CHAPTER XII

INDUSTRY

1. Main Developments

Industrial output in 1965 exceeded the previous year's figure by 10 percent in real terms. This was an appreciably lower rate than in any of the eight preceding years, except 1960 when it was of the order of 11–12 percent (see Table XII–1). However, it should not be concluded from this that there was a conspicuous change during the year reviewed. The growth rate during the course of the year was only slightly lower than during 1964, and actually higher than in the course of 1962. The difference between the 10 percent advance in the average level of industrial production in 1965 and the 15 percent gain in 1964 can be traced more to changes in 1964 than to developments in 1965, for the rise in the average level of output in 1964 largely reflected the more rapid growth that had taken place in 1963.

Industrial exports in 1965 were up 11.6 percent, as against 13.5 percent the year before; this represented a conspicuous retreat from the growth rates achieved in 1958–63. In industrial exports other than diamonds the slowdown actually began in 1962. The domestic prices of industrial output, which had been relatively stable in 1963 after mounting appreciably in the two preceding years, continued in 1965 the upward movement that set in toward the close of 1964, the increase averaging 3.5 percent as against 1.4 percent in 1964.

The rising productivity trend, which had gathered momentum in the past few years, carried over during the year reviewed.

From the aspect of the growth of industrial output and exports and the rise of prices in the domestic market, developments in 1965 followed the pattern that emerged in 1964. The expansion of output began slowing down considerably in the second quarter of 1964; this trend was accentuated in 1965, although the growth rate was only slightly below that of 1964 (see Diagram XII–1). Industrial exports showed a smaller percentage increase in 1965, following on the marked deceleration of the previous year. Industrial growth rates (excluding diamonds) were much lower in 1962–65 than in the preceding four-year period. In 1964 the more sluggish expansion of production was due entirely to limitations on the supply side, while domestic demand was considerably greater; this resulted in a sharp drop in the export growth rate, and for the first time since 1957 it fell below that for output.

The factors causing the continued deceleration of production in 1965—and

even accentuating the trend—differed from those which operated in 1964. The main impediments in 1965 were to be found in the state of domestic demand and in the quantities offered for export at the existing exchange rate; limitations in available means of production had only a minor effect.

Table XII–1

INDUSTRIAL OUTPUT AND FACTOR INPUTS, 1959–65

(percentages)

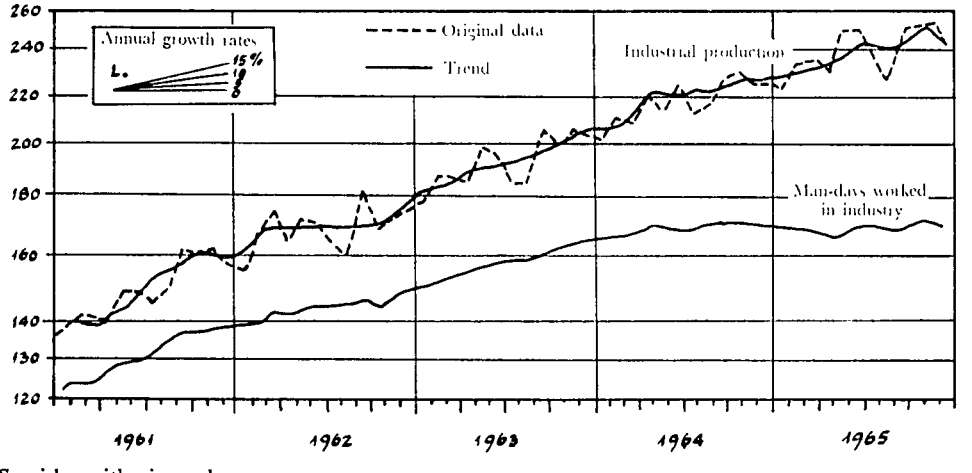
	Increase over preceding year						
	1959	1960	1961	1962	1963	1964	1965
Real output	15.4	11.6	16.7	13.4	15.5	15.0	10.0
Number of wage earners	9.0	8.6	12.5	8.3	7.5	5.2	1.5
Number of production workers	8.3	8.7	12.9	7.8	7.4	5.3	1.5
Number of man-days by production workers	11.6	9.2	13.2	7.6	9.0	7.1	1.5
Real gross capital stock[a]	12.8	15.0	11.0	12.1	14.5	11.8	9.3
Output per man-day	3.4	2.2	3.1	5.4	6.0	7.4	8.3
Change in factor productivity	3.1	0.8	3.6	4.2	4.6	6.2	6.2
Labor costs per man-hour	3.8	6.2	7.9	12.3	11.4	11.8	11.1
Exports ($, f.o.b.)	43.7	22.1	19.4	19.6	21.1	13.5	11.6
Share of exports in incremental output	43.9	36.7	30.8	39.0	31.6	19.0	22.7
Prices in the domestic market	2.2	2.8	5.8	10.5	3.8	1.4	3.5

[a] At beginning of year, for purpose of calculating productivity.

