CHAPTER V

DOMESTIC INVESTMENT AND CONSTRUCTION

1. Main Developments

Gross domestic capital formation in 1972 totalled approximately IL 9,500 million at current prices. This represented a slower increase than in the previous year, but if ships and aircraft are excluded, the growth rate edged up from 16 percent in 1971 to 18 percent. The acceleration of fixed investment was even greater, reflecting primarily the strong increases in housing, electricity, motor vehicles, and services.

The development of nondwelling investment during the year reflects divergent trends in the public and private sectors. In analyzing the investment of the two sectors the ships and aircraft item will be excluded, as it is very erratic and its inclusion is liable to distort the picture. In public sector investment[1] there was a marked acceleration—a gain of 29 percent in 1972 as against 9 percent the year before. The growth of direct capital expenditure by the Government and local authorities was even greater, as they responded to the demand to step up investment in infrastructure and public services.

Capital spending by private businesses was up 14 percent (excluding ships and aircraft), compared with 13 percent in 1971. Investment here is influenced mainly by the demand for output, profitability, and the future outlook.

The stability in output growth and in the return to capital, together with the expectation that this trend would continue, apparently explain the stable expansion of private investment. Data on nonresidential buildings starts—a decline of about 8 percent—even point to some deceleration in the rate of increase.

The level of gross investment was one of the foremost causes of the expansion of domestic demand. It outpaced the rise in other domestic uses and exports, and this brought up its weight in total uses, and even more so in incremental uses—from 20 to 21.3 percent in total uses and from 25 to 35 percent in incremental uses (the figures exclude the ships and aircraft item).

Investment in fixed assets is influenced by the level of economic activity, and in turn influences this level by directly and indirectly generating income and employment. This is especially true of structures, where the product component is high. The value of new construction put in place went up slightly faster in 1972—by 21 percent as against 18 percent in the previous year. But in examining

[1] Including Government enterprises and public sector companies.

Table V-1

GROSS AND NET INVESTMENT, 1968–72

(IL million, at current prices)

	1968	1969	1970	1971	1972	Percent annual increase or decrease (–)			
						1969	1970	1971	1972
Gross fixed nondwelling investment									
Excluding ships and aircraft	2,033	2,737	3,056	3,926	5,426	28	2	12	19
Including ships and aircraft	2,223	2,828	3,254	4,611	5,642	22	5	24	6
Less: Depreciation	1,026	1,152	1,372	1,719	2,193	8	10	9	11
Net fixed nondwelling investment	**1,197**	**1,676**	**1,882**	**2,892**	**3,449**	**34**	**2**	**35**	**–1**
Gross investment in dwellings	666	1,082	1,736	2,407	3,493	54	39	21	25
Less: Depreciation	325	364	449	555	712	5	7	9	9
Net investment in dwellings	**341**	**718**	**1,287**	**1,846**	**2,781**	**101**	**55**	**28**	**28**
Total gross fixed investment	**2,889**	**3,910**	**4,990**	**7,012**	**9,135**	**30**	**15**	**23**	**13**
Change in inventories	333	341	355	471	323	—	—	—	—
Total gross investment	**3,222**	**4,251**	**5,345**	**7,483**	**9,458**	**24**	**13**	**23**	**9**
Less: Depreciation	1,351	1,516	1,821	2,274	2,905	7	9	9	11
Total net investment	**1,871**	**2,735**	**3,524**	**5,209**	**6,553**	**37**	**16**	**31**	**9**

SOURCE: Central Bureau of Statistics and Bank of Israel.

the contribution of construction to total economic activity, we have to take into account defense construction, which is included in the output but not the investment data for the sector: here there was a sharp drop in 1972, and this depressed the overall growth rate to about the 1971 level.

The stability in the sector's output growth thus reflects disparate trends in the major components—a strong expansion of housing construction, stability in nondwelling construction, and a sharp decline in noninvestment output.

The biggest increase was in housing construction, investment in which soared 25 percent. Both the volume of starts and completions were up strongly during the year—60,000 units were begun, compared with 51,000 in the previous year, while completions amounted to 47,000 and 38,000 respectively. The vigorous expansion of such construction in 1972 did not reflect the prevailing conditions in the housing market. The demand pressure that had existed in 1971 let up somewhat, leading to the tapering-off of the level of total starts during the year, with a downturn in private home building, a drop in sales of such housing, a rise in the stock of unsold units, a more sluggish increase in dwelling prices, and the lengthening of the construction period.

Table V–2

MAIN INDICATORS OF CONSTRUCTION ACTIVITY, 1968–72

	1968	1969	1970	1971	1972	Percent annual increase or decrease (–) 1971	1972
Construction output (IL million, at 1971 prices)							
Residential	925	1,424	1,979	2,401	3,011	21.3	25.4
Nonresidential	1,290	1,470	1,434	1,638	1,890	14.2	15.4
Total value of new construction	2,215	2,894	3,413	4,039	4,901	18.3	21.3
Other[a]	587	741	871	814	671	–6.5	–17.6
Total output	**2,802**	**3,635**	**4,284**	**4,853**	**5,572**	**13.3**	**14.8**
Building starts (thousand m²)							
Residential	2,396	3,667	4,500	5,085	5,795	13.0	14.0
Nonresidential	1,426	1,447	1,460	1,730	1,585	18.5	–8.4
Total	**3,822**	**5,114**	**5,960**	**6,815**	**7,380**	**14.4**	**8.3**
Building completions (thousand m²)							
Residential	1,994	2,428	3,134	3,805	4,670	21.4	22.7
Nonresidential	1,427	1,215	1,323	1,580	1,217	19.4	–23.0
Total	**3,421**	**3,643**	**4,457**	**5,385**	**5,887**	**20.8**	**9.3**

[a] Partial estimate; consists of defense construction, maintenance, and repair work.
SOURCE: Central Bureau of Statistics and Bank of Israel.

The growth of the sector's inputs was in line with the growth of output. Various indicators (to be discussed below) show that the available supply of factors of production did not limit the expansion of construction activity.

2. Public and Private Investment

An analysis of fixed investment in the year reviewed reveals disparate trends in the public and private sectors. Capital expenditure by the public sector (excluding ships and aircraft) accelerated considerably, while private business investment (excluding ships) moved up at roughly the same rate as in the previous year.

The direct investments of the Government, local authorities, and National Institutions are mostly of an infrastructural nature, such as roads, land reclamation, sanitary services, etc. Public sector investments in Government enterprises are of a similar character, though here investment decisions are also influenced by commercial considerations. Both the direct investments of the public sector and its investments in Government enterprises are largely determined by long-run considerations, in particular the infrastructure needs of the economy; in the case of Government enterprises, however, profitability is also taken into account. But in the short run what typifies these investments is that they are also an instrument of Government economic policy, aimed at dampening the swings in the business cycle. During the past three years the economy has been experiencing inflation, expressed in the rapid mounting of prices. In 1970 the Government's investment-policy measures were dovetailed into its overall anti-inflationary fiscal policy. Thus, in that year capital outlays by the Government (including business-type enterprises) and local authorities were trimmed by 7 percent, but in 1971 and 1972 their investment activity led to the swelling of aggregate demand. In 1971 Government and local authority capital spending was up 19 percent and in 1972 it soared 35 percent (see Table V–3). It appears that Government policy in 1971 and 1972 was influenced both by the existing pressure to step up infrastructure investment and by social pressures, which led to a much heavier investment in public buildings to meet the needs in education, health, telecommunications, municipal services, clubs, etc.

