

CHAPTER IV

BALANCE OF PAYMENTS CURRENT ACCOUNT¹

I. MAIN DEVELOPMENTS

Israel's balance of payments position eroded badly in 1974, with the deficit on goods and services reaching \$ 3,408 million—triple the 1972 figure. About half the average annual increment in the last two years was a quantitative increase.² During this period imports rose 45 percent p.a. in value, or 16 percent in real terms, while exports went up 27 and 5 percent respectively. The growth of the deficit stemmed from a much higher defense import bill and a soaring merchandise trade deficit, along with a slightly smaller surplus on services.

Defense imports started to swell after the Yom Kippur War. After contracting between 1970 and September 1973,³ direct defense imports⁴ turned strongly upward in the fourth quarter of 1973 and reached \$ 1,152 million by the end of 1974. Excluding this item, the current deficit came to \$ 2,256 million, compared with \$ 1,418 million and \$ 692 million in 1973 and 1972 respectively. Nearly 40 percent of the increment represented a real increase, the balance being due, of course, to rising prices. Most of the real increase occurred in 1973, a result of inflationary pressures in the Israeli economy, which inhibited the expansion of exports and led to a much heavier real import; in 1974 the price effect was dominant. The trade deficit in the year reviewed shot up to \$ 2,393 million, of which some 30 percent was a quantitative increase. The services account showed a \$ 137 million surplus in 1974, compared with \$ 176 million in 1972.

A cardinal factor in the growth of the deficit was the global inflation. Import prices began to move up rapidly in 1972 because of the primary commodity and fuel

¹ The terms "current account" and "goods and services account" are used synonymously in the Bank of Israel's *Annual Report*.

² Since the grave turn for the worse in Israel's balance of payments began in 1973, we have preferred to compare developments in 1974 with those in 1972. The percentage changes in 1972-74 cited here are the average annual rates of change.

³ \$ 358 million in the first nine months of 1973.

⁴ The defense burden also includes imports of intermediates for noncivilian production, which are not listed under the head of direct defense imports.

Table
CURRENT AND MERCHANDISE

(\$ million, at

	1973		1974		
	1972	Jan.- Sept.	Entire year	Jan.- Sept.	Entire year
Current account					
Total commodity and service imports	3,261	3,416	5,325	5,032	6,844
Total commodity and service exports	2,129	2,050	2,654	2,506	3,436
Deficit on current account	1,132	1,366	2,671	2,526	3,408
Total imports, excl. defense imports	2,771	3,063	4,072	4,163	5,692
Deficit on current account, excl. defense imports	642	1,013	1,418	1,657	2,256
Total imports, excl. defense imports and ships and aircraft	2,707	2,869	3,847	4,077	5,541
Total exports, excl. ships and aircraft	2,116	2,044	2,645	2,505	3,434
Deficit, excl. defense imports and ships and aircraft	591	825	1,202	1,572	2,107
Trade balance					
Commodity imports	1,900	2,198	2,896	2,973	4,096
Commodity exports	1,082	1,067	1,366	1,227	1,703
Trade balance	818	1,131	1,530	1,746	2,393
Commodity imports, excl. ships and aircraft	1,836	2,004	2,672	2,887	3,945
Commodity exports, excl. ships and aircraft	1,069	1,061	1,357	1,226	1,701
Trade balance, excl. ships and aircraft	767	943	1,314	1,661	2,244

* The geometric average for imports and exports as variously categorized. The change in

IV-1

TRADE ACCOUNT, 1972-74

(current prices)

Average annual increase ^a			Percent of average annual increase			Index of average annual change		
Value	Quantity	Price	Value	Quantity	Price	Value	Quantity	Price
1,464	535	929	100	37	63	145	116	124
575	98	477	100	17	83	127	105	121
880	437	452	100	49	51	179	139	129
1,203	354	849	100	29	71	143	128	122
628	256	372	100	41	59	188	135	139
1,161	339	822	100	29	71	143	113	127
583	107	476	100	18	82	128	105	122
578	232	346	100	40	60	202	139	145
889	200	689	100	23	77	147	111	133
276	31	245	100	11	89	126	103	122
613	169	444	100	28	72	175	121	145
855	185	670	100	22	78	147	110	134
284	40	244	100	14	86	127	104	122
571	145	426	100	25	75	174	119	146

the deficit is calculated as the difference between the change in imports and that in exports.

price explosion. The inflation in Israel's export markets also drove up export prices, but they trailed behind import prices, with a consequent worsening of Israel's terms of trade until the beginning of 1974. The year reviewed witnessed some improvement, but the terms of trade still failed to regain their level at the beginning of 1973 (see Chapter VI).

In the first nine months of 1974 commodity imports were down 4 percent in real terms, compared with 29 percent in the same period the year before. Part of the decline was accounted for by the highly erratic ships and aircraft item and rough diamonds, the import of which is only tenuously connected with domestic developments. Not counting these two items, imports soared 60 percent in value, with the quantitative growth coming to 10 percent.

The slowdown in imports encompassed most component groups. An exception was land transport equipment, which was up 57 percent in real terms, as contrasted with 21 percent in January-September 1973. The sluggish rise in foreign-made machinery and equipment was consistent with the sagging demand for locally produced capital goods; on balance, there was an increase in the direct import component of equipment investment because of a decline in the relative price of imported capital assets.

Imports of consumer goods were down in quantitative terms, with food being responsible for the change. The dominant factor here was the smaller overseas purchase of frozen meat because of a decline in domestic consumption. In durables the real growth curve flattened out somewhat; however, this should be viewed against the high level reached in the two preceding years in response to an expected rise in import prices under the government's new economic policy and a possible devaluation of the Israeli pound.

Nondiamond inputs were up 10 percent in the first nine months of 1974, whereas the volume required for current production was 4 percent less than in the previous year. This probably attests to a buildup of stocks, which actually got underway in 1973. The rampant worldwide inflation begun at the end of 1972 and the severe weakening of the dollar against the leading European currencies in the first half of 1973 pushed up import prices that year and made it more worthwhile to keep large stocks on hand. World prices continued to climb in the first half of 1974, and to this must be added the expected hiking of the effective exchange rate for imports under the government's economic policy. Other factors giving a fillip to stockpiling were the rapid return of the economy to normal after the war, jitters over a possible rationing of foreign currency, and the possibility of obtaining credit abroad for financing raw material imports.

In the second quarter of 1974 imports returned to their prewar quantitative level, led by consumer durables and inputs other than rough diamonds, fuel, and spare

parts, both of which groups ran 17 percent above the deseasonalized figures for the first quarter of 1974. In the third quarter the volume moved up only a notch, following an increase in rough diamonds, and in the last three months imports were back to their second-quarter level, mainly because of a decline in consumer goods, diamonds, and fuel, whereas inputs other than diamonds, fuel, and spare parts posted higher figures.

In the first two months of 1975 net imports (excluding ships and aircraft) averaged \$ 370 million a month (seasonally adjusted), a bit above the \$ 360 million monthly average in the previous half year. In March the figure plunged some \$ 100 million to \$ 270 million. This may have been due to the devaluation, which altered the public's expectations, made imports dearer, and was accompanied by the banning of certain imports.

Commodity exports turned downward in the first nine months of 1974 in quantitative terms. Agricultural products made some progress, the resultant of a gain in citrus and a decline in other items. Diamonds lost ground in both money and real terms for the first time since 1970, owing to the world crisis in this industry. Minerals enjoyed a lively demand, and the drop in tonnage was due to short-term supply constraints, which were aggravated in the first quarter of the year because of the Yom Kippur War.

Industrial exports other than diamonds and minerals moved up more vigorously this year, after having sagged since the end of 1971. The real growth in the first nine months of 1974 came to 6 percent, as against 4 percent the year before, 7 percent in 1972, and an average of 20 percent in 1967-71.

The determinants of export growth do not reveal a uniform picture in the period reviewed; there were contradictory influences and even some reversals of trend. Special factors played an important role this year; this resulted in a highly divergent growth pattern, with most of the headway being accounted for by a relatively small number of branches, while the majority of those producing for both the home and foreign markets failed to forge ahead.

As regards export profitability, there was a turn for the worse in the first half of the year reviewed but an improvement in the second half. In 1972 the sharply rising trend in export profitability begun in 1966 was arrested. From the time the economy began to pull out of the slump of 1966-67 until 1971, the upswing in export profitability was accompanied by a sluggish increase in domestic demand and in input prices. In 1971-72 domestic demand pressure began to build up against the backdrop of full employment. The rise in production costs picked up steam, and in some cases outpaced the increase in export proceeds. At the same time, the export advance began to lose momentum. Export profitability began to improve in the second quarter of 1973, when the weakening of the dollar against the major

Table
CURRENT ACCOUNT,^a
(\$

	Imports						Exports	
	Goods	Defense imports	Services	Total		Goods	Services	
				Incl. defense imports	Excl. defense imports			
A. \$ million (at current prices)								
1968	1,057	249	506	1,812	1,563	598	534	
1969	1,259	334	595	2,188	1,854	679	586	
1970	1,372	624	653	2,649	2,025	717	644	
1971	1,759	555	768	3,082	2,527	900	914	
1972								
Jan.-Sept.	1,352	358	645	2,355	1,997	771	775	
Entire year	1,900	490	871	3,261	2,771	1,082	1,047	
1973								
Entire year	2,189	353	865	3,416	3,063	1,067	983	
Jan.-Sept.	2,896	1,253	1,176	5,325	4,072	1,366	1,288	
1974								
Jan.-Sept.	2,973	869	1,190	5,032	4,163	1,227	1,279	
Entire year	4,096	1,152	1,596	6,844	5,692	1,703	1,733	
B. Percent change in prices								
1969	4	6	5	4	4	6	4	
1970	1	4	4	2	2	-1	7	
1971	4	3	7	4	5	4	8	
1972	6	5	4	5	5	7	2	
1973								
Jan.-Sept.	24	11	10	19	20	24	11	
Entire year	28	11	12	20	23	23	13	
1974								
Jan.-Sept.	43	14	23	32	35	18	33	
Entire year	38	13	22	29	33	18	31	
C. Percent change in quantity								
1969	14	27	12	16	14	7	6	
1970	8	80	5	18	7	7	3	
1971	24	-14	10	12	19	21	31	
1972	2	-16	9	—	4	12	12	
1973								
Entire year	31	-11	22	22	27	12	14	
Jan.-Sept.	19	130	21	36	20	3	9	
1974								
Jan.-Sept.	-5	115	12	12	1	-3	-2	
Entire year	3	-19	11	—	5	5	3	

^a Imports c.i.f., exports f.o.b.
SOURCE: Central Bureau of Statistics.

IV-2

1968-74

million)

Total	Deficit						Current account with administered areas	Overall current account
	Trade balance	Defense imports	Services	Total				
				Incl. defense imports	Excl. defense imports			
1,132	-459	-249	28	-680	-431	32	-648	
1,265	-580	-334	-8	-922	-589	54	-869	
1,361	-655	-624	-9	1,288	-664	57	-1,234	
1,814	-859	-555	146	-1,268	-713	40	-1,228	
1,546	-581	-358	130	-809	-451	20	-789	
2,129	-818	-490	176	-1,132	-642	31	-1,101	
2,050	-1,131	-353	118	-1,366	-1,013	21	-1,345	
2,654	-1,530	-1,253	112	-2,671	-1,418	29	-2,642	
2,506	-1,746	-869	-89	-2,526	-1,657	30	-2,496	
3,436	2,393	-1,152	137	-3,408	-2,256	52	-3,356	
5								
2								
6								
5								
17								
18								
25								
24								
7	24	27		30	33			
5	10	80		37	12			
26	27	-14		-4	5			
12	-9	-16		-16	-17			
13	58	-11		40	84			
6	40	130		95	67			
-2	-7	115		39	7			
4	1	-19		-5	9			

Table IV-3
TRADE ACCOUNT, QUARTERLY DATA, 1971-74
(\$ million, at current prices)

	Imports			Exports			Trade deficit ^a			Ships and aircraft	
	Un- adjusted	Seasonally adjusted	Quantity index ^b	Un- adjusted	Seasonally adjusted	Quantity index ^b	Un- adjusted	Seasonally adjusted	Quantity index ^b	Im- ports	Ex- ports
Annual data											
1970	1,367.9	1,368.5	100.0	731.6	730.8	100.0	636.3	637.7	100.0	58.5	2.0
1971	1,606.2	1,602.9	113.2	910.2	903.5	119.1	696.0	699.4	106.4	189.3	4.5
1972	1,896.8	1,899.9	126.5	1,086.7	1,090.1	134.0	810.1	809.7	117.9	63.8	13.1
1973	2,718.8	2,737.6	143.5	1,383.1	1,398.1	140.2	1,335.7	1,359.5	147.3	224.8	8.7
1974	4,047.3	4,063.6	154.9	1,722.6	1,729.3	146.7	2,324.7	2,334.3	164.3	133.4	14.0
Quarterly data											
1971 I	377.4	375.0		243.3	209.0		134.1	166.0		106.5	—
II	407.4	383.0		223.4	219.2		184.0	163.8		23.3	—
III	381.8	407.2		183.8	218.1		198.0	189.1		19.3	—
IV	439.6	437.7		259.7	257.4		179.9	180.3		37.5	4.5
1972 I	455.0	452.7	124.6	286.0	253.1	129.7	169.0	199.6	118.0	13.8	—
II	478.9	453.1	120.8	259.5	254.7	127.1	219.4	198.4	113.6	13.8	8.2
III	414.6	452.6	121.5	229.0	274.2	134.7	185.6	178.4	100.1	16.1	0.5
IV	548.3	541.5	140.0	312.3	308.1	143.6	236.0	233.4	135.9	20.1	4.4

1973 I	578.9	568.1	144.6	352.7	312.4	144.3	226.2	255.7	145.0	4.7	2.1
II	706.5	666.8	148.3	362.3	355.5	144.5	344.2	311.3	152.6	94.7	3.9
III	755.4	800.5	158.3	359.6	415.9	155.8	395.8	384.6	161.2	94.7	0.3
IV	677.9	702.1	121.2	308.3	314.4	112.2	369.6	387.7	131.5	30.7	2.4
1974 I	895.1	880.5	144.4	424.5	378.4	147.9	470.6	502.1	140.4	2.2	0.5
II	1,086.1	1,015.3	156.9	442.6	427.1	145.0	643.5	588.2	170.5	35.8	0.7
III	993.6	1,078.4	162.1	383.4	449.7	146.2	610.2	628.7	180.3	48.0	4.0
IV	1,072.5	1,089.5	155.3	472.1	474.0	146.6	600.4	615.5	165.3	64.5	8.8
1975 January	360.6	365.7		159.5	157.3		201.1	208.4		3.7	—
February	346.0	374.5		163.8	152.1		182.2	222.4		—	—
March	296.0	272.3		167.9	141.2		128.1	131.1		—	—
January–March	1,002.6	1,012.5		491.2	450.6		511.4	561.9		3.7	—

^a Excluding ships and aircraft.