Diagram XII–1

INDEXES OF INDUSTRIAL PRODUCTION AND LABOR INPUT, 1961–65

(1958=100)



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

The weakening of aggregate domestic demand in 1965, reflected in both a lower percentage rise in consumption and a drop in investment, affected most industries. At the same time, supply limitations made themselves felt in certain parts of the food industry; these can be ascribed to the much slower growth of output in certain types of farming. Furthermore, limited productive capacity affected several items which account for a small part of the country's industrial production but an important share of its exports.

The growth rate was roughly the same for industrial exports as for industrial output—a slightly better performance than in 1964 but diverging sharply from that in 1958–63, when exports increased much more rapidly than output.

While the accelerated rise in domestic demand up to 1964 had adversely affected the expansion of exports by causing the diversion of an increasing share of incremental output to the home market, the easing of demand in 1965 did not necessarily ensure a higher export figure. Industries that relied on the protected domestic market and sold their entire output there were prevented by their high costs from exporting at international prices. The protection accorded domestic producers had in fact permitted the cost level to rise during the past three years.

The devaluation of the Israeli pound in 1962 was accompanied by rapid monetary expansion, followed by signs of excess demand pressure in the commodity, service, and labor markets. In these circumstances it may be assumed that the competition of domestic demand was the main reason for the slower growth of overseas sales. Demand pressure eased up in the course of 1965 and in the latter part of the year there was apparently a retreat from the state of full employment, yet export growth was not accelerated. Data for the early months of 1966 indicate that the more sluggish rise of exports and the change in the employment situation were continuing.

The contraction of domestic demand tends to increase the relative profitability of export in those industries that market at least part of their output abroad. But since export proceeds in many cases do not cover the actual costs per unit of output, this is not enough to encourage investment in industries geared chiefly to the overseas market.

The differential between the cost of the dollar saved on the production of import substitutes and the cost of the value-added dollar from export actually arose at the time of the 1962 devaluation. Until then most industrial products had enjoyed administrative protection, but under the import liberalization policy introduced after devaluation the import effective exchange rate for most industrial items was set at between IL 4.50 and IL 10 per dollar,[1] while the local currency proceeds from export—paid to most producers at the official exchange rate and only in a few cases at a slightly higher level—generally

[1] See "Liberalization of Imports—February 1962 to May 1965", Bank of Israel Bulletin No. 26, June 1966.

Table XII–2

SHARE OF GROSS INDUSTRIAL OUTPUT ALLOCATED TO EXPORT[a] IN 1958, 1962, AND 1965

(percentages)

Branch	Share of total output	Export[a] as a percent of output			Incremental export as a percent of incremental output
		1958	1962	1965	1965
Mining and quarrying	1.6	25.6	32.8	45.2	53.0
Food and tobacco	18.3	2.5	3.9	3.5	–1.9
Citrus products	3.3	22.2	33.9	42.3	48.1
Textiles and clothing	18.4	9.0	25.8	24.1	11.5
Wood and carpentry	6.9	10.0	12.2	11.9	8.8
Paper, printing, publishing	5.5	12.6	19.8	17.8	–9.2
Leather and footwear	4.0	2.2	3.7	2.8	–0.7
Rubber and plastics	1.3	12.1	14.8	14.4	–2.6
Tires	1.3	61.5	71.7	57.6	17.6
Chemicals	7.0	13.0	24.5	23.8	28.1
Oil refining	3.3	9.6	18.8	24.4	21.6
Glass and ceramics	4.2	4.1	6.8	0.2	32.9
Cement	1.1	12.1	14.1	9.5	18.2
Diamonds	3.4	98.5	98.8	98.6	94.0
Basic metals	2.0	5.5	12.3	15.8	53.4
Metal products	7.1	4.9	17.2	16.1	42.9
Machinery and electrical equipment	3.3	7.6	12.6	12.7	25.1
Household equipment and miscellaneous	3.7	10.2	12.7	9.7	–42.7
Transport equipment	4.4	15.3	19.1	16.7	35.6
Total	100.0	12.3	21.6	22.0	20.0

[a] Including direct exports and intermediate products serving as inputs for direct exports. Similarly, output for domestic uses consists of both final products and the investment and intermediate-product components thereof.

covered only part of the total unit production costs. The inflationary pressures at work between 1962 and 1964 in Israel's sheltered market widened still further the gap between the return from domestic sales and that from export. Devaluation raised the effective exchange rate for industrial exports by 13 percent. The impact of this development was largely offset by a rise of 12 percent in the prices of industrial products on the domestic market in the course of 1962. This was followed by comparative stability in 1963 and the first half of 1964, but toward the end of that year and in 1965 the upward movement of prices reasserted itself.