In spite of the sharply higher Government and local authority investment, it should be noted that in 1972 the Government did make an effort to coordinate its investment activity with its general policy to harness inflation. At the beginning of the year it shelved the execution of much of the development budget until the middle of the year, with the consequence that the volume of public buildings started was cut back by 14 percent in 1972, after it had jumped 47 percent in the previous year (see Table V–11); there was also a marked decline in the volume of Government premises started.

The much larger capital spending by the Government goes far to explain the swelling of aggregate demand. This is further underscored when Government and local authority investment is decomposed by type of asset. About 75 percent of the total sum in 1971 and 70 percent in 1972 was spent on construction. In such investment the product component is relatively high, so that it has a strong bearing on the prevailing demand pressures in the economy.

Despite the sizable contribution of public sector investment to the growth of demand, it should be pointed out that this was accompanied by the reduction of public consumption spending, in particular on noninvestment construction. The total volume of Government and local authority construction (i.e. for both civilian and noncivilian purposes) was down fractionally in 1972, after rising 8 percent the year before. Thus it is clear that the contraction of public consumption permitted the much larger public investment and contributed to the steep rise in the weight of total investment in the economy's resource use.

Public sector companies are found in all branches of the economy, but the bulk of the investment (over 70 percent) is in electricity, water, shipping, air transport, and mining and quarrying. Capital spending by the five companies in this group is very erratic, resulting in sharp fluctuations for the public sector

Table V-3

GROSS FIXED INVESTMENT, BY TYPE OF INVESTOR AND INITIATING SECTOR, 1969–72

(IL million, at 1971 prices)

	1969	1970	1971	1972	Percent annual increase or decrease (–)		
					1970	1971	1972
Nondwelling investment, by investing sector[a]							
Government, local authorities, and National Institutions	624	585	649	859	–6	11	32
Government enterprises[b]	275	254	350	493	–8	38	41
Public sector companies, excl. ships and aircraft[c]	703	578	542	630	–18	–6	16
Total public sector investment, excl. ships and aircraft	**1,602**	**1,417**	**1,541**	**1,982**	**–12**	**9**	**29**
Public sector shipping and aviation companies	77	34	380	175	–56	1,000	–54
Total public sector investment, incl. ships and aircraft	**1,679**	**1,451**	**1,921**	**2,157**	**–14**	**32**	**12**
Nonprofit institutions	258	260	316	340	1	22	7
Private business enterprises, excl. ships[d]	1,568	1,832	2,069	2,368	17	13	14
Privately owned shipping	26	182	305	13	600	68	–96
Total private sector investment	**1,852**	**2,274**	**2,690**	**2,721**	**23**	**18**	**1**
Total nondwelling investment	**3,531**	**3,725**	**4,611**	**4,878**	**5**	**24**	**6**
Investment in dwellings, by initiating sector							
Public	396	659	767	860	66	16	12
Private	1,027	1,320	1,634	2,151	28	24	32

[a] There is a conceptual difference between the public sector's investment and its purchases on capital account.
[b] The trading enterprises of the public sector, including the Post Office, Israel Railways, air and sea ports, and local authority enterprises.
[c] Companies in whose management the public sector has the decisive voice.
[d] Calculated as a residual.
SOURCE: Central Bureau of Statistics and Bank of Israel estimates.

companies as a whole; these stem not from changes in the level of the companies' operations but from the special character of their investments. In these branches the investment projects are all very large, and as there is only one company in each branch, in some of them (e.g. shipping and air transport) there is considerable lumpiness in investment, while in others the lumpiness is less marked. In 1972 public sector company investment fell by 7 percent. This was the result of a sharp 54 percent drop in the ships and aircraft item after an enormous increase in the previous year (see Table V–3). Excluding ships and aircraft, the level was up 16 percent; the biggest gain was recorded in electricity, where it reached an unprecedented 67 percent as a result of the import of machinery and equipment for the Eshkol III power station, which had been under construction during the two preceding years.

Nonprofit institution investment was up 7 percent, after an increase of 22 percent in 1971. As in previous years, most of the additional spending was on education.

The growth of private business investment sagged in 1972, but since shipping is an important item here too, it would be desirable to examine the changes exclusive of shipping. We find that the level rose 13 percent in 1971 and 14 percent in 1972. In other words, the curve went up at a more or less constant rate during the past three years. This should be viewed against the backdrop of a similar development in output and the stable rate of return on capital. One of the factors that made the growth of private investment possible was the availability of directed credit (i.e. financing provided in accordance with Government directives). Long-term loans granted by financial institutions rose 40 percent, as against 35 percent in the previous year, with most of the increment going to agriculture and industry. The growth of such funds far outpaced the expansion of investment; apparently part of it was used to finance current operations, while the balance was used to finance private investment.

As regards dwelling investment, the uptrend in building slackened, while private construction accelerated greatly. It should be emphasized, however, that this sectoral differentiation gives a somewhat misleading picture, since much of the private home construction in 1972 was financed from the proceeds of Ministry of Housing bond issues[2] and should be regarded as building initiated by the public sector.

3. Investment by Economic Sector

(a) *Industry*

The growth of industrial investment edged down somewhat in the year reviewed, from 12 percent in 1971 to 10 percent (see Table V–4). Investment

[2] A description of these issues and their significance appears in the section on residential construction.

Table V–4

GROSS FIXED INVESTMENT, BY SECTOR, 1968–72

(IL million, at 1971 prices)

	1968	1969	1970	1971	1972	Percent annual increase or decrease (–)			
						1969	1970	1971	1972
Agriculture	213	230	268	267	282	8	17	0	6
Thereof: Agricultural output	82	76	72	73	81	–7	–5	1	11
Irrigation	79	56	59	66	80	–29	5	12	21
Industry, mining, quarrying	623	843	953	1,065	1,167	35	13	12	10
Construction equipment	78	88	94	118	141	13	7	26	19
Electric power	120	156	174	153	256	30	11	–12	67
Transportation and communications	937	1,107	1,074	1,685	1,465	18	–3	57	–13
Ships and aircraft	207	103	216	685	187	–50	110	217	–73
Motor vehicles	217	378	363	373	475	74	–4	3	27
Other items	513	626	495	627	803	22	–21	27	28
Trade and services	840	1,051	1,103	1,256	1,487	25	5	14	18
Total nondwelling investment									
Incl. ships and aircraft	**2,889**	**3,531**	**3,725**	**4,611**	**4,878**	**22**	**5**	**24**	**6**
Excl. ships and aircraft	**2,682**	**3,428**	**3,509**	**3,926**	**4,691**	**28**	**2**	**12**	**19**
Dwellings	925	1,423	1,979	2,401	3,011	54	39	21	25
Total fixed investment	**3,814**	**4,954**	**5,704**	**7,011**	**7,889**	**30**	**15**	**23**	**13**

