CHAPTER XIV

INDUSTRY*

1. MAIN DEVELOPMENTS

Real growth of industrial production during 1975 (see Table XIV-1) was very slight - 2.2 percent[1] - while zero growth was recorded in industrial employment.[2] The development during 1975 was marked out by opposite trends in the two halves of the year: a steep downward trend in the first half, and a recovery in the second half. The drop during the first six months of the year, both in industrial production as well as in the number of man-days worked and of persons employed (if at a more moderate rate),[3] followed a period which began with a fast growth in the first half of 1974 when industry was emerging from the slump brought on by the war, and a subsequent deceleration towards the end of that year (see Table XIV-6 and Figure XIV-1).

The drop in industrial production in the first half of 1975 is the outcome of a turn in the development trend of final demands for industrial output. Signs of this change were already apparent in the first half of 1974, mainly in private consumption and in the

* The discussion in this chapter is based on data received from the Industrial Section of the Central Bureau of Statistics on industrial production, labor input (number of employees, persons employed and man-days worked) and wages. In this chapter the data on employment are not based on manpower surveys of the Central Bureau of Statistics.

1. In itself, this growth rate is not significant (in comparison to growth rates before the Yom Kippur War). Moreover, if we deduct the first quarter of 1974 (which was still influenced by the results of the war and the extensive mobilization thereafter), the average production level in 1975 was similar to that in the last three quarters of 1974 (seasonally adjusted).

2. There was no growth in 1975 in the number of employees in industry in comparison to 1974, after deducting the influence of the war and the increased mobilization. Even omitting this influence there was only a minute rise-0.7 percent.

3. It seems that the more moderate drop in the number of wage earners at the beginning of 1975, as compared to the drop in industrial production and man-day input, explains the difficulties involved in dismissing workers in the Israeli economy and the uncertainty concerning the continued level of economic activity.

Table XIV-1

INDICATORS OF INDUSTRIAL DEVELOPMENT

A. ANNUAL CHANGES, 1961–75

	Percent annual increase or decrease (–)										
	Annual average				Annual change						
	1961–1965	1966–1968	1969–1972	1973–1975	1969[a]	1970	1971	1972	1973	1974	1975[b]
Industrial production	13.4	11.5	11.9	4.0	15.9	9.4	10.5	11.0	5.5	4.4	2.2
Revenue at current prices	20.5	14.6	21.3	41.6	18.3	16.1	22.9	28.0	27.4	51.7	45.7
Number of workers[c]	3.3	4.3	0.3	1.3	9.7	5.7	4.8	4.8	0.9	2.8	0.2
Man-days worked	—	—	6.9	–0.9	11.6	4.6	5.1	6.2	–3.1	0.6	–0.3
Real investment	6.0	10.5	17.4	2.4	35.1	13.5	10.3	10.9	–3.6	–0.9	18.7
Real gross capital stock[d]	11.0	11.0	10.3	9.0	8.1	11.2	10.6	11.0	10.5	8.4	8.1
Output per employed[g]	9.8	6.9	5.3	2.7	5.7	3.5	5.4	6.8	4.6	1.6	1.9
Output per man-day worked[g]	—	—	4.7	4.9	3.8	4.6	5.1	5.4	8.9	3.8	2.4
Output per unit of capital[g]	2.2	0.5	1.5	–4.6	7.2	–1.6	–0.1	0.8	–4.6	–3.7	–5.6
Change in factor productivity A[e]	7.0	4.5	3.8	–0.8	6.9	1.2	3.0	4.2	0.3	–0.9	–1.7
Change in factor productivity B[f]	—	—	3.5	0.5	5.9	1.8	2.9	3.5	2.5	0.3	–1.4
Domestic wholesale prices	5.0	1.8	7.4	37.1	1.9	6.8	9.2	11.0	19.1	51.5	40.8
Revenue per unit of output, at current prices	6.3	2.8	8.4	36.2	2.1	6.1	11.2	14.4	20.8	45.3	42.7
Industrial export prices (f.o.b.)	—	—	3.7	15.7	4.8	–0.7	2.6	7.9	24.8	19.7	2.6
Daily nominal wages per worker	16.2	3.5	10.2	33.8	3.8	12.3	11.2	13.5	23.5	36.9	41.1
Total payroll outlay	—	**8.0**	**18.1**	**35.2**	**15.7**	**17.6**	**10.2**	**21.0**	**23.3**	**41.7**	**40.7**

B. QUARTERLY CHANGES,[h] 1974 AND 1975

	1974				1975			
	I	II	III	IV	I	II	III	IV[b]
Real industrial production	19.2	2.7	1.2	1.2	–3.0	–0.9	5.7	5.2
Number of employees	3.9	1.9	0.8	–0.3	–1.1	0.0	1.3	1.3
Man-days worked	12.5	4.2	3.8	1.3	–2.9	–2.5	2.2	5.1
Output per man-day worked	5.9	–1.3	–3.0	3.0	0.1	1.5	2.9	0.3
Output per employee	15.2	0.2	0.4	1.5	–1.4	–1.5	4.3	3.6
Work-days per employee	8.1	2.3	3.1	–1.1	–1.9	–2.4	0.8	3.9
Real industrial export, excl. diamonds and quarries	27.7	–1.8	6.1	–8.6	0.4	–3.1	3.9	17.2
Real industrial export, excl. diamonds	27.2	–0.7	9.8	–9.5	–0.6	–4.0	3.2	15.5
Total real industrial export	**31.6**	**–1.7**	**4.0**	**–0.9**	**–5.0**	**–0.6**	**2.9**	**9.3**
Wholesale prices of industrial output for domestic destination	17.0	11.8	8.0	15.6	13.2	2.9	1.5	8.2
Wages per employee	11.7	6.7	12.6	8.9	15.4	2.9	6.3	5.7

[a] As of 1969 the indices of output, wages, revenue, prices, and exports were based on a new branch classification of industrial establishments and calculated on the base: 1968=100.
[b] Temporary data.
[c] Until 1969 calculated according to the index of employees and from 1969 to 1975 according to the index of employed.
[d] At the beginning of the year.
[e] With the change in the labor input measured in terms of the number of employed; such a measurement has no significance in 1973 and 1974 because of the large-scale mobilization of reserves.
[f] With the change in the labor input measured in terms of man-days worked; such a measurement has more significance in 1973 and 1974 than the first variant.
[g] Output here refers to industrial production.
[h] Data are seasonally adjusted, including wages per employee and wholesale prices.
SOURCE: Central Bureau of Statistics and Bank of Israel computations.

exports of consumer products. With the implementation of the economic policy measures of November 1974, the new trend of demands was strengthened. In addition, at the beginning of 1975 the recession in foreign markets had an impact also on industrial branches that do not produce for consumption.[4]

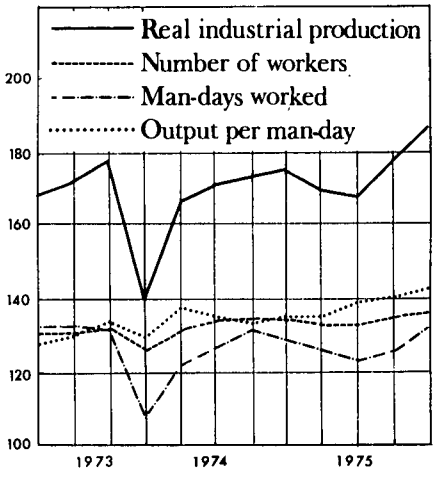
There was a marked recovery in the second half of 1975: rapid in production and more moderate - though, in itself significant - in employment (see Tables XIV-2 to XIV-4 and Figure XIV-1). This development was the outcome of a simultaneous recovery both in the domestic market, mainly in private consumption, as well as in export, mostly in exports of consumer goods (the export of these products was the first to be adversely affected when the recession in foreign markets began and also the first to recover when these markets picked up again). As a result of this recovery, the level of industrial production and the number of employees in industry were higher at the end of 1975 than the average level recorded in the third quarter of 1973 (on the eve of the Yom Kippur War); the actual labor input (man-days worked) reached a level similar to that just before the war (see Table XIV-6). It should be noted, however, that industrial production at the end of 1975 was below the potential level it could have reached if the productivity rates in industry during the years 1969-72 had prevailed (see a detailed discussion in Section 2 - Industrial Production). On the other hand, it would be sufficient for industrial production in 1976 to plateau on the level of the last quarter of 1975, in order to achieve a 6 percent growth rate in 1976.