None of the available data indicate any change in the profitability of industrial production in 1965. Thus, for instance, labor costs per unit of output at current prices remained constant in the past three years; that is, wage increases were offset partly by an improvement in productivity and partly by advancing prices on the domestic market. Since most of the price rise occurred in the domestic market while export prices went up more moderately, these data suggest an increase in the profitability of production for the domestic market relative to that for the overseas market. At any rate, such a development was not likely to stimulate the expansion of export.

As regards the distribution of output by final uses, there was no sign of a change in trend. The proportion of incremental output going to export[1] in 1965 came to 20 percent, while the share of total output diverted to export was quite similar—22 percent, the same as in 1963 and 1964. Between 1958 and 1962 the weight of export in incremental output ranged from 30 to 40 percent, bringing up its share in total industrial output from 14 percent to 22 percent in 1961, after which it tapered off.

Industrial employment expanded by 1.3 percent in 1965, compared with 5.2 percent in 1964 and even steeper increases in previous years (see Table XII–1). The labor shortage of the preceding years gave way toward year's end to the virtual disappearance of the surplus demand for unskilled labor. In certain areas and industries there were even signs of a small supply surplus.

Labor costs per man-hour were 11.1 percent higher in 1965, a similar increase as in the previous year. The rise in the course of 1965, however, was slower than that during 1964.[2]

While industrial output rose, as already noted, by 10 percent, labor input (the number of man-days) went up 1.5 percent; the growth of output per man-day thus came to 8 percent in 1965, as against 7 percent in 1964. Factor productivity advanced 6.2 percent, roughly the same as in 1964. The growing resort to norms and incentive premiums in wages, particularly in 1962 and 1963, may have contributed to the increase in overall productivity. Some industries presumably were able to boost productivity also because of the advantages accruing from production in large series as the domestic market expanded, or because of a higher rate of plant utilization.

The manpower shortage of the past three years was undoubtedly a factor in the growth of productivity, for it encouraged the institution of norms and incentive payments which resulted, in those plants that introduced them, in a relatively steep rise in wages but an even steeper rise in output. The price restraint policy imposed on industry may also have contributed to greater efficiency.

[1] Exports consist of both direct exports and intermediate products serving as inputs for direct exports. Similarly, output for domestic uses consists of final products and the investment and intermediate-product components thereof.

[2] For a more thorough discussion, see Chapter X, "Wages".

Investment in labor-saving equipment was connected partly with the labor shortage and partly with the above-mentioned production in large series. The rise in the price of labor relative to equipment, combined with the expectation of a continuing manpower shortage, stimulated the introduction of machinery, while large-scale production made it possible to derive the technological benefits accruing from the use of equipment which it pays to install only when production runs exceed a certain minimum size.

The proportion spent on the expansion of existing plant within aggregate industrial investment has moved up noticeably in the past few years, and this is probably a further reason for the increase in the rate and efficiency of capital utilization.

In 1963 and 1964 industrial investment reached a record level compared with the previous three years. In 1965 the figure fell 4 percent below that for 1964. However, it must be remembered that from the viewpoint of industrial productive capacity the proper indicator is capital stock, and here we find that there was an advance of about 6 percent in 1965 as compared with 10 percent the year before.

2. Output

The value of industrial output at current prices reached IL 6,753 million in 1965, as against IL 5,929 million the year before. The index of industrial production went up 10 percent (from 219.8 in 1964 to 241.5), as compared with 15 percent between 1963 and 1964; this was the smallest increase since 1958 (see Table XII–1).

The average annual growth of industrial output was fairly even between 1959 and 1964, ranging between 14 and 15 percent. Comparison of the trend during the course of these years, however, reveals more pronounced differences (see Diagram XII–1). The growth rates during 1962 and 1964 were lower than during 1961 and 1963; in 1962, in fact, the rate was even lower than during 1965. Yet the average index of industrial production was 13 percent higher in 1962 than in the previous year, but only 10 percent higher in 1965 than in 1964. The reason is that 1964 was also a year of slow growth, barely surpassing the 1965 rate.

