CHAPTER XI

INDUSTRY

1. Main Developments

Real gross industrial output expanded in 1969 by 16.4 percent, from roughly IL 8,400 million to some IL 9,800 million.[1] This was a lower rate of increase than in 1968 but above the average for 1960–69. The curve moved up rapidly in the early months of the year, but more slowly thereafter. In contrast to 1968, the growth of output in the year reviewed can be credited to a larger input of factors of production; the rise in productivity decelerated sharply, and was responsible for a relatively small proportion of the output increment.[2] Output per man-day also advanced more slowly in 1969, by 4.5 percent as against more than 8 percent the year before. The slower rise in productivity reflected the virtually total rebounding of the capital utilization rate from its low level of the recession period,[3] a trend that began in 1968.

The number of man-days worked in industry increased by approximately 11 percent, and the capital stock by about 8 percent. The larger number of man-days was accompanied by an almost equal rise in the number of persons employed in the sector. The expansion of employment was also slower in 1969 than in 1968, but still much faster than in the 1960–67 period. Mounting demand for labor drove up wages by some 5 percent in nominal terms; this exceeded the increases of 3 percent in 1968 and 5.4 percent in 1967, but was below the average annual rise in 1960–66.

That nominal wages did not go up faster, as was expected at the beginning of 1969, can be ascribed to the much larger supply of labor—chiefly unskilled workers from the administered areas[4]—and also to the more sluggish growth of demand for labor accompanying the slower expansion of industrial output, especially during the second half of the year. The increase in industrial wages was not sufficient to check the downtrend in the weight of labor in production costs per worker evident since 1967. There was, of course, a corresponding in-

[1] Output data are based on the 1967 industrial survey.

[2] The productivity calculations cited here are based on the industrial indexes of the Central Bureau of Statistics.

[3] See Bank of Israel, *Annual Report 1968*, p. 242.

[4] There was apparently an increase in the supply of skilled labor as well, mainly as a result of immigration; however, no data are available to confirm this assumption.

crease in the returns to the other factors of production. In 1969 the decline in the weight of wage outlays became even more marked, suggesting that the rapid growth of industrial profits probably persisted.

Demand for industrial output continued upward during the year, though the moderate rise in prices and the slower expansion of imports indicate that its growth slackened somewhat. Exports and public consumption also grew more slowly in the year reviewed, whereas private consumption and investment accelerated.

Table XI–1

CHANGES IN OUTPUT AND FACTOR INPUTS, 1960–69

(percentages)

	Annual increase or decrease (–)						Dec. 1969 as against Dec. 1968
	Average 1960–64	1965	1966	1967	1968	1969	
Industrial output	14.0	10.0	1.4	–3.1 [a]	28.7	16.4	12.7
Number of man-days	9.1	0.6	–2.9	–8.3	19.1	11.4	7.3
Real investment	21.6	–8.2	–25.3	–22.4	87.6	36.0	..
Real gross capital stock [b]	9.1	9.4	6.2	2.4	1.7	7.8	10.0
Output per man-day	4.5	9.3	4.4	5.7	8.1	4.5	5.0
Output per unit of capital	4.5	0.5	–4.5	–5.4	26.5	8.0	2.5
Change in factor productivity	4.5	5.6	0.7	1.0	16.6	6.4	..
Daily nominal wages per worker	8.9	14.2	16.1	5.4	3.0	5.0	4.0
Domestic market prices	5.2 [c]	3.9	4.8	1.2	2.3	2.1	3.2
Daily real wage/output per man-day	–1.0	0.6	6.1	–1.5	–6.7	–1.6	–4.0
Turnover, at constant prices	18.1 [c]	10.4	0.3	–0.7	27.9	18.9	15.1
Exports ($, f.o.b.)	19.1	12.3	18.9	3.2	24.8	15.6	..
Industrial export prices	—	2.6	5.7	–2.0	–1.5	4.8	..

[a] The datum relates to the calendar year, in contrast to industrial survey data, which relate to the fiscal year; hence the discrepancy between the figures based on these two sources.
[b] At the beginning of the year, for the purpose of computing productivity.
[c] Average for 1961–64.
SOURCE: Central Bureau of Statistics.

The percentage distribution of output by final uses shows a mildly declining trend in 1969 in domestic uses, with a corresponding increase in exports and trade with the administered areas.

Among domestic uses, the outstanding feature was once again the small weight of public consumption, which even declined compared with 1968. The larger consumption spending of the public sector, mainly for security purposes, lagged behind the increased purchases of other sectors. Expenditure on private consumption and investment moved up at a stronger rate than in 1968. Nevertheless, the weight of private consumption in output uses fell off in 1969, for the second consecutive year, while the weight of investment went up. The rise in exports also slowed down, and this was the chief reason for the sagging industrial output growth rate in 1969. Nevertheless, the growth of exports still outstripped that of total output.

Analysis of the branch structure of industrial output shows that the weight of the metal branches—especially electrical and electronic equipment, transport vehicles, machinery, and metal products—continued to go up, while the weight of the food, textile, clothing, and wood and carpentry branches declined.

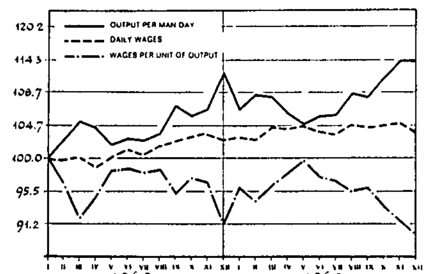
The wholesale price index of industrial output edged up only 2.1 percent in 1969 (3.2 percent on an annual average). This relative stability can be attributed to the fairly substantial increase in industrial imports (though lagging somewhat behind the 1968 growth rate), the accelerated expansion of supply from domestic production, and the slower growth of demand, with that for durable goods rising in importance.