^b Calculated by deflating the seasonally adjusted series by the appropriate price index. It is assumed that the price index is not significantly affected by seasonality; otherwise the quantity index is somewhat biased. The base of the index is the average for 1970.

SOURCE: Central Bureau of Statistics.

European currencies led to the de facto devaluation of the Israeli pound, which is pegged to the dollar (between January and July 1973 the IL slipped 14 percent against the principal European currencies). The strengthening of the dollar in the second half of 1973 and the beginning of 1974 and the soaring prices of domestic inputs caused export returns to lag behind the rise in costs in the first half of 1974. In the second half of the year export profitability again turned upward, due to the raising of export incentives in July and the renewed softening of the dollar in September. Another factor giving a boost to export profitability was the devaluation of the IL in November 1974.

A salient feature of the export picture in the year reviewed was foreign demand. The world economic retreat greatly retarded the expansion of Israel's export markets. The ebbing of overseas demand, especially for consumer goods, had a very adverse effect on Israel's sales of such products, for many of them have a high income elasticity of demand. On the other hand, exports of capital goods (plant and equipment) were not affected. In this group specific factors play a major role, and in 1974 they had a stimulative effect.

A third determinant of export growth is domestic demand. In 1974 this did not constrain sales in most branches, especially in the second half of the year, whereas in the three preceding years the buoyant domestic demand led to the diversion of output from the overseas to the home market.

Industrial exports other than diamonds and the ships and aircraft item fluctuated during the year (seasonally adjusted data). In the final quarter they stood close to their prewar quantitative level, but were down from the third quarter of 1974. In the first part of 1975 they also apparently failed to make any real strides (they were 4 percent up on the final quarter of 1974 in deseasonalized money terms). The rise in dollar prices apparently goes far to explain most, if not all, of the advance. The weakening of the dollar against European currencies shaved off an average of some 4 percent from its external value (and that of the IL) between these two periods. Given the increase in world prices, industrial exports continued to contract in real terms.

2. WORLD COMMODITY PRICES

As already noted, the rise in world prices was an important factor in the widening of the current deficit in the year reviewed. At the end of 1974 import prices were 85 percent above their average level in 1972 (see Table IV-4),⁵ whereas export prices

⁵ For analyzing quarterly movements we used a price index based on a fixed basket. This is a better index for examining intertemporal changes in prices than an index with a variable basket, which is more suitable for use as a deflator (the prices indexes in Table IV-5 are of this type).

Table IV-4
ISRAEL'S TERMS OF TRADE, 1969-74

	Including diamonds			Excluding diamonds		
	Import price index	Export price index	Terms of trade ^a	Import price index	Export price index	Terms of trade
Annual data						
(1968 = 100 ^b)						
1969	105.0	104.7	99.7	104.4	103.7	99.2
1970	105.6	104.4	98.9	107.2	103.5	96.5
1971	109.2	108.4	99.3	111.9	105.6	94.4
1972	115.7	116.2	100.4	117.4	109.9	93.4
1973	148.0	142.8	96.5	150.5	130.8	86.9
1974	203.5	169.1	83.1	212.1	166.6	78.5
Quarterly data^c						
(1972 = 100)						
1973						
I	107.2	110.4	103.0	105.6	105.6	100.0
II	120.3	122.6	101.9	119.5	118.5	99.2
III	136.9	133.1	97.2	137.3	131.0	95.4
IV	146.5	131.2	89.6	148.9	129.4	86.9
1974						
I	178.6	135.4	75.8	185.9	136.1	73.2
II	192.2	148.4	77.2	198.8	147.4	74.1
III	183.4	147.2	80.3	190.7	150.8	79.1
IV	184.7	148.9	80.6	196.3	157.0	80.0
1973 ^d	128.0	123.3	96.3	128.3	119.8	93.4
1974	184.8	144.9	78.4	193.0	147.8	76.6

^a The export price index divided by the import price index.

^b The indexes calculated according to 1968 prices are Paasche indexes. In 1973 the Central Bureau of Statistics chained the base of the price indexes to 1972 = 100. The price indexes for 1973 and 1974 based on 1968 = 100 were obtained by linking these indexes based on 1972 = 100 to 1972 based on 1968 = 100.

^c For quarterly comparisons we assumed a fixed (1973) basket of goods throughout in order to separate out the influence of changes in the basket on the price indexes.

^d These annual indexes (based on 1972 prices) were calculated according to the basket used for the quarterly indexes.

moved up by only some 40 percent during this period. The sources of the upward thrust differed in the last two years. In 1973 the jump in import prices was due to the primary commodity price explosion⁶ and the depreciation of the dollar relative to the leading European currencies; in 1974 the principal cause was the rocketing of fuel prices. In 1974 Israel paid four and a half times more for this item than in the first nine months of 1973, with the peak being reached in the second quarter, when the figure was five times above the average for January-September 1973. On the other hand, since mid-1974 many commodity prices have softened, and the dollar fluctuated more mildly this year than last. In the second half of 1974 the import price advance slackened, but the weakening of the dollar from September 1974 until March 1975⁷ caused the import price index to rise, as import prices are in dollars.

The increase in export prices is explained by the inflation in Israel's export markets and the weakening of the dollar against the major European currencies. From mid-1972 until the final quarter of 1974 import prices outraced export prices, with a resulting deterioration in Israel's terms of trade⁸ (the ratio between export prices and import prices, excluding diamonds⁹). From the middle of 1972 until the first quarter of 1974 the deterioration amounted to 24 percent (see Table IV-4), but in the following three quarters there was some improvement as import prices moved up more slowly than export prices. In the final quarter of 1974 the export-import price ratio stood at 80 percent of its average level in 1972, a figure also below the average for 1973-74. The galloping global inflation and the consequent decline in Israel's terms of trade¹⁰ were most responsible for the increase in the trade deficit between 1972 and 1974, and especially between 1973 and 1974.

The rise in c.i.f. import prices is not identical with that in the prices paid by the consumer because of levies and subsidies, which are included in the retail price. A large percentage of the products that became much dearer in the world markets are

⁶ The increase in the domestic prices of some of these commodities are presented in Table IV-6.

⁷ Between September 1974 and March 1975 the average rate of the IL fell 13 percent; in March it sank to its July 1973 low (Table IV-7).

⁸ Commodity import prices are measured c.i.f. and export prices f.o.b. The export price rise therefore includes the increase in transportation costs, part of which constitutes income of Israeli shipping companies and is recorded in the services account. In calculating the terms of trade we used the commodity import and export price indexes only, for the calculation of an index of service prices is problematic.

⁹ The diamond price indexes are statistically problematic and of low reliability; we have therefore cited the indexes excluding diamonds.

¹⁰ Even when import and export prices move up in unison, the deficit widens.

imported by the government, which fixes their price. For a long time the prices paid by consumers were below the world level because of government subsidies. The reduction of these subsidies brought the retail prices closer to their world market level.

Between 1972 and 1974 import prices also raced ahead of the GNP deflator—76 vs. 61 percent—so that the relative price of the former rose. Nevertheless, imports expanded more rapidly than GNP.

The rise in world prices is, of course, a factor exogenous to the domestic economy, but it has the most telling effect on Israel's balance of payments. In tackling the problem of the mounting balance of payments deficit, the government took action to change the effective exchange rate and thereby give a fillip to exports and curtail imports. From August 1971 until November 1974 (when the IL was devalued), the effective exchange rate for exports¹¹ was upped 19 percent, from IL 5.09 to IL 6.04 per dollar, and that for imports for export production was raised by 11 percent (see Table IV-20); this added 13 percent to the effective rate of the value-added dollar.¹² The latter was scaled up in stages, by hiking export premiums on the one hand and the defense levy on imports on the other, with the effect of the former being dominant.

In November 1974 the government devalued the IL by 43 percent, from IL 4.2 to IL 6 per dollar. At the same time it lowered the defense levy from 35 to 15 percent, so that in effect imports-for-exports became more than 22 percent dearer. The export exchange rate went up to a similar extent (21 percent), but the further raising of the incentives in January 1975 brought the figure up to 26 percent (see Table IV-20). The effective rate for the value-added dollar went up by an even steeper 28 percent (Table IV-21); all told, the effective rate for exports has gone up 50 percent since August 1971, compared with only 36 percent in the case of imports-for-exports.

Besides its endeavors to stimulate exports, the government took action to reduce imports. In November 1973 it raised the purchase tax on imports and upped the defense levy by 5 percentage points. In January 1974 it pared the subsidies on basic foodstuffs, thereby bringing up the effective exchange rate for imported consumer goods. In July it upped the defense levy by 10 percent under its new economic policy, and increased the purchase tax on certain imported goods. The culminating and most drastic step was the devaluation of the IL in November 1974. The

¹¹ For the highest incentive group.

¹² For commodities entitled to the incentives granted to the highest value-added group and which have a value added of 70 percent. The lower the percent of value added, the greater the increase in the effective exchange rate for the value-added dollar of the group.

Table IV-5
FOREIGN TRADE PRICE INDEX, 1969-74
(1968 = 100)

	Commodity imports								Commodity exports				
	Total			For consumption		Inputs to industry, excl. diamonds	Fuel	Capital goods	Total		Industrial exports, excl. diamonds	Agricultural exports	
	Incl. diamonds	Excl. diamonds	Excl. diamonds and fuel	Total	Food				Incl. diamonds	Excl. diamonds		Total	Citrus
Annual averages													
	1968 = 100												
1969	105.0	104.4	104.6	102.8	103.1	105.4	102.1	105.1	104.7	103.7	103.5	104.5	105.9
1970	105.6	107.2	107.6	106.1	107.9	107.1	100.5	108.1	104.4	103.5	105.1	99.4	99.9
1971	109.2	111.9	111.3	117.5	132.0	109.6	112.8	108.4	108.4	105.6	105.7	105.1	107.6
1972	115.8	118.0	117.1	128.5	155.9	115.3	135.2	117.1	116.2	109.9	110.9	107.2	107.7
1973	148.4	151.9	148.7	161.2	216.9	149.1	191.5	144.1	145.1	131.6	133.8	124.8	121.4
	1972 = 100^a												
1973	127.9	128.2	127.0	128.1	138.6	128.2	141.6	122.5	122.9	119.0	120.6	111.1	105.6
1974	175.9	180.7	157.0	154.8	195.8	165.2	527.8	132.7	145.5	151.6	159.5	121.0	113.1
Quarterly													
	1972 = 100												
1973													
I	108.3	106.7	166.7	103.7	105.0	108.6	107.7	105.8	111.8	107.7	106.3	109.7	..
II	120.6	119.4	119.7	124.9	140.3	118.8	113.6	119.5	123.6	119.2	118.2	122.9	..
III	136.9	137.4	138.3	141.9	155.2	139.0	123.5	135.8	131.6	126.8	126.2	137.0	..
IV	149.8	151.2	146.4	140.8	156.2	155.3	183.0	132.6	131.1	129.3	131.6	121.4	..
1974													
I	168.2	172.1	145.4	142.3	167.4	154.0	583.9	124.9	134.0	135.5	144.6	113.3	104.4
II	173.5	178.5	157.5	150.2	194.6	167.2	575.2	132.9	148.1	148.5	158.3	113.5	122.0
III	180.0	184.9	158.2	155.3	194.2	165.7	494.6	133.9	149.8	161.1	163.6	142.6	167.3
IV	181.5	186.5	165.5	173.0	230.5	171.9	485.7	141.1	150.9	163.6	169.3	139.1	122.3

^a In 1973 the Central Bureau of Statistics chained the base of the price indexes to 1972 = 100. Calculation of the indexes for 1973 on the basis of 1968 = 100 will of course yield different results from a calculation based on 1972 = 100.

SOURCE: Central Bureau of Statistics.

Table IV-6
PRICE INDEX^a OF SELECTED IMPORTED
COMMODITIES, 1973-75

(1972 = 100)

	1973	1974	1975 (Jan.-March)
Wheat	197.3	252.4	311.3
Sorghum	160.3	256.9	245.6
Corn	194.9	245.6	292.6
Barley	189.0	298.9	374.2
Soybean	165.2	170.8	220.1
Sugar	120.3	186.3	464.0

^a Calculated according to the prices on the dates the goods were released from customs.

effective exchange rate for imports went up more than the rate of the official devaluation plus the defense levy, for the government slashed subsidies on basic commodities and raised the effective exchange rate of the import component of numerous goods. In addition, it clamped a six-month ban on the import of a number of luxury items.

Along with the measures designed to make imports dearer and to curtail their volume, it was decided to introduce another round of customs tariff cuts under the import liberalization program. These steps are helping to reduce the distortions stemming from the high rate of protection on domestic production.

In 1973 the developed economies switched to a system of floating exchange rates. In Israel, the IL theoretically remained pegged at a fixed rate against the U.S. dollar, so that in effect it was floated against the major European currencies. This float does not depend on developments in the domestic economy, nor does it always suit Israel's needs. When the weakening of the dollar depresses the value of the IL in relation to European currencies, it is a change in the right direction; but the strengthening of the dollar is liable to hurt the Israeli economy, both by dampening the profitability and hence the volume of exports on the one hand and, by reducing import prices, hampering the attempt to cut down overseas purchases on the other. It should be stressed that an improvement in export profitability stemming from the depreciation of the IL against European currencies in such circumstances cannot take the place of a policy of deliberate encouragement through the upping of the effective exchange rate, because of its uncertain nature.

Table IV-7

**CHANGES IN AVERAGE IL RATES^a FROM SMITHSONIAN PARITIES
(DECEMBER 1971), 1972-75**

(annual and quarterly averages)

	Exports			Imports			
	Total	Agricultural	Industrial, excl. diamonds	Total	Consumer goods	Intermediates	Capital goods
1972	0.21	0.04	-0.17	-0.21	0.20	-0.38	0.01
1973	8.57	10.76	6.19	6.44	10.10	5.57	7.18
1974	7.66	9.69	5.40	4.73	8.21	4.05	4.87
1972 I	0.28	0.28	0.20	0.19	0.21	0.24	0.06
II	0.63	0.79	0.49	0.52	0.74	0.49	0.50
III	0.56	0.33	0.07	0.07	0.65	-0.13	0.31
IV	-0.65	-1.54	-1.43	-1.63	-0.79	-2.11	-0.84
1973 I	3.57	3.54	1.79	2.01	4.09	1.40	2.70
II	8.29	10.01	5.97	6.24	9.60	5.67	6.40
III	13.16	17.59	10.25	10.76	15.81	9.55	11.77
IV	9.28	11.90	6.75	6.75	10.91	5.65	7.84
1974 I	4.71	5.38	2.83	1.84	5.11	1.17	2.39
II	9.23	11.75	6.65	6.63	9.88	5.68	6.40
III	7.47	9.53	5.32	4.56	7.82	4.04	4.62
IV	9.24	12.08	6.79	5.96	10.02	5.32	6.05
1975 Average Jan.- March	14.78	19.65	11.31	11.12	16.68	10.22	11.24
Selected months ^b							
November 1972	-0.73	-1.68	-1.53	-1.75	-0.89	-2.24	-0.94
July 1973	14.98	20.30	12.00	12.53	18.02	11.40	13.25
January 1974	2.44	2.37	0.98	-0.27	3.32	-0.99	0.49
May 1974	10.20	13.20	7.44	7.29	11.09	6.60	7.61
September 1974	6.44	7.97	4.36	3.42	6.58	2.91	3.50
March 1975	16.00	21.16	12.30	12.28	18.10	11.37	12.38
April 1975	14.11	18.79	10.78	10.50	16.03	9.58	10.77

^a Trade-weighted.

