



April 26, 2018

SURVEY OF INDUSTRY EXPECTATIONS FOR APRIL – JUNE 2018 Final Findings

Based on the answers of ~162 industrial companies which replied to the survey from mid-March 2018 through to mid-April 2018

Manufacturers' reports on the first quarter of 2018:

- ❖ The decline in industrial output resumed.
- ❖ Further increase in industry headcount.
- ❖ Further decline in industry sales to the domestic market.
- ❖ Growth in export shipments continued.
- ❖ Growth in industry investments in fixed assets continued, with a considerable slowdown in pace.
- ❖ Expansion of the operations of multinational industrial companies abroad.

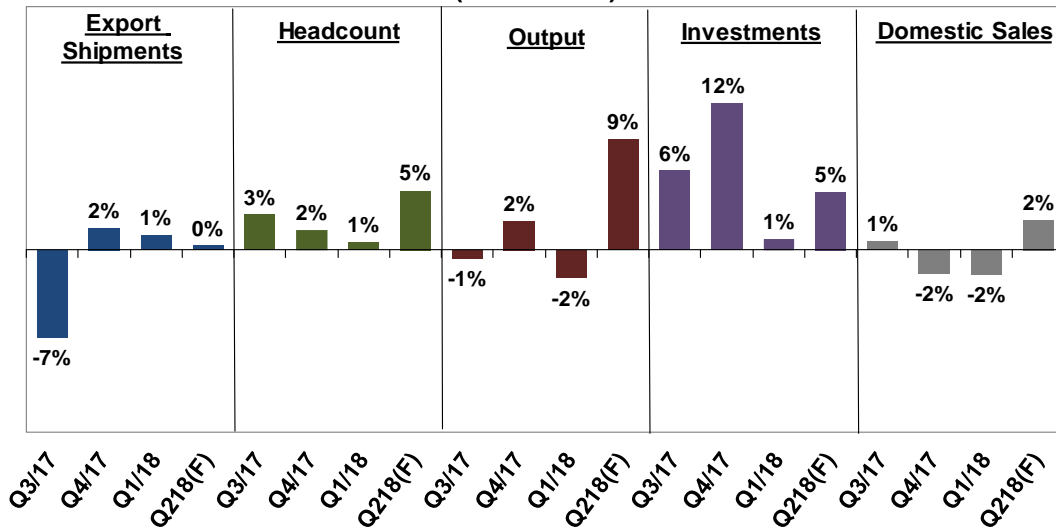
Manufacturers' forecasts for the second quarter of 2018¹:

- ❖ Forecasts for a sharp increase in industrial output, most likely due to seasonal factors.
- ❖ Forecasts for accelerated hiring in industry.
- ❖ Forecasts for growth in sales to the domestic market.
- ❖ Forecasts for stagnation in export shipments.
- ❖ Forecasts for acceleration of the growth pace of industry investments.
- ❖ Forecasts for growth in the operations of multinational industrial companies abroad.

¹ Since 2014 the Division of Economic Research has deducted the bias coefficient from the net balances obtained from the manufacturers' forecasts, since over a lengthy period a bias has been observed in manufacturers' forecasts in the Survey of Industry Expectations versus their actual reports. This analysis refers to the manufacturers' forecasts less the bias coefficient found for each parameter. For further information, see the explanation in the Methodological Appendix.



Manufacturers' Forecasts for the second Quarter of 2017
(Net balance)



Net balance = the percentage of those reporting an increase less the percentage of those reporting a decrease, adjusted for the reported intensity of the change.