Provisional data show that this slowdown of output expansion encompassed most of the sector (see Table XII–3), and was particularly conspicuous in the food, paper, rubber and plastics, and metal products industries.

The distribution of the growth rates for the different industries around the general average somewhat resembled the pattern of previous years. Above-average rates were again recorded in mining and quarrying, chemicals, electrical equipment, wood and carpentry, and rubber and plastics; while the food, nonmetallic minerals, and metal products industries showed below-average rates.

The steep rise in the output of mine and quarry products was due mainly to the

near doubling of potash production, nearly all of which is marketed abroad. Other mine and quarry products displayed much slower increases in 1965; this is particularly true of the output of stone and lime quarries, which in former years had risen by an average of some 30 percent per annum, but in 1965 at a rate below the average for industry as a whole. Other subbranches producing mainly for the construction sector also reported much lower growth rates in 1965. Another conspicuous slowdown was in oil and gas production— from an annual rate of 25 to 40 percent in previous years to about 14 percent in 1965.

Table XII–3

GROSS INDUSTRIAL OUTPUT, BY BRANCH, 1965

Branch	Output in 1965 (IL m.)	Average annual change 1959–62 (%)	Percent real increase or decrease (–) as against preceding year		
			1963	1964	1965
Mining and quarrying	117	24.5	23.6	27.5	24.6
Food	1,201	13.9	10.5	14.6	4.6
Textiles and clothing	1,289	11.7	18.2	22.7	14.2
Wood and carpentry	602	11.4	20.3	19.8	17.3
Paper, printing, publishing	336	11.0	114.	16.9	7.5
Leather and footwear	171	2.6	4.0	11.2	11.3
Rubber and plastics	132	32.9	21.4	30.7	10.5
Tires	91	14.4	–7.8	13.3	11.0
Chemicals	480	14.5	13.0	18.1	17.8
Oil refining	256	14.7	29.1	12.7	13.6
Nonmetallic minerals	277	12.4	10.3	4.3	6.2
Diamonds	347	27.2	22.0	3.0	7.7
Basic metals	172	27.4	1.7	12.3	8.1
Metal products	434	13.1	12.9	22.6	5.4
Machinery and electrical equipment	264	19.7	28.9	12.6	9.6
Household equipment and miscellaneous	218	21.6	19.5	2.9	6.1
Transport equipment	306	17.5	21.4	1.7	4.6
Total	6,753	14.6	15.5[a]	15.0[a]	9.9

[a] This series was compiled from different sources. The data for 1959–63 were taken from the industrial surveys of the Central Bureau of Statistics, and those for 1964 from its industrial production indexes. The survey figures are given in current prices, and have been deflated according to the price indexes in order to calculate the real values. Between 1959 and 1962 the real rate of increase in total industrial production obtained in this way was identical with the real increase shown by the industrial production indexes. In 1963 and 1964, however, the latter indicated a real increase of 14.6 and 13.9 percent respectively, compared with 15.5 and 15.0 percent as computed from the survey data. Moreover, the growth rates for the individual branches reveal even sharper differences, which cannot be explained by resort to the prices indexes.

SOURCE: Central Bureau of Statistics; Bank of Israel.

Widely divergent growth rates were also to be found in various subbranches of the machinery and electrical equipment industry. Until 1962 the production of machinery, pumping and compressor equipment, and motors and transformers had increased far more rapidly, at about 30 percent a year, than the average. In the last three years, however, the trend slowed down—a development contrary to what was expected in the wake of devaluation. Before the devaluation of 1962, the effective exchange rate for imported equipment was exceptionally low, and the increase in the relative price of this item after the devaluation was among the highest, a fact which it was believed would result in the substitution of locally produced for imported equipment. Examination of the list of items imported so far—especially machinery and equipment—reveals that for the overwhelming majority the domestic market is not large enough to permit their production at a competitive price unless a substantial part of the output can be exported. The change in the relative price in the domestic market has thus proved to be insufficient incentive for substituting locally produced items for imports. On the other hand, it should be noted that since 1962 there has been a marked rise in the output of batteries and accumulators, electrical installations, and communication equipment (especially telephone exchange and switchboards).

As regards chemicals, most of the increase in 1965 was in basic chemicals, a development connected with the rapid rise in the domestic output of plastic products. Together with the growing production of import-substituting plastic raw materials in the last few years, there has been an expanding export of final products. Considerations of economic worthwhileness dictated the establishment of plants with a capacity exceeding domestic demand, and they must therefore export a considerable part of their output. It should be noted this was done in full awareness of the fact that the return on export would cover the variable costs only (see the discussion in section 3).