SOURCE: Central Bureau of Statistics.

in this sector is influenced by many factors, the major ones being changes in the demand for its output and the depreciation of existing assets. In an economy undergoing vigorous expansion, the need for replacement assets increases very rapidly. The value of assets scrapped rose from an average of 23 percent in the previous two years to 33 percent in 1972. This of course was reflected in the share of replacement investment, which amounted to 22 percent of total industrial capital expenditure in 1972, as against an average of 19 percent in 1969–71. Thus investment should be regarded as the process of adjusting the existing to the desired capital stock, with the expansion of the capital stock being determined mainly by the growth of demand for the sector's output. In other words, investment demand is mainly a function of demand for the sector's output and the volume of discards. In each of the past three years industrial output advanced 11 percent, which more or less matched the growth of the gross capital stock. It should be pointed out, however, that a deviation of one percent in the capital stock growth rate implies a much sharper change in the investment growth rate, for the capital stock is several times greater than the volume of annual investment. But in view of the similarity in the output and capital stock growth rates over the past three years, this reservation hardly applies to this period.

Another major reason for the tapering-off of the investment and capital stock growth rates is the steady rate of return on industrial capital during the past four years (with the exception of 1970, when it inched down slightly): in 1969, 1971, and 1972 it stood at about 20 percent, and in 1970 at approximately 19 percent.

The long-term loans and grants given to investors has also greatly stimulated industrial investment. But the enormous increase in long-term borrowing from financial institutions exceeded the sector's investment requirements: the gross volume of such loans was up 40 percent, after an increase of 35 percent in the previous year, while the nominal growth of industrial investment averaged 28 percent p.a. These long-term loans financed half of the total industrial investment. In this context it should be noted that the financial institutions provide industry with the bulk of its long-term borrowed capital.

The volume of grants provided to investors under the Law for the Encouragement of Capital Investments also increased more than investment, amounting to IL 98 million as against IL 72 million in 1971.

The similarity between the growth of industrial investment and that of the real (i.e. nonmonetary) factors explaining this growth, as contrasted with the much more rapid increase in public financing and incentives granted to investors, strengthens the impression that public financing was in excess of actual investment. This impression is further reinforced if we take into account the increase in the subsidized element of directed loan capital; the real interest on these loans is negative, as the nominal rate of interest has been far below the percentage rise in the price of capital assets. The gap between the price rise and the nominal rate of interest widened this year, with a consequent increase in the subsidy element of the loans. Such financing has a stimulative effect on investment, but in spite of the much larger volume made available in 1972, the dominant factors in the sustained expansion of capital formation were the stability in the output growth rate and in the return to capital.

That long-term loan capital grew more rapidly than investment may have been partly due to the sanctioning, from 1971 until September 1972, of an increase in credit to nonapproved enterprises.[3] The time limit placed on this authorization resulted in a steep 120 percent jump in industrial loan approvals in 1971, and since the disbursement of these loans will stretch over a number of years, the effect of this concession was felt in 1972 as well.

Among the industrial branches, the change of trend in metals is worth noting. After the Six Day War capital spending here soared; but in 1971 the growth rate slowed somewhat, and in 1972 it remained unchanged. The main reason why it held steady in 1972 was the deceleration in defense purchases. The strong noncivilian demand for the output of the metal industries after the war gave a fillip to their development and investment therein; the abating of this demand naturally slowed the volume of capital spending.

(b) *Transportation and communications*

Investment in transportation and communications was down 13 percent in 1972, mainly owing to a sharp cutback in ships and aircraft. Not counting this item, outlays on transportation were up 27 percent. The sharp fluctuations in the ships and aircraft item have already been noted: whereas in 1971 the figure trebled, in 1972 it plummeted 73 percent. It should be mentioned that this year only ships were purchased, and that almost all of them are publicly owned. This is a change from the pattern of the past several years, when the bulk of the investment in new bottoms was made by the private sector.

After two years of virtual standstill, purchases of motor vehicles were up strongly in 1972—27 percent (see Table V-4). Nearly all the increment consisted of imported private cars[4] and commercial vehicles; purchases of buses remained unchanged. The increased acquisition of private and commercial vehicles was probably due primarily to expectations of a tax hike on imported vehicles. These expectations were particularly strong at the end of the year and led to a heavy wave of advance purchases. Support for this view may be found in a quarterly analysis of vehicle imports for business purposes. During the first three quarters of the year the level was stable, or even slightly below that of the last quarter of

[3] Enterprises approved under the Law for the Encouragement of Capital Investments are entitled to a number of concessions, including loans at a relatively low rate of interest.

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

1971. In the last three months, with the mounting of expectations of a vehicle tax hike, imports soared 80 percent, while sales of domestically produced vehicles remained unchanged.

Excluding transportation equipment, investment in the sector rose to about the same extent as in 1971—27 percent—with nearly all items showing a notable increase. In road construction it came to 20 percent, compared with 10 percent the year before (see Table V–4). In posts and telecommunications, on the other hand, there was some slackening of growth, though demand for telephones was even greater than in 1971. The number of unfilled applications for telephones jumped 60 percent, after a 30 percent rise the year before. Actually, there is a technological constraint on the expansion of the telephone system: although the Ministry of Communications was given a bigger budget, it could not make full use of it for lack of skilled manpower.

(c) *Trade and services*

Investment in trade and services rose 15 percent, with the biggest advance being in the public sector, particularly local authorities. Capital outlays on public buildings, education, health, and municipal services were up 32 percent; in private investment the biggest gain was in hotel construction, and can be attributed chiefly to the sharply higher volume of tourism in the two preceding years. The development of the tourist trade in 1972 probably resulted in some slackening of growth, which at present is felt in building starts.

(d) *Residential construction*

Residential construction in 1972 was marked by three features: a greater volume of starts and completions than in the previous year, with the uptrend plateauing in the course of the year; a drop in private building starts during the year, as contrasted with an increase in the volume and share of public building and that sponsored by the public sector—the number of units begun by the public sector exceeded that in the private sector for the first time since 1964;[5] and an easing of housing demand, reflected by a more sluggish rise in prices and in the volume of private building starts.

In 1972 the number of units started was up 16.5 percent, as against 11 percent in 1971, while completions expanded by 24 and 22 percent respectively. The volume of starts in 1972 set an all-time record, and was also the highest ever recorded in proportion to the increase in population. The number of dwellings finished was 47,500—this too a new peak, though in proportion to the incremental population the level was higher during the recession. In this

[5] Including housing financed with the proceeds of public sector bond issues, even though the Central Bureau of Statistics classifies much of this as private building. Such building is sponsored and financed by the Government, which also determines the prices and eligibility for purchase. This is the reason for the classification used here (see below).

