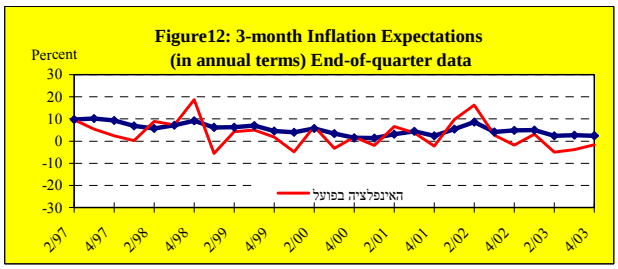
Expectations for the cumulative price increase in the next quarter (January to March 2004, Figure 11) fell to 2.4 percent in annual terms, from 2.7 percent at the end of the previous quarter.

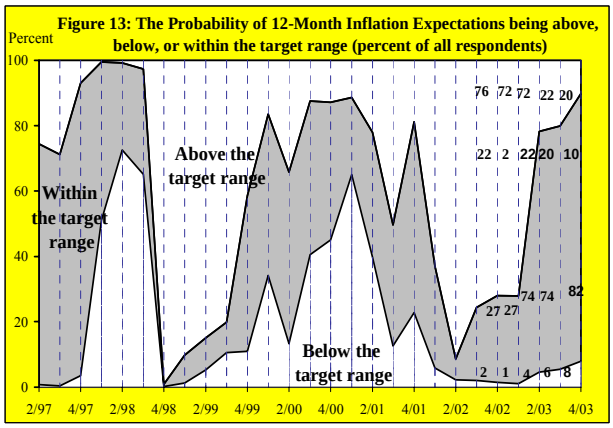
As inflation expectations for a year ahead dropped, the share of companies expecting inflation to exceed the upper limit of the inflation target range for the next twelve months[3]—defined as price stability—also fell, from 20 percent in 2003:III to 10 percent in the quarter reviewed (the top area in Figure 13). Eighty-two percent of companies that participated in the survey expected that inflation in the next year would be within the range defined as price stability (the middle area in Figure 13).











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

[2] Business services include catering, insurance and real estate services, business and legal services, education and health, and other personal services.

[3] The target range for the next twelve months is 1 percent to 3 percent.

Table 2
Statistic Analisys of 12-month Inflation Expectations

	2001				2002				2003			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
1. Mode	2.00	2.00	3.00	2.00	4.00	6.00	5.00	4.00	4.00	3.00	2.00	2.00
2. Median	2.00	2.50	3.00	2.50	4.00	6.00	4.70	4.00	4.00	2.50	2.30	2.00
3. Average	2.20	2.69	3.30	2.52	3.76	6.17	4.81	4.62	4.37	2.60	2.49	2.05
4. Standart Deviation	1.15	1.35	1.27	1.11	1.44	2.37	2.03	1.95	1.80	1.31	1.28	1.09
5. Skewness	0.20	0.69	0.30	0.52	-0.24	0.17	-0.19	0.62	0.37	-0.40	0.49	0.05
Number of responding companies	614	592	674	606	584	639	621	640	571	574	561	607

* Skew is calculated as the difference between average and mode.

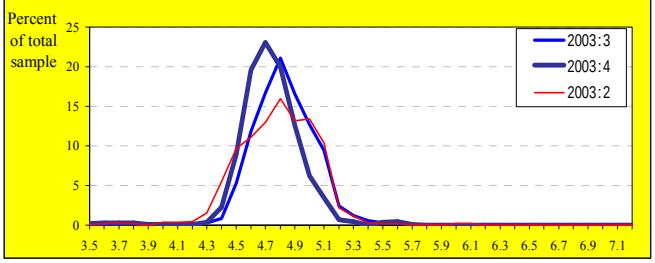
Expectations regarding changes in the NIS/dollar exchange rate

Companies participating in the survey were asked about their expectations regarding the NIS/$ exchange rate at the end of the next quarter (31 March 2004), and one year from the end of the survey period (i.e., 31 December 2004).