In the wood and carpentry branch, plywood and Bruce boxes led the field with regard to output increases in 1965. The rate of growth in these items has been well above the average for the entire branch ever since 1959. Furniture advanced more slowly than in 1964, but was still close to the branch average. Absolute decreases were reported by the other subbranches, especially building carpentry. The available data point to a big accumulation of plywood stocks in the latter part of 1965; this may be ascribed largely to the aforementioned developments in building carpentry and furniture, and partly to the fact that it was virtually impossible to export plywood at the present rate of exchange (see section 3).

In the textile and clothing industry, exceptionally rapid growth rates were achieved in synthetic yarns and fabrics and in clothing. Much of the expansion of synthetic textiles has been at the expense of competing fabrics made of cotton or wool. Here too the production of import substitutes has been accompanied by the growth of exports, a development particularly noticeable in 1963 and

1964. Output of cotton yarn increased more slowly in 1965, and wool yarn showed an absolute decline. Both domestic and foreign sales fell off in these two items.

The growth rate for rubber and plastic production in 1965 exceeded that for industry as a whole, but was considerably below that attained in 1964 or in earlier years. This was due to the drastic slowdown in the production of plastic products. The main reason for the rapid increase here in recent years is that plastic products have been supplanting goods turned out by other industries, particularly packaging and construction materials, besides replacing wood and metal in many other items. As this process tapers off, output growth may be expected to become more directly a function of general demand.

The lower percentage increase in the output of metal products encompassed all subbranches. Plumbing fixtures and structural metal products, items serving exclusively as inputs to the building industry, failed to show any increase at all, whereas in 1964 they had moved up at rates far above the average. In basic metals and pipes most of the decline in the growth rate was accounted for by reinforcing bars.

In the food industry nearly all subbranches recorded smaller percentage increases in 1965. Processed meat suffered most, owing apparently to the limited supply of domestic cattle and to declining livestock imports. Output of milk products expanded much more slowly than in previous years. Here, too, reduced agricultural supplies were a factor.

From the above it will be seen that output growth rates were more sluggish in most industrial branches in 1965. This is particularly true of those producing construction inputs, such as stone, lime, reinforcing bars, building carpentry, structural metal products, plumbing fixtures, and sanitary ware. This development can be better understood when viewed against the slowdown in construction activity in 1965. Glass and cement were exceptions in that their output continued upward at the 1964 rate; the reason lies in the accelerated rise of exports whereas domestic sales increased very little.

Most of the consumer goods industries also experienced a slower expansion of output, owing mainly to the weakening of general demand for industrial goods rather than to the competition of imported products.

The price index of industrial output sold in the domestic market went up 3.5 percent in 1965, compared with 1.4 percent the year before, continuing the upward trend which set in after the relative stability of 1963 and the first half of 1964. The price advance did not proceed at a uniform rate throughout the year. The pattern of price movements displays differences in both annual levels and in the months showing the steepest rises. Consequently, a comparison of the percentage increase in the annual level of the index between any two consecutive years does not accurately reflect the between-year differences from the aspect of the trend of changes during the course of the year. The difference between the average price levels of 1962 and 1963, for instance, may be traced

almost entirely to price increases that took place in the second half of 1962, for there was hardly any rise in the first half of 1963. On the other hand, the price advance between 1963 and 1964 stemmed wholly from increases in 1964, mainly in the second half of that year. The rise in 1965 was somewhat steeper than in the second half of 1964 and was spread fairly evenly over the year.

Table XII–4

RISE IN INDUSTRIAL OUTPUT PRICES IN THE LOCAL MARKET, 1964–65

(percentages)

Branch	Weight in total output	Averate rate of increase, 1959–64	Increase over previous year	
			1964	1965
Mining and quarrying	1.4	2.3	2.3	5.5
Meat, fish, oil, and milk products	8.0	3.6	2.4	13.5
Other food products	15.2	4.2	0.7	1.2
Textiles and clothing	19.6	2.4	0.0	1.3
Wood and carpentry	7.3	6.0	2.3	3.3
Paper and publishing	6.0	6.4	3.4	4.2
Leather and footwear	4.2	5.2	1.0	7.3
Rubber and plastics	1.7	1.7	–1.9	–1.2
Chemicals	7.5	2.9	0.0	2.9
Oil refining	3.6	9.3	0.4	0.5
Nonmetallic minerals	5.6	4.9	1.0	3.6
Basic metals	2.0	5.8	1.3	2.7
Metal products	7.5	5.2	3.4	3.9
Machinery and electrical equipment	2.5	3.7	2.1	4.8
Household equipment and miscellaneous	3.6	3.4	0.0	1.9
Transport equipment	4.3	7.0	6.9	4.5
Total	100.0	4.4	1.4	3.5

