CHAPTER XIV

INDUSTRY

1. Main Developments

Industrial production[1] rebounded strongly during the first six months of 1974 from the previous fourth-quarter low, but at no point did it regain its eve-of-war level (see Figure XIV-1). In the next quarter the curve turned downward, and it continued to fall in the final three months.[2] Thus the year reviewed witnessed the arresting of industrial growth for the first time since the end of the 1966-67 slump. The checking of the uptrend was the resultant of contrasting developments: defense-related industries experienced a boom, while textiles, apparel, diamonds, and industries producing building materials slid into a recession and the other industries made only modest headway (see Table XIV-2).

The vigorous pickup of industrial production during the first half of 1974 was made possible by the release of mobilized manpower and the sharp upswing in all demands (including those that fell off on an annual average, such as investment in construction, plant, and equipment). The resurgence of demands was fueled primarily by the large volume of noncivilian orders and the implementation of purchases and investments pigeon-holed during the war quarter.

[1] The term "industrial production" refers here to the output of the various branches of the sector weighted by their census value added. On the assumption that in the short run there is a fixed ratio in every branch between its census value added (which is a fairly close estimate of the branch's production) and its output, then a calculation of the changes in the output of all the branches weighted by their respective census value added gives quite a good approximation of the real changes in the census value added of the entire sector, or in other words, of industrial production. For a description of the indicators used in measuring industrial production see Central Bureau of Statistics, *Statistical Abstract of Israel 1974*, pp. 125-29.

[2] The third-quarter slump in industrial production is explained by the fact that it was partially estimated by measuring revenue at current prices, deflated by the rise in the wholesale price index of industrial output for the domestic market. This method fails to account for production for stock, so that in reality there may not have been any decline at all during this quarter.

By mid-1974 the release of reservists was virtually completed. While the regular spells of reserve duty were now much longer than before the war, this did not significantly inhibit the expansion of industrial production. In the second half of the year several factors retarded and even depressed the demand for industrial output—except for public noncivilian consumption, which exerted a stimulative effect throughout the year. After a modest first-quarter rise, private consumption demand became very brisk in the second, only to slacken in the third quarter and to contract in the fourth. Nondiamond exports began to recover rapidly in the second quarter (when they even eclipsed their prewar level—see Figure XIV-2), and they continued upward at a respectable rate during the third quarter; in the last three months they plateaued—one of the factors blunting the expansion of industrial production during this period. Investment in construction and locally produced plant and equipment sagged in the second half of the year, helping to pull production down slightly in the fourth quarter.

Figure XIV-1

SELECTED INDICATORS OF INDUSTRIAL DEVELOPMENT, QUARTERLY, 1973–74
(index: 1973 III=100; seasonally adjuted data)

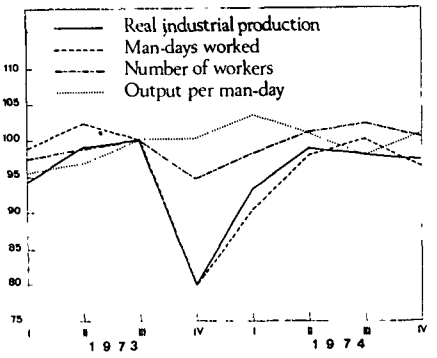
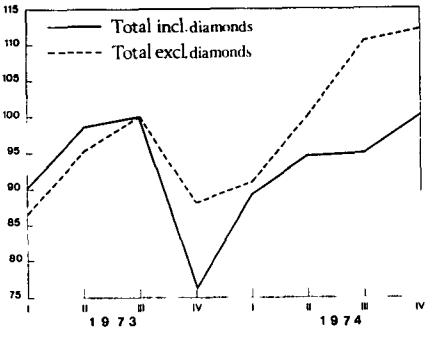


Figure XIV-2

REAL INDUSTRIAL EXPORTS, QUARTERLY, 1973–74
(index: 1973 III = 100)



Output per man-day rose in 1974, but more sluggishly than in any year from the end of the recession to the outbreak of the Yom Kippur War (see Tables XIV-1 and XIV-5). In the first quarter the curve sloped sharply upward, as the supply of labor constrained the expansion of productive capacity in almost every branch (see Figure XIV-1 and Table XIV-2). In the second quarter the curve began to tail off, and in the next three months it turned downward, evidence of hidden unemployment in those branches experiencing a subsiding or even a contraction of demand. The fourth

quarter saw a renewal of the upswing but only a very modest one, as the various branches adjusted to the changing demand pattern. Interfirm labor mobility increased, the number of workers fell off, and the actual labor input (measured in terms of man-days worked) went down even faster (see Table XIV-7 and Figure XIV-1), reflecting the introduction of a short work week, one-shift work instead of two, and so forth.

The second half of 1974 therefore witnessed a significant change in the sector's growth trend, beyond what can be attributed to the lengthening of reserve duty. Partial indicators show that the decline in industrial employment, which began in the middle of the third quarter of 1974,[3] carried over through the first part of 1975: exports apparently marked time in real terms, while the numerous special retail sales, which in many cases ran well past the Passover holiday, suggest that consumption failed to snap out of its fourth-quarter slump.

Wholesale prices of industrial output for the domestic market shot up in 1974 (see Tables XIV-1 and XIV-9 to XIV-13). It is difficult to determine whether the pressure emanated more from cost than from demand developments. But it seems that on balance the upward thrust was initially generated from the costs side (the jump in imported raw material prices in the final part of 1973 and the first half of 1974 and the government's hiking of indirect taxes and lifting of subsidies in the last quarter of 1973 and the first quarter of 1974). However, the rapid pickup in demands in the first half of 1974, when some industrial branches even experienced an overdemand for their output, enabled manufacturers to pass on the cost increases to the consumer. In July and November the government again took various steps which sent costs spiralling, and it appears that in most industries the price rises in the second half of the year resulted mainly from cost-push. In general, in those industries and in those subperiods where it was possible to pass on the extra costs, this was in fact done, and in some cases it was accompanied by a rise in real output. But in other industries where cost-inflationary price rises were inescapable, this led to a reduction in real output (see, for example, Table XIV-10).

Industrial export trends were mixed in 1974. Consumer goods and diamonds lost ground, while capital goods and some special items (phosphates, chemicals, fertilizers, and the like) made big strides. The downturn in diamonds and consumer goods was associated with the recession in the Western countries in 1974, while the impressive gains scored by fertilizers, phosphates, and pesticides were mainly linked

[3] According to a survey conducted by the Central Bureau of Statistics from a small sample of industrial establishments. The findings were blown up for the various branches, with the basic datum being the number of employees who worked at least one day in the establishment during the survey month.

to the rise in world food prices, which enhanced the demand for such inputs. The expanded export of capital goods was due to the release of local production capacity with the shrinkage of domestic investment demand and to other developments which apparently were not of a long-term nature.

Real gross industrial investment hardly expanded in 1974, and actually diminished when an adjustment is made for the influence of the war. This was the resultant of several developments. The lively pace of the sector's capital spending in the two preceding years had created spare capacity. To a certain extent the more laggard rise during the first nine months of 1973 and the downturn in 1974 represented the adjustment of investment to the capital stock required for current industrial production. The year reviewed was marked by a heightening of uncertainty about the business future, which made new investments riskier and less worthwhile. Conversely, the acceleration of inflation in 1974 and the availability of soft directed industrial credit had a stimulative effect. The fact that on balance gross capital spending did not increase during the year attests to the greater importance carried by the real, as opposed to the financial, considerations.

2. Industrial Production

(a) *Total production*

Real industrial production lost vigor in 1974, and the uptrend was even checked if allowance is made for the effects of the war. For the year as a whole a 4 percent gain was posted (see Table XIV-1), while during the first nine months the level inched down 1 percent. A comparison of the last nine months of 1974 (seasonally adjusted data) with the first nine months of 1973—which eliminates most of the wartime influences in both years—shows no change at all in real production (see Table XIV-8). It may therefore be concluded that the tapering off of industrial growth in 1974 was not due solely to the Yom Kippur War.

The flattening of the growth curve contrasts vividly with its steady ascent from the time the economy emerged from the recession of 1966-67 until the outbreak of hostilities (see Table XIV-1). Although the level for the year was roughly the same as in the first nine months of 1973, different factors dampened the sector's expansion in the first half than in the second.

