

CHAPTER V

DOMESTIC INVESTMENT AND CONSTRUCTION

1. MAIN DEVELOPMENTS

GROSS DOMESTIC fixed investment during the first nine months of 1973 ran about 20 percent higher in real terms than in the corresponding period the year before; this compares with a 14 percent gain in 1972. But excluding ships and aircraft, the uptrend slackened in most sectors and in some there was even an absolute decline. Nondwelling investment (exclusive of ships and aircraft) advanced by only some 10 percent in the first three quarters of 1973,¹ as against 20 percent in the preceding year. But this is by no means a low rate in comparison with the period before 1972; in fact, it is close to the long-run trend in investment and capital stock.

Even though investment in housing expanded by an appreciable 16 percent, this was slower than in any other postrecession year. The deceleration was especially marked in new residential starts, with the number of units and the area of building begun dipping significantly in the third quarter of the year.

The weakening of investment growth is reflected both in plant and equipment expenditures and in the volume of construction. Because of the high product component of the latter, such a development has a severe dampening effect on the level of economic activity. Despite the doubtful statistical reliability of the data for the first nine months of 1973, it seems that the deceleration occurred in the private business sector (up 15 percent as against 18 percent in 1972), as well as in the public sector (8 vs. 25 percent) and nonprofit institutions.

As regards the public sector, while ample financing was available (notably in education and health, which are normally financed by the Government's development budget), there was a steep rise in investment prices, especially in building and road construction (almost 40 percent over the entire year). The elections scheduled for October 1973 were, as in the past, another stimulative factor. By contrast, capital spending by public sector companies was down in absolute terms during the first three quarters of 1973. Such investment—which is made in electric power generation, water, mines and quarries, etc.—as a rule displays considerable lumpiness, with the level depending on the progress of work on a few large projects and on the import of the requisite plant and equipment.

¹ Unless otherwise stated, the comparisons are made with the first nine months of 1972.

Table V-1
GROSS AND NET INVESTMENT, 1969-73
 (IL million, at current prices)

	1969	1970	1971	1972	1973	Percent annual increase or decrease (-)					
										1973	
						1969	1970	1971	1972	Jan.- Sept. ^a	Entire year
Gross fixed nondwelling investment											
Excl. ships and aircraft	2,737	3,056	3,866	5,366	6,568	28	2	10	20	10	1
Incl. ships and aircraft	2,828	3,254	4,551	5,582	7,476	22	5	22	6	22	10
Less: Depreciation	1,152	1,372	1,719	2,193	1,843	8	10	9	11	..	8
Net fixed nondwelling investment	1,676	1,882	2,832	3,389	4,633	34	2	32	3	11	11
Gross investment in dwellings	1,082	1,736	2,348	3,521	4,480	54	39	20	29	16	1
Less: Depreciation	364	449	555	712	1,003	5	7	9	9	..	12
Net investment in dwellings	718	1,287	1,793	2,809	3,477	101	55	24	36	..	-2
Total gross fixed investment	3,910	4,990	6,899	9,103	11,956	30	15	21	14	20	6
Change in inventories	341	355	472	216	990						
Total gross investment	4,251	5,345	7,371	9,319	12,946	24	13	21	10	12	25
Less: Depreciation	1,516	1,821	2,274	2,905	3,846	7	9	9	11	..	9
Total net investment	2,735	3,524	5,097	6,414	9,100	37	16	28	9	..	13

^a Compared with January-September, 1972.

SOURCE: Central Bureau of Statistics and Bank of Israel.

The dominant cause of the more sluggish expansion of domestic investment did not seem to be constraints in the supply of local factors of production. In plant and equipment spending the slowdown occurred in imported items, the supply of which does not depend on domestic factors of production; it is conceivable that deliveries were delayed because of the world economic boom. On the other hand, purchases of locally produced plant and equipment accelerated somewhat, as reflected in the expanded manufacture of electric and electronic products. But at the same time, in several industries specializing in capital goods the output growth rate fell below the sector average, and in some there was even a decline.

As regards construction, the availability of equipment did not impose any constraint on the execution of jobs; on the contrary, unutilized capacity in the form of bulldozers and other heavy engineering equipment built up, mainly because of the gradual completion of defense projects, a trend evident in 1972 as well. Employment indicators² suggest that the labor supply situation likewise did not hinder the expansion of construction activity to any significant degree. It should be added that the shortage of cement, which was very much in the news until September 1973, apparently had only a marginal effect on construction—the 9 percent increase in the cement supply was similar to the growth of the sector's output. However, it is possible that bottlenecks arose at certain times and in certain locales because of disruptions and delays in supply, as well as the hoarding of cement by some builders. To sum up, it was mainly demand and not supply factors that retarded the growth of domestic fixed capital formation in the year reviewed.

From a long-term point of view, the deceleration of investment had only a slight impact. The expansion of the nondwelling capital stock (excluding ships and aircraft) during the first nine months of the year was, at 9 percent, only a fraction smaller than in the preceding year, and was similar to the average growth of the domestic product in 1966–72. The stock of construction equipment actually expanded faster than in any other year since 1967.

So far the discussion has been confined to capital assets other than ships and aircraft. Investment in ships and aircraft in 1973 passed IL 900 million, adding about one percent to the economy's production capacity. As in previous years, industry accounted for approximately one-quarter of the 1973 capital stock increment, transportation and communications for about a third, and trade and services for another third. This reflected the continued uptrend in the weight of the last two sectors in the economy's capital stock and the slight drop in that of industry evident since the early 1960s.

The fact that the more or less regular growth of the economy's capital stock was sustained in the year reviewed is no proof that it was fully utilized. There

² The number of job vacancies for skilled labor and the percent unfilled. For details see the section on construction factor inputs below and Table V-13.

were actually signs pointing to the existence of idle capital during the first nine months of 1973—not only in construction but also in agriculture and in such tourist services as hotels, where there was some overinvestment relative to immediate demand.

Private nondwelling investment, exclusive of shipping, expanded by 15 percent in the first three quarters of 1973, which was below the preceding year's rate. Investment in agriculture was down 18 percent, after remaining fairly stable for several years. In industry (excluding mining and quarrying) the level was up 5 percent, compared with over 10 percent in each of the three preceding years. After accelerating sharply in previous years, hotel investment turned downward during the period reviewed, but was still very substantial, reaching some IL 160 million at current prices; in real terms, the level was more than double that of 1969. By contrast, the year reviewed witnessed a much heavier acquisition of vehicles—trucks, pickup vans, passenger cars for business purposes, and buses.

Examination of the usual determinants of private investment demand in these sectors does not yield a clear, unambiguous picture. The various indicators show that industrial profits improved or at least held steady, as in the two preceding years. This would lead one to expect a continuation of the steady uptrend in capital spending. Nor was there any perceptible slackening in the growth of aggregate demand for agricultural or industrial output in the last two years. But the demand for industrial output did undergo a structural change. The most striking was the deceleration (and sometimes even decline) in purchases of metal products by the Defense Ministry and of such construction inputs as wood and nonmetallic mineral products. Perhaps the reason for the more sluggish growth of investment lies in the deferring of capital expenditures in these branches. On the other hand, the stepping up of investment in branches that have undergone particularly rapid growth is inherently a slow process. This was aggravated in 1973 by the sharply accelerating inflation, which made potential investors more hesitant.

