



Bank of Israel * Research Department

Companies Survey

First quarter of 2009

Jerusalem, April 2009
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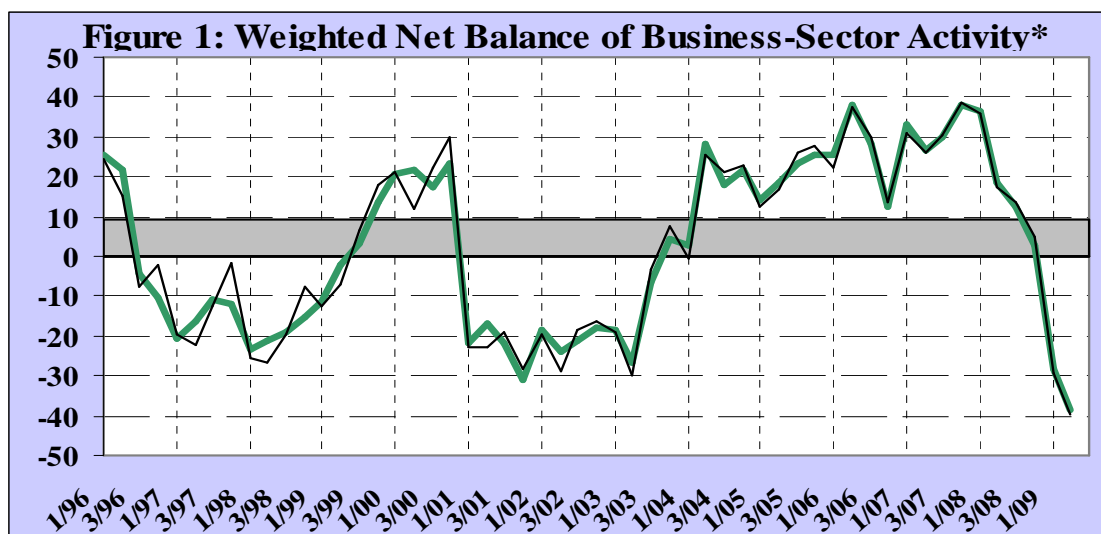


Companies Survey - First Quarter of 2009– Main Results

Reports from companies and businesses indicate that business activity continued to contract in the first quarter of 2009, and, according to the survey reports, it was the demand side in particular that constrained their activity. In the review quarter the net balance of overall activity in the business sector further decreased, to a level even lower than that recorded at the peak of the slowdown at the beginning of the decade (Figure 1). In this quarter, for the first time, the slowdown spilled over into hotels as well – the net balance of the industry is especially negative. In the other industries the net balances are also negative, similar to those of the previous quarter, and even greater than the previous quarter in some industries. The leading index of activity reflects expectations of a further decline in activity. Parallel to the continuing decline in activity, the expected level of inflation for the next 12 months further decreased, and is already close to the lower limit of the inflation target.

Manufacturing output continued to contract, similar to the contraction in the previous quarter, and is reflected in a fall in both domestic sales and in exports—a result of a worsening of the demand constraints in Israel and worldwide due to the global crisis. In **commerce**, a fall in sales was recorded, continuing the fall in the previous quarter. In **business services**, the companies reported a further fall in revenue, in the wake of the decrease in activity in Israel and abroad. The companies expect the fall in activity in this industry to continue. **Hotels** recorded a sharp downturn in activity, for the first time since the decline of 2006, in the wake of the decrease in internal tourism and especially the downturn in the development of inbound tourism. **Transport and communications** companies recorded a decrease in activity, particularly in communications, but also in transport in the wake of the decline in tourism. The decline in tourism intensified the severity of demand-side constraints in the industry, while the supply-side constraints are less burdensome than in the past. **Construction** has contracted, especially because of the increased severity of demand constraints, and a substantial decline in activity in the peripheral areas, alongside an increase in activity in the central area. Expectations for the next quarter are that the contraction in the industry will be halted.

Companies' reports on **employment** indicated a decrease in the number of employees in all sectors. Average **expectations of inflation** for the next twelve months have decreased, and are approaching the lower limit of the price-stability target— 1.4 percent as opposed to 1.7 percent in the previous survey. The companies expect, on average that the **NIS/\$ exchange rate** will be NIS 4.36 twelve months hence, as against NIS 4.14 in the previous survey.

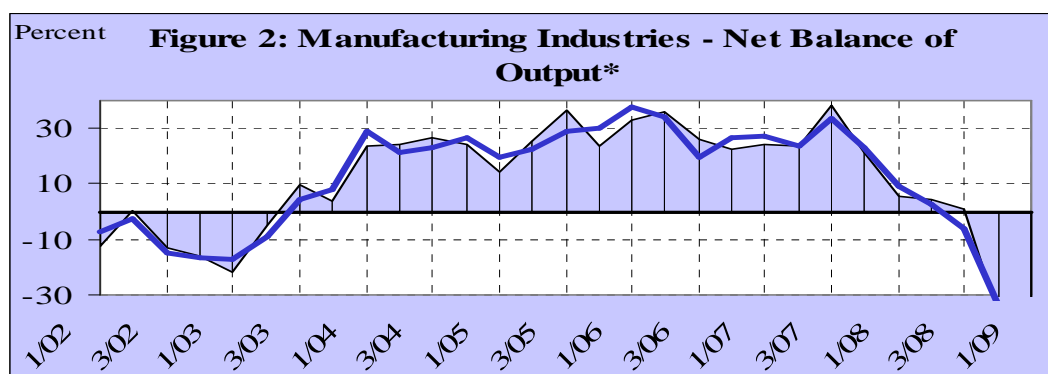


1. Macroeconomic developments

An analysis of the responses of all companies and businesses participating in the survey, with each industry's net balance weighted by its share in business-sector product, shows that in the first quarter of 2009 the influence of the global crisis on the business sector in Israel intensified (Figure 1). Activity in all industries contracted—as reflected in their negative net balance, and the hotel industry had a negative net balance for the first time since the appearance of the changing trend in the economy. The activity of the companies participating in the survey declined both in the domestic and the overseas markets.

The leading index of activity in the business sector indicates a further moderation in the business sector, and the industrial leading index indicates a downturn in each of the industries in the business sector.

The increasing severity of financing constraints was arrested and even eased somewhat among large and medium-sized companies. While this constraint slightly intensified among the small companies, this slight intensification—after being severe for some time—in conjunction with the easing in constraints among the other companies, could signal an improvement in this area.



2. Industry developments

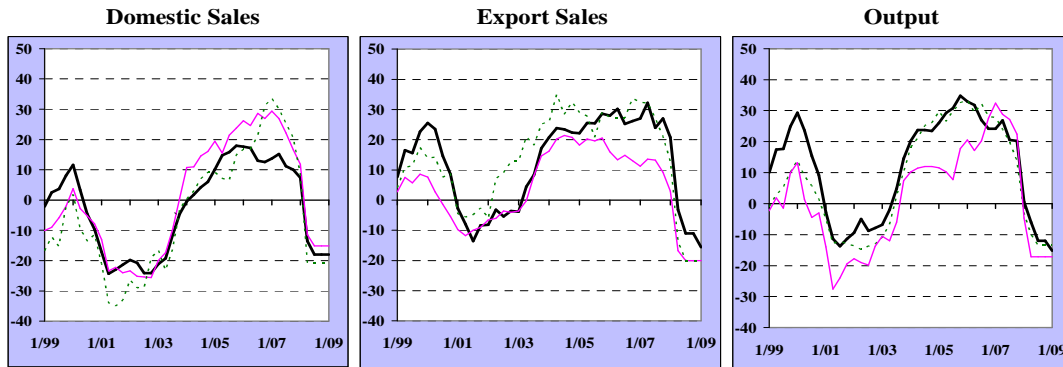
Reports from manufacturing companies show that the contraction in activity has continued in 2009:Q1, a continuation of the declining net balance in 2008:Q4 and the slowdown that began to appear in the survey data at the beginning of that year (Table 3 and Figure 2). The contraction was reflected in a decrease in the net balance of both domestic sales and exports, and resulted mainly from the worsening of the demand-side constraints in Israel and abroad. The moderation of activity in the industry was also reflected in the development of factors of production in the industry: the companies reported a decrease in headcount and an accelerating decrease in the utilization rate of machinery and equipment. For the next quarter, the companies also expect the decrease in activity to continue in the domestic and the export markets—at a similar rate to that recorded in the current quarter.

The classification of manufacturing companies into three groups of industries by their degree of technological innovativeness—low-, medium-, and high-tech—shows that the substantial decrease in the net balance encompassed all three groups. The sharpest decrease was in the medium-tech group, probably because the slowdown in this group took place relatively later than in the other industries. The companies' reports on orders for the coming quarter show a continuing decrease in their activity, at a similar rate to that recorded in the current quarter (Table 1.1 and Figure 3).