Table V-5

MAIN INDICATORS OF RESIDENTIAL CONSTRUCTION, 1969–72

	1969	1970	1971	1972	Percent annual increase or decrease (–) 1971	1972
Area (thousand m²)						
Started	3,667	4,500	5,085	5,795	13.0	14.0
Completed	2,428	3,134	3,805	4,670	21.4	22.7
Number of units (in thousands)						
Started	36.9	46.5	51.5	60.0	10.8	16.5
Private	23.4	24.6	29.2	29.6	18.7	1.4
Public	13.5	21.2	17.3	19.9	–18.4	15.0
Financed by Govt. bond issues[a]	—	0.7	5.0	10.5	—	110.0
Completed	25.6	31.4	38.4	47.5	22.3	23.7
Private	16.5	20.1	22.8	25.8	13.4	13.2
Public	9.1	11.2	15.6	20.1	39.3	28.8
Financed by Govt. bond issues	—	—	—	1.5	—	—

[a] *Building sponsored and largely financed by the Government but implemented mainly by private contractors.*
SOURCE: Central Bureau of Statistics.

connection it should be noted that the number of dwellings required for immediate owner-occupancy in 1972 is estimated at about 40,000.[6] While no conclusions should be drawn from this estimate about the actual demand for such housing in 1972 (in addition to other limitations, the estimate does not allow for the demand built up in previous years), it nonetheless indicates that the volume of completions was more or less in line with such demand, whereas starts apparently exceeded the forecast needs.

The increase in building starts in 1972 occurred in the public sector; the volume of private starts hardly rose at all. To be sure, Central Bureau of Statistics data show a growth of some 20 percent in private starts, but this was in housing for young couples under the above-mentioned bond issue program. Such construction is implemented by private builders, but the financing and, in most cases, the land is provided by the Government,[7] which also sets the

[6] The estimated number of dwelling units needed to meet the incremental annual new household formation (including new immigrants and newlyweds; less deaths and emigration) and the reduction of the dwelling stock because of a change in use (the conversion of apartments into offices), the joining together of apartments, and dilapidation. The estimate cited here is from a study initiated by the Ministry of Housing (see Y. Cohen, R. Friedman, and Z. Weinshal, "Residential Construction Needs in Israel, Analysis and Forecasting Methods, 1972–76", Economic Consulting and Planning Ltd., Tel Aviv, 1973).

[7] The financing is supplied from the proceeds of a bond issue floated by the Israel Mortgage Bank; hence the name of the scheme.

prices and terms of sale. If this construction is added to that sponsored by the public sector, it turns out that for the first time since 1964 public construction accounted for more than half of total building starts.

In order to understand the factors behind the developments in residential construction in 1972, it is necessary to examine the housing market during the past several years. From the viewpoint of the forces operating in the market, the early part of 1972 was a continuation of 1970 and 1971. A number of demand factors combined to push the level of activity up at a faster rate. Among these were the postponement of purchases during the period of the "package deal" because of uncertainty about future prices and income, and the ceasefire agreement signed at the end of 1970, which created an optimistic outlook for the economy. The latter factor had an important bearing on purchases by Jews living abroad. Many of those who had considered buying a home in Israel at some future time hastened to do so now, and this was facilitated by the liberalization of foreign currency control. In addition, after the ceasefire the public's attention turned to social problems, including housing for young couples, and pressure was brought to bear upon the Government to solve the housing problems of this group without delay. These demand factors, which were not accompanied by a corresponding increase in supply, sent prices spiralling, and this in turn generated a speculative demand. Some of those buying new homes continued to hold on to their old ones in the hope of capitalizing on the price rise, while others advanced their purchases or bought in the hope of making a quick, handsome profit. All these developments caused the price level to soar over 30 percent.

The first quarter of 1972 saw a continuation of these trends, but during the second and third quarters sales of privately built homes dipped.[8] Data on such sales in 12 cities and towns[9] show that in the second and third quarters of the year the level sank 30 percent compared with the previous six months. In the last quarter the curve turned upward again.

The main reason for the slackening of sales was apparently the large volume of starts in 1970 and 1971. The sale of dwellings under construction and the fact that buyers tended to hold on to their old homes in the expectation of a rise in prices were the factors that influenced the market during the year reviewed. Some of those who had bought new homes in 1971, either before construction got under way or in various stages of the construction process, were forced to offer them for sale,[10] and this probably depressed the sale of units begun in 1972.

[8] Including construction financed by the proceeds of Government bond issues.

[9] See note to Table V–6.

[10] Even when home prices are expected to rise faster than the interest rate, the availability of credit often prevents households from holding up the sale of their old homes. With the lengthening of the interval between the purchase of the new home (either before or in the process of construction) and its completion, the buyer's payments to the contractor increase, and this makes it harder for him to postpone the sale of his old home.

Table V–6

SUPPLY[a] AND SALES OF PRIVATELY BUILT HOMES IN 12 LARGE TOWNS,[b] QUARTERLY, 1970–72

(number of units)

	1970		1971				1972				Percent quarterly increase or decrease (–) in 1972			
	I	II	I	II	III	IV	I	II	III	IV	I	II	III	IV
Supply of new homes	**9,576**	**9,395**	**9,099**	**9,844**	**11,178**	**11,867**	**11,724**	**11,579**	**12,506**	**13,956**	**–1.2**	**–1.2**	**0.8**	**11.6**
Finished units	546	509	505	576	501	227	257	195	266	413	13.2	–24.1	36.4	55.3
Nearing completion	1,549	1,919	2,085	1,626	1,707	1,662	1,714	1,816	1,392	2,446	3.1	6.0	6.4	26.6
In initial and intermediate stages	7,481	6,967	6,508	7,642	8,970	9,978	9,753	9,568	10,308	11,097	–2.3	–1.9	7.7	7.7
Sales	**3,850**	**4,098**	**4,171**	**4,978**	**5,415**	**5,370**	**5,728**	**4,626**	**3,937**	**5,066**	**6.7**	**–19.2**	**–14.9**	**28.7**
Finished units	368	316	380	391	356	168	195	149	152	249	16.0	–23.6	2.0	63.8
Nearing completion	641	902	1,010	939	1,049	853	971	1,004	708	1,061	13.8	3.4	–29.5	49.9
In initial and intermediate stages	2,841	2,880	2,781	3,648	4,510	4,349	4,562	3,473	3,077	3,756	4.9	–23.9	–11.4	22.1
Percent of unsold homes at end of period	59.8	56.4	54.2	49.4	47.1	54.7	51.1	60.0	68.5	63.7	—	—	—	—

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

Some idea of the growth of the supply of secondhand homes may be gotten from the classified advertisement section in the local newspapers (see Table V–7).[11] In 1972 the volume of such ads, the great majority of which were for secondhand homes, increased greatly. The data show a sharp rise in the second quarter, with the figure plateauing at a high level during the rest of the year.

