CHAPTER XI

INDUSTRY

1. Main Developments

(a) *January-September 1973*

Real industrial production and gross capital stock continued to expand in the first nine months of 1973, in line with the trend begun with the emergence of the economy from the slump of 1966–67. The growth of industrial employment slackened compared both with 1972 and with the average for 1970–72.[1] Factor productivity[2] went up faster during the first three quarters of 1973 than in 1972, and was close to the 1971 figure. The gain in incremental output per employed was the biggest since the end of the recession. Wholesale prices of industrial output for the domestic market moved up more rapidly during the period reviewed, but trailed behind the general price level. This can apparently be attributed to three principal factors: the fact that industry is more exposed to the competition of imports and is subject to a more stringent price control than any other sector of the economy; the vigorous expansion experienced by a number of branches, which made it possible to satisfy much of the incremental domestic demand for their products; and the weakening of demand in several other branches. The advance of domestic industrial output prices was due not only to demand-pull, but in several branches also

[1] Like most of the data in this chapter, those on employment are from the industrial indexes calculated by the Central Bureau of Statistics from a broad sample of industrial establishments. The industrial employment data from the various sources vary widely. For example, CBS manpower surveys show that the number of persons employed in industry rose 9 percent during the first nine months of 1973. Even if allowance is made for the large sampling error in such data, the increase was not under 7 percent (at a 95 percent significance level). National Insurance Institute data, on the other hand, indicate a rise of only 1 percent in the number of employee posts in industry. It is therefore difficult to know exactly what happened in industrial employment during this period. Other data drawn from the sample of industrial establishments—the number of man-days worked in industry—also point to a marked deceleration. The discussion here will refer to changes in the number of employed, except in a few instances where the reader is explicitly referred to Table XI–2, where changes in output are calculated per man-day worked rather than per employed, even though the two measures give largely similar results.

[2] See the appendix to this chapter (in Hebrew only) for details on the method of calculation, the new weights assigned to labor and capital, and the results obtained if the labor input is measured according to the number of man-days worked instead of the number of employed.

Table XI-1
INDICATORS OF INDUSTRIAL DEVELOPMENT, 1961-73
(percentages)

	Annual increase or decrease (–)								
	Average			1969[a]	1970	1971	1972	1973	
	1961–65	1966–68	1969–72					Jan.-Sept.	Entire year[b]
Industrial production	13.4	11.5	12.7	15.9	10.4	12.6	11.7	11.9	13.2
Revenue,[c] at current prices	20.5	14.6	20.9	17.2	15.8	22.9	27.8	35.1	37.5
Number of workers[d]	3.3	4.3	6.2	9.7	5.7	4.7	4.8	3.2	2.2
Real investment	6.0	10.5	16.4	32.5	13.2	10.1	9.6	1.7	—
Real gross capital stock[e]	11.0	11.0	10.1	7.8	11.1	10.6	11.0	10.6	—
Output per employed	9.8	6.9	6.1	5.7	4.5	7.6	6.6	8.4	10.7
Output per unit of capital	2.2	0.5	2.4	7.5	–0.6	1.8	0.6	1.2	—
Change in factor productivity[f]	7.0	4.5	4.6	7.1	2.2	5.2	4.0	5.3	—
Domestic wholesale prices	5.0	1.8	7.4	1.9	6.8	9.2	11.6	16.9	21.1
Revenue per unit of output, at current prices	6.3	2.8	7.3	1.1	4.9	9.2	14.4	21.1	21.7
Industrial export prices (f.o.b.)	—	—	3.7	4.8	–0.7	2.6	7.9	24.8	—
Daily nominal wages per worker	16.2	3.5	10.5	4.8	12.3	11.2	13.5	22.9	26.9
Total payroll outlay	—	8.0	18.1	15.7	17.6	18.2	21.0	28.7	50.1

[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] Data for the last quarter of 1973 are an extrapolation based on the quarterly geometric average rate of change for the first three quarters of the year. The changes in the first three quarters of 1973 were calculated by dividing the appropriate indexes for September 1973 by the average of the indexes for December 1972 and January 1973. The indexes are seasonally adjusted, except for the number of workers, daily wages, and wholesale prices of industrial output in the domestic market.

[c] Defined by the Central Bureau of Statistics as consisting of the value of products sold and the value of the establishment's goods given to its workers, income from work performed for the establishment by others with their materials, the value of the products manufactured by the establishment for its own consumption, and purchase tax and excise duty paid by the establishment.

[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] The method of calculation is presented in the appendix to this chapter (in Hebrew only). Beginning in 1969 new weights were assigned to labor and capital—54 and 46 percent respectively, instead of 60 and 40 percent respectively.

to cost-push. Prices climbed most rapidly in the wood and metal industries, which have a large import component (the price of which rose strongly during the period discussed). The industrial wage bill also grew appreciably: nominal daily wages per worker increased 23 percent, which is similar to the national average. This probably reflects the payment of retroactive increments on account of the previous year, a slight increase in the number of man-hours worked per employee, and the tight labor market situation in 1973.

Prices received by the exporter[3] (see Table XI–11) outpaced the advance in domestic industrial output prices (in 1972 the two had moved up in step). Nevertheless, the real growth of nondiamond industrial exports declined for the second consecutive year. This was partly connected with the changing pattern of domestic final demands in 1972 and the first nine months of 1973, but to some extent it can also be attributed to the relative rapidity and short duration of the export price rise compared with that in domestic prices, while producers responded much more slowly to this change in relative prices.

Revenue[4] per unit of output, which is a rough indicator of the price rise of industrial output in the local and export markets, went up faster than the general price level during the first three quarters of 1973 (see Table XI–1). Industrial profitability, measured in both per unit output and per unit capital terms, increased noticeably.[5] The virtual standstill in industrial investment, following a more than 10 percent gain the year before, is therefore surprising.

The first nine months of 1973 witnessed the acceleration of private consumption, a further sagging of the uptrend in public consumption evident in 1972, and a more sluggish expansion of investment[6] after a respectable rise the year before. It is against this backdrop that the various industrial developments in 1973 should be viewed. These changes in final demands resulted in a more vigorous expansion of consumer goods production, a more laggard growth of production for public consumption (in line with the previous year's trend), and a slower expansion in capital goods and construction products (see

[3] Calculated in IL terms, at the effective rate of exchange.

[4] Defined by the Central Bureau of Statistics as consisting of the value of products sold and the value of the establishment's goods given to its workers, income from work performed for it by others with their materials, the value of the products manufactured by the establishment for its own consumption, and purchase tax and excise duty paid by the establishment.

[5] The method of calculation, the underlying assumptions, and the results of the computations are presented in the appendix to this chapter (in Hebrew only). In this context it should be pointed out that what interests the producer is the return on equity. The appendix gives the profitability on the total industrial capital stock; since equity capital constitutes only part of the sector's capital stock, it is evident that the return on the former rose very strongly during this period.

