



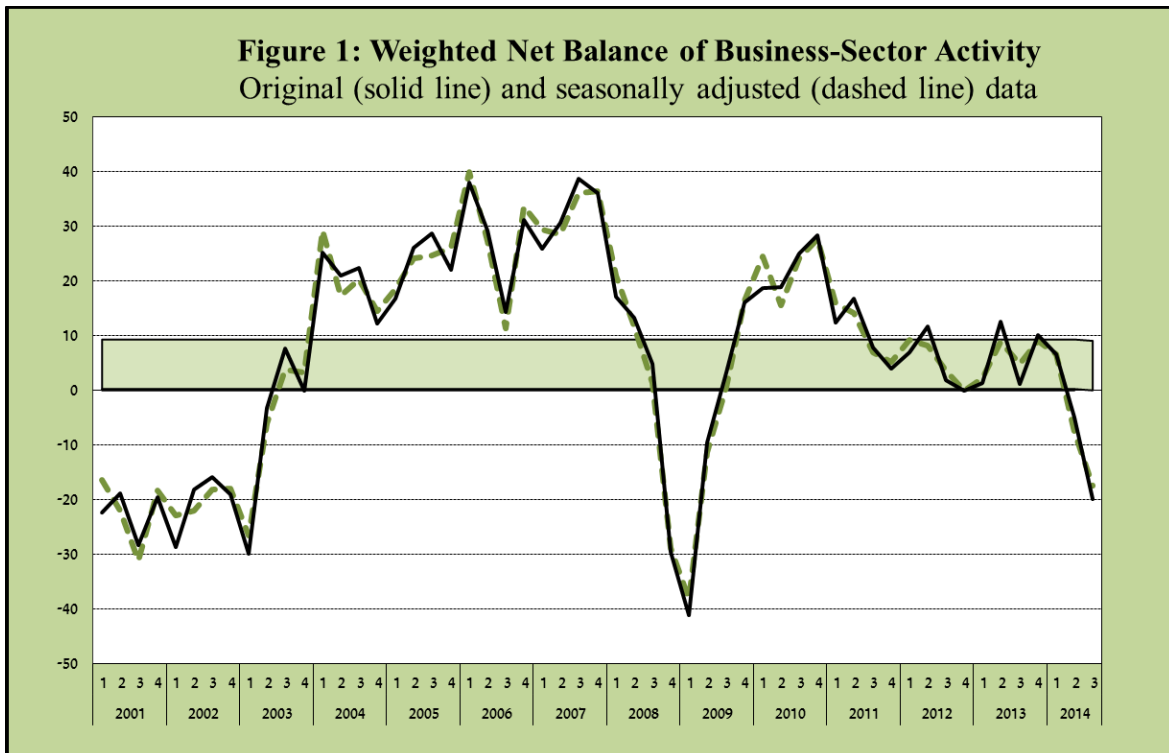
**BANK OF ISRAEL**  
Office of the Spokesperson and Economic Information

October 28, 2014

Press Release

**Bank of Israel Companies Survey - Main Findings - Third quarter of 2014**

*The Companies Survey for the third quarter of 2014 reflects a decline in business sector activity, due particularly to the negative impact on activity during Operation Protective Edge, expressed in a significantly negative Weighted Net Balance (Figure 1 and Table 1). Net balances are negative in all industries surveyed, with the sharpest declines in hotels industry activity. A decline in activity during the quarter is seen in both domestic sales and in exports. The expectations reported by companies in the current survey are not uniform: in the services, transport and communication industries, expectations are for recovery in activity in the coming quarter compared with the present quarter; in contrast, companies in the hotels, manufacturing, and trade industries expect the decline in activity to continue.*



**Table 1: Economic activity in the principal industries, based on the net balance of reported activity**

(Original and seasonally adjusted data, percent)