The developments in production and employment during the course of the year were also reflected in changes in the different industrial main branches. When industrial branches

Figure XIV-1

SELECTED INDICATORS OF INDUSTRIAL DEVELOPMENT, QUARTERLY, 1973-75

(index: average 1968=100; seasonally adjusted data)



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

4. Nevertheless, even in 1975 there were a number of products whose exports rose rapidly. Outstanding among them were those whose main destination is defense.

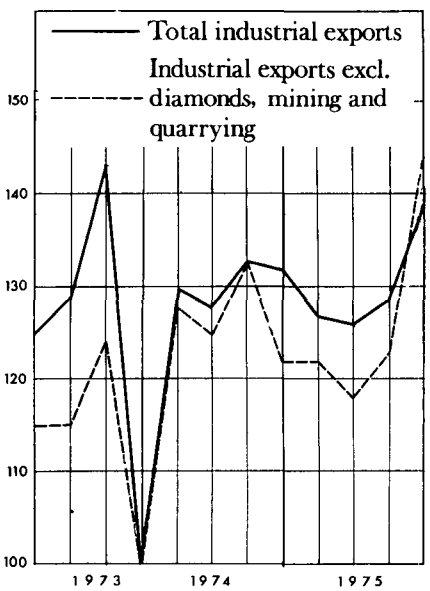
are grouped according to the main final use of their output, one can see that in the majority of these groups the development in production during the year corresponded with the development of final demands (see Tables XIV-2, XIV-3, and XIV-4, and detailed discussion in Section 2 - Industrial Production).

Real industrial export dropped somewhat in 1975, in comparison to its level in 1974 (see Table XIV-10). The two principal factors responsible for this decline were: (a) the economic recession in the destination countries of Israel's export which had begun in 1974, and deepened in the first half of 1975, (b) the inadequate profitability of industrial exports. Consequently, some groups of industrial exports - mainly consumer goods - had already begun to fall in 1974. This decline spread in the first half of 1975 to additional groups and worsened in consumer products.

In spite of government measures, relative profitability of industrial exports did not rise significantly in 1975, and even dropped during the second half of the year (see also the chapter on export) thus failing to contribute to a rise in exports in the second half of 1975.[5] Development of industrial exports during 1975 shows a sharp descent during the first half of the year and a rapid recovery in the second half (see Figure XIV-2). This recovery stems principally from the creation of more favorable export conditions in the world markets as they began to emerge in the middle of 1975 from the recession. The recovery of exports was made possible, without doubt, by the availability of idle factors of production as other final demands were at a low ebb.

Figure XIV-2

REAL INDUSTRIAL EXPORTS, QUARTERLY, 1973–75
(index: 1973 IV=100; seasonally adjusted data)



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

At least according to declared policy, 1975 was supposed to become a turning point which, had it been achieved, would have produced a rise in the share of export among final uses. An examination of the desired structural changes in the industrial sector shows that the expected change in 1975 in the product derived from final uses did not occur (see also Tables

5. One has to remember that a small increase in export profitability in a period of rapid price rises is insignificant from the exporter's point of view because of uncertainty concerning the maintenance of the profitability level.

XIV-7 and XIV-8). In part this stems from the fact that the policy measures were taken by the government in a period of economic recession in the destination countries of the industrial export, and this contributed, without doubt, to the difficulties confronting the industrial sector in Israel in increasing its exports. The contraction of local demand in the first half of the year produced part of the required preliminary conditions in the domestic market for the desired structural changes.[6] In the second half of the year, however, just as the world market began to emerge from the recession, and industrial export - which had decreased - began to pick up, the stringent policy of income restraint was not continued, for had this policy continued, private consumption would not have grown as it actually did. Simultaneously, the relative profitability of industrial export began to drop in this half of the year, thus also affecting the chances of a continued expansion of exports. Even if the growth in private consumption during the second half of 1975 was temporary, its influence on supply should be viewed in a wider perspective: time is required in order to enable those industrial segments mainly producing for the domestic market to re-orient their production to export (a matter which requires the reorganization of production lines, the creation of marketing channels, and the setting up of the required administrative systems for active export). It can be assumed that if domestic consumption had not picked up as it did in the second half of 1975, the time required to adapt their production to export could have been shortened in those segments of industry who produce mainly for the domestic market. Industry would have estimated more clearly the requirements of a shrinking domestic market and this, in addition to a favorable relative profitability in export, would have shortened the required period of adjustment. In fact, the expected structural changes of industrial production did not occur in 1975,[7] and yet against the backdrop of a worsening balance of payments the time element in such a change is exceedingly important.

In 1975, there was a marked slowdown in the rise of wholesale prices of industrial production for domestic end uses (see Table XIV-9). Nevertheless, considering the

6. Additional preliminary conditions to induce desirable changes in the production structure are a transfer of workers from plants where demand for output declines to plants which can raise their output for export. These conditions were almost not existent in 1975, in any case not to any significant extent.

7. It is quite possible that in the second half of 1975, following the rapid increase in industrial exports, there was also a rise in the share of export in the industrial product derived from the final demands and that the fact that this did not show up in the annual average stems from the fall in the share of export during the first half. However, without semi-annual data on final demands on an adequately detailed level, it is not possible to carry out this kind of analysis. Moreover, the fact that in the second half of the year private consumption also increased would make it risky to make such an assumption with any degree of certainty.

stagnation in industrial production, the rate at which these prices rose was quite fast. This implies that the increase in the price level was principally a result of cost inflation. Price developments on the domestic market indicate this as well: prices were still rising rapidly in the first quarter of the year - even though industrial production was beginning to fall - and this because in some industrial branches, the inflationary process caused by the measures taken in November 1974 had not yet run its course. A slight rise in prices was recorded in the second and third quarters of the year (1-2 percent per quarter) and only in the fourth quarter, after payment of the cost-of-living allowance in July, the devaluation and the increase in purchase taxes in September, was there a renewed rise in prices of industrial production for domestic end uses. In this quarter, in contrast to the first quarter of the year, prices rose while production and demand wee picking up and it can be assumed that without this recovery it would have been difficult for producers to bring about such a rapid price rise.

