

Survey of Expectations in Industry April - June 2011 Principal Findings

The analysis comprises some 186 industrial companies replying to the Survey between mid-March and the end of April 2011.

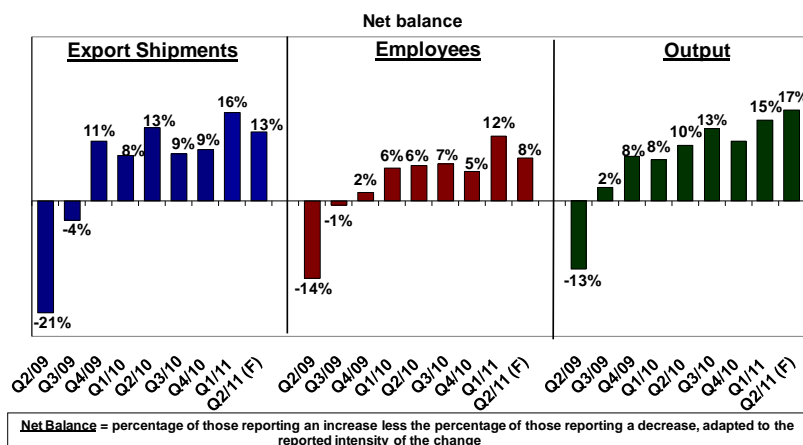
In the first quarter of 2011:

- Acceleration in the rate of growth in industrial output.
- Dramatic acceleration in the rate of growth in the workforce in industry.
- Slight acceleration in the rate of growth in sales to the domestic market.
- Dramatic acceleration in the rate of growth in export shipments.
- Continued growth in investments by industry in fixed assets, but with a marked slowdown.
- Sharp acceleration in the rate of increase in inflation-adjusted financing expenses.

Industrialists' expectations for the second quarter of 2011:

- Rapid growth is expected to continue in industrial output.
- Sharp deceleration is expected in the rate of growth in the work force in industry.
- Slight acceleration expected in the rate of growth in domestic sales.
- Rapid growth is expected to continue in export shipments, with a slight deceleration in the rate.
- Acceleration is expected in the rate of increase in investments by industry in fixed assets.
- Marked acceleration is expected in the rate of growth in output of multinational industrial companies.

Expected development of industrial activity in the second quarter of 2011



Survey of Expectations in Industry for April - June 2011

Industrial Output

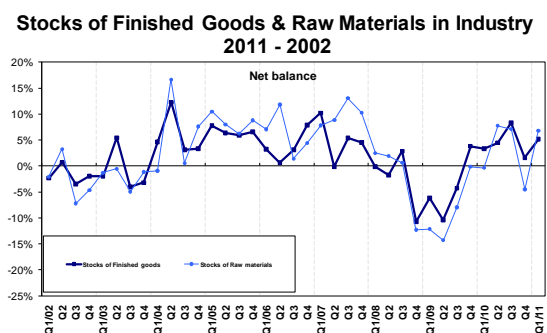
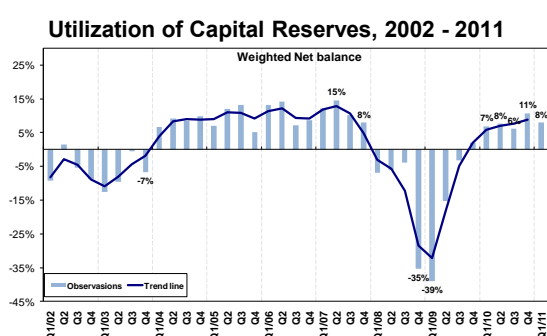
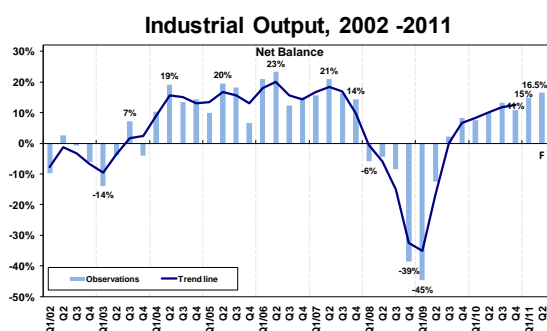
In the first quarter of 2011, there was acceleration in the rate of growth in industrial output: Reports by manufacturers indicate a positive net balance¹ of 15%, with 49% reporting an increase in their output, and 25% reporting a decrease. This follows a positive balance of 11% for the last quarter of 2010.