Companies assessed, on average, that the exchange rate at the end of the next twelve months would be NIS 4.7 to the dollar, compared with an expectation of NIS 4.8 to the dollar in the previous quarter. The variance of depreciation expectations for twelve months forward rose, however, from its level in the previous quarter (Figure 14). Companies expected the exchange rate at the end of the next quarter to be NIS 4.49 to the dollar, and the expected average depreciation derived from this was 3.1 percent.[4]

The expected NIS/$ rate at the end of the next quarter was NIS 4.84 to the dollar, giving an expected depreciation of 2.47 percent, up from the expectation of 1.28 percent at the end of the previous quarter.

Figure 14: 12-month Exchange rate Expectations



[3] The derived depreciation relates to the change in the exchange rate from the time when companies reported until the end of the period.

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

	2001				2002				2003			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
1. Output	*-6	-16	-20	-18	-13	*0	-13	-16	-22	-5	9	1
2. Sales	-18	-24	-24	-23	-17	*-7	-11	-16	-26	-13	8	4
3. Domestic sales	-20	-25	-21	-30	-26	-21	-15	-30	-36	-19	1	-12
4. Export	*-7	-14	-21	-8	*-5	*7	-10	*-1	*-6	1	8	16
5. Stocks of finished goods	*4	*-4	-15	-14	-10	-10	-9	-15	-16	-11	-10	-4
6. Stocks of raw materials	*5	*2	-8	-9	-7	-9	-10	-9	-12	-8	-5	-10
7. Rate of utilization of machinery and equipment	-14	-23	-26	-28	-18	-13	-16	-27	-25	-14	-4	-7
8. Number of employees	-20	-30	-28	-33	-26	-16	-19	-28	-27	-19	-14	-14
9. Domestic orders	-26	-33	-30	-29	-27	-27	-31	-27	-34	-15	-19	-10
10. Export orders	*-5	-12	-13	-20	*-3	*-4	*-7	*-6	*-5	-2	11	7
Number of responding companies	424	423	431	427	400	396	391	422	374	379	345	318

[1] The difference between the percentage of companies reporting an increase and those reporting a decrease.
* Not significant (at the 10% level).

Table 4
Manufacturing Industries in 2003:IV
(percent of all responding companies in each category)

	Net balance 2003 III	Net balance 2003 IV	Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significan Decrease
A. Activity in the quarter							
1. Output	9	1	6	27	35	23	9
	(4)	(5)					
2. Sales	8	4	8	30	28	22	12
	(4)	(5)					
3. Domestic sales	1	-12	4	22	36	25	13
	(4)	(5)					
4. Export	8	16	9	26	46	13	6
	(5)	(5)					
5. Stocks of raw materials	-10	-4	3	20	50	21	6
	(4)	(4)					
6. Stocks of finished goods	-5	-10	3	15	54	21	7
	(4)	(4)					
7. Rate of utilization of machinery and equipment	-4	-7	4	23	39	23	11
	(4)	(4)					
8. Number of employees	-14	-14	1	12	60	23	4
	(3)	(3)					
B. Expected activity in the following quarter**							
9. Domestic orders	-19	-10	2	19	48	19	12
	(4)	(4)					
10. Export orders	11	7	7	20	53	11	9
	(4)	(5)					
Number of responding companies	345	318					

** Orders received in the quarter reviewed.
Figures in brackets are standard deviations. Values smaller (in absolute terms) than 1.64 standard deviations are not statistically significant at the 10% level.

Table 5
Net balance (percent of all responding trading companies)[1]

	2001				2002				2003			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
A. Activity in the quarter												
1. Sales	*-14	-33	-30	-23	-48	-40	*-19	-20	-32	32	27	2
2. End-of-quarter stock	*-2	-20	*-7	-20	-21	*-14	*-14	*-13	-17	6	-2	-10
3. Percent of credit sales	29	23	25	29	28	26	21	34	27	18	24	27
4. Supply period	*-5	-10	*4	-11	*-2	-14	*0	*-6	*-2	-8	0	5
B. Expected activity in the following quarter												
5. Forecast change in number of permanent employees	-16	-27	-35	-39	-20	-30	-37	-30	-20	-17	-15	-21
6. Sales expectations	*-11	*-3	-25	*-11	-21	*-11	*2	-20	*16	35	0	37
Number of responding companies	57	60	57	64	68	60	59	56	60	50	48	42

[1] The difference between the percentage of companies reporting an increase and those reporting a decrease .
* Not significant (at the 10% level).