^b High or low of dollar rate.

3. COMMODITY IMPORTS

Commodity imports in the first nine months of 1974¹³ surpassed the \$ 3 billion mark. At constant prices the level was down 4 percent, owing mainly to a drop in two large items which are only tenuously connected with the domestic economy—ships and aircraft and uncut diamonds. Less these two items, imports were up 10 percent in quantitative terms, compared with 16 percent in the corresponding period the year before (see Table IV-8).

Imports of ships and aircraft, which are subject to very marked fluctuations, totalled \$ 86 million in the first three quarters of 1974, after reaching \$ 1,974 million in the same period the year before. Imports of rough diamonds were down 16 percent, after an 86 percent upsurge in January-September 1973. This drastic turnabout was connected with the world slump in diamonds, which began to be felt in the final quarter of 1973 and deepened in the course of 1974. Such imports fell off not only in value, but also in quantitative terms, and conceivably stocks were run down somewhat in the first three quarters of 1974, for imports fell off more than exports in physical terms (this conclusion must be treated with caution, for the calculation of the quantitative change is based on diamond import and export price indexes, which are statistically very problematic and hence of doubtful reliability).

In the other major import groups¹⁴ the most prominent development was a real 2 percent drop in consumer goods, after a sharp rise in the first nine months of 1973. The uptrend in nondiamond production inputs slackened from 17 percent in the first nine months of 1973 to 10 percent in real terms, while capital goods other than ships and aircraft accelerated from 12 to 15 percent.

The smaller real import of consumer goods is explained by the sharp drop in foodstuffs—down 17 percent after an 11 percent increase in the first nine months of 1973. The dominant factor here was the slashing of frozen meat imports by the government from \$ 45 million in the first three quarters in 1973 to \$ 9 million in the same period of 1974. Other nondurables showed an 11 percent real rise, compared with 17 percent in the first nine months of 1973, while durables moved up only 5 percent, after spurting 56 percent the year before. In the latter group there

¹³ The war sharply depressed imports and exports in the final quarter of 1973. For comparing developments in 1974 with those in 1973 less the effects of the war, we have chosen to make the comparison between the first nine months of 1974 and the same period in the previous year. The tables in this chapter present data for all of 1974.

¹⁴ In 1974 the Central Bureau of Statistics revised its classification of economic destinations and allowed a single transitional year—1973. Therefore, the value of imports for the various economic destinations in all of 1974 can be compared only with 1973, while a comparison with previous years can be made only for rates of change.

was a larger import of furniture, household equipment, electrical appliances, and passenger cars.

Imports of consumer goods are influenced by changes in real income and expectations of a change in prices and/or the exchange rate. In January-September 1974 the growth of per capita real private consumption sagged somewhat because of the nonincrease of real income. Per capita spending on food moved down with the rise in its relative price, and within this item decreases were recorded in the per capita figures for meat and meat products, as the substitution effect sharply depressed consumption of frozen meat because of the increase in its relative price. The outcome was a heavy buildup of imported frozen meat stocks, and the government refrained from purchasing further quantities abroad. Total food consumption declined to a lesser degree than that of imported food, while total consumption of other nondurables (locally produced and imports) even rose. Consequently, there was a decrease in the proportion of direct imports for current consumption.

In durables the real growth curve flattened out somewhat during the period discussed, but this must be seen in conjunction with the high level reached in the two preceding years. The main reason for the more sluggish rise in 1974 was probably the zero growth of real income. Another possible factor was the smaller import by new immigrants with the sharp downturn in immigration during the year reviewed, and the introduction at the beginning of 1974 of the regulations limiting imports by newcomers. A quarterly analysis of imports shows a swelling volume of consumer durables in the second quarter, after they had regained their prewar level in the previous three months. The second-quarter surge was apparently due to the advancing of purchases before a possible price rise under the new economic policy and to the implementation of purchases that had been shelved in the first quarter because of the war and national emergency. In the next two quarters imports of this group fell off significantly, probably because of the economic slowdown. The percentage increase in imports of consumer durables outstripped the consumption of this item, bringing up the direct import component.

C.i.f. import prices of consumer goods rose more sluggishly in the first nine months of 1974 than in the same period the year before, with the slowdown encompassing all subgroups. Imports of capital goods other than ships and aircraft accelerated slightly during this period in real terms, rising 14 percent. Leading the advance was land transport equipment — up 57 percent as contrasted with 21 percent in January-September 1973. The hefty increase this year is explained by heavy purchases of foreign-made trucks after the war. Other capital goods imports rose by a laggard 4 percent.¹⁵ Since expenditure on domestically produced plant and

¹⁵ The growth rates of capital goods imports according to the national accounts differ from those shown by foreign trade statistics. This may have been due to a disparate

equipment was down 7 percent in real terms, there was an increase in the direct import component of total investment in plant and equipment; this can be ascribed to the drop in the relative price of imported capital goods.

Such imports are not, as a rule, influenced by speculative considerations and expectations of price changes in the short run. Investment is a protracted process, requiring advance planning and not quickly alterable. In addition, delivery dates are usually quite far ahead. A more telling determinant is the business outlook: the year reviewed was marked by considerable uncertainty, which probably explains the flagging demand for capital goods from both domestic production and imports.

In nondiamond production inputs the real growth rate slipped from 17 percent in the first nine months of 1973 to 10 percent. Excluding diamonds, fuel, and spare parts, the volume was up 19 percent, after a 17 percent rise in the previous year. The fuel import bill soared from \$ 100 million in January-September 1973 to about \$ 470 million in the same period of 1974, as fuel prices more than quadrupled. The \$ 370 million extra outlay on this item accounted for over 40 percent of the total additional import of commodities during this period.

Imports of inputs in the year reviewed exceeded current requirements, as calculated on the basis of constant input coefficients for the various branches of the economy. According to these coefficients, the physical volume of nondiamond inputs in the first nine months of 1974 should have been 4 percent below actual imports in the corresponding period the year before (see Table IV-11). In 1972 the gap between required and actual imports was small, rising in the next two years. A cardinal factor in this development was fluctuations in inventory investment due to speculative motives. In 1972 there were no devaluation expectations. The exchange rate of the IL had been altered in August 1971, the European currency markets had calmed down, and the cost of maintaining stocks was high because of the high alternative rates of return obtainable in Israel's money and property markets.

As already noted, in the first three quarters of 1973 actual imports exceeded current requirements, with the gap widening in the year reviewed. In these two years the economy apparently moved to a higher level of inventories. At the end of 1972 world commodity prices began to spurt, sharply pulling up the prices of imported inputs. The feeling that prices would continue to spiral made it more worthwhile to hold stocks, especially in view of the strengthening of domestic demand pressure. The oscillations of the dollar against European currencies, which automatically distribution of imports over the period. Thus, imports of land transport equipment were up 7 percent in the first nine months of 1974 according to the national accounts, while the increase in plant and equipment was 3 percent. Imports of capital goods for agriculture held steady, those for trade and services rose 13 percent, the figure for transport and communications tumbled 40 percent, and that for industry edged down 2 percent.

Table IV-8
COMMODITY IMPORTS,^a BY ECONOMIC DESTINATION, 1972-74
(\$ million, at current prices)

	Old classification		New classification				Percent annual increase							
							Price			Quantity				
			1972		1973		1974		1974		1974		1974	
					Jan.- Sept.	Entire year	Jan.- Sept.	Entire year	1973	Jan.- Sept.	Entire year	1973	Jan.- Sept.	Entire year
Consumer goods														
Food	83.0	118.9	87.2	117.5	98.8	144.8	38.6	36.6	41.3	3.4	-17.1	-12.8		
Other nondurables	63.5	86.3	38.3	50.7	48.9	64.5	18.9	14.7	13.9	14.3	11.2	11.7		
Durables	82.0	129.2	97.3	125.7	113.3	149.1	22.0	10.6	8.6	29.2	5.2	9.2		
Total	228.5	334.4	222.8	293.9	267.0	358.4	28.1	20.0	20.8	14.3	-2.4	0.9		
Current production inputs														
To agriculture	72.0	112.9	797.4	1,091.9	1,284.5	1,797.2	23.4	35.6	30.3	20.4	18.8	26.3		
To industry (excl. diamonds)	613.4	895.7								11.7				
To construction	47.1	64.4								5.8				
Spare parts, tools, etc. for current use	107.2	123.7	174.2	227.1	210.2	299.9	19.7	35.6	30.3	-3.6	-11.0	1.4		
Subtotal	839.7	1,186.7	971.6	1,319.0	1,494.7	2,097.1	28.4	35.6	30.3	10.1	13.4	22.0		
Fuel	97.3	207.5	104.4	208.8	469.0	629.0	41.6	369.8	272.6	50.6	-4.4	-19.2		
Subtotal, incl. fuel	937.0	1,394.2	1,076.0	1,527.8	1,963.7	2,726.1	30.4	66.4	55.7	14.1	9.7	14.6		
Rough diamonds (net)	316.1	448.0	403.4	448.0	340.7	407.2	26.3	18.3	15.6	12.2	-28.6	-20.5		
Total	1,253.1	1,842.2	1,479.4	1,975.8	2,304.4	3,133.3	29.1	56.2	48.5	13.9	-0.3	6.8		

Capital goods																						
For land transport	111.0	159.8	60.7	93.8	98.6	126.8	21.0	3.6	4.9	19.0	56.8	28.9										
For agriculture	11.1	14.3	272.3	349.3	310.4	426.9	22.0	9.4	9.2	5.6	4.2	11.9										
For industry and construction	251.3	299.7																				
Other	47.9	72.1																				
Total, excl. ships and aircraft	421.3	545.9	333.0	443.1	409.0	553.7	22.0	8.2	8.3	6.2	13.5	15.4										
Other imports																						
Ships and aircraft	63.6	224.8	194.1	224.8	86.0	150.5	22.0	3.6	8.3	16.8	-57.2	-38.2										
Goods n.e.s.			8.8	9.7	2.6	5.0																
Total gross imports	1,966.5	2,947.3	2,238.1	2,947.3	3,063.0	4,200.9	27.9	42.4	37.5	17.2	-3.9	3.6										
Total imports, excl. ships and aircraft and diamonds	1,586.8	2,274.5	1,640.6	2,274.5	2,636.3	3,643.2	28.2	46.7	40.5	11.8	9.5	14.0										
Imports returned (excl. diamonds)	5.1	3.7	3.1	3.7	2.3	3.1																
Total net imports	1,961.4	2,943.6	2,235.0	2,943.6	3,060.7	4,197.8	27.9	42.4	37.5	17.4	-4.2	3.7										
Less: Balance of payments adjustments	61.4	47.6	37.0	47.6	87.7	101.8																
Total net imports, excl. administered areas (according to balance of payments)	1,900.0	2,896.0	2,198.0	2,896.0	2,973.0	4,096.0																
Commodity imports from the administered areas	38.0	66.7	50.7	66.7	75.9	103.8																
Total net imports, incl. administered areas (according to balance of payments)	1,938.0	2,962.7	2,248.7	2,926.7	3,048.9	4,199.8																

^a Imports c.i.f.

SOURCE: Central Bureau of Statistics.

Table IV-9
IMPORTS, BY ECONOMIC DESTINATION,^a 1970-74
(\$ million)

	Total ^b			Consumer durables			Intermediates ^d			Capital goods ^b		
	Unad-justed	Seasonally adjusted	Quantity index ^c	Unad-justed	Seasonally adjusted	Quantity index ^c	Unad-justed	Seasonally adjusted	Quantity index ^c	Unad-justed	Seasonally adjusted	Quantity index
Annual data												
Old classification												
1970	1,367.9	1,368.5	100.0	49.9	50.0	100.0	621.5	622.7	100.0	291.9	291.7	100.0
1971	1,606.2	1,602.9	113.2	60.1	59.4	117.8	695.6	693.1	109.0	327.9	324.0	103.8
1972	1,896.8	1,899.8	126.5	82.0	81.7	150.5	722.5	723.2	107.2	421.3	420.4	138.4
1973	2,718.8	2,737.6	143.5	129.2	130.5	194.6	1,063.0	1,070.9	127.1	545.9	547.6	141.0
New classification												
1973	2,718.8	2,737.6	100.0	125.7	126.8	100.0	1,091.6	1,097.8	100.0	443.1	445.5	100.0
1974	4,047.3	4,063.6	107.9	149.1	149.9	109.2	1,797.3	1,809.5	126.4	553.8	556.4	115.4
Quarterly data^a												
1973 I	578.9	568.1	100.8	29.6	27.8	103.9	239.7	229.2	99.2	97.9	100.0	103.9
II	706.5	666.8	103.3	34.4	35.2	113.7	263.5	265.6	104.5	109.7	101.5	93.3
III	755.4	800.5	110.3	33.3	37.9	108.3	294.3	310.1	104.6	125.3	136.4	110.4
IV	677.9	702.1	84.5	28.4	25.9	73.7	294.2	292.9	89.1	110.2	107.6	89.2
1974 I	895.1	880.5	100.6	35.5	34.7	109.2	367.0	348.2	111.0	133.9	136.0	118.5
II	1,086.1	1,015.3	109.3	43.8	43.0	128.0	464.8	456.1	129.4	148.3	142.5	123.4
III	993.6	1,078.4	113.0	34.2	39.0	100.0	453.0	481.9	126.3	126.7	140.2	105.3
IV	1,072.5	1,089.5	108.2	35.8	33.1	99.7	512.7	523.3	138.7	144.7	137.7	114.3

^a The classification of imports by economic destination was revised on January 1, 1973. Since the data according to the new classification were insufficient for calculating seasonal factors, the latter were based on previous data.

^b Excluding ships and aircraft.

^c Under the old classification the index was based on 1970 = 100, and under the new classification the base year is 1973. See also the note to Table IV-3.

^d Excluding diamonds, fuel, and spare parts.

^e See notes ^a and ^c; the quantity index for 1973 = 100 (new classification).