Real gross investment in industry grew in 1975 at an exceptional rate (see Table XIV-1 and Table XIV-11); the entire growth was concentrated on investments in equipment and machinery. At this stage there is no convincing explanation for the cause of this upsurge which followed a stalemate in the last two years: uncertainty as to continued economic activity, in the face of a declared government policy of restraint, could not have served as a suitable background for accelerating investments. Moreover, capital utilization in industry, low in any case, has dropped during the last few years.[8] It is therefore even more surprising that such rapid expansion should have taken place in 1975, and that this expansion was not solely confined to the public sector, but included also investments of the private sector. It seems then that convenient terms of financing, especially in view of inflation prevailing during recent years in the Israeli economy, encouraged investment initiatives, even in a situation which normally would have induced a contraction of capital formation. (Other possible explanations are only hypothetical.[9])

Gross capital stock in industry continued to grow in 1975 at a rate of over 8 percent; this continued growth, at a rate surpassing that of production, had begun in 1972. The accumulating gap between the growth in capital stock and production implies a continuing fall of capital utilization in industry, and production per work day in 1975 rose slightly (see Tables XIV-1 and XIV-5). As a result the measured productivity[10] of production

8. See Chapter VIII - Investment and Construction and especially Table VIII-4.
9. These hypotheses are discussed in Chapter VIII - Investment and Construction.
10. The accepted concept of the productivity of production factors applies to a state of full employment of the production factors. However, measured productivity also reflects changes in the utilization of production factors. For labor input it is possible to

factors in industry did not grow at all in 1974 and even dropped in 1975 (see Table XIV-1).

2. INDUSTRIAL PRODUCTION AND LABOR INPUT

(a) *General*

Average industrial production in 1975 was up 2 percent on the 1974 average (Table XIV-1). However, when the influence of the war is eliminated, the average level of annual industrial production in 1975 was less than one percent above the level of the last nine months of 1974 (seasonally adjusted). It can be stated therefore that in 1975 there was in fact a total stagnation of industrial production. The comparison between annual averages does not portray the picture during the year; for the development in 1975 was not uniform and the changes that occurred in the course of the year were certainly significant. Tuarterly data, seasonally adjusted, show (Table XIV-2) that the first half of the year saw a drop in industrial production and that there was a marked and rapid recovery in the second half, bringing production to a level 6 percent (Table XIV-7) above the level in the third quarter of 1973 (eve of the war). On the face of it, there is enough in the data to suggest that the last quarter of 1975 shows a relative higher level of industrial production. However, had the same rate of change in industrial productivity that existed in 1969-72 continued during the last two years (see Table XIV-1), with the input of production factors which was in effect recorded, industrial production during these two years could have grown by an annual average of 7.5 percent (as compared with 4.4 percent and 2.1 percent as actually occurred in the years 1974 and 1975) reaching, in the last quarter of 1975, a level 15 percent higher than that in the third quarter of 1973 (as against the 6 percent actually registered). It becomes evident then that during the last two years the accumulated potential loss[*] in industrial production (on the assumption mentioned above, and eliminating the production loss resulting from the war) amounted to 9 percent.[11]

overcome in part the problem of establishing a utilization rate by measuring productivity by using an index of the change in man-days worked instead of an index of the change in the number of persons employed. As for capital, there are no data for measuring the rate of utilization.

11. Alternative calculation, comparing the average level of industrial production in 1975 to that of 1972, shows that against a possible potential annual average growth of 8 percent in real industrial production (with the same assumption as to production inputs and productivity), industrial production grew actually by only 4 percent. Thus, during the last three years the actual growth of industrial production was half its potential growth. Of course, potential growth in production was likely to be realized only if the level of demand for industrial output was high enough to enable the existence of productivity as assumed, which means the fuller exploitation of production factors. The productivity of

Table XIV-2

REAL QUARTERLY AND ANNUAL CHANGES IN INDUSTRIAL PRODUCTION ACCORDING TO THE CLASSIFICATION OF INDUSTRIAL BRANCHES BY MAIN DESTINATION,[a] 1974–75

Group or branch	Weight of group	Percent increase or decrease (–)									
		1974				1975					
		I	II	III	IV	I	II	III	IV[b]	1974	1975
		seasonally adjusted data[c]								original data	
Total industry	**100.0**	**19.2**	**2.7**	**1.2**	**1.2**	**–3.0**	**–0.9**	**5.7**	**5.2**	**4.4**	**2.2**
Total of all branches producing mainly consumer goods	46.3	15.9	–1.6	–0.2	–2.6	–1.6	–1.5	6.4	6.2	1.6	–0.5
thereof: Food	11.8	0	–4.1	4.3	–1.2	–1.6	1.3	4.0	3.7	1.6	2.4
Textiles and clothing	16.0	27.2	–7.8	–2.8	–6.6	0.8	–0.3	9.5	6.7	–1.7	–1.7
Durable consumer goods	2.5	40.6	19.0	5.7	1.4	3.3	–15.1	0.6	32.2	25.9	6.7
Other	16.0	13.1	4.0	–1.6	–0.2	–5.4	–0.9	6.0	3.4	1.4	–2.5
Branches producing mainly for public consumption	6.8	30.5	4.8	4.7	7.1	0.6	3.8	11.5	2.7	16.6	19.9
Branches producing mainly for investment including construction inputs	22.0	26.2	5.3	3.9	4.7	–2.5	–1.6	3.5	5.1	6.0	6.0
thereof: branches producing primarily construction inputs	12.7	30.9	4.4	2.5	4.9	–2.3	–1.1	6.3	6.6	–0.9	7.6
branches producing primarily investment products, (excl. construction inputs)	9.3	20.9	6.9	5.8	3.9	–2.7	–1.7	0	2.8	16.0	4.0
Branches not producing for any particular main destination	12.3	18.4	5.3	–0.8	–2.3	–4.1	–4.3	4.6	4.7	3.7	–4.8
Branches whose output is mainly export oriented	12.6	19.0	5.9	0.5	6.6	–8.3	–1.9	2.1	2.4	2.1	–1.2

[a] Classified according to the final demands for industrial output. For classification and distribution of branches into groups, see appendix for this chapter.
[b] Temporary data for December.
[c] Seasonal adjustment was done according to the original series of average quarterly data, and not based on monthly seasonally adjusted data. For the difference between the two methods — see appendix for this chapter.
SOURCE: Central Bureau of Statistics and Bank of Israel computations.

Comparing annual averages, the number of employees in industry hardly grew over the previous year (Table XIV-1). The development in the number of employees during the year was similar to the development of industrial production, i.e., a drop in the first half of the year and a rise in the second half (see Table XIV-3). It should be noted, however, that the changes were much smaller than those required by changes in the production level, as a result both of institutional labor agreements in the Israeli economy preventing quick adjustments of the number of wage earners to the level of production and of uncertainties in the short run regarding the level of economic activities, preventing immediate dismissals in the labor force. The main adaptation in labor inputs to the level required by changes in industrial production were actually made through daily labor inputs (see

production factors, which reflects the measured productivity, actually dropped in 1975 and did not rise in 1974 (see Table XIV-1); the principal explanation for this drop in productivity lies in the decline in capital utilization. For a detailed calculation--see the appendix to this chapter.

