

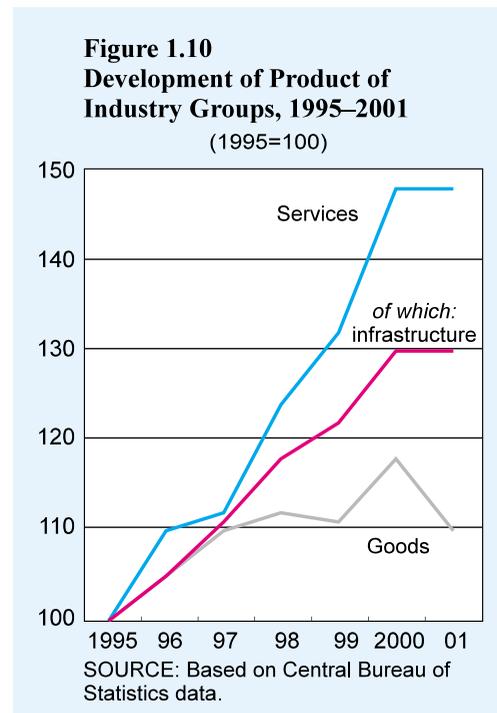
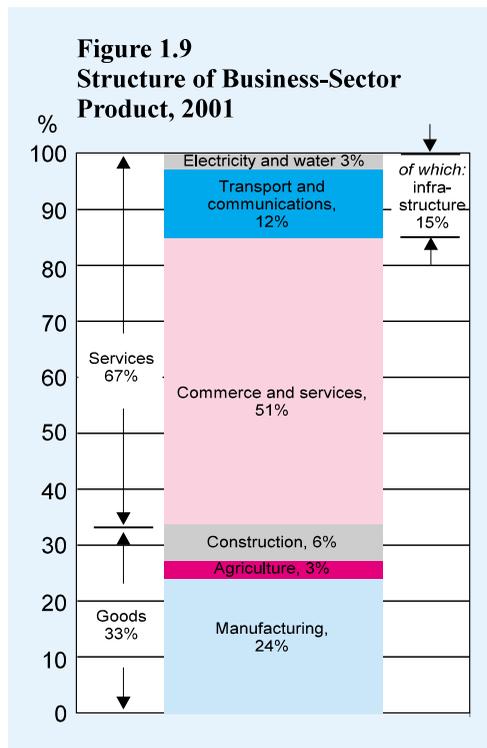
#### 4. THE PRINCIPAL INDUSTRIES

##### a. Main developments<sup>22</sup>

The decline in business-sector product in 2001 stemmed from the goods industries, while the product of the services did not change significantly.

The recession was expressed in 2001 in a substantial 6 percent drop in the product of the goods industries,<sup>23</sup> and stagnation in the services industries<sup>24</sup> (Table 1.7 and Figures 1.9 and 1.10). The current development of the principal industries is the result of various short-term trends, such as the business cycle, as well as long-term ones.

Short-term developments in 2001 reflect mainly three domestic and external demand-side shocks. In Israel, the political-security situation, and abroad the moderation of demand and slump in the high-tech industry. These shocks did not impact on private consumption, which rose by 4 percent (excluding durables), so that industries based on it were less badly affected than those based on foreign demand.



Long-term developments, which persisted in 2001, were the growing share in business-sector product of the services industries and fall in that of the goods industries. This was largely because as the standard of living rises, the share of agriculture falls,

<sup>22</sup> In this section we refer to business-sector product (and productivity) as measured from the principal industry side (Table 1.A.1.11) and not from the uses side (National Accounts figures), as is the case in the first part of this chapter. In addition to business-sector product, such indices as revenue and hours worked are also included in the principal industry data.

<sup>23</sup> Manufacturing, agriculture, and construction.

<sup>24</sup> Commerce and services, transport and communications, and electricity and water.

that of the services rises, and that of manufacturing also grows to a given level. The expansion of the services stemmed from supply-side factors, such as rapid technological advances in communications and outsourcing. In the area of employment, the services industries contributed to the rise in labor input in 2001, while the goods industries served to reduce it. Since the decline in labor input in the latter outweighed the fall in its product, labor productivity<sup>25</sup> rose appreciably—as did TFP to some extent—but

In the long run, the share of services in business-sector product rose, while that of goods declined.

**Table 1.7**  
**Characteristics and Changes in Principal Industries, 1996–2001**

(rate of change, annual terms, constant prices)