[6] The deceleration of capital spending in the first nine months of 1973 occurred mainly in imported equipment. There was hardly any weakening of demand for domestically produced capital goods, at least as far as equipment is concerned. Only in machinery and construction starts did the uptrend falter.

Table XI–2). Some of the changes that took place in industrial production in 1972 and the first nine months of 1973 were also due to constraints on the supply side: the slower growth of employment in some branches and the reduction of production capacity in others.

These changes in the magnitude and composition of demand, together with the supply constraints, were responsible for the more sluggish headway made in exports in 1972 and the first three quarters of 1973—a development which affected consumer goods industries most of all (see Table XI–10).

Overseas sales of products which in this country are destined chiefly for public consumption and investment also slowed down in 1972 and the first three quarters of 1973. These exports are not very vulnerable to strong demand pressure in the home market, owing to the nature of the goods and the difficulty of finding overseas outlets.

The influence of final demands on the industrial product mix can also be seen from an examination of the structural changes in total and incremental industrial product and output by final destinations, as calculated according to input-output coefficients (see Table XI–6).[7] The downtrend in the proportion of private consumption came to a halt in 1972 and reversed direction during the first nine months of 1973. The share of exports, which had risen steadily between 1969 and 1971, tapered off in 1972 and fell sharply during the first three quarters of 1973. The contribution of public consumption to the incremental product began to decline in 1972 and continued to shrink during the first nine months of 1973. In investment, on the other hand, the rising trend carried over through the first three quarters of the year reviewed. It may therefore be concluded that the buoyant private consumption demand was mainly responsible for the sustained vigorous expansion of industrial production.

The accelerated rise in factor productivity and in output per employed must also be viewed against the changes in final demands. There is reason to believe that this was connected with the process of adjusting production to demand. In a year witnessing a drastic change in the composition of final demands the adjustment of production thereto generally depresses the growth of output per worker, with a compensating increase taking place the following year. For example, the marked change in final demands in 1970 was accompanied by a deceleration of productivity and of output per employed, whereas in the following year steep increases were recorded. There may have been a repetition of this during the first nine months of 1973, for, as already mentioned, in the previous year the pattern of final demands began to alter, a development that grew more pronounced in 1973.

[7] The outputs generated by final demands include both final products and the intermediates required for their manufacture. The calculations were made according to the input-output table for 1968/69.

Table XI-2

REAL CHANGES IN GROSS INDUSTRIAL OUTPUT AND OUTPUT PER MAN-DAY,[a] BY MARKET GROUPING,[b] 1970–73[c]

(percentages)

Market grouping	Weight of group in total industrial output in 1971/72	Annual real increase or decrease (–) in gross output				Annual real increase or decrease (–) in output per man-day			
		1970	1971	1972	1973[c]	1970	1971	1972	1973[c]
1. Consumer goods	47	9.3	11.7	11.9	14.8	5.6	10.1	7.0	10.2
Food	16	5.0	8.1	8.4	9.4	–0.5	2.3	4.8	8.0
Other	31	11.5	13.6	13.7	17.7	8.7	14.1	8.1	11.3
2. Capital goods, construction materials, and public consumption products	27	15.6	12.6	9.2	9.2	3.9	2.8	0.7	5.9
Capital goods and construction materials	—	7.1	5.4	11.1	7.6	2.2	0.7	4.8	2.4
Products for public consumption	—	23.8	19.5	7.3	10.8	5.6	4.8	–3.3	9.3
3. Intermediates	12	10.2	9.3	12.5	9.9	9.4	7.5	5.6	6.8
4. Special items	14	5.0	20.5	18.7	15.2	9.5	22.1	16.7	12.7
5. Total industry[d]	**100**	**10.4**	**12.6**	**11.7**	**11.9**	5.5	**7.1**	5.2	**7.6**

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

[b] Classified according to the final demands for industrial output (both direct and indirect) as determined by input-output calculations. Group (1) consists of branches at least 60 percent of whose output is destined for private consumption; group (2) consists of branches at least 70 percent of whose output is for investment (plant, equipment, and buildings) or public consumption; group (3) consists of branches producing intermediates which are not marketed in the above proportions to the relevant destinations; and group (4) consists of mine and quarry products and diamonds, which are marketed almost entirely abroad.

[c] January-September.

[d] The data for total industry were not calculated by weighing the various groups, but were computed separately from the indexes of industrial production and man-days worked. The results differ from those that would be obtained by the former method, owing to the adjustment of the figures for diamonds to include the value of uncut stones and those for refined petroleum products to include the value of crude oil used by the refineries, as well as to the use of fixed weights from the 1971/72 industry and crafts survey.

Nondiamond industrial exports, as already noted, posted a much smaller percentage gain during the first nine months of 1973, even though the prices received by the exporter went up faster than domestic wholesale prices. In 1972 the two had moved up almost in unison (see Table XI–11), with the export growth rate dipping below the previous year's figure. During the first three quarters of 1973 most of the rise in export prices took place in the first half of the year, which may have been too short a period to enable producers to respond properly.

No satisfactory explanation can be offered for the much more sluggish growth of industrial investment during the period reviewed (see Table XI–12), which accompanied the marked improvement in profitability. This may have been only a random deviation from the advancing industrial investment trend of recent years. At most, several conjectures can be made (discussed in section 5 in this chapter and in Chapter V, "Domestic Investment and Construction").

It should be noted, however, that in determining the growth of industrial production capacity the change in the industrial capital stock is a more telling factor than the change in industrial investment. A random deceleration of investment growth, such as occurred during the first nine months of 1973, does not significantly affect the expansion of the industrial capital stock.

(b) *Fourth-quarter developments*

In the final quarter of the year industrial activity, like that in other sectors of the private economy, slumped noticeably. On the supply side the underlying factors were the extensive call-up of manpower, including key men in numerous establishments, the fact that residents of the administered areas did not show up for work, and the mobilization of civilian trucking capacity. As regards final demands, these underwent a drastic change during this quarter, with civilian purchases of some consumer goods and construction materials falling off sharply, while defense procurement orders rose enormously. As a result, in a number of industries demand and supply reached equilibrium at a lower level of activity.

The contraction of industrial activity was reflected by a drop in the sector's employment to 65 percent of its September level in October, to 70 percent in November, and to 80 percent in December. The decline was not uniform, with branches employing a high percentage of women and older workers (textiles, clothing, and food) being less affected. In an attempt to partly overcome the manpower shortage some concerns transferred workers from service to production departments and from lines producing goods for which demand had sagged, as well as by working overtime and by hiring workers from outside industry (including pensioners). It is noteworthy that in establishments suffering a slump in demand for their products there was no tendency to lay off labor.

This quarter saw the further acceleration of wholesale domestic prices of industrial output (see Table XI–7), but in contrast to the prewar period, this was mainly due to cost-push. The sector's revenue[8] therefore declined more mildly than real production, standing in October at 70 percent of its level in the previous month, in November at 80 percent, and in December at 90–95 percent.