Table XIV-3

QUARTERLY AND ANNUAL CHANGES IN NUMBER OF EMPLOYEES IN INDUSTRY, ACCORDING TO THE CLASSIFICATION OF INDUSTRIAL BRANCHES BY MAIN DESTINATION,[a] 1974–75

Group or branch	Weight of group	Percent increase or decrease (–)									
		1974				1975					
		I	II	III	IV	I	II	III	IV[b]	1974	1975
		seasonally adjusted data[c]								original data	
Total industry	**100.0**	**3.9**	**1.9**	**0.8**	**–0.3**	**–1.1**	**0.0**	**1.3**	**1.3**	**2.8**	**0.7**
Total of all branches producing mainly consumer goods	51.2	2.9	0.5	0.1	–1.2	–1.7	0.1	1.1	2.9	–0.7	–1.5
thereof: Food	12.1	2.6	–3.1	2.2	–0.2	–3.5	5.5	3.2	4.4	1.2	3.4
Textiles and clothing	20.1	1.9	0.4	–3.2	–3.2	–1.2	–1.2	1.5	2.2	–5.4	–4.7
Durable consumer goods	2.7	6.8	7.1	4.6	–3.7	–2.2	–6.4	–4.3	5.8	9.4	–6.8
Other	16.3	3.6	2.1	1.9	–0.3	–1.9	–0.4	0.2	3.0	2.4	–0.2
Branches producing mainly for public consumption	8.1	3.2	2.9	2.5	4.7	4.0	3.6	3.1	0.3	11.7	14.5
Branches producing mainly for investment including construction inputs	20.2	5.0	3.4	2.0	2.5	–2.4	–2.0	0.7	0.8	4.4	0.1
thereof: branches producing primarily construction inputs	11.4	7.3	3.7	2.9	0.7	–1.2	–2.8	1.1	1.1	1.9	0.3
branches producing primarily investment products, (excl. construction inputs)	8.8	1.9	3.4	–0.1	6.3	–4.4	–1.0	–0.8	0.6	1.3	–0.2
Branches not producing for any particular main destination	8.6	8.6	1.1	0.9	–0.5	1.5	–0.8	–0.4	2.1	6.5	1.5
Branches whose output is mainly export oriented	11.9	4.5	3.6	–1.1	–4.5	–4.1	–1.5	1.9	–1.9	1.6	–7.8

[a] See note [a] in Table XIV–2.
[b] See note [b] in Table XIV–2.
[c] See note [c] in Table XIV–2.
SOURCE: Central Bureau of Statistics and Bank of Israel computations.

Table XIV-4). This is reflected in the changes that occurred in output per man-day worked during the year (Table XIV-5 and Figure XIV-1). The annual average input of man-days worked did not change in 1975 (see Table XIV-1), and excluding the influence of the war, it even decreased by 2 percent in comparison with the last nine months of 1974 (seasonally adjusted).

The drop in production in the first half of 1975 stemmed primarily from the decrease in final demand. The recession on world markets, which had already begun in 1974, continued and worsened, causing a further reduction in exports. This reduction spread to additional groups of products, principally of nonconsumer products, whose export had grown in the previous year. The price rise, and in consequence, the drop in real income in the first half of the year caused a fall in local demand. To this was added a decline in the demand for investment in building and possibly also in equipment.

At the end of the second quarter and in the third quarter signs of recovery in industrial production were beginning to appear. The downward trend that characterized the

Table XIV-4

QUARTERLY CHANGE IN NUMBER OF WORK-DAYS, AND ANNUAL CHANGES, ACCORDING TO THE CLASSIFICATION OF INDUSTRIAL BRANCHES BY MAIN DESTINATION,[a] 1974-75

Group or branch	Weight of group	Percent increase or decrease (-)									
		1974				1975					
		I	II	III	IV	I	II	III	IV[b]	1974	1975
		seasonally adjusted data[c]								original data	
Total industry	**100.0**	**12.5**	**4.2**	**3.8**	**-1.3**	**-2.9**	**-2.5**	**2.2**	**5.1**	**0.6**	**-0.3**
Total of all branches producing mainly consumer goods	52.6	11.4	2.6	2.4	-2.2	-4.7	-2.1	3.3	5.1	-0.8	-3.4
thereof: Food	12.1	8.6	-2.2	4.0	0.9	-4.0	1.2	3.9	7.5	1.2	0.7
Textiles and clothing	21.1	11.1	2.5	-0.7	-1.6	-5.4	-2.5	4.7	3.3	-5.9	-4.8
Durable consumer goods	2.6	18.6	10.1	8.4	-5.7	-3.2	-10.2	-6.0	11.4	9.3	-8.8
Other	16.8	12.9	4.5	3.7	-2.5	-4.2	-2.6	1.8	5.5	3.3	-3.5
Branches producing mainly for public consumption	6.8	7.6	8.4	5.6	5.4	2.6	1.2	5.4	5.2	6.1	17.2
Branches producing mainly for investment including construction inputs	20.1	15.7	6.0	6.4	-0.5	-0.3	-4.2	-1.9	8.3	2.1	0.9
thereof: branches producing primarily construction inputs	11.6	24.9	5.2	6.2	-0.7	-2.0	-5.2	-0.3	6.9	0.1	-1.7
branches producing primarily investment products, (excl. construction inputs)	8.4	6.5	7.1	6.9	-0.7	1.8	-3.1	-3.5	9.5	4.5	-4.0
Branches not producing for any particular main destination	8.5	12.8	3.0	3.8	-2.3	-1.2	-2.5	-0.4	4.3	2.5	-1.2
Branches whose output is mainly export oriented	12.1	17.2	4.8	2.4	-4.3	-8.3	-5.3	2.5	0.3	-0.8	-12.8

[a] See note [a] in Table XIV-2.
[b] See note [b] in Table XIV-2.
[c] See note [c] in Table XIV-2.
SOURCE: Central Bureau of Statistics and Bank of Israel computations.

first quarter became an upward trend that continued through the fourth quarter of 1975 (see Table XIV-2). The rapid rise in production during the second half of the year is explained by the recovery in final demands principally in private consumption and in exports: the improved conditions in foreign markets produced a growth in industrial export (3 percent in the third as compared to the second quarter, 9 percent in the last as compared to the third quarter), mainly of consumer goods (food, drink, clothing, textiles, etc.). There was also a considerable increase in defense exports. On the other hand, local demands were revived following payment of the cost-of-living allowance in July, implementation of the tax reform, and because of considerable liquidity creation. Since many production factors were not utilized, in most industrial branches the rise in demand did not induce a rise in prices in the third quarter of 1975: in spite of the rise in production costs (wages and raw material), producers were able to increase production without rapid price rises.

Table XIV–5

ANNUAL AND QUARTERLY CHANGES IN OUTPUT PER WORKING-DAY, ACCORDING TO THE CLASSIFICATION OF INDUSTRIAL BRANCHES BY MAIN DESTINATION,[a] 1974–75

Group or branch	Percent increase or decrease (–)									
	1974				1975					
	I	II	III	IV	I	II	III	IV[b]	1974	1975
	seasonally adjusted data[c]								original data	
Total industry	**5.9**	**–1.3**	**–3.0**	**3.0**	**0.1**	**1.5**	**2.9**	**0.3**	**3.8**	**2.4**
Total of all branches producing mainly consumer goods	3.5	3.6	–2.7	0.0	2.4	1.2	2.6	1.8	2.3	2.8
thereof: Food	–7.8	–2.6	–0.8	1.0	2.8	–0.2	–1.1	–2.1	0.3	1.2
Textiles and clothing	14.4	–9.5	–2.5	–4.8	6.3	2.6	4.0	3.8	4.4	3.5
Durable consumer goods	18.4	8.0	0.0	6.5	5.3	–5.4	10.2	16.9	16.0	18.4
Other	0.7	–0.5	–6.2	3.5	–1.4	1.9	2.6	–0.5	–1.7	0.4
Branches producing mainly for public consumption	20.9	3.6	–1.4	2.3	–1.6	1.9	5.3	–1.5	10.5	2.2
Branches producing mainly for investment including construction inputs	8.4	–0.4	–3.5	7.6	–3.2	2.8	3.9	–0.4	4.4	4.3
thereof: branches producing primarily construction inputs	4.3	–0.5	–4.9	8.3	–1.2	4.2	4.9	–2.3	–0.3	8.6
branches producing primarily investment products, (excl. construction inputs)	12.1	–0.1	–1.5	6.9	–5.9	1.4	2.7	3.6	11.2	–0.4
Branches not producing for any particular main destination	–5.0	2.3	–5.0	0.9	–3.0	–1.9	4.3	1.2	1.5	–3.4
Branches whose output is mainly export oriented	–0.7	1.0	–3.6	14.6	–0.8	3.0	–2.0	5.5	3.5	10.8

[a] See note [a] in Table XIV–2.
[b] See note [b] in Table XIV–2.
[c] See note [c] in Table XIV–2.
SOURCE: Central Bureau of Statistics and Bank of Israel computations.