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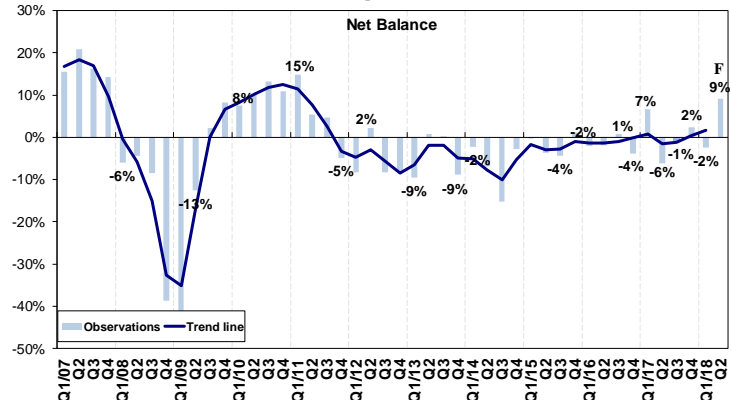
Industrial Output

In the first quarter of 2018 the decline in industrial output resumed, with manufacturers' reports indicating a negative net balance² of 2% following an increase of around 2% in the last quarter of 2017.

In parallel to the decline in industrial output, equipment utilization in industry decreased: A negative net balance of around 3.5% subsequent to an increase of around 1.8% in the previous survey. Further, a negative net balance of 0.7% was recorded in finished goods inventory. By contrast, there was a moderate rise in raw material inventory, representing 0.7% positive net balance.

In the second quarter of 2018 manufacturers foresee acceleration of the growth pace of their output, with around 9% positive projected net balance³. We estimate that the forecast for this increase is most likely influenced by high seasonality following Passover, which fell in early April 2018.

Industrial Output, 2007 - 2018



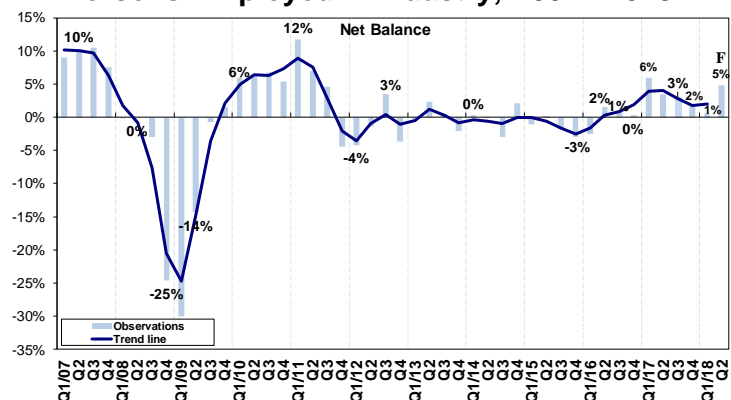
Persons Employed in Industry

In the beginning of the year a further increase was reported in industry headcount: Manufacturers' reports indicate a positive net balance of 1% further to reports of an increase in headcount (2% positive net balance) in the last quarter of 2017.

However, the difficulty in recruiting professionals for industry sectors continued, with 85% of manufacturers reporting such difficulty in the first quarter of the year following a similar percentage at the end of 2017 and 89% in the third quarter of last year.

Manufacturers estimate that in the second quarter of 2018 the pace of hiring in industry is expected to pick up, with a positive projected net balance of around 5%.

Persons Employed in Industry, 2007 - 2018



² Net balance = the percentage of those reporting an increase less the percentage of those reporting a decrease, weighted according to the intensity of the change.

³ Projected net balance, less the bias coefficient, derived from the average differences in the past decade (2004-2013) between the manufacturers' forecasts and their actual reports. For an explanation of the bias coefficient, see the Methodological Appendix.

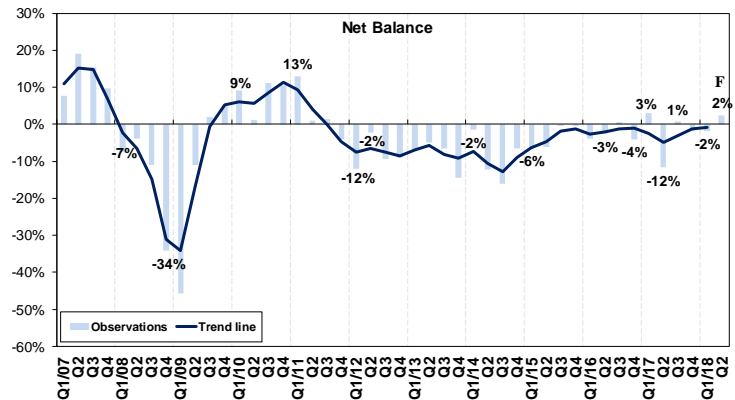


Sales to the Domestic Market

In the first quarter of 2018 the drop in industry sales to the domestic market continued: 2% negative net balance following a similar negative net balance in the previous survey.