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

caused the IL exchange rate to fluctuate along with it, shaved off 14 percent from the latter between January and July 1973. This made Israel's imports costlier, and the prospect of a continued softening of the dollar spurred the buildup of stocks. The year reviewed saw strong expectations of a change in the effective exchange rate of the IL. The anticipated rise in import prices under the government's new economic policy led to an enormously larger import of inputs in the second quarter of the year (17 percent up from the first quarter of 1974, which was 6 percent above the average level in the half-year before the war). These expectations subsided briefly after July 1974, as borne out by the 2 percent real drop in the third quarter compared with the previous one; however, the uptrend reasserted itself in October with the mounting of devaluation expectations, and the fourth-quarter figure stood 10 percent above that in the previous quarter (see Table IV-9).

Other factors behind the accelerated import of production inputs in 1974 were jitters about a possible rationing of foreign currency, the opportunity made available by the government to finance such imports by way of foreign credit, and the rapid postwar recovery of the economy. The further advance of some world commodity prices in the first half of the year and the belief that the uptrend would persist also contributed to the heavier purchase of inputs.¹⁶

Imports of semifinished goods by firms receiving urgent defense orders, which did not manage to fill them by year's end because of time and/or labor constraints, may also have accounted for the rise in this item.

All these factors pushed up imports of production inputs in excess of current production requirements. Most of the inventory increase was apparently concentrated in the metal, chemical, plastic, and electrical equipment industries. In January-September 1974 the imported input component of domestic output fell below the previous year's figure, reversing the trend begun in 1971. This was due to the smaller export this year of polished diamonds, in which the import component is high. Excluding this item, the import component of final uses rose 3 percent and required inputs by 6 percent (see Table IV-10). This development was common to all uses except private consumption.

In the incremental demand for imports during the period discussed the most prominent change was the rocketing of the share of public consumption from 5 percent in 1972 to 85 percent in the first three quarters of 1974. Private

¹⁶ It should be noted that under the conditions prevailing in 1974 the purchase of linked bonds did not constitute a perfect substitute for inventory accumulation. Bonds linked to the consumer price index move up in step with the average increase in the general price level, but when the potential buyer of a certain commodity thinks its price will go up faster than the general price level, he will prefer to purchase the commodity rather than buy linked bonds as a hedge against the depreciation of his money.

Table IV-10
USES OF DOMESTIC OUTPUT AND THEIR IMPORT COMPONENT, 1970-74

	Exports			Domestic uses				Total uses	
	Incl. diamonds	Excl. diamonds	To administered areas	Total	Private consumption	Public consumption	Investment	Incl. diamonds	Excl. diamonds
Uses of domestic output (IL million, at 1968/69 producer prices)									
1970	4,739	4,064	265	12,720	7,326	2,084	3,310	17,724	17,049
1971	5,820	4,992	337	13,997	7,751	2,458	3,788	20,153	19,325
1972									
Jan.-Sept.	4,863	4,084	317	11,484	6,282	1,828	3,374	16,664	15,885
Entire year	6,576	5,498	435	15,540	8,433	2,478	4,629	22,550	21,472
1973 ^a	5,232	4,236	366	12,513	6,893	1,808	3,812	18,111	17,115
1974 ^a	4,945	4,105	373	13,307	7,125	2,674	3,508	18,625	17,785
Required imports of current commodity inputs (\$ million, at 1968/69 prices)									
1970	344	192	22	554	338	88	128	920	768
1971	412	226	29	614	357	113	144	1,055	869
1972									
Jan.-Sept.	355	180	28	497	289	81	127	880	705
Entire Year	485	243	38	675	392	109	174	1,198	956

1973 ^a	447	184	33	552	328	82	142	1,032	769
1974 ^a	414	190	33	604	344	126	134	1,057	827

Percent increase in uses of domestic output
(at constant prices)

1971	22.8	22.8	27.3	10.0	5.8	18.0	14.4	13.7	13.3
1972	13.0	10.1	29.0	11.0	8.8	0.8	22.2	11.9	11.1
1973 ^a	9.0	5.4	15.3	9.0	9.7	-1.1	13.0	8.7	7.7
1974 ^a	-5.5	-3.1	1.9	6.3	3.4	47.9	-8.0	2.8	3.9

Percent increase in required imports of current inputs
(at constant prices)

1971	19.8	17.7	31.8	10.8	5.6	28.4	12.5	14.2	13.2
1972	17.7	7.5	31.0	9.9	9.8	-3.5	20.8	13.6	10.0
1973 ^a	25.9	2.2	17.9	11.1	13.5	1.2	11.8	17.3	9.1
1974 ^a	-7.4	3.3	—	9.4	4.9	53.6	-5.6	1.8	7.5

^a January-September.

Table IV-11
REQUIRED AND ACTUAL IMPORTS OF COMMODITY INPUTS, 1970-74

	Required imports									Total actual imports, excl. diamonds	Difference between required and actual imports
	Exports			Domestic destinations				Total required imports			
	Incl. diamonds	Excl. diamonds	To administered areas	Total	Investment	Private consumption	Public consumption	Incl. diamonds	Excl. diamonds		
1. At current prices (\$ million)											
1970	342	187	21	530	126	319	85	893	738	875	137
1971	412	226	29	614	144	357	113	1,055	869	975	106
1972											
Jan.-Sept.	377	186	29	511	129	299	83	918	726	745	19
Entire year	522	254	40	704	180	411	113	1,268	998	1,027	29
1973 ^a	565	232	42	700	181	415	104	1,307	974	1,076	102
1974 ^a	871	401	70	1,270	181	723	264	2,213	1,740	1,965	225
2. At 1971 prices (\$ million)											
1970	344	192	22	554	128	338	88	920	768	901	133
1971	412	226	29	614	144	357	113	1,055	869	975	106
1972											
Jan.-Sept.	355	180	28	497	127	289	81	880	705	723	18
Entire year	485	243	38	675	174	392	109	1,198	956	984	28
1973 ^a	447	184	33	552	142	328	82	1,032	769	851	82
1974 ^a		190	33	604	134	344	126	1,051	827	934	107

3. Percent annual quantitative change										
1971	19.8	17.7	31.8	10.8	12.5	5.6	28.4	14.7	13.2	8.2
1972	17.7	7.5	31.0	9.9	20.8	9.8	-3.5	13.6	10.0	0.9
1973 ^a	25.9	2.2	17.9	11.1	11.8	13.5	1.2	17.3	9.1	17.7
1974 ^a	-7.4	3.3	—	9.4	-5.6	4.9	53.6	1.8	7.5	9.8
4. Quantity index (1970 = 100)										
1971	119.8	117.7	131.8	110.8	112.5	105.6	128.4	114.7	113.2	108.2
1972	141.0	126.6	172.7	121.8	135.9	116.0	123.9	130.2	124.5	109.2
1973 ^a	129.9	95.8	150.0	99.6	110.9	97.0	93.2	112.2	100.1	94.5
1974 ^a	120.3	99.0	150.0	109.0	104.7	101.8	140.2	114.2	107.7	103.7
5. Percent of total imports, excl. diamonds (at 1971 prices)										
1970	44.8	25.0	2.9	72.1	16.7	44.0	11.5		100	
1971	47.4	26.0	3.3	70.7	16.6	41.1	13.0		100	
1972										
Jan.-Sept.	50.4	25.5	4.0	70.5	18.0	41.0	11.5		100	
Entire year	50.7	25.4	4.0	70.6	18.2	41.0	11.4		100	
1973 ^a	58.1	23.9	4.3	71.8	18.5	42.7	10.7		100	
1974 ^a	50.1	23.0	4.0	73.0	16.2	41.6	15.2		100	
6. Percent of incremental imports (at 1971 prices)										
1971		33.7	6.9	59.4	15.8	18.8	29.8		100	
1972		19.5	10.3	70.1	34.5	40.2	-4.2		100	
1973 ^a		6.3	7.8	85.9	23.4	60.9	1.6		100	
1974 ^a		10.3	—	89.7	-13.8	27.6	75.9		100	

^a January-September.

consumption, on the other hand, declined after moving up in 1973. The slackening of investment growth in 1973 and the absolute decrease in the year reviewed depressed the required input to this destination.

The world primary commodity price explosion since the end of 1972 had made the domestic production of such commodities (e.g. sugar beet and wheat) more worthwhile; however, the prices of some are controlled by the government, and the latter initially relayed only part of the increase to producers, with the consequence that the latter did not greatly enlarge their acreage until last year. During the past year the world-producer price gap narrowed greatly, but since the decision to up the prices to the farmer was taken after the planting season, they were unable to respond to the change in prices this year.

4. COMMODITY EXPORTS

Overseas sales of domestically produced goods slowed in the first nine months of 1974, when a 15 percent gain was chalked up, compared with 39 percent the year before.¹⁷ In quantitative terms the level dipped 3 percent, after a 12 percent advance in the first nine months of 1973.

The real decline was due to divergent trends in the various component items. Most responsible for the drop was diamonds, which were down 16 percent in real terms, after rising 28 percent in January-September 1973 (see Table IV-14). In this context it should be pointed out that the quantity index for diamonds is calculated from the value and price indexes, and the latter is statistically problematic and of low reliability. This year diamond sales receded 9 percent in value, after soaring 67 percent in the first three quarters of 1973—the first time since 1970 that this item suffered a reverse. Whereas it contributed over half the total export increment last year, in 1974 the figure fell to 25 percent.

Because of the downturn in diamonds, real export value added moved up faster than total exports, for diamonds, as already mentioned, have a high import component.

Citrus forged ahead 10 percent, after holding steady in the first three quarters of 1973. Tonnage was up 12 percent, reversing the 4 percent drop the year before.

In the broad group of manufactures that are not preponderantly export-oriented but are sold to both the local and overseas markets, the level moved up 6 percent in real terms in 1974 as against 4 percent the year before, but this was still below the 20 percent average rise recorded in 1967-71. The contribution of this group to the export gain in the first three quarters of 1974 exceeded the total growth of exports, its share of the increment shooting up from 31 percent in the first three quarters of

¹⁷ See note 12.

1973 to 105 percent in the same period this year. Trends within this group were mixed. Some industries—chemicals, basic metals, metal products and machinery, electrical and electronic equipment, and transport equipment—posted much more impressive advances during this period, whereas other industries—food, textiles and clothing, wood and wood products, paper, printing and publishing, leather and leather products, and rubber and plastic goods—moved up more slowly this year in quantitative terms.

The development of this group is influenced by a number of factors, notably a change in the relative profitability of exports and demand in both the home and overseas markets. During the period discussed the direction and importance of these factors apparently varied in the different branches of the economy, although this did not fully show up in the figures for 1974. After a rise in profitability in the first nine months of 1973, with the mounting of domestic demand pressure on the one hand and the expansion of the world market on the other, at the end of the year and the beginning of 1974 the profitability curve turned downward, accompanied by the ebbing of foreign demand because of the world economic retreat, as well as the weakening of domestic demand pressure in a number of branches. Toward the end of 1974 the relative profitability of exports picked up. It is important to note that a formidable factor in the fluctuations of the profitability curve has been the fluctuations in the dollar rate against the major European currencies, which of course pulled the IL along with it.

(a) *Export-oriented and other special commodities*

The share of items produced overwhelmingly for the overseas market sank from 60 percent of total exports in the first nine months of 1973 to 50 percent in the same period this year. The downturn was even sharper in the group's contribution to the export increment: whereas in the first three quarters of 1973 it accounted for some \$ 200 million, or two-thirds, of the additional sales, in the year reviewed it suffered a \$ 74 million decline, depressing its share of the increment to -4 percent. Almost the entire output of these commodities—citrus, diamonds, minerals, and citrus products—is sold abroad. In most of them Israel also commands a leading share of the overseas outlets. The lack of substitutability between the domestic and overseas markets results in a low short-run elasticity of supply, while Israel's large share of the export markets results in a relatively low income elasticity of demand.

Citrus shipments during the first three quarters of 1974 were up 10 percent in value. The prices fetched abroad slipped 2 percent, but tonnage rose 12 percent, after having edged down 2 percent the year before. F.o.b. prices limped behind the rise in c.i.f. prices because of surging transport costs. While Israel commands a

Table IV-12
TOTAL COMMODITY AND INDUSTRIAL EXPORTS, 1970-74
(\$ million)

	Net exports, excl. ships and aircraft			Industrial exports, excl. diamonds, ships and aircraft			Industrial exports, excl. products sold mainly abroad and special items ^b		
	Unad- justed	Seasonally adjusted	Quantity index ^a	Unad- justed	Seasonally adjusted	Quantity index ^a	Unad- justed	Seasonally adjusted	Quantity index ^a
Annual data									
1970	731.6	730.8	100.0	402.7	400.0	100.0	328.1	325.2	100.0
1971	910.2	903.5	119.1	495.0	487.2	121.1	401.7	396.0	121.7
1972	1,086.7	1,090.1	134.0	550.9	549.6	130.3	456.1	454.6	131.9
1973	1,383.1	1,398.1	140.2	651.4	660.8	129.8	526.2	526.8	127.7
1974	1,722.6	1,729.3	146.7	977.9	975.8	144.7	761.4	760.4	139.8
Quarterly data									
1971 I	243.3	209.0		101.8	110.6		82.9	91.7	
II	223.4	219.2		125.8	117.4		98.9	91.8	
III	183.8	219.2		119.9	122.9		96.5	98.6	
IV	259.7	257.4		147.8	136.4		123.3	113.9	
1972 I	286.0	253.1	129.7	118.3	130.1	125.2	94.5	107.2	127.1
II	259.5	254.7	127.1	144.8	136.8	132.2	126.1	117.6	140.4
III	229.0	274.2	134.7	127.0	132.4	127.3	105.1	109.7	130.0

IV	312.3	308.1	143.6	160.9	150.3	136.3	130.4	120.2	133.7
1973 I	352.7	312.4	144.3	135.9	147.9	131.8	106.8	119.8	130.1
II	362.3	355.5	144.5	170.2	161.7	129.5	137.8	128.6	126.2
III	359.6	415.9	155.8	186.2	190.1	142.7	148.0	152.9	141.4
IV	308.3	314.4	112.2	169.2	161.2	116.2	133.7	125.6	108.0
1974 I	424.5	378.4	147.9	203.6	221.8	145.1	154.5	175.9	143.2
II	442.6	427.1	145.0	245.8	229.7	137.5	193.0	176.4	130.3
III	383.4	449.7	146.2	253.3	263.1	151.8	195.3	202.7	143.7
IV	472.1	474.0	146.6	275.3	261.2	145.8	218.6	205.5	143.4
1975 January	159.5	157.3		69.3	89.8				
February	163.8	152.1		80.9	95.6				
March	167.9	141.2		86.8	85.9				
Jan.-March	491.2	450.6		237.0	271.3				

^a See note ^b to Table IV-9.

^b Industrial exports, excluding minerals, diamonds, ships and aircraft, military exports, and products not from domestic output.