This accelerated growth was accompanied by further growth in the utilization of equipment in industry: a net positive balance of 8% was reported in the first quarter of 2011, following a net balance of 11% in the last quarter of 2010, and after an average of 7% per quarter for the three previous quarters.

At the same time, manufacturers report a renewed increase in inventories of raw materials, together with acceleration in the rate of growth in inventories of finished goods at the beginning of 2011. The change in direction in inventories at the beginning of the year may reflect preparations for further rapid growth.

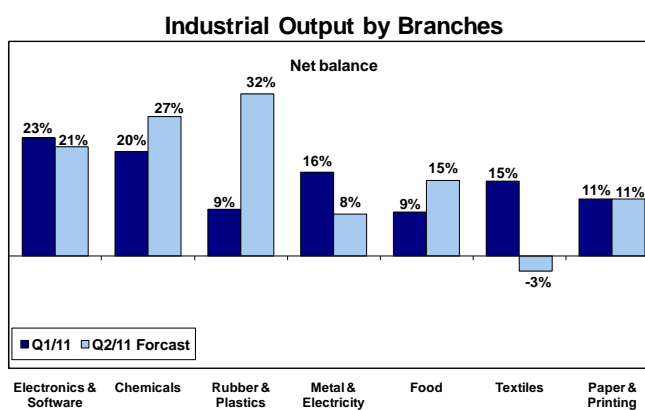
In the second quarter of 2011, manufacturers anticipate continued rapid growth: manufacturers' expectations indicate a positive net balance of 16.5%, with 47.5% of them expecting an increase in their output, and 19% expecting a decrease.

We should emphasize that manufacturers' reports for the first quarter of 2011, and their forecasts for the second quarter of the year, reflect a rapid rate of growth, also when compared with the impressive performance of industry prior to the economic crisis: in the four years of growth preceding the economic crisis (2004 – 2007), a high average positive balance was recorded of 15.5%, reflecting a marked growth in industrial output.



¹ Weighted net balance = percentage of those reporting an increase minus the percentage of those reporting a decrease, weighted in accordance with the intensity of the change.

The acceleration anticipated in the rate of growth of industry for the second quarter of 2011 reflects an expected acceleration in the rate of growth in the rubber and plastics, chemicals, and food sectors, together with continued rapid growth in the paper and printing sector², and the electronics and software sector, despite a slowing down in the rate.



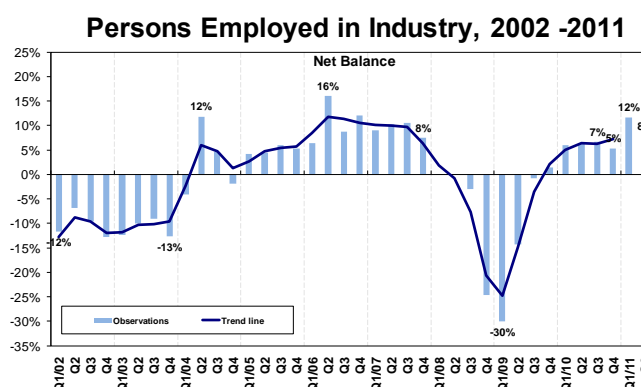
On the other hand, a marked slowdown is expected in the rate of growth in the metal and electricity sector, together with a decline in output of the textile and apparel sector.

Employees in Industry

In the first quarter of 2010, the rate of recruitment of employees for industry accelerated sharply: 31% of manufacturers reported an increase in the workforce, mostly a slight increase, as opposed to 10% reporting dismissals. Thus, a positive net balance of 12% was recorded, after a balance of 5% at the end of 2010. The chemicals, electronics, and software sectors stood out especially with a very rapid rate of increase in the workforce.

This sharp rise in the workforce was accompanied by continuing difficulty in recruiting professional workers in industry: in the first quarter of 2011, 82% of manufacturers reported difficulty, similar to that reported in the previous Survey (80%) and the Survey before that (81%), and compared with 74% in the second quarter of 2010. We should point out that the percentage reporting difficulties in the last three quarters indicates significant difficulties in recruiting professional workers for industry, the like of which have not been reported since the end of 2007, before the economic crisis (when a similar percentage was reported of 83%). Most industry sectors report difficulty in recruiting professional workers, with the textile and apparel, metal and electricity, and rubber and plastics sectors standing out especially.