Year	2011	2012				2013				2014		
Quarter	IV	I	II	III	IV	I	II	III	IV	I	II	III
Manufacturing (output)	*7	15	14	*-2	*1	*2	12	*-4	*1	*9	*4	*-3
seasonally adjusted	11	14	11	*2	*2	*0	*9	*2	*0	*6	*1	*0
Trade (sales)	*8	*10	*8	20	*11	*-9	24	*10	*4	*5	-25	*-9
seasonally adjusted	*13	*12	*8	*15	*14	*-6	24	*7	*4	*6	-23	*-13
Construction (total activity)	*-17	*-4	26	26	*-18	*7	*19	*0	*21	*24	-26	-41
seasonally adjusted	*-9	*-4	*20	29	*-15	*6	*12	*7	*21	*15	-26	-40
Transport and communications (total activity)	*4	*9	*-4	*13	*1	*35	*-1	*-7	*-5	*4	*-7	-49
seasonally adjusted	*5	*6	*-4	*16	*2	*29	*0	*-2	*-4	*3	*-6	-46
Hotels (total activity)***	*4	*21	29	*23	-30	*25	*-8	*-18	*29	-33	74	-100
Business services industries	*5	*3	12	-9	*0	*-6	12	*4	18	*6	*-3	-17
seasonally adjusted	*3	*9	*7	*-7	*-2	*-2	*7	*7	15	10	*-8	-13
<b>Total business sector</b>	<b>4</b>	<b>7</b>	<b>12</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>13</b>	<b>1</b>	<b>10</b>	<b>7</b>	<b>-5</b>	<b>-20</b>
seasonally adjusted	5	9	8	4	0	2	9	5	9	7	-8	-18

\* Not significant (at the 10% level).

\*\* The significance test is less effective in this industry due to the small number of firms.

\*\*\* Compared with the same quarter in the previous year.

The net balances of output in the **manufacturing** industry indicate a decline in activity in the third quarter of the year, which derives from a decline in export sales and, primarily, sales to the domestic market. Likewise, the decline continues in net balances of the utilization rate of equipment, and in the number of employees. The decline in activity in general, and in exports in particular, reflects declines at small and medium sized companies, as well as in high technology and medium technology companies. Expectations in the industry are for a continued decline in activity, particularly in exports. In the **services** industry, the net balance was negative and declined compared with the previous month. In this regard, the decline in domestic services sales is notable. With that, there are expectations for an increase in overall activity and orders from abroad increased for the next quarter. The net balance of sales in the **trade** industry remained negative for the second consecutive quarter after having been positive for a long period of time. At the same time there was an increase in goods inventory. In addition, expectations for the next quarter are negative.

In the **construction** industry, a decline continued this quarter as well in the net balance of volume of activity, reflecting a decline in construction of buildings and of infrastructure. The net balance of output prices continues to increase relative to the past, so that based on the survey no moderation is seen in home prices. This is consistent with the continued dominance of supply limitations in the industry—limitations on land prices and a shortage of professional workers are the most severe supply side constraints on activity in the industry. It should be noted that the expectations are for no change in activity in the

coming quarter. There was a relatively large decline in activity in the **hotels** industry this quarter, apparently due to the sharp decline in overnight stays by tourists from abroad during Operation Protective Edge. At the same time as a decline in activity in the industry, there was also a sharp increase in the severity of the demand constraint, and the number of workers in the industry declined. Hotels expect that the decline in reservations by tourists from abroad will continue in the coming quarter as well, similar to the effects of deteriorations in the security situation in the past, which continued after the security situation ended. Activity in the **transport and communication** industries continues to be moderate this quarter as well, and there was even a decline in the net balance, mainly reflecting a decline in sales of services to foreigners. With that, expectations are for a notable increase in activity for the next quarter.

An assessment from the perspective of supply and demand constraints indicates that in most industries (excluding the construction industry), the demand constraint was the main limitation on conducting activity, with this constraint becoming markedly more severe in the hotels, trade, and services industries. Compared with the previous quarter, there was a slight increase in the severity of the financing constraint, both for small and large companies (Figure 3). It is important to note that the demand constraints in all industries are not very severe, but past experience teaches that changes in the severity of the constraints may be meaningful even when their level is low.