Industrial exports gained approximately 16 percent in 1969, compared with 25 percent the year before. In quantitative terms, the increases were approximately 10 and 27 percent respectively. An average rise of some 5 percent in export prices prevented a greater deceleration in the growth rate. The slowdown was most striking in the diamond industry, which recorded a gain of only 11 percent, as contrasted with 23 percent in 1968, because of difficulties encountered in the U.S. market. Overseas sales of branches producing special items, which are decisively affected by random factors, advanced only 6 percent in 1969, compared with 33 percent in the previous year. Among the goods in this group, citrus products, edible oils and fats, and minerals (including scrap) showed a higher export in 1969, while in other metal products, refined petroleum products, and aircraft production and repairs there was an absolute decrease because of buoyant domestic demand and political impediments encountered abroad. At constant prices, exports of these special items and diamonds increased by only 3 percent, as against 28 percent in 1968. Other industrial exports expanded by 28 percent in 1969 (24 percent in real terms), bringing up their weight within total industrial exports to some 40 percent. Their continued accelerated rise in explained by the uptrend in the profitability of exports evident since the end of 1966, the further rapid expansion of domestic produc-

Figure XI–1

CHANGES IN OUTPUT PER MAN-DAY, UNIT LABOR COSTS, AND DAILY WAGES, 1968–69

(percentages; adjusted for seasonality)



Semi-logarithmic scale.

tion without any marked increases in domestic market prices, and the maturing of investments in export industries, a process that has been going on for several years.

Capital outlays in industry went up 36 percent during the year reviewed, from IL 495 million in 1968 to IL 670 million. The previous year's trend, of a decline in the proportion invested in buildings and a rise in that in equipment and machinery, grew more pronounced in 1969, and there was actually an absolute drop in the amount invested in buildings. The branch distribution of investments showed no significant change during the year, continuing to be concentrated in the metal, textile, and chemical branches and featuring both big projects and a large number of relatively small ones.

2. Output

The value of real industrial output moved up 16.4 percent in 1969 to reach approximately IL 9,800 million (at 1967 producer prices). The real gross product[1] expanded by 18.1 percent on an annual average and by about 13 percent measured according to December levels. Compared with 1968, growth was slower but still substantial compared with the early sixties.

The rise in industrial production in 1969 was the result of a 10 percent increase in the quantity of productive factors and of a 6.4 percent improvement in the rate of factor utilization. The rate of increase slowed down for both items, but more strikingly for measured productivity, which had advanced by some 17 percent in 1968. That productivity rose more slowly in 1969 is also borne out by the smaller gain in output per man-day—4.5 percent in 1969 as contrasted with some 8 percent the year before.

The flagging productivity growth rate in 1969 is largely explained by the strong advance the year before, a natural outcome of the emergence of the economy from the recession of 1967, when there was substantial underemployment of the existing stock of capital assets. After this compensatory increase, there was, of course, only a low potential for a continued rapid rise in 1969. Despite the deceleration in the year reviewed, the growth rate was still higher than during 1960–65.

As already noted, the quantity of factors of production increased by some 10 percent: the number of man-days worked went up by more than 11 percent, and the stock of productive capital assets by nearly 8 percent.

Along with the availability of more productive factors, the year 1969 witnessed a further expansion of demand for industrial products. No direct data on this are available, but the moderate rise in prices despite the smaller percentage increase in 1969 in the production and import of industrial goods

[1] Measured industrial product is census value added, including *inter alia* depreciation and general overheads, such as interest, advertising, services, etc.

Table XI-2

GROSS INDUSTRIAL OUTPUT, BY BRANCH, 1966–69

(IL thousand)

Branch	Output in 1969, at 1967 factor prices	Percent annual real increase or decrease (–)				Change in annual rate of increase in 1969[a]
		1966	1967	1968	1969	
Mining and quarrying	196,648	5.4	–5.4	18.5	5.7	–10.8
Food	1,925,778	6.4	5.5	14.0	8.2	–5.1
Textiles	925,457	5.2	–6.0	28.7	13.9	–11.5
Clothing	314,120	3.0	–1.5	29.9	17.0	–9.9
Wood and carpentry	537,640	2.3	–6.9	41.4	18.4	–16.3
Paper and paper products	185,416	6.0	10.6	19.5	3.1	–13.7
Printing and publishing	220,156	10.0	17.8	13.3	4.6	–7.7
Leather and leather products	152,000	–3.7	–11.5	22.8	13.1	–7.9
Rubber and plastics	370,301	3.7	–0.6	44.5	22.1	–15.5
Chemicals and refined petroleum products	847,958	10.0	4.9	27.6	14.3	–10.4
Nonmetallic mineral products	449,247	–6.8	–25.4	26.4	11.5	–11.8
Diamonds	755,675[b]	11.3	–6.2	21.7	4.2	–14.4
Basic metals	265,354	–7.3	–16.5	45.5	18.7	–18.4
Metal products	671,381	–4.1	–14.8	37.4	20.3	–12.4
Machinery	441,057	–9.3	–11.6	40.9	19.0	–15.5
Electrical and electronic equipment	674,648	–4.9	–15.5	71.1	60.8	–6.0
Transport equipment	820,315	–10.9	–1.0	41.1	30.5	–7.5
Miscellaneous	120,548	–7.9	11.2	34.3	21.0	–9.9
Total	**9,873,699**	**1.4**	**–3.1**	**28.7**	**16.4**	**–9.6**

[a] Output index of 1969 divided by output index of 1968, minus 100.
[b] Exports, f.o.b.
SOURCE: Central Bureau of Statistics.

suggests a slackening in the growth of demand. This was accompanied by a change in its composition: purchases of imported and locally manufactured durable goods rose at an accelerated rate, as did the production of capital goods, a development reflected by the increased weight of the metal industries in the output increment.

This change in the composition of purchases was largely due to the continuing inventory buildup, which began with the revival of demand after the recession. In addition, expectations of devaluation, higher prices, and heavier taxes

Table XI-3

FACTORS AFFECTING THE GROWTH OF INDUSTRIAL OUTPUT, 1960–69

(percentages)

	1965 as against 1960		1966 as against 1965		1967 as against 1966		1968 as against 1967		1969 as against 1968	
	Average annual increase	Share in increment	Average annual increase	Share in increment	Average annual increase	Share in increment	Average annual increase	Share in increment	Average annual increase	Share in increment
A. Supply factors										
Value of industrial output	**13.3**	**100**	**1.4**	**100**	**–3.1**	**–100**	**28.7**	**100**	**16.4**	**100**
Number of man-days by production workers	7.6	35	–2.9	–127	–8.3	–161	19.1	40	11.4	42
Capital stock	10.3	30	6.2	177	2.4	31	1.7	2	7.8	19
Measured productivity[a]	4.6	35	0.7	50	1.0	30	16.6	58	6.4	39
B. Indicators of contribution to incremental demand[b]										
Private consumption			1.5	37	5.6	51	12.4	31	14.8	41
Public consumption			24.3	63	56.9	67	21.1	10	9.3	5
Investment			–12.9	–132	–19.6	–64	22.1	15	26.1	22
Total domestic uses			**–0.9**	**–32**	**4.0**	**54**	**15.4**	**56**	**16.3**	**68**
Exports[c]			11.9	132	10.2	46	34.4	44	18.8	32
Total uses				**100**		**100**		**100**		**100**