In the second quarter of 2018 manufacturers predict growth in domestic sales with a positive projected net balance of around 2%, reflecting optimism regarding the development of sales to the local market. We note that the forecast for an increase in domestic sales is possibly due, among other things, to a high seasonal effect considering preparations for Passover, which fell in early April 2018.

Sales to the Domestic Market, 2007 - 2018

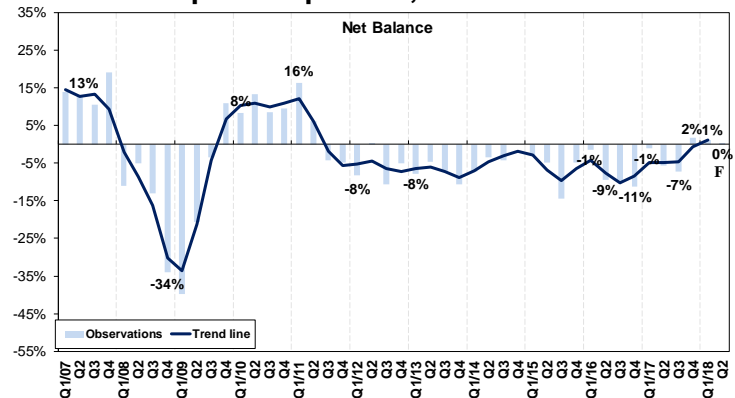


Export Shipments

In the first quarter of the year growth in export shipments continued, with a positive net balance of around 1% following a positive net balance of 2% in the prior quarter.

Nevertheless, **the dramatic erosion of export profit margins continued,** with a negative net balance of about 19% in profitability after a negative net balance of 30% in the last quarter of 2017. We note that probably, the erosion of profit margins is due to the cumulative impact of the revaluation of the Shekel against the U.S. Dollar.

Export Shipments, 2007 - 2018



Additionally, **a further drop in export prices in foreign currency was recorded in the first quarter of 2018:** A negative net balance of 5% further to 14% negative net balance in the previous survey. The decrease in prices is the result, among other things, of the revaluation of the Shekel against the Dollar, combined with the difficulties encountered by exporters in the harsh global competition, which has forced them to continuously lower their prices in foreign currency.

In the second quarter of 2018 manufacturers foresee stagnation in export shipments (0% projected net balance), together with a further drop in export prices in foreign currency (4% negative projected net balance).

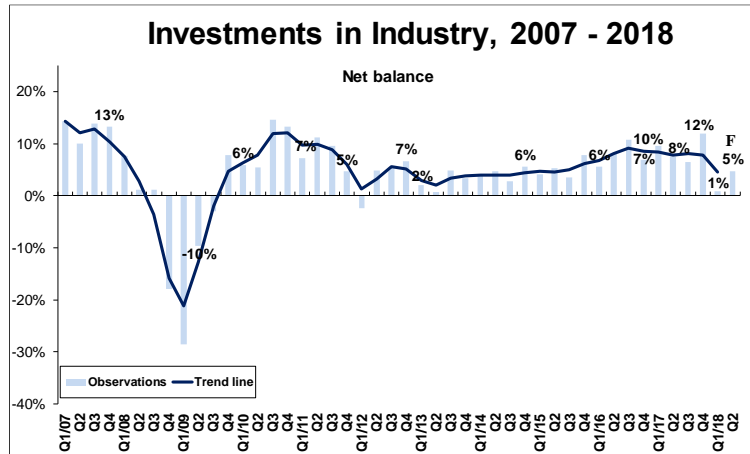
The major factors inhibiting export growth as ranked by exporters are foreign exchange rates, domestic manufacturing costs, international prices and the difficulty in penetrating and marketing in new markets.