In the third quarter of 2014, **expectations of the inflation rate over the coming 12 months declined** to 1.7 percent on average, compared with 12-month expectations of 1.9 percent in the previous quarter. The median expectation was 1.8 percent. About 85 percent of companies in the survey this quarter expected that inflation over the coming 12 months will be within the target range (1–3 percent) indicating price stability. **Expectations for the next quarter regarding the exchange rate** increased to NIS 3.7/\$, compared with NIS 3.51/\$ in the previous quarter. Companies forecast an exchange rate in 12 months' time of NIS 3.74/\$. The standard deviation of the distribution of the exchange rate for the coming 12 months based on the current survey increased compared with the statistic in the previous survey.

## Tables and additional figures

**Table 1.1: The net balance of manufacturing companies classified by human-capital intensity and innovation**

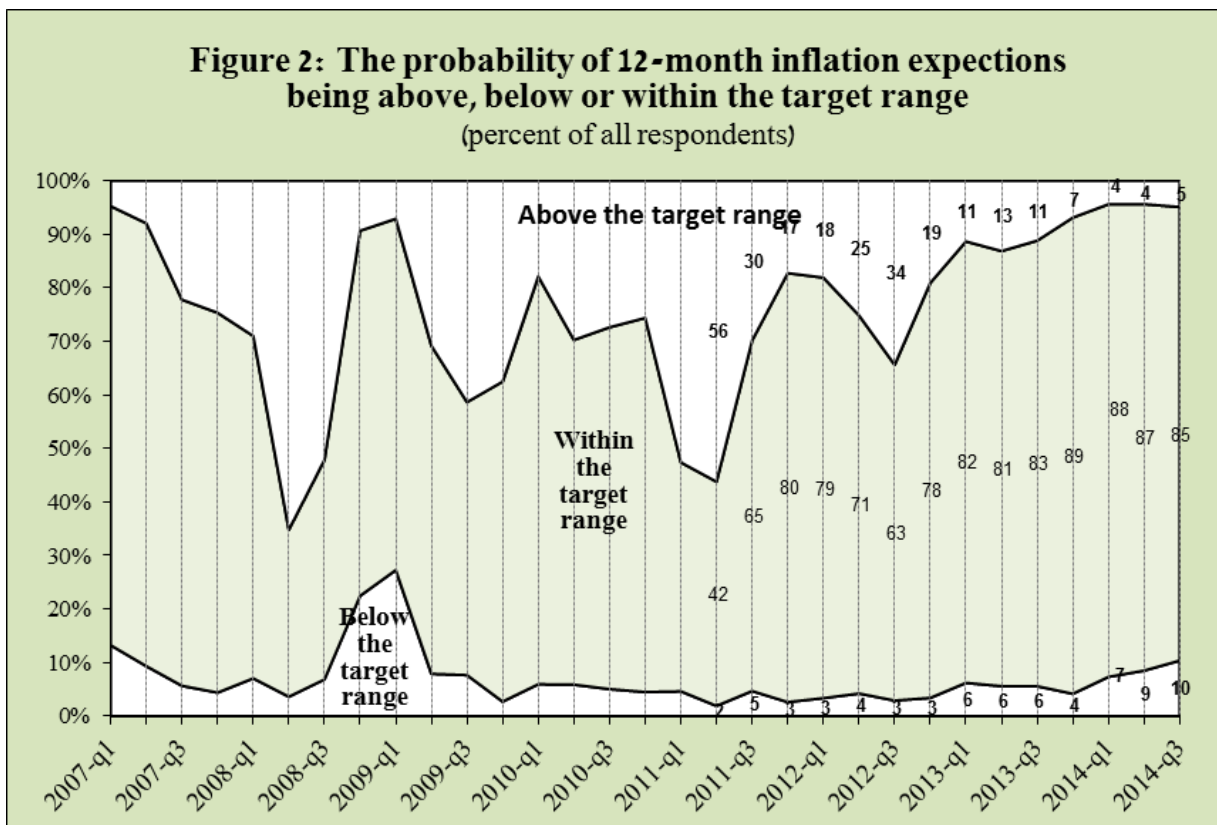
(Original data, percent)