Apparently, there were also no limitations on production factors in the last quarter of 1975. In spite of a steep rise in the input of man-days worked compared to the previous quarter (5.1 percent), its actual level was not above the level recorded in the third quarter of 1973 (eve of the war). Therefore, it can be assumed that there were still unemployed production factors in the fourth quarter, in spite of the rapid recovery in production. However, it should be borne in mind that this portrays only the average in industry; in different branches there were plants which suffered from labor shortage and which would have increased their manpower had the suitable workers been available. This phenomenon of shortage was scattered over a large number of industrial branches and was characterized by a shortage of skilled workers in specific areas of production and a lack of coordination arising from the different geographic locations of supply and demand for workers, and the absence of large-scale dismissals in plants with concealed unemployment, so that no workers were available to plants in need of them. Moreover, it is quite possible that in a period of uncertainty and fears of recession, workers themselves are

less inclined to change jobs, even under better wage conditions, because of dismissal procedures in the Israeli economy in a period of cut-backs ("last hired - first fired").

It is difficult to determine whether the recovery in industrial production in the second half of the year actually reflects a significant turning point in the level of economic activity of industry, and whether it will continue. The fact that this recovery comprised not only a growth in the number of man-days worked, but also a significant increase in the number of employees (at a rate of 1.3 percent per quarter) shows that producers had expected a significant recovery. Temporary data for the first months of 1976 show that these expectations were not completely realized.[12]

(b) *Development of Industrial Branches by Market Grouping*[13]

When industrial branches are classified by the main destination of their output, it is found that in all groups of branches there was a similar development with the exception of the group of branches which produce mainly for public consumption (see Table XIV-2): in the first half of the year there was a drop in production, while the second half is characterized by rapid recovery. The group of branches whose production is principally oriented to defense continued to rise during the entire year and a marked portion of this growth stemmed from expanded defense exports (see the section on industrial export). This upward trend started at the beginning of 1974 and, apart from a slowdown in the first quarter of 1975, the production increase in this group was extremely rapid and was accompanied by an impressive growth in the number of employees during the two years (see Tables XIV-2, XIV-3). This trend was reflected in the yearly average in growth rates and the increase in the number of employees that are typical of industries undergoing rapid expansion. It should be noted that the level of production, the number of employees, and the number of man-days worked in these branches were far higher than the overall level which prevailed in the third quarter of 1973, and in contrast to the majority of other industrial branches (Table XIV-6). One can conclude that this fact indicates a structural change in branches of industry which produce, directly or indirectly, mainly for defense.

12. A preliminary and temporary survey ("accelerated survey") of the Central Bureau of Statistics shows that in the first quarter of 1976 the upward trend in the number of employees in industry did not continue and that their number plateaued on the average level of the last quarter of 1975. These data must be regarded with certain reservations, since they are based on a sub-sample of industrial enterprises and have not been seasonally adjusted. On the other hand, the temporary data for January 1976 show a continued upward trend in real industrial production (at a rate of 2.4 percent in comparison to the last quarterly average of 1975).

13. For the method of classification and detailed listing of the branches in the different groups, see the appendix to this chapter.

Table XIV–6

THE CHANGE IN REAL INDUSTRIAL PRODUCTION LEVEL, BY NUMBER OF WORKERS, AND NUMBER OF WORKING-DAYS, ACCORDING TO THE CLASSIFICATION OF INDUSTRIAL BRANCHES BY MAIN DESTINATION,[a] IN THE LAST QUARTER[b] OF 1975 COMPARED TO SELECTED QUARTERS

(Percentages, seasonally adjusted data)[c]

Group or sector	Real industrial production			No. of workers			No. of working days		
	Comp. to III quarter 1973	Comp. to IV quarter 1974	Comp. to base quarter 1975[d]	Comp. to III quarter 1973	Comp. to IV quarter 1974	Comp. to base quarter 1975	Comp. to III quarter 1973	Comp. to IV quarter 1974	Comp. to base quarter 1975
Total industry	**5.7**	**7.0**	**(2) 11.2**	**3.2**	**1.5**	**(2) 2.6**	**0.1**	**1.8**	**(2) 7.4**
Total of all branches producing mainly consumer goods	2.2	9.6	(2) 13.1	–1.3	2.4	(1) 4.2	–2.8	1.3	(2) 8.7
thereof: Food	9.0	7.5	(1) 9.2	10.9	9.6	(1) 13.6	9.8	8.5	(1) 13.0
Textiles and clothing	–3.9	17.4	(2) 16.8	–10.1	1.3	(2) 3.7	–10.5	–0.2	(2) 8.1
Durable consumer goods	49.6	16.5	(2) 32.9	0.9	–7.4	(3) 5.7	–3.1	–8.9	(2) 11.5
Other	–2.6	2.6	(2) 9.5	2.7	0.7	(2) 3.1	–0.1	0.3	(2) 7.5
Branches producing mainly for public consumption	40.7	19.6	(1) 18.9	30.3	11.5	(1) 7.1	26.9	15.2	(1) 12.3
Branches producing mainly for investment including construction inputs	9.1	4.4	(2) 8.7	2.7	–3.7	(2) 0.7	1.9	1.5	(3) 8.3
thereof: branches producing primarily construction inputs	4.5	9.4	(2) 13.3	1.3	–1.8	(2) 2.2	–4.5	–0.9	(3) 6.9
branches producing primarily investment products, (excl. construction inputs)	15.9	–1.6	(2) 2.8	6.0	–5.5	(3) 0.6	9.7	4.3	(3) 9.6
Branches not producing for any particular main destination	–4.6	0.6	(2) 9.5	7.0	2.4	(4) 2.2	–1.2	0.1	(3) 4.3
Branches whose output is mainly export oriented	–4.8	–2.8	(2) 7.7	–8.2	–5.6	(4) 0.0	–15.1	–10.8	(2) 2.8

[a] See note [a] in Table XIV–2.
[b] See note [b] in Table XIV–2.
[c] See note [c] in Table XIV–2.
[d] The quarter in 1975 in which the level of the relevant variables was at its lowest point, the quarter number is in parenthesis.
SOURCE: Central Bureau of Statistics and Bank of Israel computations.