For the second quarter of the year, manufacturers anticipate further rapid recruitment, with some slowing down in its rate: a forecast of a positive net balance of 8%, with 24% of manufacturers expecting an increase, as opposed to 8% expecting dismissals.

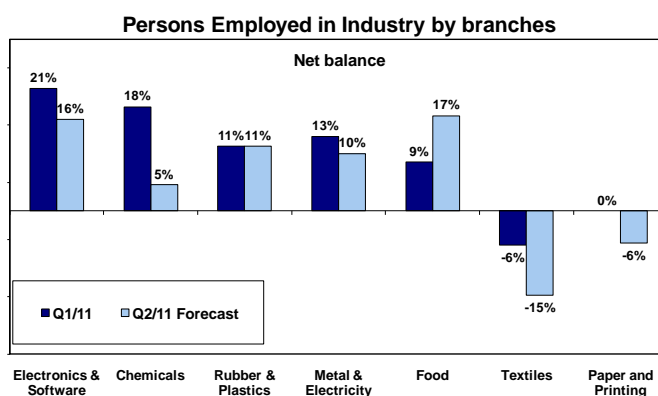


Manufacturers’ reports on the increase in the number of employees at the beginning of the year indicate a relatively high rate of recruitment, even in comparison with the rate of recruitment in the two years preceding the crisis: for the years 2006 – 2007, an average positive balance of about 10% was recorded, reflecting marked growth in the workforce.

² In view of the small number of respondents to the Survey in the paper and printing sector (9 respondents), we recommend caution in drawing conclusions based on the findings of the Survey alone.

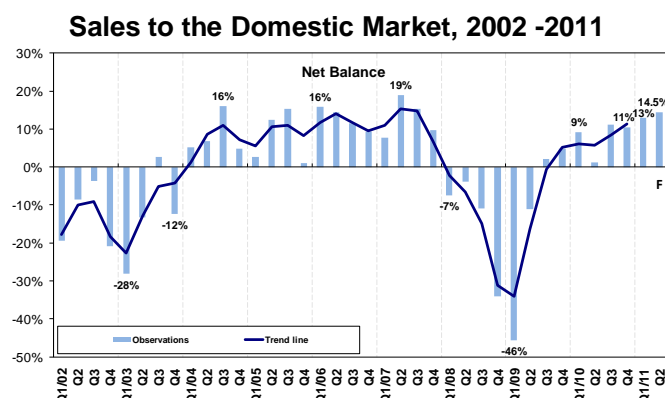
Rapid recruitment is expected in the second quarter in the food, rubber and plastics sectors, despite the slowdown in the rate. Rapid recruitment is also expected in the electronics and software, metal and electricity sectors.

On the other hand, a marked slowdown is anticipated in the rate of recruiting employees in the chemicals sector, together with an expectation of dismissals of employees in the low tech sectors: paper and printing², and textile and apparel sectors.



Sales to the Domestic Market

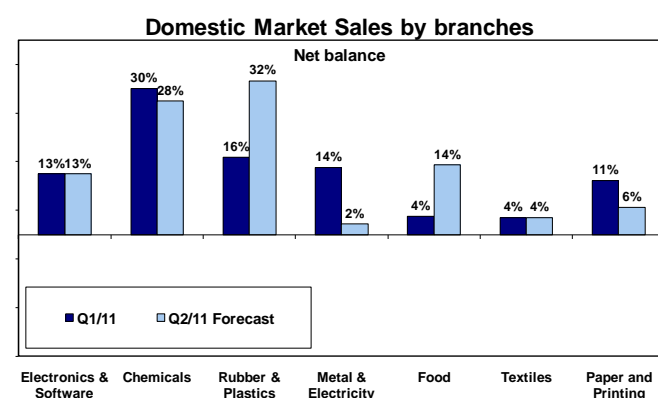
In the first quarter of 2011, the rate of growth in industrial sales to the domestic market was slightly accelerated: 46% of manufacturers reported a rise, compared with 21% reporting a fall. Thus, a positive net balance of 13% was recorded, after a positive balance of 10.5% at the end of 2010.



In the view of manufacturers, **further growth is expected in their sales to the domestic market, with a small acceleration in the second quarter of 2011:** expectations reflect a positive net balance of 14.5%, with 44% expecting a rise in domestic sales, most of them a slight rise, as opposed to 14.5% anticipating a decline, most of them a small decline.