The percentage changes in prices varied as between branches. Rises were steepest in meat and dairy products (13.5 percent) leather and footwear, mining and quarrying, and transport equipment. In rubber and plastic products, on the other hand, there was a decline of 1.2 percent, while in oil refining, food (excluding meat, fish, edible oil, and milk), and textiles and clothing the increase was below average. Almost all branches whose prices moved up in 1965 more rapidly than the average for industry as a whole had registered above-average increases in 1964 as well (see Table XII–4). The developments in 1964–65 reflect to some extent the continuation of a long-run trend. Prices in the paper, leather, metal products, and transport equipment branches have been advancing at an above-average rate since 1958, bringing up their relative prices. Other

industries whose relative prices have risen during this period, though not consistently, are wood and carpentry, oil refining, nonmetallic minerals, and basic metals. On the other hand, there has been a decline in the relative price of textiles and clothing, rubber and plastics, chemicals, household equipment, and food other than meat, fish, oil and dairy products. The general pattern of prices has been upward. The aforementioned relative changes have been taking place fairly slowly and are much more moderate in scope than the rise in the general price level.

3. Export

The f.o.b. value of industrial exports, including diamonds, stood at $ 314 million in 1965 as against $ 281 million the previous year—an increase of 11.6 percent, compared with 13.5 percent between 1963 and 1964. Export expansion thus slowed down, continuing a trend that set in in 1964 following increases of 20 and 21 percent respectively in 1962 and 1963.

The slowdown stands out even more if diamonds are excluded. On this basis, the average annual growth came to 31 percent in 1959–61 but only 14 percent in 1962–65; there was an appreciable deceleration in 1964 and a further one in 1965. Whereas in 1962 and 1963 the declining growth rate affected only industrial exports other than diamonds, in 1964 it took in diamonds as well (see Table XII–5).

Table XII–5

GROWTH OF INDUSTRIAL EXPORTS, AT CURRENT F.O.B. PRICES, 1959–65

(percentages)

	1959	1960	1961	1962	1963	1964	1965	Annual average 1959–1961	Annual average 1962–1965
Industrial goods excl. diamonds	49.3	23.1	22.2	13.3	19.4	13.5	11.6	31.0	14.4
Diamonds	36.1	20.6	15.1	29.9	23.5	13.5	11.5	23.6	19.4
Total	43.7	22.1	19.4	19.6	21.1	13.5	11.6	27.9	16.4

Source: Central Bureau of Statistics.

Of the $ 33 million increase in the f.ob. value of industrial exports, $ 14 million was accounted for by diamonds. This item showed a gain of 11.5 percent in 1965, as against 13.5 percent the year before. These growth rates were substantially lower than in the 1959–63 period. As pointed out in the 1964 Annual Report, the high percentage increases in the past stemmed from the rapid growth of this country's share of world output of the type of stone in

which it specializes. The slower expansion of export in the last two years was mainly due to the slower growth of aggregate demand for diamonds.

Most of the $ 19 million rise in the value of industrial exports other than diamonds was accounted for by a limited number of products which play a relatively important role in Israel's exports and whose growth rates are far above average. Potash sales were up $ 5.5 million, or 72 percent, in 1965, accounting for nearly 30 percent of the total export increment. "Other metal products" gained $ 2.0 million, or 21 percent. This item displays sharp fluctuations from year to year: in 1963 it accounted for 27 percent of the incremental value of industrial exports other than diamonds, while in the following year it declined by $ 8.0 million. Phosphate sales rose by $ 1.7 million, or 147 percent, while insecticides, vegetable oils, and pharmaceuticals showed gains of 72 and 81 percent respectively.

Among the items whose export fell off in 1965 were some that had contributed an important share of the total increment in the past. Cotton yarn dropped by $ 1.4 million, or 13.6 percent; motor vehicles by $ 0.8 million, or 55 percent; copper-cement by $ 0.7 million, or 8 percent.

The differences in the growth rates of the various export industries were mainly due to factors influencing the supply of local goods to the export market; demand conditions were of relatively small significance.