Another possible contributory factor was the quite fortuitous completion in a number of industrial branches of big projects which had accounted for a substantial proportion of the previous year's investment, without any new projects entering the pipeline. In the meantime investors could obtain a relatively high return on their capital by purchasing Government bonds. The availability of directed Government financing for both private and public sector investments apparently did not constrain capital spending during the first nine months of 1973. In industry, for example, the value of Government grants and gross long-term credit provided by financial institutions came to almost half the total investment in buildings and equipment in both 1972 and 1973.

The short-term impact of the October war on domestic capital formation may be seen in the following data: Gross investment in fixed assets fell IL 1,100

million (at 1972 prices) short of the figure that would have been attained had investment activity in the last quarter of 1973 proceeded at the same pace as during the rest of the year. The war shaved off nearly 10 percent from the volume of nondwelling investment and even more from dwelling investment. Investment (and output) in the construction industry was curtailed by 12 percent. The disparate rates of decrease is explained by the fact that construction came to a virtually complete standstill for about two months after the outbreak of hostilities. This was mainly due to the call-up of a large percentage of the Jewish building workers, the high proportion of workers from the administered areas in this sector, most of whom failed to turn up for work during the first two or three months after the outbreak of the war, and the mobilization of most of the civilian building and earthmoving equipment as

Table V-2

MAIN INDICATORS OF CONSTRUCTION ACTIVITY, 1970-73

	1970	1971	1972	1973	Percent annual increase or decrease (-)			
					1971	1972	1973	
							Jan.- Sept. ^a	Entire year
Construction output (IL million, at 1972 prices)								
Residential	2,269	2,723	3,521	3,561	20.0	29.3	16.0	1.1
Nonresidential	1,663	1,828	2,098	2,027	9.9	14.8	7.0	-3.4
Total value of new construction	3,932	4,551	5,619	5,588	15.7	23.5	12.8	-0.6
Other ^b	1,011	888	789	635	-12.0	-11.0	-19.6	-19.6
Total output	4,943	5,439	6,408	6,223	10.0	17.8	8.7	-2.9
Building starts (thousand m ²)								
Residential	4,500	5,085	6,345	5,255	13	25	-3	-17
Nonresidential	1,460	1,850	1,950	1,685	27	5	9	-14
Total	5,960	6,935	8,295	6,940	16	20	0	-16
Building completions (thousand m ²)								
Residential	3,134	3,805	4,681	4,995	21	23	14	6
Nonresidential	1,323	1,600	1,339	1,345	21	-16	6	0
Total	4,457	5,405	6,020	6,300	21	11	13	5

^a Compared with January-September, 1972.

^b Partial estimate; consists of defense construction, maintenance, and repair work.

SOURCE: Central Bureau of Statistics and Bank of Israel.

well as the sector's trucking capacity. On the other hand, capital expenditure on plant, equipment, and vehicles (mostly imported models) continued apace, especially in November and December.

The expansion of residential construction slowed during the first nine months of 1973. The uptrend in the value of new construction put in place sagged; after tapering off in 1972, the volume of building starts held steady during the first half of 1973 but turned downward in the third quarter; and the growth of completions likewise fell off. The deceleration of construction activity is particularly striking in view of the acceleration of consumption spending during the year, particularly on durable goods. The foremost cause of the sagging growth of residential construction in 1973 was probably overbuilding in previous years, especially 1972. During this period the number of dwelling units put up exceeded current needs, a development attributable to the advancing of purchases in anticipation of a price rise and to large-scale speculative buying of private and public housing. Demand for homes began to weaken toward the end of 1972, and the cutting back of building starts during the first three quarters of 1973 must be viewed against this background. There was also some deceleration in the volume of completions. These changes were mirrored in dwelling prices, which moved up more slowly than in 1972—a development that stands out all the more against the steep rise in the index of residential construction input prices.

2. INVESTMENT BY INITIATING SECTOR

Public sector investment accelerated greatly during the first nine months of 1973, owing mainly to the massive acquisition of ships and aircraft by the sector's shipping and air companies. On the other hand, the private sector sold more ships than it bought, thus disinvesting to the tune of some IL 16 million during this period and by IL 20 million for the year as a whole. As a result, privately owned shipping contracted during the year, while that owned by the public sector expanded appreciably. Total capital spending by the private sector rose more slowly during the period reviewed and trailed behind the growth of public sector capital outlays. But the inclusion of ships and aircraft changes the picture completely. So calculated, the figure for the private sector exceeded that for the public sector, with the growth rate in both cases slowing in comparison with 1972. The analysis below deals with investment exclusive of ships and aircraft.

The faltering of the rising trend in public sector investment was due primarily to absolute declines in electric power generation, waterworks, and mines and quarries—branches which account for a formidable share of total capital spending by public sector companies. The decreases were apparently due more to the completion of projects in the pipeline than to any deliberate Government attempt to curtail capital spending. Direct investments of the Gov-

Table V-3
GROSS FIXED INVESTMENT, BY TYPE OF INVESTOR AND INITIATING SECTOR, 1970-73
 (IL million, at 1972 prices)

	1970	1971	1972	1973	Percent annual increase or decrease (-)				
					1970	1971	1972	1973	
								Jan.- Sept. ^a	Entire year
Nondwelling investment, by investing sector^b									
1. Government, local authorities, and National Institutions	671	738	910	949	-8	10	23	13	4
2. Government enterprises ^c	304	418	587	580	-8	38	40	24	-1
3. Subtotal (1+2)	975	1,156	1,497	1,529	-8	19	29	17	2
4. Public sector companies, excl. ships and aircraft ^d	767	680	805	722	-18	-11	18	-9	-10
5. Total public sector investment, excl. ships and aircraft (3+4)	1,742	1,836	2,302	2,251	-13	5	25	8	-2
6. Public sector shipping and aviation companies	209	433	201	722	-56	107	-54	348	260
7. Total public sector investment, incl. ships and aircraft (5+6)	1,951	2,269	2,503	2,973	-14	16	10	34	19
8. Nonprofit institutions	298	362	390	368	1	21	8	3	-6
9. Private business enterprises, excl. ships and aircraft (12-5-8)	2,016	2,267	2,674	2,804	15	12	18	15	5
10. Privately owned shipping	40	355	15	-15					
11. Total private sector investment (9+10)	2,056	2,622	2,689	2,789	23	28	3	14	4
12. Total nondwelling investment, excl. ships and aircraft (5+8+9)	4,056	4,465	5,366	5,423	2	10	20	10	1
13. Investment in ships and aircraft (6+10)	249	788	216	707	135	216	-73	300	227
14. Total nondwelling investment (12+13)	4,305	5,253	5,582	6,130	5	22	6	22	10
Investment in dwellings, by initiating sector									
15. Public	755	889	1,045	1,020	66	18	17	9	-2
16. Private	1,514	1,834	2,476	2,541	28	21	35	19	3

^a Compared with January-September, 1972.