The main one at work in the first six months of 1974 was the shortage of labor; this prevented industry from fully meeting the various demands, though it weakened progressively. A large percentage of the reserves were still mobilized during this period, and even though many were gradually released (see "Actual man-days worked" in Table XIV-7 and Figure XIV-1), in May 1974 the seasonally adjusted

Table XIV–1
INDICATORS OF INDUSTRIAL DEVELOPMENT, 1961–74

	Percent annual increase										
	Average							1973		1974	
	1961–1965	1966–1968	1969–1972	1969[a]	1970	1971	1972	Jan.–Sept.[b]	Entire year	Jan.–Sept.[c]	Entire year
Industrial production	13.4	11.5	11.9	15.9	9.4	10.5	11.9	12.1	5.3	–1.0	4.0
Revenue, at current prices	20.5	14.6	21.3	18.3	16.1	22.9	28.0	34.1	27.4	39.3	51.4
Number of workers[d]	3.3	4.3	6.3	9.7	5.7	4.8	4.8	2.4	0.9	1.8	2.8
Man-days worked	—	—	6.9	11.6	4.6	5.1	6.2	2.1	–3.1	–4.4	0.9
Real investment	6.0	10.5	17.4	35.1	13.5	10.2	10.8	6.3	–2.3	–7.4	1.4
Real gross capital stock[e]	11.0	11.0	10.3	8.1	11.2	10.6	11.0	10.5	10.5	8.7	8.7
Output per employed[f]	9.8	6.9	5.3	5.7	3.5	5.4	6.8	9.5	4.4	–2.7	1.2
Output per man-day worked[f]	—	—	4.7	3.8	4.6	5.1	5.4	9.8	8.7	3.6	3.1
Output per unit of capital[f]	2.2	0.5	1.5	7.2	–1.6	–0.1	0.8	1.5	–4.7	–9.0	–4.4
Change in factor productivity											
A[g]	7.0	4.5	3.8	6.9	1.2	3.0	4.2	6.0	0.0	–6.0	–1.5
B[h]	—	—	3.5	5.9	1.8	2.9	3.5	6.1	2.1	–2.6	–0.5
Domestic wholesale prices	5.0	1.8	7.4	1.9	6.8	9.2	11.6	16.6	19.1	47.1	51.5
Revenue per unit of output, at current prices	6.3	2.8	8.4	2.1	6.1	11.2	14.4	19.6	21.0	40.7	45.6
Industrial export prices (f.o.b.)	—	—	3.7	4.8	–0.7	2.6	7.9	25.2	24.8	20.6	19.5
Daily nominal wages per worker	16.2	3.5	10.2	3.8	12.3	11.2	13.5	22.7	23.5	33.8	36.9
Total payroll outlay	—	8.0	18.1	15.7	17.6	18.2	21.0	28.1	23.3	32.1	41.6

[a] In 1969 the indexes of output, wages, revenue, prices, and exports were based on a new branch classification of industrial establishments and calculated on the base: 1968 = 100.
[b] Compared with January–September 1972.
[c] Compared with January–September 1973.
[d] Until 1968 calculated according to the index of employees and since 1969, according to the index of employed.
[e] At the beginning of the year.
[f] Output here refers to industrial production.
[g] With the change in the labor input measured in terms of the number of employed; such a measurement has no significance in 1974 because of the large-scale mobilization of reserves.
[h] With the change in the labor input measured in terms of man-days worked; such a measurement has more significance in 1974 than the first variant.
SOURCE: Based on Central Bureau of Statistics data.

Table

REAL CHANGES IN GROSS INDUSTRIAL OUTPUT, OUTPUT PER MAN-DAY,

(percent

Market grouping	Weight of group in:			Change				
				Industrial output				
	Industrial output	Man-days	No. of workers	I	II	III	I-III	I
Consumer goods	45.9	52.5	50.9	2.8	0.4	-2.3	0.3	-7.7
Food (excl. canned fruit and vegetables)	11.9	12.1	12.0	7.2	-0.4	4.2	3.7	-4.6
Textiles and clothing	16.0	21.1	20.1	5.7[d]	-4.8	-11.8	-3.6	-11.7
Other	18.0	19.3	18.8	-2.5	5.9	1.8	1.7	-5.3
Capital goods (excl. construction) and defense products[c]	17.3	16.4	18.1	7.0	7.5	9.8	8.1	-9.5
Defense products	7.8	7.9	9.3	8.8	10.0	15.2	11.3	-6.2
Capital goods (excl. construction)	9.5	8.5	8.8	5.5	5.4	5.3	5.4	-11.1
Building materials	12.7	11.5	11.4	-14.0	-8.5	-9.3	-10.6	-14.7
Intermediates (for various final uses)	11.6	8.2	8.3	-6.6	3.0	-5.5	-3.0	-2.6
Special items (mainly for export)	7.6	6.0	6.4	-5.2	10.5	5.4	3.6	-4.2
Diamonds	4.9	5.4	4.9	-6.1	-16.5	-24.4	-15.7	-21.8
Total industry[f]	**100.0**	**100.0**	**100.0**	**-0.7**	**-0.2**	**-2.0**	**-1.0**	**-8.7**

[a] Classified according to the final demands for industrial output (both direct and indirect), as determined by input-output calculations.

[b] For lack of deseasonalized data, the changes in the various aggregates cannot be calculated for all of 1974; they are therefore shown only for the first three quarters of the year in comparison with the corresponding periods of 1973.

[c] Calculated by dividing the change in the index of industrial production by the change in the index of man-days worked.

[d] The first-quarter change may be overestimated, for in the index of industrial production the garment item is calculated as revenue deflated by the rise in wholesale prices of industrial output for the domestic market. Under this method, if sales are made out of stock the production index may be upwardly biased. This may possibly apply to the

labor input, measured in terms of man-days worked, was still lower than in the third quarter of 1973. Only in June, after the disengagement agreement with Syria was signed, did the labor input surpass the average for this quarter, and then by a mere 0.7 percent. From June until the end of the year the input shrank steadily (see Figure XIV-1), though for different reasons than obtained during the first half, as will be explained below.

Data on the demands for industrial output in 1974 are incomplete. Partial figures on exports and private consumption indicate that after the wartime quarter (the last

XIV-2

AND EMPLOYMENT, BY MARKET GROUPING,[a] QUARTERLY[b], JAN.–SEPT. 1974

ages)

from same period in 1973										
Man-days worked			No. of workers				Output per man-day[c]			
II	III	I–III	I	II	III	I–III	I	II	III	I–IV
-5.4	-1.2	-4.8	-2.1	-1.2	-1.5	-1.7	11.4	6.1	-1.2	5.4
-1.5	1.7	-1.5	3.6	0.7	1.6	1.9	12.4	1.1	2.5	5.3
-11.5	-8.9	-10.7	-4.8	-4.9	-8.2	-6.3	19.7[d]	7.6	-3.2	8.0
-1.1	5.3	-0.4	-2.8	1.6	4.4	1.0	3.0	7.1	-3.3	2.1
0.2	5.2	-1.4	3.3	8.0	6.1	5.8	18.2	7.3	4.4	9.6
4.8	7.7	2.1	5.6	8.4	8.8	7.6	16.0	5.0	7.0	9.0
-4.0	3.0	-4.0	0.9	7.6	3.2	3.9	18.7	9.8	2.2	9.8
-6.3	-3.8	-8.3	-7.3	-1.4	2.7	-2.0	0.8	-2.3	-5.7	-2.5
1.0	0.5	-1.0	5.2	6.1	4.6	5.3	-4.1	4.0	-6.0	-2.0
-4.6	-7.3	-5.4	5.6	5.8	6.3	5.9	-1.0	15.8	13.7	9.5
-8.6	-2.8	-11.1	-9.5	-0.2	-1.4	-3.7	20.1	-8.6	-22.2	-5.2
-4.3	**0.0**	**-4.4**	**0.5**	**2.4**	**2.4**	**1.8**	**8.8**	**4.3**	**-2.1**	**3.6**

first quarter of 1974, and hence the exceptional increase in calculated output per man-day worked during this period.

[e] The breakdown of this group between branches producing mainly for noncivilian public consumption and those for nonconstruction investment is not very reliable, and hence the data should be regarded with caution.

[f] The data for total industry were not calculated by weighting the various groups by the weights listed in this table, but were obtained directly from the Central Bureau of Statistics. Weighting the changes in the individual aggregates in this table and summing yields slightly different results from those for total industry, since the weights are for the base year 1968, while the changes within each group were calculated according to indexes. However, the differences between the two measurements are statistically insignificant.

three months of 1973) overseas sales recovered a bit in the first quarter of 1974 and perked up further in the second (see Figure XIV-2); private consumption began to swell in the second quarter, after consumer buying had dragged in the first (especially in the case of goods whose acquisition could be deferred). Some of the upward thrust arose from the expectation of drastic government economic policy changes,[4] which spurred the advancing of purchases. While there are no quarterly

[4] There were expectations of a hiking of indirect taxes and even of a devaluation.

Table XIV-3

GROSS INDUSTRIAL OUTPUT,[a] BY MAIN BRANCH, 1969–74

Branch	Gross output at 1972 factor prices (IL million)	Percent annual increase								
		Average 1970–Sept. 1973[b]	1969[c]	1970[b]	1971[b]	1972[b]	1973		1974	
							Jan.–Sept.[b]	Entire year	Jan.–Sept.	Entire year[b]
Mining and quarrying	438.4	8.1	4.7	19.1	0.7	14.4	7.1	4.2	-8.8	2.9
Food, beverages, tobacco	2,653.4	8.0	8.2	5.6	9.7	9.6	9.4	9.5	4.7	4.0
Textiles	1,462.1	8.6	15.0	2.7	7.8	8.0	21.2	12.6	-4.8	-0.7
Clothing	1,020.0	11.5	5.0	13.5	5.6	32.3	12.1	6.3	-2.1	-1.1
Leather and leather products	159.6	1.5	8.0	4.6	4.4	0.0	2.6	-1.7	-5.3	-0.9
Wood, wood products, furniture	634.3	5.3	8.0	5.6	5.3	12.5	9.0	0.7	-7.0	-1.5
Paper and paper products	396.3	6.0	5.0	7.6	11.5	6.4	3.7	1.5	3.0	5.1
Printing and publishing	444.5	4.5	15.0	0.9	-5.2	7.3	14.8	6.8	-2.7	2.4
Rubber and plastic products	719.0	12.6	21.5	15.0	17.4	19.2	20.0	8.8	-10.9	-4.3
Chemicals and refined petroleum products	1,131.3	12.0	11.0	16.2	12.4	14.4	11.6	8.4	7.3	8.9
Nonmetallic mineral products	702.1	6.6	11.2	12.5	10.3	14.4	9.0	-2.5	-12.8	3.9
Basic metals	503.1	4.5	23.6	-2.4	0.0	8.3	15.0	3.8	-5.1	2.2
Metal products	1,685.6	7.8	20.0	12.1	18.0	7.9	8.0	-1.7	-6.3	2.3
Machinery	659.1	5.1	24.0	10.4	2.4	9.2	2.8	-2.1	0.5	7.9
Electrical and electronic equip.	1,270.3	13.4	48.4	7.4	17.5	10.3	17.1	9.3	10.3	18.5
Transport equipment	1,038.6	14.6	28.4	28.1	18.9	2.6	12.7	7.5	13.7	17.7
Diamonds	826.2	12.8	4.2	-1.9	24.5	22.8	24.7	12.2	-15.7	-5.7
Miscellaneous	166.6	7.8	26.9	5.6	30.8	9.2	2.4	-4.7	5.0	3.3
Total	**15,910.5**	**8.9**	**15.9**	**9.4**	**10.5**	**11.9**	**12.1**	**5.3**	**-0.9**	**4.0**