Along with the increased supply of secondhand dwellings, there were several other factors operating to dampen sales from private construction. Among them was the reduction of mortgage credit for private housing and a drop in purchases by foreign investors. Toward the end of the year various restrictions were imposed, one of which permitted the repatriation of profits on real estate investment only after five years. However, it seems that such investment fell off even before this.

Table V–7

HOMES-FOR-SALE ADS IN THE LOCAL PRESS, 1971–72

(seasonally adjusted data)

Quarter	1971		1972		Quarterly increase in 1972	
	Display ads ('000 inches)	Classified ads (thousands)	Display ads ('000 inches)	Classified ads (thousands)	Display ads	Classified ads
I	18.9	39.3	35.6	58.2	16.3	6.0
II	21.8	42.9	40.2	74.6	12.9	33.3
III	28.0	45.5	52.1	76.8	29.6	–1.0
IV	30.6	54.9	45.9	76.2	–11.9	–0.8

SOURCE: Advertising Association of Israel.

These developments naturally affected prices: while the index of dwelling prices rose noticeably, the rate of increase slowed gradually as the year wore on. This stands out when viewed in conjunction with the accelerated increase in factor prices—17 percent in 1972 as against 13 percent in 1971.

The faltering of sales from private construction and the increased volume of starts resulted in a larger stock of unsold units in the hands of private builders (including units financed from the bond issue proceeds). In the third and fourth quarters of 1972 the size of this inventory reached respectively 68 and 63 percent of all homes put on the market. In 1971 it ranged from 47 to 55 percent

[11] According to data of the Advertising Association of Israel.

Table V–8

QUARTERLY INCREASE IN DWELLING PRICES, 1971–72

Middle of survey period[a]	Percent rise
1971	
January	9.1
April	6.9
July	6.7
October	10.2
1972	
January	9.0
April	6.3
July	5.0
December	4.0

[a] The survey of dwelling prices is based on the prices recorded in the Land Betterment Tax Office, with the determining date being the date of purchase of the dwelling. The survey has many limitations; among other things, it does not distinguish between new and secondhand homes. The definition of the location of the home, its size, and other characteristics may also impart a bias to the data.
SOURCE: Central Bureau of Statistics.

of the total supply,[12] but part of the stock was apparently held for the same speculative reasons that motivated buyers. The cutback in private starts in 1972 and the sharp rise in the amount of display advertising space taken by builders (which the experience of the recession indicates is a concomitant of lagging sales) give grounds for assuming that in 1972 the stockpiling was involuntary. Part of the unsold stock consisted of units put up under the bond issue scheme; this can apparently be ascribed to overbuilding for the specific population group covered by the scheme (young couples), who had to pay more or less the general market price (though the financing was made available on particularly favorable terms).[13]

12 The quarterly supply of dwellings consists of those whose construction was begun in that quarter, plus the unsold stock at the end of the previous quarter.

13 The Ministry of Housing also built homes for young couples other than through the bond issue scheme, on more favorable terms.

Table V-9

ESTIMATED GROSS MORTGAGE BANK CREDIT, 1969–72

	Total credit (IL million)				Number of loans ('000)				Average loan (IL '000)			
	1969	1970	1971	1972	1969	1970	1971	1972	1969	1970	1971	1972
Public construction	148.0	242.8	314.5	479.6	10.7	14.0	16.7	22.3	13.9	17.4	18.9	21.4
New immigrants	40.5	121.6	141.4	150.1	2.0	4.4	5.1	5.1	20.6	27.4	27.6	30.5
Families relocated under slum-clearance projects	10.2	6.4	21.8	29.0	1.3	0.6	1.4	1.8	8.1	10.8	16.2	15.9
Young couples	6.5	4.1	26.1	106.2	0.4	0.3	1.5	5.3	15.5	12.8	17.5	19.9
Other	90.8	110.7	125.2	194.2	7.0	8.6	8.7	10.1	12.9	12.9	13.7	16.5
Private construction	70.6	55.5	109.7	104.8	5.1	4.4	7.2	6.7	13.9	12.6	15.1	15.6
Total	**218.6**	**298.3**	**424.2**	**584.4**	**15.8**	**18.4**	**24.9**	**29.0**	**13.9**	**16.2**	**71.7**	**20.1**

SOURCE: Bank of Israel.

The Ministry of Housing did not make these vacant units available for new immigrants soon enough, and the outcome was an inventory buildup on the one hand and a severe shortage of immigrant housing on the other. It was only in 1973 that it began to transfer such units. For budgetary reasons, the Ministry did not buy an adequate number of units in the private market. Instead of taking some of the vacant units off the hands of private builders, it chose to turn to the rental market at the beginning of 1973 in order to solve the housing problem for new immigrants, but it subsequently ran into difficulties because the latter refused to accept rental housing.

The above developments—the slackening of sales, the deceleration of the price rise, and the accumulation of a stock of unsold units—contrast sharply with general developments in the economy. There was abundant liquidity in the economy, and prices were mounting sharply and were expected to continue in this direction. The index of residential construction input prices went up faster than in the previous year—17 vs. 13 percent. In other words, the sagging of sales was due to factors specific to the sector and not to any ebbing of aggregate demand in the economy.

At the end of 1972, sales began to perk up. It is difficult to say at this stage whether this was a random change, or whether it signified a reversal of trend. Conceivably, the dwindling of the stock of secondhand dwellings on the one hand, and general developments in the economy—particularly expectations of a further rise in prices—on the other, caused sales to rebound. The rumors of a shortage of immigrant housing, the ordering of caravans by the Ministry of Housing, and later (in 1973) the large-scale renting of houses for new immigrants may have led to a temporary spurt in demand.

In spite of these market developments, housing starts rose 16.5 percent. But this partly reflects the expansion which started in the second half of 1971. During 1972 the level went up only in the first and second quarters, after which it tapered off and even dipped slightly.

The downturn was due to a cutback in private building. As already noted, public construction rose, with most of the increase being in the bond issue program, which accounted for an additional 5,000 units in 1972. Partial data

RESIDENTIAL BUILDING STARTS, QUARTERLY, 1972

Quarter	Units	Area (thousand m^2)	Percent increase or decrease (–)	
			Units	Area
I	14.5	1,405	5.4	6.4
II	15.5	1,485	5.6	6.9
III	15.0	1,462	–1.6	–2.9
IV	15.1	1,443	–1.3	0.5

show that the fall in private building starts carried over into the early part of 1973.

The changes in completions are explained by developments in previous periods. In 1972 completions were up 24 percent, with the trend rising mildly during the year.

4. Investment by Type of Asset

The year reviewed saw a further change in the structures-equipment ratio of fixed nondwelling capital formation. The share of plant and equipment in investment (excluding roads and transport equipment) inched up from 54 percent in 1971 to 56 percent (see Table V–12). Two factors accounted for this increase. The first is a random factor, arising from the irregular pattern of investment in certain sectors, while the second is a long-term factor stemming from the differential lifespan of the two types of assets.