[a] Calculated according to the method presented by A. L. Gaathon in *Capital Stock, Employment and Output in Israel, 1950–1959,* Bank of Israel, Jerusalem, 1961.
[b] Increase in output stemming from changes in final demands. The data are provisional and are indicative of orders of magnitude only.
[c] Including sales to the administered areas.
SOURCE: Part A — see source to Table XI–1 in the appendix to the 1968 *Annual Report* (Hebrew only).
B — Bank of Israel input-output calculations (provisional data).

induced the advancing of purchases and encouraged speculative buying of durables and capital goods.

Table XI-4

DISTRIBUTION OF INDUSTRIAL OUTPUT, BY FINAL DEMAND, 1965-69[a]

(percentages)

	1965	1966	1967	1968	1969
Private consumption	51	50	50	47	46
Public consumption	5	7	10	10	9
Investment	21	18	14	14	15
Total domestic uses	**77**	**75**	**74**	**71**	**70**
Exports	23	25	26	29	30
Total final uses	**100**	**100**	**100**	**100**	**100**

[a] Figures have been rounded.
SOURCE: Provisional input-output estimates of the Bank of Israel.

A distribution of industrial output by final demands shows a downward drift in the relative importance of domestic demands and a small rise in that of exports and trade with the administered areas. The latter development was the resultant of a decline in the weight of exports to foreign countries, due to the slackening of the growth rate, and an accelerated increase in trade with the administered areas. A branch distribution of output diverted to export shows decreases in diamonds, production and repair of transport vehicles, refined petroleum products, metal products, and minerals—which constitute part of the "special items" category. Exports of glass, ceramics, cement and cement products, and basic metals and pipes also went down, but here the growth of domestic demand was the principal factor.

Trade links between Israel and the administered territories became stronger, for the third consecutive year. Demand for Israeli manufactures soared some 70 percent in 1969, and accounted for about 3.5 percent of total industrial output. Whereas in 1968 the items most in demand were textiles, clothing, food, household goods, and other "essentials", in 1969 their relative importance diminished, and that of items of a less "essential" character—such as wood products, paper, printing and publishing, and footwear, and even "luxuries" such as special household equipment and electrical appliances—increased.[1]

Domestic demand for industrial goods underwent some change in the year reviewed: the weight of private consumption continued to drift down (from

[1] Purchases by the inhabitants of the administered areas were not solely for the satisfaction of their own demand.

50 percent in 1967 and 47 percent in 1968 to 46 percent), while that of investment continued upward, accounting for some 15 percent of industrial output, as against 14 percent in 1968.

Government consumption demand (mainly purchases by the defense establishment) accounted for no more than 5 percent of the incremental industrial output, and its weight in total output even edged down from 10 percent in 1967 and 1968 to 9 percent. This decrease in the relative importance of public consumption was due to the smaller percentage rise in defense purchases from local industry.[1] Along with the slower growth of exports, this explains the lower rate of increase in the demand for industrial output. The branches producing the bulk of the defense goods in 1969 were metal products, electronic equipment and instruments, and vehicle production and repair. The most striking increases in industrial production took place in rubber and plastics, leather, footwear, textiles, cement, and electrical appliances; the relative importance of the metal industries diminished somewhat.

Purchases of capital goods were responsible for a 26 percent increase in output in 1969, compared with 22 percent in 1968, and its weight in industrial production edged up from some 14 percent in 1968 to approximately 15 percent. As in the preceding year, most of the demand for capital goods in 1969 emanated from the wood and carpentry, cement, glass, metal products, machinery, and household electrical appliance industries. There were no marked structural changes in purchases of capital goods, a fact lending support to the assumption that the pattern of investments did not change during the year.[2]

The growth of output attributable to private consumption demand amounted to about 15 percent in 1969, as against 12 percent the year before. This depressed the weight of private consumption in total demand to 45 percent, but obviously it was still the predominant factor in the expansion of industrial output. As to the composition of private consumption, there was an increase in the weight of items of a more speculative nature—such as electrical equipment and household appliances—and a decrease in foodstuffs.

Changes in buying patterns in recent years have caused shifts in the relative importance of the various industrial branches (see Table XI–5). The largest gains have been in metal and electrical products. The growing weight of branches like vehicle production, electrical equipment, machinery, metal products, and basic metals has been due largely to the growth of public sector demand for their products, but they also accounted for a sizable share of private consumption and investment demand, especially for science-based and sophisticated industrial products.

In contrast to the increased weight of the above branches, there was a decline in others—especially in the food, textile, clothing, and wood and car-

[1] The 1969 data on the domestic purchases component of public consumption are only provisional estimates and are liable to change considerably.

[2] See also the discussion in Chapter V.

Table XI–5

DISTRIBUTION OF TOTAL AND INCREMENTAL REAL INDUSTRIAL OUTPUT, BY MAIN BRANCH, 1966–69

(percentages)