Table
NET COMMODITY
(\$ million, at

	1970	1971	1972		1973		Jan.- Sept.
			Jan.- Sept.	Entire year	Jan.- Sept.	Entire year	
Agricultural exports							
Citrus	86.1	113.9	85.0	104.9	84.9	108.6	93.2
Other	43.5	41.0	34.6	52.3	47.8	63.1	45.4
Total	129.6	154.9	119.6	157.2	132.7	171.7	138.6
Industrial exports							
Diamonds (net)	201.0	265.3	272.1	385.7	455.1	556.7	415.2
Minerals and scrap	41.8	42.9	31.7	43.3	40.0	48.9	65.8
Copper-cement	14.6	11.3	7.7	11.1	10.7	14.7	17.7
Phosphates	4.9	3.4	3.1	4.7	2.7	3.2	14.1
Potash	21.1	26.7	19.5	26.1	25.5	29.5	29.3
Scrap	2.5	1.0	0.7	1.1	0.7	0.8	2.1
Textiles and clothing	98.2	119.1	88.4	123.3	108.8	147.8	120.2
Citrus products	35.0	43.6	43.3	55.3	49.3	61.8	55.0
Other chemicals	14.0	7.7	2.4	2.5	1.0	1.1	28.0
Other metal products	18.2	31.1	26.4	31.8	21.1	25.5	24.7
Aircraft and parts	5.9	6.8	4.9	6.4	17.8	27.5	18.9
Edible oils and oilcake	9.3	13.4	11.0	14.5	7.7	8.0	9.6
Other industrial products	164.2	210.2	167.2	255.8	231.4	323.3	346.2
Total industrial exports	587.6	740.1	647.4	918.6	932.2	1,200.6	1,083.6
Total industrial exports, excl. diamonds and minerals	344.8	431.9	343.6	489.6	437.1	595.0	602.6
Total exports from domestic output	717.2	895.0	767.0	1,075.8	1,064.9	1,372.3	1,222.2
Sale of old ships and aircraft	2.0	4.5	8.7	13.1	6.3	8.8	5.2
Works of art, collections, antiques, personal effects, etc.	7.8	8.5	5.1	6.2	6.0	7.1	5.5
Bunkers and stores supplied to foreign ships and aircraft	8.1	11.2	8.8	10.6	9.0	10.3	28.8
Total commodity exports (foreign trade definition)	735.1	919.2	789.0	1,105.7	1,086.2	1,398.3	1,261.7
Adjustments and returned exports	-18.4	-19.3	-18.6	-23.7	-19.2	-32.5	-34.7
Total net commodity exports, excl. administered areas (balance of payments definition)	716.7	899.9	771.0	1,082.0	1,067.0	1,366.0	1,227.0
Exports to administered areas	85.2	93.8	93.0	130.0	149.3	191.2	215.7
Total net commodity exports, incl. administered areas (balance of payments definition)	801.9	993.7	864.0	1,212.0	1,216.3	1,557.2	1,442.7

SOURCE: Central Bureau of Statistics.

IV-13
EXPORTS, 1970-74
 current prices)

1974	Percent annual increase					Percent of total increment			
	Entire year	1973		1974		1973		1974	
		1972	Jan.-Sept.	Entire year	Jan.-Sept.	Entire year	Jan.-Sept.	Entire year	Jan.-Sept.
120.4	-7.9	-0.1	3.5	9.8	10.9	—	1.2	5.3	3.7
71.5	27.6	38.2	20.7	-5.0	13.3	4.4	3.6	-1.5	2.6
191.9	1.5	11.0	9.2	4.4	11.8	4.4	4.8	3.8	6.3
562.3	45.4	67.2	44.3	-8.8	1.0	61.4	57.7	-25.4	1.7
92.6	0.9	26.2	12.9	64.5	89.4	2.8	1.9	16.4	13.5
20.3									
21.1									
44.8									
2.4									
160.4	3.5	23.1	19.9	10.5	8.5	6.8	8.3	7.2	3.9
68.0	26.8	13.9	11.7	11.6	10.0	2.0	2.2	3.6	1.9
37.5	-67.5	58.3	-54.0	2,800.0	2,409.1	-0.5	-0.5	17.2	11.3
34.3	2.3	20.1	-19.8	17.1	34.5	-1.8	-2.1	2.3	2.7
26.6	-5.9	263.3	330.0	6.2	-3.3	4.3	7.1	0.7	-0.3
17.9	8.2	-30.0	-44.8	24.7	123.8	-1.1	-2.2	1.2	3.1
504.0	21.7	38.4	26.3	49.6	55.9	21.6	22.8	73.0	55.9
1,503.6	24.1	44.0	30.7	16.2	25.2	95.6	95.2	96.2	93.7
848.7									
1,695.5	20.2	38.8	27.6	14.8	23.6	100	100	100	100
14.0									
7.8									
28.8									
1,746.1	20.3	37.6	26.5	16.2	24.9				
-43.1									
1,703.0									
297.1									
2,000.1									

Table
INCREASE IN COMMODITY EXPORTS,
(\$ million, at

	Total commodity exports							
	1967	1971	1972		1973		1974	
			Jan.- Sept.	Entire year	Jan.- Sept.	Entire year	Jan.- Sept.	Entire year
Citrus	85.3	113.9	85.0	104.9	84.9	108.6	93.2	120.4
Other agricultural exports	22.2	41.0	34.6	52.3	47.8	63.1	45.4	71.5
Minerals and scrap	30.8	42.9	31.7	43.3	40.0	48.9	65.8	92.6
Diamonds, net	157.9	265.3	272.1	385.7	455.1	556.7	415.2	562.3
Textiles and clothing	51.9	119.1	88.4	123.3	108.8	147.8	120.2	160.4
"Special" items ^b	57.5	102.6	88.0	110.5	96.9	123.9	136.2	184.3
Other industrial products	86.6	210.2	167.2	255.8	231.4	323.3	346.2	504.0
Total	492.2	895.0	767.0	1,075.8	1,064.9	1,372.3	1,222.2	1,695.5
Industrial exports, excl. diamonds and minerals	196.0	431.9	343.6	489.6	437.1	595.0	602.6	848.7
Industrial exports, excl. diamonds, minerals, and "special" items	138.5	329.3	255.6	379.1	340.2	471.1	466.4	664.4

^a January–September.

^b "Special items" are all those listed in Table IV–13 that are not detailed here.

SOURCE: Central Bureau of Statistics.

formidable share of the world market in this item, there are other sources of supply—notably Italy, Spain, and Morocco—and this of course influences the prices obtained by Israeli growers. In citrus exports the distribution of sales over the year is a very significant factor, and sharp weekly swings in prices and aggregate supply during the season are not uncommon.

In the case of citrus the local market constitutes an alternative to direct exports. However, it is an inferior alternative, and is resorted to mainly in place of the destruction of gluts in order to prop up foreign and domestic prices, or to absorb fruit unsuitable for export or for direct consumption in the domestic market. The

IV-14

BY MAJOR GROUP, 1967-74

(current prices)

Percent annual increase in quantity					Percent of increment (at current prices)				
Average 1967- 1971	1972	1973 ^a	1974		Average 1967- 1971	1972	1973 ^a	1974	
			Jan.- Sept.	Entire year				Jan.- Sept.	Entire year
7.1	-8.0	-3.9	12.1	3.5	7.1	-5.0	—	5.3	3.7
16.7	19.7	7.8	-5.6	1.0	4.7	6.3	4.4	-1.5	2.6
3.9	-1.2	-0.9	-7.8	18.9	3.0	0.2	2.8	16.4	13.5
9.8	30.3	27.9	-15.8	-4.9	26.7	66.6	61.4	-25.4	1.7
21.4	-0.7	-2.7	-2.5	-2.5	16.7	2.3	6.8	7.2	3.9
14.0	4.0	-1.3	13.1	7.2	11.2	4.4	2.9	25.0	18.7
23.6	13.1	11.1	8.3	16.2	30.7	25.2	21.6	73.0	55.9
14.0	12.4	11.7	-2.6	4.4	100.0	100.0	100.0	100.0	100.0
20.3	7.1	3.9	6.0	9.7	58.6	31.9	31.4	105.2	78.5
22.8	8.7	6.3	8.3	10.3	47.4	27.5	28.5	80.2	59.8

quantities diverted to the canneries this year were very large, for hail damage rendered more of the crop unsuitable for sale abroad or for direct domestic consumption. Nevertheless, exports of citrus products did not increase in physical terms in the year reviewed. Difficulties were already encountered in the previous year, when sales fell off with the faltering of world demand for juices because of the economic slowdown and the heavier demand for concentrates, whose relative price is lower. But the cutting of the sugar subsidy at the beginning of 1974 made concentrates more expensive, thus hampering their export, which had to face tough competition from other countries.

Diamonds, Israel's second principal export commodity, were off 9 percent this year, after advancing by an impressive 67 percent in the first nine months of 1973 and 45 percent in 1972. This was the first year since 1970 that this item experienced a setback. Its share in the country's overseas sales, which had been on the rise from 1970 until the first nine months of 1973 (28 and 43 percent respectively), fell to 34 percent this year. Nearly all of Israel's diamond production is marketed abroad, and there is no problem here of competition on the part of the home market. Uncut stones are imported, and the only connection between this industry and the domestic market is the need to compete with other branches for labor. Since the weight of fixed capital in this industry is low, its exports are sensitive to changes in the wage level.

The slump that hit this industry in the final months of 1973 was aggravated in the course of the year reviewed. The weakening of demand was due to two factors: one was the economic slowdown in Japan, U.S., and Europe, which was exacerbated by the energy crisis and dampened demand for diamonds for personal adornment, since they are a distinct luxury item sensitive to changes in economic conditions. The second major reason was the diminished demand for diamonds as an asset, i.e. as an alternative to holding money balances, owing to the strengthening of the dollar from July 1973 until January 1974 and its comparatively mild fluctuations during the first nine months of the year reviewed. Because of the crisis in this industry there was a rise in the export share of small, cheaper stones. The sagging demand for diamonds retarded the rise of prices from 29 percent in the first nine months of 1973 to 8 percent in the year reviewed (the low reliability of the price indexes should be borne in mind). The uptrend in rough diamond prices, on the other hand, slowed to a lesser extent—from 26 to 18 percent. Since the import component of diamonds is large, this sharply depressed the economy's nominal value added.

In mineral exports—copper-cement, potash, and phosphates—domestic demand plays no part. In contrast to diamonds, fixed investment here is very large, and hence export profitability is less sensitive to current outlays. In the first nine months of 1974 the industry's sales were down 8 percent in quantitative terms. All the decline occurred in a single commodity—potash—whereas copper-cement and phosphates were up 7 and 29 percent respectively. The poorer performance of potash can apparently be ascribed to the effects of the war on Israel's exports in the final quarter of the year—the difficulties of transporting potash to the ports and congestion in the ports themselves. Minerals commanded much higher prices abroad in the first nine months of 1974 because of a much livelier demand, while supply is relatively rigid in the short run. Phosphate prices rocketed approximately 350 percent over their level in the first nine months of 1973, while copper-cement and potash went up 50 and

30 percent respectively. In the second half of 1974 copper-cement prices softened, and in the final quarter of the year they sank 50 percent below their first-half level.

Overseas sales of noncitrus agricultural products skidded 5 percent after having scored a 38 percent gain in the first nine months of 1973. In quantitative terms the decline was 6 percent, following an 8 percent rise the year before. The sharpest drop in value was in fresh vegetables, due mainly to the lower prices obtained for onions after they had fetched a very good price the year before. Cotton exports were higher this year, as home demand weakened and supplies expanded in the wake of bumper yields. It should be noted that the world-domestic market price differential has narrowed of late. Sales of flowers and strawberries were adversely affected by the steep rise in air freight charges.

(b) Other industrial exports

Exports of the broad group of manufactures not intended predominantly for the overseas market expanded in the first three quarters of 1974 by 6 percent in quantitative terms, as against 4 percent in the same period the year before. The group's contribution to the export increment soared from 30 percent last year to 105 percent (see Table IV-14).

Industrial exports other than diamonds and minerals include goods sold both locally and abroad, and in most cases there is direct substitutability between the two markets. This group is sensitive to changes in relative profitability, which is influenced by changes in both production costs and relative prices. Another determinant is demand pressure in the home market and the behavior of foreign demand. The performance of a number of items (the military and aviation industries, fuel, and the like) is governed by special factors. In 1974 these items posted a 13 percent real export gain, after edging down 1 percent in January-September 1973. Not counting these commodities, the growth rate held steady at about 7 percent. The weight of industrial exports other than diamonds, minerals, and special items in the export increment moved up from 29 percent in the first nine months of 1973 to 80 percent in the same period this year (see Table IV-14).

Besides the special items, industrial exports other than diamonds and minerals consist of two large groups: textiles and clothing (about one-fifth of the total in the first nine months of 1974), where the effective rate of exchange is affected by special branchwide arrangements, and all the remaining items sold in both the home and overseas markets (close to 60 percent of the total).

The detailed data show mixed trends in the various branches, which can apparently be ascribed to differences in the direction, and even a reversal, of trend among the various determinants of this group's development.

Table IV-15
CITRUS EXPORTS, 1967-74

	1967	1968	1969	1970	1971	1972		1973		1974	
						Jan.- Sept.	Entire year	Jan.- Sept.	Entire year	Jan.- Sept.	Entire year
\$ million	85.3	88.4	91.3	86.1	113.9	85.0	104.9	84.9	108.6	93.2	120.4
Percent annual change											
Value	14.2	3.6	3.3	-5.7	32.3	-7.0	7.9	-0.1	3.5	9.8	10.9
Price	-5.0	-6.0	5.9	-5.7	7.7	—	0.1	3.9	5.6	-2.1	7.2
Quantity	20.2	10.2	-2.5	—	22.8	—	-8.0	-3.9	-2.0	12.1	3.4

SOURCE: Central Bureau of Statistics.

Table IV-16

REAL CHANGES IN DIRECT INDUSTRIAL EXPORTS, BY MARKET GROUPING, 1973-74

(percentages)

Market grouping	Weight of group in total industrial exports		Annual real increase				
	1973 ^a	1974 ^a	1970	1971	1972	1973 ^b	1974 ^c
1. Consumer goods	24.6	21.4	18.5	21.3	8.4	1.9	-8.7
Food	3.8	3.4	26.5	18.4	0.1	15.5	-1.7
Textiles	12.5	11.0	17.6	20.8	-1.7	-3.0	-2.5
Other	8.3	7.0	16.0	23.9	31.4	3.3	-18.4
2. Capital goods, building materials, and public consumption products	8.7	10.7	0.0	62.0	0.8	1.6	19.8
Building materials	—	—	8.1	27.3	-1.3	21.3	4.7
Products for public consumption	—	—	-22.6	64.8	10.5	6.0	-3.5
Capital goods	—	—	47.3	87.9	-8.8	17.1	70.0
3. Intermediates	5.4	10.4	42.1	11.0	21.6	30.7	55.1
4. Exports and special items ^d	61.2	57.5	-3.7	15.8	22.1	19.1	-12.7
Diamonds	47.3	38.1	-6.8	22.6	30.2	27.1	-15.8
Other	13.9	19.4	2.4	4.1	5.2	-3.2	-1.0

^a January-September.