The biggest rise in the equipment share of investment was in electric power (18 percent). The equipment-structure ratio of investment here traces an

Table V–10

GROSS FIXED INVESTMENT, BY TYPE OF ASSET, 1969–72

(IL million, at 1971 prices)

	1969	1970	1971	1972	Percent annual increase or decrease (–)		
					1970	1971	1972
New construction	2,893	3,413	4,039	4,901	18	18	21
Residential buildings	1,423	1,979	2,401	3,011	39	21	25
Nonresidential buildings	792	882	953	1,134	12	8	19
Other construction	678	552	685	756	–19	24	10
Assets from farm output	76	72	73	81	–5	1	11
Machinery and equipment	1,504	1,640	1,841	2,246	9	12	22
Locally produced	560	565	643	743	1	14	16
Imported	944	1,075	1,198	1,503	14	11	25
Motor vehicles	378	363	373	475	–4	3	27
Ships and aircraft	103	216	685	187	108	217	–73
Total fixed investment	4,954	5,704	7,011	7,890	15	23	13

Source: Central Bureau of Statistics.

erratic path, since all the capital expenditure is made by a single concern, with only a small number of projects in the pipeline at any one time. In the initial stage of a project most of the outlay is on construction, equipment being acquired much later. In 1970–71 there were heavy investments in the erection of the Eshkol III power station, while the equipment for the station was received in 1972, thereby sharply increasing the equipment share of investment.

In the other sectors there was a much milder rise in the equipment share of investment, a development ascribable to the fact that equipment has a shorter lifespan than structures. Since equipment depreciates more rapidly than structures, the proportion of replacements is of course higher for equipment. It follows that investment in equipment must grow faster than that in structures if their proportions in the capital stock are to be kept constant. These proportions have in fact hardly changed at all during the past decade, except in trade and services, where the equipment share of the capital stock has been rising steadily (see Table V–13). The reason is to be found in the growing mechanization of the sector, particularly the increasing use of electronic computers.

Table V–11

AREA OF NONRESIDENTIAL CONSTRUCTION, 1966–72

(thousand sq. meters)

	1966	1967	1968	1969	1970	1971	1972
		Starts					
Agriculture and irrigation	176	196	131	148	194	153	126
Industry and crafts	288	233	332	463	481	530	483
Commercial and office buildings, hotels, etc.	246	176	219	217	234	335	311
Public buildings	654	560	744	619	551	712	665
Total	**1,364**	**1,165**	**1,426**	**1,447**	**1,460**	**1,730**	**1,585**
		Completions					
Agriculture and irrigation	140	139	168	136	159	234	120
Industry and crafts	510	288	325	361	501	484	412
Commercial and office buildings, hotels, etc.	298	206	316	190	153	232	226
Public buildings	807	504	618	528	510	630	459
Total	**1,755**	**1,137**	**1,427**	**1,215**	**1,323**	**1,580**	**1,217**

SOURCE: Central Bureau of Statistics.

Table V–12

EQUIPMENT SHARE OF GROSS FIXED INVESTMENT, BY SECTOR, 1966–72

(percentages; at 1971 prices)

	1966	1967	1968	1969	1970	1971	1972
Agriculture	37.1	33.3	40.1	47.0	37.0	43.2	41.2
Irrigation	13.7	12.0	18.6	22.2	24.0	16.8	15.9
Electric power	57.4	51.1	60.8	46.1	53.1	42.9	60.4
Industry	68.1	66.2	73.1	81.2	80.2	81.1	81.7
Transportation and communications[a]	46.1	51.1	36.0	36.3	44.1	40.3	53.6
Trade and services	27.1	27.9	30.4	35.1	38.2	38.1	36.2
Total[b]	**42.2**	**40.2**	**47.2**	**52.0**	**54.7**	**54.3**	**56.3**

[a] Excluding ships, aircraft, motor vehicles, and roads.
[b] Excluding ships, aircraft, motor vehicles, and roads, but including construction equipment. In the construction industry equipment is the only component of capital stock.

Fixed investment is influenced by the level of economic activity in the country, but it also influences the latter by directly and indirectly generating income and employment. In Israel this is particularly true of investment in construction, where the product component is high. Equipment makes only a small contribution to the national product, since the predominant share of new equipment is imported. In 1972 total investment in construction (both residential and nonresidential) was up 21 percent, making this a major factor in the expansion of GNP.

Table V–13

EQUIPMENT SHARE OF THE GROSS CAPITAL STOCK,[a] BY SECTOR, 1965–73

(percentages; at 1970 prices)

	1965	1967	1969	1970	1971	1972	1973
Agriculture	12.7	13.4	13.1	13.4	13.5	14.0	14.3
Irrigation	10.5	11.0	11.0	12.0	11.2	11.4	11.3
Electric power	62.7	62.3	60.6	58.8	57.6	54.4	54.2
Industry	68.1	64.7	63.8	65.2	66.1	66.9	67.8
Transportation and communications[b]	36.5	38.7	37.4	36.1	35.7	33.5	34.2
Trade and services	19.1	19.9	19.9	20.3	21.1	22.2	22.6
Total[c]	**36.9**	**35.5**	**34.6**	**35.1**	**35.8**	**36.5**	**37.3**

[a] Gross capital stock at the beginning of the year.
[b] Excluding ships, aircraft, motor vehicles, and roads.
[c] Excluding ships, aircraft, motor vehicles, and roads, but including construction equipment. In the construction industry equipment is the only component of capital stock.

Nonresidential building starts were down 8 percent, after a 19 percent gain in 1971. This suggests some slackening of the investment growth rate. The decline was sharpest in farm structures, commercial and office buildings, and hotels.

The share of domestic manufacture in total equipment investment, excluding ships and aircraft, declined in the year reviewed (see Table V–14). This was due to a sharp drop in electric power generation, while in other sectors the proportion held more or less steady. Imports accounted for 80 percent of the total plant and equipment outlay of the Israel Electric Corporation in 1972, compared with 58 percent in 1971 and an average of 28 percent in 1964–70. The big jump in 1972 was due to the purchase of turbines and other heavy equipment (for which there are no domestic substitutes) for the new Eshkol III station.

The past few years have witnessed a mildly declining trend in the share of locally produced plant and equipment. This has taken place despite the relatively faster rise in the price of imported equipment. Apparently the dominant factor here is a technological one: in many cases there are no domestic substitutes and investors have to acquire the equipment abroad despite the faster increase in foreign prices. This applies particularly to special equipment for which there is no domestic manufacture, such as that for the power stations.

