Summary of Key Results
OQR –PalTrade Study

March 2011 (2nd Round of Results)

Tracking Changes in Key Industrial Sectors in Gaza Following the Partial Easing of Israeli Restrictions in June, 2010

This summary was prepared by the OQR based on analysis and data from:

Tracking Changes in Major Industrial Sectors in Gaza

Summary of Second Round of Results of OQR-PalTrade Study
March, 2011

Overall Results - *The manufacturing sector in Gaza continues to experience improvements in sales in the first quarter of 2011 building on the growth witnessed during the second half of 2010. Average sales increased by 4 percent from January to March, 2011 and by 31 percent from June, 2010 to March, 2011. The top three sectors experiencing the largest first quarter growth in 2011 were garments, metal, and food while the top three growth sectors in the second half of 2010 were food, handicrafts and chemicals. These changes are [likely to be] a result of the expanded entry of industrial inputs from Israel. Average employment levels in manufacturing increased slightly following mid-June, 2010. The recent uptick in average sales notwithstanding, March, 2011 sales figures represent only 60 percent of the level of sales in June, 2005. A large proportion of manufacturing companies in Gaza (60 percent) are ready to export within one month of receiving approval. The major business constraints continue to be the unreliable supply of electricity, the unpredictable availability of raw materials and extremely limited access to export markets.*

Introduction –The Office of the Quartet Representative (OQR) commissioned PalTrade, a Palestinian trade and research organization, in November, 2010 to conduct a study tracking changes in major industrial sectors in Gaza following the Israeli decision in mid-2010 to ease economic restrictions on the Gaza Strip. The study surveys 188 randomly selected manufacturing companies and consists of three bimonthly surveys examining business indicators covering sales, employment, capacity utilization and export readiness from January to May, 2011.[1] These indicators are also compared against reported figures for previous years. This note summarizes the second round of survey results focusing on the period from June, 2010 to March, 2011. For more background information on the study itself and the first round of results mainly covering the second half of 2010, kindly review the first OQR-PalTrade note disseminated in early April, 2011 (also found on the OQR and PalTrade websites). A final and comprehensive report will be prepared in June, 2011 including the third round of results generated in May, 2011.

Key Results

- **Sales –** Average sales increased by 31 percent from June, 2010 to March, 2011. Sales in March, 2011, however represent only 60 percent of levels in June, 2005 (prior to the closure of access).[2]
  - **Top Three Sectors –** The sectors with the highest growth in sales since June, 2010 were garments (104 percent), metal (104 percent) and food (45 percent). The growth in these sectors is likely attributed to the increased entry of raw materials from Israel and, in the case of garments, preparation for the summer season. The de facto authorities in Gaza have prevented the entry of certain food items from Israel to protect that sector which may also have had an effect.
  - **Bottom Three Sectors –** The sectors with negative or low growth in sales during the same period were textiles (-54 percent), leather (-29 percent), and furniture (-7 percent). The negative growth in the textile sector is probably due to the end of winter time while the negative growth in the leather sector is mainly attributed to competitive imports from the Far East.
- **Employment –**The average number of employees rose slightly from 16 to 18 workers per company, which is only 63 percent of the average number of employees reported per company in 2005.
  - **Top Sector –** The garment sector was the only sector that witnessed a significant increase in average employment from June, 2010 to March, 2011 –

[1] The sectors are wood and furniture, metal, food, leather, plastic, construction, paper, handicrafts, garments, textiles and chemicals.
[2] The growth estimates of manufacturing sales are reported in nominal terms. The final report prepared in June, 2011 will adjust these estimates for price inflation as necessary.

    from 14 workers to 19 workers per company (around 36 percent). The growth is likely attributed to the preparation for the summer time.

- **Capacity Utilization –** Reported capacity utilization grew from 34 to 42 percent between June, 2010-March, 2011. In the survey study, capacity utilization, was defined as the percent of total manufacturing resources (i.e. buildings, machinery) currently utilized by the company. While there was an increase overall, capacity utilization in March, 2011 was only 52 percent of mid-2005 levels.
    - **Top Three Sectors** – The sectors with the highest growth in capacity utilization from June, 2010 to March, 2011 were chemical (53 percent), food and metal (50 percent) and construction (48 percent). The growth in the construction sector was likely influenced by an increase in the entry of needed construction materials for the humanitarian agencies from Israel and by the increased flow of banned items (aggregate, cement and steel bar) through the tunnels.
    - **Bottom Three Sectors** – The sectors with negative or low growth in capacity were plastics (- 10 percent), textile (0 percent) and furniture (1 percent). The drop in capacity utilization in the plastics sector was attributed to the increased imports of similar commodities.
- **Export Readiness and Potential –** 60 percent of manufacturing companies report they are ready to export within one month of exports being permitted under the current business constraints. This level of export readiness in March, 2011 is slightly higher than it was reported to be in June, 2010 (52 percent).
    - **Predicted Impact –** Assuming Gazan exports are permitted, the predicted impact on average sales, employment and investment per company in the following month would be as follows:
        - 63 increase percent in sales
        - 51 increase percent in employment
        - 39 increase percent in investment
- **Business Constraints –** The top three obstacles reported by the manufacturing sector in Gaza in this reporting period are: (i) unreliable supply of electricity, (ii) the unpredictable supply of raw materials, and (iii) access to export markets. There was a significant change in the ranking of these top three factors as obstacles by March, 2011 with the supply of electricity and access to export markets switching ranks (with the supply of raw materials retaining its ranking of second place). Supply of spare parts and access to finance were cited as secondary impediments and the availability of adequate facilities (buildings), skilled employees and technical assistance were not considered major business restrictions.

Summary of Key Trends - The manufacturing sector in Gaza witnessed improvements in sales in the first quarter of 2011 with the largest growth occurring among the garment, metal and food sectors. The changes in these sectors are likely attributed to the increased entry of industrial inputs from Israel. Although the majority of industrial sectors experienced positive improvements in sales, some sectors witnessed a retraction in sales, primarily the textile sector, due to the end of winter time. Average employment levels in the manufacturing sector in Gaza increased slightly following mid-June, 2010. The recent uptick in average sales notwithstanding, March, 2011 sales figures represent only 60 percent of sales in June, 2005.

A large proportion of manufacturing companies in Gaza (60 percent) are ready to export within one month and the predicted impact for changes in 'next month' sales, employment and investment following a decision to allow exports is significantly positive. The major business constraints continue to be the extremely limited access to export markets, the unpredictable availability of raw materials and the unreliable supply of electricity. Supply of spare parts and access to finance were cited as secondary impediments and the availability of adequate facilities (buildings), skilled employees and technical assistance were not considered major business restrictions.