Acceleration is anticipated in the rate of growth in domestic sales in the rubber and plastics, and food (possibly seasonal before Passover) sectors, and further rapid growth in the electronics and software sector.

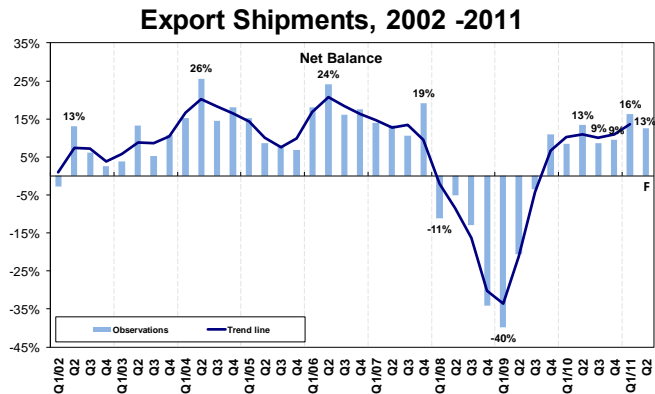
On the other hand, a slowdown is expected in the rate of growth in domestic sales in the chemicals sector, although they continue to appear strong.



A marked slowdown is expected in the rate of growth in domestic sales in the metal and electricity, paper and printing sectors².

Export Shipments

At the beginning of 2011, there was acceleration in the rate of growth in export shipments: a positive net balance of 16% was recorded, after a positive balance of 9.5% in the previous quarter. Thus, 47% of exporters reported an increase in exports at the beginning of 2011, as opposed to 18% reporting a decrease.



This acceleration was reported despite marked erosion in export profitability: a negative net balance of 29% was recorded in export profitability in the last quarter of the year, with 52.5% of exporters reporting a decrease in profitability, as opposed to only 11% reporting improvement.

Leading the list of **factors representing a material hindrance to export growth** this time were ranked two factors: **the factor of profitability and the factor of international prices** with an average mark³ of 3.4 each.

In second place, exporters ranked demand factors: **difficulties in penetrating new markets** (an average mark of 3.3) and **export orders** (3.2) and in third place were ranked **the factor of marketing difficulties in existing markets** (2.9) and **the lack of government support for encouraging exports** (2.8).

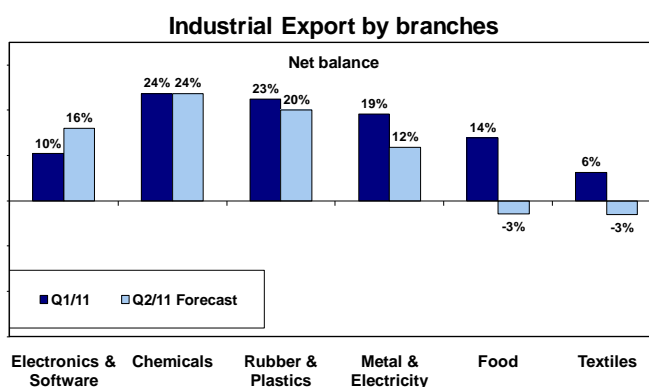
In the second quarter of 2011, exporters expect further rapid growth in export shipments: a positive net balance of 13% is anticipated, with 45% of exporters anticipating an increase, most of them a small increase, as opposed to 22% expecting a decrease.

Future indications support the expectation of further growth in exports: **in the second quarter of 2011, manufacturers anticipate a continued rapid increase in export orders, albeit with a marked slowdown**, after six consecutive quarters of growth with a positive net balance of 10% on average.

We would like to emphasize that the rate of increase reported in industrial exports in the first half of 2011 is similar to the rate of growth recorded in the two years prior to the economic crisis (in the years 2006 – 2007 an average positive balance was recorded of 16.5%).

³ On a scale of 1 to 5, where 5 = the most limiting factor.

