CHAPTER XII

INDUSTRY

1. Main Developments

The real growth of industrial output reached 14.6 per cent in 1963, a somewhat higher rate than in 1962 but similar to the average for the past few years. The rise was rather moderate at the beginning of the year, but quite rapid as it drew to a close. The value of industrial output added up to IL 5,010 million at 1962 prices, as against IL 4,371 million in 1962. The expansion can be attributed primarily to the greater supply of productive factors available to industry, but the rise in productivity was also an important factor. Whereas the number of employed advanced by 8.5 per cent and the capital stock by 11.0 per cent, real output, as stated, grew by 14.6 per cent. Industrial prices in the domestic market went up by an average of 5.0 per cent, so that at current prices gross industrial output totalled IL 5,210 million.

The rise in the average price level was more the result of increases that occurred in the second half of 1962 than of developments during 1963. As in 1962, demand mounted appreciably during the year reviewed, generating strong upward pressure on commodity prices. This pressure, however, was largely contained by a series of Government measures, chiefly in the form of persuasion and threats to permit competing imports. These steps were actually a form of price control[1] unaccompanied by the easing of domestic demand or the expanded supply of imported commodities.

This price restraining policy therefore increased real purchasing power. What is more, the curbs were applied mainly to industrial products, prices in other sectors of the economy continuing to rise. The result was to expand domestic demand for industrial products, which was reflected in a good many industries by a slowing down of exports.

Thus the demand pressure was mainly expressed not in higher prices but in the reduction of stocks and of exports in industries for which the domestic market plays an important part. This export decline gathered strength toward the year's end notwithstanding the accelerated growth of output. At the same time,

[1] Under the stabilization policy a Price Headquarters was set up in 1963 with the function of controlling prices. Enterprises raising their prices were summoned to appear before it, with the result that several increases were cancelled after having been in effect for some time.

overseas sales of some commodities went up, thanks to the maturing of earlier investments in branches designed mainly for export.

The supply of industrial goods has expanded as a result of this maturing of investments. In addition, most industries still possess substantial reserves of unutilized capital, which itself should permit the further expansion of production without a rise in costs. What is more, there are industries where cost levels may be expected to drop as the rate of capital utilization improves.

The growth of aggregate domestic demand has increased the demand for labor. The number of employed went up by 8.5 per cent in 1963, as against 10.4 per cent in 1962 and 12.2 per cent in 1961. The number of employed required for the incremental output declined in 1963, but the growth of the country's labor force also slowed down, since idle manpower reserves were largely exhausted already in 1962. As in previous years, industry accounted for about 40 per cent of the additional labor employed by the economy. Industrial wages per employed rose by an average of 12 per cent over 1962. Nevertheless, a labor shortage continued to be felt, and in contrast to former years it included unskilled workers as well. This development was no doubt accentuated by the wage freeze, which apparently proved to be more effective with regard to unskilled workers and unionized enterprises.

Owing to the rise in productivity, the higher wage bill did not increase costs to a corresponding degree. Since the average price level advanced by 5.0 per cent, it may be assumed that the level of industrial profits underwent no real change as compared with 1962, in which year it had gone up substantially.[1]

A further explanation for the fact that price restraint neither slowed down the growth of industrial output nor checked the demand for labor may be found in the prevalent expectation that ultimately prices would resume their upward climb and that the curbs were temporary in nature. This presumption unquestionably influenced the producers, explaining why output was stepped up even in those industries where production costs per unit of output had gone up without a corresponding price rise.

While commodity prices were thus kept down, this was achieved by measures which did not check the demand itself. As the productive system attempted to respond to this increased demand by expanding output, the pressure of demand on the labor market was accentuated. The resulting increase in the input price again exerted an upward pressure on commodity prices, as could be expected when an effort is made to keep the price level down under conditions of full employment without containing the demand itself.

These developments directly affected industrial exports. The f.o.b. value of such sales totalled $ 246.7 million in 1963, as against $ 203.8 million in 1962 —a rise of 21.1 per cent. This growth rate was slightly higher than in the previous year, but it was mainly accounted for by diamond exports, which are

[1] According to the balance sheets of large industrial firms submitted to the Bank of Israel.

unaffected by developments in the domestic market. Industrial exports other than diamonds rose in 1963 by 19.4 per cent, a lower rate than in any of the three predevaluation years. The value added component went up somewhat less, since any rise in the share of diamonds expands the average import component of exports. The decline in the growth rate of exports was accentuated in the latter months of 1963, and continued to gather strength in the first part of 1964.

No significant changes occurred in the breakdown of real output by final uses as compared with 1962. Consumption accounted for 57.0 per cent in both years, while the share of investment declined from 19.4 to 19.0 per cent and exports rose from 21.9 to 22.9 per cent. The pattern of the past two years differed conspicuously from that for the years 1958 to 1961, when the weight of exports was much greater. If exports managed to hold their own in 1963 notwithstanding the greater demand in the domestic market, this was only because a few industries geared mainly to export expanded their output as previous investments came to fruition. But in the latter part of the year the growth of industrial exports slowed down, and the first months of 1964 actually witnessed an absolute decline.

Marked changes did occur, however, in the allocation of real output to final uses within the individual industries (see Table XII–1). This was particularly noticeable in industries whose weight in exports was among the highest in previous years and for which the domestic market constitutes an important factor. While most of these industries stepped up production considerably, the proportion of their output going to the domestic market increased even more, so that the share of export sales dropped. There were even quite a few industries which expanded their domestic sales more than their output, causing an absolute decline in exports. This was the case in plywood, tires, and cement. Industries based mainly on export, on the other hand, did not enlarge domestic sales at the expense of exports. But these are short-run trends. Ultimately the rise in domestic demand under conditions of full employment and increased factor utilization cannot but boost the demand for labor, raising wages and making exports less competitive. Hence in the long run mounting demand jeopordizes the entire export drive, whether by competing for the final products or for the factors of production.