Along with the adverse swing in economic activity in general, and for the same reasons as far as supply is concerned, industrial exports dipped sharply in the last quarter—by 23.3 percent (at constant prices) compared with the same period the year before. On the demand side, the grave slump in world diamond sales also contributed to the less impressive export performance. At constant prices, Israel's sales of this commodity plunged 29.3 percent below their fourth-quarter level in 1972.

2. Industrial Production

Real industrial production continued to expand at a relatively vigorous rate in the first three quarters of 1973, and in fact even eclipsed the average for 1970–72 (see Table XI–1). But in contrast to these years, the uptrend in industrial employment slackened appreciably[9]—3.2 percent as against 4.8 percent in 1972 and an average of 5.1 percent in 1970–72.[10] The real gross industrial capital stock increased 10.6 percent in the first nine months of 1973,[11] after rising by 11 percent in 1972 and an average of 10.9 percent in 1970–72.

The slower growth of industrial employment while the real gross capital stock and production moved up at about the same rate as in the previous year resulted in a big increase in measured factor productivity—5.3 percent as against 4 percent in 1972 and 4.1 percent in 1970–72. The rise in output per employed was even greater than that in factor productivity: in the first nine months of 1973 it came to 8.4 percent, surpassing the figure for any other year since the economy pulled out of the slump of 1966–67 (see Table XI–1).

The sustained strong expansion of industry during the first three quarters of 1973, which was accompanied by a big gain in factor productivity and an even bigger one in output per man-day, must be viewed against the changes

[8] See note 4.

[9] See note 1.

[10] The number of man-days worked in industry rose 4.6 percent in the first nine months of 1973, 6.2 percent in 1972, and an average of 5.3 percent in 1970–72. If we assume that the index of industrial man-days reflects the real change in industrial employment, it too indicates a deceleration of employment in the first nine months of 1973.

[11] This refers to the change in the real gross capital stock at the beginning of 1973 as compared with the beginning of 1972. It is generally assumed that the beginning-of-the-year capital stock reflects the production capacity for that year.

Table XI-3
GROSS INDUSTRIAL OUTPUT[a] AND REAL ANNUAL CHANGES, BY MAIN BRANCH, 1969–73

	Gross output at 1972 factor prices (IL million)	Percent annual increase or decrease (–)						
		Average		1969[b]	1970	1971	1972	1973[c]
		1970–72	1969–72					
Mining and quarrying	423.6	11.3	9.7	4.7	19.1	0.0	14.8	6.1
Food, beverages, tobacco	2,939.4	8.1	8.1	8.2	5.1	9.5	9.6	10.7
Textiles[d]	1,253.7	7.0	9.0	15.0	2.8	11.0	7.3	14.8
Clothing[d]	1,074.5	27.8	22.1	5.0	26.0	32.4	25.0	20.3
Leather and leather products	145.5	3.0	4.3	8.0	5.1	4.0	0.0	–1.5
Wood, wood products, furniture	657.5	7.9	7.9	8.0	5.4	5.2	13.0	8.7
Paper and paper products	355.2	8.4	7.5	5.0	7.4	11.6	6.1	4.3
Printing and publishing	401.5	1.0	4.5	15.0	1.5	–5.0	6.5	14.6
Rubber and plastic products	708.2	17.1	18.0	20.5	14.9	17.4	19.1	19.3
Chemicals and refined petroleum products	1,519.5	14.3	13.5	11.0	16.2	12.3	14.3	13.3
Nonmetallic mineral products	654.2	12.5	12.2	11.2	13.0	9.7	14.9	8.4
Basic metals	453.0	1.9	7.3	23.6	–2.0	–0.6	8.3	13.8
Metal products[d]	1,535.4	12.6	14.4	20.0	11.5	18.1	8.1	6.9
Machinery[d]	616.9	7.4	11.6	24.0	10.5	1.9	9.9	2.8
Electrical and electronic equipment	1,034.3	9.2	19.0	48.4	7.0	10.5	10.0	16.3
Transport equipment	829.0	16.4	19.4	28.4	28.0	18.7	2.4	12.6
Diamonds	1,360.6	15.0	12.3	4.2	–2.1	24.9	22.1	20.1
Miscellaneous	189.9	15.2	17.9	26.0	5.7	30.5	9.5	6.5
Total	**16,151.9**	**11.6**	**12.7**	**15.9**	**10.4**	**12.6**	**11.7**	**11.9**

[a] Based on the Central Bureau of Statistics industry and crafts survey for 1971/72. The gross output figures (at factor cost) for the various branches were taken from the survey, with the following adjustments: (1) establishments with 1–4 employees were investigated by the CBS area sample method; (2) the value of crude oil was included in refined petroleum products, and diamond output was adjusted to include the value of uncut stones. On the real changes in total industrial output see note [d] to Table XI–2.
[b] See the notes to Table XI–1.
[c] January-September.
[d] Provisional data; only partly adjusted to the new branch classification.

that took place in the composition of final demands and in the branch structure of production. During this period there was a buoyant domestic demand for the sector's products, particularly consumer goods. The uptrend in other domestic demands—investment and public consumption—slackened and real non-diamond industrial exports made very little headway. The more sluggish export advance can apparently be attributed to the heavy domestic private consumption demand, as industry responded to this at the expense of overseas sales. But the deceleration of other domestic demands during this period had a dampening effect, for some of the branches producing for these destinations cannot readily adjust their production to meet other demands. The ebbing demand for the output of these branches therefore retarded total industrial production (see Table XI–2); this applies in particular to industries manufacturing materials for the initial stages of construction, following the deceleration of building starts during the first nine months of 1973.

In industries manufacturing inputs for the final stages of construction trends were mixed: in some the growth curve flattened somewhat, in others it sloped upward at about the same rate as in the previous year, while in a few it rose more sharply. This disparate development apparently reflected differences in the capacity of the various industries to step up production, rather than any weakening of demand.

The laggard rise in capital outlays on machinery affected, of course, the growth of machinery production. On the other hand, consumer goods industries, such as textiles and clothing, food, printing and publishing, chemical consumer products, some metal goods, home appliances, and some electrical and electronic products, either showed a faster expansion of output or succeeded in maintaining the previous year's high rate. In some industries the growth of domestic sales was at the expense of a slowdown, and in a few cases even an absolute drop, in exports (textiles and clothing).

A glance at Tables XI–2 and XI–10 reveals how industrial production and exports responded to the changing pattern of final demands in 1972 and the first three quarters of 1973. Consumer goods industries posted a bigger real output gain in the latter period, after the previous year had witnessed an increase in production for the local market but at the expense of a precipitate decline in export growth. In this group production could not be stepped up by more than the level actually reached.[12] The impresive performance of these industries during the period reviewed can be credited to the heavy

[12] That capital spending by this group of industries increased greatly in 1972 and that they could not expand output by more than indicated in Table XI–2 should be regarded as conjecture only, for no direct data are available on these points. Alternatively, it is possible that in 1972 there was some slack in these industries' production capacity, which permitted the acceleration of output in the first nine months of 1973, while the more sluggish export advance can probably be attributed entirely to the mounting domestic private consumption demand.