Branch	Distribution of industrial output				Distribution of output increment			
	1966	1967	1968	1969	1966	1967	1968	1969
Mining and quarrying	3.0	2.4	2.2	2.0	6.6	–6.0	1.5	0.7
Food	22.4	24.0	21.0	19.8	58.7	49.1	11.1	10.7
Textiles	11.5	9.7	9.6	9.3	24.8	–17.7	9.2	7.9
Clothing	3.4	3.2	3.2	3.2	4.3	–0.3	3.1	3.2
Wood and carpentry	6.2	4.9	5.4	5.4	6.1	–14.9	6.8	5.9
Paper and paper products	2.1	2.3	2.1	1.9	5.1	5.9	1.5	0.4
Printing and publishing	3.2	2.9	2.5	2.2	12.8	–2.7	1.2	0.7
Leather and leather products	1.6	1.7	1.6	1.5	–2.7	2.4	1.3	1.2
Rubber and plastic products	3.2	3.2	3.6	3.8	4.9	4.3	4.8	4.7
Chemicals	9.8	9.0	8.8	8.5	38.8	–3.5	8.2	7.2
Nonmetallic minerals	4.8	4.9	4.8	4.5	–15.3	6.1	4.3	3.3
Diamonds	7.2	7.3	8.0	7.7	31.9	8.6	10.5	5.4
Basic metals	2.5	2.4	2.6	2.7	–8.7	–0.3	3.5	3.0
Metal products	5.6	6.2	6.6	6.8	–10.4	16.0	8.0	7.8
Machinery	3.3	4.0	4.4	4.5	–14.5	16.3	5.5	5.0
Electrical and electronic equipment	3.3	3.8	5.0	6.8	–7.4	11.0	8.9	18.0
Transport equipment	5.9	6.9	7.4	8.2	–31.3	22.0	9.3	13.6
Miscellaneous	1.0	1.1	1.2	1.2	–3.7	3.7	1.3	1.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: 1966–67 — Industrial surveys, after adjusting for small enterprises excluded from the surveys; 1968–69 — Central Bureau of Statistics.

pentry industries. As to the remainder, the annual fluctuations were either too erratic to establish a trend, or the trend has remained unchanged in recent years. A thorough analysis of structural changes requires a more detailed breakdown by subsidiary branches, since the aggregate trends disguise considerable intra-branch changes; but the quality of the available information precludes this.

(a) *Growth of industrial output during 1969*

Industrial production expanded during 1969 at an average monthly rate of about 1 percent, or by approximately 13 percent for the year as a whole, compared with 22 percent the year before. The last two years witnessed a deceleration in the rate of output expansion (see Figure XI–2). During the

Table XI-6

REAL CHANGES IN INDUSTRIAL OUTPUT, HALF-YEARLY, 1965–69

(percentages)

Branch	Change in half-yearly levels										Average monthly rate of change			
	Jan. 1965– July 1965	July 1965– Jan. 1966	Jan. 1966– July 1966	July 1966– Jan. 1967	Jan. 1967– July 1967	July 1967– Jan. 1968	Jan. 1968– July 1968	July 1968– Jan. 1969	Jan. 1969– July 1969	July 1969– Dec. 1969	Jan. 1968– July 1968	July 1968– Jan. 1969	Jan. 1969– July 1969	July 1969– Dec. 1969
Mining and quarrying	5.6	18.3	–12.8	12.3	–15.8	14.4	29.5	–15.5	27.8	–5.6	4.4	–2.4	4.2	–1.1
Food	14.6	–6.9	10.3	–3.6	20.4	–14.7	14.3	2.2	5.2	4.6	2.3	0.4	0.9	0.9
Textiles	–3.8	19.3	–5.6	–19.2	15.2	12.8	8.0	11.2	6.4	8.5	2.0	1.8	1.1	1.6
Clothing	21.0	–2.1	38.8	–18.2	13.8	–1.0	14.9	13.3	–0.1	14.6	2.3	2.1	–0.02	2.8
Wood and carpentry	9.3	4.9	1.7	–11.6	–1.1	17.8	36.6	2.3	9.5	8.5	5.3	0.4	1.5	1.6
Paper and paper products	2.4	3.1	7.9	–8.4	15.6	9.6	–3.9	–19.1	–11.0	17.1	–0.7	2.9	–1.8	3.2
Printing and publishing	–4.1	–0.4	19.8	0.4	7.7	8.3	6.2	–2.9	10.0	10.0	1.0	–0.5	1.6	1.9
Leather and leather products	–14.8	22.4	–13.6	–18.2	25.2	8.3	17.4	–2.0	14.2	–3.2	2.7	–0.3	2.2	–0.6
Rubber and plastics	–2.1	13.3	3.2	–14.1	13.9	24.5	15.5	1.5	17.9	15.2	2.4	0.3	2.8	2.9
Chemicals	14.3	2.3	8.9	–12.3	30.8	9.3	5.8	11.0	5.4	–0.9	1.0	1.8	0.9	–0.2
Nonmetallic minerals	9.5	–2.9	–0.4	–19.4	–31.5	46.8	23.0	–3.5	16.2	–12.2	3.5	–0.6	2.5	–2.3
Diamonds	–24.8	51.6	12.1	–3.1	–9.1	6.2	39.7	–12.4	2.6	–21.5	5.7	–2.0	0.4	–4.0
Basic metals	4.1	14.5	–22.3	–1.8	17.9	37.2	44.8	12.4	25.7	–15.5	6.4	2.0	3.9	–2.9
Metal products	–4.1	10.6	–7.4	–13.6	–7.6	23.5	23.4	0.4	20.5	–3.5	3.6	0.1	3.2	–0.7
Machinery	28.6	–19.3	–8.6	–2.5	–7.6	36.1	12.0	12.5	14.4	–8.3	1.9	2.0	2.3	–1.6
Electrical and electronic equipment	1.7	19.0	–7.3	–22.1	–0.4	14.8	38.3	60.1	–9.2	26.1	5.6	8.2	–1.5	4.8
Transport equipment	3.7	4.0	–15.4	–15.2	28.4	13.8	15.5	22.7	12.6	–9.5	2.4	3.5	2.0	–1.8
Miscellaneous	3.5	2.5	–9.9	4.8	–2.3	35.5	19.8	2.8	25.8	–12.6	3.1	0.5	3.9	–2.4
Total	**5.3**	**5.2**	**0.1**	**–9.6**	**6.2**	**10.7**	**16.3**	**7.0**	**8.5**	**3.1**	**2.5**	**1.1**	**1.4**	**0.6**

SOURCE: Central Bureau of Statistics indexes of industrial production (seasonally adjusted).

first half of 1968 industrial production went up by 2.5 percent per month, but in the second half the rate fell to about 1.1 percent; after a slight acceleration in the first half of 1969, the rate dropped to only 0.6 percent per month in the second half of the year.