[a] Based on the Central Bureau of Statistics industry and crafts survey for 1972/73.
[b] Revised data.
[c] See notes to Table XIV-1.

Table XIV–4

DISTRIBUTION OF TOTAL AND INCREMENTAL REAL INDUSTRIAL OUTPUT, AT FACTOR COST, BY MAIN BRANCH, 1969–74

(percentages)

Branch	Distribution of total output								Distribution of incremental output				
					1973		1974						
	1969	1970	1971	1972	Jan.–Sept.	Entire year	Jan.–Sept.	Entire year	1970	1971	1972	1973	1974
Mining and quarrying	3.0	2.8	3.0	2.8	2.6	2.5	2.7	2.5	1.0	6.5	0.1	–1.9	1.7
Food, beverages, tobacco	18.3	17.3	16.9	16.7	16.1	17.3	2.2	17.2	10.2	11.9	14.8	27.2	16.2
Textiles	9.9	10.0	9.5	9.2	9.8	9.8	11.2	9.3	10.1	3.3	6.7	19.8	–1.6
Clothing	7.6	7.0	6.7	6.4	6.3	6.4	7.6	6.1	2.6	3.9	3.4	6.9	–1.7
Leather and leather products	1.2	1.1	1.1	1.0	0.9	0.9	1.6	0.9	0.8	0.4	0.4	–0.2	–0.2
Wood, wood products, furniture	4.5	4.2	4.2	4.0	3.8	3.8	4.2	3.6	2.4	3.9	2.0	0.4	–1.3
Paper and paper products	2.9	2.7	2.5	2.5	2.3	2.4	3.0	2.4	1.0	0.3	2.5	0.6	2.9
Printing and publishing	3.1	3.1	3.3	2.8	2.8	2.8	8.3	2.8	3.1	5.7	–1.5	3.2	1.6
Rubber and plastic products	3.8	4.0	4.3	4.5	4.8	4.6	5.0	3.8	5.2	7.9	6.7	6.8	–15.6
Chemicals and refined petroleum products	7.0	6.8	7.0	7.1	7.0	7.3	9.4	7.6	5.2	10.4	7.9	10.2	15.2
Nonmetallic mineral products	5.1	4.9	4.4	4.4	4.2	4.1	4.3	3.4	3.8	–1.5	4.1	–1.9	–13.2
Basic metals	3.1	3.4	3.5	3.2	3.2	3.1	3.5	3.0	5.0	5.0	0.0	2.0	1.6
Metal products	9.3	9.8	10.0	10.6	10.1	9.8	11.1	9.7	12.6	12.5	16.2	–3.0	5.3
Machinery	4.2	4.5	4.5	4.1	3.8	3.8	4.6	4.0	6.8	4.1	0.9	–1.4	7.1
Electrical and electronic equip.	4.9	6.4	7.5	8.0	8.2	8.1	11.1	9.4	16.1	22.0	11.9	12.7	35.7
Transport equipment	6.0	6.7	6.1	6.5	7.3	6.6	9.0	8.8	11.4	–0.9	10.4	8.4	59.7
Diamonds	5.2	4.7	4.6	5.2	5.7	5.5	5.6	4.7	1.6	3.3	10.3	10.8	–14.0
Miscellaneous	0.8	0.9	0.9	1.0	0.9	0.9	1.2	0.9	1.4	1.0	2.4	–0.6	0.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

SOURCE: Central Bureau of Statistics industry and crafts surveys for 1972/73.

Table

FACTORS AFFECTING THE GROWTH

(percent

	1969		1970		1971		1972
	Rate of increase	Share in increase	Rate of increase	Share in increase	Rate of increase	Share in increase	Rate of increase
							A. Supply
Real industrial output (census value added)	15.9	100	9.4	100	10.5	100	11.9
Man-days worked[c]	11.6	40	4.6	26	5.1	26	6.2
Capital stock	8.1	23	11.2	55	10.6	46	11.0
Increase in output due to increase in inputs	10.0	63	7.6	81	7.6	72	8.4
Measured productivity[a]	5.9	37	1.8	19	2.9	28	3.5
					B. Indicators of contribution		
Private consumption	8.1	22	6.6	24	4.0	10	11.9
Public consumption	13.6	12	15.7	21	30.7	31	10.5
Investment	35.0	36	13.2	23	13.3	17	20.2
Total domestic uses	**15.1**	**70**	**10.2**	**68**	**12.1**	**58**	**13.8**
Exports	15.3	10	10.9	32	21.0	42	11.4
To administered areas	51.4	6	7.6	2	27.0	4	38.8
To rest of the world	13.1	2.4	11.2	30	20.4	38	9.2
Total uses	**15.2**	**100**	**8.9**	**100**	**14.7**	**100**	**13.1**

[a] During this period the indicators of the contributions to incremental demand were not calculated.

[b] The contributions to incremental demand lack significance during this period because of the decline in industrial production.

[c] In contrast to previous years, when the change in the labor input was calculated according to the number of employed, this year it was calculated in terms of man-days worked, which is the only relevant measure for 1974.

data on actual noncivilian demand, it seems to have been very high during the first half. The magnitude of these demands, as measured by the weight of industrial production generated by the final uses (see Table XIV-6), shows that during the first half of the year there was a burgeoning demand for 80-85 percent of industrial output. As to the remaining demands—investment in locally produced plant and equipment and in construction (i.e. building materials)—the data available at this stage do not indicate whether they exceeded or fell short of productive capacity. It will be recalled that in 1973, before the outbreak of war, investment demand had already begun to slacken, and construction starts even fell off. But the effective constraint may really have been on the supply side, even though demand was lower

XIV–5

OF INDUSTRIAL OUTPUT, 1969–74

ages)

	1973				1974			
	Jan.–Sept.[a]		Entire year		Jan.–Sept.[b]		Entire year	
Share in increase	Rate of increase	Share in increase	Rate of increase	Share in increase	Rate of increase	Share in increase	Rate of increase	Share in increase
factors								
100	12.1	100	5.3	100	–1.0	—	4.0	100
28	2.1	10	–3.1	–31	–4.4	—	0.9	12
43	10.5	40	10.5	91	8.7	—	8.7	100
71	6.0	50	3.2	60	1.6	—	4.5	112
29	6.1	50	1.2	40	–2.6	—	–0.5	–12
to incremental demand[c]								
31	—	—	9.2	49	3.1	13	6.7	29
14	—	—	13.8	36	46.7	84	17.6	39
28	—	—	3.1	10	–5.3	–13	–2.4	–6
73	—	—	**8.6**	**95**	**9.8**	**84**	**7.0**	**62**
27	—	—	1.1	5	4.4	16	10.2	38
7	—	—	0.2	0	10.9	4	21.5	8
20	—	—	1.2	5	3.8	12	9.0	30
100	—	—	**6.3**	**100**	**8.2**	**100**	**7.9**	**100**

[d] The calculation corresponds to the change in factor productivity, variant B, in Table XIV–1. It is assumed that the aggregate production function in industry lends itself to the method of calculation used here.

[e] The increase in the industrial product generated by the changes in final demands. The discrepancy between this calculation and the data from the index of industrial production stems from an upwardly biased estimate of noncivilian public consumption. For further details see note 8 in the text.

than in 1973. Two indicators support this supposition:

(a) Exports of capital goods made big strides in 1974, so that even if domestic spending on plant and equipment sagged during this period, the heavier foreign orders for Israeli-made goods boosted output.

(b) Despite the flagging demand for building materials in 1974, nonmetallic mineral products—the bulk of which goes to the construction industry—bounced back strongly (in terms of both output and man-days worked) until August (see Table XIV-7). Even though the recovery was fueled by the brisk noncivilian demand, rather than that of the construction industry itself, and the incremental demand for capital goods originated abroad, the fact remains that most industrial

branches enjoyed a much brisker demand during this half of the year, and responded by stepping up production and man-days worked. Nevertheless, in neither the first nor the second quarter did industrial production reach the level attained during the peak third quarter level of 1973.