Table XI–4

DISTRIBUTION OF TOTAL AND INCREMENTAL REAL INDUSTRIAL OUTPUT, AT FACTOR COST, BY MAIN BRANCH, 1969–73

(percentages)

Branch	Distribution of total output					Distribution of incremental output				
	1969	1970	1971	1972	1973[a]	1969	1970	1971	1972	1973[a]
Mining and quarrying	2.4	2.4	2.6	2.6	2.5	0.9	5.0	0.0	3.2	1.3
Food, beverages, tobacco	20.1	18.1	18.6	18.2	17.9	12.2	11.2	14.6	15.1	15.6
Textiles	8.3	8.1	8.1	7.8	7.9	8.7	11.1	7.2	5.0	9.2
Clothing	6.3	8.5	6.0	6.7	7.1	2.4	7.9	13.2	12.6	10.8
Leather and leather products	1.3	1.0	1.0	0.9	0.8	0.7	0.6	0.4	0.0	–0.1
Wood, wood products, furniture	4.2	3.8	4.0	4.1	3.9	2.5	2.6	1.8	4.4	2.8
Paper and paper products	2.3	2.1	2.3	2.2	2.0	0.9	1.9	2.2	1.2	0.8
Printing and publishing	2.8	2.1	2.6	2.5	2.5	2.9	0.4	–1.2	1.4	2.9
Rubber and plastic products	3.9	4.6	4.1	4.4	4.7	5.3	6.2	5.5	6.7	6.8
Chemicals and refined petroleum products[b]	8.0	8.7	9.2	9.4	9.5	6.4	14.1	9.1	11.2	10.1
Nonmetallic mineral products	3.8	3.9	3.9	4.1	3.9	3.0	5.2	3.1	5.0	2.7
Basic metals	3.5	2.7	2.9	2.8	2.9	5.3	–0.9	–0.2	2.0	3.1
Metal products	9.7	9.5	9.8	9.5	9.0	12.9	7.9	13.6	6.8	5.3
Machinery	3.9	3.8	3.9	3.8	3.5	6.0	8.0	0.7	3.3	0.9
Electrical and electronic equipment	6.6	6.3	6.5	6.4	6.6	17.3	5.4	5.6	5.5	8.4
Transport equipment	4.7	5.3	5.6	5.1	5.2	8.3	14.2	8.0	1.1	5.2
Diamonds[c]	7.0	7.7	7.7	8.4	9.0	2.3	–1.6	13.9	14.5	13.6
Miscellaneous	1.2	1.4	1.2	1.2	1.1	2.0	0.8	2.5	1.0	0.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[a] January-September.
[b] The output of the branch and its share in total industrial output were adjusted to include the value of crude oil used by the refineries.
[c] The output of the branch and its share in total industrial output were adjusted to include the value of the uncut stones.
SOURCE: Central Bureau of Statistics industry and crafts surveys for 1969, 1970, and 1971.

investments made in 1972; nevertheless the uptrend in overseas sales continued to falter because of the strong domestic private consumption demand.

In the group of industries specializing in capital goods, construction materials, and products for public consumption the response of production and exports to the changing demand trends does not reveal a very clear picture. As might have been expected, production changed pretty much in line with the changes in demand: the year 1972 saw a notable slackening of growth in industries producing primarily for public consumption, and in the first nine months of 1973 there was a much slower real growth in industries manufacturing construction materials and capital goods (mainly machinery)—this too in line with the altering demand pattern. However, these developments were not complemented by an increase in the export growth rate. Overseas sales of the entire group hardly rose at all in real terms in 1972, while in the first nine months of 1973 they went up only a notch (see Table XI–10), despite the bigger output advances recorded by industries producing mainly for public consumption (this is apparently explained by a shift in their output mix from public consumption to equipment manufacture—see Table XI–2). It may be that in contrast to the consumer goods industries, which can switch their production fairly easily from the home to the overseas market, in the other industries this is a much more laborious process, and hinges on the finding of markets for these products, which do not readily lend themselves to such a change in destinations. Another possible reason for the relatively poor export performance of this group is the fact that there was hardly any diminution of demand for locally produced equipment in 1973, so that the smaller output increment was diverted from the foreign to the home market.

Examination of the changes in the final destinations of the total and incremental industrial product and output (see Tables XI–5 and XI–6) gives some idea of their impact on industrial production. Output generated by private consumption rose during the first nine months of 1973, after moving steadily downward in the postrecession years (input-output calculations show that the downward trend was arrested in 1972), while the contribution of exports declined sharply after rising steadily until 1972, when it plateaued (the calculations show that here too the change of trend occurred in 1972 and grew more pronounced in the first nine months of 1973). It is therefore obvious that the demand factor most responsible for the sustained vigorous industrial development was, as already indicated, the growth of domestic private consumption.

Broadly speaking, the rate of industrial expansion during this period, which even slightly eclipsed the average for 1970–72, was the maximum that could be attained given the structural changes in demand and the various supply limitations: the rigidity (or relative rigidity) in adjusting output to changes in final demands, production constraints in some of the industries, and the slower rise of industrial employment.

Table XI–5

FACTORS AFFECTING THE GROWTH OF INDUSTRIAL OUTPUT, 1969–73

(percentages)

	1969		1970		1971		1972		1973[b]	
	Rate of increase[a]	Share in increment	Rate of increase	Share in increment	Rate of increase	Share in increment	Rate of increase	Share in increment	Rate of increase	Share in increment
A. Supply factors										
Real industrial output (census value added)	15.9	100	10.4	100	12.6	100	11.7	100	11.9	100
Labor	9.7[c]	33	5.7	30	4.7	20	4.8	23	3.2	15
Capital stock	7.8	23	11.1	49	10.6	39	11.0	43	10.6	41
Increase in value of output due to increase in inputs	8.8	56	8.2	79	7.4	59	7.7	66	6.6	56
Measured productivity[d]	7.1	44	2.2	21	5.2	41	4.0	34	5.3	44
B. Indicators of contribution to incremental demand[e]										
Private consumption	8.1	22	6.6	24	4.0	10	11.1	29	15.0	56
Public consumption	13.6	12	15.7	21	30.7	31	9.7	13	–3.6	–7
Investment	35.0	36	13.2	23	13.3	17	20.5	30	12.6	26
Total domestic uses	**15.1**	**70**	**10.2**	**68**	**12.1**	**58**	**13.3**	**72**	**10.0**	**75**
Exports	15.3	30	10.9	32	21.0	42	11.0	28	7.0	25
To administered areas	54.4	6	7.6	2	27.0	4	38.1	7	10.8	4
To rest of the world	13.1	24	11.2	30	20.4	38	8.9	21	6.6	21
Total uses[f]	**15.2**	**100**	**8.9**	**100**	**14.7**	**100**	**12.6**	**100**	**9.1**	**100**

[a] See note [a] to Table XI–1.