In at least some of the industrial branches devaluation presumably raised the effective exchange rate for exports, but the rise in the effective rate for imports was even steeper. While administrative restrictions on imports have been lifted, the high exchange rates imposed on imported goods under the liberalization policy still provide domestic goods with a good deal of protection, whereas exports are granted the official exchange rate only. The result is to raise the comparative profitability of production for the domestic market.

According to various indicators, investment activity in industry continued in

1963 at the same rate as before. Gross investment advanced by 12.3 per cent, and gross capital stock by 11.0 per cent, or 2.3 per cent per capita.

In respect of volume and composition, investment was enlarged parallel to the growth of domestic demand. The capital increment reflects the general expansion which embraced most industries and most enterprises within each industry. It should be mentioned that most of the capital expenditure was for the expansion of existing production lines.

At the same time, the larger volume of investment did not alleviate the growing manpower shortage. Heavy investment in labor-saving equipment does not necessarily solve a manpower shortage in the short run. In most industries machines can replace men only after a changeover to new production methods. This often requires a substantial expansion of productive capacity, which may spell a decline in capital utilization. The resultant possible rise in production costs may well wipe out any saving achieved by substituting machinery for labor. Any progress toward mechanization and capital-intensive production processes is further handicapped by the excessive fragmentation of the bulk of Israel's industries. All this makes the manpower shortage particularly telling.

2. Output

As in previous years, the big majority of the industrial branches contributed to the incremental output in 1963. While in most of them the growth rate approximated the average for the sector as a whole, a change occurred in the relative share of some branches in total output. The production of most foodstuffs, clothing, and footwear has for some years been growing more slowly than the average, while wood and carpentry, rubber and plastics, glass and ceramics, cement, metal products, machinery and electrical equipment, and diamonds have grown at a faster than average rate.

The decline in the weight of food and clothing and the rapid expansion of household appliances and equipment unquestionably reflect the changes in consumption patterns brought about by the rise in incomes. On the other hand, the above-average increases of other industries have only partly stemmed from the growth in incomes; to some degree they are the result of stepped-up investment activity, particularly in construction. The combination of these two factors explains the rapid expansion of the wood and carpentry industry, which includes building carpentry and furniture, as well as of the machinery and electrical equipment industry, which makes both durable consumption goods and machinery and equipment for electrical installations. The larger production of ceramics, glass, cement, and structural metal products may be attributed chiefly to the expansion of investment in the economy as a whole.

Expenditure on new construction accounts for a decisive share of incremental domestic capital formation, and the construction sector relies mainly on local production both for its material inputs and for equipment—a reliance that is