Year	2011	2012				2013				2014		
Quarter	IV	I	II	III	IV	I	II	III	IV	I	II	III
Advanced companies	*9	*0	16	*-9	*-4	-18	19	*5	21	*7	*4	*-9
Mixed companies	*16	*19	42	*22	*9	*21	32	*23	*4	*16	25	*14
Traditional companies	*3	23	*5	*-3	*2	*12	*3	-17	-15	*8	*-3	*-5

**Table 2: Statistical analysis of 12-month inflation expectations**

Year	2011	2012				2013				2014		
Quarter	IV	I	II	III	IV	I	II	III	IV	I	II	III
1. Mode	3.00	3.00	3.00	3.00	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00
2. Median	2.50	2.50	2.60	3.00	2.50	2.20	2.10	2.50	2.00	2.00	2.00	1.80
<b>3. Average</b>	<b>2.57</b>	<b>2.61</b>	<b>2.68</b>	<b>2.97</b>	<b>2.56</b>	<b>2.35</b>	<b>2.30</b>	<b>2.35</b>	<b>2.20</b>	<b>1.93</b>	<b>1.89</b>	<b>1.74</b>
4. Standard Deviation	0.94	0.93	1.01	1.02	0.93	1.47	1.05	0.84	0.79	0.77	0.88	0.97
5. Skewness*	-0.43	-0.39	-0.32	-0.03	0.06	0.35	0.30	0.35	0.20	-0.07	-0.11	-0.26
Number of responding companies	533	475	473	445	440	370	411	393	406	409	388	366

\* Skew is calculated as the difference between average and mode



**Table 3: Companies' expectations for the NIS/\$ exchange rate**

At the time of the survey, the average exchange rate was NIS 3.70/\$

Year		2011	2012				2013				2014		
Quarter		IV	I	II	III	IV	I	II	III	IV	I	II	III
<b>One quarter ahead</b>	Number of responding companies	548	500	492	463	448	386	429	401	421	427	404	379
	Average	3.82	3.81	3.91	3.97	3.89	3.75	3.69	3.65	3.56	3.54	3.51	3.7
	Standard Deviation	0.12	0.09	0.09	0.13	0.13	0.13	0.1	0.13	0.11	0.17	0.13	0.2
<b>One year ahead</b>	Number of responding companies	548	497	489	460	445	380	426	400	420	420	401	378
	Average	3.9	3.91	3.99	4.08	3.98	3.87	3.79	3.76	3.64	3.64	3.6	3.74
	Standard Deviation	0.21	0.33	0.21	0.25	0.35	0.29	0.16	0.26	0.24	0.23	0.2	0.27

**Table 4: Manufacturing – net balances**

Manufacturing Industries	2011	2012				2013				2014		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
<b>A. Activity in the quarter</b>												
1. Output	*7	15	14	*-2	*1	*2	12	*-4	*1	*9	*4	*-3
2. Sales	*2	*7	*10	*-10	*-3	*-5	17	*-8	*6	*1	*3	*-7
3. Domestic sales	*-4	*3	*7	*-8	*-3	*-7	12	*-9	*1	*-6	*-8	*-8
4. Export	*-3	*-10	*3	-15	*-8	*-6	*10	*-4	*2	*9	19	*-3
5. Stocks of raw materials	*-1	*5	*7	*4	*2	*7	10	*8	*0	*8	15	*8
6. Stocks of finished goods	*3	8	*8	*1	*3	10	*2	*3	*-3	*5	8	10
7. Rate of utilization of machinery and equipment	*5	*1	10	*-5	*-7	*-1	*4	*-7	*-8	*-4	*-1	*-4
8. Number of employees	*5	*1	*1	*-4	*-2	*2	*-5	*-2	*-2	*0	*-4	*-6
<b>B. Expected activity in the following quarter</b>												
9. Domestic orders	-14	*-7	*-8	-11	-11	*-10	*-7	*-7	*-5	*-6	*-7	*-9
10. Export orders	*-5	*-3	-10	-19	*-3	*5	*2	*1	*-1	*7	*6	-16
<b>Number of responding companies</b>	205	207	187	194	185	149	170	166	181	176	156	147