Another indicator of a labor shortage during this period was the steep rise in industrial employment. In July (when employment was at its highest for the year) the seasonally adjusted figure was 6.6 percent above its level in January 1974 and 10.5 percent up from November 1973—when employment sank to its 1973-74 trough. This attests that the labor shortage effectively constrained industrial output during the first half of the year; were it not for the shortage of manpower, the sector as a whole might have made some headway in 1974.

The change in output per man-day worked during the first half of the year also reinforces this assumption, for experience shows that in periods of buoyant demand output per unit of labor rises. During the first three quarters of 1974 the latter moved up respectively 8.8, 4.3, and 2.1 percent from the corresponding quarters the year before. This gives some notion of the relationship between the aggregate demand for industrial output and productive capacity, taking the labor constraint into account. Even when these three quarters are compared with the average for the third quarter of 1973 we get a similar picture, though the changes are smaller (due to the very high level reached in that quarter). In the first quarter of 1974 the gain was 3.4 percent and in the second 0.9 percent, while in the third there was a 2.1 percent drop. It seems that relative to the level of demand, the labor constraint was more effective in the first than in the second quarter.

The situation underwent a drastic change in the second half of 1974, although the production trend remained about the same as in the first half. Except for a few (mainly defense-related) industries, labor no longer effectively inhibited production. Now most demands began to weaken and some even turned downward. While in the first half sales of plant, equipment, and construction inputs did not reveal a clear trend, the annual figures show a definite decline in the second half. As regards private consumption, the growth curve already tailed off by the third quarter and in the fourth it turned down a bit.[5] In the third quarter nondiamond industrial exports continued the rapid advance begun in the previous three months, but in the final quarter they virtually plateaued (see Figure XIV-2).

From this analysis it emerges that only public noncivilian demand had an expansionary effect throughout the second half of the year. But it accounted for no more than 15-18 percent of total industrial output. Thus, if during the first half there

[5] For fuller details see Chapter VII.

Table XIV-6

DISTRIBUTION OF INDUSTRIAL PRODUCT AND OUTPUT BY FINAL USE, 1968–74

(percentages)

	1968	1969	1970	1971	1972	1973 Jan.–Sept.	1973 Entire year	1974 Jan.–Sept.	1974 Entire year
Industrial product by final use									
Private consumption	40.8	38.3	37.0	33.7	33.3	35.3	34.3	33.7	33.9
Public consumption	14.2	14.0	14.8	16.8	16.5	14.5	17.6	19.7	19.2
Investment	15.4	18.1	18.5	18.3	19.5	20.0	18.9	17.5	17.1
Total domestic uses	**70.4**	**70.4**	**70.3**	**68.8**	**69.3**	**69.8**	**60.8**	**70.9**	**70.2**
Exports	29.6	29.6	29.7	31.2	30.7	30.2	29.2	29.1	29.7
To administered areas	1.7	2.2	2.1	2.3	2.9	2.9	2.7	3.0	3.0
To rest of the world	27.9	27.4	27.6	28.9	27.8	27.3	26.5	26.1	26.7
Total uses	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Industrial output by final use									
Private consumption	44.1	41.6	40.9	37.6	37.0	38.6	37.7	37.3	37.5
Public consumption	12.2	12.1	12.6	14.3	13.6	11.9	14.7	16.7	16.2
Investment	12.9	15.5	16.0	15.8	16.8	17.0	16.3	15.4	14.9
Total domestic uses	**69.2**	**69.2**	**69.5**	**67.7**	**67.4**	**67.5**	**68.7**	**69.4**	**68.6**
Exports	30.8	30.8	30.5	32.3	32.6	32.4	31.3	30.6	31.4
To administered areas	1.8	2.4	2.2	2.5	3.0	3.1	2.9	3.1	3.2
To rest of the world	29.0	28.4	28.3	29.8	29.6	29.3	28.4	27.5	28.2
Total uses	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[a] Central Bureau of Statistics data on direct final uses and Bank of Israel calculations based on the input-output table for 1968/69. The figures in this table relate to May 15, 1975, and differ from those presented in previous years, as CBS data on direct final uses have been revised. The data for the first nine months and the whole of 1975 should be accepted with caution, as the estimate of noncivilian public consumption is biased upward (see note 8 in the text).

Table

CHANGES IN INDUSTRIAL PRODUCTION, EMPLOYMENT, AND

(percent quarterly

Branch	1973 IV Industrial production	1973 IV No. of workers	1973 IV Man-days worked	1973 I Industrial production	1973 I No. of workers	1973 I Man-days worked
Mining and quarrying	-35.5	-4.9	-28.1	20.0	3.0	8.8
Food, beverages, tobacco	4.9	-1.7	-10.3	2.2	1.7	9.6
Textiles	-27.0	-9.4	-24.7	21.2	5.0	14.6
Clothing	-16.9	-8.1	-18.8	29.3	-1.2	10.3
Leather and leather products	-18.0	-7.2	-17.2	12.2	2.9	11.1
Wood, wood products, furniture	-27.5	-11.2	-23.3	13.4	6.3	19.9
Paper and paper products	-1.4	0.8	-11.9	-6.2	5.7	20.8
Printing and publishing	-22.2	-4.8	-16.8	19.0	3.9	14.0
Rubber and plastic products	-25.4	-8.8	-18.9	19.9	1.8	5.2
Chemicals and refined petroleum products	-9.5	-3.3	-11.8	10.6	7.4	8.7
Nonmetallic mineral products	-33.7	-18.0	-37.1	32.6	11.3	34.4
Basic metals	-33.7	-2.6	-23.3	30.5	3.9	17.4
Metal products	-30.4	-7.0	-27.0	29.0	6.3	21.8
Machinery	-19.2	-5.7	-24.4	14.9	3.0	18.1
Electrical and electronic equip.	-20.0	2.2	-11.6	28.9	2.1	5.7
Transport equipment	-11.6	4.3	-15.0	22.8	3.0	0.0
Diamonds	-39.8	-14.7	-37.9	28.6	4.9	30.2
Miscellaneous	-2.0	-13.4	-19.0	-7.0	2.8	8.0
Total	**-20.1**	**-5.3**	**-20.1**	**17.1**	**3.6**	**13.2**

[a] Seasonally adjusted data.
[b] Provisional data for December.
SOURCE: Central Bureau of Statistics.

was more or less an excess demand for 80-85 percent of the industrial product generated by the final uses (given the labor constraint on capacity), in the second half the changing demand pattern dampened the growth, and even depressed absolutely, some 80 percent of total production. This illustrates the dimensions of the quantitative change in demands for industrial output in the second half of the year. This was obviously a gradual change, which already began to leave its impress in the first six months of 1974.

The movement of industrial output, the labor input, and employment during the second half of the year bears out that it was not the availability of factors of

XIV–7

MAN-DAYS WORKED, BY MAIN BRANCH, QUARTERLY, 1973–74[a]

increase)

1974								
II			III			IV[b]		
Industrial production	No. of workers	Man-days worked	Industrial production	No. of workers	Man-days worked	Industrial production	No. of workers	Man-days worked
19.5	3.8	10.9	3.5	4.6	4.8	2.7	–1.1	–0.6
–0.9	–0.6	1.1	4.2	2.3	4.2	2.5	–4.8	–4.5
5.5	2.3	5.4	–7.9	–3.6	–1:3	–8.8	–4.6	–4.9
–17.1	4.1	9.1	3.8	–4.4	–5.1	–7.4	–5.6	–3.8
3.4	–2.5	0.2	9.1	6.6	7.7	–11.2	–7.2	–9.6
22.0	6.8	8.9	–11.0	0.0	–1.9	–2.3	–3.1	–4.0
8.3	0.0	4.1	–6.4	–0.7	0.2	–0.5	–2.4	0.9
10.3	0.9	7.0	–6.2	2.6	0.0	–1.5	–3.1	–7.7
–0.9	0.3	6.7	–0.4	2.5	3.4	3.2	–1.5	–3.9
0.8	1.3	6.8	3.2	2.4	4.7	–2.2	1.1	–0.9
1.1	6.2	9.1	–0.1	4.5	2.7	3.3	–1.8	–5.4
4.0	2.8	9.7	11.3	2.5	7.0	–12.4	–1.0	–4.1
11.7	2.7	7.6	–9.5	2.9	5.1	–0.9	–0.5	–3.3
17.2	6.4	13.5	–3.7	2.8	7.4	1.1	2.7	0.0
19.5	4.8	7.3	–2.0	3.2	9.0	2.2	1.8	–2.9
2.9	2.8	17.1	1.3	1.2	2.9	1.7	2.8	3.5
7.6	11.3	16.4	–9.0	–1.1	3.5	15.6	–3.0	–12.4
25.0	8.5	14.8	–9.9	4.3	4.6	–7.5	–5.0	–7.4
5.6	**3.1**	**8.3**	**–0.9**	**1.2**	**2.2**	**–0.7**	**–1.8**	**–3.7**

production that dampened production. (In the second half industrial production edged down by a seasonally adjusted 1.2 percent below its second-quarter level, falling 1 percent in the third and 1.5 percent in the final quarter.) After peaking in June 1974 (seasonally adjusted data), the labor input began a slow, steady retreat until in December it stood 4.3 percent below the June high. Employment, after expanding rapidly during the first half of the year, started to drop in August and at the end of December it was down 3.3 percent from the July peak. It is difficult to assume that the second half of 1974 was marked by a shortage of labor and that demand was not the underlying cause of the turnabout in industrial production

during this period.