Table XII-1

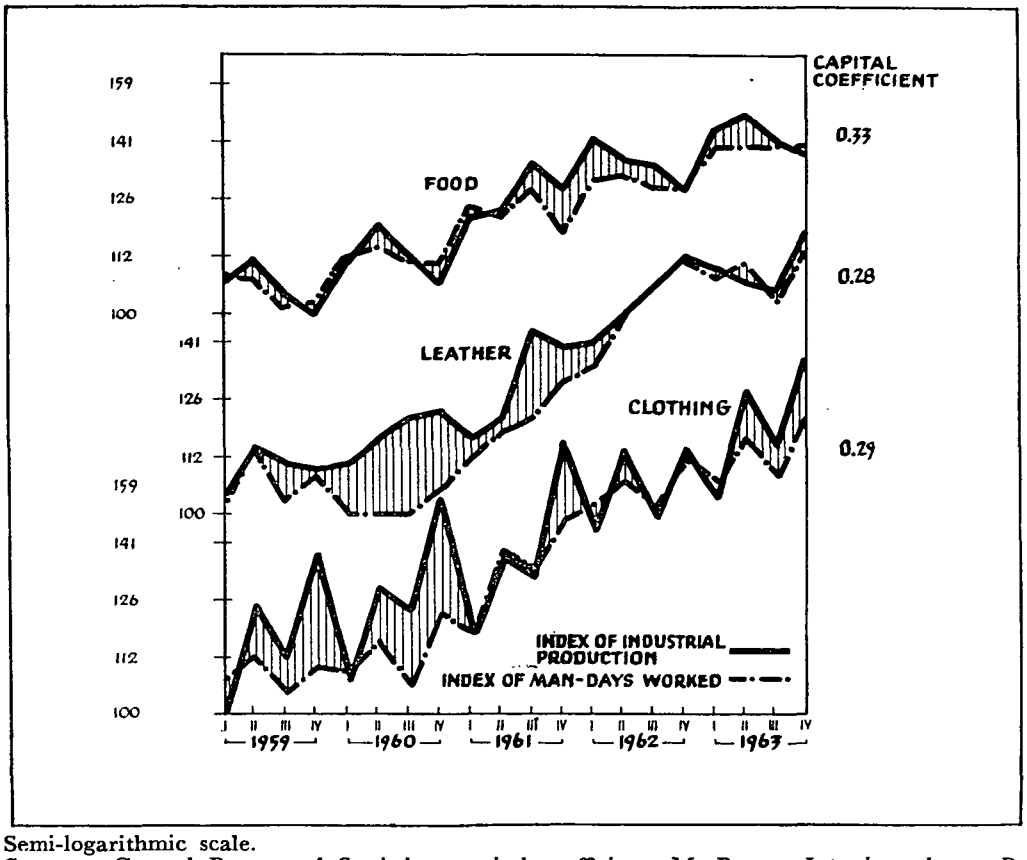
DISTRIBUTION OF GROSS INDUSTRIAL OUTPUT, BY FINAL DESTINATION, 1962-63

Branch	Distribution of output						Distribution of incremental output in 1963		
	1962			1963					
	Domestic uses	Export	Total	Domestic uses	Export	Total	Domestic uses	Export	Total
Mining and quarrying	63.3	36.7	100.0	54.8	45.2	100.0	13.1	86.9	100.0
Meat, fish, and oil and milk products	98.4	1.6	100.0	98.4	1.6	100.0	99.1	0.9	100.0
Other foodstuffs	87.7	12.3	100.0	86.9	13.1	100.0	30.2	69.8	100.0
Textiles	67.2	32.8	100.0	66.7	33.3	100.0	62.9	37.1	100.0
Clothing	85.8	14.2	100.0	88.4	11.6	100.0	118.1	-18.1	100.0
Wood and carpentry	87.5	12.5	100.0	87.1	12.9	100.0	84.9	15.1	100.0
Paper, printing, publishing	79.4	20.6	100.0	78.6	21.4	100.0	71.2	28.8	100.0
Leather and footwear	95.8	4.2	100.0	96.7	3.3	100.0	105.8	-5.8	100.0
Rubber and plastics	80.5	19.5	100.0	75.3	24.7	100.0	47.1	52.9	100.0
Tires	24.1	75.9	100.0	28.6	71.4	100.0	18.6	-118.6	-100.0
Chemicals	75.9	24.1	100.0	75.4	24.6	100.0	67.5	32.5	100.0
Oil refining	78.6	21.4	100.0	72.3	27.7	100.0	35.6	64.4	100.0
Glass and ceramics	93.2	6.8	100.0	91.5	8.5	100.0	58.4	41.6	100.0
Cement	85.2	14.8	100.0	90.2	9.8	100.0	140.1	-40.1	100.0
Diamonds	1.1	98.9	100.0	1.0	99.0	100.0	0.1	99.9	100.0
Basic metals and pipes	85.3	14.7	100.0	83.4	16.6	100.0	52.2	47.8	100.0
Metal products	83.9	16.1	100.0	79.6	20.4	100.0	49.6	50.4	100.0
Machinery and electrical equipment	90.2	9.8	100.0	90.4	9.6	100.0	92.8	7.2	100.0
Household equipment and appliances	87.5	12.5	100.0	91.3	8.7	100.0	122.9	-22.9	100.0
Transport equipment	85.2	14.8	100.0	87.1	12.9	100.0	105.5	-5.5	100.0
Total	78.1	21.9	100.0	77.1	22.9	100.0	67.2	32.8	100.0

Diagram XII–1

CHANGES IN OUTPUT AND LABOR INPUT IN LEATHER, FOOD, AND CLOTHING BRANCHES, 1959–63

(1958 = 100)



Semi-logarithmic scale.

SOURCE: Central Bureau of Statistics; capital coefficient—M. Bruno, *Interdependence, Resource Use and Structural Change in Israel,* Bank of Israel, 1962.

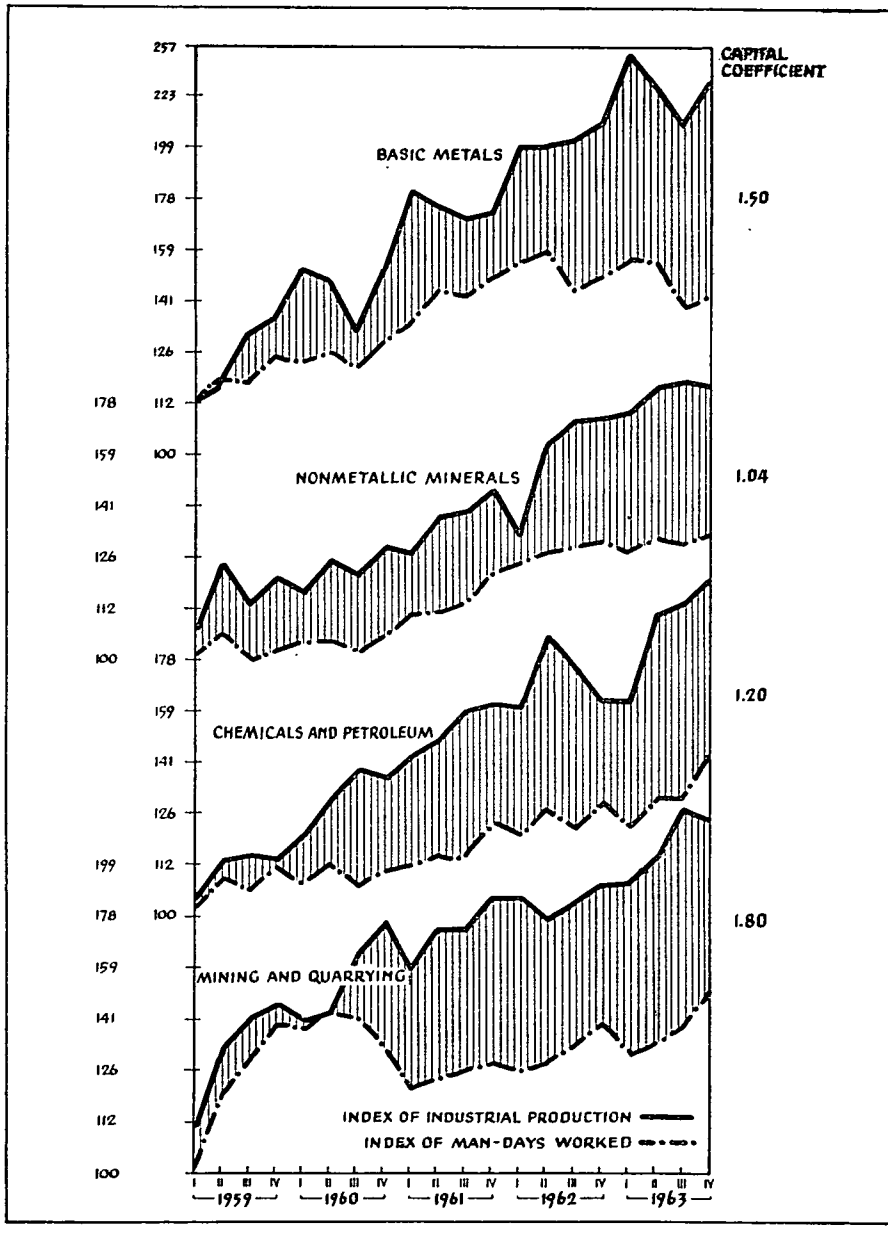
growing stronger. The increasing mechanization of construction processes goes far to explain the expansion of machinery production. Other sectors obtain most of their plant from abroad; at the same time, however, there has been a larger outlay on auxiliary equipment, and most of this is obtained locally. This development is connected with the drive for efficiency, which has gained momentum in the past few years owing to the conditions in the labor market. Most of the changes taking place in the composition of industrial output may thus be traced back to domestic demand.