An examination of industries by subcategories (Table 15) shows that the contraction in manufacturing was greatest in the medium-tech industries of mining, quarrying, building materials and wood, which grew rapidly until the end of last year, followed by a sharp decrease in their activity in the first quarter of the current year.

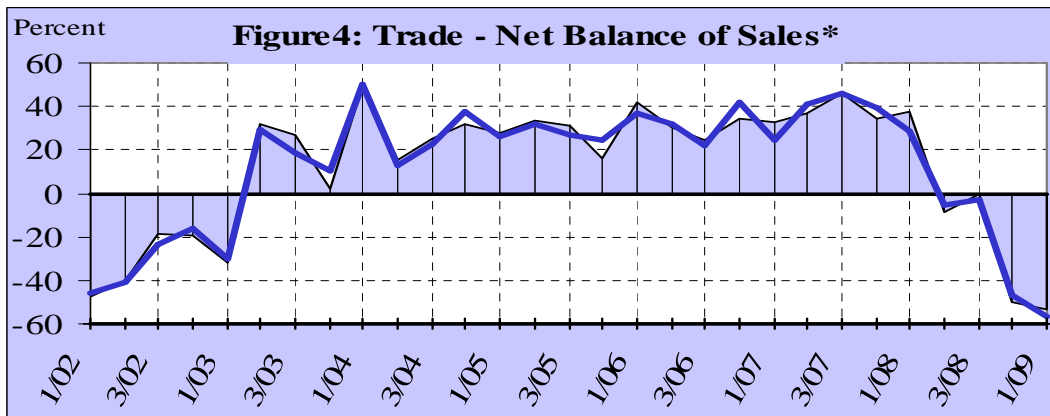
The classification of manufacturing companies by size (number of employees) shows that the severity of the contraction is greater among the medium-sized companies.

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

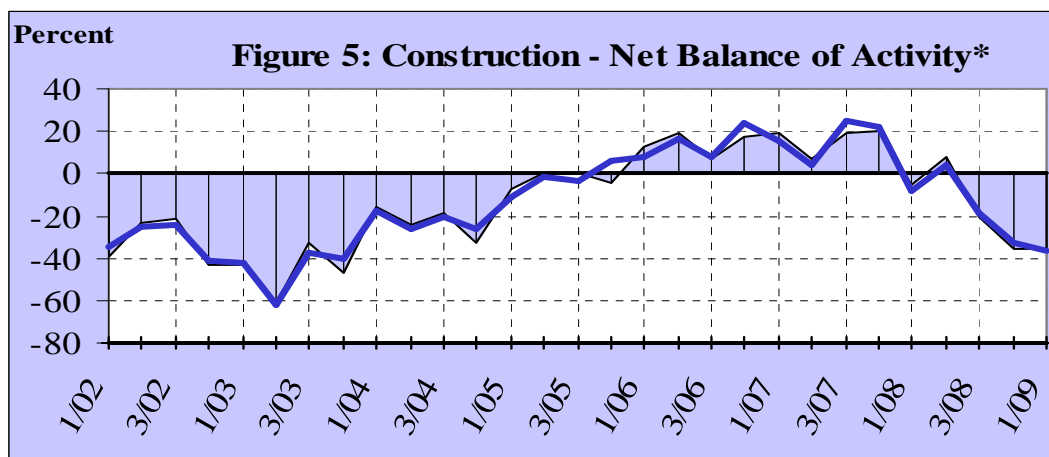


^a Moving average, outlying observations - unadjusted data
 Thick line - advanced industries
 Thin line - traditional industries
 Dotted line - mixed industries

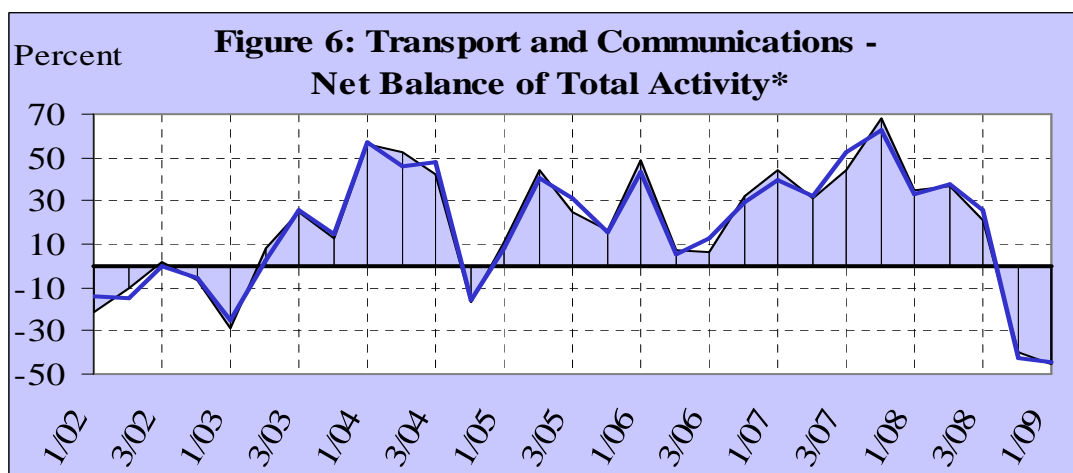
According to the reports of companies in commerce, the volume of sales fell in the first quarter, continuing the fall of the previous quarter, and consistent with the companies' forecast for the review quarter. In light of the fall in sales in the review quarter and in the previous quarter, the companies in commerce expect a further decrease in the number of employees in the industry. The companies do, however, expect a more moderate fall in sales in the next quarter (Table 5 and Figure 4). The source of the decrease in activity is mainly a function of the high level of demand-side constraints, relative to their average level last year (Table 17 and Figure 9a).



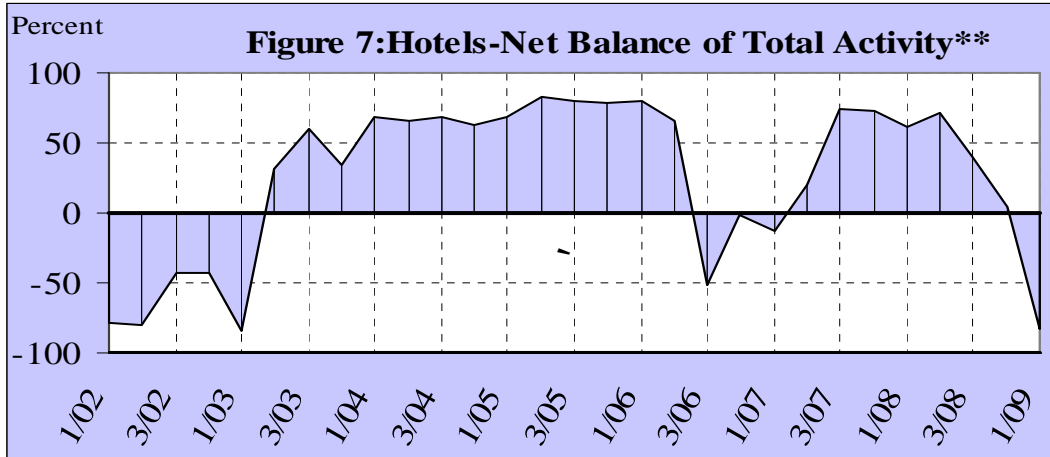
Construction companies reported a decrease in activity in the review quarter, a direct continuation of the decline in recent quarters (Table 7 and Figure 5), and the lack of progress in this industry for some time. The decline affected both infrastructure construction and building construction. According to the companies' reports, the continuing decline in activity is due to demand-side constraints, while the supply-side constraints, particularly those connected to the prices of inputs are not as burdensome as reported last year. The demand-side constraints are particularly severe in the peripheral areas: the decrease in construction activity in the north and the south of the country led the decrease in activity in the industry; activity in Jerusalem remained unchanged, while in the center of the country it even increased.



