

P R I C E S

Prices rose less in 1955 than during any of the four preceding years. The consumer price index reflects the declining rate of price increases since 1952, as shown in Table 40.

TABLE 40
INCREASES IN THE CONSUMER PRICE INDEX
(Annual average — in per cent)

Year	Increase
From 1951 to 1952	57.7
From 1952 to 1953	28.0
From 1953 to 1954	12.2
From 1954 to 1955	5.9

SOURCE: *Central Bureau of Statistics.*

— The relative stability attained in 1955 extended not only to consumer prices, but also to the prices of other resources of the economy, as shown in Table 41.

TABLE 41
PRICE INCREASES BETWEEN 1953 AND 1955
(yearly average — in per cent)

	1953 to 1954	1954 to 1955
Prices of Goods and Services for		
Private Consumption	12.2	5.9
Prices of Purchases by the		
Government and Public		
Institutions	22.9	9.1
Investment Prices	28.7	10.0
Export Prices	35.0	5.3
<i>Total Resources</i>	19.6	7.3

SOURCE: 1954: *Economic Advisory Staff*;
1955: *Calculations of the Bank of Israel.*

The average domestic price level, excluding export prices, rose 7.3 per cent above that of 1954.

1. THE CONSUMER PRICE INDEX *

As shown in Table 41, consumer prices in 1955 were higher by an average of 5.9 per cent than in 1954. However, as against December 1954, the rise during the 12 months of 1955 was by an average of only 2.2 per cent ** (see Table 42), while during 1954, as against December 1953, prices rose by an average of 4 per cent.

TABLE 42
THE CONSUMER PRICE INDEX, 1955

<i>Month</i>	<i>September 1951 = 100</i>	<i>December 1954 = 100</i>
January	228	100.0
February	228	100.0
March	229	100.4
April	230	100.9
May	230	100.9
June	232	101.8
July	233	102.2
August	231	101.3
September	239	104.8
October	238	104.4
November	236	103.5
December	239	104.8
Annual Average	233	102.2

SOURCE: *Central Bureau of Statistics.*

As a result of this relative stability, the cost-of-living allowance was only adjusted twice during 1955. It was adjusted three times in 1954, four times in 1953 and six times in 1952. The recurrent inflationary effect of the increases in the cost-of-living allowance on the price level was therefore diminished.

The rise in the index was gradual until the month of July. In August, the index fell by two points, owing to reductions in the prices of imported foodstuffs, the payment of subsidies on certain vegetables and the imposition of controls on their prices. In September, there was a rise of eight points as a result of increased prices of agricultural products. The efforts to reduce prices by controls and the granting of subsidies brought about another slight drop in October and November. But, in December, the index rose again, this time owing to higher food prices, *Histadrut* (General Federation of Labour) dues, education fees, etc.

* The consumer price index in Table 41 reflects all consumer prices, despite the following limitations: inelasticity of the index with regard to the weights assigned to individual commodities included in it; non-inclusion of new products; mistakes due to the methods of sampling, price notation, etc.; and the fact that it is based on a limited circle of consumers, the family of an urban employee consisting of four persons, rather than on all sections of the population. Nevertheless, this index is the best available yardstick for estimating changes in consumer prices.

** This difference is caused by the fact that the annual average for 1954 is affected by the low prices current at the beginning of 1954. It is therefore naturally lower than the level of prices at the end of 1954.

