Investment in inventory plummeted.

Investment in inventory declined steeply in 2003 (Table 1.8), mainly in the first half of the year, though inventories continued to be drawn down later in the year despite the accelerated rise in imports of raw materials. Stocks in manufacturing and commerce were reduced, and the rate of investment in start-ups slowed. In general, inventory investment is subject to wide annual fluctuations, as it is via the inventories of the business sector that unexpected demand shocks are absorbed. In the course of normal business life it is reasonable to assume that the level of inventories will fall if a surge in demand is not expected, and rise if there are indications or expectations that the market will rally. Thus, in the first two years of the slowdown the rate of inventory accumulation in manufacturing and commerce slowed, and it is apparently for the same reason that inventories were drawn down at the beginning of 2003, when there was considerable uncertainty regarding the military campaign in Iraq. Inventory investment continued to contract in the second half of the year, however, when a positive shift in economic activity was evident.

The deficit on the current account contracted from 1.2 percent of total income in 2002 to 0.1 percent in 2003.

The current-account deficit contracted from 1.2 percent of total income in 2002 to 0.1 percent in 2003, due to a 2.4 percentage-point reduction in gross domestic investment (mainly in inventory), which was partly offset by the reduction in the national saving rate. Note that since the early 1970s the deterioration in the current account has generally been due to a greater rise in investment than in saving, while an improvement in it derived from an increase in saving. The trend of the last two years, when both saving and investment contracted and the deficit declined only because investment fell more steeply than saving, is unprecedented in the last thirty years.

4. THE PRINCIPAL INDUSTRIES

1. Main developments[15]

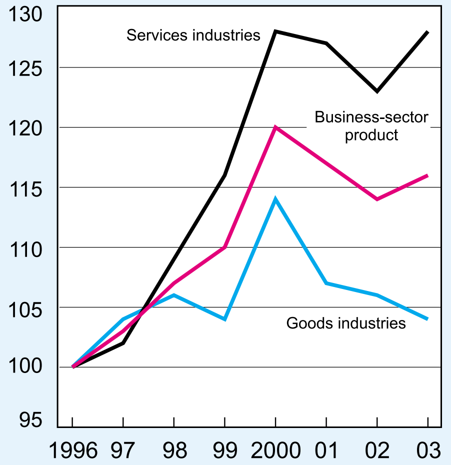
The improvement in the exports of the electronics industry during the year, and the rise in the exports of the traditional industry, served to expand manufacturing exports in general. Domestic sales and profitability remained low, and investment in manufacturing continued to decline.

In the first half of 2003 there was a turnaround in manufacturing activity: the industry's product began to rise, after three years of decline and stagnation, the reduction of labor input was checked, and exports began to expand. The shift stemmed from the recovery of global demand for the products of the electronics industry, which had been in recession since 2000, dragging the index of manufacturing production down. The improvement in the exports of this industry during the year, alongside the continued rapid expansion of exports of other industries, led to a turnaround in manufacturing exports as a whole. On the other hand, sales to the domestic market declined in 2003, despite the stabilization of domestic demand; this development reflects the persistent trend of substitution of imports for domestically-produced items. Manufacturing profitability remained low in 2003, mainly because of the low level of capital utilization and deterioration in the

[15] 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.

terms of trade, which was only partly offset by the fall in real unit labor cost. The continued contraction of investment led to the moderation of the growth rate of gross capital stock.

Figure 1.13
Development of Product of Industry Groups, 1996–2003 (1996=100)



SOURCE: Based on Central Bureau of Statistics data.

Construction continued to contract due to low demand.

The output and product of the construction industry declined in 2003, for the third consecutive year. The industry's output fell by 5 percent, encompassing both residential construction, which was down by 4 percent, and nonresidential construction, which plunged by 9 percent. The decline was partly offset by a sharp rise in security construction due to the erection of the security fence. The fall in total product does not fully reflect the severity of the industry's situation, and the reduction of the area of building starts is far sharper—17 percent. Developments in the industry during the year indicate that it has not yet begun to rally. The main reason for the decline in output is the fall in demand—indicated by lower prices—although supply-side limitations also had an effect, including the government's policy of reducing the number of foreign workers. Despite the contraction in both output and the total number of employees in the industry, the number of Israelis employed in it rose, as they replaced foreign workers.

Investment in the infrastructure accounted for 28 percent of nonresidential investment in 2003—up by 9 percent over 2002. Investment in the transport and communications infrastructure declined in 2003, while that in energy and water rose considerably.