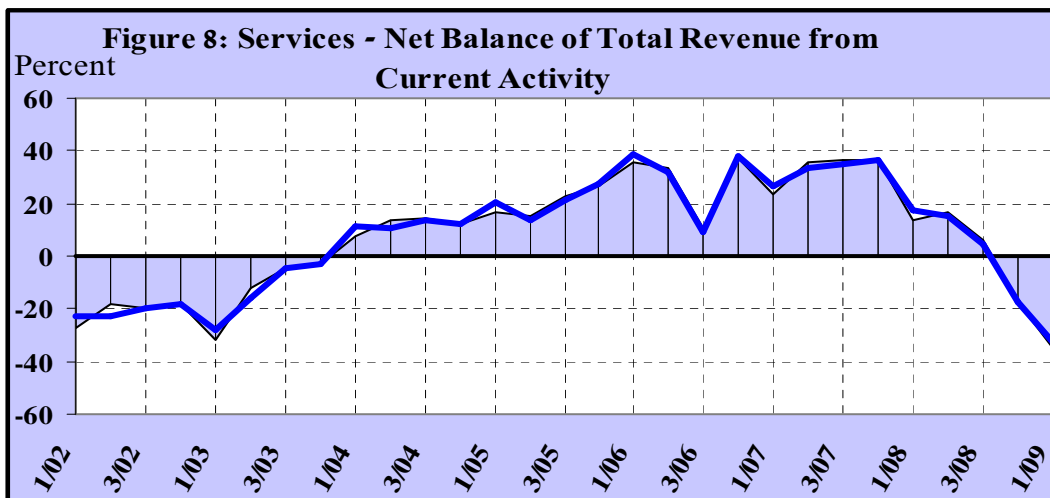
Reports from **transport and communications** companies indicate that activity contracted in the review quarter at a greater rate than in the previous quarter. The source of the decline lies mainly in the decreased volume of communications services, but is also evident in other areas (Table 9 and Figure 6). An analysis of the severity of the constraints for further growth points to a worsening of demand-side constraints for transportation as a result of the decline in the volume of internal and inbound tourism. Against this, there has been a substantial easing in the demand-side constraints. (Table 17 and Figure 9a.) The companies thus expect a continuing decline in their activity in the next quarter, although at a more moderate rate.



Companies in the **hotel** industry reported a sharp decline in activity (relative to the year-earlier quarter; Table 11 and Figure 7), following two years of expansion in the industry. In particular, after a sharp and continuous growth in inbound-tourist bed-nights, the number of bed-nights decreased in the review quarter, and the severity of the demand constraints, which include local and inbound tourists, rose sharply. The companies report a further decline in the next quarter, as reflected in the pronounced decrease in the volume of reservations for the next quarter. Also significant is a worsening in financing constraints, despite the slight easing in this constraint in the other industries reviewed.



Business-services companies reported a further significant decline in activity arising from a fall in sales of high-tech and other services in Israel and abroad (Table 13 and Figure 8). This moderation is also evident in a decrease in the number of employees, continuing the trend of the previous quarter. In this industry as in the other industries in the business sector, the decline is a result of the severity of demand constraints (Table 17 and Figure 9). Companies expect the decline in activity to continue in the next quarter.

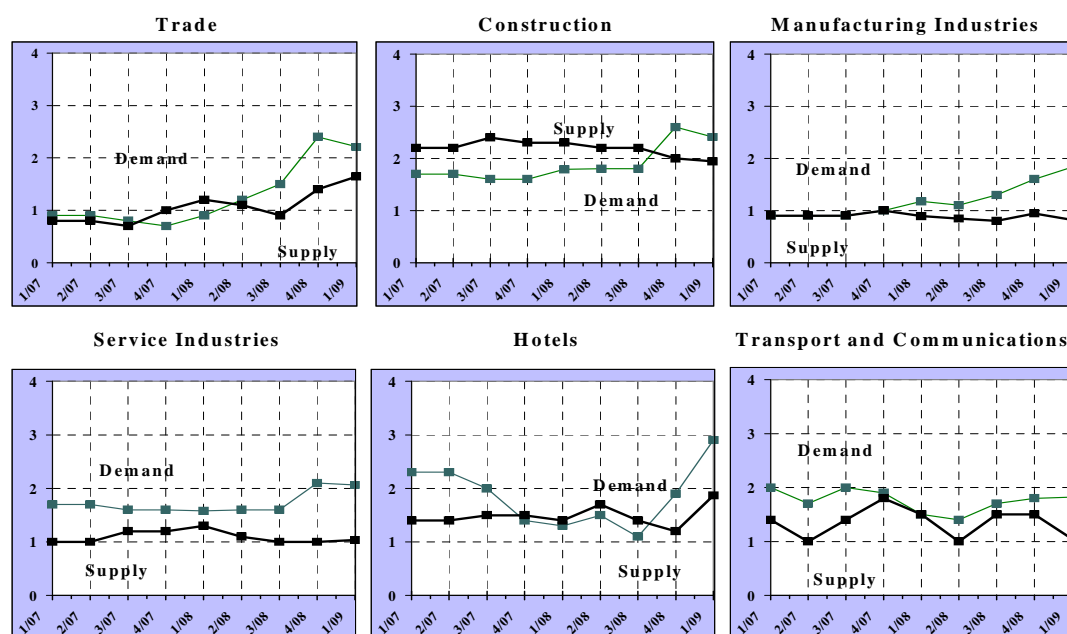


	2006			2007				2008				2009
	II	III	IV	I	II	III	IV	I	II	III	IV	I
Industry (output)	36	26	22	24	24	38	21	*6	*4	*1	-37	-36
seasonally adjusted	34	19	27	27	24	34	23	9	*3	*6	-34	-34
Trade (sales)	31	*24	34	32	37	46	34	38	*8	*0	-50	-54
seasonally adjusted	32	*22	42	24	41	46	39	29	*5	*3	-46	-57
Construction (total activity)	19	*7	18	19	*7	19	20	*6	*8	-20	-35	-35
seasonally adjusted	16	*8	24	*15	*4	25	22	*8	*4	*19	-33	-36
Transport and communications (total activity)**	7	6	32	44	31	44	69	35	37	33	-40	-45
seasonally adjusted	6	13	29	40	32	53	62	33	38	33	-46	-45
Hotels (total activity)***	66	-51	-2	-13	20	75	73	61	72	40	5	-83
Service industries	34	10	37	23	35	37	36	14	17	6	-17	-35
seasonally adjusted	32	*9	38	27	33	35	36	17	15	*5	-18	-32
Total business sector	30	14	31	26	30	39	36	17	13	5	-29	-40
seasonally adjusted	28	12	33	26	30	38	37	18	12	3	-28	-39

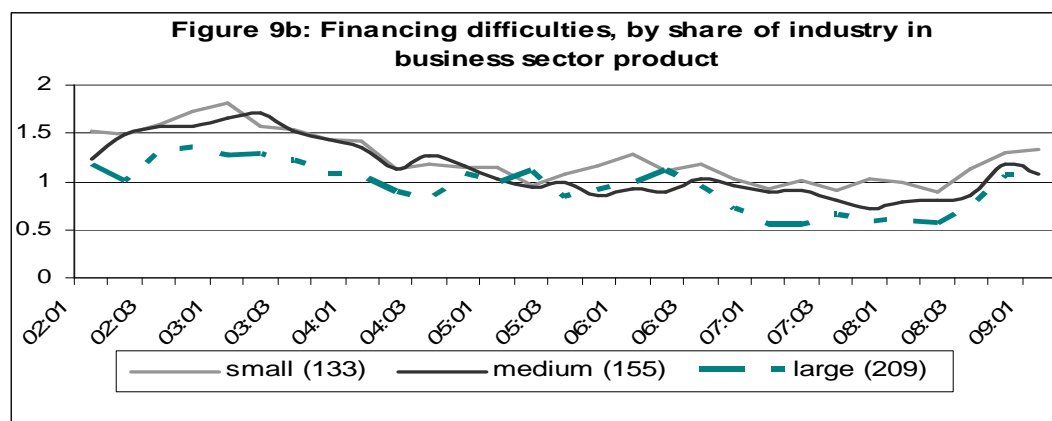
	2006			2007				2008				2009
	II	III	IV	I	II	III	IV	I	II	III	IV	I
Advanced companies	33	17	31	18	22	33	30	*9	16	*2	-41	-35
Mixed companies	39	*18	*8	24	49	63	*14	*0	*3	*18	-48	-38
Traditional companies	37	36	20	30	17	35	17	*5	*5	*6	-31	-36