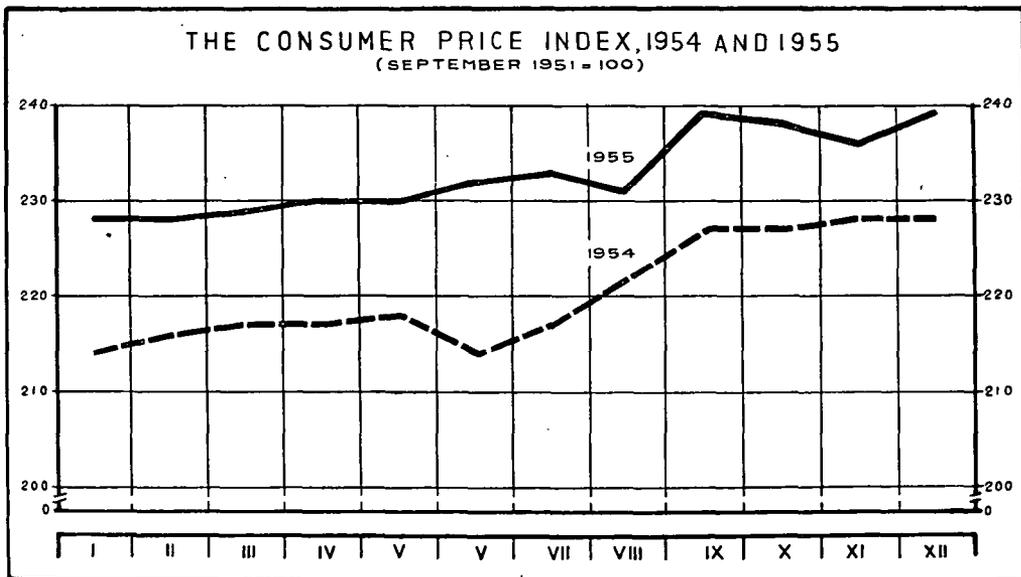
Food Prices

Owing to the large proportion of foodstuffs in the index, the fluctuations in food prices had a decisive influence on it. During 1955, food prices rose by an average of 3.7 per cent (see Table 43) and were the direct cause of a rise of 1.5 per cent in the index, i.e. of 70 per cent of the total rise since December 1954. During 1954 food prices rose by an average of only 2 per cent.

TABLE 43
INDEX OF FOOD PRICES, 1955
(Quarterly Averages; December 1954 = 100)

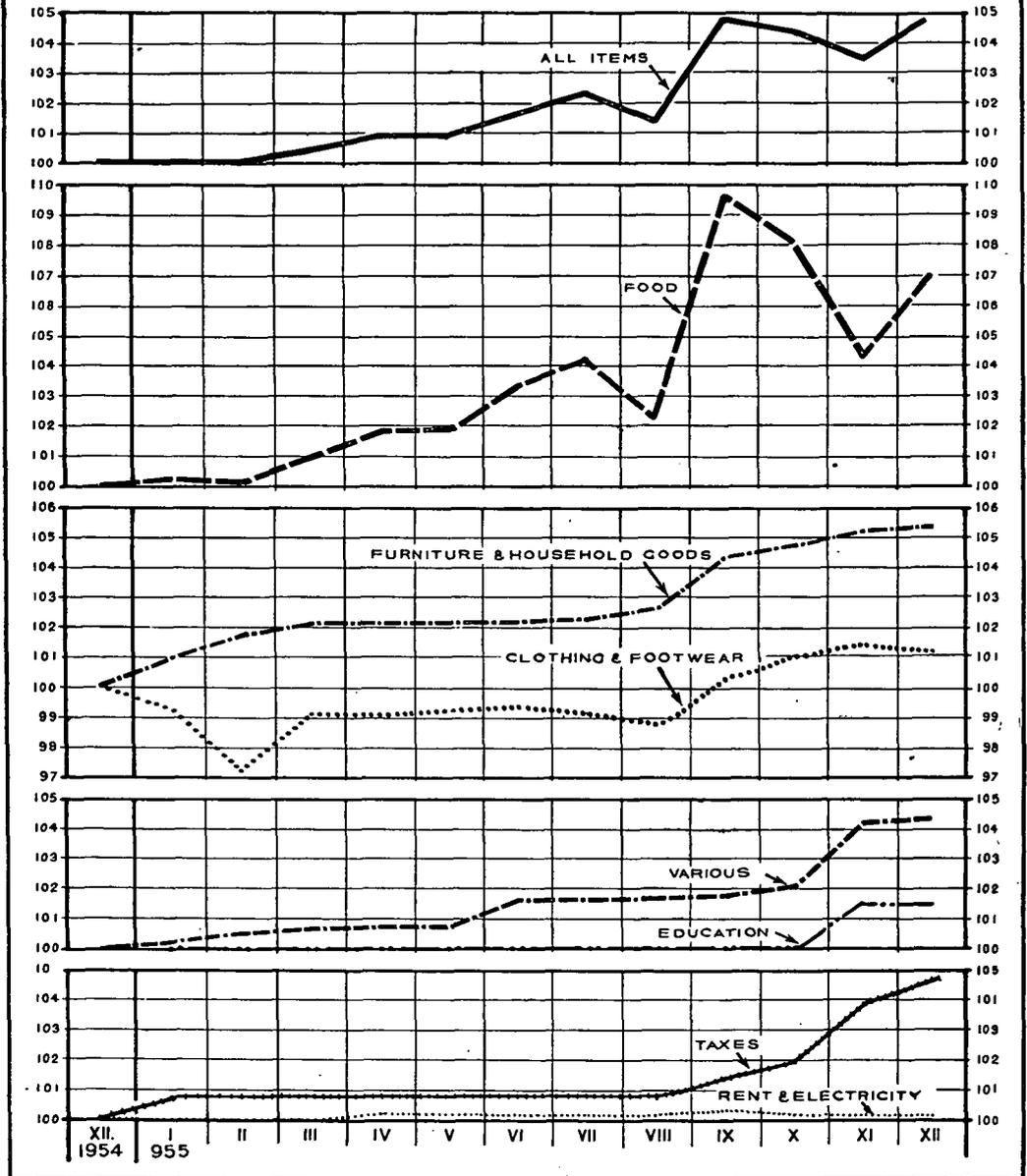
January to March	100.4
April to June	102.4
July to September	105.4
October to December	106.5
Annual Average	103.7