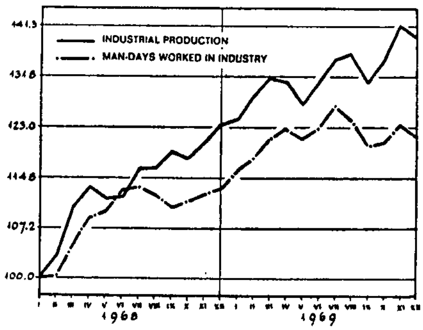
The decline in the expansion of industrial output in the course of 1969 reflects the complete emergence of the economy from the slump, from the aspects of both demand and available factors of production. Toward the end of the year the growth of domestic demand apparently slackened, thereby largely averting the price increases that might have been expected as the economy approached a state of full employment. These demand and output developments were not uniform in the various industrial branches, as may be seen from Table XI–6.

In a number of branches the constraint imposed by the limited supply of productive factors became more pronounced during the second half of 1969, slower output growth being accompanied by a more rapid rise of prices. Although specific data are not available, it appears that this development affected primarily the following branches: wood and carpentry, chemicals and petroleum, nonmetallic minerals, basic metals, metal products, machinery, transport equipment, and miscellaneous products. On the other hand, under the stimulus of booming demand, the leather and footwear, clothing, paper and paper products, rubber and plastic products, and electrical and electronic equipment industries experienced an acceleration of production in the second half of the year, accompanied by rising prices.

Figure XI–2

CHANGES IN INDUSTRIAL PRODUCTION AND MAN-DAYS WORKED, 1968-68

(percentages; adjusted for seasonality)



Semi-logarithmic scale.

3. Industrial Output Prices

Wholesale prices of industrial output for the domestic market averaged about 2 percent higher in 1969, compared with a 2.4 percent rise in 1968. In the course of 1969 the level went up by 3.2 percent, as against 3 percent the year before. The increases were not uniformly distributed (see Table XI–6). They were most pronounced in metal products (11.2 percent), basic metals (8.2), transport equipment (6.1), electrical and electronic equipment (5.4), wood and wood products (5.3), and leather and footwear (4.8). By contrast, prices of food and of rubber and plastic products went up by only 0.5 percent, while those of chemicals even edged down 0.5 percent. As in the previous year, there were relatively sharp rises in items used by the construction industry, such as wood products, iron and steel products, and metal building elements.

Consumer prices of industrial output, as estimated in the consumer price index, increased by 2.9 percent, compared with 2.2 percent in 1968. Here too the steepest rises were in electrical and electronic equipment, vehicles, and metal products (about 5.6 percent), and the lowest in processed foodstuffs (2.0 percent).

Although prices went up in 1969 at about the same rate as in the previous year, in 1968 the increases occurred primarily in the early months, as a result of the devaluation of the Israeli pound in November 1967, whereas in 1969 they were concentrated mainly during the second half of the year. In fact, the price level remained fairly stable until the end of the first quarter of 1969, and only then did it begin to move up. In part, the rise stemmed from the dearer cost of imported raw materials, which of course was reflected in the wholesale prices of industrial goods only after some time-lag.

Table XI–7

CHANGES IN INDUSTRIAL OUTPUT PRICES IN THE DOMESTIC MARKET, 1964–69

(percentages)

Branch	Annual increase or decrease (–)						Dec. 1968 as against Dec. 1967	Dec. 1969 as against Dec. 1968
	1964	1965	1966	1967	1968	1969		
Mining and quarrying	2.7	6.7	1.5	–0.9	3.6	2.2	4.1	2.7
Food	1.1	4.4	4.7	1.6	2.4	1.0	2.9	0.5
Textiles	1.3	1.5	6.3	5.3	–0.1	1.2	1.0	1.4
Clothing	–0.9	1.7	4.6	1.3	2.2	3.3	2.8	3.5
Wood and carpentry	2.2	3.4	2.0	–0.1	2.7	2.2	2.8	5.3
Paper and paper products	2.0	0.8	0.6	–0.1	1.0	1.0	1.4	1.7
Leather and leather products	1.4	5.4	15.4	—	4.1	3.0	2.5	4.8
Rubber and plastics	–1.9	–1.0	0.8	1.3	0.8	–0.1	0.6	0.5
Chemicals and refined petroleum products	–0.2	2.8	5.5	3.0	4.0	–0.1	3.4	–0.5
Nonmetallic minerals	0.8	3.3	4.3	1.3	1.1	2.2	1.7	3.3
Basic metals	1.2	2.9	6.3	2.4	7.2	4.1	5.9	8.2
Metal products	1.4	6.2	5.1	0.7	4.9	5.8	5.4	11.2
Machinery	1.0	1.6	2.6	–1.8	–1.0	2.6	4.0	3.6
Electrical and electronic equipment	1.1	3.8	3.3	0.5	4.8	2.7	2.7	5.4
Transport equipment	1.4	9.8	7.8	–0.4	2.1	3.5	3.0	6.1
Miscellaneous	0.3	5.5	3.9	1.1	7.1	2.9	4.9	2.3
Total	**2.0**	**3.9**	**4.8**	**1.2**	**2.3**	**2.1**	**3.0**	**3.2**

SOURCE: Central Bureau of Statistics.

Several other factors explain industrial price changes during 1969. Along with the more sluggish growth of demand for industrial output, there was a change in the composition of demand, due to expectations of a further devaluation and price increases, which touched off a buying spree for such items as durable goods (many of the sales were made on the installment plan, an expensive form of credit). At the same time there were factors, especially the relative stability of most production costs, that acted to moderate the rise of prices in 1969.

4. Industrial Exports

The f.o.b. value of industrial exports, including diamonds, amounted to some $ 555 million in 1969, as against $ 480 million the year before—an increase of 16 percent compared with 25 percent in 1968. Exclusive of diamonds, the figure came to approximately $ 340 million—$ 53 million (18 percent) more than in 1968.

The value-added component of industrial exports increased by $ 30 million, or 13.4 percent. The most pronounced change was in textiles, where exports of cotton yarns, which have a high value added (80 percent), contracted, while other textile exports, with a much lower value added, increased.[1]

Table XI-8

INDUSTRIAL EXPORTS AND VALUE ADDED, 1965-69

(at current f.o.b. prices)

	Percent annual increase or decrease (–)					Total exports in 1969 ($ million)
	1965	1966	1967	1968	1969	
			Exports			
Industrial exports, excl. diamonds	12.7	14.3	9.1	29.1	18.5	339.0
Diamonds, net	11.6	25.1	–4.4	22.9	11.2	215.9
Total industrial exports	**12.2**	**18.9**	**3.2**	**24.9**	**15.6**	**554.9**
			Value added			
Industrial exports, excl. diamonds	13.6	14.2	9.1	29.2	14.4	196.5
Diamonds, net	17.8	50.0	–7.0	19.5	9.7	55.6
Total industrial exports	**14.5**	**22.2**	**4.7**	**26.9**	**13.4**	**252.1**

Source: Exports—Central Bureau of Statistics; value added—Bank of Israel estimates based on provisional input-output data.