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

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



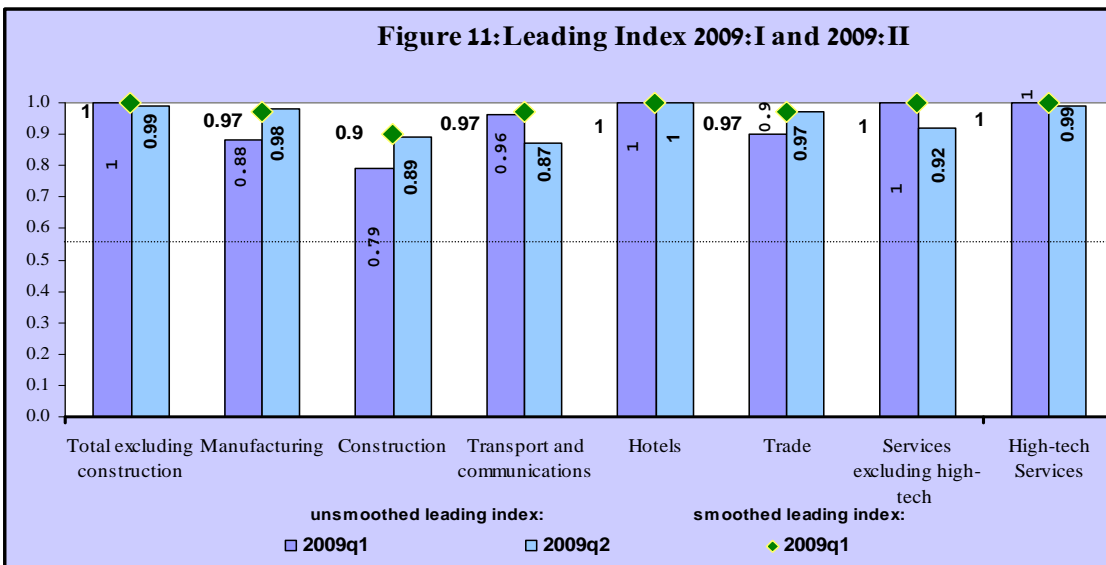
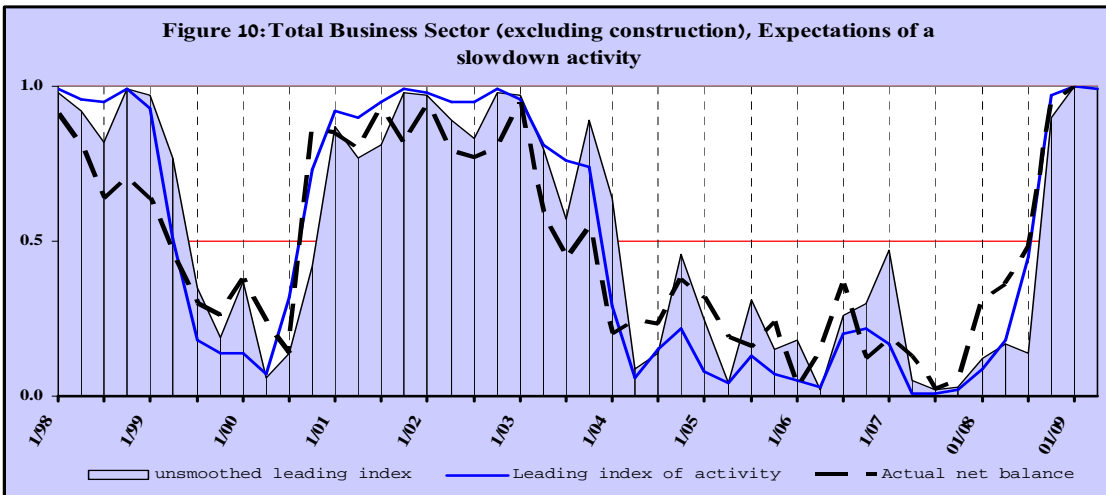
1) For every quarter the most severe constraint on the demand side and on the supply side is chosen.
 Source: Table 17.



The leading index

The leading index (excluding construction) in this survey foresees a further decline in business-sector activity in the second quarter of 2009. Already in the third quarter of 2008, the leading index expected a decline in activity, which was realized in the following quarter. These expectations later intensified, and in the review quarter the leading index is already approaching one,¹ and almost certainly expects a decrease in the volume of activity. This value expresses the substantial decrease in the category of orders and expectations for the next quarter; however, in comparison with the very negative net balances of activity in the current quarter, these categories decrease moderately.

In addition to the leading index, which is calculated at the level of the business sector (Figure 11), the index is also calculated for each of the six industries covered in the survey and for the high-tech-services industry (Figure 10 and Diagrams A-H in the Appendix). The leading indices in this survey suggest that activity will continue to decline in all industries.



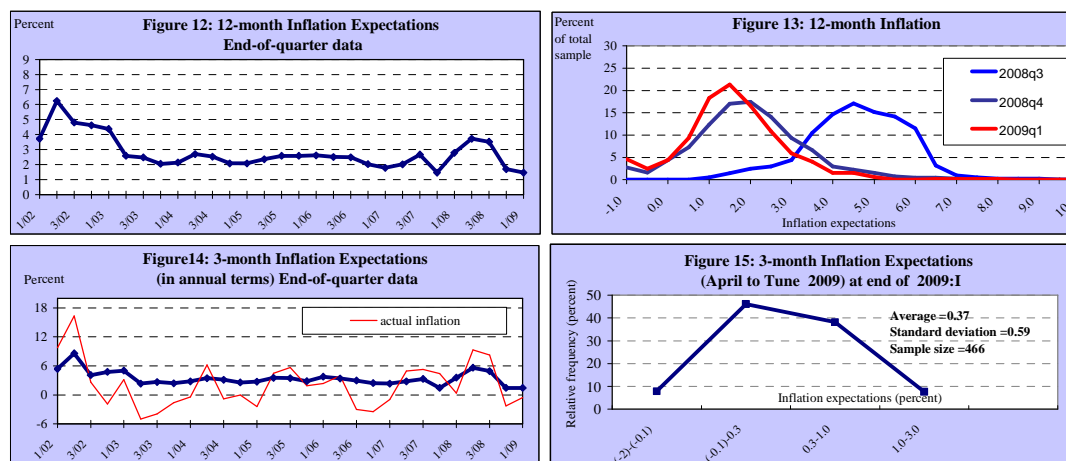
¹ As long as the leading index is below the 0.5 threshold, one cannot state with certainty that the growth rate will slow in the next quarter. If the index crosses the threshold, an easing of activity in the next quarter may be inferred.

Survey of inflation expectations

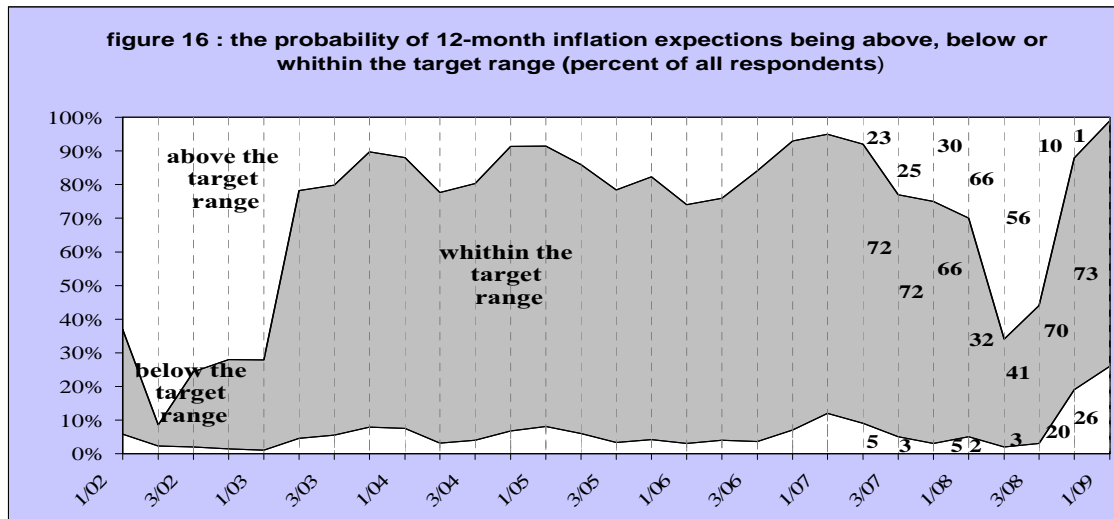
Companies' expectations about the cumulative rate of price increases during the next twelve months (March 2009–March 2010) fell to 1.4 percent, which is close to the lower limit of the inflation target. This is a continuation of the sharp decline in the inflation-expectations environment that was recorded in the previous quarter (Figure 12 and Table 2).

Parallel to the average decrease in expectations of inflation for the next 12 months, the inflation-expectations distribution also attests to a moderation in expectations of price rises—the median of the distribution in this quarter fell to 1.25 percent, and the mode fell to 1.0 percent, the lower limit of the inflation target. At the same time, the variance of the expectations remained high, similar to the recent quarters that are characterized by a changing trend accompanied by fluctuations (Figure 13). The expected rate of price increases in the next quarter (March–June 2009) remained at an annualized level of 1.5 percent (Figure 14).