**Table 5: Trade – net balances**

Trade	2011	2012				2013				2014		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
<b>A. Activity in the quarter</b>												
1. Sales	*8	*10	*8	20	*11	*-9	24	*10	*4	*5	-25	*-9
2. End-of-quarter stock	*10	*11	*12	*-11	*0	-16	*7	*12	*2	*10	*-7	*13
3. Percent of credit sales	13	25	*10	23	13	14	24	25	19	*10	*11	19
4. Supply period	6	*3	-8	*4	-7	*2	*2	*6	*-2	*-3	*-4	*2
5. Number of employees	-9	*6	*1	*-7	*-7	*-7	*0	*-8	*4	-12	*-7	*-4
<b>B. Expected activity in the following quarter</b>												
6. Forecast change in number of permanent employ	-9	*-1	*0	*-6	*-8	*-4	*4	*-8	*2	*-7	-11	*-4
7. Sales expectations	*-3	25	*12	*7	*10	*18	31	*18	24	22	*7	*11
<b>Number of responding companies</b>	80	72	74	54	62	57	55	51	55	58	57	54

**Table 6: Construction – net balances**

Construction	2011	2012				2013				2014		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
<b>A. Activity in the quarter</b>												
1. Total activity	*-17	*-4	26	26	*-18	*7	*19	*0	*21	*24	-26	-41
of which 2. Buildings	*-16	*-17	*8	*19	*-20	*6	*19	*-5	*10	29	*-9	-36
3. Infrastructure	*19	*-6	29	43	*0	*0	*25	29	*7	*6	*-5	*-22
4. Output prices in dollar terms	*20	24	29	42	20	44	45	30	37	48	39	*9
5. Area of building starts (sq. m.)	*0	*-17	*-13	*9	*-26	41	*5	*0	*5	*-5	*-9	-38
6. Area of building completions (sq. m.)	*-4	-21	*4	19	*-21	*12	*0	*10	*0	*10	*-4	*-9
7. Building time	28	21	*21	36	*11	24	30	*0	*15	*10	35	23
8. Number of employees	*-19	*-8	*0	*13	*-10	*0	*-10	*-15	*0	*0	*-4	*0
<b>B. Expected activity in the following quarter</b>												
9. Expected activity in the following quarter	*-4	*-12	*8	*17	*-24	59	*19	*0	*0	*-5	*9	*-9
<b>Number of responding companies</b>	26	25	25	24	22	17	21	20	20	21	23	22