At this stage there are not sufficient reliable data available to indicate whether the change of trend carried over into the early part of 1975. But several partial indicators suggest that this was indeed the case: surveys of the Central Bureau of Statistics based upon a smaller sample of industrial establishments than that on which the statistics in this chapter are based point to a further decline in industrial employment in the first quarter of 1975.

Data on industrial exports for the first quarter of 1975 show little change in current price terms from the last quarter of 1974. In addition, the numerous special retail sales held during the year—which began immediately before Passover and in some cases lasted until after the holiday—do not suggest any sizable pickup in private consumption at the beginning of 1975. While these are only partial

Table XIV–8

CHANGES IN REAL INDUSTRIAL PRODUCTION, EMPLOYMENT, AND MAN-DAYS WORKED, BY MAIN BRANCH, 1974 II–IV AS AGAINST 1973 I–III[a]

Branch	Percent increase		
	Real industrial production	No. of workers	Man-days worked
Mining and quarrying	-1.6	5.4	-7.8
Food, beverages, tobacco	7.0	0.9	-0.8
Textiles	-8.4	-6.0	-12.2
Clothing	-9.3	-8.9	-9.2
Leather and leather products	-4.9	-7.2	-10.1
Wood, wood products, furniture	-5.0	-1.2	-5.0
Paper and paper products	3.0	7.9	12.8
Printing and publishing	-2.3	5.1	2.0
Rubber and plastic products	-10.6	-5.5	-8.3
Chemicals and refined petroleum products	7.8	13.8	11.9
Nonmetallic mineral products	-10.9	-2.1	-10.0
Basic metals	-4.6	7.9	3.9
Metal products	-4.4	3.0	-1.9
Machinery	5.5	7.5	6.2
Electrical and electronic equipment	15.9	14.5	8.1
Transport equipment	16.1	13.9	3.3
Diamonds	-12.4	-1.5	-9.4
Miscellaneous	6.1	-2.1	-1.5
Total	**0.2**	**2.6**	**-2.3**

[a] Seasonally adjusted data. This comparison excludes most of the effect of the war on industry in 1973 and 1974.

SOURCE: Central Bureau of Statistics.

indicators, they seem to show that the downtrend in demands for industrial output that began in the second half of 1974 carried over into the following year.

On balance, it appears that the changes in demands during 1974 had more of a depressing effect on industrial production than did the labor constraint. The principal indicator of this is labor productivity, measured in terms of output per man-day worked. Apart from the first quarter of the year, when there was a significant rise, the level moved up only slightly or even fell, whether compared with the third quarter of 1973 (see Figure XIV-1) or with the corresponding quarters that year (see Table XIV-2). The increase during the first nine months of 1974 and over the year as a whole was the lowest recorded since the end of the 1966-67 recession.

The slackening of the uptrend in output per man-day in the second quarter of 1974 and its decline in the fourth quarter (in comparison with either the identical quarters in 1973 or any of the prewar quarters that year) show that, even if labor had constrained production in the second quarter of 1974, it was no longer a problem in the third, when some hidden unemployment cropped up. Employment dipped in the last three months (as already noted, the downturn began in August—see Table XIV-7), and the number of man-days fell even more than can be attributed to the drop in the number of workers. This suggests that demand outweighed the labor constraint in arresting the expansion of industrial production in 1974.

A more sluggish rise in output per man-day worked generally reflects a structural change in the demand for industrial output, and at the same time it is also caused by the process of adjusting production in the various industries to the changes in demands. A similar development occurred in 1969 but in the opposite direction, the revival of most final demands for industrial output sharply pushing up employment and output per man-day worked (see Table XIV-1).

Another indicator of the dominant influence of demands in 1974 was the differential interindustry growth of production. The variance was quite big, in both the conventional branch classification (Table XIV-3) and a breakdown by market grouping (Table XIV-2),[6] in comparison with the preceding year and developments in the course of the year under review.

The divergences were especially striking in the market groupings. In some branches output fell off, in others it rose, while some could not fully meet the demand. This disparate demand pattern was also reflected in the growth of

[6] The comparison can be made only with the corresponding period of 1973, since at the time this chapter was written it was not yet possible to deseasonalize the data, thereby precluding a comparison of fluctations in the course of the year in the various industries' output by market groupings.

employment and output per man-day worked.

The defense-related industries responded to the heavier noncivilian demand by greatly stepping up production, taking on more workers in the process and significantly expanding output per man-day. The slump in construction activity greatly depressed production in branches manufacturing mainly for this industry, and along with it the number of workers and output per man-day. The same happened in textiles and wearing apparel: a drop in foreign orders was not offset by a rise in domestic demand, with the result that workers had to be laid off.

In the fourth quarter demand shrank even more. While a classification by market groupings is not available for this period,[7] a glance at Table XIV-7 shows that in comparison with the third quarter real output went up in foodstuffs and in several branches producing mainly nonconsumer goods, while both domestic and foreign demand fell off for consumer goods (see Table XIV-15).

Fourth-quarter data show a downswing in both employment and man-days worked in almost every industry. The change in employment suggests an adjustment to changing demand, while that in man-days was an immediate response to the reduction in orders—before dismissing workers the concern goes over from two shifts to one, cuts down on overtime, and shortens the work week. There were, however, several exceptions: the chemical industry, where the workforce was enlarged due to brisker exports, and the machinery, electrical equipment, electronics, and transport equipment industries, which enjoyed a booming noncivilian demand.

(b) *Industrial product and output generated by final demands*[8]

During the first nine months of 1974 and the year as a whole final demands for industrial output underwent a drastic shift. Public consumption surged due to heavier noncivilian spending. Exports made more modest headway this year, with the mix undergoing a change: the shares of consumer goods and diamonds contracted,

[7] Presenting data for the last quarter of 1974 would have little meaning, since the final quarter of 1973 blurs both the comparisons and their significance.

[8] The following discussion analyzes the industrial product and output during the first nine months of 1974 and the year as a whole generated by the final demands, as calculated according to the input-output table for the Israeli economy. Since the product and output figures so derived depend upon the estimated changes in the final demands themselves, the changes in these aggregates from the previous year are not necessarily identical with those indicated by the index of industrial production, which is based on a sample of industrial establishments. For both the first nine months of 1974 and the year as a whole the results yielded by these two methods of estimation diverged much more than in the past. This was

whereas capital goods and some special items rose appreciably. Private consumption increased mildly, while investment in domestically produced goods (plant, equipment, and construction) dropped. These changes caused the industrial product generated by the various final uses to creep up at its lowest rate since the end of the 1966-67 recession[9] (see Table XIV-5B). As already mentioned, the main factor behind the growth of the product in 1974 was the enormously larger public consumption spending. Domestic investment had a dampening effect, while the contribution of private consumption was negligible.

The composition of the industrial product so calculated (Table XIV-6) reflects these changes: the share of public consumption went up considerably, that of investment fell, exports edged up a notch, and private consumption held steady.

3. Industrial Output and Input Prices

Wholesale prices of industrial output for the domestic market shot up at a record rate in 1974 (see Table XIV-9). The rises were well above those in the corresponding periods of 1973 and for the year as a whole (Table XIV-11); however, the curve flattened out noticeably in both the second and third quarters of 1974, only to again ascend sharply in the last three months, mainly because of the devaluation of the IL on November 9.

Whether the advance of prices was due primarily to demand-pull or to cost-push is hard to say; the evidence points in both directions. The following developments attest to the existence of demand pressure.

(a) Domestic market prices were jacked up steeply (it makes no difference whether this occurred in producer or in government-controlled commodity prices), without greatly affecting industrial production for the domestic market (true, production did not increase, but neither did it shrink significantly). This indicates that demand was sufficiently strong to absorb these price increases.

(b) The jump in wholesale prices was larger than can be attributed to higher costs (wages and imported and domestic inputs), suggesting the existence of demand pressure during at least part of the year. But it should be stressed that the rise in prices was partly due to government action (the lifting of subsidies and the upping of indirect taxes), and for lack of adequate data it is impossible to estimate its overall

mainly due to an overestimate of noncivilian demand. This was computed from quarterly budget data at current prices, and it appears that the actual outlays fell short of the budget appropriations. Thus the data in Table XIV-6 should be regarded with caution.

[9] Table XIV-5B gives data for all of 1973. Because of the effects of the war in the final quarter, the product generated by final demands trailed behind its 1974 growth rate.