[1] Since the value-added data are of doubtful reliability, we have preferred to discuss gross exports rather than value added. See also Chapter III, "The Balance of Payments".

Industrial exports slowed down not only in percentage but also in absolute terms: after an advance of some $ 95 million in 1968, growth came to only $ 75 million in the year reviewed. There was also a significant structural change in the industrial export increment in 1969, a trend in evidence during the two preceding years. Diamonds, which for many years had accounted for most of the additional industrial exports, contributed only about 30 percent to the increment in 1969. Exports of special items were up by some $ 7 million, but constituted only 9 percent of the total growth. On the other hand, the remaining export items expanded by approximately $ 46 million, bringing up their share of the increment to about 62 percent. There were no marked structural changes in

Table XI–9

GROWTH OF INDUSTRIAL EXPORTS, 1964–69

(at current f.o.b. prices)

	Total industrial exports	Diamonds	Industrial exports excl. diamonds	Special items[a]	Industrial exports excl. diamonds and special items
			$ million		
1964	279.5	118.2	161.3	63.4	97.9
1965	313.9	132.0	181.9	75.9	106.0
1966	373.1	165.1	208.0	89.7	118.3
1967	384.9	157.9	227.0	90.3	136.7
1968	480.2	194.1	286.1	119.7	166.4
1969	554.9	215.9	339.0	126.3	212.7
			Percent annual increase		
1965	12	12	13	20	8
1966	19	25	14	18	12
1967	3	–4	9	1	16
1968	25	23	26	33	22
1969	16	11	18	6	28

[a] Including minerals, citrus products, edible oils and fats, refined petroleum products, "other metal products", production and repair of aircraft, and scrap. Some of these exports are affected by specific factors unrelated to general economic developments in the country.
SOURCE: Based on Central Bureau of Statistics data.

total exports, since the increment was too small to affect the composition of exports to any great extent, in contrast to the situation in earlier years.

Analysis of the rate of export expansion by major category also points up the growing importance of the group of exports other than diamonds and special items. Whereas in 1969 diamonds recorded an 11 percent gain and special items one of only 6 percent, other industrial exports expanded by 28 percent. What is more, in the last-mentioned category the curve rose steadily throughout the year, while the other two categories revealed a more erratic pattern (see Table XI–9 and Figure XI–3).

The higher prices obtained for diamonds abroad—up 6.6 percent compared with a mere 0.4 percent in 1968—only partly offset the sharp decline in the physical increase in exports—4 percent vs. 22 percent in 1968; as a consequence the growth rate for this item fell by more than half.

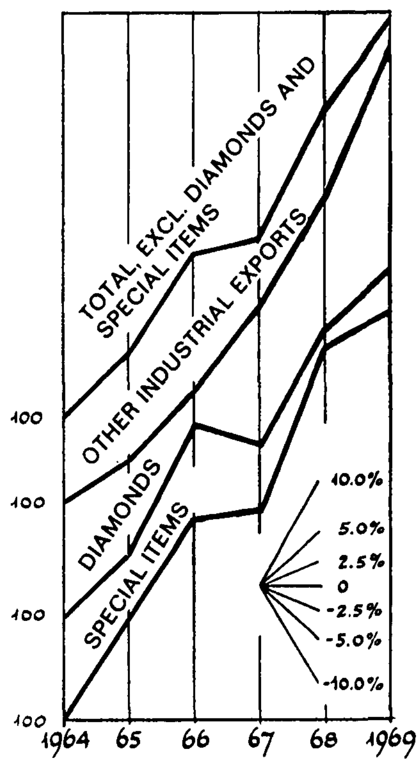
The slackening of the growth of special items was due to smaller sales of refined petroleum products, other metal products, and aircraft production and repair—the result of special factors connected with the country's security situation. On the other hand, citrus products recorded an appreciable 24 percent gain; edible oils and fats—32 percent; and scrap—approximately 85 percent. Minerals were up some 14 percent, but roughly 11 percent was due to higher prices.

Other industrial items rose 28 percent to stand at $ 213 million, approximately 39 percent of total industrial exports. The increase was the outcome of a 3.5 percent rise in prices and a 24 percent advance in quantity. The growth of this category of exports has been influenced by several factors, the individual contributions of which it is difficult to ascertain. First of all, owing to the larger direct returns to exporters, the result of higher prices abroad and the stability of domestic production costs, there has been a steady uptrend in the profitability of these exports since 1966. Secondly, the expansion of employment and the maturing of new investments, together with the sagging growth of domestic demand, have permitted an increase in exports and domestic marketing

Figure XI–3

CHANGES IN INDUSTRIAL EXPORTS, BY COMPONENT GROUP, 1964–69

(percentages)



Semi-logarithmic scale.

Table XI–10

GROWTH OF INDUSTRIAL EXPORTS, BY MAJOR CATEGORY, 1965–69

Group	Annual increase ($ million)					Percentage distribution of increment				
	1965	1966	1967	1968	1969	1965	1966	1967	1968	1969
Diamonds	13.8	33.1	–7.2	36.2	21.8	40.1	55.9	–61.0	38.0	29.2
Special items	12.5	13.8	0.6	29.4	6.6	36.3	23.3	5.1	30.8	8.8
Other industrial exports	8.1	12.3	18.4	29.7	46.3	23.6	20.8	155.9	31.2	62.0
Total industrial exports	**34.4**	**59.2**	**11.8**	**95.3**	**74.7**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

SOURCE: See Table XI–9.

alike.[1] The effect of the maturing of new investments has been especially pronounced in the case of those made specifically for export, such as in pharmaceuticals and pesticides, as well as in the food, textile, metal, and electronics industries. Along with the maturing of these investments, new export marketing channels have been opened up, both developments gaining considerable momentum during and after the recession. While it is impossible to determine the contribution of each of these influences (see Figure XI–4), the acceleration in the second half of 1969 of industrial exports other than diamonds and special items lends support to the above assumptions.