^b There is a conceptual difference between the public sector's investment and its purchases on capital account.

^c The trading enterprises of the public sector, including the Post Office, Israel Railways, air and sea ports, and local authority enterprises.

^d Companies in whose management the public sector has the decisive voice.

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

ernment and its enterprises, the local authorities, and National Institutions expanded more rapidly than total nondwelling investment. Much of the increase was in roadbuilding and expenditures on educational and health institutions (in this connection it will be recalled that 1973 was an election year).

Capital outlays by nonprofit institutions continued to slow down, apparently because of the completion or near-completion of several large projects implemented by institutions of higher education, such as the Ben-Gurion University in the Negev and the Hebrew University campus on Mt. Scopus.

In private sector investment one major item which accelerated, in contrast to the general trend, was road vehicles—trucks, pickup vans, cars used for business purposes, and buses. This was probably due to the expectation prevailing at the beginning of the period reviewed that prices would rise steeply as a result of the revised method of taxation, as well as to the growing need to replace worn-out vehicles and the renewal of the stock of public transport vehicles now underway.

The deceleration, or contraction, of other private investments was apparently due to special factors operating in agriculture, industry, tourism, and the services industry, as well as the highly uncertain business outlook. Although mounting industrial profitability had a stimulative effect during the year reviewed, it failed to counterbalance the dampening influences.

3. INVESTMENT BY ECONOMIC SECTOR

(a) *Agriculture*

Investment in agriculture during the first nine months of 1973 was down 6 percent in absolute terms. This was due to a 21 percent decrease in structures, whereas the amount spent on equipment was up 10 percent, eclipsing the previous year's rate. The sharpest drops were recorded in irrigation networks, greenhouses, and other farm installations, which together accounted for some 90 percent of the total decline in structures.

The 35 percent contraction of irrigation outlays is explained by two factors: (a) the water-saving techniques project financed by the World Bank was completed in 1972, ahead of schedule; (b) fears of a cut in the water quotas—a step contemplated in April 1973 following a dry winter—undoubtedly discouraged irrigation outlays.

As regards greenhouses, the dominant factor behind the 45 percent drop was the slumping profitability of flower cultivation, which began in 1972 and continued in the year reviewed. The decline in other farm buildings, which comprise mainly byres and poultry runs, cannot be fully explained, especially as there was an increase in the livestock inventory. One reason was the reduced output in poultry farming.³ In this connection it should be noted that the

³ A detailed discussion of this development can be found in Chapter X, "Agriculture".

construction period of greenhouses and other farm installations is short, so that such investment responds more quickly to changes in demand and profitability than that in other sectors.

(b) *Industry*

Industrial investment slowed noticeably during the first nine months of 1973—from a 12 percent gain in 1972 and a similar average figure for 1970–72 to a mere 2 percent. There was an absolute 2 percent decrease in expenditure on imported plant and equipment, which in previous years had expanded at much the same rate as total industrial investment. Nearly all the decline occurred in branches which in 1972 had posted growth rates well above the sector average. The drop was particularly sharp in mining and quarrying, chemicals, nonmetallic minerals, textiles, and rubber and plastic products. This may have been due to the fortuitous completion during the first nine months of the year of a number of large projects which accounted for a high percentage of total industrial investment, while the new projects launched were not yet fully reflected in the investment data for the period. This hypothesis is reinforced by an examination of industrial construction starts, which were up 25 percent during the first three quarters of 1973, after rising only 7 percent in 1972. This would seem to confirm that numerous investment projects with a high structures component were put into the pipeline during this period, while some projects which in 1972 were in their final stages, and where the share of equipment was high, were finished during the first three quarters of 1973.

There are reasons to believe (on the strength of reliable information) that the availability of directed investment financing did not constrain the expansion of industrial investment. Such financing is provided from three principal sources: (a) outright grants given by financial institutions to enterprises approved under the Law for the Encouragement of Capital Investments; (b) long-term credit⁴ extended by financial institutions, almost all of it in conformity with public sector directives; and (c) long-term credit granted by other institutions with public sector authorization. As noted in previous *Annual Reports*, directed credit is given at low interest rates which have remained unchanged for a number of years; the acceleration of inflation has turned these into negative real rates.

The estimated amount of financing from the first two sources is detailed in the following table. It will be seen that it expanded almost proportionately to the growth of investment during the first nine months of 1973. Since the latter is compared with the corresponding period of 1972, it may be taken as the estimated growth rate that would have been achieved for 1973 as a whole

⁴ See also Chapter XIV, "Financial Institutions".

had the Yom Kippur War not broken out. The share of directed financing (as defined above) in total industrial investment therefore held steady at around 50 percent if the fourth-quarter decline in the implementation of investment projects is disregarded.

**ESTIMATED DIRECTED INDUSTRIAL INVESTMENT
FINANCING FROM FINANCIAL INSTITUTIONS, 1971-73**

(IL million, at current prices)

	Grants	Estimated credit granted by financial institutions ^a	Total credit and grants	Total industrial investment ^b	Directed financing from financial institutions as a percent of investment
1971	72	430	502	1,059	47
1972	102	580	682	1,359	50
1973 ^c	94	720	814	1,644	50

^a An approximation of gross long-term industrial credit granted by financial institutions (it is not based on their final financial statements). For other reservations see Chapter XIV, "Financial Institutions".

^b Excluding investment in inventories, vehicles, and land.

^c The investment figure for 1973 was calculated by applying the growth rate for January-September, 1973 over the corresponding period in 1972 to the whole of 1972.

On the face of it, there was a slight change in the composition of directed financing (as defined above) in 1973; the weight of grants declined, while that of credit rose. But no great significance should be attached to this, because of the doubtful statistical reliability of the credit data and of the uneven development of these two time series in the short run. At any rate, there was no significant change in the share of such financing in total investment.

The data on hand therefore do not contradict the assumption that the availability of directed industrial financing did not constrain the expansion of industrial investment. Rather, it seems that the former adjusted to the decelerated growth of investment.

(c) *Transportation and communications*

In discussing investment in this sector a distinction should be made between ships and aircraft, road vehicles, and other items, since they are affected by different factors. Total capital expenditure in the first nine months of 1973 was up by a formidable 65 percent, after shrinking 13 percent in 1972.