The inflation-expectations survey also shows that the share of companies that expected the inflation rate to overshoot the lower limit of the price-stability target² grew in this quarter to 26 percent as against 20 percent in the previous quarter (the bottom section of Figure 16). The proportion of companies that expected inflation in the next twelve months to fall within the price-stability target showed an increase from 70 percent in the previous quarter to 73 percent in this quarter (the middle section in Figure 16). The proportion of companies expecting inflation in the next twelve months to overshoot the price-stability target is only one percent (the upper section of the Figure).



² The target range of inflation for the next twelve months is 1–3 percent.



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

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

The upper area denotes the share of respondents who expect 12-month inflation to exceed the target range.

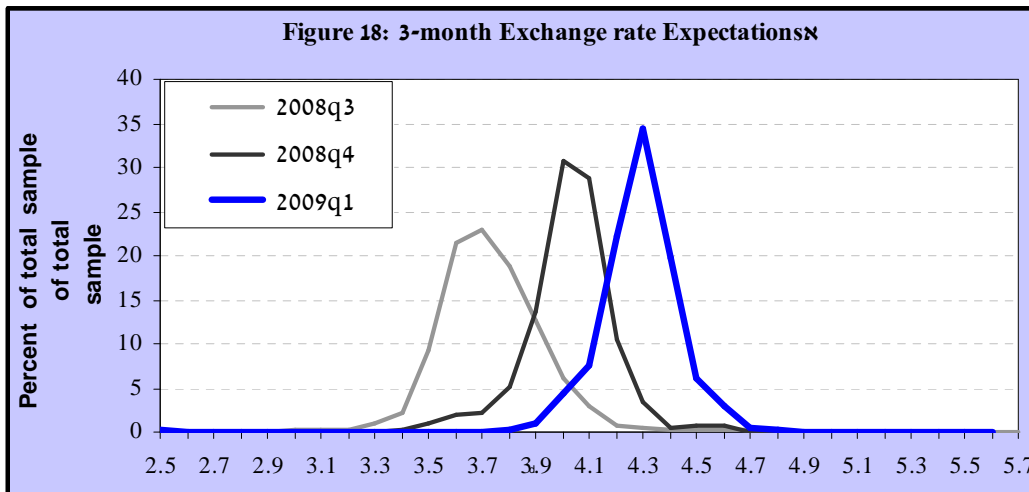
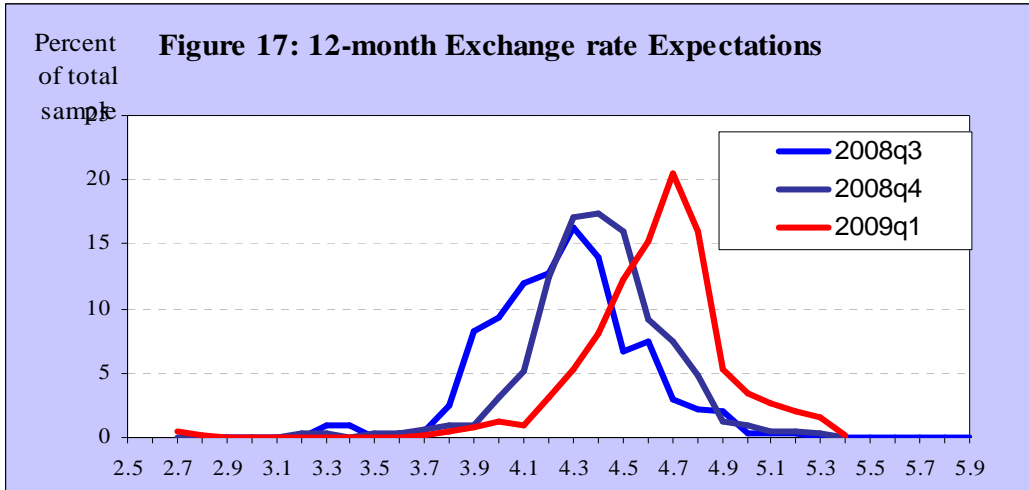
Table 2: Statistic Analysis of 12-month Inflation Expectations

	2006			2007				2008				2009
	II	III	IV	I	II	III	IV	I	II	III	IV	I
1. Mode	3.00	2.00	2.00	2.00	2.00	3.00	3.00	3.00	4.00	3.00	2.00	1.00
2. Median	2.50	2.50	2.00	1.70	2.00	2.50	2.80	2.90	3.80	3.50	1.50	1.25
3. Average	2.65	2.47	2.01	1.78	2.02	2.67	2.77	2.69	3.70	3.52	1.70	1.47
4. Standart Deviation	1.10	1.02	0.99	0.91	0.93	1.09	0.92	1.04	1.42	1.44	1.37	1.31
5. Skewness	-0.35	0.47	0.01	-0.22	0.02	-0.33	-0.23	-0.31	-0.30	-0.30	-0.30	0.47
Number of responding companies	519	469	469	456	487	413	504	483	472	490	470	466

is the difference between average and mode *

Expectations regarding changes in the NIS/dollar exchange rate

The companies and businesses participating in the survey were asked about their expectations of the level of the NIS/\$ exchange rate at the end of the next quarter (June 30, 2009) and one year from the end of the survey period (March 31, 2010). The latter expectation was NIS 4.36 as against NIS 4.14 in the previous survey. The variance in expectations to twelve months ahead showed a slight increase (Figure 17). The exchange rate that the companies expected (on average) to see at the end of the next quarter was NIS 4.22 as against NIS 3.96 in the previous quarter. Note that the average exchange rate at the time the companies completed the survey questionnaire was NIS 4.13.



Manufacturing Industries

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

	2006			2007				2008				2009
	II	III	IV	I	II	III	IV	I	II	III	IV	I
1. Output	36	26	22	24	24	38	21	*6	*4	*1	-37	-36
2. Sales	36	27	25	23	26	33	26	*-1	*7	*-1	-46	-41
3. Domestic sales	21	23	22	19	26	31	17	*-1	*0	*-5	-42	-43
4. Export	32	11	22	16	25	29	26	*5	*8	*-4	-42	-42
5. Stocks of finished goods	16	10	9	12	15	22	18	9	9	*4	*-8	-25
6. Stocks of raw materials	13	12	*4	7	*6	17	11	10	*6	11	*3	-13
7. Rate of utilization of machinery and equipment	22	13	14	14	17	25	8	*-2	*-3	-8	-39	-41
8. Number of employees	17	9	11	10	15	15	16	*2	*-3	*-5	-36	-41
9. Domestic orders	13	9	*6	12	16	15	10	*5	*-2	-23	-50	-45
10. Export orders	23	10	17	21	22	28	15	*4	9	-11	-45	-46
Number of responding companies	304	261	250	251	237	220	252	270	265	272	271	227

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 2009:I
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2008 IV	2009 I					
A. Activity in the quarter							
1. Output	-37 (5)	-36 (5)	3	17	24	30	26
2. Sales	-46 (5)	-41 (5)	5	17	15	32	31
3. Domestic sales	-42 (5)	-43 (5)	2	12	29	34	23
4. Export	-42 (5)	-42 (6)	2	14	26	27	31
5. Stocks of raw materials	-8 (5)	-25 (5)	3	15	39	35	8
6. Stocks of finished goods	3 (5)	-13 (5)	5	18	41	27	9
7. Rate of utilization of machinery and equipment	-39 (4)	-41 (5)	2	13	29	36	20
8. Number of employees	-36 (4)	-41 (4)	1	4	49	36	10
B. Expected activity in the following quarter**							
9. Domestic orders	-50 (4)	-45 (5)	2	8	35	33	22
10. Export orders	-45 (5)	-46 (5)	1	11	30	31	27
Number of responding companies	271	227					

** Orders received in the quarter reviewed.

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

Trade

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

	2006			2007				2008				2009
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Sales	31	*24	34	32	37	46	34	38	*-8	*0	-50	-54
2. End-of-quarter stock	26	*18	*17	24	37	30	34	*16	*17	*9	*-17	*-14
3. Percent of credit sales	*11	*-3	*3	21	27	17	22	25	19	*12	*11	*4
4. Supply period	*9	*4	0	15	15	14	*3	*6	*0	*3	-9	-12
B. Expected activity in the following quarter												
5. Forecast change in number of permanent employees	*0	*3	*0	9	*7	*8	16	*9	*6	*-17	-53	-59
6. Sales expectations	50	*-3	39	47	73	57	63	*22	53	*-3	-35	-36
Number of responding companies	36	29	29	34	30	24	32	32	36	36	36	28