Output per employed rose by 5 per cent in 1963, which was far greater than the rise recorded in 1962; this points to a continuation of the rising productivity trend and apparently reflects the growing mechanization of industry.

Diagram XII–2

CHANGES IN OUTPUT AND LABOR INPUT IN MINING AND QUARRYING, CHEMICAL, BASIC METAL, AND NONMETALLIC MINERAL BRANCHES, 1959–63

(1958 = 100)

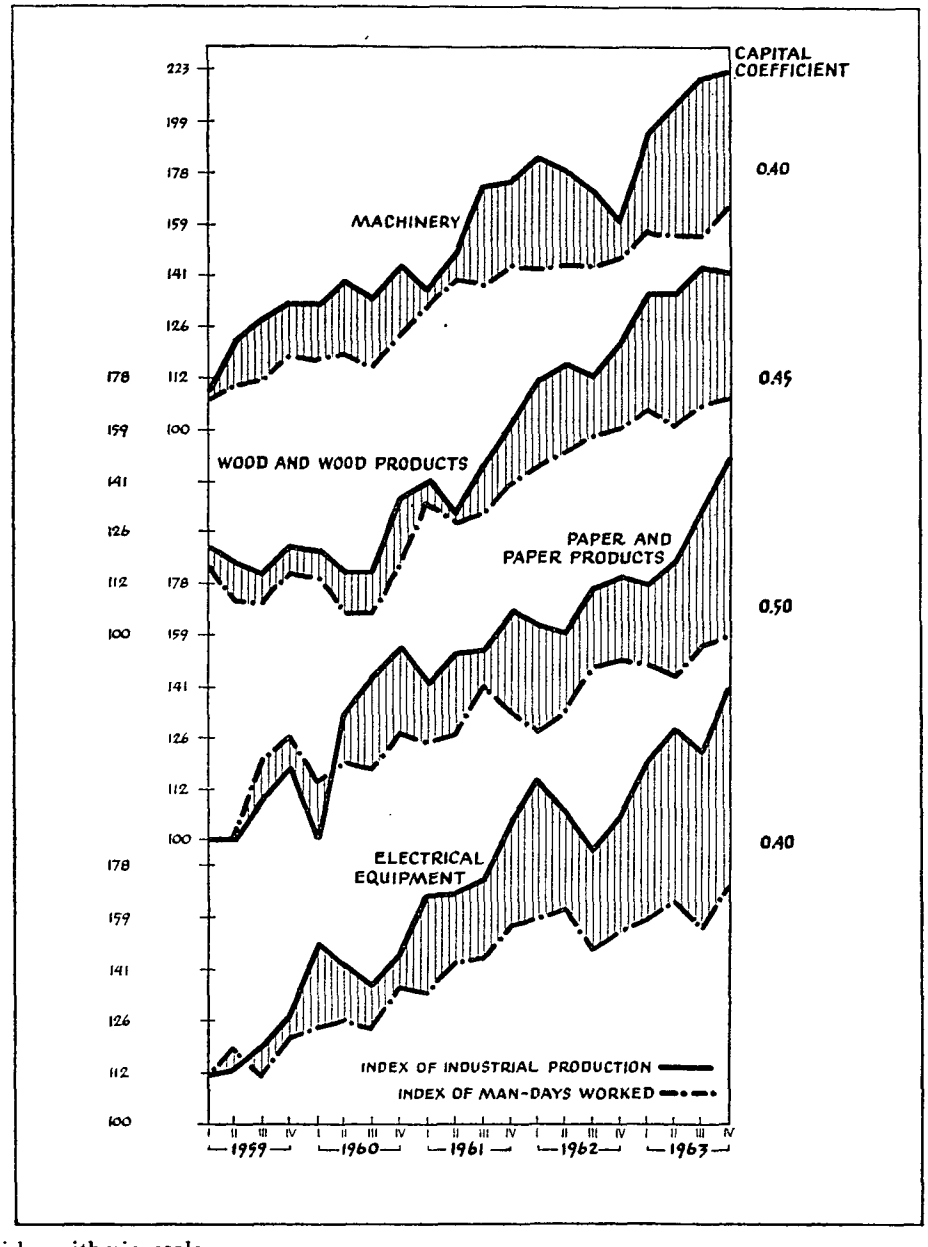


Semi-logarithmic scale.
SOURCE: Central Bureau of Statistics.