	Industry composition <sup>a</sup> (weights)	Product	Labor input	Capital <sup>b</sup>	Labor productivity	Total factor productivity	Capital productivity <sup>c</sup>	Capital/labor	Real wage per employee post <sup>d</sup>
<b>1996–2000</b>									
Manufacturing	25.6	5.1	0.7	7.9	4.4	1.9	–2.5	7.2	4.7
Agriculture <sup>e</sup>	3.3	4.6	3.3	0.0	1.2	2.6	4.6	–3.2	3.5
Transport & communications	12.3	5.3	5.0	7.6	0.3	–0.9	–2.2	2.5	1.0
Construction	9.0	–2.4	0.6	11.9	–3.0	–4.7	–12.8	11.2	2.1
Commerce & services <sup>f</sup>	47.1	9.1	6.8	16.7	2.2	–1.3	–6.5	9.2	4.1
Electricity & water	2.8	5.5	0.8	5.6	4.7	2.6	–0.1	4.7	3.7
<b>Total business sector</b>	<b>100.0</b>	<b>4.6</b>	<b>4.1</b>	<b>8.5</b>	<b>0.5</b>	<b>–0.9</b>	<b>–3.6</b>	<b>4.2</b>	<b>3.6</b>
<i>of which</i> Goods	37.8	3.3	1.0	7.3	2.3	0.4	–3.7	6.2	3.7
Services	62.2	8.2	6.5	9.2	1.6	0.6	–0.9	2.5	3.3
<i>of which</i> Infrastructure	15.1	5.4	4.4	7.1	0.9	–0.3	–1.6	2.5	1.2
<b>2001</b>									
Manufacturing	23.9	–6.9	–6.6	6.8	–0.3	–5.1	–12.8	14.3	2.9
Agriculture <sup>e</sup>	3.3	5.4	–11.6	0.4	19.3	13.0	5.0	13.6	6.0
Transport & communications	12.2	–0.1	–0.2	6.9	0.0	–3.2	–6.6	7.1	0.6
Construction	6.5	–9.2	–13.4	8.5	4.9	0.8	–16.3	25.3	–0.3
Commerce & services <sup>f</sup>	51.2	–0.1	0.6	9.4	–0.7	–3.8	–8.6	8.7	3.1
Electricity & water	2.8	0.4	–3.7	2.5	4.2	1.4	–2.1	6.4	2.6
<b>Total business sector</b>	<b>100.0</b>	<b>–1.9</b>	<b>–3.5</b>	<b>6.6</b>	<b>1.7</b>	<b>–1.6</b>	<b>–8.0</b>	<b>10.5</b>	<b>3.3</b>
<i>of which</i> Goods	33.7	–6.3	–9.5	6.3	3.5	–2.0	–11.9	17.5	3.1
Services	66.3	–0.1	0.4	6.7	–0.5	–2.9	–6.3	6.2	2.5
<i>of which</i> Infrastructure	15.1	0.0	–0.6	5.8	0.5	–2.3	–5.5	6.4	0.7

<sup>a</sup> Excluding imputed banking services, errors and omissions.

<sup>b</sup> Intangible assets are included in commerce and services; this accounts for the difference from capital in the section on commerce and services.

<sup>c</sup> Annual flow to capital at beginning of year (both in NIS).

<sup>d</sup> Excluding Palestinians.

<sup>e</sup> Gardening is not included, and hence this figure differs from the one in the section on agriculture.

<sup>f</sup> Including start-ups.

SOURCE: Based on Central Bureau of Statistics data.

<sup>25</sup> Product per hour worked.

declined in the services industries. The rise in labor productivity in the goods industries constitutes a continuation of the trend evident for the last five years. The decline in the product of the goods industries derived primarily from the fall in manufacturing and construction product and the moderate increase in the product of agriculture.

The contraction in the product of manufacturing and construction led the fall in the share of goods in business-sector product.

The 9 percent contraction of construction is a continuation of the fall evident in the last three years, after the surge in the industry's product in 1999 with the absorption of the influx of immigrants in the 1990s. This adjustment was supplemented by a decline in 2001 that was associated with the recession, and apparently also with excess investment in 2000. Although investment in infrastructure structures rose in 2001, their share in the industry is too small to alter its development trend. The industry is characterized by high labor-intensity and the lowest wage in Israel (Table 1.7). The development that has typified the industry's production structure in recent years persisted in 2001: labor input fell by more than product, while the industry's capital rose markedly.<sup>26</sup> The growth rate of capital per worker accelerated from an annual 11 percent in 1996–2000 to 25 percent in 2001—almost two and a half times its growth rate in the entire business sector. Notwithstanding, capital per worker is still very low, about one fifth of that in the business sector as a whole.

The slump in the high-tech industry reduced manufacturing product.

Manufacturing product went down by some 7 percent in 2001, after it had risen sharply in 2000—mainly in the high-tech industry—after an average annual growth rate of 2 percent in 1998–99. This volatility is connected primarily with the industry's specialization in the area of electronics, the demand for whose products has fluctuated widely in the last two years, both in Israel and abroad.

Agricultural product rose by 5 percent in 2001, mainly due to increased demand arising from population growth.

The increase in private consumption contributed to the demand for services.

The growth of the commerce and services industries stopped in 2001 mainly due to a fall in the services industry arising from the marked contraction in start-ups and catering, and the continued growth of commerce. The relatively positive development of commerce is explained by its closer connection with private consumption, which is less affected than other uses by global developments. Since the industry is labor-intensive, its continued growth in 2001 contributed as stated to labor input.

The product of transport and communications did not expand in 2001, due to the fall in transport and continued growth of communications, as the spheres of mobile telephones, TV services, and fast internet were opened up to competition.

## **b. Manufacturing**

### *Main developments*

Manufacturing product fell by an unprecedented 5.7 percent in 2001.

Manufacturing product, which is about one quarter of business-sector product, fell by an unprecedented 5.7 percent in 2001. The decline was preceded by a 10 percent surge in 2000, a rate unparalleled in manufacturing in the last thirty years. The impressive

<sup>26</sup> The reference is to nonresidential capital stock, as measured at the beginning of the year (whereas economic activity relates to the whole year). The expansion of capital stock per worker can therefore express an increase in capital, reflecting the developments and expectations of the previous year.