Table V–14

SHARE OF DOMESTIC PRODUCTION IN INVESTMENT IN CAPITAL GOODS,[a] BY DESTINATION, 1964–72

(percentages; at 1969 prices)

	1964–65	1966–67	1968	1969	1970	1971	1972
Agriculture	57	64	58	54	58	58	62
Industry	29	32	23	26	23	23	22
Electric power and water	25	25	26	35	27	42	20
Construction equipment	23	37	11	15	15	15	16
Transportation and communications[b]	43	48	45	42	39	32	31
Trade and services	53	52	54	54	54	56	52
Total, excl. ships and aircraft	**41**	**45**	**37**	**38**	**36**	**34**	**32**
Total, incl. ships and aircraft	**35**	**42**	**31**	**36**	**32**	**26**	**42**

[a] Machinery, equipment, and mobile transport equipment.
[b] Excluding ships and aircraft.
SOURCE: Central Bureau of Statistics.

5. Factor Inputs in Construction

The available supply of the main inputs apparently did not constitute a constraint on the expansion of construction output in the year reviewed. Supply increased strongly, and the advance of prices was only a shade higher than the average for the economy as a whole. Road construction input prices rose by 14 percent on an annual average and by 9 percent in December levels, while residential construction input prices went up 16 percent and 13 percent respectively.

(a) *Employment and construction equipment*

Employment data for this sector[14] are obtained from three sources, which for a number of years have provided widely differing estimates. The lowest estimate for the 1972 increase in employment is that based on National Insurance data—7 percent. Labor force surveys show an 18 percent increase, which appears to be a more reasonable estimate and more closely squares with developments in the sector. It is plausible to assume that employment will rise more rapidly than output, as the capital input rises much more slowly than output. Hence the growth of employment probably exceeded the 15 percent gain in output.

Table V–15

MAIN INDICATORS OF CONSTRUCTION INPUTS, 1970–72

	1970	1971	1972	Percent annual increase or decrease (–)	
				1971	1972
Employment (in thousands; annual average)	92	106	126	15	19
Israelis	80	89	100	11	12
From the administered areas	12	17	26	42	53
Number of vacancies for skilled labor	2,260	2,398	2,052	6	–14
Percent of vacancies not filled	20	38	40		
Gross investment in construction equipment (IL million, at 1971 prices)	94	118	141	26	19
Stock of construction equipment (IL million, at 1971 prices)	730	755	795	3	5
Capital stock per worker (IL, at 1971 prices)	7,935	7,122	6,309	–10	–11
Cement sales ('000 tons)	1,426	1,671	2,107	17	26
Imports of current inputs ($ million)	22	34	47	55	38
Construction output (IL million, at 1971 prices)	4,284	4,853	5,572	13	15

14 All the employment data include workers from the administered areas as well as Israel.

Another reason for preferring the labor force survey figures is that the National Insurance data do not include unorganized labor; the share of such labor is presumably quite high in the building trades, since a large percentage of the additional workers are drawn from the administered areas.

Construction output, as already noted, was up 15 percent in 1972, while employment expanded by 18 percent and the stock of equipment by 5 percent. The strong increase in the labor input in relation to capital depressed the capital stock per worker, and it can be attributed to changes in the relative prices of these two factors of production. Since the Six Day War contractors have had a large supply of labor available from the administered areas; their earnings are below the sector average, so that the accretion of a large number of workers from the areas has dampened the increase in construction wages. Between 1967 and 1972 hourly earnings went up 42 percent, whereas the price of construction equipment rose by 68 percent during this period.

The fact that the stock of construction equipment expanded more slowly and employment more rapidly than output was apparently connected *inter alia* with the drastic changes in the output mix. Investment in structures rose 21 percent, while earthwork increased by only 10 percent, and noninvestment construction (which includes a large proportion of earthwork) fell by a steep 18 percent.

Various indicators show that there was no intensification of demand pressure for building workers during the year:

(a) In 1972 the number of job openings for skilled labor was down 15 percent, compared with an increase of 2 percent in the rest of the economy. The demand for skilled building workers waned gradually as the year wore on.

(b) The number of unfilled job vacancies rose 2 percent on an annual average, as against 5 percent for the rest of the economy. Furthermore, the percentage of unfilled vacancies declined during the year: in the second quarter it fell precipitately, and stayed close to this level during the next two quarters.

(c) Equipment is a substitute for some types of construction labor, but in spite of the technological changes and mechanization taking place in this sector in many countries, the stock of capital per worker fell sharply in Israel in 1972 (11 percent). Had there been a serious shortage of building workers, this presumably would have stimulated the purchase of equipment.

(d) In 1972 wages per building worker (according to National Insurance data) were up 14 percent, which is close to the national average. Other sources, such as the wage item in the index of construction inputs, show an increase of 19 percent, but this is not a high rate considering that wages here include fringe benefits.

(b) *Cement*

In 1972 there were complaints about a cement shortage, and this was reflected by a jump in black market prices (the existence of such a market is in itself something new). The first signs that the productive capacity of the local cement factories was relatively low appeared in 1971, when for the first time large quantities of cement had to be imported. About 17 percent of total cement consumption in 1971 was supplied from abroad. The need for such imports was even greater in 1972: overseas purchases soared 75 percent, bringing up the share of imports to 23 percent of total consumption. In 1972 domestic production also expanded—by 16 percent. Total consumption was up 26 percent, which far surpassed the increase in any other indicator of construction activity. Relative to construction output, it was up 11 percent, while relative to building starts (where the product is most heavily used) the rise was 16.4 percent. The increase in the ratio of cement consumption to construction activity was apparently greater than what can be attributed to the change in the output mix and in the average height of the new buildings. It therefore seems that the supply of cement in 1972 did not lag behind the volume of construction, and even kept ahead of it. Nevertheless there was an impression that cement was in short supply, and this gave rise to a black market. This was apparently connected with developments in the course of the year. Quarterly data on construction output and cement imports are not available, but it appears that the irregular flow of imports resulted in bottlenecks several times during the year. These temporary shortages caused some panic and expectations of future shortages, which in turn led to stockpiling by builders and a consequent rise in the ratio between cement consumption and construction output.

In addition, it seems that larger quantities of cement could have been imported to meet the demand had it not been for certain administrative factors. The monopoly given to Nesher Ltd. in the manufacture and import of cement apparently prevented the marketing of the quantities required at the domestic price. Foreign cement is more expensive than the local product, so that in order to induce Nesher to import the Government had to give it a subsidy. This took the form of a blanket price rise without regard to the source. The granting of a subsidy per unit of cement without distinguishing its source does not provide an incentive to import when both domestic production and imports are in the hands of the same firm, which enjoys a monopoly status. Foreign cement remained more expensive than local cement even after the payment of the subsidy, with the result that the company imported only the bare minimum necessary to maintain its monopolistic hold on the market.