Ship and aircraft acquisitions quadrupled during this period. This item displays considerable lumpiness due to the large size of each investment unit and the irregularity of deliveries. The enormous increase in the first three

Table V-4
GROSS FIXED INVESTMENT, BY SECTOR, 1970-73
(IL million, at 1972 prices)

	1970	1971	1972	1973	Percent annual increase or decrease (-)					
									1973	
					1969	1970	1971	1972	Jan.- Sept. ^a	Entire year
Agriculture	309	308	349	282	8	17	0	13	-6	-19
Thereof: Agricultural output	83	84	110	105	-7	-5	1	31	-1	-5
Irrigation	68	77	93	78	-29	5	13	21	-9	-16
Industry, mining, quarrying	1,094	1,216	1,359	1,244	35	13	11	12	2	-8
Construction equipment	108	135	162	163	13	7	25	20	10	1
Electric power	204	165	307	277	30	11	-19	86	-7	-10
Transportation and communications	1,263	1,958	1,705	2,457	18	-3	55	-13	65	44
Ships and aircraft	249	788	216	707	-50	110	217	-73	310	227
Motor vehicles	439	448	559	735	74	-4	2	25	41	31
Other items	575	722	930	1,015	-8	-21	26	29	17	9
Trade and services	1,259	1,394	1,607	1,629	25	5	11	15	12	1
Total nondwelling investment										
Incl. ships and aircraft	4,305	5,253	5,582	6,130	22	5	22	6	22	10
Excl. ships and aircraft	4,056	4,465	5,366	5,423	28	2	10	20	10	1
Dwellings	2,269	2,723	3,521	3,561	54	39	20	29	16	1
Total fixed investment	6,574	7,976	9,103	9,691	30	15	21	14	20	6

^a Compared with January-September, 1972.
SOURCE: Central Bureau of Statistics.

quarters of 1973 followed a 70 percent drop in 1972. Since this item is not affected by current developments in the domestic economy, it should be excluded from a discussion of nondwelling investment.

Purchases of motor vehicles continued at a rising pace during the first nine months of 1973. This trend began in 1972, when fears arose that taxes on imported vehicles would be hiked. Purchases of commercial vehicles, buses, and passenger cars for business purposes⁵ expanded at similar rates, the average being approximately 40 percent. Separate data are not available on purchases of trucks by industrial plants, which really belong under the heading of industrial rather than transportation investment.

Apart from motor vehicles, investment in transportation and communications is made exclusively by the Government sector, and in the long run is determined by the country's infrastructure needs. In telecommunications and roads, the main components of such investment, there was a strong spurt during the first nine months of 1972. Total investment in transportation and communications, excluding transport equipment, expanded by 17 percent during this period, i.e. about twice as fast as total domestic investment exclusive of transport equipment.

(d) *Trade and services*

Investment in this sector was up 12 percent during the first three quarters of 1973, compared with 15 percent in 1972. The deceleration chiefly reflects the absolute 11 percent decrease in hotel investment, after a 22 percent rise the year before. The first signs of a reversal of trend appeared in 1972, when hotel building starts were cut back, reflecting the adjustment of the stock to the output of the tourist industry. Since the stock of hotels does not immediately adjust to changes in output, there are times when the industry has spare capacity and others when it is short. With the upsurge of tourism in 1971, the construction of many new hotels was begun, along with the expansion of existing facilities. The decline of such investment in 1973 marked the end of this particular building boom.

Public sector and nonprofit institution construction included under the heading of services showed an opposite development, increasing by 15 percent during the first nine months of 1973. Much of the additional building was for educational, cultural, and health institutions.

(e) *Residential construction*

The principal indicators of residential construction point to a slowdown, and even a decline, during the first nine months of 1973. The value of

⁵ Some of the cars purchased by the economy—those bought by private individuals—come under the category of consumer goods. In this section we discuss only passenger vehicles acquired for business purposes. The division is made by the Central Bureau of Statistics according to a special key.

Table V-5
MAIN INDICATORS OF RESIDENTIAL CONSTRUCTION, 1970-73

	1972	1973		Percent annual increase or decrease (-)				
		Jan.- Sept.	Entire year	1970	1971	1972	1973	
							Jan.- Sept. ^a	Entire year
Area (thousand m²)								
Started	6,345	4,585	5,255	22.7	13.0	24.8	-3.3	-17.2
Completed	4,681	3,995	4,955	29.1	21.4	23.0	14.5	5.9
Number of units (in thousands)								
Started	66.1	47.5	54.8	26.0	10.9	28.1	-3.9	-17.0
Private	35.2	22.9	24.5	4.7	23.2	16.6	-11.5	-30.4
Public	30.8	24.6	30.3	-5.9	-2.8	24.2	3.4	-1.8
Thereof: Private building financed by Govt. bond issues ^b	6.3	5.3	7.0	—	400	68.3	—	11.1
Completed	44.3	41.2	51.1	22.4	22.5	23.1	16.2	7.9
Private	26.7	22.3	27.9	22.6	12.9	17.1	15.6	4.5
Public	20.6	18.9	23.2	22.1	39.9	32.0	3.6	12.5
Thereof: Private building financed by Govt. bond issues ^b	0.5	2.6	3.5	—	—	—	—	600
Construction time of completed units (no. of months)								
Private ^c	14.8	—	16.6	2.4	13.6	4.2	—	12.1
Public ^c	20.4	—	19.4	—	—	—	—	-5.0
Total	17.3	—	17.8	—	—	—	—	2.8

^a Compared with January-September, 1972.

^b The distinction between private and public construction in this table differs from that of the Central Bureau of Statistics. Construction financed by Government bond issues, which is carried out by private firms and is financed partly by the Government (which lays down eligibility criteria and the terms of sale) has been deducted from private construction. The previous year's data for this category have been revised. Since there is no quarterly breakdown of such building, the figure for the first nine months of 1973 has been obtained by determining the average monthly level.

^c No data are available before 1972.

new construction put in place was up 16 percent in real terms, as contrasted with 29 percent in 1972. The number of dwelling units begun was down 3.9 percent and the area by 3.3 percent, while the uptrend in completions slowed from 23 percent in 1972 to 16 percent. The number of units under construction at the end of the period reviewed expanded by a relatively moderate 13 percent, compared with 27 percent in 1972.

The real estate market also softened somewhat: sales of privately built homes did not go up as fast as in 1972, and there was an increase in the unsold stock in the hands of builders; sales of secondhand homes were also slower; while dwelling prices rose 26 percent during the whole of 1973, compared with 33 percent the year before. This more sluggish increase contrasts glaringly with the accelerated rise of most other prices, especially residential construction inputs.

This sector probably suffered more than any other from the war, owing to the massive call-up of manpower (which is comparatively young in building), equipment, and trucks, as well as to the fact that residents of the administered areas did not show up for work during the hostilities and for some time afterward. These developments aggravated the trends mentioned above. Completions were less affected than starts, and public less than private construction.

During the first nine months of the year, however, the level of activity was high. Even allowing for the fourth-quarter slump, the volume far exceeded the year's incremental new household formation.

1. Starts and completions

Residential building starts began to turn downward in 1972. Though the average for the year was up 25 percent, this reflected the expansion in the second half of 1971 and the spurt at the beginning of 1972. In the course of 1972 the volume of starts more or less plateaued at around 16,500 units per quarter, with the trend drifting downward from quarter to quarter. The decline in starts during the first nine months of 1973 was the resultant of a mild 3.4 percent increase in public construction (after soaring 44 percent in 1972) and a steep 11.5 percent drop in private construction.