Figures XI–3 and XI–4 also show the fluctuations in the other categories of industrial exports (i.e. diamonds and the "special branches"). The swings were due to random influences, in most cases exogenous to the economy, such as difficulties in marketing diamonds abroad, declining world fuel prices, and the factors depressing overseas sales of metal products.

Table XI–11

CHANGES IN IDUSTRIAL EXPORTS, BY MAJOR CATEGORY, 1968–69

Group	Percent annual increase or decrease (–)					
	1968			1969		
	Price	Quantity	Value	Price	Quantity	Value
Special items	–1.8	36.4	32.6	4.0	1.5	5.5
Diamonds	0.4	22.4	22.9	6.6	4.3	11.2
Special items plus diamonds	–0.9	27.5	26.4	5.6	3.4	9.1
Other industrial exports	–2.7	25.1	21.7	3.5	23.5	27.8
Total industrial exports	–1.5	**26.7**	**24.8**	**4.8**	**10.3**	**15.6**

SOURCE: Central Bureau of Statistics.

The expansion of industrial exports revealed a varying interbranch pattern. In some branches there was even a contraction. That in chemicals and basic metals was caused primarily by buoyant domestic demand for cement and pipes; the same applies to transport equipment, strong home demand checking the expansion of exports.

Sagging growth rates in other branches must also be partly ascribed to the boom in the domestic market, but to some extent they represented a return to

[1] The growth of domestic demand was accompanied by a decline or deceleration of certain exports, such as cement, fuel, transport equipment, and pipes and tubing, but this did not change the overall picture presented above. See also Chapter III, "The Balance of Payments".

the rates more typical of the branches concerned following an upsurge in 1968. The deceleration was particularly striking in metal products, especially "other metal products". Exports of clothing, chemicals, and miscellaneous manufactures also slowed down.

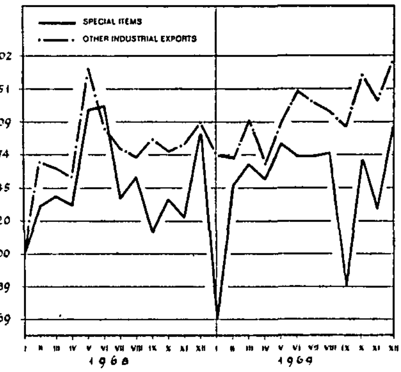
In 1969 most of the increase in non-diamond exports was in textiles and foodstuffs. As to textiles, appreciable gains were reported for synthetic yarns and knitwear (stocking pantaloons and outerwear). Overseas sales of cotton yarn and fabrics continued to decelerate, while those of synthetic yarns and fabrics accelerated.

In the food industry, exports of citrus products increased, thanks to the higher prices commanded in the world markets and sufficient supplies of local raw materials. Shipments of edible oils and fats likewise went up, for the second consecutive year.

Figure XI-4

EXPORTS OF SPECIAL ITEMS AND OTHER INDUSTRIAL PRODUCTS, 1968-69

(percentages; original data)



Semi-logarithmic scale.

Rubber and plastic products jumped some 50 percent, with most of the advance being in shipments of tires to the United States, which increased for the second consecutive year and were sold at higher prices than those obtained in Europe. The larger export to the United States was accompanied by a decline in the share of European markets.

Machinery and electrical and electronic equipment together contributed over $ 7 million to the export increment (machinery—$ 3.3 million; electrical and electronic equipment—$ 3.8 million). These two industries have stepped up their overseas sales considerably since 1967, the leading items being transmission and receiving apparatus, electronic components, and other electronic equipment.

Mining and mineral products were up some $ 5 million, most of the rise being in copper-cement and phosphates. Proceeds from potash sales declined by 2.5 percent, but the downtrend in potash prices was checked toward the end of 1969. Prices of mining and mineral products averaged some 11 percent higher in 1969, while the quantities exported were only 2.5 percent over the 1968 level.

Exports of wood products, printing and publishing, and leather and leather products increased by over $ 1 million each, a much faster rate than in 1968. A long list of items contributed to the growth, the most important being translated books, furniture, and leather and furs.

Table XI–12

MAIN INDUSTRIAL EXPORTS, 1966–69

(at current f.o.b. prices)

	Value ($ million)				Percent annual increase or decrease (–)			Percentage distribution of incremental exports		
	1966	1967	1968	1969	1967	1968	1969	1967	1968	1969
Citrus products	19.0	25.1	26.4	32.6	32.1	5.2	23.5	32.1	2.2	11.8
Other metal products	10.8	8.0	26.4	24.1	–25.9	230.0	–8.7	–14.7	31.1	–4.4
Refined petroleum products	15.8	16.3	18.0	15.6	3.2	10.4	–13.3	2.6	2.9	–4.6
Synthetic yarns	6.1	6.1	9.3	15.2	0.0	52.5	63.4	0.0	5.4	11.2
Copper-cement	12.2	10.4	11.6	15.0	–14.8	11.5	29.3	–9.5	2.0	6.5
Knitwear	6.4	8.6	10.9	15.0	34.4	26.7	37.6	11.6	3.9	7.8
Tires and tubes	9.6	9.4	10.6	13.4	–2.1	12.8	26.4	–1.1	2.0	5.3
Potash	12.9	13.6	13.5	13.2	5.4	–0.7	–2.2	3.7	–0.2	–0.6
Socks and stockings	0.3	1.4	5.6	12.1	366.7	300.0	116.1	5.8	7.1	12.4
Cotton yarn	9.1	8.2	9.6	7.9	–9.1	17.1	–17.7	–4.7	2.4	–3.2
Phosphates	4.4	4.7	6.9	7.6	6.8	46.8	10.1	1.6	3.7	1.3
Pharmaceuticals	3.5	5.0	6.0	7.5	42.9	20.0	25.0	7.9	1.7	2.9
Edible oils, fats, oilcake	5.4	2.3	5.4	7.1	–57.4	134.8	31.5	–16.3	5.2	3.2
Plywood	8.8	7.9	6.8	7.0	–10.2	–13.9	2.9	–4.7	–1.9	0.4
Pesticides	1.1	4.0	4.8	6.6	263.6	20.0	37.5	15.3	1.4	3.4
Clothing	3.5	4.5	5.6	6.5	28.6	24.4	16.1	5.2	1.9	1.7
Cotton fabrics	4.1	5.9	4.5	4.5	43.9	–23.7	0.0	9.5	–2.4	0.0
Leather garments	2.1	2.4	3.6	4.3	14.3	50.0	19.4	1.6	2.0	1.3
Woolen fabrics	1.2	1.7	3.4	4.1	41.7	100.0	20.6	2.6	2.9	1.3
Motor vehicles	2.4	1.6	2.0	3.5	–33.3	25.0	75.0	–4.2	0.7	2.9
Transmitting and receiving apparatus	0.1	0.5	1.7	3.5	400.0	240.0	105.9	2.1	2.0	3.4
Total	**138.8**	**147.6**	**192.6**	**226.3**	**6.3**	**30.5**	**17.5**	**46.3**	**76.1**	**64.2**
Total industrial exports excl. diamonds	**208.0**	**227.0**	**286.1**	**338.9**	**9.1**	**26.3**	**18.4**	**100.0**	**100.0**	**100.0**
Total industrial exports incl. diamonds	**373.1**	**384.9**	**480.2**	**554.9**	**3.1**	**24.8**	**15.5**			