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 2009:I
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2008 IV	2009 I					
A. Activity in the quarter							
1. Sales	-50 (14)	-54 (14)	7	7	18	43	25
2. End-of-quarter stock	-17 (14)	-14 (15)	0	25	36	32	7
3. Percent of credit sales	11 (11)	4 (11)	11	7	68	14	0
4. Supply period	-9 (5)	-12 (6)	0	0	88	8	4
B. Expected activity in the following quarter							
5. Forecast change in number of permanent employees	-53 (10)	-59 (11)	0	4	33	59	4
6. Sales expectations for following quarter	-35 (15)	-36 (16)	4	21	14	36	25
Number of responding companies	36	28					

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

Construction

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

	2006			2007				2008				2009
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total activity	19	*7	18	19	*7	19	20	*-6	*8	-20	-35	-35
of which 2. Buildings	21	*10	21	23	*-3	*13	17	*3	*0	*-6	-31	-45
3. Infrastructure	*15	*-12	23	33	30	*8	24	*-7	*9	-30	-36	-46
4. Output prices in dollar terms	28	24	21	21	23	30	38	40	49	26	*-17	-27
5. Area of building starts (sq. m.)	*-3	*-5	*0	26	*-8	*-10	*-3	*-12	*-5	-40	-42	-39
6. Area of building completions (sq. m.)	*-8	*0	*-8	*6	*10	*-10	*0	*9	*5	*-3	*-12	-27
7. Building time	*16	33	16	28	21	27	15	18	*8	26	*3	*0
B. Expected activity in the following quarter**	22	23	20	34	23	*6	25	*3	*-5	-22	-49	*-20
Number of responding companies	42	43	41	37	42	33	44	36	41	36	35	35

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 2009:I
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2008 IV	2009 I					
A. Activity in the quarter							
1. Total activity	-35 (12)	-35 (12)	3	9	41	29	18
of which Buildings	-31 (11)	-45 (12)	3	7	35	32	23
Infrastructure	-36 (12)	-46 (11)	0	4	46	35	15
2. Output prices in dollar terms	-17 (12)	-27 (10)	3	3	61	30	3
3. Area of building starts (sq. m.)	-42 (11)	-39 (14)	0	18	25	26	31
4. Area of building completions (sq. m.)	-12 (12)	-27 (11)	0	9	55	30	6
5. Building time	3 (8)	0 (9)	3	9	76	9	3
B. Expected activity in the following quarter	-49 (11)	-20 (13)	0	20	40	26	14
Number of responding companies	35	35					

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

Transport and Communications

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

	2006			2007				2008				2009
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total activity	*7	*6	*32	44	*31	44	69	*35	37	*21	-40	-45
2. Sales of services to residents	*16	31	48	47	*38	44	68	*32	*38	*30	-44	-51
3. Sales of services to nonresidents	*12	27	*1	42	*9	*13	*20	*-6	*-10	16	-11	-42
4. Utilization of equipment (capacity utilization, etc.)	*21	*-15	38	*49	58	41	45	*39	36	*17	-44	-57
B. Expected activity in the following quarter**	*38	61	*45	*48	*35	46	59	72	34	*7	*-41	*-22
Number of responding companies	21	18	22	24	21	21	24	28	20	25	30	24

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

See Appendix for explanation of the weighting.

** Orders or expectations of total activity in the following quarter.

Table 10
Transport and Communications in 2009:I
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2008 IV	2009 I					
A. Activity in the quarter							
1. Total activity	-40	-45	0	18	18	39	24
2. Sales of services to residents	-44	-51	0	18	12	46	23
3. Sales of services to nonresidents	-11	-33	0	9	49	12	30
4. Utilization of equipment (capacity utilization, etc.)	-44	-57	0	6	28	28	35
B. Expected activity in the following quarter	*-41	-31	3	12	36	21	25
Number of responding companies	30	24					

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

Hotels

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

	2006			2007				2008				2009
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total activity	66	-51	*-2	*-13	*20	75	73	61	72	40	*5	-83
2. Number of bed-nights: Tourists	64	-78	-44	-31	*-4	65	70	70	85	45	*10	-85
3. Number of bed-nights: Israelis	*-2	-25	*-12	*-2	*-11	*0	*-18	*-8	*0	*13	-45	-71
4. Average revenue per room	62	*-6	*18	36	23	67	49	24	26	26	43	*0
B. Expected activity in the following quarter**												
Number of responding companies	47	49	50	48	45	40	40	37	39	47	40	42

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 2009:I
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2008	2009					
	IV	I					
A. Activity in the quarter							
1. Total activity	5 (15)	-83 (7)	0	5	7	43	45
2. Number of bed-nights: Tourists	10 (14)	-85 (7)	0	5	5	27	63
3. Number of bed-nights: Israelis	-45 (12)	-71 (10)	3	6	11	58	22
4. Average revenue per room	43 (12)	0 (15)	20	24	12	29	15
B. Expected activity in the following quarter							
Number of responding companies	40	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.

Service industries

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

	2006			2007				2008				2009
	II	III	IV	I	II	III	IV	I	II	III	IV	I
A. Activity in the quarter												
1. Total revenue from current activity	35	34	*10	37	23	37	36	14	17	*6	-17	-35
2. Sales of services in Israel	36	33	*8	36	20	27	33	10	16	*4	-16	-37
3. Sales of services abroad	29	21	*26	46	*0	33	36	18	21	*1	*-13	-36
4. Number of employees	24	19	10	13	15	22	25	21	12	*7	-16	-27
5. of which: trained	27	12	*8	17	17	26	29	24	14	*6	-10	-24
6. Number of Israeli workers abroad	29	12	*0	16	15	*7	*6	9	*-3	*0	*-1	-17
B. Expected activity in the following quarter**												
7. Total orders	46	39	26	27	42	41	40	23	25	*-2	-38	-27
8. Export orders	31	*17	*6	*13	32	52	29	36	22	*8	-36	-25
Number of responding companies	178	150	155	151	202	163	188	197	191	188	204	170

¹The 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 2009:I
(percent of all responding companies in each category)

	Net balance		Significant Increase	Moderate Increase	No Change	Moderate Decrease	Significant Decrease
	2008 IV	2009 I					
A. Activity in the quarter							
1. Total revenue from current activity	-17 (5)	-35 (6)	2	15	31	31	21
2. Sales of services in Israel	-16 (5)	-37 (6)	1	12	37	33	17
3. Sales of services abroad	-13 (10)	-36 (10)	0	16	32	35	17
4. Number of employees	-16 (4)	-27 (5)	0	9	55	32	4
5. of which: trained	-10 (4)	-24 (5)	0	8	60	26	6
6. Number of Israeli workers abroad	-1 (4)	-17 (5)	0	0	83	13	4
B. Expected activity in the following quarter**							
7. Total orders	-38 (5)	-27 (6)	5	14	35	34	12
8. Export orders	-36 (9)	-25 (11)	8	13	33	38	8
Number of responding companies	204	170					

* Not significant (at the 10% level)

** Orders received in the quarter reviewed.

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

Table 15: Manufacturing Industries in 2008:IV and 2009:I

			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	2009	I	25	-36	-44	-27	-67	-58	*-17	-48
	2008	IV	25	-58	-64	-74	-46	-58	*0	-44
Food and beverages	2009	I	39	*-5	*-5	-36	*-16	-32	*-5	-15
	2008	IV	40	*-18	*-18	*-12	*-16	-28	-20	-18
Textiles, clothing, and leather	2009	I	11	-50	-70	-50	*-30	*-30	*-27	-45
	2008	IV	21	-37	*-25	-50	-33	-44	*24	-43
Chemicals, rubber, and plastic	2009	I	37	-46	-51	-41	-38	-41	*-14	-43
	2008	IV	50	-48	-62	-60	-52	-48	*4	-40
Metals and machinery	2009	I	37	-68	-76	-70	-63	-64	*-11	-51
	2008	IV	43	-53	-58	-65	-70	-67	*-12	-49
Electronics, electricity, and transport equipment	2009	I	54	-25	-38	-42	-40	-45	*-12	-46
	2008	IV	62	-28	-29	-44	-27	-34	*13	-34
Paper, printing, and other	2009	I	17	-38	-38	-71	-45	-45	-31	-41
	2008	IV	22	*0	*-19	-40	*-23	*0	26	*-9
Total manufacturing industries excluding diamonds	2009	I	220	-35	-43	-45	-42	-46	-14	-41
	2008	IV	263	-36	-41	-49	-40	-43	*2	-35
Diamonds	2009	I	7	-57	-50	-50	-57	-57	*14	-57
	2008	IV	8	-100	86	-83	-86	-100	*25	-88
Total manufacturing industries	2009	I	227	-36	-43	-45	-42	-46	-13	-41
	2008	IV	271	-37	-42	-50	-42	-45	*3	-36

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, 2009:I**

	Manufacturing companies				Construction companies				
	Total	Small	Middle	Large	Total	Small	Middle	Large	
Output	-36	-68	-57	-27	Total activity	-35	-67	*-25	-40
Total sales	-41	-41	-53	-32	Area of starts	-39	*-33	-47	-33
Domestic sales	-43	-45	-51	-37	Area of completions	-27	*-33	-53	*0
Export	-42	-66	-57	-34	Output prices in \$	-27	*-33	-33	*-20
Number of companies	227	22	90	115	Area of completions	35	3	16	16

¹ According to number of employees (small company - 1-19 employees, medium size company - 20-99 employees, large company - 100 employees or more).