**Table 7: Transport and Communication – net balances**

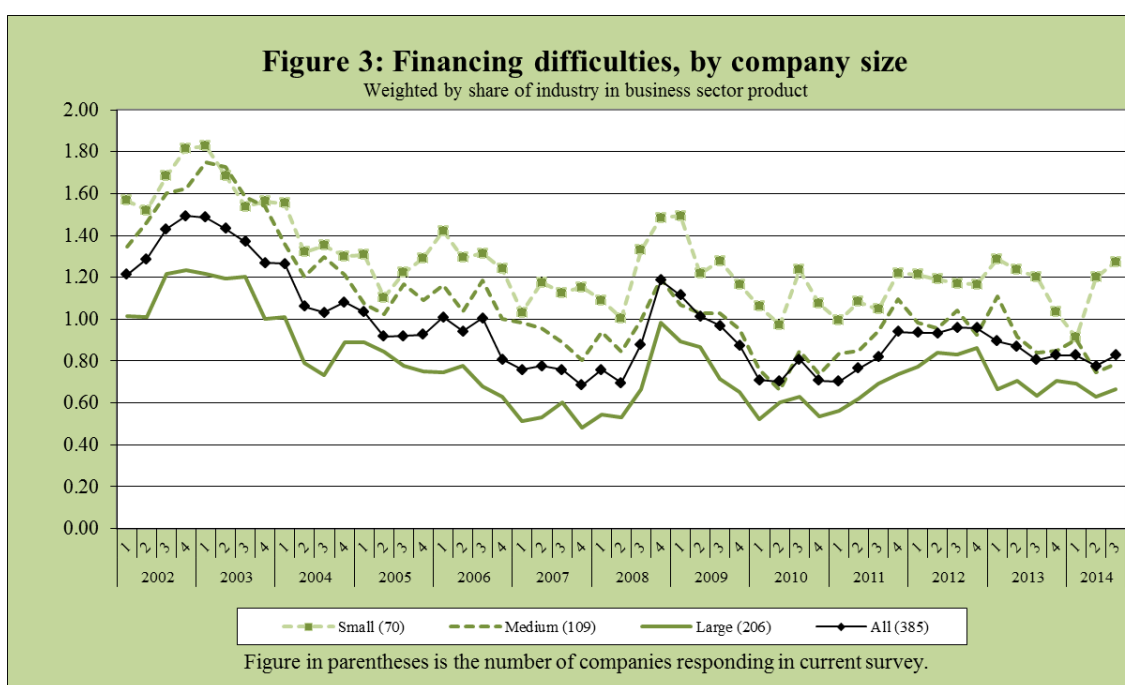
Transport and Communication	2011	2012				2013				2014		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
<b>A. Activity in the quarter</b>												
1. Total activity	*4	*9	*-4	*13	*1	*35	*-1	*-7	*-5	*4	*-7	-49
2. Sales of services to residents	*9	*-5	*-11	*4	*-13	*34	*-8	*-1	*-12	*13	*17	*-34
3. Sales of services to nonresidents	*-1	*18	*-12	*-13	*-7	*-9	*-22	*-14	*3	*0	*-14	-54
4. Utilization of equipment (capacity utilization, etc.)	*9	23	*14	*21	*8	43	*6	*-1	*-13	*14	*2	*-36
5. Number of employees	*-2	*-6	*-8	*12	*-1	*-5	*4	*14	*-12	*-13	*7	*-14
<b>B. Expected activity in the following quarter</b>												
6. Expected activity in the following quarter	*4	*29	*4	*26	*7	*-3	*-20	32	*-21	*6	*15	*17
<b>Number of responding companies</b>	35	39	27	23	20	21	22	15	24	24	25	25

**Table 8: Hotels – net balances**

Hotels	2011	2012				2013				2014		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
<b>A. Activity in the quarter</b>												
1. Total activity	*4	*21	29	*23	-30	*25	*-8	*-18	*29	-33	74	-100
2. Number of bed-nights: Tourists	-40	*-12	*-11	-32	-50	-32	*-4	-32	35	*-7	50	-100
3. Number of bed-nights: Israelis	*-19	*-3	*-14	*9	*-18	*-4	*0	*-9	*-24	*-19	*0	*5
4. Average revenue per room	78	38	66	68	*14	36	-44	*18	*-24	-56	57	-62
5. Number of employees	-31	*12	*-18	*0	-27	*0	*-12	*14	-24	*-4	32	-86
<b>B. Expected activity in the following quarter</b>												
6. Bookings for next quarter of foreign tourists	*-7	-33	*-18	*-23	-73	-38	*-4	*-23	*0	33	*-13	-67
7. Bookings for next quarter of Israelis	*0	-24	*-11	*-23	-68	*-13	*8	*-5	*-18	*19	*-22	-55
<b>Number of responding companies</b>	27	34	29	22	23	25	25	22	17	27	23	21