Diagram XII–3

CHANGES IN OUTPUT AND LABOR INPUT IN MACHINERY, WOOD, PAPER, AND ELECTRICAL EQUIPMENT BRANCHES, 1959–63

(1958 = 100)

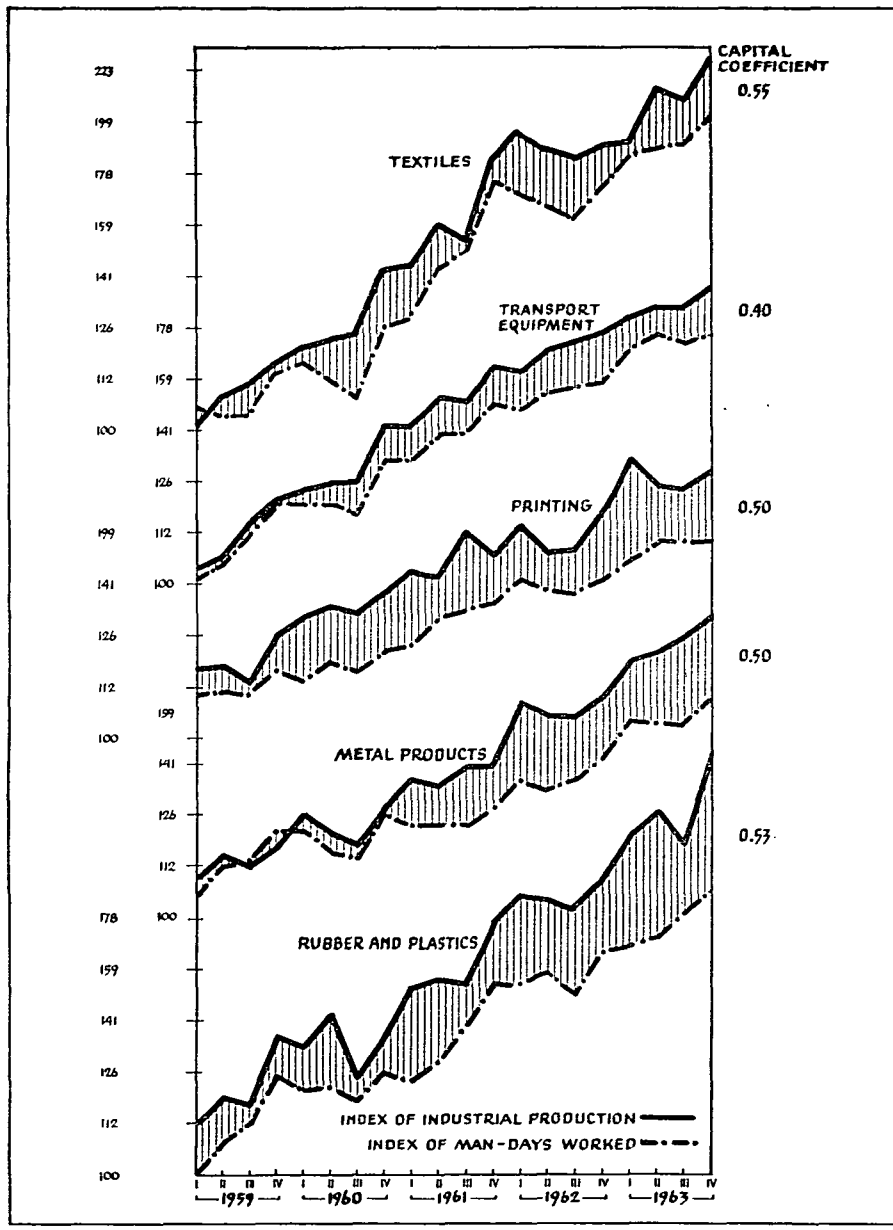


Semi-logarithmic scale.
SOURCE: Central Bureau of Statistics.

Diagram XII–4

CHANGES IN OUTPUT AND LABOR INPUT IN TEXTILE, TRANSPORT EQUIPMENT, PRINTING, METAL PRODUCTS, AND RUBBER AND PLASTIC BRANCHES, 1959–63

(1958 = 100)



Semi-logarithmic scale.

SOURCE: Central Bureau of Statistics.

These data, however, are insufficiently reliable to warrant the drawing of conclusions from small changes in growth rates; nor must it be forgotten that fortuitous factors may play a role in the fluctuations from year to year.

The increase in productivity varies rather widely from industry to industry—as low as 2 or 3 per cent in some, very substantially above average in others. The highest gains have been recorded in such industries as chemicals, where most of the technological innovations have taken place in the past few years

Table XII–2

GROSS INDUSTRIAL OUTPUT, BY BRANCH, 1963

(at current prices)

Branch	Output in 1963 (IL m.)	Per cent real increase or decrease (–)		
		Average 1959–61	From 1961 to 1962	From 1962 to 1963
Mining and quarrying	98,123	34.5	–5.3	17.6
Meat, fish, and oil and milk products	324,414	13.9	13.4	12.7
Other foodstuffs	684,526	13.0	16.5	3.1
Textiles	523,130	16.4	14.9	18.6
Clothing	371,109	8.3	9.0	8.7
Wood and carpentry	416,753	8.8	19.2	20.3
Paper, printing, publishing	267,365	10.8	11.8	14.2
Leather and footwear	140,457	2.2	3.8	6.2
Rubber and plastics	150,351	22.6	23.7	15.2
Chemicals	326,458	15.1	12.5	11.9
Oil refining	196,550	9.3	30.7	26.1
Glass, ceramics, cement	258,340	11.8	14.3	15.4
Diamonds	318,688	26.7	28.7	24.7
Basic metals and pipes	157,866	34.1	7.2	14.3
Metal products	339,240	15.6	5.5	15.9
Machinery and electrical equipment	203,026	21.7	13.6	20.3
Household equipment and appliances	122,394	25.9	8.7	20.6
Transport equipment	250,259	16.1	21.6	10.9
Miscellaneous	61,197	10.4	1.2	6.3
Total	5,210,246	14.6	14.0	14.6

and whose relative importance in the developed industrial states is on the rise. One of the distinctive characteristics of such industries is their high capital input per unit of output,[1] since the utilization of advanced technology calls for large-scale investments.