The output of the transport industry fell by 0.8 percent in 2003, after its expansion was checked in the last two years. Employment in the industry rose by 6 percent, while investment in it fell by 14 percent, after declining by 17 percent in 2002.

The output of the communications industry (including communications, mail, and deliveries) expanded by 17 percent in 2003, because of the higher return on capital. The number of persons employed in the industry remained unchanged, and investment in it contracted by 24 percent, after several years of accelerated growth.

The output of the commerce and services industry dipped by 0.8 percent in 2003, compared with a notable contraction in 2002. The share of this industry in business-sector product fell to 50.2 percent, although the number of persons employed in it rose by 1.7 percent, while investment in it continued to decline.

Whereas agricultural output dipped in 2003, exports rose. Factor prices in agriculture soared, and the industry's share of business-sector product continued to contract, to stand at 2.7 percent, while the number of employees declined by about 3 percent.

Table 1.9
The Principal Industries, 1996–2003

(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	25.5	5.8	0.6	7.9	5.1	2.5	–2.0	7.3	4.2
Agriculture[e]	3.2	4.2	1.6	–0.2	2.5	3.3	4.4	–1.8	3.5
Transport & communications	12.8	5.0	5.1	7.5	–0.1	–1.2	–2.3	2.3	1.0
Construction	10.0	–1.2	1.0	11.9	–2.2	–3.8	–11.7	10.8	2.1
Commerce & services[f]	45.7	7.2	6.5	19.5	0.7	–3.8	–10.3	12.2	4.1
Electricity & water	2.8	5.2	0.9	4.4	4.2	2.7	0.8	3.4	3.7
Total business sector	**100.0**	**5.1**	**3.8**	**8.7**	**1.2**	**–0.3**	**–3.3**	**4.7**	**3.6**
Goods	38.7	3.9	0.9	7.2	3.0	1.0	–3.1	6.2	3.5
Services	61.3	6.6	6.2	9.6	0.4	–0.8	–2.7	3.2	3.4
				2001–2002					
Manufacturing	24.9	–1.4	–3.3	5.6	–1.5	–1.2	9.8	9.3	–0.6
Agriculture[e]	3.4	4.5	–5.9	0.4	15.4	8.1	8.1	6.8	1.3
Transport & communications	12.9	0.1	–1.8	6.8	1.9	–2.1	–6.2	8.7	–2.2
Construction	7.5	–2.7	–5.3	6.6	–1.1	0.7	–12.1	12.6	–2.0
Commerce & services[f]	48.3	–2.1	1.9	7.3	–4.3	–5.8	–9.2	5.4	–2.2
Electricity & water	2.9	1.1	–0.9	2.7	1.9	0.4	1.7	3.6	–0.4
Total business sector	**100.0**	**–1.4**	**–0.9**	**5.8**	**–1.8**	**–2.6**	**–8.0**	**6.8**	**–1.8**
Goods	36.0	–1.1	–4.3	5.2	0.4	0.2	–8.7	9.9	–0.6
Services	64.0	–1.5	1.4	6.2	–3.1	–4.7	–7.6	4.8	–2.2
				2003					
Manufacturing	24.4	–0.3	–1.0	3.8	0.7	–0.9	–3.9	4.8	–0.2
Agriculture[e]	3.3	–12.2	0.3	0.0	–12.5	–12.4	–12.2	–0.3	3.4
Transport & communications	13.5	5.2	3.0	3.7	2.2	1.8	1.5	0.7	–2.0
Construction	7.0	–3.8	–4.6	2.1	0.8	–0.3	–5.8	7.0	1.0
Commerce & services[f]	48.8	3.7	1.2	3.8	2.4	1.5	–0.1	2.5	–2.7
Electricity & water	3.0	2.2	–2.2	3.3	4.5	2.0	–1.1	5.6	–3.2
Total business sector	**100.0**	**1.8**	**0.1**	**3.6**	**1.7**	**0.6**	**–1.7**	**3.4**	**–2.4**
Goods	34.7	–2.3	–2.0	3.4	–0.3	–2.0	–5.5	5.5	0.5
Services	65.3	3.9	1.4	3.6	2.5	1.6	0.3	2.2	–2.6

[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 commerce, catering and hotel services, and financial, business, and personal services.
SOURCE: Based on Central Bureau of Statistics data.