* Not significant (at the 10% level).

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

Manufacturing Industries							Transport and Communications						
	2007		2008			2009		2007		2008			2009
	IV	I	II	III	IV	I		IV	I	II	III	IV	I
Demand constraints							Demand constraints						
Volume of export orders	1.0	1.2	1.1	1.3	1.6	1.8	Booking by foreign tourists	0.7	0.5	0.5	0.8	0.6	1.0
Volume of domestic orders	0.9	1.1	1.0	1.3	1.4	1.6	Booking by Israelis	0.6	0.4	0.3	0.5	0.5	0.4
Supply constraints							Supply constraints						
Machinery and equipment shortage	0.5	0.4	0.4	0.4	0.2	0.2	Economic and political situation in Israel	1.0	0.7	0.8	1.2	1.8	1.4
Financing difficulties	0.5	0.6	0.7	0.8	0.9	0.8	Intensification of competition	1.9	1.5	1.4	1.7	1.7	1.8
Labour shortage	1.0	0.9	0.8	0.8	0.4	0.4	Supply constraints						
							Financing difficulties						
							Labour shortage						
							0.8 0.5 0.7 0.9 1.5 1.0						
							1.8 1.5 1.0 1.5 1.0 0.6						
Construction							Hotels						
	2007		2008			2009		2007		2008			2009
	IV	I	II	III	IV	I		IV	I	II	III	IV	I
Demand constraints							Demand constraints						
Volume of demand	1.6	1.8	1.8	1.8	2.6	2.4	Booking by foreign tourists	1.4	1.3	1.5	1.1	1.9	2.9
Supply constraints							Supply constraints						
Input prices	1.4	1.4	1.8	1.7	1.0	0.8	Booking by Israelis	0.9	1.1	1.3	1.0	1.7	2.2
Financing difficulties	1.0	1.6	1.2	1.7	2.0	1.9	Economic and political situation in Israel	1.1	1.0	1.3	1.0	1.9	2.5
Labour shortage	2.3	2.3	2.2	2.2	1.8	1.7	Supply constraints						
Machinery and equipment shortage	0.2	0.4	0.5	0.5	0.5	0.2	Financing difficulties	1.3	1.3	1.4	1.0	1.2	1.9
							Labour shortage						
							1.5 1.4 1.7 1.4 1.0 0.7						
Trade							Service Industries						
	2007		2008			2009		2007		2008			2009
	IV	I	II	III	IV	I		IV	I	II	III	IV	I
Demand constraints							Demand constraints						
Volume of orders	0.6	0.6	0.9	0.5	0.2	0.6	Economic and political situation in Israel	0.7	0.7	0.9	0.9	1.3	1.3
Economic and political situation in Israel	0.7	0.9	1.1	1.3	2.0	2.2	Global Economic situation	0.8	0.8	1.3	1.6	2.1	2.1
Economic situation in the world	0.6	0.9	1.2	1.5	2.4	2.2	Intensification of competition	1.6	1.6	1.6	1.5	1.6	1.8
Supply constraints							Supply constraints						
Financing difficulties	0.9	0.9	0.7	0.9	1.4	1.6	Supply constraints						
Labour shortage	1.0	1.2	1.1	0.8	0.5	0.4	Financing difficulties	0.7	0.6	0.8	0.8	1.0	1.0
							Labour shortage						
							1.2 1.3 1.1 1.0 0.7 0.5						

APPENDIX

Notes to the Survey

Net balance

This quarterly survey relates to developments in 2009:Q1 and includes assessments and expectations regarding 2009:Q2. Its findings are based on responses to questionnaires completed by companies and businesses in the manufacturing, commerce, construction, hotels, transport and communications, and business services industries. The questions are qualitative, that is, the companies were asked to report on the direction of changes in the different variables (increase, decrease, or no change) and the degree of change (great, slight). The survey is intended to serve decision-makers as an updated analytical tool that complements the quantitative data.

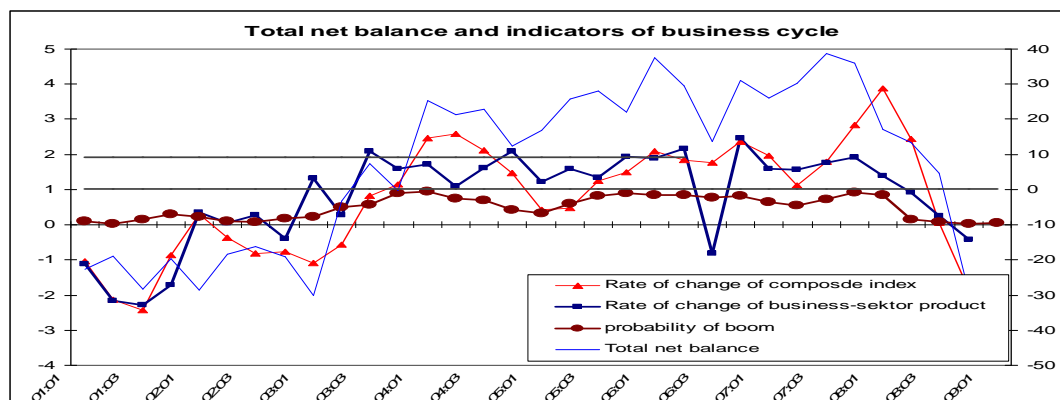
In all industries except for the hotel industry, companies were asked to indicate the actual change compared with the previous quarter, without seasonal or other adjustments. In the hotel industry, companies were asked to report the change from the year-earlier quarter. Although the results are not weighted by company size, in the analysis of the results in manufacturing and construction the main results are also shown with the companies grouped by size.

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

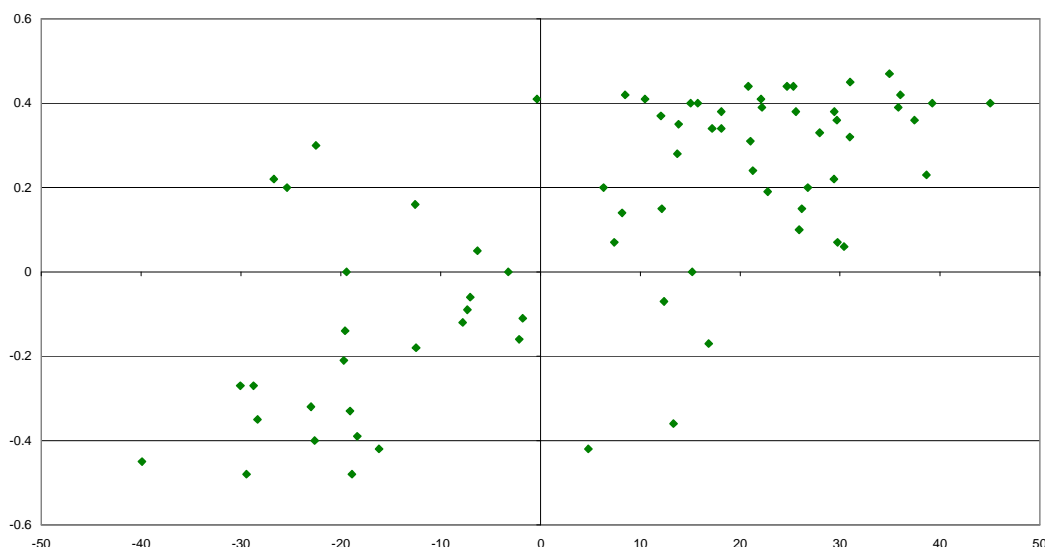
The standard deviation is affected, among other things, by the number of observations in the sample and the distribution of the responses in each category. The fewer the observations, the greater the standard deviation. The data on net balances are based on tallying the answers of all the companies that responded, and not only those that participated in the most recent surveys. The data in all tables are in terms of percent of the companies that responded.

The total net balance is calculated by weighting the seasonally adjusted net balance of activity in all industries by each industry's share in total business-sector product. The balance enables the indicators of the business cycle to be predicted successfully. These indicators are classified each quarter into one of three categories: recession, boom, or undefined.