Table 6
Trade in 2003:IV
(percent of all responding companies in each category)

	Net balance						
	2003 III	2003 IV	Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significan Decrease
A. Activity in the quarter							
1. Sales	2	27	7	24	40	22	7
	(12)	(12)					
2. End-of-quarter stock	-10	-2	2	15	56	20	7
	(10)	(10)					
3. Percent of credit sales	27	24	7	22	69	2	0
	(8)	(8)					
4. Supply period	5	0	3	10	79	5	3
	(5)	(7)					
B. Expected activity in the following quarter							
5. Forecast change in number of permanent employees	-21	-15	0	0	79	21	0
	(7)	(6)					
6. Sales expectations for following quarter	37	0	0	51	35	11	3
	(12)	(11)					
Number of responding companies	48	42					

Figures in brackets are standard deviations. Values smaller (in absolute terms) than 1.64 standard deviations are not statistically significant at the 10% level.

Table 7
Net balance (percent of all responding construction companies)[1]

	2001				2002				2003			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
A. Activity in the quarter												
1. Total activity	-48	-34	-35	-28	-39	-23	-22	-43	-43	-61	-33	-47
of which 2. Buildings			-41	-36	-44	-31	-32	-51	-58	-71	-39	-42
3. Infrastructure			-18	*-2	-22	*-13	*-10	-20	-23	-57	-20	-35
4. Output prices in dollar terms	-37	-35	-34	-34	-32	-21	*-8	-15	*-15	-14	-2	21
5. Area of building starts (sq. m.)	-55	-55	-60	-54	-55	-37	-39	-59	-59	-57	-62	-41
6. Area of building completions (sq. m.)	*-12	-22	-35	-34	-21	-25	-28	-32	-37	-48	-29	-28
7. Building time	21	21	16	14	*10	20	*5	17	18	23	38	20
B. Expected activity in the following quarter**	-29	-41	-56	-34	-38	-36	-16	-46	-30	-29	-36	-33
Number of responding companies	77	80	77	75	69	68	68	67	72	60	59	63

[1] The difference between the percentage of companies reporting an increase and those reporting a decrease .
* Not significant (at the 10% level).
** Orders or expectations of construction in the following quarter.

Table 8
Construction in 2003:IV
(percent of all responding companies in each category)

	Net balance 2003 III	Net balance 2003 IV	Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
A. Activity in the quarter							
1. Total activity	-33 (10)	-47 (9)	0	10	33	20	37
of which Buildings	-39 (10)	-42 (10)	0	16	26	27	31
Infrastructure	-20 (12)	-35 (10)	0	14	37	20	29
2. Output prices in dollar terms	-2 (10)	21 (10)	1	40	39	13	7
3. Area of building starts (sq. m.)	-62 (9)	-41 (9)	0	14	31	28	27
4. Area of building completions (sq. m.)	-29 (10)	-28 (8)	2	7	54	26	11
5. Building time	38 (9)	20 (9)	12	20	56	5	7
B. Expected activity in the following quarter	-36 (10)	-33 (10)	0	19	29	28	24
Number of responding companies	59	63					

Figures in brackets are standard deviations. Values smaller (in absolute terms) than 1.64 standard deviations are not statistically significant at the 10% level.