SOURCE: *Central Bureau of Statistics.*



While the prices of imported foodstuffs included in the index, fats, sugar, etc., fell gradually until September 1955, altogether by more than 10 per cent, and prices of foodstuffs made from imported raw materials, including bread and other flour products, remained stable throughout the year, prices of local agricultural produce were on the rise during most months of the year. In the winter months of 1955, when there was still an ample supply of vegetables, vegetable prices were low in comparison with the months that followed; they began to rise in March, but the sharpest rise, of 8 points, occurred in September, for the following reasons:

THE CONSUMER PRICE INDEX
AND MAIN COMPONENTS (DECEMBER 1954=100)



- (a) the abolition of subsidies and controls on several kinds of vegetables and fruit;
- (b) a reduction in the supply of fruit and vegetables owing to the drought and to the surplus vegetable supplies left over in the previous year;
- (c) increased demand in anticipation of the holiday season.

Prices of fruit and vegetables began to fall in October, as demand lessened after the holidays. An increase in the cost-of-living allowance would nevertheless have become inevitable, as the index of consumer prices would have risen by more than 3 points within the three months period. The Government therefore began to subsidise some agricultural products and when these subsidies were abolished in December, prices rose once again.

As regards prices of foodstuffs not included in the index, it should be noted that, in consequence of the setting up of the *Amizan* Company* which began the import of foodstuffs for sale in the free market, the free market prices of most kinds of food products dropped considerably during the first months of 1955. In quite a number of commodities, e.g. sugar, coffee and oil, the fall during this period was by as much as 10 to 15 per cent, and sometimes even more. In November, customs rates on foodstuffs imported for the free market were raised by 10 per cent. This increase, which took place at a time of political tension, was accompanied by hoarding, and the large scale of purchases consequently drove prices higher than the increased customs duty warranted. These fluctuations in two opposite directions more or less cancelled each other out. In effect, the average price of food in the free market did not rise, if the year 1955 is taken as a whole, and may possibly have even dropped slightly.

Prices of Other Consumption Goods

Prices of clothing and footwear included in the cost-of-living index rose during 1955 by an average of 3.8 per cent, in comparison with the average for 1954. If, however, the comparison is made with December 1954, these prices fell by 0.4 per cent (see Table 44).

TABLE 44
INDEX OF CLOTHING AND FOOTWEAR PRICES, 1955

<i>(Quarterly Averages; December 1954 = 100)</i>	
January to March	98.5
April to June	99.2
July to September	99.4
October to December	101.2
Annual Average	99.6

SOURCE: *Central Bureau of Statistics.*

* A company owned jointly by the Government and certain groups of importers.

In February, clothing and footwear prices fell as a result of the seasonal end-of-winter sales. Before the seasonal sales of this period, there was a slump in this branch and some tendencies to reduce prices earlier than usual became apparent. Yet, the price reductions during the period of seasonal sales did not increase the volume of purchases to any considerable extent. It may be supposed that consumers refrained from buying in the hope of further price reductions. In March, clothing and footwear prices returned to their previous level. There was a second seasonal drop in July and August, owing to the liquidation of summer stocks. In September, the customs duty on cotton goods was raised and, in October, the purchase tax on woollens was increased by 50 per cent. During the last quarter of 1955, a slight rise in clothing and footwear prices was noted, mainly resulting from the increase in costs.