The laggard growth of the latter is explained by its substantial expansion in 1972 to meet the Government's goals. During the second and third quarters of 1972 sales of private homes began to flag noticeably, and builders started to accumulate a stock of unsold units. It seems that the brisk sales in the previous two years, the rocketing of home prices in 1972, the restrictions imposed in April 1972 on the reconversion of foreign capital transfers for real estate transactions, and the contraction of immigration from affluent countries in 1972-73 combined to dampen sales in the private market. The buildup of unsold units in the hands of contractors since the second quarter of 1972 reflects the greatly expanded volume of starts in 1972 and before and the

Table V-6

RESIDENTIAL CONSTRUCTION STARTED AND COMPLETED, QUARTERLY, 1971-73

	Starts				Completions			
	Area		No. of units		Area		No. of units	
	'000 sq. meters	Percent quarterly increase or decrease (-)	'000	Percent quarterly increase or decrease (-)	'000 sq. meters	Percent quarterly increase or decrease (-)	'000	Percent quarterly increase or decrease (-)
1971 I	1,070	—	10.7	—	850	—	8.8	—
II	1,325	23.8	13.2	23.8	948	11.5	9.4	7.1
III	1,335	0.7	14.1	6.9	977	3.0	9.9	4.8
IV	1,335	—	13.5	-4.0	1,030	5.2	10.3	4.1
1972 I	1,570	17.6	16.5	19.9	1,120	8.7	11.5	11.6
II	1,595	1.5	16.7	1.6	1,180	5.3	11.9	3.4
III	1,575	-1.3	16.2	-3.0	1,190	0.8	12.0	1.2
IV	1,605	1.9	16.6	2.4	1,191	—	11.9	-1.2
1973 I	1,580	-1.6	16.4	-1.5	1,230	3.3	12.7	6.4
II	1,545	-2.2	16.0	-2.5	1,355	10.1	14.1	11.1
III	1,460	-5.5	15.2	-4.9	1,410	4.1	14.4	2.7
IV	670	-54.1	7.3	-51.9	960	32.0	9.9	-31.6

SOURCE: Central Bureau of Statistics.

slump in sales that year. Against this background, the cutting back of starts during the first nine months of 1973 is understandable.

The uptrend in completions slowed from 23 percent in 1972 to 16 percent. During the whole of 1973 some 51,000 units were finished—8 percent more than in 1972. The deceleration of completions was connected more with the deceleration of starts in 1971 than with the easing of demand. Public construction, which accounted for almost half of total residential building completions in 1973, is affected mainly by Government policy, but demand for privately built homes did not fall off to such an extent as to cause a slower growth of completions. In this connection it should be borne in mind that the volume of housing finished is influenced by past developments: some homes are sold in the early stages of construction, with the completion date stipulated in the contract. Moreover, the early sale of some of the apartments has a bearing on the pace at which the entire building is erected. Rising construction input prices in 1973 also gave a strong incentive to speed up completions.

The average construction period of dwellings completed during 1973 edged up from 17.3 months in 1972 to only 17.8 in the year reviewed. In private construction, however, it lengthened from 14.8 to 16.6 months. One reason for this is that since 1971 a fairly large volume of construction has been financed from the proceeds of public sector bond issues. Even though the Central Bureau of Statistics lists this under the private sector, it is essentially public sector building, and the construction period of the latter is longer than that of homes put up by private contractors (see below). The shortage of cement and the difficulties in obtaining skilled labor in 1972 and 1973 may also have lengthened construction time somewhat. On the other hand, the war had only a slight effect, for even assuming that it took two months longer to finish private homes during the last quarter of 1973, this would have added no more than two weeks to the average for the year. But there is no doubt that the war will leave its mark on housing completions in 1974 and perhaps even 1975.

The average construction period of public sector building shortened from 20.4 months in 1972 to 19.4 in the year reviewed. However, the brevity of the statistical series on such construction does not permit the drawing of any conclusions. Conceivably this development may signal the start of a new trend, arising from the adoption of more modern construction methods, such as pre-fabricated and industrialized building construction. The differences between private and public construction are due partly to the disparate size of the buildings erected and to the fact that public construction often takes the shape of large projects, which are not fully completed until all the infrastructure work is terminated; but it seems that a difference in efficiency is another reason.

2. *The housing market*

In the first nine months of 1973 sales of both new and secondhand homes in the private market slowed (in the case of secondhand homes this is suggested

Table V-7

SUPPLY^a AND SALES OF PRIVATELY BUILT HOMES IN 12 LARGE TOWNS,^b QUARTERLY, 1971-73

(thousands of units)

	1971				1972				1973			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Supply of new homes	9.1	9.8	11.2	11.9	11.7	11.6	12.5	13.9	14.5	13.9	13.3	11.3
Finished units	0.5	0.6	0.5	0.2	0.3	0.2	0.3	0.4	0.7	0.7	0.6	0.4
Nearing completion	2.1	1.6	1.7	1.7	1.7	1.8	1.9	2.4	2.5	2.4	2.5	1.8
In initial and intermediate stages	6.5	7.6	9.0	10.0	9.8	9.6	10.3	11.1	11.3	10.9	10.2	9.2
Sales	4.2	5.0	5.4	5.4	5.7	4.6	3.9	5.1	5.2	5.5	3.9	1.8
Finished units	0.4	0.4	0.4	0.2	0.2	0.1	0.2	0.2	0.6	0.5	0.4	0.2
Nearing completion	1.0	1.0	1.0	0.9	1.0	1.0	0.7	1.1	1.1	1.1	1.0	0.4
In initial and intermediate stages	2.8	3.6	4.5	4.3	4.6	3.5	3.1	3.8	3.5	3.9	2.5	1.1
Percent of unsold homes at end of period	54.2	49.4	47.1	54.7	51.1	60.0	68.5	63.7	63.9	60.7	70.7	84.4

^a Dwellings whose construction was begun during the quarter, plus the stock of unsold units at the end of the previous period.^b Jerusalem, Tel Aviv, Haifa, Bnei Brak, Bat Yam, Givatayim, Holon, Netanya, Petah Tikva, Rishon le-Zion, Rehovot, and Ramat Gan.

SOURCE: Central Bureau of Statistics.

by newspaper classified advertising data), and the number of vacant units rose. The ebbing of the feverish pace of activity marking the two preceding years was also reflected in dwelling prices, which went up much less sharply in 1973 —by 26 percent as opposed to 33 percent the year before. Considering that the consumer price index rose about 20 percent, the advance of dwelling prices can be regarded as moderate, since in the long run the latter has been moving up nearly twice as fast as consumer prices: whereas in 1959–73 the consumer price index averaged 7.4 percent higher per annum, dwelling prices rose 14.4 percent. What is more, the 1973 increase in the latter was quite gentle compared with the 39 percent jump in the index of building costs, indicating that contractors' profits shrank during the year (see Table V-8).

As already mentioned, the dampening of demand can be attributed to its very buoyant level in 1971 and 1972, the rocketing of prices in 1972, the restrictions placed on the reconvertibility of capital transfers, and sagging immigration from the Western countries. Demand began to turn downward in the second half of 1972, but because of random factors (such as the prevailing feeling of a shortage induced by the difficulties in housing new immigrants) the decline was "deferred" to 1973.