Table XIV-9

CHANGES IN WHOLESALE INDUSTRIAL OUTPUT PRICES IN THE DOMESTIC MARKET, BY MAIN BRANCH, 1972–74

Branch	Percent annual increase					Percent change in end-year levels		
	1972	1973		1974		1972[a]	1973[b]	1974[c]
		Jan.–Sept.	Entire year	Jan.–Sept.	Entire year			
Mining and quarrying	11.2	11.8	13.5	68.5	74.8	8.5	24.2	69.4
Food, beverages, tobacco	8.5	13.1	14.1	42.5	53.7	5.9	19.9	111.7
Textiles	12.0	20.0	20.2	41.3	43.7	17.0	23.1	52.5
Clothing	12.0	13.2	14.0	31.7	32.8	15.5	15.6	36.0
Leather and leather products	27.5	25.8	21.9	21.8	22.9	35.9	16.2	47.1
Wood, wood products, furniture	19.4	23.0	31.8	49.8	49.2	16.4	46.4	84.8
Paper and paper products	11.2	11.0	15.5	21.6	67.0	2.7	40.0	22.4
Rubber and plastic products	7.6	11.2	16.3	64.6	64.4	4.7	42.8	56.8
Chemicals and refined petroleum products	9.7	13.1	16.6	56.5	64.3	3.8	38.5	70.3
Nonmetallic mineral products	10.7	16.4	19.7	53.9	57.9	9.5	41.2	64.8
Basic metals	13.2	29.4	35.9	68.5	68.2	15.2	60.2	71.3
Metal products	12.9	24.0	28.5	55.5	56.4	14.0	43.5	64.0
Machinery	10.9	13.9	15.5	37.1	41.8	10.4	27.4	56.9
Electrical and electronic equip.	11.1	11.4	14.5	38.3	39.6	6.2	31.6	44.1
Transport equipment	17.6	16.0	15.1	26.1	31.9	14.3	14.9	55.2
Miscellaneous	10.6	14.7	16.9	34.7	39.2	9.6	26.0	58.9
Total	**11.6**	**16.9**	**19.1**	**47.0**	**51.4**	**12.0**	**30.8**	**69.6**

[a] The average for December 1972 and January 1973 compared with the average for these two months the year before.
[b] The average for December 1973 and January 1974 compared with the average for these two months the year before.
[c] The average for December 1974 and January 1975 compared with the average for these two months the year before.
SOURCE: Central Bureau of Statistics.

effect. Thus there is no way of definitely knowing whether in 1974 the extra costs were fully passed on.

(c) Table XIV-13 suggests that at least in the second quarter industries producing mainly nonfood consumer goods faced excess demand. Whereas the price rise in other industries slackened during this period, that of nonfood consumer goods accelerated.

(d) As noted above, during the first half of the year the labor input effectively constrained production in numerous industries. Even though demand during this period probably fell below its prewar level, if productive capacity contracted

Table XIV–10

CHANGES IN DOMESTIC WHOLESALE INDUSTRIAL PRICES AND REAL PRODUCTION, BY MARKET GROUPING, JAN.–SEPT. 1973–74

(percentages)

Market grouping	Weight in industrial production[a]	Change in real production	Weight in wholesale price index	Change in wholesale prices
1. Consumer goods	41.5	0.3	49.3	43.2
Food	11.9	3.7	19.1	45.0
Other	29.6	–1.1	30.2	42.0
2. Capital goods (excl. construction) and products for public consumption	14.8	5.6	12.7	37.5
Capital goods	9.2	2.9	10.2	38.4
Products for public consumption	5.6	10.0	2.7	34.2
3. Building materials	12.6	–10.8	13.7	54.7
4. Intermediates for various final uses	11.4	–2.6	8.3	53.4
5. Special items	5.5	8.2	3.0	41.0
6. Branches excluded from wholesale price index of industrial output for the domestic market[b]	14.2	–3.1	—	—
7. Products deviating from principal market classification of branch[c]	—	—	12.8	61.4
8. Total	**100.0**	**–1.0**	**100.0**	**47.1**

[a] The weights here are not identical with those in Table XIV–2; the latter table covers total industrial output, while here the weights refer only to branches for which there is a price measurement. Thus, for example, the printing and publishing industry is included in Table XIV–2 under consumer goods, while here it is included in item 6, as there is no wholesale price measurement for it.

[b] Industrial branches for which there is no domestic price measurement, such as printing and publishing, diamonds, etc.

[c] Manufactures which do not properly belong to the principal market grouping in which the plant is classified.

SOURCE: Central Bureau of Statistics.

proportionately more than demand, then there was excess demand during this period.

At the same time, there were signs that mounting costs also exerted upward pressure on domestic prices.

(a) As mentioned above, it is not clear if the wholesale price rises reflected the full passing on of the extra costs, especially if allowance is made for the upward adjustment of industrial commodity prices by the government.

(b) The movement of real industrial production and wholesale prices by market groupings (Table XIV-10) does not reveal a clear connection between demand pressures and the rates of price increase. One could just as easily gain an opposite impression from the table: prices rose abruptly even in industries with a declining

Table XIV-11

CHANGES IN DOMESTIC WHOLESALE INDUSTRIAL OUTPUT PRICES, BY MAIN BRANCH, QUARTERLY, 1973–74

(percent quarterly increase)

	1973				1974			
	I	II	III	IV	I	II	III	IV
Mining and quarrying	4.0	5.0	3.5	4.7	49.0	3.2	4.9	19.4
Food, beverages, tobacco	3.9	8.7	1.1	2.4	25.2	8.8	3.9	31.1
Textiles	4.5	3.9	2.0	8.9	7.7	22.5	5.9	7.8
Clothing	–2.1	1.5	0.5	16.1	3.0	12.5	2.3	14.6
Wood, wood products, furniture	10.0	10.0	7.8	8.4	13.5	14.6	7.1	6.2
Paper and paper products	4.0	5.4	7.3	9.7	17.8	16.2	20.1	13.9
Leather and leather products	4.8	1.5	1.2	4.0	11.7	3.0	3.9	6.5
Rubber and plastic products	4.9	4.5	5.5	13.7	22.9	15.7	4.0	9.8
Chemicals and refined petroleum products	3.0	8.6	4.6	8.4	27.4	11.8	6.6	13.6
Nonmetallic mineral products	3.9	7.6	2.8	12.4	20.3	9.2	8.5	16.6
Basic metals	7.8	15.8	7.1	15.6	16.4	10.5	20.0	10.4
Metal products	6.7	9.1	6.8	11.0	13.3	12.8	15.1	9.6
Machinery	5.2	5.7	2.4	5.8	12.8	10.7	10.7	11.9
Electrical and electronic equip.	3.3	6.4	4.0	8.2	11.5	9.3	8.5	9.0
Transport equipment	3.3	2.5	2.0	4.2	7.4	8.3	13.0	13.1
Miscellaneous	5.2	6.8	3.6	5.9	11.2	9.5	9.3	13.1
Total	**4.4**	**7.1**	**3.6**	**8.2**	**17.0**	**11.8**	**8.2**	**15.4**

SOURCE: Central Bureau of Statistics.

domestic demand (construction inputs) and at a comparatively laggard pace in those specializing in capital goods and in defense-related products. Thus the overall picture is somewhat fuzzy: prices rose in some industries because of cost pressure, with a consequent reduction in production for the domestic market, while in others demand pressure pulled prices up.

(c) During the second half of the year, as noted above, most demands for industrial output slowed, weakened, or even contracted. Nevertheless, wholesale prices continued to drift upward in the third quarter, though at a more sluggish pace (see Table XIV-13). This probably indicates the existence of cost pressure, for at the beginning of the quarter the Treasury upped customs duties as well as indirect taxes on some domestic commodities. The price rises in the last quarter can doubtless be attributed chiefly to the devaluation of the IL in early November, which intensified the cost-push.

(d) A classification of the branches by principal raw material used (e.g. wood,

metal, crude oil) shows a definite connection in most groups between the rate of increase in the wholesale prices of domestic output and the increase in the basic raw material cost (see Table XIV-12). For instance, plastic goods prices soared because the main input is derived from crude oil. The precipitate price advance of nonmetallic mineral products in spite of falling demand is explained by the fact that cement accounts for a high percentage of the industry's output. The wholesale price of this product went up because of the raising of the excise and the tripling of the cost of fuel oil, which is used heavily in the manufacture of cement. Leather and leather goods prices went up by less than the sector average, since the cost of imported unprocessed leather hardly rose. Another interesting finding is that wholesale textile prices far outstripped those of wearing apparel, whose main input is of course textiles—a development hardly suggesting the existence of demand pressure. The group using metal as its principal raw material showed a definite connection between the movement of the two sets of prices, although wholesale prices went up faster than c.i.f. import prices of this commodity.[10]

The development of wholesale prices of industrial output for domestic uses may therefore be summarized as follows: Cost pressure, which was already evident in 1973 (chiefly in the final quarter) built up throughout 1974, in part due to government measures at the end of 1973 and the beginning of 1974. This generated the initial upward thrust on the price level in early 1974, as borne out by the fact that prices shot up fastest during the first quarter of the year. Subsequently, other factors heightened the cost-push (government measures in July and the November devaluation), with the result that domestic prices continued to climb. In those industries and in those subperiods of 1974 when the demand situation permitted, the extra costs were fully passed on, while production was cut back in those industries and during those subperiods when domestic demand did not allow the cost increases to be passed on in full and flagging foreign demand did not permit the diversion of spare capacity to production for the overseas markets.

[10] The increase in the c.i.f. prices of imported metals may be downwardly biased in 1974, since they are measured according to the estimated foreign prices on the date the goods are released from port. In 1974 metal prices continued their upward climb for awhile, but subsequently they levelled off and then turned downward. Hence the recorded prices may very likely have been lower than what was actually paid by the importers. The greater the time elapsed between the ordering of goods and their release from port, the greater is the downward bias in the data for 1974.