In such industries as foodstuffs, clothing, and footwear, on the other hand, the rise in productivity has been much smaller. These are industries whose share in the industrial output of advanced countries is progressively going down; they undergo few technological changes and are not highly capital-intensive.[1]

It may therefore be assumed that most of the rise in output per employed is ascribable to technological advances. Human effort and vocational training have undoubtedly played an increasing part, but the contribution they can make is limited and exhausted within a few years.

The labor-intensive industries thus appear to be more vulnerable, both from the point of view of changes in input prices and from that of advancing productivity. Experience has shown that they are more threatened by rising input prices, since they have fewer possibilities of boosting productivity. Under such circumstances one can hardly expect a rise in wages to be offset by an increase in productivity.

3. Investment

Neither the volume of industrial investments nor their composition changed conspicuously in 1963. Real capital stock continued to expand at the substantial rate of 11 per cent, notwithstanding the sharp increase effected by devaluation in the relative price of equipment. This is undoubtedly a reflection of the mounting domestic demand and the continued manpower shortage. Total investment in industry came to IL 400 million, of which 17 per cent was in textiles, 25 per cent in mining and quarrying, 15 per cent in chemicals and oil refining, 12 per cent in foodstuffs, 6 per cent in metal products, and 25 per cent in other industries. This was not appreciably different from the breakdown of former years. Capital outlay in the textile industry has been on a high level ever since 1958; investment in mining and quarrying reached a similar level in 1962, and chemicals, following the establishment of petrochemical industries, in 1963. The share of the remaining industrial branches was much smaller (see Table XII–3).

The buoyant domestic demand of the past few years creates a very serious problem. Temporary though it is, it exerts a pronounced effect on the branch composition of investment. During this period investment has reached very substantial proportions, and the capital stock has expanded at a rate of 10 to 13 per cent per annum; as a result of this rapid growth, the new investment may decisively influence the whole capital stock structure. Most serious is the excessive

[1] See Diagrams XII–1, XII–2, XII–3, and XII–4.

Table XII-3

DISTRIBUTION OF CAPITAL STOCK IN 1958 AND DISTRIBUTION OF INVESTMENT IN 1962-63, BY BRANCH

(percentages)

Branch	Capital stock in 1958	Investment	
		1962	1963
Mining and quarrying	5.3	36.1	25.3
Food	13.5	15.4	12.2
Textiles and clothing	14.1	16.8	17.0
Wood and wood products	5.9	2.9	1.9
Paper, printing, and publishing	5.2	1.8	2.4
Leather and footwear	2.1	0.1	—
Rubber and plastics	2.6	1.7	2.6
Chemicals and oil refining	19.9	8.0	14.8
Glass, ceramics, cement	10.4	2.3	9.2
Diamonds	0.7	0.1	—
Basic metals and pipes	5.5	1.2	1.5
Metal products	6.7	0.7	3.5
Machinery and electrical equipment	4.8	2.3	4.3
Transport equipment	3.3	10.6	5.3
Total	100.0	100.0	100.0

SOURCE: Central Bureau of Statistics and Bank of Israel.

encouragement given to industries geared primarily to the domestic market. In many cases these are the very industries which enjoy a particularly high degree of natural protection, as their products are not traded on the world market. Outstanding among them are industries directly connected with investment activity, i.e. those supplying inputs to the construction sector. Their capital stock growth rates are among the highest. This leaves no doubt that the composition of investments has been markedly affected by the prevailing state of demand.

This fundamentally transitional boom is thus creating a capital stock structure in which the relative share of industries capable of switching to export should the domestic market shrink is very small. Conversely, those industries whose capital stock is ultimately liable to prove excessive account for a large part of the total. In this context it must be borne in mind that the durability of the capital goods produces a considerable degree of structural rigidity in the productive system for a fairly long period of time.

Some 40 per cent of all industrial investment in 1963 was financed through Government funds. Such financing was not extended uniformly to the different industries, nor were other forms of Government financial incentives. This reflects,

even more so than in the past, regional differences arising from the population dispersal policy.

The implementation of this policy, designed to create a population distribution different from the present geographical distribution of economic activity, has inevitably been accompanied by the creation of foci of unemployment in some areas on the one hand, and the aggravation of the labor shortage in the established population centers on the other. The unemployment resulting from the dispersal policy has prompted the Government to give priority to investment in development areas with the object of relieving the situation. The branch composition of investment, as stated, is largely determined by the state of demand in the economy, which is intensified or restrained in accordance with this requirement to move to development areas.

These circumstances call for a policy aimed at preventing temporary demand conditions from producing a capital stock structure at variance with the long-range needs of the economy. This entails the application of selective incentives, subordinating the objectives of the population dispersal policy to the encouragement of investment in those industries whose expansion is considered desirable.

In 1963, 40 new enterprises were set up in 30 development towns. They received half of all Government loans extended to industry during the year.

Another major consideration guiding Government policy has been the creation of a greater degree of intrabranch competition through the multiplication of new enterprises, with the hope of bringing down prices. However, in the light of the fragmentation and excess productive capacity characterizing most industries, the result of promoting additional enterprises is often an even greater surplus of capacity. Unutilized capacity increases costs, and hence the proliferation of new concerns may well wipe out any reductions achieved by the enhanced competition. In such circumstances there seems to be no point in encouraging the establishment of additional enterprises, except in backward industries or where the new firm is capable of operating according to a more efficient system of production and at a rate of plant utilization that will lead to a tangible reduction in the market price of the product.[1] This, however, does not seem to be the case with a large percentage of the new enterprises being set up, neither in respect of the quality of the product nor of the factors of production at their disposal.

Exports

The f.o.b value of Israel's industrial exports in 1963, including diamonds, came to $ 246.7 million, as against $ 203.8 million in 1962; this is a nominal

[1] Even then the prospect does not always materialize. The market price is often set by the least efficient producers, the more efficient ones enjoying higher profits. Moreover, the existence of excess productive capacity is one of the major factors inducing manufacturers to form cartels.