The slower growth of housing demand stands out in comparison with the boom during the first three quarters of 1973 in private consumption in general, and in the durable goods market in particular. Durable goods resemble housing in that their acquisition contains an element of saving, and in both cases the buyer acquires a stream of services extending beyond the period of purchase. Some of the factors operating in the durable goods market were specific to it and did not apply to the housing market (e.g. the expectation of a change in motor vehicle taxes and the new regulations governing immigrant imports). But most of the other factors operated in the same direction in the housing

Table V-8
INCREASE IN CONSUMER, RESIDENTIAL CONSTRUCTION INPUT,
AND DWELLING PRICES, 1968-73

(percentages)

	1968	1969	1970	1971	1972	1973
1. Consumer prices	2.1	2.5	6.1	12.0	12.9	20.0
2. Residential construction input prices	4.5	2.3	10.9	10.5	16.0	28.5
3. Dwelling prices	6.2	13.9	17.5	25.8	29.3	26.6
4. Ratios						
(3):(1)	4.0	11.1	10.7	12.3	14.5	5.5
(3):(2)	1.6	11.3	6.0	13.8	11.5	-1.5

market, with the latter also being affected by the steep rise in building costs which should have influenced expectations.

In addition, a much larger volume of mortgage credit was provided in 1973;⁶ in the case of private housing this came after a decrease in 1972. It should also be noted that the subsidy element in such financing, which is granted on an unlinked basis in return for an unrealistic premium, increased owing to the acceleration of inflation during the year. Thus there was a whole series of factors which should have led to a bigger growth in home sales than actually took place. This development is admittedly extraordinary, and confirms what has long been known, that because of the long duration of the building process and low short-term elasticity of supply, there may be big lags and leads in the response of this market to general trends in the economy, and in a specific period it may even move in an opposite direction.

3. *Public and private construction*

The distinction between public and private construction in Central Bureau of Statistics data is not sufficiently clear-cut. On the one hand, the CBS includes under private construction part of that carried out under the above-mentioned bond issue program. While such construction is implemented by private builders, part of the financing is provided by the Government from the proceeds of bond issues floated by social insurance funds, and it also determines the prices and eligibility for purchase. On the other hand, public construction includes units offered for sale in the private market, and from the aspect of their size, price, and location they are similar to those put up by private builders.

Construction under the bond issue program has been deducted from private construction in Table V-5, and in the following discussion it will be treated as part of public construction. The figures on such building must be accepted with caution, for it has proved difficult to estimate the number of units involved. As regards the sale of public housing in the open market, no data are available.

The weight of public construction in the total volume of starts rose to 52 percent by the end of September 1973 and to 55 percent by the end of December (the reasons for the disparate figures are discussed in the following section). This development reflects the more sluggish growth of demand in the private housing market and the downturn in profits, which caused some builders to prefer putting up housing for the Government rather than at their own expense.

The increased share of the public sector in total starts was accompanied by a slackening in the growth of construction begun. In the first nine months of

⁶ Actually the increase was slower than in the previous year, but if allowance is made for the more sluggish rise in dwelling prices in 1973 and the technical hitches in executing loans in the last quarter of the year, it turns out that the rate of increase was fairly rapid (see Chapter XIV, "Financial Institutions", section 3[a]).

1973 the volume of starts was up 6.5 percent from the corresponding period of 1972, as compared with a 31.9 percent advance in 1972. But this change too should be viewed against the rapid expansion in 1972, which brought the figure up to a high level.

4. Developments in the last quarter of 1973

In the last quarter of the year construction activity was curtailed. The mobilization of manpower and equipment, the absence of workers from the administered areas, and the low priority accorded the sector in the allocation of transportation vehicles by the Emergency Economic Board severely dampened the volume of activity. Only toward the end of the year did the level pick up somewhat—a trend that gathered momentum in 1974.

The salient features of this sector during the last three months of 1973 were the marked deceleration of starts relative to completions and the fact that private building slowed down much more than public building.

The total area of starts was cut back by almost half to 7,300 square meters, while completions tumbled 32 percent. It is natural for starts to decline steeply in time of war and in an atmosphere of uncertainty. Builders probably concentrated their available manpower and transport facilities on completing dwellings they had contracted to deliver before war broke out.

That private construction slowed more than public construction is explained by the call-up of contractors. Public construction is for the most part executed by large companies, and while the call-up of key personnel in such firms may cause disruptions, it does not paralyze work. This, however, does not apply to small contractors.

The war and the extensive mobilization, which continued throughout the last quarter of 1973, brought the housing market to a virtual standstill, and it began to rebound only in the first quarter of 1974.

4. INVESTMENT BY TYPE OF ASSET

The stabilization of the equipment share of fixed nondwelling investment (exclusive of ships, motor vehicles, and roads) during the first nine months of 1973, as shown in Table V-11, did not essentially alter its long-run rising trend. This is because equipment has a shorter life than structures. In other words, despite the steady increase in the share of equipment in investment, its share in the capital stock has remained more or less unchanged over time. The intersectoral variability of the equipment component in investment can generally be ascribed to random factors associated with the process of constructing the plant and installing the equipment during the investment period, which sometimes extends over several years, and to the possibility of installing equipment in existing buildings.

Table V-9

GROSS FIXED INVESTMENT, BY TYPE OF ASSET, 1969-73

(IL million, at 1972 prices)

	1969	1970	1971	1972	1973	Percent annual increase or decrease (-)				
						1970	1971	1972	1973	
									Jan.- Sept. ^a	Entire year
New construction	3,337	3,932	4,551	5,619	5,588	18	16	23	12	-1
Residential buildings	1,632	2,269	2,723	3,521	3,561	39	20	29	16	1
Nonresidential buildings	919	1,023	1,053	1,226	2,027	11	3	16	7	-3
Other construction	786	640	775	872	2,027	-19	21	13	7	-3
Assets from farm output	88	83	84	110	105	-5	1	31	-1	-5
Machinery and equipment	1,724	1,875	2,105	2,597	2,556	9	12	23	8	-2
Locally produced	623	632	721	837	915	1	14	16	17	9
Imported	1,101	1,243	1,384	1,760	1,641	14	11	27	3	-7
Motor vehicles	453	439	448	559	735	-4	3	25	41	31
Ships and aircraft	119	249	788	216	707	110	217	-73	310	227
Total fixed investment	5,721	6,578	7,976	9,101	9,691	15	21	14	20	6

^a Compared with January-September, 1972

SOURCE: Central Bureau of Statistics.

From this aspect, the first nine months of 1973 saw a disparate development in agriculture and industry, the share of equipment rising in the former and edging down slightly in the latter. In irrigation and electricity the structures-equipment ratio of investment traces an irregular path. Most of the capital expenditure here is concentrated in a small number of large projects, with the result that the ratio varies according to the stage of execution reached. In electricity the equipment-intensive investment begun in 1972 carried over through the first nine months of 1973, after several years of heavy investment in buildings due to the erection of the Eshkol III power station.

The proportion of domestically produced machinery, equipment, and motor vehicles remained unchanged during the first nine months of 1973. But excluding motor vehicles, whose share in such investment rose from 16 percent in 1972 to 19 percent during this period, the share of domestic manufacture moved up a notch. Most of the locally made equipment goes to comparatively few sectors: Nearly 60 percent of the equipment in agriculture and trade and services is manufactured in the country; this consists mainly of farm implements, furniture, commercial refrigerators, air conditioners, and the like. On the other hand, only about a quarter of the industrial plant and equipment is manufactured in Israel, while for construction equipment the proportion is 15 percent (nearly all bulldozers, shuffledozers, cranes, and similar items are imported).