Table 9
Weighted net balance as percentage of all responding transport and communications companies

	2001				2002				2003			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
A. Activity in the quarter												
1. Total activity	-11	-4	-34	-19	-22	-11	2	-6	-29	8	25	15
2. Sales of services to residents	-18	-15	-24	-22	-29	-11	3	-6	-27	5	16	-5
3. Sales of services to nonresidents	-40	-16	-51	-31	-17	-20	-26	-21	-51	-4	0	23
4. Utilization of equipment (capacity utilization, etc.)	-16	-4	-33	-13	-17	-12	-20	-11	-19	19	18	-1
B. Expected activity in the following quarter**	-5	15	-33	-17	-4	-16	-14	-23	23	8	-3	29
Number of responding companies	23	31	36	35	33	29	43	40	36	35	37	28

[1] The difference between the percentage of companies reporting an increase and those reporting a decrease .
See Appendix for explanation of the weighting.
** Orders or expectations of total activity in the following quarter.

Table 10
Transport and Communications in 2003:IV
(percent of all responding companies in each category)

	Net balance						
	2003 III	2003 IV	Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significan Decrease
A. Activity in the quarter							
1. Total activity	25	15	2	33	44	13	8
2. Sales of services to residents	16	-5	2	25	41	25	8
3. Sales of services to nonresidents	0	23	0	28	66	4	2
4. Utilization of equipment (capacity utilization, etc.)	18	-1	8	25	33	28	6
B. Expected activity in the following quarter	-3	29	0	46	37	14	3
Number of responding companies	37	28					

Due to the small number of companies in this field, a high standart deviation does not necessarily indicate non-significance.

Table 11
Net balance (percent of all responding hotel companies)[1]
(compared with equivalent period last year)

	2001				2002				2003			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
A. Activity in the quarter												
1. Total activity	-78	-96	-86	-84	-79	-80	-44	-43	-84	31	60	33
2. Number of bed-nights: Tourists	-89	-100	-97	-82	-87	-94	-74	-55	-90	*-3	38	38
3. Number of bed-nights: Israelis	*-16	-27	-23	*-11	-18	-48	*-8	-27	-68	18	40	11
4. Average revenue per room	-86	-89	-83	-89	-70	-88	-73	-83	-74	-18	-10	-24
B. Expected activity in the following quarter**	-88	-91	-97	-88	-88	-86	-69	-67	-62	*7	-2	-2
Number of responding companies	56	46	67	68	62	66	62	65	63	62	58	54

[1] The difference between the percentage of companies reporting an increase and those reporting a decrease.
* Not significant (at the 10% level).
** Orders or expectations of total activity in the following quarter.

Table 12
Hotels in 2003:IV
(percent of all responding companies in each category)

	Net balance 2003 III	Net balance 2003 IV	Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significan Decrease
A. Activity in the quarter							
1. Total activity	60 (9)	33 (11)	11	46	19	7	17
2. Number of bed-nights: Tourists	38 (11)	38 (11)	17	40	24	8	11
3. Number of bed-nights: Israelis	40 (9)	11 (11)	9	30	33	15	13
4. Average revenue per room	-10 (10)	-24 (11)	6	18	28	37	11
B. Expected activity in the following quarter	-2 (10)	-2 (12)	9	26	28	17	20
Number of responding companies	54	58					

Figures in brackets are standard deviations. Values smaller (in absolute terms) than 1.64 standard deviations are not statistically significant at the 10% level.

Table 13
Net balance (percent of all responding transport and communications companies)[1]

	2001				2002				2003			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
A. Activity in the quarter												
1. Total revenue from current activity	-30	-15	-31	-17	-27	-18	-20	-18	-32	-12	-5	-2
2. Sales of services in Israel	-24	*-12	-30	-25	-30	-21	-19	-27	-32	-9	-9	0
3. Sales of services abroad	*-10	-27	-58	*7	-32	*8	-21	*11	*-5	-13	24	19
4. Number of employees	-12	-17	-24	-29	-31	-13	-9	-23	-20	-17	-8	-10
5. of which: trained	-13	-18	-27	-32	-22	-12	-12	-22	-19	-16	-11	-11
6. Number of Israeli workers abroad	*13	*-14	-24	*-13	*-13	*-6	*-4	*-5	*0	6	8	4
B. Expected activity in the following quarter**												
7. Total orders	*-4	*-5	-28	*-12	*-7	*-7	*-7	-20	-18	10	-2	12
8. Export orders	-28	*-31	-35	*7	*-31	*-13	*5	*-6	30	10	-4	19
Number of responding companies	117	117	124	114	116	186	170	159	164	157	199	181

[1] The difference between the percentage of companies reporting an increase and those reporting a decrease .
* Not significant (at the 10% level).
** Orders or expectations of total activity in the following quarter.