Exports of mine and quarry products went up 34 percent to $ 25 million, as a result of a 25 percent rise in physical volume and a 7 percent increase in

Table XII–6

INCREMENTAL EXPORT OF MAJOR ITEMS OTHER THAN DIAMONDS, 1965

(at current f.o.b. prices)

Product	Value ($ '000)		Percentage distribution		Cumulative percentage	
	Total exports in 1965	Increase in 1965	Total exports	Incremental exports	Total exports	Incremental exports
Potassium chloride	13,229	5,520	7.3	29.1	7.3	29.1
Other metal products	11,297	1,973	6.2	10.4	13.5	39.5
Phosphates	2,781	1,656	1.5	8.7	15.0	48.2
Insecticides	3,254	1,367	1.8	7.2	16.8	55.4
Edible oils	6,972	1,294	3.8	6.8	20.6	62.2
Pharmaceuticals	2,458	1,099	1.4	5.8	22.0	68.0
Total	39,991	12,909	—	—	22.0	68.0
Total industrial exports excl. diamonds	181,854	18,973	100.0	100.0	100.0	100.0

prices. Potassium chloride (potash), which advanced 67 percent to hit the $ 13 million mark, accounted for most of the increment. The rapid export growth in this branch in the past three years can be attributed to the extensive investments made during this period. Production facilities have been operating at almost full capacity since mid-1965, and another increase is therefore expected in 1966; any future growth, however, will call for further investments. The rise in the value of potash exports has been partly due to the rise in the world market price for this item since 1962 owing to the brisk demand, a development which has encouraged the expansion of productive capacity in various countries besides Israel. In 1965 supply began to catch up and prices showed signs of levelling off in the latter part of the year.

Phosphate exports were also up considerably—by 42 percent—reaching $ 4 million approximately. The advance partly reflects a quantitative increase and partly a richer composition as the result of the maturing of investments made in 1963. This capital expenditure made it possible to start production of a new item with a higher phosphate content and commanding a higher price. The plant worked at nearly full capacity during the year reviewed.

Copper-cement exports developed differently, earning IL 8.5 million in 1965 as against IL 8.9 million the year before, so that their share in total exports of mine and quarry products fell from 47.5 to 34.0 percent. In 1964 copper-cement accounted for 25 percent of the entire incremental export of industrial products other than diamonds. As pointed out in last year's Report, the production volume of this item depends largely on a chance element—the richness of the ores mined. The 1965 export contained 14 percent less copper than in the previous year. The fact that aggregate export earnings virtually held steady despite this drop is ascribable to the rise in the world price of copper as a result mounting demand and declining supply due to international political developments. World prices nearly doubled in less than two years, to the point were some felt that it might pay to use substitutes for copper; and indeed toward the end of 1965 prices tended to taper off.

Exports of basic metals and pipes soared 75 percent in 1965, whereas in the previous year they had remained stationary. The figure was still below that achieved in 1962. Pipe exports, which account for a large part of total overseas sales of this branch, advanced in 1965 by 57 percent after having declined by 10 percent the year before.

Nonmetallic minerals gained 32 percent in 1965, after having moved down 8 percent in the previous year. Most of the increase was accounted for by cement and by asbestos products, which went up by 37 and 77 percent respectively following an absolute decline in 1964; cement sales abroad had in fact been falling off since 1962. The larger export of both items became possible in 1965 owing to the slowdown in construction activity; the growth in the export of these two products exceeded that in their output, which expanded at about the same rate as in earlier years.

Table XII–7

INDUSTRIAL EXPORTS, 1963–64

(at current f.o.b. prices)

Branch	Export in 1965 ($ '000)	Percent increase or decrease (–)				
		Average 1958–61	1962	1963	1964	1965
Basic metals and pipes	6,059	52.1	62.5	24.1	–0.7	74.6
Machinery and elec. equip.	2,250	55.2	52.5	–1.4	–22.5	47.0
Mining and quarrying	25,161	40.2	–9.3	37.5	63.9	34.4
Glass, ceramics, cement and products thereof	5,331	20.6	3.5	18.8	–7.8	31.5
Chemicals	22,569	60.4	–2.5	18.6	15.5	30.5
Metal products	12,996	128.1	24.0	54.6	–43.6	23.1
Plywood	8,057	13.7	24.1	6.8	17.6	13.2
Clothing	10,213	39.6	8.0	–12.0	11.2	8.7
Oil refining	10,188	—	86.3	110.5	21.8	6.5
Tires	8,816	13.8	17.8	–11.0	–4.1	4.6
Foodstuffs, other than citrus products	6,112	26.2	2.7	14.9	15.0	4.4
Citrus products	18,618	12.3	24.8	31.6	38.4	2.9
Leather and footwear	780	–2.3	95.6	–8.5	32.6	0.9
Textiles, excluding clothing	30,263	48.4	25.1	15.3	28.2	–0.4
Paper, printing, publishing	4,672	39.6	8.0	–12.0	11.2	–9.2
Rubber and plastics	1,504	42.9	–27.2	102.7	–6.7	–18.4
Transport equipment (production and repair)	3,466[a]	–8.1	60.3	2.9	51.1	–19.1
Household equipment and appliances	4,717	26.0	–18.6	1.3	33.4	–25.9
Industrial exports other than diamonds	181,854	31.5	13.3	19.4	13.5	11.6
Diamonds	131,796	23.9	29.9	23.4	13.5	11.5
Total industrial exports	313,650	28.4	19.6	21.1	13.5	11.6