Table V-10
AREA OF NONRESIDENTIAL CONSTRUCTION, 1966-73

(thousand sq. meters)

	1966	1967	1968	1969	1970	1971	1972	1973
Starts								
Agriculture and irrigation	176	196	131	148	194	155	191	109
Industry and crafts	288	233	332	463	481	565	606	608
Commercial and office buildings, hotels, etc.	246	176	219	217	234	363	400	333
Public buildings	654	560	744	619	551	767	753	635
Total	1,365	1,165	1,426	1,447	1,460	1,850	1,950	1,685
Completions								
Agriculture and irrigation	140	139	168	136	159	237	150	130
Industry and crafts	510	288	325	361	501	493	460	495
Commercial and office buildings, hotels, etc.	298	206	316	190	153	228	258	204
Public buildings	807	504	618	528	510	642	471	518
Total	1,755	1,137	1,427	1,215	1,323	1,600	1,339	1,345

SOURCE: Central Bureau of Statistics.

Table V-11
EQUIPMENT SHARE OF GROSS FIXED INVESTMENT, BY SECTOR, 1966-73
 (percentages; at 1971 prices)

	1966	1967	1968	1969	1970	1971	1972	1973 ^a
Agriculture	37.1	33.3	40.1	47.0	37.0	46.4	42.7	50.0
Irrigation	13.7	12.0	18.6	22.2	24.0	16.9	16.1	18.4
Electric power	57.4	51.1	60.8	46.1	53.1	46.5	61.3	66.1
Industry	68.1	66.2	73.1	81.2	80.2	81.5	80.9	78.9
Transportation and communications ^b	46.1	51.1	36.0	36.3	44.1	30.4	41.3	41.7
Trade and services	27.1	27.9	30.4	35.1	38.2	39.2	38.6	38.4
Total^c	42.2	40.2	47.2	52.0	54.7	53.0	54.5	54.3

^a January-September.

^b Excluding ships, aircraft, motor vehicles, and roads.

^c Excluding ships, aircraft, motor vehicles, and roads, but including construction equipment. In the construction industry equipment is the only component of capital stock.

The war had a relatively greater impact on the structures share of investment. Nonresidential building was paralyzed during this period and was slow to revive in the last quarter of the year. On the other hand, the import and domestic production of capital goods went on, even if at a laggard pace.

Table V-12
SHARE OF DOMESTIC PRODUCTION IN INVESTMENT IN CAPITAL GOODS,^a
BY DESTINATION, 1964-73
 (percentages; at 1970 prices)

	Average		1968	1969	1970	1971	1972	1973 ^b
	1964-65	1966-67						
Agriculture	57	64	58	56	60	60	63	59
Industry	29	32	25	27	24	24	23	24
Electric power and water	25	25	26	35	28	42	20	24
Construction equipment	23	37	12	16	16	16	17	14
Transportation and communications ^c	43	48	46	43	39	37	31	31
Trade and services	53	52	55	55	55	57	53	57
Total								
Excl. ships and aircraft	41	45	38	39	36	37	33	34
Incl. ships and aircraft	35	42	32	36	32	28	31	27

^a Machinery, equipment, and mobile transport equipment.

^b January-September.

^c Excluding ships and aircraft.

Thus in 1973 as a whole the equipment proportion of investment rose, though the general trend—as indicated by the data for the first nine months of 1973—showed no change as compared with 1972.

5. FACTOR INPUTS IN CONSTRUCTION

Whereas construction output expanded by 9 percent during the first three quarters of 1973, employment⁷ in the sector was up 5 percent and the capital stock by 6 percent. The relatively faster growth of the stock of construction equipment in comparison with the number of employed added about one percent to the amount of capital per employed, reversing the downtrend that set in in 1967.

This apparently indicates that the stock of construction equipment adjusted more slowly than employment to the accelerated growth of demand for the sector's output. Since most of the equipment is imported, investment in this item responds with some lag to a change in the level of activity. On the other hand, employment responds almost immediately, especially since the administered areas accounted for over half the incremental workers during the past three years. To sum up, the increase in the amount of capital per employed is not indicative of a reversal of the long-run downtrend, but rather it reflects the relatively faster adjustment of employment to the more sluggish expansion of the sector's output.

The growth of employment in the year reviewed consisted of an absolute decrease in the number of Israelis engaged in the building trades and a 30 percent rise in labor from the administered areas. Even if allowance is made for the underestimate of Israeli employed due to possible sampling errors in the manpower surveys, there was still a marked change from previous years, when the number of Israelis moved up steadily (in 1970–72 by an average of 11 percent per annum). The decrease, or stability, in the number of Israelis employed in construction may have been due to a decline in the share of earthwork in the sector's output (following a cutback in defense construction), which was accompanied by a drop in the number of heavy equipment operators, all of whom are Israelis.

Construction output expanded more rapidly than the number of employed during the first nine months of 1973, reversing the trend of the two preceding years. This would seem to indicate that calculated productivity per worker rose, after having declined in 1971 and 1972. However, the calculation is misleading, for the sector's output consists of building construction and earthwork, which have disparate levels of labor-intensity. Separate data are not available

⁷ The number of Israeli employed was estimated on the basis of manpower survey data, while the number of employed from the administered areas was estimated according to labor force survey data.

Table V-13

MAIN INDICATORS OF CONSTRUCTION INPUTS, 1970-73

	1970	1971	1972	1973		Percent annual increase or decrease (-)			
				Jan.- Sept.	Entire year	1971	1972	1973	
								Jan.- Sept. ^a	Entire year
Employment (in thousands; annual average)	92	106	126	132	128	15	19	5	2
Israelis	80	98	100	98	96	11	12	-2	-4
From the administered areas	12	17	26	34	32	42	53	31	23
Number of vacancies for skilled labor	2,260	2,398	2,043	1,935	1,713	6	-15	-10	-16
Percent of vacancies unfilled	20	38	43	31	33				
Gross investment in construction equipment (IL million, at 1972 prices)	108	136	162	128	163	26	19	10	1
Stock of construction equipment (IL million, at 1972 prices)	838	867	913	..	970	3	5	6	6
Capital stock per worker (IL, at 1972 prices)	9,109	8,179	7,246	..	8,578	-10	-11	2	5
Cement sales ('000 tons)	1,426	1,671	2,114	1,598	1,807	17	26	8	-10
Imports of current inputs (\$ million)	24	32	47	39	49	33	47	18	4
Construction output (IL million, at 1972 prices)	4,940	5,439	6,408	5,032	6,223	10	18	9	-3

^a Compared with January-September, 1972.

on workers in each of these two component categories, the relative weights of which vary over time.

Even though employment trailed behind the expansion of output, there is no evidence of a growing tightness in the building labor market during the first nine months of 1973. The number of job vacancies for skilled workers fell off and the proportion unfilled even more so, surpassing the decreases in the rest of the economy. Furthermore, construction wages rose by 25 percent, the same as the national average.