In spite of the rapid recovery in the second half of the year, and in particular in the last quarter, the level of production in several industrial branches was still below the level on the eve of the Yom Kippur War (see Table XIV-6). The rapid growth in the second half of the year in all branches producing for private consumption (a rise of 6 percent or more per quarter, after a drop of 1.5 percent per quarter during the first half of the year) is due principally to textiles and clothing in the third quarter and to branches producing durables in the last quarter. The recovery in the textile and clothing branches stemmed both from a growth in export and a growth in local demand, which picked upsin the second half of 1975. This development is striking when compared to other branches producing consumer goods, such as food (with the exception of conserves intended for export) and durables where a more moderate rise occurred in the third quarter (see Table XIV-2). There is no satisfying explanation for the marked recovery in the last quarter (32 percent) in those branches producing durables. It is possible that a fear of local price increases, of import price increases due to the creeping devaluation, and of deterioration of saving terms (a reduction in the linkage of government bonds, turn-over tax, reporting of large transactions, etc.) led to a preference of purchasing durables over financial savings, as a more profitable investment. It should be noted that in these branches the production level at the end of 1975 was 50 percent higher than that in the third quarter of 1973. Rapid recovery took place in some of the branches producing principally for construction: mainly in those producing cement and structural metal products[14] and this in spite of a decline in the number of residential building starts in 1975. The growth in cement production is explained by several factors: an increased demand for cement from the administered areas; import-substitution (almost the entire production of the new cement factory at Har-Tuv replaces imports); an increased demand for cement resulting from continued growth in the completion of residential buildings, and intentional stockpiling.[15]

The labor input indices also show a recovery in the second half of the year in all

14. It is possible that the output of the sub-branch "structural metal products," classified as producing primarily inputs for construction is recorded by the Central Bureau of Statistics as investment in equipment and machinery rather than as investment in buildings, this being the reason for the impressive growth in investments in equipment and machinery of local production (see discussion in Chapter VIII - Investment and Construction).

15. Temporary data on cement production for the first months of 1976 show a drop of tens of percents. There was a certain delay between the start of the drop in cement marketing and an adjustment in production to this level, when the adjustment in the interim period was made through stocking of inventory. It appears that in the last quarter of 1975 a sizeable portion of production was supplied through stocks and only at the beginning of 1976 actual production was affected.

Table XIV–7

FACTORS AFFECTING THE GROWTH OF INDUSTRIAL OUTPUT, 1969–75

(percentages)

	1969		1970		1971		1972		1973		1974		1975	
	Rate of increase	Share in increase	Rate of increase	Share in increase	Rate of increase	Share in increase	Rate of increase	Share in increase	Rate of increase	Share in increase	Rate of increase	Share in increase	Rate of increase	Share in increase[a]
A. Supply factors														
Real industrial output (census value added)	15.9	100	9.4	100	10.5	100	11.9	100	5.5	100	4.4	100	2.2	100
Man-days worked[b]	11.6	40	4.6	26	5.1	26	6.9	28	–3.1	(–31)	0.6	7	–0.3	(–8)
Capital stock	8.1	23	11.2	55	10.6	46	11.0	43	10.5	(86)	8.7	89	8.5	(182)
Increase in output due to increase in inputs	10.0	63	7.6	81	7.6	72	8.4	71	3.2	55	4.5	96	3.7	(174)
Measured productivity[c]	5.9	37	1.8	19	2.8	28	3.5	29	2.5	45	0.2	4	–1.6	(–74)
B. Indicators of contribution to incremental demand[d]														
Private consumption	8.1	22	6.6	24	4.0	10	11.6	31	8.9	46	6.0	23	0.8	—
Public consumption	13.6	12	15.7	21	30.7	31	10.0	13	13.9	36	17.6	35	–5.1	—
Investment	35.0	36	13.2	23	13.3	17	20.2	29	4.3	13	1.0	2	–1.7	—
Total domestic uses	**15.1**	**70**	**10.2**	**68**	**12.1**	**58**	**13.6**	**73**	**8.8**	**95**	**7.5**	**60**	**–1.5**	—
Exports to administered areas	51.4	6	7.6	2	27.0	4	39.5	7	0.5	0	20.2	6	21.0	—
Exports to rest of the world	13.1	24	11.2	30	20.4	38	9.1	20	1.1	5	11.2	34	1.3	—
Total exports	**15.3**	**10**	**10.9**	**32**	**21.0**	**42**	**11.4**	**27**	**1.1**	**5**	**12.0**	**40**	**3.3**	—
Total uses	**15.2**	**100**	**8.9**	**100**	**14.7**	**100**	**12.8**	**100**	**6.4**	**100**	**8.8**	**100**	**0.0**	—

[a] There is no significance to the contribution of demands to product growth in 1975, as the generated product remained constant. Similarly, because of the decline in the productivity of production factors, the significance of the contribution of supply factors is also limited.

[b] See note [a] in Table XIV–5 in the 1974 Bank of Israel Report, p. 350.

[c] Measured productivity, as shown in this table, is consistent with measured productivity of factors of production as shown in Table XIV–1 under the title "Productivity of factors of production, B." The calculation of productivity of the factors of production is based on the assumption that the aggregate production function in industry is suitable for this type of calculation.

[d] Based on the calculation of changes in industrial product generated by changes in final uses.

groups, as compared to a drop in the first half of 1975 (see Tables XIV-3 and XIV-4). In spite of the considerable growth in the number of man-days worked, its level in a sizeable portion of the sectors was not higher than on the eve of the Yom Kippur War, and only in those groups producing for public consumption, investment, and food, a higher level was evident (see Table XIV-6).

The growth in the number of employees in the last quarter of 1975 was principally concentrated in the consumption branches and in those producing inputs for construction (see Table XIV-3). Although, apart from certain special branches, the number of employees did not drop in any of the other groups of branches, all of the labor force that joined industry in the second half of the year turned to the consumption branches where the effect of the recovery in the domestic market and export was concentrated. Production per work day in these branches rose in the last quarter, while in the other branch groups there was a drop, and this is also explained by the recovery already mentioned.

Table XIV-8

DISTRIBUTION OF INDUSTRIAL PRODUCT AND OUTPUT BY FINAL USE,[a] 1968–75

(percentages)

	1968	1969	1970	1971	1972	1973	1974	1975
				A. Industrial product by final use				
Private consumption	40.8	38.3	37.0	33.4	33.0	33.8	32.8	33.1
Public consumption	14.2	14.0	14.8	17.0	16.6	17.7	19.2	18.2
Investment	15.4	18.1	18.5	18.4	19.6	19.3	17.9	17.6
Total domestic uses	**70.4**	**70.4**	**70.3**	**68.8**	**69.2**	**69.8**	**69.9**	**68.9**
Exports to administered areas	1.7	2.2	2.1	2.3	2.9	2.7	3.0	3.6
Exports to rest of the world	27.9	27.4	27.6	28.9	27.9	26.5	27.1	27.5
Total exports	**29.6**	**29.6**	**29.7**	**31.2**	**30.8**	**29.2**	**30.1**	**31.1**
Total uses	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
				B. Industrial output by final use				
Private consumption	44.1	41.6	40.9	37.8	37.1	37.7	37.0	37.2
Public consumption	12.2	12.1	12.6	14.3	13.6	14.6	16.0	15.2
Investment	12.9	15.5	16.0	15.8	16.8	16.5	15.5	15.1
Total domestic uses	**69.2**	**69.2**	**69.5**	**67.9**	**67.5**	**68.8**	**68.5**	**67.5**
Exports to administered areas	1.8	2.4	2.2	2.4	3.0	2.9	3.1	3.8
Exports to rest of the world	29.0	28.4	28.3	29.7	29.5	28.3	28.4	28.7
Total exports	**30.8**	**30.8**	**30.5**	**32.1**	**32.5**	**31.2**	**31.4**	**32.5**
Total uses	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[a] Central Bureau of Statistics data on direct final uses and Bank of Israel calculations based on the input-output table for 1968/69. The figures in this table relate to May 15, 1976 and differ from those presented in previous years, as CBS data on direct final uses have been revised. The data for 1974 should be accepted with caution, as the estimate of noncivilian public consumption is biased upward.

(c) *Industrial Output and Product Generated by Final Demands*[16]

Output generated by final demands rose in 1975 by only 0.8 percent, while derived product did not grow at all (see also Table XIV-7). This was the result of a meagre growth in the product generated by private consumption and export that was offset by the product generated by public consumption and investment (see Table XIV-7).

