

4. THE PRINCIPAL INDUSTRIES

1. Main developments¹⁴

The product of the manufacturing industry, which accounts for about one quarter of business-sector product, declined by 2.8 percent in 2002. The main reason for this was the decline in exports in general, and in high-tech exports in particular, a trend that had begun with the bursting of the high-tech bubble and the emergence of the global recession in 2000. Manufacturing exports fell by 5.7 percent (in dollar terms), while electronics exports plummeted by 18.7 percent—exceeding by far the decline in imports of electronic goods and components in the US. As a result, there was a fall in the market share of Israel's advanced industries in the US. Exports of the mixed high-tech and traditional industries rose moderately. The decline in manufacturing sales in the domestic market evident since 1997 was checked in 2002, and sales stabilized despite the decline in total domestic demand stemming from the real 7.3 percent depreciation (in import terms), which pushed up the price of competing imports. Total factor productivity (TFP) in manufacturing was slightly better in 2002 than in 2001, and the return on capital stabilized at the low level evident in 2001—primarily due to the reduction of labor costs.

The activity of the construction industry continued to contract in 2002, for the fifth consecutive year, and its output fell by 3.3 percent. Notwithstanding, the decline was smaller than it has been in recent years, and there was even a slight increase in building starts and permits issued. The product of the industry declined by 4.5 percent, more than the fall in business-sector product, so that the industry's share of business-sector product continued to contract. Employment in the industry declined by 3.5 percent due to the fall in the number of Palestinian workers, while the number of Israelis employed, which had declined steadily from 1997 to 2000, stabilized in 2001 and rose in 2002. Residential construction continued to contract in 2002, with the decline in households' permanent income and slower growth rate of the population. In addition to these long-term factors, activity in the industry was also adversely affected by short-term factors in 2002, among them the security unrest and relatively high mortgage interest.

The product of the transport and communications industry contracted by 3.8 percent in 2002, comprising a 5 percent reduction in transport and 1 percent dip in communications. Demand for the industry's product fell as a result of the protracted recession and the Intifada, and part of the industry was also directly affected by the steep drop in incoming tourism. Communications prices rose less than those of business-sector product, while the price of transport services rose more steeply; most of the increase was in sea transport services. Investment in transport and communications plunged in 2002, alongside the steep fall in investment in transport vehicles and the communications infrastructure due to the recession and the world crisis in the

¹⁴ The following sections deal with business-sector product and productivity as measured in the principal industries (Table 1.A.1.11) and not from the uses side, as in the National Accounts—the measurement used in the first part of this chapter.

The product of manufacturing fell by 2.8 percent, primarily because of the contraction of exports in general, and of high-tech exports in particular. Manufacturing sales to the domestic market stabilized, labor productivity was slightly better than in 2001, and return on capital stabilized.

The activity of the construction industry continued to contract for the fifth consecutive year, and its output dropped by 3.3 percent. The number of persons employed in the industry fell by 3.5 percent because of the steep decline in the number of Palestinian workers. The number of Israeli workers rose, however.

The product of the transport and communications industry contracted by 3.8 percent in 2002, as a result of low demand due to the persistence of the recession and the Intifada. Investment in transport and communications plummeted, but that in the transport infrastructure continued to grow.

Table 1.8
The Principal Industries, 1996–2002

(rate of change, annual terms, constant prices)

	Industry composition ^a (weights)	Product	Labor input	Capital ^b	Labor productivity	Total factor productivity	Capital productivity ^c	Capital/ labor	Monthly wage per employee post ^d
1996–2000									
Manufacturing	25.1	5.2	0.7	7.9	4.5	2.0	–2.5	7.1	4.7
Agriculture ^e	3.2	4.9	3.7	–0.2	1.1	2.7	5.1	–3.8	3.5
Transport & communications	13.0	5.3	5.2	7.5	0.1	–1.0	–2.1	2.2	1.0
Construction	9.9	–1.4	0.7	11.9	–2.0	–3.7	–11.9	11.2	2.1
Commerce & services ^f	46.1	8.9	6.7	19.7	2.1	–2.5	–9.1	12.3	4.1
Electricity & water	2.8	5.2	0.3	5.4	4.9	2.6	–0.2	5.1	3.7
Total business sector	100.0	5.0	4.0	8.9	0.9	–0.6	–3.6	4.7	3.6
<i>of which</i>									
Goods	38.2	3.5	1.0	7.1	2.5	0.6	–3.4	6.0	3.7
Services	61.8	8.0	6.3	9.9	1.5	0.2	–1.7	3.3	3.3
2001–2002									
Manufacturing	23.9	–4.6	–4.7	5.4	0.2	–3.4	–9.5	10.6	–0.4
Agriculture ^e	3.3	0.0	–5.1	0.3	5.4	2.9	–0.4	5.8	1.5
Transport & communications	12.6	–1.9	–1.9	6.9	0.0	–4.0	–8.2	9.0	–1.5
Construction	7.1	–7.5	–4.6	6.5	–3.0	–4.8	–13.2	11.7	–1.9
Commerce & services ^f	50.3	–1.2	1.5	8.1	–2.6	–5.0	–8.6	6.5	–1.8
Electricity & water	2.9	2.1	–2.0	2.6	0.1	–0.1	–0.5	0.5	0.9
Total business sector	100.0	–2.8	–1.2	5.9	–1.6	–3.8	–8.2	7.3	–1.1
<i>of which</i>									
Goods	34.3	–4.8	–4.8	5.0	–0.1	–3.1	–9.3	10.3	–0.7
Services	65.7	–1.2	1.1	6.4	–2.2	–4.2	–7.1	5.3	–1.7
2002									
Manufacturing	23.9	–2.8	–3.6	4.5	0.9	–2.0	–7.0	8.4	–4.0
Agriculture ^e	3.3	–4.3	–2.3	0.5	–2.0	–3.2	–4.8	2.9	–2.5
Transport & communications	12.5	–3.8	–3.4	6.6	–0.4	–5.0	–9.8	10.4	–3.7
Construction	7.0	–5.7	–2.0	4.8	–3.8	–4.8	–10.1	7.0	–3.6
Commerce & services ^f	50.3	–2.8	0.9	6.1	–3.7	–5.5	–8.4	5.1	–6.4
Electricity & water	3.0	3.8	9.4	2.7	–5.1	–2.6	1.0	–6.1	–0.7
Total business sector	100.0	–3.1	–0.8	5.2	–2.3	–4.2	–7.9	6.1	–5.3
<i>of which</i>									
Goods	34.2	–3.6	–3.0	4.1	–0.6	–2.9	–7.4	7.3	–3.9
Services	65.8	–2.7	0.5	5.8	–3.2	–5.2	–8.0	5.2	–5.7