The fluctuations in the price of clothing and footwear in 1955 were thus largely due to seasonal factors and, insofar as certain factors exerted pressure on the raising of these prices, their effect seems to have been limited. Producers and traders in this branch refrained from raising prices, fearing that this might bring about a large fall in turnover and a greater fall in profits than otherwise.

No changes occurred up till July 1955 in the prices of furniture and household goods. In August, however, their price began to rise, owing to increases in the price of wood, following the imposition of additional taxes on building materials. The average 1955 price of these goods was higher by 6.3 per cent than the 1954 average. In comparison with December 1954, these prices rose by only 3 per cent in 1955. (See Table 45).

TABLE 45
PRICE INDEXES OF FURNITURE AND HOUSEHOLD GOODS, RENT AND ELECTRICITY, TAXES,
EDUCATION AND CULTURE, AND MISCELLANEOUS, DURING 1955
(Quarterly Averages; December 1954 = 100)

<i>Period</i> (1)	<i>Furniture and Household Goods</i> (2)	<i>Rent and Electricity</i> (3)	<i>Taxes</i> (4)	<i>Education and Culture</i> (5)	<i>Miscellaneous</i> (6)
January to March	101.6	100.0	100.8	100.0	100.4
April to June	102.1	100.2	100.8	100.0	101.0
July to September	103.1	100.2	101.0	100.0	101.7
October to December	105.1	100.2	103.5	101.0	103.5
Annual Average	103.0	100.2	101.5	100.3	101.7

SOURCE: *Central Bureau of Statistics.*

No significant changes occurred in rents or in the price of electricity during 1955, after the sharp rise noted in this index during the second half of 1954, resulting from amendments in the Tenant's Protection Act. The average level of this index in 1955, though 26 per cent higher than the average for 1954, showed no significant increase in relation to December 1954.

The index of taxes, which also includes taxes levied by local authorities and the dues of labour organisations, remained steady until September, but it then rose as a result of increased *Histadrut* (General Federation of Labour) charges. The average for 1955 exceeded that for 1954 by 4.4 per cent and the level of December 1954 by 1.5 per cent.

A small increase in educational and cultural expenses took place in November and December. This is a seasonal rise, recurring during each of the last few years at the beginning of the school year, when various education charges are usually increased and new school fees are fixed.

Prices affecting the item, Miscellaneous, in the consumer price index rose only slightly until November, when a sharp rise occurred. This was caused by a rise in the cost of travelling by some 10 per cent, on the average, owing to the abolition of subsidies previously granted to the transport co-operatives. The average index of Miscellaneous during 1955 showed an increase of 6.7 per cent over the 1954 average, although the increase, in comparison with December 1954, was by only 1.7 per cent.

2. PURCHASES BY THE GOVERNMENT AND PUBLIC INSTITUTIONS

This relates to the ordinary budgets of the Government, the local authorities, the national institutions and other bodies whose purchases are paid for at prices parallel to those paid by the Government. Wages and salaries of employees constitute some 80 per cent of such expenditure, while the remaining 20 per cent consist of administrative expenses (mainly the maintenance of vehicles and office equipment), interest payments and expenses connected with imports.

The average salaries of Government officials rose in 1955 by an average of 9.7 per cent, as compared with 1954. Costs due to other Government expenditure increased by an average of 6.5 per cent. Therefore, the increase in costs in the public sector amounted to 9 per cent.

In comparison with December 1954, average salaries increased by only 4.3 per cent. This rise was due to three factors:

- (a) Increases in the Cost-of-Living Allowance.
- (b) Changes in salary scales, including social benefits.
- (c) Promotions among employees, both as regards grades and seniority.

3. INVESTMENT PRICES

Investment prices rose by an average of approximately 10 per cent in 1955, over their average for 1954. This development was chiefly caused by increases of 11.2 per cent in building costs and of 9 per cent in the prices of imported capital equipment other than building materials. Other investment prices also rose by 10 per cent. In comparison with December 1954, building costs rose by an average of 5.9 per cent during 1955 (See Table 46).