SOURCE: Based on Central Bureau of Statistics data.

Table XI–13

INDUSTRIAL EXPORTS, BY MAIN BRANCH, 1965–69

(at current f.o.b. prices)

	Total exports in 1969 ($ '000)	Percent annual increase or decrease (–)						
		1965	1966	1967	1968	1969		
						Value	Quantity	Price
Mining and quarrying	38.466	31.2	21.5	3.3	9.5	14.0	2.5	11.2
Food	55,598	7.2	5.5	7.1	21.7	27.6	25.6	1.6
Textiles	66.038	0.1	14.6	18.7	21.5	31.7	27.8	3.1
Clothing	14,632	8.9	5.6	2.2	22.8	8.1	1.0	7.2
Wood and carpentry	9,172	14.1	–8.3	14.5	–5.0	12.8	11.0	1.7
Paper and paper products	2,150	–1.3	–24.1	160.0	8.4	–2.2	–6.2	4.3
Printing and publishing	5,028	–13.4	22.9	29.5	5.3	28.9	22.0	5.6
Leather and leather products	3.549	1.0	46.4	29.6	28.9	86.1	69.5	9.8
Rubber and plastics	19,133	4.3	12.6	–9.5	14.9	50.4	46.9	2.4
Chemicals and refined petroleum products	45,134	17.6	28.4	17.4	19.1	1.0	5.5	–4.3
Nonmetallic minerals	3,356	34.6	–0.3	–11.0	–19.4	–12.1	–12.9	1.0
Diamonds (net)	215,907	11.6	25.1	–4.4	22.9	11.2	4.3	6.6
Basic metals	5,240	102.6	13.4	–42.3	15.0	–0.4	–6.3	6.3
Metal products	33,085	30.2	16.8	–15.8	149.0	0.4	–5.5	6.2
Machinery	8,560	149.2	30.5	86.3	6.2	63.2	53.7	6.2
Electrical and electronic equipment	9,282	87.1	4.2	87.0	97.0	69.5	63.9	3.4
Transport equipment	10,907	–26.6	47.9	77.9	37.6	–0.4	–3.1	2.8
Miscellaneous	9,618	–21.1	17.1	32.7	46.0	20.8	25.2	–3.5
Total industrial exports	**554,855**	**21.6**	**18.8**	**3.1**	**24.8**	**15.5**	**10.3**	**4.8**
Total, excl. diamonds	**338,948**	**13.4**	**14.3**	**9.1**	**26.3**	**18.4**	**14.6**	**3.3**

SOURCE: Based on Central Bureau of Statistics data.

5. Investment

Industrial investment amounted to IL 670 million, 36 percent over the 1968 figure of IL 495 million. While this is an impressive rate of expansion, it was below that of the previous year.

The share of expenditure on equipment continued upward, while that on buildings declined further, at an even more pronounced rate than in 1968. In fact, despite the greater total industrial investment in 1969, there was an absolute contraction in the case of buildings. Some of the reasons for this were the existence of a stock of empty buildings; the renewal of obsolescent equipment and the introduction of technological changes, which necessitated new equipment; the growing trend toward expensive equipment relative to the cost of buildings; and the dampening effect of the steady upward climb of construction costs.[1] What is more, some of the incremental spending on equipment was of a speculative nature, prompted by apprehensions of a devaluation and higher prices, and in part also intended to complete the building-up of stocks run down during the recession.

Table XI-14

INDUSTRIAL INVESTMENT IN 1969 AND REAL ANNUAL CHANGES IN 1963–69

	Percent annual increase or decrease (–)							Investment in 1969 (IL m.)
	1963	1964	1965	1966	1967	1968	1969	
Investment in machinery and equipment	22.8	2.5	–3.2	–15.0	–25.9	111.6	50.0	546
Thereof:								
Imported	*25.3*	*0.5*	*–5.5*	*–14.9*	*–31.9*	*156.0*	*45.9*	*406*
Locally manufactured	*16.7*	*7.8*	*2.4*	*–16.5*	*–11.3*	*34.9*	*64.7*	*140*
Investment in buildings	16.2	17.3	–15.7	–40.1	–17.9	50.6	–3.0	127
Total investment	**20.1**	**8.4**	**–8.5**	**–24.9**	**–23.4**	**91.1**	**36.0**	**673**

Source: Central Bureau of Statistics.

The branch structure of industrial investment remained about the same as in 1968. The bulk of the capital expenditure was in the textile, chemical, and metal products branches.[2] Here several big projects were undertaken side by side with numerous small ones, providing additional evidence of large-scale replace-

1 See Chapter V, "Domestic Investment", for a detailed discussion.
2 See Chapter V, "Domestic Investment", Table V–5.

ment of obsolescent equipment and installation of new equipment as a result of technological changes in existing enterprises, while fewer new plants were being erected.

In sharp contrast to 1968, expenditure on locally manufactured equipment increased more rapidly than that on imported equipment—by some 65 percent as against 46 percent. Despite these disparate rates, imported equipment still accounted for about 75 percent of total outlay on industrial equipment in 1969 (as compared with 77 percent in 1968).

The stock of capital assets was enlarged by approximately 10 percent during the year reviewed, but the influence of this increase on industrial output will begin to be felt only in 1970. Compared with 1968, the growth of the capital stock accelerated in the year reviewed.