Investments in Industry

In the first quarter of 2018 industry investments in fixed assets continued to grow; however, the growth pace slowed considerably: A positive net balance of around 1% following 12% positive net balance in the previous quarter.

Manufacturers also reported an increase in real financing costs, with 7% positive net balance in the quarter under review further to a trend of rising expenses, which has persisted for over seven years⁴.



In the second quarter of 2018 manufacturers foresee a further increase in industry investments as the pace picks up: A positive projected net balance of around 5%. Manufacturers also expect a further increase in real financing costs, with a positive projected net balance of 9%.

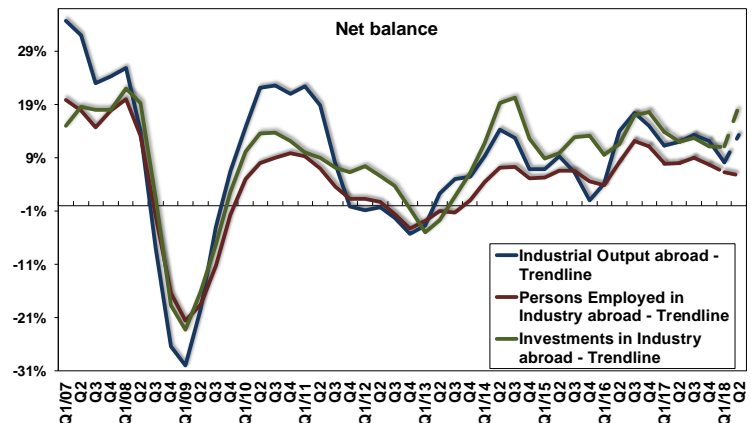
In the first quarter of 2018 the percentage of manufacturers reporting difficulty in maintaining their existing line of credit rose: Approximately 45% versus 38% who reported such difficulty in the last survey. **In parallel, the percentage of those reporting difficulty in obtaining new credit remained similar to the last survey,** with 45% of manufacturers in need of new credit encountering difficulty in obtaining it, similar to the figure in the last quarter of 2017.

Multinational Operations

In the first quarter of 2018 a further increase was reported in the output of Israeli plants abroad: A positive net balance of 4% following 11% positive net balance in the last quarter of 2017, along with **continued hiring abroad:** 6% positive net balance after a positive net balance of around 8% in the last survey.

In parallel, **an increase in investments by the plants abroad was reported,** with around 7% positive net balance recorded in the first quarter of 2018.

Multinational Activities of Israeli Industrial Companies abroad



In the second quarter of the year, the multinational industrial companies foresee a surge in their operations abroad with strong growth in output (13% positive projected net balance), along with expectations for further hiring (6% positive projected net balance) and forecasts for a sharp rise in investments (a positive projected net balance of 19%).

**For explanations and clarifications, please contact our Division of Economic Research:
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⁴ Excluding stagnation in real financing costs in the first quarter of 2015.



Methodological Appendix – The Bias Coefficient

Since 2014 the Division of Economic Research has deducted the bias coefficient from the net balances obtained from the manufacturers' forecasts, since over a lengthy period a bias has been observed in manufacturers' forecasts in the Industry Expectations Survey versus their actual reports. For most parameters this bias was found to be positive, meaning a tendency to over-optimism, while in a small number of parameters a tendency to pessimism was observed.

Bias coefficient: The average difference in the past decade⁵ between the net balance of the manufacturers' forecasts⁶ and the net balance of their actual reports for that quarter.

Bias Coefficients (%)

(Positive coefficient = tendency to over-optimism; negative coefficient = tendency to pessimism)

Parameter	Output	Export	Domestic market	Headcount	Investments
Total industry	4.0	4.0	2.1	-1.6	0.5

⁵ From the first quarter of 2004 through to the last quarter of 2013.

⁶ The percentage of manufacturers reporting growth less the percentage of those reporting a downturn, weighted for the reported intensity of the change.