^a Excluding imputed banking services, errors and omissions.^b Intangible assets are included in commerce and services; this accounts for the difference from capital in the section on commerce and services.^c Annual flow to stock at beginning of year (both in NIS).^d Excluding Palestinians.^e Gardening is not included, and hence this figure differs from the one in the section on agriculture.^f Including start-ups.

SOURCE: Based on Central Bureau of Statistics data.

communications market. Investment in the transport infrastructure, most of it initiated by the private sector, continued to rise, however, continuing its steep increase in the previous two years.

The contraction of domestic demand in 2002 led to stagnation in the nontradable services industries (hotels and catering, business and financial services, education and health businesses, etc.), and the industry's product contracted by 2.8 percent, after remaining stable in 2001. The impact of the Intifada was evident in the catering services industry, and the contraction of the computer industry and start-ups—due to the global slump in general, and in the high-tech industry in particular—was also notable, as expressed in the 45 percent

drop in investment by venture capital funds. The number of persons employed in the commerce and services industry remained stable, after rising continuously in the previous eleven years. The exports of the industry, which account for about one third of all nondiamond exports, fell by 16.7 percent in volume terms.

Agricultural product rose moderately in 2002, with a decline in the extent of exports. The industry accounted for 3.5 percent of business-sector product in 2002, and the number of persons employed in it was unchanged.

2. Manufacturing

Manufacturing product, which accounts for about one quarter of business-sector product, declined by 2.5 percent in 2002, further to its unprecedented 5.4 percent fall in 2001. The reduction in manufacturing product in the last two years has almost completely wiped out its impressive 10 percent increase in 2000. Most of the decline in product occurred between October 2000 and June 2001, since when it has stabilized, its level in 2002 being only slightly below that of the second half of 2001 (0.6 percent).

The decline in manufacturing sales to the domestic market moderated in 2002, in spite of the exacerbation of the slump in domestic uses because of the real depreciation. The growth rate of domestic uses (consisting of private consumption, general government consumption, and investment, serving as an indication of domestic demand) plunged, impacting on manufacturing as 64 percent of its output is intended for the domestic market. The real depreciation operated to offset the recession's moderating effect on demand, lowering the price of manufacturing output relative to imports, and thereby serving to increase domestic manufacturers' market share at the expense of

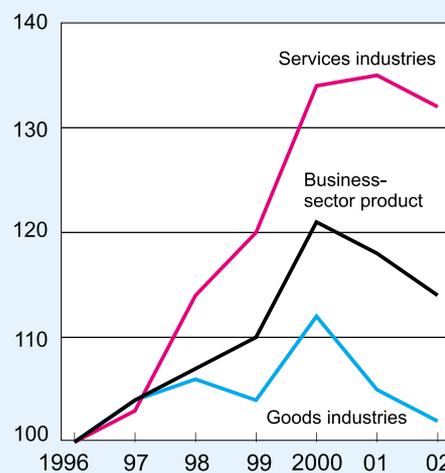
The contraction of domestic demand in 2002 led to stagnation in the nontradable segments of commerce and services. The number of persons employed remained stable, after rising steadily in the previous 11 years.

The product of agriculture rose moderately in 2002, with a decline in the extent of agricultural exports.

Manufacturing product was down by 0.6 percent in 2002 from its level in the second half of 2001.

The decline in manufacturing sales to the domestic market moderated in 2002—despite the exacerbation of the slump in domestic uses—due to real local-currency depreciation.

Figure 1.8
Development of Product of Industry Groups, 1996–2002
(1996=100)



SOURCE: Based on Central Bureau of Statistics data.