A comparison with 1974 shows no essential change in the structure of industrial product generated by final demands (Table XIV-8), aside from a one-percent drop in the share of public consumption which followed a record level of over 19 percent in 1974. The share of export in industrial product hardly rose (Table XIV-7) although it is quite possible that it did grow in the second half of the year.[17]

3. INDUSTRIAL OUTPUT AND INPUT PRICES

The rise in wholesale prices of industrial output slowed in 1975 to 19 percent, as compared to a 70 percent increase in 1974 (see Table XIV-1). In spite of this marked deceleration, the rate of price increase was still considerable in view of almost zero growth in industrial production. This reinforces the argument that the price rise in 1975 was almost completely the result of cost pressures.

The rate of price rises during the year was not uniform (see Table XIV-9): prices soared in the first quarter, while in the following two quarters they rose at a considerably slower rate, which accelerated again in the last quarter.

The rise in prices in the first quarter of 1975 is primarily due to the impact of the November 1974 economic policy measures. Indeed, a sizeable part of the price rises already occurred in the last quarter of 1974, but the rising cost of raw materials and of some intermediate products, as well as the rise in wages following the payment of the cost-of-living allowance, led to price increases by industrialists in 1975, in spite of the drop in demands and the reduction of industrial output. As already mentioned, a price

16. The discussion on this subject can only be based on average data even though an analysis of annual averages has become less interesting in view of the growing importance of developments in the course of the year. Industrial product and output generated by final demands are obtained from an estimate of the final uses for the year under discussion and from fixed input-output coefficient according to an input-output table prepared for 1968/69. An equivalence between the results obtained through this indirect measure of changes in industrial product and output and the direct measurement of industrial production does not necessarily follow: there are sometimes wide differences as, for example, in 1974. The difference between the two measurements in 1975, 2.2 percent growth in industrial production as compared to zero growth in product generated by final demands is acceptable. See also note (a) of Table XIV-8 in this chapter.

17. For a detailed assessment, see note 2 on page 289 of this chapter.

rise accompanied by falling demands and production is generally indicative of a cost-induced inflation.

The drop recorded in the first six months both in industrial production and labor inputs, as well as in the final demands for industrial output, affected the rate of inflation; prices steadied in the second and third quarter of 1975.

The revival in the third quarter of local demands was not followed by price rises since many of the economy's factors of production were still idle, and it was therefore possible to increase industrial production without causing a price rise.

The rise in prices in the last quarter of 1975 can be attributed in part to the economic policy measures taken in September 1975 (a 10 percent devaluation, increases in purchase taxes, and a rise in the price of fuel). Because of lack of data on producer prices, it is difficult to determine exactly what part of the wholesale price rises of industrial output is due to a rise in production costs and what part to a rise in indirect taxes.

Table XIV-9

QUARTERLY AND ANNUAL CHANGES IN WHOLESALE INDUSTRIAL OUTPUT PRICES FOR DOMESTIC DESTINATIONS BY MAIN BRANCHES, 1974–75

	Percent annual increase										Percent change throughout year[a]	
	1974				1975							
Branch	I	II	III	IV	I	II	III	IV	1974	1975	1974	1975
Mining and quarrying	49.0	3.2	4.9	19.4	13.7	3.1	4.4	14.7	74.8	44.8	69.5	30.3
Food, beverages, tobacco	25.2	8.9	3.9	31.1	20.8	2.7	0.5	4.6	53.8	57.7	111.8	10.9
Textiles	7.7	22.6	5.9	7.8	6.55	1.8	1.4	11.3	43.8	27.1	52.5	23.3
Clothing	3.0	12.5	2.2	14.6	3.8	–0.2	1.9	12.0	32.9	22.9	36.1	21.1
Wood, wood products, furniture	13.6	14.6	7.1	6.2	11.8	5.7	2.5	10.2	49.3	35.1	47.1	31.6
Paper and paper products	17.8	16.2	16.6	13.9	16.1	7.4	0.6	10.4	67.1	53.8	85.8	28.7
Leather and leather products	11.7	3.0	3.9	6.4	10.5	2.2	5.0	10.2	39.4	12.1	27.0	27.0
Rubber and plastic products	25.1	13.7	4.0	9.8	11.7	4.0	1.5	10.2	64.5	33.8	56.9	25.2
Chemicals and refined petroleum products	27.4	11.9	6.6	13.6	12.4	5.0	1.6	7.4	64.3	39.1	70.4	21.4
Nonmetallic mineral products	20.3	9.2	9.9	15.1	12.9	2.9	3.0	10.1	58.0	42.0	64.9	21.7
Basic metals	16.4	10.5	17.8	12.5	11.5	–0.3	–0.1	9.5	68.2	35.8	71.4	12.4
Metal products	13.3	26.6	2.5	9.6	9.2	–0.4	0.5	7.3	56.4	30.5	64.1	10.7
Machinery	12.8	10.7	10.7	11.9	15.1	3.9	2.2	9.7	41.8	43.1	57.0	28.1
Electrical and electronic equip.	11.5	9.3	8.2	9.3	10.9	4.9	1.3	8.0	39.6	33.7	44.2	21.6
Transport equipment	7.4	8.3	13.0	13.1	12.0	4.3	5.8	9.4	31.9	43.9	55.2	27.2
Miscellaneous	11.2	9.5	9.3	13.0	13.9	4.0	2.6	9.8	39.3	41.9	59.0	22.6
Total	**17.0**	**11.8**	**8.0**	**15.6**	**13.2**	**2.9**	**1.5**	**8.2**	**51.5**	**40.8**	**69.7**	**18.8**

[a] Change throughout the year is calculated on the basis of the price index for December of the year under discussion and January of the following year, compared to the January average of the year under discussion and December of the previous year.

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

The price rise in the last quarter of 1975 is different from that which occurred in the first quarter of the year: the rise in prices at the end of the year was accompanied by a rise in final demands and in production, while in the first quarter of the year final demands and production dropped. In spite of growth in production, production factors were still underutilized in this quarter (see discussion in the section on industrial production) and therefore, even in the first quarter, the price rise cannot be attributed to demand pressures. It can, however, be assumed that the stir in final demands helped industrialists to pass on a sizeable portion of production costs to consumers, something which they were not able to do previously. In the second and third quarters, input prices continued to rise, principally because of the policy of creeping devaluations which raised the price of raw materials, and because of institutional labor agreements which led to continued wage increases. The general pattern of price developments during the year that characterized wholesale prices of industrial output for domestic destinations were similar in all branches of industry, both according to the conventional classification of industrial branches by main branches (Table XIV-9) and according to the classification by principal destination of industrial output (which shows a stronger affinity of certain branches for certain final demands - see appendix to this chapter). The differences between the various branches (or groups of branches) reflect mainly variations in the timing of the influence of cost pressures, and differences in taxes or reduced subsidies.

4. INDUSTRIAL EXPORTS[18]

The annual average of real industrial exports in 1975 shows stagnation and even a slight drop in comparison to the 1974 average (see Table XIV-10). However, in exports as in industrial production, the annual average masks opposite trends in the course of the year and in the various branches. Thus, a fall in exports is predominant during the first half of the year, while in the second half there was a recovery which gained momentum in the last quarter of the year. The decline in the first six months and the subsequent recovery were mainly due to the economic climate in the export markets (recession in 1974 and a slump in the first half of 1975), for neither domestic demands nor industrial production capacity constrained the potential of exports to expand. In the second half of 1975 most foreign markets gradually emerged from the slump, and their demand recovered.

18. For the development in industrial export according to branches see the detailed discussion in Chapter IV "The Balance of Payments--Current Account" in the section on export.