[b] January-September, 1973 compared with January-September, 1972.

[c] Calculated according to the index of employees.

[d] Assuming that the aggregate production function in industry lends itself to the method of calculation used here.

[e] The increase in output stemming from changes in final demands. The figures are based on Central Bureau of Statistics data on direct final uses and on the input-output table for 1968/69 (see the notes to Table XI–6).

[f] The discrepancy between these data and those obtained from the index of industrial production stems from changes in the input mix since 1968/69 (the base year for the input-output calculations in this table), from biases imparted by the calculation of output according to the estimated direct final demands, and from changes in the input and output mixes of the various industrial branches since 1968/69.

During this period the sector, or at least part of it, was even unable to meet all the extra demand for its products. Striking examples are the increased import of cement due to limited local production capacity, and the much larger import of furniture and other durable goods.

As already noted, factor productivity and output per employed rose appreciably during the first three quarters of 1973. The former went up by 5.3 percent, after advancing 4 percent in 1972 and an average of 3.8 percent in 1970–72. Only in 1971 was a similar rise recorded (5.2 percent). The picture for output per employed or per man-day worked is about the same: output per employed rose 8.4 percent during the first nine months of 1973, compared with 6.6 percent in 1972 and 6.2 percent in 1970–72. As for factor productivity, a similar growth rate was posted only in 1971 (7.6 percent).

Table XI–6

DISTRIBUTION OF INDUSTRIAL PRODUCT AND OUTPUT BY FINAL USES,[a] 1968–73[b]

(percentages)

	1968	1969	1970	1971	1972	1973[b]
		Industrial product by final use				
Private consumption	40.8	38.3	37.0	33.5	33.1	35.5
Public consumption	14.2	14.0	14.8	16.8	16.4	14.2
Investment	15.4	18.1	18.5	18.3	19.6	20.0
Total domestic uses	**70.4**	**70.4**	**70.3**	**68.6**	**69.1**	**69.7**
Exports	29.6	29.6	29.7	31.4	30.9	30.3
To administered areas	1.7	2.2	2.1	2.3	2.8	2.9
To rest of the world	27.9	27.4	27.6	29.1	28.1	27.4
Total uses	**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	37.2	36.7	38.5
Public consumption	12.2	12.1	12.6	14.3	13.6	11.8
Investment	12.9	15.5	16.0	16.2	17.0	17.2
Total domestic uses	**69.2**	**69.2**	**69.5**	**67.7**	**67.3**	**67.5**
Exports	30.8	30.8	30.5	32.3	32.7	32.5
To administered areas	1.8	2.4	2.2	2.5	2.9	3.1
To rest of the world	29.0	28.4	28.3	29.8	29.8	29.4
Total uses[c]	**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, 1974, and differ from those presented in previous years for the following reasons: (1) the CBS data on direct final uses have been revised; (2) this year the data for the period 1969 to September 1973 are based on the input-output table for 1968/69, whereas previously they were calculated according to the 1965/66 input-output table; (3) exports to the administered areas were not included in previous years.

[b] January-September.

[c] Does not include changes in inventories for lack of data for the entire period reviewed.

Table XI–7

INDICATORS OF INDUSTRIAL GROWTH, 1972–73

(percent quarterly change)

	1972				1973			
	I	II	III	IV	I	II	III	IV
Industrial production								
Original data	3.5	3.6	–0.2	5.1	2.9	4.7	–1.4	
Seasonally adjusted data	3.5	4.6	1.7	3.5	1.5	5.8	0.3	
Revenue[a, b]								
At current prices	4.6	7.8	2.7	9.2	7.0	13.9	3.8	
At constant prices	2.8	6.1	0.6	5.4	2.5	6.4	0.2	
Industrial exports[b, c]	8.5	9.8	–1.0	8.3	10.3	19.6	7.3	–23.1
Domestic wholesale prices[b]	1.8	1.6	2.1	3.6	4.4	7.1	3.6	8.2
Number of workers[b]	1.5	0.6	2.9	–1.2	0.9	0.6	3.2	
Index of employees								
Original data	2.4	2.1	0.9	–0.2	0.8	1.1	1.0	
Seasonally adjusted data	2.0	1.4	3.2	–1.7	0.8	0.4	3.3	
Wages per worker[d]	2.6	0.9	4.2	0.6	11.1	3.2	7.2	
Daily wages per worker								
Original data	4.7	3.9	1.0	4.8	9.5	3.7	7.6	
Seasonally adjusted data	2.8	2.6	2.0	5.0	9.6	2.4	8.7	
Total payroll outlay[b]	7.2	7.4	4.9	–1.3	14.9	8.0	5.7	
Wages per unit of output	3.6	3.7	5.1	–6.1	11.7	3.2	7.4	

[a] See note [c] to Table XI–1.
[b] Original data.
[c] Excluding ships and aircraft.
[d] Seasonally adjusted data from the index of employees' earnings divided by the index of employees, with the results adjusted according to the index of man-days worked.

Since the 1966–67 recession productivity and output per employed have slowed significantly only twice—in 1970 and 1972 (see Table XI–1). In both years there was also a marked change in the pattern of final demands: in 1970 the uptrend in private consumption slackened while investment accelerated; in 1972 private consumption accelerated and public consumption slowed. The laggard rise in productivity in these two years was probably connected with the adaptation of the sector's productive capacity to the new demand pattern, which generally has a dampening effect on productivity and output per employed. Once the process of adjustment is completed, they can be expected to rise, and this did in fact happen in 1971 and the first nine months of 1973.

3. Industrial Output and Input Prices

Domestic industrial output prices climbed 16.9 percent in the first nine months of 1973; this is a high rate even in comparison with 1972, when the 11.6 percent registered set a new record for local industry. The rise for the year as a whole was also very steep (see Table XI–8).

This precipitate advance during the first nine months of 1973 contributed, as in the previous year, to the general sharpening of domestic inflation: the consumer price index moved up by an average of 18.5 percent, the price index of resources by 19.6 percent, GNP prices by 19.2 percent, and import prices by 20.1 percent. The average level of industrial output prices in the domestic market during the period reviewed therefore trailed slightly behind the rise in the general price level,[13] as in 1972.[14]

Some industries experienced strong demand pressure for their products during this period, as evidenced by the increase in the proportion of inputs and final goods imported, the diversion of output from the overseas to the home market, and the expansion of output (along with the rise in productivity and output per employed). Since these industries are relatively more exposed to the competition of imports,[15] this apparently explains why domestic prices of industrial output have not gone up as fast as other price indexes. At the same time, as already noted, in certain industries demand pressure eased: the uptrend in production for public consumption slowed in 1972 and the first nine months of 1973, as did that in certain categories of capital goods (a development evident only in 1973). Price control is one of the prime factors here. To be sure, its influence gradually waned in 1972 and the beginning of 1973, but in the third quarter of the year reviewed it again grew stronger after the controls had been completely lifted at the beginning of the year, except for food and fuel. The tightening of price control in the third quarter of the year is clearly reflected in the data for most industries (see Table XI–8).