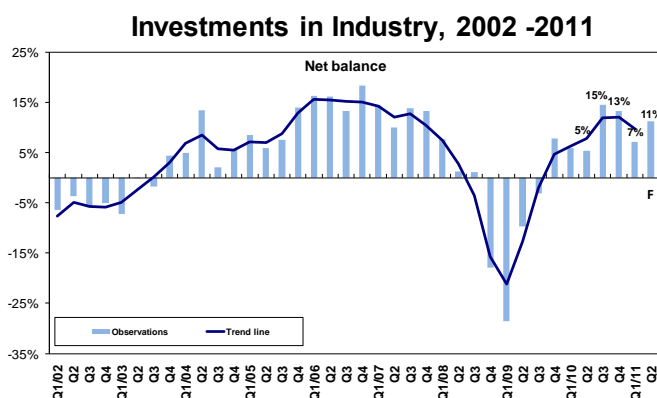
The expectation of continued growth in exports in the second quarter of 2011 indicates an anticipation of acceleration in the rate of export expansion in the electronics and software sector, together with continued rapid growth of exports in the chemicals, rubber and plastics sector (albeit with a slight deceleration in the rate).



There is a different picture in the traditional sectors: a slowdown is expected in rate of export expansion in the metal and electricity sector, together with a decline in the food, textile and apparel sectors.

Investments in Industry

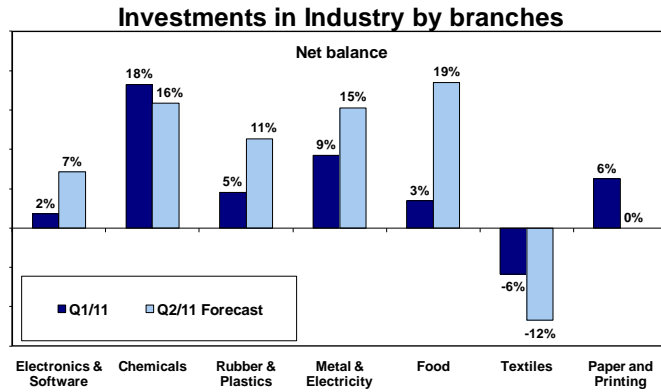
In the first quarter of 2011, there was continued growth in investments by industry in fixed assets, with a marked deceleration in the rate: a positive net balance of 7% was recorded in the first quarter of the year, after a positive balance of 13% in the fourth quarter of 2010, with 28% recording an increase in their investments at the beginning of 2011, compared with only 12% recording a decrease.



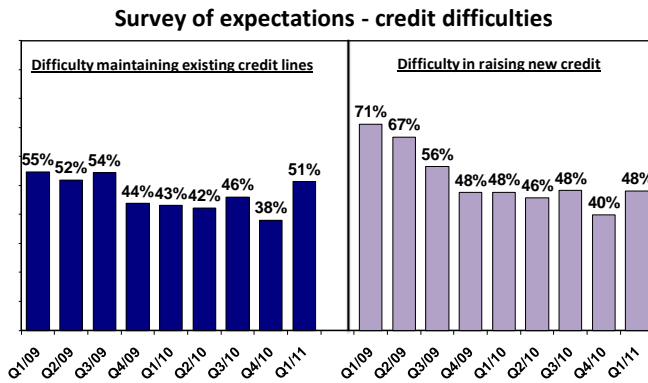
In the second quarter of 2011, manufacturers expect renewed acceleration in the rate of growth in their investments: a net positive balance of 11% is expected, with 30% of manufacturers in the survey expecting an increase in investments, compared with only 8% expecting a decrease.

The slowdown expected in the rate of growth in investments in the second quarter of the year, reflects a decline in the textile and apparel sector, together with a freeze in the paper and printing sector².

On the other hand, acceleration is expected in the rate of growth in investments in the food, metal and electricity, rubber and plastic, electronics and software sectors, together with continued rapid growth in investments in the chemicals sector, with a slight slowing down in the rate.



At the same time, manufacturers in the Survey reported a sharp rise in difficulty in retaining existing credit lines: 51% of manufacturers requesting the keeping of an existing credit line reported that they met with difficulties, compared with 40% in the previous Survey.



In addition, an increase was recorded also in the percentage of manufacturers reporting some difficulty in getting new credit: some 48% of manufacturers reported difficulty, compared with 40% in the previous Survey.

Together with the increase in investments, manufacturers report a jump in the rate of growth in inflation-adjusted financing costs in the first quarter of 2011. This rate is similar to the rapid rate recorded in the third quarter of 2008, prior to the outbreak of the global economic crisis, when the interest rate in the economy was 4.25%.