Table XIV-10

INDUSTRIAL EXPORTS, BY MAIN BRANCH, 1974 AND 1975, AND REAL CHANGES, 1972-75

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

	Industrial exports		Percent annual increase in quantity			
	1974	1975	1972	1973	1974	1975
Mining and quarrying	90.1	84.4	-2.7	-12.0	17.1	-15.1
Food, beverages, tobacco	128.8	125.7	15.0	0.1	-1.6	-8.6
Textiles	62.7	52.3	-10.0	-1.4	-9.4	-7.3
Clothing	97.6	104.1	5.8	-8.5	1.4	2.0
Wood, wood products, furniture	14.9	12.8	19.9	-2.4	-24.4	-6.1
Paper and paper products	3.8	2.7	7.4	-15.5	-19.2	-16.5
Printing and publishing	19.3	18.5	0.6	-6.6	-16.7	12.6
Leather and leather products	7.0	5.4	27.2	-7.3	-8.2	18.2
Rubber and plastic products	36.3	44.7	2.5	-8.7	-8.6	9.1
Chemicals and petroleum	218.4	185.9	10.4	12.1	72.5	-18.5
Nonmetallic mineral products	5.8	6.5	-44.2	2.8	98.7	7.0
Basic metals	23.2	25.5	-5.0	31.1	16.3	0.4
Metal products	64.7	103.2	5.0	-21.3	22.4	46.6
Machinery	26.6	30.8	32.2	29.2	23.2	9.1
Electrical and electronic equip.	59.8	97.8	6.7	-23.0	101.3	55.8
Transport equipment	40.3	39.7	-30.2	77.8	25.2	-15.9
Miscellaneous	28.2	29.9	38.3	0.6	-11.7	-3.7
Total industrial exports excl. diamonds	**927.5**	**969.9**	**5.3**	**-2.1**	**13.4**	**-1.3**
Diamonds (net)	562.6	548.9	30.1	12.3	-6.0	-0.8
Total industrial exports	**1,490.1**	**1,518.8**	**14.0**	**3.7**	**5.4**	**-0.7**

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

And so in the absence of demand pressures on the domestic market, and with excess production capacity in most industrial branches, industrial exports recovered, slowly at first (in the third quarter), and later, towards the end of the year at an accelerated pace.

As was mentioned, the development in the different export branches varied, and here too the reason lies in the extent to which the recession in overseas markets affected demand for Israeli exports. The world-wide slowdown was expressed first of all in a drop in consumption, which left its mark above all on export of branches producing consumer goods. The drop in export in these branches had already begun in mid-1974, and in the first half of 1975 the slump in these exports deepened. Naturally, the recovery on the world markets in the second half of the year was immediately felt in the exports of these branches.

Exports of branches not producing consumer goods developed differently in those branches which suffered from the world recession. The drop in export was felt only in the last quarter of 1974 or the first quarter of 1975, while the effect of the recovery in the second half of the year was not noticeable, or only moderately so. In some of these branches, which apparently enjoyed specific demand conditions and whose export was not

affected by world market conditions, rapid expansion in export continued throughout 1975. Included in these branches are particularly those manufacturing defense products, tires, metal pipes, and some of the chemical sub-branches.

1975 was to have been a turning point in the development of export relative to production for the domestic market. This was the declared government policy and policy measures were directed to this end: efforts to raise relative export prices through a suitable policy of devaluation on the one hand and restraint in local demand on the other. In spite of the implementation of rather stringent policy measures, the anticipated change was not achieved in 1975. The principal reason for this was poor timing: the policy measures were implemented precisely when world markets entered a period of economic recession and presumably more drastic steps would have been required in order to offset the effect of this slump. An additional factor, equally important, lies in the institutional framework in which the Israeli economy operates. Because of this structure, the devaluations caused local price increases to a greater extent than the relative improvement achieved in export prices. A rise in domestic prices in its turn brings the situation back to its former state. There is no doubt that this is connected with (a) the agreements for cost-of-living allowances and (b) the implementation in 1975 of the tax reform which in the second half of the year served to increase domestic demand at least temporarily. The upswing in domestic demand postponed the adjustment required for the reorganization of industry towards export. Relative export profitability declined in the second half of 1975 because of the drop in overseas prices and the strengthening of the dollar in relation to European currencies. This fact, too, contributed to the postponement of an export-oriented reorganization of industry.

The recovery of industrial export in the second half of 1975, mainly in consumer products, accelerated in the fourth quarter of the year: the average export level (of industrial exports, excluding diamonds) in this quarter was 10 percent higher than in the third quarter of 1973, on the eve of the Yom Kippur War. Industrial exports, including diamonds, were two percent lower in the last quarter of the year than that on the eve of the war, because diamond export, although showing signs of recovery in the second half of the year, did not yet reach the pre-war level. When diamonds and the export of the mining and quarrying branch are excluded, it will be found that the level of industrial export in the last quarter of 1975 was higher than the level of export on the eve of the war by 15 percent.[19] This reflects on the one hand the crisis that hit the exports of the mining and

19. When fuel export is deducted too, a similar result is obtained: 17 percent up on the third quarter of 1973. As the export of fuel stopped completely in 1975, after very high exports ($40 million) in 1974.

quarrying branch in 1975 (a drop of 15 percent in comparison to 1973) covering all the principal components of the branch--phosphates, potash, cement, and copper; and on the other hand the fact that other industrial exports, excluding diamonds, mining, and quarrying, were significantly higher than on the eve of the war. It should be noted that this export is more strongly linked to what occurs within the Israeli economy, while other export branches such as diamonds, mining, and quarrying are not related to developments in the domestic market (except the labor market). At the end of 1974, this export (excluding diamonds, mining, and quarrying) was lower than on the eve of the war by 2 percent; in comparison the third quarter of 1974 (the peak quarter in 1974) was only 7.5 percent higher than the third quarter of 1973. In other words, even if we compare 1975 exports with the peak level of 1974 (third quarter), it will be found that the level at the end of 1975 was more than 8 percent higher. An additional comparison between the last quarter of 1975 and the "slump" quarter (the second) in 1975 shows that at the end of the year, the level of export rose over the lowest point reached in 1975 by more than 20 percent. This gives a strong indication of the recovery rate that took place in the second half of the year, mainly in the last quarter.

It should be noted, however, that the recovery cannot be expected to continue at the same rate in 1976, since the rate at which overseas demand is picking up cannot continue over a long period, as it reflects in the main the emergence from a recession to be followed by a stabilization in the growth of demand. Indeed, initial and temporary indicators of industrial exports during the first four months of 1976 show that the continued rate of recovery in export is much slower than that achieved at the end of 1975.[20]

Table XIV-11

REAL CHANGES IN INDUSTRIAL INVESTMENT, 1971-75

	Percent annual increase					Weight in 1975[b]
	1971	1972	1973[a]	1974[a]	1975	
Investment in machinery and equipment	12.1	9.7	-4.6	1.8	24.1	82
Imported	12.3	13.1	-6.1	1.4	19.5	63
Locally manufactured	11.7	-1.2	1.3	-13.0	42.3	19
Investment in structures	2.9	15.9	0.7	2.7	-1.0	18
Total investment	**10.3**	**10.9**	**-3.5**	**-0.9**	**18.7**	**100**

[a] Revised data.
[b] 1970 prices.
SOURCE: Central Bureau of Statistics.

20. Nevertheless, it should be noted that if industrial export, (excl. diamonds) stabilized in 1976 on the average level of the last quarter of 1975, the average in 1976 will show a 12 percent growth, in comparison with the 1975 average.