The movement of domestic industrial output prices reveals interbranch divergences (see Table XI–8). Without supplemental information, such as an

[13] I.e. wholesale prices of industrial output in the domestic market went up a little faster than the consumer price index.

[14] In 1972 domestic industrial output prices advanced 11.6 percent, the consumer price index by 12.6 percent, the price index of resources by 15.5 percent, the index of import prices by 21.2 percent, and GNP prices by 12.5 percent. The trailing of domestic industrial output prices behind the rise in the general price level has been a feature of the Israeli economy for many years, and is apparently explained by the fact that industrial production is subject to a more stringent price control and is more exposed to the competition of competing imports than other sectors of the economy, such as the service industries.

[15] This factor apparently dampened demand for industrial products more in the first nine months of 1973 than in the previous year, since in 1973 imports (both of inputs and of final industrial products) increased significantly, thereby absorbing some of the demand pressure in the local market (see section 4 below).

industry breakdown of imports, there appears to be only a very tenuous connection between the rate of price increase for a certain industry's products on the one hand and the share of private consumption in that industry's output for the domestic market, or the growth of its total output, on the other. It should be recalled that in these industries prices went up as a result not only of demand-pull but also cost-push. For example, the steepest price increases in the first nine months of 1973 were recorded by wood and wood products, basic metals, metal products, and leather and leather products. Here the imported raw materials component is high, and since it became much costlier in 1972 and even more so in 1973, it is obvious that the jump in these industries' prices was due not so much to pressure from the demand as from the costs side. Examination of the price rises in the subbranches of these four industries does not reveal any significant connection between the principal domestic destination of the subbranches' output and the rate at which their prices went up. The price advance encompased nearly all subbranches of these four industries regardless of whether the pattern of domestic final demands had a stimulative or restrictive effect on the growth rates. This supports the assumption that in these subbranches the price rises were due more to upward pressure from the costs than from the demand side. For lack of data it is difficult to know whether in these industries the input price increases were completely or only partially passed on.

An examination of the connection between the increase in a certain industry's prices and the relevant variables is also rendered difficult by the timing of the increase. This is especially true of the clothing industry, where a bigger output gain during the first nine months of 1973 was accompanied by a dent in exports. This would seem to suggest a diversion of output from the overseas to the home market due to a price increase in the latter. But Table XI–8 shows that domestic clothing prices averaged only 13.2 percent higher in the first nine months of 1973, and that for the year as a whole they went up only 7 percent. However, in the final quarter of 1972 prices were more than 15 percent higher than in the previous quarter, and it was this that induced the diversion of output from the foreign to the home market during the first nine months of 1973.

The uptrend in domestic industrial output prices gathered momentum between the second quarter of 1972 and the second quarter of 1973, when the steepest quarterly increase was recorded. In the third quarter of the year reviewed the advance slowed, mainly because of the tightening of price control, and the growth rate fell to its level in the final quarter of 1972. A comparison of the movement of domestic prices of industrial output between the period including the second half of 1971 and the first half of 1972 and the same period in the following year (i.e. the second half of 1972 and the first half of 1973) with the movement of the consumer price index shows that during this period too the domestic prices of industrial output rose more

Table XI-8

CHANGES IN INDUSTRIAL OUTPUT PRICES IN THE DOMESTIC MARKET, 1969–73

(percentages)

	Annual increase or decrease (–)						Change in end-year levels		
					1973			1973	
	1969	1970	1971	1972	Jan.-Sept.	Entire year	1972[a]	A[b]	B[c]
Mining and quarrying	1.9	4.4	8.9	11.2	11.8	13.5	8.5	24.2	17.1
Food, beverages, tobacco	0.9	3.8	8.8	8.5	13.1	14.1	5.9	19.9	17.5
Textiles	0.9	4.6	9.0	12.0	20.0	20.2	17.0	23.1	13.7
Clothing	3.4	5.1	8.5	12.0	13.2	14.0	15.5	15.6	7.0
Leather and leather products	2.9	5.4	8.6	27.5	25.8	21.9	35.9	16.2	7.1
Wood, wood products, furniture	1.3	10.7	12.8	19.4	23.0	31.8	16.4	46.4	41.7
Paper and paper products	0.1	7.5	12.8	11.2	11.0	15.5	2.7	40.0	24.3
Rubber and plastics	0.8	2.8	6.2	7.6	11.2	16.3	4.7	42.8	18.1
Chemicals and refined petroleum products	–0.1	2.5	10.3	9.7	13.1	16.6	3.8	38.5	23.1
Nonmetallic mineral products	2.3	7.2	9.3	10.7	16.4	19.7	9.5	41.2	19.1
Basic metals	4.4	13.6	6.9	13.2	29.4	35.9	15.2	60.2	42.1
Metal products	5.4	14.0	7.2	12.9	24.0	28.5	14.0	43.5	32.4
Machinery	2.7	8.8	9.8	10.9	13.9	15.5	10.4	27.4	16.4
Electrical and electronic equipment	3.1	11.6	7.9	11.1	11.4	14.5	6.2	31.6	20.5
Transport equipment	3.4	9.3	15.9	17.6	16.0	15.1	14.3	14.9	9.8
Miscellaneous	2.4	7.0	7.2	10.6	14.7	16.9	9.6	26.0	21.1
Total	**1.9**	**6.8**	**9.2**	**11.6**	**16.9**	**19.1**	**12.0**	**30.8**	**21.1**

[a] The average for November 1972 and January 1973 compared with the average for these months the year before.
[b] The average for November 1973 and January 1974 compared with the average for these months the year before.
[c] Data for the year based on a fourth-quarter estimate extrapolated from the quarterly geometrical average rate of change for the first nine months of the year (the price index for September 1973 divided by the average index for December 1972 and January 1973).

slowly than the consumer price index—12.8 vs. 17.4 percent. It is therefore obvious that there was no particularly strong burst of demand pressure in any of the subperiods of 1972 and the first nine months of 1973, but rather that prices mounted at a steadily increasing rate beginning with the second quarter of 1972. The first nine months of 1973 also saw an accelerated rise in labor and other production costs in industry. Nominal daily wages per worker went up 22.9 percent during the first nine months of 1973 as against 13.5 percent the year before, while wages per unit of labor (wages per employee adjusted for the change in the number of man-hours worked), rose 19 percent during this period. The gain in earnings per industrial employee was therefore close to the national average, and reflected both the wage agreements signed at the beginning of the year, which provided for the payment of retroactive increments, and the demand pressure prevailing during the first nine months of 1973 in the labor market, which was already marked by full employment. There was also a rapid rise in input prices, with imported inputs moving up faster than those from local production.

Revenue per unit of output, which more or less reflects the rise in industrial prices in both the home and foreign markets, went up 21.1 percent during the first nine months of 1973, after a 14.4 percent advance in 1972. That it outgained industrial output in the domestic market is explained by the fact that f.o.b. industrial export prices soared 24 percent during the first nine months of 1973, after rising only 8 percent the year before.