Table XII-4

INDUSTRIAL EXPORTS IN 1963

($ thousand, at current f.o.b. prices)

Branch	1963	Per cent increase or decrease (–)		
		Average 1958–61	As against previous year	
			1962	1963
Oil refining	7,855	—	86.3	110.5
Rubber and plastics	1,980	42.9	–27.2	102.7
Metal products	18,718	128.1	24.0	54.6
Mining and quarrying	11,424	40.2	–9.3	37.5
Glass and ceramics	3,160	28.2	–1.8	32.1
Other foodstuffs	18,149	16.5	21.4	29.7
Basic metals and pipes	3,496	52.1	62.5	24.1
Diamonds	104,141	23.9	29.9	23.4
Chemicals	14,618	60.4	–2.5	15.8
Paper, printing, publishing	5,101	32.6	2.2	15.5
Textiles other than clothing	23,684	48.4	25.1	15.3
Basic wood products and plywood	6,049	13.7	24.1	6.8
Household equipment and appliances	4,876	26.0	–18.6	3.5
Machinery and electrical equipment	1,976	55.2	52.5	–1.4
Meat, fish, and oil and milk products	357	18.3	–51.0	–1.4
Leather, leather products, footwear	583	–2.3	95.6	–8.5
Tires	8,788	13.8	17.8	–11.0
Clothing	8,449	39.6	8.0	–12.0
Transport equipment (production and repair)	1,879	–8.1	60.3	–31.7
Cement	1,234	18.0	–8.7	–33.3
Furniture and building carpentry	232	312.7[a]	500.0[a]	151.5[a]
Total	246,749	28.4	19.6	21.1

[a] The base level is too low for these growth rates to be of any significance.

rise of 21.1 per cent, made up of a 23.5 per cent gain in diamond exports and 19.4 per cent in all other industries. This growth rate was only slightly higher than in 1962—the devaluation year—when it reached 19.6 per cent.

The 19.4 per cent increase in industrial exports other than diamonds contrasts with 13.3 per cent in 1962, but still lags far behind the advances recorded in each of the three predevaluation years—49.3 per cent in 1959, 23.1 per cent

in 1960, and 22.2 per cent in 1961. Table XII–5 shows that whereas in the years 1959–61 the export of industrial items other than diamonds consistently moved up faster than that of diamonds, in 1962 and 1963 the opposite was true.

In absolute terms, the overall increase in industrial exports stood at $ 42.9 million in 1963. Half of this was accounted for by the diamond industry. The rise of 23.5 per cent in diamond exports compares with a gain of 29.9 per cent the previous year. The main limitation to the greater expansion of such exports was the availability of labor, for both demand and the raw diamond quota allocated to the industry would have permitted bigger sales.

Table XII-5

GROWTH OF INDUSTRIAL EXPORTS, AT CURRENT F.O.B PRICES, 1959–63

(percentages)

	1959	1960	1961	1962	1963	Annual average	
						1959–61	1962–63
Industrial goods excl. diamonds	49.3	23.1	22.2	13.3	19.4	31.5	16.4
Diamonds	36.1	20.6	15.1	29.9	23.5	23.9	26.7
Total	43.7	22.1	19.4	19.6	21.1	28.4	20.4

SOURCE: Central Bureau of Statistics.

The absolute increment to industrial exports other than diamonds was $ 22.9 million. While this was no doubt an improvement over the 1962 figure of $ 13.3 million, it was largely accounted for by a small number of products which play a relatively important part in Israel's exports. Part of these sales can be attributed to the maturing of investments in industries working first and foremost for the overseas market. On the other hand, a large percentage of the industrial branches experienced a marked decline in foreign sales in 1963, even in absolute terms.

Of the above increment of $ 22.9 million, the item "other metal products" contributed $ 6.1 million (an increase of 48.9 per cent over 1962), petroleum products contributed $ 14.1 million (110.5 per cent), and minerals (mainly potash, copper cement, and phosphates)—about $ 4.0 million (53.0 per cent). After these were citrus products—$ 2.8 million; edible oil and soap—$ 2.3 million; synthetic yarn—$ 1.7 million; and knitted goods—$ 1.5 million. Between them these products accounted for nearly the entire export increment of 1963, excluding diamonds. This reliance on a narrow range of goods to bear the

Table XII–6

INCREMENTAL EXPORT OF PRINCIPAL ITEMS, EXCLUDING DIAMONDS, 1961–63

(at current f.o.b. prices)

1961			1962			1963		
Product	Increment		Product	Increment		Product	Increment	
	$ '000	%		$ '000	%		$ '000	%
Minerals	2,230	8.2	Cotton yarn	2,384	17.9	Other metal products	6,089	26.6
Other metal products	2,042	15.7	Citrus products	1,947	32.5	Fuel	4,123	44.6
Knitted goods	1,650	21.8	Tires	1,402	43.0	Minerals	3,960	61.9
Wool yarn	1,111	25.9	Plywood	1,206	52.1	Citrus products	2,811	74.2
Clothing	787	28.8	Fuel	1,189	61.0	Edible oil and soap	2,314	84.3
Fuel	785	31.7	Rayon	1,019	68.7	Synthetic yarn	1,744	91.9
Cotton yarn	561	33.8	Synthetic yarn	913	75.6	Knitted goods	1,514	98.5
Total	9,166			10,060			22,555	
Total export increment	27,200	100.0		13,300	100.0		22,900	100.0

SOURCE: *Export Bulletin,* Ministry of Commerce and Industry; Central Bureau of Statistics.

brunt of the export advance is not in itself undesirable, provided that they can be expected to continue expanding rapidly.