**Table 9: Services – net balances**

Service industries	2011	2012				2013				2014		
	IV	I	II	III	IV	I	II	III	IV	I	II	III
<b>A. Activity in the quarter</b>												
1. Total revenue from current activity	*5	*3	12	-9	*0	*-6	12	*4	18	*6	*-3	-17
2. Sales of services in Israel	*3	*2	14	-12	*0	*-6	*8	*4	10	*-1	*4	-13
3. Sales of services abroad	13	*6	*-7	*-12	*-2	*0	*8	*2	*11	*7	*5	*-4
4. Number of employees	7	7	11	*0	*1	*-5	*4	10	*0	*5	*-1	*-4
5. of which: trained	9	10	7	*2	*4	*-3	*4	12	*2	*5	*3	*-2
6. Number of Israeli workers abroad	*-3	*-3	*1	*-1	*3	*-2	-6	*0	*-2	*-1	-12	*-4
<b>B. Expected activity in the following quarter</b>												
7. Total orders	11	*8	13	11	12	18	*8	11	13	17	*3	11
8. Export orders	*7	23	*4	21	*13	18	*7	17	*13	18	13	*4
<b>Number of responding companies</b>	226	192	202	179	178	148	173	168	154	149	149	138



**Table 10: Net balance of the principal industries and construction by size of company, 2014:Q3**

Manufacturing companies					Construction companies				
	Total	Small	Medium	Large		Total	Small	Medium	Large
Output	*-3	-40	*0	*1	Total activity	-41	*-14	-67	-44
Total sales	*-7	-50	*-24	*5	Area of starts	-38	*-33	-100	*0
Domestic sales	*-8	-50	*-19	*2	Area of completions	*-9	*-14	-33	*11
Exports	*-3	-50	*-13	*4	Output prices in \$	*9	*0	*-17	33
Number of companies	156	16	33	98	Number of companies	22	7	6	9