^b January-September 1973 compared with January-September 1972.

^c January-September 1974 compared with January-September 1973.

^d Refined petroleum products and pesticides.

A classification of exports by economic destination shows a real decline in industries manufacturing primarily for consumption (see Table IV-16). The figure here was down 9 percent, after the growth rate had tailed off in the first nine months of 1973 from 8 and 21 percent in 1972 and 1971 respectively to 2 percent. Whereas in 1973 the slackening was due to mounting domestic demand pressure, which induced the diversion of output from the overseas to the home market, in the year reviewed (or at least the greater part of it) domestic demand did not constrain this group's export performance. The dominant factor was apparently the flagging of foreign demand for consumer goods because of the world economic slowdown, along with the decline in the relative profitability of exports during this period. Most affected were items with a high income elasticity of demand, such as citrus products,

Table
INDUSTRIAL EXPORTS, BY
(\$ million, at

	1970	1971	1972		1973	
			Jan.- Sept.	Entire year	Jan.- Sept.	Entire year
Mining and quarrying	40.8	41.7	31.0	42.2	39.3	48.1
Food	62.9	79.0	69.0	94.9	82.5	105.5
Textiles and clothing	98.2	119.1	88.4	123.3	44.0 64.8	61.0 86.8
Wood and wood products	9.6	10.3	7.5	11.4	11.5	15.6
Paper, printing, and publishing	8.6	13.8	10.3	15.3	12.5	17.3
Leather and leather products	3.3	4.9	4.7	6.4	5.5	7.0
Rubber and plastic products	23.5	27.4	22.5	30.5	22.7	29.3
Chemicals	38.8	46.2	40.9	59.3	57.5	78.1
Refined petroleum products	14.1	7.7	2.5	2.7	1.7	1.9
Glass, ceramics, cement and products thereof	3.0	3.7	1.5	2.2	2.2	2.7
Diamonds, net	201.0	265.3	272.1	385.7	455.1	556.7
Basic metals and pipes	7.9	8.1	5.7	8.0	9.1	13.7
Metal products	28.5	45.6	37.2	48.5	33.7	45.9
Machinery	10.5	9.1	9.1	12.8	13.8	20.3
Electrical and electronic equipment	12.8	25.7	19.0	29.8	20.3	27.9
Production and repair of transport equipment	15.1	13.9	7.0	13.3	16.7	29.5
Miscellaneous	11.7	14.8	15.0	23.1	20.2	28.2
Total industrial exports	590.3	736.3	643.4	909.4	913.1	1,175.5

NOTE: The annual figures for total industrial exports differ from those in the other tables in this chapter since this table is based on unrevised monthly data and includes products not from domestic output. The real rates of change in the total were obtained by deflating total industrial exports as published by the Central Bureau of Statistics, and not by summing the deflated data for the individual branches listed in the table.

IV-17

MAIN BRANCH, 1970-74

current prices)

1974		Percent annual real increase						
Jan.- Sept.	Entire year	1971	1972	1973	1974	1974	Entire year	
					Jan.- Sept. ^a	April- Dec. ^b		
63.7	90.2	-8.1	-0.9	-0.4	-7.8	-0.8	8.2	
92.5	128.7	18.7	14.7	7.2	-3.8	-4.5	0.9	
48.0	63.0	16.5	-0.6	-3.0	{	-7.0	-7.9	-7.6
72.2	97.4					0.2	0.3	1.2
9.0	10.9	12.2	11.8	15.5	-41.6	-56.3	-44.7	
16.9	23.9	46.0	0.9	-6.2	-22.0	-16.5	-20.3	
5.5	7.0	44.4	24.6	-2.7	-10.5	-16.8	-8.8	
30.1	40.2	12.5	2.5	-3.5	-4.0	-2.7	1.2	
125.6	182.5	17.7	23.3	23.4	38.8	56.7	42.6	
28.0	37.5	-46.7	-65.2	-32.1	325.9	274.0	426.0	
3.7	5.6	23.3	-44.4	16.7	49.6	82.8	89.3	
415.1	562.5	22.7	30.3	27.9	-15.8	-13.5	-4.9	
14.6	23.3	3.8	7.4	51.9	5.7	41.2	18.9	
47.2	64.7	74.1	3.5	-18.4	21.8	28.7	29.0	
24.0	37.1	-16.8	31.3	20.1	18.4	95.2	35.2	
29.8	44.3	107.8	6.4	-16.9	35.6	55.4	48.4	
29.8	38.7	-9.4	-8.3	93.2	66.0	66.5	24.0	
21.9	30.6	29.8	60.9	-0.4	-6.7	5.3	-4.1	
1,077.6	1,488.1	20.7	14.5	3.6	-2.8	1.8	5.8	

^a January-September 1974 compared with January-September 1973.^b April-December 1974 compared with January-September 1973.

deluxe editions of books, etc. The more sluggish expansion of Israel's export markets may serve as an indicator of this change (see Table VI-2). The deceleration began in the second half of 1973 as a result of the anti-inflationary policy adopted in various countries. The trend grew more pronounced in 1974 because of the energy crisis, which plunged many countries into balance of payments deficits. Israel's export markets hardly expanded this year: the growth rate for developed countries fell from 11 percent in 1973 to 2 percent, and for other markets from 4 to a mere 1 percent.

Because of the diminished profitability of exports this year, Israeli firms were unable to lower their prices relative to those of their competitors, whereas in 1969-72 the notable rise in profitability enabled them to capture additional markets by reducing their relative prices (see Table IV-24).

Table IV-18

REAL CHANGE IN INDUSTRIAL OUTPUT AND EXPORTS,^a AND DISTRIBUTION OF OUTPUT BY MARKET DESTINATION, 1969-74

(1969 = 100)

	1969	1970	1971	1972	1973		1974	
					Jan.- Sept.	Entire year	Jan.- Sept.	Entire year
Output								
Total	100.0	109.0	121.0	134.2	150.0	143.1	149.0	149.0
Domestic market	100.0	107.9	117.6	131.7	151.0	143.1	147.7	146.9
Export	100.0	114.5	139.0	148.4	145.5	143.8	156.4	160.8
Distribution of output								
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic market	84.2	83.4	81.9	82.7	84.8	84.2	83.5	83.0
Export	15.8	16.6	18.1	17.3	15.2	15.8	16.5	16.9
Distribution of output increment								
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic market		74.5	67.9	89.7	—	108.1	-273.1	54.4
Export		25.5	32.1	10.3	—	-8.1	173.1	45.6

^a In this table exports and total output have been calculated at 1969 producer prices. The price adjustment in the 1968/69 input-output table was applied to export prices in order to make them comparable with output prices. Hence the rates of change in this table differ somewhat from those in other tables.

That the domestic market did not impede the expansion of overseas sales of consumer goods in the first nine months of 1974 is borne out by the retardation and even absolute drop in domestic sales of most branches producing mainly for consumption.¹⁸ In food domestic marketing was up 5 percent, compared with 13 percent the year before, and textiles and clothing declined 2 percent, after moving ahead 21 percent the year before. The trend was similar in wood and wood products, leather and leather products, and rubber and plastic goods. For some of these branches this was the first year since 1969 that sales to the home market contracted. This was accompanied by a deeper dent in exports, and depressed the export share of output in most of these branches.

The downturn in consumer goods exports permeated most subgroups. Food (excluding citrus products) was down 2 percent, after a 16 percent gain in the first nine months of 1973. Textiles were off 3 percent, about the same as in the previous year. Most of the decline was in textiles, because of difficulties encountered in selling yarns in the face of the strong Eastern Asian competition, whereas exports of garments held fairly steady. Other consumer goods skidded 18 percent, after increases of 3 percent in 1973 and 31 percent in 1971.

In manufactures for investment purposes a distinction must be made between branches producing mainly for the building industry and those specializing in plant and equipment. In the year reviewed construction activity continued to slow down, in line with the trend begun in the previous year. But whereas in 1973 output of building materials was diverted to the export markets with a resulting 21 percent gain, in the first nine months of 1973 overseas sales were up only 5 percent. The main cause of the laggard advance was the sagging of plywood sales due to aggressive competition from Eastern Asia. Here too the year reviewed saw a smaller domestic marketing.

By contrast, exports of plant and equipment fared much better, scoring a 71 percent gain this year, after dipping 17 percent in the first nine months of 1973. The bulk of these sales consists of telecommunication and scientific instruments, pipes, and maritime transport equipment. The world economic recession did not affect this

¹⁸ Although the branch classification of output in the appendix (in Hebrew only) is not sufficiently detailed to precisely ascertain the market grouping breakdown (Table IV-6 classifies the commodities in 169-branch detail), it is still possible to identify the industries producing largely for consumption: food, textiles and clothing, wood and wood products, paper, printing and publishing, leather and leather products, and part of the rubber and plastic goods industry. In the appendix table the food industry includes citrus products, which in Table IV-16 are included in group 4; however, the elimination of this item from the food industry in the appendix table does not change the picture. For total industrial exports excluding diamonds and minerals, see Table IV-18.

Table
INDICATORS OF INDUSTRIAL

	1969	1970	1971	1972	1973	1974	1972,	
							I	II
1. Prices received by the exporter								
Percent annual change	3.8	10.4	12.8	14.3	25.1	42.0		-0.8
Index (1965 = 100)	130.5	144.1	162.5	185.8	232.4	329.9	181.1	179.7
2. Prices paid by the importer for imported intermediates ^b (in IL)								
Percent annual change	4.5	10.2	21.9	18.3	29.0	43.2		2.8
Index (1965 = 100)	114.7	126.4	154.1	182.3	235.2	336.7	177.1	182.1
3. Domestic market prices								
Percent annual change	1.9	6.5	9.6	12.2	18.8	55.9		1.6
Index (1965 = 100)	110.3	117.5	128.8	144.5	171.6	267.6	140.1	142.4
4. Wages per unit of output								
Percent annual change	—	10.8	5.6	7.8	13.3	29.6		4.0
Index (1965 = 100)	105.7	117.1	123.7	133.4	151.1	195.8	129.8	135.0
5. Price of capital per unit of output								
Percent annual change	-1.5	9.1	17.9	13.9	21.9	32.1		0.3
Index (1965 = 100)	95.9	104.6	123.3	140.5	171.2	226.1	137.7	138.1
6. Weighted index of input prices (indexes 2-5) ^c								
Percent annual change	1.7	8.7	12.9	13.3	21.1	44.4		2.2
Index (1965 = 100)	108.3	117.7	132.9	150.6	182.4	263.3	146.4	149.6
7. Domestic output prices ^d								
Percent annual change	1.9	6.2	9.4	11.1	18.1	48.0		1.7
Index (1965 = 100)	110.6	117.5	128.5	142.8	168.7	249.6	138.3	140.7
8. Prices received by the exporter/weighted index of input prices (1 ÷ 6)								
Percent annual change	2.1	1.6	-0.1	0.5	3.2	-1.6		-2.9
Index (1965 = 100)	120.5	122.4	122.3	123.4	127.4	125.3	123.7	120.1
9. Prices received by the exporter/domestic output prices ^e (1 ÷ 7)								
Percent annual change	1.8	3.9	3.2	2.8	5.9	-4.1		-2.4
Index (1965 = 100)	118.0	122.6	126.5	130.1	137.8	132.2	130.9	127.7

^a Excluding diamonds, minerals, and refined petroleum products.

^b Imports-for-exports.

^c Weighted according to the composition of inputs to industry, excluding diamonds, minerals, and refined petroleum products, according to the 1968/69 input-output table.

^d Wholesale price index, weighted according to the composition of industrial exports, excluding diamonds, minerals, and refined petroleum products.

IV-19

EXPORT PROFITABILITY, 1969-74^a

quarterly		1973, quarterly				1974, quarterly			
III	IV	I	II	III	IV	I	II	III	IV
1.3	7.7	2.5	12.3	8.5	8.8	1.4	9.9	14.9	14.9
182.1	196.2	201.2	226.0	245.1	266.7	270.5	297.4	341.8	392.8
0.2	5.2	3.1	10.5	16.7	12.2	2.2	8.6	6.9	16.6
182.4	191.9	197.9	218.6	255.0	286.0	292.4	317.5	339.5	395.8
2.0	3.4	4.3	7.0	3.5	9.2	19.5	11.5	7.6	18.0
145.3	150.2	156.6	167.5	173.3	189.3	226.3	252.4	271.5	320.3
-0.3	-0.6	6.7	3.2	4.9	3.2	3.9	9.9	16.3	5.6
134.6	133.8	142.8	147.3	154.5	159.5	165.7	182.1	211.7	223.6
5.4	-1.2	3.9	9.6	12.8	2.2	3.1	9.0	10.0	12.9
145.5	143.8	149.4	163.8	184.8	188.8	194.7	212.3	233.6	263.8
1.5	2.6	4.3	7.6	8.9	8.2	9.2	10.1	9.0	14.9
151.9	155.8	162.5	174.9	190.4	206.0	225.0	247.7	270.0	310.3
1.6	4.5	3.8	6.3	3.3	8.8	14.4	12.1	7.6	14.9
142.9	149.3	154.9	164.6	170.0	185.0	211.6	237.3	255.4	293.5
-0.2	5.0	-1.7	4.4	-0.4	0.6	-7.2	-0.1	5.4	—
119.9	125.9	123.8	129.2	128.7	129.5	120.2	120.1	126.6	126.6
-0.2	3.1	-1.1	5.7	5.0	—	-11.4	-2.0	6.8	—
127.4	131.4	129.9	137.3	144.2	144.2	127.8	125.3	133.8	133.8

^a Prices to the user and not the producer, since they include taxes. This indicator is therefore biased especially in 1974, when much of the price change was due to a change in taxes (and subsidies).

Table

EFFECTIVE EXCHANGE RATE FOR INDUSTRIAL

Date change announced	Date change went into force ^a	Official rate (agorot per dollar)	Incentive (agorot per dollar) by value-added group (%)						
			0-25	26-35	36-45	46-55	56-65	66+	
	1.4.66	300	1.0		3.5		7.5		10.5
	1.11.66	300	1.8		10.5		18.0		25.5
	1.3.67 ^b	300			(18.0)		(25.5)	(34.5)	
19.11.67	19.11.67	350	—		10		10		35
17.2.70	19.2.70 ^c	350	—		20		35		55
16.8.70	17.8.70 ^d	350	—		80		90		105
19.5.71	1.1.71	350	—	83	90	95	100		112
29.8.71	22.8.71	420	—	85	86	87	88		89
22.8.72 ^e	1.1.72	420	—	95	86	97	98		99
10.4.73	1.1.73	420	—	102	105	108	111		114
6.8.73	1.8.73	420	—	105	109	113	117		121
19.2.74	5.11.73	420	—	126	130	134	138		142
2.7.74	3.7.74	420	—	168	172	176	1,801		184
10.11.74	10.11.74	600	—	108	114	120	126		130
19.1.75	1.1.75	600	—	123	134	145	156		164

^a In some cases the change was announced with effect retroactive, but sometimes publication of the official notice was preceded by a more or less official announcement about the impending change. For example, shortly after the raising of the defense levy on imports from 20 to 25 percent in November 1973, statements were made that the export incentives would also be raised; the official circular, however, was not published until February 1974.