A measurement of industrial profitability per unit of output in the first nine months of 1973, which takes into account the increase in both domestic and export prices and is based on the input-output table for 1968/69 and the appropriate price indexes, shows a 9 percent improvement during this period. If the calculation is made in relation to the real gross capital stock, the increase was 10 percent. Either way, this is a respectable advance. However, it should be borne in mind that these figures represent the average for industry as a whole; if the calculation is made in relation to the stock of equity capital, which constitutes only part of the industrial capital stock, the rise was extraordinarily high.

4. Industrial Exports

Industrial exports were, at $ 270.6 million, up 41.8 percent during the first nine months of 1973 (see Table XI–9). F.o.b. prices rose 24.8 percent, with diamonds advancing 30.7 percent and other products by 19.4 percent. Excluding diamonds and mine and quarry products, the prices received by the exporter[16] were 24.7 percent higher, after rising 12.8 percent in 1972 (see Table XI–11). The increase in f.o.b. export prices reflects both the better

[16] In IL terms, at the effective rate of exchange.

Table XI-9

INDUSTRIAL EXPORTS,[a] BY MAIN BRANCH, 1972[p]-73[b]

($ million, at current f.o.b. prices)

	1972[b]	1973[b]	Percent increase or decrease (–)		
			Value	Quantity	Price
Mining and quarrying	31.0	39.3	26.8	0.4	27.3
Food, beverages, tobacco	69.0	82.4	19.4	7.2	11.4
Textiles and clothing	88.4	108.5	22.7	–2.7	26.1
Leather and leather products	4.4	5.1	15.9	–2.7	19.1
Wood, wood products, furniture	7.5	11.5	53.3	15.5	32.7
Paper and paper products	1.8	2.5	38.9	7.6	29.1
Printing and publishing	8.2	9.5	15.9	–9.0	27.4
Rubber and plastics	22.5	22.8	1.3	–3.5	5.0
Chemicals and refined petroleum products	43.4	59.2	36.4	20.2	13.5
Nonmetallic mineral products	1.5	2.2	46.7	16.7	25.7
Basic metals	5.7	9.3	63.2	51.9	7.4
Metal products	37.2	33.7	–9.4	–19.6	12.7
Machinery	9.1	13.8	51.7	17.1	29.6
Electrical and electronic equipment	19.0	20.2	6.3	–16.9	27.9
Transport equipment	7.0	16.7	138.6	93.2	23.5
Miscellaneous	19.5	26.2	34.4	23.7	8.7
Total industrial exports, excl. diamonds	**375.2**	**462.9**	**23.4**	**3.3**	**19.4**
Diamonds	272.1	455.0	67.2	27.9	30.7
Total industrial exports	**647.3**	**917.9**	**41.8**	**13.6**	**24.8**

[a] The discrepancies between the figures in this table and those on industrial exports in Chapter III stem from the fact that this table is based on monthly data and excludes such items as scrap and bunkers and stores supplied to foreign ships and aircraft.
[b] January-September.
SOURCE: Central Bureau of Statistics.

prices commanded by Israel's products abroad during this period and the changes in the exchange rates of the leading European currencies in relation to the dollar and hence also the Israeli pound.

Overseas diamond sales expanded strongly in constant-price terms, for the third consecutive year; this reflected the continued growth of foreign demand (during the first nine months of 1973), which to some extent stemmed from the instability of the international monetary system. The upswing in real industrial exports exclusive of diamonds slackened during the first nine months of 1973, in line with the previous year's trend. To be sure, the more sluggish growth in 1973 was due partly to random factors: exports of special items (excluding diamonds) fell off 3.2 percent in real terms (see Table XI–10), with phosphates, copper-cement, tires, refined petroleum products, and citrus

Table XI–10

REAL CHANGES IN DIRECT INDUSTRIAL EXPORTS, BY MARKET GROUPING,[a] 1970–73[b]

(percentages)

Market grouping	Weight of group in total industrial exports 1973[b]	Weight of exports in industrial output[c] 1972	Weight of group in total industrial output	Annual real increase or decrease (–)			
				1970	1971	1972	1973[d]
1. Consumer goods	24.6	19	47	18.5	21.3	8.4	1.9
Food	3.8	7	16	26.5	18.4	0.1	15.5
Other	20.8	26	31	17.0	21.9	9.9	–0.4
2. Capital goods, construction materials, and public consumption products	8.7	12	27	0.0	62.0	0.8	1.6
Capital goods and construction materials	—	—	—	26.4	60.1	–6.0	–2.8
Products for public consumption	—	—	—	–22.6	64.8	10.5	6.9
3. Intermediates.	5.4	14	12	42.1	11.0	21.6	30.7
4. Special items	61.2	93	14	–3.7	15.8	22.1	19.1
Diamonds	47.3	100	9	–6.8	22.6	30.2	27.1
Other	13.9	70	5	2.4	4.1	5.2	–3.2
5. Total industrial exports	**100.0**	**27**	**100**	**4.3**	**20.2**	**15.3**	**13.6**

[a] See note [b] to Table XI–2.
[b] January-September.
[c] The share of exports, calculated at the weighted average effective rates of exchange in 1972, in gross output valued at market prices (from the 1971/72 industry and crafts survey). The results should be regarded as indicative of order of magnitude only.
[d] January-September, 1973 compared with January-September, 1972.
SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

products posting lower figures. Several reasons can be advanced to explain the contraction of these exports: in the case of copper-cement, phosphates, and citrus products it seems that overseas sales during the first nine months of 1972 exceeded production; in citrus products the main factor was adverse natural factors, which resulted in a milder increase in the quantities supplied to the canneries; while tire sales fell off because of a drop in demand. The poorer export performance of these industries probably should not be regarded as indicative of any change in the long-run trend. Other industrial exports (i.e. excluding diamonds and special items) also rose at a more laggard real rate during this period. A classification of exports by market groupings shows that the sluggish headway can be attributed primarily to those industries producing mainly for consumption (directly or indirectly), while those whose products are mostly destined for investment and public consumption moved up fractionally, after holding virtually steady in 1972.

In the case of consumer goods industries the deceleration began in 1972 and carried over through the first nine months of 1973. Excluding food, there was actually an absolute decline during this period. The food industry (excluding citrus products, which are lumped under "special items") scored a real 15.5 percent gain during the first nine months of 1973, after failing to forge ahead in the previous year. This impressive advance can be credited to the stepping up of production (see Table XI–2). It should be recalled in this connection that the domestic demand pressure primarily affected nonfood consumer goods. The food industry did not experience any undue domestic demand pressure (since the income elasticity of demand for such products is low, the growth of domestic sales is largely a function of the growth of population), and it was therefore possible to expand exports.