6. The Capital Stock

The process of adjusting the existing to the desired capital stock, which was discussed in the analysis of industrial investment, also applies to the economy as a whole. As in previous years, the nondwelling capital stock rose 9 percent in 1972, which is similar to the average rate of GNP growth in recent years. The expansion of the capital stock was a little slower in 1972, but this was due to a noticeably smaller investment in ships and aircraft. In agriculture,

Table V–16

GROSS FIXED CAPITAL STOCK, BY SECTOR, 1972–73

(IL million, at 1971 prices)

	1972				Stock at beginning of 1973	Percent of total		
	Beginning-of-year stock	Gross investment	Discards	Net stock increment		Beginning-of-year stock		1972 stock increment
						1960	1973	
Agriculture	5,192	282	83	199	5,391	22	12	5
Irrigation	2,538	80	16	64	2,602	9	6	2
Industry	8,664	1,167	257	910	9,574	23	22	25
Construction equipment	795	141	91	50	845	3	2	1
Electric power	2,279	256	53	203	2,482	7	6	6
Transportation and communications	10,182	1,465	506	959	11,141	18	25	26
Trade and services	10,923	1,488	224	1,264	12,187	18	27	35
Total nondwelling stock	**40,573**	**4,878**	**1,230**	**3,648**	**44,221**	**100**	**100**	**100**
Dwellings	24,536	3,011	89	2,922	27,458	—	—	—
Total fixed capital stock	**65,109**	**7,889**	**1,319**	**6,570**	**71,679**	—	—	—

Table V–17

GROWTH OF GROSS FIXED CAPITAL STOCK, BY SECTOR, 1961–73[a]

(percentages)

<table>
<tr><th></th><th>Agri-culture</th><th>Irri-gation</th><th>In-dustry</th><th>Con-struction equip-ment</th><th>Electric power</th><th>Trans-portation and com.</th><th>Trade and services</th><th>Total non-dwelling stock</th><th>Dwell-ings</th><th>Total capital stock</th></tr>
<tr><td>1961–65 (average)</td><td>6.1</td><td>9.7</td><td colspan="2">10.3</td><td>7.4</td><td>14.9</td><td>16.1</td><td>11.1</td><td>9.7</td><td>10.6</td></tr>
<tr><td>1966</td><td>4.2</td><td>4.8</td><td colspan="2">5.2</td><td>7.9</td><td>16.5</td><td>15.2</td><td>9.6</td><td>9.5</td><td>9.5</td></tr>
<tr><td>1967</td><td>3.1</td><td>4.4</td><td>3.1</td><td>2.9</td><td>9.2</td><td>10.6</td><td>12.9</td><td>7.3</td><td>7.0</td><td>7.2</td></tr>
<tr><td>1968</td><td>2.6</td><td>4.0</td><td>2.6</td><td>–4.0</td><td>3.9</td><td>7.9</td><td>9.8</td><td>5.5</td><td>4.4</td><td>5.1</td></tr>
<tr><td>1969</td><td>2.5</td><td>3.1</td><td>8.1</td><td>3.0</td><td>5.1</td><td>12.9</td><td>9.7</td><td>7.9</td><td>5.0</td><td>6.8</td></tr>
<tr><td>1970</td><td>2.8</td><td>1.9</td><td>11.2</td><td>2.4</td><td>6.2</td><td>12.8</td><td>11.0</td><td>9.0</td><td>6.8</td><td>8.2</td></tr>
<tr><td>1971</td><td>3.8</td><td>1.9</td><td>10.6</td><td>3.4</td><td>6.5</td><td>9.9</td><td>9.9</td><td>8.3</td><td>8.5</td><td>8.4</td></tr>
<tr><td>1972</td><td>4.0</td><td>2.0</td><td>11.2</td><td>5.3</td><td>5.4</td><td>15.0</td><td>10.8</td><td>10.0</td><td>10.4</td><td>10.1</td></tr>
<tr><td>1973</td><td>3.8</td><td>2.5</td><td>10.5</td><td>6.3</td><td>8.9</td><td>9.4</td><td>11.6</td><td>9.0</td><td>11.9</td><td>10.1</td></tr>
</table>

[a] The increase in beginning-of-year levels.

irrigation, industry, and services the growth rates hardly changed in the past four years. Two sectors that deviated from this trend are transportation and communications and electricity, where capital spending displays considerable lumpiness, with a consequent irregularity in the expansion of the capital stock. There was a marked acceleration in electric power generation following the large-scale import of equipment for the new Eshkol III station. On the other hand, the uptrend in transportation and communications sagged noticeably owing to a sharp cutback in ship and aircraft purchases.

It should be noted that the uptrend in the economy's nondwelling capital stock has slowed since the mid-sixties. In 1961–65 it averaged 11 percent, while in 1966–72 the rate slipped to 7.5 percent. In the past two years it remained below the level of the early sixties, amounting to 10 percent in 1971 and 9 percent in 1972. This moderately declining rate of growth is in line with the more sluggish expansion of the product. The gain in the domestic product, excluding housing, averaged 10.5 percent in 1961–65 and fell in 1966–70. As with the capital stock, the rate picked up slightly in the past two years to reach 10.5 percent p.a.

Table V–18

GROWTH OF CAPITAL STOCK PER EMPLOYED,[a] BY SECTOR, 1961–72

(percentages)

	Agriculture	Industry	Construction	Transportation and com.	Trade and services	Total[b]
1961–65 (average)	6.7	3.5		7.6	10.5	6.1
1966	10.4	2.5	33.3	21.5	11.2	10.2
1967	6.4	15.2	18.6	2.4	14.4	12.2
1968[c]	3.9	–11.5	–19.0	1.5	2.8	–3.3
1969[c]	4.0	3.8	–3.6	2.0	4.8	3.4
1970[c]	7.0	7.8	–7.7	16.7	6.0	6.2
1971[c]	1.3	6.9	–10.0	7.0	6.0	3.4
1972[c]	1.6	5.2	–11.1	11.2	7.3	3.7

[a] Data on the capital stock are for the beginning of the year; those on the number of employed are annual averages.
[b] The total includes electric power and water, which are not listed separately. The inclusion of water in the agricultural sector and of electric power in industry would not affect the results significantly.
[c] Residents of the administered areas working in Israel are included in the number of employed for 1968–72.

The slowdown in the capital stock growth rate since the mid-sixties has encompassed all sectors except industry, where the increase has been a shade faster than in the early sixties.

The most rapid expansion has taken place in industry and in trade and services; this is reflected in the steady rise of their share in the total stock, and even more in the incremental stock. The weight of trade and services in the increment went up from 28 percent in 1971 to 33 percent, and in industry from 24 percent to 27 percent.

The capital stock per employed has grown in a manner typical of developing economies. True, in 1972 the advance was, at 3.3 percent, about the same as in 1971, but this was slower than in previous years. The most outstanding gains were posted by transportation and communications, services, and industry, and can be attributed to the technological changes introduced in these sectors. In construction the sharply falling trend evident since 1967 carried over through the year reviewed, when the decline came to 11 percent. This exception to the general pattern is explained, as mentioned above, by changes in the relative prices of capital and labor. Since the Six Day War the sector has had a large pool of labor available from the administered areas, at pay rates far lower than the average for Israeli building workers. The existence of this large reserve of relatively cheap labor has naturally retarded the mechanization of the industry.

As with the total capital stock, the growth of the stock per employed has sagged in the past few years. Whereas in 1961–65 it moved up by an average of 6 percent a year, since 1969 the figure has slipped to 4 percent.