Table 14
Service industries in 2003:IV
(percent of all responding companies in each category)

	Net balance						
	2003 III	2003 IV	Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
A. Activity in the quarter							
1. Total revenue from current activity	-5 (6)	-2 (6)	4	27	36	24	9
2. Sales of services in Israel	-9 (6)	0 (6)	5	26	38	23	8
3. Sales of services abroad	24 (13)	19 (15)	3	42	29	10	16
4. Number of employees	-8 (5)	-10 (5)	1	15	58	22	4
5. of which: trained	-11 (5)	-11 (5)	1	13	61	19	6
6. Number of Israeli workers abroad	8 (10)	4 (11)	0	18	68	7	7
B. Expected activity in the following quarter**							
7. Total orders	-2 (6)	12 (6)	6	31	38	18	7
8. Export orders	-4 (14)	19 (15)	8	33	37	11	11
Number of responding companies	199	181					

* Not significant (at the 10% level)
** Orders received in the quarter reviewed.
Figures in brackets are standard deviations. Values smaller (in absolute terms) than 1.64 standard deviations are not statistically significant at the 10% level.

Manufacturing Industries in 2003:III and 2003:IV

Table 15

			Number of responding companies	Total output	Domestic sales	Domestic orders [1]	Actual exports	Export orders [1]	Finished goods	Number of employees
Mining, quarrying, construction materials, and wood	**2003**	**IV**	**33**	*-9	-28	-43	*7	-21	*-13	*-9
	2003	**III**	**31**	*6	*-3	-61	*-20	*-10	*-3	-19
Food and beverages	**2003**	**IV**	**46**	-24	*-20	*10	*0	*4	-26	-20
	2003	**III**	**45**	*16	*16	*-3	*13	*13	*0	-20
Textiles, clothing, and leather	**2003**	**IV**	**30**	*14	*4	*4	*8	*12	*-17	*-13
	2003	**III**	**24**	*4	*5	*0	*20	25	*-13	*-4
Chemicals, rubber, and plastic	**2003**	**IV**	**51**	*-6	*-16	*-10	*17	*5	*0	*-10
	2003	**III**	**57**	*9	*0	-22	*2	*12	-21	*-9
Metals and machinery	**2003**	**IV**	**50**	*-2	*-15	*-4	*16	*9	*-4	-18
	2003	**III**	**61**	*5	*-8	*-14	*5	*3	*0	-20
Electronics, electricity, and transport equipment	**2003**	**IV**	**73**	*14	-15	-19	21	*10	*-2	-13
	2003	**III**	**84**	16	*3	-15	18	*11	*-3	-12
Paper, printing, and other	**2003**	**IV**	**20**	*18	*18/	*-16	*27	*20	*-14	-18
	2003	**III**	**33**	*16	*6	-23	*0	*21	*6	*-12
Total manufacturing industries excluding diamonds	**2003**	**IV**	**311**	*0	-12	-11	15	*7	-9	-14
	2003	**III**	**335**	11	*2	-19	9	11	*-5	-14
Diamonds	**2003**	**IV**	**7**	*29	*0	*17	57	29	-29	*14
	2003	**III**	**10**	-40	-44	-44	*-22	*13	*10	*-20
Total manufacturing industries	**2003**	**IV**	**318**	1	-12	-10	16	7	-10	-14
	2003	**III**	**345**	9	1	-19	8	11	-5	-14

[1] Orders received in quarter reviewed.
* Not significant (at the 10% level).