There are two different estimates of cement imports for the first three quarters of 1973, and hence of total cement consumption. Ministry of Commerce and Industry data reveal an increase of 12 percent, while according to the Central Bureau of Statistics it was only 8 percent. Even if we accept the lower estimate, there is no evidence of a cement shortage. In this context it should be noted that, despite the 9 percent output gain, there was a decline in the share of building starts and defense construction, where the cement input is high. Moreover, it may well be that cement hoarded in the previous year, when cement consumption expanded by 26 percent as against a 15 percent rise in output, was put on the market during this period.⁸

6. THE CAPITAL STOCK

The rate of increase in the economy's capital stock remained unchanged in 1973. This stability, even though most sectors experienced a more sluggish rise, was due to a sharp upswing in transportation and communications as a result of the large-scale acquisition of ships and aircraft. The expansion of the total capital stock was, at 9 percent, consistent with the average growth of the national product in recent years.

In industry and in trade and services the growth rate was down 2 percent. About half the decline was directly due to the emergency conditions prevailing during the period of hostilities and the postwar months, and therefore no conclusions as to future trends should be drawn from this. In electric power generation the uptrend sagged from 9 to 6 percent, but in this sector (as in transportation and communications) investments are not regular, and the 1973 deceleration followed a sharp acceleration the year before, when equipment for the new Eshkol III power station was imported on a large scale. By contrast, transportation and communications posted a 14 percent rise, as against 9 percent in 1972. The stock of construction equipment likewise expanded at a faster pace in the period reviewed, continuing the trend begun in 1969.

The changes in the relative weights of the various sectors were in line with the long-run trend. The most outstanding is a steady rise in the weight of the

⁸ A detailed discussion of developments in the cement market in 1971-72 may be found in the chapter on "Domestic Investment and Construction" in the Annual Report for 1972.

Table V-14

GROSS FIXED CAPITAL STOCK, BY SECTOR, 1973-74

(IL million, at 1972 prices)

	1973				Stock at beginning of 1974	Percent of total		
	Beginning-of-year stock	Gross investment	Discards	Net stock increment		Beginning-of-year stock		1973 stock increment
						1960	1974	
Agriculture	6,222	282	105	177	6,399	22	11	4
Irrigation	3,018	78	28	50	3,068	9	6	1
Industry	11,015	1,244	354	890	11,905	23	21	19
Construction equipment	970	163	94	69	1,039	3	2	1
Electric power	2,905	277	112	165	3,070	7	5	4
Transportation and communications	12,961	2,457	523	1,934	14,895	18	27	42
Trade and services	14,007	1,629	274	1,355	15,362	18	28	29
Total nondwelling stock	51,098	6,130	1,490	4,640	55,738	100	100	100
Dwellings	31,851	3,561	200	3,361	35,212			
Total fixed capital stock	82,949	9,691	1,690	8,001	90,950			

Table V-15

GROWTH OF GROSS FIXED CAPITAL STOCK, BY SECTOR, 1961-74^a

(percentages)

	Agri- culture	Irri- gation	In- dustry	Con- struction equip- ment	Electric power	Trans- portation and com.	Trade and services	Total non- dwelling stock	Dwell- ings	Total capital stock
1961-65 (average)	6.1	9.7	10.3		7.4	14.9	16.1	11.1	9.7	10.6
1966	4.2	4.8	5.2		7.9	16.5	15.2	9.6	9.5	9.5
1967	3.1	4.4	3.1	2.9	9.2	10.6	12.9	7.3	7.0	7.2
1968	2.6	4.0	2.6	-4.0	3.9	7.9	9.8	5.5	4.4	5.1
1969	2.5	3.1	8.1	3.0	5.1	12.9	9.7	7.9	5.0	6.8
1970	2.8	1.9	11.2	2.4	6.2	12.8	11.0	9.0	6.8	8.2
1971	3.8	1.9	10.6	3.4	6.5	9.9	9.9	8.3	8.5	8.4
1972	4.0	2.0	11.2	5.3	5.4	15.0	10.8	10.0	10.4	10.1
1973	3.8	2.5	10.5	6.3	8.9	9.4	11.6	9.0	11.9	10.1
1974	2.8	1.7	8.1	7.1	5.7	14.9	9.7	9.1	10.6	9.6

^a The increase in beginning-of-year levels.

transportation and communications capital stock, a result of the extensive long-range road development program and of heavy purchases of both transport equipment (trucks, other commercial vehicles, freighters and tankers, and aircraft) and telecommunications equipment. The share of trade and services, whose capital stock includes public buildings, business premises, hotels, and educational and health facilities, also moved up during most of the period. Investments here grew at an accelerated rate until 1973, a development reflected by an appreciable expansion of higher education, hospitals, private business, and tourism. The weight of the industrial capital stock, on the other hand, continued to drift downward and stood at 21 percent at the beginning of 1974, compared with 23 percent at the beginning of 1960. There was also a sharp decline in agriculture and irrigation during this period (see Table V-14).

Table V-16
GROWTH OF CAPITAL STOCK PER EMPLOYED,^a BY SECTOR, 1961-73

(percentages)

	Agri- culture	In- dustry	Con- struction	Trans- portation and com.	Trade and services	Total ^b
1961-65 (average)	6.7	3.5		7.6	10.5	6.1
1966	10.4	2.5	33.3	21.5	11.2	10.2
1967	6.4	15.2	18.6	2.4	14.4	12.2
1968 ^c	3.9	-11.5	-19.0	1.5	2.8	-3.3
1969 ^c	4.0	3.8	-3.6	2.0	4.8	3.4
1970 ^c	7.0	7.8	-7.7	16.7	6.0	6.2
1971 ^c	1.3	6.9	-10.0	7.0	6.0	3.4
1972 ^c	1.6	5.2	-11.1	11.2	7.3	3.7
1973 ^{c,d}	10.1	0.3	1.6	8.4	6.3	3.8

^a Data on the capital stock are for the beginning of the year; those on the number of employed are annual averages.

^b The total includes electric power and water, which are not listed separately. The inclusion of water in the agricultural sector and of electric power in industry would not affect the results significantly.

^c Residents of the administered areas working in Israel are included in the number of employed.

^d Data on capital stock are for the beginning of the year, but those on the number of employed are averages for the first nine months of 1973 compared with the corresponding period in 1972. The rates of growth of real capital stock per employed so calculated give a better picture of changes during the year than data which include the last quarter of 1973.

Capital stock per employed⁹ increased to about the same extent as in the two preceding years. The growth rate appears to have stabilized at approximately 3.5 percent per annum, but the various sectors displayed a marked variance from the 1972 figures. This applies particularly to agriculture, industry, and construction. As to construction, this was discussed in the section on factor inputs. In the case of agriculture and industry the employment estimates for the first nine months of 1973 are questionable, so that no great significance should be attached to the sharply higher growth rate in agriculture or to the drop in that for industry.

⁹ In calculating the rates of change in capital stock per employed we used the rates of change in the average number of employed in the first nine months of 1973 as compared with the same period in the previous year.