This phenomenon is not new to Israel. In earlier years too most of the export growth was accounted for by a comparatively small number of industries. But in 1963 this development was even more pronounced, particularly in view of the absolute decrease that took place in the other industries. Comparison of the industry distribution of the export increment for the past three years reveals a growing degree of concentration, with the number of products contributing to the annual increment falling and the number showing an absolute decrease rising. Whereas in 1961 the seven items registering the biggest increases accounted for 34 per cent of the total increment for the year, in 1962 the top seven items accounted for 76 per cent of the total, and in 1963 for 98.5 per cent.

The different growth rates recorded by the various export industries was only partly connected with demand factors in Israel's overseas markets. Far more important was the weight of factors influencing the supply of local goods to the export market—the maturing of investments in industries geared mainly to export on the one hand, and the absorption of the production increment by domestic demand in other industries on the other.

Table XII–4 sets forth the growth of the various industrial exports by their fluctuations around the trend. The common characteristic of all branches showing an above-average increase is their reliance on exports as the mainstay of their production. The domestic market accounts for only a negligible part of the output of the mining and quarrying and diamond industries; in the basic metal industry, which exports mainly steel pipes, and in the food industry, whose overseas sales consist largely of citrus products, the domestic market takes only one-third of the output. As for the item "other metal products", exports are not governed by purely economic considerations.

The expanded export of minerals in 1963 was made possible by the large-scale investments begun in 1962 and continued during the year reviewed. World demand for such products has been mounting steadily, and lately the price level has also moved up slightly. However, the growth of exports in this industry is limited by its productive capacity. This factor is liable to prove a bottleneck especially in the case of copper-cement sales, the large expansion of which in 1963 can be mainly explained by the slowdown experienced by the Timna Copper Works the year before because of production difficulties, the most important of which was the encountering of copper-poor strata.

Exports of citrus products also depend on the supply of local raw materials, available only in limited quantities. Overseas shipments have been rising at an accelerated rate lately—24.4 per cent in 1962 and 28.2 per cent in 1963, as against 7.2 and 1.8 per cent respectively in 1960 and 1961. A limiting factor in this expansion has been the amount of culls made available for processing.

At the same time, it should be pointed out that international competition in

this field is growing sharper. The introduction of modern production methods over the past few years in some of the countries competing with Israel has lowered their production costs. This development underscores the need for greater concentration of production in enterprises whose size would make it possible to exploit these technological possibilities. To date these new processes, which entail exports far in excess of those achieved by most Israeli canneries, have been introduced in only one local plant.

The export of basic metal items, consisting mainly of steel pipes, has been advancing for some years at a rate substantially above average. The growth slowed down somewhat in 1963, reaching 25.2 per cent as against 56.3 per cent in 1960, 68.9 per cent in 1961, and 127.3 per cent in 1962, but this was due to a temporary suspension of production while new equipment was being installed. Most of the increased export is expected to come from the expansion of existing markets, but it should be noted that, like the majority of Israel's export industries, pipe sales confront predetermined prices characterized by a high degree of stability and dictated by a world cartel.

The export increases of the other industrial branches have been appreciably below average. The weight of some of these branches is too small for them to exert a real influence. Their export is of an erratic nature, and the volume too low for the fluctuations in them to be of any significance. But among the industries with below-average increases are also some whose weight in total exports is high and which in the past accounted for a considerable share of the annual increments. There has, for instance, been a conspicuous deceleration in the growth of plywood exports, and of those of some textile industries. Overseas sales of tires, clothing, and several other textile products, which in the past had advanced at a rapid rate, even declined in 1963.

It is difficult to point to any particular development in the state of demand in the export markets which might fully explain these changes. On the other hand, the supply may possibly have been curtailed as a result of both rising costs and the rapidly growing home market.

The boom was felt particularly in the wood and plywood and tire industries. It seems, therefore, that the domestic market expanded at the expense of exports, since the productive capacity of these industries is rather limited. To be sure, the world prices of plywood sagged slightly in 1963, while the tire industry lost some foreign markets to emergent local plants. But it was the surging domestic market that obviated the need for the tire industry to seek new foreign outlets.

The adverse development of clothing exports came about somewhat differently. Devaluation did not lead to any increase in their effective exchange rate. Moreover, a large number of the subbranches received a larger return on their export dollar before devaluation than what they are receiving today. Another factor affecting the return on export was the more aggressive competition of countries with a plentiful supply of cheap labor. The pressure of this

competition was felt particularly in the U.S. market, the main outlet for Israel's clothing exports. At the same time, owing to the big weight of the labor component, costs went up more rapidly in the clothing industry than in others. As a result, exports began to decline absolutely already in 1962. This problem is not confined to garment manufacture; it is just that, being more vulnerable, it was one of the first industries to succumb to a development that is threatening the country's export drive in general. In most industrial branches export proceeds barely cover variable costs, and a rise in the domestic price level could wipe out what narrow profit margin there is.

Table XII–7

VALUE ADDED COMPONENT OF INDUSTRIAL EXPORTS, 1958–63

(percentages)

	1958	1959	1960	1961	1962	1963
Diamonds[a]	21.1	21.4	23.7	21.3	18.7	18.9
All industrial exports excl. diamonds[b]	61.6	60.8	60.8	61.4	61.6	60.9
Total industrial exports	44.5	45.4	46.7	46.2	44.0	43.1

[a] Percentage of current value added.
[b] Based on aggregate import components in 1958.

The data in Table XII–7 point to a change in the value added component of exports, stemming from the change in their composition. The data take no account of technological advances or of changes in export trade terms. Yet they may be taken to reflect the real picture rather accurately, for apparently the import components and terms of trade have altered but little.

The percentage of value added climbed steadily until 1962, when there was a reversal of trend. In 1963 there was a further slight decline, reflecting mainly the rising weight of diamond exports and the drop in their value added component. At the same time, the added value component of other industrial exports also fell somewhat.