The inflation-adjusted increase in financing costs was recorded against the backdrop of a rise in the Bank of Israel interest rate in February and March 2011, and despite the acceleration in the inflation rate. In the first quarter of 2011, a positive net balance was recorded of 17% (34% reported a rise in costs, compared with 5% only who reported a fall), this after a positive balance of 9% in the last quarter last year.

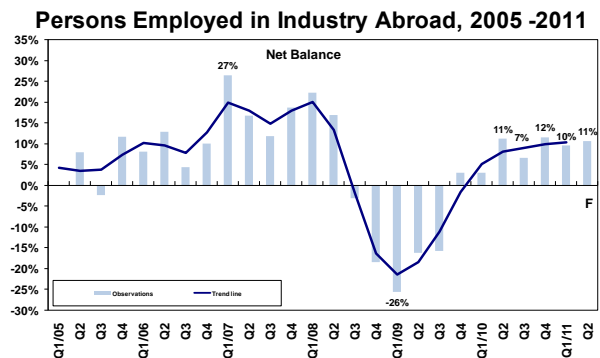
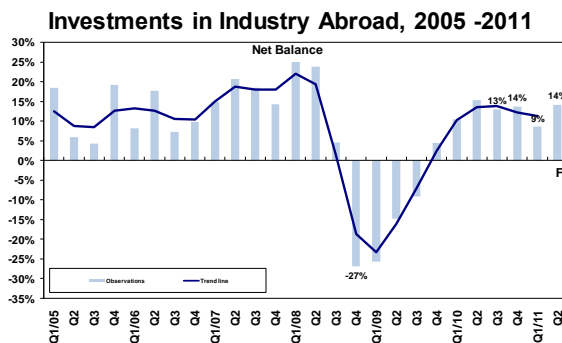
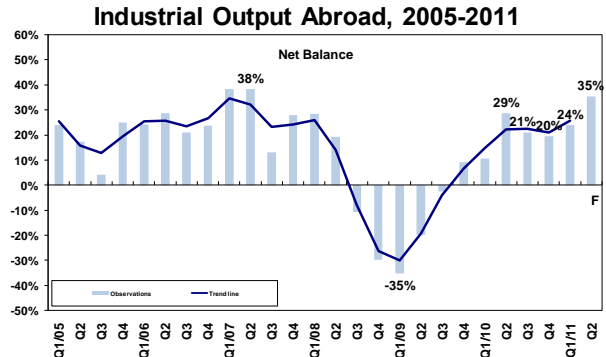
For the second quarter of 2011, manufacturers anticipate further rapid increase in inflation-adjusted financing costs: manufacturers' forecasts reflect a positive net balance of 15%.

Multi-national Activity⁴ of Israeli Industrial Companies

Multi-national industrial companies continue to report a rapid increase in their activity abroad for the fourth quarter of 2010, which is expected to continue also at the beginning of 2011:

In the first quarter of 2011, rapid growth continued in the output of factories abroad, with acceleration in the rate: a positive net balance was recorded of 24%, with 50% of factories abroad reporting an increase, as opposed to 12.5% only reporting a decrease. This is after a positive net balance of 20% at the end of 2010.

At the same time, there was a continued increase in production factors abroad, with a slight slowdown in the rate of hiring employees for their factories and the rate of growth of investments.



For the second quarter of 2011, multi-national industrial companies expect a dramatic acceleration in the rate of growth in their output abroad: a positive net balance of 35% is anticipated for this period, with most companies (65% of them) expecting an increase in output, without a single company expecting a decrease.

In addition, acceleration is expected in the rate of growth of investments by plants overseas: a positive balance of 14% is expected for the second quarter of 2011, following a balance of 9% at the beginning of 2011.

Similarly, a slight acceleration is also expected in the rate of growth in the workforce overseas: a positive balance of 11% is anticipated for the second quarter of the year, after a balance of 10% in the first quarter of 2011.

For further information, please call the Economic Research Department Team:

Dafna Aviram-Nitzan, Economic Research Department Manager
Hagit Shmariahu, Department Analyst
Eddie Parkansky, Department Analyst

Tel: 03-5198806

⁴ Manufacturing activity abroad was reported by 48 out of 186 companies (26% of the sample). Of these 12 were from the rubber and plastics sector, 12 from metal and electricity, 9 from textile and apparel, 6 from chemicals, 4 from food, 3 from electronics and software, 1 from paper and printing, and 1 from mining and building products.