Overseas sales of industries manufacturing mainly goods for public consumption and investment edged up 1.6 percent in real terms during the first nine months of 1973, after remaining practically unchanged in the previous year. No satisfactory explanation can be offered as yet for the virtual standstill in such exports. Domestic demand for many of these items (mostly those destined for public consumption) began to falter in 1972 and continued to weaken during the first nine months of 1973, when there was a further cutback in public sector consumption spending and a more sluggish increase in the case of some capital goods. In such circumstances these industries might have been expected to market a greater share of their output abroad, but this did not happen. As already noted, this may have been due to the nature of their products and the difficulty in finding export markets for them.

The prices received by exporters during the first nine months of 1973 (excluding diamonds and mine and quarry products) went up, as already indicated, by 24.7 percent (see Table XI–11), following an 18.9 percent rise in f.o.b. prices and a 4.9 percent average increase in direct export incentives. There was thus a 6.7 percent increase in such prices relative to those of

Table XI–11

CHANGES IN PRICES TO THE EXPORTER,[a] 1969–73[b]

(percentages)

	1969	1970	1971	1972		1973
				Jan.-Sept.	Entire year	Jan.-Sept.
Effective rate of exchange for industrial exports[c] (IL/$)	3.85	4.24	4.79	5.10	5.13	5.35
Index of effective rate of exchange	—	110.1	113.0	—	107.1	104.9
Index of export prices (f.o.b.)	104.8	100.3	104.1	—	105.3	118.9
Index of prices to the exporter per unit of exported output	—	110.4	117.6	—	112.8	124.7
Index of industrial output prices in the domestic market	101.9	106.8	109.2	—	111.6	116.9
Ratio between prices to the exporter and industrial output prices in the domestic market	—	103.4	107.7	—	101.1	106.7

[a] Industrial exports, less diamonds and minerals.
[b] January-September.
[c] Average effective rate of exchange for the year.
SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

industrial output sold in the domestic market, after a mere 1.1 percent rise in 1972. In other words, the first three quarters of 1973 saw an improvement in the profitability of exports compared with domestic sales (assuming a similar production cost structure in these two markets). That industrial export growth slumped appreciably despite this development and the sustained rapid expansion of industrial production is evidence of the prevailing strong domestic demand pressures, which began to appear in the previous year. The rise in industrial profitability during the first nine months of 1973 (which occurred mainly in the first two quarters) apparently came too late in the year to enable the sector to step up its overseas sales, especially as it was faced with a continued strong upswing in domestic private consumption demand.

5. Investment

The industrial investment growth curve flattened noticeably during the first nine months of 1973, when the rise was only 1.7 percent as against 10.6 percent in 1972 and an average of 11.8 percent in 1970–72. The cutback in equipment outlays was chiefly responsible for this development, whereas investment in structures was up 10.7 percent (see Table XI–12).

Table XI–12

REAL CHANGES IN INDUSTRIAL INVESTMENT, 1967–73[a]

	Percent annual increase or decrease (–)							Weight in
	1967	1968	1969	1970	1971	1972[a]	1973[b]	1972
Investment in machinery and equipment	–24.5	108.4	50.2	11.7	13.1	9.6	–0.5	80.5
Imported	–31.9	156.0	45.8	16.0	12.4	11.1	–2.3	64.6
Locally manufactured	–11.3	34.9	65.0	–1.2	11.8	4.7	5.2	15.9
Investment in structures	–17.8	50.2	–5.3	19.0	6.6	15.1	10.7	19.5
Total investment	**–23.4**	**91.1**	**35.3**	**13.0**	**11.8**	**10.6**	**1.7**	**100.0**

[a] Provisional data.
[b] January-September, 1973 compared with January-September, 1972.
Source: Central Bureau of Statistics.

The flagging of the uptrend in industrial investment actually began in 1970 and continued in the following years, but by an average of only about 1 percent per annum. This apparently reflected the process of adjusting the sector's capital spending to the desired growth of its capital stock. However, the slowdown in the first nine months of 1973 was unquestionably too severe to be attributed solely to this factor. As already noted, no satisfactory reason can be advanced at this stage to explain this development, which occurred despite a big gain in industrial profitability. However, several tentative explanations can be offered:

(a) The year 1972 and the beginning of 1973 witnessed the fortuitous completion of a number of large projects (in mining and quarrying, chemicals, nonmetallic mineral products, rubber and plastics, and textiles), which in 1972 had accounted for a substantial proportion of total industrial investment.

(b) As already mentioned, the sustained surge of industrial production during the first nine months of 1973 can be mainly credited to the impressive output gains scored by consumer goods industries, which were probably achieved thanks to the much heavier investment made in 1972 in response to the upswing in private consumption demand. By contrast, industries producing building materials and capital goods experienced a weakening of demand for their products and hence a more sluggish growth of production (see Table XI–2).

It is therefore likely that a combination of factors retarded the growth of investment during the period reviewed. Consumer goods industries required time to "digest" the sizable new investments made the year before—the reference is to the recruiting of additional workers, the running-in of the new facilities, the establishment of marketing networks, and so forth. On the other hand, in industries experiencing a slackening of output growth (building materials and some capital goods) a deceleration or absolute decline in capital spending was only to be expected. Support for this assumption can be found in the heavier investment in industrial premises (excluding mining and quarrying) during the first nine months of 1973. This probably heralded a new wave of capital spending in those industries which enjoyed a livelier demand for their products in 1973. Since investment in structures naturally precedes that in equipment, this may very likely explain the reduction of equipment expenditures and the accelerated investment in structures during the period reviewed.

(c) Investment decisions during the first nine months of 1973 were affected by the prevailing uncertainty as to what direction Government policy would take after the elections, especially as alternative short-term investments in linked financial assets promising attractive returns were available. Another factor associated with the mood of uncertainty, at least as far as some of the industries are concerned, was the growing world pinch in raw materials, which may have deterred some establishments from enlarging their facilities.

(d) Delivery time for imported equipment apparently increased during the first nine months of 1973 owing to various obstacles encountered both overseas and in Israel's ports. It is therefore possible that the potential industrial investment during this period was higher, but that the delays in obtaining equipment from abroad reduced the actual investment.

The decrease in equipment outlays was entirely concentrated in imported, items (see Table XI–12), whereas the amount expended on locally produced equipment rose. This change in the import and domestic proportions may also have been partly due to the longer time which elapsed between the placing of orders abroad and the release of the equipment from the ports.[17]

(e) Changes in the terms and sources of industrial financing may also have affected the growth of investment. However, the exceptional character of the year reviewed precludes a differentiation of the external sources of finance available to the sector in the first nine months of the year from those in the final quarter. Consequently it cannot definitely be established whether industrial financing terms underwent a change during the first three quarters of the year.[18]

[17] Another possible reason is that imported equipment prices went up faster than those of Israeli-made items.

[18] From incomplete data and other general information on external industrial financing during the first nine months of 1973 it seems that there was no stiffening of the terms of directed industrial credit during this period. This is discussed in detail in Chapter V, "Domestic Investment and Construction".