TABLE 46

CHANGES IN THE INDEX OF BUILDING COSTS AND ITS COMPONENTS, 1955
(Quarterly Averages; December 1954 = 100)

Period	All Items	Labour	Transport	Gravel	Sand	Cement	Wood	Iron
January to								
March	101.5	100.0	103.4	100.0	104.7	100.9	100.0	109.4
April to June	101.7	100.0	101.5	101.1	111.8	101.4	101.0	108.4
July to								
September	106.3	100.2	101.5	102.1	111.8	112.1	113.7	113.6
October to								
December	114.0	101.7	101.5	108.2	118.8	133.4	126.5	127.6
Annual Average	105.9	100.5	102.0	102.9	110.0	112.0	110.3	114.8

SOURCE: *Central Bureau of Statistics.*

According to the index of building costs, wages in the building industry in 1955 rose by only 0.5 per cent over those of December 1954 *, since there were no changes in these wages during most months of the year. Transport costs were likewise stable during most of the year.

The average prices of building materials, apart from gravel, rose by 10 to 15 per cent during 1955, as against December 1954. This was mainly due to new levies on these materials, which came into effect during the last months of 1955 and caused a rise of 32 per cent in the price of cement, of 16 per cent in the price of wood and of 11 per cent in the price of iron. The increase in the prices of these materials constituted together 47 per cent of the total rise in the index of building costs.

No exhaustive data are available for changes in the prices of imported investment goods other than building materials. But, whereas prices of metals and other raw materials mainly imported from Western Germany and from countries linked with Israel by trade agreements rose by 10 to 15 per cent, the prices of machinery and spare parts imported from the United States increased by 5 to 6 per cent. It may therefore be supposed that the average increase in the price of investment goods imported from abroad during 1955 was 9 per cent, if comparison is made with the average price for 1954. Other expenditures connected with investment rose in proportion to the wages in industry and construction, i.e. by 10 per cent in comparison with the average for 1954, but by only 4 per cent when compared with December 1954.

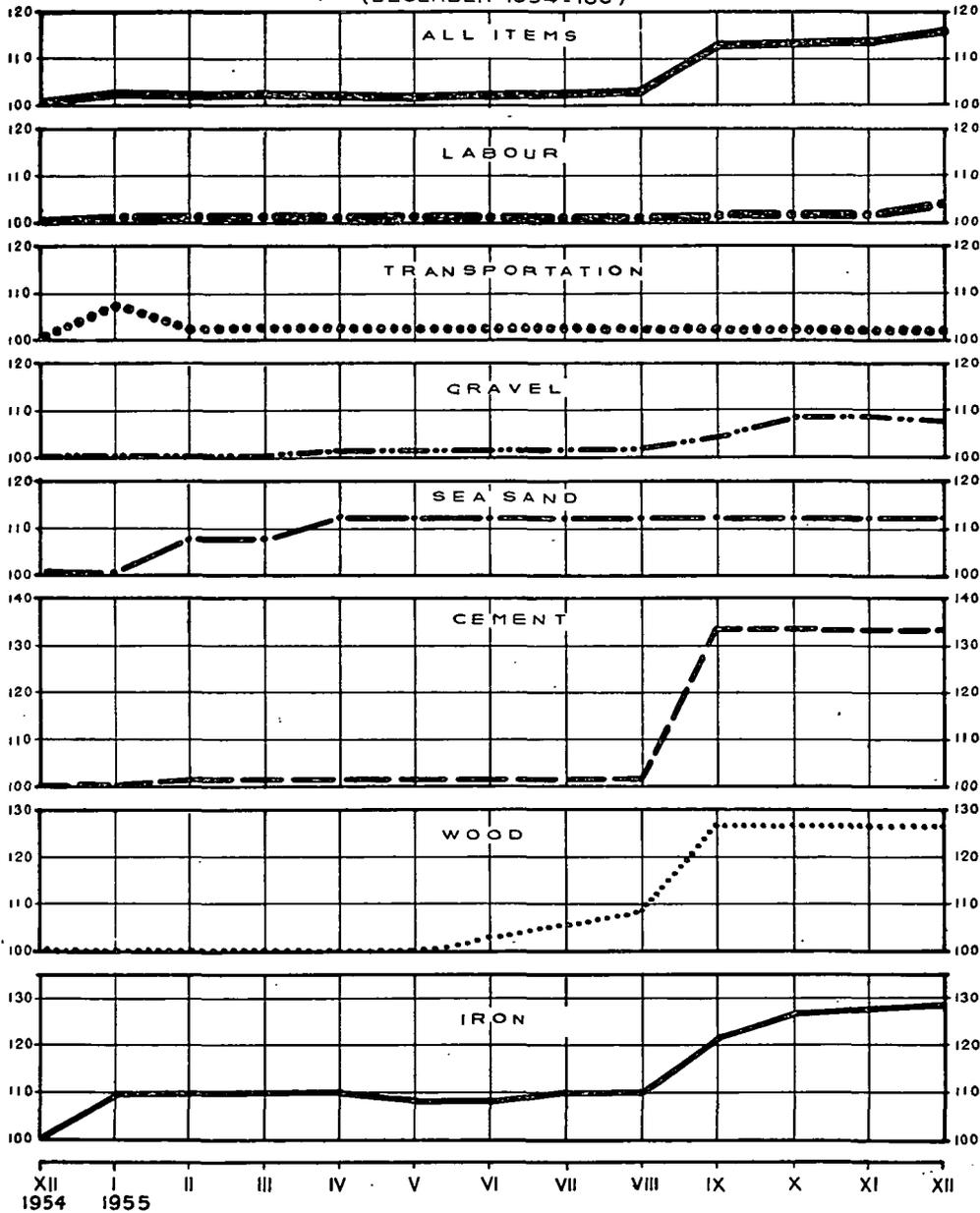
4. FACTORS INFLUENCING PRICE FLUCTUATIONS