The survey findings show a clear connection between the net balance of activity in the various industries and the change in their activity as published later by the Central Bureau of Statistics. The diagrams shown below illustrate this with regard to the overall balance. When the net balance is positive, the Composite State-of-the-Economy Index and the probability of a recession indicate a boom and the trend of business-sector product is positive.



**Total net balance of business- sector product
and the probability of boom (1991q1 to 2009q1)**



The net balances of activities in the transport and communications industry are calculated as the weighted average of the net balances of the separate components of the industry, with each net balance weighted by the share of that component's product in the product of the entire industry. Since the standard deviation of the weighted balance is unobtainable, the significance of the weighted net balances is not shown either.

Rate of success in using total net balance to predict indicators of the business cycle
(percent)

Quarter tending toward	Composite index	Probability of recession	Trend of business-sektor product
Recession	72	76	64
Boom	68	79	63

Sample period:1983 III to 2003 IV

The net balances of manufacturing companies, classified by the share of skilled workers in each industry and its degree of technological innovativeness (the classification is described on pages 51-52 of the Bank of Israel 1999 *Annual Report*), are shown in Figure 9. The high-tech industries (chemicals, machinery, electrical and electronic equipment) account for about 30 percent of the sample. The low-tech industries (food, beverages and tobacco; clothing, textiles, and leather; wood, paper, and printing; non-metallic minerals; iron, steel, and metal products; transport equipment, and diamonds) constitute about 55 percent of the sample. The remaining 15 percent consist of medium-tech industries (mining and quarrying, rubber and plastics, and miscellaneous).

Leading index

The leading index obtained from the Companies Survey estimates the probability of a slowdown in activity in the following quarter compared with the current quarter, or the probability of a recession in terms of growth cycles. The index is based on a Markov chain statistical model that expresses two situations—a high growth rate or a recession—and four transition possibilities between these situations: from a high rate of growth to a moderate rate, from a moderate rate to a moderate rate, from a moderate rate to a high rate, and from a high rate to high rate. The leading index describes the two probabilities of a slowdown in accordance with two possible developments: continued activity at a moderate pace or a switch from rapid growth to a slowdown.

To estimate the probability that the pace of growth will moderate, each company's expectations for the following quarter are crossed with its assessment regarding the current quarter, and four dependent modes expressing the change in the existing situation are calculated (Table 1). Accordingly, from the companies that reported an increase in activity for the current quarter, a calculation is made of the percentage of companies expecting the increase to continue in the next quarter and the percentage of companies expecting their activity to decrease. From the companies reporting a decrease in their activity in the current quarter, a calculation is made of the percentage of companies expecting the decrease to continue in the next quarter and the percentage of companies expecting their activity to increase. The companies reporting an improvement in their current activity include those that reported an improvement one or two quarters previously and then reported no change. Similarly, the companies reporting a decrease in their current activity include those that reported a decrease one or two quarters previously and then reported no change. This makes it possible to monitor gradual rather than sudden shifts in activity that develop over two to three quarters and not within a single quarter.

The probabilities of a change in the pace of growth are calculated from the normal probability function based on the parameters in Table 1 below. In addition, the model assumes dependency between the quarters, so that the forecast for the following quarter is dependent on the estimate obtained for the current quarter.

To conclude, the leading index provides an indication of the state of activity in the next quarter.

Table 1: Averages and Standard Deviations of Dependent Frequencies by Industries in the survey (sample: 1991-2005)

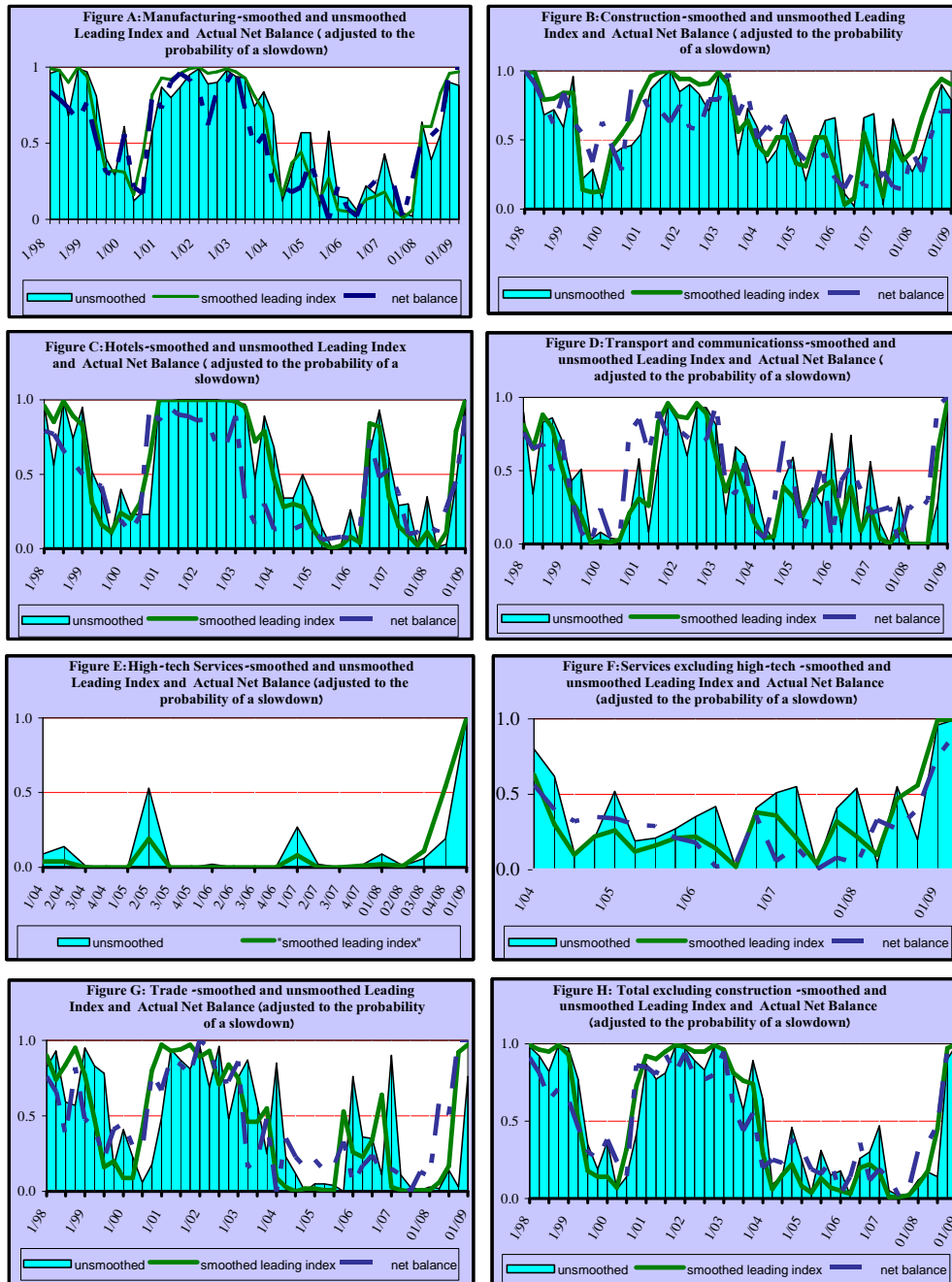
Number of companies ^b	Continued slowdown		slowdown-acceleration		Acceleration-slowdown		Continued acceleration		Industry
	average	standard deviation	average	standard deviation	average	standard deviation	average	standard deviation	
257	0.45	0.07	0.11	0.04	0.14	0.04	0.30	0.06	Manufacturing
33	0.23	0.13	0.25	0.11	0.15	0.08	0.37	0.11	Trade
46	0.42	0.16	0.10	0.10	0.12*	0.11	0.36	0.14	Hotels
20	0.26*	0.17	0.19*	0.14	0.12*	0.10	0.43	0.19	Transport
41	0.42	0.15	0.12*	0.09	0.06*	0.06	0.40	0.13	Construction
144	0.35	0.10	0.15	0.07	0.09*	0.06	0.41	0.08	Services ^a
541	0.41	0.08	0.13	0.05	0.13	0.04	0.33	0.07	Total survey

^a In services the sample is from 1998 only.

The number of companies in this table does not necessarily match that published in the Bank of Israel

^b Review, as companies that did not report on expectations alongside their report on current activity were excluded.

* Indicates non-significant result (at 10 percent level).



Actual Net Balance, adjusted to the probability scale, is represented by the hatched line graph and the probability of a slowdown in activity is represented by the line graph and the unsmoothed leading index is represented by the shaded area