[a] Excluding the sale of ships and aircraft, which totalled $ 3,728 million.
SOURCE: Central Bureau of Statistics.

The advance recorded in the export of chemicals was 31 percent, compared with 16 percent in 1964. Bromides, polyethylene, insecticides, and pharmaceuticals accounted for most of the growth, each rising by roughly $ 1 million. Insecticide sales fluctuate markedly from year to year; the increase in 1965 followed a drop in 1964. The export of polyethylene is a concomitant feature

of the local production of this import substitute; for technologico-economic reasons, the polyethylene plant had to be built bigger than the domestic market warranted, and export was undertaken with the knowledge that the prices fetched would only cover part of the production costs; domestic sales, on the other hand, are made at prices considerably above the world level. In this context it should be mentioned that where export proceeds do cover all costs, we could expect prices in the home market to be reduced.

Another major chemical product is PVC, export of which fell off in 1965 by about 30 percent, following a decrease of 50 percent the year before. In 1963, the first year of operation of the plant, $ 0.5 million worth of PVC was sold abroad, and in 1965 the world market could easily have taken several times that figure at the existing price; however, a steadily rising share of the output, which is limited by the plant's productive capacity, has been diverted to the domestic market where a brisk demand is expected to develop. Export proceeds cover only part of the unit production costs.

A further important export industry, from the viewpoint of both its relative growth rate and its share in total exports, is metal products, which sold 23 percent more of its output abroad in 1965, following a 44 percent decline the previous year. The leading item here is "other metal products", which expanded most in 1965 and accounts for the bulk of the industry's overseas sales. As already pointed out, exports here display sharp fluctuations from year to year, being influenced by other than purely economic considerations.

Among other industries making a substantial contribution to Israel's exports, and which in the past showed relative rapid rises, is clothing, exports of which went up but slightly in 1965, and citrus products and textiles, which did not advance at all. Garment sales expanded in 1965 by 9 percent as against 11 percent the preceding year. The entire increment was accounted for by two subbranches—men's shirts and trousers and leather and fur coats—each of which rose by one-third to stand at approximately $ 2 million. Raincoats and bathing suits were off 19 and 34 percent respectively. Garment exports, which in 1958–61 expanded by an average of 40 percent per annum, were down to an average growth rate of 6 percent in the years 1962–65.

The garment industry is expected to absorb the surplus productive capacity of the cotton yarn industry, whose direct exports have been supported by a premium exchange rate. These exports are now being reduced in view of the high cost of the value-added dollar, but if the direct export of yarns is not worthwhile, their indirect export is not likely to be profitable either.

Citrus products went up by only 3 percent in 1965, compared with 38 percent the year before. The critical factor here is the amount of culls supplied to the processing industry. Output in 1965 was far below productive capacity; the proportion of culls did not reach the forecast volume, and consequently canneries failed to meet all their foreign orders. Another result was that the

penetration of new markets where demand conditions were good and potential sales terms more favorable had to be renounced in order to meet commitments to veteran customers. Furthermore, the prices obtained fell by about 10 percent in the course of 1965. The demand for Israeli citrus products is fairly elastic, but its level is declining with the establishment of competing canneries—mainly in the U.S. and Latin America—which enjoy economies of scale.

Textile exports remained stationary in 1965; this constituted a sharp downturn, for in 1964 there had been a rise of 28 percent, and in 1958–61 an even steeper one. Cotton yarn was down 14 percent, compared with a growth of 60 percent in 1964; and synthetic yarn sales were unchanged, in contrast to a 50 percent increase in 1964. Export of the latter item is largely limited by existing productive capacity.