**Table 11: The severity of constraints on carrying out planned activity (average)<sup>1</sup>**

1-Minimal, 2-Moderate, 3-Significant, 4-Very significant

Industry	Constraint	2012				2013				2014		
		I	II	III	IV	I	II	III	IV	I	II	III
Manufacturing Industries	<b>Demand constraints</b>											
	Volume of export orders	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>	<b>1.5</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>1.3</b>
	Volume of domestic orders	1.1	1.1	1.2	1.1	1.2	1.2	1.2	1.1	1.1	1.2	1.1
	<b>Supply constraints</b>											
	Machinery and equipment shortage	0.4	0.4	0.3	0.3	0.3	0.5	0.5	0.5	0.4	0.4	0.4
	Financing difficulties	0.6	0.7	0.6	0.6	0.6	0.6	0.7	0.5	0.6	0.5	0.5
	Labour shortage	<b>0.8</b>	<b>0.9</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>1.1</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	
Construction	<b>Demand constraints</b>											
	Volume of demand	<b>2.1</b>	<b>1.6</b>	<b>1.6</b>	<b>2.1</b>	<b>1.4</b>	<b>1.6</b>	<b>1.7</b>	<b>1.4</b>	<b>1.5</b>	<b>1.6</b>	<b>1.8</b>
	<b>Supply constraints</b>											
	Input prices	1.7	1.5	1.3	1.5	1.5	1.6	1.5	1.6	1.5	1.4	1.6
	Financing difficulties	2.1	2.2	2.0	1.9	1.7	1.9	1.7	1.8	1.9	1.3	1.7
	Labour shortage	<b>2.8</b>	<b>2.6</b>	<b>2.7</b>	<b>2.3</b>	<b>2.4</b>	<b>2.3</b>	<b>2.4</b>	<b>2.7</b>	2.1	2.3	2.3
	Machinery and equipment shortage	0.5	0.5	0.3	0.4	0.2	0.6	0.7	0.4	0.5	0.6	0.6
	Land lot Prices	2.0	2.3	2.1	2.5	2.1	<b>2.5</b>	<b>2.4</b>	<b>2.7</b>	<b>2.5</b>	<b>2.7</b>	<b>2.8</b>
Trade	<b>Demand constraints</b>											
	Volume of orders	0.8	0.6	0.6	0.9	0.9	0.5	0.6	0.7	<b>0.8</b>	0.7	1.1
	Economic & political situation in Israel	1.0	0.9	1.0	<b>1.4</b>	0.9	0.8	<b>0.8</b>	<b>0.9</b>	<b>0.8</b>	<b>1.0</b>	<b>1.6</b>
	Economic situation in the world	<b>1.0</b>	<b>1.1</b>	<b>1.1</b>	1.0	<b>1.0</b>	<b>0.9</b>	0.7	0.7	<b>0.8</b>	0.8	0.9
	<b>Supply constraints</b>											
	Financing difficulties	<b>0.8</b>	<b>0.9</b>	<b>1.0</b>	<b>1.2</b>	<b>0.9</b>	0.7	0.6	0.7	0.6	0.6	0.5
	Labour shortage	0.8	<b>0.9</b>	0.9	0.8	0.9	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>0.9</b>	<b>0.7</b>	<b>0.8</b>
Transport and Communication	<b>Demand constraints</b>											
	Booking by foreign tourists	0.9	0.5	1.0	1.2	0.6	0.8	0.6	0.9	0.8	0.8	1.4
	Booking by Israelis	0.7	0.3	0.6	0.9	0.4	0.9	0.4	0.9	0.6	0.6	1.1
	Economic & political situation in Israel	1.4	1.3	1.4	1.5	1.4	1.4	1.3	1.3	1.4	1.2	1.9
	Intensification of competition	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.4</b>	<b>2.5</b>	<b>2.2</b>	<b>1.9</b>	<b>2.2</b>	<b>2.1</b>	<b>2.4</b>	<b>2.3</b>
	<b>Supply constraints</b>											
	Financing difficulties	1.2	1.3	1.1	0.9	<b>1.3</b>	1.3	0.9	<b>1.1</b>	1.1	1.1	<b>1.4</b>
	Labour shortage	<b>1.4</b>	<b>1.5</b>	<b>1.2</b>	<b>1.2</b>	1.2	<b>1.7</b>	<b>1.2</b>	<b>1.1</b>	<b>1.3</b>	<b>1.3</b>	1.4
Hotels	<b>Demand constraints</b>											
	Booking by foreign tourists	<b>1.9</b>	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>	<b>2.3</b>	<b>1.4</b>	<b>2.0</b>	<b>1.6</b>	1.4	<b>1.6</b>	<b>3.4</b>
	Booking by Israelis	1.3	1.5	1.5	1.4	1.4	1.2	1.2	1.3	<b>1.6</b>	1.4	1.9
	Economic & political situation in Israel	1.7	1.4	1.7	1.8	1.6	1.2	1.4	1.2	1.5	1.5	2.5
	<b>Supply constraints</b>											
	Financing difficulties	<b>1.0</b>	1.1	<b>1.2</b>	<b>0.8</b>	0.6	0.7	0.9	0.9	1.0	0.9	0.2
	Labour shortage	0.9	<b>1.2</b>	1.0	0.6	<b>1.2</b>	<b>1.2</b>	<b>1.4</b>	<b>1.2</b>	<b>1.7</b>	<b>1.8</b>	<b>1.3</b>
Service Industries	<b>Demand constraints</b>											
	Economic & political situation in Israel	1.1	0.9	1.1	1.2	1.0	1.0	1.0	0.9	0.9	1.0	1.5
	Global Economic situation	1.2	1.3	1.3	1.4	1.2	1.1	1.2	1.1	1.0	1.1	1.1
	Intensification of competition	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>	<b>1.7</b>
	<b>Supply constraints</b>											
	Financing difficulties	<b>0.9</b>	0.8	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	0.8	0.8	0.8	0.8	0.8	0.8
	Labour shortage	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>0.9</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>

<sup>1</sup> For each quarter, the most severe supply constraint and the most severe demand constraint are in bold.