Table XIV–12

CHANGES IN WHOLESALE DOMESTIC INDUSTRIAL OUTPUT PRICES, BY BRANCH AND MAIN RAW MATERIALS, JAN.–SEPT. 1974

Branch	Main raw materials	Percent increase in wholesale domestic industrial output prices[a]	Percent increase in c.i.f. prices of main imported raw materials[b]	Comments
1. Food, beverages, tobacco	Basic local and imported agricultural products	42.5		The advance in wholesale prices was mainly due to the lifting of subsidies on staple foods after a protracted increase in world prices. The government raised the prices of domestic and imported farm products long after their prices had gone up on the world market.
2. Textiles and clothing	Basic agricultural raw metarials (cotton, other natural fibers) and petroleum-derived synthetic fibers		Textiles 41 Crude oil 285	Agricultural raw material prices rose rapidly until mid-1974.
a. Textiles	Raw materials listed above	41.3		
b. Clothing	Textile fabrics	31.7		
3. Wood, wood products, furniture	Lumber and timber	—	54	
a. Basic wood	Lumber and timber	62.5	54	
b. Wood products		46.5	54	
c. Upholstery and mattresses (not from wood)	Fabrics and foam rubber	33.3	Rubber 57	Wholesale prices of domestically produced fabrics rose 35–40 percent.

4. Paper and paper products	Pulp	61.4		Import prices apparently rose to the same extent as lumber (55 percent).
5. Printing and publishing	Paper, printing inks	—	—	There is no domestic price index for this branch.
6. Leather and leather products	Hides and skins	21.8	5	The wholesale price rise was apparently due to wage increases.
7. Rubber and plastic products	Crude rubber and oil	—	—	
a. Rubber and rubber products	Crude rubber	42.0	57	
b. Plastic and plastic products	Petroleum-derived materials	81.2	285	
8. Chemicals and refined petroleum products	Crude oil and basic chemicals			
a. Oil-based chemicals	Petroleum derivatives	67.8	285	Includes soap and other detergents, paints, varnishes, and lacquers.
b. Other chemicals, excl. petroleum distillates and pharmaceuticals	Basic chemicals	52.3	47	Includes basic chemicals, pesticides, cosmetics.
c. Petroleum refining	(see comments)	36.4	—	The price index refers only to the census value added.
d. Pharmaceuticals	(see comments)	25.4	—	Prices are controlled.
9. Nonmetallic mineral and quarry products	Local materials (stone, sand, etc.), fuel		—	The initial price increase in the cement-using branches of this group was due to the raising of the excise on cement and the increase in the price of fuel, which is used heavily in cement production.

Table XIV–12 (cont.)

CHANGES IN WHOLESALE DOMESTIC INDUSTRIAL OUTPUT PRICES, BY BRANCH AND MAIN RAW MATERIALS, JAN.–SEPT. 1974

Branch	Main raw materials	Percent increase in wholesale domestic industrial output prices[a]	Percent increase in c.i.f. prices of main imported raw materials[b]	Comments
a. Cement	Fuel	84.3	285	
b. Other cement-using branches		54.3	—	
c. Noncement nonmetallic mineral products	Other local nonmetallic minerals	36.7	—	
d. Quarry products	Local stone and sand	31.1	—	
10. Basic metals, metal products, machinery, and transport equipment	Basic metals, misc.	—	30–40	The price increase of imported metals seems to be downwardly biased.
a. Basic metals	Imported basic metals	68.5		
b. Metal products	Basic metals after initial processing	55.5		
c. Machinery	Metal products	37.1		
d. Transport equipment	Metal products	26.1		
11. Electrical and electronic equipment	Various raw materials	38.3		
12. Sundry minerals, excl. quarry products and sand	Locally quarried materials and crude oil	—		
a. Crude oil	Crude oil	265.1	285	
b. Other subbranches	Phosphates, potash, kaolin	49.8	—	These branches produce mainly for export.
13. Miscellaneous	Various raw materials	34.7	—	
14. Total industry		**47.1**	**47.7**	

[a] The change in wholesale prices during the first nine months of 1974 compared with the same period in 1973.
[b] The change in prices during the first nine months of 1974 compared with the average for all of 1973.

Table XIV–13

CHANGES IN DOMESTIC WHOLESALE INDUSTRIAL OUTPUT PRICES, BY MARKET GROUPING,[a] QUARTERLY, 1974

Market grouping	Percent quarterly increase				Weight in index of domestic wholesale industrial output prices
	I	II	III	IV	
Food	25.2	8.8	3.9	31.1	24.7
Other consumer goods industries	11.8	15.6	6.9	10.1	30.2
Nonconsumer goods industries	16.0	10.9	11.4	10.3	45.1
Total	**17.0**	**11.8**	**8.2**	**15.4**	**100.0**

[a] The branch classification is similar to that in Tables XIV–2 and XIV–10, with all branches other than those producing food and other consumer goods grouped as "nonconsumer goods industries".

SOURCE: Central Bureau of Statistics.

4. Industrial Profitability

No clear picture can be drawn of the changes in industrial profitability, either for the first nine months of 1974 or for the year as a whole. Roughly calculated, profitability per unit of output (for both the domestic market and exports) rose at a very mild rate. But excluding diamonds, where profitability undoubtedly declined, the increase was more significant. However, this calculation is largely based on the wholesale price index of industrial output for the home market as a measure of domestic producer prices. This index overstates the actual increase in producer prices, for government measures (the lifting of subsidies and the upping of indirect taxes) accounted for some of the advance in wholesale prices but did not affect producer prices. Hence unit profitability may even have fallen in the year reviewed. The interbranch variability in real production and in the rise of input prices limits the significance of the sector average. At this stage the available data are not sufficient for determining in which branches profitability went up and in which it went down.

5. Industrial Exports

Industrial exports forged ahead by about 6 percent in real terms during the year reviewed; if the effects of the October war are discounted,[11] the growth was more

[11] By comparing the last nine months of 1974 with the first nine months of 1973 (the data have not been adjusted for seasonality).

Table XIV–14
INDUSTRIAL EXPORTS, BY MAIN BRANCH, 1973–74
($ million, at current f.o.b. prices)

			Percent annual increase					
					Quantity			
						1974		
	1973	1974	Value 1974	Price 1974	1973	Jan.–Sept.[a]	April–Dec.[b]	Entire year
Mining and quarrying	48.1	90.2	87.5	73.2	–0.4	–7.8	–0.8	8.2
Food, beverages, tobacco	105.5	128.7	21.9	20.8	7.2	–3.8	–4.5	0.9
Textiles	61.0	63.0	3.2	11.6	–3.0	–7.0	–7.9	–7.6
Clothing	86.8	97.4	12.2	10.8	–3.0	0.2	–2.3	1.2
Wood, wood products, furniture	15.6	10.9	–30.2	26.2	15.5	–41.6	–5.6	–44.7
Paper, printing and publishing	17.3	23.9	38.1	73.2	–6.2	–22.0	–16.5	–20.3
Leather and leather products	7.0	7.0	0.0	9.6	–2.7	–11.5	–16.7	–8.8
Rubber and plastic products	29.3	40.2	37.2	35.5	–3.5	–4.0	–2.7	1.2
Chemicals	78.1	182.5	133.6	63.8	23.4	38.8	56.7	42.6
Refined petroleum products	1.9	37.5	1,873.6	275.2	–32.1	325.9	274.0	426.0
Nonmetallic mineral products	2.7	5.6	107.4	9.5	16.7	49.6	82.8	89.0
Basic metals	13.7	23.3	70.0	42.9	51.9	5.7	41.2	18.9
Metal products	45.9	64.7	40.9	9.2	–18.4	21.8	28.7	29.0
Machinery	20.3	37.1	82.7	35.1	20.1	18.4	95.2	35.2
Electrical and electronic equipment	27.9	44.3	58.7	6.9	–16.9	35.6	55.4	48.4
Transport equipment	29.5	38.7	31.1	5.7	93.2	66.0	66.5	24.0
Miscellaneous	28.2	30.6	8.5	13.1	–0.4	–6.7	5.3	–4.1
Total industrial exports excl. diamonds	**618.8**	**925.6**	**49.5**	**29.5**	**–11.5**	**11.3**	**17.0**	**15.4**
Diamonds (net)	556.7	562.5	1.0	6.2	27.9	–15.8	–13.5	–4.9
Total industrial exports	**1,175.5**	**1,488.1**	**26.5**	**19.5**	**3.6**	**–2.8**	**1.8**	**5.8**

[a] Compared with January–September 1973.
[b] Compared with April–December 1973. For lack of deseasonalized data, the comparison is made with original data. Nevertheless, it fairly reliably represents the change in industrial exports net of most of the effects of the war in these two years.

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

Table XIV-15

QUARTERLY GROWTH OF INDUSTRIAL EXPORTS, BY MAIN BRANCH, 1973–74

(index: 1973 III=100)

Branch	1973	1974			
	IV	I	II	III	IV
Mining and quarrying	55.0	85.5	107.3	75.0	105.8
Food, beverages, tobacco	77.2	93.8	105.3	78.8	91.6
Textiles	99.5	92.8	95.5	81.1	90.4
Clothing	91.7	95.4	88.8	106.6	95.9
Leather and leather products	91.5	109.8	84.4	99.5	90.8
Wood, wood products, furniture	71.6	70.1	62.1	22.0	31.3
Paper and paper products	41.3	97.4	80.5	34.1	59.9
Printing and publishing	93.3	48.6	28.5	91.0	72.8
Rubber and plastic products	71.1	82.2	81.9	90.7	85.5
Chemicals and refined petroleum products	86.3	98.0	127.8	174.4	156.5
Nonmetallic mineral products	51.0	115.8	107.8	221.2	214.3
Basic metals	87.8	53.6	85.2	102.2	134.5
Metal products	95.5	102.4	127.7	122.2	110.9
Machinery	83.1	67.7	130.0	110.2	151.6
Electrical and electronic equip.	113.8	145.7	139.4	167.0	211.9
Transport equipment	188.9	119.8	86.4	241.9	119.1
Diamonds	62.5	87.1	84.8	77.3	91.2
Miscellaneous	106.4	74.3	95.0	106.5	109.8
Total industrial exports	**76.2**	**89.2**	**94.5**	**95.0**	**102.5**
Total, excl. diamonds	**88.1**	**90.9**	**102.8**	**110.4**	**112.3**
Total, excl. diamonds and mining and quarrying	**91.1**	**91.6**	**102.7**	**113.6**	**113.2**

SOURCE: Central Bureau of Statistics and Bank of Israel calculations. Data are not adjusted for seasonality.

moderate—less than 2 percent for the year as a whole and an actual decline in January-September (see Table XIV-14). Nondiamond manufactures made substantial strides, but there were considerable interbranch divergences (see Tables XIV-14, XIV-15, and IV-27.