The 1955 price level rose by 7.3 per cent as against that of 1954. This was the outcome of pressures operating in various and contradictory directions; and those pressures serving to raise prices finally proved the stronger.

* In point of fact, wages in the building industry rose by 2.8 per cent, but the item Wages in the index of building costs refers to the daily wages of second grade building workers only.

INDEX OF BUILDING COSTS AND MAIN COMPONENTS

(DECEMBER 1954 = 100)



The main causes of the rise in prices are enumerated below, not necessarily in order of their importance:

- (i) The growth of effective demand from both the Government and the public together with an increased money supply.
- (ii) With imports accounting for 28 per cent of the total value of national resources, the c.i.f. prices of imports rose by an average of 6.5 per cent during 1955. This rise probably had a considerable effect on the price level of imported goods.
- (iii) The imposition of new indirect taxes and increases in the rates of old taxes, caused a rise in production costs. Receipts from indirect taxes rose by IL. 86 millions in 1955. Since the volume of resources increased by 10.2 per cent during that year, it may be assumed that receipts from taxation would have risen somewhat, even if the rates had remained unchanged. As, for fiscal reasons, a large proportion of indirect taxes was imposed on commodities the demand for which is inelastic, the final consumer had to bear the major share of the additional tax burden.
- (iv) A reduction of subsidies by IL. 8 millions also contributed to a rise in costs. Subsidies for the stabilisation of internal prices were actually reduced to a greater extent, since part of these subsidies was diverted to export goods.
- (v) The large rise in the prices of locally produced agricultural products was one of the main factors affecting the fluctuations of the consumer price index. The price increases in this sector were caused by the drought as well as by the depressed prices of agricultural products in the previous year (resulting from an accumulation of surpluses). Both these factors served to reduce the supply of agricultural products.
- (vi) Wages rose in many branches of the economy; whether this was due to the increase in the cost-of-living allowance or to other causes, the usual effect of wages rising to a greater extent than output per worker, was to raise production costs. This, in turn created pressure for the raising of prices.

Some of the factors which slowed down the rise in prices are enumerated below:

- (i) Extensive activities of the Government to prevent a rise in prices: additional imports to cover drought losses and to satisfy increased demand; grant of subsidies for commodities with a large weight in the Cost-of-Living Index; imposition of temporary price controls on fruits and vegetables.
- (ii) An increase in domestic production, while real exports fell by 2.3 per cent. The rise in domestic output and imports, on the one hand, and the fall in exports, on the other, caused a rise of 11.7 per cent in the domestic resources of the economy.
- (iii) The decline in the devaluation of the Israel pound. This trend commenced in 1952 and gradually continued until the end of 1954, when the exchange rate was stabilised at IL. 1.800 = \$ 1.00