Table 16
Net balance of the principal industries and construction by size of company, 2003:IV

	Manufacturing companies					Construction companies			
	Total	Small	Middle	Large		Total	Small	Middle	Large
Output	1	*6	*1	*0	Total activity	-47	-83	-35	-52
Total sales	4	*6	*2	*5	Area of starts	-41	-83	-26	-45
Domestic sales	-12	*-3	*-9	-16	Area of completions	-28	*-17	-36	-24
Export	16	*6	15	18	Output prices in $	21	*-17	*15	32
Number of companies	318	34	128	156	Area of completions	63	6	26	31

[1] According to number of employees (small company - 1-19 employees, medium size company - 20-99 employees, large company - 100 employees or more.
* Not significant (at the 10% level).

Table 17
The severity of constraints on carrying out planned activity (average)
1-Minimal, 2-Moderate, 3-Significant, 4-Very significant

Manufacturing Industries

	2002		2003			
	III	IV	I	II	III	IV
Demand constraints						
Volume of export orders	1.6	1.7	1.8	1.5	1.6	1.4
Volume of domestic orders	**1.9**	**1.8**	**1.9**	**1.7**	**1.7**	**1.6**
Supply constraints						
Machinery and equipment shortage	0.3	0.2	0.4	0.2	0.3	0.3
Financing difficulties	**1.1**	**1.3**	**1.2**	**1.0**	**1.1**	**0.9**
Labour shortage	0.5	0.5	0.4	0.4	0.4	0.4

Transport and Communications

	2002		2003			
	III	IV	I	II	III	IV
Demand constraints						
Booking by foreign tourists	2.5	2.2	3.0	2.7	**1.8**	**1.8**
Booking by Israelis	1.4	1.2	1.9	1.6	0.9	1.5
Economic and political situation in Israel	**2.7**	**2.7**	**2.9**	**2.5**	2.3	2.5
Intensification of competition	2.3	2.3	2.6	2.4	2.3	2.5
Supply constraints						
Financing difficulties	**1.8**	**1.7**	**2.0**	**1.8**	**1.6**	**1.7**
Labour shortage	0.5	0.4	0.8	0.6	0.7	0.6

Construction

	2002		2003			
	III	IV	I	II	III	IV
Demand constraints						
Volume of demand	**2.7**	**2.9**	**3.0**	**3.0**	**2.8**	**2.7**
Supply constraints						
Input prices	1.3	1.2	1.3	1.3	1.2	1.5
Financing difficulties	2.0	2.3	2.4	2.6	2.2	2.2
Labour shortage	**2.9**	**2.6**	**2.6**	**3.0**	**3.0**	**2.9**
Machinery and equipment shortage	0.4	0.3	0.3	0.4	0.3	0.5

Hotels

	2002		2003			
	III	IV	I	II	III	IV
Demand constraints						
Booking by foreign tourists	**3.8**	**3.7**	**3.6**	**3.3**	**3.5**	**3.2**
Booking by Israelis	2.0	2.5	2.8	1.9	1.8	2.0
Economic and political situation in Israel	3.0	3.2	3.3	2.7	2.8	2.9
Supply constraints						
Financing difficulties	**2.4**	**2.3**	**2.4**	**2.4**	**2.0**	**2.0**
Labour shortage	0.4	0.5	0.4	0.6	0.6	0.5

Trade

	2002		2003			
	III	IV	I	II	III	IV
Demand constraints						
Volume of orders	**2.1**	**2.1**	2.2	1.8	**2.2**	1.5
Economic and political situation in Israel	2.3	2.3	**2.2**	**2.1**	**2.0**	**1.7**
Economic situation in the world	1.6	1.3	1.5	1.3	1.5	1.0
Supply constraints						
Financing difficulties	**1.3**	**1.4**	**1.5**	**1.0**	**1.3**	**1.0**
Labour shortage	0.3	0.3	0.3	0.4	0.4	0.4

Service Industries

	2002		2003			
	III	IV	I	II	III	IV
Demand constraints						
Economic and political situation in Israel	**2.1**	**2.0**	**2.2**	**2.0**	**2.0**	**1.8**
Global Economic situation	1.7	1.5	1.5	1.3	1.3	1.2
Intensification of competition	1.8	1.8	1.8	1.9	2.0	1.8
Supply constraints						
Financing difficulties	**1.4**	**1.3**	**1.3**	**1.4**	**1.3**	**1.3**
Labour shortage	0.5	0.5	0.5	0.5	0.5	0.6