^b In March 1967 certain products in groups 3 and 4 (36-45% and 46-55% respectively) began to get preferential treatment, the incentives on them gradually increasing beyond the level for the rest of the products in these groups. These additional incentives were abolished in November 1967.

^c Besides the incentives listed in this table, in April 1970 the Ministry of Commerce and Industry defined a group of textile products which were excluded from the value-added classification and were entitled to incentives at the following rates:

group, for it includes some products whose export growth is a function of specific factors: for example, the livelier foreign demand for pipes because of the world energy crisis led to heavier overseas sales of this commodity.

Science-based industries (telecommunication equipment and electronic components) also fared better. The most prominent feature in transport equipment this year was the sale of a floating drydock.

Civilian demand for plant and equipment, both locally produced and imported, rose at a laggard pace in the first nine months of 1974. On the other hand, there was a heavier noncivilian demand for such items, with the result that industries producing

EXPORTS, 1966 TO JANUARY 19, 1975

	Effective exchange rate (agorot per dollar) by value-added group (%)						Import defense levy	Effective rate for imports- for- exports
	0-25	26-35	36-45	46-55	55-56	66+	Percent	
	301.0		303.5		307.5	310.5		
	301.8		310.5		318.0	325.5		
(45.0)			(318.0)		(234.5)	(345.0)		
	350		360		370	38.5		
	350		360		385	405		
	350		430		440	455	20	70
	350	433	440	445	450	462		420
	420	505	506	507	508	509		84
	420	515	516	517	518	519		
	420	522	525	528	531	534		
	420	525	529	533	537	541		
	420	546	550	554	558	562	25	105
	420	588	592	596	600	604	35	147
	600	708	714	720	726	730	15	90
	600	723	734	745	756	764		525
								567
								690

Date	Incentive (agorot per dollar)
7.4.70	10
17.8.70	70
1.11.71	72
22.8.71	85

^d On this date a 20 percent defense levy was imposed on imports.

^e In August (July) 1972 a 10 agorot increase in incentives was announced, due to go into force in September but with payment retroactive from January. The increase applied to most export goods, and replaced the government's participation in marketing costs (advertising outlays, maintenance of overseas offices, etc.) under various specific arrangements. Goods whose export was deemed not to involve any marketing outlays (potash, edible oil products, etc.) were not eligible for the extra incentive. Although theoretically this merely represented a change in method of implementation, in effect it increased the budget from IL 7 million to IL 40 million a year.

for the defense establishment performed less well this year as far as exports go.

Domestic marketing fell off in basic metals (destined partly for investment in equipment and partly for construction), metal products, and machinery. But there was a heavier domestic sale this year of electrical and electronic equipment. All these industries chalked up hefty export gains, bringing up the share of output going to this destination.

In the other groups the outstanding developments were a larger export of fuel, after customers had been found for the surplus stocks of refined petroleum products built up in the economy, and an increase in chemical products due to the livelier

foreign demand for pesticides and fertilizers in the wake of rising world food prices.

As already noted, a major determinant of export growth is its relative profitability. In the vigorous expansion of foreign sales from the time the economy began to pull out of the slump of 1966-67 until 1971, an important part was played by the steady uptrend in export profitability,¹⁹ an outcome of the policy of actively encouraging exports by raising the effective exchange rate. The improvement in profitability was accompanied by a sluggish growth of domestic demands and input prices, as the economy was still marked by underutilization of productive factors and mounting world demand. Between 1966 and 1970 export returns rose about 40 percent, while prices of intermediates and domestic output went up by a much milder 12 percent.

In 1971-72 demand pressure began to build up under conditions of full factor utilization. Some input prices outstripped the expansion of export proceeds, and the rise in the price of exports relative to that of domestic output flagged. The drop in export profitability was reflected by a slower real growth of overseas industrial sales from the final quarter of 1972 onward.

The first nine months of 1973 saw an improvement in profitability. The weakening of the dollar against the principal European currencies between January and July pulled down the IL by 14 percent in relation to these currencies, helping to boost Israel's f.o.b. export prices in dollar terms by 21 percent during this period. The hiking of export incentives in April and August 1973 added another 4 percent to the effective exchange rate (see Table IV-20); all told, returns to the exporter rose 25 percent during this period. Domestic output prices and input prices went up more slowly—14 and 22 percent respectively. Nonfuel imported intermediates became 33 percent dearer, unit capital goods prices went up 28 percent, while domestic intermediates and unit labor costs rose by a relatively sluggish 15 percent.

The trend changed during the first half of 1974, when the input and domestic output price rises gathered steam, the level moving up 20 and 28 percent respectively. The jump in input prices was paced by domestic inputs, which were up 33 percent. Unit wage costs rose 14 percent, while unit capital goods expenditure and import prices went up 12 and 11 percent respectively.

¹⁹ The relative profitability of exports is measured as the ratio between export prices to the exporter and the weighted index of inputs, or as the ratio between export prices to the exporter and domestic output prices weighted according to the composition of exports. The use of the latter measure understates profitability, for output prices represent not the prices to the producer but those to the user, and include the tax change element. This shortcoming was particularly noticeable in 1974, when the government stiffened taxes appreciably under its price policy.

Table IV-21

EFFECTIVE EXCHANGE RATE OF THE VALUE-ADDED DOLLAR IN INDUSTRIAL EXPORTS, 1965 TO JANUARY 1975

Value-added group and percent value added		1965	Nov. 1966	Nov. 1967	Feb. 1970	Aug. 1970	May 1971	Aug. 1971	Aug. 1972	April 1973	Aug. 1973	Nov. 1973	July 1974	Nov. 1974	Jan. 1975
Agorot per dollar															
4	40	300	336.0	390.0	420.0	460.0	470.0	510.0	530.0	552.0	562.0	583.0	625.0	750.0	800.0
6	70	300	336.4	400.0	428.6	470.0	480.0	511.1	525.4	546.9	556.9	577.9	619.9	747.1	795.7
6	50	300	351.0	420.0	460.0	490.0	504.0	514.0	534.0	564.0	578.0	599.0	641.0	770.0	838.0
Indexes															
4	40	100	112.0	130.0	140.0	153.3	156.7	170.0	176.7	184.0	187.3	194.3	208.3	250.0	266.7
6	70	100	112.1	133.3	142.9	156.7	160.0	170.4	175.1	182.3	185.6	192.6	206.6	249.0	265.2
6	50	100	117.0	140.0	153.3	163.3	168.0	171.3	178.0	188.0	192.7	199.7	213.7	256.7	279.3

During this period (January-May 1974) the dollar weakened on European markets, shaving off 6 percent from the IL. The index of industrial export prices (excluding diamonds, minerals, and refined petroleum products) advanced 10 percent in dollar terms during the first half of the year. The raising of export incentives in the first half of 1973 accounted for about 1.5 of the 12 percent gain in exporters' returns.

In the second half of 1974 the profitability curve again swung upward, with export returns soaring 32 percent. Most of the upward thrust was generated by the change in the effective exchange rate following the raising of incentives in July 1974 and the devaluation of November 1974, which added an average of 20 percent to

Table IV-22

HOURLY INDUSTRIAL WAGES IN ISRAEL AND DEVELOPED INDUSTRIAL COUNTRIES, 1965-74

	Hourly wages in Israel ^a		Hourly wages in industrial countries		Wage ratio between Israel and industrial countries
	Index	Percent increase	Index	Percent increase	
1965	100.0	..	100.0	..	100.0
1966	116.1	16.1	106.2	6.2	109.3
1967	122.4	5.4	111.5	5.0	115.2
1968	126.1	3.0	119.2	6.9	105.8
1969	130.9	3.8	128.6	7.8	101.8
1970 ^b	151.9	16.0	141.9	10.4	107.0
1971	168.8	11.1	156.6	10.3	107.7
1972	191.6	13.5	173.2	10.6	110.6
1973 ^c	236.7	23.5	194.1	12.1	121.9
1974	323.5 ^d	36.7	222.8	14.8	145.2

^a As a proxy for the index of hourly wages in Israeli industry we used the index of wages per standard man-day as published by the Central Bureau of Statistics.

^b Since 1970, 3.3 percent has been added to the figures to allow for the estimated fringe benefit payments.

^c Data for Israel relate to the first nine months of 1973.

^d Daily wages increased in 1974 by 37 percent; we have assumed that, in common with the rest of the economy, there was no change in the number of hours worked per week in industry.

SOURCE: Central Bureau of Statistics; OECD, *Main Economic Indicators*, 1969, 1970 (March 1975). (For those countries for which no data are published on actual wages, we used data on hourly wage tariffs.)

the export exchange rate. In September the dollar again began to sink, and it continued falling until March 1975, when it bottomed out at a level below that in July 1973. In April the dollar firmed a bit. Input prices rose more slowly in the second half of 1974—by 25 percent, with the dispersion around the average being small. Output prices moved up to virtually the same extent—24 percent.²⁰

From the foregoing it is clear that profitability trends since 1973 have been greatly influenced by the floating of European currencies against the dollar, which in effect has resulted in the floating of the IL because of its linkage to the dollar. But this is an exogenous float, i.e. it does not reflect domestic economic developments, nor does it always suit the economy's needs. Insofar as the dollar depreciated, Israel's exports benefited, but by the same token the hardening of the dollar adversely affected Israel's export profitability.

An improvement in profitability due to exchange rate changes beyond the control of the Israeli economy does not have the same long-run stimulative effect on export production as the raising of the effective exchange rate through the incentive policy and/or the official devaluation of the IL, such as the government implemented in 1966-70. For it is a highly uncertain factor, even in the short run, and this hampers the development of foreign sales.

If the effect on export returns of the changes in the IL rate due to the fluctuation of the dollar²¹ is eliminated, there was no improvement in profitability in the first nine months of 1973, and in 1974 it even turned downward despite the upping of incentives and the official devaluation of the IL, for their impact was nullified by the domestic inflation and soaring import prices. Since this occurred at a time when world demand tended to arrest the expansion of exports, this placed a heavier burden on the export profitability factor.

Other indicators pointing to an adverse turn in the competitiveness of Israeli-made goods are the ratio between hourly industrial wages in this country and in developed nations and the unit industrial wage ratio (see Tables IV-22 and IV-23). The position started to erode noticeably in 1973, when hourly wages shot up twice as fast in this country as in its leading export markets. In 1974 the differential widened, hourly wages jumping 37 percent in Israel,²² as against an average of 15

²⁰ As an index of the rise in domestic output prices we have used the wholesale price index of industrial output, weighted by the composition of exports. Since the wholesale prices are the prices to the user and not the producer, they do not faithfully reflect the rise in producers' domestic marketing returns. This deficiency was particularly conspicuous in 1974, when the hiking of taxes goes far to explain the rise in such prices.

²¹ See Appendix Table IV-3 (in Hebrew only).

²² See note d to Table IV-22.

Table IV-23
INDUSTRIAL UNIT WAGES IN ISRAEL AND INDUSTRIALIZED COUNTRIES, 1965-74
 (1965 = 100)

	Unit wage costs				Ratio of (1) to (2)	Index of effective exchange rate ^a	Index of dollar rate ^b against selected currencies	Index of competitiveness of Israel's exports ^c		
	Israel		Industrial countries					(5)	(7)	(8)
	Index	Percent change	Index	Percent change				(1)	(2)	(3)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)		
Annual data										
1965	100.0	..	100.0	..	100.0	100.0	100.0	100.0		
1966	111.1	11.1	102.8	2.8	108.1	103.5	100.0	104.4		
1967	110.9	-0.2	95.3	-7.3	116.4	115.5	100.0	100.8		
1968	105.7	-4.7	65.6	0.3	110.6	128.3	100.0	86.2		
1969	105.7	..	98.9	3.5	106.9	128.3	100.0	83.3		
1970	117.1	10.8	104.3	5.5	112.3	140.9	100.0	79.7		
1971	123.7	5.6	110.2	5.7	112.3	160.1	100.0	70.1		
1972	133.4	7.8	111.5	4.6	115.7	172.9	108.0	62.0		
1973	151.1	13.3	120.7	4.7	125.2	179.9	116.0	62.4		
1974	200.2	(195.3 ^d)	32.5			204.5	115.8			
Quarterly data										
1973 I	142.8	..	116.4	..	122.7	178.0	111.4	61.9		
II	147.3	3.2	118.9	2.1	123.9	178.0	116.5	59.7		
III	154.5	4.9	121.3	2.0	127.4	179.4	121.7	58.4		
IV	159.5	3.2	124.1	2.3	128.5	185.0	117.5	59.1		
1974 I	169.7	(165.7)	6.4	126.5	1.9	134.2	(131.0)	187.3	112.6	63.6 (62.1)
II	186.7	(182.1)	10.0	131.4	3.9	142.1	(138.6)	187.3	117.5	64.6 (63.0)
III	216.9	(211.1)	16.2	137.8	4.9	157.4	(153.6)	201.3	115.6	67.6 (66.0)
IV	229.2	(223.6)	5.7	137.8	4.9		223.8	117.6		

^a Official rate of exchange plus incentives for highest value-added group.

^b The rate of the dollar in relation to selected currencies, weighted by the composition of Israel's nondiamond exports by country of destination.

^c The ratio between the indexes of unit wage costs in Israel and the industrialized countries after adjustment.

^d The figures in parentheses are after adjustment for the decrease in productivity in 1974 due to declining demand.

SOURCE: Central Bureau of Statistics, *Statistical Abstract of Israel 1973*; National Institute of Economic and Social Research, *National Institute Economic Review*, No. 71, February 1975.

percent in the other countries. A comparison of the change in unit wages reveals a similar picture.