Three factors influenced the growth of real exports in the year surveyed: the degree to which production was constrained by the labor input in the various industries, the changes in foreign demand for Israeli goods, and the changes in domestic demand. The impact of these factors varied in the course of the year (see Figure XIV-2 and Table XIV-15). The shortage of labor, due to the extensive mobilization of reservists during the first quarter and part of the second, was

apparently most responsible for blunting the expansion of both industrial production and exports in the early part of 1974 (see Table XIV-15 and Figure XIV-2). In the first quarter exports of most branches still fell short of their level in the third quarter of 1973, but they were up from the final wartime quarter. In the second quarter of 1974 the dampening effect of the labor supply situation on industrial production and exports began to weaken gradually, while the impact of the changes in domestic and foreign demand became dominant.

(a) *Industrial exports by market groupings*[12]

Economic growth in the Western countries slacked off and even turned downward in the year reviewed. This of course was reflected in consumers' disposable income, and hence was the main cause of the slump in Israel's real exports of diamonds and consumer goods during 1974 (see Table IV-27). In the second quarter swelling domestic demand was probably the main factor inhibiting the expansion of real exports of consumer goods industries, while in the last half of the year sagging foreign demand was chiefly responsible for the dent in their volume. It would appear that as regards consumer goods sales Israel has undergone a process of specialization, with the stress on products with a relatively high income elasticity of demand. The result is that during periods of vigorous business growth abroad exports of these goods expand rapidly,[13] but when the world economy begins to drag or experiences reverses, such sales apparently cannot be stepped up even if Israeli industry is saddled with spare capacity.

Exports of capital goods shot up in 1974 by 70 percent at constant prices, mainly because ebbing domestic demand permitted the expanded overseas marketing of those items in heavier demand abroad (mainly certain types of machinery, electrical equipment, electronic gear such as communication equipment, and metal pipes).

Military goods slipped by a mild 3.5 percent in real terms during the first nine months of 1974. Given the burgeoning domestic demand for such products, it is surprising that the decline was not greater. Long-term considerations (the reluctance

[12] In the following discussion wherever reference is made to the classification of manufacturing industries by principal economic destination (i.e. the final use of their output) and to the main categories of commodities produced (consumer, capital, and defense-related goods, special items, etc.), the reader is advised to turn to Table IV-27 in the chapter on foreign trade, since it served as the basis for the analysis here of industrial exports by type of commodity and final demand.

[13] Allowing of course for possible factor and domestic demand constraints.

to lose export markets) were probably dominant here. It will be recalled that in 1973, on the eve of the October war, domestic noncivilian demand had slackened (see Bank of Israel, *Annual Report 1973,* Chapter XI and Table XI-2). This may have spurred Israeli exporters to contract for the supply of such goods to foreign customers, with the result that in 1974 the volume of sales did not go down very much.

In the group of special items (most of whose output is marketed abroad) trends were mixed. Some of them fared much better this year insofar as the availability of productive factors did not inhibit this. Especially big gains were posted by products associated with the world food crisis—fertilizers, phosphates, potash (up only a notch because of a shortage of labor), pesticides, and various chemical products—which were in big demand this year. The world food price boom began in 1972 and resulted in a surging demand for fertilizers and pesticides, which sent their prices soaring. World production of fertilizers and pesticides is apparently one of the major determinants of the rate at which food production can be stepped up. By contrast, overseas sales of another special item—citrus products—suffered a setback in 1974. As regards supply, the quantitative export of such commodities is determined by the extent to which fresh fruit is diverted to industry. During the 1973/74 season supplies to the canneries increased greatly, so that instead of constraining production, it seems that not all the output could be disposed of abroad because of falling demand. Plywood manufacture was also hit hard by the recession abroad. Its output, the bulk of which goes to the construction industry, is only partly based on the domestic market.

(b) *Real export growth in 1974*

The movement of overseas industrial sales during the year reveals interbranch divergences (Table XIV-15), as the demand and supply factors had a differential impact on the various industries.

Total and nondiamond industrial exports, after bouncing back vigorously from the war-induced low of the final quarter of 1973 and the first quarter of 1974 (when there was still a large-scale mobilization of reserves), began to slacken perceptively in the final quarter of the year surveyed, when real exports of nondiamond manufactures barely surpassed their third-quarter level (see Figure XIV-2). Thus this demand joined the others in braking industrial expansion in the second half of the year. Since domestic demand was not a factor impeding the growth of exports in most branches, it can be assumed that the standstill in the last quarter of 1974 was due to developments abroad.

By contrast, diamond sales picked up smartly in the last three months of 1974 (when they were 18 percent higher than in the preceding quarter). However, this recovery will probably be short-lived: diamond prices were expected to rise sharply at the beginning of 1975, so that the impressive export performance at the end of 1974 was very likely due to the advancing of purchases.[14]

6. Investment and Capital Stock

Real gross industrial investment hardly expanded in 1974 (Table XIV-16), and if the influence of the October war is discounted (a comparison of the last nine months of 1974 with the first nine months of the previous year), it actually fell off 2 percent. The decline was even greater if we take into account that part of the 1974 capital expenditure was originally planned for the last quarter of 1973 but had to be shelved because of the war.

Several factors depressed industrial investment in 1974. One was the fact that in the two preceding years the actual capital stock expanded faster than required for current production. This can be seen from a comparison of the required increase in capital stock calculated according to capital-output coefficients for the various industries with its actual growth.[15] The adjustment process is a protracted one and is effected through the level of new investment. The latter may sometimes have to undergo a drastic change in order to bring the actual and required capital stock back into line. Indeed, during the first nine months of 1973 the real growth of industrial investment declined (see Table XIV-16).

Another adverse influence in 1974 was the mounting anxiety about how the economy would fare in the immediate future. This in itself increased the risk of new investments and rendered them less worthwhile. In the short run it put a damper on capital spending. The uncertainties probably affected not only those industries whose market softened in 1974, but even those that enjoyed a strong burst of demand pressure.

Thus it is likely that the two factors noted above, the long-run adjustment and the short-term brake on growth, tended to depress industrial investment in 1974 (excluding the effects of the war). At the same time, there were other factors operating in the opposite direction.

[14] That diamond exports expanded appreciably in the fourth quarter did not have much bearing on industrial development, as the weight of this item in total production is low because of its relatively small value-added component.

[15] For greater detail see Chapter V in the 1973 *Annual Report*.

(a) The terms of directed industrial credit were not stiffened in 1974.[16] True, the amount of such financing increased more slowly than new investment (14 vs. 33 percent), but adjusting for the effects of the war shows no adverse change in the terms.

(b) The hyperinflation prevailing in Israel in 1974 enhanced the profitability of investments eligible for directed institutional financing, which amounts to about half of the value of new investments. Given the dizzy pace at which prices spiralled upward in 1974, the fact that such financing is granted on unlinked, low-interest terms in itself made investment a more profitable matter.

Table XIV-16

REAL CHANGES IN INDUSTRIAL INVESTMENT, 1971-74[a]

	Percent annual increase					
			1973			
	1971	1972	Jan.–Sept.	Entire year	1974[a]	Weight in 1974
Investment in machinery and equipment	12.1	9.7	1.7	–4.8	2.3	79
Imported	12.3	13.1	0.9	–6.1	5.2	63
Locally manufactured	11.7	–1.2	4.4	0.0	–1.8	16
Investment in structures	2.9	15.9	25.8	8.2	–1.7	21
Total investment	**10.3**	**10.9**	**6.4**	**2.3**	**1.4**	**100**

[a] Revised data.
SOURCE: Central Bureau of Statistics.

That real gross industrial investment fell off in 1974 (discounting the effects of the war) shows *ex post facto* that the real (i.e. nonfinancial) considerations carried more weight in investment decisions than did the financing terms.

For 1974 as a whole (including the effects of the October war), all the meager increase in industrial capital spending was on imported equipment (Table XIV-16), that on domestically produced equipment and structures declining. In most industries even investment in imported equipment[17] was cut back; it rose only in food processing, chemicals, metal products, and basic metals. Some of these increases are probably explained by the deferral of investments originally planned for the last quarter of 1973 and which had to be pigeon-holed because of the war. Another

[16] This is more widely discussed in Chapters VIII and XVIII.

[17] A branch breakdown is available only for this type of asset.

possible reason is that during the first nine months of 1973 outlays on imported equipment hardly went up (Table XIV-16), for the prewar period saw a lengthening of the interval elapsing between the placing of an order for imported equipment and its arrival in the country.