APPENDIX

Explanatory Notes

This quarterly survey, the eighty-second (the eighteenth to appear in English) relates to developments in 2003:IV, and includes assessments and expectations regarding 2004:I. The survey's findings are based on responses to the questionnaire received from companies in the manufacturing industries, trade, construction, hotels, transport and communications, and business services. All the questions are qualitative, i.e., the companies are asked to report on the direction of changes in the different variables (increase, decrease, or no change), and on the degree of change (great, slight). The survey is intended to serve decision-makers as a tool which complements the quantitative data.

In all industries except for hotels, companies are asked to indicate the actual change compared with the previous quarter, without seasonal or other adjustments. In the hotel industry, companies are asked to report the change from the equivalent quarter in the previous year.

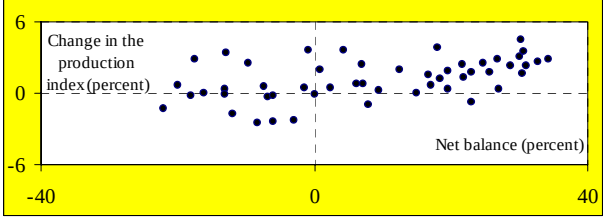
The results are not weighted by the size of the company, but in the analysis of the results in manufacturing industries and construction, the main results are also shown with the companies grouped by size.

The results are analyzed by means of the net balance, defined as the difference between the percentage of companies reporting increases and the percentage of those reporting decreases. A net balance of zero in a category shows that there was no change in the level of that category compared with the previous quarter. A negative balance indicates a decrease, and a positive one, an increase.

The standard deviation is affected *inter alia* by the number of observations in the sample, and by the distribution of the responses in each category. The smaller the number of observations, the greater the standard deviation.

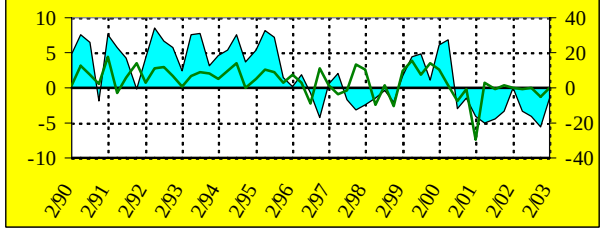
The data on the net balance for the quarter reviewed and the previous one are based on a summary of the responses of all the companies which responded, and not only those which participated in both surveys. The data in all the tables are in terms of percent of the companies which responded.

Figure A2: The Change in the Index of Manufacturing Production (seasonally adjusted) and the Net Balance of Output in Manufacturing Industries, 1990 I - 2003 I



It can be seen from the conclusions of the survey that

Figure A1: Manufacturing Industries - Net Balance of utput (shaded area, right scale) and Index of Manufacturing Production (Seasonally Adjusted - line, left scale)*



there is a clear connection between the net balance of the

'activity' item for the various industries and the change in their activity as published later by the Central Bureau of Statistics; as far as the index of manufacturing production is concerned, this can be seen in the accompanying figures. In general, when the net balance was positive, manufacturing output increased in the great majority of observations.

The net balance of activity in the transport and communications industry is calculated as the weighted average of the net balances of the separate components of the industry, with every net balance weighted by the share of that component's product in the product of the whole industry. Due to factors related to the calculation of the standard deviations, neither the standard deviations nor the significance of the net balances are shown.

The net balances of manufacturing companies, classified by the number of skilled workers in that industry and its degree of innovation (see Table 2.10 on p.53 of the Bank of Israel 1999 Annual Report), are shown in Figure 7. The advanced industries (chemicals, machinery, electrical and electronic equipment, etc.) account for 30 percent of the sample, the traditional industries (food, drink and tobacco, clothing, textiles and leather, wood, paper, and printing, non-metallic mineral products, iron, steel, and metal products, and diamonds) make up 55 percent of the sample. The balance, about 15 percent, consists of mixed industries (mines and quarries, rubber and plastic, and miscellaneous).