From a branch breakdown of the profitability data it is difficult to find a connection between the change in profitability in 1973-74 and the export performance of the various-branches. Several reasons can be offered to explain this. First of all, it seems that the development of exports in the year reviewed cannot be understood only by reference to the calculated average profitability of all the branches, for this year overseas marketing was affected by additional factors, with

Table IV-24

EXPORT PRICE INDEX OF ISRAEL AND INDUSTRIAL COUNTRIES, 1968-74

	Israel export price index (in dollars)		Export price index of industrial countries (in dollars)		Export price ratio between Israel and industrial countries (1 ÷ 3)	Index of effective exchange rate ^a	Index of dollar rate against selected currencies	IL prices to Israeli exporter/\$ export prices in industrial countries (5) (6) (7)	
	Index	Rate of change	Index	Rate of change				(5)	(6)
1968 = 100									
1968	100.0	—	100.0	—	100.0	100.0	100.0	100.0	100.0
1969	103.7	3.7	101.0	1.1	102.6	109.5	100.0	112.3	112.3
1970	103.5	-0.2	109.9	8.7	94.2	109.5	100.0	103.1	103.1
1971	105.6	2.0	115.4	5.0	91.5	124.8	100.0	114.2	114.2
1972	109.9	4.1	125.3	8.6	87.7	134.8	108.0	127.7	127.7
1973	131.6	19.7 ^b	146.2	16.7	90.0	140.2	116.8	147.4	147.4
1974	167.7	27.4	174.7	19.5	96.0	159.4	115.8	177.2	177.2
1972 = 100									
1973	119.0	19.0 ^b	116.7	11.7	102.0	104.0	108.3	114.9	114.9
1974	151.6	27.4	139.4	19.5	108.8	118.2	107.4	138.1	138.1
1973 I	107.7	..	105.3	..	102.3	102.9	103.3	108.7	108.7
II	119.2	10.7	113.2	7.5	105.3	102.9	108.0	117.0	117.0
III	126.8	6.4	122.8	8.5	103.3	103.7	112.8	120.8	120.8
IV	129.3	2.0	123.7	0.7	104.5	107.0	109.0	121.9	121.9
1974 I	135.5	4.8	125.4	1.4	108.1	108.3	104.4	122.2	122.2
II	148.5	9.6	139.5	11.2	106.5	108.3	108.9	125.6	125.6
III	161.1	8.5	143.9	3.2	112.0	116.4	107.2	139.8	139.8
IV	163.6	1.6	149.0	3.5	109.8	129.4	109.0	154.9	154.9

^a The effective exchange rate of the highest incentive group weighted by exports.

^b The disparity in the growth rate for 1973 is due to a change in the baskets of goods used for calculating the export price index for 1968 and 1972.

SOURCE: Central Bureau of Statistics, and *National Institute Economic Review*, No. 71, February 1975, Table 19, p. 116.

greatly divergent effects even within the same branch, which are masked by the average figure. For example, in chemical products the bulk of the export increment was accounted for by fertilizers and pesticides, products which enjoyed a much livelier demand abroad, while other items failed to make very impressive headway. The disparate quantitative growth also resulted in a disparate increase in f.o.b. export prices, so that very likely the profitability index displayed a large dispersion around the average.

In certain industries, particularly those making substantial technological advances, the increase in profitability in the past may have been a telling factor, stimulating infrastructural development which enabled the industry to boost exports in 1974. It may also be that precisely in a period when the business future was unclear producers endeavored to preserve their export markets in the face of declining profitability.

The relevant yardstick for examining profitability in the various industries is its change relative to equity capital. A measurement relative to input is only a partial indicator and does not show the change in per unit profit.

5. EXPORTS AND IMPORTS OF SERVICES

In Israel's services account, excluding defense imports and transactions with the administered areas, the surplus came to \$ 137 million, after standing at \$ 111 million in 1973 and \$ 177 million in 1972. In the year reviewed both exports and imports moved up about 35 percent in money terms; in the previous year imports had outpaced exports—38 vs. 23 percent.

The transportation item showed a big increase in income this year—about \$ 270 million, as contrasted with only \$ 80 million in outgo.²³ The 57 percent growth of income is explained by a 62 percent jump in cargo transport receipts. Advancing prices accounted for about 60 percent of the increment, with the balance stemming from the growth of export volume. The fuel price boom, which began in the final quarter of 1973, was the factor most responsible for the soaring of prices. Trends in other modes of transportation were mixed: whereas tanker rates rose sharply at the end of 1973 and turned down in 1974, tariffs for the liner trade were hiked during the year. Passenger revenue was up 33 percent, with prices advancing 28 percent and the real increase being 4 percent. This item was affected by the Yom Kippur

²³ Since commodity imports are recorded c.i.f., payments to foreign and Israeli carriers for the transport of import cargo are included under commodity imports, while the income of Israeli shipping companies from the transport of import cargo is included under service exports.

Table IV-25

IMPORTS AND EXPORTS OF SERVICES,^a 1970-74

(\$ million)

	1970	1971	1972		1973		1974	
			Jan.- Sept.	Entire year	Jan.- Sept.	Entire year	Jan.- Sept.	Entire year
A. Excl. administered areas and defense								
Transportation								
Credit	257	328	290	396	365	476	562	745
Debit	175	205	171	222	204	274	258	353
Net	82	123	119	174	161	202	304	392
Tourism								
Credit	103	178	159	212	194	230	139	194
Debit	54	60	56	70	90	106	114	142
Net	49	118	103	142	104	124	25	52
Freight insurance								
Net	10	11	7	10	13	17	15	20
Other insurance								
Net	-12	-11	-12	-18	-25	-34	-25	-32
Capital services								
Credit	65	120	93	127	162	240	250	352
Debit	183	208	171	247	266	384	436	592
Net	-118	-87	-78	-120	-104	-144	-186	-240
Other services								
Credit	81	117	101	137	114	145	134	184
Debit	74	98	87	121	91	123	118	163
Net	7	19	14	16	23	22	16	21
Government, n.e.s.								
Credit	28	34	21	27	14	19	20	26
Debit	54	60	43	55	67	95	81	102
Net	-26	-26	-22	-28	-53	-76	-61	-76
Net total, excl. defense imports	-8	147	131	177	119	111	88	137
B. Defense imports	-624	-555	-358	-490	-353	-1,253	-869	-1,082
Net total, incl. defense imports	-632	-408	-227	-313	-234	-1,142	-781	-1,015
C. Net transactions with administered areas	-10	-25	-46	-61	-78	-95	-110	-142
Total balance on services account	-642	-433	-273	-374	-312	-1,237	-891	-1,157

^a On the basis of c.i.f. recording of commodity imports.

SOURCE: Central Bureau of Statistics.

Table
EXPORTS OF
(\$

	1970	1971	1972		1973		Jan.- Sept.
			Jan.- Sept.	Entire year	Jan.- Sept.	Entire year	
Transportation	257.2	328.0	289.7	396.2	364.8	475.5	562.3
Passenger	54.1	68.6	68.2	86.5	72.0	88.0	92.0
Freight	157.6	186.4	167.3	239.5	236.8	310.8	378.2
Other income	45.5	73.0	54.2	70.2	56.0	76.7	92.1
Travel	103.0	178.3	158.7	212.2	194.4	230.0	139.2
Insurance	111.3	137.2	111.4	148.1	133.8	178.2	173.5
Capital services	64.8	119.8	92.7	127.0	162.0	240.0	250.0
Government, n.e.s.	28.0	33.7	21.0	27.0	14.0	19.0	20.0
Other services	81.2	117.0	101.0	137.0	114.3	145.2	133.8
Total	645.5	914.0	774.5	1,047.5	983.3	1,287.9	1,278.8
Exports to the ad- ministered areas	23.6	35.1	32.0	44.0	38.6	51.1	47.9
Grand total	669.1	949.1	806.5	1,091.5	1,021.9	1,339.0	1,326.7

^a On the basis of c.i.f. recording of commodity imports.
SOURCE: Central Bureau of Statistics.

War, especially in the final quarter of 1973. In the first nine months of that year a 6 percent increase was recorded, after a 26 percent gain in 1972. The flattening of the growth curve should be seen against the shrinkage of tourism to this country in 1973-74. Another source of transportation revenue is the expenditure of foreign shipping and aviation companies in Israel and fees from the chartering of ships and aircraft, which are included under "other transportation income". Income from charter hire was up about 20 percent, but in real terms the level fell off approximately 10 percent. The formidable gain in "other transportation income" stemmed from the increase in bunkers and stores supplied to foreign ships and aircraft from \$ 9 million in 1973 to \$ 43 million. Excluding this item, the outlays of foreign carriers in Israel rose 13 percent in money terms and declined in real terms.

SERVICES,^a 1970-74

million)

1974	Annual increase							
	\$ million				Percent			
	1973		1974		1973		1974	
Entire year	Jan.-Sept.	Entire year	Jan.-Sept.	Entire year	Jan.-Sept.	Entire year	Jan.-Sept.	Entire year
745.2	75.1	79.3	197.5	269.7	25.9	20.0	54.1	56.7
117.0	3.8	1.5	20.0	29.0	5.6	1.7	27.8	33.0
503.8	69.5	71.3	141.4	193.0	41.5	29.8	59.7	62.1
124.4	1.8	6.5	36.1	47.7	3.3	9.3	64.5	62.2
194.0	35.7	17.8	-55.2	-36.0	22.5	8.4	-28.4	-15.7
232.4	22.4	30.1	39.7	54.2	20.1	20.3	29.7	30.4
352.0	69.3	113.0	88.0	112.0	74.8	89.0	54.3	46.7
26.0	-7.0	-8.0	6.0	7.0	-33.3	-29.6	42.9	36.8
183.7	13.3	8.2	19.5	38.5	13.2	6.0	17.1	26.5
1,733.3	208.8	240.4	295.5	445.4	27.0	22.9	30.1	34.6
64.5	6.6	7.1	9.3	13.4	20.6	16.1	24.1	26.2
1,797.8	215.4	247.5	304.8	458.8	26.7	22.7	29.8	34.3

On the expenditure side, passenger transport was up 27 percent, compared with 15 percent in 1973. This item, which includes fares paid by Israelis to foreign shipping and air carriers, slipped noticeably in the final quarter of 1973 and the first quarter of 1974 because of the war and protracted mobilization.

Other transportation outlays rose 29 percent, as against 25 percent in 1973. The bill for bunkers and stores supplied in foreign sea- and airports came to \$ 62 million in 1974, as contrasted with \$ 23 million the year before. Other foreign currency expenditure of Israeli shipping and air companies was 28 percent up on 1973, while charter hire drifted down from \$ 70 million to \$ 64 million.

Income from tourism was off 16 percent, after an 8 percent gain in all of 1973, 22 percent in the first nine months of the year, and 19 percent in 1972. The sagging

Table
IMPORTS OF
(\$

	1970	1971	1972		1973		Jan.- Sept.
			Jan.- Sept.	Entire year	Jan.- Sept.	Entire year	
Transportation	174.5	205.3	171.0	221.5	204.3	273.7	258.4
Passenger	17.7	20.2	18.7	22.7	23.0	26.0	27.0
Other	156.8	185.1	152.3	198.7	181.3	247.7	231.4
Travel	53.8	60.1	56.2	70.2	90.3	106.0	114.3
Insurance	114.5	137.6	116.2	157.1	146.3	194.6	182.7
Capital services	183.1	206.9	171.3	246.8	266.0	384.0	436.0
Government, n.e.s. ^b	53.8	60.3	43.0	55.0	67.0	95.0	81.0
Miscellaneous	74.1	97.7	86.9	120.6	91.3	122.7	117.6
Total, excl. de- fense imports	653.7	767.9	643.7	871.1	865.2	1,176.0	1,190.0
Defense imports	624.4	554.6	358.0	490.0	353.0	1,253.0	868.6
Imports from the ad- ministered areas	33.7	60.4	78.0	105.0	116.4	146.6	158.1
Grand total	1,311.8	1,382.9	1,079.7	1,466.1	1,334.6	2,575.6	158.1

^a On the basis of c.i.f. recording of commodity imports.

^b Excluding defense imports.

SOURCE: Central Bureau of Statistics.

of the growth rate in 1973 and the decline in 1974 were due to the downturn in the number of tourist arrivals and income from this source. The number of visitors dropped 14 percent during this period because of Israel's security situation, the war, the world economic recession, and the relative increase in the cost of a trip to this country because of the high rate of domestic inflation.

This item includes the travel allowance granted to Israelis going abroad. In 1974 this rose more sharply than in the previous year—34 as against 50 percent—owing to the war and the extensive, protracted mobilization of reserves in the final quarter of 1973 and the first quarter of 1974. In the next two quarters the average rebounded to its prewar level, as many more Israelis went abroad—an increase that

IV-27

SERVICES,^a 1970-74

million)

1974	Annual increase							
	\$ million				Percent			
	1973		1974		1973		1974	
Entire year	Jan.-Sept.	Entire year	Jan.-Sept.	Entire year	Jan.-Sept.	Entire year	Jan.-Sept.	Entire year
352.9	33.3	52.2	54.1	79.2	19.5	23.6	26.5	28.9
33.0	4.3	3.3	4.0	7.0	23.0	14.5	17.4	26.9
319.9	29.0	49.0	50.1	72.2	19.0	24.7	27.6	29.1
142.4	34.1	35.8	24.0	36.4	60.7	51.0	26.6	34.3
243.6	30.1	57.5	36.4	49.0	25.9	23.9	24.9	25.2
592.0	94.7	137.2	170.0	208.0	55.3	55.6	63.9	54.2
102.0	24.0	40.0	14.0	7.0	55.8	72.7	20.9	7.4
163.4	4.4	2.1	26.3	40.7	5.1	1.7	28.8	33.2
1,596.3	221.5	304.9	324.8	420.3	34.4	35.0	37.5	35.7
1,151.8	-5.0	763.0	515.6	-101.2	-1.4	155.7	146.1	-8.1
206.2	38.4	41.6	41.7	59.6	49.2	39.6	35.8	40.7
2,954.3	38.4	41.6	41.7	59.6	23.6	75.7	66.1	14.7

was partly of a seasonal nature and in part stemmed from the desire to relax after the wartime tension.

In capital services the growth of income was not as impressive as in 1973—47 vs. 89 percent—while expenditure moved up to about the same extent in these two years (roughly 55 percent). Since foreign currency assets contracted by some \$ 800 million in 1974, this may explain the deceleration of income, although it should be noted that these two magnitudes do not always display similar trends.

The increase in expenditure took place in public sector interest payments. This must be seen against the ballooning of the country's foreign currency liabilities by \$ 1.1 billion.

The insurance item is large on both the credit and debit sides, but the net balance is small, since the payment and receipt flows are closely linked—premium payments are offset by claims payments by foreign insurance companies to Israelis and commissions paid to local agents of foreign companies.

In the very heterogeneous “other services” item the debit and credit sides expanded to a similar extent in 1974—35 and 33 percent respectively. On the credit side there was an increase in agents’ fees (foreign exporters’ commissions paid to their agents in Israel), which accompanied the growth of imports, while transfers by returning Israeli residents did not rise. On the debit side commissions paid by Israeli exporters to their overseas agents increased along with exports.

In transactions with the administered areas exports were up 16 percent, compared with 10 percent in 1973, while imports advanced at about the same rate in both years—approximately 40 percent. The overwhelming share of imports—about \$ 190 million, or 92 percent of the total—consisted of wage payments to workers from the areas. This subitem fell off in the final quarter of 1973 and the first quarter of 1974, but in the next two quarters it turned upward and ran 38 percent above its level in the same period the year before. In the last three months of 1974 it again turned downward, probably because of a drop in the number of workers from the areas employed in Israel due to the economic slowdown. Another item in the account with the administered areas which rose in 1974 was the import of transportation services—primarily trucking, which more than doubled from \$ 4 million in 1973 to \$ 9 million.